available-for-sale securities are excluded from earnings and reported in other comprehensive income (loss) net of taxes. The cost of securities is determined using the average-cost method. Other investments other than marketable securities are stated at cost or less.

Inventories
Inventories are stated at the lower of cost or market, cost being determined principally by the specific identification method.

Impaired Loans and Allowance for Doubtful Items
The Company and its subsidiaries have measured certain loans based on the present value of expected future cash flows discounted at the loan's effective interest rate, or based on the loan's observable market price or the fair value of the collateral if the loan is collateral dependent, and a valuation allowance is created if the measure of the loan is less than the recorded amounts, in accordance with Statement of Financial Accounting Standards No.114 and No.118.

The Company and its subsidiaries have recognized interest income on impaired loans principally on a cash basis.

In addition, the allowance for doubtful items was established on certain loans which were not recognized as impaired at the date of the fiscal year-end, determined based on management's assessment of past experiences, economic conditions, and other pertinent indicators.

Goodwill and Other Intangible Assets
In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No.141, "Business Combinations" (SFAS 141), and Statement of Financial Accounting Standards No.142, "Goodwill and Other Intangible Assets" (SFAS 142). SFAS 141 requires that the purchase method of accounting be used for all business combinations completed after June 30, 2001. SFAS 141 also specifies the types of acquired intangible assets that are required to be recognized and reported separately from goodwill and those acquired intangible assets that are required to be included in goodwill. SFAS 142 requires that goodwill no longer be amortized, but instead tested for impairment at least annually. SFAS 142 also requires recognized intangible assets be amortized over their respective estimated useful lives and reviewed for impairment in accordance with Statement of Financial Accounting Standards No.144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS 144). Any recognized intangible asset determined to have an indefinite useful life is not to be amortized, but instead tested for impairment in the same manner as goodwill.

The Company and its subsidiaries adopted the provisions of SFAS 141 and SFAS 142 on April 1, 2002. SFAS 141 requires to evaluate their existing intangible assets and goodwill and to make any necessary reclassifications in order to conform to new separation requirements at the date of adoption. The Company and its subsidiaries accomplished to reassess the useful lives and residual values of all intangible assets and make any necessary amortization period adjustments by June 30, 2002. In connection with the transitional goodwill impairment evaluation, SFAS 142 requires to perform an assessment of whether there was an indication that goodwill is impaired as of the date of adoption. To accomplish this, the Company and its subsidiaries (1) identified their reporting units, (2) determined the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units, and (3) determined the fair value of each reporting unit. To the extent the carrying amount of a reporting unit exceeded the fair value of the reporting unit, the Company and its subsidiaries compared the implied fair values of the reporting units' goodwill with the carrying amounts of the reporting units' goodwill. The implied fair values of goodwill were determined by allocating the fair values of the reporting units to all of the assets (recognized and unrecognized) and liabilities of the reporting units in a manner similar to a purchase price allocation, in accordance with SFAS 141. The residual fair value after this allocation was the implied fair values of the reporting units' goodwill. The Company and its subsidiaries recognized impairment losses amounting to ¥1,077 million ($8,960 thousand) in the year ended March 31, 2003 since the carrying amounts of goodwill exceeded their implied fair values.

Derivative Financial Instruments (prior to adoption of SFAS 133 and SFAS 138)
Derivative financial instruments are utilized by the Company and certain subsidiaries to hedge interest rate and foreign exchange risks that may be adversely affected by changes in interest rates and exchange rates.

Foreign exchange contracts (inclusive of currency swap agreements)
Market value gains and losses are recognized on monetary items and included in foreign exchange gains or losses.

Interest rate swap agreements
The amounts of interest income or expense under the swap agreements are accrued and recognized as interest related to the assets and liabilities over the contract period.

Interest rate option agreements
Premiums paid or received for interest rate option agreements are amortized or accumulated to interest expense or interest received over the terms of interest rate option agreements.

Derivative Instruments (subsequent to adoption of SFAS 133 and SFAS 138)
The Company and its subsidiaries adopted Statement of Financial Accounting Standards No.133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133) and Statement of Financial Accounting Standards No.138,"Accounting for Derivative Instruments and Hedging Activities, an Amendment of SFAS 133" (SFAS 138) at the beginning of the first half of fiscal 2001 on April 1, 2001.

SFAS 133 and SFAS 138 require that all derivative instruments, such as foreign exchange contracts, interest rate swap contracts and commodity price contracts, be recognized in the financial statements and measured at fair value, regardless of the purpose or intent for holding them, as either assets or liabilities.

The accounting for changes in cash flow or fair value depends on the intended use of the derivative instrument and resulting hedge effectiveness.

All derivative instruments are recognized on the balance sheet at their fair value. The Company and its subsidiaries designate and account for derivative instruments as follows:

- "Fair value hedge": a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment. The changes in fair value of recognized assets or liabilities or unrecognized firm commitments and related derivative instruments that are designated and qualify as fair value hedges are recorded in earnings if the hedges are considered highly effective.