

 AIFUL CORPORATION

ANNUAL REPORT 2017

The year ended March 31, 2017



Corporate Philosophy

Earn the trust of society through corporate activity based in integrity

AIFUL was founded by President and CEO Yoshitaka Fukuda in 1967 as a sole proprietorship consumer finance business and established as a corporation in 1978 to bolster its creditworthiness. In 1982 the corporate name was changed to the current AIFUL CORPORATION. AIFUL has grown into a comprehensive financial group handling such diverse businesses as credit cards, small business lending, credit guarantees, loan servicing and venture capital in addition to consumer finance.

Based on the corporate philosophy “Earn the trust of society through corporate activity based in integrity” AIFUL aims to be a company that is truly trusted by society.

Origin of our company name AIFUL

We chose AIFUL as our company name after asking our employees for their suggestions. The winning idea takes the first letter from each of the key words in the following sentence:

“A company with **A**ffection, **I**mprovement, and **F**aithfulness in carrying out its operations, filled with the spirit of **U**nity and **L**iveliness.”

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Forward-Looking Statements

The figures contained in this Annual Report with respect to AIFUL’s plans and strategies and other statements that are not historical facts are forward-looking statements about the future performance of AIFUL, which are based on management’s assumptions and beliefs in light of the information currently available to it and involve risks and uncertainties and actual results may differ from those in the forward-looking statements as a result of various factors.

Potential risks and uncertainties include, without limitation, general economic conditions in AIFUL’s market and changes in the overall market for consumer loans, the rate of default by customers, and the level of interest rates charged by AIFUL.

Long-term Vision

Our aim is to become a “leading company in comprehensive retail financial services,” trusted by our customers for delivering tailored products and services that meet their needs.

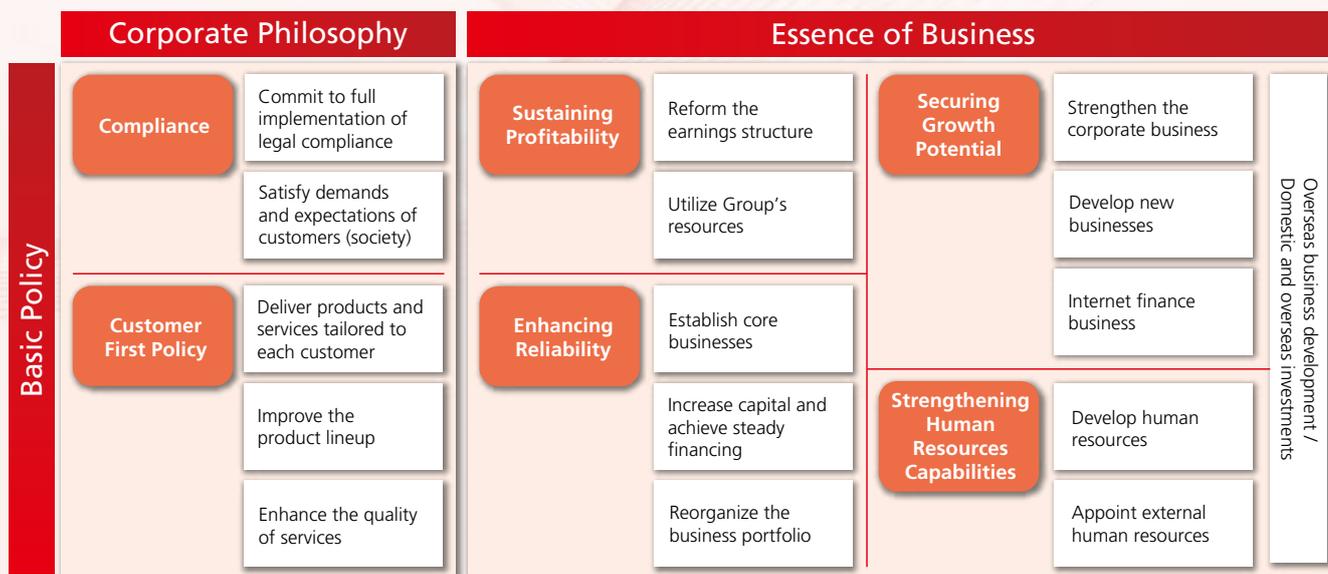
Aiming to become a leading company in comprehensive retail financial services:

The AIFUL Group acts in line with its corporate philosophy and the essence of its business

Our corporate philosophy charts the direction the AIFUL Group consistently pursues. In following this philosophy, the Group always acts to win the long-lasting support and trust of individuals, corporate and business customers by delivering products and services tailored to their needs.

The essence of business is risk management. The AIFUL Group’s business follows this principle by balancing the four pillars of profitability, reliability, growth potential and our human resources capabilities. This approach makes the Group more flexible, allowing it to respond to changes in the business environment and move forward in a sustainable manner.

Basic policy and targets that the AIFUL Group aspires to achieve:



The AIFUL Group aims to become a company of five key attributes:

A leading company

with the largest customer base and an outstanding balance in the Japanese consumer finance sector

A unique company

with a one-of-a-kind model for online settlement in the credit sector

A development company

that creates a new market in the business finance sector

An invention company

that develops new products in the guarantee, factoring and debt-collection sectors

A global company

that expands businesses in Asia by applying the know-how it has developed in Japan

To Our Investors and Shareholders

Thank you very much for your continued support.

AIFUL celebrated its 50th anniversary in April 2017.

We would like to take this opportunity to convey our deep appreciation to all AIFUL shareholders and other stakeholders for their role in helping us to achieve this milestone.

Financial Results for the Fiscal Year Ended March 31, 2017

The consumer finance industry saw a sustained increase in the number of new contracts, thanks to aggressive advertising by major operators. This was accompanied by a steady recovery in the operating loan balance.

While interest repayment claims have decreased steadily from their peak, we remain cautious as they still pose the greatest current risk to the industry.

Given these conditions, the AIFUL Group worked toward strengthening its revenue base by focusing on its core loan business and diversifying its financial services into credit cards, credit guarantee, and other businesses by exploiting its credit capacity. At the same time, the Group took action to tackle the challenge posed by interest repayment claims.

Operating revenue for the fiscal year ended March 31, 2017, was 91.5 billion yen, up 4% year on year. In the loan business, effective TV and online advertising and improved customer service helped boost the number of new contracts for unsecured loans and lending volumes. As a result, the operating loan balance, in terms of operating receivables, rose by 10% from the end of the previous fiscal year, to 412.6 billion yen, and interest income on loans to customers grew 8% year on year, to 47.9 billion yen. In the credit card business, LIFECARD's transaction volumes continued to move upward and, as a result, revenue from the Group's credit card business rose 6% year on year, to 15.5 billion yen; revenue from its credit guarantee business held steady from a year earlier, at 12.5 billion yen; and the recovery of loans previously charged off was reduced 6% year on year, to 5.7 billion yen. AsTry's collection of purchased receivables decreased 2% year on year, to 2.1 billion yen.

Operating expenses grew 4% year on year, to 84.4 billion yen. Credit cost rose by 29% year on year, to 20.7 billion yen, due to an increase in operating assets; financial expenses grew by 3%, to 8.0 billion yen; and SG&A expenses increased 3% year on year, to 55.6 billion yen.

As a result, operating income stood at 7.0 billion yen, up 5% year on year; ordinary income at 7.4 billion yen, up 8% year on year; and net income attributable to owners of the parent at 7.3 billion yen, up 3% year on year.

Forecast for the Fiscal Year Ending March 31, 2018

Ongoing caution is warranted in relation to interest repayment claims. Such claims will remain the most serious challenge to business management going forward, notwithstanding their recent downward trend. However, the consumer finance industry will continue its steady recovery.

Given these conditions, we expect that the Group's core segments such as the loan business and credit card business will continue their strong performance. As such, our consolidated financial forecasts for the fiscal year ending March 31, 2018, include a 10% year-on-year increase in operating revenue, to 100.6 billion yen.

Meanwhile, operating expenses are set to rise by 7% year on year, to 90.0 billion yen, as a result of an increase in credit cost and personnel expenses due to growing operating assets.

As a consequence, operating income for the fiscal year ending March 31, 2018, is expected to be 10.6 billion yen, a 51% year-on-year leap; ordinary income to be 10.0 billion yen, a jump of 35% year on year; and net income attributable to owners of the parent to be 9.3 billion yen, up 28% year on year.

We will continue our strategy to bolster and boost our top line by expanding operating assets, while responding to interest repayment claims and enhancing the Group's business efficiency, as part of our efforts to meet the expectations of all our stakeholders.

In doing so, we hope to count on the continued support and encouragement of our shareholders.

Yoshitaka Fukuda

President and CEO
Representative Director



Five-Year Summary

AIFUL CORPORATION and Consolidated Subsidiaries
Years Ended March 31, 2017, 2016, 2015, 2014 and 2013

	Millions of Yen					Thousands of U.S. Dollars
	2017	2016	2015	2014	2013	2017
For the Year:						
Total income	¥ 92,008	¥ 87,929	¥ 90,131	¥ 100,541	¥ 108,863	\$ 821,500
Total expenses	84,609	81,068	125,985	69,433	85,082	755,437
Provision for doubtful accounts	20,745	16,127	2,276	10,931	8,177	185,223
Income (loss) before income taxes	7,399	6,861	(35,854)	31,108	23,601	66,063
Net income (loss) attributable to owners of the parent	7,277	7,045	(36,500)	30,462	22,706	64,973
At Year-End:						
Loans (Note 2)	¥ 412,649	¥ 376,225	¥ 350,018	¥ 348,011	¥ 390,635	\$ 3,684,366
Nonperforming loans	66,401	66,158	70,419	79,223	98,628	592,866
Loans in legal bankruptcy	28,712	31,105	32,909	35,135	37,598	256,357
Nonaccrual loans	25,531	22,264	23,819	27,290	36,906	227,955
Accruing loans contractually past due three months or more as to principal or interest payments	4,408	3,349	2,830	2,445	2,610	39,357
Restructured loans	7,750	9,440	10,861	14,353	21,514	69,197
Total assets	616,651	567,514	560,324	577,339	607,181	5,505,813
Allowance for doubtful accounts	70,172	72,643	79,708	102,522	119,428	626,536
Total liabilities	505,002	463,264	462,848	443,797	502,173	4,508,947
Interest-bearing debt	300,859	249,533	227,538	253,953	308,747	2,686,241
Total equity	111,649	104,250	97,476	133,542	105,008	996,866
Noncontrolling interests	—	—	—	—	2,305	—
Per Share Data (Yen/U.S. dollars) (Note 3)						
Basic net income (loss)	¥ 15.05	¥ 14.59	¥ (75.74)	¥ 63.34	¥ 47.21	\$ 0.13
Diluted net income	15.04	14.57	—	63.00	47.02	0.13
Total equity	228.94	214.16	200.45	276.80	213.41	2.04
Ratios (%):						
Equity ratio	18.0	18.2	17.3	23.1	16.9	
ROE	6.8	7.0	(31.8)	25.8	24.9	
ROA	1.2	1.2	(6.4)	5.1	3.6	
Other Data:						
Number of shares outstanding at year-end (Note 4)	484,619,136	483,794,536	483,506,536	481,867,836	481,867,836	
Number of employees at year-end	1,473	1,433	1,350	1,369	1,437	

Notes: 1. Figures in the financial section are based on audited English-language statements.

2. Managed-asset basis

3. The U.S. dollar amounts have been translated, for convenience only, at ¥112=\$1, the approximate rate of exchange at March 31, 2017.

4. The Company implemented a stock split of 2 shares for each 1 share of common stock on October 1, 2013.

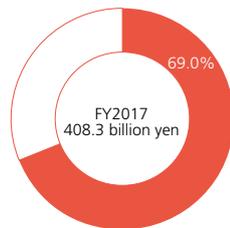
AIFUL Group at a Glance

AIFUL CORPORATION

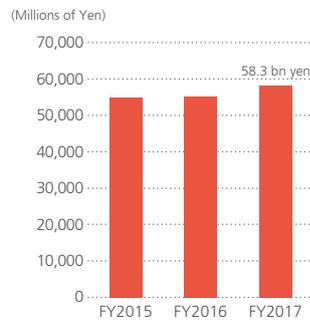


AIFUL CORPORATION provides consumer financing and consumer credit services, which play a central role in the AIFUL Group's overall business. The Company's principal services include unsecured loans, mortgage loans and small business loans. In addition, the Company handles credit guarantee services in tie-ups with financial institutions.

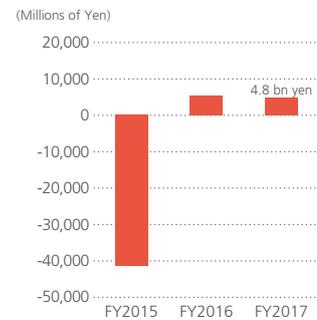
Share of receivables



Operating revenue



Net income

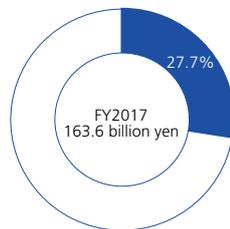


LIFECARD CO., LTD.

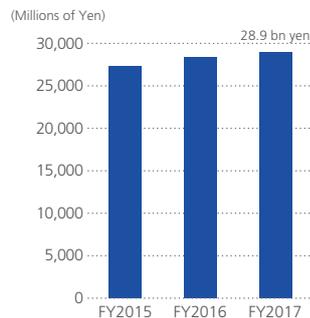


LIFECARD CO., LTD. is primarily engaged in the credit card business. LIFECARD also handles credit guarantee business, the V-Preca or prepaid Visa card etc., while responding to the needs of customers by providing independent and unique products and services under the "Be Unique" concept. It began supporting Apple Pay in the FY 2017.

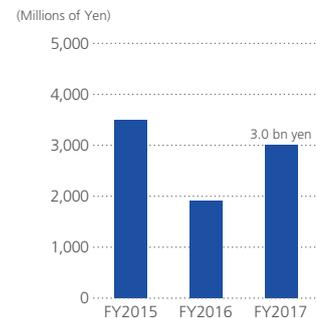
Share of receivables



Operating revenue



Net income

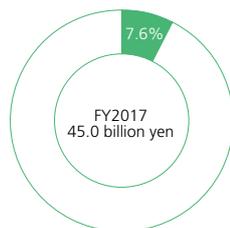


BUSINEXT CORPORATION

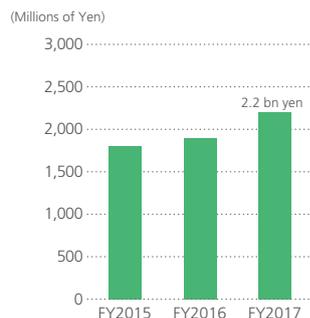


BUSINEXT CORPORATION provides financial services to private business owners and small and medium-sized enterprises (SMEs). The Company handles a wide range of products including card loans, business loans, mortgage loans, and medical institution loans.

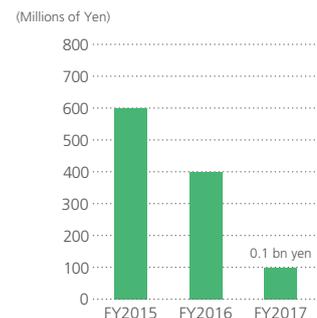
Share of receivables



Operating revenue



Net income

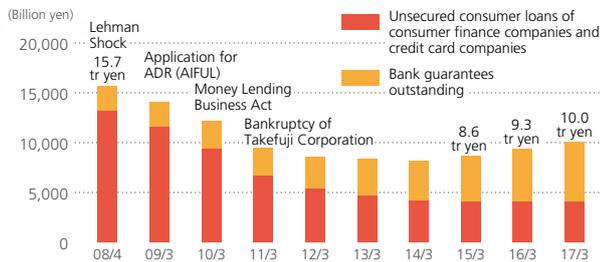


Note: Receivable outstanding are in managed asset basis.

Management's Discussion and Analysis of Operations

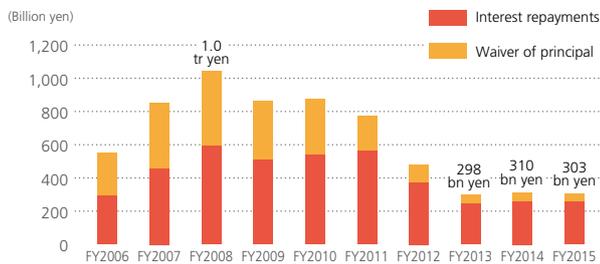
Current Business Environment

Consumer finance market scale



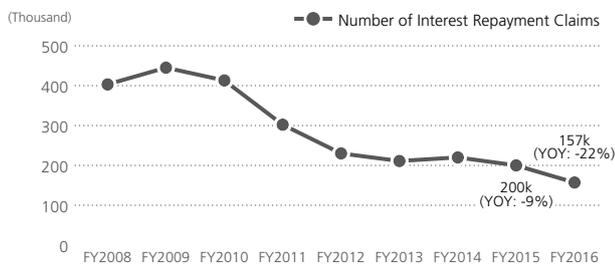
Source: Japan Financial Services Association

Interest repayments and waiver of principal (for the industry)



Source: Japan Financial Services Association

Interest repayments claims at three major companies (ACOM, SMBC-CF and AIFUL)



Source: Compiled by AIFUL from financial data of each company

In the unsecured loans market in Japan, many money lenders were forced to close their businesses due to the amendment of the Money Lending Business Act and claims for interest repayments triggered by the 2006 Supreme Court decision. As a consequence, the market, once worth 16 trillion yen, had by 2014 contracted significantly to 8 trillion yen. The market has since recovered, however, expanding to 10 trillion yen, mainly thanks to active advertising by major moneylenders and banks, etc.

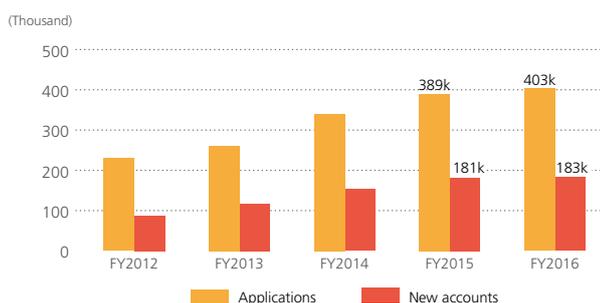
Of this amount, the balance of unsecured loans to consumers by money lenders turned positive for the first time in nine years, rising 4% year on year, to around 2.6 trillion yen in 2017. The balance of unsecured loans by the major three money lenders also remained steady and in step with the market, increasing 2% year on year, to 1.8 trillion yen. New contracts also remained stable, with the number of applications rising 3% year on year, to 1,362,000, and the number of contracts concluded increasing 2% year on year, to 619,000.

In addition, major companies are seeing steady growth in the balance of guarantees for consumer loans provided by financial institutions (credit guarantee business) with the market expanding to 6 trillion yen.

Meanwhile, claims for interest repayments, still the largest business risk for money lenders, have declined significantly from their peak, with the number of claims for interest repayments at the major three money lenders down 22% year on year, to 157,000 in the fiscal year ended March 31, 2017. While the number of claims has entered a full-fledged downward trend, the situation continues to require close monitoring, given that some law firms are running active advertising campaigns.

Business Overview of AIFUL Group

Number of applications and new accounts (AIFUL)



(Loan Business)

The loan business is at the core of AIFUL Group's business, and the Group is implanting effective advertising and working to develop and introduce products that can quickly meet customers' funding needs. As a result, the operating loan balance for fiscal year 2016 was 412.6 billion yen (up 10% from the end of the previous fiscal year), showing a steady recovery.

As for the unsecured loan business, AIFUL is working to improve customer satisfaction through efficient advertising run mainly on television and the Internet, and a campaign promoting interest-free loans.

As a result, the number of new applications was 403,000 (up 4% year on year), the number of new contracts concluded was 183,000 (up 1% year on year), the number of accounts totaled 879,000 (up 7% year on year) and the unsecured loan balance was 346.4 billion yen (up 13% year on year), which contributed largely to the growth of the loan business's operating loan balance.

In our small business loans operations, we provide products and services tailored to the needs of sole proprietors and small companies by using the credit know-how for business operators at BUSINEXT Corporation.

As a result, the balance of small business loans in the fiscal year ended March 31, 2017 amounted to 42.2 billion yen (up 2% year on year), marking the first movement upward in 11 fiscal years.

(Credit Guarantee Business)

In the credit guarantee business, we aim to increase the guarantee balance by utilizing our strengths, such as our know-how in private and business-related credit, and our flexibility and speed as an independent company. We are also working to extend our sales activities to potential guarantee partners, as well as proposing new products and offering support to promote sales.

As a result, in fiscal year 2016, AIFUL and LIFECARD began partnerships with five and three financial institutions, respectively, and commenced sales. The outstanding credit guarantee was 75.7 billion yen (up 3% year on year).

(Credit Card Business)

In the credit card business, we worked to expand the number of new applications through issuing new tie-up cards. Also, we released a smartphone application and increased the credit limits for the purpose of enhancing our card member's convenience.

As a result, transaction volumes at the end of fiscal year 2016 were 681.4 billion yen (up 7% year on year) and the balance of installment receivables stood at 97.1 billion yen (up 8% year on year).

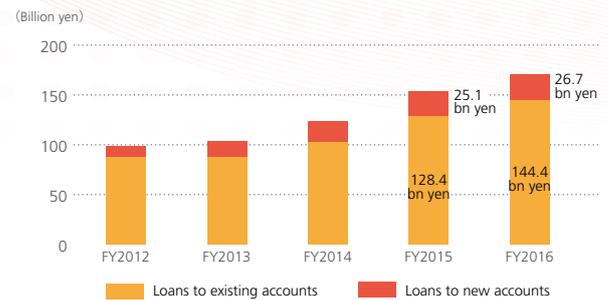
(Non-Performing Loans and Write-offs)

As a benefit of the restrictions on total lending limits, both the non-performing loans (NPL) ratio and the write-offs ratio remained at low and stable levels.

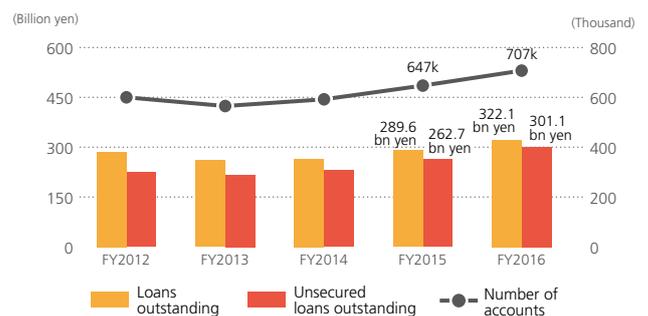
In fiscal year 2016, the unsecured loan NPL balance increased 19% year on year to 30.2 billion yen due to the expansion of the loan balance outstanding. However, the ratio of unsecured loan NPL remained relatively flat at 8.7% compared to 8.3% in the previous fiscal year.

In addition, the write-off ratio stood at 3.5%, down 0.5 percentage point year on year. The so-called general write-offs, which exclude the waiver of principal due to interest repayment claims, were 2.9%, down 0.2 percentage point year on year, also remaining at a low and stable level.

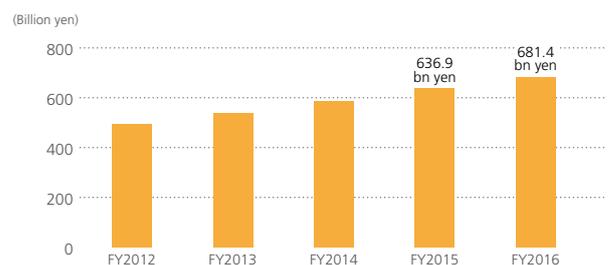
Loan volume (AIFUL)



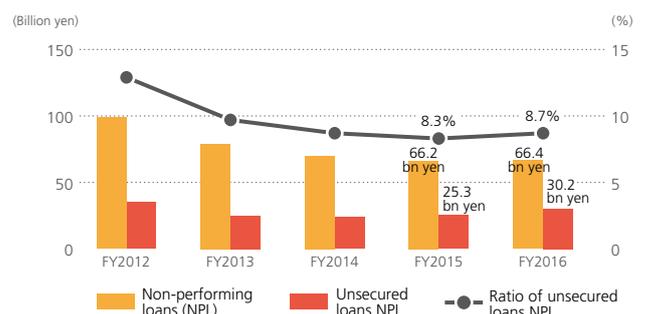
Loans outstanding (AIFUL)



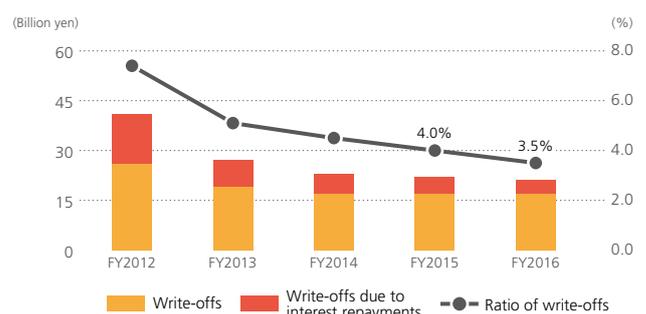
Credit card transaction volume (LIFECARD)



Non-performing loans (NPL) (Consolidated)



Total receivables write-offs (Consolidated)



(Interest Repayment Claims)

Interest repayments and waiver of principal (Consolidated)

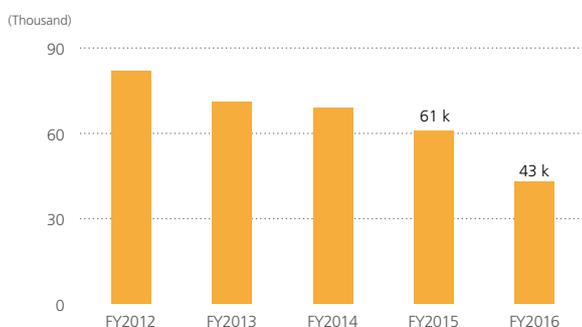


*Reversal of doubtful account at LIFECARD is included in reversal of interest repayment

Claims for interest repayments, our largest business challenge, have declined significantly from their peak, falling to 43,000 cases (down 30% year on year) in the fiscal year ended March 31, 2017. This suggests that claims for interest repayments have entered a full-fledged downward trend in the AIFUL Group, as at other companies. However, the situation continues to require close monitoring, given that some law firms are still running active advertising campaigns.

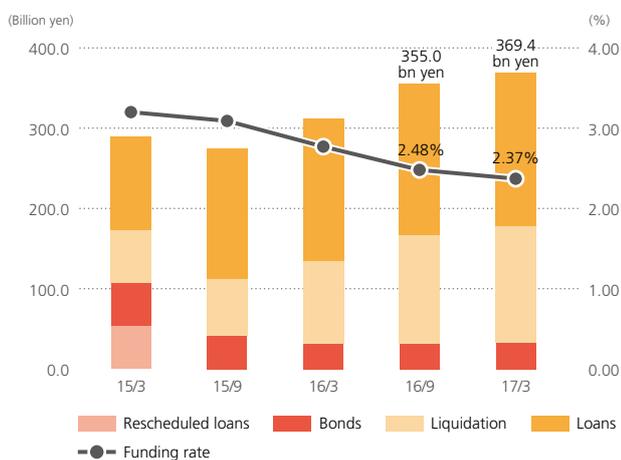
In addition, with respect to the reversal of allowances related to interest repayments, interest repayments decreased to 28.8 billion yen (down 12% year on year), and the waiver of principal related to interest repayments fell to 3.8 billion yen (down 24% year on year). The total of interest repayments and the waiver of principle was 32.6 billion yen (down 14% year on year), and the balance of allowances related to interest repayments was 43.3 billion yen.

Interest repayment claims (Consolidated)



We made the provision for a large amount of allowances in the fiscal year ended March 31, 2015 by predicting the entire amount of interest repayments that could arise in the future, and interest repayments have since remained in the expected range. Therefore, there is no additional provision in the fiscal year ended March 31, 2017.

Interest bearing liabilities (Consolidated)



(Assets, Liabilities and Net Assets)

Total assets on a consolidated basis increased 49.1 billion yen, or 9%, compared to the previous fiscal year-end to 616.7 billion yen at the end of fiscal year 2016. This was primarily due to a 37.1 billion yen increase in operating loans.

Total liabilities increased 41.7 billion yen, or 9% from the end of the previous fiscal year, to 505.0 billion yen. The major factor for the increase was a rise of 49.9 billion yen from the end of the previous fiscal year in interest-bearing debt as a result of diversifying financing into the procurement of funds by liquidation and borrowing from financial institutions, etc. The average funding rate including the amount of funds raised by the liquidation of receivables was 2.37%, down 0.40 percentage points from the previous fiscal year.

Net assets increased 7.4 billion yen, or 7%, compared to the previous fiscal year-end, to 111.6 billion yen. This was largely attributable to the posting of net income attributable to owners of parent.

(Cash Flows)

Cash and cash equivalents ("funds") declined 6.3 billion yen, or 16%, compared with the end of the previous fiscal year, to 33.6 billion yen.

Cash flows from operating activities

Net cash used for operating activities amounted to 51.2 billion yen, an increase of 62% compared with previous fiscal year. This was mainly attributable to the decline in funds due to an increase in total receivables outstanding, including loans to customers and the decline in funds due to the drop in the allowance for losses on interest repayment.

Cash flows from investing activities

Net cash used for investing activities stood at 6.2 billion yen, an increase of 103% compared with the previous fiscal year. This was mainly attributable to the purchase of tangible fixed assets, intangible fixed assets and investment securities.

Cash flows from financing activities

Net cash provided by financing activities amounted to 51.1 billion yen, an increase of 132% compared to the previous fiscal year. This was mainly attributable to an increase in long-term loans payable.

(Going Forward)

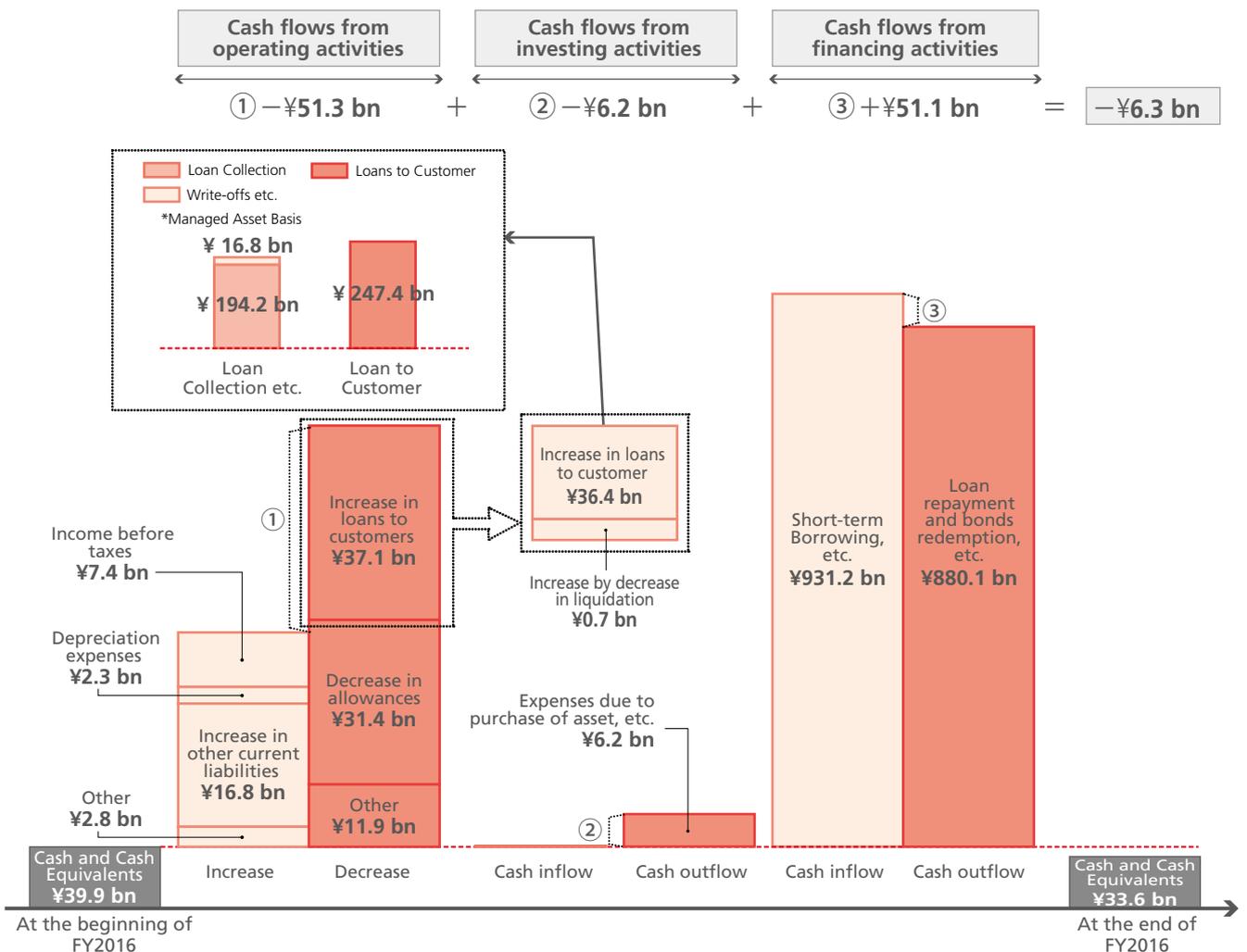
The loan business and the credit card business, the core operations of the AIFUL Group, are expected to remain strong. The operating loan balance at the end of the fiscal year ending March 31, 2018 is expected to increase 9% year on year, to 448.1 billion yen, and the installment receivable balance is expected to rise 15% year on year, to 111.9 billion yen. The credit guarantee balance is forecast to increase 16% year on year, to 87.6 billion yen. As a result, we expect that operating revenue will be up 10% year on year, to 100.6 billion yen.

Meanwhile, operating expenses are expected to rise 7% year on year, to 90.0 billion yen mainly due to increases in credit costs and personnel expenses associated with an increase in operating assets.

As a result, we expect to record operating income of 10.6 billion yen (up 51% year on year), ordinary income of 10.0 billion yen (up 35% year on year), and net income attributable to owners of parent of 9.3 billion yen (up 28% year on year).

Looking forward, while dealing with interest repayment claims, we will continue to work on further growing our operating asset to increase the top line. At the same time, we will strive to streamline business efficiency across the Group.

Cash Flows and Funding (Consolidated)



Business Data

AIFUL GROUP

TOTAL RECEIVABLES OUTSTANDING (Managed Asset Basis) (Millions of yen/%)

	2015	2016	2017	YOY
Total Receivables Outstanding	514,220	545,570	591,529	8.4
Loans	350,018	376,225	412,649	9.7
Unsecured	273,628	306,602	346,412	13.0
Secured	34,904	28,139	24,045	(14.6)
Small Business	41,485	41,484	42,193	1.7
Installment Receivables	84,333	90,166	97,135	7.7
Credit Guarantees	73,875	73,412	75,747	3.2
Other	5,995	5,767	5,998	4.0

TOTAL INCOME/NET INCOME (LOSS) (Millions of yen/%)

	2015	2016	2017	YOY
Total Income	90,131	87,929	92,008	4.6
Interest on Loans	43,762	44,256	47,869	8.2
Unsecured	35,855	37,705	42,893	13.8
Secured	5,567	4,484	3,207	(28.5)
Small Business	2,339	2,066	1,769	(14.4)
Installment Receivables	13,678	14,707	15,531	5.6
Credit Guarantees	11,382	12,491	12,494	0.0
Other	21,310	16,475	16,114	(2.2)
Net income (loss)	(36,500)	7,045	7,277	3.3

Note: Italic font indicates increase or decrease.

FUNDING COST (%)

	2015	2016	2017	YOY
Average Funding Cost	3.20	2.77	2.37	(0.40)
Indirect	2.32	2.19	2.08	(0.11)
Direct	4.47	3.54	2.69	(0.85)
Long-term prime rate(reference)	1.15	0.95	0.95	0.00

NUMBER OF CUSTOMER ACCOUNTS (Thousands/%)

	2015	2016	2017	YOY
Number of Customer Accounts	824	861	917	6.4
Unsecured	782	822	879	7.0
Secured	14	11	9	(18.8)
Small Business	28	28	29	0.7
Credit Card Holders	6,023	6,292	5,884	(6.5)

TOTAL ASSETS/ROA/TOTAL EQUITY/ROE (Millions of yen/%)

	2015	2016	2017	YOY
Total Assets	560,324	567,514	616,651	8.7
ROA (%)	(6.4)	1.2	1.2	0.0
Total Equity	97,476	104,258	111,649	7.1
ROE (%)	(31.8)	7.0	6.8	(0.2)

AIFUL CORPORATION

LOANS OUTSTANDING (Managed Asset Basis) (Millions of yen/%)

	2015	2016	2017	YOY
Total Receivables Outstanding	349,952	374,363	408,259	9.1
Loans	264,557	289,566	322,087	11.2
Unsecured	229,392	262,655	301,063	14.6
Secured	29,275	21,839	16,448	(24.7)
Small Business	5,890	5,071	4,576	(9.8)
Installment Receivables	1,821	1,195	858	(28.2)
Credit Guarantees	78,134	78,466	80,039	2.0
Other	5,441	5,136	5,275	2.7

TOTAL INCOME/NET INCOME(LOSS) (Millions of yen/%)

	2015	2016	2017	YOY
Total Income	54,922	55,120	58,340	5.8
Interest on Loans	36,150	36,857	40,293	9.3
Unsecured	29,938	32,086	37,318	16.3
Secured	5,148	3,919	2,547	(35.0)
Small Business	1,065	852	427	(49.9)
Credit Guarantees	10,136	11,221	11,107	(1.0)
Installment Receivables	143	116	115	(1.0)
Other	8,492	6,927	6,825	(1.5)
Net income (loss)	(41,434)	5,281	4,824	(8.7)

NUMBER OF CUSTOMER ACCOUNTS (Thousands/%)

	2015	2016	2017	YOY
Number of Customer Accounts	613	664	722	8.7
Unsecured	593	648	708	9.3
Secured	14	11	9	(20.1)
Small Business	6	5	5	(3.2)

AVERAGE YIELD (%)

	2015	2016	2017	YOY
Average yield	14.8	15.2	14.7	(0.5)

AMOUNT OF WRITE-OFFS/ RATIO OF WRITE-OFFS (Millions of yen/%)

	2015	2016	2017	YOY
Total Receivables Write-offs	15,374	14,957	14,591	(2.4)
Unsecured Loans Write-offs	11,353	12,683	13,072	3.1
Ratio of Total Receivables Write-offs (%)	5.81	5.17	4.53	(0.64)
Ratio of Unsecured Loans Write-offs (%)	4.95	4.83	4.34	(0.49)

AIFUL CORPORATION

NEW ACCOUNTS

	2015	2016	2017	YOY
				(Accounts/%)
New Accounts	153,197	180,805	182,778	1.1
Unsecured Loans	153,135	180,666	182,604	1.1
Contract Rate of Unsecured Loans (%)	45.0	46.5	45.3	(1.2)

Note: Italic font indicates increase or decrease.

TOTAL ASSETS/ROA/TOTAL EQUITY/ROE

	2015	2016	2017	YOY
				(Millions of yen/%)
Total Assets	444,737	407,140	439,841	8.0
ROA (%)	(9.1)	1.2	1.1	(0.1)
Total Equity	73,722	78,884	83,919	6.4
ROE (%)	(44.2)	7.0	6.0	(1.0)

LIFECARD CO., LTD.

TOTAL RECEIVABLES OUTSTANDING (Managed Asset Basis)

	2015	2016	2017	YOY
				(Millions of yen/%)
Total Receivables	148,933	154,951	163,572	5.6
Installment Receivables	82,512	88,972	96,277	8.2
Loan (Cash Advance)	44,518	44,169	45,564	3.2
Credit Guarantees	21,349	21,178	21,008	(0.8)
Other	554	631	723	14.5

OPERATING REVENUE/NET INCOME

	2015	2016	2017	YOY
				(Millions of yen/%)
Operating Revenue	27,314	28,359	28,890	1.9
Installment Receivables	13,534	14,559	15,361	5.5
Loan (Cash Advance)	5,944	5,645	5,603	(0.7)
Credit Guarantees	1,246	1,270	1,272	0.2
Other	6,590	6,884	6,654	(3.3)
Net Income	3,530	1,859	3,032	63.1

AVERAGE YIELD

	2015	2016	2017	YOY
				(%)
Average yield	18.5	18.8	18.3	(0.5)

Note: Italic font indicates increase or decrease.

TRANSACTION VOLUME

	2015	2016	2017	YOY
				(Millions of yen/%)
Transaction Volume	584,734	636,902	681,362	7.0
Card Shopping	543,710	595,922	640,599	7.5
Cash Advance	41,023	40,979	40,764	(0.5)

NUMBER OF CARDHOLDERS

	2015	2016	2017	YOY
				(Thousands/%)
Number of Cardholders	6,023	6,292	5,884	(6.5)
Proper Card	1,855	1,814	1,796	(1.0)
Affinity Cards	4,169	4,478	4,088	(8.7)

AMOUNT OF WRITE-OFFS/ RATIO OF WRITE-OFFS

	2015	2016	2017	YOY
				(Millions of yen/%)
Total Receivables Write-offs	3,042	3,121	3,091	(1.0)
Ratio of Total Receivables Write-offs (%)	2.04	2.01	1.89	(0.12)

Corporate Governance

1. Basic Views and Basic Policy on Corporate Governance

The AIFUL Group understands that a key objective of corporate governance is to achieve corporate management with transparency, impartiality, and efficiency by conducting corporate activities premised on compliance in accordance with our management philosophy of “*Earn the trust of society through corporate activity based in integrity*” to contribute to the development of the economy and society and thereby to gain the trust of society.

AIFUL will undertake enhancements to upgrade our corporate governance in accordance with the Basic Policy on Corporate Governance set out below.

- (1) We will respect the rights of shareholders and ensure their equality.
- (2) We will work on appropriate collaboration with all stakeholders including shareholders.
- (3) We will appropriately disclose our financial, non-financial, and other corporate information to ensure transparency.
- (4) Our Board of Directors will recognize its fiduciary responsibility to shareholders and fulfill its roles and duties, including making and keeping its function of effectively supervising business execution.
- (5) We will hold constructive dialogues with shareholders for the sake of achieving continued growth and a medium- and long-term increase in corporate value.

2. Corporate Governance Structure

(1) Overview of the Corporate Governance Structure

In order to strengthen the supervisory function of the Board of Directors and to enhance corporate governance, we have made the change from a company with a Board of Auditors to a company with an Audit and Supervisory Committee. This change went into effect on June 23, 2015.

Audit and Supervisory Committee and Directors Belonging to the Committee

The Audit and Supervisory Committee consists of three directors (including two directors who are outside members). It determines items such as the audit policy and plan, and discusses and decides on important audit matters based on the reports it receives. In addition to performing these duties, it also audits legitimacy and appropriateness through the use of the internal control system. A meeting will generally be held every month, with extraordinary meetings held when necessary.

The directors who are members of the Audit and Supervisory Committee will cooperate with the Internal Auditing Department and the accounting auditors to enhance management’s supervisory functions. They will also share information with the auditors of affiliated companies in an effort to strengthen the auditing structure for the operations of the entire Group.

To improve these audit functions, the Group will establish an Audit and Supervisory Committee Office (Audit Office) as the exclusive body for supporting the duties of directors who

belong to the Audit and Supervisory Committee. It will also take the necessary steps to secure independence by for example requiring that the Audit Office not follow any directions or orders from directors (other than directors belonging to the Audit and Supervisory Committee) when carrying out their duties.

Board of Directors and Directors

The Board of Directors consists of eleven directors (as of the date the Annual Securities Report was submitted): eight directors who are not members of the Audit and Supervisory Committee, and three directors who are members of the Audit and Supervisory Committee. It discusses and makes decisions on matters that cannot be delegated to directors or others under laws and regulations and the Articles of Incorporation, such as basic management policies and basic policies associated with the internal control system, and other important matters for execution of operations under the rules of the Board of Directors, including business plans, personnel policies, and capital policies. The Board of Directors delegates authority over the execution of operations in line with the policies on which the Board of Directors has made resolutions, and the disposal of property worth less than a specified amount to executive officers and others within an appropriate range in accordance with regulations for administrative authority and other rules. In addition to delegating this authority, it supervises the execution of operations. It generally holds semimonthly meetings and extraordinary meetings when necessary. The Company’s Articles of Incorporation also stipulate that there be no more than fifteen directors (excluding directors on the Audit and Supervisory Committee) and no more than five directors on the Audit and Supervisory Committee.

Outside Directors

Two of the three directors in the Audit and Supervisory Committee are outside directors (as of the date the Annual Securities Report was submitted). We have developed a structure whereby they can attend management meetings and other important meetings and committees to express their views.

Executive Officers

The Company introduced an executive officer system in June 2007 to speed up the decision-making process and the performance of duties, and enhance the separation of supervisory and executive functions. The Board of Directors appoints executive officers and delegates its business by establishing the division of duties and authority.

Management Committee

The Management Committee comprises all the directors and executive officers. It strives to promote information sharing and consensus on matters to be submitted to the Board of Directors, as well as on issues and strategies, etc. based on policies resolved at Board of Directors meetings. The committee aims to ensure that disagreements do not arise regarding decisions or the performance of duties. It generally holds meetings on a weekly basis.

Compliance Committee

The Compliance Committee is an advisory body under the direct control of the Board of Directors. The head of this committee is the executive officer in charge of the compliance department. The Compliance Committee comprises outside experts, directors also serving as members of the Audit and Supervisory Committee, and executive officers of related divisions. Its objectives are to create a corporate culture in which compliance is emphasized, to establish corporate ethics, and to draw up compliance programs. It develops programs for the verification of issues and educational programs, and delivers reports to the Board of Directors as required. In addition to general bimonthly meetings, it holds extraordinary meetings as necessary.

Risk Management Committee

AIFUL has a Risk Management Committee, which is under the direct control of the Board of Directors. Headed by the president and representative director, it is made up of all the directors. The committee's purpose is to prevent risks and mitigate losses in the event of a crisis, which it achieves by constructing an appropriate risk management framework.

It regularly receives risk status reports, which enable it to constantly monitor risks and continuously review the risk management system, and submits its findings to directors.

In addition to general quarterly meetings, it holds extraordinary meetings as necessary.

(2) Reasons for the Current Structure

As we have an auditor system, we appoint two outside directors for our three directors who are members of the Audit and Supervisory Committee. We have ensured independent audits by developing a system where all directors who are members of the Audit and Supervisory Committee attend Board of Directors meetings and other important meetings and committee meetings, including Management Committee meetings, to express their opinions. We have also ensured the independence of audits by establishing an Audit Office as the exclusive body for supporting the duties of directors also serving as members of the Audit and Supervisory Committee.

Further, we separate management's supervisory and business execution functions by implementing an executive officer system and strengthening supervisory functions by establishing a Compliance Committee, which includes outside experts, and a Risk Management Committee, etc. We have adopted our current system to achieve transparent, fair, and efficient corporate management.

3. Enhancement of Corporate Governance

(1) Development of a Compliance Framework

A Compliance Committee (meeting on a regular basis), with an outside member (a lawyer), has been set up to establish and manage compliance programs, engage both analysis and discussion to improve the internal control system, collect information and implement other preventative measures, and determine policies for employee training. In addition, the

AIFUL Group Compliance Committee has been established to disseminate a set of unified corporate ethics throughout the entire Group and form a compliance framework for the Group as a whole. In addition, the Group has launched both internal and external hotlines offering consultations on any violations of the Group's management philosophy, norms, and other standards, as well as an internal whistle-blowing system, in an effort to develop a corporate environment that encourages reporting and discussion of violations.

(2) Development of a Risk Management Framework

A Risk Management Committee has been set up to gain an understanding of the Group's risk factors and hold discussions to determine responses. The Risk Management Committee has a system in place whereby it collects risk information from the Compliance Committee and other divisions on a regular basis and conducts crisis management in coordination with directors and other relevant divisions. AIFUL CORPORATION and AIFUL Group have established an action plan and manual in preparation for large-scale disasters and a failure of core IT systems, issues relating to personal or corporate information, and other risk events so as to be able to respond to potential emergencies appropriately and promptly.

(3) Maintenance of Accuracy in Disclosure of Financial Information and Status of Internal Controls

As a system for maintaining the accuracy of financial information, the AIFUL Group has developed an effective mutual check system where the division in charge of institutional accounting (the Accounting Department) and the division in charge of management accounting (the Management Planning Department) are separate, in addition to a system of checks established by the Accounting Department and accounting audits by independent auditors in accordance with the Companies Act and the Financial Instruments and Exchange Act. The Group also implements initiatives for maintaining the accuracy of information disclosure in the preparation and announcement of financial reports by having the Accounting Department, the Public Relations and Investor Relations Section of the Finance Department, and other relevant divisions (including certain affiliated companies) apply a process of checks.

(4) Improvement of Disclosure and Status of Internal Controls

To enhance the transparency of management and achieve effective corporate governance through the activation of external checking functions, the Group endeavors to make timely and straightforward disclosures in news releases, account settlement data, annual reports, and other materials, as well as holding briefing sessions for domestic and overseas investors, analysts, and so forth, as appropriate. In addition, we have a system in place whereby investors' opinions and inquiries about management can be relayed back to the president, directors, and the head of each division on a regular basis.

The diagram below illustrates our Group's structures for business execution, management supervision, internal control, and risk management (as of the date the Annual Securities Report was submitted).

is the minimum amount stipulated in Article 425, Paragraph 1 of the Companies Act.

The outside directors above have no special interests in the Company.

AIFUL designates as independent officers all its outside directors that fulfill the requirements for independent officers. (Standards for independent officers)

AIFUL's standards for independent outside directors are prescribed as follows:

1. A person who falls under none of the items below and permanently and substantially has no potential conflict of interest for any other reasons shall be deemed to have sufficient independence from AIFUL.
 - (1) The person is an executive director, etc.*¹ at AIFUL or any of its subsidiaries (hereinafter collectively referred to as "the AIFUL Group"), or the person served as an executive director, etc. at the AIFUL Group during the 10-year period before assuming the post, or the person used to be a non-executive director*², or a corporate auditor at any time within the 10-year period before assuming the post.
 - (2) The person is currently a major shareholder*³ of AIFUL, or the major shareholder is a juridical person, is or was a director, corporate auditor, accounting advisor, executive officer, manager or other employee at the major shareholder, its parent company or any of its significant subsidiaries in the past five years.
 - (3) The person is currently a director, corporate auditor, accounting advisor, executive officer, manager or other employee at a company of which AIFUL is a major shareholder*³.
 - (4) The person is or was an executive director, executive officer, manager or other employee of a party of which the AIFUL Group is or was a major business partner*⁴, of its parent company, or of any of its significant subsidiaries, whether or not it is a company.
 - (5) The person is or was an executive director, executive officer, manager or other employee of a party that is a major business partner*⁴ of AIFUL, its parent company or any of its significant subsidiaries, whether or not it is a company.
 - (6) The person is a director, limited to a person engaging in business execution, or another person such as an officer, member or employee engaging in business execution of any organization, e.g., a public interest incorporated foundation or association and a not-for-profit corporation, which receives donations or financial support exceeding a predetermined level*⁵ from the AIFUL Group.
 - (7) The person is a director, corporate auditor, accounting advisor or executive officer of a company, its parent company or any of its subsidiaries that accepts a full-time or part-time director from the AIFUL Group.
 - (8) The person is a director, corporate auditor, accounting advisor, executive officer, manager or other employee at a financial institution or any other large creditor that is indispensable to AIFUL in fund procurement and on

which AIFUL is so dependent that it is irreplaceable (hereinafter "large creditor, etc."), or was, in the past three years, a director, corporate auditor, accounting advisor, executive officer, manager or other employee at a large creditor, etc., or its parent company or any of its significant subsidiaries.

- (9) The person is currently an accounting auditor, or a member, partner or employee of the auditing corporation or the tax accountant corporation for the AIFUL Group, or was an accounting auditor, or a member, partner or employee of the auditing corporation or the tax accountant corporation for the AIFUL Group in the past three years who actually did auditing work, excluding assisting involvement, for the AIFUL Group, irrespective of whether the person still works for, or in, or has already retired from any of the corporations mentioned above.
 - (10) The person is a lawyer, certified public accountant, tax accountant or other consultant who does not fall under item (9) above who (a) has received a monetary or other property benefit worth 10 million yen or more per year on average over the past three years from the AIFUL Group in addition to the officer's remuneration, or who (b) is a member, partner, associate or employee of a firm of which the AIFUL Group is a major business partner (which refers to a firm that receives a payment from the AIFUL Group that has made up at least two percent of its average consolidated total sales over the past three business years).
 - (11) The person is a close relative*⁶ of the person that falls under any of items (1) to (10) above.
2. Even if he or she falls under any of the items in 1. above, a person deemed by AIFUL to be appropriate in terms of personality, views, and suchlike as an independent director for AIFUL may be appointed as such on the condition that the person fulfills the requirements for outside directors under the Companies Act and that the grounds for regarding the person as appropriate as an independent director for AIFUL are explained externally.

*1 An *executive director, etc.* refers to an executive director, executive officer, manager or other employee.

*2 A *non-executive director* refers to any director who is not an executive director.

*3 A *major shareholder* refers to a shareholder who holds at least 10 percent of the voting rights.

*4 A *major business partner* refers to a party receiving an amount that is two percent or more of its annual consolidated sales for its most recent business year from the AIFUL Group, either in the most recent business year or in the three business years before the most recent year (i.e., a party of which the AIFUL Group is a major business partner) or a party that paid an amount that is two percent or more of AIFUL's annual total sales for its most recent business year either in the most recent business year or in the three business years before the most recent one (i.e., a party that is a major business partner of the AIFUL Group).

*5 A *predetermined level* refers to either the average amount of 10 million yen per year over the past three business years or the amount equivalent to 30 percent of the average annual total expenses of the organization in question, whichever is the larger.

*6 A *close relative* refers to either a spouse or a relative within the second degree of consanguinity; provided, however, that item (1) in 1. applies to those that fall thereunder within the last five years.

Board of Directors and Executive Officers

(As of June 27, 2017)

Directors

Yoshitaka Fukuda

President and Representative Director

Chief Executive Officer

Apr. 1967: Founded Matsubara Sangyo as a sole proprietorship consumer finance company
Apr. 1980: Director of Marutaka, Inc.
(established in 1978, currently AIFUL CORPORATION)
May 1982: President and Representative Director of the Company due to merger of three related companies
(Oasa, Inc., Yamakatsu Sangyo, Inc., Maruto, Inc.)
Jun. 2007: President and Representative Director, Chief Executive Officer
Jun. 2011: Chairman and Representative Director of LIFECARD Co., Ltd (Current)
Jun. 2016: President and Representative Director, Chief Executive Officer, Chairperson of the Risk Management Committee, In charge of the Internal Auditing Department (Current)

Masayuki Sato

Representative Director

Senior Managing Executive Officer

Aug. 1982: Joined AIFUL CORPORATION
Jun. 1999: Director of the Company
Jun. 2008: Director and Managing Executive Officer
Jun. 2011: Director and Senior Managing Executive Officer
Jun. 2014: Representative Director and Senior Managing Executive Officer
Jun. 2016: Representative Director and Senior Managing Executive Officer, Senior General Manager of the Management Planning Division, In charge of the Personnel Department (Current)

Kazumitsu Oishi

Director

Senior Managing Executive Officer

Mar. 1979: Joined Marutaka, Inc. (currently AIFUL CORPORATION)
Jun. 2001: Director of the Company
Jun. 2007: Executive Officer
Jun. 2011: Managing Executive Officer
Jun. 2012: Director and Managing Executive Officer
Apr. 2017: Director and Senior Managing Executive Officer, Chairperson of the Compliance Committee, Senior General Manager of the Credit Management Division and the Accounting Division, In charge of the Information Systems Development Department, the Information Systems Operation Department, the Compliance Department and the General Affairs Department (Current)

Tsuguo Nakagawa

Director

Senior Managing Executive Officer

Mar. 1976: Joined Oasa Inc. (Yoshitaka Fukuda's sole proprietorship)
Jun. 2006: Director of the Company
Jun. 2007: Executive Officer
Jun. 2011: Managing Executive Officer
Jun. 2012: Director and Managing Executive Officer
Apr. 2017: Director and Senior Managing Executive Officer, Senior General Manager of the Loan Business Division, In charge of the Marketing Department, IT Planning Department and Credit Assessment Department (Current)

Mitsuhide Fukuda

Director

Senior Managing Executive Officer

Apr. 2003: Joined Daiwa Securities Co. Ltd.
Apr. 2009: Joined OGI Capital Partners, Ltd.
Jun. 2011: Executive Officer of the Company
Jun. 2012: Director and Executive Officer
Apr. 2014: President of BUSINEXT CORPORATION (Current)
Jun. 2014: Director and Managing Executive Officer
Apr. 2016: President of Astry Loan Services Corporation (Current)
Apr. 2017: Director and Senior Managing Executive Officer, In charge of the Guarantee Business Department (Current)

Yoshiaki Tanaka

Director

Executive Officer

Apr. 1983: Joined The Sumitomo Trust & Banking Co., Ltd.
(currently Sumitomo Mitsui Trust Bank, Limited)
Sep. 2006: Sales Manager, Division 6,
Tokyo Branch of The Sumitomo Trust & Banking Co., Ltd.
Apr. 2012: Sales Manager, Division 6,
the Main Branch of The Sumitomo Trust & Banking Co., Ltd.
Apr. 2015: Executive Officer of the Company
Jun. 2015: Director and Executive Officer
Apr. 2017: Director and Executive Officer,
In charge of the Management Planning Department and the Business Process Management Department,
General Manager of the Management Planning Department (Current)

Hiroshi Uemura

Director

Executive Officer

Apr. 1985: Joined The Nippon Credit Bank, Limited. (currently Aozora Bank, Ltd.)
Sep. 2005: Senior Relationship Manager of Group 11 of Corporate Business Division 1 of the Corporate Banking Division,
Senior Relationship Manager of Corporate Business Department 1,
Sapporo Branch, Corporate Banking Division of Aozora Bank, Ltd.
Aug. 2010: General Manager of the Workout Division of Aozora Bank, Ltd.
Apr. 2015: Executive Officer of the Company
Jun. 2015: Director and Executive Officer
Jun. 2016: Director and Executive Officer,
In charge of the Finance Department (Current)

Keiji Masui

Director

Executive Officer

Aug. 1983: Joined AIFUL CORPORATION
Apr. 2014: Executive Officer of the Company
Apr. 2015: Executive Officer of the Company
Director and Managing Executive Officer of LIFECARD (current)
Jun. 2016: Director and Executive Officer (Current)

Directors, Audit and Supervisory Committee Members

Satoru Toda

Director (outside)

Audit and Supervisory Committee Member

Apr. 1978 Joined Ministry of Finance
 Jul. 2007 Regional Commissioner, Fukuoka Regional Taxation Bureau, National Tax Agency
 Jul. 2008 Deputy Director-General of National Tax Tribunal, National Tax Agency
 Jun. 2009 Full-time Auditor of Tokyo Metro Co., Ltd.
 Jun. 2017 Corporate Auditor of the LIFECARD Co., Ltd. (Current)
 Jun. 2017 Director (Audit and Supervisory Committee Member) (Current)

Minoru Shimamura

Director

Audit and Supervisory Committee Member

Oct. 1983 Joined AIFUL CORPORATION
 Apr. 2016 General Manager of the Audit and Supervisory Committee Office
 Apr. 2016 Corporate Auditor of LIFECARD Co., Ltd (Current)
 Jun. 2016 Director (Audit and Supervisory Committee Member) (Current)

Haruichi Suzuki

Director (outside)

Audit and Supervisory Committee Member

Apr. 1997 Joined the SHIGEKAZU UEMATSU Law Office (currently UEMATSU/ SUZUKI Law Office)
 Sep. 1999 Lecturer at Ritsumeikan University Graduate School of Law
 Jan. 2008 Director of UEMATSU/ SUZUKI Law Office (Current)
 Jun. 2015 Director (Audit and Supervisory Committee Member) (Current)

Executive Officers

Kazuyoshi Wakamatsu

Executive Officer

Responsible for the Internal Auditing Department

Shinichiro Okuyama

Executive Officer

Responsible for the Marketing Department and the IT Planning Department, General Manager of the Marketing Department

Kazuhiko Tsuda

Executive Officer

Responsible for the Accounting Department and the General Affairs Department, General Manager of the Accounting Department

Atsushi Suda

Executive Officer

Responsible for the Compliance Department

Katsuhiko Nagasue

Executive Officer

Responsible for the Information Systems Development Department and the Information Systems Operation Department

Hideaki Minamizawa

Executive Officer

Responsible for the Personnel Department, General Manager of the Personnel Department

Toshiaki Ando

Executive Officer

Assistant Senior General Manager of the Loan Business Division, General Manager of the Loan Business Promotion Department

Ikuo Yamauchi

Executive Officer

Responsible for the Subsidiary Management Department and the Overseas Business Department, General Manager of the Overseas Business Department

History

<p>1967 Apr Yoshitaka Fukuda, AIFUL CORPORATION's current president, established sole proprietorship as a consumer finance company</p> <p>1978 Feb Established Marutaka, Inc. (now AIFUL CORPORATION) with capital of 9.0 million yen, in Sakyo-ku, Kyoto Began unsecured consumer loan business</p> <p>1982 May Marutaka, Inc. absorbs three related companies (Oasa, Inc., Yamakatsu Sangyo, Inc., and Maruto, Inc.) and increases its equity capital to 500.0 million yen Name simultaneously changed to AIFUL CORPORATION  AIFUL CORPORATION Jul Began providing unsecured loans to sole proprietors</p> <p>1984 Feb Start of ATM operations Mar Registration of money lenders based on enactment of the Money-Lending Business Control Law Oct Began sales of real estate-secured loans</p> <p>1994 Nov Opened Heartful Center</p> <p>1995 Mar Installed automatic contract acceptance machine, "Ojido-san" Nov Started a website </p> <p>1997 Jul Over-the-counter registration of company's stock with the Japan Securities Dealers Association Oct Began full-scale sales of commercial loans to consumers</p> <p>1999 May Registered as certified finance corporation based on the Law Concerning the Issuance of Corporate Bonds in the Financial Industry Loan Business</p> <p>2000 Mar Listed on the First Section of the Tokyo Stock Exchange, and the First Section of the Osaka Securities Exchange</p> <p>2001 Jan Established business finance company BUSINEXT CORPORATION through a joint venture with Sumitomo Trust and Banking Co., Ltd.  Feb Completed new headquarters building Mar Converted LIFE Co., Ltd. into 100% subsidiary</p> <p>Jul Issued LIFE ETC CARD  Nov Established servicer company AsTry Loan Services Corporation in joint venture with Aozora Bank, Ltd.  Nov Changed the form of invoicing (statement of charges) sent to cardholders to electronic and launched the LIFE-Web Desk service for card holders </p> <p>2002 Apr Established Compliance Committee Sep Opened a contact center Oct Converted business finance company, City's Co. Ltd., into 100% subsidiary </p> <p>2003 Jan Received Listed Company Disclosure Commendation from the Tokyo Stock Exchange</p>	<p>2004 Mar Converted KOKUSAI Capital Co., Ltd. into 100% subsidiary (currently AG Capital Corporation)</p> <p>2006 Apr Issued LIFECARD GOLD ; issued LIFECARD exclusively for students </p> <p>2007 Apr Revised management philosophy. The new management philosophy becomes "Earn the trust of society through corporate activity based in integrity" Apr Established Risk Management Committee</p> <p>2009 Aug Opened a shopping mall for members, L-Mall </p> <p>2010 Jul Established LIFE CARD Co., Ltd. (now a consolidated subsidiary) to operate credit card and credit guarantee businesses, wholly funded by AIFUL subsidiary LIFE Co., Ltd. (now a consolidated subsidiary)</p> <p>2011 Jun Issued V-Preca, Japan's first prepaid Visa card available exclusively online  Jul Under the Group's reorganization, the credit sales business and the credit guarantee and insurance businesses of LIFE Co., Ltd., were transferred to LIFE CARD Co., Ltd. by way of corporate spinoff and merger. Also, four consolidated subsidiaries (LIFE Co., Ltd. (following its spin-off), City's Corporation, City Green Corporation and Marutoh KK) were merged with AIFUL</p> <p>2013 Apr New Frontier Partners Co., Ltd. (currently a consolidated subsidiary), a wholly owned subsidiary of the Company, acquired all shares of BUSINEXT CORPORATION (currently a consolidated subsidiary) owned by the Company and Sumitomo Mitsui Trust Bank Limited and made it a wholly owned subsidiary</p> <p>2014 Dec AIRA&AIFUL Public Company Limited, a joint venture, is established with AIRA Capital, an overseas subsidiary in Thailand </p> <p>2015 Apr SANSHU Finance Corporation,  which manages the lease business in Shanghai, China, becomes a member of the Group</p> <p>2015 Oct AIRA&AIFUL Public Company Limited (A&A) commences the consumer finance business in Thailand with the A Money brand</p> <p>2015 Nov Shares of Anshin Guarantor Service Co., Ltd., a group company, are listed on the Tokyo Stock Exchange Mothers </p> <p>2016 Apr New Frontier Partners Co., Ltd. changed its corporate name to AG Capital Corporation <i>AG Capital</i></p>
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Group Network

(As of March 31, 2017)

AIFUL CORPORATION

(Location: Kyoto, Japan)

■ Top page (Japanese only)

<http://www.aiful.co.jp>

Business Classification

- Unsecured loans
- Secured loans
- Small business loans
- Credit guarantees (for financial institutions)



■ Investor Relations

<http://www.ir-aiful.com/english/>



LIFECARD CO.,LTD.

(Location: Kanagawa, Japan)

<http://www.lifecard.co.jp> (Japanese only)

Business Classification

- Credit card
- Prepaid card
- Credit guarantees (for financial institutions)



BUSINEXT CORPORATION

(Location: Tokyo, Japan)

<http://www.businext.co.jp> (Japanese only)

Business Classification

- Secured loans
- Small business loans
- Factoring



Group Companies	Business Classification	Location
AsTry Loan Services Corporation	Loan servicing	Tokyo, Japan
AG Capital Co.,Ltd	Venture capital	Tokyo, Japan
LIFE GUARANTEE CO., LTD	Individual credit purchasing agency business Guarantee (in-house installment)	Kyoto, Japan
Anshin Guarantor Service Co.,Ltd.	Guarantee (rent liabilities)	Tokyo, Japan
AIRA & AIFUL Public Company Limited	Consumer finance	Bangkok, Thailand
SANSHU Finance Corporation	Leasing	Shanghai, China

Consolidated Balance Sheet

March 31, 2017

AIFUL CORPORATION and Consolidated Subsidiaries

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
CURRENT ASSETS:			
Cash and cash equivalents (Note 13)	¥ 33,561	¥ 39,906	\$ 299,652
Time deposits (Note 13)	84	4	750
Operational investment securities (Notes 6 and 13)	694	547	6,196
Allowance for investment losses	(2)	(5)	(18)
Loans, credit guarantees and receivables:			
Loans (Notes 3, 7 and 13)	352,628	315,547	3,148,464
Installment accounts receivable (Notes 4, 7 and 13)	94,272	89,202	841,714
Credit guarantees (Note 5)	114,453	111,634	1,021,902
Other receivables	8,939	8,622	79,813
Allowance for doubtful accounts (Notes 2.k and 13)	(42,972)	(43,188)	(383,679)
Work in process	7,305	1,698	65,223
Deferred tax assets (Note 11)	796	485	7,107
Other current assets	11,842	11,569	105,734
Total current assets	581,600	536,021	5,192,858
PROPERTY AND EQUIPMENT:			
Land (Note 7)	8,900	8,908	79,464
Buildings and structures (Note 7)	24,132	24,013	215,464
Machinery and equipment (Note 7)	393	392	3,509
Furniture and fixtures (Note 7)	6,499	6,509	58,027
Lease assets	874	564	7,804
Construction in progress	88	72	786
Total	40,886	40,458	365,054
Accumulated depreciation	(23,222)	(22,767)	(207,340)
Net property and equipment	17,664	17,691	157,714
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 6 and 13)	1,622	1,646	14,482
Investments in and advances to unconsolidated subsidiaries and affiliated companies (Note 13)	7,394	3,775	66,018
Claims in bankruptcy (Notes 3 and 13)	29,324	31,947	261,821
Software, net	3,010	3,057	26,875
Lease and guarantee deposits	1,605	1,629	14,330
Other assets	1,632	1,203	14,572
Allowance for doubtful accounts (Note 13)	(27,200)	(29,455)	(242,857)
Total investments and other assets	17,387	13,802	155,241
TOTAL	¥ 616,651	¥ 567,514	\$ 5,505,813

See notes to consolidated financial statements.

LIABILITIES AND EQUITY	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
CURRENT LIABILITIES:			
Short-term borrowings (Notes 7 and 13)	¥ 73,610	¥ 67,990	\$ 657,232
Current portion of long-term debt (Notes 7, 12 and 13)	34,924	22,440	311,821
Trade notes payable	9	29	80
Trade accounts payable	28,016	23,287	250,143
Obligation under credit guarantees (Note 5)	114,453	111,634	1,021,902
Income taxes payable	661	119	5,902
Accrued expenses	2,408	2,398	21,500
Allowance for credit card point redemption	3,300	3,380	29,464
Other current liabilities (Notes 4 and 5)	17,493	5,875	156,189
Total current liabilities	274,874	237,152	2,454,233
LONG-TERM LIABILITIES:			
Long-term debt (less current portion) (Notes 7, 12, 13 and 14)	192,325	159,103	1,717,188
Allowance for losses on interest refunds (Note 2.k)	34,640	63,439	309,286
Deferred tax liabilities (Note 11)	253	281	2,259
Other long-term liabilities	2,910	3,289	25,981
Total long-term liabilities	230,128	226,112	2,054,714
EQUITY (Notes 9 and 10):			
Common stock - authorized, 1,136,280,000 shares; issued, 484,619,136 shares in 2017 and 483,794,536 shares in 2016	143,455	143,416	1,280,848
Capital surplus	13,953	13,914	124,580
Stock acquisition rights	910	836	8,126
Retained earnings	(43,333)	(50,610)	(386,902)
Treasury stock - at cost; 916,964 shares in 2017 and 916,890 shares in 2016	(3,111)	(3,111)	(27,777)
Accumulated other comprehensive income:			
Unrealized loss on available-for-sale securities	(225)	(195)	(2,009)
Total	111,649	104,250	996,866
Total equity	111,649	104,250	996,866
TOTAL	¥ 616,651	¥ 567,514	\$ 5,505,813

Consolidated Statement of Income

Year Ended March 31, 2017

AIFUL CORPORATION and Consolidated Subsidiaries

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
INCOME:			
Operating revenue (Note 17):			
Interest on loans	¥ 47,869	¥ 44,256	\$ 427,402
Revenue from credit card business	15,423	14,592	137,705
Revenue from credit guarantee	12,494	12,491	111,554
Recovery of loans previously charged off	5,678	6,021	50,696
Other operating revenue (Note 6)	9,986	10,348	89,161
Total operating revenue	91,450	87,708	816,518
Foreign exchange gain (Note 17)		16	
Reversal of membership deposits (Note 17)	322		2,875
Rent income of real estate (Note 17)		52	
Other income (Notes 10 and 17)	236	153	2,107
Total income	92,008	87,929	821,500
EXPENSES:			
Interest on borrowings and bonds	7,148	6,885	63,821
Provision for credit card point redemption (Note 17)	3,300	3,221	29,464
Provision for doubtful accounts (Note 17)	20,745	16,127	185,223
Provision for losses on interest refunds (Note 17)		2,897	
Provision for accrued bonuses (Note 17)	895	899	7,991
Salaries and other employees' benefits	12,621	12,071	112,688
Net periodic benefit costs (Note 8)	470	471	4,196
Advertising expenses	3,451	3,638	30,813
Promotion expenses	7,522	7,453	67,161
Rental expenses (Note 12)	2,429	2,315	21,688
Commissions and fees	11,835	11,182	105,670
Depreciation and amortization (Note 17)	2,339	2,362	20,884
Foreign exchange losses	86		768
Burden charge payment (Note 17)	61		545
Other expenses (Notes 6, 10 and 17)	11,707	11,547	104,525
Total expenses	84,609	81,068	755,437
INCOME BEFORE INCOME TAXES	7,399	6,861	66,063
INCOME TAXES (Notes 11 and 17):			
Current	441	180	3,938
Deferred	(319)	(364)	(2,848)
Total income taxes	122	(184)	1,090
NET INCOME	7,277	7,045	64,973
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 7,277	¥ 7,045	\$ 64,973

	Yen		U.S. Dollars (Note 1)
	2017	2016	2017
AMOUNTS PER COMMON SHARE (Note 16):			
Basic net income	¥ 15.05	¥ 14.59	\$ 0.13
Diluted net income	15.04	14.57	0.13
Cash dividends applicable to the year	nil	nil	nil

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Year Ended March 31, 2017

AIFUL CORPORATION and Consolidated Subsidiaries

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
NET INCOME	¥ 7,277	¥ 7,045	\$ 64,973
OTHER COMPREHENSIVE LOSS (Note 15):			
Unrealized loss on available-for-sale securities	(30)	(324)	(268)
Total other comprehensive loss	(30)	(324)	(268)
COMPREHENSIVE INCOME	¥ 7,247	¥ 6,721	\$ 64,705
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 7,247	¥ 6,721	\$ 64,705

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

Year Ended March 31, 2017

AIFUL CORPORATION and Consolidated Subsidiaries

	Thousands		Millions of Yen					Accumulated Other Comprehensive Income (Loss)	Total Equity
	Number of Shares of Common Stock Outstanding	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Treasury Stock	Unrealized Gain (Loss) on Available-for- sale Securities		
BALANCE AT APRIL 1, 2015	483,507	¥ 143,402	¥ 164,469	¥ 739	¥ (208,152)	¥ (3,111)	¥ 129	¥ 97,476	
Net income attributable to owners of the parent					7,045			7,045	
Purchase of treasury stock (194 shares)									
Disposal of treasury stock (26 shares)									
Exercise of stock options	288	14	14					28	
Deficit disposition			(150,569)		150,569				
Decrease due to the merger of non-consolidated subsidiaries with consolidated subsidiaries					(72)			(72)	
Net change in the year				97			(324)	(227)	
BALANCE AT MARCH 31, 2016	483,795	143,416	13,914	836	(50,610)	(3,111)	(195)	104,250	
Net income attributable to owners of the parent					7,277			7,277	
Purchase of treasury stock (74 shares)									
Exercise of stock options	824	39	39					78	
Net change in the year				74			(30)	44	
BALANCE AT MARCH 31, 2017	484,619	¥ 143,455	¥ 13,953	¥ 910	¥ (43,333)	¥ (3,111)	¥ (225)	¥ 111,649	

Thousands of U.S. Dollars (Note 1)

	Thousands of U.S. Dollars (Note 1)		Thousands of U.S. Dollars (Note 1)					Accumulated Other Comprehensive Income (Loss)	Total Equity
	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Treasury Stock	Unrealized Gain (Loss) on Available-for- sale Securities			
BALANCE AT MARCH 31, 2016	\$ 1,280,500	\$ 124,232	\$ 7,465	\$ (451,875)	\$ (27,777)	\$ (1,741)	\$ 930,804		
Net income attributable to owners of the parent				64,973			64,973		
Purchase of treasury stock (74 shares)									
Exercise of stock options	348	348					696		
Net change in the year				661		(268)	393		
BALANCE AT MARCH 31, 2017	\$ 1,280,848	\$ 124,580	\$ 8,126	\$ (386,902)	\$ (27,777)	\$ (2,009)	\$ 996,866		

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Year Ended March 31, 2017

AIFUL CORPORATION and Consolidated Subsidiaries

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
OPERATING ACTIVITIES:			
Income before income taxes	¥ 7,399	¥ 6,861	\$ 66,063
Adjustments for:			
Income taxes - paid	(137)	(615)	(1,223)
Income taxes - refund	118	128	1,054
Depreciation and amortization	2,339	2,362	20,884
Decrease in allowance for investment losses	(3)	(8)	(27)
Decrease in allowance for doubtful accounts	(2,471)	(7,097)	(22,063)
Increase (decrease) in allowance for bonuses	(1)	12	(9)
Increase (decrease) in allowance for credit card point redemption	(80)	20	(714)
(Decrease) in allowance for losses on interest refunds	(28,799)	(29,966)	(257,134)
Changes in assets and liabilities:			
Increase in loans	(37,081)	(26,830)	(331,080)
Increase in installment accounts receivable	(5,070)	(4,869)	(45,268)
(Increase) decrease in operational investment securities	(152)	60	(1,357)
Increase in purchased receivables	(87)	(664)	(777)
(Increase) decrease in other operating receivables	(230)	227	(2,054)
Increase in work in process	(5,607)	(1,698)	(50,063)
Decrease in claims in bankruptcy	2,623	2,038	23,420
Decrease in lease and guarantee deposits	24	18,635	214
(Increase) decrease in other current assets	(380)	1,541	(3,393)
Increase in other current liabilities	16,765	8,048	149,688
Other, net	(393)	142	(3,509)
Total adjustments	(58,622)	(38,534)	(523,411)
Net cash used in operating activities	(51,223)	(31,673)	(457,348)
INVESTING ACTIVITIES:			
Capital expenditures	(2,215)	(2,634)	(19,777)
Purchases of investment securities	(2,175)	(320)	(19,420)
Other, net	(1,802)	(90)	(16,089)
Net cash used in investing activities	(6,192)	(3,044)	(55,286)

(Continued)

Consolidated Statement of Cash Flows

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
FINANCING ACTIVITIES:			
Net increase in short-term borrowings	¥ 5,620	¥ 16,530	\$ 50,179
Proceeds from long-term debt	77,750	111,200	694,196
Repayments of long-term debt	(32,368)	(105,746)	(289,000)
Other, net	53	18	473
Net cash provided by financing activities	51,055	22,002	455,848
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	15	(13)	134
CASH AND CASH EQUIVALENTS INCREASED BY MERGER OF NON-CONSOLIDATED SUBSIDIARIES AND CONSOLIDATED SUBSIDIARIES			
NET DECREASE IN CASH AND CASH EQUIVALENTS	(6,345)	(12,680)	(56,652)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	39,906	52,586	356,304
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 33,561	¥ 39,906	\$ 299,652

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Year Ended March 31, 2017

AIFUL CORPORATION and Consolidated Subsidiaries

1 BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations, and in accordance with accounting principles generally accepted in Japan (“Japanese GAAP”), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form that is more familiar to readers outside

Japan. In addition, certain reclassifications have been made in the 2016 consolidated financial statements to conform to the classifications used in 2017.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which AIFUL CORPORATION (the “Company”) is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥112 to \$1, the approximate rate of exchange at March 31, 2017. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation — The consolidated financial statements as of March 31, 2017, include the accounts of the Company and its four (four in 2016) significant subsidiaries (together, the “Group”). Consolidation of the remaining nine (nine in 2016) unconsolidated subsidiaries would not have had a material effect on the accompanying consolidated financial statements.

Under the control and influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

Investments in seven unconsolidated subsidiaries (seven in 2016) and an affiliated company (one in 2016) are stated at cost. Investments in the remaining two unconsolidated subsidiaries (two in 2016), which are limited liability investment partnerships and similar partnerships, are initially recorded at cost, and the carrying amount is adjusted to recognize the Company’s interests in earnings or losses in such partnerships based on the most recent available financial statements of the partnerships.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit (loss) included in assets (liabilities) resulting from transactions within the Group is eliminated.

b. Cash Equivalents — Cash equivalents are short-term investments that are readily convertible into cash and exposed to insignificant risk of changes in value. Cash equivalents include time deposits that mature or become due within three months of the date of acquisition.

c. Operational Investment Securities Held by Venture Capital Subsidiary and Investment Securities — Operational investment securities held by a venture capital company and investment securities, all of which are classified as available-for-sale securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in

a separate component of equity. The cost of securities sold is determined based on the moving-average cost method. Nonmarketable available-for-sale securities are stated at cost determined by the moving-average method. For other-than-temporary declines in fair value, operational investment securities and investment securities are reduced to net realizable value by a charge to income.

Investments in limited liability investment partnerships and similar partnerships are initially recorded at cost, and the carrying amount is adjusted to recognize the Company’s interests in earnings or losses in such partnerships based on the most recent available financial statements of the partnerships.

d. Work in Process — Work in process relevant to the made-to-order software development contract is stated at the lower of cost, determined by the specific identification method, or net selling value. And revenue and cost relevant to the contract are recognized by the completed-contract method.

e. Property and Equipment — Property and equipment are stated at cost. Depreciation of property and equipment of the Company and its consolidated subsidiaries is computed by the declining-balance method except that the straight-line method is applied to the buildings of the Company’s consolidated subsidiaries acquired on or after April 1, 1998. The range of useful lives is principally from 2 to 62 years for buildings and structures, from 4 to 17 years for machinery and equipment, and from 2 to 20 years for furniture and fixtures.

f. Long-lived Assets — The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss is recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount

by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

g. Software — Expenditures for the purchase of software are capitalized as software and amortized by the straight-line method over the estimated useful lives of five years.

h. Allowance for Doubtful Accounts — The allowance for doubtful accounts is stated in amounts considered to be appropriate based on the Group's past credit loss experience and an evaluation of potential losses in the accounts outstanding.

i. Allowance for Investment Losses — The allowance for investment losses is stated in amounts considered to be appropriate based on the financial position of the investment destination and an evaluation of potential losses on nonmarketable investment securities.

j. Allowance for Credit Card Point Redemption — The allowance for credit card point redemption is provided at an estimated amount of future costs related to credit card point redemption. These points are granted to card members according to the point system that is intended to promote the usage of cards.

k. Allowance for Losses on Interest Refunds — The limit on interest rates in Japan is regulated by two laws - "Capital Subscription Law" and "Interest Rate Restriction Act". Under the former law, interest rates on loans should not exceed 29.2% (20.0% for customers who originate loans after June 18, 2010) and violation of the law is subject to a criminal penalty. The latter law stipulates that interest payments for interest rates that exceed the legal limit (20.0% for principal amounts under ¥100 thousand, 18.0% for principal amounts not less than ¥100 thousand and under ¥1 million, and 15.0% for principal amounts not less than ¥1 million) are void. However, under the "Moneylending Business Control and Regulation Law", such interest payments are nonetheless considered to be valid if moneylenders issue notices as prescribed by the law to debtors and debtors pay the interests voluntarily (for customers who originate loans after June 18, 2010, such system is abolished.). Strict judgment by the Supreme Court of these requirements has led to decisions against moneylenders and resulted in more debtors claiming for the return of excess interest payments.

The Company and certain of its consolidated subsidiaries have loaned money at rates between the limits set by the two laws. Allowance for losses on interest refunds is stated at amounts considered to be appropriate based on the Company's and respective consolidated subsidiaries' past refund loss experience, the recent situation regarding interest refunds and other factors.

At March 31, 2017 and 2016, the Group recorded allowances of ¥34,640 million (\$309,286 thousand) and ¥63,439 million, respectively, as "Allowance for losses on interest refunds". In addition, the estimated amount of interest refunds of ¥8,663 million (\$77,348 thousand) and ¥12,435 million, which were expected to be preferentially set off against loans, was recorded as "Allowance for doubtful

accounts" for the Company and certain of its consolidated subsidiaries at March 31, 2017 and 2016, respectively.

l. Asset Retirement Obligations — An asset retirement obligation is recorded for a legal obligation imposed either by law or contract that results from the acquisition, construction, development and normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of the asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an adjustment to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

m. Stock Options — The cost of employee stock options is measured based on the fair value at the date of grant and recognized as compensation expense over the vesting period as consideration for receiving goods or services. In the consolidated balance sheet, stock options are presented as stock acquisition rights as a separate component of equity until exercised.

n. Leases — Finance lease transactions are capitalized by recognizing lease assets and lease obligations in the balance sheet.

o. Income Taxes — The provision for income taxes is computed based on the pretax income included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

The Group files a tax return under the consolidated corporate tax system, which allows companies to base tax payments on the combined profits or losses of the parent company and its wholly owned domestic subsidiaries.

The Group applied ASBJ Guidance No. 26, "Guidance on Recoverability of Deferred Tax Assets", effective April 1, 2016. There was no impact from this guidance for the year ended March 31, 2017.

p. Foreign Currency Transactions — All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the

consolidated statement of income to the extent that they are not hedged by forward exchange contracts.

q. Revenue Recognition:

Interest on Loans — Interest on loans is recorded on an accrual basis. In accordance with the practice prevailing in the industry, the Company records accrued interest at the lower of the interest rate stipulated in the Interest Rate Restriction Act or the contractual interest rate.

Revenue from Credit Card Business and Revenue from Installment Sales Finance Business — Fees from customers and member stores applying the add-on method are generally recorded collectively as unearned income when credit contracts become effective and are recognized in equal installments over the contractual term. Fees from customers applying the interest method or revolving method are generally recognized in equal installments over the contractual term.

Revenue from Credit Guarantees — Revenue from credit guarantees is recorded by the remaining principal method.

r. Interest on Borrowings — Interest on financial liabilities is accounted for as operating expenses while other interest is included in other expenses.

s. Per Share Information — Basic net income per share is computed by dividing net income attributable to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share of common stock reflects the potential dilution that could occur if stock acquisitions rights were converted into common stock and assumes full exercise of outstanding stock options.

Cash dividends per share presented in the accompanying consolidated statement of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

3 LOANS

Loans at March 31, 2017 and 2016, consisted of the following (before allowance for doubtful accounts):

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Unsecured	¥ 346,412	¥ 306,602	\$ 3,092,964
Secured	24,044	28,139	214,679
Small-business loans	42,193	41,484	376,723
Total	412,649	376,225	3,684,366
Off-balance-sheet securitized loans	(60,021)	(60,678)	(535,902)
Net	¥ 352,628	¥ 315,547	\$ 3,148,464

Registered moneylenders are required to disclose the following information under the Non-Bank Bond Issuing Law:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Loans in legal bankruptcy	¥ 28,712	¥ 31,105	\$ 256,357
Nonaccrual loans	25,531	22,264	227,955
Accruing loans contractually past due three months or more as to principal or interest payments	4,408	3,349	39,357
Restructured loans	7,750	9,440	69,197
Total	¥ 66,401	¥ 66,158	\$ 592,866

Loans in legal bankruptcy are loans on which accrual of interest is discontinued (excluding the portion recognized as bad debts), based on management's judgment as to the collectability of principal or interest resulting from the past-due payment of interest or principal and other factors. Allowances for claims in bankruptcy are stated at such amount less net realizable value of collateral.

Nonaccrual loans are loans on which accrual of interest is discontinued, other than loans in legal bankruptcy as well as loans receiving regular payments in the case of granting deferral of interest payment to the debtors in financial difficulties to assist them in their recovery.

Accruing loans contractually past due three months or more as to principal or interest payments are loans for which payments of principal or interest have not been received for a period of three months or more beginning with the next business day following the last due date for such payments. Loans classified as loans in legal bankruptcy and nonaccrual loans are excluded from accruing loans contractually past due three months or more.

Restructured loans are loans on which creditors grant concessions (e.g., reduction of the stated interest rate, deferral of interest payment, extension of maturity date, waiver of the face amount, or other concessive measures) to the debtors in financial difficulties to assist them in their recovery and eventually enable them to pay creditors. Loans classified as loans in legal bankruptcy, nonaccrual loans and accruing loans contractually past due three months or more are excluded.

At March 31, 2017 and 2016, including securitized loans, the Group had balances related to revolving loan contracts aggregating ¥317,615 million (\$2,835,848 thousand) and ¥287,989 million, respectively, whereby the Group is obligated to advance funds up to a predetermined amount upon request. At March 31, 2017 and 2016, the balances of unadvanced commitments were ¥744,944 million (\$6,651,286 thousand) and ¥721,183 million, respectively. The loan contract contains provisions that allow the Group to reduce the contract amount of the commitment or refuse to advance funds to loan customers under certain conditions.

4 INSTALLMENT ACCOUNTS RECEIVABLE

Installment accounts receivable and unearned income, included in other current liabilities, at March 31, 2017 and 2016, consisted of the following:

	Millions of Yen				Thousands of U.S. Dollars	
	2017		2016		2017	
	Receivables	Unearned Income	Receivables	Unearned Income	Receivables	Unearned Income
Credit card business	¥ 96,690	¥ 408	¥ 89,642	¥ 368	\$ 863,304	\$ 3,643
Installment sales finance business	444		524		3,964	
Total	¥ 97,134	¥ 408	¥ 90,166	¥ 368	\$ 867,268	\$ 3,643
Off-balance sheet securitized installment accounts receivable	(2,862)		(964)		(25,554)	
Net	¥ 94,272	¥ 408	¥ 89,202	¥ 368	\$ 841,714	\$ 3,643

5 CREDIT GUARANTEES AND OBLIGATION UNDER CREDIT GUARANTEES

The Group, as guarantor, recorded credit guarantees as a contra account of obligations under credit guarantees. Unearned income relating to credit guarantees was ¥16 million (\$143 thousand) and ¥20 million at March 31, 2017 and 2016, respectively, which was included in other current liabilities.

And the consolidated subsidiary "LIFECARD CO., LTD." guarantees the credit-card transactions by the unconsolidated subsidiary "Sumishin Life Card Co., Ltd.". The guaranteed amount was ¥2,860 million (\$25,536 thousand) and ¥3,400 million at March 31, 2017 and 2016, respectively.

6 OPERATIONAL INVESTMENT SECURITIES HELD BY VENTURE CAPITAL SUBSIDIARY AND INVESTMENT SECURITIES

Operational investment and investment securities at March 31, 2017 and 2016, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Current:			
Equity securities	¥ 694	¥ 547	\$ 6,196
Non-current:			
Equity securities	¥ 1,547	¥ 1,554	\$ 13,812
Other	75	92	670
Total	¥ 1,622	¥ 1,646	\$ 14,482

The costs and aggregate fair values of available-for-sale securities included in operational investment securities and investment securities with reliably determinable fair value at March 31, 2017 and 2016, were as follows:

	Millions of Yen			
	2017			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale securities	¥ 1,329	¥ 218	¥ 356	¥ 1,191

	Millions of Yen			
	2016			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale securities	¥ 1,348	¥ 423	¥ 556	¥ 1,215

	Thousands of U.S. Dollars			
	2017			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale securities	\$ 11,866	\$ 1,947	\$ 3,179	\$ 10,634

Unlisted stocks whose fair value cannot be reliably determined were ¥1,125 million (\$10,044 thousand) and ¥978 million at March 31, 2017 and 2016, respectively.

Proceeds from sales of available-for-sale securities for the years ended March 31, 2017 and 2016, were ¥60 million (\$536 thousand) and ¥265 million, respectively. Gross realized gains on these sales, computed on the moving-average cost basis, were ¥41 million (\$366 thousand) and ¥219 million for the years ended March 31, 2017 and 2016, respectively, and gross realized losses were ¥9 million (\$80 thousand) and ¥2 million for the years ended March 31, 2017 and 2016, respectively.

Impairment losses on available-for-sale securities, included in other expenses, for the years ended March 31, 2017 and 2016, were ¥9 million (\$80 thousand) and ¥13 million, respectively.

7 SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings at March 31, 2017 and 2016, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
	Borrowings principally from a certain credit card company, 1.15% to 2.16% (1.15% to 2.95% at March 31, 2016)	¥ 73,610	¥ 67,990

Long-term debt at March 31, 2017 and 2016, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Loans from banks, 1.48% to 3.30% (1.60% to 3.30% at March 31, 2016)	¥ 54,663	¥ 23,593	\$ 488,063
Loans from other financial institutions, 1.90% to 3.75% (1.48% to 3.75% at March 31, 2016)	12,486	22,852	111,482
Unsecured 8.00% yen straight bonds, due 2020	28,800	28,800	257,143
Unsecured 2.00% yen straight bonds, due 2018	1,300		11,607
Unsecured 2.90% yen straight bonds, due 2017	2,600	2,600	23,214
Other debt (principally by securitized loans), 0.48% to 3.27% (0.52% to 3.32% at March 31, 2016) *1	126,764	103,225	1,131,821
Obligations under finance leases	636	473	5,679
Total	227,249	181,543	2,029,009
Less current portion	(34,924)	(22,440)	(311,821)
Long-term debt, less current portion	¥ 192,325	¥ 159,103	\$ 1,717,188

*1 The Company has an outstanding syndicated loan which is subject to a financial covenant requiring maintenance of a minimum net asset balance. The Company was in compliance with such financial covenant, respectively, as of March 31, 2017 and 2016.

Annual maturities of long-term debt, excluding finance leases (see Note 12) at March 31, 2017, were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2018	¥ 34,738	\$ 310,160
2019	33,220	296,607
2020	45,657	407,652
2021	93,793	837,437
2022	12,452	111,178
2023 and thereafter	6,753	60,296
Total	¥ 226,613	\$ 2,023,330

At March 31, 2017, the following assets were pledged as collateral for short-term borrowings and long-term debt (including current portion of long-term debt):

	Millions of Yen	Thousands of U.S. Dollars
Loans	¥ 252,596	\$ 2,255,321
Installment accounts receivable	68,980	615,893
Land	8,523	76,098
Buildings and structures	4,354	38,875
Machinery and equipment	17	152
Furniture and fixtures	42	375
Total	¥ 334,512	\$ 2,986,714
Related liabilities:		
Short-term borrowings	¥ 67,810	\$ 605,446
Long-term debt (including current portion of long-term debt)	175,160	1,563,929
Total	¥ 242,970	\$ 2,169,375

The above table includes loans related to securitized loans of ¥89,073 million (\$795,295 thousand) and related liabilities of ¥75,000 million (\$669,643 thousand).

8 RETIREMENT AND PENSION PLANS

The Company and certain of its consolidated subsidiaries have a defined contribution pension plan and a prepaid retirement benefits plan. Contributions to the defined contribution plan and payments to the prepaid retirement benefits plan are charged to expense when made.

The components of periodic benefit costs for the years ended March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Payments for the prepaid retirement benefits plan	¥ 173	¥ 198	\$ 1,544
Premiums for the defined contribution pension plan	297	273	2,652
Periodic benefit costs	¥ 470	¥ 471	\$ 4,196

9 EQUITY

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

(a) Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. Additionally, for companies that meet certain criteria including (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit & Supervisory Board, and (4) the term of service of the directors being prescribed as one year rather than the normal two-year term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. With respect to the third condition above, the Board of Directors of companies with (a) board committees (namely, appointment committee, compensation committee and audit committee), or (b) an audit and supervisory committee (as implemented under the Companies Act effective May 1, 2015) may also declare dividends at any time because such companies, by nature, meet the criteria under the Companies Act. The Company is organized as a company with an audit and supervisory committee effective on June 23, 2015. The Company meets all the above criteria, and accordingly, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

(b) Increases/Decreases and Transfer of Common Stock, Reserve and Surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus), depending on the equity account charged upon the payment of such dividends, until the aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts within equity under certain conditions upon resolution of the shareholders.

(c) Treasury Stock and Treasury Stock Acquisition Rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

10 STOCK OPTIONS

The stock options outstanding as of March 31, 2017, are as follows:

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
2010 Stock Options	2,206 Company's and Subsidiaries' key employees	4,385,300 shares	July 1, 2010	¥ 64 (\$0.57)	From August 1, 2014 to July 31, 2016
2013 Stock Options	1,480 Company's and Subsidiaries' key employees	2,947,100 shares	May 27, 2013	¥ 501 (\$4.47)	From May 1, 2015 to April 30, 2017
2015 Stock Options	1,383 Company's and Subsidiaries' key employees	1,583,850 shares	June 30, 2015	¥ 407 (\$3.63)	From July 1, 2017 to June 30, 2019

The stock option activity is as follows:

	2010 Stock Option (Shares)	2013 Stock Option (Shares)	2015 Stock Option (Shares)
For the year ended March 31, 2016			
Non-vested			
April 1, 2015 - Outstanding		2,947,100	
Granted			1,583,850
Canceled			
Vested		2,947,100	
March 31, 2016 - Outstanding			1,583,850
Vested			
April 1, 2015 - Outstanding	2,746,600		
Vested		2,947,100	
Exercised	288,000		
Canceled			
March 31, 2016 - Outstanding	2,458,600	2,947,100	
Exercise price	¥ 64	¥ 501	¥ 407
Average stock price at exercise	¥ 405		
Option fair value at grant date	¥ 31	¥ 261	¥ 157

	2010 Stock Option	2013 Stock Option	2015 Stock Option
	(Shares)	(Shares)	(Shares)
For the year ended March 31, 2017			
Non-vested			
April 1, 2016 - Outstanding			1,583,850
Granted			
Canceled			
Vested			
March 31, 2017 - Outstanding			1,583,850
Vested			
April 1, 2016 - Outstanding	2,458,600	2,947,100	
Vested			
Exercised	824,600		
Canceled	1,634,000		
March 31, 2017 - Outstanding		2,947,100	
Exercise price	¥ 64 (\$0.57)	¥ 501 (\$4.47)	¥ 407 (\$3.63)
Average stock price at exercise	¥ 322 (\$2.88)		
Option fair value at grant date	¥ 31 (\$0.28)	¥ 261 (\$2.33)	¥ 157 (\$1.40)

The assumptions used to measure fair value of 2010 Stock Options

Estimate method:	Black-Scholes option pricing model
Volatility of stock price:	77.936%
Estimated remaining outstanding period:	5.08 years
Estimated dividend:	¥0 per share
Risk free interest rate:	0.3577%

The assumptions used to measure fair value of 2013 Stock Options

Estimate method:	Black-Scholes option pricing model
Volatility of stock price:	82.512%
Estimated remaining outstanding period:	2.93 years
Estimated dividend:	¥0 per share
Risk free interest rate:	0.171%

The assumptions used to measure fair value of 2015 Stock Options

Estimate method:	Black-Scholes option pricing model
Volatility of stock price:	61.550%
Estimated remaining outstanding period:	3.00 years
Estimated dividend:	¥0 per share
Risk free interest rate:	0.012%

The stock compensation expense, included in other expenses, for the years ended March 31, 2017 and 2016, were ¥117 million (\$1,045 thousand) and ¥106 million, respectively.

Gain on reversal of stock acquisition rights, included in other income, for the years ended March 31, 2017 and 2016, were ¥17 million (\$152 thousand) and nil, respectively.

11 INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in normal effective statutory tax rates of approximately 33.0% and 30.8% for the years ended March 31, 2017 and 2016, respectively.

The tax effects of significant temporary differences and tax loss carryforwards that resulted in deferred tax assets and liabilities at March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Deferred tax assets:			
Allowance for doubtful accounts	¥ 10,138	¥ 11,883	\$ 90,518
Allowance for losses on interest refunds	9,851	19,565	87,955
Charge-offs for doubtful accounts	1,438	1,717	12,839
Accrued interest on loans	1,172	1,267	10,464
Tax loss carryforwards	178,157	170,249	1,590,688
Interest refunds payable	2,196	1,852	19,607
Other	3,575	3,786	31,920
Total	206,527	210,319	1,843,991
Less valuation allowance	(205,731)	(209,834)	(1,836,884)
Total deferred tax assets	¥ 796	¥ 485	\$ 7,107
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	¥ (54)	¥ (75)	\$ (482)
Costs of removal related to asset retirement obligations	(199)	(206)	(1,777)
Total deferred tax liabilities	¥ (253)	¥ (281)	\$ (2,259)
Net deferred tax assets (liabilities)	¥ 543	¥ 204	\$ 4,848

A valuation allowance is established to reduce certain deferred tax assets with respect to deductible temporary differences and net operating loss carryforwards where it is more likely than not that they will not be realized.

A reconciliation between the statutory tax rates and the effective tax rates reflected in the accompanying consolidated statement of income for the years ended March 31, 2017 and 2016, is as follows:

	2017	2016
Normal effective statutory tax rate	30.8%	33.0%
Less valuation allowance	(32.0)	(211.5)
Effect of tax rate reduction	0.6	171.9
Income not taxable for income tax purposes	1.7	0.8
Others, net	0.6	3.1
Actual effective tax rate	1.7%	(2.7)%

New tax reform laws enacted in 2016 in Japan changed the normal effective statutory tax rate for the fiscal year beginning on or after April 1, 2016. The effect of this change on deferred taxes in the consolidated financial statements for the year ended March 31, 2017 is immaterial.

At March 31, 2017, the Company and its wholly owned domestic subsidiaries had tax loss carryforwards aggregating approximately ¥576,683 million (\$5,148,955 thousand) which were available for offset against taxable income of the Company and such subsidiaries in future years. These tax loss carryforwards, if not utilized, will expire as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2018	¥ 59,408	\$ 530,428
2019	155,254	1,386,196
2020	113,429	1,012,759
2021	95,484	852,536
2022	45,392	405,286
2023 and thereafter	107,716	961,750
Total	¥ 576,683	\$ 5,148,955

12 LEASES

The Group leases furniture and fixtures.

Total rental expenses including lease payments under finance leases for the years ended March 31, 2017 and 2016, were ¥2,429 million (\$21,688 thousand) and ¥2,315 million, respectively.

Obligations under finance leases at March 31, 2017 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Due within one year	¥ 186	\$ 1,661
Due after one year	450	4,018
Total	¥ 636	\$ 5,679

13 FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Group policy for financial instruments

The main business of the Group is finance. The Group is engaged in the provision of unsecured loans for individual consumers, secured loans, small business loans, shopping loans, credit guarantee, debt collection and so on. To run these businesses, the Group raises funds domestically and internationally. Indirect financing by loans from banks and direct financing by bond issue are used.

(2) Nature and extent of risks arising from financial instruments

Loans and installment accounts receivable for domestic consumers and small businesses are the main financial assets of the Group and are exposed to credit risk through default of contract by customers. Other financial assets such as operational investment securities and investment securities are mainly stock and investments in limited liability investment partnerships. The Group holds these securities to develop these businesses. The securities are exposed to the issuer's credit risk and the risk of market price fluctuations.

Borrowings and debt including bonds are the main financial liabilities of the Group. These liabilities are exposed to liquidity risks, or risk that liabilities cannot be met when they fall due if the Group is unable to participate in fund-raising markets in certain circumstances. In addition, the Group raises funds at variable interest rates or by bonds in foreign currency, and these are exposed to the market risks of fluctuation in interest rates and foreign currency exchange rates.

Derivatives include interest rate caps which are applicable to hedge accounting. See Note 14 for more details about derivatives and hedging activities.

(3) Risk management for financial instruments

Credit risk management

Credit risk is the risk of economic loss arising from a counterparty's failure to repay or service debt according to the contractual terms. The Group manages its credit risk according to internal guidelines. In relation to loans, installments accounts receivable and credit guarantees which are the Group's major financial assets, the Group conducts credit checks for each contract based on data of the consumer data industry and its own credit standards, maintaining its system to modify credit ceilings, set guarantees or collateral. The Group manages the credit risk of issuers of securities by checking credit information and market prices periodically.

Because the counterparties to derivatives are limited to major financial institutions, the Group does not anticipate any significant losses arising from credit risk. The Group manages such credit risk by relevant departments evaluating, analyzing and deliberating countermeasures and reporting to the board of directors accordingly.

See Note 14 for more details about derivatives.

Market risk management (foreign exchange risk and interest rate risk)

The Group manages foreign exchange risk and interest rate risk based on a "risk management manual" that was endorsed by the Group's risk management committee. The risk management committee reports directly to the board of directors. The finance department reports the conditions of foreign exchange risk and interest rate risk to the internal control department. The internal control department examines the reasonableness and adequacy of the finance department's risk evaluation and countermeasures, and reports to the board of directors. Also, the Group utilizes interest rate caps in order to hedge exposure to risks from changes in interest rates.

Market risk management (stock price volatility risk)

Most of the operational investment securities and investment securities the Group holds are intended to develop business including business alliances and capital alliances. Relevant departments monitor the market environment and the financial situation of the issuers, deliberate countermeasures and report to the board of directors accordingly. The Group does not hold trading securities, which are held for the purpose of earning capital gains in the near term.

Market risk management (quantitative information)

A change in interest rate impacts the fair values of loans, installment accounts receivable, short-term borrowings, and long-term debt (including bonds). An increase of 1 basis point (0.01%) in interest rates is estimated to decrease the fair value of these financial (net) assets by ¥48 million (\$429 thousand). Conversely, a 1 basis point (0.01%) decrease in interest rates is estimated to increase the fair value of these financial (net) assets by ¥48 million (\$429 thousand).

Market risk management (derivatives)

The Group manages market risk of derivatives according to internal guidelines. Relevant departments conduct internal checks to ensure that transactions, evaluations of hedge effectiveness and management of affairs are performed in accordance with internal guidelines.

Liquidity risk management regarding fund-raising

The Group manages liquidity risk by adequate financial planning of the Group on a timely basis, diversifying the means of fund-raising and adjusting the ratio of long-term and short-term debt in light of the market environment.

(4) Fair value of financial instruments

Fair values of financial instruments are based on quoted prices in active markets. If a quoted price is not available, other valuation techniques are used. Fair value calculation results may differ when different assumptions are used.

(a) Fair value of financial instruments

March 31, 2017	Millions of Yen		
	Carrying Amount	Fair Value	Unrealized Gain
Cash and cash equivalents	¥ 33,561	¥ 33,561	
Time deposits	84	84	
Loans	352,628		
Allowance for doubtful accounts and allowance for losses on interest refunds	(31,528)		
	321,100	374,286	¥ 53,186
Installment accounts receivable	94,272		
Unearned income	(374)		
Allowance for doubtful accounts	(4,256)		
	89,642	91,273	1,631
Operational investment securities, investment securities and investments in unconsolidated subsidiaries	1,568	5,608	4,040
Claims in bankruptcy	29,324		
Allowance for doubtful accounts	(27,101)		
	2,223	2,223	
Total	¥ 448,178	¥ 507,035	¥ 58,857
Short-term borrowings	¥ 73,610	¥ 73,610	
Long-term debt (excluding finance leases)	226,613	226,736	¥ (123)
Total	¥ 300,223	¥ 300,346	¥ (123)

March 31, 2016	Millions of Yen		
	Carrying Amount	Fair Value	Unrealized Gain
Cash and cash equivalents	¥ 39,906	¥ 39,906	
Time deposits	4	4	
Loans	315,547		
Allowance for doubtful accounts and allowance for losses on interest refunds	(32,057)		
	283,490	336,412	¥ 52,922
Installment accounts receivable	89,202		
Unearned income	(336)		
Allowance for doubtful accounts	(3,970)		
	84,896	86,185	1,289
Operational investment securities, investment securities and investments in unconsolidated subsidiaries	1,592	3,154	1,562
Claims in bankruptcy	31,947		
Allowance for doubtful accounts	(29,351)		
	2,596	2,596	
Total	¥ 412,484	¥ 468,257	¥ 55,773
Short-term borrowings	¥ 67,990	¥ 67,990	
Long-term debt (excluding finance leases)	181,070	181,214	¥ (144)
Total	¥ 249,060	¥ 249,204	¥ (144)

March 31, 2017	Thousands of U.S. Dollars		
	Carrying Amount	Fair Value	Unrealized Gain
Cash and cash equivalents	\$ 299,652	\$ 299,652	
Time deposits	750	750	
Loans	3,148,464		
Allowance for doubtful accounts and allowance for losses on interest refunds	(281,500)		
	2,866,964	3,341,839	\$ 474,875
Installment accounts receivable	841,714		
Unearned income	(3,339)		
Allowance for doubtful accounts	(38,000)		
	800,375	814,938	14,563
Operational investment securities, investment securities and investments in unconsolidated subsidiaries	14,000	50,071	36,071
Claims in bankruptcy	261,821		
Allowance for doubtful accounts	(241,973)		
	19,848	19,848	
Total	\$ 4,001,589	\$ 4,527,098	\$ 525,509
Short-term borrowings	\$ 657,232	\$ 657,232	
Long-term debt (excluding finance leases)	2,023,330	2,024,429	\$ (1,099)
Total	\$ 2,680,562	\$ 2,681,661	\$ (1,099)

Cash and cash equivalents

The carrying values of cash and cash equivalents approximate fair value because of their short maturities.

Time deposits

The carrying values of time deposits approximate fair value because of their short maturities.

Loans

The fair value of loans is determined based on the present value of expected future cash flows, which consist of expected inflows of principal and interest which are adjusted to reflect collectability and outflows of costs of collection. The expected future cash flows are discounted at a low-risk interest rate based on maturity length.

Installment accounts receivable

The carrying values of installment accounts receivable related to the credit card business approximate fair value because most transactions are single payments in the following month. The fair value of installment accounts receivable related to installment sales finance business is determined based on the present value of expected future cash flows, which consist of expected inflows of principal and fees that are adjusted to reflect collectability and outflows of costs of collection. The expected future cash flows are discounted at a low-risk interest rate based on maturity length.

Operational investment securities, investment securities and investments in unconsolidated subsidiaries

The fair value of operational investment securities, investment securities and investments in unconsolidated subsidiaries are measured at the quoted market price of the stock exchange.

Claims in bankruptcy

The carrying values of claims in bankruptcy less allowances for claims in bankruptcy approximate fair value because allowances for claims in bankruptcy are stated taking net realizable value of collateral into account.

Short-term borrowings

The carrying values of short-term borrowings approximate fair value because of their short maturities.

Long-term debt

The carrying values of current portion of long-term debt approximate fair value because of their short maturities.

The fair values of marketable bonds (issued by the Company) are measured at the quoted market price. The fair values of nonmarketable bonds (issued by the Company) and fixed-rate long-term debt are determined by discounting cash flows of principal and interest, at a rate that reflects credit risk and maturity period. The carrying values of variable-rate long-term debt approximate fair value because the variable rate reflects the market interest rate and credit risk in a short period of time.

(b) Financial instruments whose fair value cannot be reliably determined

Since the fair values of the items in the table below cannot be reliably determined, they are not included in operational investment securities, investment securities and investments in unconsolidated subsidiaries and long-term debt in (4) (a).

	Carrying Amount	
	Millions of Yen	Thousands of U.S. Dollars
March 31, 2017		
Operational investment securities, investment securities and investments in unconsolidated subsidiaries:		
Unlisted stocks	¥ 5,326	\$47,554
Investments in limited liability investment partnerships	1,325	11,830
	Carrying Amount	
March 31, 2016	Millions of Yen	
Operational investment securities, investment securities and investments in unconsolidated subsidiaries:		
Unlisted stocks	¥ 2,985	
Investments in limited liability investment partnerships	1,389	

(5) Maturity analysis for financial assets with contractual maturities

	Millions of Yen		
	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years
March 31, 2017			
Cash and cash equivalents	¥ 33,561		
Time deposits	84		
Loans	140,107	¥ 199,443	¥ 13,078
Installment accounts receivable	90,677	3,595	
Total	¥ 264,429	¥ 203,038	¥ 13,078

Thousands of U.S. Dollars

March 31, 2017	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years
Cash and cash equivalents	\$ 299,652		
Time deposits	750		
Loans	1,250,955	\$ 1,780,741	\$ 116,768
Installment accounts receivable	809,616	32,098	
Total	\$ 2,360,973	\$ 1,812,839	\$ 116,768

Claims in bankruptcy of ¥29,324 million (\$261,821 thousand) whose amount of redemption cannot be determined are not included in the table above.

See Note 7 for annual maturities of long-term debt and Note 12 for obligations under finance leases.

14 DERIVATIVES

The Group enters into interest rate cap contracts as a means of managing its principal and interest rate exposures on certain liabilities.

Such derivative transactions are entered into to hedge interest exposures inherent within the business. Accordingly, market risks in these derivatives are offset by opposite movements in the value of hedged liabilities. The Group does not hold or enter into derivatives for trading or speculative purposes.

Because the counterparties to these derivatives are limited to major financial institutions, the Group does not anticipate any significant losses arising from credit risk.

Derivative transactions entered into by the Group have been made in accordance with internal policies, which regulate the authorization process and credit limit amount.

Year ended March 31, 2017

Derivative transactions to which hedge accounting is applied

Millions of Yen

At March 31, 2017	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Interest rate cap	Long-term debt	¥ 30,000	¥ 30,000	*1

Millions of Yen

At March 31, 2016	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Interest rate cap	Long-term debt	¥ 20,000	¥ 20,000	*1

Thousands of U.S. Dollars

At March 31, 2017	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Interest rate cap	Long-term debt	\$ 267,857	\$ 267,857	*1

*1 The above interest rate cap which qualifies for hedge accounting and meets specific matching criteria is not remeasured at fair value. In addition, the fair value information of interest rate caps is included in that of the hedged items (i.e. long-term debt) in Note 13.

There were no derivative transactions to which hedge accounting is not applied at March 31, 2017 and 2016.

15 OTHER COMPREHENSIVE INCOME (LOSS)

The components of other comprehensive income (loss) for the years ended March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Unrealized (loss) gain on available-for-sale securities:			
Loss arising during the year	¥ (24)	¥ (43)	\$ (215)
Reclassification adjustments to profit or loss	(27)	(206)	(241)
Amount before income tax effect	(51)	(249)	(456)
Income tax effect	21	(75)	188
Total	¥ (30)	¥ (324)	\$ (268)
Total other comprehensive loss	¥ (30)	¥ (324)	\$ (268)

16 NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2017 and 2016, is as follows:

	Millions of Yen	Thousands of Shares	Yen	Dollars
	Net Income	Weighted- Average Shares	EPS	
Year ended March 31, 2017				
Basic EPS - Net income available to common shareholders	¥ 7,277	483,500	¥ 15.05	\$ 0.13
Effect of dilutive securities Stock acquisition rights		191		
Diluted EPS - Net income for computation	¥ 7,277	483,691	¥ 15.04	\$ 0.13
Year ended March 31, 2016				
Basic EPS - Net income available to common shareholders	¥ 7,045	482,742	¥ 14.59	
Effect of dilutive securities Stock acquisition rights		887		
Diluted EPS - Net income for computation	¥ 7,045	483,629	¥ 14.57	

17 SEGMENT INFORMATION

Under ASBJ Statement No. 17, "Accounting Standard for Segment Information Disclosures" and ASBJ Guidance No. 20, "Guidance on Accounting Standard for Segment Information Disclosures", an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decisionmaker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

1. Description of reportable segments

The Group's reportable segments are those for which separate financial information is available and regular evaluation by the Company's management is being performed in order to decide how resources are allocated among the Group. Therefore, the Group's reportable segments consist of its major operating companies, "AIFUL CORPORATION" and "LIFECARD CO., LTD.". AIFUL CORPORATION engages mainly in the loan business and the credit guarantee business. LIFECARD CO., LTD. engages mainly in the credit card business and the credit guarantee business.

2. Methods of measurement for the amounts of sales, profit (loss), assets, liabilities and other items for each reportable segment

The accounting policies of each reportable segment are consistent to those disclosed in Note 2, "Summary of Significant Accounting Policies".

3. Information about sales, profit (loss), assets, liabilities and other items is as follows.

Millions of Yen

	2017						
	Reportable Segment			Other ^{*1}	Total	Reconciliations	Consolidated
	AIFUL	LIFECARD	Total				
Operating revenue:							
Interest on loans	¥ 40,293	¥ 5,603	¥ 45,896	¥ 1,973	¥ 47,869		¥ 47,869
Revenue from credit card business	9	15,414	15,423		15,423		15,423
Revenue from credit guarantee	11,107	1,272	12,379	115	12,494		12,494
Recovery of loans previously charged off	5,415	255	5,670	8	5,678		5,678
Other operating revenue	1,506	6,147	7,653	2,333	9,986		9,986
Operating revenue from external customers	58,330	28,691	87,021	4,429	91,450		91,450
Intersegment operating revenue or transfers	10	189	199	56	255	¥ (255)	
Total	¥ 58,340	¥ 28,880	¥ 87,220	¥ 4,485	¥ 91,705	¥ (255)	¥ 91,450
Segment profit (loss)	¥ 4,824	¥ 3,032	¥ 7,856	¥ (53)	¥ 7,803	¥ (526) ^{*2}	¥ 7,277
Segment assets	439,841	188,889	628,730	30,722	659,452	(42,801) ^{*3}	616,651
Segment liabilities	355,921	148,064	503,985	12,146	516,131	(11,129) ^{*4}	505,002
Other:							
Reversal of membership deposits		322	322		322		322
Rent income of real estate	132		132		132	(77)	55
Dividend income	16	11	27		27		27
Reversal of allowance for doubtful accounts	2		2		2		2
Interest on advances to subsidiaries and other	239		239	93	332	(306)	26
Provision for credit card point redemption		3,300	3,300		3,300		3,300
Provision for doubtful accounts	16,724	3,669	20,393	352	20,745		20,745
Provision for accrued bonuses	563	15	578	20	598	298	895
Depreciation and amortization	1,264	1,071	2,335	4	2,339		2,339
Burden charge payment		61	61		61		61
Reversal of allowance for investment losses				3	3		3
Interest on advances from parent company and other				39	39	(39)	
Income taxes:							
Current	(726)	1,042	316	125	441		441
Deferred	(8)	(837)	(845)		(845)	526	(319)
Increase in property and equipment and intangible assets	1,157	1,202	2,359	18	2,377		2,377

*1 "Other" items are business segments excluded from reportable segments, which include BUSINEXT CORPORATION, AsTry Loan Services Corporation, and other.

*2 "Reconciliations" are eliminations of intersegment transactions.

*3 "Reconciliations" are eliminations of intersegment assets.

*4 "Reconciliations" are eliminations of intersegment liabilities.

Millions of Yen

	2016						
	Reportable Segment			Other ^{*1}	Total	Reconciliations	Consolidated
	AIFUL	LIFECARD	Total				
Operating revenue:							
Interest on loans	¥ 36,857	¥ 5,645	¥ 42,502	¥ 1,754	¥ 44,256		¥ 44,256
Revenue from credit card business	3	14,589	14,592		14,592		14,592
Revenue from credit guarantee	11,221	1,270	12,491		12,491		12,491
Recovery of loans previously charged off	5,789	217	6,006	15	6,021		6,021
Other operating revenue	1,240	6,253	7,493	2,855	10,348		10,348
Operating revenue from external customers	55,110	27,974	83,084	4,624	87,708		87,708
Intersegment operating revenue or transfers	10	374	384	77	461	¥ (461)	
Total	¥ 55,120	¥ 28,348	¥ 83,468	¥ 4,701	¥ 88,169	¥ (461)	¥ 87,708
Segment profit (loss)	¥ 5,281	¥ 1,859	¥ 7,140	¥ 657	¥ 7,797	¥ (752) ^{*2}	¥ 7,045
Segment assets	407,140	173,085	580,225	28,962	609,187	(41,673) ^{*3}	567,514
Segment liabilities	328,256	135,292	463,548	10,381	473,929	(10,665) ^{*4}	463,264
Other:							
Foreign exchange gain		19	19		19	(3)	16
Rent income of real estate	128		128		128	(76)	52
Dividend income	7	10	17	1	18		18
Reversal of allowance for doubtful accounts	10		10		10		10
Interest on advances to subsidiaries and other	918		918	135	1,053	(1,035)	18
Provision for credit card point redemption		3,221	3,221		3,221		3,221
Provision for doubtful accounts	14,171	1,939	16,110	40	16,150	(23)	16,127
Provision for losses on interest refunds		2,897	2,897		2,897		2,897
Provision for accrued bonuses	565	12	577	19	596	303	899
Depreciation and amortization	1,391	967	2,358	4	2,362		2,362
Interest on advances from parent company and other				40	40	(40)	
Income taxes:							
Current	(250)	356	106	74	180		180
Deferred	(19)	(1,075)	(1,094)		(1,094)	730	(364)
Increase in property and equipment and intangible assets	1,004	1,968	2,972	1	2,973		2,973

*1 "Other" items are business segments excluded from reportable segments, which include BUSINEXT CORPORATION, Astry Loan Services Corporation, and other.

*2 "Reconciliations" are eliminations of intersegment transactions.

*3 "Reconciliations" are eliminations of intersegment assets.

*4 "Reconciliations" are eliminations of intersegment liabilities.

Thousands of U.S. Dollars

	2017						
	Reportable Segment			Other ^{*1}	Total	Reconciliations	Consolidated
	AIFUL	LIFECARD	Total				
Operating revenue:							
Interest on loans	\$ 359,759	\$ 50,027	\$ 409,786	\$ 17,616	\$ 427,402		\$ 427,402
Revenue from credit card business	80	137,625	137,705		137,705		137,705
Revenue from credit guarantee	99,170	11,357	110,527	1,027	111,554		111,554
Recovery of loans previously charged off	48,348	2,277	50,625	71	50,696		50,696
Other operating revenue	13,447	54,884	68,331	20,830	89,161		89,161
Operating revenue from external customers	520,804	256,170	776,974	39,554	816,518		816,518
Intersegment operating revenue or transfers	89	1,688	1,777	500	2,277	\$ (2,277)	
Total	\$ 520,893	\$ 257,858	\$ 778,751	\$ 40,044	\$ 818,795	\$ (2,277)	\$ 816,518
Segment profit (loss)	\$ 43,071	\$ 27,071	\$ 70,142	\$ (473)	\$ 69,669	\$ (4,696) ^{*2}	\$ 64,973
Segment assets	3,927,152	1,686,509	5,613,661	274,304	5,887,965	(382,152) ^{*3}	5,505,813
Segment liabilities	3,177,866	1,322,000	4,499,866	108,446	4,608,312	(99,366) ^{*4}	4,508,946
Other:							
Reversal of membership deposits		2,875	2,875		2,875		2,875
Rent income of real estate	1,179		1,179		1,179	(688)	491
Dividend income	143	98	241		241		241
Reversal of allowance for doubtful accounts	18		18		18		18
Interest on advances to subsidiaries and other	2,134		2,134	830	2,964	(2,732)	232
Provision for credit card point redemption		29,464	29,464		29,464		29,464
Provision for doubtful accounts	149,321	32,759	182,080	3,143	185,223		185,223
Provision for accrued bonuses	5,027	134	5,161	178	5,339	2,652	7,991
Depreciation and amortization	11,286	9,563	20,849	35	20,884		20,884
Burden charge payment		545	545		545		545
Reversal of allowance for investment losses				27	27		27
Interest on advances from parent company and other				348	348	(348)	
Income taxes:							
Current	(6,482)	9,304	2,822	1,116	3,938		3,938
Deferred	(71)	(7,473)	(7,544)		(7,544)	4,696	(2,848)
Increase in property and equipment and intangible assets	10,330	10,732	21,062	160	21,222		21,222

*1 "Other" items are business segments excluded from reportable segments, which include BUSINEXT CORPORATION, AsTry Loan Services Corporation, and other.

*2 "Reconciliations" are eliminations of intersegment transactions.

*3 "Reconciliations" are eliminations of intersegment assets.

*4 "Reconciliations" are eliminations of intersegment liabilities.

Related Information

1. Information about products and services

	Millions of Yen				
	2017				
	Loan Business	Credit Card Business	Credit Guarantee Business	Other	Total
Operating revenue from external customers	¥ 52,672	¥ 15,950	¥ 12,788	¥ 10,040	¥ 91,450

	Millions of Yen				
	2016				
	Loan Business	Credit Card Business	Credit Guarantee Business	Other	Total
Operating revenue from external customers	¥ 49,341	¥ 15,203	¥ 12,830	¥ 10,334	¥ 87,708

	Thousands of U.S. Dollars				
	2017				
	Loan Business	Credit Card Business	Credit Guarantee Business	Other	Total
Operating revenue from external customers	\$ 470,286	\$ 142,411	\$ 114,179	\$ 89,642	\$ 816,518

2. Information about geographical areas

(1) Operating revenue

Information about geographic area is omitted, as the Group did not operate outside Japan for the years ended March 31, 2017 and 2016.

(2) Property and equipment

Information about geographic area is omitted, as no property and equipment were located outside Japan for the years ended March 31, 2017 and 2016.

3. Information about major customers

Information about major customers is omitted, as no single external customer accounted for more than 10% of operating revenue for the years ended March 31, 2017 and 2016.

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of AIFUL CORPORATION:

We have audited the accompanying consolidated balance sheet of AIFUL CORPORATION (the "Company") and its consolidated subsidiaries as of March 31, 2017, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its consolidated subsidiaries as of March 31, 2017, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu LLC

June 23, 2017

Member of
Deloitte Touche Tohmatsu Limited

Investor Information

(As of March 31, 2017)

Corporate Overview

Corporate Name	AIFUL CORPORATION
Address of Head Office	381-1, Takasago-cho, Gojo-Agaru, Karasuma-Dori, Shimogyo-ku, Kyoto 600-8420, Japan
Date of Establishment	April 1967
Paid-in Capital	¥143,454 million
Number of Employees	Non-consolidated: 1,019 Consolidated: 1,473

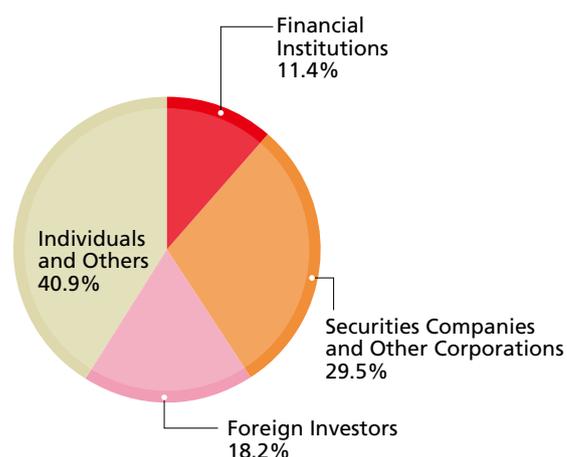
Stock Information

Stock Listing	The First Section of the Tokyo Stock Exchange
Securities Code	8515
Number of Shares	Authorized: 1,136,280,000 shares Issued and Outstanding: 484,619,136 shares
Number of Shareholders	35,914
Transfer Agent and Registrar	Sumitomo Mitsui Trust Bank, Limited
Independent Auditor	Deloitte Touche Tohmatsu LLC

Principal Shareholders

	Number of Shares (Thousands)	Percentage of Total Shares Outstanding
AMG Co., Ltd.	94,814	19.56
Mitsuhide Fukuda	62,155	12.83
Marutaka Co., Ltd.	24,543	5.06
GOLDMAN, SACHS & CO. REG	22,478	4.64
The Master Trust Bank Of Japan ,Ltd. (trust account)	13,594	2.81
Japan Trustee Services Bank, Ltd. (trust account)	11,171	2.31
CHASE MANHATTAN BANK GTS CLIENTS ACCOUNT ESCROW	7,004	1.45
Japan Trustee Services Bank, Ltd. (trust account 5)	6,076	1.25
DEUTSCHE BANK AG LONDON-PB NON- TREATY CLIENTS 613	5,010	1.03
BNY GCM CLIENT ACCOUNT JPRD AC ISG (FE-AC)	4,715	0.97

Composition of Shareholders



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