MEMBERSHIP

May 10, 2005

Year-End Financial Statements (Consolidated)

For the fiscal year ended March 31, 2005

AIFUL Corporation	Stock Exchange: Tokyo, Osaka
Stock Code: 8515	Headquarters: Kyoto City
(URL http://www.aiful.co.jp)	
Representative:	Yoshitaka Fukuda President and Chief Executive Officer
Inquiries:	Kenichi Kayama General Manager, Public Relations Department TEL (03) 4503-6050
Date of the Board of Directors' meeting to approve financial statements:	May 10, 2005
Company adopted G.A.A.P.	No

I. Consolidated Business Results for the Year Ended March 31, 2005 (April 1, 2004 – March 31, 2005)

1. Consolidated Operating Results

(In millions of yen - except per share data)

	Operating Revenue		Operating Income		Ordinary Income	
Fiscal Year Ended March 31, 2005	518,416	9.5%	134,716	19.7%	135,294	20.3%
Fiscal Year Ended March 31, 2004	473,477	5.3%	112,566	(3.0)%	112,446	0.6%

	Net Income		Net Income per Share (Yen)	Diluted Net Income per Share (Yen)	Net Income to Shareholders' Equity Ratio	Ordinary Income to Shareholder's Equity Ratio	Operating Revenue to Ordinary Income Ratio
Fiscal Year Ended March 31, 2005	75,723	21.1%	800.10	800.04	13.0%	5.5%	26.1%
Fiscal Year Ended March 31, 2004	62,548	4.4%	660.98	–	12.1%	4.9%	23.7%

Notes: 1. Equity method investment gain or loss for: Fiscal year ended March 31, 2005: - million yen
Fiscal year ended March 31, 2004: - million yen
2. Average number of shares during: Fiscal year ended March 31, 2005: 94,453,068 shares
Fiscal year ended March 31, 2004: 94,467,918 shares
3. Changes in accounting policies: No
4. Percentage figures shown for operating revenue, operating income, ordinary income and net income show year-on-year change
5. Figures have been rounded down to the nearest unit

2. Consolidated Financial Position

(In millions of yen - rounded down, except where noted)

	Total Assets	Shareholders' Equity	Shareholders' Equity Ratio (%)	Shareholders' Equity per Share (Yen)
Fiscal Year Ended March 31, 2005	2,574,286	617,352	24.0	6,537.77
Fiscal Year Ended March 31, 2004	2,332,761	547,503	23.5	5,794.58

Note: Number of shares issued and outstanding: As of March 31, 2005: 94,405,535 shares
As of March 31, 2004: 94,467,134 shares

3. Consolidated Cash Flows

(In millions of yen - rounded down, except where noted)

	Cash Flow from Operating Activities	Cash Flow from Investing Activities	Cash Flow from Financing Activities	Cash and Cash Equivalents at the End of the Year
Fiscal Year Ended March 31, 2005	(63,408)	(11,211)	80,318	108,965
Fiscal Year Ended March 31, 2004	(42,734)	6,370	3,097	98,329

4. Consolidated companies and companies to which equity method accounting applies

Number of consolidated subsidiaries:	10 companies
Number of non-consolidated subsidiaries accounted for by the equity method:	0 companies
Number of affiliated companies accounted for by the equity method:	0 companies

5. Changes in application of consolidated accounting and equity method accounting

Consolidated subsidiaries	(Newly included): 3 companies	(Excluded): 2 companies
Equity method accounting	(Newly included): 0 companies	(Excluded): 0 companies

II. Fiscal Year 2006 Full Year Forecast (April 1, 2005 - March 31, 2006)

(In millions of yen, rounded down)

	Operating Revenue	Ordinary Income	Net Income
Interim Period Ending, September 30, 2005	272,634	71,669	44,469
Fiscal Year Ending March 31, 2006	555,049	155,000	91,762

Reference:
Forecast for earnings per share for fiscal year 2006 year ending March 31, 2006: 648.00
Calculations based on 141,608,302 shares, which includes the 47,345,000 increase in the number of shares due to the stock split detailed on page 29.

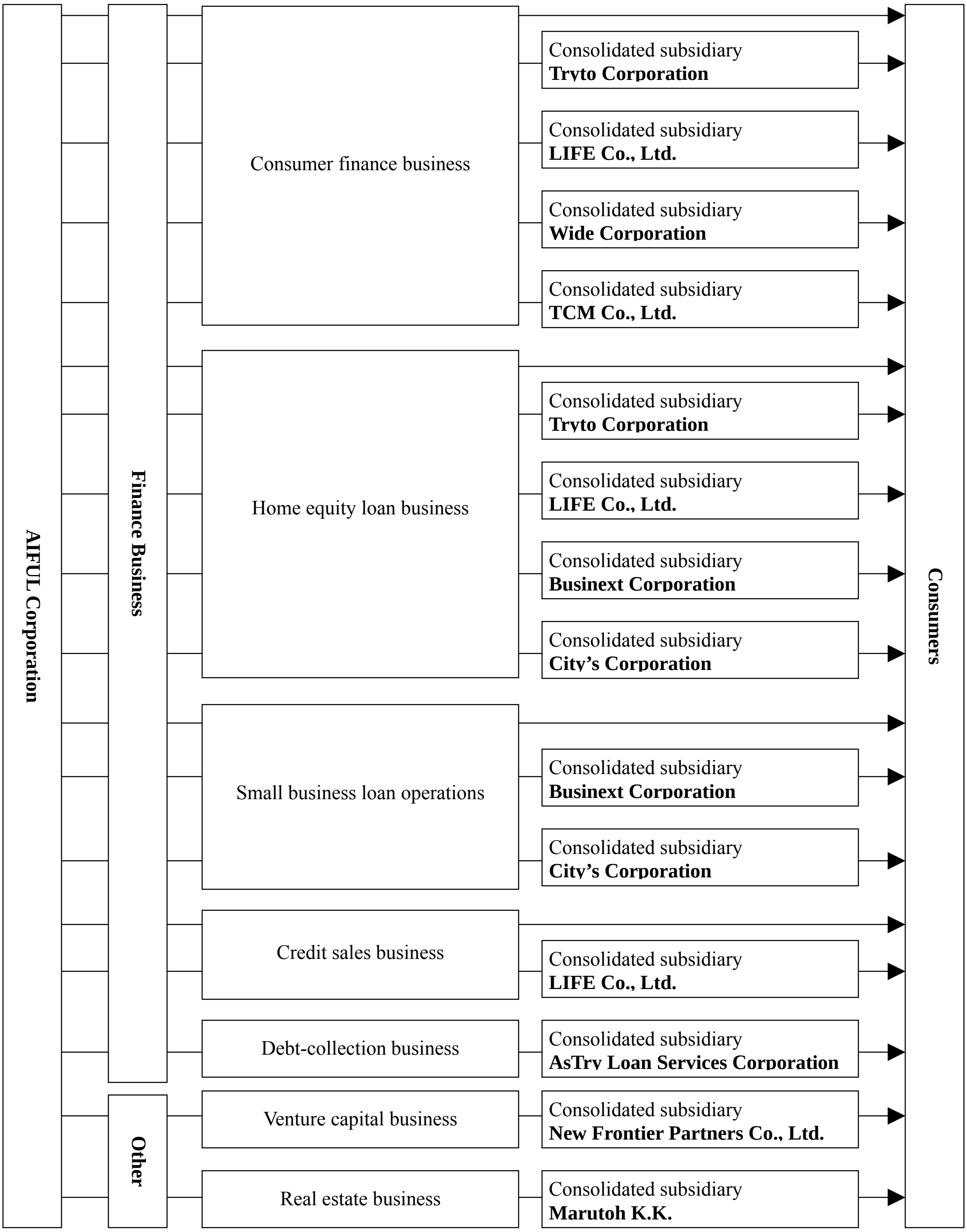
Caution Relating to Results Forecasts:
The above forecasts are based on the information available to management at the time they were made, and estimates involving uncertain factors thought likely to have an effect on future results. Actual results can differ materially from these forecasts for a variety of reasons.

(Supplementary Data)
I. State of the Group

The AIFUL Group is composed of AIFUL Corporation and ten consolidated subsidiaries, three non-consolidated subsidiaries and two affiliated companies. The Company is principally engaged in the consumer finance services and credit sales businesses. The Company is also active in the home equity loan business, small business loans, and debt collection and management of debt collection.

<table>
<tr><th colspan="2">Business Classification</th><th>AIFUL & subsidiaries</th><th>Business Descriptions</th></tr>
<tr><td rowspan="17">Finance Business</td><td rowspan="5">Consumer finance business</td><td>AIFUL Corporation</td><td rowspan="5">The Company and its subsidiaries provide small, unsecured loans for consumers.</td></tr>
<tr><td>Tryto Corporation</td></tr>
<tr><td>LIFE Co., Ltd</td></tr>
<tr><td>Wide Corporation</td></tr>
<tr><td>TCM Co., Ltd.</td></tr>
<tr><td rowspan="5">Home equity loan business</td><td>AIFUL Corporation</td><td rowspan="5">The Company and its subsidiaries provide home equity loans.</td></tr>
<tr><td>Tryto Corporation</td></tr>
<tr><td>LIFE Co., Ltd</td></tr>
<tr><td>Businext Corporation</td></tr>
<tr><td>City's Corporation</td></tr>
<tr><td rowspan="3">Small business loan operations</td><td>AIFUL Corporation</td><td rowspan="3">The Company and its subsidiaries lend to small and other businesses.</td></tr>
<tr><td>Businext Corporation</td></tr>
<tr><td>City's Corporation</td></tr>
<tr><td rowspan="2">Credit sales business</td><td>AIFUL Corporation</td><td rowspan="2">The Company and its subsidiary offer credit card shopping, per-item credit, loans and guarantees for consumers.</td></tr>
<tr><td>LIFE Co., Ltd</td></tr>
<tr><td>Debt-collection business</td><td>AsTry Loan Services Corporation</td><td>The company specializes in the management and collection of a full range of receivables and loans.</td></tr>
<tr><td></td><td></td><td></td></tr>
<tr><td rowspan="3">Other</td><td>Venture capital business</td><td>New Frontier Partners Co., Ltd.</td><td>The company assesses, invests in and supports venture companies.</td></tr>
<tr><td>Real estate business</td><td>Marutoh K.K.</td><td>The company buys, sells, leases, brokers and mediates real estate.</td></tr>
<tr><td></td><td>City Green Corporation</td><td>Holding company for City's Corporation.</td></tr>
</table>

The organization chart for the Company's businesses is as follows:



* City Green Corporation is not listed above, since it is a holding company of City's Corporation, and is not active in business.

II. Management Policies

1. Basic Management Policies

AIFUL's primary mission is to earn the support of the general public. The Company's efforts to prioritize customer convenience and become a comprehensive financial services group that is reliable and creative are a reflection of this basic stance on catering to the needs of all our customers. This primary mission drives the Company's endeavors to grow its business and become a source of profit for all of its stakeholders, including customers, shareholders and employees, thus bringing about a future of "Prosperity for All."

2. Basic Policies on Profit Distribution

The AIFUL Group's basic dividend policy is to consistently distribute profits to shareholders on the basis of a comprehensive assessment of the economic and financial situation and the Company's own business performance.

Based on this policy, AIFUL aims to distribute profits to shareholders and maximize shareholder value via medium to long-term profit growth. Internal reserves are to be used to extend loans, as well as in strategic investments that contribute to the expansion of the earnings base for the Group as a whole, while working to improve business results and management efficiency so that AIFUL continues to meet the expectations of all its shareholders.

3. AIFUL's View and Policy on Lowering the Investment Unit

The Company recognizes that promoting long-term, stable holding of its shares as well as expanding the classes of investors and increasing the liquidity of its shares are important issues, and it is implementing a review of the number of shares in a unit and a stock split.

In the current fiscal year, the Company will conduct a 1:1.5 stock split (delivery without compensation) with respect to the number of shares held by shareholders entered or registered in the final and actual list of shareholders on Thursday, March 31, 2005, with the aims of reducing the amount of investment per share, increasing the liquidity of its stock and expanding the classes of investors.

Going forward, the Company will continue to examine the lowering of the investment unit in order to gain the support of even more investors.

4. Management Indicator Objectives

AIFUL believes that its position in the financial industry makes it essential for management to increase efficiency in its use of assets and the returns gained on those assets and has established the maximization of group RAO as a management goal. AIFUL has set 3% as a concrete medium-term goal for consolidated ROA.

5. Medium and Long-Term Business Strategies

Japan's consumer credit market is currently worth approximately 59.5 trillion yen, a total that includes 14.8 trillion yen in retail credit and 34.6 trillion yen in consumer loans (excluding deposit and savings-secured loans). Consumer finance companies in particular have continued to see high growth in the consumer loan market, expanding from a 9.0% share in fiscal 1991 to a 29.5% share, worth some 10.2 trillion yen, in fiscal 2003. Also, the consumer finance market is expected to grow further in the medium to long term.
More aggressive strategies to enter the retail sector, primarily on the part of major banking groups, indicate that competition in the overall consumer finance market is heightening and has crossed industry lines.

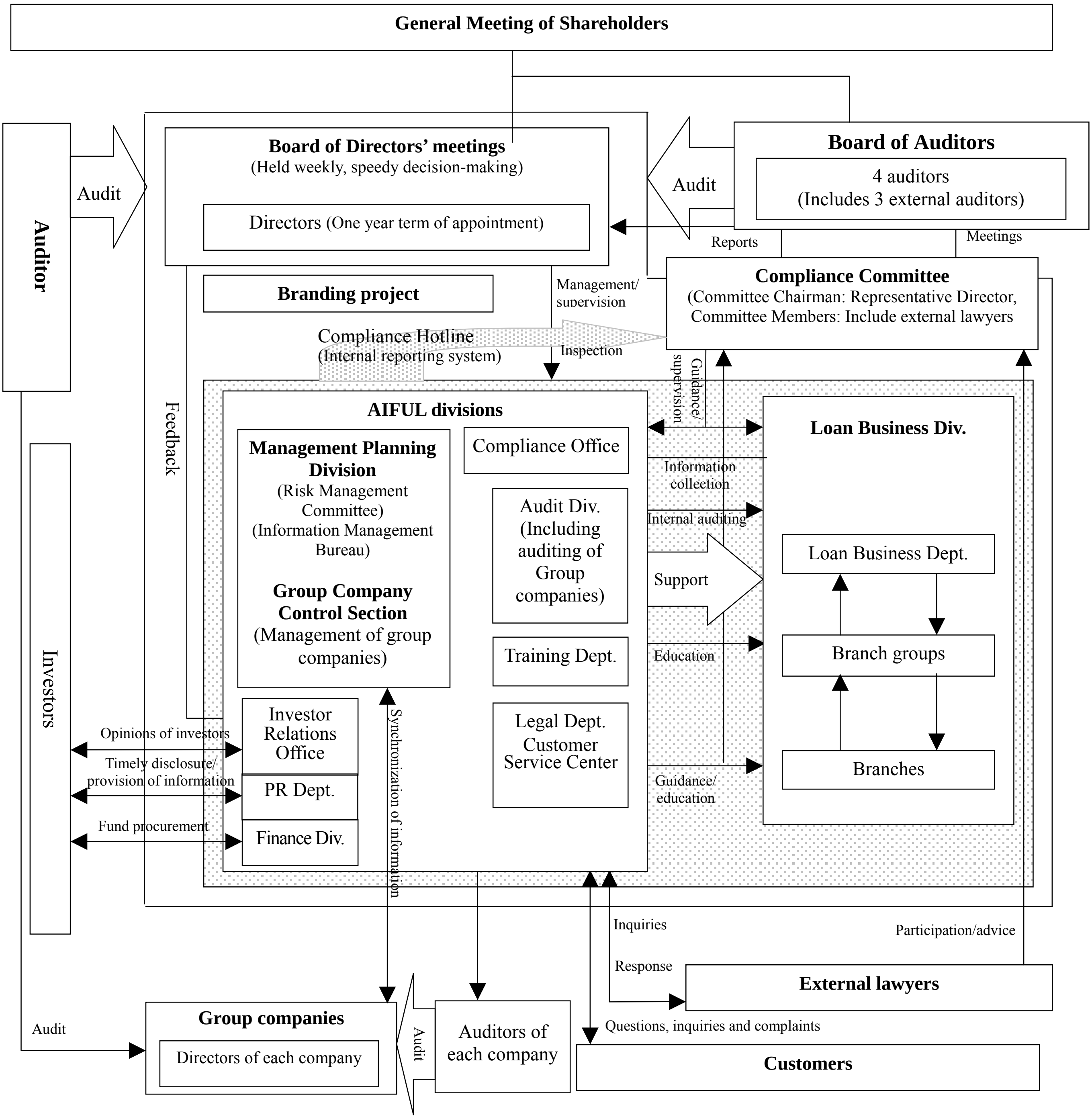
In this business environment, the AIFUL Group aims to expand beyond the boundaries of the traditional consumer finance market to become a comprehensive retail financial services company targeting the entire retail finance market. With major credit card and installment sales company LIFE and small-business loan companies Businext and City's within the Group, AIFUL is maintaining growth by promoting diversification of products and customer acquisition channels to consistently meet the needs of customers. By pursuing synergies generated by the seamless integration of the Group companies and building on the Company's brand concept of "A Company for Security and Creation," AIFUL is seeking to strengthen the ties between group companies as well as working to secure stable revenue based on efficient management.

6. Basic Stance with Regard to Corporate Governance and Current Status of Related Policies

A. Basic Stance with Regard to Corporate Governance

AIFUL considers speed in decision-making, the establishment of management supervisory functions, and the reinforcement of compliance and disclosure to be its basic policies for the enhancement of corporate governance. Our corporate governance, business execution, management supervisory and internal controls, and risk management systems are as indicated in the diagram below.

B. AIFUL's Business Execution, Management Supervisory and Internal Controls, and Risk Management Systems



C. Current Status of Corporate Governance Strategies

(1) Management Control System and Other Corporate Governance Structures Relating to Management Decision Making, Business Execution and Monitoring and Status of Efforts to Enhance Corporate Governance During the Past Year

i) Details of Company Organizations and Establishment of Internal Control System

a. Details of Company Organizations

In a measure aimed at speedy management decision-making, the AIFUL and LIFE Boards of Directors meet weekly (Boards of Directors meet monthly at other group companies) to fully discuss and examine management issues and business opportunities facing the companies, as well as strategies to address them. Speedy management decisions follow these discussions.

In its efforts to enhance legal compliance, AIFUL has had an Inspection Department, an Internal Audit Department, and Legal Department, in charge of preventative legal affairs, in place for some time. In addition to this, the Company established a Compliance Committee, which includes lawyers and other external membersand serves as a consultative body for the Board of Directors, in April 2002. At monthly meetings, the Compliance Committee gathers risk information, implements preventative measures, and conducts employee education based on the committee guidelines, working to reinforce compliance systems throughout the whole company.

With these efforts, AIFUL is synchronizing information with other group companies in a proper manner and working to enhance the group's overall compliance system.

In order to respond to the establishment of new legislation and legal amendments that profoundly affect our operations, such as the Personal Information Protection Act, as well as to ensure further enhancement of our compliance system and the establishment of appropriate corporate ethics, the Company has established a new Compliance Office on April 1, 2005, as a specialist division to conduct ongoing examination and assessment of these issues on a company-wide basis.

b. Training and Establishment of Hotlines

Other steps taken here include the formulation and distribution to each and every Group employee of the "AIFUL Group Ethical Code," as well as the establishment of hotlines in the Personnel and Inspection Departments for discussion of breaches of the code. AIFUL has also established a Customer Service Center within the Legal Department to respond promptly to customer inquiries and complaints, with the aim of increasing customer satisfaction and reinforcing the legal compliance system, which includes guidance and education for the sales and marketing staff in cooperation with the Compliance Committee. In addition to the establishment of a new Compliance Hotline in June 2003, the Company standardized its internal reporting system, establishing a structure that prevents breaches of the law and internal regulations before they happen.

c. Maintaining Accuracy in Disclosure of Financial Information and Internal Control

The AIFUL Group's system for maintaining the accuracy of financial information consists of the prescribed checking procedures in the Accounting Department and audits based on the Commerical Code and the Securities and Exchange Law. Apart from this, AIFUL has long maintained an organizational structure based on the separation of the division in charge of financial accounting (Accounting Department) and the division in charge of management accounting (Management Planning Department), which provides a system of checks and balances.

Moreover, the Company's efforts to maintain accuracy include additional checks made in advance by related departments, including the Investor Relations Office, the Public Relations Department, the Legal Department, and the Management Planning Department

d. Enhancing Disclosure and Internal Control

AIFUL believes that appropriate disclosure of business information will make external monitoring of management more effective. Based on the principle of aiming for transparent management and effective corporate governance, AIFUL strives to provide full disclosure that is timely and easy to understand. Its activities include maintaining an investor relations web site, disclosing information through press releases, settlement data books and similar materials, as well as providing information and briefings for the domestic and foreign mass media, investors and analysts. AIFUL also provides regular feedback to the president, Board of Directors' meetings and departmental managers on the opinions and desires of investors in its efforts to enhance the corporate governance system.

ii) Establishment Status of Risk Management System

With regard to its risk management system, AIFUL has established a system in which the Risk Management Committee within the Management Planning Division primarily gathers information on latent and apparent risk factors within the Company, and conducts crisis management in cooperation with related departments, including the Investor Relations Office, Public Relations Department and Legal Department. Moreover, in response to the Personal Information Protection Law, which came into force on April 1, 2005, the Company launched a project in April 2004 to prevent the leaking of information, carrying out a review of the proper handling of personal information and company-wide security management measures to prevent the leakage of personal information before it happens in terms of the human, organizational and technical aspects and establishing a system to prevent the disclosure of personal information.

Moreover, AIFUL has prepared an action plan for when problems relating to personal information or corporate information arise at the Company or at Group companies, and has set up a new Information Management Contingency Plan, for which the Information Management and Administration Office within the Management Planning Department is responsible, with the aim of addressing emergencies properly and promptly, thus establishing a strong system for responding to emergencies.

iii) Internal Auditing and Auditing System and Status of Auditing

a. Internal Auditing and Auditing System

AIFUL established the Inspection Department with the aim of monitoring the appropriateness and legality of business processes, including at Group companies. It works on a day-to-day basis to detect and curb deviations by conducting regular inspections, primarily at the business offices of AIFUL and its Group companies.

With regard to the management supervisory function, AIFUL employs an auditor system, which has four auditors, including three external auditors. The auditors not only supervise management through attendance at the weekly Board of Directors meetings at AIFUL and LIFE, but also attend the Compliance Committee and work in close cooperation with the Inspection Department, the internal audit department, to firmly implement the auditing system. Moreover, the auditors of the Company and each Group company work in conjunction with the Group Company Control Section and the Inspection Department to establish the auditing system at Group companies as well.

b. Auditing

AIFUL employs Deloitte Touche Tohmatsu and Shimbashi & Co. as auditors based on the Commercial Code and for audits based on the Securities and Exchange Law. There are no beneficial relationships between these audit corporations and the employees engaged in conducting audits at AIFUL and AIFUL.

AIFUL concludes an audit agreement regarding auditing under the Commercial Code and auditing under the Securities and Exchange Law with these audit corporations, and it pays the fees based on the contract. The names of the certified public accountants who conducted audits, and the composition of the assistants involved in auditing operations in the fiscal year under review are as follows.

Names of certified public accountants who conducted audits
Designated staff, staff who conducted audits: Hiroshi Ymaguchi, Norikazu Nishino
Representative staff, staff who conducted audits: Hiroyuki Toda, Hironori Okada
Composition of assistants involved in auditing operations
Five certified public accountants, 2 junior accountants, five others

c. Details of Officers' Salaries and Remuneration and Audit Fees

In the fiscal year under review, officers' salaries and remuneration for directors and auditors of AIFUL were as follows.

Details of Officers' Salaries and Remuneration

Salaries and Remuneration Paid to Directors and Auditors:	Directors: 380 million yen/person (total 19 directors) Auditors: 61 million yen/person (total 5 auditors)
Amount paid in directors' bonuses in distribution of net profit:	106 million yen
Amount paid in directors' retirement bonuses based on resolution of General Meeting of Shareholders during fiscal year under review:	112 million yen

Notes: 1. At the end of the fiscal year under review, there were 17 serving directors and four serving auditors.
2: Caps on salaries and remuneration: Directors: ¥500 million/person
Auditors: ¥80 million/person

Details of Audit Fees
Audit fees paid to the Company's auditors in the consolidated fiscal year under review are as below.

	(In millions of yen)
Fees relating to statements of audit based on the auditing contract:	70[1]
Fees other than the above:	39
Total:	109

Note: AIFUL: 27 million yen, consolidated subsidiaries: 42 million yen

(2) Existence of Personal, Financial, Business or Any Other Beneficial Relationship Between the Company, and the External Directors and External Auditors

There is no business or other beneficial relationship between the Company and its external auditors.

7. Brand Strategy Policies

In October 1999, AIFUL commenced a company-wide branding project. To date, this project has been responsible for generating a wide range of proposals related to the company's branding initiatives. From April 2003 onwards, the system has been revitalized by bringing it under the direct control of top management, which has positioned it as its highest priority.

Under the new project, "A Company for Security and Creation" was selected as the concept to unify the large number of different AIFUL brands. Adopting improvement in corporate value itself based upon progress in customer satisfaction and employee satisfaction, as the primary goal for brand strategies, AIFUL plans, in turn, to boost investor satisfaction. In this manner, the company will make real "Prosperity for All," the management ideal outlined in its corporate principles.

In February 2004, AIFUL established "With Heartful Communication" as its brand statement. The Company intends to expand a variety of communication programs in an integrated manner to further strengthen the AIFUL brand.

The Company is also involved in activities as a good corporate citizen, supporting marathons and other sports events that bring AIFUL and local residents closer together.

III. Results of Operations and Financial Position

1. Summary of Operations

A. Business Environment

In terms of the Japanese economy during the fiscal year under review, the Bank of Japan's *tankan* survey of business confidence for March 2005 showed an eight-point deterioration compared with the survey in December 2004, in business sentiment among large manufacturers, an indicator used to predict economic trends. However, business sentiment deteriorated in only three of the 12 categories for large non-manufacturers, indicating firmness in non-manufacturing industries.

Moreover, although the employment environment improved and wages stopped falling, the employment conditions index, which indicates the employment environment, was negative for the first time in twelve years and personal consumer spending has remained flat. In addition, there are also concerns that the rapidly rising price of crude oil will affect corporate earnings, and the economy overall has continued to mark time.

The industry is being increasingly reorganized as banks and foreign-capital companies enter the consumer finance and credit card markets. Credit card companies and mega-banks are involved in business alliances such as capital tie-ups between major consumer finance companies and mega-banks, and foreign-capital banks are buying up credit sales companies. This expansion across industry boundaries has heightened competition for share in the consumer credit market.

Meanwhile, the number of applications for personal bankruptcy (as published by the Supreme Court), which has a major impact on bad debts, has been registering year-on-year decline for 16 months in a row since November 2003, and the brakes have been applied to rising bad debt expenses.

Based on this business environment, the AIFUL Group is aiming to step beyond the limits of the niche consumer finance industry and become a comprehensive retail finance company that targets the entire consumer credit market. The Company has continued to promote diversification of products and sales channels, maintaining growth by catering to a wider range of customer needs.

Moreover, each company that belongs to the Group has been establishing a brand value based on the unified concept of "A Company for Security and Creation." At the same time, while working together to generate synergistic effects and strengthen the Group, they have also been striving to develop efficient operations.

B. Operations

(1) AIFUL Corporation

During the consolidated fiscal year under review, AIFUL's loan business witnessed the company pursuing product diversification strategies chiefly in unsecured loans as well as home equity loans and small business loans, in order to more comprehensively cater to customer needs, and it achieved steady growth in loans outstanding.

A summary by product is as below.

i) Unsecured Loans

There were 541,000 new applications for unsecured loans during the consolidated fiscal year under review, a decrease of 2.4% compared to the previous year, and a continuation of the declining trend Although new account acquisitions rose 0.1% year-on-year in July and 4.5% in August, turning positive for the first time in two years and nine months, the trend of decline resumed from December 2004 with the economy continuing to mark time, and new account acquisitions for the year were 343,000, down 3.4% year-on-year. Meanwhile, the proportion of new account acquisitions via the Internet, including cellular phone and PC, rose steadily to 11.8% as a result of aggressive use of banner advertisements on the AIFUL website.

As a result, unsecured loans outstanding stood at 1,093,662 million yen, up 1.2% year-on-year at the end of the consolidated fiscal year under review.

ii) Home Equity Loans and Small Business Loans

AIFUL's diversification strategy involves home equity loans and small business loans, and the Company has positioned these areas as key products in maintaining long term growth potential. As a result of proactive marketing to cater to a whole range of customer needs, loans outstanding in the consolidated fiscal year under review consisted of home equity loans of 345,180 million yen, up 0.7 % year-on-year, and small business loans of 32,924 million yen, up 17.8 % year-on-year.

A summary of business other than loan operations is as follows.

iii) Credit Guarantees

The guarantee business is a fee business in which AIFUL provides guarantees for loan products handled by financial institutions, and the Company has been developing the business as a new source of earnings. In addition to unsecured personal loans, the Company has also been active in guarantee operations for small business loans using the expertise it has built up in the provision and screening of small business loans. The entire financial industry is now taking note of this credit guarantee market for loans to small businesses, and AIFUL is becoming more active in it.

As a result of these efforts, at the end of the consolidated fiscal year under review, AIFUL's guarantee partners numbered 41 unsecured personal loan companies and 32 small business loan companies, and the balance of guarantees stood at 43,180 million yen, marking steady growth of 58.1% compared with the end of the previous year.

iv) Credit Cards

With regard to AIFUL's own AIFUL MasterCard credit card operation, the Company has been actively developing a range of co-branded cards with the aim of attracting new customers in their 20s. These include the co-branded card "Fan! MasterCard" (applications accepted from October 2004) for members of the Universal Fan Club as well as new business tie-ups with ten companies. As of April 1, 2005, co-branded card operations have been transferred from the credit card division (Credit Card Business Department) and merged with LIFE with the aim of conducting a more effective and efficient credit card strategy in the Group.

v) Expansion of Channels

The Company has opened 25 outlets and closed 16 outlets as part of its store network restructuring, bringing the total number of stores to 1,572, with 549 staffed stores and 1,023 non-staffed facilities, at the end of the consolidated fiscal year under review. In its expansion of deposit and withdrawal channels, the Company entered new partnerships with 10 banks and two companies with 13,122 ATMs, giving customers access to 76,338 CD/ATMs, including AIFUL's own ATMs.

In June 2004, the Company extended the transaction hours for its ATM partnership with IY Bank, which makes it possible to make deposits and withdrawals until 11:00 pm, increasing convenience for customers.

Bad debt expenses, which rose for a prolonged period, were 97,385 million yen at the end of the consolidated fiscal year under review, down 10.8 % compared with the previous year, as a result of factors such as the contraction in the number of personal bankruptcies for the first time in ten years since 1994 and a continued improvement in the employment situation. This indicates that bad debt expenses have peaked.

As a result, AIFUL's loans outstanding at the end of the consolidated fiscal year under review stood at 1,471,767 million yen, an increase of 1.4% year-on-year.

(2) LIFE Co., Ltd.

In the consolidated fiscal year under review, which was the last year of the medium-term business plan, LIFE Co., Ltd. continued to concentrate on making the steady shift in its business portfolio from a low earnings structure to a high earnings structure. This included pouring management resources into credit card shopping, per-item credit, and consumer finance businesses, with the aim of establishing a stable earnings base.

In April 2004, LIFE moved the responsibility for the overall management of Cash Plaza from the seven nationwide branch offices to the Loan Business Division in the Headquarters to strengthen marketing capabilities. This change reinforced information coordination between branch offices and the Headquarters and enabled LIFE to meet customer needs quickly. In addition, the branch offices have created a new system putting one person in charge of promoting credit cards and per-item credit at the individual branch office level in order to strengthen marketing.

In its credit card business, LIFE has been steadily expanding the number of cardholders by beginning the issue of a range of co-branded cards, including a large-scale tie-up with a major supermarket that aims for more than 400,000 cardholders in its first fiscal year. To strengthen cardholder services, LIFE has updated the design and content of customer invoices to turn them into tools of communication with customers. Moreover, it has been improving its point services into a more attractive service by introducing a bonus point system that rewards higher spending and a system that automatically carries points over to the following business year.

Moreover, as part of its visual identity (VI), the company made LifeCard its corporate brand and adopted a new brand emblem in April 2004 with the aim of establishing a brand image as a credit card company. The new emblem contains the concept of seeking to be a forward-looking company that goes beyond the existing framework and common sense.

The company has begun a new partnership with three banks in order to expand the channels for its cash advance services, meaning that 130,000 CD/ATMs at 487 partner financial institutions and credit card companies may be used.

As a result, the total number of credit card holders at the end of the consolidated fiscal year under review rose 880,000 to 11,910,000. The effective use of advertising and the effect of acquiring cards with higher activity rates resulted in a steady rise in card shopping activity rates.

In addition to this, LIFE has also been aggressively carrying out expansion into new credit card businesses, such as a cash card that incorporates a credit card with the product name of "Bank Alliance Card" based on its December 2004 tie-up with Higashi Nippon Bank, Limited.

In its per-item credit business, LIFE is working to increase business volume and accumulate prime assets by strengthening and enhancing the efficiency of its sales organization.

In its consumer finance business, LIFE opened 13 new branches, bringing the total number of LIFE Cash Plazas to 204.

Also, LIFE followed up its LIFE Card Shinjuku Store, a new concept store that showcases the LIFE Card brand, with six new stores in Umeda, Takadanobaba, Shibuya, Matsuyama, Kokura and Kanda in its efforts to accelerate acquisition of new customers.

In its guarantee business, LIFE sought to expand bank loan guarantee products, and commenced new partnerships with 35 banks, bringing its number of guarantee partners to 126 banks.

Moreover, Rating and Investment Information, Inc. boosted LIFE's senior long-term debt rating from BBB+ to A− and its short-term debt rating from a− 2 to a− 1 in view of the company's favorable earnings and increased financial stability. In addition, LIFE obtained a new senior long-term debt rating of A- and a short-term debt rating of J-1 from Japan Credit Rating Agency, Ltd.

As a result of the foregoing, operating loans outstanding in the fiscal year under review totaled 751,553 million yen, up 7% year-on-year (including 167,027 million yen in operating loans taken off the balance sheet by securitization. This total consisted of credit card shopping, up 11.3% year-on-year to 79,622 million yen, per-item credit, up 12.2% to 197,123 million yen, credit card cash advances, up 8.4% to 367,459 million yen, credit guarantee installment receivables, down 7.6% to 98,226 million yen, and other businesses, down 5.3% to 9,121 million yen. Meanwhile, the volume of business was up 18.1% year-on-year to 378,160 million yen for credit card shopping, 15.8% to 155,752 million yen for per-item credit, down 7% to 27,747 million yen for credit guarantees, and up 5.1% to 321,493 million yen for credit card cash advances.

(3) Other Group Companies

i) Small Business Loans

Businext was formed jointly by AIFUL and Sumitomo Trust & Banking Co., Ltd., and in April 2004 it constructed a new corporate scoring system based on data accumulated thus far to enhance the accuracy of its credit screening. In addition, it has made steady progress in gaining new customers as its direct marketing (DM) campaign and the improvement in business sentiment have coincided.

As a result, at the end of the consolidated fiscal year under review, loans outstanding stood at 47,622 million yen, up 72.6% year-on-year.

Businext's Nagoya branch was opened in October 2004 and the Sendai branch opened in March 2005 to better meet the capital needs of sole-proprietors and small and medium-sized businesses in the Chubu area and the Tohoku and Hokkaido areas.

City's Corporation has concentrated on acquiring good quality customers by turning its marketing expertise into manuals and making the most of these manuals. Due to the improvement in business sentiment at small and medium-sized enterprises, the widening base of economic recovery, and the fact that it opened 13 new offices during the year, loans outstanding stood at 45,673 million yen at the end of the consolidated fiscal year under review, up 46.3% year-on-year.

ii) Consumer Finance

Consumer finance companies Happy Credit Corporation, Sinwa Co., Ltd., and Sanyo Shinpan Co., Ltd. merged in April 2004 and commenced operations as Tryto Corporation. While the objective of the merger between the three companies was efficient business expansion, loans outstanding stood at 58,121 million yen as a result of tightening up the granting of credit to provide for an increase in bad debt expenses in the consolidated fiscal year under review.

Tryto Corporation began to offer home equity loans in October 2004, taking advantage of AIFUL's accumulated knowledge, and it will be expanding the acquisition channels for home equity loans within the Group in the future to better meet customer needs.

Also, Wide Corporation, a business concentrated in eastern Japan, was made a subsidiary of AIFUL on June 30, 2004. Wide Corporation is a consumer finance company with a network of 293 branches and a loan balance totaling 95,345 million yen (including 17,000 million yen in off-balance sheet receivables resulting from securitization). With the addition of this company to the AIFUL Group, AIFUL intends to enhance earnings and profitability by pursuing greater business efficiency and synergistic effects.

Moreover, AIFUL received approval from the Tokyo District Court on April 26, 2004 to conclude a sponsor agreement with the administrator of TCM Co., Ltd., a company undergoing reorganization. On December 31, 2004, AIFUL received approval from the Tokyo District Court for a rehabilitation plan. On February 21, 2005, AIFUL acquired all stock in TCM through full subscription to a capital increase based on the rehabilitation plan, turning the company into a wholly owned subsidiary. On March 31, 2005, AIFUL obtained a decision from the Tokyo District Court that the rehabilitation procedures had been completed, and TCM became a member of the AIFUL Group both in name and in reality.

On March 30, 2005, AIFUL concluded a final agreement making Passkey Co., Ltd. into a wholly owned subsidiary. Passkey is a consumer finance company in Hokkaido with a 27-branch network, and loans outstanding of 8.3 billion yen (as of February 28, 2005).

iii) Servicer

AsTry Loan Services Corporation, a joint venture with Aozora Bank, has concentrated diligently on expanding the claims handled in its management and collection of a range of money claims.

iv) Venture Capital

Kokusai Capital Co., Ltd. was renamed New Frontier Partners Co., Ltd. on July 1, 2004. In the company's first deal since it became a subsidiary of AIFUL, New Frontier Partners established the "NFP: Strategic Partners Fund" worth 2.21 billion yen with a joint capital injection from the Organization for Small & Medium Enterprises and Regional Innovation and Hitachi Ltd. New Frontier Partners will continue to pursue Group synergies in order to accelerate the development of the AIFUL Group as a comprehensive retail financial services company.

As a result, AIFUL and it subsidiaries had 2,095,201 million yen in outstanding loans, up 9.8% compared to the previous year, 276,848 million yen in installment receivables, up 11.8%, 141,407 million yen in credit guarantee installment receivables, up 5.8%, and 10,489 million yen in other business, up 2.8%, at the end of the consolidated fiscal year under review. The amounts above include 184,027 million yen in off-balance sheet loans due to securitization (including 99,580 million yen in outstanding loans and 84,447 million yen in installment receivables.)

C. Capital Procurement

In terms of capital procurement, AIFUL and its subsidiaries issued 61 billion yen in domestic straight bonds and private notes, raised 45 billion yen through securitization, and issued 123 billion yen in commercial paper and 500 million US dollars in dollar denominated bonds during the consolidated fiscal year under review. The Company redeemed 90 billion yen in domestic straight bonds and 128 billion yen in commercial paper. As a result of working to further diversify methods of fund raising, capital procurement was 1.6734 trillion yen, 159.6 billion yen higher than a year earlier, at the end of the consolidated fiscal year under review. In addition to strengthening its relationship with existing business partner financial institutions, AIFUL also began working with mega-banks, increasing the depth of its fund procurement base.

These efforts will continue into the future as AIFUL seeks to develop new classes of investors and reinforce relationships with business partners through active investor relations in order to gain access to a low-cost, stable source of funds.

D. Operating Results

As a result of the above activities, operating revenue for the consolidated fiscal year under review jumped 9.5%, to 518,416 million yen. AIFUL's operating revenue grew 1.7% year-on-year to 340,615 million yen, comprising 65.7% of the Group's revenue. LIFE recorded operating revenue of 121,972 million yen, an increase of 9.3% year-on-year, comprising 23.5% of the Group's revenues.
Of consolidated operating revenue, 466,429 million yen, or 90.0%, was accounted for by operating interest on loans, 26,291 million yen or 5.1% by revenue from credit card shopping and per-item credit, 7,087 million yen or 1.4% by credit guarantee revenue and 18,607 million yen or 3.5% by other revenue.

AIFUL's operating interest on loans accounts for 70.9% of the Group's consolidated operating interest on loans. This figure can be broken down into 80.8% in unsecured loans, 16.9% in home equity loans, and 2.3% in small business loans.

Operating expenses for the AIFUL Group totaled 383,700 million yen, up 6.3% compared to the previous year. Of this amount, AIFUL's non-consolidated operating expenses accounted for 60.7%, or 233,034 million yen, of this total, while LIFE's operating expenses accounted for 27.5%, or 105,492 million yen. Total Group operating expenses can be broken down into 155,466 million yen, or 40.5%, for bad debt expenses, 39,682 million yen, or 10.3%, in financial expenses, 23,669 million yen, or 6.2%, in advertising expenses, 54,712 million yen, or 14.3%, in personnel expenses, and 25,556 million yen, or 6.7%, in commissions paid.

The 1,940 million yen in write-down of consolidation adjustment account accrued with the purchase of LIFE Co., Ltd. was recorded as an operating expense.

As a result of the foregoing, consolidated operating income for the consolidated fiscal year under review rose 19.7% to 134,716 million yen, ordinary income was up 20.3% to 135,294 million yen, and net income increased 21.1% to 75,723 million yen.

AIFUL's non-consolidated operating income rose 13.0% to 107,581 million yen, ordinary income climbed 13.7% to 112,533 million yen, and net income rose 26.8% to 67,301 million yen.

E. Fiscal 2005 Outlook

In terms of the outlook for the future, AIFUL believes that the Japanese economy will continue its modest recovery, although it is marking time because of uncertain factors such as the sharp hike in the price of crude oil.
A further intensification in the brisk competition for new customer acquisition is forecast in the consumer credit industry due to factors such as industry restructuring and the entry of the IT industry. However, positive signs are emerging, such as the decline in the unemployment rate and the decrease in the number of personal bankruptcies. While the environment is challenging, it also allows for optimism.

In this environment, the AIFUL Group will diversify its products and its channels for customer acquisition with clear targets for its goal to become a comprehensive retail financial services company, which also targets the small and medium-sized enterprise sector.
The Company will strive to increase its balance of high-quality loans, build the Group's brand value and generate synergistic effects. Working for all-round improvements in management performance, including maximum cost reductions, the Company will maintain steady flows of income.

In the year ending March 2006, we predict a 7.1% rise to 555,049 million yen in consolidated operating revenue, a 14.6% increase to 155,000 million yen in ordinary income, and a 21.2% increase to 91,762 million yen in net income.

We forecast that AIFUL's non-consolidated operating revenue will increase 2.6% to 349,578 million yen, ordinary income will grow 7.5% to 121,000 million yen, and net income will rise 10.5% to 74,351 million yen.

2. Qualitative Information on Changes in Consolidated Financial Position

A. Assets

Loans totaled 1,995,621 million yen, an increase of 11.7% over the previous year. This was primarily due to steady increases in Group loans. AIFUL's loans amounted to 1,471,767 million yen, LIFE's loans stood at 284,879 million yen, Businext's loans totaled 47,622 million yen, and City's loans were 45,673 million yen.

Installment receivables rose 24.7% year-on-year to 192,401 million yen, due to the steady progress made by the credit card shopping and per-item credit businesses at LIFE Co., Ltd.

Credit guarantee installment receivables rose 5.8% to 141,407 million yen as a result of AIFUL and LIFE's active promotion of their guarantee businesses for loan products handled by financial institutions.

While allowance for bad debts decreased due to signs that bad debts had peaked, the acquisition of new consolidated subsidiaries increased allowance for bad debts 9.4%, to 159,483 million yen. (Consolidated loans and installment receivables do not include 99,580 million yen in loans and receivables and 84,447 million yen in installment receivables taken off the balance sheet by LIFE's and Wide Corporation's securitization of receivables.)

The consolidated adjustment account was 11,007 million yen.

B. Liabilities

Total capital procured, including debt, commercial paper and bonds, rose to 1,673,458 million yen.
This was due to an increase in financing to correspond with the steady increase in operating receivables at AIFUL, LIFE, Businext, and City's.

C. Shareholders' Equity

Consolidated shareholders' equity at the end of the consolidated fiscal year under review was 617,352 million yen, and the equity ratio stood at 24%. AIFUL's non-consolidated shareholders' equity was 584,308 million yen, and the equity ratio stood at 28.7%.

D. Cash Flows

Despite a decrease due to growth in loans outstanding, consolidated cash and cash equivalents stood at 108,965 million yen at the end of the consolidated fiscal year, an increase of 10,635 million yen compared with the previous year, due to capital procurement through the issuance of bonds.

(1) Cash flow from operating activities

Despite net income before income taxes of 129,441 million yen, operating activities used net cash of 63,408 million yen, compared to 42,734 million yen a year earlier, due to an increase in loans and other operating receivables and to the payment of corporate tax.

(2) Cash flow from investing activities

Investing activities used net cash of 11,211 million yen compared with the generation of 6,370 million yen for the previous year, as a result of the acquisition of fixed assets and new consolidated subsidiaries.

(3) Cash flow from financing activities

Financing activities generated net cash of 80,318 million yen, compared with 3,097 million yen a year earlier, due to direct and indirect procurement.

3. Business Risk

The main factors that may affect the business performance, share price and financial position of the AIFUL Group are those described below. However, this information does not include all the risks that, in the Company's view, could have a significant effect on the AIFUL Group. In addition to the risks that are noted, there are also risks which are difficult to foresee. Aware that the AIFUL Group's business performance, share price and financial position could be negatively affected by these risks, the Group endeavors to avoid their occurrence and to respond when they do occur. However, this does not guarantee that the occurrence of risk is completely avoided or that the response is appropriate when risk does occur. Material in the text relating to the future was current as of May 10, 2005.

A. Legal Regulations

(1) Business Regulations

In terms of the legal regulation of business, the loan business, including the AIFUL Group's mainstay consumer finance business, is subject to the application of the Money-Lending Business Control and Regulation Law (called "Money-Lending Business Regulation Law" below) and the Law concerning the Regulation of Receiving Capital Subscription, Deposits, and Interest on Deposits (called "Capital Subscription Law" below). Under these laws, business is subject to a range of regulations. These include the prohibition of excessive lending, the publication of loan terms, the advertising of loan terms, the prohibition of exaggerated advertising, the issue of documents, the issue of receipts, the preparation of account books, limitations on the acquisition of blank powers of attorney, regulation of collection activities, surrender of claim documents, the posting of signs, regulation of the cession of obligation, the appointment of managers to handle lending operations, the carrying of identification documents, and the legal regulation of the items to be entered on payment notices.

In addition, the Administrative Guidelines for Precautions Regarding Financial Supervision of the Financial Services Agency of Japan, the supervisory agency, dated October 29, 2003, set standards for preventing excessive lending. The amount that one lender can lend to a borrower in unsecured, non-guaranteed loans with only simple on-the-spot screening is 500,000 yen or an amount equivalent to 10% of the annual income of the borrower.

Amendment of these laws and regulations in the future could affect the performance of the AIFUL Group depending on the details.

Moreover, the AIFUL Group's credit card shopping and per-item credit businesses are subject to the application of the Installment Sales Law. Business is subject to a range of regulations based on the application of the Installment Sales Law. These regulations include the publication of terms of business, the issue of documents, the limitation of the amount of compensation for damages accompanying the cancellation of contracts, pleas against installment sales service providers, the prevention of purchases that exceed capacity to pay, and the prevention of consumer problems related to continuous service. Amendment of this law in the future could affect the performance of the AIFUL Group depending on the details.

(2) Lending Rate

The Law to Partially Amend the Money-Lending Business Control and Regulation Law came into force on June 1, 2000, and under the Capital Subscription Law, the maximum lending rate for when money lenders make loans as part of business operations was reduced from 40.004% per annum to 29.2% per annum, and infringements are subject to criminal penalties. However, the maximum lending rate at the AIFUL Group is lower than this, so it is not considered to have had a particular impact on the earning capacity and financial position of the Group. In addition, Paragraph 2 of Article 12 of the Supplementary Provisions of the Law to Partially Amend the Money-Lending Business Control and Regulation Law and the Law concerning the Regulation of Receiving Capital Subscription, Deposits and Interest on Deposits (called "Amended Money-Lending Business Regulation Law and Capital Subscription Law" Below) promulgated on August 8, 2003 sets a target of three years after the enforcement of the Amended Money-Lending Business Regulation Law and Capital Subscription Law for the necessary review of Paragraph 2, Article 5 (Ceiling Interest Rate) of the Capital Subscription Law, taking into consideration demand for funds and other economic and financial conditions, the financial resources of borrowers, the progress in the establishment of lending rates in accordance with creditworthiness, and other circumstances in the business of money lenders. If the maximum interest rate under the Capital Subscription Law is reduced to a level lower than the current rate, it could affect lending-related businesses and performance at the AIFUL Group.

In addition, under Paragraph 1 of Article 1 of the Interest Limitation Law, a contract for interest on a cash loan for consumption is considered invalid with regard to the portion in excess of the interest ceiling (20% when the principal is less than 100,000 yen, 18% when the principal is less than 1,000,000 yen, and 15% when the principal is 1,000,000 yen or more). Under Article 43 of the Money-Lending Business Regulation Law, when the document specified in the same Law has been issued to the borrower at the time of the loan and the borrower has voluntarily paid the excess portion as interest, and these payments are based on the contract, which is the issued document specified by the same Law, this payment is regarded as the repayment of valid interest on the debt, notwithstanding the provision of Paragraph 1 of Article 1 of the Interest Limitation Law. However, so far a number of lawsuits have been brought for the repayment of the excess portion on the interest ceilings stipulated by the Interest Limitation Law due to a lack of preparation in the industry of the matters to be entered on the contract document specified in the Money-Lending Business Regulation Law, and a number of rulings in favor of these suits have been passed down. The AIFUL Group is also the defendant in a number of lawsuits appealing for the repayment of excess interest, and the claims made by the plaintiffs include the assertion that the AIFUL Group, which operates a loan business, did not fulfill its obligation to issue the necessary documents for repayments to be under the application of the Money-Lending Business Regulation Law. In addition, it is difficult to predict the trend for similar demands for repayment that may be lodged in the future. As a result of the amendment of the Administrative Guidance described below, it is possible that the plaintiffs' claims that the AIFUL Group did not fully meet its obligation to issue documents that include the statutory matters may be recognized in court in the future.

(3) Financial Services Agency Administrative Guidance

i) Obligation to Issue Documents

Based on the Money-Lending Business Regulation Law, when the AIFUL Group, which operates a money-lending business, concludes a loan agreement or a guarantee agreement, and extends a loan, it has an obligation to issue a document that records the specified matters concerning the terms of the loan immediately to the customer, who is the borrower, and the guarantor.

The Administrative Guidance require lenders to issue a document that records all the statutory matters immediately whenever a customer borrows funds from an ATM or staffed office (includes mailing the document immediately) in addition to issuing the prescribed document when the contract is concluded. The AIFUL Group changed the software for the Company's ATMs and has been issuing the document described above that records all the statutory matters since August 2003.

In addition, for the ATM's of partner financial institutions, the Company obtains the prior consent of customers to mail the document that records the statutory matters to the customer separately immediately after a loan. However, the Company does not mail the document to customers from which it has not obtained prior consent. The Financial Services Agency has statutory authority to impose administrative penalties for non-compliance by lenders with the obligation to issue documents, including an order to completely or partially suspend business, and restrict the use of ATMs at partner financial institutions as well as cancel registration as a lender.

The imposition of such administrative penalties on the AIFUL Group could affect the Group's performance and financial position.

ii) Ensuring the Obligation to Inform

The Administrative Guidance was amended on May 1, 2005 from the viewpoint of strengthening the lender's duty to inform as well as strongly requiring the establishment of the conditions for fulfillment of the obligation to inform in order to completely protect customers. In a strengthening of the obligation to inform on power of attorney for the creation of a notary deed and the duty to inform on guarantees, a new chapter was established on the obligation to inform, which includes, for example, providing information that envisages the conditions in which the performance of a guarantee is required to a person who intends to become a guarantor as part of an actual detailing of the legal effects and risks.

Moreover, the fact that necessary and suitable measures have not been taken to ensure adequate performance of the obligation to inform in the operation of the loan business has been newly added to the practices that would fall, with great possibility, into the category of deceit and other unlawful or clearly improper practices prohibited by the Money-Lending Business Regulation Law, in providing loans, managing receivables based on loan contracts and collecting operations. These measures include the establishment of in-house regulations on the need to inform when concluding a loan contract so that the other party fully understands the content of the contract, and conducting staff training to thoroughly educate all members of staff.

The AIFUL Group intends to comply with such amendments. However, doing so may incur new, unforeseen expenses. In addition, if the Financial Services Agency deems that the Company has not complied with the amendments, it could be subject to penalties for infringement of the Money-Lending Business Regulation Law or the Administrative Guidance. As a result, the AIFUL Group's performance and financial position may be affected.

(4) Other Laws

i) Personal Information Protection Law and the Handling of Personal Information

On April 1, 2005, the Personal Information Protection Law and the accompanying guidelines on the protection of personal information established by each government Ministry came into force. Under the law, businesses that handle personal information (within the AIFUL Group, AIFUL Corporation, LIFE Co., Ltd., Tryto Corporation, Wide Corporation, City's Corporation, Businext Corporation, TCM Co., Ltd., Passkey Co., Ltd., and AsTry Loan Services Corporation fall into this category) must, with regard to the personal information specified by the Law, specify the purpose of use as far as is possible and are prohibited from handling personal information beyond the scope needed for achieving the purpose without the consent of the individual. In addition, when a business that handles personal information has its employees use personal databases, which are media for gathering information including personal information, it is necessary to follow various requirements which include taking the necessary and proper security management measures and supervising employees. Apart from this, there are also specific obligations to report to the supervisory authorities when deemed necessary. Moreover, when it is deemed necessary to protect personal rights and interests following an infringement of the Law, the competent Minister may recommend or order a suspension of the practice which constitutes the infringement and recommend or order the necessary measures be taken to correct the infringement. Furthermore, businesses are required to make notification, clearly state and publish the purpose of use of personal information, obtain the consent of customers where necessary related to the handling of personal information, to supervise sub-contractors when subcontracting the handling of personal information, establish a system for security management from the organizational, personnel and technological perspectives, and publish their basic policy on the handling of personal information. In accordance with this, after reviewing its handling of personal information in the past, the AIFUL Group produced a response strategy to coincide with the enforcement of the Law on April 1, 2005. As well as this, the Group has also taken measures to prevent the leaking of personal information before it happens. However, there is no guarantee that the measures are infallible. If the leaking of personal information should occur for any reason, or the Company is in breach of the Law, not only would the AIFUL Group be subject to penalties under the Law, but it would also lose public trust. As a result, this could affect the performance of the AIFUL Group.

ii) Amendment of the Judicial Scrivener Law

Effective April 1, 2003, the Judicial Scrivener Law was amended to expand the scope of judicial scrivener services, making it possible for judicial scriveners to appear as representatives in court like lawyers in cases such as arbitration and civil lawsuits (maximum claim of 1.4 million yen) that can be handled by a summary court. If there is an increase in the number of lawsuits and adjustments of debt using judicial scriveners as representatives as a result of this amendment and further expansions in the scope of services, it may lead to longer repayment plans for the Group's loans and a rise in bad debts. This could affect the performance of the AIFUL Group.

iii) Impact from Amendment of Bankruptcy Law

The amendments to the Bankruptcy Law came into force on January 1, 2005. The amendments seek to streamline and accelerate bankruptcy proceedings. If the amendments are accompanied by a rise in the number of bankruptcies, it could lead to an increase in bad debts, and this could affect the performance of the AIFUL Group.

iv) Possibility of Increase in Adjustment of Debts due to Formulation of the Special Conciliation Law and Amendments to Civil Rehabilitation Law

Under the Law concerning Special Conciliation to Promote the Liquidation of Specified Debts that came into force on February 17, 2000, debtors who are likely to be unable to pay off their debts, are now able to negotiate with creditors via arbitration by an arbitration committee composed of a judge and civil conciliators with specialist knowledge and experience in the necessary laws, taxes, finances, corporate finances, and asset appraisal, depending on the nature of the business operated by the debtor to adjust the debt, such as by changing the due date for payment. In addition, the amendments also made it possible for a debtor to request a suspension of civil execution proceedings against personal assets during the special conciliation proceedings.

Moreover, under the amended Civil Rehabilitation Law, which came into force on April 1, 2001, a number of optional proceedings were adopted to allow the postponement of loan repayments, without adjudication of bankruptcy, for personal loans to bankrupt borrowers. One of the procedures based on the Law does not require the approval of creditors for a draft rehabilitation plan. In addition, in certain circumstances, it makes it possible to avoid losing a personal residence covered by a home loan through the application of the special provisions for home funds.

If the number of individuals requesting legal protection from creditors (including AIFUL Group customers) increases as a result of these introductions to the legal system, it could lead to longer repayment plans for the Group's loans and a rise in bad debts. This could affect the performance of the AIFUL Group.

v) Law on the Issuance of Corporate Bonds for the Loan Business of Financial Companies

The use of funds procured through bond issuance by non-banks, which includes the AIFUL Group, had formerly been restricted. However, the Law on the Issuance of Corporate Bonds for the Loan Business of Financial Companies, which came into force on May 20, 1999, made it possible for the proceeds of bond issuance to be applied to lending operations when the company has received registration as a specified finance company as specified by the Law.

AIFUL Corporation and LIFE Co., Ltd., an AIFUL subsidiary, received registration as specified finance companies accompanying the enforcement of the Law. AIFUL Corporation and LIFE Co., Ltd., had issued 478,890 million yen in corporate bonds as of the end of the fiscal year ending March 2005.

B. Capital Procurement Environment: Trends in the Borrowing Rate

(1) Interest Rate Fluctuation Risk

The interest rate for the capital procurement of the AIFUL Group varies depending on the market environment and other factors. In order to minimize the risk of interest rate fluctuation, the Company hedges against increases in interest rates using interest caps and swaps in its efforts to reduce the impact of interest rate fluctuations. However, the performance of the AIFUL Group could be affected by future increases in interest rates.

(2) Status of Capital Procurement and Diversification

The AIFUL Group has been seeking to diversify its fund raising methods to include borrowing from financial institutions, syndicate loans, corporate bonds, commercial paper and asset securitization. At present, the Company considers that there are no difficulties in procuring loan funds. However, capital procurement on the same terms as at present may become difficult if financial institutions become reluctant to lend or borrowing terms deteriorate and the amount of borrowings falls due to a decline in the Company’s creditworthiness, and this could affect the performance of the AIFUL Group.

C. Changes in Performance

The AIFUL Group has steadily expanded its earnings through product diversification to include not only specialist consumer finance but also home equity loans and small business loans and promoting diversification in its business to enter the installment sales and credit card businesses as well as loan guarantee partnerships with banks and M&A. Meanwhile, the very framework of the competitive environment surrounding the AIFUL Group is changing from competition in the traditional specialist consumer finance market to the fierce competition of a single overall consumer credit market, which includes banks, credit card companies, installment sales companies, and consumer finance specialists. Moreover, the rise in the number of applications for personal bankruptcy had had a significant impact on the increase in bad debts in the consumer finance industry. Although a decline in the growth rate in the number of applications for personal bankruptcy began to appear in July 2003, and the growth rate has been negative year-on-year since November 2003, it is forecast that the number of personal bankruptcies will remain at a high level as long as the high unemployment rate and the lack of growth in employment income due to the deterioration in the income and employment environments in recent years persists.

The performance of the AIFUL Group may be affected by these types of changes in the market environment.

D. Dislocation, Breakdown and Other Damage to Technology Systems, including Information Network System and Internet Services

The AIFUL Group depends on internal and external information and technology systems to manage its business, and this dependence on software, systems and networks to manage the business office network and the diversity of information that makes up the Group’s business, including customer and account data is growing.

The hardware and software used by the AIFUL Group could suffer damage or interruption by human errors, natural disasters, power outages, computer viruses, and other similar phenomena or be adversely affected by an interruption in support services provided by a third party, such as a telephone company or an Internet service provider. Such dislocation, breakdown, delay or other damage in information or technology systems could reduce the number of accounts established by new customers, delay the repayment of accrued balances, reduce the trust of consumers in the AIFUL Group’s business, or result in other disadvantageous effects on the performance of the AIFUL Group.

The AIFUL Group seeks to duplicate both its hardware and telecommunications equipment to keep damage to a minimum by replacing equipment with backups when damage occurs. However, interruption to the operations of the AIFUL Group may be unavoidable in the event of natural disasters, such as earthquakes or typhoons.

E. Significant Lawsuits

The AIFUL Group is not currently contesting any significant lawsuits. However, the Group is aware of media coverage of a claim for application of administrative penalties by some groups because of the Group’s loan collection practices. The precise claims of the groups are not clear at present, but lawsuits could be brought in the future. As a result, new, unforeseen expenses could be incurred, and media coverage of such lawsuits could create apprehension and cause the Group to lose public trust. This may result in an impact on the acquisition of new customers, stock price formation and borrowing of funds, which may affect the performance of the AIFUL Group.

IV. Consolidated Financial Statements

1. Consolidated Balance Sheets

(In millions of yen - rounded down, except where noted)

Category	Note No.	End of previous consolidated fiscal year (As of Mar. 31, 2004) Amount		%	End of current consolidated fiscal year (As of Mar. 31, 2005) Amount		%
(Assets)							
I. Current assets							
1. Cash and cash equivalents	*2		99,163			109,575	
2. Loans	*2, 7, 8		1,786,940			1,995,621	
3. Installment receivables	*2, 5,7		154,285			192,401	
4. Operational investment securities			–			1,622	
5. Credit guarantee installment receivables			133,610			141,407	
6. Other operating receivables			10,205			10,489	
7. Marketable securities			120			–	
8. Inventory	*2		1,327			8,382	
9. Deferred tax assets			29,311			30,809	
10. Short-term loans	*3		20,178			5,187	
11. Other	*2		55,844			53,559	
12. Allowance for bad debts			(126,918)			(137,935)	
Total current assets			2,164,068	92.8		2,411,119	93.7
II. Fixed assets							
1. Tangible fixed assets							
(1) Buildings and structures	*2	45,576			49,861		
Total accumulated depreciation		(24,700)	20,875		(27,443)	22,418	
(2) Machinery and vehicles	*2	220			232		
Total accumulated depreciation		(59)	160		(91)	140	
(3) Equipment and fixtures		16,065			19,208		
Total accumulated depreciation		(6,438)	9,626		(9,387)	9,821	
(4) Land	*2		14,635			15,653	
(5) Construction in process account			181			218	
Total tangible fixed assets			45,479	2.0		48,252	1.9
2. Intangible fixed assets							
(1) Software			21,050			19,806	
(2) Telephone rights			667			691	
(3) Consolidation adjustment account			14,370			11,007	
(4) Other			43			311	
Total intangible fixed assets			36,131	1.5		31,816	1.2
3. Investment and other fixed assets							
(1) Investment securities	*4		17,016			24,273	
(2)Claims in bankruptcy	*8		23,660			28,535	
(3) Long-term loans			8,491			8,344	
(4) Lease deposits and guarantees			10,776			12,195	
(5) Deferred tax assets			14,782			4,288	
(6) Loss on deferred hedge			18,974			18,970	
(7) Other	*2		11,718			7,393	
(8) Allowance for bad debts			(18,838)			(21,547)	
Total investment and other fixed assets			86,582	3.7		82,453	3.2
Total fixed assets			168,193	7.2		162,522	6.3
III. Deferred assets							
1. Bond issuing expenses			499			643	
Total deferred assets			499	0.0		643	
Total assets			2,332,761	100.0		2,574,286	100.0

		End of previous consolidated fiscal year (As of Mar. 31, 2004)		End of current consolidated fiscal year (As of Mar. 31, 2005)	
Category	Note No.	Amount	%	Amount	%
(Liabilities)					
I. Current liabilities					
1. Notes & accounts payable - trade		26,251		28,988	
2. Credit guarantees payable		133,610		141,407	
3. Short-term debts	*2	57,034		71,695	
4. Current portion of bonds		90,000		94,000	
5. Current portion of long-term debts	*2	408,204		436,661	
6. Commercial paper		5,000		–	
7. Income taxes payable		25,845		23,597	
8. Reserve for accrued bonuses		3,878		4,243	
9. Gains on deferred installments	*6	10,826		14,523	
10. Other	*2	42,680		43,750	
Total current liabilities		803,332	34.4	858,865	33.4
II. Long-term liabilities					
1. Bonds		365,000		384,890	
2. Long-term debts	*2	588,572		686,212	
3. Allowance for retirement benefits for employees		2,417		687	
4. Allowance for retirement benefits for directors		1,262		1,419	
5. Interest swaps		18,832		17,834	
6. Other		1,157		1,639	
Total long-term liabilities		977,243	41.9	1,092,683	42.4
Total liabilities		1,780,575	76.3	1,951,548	75.8
(Minority interests)					
Minority interests		4,681	0.2	5,384	0.2
(Shareholders' equity)					
I. Common stock	*9	83,317	3.6	83,317	3.2
II. Capital surplus	*1	104,125	4.5	104,125	4.0
III. Retained earnings		357,705	15.3	427,609	16.6
IV. Differences in evaluation of other marketable securities		4,417	0.2	5,363	0.2
V. Treasury stock	*10	(2,062)	(0.1)	(3,063)	(0.0)
Total shareholders' equity		547,503	23.5	617,352	24.0
Total Liabilities, minority interests and shareholders' equity		2,332,761	100.0	2,574,286	100.0

2. Consolidated Statement of Income

(In millions of yen - rounded down, except where noted)

Category	Note No.	Previous consolidated fiscal year (Apr. 1, 2003 to Mar. 31, 2004) Amount		%	Current consolidated fiscal year (Apr. 1, 2004 to Mar. 31, 2005) Amount		%
I. Operating revenue							
1. Interest on loans to customers			429,512	90.7		466,429	90.0
2. Credit card revenue			8,140	1.7		9,090	1.7
3. Per-item credit revenue			15,508	3.3		17,200	3.3
4. Credit guarantee revenue			5,562	1.2		7,087	1.4
5. Financial revenue - other							
(1) Interest on deposits		7			2		
(2) Interest on marketable securities		1			0		
(3) Interest on loans		47			111		
(4) Other		39	95	0.0	31	144	0.0
6. Operating revenue - other							
(1) Sales of real estate		50			–		
(2) Revenue from operational investment securities		–			664		
(3) Collection of bad debts		6,778			7,719		
(4) Other		7,830	14,658	3.1	10,077	18,462	3.6
Total operating revenue			473,477	100.0		518,416	100.0
II. Operating expenses							
1. Financial expenses							
(1) Interest expenses		24,620			26,534		
(2) Interest on bonds		9,908			8,887		
(3) Other		3,635	38,164	8.1	4,260	39,682	7.7
2. Cost of sales							
(1) Cost of sales of real estate		137			–		
(2) Cost of sales of operational investment securities		–	137	0.0	357	357	0.0
3. Operating expenses - other							
(1) Advertising expenses		19,962			23,669		
(2) Commissions		21,502			25,556		
(3) Loan losses		13,447			11,972		
(4) Transfer to allowance for bad debts		143,892			143,493		
(5) Salaries for employees		37,519			41,340		
(6) Transfer to reserve for accrued bonuses		3,878			4,209		
(7) Expenses for retirement benefits for employees		679			2,098		
(8) Transfers to allowance for retirement benefits for directors		137			95		
(9) Write-down of consolidation adjustment account		2,061			1,940		
(10) Other		79,530	322,610	68.1	89,284	343,660	66.3
Total operating expenses			360,911	76.2		383,700	74.0
Operating income			112,566	23.8		134,716	26.0
III. Non-operating income							
1. Interest on loans		45			41		
2. Dividends received		94			140		
3. Dividends on insurance		209			766		
4. Other		691	1,040	0.2	544	1,493	0.3
IV. Non-operating expenses							
1. Interest expenses		183			189		
2. Loss on investment in anonymous association		747			616		
3. Other		229	1,160	0.3	109	914	0.2
Ordinary income			112,446	23.7		135,294	26.1
V. Extraordinary income							
1. Gain on sale of investment securities		738			712		
2. Allowance for bad debts from previous year		2			0		
3. Gain on liquidation of lease deposits and guarantees		31			33		
4. Gain from transfer of agency portion of employees' pension fund to government		4,025			207		
5. Gain on transfer to defined contribution pension system		–			208		
6. Other		159	4,957	1.0	21	1,184	0.2

		Previous consolidated fiscal year (Apr. 1, 2003 to Mar. 31, 2004)			Current consolidated fiscal year (Apr. 1, 2004 to Mar. 31, 2005)		
Category	Note No.	Amount		%	Amount		%
VI. Extraordinary losses							
1. Loss on sale of fixed assets	*1	259			383		
2. Loss on disposal of fixed assets		667			548		
3. Loss on sale of investment securities		43			170		
4. Loss on valuation of investment securities		601			499		
5. Loss on reorganization of affiliates		126			–		
6. Loss on withdrawal from auto loan business		4,106			–		
7. Transfer to allowance for bad debts		12			–		
8. Write-down of consolidation adjustment account	*2	5,614			3,830		
9. Dissolution fees for cancellation of contract		1,502			412		
10. Other		656	13,589	2.8	1,193	7,037	1.3
Net income before taxes			103,814	21.9		129,441	25.0
Corporate tax, local and enterprise taxes		46,173			41,025		
Adjustment on corporate tax, etc.		(5,157	41,016	8.7	11,990	53,015	10.3
Gain on minority interests			250	0.0		702	0.1
Net income			62,548	13.2		75,723	14.6

3. Consolidated Statement of Retained Earnings

(In millions of yen - rounded down, except where noted)

		Previous consolidated fiscal year (Apr. 1, 2003 to Mar. 31, 2004)		Current consolidated fiscal year (Apr. 1, 2004 to Mar. 31, 2005)	
Category	Note No.	Amount		Amount	
(Capital surplus)					
I. Capital surplus at the beginning of the year			104,125		104,125
II. Capital surplus at the end of the year			104,125		104,125
(Retained earnings)					
I. Retained earnings at the beginning of the year			300,924		357,705
II. Increase in retained earnings					
Net Income		62,548	62,548	75,723	75,723
III. Decrease in retained earnings					
1. Cash dividends		5,668		5,669	
2. Bonuses to directors		98		106	
3. Loss on price differences in disposal of treasury stock		0	5,766	42	5,819
IV. Consolidated retained earnings at the end of the year			357,705		427,609

4. Consolidated Statement of Cash Flows

(In millions of yen - rounded down, except where noted)

Category	Note No.	Previous consolidated fiscal year (Apr. 1, 2003 to Mar. 31, 2004) Amount	Current consolidated fiscal year (Apr. 1, 2004 to Mar. 31, 2005) Amount
I. Cash flow from operating activities			
Net income before taxes		103,814	129,441
Depreciation expenses		7,863	11,188
Write-down of consolidation adjustment account		7,675	5,770
Loss on valuation of investment securities		601	499
Increase (decrease) in allowance for bad debts		13,626	5,002
Increase (decrease) in reserve for accrued bonuses		119	179
Increase (decrease) in allowance for retirement benefits for employees		(1,193)	(1,557)
Increase (decrease) in allowance for retirement benefits for directors		112	1
Non-operating interest on loans and cash dividends		(139)	(182)
Amortization of bond issuing expenses		504	591
Loss (gain) on sale of tangible fixed assets		259	376
Loss on disposal of fixed assets		667	548
Gain on liquidation of lease deposits and guarantees		(31)	(33)
Loss (gain) on sale of investment securities		–	(542)
Gain from transfer of agency portion of employees' pension fund to government		(4,025)	(207)
Gain on transfer to defined contribution pension system		–	(208)
Bonuses paid to directors		(98)	(106)
Decrease (increase) in loans to customers		(116,158)	(134,434)
Decrease (increase) in installment receivables		(6,428)	(38,116)
Decrease (increase) in operational investment securities		–	505
Loss (gain) on other trade receivables		2,533	(283)
Decrease (increase) claims in bankruptcy		(6,297)	(4,875)
Decrease (increase) in inventory		(603)	(7,052)
Decrease (increase) in pre-paid expenses		(120)	83
Decrease (increase) in long-term pre-paid expenses		(229)	1,815
Decrease (increase) in other current assets		3,870	5,207
Increase (decrease) in other current liabilities		4,708	6,174
Other		4,051	880
Subtotal		15,081	(19,335)
Non-operating interest on loans and cash dividends		139	182
Payments for corporate and other taxes		(57,955)	(44,256)
Cash flow from operating activities		(42,734)	(63,408)
II. Cash flow from investing activities			
Disbursements for investments in term deposits		(498)	–
Revenue from payment of term deposits		492	676
Funds provided by sales of investment securities		509	120
Decrease (increase) in trust beneficiary rights		2,000	1,000
Funds used for purchase of new subsidiaries	*2	–	(9,897)
Funds used for purchase of tangible fixed assets		(8,095)	(4,293)
Gain on sale of tangible fixed assets		357	411
Funds used for purchase of intangible fixed assets		(8,921)	(5,014)
Funds used for purchase of investment securities		(308)	(4,025)
Funds provided by sales of investment securities		2,555	2,314
Funds used for acquisition of paid-in capital		(250)	–
Funds provided by sale of paid-in capital		139	–
Decrease (increase) in short-term receivables		10,004	14,991
Funds used in collections of long-term loan receivables		(7,216)	(7,116)
Gain on collection of long-term loan receivables		15,735	109
Funds used for purchases of investments and other assets		(51)	(13)
Funds provided from sales of investments and other assets		344	425
Other		(427)	(899)
Cash flow from investing activities		6,370	(11,211)

Category	Note No.	Previous consolidated fiscal year (Apr. 1, 2003 to Mar. 31, 2004) Amount	Current consolidated fiscal year (Apr. 1, 2004 to Mar. 31, 2005) Amount
III. Cash flow from financing activities			
Increase in short-term debts		657,558	875,186
Repayment of short-term debts		(655,888)	(869,351)
Increase (decrease) in commercial paper		(8,500	(5,000)
Increase in long-term debts		541,283	629,726
Repayments of long-term debts		(528,609)	(566,683)
Cash from issue of corporate bonds		79,531	113,153
Loss on redemption of bonds		(77,000)	(90,000)
Payment for acquisition of treasury stock		(9)	(1,043
Gain on payments from minor shareholders for establishment of subsidiaries/affiliates		400	–
Cash dividends paid		(5,668)	(5,669
Cash flow from financing activities		3,097	80,318
IV. Effect of exchange rate changes on cash and cash equivalents		(47)	(5)
V. Increase (decrease) in cash and cash equivalents		(33,313)	5,692
VI. Balance of cash and cash equivalents at the beginning of period		131,643	98,329
VII. Increase in cash and cash equivalents from new consolidations		–	4,943
VIII. Balance of cash and cash equivalents at the end of period	*1	98,329	108,965

5. Significant Accounting Policies Relating to the Financial Statements

Item	Previous consolidated fiscal year (Apr. 1, 2003 to Mar. 31, 2004)	Current consolidated fiscal year (Apr. 1, 2004 to Mar. 31, 2005)
1. Matters pertaining to consolidation	(1) No. of consolidated subsidiaries: 9	(1) No. of consolidated subsidiaries: 10 １. Information included in "State of the Group," so omitted here.
	(2) Names of non-consolidated subsidiaries Life Stock Center Co., Ltd. and three others (Reasons the companies are excluded from consolidation) Non-consolidated subsidiaries have not been included in the scope of consolidation. This is due to the fact that they are small in size and the total assets, operating revenue, net income/loss and retained earnings represented in the Company's share of their equity has a small effect on the consolidated financial statements.	(2) Names of non-consolidated subsidiaries Life Stock Center Co., Ltd. and two others (Reasons the companies are excluded from consolidation) Non-consolidated subsidiaries have not been included in the scope of consolidation. This is due to the fact that they are small in size and the total assets, operating revenue, net income/loss and retained earnings represented in the Company's share of their equity has a small effect on the consolidated financial statements.
2. Matters concerning the application of equity method accounting	Four non-consolidated subsidiaries and an affiliated company, Hakata Daimaru Card Services Co., Ltd., have not adopted the equity method. This is due to the fact that they are small in size, and the sums of AIFUL's share of their consolidated net income or loss and retained earnings would have a negligible effect on the consolidated financial statements.	Three non-consolidated subsidiaries and two companies, Sumishin Life Card Co., Ltd., and another company, have not adopted the equity method. This is due to the fact that they are small in size, and the sums of AIFUL's share of their consolidated net income or loss and retained earnings would have a negligible effect on the consolidated financial statements.
3. Matters concerning the settlement dates of consolidated subsidiaries	The fiscal year-end of consolidated subsidiary Marutoh K.K. is February 28. Financial statements as of this date are used in the preparation of the consolidated financial statements, with significant events taking place between balance sheet dates adjusted for as necessary.	Consolidated subsidiary Marutoh K.K. has changed its fiscal year-end from February 28 to March 31.
4. Accounting principles used for standard accounting treatment (1) Appraisal standards and methods for principal assets		
i) Marketable securities		Marketable securities for trading purposes Market value method (sale price computed using the moving average method)
	Bonds held to maturity: Amortized cost method (fixed amount method)	Bonds held to maturity: As on left
	Other marketable securities Securities valued at market: Market value method based on the market prices on the settlement date. All valuation differences are reflected directly in shareholders' equity, the sale price being computed using the moving average method.	Other marketable securities Securities valued at market: As on left
	Securities not valued at market: Cost method, cost being determined by the moving average method	Securities not valued at market: As on left
ii) Inventories	Real estate for sale: Lower-of-cost-or-market method, cost being determined by the specific cost method	Real estate for sale: As on left
	Warehouse goods Latest purchase cost method	Warehouse goods As on left
	Purchased claims Cost method, cost being determined by the specific cost method	Purchased claims As on left
(2) Depreciation methods for depreciable assets		
i) Tangible fixed assets	Diminishing balance depreciation method Major useful lives are as follows: Buildings and structures 2-62 years Machinery and vehicles 4-15 years Equipment and fixtures 2-20 years	As on left Buildings and structures 2-62 years Machinery and vehicles 2-15 years Equipment and fixtures 2-20 years

Item	Previous consolidated fiscal year (Apr. 1, 2003 to Mar. 31, 2004)	Current consolidated fiscal year (Apr. 1, 2004 to Mar. 31, 2005)
ii) Intangible fixed assets	- Software Straight-line method based on the assumed useful life for internal use (5 years) - Others Straight-line method	As on left
(3) Accounting standards for allowances and reserves		
i) Allowance for bad debts	Provision for losses on bad debts is made up to the necessary amount considering the actual percentage of bad loan write-offs for normal claims, and up to the amount forecast to be irrecoverable based on individual assessments of recoverability for doubtful claims.	As on left
ii) Reserve for accrued bonuses	Provision for accrued bonuses to employees is made by appropriating an amount based on the estimated total bonuses that will be paid during the fiscal year.	As on left
iii) Allowance for retirement benefits for employees	Provision for employees' retirement benefits is made on the basis of forecast retirement benefit obligations and pension assets at the end of the consolidated fiscal year. Actuarial differences and past service obligations are generally written off as lump sum expenses in the consolidated fiscal year in which they arise. (Supplementary Information) With the enforcement of the Defined Benefit Corporate Pension Law, AIFUL and some of its consolidated domestic subsidiaries obtained from the Minister of Health, Labour and Welfare, as of September 25, 2003, an exemption from the obligation to make future payments with respect to the agency portion of employees' pension fund. The estimated amount returned (minimum liability) as of the end of the consolidated fiscal year is 2,509 million yen. If AIFUL were to apply the interim measure set forth in the "Practice Guideline Concerning Retirement Benefit Accounting (Interim Report)" (Report of the Accounting Standards Committee of The Japanese Institute of Certified Public Accountants No. 13, Item 44-2), the amount to be recorded as a profit would be 263 million yen. Some consolidated domestic subsidiaries have applied the interim measures set forth in Item 47-2 of the Practice Guideline, having written off the retirement benefit obligation relating to the agency portion, and pension assets equivalent to the returned amount regarded as extinguished on the date of approval of the relevant exemption. The estimated amount returned (minimum liability) at the end of the consolidated fiscal year is 4,067 million yen.	Provision for employees' retirement benefits is made on the basis of forecast retirement benefit obligations and pension assets at the end of the current consolidated fiscal year. Actuarial differences and past service obligations are generally written off as lump sum expenses in the consolidated fiscal year in which they arise. (Supplementary Information) With the enforcement of the Defined Benefit Corporate Pension Law, AIFUL and some of its consolidated domestic subsidiaries received authorization from the Minister of Health, Labour and Welfare on September 30, 2004 to return the past portion of the agency portion of the employees' pension fund. The amount returned was confirmed on March 16, 2005. The impact on consolidated profit and loss in the current fiscal year is 207 million yen recorded as extraordinary income. AIFUL and some of its consolidated domestic subsidiaries obtained authorization on September 30, 2004 from the Minister of Health, Welfare and Labour to dissolve the AIFUL employees' pension fund and to introduce defined contribution pensions, and a new defined contribution pension system and advance retirement benefit system were adopted on October 1, 2004. However, the amount of assets under management per individual to be transferred to the defined contribution pension system with respect to the portion relating to past service had not been determined as of March 31, 2005. In addition, some of the consolidated domestic subsidiaries dissolved the employees' pension fund on March 31, 2005 with the enforcement of the Defined Contribution Pension Law. At the same time, they revised the retirement benefit system on April 1, 2005 and adopted defined contribution pension and advance retirement benefit systems on the same day. Other consolidated domestic subsidiaries have transferred from the lump sum retirement benefit system to the defined contribution pension and advance retirement benefit systems, applying the accounting rules in "Accounting for Transfers among Retirement Benefit Plans (Financial Accounting Standard Implementation Guidance No. 1)." The impact of these transfers on consolidated profit and loss in the current fiscal year is 208 million yen recorded as "Gain on transfer to defined contribution pension system" under extraordinary income.

Item	Previous consolidated fiscal year (Apr. 1, 2003 to Mar. 31, 2004)	Current consolidated fiscal year (Apr. 1, 2004 to Mar. 31, 2005)
iv) Allowance for retirement benefits for directors	The Company provides for retirement benefits for directors by determining the amount to be paid at the end of the consolidated fiscal year based on the regulation for the payment of directors' retirement benefits.	As on left
(4) Significant accounting policies relating to the financial statements		
i) Interest on loans to customers	Interest on loans to customers is recorded in accordance with accrual standards. Uncollected interest is recorded at the lower of the maximum legal interest rate and the pertinent Company interest rate.	As on left
ii) Accounting standards for credit revenue	Commission charges from customers and franchised stores based upon add-on systems are treated as "gains on deferred installments" in a lump sum at the time the credit contract is concluded, and transferred to revenues at the time the bill is made. However, customer commission charges based upon the reserve-on-balance or revolving styles are treated as revenues at the time the bill is made. The segment revenue distribution method, based on the add-on system, is the 7:8 method.	As on left
iii) Credit guarantee revenue	Credit guarantee revenues are accounted for with the diminishing-balance method.	As on left
iv) Accounting treatment of interest on debt	Interest on debt used to provide consumer loans is accounted for as "interest expenses" in financial expenses. All other interest expenses are accounted for as "interest expenses" in non-operating expenses.	As on left
(5) Accounting treatment of lease transactions	In finance lease transactions, other than those in which the title of the leased asset is deemed to be transferred to the lessee, finance leases are treated according to the method used for ordinary loan transactions, *mutatis mutandis*.	As on left
(6) Hedge accounting methods		
i) Hedge accounting methods	The Company uses deferred hedge accounting. However, the Company uses exceptional accounting rules for interest swaps that meet the requirements for exceptional treatment as interest swaps and interest caps.	The Company uses deferred hedge accounting. The Company also applies appropriation treatment to exchange rate fluctuation risk hedge transactions that meet the requirements for appropriation treatment, and exceptional accounting rules for interest swaps that meet the requirements for exceptional treatment as interest swaps and interest caps.
ii) Hedging methods and hedged transactions	Hedging methods: Interest caps and interest swaps Hedged transactions: Borrowing that will change the Company's cash flow depending upon changes in market interest rates (floating rate bank borrowing and corporate bonds).	a. Hedging methods: Currency swaps Hedged transactions: Foreign currency-denominated bonds b. Hedging methods: Interest caps and interest swaps Hedged transactions: Borrowing that will change the Company's cash flow depending upon changes in market interest rates (floating rate bank borrowing and corporate bonds).
iii) Hedging policy	The Company uses hedge transactions for interest caps and interest swaps to keep the percentage of fixed interest rate capital at a specified percentage of total capital funds procured.	The Company uses currency swaps as hedge transactions for exchange rate fluctuation risk related to the payment of principal and interest on foreign currency denominated corporate bonds. The Company uses hedge transactions for interest caps and interest swaps to keep the percentage of fixed interest rate capital at a specified percentage of total capital funds procured.

Item	Previous consolidated fiscal year (Apr. 1, 2003 to Mar. 31, 2004)	Current consolidated fiscal year (Apr. 1, 2004 to Mar. 31, 2005)
iv) Evaluation of hedge effectiveness	The Company determines the effectiveness of its hedging transactions based on a method of ratio analysis covering cumulative changes over a ten-year period. However, no evaluation of the effectiveness of interest swaps based on exceptional accounting rules is conducted.	As on left
(7) Accounting treatment of consumption taxes	Consumption taxes are taken out of all Statement of Income items and Balance Sheet items. Consumption taxes for fixed assets that are not subject to the exclusion, however, are included in “other” under investment and other fixed assets, and are written off using the straight-line method over a five-year period.	As on left
5. Matters pertaining to the valuation of consolidated subsidiaries’ assets and liabilities	Assets and liabilities of consolidated subsidiaries are all evaluated using the market value method.	As on left
6. Write-down of the consolidation adjustment account	The Company writes down the consolidation adjustment account using the straight-line method over a ten-year period. Items that do not have a significant effect on the consolidated financial statements, however, are written down completely in the year in which the adjustment is made.	As on left
7. Matters pertaining to appropriation of profit-related items	Consolidated statements of retained earnings are based upon appropriated profit settled during the consolidated fiscal year.	As on left
8. Scope of cash and cash equivalents in the consolidated statements of cash flows	Cash and cash equivalents include cash on hand, deposits on demand, and short-term, highly liquid investments with maturities of three months or less at the date of acquisition that are readily convertible to cash and cash equivalents and are subject to only insignificant risk of changes in value.	As on left

6. Changes in Labeling Method

Previous consolidated fiscal year (Apr. 1, 2003 to Mar. 31, 2004)	Current consolidated fiscal year (Apr. 1, 2004 to Mar. 31, 2005)
(Notes to the Consolidated Statement of Income) Because “interest expenses” exceeded 10% of total non-operating expenses, this item was recorded as a category. This item was included as 223 million yen in “other” in non-operating expenses in the previous consolidated fiscal year. An “investment in anonymous association” exceeded 10% of total non-operating expenses, so it has been recorded as a category. This item was included as 514 million yen in “other” in non-operating expenses in the previous consolidated fiscal year.	(Notes to the Consolidated Balance Sheets) Investments of 3,313 million yen in limited liability investment partnerships and equivalent partnerships were included in Investment securities based on “Practice Guideline Concerning Accounting Standards for Financial Instruments” (Report of the Accounting Standards Committee No. 14). In the previous consolidated fiscal year, investments of 1,718 million yen were included under “Other” in Investment and other fixed assets.

7. Supplementary Information

Previous consolidated fiscal year (Apr. 1 2003 to Mar. 31, 2004)	Current consolidated fiscal year (Apr. 1 2003 to Mar. 31, 2004)
—	1 On March 31, 2003, "Partial Revisions of Regional Tax Laws" (Law No. 9 of 2003) was published, and with the incorporation of pro forma standard taxation systems into corporate enterprise taxes from the fiscal year commencing April 1, 2004, the corporate enterprise tax levied in proportion to added value and capital will be included under "Other" in "Operating expenses - other" from the current consolidated fiscal year in accordance with "Practical Treatment Concerning Presentation of Pro Forma Standard Taxation Portion of Enterprise Tax in Statement of Income," Practice Report No. 12, February 13, 2004, Accounting Standards Boards of Japan. As a result, "Other operating expenses" increased 1,252 million yen, and operating income, ordinary income and net income before taxes fell 1,252 million yen. 2 The meeting of the Board of Directors held on February 21, 2005 resolved to undertake a stock split as follows. (1) Splitting procedure The Company's common shares owned by shareholders whose names are stated or recorded in the final register of shareholders and the register of beneficiary shareholders as of March 31 2005 shall be split 1.5 for each one share. (2) Number and type of shares to be increased due to the stock split 47,345,000 shares of common stock (3) Date of stock split May 23, 2005 (4) First date of dividend accrual period April 1, 2005 Per share numerical data assuming the implementation of the stock split at the beginning of the previous consolidated fiscal year and at the beginning of the current consolidated fiscal year is as follows. (1) Previous consolidated fiscal year (yen) Net asset per share 3,863.05 Net income per share 440.65 (2) Current consolidated fiscal year (yen) Net asset per share 4,358.51 Net income per share 533.40 Diluted net income per share 533.36

8. Notes

A. Notes to the Consolidated Balance Sheets

End of previous consolidated fiscal year (As of Mar. 31, 2004)	End of current consolidated fiscal year (As of Mar. 31, 2005)
*1 Capital surplus includes an increase of 18,693 million yen in a simple equity swap. This includes a difference of 13,900 million yen recorded in the valuation of subsidiary's stock incurred in capital consolidation methods.	*1 As on left
*2 Assets pledged as collateral and corresponding liabilities (1) Assets pledged as collateral (In millions of yen) Cash and deposits 546 Loans 760,544 Installment receivables 45,367 Inventory 124 Buildings and structures 960 Machinery and vehicles 18 Land 1,470 Investment and other fixed assets (other) 73 Total 809,104	*2 Assets pledged as collateral and corresponding liabilities (1) Assets pledged as collateral (In millions of yen) Cash and deposits 532 Loans 855,522 Installment receivables 58,730 Inventory 113 Buildings and structures 906 Machinery and vehicles 13 Land 1,470 Total 917,288

End of previous consolidated fiscal year (As of Mar. 31, 2004)	End of current consolidated fiscal year (As of Mar. 31, 2005)

End of previous consolidated fiscal year (As of Mar. 31, 2004)

(2) Corresponding liabilities

(In millions of yen)

Short-term debts	45,320
Current portion of long-term debts	220,249
Long-term debts	359,991
Current liabilities (other)	114
Total	625,675

Above amounts include items related to the securitization of loans receivables, 259,797 million yen for outstanding loans receivables, 31,278 million yen for the current portion of long-term debts, and 90,268 million yen for long-term debts.

The matters below are not included in the aforementioned amounts.

- The Company has contracted to offer loans as collateral in response to borrowers' requests to the sum of 200 million yen for short-term debts, 83,946 million yen for the current portion of long-term debts, 84,087 million yen for long-term debts, totaling 168,234 million yen.
- The Company has also offered 6,153 million yen in cash and cash equivalents as collateral for swap transactions.

*3 Assets accepted as collateral with full rights of disposal and corresponding market values

(In millions of yen)

Transferred accounts	10,000
Commercial paper	9,998
Total	19,998

*4 Value of stock of non-consolidated subsidiaries and affiliates included in investment securities

19 million yen

*5 Installment receivables

(In millions of yen)

Credit card shopping	46,707
Per-item shopping	107,576
Other	1
Total	154,285

*6 Gains on deferred installments

(In millions of yen)

	Balance at end of prior period	Gains during period	Amounts realized during period	Balance at end of period
Credit card shopping	538	7,884	8,044	377 (67)
Per-item shopping	9,661	15,428	15,151	9,937 (1,150)
Guarantees	670	3,600	3,842	428 (0)
Loans	219	76,384	76,520	82 (–)
Total	11,089	103,297	103,559	10,826 (1,217)

Note: Amounts in parenthesis are merchant fees.

*7 Securitization of receivables
The amount of loans and installment receivables removed from the balance sheet through the securitization of claims stood at 213,981 million yen at the end of the consolidated fiscal year. The break down was as follows:

(In millions of yen)

Loans	120,715
Installment receivables	93,266
Total	213,981

End of current consolidated fiscal year (As of Mar. 31, 2005)

(2) Corresponding liabilities

(In millions of yen)

Short-term debts	53,240
Current portion of long-term debts	229,617
Long-term debts	380,695
Current liabilities (other)	170
Total	663,723

Above amounts include items related to the securitization of loans receivables, 344,038 million yen for outstanding loans receivables, 33,276 million yen for the current portion of long-term debts, and 100,989 million yen for long-term debts.

The matters below are not included in the aforementioned amounts.

- The Company has contracted to offer loans as collateral in response to borrowers' requests to the sum of 400 million yen for short-term debts, 76,016 million yen for the current portion of long-term debts, and 77,995 million yen in long-term debts, totaling 154,411 million yen.
- The Company has also offered 4,456 million yen in cash and cash equivalents as collateral for swap transactions.

*3 Assets accepted as collateral with full rights of disposal and corresponding market values

(In millions of yen)

Commercial paper	4,998
Total	4,998

*4 Value of stock of non-consolidated subsidiaries and affiliates included in investment securities

157 million yen

*5 Installment receivables

(In millions of yen)

Credit card shopping	55,971
Per-item shopping	136,430
Other	0
Total	192,401

*6 Gains on deferred installments

(In millions of yen)

	Balance at end of prior period	Gains during period	Amounts realized during period	Balance at end of period
Credit card shopping	377	9,162	9,007	532 (114)
Per-item shopping	9,937	20,638	16,930	13,646 (1,492)
Guarantees	428	3,930	4,043	315 (0)
Loans	82	83,170	83,224	29 (–)
Total	10,826	116,902	113,205	14,523 (1,606)

Note: Amounts in parenthesis are merchant fees.

*7 Securitization of receivables
The amount of loans and installment receivables removed from the balance sheet through the securitization of claims stood at 184,027 million yen at the end of the consolidated fiscal year. The break down was as follows:

(In millions of yen)

Loans	99,580
Installment receivables	84,447
Total	184,027

End of previous consolidated fiscal year (As of Mar. 31, 2004)	End of current consolidated fiscal year (As of Mar. 31, 2005)

*8 Bad debts

The bad debts included in loans and claims in bankruptcy are shown below:

End of previous consolidated fiscal year (As of Mar. 31, 2004)

(In millions of yen)

	Unsecured loans	Other loans	Total
Claims in bankruptcy	6,518	22,118	28,636
Loans in arrears	28,597	23,854	52,452
Loans in arrears longer than 3 months	12,736	5,083	17,819
Loans with adjusted terms	49,856	1,060	50,916
Total	97,709	52,116	149,825

End of current consolidated fiscal year (As of Mar. 31, 2005)

(In millions of yen)

	Unsecured loans	Other loans	Total
Claims in bankruptcy	6,240	24,779	31,019
Loans in arrears	31,551	28,731	60,283
Loans in arrears longer than 3 months	14,846	6,202	21,049
Loans with adjusted terms	59,780	3,003	62,784
Total	112,418	62,717	175,136

Explanations for each of the above items follow:

(Claims in bankruptcy)

"Claims in bankruptcy" refers to loans that are included in loans on which principal or interest payments have been continuously late for a considerable period of time for the reasons cited in Article 96, Paragraph 1, Number 3, Items A through E of the Corporate Income Tax Law Execution Ordinance (1965, Ordinance No. 97), or for the reasons set forth in Number 4 of the same paragraph. The Company sets aside a reserve for bad debts that is equivalent to the amount the Company believes it will be unable to recover based on an evaluation of each loan.

(Current fiscal year: As on left)

(Loans in arrears)

"Loans in arrears" refers to loans other than claims in bankruptcy for which unpaid interest is not accrued. This excludes loans, however, that are included in loans for which the Company has made arrangements convenient to the borrower for the purpose of reorganization or support of the borrower, such as reduction or exemption of interest or extension of the repayment period on which the Company is periodically receiving payments.

(Current fiscal year: As on left)

(Loans in arrears longer than 3 months)

"Loans in arrears longer than 3 months" refers to loans for which the principal or interest payment is three or more months overdue from the day following the scheduled payment date and that are not regarded as claims in bankruptcy or loans in arrears.

(Current fiscal year: As on left)

(Loans with adjusted terms)

"Loans with adjusted terms" refers to loans for which the Company has made arrangements convenient to the borrower for the purpose of reorganization or support of the borrower, such as reduction or exemption of interest or extension of the repayment period on which the Company is periodically receiving payments, and that are not regarded as claims in bankruptcy, loans in arrears or loans in arrears longer than 3 months.

(Current fiscal year: As on left)

End of previous consolidated fiscal year (As of Mar. 31, 2004)	End of current consolidated fiscal year (As of Mar. 31, 2005)
*9 All issued stocks totaled 94,690,000 shares of common stock.	*9 All issued stocks totaled 94,690,000 shares of common stock.
*10 The number of shares of treasury stock held by the AIFUL Group was 222,866 shares of common stock.	*10 The number of shares of treasury stock held by the AIFUL Group was 284,465 shares of common stock.

B. Notes to the Consolidated Statement of Income

Previous consolidated fiscal year (Apr. 1, 2003 to Mar. 31, 2004)	Current consolidated fiscal year (Apr. 1, 2004 to Mar. 31, 2005)
*1 Breakdown of loss on sale of fixed assets is as follows. (In millions of yen) Buildings and structures 3 Land 13 Other (Telephone rights) 243 Total 259	*1 Breakdown of loss on sale of fixed assets is as follows. (In millions of yen) Buildings and structures 170 Land 110 Other (Telephone rights) 101 Total 383
*2 The amount of tax losses carried forward at a subsidiary at the time of acquisition of the subsidiary's shares that corresponds to the accrued deferred tax assets at the subsidiary following the acquisition of the subsidiary's shares is written off as a lump sum.	*2 As on left

C. Notes to the Consolidated Statement of Cash Flows

Previous consolidated fiscal year (Apr. 1, 2003 to Mar. 31, 2004)	Current consolidated fiscal year (Apr. 1, 2004 to Mar. 31, 2005)
*1 Relationship between the balance of cash and cash equivalents at the end of the period and the amounts recorded in the categories shown on the consolidated balance sheets: (In millions of yen) Cash and cash equivalents account 99,163 Term deposits with maturity greater than 3 months (833) Cash and cash equivalents 98,329	*1 Relationship between the balance of cash and cash equivalents at the end of the period and the amounts recorded in the categories shown on the consolidated balance sheets: (In millions of yen) Cash and cash equivalents account 109,575 Term deposits with maturity greater than 3 months (609) Cash and cash equivalents 108,965
	*2 Breakdown of primary assets and liabilities of companies that became new consolidated subsidiaries due to stock acquisition The breakdown of the assets and liabilities at the start of the consolidated period following the consolidation of Wide Corporation and TCM Co., Ltd. through stock acquisition, the acquisition price of Wide Corporation and TCM shares and the relationship to expenditures (net) made to acquire Wide Corporation and TCM are as follows: (In millions of yen) Current assets 80,284 Fixed assets 7,319 Consolidation adjustment account 4,584 Current liabilities (31,061) Long-term liabilities (44,276) Acquisition price of shares of Wide Corporation and TCM 16,849 Wide Corporation's and TCM's Balance of cash and cash equivalents at start of fiscal period (6,952) Net expenditures to acquire Wide Corporation and TCM 9,897

9. Lease Transaction

Previous consolidated fiscal year (Apr. 1, 2003 to Mar. 31, 2004)

1 Finance lease transactions except leases under which the title of the leased asset is deemed to be transferred to the lessee

(1) Acquisition cost, accumulated depreciation and period ending balance of lease assets

(In millions of yen)

	Acquisition cost	Accumulated depreciation	Period ending balance
Buildings and structures	9	1	7
Machinery and vehicles	480	327	153
Equipment and fixtures	27,600	18,648	8,951
Total	28,090	18,977	9,112

(2) Outstanding balance of future lease payments at the end of the period

(In millions of yen)

Within one year	4,729
Over one year	4,497
Total	9,226

(3) Amount of lease fee payments, the amount equivalent to depreciation expenses, and the amount equivalent to interest expenses

(In millions of yen)

Lease fee payments	6,460
Depreciation expenses	6,214
Interest expenses	207

(4) Accounting method for the amount equivalent to depreciation expenses

Calculated by assuming the lease term is the depreciable life and depreciating the remaining amount to zero using the fixed amount method. The method for calculating the amount equivalent to depreciation expenses was changed from the sum-of-the-years-digits method to the fixed amount method in the consolidated fiscal year. As a result, the amount equivalent to cumulative depreciation is 1,875 million yen less, and the amount equivalent to depreciation expenses is 703 million yen more.

(5) Accounting method for the amount equivalent to interest expenses

Interest expense for lease assets is calculated as the difference between the total lease payments and the acquisition price of the leased assets, with the amount allocated to each accounting period using the interest method.

2 Operating lease transactions

Future lease payments, as in (2) above

(In millions of yen)

Within one year	104
Over one year	221
Total	325

Current consolidated fiscal year (Apr. 1, 2004 to Mar. 31, 2005)

1 Finance lease transactions except leases under which the title of the leased asset is deemed to be transferred to the lessee

(1) Acquisition cost, accumulated depreciation and period ending balance of lease assets

(In millions of yen)

	Acquisition cost	Accumulated depreciation	Period ending balance
Buildings and structures	9	3	5
Machinery and vehicles	313	170	143
Equipment and fixtures	19,555	12,755	6,800
Total	19,878	12,929	6,949

(2) Outstanding balance of future lease payments at the end of the period

(In millions of yen)

Within one year	3,790
Over one year	3,108
Total	6,899

(3) Amount of lease fee payments, the amount equivalent to depreciation expenses, and the amount equivalent to interest expenses

(In millions of yen)

Lease fee payments	6,802
Depreciation expenses	6,240
Interest expenses	237

(4) Accounting method for the amount equivalent to depreciation expenses

Calculated by assuming the lease term is the depreciable life and depreciating the remaining amount to zero using the fixed amount method.

(5) Accounting method for the amount equivalent to interest expenses

As on left

2 Operating lease transactions

Future lease payments, as in (2) above

(In millions of yen)

Within one year	109
Over one year	140
Total	250

10. Marketable Securities

A. For the Previous Consolidated Fiscal Year (Apr. 1, 2003 to Mar. 31, 2004)

(1) Other Marketable Securities with Market Value

(In millions of yen)

Segment	Acquisition	Value stated on consolidated balance sheet	Difference
Value stated on the consolidated balance sheet exceeding acquisition cost			
Stocks	5,148	12,685	7,537
Bonds	120	120	0
Subtotal	5,268	12,805	7,537
Value stated on the consolidated balance sheet not exceeding acquisition cost			
Stocks	1,635	1,289	(345)
Subtotal	1,635	1,289	(345)
Total	6,903	14,095	7,191

(2) Other Marketable Securities Sold During the Fiscal Year

(In millions of yen)

Sales price	Total gain on sale	Total loss on sale
2,045	738	43

(3) Other Marketable Securities Without Market Price and Value Stated on Consolidated Balance Sheet

(In millions of yen)

Segment	Value stated on consolidated balance sheet
Non-listed stocks (excluding OTC stocks)	1,522
Other	1,500

(4) Scheduled Amount of Redemption after the Consolidated Settlement Date for Other Marketable Securities (With an Expiration Period) and Bonds to Be Held to Maturity

(In millions of yen)

Segment	Within one year	One year to five years	Five years to ten years	Over ten years
Other marketable securities				
Bonds				
National and local bonds	120	–	–	–

B. For the Current Consolidated Fiscal Year (Apr. 1, 2004 to Mar. 31, 2005)

(1) Marketable Securities for Trading

(In millions of yen)

Value stated on the consolidated balance sheet at the end of the current consolidated fiscal year	Evaluation difference included in consolidated profit and loss for current consolidated fiscal year
1,622	(113)

(2) Other Marketable Securities with Market Value

(In millions of yen)

Segment	Acquisition	Value stated on consolidated balance sheet	Difference
Value stated on the consolidated balance sheet exceeding acquisition cost			
Stocks	7,522	16,591	9,068
Bonds	–	–	–
Subtotal	7,522	16,591	9,068
Value stated on the consolidated balance sheet not exceeding acquisition cost			
Stocks	1,231	1,030	(201)
Subtotal	1,231	1,030	(201)
Total	8,753	17,621	8,867

(3) Other Marketable Securities Sold During the Current Fiscal Year

(In millions of yen)

Sales price	Total gain on sale	Total loss on sale
1,643	712	170

(4) Other Marketable Securities Without Market Price and Value Stated on Consolidated Balance Sheet

(In millions of yen)

Category	Value stated on consolidated balance sheet
Non-listed stocks (excluding OTC stocks)	1,681
Investments in limited liability investment partnerships	3,313
Other	1,500

(5) Scheduled Amount of Redemption after the Consolidated Settlement Date for Other Marketable Securities (With an Expiration Period) and Bonds to Be Held to Maturity

(In millions of yen)

Category	Within one year	One year to five years	Five years to ten years	Over ten years
Other marketable securities				
Bonds				
National and local bonds	–	–	–	–
Other	–	–	–	–

11. Retirement Benefits

Previous consolidated fiscal year (Apr. 1, 2003 to Mar. 31, 2004)	Current consolidated fiscal year (Apr. 1, 2004 to Mar. 31, 2005)
1 The Company and its consolidated subsidiaries have established employees' pension funds, approved retirement annuities and retirement lump sum grant systems as regular benefit plans.	1 With the enforcement of the Defined Contribution Pension Law, AIFUL and its consolidated subsidiaries have abolished the employees' pension fund, the approved retirement annuities, and the retirement lump sum grant systems, and shifted to defined contribution pension and advance retirement benefit systems.
2 Retirement benefit liabilities (In millions of yen) (1) Retirement benefit liabilities (14,511) (2) Pension assets 10,919 (3) Unreserved past service liabilities – (4) Difference between provisional and actuarial calculations 1,212 (5) Net balance sheet amounts (2,379) (6) Advance pension assets 37 (7) Allowance for retirement benefits for employees (2,417)	2 Retirement benefit liabilities (In millions of yen) (1) Retirement benefit liabilities (8,236) (2) Pension assets 7,032 (3) Difference between provisional and actuarial calculations 516 (4) Net balance sheet amounts (687) (5) Allowance for retirement benefits for employees (687) The impact of the shift from the employees' pension fund, approved retirement annuities and retirement lump sum grant systems to the defined contribution pension and and advance retirement benefit systems is as follows. (In millions of yen) Decrease in retirement benefit liabilities 4,281 Decrease in pension assets (3,605) Difference between provisional and actuarial calculations (467) Decrease in allowance for retirement benefits for employees 208
3 Retirement benefit expenses (In millions of yen) (1) Service expenses[Note] 1,168 (2) Interest expenses 306 (3) Expected investment income (146) (4) Expenses for past service liability (549) (5) Difference between provisional and actuarial calculations (98) (6) Retirement benefit expenses 679 Note: Employees' contributions to employees' pension funds have been deducted.	3 Retirement benefit expenses (In millions of yen) (1) Service expenses[Note] 761 (2) Interest expenses 277 (3) Expected investment income (183) (4) Expenses for past service liability 620 (5) Difference between provisional and actuarial calculations 242 (6) Payments relating to advance retirement benefits 149 (7) Installment payments for defined contribution pensions 229 (8) Retirement benefit expenses 2,098 (9) Profit/loss accompanying transfer to defined contribution pension system (208) Total 1,889 Note: Employees' contributions to employees' pension funds have been deducted.
4 Calculation standards for retirement benefit liabilities (1) Predicted retirement benefit periodical distribution method: Fixed amount standard (2) Discount rate: 1.5 - 2.5% (3) Expected investment income rate: 1.5～2.0% (4) Number of years to treat actuarial differences Mainly collective treatment in fiscal year of accrual AIFUL ---------------- Collective treatment in fiscal year of accrual Some subsidiaries ---- Treatment over ten years from fiscal year following fiscal year of accrual (5) Number of years to treat past service liability Mainly collective treatment in fiscal year of accrual AIFUL ---------------- Collective treatment in fiscal year of accrual Some subsidiaries ---- Treatment over ten years from fiscal year following fiscal year of accrual	4 Calculation standards for retirement benefit liabilities (1) Predicted retirement benefit periodical distribution method: As on left (2) Discount rate: 1.5～2.5% (3) Expected investment income rate: 1.5～2.0% (4) Number of years to treat actuarial differences: As on left (5) Number of years to treat past service liability: As on left

12. Tax Effect Accounting

End of previous consolidated fiscal year (As of Mar. 31, 2004)

1 Principal cause of deferred tax assets and deferred tax liabilities

(In millions of yen)

Deferred tax assets (current)	
Excess amount transferred to allowance for bad debt accounts	7,930
Denied amount of bad debt depreciation	11,115
Loss carried forward	5,378
Accrued enterprise tax	1,521
Excess amount transferred to reserve for accrued bonuses	1,575
Unrecorded interest payments due	1,928
Other	295
Sub-total of deferred tax assets (current)	29,746
Valuation allowance	(429)
Amount offset against deferred tax liabilities (current)	(6)
Total deferred tax assets (current)	29,311
Deferred tax assets (fixed)	
Loss carried forward	14,278
Amount transfered to allowance for retirement benefits for employees	966
Excess amount transferred to allowance for bad debt accounts	712
Excess amount of depreciation and amortization	2,453
Other	2,306
Sub-total of deferred tax assets (fixed)	20,717
Valuation allowance	(2,914)
Amount offset against deferred tax liabilities (fixed)	(3,020)
Total deferred tax assets (fixed)	14,782
Total deferred tax assets	44,093
Deferred tax liabilities (current)	
Other	(6)
Total deferred tax liabilities (current)	(6)
Amount offset against deferred tax assets (current)	6
Total deferred tax liabilities (current)	–
Deferred tax liabilities (fixed)	
Differences in evaluation of other marketable securities	(3,004)
Other	(15)
Total of deferred tax liabilities (fixed)	(3,020)
Amount offset against deferred tax assets (fixed)	3,020
Total of deferred tax liabilities (fixed)	–
Total deferred tax liabilities	–

2 Principal items which caused differences between statutory effective tax rate and income tax charge rate after adoption of tax effect accounting

Statutory effective tariff	41.9%
(Adjusted)	
Tax on reserves	4.9%
Per capita inhabitant tax	0.4%
Write-down of consolidation adjustment account not included in losses	2.8%
Change in valuation reserve	(9.7)%
Tax exemption for IT equipment	(1.8)%
Other	1.0%
Charge rate of income tax after adoption of tax effect accounting	39.5%

End of current consolidated fiscal year (As of Mar. 31, 2004)

1 Principal cause of deferred tax assets and deferred tax liabilities

(In millions of yen)

Deferred tax assets (current)	
Excess amount transferred to allowance for bad debt accounts	1,583
Denied amount of bad debt depreciation	12,519
Loss carried forward	10,102
Accrued enterprise tax	1,494
Excess amount transferred to reserve for accrued bonuses	1,724
Unrecorded interest payments due	3,347
Other	921
Sub-total of deferred tax assets (current)	31,693
Valuation allowance	(869)
Amount offset against deferred tax liabilities (current)	(14)
Total deferred tax assets (current)	30,809
Deferred tax assets (fixed)	
Loss carried forward	2,108
Excess amount transferred to allowance for bad debt accounts	669
Excess amount of depreciation and amortization	3,152
Valuation differences of investment securities	1,240
Other	2,283
Sub-total of deferred tax assets (fixed)	9,453
Valuation allowance	(1,534)
Amount offset against deferred tax liabilities (fixed)	(3,631)
Total deferred tax assets (fixed)	4,288
Total deferred tax assets	35,097
Deferred tax liabilities (current)	
Other	(14)
Total deferred tax liabilities (current)	(14)
Amount offset against deferred tax assets (current)	14
Total deferred tax liabilities (current)	–
Deferred tax liabilities (fixed)	
Differences in evaluation of other marketable securities	(3,631)
Total of deferred tax liabilities (fixed)	(3,631)
Amount offset against deferred tax assets (fixed)	3,631
Total of deferred tax liabilities (fixed)	–
Total deferred tax liabilities	–

2 Principal items which caused differences between statutory effective tax rate and income tax charge rate after adoption of tax effect accounting

Statutory effective tariff	40.6%
(Adjusted)	
Per capita inhabitant tax	0.4%
Write-down of consolidation adjustment account not included in losses	1.7%
Change in valuation reserve	(1.4)%
Other	(0.3)%
Charge rate of income tax after adoption of tax effect accounting	41.0%

13. Segment Information

	Previous consolidated fiscal year (Apr. 1, 2003 to Mar. 31, 2004)	Current consolidated fiscal year (Apr. 1, 2004 to Mar. 31, 2005)
By type of business	The Company has omitted segment information by type of business, as the consumer loan business accounts for more than 90% of total operating revenues, operating income and assets in all of the Company's business segments.	As on left
By location	The Company did not report segment information by location, as the Company did not have any consolidated subsidiaries or important offices located in countries or regions outside of Japan during the period.	As on left
Foreign sales	The Company did not have any foreign sales during the period.	As on left

14. Transactions with Concerned Parties

A. Transactions with Directors and Major Individual Shareholders in Previous Consolidated Fiscal Year (Apr. 1, 2003 to Mar. 31, 2004)

(In millions of yen)

Property	Name	Address	Capital or investment in capital	Operating activities or occupation	Ratio of ownership of voting rights (%)	Transactions	Transaction amounts	Item	Balance at period-end
Director	Yoshitaka Fukuda	–	–	AIFUL, representative President, AIFUL	Eligible ownership: 26.07% of direct voting rights	Land lease	14[1]	–	–
	Yoshitaka Fukuda	–	–	Representative director, Kyoto Data Center Co., Ltd.	As above	Payment of fees relating to the provision of personal credit information	163[2]	–	–

Notes: 1 Transactions for the use of land for the Saiin Building are based upon values given by real estate appraisers.
2 Transactions with Kyoto Data Center are so-called third-party transactions.

B. Transactions with Directors and Major Individual Shareholders in Current Consolidated Fiscal Year (Apr. 1, 2004 to Mar. 31, 2005)

(In millions of yen)

Property	Name	Address	Capital or investment in capital	Operating activities or occupation	Ratio of ownership of voting rights (%)	Transactions	Transaction amounts	Item	Balance at period-end
Director	Yoshitaka Fukuda	–	–	AIFUL representative President, AIFUL	Eligible ownership: 19.79% of direct voting rights	Land lease	12[1]	–	–
	Yoshitaka Fukuda	–	–	Representative director, Kyoto Data Center Co., Ltd.	As above	Payment of fees relating to the provision of personal credit information	184[2]	–	–
	Yoshitaka Fukuda	–	–	Representative director, Kyoto Data Center Co., Ltd.	As above	Transfer of shares	0	–	–
	Takashi Komoto	–	–	Director	0.00	Loans	9[3]	–	–
	Masami Munetake	–	–	Director	0.00	As above	19[3]	–	–
	Masayuki Sato	–	–	Director	0.00	As above	28[3]	–	–
	Kazumitsu Oishi	–	–	Director	0.00	As above	28[3]	–	–
	Kazuyoshi Wakamatsu	–	–	Director	0.00	As above	19[3]	–	–
	Takashi Noda[4]	–	–	Director	–	As above	38	–	–

Notes: 1 Transactions for the use of land for the Saiin Building are based upon values given by real estate appraisers.
2 Transactions with Kyoto Data Center are so-called third-party transactions.
3 The balance of loans is zero as of March 31, 2005.
4 Takashi Noda retired as Director effective June 25, 2004.

15. Per Share Information

	Previous consolidated fiscal year	Current consolidated fiscal year
Net assets per share	5,794.58 yen	6,537.77 yen
Net income per share	660.98 yen	800.10 yen
Diluted net income per share	Diluted net income per share for the consolidated fiscal year under review has not been included here as there was no dilutary effect on income at the end of the fiscal year.	800.04 yen

Basis for calculation of net income per share and diluted income per share

Item	Previous consolidated fiscal year (Apr. 1, 2003 to Mar. 31, 2004)	Current consolidated fiscal year (Apr. 1, 2004 to Mar. 31, 2005)
Net Income	62,548 million yen	75,723 million yen
Amount not attributable to common stock shareholders	106 million yen	151 million yen
Includes directors' bonuses distribution of profit	106 million yen	151 million yen
Net income relating to common stock	62,441 million yen	75,571 million yen
Average number of shares of common stock during the period	94,467,918 shares	94,453,068 shares
Outline of stock not included in diluted net income per share due to lack of dilutary effect	Stock options relating to treasury stock acquisition methods: 204,000 shares	–

Note: Directors' bonuses for the current consolidated fiscal year had not been determined as of the date of publication, so figures may change. The Company will publish the amount as it is determined.

16. Significant Subsequent Events

Previous consolidated fiscal year (Apr. 1, 2003 to Mar. 31, 2004)	Current consolidated fiscal year (Apr. 1, 2004 to Mar. 31, 2005)
On June 16, 2004, the Company concluded a stock transfer agreement by which it acquired all the shares issued by Wide Corporation (president: Mitsuo Yanagi). As part of the business strategy to become a comprehensive retail financial services company, this acquisition is intended to boost business efficiency and profitability and reinforce Group earnings with the addition of Wide Corporation to the Group. Company name: Wide Corporation Headquarters: Utsunomiya-shi, Tochigi-ken President: Mitsuo Yanagi Establishment: May, 1984 Main business: Consumer finance Total assets[1]: 106,693 million yen[2] Net assets: 12,461 million yen[2] Capital: 2,555 million yen[2] Major shareholders: Sei Saito and others Stock acquisition date: June 30, 2004 Shares acquired: 32,135 shares Equity share after acquisition: 100% Notes: 1. Figure includes 36,811 million yen in loans that were dropped from the balance sheet as a result of securitization. 2. Figures as of Mar. 31, 2004	–

V. Results of Operations

1. Operating Revenue

(In millions of yen)

Item		Previous consolidated fiscal year (Apr. 1, 2003 to Mar. 31, 2004) Amount	%	Current consolidated fiscal year (Apr. 1, 2004 to Mar. 31, 2005) Amount	%
Interest on loans to customers	Unsecured loans	358,142	75.6	387,839	74.8
	Secured loans	55,022	11.6	56,531	10.9
	Small business loans	16,348	3.5	22,059	4.3
	Subtotal	429,512	90.7	466,429	90.0
Credit card revenue		8,140	1.7	9,090	1.7
Per-item credit revenue		15,508	3.3	17,200	3.3
Credit guarantee revenue		5,562	1.2	7,087	1.4
Financial revenue - other	Interest on deposits	7	0.0	2	0.0
	Interest on marketable securities	1	0.0	0	0.0
	Interest on loans	47	0.0	111	0.0
	Other	39	0.0	31	0.0
	Subtotal	95	0.0	144	0.0
Operating revenue - other	Sales of real estate	50	0.0	–	–
	Revenue from service business	–	–	–	–
	Bad debt write-off recovery	6,778	1.4	7,719	1.5
	Other	7,830	1.7	10,742	2.1
	Subtotal	14,658	3.1	18,462	3.6
Total		473,477	100.0	518,416	100.0

Note: "Other" included in "Operating revenue – other" is card membership fees.

2. Other Operating Indicators

(In millions of yen - except per share data)

Item		End of the previous fiscal year (As of Mar. 31, 2004)	End of the current fiscal year (As of Mar. 31, 2005)
Total amount of loans outstanding		1,907,655	2,095,201
	Unsecured loans	1,477,430	1,622,032
	Secured loans	346,183	352,213
	Small business loans	84,041	120,955
Number of customer accounts		3,520,240	3,796,141
	Unsecured loans	3,366,615	3,618,577
	Secured loans	94,474	99,827
	Small business loans	59,151	77,737
Number of branches		1,978	2,326
	Staffed branches	813	884
	Unstaffed branches	1,164	1,442
	Branches for secured loans	1	—
Number of "Ojidosan" loan-contracting machines		1,855	2,170
Automatic processing machines for loan applications		—	7
Number of ATMs		132,148	148,705
	Company-owned	2,046	2,292
	Partner-owned	130,102	146,413
Number of employees		5,969	6,510
Bad debt write-off		137,172	145,327
Allowance for bad debts		145,757	159,483
Net income per share (yen)		660.98	800.10
Net assets per share (yen)		5,794.58	6,537.77

Notes: 1. Total amount of loans outstanding and the number of customer accounts do not include loans and customer accounts related to claims in bankruptcy. Furthermore, off-balance sheet operating loans from the securitization of receivables, which came to 110,918 million yen at the end of the current quarter (120,715 million yen at the end of previous fiscal year and 99,580 million at the end of the current fiscal year) have been included.

2. Bad debt write-off does not include losses on claims in bankruptcy, which came to 2,789 million yen in the previous consolidated fiscal year, and 5,043 million yen in the current consolidated fiscal year.