AIFUL CORPORATION

Annual Report 2004

Changing gears for the next stage

"Win the good favor of society"

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.

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.

Successful synergies for customers, the Company, and employees

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.

Contents

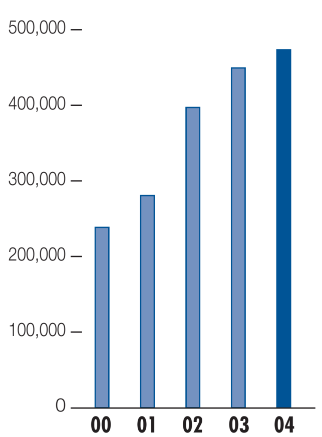
Consolidated Financial Highlights

AIFUL Corporation and Consolidated Subsidiaries Years Ended March 31, 2004 and 2003	Millions of Yen 2004	 2003	Percentage of Change 04/03	Thousands of U.S. Dollars 2004
For the Year:				
Total income	¥ **479,473**	¥ 451,168	**+6.3**	**$ 4,566,409**
Total expenses	**375,659**	343,715	**+9.3**	**3,577,705**
Income before income taxes and minority interests	**103,814**	107,453	**–3.4**	**988,704**
Net income	**62,548**	59,911	**+4.4**	**595,695**
At Year-End:				
Balance of loans outstanding	**1,786,940**	1,670,782	**+7.0**	**17,018,476**
Installment accounts receivable	**154,285**	147,857	**+4.3**	**1,469,381**
Bad debts	**149,826**	120,399	**+24.4**	**1,426,914**
Total assets	**2,332,761**	2,282,113	**+2.2**	**22,216,771**
Allowance for bad debts	**145,757**	132,130	**+10.3**	**1,388,162**
Long-term debt, including current portion thereof	**1,451,777**	1,436,104	**+1.1**	**13,826,448**
Total shareholders' equity	**547,504**	485,991	**12.7**	**5,214,324**
Number of shares issued	**94,690,000**	94,690,000	**0**	
	Yen		**Percentage of Change**	**U.S. Dollars**
Per Share Data:				
Net income	¥ **660.98**	¥ 637.59	**+3.7**	**$ 6.30**
Total shareholders' equity	**5,794.58**	5,143.45	**+12.7**	**55.19**
Cash dividends	**60.00**	60.00	**0**	**0.57**

Notes: 1. The U.S. dollar amounts have been translated, for convenience only, at ¥105=$1, the approximate rate of exchange at March 31, 2004.
2. Net income per share has been computed based on the weighted average number of shares outstanding during each period, after retroactive adjustment for stock splits.
3. Figures in the financial section are based on audited English-language statements. Figures in the feature section and review of operations are based on Japanese financial statements. Due to certain reclassifications, some figures and items do not match.

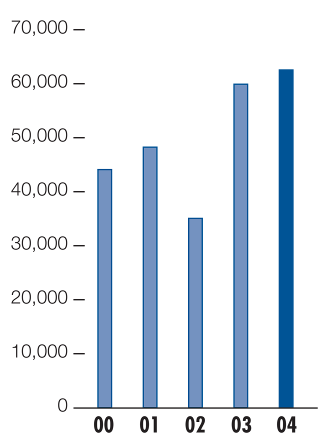
Total Income

(Millions of yen)



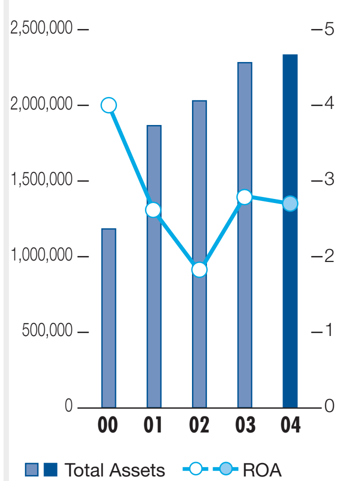
Net Income

(Millions of yen)



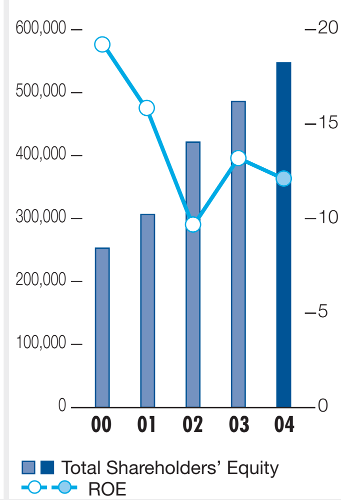
Total Assets/ROA

(Millions of yen/%)



Total Shareholders' Equity/ ROE

(Millions of yen/%)



Yoshitaka Fukuda

President and CEO

1. OVERVIEW OF YEAR ENDED MARCH 2004

Operating environment

During the fiscal year ended March 31, 2004, Japan's economy finally began showing signs of a rebound. As was evident in the Bank of Japan's *Tankan* statistics, economic conditions improved mainly at large companies, and there were even encouraging signs among small and midsize companies, a sector that had experienced a prolonged downturn. In the consumer credit market, slowing growth in personal bankruptcies and other positive developments caused the operating environment to begin improving.

The consumer finance market has been impacted by a large increase in credit costs associated primarily by rising unemployment and weak income levels due to the lackluster economy. However, a number of one-time factors unrelated to the economic cycle have also greatly affected this market. Most notable are the proliferation of fraudulent lenders and the increasing use of lawyers in personal bankruptcies. The combination of one-time items and the economic slump has triggered growth in personal bankruptcy filings and, as a result, an increase in problem loan provisions and charge-offs at consumer finance companies, exerting considerable pressure on earnings.

Regarding fraudulent lenders, effective enforcement measures have been taken following the January 2004 enactment of a new law, which had become effective in part in September 2003. Furthermore, the use of attorneys in bankruptcy cases appears to have peaked.

As I noted earlier, the economic picture in Japan has become increasingly bright since the beginning of 2004. The outlook is improving at AIFUL too, as the volume of bad debts is now declining.

Highlights of operating results

In this environment, consolidated operating revenue increased 5.3% to ¥473.4 billion and ordinary income rose 0.6% to ¥112.4 billion, in a year when other major Japanese consumer credit companies reported double-digit profit declines. AIFUL was the only company in the industry to post higher revenues and earnings. This growth was attributable to the earnings contributions of credit card company LIFE, small-business loan company City's and other group companies. So last year's performance is truly the result of the "comprehensive finance services strategy" that we started some time ago.

In the fiscal year ending in March 2005, we foresee even greater earnings contributions by LIFE and other group companies. Moreover, since non-consolidated bad debts have peaked, we expect that AIFUL will achieve double-digit earnings growth. Our plan calls for a 5.7% increase in consolidated operating revenues to ¥500.6 billion and a 13.8% increase in ordinary income to ¥128.0 billion.

LIFE operating highlights

LIFE, which is mainly a credit card company, joined the AIFUL Group in March 2001 and is now making a big contribution to consolidated results. At the end of March 2004, three years after joining the group, LIFE had more than 11 million credit cards outstanding. Growth was backed in part by card issuing agreements with Aoyama Capital Co., Ltd., Deodeo Corporation, Komeri Co., Ltd. and other large, well-known retailers. The number of cards is almost 50% higher than the 7.5 million cardholder base in March 2001. Furthermore, ordinary income rose 50% to

The current industry realignment is presenting opportunities that occur only about once every 20 years. We are moving even faster toward becoming a comprehensive provider of retail financial services.

an all-time high of ¥12.0 billion. Overall, LIFE has performed extremely well these past few years. In the current fiscal year, we foresee more growth in cardholders, mainly through more affiliate cards, as well as growth in receivables. We therefore expect LIFE to set another record for earnings by raising ordinary income 20% to ¥14.5 billion.

Market conditions for small business loan companies

In the small business loan sector, Businext expects to be profitable for the first time in the current fiscal year by generating ordinary income of ¥0.4 billion, following its ¥1.0 billion loss in the past fiscal year. Businext was formed jointly by AIFUL and Sumitomo Trust & Banking Co., Ltd. to extend loans to companies in the medium-risk segment. By using data accumulated over the past three years, this company has constructed a scoring system for small business loans that has become instrumental to its current ability to raise outstanding loans at an annual rate of more than 50%. City's, a small business loan firm targeting high-risk borrowers, became profitable in the past fiscal year with ordinary income of ¥3.0 billion. AIFUL acquired this company in October 2002.

2. THE COMPREHENSIVE FINANCIAL SERVICES STRATEGY

Why AIFUL is pursuing this strategy

Operating results in the past fiscal year demonstrate the steady progress we are making with regard to our comprehensive financial services strategy. At this time, I would like to briefly explain once again our basic strategy for the years ahead.

In Japan's consumer credit market, the consumer finance segment has tripled during the past decade. Consumer loans now total about ¥10 trillion. Furthermore, the big four companies together account for about 60% of this market. We expect this market to continue growing to reach about ¥13 trillion around 2010. Presently, however, the soft economy is bringing down outstanding loans at all consumer loan companies while at the same time raising bad debts. At the same time, competition is heating up as barriers that once separated individual segments of the consumer credit market disappear. This is causing a structural shift in the entire consumer credit industry.

As these momentous changes occur, there will be a growing gap between companies able to quickly and accurately deal with these changes and all other companies. This process of natural selection will leave only companies with the skills to adapt to change. Our ability to raise revenues and earnings last year as our competitors saw double-digit drops in earnings is irrefutable proof that our comprehensive financial services strategy is on target.

Exactly why is the AIFUL Group pursuing a comprehensive financial services strategy? Our decision rests mainly on three points.

First, and perhaps most obvious, our growth potential is limited if we restrict ourselves to only one market segment. As a market becomes increasingly mature, a consistent focus on one segment would cause us to retain an entirely defensive stance. Reaching the upper limit of earnings potential would only be a matter of time. So we must be able to cope with a maturing market as well as the rising competition sparked by that maturity. This is why we have gone beyond the bounds of consumer loans to new products and channels for attracting customers. We decided that our best course was to target the entire ¥61 trillion consumer credit market.

Second is our desire to diversify our business portfolio. At the end of March 2004, unsecured loans at AIFUL accounted for 47% of total consolidated receivables. Home equity loans accounted for 15%, LIFE receivables for 30% and other subsidiaries for the remaining about 2%. No competitor can match this degree of business portfolio diversity. We are convinced that this diversity is the right choice for us in terms of both generating earnings growth and diversifying our risks.

Our objective is to contribute to the prosperity of customers, shareholders and employees as a comprehensive financial services group with a reputation for reliability and creative thinking.

The third point is earning high returns on capital. As the consumer finance market in Japan matures, companies focusing exclusively on this business will see their earning assets stop growing or even shrink. But as their equity continues to climb, there will be a steady erosion in the return on equity. This is why we are using acquisitions, such as the purchase of LIFE, conducted to the degree allowed by our credit ratings, to execute our comprehensive financial services strategy. This strategy is definitely the best course from the standpoint of using capital productively.

In the United States as well, consumer finance companies are encountering fierce competition as the market matures. Single-line companies specializing in the so-called subprime consumer finance market are unable to cope with rapid growth in bad debts. Only organizations like Citigroup that have diversified their product lines and offer a comprehensive line of financial services are now able to achieve consistent growth in earnings.

Strategies to become a comprehensive financial services group

As I noted earlier, our comprehensive financial services strategy is steadily raising the diversity of our business portfolio. But we need to become a comprehensive financial services group that is even better able to compete and grow. This is why we must take the following three actions: further realign the business portfolio; strengthen the credit card business; and reorganize the group through mergers and acquisitions.

We plan to continue to expand all components of our diverse business portfolio. But as growth continues, we will be reducing credit card shopping, home equity loans and small business loans as a share of total receivables.

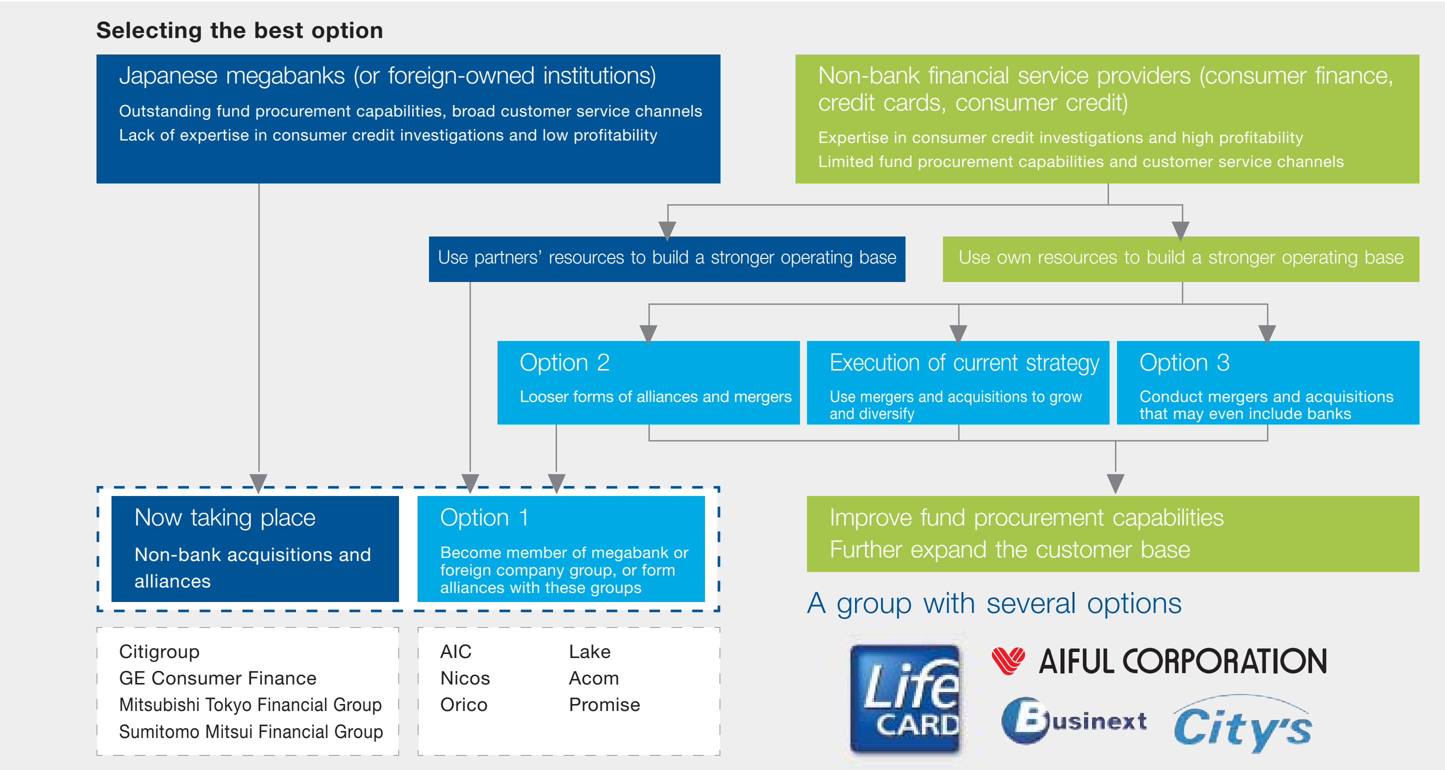
To reinforce the credit card business, we will channel group resources to the LIFE credit card business. Concurrently, we will target opportunities created by the ongoing realignment of Japan’s consumer credit industry to strengthen the group through mergers and acquisitions. In business sectors where we want to grow, such as home equity loans and small business loans, strategic investments will be made even if we need to pay a premium where justified. For opportunities in the consumer finance domain, we will aggressively target underpriced companies, making pure investments that will allow us to maximize returns

3. SUCCEEDING AMID THE REORGANIZATION OF OUR INDUSTRY

Megabanks and consumer finance companies form equity alliances

In 2004, we have seen the announcement of business and equity alliances between Mitsubishi Tokyo Financial Group Inc. and ACOM Co., Ltd., and between Sumitomo Mitsui Financial Group Inc. and Promise Co., Ltd. These events have enormous ramifications for our industry. Japan’s financial services industry is often regarded as being five to 10 years behind the United States. Looking back at developments in the U.S. financial services sector during the past decade, I believe that one key theme has been large-scale mergers and acquisitions between large banks, which excel in their fund procurement capabilities, and non-bank credit card companies with excellent credit standings and profitability. As the U.S. financial services industry underwent a dramatic restructuring, large banks that bought non-banks ended up the winners. Among non-bank financial companies, the winners were either companies that joined a bank group or succeeded in diversifying their business and fund procurement activities.

Over the medium and long terms, it is likely that a sweeping realignment of the same nature will take place in Japan. There are currently 16 major players in Japan’s consumer credit market: four consumer finance companies, nine credit card companies in the consumer credit sector, and three companies affiliated with retailers. Within five years, this figure will probably fall to about eight companies. Within ten years, industry realignment will probably lead to integrations and consolidations that leave only about four major players. Our acquisition of LIFE, just as the recent moves of the two Japanese megabanks, is all part of this ongoing process of realignment.



The options open to AIFUL

As these events unfold, AIFUL is faced with a choice of one of three fundamental strategies. The first is to become part of the group of a megabank. In the United States, we have seen Household acquired by HSBC Holdings plc and Bank One Corporation merge with J.P. Morgan Chase & Co. The second choice is to purchase a bank ourselves. This strategy would enable us to assemble a new comprehensive retail financial services platform by integrating banking operations with credit card operations. In the United States, Citigroup and American Express Company started out mainly as consumer finance or credit card firms, acquiring banks, securities companies, insurance companies and other firms to become massive financial service conglomerates. The third choice is to form loose alliances with banks, insurance companies and securities companies. This strategy would allow us to retain customers by offering a full line of services. In the United States, MBNA Corporation exemplifies this strategy. This company has attracted more customers and raised earnings by forming alliances with a variety of financial institutions, retailers and other companies. AIFUL will examine these options and select the strategy that can take full advantage of our expertise in credit investigations and our solid profitability, the AIFUL Group's two greatest strengths.

Since its establishment, the AIFUL Group has been guided by the corporate philosophy to "Win the good favor of society." We are firmly dedicated to prospering along with society and maintaining a sound relationship with the public as a comprehensive financial services group able to meet all our customers' needs. Our strategy is to become a comprehensive retail financial services company. We plan to conduct mergers and acquisitions and form alliances to increase the ways we can serve customers. This approach will allow us to increase our scale of operations, including receivables and earnings, in a manner that effectively taps the strengths of each group company. The result will be even more opportunities for our employees to excel. Through this comprehensive financial services strategy, we are determined to attain our goal of achieving prosperity for customers, shareholders and employees, our three stakeholder groups.

June 2004

Y. Fukuda

Yoshitaka Fukuda
President and CEO

Japan's Consumer Credit Market

MARKET STRUCTURE AND SCALE

The diagram below shows the basic composition of Japan's consumer credit market. Based on Japan Consumer Credit Industry Association Data, estimated total credit extended during 2002 was ¥72,822.5 billion, 1.7% less than in 2001. Among the services of credit card and consumer credit companies, credit card shopping credit, increased 6.0% to ¥24,679.0 billion, shopping loans decreased 4.6% to ¥11,666.9 billion, cash loans using credit cards increased 1.6% to ¥7,599.1 billion, and cash loans using loan cards increased 2.2% to ¥2,630.0 billion. Turning to consumer loans, there was a 4.1% decrease to ¥10,191.7 billion in loans by consumer loan companies like AIFUL, Takefuji Corporation, Acom and Promise, a 1.5% increase to ¥4,044.8 billion in consumer loans by banks and other financial institutions, and a 13.7% decrease to ¥12,011.0 billion in loans collateralized by deposits by the Japan Postal Service and other financial institutions.

The balance of credit outstanding totaled ¥60,775.0 billion at the end of December 2002, 4.4% less than one year earlier. Credit for credit card shopping increased 6.0% to ¥3,567.5 billion, shopping loans decreased 6.1% to ¥11,267.8 billion, cash loans using credit cards increased 5.3% to ¥3,220.6 billion, and cash loans using loan cards increased 4.8% to ¥3,272.0 billion. The balance of consumer loans at AIFUL, Takefuji, Acom, Promise and other consumer loan companies increased 5.6% to ¥10,235.7 billion. Consumer loans at banks and other financial institutions decreased 7.1% to ¥18,556.6 billion and loans collateralized by deposits at the Japan Postal Service and other financial institutions decreased 13.9% to ¥10,654.8 billion.

During the past decade, the strongest growth in both credit provided and credit balances has been recorded by the consumer loans extended by companies specializing in this business. Credit card shopping credit and cash advances have grown steadily in terms of credit provided, but not much in terms of credit balances because most of this credit is settled in a single payment. On the other hand, there has been a decline in consumer loans by banks and other financial institutions and in shopping loans by consumer credit companies. As a result, the total volume of credit provided has been generally flat over the past decade.

Integrations and Reorganizations Gain Speed in Japan's Consumer Credit Market

(Trillions of yen)

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

As of December 31, 2002

Major Players in Japan's Consumer Credit Market (at present)

Megabanks	Mitsubishi Tokyo Financial Group	UFJ Holdings	Mizuho Financial Group	Sumitomo Mitsui Financial Group	Others
"Bank affiliated" credit cards	DC Card	JCB UFJ Card	UC Card	Sumitomo Mitsui Card	
"*Shinpan*" credit cards	JACCS	Nicos Aplus Central Finance	Orico	QUOQ	Life Card
Retailer credit cards					Saison OMC AEON
Consumer finance companies (CFC's)	Acom			Promise	AIFUL CORPORATION Takefuji
Bank-CFC's JV	Tokyo-Mitsubishi Cash One (Acom)	Mobit (Promise)		@Loan (Sanyo Shinpan)	

REASONS FOR THE GROWTH OF CONSUMER FINANCE COMPANIES

The balance of companies specializing in consumer loans has approximately tripled during the past decade even though total consumer credit outstanding remained flat. Furthermore, the number of individuals with information registered at the Federation of Credit Bureaus of Japan had increased about 55% over the same period to 17.43 million as of March 31, 2003.

There are a number of social factors that explain why consumer finance companies have been able to earn this degree of support from customers. One is the rising propensity of individuals to spend money as Japan became increasingly affluent during the period of strong economic growth. Demand for loans to enjoy free time rose as a result, producing steady growth in the market for consumer loans. Another factor is the tendency for consumers to make payments in cash, a characteristic seldom seen elsewhere in the world. One more reason is that consumer loans offered by banks and credit card companies have not been as appealing as those of consumer finance companies. Furthermore, consumer finance companies tend to offer better service.

In addition to these social factors, major consumer finance companies have driven growth by constantly introducing innovative customer services. This innovation has taken place in three key aspects of operations: branch offices, brands and credit lines.

Regarding branches, major consumer finance companies in the mid-90s began to open automated service locations with ATMs and contract machines, virtual branches on the Internet and other service channels to complement their networks of conventional offices. Diversification of channels created an extremely convenient network that enables customers to apply for loans, receive funds and make repayments at any time and place. This convenience stands in sharp contrast to banks, which generally still close their doors at 3 pm just as they have done for decades.

Innovation regarding brands at consumer finance companies also started in the mid-90s. Companies embarked on high-profile TV advertising campaigns that incorporated a degree of individuality that was impossible among other types of financial institutions that tended to act together. The public became more aware of finance companies and came to regard them as more trustworthy. Today, the major consumer finance companies are widely used by individuals as a source of loans. Banks are generally regarded as having stronger brands than consumer finance companies. However, consumers who utilize consumer loans do not necessarily place value on the same brand as individuals who are making deposits and investments. The previously noted difference in convenience for customers as well is directly linked to this difference in how customers perceive bank and consumer finance company brands.

Furthermore, AIFUL and other major consumer finance companies have assembled scoring systems that facilitate immediate decisions on applications from new customers, the determination of credit lines and interest rates, and the management of outstanding receivables. These systems integrate the credit information database shared by all consumer finance companies and the enormous volume of customer data accumulated over the years by each company concerning customer characteristics and transaction histories. With these scoring systems, consumer finance companies can develop loan products that precisely target specific consumer needs and degrees of risk.

In this manner, innovation at consumer finance companies has been consistently conducted in a customer-driven fashion with the objective of earning the greatest possible support from customers. In fact, this thinking has been instrumental to making possible the strong market position of the consumer finance industry today.

THE MATURING MARKET FOR SPECIALIST CONSUMER LOAN COMPANIES

The market for services provided by companies specializing in consumer loans, which has posted strong growth for some time, is now beginning to slowly change. Customers served by these companies most often seek loans with no specified purpose in order to procure funds to enjoy their free time. Men account for about 70% of all customers. Furthermore, the majority of new customers are in their 20s and the majority of existing customers are in their 20s and 30s. But Japan's population will soon begin to decline as the number of older citizens climbs and the number of children falls. The population segment between the ages of 20 and 40 has already started to decline. AIFUL has for some time been formulating market forecasts based on these demographic trends. Based on these forecasts, the company believes that the market for consumer loan companies will continue expanding until about 2010, raising the volume of credit outstanding to approximately ¥13 trillion. After that, the outlook is for the market to enter a period of stable growth and maturity. Based on this outlook, AIFUL is implementing a comprehensive financial services strategy that is most evident in the March 2001 acquisition of credit card company LIFE.

DEFINING CHARACTERISTICS OF THE JAPANESE CREDIT CARD MARKET

In the credit card market, where AIFUL Group member LIFE is active, the number of cards outstanding increased to 254 million at the end of 2002 according to statistics of the Japan Credit Card Business Association. That equates to an average of two to three cards for everyone in Japan. By issuer category, there were 96.68 million bank affiliated credit cards, 63.77 million consumer credit cards, 70.96 million retailer credit cards and 10.46 million manufacturer cards.

Although the credit card penetration rate in Japan is high, credit cards account for only about 7% of all consumer spending in Japan. This is far below the United States (22%), United Kingdom (18%) and South Korea, where cards account for 58% of consumer spending. Furthermore, more than 90% of amounts due on credit cards are paid in full the following month in Japan through automatic bank transfers. Whereas revolving credit is frequently used in the United States and other countries, this type of credit represents less than 10% of credit card transactions in Japan. So Japan is a country where many people have cards, but few use them frequently. Even when a credit card is used, people tend to avoid the credit function, using them instead as a debit card by paying in full the following month.

The full-scale emergence of debit cards in Japan occurred in 1999. Almost all bank ATM cards now double as debit cards. In 1999, annual debit card volume was expected to rise to about ¥20,000 billion after five years. But this figure was only about ¥430 billion in the year that ended in March 2003 and ¥530 billion in the following fiscal year. The forecast for the current fiscal year is about ¥600 billion. On the other hand, in 2002, credit card shopping volume amounted to ¥24,700 billion, including ¥2,500 billion in installment credit and ¥22,200 billion in payments made in full. This low utilization of credit demonstrates that Japanese consumers are, in effect, using their credit cards as debit cards.

THE CAUSES OF LOW UTILIZATION OF CREDIT CARDS AND CREDIT IN JAPAN

What are the reasons for these credit card utilization patterns in Japan? One reason is the traditional tendency for Japanese to be hard working and frugal. These characteristics make Japan the world's most cash-dependent society. In addition to this cultural factor, utilization is also held back by Japan's inadequate credit card infrastructure, which provides fewer opportunities to use credit cards than in other countries.

In addition, almost every time a credit card is used in Japan, the cashier asks if the customer wants to select a one-time or installment payment. That forces individuals to state their payment method in front of others, information that should remain private. Consumers tend to choose the one-time payment as a result. This is a highly unusual system by international standards.

Due to this situation, consumers select the one-time payment option even though they may subsequently have insufficient funds in their bank accounts when the payment comes due. They end up borrowing the funds from a consumer finance company to deposit in their bank accounts. Many Japanese consumers utilize this complex payment system. In fact, the volume of new loans at consumer finance companies tends to increase each month around the date when credit card payments are due. What this means is that credit card companies have been neglecting to capitalize on opportunities to generate profits through the extension of credit, instead providing this opportunity to consumer finance companies.

INNOVATION IN THE CREDIT CARD INDUSTRY

Rapid advances in information technology in recent years have driven progress in the establishment of a high-performance, low-cost infrastructure for credit card use. High earnings at companies specializing in consumer loans have attracted the attention of credit card companies, prompting them to adopt strategies aimed at bolstering the credit functions that should be their core businesses.

For example, imitating the business models of their highly profitable U.S. counterparts, Japanese credit card companies about three years ago rapidly began adopting flexible repayment systems allowing customers to use an Internet or telephone contact to switch a payment to revolving. Customers are becoming increasingly aware of this added degree of convenience. Additionally, credit card companies are making their products more appealing by introducing programs that allow customers to accumulate airline mileage, discounts at major retailers and other benefits. These actions are encouraging consumers to use their credit cards more often.

In the past, credit card companies have often been reluctant to aggressively promote their credit card cash advance service, often extending only small credit lines due to their desire to avoid risk. But now, these companies are increasing credit lines and taking aggressive measures to promote the convenience of these loans, such as by distributing pamphlets. Companies are forming agreements with ATM operators, such as the IY Bank ATMs at Seven-Eleven, Japan’s largest convenience store chain, to allow cardholders to obtain loans. Through actions such as these, credit card companies are now seeking to increase credit card receivables and earnings.

Since the majority of credit cards in Japan are associated in some way with a major retailer, there have always been many opportunities for contact with consumers. Consequently, credit card companies generally have extremely large numbers of cardholders. If the services and customer convenience at these companies improves along with the card utilization infrastructure, consumers will be likely to utilize their cards more frequently. With regard to cash advances and other credit services, credit cards may therefore capture more business in market sectors traditionally serviced by consumer finance companies.

MOVING TOWARD A SINGLE CONSUMER CREDIT MARKET

As the market served by specialist consumer loan companies matures, Japan’s consumer credit market is on the verge of momentous change brought about by broad-based growth in the credit card segment. Barriers that had separated individual market categories, such as consumer loans, home equity loans, small business loans, consumer credit and credit cards, are disappearing. Soon there will be a single consumer credit market, just as in the United States today. Competition will be intense in this marketplace, which has a scale of about ¥61 trillion. To succeed in this environment, the AIFUL Group is placing priority on executing LIFE’s growth strategy. Another priority is taking advantage of opportunities involving mergers and acquisitions. The group intends to enlarge its operating base as much as possible by targeting the entire consumer credit market.

The Comprehensive Financial Services Strategy

AIFUL'S COMPREHENSIVE FINANCIAL SERVICES STRATEGY

To sustain consistent growth in earnings amid the ongoing shifts in the operating climate, the AIFUL Group in March 2001 acquired credit card company LIFE. This move gave the group, which then offered mainly unsecured consumer loans, a number of new businesses: secured loans, credit card shopping, shopping loans, credit card advances, and others. Adding LIFE was a big step in the comprehensive financial services strategy that targets the entire consumer credit market. Furthermore, the group's goals are not limited to consumers. In April 2001, AIFUL and Sumitomo Trust & Banking established a small business loan company called Businext that serves borrowers in the medium-risk category. In October 2002, AIFUL purchased City's, a company extending small business loans to high-risk borrowers. In this manner, AIFUL is preparing for the maturity of its markets in the future by diversifying its channels for acquiring customers and generating earnings in a style completely different than its competitors.

WHY BECOME A COMPREHENSIVE FINANCIAL SERVICES PROVIDER?

Sustaining earnings growth

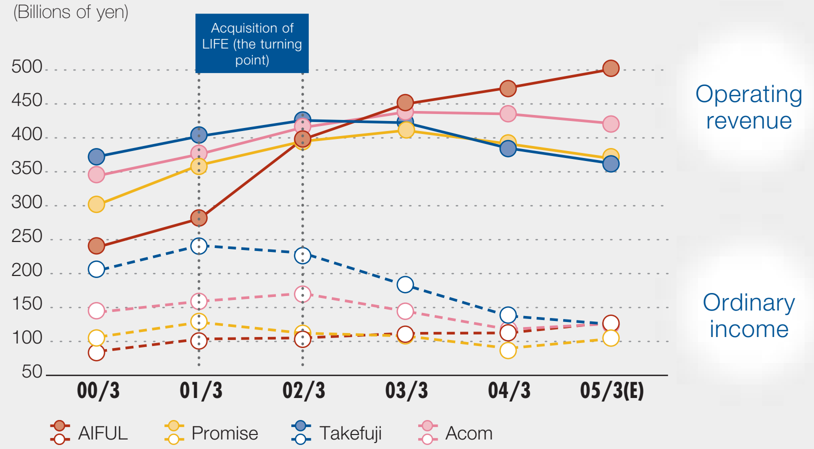
If AIFUL continued to focus exclusively on a particular market segment, the company would eventually reach the point where no more growth is possible. The company must deal with maturing markets and the intense competition sparked by that maturity. AIFUL believes that the best way to succeed is to look beyond the consumer finance domain, targeting the entire ¥61 trillion consumer credit market in order to diversify its product lineup and channels for acquiring customers. As the graph below shows, the acquisition of LIFE was a turning point for AIFUL, creating a base for stable earnings growth. In the past fiscal year, the effectiveness of this comprehensive financial services strategy was evident in AIFUL's ability to post higher revenue and earnings.

Diversifying the portfolio of receivables

The second reason for the comprehensive financial services strategy is to build a more diverse portfolio of receivables. By shifting from a business structure that relied almost entirely on unsecured loans, the AIFUL Group now has receivables generated by a number of different business activities. As of March 31, 1999, unsecured loans accounted for 82% of receivables and home equity loans for 16%, about the same as at other consumer finance companies. But by March 31, 2004, unsecured loans had fallen to 47% while home equity loans were 15% of receivables and the credit

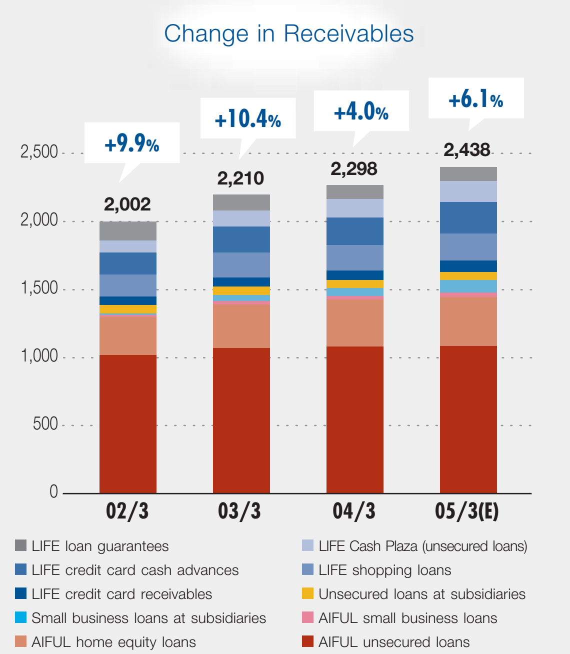
Consolidated Operating Revenue and Ordinary Income at Japan's Big Four Consumer Finance Companies

(Billions of yen)



Diversification of Receivables and the Risk Profile

(Billions of yen)



card and other consumer credit operations of LIFE accounted for 30% of receivables. Loans at other subsidiaries accounted for about 2%. Diversification of receivables is an extremely effective strategy for spreading out risk. During the fiscal year that ended in March 2004, AIFUL's non-consolidated unsecured loans had a charge-off ratio of 8.0%, while this ratio was 2.8% for home equity loans and 5.5% for the credit card receivables of LIFE. These figures demonstrate the high risk of bad debts in a business relying only on unsecured loans. Clearly, diversifying receivables to include home equity loans and credit cards creates a much better bad debt risk profile in terms of customer segments and product lines than that with a business concentrating exclusively on unsecured loans.

Higher returns on assets and equity

A third reason for the comprehensive financial services strategy is the pursuit of higher returns on assets and equity. As the consumer finance market matures, companies active exclusively in this market will no longer be able to grow. Only equity will continue to climb. If no actions are taken, these companies will see a steady drop in their financial leverage, causing an erosion in the ROE and capital productivity. AIFUL, on the other hand, has an equity ratio of 23.5% and leverage of 4.5 times, resulting in a higher ROE than at peer companies. Furthermore, AIFUL plans to continue to raise receivables through mergers and acquisitions, as was the case with LIFE, while preserving credit ratings. AIFUL is convinced this is the best means of generating high returns on assets and equity.

GROWTH AT LIFE AND BUSINEXT

The credit card business of LIFE is a pivotal element of AIFUL's comprehensive financial services strategy. LIFE issues two types of cards: its own cards and cards issued jointly with other companies, such as large retailers. Joint cards account for about 90% of all newly issued cards. One reason for emphasizing these cards is the ability to attract a broader range of customers. Another is the ability to raise awareness of the LIFE brand by linking it to the brands of prominent partner companies. To further enlarge its credit card customer base, LIFE is forming ties with more card issuing partners and maintaining strong ties with existing partners.

Returns on Assets and Equity and Financial Leverage

Year ended March 31, 2004	AIFUL	Takefuji	Acom	Promise
ROA (non-consolidated)	2.8%	3.8%	3.2%	2.9%
ROE (non-consolidated)	10.7%	8.6%	9.8%	8.1%
ROA (consolidated)	2.7%	3.9%	3.4%	2.3%
ROE (consolidated)	12.1%	8.7%	10.5%	6.6%
Leverage (consolidated)	X4.5	X2.2	X3.1	X2.9
Leverage (non-consolidated)	X3.8	X2.3	X3.1	X2.8
Equity ratio (consolidated)	23.5%	47.0%	33.6%	37.0%
Equity (consolidated, billions of yen)	¥ 547	¥ 893	¥ 697	¥ 636
Total assets (consolidated, billions of yen)	¥2,332	¥1,899	¥2,075	¥1,718

Businext, which targets medium-risk small businesses, is now in its fourth year of operations. Having assembled scoring systems for individual business owners and companies, the company is now taking aggressive actions to raise the balance of loans by meeting the latent needs of borrowers.

THE AIFUL STRATEGY FOR MERGERS AND ACQUISITIONS

In recent years, AIFUL has acquired a number of companies to enlarge its business portfolio. The company plans to retain an aggressive stance regarding mergers and acquisitions in order to sustain earnings growth. These activities will be based on two types of investments. The first is strategic investments in the credit card, home equity loan and small business loan categories. Here, AIFUL will even pay a premium where justified as a strategic investment to expand these activities. The second is pure investments in consumer finance businesses, targeting opportunities where small investments can produce substantial returns. In both cases, AIFUL will concentrate on adding quality businesses to the group in order to execute its comprehensive financial services strategy.

Changing gears for the next stage

The diagram on these pages illustrates the breadth of the AIFUL Group's business activities. Each group company is positioned relative to a vertical axis representing credit risk and a horizontal axis that spans the consumer credit industry from end to end.

Lower risk

Higher risk

Individual loan guarantee agreements with regional banks, *shinkin* and credit unions

AIFUL

Main business is the provision of unsecured loans to consumers. Other activities are home equity loans, small business loans.

>> see page 14

TRYTO

A consumer finance company formed in 2004 through the integration of AIFUL subsidiaries Happy Credit, Sinwa and Sanyo Shinpan. Combining these three companies allows these operations to conduct more efficient sales activities and reduce costs.

Consumer finance

LIFE

Established in 1952 as a consumer credit and credit card company, LIFE became a subsidiary of AIFUL in March 2001. Main businesses are credit cards, shopping loans and loan guarantees.

>> see page 18

Businext

A company owned by AIFUL and Sumitomo Trust & Banking, Businext began operations in April 2001, extending small business loans primarily to borrowers in the moderate-risk category.

>> see page 22

Small business loan guarantee alliance with the Resona Bank Group and others

City's

This small business loan company became an AIFUL subsidiary in October 2002. City's has used exclusive know-how to build a business model for the provision of loans to high-risk small businesses.

>> see page 22

Credit cards and "Shinpan" → ***Small business loans***

AIFUL CORPORATION

AIFUL's operations center on the provision of unsecured loans. The company has also diversified its lineup to include products such as home equity loans and small business loans. To continue increasing earnings, AIFUL is concentrating on product diversification and further gains in efficiency.

PRODUCT DIVERSIFICATION STRATEGY

AIFUL's product diversification strategy is a pillar of its management strategy. AIFUL is the only major consumer finance company to be committed to developing a diverse line of products, extending from the mainstay unsecured consumer loan business to encompass home equity loans and small business loans. This diversification strategy has three aims.

The first is to consistently deliver stable earnings growth even after the consumer loan market matures, as is expected in the near future. AIFUL believes that it can steadily increase its market share even amid a maturing market by offering products not available from competitors.

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

Third is diversification of business risk. Having a variety of products with different risk-return profiles—such as in terms of customer characteristics, average balances and loan rates—allows AIFUL to avoid the risks associated with a loan portfolio that is concentrated in a specific customer segment. For example, while the core customer base of consumer loans consists of relatively young adults, home-equity loan customers are primarily older adults.

OVERVIEW OF AIFUL'S RESULTS

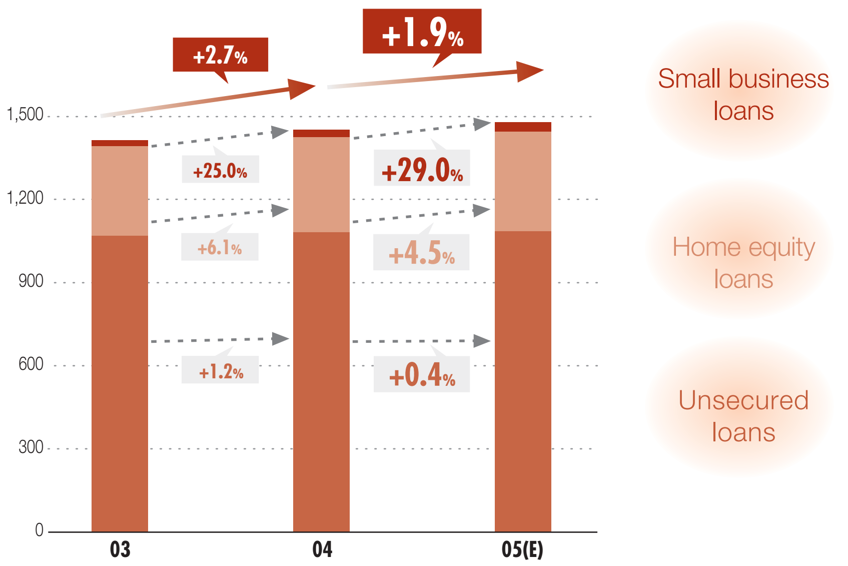
New Customers

Japan's leading consumer finance companies are seeing a steady decline in the number of new customers. There are three main reasons for this downturn. One is economic stagnation, which has weakened consumer demand for loans. Second is negative articles and reports in the mass media about peer companies. The other reason is an increase in new sources of consumer loans, such as credit card companies and consumer finance companies affiliated with banks.

However, the downturn is expected to bottom out in the latter half of 2004 due to an improvement in GDP, unemployment and corporate bankruptcy statistics that began early in 2004. Moreover, there are fewer negative articles and reports about other companies in the consumer finance industry. AIFUL has maintained its edge over competitors in attracting customers due to the success of TV commercials featuring a Chihuahua and other marketing activities.

AIFUL Loans Outstanding

(Billions of yen)



Outstanding Loans

In the year ended March 2004, total loans at AIFUL increased 2.7% to ¥1,451,638 million, and there was steady expansion in market share even in a difficult operating environment. The balance of unsecured loans increased 1.2% to ¥1,081,057 million. Furthermore, due to its product diversification strategy, AIFUL increased outstanding home equity loans by 6.1% to ¥342,637 million and small business loans by 25.0% to ¥27,943 million.

Reflecting the solid rise in outstanding loans, interest on loans increased 3.6% to ¥326,978 million, lifting operating revenue 3.2% to ¥334,977 million. The continuing increase in income was in stark contrast to the performance of other companies, which saw income decline for the second straight year, and underscores the advantages of AIFUL's strategy. In terms of expenses, bad debt costs rose 26.5% to ¥109,223 million, but appear to have passed the peak. This resulted in ordinary income of ¥98,932 million, down 7.6% year on year.

RISK MANAGEMENT

There are three main reasons for the sharp rise in bad debts over the past two or so years since 2002.

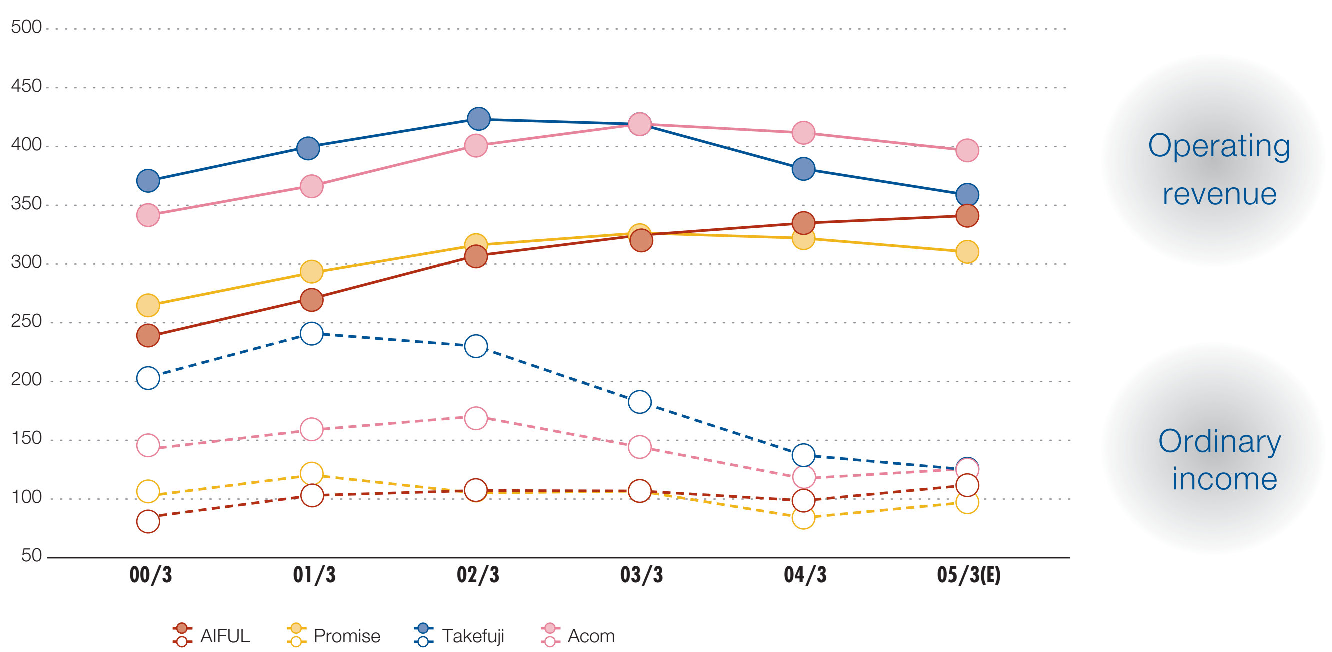
One is predatory lenders. According to a survey of personal bankruptcies by the Federation of Moneylenders Association of Japan, about 50% of bankrupt individuals were victims of widespread predatory lending. The enactment of the Revised Moneylending Business Law in September 2003 to combat this practice led to stronger police enforcement and the prevalence of fraudulent lending has declined.

A second factor is the lending stances of finance companies. When lenders aggressively take on risk and expand their lending, their outstanding loans may increase but their bad debts also tend to rise after a certain period. On the other hand, when they limit the increase in lending to minimize risk based on more stringent scoring standards, bad debts fall after a certain period.

To combat the continued increase in bad debts under recent economic conditions, AIFUL tightened lending criteria

Non-Consolidated Operating Revenue and Ordinary Income at Japan's Big Four Consumer Finance Companies

(Billions of yen)



in the second half of fiscal 2002, lowering the acceptance ratio (the number of loans extended as a proportion of total loan applications) from 75% in the past to about 65%.

A third factor behind the rise in bad debts was the economic and macroeconomic condition. Until about July 2003, the high jobless rate and declining incomes due to anemic economic conditions in Japan exerted pressure on household budgets in certain customer segments. However, positive macroeconomic signs are beginning to emerge. Looking ahead, if there is a broad-based economic recovery and consequent decline in bad debts, AIFUL may be able to raise the acceptance ratio and thus more aggressively extend loans.

MEASURES FOR IMPROVING OPERATIONAL EFFICIENCY

Contact Centers

With personnel spread over more than 500 manned offices nationwide, preserving a consistently high level of customer service is no easy task. However, integrating this function at specialist call centers makes possible the centralized management of every step from the recruitment of operators to training and operation of the centers themselves, thereby facilitating the provision of consistently excellent responses to all customer inquiries. Cost efficiency is another benefit of this centralization. Providing adequate training for individuals at all offices across the country requires considerable costs for holding large training sessions at head office and other locations. Consolidating sales-related operations at contact centers thus yields significant savings. It was based on this thinking that all work involving communication with and to customers was consolidated by the end of March 2004 in two contact centers in eastern and western Japan: Tama City in Tokyo, and Kusatsu City in Shiga Prefecture. The operations that were consolidated include responding to automated loan machine applications, toll-free calls and other telephone inquiries, contacting customers who are behind in paying their accounts, and help with loans involved with litigation.

Since its acquisition by AIFUL in March 2001, credit card issuer LIFE Co., Ltd. has been posting solid growth in earnings, playing an enormous part in the AIFUL strategy of providing a comprehensive line of financial services.

RETURNING LIFE TO FINANCIAL SOUNDNESS

AIFUL Enters the Credit Card Market With the 2001 Acquisition of LIFE

Credit card company LIFE became a wholly owned subsidiary of AIFUL in March 2001, giving AIFUL a presence in the credit card business, a field with considerable growth potential. Established in 1952, LIFE developed into one of Japan's major consumer credit and credit card companies. However, a sharp drop in revenue and earnings due to weak consumer spending after the bursting of Japan's asset bubble forced this company to file for bankruptcy in June 2000. AIFUL was selected as the sponsor of this company. Following the completion of payments to all debt holders in March 2001, LIFE became a wholly owned subsidiary of AIFUL, which had until then been devoted exclusively to consumer finance. With LIFE, AIFUL also became a source of shopping credit and cash advances through credit cards as well as a provider of shopping loans. The acquisition of this consumer credit and credit card company thereby greatly transformed AIFUL, taking the group much closer to its goal of becoming a comprehensive provider of retail financial services.

The Three Post-Acquisition Strategies for Renewed Vitality

(1) Business portfolio realignment

Following its acquisition by AIFUL, LIFE established three goals. First was the realignment of the business portfolio to deal with its low-margin operating structure. Auto loans and other unprofitable businesses were discontinued as resources were shifted to more attractive market sectors. In the past fiscal year, aggressive actions in this regard produced solid gains in receivables in higher-margin businesses: card shopping increased 12% to ¥71,508 million; shopping loans, excluding auto loans, increased 6% to ¥173,560 million; card cash advances increased 6% to ¥202,819 million; and Cash Plaza, which handles only loans, increased 15% to ¥135,543 million.

At the same time, receivables are falling for auto loans, home loans and other low-margin activities where LIFE is no longer taking on new business. Auto loan receivables dropped 69% to ¥2,075 million and home loan guarantees were down 13% to ¥35,866 million. Further reductions are planned in these businesses. Due to this shift in resources, the ratio between growing and discontinued businesses has improved from 60:40 in the fiscal year that ended in March 2001 to 86:14 in the past fiscal year, demonstrating the steady progress being made in building a more profitable business portfolio.

(2) A review of transaction terms

The second goal is reviewing unfavorable transaction terms with member stores in order to improve interest rates on receivables. LIFE is adhering to a policy of raising the profitability of its receivables while avoiding excessive competition with regard to fee reductions. Accordingly, an intermediate credit authorization function has been added at member stores that focuses mainly on sales methods and the level of credit. Due to these efforts, the fiscal 2004 average return based on receivables was 16.4%, 1.4 percentage points better than the 15.0% in the prior fiscal year.

(3) Cost reductions

Cost cutting is the third goal, a theme directly linked to raising earnings. To accomplish this, AIFUL has been executing a cost containment plan while pursuing greater profitability and growth. For computer systems, which account for a large share of expenses, LIFE has been conducting a joint development program with AIFUL and sharing systems to hold down expenses. To reduce the occurrence of bad debt, the scoring system has been improved, the accuracy of credit investigations raised, and the loan recovery organization strengthened. Furthermore, synergies with other AIFUL Group companies are being used to cut costs, such as through joint procurement activities and consolidations of contact centers and offices.

Due to these activities, LIFE has gained a level of profitability far superior to those of other major consumer credit and credit card companies in Japan. Whereas most of LIFE's competitors generate earnings that are between 5% and 7% of revenues, LIFE produced earnings that were above 16% of its revenues in the past fiscal year.

This accomplishment alone attests to the fact that LIFE has fulfilled all three of the revitalization strategies established when it joined the AIFUL Group.

OPERATING RESULTS AND GROWTH STRATEGIES

Growth in credit cardholders continues

In the fiscal year that ended in March 2004, initiatives taken by LIFE to increase cards in force resulted in the issuance of 2.14 million cards, 12% more than in the previous fiscal year. Growth of affiliate cards was particularly strong, accounting for more than 80% of all new cards issued during the fiscal year. One reason was new card issuing agreements with Eiden Co., Ltd., a large home appliance and electronics retailer, and Sanwado Co., Ltd., a home improvement retailer. There was also growth at existing partners, notably Yofuku-no-Aoyama, an apparel retailer, Deodeo Corporation, a large home appliance and electronics retailer, and Komeri Co., Ltd., a major home improvement retailer.

The number of effective cardholders at LIFE has increased by 3.55 million from 7.48 million when the company was acquired by AIFUL to 11.03 million at the end of March 2004. Moreover, backed by this strong growth, LIFE is raising its stature among credit card issuers. With more than 11 million cards outstanding, the LIFE Card has reached about the same level as the Nicos and Orico cards, the industry leaders.

Growth in Card Utilization and Earnings

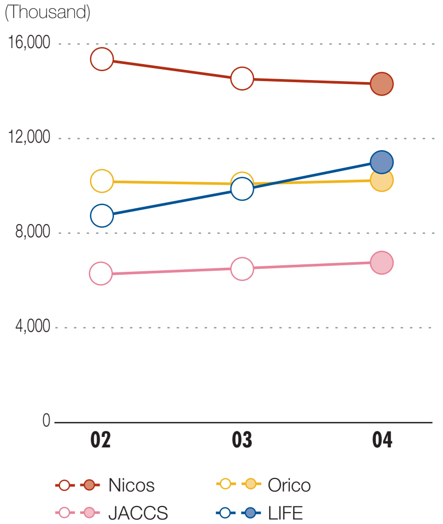
The volume of card transactions has naturally grown along with the number of cardholders, rising 8% from ¥503.4 billion to ¥543.5 billion. The ratio of active cards has improved, too. The monthly average of active cards was 11.7% in the second half of the past fiscal year compared with 10.4% in September 2000 when the "new LIFE" began operations. Improvements in the number of cardholders and card utilization is clear proof of the success of LIFE in raising its market share among consumer credit and credit card companies in this core business domain. Earnings are rising as well. In the past fiscal year, LIFE's third as an AIFUL Group member, operating revenue based on receivables rose 9.5% to ¥113.7 billion and ordinary income was up 50.1% to ¥12.0 billion, both all-time highs.

LIFE's Next Goals and Initiatives

To ensure that LIFE remains among the winners in the credit card market, the company is executing a strategy centered on two goals in the year ending in March 2005: achieving a large increase in the number of cards issued, and raising the percentage of active cards. One action is deepening ties with existing card issuing partners. Another is establishing separate departments for each card category to

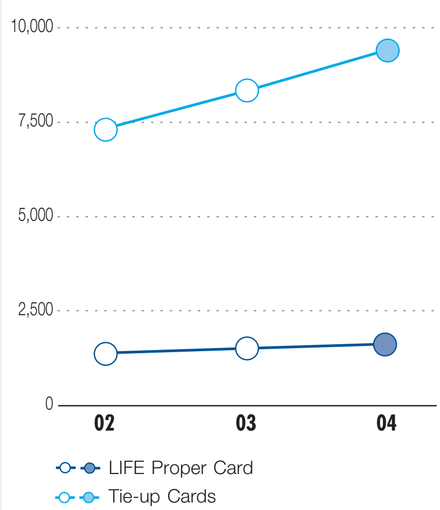
Number of Cardholders at Japan's Big Four Consumer Finance Companies

(Thousand)



Number of Cardholders

(Thousand)



work more closely with other LIFE divisions to establish credit card alliances with more companies. Through this approach, LIFE has set the targets of issuing 2.01 million new cards, raising credit card shopping volume by 21% and increasing cash advances by 15% in the fiscal year ending in March 2005.

PLACING THE LIFE BRAND FRONT AND CENTER

Establishing and Expanding a Network of New Stores

To improve the public perception of the LIFE brand, LIFE is opening a network of service outlets based on an approach completely different from that of ordinary consumer finance companies. The most significant difference is the sale of tickets to special events and travel packages in addition to the provision of the standard line of services.

The LIFE Card Shinjuku Store, the first of these new outlets, opened in January 2004 in central Tokyo. Naturally, customers can apply for a LIFE Card or affiliated card at this location. But they can also purchase tickets through the PIA network and sign up for discounted tours and other services available to members of Benefit One, a provider of employee benefits. The aim is to give people more reasons to visit a LIFE store. The stores also include features that are inviting to individuals who do not yet have a LIFE-issued card. For instance, there are ATMs for receiving cash advances and booths where people can surf the Internet for free. LIFE will continue to shift its store network strategy from a consumer finance format to stores that are centered on the credit card business. This will create a format unlike that of the old shopping loans oriented consumer credit company offices as well as that of consumer loan offices, which focus on unsecured loans. LIFE's goal is to create a new store format that is credit card-oriented while also offering shopping loans and cash advances.

A New Visual Identity to Revamp the LIFE Brand

To lay the groundwork for further growth, LIFE is repositioning its brand to be even more firmly linked with credit cards. For this purpose, LIFE Card became the new corporate brand and a new symbol was adopted in April 2004, both as part of the ongoing visual identity program. The new symbol, which is the nucleus of the entire visual identity program, expresses LIFE's desire to be a company that is always moving forward by breaking away from the bounds of conventional thinking. This same spirit is embodied in the new design of the LIFE Card.

To establish this new identity as quickly as possible, LIFE is conducting a high-profile advertising campaign, centered on TV commercials, and taking other steps designed to make the public aware of what the LIFE Card brand stands for.

Life CARD

Businext

City's

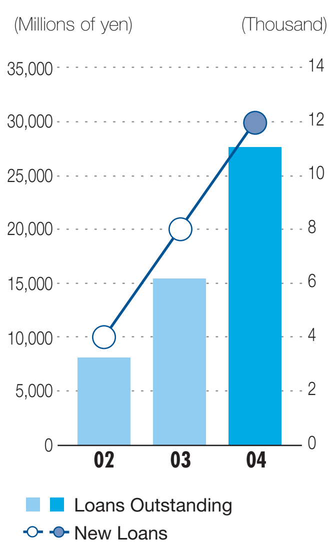
Small business loans are offered through two group companies: Businext Corporation, a joint venture with Sumitomo Trust & Banking Co., Ltd. that started operations in April 2001, and City's Corporation, which was acquired in October 2002. Each company targets customer segments with different risk profiles.

BUSINEXT CORPORATION

Moderate-Risk Borrower Loan Market

The market for business loans to moderate-risk borrowers involves the extension of loans to small and medium-sized businesses at interest rates in the range permitted by the Interest Rate Restriction Law. Some estimates put this market at between ¥9 trillion and ¥10 trillion. In recent years, some megabanks and other banks have become more willing to lend to customers in this market. However, banks are lending to mid-sized companies rather than smaller companies. In short, many small and medium-sized companies are still finding it difficult to borrow money from banks. In spite of an enormous need for financing, there is a shortage of financial institutions actually lending to this customer segment. The moderate-risk market is thus largely undeveloped.

Loans Outstanding at Businext



Businext's Operations and Defining Characteristics

Established in April 2001 as a joint venture with Sumitomo Trust & Banking, Businext provides mainly small-business loans to moderate-risk borrowers at interest rates of no more than 18% as prescribed by the Interest Rate Restriction Law. Over the roughly three years that it has been operating, Businext has extended around 30,000 loans, including loans that have already been repaid. Loans have been split evenly between sole-proprietors and corporate borrowers. The introduction of a proprietary scoring system based on AIFUL's credit screening expertise has enabled Businext to offer two products distinguished by the speed at which credit is approved: Card Loan, a loan often extended on the same day as the application, and Business Loan, for working capital or bridging finance, which can be approved in less than three days. Thus, backed by AIFUL's sophisticated credit screening capabilities, which allows it to investigate applications quickly, and the sense of security offered by the Sumitomo Trust & Banking name, Businext is satisfying a specific market need.

Moving Into the Black in the March 2005 Fiscal Year

In the year ended March 31, 2004, small business loans outstanding increased 79% to ¥27.5 billion, from ¥15.3 billion one year earlier, thanks to new sales approaches adopted in the prior fiscal year. Businext also succeeded in increasing the number of new loans to 12,000, by 47.4%, on an annual basis, approving around 1,000 new loans on 4,000 new applications a month. As a result of these accomplishments, Businext became profitable on a single month basis in January 2004, and is forecasting ordinary income of approximately ¥0.4 billion for the fiscal year ending March 31, 2005, compared with an ordinary loss of roughly ¥1.0 billion in the past fiscal year.

Businext has been able to establish a presence in this new business domain through the application of effective sales know-how and the creation of a business loan scoring system based on the analysis of data compiled over the past three years. The three-year head start that Businext has on the market is its single biggest point of differentiation. Businext aims to raise its standing further, taking maximal advantage of its competitive edge before more companies enter this market.

Scoring System

Now in its fourth year of operations, Businext has completed two types of loan scoring system for businesses. One is a scoring system for sole proprietors that was introduced in October 2003. This system is based on information that profiles sole proprietors. The other system is a scoring system for corporate borrowers. Introduced in April 2004, this system creates a model by coupling profile data of each applicant with corporate financial data of the applicant. Moving forward, Businext aims to continuously analyze data and refine its systems in other ways to further enhance scoring accuracy.

CITY'S CORPORATION

High-Risk Borrower Loan Market

In the field of loans for high-risk small and medium-sized businesses and sole proprietorships, the amount of outstanding loans temporarily declined in the wake of problems related to lending practices at some companies around five years ago. Banks still, however, impose strict lending criteria on loans to these businesses, meaning borrowers are still restricted in their options despite high demand for funds. City's increasing balance of loans to high-risk borrowers points to rising demand from the target market. City's believes that it can expand business in this market through proper risk management.

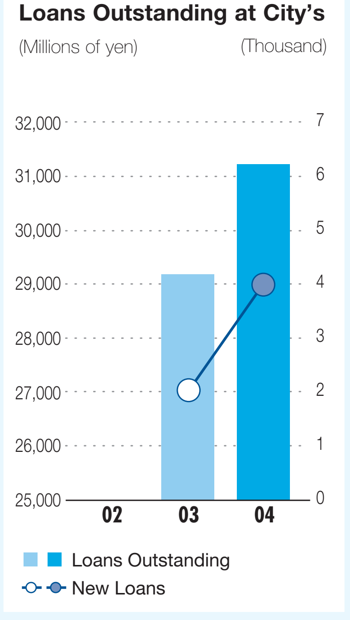
Business Results and Growth Strategy

AIFUL made City's, with its know-how in extending loans to high-risk customers, a group company in October 2002, thereby creating a framework for offering small business loans to a broader customer base, namely moderate- and high-risk borrowers. In the year ended March 31, 2003, the first fiscal year after its acquisition, City's posted an ordinary loss of ¥0.5 billion due to the booking of allowances and other factors. In the past fiscal year, however, City's posted ordinary income of ¥3.0 billion, well above its original forecast of ¥1.3 billion, due to a decrease in the provision for doubtful loans because of a peaking out of bad debts. In the fiscal year ending in March 2005, the company is forecasting ordinary income of ¥1.8 billion, premised on the absence of the special factors that held back earnings during the past two fiscal years.

The main product offered by City's is the Business Loan, which accounts for about 90% of all its loans outstanding. Recently, City's has been increasing its office network, primarily in the Kanto and Kansai regions, and has launched the New Business Loan, which eliminates the need for a guarantor, to adapt to changing social trends. Because City's lends to high-risk sole proprietorships, it may receive loan applications from customers that fail to meet Businext's credit screening criteria.

Since Businext currently rejects around 70% of the applications it receives, City's plans to strengthen collaboration with Businext to reduce lost mutual business opportunities. Furthermore, City's plans to aggressively push ahead with office openings, eyeing area expansion, and capture new customers given the increasing need for funds by small and medium-sized companies as economic conditions improve in Japan.

Loans Outstanding at City's



Dedicated to reflecting the management philosophy "Win the good favor of society" in all activities, the AIFUL Group conducts a variety of community activities. Sponsorships and other support for golf, judo, relay races and other sports account for a large share of these activities. In addition, LIFE has a program that allows customers to donate a percentage of their credit card purchases to charity.

AIFUL CORPORATION

AIFUL

AIFUL contributes to communities mainly by sponsoring and extending other forms of support to a variety of sporting events. AIFUL is a strong believer in the basic philosophy of the Japan Golf Tour Organization: contributing to the overall advancement of the culture of golf by having players, directors, supporters and all others involved work as one to make tournaments even more successful, as well as conduct charitable activities and other programs to contribute to society. Accordingly, golf tournaments are viewed as an ideal means of raising public awareness of the AIFUL corporate philosophy. In addition, AIFUL was an official sponsor of the 2003 World Judo Championships, which were held from September 1 to 14, and of the International Team Judo Tournament held on September 15. AIFUL sponsored the 14th Awajishima Women's Relay Race (*eki-den*). This was the fifth consecutive year that AIFUL was a part of this event. AIFUL was a special sponsor at the 1st All-Japan University Women's Invitational Relay Race, which was started to create a second national-level *eki-den* event for women.

Life CARD

LIFE

LIFE issues charity cards in which a portion of purchases is directed to a number of organizations run by volunteers. The Japan Paralympic Card provides funds for an organization that holds a number of competitions to support Japanese athletes aiming to participate in the Paralympic Games. The Save the Great Apes LIFE MasterCard provides funds to help prevent these animals from becoming extinct in the wild. The third card is linked with Make-a-Wish of Japan, part of an international non-profit organization that makes wishes come true for children who are battling serious diseases.

Corporate Governance

Dedicated to the corporate philosophy "Win the good favor of society," the AIFUL Group has established the necessary internal systems and takes the measures needed for an effective corporate governance framework.

RAPID DECISION-MAKING FOR MANAGEMENT ISSUES

The Board of Directors meets weekly so that rapid decisions can be reached, based on adequate discussions and studies, with regard to important management issues, business opportunities and the associated management strategies.

MANAGEMENT SUPERVISORY FUNCTIONS

AIFUL has four corporate auditors, three of whom are from outside the group, to supervise management of the company. The auditors perform supervisory duties by attending each weekly meeting of the Board of Directors, as well as meetings of the Compliance Committee. The auditors also work closely with the Audit Division, the company internal auditing unit, to maintain a preventive auditing system. Furthermore, the company's corporate auditors along with the corporate auditors of each group company work with the company's Group Management Department and Audit Division to provide a supervisory system for the management of group companies.

COMPLIANCE SYSTEM

The Inspection Department and Legal Affairs Department are responsible for ensuring strict compliance with laws and regulations. In April 2002, the Compliance Committee was established as an advisory body to the Board of Directors. At its monthly meetings, this committee examines risk-related data, preventive measures involving risks, and employee training programs in line with committee policies, and takes other actions to enhance the company-wide compliance system. The AIFUL Group Ethical Guidelines have been prepared and distributed to all employees. For some time, the group has had a hot line has been set up to report violations and provide advice. In June 2003, a compliance hot line was added and regulations were established for an internal reporting system, thus creating a system for preventing violations of laws and internal regulations. In addition, a customer service center was set up within the Legal Affairs Division, providing quick responses to questions and complaints from customers. This center also provides guidance and training to sales departments, improves customer satisfaction and strengthens the legal compliance system.

DISCLOSURE ACTIVITIES

In addition to the public disclosure of various information, AIFUL also gathers opinions, requests and other input from shareholders and investors. This feedback is periodically presented to directors and business unit managers for the purpose of strengthening corporate governance. Dedicated to conducting operations in a transparent manner, AIFUL has two sections devoted exclusively to disclosure activities: the Public Relations Department and the Investor Relations Office. These two units are responsible for the provision of information in an easily understood format through disclosure activities, responding to requests from the media and securities analysts, and conducting information meetings that are appropriate in terms of their timing and content.

RISK MANAGEMENT

The Risk Management Committee, which is part of the Corporate Planning Headquarters, takes the lead in gathering information on existing and latent risks at the company. The committee works with the Investor Relations Office, Legal Affairs Division and other units to maintain a crisis management system. Additionally, a personal information protection project has been started to come up with measures to protect this information by creating a company-wide system to prevent unauthorized access to personal information.

Board of Directors

AIFUL CORPORATION

(As of June 25, 2004)

President and CEO

Yoshitaka Fukuda

Senior Managing Director and Representative Director

Taichi Kawakita

Senior Managing Directors

Katsuhide Horiba

Sadatoshi Kobayashi

Managing Director

Shintaro Hashima

Directors

Yasutaka Fukuda

Yoshimasa Nishimura

Koji Imada

Takashi Koumoto

Masami Munetake

Yasuo Yanagibashi

Masayuki Sato

Hiroshi Abe

Kazumitsu Oishi

Tsuneo Sakai

Tetsuo Ninomiya

Kazuyoshi Wakamatsu

Standing Corporate Auditors

Masanobu Hidaka

Yoshitaka Ebisuzaki

Yasuo Hotta

Corporate Auditor

Yoshinobu Azuma

LIFE Co., Ltd.

Chairman

Yoshitaka Fukuda

President

Kunio Morikiyo

Senior Managing Directors

Masayuki Sato

Gen Hashimoto

Managing Directors

Kazumitsu Oishi

Syouichiro Nakata

Directors

Tetsuya Goto

Katsuhide Horiba

Hiroshi Abe

Toshiki Yamanishi

Standing Corporate Auditor

Tadashige Horioka

Corporate Auditors

Yoshitaka Ebisuzaki

Keiji Kimoto

Management's Discussion and Analysis

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Note: Figures in the financial section are based on audited English-language statements. Figures in the feature section and review of operations are based on Japanese financial statements. Due to certain reclassifications, some figures and items do not match.

Six-year Summary

AIFUL Corporation and Consolidated Subsidiaries

Years ended March 31	1999	2000	2001
For the year:			
Total income	205,536	239,200	281,719
Total expenses	140,777	154,490	189,145
Income before income taxes	64,759	84,710	92,574
Income taxes	36,311	42,399	44,371
Deferred income taxes	–	1,793	(1,833)
Net income	28,448	44,104	48,253
At year-end:			
Balance of loans outstanding	837,982	1,001,080	1,261,042
Bad debts	–	57,668	79,913
Loans in legal bankruptcy	–	16,299	13,071
Nonaccrual loans	–	15,797	25,644
Accruing loans contractually past due three months or more as to principal or interest payments	–	5,251	7,196
Restructured loans	–	20,321	34,002
Total assets	996,524	1,182,468	1,865,537
Allowance for bad debts	48,009	56,720	98,395
Total liabilities	792,775	929,565	1,557,838
Interest-bearing debt	763,175	892,169	1,239,265
Minority interests	–	–	1,149
Total shareholders' equity	203,749	252,903	306,550
Per Share Data (Yen):			
Net income	610.63	786.13	569.32
Total shareholders' equity	4,358.03	4,507.83	3,611.74
Cash dividends	60	60	50
Ratio (%):			
Shareholders' equity ratio	20.4	21.4	16.4
ROE	16.3	19.3	15.7
ROA	3.0	4.0	2.6
Other Data:			
Number of shares outstanding at year-end	46,752,500	56,103,000	84,876,000
Number of employees at year-end	3,141	3,263	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)

2002	2003	2004
400,014	451,168	**479,473**
338,166	343,715	**375,659**
61,848	107,453	**103,814**
27,385	47,426	**41,016**
(8,908)	(10,129)	**(5,158)**
35,064	59,911	**62,548**
1,482,796	1,670,782	**1,786,940**
94,854	120,399	**149,826**
16,457	20,830	**28,637**
28,723	39,897	**52,452**
11,945	16,503	**17,820**
37,729	43,169	**50,917**
2,029,634	2,282,113	**2,332,761**
109,337	132,130	**145,757**
1,604,780	1,792,093	**1,780,575**
1,344,273	1,504,969	**1,513,812**
3,511	4,029	**4,682**
421,343	485,991	**547,504**
390.00	637.59	**660.98**
4,523.01	5,143.45	**5,794.58**
50	60	**60**
20.7	21.3	**23.5**
9.6	13.2	**12.1**
1.8	2.8	**2.7**
93,376,000	94,690,000	**94,690,000**
5,810	6,123	**5,969**

Notes
1. 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.
2. 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.
3. On June 1, 2000, 721,500 new shares were issued through an exchange of shares agreement concluded with Sinwa Co., Ltd.
4. 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.
5. 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.
6. Starting in 2003, shareholders' equity per share, net income per share, and diluted net income per share were calculated based on the Accounting Standard for Earnings Per Share (Accounting Standard No. 2) and the Implementation Guidance for Accounting Standard for Earnings Per Share (Implementation Guidance for Accounting Standard No. 4).

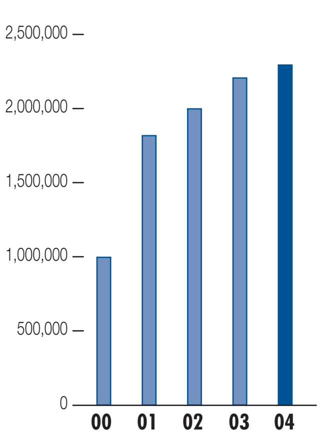
Consolidated Results of Operations

As of March 31, 2004, the outstanding amount of loans at AIFUL and its nine consolidated subsidiaries was ¥1,907,655 million (US$18,168 million), an increase of ¥73,953 million, or 4.0%, compared with one year earlier. This growth was attributable to a steady increase in loans at AIFUL, strong growth in loans extended through the credit card cash advances and Cash Plaza (unsecured loans) operations of LIFE, and the success of Businext in attracting new customers.

Unsecured loans increased ¥34,450 million, or 2.4%, to ¥1,477,430 million (US$14,071 million), home equity loans (secured loans) increased ¥20,746 million, or 6.4%, to ¥346,183 million (US$3,297 million), and small business loans increased ¥18,757 million, or 28.7%, to ¥84,042 million (US$800 million). Installment accounts receivable, mainly representing purchases using credit cards and shopping loans, increased ¥11,678 million, or 5.0%, to ¥247,551 million (US$2,358 million). Loan guarantees increased ¥4,865 million, or 3.8%, to ¥133,610 million (US$1,272 million), and other receivables decreased ¥2,533 million, or 19.9%, to ¥10,206 million (US$97 million). The above figures include ¥213,981 million (US$2,038 million) of receivables, ¥120,715 million (US$1,150 million) of outstanding loans and ¥93,266 million (US$888 million) of installment accounts receivable, that are not on the balance sheet because of their securitization and sale.

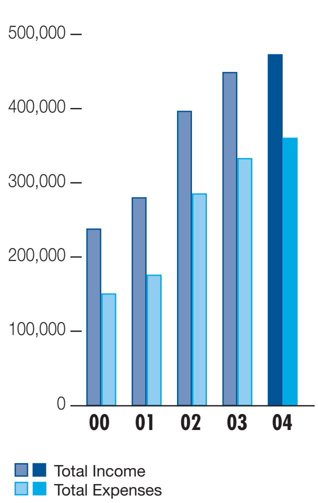
Total Receivables Outstanding

(Millions of yen)



Total Income and Expenses

(Millions of yen)



EARNINGS AND EXPENSES

In fiscal 2003, the year ended March 31, 2004, total income increased ¥28,305 million, or 6.3%, to ¥479,473 million (US$4,566 million). Interest on loans increased 5.7% to ¥429,513 million (US$4,091 million), representing 89.6% of total income. Interest on credit card shopping loans increased 3.3% to ¥8,140 million (US$78 million) and represented 1.7% of total income. Interest on shopping loans increased 2.2% to ¥15,508 million (US$148 million), and interest on loan guarantees increased 34.6% to ¥5,562 million (US$53 million).

The growth in total income was attributable to higher interest on loans at AIFUL and LIFE and rapid growth of more than 71.7% in interest on loans to ¥3,002 million (US$29 million) at Businext. In addition, City's Corporation, which was acquired in October 2002, made its first full-year contribution to consolidated results, reporting interest on loans of ¥7,307 million (US$70 million).

Total expenses increased ¥31,944 million, or 9.3%, to ¥375,659 million (US$3,578 million). Charge-offs and provision for doubtful loans and receivables, advances to an unconsolidated subsidiary and claims in bankruptcy increased ¥18,870 million, or 13.6%, to ¥157,349 million (US$1,499 million). The growth in these credit-related expenses was mainly a reflection of Japan's high unemployment rate and large number of personal bankruptcies.

Due to these factors, fiscal 2003 income before income taxes and minority interests decreased ¥3,639 million, or 3.4%, to ¥103,814 million (US$989 million).

Income taxes decreased ¥6,410 million, or 13.5%, to ¥41,016 million (US$391 million). The effective tax rate declined from 44.1% to 39.5%, mainly the result of a 9.7 percentage point decrease resulting from the tax benefit due to the deficit brought forward at LIFE, and a 1.8 percentage point decline in tax deductions associated with information and communications equipment and other items. Minority interests in net income increased ¥134 million, or 115.5%, to ¥250 million (US$2 million) because of higher pretax earnings at LIFE.

Net income increased ¥2,637 million, or 4.4%, to ¥62,548 million (US$596 million). Due to the growth in shareholders' equity, ROA declined from 2.8% to 2.7% and ROE declined from 13.2% to 12.1%.

Basic net income per common share increased ¥23.39, or 3.7%, from ¥637.59 to ¥660.98 (US$6.30).

PERFORMANCE BY LOAN CATEGORY

Unsecured loans

Consolidated unsecured loans represent loans at AIFUL, Cash Plaza and credit card cash advance operations of LIFE, and the unsecured loans of Happy Credit Corporation, Sinwa Co., Ltd. and Sanyo Shinpan Co., Ltd. On April 1, 2004, these three companies merged to form Tryto Corporation, which began operations on April 5.

Outstanding unsecured loans increased ¥34,450 million, or 2.4%, to ¥1,477,430 million (US$14,071 million) because of an increase in the average loan per account at AIFUL and an increase in the number of Cash Plaza accounts at LIFE. The interest rate on unsecured loans decreased 0.54 of a percentage point to 24.66%. Interest on unsecured loans increased ¥9,255 million, or 2.7%, to ¥358,142 million (US$3,411 million).

Home equity loans (secured loans)

These loans mainly represent the home equity loan business of AIFUL. LIFE, Businext and City's have started offering home equity loans on a trial basis by targeting customer segments different from those served by AIFUL.

Outstanding secured loans increased ¥20,746 million, or 6.4%, to ¥346,183 million (US$3,297 million) due to an increase in the number of customer accounts at AIFUL. The interest rate on home equity loans increased 0.62 of a percentage point to 16.38% and interest increased ¥7,372 million, or 15.5%, to ¥55,022 million (US$524 million).

Small business loans

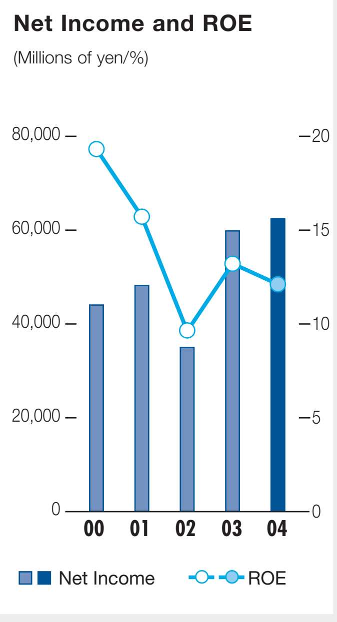
Small business loans are extended by AIFUL, Businext and City's.

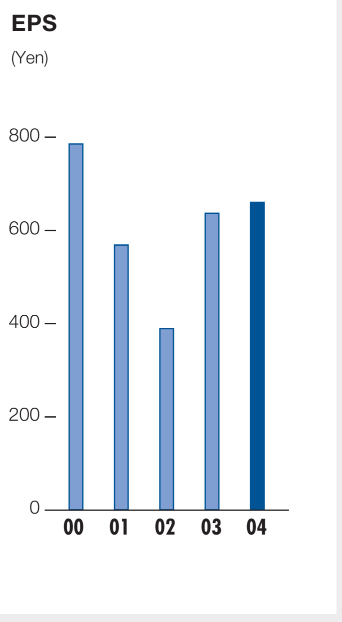
Outstanding loans in this category increased ¥18,757 million, or 28.7%, to ¥84,042 million (US$800 million) because of strong growth in loans at Businext and a steady increase in the number of small business accounts at AIFUL and City's. The interest rate on these loans decreased 0.17 of a percentage point to 21.90% and interest increased ¥6,403 million, or 64.4%, to ¥16,348 million (US$156 million).

Credit card shopping loans

Credit card shopping loans mainly represent the credit card business of LIFE.

Outstanding loans in this category increased ¥7,411 million, or 11.6%, to ¥71,528 million (US$681 million), mainly a reflection of the issue of co-branded cards at LIFE and cards linked to popular movies. The interest rate on credit card shopping loans decreased 0.25 of a percentage point to 12.39% but interest increased ¥263 million, or 3.3%, to ¥8,140 million (US$78 million).





Shopping loans

LIFE accounts for most of consolidated shopping loans. Although this sector of the consumer credit market is shrinking, the AIFUL Group believes that LIFE has growth potential in this business because of its small market share.

Outstanding loans increased ¥1,326 million, or 0.7%, to ¥185,650 million (US$1,768 million) due to an increase in the number of accounts as LIFE formed credit agreements with more retailers. The interest rate on shopping loans decreased 0.33 of a percentage point to 8.68% but interest increased ¥329 million, or 2.2%, to ¥15,508 million (US$148 million).

Loan guarantees

Consolidated loan guarantees represent the other businesses sector of AIFUL and the loan guarantee business of LIFE.

Loan guarantees increased ¥4,865 million, or 3.8%, to ¥133,610 million (US$1,272 million). Interest on loan guarantees increased ¥1,429 million, or 34.6%, to ¥5,562 million (US$53 million). This growth was the result of progress in raising the profitability of loans guaranteed. The primary actions were discontinuing housing loan guarantees and low-margin bank loan guarantees at LIFE and increasing the number of agreements for a new type of guarantee service for banks that mainly covers consumer loans.

Total outstanding loans (Millions of yen)

	2003	2004	% of change
Unsecured loans	1,442,980	1,477,430	2.4%
Home equity loans (secured loans)	325,437	346,183	6.4%
Small business loans	65,285	84,042	28.7%
Credit card shopping loans	64,117	71,528	11.6%
Shopping loans	184,324	185,650	0.7%
Loan guarantees	128,745	133,610	3.8%

Income (Millions of yen)

	2003	2004	% of change
Unsecured loans	348,887	358,142	2.7%
Home equity loans (secured loans)	47,650	55,022	15.5%
Small business loans	9,945	16,348	64.4%
Credit card shopping loans	7,877	8,140	3.3%
Shopping loans	15,179	15,508	2.2%
Loan guarantees	4,133	5,562	34.6%

NET MARGIN

The net margin in fiscal 2003 narrowed by 1.2 percentage points to 4.4%, the result of lower interest rates on loans and higher credit costs.

(%)	2002	2003	2004
Interest on loans	23.6	23.4	23.0
Fund procurement	2.0	1.8	1.7
Credit costs (including reserves)	5.5	7.3	8.2
Other expenses	9.7	8.7	8.7
Net margin	6.4	5.6	4.4

FINANCIAL POSITION

Total assets as of March 31, 2004 were ¥2,332,761 million (US$22,217 million), ¥50,648 million, or 2.2%, higher than one year earlier.

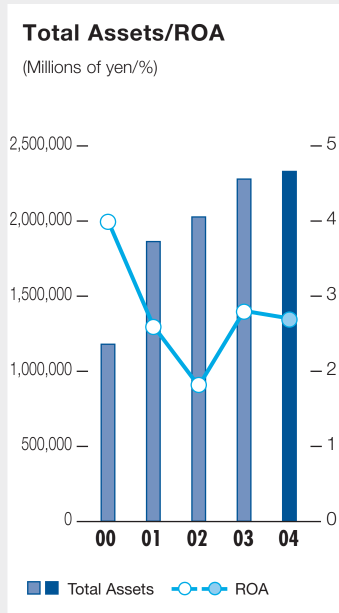
Current assets increased ¥66,601 million, or 3.2%, to ¥2,164,069 million (US$20,610 million), mainly due to a ¥116,158 million, or 7.0%, increase in loans to ¥1,786,940 million (US$17,018 million). Loans at AIFUL increased 2.7% to ¥1,451,638 million (US$13,825 million), loans at LIFE increased 47.8% to ¥218,422 million (US$2,080 million), and loans at Businext increased 79.2% to ¥27,591 million (US$263 million).

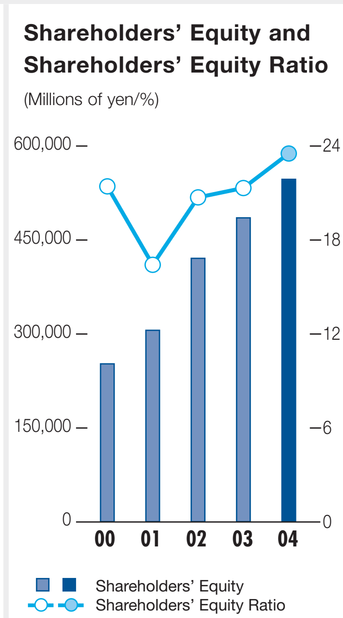
Installment accounts receivable increased ¥6,428 million, or 4.3%, to ¥154,285 million (US$1,469 million), the result of growth in credit card shopping and shopping loans receivables at LIFE. Aggressive marketing initiatives to expand bank loan guarantees resulted in an increase of ¥4,865 million, or 3.8%, in loan guarantees to ¥133,610 million (US$1,272 million). Of the receivables at LIFE, there are ¥120,715 million (US$1,150 million) in loans and ¥93,266 million (US$888 million) in installment accounts receivable that have been moved off the balance sheet.

Property, plant and equipment increased ¥3,467 million, or 8.3%, to ¥45,479 million (US$433 million). Investments and other assets decreased ¥19,420 million, or 13.6%, to ¥123,213 million (US$1,173 million). Claims in bankruptcy increased ¥6,298 million, or 36.3%, to ¥23,661 million (US$225 million), but there was a ¥7,676 million, or 34.8%, decrease in goodwill, net to ¥14,370 million (US$137 million), a ¥15,623 million, or 93.1%, decrease in long-term loans receivables (less current portion) to ¥1,158 million (US$11 million), and a ¥14,700 million, or 43.7%, decrease in deferred losses on hedging instruments, mainly interest rate swaps to ¥18,975 million (US$181 million).

Current liabilities decreased ¥1,514 million, or 0.2%, to ¥803,332 million (US$7,651 million) and long-term liabilities decreased ¥10,004 million, or 1.0%, to ¥977,243 million (US$9,307 million). As a result, total liabilities were about the same as one year earlier, decreasing only ¥11,518 million, or 0.6%, to ¥1,780,575 million (US$16,958 million). To fund the steady growth in loans and installment accounts receivable, AIFUL and LIFE procured ¥1,513,812 million (US$14,417 million) during the fiscal year, an increase of 0.6%, mainly through loans, commercial paper and bonds.

Shareholders' equity increased ¥61,513 million, or 12.7%, to ¥547,504 million (US$5,214 million). Retained earnings increased ¥56,782 million, or 18.9%, to ¥357,706 million (US$3,407 million) and the net unrealized gain on available-for-sale securities was ¥4,417 million (US$42 million), a net improvement of ¥4,740 million because of the stock market rally in fiscal 2003. The equity ratio increased by 2.2 percentage points from 21.3% to 23.5% as of March 31, 2004.





INVESTMENT SECURITIES

Investment securities increased ¥5,742 million, or 51.0%, to ¥16,998 million (US$162 million). This was the net result of a ¥7,644 million increase to ¥14,096 million (US$134 million) in securities valued at fair value and a ¥338 million decrease to ¥6,904 million (US$66 million) in securities valued at cost.

LIABILITY FOR RETIREMENT BENEFITS

During fiscal 2003, AIFUL and certain consolidated subsidiaries transferred the substitutional portions of their Welfare Pension Fund assets to the government. As AIFUL adopts the matching method on a non-consolidated basis, this transaction was treated as a reversal of operating expenses. As LIFE employed transitional measures, the transfer of the substitutional portion resulted in an extraordinary gain. Liability for employees' retirement benefits decreased ¥5,218 million, or 68.3%, to ¥2,418 million (US$23 million). AIFUL is preparing to switch its pension system to a defined-contribution pension program.

GOODWILL, NET

Goodwill, net decreased ¥7,676 million, or 34.8%, to ¥14,370 million (US$137 million), the result of the write-off of goodwill associated with the acquisition of LIFE, resulting in the posting of a charge in fiscal 2003. From now on, AIFUL plans to amortize goodwill using solely the straight-line method (10 years) in accordance with its accounting policies as shown below.

Amortization of Goodwill (Millions of yen)

(Acquisition period) Figures: Goodwill when acquired (est.)	Change during fiscal year, balance at end of fiscal year	2001	2002	2003	2004	(Plan) 2005	(Plan) 2006	(Plan) 2007
Sinwa (June 2000)	Normal amortization (Income statement)	434	434	434	434	434	434	434
¥4,347 million	Year-end balance	3,912	3,478	3,043	2,608	2,173	1,739	1,304
LIFE (March 2001)	Stock sold (Balance sheet)	–	1,285	–	–	–	–	–
¥32,861 million	Scheduled	–	2,737	2,073	1,371	1,371	1,371	1,371
	One-off amoritization	–	9,130	1,048	5,614	–	–	–
	Total	–	13,154	3,121	6,985	1,371	1,371	1,371
	Year-end balance	32,861	19,706	16,585	9,599	8,288	6,857	5,485
City's (October 2002)	Normal amortization (Income statement)	–	–	124	249	249	249	249
¥2,493 million	Year-end balance	–	–	2,368	2,119	1,870	1,620	1,371
Total amortization (Decrease)		434	13,595	3,686	7,675	2,061	2,061	2,061
Year-end balance (Balance sheet)		36,834	23,239	22,046	14,370	12,308	10,247	8,185

Liquidity and Capital Resources

FUND PROCUREMENT POLICY

The AIFUL Group procures funds in a variety of ways from many sources in order to raise funds in a manner that is stable and holds down expenses. The Group adjusts the composition of funds procured as required to match changes in the financial environment, responding to shifts in market conditions while monitoring interest rate, liquidity and other forms of risk.

INTEREST RATE HEDGES

To minimize exposure to risks associated with interest rate movements, AIFUL has a policy of using interest rate swaps, caps and other methods to apply fixed interest rates to about 80% of all funds procured on a non-consolidated basis. As of March 31, 2004, fixed-rate loans accounted for 55% of non-consolidated funds procured. However, the effective fixed-rate percentage was 87.3% after accounting for interest rate caps and swaps, significantly reducing AIFUL's exposure to the effects of interest rate fluctuations.

PRESERVATION OF LIQUIDITY

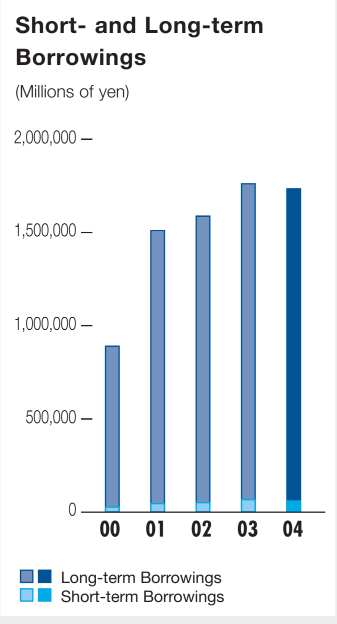
To maintain adequate liquidity on a non-consolidated basis, AIFUL maintains an amount equal to more than half of short-term funds procured, including the current portion of long-term debt, in the form of cash, deposits and credit facilities. As of March 31, 2004, credit facilities amounted to ¥200 billion on a non-consolidated basis. Including a ¥70 billion credit facility at LIFE, the consolidated credit facility is ¥270 billion. Regarding direct and indirect procurement, the Group is extending the repayment schedules for loans and spreading out its repayment deadlines.

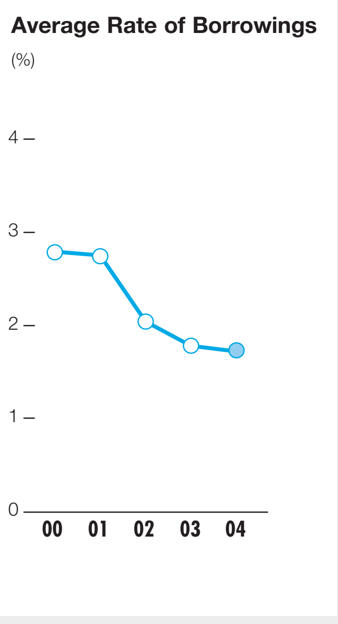
FUND PROCUREMENT AND DIVERSIFICATION

Fund procurement activities continue to proceed smoothly because of the Japanese government's low-interest-rate policy. On a non-consolidated basis, from the standpoints of maintaining stability and ease of refinancing, the company's target is to use indirect procurement for 60% of funds and loans for the remainder. As of March 31, 2004, loans accounted for 40.8% of non-consolidated funds procured and 43.8% of consolidated funds procured. The Group employs a variety of fund-raising methods, including loans, syndicated loans, bonds, commercial paper, the sale of asset-backed securities, and other means.

CASH FLOWS

Net cash used in operating activities decreased from ¥90,063 million to ¥42,735 million (US$407 million). Income before income taxes and minority interests was ¥103,814 million (US$989 million), but cash was used by the increase in loans, income taxes-paid and other items. Net cash provided by investing activities was ¥6,371 million (US$61 million), compared with net cash used of ¥57,173 million one year earlier. The difference was mainly attributable to a decrease in loans. Net cash provided by financing activities decreased from ¥131,653 million to ¥3,097 million (US$29 million) due mainly to an increase in repayments of long-term debt and a net decrease in short-term borrowings. The net result of these cash flows was a ¥33,314 million decrease in cash and cash equivalents to ¥98,329 million (US$936 million).





ROA, ROE and Shareholders' Equity

As of March 31, 2004, AIFUL's non-consolidated equity ratio was 28.0% and assets were about four times equity. The fiscal 2003 non-consolidated ROA was 2.8% and the ROE was 10.7%. At other Japanese consumer finance companies, the average equity ratio is about 35% and the asset-equity ratio is about three times. The ROA is about the same for all consumer finance companies, but AIFUL is able to generate a higher ROE because of its greater asset-equity ratio, thereby using capital more productively.

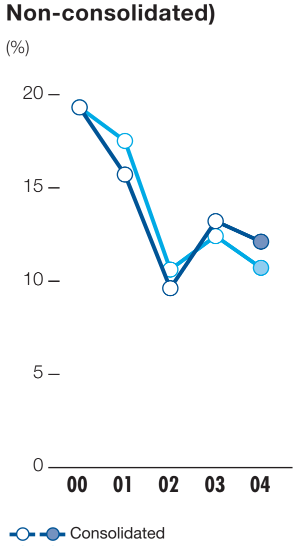
At LIFE, the equity ratio was 13.8%, and the asset-equity ratio about eight times. ROA was 2.1% and ROE was 16.4%.

On a consolidated basis, the equity ratio was 23.5%, and the asset-equity ratio about 4.5 times. ROA was 2.7% and ROE was 12.1%.

On a non-consolidated basis, AIFUL is highly profitable but faces demands by rating agencies for a higher equity ratio because of its weak brand image. Credit card companies, on the other hand, do not have this image problem, and are thus not asked to raise their equity ratios. Consequently, the Group's fundamental capital policy and financial strategy are to increase consolidated ROE in order to use capital more productively.

Unsecured consumer loans have a higher profit margin than any other category of retail financing. However, the growth potential of this market is not unlimited. By using LIFE to expand in the credit card business, the AIFUL Group is both increasing operating assets and using capital more productively.

ROE (Consolidated/ Non-consolidated)



Capital Productivity at Japan's Big Four Consumer Finance Companies

Fiscal 2003	AIFUL	Takefuji	Acom	Promise
ROA (non-consolidated)	2.8%	3.8%	3.2%	2.9%
ROE (non-consolidated)	10.7%	8.6%	9.8%	8.1%
ROA (consolidated)	2.7%	3.9%	3.4%	2.3%
ROE (consolidated)	12.1%	8.7%	10.5%	6.6%
Asset-equity ratio (consolidated)	X4.5	X2.2	X3.1	X2.9
Asset-equity ratio (non-consolidated)	X3.8	X2.3	X3.1	X2.8
Equity ratio (consolidated)	23.5%	47.0%	33.6%	37.0%
Total shareholders' equity (consolidated) (Billions of yen)	547	893	697	637
Total assets (consolidated) (Billions of yen)	2,333	1,899	2,075	1,719

Dividend Policy

The fundamental dividend policy of AIFUL is to steadily and continuously return earnings to shareholders based on operating results as well as economic and financial trends.

At the annual general meeting of shareholders held on June 25, 2004, shareholders approved a resolution to pay a year-end dividend of ¥30 per common share applicable to fiscal 2003. As an interim dividend of ¥30 per share has been paid, this results in a total annual dividend of ¥60 per share applicable to fiscal 2003. This represents a dividend payout ratio of 10.7% and a dividend-to-equity ratio of 1.1%. The dividend yield was 0.6% as of March 31, 2004.

Retained earnings are used to fund loans as well as investments required by growth strategies, including mergers and acquisitions that enlarge the Group's base of operations. The Group will reinvest retained earnings so as to meet the expectations of shareholders by improving operating results and raising efficiency.

Non-Consolidated Results of Operations

AIFUL Corporation

OVERVIEW

In fiscal 2003, AIFUL achieved steady growth in outstanding loans by pursuing a diversification strategy centered on unsecured loans, as well as on home equity loans (secured loans) and small business loans, to meet a broader range of customer needs.

To diversify channels for attracting customers, AIFUL formed partnerships with companies in other industries, offered cash advances through the Internet and took other steps to offer greater convenience to customers. Due to these measures, outstanding loans at AIFUL increased 2.7% to ¥1,451,638 million (US$13,825 million). The number of accounts decreased 1.7% to 2,246,000, a reflection of a decline in new customers as AIFUL adopted tighter credit standards.

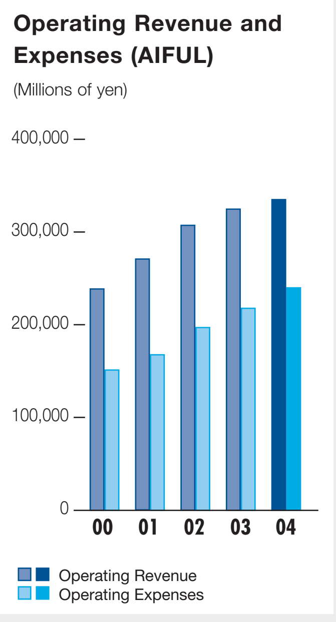
Total income increased ¥10,077 million, or 3.1%, to ¥340,224 million (US$3,240 million), mainly the result of a ¥11,379 million, or 3.6%, increase to ¥326,979 million (US$3,114 million) in interest on loans as the volume of loans rose.

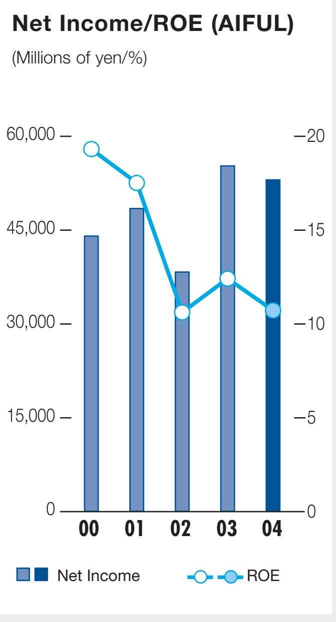
Outstanding unsecured loans increased ¥12,907 million, or 1.2%, to ¥1,081,058 million (US$10,296 million) and interest on these loans increased ¥2,697 million, or 1.0%, to ¥265,959 million (US$2,533 million). Outstanding home equity loans (secured loans) increased ¥19,797 million, or 6.1%, to ¥342,637 million (US$3,263 million) and interest increased ¥7,179 million, or 15.1%, to ¥54,663 million (US$521 million). Outstanding small business loans increased ¥5,594 million, or 25.0%, to ¥27,943 million (US$266 million) and interest increased ¥1,501 million, or 30.9%, to ¥6,355 million (US$61 million).

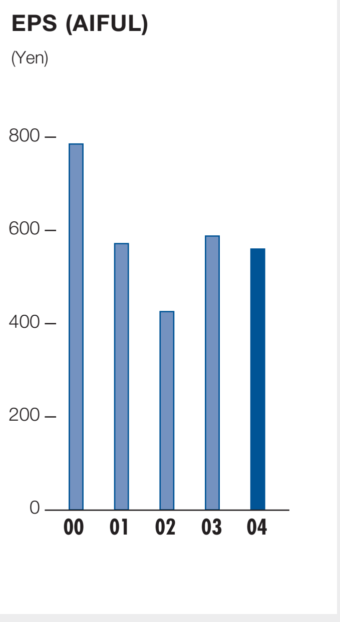
Expenses increased ¥18,674 million, or 8.4%, to ¥242,263 million (US$2,307 million). The major components of this increase were a ¥18,496 million, or 20.4%, increase in charge-offs and provision for doubtful loans, advances to subsidiary and claims in bankruptcy to ¥109,221 million (US$1,040 million). This increase was mainly attributable to higher doubtful loan provisions in the fiscal year's first half as personal bankruptcies climbed.

Income before income taxes decreased ¥8,597 million, or 8.1%, to ¥97,961 million (US$933 million). Income taxes decreased ¥6,365 million, or 12.4%, to ¥44,875 million (US$427 million), including an adjustment for the adoption of tax effect accounting. The result was a ¥2,232 million, or 4.0%, decrease in net income to ¥53,086 million (US$506 million). Basic net income per common share decreased ¥27.81, or 4.7%, to ¥560.82 (US$5.34).

ROA decreased from 3.0% to 2.8% and ROE decreased from 12.4% to 10.7%.







PERFORMANCE BY LOAN CATEGORY

Unsecured loans

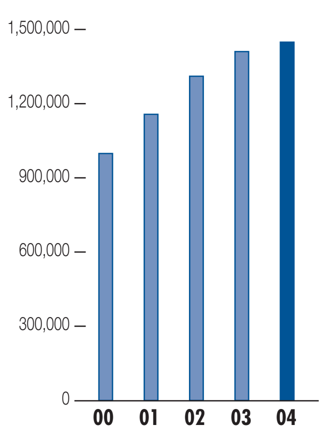
In fiscal 2003, the number of new loan applications decreased 45,000, or 7.6%, to 555,000 and the number of new loans decreased 49,000, or 12.3%, to 355,000. These declines reflect deteriorations in income and unemployment statistics, concerns about the economic outlook, AIFUL's tighter credit standards due to growth in credit costs, media reports of fraudulent consumer loan companies and other negative events. The annual acceptance ratio, which is the number of new loans divided by the number of new loan applications, decreased by 3.4 percentage points to 64.1%. However, AIFUL retained its leading position among Japanese consumer finance companies in the number of loan applications. Contributing to this performance was the Company's highly effective marketing campaign, including TV commercials featuring a chihuahua that were ranked among Japan's most successful commercials of the year.

Due to the need to offer lower interest rates to capture business from creditworthy customers, a highly competitive market segment, and to the rising share of larger loans, the average yield on unsecured loans decreased 0.40 of a percentage point to 24.8% and the average loan per account increased ¥17,000, or 3.5%, to ¥507,000.

Total unsecured loans outstanding increased ¥12,907 million, or 1.2%, to ¥1,081,058 million (US$10,296 million), and the number of unsecured loan accounts as of March 31, 2004 was 2,131,000, a decrease of 49,000, or 2.3%.

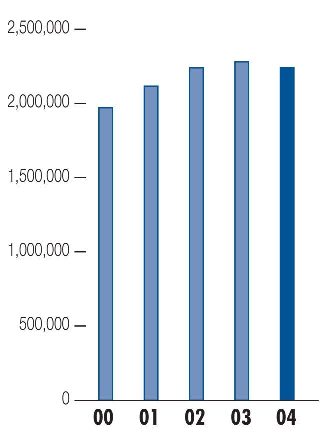
Loans Outstanding (AIFUL)

(Millions of yen)



Number of Customer Accounts (AIFUL)

(Accounts)



Home equity loans (secured loans)

The performance of home equity loans is closely linked to that of unsecured loans because new home equity loan customers are mainly individuals that already have an unsecured loan. In fiscal 2003, the downturn in unsecured loan applications and new customers severely impacted home equity loans, holding applications to 33,000 and reducing the number of new loans by 3,000, or 12.1%, to 24,000. Whereas the write-off ratio for unsecured loans increased 1.26 percentage points to 8.0% in fiscal 2003, this ratio rose 0.85 of a percentage point to only 2.8% for home equity loans, the result of a lending policy that stresses safety. For example, about 60% of home equity loans to new customers are first mortgages. Moreover, more than 80% of these loans are limited to less than 70% of appraised collateral value. Compared with new entrants to the home equity loan industry, including foreign companies, AIFUL is far superior in terms of expertise in training employees to sell secured loans, in using years of experience to appraise properties, in its head office credit investigation infrastructure, and in other aspects of operations.

As of March 31, 2004, outstanding home equity loans were ¥342,637 million (US$3,263 million), an increase of ¥19,797 million, or 6.1%, compared with one year earlier. The number of accounts increased 6,000, or 7.9%, to 93,000 as AIFUL continued to differentiate itself from competitors and establish a base for stable growth on a non-consolidated basis. The average yield on home equity loans decreased 0.60 of a percentage point to 16.4%.

Small business loans

Small business loans are the third major loan business of AIFUL, along with unsecured loans and home equity loans. AIFUL extends loans mainly to individuals who operate businesses, either in the form of unsecured loans or guaranteed loans. The average loan per account is a comparatively low ¥1.31 million. Since credit standards for unsecured loans to self-employed individuals are tighter than loans to salaried employees, small business loans provide a means of supplying supplementary financing to creditworthy sole proprietors by using a guarantor. In fiscal 2003, there was a 300, or 2.3%, increase in applications to 16,000 and a 700, or 10.2%, increase in new loans to 8,000. As of March 31, 2004, outstanding small business loans amounted to ¥27,943 million (US$266 million), an increase of ¥5,594 million, or 25.0%, compared with one year earlier. The number of accounts increased 3,000, or 21.8%, to 21,000 and the average yield improved by 0.50 of a percentage point to 25.3%.

Others

In the loan guarantee business, AIFUL receives fees for screening loans extended by banks, as well as for monitoring these loans after they have been extended. As of March 31, 2004, AIFUL had agreements with 38 financial institutions and guarantees for a total of ¥27,317 million (US$260 million) of loans. Of this, AIFUL had consumer loan guarantee agreements with 32 financial institutions and guarantees for a total of ¥25,958 million (US$247 million) of loans. For small business loan guarantees, a business started in earnest only one year before, there were seven agreements and guarantees for a total of ¥1,358 million (US$13 million) of loans.

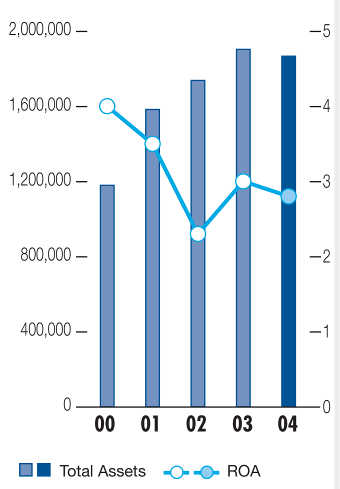
FINANCIAL POSITION

As of March 31, 2004, total assets were ¥1,870,076 million (US$17,810 million), ¥36,136 million, or 1.9%, less than one year earlier. Current assets decreased ¥13,156 million, or 0.9%, to ¥1,500,700 million (US$14,292 million), property, plant and equipment increased ¥3,959 million, or 15.4%, to ¥29,644 million (US$282 million), and investments and other assets decreased ¥26,939 million, or 7.3%, to ¥339,732 million (US$3,236 million).

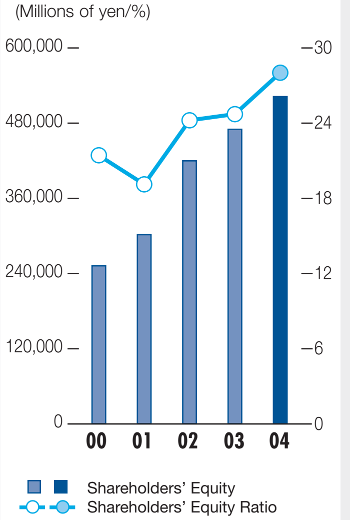
The major reason for the decline in current assets was a ¥23,868 million, or 28.3%, decrease in cash and cash equivalents to ¥60,376 million (US$575 million). The decline in investments and other assets mainly reflected a ¥15,611 million, or 93.2%, decrease in long-term loans (less current portion) to ¥1,142 million (US$11 million) and a ¥14,700 million, or 43.7%, decrease in deferred losses on hedging instruments to ¥18,975 million (US$181 million).

Current liabilities decreased ¥60,449 million, or 11.4%, to ¥468,806 million (US$4,465 million) and long-term liabilities decreased ¥27,758 million, or 3.1%, to ¥878,365 million (US$8,365 million). This decline was mainly a reflection of a decrease of ¥61,596 million, or

Total Assets/ROA (AIFUL)
(Millions of yen/%)



Shareholders' Equity and Shareholders' Equity Ratio (AIFUL)
(Millions of yen/%)



4.6%, to ¥1,283,729 million (US$12,226 million) in short-term borrowings and long-term debt, including the current portion.

Shareholders' equity increased ¥52,071 million, or 11.1%, to ¥522,905 million (US$4,980 million). The equity ratio rose 3.3 percentage points from 24.7% to 28.0%.

BAD DEBTS

As of March 31, 2004, bad debts amounted to ¥117,885 million (US$1,123 million), ¥21,976 million, or 22.9%, more than one year earlier.

(Millions of yen)	2002	2003	2004
Loans in legal bankruptcy	16,457	20,340	26,108
Nonaccrual loans	23,334	31,834	42,141
Accruing loans contractually past due three months or more as to principal or interest payments	8,931	11,218	12,376
Restructured loans	29,305	32,517	37,260
Total	78,027	95,909	117,885

Credit expenses increased ¥18,496 million, or 20.4%, to ¥109,221 million (US$1,040 million).

(Millions of yen)	2002	2003	2004
Allowance for doubtful loans and receivables at beginning of fiscal year	60,944	75,909	88,827
Credit expenses	67,931	90,725	109,221

The portion of charge-offs that exceeded the allowance for doubtful loans and receivables at the beginning of the fiscal year was recorded as a loss on direct charge-offs on the income statement. The provision for doubtful loans, on the other hand, represents an expense for expected bad debts in the following fiscal year. Therefore, operating results in each fiscal year are affected by the sum of direct charge-offs and the provision for doubtful loans.

There are three categories of charge-off timetables. Receivables from bankrupt borrowers are charged off immediately, receivables from borrowers who have disappeared or died are written off after six months, and receivables from borrowers who cannot service their loans are written off after one year. For unsecured loan charge-offs, bankruptcy decreased 3.4 percentage points to 47.2% of all charge-offs and borrowers who have disappeared or died accounted for 29.5% of charge-offs, mostly the same as the previous fiscal year. Borrowers who cannot service their loans represented 23.3% of all charge-offs, an increase of 3.4 percentage points.

(%)	2003	2004	Increase and Decrease
Bankrupt	50.6	47.2	-3.4
Disappeared or died	29.5	29.5	–
Nonperforming	19.9	23.3	3.4

Figures for LIFE and other subsidiaries and the outlook are based on Japanese financial statements.

LIFE Co., Ltd.

OVERVIEW

LIFE is engaged in a number of highly profitable businesses, including credit card shopping, credit card cash advances and consumer loans. This company is gradually withdrawing from auto loans, housing loans and other low-margin businesses in a move to build a more profitable portfolio of receivables.

As of March 31, 2004, loans to customers and credit guarantee installment accounts receivable amounted to ¥702,202 million (US$6,688 million), an increase of ¥26,108 million, or 3.9%, compared with one year earlier. Credit card shopping receivables, a profitable business targeted for growth, increased ¥7,439 million, or 11.6%, to ¥71,508 million (US$681 million). Shopping loans, excluding those for auto loans, increased ¥9,336 million, or 5.7%, to ¥173,561 million (US$1,653 million), credit card cash advances increased ¥10,610 million, or 5.5%, to ¥202,819 million (US$1,932 million), and Cash Plaza receivables increased ¥17,897 million, or 15.2%, to ¥135,543 million (US$1,291 million). Although the adoption of tighter credit standards prevented strong growth, LIFE was able to post steady expansion in all business categories targeted for growth.

LIFE continued to make progress in reducing the scale of low-margin businesses that are being discontinued. Auto loan receivables fell ¥4,554 million, or 68.7%, to ¥2,075 million (US$20 million) and housing loan receivables were down ¥5,307 million, or 12.9%, to ¥35,866 million (US$342 million).

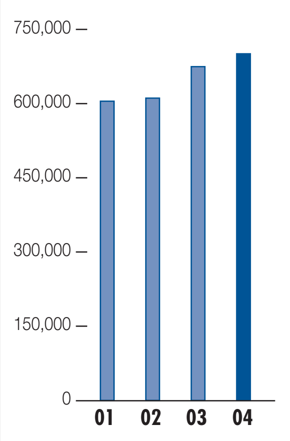
As a result of these items, operating revenue increased ¥9,858 million, or 9.5%, to ¥113,738 million (US$1,083 million), operating income increased ¥3,937 million, or 50.1%, to ¥11,795 million (US$112 million), and net income increased ¥6,982 million, or 76.3%, to ¥16,131 million (US$154 million). The large increase in net income was attributable to a gain of ¥4,025 million (US$38 million) on the transfer of the substitutional portion of the Welfare Pension Fund. ROA and ROE both improved significantly, rising to 2.1% and 16.4%, respectively. The equity ratio rose sharply to 13.8%.

PERFORMANCE BY TYPE OF OPERATION

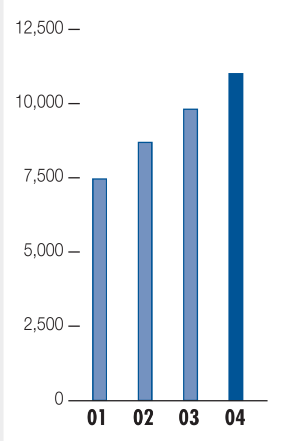
Credit cards

As the credit card business is the most important element of LIFE's operations, efforts continued during the past fiscal year to increase the number of cardholders, which represent the operating base for this business. There was also growth in the number of co-brand card alliances, including new agreements with Eiden Co., Ltd., a member of the Edion Group of home electronics stores, and Sanwado, which operates home improvement centers. New agreements generated a large increase in the number of newly issued co-brand credit cards. Other initiatives focused on attracting more cardholders through existing alliances, such as those with Yofuku-no-Aoyama, a consumer electronics retailer Deodeo Corporation and home improvement center operator Komeri Co., Ltd. As a result, the number of new joint credit card customers increased 69,000, or 3.3%, to 2,142,000. To promote the LIFE Proper Card, a number of new designs were released, including the Odoru Life Card, which is associated with a popular movie, and the Taka Card, which features a popular soccer player. In addition, there was growth in entertainment cards. As a result, the total number of credit cardholders increased 1,197,000, or 12.2%, to 11,032,000, passing the 10 million mark. A

Total Receivables Outstanding (LIFE)
(Millions of yen)



Number of Cardholders
(Thousand)



Marketing Division was established to provide a unit that focuses exclusively on ways to attract new credit card customers and increase credit card utilization as well as on the development of new products. This division is expected to play an important role in the continued growth of the credit card business.

Shopping transaction volume increased ¥43,636 million, or 15.9%, to ¥318,115 million (US$3,030 million) and cash advance volume decreased ¥3,576 million, or 1.6%, to ¥225,392 million (US$2,147 million). The balance of receivables outstanding increased ¥7,439 million, or 11.6%, to ¥71,508 million (US$681 million) for credit card shopping and increased ¥10,610 million, or 5.5%, to ¥202,819 million (US$1,932 million) for cash advances. The average yield on shopping receivables decreased 0.3 of a percentage point to 12.4% and the average yield on cash advance receivables decreased 0.2 of a percentage point to 23.8%.

Shopping loans

The volume of transactions decreased ¥9,981 million, or 6.9%, to ¥134,512 million (US$1,281 million) and receivables outstanding increased ¥1,840 million, or 1.0%, to ¥185,263 million (US$1,764 million). Demand for this type of credit is expected to continue to fall as credit cards account for a higher share of purchases relative to cash. However, LIFE is aggressively seeking to increase receivables based on a conviction that there is still considerable potential to grow in this business because of the company's low market share. The number of affiliated stores increased 7,569, or 9.1%, to 90,556. The average yield on receivables decreased by 0.3 of a percentage point to 8.6%, a reflection of a review of affiliated store fees and a policy of becoming more selective with regard to affiliated stores.

Loan guarantees

During the past fiscal year, LIFE stopped extending guarantees of bank loans under the previous system, which was unprofitable, instead concentrating on new bank loan guarantee agreements that mainly target consumer loans. As a result, the balance of bank loan guarantees under the previous system decreased ¥7,717 million, or 13.8%, to ¥48,329 million (US$460 million) while the balance of bank loan guarantees under the new system increased ¥6,346 million, or 47.9%, to ¥19,590 million (US$187 million). The total balance of guarantees thus decreased ¥1,371 million, or 2.0%, to ¥67,919 million (US$647 million). With regard to the new bank loan guarantees, measures were taken to increase the volume of bank loan guarantee products that have advantageous fee structures. In all, new agreements were established with 31 banks, raising to 97 the number of banks that use LIFE credit guarantees. The average yield improved 0.6 of a percentage point to 3.4%.

LIFE Cash Plaza (unsecured loans)

LIFE issues cashing cards similar to those of consumer finance companies that are used exclusively for the provision of unsecured loans through its cash plazas. During the past fiscal year, AIFUL's expertise was used to open more plazas in prime locations, resulting in a net increase of 34 offices, due to 39 openings and 5 closings, to 198. To reduce the volume of bad debts, LIFE continued to apply strict credit standards. The result was a decrease of 8,000, or 8.7%, in the number of new loans to 84,000. Loans outstanding increased ¥17,897 million, or 15.2%, to ¥135,543 million (US$1,291 million) and the number of loan accounts increased 28,000, or 9.5%, to 323,000. The average yield on loans decreased 1.1 percentage points to 25.1% due to the decrease in the number of new loans.

Bad debts

During the past fiscal year, bad debt write-offs of receivables increased ¥5,376 million, or 17.8%, to ¥35,566 million (US$339 million) and the allowance for bad debt and receivables increased ¥2,336 million, or 7.1%, to ¥35,132 million (US$335 million).

(Millions of yen)	2002	2003	2004
Bad debt write-offs	24,161	30,190	35,566
Ratio of bad debt write-offs (%)	3.94	4.47	5.06
Allowance for bad debts	27,177	32,796	35,132

Other subsidiaries

CONSUMER CREDIT OPERATIONS

Happy Credit, Sinwa and Sanyo Shinpan merged on April 1, 2004, with Happy Credit as the surviving company, to form a company called Tryto Corporation. This integration facilitates the most effective allocation of offices, personnel and other resources of AIFUL Group companies to increase operating efficiency. However, the credit card and shopping loans operations of Sanyo Shinpan were transferred to LIFE on April 1, 2004.

Receivables decreased ¥4,155 million, or 13.2%, to ¥27,432 million (US$261 million) at Happy Credit, ¥2,270 million, or 10.2%, to ¥19,993 million (US$190 million) at Sinwa, and ¥938 million, or 7.9%, to ¥10,929 million (US$104 million) at Sanyo Shinpan. The yield on receivables decreased 1.6 percentage points to 24.5% at Happy Credit and 1.9 percentage points to 25.3% at Sinwa, and increased 0.5 of a percentage point to 24.6% at Sanyo Shinpan. As a percentage of total receivables, bad debts rose 2.3 percentage points to 16.4% at Happy Credit, 3.6 percentage points to 14.8% at Sinwa and 3.6 percentage points to 10.3% at Sanyo Shinpan.

On June 30, 2004, Wide Corporation, a second-tier consumer finance company in terms of receivables, became a subsidiary of AIFUL. This acquisition will allow Wide to procure funds at a lower cost by using the AIFUL Group's credit standing as well as to utilize the Group's expertise to significantly increase the balance of receivables while boosting operating efficiency. AIFUL expects that this company's earnings will improve as a result. On April 26, 2004, with the approval of the Tokyo District Court, AIFUL signed a sponsorship contract with the receiver of TCM CORPORATION, which is currently undergoing bankruptcy proceedings. AIFUL will extend the support required to return this company to financial soundness as quickly as possible in line with its rehabilitation plan.

SMALL BUSINESS LOANS

As part of its comprehensive financial services strategy, the AIFUL Group in April 2001 established Businext Corporation as a joint venture with Sumitomo Trust and Banking Co., Ltd. for the purpose of extending small business loans to moderate-risk borrowers. In October 2002, the Group purchased City's Corporation, which targets high-risk borrowers.

In Japan, market conditions for small and midsize companies are gradually improving. In particular, there has been a year-on-year decline in monthly bankruptcies for more than one year as sales and earnings increase. Based on Financial Statements Statistics of Corporations of the Ministry of Finance, sales in the final quarter of 2003 at companies with less than ¥100 million in capital increased 3.3% year on year and ordinary income rose 37.5%. This was the third consecutive quarter of year-on-year growth. Furthermore, capital expenditures by these companies increased 18.4% in the final quarter of 2003, demonstrating that small and midsize companies are regaining confidence regarding new investments.

In this environment, Businext, which targets the moderate-risk segment, used expertise gained through direct mail sales activities to promote its services by telephone and over the Internet. The result was about 4,000 in new monthly loan applications and an increase of about 1,000 in new loans per month. During the entire fiscal year, the number of new loans was 70% higher than one year earlier.

As a result, small business loans outstanding at Businext increased 79.2% to ¥27,591 million (US$263 million). The yield on these loans decreased 0.9 of a percentage point to 14.0% and the bad debt ratio increased 1.0 percentage point to 3.6%. Operating revenue increased 72.3% to ¥3,014 million (US$29 million).

Businext has created a business loan scoring system based on data covering many years of operations. Businext expects that this system, which is superior to the scoring methods used by other companies, will contribute to continued growth.

At City's, which serves high-risk borrowers, the main product is the Business Loan, a financing scheme designed to assist business owners capitalize on various opportunities. This product accounts for about 90% of all loans outstanding. During the past fiscal year, this company increased its office network primarily in the Tokyo and Osaka areas. To adapt to changing social trends, City's introduced the New Business Loan, which eliminates the need for a guarantor. As a result, loans outstanding increased 7.0% to ¥31,214 million (US$297 million). The yield on these loans was 24.2% and there was a decrease of 3.4 percentage points to 1.6% in the bad debt ratio. Operating revenue was ¥7,414 million (US$71 million).

Kokusai Capital Co., Ltd., a venture capital company, became a subsidiary of AIFUL on March 31, 2004. By adding to its group a company with considerable expertise in the venture capital field, AIFUL plans to acquire know-how in making investments, a new means of providing funds to businesses for the Group. This will enable the Group to assist small and midsize companies as well as promising new companies by providing funds as either loans or investments.

On July 1, 2004, this company was renamed New Frontier Partners Co., Ltd. The goal is to achieve continued growth by basing operations on a new corporate identity.

Outlook

In the fiscal year ending in March 2005, Japan's macroeconomic statistics, such as GDP growth and other indicators of economic activity, continue to show signs of a recovery. Nevertheless, the outlook for the operating environment remains uncertain. In the consumer finance industry, the unemployment rate and number of bankruptcies remain high even though these figures are no longer deteriorating as before. This points to a continuation in the current difficulties regarding bad debts. In response, the AIFUL Group will take actions to generate stable earnings, such as by taking steps to increase receivables from creditworthy customers and rigorously cutting costs.

AIFUL expects that non-consolidated unsecured loans outstanding will increase 0.4%. Home equity loans (secured loans) and small business loans are to rise as a share of total loans. AIFUL expects that the number of new unsecured loans will increase 1.4% to 360,000.

In October 2003, contact centers were established in western Japan and eastern Japan in order to centralize a number of operations, including such "inbound" activities as data from automatic contract machines, customer calls using the toll-free number, and the sales activities that are now spread out over many manned sales offices. To take advantage of this new sales structure, AIFUL is revising its organization as well to conduct more efficient sales activities. The goal is to cut costs while offering quality customer services and raising operating efficiency.

Regarding fund procurement, AIFUL expects a further improvement in the terms of non-consolidated procurement activities but is aware of the market's expectations for higher interest rates in the future. Accordingly, the Company has adopted a conservative fund procurement plan by assuming that the average interest rate on funds procured will rise 0.13 of a percentage point from 1.87% at the beginning of the fiscal year to 2.00% in March 2005.

Based on this outlook, AIFUL is forecasting a 1.9% increase in total income to ¥341,287 million, a 13.8% increase in operating income to ¥108,401 million, a 13.2% increase in ordinary income to ¥112,000 million, and a 10.8% increase in net income to ¥58,839 million.

LIFE will continue to strengthen ties with current co-brand credit card partners while stepping up measures to establish more joint card alliances by reinforcing its organization for capturing more card issuing agreements. Another priority is a continuation in progress in shifting the portfolio of receivables from a low-margin to a high-margin structure. LIFE is building a sounder financial position by establishing a stable and balanced fund procurement environment and diversifying procurement channels. In January 2004, LIFE opened the LIFE Card Shinjuku Store with the primary objective of increasing the number of cardholders. Based on a different concept than at its other offices, this location employs collaboration with companies in other industries to attract customers and can almost instantly issue a credit card. More actions will be taken to attract more customers by upgrading the office network.

LIFE expects that these initiatives will result in 2,010,000 newly issued credit cards during the fiscal year ending in March 2005. This company is projecting a 21.3% increase in credit card shopping volume to ¥386,014 million and a 15.2% increase in cash advance volume to ¥259,633 million.

Based on this outlook, LIFE is forecasting a 12.7% increase in total income to ¥125,778 million, a 20.0% increase in ordinary income to ¥14,500 million, and a 56.2% decrease in net income to ¥7,060 million.

For consolidated results in the fiscal year ending in March 2005, AIFUL is forecasting a 5.7% increase in total income to ¥500,685 million, a 13.8% increase in ordinary income to ¥128,000 million, and a 4.8% increase in net income to ¥65,542 million.

Risk Factors

The following is a list of risk factors that can have an effect on the AIFUL Group's operating results, stock price and financial position. Forward-looking statements in this section are based on judgments of the Group as of June 28, 2004, the date on which the Ministry of Finance Securities Report (*Yukashoken Hokokusho*) was submitted.

1. LAWS AND REGULATIONS

(a) Business restrictions

With regard to legal restrictions, the AIFUL Group's core consumer loan business is subject to various restrictions imposed by the Law Concerning Restrictions on the Moneylending Business, Etc. (Moneylending Business Restriction Law) and Law Concerning the Regulation and Receiving of Capital Subscription, Deposits and Interest on Deposits (Capital Subscription Law). These restrictions include the prohibition of extending excessive credit; requirements to disclose and advertise loan terms; the prohibition of exaggerated advertisements; requirements to distribute written copies of agreements and receipts; requirements to keep ledgers on hand; restrictions on obtaining unqualified letters of proxy; restrictions on debt collection actions; return of loan agreements; requirements regarding business license plates; the sale of receivables; the selection of registered moneylending officers; the carrying of identification documents; and a legal framework for written notices demanding payment of amounts due.

Guidelines (Administrative Guidelines for Precautions Regarding Financial Supervision issued on October 29, 2003, "Administrative Guidelines") of the Financial Services Agency, which supervises moneylenders, have been established for the prevention of extension of excessive credit. The standard for preventing excessive credit is an amount equal to 10% of the annual income of a borrower at each moneylender for the provision of loans that are not secured or guaranteed through a simple approval at the loan application reception desk.

In the event that these laws and regulations are amended, there could be a negative impact on the Group's operating results depending on the nature of the amendments.

The Group's credit card and shopping loans business are subject to the provisions of the Installment Credit Sales Law. Restrictions include the disclosure of transaction terms; the provision of written agreements; limits on liability when a contract is terminated; rights of consumers to submit complaints to the merchant selling the item purchased through credit; prevention of purchases exceeding an individual's financial resources; prevention of problems for consumers concerning the continuous fulfillment of obligations; and other items.

(b) Interest rates on loans

Amendments to the Moneylending Business Restriction Law that became effective on June 1, 2000 placed upper limits ranging from 29.2% to 40.004% on the annual interest rates that can be charged on monetary loans by companies engaged in this business under the Capital Subscription Law. Violators are subject to punishment. Since the maximum interest rates of the AIFUL Group are below these legal limits, management believes there is no material impact on Group earnings or financial soundness. On August 1, 2003, a law was promulgated that partially amended the Moneylending Business Restriction Law and the Capital Subscription Law. With regard to the article concerning maximum interest rates in the Capital Subscription Law, a provision has been made to review as necessary maximum rates with a goal of January 2007, which is three years after enactment of the August 1, 2003 amendments. This review is to take into account whether interest rates are being set in a manner that reflects demand for loans as well as economic and financial conditions and the financial soundness and credit standing of borrowers. The state of business operations at moneylenders and other factors will also be taken into consideration. There is a possibility that the maximum interest rate may be reduced as a result, and that this reduction may have an effect on operating results in the Group's lending business.

Under the Interest Rate Restriction Law, consumer loan contracts are regarded as invalid with regard to the portion of interest rates that exceeds the legal limits. These limits are annual rates of 20% for loans of less than ¥100,000 (principal), 18% for loans from this amount up to ¥1 million, and 15% for larger loans. According to this law, borrowers who voluntarily pay the amount exceeding the limit do not have the right to demand reimbursement.

The Moneylending Business Restriction Law contains a provision covering cases where a loan contract as prescribed by the law is supplied to borrowers and where borrowers voluntarily pay the amount exceeding the interest rate limit. In cases where these are contractual payments as prescribed in the contract conforming to this law, there is a legal obligation to pay the entire interest rate irrespective of the provisions of the Interest Rate Restriction Law. However, there have been several instances in the consumer finance industry where legal action has been taken for the return of the portion exceeding the limit prescribed by the Interest Rate Restriction Law on the grounds that defects exist in the terms of the contract prescribed by the Moneylending Business Restriction Law. Several verdicts have been reached in favor of the plaintiffs. The AIFUL Group has been sued by a number of parties who are demanding the return of the portion of interest payments that exceeds the legal limit. The plaintiffs allege that the Group, which conducts a lending business, has not fulfilled its obligation to provide a written contract as stipulated in the Moneylending Business Restriction Law that is required for the application of the assumed exemption from the obligation to repay this portion of interest payments. Furthermore, it is difficult to predict future trends in the submission of similar requests for repayments. As is stated in item (c) below, there is a growing possibility that the courts will support the allegations of plaintiffs that the Group has not completely fulfilled its legal obligations, including the obligation to provide a written contract.

(c) Administrative Guidelines of the Financial Services Agency

In accordance with the Moneylending Business Restriction Law, the AIFUL Group, which is engaged in the moneylending business, is subject to requirements in cases where loan or guarantee contracts are signed and loans are extended. In such cases, the Group is obligated to promptly provide customers, either borrowers or guarantors, with a written document containing prescribed items concerning the loan terms.

In addition to requiring the provision by moneylenders of a prescribed written document when contracts are signed, the Administrative Guidelines also require the prompt provision (including a prompt mailing) to customers of a document containing legally prescribed items each time a customer obtains a loan from an ATM or manned office. In August 2003, AIFUL revised software associated with its ATMs to add a function that provides a written document containing all legally mandated items.

At affiliated ATMs, with the prior consent of customers, a document containing all legally mandated items is sent by postal mail to all customers promptly after a loan is taken out. However, this document is not sent to customers from whom prior consent has not been received. As of March 31, 2004, affiliated ATMs accounted for 97.2% of all ATMs in the AIFUL ATM network. Additionally, loans extended through affiliated ATMs during the fiscal year that ended on March 31, 2004 accounted for about 16% of all loans extended through ATMs. According to regulations of the Financial Services Agency, moneylenders that do not fulfill their obligation to provide written documents can be punished through partial or complete suspension of business activities and other administrative restrictions, as well as restrictions on the use of ATMs of other companies. In addition, registration as a moneylender may be cancelled. In the event that such actions are taken against the AIFUL Group, there could be an impact on the Group's operating results and financial condition.

(d) Other laws and regulations

a. Handling of personal information

On May 30, 2003, the fundamental elements of a law for the protection of personal information (Personal Information Protection Law) were promulgated and enacted. Under this law, companies that handle personal information (a classification that applies to major companies within the AIFUL Group) are required to submit specified reports as necessary. When a company fails to fulfill its obligations under this law and there is a need to protect the interests of individuals, the government minister responsible can submit directives or orders to take necessary actions.

Depending on obligations imposed by policies and actions of national and local government agencies as well as on fundamental policies of governments, there could be an impact on the Group's operating results.

b. Amendment of Judicial Scrivener Law

Amendments to the Judicial Scrivener Law that were enacted on April 1, 2003 extended the scope of judicial scriveners to act as legal representatives, just as an attorney, in courts for mediations, civil suits and other matters (for payment of damages of not more than ¥900,000) that can be handled by summary courts. Due to these amendments and the extended scope of activity of judicial scriveners, there has been an increase in the number of lawsuits, liability reorganizations and other matters that are handled using judicial scriveners as legal representatives. The resulting extension in the loan repayment plans of the AIFUL Group and growth in bad debts may have an impact on the Group's operating results.

c. Amendment of bankruptcy laws

On May 25, 2004, the Japanese House of Representatives approved amendments to the Bankruptcy Law. The amendments were promulgated on June 2, 2004 and will become effective within one year. The amendments simplify and speed bankruptcy proceedings. If these amendments raise the number of bankruptcy filings, there could be a negative impact on the Group's operating results.

d. Possible increase in customers' reorganization of liabilities due to enactment of Special Mediation Law and amendments to Civil Rehabilitation Law

The Law Concerning Special Mediation for Promotion of Reorganization of Special Liabilities was enacted on February 17, 2000. This law provides for revisions in payment dates and other adjustments in liabilities based on negotiations with debtors that can no longer make payments on debt. Such negotiations are handled by a judge and a mediation committee composed of civil mediators with specialized knowledge and experience in law, taxes, finance, corporate finance, asset evaluations and other matters as required in accordance with the nature of the debtor's business operations. Furthermore, during the mediation process, debtors may ask for the suspension of civil proceedings regarding their assets.

Amendments to the Civil Rehabilitation Law that were enacted on April 1, 2001 provided a number of options for extending repayments of loans to individuals in an economically insolvent state without the receipt of a declaration of insolvency. One of the options does not require the approval of the rehabilitation plan by the lender. In certain cases, special conditions for housing loans can be applied to avoid the need to relinquish ownership of a house for which a home loan is outstanding.

Due to the enactment of these laws, there has been an increase in the number of individuals (including customers of AIFUL) who request legal protection from lenders. This situation may lead to an increase in extensions of loan repayment periods and loans that cannot be recovered, events that could have an impact on the Group's operating results.

e. Law Concerning Issuance of Bonds by Finance Companies for Moneylending

Enactment in May 1999 of the Law Concerning Issuance of Bonds by Finance Companies for Moneylending eased restrictions that had been imposed on the AIFUL Group and other so-called non-banks in Japan on the issuance of bonds. This law made it possible to use proceeds from bonds to fund moneylending operations in cases where companies have registered as specified finance companies as prescribed by the law.

AIFUL and its subsidiary LIFE have registered under this law as specified finance companies. As of March 31, 2004, aggregate bonds outstanding at these two companies were ¥455,000 million (face value).

2. FUND PROCUREMENT

Trends in interest rates on loans

a. Interest rate fluctuation risk

Interest rates on funds procured change along with shifts in market conditions and other factors. To minimize exposure to the resulting risks, the Group establishes hedges against higher interest rates by using interest rates caps and swaps. However, a future increase in interest rates could have a negative impact on results of operations.

b. Fund procurement activities and diversification

The Group is diversifying its sources of funds, procuring funds through loans from financial institutions, syndicated loans, bonds, commercial paper, asset-backed securities and other means. Although the Group currently is experiencing no difficulty procuring funds for its loan business, a general reluctance of financial institutions to extend credit, a worsening in loan terms or reduction in loans due to a deterioration in the Group's credit standing, and other similar events could make it difficult to procure funds under current terms, having a negative impact on results of operations.

3. TRENDS IN OPERATING RESULTS

The AIFUL Group has sustained consistent growth in revenue and earnings. This growth has been due to the Group's diversification beyond the consumer loans to include home equity loans and small business loans; addition of the consumer credit and credit card businesses; and other diversification moves including the provision of guarantees for bank loans and the acquisition of businesses. On the other hand, the competitive environment is changing due to a shift in the structure of the market served by the Group. In the past, competition was restricted to companies specializing in consumer loans. Now, there is an intensely competitive, unified market for consumer credit, including loans, that includes banks, credit card companies, consumer credit companies and consumer finance companies. At the same time, growth in personal bankruptcies is causing a large increase in bad debts in the consumer finance industry. Since July 2003, the growth rate in bankruptcies has been declining, and the number of bankruptcies has been below prior-year levels each month since November 2003. However, unemployment remains high due to deterioration in the personal income and employment environments. The number of personal bankruptcies is thus expected to remain high as long as income levels continue to weaken.

Changes of this nature in the market environment could have a negative impact on operating results.

4. DISRUPTION, MALFUNCTIONS AND OTHER PROBLEMS CONCERNING DATA NETWORK SYSTEMS, INTERNET SYSTEMS AND OTHER TECHNOLOGICAL SYSTEMS

The AIFUL Group relies on internal and external information as well as technological systems to manage its business operations. The Group is becoming even more reliant on software systems and networks in order to manage the various types of data, including customer information and account data, that make up the Group’s operations.

Hardware and software used by the Group are vulnerable to problems resulting from human error, natural catastrophes, power interruptions, computer viruses and similar types of events, as well as to interruptions in third-party support services, such as those of telephone companies and Internet service providers.

A disruption, malfunction, delay or other problem involving information or technological systems may have a detrimental effect on the Group’s operating results due to a decline in the number of accounts by new customers, a delay in loan repayments, a loss in customers’ trust in the Group’s businesses and other effects.

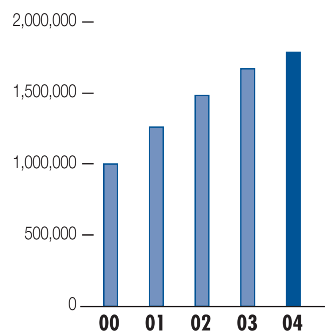
The Group maintains back-up systems for its hardware and communications equipment, making it possible to minimize damages caused when a problem occurs. However, earthquakes, typhoons and other natural catastrophes may force the Group to suspend its business operations.

Financial Data

AIFUL Group

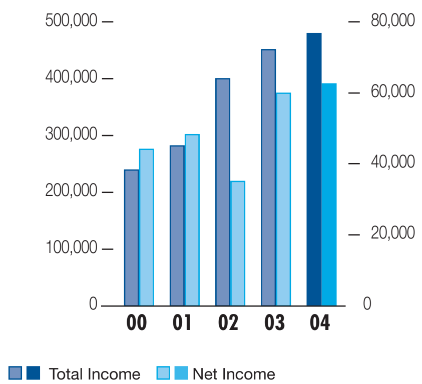
Total Receivables Outstanding

(Millions of yen)



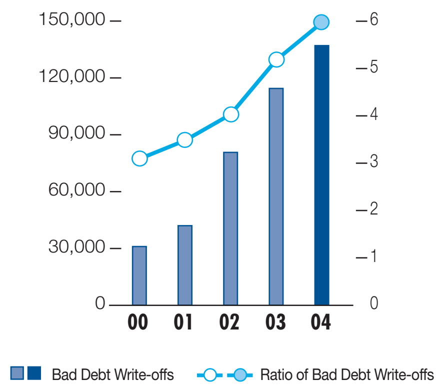
Total Income and Net Income

(Millions of yen)



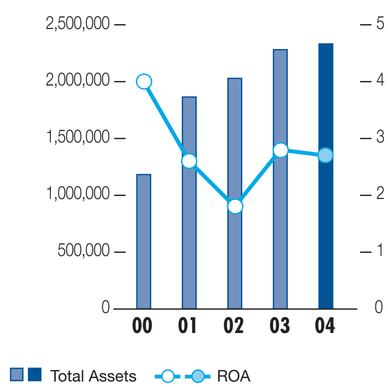
Bad Debt Write-offs and Ratio of Bad Debt Write-offs

(Millions of yen)



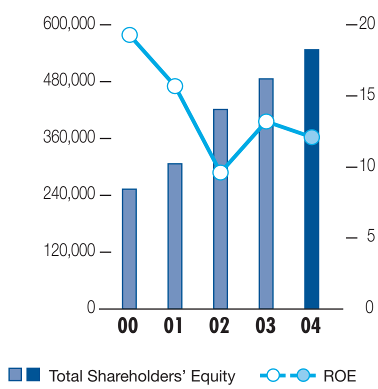
Total Assets/ROA

(Millions of yen/%)



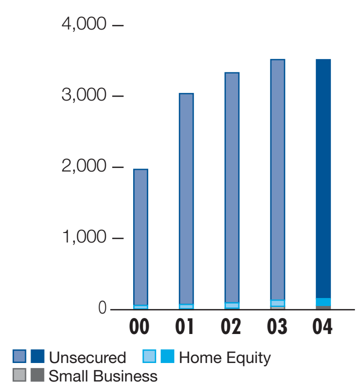
Total Shareholders' Equity/ROE

(Millions of yen/%)



Number of Customer Accounts

(Thousand)

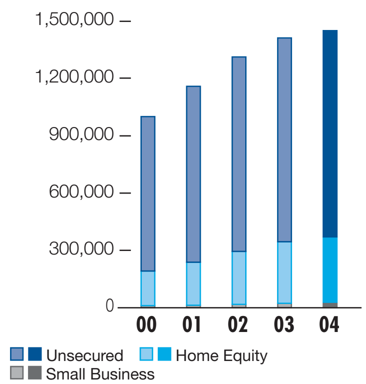


(Millions of yen)

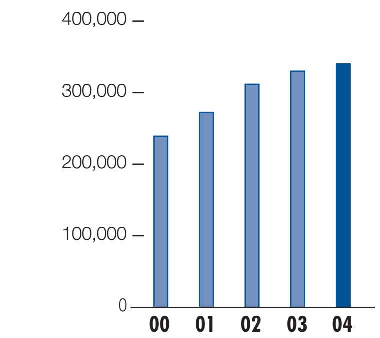
	2000	2001	2002	2003	2004
Total Receivables Outstanding	1,001,080	1,261,042	1,482,796	1,670,782	**1,786,940**
Total Income	239,200	281,719	400,014	451,168	**479,473**
Net Income	44,104	48,253	35,064	59,911	**62,548**
Bad Debt Write-offs	30,970	41,982	80,707	114,485	**137,122**
Ratio of Bad Debt Write-offs (%)	3.09	3.48	4.03	5.18	**5.97**
Allowance for Bad Debts	56,720	98,395	109,338	132,130	**145,757**
Total Assets	1,182,468	1,865,537	2,029,634	2,282,113	**2,332,761**
Total Shareholders' Equity	252,903	306,550	421,343	485,991	**547,504**
ROA (%)	4.0	2.6	1.8	2.8	**2.7**
ROE (%)	19.3	15.7	9.6	13.2	**12.1**
Number of Customer Accounts	1,975	3,043	3,336	3,521	**3,520**
Unsecured	1,917	2,971	3,241	3,389	**3,366**
Home Equity	49	61	75	87	**94**
Small Business	8	10	19	45	**59**

AIFUL

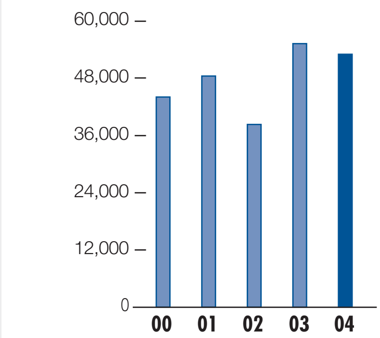
Loans Outstanding
(Millions of yen)



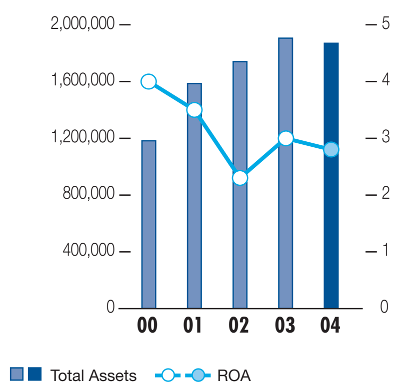
Total Income
(Millions of yen)



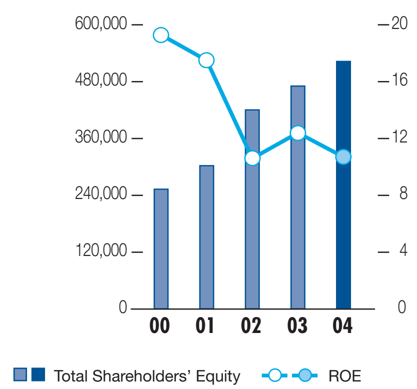
Net Income
(Millions of yen)



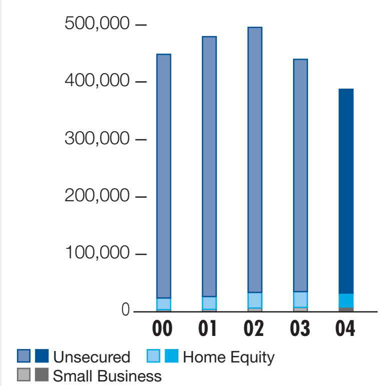
Total Assets/ROA
(Millions of yen/%)



Total Shareholders' Equity/ROE
(Millions of yen/%)



New Accounts
(Accounts)



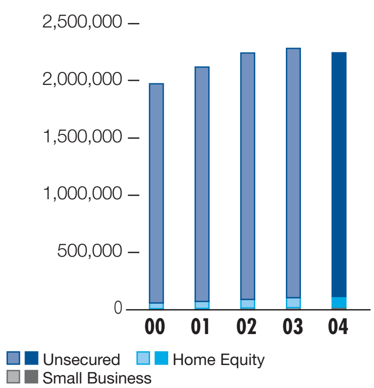
(Millions of yen)

	2000	2001	2002	2003	**2004**
Loans Outstanding	1,001,080	1,159,734	1,313,690	1,413,340	**1,451,638**
Unsecured	809,362	921,891	1,019,293	1,068,151	**1,081,058**
Home Equity	181,429	225,645	277,671	322,840	**342,637**
Small Business	10,289	12,198	16,726	22,349	**27,943**
Total Income	239,200	272,553	311,843	330,147	**340,224**
Net Income	44,104	48,512	38,349	55,318	**53,086**
Total Assets	1,182,468	1,586,410	1,740,868	1,906,212	**1,870,076**
Total Shareholders' Equity	252,903	302,601	420,493	470,834	**522,905**
ROA (%)	4.0	3.5	2.3	3.0	**2.8**
ROE (%)	19.3	17.5	10.6	12.4	**10.7**
New Accounts (Accounts)	449,071	479,903	496,065	440,254	**388,036**
Unsecured	425,142	453,437	462,436	405,275	**355,619**
Home Equity	20,523	22,403	27,307	27,542	**24,222**
Small Business	3,406	4,063	6,322	7,437	**8,195**

AIFUL

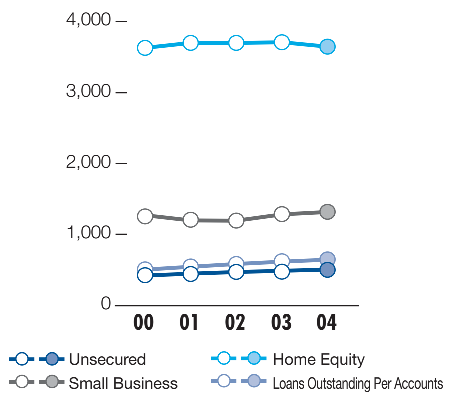
Number of Customer Accounts

(Accounts)



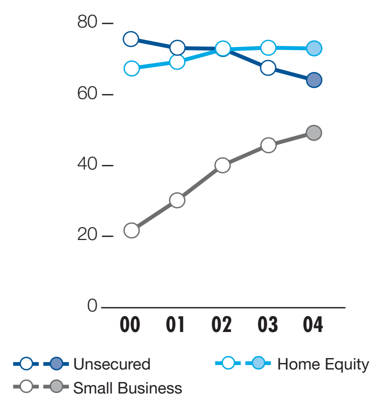
Loans Outstanding Per Account

(Thousands of yen)



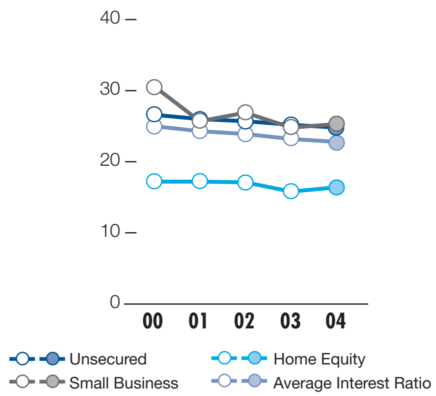
Acceptance Ratio

(%)



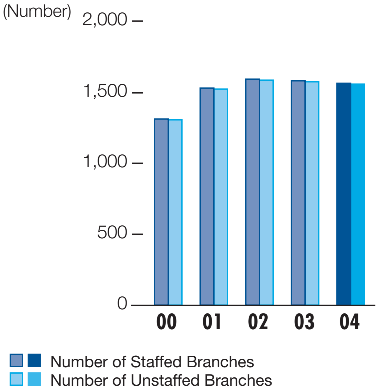
Average Interest Ratio

(%)



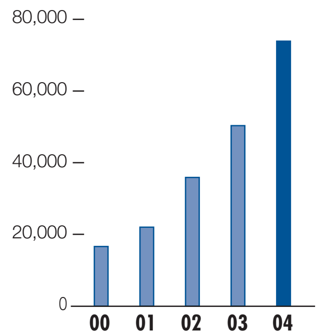
Number of Staffed Branches and Unstaffed Branches

(Number)



Number of ATMs and Tie-up CDs

(Number)

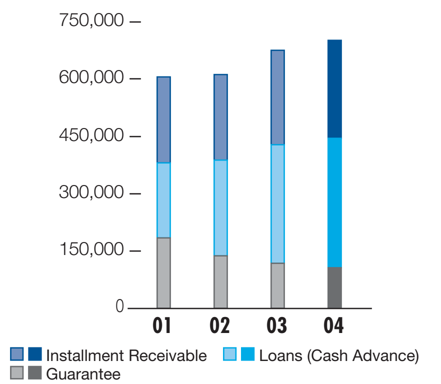


	2000	2001	2002	2003	**2004**
Number of Customer Accounts	1,975,068	2,121,446	2,244,283	2,284,539	**2,246,179**
Unsecured	1,917,016	2,050,299	2,155,235	2,180,114	**2,131,054**
Home Equity	49,968	60,976	75,057	87,029	**93,935**
Small Business	8,084	10,171	13,991	17,396	**21,190**
Loans Outstanding Per Account (Thousands of yen)	506	546	585	618	**646**
Unsecured	422	449	472	489	**507**
Home Equity	3,630	3,700	3,699	3,709	**3,647**
Small Business	1,272	1,199	1,195	1,284	**1,318**
Acceptance Ratio (%)					
Unsecured	75.6	73.1	72.9	67.5	**64.1**
Home Equity	67.4	69.2	72.7	73.2	**73.0**
Small Business	21.7	30.2	40.1	45.7	**49.2**
Average Interest Ratio (%)	25.0	24.3	23.9	23.2	**22.8**
Number of Staffed Branches	1,311	1,529	1,592	1,580	**1,563**
Number of Unstaffed Branches	1,305	1,522	1,585	1,573	**1,557**
Number of ATMs and Tie-up CDs	16,631	22,021	35,904	50,359	**73,938**

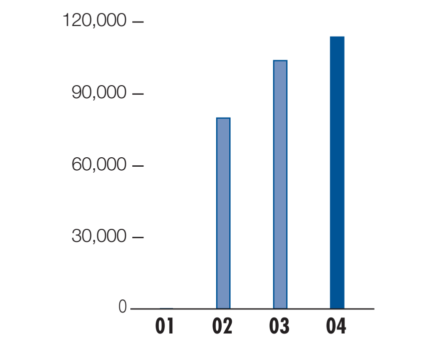
Figures for LIFE and other subsidiaries are based on Japanese financial statements.

LIFE

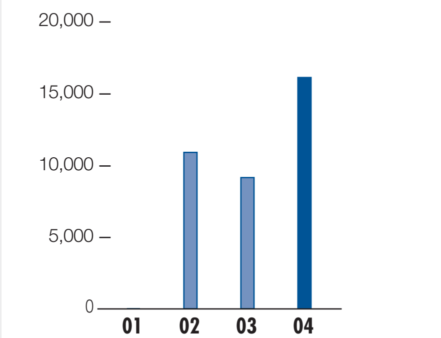
Total Receivables Outstanding
(Millions of yen)



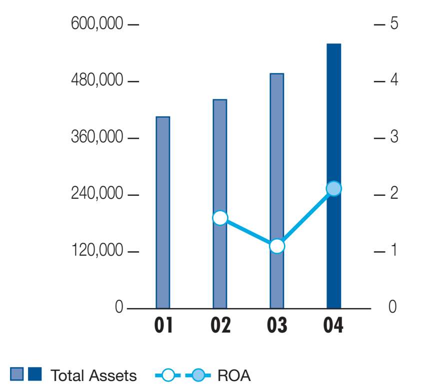
Operating Revenue
(Millions of yen)



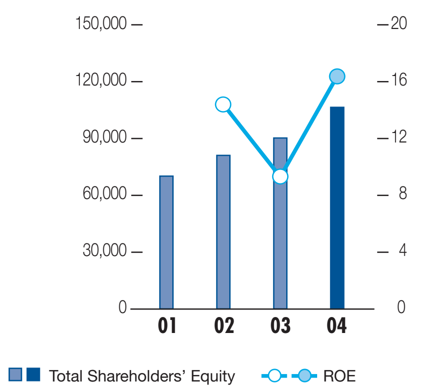
Net Income
(Millions of yen)



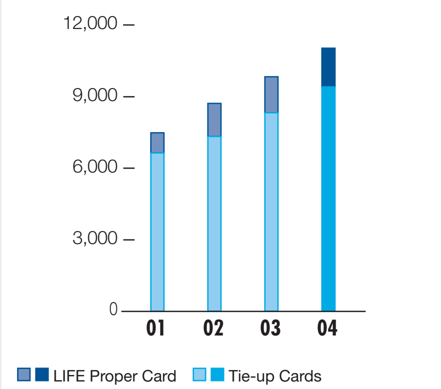
Total Assets/ROA
(Millions of yen/%)



Total Shareholders' Equity/ROE
(Millions of yen/%)



Number of Cardholders
(Thousand)



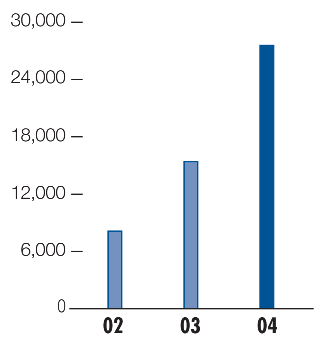
(Millions of yen)

	2001	2002	2003	**2004**
Total Receivables Outstanding	606,313	612,509	676,093	**702,202**
Installment Receivables	225,376	224,213	247,494	**256,773**
Loans (Cash Advance)	196,559	250,903	310,749	**339,137**
Guarantee	184,378	137,392	117,849	**106,290**
Operating Revenue	–	79,824	103,880	**113,738**
Net Income	–	10,908	9,149	**16,131**
Total Assets	405,314	441,799	496,781	**559,273**
Total Shareholders' Equity	70,142	81,094	90,284	**106,486**
ROA (%)	–	1.6	1.3	**2.1**
ROE (%)	–	14.4	10.7	**16.4**
Number of Cardholders (Thousands)	7,483	8,716	9,834	**11,032**
LIFE Proper Card	847	1,387	1,509	**1,625**
Tie-up Cards	6,636	7,328	8,324	**9,406**

Businext

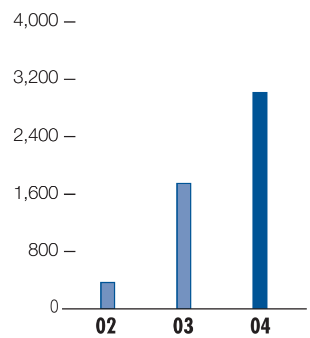
Loans Outstanding

(Millions of yen)



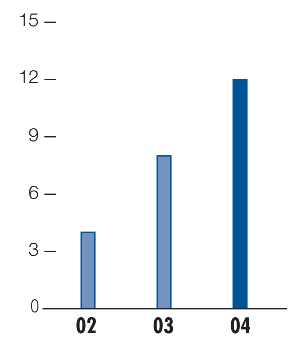
Operating Revenue

(Millions of yen)



New Loans

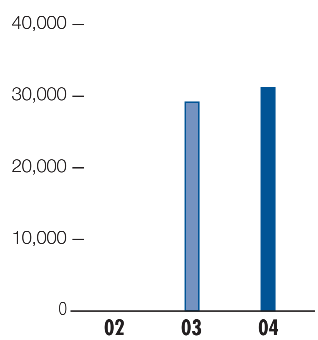
(Thousand)



City's

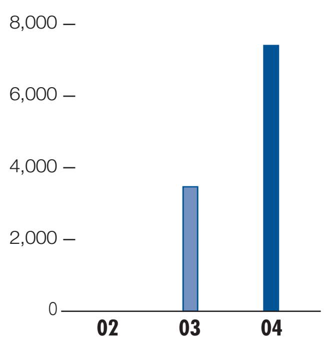
Loans Outstanding

(Millions of yen)



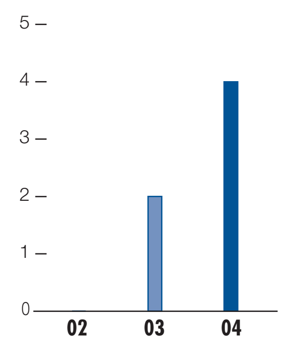
Operating Revenue

(Millions of yen)



New Loans

(Thousand)



(Millions of yen)

	2002	2003	**2004**
Businext			
Loans Outstanding	8,116	15,397	**27,591**
Operating Revenue	366	1,749	**3,014**
New Loans (Thousand)	4	8	**12**
City's			
Loans Outstanding	–	29,176	**31,214**
Operating Revenue	–	3,470	**7,414**
New Loans (Thousand)	–	2	**4**

* As City's became a consolidated subsidiary on October 1, 2002, figures for 2003 are for the six-month period ended March 31, 2003.

Financial Section

Contents

Consolidated Balance Sheets

AIFUL Corporation and Consolidated Subsidiaries
March 31, 2004 and 2003

ASSETS	Millions of Yen 2004	Millions of Yen 2003	Thousands of U.S. Dollars (Note 3) 2004
CURRENT ASSETS:			
Cash and cash equivalents	**¥ 98,329**	¥ 131,643	**$ 936,467**
Time deposits (Note 9)	**834**	653	**7,943**
Marketable securities (Note 8)	**120**	510	**1,143**
Loans (Notes 4 and 9)	**1,786,940**	1,670,782	**17,018,476**
Installment accounts receivable (Notes 5 and 9)	**154,285**	147,857	**1,469,381**
Loan guarantees (Note 6)	**133,610**	128,745	**1,272,476**
Other receivables	**10,206**	12,739	**97,200**
Allowance for doubtful loans and receivables	**(126,918)**	(113,439)	**(1,208,743)**
Inventories (Notes 7 and 9)	**1,327**	724	**12,638**
Prepaid expenses	**4,415**	4,186	**42,048**
Deferred tax assets (Note 12)	**29,312**	25,583	**279,162**
Other current assets (Note 9)	**71,609**	87,485	**681,990**
Total current assets	**2,164,069**	2,097,468	**20,610,181**
PROPERTY, PLANT AND EQUIPMENT (Note 9)**:**			
Land	**14,635**	14,802	**139,381**
Buildings and structures	**45,577**	40,811	**434,066**
Machinery and equipment	**16,286**	12,114	**155,105**
Construction in progress	**181**	3,094	**1,724**
Total	**76,679**	70,821	**730,276**
Accumulated depreciation	**(31,200)**	(28,809)	**(297,143)**
Net property, plant and equipment	**45,479**	42,012	**433,133**
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 8)	**16,998**	11,256	**161,886**
Investments in and advances to unconsolidated subsidiaries and associated companies (Note 13)	**7,353**	4,137	**70,028**
Claims in bankruptcy (Note 4)	**23,661**	17,363	**225,343**
Allowance for advances to an unconsolidated subsidiary and claims in bankruptcy	**(18,839)**	(18,691)	**(179,419)**
Goodwill, net	**14,370**	22,046	**136,857**
Software, net	**21,050**	16,347	**200,476**
Long-term loans receivables (less current portion)	**1,158**	16,781	**11,029**
Lease deposits	**10,777**	10,851	**102,638**
Long-term prepayments	**7,758**	6,274	**73,886**
Deferred tax assets (Note 12)	**14,782**	16,591	**140,781**
Deferred losses on hedging instruments, mainly interest rate swaps	**18,975**	33,675	**180,714**
Other assets (Note 9)	**5,170**	6,003	**49,238**
Total investments and other assets	**123,213**	142,633	**1,173,457**
TOTAL	**¥2,332,761**	¥2,282,113	**$22,216,771**

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen 2004	Millions of Yen 2003	Thousands of U.S. Dollars (Note 3) 2004
CURRENT LIABILITIES:			
Short-term borrowings (Note 9)	**¥ 62,035**	¥ 68,865	**$ 590,810**
Current portion of long-term debt (Note 9)	**498,204**	490,653	**4,744,800**
Trade notes payable	**11,139**	11,249	**106,086**
Trade accounts payable (Note 9)	**23,526**	19,919	**224,057**
Obligation under loan guarantees (Note 6)	**133,610**	128,745	**1,272,476**
Income taxes payable	**25,846**	37,628	**246,152**
Accrued expenses	**9,358**	9,256	**89,124**
Other current liabilities (Note 5)	**39,614**	38,531	**377,276**
Total current liabilities	**803,332**	804,846	**7,650,781**
LONG-TERM LIABILITIES:			
Long-term debt (less current portion) (Note 9)	**953,573**	945,451	**9,081,648**
Liability for retirement benefits (Note 10)	**3,681**	8,787	**35,057**
Interest rate swaps	**18,832**	32,119	**179,352**
Other long-term liabilities	**1,157**	890	**11,019**
Total long-term liabilities	**977,243**	987,247	**9,307,076**
MINORITY INTERESTS	**4,682**	4,029	**44,590**
SHAREHOLDERS' EQUITY (Notes 11 and 17):			
Common stock,			
authorized, 373,500,000 shares;			
issued, 94,690,000 shares	**83,317**	83,317	**793,495**
Capital surplus -			
Additional paid-in capital	**104,126**	104,126	**991,676**
Retained earnings	**357,706**	300,924	**3,406,724**
Net unrealized gain (loss) on available-for-sale securities	**4,417**	(323)	**42,067**
Total	**549,566**	488,044	**5,233,962**
Treasury stock, at cost			
222,866 shares in 2004 and 221,638 shares in 2003	**(2,062)**	(2,053)	**(19,638)**
Total shareholders' equity	**547,504**	485,991	**5,214,324**
TOTAL	**¥2,332,761**	¥2,282,113	**$22,216,771**

Consolidated Statements of Income

AIFUL Corporation and Consolidated Subsidiaries
Years Ended March 31, 2004 and 2003

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2004	2003	**2004**
INCOME:			
Interest on loans	**¥429,513**	¥406,484	**$4,090,600**
Interest on credit card shopping loans	**8,140**	7,878	**77,524**
Interest on per-item shopping loans	**15,508**	15,179	**147,695**
Interest on loan guarantees	**5,562**	4,133	**52,971**
Interest on deposits, securities and other	**236**	474	**2,248**
Sales of property for sale	**50**	306	**476**
Income from restaurant business and other		935	
Recovery of loans previously charged off	**6,778**	6,431	**64,552**
Gain on exemption from pension obligation of the governmental program	**4,026**		**38,343**
Other income	**9,660**	9,348	**92,000**
Total income	**479,473**	451,168	**4,566,409**
EXPENSES:			
Interest on borrowings	**34,712**	35,335	**330,590**
Charge-offs and provision for doubtful loans and receivables, advances to an unconsolidated subsidiary and claims in bankruptcy	**157,349**	138,479	**1,498,562**
Salaries and other employees' benefits	**48,076**	44,828	**457,867**
Advertising expenses	**19,963**	21,748	**190,124**
Rental expenses	**23,532**	24,359	**224,114**
Commissions and fees	**21,502**	19,291	**204,781**
Depreciation and amortization	**15,539**	10,364	**147,990**
Loss on write-down of property, plant and equipment		541	
Provision for employees' retirement benefits (Note 10)	**679**	3,187	**6,467**
Provision for retirement benefits to directors and corporate auditors	**137**	104	**1,305**
Other expenses	**54,170**	45,479	**515,905**
Total expenses	**375,659**	343,715	**3,577,705**
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	**103,814**	107,453	**988,704**
INCOME TAXES (Note 12)**:**			
Current	**46,174**	57,555	**439,752**
Deferred	**(5,158)**	(10,129)	**(49,124)**
Total income taxes	**41,016**	47,426	**390,628**
MINORITY INTERESTS IN NET INCOME	**250**	116	**2,381**
NET INCOME	**¥ 62,548**	¥ 59,911	**$ 595,695**

	Yen		U.S. Dollars
AMOUNTS PER COMMON SHARE (Notes 2.*r* and 16)**:**			
Basic net income	**¥660.98**	¥637.59	**$6.30**
Cash dividends applicable to the year	**60.00**	60.00	**0.57**

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

AIFUL Corporation and Consolidated Subsidiaries
Years Ended March 31, 2004 and 2003

	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, 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)
Net income				62,548		
Cash dividends paid, ¥60 per share				(5,668)		
Bonuses to directors and corporate auditors				(98)		
Net unrealized gain on available-for-sale securities					4,740	
Net increase in treasury stock (1,228 shares)						(9)
BALANCE AT MARCH 31, 2004	94,690	¥83,317	¥104,126	¥357,706	¥4,417	¥(2,062)

	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, 2003	$793,495	$991,676	$2,865,943	$ (3,076)	$(19,552)
Net income			595,695		
Cash dividends paid, $0.57 per share			(53,981)		
Bonuses to directors and corporate auditors			(933)		
Net unrealized gain on available-for-sale securities				45,143	
Net increase in treasury stock (1,228 shares)					(86)
BALANCE AT MARCH 31, 2004	$793,495	$991,676	$3,406,724	$42,067	$(19,638)

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

AIFUL Corporation and Consolidated Subsidiaries
Years Ended March 31, 2004 and 2003

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2004	2003	**2004**
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	**¥ 103,814**	¥ 107,453	**$ 988,704**
Adjustments for:			
Income taxes - paid	**(57,956)**	(36,826)	**(551,962)**
Depreciation and amortization	**15,539**	10,364	**147,990**
Increase in allowance for doubtful loans and receivables, advances to an unconsolidated subsidiary and claims in bankruptcy	**13,627**	20,909	**129,781**
(Decrease) increase in liability for employees' retirement benefits	**(1,080)**	1,628	**(10,286)**
Amortization of bonds issue costs	**504**	830	**4,800**
Loss on write-down of investment securities	**601**	858	**5,724**
Loss on write-down of property, plant and equipment		541	
Loss on sales of property, plant and equipment	**260**	375	**2,476**
Loss on disposal of property, plant and equipment	**668**	410	**6,362**
Gain on exemption from pension obligation of the governmental program	**(4,026)**		**(38,343)**
Changes in assets and liabilities:			
Increase in loans	**(116,159)**	(160,196)	**(1,106,276)**
Increase in installment accounts receivable and loan guarantees	**(6,429)**	(27,102)	**(61,229)**
Decrease in other receivables	**2,533**	3,374	**24,124**
Increase in claims in bankruptcy	**(6,297)**	(1,015)	**(59,971)**
(Increase) decrease in inventories	**(604)**	491	**(5,752)**
Increase in prepaid expenses	**(121)**	(117)	**(1,152)**
Increase in long-term prepayments	**(230)**	(3,148)	**(2,190)**
Decrease (increase) in other current assets	**3,871**	(14,360)	**36,867**
Increase in other current liabilities	**4,708**	5,009	**44,838**
Other – net	**4,042**	459	**38,495**
Total adjustments	**(146,549)**	(197,516)	**(1,395,704)**
Net cash used in operating activities	**(42,735)**	(90,063)	**(407,000)**
INVESTING ACTIVITIES:			
Capital expenditures	**(17,016)**	(17,321)	**(162,057)**
Decrease (increase) in loans	**18,523**	(30,967)	**176,409**
Purchases of investment securities	**(308)**	(3,459)	**(2,933)**
Acquisitions of subsidiaries (net of cash acquired)		(7,556)	
Decrease (increase) in investment in trust	**2,000**	(1,744)	**19,048**
Other – net	**3,172**	3,874	**30,209**
Net cash provided by (used in) investing activities — (Forward)	**¥ 6,371**	¥ (57,173)	**$ 60,676**

(Continued)

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2004	2003	**2004**
Net cash provided by (used in) investing activities — (Forward)	**¥ 6,371**	¥ (57,173)	**$ 60,676**
FINANCING ACTIVITIES:			
Net (decrease) increase in short-term borrowings	**(6,831)**	5,414	**(65,057)**
Proceeds from long-term debt (net of bonds issue costs)	**620,815**	653,891	**5,912,524**
Repayments of long-term debt	**(605,610)**	(522,922)	**(5,767,714)**
Cash dividends paid	**(5,668)**	(5,124)	**(53,981)**
Acquisition of treasury stock	**(9)**	(6)	**(86)**
Proceeds from minority shareholders	**400**	400	**3,810**
Net cash provided by financing activities	**3,097**	131,653	**29,496**
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	**(47)**	35	**(448)**
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(33,314)**	(15,548)	**(317,276)**
CASH AND CASH EQUIVALENTS OF NEWLY CONSOLIDATED SUBSIDIARIES, BEGINNING OF YEAR		8,065	
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**131,643**	139,126	**1,253,743**
CASH AND CASH EQUIVALENTS, END OF YEAR	**¥ 98,329**	¥ 131,643	**$ 936,467**
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	
Cash paid for capital stock, less acquired cash and cash equivalents		7,556	
Liabilities assumed		24,857	
Value of 1,314,000 common shares issued for City Green Corporation		10,078	

(Concluded)

See notes to consolidated financial statements.

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 generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation – The consolidated financial statements include the accounts of AIFUL Corporation (the "Company") and its significant subsidiaries (nine in both 2004 and 2003) (together, the "Group"). 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 Corporation ("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 Company ownership and City Green Corporation ("City Green") ownership of City's were 42.2% and 57.8%, respectively. Investment in City's, was accounted for by the equity method as of September 30, 2002, the constructive date of acquisition. 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 directly and indirectly wholly owned subsidiaries of the Company effective October 1, 2002. The accounts of City Green and City's were newly consolidated for the year ended March 31, 2003.

Investments in the remaining four unconsolidated subsidiaries and one associated company are accounted for on the cost basis. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

Goodwill on acquisition of subsidiaries is amortized using the straight-line method over 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, marketable and 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 2 to 62 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 liability for retirement benefits based on the 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. Bond Issue Costs – Bond issue costs, which are included in other assets, are amortized ratably over periods up to three years.

q. 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.

r. Per Share Information – Basic net income per share is computed by dividing net income available to common shareholders 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. 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.

s. New Accounting Pronouncements – In August 2002, the Business Accounting Council issued a Statement of Opinion, "Accounting for Impairment of Fixed Assets," and in October 2003 the Accounting Standards Board of Japan (ASB) issued ASB Guidance No.6, "Guidance for Accounting Standard for Impairment of Fixed Assets." These new pronouncements are effective for fiscal years beginning on or after April 1, 2005 with early adoption permitted for fiscal years ending on or after March 31, 2004.

The new accounting standard requires an entity to review its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

The Company is currently in the process of assessing the effect of adoption of these pronouncements.

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 ¥105 to $1, the approximate rate of exchange at March 31, 2004. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

4. LOANS

Loans at March 31, 2004 and 2003 consisted of the following (before allowance for doubtful loans):

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Unsecured	**¥1,477,430**	¥1,442,980	**$14,070,762**
Secured	**346,183**	325,437	**3,296,981**
Small business loans	**84,042**	65,285	**800,400**
Total	**¥1,907,655**	¥1,833,702	**$18,168,143**
Off-balance sheet securitized loans	**(120,715)**	(162,920)	**(1,149,667)**
Net	**¥1,786,940**	¥1,670,782	**$17,018,476**

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

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Loans in legal bankruptcy	**¥ 28,637**	¥ 20,830	**$ 272,733**
Nonaccrual loans	**52,452**	39,897	**499,543**
Accruing loans contractually past due three months or more as to principal or interest payments	**17,820**	16,503	**169,714**
Restructured loans	**50,917**	43,169	**484,924**
Total	**¥149,826**	¥120,399	**$1,426,914**

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 ¥120,715 million ($1,149,667 thousand) and ¥162,920 million at March 31, 2004 and 2003, respectively.

At March 31, 2004 and 2003, the Group had the balances related to revolving loan contracts of ¥1,496,120 million ($14,248,762 thousand) and ¥1,445,473 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, 2004 and 2003, the balances of unadvanced commitments were ¥4,784,929 million ($45,570,752 thousand) and ¥4,228,629 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.

5. INSTALLMENT ACCOUNTS RECEIVABLE

Installment accounts receivable and unearned income, included in other current liabilities at March 31, 2004 and 2003, consisted of the following:

	Millions of Yen				Thousands of U.S. Dollars	
	2004		2003		**2004**	
	Receivables	Unearned Income	Receivables	Unearned income	Receivables	Unearned income
Credit card shopping loans	**¥ 71,528**	**¥ 378**	¥ 64,117	¥ 538	**$ 681,219**	**$ 3,600**
Per-item shopping loans	**176,022**	**9,938**	171,755	9,661	**1,676,400**	**94,648**
Other	**1**		1		**10**	
Total	**¥247,551**	**¥10,316**	¥235,873	¥10,199	**$2,357,629**	**$98,248**
Off-balance sheet securitized installment accounts receivable	**(93,266)**		(88,016)		**(888,248)**	
Net	**¥154,285**	**¥10,316**	¥147,857	¥10,199	**$1,469,381**	**$98,248**

In addition, the Group has unearned income of ¥83 million ($790 thousand) and ¥219 million at March 31, 2004 and 2003, respectively, related to loans other than those shown in the above table.

6. LOAN GUARANTEES AND OBLIGATIONS UNDER LOAN GUARANTEES

The Group, as guarantor, recorded loan guarantees as a contra account of obligations under loan guarantees. Unearned income relating to loan guarantees was ¥428 million ($4,076 thousand) and ¥670 million at March 31, 2004 and 2003, respectively.

7. INVENTORIES

Inventories at March 31, 2004 and 2003 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Property for sale	**¥ 181**	¥564	**$ 1,724**
Supplies	**1,146**	160	**10,914**
Total	**¥1,327**	¥724	**$12,638**

8. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2004 and 2003 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Current:			
Government and corporate bonds	**¥ 120**	¥ 10	**$ 1,143**
Other		500	
Total	**¥ 120**	¥ 510	**$ 1,143**
Non-current:			
Equity securities	**¥15,498**	¥ 9,476	**$147,600**
Government and corporate bonds		120	
Other	**1,500**	1,660	**14,286**
Total	**¥16,998**	¥11,256	**$161,886**

Information on the marketable securities classified as available-for-sale at March 31, 2004 and 2003 was as follows:

	Millions of Yen			
	2004			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	**¥6,784**	**¥7,537**	**¥345**	**¥13,976**
Debt securities	**120**			**120**
	¥6,904	**¥7,537**	**¥345**	**¥14,096**

	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

	Thousands of U.S. Dollars			
	2004			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	**$64,610**	**$71,781**	**$3,286**	**$133,105**
Debt securities	**1,143**			**1,143**
	$65,753	**$71,781**	**$3,286**	**$134,248**

Available-for-sale securities and held-to-maturity securities whose fair value is not readily determinable as of March 31, 2004 and 2003 were as follows:

	Carrying amount		
	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Available-for-sale:			
Equity securities	**¥1,522**	¥3,154	**$14,495**
Other	**1,500**	2,160	**14,286**
Total	**¥3,022**	¥5,314	**$28,781**

Proceeds from sales of available-for-sale securities for the years ended March 31, 2004 and 2003 were ¥2,046 million ($19,486 thousand) and ¥1,605 million, respectively. Gross realized gains on these sales, computed on the moving average cost basis, were ¥738 million ($7,029 thousand) and ¥212 million for the years ended March 31, 2004 and 2003, respectively, and gross realized losses were ¥44 million ($419 thousand) and ¥5 million for the years ended March 31, 2004 and 2003, respectively.

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale at March 31, 2004 are as follows:

	Millions of Yen	Thousands of U.S. Dollars
	Available-for-sale	Available-for-sale
Due within one year	¥120	$1,143

9. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings at March 31, 2004 and 2003 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Commercial paper, 0.18% to 0.25% (0.60 to 0.80% at March 31, 2003)	**¥ 5,000**	¥13,500	**$ 47,619**
Loans from banks, 0.80% to 2.05% (0.80% to 2.75% at March 31, 2003)	**10,700**	17,600	**101,905**
Loans from other financial institutions, 1.48% (1.38% to 1.48% at March 31, 2003)	**6,000**	6,000	**57,143**
Other (principally from leasing and factoring companies), 0.18% to 2.65% (1.70% to 2.50% at March 31, 2003)	**40,335**	31,765	**384,143**
Total	**¥62,035**	¥68,865	**$590,810**

Long-term debt at March 31, 2004 and 2003 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Loans from banks, 0.69% to 4.20%, due serially to 2008 (1.36% to 4.20%, due serially to 2008 at March 31, 2003)	**¥ 555,428**	¥ 531,189	**$ 5,289,791**
Loans from other financial institutions, 1.45% to 4.00%, due serially to 2008 (1.50% to 4.20%, due serially to 2008 at March 31, 2003)	**217,432**	224,357	**2,070,781**
Syndicated loans, 0.89% to 1.87%, due serially to 2009 (0.89% to 1.78%, due serially to 2009 at March 31, 2003)	**104,878**	86,835	**998,838**
Unsecured 1.73% to 3.65% yen straight bonds, due 2003		20,000	
Unsecured 2.00% to 2.53% yen straight bonds, due 2004 (2.00% to 2.53% at March 31, 2003)	**90,000**	135,000	**857,143**
Unsecured 0.80% to 2.00% yen straight bonds, due 2005 (1.75% to 2.00% at March 31, 2003)	**80,000**	50,000	**761,905**
Unsecured 1.30% to 3.27% yen straight bonds, due 2006 (1.30% to 3.27% at March 31, 2003)	**78,500**	78,500	**747,619**
Unsecured 1.66% to 2.51% yen straight bonds, due 2007 (1.66% to 2.51% at March 31, 2003)	**43,000**	43,000	**409,524**
Unsecured 1.07% to 2.48% yen straight bonds, due 2008 (1.62% to 2.48% at March 31, 2003)	**50,000**	30,000	**476,190**
Unsecured 1.44% to 3.28% yen straight bonds, due 2009 (1.28% to 3.28% at March 31, 2003)	**38,000**	28,000	**361,905**
Unsecured 1.25% to 3.00% yen straight bonds, due 2010 (2.93% to 3.00% at March 31, 2003)	**30,000**	20,000	**285,714**
Unsecured 1.74% yen straight bonds, due 2013	**10,000**		**95,238**
Unsecured 3.65% Euro-yen straight bonds, due 2003		9,500	
Unsecured variable rate Euro-yen straight bonds, due 2006 (1.80% at March 31, 2004, 1.82% at March 31, 2003)	**12,500**	15,000	**119,048**
Unsecured 0.86% medium-term notes, due 2005	**4,000**	4,000	**38,095**
Unsecured 2.21% medium-term notes, due 2007	**1,000**	1,000	**9,524**
Unsecured 3.00% medium-term notes, due 2008	**3,000**	3,000	**28,571**
Unsecured 3.50% medium-term notes, due 2015	**15,000**	15,000	**142,857**
Other (principally from leasing and factoring companies), 0.85% to 2.30%, due serially to 2008 (0.85% to 4.05%, at March 31, 2003)	**119,039**	141,723	**1,133,705**
Total	**1,451,777**	1,436,104	**13,826,448**
Less current portion	**(498,204)**	(490,653)	**(4,744,800)**
Long-term debt, less current portion	**¥ 953,573**	¥ 945,451	**$ 9,081,648**

The aggregate annual maturities of long-term debt at March 31, 2004 were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2005	¥ 498,204	$ 4,744,800
2006	403,477	3,842,638
2007	267,230	2,545,048
2008	140,576	1,338,819
2009	65,817	626,828
2010 and thereafter	76,473	728,315
Total	¥1,451,777	$13,826,448

At March 31, 2004, 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	¥ 546	$ 5,200
Loans	760,545	7,243,286
Installment accounts receivable	45,367	432,067
Inventories	124	1,181
Property, plant and equipment, net of accumulated depreciation	2,449	23,324
Other assets	73	695
Total	¥809,104	$7,705,753
Related liabilities:		
Short-term borrowings	¥ 45,320	$ 431,619
Long-term debt (including current portion of long-term debt)	580,241	5,526,105
Trade accounts payable	115	1,095
Total	¥625,676	$5,958,819

The above table includes loans related to securitized loans of ¥259,798 million ($2,474,267 thousand), and related liabilities (long-term debt including current portion) of ¥121,547 million ($1,157,590 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, 2004, 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	¥ 200	$ 1,905
Long-term debt (including current portion of long-term debt)	168,034	1,600,324
Total	¥168,234	$1,602,229

At March 31, 2004, other current assets amounting to ¥6,154 million ($58,610 thousand) were pledged as collateral for the interest rate swap contracts.

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 contributory funded defined benefit pension plan, which is established under the Japanese Welfare Pension Insurance Law, covers a substitutional portion of the governmental pension program managed by the Company and certain consolidated subsidiaries on behalf of the government and a corporate portion established at the discretion of the Company and certain consolidated subsidiaries. In accordance with the Defined Benefit Pension Plan Law enacted in April 2002, the Company and certain consolidated subsidiaries applied for an exemption from obligation to pay benefits for future employee services related to the substitutional portion which would result in the transfer of the pension obligations and related assets to the government upon approval. The Company and certain consolidated subsidiaries obtained approval for exemption from the future obligation by the Ministry of Health, Labor and Welfare on September 25, 2003.

The Company's substitutional portion of the plan assets which will be transferred to the government in the subsequent year is measured to be approximately ¥2,509 million ($23,895 thousand) as at March 31, 2004. If such substitutional portion of the plan assets had been transferred to the government on March 31, 2004, income before income taxes and minority interests would have increased by approximately ¥264 million ($2,514 thousand).

One consolidated subsidiary chose to apply the transitional measure of the accounting standard (Article 47-2 of Accounting Committee Report No.13 "Practical Guidelines for Accounting for Retirements Benefits"), which permits the subsidiary to account for the exemption of pension obligations and plan assets related to the substitutional portion as of the date of obtaining approval of exemption (i.e., before the transfer of the related plan assets to the government). The subsidiary obtained approval of exemption from future obligation by the Ministry of Health, Labor and Welfare on September 25, 2003. As a result, the subsidiary recognized a gain on exemption from future and prior pension obligation of the government program in the amount of ¥4,026 million ($38,343 thousand) for the year ended March 31, 2004. The substitutional portion of the plan assets which will be transferred to the government in the subsequent year is measured to be approximately ¥4,068 million ($38,743 thousand) as at March 31, 2004.

The liability for retirement benefits includes retirement benefits to directors and corporate auditors of ¥1,263 million ($12,028 thousand) and ¥1,151 million at March 31, 2004 and 2003, respectively.

The liability for employees' retirement benefits at March 31, 2004 and 2003 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Projected benefit obligation	**¥ 14,511**	¥22,410	**$138,200**
Fair value of plan assets	**(10,919)**	(13,661)	**(103,990)**
Unrecognized prior service cost		1,232	
Unrecognized actuarial loss	**(1,212)**	(2,357)	**(11,543)**
Net liability	**¥ 2,380**	¥ 7,624	**$ 22,667**
Prepaid pension cost	**38**	12	**362**
Liability for employees' retirement benefits	**¥ 2,418**	¥ 7,636	**$ 23,029**

The components of net periodic benefit costs for the years ended March 31, 2004 and 2003 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Service cost	**¥1,168**	¥1,486	**$11,124**
Interest cost	**306**	503	**2,914**
Expected return on plan assets	**(147)**	(264)	**(1,400)**
Amortization of prior service cost	**(550)**	(162)	**(5,238)**
Recognized actuarial loss	**(98)**	1,624	**(933)**
Net periodic benefit costs	**¥ 679**	¥3,187	**$ 6,467**

Assumptions used for the years ended March 31, 2004 and 2003 were set forth as follows:

	2004	2003
Discount rate	**1.5% to 2.5%**	1.5% to 2.5%
Expected rate of return on plan assets	**1.5% to 2.0%**	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

11. SHAREHOLDERS' EQUITY

Japanese companies are subject to the Japanese Commercial Code (the "Code") to which various amendments have become effective since 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 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. The repurchased amount of treasury stock cannot exceed the amount available for future dividends 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 ¥343,435 million ($3,270,810 thousand) as of March 31, 2004, based upon 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 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 204 thousand shares of the Company's common stock as of March 31, 2004. The options were granted to purchase common stock at ¥9,579. 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.

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.

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 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 in additional paid-in capital by ¥9,684 million.

At the Shareholders' General Meeting held on June 26, 2003, 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, 2004, the Company has not yet repurchased shares of the Company's common stock under this plan.

12. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of 41.9% for the years ended March 31, 2004 and 2003.

On March 31, 2003, a tax reform law concerning enterprise tax was enacted in Japan which changed the normal effective statutory tax rate from 41.9% to 40.6%, effective for years beginning on or after April 1, 2004.

The deferred tax assets and liabilities which will realize on or after April 1, 2004 are measured at the effective tax rates of 40.6% and 40.4% as at March 31, 2004 and 2003, respectively.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2004 and 2003 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Current Deferred Tax Assets:			
Provision for doubtful loans	**¥ 7,931**	¥ 9,009	**$ 75,533**
Charge-offs for doubtful loans	**11,115**	8,345	**105,857**
Tax loss carryforwards	**5,379**	3,089	**51,229**
Enterprise tax payable	**1,522**	2,106	**14,495**
Accrued bonuses	**1,576**	1,337	**15,010**
Unrecorded accrued interest on loans	**1,929**	1,427	**18,371**
Other	**295**	436	**2,810**
Total	**29,747**	25,749	**283,305**
Less valuation allowance	**(429)**	(151)	**(4,086)**
Net	**29,318**	25,598	**279,219**
Current Deferred Tax Liabilities	**6**	15	**57**
Net deferred tax assets	**¥29,312**	¥25,583	**$279,162**
Non-current Deferred Tax Assets:			
Tax loss carryforwards	**¥14,278**	¥20,786	**$135,981**
Provision for employees' retirement benefits	**967**	3,063	**9,210**
Provision for doubtful loans	**712**	1,948	**6,781**
Depreciation and amortization	**2,453**	1,759	**23,362**
Other	**2,307**	2,284	**21,971**
Total	**20,717**	29,840	**197,305**
Less valuation allowance	**(2,915)**	(13,243)	**(27,762)**
Net	**17,802**	16,597	**169,543**
Non-current Deferred Tax Liabilities -			
Unrealized gain on available-for-sale securities	**3,004**	6	**28,610**
Other	**16**		**152**
Net deferred tax assets	**¥14,782**	¥16,591	**$140,781**

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, 2004 and 2003 is as follows:

	2004	2003
Normal effective statutory tax rates	**41.9%**	41.9%
Additional taxation on undistributed income	**4.9**	5.9
Expenses not deductible for income taxes purposes	**2.8**	1.4
Decrease of valuation allowance	**(9.7)**	(5.9)
Other, net	**(0.4)**	0.8
Actual effective tax rates	**39.5%**	44.1%

13. RELATED PARTY TRANSACTIONS

The balance due from an unconsolidated subsidiary at March 31, 2004 and 2003 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Advances to an unconsolidated subsidiary	**¥7,333**	¥4,108	**$69,838**

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.

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, 2004 and 2003 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:				
2004	¥23,532	¥6,460	$224,114	$61,524
2003	24,359	7,721		

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, 2004 and 2003 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	Machinery and equipment, and other		Machinery and equipment, and other
	2004	2003	**2004**
Acquisition cost	**¥28,091**	¥33,486	**$267,533**
Accumulated depreciation	**18,978**	23,006	**180,743**
Net leased property	**¥ 9,113**	¥10,480	**$ 86,790**

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Due within one year	**¥4,729**	¥ 6,125	**$45,038**
Due after one year	**4,498**	7,752	**42,838**
Total	**¥9,227**	¥13,877	**$87,876**

Depreciation expense and interest expense, which are not reflected in the accompanying consolidated statements of income, computed under a straight-line method and the interest method for the year ended March 31, 2004 and under a declining-balance method and the interest method for the years ended March 31, 2003 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Depreciation expense	**¥6,214**	¥7,039	**$59,181**
Interest expense	**207**	362	**1,971**

Effective April 1, 2003, the Group changed its method of depreciation for leased property from the declining-balance method to the straight-line method, retroactively adjusted for the prior years. The effects of this change were to increase depreciation by ¥704 million ($6,705 thousand) and to decrease accumulated depreciation by ¥1,876 million ($17,867 thousand).

The minimum rental commitments under noncancellable operating leases at March 31, 2004 and 2003 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Due within one year	**¥104**	¥111	**$ 991**
Due after one year	**222**	324	**2,114**
Total	**¥326**	¥435	**$3,105**

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, 2004 and 2003.

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

16. NET INCOME PER SHARE

Basic net income per share ("EPS") for the years ended March 31, 2004 and 2003 is computed as follows:

	Yen in millions	Thousands of shares	Yen	Dollars
	Net income	Weighted average shares	EPS	
For the year ended March 31, 2004:				
Basic EPS				
Net income available to common shareholders	**¥62,441**	**94,468**	**¥660.98**	**$6.30**
For the year ended March 31, 2003:				
Basic EPS				
Net income available to common shareholders	¥59,812	93,810	¥637.59	

Diluted EPS is not disclosed because it is anti-dilutive for the years ended March 31, 2004 and 2003.

17. SUBSEQUENT EVENTS

I. As of June 30, 2004, the Company will acquire all 32,135 shares of Wide Corporation ("Wide") according to an agreement dated June 16, 2004. As a result, Wide will become a wholly owned subsidiary of the Company effective June 30, 2004.

Corporate profile of Wide as of March 31, 2004 is as follows:

Corporate Name	Wide Corporation
Corporate Headquarters	Utsunomiya-shi, Tochigi, Japan
President/Representative Director	Mitsuo Yanagi
Date of Establishment	May, 1984
Main Operations	Consumer finance
Total assets	¥106,694 million ($1,016,133 thousand)
Shareholders' Equity	¥12,461 million ($118,676 thousand)
Common Stock	¥2,555 million ($24,333 thousand)

Total assets in the above table include off-balance sheet securitized loans of ¥36,811 million yen ($350,581 thousand).

II. At the Shareholders' General Meeting held on June 25, 2004, 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, 2004 were approved:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥30 ($0.29) per share	¥2,834	$26,990
Bonuses to directors and corporate auditors	107	1,019

b. Stock option plan

The plan provides for granting options to directors and key employees of the Company and subsidiaries to purchase up to 300 thousand shares of the Company's common stock in the period from July 1, 2005 to June 30, 2009. The options will be 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 Company plans to grant stock purchase warrants and issue stock upon exercise of the stock options.

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.

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, 2004 and 2003, 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 generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Aiful Corporation and consolidated subsidiaries as of March 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

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 25, 2004

Non-Consolidated Balance Sheets

AIFUL Corporation
March 31, 2004 and 2003

ASSETS	Millions of Yen 2004	Millions of Yen 2003	Thousands of U.S. Dollars (Note 3) 2004
CURRENT ASSETS:			
Cash and cash equivalents	¥ 60,376	¥ 84,244	$ 575,010
Time deposits	50	242	476
Marketable securities (Note 6)		10	
Loans (Notes 4 and 7)	1,451,638	1,413,340	13,825,124
Allowance for doubtful loans	(81,693)	(70,479)	(778,029)
Net loans	1,369,945	1,342,861	13,047,095
Inventories (Notes 5 and 7)	181	336	1,724
Prepaid expenses	3,688	3,609	35,124
Deferred tax assets (Note 9)	13,629	12,437	129,800
Other current assets (Note 7)	52,831	70,117	503,152
Total current assets	1,500,700	1,513,856	14,292,381
PROPERTY, PLANT AND EQUIPMENT:			
Land	5,613	5,613	53,457
Buildings and structures	28,054	22,885	267,181
Machinery and equipment	15,185	10,769	144,619
Construction in progress	57	3,094	543
Total	48,909	42,361	465,800
Accumulated depreciation	(19,265)	(16,676)	(183,476)
Net property, plant and equipment	29,644	25,685	282,324
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 6)	14,324	7,539	136,419
Investments in and advances to subsidiaries and associated companies	271,952	280,138	2,590,019
Claims in bankruptcy (Note 4)	22,925	16,906	218,333
Allowance for advances to subsidiary and claims in bankruptcy	(18,265)	(18,348)	(173,952)
Software, net	10,405	7,607	99,095
Long-term loans (less current portion)	1,142	16,753	10,876
Lease deposits	8,118	8,312	77,314
Long-term prepayments	4,774	3,519	45,467
Deferred tax assets (Note 9)	769	5,166	7,324
Deferred losses on hedging instruments, mainly interest rate swaps	18,975	33,675	180,714
Other assets	4,613	5,404	43,934
Total investments and other assets	339,732	366,671	3,235,543
TOTAL	¥1,870,076	¥1,906,212	$17,810,248

See notes to non-consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen 2004	Millions of Yen 2003	Thousands of U.S. Dollars (Note 3) 2004
CURRENT LIABILITIES:			
Short-term borrowings (Note 7)	**¥ 8,500**	¥ 27,000	**$ 80,952**
Current portion of long-term debt (Note 7)	**417,815**	447,876	**3,979,190**
Trade notes payable	**4,162**	4,286	**39,638**
Trade accounts payable	**5,349**	4,493	**50,943**
Income taxes payable	**24,661**	37,128	**234,867**
Accrued expenses	**7,067**	7,029	**67,305**
Other current liabilities	**1,252**	1,443	**11,924**
Total current liabilities	**468,806**	529,255	**4,464,819**
LONG-TERM LIABILITIES:			
Long-term debt (less current portion) (Note 7)	**857,414**	870,449	**8,165,848**
Liability for retirement benefits (Note 2.*g*)	**2,027**	3,441	**19,305**
Interest rate swaps	**18,832**	32,120	**179,352**
Other long-term liabilities	**92**	113	**876**
Total long-term liabilities	**878,365**	906,123	**8,365,381**
CONTINGENT LIABILITIES (Note 11)			
SHAREHOLDERS' EQUITY (Notes 8 and 13)**:**			
Common stock,			
authorized, 373,500,000 shares;			
issued, 94,690,000 shares	**83,317**	83,317	**793,495**
Capital surplus -			
Additional paid-in capital	**90,225**	90,225	**859,286**
Retained earnings:			
Legal reserve	**1,566**	1,566	**14,914**
Unappropriated	**345,497**	298,177	**3,290,448**
Net unrealized gain (loss) on available-for-sale securities	**4,362**	(398)	**41,543**
Total	**524,967**	472,887	**4,999,686**
Treasury stock, at cost – 222,866 shares in 2004 and 221,638 shares in 2003	**(2,062)**	(2,053)	**(19,638)**
Total shareholders' equity	**522,905**	470,834	**4,980,048**
TOTAL	**¥1,870,076**	¥1,906,212	**$17,810,248**

Non-Consolidated Statements of Income

AIFUL Corporation
Years Ended March 31, 2004 and 2003

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2004	2003	**2004**
INCOME:			
Interest on loans	**¥326,979**	¥315,600	**$3,114,086**
Interest on deposits, securities and other	**3,961**	4,721	**37,724**
Sales of property for sale	**50**	306	**476**
Income from restaurant business and other		936	
Recovery of loans previously charged off	**3,739**	3,897	**35,610**
Other income	**5,495**	4,687	**52,333**
Total income	**340,224**	330,147	**3,240,229**
EXPENSES:			
Interest on borrowings	**31,187**	32,692	**297,019**
Cost of sales of property for sale	**137**	296	**1,305**
Charge-offs and provision for doubtful loans, advances to subsidiary and claims in bankruptcy	**109,221**	90,725	**1,040,200**
Salaries and other employees' benefits	**28,651**	26,991	**272,867**
Advertising expenses	**13,697**	15,377	**130,448**
Rental expenses	**13,926**	15,536	**132,629**
Commissions and fees	**10,833**	9,624	**103,171**
Supplies	**1,859**	1,269	**17,705**
Loss on write-down of investment securities	**401**	360	**3,819**
Loss on write-down of inventories	**18**	36	**171**
Depreciation and amortization	**4,874**	3,512	**46,419**
Provision for employees' retirement benefits	**11**	2,213	**105**
Provision for retirement benefits to directors and corporate auditors	**121**	75	**1,152**
Loss on sales of property, net	**243**	2	**2,314**
Other expenses	**27,084**	24,881	**257,943**
Total expenses	**242,263**	223,589	**2,307,267**
INCOME BEFORE INCOME TAXES	**97,961**	106,558	**932,962**
INCOME TAXES (Note 9)**:**			
Current	**44,918**	56,825	**427,790**
Deferred	**(43)**	(5,585)	**(409)**
Total income taxes	**44,875**	51,240	**427,381**
NET INCOME	**¥ 53,086**	¥ 55,318	**$ 505,581**
	Yen		U.S. Dollars
AMOUNTS PER COMMON SHARE (Notes 2.r and 12)**:**			
Basic net income	**¥560.82**	¥588.63	**$5.34**
Cash dividends applicable to the year	**60.00**	60.00	**0.57**

See notes to non-consolidated financial statements.

Non-Consolidated Statements of Shareholders' Equity

AIFUL Corporation
Years Ended March 31, 2004 and 2003

	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, 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)
Net income					53,086		
Cash dividends paid, ¥60 per share					(5,668)		
Bonuses to directors and corporate auditors					(98)		
Net unrealized gain on available-for-sale securities						4,760	
Net increase in treasury stock (1,228 shares)							(9)
BALANCE AT MARCH 31, 2004	94,690	¥83,317	¥90,225	¥1,566	¥345,497	¥4,362	¥(2,062)

	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, 2003	$793,495	$859,286	$14,914	$2,839,781	$ (3,790)	$(19,552)
Net income				505,581		
Cash dividends paid, $0.57 per share				(53,981)		
Bonuses to directors and corporate auditors				(933)		
Net unrealized gain on available-for-sale securities					45,333	
Net increase in treasury stock (1,228 shares)						(86)
BALANCE AT MARCH 31, 2004	$793,495	$859,286	$14,914	$3,290,448	$41,543	$(19,638)

See notes to non-consolidated financial statements.

1. BASIS OF PRESENTING NON-CONSOLIDATED FINANCIAL STATEMENTS

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

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.

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. 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.

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 3 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 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.

The contributory funded defined benefit pension plan, which is established under the Japanese Welfare Pension Insurance Law, covers a substitutional portion of the governmental pension program managed by the Company on behalf of the government and a corporate portion established at the discretion of the Company. In accordance with the Defined Benefit Pension Plan Law enacted in April 2002, the Company applied for an exemption from obligation to pay benefits for future employee services related to the substitutional portion which would result in the transfer of the pension obligations and related assets to the government upon approval. The Company obtained approval for exemption from the future obligation by the Ministry of Health, Labor and Welfare on September 25, 2003. The substitutional portion of the plan assets which will be transferred to the government in the subsequent year is to measured to be approximately ¥2,509 million ($23,895 thousand) as at March 31, 2004. If such substitutional portion of plan assets had been transferred to the government on March 31, 2004, income before income taxes would have increased approximately ¥264 million ($2,514 thousand).

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 ¥1,221 million ($11,629 thousand) and ¥1,110 million for the years ended March 31, 2004 and 2003, 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. Related Party Transactions – Related party transactions other than those with subsidiaries and associated companies are not presented herein, as they are disclosed in the consolidated financial statements of the Company.

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

m. 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.

n. 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.

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

p. Bond Issue Costs – Bond 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 – Basic net income per share is computed by dividing net income available to common shareholders 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. 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.

s. New Accounting Pronouncements – In August 2002, the Business Accounting Council issued a Statement of Opinion, "Accounting for Impairment of Fixed Assets," and in October 2003 the Accounting Standards Board of Japan (ASB) issued ASB Guidance No.6, "Guidance for Accounting Standard for Impairment of Fixed Assets." These new pronouncements are effective for fiscal years beginning on or after April 1, 2005 with early adoption permitted for fiscal years ending on or after March 31, 2004. The new accounting standard requires an entity to review its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition. The Company is currently in the process of assessing the effect of adoption of these pronouncements.

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 ¥105 to $1, the approximate rate of exchange at March 31, 2004. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

4. LOANS

Loans at March 31, 2004 and 2003 consisted of the following (before allowance for doubtful loans):

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Unsecured	**¥1,081,058**	¥1,068,151	**$10,295,790**
Secured	**342,637**	322,840	**3,263,210**
Small business loans	**27,943**	22,349	**266,124**
Total	**¥1,451,638**	¥1,413,340	**$13,825,124**

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

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Loans in legal bankruptcy	**¥ 26,108**	¥20,340	**$ 248,647**
Nonaccrual loans	**42,141**	31,834	**401,343**
Accruing loans contractually past due three months or more as to principal or interest payments	**12,376**	11,218	**117,867**
Restructured loans	**37,260**	32,517	**354,857**
Total	**¥117,885**	¥95,909	**$1,122,714**

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, 2004 and 2003, the Company had the balances related to revolving loan contracts of ¥1,083,951 million ($10,323,343 thousand) and ¥1,071,918 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, 2004 and 2003, the balances of unadvanced commitments were ¥535,216 million ($5,097,295 thousand) and ¥496,448 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.

5. INVENTORIES

Inventories at March 31, 2004 and 2003 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Property for sale	**¥181**	¥336	**$1,724**

6. MARKETABLE AND INVESTMENT SECURITIES

Disclosure of cost and fair value of marketable and investment securities at March 31, 2004 and 2003 is not presented herein, as such information is not required in non-consolidated financial statements.

7. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings at March 31, 2004 and 2003 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Commercial paper, 0.80% at March 31, 2003		¥13,000	
Loans from banks, 0.80% to 1.05% (0.80% to 1.05% at March 31, 2003)	**¥6,500**	10,000	**$61,905**
Loans from other financial institutions, 1.48% (1.38% to 1.48% at March 31, 2003)	**2,000**	4,000	**19,047**
Total	**¥8,500**	¥27,000	**$80,952**

Long-term debt at March 31, 2004 and 2003 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Loans from banks, 0.69% to 4.20%, due serially to 2008 (1.36% to 4.20%, due serially to 2008 at March 31, 2003)	**¥ 446,258**	¥ 453,029	**$ 4,250,076**
Loans from other financial institutions, 1.45% to 4.00%, due serially to 2008 (1.50% to 4.20%, due serially to 2008 at March 31, 2003)	**194,767**	211,169	**1,854,924**
Syndicated Loans, 0.89% to 1.87%, due serially to 2009 (0.89% to 1.78%, due serially to 2009 at March 31, 2003)	**87,603**	77,834	**834,314**
Unsecured yen straight bonds, due 2003 (1.73% to 3.65% at March 31, 2003)		20,000	
Unsecured 2.00% to 2.53% yen straight bonds, due 2004 (2.00% to 2.53% at March 31,2003)	**90,000**	135,000	**857,143**
Unsecured 0.80% to 2.00% yen straight bonds, due 2005 (1.75% to 2.00%, at March 31, 2003)	**80,000**	50,000	**761,905**
Unsecured 1.30% to 3.27% yen straight bonds, due 2006 (1.30% to 3.27% at March 31, 2003)	**78,500**	78,500	**747,619**
Unsecured 1.66% to 2.51% yen straight bonds, due 2007 (1.66% to 2.51% at March 31, 2003)	**43,000**	43,000	**409,524**
Unsecured 1.07% to 2.48% yen straight bonds, due 2008 (1.62% to 2.48% at March 31, 2003)	**50,000**	30,000	**476,190**
Unsecured 1.98% to 3.28% yen straight bonds, due 2009 (1.98% to 3.28% at March 31, 2003)	**28,000**	28,000	**266,667**
Unsecured 1.25% to 3.00% yen straight bonds, due 2010 (2.93% to 3.00% at March 31, 2003)	**30,000**	20,000	**285,714**
Unsecured 1.74% yen straight bonds, due 2013	**10,000**		**95,238**
Unsecured Euro-yen straight bonds, due 2003 (3.65% at March 31, 2003)		9,500	
Unsecured variable rate Euro-yen straight bonds, due 2006 (1.80% at March 31, 2004, 1.82% at March 31, 2003)	**12,500**	15,000	**119,048**
Unsecured 0.86% medium-term notes, due 2005	**4,000**	4,000	**38,095**
Unsecured 2.21% medium-term notes, due 2007	**1,000**	1,000	**9,524**
Unsecured 3.00% medium-term notes, due 2008	**3,000**	3,000	**28,571**
Unsecured 3.50% medium-term notes, due 2015	**15,000**	15,000	**142,857**
Other (principally from leasing and factoring companies), 0.85% to 2.30%, due serially to 2008 (0.85% to 2.65%, at March 31, 2003)	**101,601**	124,293	**967,629**
Total	**1,275,229**	1,318,325	**12,145,038**
Less current portion	**(417,815)**	(447,876)	**(3,979,190)**
Long-term debt, less current portion	**¥ 857,414**	¥ 870,449	**$ 8,165,848**

The aggregate annual maturities of long-term debt at March 31, 2004 were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2005	¥ 417,815	$ 3,979,190
2006	352,337	3,355,590
2007	236,739	2,254,657
2008	136,188	1,297,029
2009	55,677	530,257
2010 and thereafter	76,473	728,315
Total	¥1,275,229	$12,145,038

At March 31, 2004, the following assets were pledged as collateral for long-term debt (including current portion of long-term debt):

	Millions of Yen	Thousands of U.S. Dollars
Loans	¥650,630	$6,196,476
Inventories	124	1,181
Total	¥650,754	$6,197,657
Related liabilities -		
Long-term debt (including current portion of long-term debt)	¥479,642	$4,568,019

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, 2004, 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
Long-term debt (including current portion of long-term debt)	¥135,141	$1,287,057

At March 31, 2004, other current assets amounting to ¥6,154 million ($58,610 thousand), were pledged as collateral for the interest rate swap contracts.

8. SHAREHOLDERS' EQUITY

Japanese companies are subject to the Japanese Commercial Code (the "Code") to which various amendments have become effective since 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 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 dividends 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 ¥343,435 million ($3,270,810 thousand) as of March 31, 2004, 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 204 thousand shares of the Company's common stock as of March 31, 2004. 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.

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.

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 were credited to additional paid-in capital based on the book value of the acquired net assets.

At the Shareholders' General Meeting held on June 26, 2003, 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, 2004, the Company has not yet repurchased shares of the Company's common stock under this plan.

9. INCOME TAXES

The Company is subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 41.9% for the years ended March 31, 2004 and 2003.

On March 31, 2003, a tax reform law was enacted in Japan which changed the normal effective statutory tax rate from 41.9% to 40.6%, effective for years beginning on or after April 1, 2004. The deferred tax assets and liabilities which will realize on or after April 1, 2004 are measured at the effective tax rate of 40.6% and 40.4% as at March 31, 2004 and 2003, respectively.

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at March 31, 2004 and 2003 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Current Deferred Tax Assets:			
Provision for doubtful loans	**¥ 6,732**	¥ 6,634	**$ 64,114**
Enterprise tax payable	**1,409**	2,096	**13,419**
Charge-offs for doubtful loans	**2,518**	1,453	**23,981**
Unrecorded accrued interest on loans	**1,881**	1,400	**17,914**
Accrued bonuses	**973**	816	**9,267**
Other	**116**	38	**1,105**
Current deferred tax assets	**¥13,629**	¥12,437	**$129,800**
Non-current Deferred Tax Assets:			
Provision for doubtful loans	**¥ 648**	¥ 1,931	**$ 6,172**
Depreciation and amortization	**1,606**	1,108	**15,295**
Provision for employees' retirement benefits	**327**	941	**3,114**
Provision for retirement benefits to directors and corporate auditors	**495**	448	**4,714**
Unrealized loss on available-for-sale securities		270	
Other	**672**	468	**6,400**
Non-current deferred tax assets	**3,748**	5,166	**35,695**
Non-current Deferred Tax Liabilities-			
Unrealized gain on available-for-sale securities	**2,979**		**28,371**
Net non-current deferred tax assets	**¥ 769**	¥ 5,166	**$ 7,324**

A reconciliation between the normal effective statutory tax rate for the years ended March 31, 2004 and 2003 and the actual effective tax rates reflected in the accompanying non-consolidated statements of income is as follows:

	2004	2003
Normal effective statutory tax rates	**41.9%**	41.9%
Increase in tax rate resulting from:		
Additional taxation on undistributed income	**5.3**	5.8
Other, net	**(1.4)**	0.3
Actual effective tax rates	**45.8%**	48.0%

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, 2004 and 2003 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:				
2004	¥13,926	¥3,986	$132,629	$37,962
2003	15,536	5,319		

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, 2004 and 2003 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	Machinery and equipment		Machinery and equipment
	2004	2003	**2004**
Acquisition cost	**¥17,901**	¥22,493	**$170,485**
Accumulated depreciation	**14,338**	17,363	**136,552**
Net leased property	**¥ 3,563**	¥ 5,130	**$ 33,933**

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Due within one year	**¥2,499**	¥3,919	**$23,800**
Due after one year	**1,102**	3,631	**10,495**
Total	**¥3,601**	¥7,550	**$34,295**

Depreciation expense and interest expense, which are not reflected in the accompanying non-consolidated statements of income, computed under a straight-line method and the interest method for the year ended March 31, 2004 and under a declining-balance method and the interest method for the year ended March 31, 2003 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Depreciation expense	**¥3,820**	¥4,769	**$36,381**
Interest expense	**104**	231	**990**

Effective April 1, 2003, the Company changed its method of depreciation for leased property from the declining-method to the straight-line method, retroactively adjusted for prior years. The effects of this change were to increase depreciation by ¥757 million ($7,210 thousand) and to decrease accumulated depreciation by ¥1,558 million ($14,838 thousand).

11. CONTINGENT LIABILITIES

At March 31, 2004, contingent liabilities were ¥35,917 million ($342,067 thousand) of guarantees and similar items of bank loans, including those relating to an associated company in the amount of ¥8,600 million ($81,905 thousand).

12. NET INCOME PER SHARE

Basic net income per share ("EPS") for the years ended March 31, 2004 and 2003 is computed as follows:

	Yen in millions	Thousands of shares	Yen	Dollars
	Net income	Weighted average shares	EPS	
For the year ended March 31, 2004:				
Basic EPS				
Net income available to common shareholders	**¥52,980**	**94,468**	**¥560.82**	**$5.34**
For the year ended March 31, 2003:				
Basic EPS				
Net income available to common shareholders	¥55,220	93,810	¥588.63	

Diluted EPS is not disclosed because it is anti-dilutive for the years ended March 31, 2004 and 2003.

13. SUBSEQUENT EVENTS

I. As of June 30, 2004, the Company will acquire all 32,135 shares of Wide Corporation ("Wide") according to an agreement dated June 16, 2004. As a result, Wide will become a wholly owned subsidiary of the Company effective June 30, 2004.

Corporate profile of Wide as of March 31, 2004 is as follows:

Corporate Name	Wide Corporation
Corporate Headquarters	Utsunomiya-shi, Tochigi, Japan
President / Representative Director	Mitsuo Yanagi
Date of Establishment	May, 1984
Main Operations	Consumer finance
Total assets	¥106,694 million ($1,016,133 thousand)
Shareholders' Equity	¥12,461 million ($118,676 thousand)
Common Stock	¥2,555 million ($24,333 thousand)

Total assets in the above table include off-balance sheet securitized loans of ¥36,811 million yen ($350,581 thousand).

II. At the Shareholders' General Meeting held on June 25, 2004, 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, 2004 were approved:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥30 ($0.29) per share	¥2,834	$26,990
Bonuses to directors and corporate auditors	107	1,019

b. Stock option plan

The plan provides for granting options to directors and key employees of the Company and subsidiaries to purchase up to 300 thousand shares of the Company's common stock in the period from July 1, 2005 to June 30, 2009. The options will be 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 Company plans to grant stock purchase warrants and issue stock upon exercise of the stock options.

Deloitte.

Shimbashi & Co.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of
Aiful Corporation:

We have audited the accompanying non-consolidated balance sheets of Aiful Corporation as of March 31, 2004 and 2003, 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 generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the non-consolidated financial statements referred to above present fairly, in all material respects, the financial position of Aiful Corporation as of March 31, 2004 and 2003, and the results of its operations for the years then ended in conformity with accounting principles 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 25, 2004

Group Network (As of July 1, 2004)

AIFUL CORPORATION
http://www.ir-aiful.com

Business Classification
- Unsecured loan
- Home equity loan
- Small business loan
- Credit guarantee

LIFE Co., Ltd.
Consolidated since April 2001
Equity position 95.88%
Business Classification
- Credit card shopping
- Shopping loans
- Unsecured loan
- Credit guarantee

Businext Corporation
Began operations in April 2001
Equity position 60%
Business Classification
- Small business loan (Middle risk)

City's Corporation
Consolidated since October 2002
Equity position 42.2%
Business Classification
- Small business loan (High risk)

City Green Corporation
Holding company for City's Corporation
Equity position 100%

TRYTO CORPORATION
Began operations in April 2004
Equity position 100%
Business Classification
- Unsecured loan (High risk)

Wide Corporation
Consolidated since April 2004
Equity position 100%
Business Classification
- Unsecured loan (High risk)

New Frontier Partners Co., Ltd.
Consolidated since April 2004
Equity position 100%
Business Classification
- Venture capital, non-bank financial services

AsTry Loan Services Corporation
Began operations in March 2002
Equity position 86%
Business Classification
- Debt collection (Servicer)

Marutoh K.K.
Consolidated since March 2002
Equity position 100%
Business Classification
- Real estate business

Investor Relations Website

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

http://www.ir-aiful.com

Investor Information

Corporate Profile (As of March 31, 2004)

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
Common Stock:	¥83,317 million
Number of Employees:	3,397

Shareholders Information

Number of Shares of Common Stock:	
Authorized:	373,500,000 shares
Issued and Outstanding:	94,690,000 shares
Number of Shareholders:	5,011
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
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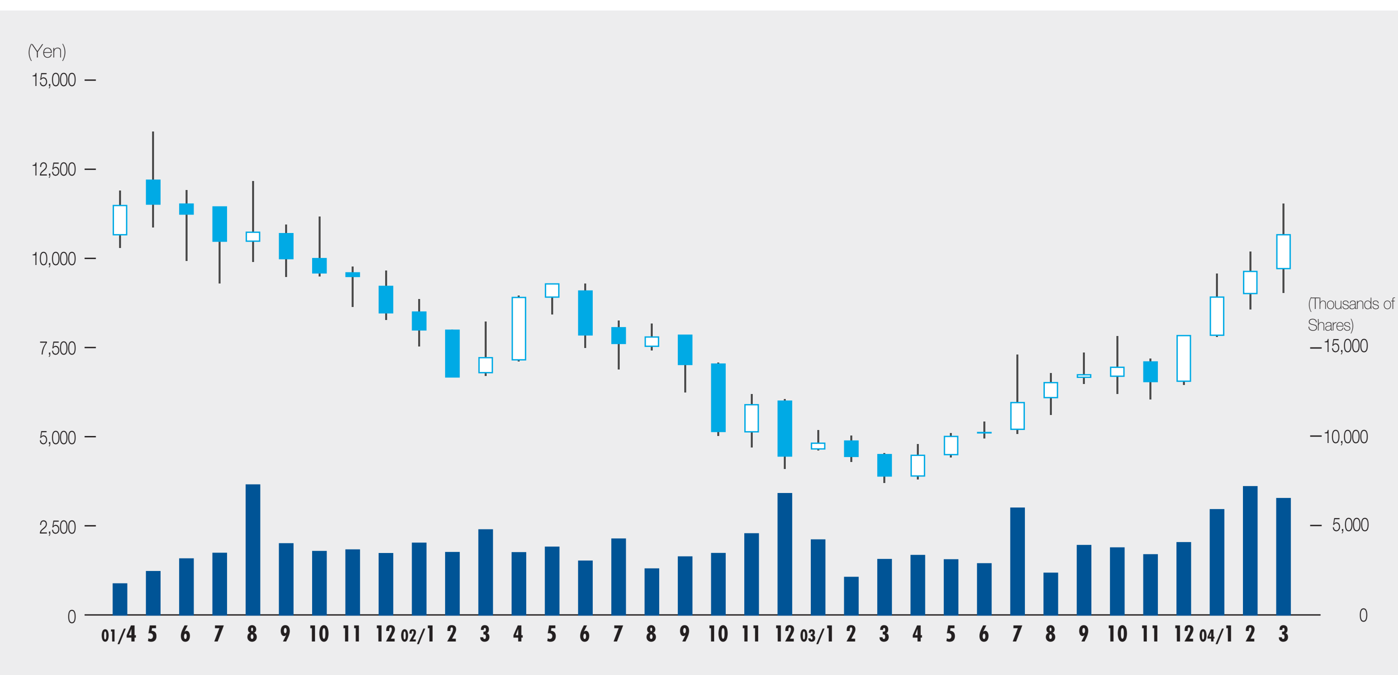
Fax: 03-3274-4581
E-mail: ir@aiful.co.jp

Transition of a stock price and Volume of trading (April 1, 2001~March 31, 2004)



AIFUL CORPORATION

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