



Building Momentum Through Diversity

AIFUL Corporation

Annual Report 1999

Profile

On October 1, 1998, AIFUL Corporation listed its shares on the second sections of the Tokyo Stock Exchange and Osaka Stock Exchange, as well as on the Kyoto Stock Exchange. With a balance of loans outstanding of ¥838.0 billion (US\$6,983 million) as of March 31, 1999, AIFUL is one of the leading consumer finance companies in Japan.

AIFUL's involvement in consumer finance dates from its establishment in 1967 as Marutaka Co., Ltd. We adopted our present name in 1982 on merging with three associated companies. The consumer finance industry has not always stimulated positive connotations. Since its establishment, AIFUL has endeavored to upgrade this image by meeting customer needs and living up to society's trust in us as a publicly company is a management philosophy that continues to drive our success to this day.

As of the end of fiscal 1999, ended March 31, 1999, AIFUL's services embrace 1.8 million customer accounts through its 1,009 branches and a network of 14,118 cash dispensers and automated teller machines.

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Financial Highlights

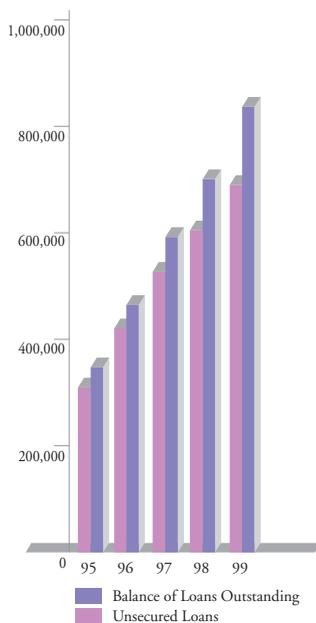
AIFUL Corporation
Years Ended March 31

	Millions of Yen		% Change	Thousands of U.S. Dollars
	1999	1998	1999/98	1999
For the Fiscal Year				
Total income	¥ 205,536	¥ 180,181	14.1	\$ 1,712,800
Total expenses	140,777	117,080	20.2	1,173,142
Income before income taxes	64,759	63,101	2.6	539,658
Net income	28,448	25,004	13.8	237,067
At Year-end				
Balance of loans outstanding	837,982	702,446	19.3	6,983,183
Total assets	996,524	876,727	13.7	8,304,367
Long-term debt, including current portion thereof	704,275	600,505	17.3	5,868,958
Total shareholders' equity	203,749	146,255	39.3	1,697,909
Number of shares outstanding	46,752,500	42,752,500	9.4	
Per Share Data				
Net income	¥ 610.63	¥ 601.98	1.4	\$ 5.09
Cash dividends	60.00	60.00	0.0	0.50

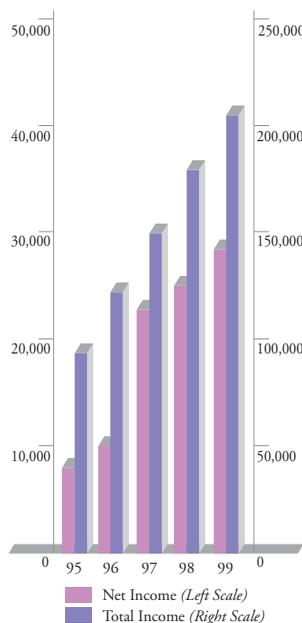
Notes

1. The U.S. Dollar amounts have been translated for convenience only at ¥120 = \$1, the rate of exchange at March 31, 1999.
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.

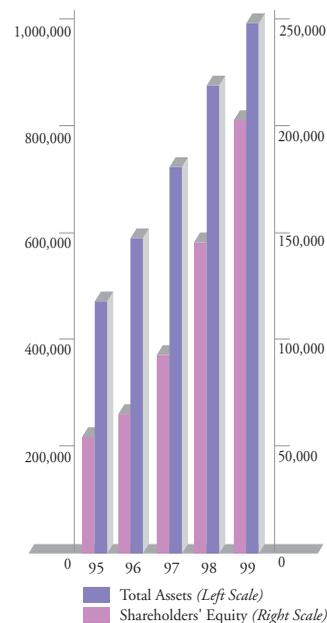
**Balance of Loans Outstanding
Unsecured Loans**
(Millions of Yen)



**Total Income
Net Income**
(Millions of Yen)



**Total Assets
Shareholders' Equity**
(Millions of Yen)



Message

from the President



AIFUL Corporation listed its shares on the second sections of the Tokyo Stock Exchange and Osaka Stock Exchange on October 1, 1998. Buoyed by the confidence that this listing implies, we will continue to offer products that meet a diverse range of consumer needs, while at the same time enhancing the efficiency of our operations and upgrading our services. We are convinced that these efforts will contribute to the ongoing expansion of our business results.

Defining Plans to Maintain Our Momentum

Fiscal 1999 Operating Environment

During fiscal 1999, ended March 31, 1999, the Japanese economy was characterized by a deflationary spiral, whereby economic recession coincided with a drop in share prices. Despite these factors, the nationalization of some financial institutions and the initiation of supplementary economic stimulus measures engendered encouraging signs of an end to the prolonged recession.

In this difficult economic climate, despite an increase in unemployment and a rise in personal bankruptcies the consumer finance industry continued to enjoy an outpouring of latent demand that prompted medium- to long-term growth. The industry continued to progress toward one controlled largely by a few leading companies. Industry leaders appear to be diverging along lines of strategic focus—on the one side, AIFUL and other companies that are promoting a diverse range of products; on the other, companies that are concentrating on specific products such as unsecured loans. Furthermore, industry competition is heating up as a result of such moves as overseas nonbanks purchasing major Japanese corporations, which is expediting ever-greater differentiation between companies. In this environment, AIFUL continued to spur the two management themes of expansion and restructuring in a bid to fortify its management base.

Overview of Operations

Given the current turmoil within the Japanese economy, during the year we considered it prudent to focus on low-risk customers in the unsecured loan category. For secured loans, we concentrated on small-lot loans. We used our accumulated credit expertise to guarantee stable growth in this profitable business sector, which has become central to our financing activities. In the area of small business loans, we continued to maintain stringent lending standards for two reasons. First, we have only recently begun business in this loan area, and our expertise is relatively undeveloped. Our second reason for caution is that many small business owners are highly susceptible to market conditions.

In December, we introduced our sixth-generation scoring system. The aims of this system are to upgrade our credit system and to curtail credit losses, particularly in view of continued high levels of unemployment and the rise in personal bankruptcies.

These activities supported a 19.3% increase in our balance of loans outstanding in fiscal 1999, to ¥838.0 billion. Of this amount, our balance of unsecured loans outstanding rose 14.4%, to ¥690.7 billion at the end of the year. The balance of secured loans outstanding gained 44.8%, and the balance of small business loans outstanding more than doubled, to ¥9.5 billion.

Buoyed by overall sales performance, total income increased 14.1%, to ¥205.5 billion. Income before income taxes edged up 2.6%, to ¥64.8 billion, and net income rose 13.8%, to ¥28.4 billion.

Our Strategy

There is an increasing tendency for leading companies in the consumer finance industry to form oligopolistic structures, making competition problematic. In this environment, we will seek to meet customer needs by focusing on our management philosophy of total finance, devising appropriate tactics, accurately forecasting market trends and creating a diverse product lineup. In addition, we will continue to use our precise scoring method for systematically analyzing credit—a method that we believe has been essential to our success.

In April 1999, the Financial Industry Lending Bond Issuance Law was promulgated, going into effect the following month. This law lifts bans on the procurement of funds through the issuance of commercial paper and corporate bonds, effectively providing AIFUL with an additional means of diversifying its sources of funds. Based on this law, we believe that fiscal 2000 will be a major turning point for the consumer finance industry as a whole.

The following pages of this report describe our product diversification strategy, which we believe is the key to our continued expansion, as well as the market forecasting that underlies this strategy. We believe that adhering to this strategy and aggressively promoting diverse fund procurement and other financial policies will help us maintain a stable business structure and secure the long-term development of our business performance in a variety of areas.



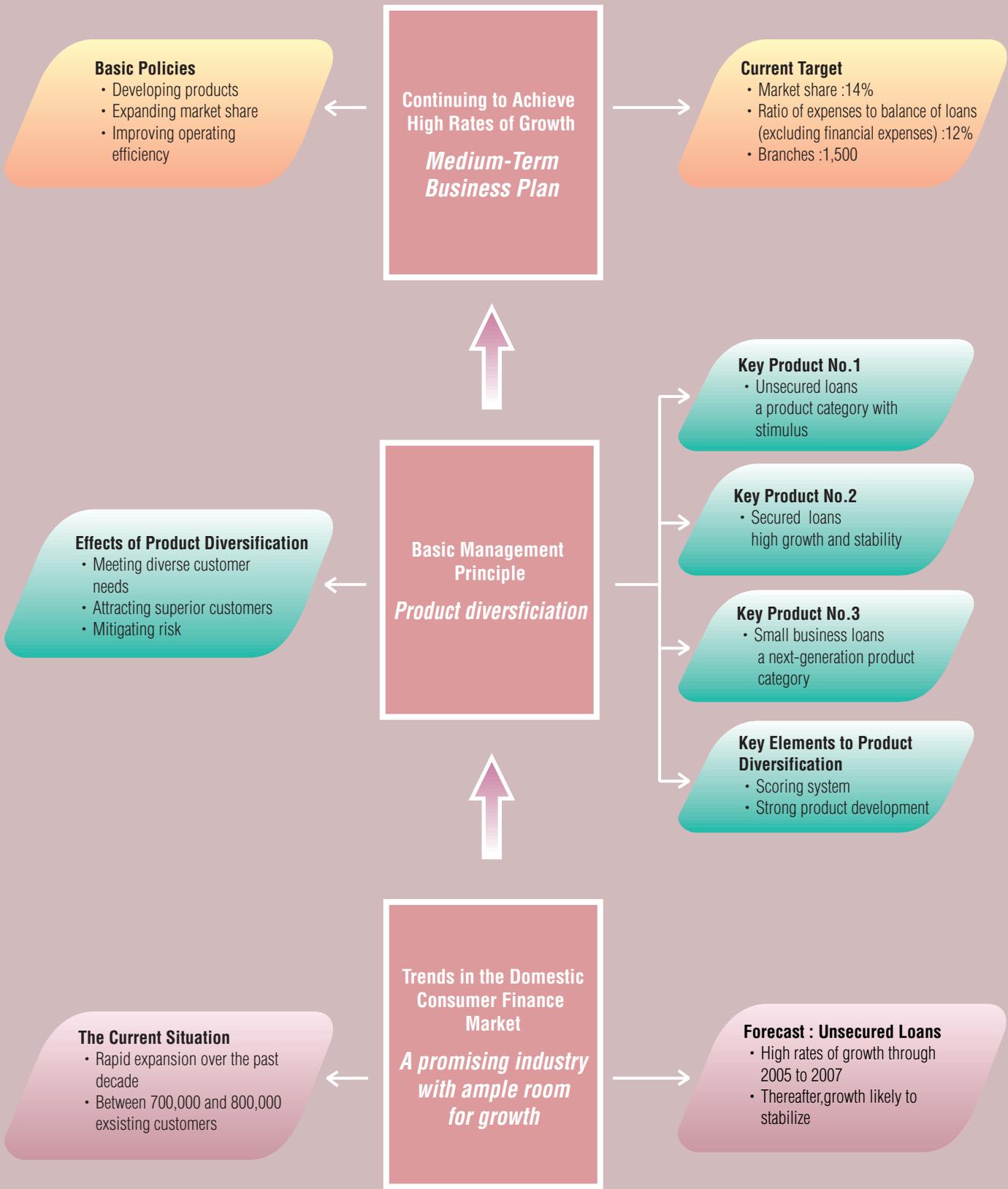
Yoshitaka Fukuda
President
June 30, 1999

Continuing to Achieve High Rates of Growth

AIFUL has grown rapidly from its modest start as an independently operated Kyoto-based consumer finance company in 1967. Only 30 years later, AIFUL has emerged as the fourth largest company in the industry, with a balance of loans outstanding of ¥838.0 billion and 1.8 million customer accounts.

We believe that the key to our growth has been extremely clear management strategies. AIFUL has been quick to discern shifts in the market environment through prudent analysis and forecasting, then to establish forthright management strategies upon which to base our business activities.

Examples of AIFUL's management strategies are product diversification—through which we seek to meet evolving consumer needs, the product development that makes product diversification possible and analyzing credit risk. We accomplish this last strategy through our scoring system. Fundamental to each of these strategies is our management philosophy of meeting the needs of all customers to the greatest possible extent.



A mple Room for Growth in the Consumer Finance Market

Overview

In 1986, the Japanese consumer finance market had a value of approximately ¥1.9 trillion. During the ensuing decade, the size of this market virtually exploded, more than tripling in value to ¥5.9 trillion by 1996.

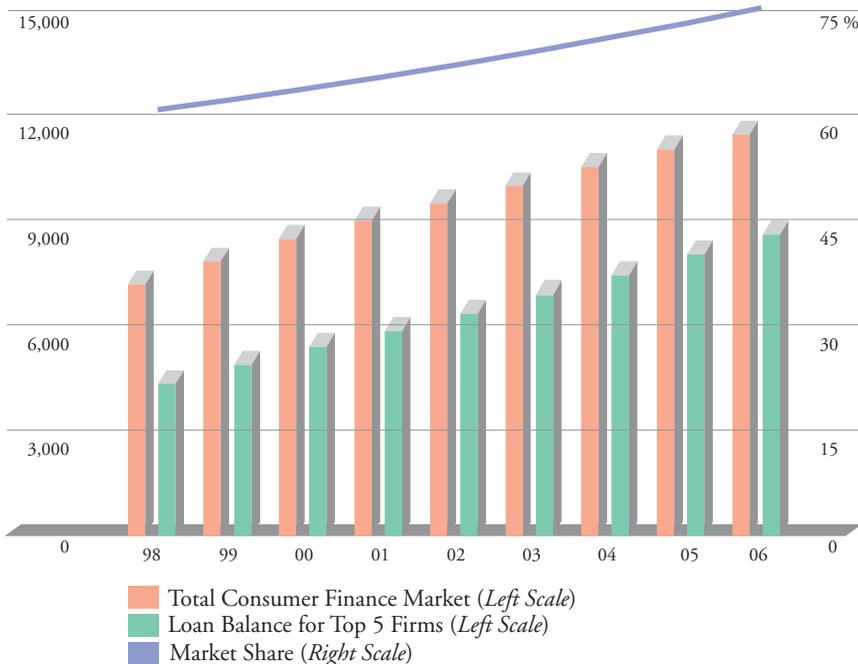
Between 7 million and 8 million people take advantage of Japan's consumer finance industry. If the number of people who have used consumer financing at some point in the past is also included, the market base is estimated to be around 13 million people. Japan's working population—the target market for the consumer finance industry—is estimated at 65 million people. Of this population, one person in five has taken advantage of the consumer finance industry, and one in 10 is presently using these services. Also, in the past several years we greatly increased the amount of data stored in

our information centers, where we record a customer's borrowing history and loan amounts. Currently, we collate information on between 700,000 and 800,000 new people each year.

Independent Forecasting

To establish medium-term management strategies, AIFUL conducts independent forecasts of the consumer finance market. In brief, these forecasts first establish the number of people in our target market of the working population between 20 and 60 years of age. We then segment this population by age, and determine the percentage use of consumer finance by age group and the average loan amount for customers in each age group. This information allows us to simulate future demand. The results of this simulation suggest sharp growth in the consumer finance market to the year 2005 up to 2007. Thereafter, we expect market growth to stabilize.

Future of The Consumer Finance Market
(Billions of Yen)



AIFUL's Growing Market Share

In recent years, the consumer finance market has become increasingly oligopolistic, or dominated by a few leading companies. In 1986, the five leading consumer finance companies controlled a 45% share of the market. This share had risen to 58% by 1996, and by 2004 this percentage is expected to exceed 70%. Of the leading companies in Japan's consumer finance industry, AIFUL has posted the highest rate of growth. Consequently, our 3% market share in 1986 had more than tripled to 10% by 1996.

A Fundamental Policy

Product diversification is the fundamental policy behind our loan business. The three mainstays of this business are unsecured loans (82.4% of the balance of loans outstanding, accounting for ¥690.7 billion), secured loans (16.4% of the balance of loans outstanding, or ¥137.8 billion) and small business loans (1.1% of the balance of loans outstanding, or ¥9.5 billion). Following a careful analysis of the market, we have tailored our product diversification strategy to actively focus on three points.

First, we aim for continued high rates of growth. In the near future—possibly until at least 2005 or 2007—the unsecured loan market will continue to grow steadily. AIFUL expects the rate of growth for unsecured loans to be relatively stable, whereas secured loans and small business loans will experience high rates of growth, pointing to continued fast-paced growth for the Company as a whole.

The second focus is attracting low-risk customers and meeting the demand for high levels of borrowing. Currently, we set the maximum amount for unsecured loans per customers at ¥2 million. However, through product diversification for people with large financing needs we are able to offer secured loans using real estate as collateral and



small business loans. Such product offerings enable us to maintain a stable of prime customers.

The third point of focus is on diversifying risk in our credit portfolio. Through product diversification, we are able to disperse risk across our product lineup instead of concentrating risk on secured loans, unsecured loans or small business loans.

Bolstering Competitiveness through our Product Diversification Strategy

Balance of Loans Outstanding

(Millions of Yen)

	95	96	97	98	99
Unsecured Loans	307,994	420,050	527,306	603,662	690,704
Secured Loans	40,210	45,587	64,286	95,128	137,755
Small Business Loans	4	17	38	3,655	9,523

Four Primary Concepts

At present, four basic concepts underlie our mainstay unsecured loans. These loans are unsecured and non-guaranteed, and have low balances ranging in amount from ¥10,000 to ¥2 million. Applications are processed quickly—typically within 30 minutes from the time a customer first enters the branch—and finally, these loans are offered through more than 1,000 branches nationwide. In this area, our balance of unsecured loans outstanding amounts to ¥690.7 billion. This figure has boosted our total of all types of customer accounts to 1.8 million accounts with an average balance of ¥388,000.

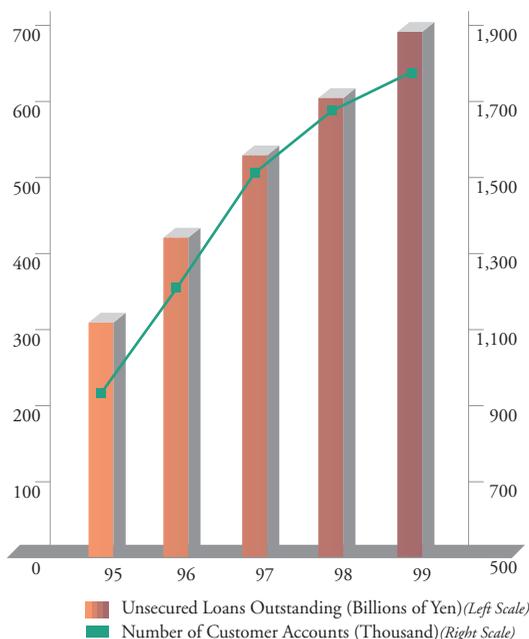
Expected Market Growth

Between 1996 and 1997, we successfully cultivated the market for unsecured loans by installing unstaffed loan-contracting machines. This activity resulted in a sharp increase in the number of unsecured loan customers during this period, and outstanding loan balances soared. However, we now expect the number of unsecured customer accounts to fall off somewhat, for three reasons. First, now that the initial installation of loan-contracting machines is largely complete we will not benefit from the same increase in unsecured loan customers that we enjoyed in 1996 and 1997. Second, the growth in unsecured loans is likely to be affected by the ongoing recession, and third, an increasing unemployment rate and a rise in personal bankruptcies is causing the industry to adopt stricter credit standards. Nevertheless, we believe this situation will recover with the revival of the Japanese economy.

We currently attract 400,000 new unsecured loan customers each year, and the value of this market is forecast to expand to ¥10 trillion by 2004. Extrapolating from these two factors, we expect to see a sharp rise in this market once the Japanese economy recovers.

U nsecured Loans—One Key to AIFUL's Growth

Unsecured Loans Outstanding



AIFUL's

Unsurpassed Lead in Secured Loans

Strong Growth

AIFUL's secured loans category provides financing to individuals who offer land, buildings and other real estate as collateral. At the end of the fiscal year, 38,000 customers held secured loan accounts with AIFUL with an average balance of ¥3.5 million per account and our balance of secured loans outstanding was ¥137.8 billion. In fiscal 1999, the balance of secured loans outstanding rose 44.8%, while credit losses on these loans were less than 1%. As these numbers suggest, performance in this product category is stable and growing rapidly. Underscoring our success in this area are the favorable characteristics and originality of our secured loan products.

Existing Expertise

One of AIFUL's advantages in this area is its preexisting expertise, systems and operating manuals that ensure consistent service at more than 500 staffed branches throughout Japan. Furthermore, at present we face very little competition in this field from other companies. AIFUL offers a wide range of independently developed products that are tai-



lored to customer needs, providing us with a substantially higher rate of growth than other companies.

Precise Risk Management

In addition to the superior characteristics of the products themselves, we excel in risk management. Our average balance of secured loans is relatively low, at around ¥3.5 million per person. Another risk deflator is the fact that the people to whom we provide this type of financing are dispersed geographically throughout the country, rather than being concentrated in major metropolitan areas. Consequently, despite a sharp drop in property values, our rate of default on these loans has remained steady at only 0.51%. Also, 33% of our secured loans are against 40% or less of the real estate's collateral value, 46% against between 40% and 70% of this value and 21% against between 70% and 100%. Maintaining such a healthy loan portfolio is vital to our stability on this type of loan. Interest rates on these loans average 18%, but may range between 9% and 26% depending on the level of risk that the borrower represents.

To verify the value of real estate used as collateral, AIFUL maintains tie-ups with more than 200 real estate companies and real estate appraisers. These relationships help us seize on up-to-date real estate information at any time.

A Relatively New Category

We began offering small business loans in October 1997 at our staffed branches throughout Japan. At the end of the fiscal year, we had 7,000 small business loan accounts, and our balance of these loans outstanding totaled ¥9.5 billion.

Our small business loan products range in credit amount between ¥10,000 and ¥2.4 million, bear interest rates including transaction costs of between 28% and 33% and require the guarantee of at least one person besides the lender. As another criterion, we provide these loans directly to business owners rather than to a company.

The Small Business Loan Market

Some 6.5 million small businesses operate in Japan, including individual proprietorships. The number of small business loans outstanding suggests that ample room for cultivation remains in Japan's small business loan market. Of AIFUL's 1,500 new applicants each month, between 400 and 500 new small business loans are provided, indicating substantial latent demand. The majority of people to whom AIFUL provides small business loans also hold unsecured loan accounts. Thanks to our scoring data, such clients generally prove highly reliable.

Taking into account the fact that Japan's current economic difficulties have created a severe environment for individual proprietors, we have tightened our credit requirements. By applying our expertise in product development and credit more precisely, we expect to offer next-generation products that will prove highly popular among our loan products.

Small Business Loans— Our Third Pillar of Business with Excellent Growth Potential





Scoring System to Reduce Credit Losses, Bolster Lending Volume

Extensive Database

AIFUL's rapid growth is due largely to the success of our independently developed scoring system. Our scoring system rates individuals in much the same way as specialized rating agencies rate companies. We maintain data on some 3 million people with whom we have had transactions in the past. As well as for initial credit transactions, we use this system when providing repeat lines of credit. We initiated our first scoring system in 1985. To reflect the most recent data, over the past two or three years we have revised the content of our system. In December 1998, we switched over to our current sixth-generation system. This system has been designed to incorporate information that takes into account Japan's lackluster economic situation. Based on this information, our simulation results indicate a 5% increase in lending volumes and a 4% reduction in credit losses.

Advanced Scoring System

Our scoring system furnishes credit judgements according to key applicant information, and each applicant receives a score between 0 and 13, with higher numbers corresponding to lower degrees of risk, and 0 indicating that the loan must be refused. Based on this rating, loan amounts of between ¥50,000 and ¥2 million are made available at interest rates ranging from 21.5% to 29.2%.

Although AIFUL seeks to meet the needs of all its customers, At the same time, the more closely we meet these needs the higher the rate of delinquency tends to become. Addressing such problems at their root is essential if we are to simultaneously reduce credit losses and expand loan volumes. In short, we must control credit losses while at the same time providing financing to the largest possible number of customers. This idea is the basic concept behind our scoring system.

Further Fueling Growth through Product Development

Rising Industry Standing

During the past decade, AIFUL's balance of loans outstanding has grown by an average rate of 30%, with average loan credit losses of less than 2.3%. Over the past five years, these figures have averaged 24% and 2.4%, respectively, raising us from sixth largest to fourth largest in the industry. While attaining this high rate of growth, we have succeeded in keeping our credit losses down. One management strategy—our product diversification strategy—is largely responsible for this situation. The strength of this strategy relies chiefly on our product development ability.

Excellent Product Development

AIFUL is convinced that strong product development capabilities have enabled us to maintain our present rate of growth in operating results and provide the products that best meet customer needs, whether they are secured loans or small business loans. We designed each of our loan categories based on careful market analysis. In the area of secured loans in particular, we believe that we are ahead of the field in terms of our ability to develop and market new products such as second mortgages—a concept that is considered novel in Japan.

The need to spur growth through product development is not limited to the consumer finance industry. With this understanding, in the future we will focus on our three product categories—unsecured loans, secured loans and small business loans—as the basis for developing innovative products.



Review of Operations

Review of Operations

Loan Business

In fiscal 1999, the total balance of loans outstanding rose 19.3%, to ¥838.0 billion, while interest on loans to customers increased 14.6%, to ¥196.5 billion. During the same period, the number of customer accounts increased 6.8%, to 1.8 million.

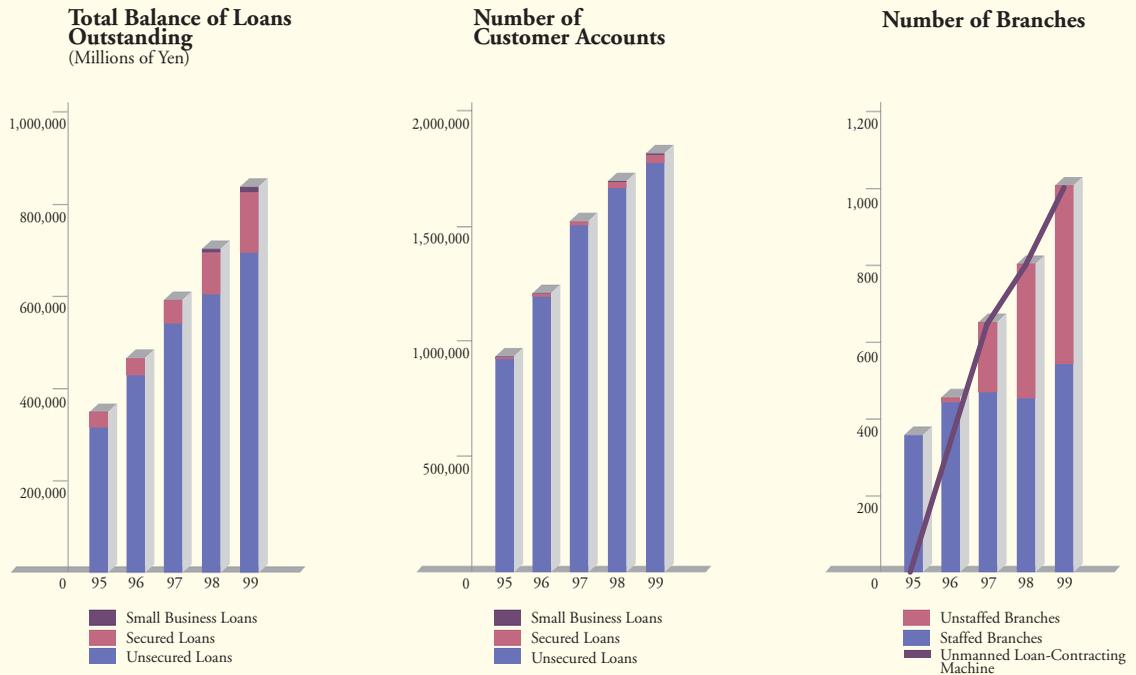
Unsecured Loans

The balance of unsecured loans outstanding grew 14.4% from the preceding term, to ¥690.7 billion, constituting 82.4% of the total balance of loans outstanding. Interest on unsecured loans rose 11.0%, to ¥174.8 billion, comprising 85.1% of total income. The number of unsecured loan accounts at the end of fiscal 1999 was 1.8 million, up 6.1%.

Secured Loans

Secured loans are collateralized with real estate. In fiscal 1999, the balance of secured loans outstanding grew 44.8%, to ¥137.8 billion, or 16.4% of the total balance of loans outstanding. In line with this growth, interest received on secured loans surged 44.9%, to ¥19.8 billion, amounting to 9.6% of total income.

Secured loans constitute a stable high-growth product category for AIFUL and the credit loss on these loans was only 0.51%—a level that has remained virtually unchanged since the bursting of Japan's bubble economy. By exploiting a level of expertise and business performance that is unmatched by our rivals, we will continue to offer products whose characteristics encourage the expansion of our business results.



Small Business Loans

Following secured and unsecured loans, small business loans are our third major product category. During the term, the balance of small business loans outstanding ballooned 160.5%, to ¥9.5 billion, or 1.1% of the total balance of loans outstanding. Interest from this source amounted to ¥1.9 billion—a sevenfold year-on-year increase that raised these operations to 0.9% of total income.

AIFUL's history in the area of small business loans is brief, as we first initiated such loans in October 1997. However, within the consumer finance industry we believe that this essentially untapped market holds substantial potential demand and offers ample room for development.

Other Activities

Although lending will remain the primary focus of AIFUL's business development, we will continue to pursue business diversification in preparation for the stable growth phase of the consumer finance market.

One area of diversification was our initiation of operations as a backup servicer, for which we concluded our first contract in fiscal 1999. Backup servicers manage and seek to recover alternative debt in the event that the issuing company defaults on its asset-backed securities. In step with the anticipated rise in popularity of debt securitization, we look forward to an expansion of

business for backup servicers. AIFUL intends to aggressively increase its involvement in this market, and we expect to apply to this field the debt management and recovery expertise that we have built up in the consumer financing business.

In the service sector, we operate the Arishan chain of 11 restaurants that specialize in popular Taiwanese dishes. We are also involved in the amusement industry through our five Mogura no Uta karaoke parlors. In fiscal 1999, total income from these other activities increased 3.1%, to ¥8.0 billion, or 3.9% of total income.

Countering the Millennium Bug

AIFUL began its efforts to counter the potential problems presented by the millennium bug early on. One of our first efforts to address this challenge was through the 1997 installation of a fourth-generation on-line system.

AIFUL has successfully completed testing and performed necessary alterations to the setting of dates by its main computer system, which is an area that is thought to be most seriously affected by the millennium bug. By September 1999, we expect to conclude the testing of connections with external equipment. In addition, tests of our dispersed system, which includes subsidiaries, are also slated for completion in September 1999.

When constructing its fourth-generation on-line system, the Company included expenses to counter the millennium bug as part of its system construction costs. Hence, we have already accounted for most of these expenses, with the notable exception of approximately ¥7.0 million in additional costs incurred to ensure compliance of our dispersed system.

To make certain that an understanding of the millennium bug and all its implications pervades our organization, we have initiated the Millennium Bug Countermeasures Project. Chairing this project committee is our Managing Director in charge of the Information Systems Department. This committee is charged with the task of providing final confirmation and adjustments to guarantee that each department has made the necessary progress and employs sufficient countermeasures.

Corporate Citizenship

AIFUL supports a variety of sporting events and community activities in Japan, both as a way of contributing to society and to enhance its corporate image.

In late July 1998, we hosted the four-day AIFUL Cup PGA Golf Tournament 1998 at the Aomori Country Club as the 18th stop on the PGA Tour of Japan. Fiscal 1999 marked the first year of our sponsorship of this tournament. To ensure its smooth operation, we elicited the energetic support of regional athletic organizations in Aomori Prefecture, which helped cultivate a sense of regional participation.

We also sponsored the Eighth Fukuchiyama Marathon, a community event that is open to the gen-

eral public. As in previous year, AIFUL supported the event as a special corporate sponsor. This marathon in Fukuchiyama, Kyoto Prefecture, attracted 10,000 participants, making it one of the largest such competitions in Japan. In addition to proving enjoyable for the general public, the event served as an effective means of generating enthusiasm and fan followings for regular runners.

In line with its management philosophy of maintaining society's support, in upcoming years AIFUL expects to remain active in its promotion of sporting events. We believe such activities afford us a healthy opportunity to maintain close contact with regional communities.



Financial Section

Non-Consolidated Financial Statements for the Years Ended March 31, 1999 and 1998, and Independent Auditors' Report

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6-Year Summary

AIFUL Corporation
Years Ended March 31

	Millions of Yen		
	1999	1998	1997
Result for the Fiscal Year			
Total income	¥205,536	¥180,181	¥150,176
Total expenses	140,777	117,080	94,276
Income before income taxes	64,759	63,101	55,900
Income taxes	36,311	38,097	33,095
Net income	28,448	25,004	22,805
At Year-end			
Balance of loans outstanding	¥837,982	¥702,446	¥591,630
Total assets	996,524	876,727	724,314
Short-term borrowings	58,900	98,000	39,548
Long-term debt, including current portion thereof	704,275	600,505	557,963
Total shareholders' equity	203,749	146,255	93,055
Per Share Data (Yen)			
Net income	¥ 611	¥ 602	¥ 1,548
Adjusted for stock splits	—	—	619
Shareholders' equity	4,358	3,421	5,957
Adjusted for stock splits	—	—	2,383
Cash dividends	60	60	10
Adjusted for stock splits	—	—	4
Other Data			
Number of shares outstanding at year-end	46,752,500	42,752,500	15,621,000
Weighted average number of shares outstanding	46,588,116	41,536,061	14,729,432
Number of customer accounts at year-end	1,822,261	1,706,030	1,530,094
Number of branches at year-end	1,009	807	654
Number of employees at year-end	3,141	2,731	2,521

Millions of Yen		
1996	1995	1994
¥122,695	¥ 94,024	¥ 77,767
97,411	75,794	66,058
25,284	18,230	11,709
15,197	10,218	6,550
10,087	8,012	5,159
¥465,656	¥348,209	¥270,629
589,539	472,791	396,558
31,758	38,200	59,058
473,621	365,449	289,983
65,447	55,524	36,685
¥ 7,308	¥ 6,472	¥ 4,169
292	259	167
47,414	40,226	29,645
1,897	1,609	1,186
100	100	100
4	4	4
1,380,300	1,380,300	1,237,500
1,380,300	1,237,891	1,237,500
1,217,649	940,924	787,146
458	360	268
2,411	1,951	1,688

Notes

Net income per share has been computed based on the weighted average number of shares outstanding during each period and shareholders' equity per share is based on the number of shares outstanding at the end of each period.

Merged with Marutoh Jisho Co., Ltd., a wholly-owned subsidiary, on March 1, 1994.

Capital increased through issuance of shares to third parties on March 31, 1995 (142,800 shares, ¥76,900).

Stock split (10 for 1) on August 1, 1996.

Warrant exercised on September 27, 1996 (1,818,000 shares, ¥2,750).

Stock split (2.5 for 1) on May 20, 1997.

On June 18, 1997, by resolution of the Shareholders' General Meeting, the number of common shares issued was increased from 55 million to 150 million.

Capital increased through issuance of shares by public offering on July 30, 1997 (3,700,000 shares, ¥56,832).

On April 16, 1998, the Company issued 4,000,000 shares of common stock to the amount of ¥33,084 million, in offshore transactions under regulations of the United States Securities Act of 1993 ("the Securities Act"), and in the United States in accordance with Rule 144A of the Securities Act. Of the total, ¥16,544 million and ¥16,540 million were credited to common stock and additional paid-in capital, respectively.

Financial Review

In this review, each fiscal year is taken to mean the financial year ended March 31. Accordingly, fiscal 1999 describes the financial year beginning April 1, 1998, and ending March 31, 1999.

REVIEW OF OPERATIONS

Income

During fiscal 1999, AIFUL posted a 14.1% increase in total income, to ¥205.5 billion (US\$1,713 million), resulting mainly from a 14.6% rise in interest on loans, to ¥196.5 billion (US\$1,638 million). The primary reason for these increases was a higher balance of loans outstanding in each of our three primary categories.

The balance of unsecured loans outstanding grew 14.4%, to ¥690.7 billion (US\$5,756 million). This made up to 82.4% of the total balance of loans outstanding, down from 85.9% in fiscal 1998.

The balance of secured loans outstanding surged 44.8%, to ¥137.8 billion (US\$1,148 million). This improvement was largely due to AIFUL's successful efforts to minimize the risk of its loan portfolio by shifting its weight toward low-risk secured and guaranteed loans. As a result, in fiscal 1999 secured loans outstanding amounted to 16.4% of total loans outstanding, up 2.9 percentage points.

The balance of small business loans outstanding expanded 160.5%, to ¥9.5 billion (US\$79 million). Consequently, these loans made up 1.1% of total loans outstanding, compared with 0.5% in the preceding fiscal year.

Interest on deposits, securities and other rose 170.0%, to ¥0.6 billion (US\$5 million), whereas sales of property for sale slipped 34.5%, to ¥1.0 billion (US\$9 million). Other income amounted to ¥7.4 billion (US\$62 million), up 7.1%.

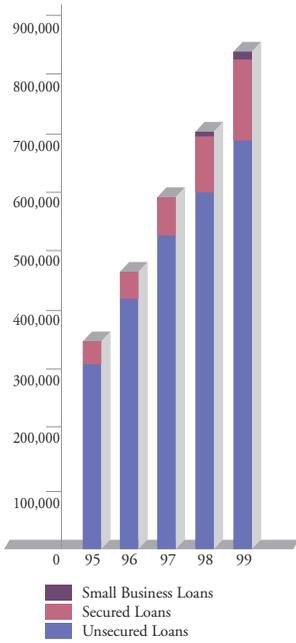
After accounting for expenses, income before income taxes was up 2.6%, to ¥64.8 billion (US\$540 million). In fiscal 1999, the effective tax rate was 56%, compared with 60% in fiscal 1998, bringing income taxes down 4.7%, to ¥36.3 billion (US\$303 million). Consequently, net income rose 13.8%, to ¥28.4 billion (US\$237 million). These increases pushed up net income per common share to ¥610.63 (US\$5.09), from ¥601.98.

Expenses

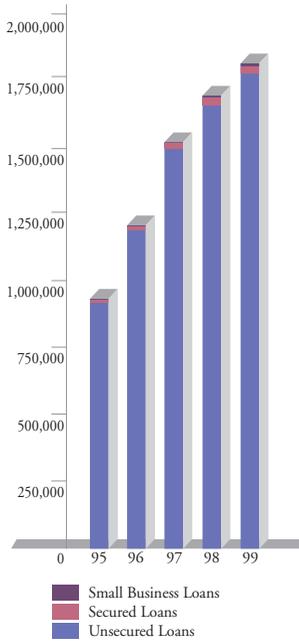
During fiscal 1999, total expenses grew 20.2%, to ¥140.8 billion (US\$1,173 million). The largest contributor to this increase was a 49.1% rise in charge-offs and provision for doubtful loans, advances to subsidiary and claims in bankruptcy, to ¥34.0 billion (US\$283 million). Consequently, ratio of total expenses to total income rose from 65.0% to 68.5%. This change was largely a result of higher loan losses, affected by Japan's overall economic sluggishness, particularly a rise in personal bankruptcies.

Interest on borrowings grew 6.9%, to ¥21.1 billion (US\$176 million). At the same time, the ratio of interest on borrowings to total income improved, dropping from 10.9% to 10.3%. As a result of the Company's continued expansion, salaries and other employee benefits rose 10.0%, to ¥22.2 billion (US\$185 million). Other expenses amounted to ¥29.0 billion (US\$242 million), up 30.8%.

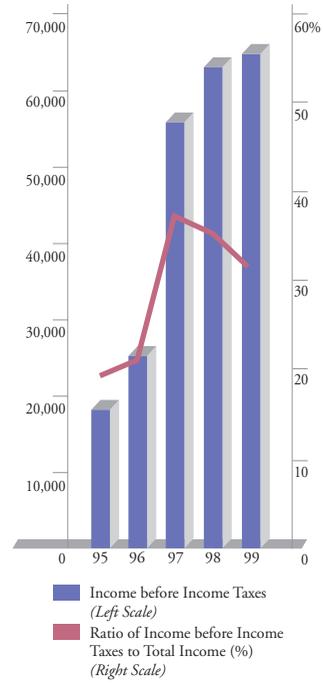
Balance of Loans Outstanding
(Millions of Yen)



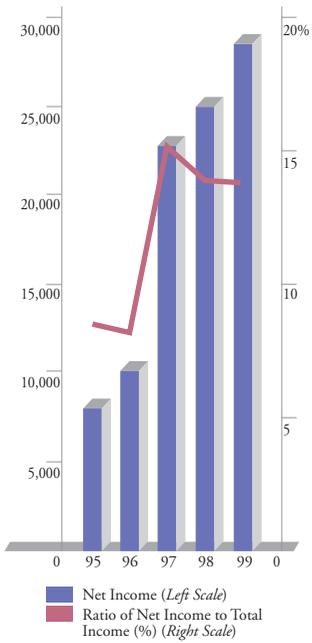
Number of Customer Accounts



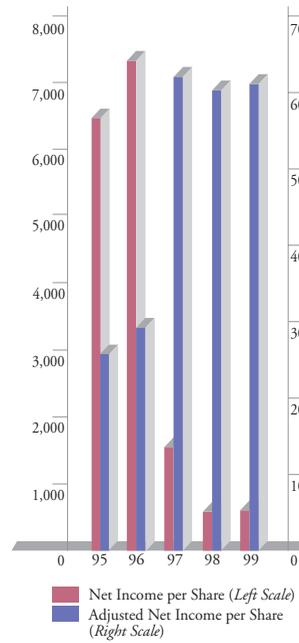
Income before Income Taxes
(Millions of Yen)



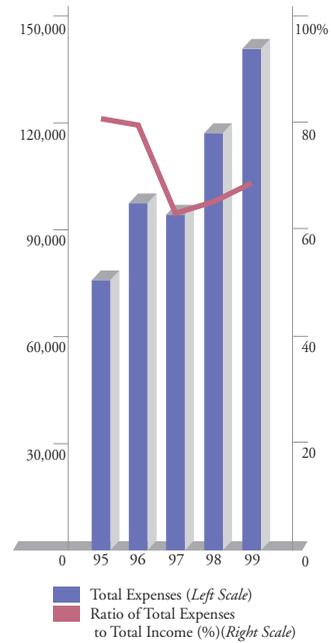
Net Income
(Millions of Yen)



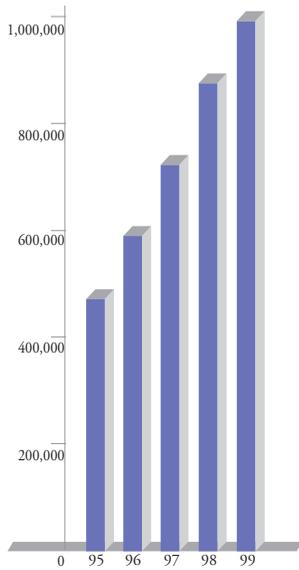
Net Income per Share
(Yen)



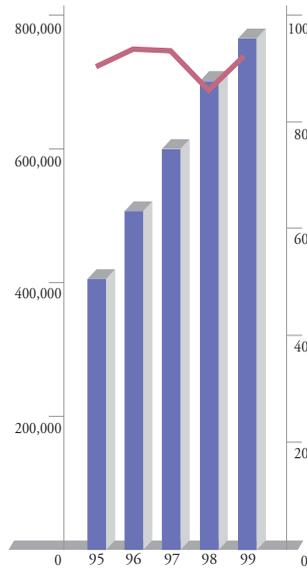
Total Expenses
(Millions of Yen)



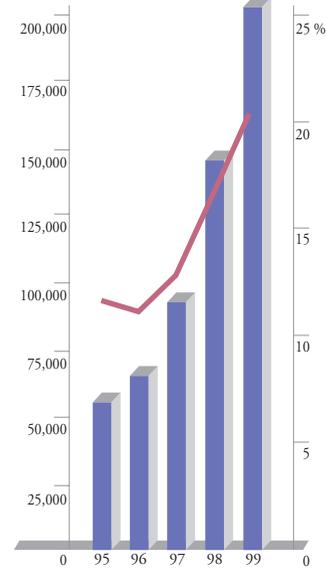
Total Assets
(Millions of Yen)



Balance of Borrowings
(Millions of Yen)



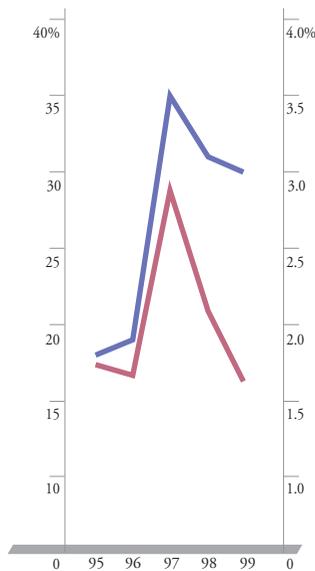
Total Shareholders' Equity
(Millions of Yen)



■ Balance of Borrowings
(Left Scale)
■ Ratio of Long-term Debt to
Total Borrowings (%)
(Right Scale)

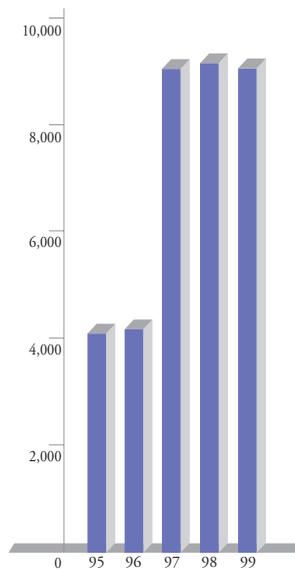
■ Shareholders' Equity
(Left Scale)
■ Shareholders' Equity Ratio (%)
(Right Scale)

ROE/ROA
(%)

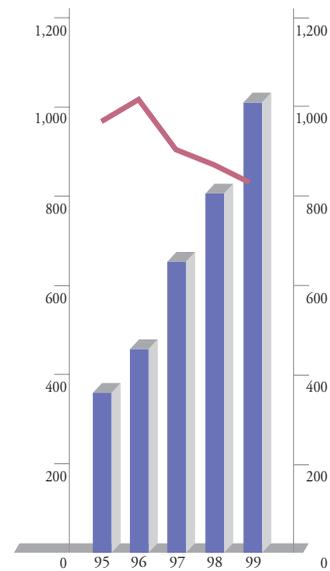


■ Return on Equity (Left Scale)
■ Return on Assets (Right Scale)

Net Income per Employee
(Thousands of Yen)



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



■ Number of Branches (Left Scale)
■ Balance of Loans Outstanding
per Branch (Right Scale)

Financial Review

FINANCIAL CONDITION

Assets

In fiscal 1999, current assets rose 15.0%, to ¥898.8 billion (US\$7,490 million), mainly due to a 19.3%, or ¥135.5 billion (US\$1,129million), rise in the balance of loans outstanding. Property, plant and equipment at the end of the year was ¥66.7 billion (US\$556 million), up 1.7%. As a result, at the end of the term total assets were ¥996.5 billion (US\$8,304 million), equivalent to a 13.7% year-on-year increase.

Liabilities

Current liabilities declined 13.3%, to ¥345.7 billion (US\$2,881 million). This fall was due mainly to a 13.8% slide in short-term borrowings and current portion of long-term debt, to ¥50.6 billion (US\$422 million). Long-term liabilities, on the other hand, increased 34.7%, to ¥447.1 billion (US\$3,725 million), largely owing to a 34.9% rise in long-term debt, to ¥445.6 billion (US\$3,713 million). AIFUL strives to diversify its fund procurement to ensure operational stability. As part of our efforts to ensure financial flexibility, during the year we issued ¥80.5 billion (US\$671 million) straight bond.

The Company's primary financing resource is long-term debt from financial institutions. Long-term debt, including its current portion, represents 92.3% of total borrowings, including commercial paper. Of this total, 57.9% is subject to fixed interest rates due to the use of fixed-rate loans, interest rate caps and swap transactions. Such methods have proven effective at hedging against interest rate risk.

Shareholders' Equity

AIFUL's total shareholders' equity rose 39.3%, or ¥57.5 billion(US\$479 million), in fiscal 1999, to ¥203.7 billion (US\$1,698 million), mostly as a result of capital increases from overseas—mainly Europe—during the term.

One of AIFUL's focuses during fiscal 1999 was to increase shareholders' equity to ensure better operating stability. These efforts proved successful. As a result of its capital increase during the year, the shareholders' equity ratio rose 3.7 percentage points, to 20.4%. At the same time, return on equity (ROE) declined 4.6 percentage points, to 16.3%, owing to the substantial rise in shareholders equity. Return on assets (ROA) also declined 0.1 percentage point, to 3.0%. Despite these decreases, both financial indicators—ROE and ROA—remain at healthy levels.

Efficiency

AIFUL is endeavoring to bolster its business efficiency through the systemization of marketing and administrative activities. We are also expanding the use of our unstaffed loan-contracting machines and extending our network of unstaffed branches.

During fiscal 1999, AIFUL achieved total income per employee of ¥65.4 million (US\$0.5 million), approximately level with the previous year. Net income per employee also remained essentially unchanged, at ¥9.1 million (US\$0.1million), and the balance of loans outstanding per employee was ¥266.8 million (US\$2.2 million), 3.7% higher than in fiscal 1998.

Non-Consolidated Balance Sheets

March 31, 1999 and 1998

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	1999	1998	1999
ASSETS			
Current Assets:			
Cash and cash equivalents:			
Cash	¥ 21,149	¥ 26,700	\$ 176,242
Time deposits (Note 7)	51,069	53,415	425,575
Total	72,218	80,115	601,817
Marketable securities	500		4,166
Loans (Notes 4 and 7)	837,982	702,446	6,983,183
Allowance for doubtful loans	(29,061)	(22,115)	(242,175)
Net loans	808,921	680,331	6,741,008
Inventories (Notes 5 and 7)	3,143	4,263	26,192
Investment in trust	1,000	5,000	8,333
Prepaid expenses	5,567	5,626	46,392
Other current assets	7,451	6,243	62,092
Total current assets	898,800	781,578	7,490,000
Property, Plant and Equipment (Note 7):			
Land	43,098	42,288	359,150
Buildings and structures	28,133	25,591	234,442
Machinery and equipment	9,971	9,637	83,092
Construction in progress	110	90	916
Total	81,312	77,606	677,600
Accumulated depreciation	(14,587)	(12,027)	(121,558)
Net property, plant and equipment	66,725	65,579	556,042
Investments and Other Assets:			
Investment securities (Notes 6 and 7)	6,575	3,477	54,792
Investments in and advances to subsidiary	3,475	3,475	28,958
Claims in bankruptcy	16,611	18,218	138,425
Allowance for advances to subsidiaries and claims in bankruptcy	(18,948)	(19,213)	(157,900)
Long-term loans (less current portion)	6,182	3,228	51,517
Lease deposits	8,038	7,476	66,983
Long-term prepayments	5,072	5,831	42,267
Other assets	3,994	7,078	33,283
Total investments and other assets	30,999	29,570	258,325
Total	¥996,524	¥876,727	\$8,304,367

See notes to non-consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	1999	1998	1999
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities:			
Short-term borrowings (Note 7)	¥ 58,900	¥ 98,000	\$ 490,833
Current portion of long-term debt (Note 7)	258,663	270,190	2,155,525
Trade notes payable	2,229	3,494	18,575
Trade accounts payable	3,006	2,894	25,050
Income taxes payable	19,477	21,126	162,308
Accrued expenses	2,706	2,468	22,550
Other current liabilities	736	475	6,134
Total current liabilities	345,717	398,647	2,880,975
Long-Term Liabilities:			
Long-term debt (less current portion) (Note 7)	445,612	330,315	3,713,433
Retirement benefits	1,060	1,060	8,833
Other long-term liabilities	386	450	3,217
Total long-term liabilities	447,058	331,825	3,725,483
Shareholders' Equity (Note 10):			
Common stock,			
¥50 par value, authorized, 150,000,000 shares at March 31, 1999; issued and outstanding, 46,752,500 shares at March 31, 1999 and 42,752,500 shares at March 31, 1998	39,752	23,208	331,267
Additional paid-in capital	41,913	25,373	349,275
Legal reserve	636	232	5,300
Retained earnings	121,448	97,442	1,012,067
Total shareholders' equity	203,749	146,255	1,697,909
Total	¥996,524	¥876,727	\$8,304,367

See notes to non-consolidated financial statements.

Non-Consolidated Statements of Income

Years Ended March 31, 1999 and 1998

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	1999	1998	1999
Income:			
Interest on loans	¥196,526	¥171,479	\$1,637,717
Interest on deposits, securities and other	569	211	4,741
Sales of property for sale	1,031	1,574	8,592
Other income	7,410	6,917	61,750
Total income	205,536	180,181	1,712,800
Expenses:			
Interest on borrowings	21,088	19,729	175,733
Cost of sales of property for sale	1,002	1,449	8,350
Charge-offs and provision for doubtful loans, advances to subsidiary and claims in bankruptcy	33,967	22,783	283,058
Salaries and other employee benefits	22,185	20,173	184,875
Advertising expenses	12,814	13,144	106,783
Rental expenses	13,339	11,837	111,158
Supplies	1,686	1,373	14,050
Depreciation	3,158	3,081	26,317
Provision for retirement benefits to directors and corporate auditors	76	61	634
Write-down of inventories	562	263	4,684
Stock issue costs	1,863	993	15,525
Other expenses	29,037	22,194	241,975
Total expenses	140,777	117,080	1,173,142
Income before Income Taxes	64,759	63,101	539,658
Income Taxes (Note 8)	36,311	38,097	302,591
Net income	¥ 28,448	¥ 25,004	\$ 237,067

	Yen	U.S. Dollars
Amounts per Common Share (Note 2.o)		
Net income	¥ 610.63	\$ 5.09
Cash dividends applicable to the year	60.00	0.50

See notes to non-consolidated financial statements.

Non-Consolidated Statements of Shareholders' Equity

Years Ended March 31, 1999 and 1998

	Thousands		Millions of Yen		
	Number of Shares of Common Stock Issued and Outstanding	Common Stock	Additional Paid-in Capital	Legal Reserve	Retained Earnings
Balance at April 1, 1997	15,621	¥10,333	¥ 9,832	¥ 210	¥ 72,680
Net income					25,004
Cash dividends paid, ¥10 per share					(138)
Transfer to legal reserve				22	(22)
Bonuses to directors and corporate auditors					(82)
Stock split (Note 10)	23,423				
Public offering (Note 10)	3,700	12,875	15,541		
Balance at March 31, 1998	42,753	23,208	25,373	232	97,442
Net income					28,448
Cash dividends paid, ¥60 per share					(3,967)
Transfer to legal reserve				404	(404)
Bonuses to directors and corporate auditors					(71)
Public offering (Note 10)	4,000	16,544	16,540		
Balance at March 31, 1999	46,753	¥39,752	¥41,913	¥ 636	¥121,448

	Thousands of U.S. Dollars (Note 3)			
	Common Stock	Additional Paid-in Capital	Legal Reserve	Retained Earnings
Balance at March 31, 1998	\$193,400	\$211,442	\$ 1,933	\$ 812,017
Net income				237,067
Cash dividends paid, \$0.5 per share				(33,058)
Transfer to legal reserve			3,367	(3,367)
Bonuses to directors and corporate auditors				(592)
Public offering (Note 10)	137,867	137,833		
Balance at March 31, 1999	\$331,267	\$349,275	\$ 5,300	\$1,012,067

See notes to non-consolidated financial statements.

Non-Consolidated Statements of Cash Flows

Years Ended March 31, 1999 and 1998

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	1999	1998	1999
Operating Activities:			
Net income	¥ 28,448	¥ 25,004	\$ 237,067
Adjustments to reconcile net income to net cash provided by operating activities:			
Charge-offs and provision for doubtful loans, advances to subsidiary and claims in bankruptcy	33,967	22,783	283,058
Depreciation and amortization	5,472	5,702	45,600
Stock issue costs	1,863	993	15,525
Provision for retirement benefits to directors and corporate auditors	76	61	634
Write-down of inventories	562	263	4,684
Changes in assets and liabilities:			
Decrease in inventories	558	352	4,650
Decrease (increase) in investment in trust	4,000	(5,000)	33,333
Decrease (increase) in prepaid expenses	59	(1,437)	492
Increase in other current assets	(1,208)	(853)	(10,066)
Increase (decrease) in trade notes payable	(1,265)	155	(10,542)
Increase in trade accounts payable	112	339	933
Decrease in income taxes payable	(1,649)	(2,900)	(13,742)
Increase in accrued expenses	280	674	2,333
Increase (decrease) in other current liabilities	114	(53)	950
Other - net	2,029	655	16,908
Total adjustments	44,970	21,734	374,750
Net cash provided by operating activities	73,418	46,738	611,817
Investing Activities:			
Increase in loans	(161,843)	(128,433)	(1,348,692)
Increase in long-term loans	(2,954)	(3,262)	(24,617)
Purchases of marketable and investment securities	(5,467)	(2,010)	(45,558)
Capital expenditures	(4,460)	(7,679)	(37,167)
Increase in long-term prepayments	(1,555)	(2,542)	(12,958)
Other - net	3,519	(1,150)	29,325
Net cash used in investing activities	(172,760)	(145,076)	(1,439,667)
Financing Activities:			
Net increase (decrease) in short-term borrowings	(39,100)	58,452	(325,834)
Proceeds from long-term debt (Net of bonds issue costs)	383,945	285,819	3,199,542
Repayments of long-term debt	(280,654)	(243,277)	(2,338,783)
Proceeds from public offering (Net of stock issue costs)	31,221	27,423	260,175
Cash dividends paid	(3,967)	(138)	(33,058)
Net cash provided by financing activities	91,445	128,279	762,042
Net Increase (Decrease) in Cash and Cash Equivalents	¥ (7,897)	¥ 29,941	\$ (65,808)
Cash and Cash Equivalents, Beginning of Year	80,115	50,174	667,625
Cash and Cash Equivalents, End of Year	¥ 72,218	¥ 80,115	\$ 601,817
Additional Cash Flow Information:			
Interest paid	¥ 20,889	¥ 19,799	\$ 174,075
Income taxes paid	37,960	40,997	316,333
Noncash Investing Activities—			
Capital expenditures by incurring liabilities	¥ 175	¥ 70	\$ 1,458

See notes to non-consolidated financial statements.

Notes to Non-Consolidated Financial Statements

Years Ended March 31, 1999 and 1998

1. Basis of Presenting Non-Consolidated Financial Statements

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

In preparing these non-consolidated financial statements, certain reclassifications and rearrangements have been made to the Company's financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. The non-consolidated statements of cash flows are not required for domestic reporting purpose but are presented herein for the readers' convenience.

Certain reclassifications have been made to the prior year's non-consolidated financial statements to conform to the classifications used in 1999.

2. Summary of Significant Accounting Policies

a. *Non-consolidation* - The non-consolidated financial statements do not include the accounts of subsidiaries. Investments in subsidiaries are stated at cost.

Consolidation of the Company's subsidiaries would not significantly change the total assets, retained earnings, total income, or net income reported in the accompanying non-consolidated financial statements.

b. *Cash and Cash Equivalents* - For purposes at the statements of cash flows, the Company considers all time deposits to be cash equivalents. Time deposits have original maturities of one year or less and can be withdrawn on demand with no diminution of principal.

c. *Inventories* - Property for sale is stated at the lower of cost or market, cost being determined by the specific identification method. Depreciation of leased property is computed by the same method, as applied to property, plant and equipment.

Property for sale under construction is stated at cost, cost being determined by the specific identification method.

Supplies are stated at the most recent purchase price which approximates cost determined by first-in, first-out method.

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

e. *Property, plant and equipment* - Property, plant and equipment are stated at cost. Depreciation is computed by the declining - balance method at rates based on the useful lives prescribed under the tax regulations. The range of useful lives is principally from 20 to 50 years for buildings (24 to 60 years in 1998), from 3 to 20 years for machinery, equipment and others.

f. *Retirement Benefits* - Effective April 1, 1995, the Company amended previously adopted severance and retirement plans and established a contributory funded pension plan, transferring all prior plans' obligations for employees' retirement benefits (including all plan assets of the trustee pension plan) to the new pension plan. Also, reversals of the excess portion of employees' retirement benefits are added to income equally over seven years beginning with the fiscal year ended March 31, 1997 pursuant to the applicable tax regulations. Under the plan, prior service costs are charged to income over ten years.

The net assets in the fund, including a government pension fund required by Japanese law in the amount of ¥439 million, were ¥1,510 million at March 31, 1998 (the most recent date of available information).

Retirement benefit balances include those to directors and corporate auditors as follows:

At March 31:	Millions of Yen	Thousands of U.S. Dollars
1999	¥892	\$7,433
1998	850	

g. *Allowances for Doubtful Loans, Advances to Subsidiary and Claims in Bankruptcy* - Allowances for doubtful loans,

Notes to Non-Consolidated Financial Statements

Years Ended March 31, 1999 and 1998

advances to a subsidiary and claims in bankruptcy are stated at the higher of either management's estimate or the maximum amount which is allowed under tax regulations (the actual rate of past charge-offs).

- h. *Income Taxes* - Income taxes are provided for at the amounts currently payable for each year. The tax effect of temporary difference between tax and financial reporting purpose is not recorded.
- i. *Interest on Loans* - Interest on loans is recorded on an accrual basis. In accordance with the practice prevailing in the industry, the Company records accrued interest to the extent that the realization of such income is considered to be certain.
- j. *Stock Issue Costs* - Stock issue costs are charged to income as incurred.
- k. *Bonds Issue Costs* - Bonds issue costs, which are included in other assets, are amortized ratably over periods up to three years.
- l. *Leases* - All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's non-consolidated financial statements.
- m. *Foreign Currency Transactions* - Short-term receivables and payables denominated in foreign currencies are translated into Japanese yen at the current exchange rates at the balance sheet date.

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

The exchange gains arising from the above contract and agreement are deferred and recognized as income ratably over the term of the contract period. Other exchange gains and losses are recognized in the fiscal periods in which they occur.

- n. *Leveraged Lease* - The Company initially records, as other assets, an investment of ¥100 million in an anonymous association which is engaged in aircraft leasing, at cost,

and adjusts the carrying amount of such investment to recognize the Company's interests in the earnings or losses of such association. If accumulated losses attributable to the Company exceed ¥100 million, the excess amount is accounted for as other long-term liabilities and the current losses as other expenses. Other long-term liabilities were ¥129 million (\$1,075 thousand) and ¥127 million, and other expenses were ¥2 million (\$17 thousand) and ¥9 million for the years ended March 31, 1999 and 1998, respectively.

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

Year Ended March 31:	Average Number of Shares
1999	46,588,116
1998	41,536,061

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

Fully diluted net income per share is not presented in 1999 and 1998 because no dilutive securities were outstanding for the years ended March 31, 1999 and 1998, respectively.

3. Translation into United States Dollars

The non-consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translation of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥120 to \$1, the approximate rate of exchange at March 31, 1999. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

4. Loans

Loans at March 31, 1999 and 1998 consisted of the following (before allowance for doubtful loans):

	Millions of Yen		Thousands of U.S. Dollars
	1999	1998	1999
Unsecured (1)	¥690,704	¥603,662	\$5,755,867
Secured (2)	137,755	95,128	1,147,958
Guaranteed (3)	9,523	3,656	79,358
Total	¥837,982	¥702,446	\$6,983,183

- (1) Loans to individuals without offering security or providing a third-party guarantee. The credit limit is generally ¥500,000 per customer.
(2) Loans to individuals or corporations with real estate as collateral. Credit limits are subject to an evaluation of the real estate, creditworthiness of the borrower, and approval of the Credit Department of the Company.
(3) Loans up to ¥2.4 million to self-employed individuals, small business loans, subject to the provision of a third-party guarantee by an individual with regular occupation and income.

5. Inventories

Inventories at March 31, 1999 and 1998 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	1999	1998	1999
Property for sale	¥ 2,998	¥ 3,545	\$ 24,983
Property for sale under construction	132	688	1,100
Supplies	13	30	109
Total	¥ 3,143	¥ 4,263	\$ 26,192

6. Investment Securities

Carrying value and market value of marketable securities included in investment securities at March 31, 1999 and 1998 were as follows:

	Millions of Yen				Thousands of U.S. Dollars	
	1999		1998		1999	
	Carrying Value	Market Value	Carrying Value	Market Value	Carrying Value	Market Value
Investment securities	¥ 4,753	¥ 5,308	¥ 2,912	¥ 2,970	\$ 39,608	\$ 44,233

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

Notes to Non-Consolidated Financial Statements

Years Ended March 31, 1999 and 1998

7. Short-Term Borrowings and Long-Term Debt

Short-term borrowings substantially consisted of commercial paper and notes payable, generally due in one year. Short-term borrowings at March 31, 1999 and 1998 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	1999	1998	1999
Commercial paper, 0.9% (1.6% in 1998)	¥ 30,000	¥ 30,000	\$ 250,000
Loans from banks, 1.7% to 3.6% (1.6% to 2.4% in 1998)	13,500	26,100	112,500
Loans from other financial institutions, 3.4%	500		4,166
Syndicated Loans, 2.0%	10,500		87,500
Other (principally from leasing and factoring companies), 2.5% to 3.8% (2.0% to 3.6% in 1998)	4,400	41,900	36,667
Total	¥ 58,900	¥ 98,000	\$ 490,833

Long-term debt at March 31, 1999 and 1998 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	1999	1998	1999
Loans from banks, 1.5% to 5.1% (1.9% to 5.1% in 1998), due serially to 2004	¥232,604	¥191,622	\$1,938,367
Loans from other financial institutions, 2.2% to 4.7% (2.3% to 4.7% in 1998), due serially to 2004	256,527	245,614	2,137,725
Syndicated Loans, 2.0%, to 2.6% (2.2% to 2.6% in 1998), due to 2001	29,241	58,400	243,675
Unsecured 2.0% yen straight bonds, due 2000	30,000		250,000
Unsecured 2.6% yen straight bonds, due 2001	6,000		50,000
Unsecured 2.35% yen straight bonds, due 2002	30,000		250,000
Unsecured 3.2% yen straight bonds, due 2003	5,000		41,666
Unsecured 3.65% Euro-yen straight bonds, due 2003	9,500		79,167
Other (principally from leasing and factoring companies), 2.6% to 6.9% (2.6% to 9.1% in 1998), due serially to 2002	105,403	104,869	878,358
Total	704,275	600,505	5,868,958
Less current portion	(258,663)	(270,190)	(2,155,525)
Long-term debt, less current portion	¥445,612	¥330,315	\$3,713,433

The aggregate annual maturities of long-term debt at March 31, 1999 were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2000	¥258,663	\$2,155,525
2001	231,174	1,926,450
2002	146,829	1,223,575
2003	42,116	350,967
2004	25,493	212,441
Total	¥704,275	\$5,868,958

At March 31, 1999, the following assets were pledged as collateral for short-term borrowings and long-term debt (including current portion of long-term debt).

	Millions of Yen	Thousands of U.S. Dollars
Time deposits	¥ 820	\$ 6,833
Loans	304,573	2,538,108
Inventories (property for sale)	392	3,267
Investment securities	157	1,308
Property, plant and equipment, net of accumulated depreciation	20,051	167,092
Total	¥325,993	\$2,716,608
Related liabilities:		
Short-term borrowings	¥11,000	\$91,667
Long-term debt (including current portion of long-term debt)	¥272,104	\$2,267,533

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

At March 31, 1999, related liabilities for which lending financial institutions can request to pledge collateral consisted of the following:

	Millions of Yen	Thousands of U.S. Dollars
Sort-term borrowings	¥ 12,000	\$ 100,000
Long-term debt (including current portion of long-term debt)	¥130,261	\$1,085,508

8. Income Taxes

The Company is subject to a number of taxes based on income which, in the aggregate, resulted in normal tax rates of approximately 48% and 51% in 1999 and 1998, respectively. The actual effective tax rates differed from normal effective statutory tax rates for the following reasons:

	Year Ending March 31	
	1999	1998
Normal effective statutory tax rates	48%	51%
Increase in tax rate resulting from:		
Temporary difference between tax and financial reporting	3	4
Additional taxation on undistributed income	4	3
Other, net	1	2
Actual effective tax rates	56%	60%

9. Related Party Transaction

Advances to a subsidiary at March 31, 1999 and 1998 were ¥3,403 million (\$28,358 thousand), and ¥3,403 million, respectively. The Company exempts interest from such advances in consideration of subsidiary's financial condition.

Notes to Non-Consolidated Financial Statements

Years Ended March 31, 1999 and 1998

10. Shareholders' Equity

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

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

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

Under the Code, the Company may issue new shares of its common stock to the existing shareholders without consideration pursuant to resolution of the Board of Directors as a stock split. The Company may make such a stock split to the extent that the amount calculated by multiplying the number of issued shares after the stock split by par value per share does not exceed the stated capital and that the amount calculated by dividing the total amount of shareholders' equity by the number of issued shares after the stock split shall not be less than ¥500.

On March 10, 1997, the Board of Directors declared a five-for-two stock split to be distributed on May 20, 1997 to shareholders of record on March 31, 1997. As a result, the number of shares issued increased by 23,431,500 shares.

At the Shareholder's General Meeting held on June 18, 1997 the number of common shares the Company is authorized to issue was increased from 55 million to 150 million.

On July 30, 1997, the Company completed the sale of 3,700,000 shares of its common stock in a public offering. Of the proceeds totalling to ¥28,416 million, ¥12,875 million and ¥15,541 million were credited to common stock and additional paid-in capital, respectively.

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

Retained earnings of the Company as of March 31, 1999 included ¥91,622 million (\$763,517 thousand) which is designated as a general reserve but is available for future dividends subject to approval by the shareholders and legal reserve requirements. Dividends are approved at the Shareholders' General Meeting to be held subsequent to the fiscal year to which they relate and are reflected in the non-consolidated statements of shareholders' equity when duly declared and paid.

11. 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, 1999 and 1998 were as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	Total Rental Expenses	Lease Payments Under Finance Leases	Total Rental Expenses	Lease Payments Under Finance Leases
Year March 31:				
1999	¥13,339	¥ 5,820	\$ 111,158	\$ 48,500
1998	11,837	4,854		

Pro forma information of leased property such as 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, 1999 and 1998 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	Machinery and Equipment		Machinery and Equipment
	1999	1998	1999
Acquisition cost	¥ 23,439	¥ 20,477	\$ 195,325
Accumulated depreciation	15,640	11,737	130,333
Net leased property	¥ 7,799	¥ 8,740	\$ 64,992

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	1999	1998	1999
Due within one year	¥ 5,188	¥ 4,629	\$ 43,234
Due after one year	5,809	6,902	48,408
Total	¥ 10,997	¥ 11,531	\$ 91,642

Depreciation expense and interest expense, which are not reflected in the accompanying non-consolidated statements of income, computed under a declining-balance and the interest method, respectively, for the years ended March 31, 1999 and 1998 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	1999	1998	1999
Depreciation expense	¥ 5,656	¥ 5,329	\$ 47,133
Interest expense	487	501	4,058

12. Derivatives

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

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

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

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

Notes to Non-Consolidated Financial Statements

Years Ended March 31, 1999 and 1998

At March 31, 1999 and 1998 the Company had outstanding derivatives contracts as follows:

	Millions of Yen						Thousands of U.S. Dollars		
	1999			1998			1999		
	Contract or Notional Amount	Fair Value	Unrealized Gain (Loss)	Contract or Notional Amount	Fair Value	Unrealized Gain (Loss)	Contract or Notional Amount	Fair Value	Unrealized Gain (Loss)
Interest Rate Swaps:									
Fixed rate payment, floating rate receipt	¥109,460	¥ (608)	¥ (608)	¥16,148	¥ 28	¥ 28	\$ 912,167	\$ (5,067)	\$ (5,067)
Interest Rate Caps -									
Purchased interest rate caps	260,000	850	(1,325)	190,000	229	(1,535)	2,166,667	7,083	(11,042)

Estimated fair values were obtained from banks.

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

Unamortized deferred fees at March 31, 1999 were ¥2,175 million (\$18,125 thousand). Unrealized loss represents the difference between fair value and unamortized deferred fees.

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

13. Subsequent Events

- On January 13, 1999, the Board of Directors declared a six-for-five stock split to shareholders of record on March 31, 1999 with an issue date of May 20, 1999. As a result, the number of issued and outstanding common stock increased by 9,350,500 shares effective May 20, 1999. This stock split has not been reflected in the computations of the weighted average number of shares and the amounts per common share reported in the accompanying non-consolidated statements of income. The amounts per common share, adjusted for this stock split, for the years ended March 31, 1999 and 1998 were ¥508.86 (\$4.24) and ¥501.65, respectively.
- On May 25, 1999, the Board of Directors resolved that the Company was authorized to repurchase, at management's discretion, up to 5.6 million shares and canceling the shares by crediting corresponding amounts against retained earnings. The number of common shares the Company is authorized to issue was increased from 150 million to 224 million. These resolutions were approved at the Shareholders' General Meeting held on June 29, 1999.
- On May 25, 1999, the Board of Directors resolved to propose the following plan of appropriations of retained earnings for the year ended March 31, 1999 for approval at the Shareholders' General Meeting held on June 29, 1999:

	Millions of Yen	Thousands of U.S. Dollars
Cash dividends, ¥30 (\$0.25) per share	¥1,403	\$11,692
Transfer to legal reserve	148	1,233
Bonuses to directors and corporate auditors	76	633

Independent Auditors' Report



To the Board of Directors of Aiful Corporation:

We have examined the non-consolidated balance sheets of Aiful Corporation as of March 31, 1999 and 1998, and the related non-consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. Our examinations were made in accordance with auditing standards generally accepted in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the non-consolidated financial statements referred to above present fairly the financial position of Aiful Corporation as of March 31, 1999 and 1998, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in Japan applied on a consistent basis.

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

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU
Kyoto, Japan

Shimbashi & Co.

SHIMBASHI & CO.
Osaka, Japan

June 30, 1999

**Deloitte Touche
Tohmatsu
International**

Board of Directors | Investor Information

As of June 29, 1999

As of March 31, 1999

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

Corporate Name	AIFUL Corporation
Date of Establishment	April 1967
Financial Year	April 1 to March 31
Independent Auditors	Deloitte Touche Tohmatsu Shimbashi & Co.
Transfer Agent and Registrar	The Sumitomo Trust & Banking Co., Ltd.
Paid-in Capital	¥ 39,752 million
Number of Shares of Common Stock	Authorized: 150,000,000 shares Issued and Outstanding: 46,752,500 shares
Number of Shareholders	3,266
Number of Employees	3,141

