

## NOTES TO THE FINANCIAL STATEMENTS

1. *Statement of Accounting Policies:**General Accounting Policies:*

The measurement base adopted in the preparation of these Financial Statements is that of historical cost modified by the revaluation of land and buildings. Reliance has been placed on the fact that the bank is a going concern. Accrual accounting is used in the matching of expenses and revenue.

*Particular Accounting Policies:**Recognition of Income:**Investment Income:*

Interest on investments is accrued to balance date on a daily basis at the appropriate rate of interest.

*Personal Loan Interest:*

The bank's policy is to add interest to the advance at the commencement of the loan. The "rule of 78" method of accounting for personal loan income is used to apportion the income between accounting periods. (The effect of this method is that income earned over the term of the personal loan agreement represents a level rate of return on the declining balance of the unrecovered advance).

*Depreciation:*

The cost or revalued amount of fixed assets excluding land less estimated residual value is allocated over their economic lives on the straight line basis. The range of economic lives of the major classes are:

Buildings	100 years
Computer and offices equipment	4 to 10 years
Furniture and fittings	10 years
Motor vehicles	5 years

*Investments:*

Investments are shown at cost with the exception of Government and local authority securities.

Government and local authority securities are normally held to maturity and redeemed at their face value.

Due provision is made for the difference between cost and face value by the amortisation of the discount or premium of purchase, over the term of the security on a purchase yield basis.

The realisable value of fixed market securities fluctuates with movements in market yields and it is customary for such fluctuations to be disregarded in the recording of the results of the long term institutional investor.

*Fixed Assets:*

Land and buildings are revalued annually and are recorded at a value which is 90 percent of the independent registered valuation. Changes in valuations are transferred direct to the reserve fund.

*Taxation:*

Provision is made for taxation after taking advantage of all deductions available under current taxation legislation.

The liability method of accounting for the taxation effect of timing differences between the treatment of certain items for accounting purposes and their treatment for taxation has been adopted by the Bank.

The major timing differences relate to depreciation and the recognition of investment income.

*Changes in Accounting Policies:*1.1 *Amortisation of Discounts on Government Securities:*

The method of amortising discounts on Government securities has been changed from straight line to the purchase yield method as is commonly used by other Trusteebanks. The effect of this change in accounting policy is to reduce this year's profit by \$63,771 and cause a prior period adjustment to last year's profit of \$17,394 after adjusting for deferred tax.

1.2 *Valuation of Fixed Assets:*

Land and buildings have been revalued as at 31 March 1986 and are recorded at a value which is 90 percent of the independent registered valuation. Previously land and buildings were shown at cost less accumulated depreciation. The effect of this change in accounting policy has been to increase the book value of land and buildings by \$64,934 and create an asset revaluation reserve of \$64,934. There is no effect on the current year's depreciation charge.

*Prior Period Adjustments:*

The provision for deferred taxation as at 31 March 1985 has been restated to provide for the increase in the deferred taxation liability arising from the increase in the taxation rate of profits from 45 cents to 48 cents.

The change to the purchase yield method of accounting for discounts on Government stocks has given rise to an adjustment to the 1985 amortisation of discounts adjusted for deferred taxation.

Prior period adjustment comprises:	1985
Restatement of 31 March 1985 deferred tax provision	\$ 33,006
Change to purchase yield amortisation	17,394
	<u>\$50,400</u>

2. <i>Property Revaluation Reserve:</i>	1986	1985
Revaluations during year (note 1.2)	\$ 64,934	\$ -
Balance at 31 March	<u>\$64,934</u>	<u>-</u>