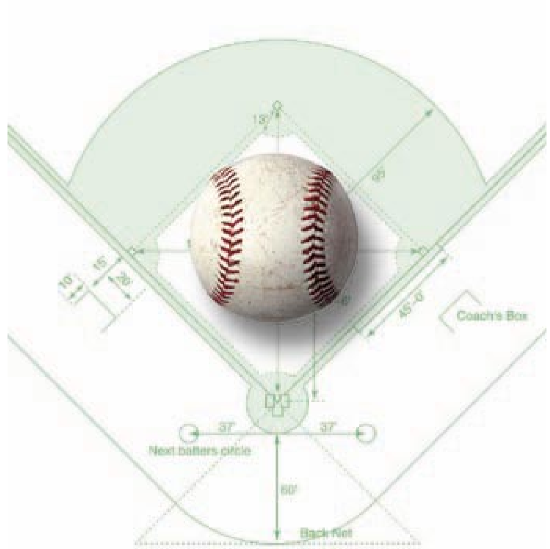
AIFUL CORPORATION
Annual Report 2003



When the game changes, so does the rule.

PROFILE >>

The AIFUL Group is an innovative, comprehensive retail financial services group that customers can rely on. Its corporate philosophy is to "Win the good favor of society," and its utmost priority is to provide convenience to customers by meeting all of their borrowing needs.

Since its founding in 1967, AIFUL has grown by diversifying its product offerings and customer acquisition channels, and by merging with or acquiring other firms. We now rank first in the domestic consumer finance industry in terms of consolidated amount of total receivables and loans outstanding, as well as operating revenue, and third in terms of ordinary income.

With this philosophy, and by further expanding our share in the consumer credit market, we believe we can achieve successful synergies for all of our stakeholders, namely our customers, shareholders, and employees.

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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 belief in light of the information currently available to it and involve risks and uncertainties and actual results may differ from those in the forward-looking statements as a result of various facts. Potential risks and uncertainties include, without limitation, general economic conditions in AIFUL's market and changes in the size of the overall market for consumer loans, the rate of default by customers, and the level of interest rates charged by AIFUL.

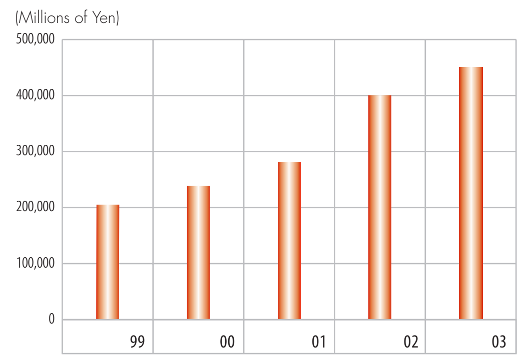
CONSOLIDATED FINANCIAL HIGHLIGHTS >>

AIFUL Corporation and Consolidated Subsidiaries
Years Ended March 31, 2003 and 2002

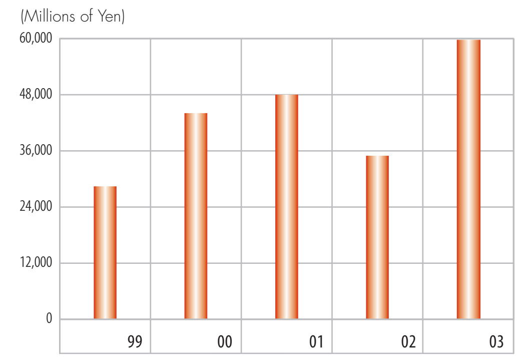
	Millions of Yen		Percentage of Change	Thousands of U.S. Dollars
	2003	2002	03/02	2003
For the Year:				
Total income	¥ 451,168	¥ 400,014	12.8%	$ 3,759,733
Total expenses	343,715	338,166	1.6	2,864,292
Income before income taxes and minority interests	107,453	61,848	73.7	895,441
Net income	59,911	35,064	70.9	499,258
At Year-End:				
Balance of loans outstanding	1,670,782	1,482,796	12.7	13,923,183
Installment accounts receivable	147,857	120,756	22.4	1,232,142
Total assets	2,282,113	2,029,634	12.4	19,017,608
Long-term debt, including current portion thereof	1,436,104	1,291,781	11.2	11,967,533
Total shareholders' equity	485,991	421,343	15.3	4,049,925
Number of shares issued	94,690,000	93,376,000	1.4	
	Yen		Percentage of Change	U.S. Dollars
Per Share Data:				
Net income	¥ 637.59	¥ 388.85	64.0	$ 5.31
Cash dividends	60.00	50.00	20.0	0.50

Notes: 1. The U.S. dollar amounts have been translated, for convenience only, at ¥120=$1, the approximate rate of exchange at March 31, 2003.
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.

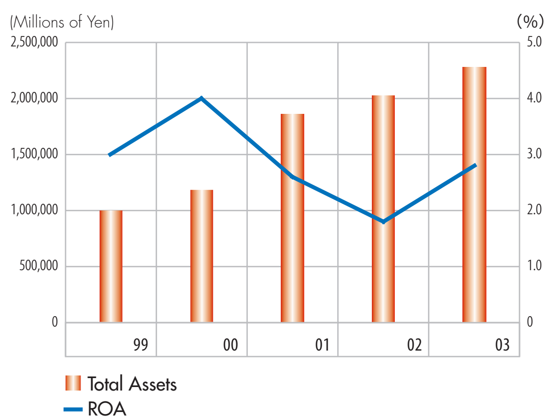
Total Income



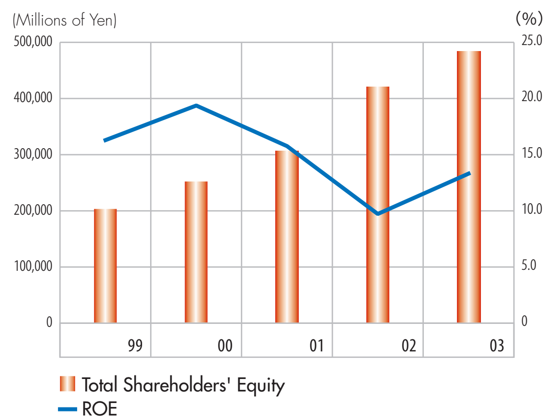
Net Income



Total Assets/ROA



Total Shareholders' Equity/ROE



TO OUR SHAREHOLDERS >>

As a comprehensive retail financial services group, we will continue to nurture steady profit growth into the future.

Yoshitaka Fukuda
President and CEO

The fiscal year ended March 2003 was a very good picture of the vision we at AIFUL have held of becoming a comprehensive retail financial services group. The AIFUL Group, including LIFE, became the industry leader in terms of total receivables and loans outstanding. Our operating revenues were the highest in the industry, and our operating and ordinary income rose to third place. Moreover, we were the only one of the four leading consumer finance companies to manage to increase both revenue and income this fiscal year with our consolidated operating revenues totaling ¥449.5 billion (up 13.2% year on year), ordinary income ¥111.7 billion (up 6.4%), and net income ¥59.9 billion (up 70.9%).

We believe that these financial results validate our strategy of becoming a comprehensive retail financial services company. It also demonstrates the extent to which LIFE, our new consolidated subsidiary, contributed to earnings: Operating revenues increased 13% on a consolidated basis, which includes LIFE, while increasing only 6% on a non-consolidated basis; ordinary income rose 6% on a consolidated basis while slipping a slight 0.4% on a non-consolidated basis. Clearly, these numbers paint a picture of a growing, more comprehensive, AIFUL.

Operating Environment and Our Performance

The business environment for the fiscal year ended March 2003 was a challenging one in many ways for this industry. The prolonged economic downturn has led to a rise in corporate as well as personal bankruptcies, sluggish income growth and diminished willingness to spend. Competition within the industry intensified as banks began to offer similar products and services.

During this period, all of our efforts have been geared toward becoming a comprehensive retail financial services company targeting the ¥63 trillion overall consumer credit market, and not just the conventional consumer loans.

We have been diversifying our product lineup to include, in addition to unsecured loans, home-equity loans and small-business loans, which our competitors do not offer. The acquisitions of leading credit card company LIFE in March 2001 and midsized business lender City's in October 2002 represent our efforts to develop brands, products, and customer base unlike those of conventional consumer finance companies. LIFE has been particularly successful in steadily expanding its cardholder base, receivables and earnings. The unit's ordinary income reached an all-time high of

To address the phenomenon of a maturing market, we will expand our business into new growth areas.

¥8 billion, which contributed significantly to our consolidated results and helped AIFUL secure steady profit growth.

Comprehensive Retail Financial Group

There are three reasons why we have striven to become a comprehensive retail financial services company rather than just a mere consumer finance company. First, the traditional consumer loan market is projected to mature starting around 2010, as the young adult population, the target customer segment of the market, shrinks in conjunction with Japan's declining birthrate and aging society. Nor are there other markets likely to grow for very extended periods. Thus, we believe it is imperative for us to expand into new growth areas while we can still generate steady income in the core businesses.

Second, as evident in the recent developments among bank-affiliated consumer finance companies, deregulation and industry realignments have gradually blurred the conventional boundaries separating the consumer finance, business finance, sales finance and credit card businesses, which has led to intensified competition throughout the entire consumer credit market. To successfully compete for market share in areas beyond conventional consumer finance, we need to broaden our operating base and diversify our brand, product lineup, and customer acquisition channels, as we have been doing through mergers and acquisitions, for example.

Third, AIFUL has been significantly transformed on its way to becoming a comprehensive retail financial services company, by diversifying the business portfolio beyond just conventional consumer loans to include credit cards and sales finance. By the end of March 2003, we had developed a diversified base of customers, operating receivables and income sources completely unlike our competitors'. The parent company's unsecured loans accounted for 50% of total receivables while home equity loans accounted for 15%, operating receivables acquired from LIFE accounted for 30% and other subsidiaries' loans 5%.

Given that the consumer finance market is likely to mature in the near future and the economic outlook is uncertain, we are confident that this strategy of broadening and diversifying our business portfolio to achieve our goal is absolutely necessary in order to minimize the risks and at the same time ensure that we continue to steadily grow.

By joining the AIFUL Group, LIFE has generated numerous synergetic effects in addition to contributing to AIFUL's profits.

Successes with LIFE

As a member of the AIFUL Group for more than two years now, LIFE has been able to steadily increase its sales and earnings. LIFE expanded its base of cardholders from 8.71 million at the end of March 2002 to 9.83 million at the end of March 2003, for an increase of 1.11 million, thanks mainly to a successful card deal with a leading retailer. As a result, LIFE's volume of credit card purchases rose 18% year on year and cash advances increased 19% in the fiscal year ended 2003.

LIFE continued to improve its asset portfolio mix by increasing the proportion of higher-margin assets and by pulling out of low-profit businesses. Among the high-margin businesses, credit card transactions grew by 18%, but the outstanding amount was flat roughly as a result of an increase in lump-sum payments. Excluding auto loans, the outstanding amount of per-item installment shopping loans totaled ¥164.2 billion, up by a sharp 25% year on year. Credit for purchases and other loans outstanding also grew at a strong pace, up 24% to ¥310.7 billion.

By contrast, the low-profit businesses—those that LIFE had already indicated it would discontinue—continued to shrink. Auto loans outstanding dropped 57% to ¥6.6 billion, while credit guarantees outstanding fell 14% to ¥117.8 billion. In these ways, LIFE has been shifting its asset portfolio mix toward higher-margin receivables as smoothly as planned.

Companies in the sales finance industry are realigning themselves in the wake of instability in the financial system and a plunge in share prices of some of the leading companies on concerns about their financial stability. Against this backdrop, LIFE continues to be better positioned than its competitors because of financial strength, its very accurate credit review and investigation capabilities thanks to AIFUL's scoring system, and powerful sales capabilities stemming from merit-based incentives. We believe further growth can be achieved at LIFE by continuing to strengthen the operational structure.

Synergies between AIFUL and LIFE

The incorporation of LIFE into the AIFUL Group has boosted consolidated earnings and generated various synergies as well.

First, LIFE has succeeded in increasing its loans outstanding by more than 20% per year since using AIFUL's credit review expertise and scoring system. AIFUL, meanwhile, used LIFE's existing credit card processing system to start offering its customers a MasterCard credit card in August 2002. In this way,

We will win the support of our stakeholders by creating successful synergies for customers, the Company, and employees.

AIFUL was able to save on system development costs, start issuing credit cards very quickly, and also better retain its most creditworthy customers by adding value to a product with a strong brand and convenient features.

To build on these synergies that have already been generated, we intend to jointly develop information systems and use the same back-office infrastructure to cut costs further. Joint efforts to share system resources and develop new versions of our information systems are already under way, and should lead to a more efficient development process and cost savings. We are also planning to become more cost efficient by centralizing many back-office operations at AIFUL's contact centers, thereby eliminating the need for a number of existing support centers. These are just some of the ways LIFE has been steadily improving its operations and generating synergies with the rest of the AIFUL Group.

To Be the Top Retail Financial Group

Our corporate philosophy is to "Win the good favor of society." By this, we mean that, as an innovative comprehensive financial services group that customers can trust in the retail market, AIFUL will continue to strive to meet the various needs of its customers, and at the same time coexist harmoniously and maintain a good public relationship.

Based on this corporate philosophy, AIFUL, credit card unit LIFE, and small-business loan units Businext and City's all aim to leverage their broad customer-acquisition channels, abilities to offer attractive products that meet customers' needs and accurately assess credit risk, and their familiar brands to form an innovative comprehensive financial services group with successful, long-term prosperity for all of our stakeholders, namely, our customers, shareholders and employees.

June 2003

Yoshitaka Fukuda
President and CEO

SPECIAL EDITION >> *AIFUL's Strength: Comprehensive Financing Strategy*

Japan's consumer credit market

Overall structure of consumer credit market

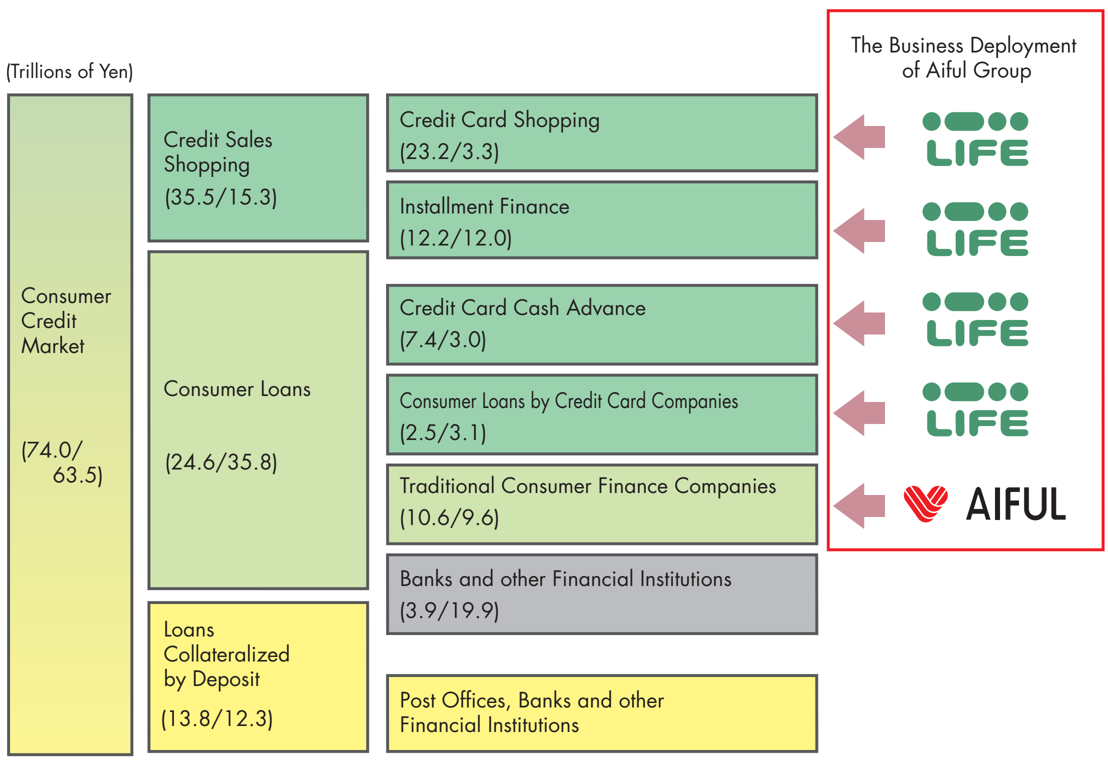
The current size of the market based on credit outstanding is approximately ¥63 trillion, of which sales credit (financing extended for purchases of goods) accounts for ¥15 trillion and unsecured consumer loans (which excludes loans backed by savings) ¥35 trillion. Consumer finance companies, such as AIFUL, Takefuji, Acom, and Promise, are major players in the segment of the market indicated by the AIFUL logo below.

In the decade since the economic bubble collapsed, consumer loans provided by traditional consumer finance companies have roughly tripled as of the end of 2001 to ¥10 trillion despite a stagnant Japanese consumer credit market. We think the market will continue to expand over the next three to five years to a peak of about ¥13 trillion around 2010, but gradually downshift to a phase of stable growth and then maturity.

Hence, our strategy all along has been to become a comprehensive finance company in the retail market, targeting the ¥63 trillion overall consumer credit market and not just the ¥10 trillion market for conventional consumer loans.

With the consumer loan market maturing, Japan's overall consumer credit market is transitioning to an era of intense competition. Gone will be the conventional boundaries separating the businesses involving consumer loans, home equity loans, small-business loans, consumer credit and credit card shopping. The result could be fierce competition in a single, ¥63 trillion consumer credit market, similar to what has happened in the United States.

The competition among banks, credit-card companies, consumer credit companies and others across conventional boundaries has already begun. Today, merely protecting and specializing in one's business may not even guarantee one's basis of existence. That is why at AIFUL, we proactively pursue becoming a comprehensive financial group through product diversification and merger and acquisition.



Note: Numbers in the above diagram are (credit provided within the year / credit balance as of December 2001).

Source: Consumer Credit Market Statistics, Japan Consumer Credit Industry Association

The history of Japan's consumer finance market

(1) The expansion of the consumer credit market

The market for consumer loans in Japan has expanded to ¥10 trillion, roughly tripling in size over the past decade. The number of consumers for whom information is registered with the Federation of Credit Bureau of Japan has increased 55% over the past decade to 17.42 million as of March 31, 2002.

Why have consumer loans grown so much in Japan, and why were major consumer finance companies able to enjoy such strong revenues and profit growth**?**

First, Japan became affluent after a period of strong economic growth. In fact, a generation of materialistic, pleasure-seeking people emerged about 25 years ago and came to be known as "shinjinrui" (literally, "new human race"). This generation grew up during a time of abundance resulting from the period of strong economic growth, when spending was regarded as a virtue. Then about 15 years ago, the so-called Famicom generation emerged, named after the Nintendo video game system. This generation took affluence for granted, and had no qualms at all about living a lifestyle based on borrowing to enjoy life now, and paying back the debt later.

These generational changes in attitude and outlook spawned by strong economic growth are by no means unique to Japan. In virtually every country, a consumer credit industry typically starts to develop once economic development reaches the point at which per capita income exceeds a certain level. It

appears that once people have sufficient food, clothing and shelter, they tend to want even more of an affluent life. Also, if one can easily predict growth in income thanks to a booming economy, one may spend more than one currently earns, ahead of time. In this way, the development of the consumer credit industry in Japan can be seen, above all, as a product of the country's economic growth.

(2) Factors behind the strong growth of the consumer finance business

The consumer credit industry includes not only consumer finance but also credit cards. In Europe, the United States and Asia, except for Japan, it was the credit card companies that benefited from the consumer credit industry's market expansion that followed economic growth. Only in Japan has credit card use not caught on considerably. Instead, it was cash loans provided by the rapidly expanding consumer finance companies that grew. Perhaps part of the reason for this trend is simply that Japan has a much lower crime rate than that of other countries, and it is at less risk to walk around with cash. Another reason may be that much of the populace has been trained at an early age to readily calculate change and do other monetary calculations in their head. Japan, in fact, is a rare cash-oriented society. In addition to such consumers' preference for cash, the consumer finance companies had leverage over credit card companies in that they provide services that are more convenient and offer more privacy than the services provided by credit card companies.

For instance, consumer finance companies typically offer revolving credit agreements, which allow the consumer to determine how many payments to spread the purchase over and how much per month. By contrast, most Japanese credit card companies have been offering the consumer little choice other than to declare to the cashier, in public at the time of purchase, his or her preferred payment method. As a result, instead of enjoying the benefit of credit card's revolving payment method, many consumers tended to chose only the lump-sum payment method with most repayments made by monthly automatic debit from the consumer's bank account. While this is used as a debit card, it is no longer serving as a credit card.

To be sure, the marketing efforts of the consumer finance companies cannot be ignored. Banks and credit card companies have shied away from unsecured loans because of the credit risks, and thereby left a market void for consumer finance companies, which realized that they could profitably extend small loans to individuals if they did so in large volumes and priced the loans in accordance with the risks based on statistical data. In addition, the companies have operated on the assumption that most people are fundamentally trustworthy by offering loans even when in doubt.

In sum, the consumer finance business has grown dramatically for three basic reasons: a steady expansion of the consumer credit market and demand resulting from consumers' increased affluence and propensity to spend thanks to economic growth; the cash-oriented economy in Japan; and the relatively unattractive level of services provided by credit card companies.

(3) Response to the changing business environment

Each of the three above elements in the operating environment enjoyed by the consumer credit companies in recent years is now undergoing gradual change. The future of the Japanese economy is beginning to look cloudier due to the downturn of the past decade or so and the trend for people to have fewer children. Dramatic increases in crime and the rapid spread of credit cards in recent years can also be seen as indicators of a shift away from a society in which cash is a king to one in which credit cards play a much larger role. Moreover, the banks and credit card companies are striving to refashion themselves from a low-profit to a high-profit structure, and they are beginning to concentrate more on expanding their credit card business by improving the convenience and useability of their cards.

It is precisely at times like this, when our operating environment is undergoing change, that quality of management is put to the test. The former divisions between different products, such as consumer loans, home equity loans, business loans, consumer credit, credit cards, and so on, are breaking down, and the battle is about to commence for a share of a single, overall market for ¥63 trillion in consumer credit and finance. In order to ensure continued steady profit growth in this changing business environment, AIFUL is looking beyond its traditional market for consumer finance, worth around ¥10 trillion, to target the entire market for all forms of consumer finance and credit, with a much higher value of ¥63 trillion. To achieve this, we aim to turn ourselves into a total finance services company in the retail finance segment with the ability to lead the overall consumer finance and credit market.

Advances in the scoring system

The key to successful expansion in the consumer finance business lies in the ability to accurately and efficiently make credit decisions for unsecured loans to an unspecified large number of consumer borrowers. While a ¥5 billion loan to a single company and 10,000 individual loans of ¥500,000 each amount to total lending of ¥5 billion, the latter naturally involves greater processing costs. Thus, the challenge, is how to manage this problem.

In 1985, AIFUL succeeded in becoming the first in the industry to use a scoring system. Since then, it has continued to completely update the system on an average of every two and a half years. The current scoring system, the seventh version, went into operation in April 2002.

AIFUL's scoring system, an automated credit decision system, statistically analyzes a variety of data, including the borrower's profile and status of loans (number and amount) from the Company and others. Based on an estimate of the borrower's default probability, the system automatically makes a decision on whether to extend a loan to the borrower, as well as on the credit limit and the loan rate.

In the case of corporate credit ratings issued by credit rating agencies, they are based on analyses of quantitative and qualitative data on the company. A high credit rating allows the company to borrow large amounts at low rates while a low credit rating limits the company's borrowings to small amounts at high rates. If the company does not have a credit rating above a certain level, it has very restricted access to loans. AIFUL's scoring system can be regarded as a consumer version of such a credit rating system, with the major distinction being that the process is entirely automated based on a computerized system of statistical analysis.

When a customer first visits a branch office for a loan, the loan decisions are all made based on this scoring system, regardless of whether the customer sits down with a representative or applies for loan at a machine. In the former case, the AIFUL representative enters the customer's information into a client terminal connected to a host computer, which immediately checks the information against a database of 6 million customers, analyzes and determines whether to approve a loan. If the loan is approved, the system then determines a credit limit and loan rate. The data that are entered and analyzed include gender, age, occupation, employer, industry, years of work experience, family information, and years at current and past residences. This customer profile data and information on the status of loans from other companies from the Federation of Credit Bureaus of Japan's online database system are combined and analyzed with an up-to-date computer system. In this way, the entire loan application process, including preparing and filling out the loan agreement, takes only about 30 minutes.

In addition, AIFUL's system handles not only initial credit reviews but also ongoing credit reviews of borrowers through its Automatic Brushing System (a system for automatically performing periodic credit reviews) that incorporates up-to-date information from the Federation of Credit Bureaus of Japan's database on the status of loans from AIFUL and other companies. This system allows changes in the borrower's risk profile to be quickly reflected in the borrower's credit limit and interest rate.

As an innovative comprehensive finance company that customers can rely on in the retail market, AIFUL will continue to strive to meet the varying needs of its customers by improving its scoring system and enhancing the accuracy of its credit reviews.

Changes in the business environment

Rising unemployment and personal bankruptcies as a result of the economic downturn

The Japanese public has been experiencing economic uncertainty in the last several years unlike anything before, and the economy's stagnation continues to drag on. A number of life insurance companies, banks and non-financial companies have failed, financial instability and deflation remain unchecked and the stock market has been very weak. Unemployment rate has been high as a result of bankruptcies and restructurings. The number of personal bankruptcies, meanwhile, has been in a steady uptrend since 1997, and exceeded 210,000 in 2002.

Such unstable economic conditions create a sense of uncertainty in people's lives. The worsening economy and the unclear outlook have also led to significant changes in the business conditions for consumer finance companies.

Rise in bad debts

We attribute the rise in bad debts to four factors: the impact of the macroeconomy, the fairly regular cyclicality of bad debts over the long term, the wide-spread illegal predatory lenders and finance companies' lending stances.

First, the impact of the macroeconomy is evident in the rise in unemployment and the sluggish growth or even decline in incomes, which naturally worsen the cash flows for certain segments of the population.

Second, economic as well as other factors that lead to an increase in bad debts tend to come into play every five to seven years. This cycle of rises and falls in bad debts is affected by the economic policies of the times. Bad debts increased during the so-called sarakin (loan shark) panic of the early 1980s, the period following Black Monday in 1987, in the wake of an increase in personal bankruptcies around 1992 due to overextended credit card debt after the collapse of the bubble, the economic downturn around 1997 stemming from the government's fiscal reform policies, and now the current economic slump resulting from the government's structural reform policies. We believe there is always a certain proportion of customers whose loans are at risk of turning into bad debts, and while some temporary factors are now pushing up the number of loan defaults, this trend is bound to turn downward again in time.

Third, according to a survey of personal bankruptcies by the Federation of Moneylenders Association of Japan, about 50% of bankrupt individuals were victims of the widely spread illegal predatory lenders. We project the number of these victims to decline with measures such as more rigidly enforced penalties and reinforced registration of lenders that are part of the Revised Money-Lending Business Law passed by the Diet to prevent illegal predatory lending.

Finally, finance companies' lending stances also play a role. When lenders aggressively take on risk and expand their lending, their outstanding loans may increase at the expense of bad debts growing after a certain period. On the other hand, when they curtail the increase in their lending to minimize their risk, it results in a decline in bad debts after a certain period. To take measures against the increases in bad debts in today's economic recession, we at AIFUL Group have tightened our lending criteria in the latter half of the previous fiscal year, lowering our acceptance ratio (the number of loans extended as a proportion of total loan applications) from about 75% to about 65% to limit credit.

Declining numbers of new customers

Currently, major consumer finance companies are suffering from sluggish growth in the numbers of new customers and accounts, as well as in the amount of loan balance. The biggest factor for this has been consumers' diminished willingness to spend as a result of the worsening macroeconomic environment. Under these conditions, consumer loan customers increasingly tend to hold off on borrowing, as much as the general public holds off on spending.

The leading consumer finance companies experienced their strongest earnings growth during the bubble years. At that time, consumers spent as much as they could, boosted by steadily rising incomes and the virtual absence of anxieties about the future. Even after the bubble collapsed, the consumer finance majors continued to consistently attract more new customers, since the growth in demand for consumer loans from changes in consumers' lifestyles and values outweighed the negative impact on demand from the economic downturn.

Amid this tailwind in the form of growing demand, consumer finance companies did very well in attracting new customers through marketing successes. Starting in 1994, they installed automatic loan machines and opened up a large number of new branch offices. After a ban on TV commercials for consumer loans was lifted in 1999, the companies launched TV advertising campaigns designed to portray them in a kinder, gentler light.

However, the combination of diminished benefits from these marketing efforts and weak loan demand stemming from the stagnant economy has led to a decline in new consumer loan customers for the leading consumer finance companies. However, we have been doing relatively well, thanks to the success of our chihuahua TV commercial.

Competition among the consumer finance companies

The key determinants of success in acquiring customers have changed in the past 10 years. While prospective customers always felt at ease dealing with a well-known, leading consumer finance company, starting around 1994–95, convenience also became a major factor, as consumer finance companies opened up many new branch offices and installed automated loan machines. Then in 1999–2000, a key determinant was developing an affinity with prospective customers through TV advertising. The four industry leaders, AIFUL Group, Takefuji, Acom and Promise, each adapted very well to these changes and increased their combined market share, thereby strengthening their hold over the market.

After restrictions were lifted on the time slots during which consumer-loan TV commercials could be aired the companies' new TV advertising campaigns marked the first steps in their branding strategies. These moves are likely to become extremely important for the industry leaders to gain a competitive edge. AIFUL Group quickly set up a project team in order to focus on enhancing the brand image not just of AIFUL but of the entire AIFUL Group.

To better target the huge consumer credit market, we made LIFE, a leading credit sales company, a part of the AIFUL Group. We now have use of the brand of a leading credit sales and credit card company, which our competitors do not. If we manage to leverage it well, we could have a significant advantage over our competitors.

Competition from bank-affiliated and foreign consumer finance companies

@Loan, Mobit, Tokyo-Mitsubishi Cash One and other rate (15–18%) loan businesses are another source of competition, but they have different customer bases than those of consumer finance companies, which price their loans in proportion to the default risk of the borrowers. The market for this moderate-risk segment is quite limited.

If these loan businesses were to aggressively try to attract consumer finance companies' customers at their loan rates of 15–18%, they would have difficulty in being compensated for default risks and lose money on the loans. These businesses rely not on a nationwide bricks-and-mortar presence but rather on TV advertising, the Internet, telephone marketing and other forms of direct marketing. Thus, we believe they are not on the same competitive level as the leading consumer finance companies.

Foreign consumer finance companies, meanwhile, have merely remained in the background with their internationally known brand names following their acquisitions of Japanese companies, leaving the acquired midsized consumer finance entities to do the actual sales. In other words, foreign consumer finance companies have not become a major competitive threat, as they are still nothing more than the original midsized competitors they acquired.

Responding to changes in business environment

In facing the maturing market for conventional consumer loans and the intensifying competition, our strategy has been to become a comprehensive financial company in the retail market, targeting the entire ¥63 trillion consumer credit market. Under this consistent business strategy, AIFUL, on a parent basis, has pursued product diversification in addition to acquiring LIFE, the sales-finance and credit-card company, and City's, the semi-major business loan company. Through such merger and acquisition strategies, we have proactively continued to gain products, brands and clientele that differ from those of conventional consumer loans.

Now the AIFUL Group's business line has expanded to include credit cards, credit purchases and business loans in addition to consumer loans. We have secured revenue sources and channels that differ from those of our competitors.
The following pages explain our management strategy in details.

AIFUL's management strategy

Product diversification

(1) The aims of product diversification

A pillar of AIFUL's management strategy is product diversification. AIFUL is the only leading consumer financial company that has committed itself to developing a diverse line of products that includes not only the flagship unsecured consumer loans but also home equity loans and small-business loans. The aims of diversification are as follows:

The first is to maintain steady profit growth even after the consumer loan market matures, as it is expected to do in the near future. Offering products not available at competitors will steadily expand our share of a maturing market.

Second is cost efficiency. Offering a number of products at the same office by the same employee increases sales efficiency.

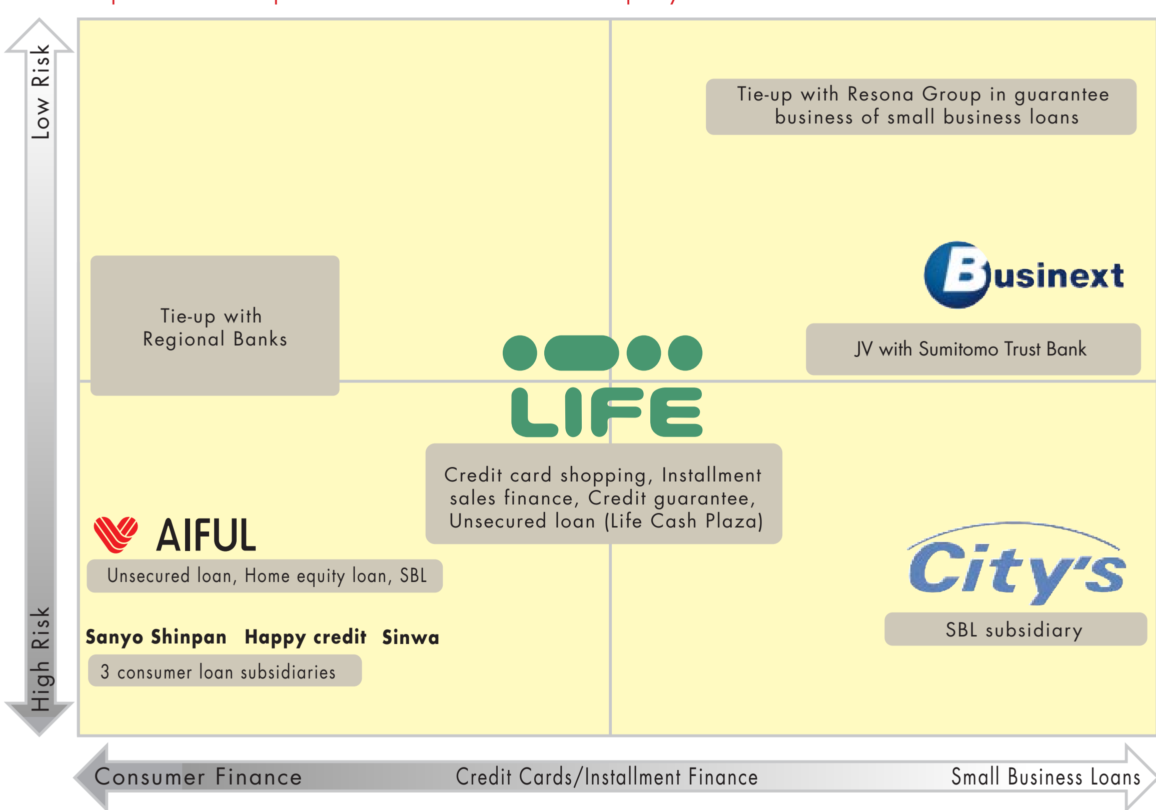
Third is diversification of business risk. Having a variety of products that differ in risk-return characteristics—such as customer segments, average balances and loan rates—allows us to avoid the risk of our loan portfolio concentrating excessively on a specific customer segment. For example, while the core customer base of our consumer loans consists of relatively young adults, the customers of our home equity loans are primarily older adults. In this way, we are not overly exposed to the young adult segment.

(2) Home equity loans

Our biggest product next to unsecured consumer loans is home equity loans, which has steadily grown among our portfolio since we started offering it in 1985. As of March 31, 2003, home equity loans have become a core product and a key driver of AIFUL's strong growth with 87,000 customers and a loan portfolio of ¥322.8 billion, representing growth of 16.3% year on year.

The impetus for this business came from the strong growth of home equity loan companies in the United States, such as Household Finance. We developed

Development as Comprehensive Retail Finance Company



home equity loans and began offering them in Japan on the expectation that they would be even more phenomenal and successful than in the United States since home ownership is higher in Japan. Home equity loans involve much larger amounts of financing than consumer loans, and also require accurate appraisals of property values. When we joined the home equity loan business as a newcomer, we had to develop our property appraisal expertise from scratch despite already having established ourselves in the consumer loan business with a database of about 6 million customers.

We gradually built up our system for the business starting with a comprehensive in-house employee training and qualification system, conducting independent appraisals through partnerships with 200 real estate appraisal firms nationwide, and completely separating the real estate review and sales divisions. The results have been clearly successful: continued double-digit growth in the outstanding amount of home equity loans over the past five years, and a bad-loan write-off ratio of between 1% and 2%.

(3) Small-business loans

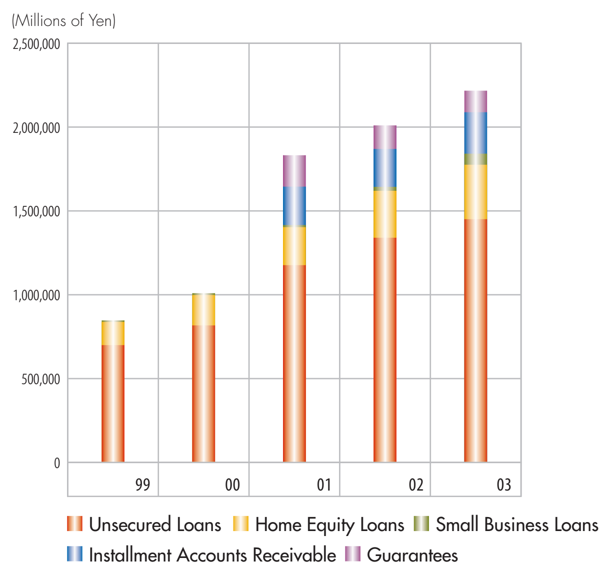
As part of our product diversification efforts, we introduced our third product, small-business loans, in 1997 to meet the various needs of business owners for quick financing. The business has grown dramatically with the loan portfolio totaling ¥22.3 billion as of the end of March 2003, up 33.6% from a year ago. Because banks continue to be less than willing to extend loans to small businesses despite demand, there is a shortage of financial institutions offering such financing. At AIFUL, we are going to seize this opportunity.

Strategy to become a comprehensive financial company in the retail market

Today, business conditions in the consumer credit industry are gradually changing.

The conventional boundaries separating the businesses involving consumer loans, home equity loans, small-business loans, consumer credit and credit card shopping are disappearing, resulting in intensified competition for shares of the ¥63 trillion consumer credit market. We at AIFUL will target the entire consumer credit market—not just the ¥10 trillion market for conventional consumer loans—in our aim to maintain steady profit growth and become an overwhelmingly dominant comprehensive financial company in the retail market.

Asset by type of product



As a result of engaging in a number of mergers and acquisitions, including the acquisition of the leading consumer credit and credit card company LIFE, AIFUL has taken a major step forward toward transforming itself into a comprehensive financial company in the retail sector. Our business line has now expanded to include credit purchases, cash advances and per-item shopping loans in addition to the conventional consumer loans we have been offering. While our business portfolio at the end of March 1999 was no different from our competitors', with unsecured loans accounting for 82% and home equity loans accounting for 16% of total receivables, by the end of March 2003, we had diversified sources of earnings. AIFUL's unsecured loans accounted for 50% of total receivables and home equity loans 15% while card and sales financing receivables acquired from LIFE accounted for 30% and other subsidiaries' loans 5%.

Given that the consumer finance market is likely to mature in the near future and the economic outlook is uncertain, we think broadening and diversifying our business portfolio to become a comprehensive financial company is an effective strategy for both ensuring steady growth and minimizing risks.

Brand strategy

Thanks to our successful TV advertising campaign, we have become the industry leader in terms of new, unsecured loan customers. Amid intensifying competition in the consumer credit market, we believe differences in brand strength will become a key determinant of support from customers. TV advertising has done much to improve the image of the leading consumer finance companies, but we still have difficulty winning over women and other particular customer segments.

To avoid being hamstrung by the brand image of "last resort for desperate salarymen" associated with the consumer finance industry and acquire a broader range of customers, our strategy has been to make the LIFE sales finance and credit card brand a part of our group. With the better brand image and broader customer base of LIFE, we believe the AIFUL Group will have a broader range of earnings opportunities.

In addition to improving the brand image of the group through acquisitions, we have been steadily working to enhance the AIFUL brand itself. We initiated a brand strategy project involving several divisions in October 1999, an effort that has led to various proposals regarding brand management. Major changes along these lines were made in April 2003, and the project has become a top priority directly overseen by top executives, including the president.

Under this new brand strategy, we aim to improve our brand by boosting customer and employee satisfaction, which in turn will improve our corporate value and increase investor satisfaction. The AIFUL Group aims to develop successful synergies for customers, the Company and employees not only to enhance the corporate brand but also to win public trust and support, which is our corporate philosophy.

LIFE

(1) Entering the sales finance and credit card market

As illustrated by the consumer credit market chart on page 6, the sales finance and credit card market, which consists of credit purchases, per-item shopping loans, cash advances and consumer loans provided by consumer credit and credit card companies, constituted about 61%, or about ¥45 trillion, of the entire consumer credit market as of the end of 2001 in terms of extended credit.

The total number of credit cards issued as of the end of March 2001 was about 230 million. This translates to 1.8 cards per Japanese national, an increase of 45 million cards (24%) in the last 10 years. The amount of money handled by credit cards, including both purchases and cash advances, also increased about 82% in 10 years, from ¥15 trillion in 1990 to ¥28 trillion in 2000. This is a market that continued to grow at a rate of about 10% every year when the rest of Japan was experiencing negative growth after the economic bubble burst. It is a reflection of how Japan is steadily making a transition from a cash society to a credit card society.

Still, credit card payments make up only about 7% of consumer spending in Japan. This is a striking difference when compared with about 22% in the United States and a whopping 58% in South Korea. Eying this growth capacity and potential of the credit card market, AIFUL has acquired the credit card company LIFE in March 2001 to join the market.

(2) The acquisition of LIFE

We acquired LIFE, a company founded in 1952 that led the sales finance and credit card industry. After the burst of the bubble, however, LIFE had increasing difficulties in dealing with a significant decline in operating revenue stemming from weak consumer spending, an increase in bad loans in the corporate financing businesses, and a rise in bad loans in conjunction with an increased incidence of personal bankruptcies. The company also ran into

financing difficulties in 1998, after one of its main banks, the Long-Term Credit Bank of Japan, suffered from a serious deterioration in its creditworthiness. LIFE was eventually forced to apply for protection under the Corporate Reorganization Law, in June 2000.

After LIFE filed for protection under the Corporate Reorganization Law, a number of companies proposed to be a sponsor for the credit card company. AIFUL's proposal, however, featured the best terms for reorganization that in October 2000, the Tokyo District Court granted permission for AIFUL to sign a sponsorship agreement. Thus, AIFUL's president, Yoshitaka Fukuda, was selected as the receiver of operations as we began the corporate reorganization process. In March 2001, repayment to creditors was completed, and LIFE became a full-fledged member of the AIFUL Group of companies.

(3) Reviving LIFE

LIFE is equipped with a track record and expertise in the sales finance and credit card industry, and a brand name as a leading sales finance company. However, its major problem—like that of other sales finance and credit card companies—was the relatively low-profit structure. In addition, it lacked the know-how to provide products and services that fit the different risks carried by the customers, and was not able to quickly meet the diversifying needs of the customers.

To revive LIFE, we implemented a fundamental overhaul of LIFE's business, such as to withdraw from automobile loans and other unprofitable operations to rearrange its portfolio focusing on high-profit operations, reexamine unfavorable transaction terms with affiliate stores, and reduce costs in order to become a highly profitable company with growth capacity.

Today, two years after LIFE began its business anew, the number of cardholders, operating receivables balance and revenues continue to grow sharply, with ordinary incom being ¥2.4 billion after the first year of acquisition, and ¥8 billion in the second year at the end of March 2003, marking the highest profit ever since LIFE's founding.

(4) LIFE's current situation

LIFE expanded its base of cardholders from 8.71 million at the end of March 2002 to 9.83 million at the end of March 2003, for an increase of 1.11 million. The company issued a total of 2.07 million new cards, including 1.88 million affiliate cards. A card deal with leading home improvement retailer Komeri in May last year particularly contributed to the increase in cardholders.

As for increasing high-margin Life's receivables, we are making steady progress with credit purchase balance increasing 4% over the previous year to ¥64,069 million, per-item shopping-loan balance (excluding automobile loans) increasing 25% over the previous year to ¥164,224 million, cash advance balance increasing 20% over the previous year to ¥192,209 million, and balance at the LIFE-operated loan shop, Cash Plaza, increasing 31% over the previous year to ¥117,646 million.

The asset portfolio continues to improve, with growing businesses accounting for 82% of total receivables and declining businesses 18% at the end of March 2003, versus 60% and 40%, respectively, at the end of March 2001.

In addition to building up high-margin assets, LIFE has been steadily improving its profitability by a clearly defined anti-commission-dumping policy to improve the transaction terms with partners. Its overall profit margin increased from 12.2% in fiscal year ended March 2002 to 14.7% in fiscal year ended March 2003, and improvement of 2.5 percentage points.

The margin on card cash advances improved by 1.9 percentage points thanks to improved interest income distribution terms renegotiated with partners. Margins on LIFE Cash Plaza card loans and products with bank guarantees kept stable yields.

(5) Management policies for the fiscal year ending March 2004

In the fiscal year ending March 2004, we aim for further growth while keeping a proper balance between expanding operations and taking sufficient precautions against risks. Our growth initiatives include strengthening credit card business, increasing profitability through further improvements in the asset portfolio, and bolstering those aspects of our operations needed to implement these strategies.

To take precautions against risks and increase profitability, we aim to continue to create synergies within the AIFUL Group and become even more cost efficient.

(6) Sales expansion initiatives

Specific measures for expanding sales include, first of all, enhancing credit cards business. To do so, we will promote increasing the number of cardholders through additional partnership deals.

Second, as part of our efforts to increase card utilization rates, we will sign more event-affiliated cards that generate a higher utilization rate, and strengthen our marketing to improve product and service planning abilities. In April 2003, we put a highly focused marketing unit into operation to aggressively implement various initiatives based on market research to increase the number of active cardholders and amounts of borrowing.

Third, we have a two-pronged initiative designed to strengthen our operating base: The branch offices will continue to try to attract affiliated merchants with close ties to their local communities, while the head office will lead the effort to attract large affiliated retailers.

Fourth, to simply rearrange our portfolio, we will continue to withdraw from unprofitable operations and focus on highly profitable operations.

Finally, the branch offices are free to focus on sales since two support centers, one in eastern Japan and one in western Japan, began handling branch offices' loan application reviews and customer inquiries in October 2001. Competitors are starting to consolidate their support operations as well, but we believe our head start has kept us one step ahead in terms of sales capabilities. The switch to two support centers has also allowed us to streamline and standardize our operations and increase labor efficiency. For instance, the volume of processing work increased about 30% after the switch, but we were able to keep staffing levels roughly unchanged.

We plan to add another 40 LIFE Cash Plaza branches: 10 that are staffed and 30 that are unstaffed. The staffed branches will offer a variety of products and services and thereby differ from the conventional consumer finance branches, which heavily promoted the LIFE card.

(7) Cost-reduction initiatives

To reduce costs, we will first pursue further group synergies.

We have already begun developing new versions of our existing systems. Joint efforts with AIFUL should streamline the system development process, while the shared use of system resources should reduce costs. Moreover, in the future, the shift of support operations to AIFUL's contact centers will lower our rent expenses. We are always on the lookout for ways to generate synergies and become more cost efficient.

Second, to minimize bad debts, we intend to continue to use AIFUL's lending expertise to further improve our scoring system, and independent credit data to conduct accurate, periodic credit reviews. A new security section will monitor for improper or fraudulent usage of cards. We also plan to strengthen ongoing supervision of affiliated merchants to minimize the risks associated with their bankruptcies, and improve our collections through a stronger collection system and increased use of information systems.

Finally, the entire group is striving to cut costs in various ways, including joint purchases with AIFUL to lower unit costs and the establishment of a cost-reduction project. We generated ¥3 billion in cost savings in the fiscal year ended March 2003, and aim for another ¥2.5 billion for the year ending March 2004.

Management policies for fiscal 2004

Key management policies

Business conditions for the consumer finance industry are undergoing significant change. It will be a challenge to achieve the objectives of ¥3 trillion in lending, ordinary income of ¥200 billion, and a return on asset of 3% that we set down in our medium-term management plan that extends to the fiscal year ending March 2005.

In light of the challenging environment we face, we believe it will be most important for us to maintain a proper balance between expanding operations and taking sufficient precautions against risks.

The first of our key management policies for the fiscal year ending March 2004 and beyond, aimed at taking precautions against risks, involves becoming more efficient in terms of operations and costs and thereby establishing an earnings structure strong enough to adapt to changing business conditions. The second, aimed at expansion, involves developing further initiatives in LIFE's credit card business and expanding the business loan operations of Businext and City's, as part of our effort to become a comprehensive finance company.

Becoming more efficient in terms of operations and costs

For AIFUL to become more efficient in terms of operations and costs on a non-consolidated basis, we will strive to build a more efficient operation

system and to cut general expenses in the fiscal year ending March 2004.

To build a more efficient operation system, we will open two contact centers this October.

All communications with customers, including automated loan machine applications, product information, loan referrals, phone-based loan collections, and help with loans under resolution are currently handled through our call centers. By establishing two contact centers, one in eastern Japan and one in western Japan, to consolidate these operations, we intend to become more efficient and cut costs. Toward this end, an initial test involving a 30% reduction in staff at our Kinki office is going well overall. Nevertheless, we plan to make the switch to a system of contact centers slowly and carefully based on the results of our initial test, since some competitors have noted unexpected results and an increase in bad debts after they established contact centers.

To cut general expenses and save a targeted ¥2.5 billion a year in costs for the fiscal year ending March 2004, we intend to take an outside consultant's critical view and look closely at all of our various non-personnel expenses, such as ATMs, rents and other facilities expenses, and costs for print advertising (in the form of inserts for pocket tissue packs given away near busy train stations, as well as for newspapers). We will also consider outside consultants' proposals on ways we can improve productivity through workflow changes and thereby reduce both personnel and non-personnel expenses.

Expanding LIFE's businesses

We have already achieved considerable results in terms of our three objectives for expanding LIFE's businesses, namely, restructuring the business portfolio, reducing costs, and changing unfavorable deal terms. As the next step, our most important objective is to strengthen LIFE's core business, credit cards.

We put priority on expanding LIFE's credit card business because of the potential for market growth and solid demand for credit cards that we see.

Consumer installment credit amounts to 21% of household disposable income in the United States, but only 16% in Japan (excluding deposit-backed loans). In addition, the number of credit cards issued in Japan rose 5.6% between 2000 and 2001, and the outstanding amount of purchases on credit has risen by more than 6% a year since 1997.

Growth in small-business loans

We categorize the market for small-business loans as consisting of a high-risk segment and a moderate-risk segment. In the high-risk segment, the top six business-loan companies (excluding Lopro and SFCG, which lost market share after running into high-profile problems relating to their lending practices) were able to increase the outstanding amount of their lending from ¥206.9 billion in 1999 to ¥246.2 billion in 2001 even after encountering a major public backlash arising from the above lending-practice problems. We believe this trend indicates just how solid the demand for small-business loans is, and thus see much room for City's to expand in this segment.

In the moderate-risk segment, outstanding business loans total ¥20 trillion, based on reports filed with the Financial Services Agency. As is well known, however, the only truly active lenders in this segment are a few leasing companies affiliated with manufacturers, such as Ricoh Leasing. On the whole, there is no movement in this segment of the market. We see considerable opportunities for Businext, depending on its specific business strategies.

CORPORATE PHILOSOPHY >>

Our corporate philosophy is "Win the good favor of society." By this, we mean coexisting harmoniously with and maintaining a good relationship with society at large, as an innovative, comprehensive finance group that customers can rely on.

Successful synergies for customers, the Company and employees

With this philosophy we believe we can achieve successful synergies for all of our stakeholders, namely, our customers, shareholders and employees.

The history of the consumer finance industry is a mixed one. In the late 1970s to the early 1980s, consumer finance companies were not widely known and were the subject of much public criticism.

Our corporate philosophy to "Win the good favor of society" reflects our sincere intentions to improve the way we, and the rest of the industry, are viewed by the public, attract a broader base of customers and contribute to society.

Successful synergies for customers, the Company, and employees

Win the good favor of customers

Make every effort to understand and respond to the needs of customers in the spirit of our customer-first philosophy.

Continuous growth of the Company

Build good relations with the shareholders and other investors that provide the Company's funding, by pursuing steadily growing profits, working to increase shareholder value, and conducting fair and impartial information disclosure.

A stable livelihood for employees

Build good relations with employees to help them sustain a stable livelihood, by adhering to the AIFUL Group's management philosophy and providing a rewarding work environment.

Corporate Governance

The AIFUL Group has implemented an appropriate system of corporate governance to realize the above management philosophy. For example, all past business strategies for the purpose of realizing this management philosophy have been approved as a result of full, logical, and timely debate and review in the weekly meetings of the board of directors.

Moreover, an effective check on all management decisions is provided by the board of auditors and an external auditing organization, and the desires and opinions of shareholders are regularly fed back to the president, the board of directors, and senior staff in all of the organization's divisions. We make sure that corporate governance is taken seriously at every level of the Company.

We also strive for effective corporate governance by disclosing information about our business to the public whenever appropriate, enabling effective external checks on our management practices. Under this policy of maintaining a high level of transparency, the AIFUL Group endeavors at all times to disclose information in a timely and easily understood manner, through this investor relations website, news releases, accounts data, briefings for financial analysts, and a variety of other documents available to both Japanese and overseas media, investors, and others. In January 2003, our efforts were recognized in the form of "Listed Company Disclosure Award" presented by the Tokyo Stock Exchange. We were one of the only five companies out of the approximately 2,000 listed companies presented with the award.

Total Compliance

Compliance with all laws is a natural outgrowth of our efforts to live up to our management philosophy, "Win the Good Favor of Society." The AIFUL Group has always had legal and inspector departments to ensure compliance. In April 2002 we compiled the AIFUL Group Ethical Guidelines, which have been distributed to all employees. The utmost effort has been made to respect and enforce these guidelines.

Also in April 2002, a compliance committee was set up directly under the board of directors. Members of this committee include a number of advisers from outside the Company, among them the Company's lawyer. We have also been tireless in collecting information about compliance risks, implementing preventative measures against potential problems, educating all our employees, and establishing a solid structure of compliance throughout the Company.

MANAGEMENT'S DISCUSSION AND ANALYSIS >>

Contents

MANAGEMENT'S DISCUSSION AND ANALYSIS >>

Consolidated Results of Operations

Overview

At the end of fiscal 2002, which ended March 2003, AIFUL and its six consolidated subsidiaries' outstanding amount of loans totaled ¥1,833,702 million ($15,281 million), up ¥197,748 million, an increase of 12.1% from the previous fiscal year thanks to growth in AIFUL's loan balance, LIFE's card cash advances and LIFE Cash Plaza card loans. Of the total outstanding loans, unsecured loans accounted for ¥1,442,980 million ($12,025 million), up 8.3% or ¥110,762 million; home equity loans (secured loans) ¥325,437 million ($2,712 million), up 16.7% or ¥46,544 million; and small business loans ¥65,285 million ($544 million), up 162.8% or ¥40,442 million. In addition, installment accounts receivable amounted to ¥235,873 million ($1,966 million), loan guarantees ¥128,745 million ($1,073 million), and other receivables ¥12,739 million ($106 million). These figures include ¥250,936 million ($1,358 million) in LIFE's off-balance sheet assets in relation to assets liquidation, consisting of ¥162,920 million in outstanding loans and ¥88,016 million in installment accounts receivable that were securitized.

Earnings and expenses

In fiscal 2002, consolidated total income increased ¥51,154 million, or 12.8%, to ¥451,168 million ($3,760 million). Interest on loans accounted for 90.4% of this amount, at ¥406,484 million ($3,387 million). Interest on installment accounts receivable was ¥23,057 million ($192 million), representing 5.1% of total income.

Factors for the increase in total income on a consolidated basis include the 6.6% increase in AIFUL's non-consolidated interest on loans to ¥315,600 million ($2,630 million), the 43.5% increase in the total income of LIFE, the AIFUL Group's sales finance company, to ¥68,724 million ($573 million), and of which, the ¥47,166 million (13.1%) increase in total interest on loans to ¥406,484 million ($3,387 million).

Interest on installment accounts receivable rose ¥5,962 million, or 34.9%, to ¥23,057 million ($192 million) as a result of growth in LIFE's credit card shopping and per-item shopping loans.

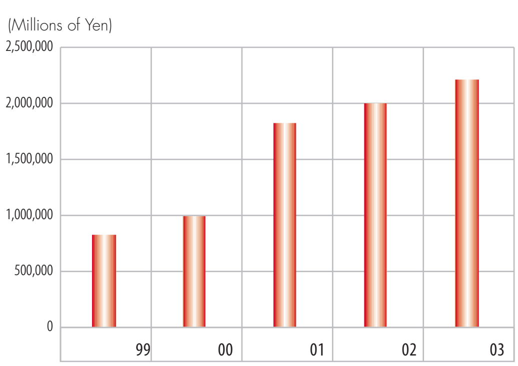
The acquisition of business lender City's Corporation, on October 1, 2002 contributed to consolidated results for a half of the fiscal year including ¥3,464 million ($29 million) in total interest on loans.

Consolidated total income included service revenue of ¥935 million ($8 million), for this fiscal year only since the Group has discontinued the services.

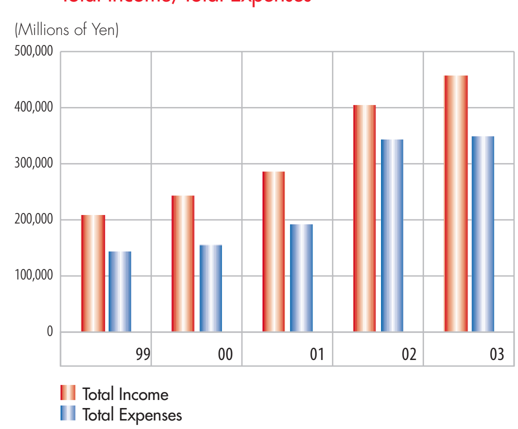
Owing mainly to an increase in bad debf costs, total expenses in fiscal 2002 jumped ¥5,549 million, or 1.6%, to ¥343,715 million ($2,864 million).

Bad debt costs (charge-offs and provision for doubtful loans and receivables, advances to an

Receivables



Total Income/Total Expenses



unconsolidated subsidiary and claims in bankruptcy) rose ¥45,903 million, or 49.6%, to ¥138,479 million ($1,154 million) because of such external factors as the weak economy as well as such company-specific factors as accelerated write-offs for a portion of restructured loans. This latter factor resulted in a ¥5,977 million ($50 million) increase in bad debt write- offs for AIFUL and a ¥6,400 million ($53 million) increase for the Group due to the accelerated write-offs.

Depreciation and amortization totaled ¥10,364 million ($86 million). Among this, there was a one-time write-off for the amount of ¥1,048 million ($9 million) included in consolidated adjustment account for the amount of ¥3,687 million. After the adoption of tax effect accounting, the likelihood of absorption of LIFE’s tax loss carryforwards was re-assessed and the relevant increase in LIFE’s deferred tax assets was offset against consolidated adjustment account in consolidation process.

As a result, goodwill amortization on a consolidated basis in fiscal 2002 was ¥3,121 million ($26 million) consisting of ¥2,073 million ($17 million) based on annual straight-line amortization and one-time goodwill write-down mentioned above, ¥434 million ($4 million) based on annual straight-line amortization for consumer finance subsidiary, Sinwa Co., Ltd. and ¥124 million ($1 million) for City’s Corporation, which became part of the group in October.

Expenses for fiscal 2002 only amounted to ¥31,241 million ($260 million), resulting from a loss on write-down of property, plant and equipment as a result of the sale, at market price, of AIFUL properties to Marutoh KK, a real estate subsidiary.

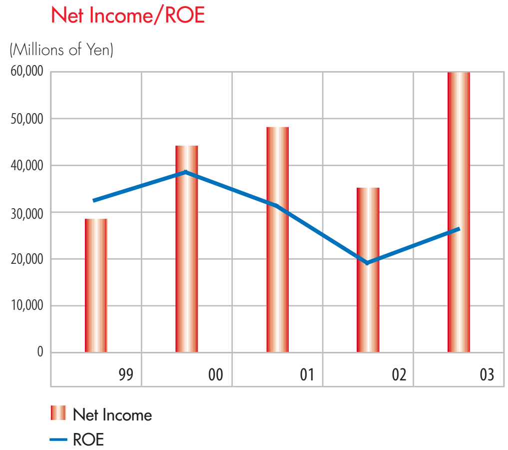
As a result of these factors, income before income taxes and minority interests jumped ¥45,605 million, or 73.7%, to ¥107,453 million ($895 million). Total income taxes increased ¥20,041 million, or 73.2%, to ¥47,426 million ($395 million). The effective tax rate was 44.1%, roughly unchanged from 44.3% in fiscal 2001.

Minority interests, which were deducted from income before income taxes and minority interests, increased ¥717 million from the previous year's loss of ¥601 million to ¥116 million ($1 million) as a result of growth in the net income of LIFE owned by AIFUL for 95.88% of total shares.

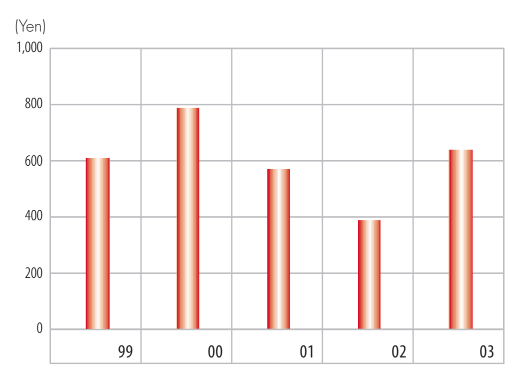
As a result of the above, net income rose ¥24,847 million, or 70.9%, to ¥59,911 million ($499 million). The return on assets (ROA) was 2.8%, compared with 1.8% in fiscal 2001, while the return on equity (ROE) was 13.2%, compared with 9.6% in fiscal 2001.

Net income per share amounted to ¥637.59 ($5.31), versus ¥388.85 ($3.24) in the previous fiscal year.

Net Income/ROE



EPS



The balance sheets

At the end of the period under review, total assets were up ¥252,479 million, or 12.4%, from the end of the previous period, at ¥2,282,113 million ($19,018 million).

Of this figure, total current assets rose ¥226,068 million, or 12.1%, to ¥2,097,468 million ($17,479 million). Loans jumped 12.7%, or ¥178,986 million, to ¥1,670,782 million ($13,923 million), with loans made by AIFUL growing ¥99,650 million and those by LIFE ¥20,840 million. Installment accounts receivable increased ¥27,101 million, or 22.4%, to ¥147,857 million ($1,232 million). Loan guarantees fell ¥11,398 million, or 8.1%, to ¥128,745 million ($1,073 million), owing to the withdrawal from the automobile and home loan guarantee businesses. LIFE's loan and installment accounts receivable included ¥162,920 million ($1,358 million) in off-balance sheet securitized loans and ¥88,016 million ($733 million) in off-balance sheet securitized installment accounts receivable.

Net property, plant and equipment totaled ¥42,012 million ($350 million), an increase of ¥904 million, or 2.2%, as a result of ¥3,094 million ($26 million) in construction in progress for AIFUL's Contact Center Nishi Nihon being built in Shiga prefecture.

Total investments and other assets increased ¥25,507 million, or 21.8%, to ¥142,633 million ($1,189 million).

This was due to a groupwide next-generation information system under development being booked as software resulting in a ¥8,918 million increase to ¥16,347 million ($136 million) and a rise in the amount of loans under individual civil rehabilitation leading to a ¥3,095 million increase in claims in bankruptcy to ¥17,363 million ($145 million).

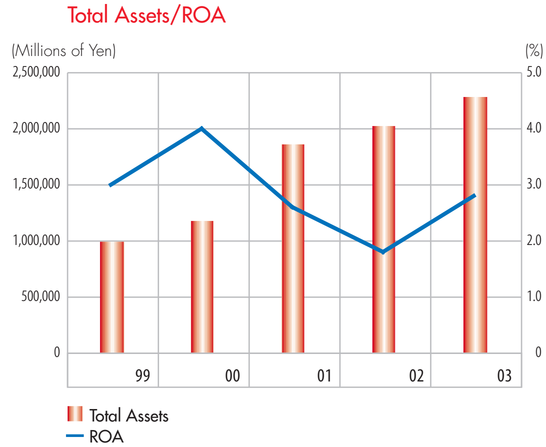
Despite the ¥3,687 million goodwill amortization, the consolidated adjustment account was down by a net ¥1,194 million to ¥22,046 million ($184 million), after including an additional ¥2,494 million in consolidated adjustment account that was generated from the acquisition of City's Corporation.

Total liabilities and minority interests increased 11.7%, or ¥187,831 million, to ¥1,796,122 million ($14,968 million). A rise in loans outstanding and installment accounts receivable resulted in an increase in short- and long-term borrowings of 10.9%, or ¥173,087 million, to ¥1,762,359 million ($14,686 million).

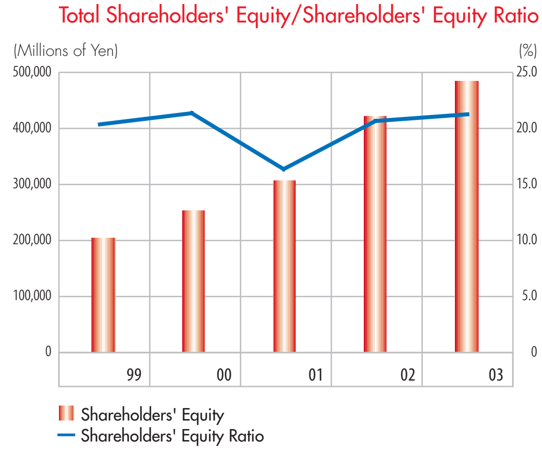
Liability for retirement benefits totaled ¥8,787 million ($73 million), an increase of ¥1,761 million, or 25.1%. This increase was attributable to a rise in the pension obligation stemming from a reduction in the assumed discount rate.

Total shareholders' equity at the end of fiscal 2002 amounted to ¥485,991 million ($4,050 million), an increase of ¥64,648 million, or 15.3%. Additional paid-in capital increased by ¥10,078 million ($84 million) as a result of a stock swap to make City Green Corporation the holding company for City's Corporation, a wholly owned subsidiary. The consolidated total shareholders' equity ratio thus increased from 20.7% in fiscal 2001 to 21.3%.

Total Assets/ROA



Total Shareholders' Equity/Shareholders' Equity Ratio



Liquidity and Capital Resources

Liquidity

AIFUL has diversified its sources and methods of financing to ensure that it has steady access to low-cost funds.

In response to changes in the prevailing financial conditions, AIFUL has also dynamically restructured its sources of funds based on an assessment of interest rate risk, liquidity risk, and market risk.

AIFUL's basic interest-bearing debt policy is to diversify its sources of financing, sourcing 40% directly and the rest indirectly. In fiscal 2002, AIFUL issued ¥100,500 million ($876 million) of corporate bonds and raised ¥57,500 million ($479 million) through securitizations. The result was that at the end of fiscal 2002, direct sources accounted for 41.7% of total funds and indirect sources for the remaining 58.3%.

At the same time, to ensure sufficient liquidity, it secured a credit facility of ¥150 billion, the equivalent of more than a half of the current portion of debt obligations, to complement its cash holdings and current credit facilities.

As a measure to deal with interest rate risk, long-term borrowings, including the current portion thereof, accounted for 98.0% of total sources of financing. Of this long-term financing, 84.2% was hedged against the risk of interest rate increases through fixed rates, interest rate caps, and swaps.

LIFE replaced high-interest loans with loan securitizations of ¥250,936 million ($2,091 million) that lowered the interest rate to 0.7% under liquidation of loan assets. Despite having filed for bankruptcy only three years earlier, LIFE was able to borrow ¥66,402 million ($533 million) from financial institutions and obtain a BBB+ rating from Rating and Investment Information, Inc.

Cash flows

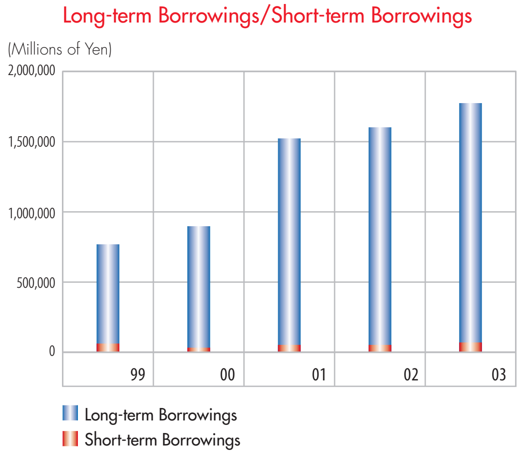
Net cash used in operating activities in fiscal 2002 totaled ¥90,063 million ($751 million) due to growth in AIFUL's and LIFE's loan receivables.

Net cash used in investing activities amounted to ¥57,173 million ($476 million) as a result of the acquisition of City's Corporation, groupwide next-generation system development projects, and an increase in short-term loan receivables.

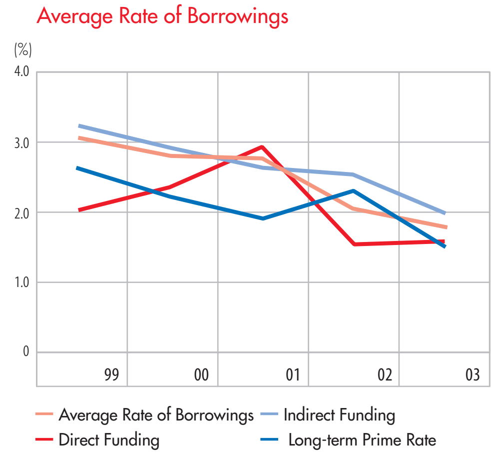
Net cash provided by financing activities came to ¥131,653 million ($1,097 million), mainly because of short- and long-term borrowings and AIFUL's issuance of straight bonds and asset-backed securities. In addition to expenditures for the above operating activities, a portion of these funds was used to retire other long-term debt and repay short-term borrowings.

As a result, cash and cash equivalents totaled ¥131,643 million ($1,097 million), a decrease of ¥7,483 million from the end of fiscal 2001.

Long-term Borrowings/Short-term Borrowings



Average Rate of Borrowings



ROA, ROE and Shareholders' Equity Ratio

At the end of the period in review, AIFUL's shareholders' equity ratio (non-consolidated basis) was 24.7%, compared with the industry average of 30–35%, and its financial leverage ratio (total assets relative to shareholders' equity) was about 4 times, compared with the industry average of about 3 times. AIFUL's ROA was 3.0%, roughly the same as the industry average, but since its financial leverage ratio was the highest, its ROE of 12.4% was the highest among the largest companies in the industry and an indicator of how efficiently AIFUL used capital. LIFE, meanwhile, had a shareholders' equity ratio of 11.9% and a financial leverage ratio of about 9 times. Its ROA was 1.1%, partly because the credit card and sales finance business had lower profit margins than did the unsecured consumer loan business, and ROE was 9.3% thanks to high leverage.

On a consolidated basis, the shareholders' equity ratio was 21.3% and financial leverage ratio about 5 times. The ROA was 2.8%, lower than on a non-consolidated basis, but ROE was higher, at 13.2%. Although AIFUL has high profit margins on a non-consolidated basis, it needs a high shareholders' equity ratio for a high credit rating because the consumer finance business has a low brand image and faces reputational risk. Sales finance companies, by contrast, face less pressure to maintain a high shareholders' equity ratio since they do not face such problems. In terms of capital structure and financing policy, then, AIFUL essentially aims to use capital more efficiently and increase ROE at the group level. There are few businesses in the retail financial services market that are more profitable than unsecured consumer loans, but this business will not grow forever. Accordingly, AIFUL intends to increase its operating assets and at the same time generate greater returns on them by expanding LIFE's sales finance and card business.

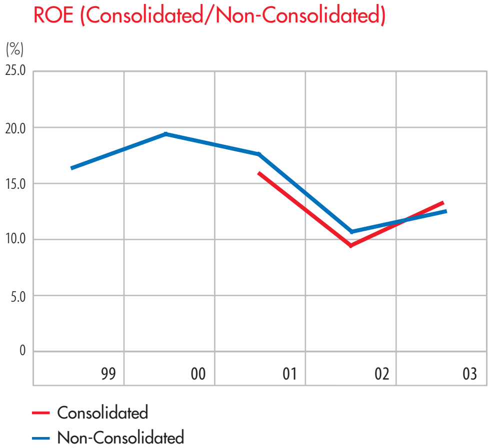
Dividend Policy

AIFUL's proposal to pay a year-end dividend of ¥30 per common share was approved at the ordinary general meeting of shareholders held on June 26, 2003. Since an interim dividend of ¥30 per share had already been paid out, the total dividend for fiscal 2002 came to ¥60 ($0.50) per share.

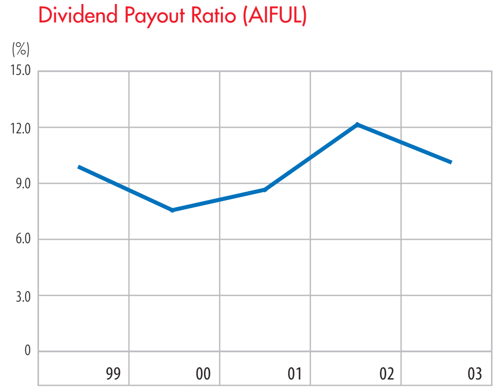
AIFUL's basic dividend policy is to distribute profits to shareholders and maximize shareholder value via medium- to long-term perspective.

AIFUL utilizes its retained earnings as a strategic resource for new business growth through a variety of alternatives, such as reinvesting funds in loans and making strategic investments geared to expanding the AIFUL Group's profit base. In this way, they will tie into improvements in business results and operational efficiency, and allow AIFUL to continue to meet the expectations of its shareholders.

ROE (Consolidated/Non-Consolidated)



Dividend Payout Ratio (AIFUL)



Non-Consolidated Results of Segment Operations

AIFUL Corporation

Earnings and expenses

Solid growth was achieved in the loan business in fiscal 2002 through a strategy of diversification emphasizing home equity loans (secured loans) and small business loans, in addition to the core unsecured loans, to meet the wide range of customers' needs.

As part of a strategy of diversifying its distribution channels to attract more customers, AIFUL and its affiliates have strived to enhance convenience to customers through partnerships with companies in other industries, mergers and acquisitions, assurance arrangements with banks, and online cash advances. As a result of these efforts, AIFUL's outstanding loans increased 7.6% to ¥1,413,340 million ($11,778 million) and the number of customers rose 1.8% to 2,284,000.

Non-consolidated total income increased ¥18,304 million, or 5.9%, to ¥330,147 million ($2,751 million). Interest on loans rose ¥19,566 million, or 6.6%, to ¥315,600 million ($2,630 million), interest on loans to group companies jumped 19.5% to ¥4,364 million ($36 million), and income from loan guarantee arrangements with financial institutions was very strong, spiking 618.0% to ¥596 million ($5 million). As such, the overall results were very favorable.

Of the total amount of outstanding loans, outstanding unsecured loans amounted to ¥1,068,151 million ($8,901 million), up 4.8%, and interest on those loans rose 6.6% to ¥263,262 million ($2,194 million). Meanwhile, outstanding home equity loans (secured loans) amounted to ¥322,840 million ($2,690 million), an increase of 16.3%, and interest on those loans grew 10.3% to ¥47,483 million ($396 million).

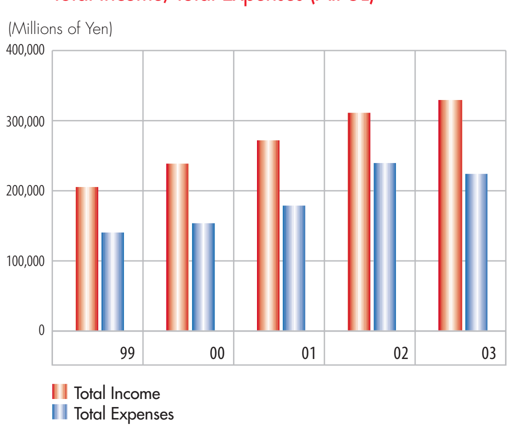
Outstanding small business loans jumped 33.6% to ¥22,349 million ($186 million), and interest on those loans climbed 24.8% to ¥4,854 million ($40 million).

Total expenses were down 6.5%, or ¥15,600 million, to ¥223,589 million ($1,863 million). Contributing to this decrease were one-time costs in the previous fiscal year, namely ¥31,185 million ($260 million) in losses on the sale of property to real estate subsidiary Marutoh KK and ¥4,235 million ($35 million) in costs for issuing new shares.

Factors that had increased expenses included ¥90,725 million ($756 million), a 33.6% jump, in charge-offs and provision for doubtful loans, advances to subsidiary and claims in bankruptcy as a result of the weak economy, as well as accelerated write-offs of some restructured loans; a 16.8% increase in salaries and other employees' benefits to ¥26,991 million ($225 million) from a rise in the number of staff for the contact centers; and a 499.7% increase in provision for employees' retirement benefits to ¥2,213 million ($18 million).

Consequently, income before income taxes rose 46.7%, to ¥106,558 million ($888 million). Total income taxes, including adjustments for the adoption of tax effect accounting, were up 49.4%, to ¥51,240

Total Income/Total Expenses (AIFUL)



Net Income/ROE (AIFUL)

million ($427 million). Net income increased 44.2%, to ¥55,318 million ($461 million), and net income per share rose 38.4% from fiscal 2001 to ¥588.63 ($4.91).

The return on assets (ROA) was 3.0%, compared with 2.3% in fiscal 2001, while the return on equity (ROE) was 12.4%, compared with 10.6% in fiscal 2001.

Performances by type of loan

Unsecured loans

At the end of fiscal 2002, the number of new unsecured loans fell 12.4%, to about 400,000 accounts, compared with the end of the previous fiscal year, as customers continued to refrain from borrowing in response to unfavorable employment conditions and an uncertain economic outlook. Another factor was a decline of 5.4 percentage points in the annual acceptance ratio from the previous fiscal year to 67.5% as a result of tightened credit criteria in the wake of a rise in bad-debt costs. Loan applications fell about 20% in the first quarter of fiscal 2002, partly because of unsuccessful changes in a TV advertising campaign, but improved in the second half of the fiscal year thanks to the impact of a new commercial that started airing in August and which featured a chihuahua.

The average yield on unsecured loans outstanding declined 40 basis points compared with the previous fiscal year, to 25.2%, as attractive interest rates were offered to customers with high creditworthiness in response to intensified competition and the amount of larger loans increased as a proportion of total lending. Unsecured loans outstanding at year-end averaged ¥490,000 ($4,083) per customer, up 3.6%.

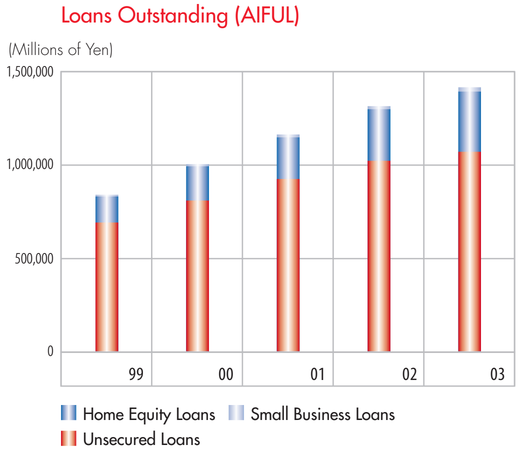
These factors resulted in a 4.8% rise in unsecured loans outstanding at year-end, to a record high of ¥1,068,151 million ($8,901 million), with the number of unsecured loan accounts at year-end gaining 1.2%, to 2,180,000 accounts.

Home equity loans (secured loans)

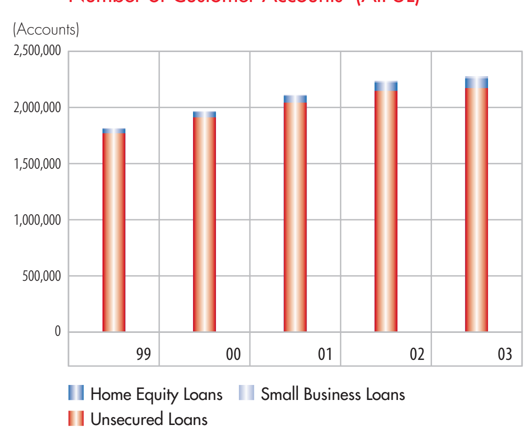
AIFUL launched home equity loans (secured loans) in 1985, and was researching the home equity loans (secured loans) business in the United States. In contrast to unsecured loans, where write-offs are increasing, the write-off ratio for home equity loans (secured loans) in fiscal 2002 remained low, at just over 1%, underlining the advantage of property-secured lending.

Another key factor in the high level of safety was that AIFUL limited the ratio of unsecured loans to customers in Tokyo, Nagoya, Osaka and Fukuoka to 26% of the nationwide total, as home were more volatile in those four major cities. AIFUL distributed the balance of 74% among areas where land prices are much more stable. Approximately half of the home equity loans use first mortgages. AIFUL also reinforced stability by limiting about 80% of secured loans to less than 70%

Loans Outstanding (AIFUL)



Number of Customer Accounts (AIFUL)



of appraised collateral value.

Also, with few competitors and stronger expertise and staff training than new entrants offer, AIFUL is an industry leader, along with real estate companies that offer property appraisals nationwide, in terms of its review infrastructure.

At the end of the period under review, home equity loans (secured loans) outstanding stood at ¥322,840 million ($2,690 million), up 16.3% from the end of the previous fiscal year. The number of accounts continued to grow strongly, rising 16.0% to 87,000 accounts. These figures show that secured loans are now an important service in AIFUL's growth.

Small business loans

In this third major product segment following unsecured loans and home equity loans (secured loans), the average loan was relatively low, at ¥1,285,000 ($10,706) per account. AIFUL focuses on financing small business owners in person with unsecured and guaranteed loans,without revolving guarantees, rather than companies. The idea behind the business has been to make possible loans to highly creditworthy sole proprietors, who tend to receive limited amounts of credit under AIFUL's scoring system compared with salaried workers.

In anticipation of strong demand and a potentially large market, the Group launched operations in this category in 1998 but has extended financing based on careful assessments of borrowers, in light of the small business loan industry brouhaha in 1999 and the slump in the Japanese economy.

At the end of fiscal 2002, small business loans outstanding rose 33.6% from the end of the previous fiscal year, to ¥22,349 million ($186 million). The number of accounts increased 24.3%, to 17,000 accounts.

Others

Under guarantee partnerships with banks, AIFUL receives fee income for screening and guaranteeing applicants for bank loans and service the loans. As of March 31, 2003, AIFUL had guarantee partnerships with 24 banks and two companies, with the value of guarantees totaling ¥19,026 million ($159 million).

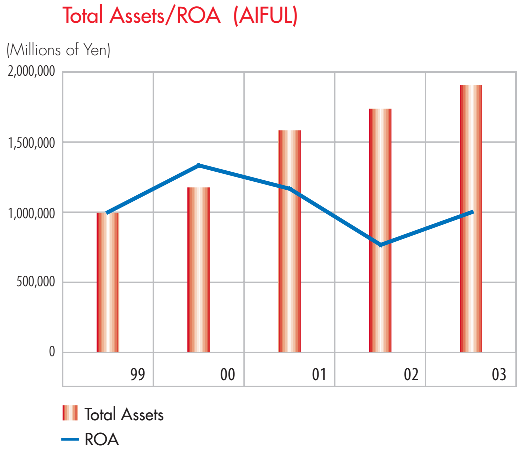
The balance sheets

At the end of fiscal 2002, total assets were up 9.5%, or ¥165,344 million, compared with the end of the previous fiscal year, at ¥1,906,212 million ($15,885 million). Total current assets increased 8.8%, or ¥121,838 million, to ¥1,513,856 million ($12,615 million). This was mainly due to a 7.6% increase in loans, to ¥1,413,340 million ($11,778 million).

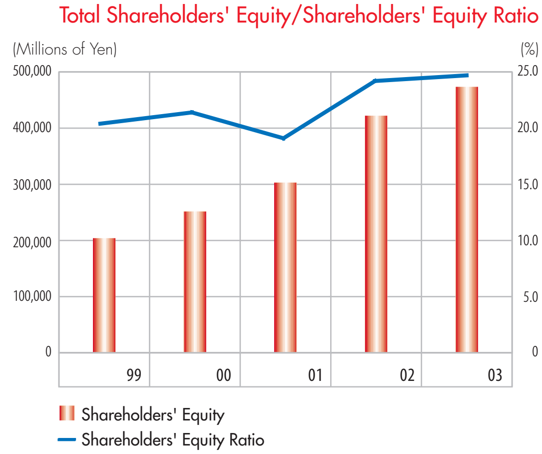
Construction in progress amounted to ¥3,094 million ($26 million), including construction costs for a contact center under construction in Shiga prefecture.

Total investments and other assets climbed ¥41,128 million, or 12.6%, to ¥366,671 million ($3,056 million). Investments in and loans to LIFE Co., Ltd.,

Total Assets/ROA (AIFUL)



Total Shareholders' Equity/Shareholders' Equity Ratio (AIFUL)



Happy Credit Corporation, Sinwa Co., Ltd., and associated companies inched up 5.0% to ¥280,138 million ($2,334 million).

Total current and long-term liabilities climbed 8.7%, or ¥115,003 million, to ¥1,435,378 million ($11,961 million), mainly because steady growth in loans outstanding resulted in an increase in short- and long-term borrowings of 6.5%, or ¥82,346 million, to ¥1,345,325 million ($11,211 million).

At the end of fiscal 2002, total shareholders' equity was ¥470,834 million ($3,924 million), up 12.0%, or ¥50,341 million, from the end of fiscal 2001. Total shareholders' equity ratio increased 0.5 percentage point, to 24.7%.

LIFE Co., Ltd.

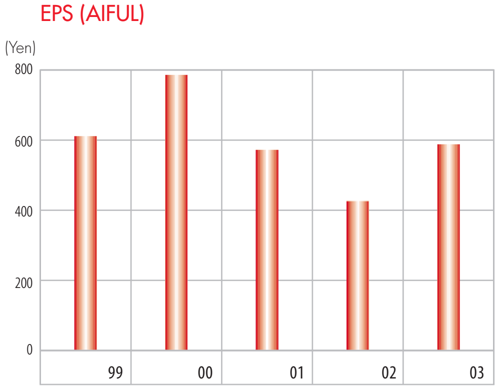
Overview

During the current consolidated fiscal year, LIFE Co., Ltd. withdrew from the low-profit auto loan business and poured management resources into such high-profit areas as credit card shopping and cashing loans, and other consumer finance areas in order to construct a more stable profit base. This gradual shift from a low-profit asset portfolio to a high-profit asset portfolio will steadily continue in the years to come.

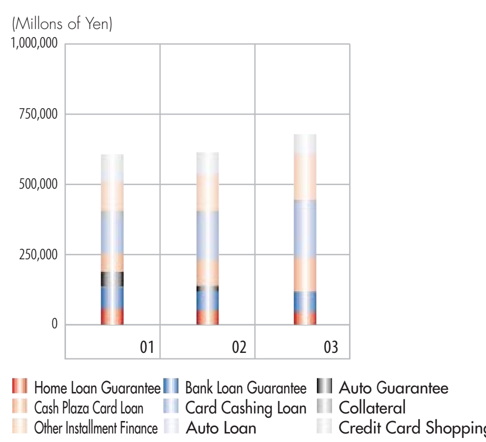
LIFE's total balance of loans to customers and credit guarantee installment accounts receivables at the end of fiscal 2002 satisfactorily, rose 10.4% over the same time the previous year to ¥676,093 million ($56,334 million). The breakdown of this figure was as follows: credit cards up 4.2% to ¥64,069 million ($534 million), per-item credit (excluding auto loans) up 25.3% to ¥164,225 million ($1,367 million), credit card cash advances up 20.0% to ¥192,209 million ($1,602 million), and Cash Plaza card loans up 31.4% to ¥117,646 million ($980 million).

As a result, operating revenue rose 30.1% to ¥103,880 million and ordinary income jumped 234.8% to ¥8,048 million. Net income, however, fell 16.1% to ¥9,150 million because of a sharp rise in deferred tax assets in fiscal 2001 stemming from a review of recoverable loans under tax-effect accounting and the recognition of losses carried forward from LIFE after its bankruptcy. The ROA declined 0.5 percentage point to 1.1%, while the ROE

EPS (AIFUL)



Total Balance (LIFE)



fell 3.1 percentage points to 9.3%. The shareholders' equity ratio was roughly unchanged at 11.9%.

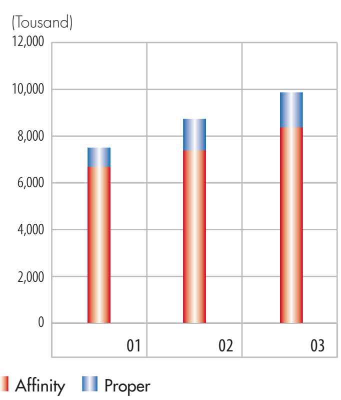
Performances by type of operation

Credit card

In the credit card business, acquiring card holders is the single most important factor in securing profits. Accordingly, LIFE built on agreements with men's clothing store Aoyama Trading Co., Ltd. and consumer electronics chain DEODEO Corporation by successfully forging an alliance in May 2002 with Komeri Co., Ltd., a key player in the home center market, a development which has tied directly into the issue of joint credit cards. In terms of proper cards, LIFE continues to develop new products, such as a partnership card with the popular rock group GLAY and a card featuring characters from a popular cartoon.

As a result of the foregoing, the total number of credit card holders at the end of fiscal 2002 rose 1,110,000 over the same time in the previous year to 9,830,000. This expansion in the customer base led to a 17.5% increase in transaction volume in the credit card shopping business to ¥274,479 million ($2,287 million) and a 19.4% jump in the cash advance business to ¥228,968 million ($1,908 million). The amount of receivables outstanding at the end of fiscal 2002 in the credit card business reached ¥64,069 million ($534 million), an increase of 4.2% from the end of fiscal 2001, and in the cash advance business ¥192,209 million ($1,602 million), an increase of 20.0%.

Number of Card Holders (LIFE)



Per-item credit

In the per-item credit business, LIFE stopped providing new auto and home loans, which had low margins, and instead focused on expanding in higher-margin loans. As a result, per-item credit transaction volume rose 21.2% to ¥144,493 million ($1,204 million) and the amount of receivables outstanding at the end of fiscal 2002 increased 16.6% to ¥170,854 million ($1,424 million).

The growth in the business was the result of major organizational changes, including the transfer of considerable authority to branch offices, which helped clarify standard yields when concluding merchant agreements and allowed the consolidation of LIFE's back-office operations.

As a result of stepped-up sales efforts by branch offices, LIFE increased its total number of affiliated stores rose to about 6,000 at year-end. The store selection process and clarification of standard yields helped improve the margin by 1.8 percentage points to 8.9%.

LIFE Cash Plaza

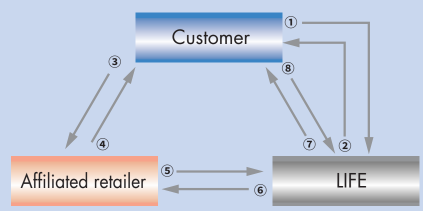
LIFE issues consumer loan cards through its network of Cash Plaza branches, which provide exactly the same type of non-credit financing as consumer loan companies do. In an aggressive effort to expand the network of branch offices and relocate existing offices to more favorable locations, LIFE opened up 38 new offices, resulting in a total of 164 at the end of fiscal 2002.

The number of accounts rose 22.3%, to 91,000 accounts and the outstanding amount of loans issued through the LIFE Cash Plaza loan card stood at ¥117,646 million ($980 million), an increase of 31.4% from the end of the previous fiscal year, reflecting the addition of new loan offices and aggressive customer acquisition efforts.

Products of LIFE

1. Credit cards

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 per-item credit, 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.

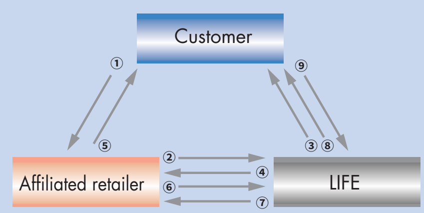


① Credit card application
② Credit review application
③ Use of card and signature to make purchase
④ Product or service provided to customer
⑤ Credit card receipt submitted
⑥ Lump-sum payment
⑦ Bill sent to customer
⑧ Payment (installment/revolving)

2. Per-item credit

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.

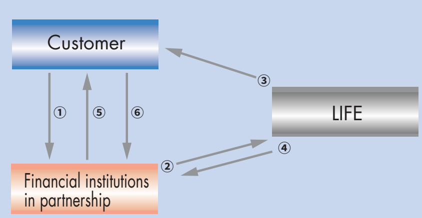


① Purchase credit application
② Credit review application
③ Credit review
④ Results of credit review
⑤ Product or service provided to customer
⑥ Contract submitted
⑦ Lump-sum payment
⑧ Bill sent to customer
⑨ Payment

3. Credit 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.



① Loan application
② Credit review request
③ Credit review
④ Guarantee approval
⑤ Loan provided
⑥ Loan repaid

Other subsidiaries

Consumer credit operations

Happy Credit Corporation, Sinwa Co., Ltd. and Sanyo Shinpan Co., Ltd. have all now introduced AIFUL's scoring system, an important step towards bolstering credit investigation systems to guard against further increase in expenses for doubtful receivables. Under such circumstances, mid-sized consumer finance companies have very high ratios of bad-debt write-offs, in excess of 10%, and these three group companies' earnings have been significantly squeezed as well by bad debts. Rather than expand their loans, they have been cutting back on credit to improve the quality of their receivables. At the end of fiscal 2002, Happy Credit's loans outstanding decreased 2.6% to ¥31,587 million ($263 million), Sinwa's rose 5.2% to ¥22,263 million ($186 million), and Sanyo Shinpan's climbed 4.2% to ¥11,865 million ($99 million).

Small business loans

Businext Corporation, a joint venture set up in conjunction with the Sumitomo Trust and Banking Co., Ltd., gradually increased its outstanding loans to ¥15,397 million by switching from a passive, commercial-centered marketing strategy to a more aggressive strategy involving approaching potential customers with direct mail and taking on salespeople from Misawa Van. Loan applications grew, but the company did not attract its originally targeted moderate-risk segment of customers. Amid the downturn in the economy, the highly creditworthy businesses that Businext Corporation has targeted have been repaying their loans. Instead, demand for funds has risen among high-risk customer segments. Businext Corporation turns down about 80% of customers, but intends to approach this segment in partnership with small business lender City's Corporation, which targets high-risk segments.

In October 2002, City's Corporation became a member of the AIFUL Group. Since that time, the company's existing credit investigation know-how and human assets have been augmented by AIFUL's information management systems and management expertise. It intends to seek out marketing, credit review, and sales synergies with Businext Corporation, which focuses on moderate-risk segments of the market. As a result, loans at the end of fiscal 2002 totaled ¥29,176 million ($243 million). At present, the company is paying careful attention to the shifting economic climate in planning its next moves.

Earnings Outlook

Although business conditions are likely to remain challenging in fiscal 2003, in light of such external factors as the high number of unemployed and rising number of personal bankruptcies related to the economic slump, and likely tougher competition from bank-affiliated consumer finance companies and credit card companies, the AIFUL Group expects to increase both sales and earnings thanks in part to a growing contribution from LIFE.

Even so, AIFUL expects 3% growth in the outstanding amount of unsecured loans and a 2.7% decline in new customers to 394,000, partly due to tightened credit criteria stemming from a rise in bad debts.

Bad debts are likely to remain high and continue to weigh on earnings, given the rise in personal bankruptcies and the high level of unemployment.

Under these difficult circumstances, AIFUL will consolidate the sales-related operations of all of its staffed offices nationwide at its two contact centers in the Kansai area starting in October 2003, in order to offer a high level of customer service, streamline operations, and reduce costs. AIFUL also has several companywide cost-reduction projects under way and has been cutting expenses in a detailed manner.

As a result, although bad debts are still on the rise, AIFUL expects cost reductions to help ordinary income stay roughly unchanged from fiscal 2002, at ¥108,000 million ($900 million), up 0.8%. Operating revenue is projected to rise 6.2% to ¥344,849 million ($2,874 million) and net income to inch up 2.2% to ¥56,532 million ($471 million).

In April 2003, LIFE teamed up with leading consumer electronics retailer Eiden, part of the EDION Group, and Sanwado, a retailer of DIY home products, in the credit card business. They plan to issue 700,000 credit cards through the partnership, and have established a marketing unit to develop marketing techniques and attractive cards, and increase card utilization.

In the per-item credit and credit guarantee businesses, LIFE withdrew from the low-profit auto loan business and reduced its outstanding amount of home loans, and plans to continue to pour management resources into high-profit areas.

LIFE Cash Plaza is tightening credit to new customers, given the increase in bad debts, and is focusing on attracting highly creditworthy customers. To attract new customer segments, LIFE plans to roll out new offices under a new concept, LIFE Card.

Through these efforts, LIFE expects fiscal 2003 operating revenue to increase 19.1% to ¥123,710 million ($1,031 million), ordinary income to jump 74.0% to ¥14,000 million ($117 million), and net income to increase 81.4% to ¥16,599 million ($138 million).

As a result, the AIFUL Group expects fiscal 2003 consolidated operating revenue to increase 13.2 % to ¥494,522 million ($4,121 million), ordinary income to rise 9.1% to ¥122,012 million ($1,017 million), and net income to increase 8.6% to ¥65,056 million ($542 million).

The Maximum Lending Rate

In response to a growing crisis over predatory lenders, a bill to revise the Money Lending Business Restriction Law and Capital Subscription Law was passed on July 25, 2003, and is scheduled to take effect in January 2004. Some measures will take effect in August 2003, including increased penalties against unregistered money lenders, bans on advertising and solicitations by unregistered money lenders, and other measures designed to crack down on predatory lending.

A legal revision in June 2000 lowered the maximum lending rate from 40.004% to 29.2%, but the current revision does not lower it further. The money lending industry lobbied for an increase or elimination of the lending rate cap, arguing that the June 2000 revision actually led to a sizable increase in the number of illegally operating predatory lenders. The result was a decision to maintain the current maximum lending rate but to review it again within three years, in light of the impact of the measures to deal with predatory lending.

FINANCIAL SECTION >>

Contents

Consolidated Balance Sheets

AIFUL Corporation and Consolidated Subsidiaries

March 31, 2003 and 2002

ASSETS	Millions of Yen 2003	Millions of Yen 2002	Thousands of U.S. Dollars (Note 3) 2003
CURRENT ASSETS :			
Cash and cash equivalents	¥ 131,643	¥ 139,126	$ 1,097,025
Time deposits (Note 9)	653	1,632	5,442
Marketable securities (Note 8)	510	269	4,250
Loans (Notes 4 and 9)	1,670,782	1,482,796	13,923,183
Installment accounts receivable (Notes 5 and 9)	147,857	120,756	1,232,142
Loan guarantees (Note 6)	128,745	140,143	1,072,875
Other receivables	12,739	16,113	106,158
Allowance for doubtful loans and receivables	(113,439)	(92,117)	(945,325)
Inventories (Notes 7 and 9)	724	1,215	6,033
Prepaid expenses	4,186	4,075	34,883
Deferred tax assets (Note 12)	25,583	9,971	213,192
Other current assets (Note 9)	87,485	47,421	729,042
Total current assets	2,097,468	1,871,400	17,478,900
PROPERTY, PLANT AND EQUIPMENT (Note 9) :			
Land	14,802	15,163	123,350
Buildings and structures	40,811	41,819	340,092
Machinery and equipment	12,114	11,375	100,950
Construction in progress	3,094		25,783
Total	70,821	68,357	590,175
Accumulated depreciation	(28,809)	(27,249)	(240,075)
Net property, plant and equipment	42,012	41,108	350,100
INVESTMENTS AND OTHER ASSETS :			
Investment securities (Notes 8 and 9)	11,256	9,028	93,800
Investments in and advances to unconsolidated subsidiaries and associated companies (Note 13)	4,137	4,836	34,475
Claims in bankruptcy (Note 4)	17,363	14,268	144,692
Allowance for advances to an unconsolidated subsidiary and claims in bankruptcy	(18,691)	(17,220)	(155,758)
Goodwill, net	22,046	23,240	183,717
Software, net	16,347	7,429	136,225
Long-term loans receivables (less current portion)	16,781	8,727	139,841
Lease deposits	10,851	10,898	90,425
Long-term prepayments	6,274	3,983	52,283
Deferred tax assets (Note 12)	16,591	21,264	138,258
Deferred losses on hedging instruments, mainly interest rate swaps	33,675	22,931	280,625
Other assets (Note 9)	6,003	7,742	50,025
Total investments and other assets	142,633	117,126	1,188,608
TOTAL	¥2,282,113	¥2,029,634	$19,017,608

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen 2003	Millions of Yen 2002	Thousands of U.S. Dollars (Note 3) 2003
CURRENT LIABILITIES :			
Short-term borrowings (Note 9)	¥ 68,865	¥ 52,492	$ 573,875
Current portion of long-term debt (Note 9)	490,653	446,271	4,088,775
Trade notes payable	11,249	9,580	93,741
Trade accounts payable (Note 9)	19,919	23,475	165,992
Obligation under loan guarantees (Note 6)	128,745	140,143	1,072,875
Income taxes payable	37,628	16,892	313,567
Accrued expenses	9,256	9,147	77,133
Other current liabilities (Notes 5 and 6)	38,531	31,114	321,092
Total current liabilities	804,846	729,114	6,707,050
LONG-TERM LIABILITIES :			
Long-term debt (less current portion) (Note 9)	945,451	845,510	7,878,758
Liability for retirement benefits (Note 10)	8,787	7,026	73,225
Interest rate swaps	32,119	22,305	267,658
Other long-term liabilities	890	825	7,417
Total long-term liabilities	987,247	875,666	8,227,058
MINORITY INTERESTS	4,029	3,511	33,575
SHAREHOLDERS' EQUITY (Notes 11 and 17) :			
Common stock, authorized, 373,500,000 shares in 2003 and 224,000,000 shares in 2002; issued, 94,690,000 shares in 2003 and 93,376,000 shares in 2002	83,317	83,317	694,308
Capital surplus - Additional paid-in capital	104,126	94,048	867,717
Retained earnings	300,924	246,240	2,507,700
Net unrealized loss on available-for-sale securities	(323)	(216)	(2,692)
Total	488,044	423,389	4,067,033
Treasury stock, at cost 221,638 shares in 2003 and 220,585 shares in 2002	(2,053)	(2,046)	(17,108)
Total shareholders' equity	485,991	421,343	4,049,925
TOTAL	¥2,282,113	¥2,029,634	$19,017,608

Consolidated Statements of Income

AIFUL Corporation and Consolidated Subsidiaries
Years Ended March 31, 2003 and 2002

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2003	2002	2003
INCOME :			
Interest on loans	¥ 406,484	¥359,318	$3,387,367
Interest on credit card shopping loans	7,878	6,742	65,650
Interest on per-item shopping loans	15,179	10,353	126,492
Interest on loan guarantees	4,133	4,076	34,442
Interest on deposits, securities and other	474	582	3,950
Sales of property for sale	306	2,824	2,550
Income from restaurant business and other	935	1,247	7,791
Recovery of loans previously charged off	6,431	5,715	53,591
Other income	9,348	9,157	77,900
Total income	451,168	400,014	3,759,733
EXPENSES :			
Interest on borrowings	35,335	31,697	294,458
Charge-offs and provision for doubtful loans and receivables, advances to an unconsolidated subsidiary and claims in bankruptcy	138,479	92,576	1,153,992
Salaries and other employees' benefits	44,828	42,234	373,567
Advertising expenses	21,748	26,846	181,233
Rental expenses	24,359	22,961	202,992
Commissions and fees	19,291	19,667	160,758
Depreciation and amortization	10,364	19,269	86,367
Stock issue costs		4,235	
Loss on write-down of property, plant and equipment	541	31,241	4,508
Provision for employees' retirement benefits (Note 10)	3,187	1,353	26,558
Provision for retirement benefits to directors and corporate auditors	104	114	867
Other expenses	45,479	45,973	378,992
Total expenses	343,715	338,166	2,864,292
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	107,453	61,848	895,441
INCOME TAXES (Note 12) :			
Current	57,555	36,293	479,625
Deferred	(10,129)	(8,908)	(84,408)
Total income taxes	47,426	27,385	395,217
MINORITY INTERESTS IN NET INCOME (LOSS)	116	(601)	966
NET INCOME	¥ 59,911	¥ 35,064	$ 499,258

	Yen		U.S. Dollars
AMOUNTS PER COMMON SHARE (Notes 2.s and 16):			
Basic net income	¥637.59	¥388.85	$5.31
Cash dividends applicable to the year	60.00	50.00	0.50

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

AIFUL Corporation and Consolidated Subsidiaries

Years Ended March 31, 2003 and 2002

	Thousands	*Millions of Yen*				
	Number of Shares of Common Stock Issued	Common Stock	Capital Surplus	Retained Earnings	Net Unrealized Gain (Loss) on Available-for-sale Securities	Treasury Stock, at cost
BALANCE AT APRIL 1, 2001	84,876	¥39,789	¥ 50,528	¥215,978	¥ 255	
Adjustment of retained earnings for newly consolidated subsidiaries				165		
Net income				35,064		
Cash dividends paid, ¥55 per share				(4,880)		
Bonuses to directors and corporate auditors				(87)		
Issuance of common stock	8,500	43,528	43,520			
Net unrealized loss on available-for-sale securities					(471)	
Net increase in treasury stock (220,585 shares)						¥ (2,046)
BALANCE AT MARCH 31, 2002	93,376	83,317	94,048	246,240	(216)	(2,046)
Net income				59,911		
Cash dividends paid, ¥55 per share				(5,124)		
Bonuses to directors and corporate auditors				(103)		
Acquisition of City Green Corporation (Notes 2.a and 11)	1,314		10,078			
Net unrealized loss on available-for-sale securities					(107)	
Net increase in treasury stock (1,053 shares)						(7)
BALANCE AT MARCH 31, 2003	94,690	¥83,317	¥104,126	¥300,924	¥ (323)	¥ (2,053)

	Thousands of U.S. Dollars (Note 3)				
	Common Stock	Capital Surplus	Retained Earnings	Net Unrealized Gain (Loss) on Available-for-sale Securities	Treasury Stock, at cost
BALANCE AT MARCH 31, 2002	$694,308	$783,733	$2,052,000	$(1,800)	$(17,050)
Net income			499,258		
Cash dividends paid, $0.46 per share			(42,700)		
Bonuses to directors and corporate auditors			(858)		
Acquisition of City Green Corporation (Notes 2.a and 11)		83,984			
Net unrealized loss on available-for-sale securities				(892)	
Net increase in treasury stock (1,053 shares)					(58)
BALANCE AT MARCH 31, 2003	$694,308	$867,717	$2,507,700	$(2,692)	$(17,108)

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

AIFUL Corporation and Consolidated Subsidiaries
Years Ended March 31, 2003 and 2002

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2003	2002	2003
OPERATING ACTIVITIES :			
Income before income taxes and minority interests	¥ 107,453	¥ 61,848	$ 895,441
Adjustments for :			
Income taxes - paid	(36,826)	(45,268)	(306,883)
Depreciation and amortization	10,364	19,269	86,367
Increase in allowance for doubtful loans and receivables, advances to an unconsolidated subsidiary and claims in bankruptcy	20,909	10,640	174,242
Increase (decrease) in liability for employees' retirement benefits	1,628	(118)	13,567
Stock issue costs		4,235	
Amortization of bonds issue costs	830	976	6,917
Loss on write-down of investment securities	858	707	7,150
Loss on write-down of property, plant and equipment	541	31,241	4,508
Loss on sales of property, plant and equipment	375	121	3,125
Loss on disposal of property, plant and equipment	410	901	3,417
Changes in assets and liabilities :			
Increase in loans	(160,196)	(221,754)	(1,334,967)
Increase in installment accounts receivable and loan guarantees	(27,102)	(34,114)	(225,850)
Decrease in other receivables	3,374	7,024	28,117
Increase in claims in bankruptcy	(1,015)	(2,409)	(8,458)
Decrease in inventories	491	2,155	4,091
Decrease (increase) in prepaid expenses	(117)	528	(975)
Increase in long-term prepayments	(3,148)	(1,615)	(26,233)
Increase in other current assets	(14,360)	(12,829)	(119,667)
Increase (decrease) in other current liabilities	5,009	(7,023)	41,741
Other – net	459	1,730	3,825
Total adjustments	(197,516)	(245,603)	(1,645,966)
Net cash used in operating activities	(90,063)	(183,755)	(750,525)
INVESTING ACTIVITIES :			
Capital expenditures	(17,321)	(8,274)	(144,342)
Increase in loans	(30,967)	(7,029)	(258,058)
Purchases of investment securities	(3,459)	(3,666)	(28,825)
Proceeds from sale of investment in a subsidiary		4,200	
Acquisitions of subsidiaries (net of cash acquired)	(7,556)		(62,967)
Increase in investment in trust	(1,744)	(1)	(14,533)
Other – net	3,874	3,565	32,283
Net cash used in investing activities - (Forward)	¥ (57,173)	¥ (11,205)	$ (476,442)

(Continued)

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2003	2002	2003
Net cash used in investing activities - (Forward)	¥ (57,173)	¥ (11,205)	$ (476,442)
FINANCING ACTIVITIES :			
Net increase in short-term borrowings	5,414	5,168	45,116
Proceeds from long-term debt (net of bonds issue costs)	653,891	525,491	5,449,092
Repayments of long-term debt	(522,922)	(426,105)	(4,357,683)
Proceeds from public offering (net of stock issue costs)		82,814	
Cash dividends paid	(5,124)	(4,881)	(42,700)
Acquisition of treasury stock	(6)	(2,046)	(50)
Proceeds from minority shareholders	400	70	3,333
Net cash provided by financing activities	131,653	180,511	1,097,108
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	35	16	292
NET DECREASE IN CASH AND CASH EQUIVALENTS	(15,548)	(14,433)	(129,567)
CASH AND CASH EQUIVALENTS OF NEWLY CONSOLIDATED SUBSIDIARIES, BEGINNING OF YEAR	8,065	124	67,209
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	139,126	153,435	1,159,383
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 131,643	¥ 139,126	$ 1,097,025
NONCASH INVESTING ACTIVITIES :			
During the year ended March 31, 2003, the Company acquired City's Corporation, and City Green Corporation as follows:			
Assets acquired	¥ 42,491		$ 354,092
Cash paid for capital stock, less acquired cash and cash equivalents	7,556		62,967
Liabilities assumed	24,857		207,141
Value of 1,314,000 common shares issued for City Green Corporation	10,078		83,984

See notes to consolidated financial statements. *(Concluded)*

Notes to Consolidated Financial Statements

AIFUL Corporation and Consolidated Subsidiaries
Years Ended March 31, 2003 and 2002

Note 1:

BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, 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 Financial Reporting Standards. The 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 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 2002 consolidated financial statements to conform to the classifications used in 2003.

Note 2:

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation - The consolidated financial statements as of March 31, 2003 include the accounts of AIFUL Corporation (the "Company") and its nine significant (seven in 2002) subsidiaries (together, the "Group"). The accounts of City Green Corporation ("City Green") and City's Corporation ("City's") are newly consolidated for the year ended March 31, 2003. Consolidation of the remaining subsidiaries would not have a material effect on the accompanying consolidated financial statements.

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.

City's, which engages in small business loans, became an associated company of the Company effective August 13, 2002. As of September 30, 2002, the AIFUL Corporation ownership and City Green ownership of City's were 42.2% and 57.8%, respectively. As of October 1, 2002, the Company acquired all 2,000 shares of City Green, in exchange for 1,314,000 shares of the Company's common stock. As a result, City Green and City's became a wholly directly and indirectly owned subsidiary of the Company effective October 1, 2002.

Investments in the remaining four unconsolidated subsidiaries and one (two in 2002) associated company are accounted for on the cost basis. The effect on the consolidated financial statements of not applying the equity method is immaterial.

The accounts of AsTry Loan Services Corporation and Marutoh KK were newly consolidated as of March 31, 2002. On November 19, 2001, the Company and Aozora Bank, Ltd. established AsTry Loan Services Corporation, a new joint corporation, which engages in management and collection services for various specified loans. Marutoh KK, which engages in real estate lease management, has become financially influenced by the Company.

Goodwill on acquisition of subsidiaries is amortized using the straight-line method over ten years. 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. 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.

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

d. Marketable and Investment Securities - Held-to-maturity debt securities are reported at amortized cost and available-for-sale securities are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of shareholders' 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.

e. *Property, Plant and Equipment* - Property, plant 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 and from 2 to 20 years for machinery and equipment.

f. *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.

g. *Liability for Retirement Benefits* - The Company and certain consolidated subsidiaries have contributory and non-contributory funded pension plans covering substantially all employees.
The Group accounted for the net liability for retirement benefits based on projected benefit obligations and plan assets at the balance sheet date.
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.

h. *Allowances 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 receivables outstanding.

i. *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 consolidated financial statements.

j. *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.

k. *Appropriations of Retained Earnings* - Appropriations of retained earnings are reflected in the consolidated financial statements for the following year upon shareholders' approval.

l. *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 income.

m. *Interest on Loans* - Interest on loans is recorded on an accrual basis. In accordance with the practice prevailing in the industry, the Group records accrued interest to the extent that the realization of such income is considered to be certain.

n. *Installment Revenue* - 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.

o. *Interest on Borrowings* - Interest on financial liabilities is accounted for as operating expenses while other interest is included in other expenses.

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

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

r. Derivatives and Hedging Activities - The Group uses derivative financial instruments to manage its exposures to fluctuations in interest rates. Interest rate swaps and caps are utilized by the Group to reduce interest rate 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 are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statements of income, 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 are deferred until maturity of the hedged transactions.

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 agreements are recognized and included in interest expense or income.

s. Per Share Information - Effective April 1, 2002, the Company adopted a new accounting standard for earnings per share of common stock issued by the Accounting Standards Board of Japan. Under the new standard, basic net income per share is computed by dividing net income available to common shareholders, which is more precisely computed than under previous practices, by the weighted-average number of common shares outstanding for the period.

Diluted net income per share of common stock reflects the potential dilution that could occur if securities were exercised or converted into common stock and assumes full exercise of outstanding stock options. Basic net income per share for the years ended March 31, 2003 and 2002 are computed in accordance with the new standard. Diluted net income per share is not disclosed because it is anti-dilutive.

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

Note 3: 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 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, 2003. 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.

Note 4: LOANS

Loans at March 31, 2003 and 2002 consisted of the following (before allowance for doubtful loans) :

	Millions of Yen		*Thousands of U.S. Dollars*
	2003	2002	2003
Unsecured	¥1,442,980	¥1,332,218	$12,024,833
Secured	325,437	278,893	2,711,975
Small business loans	65,285	24,843	544,042
Total	¥1,833,702	¥1,635,954	$15,280,850
Off-balance sheet securitized loans	(162,920)	(153,158)	(1,357,667)
Net	¥1,670,782	¥1,482,796	$13,923,183

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

	Millions of Yen		*Thousands of U.S. Dollars*
	2003	2002	2003
Loans in legal bankruptcy	¥ 20,830	¥16,457	$ 173,583
Nonaccrual loans	39,897	28,723	332,475
Accruing loans contractually past due three months or more as to principal or interest payments	16,503	11,945	137,525
Restructured loans	43,169	37,729	359,742
Total	¥120,399	¥94,854	$1,003,325

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. Allowance for claims in bankruptcy is stated at such amount less net realizable value of collateral.

Nonaccrual loans are loans in which accruals of interest are discontinued, and those other than loans in legal bankruptcy 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 were not recognized on the balance sheets, amounted to ¥162,920 million

($1,357,667 thousand) and ¥153,158 million at March 31, 2003 and 2002, respectively.
At March 31, 2003 and 2002, the Group had the balances related to revolving loan contracts of ¥1,445,473 million ($12,045,608 thousand) and ¥1,326,652 million, respectively, whereby a commitment is set up for each loan customer and the Group is obligated to advance funds up to a predetermined amount upon request. At March 31, 2003 and 2002, the balances of unadvanced commitments were ¥4,228,629 million ($35,238,575 thousand) and ¥3,680,028 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.

Note 5: INSTALLMENT ACCOUNTS RECEIVABLE

Installment accounts receivable and unearned income, included in other current liabilities at March 31, 2003 and 2002, consisted of the following :

	Millions of Yen				Thousands of U.S. Dollars	
	2003		2002		2003	
	Receivables	Unearned income	Receivables	Unearned income	Receivables	Unearned income
Credit card shopping loans	¥ 64,117	¥ 538	¥ 61,687	¥1,044	$ 534,308	$ 4,483
Per-item shopping loans	171,755	9,661	148,592	6,283	1,431,292	80,509
Other	1		27		8	
Total	¥235,873	¥10,199	¥210,306	¥7,327	$1,965,608	$84,992
Off-balance sheet securitized installment accounts receivable	(88,016)		(89,550)		(733,466)	
Net	¥147,857	¥10,199	¥120,756	¥7,327	$1,232,142	$84,992

In addition, the Group has unearned income of ¥219 million ($1,825 thousand) and ¥258 million at March 31, 2003 and 2002, respectively, related to loans other than those shown in the above table.

The securitized installment accounts receivable, which were not recognized on the balance sheets, amounted to ¥88,016 million ($733,466 thousand) and ¥89,550 million at March 31, 2003 and 2002, respectively.

Note 6: LOAN GUARANTEES AND OBILIGATIONS 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 ¥670 million ($5,583 thousand) and ¥1,294 million at March 31, 2003 and 2002, respectively.

Note 7: INVENTORIES

Inventories at March 31, 2003 and 2002 consisted of the following :

	Millions of Yen		*Thousands of U.S. Dollars*
	2003	2002	2003
Property for sale	¥564	¥1,025	$4,700
Supplies	160	190	1,333
Total	¥724	¥1,215	$6,033

Note 8: MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2003 and 2002 consisted of the following :

	Millions of Yen		*Thousands of U.S. Dollars*
	2003	2002	2003
Current:			
Government and corporate bonds	¥ 10	¥ 269	$ 83
Other	500		4,167
Total	¥ 510	¥ 269	$ 4,250
Non-current:			
Equity securities	¥ 9,476	¥9,018	$78,967
Government and corporate bonds	120	10	1,000
Other	1,660		13,833
Total	¥11,256	¥9,028	$93,800

Information on the marketable securities classified as available-for-sale at March 31, 2003 and 2002 was as follows :

	Millions of Yen			
	2003			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	¥7,112	¥165	¥955	¥6,322
Debt securities	130			130
	¥7,242	¥165	¥955	¥6,452

	Millions of Yen			
	2002			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale :				
Equity securities	¥6,679	¥267	¥842	¥6,104
Debt securities	270			270
	¥6,949	¥267	¥842	¥6,374

	Thousands of U.S. Dollars			
	2003			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	$59,267	$1,375	$7,958	$52,684
Debt securities	1,083			1,083
	$60,350	$1,375	$7,958	$53,767

Available-for-sale securities and held-to-maturity securities whose fair value is not readily determinable as of March 31, 2003 and 2002 were as follows :

	Carrying amount		
	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Available-for-sale:			
Equity securities	¥3,154	¥2,913	$26,283
Other	2,160		18,000
Held-to-maturity securities		9	
Total	¥5,314	¥2,922	$44,283

Proceeds from sales of available-for-sale securities for the years ended March 31, 2003 and 2002 were ¥1,605 million ($13,375 thousand) and ¥1,517 million, respectively. Gross realized gains on these sales, computed on the moving average cost basis, were ¥212 million ($1,767 thousand) and ¥140 million for the years ended March 31, 2003 and 2002, respectively, and gross realized losses were ¥5 million ($42 thousand) and ¥2 million for the years ended March 31, 2003 and 2002, respectively.

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale at March 31, 2003 are as follows :

	Millions of Yen	Thousands of U.S. Dollars
	Available-for-sale	Available-for-sale
Due within one year	¥510	$4,250
Due after one year through five years	120	1,000

Note 9: SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings at March 31, 2003 and 2002 consisted of the following :

	Millions of Yen		*Thousands of U.S. Dollars*
	2003	2002	2003
Commercial paper, 0.60% to 0.80% (0.79% at March 31, 2002)	¥13,500	¥15,000	$112,500
Loans from banks, 0.80% to 2.75% (0.84% to 2.60% at March 31, 2002)	17,600	15,211	146,667
Loans from other financial institutions, 1.38% to 1.48% (1.48% at March 31, 2002)	6,000	2,000	50,000
Other (principally from leasing and factoring companies), 1.70% to 2.50% (2.40% to 2.90% at March 31, 2002)	31,765	20,281	264,708
Total	¥68,865	¥52,492	$573,875

Long-term debt at March 31, 2003 and 2002 consisted of the following :

	Millions of Yen		*Thousands of U.S. Dollars*
	2003	2002	2003
Loans from banks, 1.36% to 4.20%, due serially to 2008 (1.08% to 4.20%, due serially to 2007 at March 31, 2002)	¥ 531,189	¥ 463,160	$ 4,426,575
Loans from other financial institutions, 1.50% to 4.20%, due serially to 2008 (1.75% to 4.20%, due serially to 2007 at March 31, 2002)	224,357	219,885	1,869,641
Syndicated loans, 0.89% to 1.78%, due serially to 2009 (2.50%, due serially to 2004 at March 31, 2002)	86,835	46,667	723,625
Unsecured 2.43% yen straight bonds, due 2002		10,000	
Unsecured 1.73% to 3.65% yen straight bonds, due 2003 (1.50% to 3.20% at March 31, 2002)	20,000	75,000	166,667
Unsecured 2.00% to 2.53% yen straight bonds, due 2004	135,000	135,000	1,125,000
Unsecured 1.75% to 2.00% yen straight bonds, due 2005 (1.75% to 1.86% at March 31, 2002)	50,000	30,000	416,667
Unsecured 1.30% to 3.27% yen straight bonds, due 2006 (1.70% to 3.27% at March 31, 2002)	78,500	60,000	654,167
Unsecured 1.66% to 2.51% yen straight bonds, due 2007 (2.51% at March 31, 2002)	43,000	20,000	358,333
Unsecured 1.62% to 2.48% yen straight bonds, due 2008 (2.48% at March 31, 2002)	30,000	15,000	250,000
Unsecured 1.28% to 3.28% yen straight bonds, due 2009 (3.28% at March 31, 2002)	28,000	8,000	233,333
Unsecured 2.93% to 3.00% yen straight bonds, due 2010	20,000	20,000	166,667
Unsecured 3.65% Euro-yen straight bonds, due 2003	9,500	9,500	79,167
Unsecured variable rate Euro-yen straight bonds, due 2006 (1.82% at March 31, 2003, 1.83% at March 31, 2002)	15,000	15,000	125,000
Unsecured 1.73% medium-term notes, due 2002		3,000	
Unsecured variable rate Euro-yen medium-term notes, due 2002		3,000	
Unsecured 0.86% medium-term notes, due 2005	4,000		33,333
Unsecured 2.21% medium-term notes, due 2007	1,000	1,000	8,333
Unsecured 3.00% medium-term notes, due 2008	3,000	3,000	25,000
Unsecured 3.50% medium-term notes, due 2015	15,000	15,000	125,000
Other (principally from leasing and factoring companies), 0.85% to 4.05%, due serially to 2008 (2.00% to 4.80%, at March 31, 2002)	141,723	139,569	1,181,025
Total	1,436,104	1,291,781	11,967,533
Less current portion	(490,653)	(446,271)	(4,088,775)
Long-term debt, less current portion	¥ 945,451	¥ 845,510	$ 7,878,758

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

The aggregate annual maturities of long-term debt at March 31, 2003 were as follows :

Year Ending March 31	*Millions of Yen*	*Thousands of U.S. Dollars*
2004	¥ 490,653	$ 4,088,775
2005	405,586	3,379,883
2006	231,413	1,928,442
2007	135,057	1,125,475
2008	88,330	736,083
2009 and thereafter	85,065	708,875
Total	¥1,436,104	$11,967,533

At March 31, 2003, 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	¥ 642	$ 5,350
Loans	707,844	5,898,700
Installment accounts receivable	44,759	372,992
Property for sale	137	1,141
Investment securities	266	2,217
Property, plant and equipment, net of accumulated depreciation	2,664	22,200
Other assets	1	8
Total	¥756,313	$6,302,608
Related liabilities:		
Short-term borrowings	¥ 37,265	$ 310,542
Long-term debt (including current portion of long-term debt)	589,224	4,910,200
Trade accounts payable	219	1,825
Total	¥626,708	$5,222,567

The above table includes loans related to securitized loans of ¥203,483 million ($1,695,692 thousand), and related liabilities (long-term debt including current portion) of ¥123,868 ($1,032,233 thousand).

In addition, if requested by lending financial institutions, the Group has committed to pledge collateral for loans other than those shown in the above table. At March 31, 2003, related liabilities for which lending financial institutions can request the Group to pledge collateral consisted of the following :

	Millions of Yen	*Thousands of U.S. Dollars*
Short-term borrowings	¥ 2,000	$ 16,667
Long-term debt (including current portion of long-term debt)	165,798	1,381,650
Total	¥167,798	$1,398,317

At March 31, 2003, other current assets amounting to ¥15,784 million ($131,533 thousand) were pledged as collateral for the interest rate swap contracts.

Note 10: RETIREMENT AND PENSION PLANS

The Company and certain consolidated subsidiaries have contributory and non-contributory funded pension plans covering substantially all employees. Under the pension plans, employees terminating their employment are, in most circumstances, entitled to pension payments based on their average pay during their employment, length of service and certain other factors. If the termination is involuntary, employees are usually entitled to larger payments than in the case of voluntary termination.

The liability for retirement benefits includes retirement benefits to directors and corporate auditors of ¥1,151 million ($9,592 thousand) and ¥1,068 million at March 31, 2003 and 2002, respectively.

The liability for employees' retirement benefits at March 31, 2003 and 2002 consisted of the following :

	Millions of Yen		*Thousands of U.S. Dollars*
	2003	2002	2003
Projected benefit obligation	¥ 22,410	¥ 19,542	$ 186,750
Fair value of plan assets	(13,661)	(12,350)	(113,842)
Unrecognized prior service cost	1,232	1,394	10,267
Unrecognized actuarial loss	(2,357)	(2,628)	(19,642)
Net liability	¥ 7,624	¥ 5,958	$ 63,533
Prepaid pension cost	12		100
Liability for employees' retirement benefits	¥ 7,636	¥ 5,958	$ 63,633

The components of net periodic benefit costs for the years ended March 31, 2003 and 2002 were as follows :

	Millions of Yen		*Thousands of U.S. Dollars*
	2003	2002	2003
Service cost	¥1,486	¥1,373	$12,383
Interest cost	503	528	4,192
Expected return on plan assets	(264)	(291)	(2,200)
Amortization of prior service cost	(162)	(573)	(1,350)
Recognized actuarial loss	1,624	316	13,533
Net periodic benefit costs	¥3,187	¥1,353	$26,558

Assumptions used for the years ended March 31, 2003 and 2002 were set forth as follows :

	2003	2002
Discount rate	1.5% to 2.5%	2.5% to 3.0%
Expected rate of return on plan assets	1.5% to 2.5%	1.5% to 2.5%
Amortization period of prior service cost:		
Company	Full amount charged to income as incurred	Full amount charged to income as incurred
One consolidated subsidiary	10 years	10 years
Recognition period of actuarial gain / loss:		
Company	Full amount charged to income as incurred	Full amount charged to income as incurred
One consolidated subsidiary	10 years	10 years

Note 11: SHAREHOLDERS' EQUITY

Japanese companies are subject to the Japanese Commercial Code (the "Code") to which certain amendments became effective from October 1, 2001.

The Code was revised whereby common stock par value was eliminated resulting in all shares being recorded with no par value and at least 50% of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds as additional paid-in capital, which is included in capital surplus. The Code permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration as a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The revised Code also provides that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period shall be appropriated as a legal reserve (a component of retained earnings) until such reserve and additional paid-in capital equals 25% of common stock. The amount of total additional paid-in capital and legal reserve that exceeds 25% of the common stock may be available for dividends by resolution of the shareholders. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock by resolution of the Board of Directors.

The revised Code eliminated restrictions on the repurchase and use of treasury stock allowing Japanese companies to repurchase treasury stock by a resolution of the shareholders at the general shareholders meeting and dispose of such treasury stock by resolution of the Board of Directors beginning April 1, 2002. The repurchased amount of treasury stock cannot exceed the amount available for future dividend plus amount of common stock, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the general shareholders meeting.

The amount of retained earnings available for dividends under the Code was ¥297,779 million ($2,481,492 thousand) as of March 31, 2003, based on the amount recorded in the parent company's general books of account. In addition to the provision that requires an appropriation for a legal reserve in connection with the cash payment, the Code imposes certain limitations on the amount of retained earnings available for dividends.

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

At the Shareholders' General Meeting held on June 27, 2001, the Company's shareholders approved the following stock option plan for the Company's directors and key employees. The plan provides for granting options to directors and key employees to purchase up to 223 thousand shares of the Company's common stock. The options were granted to purchase common stock at the higher of 103% of the average fair market price for the preceding month of the grant, or the fair market price at the time of grant. The stock options are exercisable from July 1, 2003 to June 30, 2006. The Company plans to issue acquired treasury stock upon exercise of the stock options. The treasury stock will be purchased from the open market for a total consideration not to exceed ¥4,100 million.

On August 25, 2001, the Company issued 8,500 thousand shares of its common stock at ¥10,241 per share, for gross proceeds of approximately ¥87,048 million. On the issuance of common stock, ¥43,528 million and ¥43,520 million were credited to common stock and additional paid-in capital, respectively.

On May 27, 2002, the Board of Directors resolved that the number of common shares the Company is authorized to issue was increased from 224 million shares to 373.5 million shares. This resolution was approved at the Shareholders' General Meeting held on June 26, 2002.

At the Shareholders' General Meeting held on June 26, 2002, the Company's shareholders approved that the Company is authorized to purchase treasury stock of the Company up to 9 million shares (aggregate amount of ¥90,000 million) in the period from the closing of this Shareholders' General Meeting to that of the next Shareholders' General Meeting.

At March 31, 2003, the Company has not yet repurchased shares of the Company's common stock under this plan. Approval of a successor plan is described in Note 17.

On October 1, 2002, the Company acquired all 2,000 shares of the common stock of City Green Corporation in exchange for 1,314,000 shares of the Company's common stock, according to an agreement dated August 27, 2002. On the exchange of common stock, ¥394 million ($3,283 thousand) was credited to additional paid-in capital based on the book value of the acquired net assets. In addition, effective October 1, 2002, the above shares were revalued at market in accordance with the purchase method of accounting which resulted in an increase to additional paid-in capital of ¥9,684 million ($80,700 thousand).

Note 12: INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes.

On March 31, 2003, a tax reform law was enacted in Japan which changed the normal effective statutory tax rate from 41.9% to 40.4%, effective for years beginning April 1, 2004. The effect of this change was to decrease deferred tax assets by ¥580 million ($4,833 thousand) in the consolidated balance sheet and to decrease deferred taxes by ¥569 million ($4,742 thousand) in the consolidated statement of income for the year ended March 31, 2003.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2003 and 2002 are as follows :

	Millions of Yen		*Thousands of U.S. Dollars*
	2003	2002	2003
Current Deferred Tax Assets :			
Provision for doubtful loans	¥ 9,009	¥ 6,629	$ 75,075
Charge-offs for doubtful loans	8,345	1,058	69,542
Tax loss carryforwards	3,089		25,742
Enterprise tax payable	2,106	940	17,550
Accrued bonuses	1,337	1,145	11,142
Unrecorded accrued interest on loans	1,427		11,892
Other	436	452	3,632
Total	25,749	10,224	214,575
Less valuation allowance	(151)	(253)	(1,258)
Net	25,598	9,971	213,317
Current Deferred Tax Liabilities -			
Other	15		125
Net deferred tax assets	¥25,583	¥ 9,971	$213,192
Non-current Deferred Tax Assets :			
Tax loss carryforwards	¥20,786	¥32,657	$173,217
Provision for employees' retirement benefits	3,063	2,462	25,525
Provision for doubtful loans	1,948	1,995	16,233
Depreciation and amortization	1,759	2,489	14,658
Other	2,284	1,579	19,033
Total	29,840	41,182	248,666
Less valuation allowance	(13,243)	(19,918)	(110,358)
Net	16,597	21,264	138,308
Non-current Deferred Tax Liabilities -			
Unrealized gain on available-for-sale securities	6		50
Net deferred tax assets	¥16,591	¥21,264	$138,258

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 rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2003 and 2002 is as follows :

	2003	2002
Normal effective statutory tax rates	41.9%	41.9%
Additional taxation on undistributed income	5.9	5.9
Inhabitant's taxes	0.3	0.5
Expenses not deductible for income taxes purposes	1.4	8.3
Decrease of valuation allowance	(5.9)	(12.6)
Adjustment resulting from a reformed tax law	0.5	
Other, net	(0.0)	0.3
Actual effective tax rates	44.1%	44.3%

Note 13: RELATED PARTY TRANSACTIONS

The balance due from an unconsolidated subsidiary at March 31, 2003 and 2002 was as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	2003	2002	2003
Advances to an unconsolidated subsidiary	¥3,615	¥4,305	$30,125

An allowance has been provided for the entire amount of the advances to this unconsolidated subsidiary.
In consideration of the unconsolidated subsidiary's financial condition, the Company does not charge interest on such advances.

Note 14: 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, 2003 and 2002 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 Ended March 31 :				
2003	¥24,359	¥7,721	$202,992	$64,342
2002	22,961	7,014		

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, 2003 and 2002 were as follows :

	Millions of Yen		*Thousands of U.S. Dollars*
	Machinery and Equipment		Machinery and Equipment
	2003	2002	2003
Acquisition cost	¥33,486	¥33,146	$279,050
Accumulated depreciation	23,006	21,921	191,717
Net leased property	¥10,480	¥11,225	$ 87,333

Obligations under finance leases :

	Millions of Yen		*Thousands of U.S. Dollars*
	2003	2002	2003
Due within one year	¥ 6,125	¥ 6,086	$ 51,042
Due after one year	7,752	8,181	64,600
Total	¥13,877	¥14,267	$115,642

Depreciation expense and interest expense, which are not reflected in the accompanying consolidated statements of income, computed under a declining-balance method and the interest method, respectively for the years ended March 31, 2003 and 2002 were as follows :

	Millions of Yen		*Thousands of U.S. Dollars*
	2003	2002	2003
Depreciation expense	¥7,039	¥6,704	$58,658
Interest expense	362	488	3,017

The minimum rental commitments under noncancellable operating leases at March 31, 2003 and 2002 were as follows :

	Millions of Yen		*Thousands of U.S. Dollars*
	2003	2002	2003
Due within one year	¥111	¥15	$ 925
Due after one year	324	17	2,700
Total	¥435	¥32	$3,625

Note 15: DERIVATIVES

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

Such derivative transactions are entered into to hedge interest exposures incorporated within its business. Accordingly, market risk in these derivatives is theoretically offset by opposite movements in the value of hedged liabilities. The Group does not hold or issue derivatives for trading and 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 and credit limit amount.

The Group had no derivative instruments outstanding at March 31, 2003 and 2002.

Interest rate swap and cap contracts which qualify for hedge accounting and meet specific matching criteria are excluded from disclosure of market value information.

Note 16: NET INCOME PER SHARE

Basic net income per share ("EPS") for the years ended March 31, 2003 and 2002 is computed as follows :

	Yen in millions	*Thousands of shares*	*Yen*	*Dollars*
	Net income	Weighted average shares	EPS	
For the year ended March 31, 2003 :				
Basic EPS				
Net income available to common shareholders	¥ 59,812	93,810	¥637.59	$5.31
For the year ended March 31, 2002 :				
Basic EPS				
Net income available to common shareholders	¥ 34,961	89,908	¥388.85	

Diluted EPS is not disclosed because it is anti-dilutive for the years ended March 31, 2003 and 2002.

Note 17: SUBSEQUENT EVENTS

At the Shareholders' General Meeting held on June 26, 2003, the Company's shareholders approved the following appropriations of retained earnings and purchase of treasury stock.

a. Appropriations of Retained Earnings

The following appropriations of retained earnings at March 31, 2003 were approved :

	Millions of Yen	*Thousands of U.S. Dollars*
Year-end cash dividends, ¥30 ($0.25) per share	¥2,834	$23,617
Bonuses to directors and corporate auditors	98	817

b. Purchase of treasury stock

The Company is authorized to purchase treasury stock of the Company up to 9 million shares (aggregate amount of ¥90,000 million ($750,000 thousand)) in the period from the closing of this Shareholders' General Meeting to that of the next Shareholders' General Meeting.

Note 18: 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.

Deloitte Touche Tohmatsu

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, 2003 and 2002, and the related consolidated statements of income, shareholders' 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, procedures and practices generally accepted and applied 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, 2003 and 2002, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan.

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

Shimbashi & Co.

SHIMBASHI & CO.
Osaka, Japan

June 26, 2003

Non-Consolidated Balance Sheets

AIFUL Corporation
March 31, 2003 and 2002

ASSETS	Millions of Yen 2003	Millions of Yen 2002	Thousands of U.S. Dollars (Note 3) 2003
CURRENT ASSETS :			
Cash and cash equivalents	¥ 84,244	¥ 93,255	$ 702,033
Time deposits	242	138	2,017
Marketable securities (Note 6)	10		83
Loans (Notes 4 and 7)	1,413,340	1,313,690	11,777,833
Allowance for doubtful loans	(70,479)	(58,689)	(587,325)
Net loans	1,342,861	1,255,001	11,190,508
Inventories (Notes 5 and 7)	336	680	2,800
Prepaid expenses	3,609	3,495	30,075
Deferred tax assets (Note 9)	12,437	7,589	103,642
Other current assets (Note 7)	70,117	31,860	584,309
Total current assets	1,513,856	1,392,018	12,615,467
PROPERTY, PLANT AND EQUIPMENT :			
Land	5,613	5,284	46,775
Buildings and structures	22,885	23,084	190,708
Machinery, vehicles and equipment	10,769	10,007	89,742
Construction in progress	3,094		25,783
Total	42,361	38,375	353,008
Accumulated depreciation	(16,676)	(15,068)	(138,966)
Net property, plant and equipment	25,685	23,307	214,042
INVESTMENTS AND OTHER ASSETS :			
Investment securities (Notes 6 and 7)	7,539	6,539	62,825
Investments in and advances to subsidiaries and associated companies	280,138	266,814	2,334,483
Claims in bankruptcy (Note 4)	16,906	14,267	140,883
Allowance for advances to subsidiary and claims in bankruptcy	(18,348)	(17,220)	(152,900)
Software, net	7,607	2,354	63,392
Long-term loans (less current portion)	16,753	8,671	139,608
Lease deposits	8,312	8,652	69,267
Long-term prepayments	3,519	1,566	29,325
Deferred tax assets (Note 9)	5,166	4,348	43,050
Deferred losses on hedging instruments, mainly interest rate swaps	33,675	22,931	280,625
Other assets	5,404	6,621	45,033
Total investments and other assets	366,671	325,543	3,055,591
TOTAL	¥1,906,212	¥1,740,868	$15,885,100

See notes to non-consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen 2003	Millions of Yen 2002	Thousands of U.S. Dollars (Note 3) 2003
CURRENT LIABILITIES :			
Short-term borrowings (Note 7)	¥ 27,000	¥ 29,000	$ 225,000
Current portion of long-term debt (Note 7)	447,876	430,785	3,732,300
Trade notes payable	4,286	3,572	35,717
Trade accounts payable	4,493	5,408	37,442
Income taxes payable	37,128	15,912	309,400
Accrued expenses	7,029	6,449	58,575
Other current liabilities	1,443	1,244	12,024
Total current liabilities	529,255	492,370	4,410,458
LONG-TERM LIABILITIES :			
Long-term debt (less current portion) (Note 7)	870,449	803,194	7,253,742
Liability for retirement benefits (Note 2.g)	3,441	2,395	28,675
Interest rate swaps	32,120	22,305	267,667
Other long-term liabilities	113	111	941
Total long-term liabilities	906,123	828,005	7,551,025
CONTINGENT LIABILITIES (Note 11)			
SHAREHOLDERS' EQUITY (Notes 8 and 13) :			
Common stock, authorized, 373,500,000 shares in 2003 and 224,000,000 shares in 2002; issued, 94,690,000 shares in 2003 and 93,376,000 shares in 2002	83,317	83,317	694,308
Capital surplus -			
Additional paid-in capital	90,225	89,831	751,875
Retained earnings :			
Legal reserve	1,566	1,566	13,050
Unappropriated	298,177	248,086	2,484,808
Net unrealized loss on available-for-sale securities	(398)	(261)	(3,316)
Total	472,887	422,539	3,940,725
Treasury stock, at cost – 221,638 shares in 2003 and 220,585 shares in 2002	(2,053)	(2,046)	(17,108)
Total shareholders' equity	470,834	420,493	3,923,617
TOTAL	¥1,906,212	¥1,740,868	$15,885,100

Non-Consolidated Statements of Income

AIFUL Corporation

Years Ended March 31, 2003 and 2002

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2003	2002	2003
INCOME :			
Interest on loans	¥315,600	¥296,034	$2,630,000
Interest on deposits, securities and other	4,721	3,912	39,342
Sales of property for sale	306	2,824	2,550
Income from restaurant business and other	936	1,247	7,800
Recovery of loans previously charged off	3,897	3,779	32,475
Other income	4,687	4,047	39,058
Total income	330,147	311,843	2,751,225
EXPENSES :			
Interest on borrowings	32,692	30,829	272,433
Cost of sales of property for sale	296	2,678	2,466
Charge-offs and provision for doubtful loans, advances to subsidiary and claims in bankruptcy	90,725	67,931	756,042
Salaries and other employees' benefits	26,991	23,114	224,925
Advertising expenses	15,377	19,274	128,142
Rental expenses	15,536	15,004	129,467
Commissions and fees	9,624	9,723	80,200
Supplies	1,269	1,295	10,575
Loss on write-down of investment securities	360	549	3,000
Loss on write-down of inventories	36	2,195	300
Depreciation and amortization	3,512	4,515	29,267
Provision for employees' retirement benefits	2,213	369	18,442
Provision for retirement benefits to directors and corporate auditors	75	111	625
Stock issue costs		4,235	
Loss on sales of property, net	2	31,185	17
Other expenses	24,881	26,182	207,341
Total expenses	223,589	239,189	1,863,242
INCOME BEFORE INCOME TAXES	106,558	72,654	887,983
INCOME TAXES (Note 9) :			
Current	56,825	35,001	473,542
Deferred	(5,585)	(696)	(46,542)
Total income taxes	51,240	34,305	427,000
NET INCOME	¥ 55,318	¥ 38,349	$ 460,983

	Yen		U.S. Dollars
AMOUNTS PER COMMON SHARE (Notes 2.r and 12) :			
Basic net income	¥588.63	¥425.39	$4.91
Cash dividends applicable to the year	60.00	50.00	0.50

See notes to non-consolidated financial statements.

Non-Consolidated Statements of Shareholders' Equity

AIFUL Corporation

Years Ended March 31, 2003 and 2002

	Thousands	*Millions of Yen*					
			Capital Surplus	Retained Earnings			
	Number of Shares of Common Stock Issued	Common Stock	Additional Paid-in Capital	Legal Reserve	Unappropriated	Net Unrealized Gain (Loss) on Available-for-sale Securities	Treasury Stock
BALANCE AT APRIL 1, 2001	84,876	¥39,789	¥46,311	¥1,301	¥214,969	¥ 231	
Net income					38,349		
Cash dividends paid, ¥55 per share					(4,880)		
Transfer to legal reserve				265	(265)		
Bonuses to directors and corporate auditors					(87)		
Net increase in treasury stock (220,585 shares) (Note 8)							¥(2,046)
Public offering (Note 8)	8,500	43,528	43,520				
Net unrealized loss on available-for-sale securities						(492)	
BALANCE AT MARCH 31, 2002	93,376	83,317	89,831	1,566	248,086	(261)	(2,046)
Net income					55,318		
Cash dividends paid, ¥55 per share					(5,124)		
Bonuses to directors and corporate auditors					(103)		
Acquisition of City Green Corporation (Note 8)	1,314		394				
Net unrealized loss on available-for-sale securities						(137)	
Net increase in treasury stock (1,053 shares)							(7)
BALANCE AT MARCH 31, 2003	94,690	¥83,317	¥90,225	¥1,566	¥298,177	¥(398)	¥(2,053)

	Thousands of U.S. Dollars (Note 3)					
		Capital Surplus	Retained Earnings			
	Common Stock	Additional Paid-in Capital	Legal Reserve	Unappropriated	Net Unrealized Gain (Loss) on Available-for-sale Securities	Treasury Stock
BALANCE AT MARCH 31, 2002	$694,308	$748,592	$13,050	$2,067,383	$(2,175)	$(17,050)
Net income				460,983		
Cash dividends paid, $0.46 per share				(42,700)		
Bonuses to directors and corporate auditors				(858)		
Acquisition of City Green Corporation (Note 8)		3,283				
Net unrealized loss on available-for-sale securities					(1,141)	
Net increase in treasury stock (1,053 shares)						(58)
BALANCE AT MARCH 31, 2003	$694,308	$751,875	$13,050	$2,484,808	$(3,316)	$(17,108)

See notes to non-consolidated financial statements.

Notes to Non-Consolidated Financial Statements

AIFUL Corporation

Years Ended March 31, 2003 and 2002

Note 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 Financial Reporting Standards. The non-consolidated financial statements are not intended to present the financial position and results of operations in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

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 accounting procedures generally accepted in Japan.

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 2002 non-consolidated financial statements to conform to the classifications used in 2003.

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

b. *Cash Equivalents* - Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value.

Cash equivalents include time deposits and certificate of deposits which mature or become due within three months of the date of acquisition.

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

d. *Marketable and Investment Securities* - Held-to-maturity debt securities are reported at amortized cost and available-for-sale securities are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of shareholders' 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.

e. *Property, Plant and Equipment* - Property, plant and equipment are stated at cost. Depreciation is computed by the declining-balance method. The range of useful lives is principally from 7 to 50 years for buildings and structures and from 2 to 20 years for machinery, vehicles and equipment.

f. *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.

g. *Liability for Retirement Benefits* - The Company has contributory and non-contributory funded pension plans covering substantially all employees. Under the pension plans, employees terminating their employment are, in most circumstances, entitled to pension payments based on their average pay during their employment, length of service and certain other factors. If the termination is involuntary, employees are usually entitled to larger payments than in the case of voluntary termination.

The Company accounted for the net liability for retirement benefits based on projected benefit obligation and plan assets at the balance sheet date.

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 balances of retirement benefits include those to directors and corporate auditors in the amount of ¥1,110 million ($9,250 thousand) and ¥1,056 million for the years ended March 31, 2003 and 2002, respectively.

h. *Allowances for Doubtful Loans* - The allowance for doubtful loans 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.

i. *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.

j. *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.

k. *Appropriations of Retained Earnings* - Appropriations of retained earnings are reflected in the non-consolidated financial statements for the following year upon shareholders' approval.

l. *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 income.

m. *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.

n. *Interest on Borrowings* - Interest on financial liabilities is accounted for as operating expenses while other interest is included in other expenses.

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

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

q. *Derivatives and Hedging Activities* - The Company uses derivative financial instruments to manage its exposures to fluctuations in interest rates. Interest rate swaps and caps are utilized by the Company to reduce interest rate 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 are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the non-consolidated statements of income, 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 are deferred until maturity of the hedged transactions.

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 agreements are recognized and included in interest expense or income.

r. *Per Share Information* - Effective April 1, 2002, the Company adopted a new accounting standard for earnings per share of common stock issued by the Accounting Standards Board of Japan. Under the new standard, basic net income per share is computed by dividing net income available to common shareholders, which is more precisely computed than under previous practices, by the weighted-average number of common shares outstanding for the period.

Diluted net income per share of common stock reflects the potential dilution that could occur if securities were exercised or converted into common stock and assumes full exercise of outstanding stock options. Basic net income per share for the years ended March 31, 2003 and 2002 are computed in accordance with the new standard. Diluted net income per share is not disclosed because it is anti-dilutive.

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.

Note 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, 2003. 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.

Note 4: LOANS

Loans at March 31, 2003 and 2002 consisted of the following (before allowance for doubtful loans) :

	Millions of Yen		*Thousands of U.S. Dollars*
	2003	2002	2003
Unsecured	¥1,068,151	¥1,019,293	$ 8,901,258
Secured	322,840	277,671	2,690,333
Small business loans	22,349	16,726	186,242
Total	¥1,413,340	¥1,313,690	$11,777,833

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

	Millions of Yen		*Thousands of U.S. Dollars*
	2003	2002	2003
Loans in legal bankruptcy	¥20,340	¥16,457	$169,500
Nonaccrual loans	31,834	23,334	265,284
Accruing loans contractually past due three months or more as to principal or interest payments	11,218	8,931	93,483
Restructured loans	32,517	29,305	270,975
Total	¥95,909	¥78,027	$799,242

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

Nonaccrual loans are loans in which accruals of interest are discontinued, and those other than loans in legal bankruptcy 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, 2003 and 2002, the Company had the balances related to revolving loan contracts of ¥1,071,918 million ($8,932,650 thousand) and ¥1,023,875 million, respectively, whereby a commitment is set up for each loan customer and the Company is obligated to advance funds up to a predetermined amount upon request. At March 31, 2003 and 2002, the balances of unadvanced commitments were ¥496,448 million ($4,137,067 thousand) and ¥444,662 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.

Note 5: INVENTORIES

Inventories at March 31, 2003 and 2002 consisted of the following :

	Millions of Yen		*Thousands of U.S. Dollars*
	2003	2002	2003
Property for sale	¥336	¥668	$2,800
Supplies		12	
Total	¥336	¥680	$2,800

Note 6: MARKETABLE AND INVESTMENT SECURITIES

Disclosure of cost and fair value of marketable and investment securities at March 31, 2003 and 2002 is not presented herein, as such information is not required in non-consolidated financial statements.

Note 7: SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings at March 31, 2003 and 2002 consisted of the following :

	Millions of Yen		*Thousands of U.S. Dollars*
	2003	2002	2003
Commercial paper, 0.80% (0.79% at March 31, 2002)	¥13,000	¥15,000	$ 108,333
Loans from banks, 0.80% to 1.05% (0.84% to 1.11% at March 31, 2002)	10,000	12,000	83,334
Loans from other financial institutions, 1.38% to 1.48% (1.48% at March 31, 2002)	4,000	2,000	33,333
Total	¥27,000	¥29,000	$ 225,000

Long-term debt at March 31, 2003 and 2002 consisted of the following :

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Loans from banks, 1.36% to 4.20%, due serially to 2008 (1.08% to 4.20%, due serially to 2007 at March 31, 2002)	¥ 453,029	¥ 420,031	$ 3,775,241
Loans from other financial institutions, 1.50% to 4.20%, due serially to 2008 (1.75% to 4.20%, due serially to 2007 at March 31, 2002)	211,169	219,047	1,759,742
Syndicated Loans, 0.89% to 1.78%, due serially to 2009 (2.50%, due serially to 2004 at March 31, 2002)	77,834	46,666	648,617
Unsecured yen straight bonds, due 2002 (2.43% at March 31, 2002)		10,000	
Unsecured 1.73% to 3.65% yen straight bonds, due 2003 (1.36% to 3.20% at March 31, 2002)	20,000	75,000	166,667
Unsecured 2.00% to 2.53% yen straight bonds, due 2004	135,000	135,000	1,125,000
Unsecured 1.75% to 2.00% yen straight bonds, due 2005 (1.75% to 1.86% at March 31, 2002)	50,000	30,000	416,667
Unsecured 1.30% to 3.27% yen straight bonds, due 2006 (1.70% to 3.27% at March 31, 2002)	78,500	60,000	654,167
Unsecured 1.66% to 2.51% yen straight bonds, due 2007 (2.51% at March 31, 2002)	43,000	20,000	358,333
Unsecured 1.6% to 2.48% yen straight bonds, due 2008 (2.48% at March 31, 2002)	30,000	15,000	250,000
Unsecured 1.28% to 3.28% yen straight bonds, due 2009 (3.28% at March 31, 2002)	28,000	8,000	233,333
Unsecured 2.93% to 3.00% yen straight bonds, due 2010	20,000	20,000	166,667
Unsecured 3.65% Euro-yen straight bonds, due 2003	9,500	9,500	79,167
Unsecured variable rate Euro-yen straight bonds, due 2006 (1.82% at March 31, 2002)	15,000	15,000	125,000
Unsecured 1.73% medium-term notes, due 2002		3,000	
Unsecured variable rate Euro-yen medium-term notes, due 2002		3,000	
Unsecured 0.86% medium-term notes, due 2005	4,000		33,333
Unsecured 2.21% medium-term notes, due 2007	1,000	1,000	8,333
Unsecured 3.00% medium-term notes, due 2008	3,000	3,000	25,000
Unsecured 3.50% medium-term notes, due 2015	15,000	15,000	125,000
Other (principally from leasing and factoring companies), 0.85% to 2.65%, due serially to 2008 (2.00% to 4.80%, at March 31, 2002)	124,293	125,735	1,035,775
Total	1,318,325	1,233,979	10,986,042
Less current portion	(447,876)	(430,785)	(3,732,300)
Long-term debt, less current portion	¥ 870,449	¥ 803,194	$ 7,253,742

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

The aggregate annual maturities of long-term debt at March 31, 2003 were as follows :

Year Ending March 31	*Millions of Yen*	*Thousands of U.S. Dollars*
2004	¥ 447,876	$ 3,732,300
2005	352,141	2,934,508
2006	213,518	1,779,317
2007	132,735	1,106,125
2008	86,990	724,917
2009 and thereafter	85,065	708,875
Total	¥1,318,325	$10,986,042

At March 31, 2003, 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	¥640,485	$5,337,375
Property for sale	137	1,141
Investment securities	146	1,217
Total	¥640,768	$5,339,733
Related liabilities -		
Long-term debt (including current portion of long-term debt)	¥516,444	$4,303,700

Land and other assets of Marutoh KK, the Company's subsidiary, were pledged as collateral for the above liabilities.

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

At March 31, 2003, related liabilities for which lending financial institutions can request the Company to pledge collateral consisted of the following :

	Millions of Yen	*Thousands of U.S. Dollars*
Short-term borrowings	¥ 2,000	$ 16,667
Long-term debt (including current portion of long-term debt)	142,800	1,190,000
Total	¥144,800	$1,206,667

At March 31, 2003, other current assets amounting to ¥15,784 million ($131,533 thousand), were pledged as collateral for the interest rate swap contracts.

Note 8: SHAREHOLDERS' EQUITY

Japanese companies are subject to the Japanese Commercial Code (the "Code") to which certain amendments became effective from October 1, 2001.

The Code was revised whereby common stock par value was eliminated resulting in all shares being recorded with no par value and at least 50% of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds as additional paid-in capital. The Code permits companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration as a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The revised Code also provides that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period shall be appropriated as a legal reserve until such reserve and additional paid-in capital equals 25% of common stock. The amount of total additional paid-in capital and legal reserve that exceeds 25% of the common stock may be available for dividends by resolution of the shareholders. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock by resolution of the Board of Directors.

The revised Code eliminated restrictions on the repurchase and use of treasury stock allowing companies to repurchase treasury stock by a resolution of the shareholders at the general shareholders meeting and dispose of such treasury stock by resolution of the Board of Directors beginning April 1, 2002. The repurchased amount of treasury stock cannot exceed the amount available for future dividend plus amount of common stock, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the general shareholders meeting.

The amount of retained earnings available for dividends under the Code was ¥297,779 million ($2,481,492 thousand) as of March 31, 2003, based on the amount recorded in the Company's general books of account. In addition to the provision that requires an appropriation for a legal reserve in connection with the cash payment, the Code imposes certain limitations on the amount of retained earnings available for dividends.

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

At the Shareholders' General Meeting held on June 27, 2001, the Company's shareholders approved the following stock option plan for the Company's directors and key employees.

The plan provides for granting options to directors and key employees to purchase up to 223 thousand shares of the Company's common stock. The options were granted to purchase common stock at the higher of 103% of the average fair market price for the preceding month of the grant, or the fair market price at the time of grant. The stock options are exercisable from July 1, 2003 to June 30, 2006. The Company plans to issue acquired treasury stock upon exercise of the stock options. The treasury stock will be purchased from the open market for a total consideration not to exceed ¥4,100 million.

On August 25, 2001, the Company issued 8,500 thousand shares of its common stock at ¥10,241 per share, for gross proceeds of approximately ¥87,048 million. On the issuance of common stock, ¥43,528 million and ¥43,520 million were credited to common stock and additional paid-in capital, respectively.

On May 27, 2002, the Board of Directors resolved that the number of common shares the Company is authorized to issue was increased from 224 million shares to 373.5 million shares. This resolution was approved at the Shareholders' General Meeting held on June 26, 2002.

At the Shareholders' General Meeting held on June 26, 2002, the Company's shareholders approved that the Company is authorized to purchase treasury stock of the Company up to 9 million shares (aggregate amount of ¥90,000 million) in the period from the closing of this Shareholders' General Meeting to that of the next Shareholders' General Meeting. At March 31, 2003, the Company has not yet repurchased shares of the Company's common stock under this plan. Approval of a successor plan is described in Note 13.

On October 1, 2002, the Company acquired all 2,000 shares of City Green Corporation ("City Green"), a holding company of City's Corporation ("City's"), in exchange for 1,314,000 shares of the Company's common stock, according to an agreement dated August 27, 2002. As a result, City Green became a wholly owned subsidiary of the Company effective October 1, 2002. On the exchange of common stock, ¥394 million ($3,283 thousand) were credited to additional paid-in capital based on the book value of the acquired net assets.

Note 9: INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes.

On March 31, 2003, a tax reform law was enacted in Japan which changed the normal effective statutory tax rate from 41.9% to 40.4%, effective for years beginning April 1, 2004. The effect of this change was to decrease deferred tax assets by ¥179 million ($1,492 thousand) in the non-consolidated balance sheet and to decrease deferred taxes by ¥169 million ($1,408 thousand) in the non-consolidated statement of income for the year ended March 31, 2003.

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at March 31, 2003 and 2002 are as follows :

	Millions of Yen		*Thousands of U.S. Dollars*
	2003	2002	2003
Current Deferred Tax Assets :			
Provision for doubtful loans	¥ 6,634	¥4,896	$ 55,283
Enterprise tax payable	2,096	888	17,467
Charge-offs for doubtful loans	1,453	862	12,108
Unrecorded accrued interest on loans	1,400		11,667
Accrued bonuses	816	716	6,800
Other	38	227	317
Current deferred tax assets	¥12,437	¥7,589	$103,642
Non-current Deferred Tax Assets :			
Provision for doubtful loans	¥ 1,931	¥ 1,995	$ 16,092
Depreciation and amortization	1,108	816	9,233
Provision for employees' retirement benefits	941	544	7,842
Provision for retirement benefits to directors and corporate auditors	448	443	3,733
Unrealized loss on available-for-sale securities	270	188	2,250
Other	468	362	3,900
Non-current deferred tax assets	¥ 5,166	¥4,348	$ 43,050

A reconciliation between the normal effective statutory tax rate for the years ended March 31, 2003 and 2002 and the actual effective tax rates reflected in the accompanying non-consolidated statements of income is as follows :

	2003	2002
Normal effective statutory tax rates	41.9%	41.9%
Increase in tax rate resulting from:		
Additional taxation on undistributed income	5.8	4.7
Other, net	0.3	0.6
Actual effective tax rates	48.0%	47.2%

Note 10: 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, 2003 and 2002 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 Ended March 31 :				
2003	¥15,536	¥5,319	$129,467	$44,325
2002	15,004	5,738		

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligation 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, 2003 and 2002 were as follows :

	Millions of Yen		Thousands of U.S. Dollars
	Machinery, vehicles and equipment		Machinery, vehicles and equipment
	2003	2002	2003
Acquisition cost	¥22,493	¥26,570	$187,442
Accumulated depreciation	17,363	18,586	144,692
Net leased property	¥ 5,130	¥ 7,984	$ 42,750

Obligations under finance leases :

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Due within one year	¥3,919	¥ 4,811	$32,659
Due after one year	3,631	5,792	30,258
Total	¥7,550	¥10,603	$62,917

Depreciation expense and interest expense, which are not reflected in the accompanying non-consolidated statements of income, computed under a declining-balance method and the interest method, respectively, for the years ended March 31, 2003 and 2002 were as follows :

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Depreciation expense	¥4,769	¥5,474	$39,742
Interest expense	231	339	1,925

Note 11: CONTINGENT LIABILITIES

At March 31, 2003, contingent liabilities were ¥28,528 million ($237,733 thousand) of guarantees and similar items of bank loans, including those relating to an associated company in the amount of ¥9,500 million ($79,167 thousand).

Note 12: NET INCOME PER SHARE

Basic net income per share ("EPS") for the years ended March 31, 2003 and 2002 is computed as follows :

	Yen in millions	*Thousands of shares*	*Yen*	*Dollars*
	Net income	Weighted average shares	EPS	
For the year ended March 31, 2003:				
Basic EPS				
Net income available to common shareholders	¥55,220	93,810	¥588.63	$4.91
For the year ended March 31, 2002:				
Basic EPS				
Net income available to common shareholders	¥38,246	89,908	¥425.39	

Diluted EPS is not disclosed because it is anti-dilutive for the years ended March 31, 2003 and 2002.

Note 13: SUBSEQUENT EVENTS

At the Shareholders' General Meeting held on June 26, 2003, the Company's shareholders approved the following appropriations of retained earnings and purchase of treasury stock.

(a) Appropriations of Retained Earnings

The following appropriations of retained earnings at March 31, 2003 were approved:

	Millions of Yen	*Thousands of U.S. Dollars*
Year-end cash dividends, ¥30 ($0.25) per share	¥2,834	$23,617
Bonuses to directors and corporate auditors	98	817

(b) Purchase of treasury stock

The Company is authorized to purchase treasury stock of the Company up to 9 million shares (aggregate amount of ¥90,000 million ($750,000 thousand)) in the period from the closing of this Shareholders' General Meeting to that of the next Shareholders' General Meeting.

Deloitte Touche Tohmatsu

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, 2003 and 2002, and the related non-consolidated statements of income, shareholders' 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, procedures and practices generally accepted and applied 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, 2003 and 2002, and the results of its operations for the years then ended in conformity with accounting principles and practices generally accepted in Japan.

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

Shimbashi & Co.

DELOITTE TOUCHE TOHMATSU
Kyoto, Japan

SHIMBASHI & CO.
Osaka, Japan

June 26, 2003

SIX-YEAR SUMMARY >>

Years ended March 31	2003	2002	2001
Results for the Fiscal Year:			
Total income	¥ 451,168	¥ 400,014	¥ 281,719
Total expenses	343,715	338,166	189,145
Income before income taxes	107,453	61,848	92,574
Income taxes	47,426	27,385	44,371
Deferred income taxes	(10,129)	(8,908)	(1,833)
Net income	59,911	35,064	48,253
At Year-End:			
Balance of loans outstanding	¥1,670,782	¥1,482,796	¥1,261,042
Total assets	2,282,113	2,029,634	1,865,537
Short-term borrowings	68,865	52,492	47,323
Long-term debt, including current portion thereof	1,436,104	1,291,781	1,191,942
Total shareholders' equity	485,991	421,343	306,550
Per Share Data (Yen):			
Net income	¥ 638	¥ 389	¥ 569
Adjusted for stock splits	–	–	–
Shareholders' equity	5,143	4,523	3,612
Adjusted for stock splits	–	–	–
Cash dividends	60	50	50
Adjusted for stock splits	–	–	–
Other Data:			
Number of shares outstanding at year-end	94,690,000	93,376,000	84,876,000
Number of customer accounts at year-end	3,521,857	3,336,340	3,043,022
Number of branches at year-end	1,963	1,903	1,758
Number of employees at year-end	6,123	5,810	5,750

We started compiling our financial statements on a consolidated basis starting the fiscal year ended March 31, 2001.
Thus, figures for prior years are provided only on a non-consolidated basis.

Millions of Yen

2000	1999	1998
¥ 239,200	¥205,536	¥180,181
154,490	140,777	117,080
84,710	64,759	63,101
42,399	36,311	38,097
1,793	–	–
44,104	28,448	25,004
¥1,001,080	¥837,982	¥702,446
1,182,468	996,524	876,727
28,700	58,900	98,000
863,469	704,275	600,505
252,903	203,749	146,255
¥ 786	¥ 611	¥ 602
524	339	334
4,508	4,358	3,421
3,005	2,421	1,901
60	60	60
40	33	33
56,103,000	46,752,500	42,752,500
1,975,068	1,822,261	1,706,030
1,311	1,009	807
3,263	3,141	2,731

Note
1. On April 16, 1998, four million new shares were issued through an overseas public offering, primarily in Europe.
2. On May 20, 1999, each common, par value share held as of March 31, 1999, was split into 1.2 shares according to the provisions of Article 218 of the Japanese Commercial Code. As a result, the outstanding stock volume increased by 9,350,500 shares. Net income per share for the fiscal year through March 2000 was calculated as if the stock split had been implemented at the beginning of the term.
3. On May 22, 2000, each common, par value share held as of March 31, 2000, 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 28,051,500 shares. Net income per share for the fiscal year through March 2001 was calculated as if the stock split had been implemented at the beginning of the term.
4. On June 1, 2000, 721,500 new shares were issued through an exchange of shares agreement concluded with Sinwa Co., Ltd.
5. On August 25, 2001, 3,500,000 new shares were issued through a domestic public offering, while 5,000,000 new shares were issued through an overseas public offering, primarily in Europe.
6. On October 1, 2002, 1,314,000 new shares were issued through an exchange of shares agreement concluded with City Green Corporation in connection with the October 2002 acquisition of City's, a small business loan company.
7. Starting in 2003, shareholders' equity per share, net income per share, and diluted net income per share are 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).

BOARD OF DIRECTORS >>

AIFUL CORPORATION (As of June 26, 2003)

President and CEO	Yoshitaka Fukuda	
Senior Managing Director and Representative Director	Taichi Kawakita	President of Happy Credit Corporation
		President of Sinwa Co., Ltd.
Senior Managing Directors	Katsuhide Horiba	Chief of Finance Division
		Guarantee Business Department
	Sadatoshi Kobayashi	Information Systems Department
		Administration Office
Managing Director	Yuji Kataoka	Chief of Personal Division
Directors	Yasutaka Fukuda	Deputy Chief of Finance Division
	Yoshimasa Nishimura	Inspection Department
	Koji Imada	Administration Department
		Credit Risk Management
		Operations Department
	Shintaro Hashima	General Affairs Department
		Legal Department
	Takashi Koumoto	General Manager – Accounting Department
	Masami Munetake	Chief of Management Planning Division
	Yasuo Yanagibashi	Chief of Loan Business Division
	Masayuki Sato	Senior Managing Director, LIFE Co., Ltd.
	Hiroshi Abe	Chief of Business Management Division
		Chief of the President's Office
	Kazumitsu Oishi	Managing Director, LIFE Co., Ltd.
	Tsuneo Sakai	Public Relations Department
	Takashi Noda	President of AsTry Loan Services Corporation
Standing Corporate Auditors	Masanobu Hidaka	
	Tadao Mushiake	
	Yoshitaka Ebisuzaki	
Corporate Auditor	Yoshinobu Azuma	

INVESTOR INFORMATION >>

Corporate Profile (As of March 31, 2003)

Corporate Name	:	AIFUL CORPORATION
Address of Head Office	:	381-1, Takasago-cho, Gojo-Agaru, Karasuma-Dori, Shimogyo-ku, Kyoto 600-8420, Japan Phone: 075-201-2000
Date of Establishment	:	April 1967
Number of Employees	:	3,502

Shareholders Information

Number of Shares of Common Stock	:	Authorized: 373,500,000 shares
Issued and Outstanding	:	94,690,000 shares
Number of Shareholders	:	7,740
Independent Auditors	:	Deloitte Touche Tohmatsu/Shimbashi & Co.
Transfer Agent and Registrar	:	The Sumitomo Trust & Banking Co., Ltd.

Stock Listing

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

For further information and additional copies of this annual report, please contact

Investor Relations Section

Tokyo Office

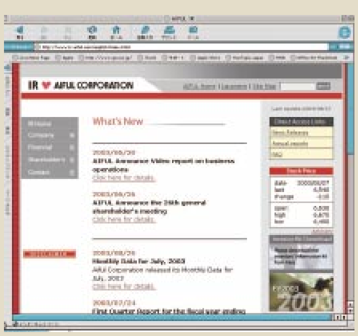
Tokyo-Ekimae Bldg., 5th Floor, 1-5, Yaesu 2-chome, Chuo-ku, Tokyo 104-0028, Japan

Phone: 03-3274-4561

Fax : 03-3274-4579

E-mail: ir@aiful.co.jp

Investor Relation Website



As part of our continuous efforts to disclose information on a timely and fair manner, we at AIFUL have implemented an overhaul of our IR website in April 2003. We are constantly working to improve the level of our disclosure by making available not only quantitative data such as financial statements and results, but also qualitative information such as our corporate philosophy and strategy, the status of the consumer credit market and our business environment.

http://www.ir-aiful.com

When the game changes, so does the tool.

AIFUL CORPORATION

http://www.ir-aiful.com