AIFUL Corporation

Annual Report 1998

Profile

With balance of loans outstanding of ¥702,446 million (US$5,321,561 thousand) (as of March 31, 1998), AIFUL Corporation is one of Japan's big four consumer finance companies. On July 30, 1997, 30 years after its establishment, AIFUL floated its shares on the OTC market.

AIFUL's involvement in consumer finance dates from its establishment in 1967 as Marutaka Co., Ltd. It took its present name in 1982 after merging with three associated companies. One of AIFUL's founding principles has been to improve the image of the consumer finance industry. It has worked consistently to gain public support for the industry, which has not always enjoyed a good reputation in Japan.

Today AIFUL provides services to 1.7 million customers through its 807 branches and a network of 10,167 cash dispensers and ATMs, of which 9,263 are tie-up CDs.

As a public company, AIFUL will work even harder to fulfill its corporate mission to earn the respect of society. In line with its "customer-first" philosophy, it is committed to the continuing enhancement of its customer services as it strives to evolve and grow.

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Non-Consolidated Financial Highlights

AIFUL Corporation

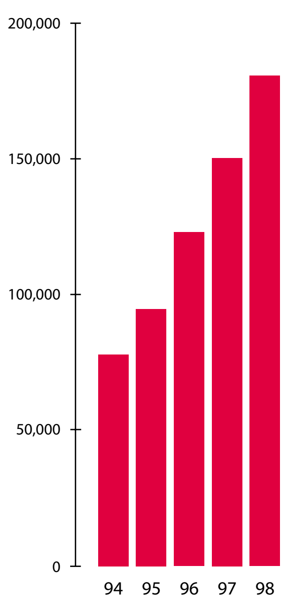
Years Ended March 31

	Millions of Yen		% Change	Thousands of U.S. Dollars
	1998	1997	1998/97	1998
For the Financial Year				
Total income	¥ 180,181	¥ 150,176	20.0	$ 1,365,008
Income before income taxes	63,101	55,900	12.9	478,038
Net income	25,004	22,805	9.6	189,424
At Year-end				
Balance of loans outstanding	702,446	591,630	18.7	5,321,561
Total assets	876,727	724,314	21.0	6,641,871
Long-term debt, including current portion thereof	600,505	557,963	7.6	4,549,280
Total shareholders' equity	146,255	93,055	57.2	1,107,993
Number of shares outstanding	42,752,500	15,621,000	273.7	
	Yen		% Change	U.S. Dollars
Per Share Data				
Net income	¥ 601.98	¥ 619.31	-2.8	$ 4.56
Cash dividends	60.00	10.00	600.0	0.45

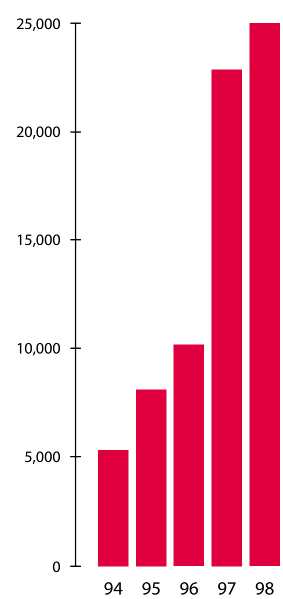
Notes

1. *The U.S. Dollar amounts have been translated for convenience only at ¥132 = $1, the rate of exchange at March 31, 1998.*
2. *Net income per share has been computed based on the weighted average number of shares outstanding during each period, after retroactive adjustment for stock splits.*

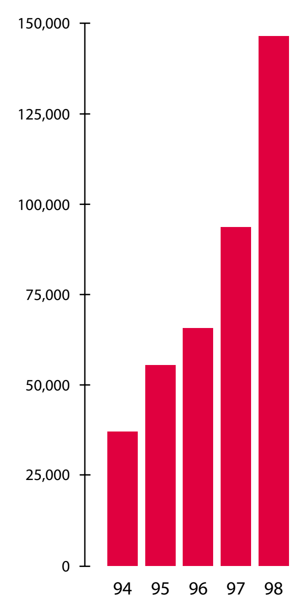
Total Income
(Millions of Yen)



Net Income
(Millions of Yen)



Shareholders' Equity
(Millions of Yen)



Message from the President

Yoshitaka Fukuda – President

The financial year 1998 (the year ended March 31, 1998) was a very important year for AIFUL Corp. On July 30, 1997 we registered our shares for trading on the OTC market, marking our transformation into a public company. As if to celebrate this achievement, we recorded our fourth consecutive year of growth in excess of 20%.

I would like to express my sincere appreciation to our customers, shareholders, employees and all connected with the Company for their continuing support.

Overview of Operations

Japan's economic performance continued to mark time in FY98. This situation was attributable to rising unemployment and a slump in consumer spending due to a rise in the consumption tax rate and the suspension of special tax cuts.

Despite problems that included a rise in personal bankruptcies and a trend toward plural indebtedness, FY98 was a time of continuing expansion for the consumer finance industry. However, increased market competition has led to further polarization between big, high profile firms with extensive networks and diverse financing opportunities, and the rest of the industry lacking these key strengths. Our key management priority in FY98 was the reinforcement of our business base through expansion and restructuring.

On October 6, 1997, we commenced full-scale marketing of small business loans. These will rank, alongside unsecured loans and real-estate secured loans, as our third major area of business. In addition to our efforts to expand our balance of loans outstanding through the introduction of this new activity, we also focused on the improvement of business structures. One such improvement was the start-up of our "fourth-generation on-line system" to provide capacity for improved operating efficiency and future business expansion.

In our finance business, we continued to expand and enhance our networks. During FY98, we installed 154 unmanned loan-contracting machines. To improve our customer service capability, we also opened 19 staffed branches and 134 unstaffed branches. Our total network as of March 31, 1998 consisted of 807 branches, 800 unmanned loan-contracting machines, 904 AIFUL-owned ATMs, and 9,263 tie-up CDs. This powerful business network enabled us to achieve significant growth, and our balance of loans outstanding at the end of FY98 was 18.7% higher than the previous year's figure at ¥702,446 million (US$5,321,561 thousand). Total income increased by 20.0% to ¥180,181 million (US$1,365,008 thousand), income before income taxes by 12.9% to ¥63,101 million (US$478,038 thousand), and net income by 9.6% to ¥25,004 million (US$189,424 thousand).

Outlook

We predict that the consumer finance industry will remain on its present expansionary trend until 2003. Thereafter, it will gradually shift to a stable growth phase. This transition will be accompanied by a change in market characteristics. During the expansionary phase, the industry has been able to grow by focusing on a standardized product range. In a stable growth environment, however, it will need to switch to small-lot production of a wider product range. In a period of rapidly expanding demand, it is possible to maintain sales growth by offering customers identical products. In the future, survival in this industry will depend on the ability to develop and market products to meet varied customer needs.

Over the next eight pages, I would like to offer a personal account of what drives AIFUL's growth, competitiveness and future strategies. The increased freedom provided by the "Big Bang" will create fierce competition in the financial sector. AIFUL is determined to achieve further growth in this environment. I hope this report will help shareholders and investors to understand why we are so confident in our ability to achieve this goal.

March 31, 1998

What Drives AIFUL's Growth

Achieved 30% Annual Average Growth in Balance of Loans Outstanding for Past Decade

Last year the failure of several financial institutions triggered shock waves of uncertainty about the Japanese financial system in Japan and overseas. As a result, the Japanese economy remains unable to emerge from a suffocating recession.

Despite this economic downturn, the consumer finance industry in general, and the major consumer finance firms in particular, have shown robust performance trends. In FY98, AIFUL far exceeded the industry average with a growth rate of 18.7% in its loan balance. At the same time, there was accelerating polarization between the major firms and the rest of the industry. Despite the healthy growth, there was also continuing intensification of competition among the major firms.

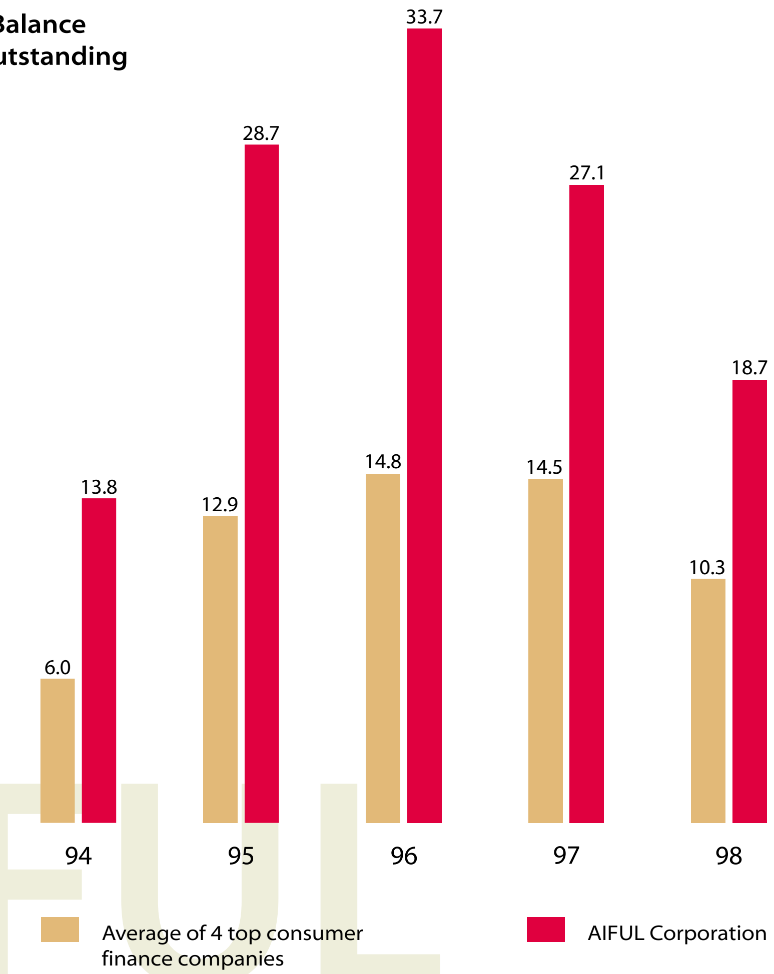
In the 30 years since its establishment, AIFUL has grown into one of the leading companies in the consumer finance industry. Over the past 10 years, it has achieved an average growth rate of 30%, compared with an industry average of about 10%. Another indication of AIFUL's huge growth potential is the fact that its growth rate has also remained significantly higher than the average for the top five companies.

This rapid growth would not have been possible without a corporate culture based on creativity and a willingness to meet new challenges supported by sophisticated risk management systems. Evidence of our creativity and willingness to meet new challenges can be found in our diversification into new areas, including real-estate secured loans since 1985 and small business loans since 1997, as well as facilitating computer-based applications via the Internet and other PC communications systems since 1995.

We regard risk management as a vital component of the mechanism that drives our rapid growth. We have continuously enhanced our systems and organization in this area, including the introduction of a credit scoring system, and the establishment of risk management teams consisting of professional in-house and external analysts. That is why we have been able to maintain a doubtful loans charge-off ratio comparable to industry average levels while achieving a growth rate significantly higher than the industry average.

Growth of AIFUL

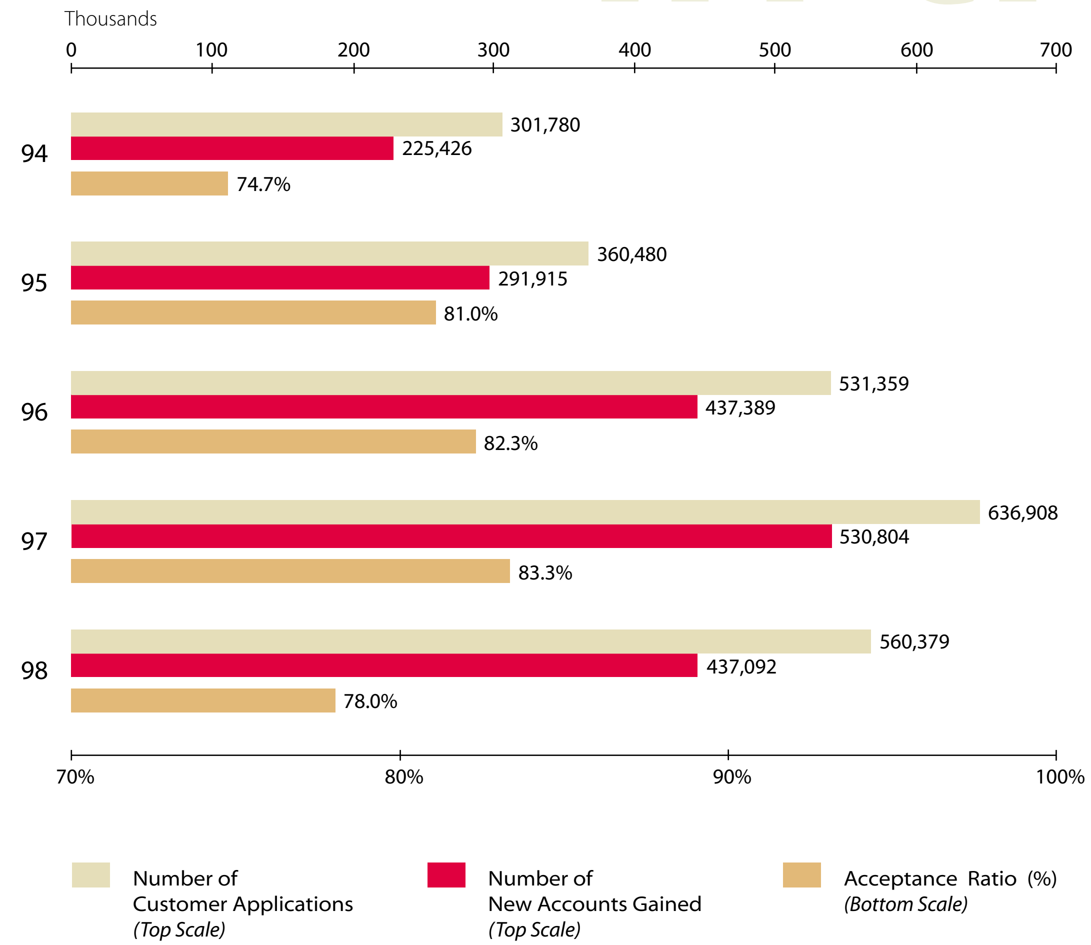
Growth in Balance of Loans Outstanding
Year-on-Year (%)



Source: Computed by AIFUL based on each company's Annual Securities Report

Competitiveness in the Industry

Acceptance Ratio



Acceptance Ratio = Number of New Accounts Gained / Number of Applications X 100.

AIFUL's Competitiveness is Based on its Dedication to Customer Needs

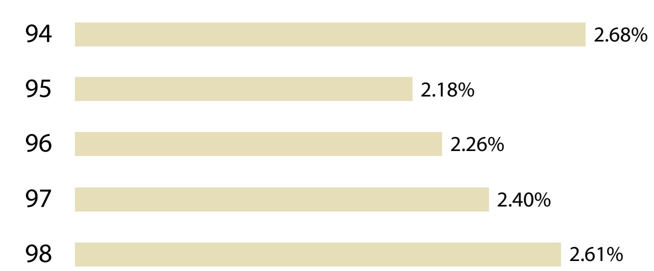
Responding to the needs of every customer is a basic requirement for general business corporations, but this approach is extremely difficult in the finance industry because of the long period required to complete transactions, which start with the provision of a loan and end with final repayment. This is because what was initially a credit transaction may, during the term of the transaction, turn into a bad debt.

Our corporate mission and the basis of all our strategies is to be responsive to our customer's needs. This stance is reflected in our high acceptance ratio. In FY98 we achieved an acceptance ratio of 78%, compared with ratios of 50~70% for other major consumer finance companies.

The key to our ability to compete and address the needs of every customer is our unique credit scoring system. Our scoring system is a statistical method for determining creditworthiness on the basis of a database of three million historical transaction records. It is like a corporate rating system for individuals. To maintain the soundness of our loan portfolio, we apply the scoring system not only when a new transaction is initiated, but also to additional credit provided at regular intervals. Consequently, AIFUL has maintained a high growth rate while still keeping loan losses charged off at the same low level as our competitors.

AIFUL has the highest interest rate ceiling among the leading consumer finance firms. This is because we believe that a higher ceiling does not discourage us from offering a wider range of products to meet the requirements of our customers. What attracts customers most is not interest rates, but loan availability. Our portfolio philosophy is to lend high-risk customers smaller amounts at higher interest rates, and to lend low-risk customers larger amounts at lower interest rates.

Ratio of Loan Losses Charged Off



Note: Each figure is computed by dividing loan losses charged off for the year by the balance of loans outstanding at year-end.

Strategy for the Future

Multiple Hedging to Create a Diversified Product Range

We have carried out market simulations taking into account demographic trends and the age distribution of the population. The results indicate that the consumer finance market will continue to grow by around 8% annually until 2003. Our goal is to maintain our present growth, and to build a loan portfolio of ¥1,300,000 million (US$9,848,484 thousand) before the market shifts to a stable growth phase in that year. Moreover, we also aim to maintain high growth even after that time by aggressively penetrating the areas of real-estate secured loans and small business loans, which have joined unsecured loans as our second and third core activities.

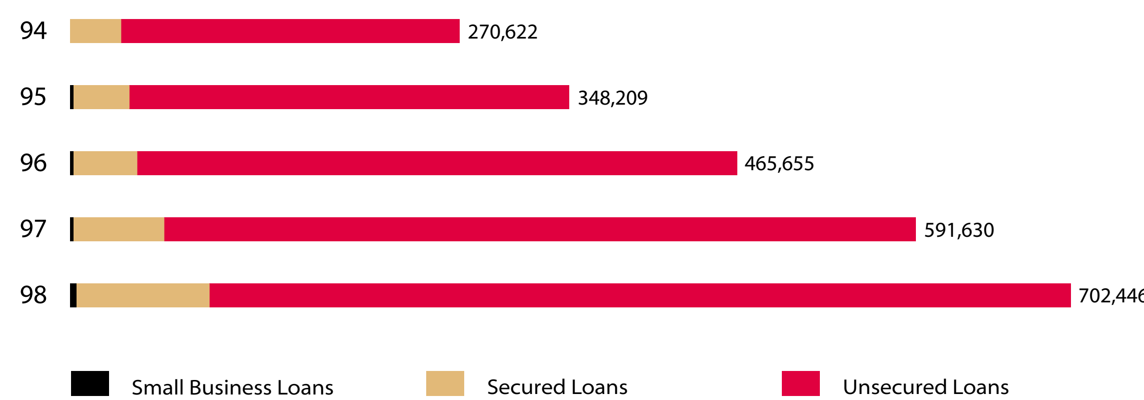
We envisage a future product mix made up of 70% unsecured loans, 20% real-estate secured loans, and 10% small business loans.

At present we are working to diversify our product range in readiness for the advent of a stable growth phase by using multiple hedging to cover credit risk. Multiple hedging is a sophisticated risk management system involving the use of hedging methods based on scoring, interest rates and collateral. To take a specific example, a person may wish to obtain a loan using as collateral farmland that provides a sufficient hedge for about 30% of the risk. At present banks and other types of lenders do not provide loans on this basis. We would be able to discover product value in such a transaction by means of multiple hedging. The farmland would be used to secure part of the loan, and the remaining 70% would be provided at a relatively high interest rate based on the customer's scoring rank. We will continue to use this multiple hedging approach to diversify our product range.

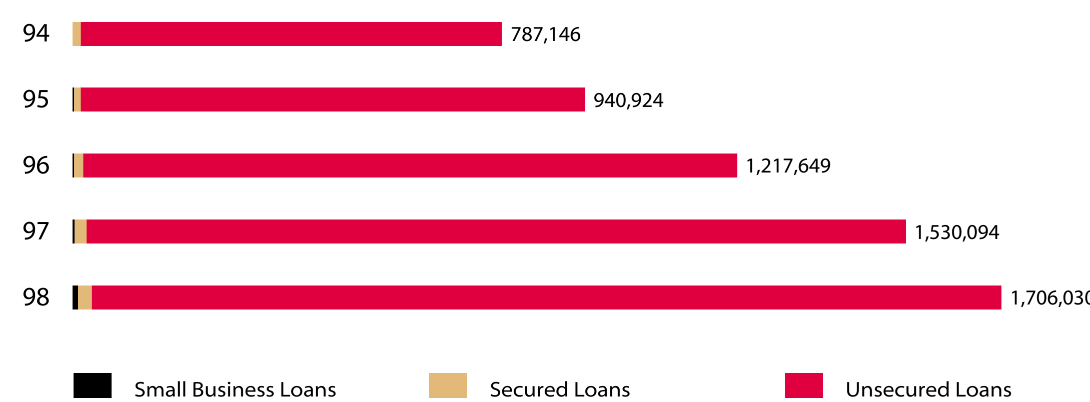
Even among major consumer finance companies, there is already considerable variation in product strategies. In particular, there is a sharp distinction between specialist firms that handle only unsecured loans, and comprehensive credit providers, including AIFUL, offering a wide range of products.

We believe that our path to survival is to function as a comprehensive credit provider with a full line of products to meet a wide range of customer needs. That is why our strategy emphasizes product diversification.

Balance of Loans Outstanding by Product Line
(Millions of Yen)

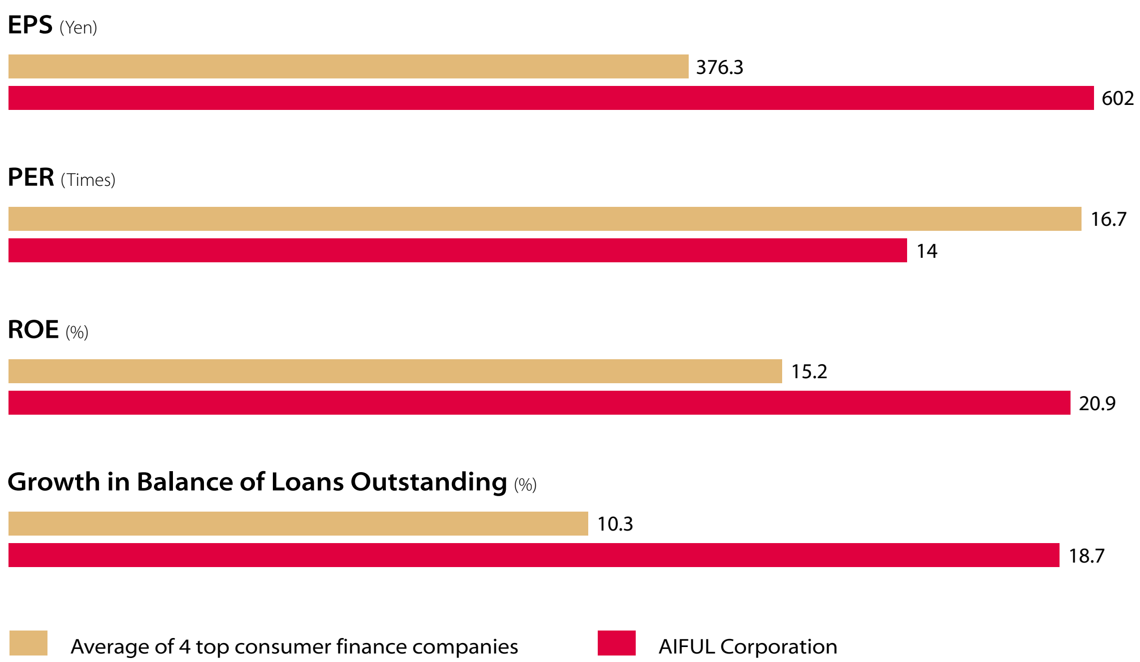


Number of Customer Accounts by Product Line



Shareholder and Investor Value

Key Management Indices Compared with Competitors (1998 actual)



Source: Computed by AIFUL based on each company's Annual Securities Report

Why AIFUL's Future is Bright

When our growth processes, competitiveness within the industry, and future strategies are taken into account, it should be clear why we have such confidence in our future growth potential. I would like to consider the market appraisal of our shares based on a variety of indicators. I hope that it will assist shareholders and investors to fairly decide their value.

As of March 31, 1998, our stock was valued at ¥8,400 in OTC trading. At a time when few stocks rise above their offering prices, our stock traded almost 8% above its offering price of ¥7,800. Our PER (Price-Earnings Ratio) is 14.0, compared with the 16.7 average for the major four consumer finance companies (excluding AIFUL).

Among existing investment indicators, investors tend to place greatest weight on ROE. Here again we have outperformed our competitors with an ROE of 20.9%, compared with the big four average of 15.2%. Though our figure needs to be discounted somewhat to reflect the fact that our shareholders' equity ratio is the lowest among the big five (including AIFUL), it is nevertheless clear that our position is still the best among the big five. Nor is our position likely to be affected adversely by the growth rate of our loan portfolio, which increased by 18% in FY98.

Obviously investors will need a variety of other indicators to compare our share price with those of other companies. I am, however, confident that investors who understand our future strategy will share my confidence in AIFUL's future potential.

The purpose of this discussion was to express my firm confidence in AIFUL's future growth potential. I hope this information has been of use to you.

Review of Operations

Loan Business

The loan business is our core activity. In recent years, we have continued to achieve sustained growth in excess of industry average growth rates. In FY98, the total balance of loans outstanding reached ¥702,446 million (US$5,321,561 thousand), while interest on loans to customers amounted to ¥171,479 million (US$1,299,083 thousand). These results represent increases of 18.7% and 20.2% respectively over the previous year. The number of customer accounts rose by 11.5% to a year-end total of 1,706,030.

Unsecured Loans

The balance of unsecured loans outstanding increased by 14.5% over the previous year's level to ¥603,662 million (US$4,573,197 thousand), or 85.9% of total balance of loans outstanding. Interest on unsecured loans was 17.9% above the 1997 financial year level at ¥157,568 million (US$1,193,697 thousand), or 87.8% of total operating income. The number of unsecured loan accounts at the end of FY98 was 1,674,173, an increase of 10.9% compared with the total at the end of FY97. AIFUL provides unsecured loans through a nationwide network that includes 451 staffed branches, 352 unstaffed branches equipped with "Ojidosan" unmanned loan-contracting machines, and a network of 10,167 cash dispensers and ATMs, of which 9,263 are tie up CDs.

Secured Loans

Secured loans are products secured with real estate. In FY98, the balance of secured loans outstanding increased by 48.0% over the previous year's level to ¥95,128 million (US$720,667 thousand), or 13.5% of the total balance of loans outstanding. This growth was accompanied by a rise in interest received on secured loans, which was 52.3% above the previous year's level at ¥13,677 million (US$103,614 thousand), equivalent to 7.6% of total operating income.

Real-estate secured loans are AIFUL's second major source of income, and this area of business is seen as offering the greatest growth potential for the future. Our average loan is small at about ¥3 million (US$23 thousand). AIFUL offers a wide range of products, from first mortgage loans, in which the risk is hedged by the collateral value of real estate, to second mortgage loans, whereby loans are provided at higher interest rates to customers with high scoring ranks, despite a lower collateral value. AIFUL faces almost no competition from other domestic lenders in this field and is achieving dramatic growth in its loan portfolio.

When an application for a secured loan is received from a general customer who owns real estate, AIFUL's Assessment Department decides whether or not the loan will be approved and sets the loan terms, including the credit limit and the interest rate. The branch then prepares a loan contract based on those terms and establishes collateral rights over the real estate offered by the customer. Thereafter the customer can obtain any amount of finance up to the credit limit. As with unsecured loans, the customer's creditworthiness is rated under AIFUL's scoring system. The present rise in the balance of secured loans outstanding is evidence of the success of AIFUL's product diversification strategy.

Small Business Loans

AIFUL launched its new range of small business loans in October 1997. Small business loans are guaranteed loans to self-employed individuals. AIFUL has offered loans to self-employed people on the same terms as those applying to unsecured loans since 1980, and it currently has 250,000 customer accounts in this category. A borrower with a guarantor can obtain a credit line of up to ¥2 million (US$15 thousand). By the end of FY98, the balance of small business loans outstanding had reached ¥3,655 million (US$27,689 thousand), or 0.5% of the total balance of loans outstanding. Operating income from this source amounted to ¥233 million (US$1,765 thousand), or 0.2% of total operating income. In the context of our product diversification strategy, our goal is to increase our small business loan portfolio to 10% of the total balance of loans outstanding.

Review of Operations

"Customer First" Service Strategy

In line with its "customer first" philosophy, AIFUL offers a variety of services designed to provide prompt solutions to its customer's funding needs. When a loan application is received through one of AIFUL's loan branches, the customer's lending information is retrieved from the Lenders Exchange Federation in Japan and the credit is checked using a scoring system which take into account the customer's attributes, following which the loan limit and the interest rate are determined. Finally funds are lent to the customer within the specified credit line. Both staffed and unstaffed branches carry out credit checks as quickly as possible, and with special precautions to protect customers' privacy. Once the initial application has been made, customers can make subsequent applications through AIFUL's network of 9,263 tie-up ATMs and CDs. AIFUL has further enhanced its systems to allow deposits to be made through bank transfers or postal money orders, or through one of AIFUL's own ATMs, of which there are 904 throughout Japan. Another focus of AIFUL's efforts to enhance customer service relates to its hours of business. Business hours are being progressively extended, primarily through the installation of unmanned loan-contracting machines.

Competitiveness not Determined by Interest Rates

AIFUL charges the highest interest rates among the major consumer finance companies. Some may regard this as a disadvantage in terms of competitiveness. In fact we do not see interest rates as a key determinant of competitiveness. Last year AIFUL was the second in terms of number of new accounts gained among the top four companies in Japan, even though AIFUL's interest rate was the highest. This shows that interest rates are not a key factor influencing the choice of lender. Company A, which gained the largest number of new accounts, also has the biggest branch network in the consumer finance industry, while AIFUL's success can be attributed to its policy of providing loans to meet every customer's needs.

The most important concern for a customer at the time of application is whether or not the lender will provide a loan. A low interest rate is meaningless if no loan is available. From the customer's viewpoint, a declined loan is a defective product. Only when approved can a loan be regarded as a quality product. In our view, the first criterion determining the customer's choice of a lender is approval or non-approval of the loan, the second is the location of branches, the third is protection of privacy, and the fourth is interest rates.

"Ojidosan" Unmanned Loan-Contracting Machines Responsible for Majority of New Customers

At the end of FY98, AIFUL had 800 "Ojidosan" unmanned loan-contracting machines, an increase of 153 over the total at the end of FY97. Of these, 446 were located inside staffed branches, while 354 were located at unstaffed branches.

"Ojidosan" machines, which are connected to staffed branches via two-way video links, enable customers to establish new unsecured credit accounts. The majority of the 437,092 new accounts established during FY98 were created through these machines. Since each worker in a staffed branch can process loan applications from several unmanned loan-contracting machines, this method leads to improved cost efficiency.

Other Activities

Though lending will continue to be the main focus of AIFUL's business development, we are preparing for the stable growth phase of the consumer finance market by diversifying into other areas. In the service sector, we operate the "Arishan" chain of restaurants specializing in popular Taiwanese dishes. We are also involved in the amusement industry through our "Mogura no Uta" karaoke parlors. Another area of activity is our real estate business. In FY98 total income from these other activities increased by 15.8% to ¥8,702 million (US$65,924 thousand), or 4.8% of total income.

Review of Operations

Corporate Citizenship

AIFUL supports a variety of sporting events and community activities in Japan, both as a way of contributing to society, and also to enhance its corporate image. Last year it sponsored the AIFUL Cup Kyushu Sports Festa in Kamitsue '97, and the 7th Fukuchiyama Marathon, which is an officially recognized athletic event in Japan. It also sponsored the 1997 AIFUL Cup Inter-Company Dodgeball Tournament.

The Sports Festa was held in Kamitsue, a city in Oita Prefecture as a fund-raising measure for conservation efforts designed to protect the source of the Chikugo River, which flows through the city. AIFUL supports the aims of the program and has been a sponsor ever since the event was inaugurated.

The Fukuchiyama Marathon is a community event open to the general public. As in FY97, AIFUL supported the event as a special corporate sponsor.

The Inter-Company Dodgeball Tournament was the first community-based event of its kind that AIFUL has supported. The

tournament venue was Sapporo. Dodgeball tournaments are popular events throughout Japan, but this is the first time that an inter-company tournament has been held. AIFUL also entered its own company team.

AIFUL will continue to play an active role in community activities such as these. In the current financial year it plans to host the AIFUL Cup Golf Tournament 1998 at the Aomori Country Club as part of the PGA Tour of Japan.

Financial Section

AIFUL Corporation

Non-Consolidated Financial Statements for the Years Ended March 31, 1998 and 1997, and Independent Auditors' Report

Non-Consolidated 6-Year Summary

AIFUL Corporation

Years Ended March 31

	Millions of Yen		
	1998	1997	1996
Result for the Financial Year			
Total income	¥ 180,181	¥ 150,176	¥ 122,695
Total expenses	117,080	94,276	97,411
Income before income taxes	63,101	55,900	25,284
Income taxes	38,097	33,095	15,197
Net income	25,004	22,805	10,087
At Year-end			
Balance of loans outstanding	¥ 702,446	¥ 591,630	¥ 465,656
Total assets	876,727	724,314	589,539
Short-term borrowings	98,000	39,548	31,758
Long-term debt, including current portion thereof	600,505	557,963	473,621
Total shareholders' equity	146,255	93,055	65,447
Per Share Data (Yen)			
Net income	¥ 602	¥ 1,548	¥ 7,308
Adjusted for stock splits	602	619	292
Shareholders' equity	3,421	5,957	47,414
Adjusted for stock splits	3,421	2,383	1,897
Cash dividends	60	10	100
Adjusted for stock splits	60	4	4
Other Data			
Number of shares outstanding at year-end	42,752,500	15,621,000	1,380,300
Weighted average number of shares outstanding	41,536,061	14,729,432	1,380,300
Number of customer accounts at year-end	1,706,030	1,530,094	1,217,649
Number of branches at year-end	807	654	458
Number of employees at year-end	2,731	2,521	2,411

	Millions of Yen		
	1995	1994	1993
	¥ 94,024	¥ 77,767	¥ 71,787
	75,794	66,058	66,434
	18,230	11,709	5,353
	10,218	6,550	2,886
	8,012	5,159	2,467
	¥ 348,209	¥ 270,629	¥ 237,749
	472,791	396,558	343,832
	38,200	59,058	46,719
	365,449	289,983	260,083
	55,524	36,685	31,665
	¥ 6,472	¥ 4,169	¥ 1,994
	259	167	80
	40,226	29,645	25,589
	1,609	1,186	1,024
	100	100	100
	4	4	4
	1,380,300	1,237,500	1,237,500
	1,237,891	1,237,500	1,237,500
	940,924	787,146	693,737
	360	268	233
	1,951	1,688	1,650

Notes

1. *Net income per share has been computed based on the weighted average number of shares outstanding during each period and shareholders' equity per share is based on the number of shares outstanding at the end of each period.*
2. *Merged with Toshi Finance Co., Ltd., a wholly-owned subsidiary, on August 1, 1992.*
3. *Merged with Marutoh Jisho Co., Ltd., a wholly-owned subsidiary, on March 1,1994.*
4. *Capital increased through issuance of shares to third parties on March 31, 1995 (142,800 shares, ¥76,900).*
5. *Stock split (10 for 1) on August 1,1996.*
6. *Warrant exercised on September 27, 1996 (1,818,000 shares, ¥2,750).*
7. *Stock split (2.5 for 1) on May 20, 1997.*
8. *Capital increased through issuance of shares by public offering on July 30, 1997 (3,700,000 shares, ¥56,832).*

Non-Consolidated Financial Review

In this review, each year is taken to mean the financial year ending March 31. Accordingly, financial year 1998 indicates the financial year starting April 1, 1997 and ending March 31, 1998.

REVIEW OF OPERATIONS

Income

Over the past three years, AIFUL has achieved growth in total income in excess of 20% annually. For FY98, total income was ¥180,181 million (US$1,365,008 thousand), 20.0% higher than the previous year. The major contribution to growth was an increase in the balance of loans outstanding.

The balance of unsecured loans outstanding, AIFUL's primary source of income, increased ¥76,356 million, or 14.5% from the preceding year, to reach ¥603,662 million. This represents average growth of 25.4% over the past three years. Over and above the strong growth seen in the consumer finance industry in general, the effects of opening 153 new branches and further expansion of the "Ojidosan" unmanned loan-contracting machine network through the introduction of 170 new machines were major contributors to the increase in FY98.

The balance of secured loans outstanding also showed strong growth and amounted to ¥95,128 million for FY98, representing an increase of ¥30,842 million or 48.0% from FY97.

The balance of small business loans outstanding, where we started full-scale operations in October 1997, soared during FY98 to ¥3,654 million compared to ¥37 million in FY97.

Of total income for FY98, interest income on loans was ¥171,479 million (US$1,299,083 thousand), which represents an increase of 20.2% from the previous year; interest income on deposits, securities and other was ¥211 million (US$1,599 thousand), a decrease of 29.0%; income from sales of property for sale was ¥1,574 million (US$11,924 thousand), an increase of 13.6%; and other income was ¥6,917 million (US$52,402 thousand), an increase of 18.6%.

In FY98, income before income taxes increased by 12.9% to ¥63,101 million (US$478,038 thousand). Net income also increased by 9.6% to ¥25,004 million (US$189,424 thousand). As a result of these increases, net income per share amounted to ¥601.98 (US$4.56), the highest figure among our peer group of public companies.

Expenses

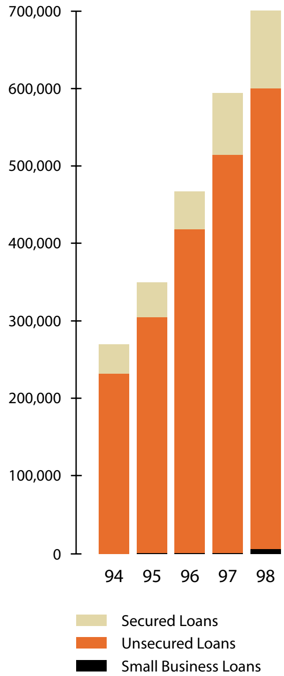
Total expenses for FY98 increased by 24.2% compared with FY97 totaling ¥117,080 million (US$886,970 thousand). This raised the ratio of total expenses to total income by 2.2% from the previous year's figure of 62.8% to 65.0%.

Of the increase in total expenses in FY98, an increase in charge-offs and provision for doubtful loans was the most significant factor, showing an increase of 93.3% from the preceding year and reaching ¥22,783 million (US$172,598 thousand), as AIFUL raised the level of provision for doubtful loans given the higher level of doubtful loans already seen in the 1999/3 financial year.

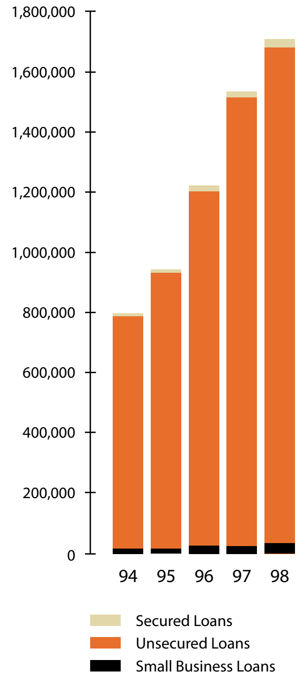
Other expenses in FY98 amounted to ¥22,194 million (US$168,136 thousand), representing an increase of 41.3% compared with the preceding year. This increase was attributable to higher computer lease fees and expenses for software and systems development due to the modernization of our fourth-generation on-line system.

Interest on borrowings for FY98 were ¥19,729 million (US$149,462 thousand), only 1.5% higher than the preceding period. The ratio of interest on borrowings to total income declined by 2.0% from FY97 to 10.9%. This represents the second consecutive decrease in 2-years (the previous period showed a 2.8% decline), and reflects the continuing low interest rate environment.

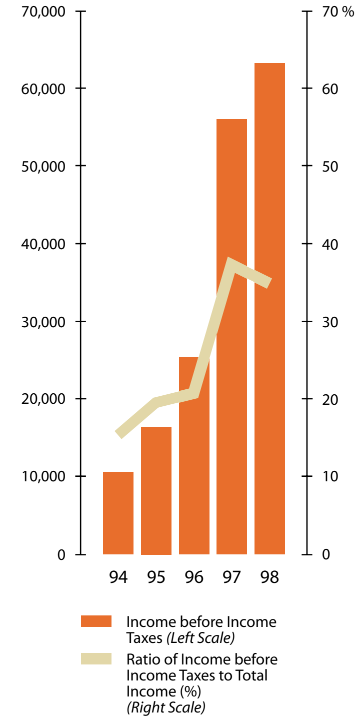
Balance of Loans Outstanding
(Millions of Yen)



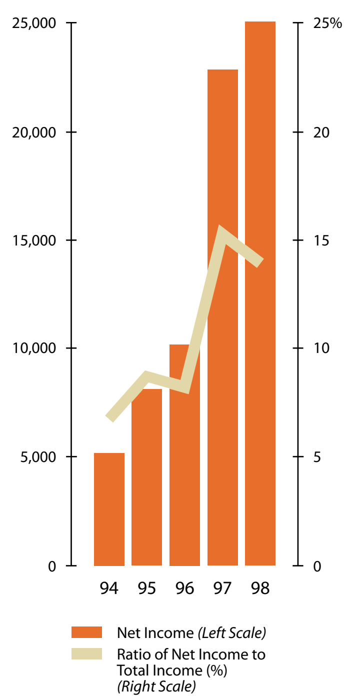
Number of Customer Accounts



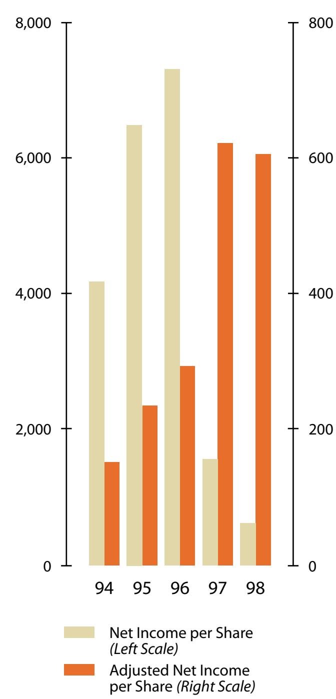
Income before Income Taxes
(Millions of Yen)



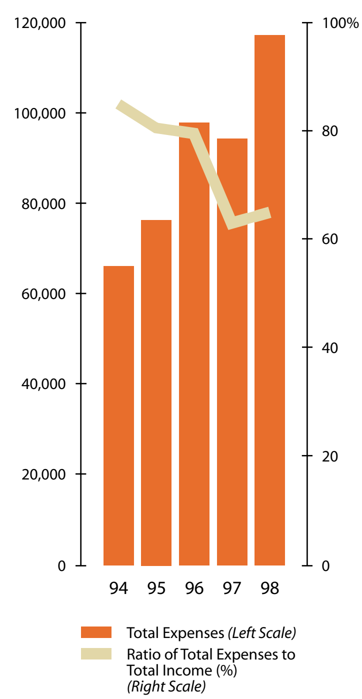
Net Income
(Millions of Yen)



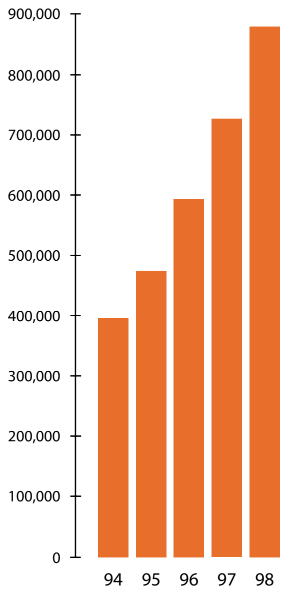
Net Income per Share
(Yen)



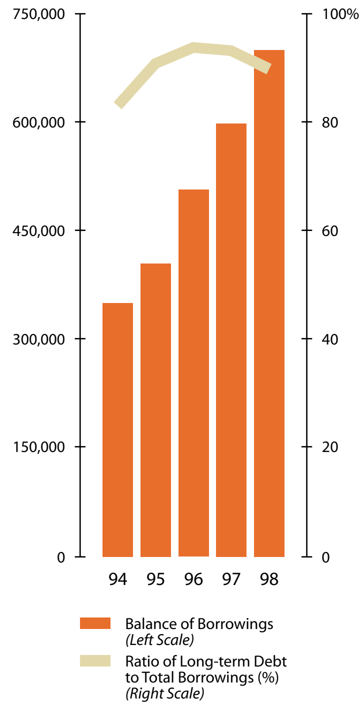
Total Expenses
(Millions of Yen)



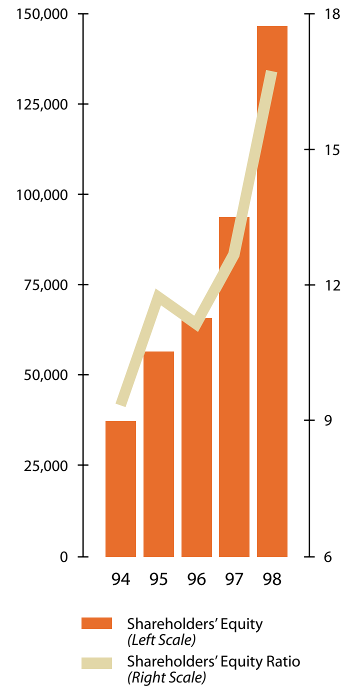
Total Assets
(Millions of Yen)



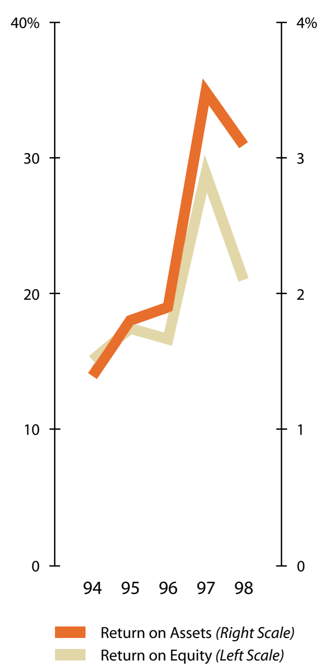
Balance of Borrowings
(Millions of Yen)



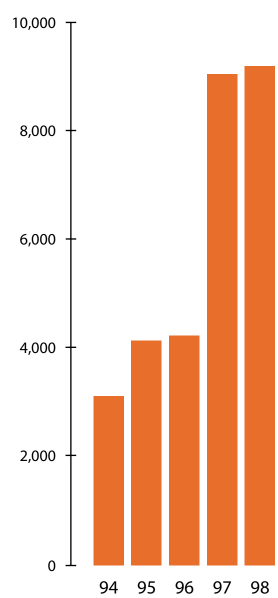
Total Shareholders' Equity
(Millions of Yen)



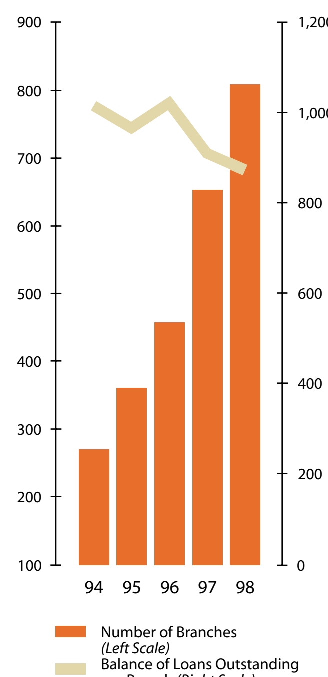
ROE / ROA
(%)



Net Income per Employee
(Thousands of Yen)



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



Non-Consolidated Financial Review

FINANCIAL CONDITION

Assets

Current assets for FY98 showed an increase of 22.3% from FY97 and was ¥781,578 million (US$5,921,045 thousand), mainly due to growth in the balance of loans outstanding of ¥110,816 million (US$ 839,515 thousand) or 18.7%.

Property, plant and equipment was ¥65,579 million (US$496,811 thousand) as of March 31, 1998, remaining at almost the same level as FY97, with an increase of 7.3%. Investments and other assets also increased by ¥5,195 million (US$39,356 thousand) or 21.3% from the preceding period.

As a result, total assets as of March 31, 1998 reached ¥876,727 million (US$6,641,871 thousand), representing an increase of 21.0% from 1997.

Liabilities

Current liabilities for FY98 amounted to ¥398,647 million (US$3,020,053 thousand), 39.3% higher than the previous year. The increase was mainly due to the increase in short-term borrowings and current portion of long-term debt for loans by 45.0%, or ¥114,210 million (US$865,227 thousand) over the amount for the preceding period. AIFUL continues its efforts to diversify its financing resources for loans to secure stable business funds. During FY98, the Company issued commercial paper in the amount of ¥30 billion (US$227,272 thousand) as part of its active financing program. Long-term liabilities decreased during FY98 by 3.8% to ¥331,825 million (US$2,513,825 thousand), due to a decrease in long-term debt of ¥13,216 million (US$100,121 thousand), or 3.8% during the period.

The main financing resource of the Company consists of long-term debt from financial institutions. Long-term debt (including the current portion of such long-term debt) represent 86.0% of AIFUL's total borrowings (including CPs), of which 55.8% is subject to fixed interest rates due to the use of fixed-rate loans, interest rate caps and swap transactions.

As a result, our current ratio improved by 12.3% during FY98 from FY97 and reached 235.5% at year-end.

Shareholders' Equity

AIFUL's total shareholders' equity significantly increased during FY98 by 57.2% or ¥53,200 million (US$403,030 thousand) to ¥146,255 million (US$1,107,993 thousand), resulting from the capital increase due to the successful registration on the over-the-counter market during the year.

AIFUL continues to be committed to further improving its shareholders' equity to realize a stronger and more stable corporate structure. As a result of its capital increase during FY98, the shareholders' equity ratio improved by 3.9% compared with the previous year to 16.7%. However, return on shareholders' equity (ROE) declined by 7.9% to 20.9% during FY98 due to the significant increase in shareholders' equity, which is the denominator in the computation of ROE. Return on total assets also decreased by 0.2% to 2.9%. Despite these declines, however, each index still remains at a high level.

Efficiency

For the past several years, AIFUL has dedicated its efforts for more improved business efficiency through introduction of our fourth-generation on-line system, expansion of unmanned loan-contracting machine and an increase in the number of unstaffed branches.

During FY98, AIFUL achieved total income per employee of ¥65,976 thousand (US$499.8 thousand), which was 10.8% higher than FY97. Net income per employee was ¥9,156 thousand (US$69.4 thousand), 1.2% higher than FY97, and balance of loans outstanding per employee was ¥257,212 thousand (US$1,948.6 thousand), 9.6% higher than FY97.

These figures point to improved efficiency at the Company.

Non-Consolidated Balance Sheets

March 31, 1998 and 1997

Assets	Millions of Yen 1998	Millions of Yen 1997	Thousands of U.S. Dollars (Note 3) 1998
Current Assets:			
Cash and cash equivalents:			
Cash	¥ 26,700	¥ 12,480	$ 202,273
Time deposits *(Note 6)*	53,415	37,694	404,659
Total	80,115	50,174	606,932
Loans *(Notes 4 and 6)*	702,446	591,630	5,321,561
Allowance for doubtful loans	(22,115)	(17,419)	(167,538)
Net loans	680,331	574,211	5,154,023
Property for sale *(Note 6)*	3,545	4,457	26,856
Investment in trust	5,000		37,879
Prepaid expenses	5,626	4,189	42,621
Other current assets	6,961	5,811	52,734
Total current assets	781,578	638,842	5,921,045
Property, Plant and Equipment *(Note 6)*:			
Land	42,288	37,766	320,364
Buildings and structures	25,591	23,226	193,871
Machinery and equipment	9,637	9,303	73,008
Construction in progress	90	69	682
Total	77,606	70,364	587,925
Accumulated depreciation	(12,027)	(9,267)	(91,114)
Net property, plant and equipment	65,579	61,097	496,811
Investments and Other Assets:			
Investment securities *(Notes 5 and 6)*	3,477	2,124	26,341
Investments in and advances to subsidiaries	3,475	3,475	26,326
Claims in bankruptcy	18,218	19,041	138,015
Allowance for advances to subsidiaries and claims in bankruptcy	(19,213)	(19,500)	(145,553)
Long-term loans (less current portion)	3,228	60	24,455
Lease deposits	7,476	6,614	56,636
Long-term prepayments	5,831	5,910	44,174
Other assets *(Note 6)*	7,078	6,651	53,621
Total investments and other assets	29,570	24,375	224,015
Total	¥ 876,727	¥ 724,314	$ 6,641,871

See notes to non-consolidated financial statements.

Liabilities and Shareholders' Equity	Millions of Yen 1998	Millions of Yen 1997	Thousands of U.S. Dollars (Note 3) 1998
Current Liabilities:			
Short-term borrowings *(Note 6)*	¥ 98,000	¥ 39,548	$ 742,424
Current portion of long-term debt *(Note 6)*	270,190	214,432	2,046,894
Trade notes payable	3,494	3,339	26,470
Trade accounts payable	2,894	2,555	21,924
Income taxes payable	21,126	24,026	160,045
Accrued expenses	2,468	1,794	18,697
Other current liabilities	475	521	3,599
Total current liabilities	398,647	286,215	3,020,053
Long-Term Liabilities:			
Long-term debt *(Note 6)*	330,315	343,531	2,502,386
Retirement benefits	1,060	1,048	8,030
Other long-term liabilities	450	465	3,409
Total long-term liabilities	331,825	345,044	2,513,825
Shareholders' Equity *(Note 8)*:			
Common stock, ¥50 par value, authorized, 150,000,000 shares at March 31, 1998 and 55,000,000 shares at March 31, 1997, issued and outstanding, 42,752,500 shares at March 31, 1998 and 15,621,000 shares at March 31, 1997	23,208	10,333	175,818
Additional paid-in capital	25,373	9,832	192,220
Legal reserve	232	210	1,758
Retained earnings	97,442	72,680	738,197
Total shareholders' equity	146,255	93,055	1,107,993
Total	¥ 876,727	¥ 724,314	$ 6,641,871

See notes to non-consolidated financial statements.

Non-Consolidated Statements of Income

Years Ended March 31, 1998 and 1997

	Millions of Yen		Thousands of U.S. Dollars *(Note 3)*
	1998	1997	1998
Income:			
Interest on loans	¥ 171,479	¥ 142,663	$ 1,299,083
Interest on deposits, securities and other	211	297	1,599
Sales of property for sale	1,574	1,386	11,924
Other income	6,917	5,830	52,402
Total income	180,181	150,176	1,365,008
Expenses:			
Interest on borrowings	19,729	19,435	149,462
Cost of sales of property for sale	1,449	1,417	10,977
Charge-offs and provision for doubtful loans, advances to subsidiaries and claims in bankruptcy	22,783	11,788	172,598
Salaries and other employee benefits	20,173	19,218	152,826
Advertising expenses	13,144	11,505	99,576
Rental expenses	11,837	9,018	89,674
Supplies	1,373	2,257	10,402
Depreciation	3,081	3,066	23,341
Provision for retirement benefits to directors and corporate auditors	61	94	462
Write-down of property for sale	263	775	1,992
Stock issue costs	993		7,523
Other expenses	22,194	15,703	168,137
Total expenses	117,080	94,276	886,970
Income before Income Taxes	63,101	55,900	478,038
Income Taxes *(Note 7)*	38,097	33,095	288,614
Net income	¥ 25,004	¥ 22,805	$ 189,424

	Yen		U.S. Dollars
Amounts per Common Share *(Note 2.l)*			
Net income	¥ 601.98	¥ 619.31	$ 4.56
Cash dividends applicable to the year	60.00	10.00	0.45

See notes to non-consolidated financial statements.

Non-Consolidated Statements of Shareholders' Equity

Years Ended March 31, 1998 and 1997

	Thousands	Millions of Yen			
	Number of Shares of Common Stock Issued and Outstanding	Common Stock	Additional Paid-in Capital	Legal Reserve	Retained Earnings
Balance at April 1, 1996	**1,380**	**¥ 7,833**	**¥ 7,333**	**¥ 190**	**¥ 50,091**
Net income					22,805
Cash dividends paid, ¥100 per share					(138)
Transfer to legal reserve				20	(20)
Bonuses to directors and corporate auditors					(58)
Stock split *(Note 8)*	12,423				
Exercise of warrants	1,818	2,500	2,499		
Balance at March 31, 1997	**15,621**	**10,333**	**9,832**	**210**	**72,680**
Net income					25,004
Cash dividends paid, ¥10 per share					(138)
Transfer to legal reserve				22	(22)
Bonuses to directors and corporate auditors					(82)
Stock split *(Note 8)*	23,432				
Public offering *(Note 8)*	3,700	12,875	15,541		
Balance at March 31, 1998	**42,753**	**¥ 23,208**	**¥ 25,373**	**¥ 232**	**¥ 97,442**

	Thousands of U.S. Dollars *(Note 3)*			
	Common Stock	Additional Paid-in Capital	Legal Reserve	Retained Earnings
Balance at March 31, 1997	**$ 78,280**	**$ 74,485**	**$ 1,591**	**$ 550,606**
Net income				189,424
Cash dividends paid, $0.08 per share				(1,045)
Transfer to legal reserve			167	(167)
Bonuses to directors and corporate auditors				(621)
Stock split *(Note 8)*				
Public offering *(Note 8)*	97,538	117,735		
Balance at March 31, 1998	**$ 175,818**	**$ 192,220**	**$ 1,758**	**$ 738,197**

See notes to non-consolidated financial statements.

Non-Consolidated Statements of Cash Flows

Years Ended March 31, 1998 and 1997

	Millions of Yen		Thousands of U.S. Dollars *(Note 3)*
	1998	1997	1998
Operating Activities:			
Net income	¥ 25,004	¥ 22,805	$ 189,424
Adjustments to reconcile net income to net cash provided by operating activities:			
Charge-offs and provision for doubtful loans, advances to subsidiaries and claims in bankruptcy	22,783	11,788	172,598
Depreciation and amortization	5,702	4,792	43,197
Stock issue costs	993		7,523
Provision for retirement benefits to directors and corporate auditors	61	94	462
Write-down of property for sale	263	775	1,992
Changes in assets and liabilities:			
Decrease in property for sale	649	478	4,917
Increase in investment in trust	(5,000)		(37,879)
Increase in prepaid expenses	(1,437)	(1,150)	(10,886)
Increase in other current assets	(1,150)	(1,038)	(8,712)
Increase in trade notes payable	155	865	1,174
Increase in trade accounts payable	339	420	2,568
Increase (decrease) in income taxes payable	(2,900)	14,331	(21,969)
Increase in accrued expenses	674	32	5,106
Increase (decrease) in other current liabilities	(53)	57	(401)
Other - net	655	866	4,962
Total adjustments	21,734	32,310	164,652
Net cash provided by operating activities	46,738	55,115	354,076
Investing Activities:			
Increase in loans	(128,433)	(139,164)	(972,977)
Collection of long-term loans	116	51	879
Decrease in investments in and advances to subsidiaries		21	
Increase in long-term loans	(3,262)	(39)	(24,712)
Purchases of investment securities	(2,010)	(794)	(15,227)
Capital expenditures	(7,679)	(6,021)	(58,174)
Increase in long-term prepayments	(2,542)	(5,421)	(19,258)
Other - net	(1,266)	(3,871)	(9,591)
Net cash used in investing activities	(145,076)	(155,238)	(1,099,060)
Financing Activities:			
Net increase (decrease) in short-term borrowings	58,452	7,790	442,818
Proceeds from long-term debt	285,819	288,997	2,165,295
Proceeds from exercise of warrants		4,999	
Repayments of long-term debt	(243,277)	(204,655)	(1,843,008)
Proceeds from public offering (Net of stock issue costs)	27,423		207,750
Cash dividends paid	(138)	(138)	(1,045)
Net cash provided by financing activities	128,279	96,993	971,810
Net Increase (Decrease) in Cash and Cash Equivalents	¥ 29,941	¥ (3,130)	$ 226,826
Cash and Cash Equivalents, Beginning of Year	50,174	53,304	380,106
Cash and Cash Equivalents, End of Year	¥ 80,115	¥ 50,174	$ 606,932
Additional Cash Flow Information:			
Interest paid	¥ 19,799	¥ 19,563	$ 149,992
Income taxes paid	40,997	18,764	310,583
Non-Cash Investing Activities—			
Capital expenditures by incurring liabilities	¥ 70	¥ 63	$ 530

See notes to non-consolidated financial statements.

Notes to Non-Consolidated Financial Statements

Years Ended March 31, 1998 and 1997

1. Basis of Presenting Non-Consolidated Finanical Statements

The non-consolidated financial statements of Aiful Corporation (the "Company") have been prepared in conformity with the Japanese Securities and Exchange Law and in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Accounting Standards. In preparing the non-consolidated financial statements, certain reclassifications and rearrangements have been made to the non-consolidated financial statements issued domestically in Japan in order to present these statements in a form which is more familiar to readers outside Japan. The non-consolidated statements of cash flows have also been presented herein, although such statements are not required in Japan.

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

Certain reclassifications have been made to the prior years' non-consolidated financial statements to conform to the classifications used in 1998.

2. Summary of Significant Accounting Policies

a. *Cash and Cash Equivalents* - The Company considers time deposits to be cash equivalents. Time deposits have original maturities of one year or less and can be withdrawn on demand with no diminution of principal.

b. *Property for Sale* - Property for sale is stated at the lower of cost or market, cost being determined by the specific identification method.

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

d. *Depreciation* - Depreciation of property, plant and equipment is computed by the declining balance method based on the useful lives prescribed under the tax regulations, principally ranging from 24 to 60 years for buildings, and from 3 to 20 years for machinery, equipment and others.

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

The net assets in the fund, including a government pension fund required by Japanese law in the amount of ¥281 million ($2,129 thousand), were ¥1,169 million ($8,856 thousand) at March 31, 1997 (the most recent date of available information).

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

At March 31:	Millions of Yen	Thousands of U.S. Dollars
1998	¥ 850	$ 6,439
1997	¥ 795	

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

g. *Income Taxes* - Income taxes are provided for amounts currently payable for each year. Deferred taxes arising from "temporary differences" between tax and financial reporting are not recorded.

h. *Interest on Loans* - 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.

Notes to Non-Consolidated Financial Statements

Years Ended March 31, 1998 and 1997

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

j. *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.

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

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

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

Year Ended March 31:	Average Number of Shares
1998	**41,536,061**
1997	36,823,580

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

Fully diluted net income per share is not presented in 1998 and 1997 because common stock of the Company was not listed prior to March 31, 1997 and because no dilutive securities were outstanding for the year ended March 31, 1998.

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 translations 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 ¥132 to $1, the approximate rate of exchange at March 31, 1998. Such translations should not be construed as representations that Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

4. Loans

Loans at March 31, 1998 and 1997 consisted of the following (before allowance for doubtful loans):

	Millions of Yen		Thousands of U.S. Dollars
	1998	1997	1998
Unsecured *(1)*	¥ 603,662	¥ 527,306	$ 4,573,197
Secured *(2)*	95,128	64,324	720,667
Guaranteed *(3)*	3,656		27,697
Total	¥ 702,446	¥ 591,630	$ 5,321,561

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

(2) *Loans to individuals or corporation with real estate as collateral. Credit limits range up to ¥100 million, subject to an evaluation of the real estate, creditworthiness of the borrower, and approval of the Credit Department of the Company.*

(3) *Loans up to ¥2 million to self-employed individuals, small business loans, subject to the provision of a third-party guarantee by an individual with regular occupation and income.*

5. Investment Securities

The carrying and market values of publicly traded investment securities at March 31, 1998 and 1997 were as follows:

	Millions of Yen				Thousands of U.S. Dollars	
	1998		1997		1998	
	Carrying Value	Market Value	Carrying Value	Market Value	Carrying Value	Market Value
Investment securities	¥ 2,912	¥ 2,970	¥ 2,008	¥ 2,018	$ 22,061	$ 22,500

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

6. Short-Term Borrowings and Long-Term Debt

Short-term borrowings substantially consisted of commercial paper and notes payable, generally due in one year. Short-term borrowings at March 31, 1998 and 1997 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	1998	1997	1998
Commercial paper, 1.6%	¥ 30,000		$ 227,273
Loans from banks, 1.6% to 2.4% (1.4% to 6.1% in 1997)	26,100	¥ 26,178	197,727
Other (principally from leasing and factoring companies), 2.0% to 3.6% (2.7% to 3.6% in 1997)	41,900	13,370	317,424
Total	¥ 98,000	¥ 39,548	$ 742,424

Notes to Non-Consolidated Financial Statements

Years Ended March 31, 1998 and 1997

Long-term debt at March 31, 1998 and 1997 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	1998	1997	1998
Loans from banks, 1.9% to 5.1% (1.3% to 5.5% in 1997), due serially to 2003	¥ 191,622	¥ 192,295	$ 1,451,682
Loans from other financial institutions, 2.3% to 4.7% (2.5% to 5.4% in 1997), due serially to 2003	245,614	239,750	1,860,712
Syndicated Loans, 2.2%, to 2.6% (1.9% in 1997), due to 2001	58,400	23,000	442,424
Other (principally from leasing and factoring companies), 2.6% to 9.1% (2.5% to 9.1% in 1997), due serially to 2002	104,869	102,918	794,462
Total	600,505	557,963	4,549,280
Less current portion	(270,190)	(214,432)	(2,046,894)
Long-term debt, less current portion	¥ 330,315	¥ 343,531	$ 2,502,386

The aggregate annual maturities of long-term debt at March 31, 1998 were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
1999	¥ 270,190	$ 2,046,894
2000	177,846	1,347,318
2001	106,165	804,280
2002	34,496	261,333
2003	11,808	89,455
Total	¥ 600,505	$ 4,549,280

At March 31, 1998, the following assets were pledged as collateral for short-term borrowings and long-term debt (including current portion of long-term debt).

	Millions of Yen	Thousands of U.S. Dollars
Time deposits	¥ 820	$ 6,212
Loans	312,297	2,365,887
Property for sale	641	4,856
Investment securities	480	3,636
Property, plant and equipment, net of accumulated depreciation	23,750	179,924
Other assets	106	803
Total	¥ 338,094	$ 2,561,318
Related liabilities:		
Short-term borrowings	¥ 46,700	$ 353,788
Long-term debt (including current portion of long-term debt)	¥ 250,668	$ 1,899,000

7. Income Taxes

The Company is subject to a number of taxes based on income which, in the aggregate, resulted in a normal tax rate of approximately 51% in 1998 and 1997. The effective tax rate differs from the statutory rate principally due to the special additional tax on undistributed profit and the recording of certain expenses which are temporarily nondeductible for tax purposes.

8. Shareholders' Equity

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

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

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

At the Shareholders' General Meeting held on June 27, 1996, the Company reduced par value of common stock from ¥500 to ¥50 concurrent with a ten-for-one stock split, resulting in an increase of 12,422,700 shares effective August 1, 1996. The number of common shares the Company is authorized to issue was also increased from 4 million to 55 million.

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

On July 30, 1997, the Company completed the sale of 3,700,000 shares of its common stock in a public offering. Of the proceeds totalling to ¥28,416 million ($215,273 thousand), ¥12,875 million ($97,538 thousand) and ¥15,541 million ($117,735 thousand) were credited to common stock and additional paid-in capital, respectively.

Retained earnings of the Company as of March 31, 1998 included ¥71,622 million ($542,591 thousand) which is designated as a general reserve but is available for future dividends subject to approval by the shareholders and legal reserve requirements. Dividends are approved at the Shareholders' General Meeting to be held subsequent to the fiscal year to which they relate and are reflected in the non-consolidated statements of shareholders' equity when duly declared and paid.

Notes to Non-Consolidated Financial Statements

Years Ended March 31, 1998 and 1997

9. 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, 1998 and 1997 were as follows:

	Millions of Yen		Thousands of U.S. Dollars	
Year March 31:	Total Rental Expenses	Lease Payments Under Finance Leases	Total Rental Expenses	Lease Payments Under Finance Leases
1998	¥ 11,837	¥ 4,854	$ 89,674	$ 36,773
1997	9,018	3,641		

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, 1998 and 1997 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	Machinery and Equipment		Machinery and Equipment
	1998	1997	1998
Acquisition cost	¥ 20,477	¥ 15,102	$ 155,129
Accumulated depreciation	11,737	7,296	88,917
Net leased property	¥ 8,740	¥ 7,806	$ 66,212

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	1998	1997	1998
Due within one year	¥ 4,629	¥ 3,655	$ 35,068
Due after one year	6,902	6,421	52,288
Total	¥ 11,531	¥ 10,076	$ 87,356

Depreciation expense and interest expense, which are not reflected in the accompanying non-consolidated statements of income, computed under a declining method and the interest method, respectively, for the years ended March 31, 1998 and 1997 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	1998	1997	1998
Depreciation expense	¥ 5,329	¥ 4,051	$ 40,371
Interest expense	501	416	3,795

10. Derivatives

The Company enters into foreign forward currency contracts to hedge foreign exchange risk associated with certain liabilities denominated in foreign currencies. The Company also enters into interest rate swap and interest rate cap contracts as a means of managing its interest rate exposure on certain liabilities.

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

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

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

At March 31, 1998 and 1997 the Company had outstanding derivatives contracts as follows:

	Millions of Yen						Thousands of U.S. Dollars		
	1998			1997			1998		
	Contract or Notional Amount	Fair Value	Unrealized Gain (Loss)	Contract or Notional Amount	Fair Value	Unrealized Gain (Loss)	Contract or Notional Amount	Fair Value	Unrealized Gain (Loss)
Forward Exchange									
Contracts -									
Buying U.S. $				¥ 8	¥ 10	¥ 2			
Interest Rate Swaps									
Fixed rate receipt,									
floating rate payment				1,000					
Fixed rate payment,									
floating rate receipt	¥ 16,148	¥ 28	¥ 28	2,376	—	—	$ 122,333	$ 212	$ 212
Interest Rate Caps-									
Purchased interest									
rate caps	190,000	229	(1,535)	190,000	—	—	1,439,394	1,735	(11,629)

Estimated fair values were obtained from banks.

Fees paid on purchased interest rate caps are deferred and amortized over the life of the related contract as adjustments to interest expense on the related liabilities. Unamortized deferred fees at March 31, 1998 were ¥1,764 million ($13,364 thousand). The unrealized loss on interest rale caps represents the difference between the fair value and unamortized deferred fees of such instuments.

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

Forward exchange contracted amounts which are assigned to associated assets or liabilities and are reflected on the non-consolidated balance sheet at year end are not subject to the disclosure of market value information.

Disclosure of information regarding fair value and unrealized gains or losses of interest rate swaps and interest rate caps at March 31, 1997 was not required by the relevant Japanese regulations.

Notes to Non-Consolidated Financial Statements

Years Ended March 31, 1998 and 1997

11. Subsequent Events

a. On April 16, 1998, the Company issued 4,000,000 shares of common stock and received gross proceeds totalling to ¥33,084 million ($250,636 thousand). The offering was made to certain persons in offshore transactions according to Regulations under the United States Securities Act of 1993 as amended (the "Securities Act"), and in the United States to qualified institutional buyers in accordance with Rule 144A under the Securities Act. Of the proceeds from the offering, ¥16,544 million ($125,333 thousand) and ¥16,540 million ($125,303 thousand) were credited to common stock and additional paid-in capital, respectively.

b. On May 25, 1998, the Board of Directors resolved to propose the following plan of appropriations of retained earnings for the year ended March 31, 1998 for approval at the Shareholders' General Meeting to be held on June 26,1998:

	Millions of Yen	Thousands of U.S. Dollars
Cash dividends, ¥60 ($0.45) per share	¥ 2,565	$ 19,432
Transfer to legal reserve	264	2,000
Bonuses to directors and corporate auditors	71	538

c. On June 15, 1998, the Board of Directors resolved to issue the unsecured Euro-yen debentures to institutional buyers amounting up to ¥11,000 million ($83,333 thousand) with maturity from three up to five years after the date of issuance. The other terms and conditions have not yet been determined.

Independent Auditors' Report

To the Board of Directors of Aiful Corporation:

We have examined the non-consolidated balance sheets of Aiful Corporation as of March 31, 1998 and 1997, and the related non-consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. Our examinations were made in accordance with auditing standards generally accepted in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the non-consolidated financial statements referred to above present fairly the financial position of Aiful Corporation as of March 31, 1998 and 1997, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in Japan applied on a consistent basis.

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

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU
Kyoto, Japan

Shimbashi & Co.

SHIMBASHI & CO.
Osaka, Japan

June 29, 1998

History

1967 **April** – Yoshitaka Fukuda, the current president, founded a consumer finance business.

1978 **February** – Marutaka Co., Ltd. (the forerunner of AIFUL Corporation) established.

1979 **September** – Computers introduced.

1981 **June** – Host computer introduced.
September – First on-line system started operation.
October – Training center and dormitories opened.
December – Company owned houses opened.

1982 **May** – Marutaka Co., Ltd. integrated its three affiliates (Daicho Co., Ltd., Yamakatsu Sangyo Co., Ltd., and Maruto Co., Ltd.) and changed its name to AIFUL Corporation. Capital increased to ¥500 million as a result of the merger.
Construction of the present headquarters completed.
First TV commercials broadcast.

1983 **July** – Loans to customers outstanding reached ¥50 billion.
November – Capital increased to ¥1,012 million.

1984 **February** – ATMs started operation.
June – Second on-line system started operation.

1985 **March** – First scoring system (automated creditworthiness evaluation system) introduced.
May – Karuizawa Resort (leisure facility for employees) opened.
August – All branches started handling real-estate secured loans.

1986 **September** – Telesit sales started.
November – Operation of ATMs on holidays started.

1987 **March** – Second scoring system introduced.
August – Capital increased to ¥1,119 million.
December – Capital increased to ¥2,207 million.

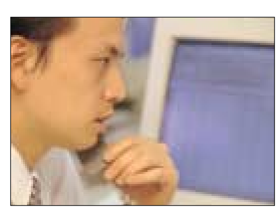
1988 **October** – Third on-line system started operation.
December – Sales of Full Mail loans started.

1989 **June** – Loans to customers outstanding reached ¥100 billion.

1990 **April** – AIFUL Heartful Parade participated in International EXPO for Flowers and Plants.
May – Loans to customers outstanding reached ¥150 billion.
June – Number of customer accounts reached 500,000.
October – Third scoring system introduced.
December – Swiss franc bond issued (SFr 20 million).

1991 **March** – Loans to customers outstanding reached ¥200 billion.
April – Employee health insurance scheme introduced.
November – Customer Consulting Center opened.

1992 **March** – Capital increased to ¥2,342 million.
April – Fourth scoring system introduced.
Editing studio opened in Kyoto for production of promotional videos.
July – Automatic brushing system started operation.
First ATM outside a branch installed at Shijotera-machi, Kyoto.



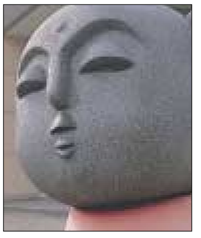
1993 **February** – "AI Computing Center" started operation.
April – Automated remittance processing system started operation.
August – "Arinshan", restaurant chain offering popular Taiwanese dishes, opened in Kyoto.
October – Mutual aid association established.
Four-regional marketing system (Higashi-Nihon, Kanto, Naka-Nihon and Nishi-Nihon) started.
Sponsored "Kyushu Sports Festa in Kamitsue '93".

1994 **September** – Loans to customers outstanding reached ¥300 billion.
Sponsored "Green Kyoto Fair".
October – Sponsored "Kyushu Sports Festa in Kamitsue '94".
Fifth scoring system introduced.
November – Heartful Center opened.

1995 **March** – "Ojidosan" unmanned loan-contracting machines installed at Kanda North Exit Branch and Ikebukuro West Exit Branch.
Capital increased to ¥7,832.7 million.
April – Welfare pension fund established.
June – Tie-ups with retailers' consumer finance companies for CDs and ATMs started.
Number of customer accounts reached 1 million.
July – Loan application service on PC-VAN network started.
August – Tie-ups with banks in the Second Association of regional banks for CDs and ATMs started.
September – Loans to customers outstanding reached ¥400 billion.
October – Sponsored "Kyushu Sports Festa in Kamitsue '95".
November – Internet home page opened.

1996 **January** – Virtual branch opened on CD-ROM Curiosity.
April – Six-regional marketing system (Higashi-Nihon, Kanto, Tokyo-Koshinetsu, Chubu, Kinki and Nishi-Nihon) started.
May – Tie-ups with regional banks for CDs and ATMs started.
June – Tie-ups with CD installation companies for CDs and ATMs started.
Loans to customers outstanding reached ¥500 billion.
Preliminary Single A rating for long-term unsecured debt obtained.
September – Capital increased to ¥10,332.45 million.
October – Sponsored "Kyushu Sports Festa in Kamitsue '96".
November – Sponsored the 6th Fukuchiyama Marathon.
December – Raised ¥23 billion through domestic syndicate loan.

1997 **January** – Liaison Group of Consumer Finance Companies launched.
March – CP issued (Rating: A1).
April – Female employees' uniforms renewed.
Donated old uniforms overseas through Japan Cloth Aid Center.
July – Registered its shares with the over-the-counter market under Japan Securities Dealers Association.
Capital increased to ¥23,208.45 million.
August – Fourth on-line system started operation.
October – Sales of small business loans to self-employed individuals started full operation.
Design of cashing cards renewed.
Sponsored "Kyushu Sports Festa in Kamitsue '97".
November – Sponsored the 7th Fukuchiyama Marathon.



1998 **January** – Obtained "Baa1" corporate rating from Moodies.
April – 4 million new shares issued overseas.
Capital increased to ¥39,752.45 million.

Board of Directors | Investor Information

As of June 26, 1998 *As of March 31, 1998*

Chairman	Yoshiyuki Watanabe	
President | Representative Director	Yoshitaka Fukuda	
Senior Managing Director | Representative Director	Taichi Kawakita	Restaurant & Entertainment Department Real Estate Department
Senior Managing Directors	Susumu Yano	Inspection Department
	Takashi Noda	General Manager – Finance Division Public Relations Department
Managing Directors	Yuji Kataoka	General Manager – Loan Business Division
	Sadatoshi Kobayashi	Information Systems Department Administration Office
Directors	Yasutaka Fukuda	Deputy General Manager – Finance Division General Manager – Finance Department
	Yoshimasa Nishimura	General Manager – Secured Loan Business Department Remedial Risk Management Department
	Koji Imada	General Manager – General Affairs Department
	Shintaro Hashima	General Manager – Personnel Department Education & Training Department
	Takashi Koumoto	General Manager – Accounting Department
	Yoshinori Sogabe	Credit Risk Management Department
	Masami Munetake	General Manager – Tokyo/Koshin-etsu Regional Headquarters
	Yasuo Yanagibashi	General Manager – Nishi-Nihon Regional Headquarters
Standing Statutory Auditors	Yasunori Nagai	
	Tadao Mushiake	
Statutory Auditors	Takao Oshima	
	Terutoshi Tanaka	

Corporate Name	AIFUL Corporation
Date of Establishment	April 1967
Financial Year	April 1 to March 31
Independent Auditors	Deloitte Touche Tohmatsu | Shimbashi & Co.
Transfer Agent and Registrar	The Sumitomo Trust & Banking Co., Ltd.
Paid-in Capital	¥ 23,208 million
Number of Shares of Common Stock	Authorized: 150,000,000 shares Issued and Outstanding: 42,752,500 shares
Number of Shareholders	3,177
Number of Employees	2,731

Corporate Headquarters
31 Higashikaigawa-cho, Saiin
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