AIFUL Corporation
Annual Report 2000

Defining Plans to Maintain Our Momentum

Bolstering Its Growth through Successful M&A

Continuing to Achieve High Rates of Growth

Enhancing Competitiveness through Our Product Diversification Strategy

Continuing to Achieve High Rates of Growth

AIFUL Corporation Listed on the First Section of the Tokyo Stock Exchange

Profile

In fiscal 1999, ended March 31, 2000, AIFUL Corporation was listed on the first sections of the Tokyo and Osaka stock exchanges. AIFUL ranks fourth in Japan's consumer finance industry, with balance of loans outstanding of ¥1,001,080 million (US$9,444 million) at March 31, 2000.

AIFUL was originally established as a small business in 1967. In 1982, that company merged with three affiliates to form AIFUL. Throughout its history, AIFUL has sought community support by enhancing the image of the consumer finance industry.

Today, AIFUL serves two million customers through 1,311 branches and 16,631 allied cash dispensers and automated teller machines.

Financial Highlights

AIFUL Corporation
Years ended March 31

	Millions of Yen		% Change	Thousands of U.S. Dollars
	2000	1999	2000/99	2000
For the Year:				
Total income	¥239,200	¥205,536	16.4	$2,256,604
Total expenses	154,490	140,777	9.7	1,457,453
Income before income taxes	84,710	64,759	30.8	799,151
Net income	44,104	28,448	55.0	416,075
At Year-End:				
Balance of loans outstanding	1,001,080	837,982	19.5	9,444,151
Total assets	1,182,468	996,524	18.7	11,155,358
Long-term debt, including current portion thereof	863,469	704,275	22.6	8,145,934
Total shareholders' equity	252,903	203,749	24.1	2,385,877
Number of shares outstanding	56,103,000	46,752,500	20.0	
Per Share Data:	Yen		% Change	U.S. Dollars
Net income	¥ 786.13	¥ 610.63	28.7	$ 7.42
Cash dividends	60	60	0.0	0.57

Notes: 1. The U.S. Dollar amounts have been translated for convenience only at ¥106=$1, the rate of exchange at March 31, 2000.
2. Net income per share has been computed based on the weighted average number of shares outstanding during each period, after retroactive adjustment for stock splits.

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Cautionary Remark Regarding Forward-Looking Statements

Statements made in this document with respect to AIFUL's plans, strategies and beliefs and other statements that are not historical facts are forward-looking statements based on the assumptions and beliefs of the Company's management in light of the information currently available to it and involve risks and uncertainties which may affect the Company's future performance. Potential risks and uncertainties in AIFUL's areas of business include, without limitation, social conditions, economic conditions and financial conditions.

Noteworthy Events

1999 **5**

Non-Bank Bond Law is implemented (May 20)
Deregulation enabled AIFUL to lend funds procured directly from capital markets.

Loan-screening operations obtain ISO 9001 certification (May 25)

1999 **7**

AIFUL's acquisition of Nippon Benefit Co., Ltd., is announced (July 22)
In line with its mergers and acquisitions strategy, AIFUL sought to expand its operations by acquiring the operations and assets of Nippon Benefit, a medium-sized finance company primarily active in the Kanto region.

1999 **8**

Centralised loan processing centers installed (September 1)
AIFUL installed 16 centralised loan processing centers, to replace automatic loan application machines at local branches.

1999 **10**

Sales of shares announced (October 1)
In advance of AIFUL's listing on the first section of the Tokyo Stock Exchange (TSE) and the Osaka Securities Exchange (OSE), president Fukuda and relatives sold two million of their existing shares in AIFUL to investors worldwide.

1999 **12**

Revised ACMI Law is passed (December 13)
In response to the *Shoko* (commercial and industrial) loan problem, the Diet passed a revised ACMI Law that included a lowering of maximum interest rates to 29.2%, from 40.004%. This law will be implemented on June, 1, 2000.

2000 **3**

AIFUL lists on the first section of the TSE and OSE (March 1)
AIFUL's listing on the first sections of the TSE and OSE enhanced public awareness of AIFUL's services and recognition of its name.

Message from the President

AIFUL will draw on its listings on the first sections of the Tokyo Stock Exchange (TSE) and Osaka Securities Exchange (OSE) on March 1, 2000, and continue developing an array of products that match diverse consumer needs. At the same time, we will make AIFUL a better company by operating more efficiently and bolstering services.

Operating Environment

In fiscal 1999, ended March 31, 2000, the Bank of Japan maintained its zero interest rate policy, while the Japanese government implemented several economic-stimulus packages. These measures helped halt Japan's economic slide but failed to encourage consumer spending, as unemployment continued to rise amid corporate restructuring.

Nonetheless, there were some bright spots in the consumer finance industry. For example, the increase in bad loans began to level off and aggregated transaction volume rose for the top four consumer finance companies.

At the same time, new legislation transformed the consumer finance industry, including the implemention of the Non-Bank Bond Law and the revision of the Acceptance of Capital, Money Deposits and Interest (ACMI) Law to lower maximum interest rates. Such changes are increasing the industry's oligopolization by encouraging acquisitions of small and mid-tier players as well as mergers and alliances between consumer finance firms or with banks and companies outside the financial sector.

Responding to Change

AIFUL responded to these developments by expanding in line with the management's mission to win community support for its business. During the term, we tackled the management issues highlighted in last year's annual report. These included reinforcing product development, increasing market share and pursuing management efficiency. These issues are key elements of our seventh Medium-Term Management Plan for April 1999 through March 2002.

In terms of reinforcing product development, we have expanded loan balances by 20%—the highest growth in our industry—by pursuing a diversification strategy that augments core unsecured loans with secured and small business loans.

During the term, we expanded our market share by opening another 302 branches, bringing the total network to 1,311. Customers now enjoy access to our services through 16,631 cash dispensers and automated teller machines. In addition, we enhanced our "Reliable Creative Company" brand image in the second half of the year through a new television commercial campaign. Also during the term, we made several key acquisitions. In August 1999, we bought Nippon Benefit Co., Ltd., a midranked consumer finance company. In March 2000, we took over Happy Credit Corporation and Sky Corporation. One month later, we purchased Shinwa Corporation. We will continue to emphasize acquisitions as a vehicle for building scale, quickly and cheaply.

We bolstered efficiency during the year by pursuing a scrap-and-build policy, centralizing the operation of lending machines and forming alliances to secure more customers. In addition, we diversified funding to cut costs and otherwise constrained the costs normally incurred during growth periods.

Finally, we are starting to take advantage of the Internet and the credit card system to enhance our cashing services, at the same time eliminating the stigmas related to consumer finance companies and dispelling the aversion people may have to them.

Performance

In the year under review, we significantly improved our operating performance. We increased the number of new accounts of unsecured loans 4.6%, to 425,142 thus reversing a decline that began in fiscal 1996, while the percentage of bad loans remained stable. At year-end, loans outstanding were up 19.5% from the close of fiscal 1998, to ¥1,001,080 million. Unsecured loan volume rose 17.2%, to ¥809,362 million. Secured loans soared 31.7%, to ¥181,429 million. Guaranteed loans, those loans to self-employed individuals and small businesses, rose 8.1%, to ¥10,289 million.

As a result of these factors, total income advanced 16.4%, to ¥239,200 million. Net income rocketed 55.0%, to ¥44,104 million.

Looking Ahead

AIFUL expects a slowdown in the growth of the unsecured loan market in 2005 or 2006. The regulatory changes created by new legislation will lead to greater domination by a handful of consumer finance firms that will compete more intensely for customers, not just between themselves but against other industry entrants.

AIFUL will nonetheless strive to become the industry leader in lendings and profits, as well as customer growth. We will aggressively enhance operations and broaden our customer base through two key strategies. First, we will continue to promote our conventional strategy of product diversification. We are also adding several strategies: mergers and acquisitions (M&A), business alliances, the Internet, and credit cards. We believe these endeavors will further support our efforts in reaching new customers.

Y Fukuda

Yoshitaka Fukuda
President
June 29, 2000

A Management Strategy th

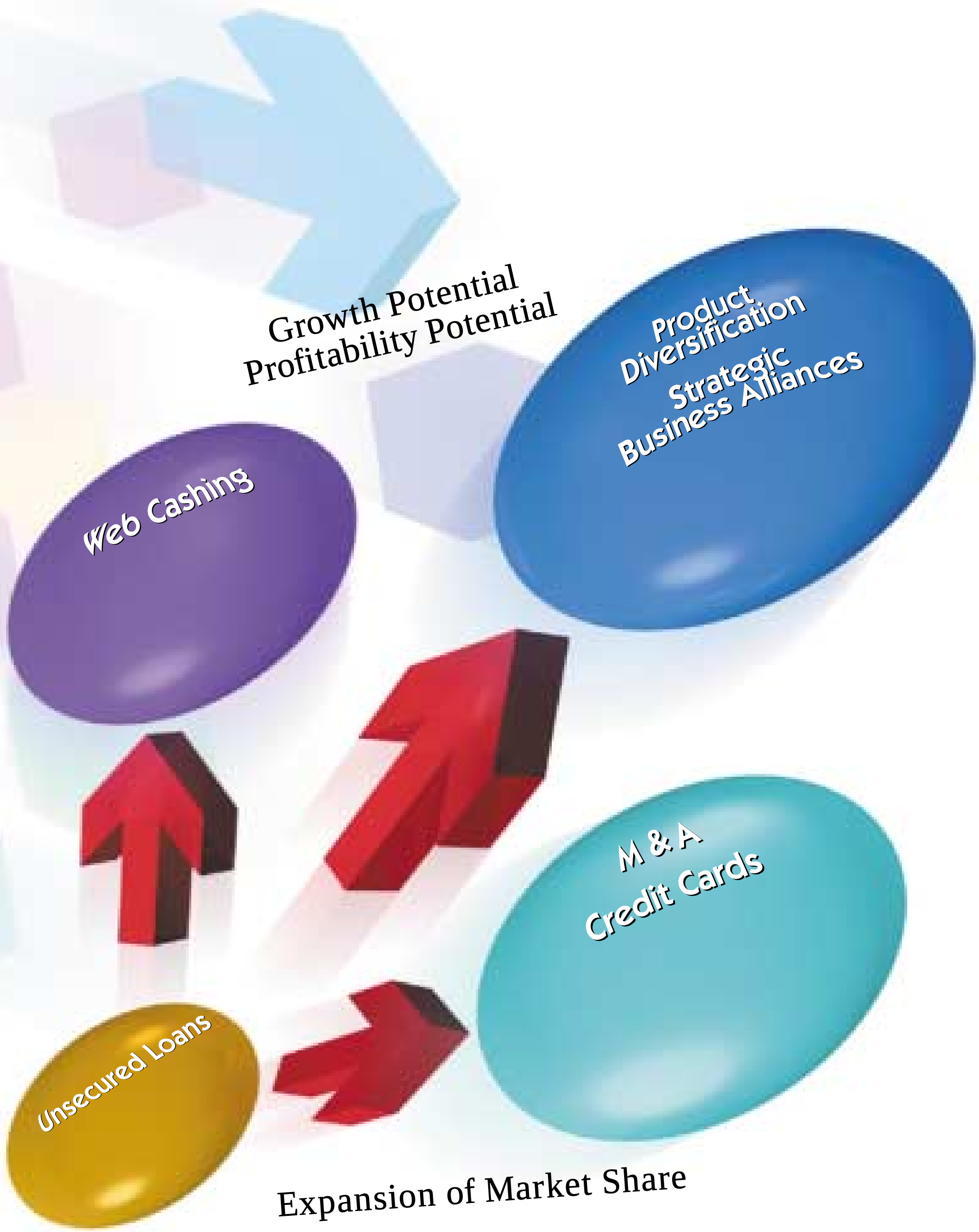
The Growth Leader among Japan's Top Consumer Finance Companies

In terms of loans outstanding, the consumer finance market was worth ¥7.1 trillion at the end of 1998, compared with just ¥2.0 trillion a decade earlier. During that time, the top five consumer finance firms increasingly oligopolized the market, with their aggregate share expanding from 45.3%, to 62.2%.

AIFUL has grown the fastest among the market leaders. Our market share was just 2.8% in 1988, reached 10.8% in 1998, and is now about 12%.

In this special feature, we outline the three basic strategies that have supported our unmatched expansion to date, as well as the several new strategies that currently guide our operations.

at Delivers Consistently High Growth



Basic Strategy 1:
Profiting from Unsecured Loan Market Forecasts

Innovative Projections

AIFUL's prime management strategy as it has grown has been to formulate and draw on unsecured loan market forecasts.

We base these projections on demographics, usage frequencies and average loan amounts for each of the age groups in the target market of the working population between 20 and 60 years of age. To date, these forecasts have been almost totally accurate, allowing AIFUL to aggressively expand loans.

In April 1999, AIFUL was first in Japan's consumer finance industry to issue a market forecast (as described in last year's annual report). We projected 6% or 7% annual growth in unsecured loans nationwide until they peak at ¥11 trillion between 2005 and 2007 and then gradually mature.

All AIFUL's new strategies draw on the Company's market forecasts. These initiatives, which we will detail later, include product diversification, mergers and acquisitions and alliances.

Basic Strategy 2:
Credit Management

Ranking a Massive Customer Database

AIFUL has boosted loan balances by an average of more than 20% annually over the past five years. Our scoring system has greatly assisted such progress.

Our scoring system ranks individuals as rating agencies would evaluate companies. We maintain data on around three million people who have borrowed from AIFUL. Our system uses advanced analytical techniques to project delinquency rates in line with a set of customer attributes.

The system ranks each loan applicant between 0 and 13—with zero indicating maximum risk and a rejection. Based on the ratings, we lend successful applicants between ¥50,000 and ¥2 million at rates between 21.5% and 28.835%.

Our scoring system covers both new and existing customers. Another important capability of this system is that it automatically screens borrowers every three months for the number and sizes of loans obtained from other consumer finance companies. We reflect any anomalies in our rankings by, for example, changing lending limits.

In endeavoring to serve all its customers well, AIFUL is fully aware such efforts can lead to higher delinquency rates. Our scoring system helps us tackle this issue at its roots by allowing us to lend small amounts to high-risk customers at high interest rates while lending large amounts to low-risk clientele at lower rates. We can thus balance our loans portfolio to optimize risks and returns.

Our scoring system dates to 1985. We have since revised it every two or three years to reflect data trends. We launched our sixth-generation version in December 1998. Simulation under the new scoring system shows that we can raise lending volumes by 5% and cut credit losses by 4%.

The scoring system is not designed to completely eliminate such losses. Rather, it aims to ensure that AIFUL can maintain high growth by lending to as many people as possible while keeping delinquencies within defined constraints.

Basic Strategy 3:
Product Diversification

AIFUL's product diversification strategy has fueled its fast expansion over the years. Such diversification concentrates on three core lines. These are unsecured loans (as of March 31, 2000, the balance was ¥809.4 billion), secured (home equity) loans (¥181.4 billion), and guaranteed (small business) loans (¥10.3 billion).

Our strategy draws on three priorities. The first is to deliver consistently high long-term growth. Based on our unsecured loan market forecast, we expect this market to gradually mature between 2005 and 2007. This information has prompted us to employ secured and small business loans to maintain our overall expansion.

Our second priority is to attract a broad range of customers by serving people who need larger loans, as our current limit for unsecured loans is ¥2 million. We can increase lending limits significantly by offering secured loans.

Our third priority is to spread portfolio risk and minimize overall risks by providing a broad lineup of unsecured, secured and small business loans.

Seventh Medium-Term Management Plan

(Billions of Yen)	March 1999	March 2000	March 2002 (Growth rate compared to March 1999)
Loans Outstanding:	¥838.0	**¥1,001.1 (+19.5%)**	**¥1,300 (+55%)**
Unsecured Loans	¥690.7	¥ 809.4 (+17.2%)	**¥ 990 (+43%)**
Secured Loans	¥137.8	¥ 181.4 (+31.7%)	**¥ 300 (+118%)**
Small Business Loans	¥ 9.5	¥ 10.3 (+8.1%)	**¥ 20 (+111%)**
Branches	1,009	1,311 (+29.9%)	**1,500 (+49%)**
Ordinary Income	¥ 68.8	¥ 85.0 (+23.5%)	**¥ 100.0 (+45%)**
Market Share	10%	12%	**14%**
Operating Efficiency *	13.20%	12.54%	**12.00%**

* SG&A ÷ Loans Outstanding

Superior Product Development

The products behind our diversification strategy reflect careful market analysis. We consistently beat our rivals in developing and commercializing products based on new concepts. A good example is the second mortgage option in our secured loans.

Product development is the key to progress in all industries. We will continue to focus on all three product categories—unsecured, secured and small business loans—to bring out innovative products.

The Three Product Areas Central to AIFUL's Diversification Strategy

Unsecured Loans

Four concepts underlie our mainstay unsecured loans. These loans are unsecured and nonguaranteed, and feature low balances—¥10,000 to ¥2 million (up to ¥0.5 million without an individual income statement). We typically process applications within 30 minutes. We lend through around 1,300 branches nationwide. At March 31, 2000, unsecured loans outstanding stood at ¥809.4 billion. The average balance for 1.9 million customer accounts was ¥422,199.

Secured Loans

Strong Growth

In this category, we finance individuals who offer land or buildings as collateral. At the close of the year under review, 49,968 customers held secured loan accounts. Secured loans outstanding were an average ¥3.6 million per account, for a total of ¥181.4 billion. The latter figure was 31.7% higher than a year earlier, yet the credit losses remained less than 1%. Such progress reflects AIFUL's superior, innovative product range.

Proprietary Expertise

AIFUL's 534 staffed branches and four that specialize in secured loans draw on the Company's expertise and uniform systems and operating manuals. Most rivals do not offer secured loans, so we can pursue above average growth by tailoring our products to customer needs.

Careful Risk Management

We excel in risk management for several crucial reasons. The average balance of secured loans is around ¥3.6 million per person. Borrowers are dispersed evenly around Japan, without concentrations in metropolitan areas. As a result, we have restricted the default rate on these loans to just 0.74% despite falling real estate prices. In addition, we maintain a very prudent portfolio—34% of secured loans are against 40% or less of collateral value, 44% against between 40% and 70% of this value, and 22% against between 70% and 100%. Interest rates on these loans range between 9.2% and 24.5%, depending on the risk. The average rate is 17.2%. We verify property values through alliances with more than 200 realtors and real estate appraisers nationwide. Such partners allow us to gather current information swiftly and maintain a unique, high-growth product range.

Small Business Loans

A Relatively New Business Area

We started to offer small business loans nationwide through our staffed branches in October 1997. At March 31, 2000, we had 8,084 small business loan accounts totaling ¥10.3 billion.

Small business loans range from ¥10,000 to ¥2 million. Interest rates are a uniform 28.835%. These loans require at least one guarantor but are free of blanket guarantees, called *ne-hosho*, and loan fees; borrowers should also be business owners, not companies.

Small Business Loan Market

Japan has around 6.5 million small businesses, but the low volume of loans extended to these enterprises suggests that lenders have been unable to cultivate new opportunities.

We apply the risk management expertise we have accumulated in unsecured loans, which is helping us swiftly raise our presence in small business loans.

We have tightened our credit requirements because Japan's recession has hit many proprietors hard. In the years ahead, we will make small business loans an important operation by developing next-generation offerings, further cultivating our expertise and making our credit requirements even more precise.

In addition to its existing strategies in the period under review, AIFUL introduced several new management strategies.

New Management Strategy 1:

Taking Advantage of Economies of Scale

Mergers and Acquisitions

Foreign acquisitions of Japanese consumer finance firms have picked up in recent years. In 1998, for example, America's GE Capital Group acquired Lake Co., Ltd., and Koei Credit Co., Ltd. In the same year, another American player, Associates First Capital Corporation, bought DIC Finance Co., Ltd.

AIFUL has also become a buyer. We were the first big player in the local industry to launch an M&A strategy. In August 1999, we took over Nippon Benefit Co., Ltd., whose loans outstanding were ¥8.2 billion.

Since then, we have made several further purchases. In March 2000, we announced the acquisition of ¥16.9 billion in loan assets from Happy Credit Corporation and ¥5.5 billion in loan assets from Sky Corporation. Both firms were mid-ranked Kansai region affiliates of the defunct Kofuku Bank, Ltd., and were placed under the control of the Financial Reconstruction Commission. In April 2000, we announced the acquisition of Shinwa Corporation, a company with ¥13.9 billion in loan assets, and which is based in the Chubu region. Happy Credit and Shinwa both became wholly owned AIFUL subsidiaries in June 2000.

Three factors underlie our emphasis on M&A.

First, economies of scale work in the consumer finance business. Advertising and other costs, such as labor and computer systems, remain generally stable as operations expand. Stability translates into greater cost-efficiency. We still rank fourth in the industry, so we have yet to match our larger rivals in taking advantage of economies of scale and improving our profitability.

Second, we have merged with or acquired more than 10 companies to date in our drive to become a leading player. This experience has given us skills in assessing the credit standing of the companies we buy and in subsequently managing credit. The initial challenge in M&As is obviously to decide what to pay. We can accurately calculate acquisition prices based on in-house standards like cannibalization ratios, average loan sizes, nonperforming loans and customer borrowing transactions volume with other companies. We also consider valuations based on the discount cash flow-based return on investment.

The third factor is a changing operating environment. In fiscal 1999, two major legal revisions transformed our industry. These were the Non-Bank Bond Law of May 1999, and the revised ACMI Law of December 1999 (implemented in calendar 2000). The Non-Bank Bond Law allows major corporations to go directly to the capital markets by issuing corporate bonds for operating loans. The new law does not benefit small and medium-sized consumer loan companies that cannot issue corporate bonds. The revised ACMI Law does not affect corporations lending at interest rates below 29.2%, but forces smaller players to reduce their rates. The gap between the top and low ends of the industry is widening. As this process continues and the market matures, some small and medium-sized players will probably seek to sell out.

New Management Strategy 2:
Broadening AIFUL's Customer Base

Business Alliances

Alliances are crucial to accelerating growth.

In 1995, our introduction of automated lending machines led to a surge in new borrowers. Convenience obviously contributed to this rise. More significantly, we were able to break through a psychological barrier: namely that the Japanese people have been traditionally reluctant to seek consumer loans, considering it something shameful. These people prefer to avoid asking in person for a loan.

We believe that alliances with companies in other fields will have the same impact as the lending machines in that we can leverage their customer bases and further encourage people to use our services by issuing tieup cards.

Tieups can also improve our operating efficiency and lower selling costs. For instance, we can open new branches with partners or deploy joint advertising campaigns.

Our first such tieup started in December 1999, when we issued the Club Hit Card for customers of Hikari Tsushin, Inc. This alliance simply covers the issue of loan cards and does not involve capital tieup. Through this tieup, AIFUL has been able to secure customers who have never before used consumer finance.

In April 2000, we established the Business Development Department to cultivate new alliances and M&A strategies.

Guarantee Business

E-commerce is booming in Japan, and while it can broaden marketing and customer base horizons, it also poses new challenges, particularly creditworthiness.

E-commerce lets individuals, small and medium-sized enterprises, and major corporations operate in the same ring. They all need to assess the credibility of customers or partners accurately and quickly. As a consumer finance operation, AIFUL is especially skilled in both respects.

In contrast, regular companies or emerging dot-coms do not have credit analysis expertise and related administrative systems. They could lose precious business opportunities if they cannot determine whether or when a partner or customer will pay them.

To serve such companies, AIFUL started an administrative and guarantee business from February 2000. We assess the ability of partners, such as Internet businesses and travel agents, to settle their bills. We then guarantee payments in exchange for guarantee fees from those partners. We issue invoices to customer businesses and receive fees based on those amounts for partners. This operation lets partners cultivate customers without worrying about paperwork or the customers' ability to pay. We gain fee income by drawing on our existing resources—we do not need to make additional investments. We will promote this operation heavily in the years ahead.

Cash over the Web

In April 2000, AIFUL started its e-cashing service. We were among the first in our field to set up a Web site, at the end of 1996. Since then, we have provided customers with information on loan eligibility. Our e-cashing service now lets people apply for and receive a loan without setting foot in a branch. Japan has yet to implement a law on verification in e-commerce, so we post loan agreements. We will handle this task on the Internet once a new law is promulgated.

Review of Operations

Loan Business

In fiscal 2000, AIFUL's total loans outstanding jumped 19.5%, to ¥1,001.1 billion. Interest on loans to customers expanded 16.9%, to ¥229.7 billion. At year-end, the number of customer accounts was up 8.4%, to 1,975,068.

Unsecured Loans

Unsecured loans outstanding increased 17.2% from the end of the previous term, to ¥809.4 billion, or 80.9% of total loans outstanding. Interest on unsecured loans rose 13.9%, to ¥199.2 billion, constituting 83.5% of total income. The number of unsecured loan accounts at the end of fiscal 2000 was 1,917,016 million, a 7.9% gain.

Secured Loans

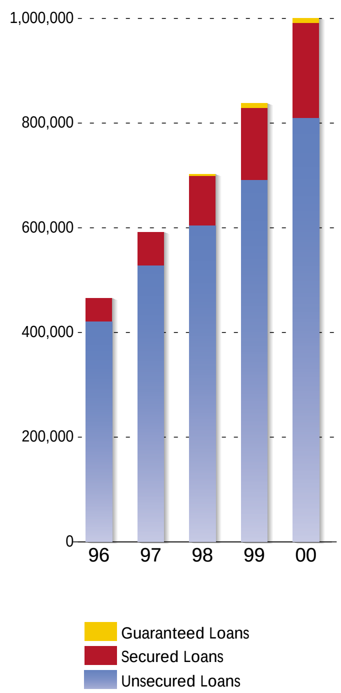
Secured loans are home equity loans collateralized with real estate. At year-end, secured loans outstanding were ¥181.4 billion, up 31.7%, or 18.1% of total loans outstanding. Consequently, interest received on secured loans soared 38.8%, to ¥27.5 billion, and represented 11.5% of total income. The write-off ratio was just 0.74%—a level that has remained low since Japan's bubble economy burst—underscoring the high growth and stability of such instruments. We will continue to exploit our unmatched expertise and performance to achieve even better results in the years ahead.

Guaranteed Loans (Small Business Loans)

This is our third major product category. At the end of fiscal 2000, small business loans outstanding increased 8.1%, to ¥10.3 billion, or 1.0% of total loans outstanding. Interest from this source surged 62.4%, to ¥3.0 billion, or 1.3% of total income.

We continued to focus on research and product development during the term for this highly promising market.

Total Balance of Loans Outstanding
(Millions of Yen)



Other Activities

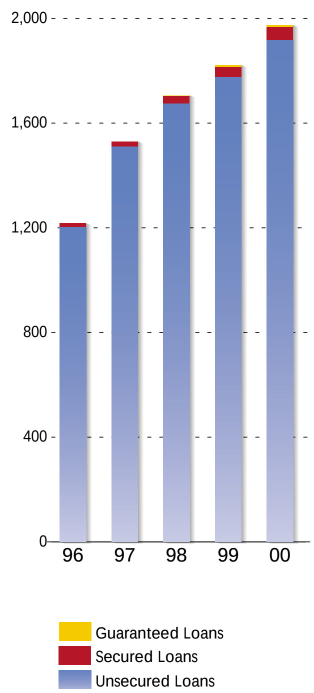
We will continue to center our operations around consumer finance in the years ahead. At the same time, we will diversify to prepare for slower growth in this market.

As part of this drive, we concluded our first backup servicer contract in 1999. Backup servicers manage and seek to recover alternative debt if an originator becomes bankrupt. We expect this business to expand dramatically in line with the growing popularity of debt securitization. We will aggressively increase our involvement in this market, drawing on our debt management and recovery expertise from consumer finance.

In the service sector, we operate the Alisan chain of Taiwanese restaurants. In addition, we are involved in the amusement industry through our Mogura no Uta karaoke parlors in Kyoto. We also offer real estate services.

In fiscal 2000, total income from these other activities improved 3.6%, to ¥8.6 billion, representing 3.6% of total income.

Number of Customer Accounts
(Thousands)



Corporate Citizenship

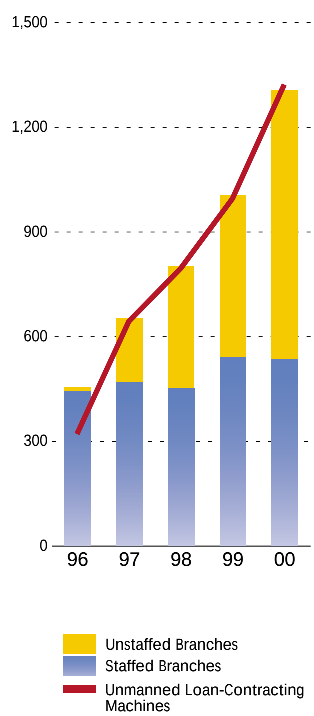
AIFUL supports various sporting events and community activities in Japan to contribute to society and enhance its corporate image.

In July 1999, we hosted the four-day AIFUL Cup JGTO (Japan Golf Tour Organization) Golf Tournament 1999 at the Ajigasawa Country Club in Aomori Prefecture. This was the 16th stop on the JGTO tour of Japan. We used this tournament to cement ties with the community by involving prefectural athletics organizations in its overall management.

Also during the term, we sponsored the Ninth Fukuchiyama Marathon. Entries were open to the general public. This marathon in Fukuchiyama, Kyoto Prefecture, attracted 10,000 participants, making it one of Japan's largest such competitions. Over the years, many runners have attracted strong followings from enthusiastic crowds.

AIFUL will continue to promote sports and other events in the years ahead in keeping with its desire to maintain close contact with regional communities.

Number of Branches



Financial Section

Contents

Management's Discussion and Analysis

Results of Operations

Income

In fiscal 2000, ended March 31, 2000, AIFUL boosted total income 16.4%, to ¥239.2 billion (US$2,257 million), a rise stemming from a 16.9% increase in interest on loans, to ¥229.7 billion (US$2,167 million). The Company recorded strong gains in all three primary lending categories. Unsecured loans outstanding represented 80.8% of total loans outstanding, down from 82.4%, but still advanced 17.2%, to ¥809.4 billion (US$7,635 million). Secured loans outstanding surged 31.7%, to ¥181.4 billion (US$1,712 million), and represented 18.1% of total loans outstanding, up 1.7 percentage points.

Guaranteed loans outstanding advanced 8.1%, to ¥10.3 billion (US$97 million), representing 1.0% of total loans outstanding, from 1.1% in the preceding fiscal year.

Interest on deposits, securities and other fell 12.5%, to ¥0.5 billion (US$5 million). Sales of property for sale gained 5.4%, to ¥1.1 billion (US$10 million). Other income climbed 6.9%, to ¥7.9 billion (US$75 million).

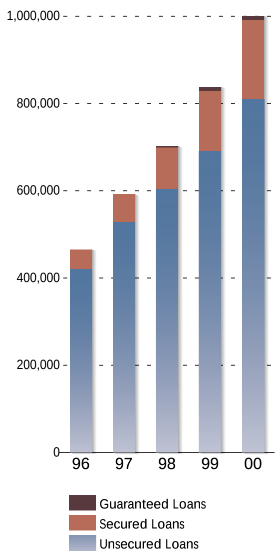
Income before income taxes soared 30.8%, to ¥84.7 billion (US$799 million). Income taxes increased 11.8%, to ¥40.6 billion (US$383 million), including adjustment on corporation tax, etc. As a result of these factors, net income rocketed 55.0%, to ¥44.1 billion (US$416 million). Net income per common share was ¥786.13 (US$7.42), from ¥610.63 in fiscal 1999.

Expenses

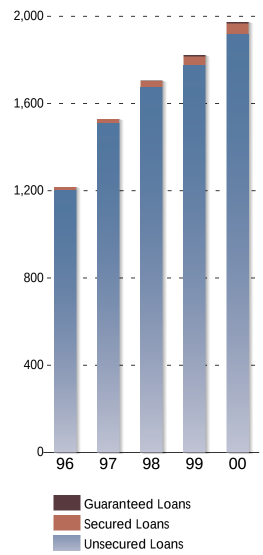
Total expenses rose 9.7%, to ¥154.5 billion (US$1,457 million). This was mainly because of an 18.7% increase in charge-offs and provisions for doubtful loans, advances to subsidiary and claims in bankruptcy, to ¥40.3 billion (US$380 million). The ratio of total expenses to total income fell from 68.5%, to 64.6%. Charge-offs and provisions for doubtful loans, advances to subsidiary and claims in bankruptcy increased to cover individual bankruptcies amid the domestic recession.

Interest on borrowings was up 15.0%, to ¥24.3 billion (US$229 million). The ratio of interest on borrowings to total income decreased from 10.3%, to 10.1%. Salaries and other employee benefits rose 12.8%, to ¥25.0 billion (US$236 million), in keeping with AIFUL's ongoing expansion. Other expenses increased 1.8%, to ¥27.8 billion (US$263 million).

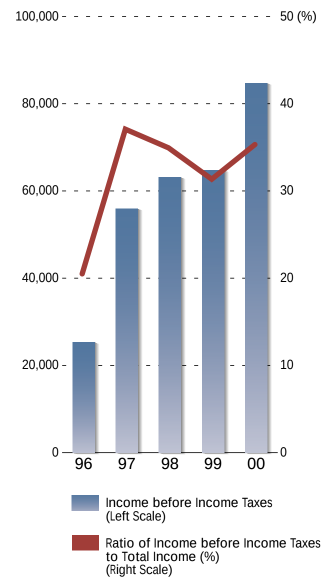
Total Balance of Loans Outstanding
(Millions of Yen)



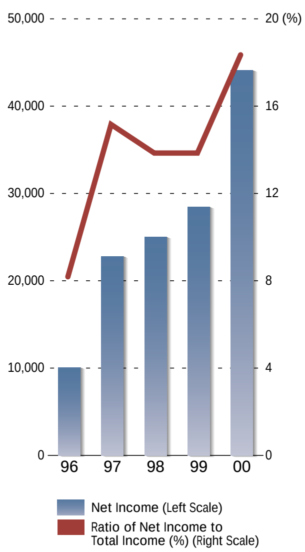
Number of Customer Accounts
(Thousands)



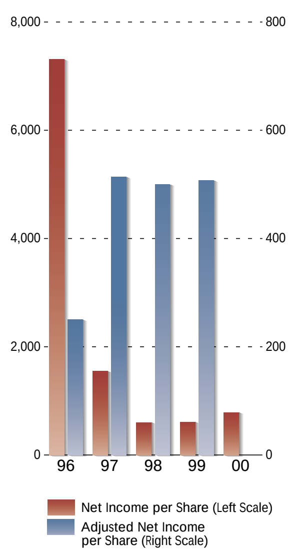
Income before Income Taxes
(Millions of Yen)



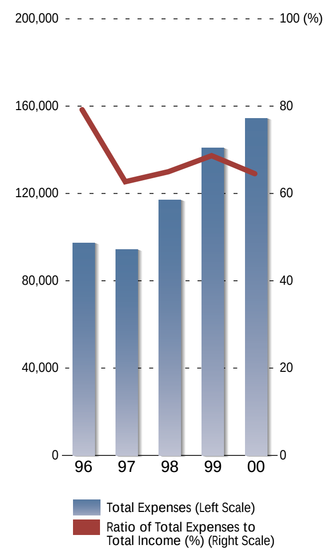
Net Income
(Millions of Yen)



Net Income per Share
(Yen)



Total Expenses
(Millions of Yen)



Management's Discussion and Analysis

Financial Position

Assets

At the close of fiscal 2000, total current assets were up 19.5% from a year earlier, at ¥1,072.4 billion (US$10,117 million). This was due primarily to a 19.5% rise in outstanding loans, to ¥163.1 billion (US$1,539 million).

Net property, plant and equipment was up 1.1%, to ¥67.5 billion (US$636 million). Consequently, total assets at the close of the term were up 18.7%, to ¥1,182.5 billion (US$11,155 million).

Liabilities

Total current liabilities rose 2.7%, to ¥355.0 billion (US$3,349 million). This was mainly because of a 12.2% increase in the current portion of long-term debt, to ¥290.3 billion (US$2,739 million), which offset a halving in short-term borrowings, to ¥28.7 billion (US$271 million). Total long-term liabilities increased 28.5%, to ¥574.6 billion (US$5,420 million). This rise was mainly due to a 28.6% increase in long-term debt, to ¥573.2 billion (US$5,407 million).

AIFUL endeavors to diversify funding to stabilize operations. As part of this drive, we issued ¥89 billion (US$840 million) in straight bonds during fiscal 2000.

Our main source of funds is long-term debt from financial institutions. Long-term debt, including the current portion, represents 96.8% of total borrowings, including commercial paper. Of this total, 71.5% is covered by fixed interest rates through the use of fixed-rate loans and caps and swaps. These vehicles have helped us hedge effectively against interest rate risk.

Shareholders' Equity

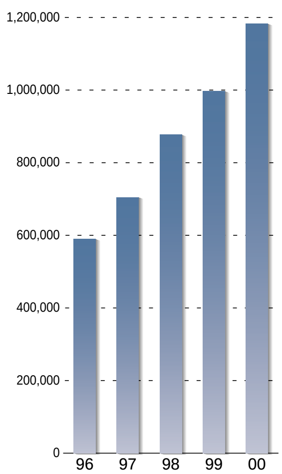
Total shareholders' equity was up 24.1%, or ¥49.2 billion (US$464 million), at year-end, to ¥252.9 billion (US$2,386 million). During the term, we made a secondary offering of two million shares to prepare for our listing on the Tokyo Stock Exchange in October 1999 by improving equity liquidity and reinforcing our financial position. Higher retained earnings, however, drove the gain in shareholders' equity.

The greater resulting operating stability translated into a 1.0 percentage point rise in the equity ratio, to ¥21.4%. Return on equity rose 3.0 percentage points, to 19.3%, while return on assets was up 1.0 percentage point, to 4.0%.

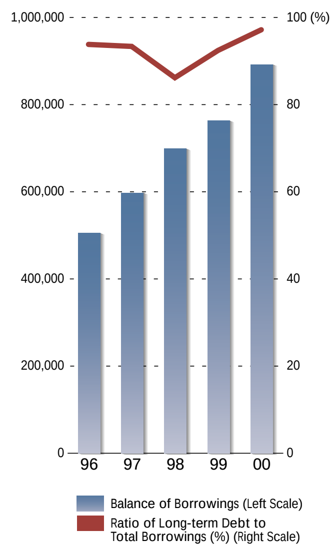
Efficiency

During the year, AIFUL continued to systematize marketing and administration to bolster productivity and constrain costs. In line with this effort, we established centers at 16 locations nationwide to monitor unstaffed branches and consolidated our operations at such branches. These endeavors helped us reduce the ratio of costs, excluding financial expenses, to loans outstanding, by 0.7 percentage point, to 12.5%. Total income per employee climbed 12.1%, to ¥73.3 million (US$0.7 million). Net income per employee was up 49.2%, to ¥13.5 million (US$0.1 million). Loans outstanding per employee totaled ¥306.8 million (US$2.9 million), up 15.0%.

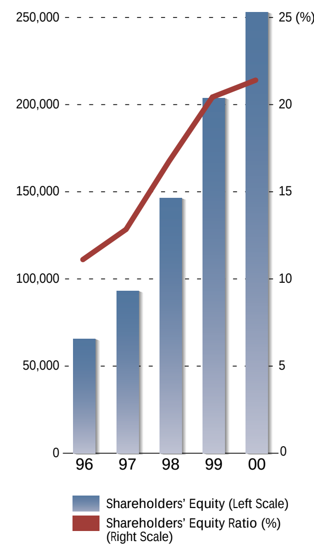
Total Assets
(Millions of Yen)



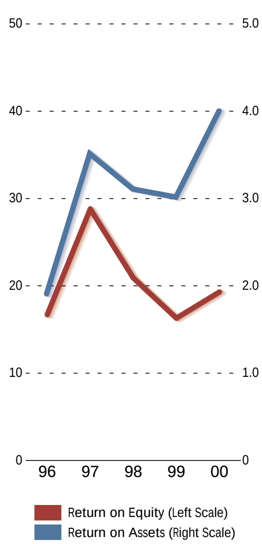
Balance of Borrowings
(Millions of Yen)



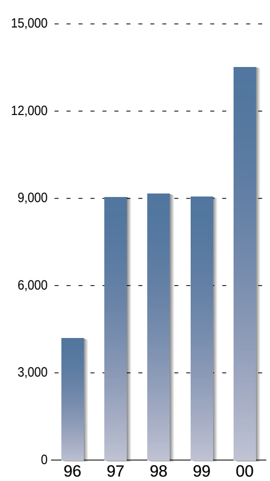
Total Shareholders' Equity
(Millions of Yen)



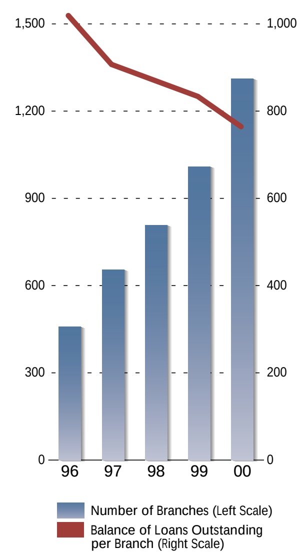
ROE/ROA
(%)



Net Income per Employee
(Thousands of Yen)



Number of Branches/ Balance of Loans Outstanding per Branch
(Millions of Yen)



Non-Consolidated Six-Year Summary

AIFUL Corporation
Years ended March 31

	Millions of Yen		
	2000	1999	1998
Result for the Fiscal Year:			
Total income	¥ 239,200	¥205,536	¥180,181
Total expenses	154,490	140,777	117,080
Income before income taxes	84,710	64,759	63,101
Income taxes	42,399	36,311	38,097
Adjustment on corporation tax, etc.	1,793	–	–
Net income	44,104	28,448	25,004
At Year-End:			
Balance of loans outstanding	¥1,001,080	¥837,982	¥702,446
Total assets	1,182,468	996,524	876,727
Short-term borrowings	28,700	58,900	98,000
Long-term debt, including current portion thereof	863,469	704,275	600,505
Total shareholders' equity	252,903	203,749	146,255
Per Share Data (Yen):			
Net income	¥ 786	¥ 611	¥ 602
Adjusted for stock splits	–	509	502
Shareholders' equity	4,508	4,358	3,421
Adjusted for stock splits	–	3,632	2,851
Cash dividends	60	60	60
Adjusted for stock splits	–	50	50
Other Data:			
Number of shares outstanding at year-end	56,103,000	46,752,500	42,752,500
Number of customer accounts at year-end	1,975,068	1,822,261	1,706,030
Number of branches at year-end	1,311	1,009	807
Number of employees at year-end	3,263	3,141	2,731

Millions of Yen		
1997	1996	1995
¥150,176	¥122,695	¥ 94,024
94,276	97,411	75,794
55,900	25,284	18,230
33,095	15,197	10,218
–	–	–
22,805	10,087	8,012
¥591,630	¥465,656	¥348,209
724,314	589,539	472,791
39,548	31,758	38,200
557,963	473,621	365,449
93,055	65,447	55,524
¥ 1,548	¥ 7,308	¥ 6,472
516	244	216
5,957	47,414	40,226
1,986	1,580	1,341
10	100	100
3	3	3
15,621,000	1,380,300	1,380,300
1,530,094	1,217,649	940,924
654	458	360
2,521	2,411	1,951

Notes

1. Net income per share has been computed based on the weighted average number of shares outstanding during each period and shareholders' equity per share is based on the number of shares outstanding at the end of each period.
2. Capital increased through issuance of shares to third parties on March 31, 1995 (142,800 shares, ¥76,900).
3. Stock split (10 for 1) on August 1, 1996.
4. Warrant exercised on September 27, 1996 (1,818,000 shares, ¥2,750).
5. Stock split (2.5 for 1) on May 20, 1997.
6. On June 18, 1997, by resolution of the Shareholders' General Meeting, the number of common shares issued was increased from 55 million to 150 million.
7. Capital increased through issuance of shares by public offering on July 30, 1997 (3,700,000 shares, ¥56,832).
8. On April 16, 1998, the Company issued 4,000,000 shares of common stock to the amount of ¥33,084 million, in offshore transactions under regulations of the United States Securities Act of 1993 ("the Securities Act"), and in the United States in accordance with Rule 144A of the Securities Act. Of the total, ¥16,544 million and ¥16,540 million were credited to common stock and additional paid-in capital, respectively.
9. Stock split (1.2 for 1) on May 20, 1999.

Non-Consolidated Balance Sheets

AIFUL Corporation
March 31, 2000 and 1999

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2000	1999	2000
ASSETS			
Current Assets:			
Cash and cash equivalents	¥ 81,013	¥ 71,850	$ 764,274
Time deposits (Note 7)	868	868	8,189
Loans (Notes 4 and 7)	1,001,080	837,982	9,444,151
Allowance for doubtful loans	(37,625)	(29,061)	(354,953)
Net loans	963,455	808,921	9,089,198
Inventories (Note 5)	2,158	3,143	20,358
Investment in trust	2,000	1,000	18,868
Prepaid expenses	4,607	4,294	43,462
Deferred tax assets (Notes 2.i and 8)	9,006		84,962
Other current assets	9,337	7,451	88,085
Total current assets	1,072,444	897,527	10,117,396
Property, Plant and Equipment (Note 7):			
Land	42,974	43,098	405,415
Buildings and structures	30,584	28,133	288,528
Machinery, vehicles and equipment	10,262	9,971	96,811
Construction in progress	1,080	110	10,189
Total	84,900	81,312	800,943
Accumulated depreciation	(17,448)	(14,587)	(164,603)
Net property, plant and equipment	67,452	66,725	636,340
Investments and Other Assets:			
Investment securities (Notes 6 and 7)	6,001	6,575	56,613
Investments in and advances to subsidiary and associated company (Note 9)	3,832	3,475	36,151
Claims in bankruptcy (Note 4)	16,011	16,611	151,047
Allowance for advances to subsidiary and claims in bankruptcy	(19,095)	(18,948)	(180,142)
Long-term loans (less current portion)	14,724	6,182	138,906
Lease deposits	8,475	8,038	79,953
Long-term prepayments	1,616	2,135	15,245
Software	3,289	4,210	31,028
Deferred tax assets (Notes 2.i and 8)	998		9,415
Other assets	6,721	3,994	63,406
Total investments and other assets	42,572	32,272	401,622
Total	¥1,182,468	¥996,524	$11,155,358

See notes to non-consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2000	1999	2000
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities:			
Short-term borrowings (Note 7)	¥ 28,700	¥ 58,900	$ 270,755
Current portion of long-term debt (Note 7)	290,307	258,663	2,738,745
Trade notes payable	2,482	2,229	23,415
Trade accounts payable	3,639	3,006	34,330
Income taxes payable	25,141	19,477	237,179
Accrued expenses	3,909	2,706	36,878
Other current liabilities	830	736	7,830
Total current liabilities	355,008	345,717	3,349,132
Long-Term Liabilities:			
Long-term debt (less current portion)(Note 7)	573,162	445,612	5,407,189
Retirement benefits	1,035	1,060	9,764
Other long-term liabilities	360	386	3,396
Total long-term liabilities	574,557	447,058	5,420,349
Shareholders' Equity (Notes 10 and 13):			
Common stock, ¥50 par value, authorized, 224,000,000 shares at March 31, 2000 and 150,000,000 shares at March 31, 1999; issued and outstanding, 56,103,000 shares at March 31, 2000 and 46,752,500 shares at March 31, 1999	39,752	39,752	375,019
Additional paid-in capital	41,913	41,913	395,406
Legal reserve	952	636	8,981
Retained earnings	170,286	121,448	1,606,471
Total shareholders' equity	252,903	203,749	2,385,877
Total	¥1,182,468	¥996,524	$11,155,358

See notes to non-consolidated financial statements.

Non-Consolidated Statements of Income

AIFUL Corporation
Years ended March 31, 2000 and 1999

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2000	1999	2000
Income:			
Interest on loans	¥229,693	¥196,526	$2,166,915
Interest on deposits, securities and other	498	569	4,698
Sales of property for sale	1,087	1,031	10,255
Other income	7,922	7,410	74,736
Total income	239,200	205,536	2,256,604
Expenses:			
Interest on borrowings	24,259	21,088	228,859
Cost of sales of property for sale	1,208	1,002	11,396
Charge-offs and provision for doubtful loans, advances to subsidiary and claims in bankruptcy	40,307	33,967	380,255
Salaries and other employee benefits	25,027	22,185	236,104
Advertising expenses	13,303	12,814	125,500
Rental expenses	14,874	13,339	140,321
Supplies	1,791	1,686	16,896
Depreciation and amortization	4,631	4,431	43,688
Provision for retirement benefits to directors and corporate auditors	90	76	849
Write-down of investment securities	811	414	7,651
Write-down of inventories	358	562	3,377
Stock issue costs		1,863	
Other expenses	27,831	27,350	262,557
Total expenses	154,490	140,777	1,457,453
Income Before Income Taxes	84,710	64,759	799,151
Income Taxes (Notes 2.i and 8):			
Current	42,399	36,311	399,991
Deferred	1,793		16,915
Net Income	¥ 44,104	¥ 28,448	$ 416,075

	Yen		U.S. Dollars
Amounts per Common Share (Note 2.p):			
Net income	¥ 786.13	¥ 610.63	$ 7.42
Cash dividends applicable to the year	60.00	60.00	0.57

See notes to non-consolidated financial statements.

Non-Consolidated Statements of Shareholders' Equity

AIFUL Corporation
Years ended March 31, 2000 and 1999

	Thousands	Millions of Yen			
	Number of Shares of Common Stock Issued and Outstanding	Common Stock	Additional Paid-in Capital	Legal Reserve	Retained Earnings
Balance at April 1, 1998	42,753	¥23,208	¥25,373	¥232	¥ 97,442
Net income					28,448
Cash dividends paid, ¥90 per share					(3,967)
Transfer to legal reserve				404	(404)
Bonuses to directors and corporate auditors					(71)
Public offering (Note 10)	4,000	16,544	16,540		
Balance at March 31, 1999	46,753	39,752	41,913	636	121,448
Adjustment of retained earnings for newly applied accounting for tax allocation (Note 2.i)					8,211
Net income					44,104
Cash dividends paid, ¥60 per share					(3,085)
Transfer to legal reserve				316	(316)
Bonuses to directors and corporate auditors					(76)
Stock split (Note 10)	9,350				
Balance at March 31, 2000	56,103	¥39,752	¥41,913	¥952	¥170,286

	Thousands of U.S. Dollars (Note 3)			
	Common Stock	Additional Paid-in Capital	Legal Reserve	Retained Earnings
Balance at March 31, 1999	$375,019	$395,406	$6,000	$1,145,736
Adjustment of retained earnings for newly applied accounting for tax allocation (Note 2.i)				77,462
Net income				416,075
Cash dividends paid, $0.57 per share				(29,104)
Transfer to legal reserve			2,981	(2,981)
Bonuses to directors and corporate auditors				(717)
Balance at March 31, 2000	$375,019	$395,406	$8,981	$1,606,471

See notes to non-consolidated financial statements.

Non-Consolidated Statements of Cash Flows

AIFUL Corporation
Years ended March 31, 2000 and 1999

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2000	1999	2000
Operating Activities:			
Income before income taxes	¥ 84,710	¥ 64,759	$ 799,151
Adjustments for:			
Income taxes—paid	(36,776)	(37,960)	(346,943)
Depreciation and amortization	4,631	4,431	43,688
Provision for doubtful loans, advances to subsidiary and claims in bankruptcy	8,711	6,681	82,179
Stock issue costs		1,863	
Bonds issue costs	386	182	3,642
Write-down of investment securities	811	414	7,651
Write-down of inventories	358	562	3,377
Loss on disposal of property, plant and equipment	213	249	2,010
Loss on investment in anonymous association		2,000	
Changes in assets and liabilities:			
Increase in loans	(163,098)	(135,536)	(1,538,660)
Decrease in claims bankruptcy	600	1,607	5,660
Decrease in inventories	778	558	7,340
Decrease (increase) in prepaid expenses	(313)	59	(2,953)
Decrease in long-term prepaid expenses	519	759	4,896
Increase in other current assets	(1,824)	(1,196)	(17,207)
Increase (decrease) in trade notes payable	253	(1,265)	2,387
Increase in trade accounts payable	633	112	5,972
Increase in other current liabilities	1,306	604	12,320
Other—net	(18)	1,196	(170)
Total adjustments	(182,830)	(154,680)	(1,724,811)
Net cash provided by operating activities	(98,120)	(89,921)	(925,660)
Investing Activities:			
Capital expenditures	(4,840)	(4,678)	(45,661)
Increase in long-term loans	(8,584)	(2,940)	(80,981)
Purchases of marketable and investment securities	(600)	(4,967)	(5,660)
Purchases of investments	(3,000)		(28,302)
Decrease (increase) in investment in trust	(1,000)	4,000	(9,434)
Other—net	9	(218)	85
Net cash used in investing activities	(18,015)	(8,803)	(169,953)
Financing Activities:			
Net decrease in short-term borrowings	(28,800)	(39,100)	(271,698)
Proceeds from long-term debt (Net of bonds issue costs)	450,275	383,086	4,247,877
Repayments of long-term debt	(293,092)	(279,794)	(2,765,018)
Proceeds from public offering (Net of stock issue costs)		31,221	
Cash dividends paid	(3,085)	(3,967)	(29,104)
Net cash provided by financing activities	125,298	91,446	1,182,057
Net Increase (decrease) in Cash and Cash Equivalents	9,163	(7,278)	86,444
Cash and Cash Equivalents, Beginning of Year	71,850	79,128	677,830
Cash and Cash Equivalents, End of Year	¥ 81,013	¥ 71,850	$ 764,274
Noncash Investing Activities—			
Capital expenditures by incurring liabilities	¥ 181	¥ 175	$ 1,708

See notes to non-consolidated financial statements.

Notes to Non-Consolidated Financial Statements

AIFUL Corporation
Years ended March 31, 2000 and 1999

1. Basis of Presenting Non-Consolidated Financial Statements

The accompanying non-consolidated financial statements of Aiful Corporation (the "Company") have been prepared from the Company's non-consolidated financial statements issued for domestic reporting purposes in accordance with the provisions set forth in the Japanese Securities and Exchange Law. The Company maintains its accounts and records in accordance with the provisions set forth in the Commercial Code of Japan (the "Code") and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Accounting Standards. The non-consolidated financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

Effective April 1, 1999, the non-consolidated statements of cash flows are required to be prepared under Japanese accounting standards, and such statements for the years ended March 31, 2000 and 1999 are presented herein.

In preparing these non-consolidated financial statements, certain reclassifications and rearrangements have been made to the Company's financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

Certain reclassifications have been made to the prior year's non-consolidated financial statements to conform to the classifications used in 2000.

2. Summary of Significant Accounting Policies

a. *Non-Consolidation* - The non-consolidated financial statements do not include the accounts of subsidiaries. Investments in subsidiaries and associated companies are stated at cost. Consolidation of the Company's subsidiaries would not significantly change the total assets, retained earnings, total income, or net income reported in the accompanying non-consolidated financial statements.

b. *Cash Equivalents* - Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits and money management fund, all of which mature or become due within three months of the date of acquisition. The scope of cash and cash equivalents in 1999 was changed from ¥72,218 million to ¥71,850 million to conform with the presentation in 2000.

c. *Inventories* - Property for sale is stated at the lower of cost or market, cost being determined by the specific identification method. Depreciation of property currently to be used for rental is computed by the same method, as applied to property, plant and equipment. Property for sale under construction is stated at cost, cost being determined by the specific identification method.
Supplies are stated at the most recent purchase price which approximates cost determined by first-in, first-out method.

d. *Investment Securities* - Investment securities listed on a stock exchange are valued at the lower of cost or market, cost being determined by the moving-average method. All other securities are stated at cost, which is determined by the moving-average method, except that write-downs are recorded for securities with values considered to be significantly impaired.

e. *Property, Plant and Equipment* - Property, plant and equipment are stated at cost. Depreciation is computed by the declining-balance method at rates based on the useful lives prescribed under the tax regulations. The range of useful lives is principally from 20 to 50 years for buildings, from 3 to 20 years for machinery, equipment and others.

f. *Software* - Effective April 1, 1999, a new accounting method for software costs for internal use was applied. Expenditure for the purchase of software, which meet certain criteria, are capitalized as software and amortized by the straight-line method over the useful lives internally determined (five years).

g. *Retirement Benefits* - Effective April 1, 1995, the Company amended severance and retirement plans and established a contributory funded pension plan, transferring all prior plans' obligations for employees' retirement benefits (including all plan assets of the trusteed pension plan) to the new pension plan. Also, reversals of the excess portion of liability for employees' retirement benefits are credited to income equally over seven years beginning with the fiscal year ended March 31, 1997 pursuant to the applicable tax regulations. Under the plan, prior service costs are charged to income over ten years. The net assets in the fund, including a government pension fund required by Japanese law in the amount of ¥635 million, were ¥1,997 million at March 31, 1999 (the most recent date of available information).

Balances of liability for retirement benefit include those to directors and corporate auditors as follows:

At March 31:	Millions of Yen	Thousands of U.S. Dollars
2000	¥909	$8,575
1999	892	

h. *Allowances for Doubtful Loans, Advances to Subsidiary and Claims in Bankruptcy* - Allowances for doubtful loans, advances to a subsidiary and claims in bankruptcy are stated at the higher of either management's estimate or the maximum amount which is allowed under tax regulations (the actual rate of past charge-offs).

i. *Income Taxes* - Income taxes are provided for at the amounts currently payable for each year. The tax effect of temporary difference between assets and liabilities recognized for financial reporting purposes and those for tax purposes is not recorded for the year ended March 31, 1999.

Effective April 1, 1999, the Company adopted accounting for allocation of income taxes based on the asset and liability method. The cumulative effect of the application of interperiod tax allocation in prior years in the amount of ¥8,211 million ($77,462 thousand) is included as an adjustment to retained earnings as of April 1, 1999. Deferred income taxes are recorded to reflect the impact of temporary differences between assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes. These deferred taxes are measured by applying currently enacted tax laws and the temporary differences.

j. *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 to the extent that the realization of such income is considered to be certain.

k. *Stock Issue Costs* - Stock issue costs are charged to income as incurred.

l. *Bonds Issue Costs* - Bonds issue costs, which are included in other assets, are amortized ratably over periods up to three years.

m. *Leases* - All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's non-consolidated financial statements.

n. *Foreign Currency Transactions* - Short-term receivables and payables denominated in foreign currencies are translated into Japanese yen at the current exchange rates at the balance sheet date.

   Long-term receivables and payables denominated in foreign currencies are translated into Japanese yen at historical rates except for those hedged by forward exchange contracts or currency swap agreement which are translated at such fixed exchange rates. In the case where there is a significant fluctuation of currencies with possible exchange losses, long-term receivables or payables denominated in foreign currencies are translated at the current exchange rates as of each balance sheet date.

o. *Leveraged Lease* - The Company initially records, as other assets, an investment of ¥100 million in an anonymous association which is engaged in aircraft leasing, at cost, and adjusts the carrying amount of such investment to recognize the Company's interests in the earnings or losses of such association. If accumulated losses attributable to the Company exceed ¥100 million, the excess amount is accounted for as other long-term liabilities and the current losses as other expenses. Other long-term liabilities were ¥127 million ($1,198 thousand) and ¥129 million, and other income and expenses were ¥2 million ($19 thousand) and ¥2 million for the years ended March 31, 2000 and 1999, respectively.

p. *Per Share Information* - The computation of net income per share is based on the weighted average number of shares of common stock outstanding during each year, retroactively adjusted for stock splits. The average number of common shares used in the computation was as follows:

Year Ended March 31:	Average Number of Shares
2000	56,103,000
1999	46,588,116

Cash dividends per share presented in the accompanying non-consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year without giving retroactive adjustment for any subsequent stock split.

Fully diluted net income per share is not presented in 2000 and 1999 because no dilutive securities were outstanding for the years ended March 31, 2000 and 1999, respectively.

3. Translation into United States Dollars

The non-consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translation 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 ¥106 to US$1, the approximate rate of exchange at March 31, 2000. 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.

4. Loans

Loans at March 31, 2000 and 1999 consisted of the following (before allowance for doubtful loans):

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
Unsecured *(1)*	¥ 809,362	¥690,704	$7,635,491
Secured *(2)*	181,429	137,755	1,711,594
Guaranteed *(3)*	10,289	9,523	97,066
Total	¥1,001,080	¥837,982	$9,444,151

(1) Loans to individuals without offering security or providing a third-party guarantee. The credit limit is generally ¥500,000 per customer.

(2) Loans to individuals or corporations with real estate as collateral. Credit limits are subject to an evaluation of the real estate, creditworthiness of the borrower, and approval of the Credit Department of the Company.

(3) Loans up to ¥2.4 million to self-employed individuals, small business loans, subject to the provision of a third-party guarantee by an individual with regular occupation and income.

Loans and claims in bankruptcy in non-consolidated balance sheets included loans in legal bankruptcy of ¥16,299 million ($153,764 thousand), nonaccrual loans of ¥15,797 million ($149,028 thousand), accruing loans contractually past due three months or more as to principal or interest payments of ¥5,251 million ($49,538 thousand) and restructured loans of ¥20,321 million ($191,708 thousand) at March 31, 2000.

Loans in legal bankruptcy are loans in which accruals of interest are discontinued (excluding the portion recognized as bad debts), based on management's judgment as to the collectibility 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 in which accruals of interest are discontinued and those other than loans in legal bankruptcy and loans granting deferral of interest payment to the debtors in financial difficulties to assist them in their recovery. Loans classified as loans in legal bankruptcy and past due loans are excluded. 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 the creditors. Loans classified as loans in legal bankruptcy, nonaccrual loans and accruing loans contractually past due three months or more are excluded.

5. Inventories

Inventories at March 31, 2000 and 1999 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
Property for sale	¥ 901	¥2,998	$ 8,500
Property for sale under construction	1,243	132	11,726
Supplies	14	13	132
Total	¥2,158	¥3,143	$20,358

6. Investment Securities

Carrying value and market value of marketable securities included in investment securities at March 31, 2000 and 1999 were as follows:

	Millions of Yen				Thousands of U.S. Dollars	
	2000		1999		2000	
	Carrying Value	Market Value	Carrying Value	Market Value	Carrying Value	Market Value
Investment securities	¥3,966	¥5,255	¥4,753	¥5,308	$37,415	$49,575

The difference between the above carrying amounts and the amounts shown in the accompanying non-consolidated balance sheets principally consist of non-marketable securities for which there is no readily-available market from which to obtain or calculate the market value thereof.

7. Short-Term Borrowings and Long-Term Debt

Short-term borrowings substantially consisted of commercial paper and notes payable, generally due in one year.

Short-term borrowings at March 31, 2000 and 1999 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
Commercial Paper, 0.9% (0.9% in 1999)	¥15,000	¥30,000	$141,509
Loans from banks, 1.2% to 2.4% (1.7% to 3.6% in 1999)	11,500	13,500	108,491
Loans from other financial institutions, 1.9% to 2.7% (3.4% in 1999)	1,200	500	11,321
Syndicated Loans (2.0% in 1999)	–	10,500	–
Other (principally from leasing and factoring companies), 3.4% (2.5% to 3.8% in 1999)	1,000	4,400	9,434
Total	¥28,700	¥58,900	$270,755

Long-term debt at March 31, 2000 and 1999 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
Loans from banks, 1.1% to 4.2% (1.5% to 5.1% in 1999), due serially to 2005	¥331,065	¥232,604	$3,123,255
Loans from other financial institutions, 2.2% to4.7% (2.2% to 4.7% in 1999), due serially to 2005	255,705	256,527	2,412,311
Syndicated Loans, 1.7%, to 2.6% (2.0% to 2.6% in 1999), due to 2001	30,580	29,241	288,491
Unsecured 2.0% yen straight bonds, due 2000	30,000	30,000	283,019
Unsecured 2.6% yen straight bonds, due 2001	6,000	6,000	56,604
Unsecured 2.35% to 2.425% yen straight bonds, due 2002	40,000	30,000	377,358
Unsecured 3.2% yen straight bonds, due 2003	5,000	5,000	47,170
Unsecured 2.09% to 2.53% yen straight bonds, due 2004	25,000		235,849
Unsecured 3.27% yen straight bonds, due 2006	15,000		141,509
Unsecured 3.28% yen straight bonds, due 2009	8,000		75,472
Unsecured 3.0% yen straight bonds, due 2010	10,000		94,340
Unsecured 3.65% Euro-yen straight bonds, due 2003	9,500	9,500	89,623
Unsecured variable rate Euro-yen straight bonds, due 2006 (1.88% at March 31, 2000)	15,000		141,509
Unsecured 1.73% medium-term notes, due 2002	3,000		28,302
Unsecured 1.75% medium-term notes, due 2002	3,000		28,302
Other (principally from leasing and factoring companies), 2.2% to 6.5% (2.6% to 6.9% in 1999), due serially to 2003	76,619	105,403	722,820
Total	863,469	704,275	8,145,934
Less current portion	(290,307)	(258,663)	(2,738,745)
Long-term debt, less current portion	¥573,162	¥445,612	$5,407,189

The Company has an interest rate swap agreement that effectively converts variable rate interest payable on ¥3,000 million of medium-term notes, due 2002, to a fixed rate of 1.75%.

The aggregate annual maturities of long-term debt at March 31, 2000 were as follows:

Year ending March 31

	Millions of Yen	Thousands of U.S. Dollars
2001	¥290,307	$2,738,745
2002	251,429	2,371,972
2003	160,570	1,514,811
2004	64,230	605,943
2005	48,933	461,632
2006 and thereafter	48,000	452,831
Total	¥863,469	$8,145,934

At March 31, 2000, 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
Time deposits	¥ 820	$ 7,736
Loans	370,898	3,499,038
Investment securities	147	1,386
Property, plant and equipment, net of accumulated depreciation	16,386	154,585
Total	¥388,251	$3,662,745
Related liabilities:		
Short-term borrowings	¥ 1,200	$ 11,321
Long-term debt (including current portion of long-term debt)	¥342,341	$3,229,632

In addition, the Company has committed to pledge as collateral for loans other than those shown in the above table, if requested by lending financial institutions.

At March 31, 2000, related liabilities for which lending financial institutions can request to pledge collateral consisted of the following:

	Millions of Yen	Thousands of U.S. Dollars
Short-term borrowings	¥ 11,000	$ 103,774
Long-term debt (including current portion of long-term debt)	¥111,434	$1,051,264

8. Income Taxes

The Company is subject to Japanese national and local income taxes which, in the aggregate, resulted in normal effective statutory tax rates of approximately 41.9% and 47.6% for the years ended March 31, 2000 and 1999, respectively. The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at March 31, 2000 are as follows:

	Year ended March 31, 2000	
	Millions of Yen	Thousands of U.S. Dollars
Current Deferred Tax Assets:		
Charge-offs for doubtful loans	¥ 431	$ 4,066
Provision for doubtful loans	6,329	59,708
Write-down of property for sale	54	509
Accrued interest on loans not recorded	108	1,019
Accrued bonuses	277	2,613
Enterprise tax payable	1,764	16,641
Other	43	406
Current deferred tax assets	¥9,006	$84,962
Non-current Deferred Tax Assets:		
Depreciation and amortization	¥ 363	$ 3,425
Interest loss on liabilities for land	177	1,670
Provision for retirement benefits to directors and corporate auditors	381	3,594
Other	77	726
Non-current deferred tax assets	¥ 998	$ 9,415

A reconciliation between the normal effective statutory tax rate for the year ended March 31, 2000 and the actual effective tax rates reflected in the accompanying non-consolidated statement of income is as follows:

	Year ended March 31	
	2000	1999
Normal effective statutory tax rates	41.9%	47.6%
Increase in tax rate resulting from:		
Temporary difference between tax and financial reporting	–	3.9
Additional taxation on undistributed income	4.7	3.7
Other, net	1.3	0.9
Actual effective tax rates	47.9%	56.1%

The normal effective tax rate reflected in the accompanying non-consolidated statement of income for the year ended March 31, 1999 differs from the actual effective tax rate, primarily due to the effect of permanently non-deductible expenses and temporary differences in the recognition of asset and liability items for tax and financial reporting purposes.

9. Related Party Transaction

Advances to a subsidiary at March 31, 2000 and 1999 were ¥3,403 million ($32,104 thousand), and ¥3,403 million, respectively.

The Company exempts interest from such advances in consideration of the subsidiary's financial condition.

10. Shareholders' Equity

Under the Japanese Commercial Code (the "Code"), at least 50% of the issue price of new shares, resolved by the Board of Directors with a minimum of the par value, is to be designated as stated capital. The portion which is to be designated as stated capital is determined by resolution of the Board of Directors. Proceeds in excess of the amounts designated as stated capital are credited to additional paid-in capital. The Company may transfer portions of additional paid-in capital to stated capital by resolution of the Board of Directors.

Under the Code, the Company is required to appropriate as a legal reserve portions of retained earnings in the amount equal to at least 10% of cash payments appropriated in each financial period, including cash dividends and bonuses to directors and corporate auditors, until the reserve equals 25% of the stated capital. This reserve is not available for cash dividends but may be used to reduce a deficit by resolution of the shareholders or transferred to the stated capital by resolution of the Board of Directors.

The Company may also transfer portions of unappropriated retained earnings to stated capital by resolution of the shareholders.

Under the Code, the Company may issue new shares of its common stock to the existing shareholders without consideration pursuant to resolution of the Board of Directors as a stock split. The Company may make such a stock split to the extent that the amount calculated by multiplying the number of issued shares after the stock split by par value per share does not exceed the stated capital and that the amount calculated by dividing the total amount of shareholders' equity by the number of issued shares after the stock split shall not be less than ¥1,000.

On April 16, 1998, the Company issued 4,000,000 shares of stock and received gross proceeds totalling to ¥33,084 million. The offering was made to certain persons in offshore transactions according to Regulation under the United States Securities Act of 1993 as amended (the "Securities Act"), and in the United States to qualified institutional buyers in accordance with Rule 144A under the Securities Act. Of the proceeds from the offering, ¥16,544 million and ¥16,540 million were credited to common stock and additional paid-in capital, respectively.

On January 13, 1999, the Board of Directors declared a six-for-five stock split to be distributed on May 20, 1999 to shareholders of record on March 31, 1999. As a result, the number of shares issued increased by 9,350,500 shares.

At the Shareholders' General Meeting held on June 29, 1999 the number of common shares the Company is authorized to issue was increased from 150 million to 224 million.

Dividends are approved at the Shareholders' General Meeting held subsequent to the fiscal year to which the dividends are applicable. Semiannual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

Notes to Non-Consolidated Financial Statements

AIFUL Corporation
Years ended March 31, 2000 and 1999

11. Leases

The Company leases certain vehicles, computer equipment, furniture and fixtures, office space and other assets.

Total rental expenses including lease payments under finance leases, for the years ended March 31, 2000 and 1999 were as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	Total Rental Expenses	Lease Payments Under Finance Leases	Total Rental Expenses	Lease Payments Under Finance Leases
Years ended March 31:				
2000	¥14,874	¥6,352	$140,321	$59,925
1999	13,339	5,820		

Pro forma information of leased property such as acquisition cost, accumulated depre ciation, obligation under finance lease, depreciation expense, and interest expense of finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2000 and 1999 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	Machinery, vehicles and equipment		Machinery, vehicles and equipment
	2000	1999	2000
Acquisition cost	¥27,497	¥23,439	$259,405
Accumulated depreciation	18,710	15,640	176,509
Net leased property	¥ 8,787	¥ 7,799	$ 82,896

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
Due within one year	¥ 5,309	¥ 5,188	$ 50,085
Due after one year	6,379	5,809	60,179
Total	¥11,688	¥10,997	$110,264

Depreciation expense and interest expense, which are not reflected in the accompanying non-consolidated statements of income, computed under a declining-balance method and the interest method, respectively for the years ended March 31, 2000 and 1999 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
Depreciation expense	¥5,605	¥5,656	$52,877
Interest expense	493	487	4,651

12. Derivatives

The Company enters into interest rate swap and interest rate cap contracts as a means of managing its interest rate exposure on certain liabilities.

Such derivative transactions are entered into to hedge interest exposures incorporated with the Company's business. Accordingly, market risk in these derivatives is theoretically offset by opposite movements in the value of hedged liabilities. The Company does not hold or issue derivatives for trading and speculative purposes.

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

Derivative transactions entered into by the Company have been made in accordance with internal policies which regulate the authorization and credit limit amounts.

At March 31, 2000 and 1999 the Company had outstanding derivatives contracts as follows:

	Millions of Yen					
	2000			1999		
	Contract or Notional Amount	Fair Value	Unrealized Gain (Loss)	Contract or Notional Amount	Fair Value	Unrealized Gain (Loss)
Interest Rate Swaps:						
Fixed rate payment, floating rate receipt	¥207,880	¥(7,351)	¥(7,351)	¥109,460	¥ (608)	¥ (608)
Interest Rate Caps:						
Purchased interest rate caps	240,000	330	(1,255)	260,000	850	(1,325)

	Thousands of U.S. Dollars		
	2000		
	Contract or Notional Amount	Fair Value	Unrealized Gain (Loss)
Interest Rate Swaps:			
Fixed rate payment, floating rate receipt	$1,961,132	$(69,349)	$(69,349)
Interest Rate Caps:			
Purchased interest rate caps................	2,264,151	3,113	(11,830)

Estimated fair values were obtained from banks.

Fees paid on purchased interest rate caps are deferred and amortized over the life of the related contract as adjustments to interest expense on the related liabilities.

Unamortized deferred fees at March 31, 2000 were ¥1,585 million ($14,953 thousand). Unrealized loss represents the difference between fair value and unamortized deferred fees.

The contract or notional amounts of derivatives which are shown in the above table do not represent the amounts exchanged by the parties and do not measure the Company's exposure to credit or market risk.

13. Subsequent Events

a. On February 21, 2000, the Board of Directors declared a three-for-two stock split to shareholders of record on March 31, 2000. As a result, the number of issued and outstanding common stock increased by 28,051,500 shares effective May 22, 2000. This stock split has not been reflected in the accompanying non-consolidated statements of income. The amounts per common share, adjusted for this stock split, for the years ended March 31, 2000 and 1999 were ¥524.09 ($4.94) and ¥339.24, respectively.

b. On June 1, 2000, the Company acquired all 650,000 shares of the common stock of Kabushiki Kaisha Shinwa in exchange for 721,500 shares of the Company's common stock, according to an agreement dated April 27, 2000. As a result, Kabushiki Kaisha Shinwa became a wholly owned subsidiary of the Company.

The summary of Kabushiki Kaisha Shinwa is as follows:

Corporate Name	Kabushiki Kaisha Shinwa
Corporate Headquarters	Nakamura-ku, Nagoya, Japan
President / Representative Director	Kenji Niwa
Date of Establishment	April 1976
Main Operations	Consumer finance
Total Assets	¥16,567 million as of May 31, 1999
Shareholders' Equity	¥3,832 million as of May 31, 1999
Common Stock	¥325 million

c. On May 22, 2000, the Board of Directors resolved to propose the following plan of appropriations of retained earnings for the year ended March 31, 2000 for approval at the Shareholders' General Meeting held on June 29, 2000:

	Millions of Yen	Thousands of U.S. Dollars
Cash dividends, ¥30 ($0.28) per share	¥1,683	$15,877
Transfer to legal reserve	180	1,698
Bonuses to directors and corporate auditors	99	934

Independent Auditors' Report

To the Board of Directors of
Aiful Corporation:

We have examined the non-consolidated balance sheets of Aiful Corporation as of March 31, 2000 and 1999, and the related non-consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. Our examinations were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the non-consolidated financial statements referred to above present fairly the financial position of Aiful Corporation as of March 31, 2000 and 1999, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan applied on a consistent basis.

As described in Note 2, effective April 1, 1999, the non-consolidated financial statements have been prepared in accordance with the new accounting standards for interperiod allocation of income taxes.

Our examinations also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 3. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Y. Fukuda

DELOITTE TOUCHE TOHMATSU
Kyoto, Japan

Y. Fukuda

SHIMBASHI & CO.
Osaka, Japan

June 29, 2000

Board of Directors

AIFUL Corporation
As of June 29, 2000

President / Representative Director	Yoshitaka Fukuda	
Senior Managing Director / Representative Director	Taichi Kawakita	Restaurant & Entertainment Department Real Estate Department
Senior Managing Directors	Takashi Noda	General Manager – Finance Division General Manager – Business Development Department
	Sadatoshi Kobayashi	Information Systems Department Administration Office
Managing Director	Yuji Kataoka	General Manager – Management Planning Division
Directors	Yasutaka Fukuda	Deputy General Manager – Finance Division General Manager – Finance Department
	Yoshimasa Nishimura	Inspection Department
	Koji Imada	General Manager – Personnel Division
	Shintaro Hashima	General Affairs Department Legal Department
	Takashi Koumoto	General Manager – Accounting Department
	Yoshinori Sogabe	Public Relations Department
	Masami Munetake	Administration Department Credit Risk Management Department Operation Department
	Yasuo Yanagibashi	General Manager – Loan Business Division
	Masayuki Sato	Deputy General Manager – Loan Business Division General Manager – Sales Finance Department
	Hiroshi Abe	Deputy General Manager – Personnel Division General Manager – Personnel Department
Standing Corporate Auditors	Tadao Mushiake	
	Yoshitaka Ebisuzaki	
Corporate Auditor	Yoshinobu Azuma	

Investor Information

AIFUL Corporation
As of March 31, 2000

Corporate Name	AIFUL Corporation
Date of Establishment	April 1967
Financial Year	April 1 to March 31
Independent Auditors	Deloitte Touche Tohmatsu / Shimbashi & Co.
Transfer Agent and Registrar	The Sumitomo Trust & Banking Co., Ltd.
Paid-in Capital	¥39,752 million
Number of Shares of Common Stock	Authorized: 224,000,000 shares Issued and Outstanding: 56,103,000 shares
Number of Shareholders	4,959
Number of Employees	3,263

Corporate Headquarters
31 Higashikaigawa-cho, Saiin Ukyo-ku, Kyoto 615-0057, Japan
Phone 075-321-1701

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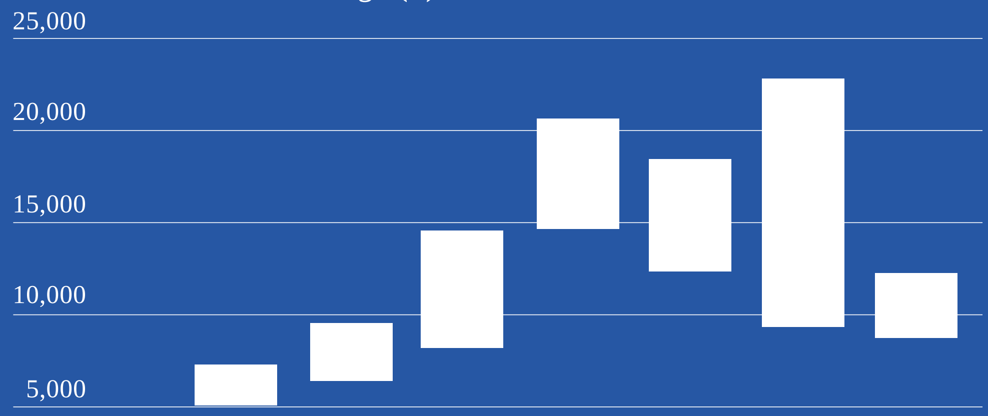
Common Stock Price Range (¥)



Fiscal year	'98 3rd	'98 4th	'99 1st	'99 2nd	'99 3rd	'99 4th	'00 1st
High (¥)	7,400	9,700	14,820	20,900	18,750	23,110	12,450
Low (¥)	5,080	6,490	8,270	14,900	12,500	9,500	8,840

*Stock split (1.2 for 1) on May 20, 1999.
*Stock split (1.5 for 1) on May 22, 2000.

AIFUL Corporation
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