

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Advances and other accounts - continued

Loans with a specific due date are classified as overdue when the principal or interest is overdue and remains unpaid as at the year-end date. Loans repayable by regular instalments are treated as overdue when an instalment payment is overdue and remains unpaid as at the year-end date. Loans repayable on demand are categorised as overdue either when a demand for repayment has been served on the borrower but repayment has not been made in accordance with the instruction or, the loan has remained continuously outside the approved limit that was advised to the borrower for more than three months.

Rescheduled advances refer to those loans that have been restructured or renegotiated due to the deterioration in the financial position of the borrower or the inability of the borrower to meet the original repayment schedule. Rescheduled advances which have been overdue over three months under the revised repayment terms are classified as overdue advances and not as rescheduled advances.

Advances continue to be reported as such after assets held as collateral have been repossessed. The repossessed assets are recorded at fair market value and provisions are made if there is any subsequent deterioration in value.

Foreign currencies

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the period.

On consolidation, the assets and liabilities of the Group's overseas branches and subsidiaries are translated at the exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Revenue recognition

Interest income is recognised in the income statement as it accrues, except in the case of doubtful debts where interest is credited to a suspense account which is netted in the balance sheet against the relevant balances. Doubtful debts are those debts where there is reasonable doubt about the ultimate collectibility of principal or interest; or against which a specific provision has been made; or where contractual payments of principal and/or interest are more than 3 months in arrears and where the net realisable value of the security is insufficient to cover payment of principal and accrued interest.

Interest income ceases to be accrued or is placed into suspense account for those debts where the contractual payments of principal and/or interest are more than 12 months in arrears, irrespective of the net realisable value of collateral.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Revenue recognition - continued

When interest has been placed in suspense or has ceased to be accrued, accrual of interest to the income statement is resumed only if all arrears of principal and interest from the borrower have been cleared and it is probable that the customer is capable of fully servicing his obligations for the foreseeable future.

Fees and commission income are accounted for in the period when receivable, except where the fee is charged to cover the costs of a continuing service to, or risk borne for, the customer, or is interest in nature. In these cases, the fee is recognised on an appropriate basis over the relevant period.

Dividend income from investments in securities is recognised when the Group's right to receive payment has been established.

Property and equipment

Property and equipment are stated at cost or valuation less depreciation and amortisation and accumulated impairment losses.

Land and buildings are stated in the balance sheet at their revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and any subsequent impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on revaluation of land and buildings is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

Depreciation and amortisation are provided to write off the cost or valuation of items of property and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight line method, at the following rates per annum:

Leasehold land	Over the term of the lease
Buildings	Over the shorter of the term of the lease or 2%
Equipment	10%-20%

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on independent professional valuations at the balance sheet date. Any surplus or deficit arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance of this reserve is insufficient to cover a deficit, in which case the excess of the deficit over the balance on the investment property revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, this surplus is credited to the income statement to the extent of the deficit previously charged.

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property is transferred to income statement.

No depreciation is provided on investment properties except where the unexpired term of the relevant lease is 20 years or less.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the impairment loss is treated as revaluation decrease under that SSAP.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the reversal of the impairment loss is treated as a revaluation increase under that SSAP.

Leased assets

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the lessees.

Amounts due from lessees under finance leases are recorded as advances and other accounts at the amount of the Group's net investment in the leases.

Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Initial direct costs are dealt with as an expense in the year in which they arise.

All other leases are classified as operating leases and the rental income is recognised on a straight line basis over the lease term.