

Standard Chartered Bank
Macau Branch
渣打銀行澳門分行

31 December 2012

Independent auditor's report to the management of Standard Chartered Bank, Macau Branch

We have audited the accompanying financial statements of the Macau Branch of Standard Chartered Bank ("the Branch") set out on pages 3 to 38, which comprise the balance sheet as at 31 December 2012, and the income statement, statement of changes in reserves and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

As explained in note 2, the Branch is not a separate legal entity. These financial statements have been prepared by the Branch for its use and for submission to the Autoridade Monetaria de Macau. They have been prepared from the records of the Branch to reflect all transactions recorded locally on the basis of accounting policies set out in note 2.

Branch's management responsibility for the financial statements

The Branch's management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Financial Reporting Standards issued by the Macau Special Administrative Region ("Macau SAR and the requirements as set out in Decree-Law No. 32/93/M. This responsibility includes designing, implementing and maintaining appropriate internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; making accounting estimates that are reasonable in the circumstances; and maintaining adequate and accurate accounting records.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Auditing Standards and Technical Standards of Auditing issued by the Macau SAR. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Independent auditor's report to the management of Standard Chartered Bank, Macau Branch (continued)

Auditor's responsibility (continued)

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's professional judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Branch's management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Branch as at 31 December 2012, and of its profits and cash flows for the year then ended in accordance with the Financial Reporting Standards issued by the Macau SAR.

This report is intended solely for filing with the Autoridade Monetaria de Macau.

Lei Iun Mei, Registered Auditor

KPMG

Certified Public Accountants

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Macau

Income statement
for the year ended 31 December 2012
(Expressed in thousands of Macau Patacas)

	<i>Note</i>	2012 MOP'000	2011 MOP'000
Interest income	3(a)	61,178	88,230
Interest expenses	3(b)	<u>(13,393)</u>	<u>(31,976)</u>
Net interest income		47,785	56,254
Other revenue	3(c)	26,599	31,404
Other net income	3(d)	<u>3,220</u>	<u>4,189</u>
Operating income		77,604	91,847
Operating expenses	3(e)	<u>(10,812)</u>	<u>(12,678)</u>
Operating profit before impairment losses		66,792	79,169
Impairment charges on loans and advances	3(f)	<u>(33,445)</u>	<u>(15,634)</u>
Profit before taxation		33,347	63,535
Income tax	4(a)	<u>(3,983)</u>	<u>(7,685)</u>
Profit for the year		<u>29,364</u>	<u>55,850</u>
Effects of additional provisions for loans and advances to customers under AMCM rules			
Profit after taxation		29,364	55,850
Reduction in provisions under AMCM rules	11(ii)	<u>7,992</u>	<u>6,028</u>
Result for the year under AMCM rules		<u>37,356</u>	<u>61,878</u>

The notes on pages 8 to 38 form part of these financial statements.

Balance sheet at 31 December 2012

(Expressed in thousands of Macau Patacas)

	Note	2012 MOP'000	2011 MOP'000
Assets			
Cash and balances with banks and other financial institutions	5	439,365	865,405
Trade bills	6	13,921	134,794
Loans and advances to customers	6	759,925	1,866,353
Available-for-sale securities	8	69,720	79,765
Amounts due from head office, other branches and group companies	10(a)	1,425,020	1,945,904
Other assets		619,349	879,893
		<u>3,327,300</u>	<u>5,772,114</u>
Liabilities			
Deposits from customers	9	1,637,788	2,119,352
Amounts due to head office, other branches and group companies	10(b)	999,063	2,639,196
Current taxation		5,105	8,541
Deferred tax liabilities	4(c)	1,734	2,824
Other liabilities		633,431	919,605
		<u>3,277,121</u>	<u>5,689,518</u>
Reserves	11	<u>50,179</u>	<u>82,596</u>
		<u>3,327,300</u>	<u>5,772,114</u>

Approved and authorised for issue by management on

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The notes on pages 8 to 38 form part of these financial statements.

Statement of changes in reserves
 for the year ended 31 December 2012
 (Expressed in thousands of Macau Patacas)

	Note	Available- for-sale reserve MOP'000	Retained profits MOP'000	Regulatory reserve MOP'000	Total MOP'000
At 1 January 2011		76	56,129	26,737	82,942
Profit for the year		-	55,850	-	55,850
Available-for-sale securities					
– Changes in fair value during the year		(67)	-	-	(67)
Amount remitted to head office		-	(56,129)	-	(56,129)
Transfer to retained profits	11	-	6,028	(6,028)	-
At 31 December 2011 and 1 January 2012		9	61,878	20,709	82,596
Profit for the year		-	29,364	-	29,364
Available-for-sale securities					
– Changes in fair value during the year		19	-	-	19
Amount remitted to head office		-	(61,800)	-	(61,800)
Transfer to retained profits	11	-	7,992	(7,992)	-
At 31 December 2012		<u>28</u>	<u>37,434</u>	<u>12,717</u>	<u>50,179</u>

The notes on pages 8 to 38 form part of these financial statements.

Cash flow statement
 for the year ended 31 December 2012
 (Expressed in thousands of Macau Patacas)

	<i>Note</i>	2012 MOP'000	2011 MOP'000
Operating activities			
Profit from ordinary activities before taxation		33,347	63,535
Adjustments for non-cash items:			
Amortisation of discount		(458)	(433)
Impairment charges on loans and advances		33,445	15,634
Advances written off		-	(1,339)
		<u>66,334</u>	<u>77,397</u>
Decrease/(increase) in operating assets:			
Balances with banks with original maturity			
beyond three months		156,703	(260,718)
Trade bills		120,873	(55,254)
Loans and advances to customers		1,072,984	360,267
Available-for-sale securities with maturity			
beyond three months		10,524	(14,574)
Amounts due from head office, other			
branches and group companies		1,298	(27,148)
Other assets		260,543	(288,847)
(Decrease)/increase in operating liabilities:			
Deposits from customers		(481,564)	1,064,006
Amounts due to head office, other branches			
and group companies		(1,640,133)	101,354
Other liabilities		(286,177)	281,777
		<u>(718,615)</u>	<u>1,238,260</u>
Cash (used in)/generated from operations		(718,615)	1,238,260
Macau complementary tax paid		(8,509)	(7,537)
		<u>(8,509)</u>	<u>(7,537)</u>
Net cash (used in)/generated from in operating activities		(727,124)	1,230,723
		<u>(727,124)</u>	<u>1,230,723</u>

Cash flow statement
 for the year ended 31 December 2012 (continued)
 (Expressed in thousands of Macau Patacas)

	<i>Note</i>	2012 MOP'000	2011 MOP'000
Financing activity			
Amount remitted to head office		(61,800)	(56,129)
Net cash used in financing activity		<u>(61,800)</u>	<u>(56,129)</u>
Net (decrease)/increase in cash and cash equivalents		(788,924)	1,174,594
Cash and cash equivalents at 1 January		<u>2,522,993</u>	<u>1,348,399</u>
Cash and cash equivalents at 31 December	12	<u>1,734,069</u>	<u>2,522,993</u>
Cash flows from operating activities include:			
Interest received		59,525	88,965
Interest paid		<u>(15,529)</u>	<u>(33,199)</u>

The notes on pages 8 to 38 form part of these financial statements.

Notes on the financial statements

(Expressed in thousands of Macau Patacas)

1 Principal activities

Standard Chartered Bank - Macau Branch (“the Branch”) is engaged in commercial banking business and provides related financial services.

2 Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with the requirements as set out in Decree Law No. 32/93/M and the Financial Reporting Standards issued under Administrative Regulation No. 25/2005 of the Macau Special Administrative Region (“Macau SAR”).

A summary of the significant accounting policies adopted by the Branch is set out below. The accounting policies have been applied consistently to all periods presented in these financial statements.

(b) Basis of preparation of the financial statements

The Branch is part of Standard Chartered Bank, which is incorporated in the United Kingdom and registered in England and Wales, and therefore the Branch is not a separate legal entity. These financial statements have been prepared solely for use by the Branch and for submission to Autoridade Monetária de Macau (“AMCM”) by the Branch. They have been prepared from the records of the Branch and reflect all transactions recorded locally on the basis of the accounting policies adopted by the Branch.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that certain assets and liabilities are stated at their fair value as explained in the accounting policies set out below.

(c) Revenue recognition

(i) Interest income and expense

Interest income and expense on available-for-sale assets, financial assets or liabilities held at amortised cost and trading assets and liabilities excluding derivatives is recognised in the income statement using the effective interest method.

2 Significant accounting policies (continued)

(c) Revenue recognition (continued)

(i) Interest income and expense (continued)

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Branch estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all amounts paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(ii) Fees and commissions

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan syndication fees are recognised as revenue when the syndication has been completed and the Branch has retained no part of the loan package for itself or has retained a part at the same effective interest rate as for the other participants. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportioned basis.

(d) Financial assets and liabilities (excluding derivatives)

Financial assets and liabilities are classified in the following categories: loans and receivables and available-for-sale assets. Management determines the classification of its financial assets and liabilities on initial recognition.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

(ii) Available-for-sale assets

Available-for-sale assets are those non-derivative financial assets intended to be held for an indefinite period of time, which may be sold in response to liquidity requirements or changes in interest rates, exchange rates or equity prices.

2 Significant accounting policies (continued)

(d) Financial assets and liabilities (excluding derivatives) (continued)

(ii) Available-for-sale assets (continued)

Initial recognition

Purchases and sales of available-for-sale assets are initially recognised on trade-date (the date on which the Branch commits to purchase or sell the asset). Loans are recognised when cash is advanced to the borrowers. Financial assets and financial liabilities are initially recognised at fair value plus directly attributable transaction costs.

Subsequent measurement

Available-for-sale assets are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method. Financial liabilities are measured at amortised cost using the effective interest method.

The fair values of quoted investments in active markets are based on current prices. If the market for a financial asset is not active, and for unlisted securities, the Branch establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models, and other valuation techniques commonly used by market participants.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Branch has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when they are extinguished.

Income recognition

For available-for-sale financial assets, financial assets and liabilities held at amortised cost, interest income and interest expense is recognised in the income statement using the effective interest method.

Gains and losses arising from changes in the fair value of available-for-sale assets other than foreign exchange gains and losses from monetary items are recognised directly in reserve, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in reserve is recognised in the income statement.

A derivative contract is initially recognised at fair value on the date on which it is entered into and is subsequently re-measured at its fair value. Fair values are obtained from market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when their fair values are positive and as liabilities when their fair values are negative.

2 Significant accounting policies (continued)

(e) *Derivative financial instruments and hedge accounting*

Derivative transactions of the Branch do not qualify for hedge accounting. Changes in the fair value of any derivative transaction that does not qualify for hedge accounting are recognised immediately in the income statement.

(f) *Impairment of assets*

(i) Assets carried at amortised cost

The Branch assesses at each balance sheet date whether there is objective evidence that a financial asset is impaired. A financial asset is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Branch may measure impairment on the basis of an instrument’s fair value using observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

To the extent a loan is irrecoverable, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to the income statement. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor’s credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

2 Significant accounting policies (continued)

(f) *Impairment of assets (continued)*

(ii) Available-for-sale assets

A significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement) is removed from available-for-sale reserve and is recognised in the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Any subsequent increase in the fair value of such assets is recognised directly in the available-for-sale reserve.

(g) *Leases*

The leases entered into by the Branch are primarily operating leases. The total payments made under operating leases are charged to the income statement on a straight-line basis over the period of the leases.

(h) *Cash and cash equivalents*

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash and balances and placements with banks and other financial institutions.

(i) *Provisions and contingent liabilities*

Provisions for restructuring costs and legal claims are recognised when the Branch has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

(j) *Income tax*

Income tax payable on profits for the period is recognised as an expense in the period in which profits arise. The tax effects of income tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

2 Significant accounting policies (continued)

(j) *Income tax (continued)*

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates, and laws that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Current and deferred tax relating to items which are charged or credited directly to reserve, is credited or charged directly to reserve and is subsequently recognised in the income statement together with the current or deferred gain or loss.

(k) *Translation of foreign currencies*

Foreign currency transactions are translated into Macau Patacas using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement.

Non-monetary assets and liabilities are translated at historical exchange rates if held at historical cost or year-end exchange rates if held at fair value, and the resulting foreign exchange gains and losses are recognised in either the income statement or reserves.

(l) *Related parties*

For the purposes of these financial statements, parties are considered to be related to the Branch if the Branch has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Branch and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Branch where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Branch or of any entity that is a related party of the Branch.

3 Profit before taxation

Profit before taxation is stated after taking account of the following:

(a) *Interest income*

	2012 MOP'000	2011 MOP'000
Interest income from deposits with banks	934	294
Interest income from AMCM monetary bills	458	433
Interest income from loans and advances	53,852	78,423
Interest income from placements with a group company and other branches	<u>5,934</u>	<u>9,080</u>
	<u>61,178</u>	<u>88,230</u>

No interest income on unwinding of discount on loan impairment charges is recognised in 2011 and 2012.

(b) *Interest expenses*

	2012 MOP'000	2011 MOP'000
Interest expense on placements from banks	14	35
Interest expense on deposits from customers	1,403	2,197
Interest expense on deposits from a group company and other branches	<u>11,976</u>	<u>29,744</u>
	<u>13,393</u>	<u>31,976</u>

(c) *Other revenue*

	2012 MOP'000	2011 MOP'000
Fee and commission income (arising from financial assets that are not at fair value through profit or loss)	26,475	31,291
Other income from a group company	<u>124</u>	<u>113</u>
	<u>26,599</u>	<u>31,404</u>

3 Profit before taxation (continued)

Profit before taxation is stated after taking account of the following: (continued)

(d) Other net income

	2012 MOP'000	2011 MOP'000
Exchange gain	<u>3,220</u>	<u>4,189</u>

(e) Operating expenses

	2012 MOP'000	2011 MOP'000
Management fee	3,501	3,906
Premises expenses	889	818
Equipment expenses	18	71
Auditor's remuneration	357	340
Others	<u>6,047</u>	<u>7,543</u>
	<u>10,812</u>	<u>12,678</u>

Staff costs have been borne by a group company, Standard Chartered Bank (Hong Kong) Limited. These costs are then recharged through a management fee.

Other operating expenses include recharges from head office, subsidiary, and other branches of MOP6,000,682 (2011: MOP6,990,283).

(f) Impairment charges on loans and advances

	2012 MOP'000	2011 MOP'000
Individual impairment charges (note 7)	37,962	8,989
Portfolio impairment (releases)/charges (note 7)	<u>(4,517)</u>	<u>6,645</u>
	<u>33,445</u>	<u>15,634</u>

4 Income tax

(a) Taxation in the income statement

	2012 MOP'000	2011 MOP'000
Current tax		
Provision for the year	5,105	8,541
Over-provision relating to prior years	<u>(32)</u>	<u>(34)</u>
	5,073	8,507
Deferred tax		
Reversal of temporary differences	<u>(1,090)</u>	<u>(822)</u>
	<u>3,983</u>	<u>7,685</u>

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2012 MOP'000	2011 MOP'000
Profit before taxation	<u>33,347</u>	<u>63,535</u>
Notional tax on profit before taxation, calculated at Macau Complementary Tax rate of 12%	4,002	7,624
Tax effect of non-deductible expenses	30	89
Over-provision relating to prior years	(32)	(34)
Others	<u>(17)</u>	<u>6</u>
Actual tax expense	<u>3,983</u>	<u>7,685</u>

4 Income tax (continued)

(c) Deferred tax liabilities recognised

The components of deferred tax liabilities recognised in the balance sheet and the movements during the year are as follows:

	<i>Regulatory reserve under AMCM Rules</i>	
	<i>2012</i>	<i>2011</i>
	MOP'000	MOP'000
Deferred tax arising from:		
At 1 January	2,824	3,646
Released to income statement	(1,090)	(822)
	<u>1,734</u>	<u>2,824</u>
At 31 December	<u>1,734</u>	<u>2,824</u>

5 Cash and balances with banks and other financial institutions

	<i>2012</i>	<i>2011</i>
	MOP'000	MOP'000
Cash in hand	73,289	71,122
Balances with banks and other financial institutions	366,076	794,283
	<u>439,365</u>	<u>865,405</u>

6 Advances to customers

(a) Advances to customers

	<i>2012</i>	<i>2011</i>
	MOP'000	MOP'000
Gross loans and advances to customers	826,701	1,899,684
Trade bills	13,921	134,794
	<u>840,622</u>	<u>2,034,478</u>
Less: Impairment provision		
- individually assessed (note 7)	(64,648)	(26,686)
- collectively assessed (note 7)	(2,128)	(6,645)
	<u>773,846</u>	<u>2,001,147</u>

6 Advances to customers (continued)

(b) Impaired loans and advances to customers

	2012 MOP'000	2011 MOP'000 (restated)
Gross impaired advances to customers	79,555	28,781
Impairment provision - individually assessed	<u>(64,648)</u>	<u>(26,686)</u>
	<u>14,907</u>	<u>2,095</u>
 Gross impaired advances to customers as a % of gross advances to customers	 <u>9.46%</u>	 <u>1.41%</u>

Collateral of MOP9,995,904 was held against impaired loans and advances to customers in 2012 (2011: MOP2,089,827).

(c) Advances to customers and trade bills analysed by industry sector

The analysis of gross advances to customers and trade bills by industry sector is based on the categories used by the returns submitted to the AMCM.

	2012 MOP'000	2011 MOP'000
Gross advances for use in Macau		
Industrial, commercial and financial		
- Clothing	5,245	25,253
- Textile productions	59,647	46,828
- Paper, printing and publishing	219,728	819,780
- Machinery and other electrical and electronic goods	8,894	62,855
- Wood and furniture	1,359	1,623
- Other manufacturing industries	28,500	23,842
- Wholesale and retail trade	167,128	217,108
- Others	<u>272,808</u>	<u>317,449</u>
Gross advances for use in Macau	763,309	1,514,738
Gross advances for use outside Macau	<u>77,313</u>	<u>519,740</u>
Total gross advances to customers and trade bills	<u>840,622</u>	<u>2,034,478</u>

7 Movement in impairment losses on loans and advances to customers

	<u>2012</u>		
	<i>Individually assessed</i> MOP'000	<i>Collectively assessed</i> MOP'000	<i>Total</i> MOP'000
At 1 January 2012	26,686	6,645	33,331
Net charge/(release) to the income statement (note 3(f))	<u>37,962</u>	<u>(4,517)</u>	<u>33,445</u>
At 31 December 2012 (note 6(a))	<u><u>64,648</u></u>	<u><u>2,128</u></u>	<u><u>66,776</u></u>
	<u>2011</u>		
	<i>Individually assessed</i> MOP'000	<i>Collectively assessed</i> MOP'000	<i>Total</i> MOP'000
At 1 January 2011	19,036	-	19,036
Amounts written off	(1,339)	-	(1,339)
Net charge to the income statement (note 3(f))	<u>8,989</u>	<u>6,645</u>	<u>15,634</u>
At 31 December 2011 (note 6(a))	<u><u>26,686</u></u>	<u><u>6,645</u></u>	<u><u>33,331</u></u>

8 Available-for-sale securities

	<u>2012</u> MOP'000	<u>2011</u> MOP'000
Unlisted:		
AMCM monetary bills	<u>69,720</u>	<u>79,765</u>

9 Deposits from customers

	<u>2012</u> MOP'000	<u>2011</u> MOP'000
Demand deposits and current accounts	270,913	327,264
Savings deposits	1,355,692	1,171,952
Time, call and notice deposits	<u>11,183</u>	<u>620,136</u>
	<u><u>1,637,788</u></u>	<u><u>2,119,352</u></u>

10 Amounts due from/to head office, other branches and group companies

(a) Amounts due from head office, other branches and group companies

	<i>2012</i>	<i>2011</i>
	MOP'000	MOP'000
Balances with banks (note 12)	1,398,719	1,918,306
Other assets	<u>26,301</u>	<u>27,598</u>
	<u>1,425,020</u>	<u>1,945,904</u>
Other branches	695,740	50,796
Group companies	<u>729,280</u>	<u>1,895,108</u>
	<u>1,425,020</u>	<u>1,945,904</u>

The amounts due from head office, other branches and group companies are unsecured. MOP1,105,528,507 (2011: MOP1,857,519,482) has fixed maturity and bears interest on normal commercial terms. MOP221,075,901 (2011: MOP9,978,901) are repayable on demand and bear interest on normal commercial terms. MOP337,613 (2011: MOP1,584,246) is interest-free and repayable within three months. The remaining balances are interest-free and repayable on demand.

(b) Amounts due to head office, other branches and group companies

	<i>2012</i>	<i>2011</i>
	MOP'000	MOP'000
Balances from banks	72,269	188,122
Deposits from banks	921,967	2,442,965
Other liabilities	<u>4,827</u>	<u>8,109</u>
	<u>999,063</u>	<u>2,639,196</u>
Head office	2,897	4,907
Other branches	17,849	52,621
Group companies	<u>978,317</u>	<u>2,581,668</u>
	<u>999,063</u>	<u>2,639,196</u>

10 Amounts due from/to head office, other branches and group companies (continued)

(b) Amounts due to head office, other branches and group companies (continued)

The amount due to head office, other branches and group companies are unsecured. MOP921,966,609 (2011: MOP2,442,964,663) has fixed maturity and bears interest on normal commercial terms. MOP4,827,179 (2011: MOP6,712,917) is interest-free and repayable within three months. The remaining balances are interest-free and repayable on demand.

11 Reserves

Nature and purpose of reserves

(i) Available-for-sale reserves

The available-for-sale reserve comprises the cumulative net change in the fair value of available-for-sale securities held at the balance sheet date and is dealt with in accordance with the accounting policies in note 2(d).

(ii) Regulatory reserves

In accordance with Notice No. 18/93-AMCM, credit institutions are required to establish provisions for bad and doubtful loans at certain percentage depending on the duration that the loans are overdue. As explained in note 2(f), the Branch assesses whether objective evidence of impairment exists individually and collectively in providing for impairment allowances for credit loss. In case such impairment allowances do not meet the requirements of Notice No. 18/93-AMCM, the Branch sets aside an amount in reserves to satisfy the statutory provisioning requirements. The amount of regulatory reserve transfer for the year is as follows:

	2012 MOP'000	2011 MOP'000
Reduction in provision under AMCM rules	(9,082)	(6,849)
Tax effect of the reduction in provision	<u>1,090</u>	<u>821</u>
	<u>(7,992)</u>	<u>(6,028)</u>

12 Cash and cash equivalents

Composition of cash and cash equivalents in the cash flow statement

	2012 MOP'000	2011 MOP'000
Cash and balances with banks and other financial institutions with original maturity less than three months	335,350	604,687
Amounts due from head office, other branches and group companies		
- Balances with banks (note 10(a))	<u>1,398,719</u>	<u>1,918,306</u>
Cash and cash equivalents in the cash flow statement	<u><u>1,734,069</u></u>	<u><u>2,522,993</u></u>

13 Off-balance sheet exposures

(a) *Contractual amount of contingent liabilities and commitments*

The following is a summary of the contractual amounts of each significant class of contingent liabilities and commitments:

	2012 MOP'000	2011 MOP'000
Trade-related contingencies	3,481,190	2,194,383
Other commitments	<u>6,411,135</u>	<u>9,298,666</u>
	<u><u>9,892,325</u></u>	<u><u>11,493,049</u></u>

Contingent liabilities and commitments are credit-related instruments which include letters of credits, guarantees and commitments to extend credit. The risk involved is essentially the same as the credit risk involved in extending loan facilities to customers. These transactions are, therefore, subject to the same credit application, portfolio maintenance and collateral requirements as for customers applying for loans. The contractual amounts represents the amounts at risk should the contract be fully drawn upon and the client default. As the facilities may expire without being drawn upon, the contractual amounts do not represent expected future cash flows.

13 Off-balance sheet exposures (continued)

(b) Derivatives

The use of derivatives for trading and their sale to customers as risk management products is an integral part of the Branch's business activities. These instruments are also used to manage the Branch's own exposures to market risk as part of its asset and liability management process. The principal derivative instruments used by the Branch are foreign exchange related contracts, which are primarily over-the-counter derivatives. Most of the Branch's derivative positions have been entered into to meet customer demand. For accounting purposes, derivatives are classified as held for trading.

(i) Notional amounts of derivatives

Derivatives are contracts whose value depends on the value of one or more underlying financial instruments, interest or exchange rates or indices. The notional amounts of these instruments indicate the volume of transactions outstanding and do not represent amounts at risk.

The following is a summary of the notional amounts of each significant type of derivative entered into by the Branch:

	2012 MOP'000	2011 MOP'000
Exchange rate contracts		
Forwards	<u>1,077,394</u>	<u>4,763</u>

(ii) Fair values of derivatives

	2012		2011	
	<i>Fair value assets</i> MOP'000	<i>Fair value liabilities</i> MOP'000	<i>Fair value assets</i> MOP'000	<i>Fair value liabilities</i> MOP'000
Exchange rate contracts	<u>2,325</u>	<u>2,247</u>	<u>3</u>	<u>1</u>

(iii) Credit risk weighted amounts of derivatives

	2012 MOP'000	2011 MOP'000
Exchange rate contracts	<u>10,774</u>	<u>48</u>

Credit risk weighted amount refers to the amount as calculated in accordance with Notice 013/93-AMCM.

13 Off-balance sheet exposures (continued)

(c) Lease commitments

At 31 December 2012, the total future minimum lease payments under non-cancellable operating leases are as follows:

	2012 MOP'000	2011 MOP'000
Properties		
- Within one year	621	137
- After one year but within 5 years	143	-
	764	137

The Branch leases a number of properties under operating leases. The leases typically run for an initial period of two years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

14 Financial risk management

(a) Credit risk management

Credit risk arises from the possibility that the counterparty in a transaction may default. It arises from lending, trade finance, treasury and other activities. The Branch has dedicated standards, policies and procedures to monitor and control credit risk.

Credit risk is managed through a credit framework which comprises locally adopted credit policies and processes, measurement of credit risk by nominal amount and by expected loss, segregation of duties between originator of the deals and their approvers, independent large exposures' controls and approvals by approvers with the right level of delegated authorities.

An alphanumeric grading system is used for quantifying the risk associated with a counterparty. The grading is based on a probability of default measure, with customers analysed against a range of quantitative and qualitative measures. The numeric grades run from 1 to 14. Counterparties with lower credit grades are assessed as being less likely to default. An A to C scale is assigned to the original numeric rating scale, to enable more granular mapping of the probability of default, which results in more refined risk assessment, risk control and pricing. A counterparty with an A suffix has a lower probability of default than a counterparty with a C suffix. Credit grades 1A to credit grade 12C are assigned to performing customers while credit grades 13 and 14 are assigned to non-performing (or defaulted) customers.

14 Financial risk management (continued)

(a) Credit risk management (continued)

There is no direct relationship between the Standard Chartered Bank (“SCB”) internal credit grades and those used by external rating agencies. The SCB credit grades are not intended to replicate external credit grades, although as the factors used to grade a borrower are often similar, a borrower rated poorly by an external rating agency would be expected to be rated in the lower rank of the SCB’s internal credit grades.

To assist risk officers in monitoring the portfolio, various internal risk management reports are available on a regular basis, providing individual counterparty, counterparty group and portfolio exposure information, credit grade migration information, the status of accounts showing signs of weakness or financial deterioration and updates on credit markets.

Concentration of credit risk

Concentration of credit risk exists when changes in geographic, economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is material in relation to the Branch’s total exposures.

Analysis of geographical and industry concentration of the Branch’s gross advances to customers and trade bills is disclosed in note 6(c).

Maximum exposure to credit risk

The maximum exposures to credit risk of on-balance sheet financial instruments, before taking account of any collateral or other credit enhancements, are the carrying amount reported on the balance sheet. For off-balance sheet instruments, the maximum exposure to credit risk represents the contractual nominal amounts as set out below:

	2012 MOP’000	2011 MOP’000
Trade-related contingent liabilities	3,481,190	2,194,383
Other commitments	6,411,135	9,298,666
	<u>9,892,325</u>	<u>11,493,049</u>

14 Financial risk management (continued)

(a) Credit risk management (continued)

Credit quality

(i) Analysis of the loan portfolio

	2012		2011	
	<i>Advances to customers and trade bills</i>	<i>Advances to banks</i>	<i>Advances to customers and trade bills</i>	<i>Advances to banks</i>
	MOP'000	MOP'000	MOP'000	MOP'000
Loans and advances				
- neither past due nor impaired	759,851	366,076	1,986,140	794,283
- past due but not impaired	1,216	-	19,557	-
- impaired, net of impairment charges	14,907	-	2,095	-
Less: Collective assessed impairment charges	(2,128)	-	(6,645)	-
	<u>773,846</u>	<u>366,076</u>	<u>2,001,147</u>	<u>794,283</u>

Collateral of MOP9,995,904 was held against past due but not impaired advances and impaired advances at 31 December 2012 (2011: MOP4,108,012).

14 Financial risk management (continued)

(a) Credit risk management (continued)

Credit quality (continued)

(i) Analysis of the loan portfolio (continued)

The following tables set out an analysis of the internal credit gradings for advances which are not past due and for which no impairment provision has been raised. The credit gradings set out in the tables are based on a probability of default measure as set out on page 24.

	2012		2011	
	<i>Advances to customers and trade bills</i>	<i>Advances to banks</i>	<i>Advances to customers and trade bills</i>	<i>Advances to banks</i>
	MOP'000	MOP'000	MOP'000	MOP'000
Credit grades:				
- 1 to 5	181,560	366,076	717,842	766,565
- 6 to 8	193,527	-	713,399	27,718
- 9 to 11	384,764	-	554,899	-
- 12	-	-	-	-
	<u>759,851</u>	<u>366,076</u>	<u>1,986,140</u>	<u>794,283</u>

The following tables set out the ageing of advances which are past due and for which no individual impairment provision has been raised. A loan is considered to be past due when the counterparty has failed to make principal or interest payment when contractually due. Past due does not necessarily mean that the counterparty is impaired.

	2012		2011	
	<i>Advances to customers</i>	<i>Advances to banks</i>	<i>Advances to customers</i>	<i>Advances to banks</i>
	MOP'000	MOP'000	MOP'000	MOP'000
Past due:				
- up to 30 days	1,216	-	5,402	-
- 31-60 days	-	-	-	-
- 61-90 days	-	-	14,155	-
	<u>1,216</u>	<u>-</u>	<u>19,557</u>	<u>-</u>

14 Financial risk management (continued)

(a) Credit risk management (continued)

Credit quality (continued)

(ii) Analysis of treasury bills

	2012 MOP'000	2011 MOP'000
Securities neither past due nor impaired	<u>69,720</u>	<u>79,765</u>

Treasury bills which are neither past due nor impaired carry an external credit rating of AA- to AA+ (2011: AA- to AA+). The standard credit ratings used by the Branch are those used by Standard & Poors or their equivalent.

Repossessed collateral and renegotiated loans

During the year, the Branch did not take possession of collateral held as security (2011: Nil).

As at 31 December 2012, the Branch had no renegotiated loans (2011: Nil).

(b) Market risk management

The Branch recognises market risk as the exposure created by potential changes in market prices and rates. The Branch is exposed to market risk arising principally from customer driven transactions.

The Branch transacts in the money market, foreign exchange markets and capital markets giving rise to market risk exposures. Positions are taken as a result of the execution of customers' orders.

The Branch has established market risk management policies and framework, including limits setting, monitoring and reporting and control procedures. Market risk limits are proposed by the business within the terms of agreed policy. Market Risk department approves the limits within delegated authorised and monitors exposures against these limits.

14 Financial risk management (continued)

(b) Market risk management (continued)

(i) Currency risk

The Branch's foreign exchange positions arise from commercial banking operations. Significant foreign currency exposures are as follows:

	2012 MOP'000	2011 MOP'000
HK dollar exposure		
Spot assets	547,348	1,170,044
Spot liabilities	(506,830)	(1,032,098)
Forward purchases	228,135	844
Forward sales	(226,031)	(1,537)
	<u>42,622</u>	<u>137,253</u>
Net long non-structural position		
US dollar exposure		
Spot assets	1,964,748	2,575,236
Spot liabilities	(1,940,161)	(2,576,716)
Forward purchases	226,098	1,537
Forward sales	(228,123)	(844)
	<u>22,562</u>	<u>(787)</u>
Net long/(short) non-structural position		

(ii) Interest rate risk

Interest rate risk arises from the reporting mismatch on commercial loans and customer deposits of the Branch. The repricing mismatch is monitored by Financial Market and is subject to the oversight of the Asset & Liability Committee of the Branch within the approved limit. Daily measurement of interest rate risk exposure of commercial book (including floating/variable rate products) follows the contractual repricing maturity.

14 Financial risk management (continued)

(b) Market risk management (continued)

(ii) Interest rate risk (continued)

The following tables indicate the effective interest rates for the relevant periods and the expected next repricing dates (or maturity dates whichever are earlier) for the assets and liabilities at the balance sheet date.

	2012					
	<i>Effective interest rate</i>	<i>Total MOP'000</i>	<i>Less than three months MOP'000</i>	<i>Between three months and one year MOP'000</i>	<i>Between one and five years MOP'000</i>	<i>Non- interest bearing MOP'000</i>
Assets						
Cash and balances with banks and other financial institutions	1.88%	439,365	234,345	104,015	-	101,005
Trade bills	2.50%	13,921	13,921	-	-	-
Loans and advances to customers	2.82%	759,925	694,589	65,336	-	-
Available-for-sale securities	0.64%	69,720	-	69,720	-	-
Amounts due from head office, other branches and group companies	0.90%	1,425,020	1,352,571	-	-	72,449
Non-interest bearing assets	-	619,349	-	-	-	619,349
Total assets		<u>3,327,300</u>	<u>2,295,426</u>	<u>239,071</u>	<u>-</u>	<u>792,803</u>
Liabilities						
Deposits from customers	0.09%	1,637,788	1,440,945	-	-	196,843
Amounts due to head office, other branches and group companies	0.71%	999,063	838,645	155,543	-	4,875
Non-interest bearing liabilities	-	640,270	-	-	-	640,270
Total liabilities		<u>3,277,121</u>	<u>2,279,590</u>	<u>155,543</u>	<u>-</u>	<u>841,988</u>
Interest rate sensitivity gap		<u>50,179</u>	<u>15,836</u>	<u>83,528</u>	<u>-</u>	<u>(49,185)</u>

14 Financial risk management (continued)

(b) Market risk management (continued)

(ii) Interest rate risk (continued)

	2011 (restated)					
	Effective interest rate	Total MOP'000	Less than three months MOP'000	Between three months and one year MOP'000	Between one and five years MOP'000	Non- interest bearing MOP'000
Assets						
Cash and balances with banks and other financial institutions	1.04%	865,405	592,938	160,773	-	111,694
Trade bills	1.20%	134,794	134,794	-	-	-
Loans and advances to customers	3.16%	1,866,353	1,821,162	45,191	-	-
Available-for-sale securities	0.59%	79,765	-	79,765	-	-
Amounts due from head office, other branches and group companies	0.53%	1,945,904	1,859,878	7,620	-	78,406
Non-interest bearing assets	-	879,893	-	-	-	879,893
Total assets		<u>5,772,114</u>	<u>4,408,772</u>	<u>293,349</u>	<u>-</u>	<u>1,069,993</u>
Liabilities						
Deposits from customers	0.12%	2,119,352	1,861,823	7,620	-	249,909
Amounts due to head office, other branches and group companies	1.10%	2,639,196	2,425,557	205,529	-	8,110
Non-interest bearing liabilities	-	930,970	-	-	-	930,970
Total liabilities		<u>5,689,518</u>	<u>4,287,380</u>	<u>213,149</u>	<u>-</u>	<u>1,188,989</u>
Interest rate sensitivity gap		<u>82,596</u>	<u>121,392</u>	<u>80,200</u>	<u>-</u>	<u>(118,996)</u>

14 Financial risk management (continued)

(b) Market risk management (continued)

(iii) Sensitivity analysis

At 31 December 2012, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant would increase/decrease the Branch's profit after tax by approximately MOP993,640 (2011 restated: MOP2,015,920).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The 100 basis point increase or decrease represents management's annual assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The estimated impact also assumes that interest rates of all the assets and liabilities of all maturities move by the same basis point change, though rates are not assumed to become negative in the falling rates scenario and therefore under the decrease in interest rates scenario, it does not reflect the potential impact on net interest income of some rates changing while others remain unchanged.

(c) Liquidity risk management

The Branch defines liquidity risk as the risk that it either does not have sufficient financial resources available to meet all its obligations and commitments as they fall due, or can only secure them at excessive cost.

The Branch's policy is to monitor regularly current and expected liquidity requirements to ensure that it maintains sufficient reserves of financial resources to meet its liquidity requirements in short and longer term.

14 Financial risk management (continued)

(c) Liquidity risk management (continued)

(i) Analysis of assets and liabilities by remaining maturity

The following maturity profile is based on the remaining period at the balance sheet date to the contractual maturity date. The disclosure does not imply that the asset be held to maturity or that the liabilities will be withdrawn on maturity.

	2012							Total MOP'000
	Repayable on demand MOP'000	Within one month MOP'000	Between one to three months MOP'000	Between three months to one year MOP'000	Between one year to three years MOP'000	More than three years MOP'000	Undated or overdue more than one month MOP'000	
Assets								
Cash and balances with banks and other financial institutions	294,542	5,912	-	104,015	-	-	34,896	439,365
Trade bills	832	13,089	-	-	-	-	-	13,921
Loans and advances to customers	8,321	321,162	352,327	65,336	-	-	12,779	759,925
Available-for-sale securities	-	-	-	69,720	-	-	-	69,720
Amounts due from head office, other branches and group companies	319,157	813,837	292,026	-	-	-	-	1,425,020
Other assets	108	227,192	222,946	166,778	-	-	2,325	619,349
Total assets	<u>622,960</u>	<u>1,381,192</u>	<u>867,299</u>	<u>405,849</u>	<u>-</u>	<u>-</u>	<u>50,000</u>	<u>3,327,300</u>
Liabilities								
Deposits from customers	1,626,605	9,109	2,074	-	-	-	-	1,637,788
Amounts due to head office, other branches and group companies	75,744	494,613	272,349	156,357	-	-	-	999,063
Other liabilities	16,521	227,191	218,848	174,912	-	-	2,798	640,270
Total liabilities	<u>1,718,870</u>	<u>730,913</u>	<u>493,271</u>	<u>331,269</u>	<u>-</u>	<u>-</u>	<u>2,798</u>	<u>3,277,121</u>
Net (liabilities)/assets gap	<u>(1,095,910)</u>	<u>650,279</u>	<u>374,028</u>	<u>74,580</u>	<u>-</u>	<u>-</u>	<u>47,202</u>	<u>50,179</u>

14 Financial risk management (continued)

(c) Liquidity risk management (continued)

(i) Analysis of assets and liabilities by remaining maturity (continued)

	2011 (restated)						Undated or overdue more than one month MOP'000	Total MOP'000
	Repayable on demand MOP'000	Within one month MOP'000	Between one to three months MOP'000	Between three months to one year MOP'000	Between one year to three years MOP'000	More than three years MOP'000		
Assets								
Cash and balances with banks and other financial institutions	416,524	101,457	126,884	160,773	-	-	59,767	865,405
Trade bills	-	80,118	54,676	-	-	-	-	134,794
Loans and advances to customers	28,506	1,144,088	646,473	45,191	-	-	2,095	1,866,353
Available-for-sale securities	-	-	-	79,765	-	-	-	79,765
Amounts due from head office, other branches and group companies	86,800	1,115,545	735,939	7,620	-	-	-	1,945,904
Other assets	114	164,929	550,175	164,656	-	-	19	879,893
Total assets	531,944	2,606,137	2,114,147	458,005	-	-	61,881	5,772,114
Liabilities								
Deposits from customers	1,499,216	96,073	516,443	7,620	-	-	-	2,119,352
Amounts due to head office, other branches and group companies	193,491	1,705,225	534,775	205,705	-	-	-	2,639,196
Other liabilities	9,831	166,557	549,331	204,796	-	-	455	930,970
Total liabilities	1,702,538	1,967,855	1,600,549	418,121	-	-	455	5,689,518
Net (liabilities)/assets gap	(1,170,594)	638,282	513,598	39,884	-	-	61,426	82,596

14 Financial risk management (continued)

(c) Liquidity risk management (continued)

- (ii) Analysis of cash flows payable under financial liabilities by remaining contractual maturity

The following tables show the undiscounted cash flows for the Branch's financial liabilities including future interest payments on the basis of their earliest possible contractual maturity. The financial liability balances in the tables will not agree to the balances reported in the balance sheet as the tables incorporate all contractual cash flows, on an undiscounted basis, relating to both principal and interest payments. The cash flows presented in the tables reflect the cash flows which will be contractually payable over the residual maturity of the instruments. In practice, however, the liability instruments behave differently from their contractual terms and typically, for short term customer accounts, extend to a longer period than their contractual maturity.

	<u>2012</u>				
	<i>Repayable on demand</i> MOP'000	<i>Due within 3 months</i> MOP'000	<i>Due between 3 months to 1 year</i> MOP'000	<i>Undated</i> MOP'000	<i>Total</i> MOP'000
Deposits from customers	1,626,605	11,186	-	-	1,637,791
Amounts due to head office, other branches and group companies	75,744	767,283	157,416	-	1,000,443
Other liabilities	16,521	446,037	174,912	2,798	640,268
	<u>1,718,870</u>	<u>1,224,506</u>	<u>332,328</u>	<u>2,798</u>	<u>3,278,502</u>
	<u>2011</u>				
	<i>Repayable on demand</i> MOP'000	<i>Due within 3 months</i> MOP'000	<i>Due between 3 months to 1 year</i> MOP'000	<i>Undated</i> MOP'000	<i>Total</i> MOP'000
Deposits from customers	1,499,216	614,141	7,643	-	2,121,000
Amounts due to head office, other branches and group companies	193,491	2,242,524	207,085	-	2,643,100
Other liabilities	9,831	715,140	204,795	455	930,221
	<u>1,702,538</u>	<u>3,571,805</u>	<u>419,523</u>	<u>455</u>	<u>5,694,321</u>

14 Financial risk management (continued)

(d) Fair value

All financial instruments are stated at fair value or carried at amounts not materially different from their fair values as at 31 December 2012 and 2011 unless otherwise stated.

(i) Financial assets

The Branch's financial assets mainly include cash, amounts due from banks and other financial institutions, loans and advances to customers, and investments.

Amounts due from banks and other financial institutions, loans and advances to customers

Amounts due from banks and other financial institutions, loans and advances to customers are mainly priced at market interest rate or will mature within one year. Accordingly, the carrying values approximate the fair values.

Investments

Available-for-sale securities are stated at fair value in the financial statements.

(ii) Financial liabilities

The Branch's financial liabilities mainly include amounts due to banks and other financial institutions and deposits from customers.

Deposits and balances with banks and other financial institutions, deposits from customers

Deposits and balances with banks and other financial institutions, deposits from customers are mainly priced at market interest rate or will mature within one year. Accordingly, the carrying values approximate the fair values.

14 Financial risk management (continued)

(d) Fair value (continued)

(iii) Financial instruments carried at fair value

Valuation methodologies

The valuation hierarchy, and the types of instruments classified into each level within that hierarchy, is set out below:

	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>
Fair value determined using:	Unadjusted quoted price in an active market for identical assets and liabilities	Valuation models with directly or indirectly market observable inputs	Valuation models using significant non-market observable inputs
Types of financial assets	-	AMCM monetary bills Over-the-counter derivatives	-
Types of financial liabilities	-	Over-the-counter derivatives	-

The table below shows the classification of financial instruments held at fair value into the valuation hierarchy set out above as at 31 December 2012:

	<i>Level 2</i>	
	<i>2012</i>	<i>2011</i>
	MOP'000	MOP'000
Available-for-sale securities	69,720	79,765
Positive fair values of derivatives	<u>2,325</u>	<u>3</u>
Total assets measured at fair value	<u>72,045</u>	<u>79,768</u>
Negative fair values of derivatives	<u>2,247</u>	<u>1</u>
Total liabilities measured at fair value	<u>2,247</u>	<u>1</u>

15 Significant accounting estimates and judgements

In determining the carrying amounts of some assets and liabilities, the Branch makes assumptions of the effects of uncertain future events on those assets and liabilities at the balance sheet date. The Branch's estimations and assumptions are based on historical experience and expectation of future events and are reviewed periodically. This disclosure excludes uncertainty over future events and judgements in respect of measuring financial instruments.

Impairment of financial assets

Policies on impairment of financial assets are set out in note 2(f).

Taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. Deferred tax liabilities are recognised on all temporary differences and deferred tax assets are recognised on temporary differences where it is probable that there will be taxable revenue against which these can be offset. Management has made judgements as to the probability of future taxable revenues being generated against which tax losses will be available for offset.

Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable willing parties in an arm's length transaction. Note 2(d) provide further information on the Bank's fair value accounting policy and process.

16 Comparative figures

Certain comparative figures have been restated to conform with the current year's presentation.

Unaudited supplementary financial information (Expressed in thousands of Macau Patacas)

These notes set out on pages 39 to 45 are supplementary to and should be read in conjunction with the financial statements set out on pages 3 to 38. The financial statements and these unaudited supplementary financial information (“supplementary notes”) taken together comply with the Guideline on Disclosure of Financial Information made under Circular No.026/B/2012-DSB/AMCM.

(a) **Brief management report on Branch’s activities in Macau**

Management are pleased to announce the results of Macau Branch of Standard Chartered Bank (the “Branch”) for the year ended 31 December 2012.

Principal activities

The Branch is part of Standard Chartered Bank, which is incorporated in the United Kingdom and registered in England and Wales. The Branch’s principal activities are the provision of commercial bank and related financial services.

2012 Results

Profit before taxation decreased by 48 per cent from MOP63.535 million to MOP33.347 million. Net interest income decreased by 15 per cent to MOP47.785 million. Other revenue including fee and commission income decreased by 15 per cent over 2011. Total operating income decreased by 16 per cent to MOP77.604 million.

Operating expenses decreased by 15 per cent in 2012 to MOP10.812 million. Impairment charges on loans and advances increased by MOP17.811 million over 2011. Profit after taxation was MOP29.364 million, a decrease of MOP26.486 million over MOP55.850 million recorded 2011.

Result under AMCM rules was MOP37.356 million, a decrease of MOP24.522 million over MOP61.878 million recorded in 2011.

Unaudited supplementary financial information (continued)

(Expressed in thousands of Macau Patacas)

(b) Segmental information

The following geographical analysis are classified by the location of the counterparties.

(i) Geographical analysis of loans and advances to customers

As at 31 December 2012, over 90 per cent of the Branch's loans and advances to customers were classified under Macau SAR.

All the loans and advances to customers are granted to corporate entities.

	2012					
	Loan and advances to customers MOP'000	of which		Individually - assessed impairment provision MOP'000	Collectively - assessed impairment provision MOP'000	Additional provision under AMCM rules MOP'000
		Overdue due loans MOP'000	Impaired loans MOP'000			
Macau SAR of China	763,308	1,216	17,697	17,697	2,085	11,720
Others	77,314	-	61,858	46,951	43	2,731
	<u>840,622</u>	<u>1,216</u>	<u>79,555</u>	<u>64,648</u>	<u>2,128</u>	<u>14,451</u>

(ii) Geographical analysis of notional amounts of contingent liabilities and commitments

	2012		
	Bank MOP'000	Corporate entities MOP'000	Total MOP'000
Hong Kong SAR of China	7,895	52,422	60,317
Macau SAR of China	-	5,756,674	5,756,674
Singapore	1,593	-	1,593
Taiwan, China	1,900	-	1,900
United States	-	4,071,841	4,071,841
	<u>11,388</u>	<u>9,880,937</u>	<u>9,892,325</u>

(iii) Geographical analysis of exposure on financial derivatives

As at 31 December 2012, over 90 per cent of the Branch's financial derivatives were classified under United Kingdom.

All the derivatives transactions are entered with banks.

Unaudited supplementary financial information (continued)
(Expressed in thousands of Macau Patacas)

(c) *Advances to customers analysed by industry sector*

	<i>Impaired loans</i>	<i>Overdue loans</i>	<i>Individually- assessed impairment provision</i>	<i>Collectively- assessed impairment provision</i>	<i>Additional provision under AMCM rules</i>	<i>Write off</i>
	MOP'000	MOP'000	MOP'000	MOP'000	MOP'000	MOP'000
Clothing	-	833	-	24	584	-
Textile productions	-	-	-	236	592	-
Wood and furniture	-	-	-	21	11	-
Paper, printing and publishing	-	-	-	420	6,296	-
Machinery and other electrical and electronic goods	-	-	-	200	84	-
Other manufacturing industries	-	-	-	157	247	-
Wholesale and retail trade	17,697	383	17,697	578	1,653	-
Others	61,858	-	46,951	492	4,984	-
	<u>79,555</u>	<u>1,216</u>	<u>64,648</u>	<u>2,128</u>	<u>14,451</u>	<u>-</u>

(d) *Overdue loans and advances to customers*

	2012	
	<i>Amount</i>	<i>% of total loans</i>
	MOP'000	
Loans and advances to customers that have been past due for periods of		
- six months or less but over three months	18,990	2.26
- one year or less but over six months	17,387	2.07
- over one year	43,178	5.14
	<u>79,555</u>	<u>9.47</u>
Individually-assessed impairment provision	<u>64,648</u>	
Collateral value	<u>9,996</u>	

Unaudited supplementary financial information (continued)

(Expressed in thousands of Macau Patacas)

(e) **Operational risk management**

Operational risk is the potential for loss arising from failure of people, process or technology or the impact of external events. SCB Macau Branch (“the Branch”) seeks to minimize our exposure to operational risk, subject to cost trade-offs. Operational risk exposures are managed through a consistent set of management processes that drive risk identification, assessment, control and monitoring.

The Risk Committee (as delegated by the Board) oversees the management of operational risks across the Bank, supported by business and functional level committees. This formal structure of governance provides the Board with confidence that operational risks are being proactively identified and effectively managed.

The Risk Committee is responsible for setting and maintaining standards for operational risk management and measurement. In addition, specialist operational risk control owners have responsibility for the management of operational risk arising from the following activities Bank-wide: legal processes, people management, technology management, vendor management, property management, security management, accounting and financial control, tax management, corporate authorities and structure and regulatory compliance. Each risk control owner is responsible for identifying risks that are material to the Bank and for maintaining an effective control environment, which includes defining appropriate policies and procedures for approval by authorised risk committees.

The Country Operational Risk committee (“CORG”) is a sub-committee of the Risk Committee and is responsible for the supervision and management of operational risks across the Bank. CORG is also responsible for ensuring adequate and appropriate policies and procedures and in place for identification, assessment, monitoring, control and reporting of operational risks.

Compliance with operation risk policies and procedures is the responsibility of all managers within the Bank. Wholesale Bank have independent teams to ensure operational risk is effectively managed. These units are responsible for approving operational controls, ensuring compliance with policies and procedures in the business, monitoring key operational risk exposures, and providing guidance to the respective business areas on operations risk management.

Unaudited supplementary financial information (continued)
(Expressed in thousands of Macau Patacas)

(f) *Liquidity risk*

	2012 MOP'000
Arithmetic mean of the minimum weekly amount of cash in hand that is required to be held during the year (note (i))	<u>50,848</u>
Arithmetic mean of the average weekly amount of cash in hand during the year (note (i))	<u>61,017</u>
Arithmetic mean of the specified liquid assets at the end of each month during the year (note (i))	<u>1,815,640</u>
Average ratio of specified liquid asset to total basic liabilities at the end of each month during the year (note (i))	<u>105.11%</u>
Arithmetic mean of its one-month liquidity ratio in the last week of each month during the year (note (ii))	<u>87.59%</u>
Arithmetic mean of its three-month liquidity ratio in the last week of each month during the year (note (ii))	<u>102.19%</u>

Notes:

- (i) The arithmetic means are computed as the simple average of the following amounts as defined in the Notice no. 006/93-AMCM.
- minimum weekly amount of cash in hand
 - average weekly amount of cash in hand
 - specified liquid assets
 - specified liquid assets to total basic liabilities
- (ii) The arithmetic means are computed as the simple average of the following ratios as reported in the Reporting of Liquidity Position for submission to the AMCM.
- one-month liquidity ratio
 - three-month liquidity ratio

Unaudited supplementary financial information (continued)

(Expressed in thousands of Macau Patacas)

(g) **Information of Standard Chartered PLC Group (“the Group”)**

(i) Consolidated capital adequacy ratio of the Group

2012

Consolidated capital adequacy ratio 17.4%

The Group complies with the Basel II framework, which has been implemented in the UK through the Financial Services Authority (“FSA”)’s general prudential sourcebook and its prudential sourcebook for banks, building societies and investment firms.

From 1 January 2008, the Group has been using the advanced Internal Ratings Based (“IRB”) approach for the measurement of credit risk capital.

The Group uses Value at Risk (“VaR”) models for the measurement of market risk capital for part of our trading book exposures where permission to use such models has been granted by the FSA. Where our market risk exposures are not approved for inclusion in VaR models, the capital requirements are determined using standard rules provided by the regulator.

The Group applies the Standardised Approach for determining the capital requirements for operational risk.

(ii) Other consolidated financial information of the Group

2012

US\$ million

Total assets	636,518
Total liabilities	590,463
Total capital and reserves	46,055
Total loans and advances to banks and customers	352,266
Total customer deposits and deposits from banks	414,116
Pre-tax profit	<u>6,876</u>

Unaudited supplementary financial information (continued) (Expressed in thousands of Macau Patacas)

(g) **Information of Standard Chartered PLC Group (“the Group”) (continued)**

(iii) Shareholders with qualifying holdings

As far as the directors are aware as at 31 December 2012, Temasek Holdings (Private) Limited (Temasek) is the only shareholder that had an interest of more than 10 per cent in Standard Chartered PLC’s issued ordinary share capital carrying a right to vote at any general meeting.

(iv) Members of the Board of Standard Chartered PLC

The members of the board of Directors (“Board”) of Standard Chartered PLC as at 31 December 2012 are set out below.

Non-executive Chairman

Sir John Wilfred Peace

Executive Directors

Mr Peter Alexander Sands (Chief Executive); Mr Stefano Paolo Bertamini; Mr Jaspal Singh Bindra; Mr Richard Henry Meddings (Group Finance Director); Mr Alun Michael Guest Rees and Mr Viswanathan Shankar

Independent Non-Executive Directors

Mr Om Prakash Bhatt; Dr Louis Chi-Yan Cheung; Mr Richard Delbridge, Mr James Frederick Trevor Dundas; Mrs Margaret Ewing; Ms Valerie Frances Gooding, CBE; Dr Han Seung-soo, KBE; Mr Simon Jonathan Lowth; Mr Rudolph Harold Peter Markham (Senior Independent Director); Ms Ruth Markland; Mr John Gregor Hugh Paynter; Mr Paul David Skinner, Mr Oliver Henry James Stocken and Dr Lars Henrik Thunell