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

31 December 2018

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

We have audited the accompanying financial statements of Standard Chartered Bank, Macau Branch (the "Branch") set out on pages 3 to 42, which comprise the Branch's balance sheet at 31 December 2018, income statement, the statement of changes in reserves and the cash flow statement for the year then ended and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

As explained in note 2(b), the Branch is not a separate legal entity. These financial statements have been prepared from the records of the Branch to reflect all transactions recorded locally on the basis of 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").

Responsibilities of the Branch's management for the financial statements

The Branch's management is responsible for the preparation and presentation of these financial statements in accordance with the requirements as set out in Macau Financial System Act (Decree-Law No. 32/93/M) and the Financial Reporting Standards issued under Administrative Regulation No. 25/2005 of the Macau SAR. 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 responsibilities for the audit of the financial statements

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 Article 53 of the Macau Financial System Act (Decree-Law No. 32/93/M) and 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 as to 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 responsibilities for the audit of the financial statements (continued)

An audit involves performing appropriate 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 reasonable 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 2018, and of its results for the year then ended in accordance with the requirements set out in Decree-Law No. 32/93/M and the Financial Reporting Standards of the Macau SAR.

This report is intended solely for filing with the Autoridade Monetaria de Macau ("AMCM").

Lei Iun Mei, Registered Auditor
KPMG
24th Floor, B&C
Bank of China Building
Avenida Doutor Mario Soares
Macau

Income statement
For the year ended 31 December 2018
(Expressed in thousands of Macau Patacas)

	Note	*2018* MOP'000	*2017* MOP'000
Interest revenue	3(a)	84,683	56,060
Interest expense	3(b)	(37,400)	(18,957)
Net interest income		47,283	37,103
Fee and commission income	3(c)	18,838	17,988
Exchange gain		1,846	1,566
Operating income		67,967	56,657
Operating expenses	3(d)	(19,414)	(15,584)
Operating profit before impairment		48,553	41,073
Credit impairment	3(e)	995	(551)
Profit before taxation		49,548	40,522
Taxation	4(a)	(5,897)	(4,819)
Profit after taxation and total comprehensive income		43,651	35,703
Effect of additional provisions for loans and advances to customers under AMCM rules			
Profit after taxation		43,651	35,703
Additional provisions under AMCM rules	11(b)	(11,951)	(8,163)
Result for the year under AMCM rules		31,700	27,540

The notes on pages 8 to 42 form part of these financial statements.

Balance sheet at 31 December 2018

(Expressed in thousands of Macau Patacas)

	Note	*2018* MOP'000	*2017* MOP'000 (*Restated)*
Assets			
Cash, balances and placements with banks and other financial institutions	5	547,892	363,676
Loans and advances to customers	6(a)	3,896,067	2,370,251
Financial assets at fair value through equity/Available-for-sale ("AFS") securities	8	128,435	129,358
Amounts due from head office, other branches and group companies	10(a)	1,673,825	992,032
Other assets	15	479,113	683,908
		6,725,332	4,539,225
Liabilities			
Deposits from customers	9	1,869,767	1,309,037
Amounts due to head office, other branches and group companies	10(b)	4,284,935	2,475,520
Current tax liabilities	4(a)	4,263	3,776
Deferred tax liabilities	4(c)	5,146	3,513
Other liabilities	16	491,069	693,536
		6,655,180	4,485,382
Reserves	11	70,152	53,843
		6,725,332	4,539,225

Approved and authorised for issue by the management on

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The notes on pages 8 to 42 form part of these financial statements.

Statement of changes in reserves
For the year ended 31 December 2018
(Expressed in thousands of Macau Patacas)

	Note	Fair value through equity reserve *MOP'000*	AFS reserve *MOP'000*	Retained profits *MOP'000*	Regulatory reserve *MOP'000*	Total *MOP'000*
At 1 January 2017		-	(27)	28,014	17,600	45,587
Profit after taxation		-	-	35,703	-	35,703
AFS securities						
– Changes in fair value during the year		-	53	-	-	53
Amount remitted to head office		-	-	(27,500)	-	(27,500)
Transfer from retained profits	11(b)	-	-	(8,163)	8,163	-
At 31 December 2017		-	26	28,054	25,763	53,843
Impact on initial application of new accounting policies of financial instruments	18(a)	924	(26)	(791)	398	505
At 1 January 2018		924	-	27,263	26,161	54,348
Profit after taxation		-	-	43,651	-	43,651
Financial assets at fair value through equity						
– Changes in fair value during the year		(188)	-	-	-	(188)
– Impact of expected credit loss ("ECL")		(659)	-	-	-	(659)
Amount remitted to head office		-	-	(27,000)	-	(27,000)
Transfer from retained profits	11(b)	-	-	(11,951)	11,951	-
At 31 December 2018		77	-	31,963	38,112	70,152

The notes on pages 8 to 42 form part of these financial statements.

Cash flow statement
For the year ended 31 December 2018
(Expressed in thousands of Macau Patacas)

	Note	*2018* MOP'000	*2017* MOP'000
Operating activities			
Profit from ordinary activities before taxation		49,548	40,522
Adjustments for non-cash items:			
Interest revenue from financial assets at fair value through equity		(1,901)	(947)
Credit impairment		(995)	551
Operating profit before changes in working capital		46,652	40,126
Decrease/(increase) in operating assets:			
Balances with banks with original maturity beyond three months		-	63,902
Loans and advances to customers		(1,524,818)	(787,538)
Financial assets at fair value through equity/AFS securities with maturity beyond three months		2,614	(98,654)
Amounts due from head office, other branches and group companies		1	(2,183)
Other assets		204,795	(157,855)
Increase/(decrease) in operating liabilities:			
Deposits from customers		560,730	163,368
Amounts due to head office, other branches and group companies		1,809,415	657,669
Other liabilities		(202,674)	176,305
Cash generated from operations		896,715	55,140
Macau complementary tax paid		(3,701)	(3,622)
Net cash generated from operating activities		893,014	51,518

Cash flow statement
For the year ended 31 December 2018 (continued)
(Expressed in thousands of Macau Patacas)

	Note	*2018* MOP'000	*2017* MOP'000
Financing activity			
Amount remitted to head office		(27,000)	(27,500)
Net cash used in financing activity		(27,000)	(27,500)
Net increase in cash and cash equivalents		866,014	24,018
Cash and cash equivalents at 1 January		1,348,087	1,324,069
Cash and cash equivalents at 31 December	12	2,214,101	1,348,087
Cash flows from operating activities include:			
Interest received		81,206	53,954
Interest paid		(35,477)	(18,358)

The notes on pages 8 to 42 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.

(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 the 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) Interest revenue, interest expense and fees and commissions

(i) Interest revenue and expense

Interest revenue for financial assets held at either fair value through equity or amortised cost, and interest expense on all financial liabilities held at amortised cost is recognised in the income statement using the effective interest method.

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 revenue 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 (and in 2018 to the gross carrying amount unless the financial asset was credit impaired) 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.

2 Significant accounting policies (continued)

(c) Interest revenue, interest expense and fees and commissions (continued)

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest revenue is recognised at the original effective interest rate of the financial asset applied to the impaired carrying amount (and in 2018 to the gross carrying amount unless the financial asset was credit impaired).

(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 instruments

Policies effective from 1 January 2018

SCB has changed to report its financial instruments in accordance with IFRS 9, which replaced IAS 39, *Financial Instruments: Recognition and Measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

To align the Branch's accounting policies with its Head Office's, the Branch has voluntarily changed its accounting policies on the classification, measurement and impairment model for financial instruments, effective for the year ended 31 December 2018. In addition, the change is expected to provide more reliable and relevant information on the expected cash flows of financial assets.

Normally, a voluntary change in accounting policies shall be applied retrospectively by adjusting the opening balance of each affected component of equity for the earliest prior period presented and the other comparative amounts disclosed as if the new accounting policies had always been applied.

However, the Branch has not restated comparative periods on the basis that it is not possible to collect data in a way for determining the probability of default for calculating the ECL allowance without the use of hindsight, which makes such a restatement impracticable.

Consequently, information relating to previous periods has not been restated and continues to be reported under the previous accounting policies and thus may not be comparable with the current period. Comparative amounts for impairment losses on financial instruments as at 1 January 2018, which is the earliest point in time for which they can be obtained without hindsight have been shown in note 18(b) to comply with the new accounting policies.

2 Significant accounting policies (continued)

(d) Financial instruments (continued)

Further details of the nature and effect of the changes to previous accounting policies are set out below:

A. Classification and measurement of financial instruments

Classification

The Branch classifies its financial assets into the following measurement categories: amortised cost; fair value through equity; and fair value through profit or loss.

Financial liabilities are classified as either amortised cost, or held at fair value through profit or loss. Management determines the classification of its financial assets and liabilities at initial recognition of the instrument or, where applicable, at the time of reclassification.

Derivatives are mandatorily held at fair value through profit or loss.

Debt instruments held at amortised cost or held at fair value through equity have contractual terms that give rise to cash flows that are solely payments of principal and interest ("SPPI characteristics").

Principal is the fair value of the financial asset at initial recognition but this may change over the life of the instrument as amounts are repaid. Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period and for other basic lending risks and costs, as well as a profit margin.

In assessing whether the contractual cash flows have SPPI characteristics, the Branch considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Branch considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Branch's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify the consideration of the time value of money – e.g. periodical reset of interest rates.

Whether financial assets are held at amortised cost or at fair value through equity also depend on the objectives of the business models under which the assets are held. A business model refers to how the Branch manages financial assets to generate cash flows.

2 Significant accounting policies (continued)

(d) Financial instruments (continued)

The Branch makes an assessment of the objective of a business model in which an asset is held at the individual product business line, and where applicable within business lines depending on the way the business is managed and information is provided to management. Factors considered include:

- how the performance of the product business line is evaluated and reported to the Branch's management;

- how managers of the business unit are compensated, including whether management is compensated based on the fair value of assets or the contractual cash flows collected;

- the risks that affect the performance of the business model and how those risks are managed;

- the frequency, volume and timing of sales of existing financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Financial assets which have SPPI characteristics and that are held within a business model whose objective is to hold financial assets to collect contractual cash flows ("hold-to-collect") are recorded at amortised cost. Conversely, financial assets which have SPPI characteristics but are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets ("hold-to-collect and sell") are classified as held at fair value through equity.

Both the hold-to-collect business model and the hold-to-collect and sell business model involve holding financial assets to collect the contractual cash flows. However, the business models are differentiated by reference to the frequency and significance that asset sales play in meeting the objective for which a particular group of financial assets is managed.

Financial assets are measured at fair value through profit or loss if their contractual cash flows do not have SPPI characteristics or they are held within a business model other than the hold-to-collect or the hold-to-collect and sell business model.

2 Significant accounting policies (continued)

(d) Financial instruments (continued)

Initial recognition

Purchases and sales of financial assets held at fair value through profit or loss, and debt securities classified as financial assets held at fair value through equity are initially recognised on the trade-date (the date on which the Branch commits to purchase or sell the asset). Loans and advances and other financial assets held at amortised cost are recognised on settlement date (the date on which cash is advanced to the borrowers). Financial liabilities are initially recognised when the Branch becomes a party to the contractual provision.

All financial instruments are initially recognised at fair value, which is normally the transaction price, plus (or minus) directly attributable transaction costs for financial assets (or financial liabilities) which are not subsequently measured at fair value through profit or loss.

Subsequent measurement

Financial assets and financial liabilities held at amortised cost

Financial assets and financial liabilities held at amortised cost are subsequently carried at amortised cost using the effective interest method. Foreign exchange gains and losses are recognised in the income statement.

Financial assets held at fair value through equity

Debt instruments held at fair value through equity are subsequently carried at fair value, with all unrealised gains and losses arising from changes in fair value accumulated in a separate component of equity. Foreign exchange gains and losses on the amortised cost are recognised in the income statement. Changes in expected credit losses (“ECL”) are recognised in the income statement and are accumulated in a separate component of equity.

On derecognition, the cumulative fair value gains or losses, net of the cumulative ECL in reserve, are transferred to the income statement.

Financial assets and liabilities held at fair value through profit or loss

Financial assets and liabilities held at fair value through profit or loss are subsequently carried at fair value;

2 Significant accounting policies (continued)

(d) Financial instruments (continued)

<u>Derecognition</u>

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Branch has transferred the asset and also substantially all of the associated risks and rewards of ownership. If substantially all the risks and rewards have been neither retained nor transferred and the Branch has retained control, the assets continue to be recognised to the extent of the Branch's continuing involvement. If substantially all the risks and rewards have been neither retained nor transferred and the Branch has lost control, the assets will be derecognised.

Financial assets are transferred where the Branch has transferred the contractual rights to receive the cash flows of the financial assets or retained the contractual rights to receive the cash flows of the financial assets.

Where financial assets have been modified, the modified terms are assessed on a qualitative and quantitative basis to determine whether a fundamental change in the nature of the instrument has occurred, which determines whether the derecognition of the existing instrument and the recognition of a new instrument is appropriate.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of the consideration received (including any new asset obtained less any new liability assumed) is recognised in the income statement.

Financial liabilities are derecognised when they are extinguished. A financial liability is extinguished when the obligation is discharged, cancelled or expired.

2 Significant accounting policies (continued)

(d) Financial instruments (continued)

B. Impairment

The Branch's ECL calculations are outputs of complex models with a number of underlying assumptions. The significant judgements and estimates in determining ECL include:

- the Branch's criteria for assessing if there has been a significant increase in credit risk;
- development of ECL models, including the choice of inputs relating to macroeconomic variables.

The calculation of ECL allowance also involves expert credit judgement to be applied by the credit risk management team based upon counterparty information they receive from various sources including relationship managers and external market information.

ECLs are determined for all financial debt instruments that are classified at amortised cost or fair value through equity, loan commitments and financial guarantees issued.

An ECL represents the present value of expected cash shortfalls over the remaining life of a financial asset, undrawn commitment or financial guarantee.

A cash shortfall is the difference between the cash flows that are due in accordance with the contractual terms of the instrument and the cash flows that the Branch expects to receive (or pay in case of financial guarantee contracts) over the expected life of the instrument.

<u>Measurement</u>

ECLs are computed as unbiased and probability weighted amount which are determined by evaluating a range of reasonably possible outcomes, the time value of money, and considering all reasonable and supportable information including information which is forward looking.

For material portfolios, the estimate of ECLs is determined by multiplying the probability of default ("PD") with the loss given default ("LGD") with the expected exposure at the time of default ("EAD").

Forward looking economic assumptions, such as GDP growth rates, interest rates, house price indices and commodity prices amongst others are incorporated into PD, LGD and EAD where relevant. These forecasts are determined using all reasonable and supportable information, which includes both internally developed forecasts and those available externally, and are consistent with those used for budgeting, forecasting and capital planning.

To account for the potential non-linearity in credit losses, multiple forward-looking scenarios are incorporated into the range of reasonably possible outcomes for all material portfolios.

For credit-impaired financial instruments (see "Credit impaired (or defaulted) exposures (stage 3) on page 17), the estimate of cash shortfalls may require the use of expert credit judgement.

2 Significant accounting policies (continued)

(d) Financial instruments (continued)

The estimate of expected cash shortfalls on a collateralised financial instrument reflects the amount and timing of cash flows that are expected from foreclosure on the collateral less the costs of obtaining and selling the collateral, regardless of whether foreclosure is deemed probable.

Cash shortfalls are discounted using the effective interest rate on the financial instrument as calculated at initial recognition or if the instrument has a variable interest rate, the current effective interest rate determined under the contract.

Instruments	Location of ECL allowance
Financial assets held at amortised cost	Netted against gross carrying value
Debt instruments at fair value through equity	Reserves[1]
Loan commitments and financial guarantees issued	Other liabilities[2]

[1] Debt securities classified as fair value through equity are held at fair value. The ECL allowance attributed to these instruments is accumulated in a separate reserve. Any fair value gains or losses are also accumulated within that reserve and recycled to the income statement when the applicable instruments are derecognised.

[2] ECL allowance for loan commitments and financial guarantees is recognised as a provision. Where a financial instrument includes both a loan (i.e. financial asset component) and an undrawn commitment (i.e. loan commitment component), and it is not possible to separately identify the ECLs on these components, ECLs on the loan commitment are recognised together with the ECL allowance for the financial asset. To the extent the combined ECLs exceed the gross carrying amount of the financial asset, the ECL is recognised as a provision.

2 Significant accounting policies (continued)

(d) Financial instruments (continued)

Recognition

(1) 12-month ECLs (stage 1)

After initial recognition, a 12-month ECL is recognised that represents the lifetime cash shortfalls arising from possible default events within 12 months from the balance sheet date. ECLs continue to be determined on this basis until there is a significant increase in the credit risk of the instrument since initial recognition (including when the instrument becomes credit-impaired). If the instrument is no longer considered to exhibit a significant increase in credit risk, ECLs will revert to being determined on a 12-month basis.

(2) Significant increase in credit risk (stage 2)

If a financial asset experiences a significant increase in credit risk ("SICR") since initial recognition, an ECL allowance is recognised for default events that may occur over the expected life of the asset.

Significant increase in credit risk is assessed by comparing the risk of default of an exposure at the reporting date to the risk of default at origination (after taking into account the passage of time). Whether a change in the risk of default is significant or not is assessed using a number of quantitative and qualitative factors, the weight of which depends on the type of products and counterparties.

Quantitative factors include an assessment of whether there has been a significant increase in the forward-looking PD since origination. A forward-looking PD is one that is adjusted for future economic conditions to the extent these are correlated to changes in credit risk. We compare the residual lifetime PD at the balance sheet date to the residual lifetime PD that was expected at the time of origination for the same point in the term structure and determine whether both the absolute and relative change between the two exceeds predetermined thresholds. To the extent that the differences between the measures of default outlined exceed the defined thresholds, the instrument is considered to have experienced a significant increase in credit risk.

Qualitative factors assessed include those linked to current credit risk management processes, such as lending placed on non-purely precautionary early alert (and subject to closer monitoring).

A non-purely precautionary early alert account is one which exhibits risk or potential weaknesses of a material nature requiring closer monitoring, supervision, or attention by management. Weaknesses in such an account, if left uncorrected, could result in deterioration of repayment prospects and the likelihood of being downgraded. Indicators include a rapid erosion of position within the industry, concerns over management's ability to manage operations, weak/deteriorating operating results, liquidity strain and overdue balances amongst other factors.

2 Significant accounting policies (continued)

(d) Financial instruments (continued)

(3) Credit impaired (or defaulted) exposures (stage 3)

Financial assets that are credit impaired (or in default) represent those that are at least 90 days past due in respect of principal and/or interest. Financial assets are also considered to be credit impaired where the obligors are unlikely to pay on the occurrence of one or more observable events that have a detrimental impact on the estimated future cash flows of the financial asset. It may not be possible to identify a single discrete event but instead the combined effect of several events may cause financial assets to become credit impaired.

Evidence that a financial asset is credit impaired includes observable data about the following events:

- Significant financial difficulty of the issuer or borrower;
- Breach of contract such as a default or past due event;
- For economic or contractual reasons relating to the borrower’s financial difficulty, the lenders of the borrower have granted the borrower concessions that lenders would not otherwise consider, which include forbearance actions;
- Pending or actual bankruptcy or other financial reorganisation to avoid or delay discharge of the borrower’s obligations;
- The disappearance of an active market for the applicable financial asset due to financial difficulties of the borrower;
- Purchase or origination of a financial asset at a deep discount that reflects incurred credit losses.

Loss allowance for credit impaired financial assets are determined based on an assessment of the recoverable cash flows under a range of possible scenarios, including the realisation of any collateral held where appropriate. The loss allowance represents the present value of the cash shortfalls discounted at the instrument’s original effective interest rate.

To the extent a financial asset is considered irrecoverable, the applicable portion of the gross carrying value is written off against the related loss allowance. Such loans are written off after all the necessary procedures have been completed and it is decided that there is no reasonable expectation of recovery and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of impairment loss in the income statement.

2 Significant accounting policies (continued)

(d) Financial instruments (continued)

C. Impact on initial adoption of the change in accounting policies

As a result of the above changes in accounting policies, AMCM monetary bills classified as available-for-sale securities have been reclassified and recognised as financial assets at fair value through equity. The opening reserve position as of 1 January 2018 has decreased by MOP 658,549 to MOP 239,275, primarily relates to the adoption of the ECL requirements.

Policies effective prior to 1 January 2018

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.

(ii) Available-for-sale financial assets

Available-for-sale financial 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 financial 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 financial 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, and other valuation techniques commonly used by market participants.

2 Significant accounting policies (continued)

(d) Financial instruments (continued)

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 revenue 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 financial 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.

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 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.

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.

2 Significant accounting policies (continued)

(d) Financial instruments (continued)

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.

(ii) Available-for-sale financial assets

Where there is objective evidence that an available-for-sale financial asset is impaired, 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.

(e) Leases

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

(f) 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.

(g) 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.

2 Significant accounting policies (continued)

(h) 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.

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 reserves are subsequently recognised in the income statement together with the current or deferred gain or loss.

(i) 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 depending on the treatment of the gain or loss on the asset or liability.

2 Significant accounting policies (continued)

(j) Related parties

(a) A person, or a close member of that person's family, is related to the Branch if that person:

(i) has control or joint control over the Branch;

(ii) has significant influence over the Branch; or

(iii) is a member of the key management personnel of the Branch or the Branch's Head Office.

(b) An entity is related to the Branch if any of the following conditions applies:

(i) The entity and the Branch are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Branch or an entity related to the Branch.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Branch or to the Branch's Head Office.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

3 Profit before taxation

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

(a) Interest revenue

	2018 MOP'000	*2017* MOP'000
Interest revenue from deposits with banks	147	3
Interest revenue from financial assets at fair value through equity	1,901	-
Interest revenue from AFS securities	-	947
Interest revenue from loans and advances to customers	70,604	46,151
Interest revenue from placements with a group company and other branches	12,031	8,959
	84,683	56,060

No interest revenue on unwinding of discount (note 7) on impairment provisions is recognised in 2018 (2017: Nil).

(b) Interest expense

	2018 MOP'000	*2017* MOP'000
Interest expense on placement from banks	4	1
Interest expense on deposits from customers	1,283	1,203
Interest expense on deposits from a group company and other branches	36,113	17,753
	37,400	18,957

(c) Fee and commission income

	2018 MOP'000	*2017* MOP'000
Fee and commission income	18,838	17,988

No fee and commission income arises from financial assets at fair value through profit or loss.

3 Profit before taxation (continued)

(d) Operating expenses

	2018 MOP'000	*2017* MOP'000
Management fee	3,482	3,338
Premises expenses	1,276	1,299
Equipment expenses	52	33
Auditor's remuneration	311	288
Others	14,293	10,626
	19,414	15,584

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, group companies, and other branches of MOP 12,814,681 (2017: MOP 9,273,758).

(e) Credit impairment

		2018 MOP'000	*2017* MOP'000
<u>Credit impairment charge/(release)</u>			
Cash, balances and placements with banks and other financial institutions		2	-
Financial assets at fair value through equity		(659)	-
Loans and advances to customers (note 7)	(181)		551
Off balance sheet items	(157)		-
		(995)	551

4 Income tax

(a) Taxation in the income statement

	2018 MOP'000	*2017* MOP'000
Current tax		
Provision for the year	4,263	3,776
Over-provision relating to prior years	(75)	(70)
	4,188	3,706
Deferred tax		
Origination of temporary differences	1,709	1,113
	5,897	4,819

4 Income tax (continued)

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

	2018 MOP'000	2017 MOP'000
Profit before taxation	49,548	40,522
Notional tax on profit before taxation, calculated at Macau Complementary Tax rate of 12%	5,946	4,863
Tax effect of non-deductible expenses	26	26
Over-provision relating to prior years	(75)	(70)
Actual tax expense	5,897	4,819

(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:

	2018 MOP'000	2017 MOP'000
Deferred tax arising from:		
Regulatory reserve under AMCM Rules		
At 1 January	3,513	2,400
Deferred tax impact on initial adoption of new accounting policies of financial instruments	(54)	-
Credited to reserves	(22)	-
Charged to profit or loss	1,709	1,113
At 31 December	5,146	3,513

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

	2018 MOP'000	2017 MOP'000
Balances with banks and other financial institutions (note)	547,896	363,213
Placements with banks	-	463
	547,896	363,676
Less: ECL provision (note 17)	(4)	-
	547,892	363,676

Note: Includes minimum deposits with the AMCM of MOP51,482,000 (2017: MOP35,897,392).

6 Loans and advances to customers

(a) Loans and advances to customers

	2018 MOP'000	*2017* MOP'000 *(Restated)*
Gross loans and advances to customers	3,896,680	2,371,862
Less:		
ECL provision (note 17)	(613)	-
Impairment provision (note 7)		
- collectively assessed	-	(1,611)
- individually assessed	-	-
	3,896,067	2,370,251

(b) Impaired loans and advances to customers

There were no impaired loans and advances to customers in 2018 and 2017.

(c) Loans and advances to customers analysed by industry sector

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

	2018 MOP'000	*2017* MOP'000
Industrial, commercial and financial		
– Textile productions	91,625	97,374
– Leather articles	9,077	5,280
– Paper, printing and publishing	1,308,963	1,191,502
– Machinery and other electrical and electronic goods	1,986,360	715,863
– Other manufacturing industries	-	699
– Wholesale and retail trade	500,655	361,144
Total gross loans and advances to customers	3,896,680	2,371,862

No loans and advances were granted to customers with principal place of business outside Macau in 2018 and 2017.

7 Movement in impairment provision on loans and advances to customers

	Individually assessed MOP'000	*Collectively assessed* MOP'000	*Modelled* MOP'000	*Total* MOP'000
At 1 January 2017		1,060	-	1,060
Net charge to the income statement (note 3(e))		551	-	551
At 31 December 2017		1,611	-	1,611
Impact on initial application of new accounting policies of financial instruments		(1,611)	794	(817)
At 1 January 2018		-	794	794
Net release to the income statement (note 3(e))		-	(181)	(181)
At 31 December 2018 (note 6(a))		-	613	613

8 Financial assets at fair value through equity/AFS securities

	2018 MOP'000	*2017* MOP'000
Gross AMCM monetary bills	128,435	129,358
Less: ECL	(239)	-
	128,196	129,358

The balance refers to unlisted AMCM monetary bills carried at fair value through equity.

9 Deposits from customers

	2018 MOP'000	*2017* MOP'000
Demand deposits and current accounts	829,402	396,464
Savings deposits	1,009,341	868,264
Time, call and notice deposits	31,024	43,653
Other deposits	-	656
	1,869,767	1,309,037

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 external counterparties.

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

	2018 MOP'000	*2017* MOP'000 *(Restated)*
Balances and placements with banks	1,673,825	992,032
Analysed into counterparty		
Head office	591	10,044
Other branches	658,492	411,511
Group companies	1,014,742	570,477
	1,673,825	992,032

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

	2018 MOP'000	*2017* MOP'000 *(Restated)*
Balances from banks	18,290	34,924
Deposits from banks	4,266,645	2,440,596
	4,284,935	2,475,520
Analysed into counterparty		
Head office	3,104	3,530
Other branches	-	432
Group companies	4,281,831	2,471,558
	4,284,935	2,475,520

11 Reserves

Nature and purpose of reserves

(a) Fair value through equity reserve/AFS reserve

The fair value through equity reserve comprises the cumulative net change in the fair value of the investment in debt securities measured at fair value through equity, less the ECL allowance recognised in profit or loss. Before 1 January 2018, the AFS reserve comprises the cumulative net change in the fair value of AFS securities held at the reporting date and is dealt with in accordance with the accounting policies in note 2(d).

(b) Regulatory reserve

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(d), the Branch recognised ECLs based on its assessment of the credit risk or credit impaired status of borrower, where 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:

	2018 MOP'000	*2017* MOP'000
Addition in provision under AMCM rules	13,581	9,276
Tax effect of the addition in provision	(1,630)	(1,113)
	11,951	8,163

12 Cash and cash equivalents

Composition of cash and cash equivalents in the cash flow statement

	2018 MOP'000	*2017* MOP'000
Cash, balances and placements with banks and other financial institutions with original maturity less than three months	547,896	363,676
Amounts due from head office, other branches and group companies		
–Balances and placements with banks	1,666,205	984,411
Cash and cash equivalents in the balance sheet and cash flow statement	2,214,101	1,348,087

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:

	2018 MOP'000	*2017* MOP'000
Trade-related contingencies	572,977	369,672
Other commitments	3,616,730	3,076,859
	4,189,707	3,446,531
Less: ECL provision (notes 16 and 17)	(207)	-
	4,189,500	3,446,531

Contingent liabilities and commitments are credit-related instruments which include letters of credit, 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 represent 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.

(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:

	2018 MOP'000	*2017* MOP'000
Exchange rate contracts		
Forwards	101,109	927,992

13 Off-balance sheet exposures (continued)

(b) Derivatives (continued)

(ii) Fair values of derivatives

	2018		*2017*	
	Fair value assets (note (ii)(a)) MOP'000	*Fair value liabilities* (note (ii)(b)) MOP'000	*Fair value assets* (note (ii)(a)) MOP'000	*Fair value liabilities* (note (ii)(b)) MOP'000
Exchange rate contracts	14	21	2,190	2,195

Notes:

Note (ii)(a): The amount is included in other assets.

Note (ii)(b): The amount is included in other liabilities.

(iii) Credit risk weighted amounts of derivatives

	2018 MOP'000	*2017* MOP'000
Exchange rate contracts	-	2,524

Credit risk weighted amounts for 2018 and 2017 refer to the amounts as calculated in accordance with Notice 028/B/2015-DSB/AMCM and Notice 013/93-AMCM respectively.

(c) Lease commitments

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

	2018 MOP'000	*2017* MOP'000
Properties		
– Within one year	1,065	289
– After one year but within five years	249	-
	1,314	289

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 in accordance with agreed terms. Credit exposures arise from both the banking and trading books.

Credit risk is managed through a framework that sets out policies and procedures covering the measurement and management of credit risk. There is a clear segregation of duties between transaction originators in the businesses and the approvers in the Risk function. All credit exposures limits are approved within a defined credit approval authority framework. The Branch manages its credit exposures following the principle of diversification across products, geographies, industries, collateral types and client segments.

A standard alphanumeric credit risk-grade system for quantifying the risk associated with a counterparty is used. The numeric grades run from 1 to 14 and some of the grades are further sub-classified. Lower credit grades are indicative of a lower likelihood of default. Credit grades 1 to 12 are assigned to performing customers or accounts, while credit grades 13 and 14 are assigned to non-performing or defaulted customers.

The Branch monitors credit exposures, portfolio performance, and external trends that may impact risk management outcomes. Internal risk management reports contain information on key environmental, political and economic trends across major portfolios; portfolio delinquency and loan impairment performance; as well as credit grade migration.

Credit concentration risk

Credit concentration 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 loans and 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, excluding loans commitments which are unconditionally cancellable, represents the contractual nominal amounts as disclosed under "trade-related contingencies" in note 13(a).

(b) Market risk management

Market risk is the potential for loss of economic value due to adverse changes in financial market rates or prices. The Branch's exposure to market risk arises predominately from providing clients access to financial markets facilitation of which entails the Branch taking moderate market risk positions.

14 Financial risk management (continued)

(b) Market risk management (continued)

The primary categories of market risk for the Branch are:

- interest rate risk: arising from changes in yield curves; and
- currency exchange rate risk: arising from changes in exchange rates.

The Hong Kong Traded Risk Management ("TRM") approves the limits within delegated authorities and monitors exposures against these limits. The Asset and Liability Committee ("ALCO") is responsible for overseeing the effective implementation of policies and other standards for the control of market risk.

(i) Foreign exchange risk

Foreign exchange trading exposures are principally derived from customer driven transactions. Foreign exchange risk in the non-trading book is minimised by match funding assets and liabilities in the same currency.

	2018 MOP'000	*2017* MOP'000
Total net short position in foreign currencies	(499)	(30,230)

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

	2018 MOP'000	*2017* MOP'000
HK dollar exposure		
Spot assets	2,761,729	2,110,557
Spot liabilities	(2,762,170)	(2,103,368)
Forward purchases	21,873	107,919
Forward sales	(24,294)	(91,136)
Net (short)/long non-structural position	(2,862)	23,972
US dollar exposure		
Spot assets	2,147,833	986,274
Spot liabilities	(2,150,185)	(1,071,524)
Forward purchases	25,585	180,117
Forward sales	(19,928)	(175,932)
Net long/(short) non-structural position	3,305	(81,065)

14 Financial risk management (continued)

(b) Market risk management (continued)

(ii) Interest rate risk

Interest rate risk in the banking book is managed mainly by the Hong Kong Treasury Markets ("TM") function within Treasury Markets. These interest rate risk positions are measured, reported and monitored independently against limits on a daily basis.

Assumptions on loan prepayment and behaviour of deposits are country and product specific. Transfer pricing of interest rate risk is overseen by the ALCO in accordance with the Fund Transfer Pricing Guideline.

(c) Liquidity risk

Liquidity risk is the potential for loss where we may not have sufficient stable or diverse sources of funding or financial resources to meet our obligations as they fall due.

The Branch's liquidity risk framework requires the Branch to ensure that it operates within predefined liquidity limits and remains in compliance with the liquidity policies and practices, as well as local regulatory requirements.

The Branch achieves this through a combination of risk limits setting, policy formation, risk measurement and monitoring, stress testing severance and review.

ALCO ensures the Branch remains in compliance with liquidity policies and practise as well as local regulatory requirements.

14 Financial risk management (continued)

(c) Liquidity risk (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.

	2018							
	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	496,414	-	-	-	-	-	51,478	547,892
Loans and advances to customers	4	1,442,009	1,433,685	757,279	263,703	-	(613)	3,896,067
Financial assets at fair value through equity	-	-	-	128,435	-	-	-	128,435
Amounts due from head office, other branches and group companies	1,370,684	159,187	136,334	7,620	-	-	-	1,673,825
Other assets	394	105,362	289,218	84,138	-	-	1	479,113
Total assets	1,867,496	1,706,558	1,859,237	977,472	263,703	-	50,866	6,725,332
Liabilities								
Deposits from customers	1,838,742	-	23,405	7,620	-	-	-	1,869,767
Amounts due to head office, other branches and group companies	18,290	1,831,859	1,672,585	704,979	57,222	-	-	4,284,935
Other liabilities	12,523	105,369	288,468	88,772	-	-	5,346	500,478
Total liabilities	1,869,555	1,937,228	1,984,458	801,371	57,222	-	5,346	6,655,180
Net liquidity gap	(2,059)	(230,670)	(125,221)	176,101	206,481	-	45,520	70,152

14 Financial risk management (continued)

(c) Liquidity risk (continued)

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

	2017							
	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	327,316	463	-	-	-	-	35,897	363,676
Loans and advances to customers *(Restated)*	6,499	1,471,564	628,317	244,023	21,459	-	(1,611)	2,370,251
AFS securities	-	-	-	129,358	-	-	-	129,358
Amounts due from head office, other branches and group companies *(Restated)*	344,546	430,519	209,347	7,620	-	-	-	992,032
Other assets *(Restated)*	5,327	243,231	361,602	73,739	-	-	9	683,908
Total assets	683,688	2,145,777	1,199,266	454,740	21,459	-	34,295	4,539,225
Liabilities								
Deposits from customers	1,264,728	-	36,033	8,276	-	-	-	1,309,037
Amounts due to head office, other branches and group companies *(Restated)*	34,925	1,435,394	763,881	202,695	38,625	-	-	2,475,520
Other liabilities *(Restated)*	14,501	241,472	363,796	77,543	-	-	3,513	700,825
Total liabilities	1,314,154	1,676,866	1,163,710	288,514	38,625	-	3,513	4,485,382
Net liquidity gap	(630,466)	468,911	35,556	166,226	(17,166)	-	30,782	53,843

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 2018 and 2017 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

Financial assets are stated at fair value through equity 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.

15 Other assets

	2018 MOP'000	*2017* MOP'000 *(Restated)*
Acceptance	473,493	672,748
Accrued interest receivables	5,209	3,634
Sundry debtors and receivables	204	5,154
Refundable deposits	189	174
Forward exchange rate contracts	14	2,190
Suspense clearing items and others	4	8
	479,113	683,908

16 Other liabilities

	2018 MOP'000	2017 MOP'000 (Restated)
Acceptance	473,493	672,748
Sundry creditors and payables	11,562	14,473
Cashier's order payables	1,112	1,239
Accrued interest payables	3,833	1,909
Forward exchange rate contracts	21	2,195
Suspense clearing items and others	841	972
ECL provision on loan commitments and financial guarantees (notes 13(a) and 17)	207	-
	491,069	693,536

17 Analysis of ECL provision on financial instruments by stage

	At 31 December 2018			
	Stage 1 MOP'000	Stage 2 MOP'000	Stage 3 MOP'000	Total MOP'000
ECL provision on:				
- Placements with banks and other financial institutions (note 5)	4	-	-	4
- Loans and advances to customers (note 6(a))	233	380	-	613
- Financial assets at fair value through equity (note 8) (note)	13	226	-	239
- Loan commitments and financial guarantees (notes 13(a) and 16)	108	99	-	207
	358	705	-	1,063

	At 1 January 2018			
	Stage 1 MOP'000	Stage 2 MOP'000	Stage 3 MOP'000	Total MOP'000
ECL provision on:				
- Placements with banks and other financial institutions	2	-	-	2
- Loans and advances to customers	557	237	-	794
- Financial assets at fair value through equity (note)	-	898	-	898
- Loan commitments and financial guarantees	41	323	-	364
	600	1,458	-	2,058

Note: These instruments are held at fair value on the balance sheet. The corresponding ECL provision is held within regulatory reserve.

18 Impact of transition to new accounting policies of financial instruments on 1 January 2018

(a) Impact of new accounting policies of financial instruments on reserves

The impact of transition to new accounting policies of financial instruments in respect of adoption of the ECL methodology and related tax effects are set out by category of reserves in the table below.

	Fair value through equity reserve MOP'000	*Available-for-sale reserve MOP'000*	*Retained earnings MOP'000*	*Regulatory reserve MOP'000*	*Total MOP'000*
As at 31 December 2017	-	26	28,054	25,763	53,843
Impact of adoption of ECL provision	924	(26)	(447)	-	451
Related tax effects	-	-	54	-	54
Impact on regulatory reserve	-	-	(398)	398	-
As at 1 January 2018	924	-	27,263	26,161	54,348

(b) Impact of new accounting policies of financial instruments on balance sheet as of 1 January 2018

The table below sets out the impact of adopting new accounting policies of financial instruments on balance sheet as of 1 January 2018.

	Previous accounting policies of financial instruments 31 December 2017 MOP'000 (Restated)	*Movement MOP'000*	*New accounting policies of financial instruments 1 January 2018 MOP'000*
Cash, balances and placements with banks and other financial institutions	363,676	(2)	363,674
Loans and advances to customers	2,370,251	817	2,371,068
Financial assets at fair value through equity/AFS securities	129,358	(898)	128,460
Amounts due from head office, other branches and group companies	992,032	-	992,032
Other assets	683,908	-	683,908
	4,539,225	(83)	4,539,142

18 Impact of transition to new accounting policies of financial instruments on 1 January 2018 (continued)

(b) Impact of new accounting policies of financial instruments on balance sheet as of 1 January 2018 (continued)

	Previous accounting policies of financial instruments 31 December 2017 MOP'000 (Restated)	*Movement MOP'000*	*New accounting policies of financial instruments 1 January 2018 MOP'000*
Deposits from customers	1,309,037	-	1,309,037
Amounts due to head office, other branches and group companies	2,475,520	-	2,475,520
Current taxation	3,776	-	3,776
Deferred tax liabilities	3,513	(54)	3,459
Other liabilities	693,536	364	693,900
	4,485,382	310	4,485,692
Reserves	53,843	(393)	53,450
	4,539,225	(83)	4,539,142

18 Impact of transition to new accounting policies of financial instruments on 1 January 2018 (continued)

(c) Impact of ECL

The table sets out a comparison of impairment loss provisions under previous accounting policies of financial instruments to those under new accounting policies of financial instruments as of 1 January 2018.

	Impairment provision under previous accounting policies of financial instruments MOP'000 (note 6(a))	*Increase/ (decrease) in ECL provision under new accounting policies of financial instruments MOP'000*	*ECL provision under new accounting policies of financial instruments MOP'000 (note 17)*
Provision on:			
- Placements with banks and other financial institutions	-	2	2
- Loans and advances to customers	1,611	(817)	794
- Financial assets at fair value through equity	-	898	898
- Loan commitments and financial guarantees	-	364	364
	1,611	447	2,058

19 Comparative figures

Upon the requirement of the AMCM, the following items are re-grouped on the income statement and the balance sheet to align with the presentation of the AMCM:

- Other assets from amount due from head office, other branches and group companies are presented within "Other assets"
- Other liabilities from amount due to head office, other branches and group companies are presented within "Other liabilities"

In addition to the above, due to similar nature of trade bills and loans and advances to customers, the presentation of trade bills are presented within "Loans and advances to customers".

20 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(d).

Income Tax

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.

Unaudited supplementary financial information

(Expressed in thousands of Macau Patacas)

These notes set out on pages 43 to 53 are supplementary to and should be read in conjunction with the financial statements set out on pages 3 to 42. 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 the Branch for the year ended 31 December 2018.

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 banking and related financial services.

2018 Results

Profit before taxation increased by 22.27 per cent from MOP 40.522 million to MOP 49.548 million. Net interest income increased by 27.44 per cent to MOP 47.283 million. Other revenue including fee and commission income increased by 4.73 per cent over 2017. Total operating income increased by 19.96 per cent to MOP 67.967 million.

Operating expenses increased by 24.58 per cent in 2018 to MOP 19.414 million. Impairment release on loans and advances was MOP 0.995 million in 2018 when comparing to impairment charges on loans and advances was MOP 0.551 million in 2017. Profit after taxation was MOP 43.651 million, an increase of MOP 7.948 million over MOP 35.703 million recorded in 2017.

Result under AMCM rules was MOP 31.700 million, an increase of MOP 4.160 million over MOP 27.540 million recorded in 2017.

Unaudited supplementary financial information (continued)

(Expressed in thousands of Macau Patacas)

(b) ***Segmental information***

Under the following geographical analysis of loans and advances 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.

	2018					
		of which				
	Loans and advances to customers MOP'000	*Overdue loans* MOP'000	*Impaired loans* MOP'000	*Individually-assessed impairment provision* MOP'000	*Modelled ECL provision* MOP'000	*Additional provision under AMCM rules* MOP'000
Macau SAR of China	3,896,680	-	-	-	613	43,309
	3,896,680	-	-	-	613	43,309

	2017					
		of which				
	Loans and advances to customers MOP'000	*Overdue loans* MOP'000	*Impaired loans* MOP'000	*Individually-assessed impairment provision* MOP'000	*Collectively-assessed impairment provision* MOP'000	*Additional provision under AMCM rules* MOP'000
Macau SAR of China	2,371,862	-	-	-	1,611	29,277
	2,371,862	-	-	-	1,611	29,277

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

	2018		
	Banks	*Corporate entities*	*Total*
	MOP'000	MOP'000	MOP'000
Hong Kong SAR of China	1,942	-	1,942
Macau SAR of China	-	4,185,965	4,185,965
Singapore	62	-	62
United Kingdom	1,738	-	1,738
	3,742	4,185,965	4,189,707

	2017		
	Banks	*Corporate entities*	*Total*
	MOP'000	MOP'000	MOP'000
Hong Kong SAR of China	3,405	-	3,405
Macau SAR of China	-	3,443,065	3,443,065
Singapore	62	-	62
	3,467	3,443,065	3,446,532

Unaudited supplementary financial information (continued)

(Expressed in thousands of Macau Patacas)

(b) Segmental information (continued)

(iii) Geographical analysis of exposure on financial derivatives

	2018		
	Banks	*Corporate entities*	*Total*
	MOP'000	MOP'000	MOP'000
Singapore	5	-	5
Hong Kong SAR of China	5	-	5
United Kingdom	4	-	4
	14	-	14

	2017		
	Banks	*Corporate entities*	*Total*
	MOP'000	MOP'000	MOP'000
Singapore	1,985	-	1,985
Hong Kong SAR of China	205	-	205
	2,190	-	2,190

Unaudited supplementary financial information (continued)

(Expressed in thousands of Macau Patacas)

(c) ***Loans and advances to customers analysed by industry sector***

	2018					
	Impaired loans MOP'000	*Overdue loans* MOP'000	*Individually-assessed ECL provision* MOP'000	*Modelled ECL provision* MOP'000	*Additional provision under AMCM rules* MOP'000	*Write off* MOP'000
Textile productions	-	-	-	14	1,023	-
Leather articles	-	-	-	1	101	-
Paper, printing and publishing	-	-	-	206	14,617	-
Machinery and other electrical and electronic goods	-	-	-	313	22,181	-
Other manufacturing industries	-	-	-	-	-	-
Wholesale and retail trade	-	-	-	79	5,591	-
Others	-	-	-	-	-	-
	-	-	-	613	43,513	-

	2017					
	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
Textile productions	-	-	-	66	1,202	-
Leather articles	-	-	-	3	65	-
Paper, printing and publishing	-	-	-	810	14,707	-
Machinery and other electrical and electronic goods	-	-	-	486	8,836	-
Other manufacturing industries	-	-	-	1	9	-
Wholesale and retail trade	-	-	-	245	4,458	-
Others	-	-	-	-	-	-
	-	-	-	1,611	29,277	-

Unaudited supplementary financial information (continued)

(Expressed in thousands of Macau Patacas)

(d) Overdue loans and advances to customers

	2018 Amount MOP'000	*2018* % 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	-	-
	-	-
Individually-assessed impairment provision	-	
Collateral value	-	

	2017 Amount MOP'000	*2017* % 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	-	-
	-	-
Individually-assessed impairment provision	-	
Collateral value	-	

Unaudited supplementary financial information (continued)

(Expressed in thousands of Macau Patacas)

(e) Operational risk management

Operational risk is the potential for loss from inadequate or failed internal processes, people, and system or from the impact of external events, including legal risks. Operational risk is managed within the boundary of the Risk Appetite Statement approved by the Board. The Group aims to control operational risks to ensure that operational losses (financial or reputational), including any related to conduct of business matters, do not cause material damage to the Group's franchise.

Operational risks can arise from all business lines and functions and thus from all activities carried out by the Branch. 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. We achieve this by mapping all activities across the Group into a set of processes with key control standards defined to mitigate risks. We benchmark practices against peers, other industries and regulatory requirements.

The Bank uses operational risk sub-types principally as an aid to ensure comprehensive and consistent identification of operational risks, wherever they may arise.

Operational Risk is classified into 10 risk sub-types to enable effective risk identification and assessment.

Unaudited supplementary financial information (continued)

(Expressed in thousands of Macau Patacas)

(e) Operational risk management (continued)

Operational risk subtypes

Execution Capability	Transaction processing	Potential for loss due to failure in the design or execution of client facing transactions.
	Product management	Potential for loss due to the failure to design and/or meet product management standards and product-related regulatory requirements
	People management	Potential for loss due to the failure to meet standards for people management including relevant regulations (e.g. employment, remuneration and benefits).
Operational Resilience	Client service resilience	Potential for loss or adverse impact due to failures to maintain or manage processes supporting client service.
	System availability	Potential for loss or adverse impact due to failures to maintain systems (including the design and setup of software and architecture).
	Data quality	Potential for loss due to the failure to define and/or meet data quality standards including resilience requirements.
	Vendor service	Potential for loss or adverse impact due to failures to maintain vendor service (including resilience requirements).
	Change management	Potential for loss or adverse impact due to failures to manage project related change.
Fraud	Internal fraud	Potential for loss due to action by staff which is intended to defraud, or to circumvent the law or company policy (including Rogue Trading).
	External fraud	Potential for loss due to criminal acts by external parties such as the misappropriation or theft of financial assets.
Corporate Governance	Corporate Governance and authorities	Potential for loss due to non-compliance with relevant laws, regulations, ordinances or market guidance (which a Group entity would customarily comply with) relating to an entity's board, directors, members and shareholders.
	Exchange listing rules	Potential for loss due to non-compliance with laws or stock exchange rules for a listed Group entity.
Reporting and Obligations	Financial books and records	Potential for loss or adverse impact due to failure to comply with laws and regulations for financial books and records.
	Tax obligations	Potential for loss or adverse impact due to failure to comply with laws and regulations for tax.
Model		Potential for loss or adverse impact due to incorrect design or use of models
Safety and security		Potential for loss or damage due to failure to create a safe, secure, and healthy environment for staff and clients. This risk considers both the protection of property and physical assets, health and safety standards, and resilience requirements.
Legal enforceability		The potential for loss due to difficulty in enforcing the Group's contractual rights

Unaudited supplementary financial information (continued)

(Expressed in thousands of Macau Patacas)

(e) Operational risk management (continued)

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

Compliance with operational risk policies and procedures is the responsibility of all staff within the Bank.

(f) Liquidity risk

	January to December 2018 MOP'000	*January to December 2017* MOP'000
Arithmetic mean of the minimum weekly amount of cash in hand that is required to be held during the year (note (i))	39,288	35,460
Arithmetic mean of the average weekly amount of cash in hand during the year (note (i))	356,409	243,694
Arithmetic mean of the specified liquid assets at the end of each month during the year (note (i))	1,280,679	1,130,823

	January to December 2018	*January to December 2017*
Average ratio of specified liquid asset to total basic liabilities at the end of each month during the year (note (i))	96.13%	94.4%
Arithmetic mean of its one-month liquidity ratio in the last week of each month during the year (note (ii))	93.51%	93.03%
Arithmetic mean of its three-month liquidity ratio in the last week of each month during the year (note (ii))	95.89%	96.12%

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

	2018	*2017*
Consolidated capital adequacy ratio	21.6%	21.0%

The consolidated capital adequacy ratio was computed in accordance with the Basel III framework.

(ii) Other consolidated financial information of the Group

	2018 US$ million	*2017* US$ million
Total assets	688,762	663,501
Total liabilities	638,410	611,694
Total capital and reserves	50,352	51,807
Total loans and advances to banks and customers	317,971	366,878
Total customer deposits and deposits from banks	420,728	447,210
Pre-tax (loss)/profit	2,548	2,415

(iii) Shareholders with qualifying holdings

As far as the directors are aware as at 31 December 2018, 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 2018 are set out below.

Non-executive Chairman
Mr José María Viñals Iñiguez

Executive Directors
Mr William Thomas Winters, CBE (Group Chief Executive) and Mr Andrew Nigel Halford (Group Chief Financial Officer)

Independent Non-Executive Directors
Mr Om Prakash Bhatt; Dr Louis Chi-Yan Cheung; Mr David Philbrick Conner; Dr Byron Elmer Grote; Dr Han Seung-soo, KBE; Mrs Christine Mary Hodgson (Senior Independent Director); Ms Gay Huey Evans, OBE; Mr Naguib Kheraj (Deputy Chairman); Dr Ngozi Okonjo-Iweala and Ms Jasmine Mary Whitbread.