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

31 December 2013

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 33, which comprise the balance sheet as at 31 December 2013, 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 and fair presentation of these financial statements 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 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 and presentation of the financial statements 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 basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of, in all material respects, the state of affairs of the Branch as at 31 December 2013, and of its profits and cash flows for the year then ended in accordance with the Financial Reporting Standards issued by the Macau SAR and the requirements set out in Decree-Law No. 32/93/M.

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

Ieong Lai Kun, Registered Auditor

KPMG

Certified Public Accountants

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Macau

Income statement
for the year ended 31 December 2013
(Expressed in thousands of Macau Patacas)

	Note	*2013* MOP'000	*2012* MOP'000
Interest income	3(a)	41,079	61,178
Interest expenses	3(b)	(5,774)	(13,393)
Net interest income		35,305	47,785
Other revenue	3(c)	28,092	26,599
Other net income	3(d)	4,580	3,220
Operating income		67,977	77,604
Operating expenses	3(e)	(10,632)	(10,812)
Operating profit before impairment losses		57,345	66,792
Impairment charges on loans and advances	3(f)	(2,912)	(33,445)
Profit before taxation		54,433	33,347
Income tax	4(a)	(6,547)	(3,983)
Profit for the year		47,886	29,364
Effects of additional provisions for loans and advances to customers under AMCM rules			
Profit after taxation		47,886	29,364
(Addition)/reduction in provisions under AMCM rules	11(ii)	(3,244)	7,992
Result for the year under AMCM rules		44,642	37,356

The notes on pages 8 to 33 form part of these financial statements.

Balance sheet at 31 December 2013

(Expressed in thousands of Macau Patacas)

	Note	*2013* MOP'000	*2012* MOP'000
Assets			
Cash, balances and placements with banks and other financial institutions	5	537,979	439,365
Trade bills	6	20,074	13,921
Loans and advances to customers	6	1,250,542	759,925
Available-for-sale securities	8	69,782	69,720
Amounts due from head office, other branches and group companies	10(a)	1,452,451	1,425,020
Other assets		535,125	619,349
		3,865,953	3,327,300
Liabilities			
Deposits from customers	9	2,271,165	1,637,788
Amounts due to head office, other branches and group companies	10(b)	969,196	999,063
Current taxation		6,115	5,105
Deferred tax liabilities	4(c)	2,176	1,734
Other liabilities		556,614	633,431
		3,805,266	3,277,121
Reserves	11	60,687	50,179
		3,865,953	3,327,300

Approved and authorised for issue by management on

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The notes on pages 8 to 33 form part of these financial statements.

Statement of changes in reserves for the year ended 31 December 2013

(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 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 and 1 January 2013		28	37,434	12,717	50,179
Profit for the year		-	47,886	-	47,886
Available-for-sale securities					
– Changes in fair value during the year		22	-	-	22
Amount remitted to head office		-	(37,400)	-	(37,400)
Transfer from retained profits	11	-	(3,244)	3,244	-
At 31 December 2013		50	44,676	15,961	60,687

The notes on pages 8 to 33 form part of these financial statements.

Cash flow statement
for the year ended 31 December 2013
(Expressed in thousands of Macau Patacas)

	Note	*2013* MOP'000	*2012* MOP'000
Operating activities			
Profit from ordinary activities before taxation		54,433	33,347
Adjustments for non-cash items:			
Amortisation of discount on AMCM monetary bills		(495)	(458)
Impairment charges on loans and advances		2,912	33,445
Unwind of discount on loan impairment charge		(62)	-
		56,788	66,334
(Increase)/decrease in operating assets:			
Balances with banks with original maturity beyond three months		61,929	156,703
Trade bills		(6,153)	120,873
Loans and advances to customers		(493,467)	1,072,984
Available-for-sale securities with maturity beyond three months		455	10,524
Amounts due from head office, other branches and group companies		(1,556)	1,298
Other assets		84,224	260,543
Increase/(decrease) in operating liabilities:			
Deposits from customers		633,377	(481,564)
Amounts due to head office, other branches and group companies		(29,867)	(1,640,133)
Other liabilities		(76,817)	(286,177)
Cash generated from/(used in) operations		228,913	(718,615)
Macau complementary tax paid		(5,095)	(8,509)
Net cash generated from/(used in) operating activities		223,818	(727,124)

Cash flow statement
for the year ended 31 December 2013 (continued)
(Expressed in thousands of Macau Patacas)

	Note	*2013* MOP'000	*2012* MOP'000
Financing activity			
Amount remitted to head office		(37,400)	(61,800)
Net cash used in financing activity		(37,400)	(61,800)
Net increase/(decrease) in cash and cash equivalents		186,418	(788,924)
Cash and cash equivalents at 1 January		1,734,069	2,522,993
Cash and cash equivalents at 31 December	12	1,920,487	1,734,069
Cash flows from operating activities include:			
Interest received		45,117	59,525
Interest paid		(6,182)	(15,529)

The notes on pages 8 to 33 form part of these financial statements.

Notes to 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 ("SCB"), 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 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 at the original effective interest rate of the financial asset applied to the impaired carrying amount.

(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 are classified into the following categories: loans and receivables and available-for-sale assets. Financial liabilities are classified as held at amortised cost. 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.

2 Significant accounting policies (continued)

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

(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.

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 and receivables 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.

2 Significant accounting policies (continued)

(e) Derivative financial instruments and hedge accounting

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.

Derivative transactions of the Branch do not qualify for hedge accounting. Changes in the fair value of any derivative 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.

(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, balances and placements with banks and other financial institutions, and amounts due from group companies.

(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

	2013 MOP'000	*2012* MOP'000
Interest income from deposits with banks	118	934
Interest income from AMCM monetary bills	495	458
Interest income from loans and advances	36,938	53,852
Interest income from placements with a group company and other branches	3,528	5,934
	41,079	61,178

Interest income on unwinding of discount of MOP62,000 (note 7) on loan impairment charges is recognised in 2013 (2012: Nil).

(b) Interest expenses

	2013 MOP'000	*2012* MOP'000
Interest expense on placements from banks	-	14
Interest expense on deposits from customers	690	1,403
Interest expense on deposits from a group company and other branches	5,084	11,976
	5,774	13,393

(c) Other revenue

	2013 MOP'000	*2012* MOP'000
Fee and commission income (arising from financial assets that are not at fair value through profit or loss)	27,989	26,475
Other income from a group company	103	124
	28,092	26,599

3 Profit before taxation (continued)

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

(d) Other net income

	2013 MOP'000	*2012* MOP'000
Exchange gain	4,580	3,220

(e) Operating expenses

	2013 MOP'000	*2012* MOP'000
Management fee	3,651	3,501
Premises expenses	916	889
Equipment expenses	18	18
Auditor's remuneration	358	357
Others	5,689	6,047
	10,632	10,812

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 MOP5,205,208 (2012: MOP6,000,682).

(f) Impairment charges on loans and advances

	2013 MOP'000	*2012* MOP'000
Individual impairment charges (note 7)	3,380	37,962
Portfolio impairment releases (note 7)	(468)	(4,517)
	2,912	33,445

4 Income tax

(a) Taxation in the income statement

	2013 MOP'000	*2012* MOP'000
Current tax		
Provision for the year	6,115	5,105
Over-provision relating to prior years	(10)	(32)
	6,105	5,073
Deferred tax		
Origination/reversal of temporary differences	442	(1,090)
	6,547	3,983

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

	2013 MOP'000	*2012* MOP'000
Profit before taxation	54,433	33,347
Notional tax on profit before taxation, calculated at Macau Complementary Tax rate of 12%	6,532	4,002
Tax effect of non-deductible expenses	25	30
Over-provision relating to prior years	(10)	(32)
Others	-	(17)
Actual tax expense	6,547	3,983

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:

	Regulatory reserve under AMCM Rules	
	2013	*2012*
	MOP'000	MOP'000
Deferred tax arising from:		
At 1 January	1,734	2,824
Charged/(released) to income statement	442	(1,090)
At 31 December	2,176	1,734

5 Cash, balances and placements with banks and other financial institutions

	2013	*2012*
	MOP'000	MOP'000
Cash in hand	94,841	73,289
Balances with banks and other financial institutions (note)	429,800	256,149
Placements with banks	13,338	109,927
	537,979	439,365

Note: Included minimum deposits with AMCM amounted to MOP47,719,858 (2012: MOP34,896,148).

6 Advances to customers

(a) Advances to customers

	2013	*2012*
	MOP'000	MOP'000
Gross loans and advances to customers	1,320,168	826,701
Trade bills	20,074	13,921
	1,340,242	840,622
Less: Impairment provision		
– individually assessed (note 7)	(67,966)	(64,648)
– collectively assessed (note 7)	(1,660)	(2,128)
	1,270,616	773,846

6 Advances to customers (continued)

(b) Impaired loans and advances to customers

	2013 MOP'000	*2012* MOP'000
Gross impaired advances to customers	69,460	79,555
Impairment provision - individually assessed	(67,966)	(64,648)
	1,494	14,907
Gross impaired advances to customers as a % of gross advances to customers	5.18%	9.46%

Collateral of MOP2,283,961 was held against impaired loans and advances to customers in 2013 (2012: MOP9,995,904).

(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.

	2013 MOP'000	*2012* MOP'000
Gross advances for use in Macau		
Industrial, commercial and financial		
– Clothing	-	5,245
– Textile productions	88,803	59,647
– Paper, printing and publishing	519,562	219,728
– Machinery and other electrical and electronic goods	10,702	8,894
– Wood and furniture	914	1,359
– Other manufacturing industries	232,755	28,500
– Wholesale and retail trade	302,195	167,128
– Others	133,548	272,808
Gross advances for use in Macau	1,288,479	763,309
Gross advances for use outside Macau	51,763	77,313
Total gross advances to customers and trade bills	1,340,242	840,622

7 Movement in impairment losses on loans and advances to customers

	2013		
	Individually assessed MOP'000	*Collectively assessed* MOP'000	*Total* MOP'000
At 1 January 2013	64,648	2,128	66,776
Net charge/(release) to the income statement (note 3(f))	3,380	(468)	2,912
Unwind of discount on loan impairment (note 3(a))	(62)	-	(62)
At 31 December 2013 (note 6(a))	67,966	1,660	69,626

	2012		
	Individually assessed MOP'000	*Collectively assessed* MOP'000	*Total* MOP'000
At 1 January 2012	26,686	6,645	33,331
Net charge/(release) to the income statement (note 3(f))	37,962	(4,517)	33,445
At 31 December 2012 (note 6(a))	64,648	2,128	66,776

8 Available-for-sale securities

	2013 MOP'000	*2012* MOP'000
Unlisted:		
AMCM monetary bills	69,782	69,720

9 Deposits from customers

	2013 MOP'000	*2012* MOP'000
Demand deposits and current accounts	413,405	270,913
Savings deposits	1,813,597	1,355,692
Time, call and notice deposits	44,163	11,183
	2,271,165	1,637,788

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

During the year, the Branch entered into transactions with head offices, other branches and group companies in the ordinary course of its banking business and on substantially the same terms as for comparable transactions with third-party counterparties.

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

	2013 MOP'000	*2012* MOP'000
Balances and placements with banks	1,424,594	1,398,719
Other assets	27,857	26,301
	1,452,451	1,425,020
Analysed into counterparty		
Head office	1,315	-
Other branches	1,379,759	695,740
Group companies	71,377	729,280
	1,452,451	1,425,020

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

	2013 MOP'000	*2012* MOP'000
Balances from banks	16,499	72,269
Deposits from banks	949,759	921,967
Other liabilities	2,938	4,827
	969,196	999,063
Analysed into counterparty		
Head office	6,481	2,897
Other branches	202	17,849
Group companies	962,513	978,317
	969,196	999,063

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 (1) provisions for bad and doubtful loans at certain percentage depending on the duration that the loans are overdue and (2) a general provision on credit granted based on a fixed percentage specified by the AMCM. 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:

	2013 MOP'000	*2012* MOP'000
Additional/(reduction) in provision under AMCM rules	3,686	(9,082)
Tax effect of the (addition)/reduction in provision	(442)	1,090
	3,244	(7,992)

12 Cash and cash equivalents

Composition of cash and cash equivalents in the cash flow statement

	2013 MOP'000	*2012* MOP'000
Cash and balances with banks and other financial institutions with original maturity less than three months	537,979	335,350
Amounts due from head office, other branches and group companies		
– Balances and placements with banks	1,382,508	1,398,719
Cash and cash equivalents in the cash flow statement	1,920,487	1,734,069

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:

	2013 MOP'000	*2012* MOP'000
Trade-related contingencies	5,024,414	3,481,190
Other commitments	8,135,513	6,411,135
	13,159,927	9,892,325

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:

	2013	*2012*
	MOP'000	MOP'000
Exchange rate contracts		
Forwards	584,620	1,077,394

(ii) Fair values of derivatives

	2013		*2012*	
	Fair value assets	*Fair value liabilities*	*Fair value assets*	*Fair value liabilities*
	(note (ii)(a))	(note (ii)(b))	(note (ii)(a))	(note (ii)(b))
	MOP'000	MOP'000	MOP'000	MOP'000
Exchange rate contracts	1,385	1,193	2,325	2,247

Notes:

Note (ii)(a): The amount is included in other assets and amount due from head office, other branches and group companies.

Note (ii)(b): The amount is included in other liabilities and amounts due to head office, other branches and group companies.

13 Off-balance sheet exposures (continued)

(b) Derivatives (continued)

(iii) Credit risk weighted amounts of derivatives

	2013 MOP'000	*2012* MOP'000
Exchange rate contracts	5,846	10,774

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

(c) Lease commitments

At 31 December 2013, the total future minimum lease payments under non-cancellable operating leases are as follows:

	2013 MOP'000	*2012* MOP'000
Properties		
– Within one year	292	621
– After one year but within 5 years	148	143
	440	764

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 is the potential for loss due to the failure of a counterparty to meet its obligation to pay the Branch in accordance with agreed terms. Credit exposures arise from both the banking and trading books.

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.

14 Financial risk management (continued)

(a) Credit risk management (continued)

A standard alphanumeric credit risk-grading system is used for quantifying the risk associated with a counterparty. The grading is based on the Standard Chartered Bank ("SCB")'s internal estimate of probability of default over a one year horizon, with customers or portfolios assessed against a range of quantitative and qualitative measures. The numeric grades run from 1 to 14 with some grades further sub-classified. Lower credit grades are indicative of a lower likelihood of default. Credit grade 1 to credit grade 12 are assigned to performing customers while credit grades 13 and 14 are assigned to non-performing (or defaulted) customers.

The SCB credit grades are not intended to replicate external credit grades, although as the factors used to grade a borrower may be similar, a borrower rated poorly by an external rating agency is typically assigned a weak SCB 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 disclosed in note 13(a).

14 Financial risk management (continued)

(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 and reviewed by the Market Risk department. Asset and Liability Committee ("ALCO") approves the limits and Market Risk department monitors exposures against these limits.

(i) Foreign exchange risk

The foreign exchange positions of the Branch arise from commercial banking operations. Market Risk department monitors exposure against these limits. Foreign exchange risk is minimized by match funding assets and liabilities in the same currency.

	2013 MOP'000	*2012* MOP'000
Total net long position in foreign currencies	6,951	67,308

Significant foreign currency exposures which exceeded 10% of the net position in all foreign currencies are as follows:

	2013 MOP'000	*2012* MOP'000
HK dollar exposure		
Spot assets	791,894	547,348
Spot liabilities	(794,435)	(506,830)
Forward purchases	103,175	228,135
Forward sales	(103,652)	(226,031)
Net (short)/long non-structural position	(3,018)	42,622

14 Financial risk management (continued)

(b) Market risk management (continued)

(i) Foreign exchange risk (continued)

Significant foreign currency exposures which exceeded 10% of the net position in all foreign currencies are as follows: (continued)

	2013	*2012*
	MOP'000	MOP'000
US dollar exposure		
Spot assets	2,394,743	1,964,748
Spot liabilities	(2,366,710)	(1,940,161)
Forward purchases	79,667	226,098
Forward sales	(99,591)	(228,123)
Net long non-structural position	8,109	22,562
CNY exposure		
Spot assets	57,290	325,919
Spot liabilities	(55,307)	(325,047)
Forward purchases	-	-
Forward sales	-	-
Net long non-structural position	1,983	872
EUR exposure		
Spot assets	149,099	128,511
Spot liabilities	(148,004)	(128,073)
Forward purchases	77,155	84,502
Forward sales	(77,156)	(84,502)
Net long non-structural position	1,094	438

14 Financial risk management (continued)

(b) Market risk management (continued)

(i) Foreign exchange risk (continued)

Significant foreign currency exposures which exceeded 10% of the net position in all foreign currencies are as follows: (continued)

	2013	*2012*
	MOP'000	MOP'000
JPY exposure		
Spot assets	31,972	50,959
Spot liabilities	(33,516)	(50,746)
Forward purchases	3,273	-
Forward sales	(3,193)	(3)
Net (short)/long non-structural position	(1,464)	210

(ii) Interest rate risk

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

(c) Liquidity risk management

Liquidity risk is the risk that the Branch either does not have sufficient financial resources available to meet all its obligations and commitments as they fall due, or can only access these financial resources at excessive cost.

The Branch's policy is to maintain adequate liquidity at all times and hence to be in a position to meet obligations as they fall due.

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 will be held to maturity or that the liabilities will be withdrawn on maturity.

	2013							
	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	*Total* MOP'000
Assets								
Cash, balances and placement with banks and other financial institutions	476,921	13,338	-	-	-	-	47,720	537,979
Trade bills	-	16,008	4,066	-	-	-	-	20,074
Loans and advances to customers	12,010	986,390	210,848	41,460	-	-	(166)	1,250,542
Available-for-sale securities	-	-	-	69,782	-	-	-	69,782
Amounts due from head office, other branches and group companies	94,798	992,195	321,606	42,537	-	-	1,315	1,452,451
Other assets	696	175,661	222,472	136,178	-	-	118	535,125
Total assets	584,425	2,183,592	758,992	289,957	-	-	48,987	3,865,953
Liabilities								
Deposits from customers	2,227,002	-	2,077	42,086	-	-	-	2,271,165
Amounts due to head office, other branches and group companies	16,944	688,250	220,874	43,110	-	-	18	969,196
Other liabilities	21,406	172,849	222,472	146,996	-	-	1,182	564,905
Total liabilities	2,265,352	861,099	445,423	232,192	-	-	1,200	3,805,266
Net liquidity gap	(1,680,927)	1,322,493	313,569	57,765	-	-	47,787	60,687

14 Financial risk management (continued)

(c) Liquidity risk management (continued)

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

	2012							
	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	*Total* MOP'000
Assets								
Cash, balances and placement 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	622,960	1,381,192	867,299	405,849	-	-	50,000	3,327,300
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	1,718,870	730,913	493,271	331,269	-	-	2,798	3,277,121
Net liquidity gap	(1,095,910)	650,279	374,028	74,580	-	-	47,202	50,179

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 2013 and 2012 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:

	Level 1	*Level 2*	*Level 3*
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:

	Level 2	
	2013	*2012*
	MOP'000	MOP'000
Available-for-sale securities	69,782	69,720
Positive fair values of derivatives	1,385	2,325
Total assets measured at fair value	71,167	72,045
Negative fair values of derivatives	1,193	2,247
Total liabilities measured at fair value	1,193	2,247

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.

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 price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal market or in the absence of a principal market the most advantageous market to which the Branch has access at that date. The fair value of a liability reflects its non-performance risk. Note 2(d) and 2(e) provide further information on the Branch's fair value accounting policy and process.

Unaudited supplementary financial information

(Expressed in thousands of Macau Patacas)

These notes set out on pages 34 to 46 are supplementary to and should be read in conjunction with the financial statements set out on pages 3 to 33. 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 2013.

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.

2013 Results

Profit before taxation increased by 63 per cent from MOP33.347 million to MOP54.433 million. Net interest income decreased by 26 per cent to MOP35.305 million. Other revenue including fee and commission income increased by 6 per cent over 2012. Total operating income decreased by 12 per cent to MOP67.977 million.

Operating expenses decreased by 2 per cent in 2013 to MOP10.632 million. Impairment charges on loans and advances decreased by MOP30.533 million over 2012. Profit after taxation was MOP47.886 million, an increase of MOP18.522 million over MOP29.364 million recorded in 2012.

Result under AMCM rules was MOP44.642 million, an increase of MOP7.286 million over MOP37.356 million recorded in 2012.

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

Except for Macau SAR of China, none of the remaining geographical segments represents more than 10% of the Branch's gross loans and advances to customers.

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

	2013					
	Loan and advances to customers	*of which* *Overdue loans*	*of which* *Impaired loans*	*Individually - assessed impairment provision*	*Collectively - assessed impairment provision*	*Additional provision under AMCM rules*
	MOP'000	MOP'000	MOP'000	MOP'000	MOP'000	MOP'000
Macau SAR of China	1,288,479	7,203	17,697	17,697	1,660	16,643
Others	51,763	-	51,763	50,269	-	1,494
	1,340,242	7,203	69,460	67,966	1,660	18,137

	2012					
	Loan and advances to customers	*of which* *Overdue loans*	*of which* *Impaired loans*	*Individually - assessed impairment provision*	*Collectively - assessed impairment provision*	*Additional provision under AMCM rules*
	MOP'000	MOP'000	MOP'000	MOP'000	MOP'000	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
	840,622	1,216	79,555	64,648	2,128	14,451

Unaudited supplementary financial information (continued)

(Expressed in thousands of Macau Patacas)

(b) ***Segmental information (continued)***

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

	2013		
	Bank	*Corporate entities*	*Total*
	MOP'000	MOP'000	MOP'000
Hong Kong SAR of China	5,596	-	5,596
Macau SAR of China	-	5,962,988	5,962,988
Singapore	1,323	-	1,323
Taiwan, China	1,900	-	1,900
Untied States	-	7,188,120	7,188,120
	8,819	13,151,108	13,159,927

	2012		
	Bank	*Corporate entities*	*Total*
	MOP'000	MOP'000	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
Untied States	-	4,071,841	4,071,841
	11,388	9,880,937	9,892,325

Unaudited supplementary financial information (continued)

(Expressed in thousands of Macau Patacas)

(b) Segmental information (continued)

(iii) Geographical analysis of exposure on financial derivatives

	2013		
	Bank	*Corporate entities*	*Total*
	MOP'000	MOP'000	MOP'000
United Kingdom	1,315	-	1,315
Macau SAR of China	-	70	70
	1,315	70	1,385

	2012		
	Bank	*Corporate entities*	*Total*
	MOP'000	MOP'000	MOP'000
United Kingdom	2,315	-	2,315
Macau SAR of China	-	10	10
	2,315	10	2,325

Unaudited supplementary financial information (continued)

(Expressed in thousands of Macau Patacas)

(c) Advances to customers analysed by industry sector

	2013					
	Impaired loans MOP'000	*Overdue loans* MOP'000	*Individually-assessed impairment provision* MOP'000	*Collectively-assessed impairment provision* MOP'000	*Additional provision under AMCM rules* MOP'000	*Write off* MOP'000
Clothing	-	-	-	-	-	-
Textile productions	-	7,203	-	119	1,188	-
Wood and furniture	-	-	-	1	8	-
Paper, printing and publishing	-	-	-	840	8,424	-
Machinery and other electrical and electronic goods	-	-	-	34	342	-
Other manufacturing industries	-	-	-	299	3,003	-
Wholesale and retail trade	17,697	-	17,697	287	2,877	-
Others	51,763	-	50,269	80	2,295	-
	69,460	7,203	67,966	1,660	18,137	-

Unaudited supplementary financial information (continued)

(Expressed in thousands of Macau Patacas)

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

	2012					
	Impaired loans MOP'000	*Overdue loans* MOP'000	*Individually-assessed impairment provision* MOP'000	*Collectively-assessed impairment provision* MOP'000	*Additional provision under AMCM rules* MOP'000	*Write off* 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	-
	79,555	1,216	64,648	2,128	14,451	-

Unaudited supplementary financial information (continued)

(Expressed in thousands of Macau Patacas)

(d) Overdue loans and advances to customers

	2013 Amount MOP'000	*2013* % of total loans
Loans and advances to customers that have been past due for periods of		
– six months or less but over three months	-	-
– one year or less but over six months	-	-
– over one year	69,460	5.18
	69,460	5.18
Individually-assessed impairment provision	67,966	
Collateral value	2,284	

	2012 Amount MOP'000	*2012* % of total loans
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	5.13
	79,555	9.46
Individually-assessed impairment provision	64,648	
Collateral value	9,996	

Unaudited supplementary financial information (continued)

(Expressed in thousands of Macau Patacas)

(e) Operational risk management

Operational risk is the potential for loss arising from the failure of people, process or technology or the impact of external events. Operational risk exposures are managed through a consistent set of management processes that drive risk identification, assessment, control and monitoring. We seek to control operational risks to ensure that operational losses do not cause material damage to the franchise of the Branch.

Operational risks can arise from all business lines and from all activities carried out by the Branch. We seek to systematically identify and manage operational risk by segmenting all of the Branch's activities into manageable units. Each of these has an owner who is responsible for identifying and managing all the risks that arise from those activities as an integral part of their first line responsibilities. Products and services offered to clients and customers in all our markets are also assessed and authorised in accordance with product governance procedures.

Although operational risk exposures can take many varied forms, we seek to manage them in accordance with standards that drive systematic risk identification, assessment, control and monitoring. These standards are challenged and reviewed regularly to ensure their ongoing effectiveness. To support the systematic identification of material operational risk exposures associated with a given process, we classify them into the following types:

Operational risk subtypes	
Processing failure	Potential for loss due to failure of an established process or to a process design weakness
External rules and regulations	Potential for actual or opportunity loss due to failure to comply with laws or regulations, or as a result of changes in laws or regulations or in their interpretation or application
Liability	Potential for loss or sanction due to a legal claim against any part of the Group or individuals within the Group
Legal enforceability	Potential for loss due to failure to protect legally the Group's interests or from difficulty in enforcing the Group's rights

Unaudited supplementary financial information (continued)

(Expressed in thousands of Macau Patacas)

(e) Operational risk management (continued)

Operational risk subtypes (continued)

Damage to assets	Potential for loss or damage to physical assets and other property from natural disaster and other events
Safety and security	Potential for loss or damage to health or safety of staff, customers or third parties arising from internal failures or the effects of external events
Internal crime or dishonesty	Potential for loss due to action by staff that is intended to defraud, misappropriate property or to circumvent the law or company policy
External financial crime	Potential for loss due to criminal acts by external parties such as fraud, theft and other criminal activity
Model	Potential for loss due to a significant discrepancy between the output of risk measurement models and actual experience

Identified operational risk exposures are rated ‘low’, ‘medium’, ‘high’ or ‘very high’ in accordance with defined risk assessment criteria. Risks that are outside set materiality thresholds receive a differential level of management attention and are reported to senior management and risk committees up to Board level. Significant external events or internal failures that have occurred are analysed to identify the root cause of any failure for remediation and future mitigation. Actual operational losses are systematically recorded.

In the second line of defence, the Operational Risk function is responsible for setting and maintaining the standards for operational risk management and control. In addition, specialist operational risk control owners have responsibility for the control of operational risk arising from the management of the following activities: people, technology, vendor, property, security, accounting and financial control, tax, legal processes, corporate authorities and structure and regulatory compliance.

Each risk control owner, supported by a specialist control function, is responsible for identifying risks that are material to the Branch and for maintaining an effective control environment across the whole organisation. This includes defining appropriate policies for approval by authorised risk committees, that impose specific controls and constraints on the Branch’s activities.

Unaudited supplementary financial information (continued)

(Expressed in thousands of Macau Patacas)

(e) ***Operational risk management (continued)***

The Country Operational Risk Committee, oversees the management of operational risks across the Branch, supported by business, functional, and country-level committees. All operational risk committees operate on the basis of a defined structure of delegated authorities and terms of reference derived from the Country Risk Committee.

(f) ***Liquidity risk***

	January to December 2013 MOP'000	*January to December 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))	61,559	50,848
Arithmetic mean of the average weekly amount of cash in hand during the year (note (i))	135,219	61,017
Arithmetic mean of the specified liquid assets at the end of each month during the year (note (i))	2,126,468	1,815,640

	January to December 2013	*January to December 2012*
Average ratio of specified liquid asset to total basic liabilities at the end of each month during the year (note (i))	100.32%	105.11%
Arithmetic mean of its one-month liquidity ratio in the last week of each month during the year (note (ii))	81.50%	87.59%
Arithmetic mean of its three-month liquidity ratio in the last week of each month during the year (note (ii))	101.02%	102.19%

Unaudited supplementary financial information (continued)

(Expressed in thousands of Macau Patacas)

(f) ***Liquidity risk (continued)***

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
- daily 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

	2013	*2012*
Consolidated capital adequacy ratio	18.0%	17.4%

The Group complies with the Basel II framework, which has been implemented in the UK through the Prudential Regulation Authority's General Prudential Sourcebook and its Prudential Sourcebook for Banks, Building Societies and Investment Firms. Since 1 January 2008, we have been using the advanced Internal Ratings Based ("IRB") approach for the calculation of credit risk capital requirements with the approval of our relevant regulators. The Group uses Value at Risk ("VaR") models for the calculation of market risk capital requirements for part of our trading book exposures where permission to use such models has been granted by our relevant regulators. Where our market risk exposures are not approved for inclusion in VaR models, the capital requirements are determined using standard rules provided by the relevant regulator. The Group applies the Standardised Approach for determining the capital requirements for operational risk.

(ii) Other consolidated financial information of the Group

		restated (note)
	2013	*2012*
	US$ million	US$ million
Total assets	674,380	631,208
Total liabilities	627,539	585,153
Total capital and reserves	46,841	46,055
Total loans and advances to banks and customers	374,410	347,435
Total customer deposits and deposits from banks	424,583	409,301
Pre-tax profit	6,064	6,851

Note: Amounts have been restated due to the application of International Financial Reporting Standard 11 Joint Arrangements.

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 2013, 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 2013 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 James Frederick Trevor Dundas; Dr Han Seung-soo, KBE; Mr Simon Jonathan Lowth; Mr Rudolph Harold Peter Markham; Ms Ruth Markland (Senior Independent Director); Mr John Gregor Hugh Paynter; Mr Paul David Skinner; Mr Oliver Henry James Stocken; Dr Lars Henrik Thunell; Mr Naguib Kheraj; Dr Kurt Michael Campbell and Ms Christine Mary Hodgson.