



Composing a **New Business** Landscape

Introducing consumer and business finance with deepened customer perspective and an expanded service palette

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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 that 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.



Japan's consumer credit industry has changed; customer expectations have changed, and AIFUL Group is changing with them.

A year ago, we initiated new values and compliance reforms to guide us through the new financial landscape, and in 2007, those initiatives began to work for us.

Employees raised their awareness and became highly motivated as we accelerated business-model transformations into a strategically diversified finance group.

Now, one year later, we see the results of innovative change.

Renewed competitiveness and energy are carrying us through heavy competition and helping us paint a bright, new picture of prosperity and growth.

A painting of a rural landscape. In the foreground, a dirt road winds through a lush green field. Several people are working in the field, some carrying baskets. In the middle ground, a row of colorful houses with red roofs is visible. A vibrant rainbow arches across the sky above the houses. The overall scene is bright and hopeful, suggesting a new beginning or a successful harvest.

CRAFTING A NEW

AIFUL Group is already envisioning a new season of growth based on strong compliance management and achieved through the provision of comprehensive financial services in the retail sector.

Management
Systems

Workplaces
and Working
Environments

Social
Contribution

Corporate
Philosophy

For Our
Customers

Environmental
Activities

BALANCE



Financial Highlights

AIFUL CORPORATION and Consolidated Subsidiaries Years Ended March 31, 2008, 2007 and 2006	Millions of Yen			Percentage of change	Thousands of U.S. Dollars
	2008	2007	2006	08/07	2008
For the Year:					
Total income	¥ 402,389	¥ 501,009	¥ 548,818	(19.7)	\$ 4,023,890
Total expenses	371,491	873,272	436,045	(57.5)	3,714,910
Credit costs	155,930	447,375	166,047	(65.1)	1,559,300
Income (Loss) before income taxes and minority interests	30,898	(372,263)	112,773	—	308,980
Net income (loss)	27,434	(411,251)	65,827	—	274,340
At Year-End:					
Loans	1,598,706	1,912,689	2,124,017	(16.4)	15,987,060
Installment accounts receivable	148,490	174,923	209,581	(15.1)	1,484,900
Bad debts	343,768	328,046	203,800	4.8	3,437,680
Total assets	2,041,128	2,214,559	2,790,969	(7.8)	20,411,280
Allowance for bad debts	330,415	407,573	171,715	(18.9)	3,304,150
Long-term debt, including current portion thereof	1,190,159	1,438,892	1,654,546	(17.3)	11,901,590
Total equity	324,521	257,145	681,694	26.2	3,245,210
Number of shares issued	167,475,000	142,035,000	142,035,000	17.9	—
Per Share Data:					
Basic net income (loss)	¥ 190.77	¥ (2,903.85)	¥ 464.84	—	\$ 1.91
Diluted net income	186.86	—	464.69	—	1.87
Total equity	1,909.46	1,777.44	4,813.45	7.4	19.09
Cash dividends	40.00	60.00	60.00	(33.3)	0.40

Notes: 1. The U.S. dollar amounts have been translated, for convenience only, at ¥100 = \$1, the approximate rate of exchange at March 31, 2008.

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.

3. Figures in the financial section are based on audited English-language statements. Figures in the feature section and review of operations are based on Japanese financial statements.

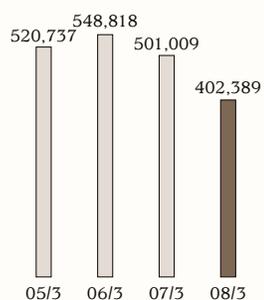
Due to certain reclassifications, some figures and items do not match.

4. On May 23, 2005, each common, par value share held as of March 31, 2005, was split into 1.5 shares, according to the provisions of Article 218 of the Japanese Commercial Code.

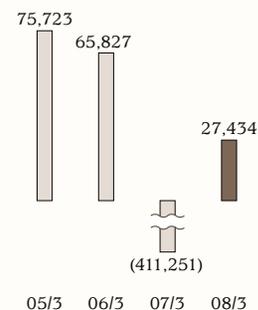
5. On February 28, 2008, 25,440,000 new shares were issued through allocation of new shares to a third party.

6. Long-term debt includes ¥70,000 million of subordinated Euroyen zero-coupon convertible bonds, which are subject to mandatory acquisition.

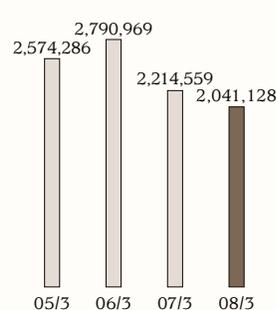
Total Income
(Millions of Yen)



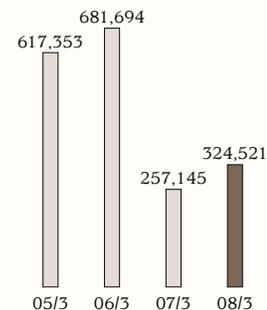
Net Income (Loss)
(Millions of Yen)



Total Assets
(Millions of Yen)



Total Equity
(Millions of Yen)



To Our Shareholders

With a Fresh Canvas, Painting a New Picture of Growth

Return to Positive Consolidated Results in the Year Ended March 2008

In the first half of the year ended March 2008, the Japanese economy maintained a pace of gradual recovery, but in the latter half, the subprime mortgage crisis in the United States contributed to economic uncertainty. Other factors included a rapidly rising yen and higher crude oil and raw material prices. Consumer spending slumped as a result of stagnating wages and rising prices for groceries and other items.

It was also a year of change for the consumer finance industry. Article 2 of the Law to Partially Amend the Money Lending Business Control and Regulation Law (the amended Money Lending Business Law) took effect in December 2007. Measures included tighter controls on debt collection activities and a new system allowing the Financial Services Agency to issue business improvement orders. In addition, the Japan Financial Services Association was established as a self-regulatory body for the industry and began to formulate and implement voluntary rules covering such aspects as excessive lending.

By June 2010, regulations lowering the maximum interest rates and restricting total lending will become fully effective. Lenders, especially major companies, are preparing for these changes through the early introduction of low-interest rate products, and through radical cost restructuring measures, including the closure of unprofitable branches and the reduction of workforces. However, bad debt charge-offs and demands for interest refunds are increasing and loan balances have declined following the introduction of tighter lending criteria. These challenging business conditions are putting pressure on earnings, and small and medium-sized lenders with limited financial resources are being forced out of the industry.



Yoshitaka Fukuda
President and CEO

In the year ended March 2008, the AIFUL Group recorded higher income, even as revenue fell. Consolidated operating revenue declined by 18.7% year on year to ¥405,784 million. However, consolidated ordinary income and net income both recovered from the losses recorded in the previous year to ¥32,066 million and ¥27,435 million, respectively.

A major reason for the fall in revenue was a decline in our top line because of the tightened lending criteria, brought on, in part, by the amended Money Lending Business Law. Other reasons were lower yields, due to aggressive marketing of low-interest rate products to new customers and high-quality borrowers. Income rose because we were able to achieve a major reduction of the reserve for losses on interest refunds compared with the previous year. Credit costs also fell, with the easing of the bad debt problem. Continued cost restructuring, as well, reduced labor costs and other cost items.

Statistics for individual group companies show a recovery in the performance of the consumer finance company AIFUL CORPORATION. AIFUL anticipated the temporary market upheaval that followed the full implementation of the amended Money Lending Business Law. It took early steps to curb bad debt problems by tightening its lending

criteria, and the balance of loans declined by 18.5% to ¥1,058,880 million. Operating revenue was about 20% lower than the previous year's result, in part because AIFUL actively implemented a new interest rate structure based on the Interest Rate Restriction Law. However, cost restructuring was reflected in lower selling, general and administrative expenses, while losses on interest refunds were covered by partially drawing down reserves. The end result was a return to positive figures with net income of ¥27,070 million.

LIFE Co., Ltd., which is involved in the per-item shopping loans and credit card areas, maintained steady growth in the number of new cards issued, and the number of cardholders increased by 5.4% year on year to 14.81 million. The credit card shopping business continued to perform strongly, but operating revenue was lower than the previous year's level, in part because of the introduction of a new interest rate structure with rates not exceeding 18%. However, successful restructuring and reduced credit costs helped LIFE to achieve income growth, garnering ¥3,428 million in net income despite lower revenue.

The business loan subsidiaries BUSINEXT CORPORATION and City's Corporation amended their marketing approach to reflect the deteriorating business outlook for small and medium-sized enterprises. Changes included more stringent vetting of borrowers and increased marketing of secured loans, which provide better protection. While both companies raised their loan balances modestly, their earnings were affected by increased credit costs. BUSINEXT recorded net income of ¥79 million, while City's Corporation showed a net loss of ¥1,622 million. The consumer finance subsidiaries TRYTO CORPORATION and Wide Corporation made steady progress in their rationalization and restructuring as part of the AIFUL Group's efforts to optimize its management resources. Cost restructuring helped TRYTO and Wide to return to positive results, with net income reaching ¥449 million and ¥6,276 million respectively.

Consolidated	07/3	08/3	09/3 (E)
Operating Revenue (Millions of Yen)	499,031	405,784	312,039
Ordinary Income (Loss) (Millions of Yen)	(163,092)	32,065	33,000
Net Income (Loss) (Millions of Yen)	(411,250)	27,435	31,730

Interest Refunds and Bad Debt Charge-offs Peaking

Interest refunds and bad debt charge-offs had a major influence on business performance in the year ended March 2008. The following is a detailed analysis of these factors.

On a non-consolidated basis, AIFUL CORPORATION paid interest refunds totaling ¥50,425 million in the year ended March 2008. On a monthly basis, the amount of refunds peaked in October 2007 and is now declining. The number of cases with attorney involvement, which is a leading indicator of interest refund claims, peaked in May 2007 and had fallen by 24% as of March 2008. There are indications that this problem is now starting to ease. Looking ahead, while the level of refunds is likely to remain high, the number of new claims is declining. Additionally, aggressive marketing of new products with interest rates based on the Interest Rate Restriction Law has resulted in the restructuring of our loan portfolios, leading to a reduction in the number of loans that could be subject to interest refund claims.

In the first half of the year ended March 2008, we modified the method used to calculate the reserves for interest refunds. We now provide a reserve equivalent to the total amount of interest refunds and loans abandoned as a result of interest refunds. As of March 31, 2008, the reserve for AIFUL CORPORATION stood at ¥192,971 million on a non-consolidated basis, including ¥99,467 million for interest refunds. We aim to maintain the stability of our earnings basically by drawing on reserves.

The non-consolidated bad debt charge-off ratio for the year ended March 2008 was 15%, an increase of 4 percentage points from the previous year's ratio. The increase reflects the peak charge-offs in the current year relating to bad debts incurred as a result of voluntary restraints on debt recovery operations following the imposition of administrative penalties in 2006. Other reasons include the deterioration of the consumer loan market and an increase in loan charge-offs in connection with interest refund claims.

The effects of voluntary restraints on debt recovery operations will peak in the year to March 2009. There has also been a continuing drop in the amount of debts past due by six months or longer, which is a leading indicator of the bad debt level. In addition, we anticipate a reduction in loans abandoned because of interest refund claims. Although the balance of loans outstanding is declining, we are forecasting a non-consolidated bad debt charge-off ratio of 13%, or 2 percentage points below the previous year's figure.

Interest refund demands and loan charge-offs are included in broadly defined credit costs. According to statistics published by the Financial Services Agency, the number of people with unsecured loans from five or more companies was 31.2% lower in March 2008, compared with the figure from March 2007. A similar trend is apparent in our figures. Over one-half of charge-offs and interest refund demands relate to this user group.

Credit costs are currently rising. However, this is simply the result of a credit crunch at the high-risk end of the market changes in the law. The situation can be expected to ease in the medium to long term as a result of tightening of lending criteria and the improvement of loan quality under the full implementation of the amended Money Lending Business Law. While we cannot afford to be complacent, we believe that credit costs have already peaked and are about to shift downward.

Industry Consolidation Expected to Benefit Survivors

Amid accelerating change in the consumer finance industry, there is conspicuous evidence of industry restructuring, including the collapse of middle-ranking consumer finance companies, mergers among credit card companies and the withdrawal of foreign-owned consumer finance companies from the market. The lowering of interest rate limits and the introduction of restrictions on total lending are expected to intensify competition and dramatically reduce the number of consumer finance companies, as major companies rapidly rise to dominance in the market. Before the amendment of the law, there were around 14,000 registered moneylenders (as of March 31, 2006). In the two years to the end of March 2008, the number plummeted by 36% to 9,115. Furthermore, finance companies tightened their lending policies ahead of the law change. This will inevitably result in a temporary increase in the amount of non-performing loans and a decline in loan balances.

However, I see this as a temporary situation, and after two or three years I expect competition to ease because of the declining number of suppliers. I also anticipate a dramatic reduction in the amount of non-performing loans because of the lowering of the maximum interest rate and the introduction of restrictions on total lending. The number of loans that could be affected by interest refund demands is also expected to decline because of abolishment of gray-area interest rates, and eventually this problem should wane. Obviously, we face challenging conditions



in the short term. However, we are confident that there will be major benefits for the survivors that can overcome competition and enter a new growth phase as dominant players in the market.

Optimizing Management Resources through Cost Restructuring

We are rapidly restructuring the AIFUL Group's business models in readiness for this new growth stage. A basic strategy is to maintain the diversity of our comprehensive financial services in the retail sector by optimizing group management resources, and we aim to take this strategy even further. Specific policies include the restructuring of our loan portfolio, cost restructuring, group restructuring, the application of more stringent lending criteria to curb credit costs, the development of a new scoring system and the introduction of new products.

Our cost restructuring plans were announced in January 2007. Compared with the position at the end of December 2006, we had reduced the number of branches by 1,424 to 1,205, and the number of group employees by 2,331 to 7,646 by the end of March 2008. We also made good progress toward reducing costs, including advertising and systems development expenses. On a non-consolidated basis, we have achieved savings of approximately ¥30,000 million. We will continue these cost-cutting efforts. Our goal is to reduce non-consolidated selling, general and administrative expenses by at least ¥40,000 million.

The restructuring of group companies began with the four consumer finance companies. Changes have included the partial



transfer of quality loans held by these companies to LIFE Co., Ltd. We will implement further restructuring and consolidation after studying future changes in the business environment. The business loan subsidiary City's Corporation has also implemented management rationalization measures and is modifying its business model and sales methods to include sales of secured low-interest rate products and expanded alliances with other companies. The credit card company LIFE Co., Ltd., which will be a key contributor to the future growth of the AIFUL Group, will retrench its per-item shopping loan business and shift management assets into credit card business, with the aim of reducing risk and increasing earnings.

We are working as rapidly as possible to optimize our group management resources and diversify our business models through the restructuring of the Group's loan portfolios. We aim to reduce our reliance on unsecured loans from the current level of 64% to 50% and to expand our involvement in business lending, credit card services and guarantees, which offer greater growth potential in the medium- to long-term perspective. This policy reflects the maturation of the unsecured loan market and the high risks associated with it.

Growth Potential in Corporate Financing Business

We have identified the corporate financing business as a growth area under our product and business strategies. This segment will be given priority for the investment of the AIFUL Group's management resources.

Our strategy for the lending business calls for the expansion of loans to small and medium-sized enterprises and sole proprietors. In the short term, worsening business conditions are likely to create a challenging environment in this market. However, there is enormous potential demand, and we anticipate growth in the future.

In the consumer finance business, we are pursuing a strategy of selection and concentration, while also working to improve efficiency. In August 2007, AIFUL began to market loans to new customers at interest rates within the limits set down in the Interest Rate Restriction Law. We are also actively promoting our marketing to existing customers at preferential interest rates. As a result, there has been a steady rise in the percentage of customers with unsecured loans provided by AIFUL CORPORATION at interest rates within the limits stipulated in the law.

We also see corporate services as a growth area for our credit card and per-item shopping loan operations. We will implement a range of measures based on the dynamic application of the AIFUL Group's knowledge of corporate credit, including the reinforcement of corporate card services for small and medium-size businesses.

In the area of guarantee services, AIFUL and LIFE offer business loan guarantees in partnership with financial institutions. We anticipate further growth in the number of partners with which we work in this segment.

The timely implementation of these strategies will result in a powerful restructuring program that will create a structure capable of maintaining ROA above 1.5%, even in a low-interest rate environment. We will further accelerate our reform process, including new investment, with the aim of moving the AIFUL Group into a new growth phase in which we will be able to enjoy the fruits of our efforts.

Building a Compliance Structure

In addition to the restructuring of our business models, we are also channeling the total energies of the AIFUL Group into the establishment of a compliance structure. In April 2007, we revised and restructured our values and adopted a new corporate philosophy: "Earn the support of the public with sincerity and hard work." We are now putting this philosophy into practice through internal reforms that will result in nothing less than a total renewal of our corporate culture.

We are implementing a series of measures to strengthen internal control systems and compliance. In the year ended March 31, 2007, we expanded our Compliance Monitoring Department and established the Risk Management Committee. We introduced a corporate officer system and created the Corporate Auditors' Office.

Another priority from the perspective of corporate value is to make policies to guide our CSR activities. Through our CSR activities, we aim to engage with all stakeholders through wide-ranging initiatives based on five themes: management systems, workplaces and working environments, working for our customers, working for the environment and social contribution/harmony with communities.

During the reform of our internal structure, our directors and corporate officers, including myself, have engaged in dialog with many employees in their workplaces. The reforms are still continuing, but I sense that we are making real progress.

Capital Increase **—Building a Foundation for the Future**

In February 2008, AIFUL CORPORATION increased its capital through a ¥50,000 million third-party allocation of new shares and a ¥70,000 million issue of convertible bonds with stock acquisition rights (CBs).

One of the risk factors that could affect the AIFUL Group is a downgrading of our credit rating caused by a temporary downturn in our surrounding business environment. This could trigger a negative chain reaction, leading to deterioration in the conditions under which we procure funds, a reduction in our loan balance and a loss of new investment opportunities—resulting in lower profitability. The policies that we are implementing now will interrupt this negative chain reaction and lay the foundations for a new growth phase by providing resources to drive future growth.

We believe that the capital increase will allow us to maintain and improve our rating and strengthen our financial structure. We also expect it to provide a significant enhancement to our credit position, including the reduction of our financial risk premium. With the inclusion of the ¥70,000 million CB issue, our consolidated equity ratio at the end of March 2008 was 19.1%, a 5.7% improvement compared with the position at the end of the third quarter.

We are diversifying our procurement methods from a risk hedging perspective. Our recent capital increase was based on

this policy. We saw the combination of a third-party share issue and CB issue as the optimal response to the increasingly serious subprime mortgage situation. We will continue to diversify the methods we use to provide liquidity and procure funds, in step with the ongoing evolution of the financial environment.

Group Income Expected to Rise **in the Year Ending March 2009**

Challenging conditions are expected to continue into the year ending March 2009. We will benefit from our cost restructuring measures, and we also anticipate reductions in interest refund claims and bad debt costs. However, the loan balance will continue to decline, in part because of the enforcement of the amended Money Lending Business Law. Earnings will also decrease as a result of interest rate reductions, and competition for quality customers will escalate.

Our consolidated forecasts based on this environment for the year ending March 2009 see income growth despite a decline in revenue. Consolidated operating revenue is expected to decline by 23.1% year on year to ¥312,039 million, but we are projecting consolidated ordinary income and consolidated net income respectively of ¥33,000 million, an increase of 2.9% year on year, and ¥31,730 million, a year-on-year increase of 15.7%.

The consumer finance industry has entered a period of unprecedented upheaval. However, I believe that these major changes will also provide opportunities for new growth. Our entire organization is united behind our efforts to take the AIFUL Group into this new growth phase. We are committed to making the necessary changes to assure the dynamic development of our business activities, and to the establishment of solid foundations through cost restructuring and the establishment of reliable compliance systems.

We look forward to the continuing support and guidance of our investors for the future activities of the AIFUL Group.

June 2008

Yoshitaka Fukuda
President and CEO



Special Feature 1:

Comprehensive Financial Services Strategy

The AIFUL Group's strength is its strategy of providing comprehensive financial services in the retail sector.

Overview of Consumer Credit Market

The diagram below provides an overall perspective of the consumer credit market in Japan. According to statistics published by the Japan Consumer Credit Industry Association, the amount of loans and credit primarily provided to individuals by the consumer credit industry as of December 31, 2006 was approximately ¥75.5 trillion (excluding housing loans). The importance of this huge market is apparent from the fact that it is equivalent to about one-quarter of final consumption expenditure, which accounted for ¥309.1 trillion of Japan's total GDP of around ¥500 trillion in 2006.

Japan's economic development has been paralleled by dramatic growth in the consumer credit market. In the 1980s, the market tripled to ¥68 trillion. With the subsequent collapse of Japan's economic "bubble," the Japanese economy entered a period of prolonged stagnation. During this period, the consumer credit market remained in a state of balance in terms of absolute market size and percentage of final consumption expenditure.

The government introduced a number of changes to the Money Lending Business Law in December 2006 that profoundly affected the landscape of the consumer finance industry by introducing, among other things, a lower interest rate ceiling, and limits on total lending. The shopping credit business faces similar changes, as amendments made to the Installment Sales Law lead to tighter regulation. The impact of these changes in the statutory environment on the overall credit and loan market will need to be monitored closely.

Comprehensive Financial Services Strategy in a Changing Market Environment

The consumer credit market is currently going through major changes that are transforming the industry competitive climate. Banks are expanding their retail operations, and companies are moving into the consumer credit field from other industries, including transportation, manufacturing and IT. Small consumer finance companies are meanwhile being forced out of the industry, while credit sales companies and credit card companies are merging and consolidating their operations. The boundaries that once separated different market segments, such as consumer loans, credit card services and credit sales, are shrinking. As in the United States, there is now escalating competition spanning the entire consumer credit market in Japan.

Service providers face a variety of issues, including interest refund demands, tighter regulation resulting from changes to the laws that govern the industry, and an upward trend in market interest rates. The quality of management strategy is likely to be a key factor determining success or failure in this environment.

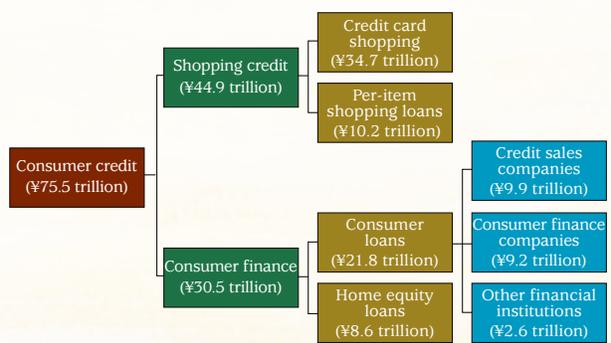
The AIFUL Group led the industry in anticipating these market changes, and we have been adapting our operations under our comprehensive financial services strategy for the retail sector. This strategy calls for the retention of consumer finance as our core segment, and for the diversification of our activities and business portfolio to encompass the entire consumer credit market. The growth of the AIFUL Group has been driven by unique strategies, and the benefits of those strategies are becoming increasingly apparent in this period of market turbulence.

AIFUL's Advantage under the Comprehensive Financial Services Strategy

The comprehensive financial services strategy provides many benefits. For example, we have been able to spread our business risk through the diversification of our business portfolio, and we have maintained steady growth through the expansion of income sources other than our consumer finance business. Another benefit is the improvement of our capital efficiency through high financial leverage.

In 2001, we established the medium-risk-business lender BUSINEXT CORPORATION as a joint venture with Sumitomo Trust & Banking. We also acquired the credit sales and credit card company LIFE Co., Ltd. In 2002, the high-risk business lender City's Corporation

Consumer Credit Categories and Amounts of Credit Provided (2006)



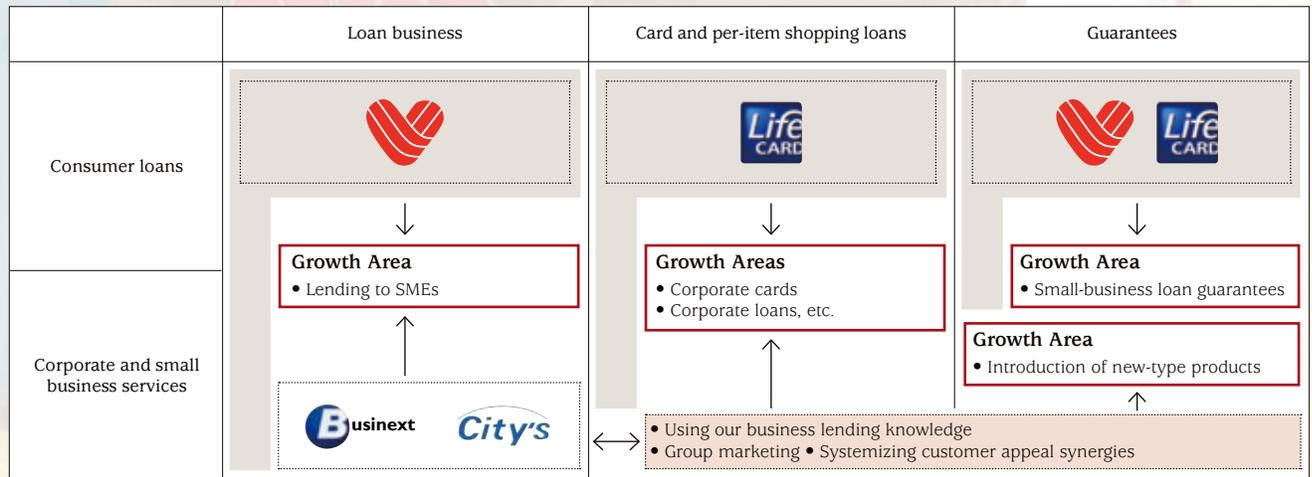
became part of the AIFUL Group. Through these moves, AIFUL has expanded from a specialist lender in the consumer finance market to a corporate group spanning the entire consumer credit market. Compared with our competitors, we are involved in a much wider range of activities, including not only non-secured lending, but also home equity lending, business lending, credit card services, credit sales and credit guarantee services. By expanding the scope of our activities in this way, we have sought to establish reliable growth potential and income performance, and to diversify our business risks.

In 1997, non-secured lending accounted for approximately 90% of the AIFUL Group's receivables. As a result of the comprehensive financial services strategy, this ratio had been reduced to around 64% in the year ended March 2008. This represents a major step forward compared with other major lenders, which still have loan portfolios in which non-secured loans make up 90% or more of the

total. We will continue to diversify our business portfolio and we intend to reduce our exposure to non-secured lending to 50% in the medium- to long-term future.

We will continue to optimize our comprehensive financial services strategy as we adapt to a changing market environment. In the year ended March 2007, we shifted from a strategy of duplication and dispersal to one based on selection and focus. Under this strategy, we are restructuring AIFUL Group companies and reforming our cost structure. This ability to act with flexibility and speed is a major advantage for the AIFUL Group. In the near-term future we aim to build a corporate structure capable of maintaining ROA above 1.5%, and to establish a position for ourselves as a comprehensive financial group in the retail sector.

The Future of the AIFUL Group under the Comprehensive Finance Group Strategy



Consumer Finance Business

Through a strategy of selection and concentration in our core consumer finance business, we promptly built a new income structure that conforms with the amended Money Lending Business Law.



Overview of the Consumer Finance Market

There has been little change in the overall size of the Japanese consumer finance market since the collapse of Japan's economic "bubble." The market segment that has shown the greatest growth is services provided by specialist consumer finance companies. According to data compiled by the Federation of Credit Bureaus of Japan, which registers information about users of consumer finance, the number of registrations has increased by approximately more than 80% over the past 10 years and reached 23.3 million at the end of March 2007.

Several factors have contributed to the growth of the specialist consumer finance market. First, many banks and non-banks have reduced their new lending because of the accumulation of non-performing loans in an environment of asset deflation following the collapse of the economic "bubble." Second, because they specialize in unsecured loans, consumer finance companies have been able to expand their business activities by enhancing their services to meet customer needs. Major consumer finance companies have developed expertise at all stages from lending and credit management to the management of receivables. They have also expanded their branch networks by installing automatic contract machines and opening unmanned outlets, and they have formed alliances with financial institutions and other organizations to strengthen their CD/ATM networks. Innovations such as these have helped to drive market expansion.

The Advantages of Major Specialist Consumer Finance Companies in a Changing Competitive Environment

The amended Money Lending Business Law was passed and promulgated in December 2006. Article 2 of the amended law took effect in December 2007.

With these changes to the law, specialist consumer finance companies, banks, credit sales and credit card companies and other market players are now competing fiercely for shares of the same market. However, while banks choose to limit their lending to customers in the middle-risk category or better, specialist consumer finance companies have also built expertise in the field of finance for high-risk borrowers. With their nationwide networks and emphasis on face-to-face marketing, specialist consumer finance companies also have a significant advantage over credit sales companies, which tend to have few branches and rely on non-contact marketing.

Another consequence of the changes to the law has been the elimination of smaller money lenders, which tend to have limited financial resources, through competition in the market. The market is evolving rapidly toward domination by a small number of major companies. This process is expected to cause temporary market disruptions, including a credit crunch resulting from the adoption of tighter lending criteria, and increases in the amount of non-performing loans and other factors. As shown in the diagram at right, the number of applications received by big four consumer credit companies has remained basically unchanged since the



Timetable for Introduction of Amended Money Lending Business Law

A key feature of the amended law, which was passed and promulgated in December 2006, is the fact that it will be enforced progressively in four stages. The basic timetable is as follows.

Stage 1—January 20, 2007

Penalties for unregistered lending were increased.

Stage 2—December 19, 2007

The amended law was renamed the “Money Lending Business Law.” Other changes include the tightening of registration criteria for money lenders, the establishment of the Japan Financial Services Association as an authorized corporation, and the reinforcement of supervision through the introduction of the operational improvement order system.

Stage 3—Within 18 months of Stage 2 enforcement

Basic asset requirements will be increased, and a system of qualification examinations for money lending operatives will be established. Other changes will include the establishment of a designated credit bureau system.

Stage 4—Within 30 months of Stage 2 enforcement

The interest rate ceiling will be lowered, and restrictions on excessive lending will be tightened, including the abolition of the “gray-area” agreed-rate system, the introduction of limits on total lending, and the establishment of an obligation to investigate repayment capacity.

passage of the amended Money Lending Business Law, indicating that there has been no major shift in market demand. However, there has been a dramatic reduction in the number of contracts signed for new loans. This reflects the impact of changes in the credit stances of consumer finance companies.

This challenging transition will be a temporary phenomenon, however, and competition is expected to ease as the number of suppliers in the market declines. A reduction in credit risk is also anticipated, since there will be a reduction in the incidence of multiple indebtedness after the amended lending law takes full effect.

Strengthening Earning Performance in Our Core Business

Business conditions are likely to be difficult in the short-term perspective, but we believe that there will be important benefits for AIFUL as one of the survivors, and that we can look forward to a new growth phase in the medium- to long-term perspective. The consumer finance business will therefore remain the core business segment for the AIFUL Group.

AIFUL is moving quickly to adapt to the amended Money Lending Business Law by building business models and a business structure based on a management policy of selection and concentration. We are radically altering our existing cost structure by restructuring our branch network, rationalizing our workforce and reducing selling and administrative expenses. We are also taking prompt action to reduce the incidence of bad loans by applying more stringent lending criteria. Additionally, we have restructured our scoring system to reflect the changes caused by the introduction of the 20% interest rate ceiling. Other priorities include the development of new products, including semi-customized products to meet the specific needs of individual customers. We are using these measures to strengthen our competitiveness and improve our management efficiency.

Applications at Big Four Consumer Loan Companies and Contracts Signed



Credit Card Business

We plan to concentrate LIFE's management resources into this segment, and to build corporate card services for small and medium-sized enterprises into a new income source alongside card services for individuals.

Japan's Credit Card Market

According to statistics compiled by the Japan Financial Services Association, there were 292.66 million credit cards in use in Japan at the end of March 2006. This is equivalent to 2-3 cards for every Japanese citizen.

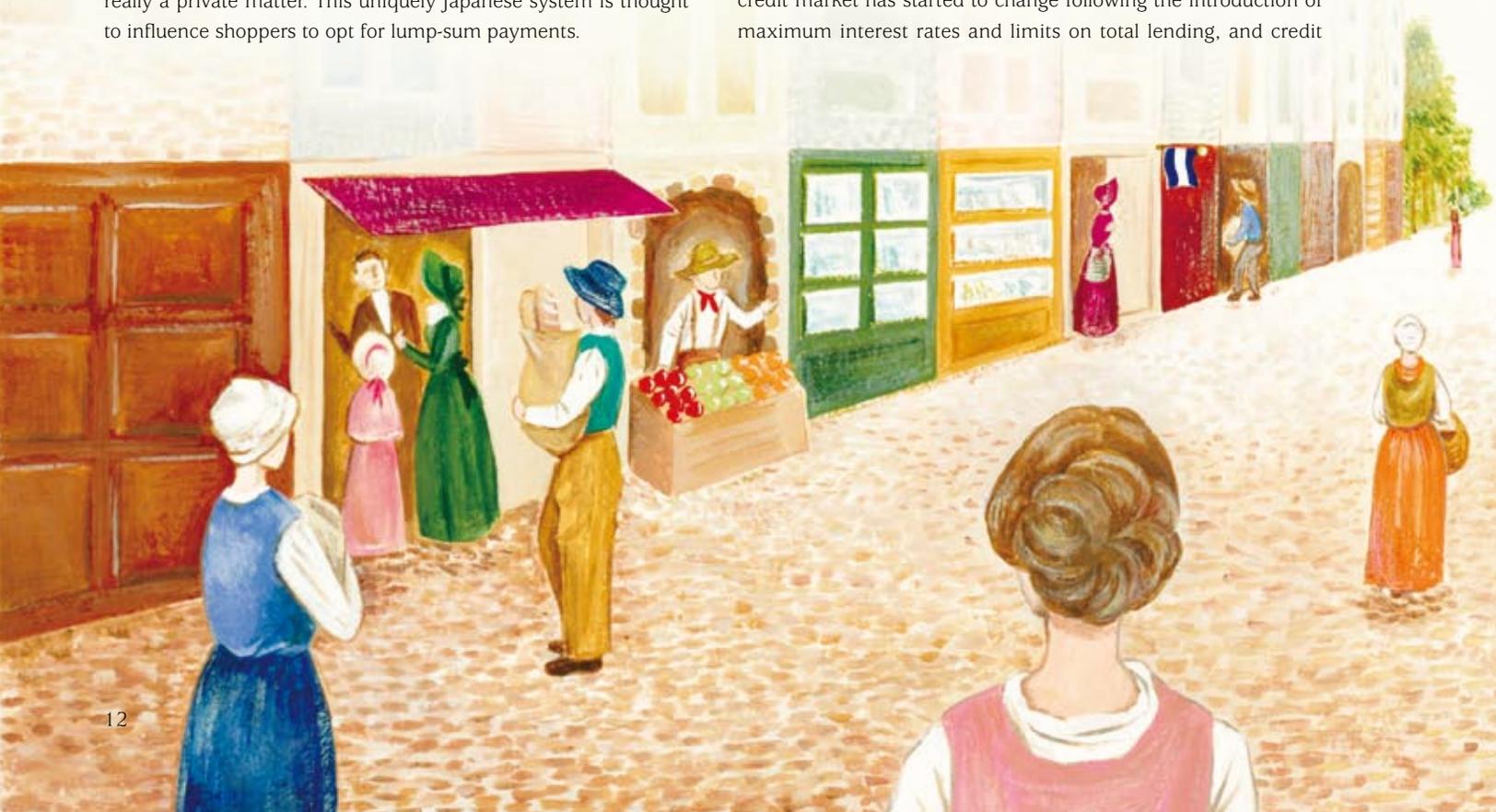
The growing use of credit cards has been reflected in the level of transactions in the market, which has more than doubled from ¥15.9 trillion in 1990 to ¥42.3 trillion in 2006. This is equivalent to an average annual growth rate of 6%.

From a different perspective, credit cards still account for a relatively small percentage of total consumer spending in Japan at less than 15%, compared with over 20% in the United States. This reflects a strong preference for cash in Japan. Furthermore, around 90% of credit card debt is settled in full the following month through bank account payments. The revolving payment method, which is common in the United States, makes up only 10% of transactions in Japan. This is because, in Japan, credit users are required to declare at the time of purchase whether they will be paying in a lump sum or in installments, which is really a private matter. This uniquely Japanese system is thought to influence shoppers to opt for lump-sum payments.

In recent years, credit cards have become widely used to pay for on-line shopping, and credit cards themselves have become more versatile thanks to integration with other systems, such as IC cards and e-money. In addition, credit card payment is now accepted in areas in which cash was the traditional payment method, such as public utility charges, insurance premiums and payments to medical institutions. These changes are expected to increase the preference for credit cards as the primary means of payment and result in further market expansion.

Challenges for Credit Card Companies

Despite this market expansion, Japanese credit card companies will still face major challenges as amendments to Money Lending Business Law take effect. As noted above, revolving payment is still not common among Japanese credit card users, who still show an overwhelming preference for lump-sum payments. As a result, credit card companies earn most of their income from interest on cash advances, with card usage fees making only a small contribution. However, the structure of the consumer credit market has started to change following the introduction of maximum interest rates and limits on total lending, and credit



card companies will inevitably face competition from consumer credit companies in the area of cash advances. Credit card companies have few branches and rely mainly on non-contact marketing. They also have no specific advantage in terms of their lending expertise. To maintain their earning performance, credit card companies will need to maximize benefits of scale and create new income streams.

Turning Group Synergies into New Income Streams

The AIFUL Group's credit card business was launched by LIFE Co., Ltd. in 2001. LIFE has achieved sustained business expansion by using the AIFUL Group's credit expertise, and by radically restructuring its existing business operations. In the future, it will strengthen business fundamentals by modifying its cost structure to reflect changes in the competitive environment and by concentrating management resources on its core credit card business. In the area of consumer card services, LIFE intends to switch to a business model that avoids excessive reliance on the loan business. Its basic policies are to realize advantages of scale by expanding its cardholder base by developing a diverse range of affiliation cards, to improve card utilization rates by enhancing

its services, and to encourage cardholders to use LIFE cards as their main credit cards.

AIFUL's group-level strategy calls for the expansion of corporate financial services. In line with this policy, LIFE is taking full advantage of its credit card settlement and credit capabilities to develop business card services for small and medium-sized enterprises.

Small-business credit cards are currently the most dynamic segment of the credit card industry in the United States. These flexible and convenient products, which can be used not only to make payments but also to meet urgent funding needs, are not yet widely used in Japan. LIFE has corporate card settlement systems and a business-customer base consisting mainly of affiliated merchants. In addition to these advantages, LIFE is also able to draw on the corporate scoring expertise developed by AIFUL Group business loan subsidiaries BUSINEXT and City's and should be able to achieve significant growth in its activities in this area.

We are determined to develop new markets and create new income sources by maximizing the synergy potential of the AIFUL Group.



Business Lending

AIFUL has identified medium-risk business lending as a growth field.
We are dynamically leveraging our resources and experience to expand our share of this market.

Massive Potential Demand in the Medium-risk Market

The AIFUL Group's main targets in the business lending market are small and medium-sized enterprises (SMEs) and sole proprietorships. According to the White Paper on Small and Medium Enterprises in Japan, which is published by the Small and Medium Enterprise Agency, there are approximately 5,200,000 SMEs employing 20 or fewer people (as of 2006). These businesses constitute a massive potential market for operating funds and other financial needs.

Traditionally, owners of SMEs have obtained low-interest finance from megabanks, local banks, shinkin (credit cooperative) banks and other sources, using assets, such as real estate, as collateral. Other possible sources for the financing needs of smaller businesses include high-interest loans, secured by guarantors, from

specialist commercial money-lenders. However, banks have limited risk tolerance when lending to SMEs or sole proprietorships, and they have sought to reduce their non-performing loans by imposing increasingly demanding conditions, such as the provision of collateral or the maintenance of positive business performance. Banks are also unable to provide flexible, convenient solutions to urgent financing needs.

Commercial money-lenders, which specialize in high-risk lending, have been forced to rethink their business models and reduce credit costs by tightening their lending criteria, following the reduction of upper limits on interest rates. These factors are also limiting further market expansion.

There is enormous demand for finance, including operating funds, capital investment funds and business expansion funds, especially in the middle-risk segment of the business loan market. As this analysis indicates, however, these needs are not being adequately met.

New Approach Based on Unique Expertise

AIFUL CORPORATION began to market business loans in 1995 to diversify its products under its comprehensive financial services group strategy. Since then we have steadily expanded our activities in this area. We established BUSINEXT CORPORATION as a joint venture between AIFUL and Sumitomo Trust & Banking to develop the medium-risk market, and we acquired City's, a loan company specializing in the high-risk segment. Today, only the AIFUL Group offers multiple brands in the Japanese business loan market, has established lending expertise based on sophisticated corporate scoring systems, and maintains a branch network covering the whole of Japan.

In the future, we will focus in particular on the medium-risk market. Our goal is to maximize our potential as a group, including the resources and channels of AIFUL Group companies, by integrating group-wide marketing and customer attraction synergies. These policies will allow us to take full advantage of our accumulated expertise in the area of small and medium-sized enterprises and sole proprietorships, and to develop business lending into a second major source of income for the AIFUL Group.



Loan Guarantee Business

We will leverage synergies within the AIFUL Group to develop opportunities in the business loan guarantee segment.

Working in Partnership with Financial Institutions

Faced with a maturing consumer finance market and escalating competition over the past few years, major companies have begun to develop the loan guarantee business in partnership with financial institutions, as way of securing new customers.

Under this system, the partner financial institutions market loans as contact points for customer applications and lending, while consumer finance companies carry out credit checks and provides loan guarantees. By using consumer finance companies as guarantee contractors, financial institutions can avoid the risk of non-performing loans. They can also secure a reliable income stream simply by marketing loans over the counter to their customers. The advantages for specialist consumer financial companies include the opportunity to make effective use of their scoring expertise without using their own funds, as well as potential access to new customers—all the while helping their financial-institution partners earn money.

Our Advantage in the Business Loan Guarantee Market

The AIFUL Group provides unsecured consumer loan guarantees and business loan guarantees through AIFUL and its LIFE subsidiary. Rival companies also provide these services, but we are dynamically using the unique expertise of the AIFUL Group to build a position of advantage in the business loan guarantee market. As described on the previous page, there is enormous potential demand for lending to small and medium-sized enterprises, and there is little competition. AIFUL also has a major competitive advantage in this market because only the AIFUL Group has developed a scoring system for small and medium-sized enterprises.

AIFUL CORPORATION currently has business loan guarantee partnerships with 68 banks, and LIFE with 15. In the current year alone, these two AIFUL Group companies formed new partnerships with 21 banks. We are continuing to focus on the development of new products for this segment, and on the establishment of more partnerships.



Special Feature 2:

AIFUL Group's Proactive Involvement

AIFUL is determined to justify the confidence of its stakeholders by implementing CSR activities under a new structure.

We are putting our corporate philosophy into practice under a new CSR implementation structure.

The corporate philosophy of the AIFUL Group is to earn the support of the public with sincerity and hard work. We want to put this philosophy into effect by applying CSR principles to all of our activities. In March 2008, we adopted CSR activity guidelines requiring all employees to base their actions on a proper understanding of CSR. Our corporate philosophy is the cornerstone for CSR activities in five basic areas: management systems, workplaces and working environments, customer-focused initiatives, actions in response to environmental problems, and social contribution and harmony with communities. Our CSR promotion efforts are administered by the General Administration Department and the Public Relations Department, which provide coordination and support for activities throughout the AIFUL Group.

Strengthening corporate governance

The corporate governance structure is the foundation for CSR activities. We are working to build solid relationships of trust with all stakeholders, including our customers and shareholders by enhancing our systems and policies, by providing appropriate disclosure, and by developing high-quality management systems with a high standard of transparency.

In the year ended March 2008, we established the Risk Management Committee and expanded the Compliance Monitoring Department. Other improvements to our governance structure included the introduction of an executive officer system, and the establishment of a Corporate Auditors' Office.

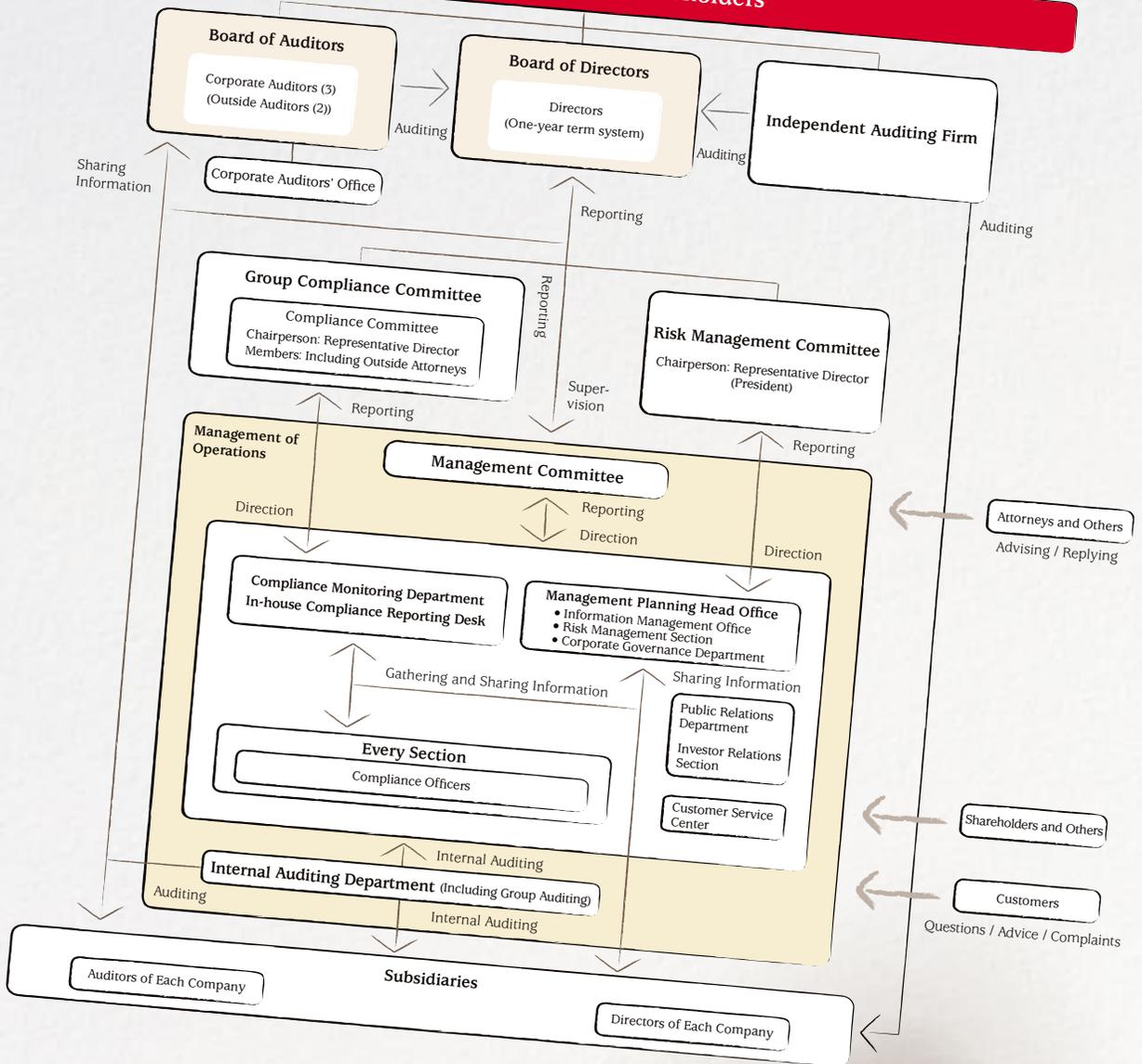
We also adopted a Compliance Code of Conduct as a practical compliance guideline. These provide specific information about the attitudes and behavior required as business people with high ethical standards and a social conscience to meet the expectations of all stakeholders. We are now implementing various measures to inform all employees about these requirements.

Encouraging employees to achieve personal growth as citizens of the business community.

The reform process has only just begun, but there are already clear signs of changes in employee perceptions of CSR. Our continuing corporate growth depends on the ability of our employees to earn the trust of society by fulfilling their social responsibilities as citizens of the business community.

We will continue to expand and develop our CSR activities, and to enhance our corporate value by developing an environment in which all employees will experience enjoyment and pride through their work with the AIFUL Group.

General Meeting of Shareholders



Corporate Philosophy
 Earn the support of the public
 with sincerity and hard work

“ *Major changes are occurring in employee attitudes toward compliance. Employees now take the initiative in offering opinions and ideas, and signs of the newly forming corporate culture emerge daily.* ”

Director, Managing Executive Officer,
Compliance Monitoring Department
Shintaro Hashima



Management policies are the foundation of CSR commitment.

CSR is driven by a management structure based on a corporate philosophy that encompasses corporate governance, compliance systems and risk management systems.

AIFUL's 10-Point Code of Conduct

- *Legal compliance*
We pledge to act in accordance with laws, company rules and regulations, and the standards of public decency.
- *Group compliance*
We will do our utmost to build an AIFUL Group that is respected by customers and society as a whole.



Management Systems

AIFUL's evolving corporate culture is firmly grounded on respect for compliance.

Q1. What is your basic stance on corporate governance?

Simply put, our priority is to maintain steady progress toward the implementation of our new corporate philosophy, which is to earn the support of the public with sincerity and hard work. In the past, our three core values were good faith, hard work and trust. To these we have added a fourth core value: gratitude. Gratitude is essential to our efforts to build a solid foundation of trust with all of our stakeholders, including our customers. These are the four cornerstones of our approach to corporate governance.

Q2. What are your thoughts on corporate governance?

The Compliance Monitoring Department is primarily responsible for compliance promotion. The specific activities of this unit include the proposal of compliance-related policies and the monitoring of progress. The Compliance Monitoring Department also convenes the monthly meetings of the Compliance Committee. The membership of the Compliance Committee includes outside experts and the corporate auditors. It deliberates on everything from issues with internal control systems to the prevention of problem recurrence.

In the year ended March 2008, we further strengthened our governance structure by introducing an executive officer system and establishing a risk management committee and the Corporate Auditors' Office. At present, we are considering individuals for appointment as outside directors.

Q3. How is compliance maintained in individual organizational units?

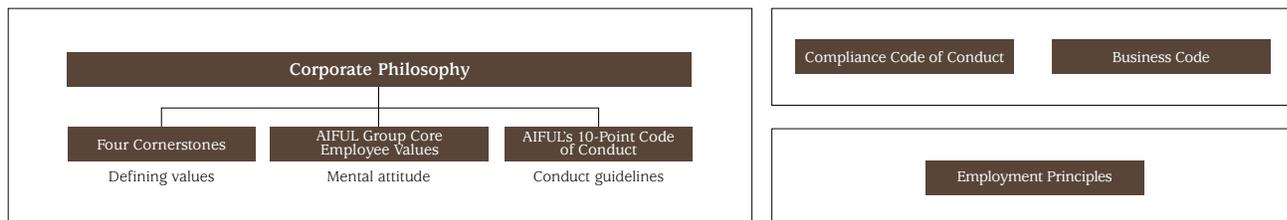
We have appointed compliance officers in every section. As of March 31, 2008, there were approximately 280 compliance officers. Their task is to strengthen compliance by promoting and monitoring compliance in the workplace and by submitting regular progress reports to the Compliance Monitoring Department.

Another workplace-level initiative is the "Executive Caravan" program. Under this program, executives visit workplaces to speak directly with employees. As of June 30, 2008, approximately 18 months after inception of the program, executives had made 861 workplace visits and met with a total of 9,046 employees.

Q4. How would you assess the effectiveness of these activities?

I sense a real change in the attitudes of both management and employees. To implement reforms, we must be sensitive to attitudes in the workplace. At the same time, management must convince employees personally that their commitment to change is genuine. We have these qualities. That is why our employees are actively putting forward opinions and ideas. Only by reconciling respect for compliance with the ability to earn profits, can we hope to improve our corporate value. I sense that we are now evolving a new corporate culture in which this will be possible, and I believe that we are making real progress toward a new growth phase.

Foundations of Corporate Culture



Workplaces and Working Environments

The recognition of people as our ultimate resource is reflected in our new human resource management policy and in the creation of new workplace environments.

Q1. What is your basic thinking on the role of people in the AIFUL Group?

In April 2007, we adopted our employment principles as guidelines for the human resource policies that we need in order to put our new management philosophy into practice and fulfill our action program commitment to the development of stimulating workplaces. We have identified three fundamental requirements in our employment principles. First, human resource policies, including deployment, evaluation, terms of employment and skill development, must be based on a systematic, long-term approach. Second, we must foster a workplace culture that allows employees to achieve personal growth through their work and experience a sense of motivation and achievement. Third, we must recognize people as our ultimate resource. These requirements also form the basis of the new human resource management system introduced in April 2008.

Q2. What are the central features of the new human resource management system?

I think the key concept is achieving a balance between gentleness and rigor. Under our new system, we are doing everything possible, including the enhancement of our employee welfare provisions, to ensure that our employees can work with peace of mind. At the same time, we have introduced qualifying exams for in-house advancement and objective and multifaceted appraisal processes. Our thinking on human resource management also emphasizes a long-term, planned approach. Our approach to employee transfers and skill development now reflects this long-term perspective, with systems in these areas taking account of the wishes and goals of employees.

Q3. What systems have to be established with the aim of creating workplaces in which employees can work with peace of mind?

I believe that enhancements to our employee welfare systems are significant in this regard. We support our employees totally through a range of measures, including child education allowances, assistance with house purchases and long-term

employment bonuses. In the past, women tended to stay in employment for a relatively short period of time. Under our new systems, they will feel more confident to build careers, and that will add greater depth to our human resource pool. Our basic philosophy emphasizes long-term employment, and we want to develop working environments in which employees will feel confident to stay with us for many years.

Q4. What specific methods do you use to evaluate personnel?

The system we used in the past was weighted toward results-based evaluation. Basically, employees were evaluated on an absolute scale. We now recognize that there were problems with this approach, and we have introduced a goal management system that focuses on the work attitudes of employees. Goals are not imposed unilaterally from above. Instead, employees achieve growth by establishing and sharing goals in consultation with their supervisors. We not only evaluate numerical results, but also place emphasis on operational processes, such as, in the case of marketing personnel, for example, branch management and marketing skills and training of subordinates.

Q5. What effects have you seen from the new human resource management system?

Employees say that they are now communicating more with their supervisors, and that the mood in the workplace has changed. I feel that the environment has started to change. Basically, work should not be imposed by another, but rather created by oneself according to one's own thinking. We aim to foster this sense of independence, this ability to think, within our corporate environment. The new system was only recently introduced, but I expect to see real benefits in the near future.

“ AIFUL is developing an environment in which people feel confident to advance their careers after marriage or childbirth. This promotion of diversity in the workplace offers real advantages to women. ”

Personnel Department,
Recruitment Section
Kaori Matsuda

“ Goals should not be imposed from above. They should be adopted in partnership and achieved through shared effort. We want to create an environment in which individuals feel free to think for themselves and create their own work. From a long-term planning perspective, I believe that everyone wants to develop working environments in which they can enjoy a sense of motivation and achievement. ”

Manager, Personnel Department,
Recruitment Section
Norio Nakanishi



Employee satisfaction is a vital CSR indicator. The employment principles adopted in our new human resource management system seek to develop workplaces in which individuals can gain satisfaction and fulfillment.

AIFUL's 10-Point Code of Conduct

- *Building a fulfilling workplace*
We will create a workplace that provides a sense of purpose by respecting our co-workers as individuals and working to continue our own personal development.



“ *Putting the customer first is a fundamental principle for us. Our new business values reflect the views of countless front-line employees, and all employees are working together to put them into practice.* ”

Kinki Loan Business Department,
Shijo-Omiya Branch
Keiko Tanaka



Vital to CSR is the conduct of business based on our customer-first philosophy, always—through products to meet customers' needs, customer-influenced management policies and public information through the Liaison Group of Consumer Finance Companies.

AIFUL's 10-Point Code of Conduct

- *Customer first policy*
The customer is our number-one priority —we will strive to provide appropriate services that offer customers peace of mind.



For Our Customers

Our new business values return us to the fundamental principle of putting the customer first, always.

Q1. Your philosophy is to “put the customer first, always.” What does this mean?

The AIFUL Group’s business could not exist without customers. That is why we have made the principle of putting the customer first the foundation stone of our philosophy. Unfortunately, in our haste to maximize our earnings, we have sometimes lost sight of this vital principle. We regret this, and we have decided to return to the basics by considering once again what putting the customer first really means. We intend to apply the customer-first principle to all facets of our business activities. By putting this philosophy into practice, we will earn the trust of our customers, and that will be reflected in higher corporate earnings. I believe that the customer-first principle is ultimately linked to the realization of our corporate philosophy of earning the support of the public with sincerity and hard work.

Q2. What is your basic stance on marketing activities?

As part of our current reform process, we have established new business values through intensive discussion of various issues, from the perspective of our customer-first philosophy, including our stance on business activities and the methods used. These business values are the starting point for customer-focused compliance and will be the model for all business activities. In keeping with this primary commitment to a customer-centered approach, our mission is to meet the needs of as many customers as possible.

In compiling our business values, we sought out the views of countless front-line employees through employee questionnaires and discussion sessions with branch managers. These initiatives were essential to the implementation of reforms affecting the entire corporate organization. The wishes of our employees are directly reflected in these policies, and I am determined to put them into effect in partnership with those employees.

Q3. What steps are you taking to reform your business activities?

We are applying our business values both from the bottom up and from the top down. On monthly compliance days, we hold seminars in all organizational units. There are also regular seminars for branch managers, who are responsible for front-line activities. In the year ended March 2008, we held a total of around 1,200 of these seminars. We have also introduced counselor training for employees in the specialist departments that handle repayment demands. There are in-house exams to monitor learning progress.

We are also working to implement our customer-first philosophy through bottom-up initiatives. For example, we have appointed customer satisfaction (CS) advisors at all business sites to identify areas requiring improvement from the perspective of front-line staff. We have produced customer-first checklists and held seminars on customer satisfaction and employee manners. Through activities such as these we are encouraging employees to apply our new business values to their thinking and actions.

Q4. How would you assess the results of these measures?

According to a survey of all employees held in November 2007, the percentage of employees who support what the AIFUL Group is trying to do has risen by over 10% in the past year to stand at over 80%. We received many positive comments from employees. Some emphasized that AIFUL’s future success depends on the efforts of individual employees, while others said that we needed to surpass customer expectations with the quality of our services. There were also opinions and suggestions about future improvements. The survey results were indicative of a major shift in employee attitudes. We need to take these initiatives further. We also need to encourage self-motivated efforts based on a constant awareness of issues.

Contributing to the Environment and Society

We have a new awareness of corporate social responsibility, especially environmental and social contribution initiatives involving employee participation.

Q1. What is the positioning of environmental and social contribution activities in your CSR policy?

In March 2008, we adopted the CSR Promotion Policies as a framework for company-wide CSR activities. These policies cover five areas: management systems, workplaces and working environments, customer-focused initiatives, actions in response to environmental problems and social contribution and harmony with communities.

The first three of these five policies form the core of our CSR activities. We have implemented a variety of initiatives in these three areas as part of our recent management philosophy reform process, and we will continue to work in these areas. However, we have been less active in the other two areas—actions in response to environmental problems and social contribution and harmony with communities. We now see these areas as vital to the stimulation of interest in CSR activities, since employees can gain a real sense of personal involvement through participation. The General Administration Department also performs the role of a CSR Secretariat. In the future, the department intends to work in this capacity to promote a wide range of initiatives in which employees may become involved.

Q2. What actions have you taken in response to environmental problems?

One initiative that is becoming increasingly popular throughout the AIFUL Group is the Ecocap Movement^{*1}. This activity began as an independent initiative by some individual departments. However, employees in other departments soon heard about it and began inquiring with the aim of starting up programs in their own departments. Today, the entire AIFUL organization is involved. Similarly, after Green Fund^{*2} vending machines were installed in our head office, employees in other departments also began to ask for these machines in their workplaces. I see these activities as indicative of growing environmental awareness among individual employees.

We are also working to reduce CO₂ emissions. At our main business sites, we have implemented the “Cool Biz” program, an initiative by the Japanese Ministry of the Environment to reduce air conditioner use by allowing staff to remove ties and jackets in the summer months. Last year we cut emissions

of CO₂ by around 170 tons compared to the level before the introduction of the program. We are continually expanding our environmental activities, which also include participation in the Team Minus 6% program as a way of contributing to the achievement of Japan’s Kyoto Protocol obligation to cut its CO₂ emissions by 6% compared with the 1990 level.

Q3. What activities are you implementing under your policy on social contribution and harmony with communities?

For many years we have supported various public service organizations. In the future, we will take steps to clarify our stance and objectives. We also give priority to activities based on employee participation. Since summer 2007, we have carried out community clean-up projects in the area around our head office building. Local residents tell us they appreciate these efforts.

In October 2007, we introduced a voluntary activity leave system to support and encourage voluntary work by employees. One employee who took part in a voluntary program reported that he had gained a new awareness of the joy of being thanked for efforts. Many of our employees also participate in voluntary programs on weekends. We are actively supporting these activities and helping to create environment conducive to CSR participation by providing secretariat services.

Q4. What steps will you take in response to future challenges?

One challenge is to ensure that employees have a proper general understanding of CSR. Many people equate CSR with social contribution, but it is important to recognize that all corporate activities are CSR. We aim to focus on activities that will allow us to make a contribution to society within that framework.

*1. The aim of the Ecocap Movement is to collect and recycle the caps of PET bottles and to use the money raised to pay for polio vaccines for use in developing countries. At the end of April 2008, the AIFUL Group donated sufficient caps to pay for 361 doses of vaccine.

*2. Under this system, ¥10 is donated to the Green Fund for every eligible product purchased. The funds raised in this way are used for forest development activities, including tree planting and pruning.

“ We have adopted five clear policies on corporate social responsibility (CSR) activities. The large number of ideas put forward by employees in relation to environmental and social contribution activities is indicative of growing awareness. We value this input from our employees, and we will continue to expand and enhance our CSR activities. ”

General Affairs Department
Kiyotaka Miyamoto

To protect the global environment as a good corporate citizen, AIFUL Group participates in the Cool Biz and Warm Biz programs and sorts and recycles waste. We will continue to meet the needs of our customers and society.

AIFUL's 10-Point Code of Conduct

- *Contribution to society*
We will delight in contributing to the betterment of society through our work.



AIFUL CORPORATION

Establishing group-wide compliance systems and updated cost structures under new business models to take the AIFUL Group into a new growth phase.

Selection and Concentration with Increased Emphasis on Efficiency

As the core company, AIFUL CORPORATION accounts for over 60% of the Group's loan balance. In addition to unsecured loans, which are AIFUL's major business activity, AIFUL CORPORATION handles home equity loans and small business loans to sole proprietorships. We also provide loan guarantees for individuals and small businesses in partnership with other financial institutions.

We face escalating competition for unsecured loans from an influx of new players into the market from other industries. We are also affected by temporary market shrinkage caused by the enforcement of the amended Money Lending Business Law, the tightening of credit criteria by lenders, and the postponement of borrowing decisions by customers. However, customer needs still exist, and we believe that the market will stabilize again once the transition to the 20% interest rate ceiling is complete. The withdrawal of smaller lenders from the market is reducing the number of suppliers and benefiting the surviving lenders in a number of ways, including expanding loan balances and improved asset quality.

AIFUL CORPORATION is preparing to enter a new growth phase under a management strategy of selection and concentration. The aim of this strategy is to optimize the allocation of our management resources.

Overview of Business Performance in the Year Ended March 2008

In the year under review, we placed priority on the improvement of internal control systems for the entire AIFUL organization. Measures included reinforcement of our compliance management, and the development of new rules and regulations. We improved our cost structure, including consolidation of our branch network. At the same time, we added further strength to our new income structure by tightening lending criteria, bringing forward the schedule for reducing our maximum interest rate, and introducing new products, such as loans for specific purposes.

These measures were reflected in reduced revenue and higher income in the year ended March 2008. The balance of loans outstanding declined by 18.5% year on year to ¥1,058,879

million, and operating revenue was 22.5% lower at ¥233,039 million. However, ordinary income amounted to ¥22,191 million, and net income was ¥27,069 million.

The main reasons for lower revenue were a smaller top line resulting from the application of tighter lending criteria and the impact of lower interest rates. However, our cost restructuring efforts brought good progress toward the reduction of labor and other costs. In addition, our results were no longer affected by the extraordinary items recorded in the previous year, including the provision for substantial interest refund reserves. The dramatic reduction in operating expenses was reflected in higher income.

Segment Review

Loans

Looking beyond the temporary market disruption caused by the full implementation of the amended Money Lending Business Law, we moved early to reduce our future exposure to bad loans by implementing tighter lending criteria in October 2006. We maintained this stance in the year ended March 2008. As a result, the number of new loan contracts signed in the core category of unsecured loans declined by 25.7% year on year to 115,000, despite a 4.8% recovery in the number of new applications received, which totaled 324,000. The balance of loans outstanding also declined, with a 17.8% fall from the previous year's level to ¥817,824 million.

We radically revised our product designs and marketing methods for home equity loans and small business loans and adopted a more cautious lending stance. The balance of home equity loans declined by 19.4% year on year to ¥221,577 million, while the balance of small business loans was 32.2% lower at ¥19,477 million.

Credit Guarantees

We are working to strengthen our business infrastructure in this area, which we see as a future growth market. In the year ended March 2008, we expanded our involvement in loan guarantees for individuals and small businesses in partnership with financial institutions. We also launched a new scheme in partnership with chambers of commerce and industry and began to provide credit guarantees for members of those organizations.

In the year ended March 2008, we formed new partnerships with 11 financial institutions and provided guarantees for 44 companies in the area of unsecured loans to individuals, and for 68 companies in the unsecured small business loan category. While the balance of guarantees on loans to individuals declined by 8.8% to ¥34,826 million because of increased competition, AIFUL's unique knowledge of business lending helped it to increase the balance of small business loan guarantees by 3.2% to ¥21,397 million.

Progress on Cost Restructuring

In January 2007 we announced plans for the reorganization and cost restructuring of the AIFUL Group. In the year ended March 2008, we continued to review our branch strategy and personnel deployment under this plan, and the entire AIFUL organization worked to minimize operating expenses, including advertising costs and system development costs.

We closed 795 unmanned branches in the year under review, in addition to 410 manned outlets closed in the previous year. This total includes 266 branches with *Suguwaza* simplified auto-application machines. As a result, we have now largely reached our goal of 1,000 manned and unmanned outlets at the non-

consolidated level. Any reduction in the number of branches inevitably affects customer convenience. To minimize the impact, we built up our network of ATMs and cash dispensers to 107,000 units as of March 2008 by aggressively partnering with financial institutions and convenience stores. We also maintained service quality by centralizing some branch operations in contact centers and increasing center staffing levels, and by improving efficiency and computerizing operations. These measures allowed us to reduce our workforce by 936 year on year to 3,472.

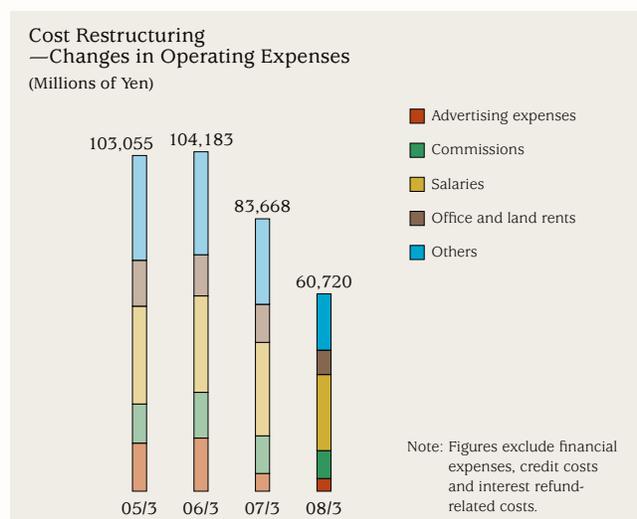
We worked aggressively to cut operating costs, including a reduction in advertising media achieved by reviewing our use of advertising media. We also cut system-related expenses by sharing systems with other AIFUL Group companies, and by curbing the development of new systems.

These cost restructuring measures allowed us to commence marketing of loans at rates of up to 18% interest to new customers from August 2007. We also stepped up marketing of low-interest products to existing quality customers, and the percentage of customers with unsecured loans provided by AIFUL CORPORATION (non-consolidated) at interest rates within the limits stipulated in the Interest Rate Restriction Law improved from 11% in March 2007 to 32% at the end of March 2008.

Outlook for the Year Ending March 2009

We expect challenging business conditions to persist in the year ending March 2009. Income will be affected by tighter lending criteria and lower interest rates, even as we face escalating competition for quality customers.

This situation is reflected in our forecast decline in the balance of outstanding loans by 14.8% to ¥902,511 million, and operating revenue by 24.2% to ¥176,676 million. However, income will start to benefit from our cost restructuring efforts, and we also expect to see indications that bad debt costs have peaked. We have ample resources to cover interest refunds, since we have already provided sufficient reserves to cover the full amount that could be incurred in the future. On this basis, we are predicting that ordinary income will increase by 17.2% year on year to ¥26,000 million, and net income by 14.3% to ¥30,931 million.





LIFE Co., Ltd.

Strengthening the credit card business and maximizing synergies by fully exploiting the potential of LIFE Card credit services and settlement functions within the Group.

Dynamic Expansion of Core Credit Card Business

LIFE Co., Ltd. is involved in the credit sales and credit card areas. Since becoming a subsidiary of AIFUL CORPORATION in March 2001, it has targeted three areas—credit card shopping, card cash advances and the new-style bank loan guarantee segment—achieving dynamic expansion and sustained growth.

In the year ended March 2008, LIFE continued to give priority to the restructuring of its business portfolio to maximize its earning performance and growth potential. Receivables outstanding in the business areas targeted for expansion, including credit card shopping, increased by 5.2% year on year to almost 60% of total receivables outstanding.

Recent changes to the law affected the per-item shopping loan business and the unsecured loan business. LIFE reviewed its cost structures in these areas and reduced receivables by about 5% year on year to a little more than 30% of its total receivables.

LIFE has decided to withdraw from business activities that contribute little to earnings, including traditional bank guarantees and auto loans. In the year under review, it reduced receivables in these areas to less than 10% of total receivables.

LIFE is a key element in the AIFUL Group's comprehensive financial services strategy. As of March 31, 2008, it accounted for 32.7% of the Group's total receivables and 29.3% of its operating revenue.

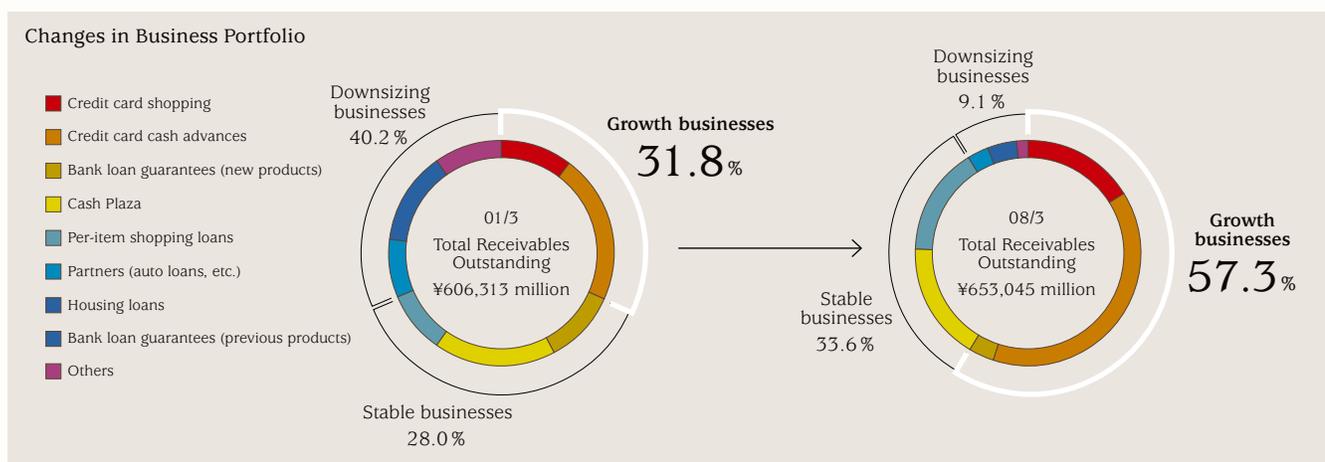
Overview of Performance in the Year Ended March 2008

LIFE's results for the year under review show lower revenue but higher income. The balance of receivables outstanding declined by 9.0% from the previous year's level to ¥653,045 million, while operating revenue was 6.8% lower at ¥120,667 million. Ordinary income amounted to ¥5,183 million, and net income was ¥3,427 million.

Despite strong growth in the credit card segment, revenue declined, partially as a result of the introduction of the new 18% interest rate ceiling for new or additional cash advances made from December 2007 onwards. Another factor was the continuing application of stringent credit criteria to loans provided through LIFE Cashing Plazas. Revenue was also affected by reductions in per-item shopping loans. Factors contributing to the increase in income included lower credit-related costs, especially interest refunds and bad loan charge-offs, as well as the reduction of operating expenses through cost restructuring.

Credit Cards

LIFE enhanced customer services by issuing affinity cards with a wide range of partners, including major medical institutions and companies in industries ranging from distribution to temporary staffing. Other improvements included extending the validity of



awarded points, the reduction of cash advance interest rates, and strengthened security systems. LIFE also added a new service to its proprietary LIFE Card, which can now be used with NTT DOCOMO's iD™ buy-now-pay-later e-money service.

In the year ended March 2008, LIFE issued 1.84 million new LIFE Cards. There was a net increase of 750,000 cardholders, bringing the total to 14.81 million. LIFE also worked to increase card usage and encourage cardholders to make LIFE Cards their main cards. Initiatives included a campaign to encourage paying utility bills using LIFE Cards and the establishment of the LIFE Be Store, an Internet shopping site established in collaboration with an IT company. Purchases from the LIFE Be Store can only be paid for using a LIFE Card. Credit card shopping transaction volume in the year under review increased by 18.4% year on year to ¥664,791 million. This is the sixth consecutive year of double-digit growth.

Per-item Shopping Loans

The entire market is shrinking because of tighter regulatory requirements for lenders by changes to the Installment Sales Law intended to raise consumer protection. LIFE anticipated these shifts in the external environment and implemented major changes in its rules for business with affiliated merchants, including tougher screening criteria, in the previous year. In the year ended March 2008, it strengthened screening criteria as part of its efforts to provide quality services in the area of per-item shopping loans. As a result of these measures, per-item shopping loan transactions declined by 65.1% year on year to ¥11,341 million.

Loan Guarantees

LIFE established new partnerships with ten financial institutions amid continuing efforts to expand sales of its products, including its new LIFE Business Loan guarantees. In the year ended March 2008, LIFE provided guarantees for 131 companies in the area of unsecured loans to individuals, and for 15 companies in the business loan category. However, the total balance of loan guarantees declined by 11.5% year on year to ¥73,486 million. The decline resulted in part from the reduction of the balance of traditional bank guarantees, which made a limited contribution to earnings, and a flat trend in the acquisition of business based on new-type products.

Loans

LIFE reviewed its lending criteria in the year ended March 2008. It also continued its efforts to attract new customers for the enhanced product line-up introduced in the previous year, including business loans secured by real estate, and loans for specific purposes. Under the AIFUL Group's business rationalization strategy, LIFE took over approximately ¥21,339 million in receivables from four consumer finance subsidiaries of AIFUL Group in December 2007. The balance of loans outstanding declined by 4.1% year on year to ¥380,191 million.

Outlook for the Year Ending March 2009

In the year ending March 2009, LIFE will continue to focus on the improvement of customer services with the aim of encouraging cardholders to use the LIFE Card as their main card. LIFE also plans to enhance its online registration system and actively market high-use proprietary cards. One of LIFE's advantages over rival companies is its branch network, and it will actively leverage this resource to attract new affiliated merchants and card tie-up partners. LIFE will also continue to develop future income sources by using the corporate lending know-how of the AIFUL Group to add credit and payment functions to the LIFE Card, and by actively promoting corporate card services for small and medium-sized enterprises.

However, external conditions are likely to remain difficult because of law changes and other factors. Tighter lending criteria will cause the loan balance to decline, and earnings will also be affected by interest rate cuts. In the year ending March 2009, both revenue and income are expected to decline, with the balance of loans outstanding falling by 5.2% year on year to ¥618,992 million, and operating revenue by 17.1% to ¥100,091 million. Ordinary income is projected to decline by 42.1% to ¥3,000 million, and net income by 57.6% to ¥1,453 million.

BUSINEXT CORPORATION

BUSINEXT has used its unique credit know-how to build a business based on medium-risk business lending.

Financial Services for Medium-risk Business Owners

BUSINEXT, which specializes in financial services for medium-risk business owners, was established in January 2001 as a joint venture between AIFUL and Sumitomo Trust & Banking, with AIFUL owning 60% of shares and Sumitomo Trust & Banking 40%. Since its establishment, BUSINEXT has maintained steady growth driven by expanding demand. Currently its customer base includes approximately 44,000 small and medium-sized businesses and sole proprietorships.

A deteriorating business environment for small and medium-sized companies and a sharp rise in the number of bankruptcies have created challenging conditions in the small business lending market. However, there is still substantial latent demand for operating funds, and this segment is seen as an extremely promising business area in the medium- to long-term perspective. The AIFUL Group has identified this segment as a growth business. BUSINEXT will maintain a cautious stance while continuing to build its business base to support future expansion.

Unique Business Model Geared toward Timely Lending

BUSINEXT's most important advantage is a unique business model designed to support the timely provision of unsecured, non-guaranteed loans. Knowledge and experience accumulated since its establishment have allowed BUSINEXT to develop an advanced scoring system for sole proprietorships and small and medium-sized enterprises (SMEs). Lending decisions are based on comprehensive assessments that include not simply business size and past performance, but also the financial position and management character of each business. BUSINEXT provides timely solutions to a wider range of customer needs, with decisions taking as little as three days for its flagship Card Loan and Business Loan products.

In addition to non-contact marketing, such as conventional direct mail methods, BUSINEXT also emphasizes face-to-face marketing with customers who visit its 10 branches in major cities. By combining these two marketing methods, BUSINEXT is able to differentiate its services from those provided by banks and specialist commercial lenders, reduce operating costs and maintain and improve customer satisfaction.

Overview of Business Performance in the Year Ended March 2008

In the year under review, BUSINEXT responded to a deteriorating business outlook for SMEs by cutting advertising costs and maintaining a cautious lending stance. This timely adaptation to a changing environment also included an increased emphasis on the marketing of home equity loans, which provide greater security.

Revenue was higher, but income was lower in the year ended March 2008. The balance of loans outstanding increased by 1.0% year on year to ¥83,192 million, and operating revenue by 1.7% higher to ¥11,348 million. Ordinary income was adversely affected by customer loan defaults and other factors, and there was a 76.5% year-on-year decline to ¥263 million, while net income was 87.9% lower at ¥79 million.

Conditions are expected to remain difficult, with market upheaval causing slower growth in the loan balance and persistently high bad loan charge-offs, among other effects. These factors are reflected in a forecast of reduced revenue and income in the year ending March 2009. The loan balance is expected to increase by 1.9% year on year to ¥84,803 million. Operating revenue is expected to decline by 3.5% to ¥10,946 million, ordinary income by 66.6% to ¥88 million, and net income by 72.3% to ¥22 million. However, BUSINEXT has already taken steps to meet current challenges, including the reinforcement of initial recovery operations through the allocation of additional personnel to receivables management. It has also improved its scoring system. The effects of these measures, combined with the easing of market upheavals, are expected to bring a return to growth.



City's Corporation

City's is developing new approaches to business by combining group synergies with its accumulated knowledge and experience in the field of lending to sole proprietorships and small and medium-sized enterprises.

Specialist in High-risk Business Lending

A consolidated subsidiary since October 2002, City's specializes in high-risk lending, including business loans and home equity loans, to sole proprietorships and small and medium-sized businesses. Under AIFUL's comprehensive financial services strategy, it complements BUSINEXT's medium-risk business lending.

City's line-up provides two key advantages. One is convenient, customer-focused financial products for sole proprietorships and small and medium-sized businesses that would otherwise be unable to obtain adequate financing because of credit risk or other factors. The other is high-quality service from loan assistants assigned directly to individual customers. Its flagship product is the Business Loan, which is backed by years of experience and advanced screening expertise. City's has also used the AIFUL Group's corporate scoring know-how to develop the Super Business Loan, a low-interest product with no guarantor requirement. Another popular City's service based on AIFUL's expertise is home equity lending to businesses.

Overview of Business Performance in the Year Ended March 2008

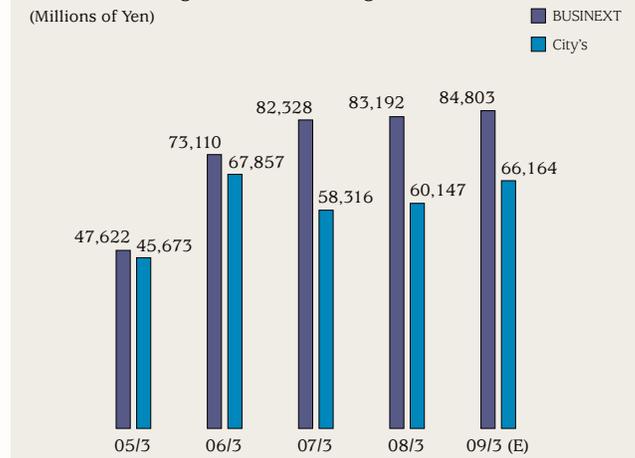
City's is preparing for the effects of the amended Money Lending Business Law by reviewing its branch strategy and personnel deployment as part of the AIFUL Group's cost restructuring plans. It is also shifting from door-to-door marketing to mass marketing and building new income structures in partnership with other organizations, including commercial and industrial associations.

Despite the tighter lending criteria in the year ended March 2008, the balance of loans outstanding increased by 3.1% year on year to ¥60,147 million. This reflects an increased emphasis on home equity loans, which provide enhanced security, and the aggressive expansion of business based on partnerships with various organizations. However, the rising percentage of low-interest products in the loan portfolio caused operating revenue to decline by 27.9% to ¥9,766 million. Operating expenses were reduced through cost restructuring, but City's adopted a conservative stance on provision for loan-loss reserves because of the persistently high level of non-performing loans. These and

other factors were reflected in an ordinary loss of ¥1,344 million and a net loss of ¥1,621 million.

While business conditions are likely to remain difficult in the year ending March 2009, the incidence of non-performing loans is expected to decline, leading to a reduction in credit costs. In addition, the benefits of cost restructuring and business model changes are expected to emerge. On this basis, City's is predicting that its balance of loans outstanding will increase by 10.0% to ¥66,164 million, and its operating revenue by 10.9% to ¥8,702 million. Both ordinary income and net income are expected to return to positive figures at ¥1,405 million and ¥1,467 million respectively.

Business-lending Loans Outstanding
(Millions of Yen)



Board of Directors, Corporate Auditors and Executive Officers



Directors									
Director	Director	Director	Director	President and CEO Representative Director	Representative Director	Director	Director	Director	Director
Masami Munetake	Nobuyuki Wakuta	Masayuki Sato	Shintaro Hashima	Yoshitaka Fukuda	Taichi Kawakita	Kazuyuki Isono	Tsuneo Sakai	Yoshinobu Takaishi	Yasuo Hotta

Corporate Auditors		Executive Officers		
Outside Standing Corporate Auditors	Masanobu Hidaka Norio Onishi	President and CEO	Yoshitaka Fukuda	Executive Officers
Standing Corporate Auditor	Kenichi Kayama	Senior Executive Officer	Taichi Kawakita	Tsuguo Nakagawa Akira Takami Yasuo Shiozawa Minoru Kobayashi
		Managing Executive Officers	Shintaro Hashima Masayuki Sato Tsuneo Sakai Nobuyuki Wakuta Yoshinobu Takaishi	Isao Okada Itaru Sato Masayuki Noda
		Executive Officers	Masami Munetake Yasuo Hotta Yasutaka Fukuda Kazumitsu Oishi	

Management's Discussion and Analysis



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SIX-YEAR SUMMARY

AIFUL Corporation and Consolidated Subsidiaries
Years ended March 31

	2003	2004	2005
FOR THE YEAR:			
Total income	451,168	479,473	520,737
Total expenses	343,715	375,659	391,295
Credit costs	138,479	157,349	155,466
Income (Loss) before income taxes and minority interests	107,453	103,814	129,442
Income taxes	47,426	41,016	53,015
Deferred income taxes	(10,129)	(5,158)	11,990
Net income (loss)	59,911	62,548	75,723
AT YEAR-END:			
Loans	1,670,782	1,786,940	1,995,622
Bad debts	120,399	149,826	175,136
Loans in legal bankruptcy	20,830	28,637	31,020
Nonaccrual loans	39,897	52,452	60,283
Accruing loans contractually past due three months or more as to principal or interest payments	16,503	17,820	21,049
Restructured loans	43,169	50,917	62,784
Total assets	2,282,113	2,332,761	2,574,286
Allowance for bad debts	132,130	145,757	159,483
Total liabilities	1,792,093	1,780,575	1,951,548
Interest-bearing debt	1,504,969	1,513,812	1,673,458
Minority interests	4,029	4,682	5,385
Total equity	485,991	547,504	617,353
PER SHARE DATA (YEN):			
Basic net income (loss)	425.06	440.65	533.57
Diluted net income	—	—	533.53
Total equity	3,428.97	3,863.06	4,358.69
Cash dividends	60	60	60
RATIO (%):			
Equity ratio	21.3	23.5	24.0
ROE	13.2	12.1	13.0
ROA	2.8	2.7	3.1
OTHER DATA:			
Number of shares outstanding at year-end	94,690,000	94,690,000	142,035,000
Number of employees at year-end	6,123	5,969	6,510

(Reference)	2003	2004	2005
Operating revenue	449,458	473,458	518,416
Ordinary income (loss)	111,797	112,446	135,294

(Millions of yen)

	2006	2007	2008
	548,818	501,009	402,389
	436,045	873,272	371,491
	166,047	447,375	155,930
	112,773	(372,263)	30,898
	45,375	40,529	3,275
	(145)	24,734	(3,251)
	65,827	(411,251)	27,434
	2,124,017	1,912,689	1,598,706
	203,800	328,046	343,768
	33,446	43,008	46,895
	80,721	180,819	189,721
	27,564	36,665	29,351
	62,069	67,554	77,801
	2,790,969	2,214,559	2,041,128
	171,715	407,573	330,415
	2,102,310	1,957,415	1,716,608
	1,792,746	1,530,262	1,354,089
	6,965	5,420	5,604
	681,694	257,145	324,521
	464.84	(2,903.85)	190.77
	464.69	—	186.86
	4,813.45	1,777.44	1,909.46
	60	60	40
	24.4	11.4	15.6
	10.1	(88.1)	9.6
	2.5	(16.4)	1.3
	142,035,000	142,035,000	167,475,000
	6,675	6,477	5,138

2006

2007

2008

549,548
126,964499,031
(163,092)405,784
32,066

Notes

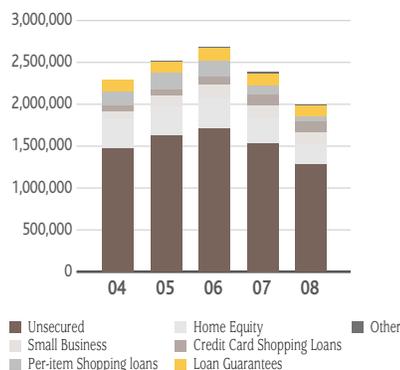
- Starting in 2005, equity per share, net income per share, and diluted net income per share were calculated based on the Accounting Standard for Earnings Per Share (Accounting Standard No. 2) and the Implementation Guidance for Accounting Standard for Earnings Per Share (Implementation Guidance for Accounting Standard No. 4).
- On May 23, 2005, each common, par value share held as of March 31, 2005, was split into 1.5 shares according to the provisions of Article 218 of the Japanese Commercial Code. As a result, the outstanding stock volume increased by 47,345,000 shares.
- Net income and total equity per share for all the fiscal years shown in the table through March 2005 were calculated as if the May 23, 2005 stock split had been implemented at the beginning of the term.
- On February 28, 2008, 25,440,000 new shares were issued through allocation of new shares to a third party.

FINANCIAL DATA

AIFUL GROUP

TOTAL RECEIVABLES OUTSTANDING (Managed Asset Basis)

(Millions of yen)

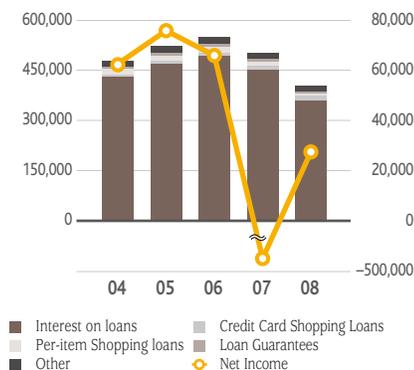


(Millions of yen)

	2004	2005	2006	2007	2008
Total Receivables Outstanding	2,299,023	2,523,947	2,681,746	2,369,586	1,999,414
Loans	1,907,655	2,095,202	2,232,418	1,985,263	1,665,682
Unsecured	1,477,430	1,622,032	1,708,119	1,537,905	1,278,001
Home Equity	346,183	352,214	357,025	291,716	246,520
Small Business	84,042	120,956	167,274	155,642	141,161
Credit Card Shopping Loans	71,528	79,623	101,135	127,222	127,678
Per-item Shopping Loans	176,024	197,226	183,907	112,518	62,808
Loan Guarantees	133,611	141,407	153,767	141,930	129,713
Other	10,206	10,489	10,520	12,652	13,534

TOTAL INCOME/NET INCOME

(Millions of yen)

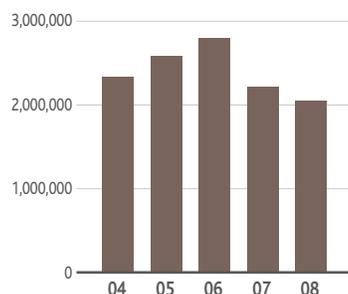


(Millions of yen)

	2004	2005	2006	2007	2008
Total Income	479,473	520,737	548,818	501,009	402,389
Interest on Loans	429,513	466,430	491,358	448,662	356,435
Unsecured	358,142	387,839	405,308	374,859	300,887
Home Equity	55,022	56,531	56,144	43,575	31,959
Small Business	16,348	22,059	29,904	30,247	23,590
Credit Card Shopping Loans	8,140	9,091	11,275	12,754	14,948
Per-item Shopping Loans	15,508	17,201	17,676	12,998	6,912
Loan Guarantees	5,562	7,088	8,668	9,187	8,548
Other	20,750	20,927	19,841	17,408	15,546
Net Income (loss)	62,548	75,723	65,827	(411,251)	27,434

TOTAL ASSETS

(Millions of yen)



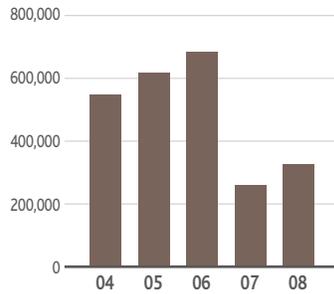
(Millions of yen)

	2004	2005	2006	2007	2008
Total Assets	2,332,761	2,574,286	2,790,969	2,214,559	2,041,128
ROA (%)	2.7	3.1	2.5	(16.4)	1.3

ROA = Net Income/Total Assets (average) x 100 (%)

TOTAL EQUITY

(Millions of yen)



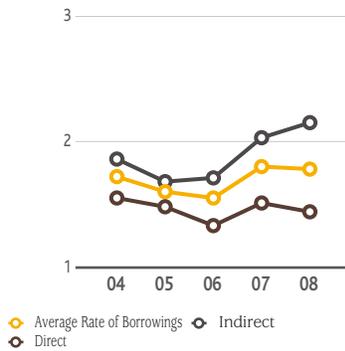
(Millions of yen)

	2004	2005	2006	2007	2008
Total Equity	547,504	617,353	681,694	257,145	324,521
ROE (%)	12.1	13.0	10.1	(88.1)	9.6

ROE = Net Income/Total Equity (average) x 100 (%)

AVERAGE RATE OF BORROWINGS

(%)

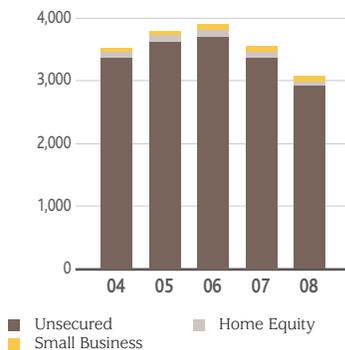


(%)

	2004	2005	2006	2007	2008
Average Rate of Borrowings	1.72	1.60	1.55	1.80	1.78
Indirect	1.86	1.68	1.71	2.03	2.15
Direct	1.55	1.48	1.33	1.51	1.44
Long-term Prime Rate (Reference)	1.65	1.65	2.10	2.20	2.10
Share of Indirect	56.2	60.2	56.8	55.7	46.8
Share of Direct	43.8	39.8	43.2	44.3	53.2

NUMBER OF CUSTOMER ACCOUNTS

(Thousands)



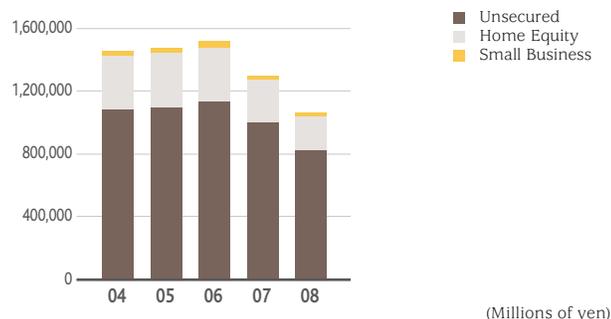
(Thousands)

	2004	2005	2006	2007	2008
Number of Customer Accounts	3,520	3,796	3,899	3,548	3,067
Unsecured	3,367	3,619	3,696	3,367	2,911
Home Equity	94	100	105	87	73
Small Business	59	78	99	93	83
Credit Card Holders	11,051	11,967	13,096	14,066	14,819
Per-item Shopping Loans Accounts	740	810	634	459	292

AIFUL CORPORATION

LOANS OUTSTANDING

(Millions of yen)

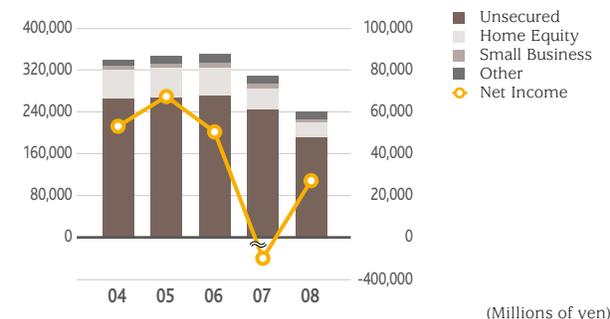


(Millions of yen)

	2004	2005	2006	2007	2008
Loans Outstanding	1,451,638	1,471,767	1,512,717	1,298,612	1,058,880
Unsecured	1,081,058	1,093,663	1,133,083	995,077	817,825
Home Equity	342,637	345,180	341,153	274,787	221,577
Small Business	27,943	32,924	38,481	28,747	19,478

TOTAL INCOME/NET INCOME

(Millions of yen)

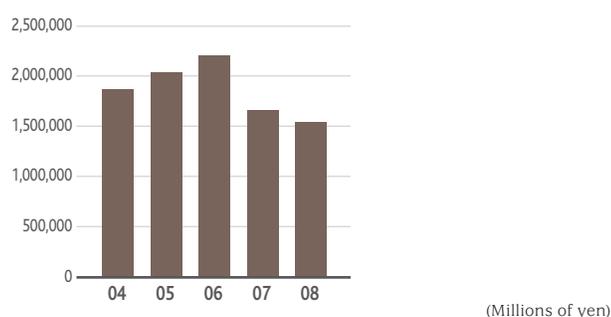


(Millions of yen)

	2004	2005	2006	2007	2008
Total Income	340,224	347,157	350,933	309,698	239,629
Interest on Loans	326,979	330,529	333,541	292,669	224,707
Unsecured	265,959	266,930	269,986	243,614	190,230
Home Equity	54,663	55,875	54,560	41,424	29,809
Small Business	6,355	7,722	8,994	7,631	4,668
Other	13,245	16,628	17,392	17,029	14,922
Net Income (Loss)	53,086	67,301	50,382	(359,399)	27,069

TOTAL ASSETS

(Millions of yen)

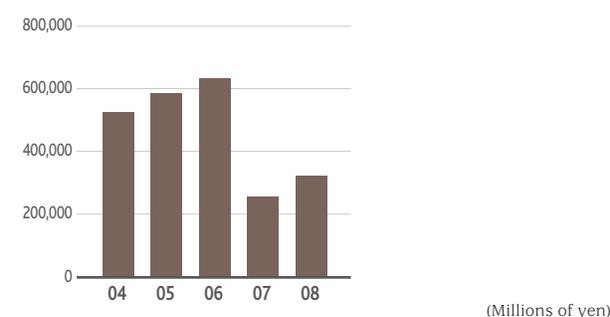


(Millions of yen)

	2004	2005	2006	2007	2008
Total Assets	1,870,076	2,033,547	2,204,483	1,660,827	1,535,958
ROA (%)	2.8	3.4	2.4	(18.6)	1.7

TOTAL EQUITY

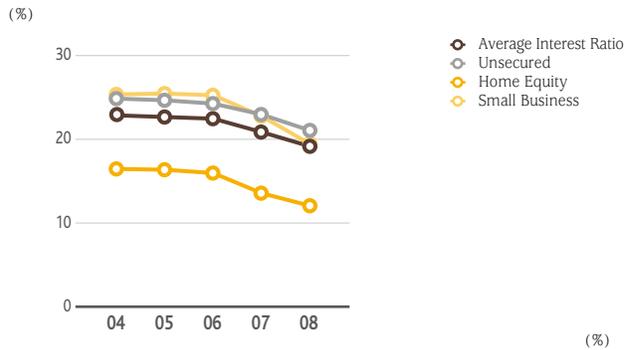
(Millions of yen)



(Millions of yen)

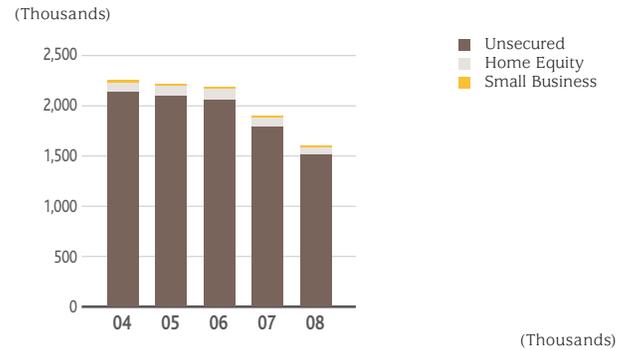
	2004	2005	2006	2007	2008
Total Equity	522,905	584,308	632,917	255,005	322,016
ROE (%)	10.7	12.2	8.3	(81.0)	9.4

AVERAGE INTEREST RATIO



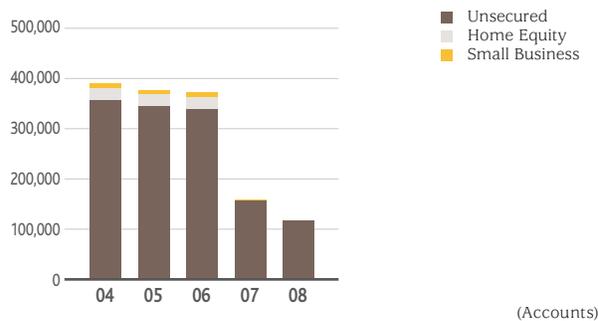
	2004	2005	2006	2007	2008
Average Interest Ratio	22.8	22.6	22.4	20.8	19.1
Unsecured	24.8	24.6	24.2	22.9	21.0
Home Equity	16.4	16.3	15.9	13.5	12.0
Small Business	25.3	25.4	25.2	22.7	19.4

NUMBER OF CUSTOMER ACCOUNTS



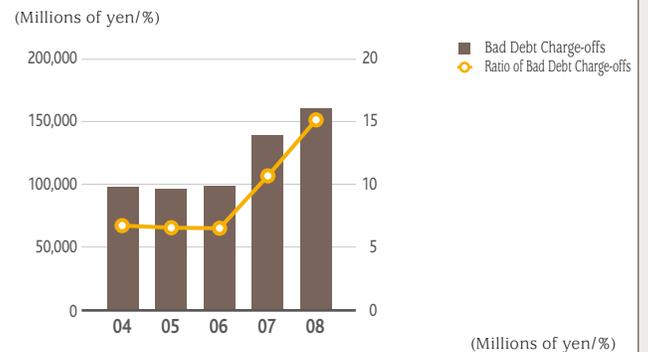
	2004	2005	2006	2007	2008
Number of Customer Accounts	2,246	2,215	2,187	1,894	1,593
Unsecured	2,131	2,091	2,058	1,789	1,509
Home Equity	94	99	102	84	70
Small Business	21	25	28	22	15

NEW ACCOUNTS



	2004	2005	2006	2007	2008
New Accounts	388,036	376,024	370,593	156,350	115,629
Unsecured	355,619	343,536	338,052	155,182	115,298
Home Equity	24,222	23,405	23,258	770	277
Small Business	8,195	9,083	9,283	398	54

BAD DEBT CHARGE-OFFS/RATIO OF BAD DEBT CHARGE-OFFS

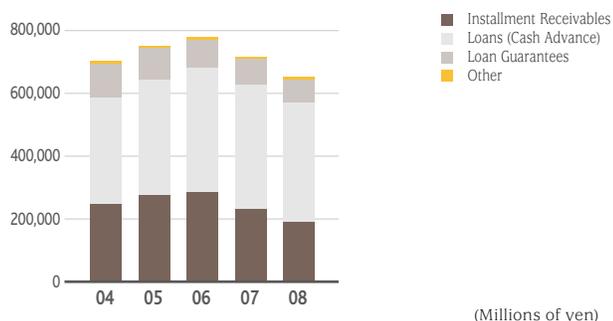


	2004	2005	2006	2007	2008
Bad Debt Charge-offs	97,458	96,224	98,256	138,602	160,168
Unsecured	86,507	83,436	83,143	121,558	138,799
Home Equity	9,612	10,800	12,645	12,931	16,365
Small Business	1,339	1,987	2,467	4,113	5,005
Ratio of Bad Debt Charge-offs (%)	6.71	6.54	6.50	10.67	15.13
Unsecured	8.00	7.63	7.34	12.22	16.97
Home Equity	2.81	3.13	3.71	4.71	7.39
Small Business	4.79	6.04	6.41	14.31	25.69

LIFE Co., Ltd. (MANAGED ASSET BASIS)

TOTAL RECEIVABLES OUTSTANDING

(Millions of yen)

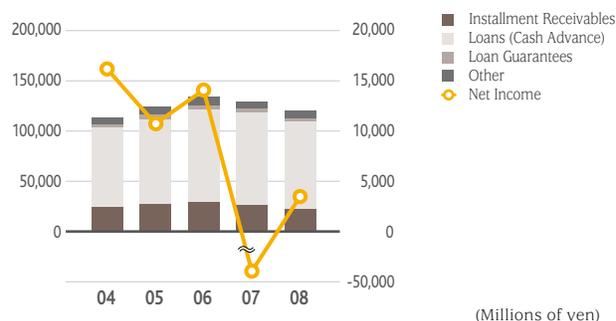


(Millions of yen)

	2004	2005	2006	2007	2008
Total Receivables Outstanding	702,202	751,553	779,560	717,884	653,045
Installment Receivables	247,143	276,745	285,018	229,735	190,485
Loans (Cash Advance)	339,137	367,459	394,776	396,260	380,191
Loan Guarantees	106,290	98,226	91,450	83,013	73,486
Other	9,627	9,121	8,315	8,876	8,882

OPERATING REVENUE/NET INCOME

(Millions of yen)

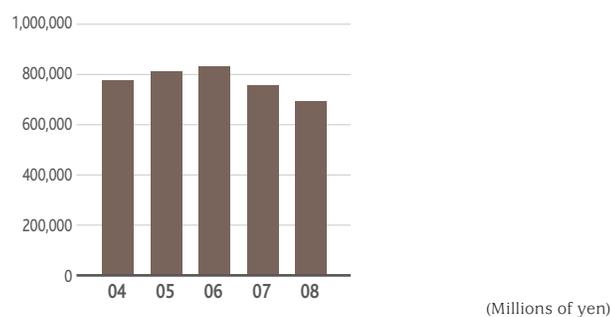


(Millions of yen)

	2004	2005	2006	2007	2008
Operating Revenue	113,738	123,881	133,936	129,479	120,667
Installment Receivables	24,415	26,870	29,493	26,618	22,516
Loans (Cash Advance)	78,815	84,919	91,305	91,342	86,436
Loan Guarantees	3,842	4,044	4,241	4,134	3,809
Other	6,664	8,045	8,894	7,383	7,904
Net Income (Loss)	16,131	10,679	14,028	(43,313)	3,427

TOTAL ASSETS

(Millions of yen)

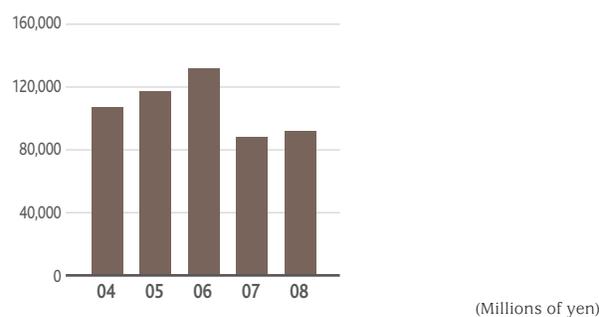


(Millions of yen)

	2004	2005	2006	2007	2008
Total Assets	772,658	810,567	830,548	753,464	692,764
ROA (%)	2.1	1.3	1.7	(5.5)	0.5

TOTAL EQUITY

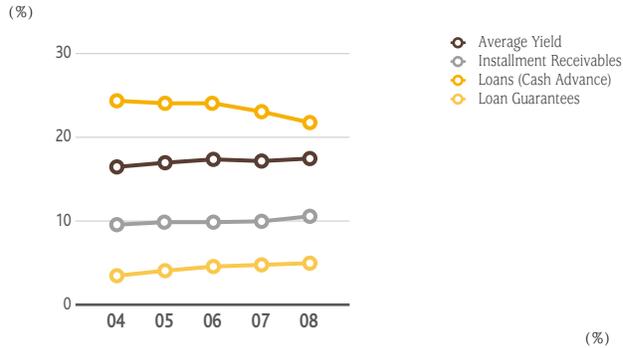
(Millions of yen)



(Millions of yen)

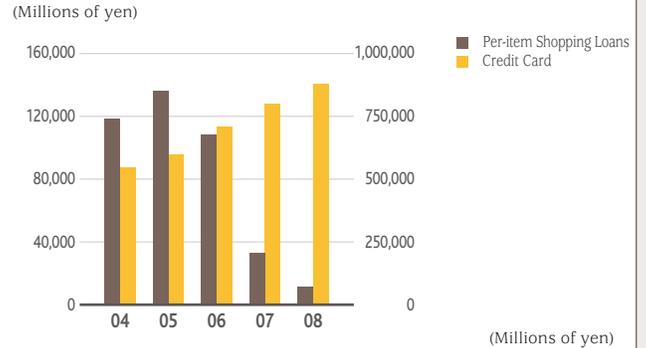
	2004	2005	2006	2007	2008
Total Equity	106,486	117,163	131,407	87,992	91,298
ROE (%)	16.4	9.5	11.3	(39.5)	3.8

AVERAGE YIELD



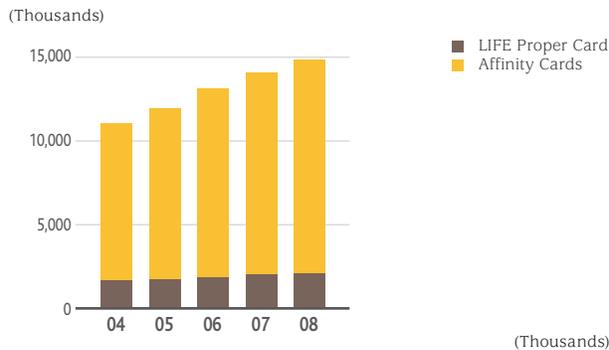
	2004	2005	2006	2007	2008
Average Yield	16.4	16.9	17.3	17.1	17.4
Installment Receivables	9.5	9.8	9.8	9.9	10.5
Loans (Cash Advance)	24.3	24.0	24.0	23.0	21.7
Loan Guarantees	3.4	4.0	4.5	4.7	4.9

PURCHASE RESULTS



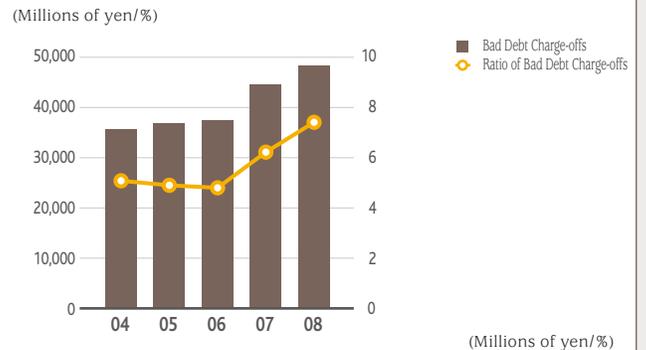
	2004	2005	2006	2007	2008
Per-item Shopping Loans	118,131	135,646	107,974	32,528	11,341
Credit Card	543,507	597,314	706,274	796,600	877,126
Credit Card Shopping Loans	318,115	373,130	470,896	561,299	664,791
Credit Card Cashing Loans	225,392	224,184	235,378	235,301	212,335

NUMBER OF CARDHOLDERS



	2004	2005	2006	2007	2008
Number of Cardholders	11,032	11,916	13,096	14,065	14,819
LIFE Proper Card	1,625	1,710	1,820	1,961	2,071
Affinity Cards	9,406	10,205	11,276	12,103	12,748

BAD DEBT CHARGE-OFFS/RATIO OF BAD DEBT CHARGE-OFFS

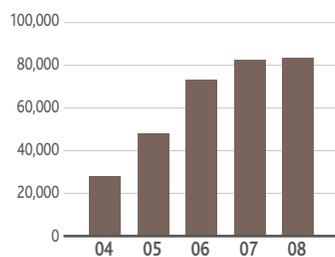


	2004	2005	2006	2007	2008
Bad Debt Charge-offs	35,566	36,658	37,266	44,498	48,275
Credit Card Shopping Loans	2,412	2,115	1,978	2,451	2,986
Credit Card Cashing Loans	12,823	13,141	12,636	15,220	19,494
Per-item Shopping Loans	6,067	4,994	5,363	7,029	4,026
LIFE Cash Plaza (Unsecured Loans)	10,570	11,445	12,182	15,302	18,814
Ratio of Bad Debt Charge-offs (%)	5.06	4.88	4.78	6.20	7.39
Credit Card Shopping Loans	3.37	2.66	1.96	2.09	2.34
Credit Card Cashing Loans	6.32	6.28	5.72	6.62	8.79
Per-item Shopping Loans	3.45	2.53	2.92	6.25	6.41
LIFE Cash Plaza (Unsecured Loans)	7.80	7.26	7.03	9.28	12.01

BUSINEXT CORPORATION

LOANS OUTSTANDING

(Millions of yen)

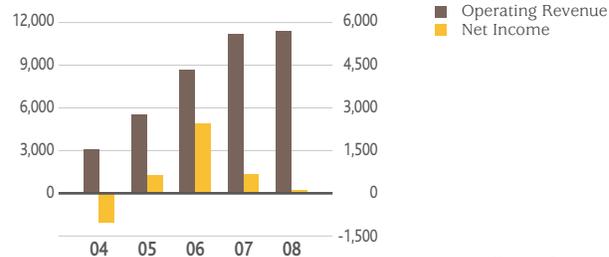


(Millions of yen)

	2004	2005	2006	2007	2008
Loans Outstanding	27,592	47,622	73,111	82,329	83,192

OPERATING REVENUE/NET INCOME

(Millions of yen)

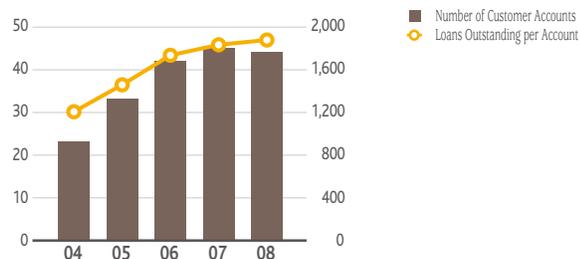


(Millions of yen)

	2004	2005	2006	2007	2008
Operating Revenue	3,015	5,456	8,636	11,160	11,349
Net Income (Loss)	(1,037)	601	2,426	652	79

NUMBER OF CUSTOMER ACCOUNTS/LOANS OUTSTANDING PER ACCOUNT

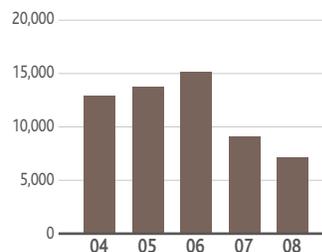
(Thousands/Thousands of yen)



(Thousands/Thousands of yen)

	2004	2005	2006	2007	2008
Number of Customer Accounts	23	33	42	45	44
Loans Outstanding per Account	1,203	1,455	1,732	1,831	1,875

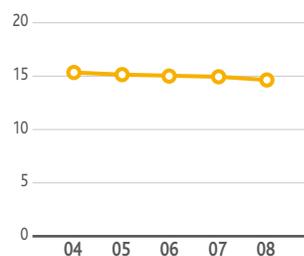
NEW ACCOUNTS



	2004	2005	2006	2007	2008
New Accounts	12,845	13,714	15,105	9,092	7,113

AVERAGE INTEREST RATE

(%)

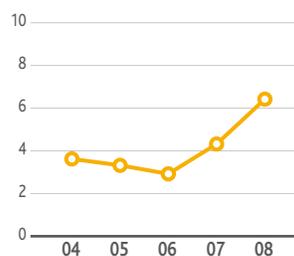


(%)

	2004	2005	2006	2007	2008
Average Interest Rate	15.3	15.1	15.0	14.9	14.6

RATIO OF BAD DEBT CHARGE-OFFS

(%)



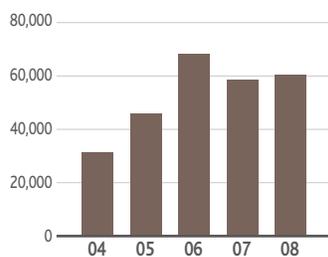
(%)

	2004	2005	2006	2007	2008
Ratio of Bad Debt Charge-offs	3.6	3.3	2.9	4.3	6.4

City's Corporation

LOANS OUTSTANDING

(Millions of yen)

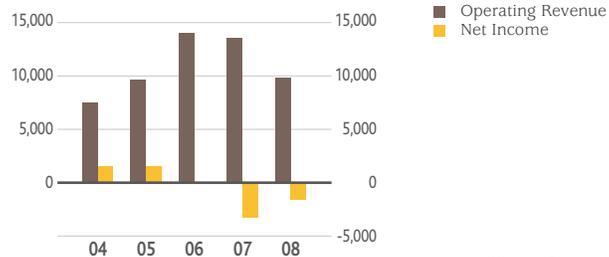


(Millions of yen)

	2004	2005	2006	2007	2008
Loans Outstanding	31,215	45,674	67,857	58,317	60,147

OPERATING REVENUE/NET INCOME

(Millions of yen)

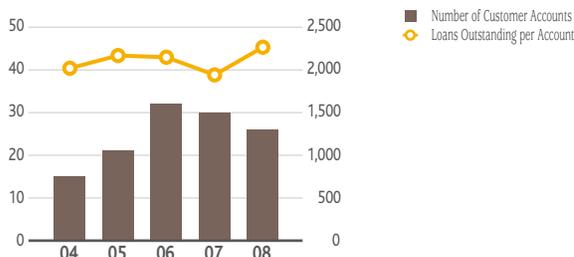


(Millions of yen)

	2004	2005	2006	2007	2008
Operating Revenue	7,415	9,580	13,998	13,551	9,766
Net Income (Loss)	1,535	1,495	37	(3,322)	(1,622)

NUMBER OF CUSTOMER ACCOUNTS/LOANS OUTSTANDING PER ACCOUNT

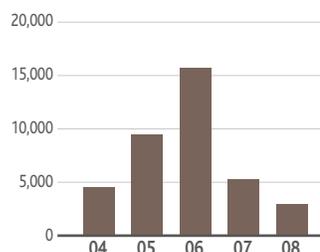
(Thousands/Thousands of yen)



(Thousands/Thousands of yen)

	2004	2005	2006	2007	2008
Number of Customer Accounts	15	21	32	30	27
Loans Outstanding per Account	2,014	2,164	2,143	1,937	2,260

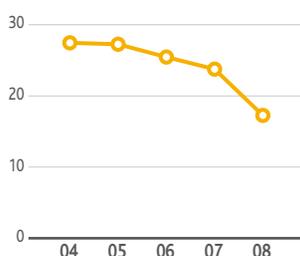
NEW ACCOUNTS



	2004	2005	2006	2007	2008
New Accounts	4,531	9,409	15,673	5,266	2,964

AVERAGE INTEREST RATE

(%)



(%)

	2004	2005	2006	2007	2008
Average Interest Rate	27.4	27.2	25.4	23.7	17.2

RATIO OF BAD DEBT CHARGE-OFFS

(%)



(%)

	2004	2005	2006	2007	2008
Ratio of Bad Debt Charge-offs	1.6	1.6	1.9	4.1	4.5

MANAGEMENT'S DISCUSSION AND ANALYSIS

Consolidated Results of Operations

As of March 31, 2008, the outstanding receivables of AIFUL CORPORATION and its 11 consolidated subsidiaries amounted to ¥1,665,682 million, a year-on-year decline of ¥319,581 million, or 16.1%. Reasons for the lower figure include the continuing implementation of tighter lending criteria by all group companies, an increase in bad debt charge-offs, and the suspension of new lending as a result of the consolidation of consumer finance subsidiaries. The total balance includes unsecured loans of ¥1,278,001 million, representing a year-on-year reduction of ¥259,904 million, or 16.9%. Home equity loans declined by ¥45,196 million, or 15.5%, to ¥246,520 million, and loans to business proprietors fell by ¥14,481 million, or 9.3%, to ¥141,161 million.

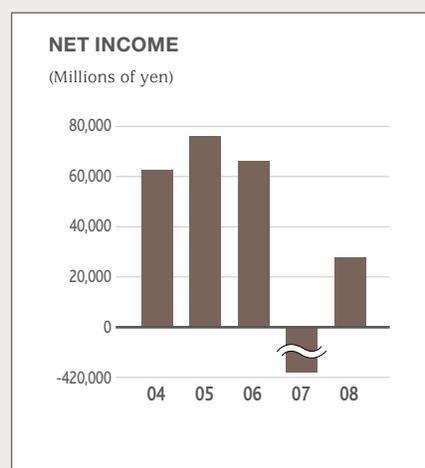
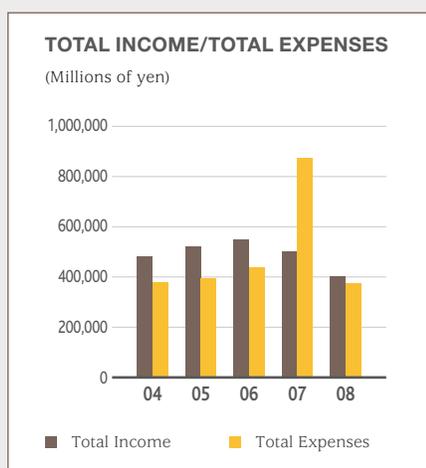
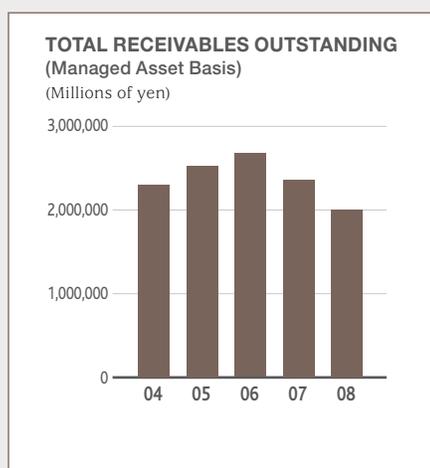
Installment accounts receivable in the credit card and per-item shopping loan categories amounted to ¥190,486 million as of March 31, 2008. This is ¥39,254 million, or 17.1% below the figure at the end of the previous accounting period. The credit card subsidiary LIFE maintained strong performance trends in the area of credit card shopping loans. Increases in both the number of effective cardholders and the card utilization rate were reflected in an 8.9% increase in the balance of receivables, which reached to ¥127,678 million. In preparation for the passage of amendments to the Installment Sales Law, the AIFUL Group introduced tighter lending criteria for affiliated merchants and adopted a more selective stance in relation to per-item shopping loans. As a result, the balance of per-item shopping loans declined by 44.2% to ¥62,808 million.

The balance of loan guarantees provided to partner financial

institutions by AIFUL and LIFE declined by ¥12,217 million, or 8.6%, to ¥129,713 million. The addition of other receivables amounting to ¥13,534 million brings the total receivables of the AIFUL Group at the end of the current consolidated accounting period to ¥1,999,414 million, a year-on-year decline of ¥370,170 million, or 15.6%. This amount includes ¥108,792 million, consisting of off-balance-sheet receivables of ¥66,976 million and installment receivables of ¥41,996 million.

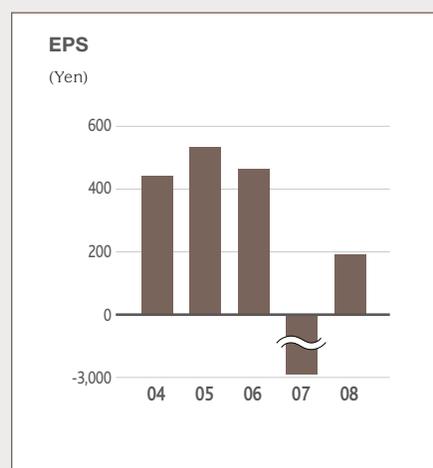
Total Income and Total Expenses

Consolidated total income in the year ended March 31, 2008 amounted to ¥402,389 million, a decline of ¥98,620, or 19.7%, compared with the previous year's result. Interest on receivables, which accounted for 88.6% of total income, declined by ¥92,227 million, or 20.6%, to ¥356,435 million. Reasons for the lower figure included reduced top-line figures resulting from a slowdown in new and supplementary loan business following the introduction of tighter lending criteria, and the reduction of interest rates ahead of the full enforcement of the amended Money Lending Business Law. In the credit card segment, which is seen as a future growth area, a double-digit increase in purchases was reflected in a ¥2,194 million, or 17.2%, year-on-year increase in income from credit card shopping loans, which totaled ¥14,948 million. Changes in the external environment drove a downward trend in income from per-item shopping loans, which declined by 46.8% to ¥6,912 million. Income from loan guarantees was 7.0% below the previous year's level at ¥8,548 million because of a decline in the balance of guarantees outstanding. However, the normalization of loan recovery operations led to an increase in recoveries of previously charged off loans, which rose 9.2% to ¥4,395 million. Total income also includes ¥872 million in proceeds from the sale of fixed assets.



Total expenses declined by ¥501,781 million, or 57.5%, to ¥371,491 million. The main reasons for the lower total included a reduction in the loan-loss allowance required because of the peaking out of bad debt charge-offs, the fact that provision for loans abandoned as a result of interest refunds claims was made in the previous accounting period, and the reduction of loan-loss expenses by ¥291,445 million, or 65.1%, to ¥155,930 million. Consolidated interest refund expenses were reduced by ¥63,255 million, or 55.9%, to ¥49,819 million because interest refunds of ¥66,241 million incurred in the year ended March 31, 2008 were covered by the partial reversal of the allowance for interest refunds. In addition, the lower balance of receivables reduced the amount of funds that needed to be procured. As a result, interest on borrowings declined to ¥2,252 million, or 6.8%, below the previous year's level at ¥30,646 million. Group companies made steady progress toward the reduction of other expenses through cost restructuring, and through cost-cutting measures affecting labor expenses and other items. Advertising expenses were reduced by ¥7,645 million, or 50.7%, to ¥7,429 million, and labor expenses were cut by ¥12,157 million, or 21.5%, to ¥44,351 million. Total expenses include ¥2,126 million in expenses relating to cost restructuring, including branch consolidation expenses.

Consolidated net income before income taxes amounted to ¥30,898 million, compared with a loss of ¥372,263 million in the previous year. Net income was ¥27,434 million, up from a net loss of ¥411,251 million in the previous year. Consolidated net income per share for the year ended March 31, 2008 amounted to ¥190.77, or ¥186.86 after adjustment for residual shares.



Segment Information

Receivables basis: For detailed segment information, please refer to the analyses of operating results for individual group companies.

TOTAL RECEIVABLES OUTSTANDING

(Millions of yen)

	2007	2008	% of change
Unsecured loans	1,537,905	1,278,001	-16.9%
Home equity loans	291,716	246,520	-15.5%
Small business loans	155,642	141,161	-9.3%
Credit card shopping loans	117,223	127,678	8.9%
Per-item shopping loans	112,518	62,808	-44.2%
Loan guarantees	141,930	129,713	-8.6%

INCOME BY PRODUCT SEGMENT

(Millions of yen)

	2007	2008	% of change
Unsecured loans	374,839	300,887	-19.7%
Home equity loans	43,575	31,959	-26.7%
Small business loans	30,247	23,590	-22.0%
Credit card shopping loans	12,754	14,948	17.2%
Per-item shopping loans	12,998	6,912	-46.8%
Loan guarantees	9,187	8,548	-7.0%

Unsecured Loans

Several group companies are involved in the unsecured loan business. In addition to unsecured loans provided by AIFUL CORPORATION, this segment also includes credit card cash advances provided by LIFE. Unsecured loans are also provided by LIFE's consumer finance division, operating as LIFE Cash Plaza, and by TRYTO, Wide, TCM and Passkey, which comprise a second consumer finance group within the AIFUL Group.

In the consolidated accounting period ended March 31, 2008, the AIFUL Group faced escalating competition for quality customers. Business performance was also affected by the introduction of tighter lending criteria by all group companies. In addition, the four companies in the second consumer finance group suspended new lending in December 2007 under a policy providing for their restructuring and merger. These factors were reflected in the number of new unsecured loans approved, which declined by 43.4% to 137 thousand, while the number of accounts was reduced by 455 thousand, or 13.5%, to 2,911 thousand. As a result, the consolidated balance of unsecured loans declined by ¥259,903 million, or 16.9%, to ¥1,278,001 million, and the balance per account by ¥18 thousand to ¥438 thousand. The average yield fell by 1.7 percentage points to

21.5% because of a reduction in interest rates applied to new loans approved during the year under review, and because of the proactive application of preferential interest rates to quality customers. Reduced top-line results also affected performance, and interest on unsecured loans was ¥73,953 million, or 19.7%, below the previous year's level at ¥300,886 million.

Home Equity Loans

At the consolidated level, secured home equity loans are provided by AIFUL CORPORATION, and also by several subsidiaries, including LIFE, City's and BUSINEXT. This structure allows versatile marketing to meet the needs of a wide range of customers.

In the consolidated accounting period ended March 31, 2008, the AIFUL Group made radical changes to its products and marketing methods and adopted a more conservative lending stance. As a result, the number of home equity loan accounts as of March 31, 2008 was 73 thousand, 14 thousand, or 16.4%, below the previous year's figure, while the balance of receivables in this category declined by ¥45,196 million, or 15.5%, to ¥246,520 million. The balance per account increased by ¥37 thousand to ¥3,375 thousand, while the yield fell by 1.5 percentage points to 11.9%. Interest income on receivables declined by ¥11,617 million, or 26.7%, to ¥31,959 million.

Small Business Loans

The group companies that provide loans to business proprietors are BUSINEXT, which specializes in lending to medium-risk borrowers, City's, which handles high-risk lending, and AIFUL CORPORATION.

In the consolidated accounting period ended March 31, 2008, BUSINEXT and City's both adopted cautious lending policies because of a deteriorating business outlook for small and medium-sized enterprises. AIFUL CORPORATION terminated its involvement in small business lending in January 2007 in line with its policy of consolidating business operations to improve operating efficiency. As a result of these changes, the number of small business loan accounts at the consolidated level declined by 10 thousand, or 10.9%, to 83 thousand, and the balance of receivables by ¥14,481 million, or 9.3%, to ¥141,161 million. The balance per account increased by ¥31 thousand to ¥1,697 thousand, but the yield declined by 2.9 percentage points to 15.9%. Interest on receivables amounted to ¥6,657 million, or 22.0%, below the previous year's level at ¥23,590 million.

Credit Card Shopping Loans

The consolidated credit card shopping loan business of the AIFUL Group is based on the credit card operations of LIFE. In the year ended March 31, 2008, the AIFUL Group's basic policies were to expand the cardholder base through a strategy based on a wide range of affiliation

cards, and to improve the card utilization rate. In addition to efforts to develop new affiliates and strengthen existing relationships, priority was also given to the enhancement of customer convenience, including the extension of period over which points can be used, and the recruitment of a wide range of affiliated merchants including public utilities. These initiatives were reflected in the growth of the number of effective cardholders, which increased by 754 thousand, or 5.4%, to 14,819 thousand. The emerging strength of LIFE Card as a brand meanwhile helped to improve the card utilization rate. The balance of credit card shopping loans increased by ¥10,456 million, or 8.9%, year on year to ¥127,678 million. The yield was also higher, rising by 0.6 percentage points to 12.5%, while income from credit shopping loans increased by 17.2% to ¥14,948 million.

Per-item Shopping Loans

Per-item installment plan services provided by LIFE form the mainstay of the AIFUL Group's per-item shopping loan business at the consolidated level. In the year ended March 2008, the AIFUL Group adapted to changes in the external environment resulting from the passage of the amended Installment Sales Law by carefully selecting quality affiliated merchants for per-item shopping loans. Related measures included the tightening of credit standards for merchants, and the implementation of regular credit checks partway through contract periods. As a consequence of these measures, the consolidated balance of per-item shopping loans declined by ¥49,710 million, or 44.2%, year on year to ¥62,808 million. The yield was 0.5 percentage points lower at 8.5%, while income from per-item shopping loans declined by ¥6,086 million, or 46.8%, to ¥6,912 million.

Loan Guarantees

The loan guarantee business of the AIFUL Group consists of the loan guarantee operations of AIFUL CORPORATION and LIFE. Both companies operate agreements with financial institutions, including regional banks and *shinkin* banks. They provide guarantees for unsecured loans to individuals and business proprietors.

As of March 31, 2008, guarantees outstanding amounted to ¥129,713 million, a year-on-year reduction of ¥12,217 million, or 8.6%. The non-consolidated guarantee balance of AIFUL CORPORATION declined by ¥2,690 million, or 4.6%, to ¥56,224 million. The total for LIFE was ¥9,527 million, or 11.5%, lower at ¥73,486 million, in part because of portfolio restructuring. The yield improved by 0.1 percentage points to ¥6.3%, but income from loan guarantees was ¥639 million, or 7.0%, lower at ¥8,548 million.

Balance Sheet

Consolidated total assets declined by ¥173,431 million, or 7.8%, to ¥2,041,128 million as of March 31, 2008. Current assets were reduced by ¥166,232 million, or 7.9%, to ¥1,929,202 million, and fixed assets by ¥7,199 million, or 6.0%, to ¥111,926 million.

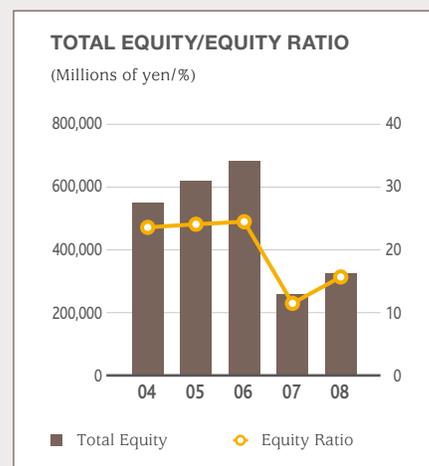
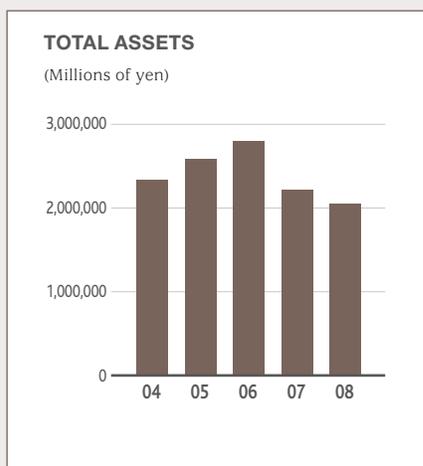
The decline in current assets occurred despite the implementation of a third-party issue of new shares and an issue of convertible bonds with stock acquisition rights totaling ¥120,000 million, which caused cash and deposits to increase by ¥101,256 million, or 79.6%, to ¥228,422 million. It was caused by a downward trend in the balance of receivables, which shrank by ¥313,983 million, or 16.4%, to ¥1,598,706 million because of reductions in both new and supplementary borrowing resulting from the introduction of tighter lending criteria by all group companies. Another factor was an increase in bad debt charge-offs.

Strong performance by LIFE's credit card business caused an increase in the consolidated balance of credit card shopping loans. However, the balance of per-item shopping loans was lower, with the result that the consolidated balance of installment receivables declined by ¥26,433 million, or 15.1%, to ¥148,490 million. The loan-loss allowance declined by ¥82,464 million, or 21.7%, to ¥297,384 million. In addition to reduced allocations to the loan-loss allowance because of a reduction in the amount of bad debt, the decline also reflects the fact that claims abandoned because of interest refunds in the year ended March 2008 were covered by the reversal of the allowance provided in the previous year. As of March 31, 2008, the allowance for claims abandoned because of interest refund demands amounted to ¥108,974 million on a consolidated basis. The decline in fixed

assets was caused primarily by a reduction in investments and other assets resulting from lower unrealized gains on investment securities.

As of March 31, 2008, total consolidated liabilities amounted to ¥1,716,607 million, a year-on-year reduction of ¥240,807 million, or 12.3%. The consolidated balance of funds raised as of March 31, 2008 amounted to ¥1,354,088 million, a year-on-year reduction of ¥176,174 million, or 11.5%. Reasons for the lower figure include the repayment of debt and the redemption of bonds, as well as a reduced need to procure funds because of the decline in the balance of receivables. Interest refunds amounted to ¥49,818 million in the year ended March 2008. The interest refund loss reserve was used to cover some of this amount, with the result that the reserve was reduced by ¥23,403 million to ¥143,750 million.

Consolidated total equity increased by ¥67,376 million, or 26.2%, to ¥324,521 million as of March 31, 2008. The higher figure reflects net income of ¥27,434 million, together with an increase in common stock resulting from a ¥50,000 million third-party allocation of new shares by AIFUL CORPORATION. The consolidated equity ratio increased by 4.2 percentage points to 15.6%, or 19.1% with the inclusion of ¥70,000 million in convertible bonds with stock acquisition rights.



Bad Debt

According to statistics published by the Supreme Court, the number of personal bankruptcy applications has declined relative to the same month a year earlier for 53 consecutive months since November 2003. This trend has been driven partly by the adoption of tighter lending criteria by moneylenders. Another factor is the persistently high level of debt restructuring through legal means, including interest refund demands and other actions initiated by attorneys. As a result, conditions in the claim recovery market are extremely challenging at present.

Consolidated bad debt increased by ¥15,723 million, or 4.8%, year on year to ¥343,768 million. The sub-total for unsecured loans was ¥3,037 million, or 1.5%, lower at ¥194,381 million. These figures indicate that the level of bad debt has started to stabilize after the rapid increase that occurred when AIFUL CORPORATION implemented voluntary restraints on recovery operations and reviewed its operating procedures following the imposition of administrative penalties. Bad debt other than unsecured loans, which consist mainly of home equity loans, remained high with an increase of ¥18,759 million, or 14.4%, to ¥149,386 million, because of time required to dispose of collateral.

In the year ended March 31, 2008, consolidated bad debt charge-offs amounted to ¥227,727 million, a year-on-year increase of ¥21,747 million, or 10.6%. The charge-off ratio was 2.7 percentage points higher at 11.39%. The main reason for the increase is the fact that the rapid increase in charge-offs following the imposition of administrative penalties reached its peak in the current accounting period. The loan-loss reserve declined by ¥77,158 million, or 18.9%, to ¥330,415 million as of March 31, 2008. This reduction resulted in part from the reversal of the reserve to cover claims abandoned because of interest refund demands. Another factor was the reduction of transfers to the reserve to reflect the peaking of the amount of new bad debt incurred. The reserve includes ¥108,974 million provided to cover the abandonment of claims because of interest refund demands.

(Millions of yen)

	2006	2007	2008
Non-performing loans	203,800	328,046	343,768
Bad debt charge-offs	149,830	205,980	227,727
Allowance for bad debts	171,715	407,573	330,415
Ratio of bad debt charge-offs (%)	5.59	8.69	11.39

Liquidity and Capital Resources

Fund Procurement Policy

By diversifying its procurement methods and sources, the AIFUL Group aims to ensure reliable access to funds while also reducing the cost of funds. We flexibly adjust our procurement mix to reflect changing financial conditions, and we carefully monitor market risks, including interest rate fluctuation risk and liquidity risk, so that we can adapt to changes in the external environment.

Interest-rate Risk Hedging

The AIFUL Group minimizes its exposure to the risk of interest rate fluctuations by maintaining a policy of using derivatives, including interest rate caps and swaps, to fix interest rates on at least 70% of the balance of funds procured. As of March 31, 2008, 47.6% of funds were covered by fixed interest rates. When funds hedged against interest rate movements using caps and swaps are included, the percentage of funds effectively covered by fixed interest rates rises to 76.1%.

Securing Liquidity and Diversifying Funding Methods

AIFUL CORPORATION has a policy of ensuring adequate liquidity by maintaining supplementary deposits, cash and commitment lines equivalent to at least 50% of short-term funds procured, including long-term loans repayable within one year. As of March 31, 2008, AIFUL CORPORATION had commitment lines totaling ¥110,000 million. AIFUL also combines security with reduced costs by maintaining an appropriate balance between direct and indirect procurement. As of March 31, 2008, the non-consolidated procurement ratio for AIFUL CORPORATION was 62.0%, and the consolidated ratio for the AIFUL Group was 53.2%. AIFUL also aims to diversify its repayment periods by using long-term borrowing for its indirect procurement activities.

In February 2008, AIFUL CORPORATION implemented a ¥70,000 million issue of convertible bonds with stock acquisition rights and allocated 25,440 new shares with an issue price of ¥1,966 to a third party. These steps were taken to strengthen AIFUL's financial fundamentals and provide a new source of growth capital. AIFUL also wanted to avoid the risk of a reduction in its credit rating and a resulting deterioration in its fund procurement environment because of temporary deterioration in the business environment resulting from the worsening sub-prime mortgage crisis and the associated increase in liquidity risk in money markets. The convertible bond issue was designed to minimize dilution through features that include a clause allowing AIFUL to exercise mandatory acquisition in up to seven installments between July 2008 and February 2010, and the right to adjust the share price once. The bonds also have excellent equity characteristics, since the mandatory acquisition clause will allow AIFUL to acquire all outstanding bonds and warrants in exchange for ordinary shares in AIFUL approximately two years after the issue date. Furthermore, bonds are subordinated to all existing and future debt held by AIFUL and are senior only to shareholder claims in relation to all types of shares, including preferred stock. By issuing the bonds with a zero coupon, AIFUL has also been able to reduce the cost of funds.

Cash Flows

Cash and cash equivalents increased by ¥100,254 million to ¥257,311 million in the consolidated accounting period ended March 31, 2008. This was because a decline in loans and other receivables and an increase in funds resulting from the third-party share allocation and the convertible bond issue outweighed debt repayment, bond redemption, and the reduction of reserves relating to receivables.

Net cash provided by operating activities amounted to ¥247,525 million, compared with ¥250,558 million in the previous year. In addition to net income before income taxes and minority interests amounting to ¥30,898 million, this figure also reflects the fact that a ¥77,158 million reduction in bad debt reserves and ¥23,402 million reduction in the reserve for interest refund losses were more than offset by an increase in funds resulting from the reduction of receivables, including a ¥313,984 million decline in the balance of loans outstanding.

Net cash provided by investing activities amounted to ¥16,420 million, compared with ¥13,498 million in the previous year. This was because factors that reduced funds, including the acquisition of tangible fixed assets worth ¥5,474 million and non-tangible fixed assets worth ¥8,715 million, were more than offset by an increase in funds resulting from a ¥29,987 million reduction in short-term loans caused by a change in the scope of funds.

Net cash used for financing activities amounted to ¥133,734 million, compared with ¥271,391 million in the previous year. This was because factors that contributed to an increase in funds, including ¥69,898 million from the issue of bonds with share acquisition rights and ¥49,764 million from the share issue, were outweighed by reductions in funds, including ¥179,173 million resulting from debt repayment, and ¥72,000 million resulting from the redemption of bonds.

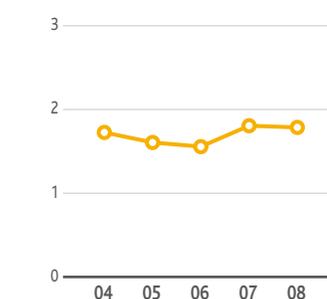
SHORT- AND LONG-TERM BORROWINGS

(Millions of yen)

	2006	2007	2008
Short-term borrowings	138,200	91,370	163,930
Borrowings	113,200	91,370	78,930
Asset-backed lending	—	—	80,000
Commercial paper	25,000	—	5,000
Long-term borrowings	1,850,276	1,578,855	1,322,372
Borrowings	1,015,704	838,909	615,957
Straight bonds	510,500	496,100	424,100
Convertible bonds	—	—	70,000
Asset-backed securities	324,070	243,845	212,314

AVERAGE RATE OF BORROWINGS

(%)



Dividend Policy

AIFUL regards shareholder returns as one of its most important priorities. Our basic policy is to maximize shareholder returns and shareholder value through medium- to long-term income growth, while also maintaining stable internal reserves and providing consistent returns based on business performance. Our basic approach is to distribute surpluses twice yearly through interim and final dividends.

In accordance with our basic policy, and with the aim of providing consistent returns based on business performance, we set the annual dividend for the year ended March 2008 at ¥40 per share, including the interim dividend of ¥20 per share.

Our policy on internal reserves is to make effective use of retained earnings for strategic investment that contributes to the restructuring of our business base to reflect the market environment and other factors, for investment in corporate infrastructure, including improvements to compliance systems, and for the reinforcement of internal control systems.

Dividends in the Year Ended March 31, 2008

Date of Resolution	Total Dividend (Millions of yen)	Dividend Per Share (Yen)
Resolution of Board of Directors on November 5, 2007	2,831	20
Resolution of Board of Directors on May 19, 2008	3,340	20

Non-consolidated Results of Operations

AIFUL CORPORATION

Overview

In the year ended March 2008, AIFUL continued to improve its internal control systems by implementing company-wide measures to strengthen its compliance, including the development of internal standards and rules. In preparation for the full enforcement of the amended Money Lending Business Law, AIFUL strengthened its business base and began to build a new income structure through cost restructuring, the continuing application of stringent lending criteria, the reduction of the maximum interest rate, and the introduction of a new range of special-purpose loans. As a result of these measures, on a non-consolidated basis, total receivables outstanding declined by ¥241,546 million, or 17.7%, year on year to ¥1,119,756 million. A breakdown of this figure shows that receivables outstanding in the core loan business were ¥239,732 million, or 18.5%, lower at ¥1,058,880 million. Reasons for this result include the application of tighter lending criteria, which caused a reduction in the number of new and supplementary loans, and an increase in bad debt charge-offs.

Total income in the year ended March 2008 amounted to ¥239,629 million, a year-on-year decline of ¥70,069 million, or 22.6%. In addition to the smaller top-line figures, this result also reflects the effect of interest rate cuts implemented to attract quality customers. Interest income on receivables declined by ¥67,962 million, or 23.2%, to ¥224,707 million. Income from loan guarantees declined by 6.2% to ¥4,738 million because of a reduction in the balance of guarantees outstanding. However, the normalization of loan recovery operations boosted the recovery of previously charged-off loans, which rose by 38.7% to ¥2,553 million. A breakdown of interest income on receivables shows that interest on unsecured loans declined by 21.9% year on year to ¥190,230 million; interest on home equity loans fell by 28.0% to ¥29,809 million, and interest on small business loans dropped by 38.8% to ¥4,668 million.

The results for the previous accounting period included charge-offs of long-term loans to consumer finance subsidiaries. Because TRYTO and Wide returned positive results in the current year, total income includes a ¥7,100 million reversal from the allowance for bad debts, and ¥7,955 million in proceeds from sales of fixed assets and other items.

Total expenses in the year ended March 2008 amounted to ¥210,955 million, a reduction of ¥439,906 million, or 67.6%, from the previous year's total. The decline in total receivables outstanding was accompanied by a reduction in the amount of funds required, with the result that interest on borrowings declined by ¥2,797 million, or 10.7%, year on year to ¥23,233 million. In accordance with guidelines issued by the Japanese

Institute of Certified Public Accountants at the end of the previous year's accounting period, we provided a new allowance for loans written off as a result of interest refund claims. This special-cost item was not incurred in the current year, and there was also a reduction in bad debt expenses. As a result, loan losses were ¥115,014 million, or 52.7%, below the previous year's level at ¥103,071 million. Interest refund-related costs declined by ¥96,020 million, or 78.1%, to ¥26,936 million.

In accordance with guidelines issued by the Japanese Institute of Certified Public Accountants, we calculated the allowance for interest refunds in our half-yearly results for the year ended March 2008 using the "basic principle" method, whereby the provision is made for the total amount that could be incurred, instead of the "exception" method based on historical data and revised calculations. This resulted in a supplementary provision of ¥26,936 million for interest refund expenses. Interest refunds in the current year totaled ¥50,425 million and were covered from the allowance. Cost restructuring measures reduced selling, general and administrative expenses (including labor costs, leasing expenses and rents) by ¥22,948 million, or 27.4%, to ¥60,720 million. Total expenses also include ¥1,472 million for other items, including ¥602 million in losses on disposal of fixed assets, and ¥521 million in contract cancellation adjustments.

Non-consolidated net income before income taxes amounted to ¥28,674 million, compared with a loss of ¥341,163 million in the previous year. Provision was made for ¥3,634 million in deferred corporation tax, residential tax and enterprise tax from previous years, but the application of tax effect accounting resulted in an adjustment of ¥2,029 million, with the result that tax expenses totaled ¥1,605 million. This left net income of ¥27,069 million, compared with a net loss of ¥359,399 million in the previous year. Net income per share was ¥188.24.

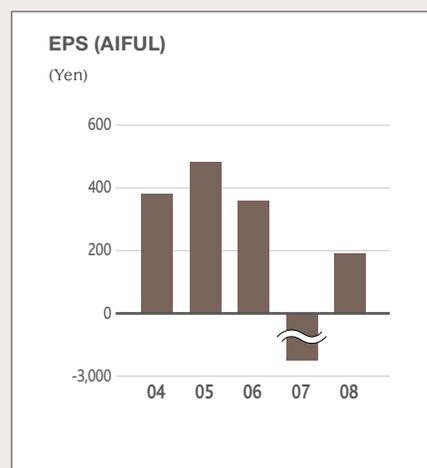
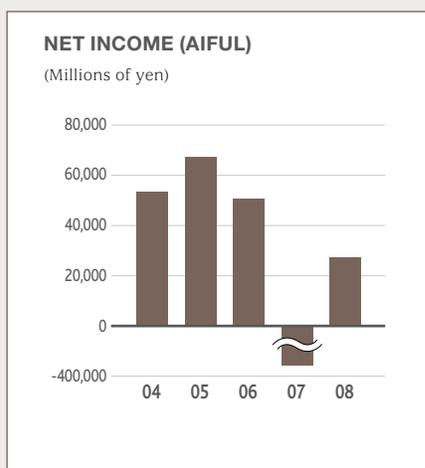
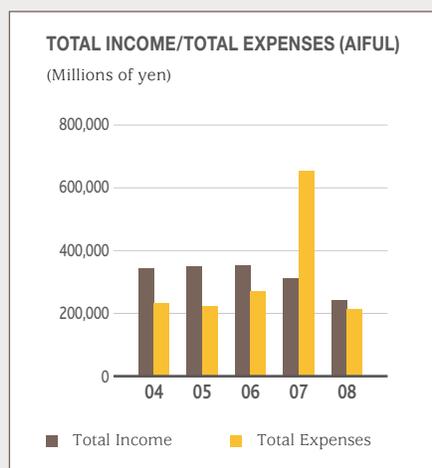
Segment Information

Loans

In October 2006, AIFUL introduced tighter lending criteria ahead of other major lenders. It took this step in anticipation of temporary market disruption following the full enforcement of the amended Money Lending Business Law, and also to make an early start on actions to limit future loan losses. AIFUL maintained this stance in the year ended March 2008, with the result that total receivables outstanding in the loan segment declined by ¥239,732 million, or 18.5%, to ¥1,058,880 million, compared with the position at the end of the previous accounting period.

In the core unsecured loan category, the number of new loan applications (excluding affinity cards) shifted to a recovery trend, with a year-on-year increase of 4.8% to 324 thousand. This growth reflects the resumption of advertising activities and other marketing efforts, including the introduction of a new range of loans for specific purposes. However, the application of tighter lending criteria meant that the number of applications approved declined by 25.7% to 115 thousand, and the annual approval rate was 13.6 percentage points lower at 34.7%. This caused the balance of unsecured loans outstanding to shrink by ¥177,252 million, or 17.8%, to ¥817,825 million. The number of accounts also declined by 280 thousand, or 15.7%, to 1,508 thousand, and the balance per account by ¥14 thousand to ¥542 thousand. In addition to the early reduction of interest rates on new loans, AIFUL also proactively applied preferential interest rates to existing quality customers. As a result, the effective average yield on unsecured loans declined by 1.9 percentage points to 21.0%.

In the home equity loan (secured loan) category, AIFUL continued to apply conservative lending criteria in the year ended March 2008. This stance was based on an in-depth review of products and operating methods that AIFUL initiated in the previous year with the aim of strengthening its compliance systems. As a result, the number of new



loan applications was 55.0% lower at 509, while the number of applications approved declined by 64.0% to 277. The balance of home equity loans outstanding was ¥53,210 million, or 19.4%, lower at ¥221,577 million, and the number of accounts as of March 31, 2008 was 17.3% down at 69 thousand. These reductions in both the balance of loans and the number of accounts were accompanied by a decline in the balance per account, which fell by ¥81 thousand to ¥3,188 thousand. The effective average yield was 1.4 percentage points lower at 12.0%.

In the small business loan category, AIFUL suspended approvals of new loans at the non-consolidated level in December 2007 in preparation for the centralization of this business. The number of new applications was consequently 78.9% lower year on year at 352, and the number of loans approved fell by 86.4% to 54. The balance of loans outstanding as of March 31, 2008 was ¥19,478 million, a year-on-year decline of ¥9,269 million, or 32.2%. The number of accounts declined by 28.4% to 15 thousand. The average balance per account was ¥72 thousand lower at ¥1,263 thousand, and the effective average yield declined by 3.3 percentage points to 19.4%.

Loan Guarantees

AIFUL provides credit guarantees under operating agreements with regional banks, credit cooperatives and other financial institutions. The financial institutions process and action loan applications, while AIFUL provides credit screening of applications from individuals and business proprietors and subrogated performance of overdue loans. Income from this activity takes the form of guarantee fees paid by the partner financial institutions.

As of March 31, 2008, AIFUL was holding guarantees for outstanding loans amounting to ¥56,224 million, a year-on-year decline of ¥2,690 million, or 4.6%. This total includes ¥34,826 million in guarantees on

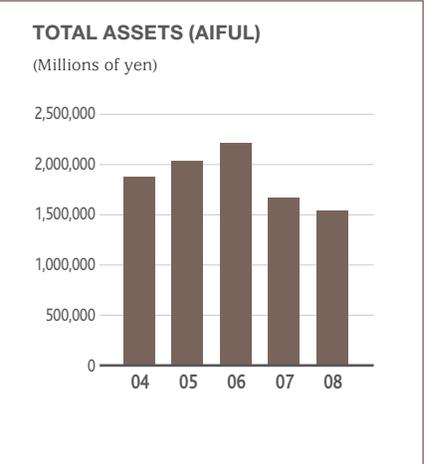
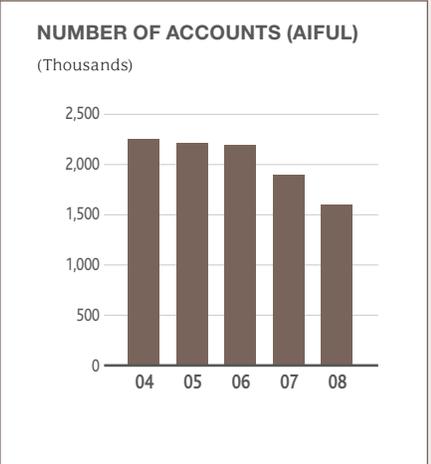
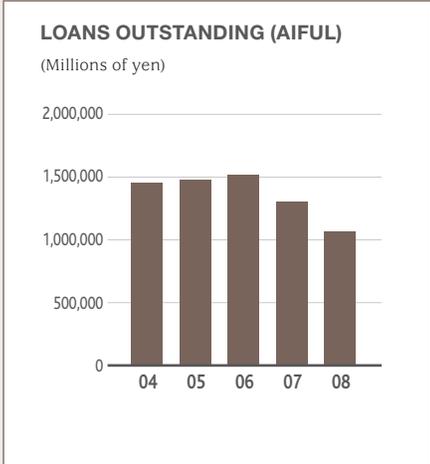
loans to individuals. Escalating competition in this area caused the balance to decline by 8.8%. In the area of guarantees for loans to business proprietors, AIFUL has unique expertise and faces few competitors. The balance in this category increased by 3.2% year on year to ¥21,397 million as of March 31, 2008. Operating agreements were signed with another 11 financial institutions, bringing the total to 44 for guarantees for unsecured loans to individuals, and 68 for guarantees for unsecured loans to business proprietors.

Balance Sheet

Total assets declined by ¥124,869 million, or 7.5%, to ¥1,535,958 million as of March 31, 2008. Current assets were reduced by ¥86,393 million, or 7.0%, to ¥1,152,102 million, while fixed assets declined by ¥38,476 million, or 9.1% at ¥383,856 million.

An analysis of current assets shows that liquidity in hand increased because of an issue of new shares to a third party and an issue of convertible bonds with stock acquisition rights totaling ¥120,000 million implemented in February 2008. Cash and deposits increased by ¥96,308 million, or 128.0%, to ¥171,563 million as of March 31, 2008. However, the continuing application of tighter lending criteria and increased provision for loan losses caused outstanding receivables to decline by ¥239,732 million, or 18.5%, to ¥1,058,880 million. Loan charge-offs appeared to have peaked out, and the allowance provided in the year ended March 2008 was reduced. There was also a reversal from the allowance for interest refunds. As a result, provision for bad loans declined by ¥60,288 million, or 23.0%, to ¥201,898 million. (This total includes ¥93,504 million to provide for loans written off as a result of interest refunds.)

Fixed assets were lower primarily because of reductions in investments and other assets. The most important factor was a



reduction in the balance of long-term loans to affiliated companies, which was ¥49,212 million, or 17.7%, lower at ¥228,291 million. This reflects the application of more stringent lending criteria by all group companies, which led to a decline in the loan balances of subsidiaries and reduced their need for funds.

Current liabilities increased by ¥207 million, or 0.1%, to ¥398,737 million, while fixed liabilities declined by ¥192,087 million, or 19.1%, to ¥815,205 million. A lower balance of receivables outstanding reduced the need for funds. This factor, together with the repayment of debt and the redemption of bonds, caused the balance of funds procured to decline by ¥152,669 million, or 12.8%, to ¥1,038,291 million.

Changes affecting fixed liabilities included the use of the “basic principle” method rather than the “exception” method to calculate the allowance for interest refunds in the half-yearly results for the year ended March 2008. This resulted in a ¥26,936 million increase in the allowance. However, the allowance was used to cover total interest refunds for the year, which amounted to ¥50,425 million, and was consequently ¥23,489 million, or 19.1% lower than the previous year’s level, at ¥99,467 million as of March 31, 2008.

Total equity amounted to ¥322,016 million as of March 31, 2008, a year-on-year increase of ¥67,011 million, or 26.3%. The addition of ¥50,000 million raised through a third-party allocation of new shares to common stock and the capital surplus, together with net income of ¥27,069 million, brought total shareholders’ equity to ¥324,244 million, an increase of ¥69,863 million, or 27.5%, over the previous year’s level. The equity ratio increased by 5.6 percentage points to 21.0%.

Bad Debt

Bad debt amounted to ¥240,685 million as of March 31, 2008, an increase of ¥2,553 million, or 1.1%, compared with the previous year’s

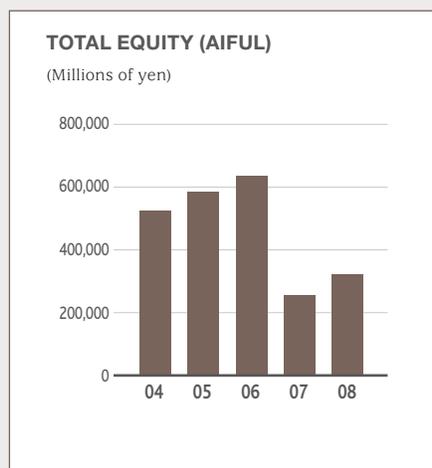


figure. This includes ¥12,078 million for unsecured loans, a year-on-year increase of ¥9,741 million, or 7.4%. The level of bad debt temporarily increased as a result of voluntary curbs on recovery operations and a review of related activities after the imposition of administrative penalties. However, the amount has peaked and is now starting to decline. Bad debt relating to secured loans, which consist mainly of home equity loans, increased by ¥12,294 million, or 11.5%, to ¥119,607 million. Because the recovery of collateralized loans takes longer than procedures for charging off unsecured loans, the level of bad debt in this category is likely to remain high.

(Millions of yen)

	2006		2007		2008	
	Unsecured	Secured	Unsecured	Secured	Unsecured	Secured
Loans in legal bankruptcy	4,169	26,140	4,152	32,783	3,453	39,847
Non-accrual loans	32,549	31,329	74,403	68,529	69,310	75,094
Accruing loans contractually past due three months or more as to principal or interest payments	11,900	3,767	16,056	4,305	11,182	2,926
Restructured loans	35,617	766	36,208	1,695	37,132	1,739

Bad debt charge-offs increased by ¥19,551 million, or 14.8%, year on year to ¥151,234 million. This higher figure reflects a voluntary curb on recovery operations in the year ended March 2008, with the result that charge-offs reached their peak level in the year under review. The quality of receivables is improving because of the introduction of more stringent lending criteria. The impact of the voluntary curb on recovery operations also peaked out in the year under review. The allowance for loan losses was reduced because of a projected reduction in bad loan charge-offs in the coming year, with the result that loan losses were ¥115,014 million, or 52.7%, lower at ¥103,071 million. In the year ended March 2008, the allowance for loan losses, which is treated as a current asset, amounted to ¥201,897 million, including ¥93,504 million to provide for loans written off as a result of interest refunds.

(Millions of yen)

	2006	2007	2008
Allowance for bad debt at beginning of fiscal year	81,928	85,659	262,186
Bad debt charge-offs	91,890	131,684	151,235
Direct charge-offs	11,494	48,469	190
Allowance for bad debt	92,026	169,616	102,881
Charge-offs and provision for doubtful loans, advances to subsidiary and claims in bankruptcy	103,520	218,086	103,072

AIFUL has three charge-off schedules. Loans are written off immediately if borrowers are bankrupt, and after six months if borrowers have disappeared or are deceased. Non-performing loans are written off after 12 months. An analysis of charge-offs of unsecured loans in the year ended March 2008 shows that loans to bankrupt borrowers accounted for 11.9%, a reduction of 6.4 percentage points, and those classified as “disappeared” stood at 7.7%, which was 2.4 percentage points lower. However, non-performing loans, including loans involving intervention by attorneys, accounted for 80.4% of charge-offs, an increase of 8.8 percentage points. Charge-offs resulting from bankruptcy and disappearance are tending to decline, in part because of a continuing downward trend in applications for personal bankruptcy. However, the amount of loans liquidated because of intervention by attorneys and other parties, including demands for interest refunds, remains high. The resulting increase in the amount of claims written off is a source of upward pressure on total bad debt charge-offs.

	(%)		
	2006	2007	2008
Bankrupt	31.9	18.3	11.9
Disappeared	15.0	10.1	7.7
Non-performing	13.5	28.1	27.9
Abandoned	39.6	43.5	52.5

LIFE Co., Ltd.

Overview (Managed Asset Basis)

LIFE undertook a major restructuring of its business in anticipation of changes in the competitive environment resulting from the enforcement of the amended Money Lending Business Law and changes to the Installment Sales Law. It strengthened its business base in the core credit card segment and continued to restructure its business portfolio while also reducing costs. LIFE’s goal is to shift to a business model that avoids excessive reliance on lending.

In the year ended March 2008, total receivables outstanding declined by ¥64,838 million, or 9.0%, to ¥653,045 million. Results for individual segments show sustained growth in the credit card shopping loan business. The balance of credit card receivables rose by ¥10,455 million, or 8.9%, to ¥127,677 million. In contrast, the balance of per-item shopping loans fell by ¥49,705 million, or 44.2%, to ¥62,807 million. This resulted from a change in transaction policies, including the introduction of more stringent credit criteria for member merchants. In the lending segment, LIFE took over ¥21,339 million in receivables from four AIFUL Group consumer finance subsidiaries. However, it continued to apply stringent lending criteria, with the result that the balance of

receivables declined by ¥16,069 million, or 4.1%, to ¥380,191 million. The balance of credit guarantees was also lower, with a decline of ¥9,527 million, or 11.5%, to ¥73,486 million. This resulted from LIFE’s decision to withdraw from conventional guarantee products, which were making a limited contribution to earnings.

LIFE’s operating revenues for the year ended March 2008 amounted to ¥120,667 million, a reduction of ¥8,812 million, or 6.8%, compared with the previous year’s result. Reasons for this lower figure include a reduced top line, resulting from the application of more stringent lending policies, and a reduction in loan interest rates. Operating costs declined by ¥32,998 million, or 22.2%, to ¥115,561 million. In addition to reductions in labor costs and other operating costs achieved through cost restructuring, this saving also resulted from lower credit costs, including lower interest refunds and loan-loss costs.

RECEIVABLES

	2006	2007	2008
Expanding segments	44.7%	52.1%	57.3%
Foundation segments	45.8%	38.7%	33.6%
Shrinking segments	9.5%	9.2%	9.1%

These figures added up to lower revenues and higher income. Operating income was ¥5,106 million, compared with an operating loss of ¥19,079 million in previous year. Ordinary income reached ¥5,183 million, reversing the previous year’s ¥18,957 million loss. Net income also returned to positive figures at ¥3,427 million, up from a net loss of ¥43,313 million in the previous year.

Segment Information

Credit Cards

LIFE has targeted its credit card business for expansion. It continued to enhance customer services and encourage consumers to use the LIFE Card as their main card.

In the year ended March 2008, LIFE’s basic policy was to expand the effective cardholder base through a diversified affinity card strategy, and to strengthen existing affinity card relationships while developing new affinity relationships with retailers, medical institutions, leisure facility operators, and other organizations. Synergies with Chintai Anshin Hosho K.K., also an AIFUL group company, were also exploited to expand the number of affinity cards with the potential to generate steady business, including rent payments.

LIFE diversified the application channels for its proprietary card, to include on-line applications and sign-up booths at public events. These efforts helped to lift the number of new cards issued in the year ended

March 2008 to 1.84 million. As a result, the number of effective cardholders increased by approximately 750 thousand or 5.4%, to 14.81 million.

Enhancements to customer services included a change to the "LIFE Thanks Present" point system to extend the life of accumulated points. Cardholder convenience was also enhanced through LIFE's continuing efforts to build a diversified range of member merchants, including public utilities. A new contract was signed with the Social Insurance Agency, allowing cardholders to use their LIFE Cards to pay national pension insurance contributions. LIFE also reached agreement with NTT DOCOMO, Inc. on the joint promotion of the iD™ e-money system, including a LIFE Card iD registration campaign. These and other initiatives brought significant improvements to cardholder services. As a result of these efforts, a substantial increase in the cardholder base was

accompanied by a 0.9% rise in effective utilization rate for the LIFE Card, which reached 31.0%.

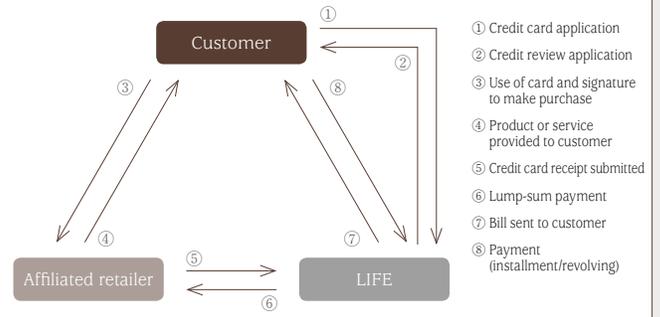
In addition to growth in the effective number of cardholders and a rising card utilization rate, there was also growth in the number of cardholders using the LIFE Card as their main credit card. These trends were reflected in sustained growth in credit card transactions, which increased by ¥103,492 million, or 18.4%, to ¥664,791 million. The effective yield was 0.6 percentage points higher at 12.5%, and revenues for credit card shopping loans increased by 16.8% to ¥15,547 million.

Per-item Shopping Loans

In the previous year, LIFE implemented major changes in its transaction policy for affiliated merchants in readiness for the introduction of tighter

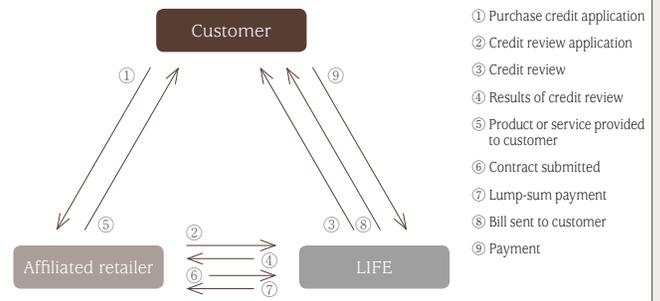
1. CREDIT CARD SHOPPING LOANS

LIFE's cards allow consumers to use credit to shop at or get cash advances from affiliated retailers and merchants that accept MasterCard, JCB, or Visa cards. Unlike shopping, credit cards involve a credit check only at the time they are issued and not at each time of purchase. They are also convenient because consumers can freely make purchases up to their credit limits, and attractive since they include a host of card member services. LIFE's credit cards include ones issued with partner companies, which benefit from added convenience for their customers, improved customer management capabilities, and another way to promote sales.



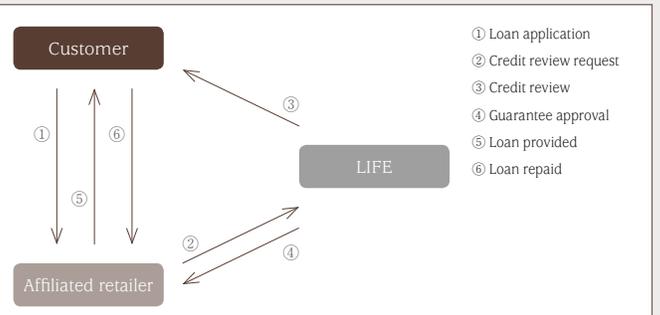
2. PER-ITEM SHOPPING LOANS

Under this system, consumers without credit cards or the required cash are able to purchase the goods they want with financing from LIFE. Credit reviews are conducted at the time of purchase. Consumers can choose to make a one-time payment, installment payments, or payments out of future bonuses, depending on whichever financing option fits their lifestyle. The system is also attractive to affiliated retailers since LIFE services the loans, thereby freeing the retailers from customers' credit risk and allowing them to streamline their operations.



3. LOAN GUARANTEES

Under this system, LIFE conducts credit reviews on behalf of partner financial institutions that provide financing to customers, and guarantees the financing. This system allows banks to quickly provide their customers with unsecured loans, with the help of LIFE's scoring system. At the same time, banks can minimize their credit risks and benefit from having another source of stable earnings. LIFE's expertise comes heavily into play in the credit guarantee business, which requires strong risk-management capabilities based on access to a voluminous amount of consumer credit information and the ability to manage customers' credit.



regulations following amendments to the Installment Sales Law. In the year ended March 2008, it continued its strategy of selecting quality receivables through policies that included the application of more stringent screening criteria for affiliated merchants, and the continuing implementation of credit checks partway through contract periods. These measures were reflected in reduced purchase transactions, which fell by ¥21,187 million, or 65.1%, to ¥11,341 million. Yield declined by 0.5 percentage points to 8.5%, and revenues from per-item shopping loans by 47.6%, to ¥6,926 million.

Loan Guarantees

In the loan guarantee segment, LIFE continued to reduce its involvement in conventional guarantee products because of their limited profitability, and to restructure its guarantee portfolio and improve its earning potential in this area by actively marketing new-type products with higher margins. As a result, the balance of business in discontinued areas, including conventional bank guarantees and housing loan guarantees, was reduced by 13.1% to ¥48,737 million. However, the amount of new-type guarantee business remained stagnant, and the balance declined by 8.0% to ¥24,749 million. Revenues from loan guarantees were 7.9% lower at ¥3,809 million, but the yield improved by 0.1 percentage points to 4.9%, in part because of the restructuring of LIFE's guarantee portfolio. LIFE established alliances with five additional financial institutions in the year ended March 2008, bringing the total to 131.

Loans

Like other AIFUL group companies, LIFE continued to tighten its lending criteria. At the same time, it used an enhanced product line-up, including business loans secured by real estate, and LIFE Special-Purpose Loans, to attract new customers. In December 2007, LIFE took over loans provided by four AIFUL Group consumer finance subsidiaries to approximately 40,000 customers under the Group's business rationalization strategy. The purpose of this move was to expand LIFE's loan revenues.

The balance of receivables as of March 31, 2008 was ¥380,191 million, a year-on-year reduction of ¥16,069 million, or 4.1%. This includes a balance of ¥221,691 for LIFE Card cashing loans, which declined by ¥8,293 million, or 3.6%, and a ¥156,697 million balance for LIFE Cash Plaza cash advances, which were down by ¥8,183 million, or 5.0%.

In October 2007, LIFE reduced the maximum interest rate for cash advances using the Playcard issued through LIFE Cash Plazas to 18%, and in December 2007 the maximum credit card rate for new cash advance transactions was also cut to 18%. LIFE took these steps ahead of the full implementation of the amended Money Lending Business Law with the aim of attracting quality customers. This factor, together

with a lower loan balance, caused loan revenues in the year ended March 2008 to decline by ¥4,906 million, or 5.4%, to ¥86,436 million. The real yield on loans was 1.3 percentage points lower at 21.7%.

Bad Debt

In the year ended March 2008, the amount of loans written off increased by ¥3,777 million, or 8.5%, to ¥48,275 million, and the charge-off ratio was 1.19 percentage points higher at 7.39%. The main reason for this increase was a partial review of recovery procedures in the previous year, as part of measures to ensure regulatory compliance. This caused a temporary rise in the amount of non-performing loans, and the resulting increase in write-offs reached a peak in the year under review. The allowance for bad debt was reduced by ¥3,672 million, or 7.2%, to ¥47,435 million. Loan charge-offs are expected to decline in the coming year and thereafter, reflecting the effect of tighter lending criteria, and the normalization of recovery operations. The reserve for interest refunds was increased by ¥1,600 million, or 6.0%, to ¥28,100 million as of March 31, 2008 on the basis of historical data and recent trends in the level of refund demands.

(Millions of yen)

	2006	2007	2008
Bad debt charge-offs	37,266	44,498	48,275
Ratio of bad debt charge-offs	4.78%	6.20%	7.39%
Allowance for bad debts	40,162	51,107	47,435
Reserve for interest refunds	1,646	26,500	28,100

Other Consolidated Subsidiaries

Small Business Loans

BUSINEXT CORPORATION

BUSINEXT CORPORATION was established as a joint venture with The Sumitomo Trust & Banking Co., Ltd. as a financial services company specializing primarily in services for medium-risk businesses. Since commencing operations in April 2001, it has developed its own corporate scoring system and created a unique business model that allows it to respond quickly to applications for unsecured, non-guaranteed loans. This strategy has brought sustained growth in its business activities.

In the year ended March 2008, BUSINEXT maintained a conservative lending stance because of a deteriorating economic environment that included a sharp rise in the number of bankruptcies in the small and medium-sized enterprise sector. It adapted quickly to changing business conditions by intensifying its marketing of secured products, and by reducing operating expenses. BUSINEXT also increased its emphasis on face-to-face marketing, either at customer's premises or at its branches in major cities.

Despite a challenging business environment, BUSINEXT was able to maintain growth in its top line. The balance of receivables reached ¥83,192 million as of March 31, 2008, an increase of ¥863 million, or 1.0%, compared with the level at the end of the previous financial year. Operating revenues were ¥189 million, or 1.7%, higher, at ¥11,349 million. Increased financing costs and loan losses caused operating expenses to increase by ¥1,021 million, or 10.2%, to ¥11,058 million, with the result that ordinary income was ¥859 million, or 76.5%, lower at ¥264 million. Net income declined by ¥572 million, or 87.9%, to ¥79 million.

City's Corporation

Acquired by AIFUL in October 2002, City's provides loans to high-risk business borrowers. It is preparing for the full implementation of the amended Money Lending Business Law by modifying its cost structure through changes to its branch network and workforce. It is also building a new income structure by shifting its focus toward the medium-risk segment, using know-how provided by BUSINEXT.

Results for the year ended March 2008 were affected by the tightening of loan criteria. Despite this, City's was able to increase its loan balance by ¥1,831 million, or 3.1%, to ¥60,147 million. Contributing factors included active marketing of secured products, the introduction of loans secured by medical fee receivables, which BUSINEXT has marketed successfully, and the expansion of alliances with chambers of commerce and industry and other organizations. Portfolio restructuring resulted in an increased weighting toward low-interest products, and the average yield fell by 6.5 percentage points to 17.2%. Operating revenues were ¥3,784 million, or 27.9%, lower at ¥9,766 million. While cost restructuring brought substantial reductions in labor costs and selling, general and administrative expenses, City's took a conservative stance on provision for loan charge-offs because of the persistently high level of bad loans. This was reflected in an ordinary loss of ¥1,345 million, and a net loss of ¥1,622 million.

Consumer Finance Subsidiaries

As part of a strategy designed to optimize operating efficiency through the reallocation of group-level management resources, plans were made for the restructuring of the four consumer finance subsidiaries and their absorption by AIFUL CORPORATION. Completion of this process was tentatively scheduled for March 2009, in the case of TCM Co. Ltd. and Passkey Co., Ltd., and March 2010, in the case of TRYTO CORPORATION and Wide Corporation. This plan was later revised to create an optimal scheme from a customer service perspective by partially transferring receivables to LIFE Co., Ltd.

In the year ended March 2008, the outstanding loans of the four companies declined by 48.1% to ¥77,760 million. This reflects the

transfer of receivables, and the suspension of new lending to allow the companies to concentrate their efforts on loan recovery. TRYTO's loan balance was reduced by 46.7% to ¥29,274 million, and that of Wide by 49.5% to ¥40,887 million. An analysis of earnings shows that this decline in the loan balance caused TRYTO's operating revenues to fall by 36.9% year on year to ¥9,467 million. The company made conservative provision for bad loans, and its ordinary income was ¥305 million. Net income amounted to ¥449 million. Wide's operating revenues declined by 37.8% to ¥14,087 million. Because it had already made ample provision for bad loans and interest refunds in the previous year, it was able to record ordinary income of ¥6,330 million and net income of ¥6,276 million.

Other Subsidiaries

AsTry Loan Services Corporation

AsTry Loan Services Corporation was established in November 2001 by AIFUL and Aozora Bank, Ltd. According to a rating issued by Standard & Poors in December 2006, AsTry has ample capacity as a special loan servicer, and its outlook is stable. The company has earned an excellent reputation for its ability to service contracts. In the year ended March 2008, it integrated its head office management divisions to speed up decision-making and improve operating efficiency. It also commenced business operations at a new office. Another focus was the reinforcement of internal control systems, including the achievement of "Privacy Mark" certification. As of March 31, 2008, the balance of receivables purchased was ¥12,847 million, a year-on-year increase of 0.7%. Both revenues and income were higher, with operating revenues increasing by ¥2,908 million, or 78.1%, to ¥6,634 million. Both ordinary income and net income shifted to positive figures with results of ¥141 million and ¥119 million, respectively.

New Frontier Partners Co., Ltd. (NFP)

This venture capital company became an AIFUL subsidiary on March 31, 2004. NFP's mission is to create corporate value through venture capital by supplying growth capital to medium-sized companies and ventures through its investment role, and by diagnosing and treating businesses through its consulting activities. In the year ended March 2008, NFP continued to pursue aggressive strategies, including the development of new investment targets and the expansion of secondary investment activities. However, market stagnation caused a 1.7% decline in its total investments, including investments through funds, which amounted to ¥4,748 million as of March 31, 2008. Operating revenues were 2.5% lower at ¥761 million. There was an ordinary loss of ¥536 million and a net loss of ¥541 million.

Risk Factors

The following is a list of the major risk factors that can have an effect on the AIFUL Group's operating results, stock price and financial position. This is not a complete list of the risk factors that, in the opinion of management, have the potential of significantly affecting the Group. Other than the risk factors listed below, there are a number of risk factors that are difficult to predict. Management is aware of the possibility of a negative impact on the Group's operating results, stock price and financial position due to these risk factors, and has a policy of taking actions to prevent these problems and to respond properly in the event a problem occurs. However, there is no assurance that the Group can avoid all risk factors or can respond properly to a problem. Forward-looking statements in this section are based on judgments of the Group as of June 25, 2008, the date on which the Ministry of Finance Securities Report (Yukashoken Hokokusho) was submitted.

Risk Factors Involving the Operating Environment

Many factors influence the ability of the AIFUL Group to maintain past levels of income and growth or improve on those levels. Those discussed here are seen as the most significant ones.

- (1) Economic conditions and market trends in Japan, especially in the consumer credit market
- (2) Escalation of competition in the consumer finance market
- (3) Changes in laws and regulations relating to consumer credit, especially the regulatory framework relating to statutory maximum interest rates, and the enforcement of those laws and regulations, as well as court decisions concerning the related laws and regulations, the resulting changes to accounting standards, and the incidence of litigation, including lawsuits demanding interest refunds
- (4) Changes in the Group's capacity to provide credit, in the number of accounts, in the average balance per account, in the average interest rate on loans, and in the delinquency ratio
- (5) Changes in the Group's ability to procure funds because of market interest rate, bond and securitization trends, changes in the Group's credit status, and other factors
- (6) Changes in expenses and losses, such as fees and commissions, advertising expenses, and labor costs
- (7) Unfavorable media reporting or scandals concerning the AIFUL Group or the consumer finance industry

In April 2007, AIFUL CORPORATION established a Risk Management Committee, which reports directly to the Board of Directors. Its task is to coordinate risk management across the entire organization and develop systems to avoid risk and ensure an appropriate response in the event problems arise. However, the AIFUL Group's financial position or business performance may be adversely affected by a range of factors, such as changes in the business environment, including the tightening or easing of regulatory systems, the competitive environment, or economic fluctuations.

Risks Concerning Multiple Debtors, etc.

In recent years, although the number of consumers that have become indebted by borrowing from multiple lending institutions or by using multiple credit cards is decreasing, there has been an increase in the number of consumers, including AIFUL Group customers, seeking legal protection. These social problems are linked to the economic situation, as well as to changes to legal systems in the area of consumer protection.

The AIFUL Group is taking various steps, including the introduction of tighter credit criteria, and the use of personal credit rating agencies and the Group's own screening systems to check the repayment capacity of borrowers, including ongoing analyses of customers' credit situation during the period of loans. We have also modified our products to encourage systematic repayment under revolving credit agreements by setting a maximum repayment period of five years.

However, if these measures fail to alleviate the problem of multiple indebtedness because of future developments in the economic environment, changes to legal systems or other factors, it is possible that a credit crunch will occur, leading to deterioration in the cash flow positions of our customers. Problems such as these could cause market contraction affecting the entire industry, as well as increased credit costs resulting from loan write-downs and other factors. These outcomes could affect the financial position and business performance of the AIFUL Group.

Laws and Regulations

1. Compliance with Laws and Regulations

On April 14, 2006, the Kinki Finance Bureau of the Ministry of Finance conducted a search of AIFUL CORPORATION premises. This action resulted in the discovery of various regulatory violations, including the fraudulent preparation and exercise of powers of attorney, demands for repayment from persons subject to orders for the commencement of assistance, repeated telephone calls to customers' places of employment with the aim of soliciting repayment, persistent requests to third parties for assistance in the recovery of claims, and improper recording of negotiations. As a result of these violations, the authorities

ordered AIFUL to suspend business operations at five branches for a period of 20 to 25 days, and at other branches and premises for a period of three days from May 8, 2006.

The Company has established a Compliance Committee and created the Compliance Coordination Department to serve as its secretariat. The Committee reports directly to the Board of Directors and provides advice on the development of compliance systems, and measures to prevent inappropriate activities, such as violations of laws and regulations relating to the money-lending business, and unauthorized disclosure of information. The Company has also created information gathering mechanisms and systems to prevent regulatory violations. These support company-wide verification and monitoring of compliance systems. Management of hotlines, the gathering of compliance-related information, and systems relating to disciplinary measures have all been integrated under the Compliance Coordination Department. The aim of these and other changes is to allow integrated compliance management across all divisions, and to strengthen compliance systems. We have also formulated operating rules as part of our efforts to inform staff about the importance of regulatory compliance. Staff members acquire legal knowledge through in-house educational programs, and we are working to strengthen awareness of compliance. The effectiveness of internal auditing systems, including telephone monitoring, has also been improved. In addition, we have established structures to ensure that these and other systems are reviewed at appropriate intervals.

Despite these efforts, there is a possibility that employees or other persons in the AIFUL Group may violate laws and regulations or engage in inappropriate behavior. In such cases, AIFUL will be required to take responsibility through the imposition of administrative penalties or other measures. Such situations may affect the financial position and business performance of the AIFUL Group.

2. Business Restrictions

The loan business of the AIFUL Group, including its core consumer finance business, is subject to regulation under the Money-Lending Business Control and Regulation Law and the Investment Deposit and Interest Rate Law. Business restrictions and prohibitions under these laws include the prohibition of excessive lending, a requirement to disclose and advertise loan terms and other information, the prohibition of exaggerated claims in advertising, a requirement to provide explanatory information when contracts are signed and at other times, obligations to provide documents before guarantee contracts are signed, obligations to provide documents when contracts are signed, obligations to provide documents and receipts, maintain proper accounts and makes accounts available for inspection, restrictions on debt collection activities, requirements concerning the

return of claim documents and the display of business licenses, and restrictions on the sale of receivables and the delegation of authority. There are also requirements concerning the disclosure of transaction histories, the appointment of registered money-lending officers, the carrying of identification documents, as well as requirements concerning the appropriate handling of personal information, including statutory requirements relating to the information shown in payment demands.

AIFUL is also subject to supervision by the Financial Services Agency, which on December 19, 2007 issued comprehensive supervisory guidelines for moneylenders. Under these guidelines, lenders are required to verify the borrower's income, such as by obtaining documentary evidence of annual income, if the amount borrowed is more than ¥500,000 from one lender or more than ¥1,500,000 from multiple lenders. Lenders are also required to establish specific objective lending criteria to ensure that the repayment burden is not excessive, such as by ensuring that total monthly repayments, including repayments to other lenders, do not exceed one-third of the borrower's monthly income, as determined from the borrower's annual income, existing debt and other evidence.

The AIFUL Group's shopping loan business, including credit card loans and per-item shopping loans, is subject to restrictions under the Installment Sales Law. These include requirements concerning the disclosure of transaction terms and the provision of documents, and restrictions on the amount of compensation that can be demanded in the event of a contract cancellation or other situation. There are also provisions concerning the right to make complaints to a party arranging installment purchases, the prevention of purchasing beyond the purchasers' ability to pay, and the prevention of consumer problems relating to continuous services.

Under the Money-Lending Business Control and Regulation Law, whenever the AIFUL Group, as a money-lender, enters into a guarantee agreement, it must first provide the person intending to become a guarantor with documents explaining the content of the guarantee agreement. Whenever a loan agreement or guarantee agreement is signed, the borrower must be provided with documents clearly explaining the terms of the agreement, and the guarantor with documents clearly explaining the terms of the guarantee. These documents must be provided without delay.

Under the existing administrative guidelines (supervisory precautions relating to financial supervision and other matters, Volume III: For Non-Bank Finance Companies), which have been abolished (with some exceptions) following the formulation of the new supervisory guidelines, the lender was required to provide specified documents when agreements were signed, and to issue

documents (or forward them by mail without delay) containing all information required by law, whenever a debtor borrowed funds through an ATM or manned branch.

In August 2003, AIFUL modified its ATM software to support the provision of documents containing all information required by law. The content of this information has since been modified to reflect a cabinet office ordinance promulgated on April 11, 2006, partially amending the enforcement regulations for the Money-Lending Business Control and Regulation Law. The effect of this order was to change statutory requirements concerning information that must be included in receipts issued by the lender when repayments are received, and in payment demands.

When customers obtain loans through the ATMs of partner institutions, documents containing the information required by law are mailed individually to those customers without delay, provided that the customers have given prior consent for this service. The Financial Services Agency has the authority to impose administrative penalties, including orders to totally or partially suspend business operations, if a money-lender fails to comply with regulatory requirements concerning the provision of documents and information. It can also restrict the use of ATMs owned by partner institutions and has the authority to cancel registration as a money-lender. There are issues concerning the provision of documents and related matters, and if this situation results in administrative action against the AIFUL Group, the Group's financial position and business performance could be affected. It would also be necessary to review the Group's operating methods.

An act partially amending laws and regulations governing the money-lending business was promulgated in December 2006, resulting in the changes to the Interest Limitation Law, the Investment Deposit and Interest Rate Law and the Money-Lending Business Control and Regulation Law. The changes will be phased in over a period of approximately three years from the date of promulgation, and some of the changes took effect on December 19, 2007. The first measure, which relates to business operations, stipulates the establishment of internal regulations to ensure that operations are conducted in a sound and appropriate manner, including the provision of important information to the borrower, etc., according to the nature and method of the business operations, and taking into account the knowledge, experience and financial situation of the borrower. The lender is also required to establish regulatory compliance structures, etc., providing for the creation of systems, including staff training, to ensure that operations are conducted in accordance with those internal regulations. A second measure imposes more stringent restrictions on lenders, including a prohibition on certain actions, such as (a) the provision of false information to

borrowers, etc., or the omission of important items from loan agreements provided to borrowers, etc., (b) the making of affirmative statements to borrowers, etc., about matters that have not yet been confirmed, or the making of statements that are likely to mislead borrowers, etc., into assuming that such matters have already been confirmed, and (c) the making of statements likely to mislead parties who are about to become guarantors into assuming that the principal borrower will be able to repay the debt reliably. A third measure introduces a system of business improvement orders. A fourth measure strengthens the voluntary regulatory functions of the Financial Services Association. As a result of this measure, the Japan Financial Services Association was established in December 2007 as a voluntary regulatory organization. Voluntary regulations have since been established under the auspices of that organization, including rules against excessive lending, and advertising and solicitation rules. To enhance the effectiveness of these voluntary regulations, the Association has been given powers to investigate and audit members, and to fine or expel members who fail to comply. As a member of the Japan Financial Services Association, AIFUL is subject to these voluntary regulations.

When the act partially amending laws and regulations governing the money-lending business (promulgated in December 2006) takes full effect, the maximum interest rate under the Investment Deposit and Interest Rate Law will be reduced to the level of the Interest Limitation Law (to 20% per annum). There will also be restrictions on total lending. For example, a lender will be prohibited in principle from making a loan if the total amount owed, including loans from other lenders, would exceed one-third of the borrowers annual income.

The AIFUL Group is determined to make the necessary adaptations and is currently considering group restructuring measures and business portfolio diversification. We will also develop new products and modify our operations to reflect changes in related laws and regulations. At the same time, we aim to improve management efficiency through cost reductions achieved by closing and amalgamating branches and optimizing workforce efficiency. However, we may be unable to implement these measures as planned because of other changes, such as further escalation of competition or a credit squeeze, our ability to attract customers being adversely affected by other factors, leading to a decline in our earning capacity, or marketing capacity declines because of a reduction in our human resources. If this occurs, it is possible that we will be forced to review our group business strategies.

3. Interest Rates on Loans and Deemed Payments

A law partially amending the Money-Lending Business Control and Regulation Law came into effect on June 1, 2000. This new law reduced the maximum interest rate that can be charged by a party engaged in money-lending as a business from 40.004% to 29.2%. It also introduced criminal penalties for violations of this rule. The maximum interest rates charged by the AIFUL Group are below this limit.

An act partially amending the laws and regulations governing the money-lending business came into force in December 2006, as described earlier in this report. Changes to the related laws will result in the lowering of the maximum interest rate from 29.2% to 20%, and the abolition of the deemed repayment system under the Money-Lending Business Control and Regulation Law. These changes will be implemented over a period of approximately three years from the date of promulgation.

Since August 1, 2007, AIFUL has complied with these requirements by reducing its maximum interest rate for customers entering into new loan agreements, and for customers eligible to enter into contracts under our new loan criteria. Our maximum rate is currently below 18.0%. It is possible that the tightening of these restrictions will have a negative effect on the financial position and business performance of the AIFUL Group if its earning potential is reduced, its market contraction leads to increased credit costs, or if other unforeseen costs are incurred.

Under the Interest Limitation Law, the maximum interest rate under interest agreements for cash loans to consumers is 20% where the principal is less than ¥100,000, 18% where the principal is ¥100,000 or more but less than ¥1 million, and 15% where the principal is ¥1 million or more. Article 1 Paragraph 1 of the same law states that any amount in excess of these limits is invalid, but Paragraph 2 states that debtors who have voluntarily paid excess amounts are not entitled to demand refunds. Article 43 of the Money-Lending Business Control and Regulation Law states that if documents as stipulated in Article 17 of the same law were issued to debtors, etc., when the loan was provided, and the debtor has voluntarily paid excess interest that constitutes a payment under the Agreement for which documents were issued under the provisions of Article 17, such amounts will be deemed to be legally valid interest payments (“deemed payments”), irrespective of the provisions of Article 1 Paragraph 1 of the Interest Limitation Law. This assumes that documents as stipulated in Article 18 of the same law were issued immediately after payment.

However, the Japanese Supreme Court ruled on January 13, 2006, that special contract provisions requiring full payment of the entire amount outstanding in the event that the borrower fails to make interest payments by the due date are in effect mandatory payment

requirements covering amounts above the maximum rate stipulated in the Interest Limitation Law, and that such payments by the debtor could not be regarded as voluntary. This includes amounts above the maximum rate stipulated in the Interest Limitation Law. The court further ruled that Article 15 Paragraph 2 of the Enforcement Regulations of the Money-Lending Business Control and Regulation Law, which states that other information, such as the date of the agreement, can be substituted for an agreement number on receipts, is invalid since it is outside the mandate of the law. The AIFUL Group takes these rulings very seriously and is implementing appropriate actions, including the introduction of agreement forms that reflect these rulings.

Some loan products currently provided by the AIFUL Group include contractual interest rates in excess of the maximum interest rates stipulated in the Interest Limitation Law. There have been cases in which companies in the consumer finance industry have been targeted by lawsuits demanding refunds of excess interest on the grounds that agreement documents did not meet the requirements stipulated in the Money-Lending Business Control and Regulation Law. There have been also court rulings in favor of these claims.

There have been lawsuits against the AIFUL Group demanding refunds of excess interest. Courts have accepted the plaintiffs’ argument that the AIFUL Group, as a money-lender, failed to fulfill the requirements for deemed payments under Money-Lending Business Control and Regulation Law. In some cases the excess interest has been refunded under out-of-court settlements. Refunds of excess interest in the consolidated accounting period ended March 31, 2007 amounted to ¥73,221 million.

The AIFUL Group has provided interest refund reserves of ¥252,723 million to cover claims for excess interest refunds. This includes ¥108,973 million in loans that are expected to be recoverable, which were included in the loan-loss reserve, since it was estimated that this amount would be applied preferentially to loans.

However, the premises on which these accounting estimates were based include historical refund data and current trends in interest refunds. If refund demands exceed these premises, there is a possibility that the financial position and business performance of the AIFUL Group will be adversely affected.

4. Other Laws and Regulations

(1) Handling and Protection of Personal Information

Japan’s Personal Information Protection Law, together with related guidelines established by various government agencies, took effect on April 1, 2005. Under the Personal Information Protection Law, businesses that handle personal information are required to submit reports when necessary. If obligations under the law are violated, the

minister in charge is empowered to issue warnings or directives requiring the necessary steps to be taken to protect the rights and interests of individuals. The guidelines state that the purposes for which personal information will be used must be disclosed and published, and where necessary the consent of borrowers must be obtained for the handling of personal information, and that if the handling of personal information is outsourced, the service providers must be properly supervised. Other requirements include the establishment of security management systems from the organizational, human and technical perspectives, and the publication of basic policies on the handling of personal information.

The AIFUL Group has reviewed its procedures for handling personal information according to these requirements, and we have also adopted a privacy policy and taken steps to prevent leaks of personal information from the AIFUL Group. However, in the unlikely event that personal information is leaked, resulting in a warning or directive from the Financial Services Agency, there is a possibility that the reputation, financial position or business performance of the AIFUL Group could be adversely affected.

(2) Amendment of the Judicial Scrivener Law

On April 1, 2003, the Judicial Scrivener Law was amended to expand the range of situations in which judicial scriveners (*shiho shoshi*) can act as legal representatives. Judicial scriveners can now represent clients in mediations, civil suits and other types of cases that can be heard in summary courts, provided that the amount of any claim does not exceed ¥1.4 million. If this amendment, future developments or a further expansion of the scope of services that can be provided by judicial scriveners result in further increases in the incidence of lawsuits and debt restructuring, the consequences could include longer repayment schedules and increased bad debts. These factors could affect the financial position or business performance of the AIFUL Group.

(3) Amendment of the Bankruptcy Law

Amendments to the Bankruptcy Law, which took effect on January 1, 2005, were designed to simplify and speed up bankruptcy proceedings by integrating bankruptcy and discharge procedures and shortening the period during which a bankrupt cannot be discharged. The range of assets that bankrupts can keep (free assets) was expanded, and safeguards for the rights of personal bankruptcies were strengthened.

If these changes lead to an increase in the number of bankruptcies or other consequences, the resulting increase in bad debts could impact on the financial position and business performance of the AIFUL Group.

(4) Possibility of Increased Customer Debt Restructuring Following the Enactment of the Special Mediation Law and Amendments to the Civil Rehabilitation Law

Under the Law Concerning Special Mediation to Promote the Adjustment of Special Debts, etc. (the "Special Mediation Law"), which took effect on February 17, 2000, a debtor at risk of becoming unable to repay debts can seek debt restructuring, including changes to payment dates. This can be done by negotiating with creditors through a civil mediation committee made up of a judge and experts in fields that are appropriate based on the business activities of the debtors, such as law, taxation, corporate finance and asset valuation. While special mediation procedures are in progress, the debtor can also seek a stay of other civil enforcement procedures targeting the debtors' assets.

Under the amended Civil Rehabilitation Law of April 1, 2001, a number of options were introduced allowing an individual who is economically bankrupt to defer repayment of a loan without becoming subject to a bankruptcy declaration. One of the options available under this law does not require the approval of creditors for rehabilitation plans. Under certain circumstances, it is also possible to avoid the loss of a house covered by a home equity loan by applying special housing finance provisions.

To date few AIFUL Group customers have sought protection under these legal systems. However, if the number increases because of economic trends or other factors, the financial position and business performance of the AIFUL Group could be affected by the resulting extension of loan repayment timetables, increased bad debts or other factors.

(5) The Law Concerning the Promotion of the Use of Out-of-Court Dispute Settlement Procedures

The Law Concerning the Promotion of the Use of Out-of-Court Dispute Settlement Procedures, which came into effect on April 1, 2007, expands the functionality of out-of-court settlement procedures (procedures for the settlement of civil disputes without recourse to litigation, with the participation of specified third parties). The Minister of Justice is now able to certify dispute resolution contractors as third parties capable of participating in these procedures. The law also accords legal status to out-of-court settlement services provided by these contractors. If the use of out-of-court settlement procedures increases, the financial position and business performance of the AIFUL Group could be affected by the resulting extension of loan repayment timetables, increased bad debts or other factors.

Fund Procurement Risks

1. Interest Rate Fluctuation Risk

Interest rates on funds procured by the AIFUL Group fluctuate according to market conditions and other factors. To minimize its exposure to this risk, the AIFUL Group uses interest swaps and caps to hedge against interest rate rises. However, depending on the extent of future interest rate increases, it is possible that the procurement activities of the AIFUL Group may be affected.

2. Changes in Credit Ratings

AIFUL has been rated by the following rating agencies. If these ratings change, AIFUL's procurement activities may be affected.

Rating Agency	Rating
Rating and Investment Information	A-/Negative
Japan Credit Rating Agency	BBB+/Negative
Moody's Japan	Baa2/Positive
Standard & Poor's	BBB/Negative
Fitch Ratings	BBB+/Negative

3. Diversification of Fund Procurement

The AIFUL Group is diversifying its procurement methods, which include direct borrowing from financial institutions, syndicated loans, domestic and overseas bonds, commercial paper and asset securitization. The financial position and business performance of the AIFUL Group could be affected in certain situations, such as if a decline in the Group's credit rating affects borrowing terms or causes a decline in the amount that can be borrowed, preventing the Group from procuring funds under terms similar to those prevailing at present.

Disruptions, Malfunctions and Other Problems Concerning Data, Network Systems, Internet Systems and Other Technological Systems

The AIFUL Group uses internal and external information and technology systems to manage its business operations. The Group is becoming increasingly reliant on software, systems and networks to control the various information resources, including branch network data and account data, on which its business activities are based. Hardware and software used by the Group could be affected by human error, natural disasters, power cuts, computer viruses and similar situations, as well as by interruptions to support services provided by third parties, such as telephone companies and Internet service providers. Disruptions, faults, delays or other problems affecting information and technology systems could have an adverse impact on the AIFUL Group's financial position or business

performance, including a reduction in the number of accounts opened, delays in settling receivables, and a loss of consumer confidence in the services provided by the AIFUL Group.

The AIFUL Group maintains redundancy in both its hardware and telecommunications equipment so that it can minimize the damage resulting from failures by switching to back-up systems. However, a natural disaster, such as an earthquake or typhoon, could necessitate the suspension of the Group's business operations.

Possession and Sale of AIFUL Stock by the Representative Director and Family Members

As of March 31, 2007, Yoshitaka Fukuda, the representative director of AIFUL, members of his family, including Yasutaka Fukuda, who is also an AIFUL director, and associated corporations owned approximately 50% of all shares outstanding. These shareholders are able to exercise a controlling influence over important decisions that will affect AIFUL's business activities, including important corporate transactions, such as the sale of a controlling interest in AIFUL, business restructuring and reorganization, investment in other businesses or assets, and the establishment of terms for future fund procurement activities. While these shareholders have so far maintained their shareholdings, it is possible that they will dispose of shares in the future. This would increase the supply of AIFUL shares in the market, possibly affecting the share price.

Significant Lawsuits and Litigation

The AIFUL Group is aware that multiple lawsuits have been filed by certain organizations concerning the claim recovery activities of AIFUL. If there are further lawsuits, etc., in the future, it is possible that additional unplanned expenses will be incurred, and that reporting of these lawsuits, etc., in the mass media will influence the ways in which customers use our services, the formation of our share price, our ability to procure funds, and other factors, with the result that the financial position and business performance of the AIFUL Group will be affected.

Concerning the Dilution of Shares Due to Offering of Euroyen Subordinated Zero Coupon Convertible Bonds with Stock Acquisition Rights

On February 29, 2008, pursuant to a resolution of the Board of Directors on February 13, 2008, AIFUL CORPORATION issued Euroyen Series A through G Subordinated Zero Coupon Convertible Bonds with Stock Acquisition Rights Due 2010 (hereinafter referred to as "the convertible bonds"). The convertible bonds are worth a total of ¥70,000 million. This move was prompted by an urgent need to replenish our net assets, which were depleted in the previous

financial year because of a substantial increase in the provision of reserves. It was also seen as a way to strengthen our financial structure and provide the capital needed for continuing growth.

The issue is subject to the mandatory acquisition of all outstanding convertible bonds in exchange for common stock on February 26, 2010. If there are any convertible bonds on which the warrants have not been exercised by this redemption date, there will be a one-off dilution of the Company's common stock. However, the convertible bonds were issued on condition that they could be acquired at any time deemed suitable by AIFUL in exchange for AIFUL common stock. The issue was designed to allow AIFUL to acquire the convertible bonds at any time on a maximum of seven occasions, thereby spreading the timing of dilution of its common stock.

However, the value per share of common stock could be diluted with implications for the share price under certain circumstances, such as if large numbers of warrants are exercised at the same time, or if the improvement of our income growth rate is not commensurate with the level of dilution of our common stock.

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Financial Section

FINANCIAL SECTION

CONSOLIDATED BALANCE SHEETS

Aiful Corporation and Consolidated Subsidiaries
March 31, 2008 and 2007

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2008	2007	2008
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	¥ 257,311	¥ 157,057	\$ 2,573,110
Time deposits	3,088	78	30,880
Operational investment securities (Note 7)	1,175	1,837	11,750
Loans, loan guarantees and receivables			
Loans (Notes 4 and 9)	1,598,706	1,912,689	15,987,060
Installment accounts receivable (Notes 5 and 9)	148,490	174,923	1,484,900
Loan guarantees (Note 6)	129,713	141,930	1,297,130
Other receivables	26,382	25,406	263,820
Allowance for doubtful accounts (Note 2.i)	(297,384)	(379,848)	(2,973,840)
Prepaid expenses	2,848	4,018	28,480
Deferred tax assets (Note 14)	16,997	13,771	169,970
Other current assets (Note 9)	41,876	43,573	418,760
Total current assets	1,929,202	2,095,434	19,292,020
PROPERTY AND EQUIPMENT (Note 9):			
Land (Note 8)	14,363	14,464	143,630
Buildings and structures (Note 8)	38,922	44,118	389,220
Machinery and equipment	265	268	2,650
Furniture and fixtures (Note 8)	21,112	24,879	211,120
Construction in progress (Note 8)	2,921	1,016	29,210
Total	77,583	84,745	775,830
Accumulated depreciation	(35,170)	(42,339)	(351,700)
Net property and equipment	42,413	42,406	424,130
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 7)	12,431	20,983	124,310
Investments in and advances to unconsolidated subsidiaries and associated companies	4,620	3,311	46,200
Claims in bankruptcy (Note 4)	46,350	38,988	463,500
Goodwill, net	2,289	3,145	22,890
Software, net	22,793	21,337	227,930
Long-term loans receivables (less current portion)	10	19	100
Lease deposits	7,639	11,493	76,390
Long-term prepayments	2,300	2,766	23,000
Deferred tax assets (Note 14)	2,151	334	21,510
Other assets (Note 8)	1,961	2,068	19,610
Allowance for doubtful accounts	(33,031)	(27,725)	(330,310)
Total investments and other assets	69,513	76,719	695,130
TOTAL	¥ 2,041,128	¥ 2,214,559	\$20,411,280

See notes to consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2008	2007	2008
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Short-term borrowings (Note 9)	¥ 163,930	¥ 91,370	\$ 1,639,300
Current portion of long-term debt (Note 9)	358,819	404,241	3,588,190
Trade notes payable	1,778	6,021	17,780
Trade accounts payable	31,616	36,823	316,160
Obligation under loan guarantees (Note 6)	129,713	141,930	1,297,130
Income taxes payable	2,204	7,992	22,040
Accrued expenses	8,840	9,219	88,400
Allowance for losses from business restructuring (Note 13)	193	11,316	1,930
Allowance for clean-up costs of contaminated land		630	
Other current liabilities (Notes 5 and 6)	34,737	33,847	347,370
Total current liabilities	731,830	743,389	7,318,300
LONG-TERM LIABILITIES:			
Long-term debt (less current portion) (Note 9)	831,340	1,034,651	8,313,400
Deferred tax liabilities (Note 14)	8	526	80
Liability for retirement benefits (Notes 2.h and 10)	1,063	1,339	10,630
Allowance for losses on interest refunds (Note 2.l)	143,750	167,153	1,437,500
Interest rate swaps (Note 16)	6,417	8,193	64,170
Other long-term liabilities	2,199	2,163	21,990
Total long-term liabilities	984,777	1,214,025	9,847,770
EQUITY (Notes 11 and 18):			
Common stock, authorized, 568,140,000 shares; issued, 167,475,000 shares in 2008 and 142,035,000 shares in 2007	108,325	83,317	1,083,250
Capital surplus : Additional paid-in capital	129,134	104,126	1,291,340
Retained earnings	86,820	66,466	868,200
Net unrealized gain on available-for-sale securities	2,080	6,536	20,800
Deferred loss on derivatives under hedge accounting (Note 16)	(4,332)	(5,752)	(43,320)
Treasury stock-at cost 455,717 shares in 2008 and 412,835 shares in 2007	(3,110)	(2,968)	(31,100)
Total	318,917	251,725	3,189,170
Minority interests	5,604	5,420	56,040
Total equity	324,521	257,145	3,245,210
TOTAL	¥ 2,041,128	¥ 2,214,559	\$20,411,280

CONSOLIDATED STATEMENTS OF OPERATIONS

Aiful Corporation and Consolidated Subsidiaries
Years Ended March 31, 2008 and 2007

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2008	2007	2008
INCOME:			
Interest on loans	¥ 356,435	¥ 448,662	\$ 3,564,350
Interest on credit card shopping loans	14,948	12,754	149,480
Interest on per-item shopping loans	6,912	12,998	69,120
Interest on loan guarantees	8,548	9,187	85,480
Interest on deposits, securities and other	952	471	9,520
Recovery of loans previously charged off	4,395	4,023	43,950
Other income	10,199	12,914	101,990
Total income	402,389	501,009	4,023,890
EXPENSES:			
Interest on borrowings	30,646	32,898	306,460
Charge-offs and provision for doubtful accounts	155,930	447,375	1,559,300
Salaries and other employees' benefits	43,182	55,136	431,820
Advertising expenses	7,429	15,074	74,290
Rental expenses (Note 15)	11,858	19,415	118,580
Commissions and fees	22,902	25,585	229,020
Loss on impairment of long-lived assets (Note 8)	175	6,805	1,750
Depreciation and amortization	11,924	19,251	119,240
Provision for employees' retirement benefits (Note 10)	1,169	1,372	11,690
Provision for losses on interest refunds (Note 2.I)	49,819	167,148	498,190
Loss on interest refunds		15,240	
Loss from and provision for business restructuring (Note 13)	97	18,528	970
Provision for clean-up costs of contaminated land		630	
Other expenses	36,360	48,815	363,600
Total expenses	371,491	873,272	3,714,910
INCOME (LOSS) BEFORE INCOME TAXES AND MINORITY INTERESTS	30,898	(372,263)	308,980
INCOME TAXES (Note 14):			
Current	6,526	15,795	65,260
Deferred	(3,251)	24,734	(32,510)
Total income taxes	3,275	40,529	32,750
MINORITY INTERESTS IN NET INCOME (LOSS)	189	(1,541)	1,890
NET INCOME (LOSS)	¥ 27,434	¥ (411,251)	\$ 274,340
	Yen		U.S. Dollars
AMOUNTS PER COMMON SHARE (Notes 2.v and 17):			
Basic net income (loss)	¥ 190.77	¥ (2,903.85)	\$ 1.91
Diluted net income	186.86		1.87
Cash dividends applicable to the year	40.00	60.00	0.40

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Aiful Corporation and Consolidated Subsidiaries
Years Ended March 31, 2008 and 2007

	Thousands	Millions of Yen								
	Number of Shares of Common Stock Issued	Common Stock	Capital Surplus Additional Paid-in Capital	Retained Earnings	Net Unrealized Gain on Available-for-sale Securities	Deferred gain (loss) on Derivatives under Hedge Accounting	Treasury Stock	Total	Minority Interests	Total Equity
BALANCE AT APRIL 1, 2006	142,035	¥ 83,317	¥104,126	¥486,214	¥11,002		¥(2,965)	¥681,694		¥681,694
Reclassified balance as of March 31, 2006 (Note 2.o)									¥ 6,965	6,965
Net loss				(411,251)				(411,251)		(411,251)
Cash dividends paid, ¥60 per share				(8,497)				(8,497)		(8,497)
Net increase in treasury stock (711 shares)							(3)	(3)		(3)
Net change in the year					(4,466)	¥(5,752)		(10,218)	(1,545)	(11,763)
BALANCE AT MARCH 31, 2007	142,035	83,317	104,126	66,466	6,536	(5,752)	(2,968)	251,725	5,420	257,145
Issuance of common stock through a third-party capital allotment (Note 11)	25,440	25,008	25,008					50,016		50,016
Net income				27,434				27,434		27,434
Cash dividends paid, ¥50 per share				(7,080)				(7,080)		(7,080)
Net increase in treasury stock (42,882 shares)							(142)	(142)		(142)
Net change in the year					(4,456)	1,420		(3,036)	184	(2,852)
BALANCE AT MARCH 31, 2008	167,475	¥108,325	¥129,134	¥ 86,820	¥ 2,080	¥(4,332)	¥(3,110)	¥318,917	¥ 5,604	¥324,521

	Thousands of U.S. Dollars (Note 3)									
	Common Stock	Capital Surplus Additional Paid-in Capital	Retained Earnings	Net Unrealized Gain on Available-for-sale Securities	Deferred gain (loss) on Derivatives under Hedge Accounting	Treasury Stock	Total	Minority Interests	Total Equity	
BALANCE AT MARCH 31, 2007	\$833,170	\$1,041,260	\$664,660	\$65,360	\$(57,520)	\$(29,680)	\$2,517,250	\$54,200	\$2,571,450	
Issuance of common stock through a third-party capital allotment (Note 11)	250,080	250,080					500,160		500,160	
Net income			274,340				274,340		274,340	
Cash dividends paid, \$0.50 per share			(70,800)				(70,800)		(70,800)	
Net increase in treasury stock (42,882 shares)						(1,420)	(1,420)		(1,420)	
Net change in the year				(44,560)	14,200		(30,360)	1,840	(28,520)	
BALANCE AT MARCH 31, 2008	\$1,083,250	\$1,291,340	\$868,200	\$20,800	\$(43,320)	\$(31,100)	\$3,189,170	\$56,040	\$3,245,210	

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Aiful Corporation and Consolidated Subsidiaries
Years Ended March 31, 2008 and 2007

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2008	2007	2008
OPERATING ACTIVITIES:			
Income (loss) before income taxes and minority interests	¥ 30,898	¥ (372,263)	\$ 308,980
Adjustments for:			
Income taxes - paid	(12,313)	(32,844)	(123,130)
Depreciation and amortization	11,928	19,251	119,280
Loss on impairment of long-lived assets	175	6,805	1,750
(Decrease) increase in allowance for doubtful accounts	(77,158)	235,858	(771,580)
(Decrease) increase in allowance for losses on interest refunds	(23,403)	146,079	(234,030)
Amortization of bonds issue costs	339	519	3,390
Loss on write-down of investment securities	42	620	420
Loss on sales of property and equipment, net	78	123	780
Loss on disposal of property and equipment	735	1,965	7,350
Changes in assets and liabilities			
Decrease in loans	313,984	211,328	3,139,840
Decrease in installment accounts receivable	26,431	34,661	264,310
Decrease (increase) in operational investment securities	597	(13)	5,970
Increase in other receivables	(976)	(3,954)	(9,760)
Increase in claims in bankruptcy	(7,362)	(5,957)	(73,620)
Increase in inventories	(36)	(45)	(360)
Decrease in prepaid expenses	1,319	743	13,190
Decrease in long-term prepayments	930	1,154	9,300
Decrease in other current assets	1,713	4,371	17,130
(Decrease) increase in other current liabilities	(19,961)	5,621	(199,610)
Other — net	(435)	(3,464)	(4,350)
Total adjustments	216,627	622,821	2,166,270
Net cash provided by operating activities	247,525	250,558	2,475,250
INVESTING ACTIVITIES:			
Capital expenditures	(14,191)	(11,269)	(141,910)
Increase in loans	(33)	(46)	(330)
Purchases of investment securities	(1,969)	(1,676)	(19,690)
Other — net	2,646	6,458	26,460
Net cash used in investing activities	(13,547)	(6,533)	(135,470)
FORWARD	¥ 233,978	¥ 244,025	\$ 2,339,780

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2008	2007	2008
FORWARD	¥ 233,978	¥ 244,025	\$ 2,339,780
FINANCING ACTIVITIES:			
Net increase (decrease) in short-term borrowings	72,560	(46,830)	725,600
Proceeds from long-term debt (net of bonds issue costs)	174,227	441,905	1,742,270
Repayments of long-term debt	(423,063)	(657,965)	(4,230,630)
Proceeds from issuance of common stock	49,764		497,640
Cash dividends paid	(7,080)	(8,497)	(70,800)
Acquisition of treasury stock	(142)	(4)	(1,420)
Net cash used in financing activities	(133,734)	(271,391)	(1,337,340)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	10	46	100
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	100,254	(27,320)	1,002,540
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	157,057	184,377	1,570,570
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 257,311	¥ 157,057	\$ 2,573,110

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Aiful Corporation and Consolidated Subsidiaries
Years Ended March 31, 2008 and 2007

01 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 Law (formerly, the Japanese Securities and Exchange Law) and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan (“Japanese GAAP”), which are different in certain respects as to application and disclosure requirements of International

Financial Reporting Standards and accounting principles generally accepted in the United States of America.

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 which is more familiar to readers outside Japan.

In addition, certain reclassifications have been made in the 2007 financial statements to conform to the classification used in 2008.

02 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation — The consolidated financial statements include the accounts of Aiful Corporation (the “Company”) and its eleven significant subsidiaries (together, the “Group”). Consolidation of the remaining eighteen unconsolidated subsidiaries would not have a material effect on the accompanying consolidated financial statements.

On March 26, 2007, the Company merged id CREDIT and NET ONE CLUB which were wholly owned subsidiaries of the Company.

Under the control or 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 five unconsolidated subsidiaries (three in 2007) and two associated companies are stated at cost. Investments in the remaining thirteen unconsolidated subsidiaries (fifteen in 2007), 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 recent available financial statements of the partnerships. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

Goodwill on acquisition of subsidiaries is amortized using the straight line method over the estimated period

(not to exceed 20 years), in which economic benefits are expected to be realized. However, when the excess of cost over net assets of subsidiaries acquired is not material, it is charged to income when incurred.

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

b. Business Combination — In October 2003, the Business Accounting Council (the “BAC”) issued a Statement of Opinion, “Accounting for Business Combinations”, and on December 27, 2005, the Accounting Standards Board of Japan (the “ASBJ”) issued ASBJ Statement No.7, “Accounting Standard for Business Divestitures” and ASBJ Guidance No.10, “Guidance for Accounting Standard for Business Combinations and Business Divestitures”. These new accounting pronouncements were effective for fiscal years beginning on or after April 1, 2006.

The accounting standard for business combinations allows companies to apply the pooling of interests method of accounting only when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests.

For business combinations that do not meet the uniting-of-interests criteria, the business combination is considered to be an acquisition and the purchase method of accounting is required. This standard also prescribes the accounting for combinations of entities under common control and for joint ventures.

On March 26, 2007, the Company merged id CREDIT and NET ONE CLUB, which were wholly owned subsidiaries of the Company. The accounting for combinations of entities

under common control prescribed by the accounting standard for business combinations was applied to it.

c. 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 certificate of deposits which mature or become due within three months of the date of acquisition and securities purchased under resale agreements. Prior to April 1, 2007 securities purchased under resale agreements were not included in components of cash equivalents. Effective April 1, 2007, however, the Group changed its policy to include securities purchased under resale agreements in cash equivalents which are in the context of the actual situation for investments of short-term funds.

d. 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. Non-marketable 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 recent available financial statements of the partnerships.

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 and after April 1, 1998. The range of useful lives is principally from 2 to 62 years for buildings and structures, from 2 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 would be 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, which meet certain future-tests, are capitalized as software and amortized by the straight-line method over the estimated useful lives of five years.

h. Liability for Retirement Benefits — The Company and certain 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 income when made.

Liability for retirement benefits to directors and corporate auditors is provided at the amount which would be required if they retired at each balance sheet date.

The liability for retirement benefits in the consolidated balance sheet is for directors and corporate auditors.

i. 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.

j. Allowance for clean-up costs of contaminated land — The allowance for clean-up costs of contaminated land (2007) is provided for losses on cleaning up soil contamination discovered in some portion of the Company's land for sale and is based on the estimated amount of future costs to be paid.

k. Allowance for losses from business restructuring — The allowance for losses from business restructuring is provided at an estimated amount of future costs related to closure of outlets and other restructuring activities.

l. Allowance for losses on interest refunds — The limit of interest rates is regulated by two laws - "Contributions Law" and "Interest Rate Restriction Law". Under the former law, interest rates on loans should not exceed 29.2% and violation of law is considered to be a criminal penalty. The

latter law stipulates that interest payments for interest rates that exceed the legal limit (20% for principal amounts under ¥100 thousand, 18% for principals between ¥100 thousand and ¥1 million and 15% for principals over ¥1 million) are void. However, under the “Moneylending Business Restriction Law”, such interest payments are nonetheless considered to be valid if moneylenders issue notices as prescribed by the law to debtors and debtors pay voluntarily. Recent strict interpretation by the courts of these requirements has led to decisions against moneylenders and resulted in more debtors claiming for the return of excess interest payments.

On March 15, 2006, the Japanese Institute of Certified Public Accountants (the “JICPA”) issued a report requiring moneylenders to make an accounting provision for losses on interest refunds for interest rates that exceeded the limit set by the Interest Rate Restriction Law. The Company and certain consolidated subsidiaries have loaned money at rates between the limit set by the two laws, and have in the past charged refund costs to income as incurred. However, the growing number of claims against the Company and certain consolidated subsidiaries has increased the materiality of the financial effects of the situation. So, the Company and certain consolidated subsidiaries decided to record a provision of ¥21,074 million (“Allowance for losses on interest refunds”) for interest refunds for the fiscal year ended March 31, 2006.

On October 13, 2006, the industry practice committee of the JICPA issued its Report No.37 “Audit Guidance for Consumer Finance Companies’ Recording of Provisions for Losses on Interest Refunds,” (“Report No. 37”) which became effective for fiscal periods ending on or after September 1, 2006. The Group changed the method of estimating allowance for losses on interest refunds in accordance with the new guidelines.

The differences between the amount of allowance for losses on interest refunds estimated and recorded as of the beginning of the fiscal year ended March 31, 2007 in accordance with the report issued on March 15, 2006 and the amount estimated as of the beginning of the fiscal year ended March 31, 2007 in accordance with Report No. 37, was recorded as “Charge-offs and provision for doubtful accounts” in the amount of ¥107,013 million and “Provision for losses on interest refunds” in the amount of ¥69,312 million in the consolidated statements of operations for the year ended March 31, 2007.

At March 31, 2008 and 2007, the Group recorded an allowance of ¥143,750 million (\$1,437,500 thousand) and ¥167,153 million, respectively, as “Allowance for losses on interest refunds.” In addition, the estimated amount of interest refunds of ¥108,974 million (\$1,089,740 thousand) and ¥195,546 million which are expected to be preferentially set off against loans was recorded as “Allowance for doubtful accounts” for the Company and certain consolidated subsidiaries at March 31, 2008 and 2007, respectively.

Allowance for losses on interest refunds is stated in amounts considered to be appropriate based on the Company’s and certain consolidated subsidiaries’ past refund loss experience, the recent situation regarding interest refunds and other factors.

m. 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 consolidated financial statements. All leases are accounted for as operating leases.

n. Income Taxes — The provision for income taxes is computed based on the pretax income included in the consolidated statements 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.

o. Presentation of Equity — On December 9, 2005, the ASBJ published a new accounting standard for presentation of equity. Under this accounting standard, certain items which were previously presented as liabilities or assets, as the case may be, are now presented as components of equity. Such items include stock acquisition rights, minority interests, and any deferred gain or loss on derivatives accounted for under hedge accounting. This standard was effective for fiscal years ending on or after May 1, 2006.

The balances of such items as of March 31, 2006 were reclassified as separate components of equity as of April 1, 2006 in the consolidated statement of changes in equity.

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 statements of operations to 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 either the interest rate stipulated in the Interest Rate Restriction Law or the contracted interest rate, whichever is lower.

Interest on credit card shopping loans, Interest on per-item shopping loans — 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 lives of contracts. Fees from customers applying the remaining principal method or revolving method are generally recognized in equal installments over the lives of contracts.

Interest on loan guarantees — Interest on loan 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. Stock Issue Costs — Stock issue costs are charged to income as incurred.

t. Bond Issue Costs — Amortization is calculated by the straight-line method over the term of the related bond issue. Bond issue costs related to bonds which were issued by March 31, 2006 are amortized ratably over periods up to three years. Bond issue costs are included in other assets.

u. Derivatives and Hedging Activities — The Group uses derivative financial instruments to manage its exposures to fluctuations in interest rates and foreign exchange. Interest rate swaps, interest rate caps and currency swaps contracts are utilized by the Group to reduce interest rate and foreign currency exchange risks. The Group does not enter into derivatives for trading or speculative purposes. The accounting standard for derivative financial instruments requires that: a) all derivatives be recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions be recognized in the consolidated statements of operations, and b) for derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives be deferred

until maturity of the hedged transactions.

Currency swaps contracts are utilized to hedge foreign currency exposure in principal and interest payments of U.S. dollar straight bonds. U.S. dollar straight bonds are translated at the contracted rates.

The interest rate swaps and caps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differential paid or received under the swap or cap contracts is recognized and included in interest expenses or income.

v. Per Share Information — Basic net income (loss) per share is computed by dividing net income (loss) available 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 securities were converted into common stock and assumes full conversion of the outstanding convertible bonds at the time of issuance and full exercise of outstanding stock options.

Cash dividends per share presented in the accompanying consolidated statements of operations are dividends applicable to the respective years including dividends to be paid after the end of the year and have not been retroactively adjusted for stock splits.

w. New Accounting Pronouncements:

Lease Accounting — On March 30, 2007, the ASBJ issued ASBJ Statement No.13, "Accounting Standard for Lease Transactions", which revised the existing accounting standard for lease transactions issued on June 17, 1993. The revised accounting standard for lease transactions is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted for fiscal years beginning on or after April 1, 2007.

Lessee

Under the existing accounting standard, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, however, other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the note to the lessee's financial statements.

The revised accounting standard requires that all finance lease transactions shall be capitalized recognizing lease assets and lease obligations in the balance sheets.

The Group expects to adopt this revised accounting standard as of April 1, 2008.

03 TRANSLATION INTO UNITED STATES DOLLARS

The 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 is included solely for the

convenience of readers outside Japan and have been made at the rate of ¥100 to \$1, the approximate rate of exchange at March 31, 2008. 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.

04 LOANS

Loans at March 31, 2008 and 2007 consisted of the following (before allowance for doubtful accounts):

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Unsecured	¥1,278,001	¥1,537,905	\$12,780,010
Secured	246,520	291,716	2,465,200
Small business loans	141,161	155,642	1,411,610
Total	¥1,665,682	¥1,985,263	\$16,656,820
Off-balance sheet securitized loans	(66,976)	(72,574)	(669,760)
Net	¥1,598,706	¥1,912,689	\$15,987,060

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

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Loans in legal bankruptcy	¥ 46,895	¥ 43,008	\$ 468,950
Nonaccrual loans	189,721	180,819	1,897,210
Accruing loans contractually past due three months or more as to principal or interest payments	29,351	36,665	293,510
Restructured loans	77,801	67,554	778,010
Total	¥ 343,768	¥ 328,046	\$ 3,437,680

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, other than loans in legal bankruptcy as well as loans receiving regular payments in 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.

The securitized loans, which are not recognized on the balance sheets, amounted to ¥66,976 million (\$669,760 thousand) and ¥72,574 million at March 31, 2008 and 2007, respectively.

At March 31, 2008 and 2007, the Group had balances related to revolving loan contracts aggregating ¥1,544,978

million (\$15,449,780 thousand) and ¥1,853,125 million, respectively, whereby the Group is obligated to advance funds up to a predetermined amount upon request. At March 31, 2008 and 2007, the balances of unadvanced commitments were ¥5,761,394 million (\$57,613,940 thousand) and ¥5,745,183 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.

05 INSTALLMENT ACCOUNTS RECEIVABLE

Installment accounts receivable and unearned income, included in other current liabilities, at March 31, 2008 and 2007 consisted of the following:

	Millions of Yen				Thousands of U.S. Dollars	
	2008		2007		2008	
	Receivables	Unearned Income	Receivables	Unearned Income	Receivables	Unearned Income
Credit card shopping loans	¥127,678	¥ 763	¥117,222	¥1,088	\$1,276,780	\$ 7,630
Per-item shopping loans	62,808	3,301	112,518	7,181	628,080	33,010
Total	¥190,486	¥4,064	¥229,740	¥8,269	\$1,904,860	\$40,640
Off-balance sheet securitized installment accounts receivable	(41,996)		(54,817)		(419,960)	
Net	¥148,490	¥4,064	¥174,923	¥8,269	\$1,484,900	\$40,640

In addition, the Group has unearned income of ¥1 million (\$10 thousand) and ¥3 million at March 31, 2008 and 2007, respectively, which was included in other current liabilities, related to loans other than those shown in the above table.

06 LOAN GUARANTEES AND OBLIGATIONS UNDER LOAN GUARANTEES

The Group, as guarantor, recorded loan guarantees as a contra account of obligations under loan guarantees.

Unearned income relating to loan guarantees was ¥138 million (\$1,380 thousand) and ¥181 million at March 31, 2008 and 2007, respectively, which was included in other current liabilities.

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

Operational investment and investment securities at March 31, 2008 and 2007 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Current:			
Equity securities	¥ 1,175	¥ 1,837	\$ 11,750
Non-current:			
Equity securities	¥ 11,319	¥ 19,591	\$ 113,190
Other	1,112	1,392	11,120
Total	¥ 12,431	¥ 20,983	\$ 124,310

The carrying amounts and fair values of operational investment and investment securities at March 31, 2008 and 2007 were as follows:

	Millions of Yen			
	2008			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale-Equity securities	¥ 7,489	¥ 3,447	¥ 163	¥ 10,773

	Millions of Yen			
	2007			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale-Equity securities	¥ 7,559	¥ 11,020	¥ 59	¥ 18,520

	Thousands of U.S. Dollars			
	2008			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale-Equity securities	\$74,890	\$34,470	\$1,630	\$107,730

Available-for-sale securities whose fair values are not readily determinable as of March 31, 2008 and 2007 were as follows:

	Carrying amount		Thousands of U.S. Dollars
	Millions of Yen		
	2008	2007	2008
Available-for-sale:			
Equity securities	¥1,721	¥2,908	\$17,210
Investments in limited liability investment partnerships	612	892	6,120
Other	500	500	5,000
Total	¥2,833	¥4,300	\$28,330

Proceeds from sales of available-for-sale securities for the years ended March 31, 2008 and 2007 were ¥1,019 million (\$10,190 thousand) and ¥5,070 million, respectively. Gross realized gains on these sales, computed on the moving average cost basis, were ¥343 million (\$3,430 thousand) and

¥3,510 million for the years ended March 31, 2008 and 2007, respectively, and gross realized losses were ¥46 million (\$460 thousand) and ¥92 million for the years ended March 31, 2008 and 2007, respectively.

08 LONG-LIVED ASSETS

No impairment loss was recognized for the year ended March 31, 2008.

Year ended March 31, 2007

The Group reviewed their long-lived assets for impairment and, as a result, recognized an impairment loss for the following long-lived assets for the year ended March 31, 2007.

Description	Classification	March 31, 2007
		Impairment loss Millions of Yen
Office building and residential apartment, for rent	Land, Buildings and structures, Furniture and fixtures and other	¥1,307
Idle real estate	Land, Buildings and structures and other	180
Outlets which the Company decided to close	Buildings and structures, Furniture and fixtures, Leased property and other	5,318

The following table summarizes the Group's asset grouping:

Business Classification	Asset grouping
Financial services and venture capital	Each business entity except for idle real estate and real estate held for sale is the minimum unit. Outlets which the Group decided to close are grouped in another unit.
Real estate business	Each real estate for rent is the minimum unit.

The Group recognized an impairment loss for certain real estate business and idle real estate since the carrying value significantly exceeded the estimated net selling price.

The following table summarizes the components of the Group's loss on impairment of long-lived assets:

	Millions of Yen
	March 31, 2007
Buildings and structures	¥3,795
Furniture and fixtures	1,223
Land	1,319
Leased assets	135
Other	333
Total	¥6,805

The recoverable amount of each asset grouping was measured as follows:

Real estate for rent and idle real estate — Net selling price calculated based on evaluation of salable price for each asset.

Outlets which the Group decided to close — Their value in use, calculated as the amount equal to the depreciation expenses to be charged through the point of the closure of outlets.

09 SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings at March 31, 2008 and 2007 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Commercial paper, 1.00 % to 1.15 % at March 31, 2008	¥ 5,000		\$ 50,000
Loans from banks, 1.62 % to 2.13 % (1.18 % to 2.18 % at March 31, 2007)	7,840	¥16,010	78,400
Loans from other financial institutions, 1.88 % to 1.98 % (1.63 % to 1.88 % at March 31, 2007)	12,000	15,000	120,000
Other (principally from factoring companies and securitized loan), 1.51 % to 2.30 % (2.40 % at March 31, 2007)	139,090	60,360	1,390,900
Total	¥163,930	¥91,370	\$ 1,639,300

Long-term debt at March 31, 2008 and 2007 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Loans from banks, 0.95 % to 3.16 %, due serially to 2012 (0.95 % to 2.72 %, due serially to 2011 at March 31, 2007)	¥ 490,141	¥ 654,443	\$ 4,901,410
Loans from other financial institutions, 1.35 % to 2.92 %, due serially to 2012 (1.27 % to 2.85 %, due serially to 2012 at March 31, 2007)	118,349	173,335	1,183,490
Syndicated loans, 0.79 %, due serially to 2010	2,701	11,243	27,010
Unsecured 1.66 % to 2.51 % yen straight bonds, due 2007		43,000	
Unsecured 0.45 % to 2.48 % yen straight bonds, due 2008	35,000	61,000	350,000
Unsecured 1.01 % to 3.28 % yen straight bonds, due 2009	68,000	68,000	680,000
Unsecured 0.80 % to 3.00 % yen straight bonds, due 2010	70,000	70,000	700,000
Unsecured 1.50 % to 1.58 % yen straight bonds, due 2011	20,000	20,000	200,000
Unsecured 1.20 % to 1.99 % yen straight bonds, due 2012	30,000	30,000	300,000
Unsecured 1.74 % yen straight bonds, due 2013	10,000	10,000	100,000
Unsecured 1.99 % yen straight bonds, due 2015	10,000	10,000	100,000
Unsecured 4.45 % to 5.00 % U.S. dollar straight bonds, due 2010	108,500	108,500	1,085,000
Unsecured 6.00 % U.S. dollar straight bonds, due 2011	57,600	57,600	576,000
Subordinated zero-coupon yen convertible bonds, due 2010	70,000		700,000
Unsecured 3.00 % medium-term notes, due 2008		3,000	
Unsecured 3.50 % medium-term notes, due 2015	15,000	15,000	150,000
Other (principally from leasing companies and securitized loan), 1.10 % to 2.30 %, due serially to 2012 (0.79 % to 2.30 %, due serially to 2012 at March 31, 2007)	84,868	103,771	848,680
Total	¥1,190,159	¥1,438,892	\$11,901,590
Less current portion	(358,819)	(404,241)	(3,588,190)
Long-term debt, less current portion	¥ 831,340	¥1,034,651	\$ 8,313,400

The conversion price of the subordinated zero-coupon yen convertible bonds was ¥1,966 per share at March 31, 2008. The yen convertible bonds can be exercised from March 10, 2008 to February 27, 2010. The conversion price of the yen convertible bonds are subject to adjustments to reflect stock splits and certain other events.

Annual maturities of long-term debt at March 31, 2008 were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2009	¥ 358,819	\$ 3,588,190
2010	391,040	3,910,400
2011	243,699	2,436,990
2012	143,106	1,431,060
2013	18,495	184,950
2014 and thereafter	35,000	350,000
Total	¥1,190,159	\$11,901,590

At March 31, 2008, 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	¥458,263	\$4,582,630
Installment accounts receivable	51,388	513,880
Other current assets	94	940
Property and equipment, net of accumulated Depreciation	1,254	12,540
Total	¥510,999	\$5,109,990
Related liabilities:		
Short-term borrowings	¥139,090	\$1,390,900
Long-term debt (including current portion of long-term debt)	229,589	2,295,890
Total	¥368,679	\$3,686,790

The above table includes loans related to securitized loans of ¥295,624 million (\$2,956,240 thousand), and related liabilities (long-term debt including current portion) of ¥160,101 million (\$1,601,010 thousand).

If requested by lending financial institutions, the Group has committed to pledge loans and installment accounts

receivables of ¥183,111 million (\$1,831,110 thousand) as collateral in addition to those shown in the above table. At March 31, 2008, related liabilities for which lending financial institutions can request the Group to pledge additional collateral consisted of the following:

	Millions of Yen	Thousands of U.S. Dollars
Long-term debt (including current portion of long-term debt)	¥175,991	\$1,759,910

At March 31, 2008, other current assets amounting to ¥1,290 million (\$12,900 thousand) were pledged as collateral for the interest rate swap contracts.

A portion of the Company's loans from banks and securitized borrowings is subject to accelerated repayment if the Company fails to meet certain financial covenants, including the amount of equity, the equity ratio and

covenants based on specified operational indices such as the ratio of loss on interest refunds to equity. For the year ended March 31, 2008, the Company has newly violated the covenants of a short-term securitized borrowing which was scheduled to be repaid in May, 2008 and June 2008. This securitized borrowing is to be repaid in May, 2008 and June, 2008 in accordance with its original repayment schedule.

10 RETIREMENT AND PENSION PLANS

The components of net periodic benefit costs for the years ended March 31, 2008 and 2007 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Payments for prepaid retirement benefits plan	¥ 460	¥ 661	\$ 4,600
Premiums for defined contribution pension plan	709	711	7,090
Net periodic benefit costs	¥1,169	¥1,372	\$11,690

11 EQUITY

Since May 1, 2006, Japanese companies have been subject to the Corporate Law of Japan (the "Corporate Law"), which reformed and replaced the Commercial Code of Japan. The significant provisions in the Corporate Law that affect financial and accounting matters are summarized below:

(a) Dividends

Under the Corporate Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as; (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors of such company 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. The Company meets all the above criteria.

The Corporate Law permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

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 Corporate Law 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 Corporate Law 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 total of the aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Corporate Law also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

(c) Treasury stock and treasury stock acquisition rights

The Corporate Law 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 Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of equity.

The Corporate Law 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.

On February 28, 2008, the Company issued 25,440 thousand shares of common stock through a third-party capital allotment. The issue price of common stock was ¥1,966 per share and proceeds from issuance of the shares were ¥50,015 million (\$500,150 thousand). Recorded amounts as common stock and additional paid-in capital were ¥25,008 million (\$250,080 thousand) and ¥25,008 million (\$250,080 thousand), respectively.

12 STOCK OPTION

The stock options outstanding as of March 31, 2008 are as follows:

Stock Option	Persons Granted	Number of Options granted	Date of Grant	Exercise Price	Exercise Period
2004 Stock Option	26 Company's and subsidiaries' directors 426 Company's and subsidiaries' key employees	347,400 shares	June 25, 2004	¥ 7,774 \$(77.74)	From July 1, 2006 To June 30, 2009
2005 Stock Option	31 Company's and subsidiaries' directors 454 Company's and subsidiaries' key employees	374,400 shares	June 24, 2005	¥ 8,420 \$(84.20)	From July 1, 2007 To June 30, 2010

The stock option activity is as follows:

	2001 Stock Option	2004 Stock Option	2005 Stock Option
		(Shares)	
For the year ended March 31, 2007			
Non-vested			
March 31, 2006 — Outstanding		330,600	357,600
Granted			
Canceled		(1,200)	(6,000)
Vested		(329,400)	
March 31, 2007 — Outstanding			351,600
Vested			
March 31, 2006 — Outstanding	47,000		
Vested		329,400	
Exercised			
Canceled	47,000	(3,600)	
March 31, 2007 — Outstanding		325,800	
For the year ended March 31, 2008			
Non-vested			
March 31, 2007 — Outstanding			351,600
Granted			
Canceled			(71,400)
Vested			(280,200)
March 31, 2008 — Outstanding			
Vested			
March 31, 2007 — Outstanding		325,800	
Vested			280,200
Exercised			
Canceled		(73,800)	(3,600)
March 31, 2008 — Outstanding		252,000	276,600
Exercise price		¥ 7,774 \$ (77.74)	¥ 8,420 \$ (84.20)

13 LOSS FROM AND PROVISION FOR BUSINESS RESTRUCTURING

The following table summarizes the components of the Group's loss from business restructuring for the year ended March 31, 2008 and 2007 were as follows.

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Loss from business restructuring:			
Special severance payments		¥4,058	
Cost related to closure of outlets		2,111	
Other	¥97	1,043	\$970
Total	¥97	¥7,212	\$970

No provision for business restructuring was recognized for the year ended March 31, 2008.

The following table summarizes the components of the Group's provision for business restructuring for the year ended March 31, 2007.

	Millions of Yen
	2007
Provision for business restructuring:	
Cost related to closure of outlets	¥ 5,819
Re-employment support cost and other	5,498
Total	¥11,317

14 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 40.6% for both of the years ended March 31, 2008 and 2007.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2008 and 2007 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Deferred Tax Assets:			
Allowance for doubtful accounts	¥ 69,984	¥ 94,944	\$ 699,840
Allowance for losses on interest refunds	58,420	67,950	584,200
Charge-offs for doubtful accounts	19,872	15,442	198,720
Accrued interest on loans	5,727	5,208	57,270
Tax loss carryforwards	34,079	4,415	340,790
Deferred loss on derivatives under hedge accounting	2,959	3,928	29,590
Other	10,925	18,123	109,250
Total	201,966	210,010	2,019,660
Less valuation allowance	(181,652)	(191,778)	(1,816,520)
Total deferred tax assets	¥ 20,314	¥ 18,232	\$ 203,140
Deferred Tax Liabilities:			
Unrealized gain on available-for-sale securities	¥ (1,174)	¥ (4,454)	\$ (11,740)
Other		(199)	
Total deferred tax liabilities	¥ (1,174)	¥ (4,653)	\$ (11,740)
Net deferred tax assets	¥ 19,140	¥ 13,579	\$ 191,400

Net deferred tax assets included in the consolidated balance sheet at March 31, 2008 are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Current assets — Deferred tax assets	¥16,997	\$169,970
Investment and other assets — Deferred tax assets	2,151	21,510
Long-term liabilities — Deferred tax liabilities	(8)	(80)

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 normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statement of operations for the year ended March 31, 2008 is as follows:

	2008
Normal effective statutory tax rate	40.6%
Inhabitants tax per capita basis	0.7
Valuation allowance	(32.8)
Amortization of goodwill	1.1
Other-net	1.0
Actual effective tax rate	10.6%

A reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statement of operations for the year ended March 31, 2007 has not been disclosed because of the Group's net loss position.

At March 31, 2008, the Group have tax loss carryforwards aggregating approximately ¥67,278 million (\$672,780 thousand) which are available for offset against taxable income of 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
2010	¥ 325	\$ 3,250
2011	1,872	18,720
2012	609	6,090
2013	463	4,630
2014	7,955	79,550
2015	56,054	560,540
Total	¥67,278	\$672,780

15 LEASES

The Group leases 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, 2008 and 2007 were as follows:

Year Ended March 31:	Millions of Yen		Thousands of U.S. Dollars	
	Total Rental Expenses	Lease Payments Under Finance Leases	Total Rental Expenses	Lease Payments Under Finance Leases
2008	¥11,858	¥ 684	\$118,580	\$6,840
2007	19,415	2,326		

For the year ended March 31, 2007, the Group recorded an impairment loss of ¥135 million on certain leased property held under finance leases that do not transfer ownership. An allowance for impairment loss on leased property is included in other current liabilities.

Pro forma information of leased property including acquisition cost, accumulated depreciation, accumulated impairment loss, obligations under finance leases, depreciation expense, interest expense, and other information 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, 2008 and 2007 was as follows:

	As of March 31, 2008			
	Millions of Yen			
	Machinery and Equipment	Furniture and Fixtures	Buildings and Structures	Total
Acquisition cost	¥40	¥2,470	¥ 8	¥2,518
Accumulated depreciation	29	1,706	8	1,743
Net leased property	¥11	¥ 764	NIL	¥ 775

	As of March 31, 2007			
	Millions of Yen			
	Machinery and Equipment	Furniture and Fixtures	Buildings and Structures	Total
Acquisition cost	¥64	¥7,304	¥9	¥7,377
Accumulated depreciation	47	6,085	7	6,139
Accumulated impairment loss		135		135
Net leased property	¥17	¥1,084	¥2	¥1,103

	As of March 31, 2008			
	Thousands of U.S. Dollars			
	Machinery and Equipment	Furniture and Fixtures	Buildings and Structures	Total
Acquisition cost	\$400	\$24,700	\$ 80	\$25,180
Accumulated depreciation	290	17,060	80	17,430
Net leased property	\$110	\$ 7,640	NIL	\$ 7,750

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Due within one year	¥364	¥ 771	\$3,640
Due after one year	431	495	4,310
Total	¥795	¥1,266	\$7,950

Depreciation expense and interest expense under finance leases, which are not reflected in the accompanying consolidated statements of operations, computed by the straight-line method and the interest method, respectively, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Depreciation expense	¥672	¥2,195	\$6,720
Interest expense	17	52	170

The minimum rental commitments under noncancellable operating leases at March 31, 2008 and 2007 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Due within one year	¥28	¥77	\$280
Due after one year	30	9	300
Total	¥58	¥86	\$580

16 DERIVATIVES

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

Such derivative transactions are entered into to hedge interest exposures and foreign currency exposures inherent within its business. Accordingly, market and foreign

exchange risks in these derivatives are theoretically offset by opposite movements in the value of hedged liabilities. The Group does not hold or issue derivatives for trading or speculative purposes.

Because the counterparties to these derivatives are limited to major financial institutions, the Group does not anticipate any 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.

Market value information about derivative instruments at March 31, 2008 was as follows:

	Millions of Yen			
	Notional amount		Fair value	Unrealized loss
	Total	Due after one year		
Interest rate caps agreements Buying	¥150,000	¥90,000	¥11	¥413

	Thousands of U.S. Dollars			
	Notional amount		Fair value	Unrealized loss
	Total	Due after one year		
Interest rate caps agreements Buying	\$1,500,000	\$900,000	\$110	\$4,130

Market value information about derivative instruments at March 31, 2007 was as follows:

	Millions of Yen			
	Notional amount		Fair value	Unrealized loss
	Total	Due after one year		
Interest rate caps agreements Buying	¥60,000	¥60,000		¥68

	Thousands of U.S. Dollars			
	Notional amount		Fair value	Unrealized loss
	Total	Due after one year		
Interest rate caps agreements Buying	\$508,475	\$508,475		\$576

17 NET INCOME (LOSS) PER SHARE

Reconciliation of the differences between basic and diluted net income (loss) per share ("EPS") for the years ended March 31, 2008 and 2007 is as follows:

	Yen in millions	Thousands of shares	Yen	Dollars
	Net income (loss)	Weighted average shares	EPS	
For the year ended March 31, 2008:				
Basic EPS				
Net income available to common shareholders	¥ 27,434	143,806	¥ 190.77	\$1.91
Effect of Dilutive Securities				
Subordinated zero-coupon yen convertible bonds		3,016		
Diluted EPS				
Net income for computation	¥ 27,434	146,822	¥ 186.86	\$1.87
For the year ended March 31, 2007:				
Basic EPS				
Net loss attributable to common shareholders	¥(411,251)	141,622	¥(2,903.85)	

Diluted net loss per share for the year ended March 31, 2007 was not disclosed because of the Group's net loss position and also because no dilutive securities were outstanding.

18 SUBSEQUENT EVENTS

a. Tax assessment

On May 30, 2008, the Company received a notice of tax assessment from the Osaka Regional Tax Bureau stating that the reported income in the Company's income tax return for the year ended March 31, 2007 was reduced because the maximum deductible amount of provision of allowance for doubtful accounts for tax purposes was increased by the

merger of a subsidiary on May 26, 2007. In accordance with this tax assessment, the Company received ¥5,172 million (\$51,720 thousand) of tax refunds, including interest thereon.

b. Appropriation of Retained Earnings

The following appropriation of retained earnings at March 31, 2008 was approved by the Board of Directors on May 19, 2008:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥20 (\$0.20) per share	¥3,340	\$33,400

19 SEGMENT INFORMATION

Most of the Group's business is related to a single segment, lending. The Group does not operate outside Japan. Accordingly, information about industry and geographic segments was not presented.

INDEPENDENT AUDITORS' REPORT

Deloitte.

 **Shimbashi & Co.**

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of
AIFUL CORPORATION:

We have audited the accompanying consolidated balance sheets of AIFUL CORPORATION and consolidated subsidiaries as of March 31, 2008 and 2007, and the related consolidated statements of operations, changes in equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of AIFUL CORPORATION and consolidated subsidiaries as of March 31, 2008 and 2007, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

As discussed in Note 18.a. to the consolidated financial statements, the Company received a notice of tax assessment from Osaka Regional Tax Bureau on May 30, 2008 stating that the declared income for the year ended March 31, 2007 was reduced, and has received the full amount of tax refund based on this notice.

Our audits 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.


DELOITTE TOUCHE TOHMATSU
Kyoto, Japan

June 24, 2008


SHIMBASHI & CO.
Osaka, Japan

June 24, 2008

NON-CONSOLIDATED BALANCE SHEETS

Aiful Corporation
March 31, 2008 and 2007

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2008	2007	2008
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	¥ 200,462	¥ 105,146	\$ 2,004,620
Time deposits	3,078	78	30,780
Loans, loan guarantees and receivables			
Loans (Notes 4 and 7)	1,058,880	1,298,612	10,588,800
Loan guarantees	56,224	58,914	562,240
Other receivables	4,652	3,776	46,520
Allowance for doubtful accounts (Note 2.j)	(201,898)	(262,186)	(2,018,980)
Prepaid expenses	1,604	2,578	16,040
Deferred tax assets (Note 11)	11,362	9,333	113,620
Other current assets (Note 7)	17,738	22,244	177,380
Total current assets	1,152,102	1,238,495	11,521,020
PROPERTY AND EQUIPMENT:			
Land	6,762	6,762	67,620
Buildings and structures (Note 6)	19,447	24,766	194,470
Machinery and equipment	161	161	1,610
Furniture and fixtures (Note 6)	19,225	22,067	192,250
Construction in progress (Note 6)	2,917	760	29,170
Total	48,512	54,516	485,120
Accumulated depreciation	(21,548)	(26,697)	(215,480)
Net property and equipment	26,964	27,819	269,640
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 5)	11,047	18,879	110,470
Investments in and advances to subsidiaries (Note 12)	349,449	388,096	3,494,490
Claims in bankruptcy (Note 4)	39,998	33,518	399,980
Software, net	13,454	11,993	134,540
Long-term loans (less current portion)	8		80
Lease deposits	5,945	8,469	59,450
Long-term prepayments	1,037	1,545	10,370
Deferred tax assets (Note 11)	1,792		17,920
Other assets (Note 6)	1,658	1,778	16,580
Allowance for doubtful accounts	(67,496)	(69,765)	(674,960)
Total investments and other assets	356,892	394,513	3,568,920
TOTAL	¥ 1,535,958	¥ 1,660,827	\$15,359,580

See notes to non-consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2008	2007	2008
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Short-term borrowings (Note 7)	¥ 90,000	¥ 16,000	\$ 900,000
Current portion of long-term debt (Note 7)	240,207	300,601	2,402,070
Trade notes payable	53	31	530
Trade accounts payable	5,313	10,698	53,130
Obligation under loan guarantees	56,224	58,914	562,240
Income taxes payable	236	38	2,360
Accrued expenses	5,720	5,924	57,200
Allowance for losses from business restructuring (Note 10)	148	4,381	1,480
Allowance for clean-up costs of contaminated land		630	
Other current liabilities	836	1,313	8,360
Total current liabilities	398,737	398,530	3,987,370
LONG-TERM LIABILITIES:			
Long-term debt (less current portion) (Note 7)	708,084	874,360	7,080,840
Deferred tax liabilities (Note 11)		426	
Liability for retirement benefits (Note 2.i)	969	1,255	9,690
Allowance for losses on interest refunds (Note 2.m)	99,467	122,956	994,670
Interest rate swaps	6,417	8,193	64,170
Other long-term liabilities	268	102	2,680
Total long-term liabilities	815,205	1,007,292	8,152,050
EQUITY (Notes 8 and 15):			
Common stock, authorized, 568,140,000; issued, 167,475,000 shares in 2008 and 142,035,000 shares in 2007	108,325	83,317	1,083,250
Capital surplus — Additional paid-in capital	115,233	90,225	1,152,330
Retained earnings:			
Legal reserve	1,566	1,566	15,660
Unappropriated	102,230	82,241	1,022,300
Net unrealized gain on available-for-sale-securities	2,104	6,376	21,040
Deferred loss on derivatives under hedge accounting	(4,332)	(5,752)	(43,320)
Treasury stock, at cost — 455,717 shares in 2008 and 412,835 shares in 2007	(3,110)	(2,968)	(31,100)
Total equity	322,016	255,005	3,220,160
TOTAL	¥ 1,535,958	¥ 1,660,827	\$15,359,580

NON-CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Aiful Corporation
Years Ended March 31, 2008 and 2007

	Thousands	Millions of Yen							
	Number of Shares of Common Stock Issued	Common Stock	Capital Surplus Additional Paid-in Capital	Retained Earnings Legal Reserve	Unappropriated	Net Unrealized Gain on Available-for-sale Securities	Deferred gain (loss) on Derivatives under Hedge Accounting	Treasury Stock	Total Equity
BALANCE AT APRIL 1, 2006	142,035	¥ 83,317	¥ 90,225	¥1,566	¥450,138	¥10,636		¥(2,965)	¥632,917
Net loss					(359,399)				(359,399)
Cash dividends paid, ¥60 per share					(8,498)				(8,498)
Net increase in treasury stock (711 shares)								(3)	(3)
Net change in the year						(4,260)	¥(5,752)		(10,012)
BALANCE AT MARCH 31, 2007	142,035	83,317	90,225	1,566	82,241	6,376	(5,752)	(2,968)	255,005
Issuance of common stock through a third-party capital allotment (Note 8)	25,440	25,008	25,008						50,016
Net income					27,069				27,069
Cash dividends paid, ¥50 per share					(7,080)				(7,080)
Net increase in treasury stock (42,882 shares)								(142)	(142)
Net change in the year						(4,272)	1,420		(2,852)
BALANCE AT MARCH 31, 2008	167,475	¥108,325	¥115,233	¥1,566	¥102,230	¥ 2,104	¥(4,332)	¥(3,110)	¥322,016

	Thousands of U.S. Dollars (Note 3)							
	Common Stock	Capital Surplus Additional Paid-in Capital	Retained Earnings Legal Reserve	Unappropriated	Net Unrealized Gain on Available-for-sale Securities	Deferred gain (loss) on Derivatives under Hedge Accounting	Treasury Stock	Total Equity
BALANCE AT MARCH 31, 2007	\$ 833,170	\$ 902,250	\$15,660	\$ 822,410	\$63,760	\$(57,520)	\$(29,680)	\$2,550,050
Issuance of common stock through a third-party capital allotment (Note 8)	250,080	250,080						500,160
Net income				270,690				270,690
Cash dividends paid, \$0.50 per share				(70,800)				(70,800)
Net increase in treasury stock (42,882 shares)							(1,420)	(1,420)
Net change in the year					(42,720)	14,200		(28,520)
BALANCE AT MARCH 31, 2008	\$1,083,250	\$1,152,330	\$15,660	\$1,022,300	\$21,040	\$(43,320)	\$(31,100)	\$3,220,160

See notes to non-consolidated financial statements.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

Aiful Corporation
Years Ended March 31, 2008 and 2007

01 BASIS OF PRESENTING NON-CONSOLIDATED FINANCIAL STATEMENTS

The accompanying non-consolidated financial statements of Aiful Corporation (the “Company”) have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law (formerly the Japanese Securities and Exchange Law) and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan (Japanese GAAP), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards and accounting principles generally accepted in the United States of America.

02 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, except for investments in subsidiaries which are limited liability investment partnerships and other similar partnerships (see Note 2.d).

b. Business-Combination — In October 2003, the Business Accounting Council (the “BAC”) issued a Statement of Opinion, “Accounting for Business Combinations”, and on December 27, 2005, the Accounting Standards Board of Japan (the “ASBJ”) issued ASBJ Statement No.7, “Accounting Standard for Business Divestitures” and ASBJ Guidance No.10, “Guidance for Accounting Standard for Business Combinations and Business Divestitures”. These new accounting pronouncements were effective for fiscal years beginning on or after April 1, 2006. The accounting standard for business combinations allows companies to apply the pooling of interests method of accounting only when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests.

For business combinations that do not meet the uniting-of-interests criteria, the business combination is considered to be an acquisition and the purchase method of accounting is required. This standard also prescribes the accounting for combinations of entities under common control and for joint ventures.

On March 26, 2007, the Company merged id CREDIT

As consolidated statements of cash flows and certain disclosures are presented in the consolidated financial statements of the Company, non-consolidated statements of cash flows and certain disclosures are not presented herein in accordance with Japanese GAAP.

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

In addition, certain reclassifications have been made in the 2007 financial statements to conform to the classifications used in 2008.

CORPORATION and NET ONE CLUB CORPORATION, which were wholly owned subsidiaries of the Company. The accounting for combinations of entities under common control prescribed by the accounting standard for business combinations was applied to it.

c. 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 certificate of deposits which mature or become due within three months of the date of acquisition and securities purchased under resale agreements. Prior to April 1, 2007 securities purchased under resale agreements were not included in components of cash equivalents.

Effective April 1, 2007, however the company changed its policy to include securities purchased under resale agreements in cash equivalents which are in the context of the actual situation for investments of short-term funds.

d. Investment Securities — Investment securities are classified and accounted for, depending on management’s intent, as follows: i) investment securities in subsidiaries and associated companies, are reported at cost, and ii) 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 method.

Non-marketable available-for-sale securities are stated at cost determined by the moving-average method. For other than temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

Investments in limited liability investment partnerships and other 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 recent available financial statements of the partnerships.

e. Investments in Subsidiaries — Investments in subsidiaries are stated at cost, except that appropriate write-downs are recorded for investments in companies which have incurred substantial losses deemed to be of a permanent nature.

f. Property and Equipment — Property and equipment are stated at cost. Depreciation is computed by the declining-balance method. The range of useful lives is principally from 3 to 50 years for buildings and structures, from 13 to 15 years for machinery and equipment, and from 2 to 20 years for furniture and fixtures.

g. Long - lived assets — The Company 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 is 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.

h. Software — Expenditures for the purchase of software, which meet certain future-tests, are capitalized as software and amortized by the straight-line method over the estimated useful lives of five years.

i. Liability for Retirement Benefits — The Company has a defined contribution pension plan and a prepaid retirement benefits plan which were established on October 1, 2004. Contributions to the defined contribution plan and payments to the prepaid retirement benefits plan are charged to income when made.

Liability for retirement benefits to directors and corporate auditors is provided at the amount which would be required if they retired at each balance sheet date. The liability for retirement benefits in the non-consolidated balance sheet is for directors and corporate auditors.

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

k. Allowance for clean-up costs of contaminated land — The allowance for clean-up costs of contaminated land (2007) is provided for losses on cleaning up soil contamination discovered in some portion of the Company's land for sale and is based on the estimated amount of future costs to be paid.

l. Allowance for losses from business restructuring — The allowance for losses from business restructuring is provided at an estimated amount of future costs related to liquidation of outlets and other restructuring activities.

m. Allowance for losses on interest refunds — The limit of interest rates is regulated by two laws — "Contributions Law" and "Interest Rate Restriction Law". Under the former law, interest rates on loans should not exceed 29.2% and violation of the law is considered to be a criminal penalty. The latter law stipulates that interest payments for interest rates that exceed the legal limit (20% for principal amounts under ¥100 thousand, 18% for principals between ¥100 thousand and ¥1 million and 15% for principals over ¥1 million) are void. However, under the "Moneylending Business Restriction Law", such interest payments are nonetheless considered to be valid if moneylenders issue notices as prescribed by the law to debtors and debtors pay voluntarily. Recent strict interpretation by the courts of these requirements has led to decisions against moneylenders and resulted in more debtors claiming for the return of excess interest payments.

On March 15, 2006, the Japanese Institute of Certified Public Accountants (the "JICPA") issued a report requiring moneylenders to make an accounting provision for losses on interest refunds for interest rates that exceeded the limit set by the Interest Rate Restriction Law. The Company has loaned money at rates between the limit set by the two laws, and has in the past charged refund costs to income as incurred. However, the growing number of claims against the Company has increased the materiality of the financial effects of the situation. So, the Company decided to record a provision of ¥17,020 million ("Allowance for losses on interest refunds") for interest refunds for the fiscal year ended March 31, 2006.

On October 13, 2006, the industry practice committee of the JICPA issued its Report No.37 "Audit Guidelines for

Consumer Finance Companies' Recording of Provision for Losses on Interest Refunds," ("Report No. 37") which became effective for fiscal periods ending on or after September 1, 2006. The Company changed the method of estimating allowance for losses on interest refunds in accordance with the new audit guidelines.

The difference between the amount of allowance for losses on interest refunds estimated and recorded as of the beginning of the fiscal year ended March 31, 2007 in accordance with the report issued on March 15, 2006 and the amount estimated as of the beginning of the fiscal year ended March 31, 2007 in accordance with Report No. 37, was recorded as "Charge-offs and provision for doubtful accounts" in the amount of ¥99,179 million and "Provision for losses on interest refunds" in the amount of ¥57,070 million in the non-consolidated statements of operations for the year ended March 31, 2007. At March 31, 2008 and 2007, the Company recorded an allowance of ¥99,467 million (\$994,670 thousand) and ¥122,956 million, respectively, as "Allowance for losses on interest refunds". In addition, the estimated amount of interest refunds of ¥93,504 million (\$935,040 thousand) and ¥167,530 million which are expected to be preferentially set off against loans is recorded as "Allowance for doubtful accounts" for the Company March 31, 2008 and 2007, respectively.

Allowance for losses on interest refunds is stated in amounts considered to be appropriate based on the Company's past refund loss experience, the recent situation regarding interest refunds and other factors.

- n. 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. All leases are accounted for as operating leases.
- o. Income Taxes** — The provision for income taxes is computed based on the pretax income included in the non-consolidated statements 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.

- p. Presentation of Equity** — On December 9, 2005, the ASBJ published a new accounting standard for presentation of equity. Under this accounting standard, certain items which were previously presented as liabilities or assets, as the case may be, are now presented as components of equity. Such items include stock acquisition rights and any deferred gain or loss on derivatives accounted for under hedge accounting. This standard was effective for fiscal years ending on or after May 1, 2006.

The balances of such items as of March 31, 2006 were reclassified as separate components of equity as of April 1, 2006 in the non-consolidated statements of changes in equity.

- q. 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 non-consolidated statements of operations to the extent that they are not hedged by forward exchange contracts.
- r. 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 either the interest rate stipulated in the Interest Rate Restriction Law or the contracted interest rate, whichever is lower.
- s. Interest on Borrowings** — Interest on financial liabilities is accounted for as operating expenses while other interest is included in other expenses.
- t. Stock Issue Costs** — Stock issue costs are charged to income as incurred.
- u. Bond Issue Costs** — Amortization is calculated by the straight-line method over the term of the related bond issue. Bond issue costs related to bonds which were issued by March 31, 2006 are amortized ratably over periods up to three years. Bond issue costs are included in other assets.
- v. Derivatives and Hedging Activities** — The Company uses derivative financial instruments to manage its exposures to fluctuations in interest rates and foreign exchange. Interest rate swaps, interest rate caps and currency swaps contracts are utilized by the Company to reduce interest rate and foreign currency exchange risks.

The Company does not enter into derivatives for trading or speculative purposes. The accounting standard for derivative financial instruments requires that: a) all derivatives be recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions be recognized in the non-consolidated statements of operations,

and b) for derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives be deferred until maturity of the hedged transactions.

Currency swaps contracts are utilized to hedge foreign currency exposures in principal and interest payment of U.S. dollar straight bonds. U.S. dollar straight bonds are translated at the contracted rates.

The interest rate swaps and caps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differential paid or received under the swap or cap contracts is recognized and included in interest expenses or income.

w. Per Share Information — Basic net income (loss) per share is computed by dividing net income (loss) available 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 securities were converted into common stock and assumes full conversion of the outstanding convertible bonds at the time of issuance and full exercise of outstanding stock options.

Cash dividends per share presented in the accompanying

non-consolidated statements of operations are dividends applicable to the respective years including dividends to be paid after the end of the year, and have not been retroactively adjusted for stock splits.

x. New Accounting Pronouncements

Lease Accounting — On March 30, 2007, the ASBJ issued ASBJ Statement No.13, “Accounting Standard for Lease Transactions”, which revised the existing accounting standard for lease transactions issued on June 17, 1993. The revised accounting standard for lease transactions is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted for fiscal years beginning on or after April 1, 2007.

Lessee

Under the existing accounting standard, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, however, other finance leases are permitted to be accounted for as operating lease transactions if certain “as if capitalized” information is disclosed in the note to the lessee’s financial statements. The revised accounting standard requires that all finance lease transactions shall be capitalized recognizing lease assets and lease obligations in the balance sheets.

The company expects to adopt this revised accounting standard as of April 1, 2008.

03 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 is included solely for the convenience of readers outside Japan and have been made at the rate of ¥100 to \$1, the approximate rate of exchange at March 31, 2008. 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.

04 LOANS

Loans at March 31, 2008 and 2007 consisted of the following (before allowance for doubtful accounts):

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Unsecured	¥ 817,825	¥ 995,077	\$ 8,178,250
Secured	221,577	274,788	2,215,770
Small business loans	19,478	28,747	194,780
Total	¥1,058,880	¥1,298,612	\$10,588,800

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

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Loans in legal bankruptcy	¥ 43,300	¥ 36,936	\$ 433,000
Nonaccrual loans	144,404	142,932	1,444,040
Accruing loans contractually past due three months or more as to principal or interest payments	14,109	20,362	141,090
Restructured loans	38,872	37,903	388,720
Total	¥240,685	¥238,133	\$2,406,850

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, other than loans in legal bankruptcy as well as loans receiving regular payments in 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, 2008 and 2007, the Company had balances related to revolving loan contracts aggregating ¥1,007,918 million (\$10,079,180 thousand) and ¥1,232,448 million, respectively, whereby the Company is obligated to advance funds up to a predetermined amount upon request. At March 31, 2008 and 2007, the balances of unadvanced commitments were ¥218,157 million (\$2,181,570 thousand) and ¥330,213 million, respectively. The loan contract contains provisions that allow the Company to reduce the contract amount of the commitment or refuse to advance funds to loan customers under certain conditions.

05 INVESTMENT SECURITIES

Disclosure of cost and fair value of investment securities at March 31, 2008 and 2007 is not presented herein, as such

information may be omitted if disclosed in consolidated financial statements under Japanese GAAP.

06 LONG LIVED ASSETS

No impairment loss was recognized for the year ended March 31, 2008

The Company reviewed their long-lived assets for impairment, and as a result, recognized an impairment loss for the following long-lived assets related to its business-restructuring program for the year ended March 31, 2007.

Description	Classification	March 31, 2007
		Impairment loss Millions of Yen
Outlets which the Company decided to close	Buildings and structures, Furniture and fixtures and other	¥3,128

The following table summarizes the Company's asset grouping:

Business Classification	Asset grouping
Financial services	Financial services are one unit. Outlets which the Company decided to close are grouped in another separate unit.

The following table summarizes the components of the Company's loss on impairment of long-lived assets:

	Millions of Yen
	2007
Buildings and structures	¥2,106
Furniture and fixture	885
Other	137
Total	¥3,128

The recoverable amount was measured at their value in use, calculated as the amount equal to the depreciation expense to be charged through the point of the closure of outlets.

07 SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings at March 31, 2008 and 2007 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Loans from banks, 1.62% to 1.75% (1.18% to 1.37% at March 31, 2007)	¥ 7,000	¥13,000	\$ 70,000
Loans from other financial institutions, 1.88%	3,000	3,000	30,000
Securitized loan, 1.51% to 1.68%	80,000		800,000
Total	¥90,000	¥16,000	\$900,000

Long-term debt at March 31, 2008 and 2007 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Loans from banks, 0.95% to 3.03%, due serially to 2012 (0.95% to 2.65%, due serially to 2012 at March 31, 2007)	¥ 299,194	¥ 446,011	\$ 2,991,940
Loans from other financial institutions, 1.35% to 2.70%, due serially to 2012 (1.27% to 2.85%, due serially to 2012 at March 31, 2007)	81,040	133,043	810,400
Syndicated Loans, 0.79%, due serially to 2010	2,701	11,243	27,010
Unsecured 1.66% to 2.51% yen straight bonds, due 2007		43,000	
Unsecured 0.45% to 2.48% yen straight bonds, due 2008	35,000	61,000	350,000
Unsecured 1.01% to 3.28% yen straight bonds, due 2009	58,000	58,000	580,000
Unsecured 0.80% to 3.00% yen straight bonds, due 2010	70,000	70,000	700,000
Unsecured 1.50% to 1.58% yen straight bonds, due 2011	20,000	20,000	200,000
Unsecured 1.20% to 1.99% yen straight bonds, due 2012	30,000	30,000	300,000
Unsecured 1.74% yen straight bonds, due 2013	10,000	10,000	100,000
Unsecured 1.99% yen straight bonds, due 2015	10,000	10,000	100,000
Unsecured 4.45% to 5.00% U.S. dollar straight bonds, due 2010	108,500	108,500	1,085,000
Unsecured 6.00% U.S. dollar straight bonds, due 2011	57,600	57,600	576,000
Subordinated zero-coupon yen convertible bonds, due 2010	70,000		700,000
Unsecured 3.00% medium-term notes, due 2008		3,000	
Unsecured 3.50% medium-term notes, due 2015	15,000	15,000	150,000
Other (principally from leasing companies and securitized loan), 1.40% to 2.30%, due serially to 2012 (0.79% to 2.30%, due serially to 2012 at March 31, 2007)	81,256	98,564	812,560
Total	948,291	1,174,961	9,482,910
Less current portion	(240,207)	(300,601)	(2,402,070)
Long-term debt, less current portion	¥ 708,084	¥ 874,360	\$ 7,080,840

The conversion price of the subordinated zero-coupon yen convertible bonds was ¥1,966 per share at March 31, 2008. The yen convertible bonds can be exercised from March 10, 2008 to February 27, 2010. The conversion price of the yen convertible bonds are subject to adjustments to reflect stock splits and certain other events.

Annual maturities of long-term debt at March 31, 2008 were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2009	¥240,207	\$2,402,070
2010	319,821	3,198,210
2011	205,057	2,050,570
2012	131,861	1,318,610
2013	16,345	163,450
2014 and thereafter	35,000	350,000
Total	¥948,291	\$9,482,910

At March 31, 2008, 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	¥328,870	\$3,288,700
Other current assets	94	940
Total	¥328,964	\$3,289,640
Related liabilities —		
Short-term borrowings	¥ 80,000	\$ 800,000
Long-term debt (including current portion of long-term debt)	112,265	1,122,650
Total	¥192,265	\$1,922,650

The above table includes loans related to securitized loans of ¥295,624 million (\$2,956,240 thousand), and related liabilities (short-term borrowings and long-term debt including current portion) of ¥160,101 million (\$1,601,010 thousand).

Property and equipment of Marutoh KK, the Company's subsidiary, were pledged as collateral for the above liabilities.

If requested by lending financial institutions, the Company has committed to pledge loans of ¥109,923 million (\$1,099,230 thousand) as collateral in addition to those shown in the above table. At March 31, 2008, related liabilities for which lending financial institutions can request the Company to pledge additional collateral consisted of the following:

	Millions of Yen	Thousands of U.S. Dollars
Long-term debt (including current portion of long-term debt)	¥99,796	\$997,960

At March 31, 2008, other current assets amounting to ¥1,290 million (\$12,900 thousand), were pledged as collateral for the interest rate swap contracts.

A portion of the Company's loans from banks and securitized borrowings is subject to accelerated repayment if the Company fails to meet certain financial covenants including the amount of equity, the equity ratio and

covenants based on specified operational indices such as the ratio of loss on interest refunds to equity. For the year ended March 31, 2008, the Company has newly violated the covenants of a short-term securitized borrowing which was scheduled to be repaid in May, 2008 and June 2008. This securitized borrowing is to be repaid in May, 2008 and June, 2008 in accordance with its original repayment schedule.

08 EQUITY

Since May 1, 2006, Japanese companies have been subject to the Corporate Law of Japan (the "Corporate Law"), which reformed and replaced the Commercial Code of Japan. The significant provisions in the Corporate Law that affect financial and accounting matters are summarized below:

(a) Dividends

Under the Corporate Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting.

For companies that meet certain criteria such as; (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal 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. The Company meets all the above criteria.

The Corporate Law permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

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 Corporate Law 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 Corporate Law 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 total of the aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Corporate Law also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

(c) Treasury stock and treasury stock acquisition rights

The Corporate Law 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 Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of equity.

The Corporate Law 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.

On February 13, 2008, the Company issued 25,440 thousand shares of common stock through a third-party capital allotment. The issue price of common stock was ¥1,966 per share and proceeds from issuance of the shares were ¥50,015 million (\$500,150). Recorded amounts as common stock and additional paid-in capital were ¥25,008 million (\$250,080 thousand) and ¥25,008 million (\$250,080 thousand), respectively.

09 STOCK OPTION

Disclosure of stock option is not presented herein, as such information may be omitted if disclosed in consolidated financial statements under Japanese GAAP.

10 LOSS FROM AND PROVISION FOR BUSINESS RESTRUCTURING

The following table summarizes the components of the Company's loss from business restructuring for the year ended March 31, 2008 and 2007, were following.

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Loss from business restructuring:			
Special severance payments		¥ 2,753	
Cost related to closure of outlets	¥ 52	1,267	\$520
Other	121	397	1,210
Total	¥ 173	¥ 4,417	\$ 1,730

No provision for business restructuring was recognized for the year ended March 31, 2008.

The following table summarizes the components of the Company's provision for business restructuring for the year ended March 31, 2007.

	Millions of Yen
	2007
Provision for business restructuring:	
Cost related to closure of outlets	¥ 4,115
Re-employment support cost and other	266
Total	¥ 4,381

11 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 40.6% for both of the years ended March 31, 2008 and 2007.

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at March 31, 2008 and 2007 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Deferred Tax Assets:			
Allowance for doubtful accounts	¥ 66,888	¥ 90,111	\$ 668,880
Allowance for losses on interest refunds	40,364	49,896	403,640
Tax loss carryforwards	22,685		226,850
Charge-offs for doubtful loans	10,868	6,065	108,680
Investments in subsidiaries	8,806	8,806	88,060
Accrued interest on loans	3,950	3,737	39,500
Deferred loss on derivatives under hedge accounting		3,929	
Other	6,882	7,058	68,820
Total	160,443	169,602	1,604,430
Less valuation allowance	(146,123)	(156,141)	(1,461,230)
Total deferred tax assets	¥ 14,320	¥ 13,461	\$ 143,200
Deferred Tax Liabilities:			
Unrealized gain on available-for-sale securities	¥ (1,166)	¥ (4,355)	\$ (11,660)
Other		(199)	
Total deferred tax liabilities	¥ (1,166)	¥ (4,554)	\$ (11,660)
Net deferred tax assets	¥ 13,154	¥ 8,907	\$ 131,540

Net deferred tax assets included in the non-consolidated balance sheet at March 31, 2008 are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Current assets - Deferred tax assets	¥11,362	\$113,620
Investment and other assets - Deferred tax assets	1,792	17,920

A reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying non-consolidated statements of operation for the year ended March 31, 2008 is as follows:

	2008
Normal effective statutory tax rate	40.6%
Inhabitants tax per capital basis	0.3
Valuation allowance	(34.9)
Other-net	(0.4)
Actual effective tax rate	5.6%

A reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying non-consolidated statements of operation for the year ended March 31, 2007 has not been disclosed because of the Company's net loss position.

12 RELATED PARTY TRANSACTIONS

The balances due from subsidiaries at March 31, 2008 and 2007 and transactions of the Company with subsidiaries for the years ended March 31, 2008 and 2007 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Advances to subsidiaries	¥228,291	¥277,503	\$2,282,910
Allowance for doubtful accounts provided for advances to subsidiaries	39,100	46,200	391,000
Interest income	4,369	4,482	43,690

13 LEASES

The Company leases 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, 2008 and 2007 were as follows:

Year Ended March 31:	Millions of Yen		Thousands of U.S. Dollars	
	Total Rental Expenses	Lease Payments Under Finance Leases	Total Rental Expenses	Lease Payments Under Finance Leases
2008	¥ 7,419	¥ 56	\$74,190	\$560
2007	11,613	250		

Pro forma information of leased property including acquisition cost, accumulated depreciation, obligations under finance leases, 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, 2008 and 2007 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
	Furniture and Fixtures	Furniture and Fixtures	Furniture and Fixtures
Acquisition cost	¥170	¥277	\$1,700
Accumulated depreciation	153	219	1,530
Net leased property	¥ 17	¥ 58	\$ 170

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
	Due within one year	¥17	¥44
Due after one year	2	18	20
Total	¥19	¥62	\$190

Depreciation expense and interest expense, which are not reflected in the accompanying non-consolidated statements of operations, computed under a straight-line method and the interest method, respectively, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
	Depreciation expense	¥54	¥240
Interest expense	1	3	10

The minimum rental commitments under non - cancelable operating leases at March 31, 2008 were as follows.

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
	Due within one year	¥4	¥20
Due after one year	5	5	50
Total	¥9	¥25	\$90

14 NET INCOME (LOSS) PER SHARE

Reconciliation of the differences between basic and diluted net income (loss) per share ("EPS") for the years ended March 31, 2008 and 2007 is as follows:

	Yen in millions	Thousands of shares	Yen	Dollars
	Net income (loss)	Weighted average shares	EPS	
For the year ended March 31, 2008:				
Basic EPS				
Net income available to common shareholders	¥27,069	143,806	¥188.24	\$1.88
Effect of Dilutive Securities				
Subordinated zero-coupon yen convertible bonds		3,016		
Diluted EPS				
Net income for computation	¥27,069	146,822	¥184.37	\$1.84
For the year ended March 31, 2007:				
Basic EPS				
Net loss attributable to common shareholders	¥(359,399)	141,622	¥(2,537.73)	

Diluted net loss per share for the year ended March 31, 2007 was not disclosed because of the Company's net loss position and also because no dilutive securities were outstanding.

15 SUBSEQUENT EVENTS

a. Tax assessment

On May 30, 2008, the Company received a notice of tax assessment from the Osaka Regional Tax Bureau stating that the reported income in the Company's income tax return for the year ended March 31, 2007 was reduced because the maximum deductible amount of provision of allowance for doubtful accounts for tax purposes was increased by the merger of a subsidiary on May 26, 2007.

In accordance with this tax assessment, the Company received ¥5,172 million (\$51,720 thousand) of tax refunds, including interest thereon.

b. Appropriation of Retained Earnings

The following appropriation of retained earnings at March 31, 2008 was approved by the Board of Directors on May 19, 2008:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥ 20(\$0.20) per share	¥3,340	\$33,400

INDEPENDENT AUDITORS' REPORT

Deloitte.

Shimbashi & Co.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of
AIFUL CORPORATION:

We have audited the accompanying non-consolidated balance sheets of AIFUL CORPORATION as of March 31, 2008 and 2007, and the related non-consolidated statements of operations and changes in equity for the years then ended, all expressed in Japanese yen. These non-consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these non-consolidated financial statements based on our audits.

We conducted our audits 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the non-consolidated financial statements referred to above present fairly, in all material respects, the financial position of AIFUL CORPORATION as of March 31, 2008 and 2007, and the results of its operations for the years then ended in conformity with accounting principles generally accepted in Japan.

As discussed in Note 15.a. to the non-consolidated financial statements, the Company received a notice of tax assessment from Osaka Regional Tax Bureau on May 30, 2008 stating that the declared income for the year ended March 31, 2007 was reduced, and has received the full amount of tax refund based on this notice.

Our audits 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.

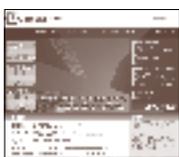
Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU
Kyoto, Japan

June 24, 2008

Shimbashi & Co.
SHIMBASHI & CO.
Osaka, Japan

June 24, 2008

GROUP NETWORK (As of March 31, 2008)

Companies / URL (Japanese only)	Business Classification	Consolidated Equity (%)
AIFUL CORPORATION http://www.aiful.co.jp/ http://www.ir-aiful.com/ 	Unsecured loans / Home equity loans / Small business loans (High risk) / Loan guarantees	—
LIFE Co., Ltd. http://www.lifecard.co.jp/flash.html 	Credit card shopping / Shopping loans / Unsecured loans / Loan guarantees / Home equity loans	95.9
BUSINEXT CORPORATION http://www.businext.co.jp/ 	Small business loans (Middle risk) / Home equity loans	60.0
City's Corporation http://www.citys.co.jp/ 	Small business loans (High risk) / Home equity loans	100.0

Companies	URL (Japanese only)	Business Classification	Consolidated Equity (%)
TRYTO CORPORATION	http://www.365157.jp/	Unsecured loans (High risk) / Home equity loans	100.0
Wide Corporation	http://www.wide-net.co.jp/	Unsecured loans (High risk) / Home equity loans	100.0
TCM. Co. Ltd.	http://e-tcm.jp/	Unsecured loans (High risk)	100.0
Passkey Co., Ltd.	http://www.passkey.co.jp/index.html	Unsecured loans (High risk) / Home equity loans	100.0
AsTry Loan Services Corporation	http://www.stry-s.co.jp/	Debt collection (Servicer)	86.0
New Frontier Partners Co., Ltd.	http://www.nf-partners.co.jp/	Venture capital	100.0
Marutoh KK	http://www.marutoh.com/	Real estate business	100.0

Investor Information (As of March 31, 2008)

Corporate Profile

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
Common Stock	¥108,324 million
Number of Employees	Non-consolidated: 2,585 Consolidated: 5,138

Shareholders Information

Number of Shares of Common Stock

Authorized	568,140,000 shares
Issued and Outstanding	167,475,000 shares
Number of Shareholders	13,798
Independent Auditors	Deloitte Touche Tohmatsu Shimbashi & Co.
Transfer Agent and Registrar	The Sumitomo Trust & Banking Co., Ltd.

For Further Information and Additional Copies of This Annual Report, Please Contact

Investor Relations Section

Tokyo Office 8th Floor, Toho-Hibiya Bldg. (Hibiya Chanter), 1-2-2 Yurakucho, Chiyoda-ku, Tokyo 100-0006, Japan

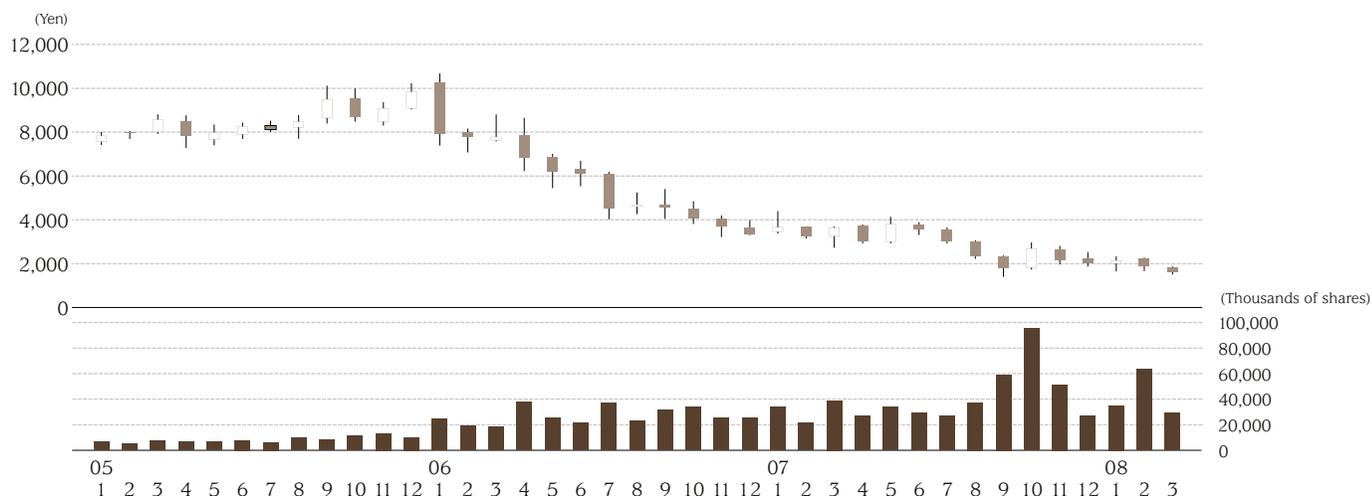
Phone: +81-3-4503-6100 Facsimile: +81-3-4503-6109

E-mail: ir@aiful.co.jp

Stock Listing

Tokyo Stock Exchange	The First Section
Osaka Securities Exchange	The First Section
Securities Code	8515

Transition of a Stock Price and Volume of Trading (January 2005–March 2008)



Investor Relations Website

To improve its disclosure activities, AIFUL maintains an IR section within its website that contains not only operating results and other statistics, but also the corporate philosophy, management strategy, data on the consumer finance market and business alliances, and other types of information that go beyond financial statements.

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



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

