Standard Chartered
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Standard Chartered Bank (Hong Kong) Limited

Interim Financial Information Disclosure Statements

For the period ended
30 June 2013

STANDARD CHARTERED BANK (HONG KONG) LIMITED

Contents

STANDARD CHARTERED BANK (HONG KONG) LIMITED

The directors are pleased to announce the unaudited consolidated interim results of Standard Chartered Bank (Hong Kong) Limited (the "Bank") and its subsidiaries for the six months ended 30 June 2013.

Principal activities

The Bank is a licensed bank registered under the Hong Kong Banking Ordinance. The Bank's principal activities are the provision of banking and related financial services.

2013 First Half Results

Profit before taxation increased by HK$1,713 million from HK$5,186 million to HK$6,899 million. Net interest income increased by 3 per cent to HK$6,597 million. Net fee and commission income increased by 14 per cent over the corresponding period in 2012. Total operating income increased by 15 per cent to HK$13,396 million.

Operating expenses increased by 5 per cent over the corresponding period to HK$6,564 million. Total impairments decreased by HK$204 million over the corresponding period.

Profit after taxation was HK$5,865 million, an increase of HK$1,474 million over HK$4,391 million recorded in the first half of 2012.

Basis of Preparation

The accounting policies used in the preparation of the interim financial disclosure statements are materially consistent with those adopted in the 2012 consolidated financial statements except as stated below.

New and revised Hong Kong Financial Reporting Standards ("HKFRS")/International Financial Reporting Standards ("IFRS")

The *revised HKAS 19/IAS 19 Employee benefits* introduces changes in the recognition, presentation and disclosure of defined benefit plans. The most significant impact on the Bank as a result of these revisions comes in the form of the rate used to discount the plan assets. Where this rate was previously based on the expected return on each class of pension assets, plan assets are now measured based on a rate equal to the yield on high quality corporate bonds, which aligns to the rate at which the pension obligation is discounted. The revised *HKAS 19/IAS 19* has been applied retrospectively with comparative amounts restated.

HKFRS 11/IFRS 11 Joint arrangements replaces *HKAS 31/IAS 31 Interest in joint ventures*. It requires all joint ventures to be equity accounted thereby removing the option in *HKAS 31/IAS 31* for proportionate consolidation. As a result, the Bank's joint venture investment which was previously proportionately consolidated is now accounted for using the equity method under *HKFRS 11/IFRS 11*. *HKFRS 11/IFRS 11* has been applied retrospectively with comparative amounts restated.

HKFRS 13/IFRS 13 Fair value measurement consolidates the guidance on how to measure fair value, which was spread across various HKFRSs/IFRSs, into one comprehensive standard. The most significant impact of applying *HKFRS 13/IFRS 13* is the mandatory requirement for the fair value of derivative liabilities and other liabilities held at fair value through profit or loss to take into account an adjustment for an entity's own credit risk. *HKFRS 13/IFRS 13* is required to be applied prospectively.

Amendments to *HKAS 1/IAS 1 Presentation of Financial Statements* change the grouping of items presented within Other Comprehensive Income ("OCI") such that the potential impact that OCI items may have on future profit or loss can be more easily identified. *HKAS 1/IAS 1* has been applied retrospectively.

None of the other new/revised standards or amendments had a material impact on the Bank and its subsidiaries' interim financial information.

Statement of compliance

In preparing the interim results for the first half of 2013, the Bank has fully complied with the disclosure standards set out in the "Banking (Disclosure) Rules" and the "Guideline on the Application of the Banking (Disclosure) Rules" issued by the Hong Kong Monetary Authority ("HKMA").

Capital disclosures as required by section 24 of the Banking (Disclosure) Rules as amended by the Banking (Disclosure) (Amendment) Rules 2013 will be available on our website: www.standardchartered.com.hk on or before 30 September 2013.

STANDARD CHARTERED BANK (HONG KONG) LIMITED

Consolidated Income Statement

Figures in HK$m	*Note*	***6 months ended 30 June 2013***	*Restated 6 months ended 30 June 2012*
Interest income	1	**9,202**	9,222
Interest expense	2	**(2,605)**	(2,794)
Net interest income		**6,597**	6,428
Fee and commission income		**3,974**	3,465
Fee and commission expense		**(337)**	(288)
Net fee and commission income	3	**3,637**	3,177
Net trading income	4	**2,021**	1,427
Net gains from financial instruments designated at fair value through profit or loss	5	**54**	82
Net gains from disposal of available-for-sale securities		**10**	26
Other operating income	6	**1,077**	540
		6,799	5,252
Total operating income		**13,396**	11,680
Staff costs		**(3,313)**	(3,368)
Premises and equipment	7	**(1,166)**	(833)
Others		**(2,085)**	(2,023)
Operating expenses		**(6,564)**	(6,224)
Operating profit before impairment		**6,832**	5,456
Impairment charge on advances to banks and customers		**(522)**	(327)
Other impairment releases/(charges)	8	**12**	(387)
Operating profit after impairment		**6,322**	4,742
Share of profit of associates		**577**	444
Profit before taxation		**6,899**	5,186
Taxation	9	**(1,034)**	(795)
Profit after taxation		**5,865**	4,391
Attributable to:			
Equity shareholders of the Bank		**5,858**	4,387
Non-controlling interests		**7**	4
Profit after taxation		**5,865**	4,391

STANDARD CHARTERED BANK (HONG KONG) LIMITED

Consolidated Statement of Comprehensive Income

Figures in HK$m	***6 months ended 30 June 2013***	*Restated 6 months ended 30 June 2012*
Profit after taxation	**5,865**	4,391
Other comprehensive income:		
Items that will not be reclassified to the income statement:		
Defined benefit plans:		
– Actuarial gain	**163**	39
– Related tax effect	**(27)**	(7)
Items that may be reclassified subsequently to the income statement:		
Available-for-sale securities:		
– Changes in fair value recognised during the period	**(450)**	812
– Changes in fair value transferred to the income statement on disposal	**(10)**	(26)
– Transfer to the income statement on fair value hedged items attributable to hedged risk	**275**	(161)
– Related tax effect	**33**	(100)
Cash flow hedges:		
– Changes in fair value recognised during the period	**(29)**	(28)
– Transferred to the income statement on termination of hedging derivatives	**(10)**	(6)
– Related tax effect	**7**	6
Exchange difference	**69**	(32)
Other comprehensive income for the period, net of tax	**21**	497
Total comprehensive income for the period	**5,886**	4,888
Attributable to:		
Shareholders of the Bank	**5,879**	4,884
Non-controlling interests	**7**	4
	5,886	4,888

Transactions with owners, recorded directly in shareholders' equity include a distribution to owners of HK$260 million (30 June 2012: distribution from owners of HK$161 million) in respect of share-based compensation plans.

There were no dividends declared or paid during the six months ended 30 June 2013 (30 June 2012: Nil).

STANDARD CHARTERED BANK (HONG KONG) LIMITED

Consolidated Balance Sheet

Figures in HK$m	*Note*	***At 30 June 2013***	*Restated At 31 December 2012*
Assets			
Cash and balances with banks, central banks and other financial institutions		**27,815**	20,492
Placements with banks and other financial institutions	10	**144,556**	143,579
Hong Kong SAR Government certificates of indebtedness		**33,671**	32,481
Trading assets		**37,284**	28,414
Financial assets designated at fair value		**2,665**	3,216
Investment securities	16	**178,119**	174,379
Advances to customers	11	**430,705**	408,018
Amounts due from immediate holding company		**44,440**	58,731
Amounts due from fellow subsidiaries		**37,118**	20,591
Interest in associates		**7,791**	7,101
Fixed assets	17	**26,593**	23,705
Goodwill and intangible assets		**1,868**	1,821
Current tax assets		**15**	13
Deferred tax assets		**90**	88
Other assets		**19,704**	17,001
		992,434	939,630
Liabilities			
Hong Kong SAR currency notes in circulation		**33,671**	32,481
Deposits and balances of banks and other financial institutions		**29,385**	12,281
Deposits from customers	19	**774,029**	756,589
Trading liabilities		**24,035**	23,068
Financial liabilities designated at fair value	20	**2,722**	3,612
Debt securities in issue	21	**17,668**	10,006
Amounts due to immediate holding company		**23,737**	19,606
Amounts due to fellow subsidiaries		**3,114**	5,085
Current tax liabilities		**1,310**	629
Deferred tax liabilities		**74**	43
Other liabilities	22	**19,687**	18,184
Subordinated liabilities	23	**10,626**	11,267
		940,058	892,851
Equity			
Share capital		**97**	97
Reserves	24	**52,279**	46,660
Shareholders' equity		**52,376**	46,757
Non-controlling interests		**–**	22
		52,376	46,779
		992,434	939,630

Additional Information

1. Interest income

Interest income in the consolidated income statement includes the following:

Figures in HK$m	***6 months ended 30 June 2013***	*6 months ended 30 June 2012*
Interest income on financial assets that are not measured at fair value through profit or loss	**9,001**	9,012
Interest income on unwinding of discounts on loan impairment charges	**10**	9

2. Interest expense

Interest expense in the consolidated income statement includes the following:

Figures in HK$m	***6 months ended 30 June 2013***	*Restated 6 months ended 30 June 2012*
Interest expense on financial liabilities that are not measured at fair value through profit or loss	**2,538**	2,703

3. Net fee and commission income

Net fee and commission income in the consolidated income statement includes the following:

Figures in HK$m	***6 months ended 30 June 2013***	*6 months ended 30 June 2012*
Net fee and commission income, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading or designated at fair value		
– fee and commission income	**1,573**	1,376
– fee and commission expense	**143**	159
Net fee and commission income from trust and other fiduciary activities where the Bank and its subsidiaries hold or invest assets on behalf of its customers		
– fee and commission income	**255**	238
– fee and commission expense	**70**	72

4. Net trading income

Net trading income in the consolidated income statement comprises:

Figures in HK$m	***6 months ended 30 June 2013***	*6 months ended 30 June 2012*
Net trading income shown in the income statement	**2,021**	1,427
Add: interest income arising from trading assets	**140**	136
Less: interest expense arising from trading liabilities	**(54)**	(75)
	2,107	1,488

5. Net gains from financial instruments designated at fair value

Net gains from financial instruments designated at fair value in the consolidated income statement comprises:

Figures in HK$m	***6 months ended 30 June 2013***	*6 months ended 30 June 2012*
Net gains shown in the income statement	**54**	82
Add: interest income arising from financial assets designated at fair value	**61**	74
Less: interest expense arising from financial liabilities designated at fair value	**(13)**	(16)
	102	140

6. Other operating income

Other operating income in the consolidated income statement comprises:

Figures in HK$m	***6 months ended 30 June 2013***	*Restated 6 months ended 30 June 2012*
Rental income from operating lease assets	**996**	476
Dividend income from listed available-for-sale securities	**1**	1
Dividend income from unlisted available-for-sale securities	**11**	9
Net gains/(losses) on disposal of financial instruments measured at amortised cost	**13**	(7)
Net gains on revaluation of investment properties	**12**	–
Others	**44**	61
	1,077	540

7. Premises and equipment

Premises and equipment expenses in the consolidated income statement comprises:

Figures in HK$m	***6 months ended 30 June 2013***	*6 months ended 30 June 2012*
Premises and equipment expenses excluding depreciation	**571**	517
Depreciation	**595**	316
	1,166	833

8. Other impairment releases/(charges)

Figures in HK$m	***6 months ended 30 June 2013***	*6 months ended 30 June 2012*
Charges for risk participation transactions	**–**	(388)
Releases relating to debt securities classified as loans and receivables	**12**	1
	12	(387)

9. Taxation

Taxation in the consolidated income statement comprises:

Figures in HK$m	***6 months ended 30 June 2013***	*Restated 6 months ended 30 June 2012*
Hong Kong profits tax	**987**	756
Overseas taxation	**15**	23
Deferred taxation	**32**	16
	1,034	795

10. Placements with banks and other financial institutions

Figures in HK$m	***At 30 June 2013***	*Restated At 31 December 2012*
(a) Placements with banks and other financial institutions		
Gross placements with banks and other financial institutions		
– maturing within one month	**65,327**	47,206
– maturing between one month and one year	**77,686**	95,152
– maturing between one year to five years	**1,544**	1,222
	144,557	143,580
Less: impairment allowances – individually assessed	**(1)**	(1)
	144,556	143,579
(b) Impaired placements with banks and other financial institutions		
Gross impaired advances to banks	**44**	44
Impairment allowances – individually assessed	**(1)**	(1)
	43	43
Gross impaired advances to banks as a % of gross advances to banks	**0.03%**	0.03%

There is no collateral held against impaired advances to banks.

11. Advances to customers

Figures in HK$m	***At 30 June 2013***	*At 31 December 2012*
(a) Advances to customers		
Gross advances to customers	**431,837**	409,079
Individually assessed impairment allowances	**(478)**	(494)
Collectively assessed impairment allowances	**(654)**	(567)
	430,705	408,018
(b) Impaired advances to customers		
Gross impaired advances to customers	**1,349**	1,352
Impairment allowances – individually assessed	**(478)**	(494)
	871	858
Gross impaired advances to customers as a % of gross advances to customers	**0.31%**	0.33%
Fair value of collateral held against the covered portion of impaired advances to customers	**1,296**	749
Covered portion of impaired advances to customers	**648**	307
Uncovered portion of impaired advances to customers	**701**	1,045

The covered portion of impaired advances to customers represents the amount of collateral held against outstanding balances. It does not include any collateral held over and above outstanding exposures.

An allowance for impairment is established if there is objective evidence that the Bank and its subsidiaries will not be able to collect all amounts due according to the original contractual terms of the loan. 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 discounted at the asset's original effective interest rate. The individually assessed impairment allowances are made after taking into account the value of collateral held in respect of such advances.

12. Advances to customers analysed by industry sector and geographical area

Figures in HK$m	At 30 June 2013	% of advances covered by collateral or other securities	Restated At 31 December 2012	Restated % of advances covered by collateral or other securities

The analysis of gross advances to customers by industry sector is based on the categories used by the HKMA.

Figures in HK$m	At 30 June 2013	% of advances covered by collateral or other securities	Restated At 31 December 2012	Restated % of advances covered by collateral or other securities
Gross advances for use in Hong Kong				
Industrial, commercial and financial				
– Property development	**6,186**	**19%**	7,644	14%
– Property investment	**42,352**	**76%**	42,176	78%
– Financial concerns	**14,034**	**59%**	10,697	70%
– Stockbrokers	**5,509**	**64%**	3,774	63%
– Wholesale and retail trade	**21,669**	**49%**	19,455	43%
– Manufacturing	**22,614**	**18%**	20,982	15%
– Transport and transport equipment	**5,184**	**48%**	4,938	32%
– Recreational activities	**794**	**15%**	617	–
– Information technology	**1,951**	**–**	1,854	6%
– Others	**10,461**	**18%**	10,328	23%
Individuals				
– Advances for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	**730**	**100%**	783	100%
– Advances for the purchase of other residential properties	**153,750**	**100%**	143,252	100%
– Credit card advances	**19,155**	**–**	20,004	–
– Others	**26,498**	**34%**	24,393	33%
Total gross advances for use in Hong Kong	**330,887**		310,897	
Trade finance	**41,395**	**11%**	35,653	13%
Trade bills	**2,874**	**5%**	2,857	17%
Gross advances for use outside Hong Kong	**56,681**	**16%**	59,672	15%
Gross advances to customers	**431,837**	**56%**	409,079	55%

12. Advances to customers analysed by industry sector and geographical area (cont'd)

Advances to customers by geographical area are classified according to the location of the counterparties after taking into account the transfer of risk. As at 30 June 2013, approximately 82 per cent (31 December 2012: 82 per cent) of the Bank's and its subsidiaries' advances to customers were classified under the area of Hong Kong.

Except for Hong Kong, none of the remaining geographical segments represents more than 10% of the Bank and its subsidiaries' gross loans and advances to customers after taking into account the transfer of risk.

The amount of impaired and overdue advances to customers and individually and collectively assessed impairment allowances for industry sectors which constitute not less than 10% of the Bank and its subsidiaries' total advances to customers are as follows:

Figures in HK$m	*Impaired advances to customers*	*Overdue advances to customers*	*Individually assessed impairment allowances*	*Collectively assessed impairment allowances*	*New provision charge*
As at 30 June 2013					
Advances for the purchase of other residential properties	**191**	**157**	**12**	**2**	**–**
Property investment	**5**	**83**	**4**	**9**	**–**
Gross advances for use outside Hong Kong	**115**	**142**	**112**	**68**	**–**
As at 31 December 2012 (restated)					
Advances for the purchase of other residential properties	115	134	12	4	–
Property investment	5	72	4	10	–
Gross advances for use outside Hong Kong	215	240	112	63	112

13. Overdue advances to banks and customers

Figures in HK$m	***At 30 June 2013***		*At 31 December 2012*	
(a) Overdue advances to banks				
		% of advances to banks		% of advances to banks
Gross advances to banks which have been overdue with respect to either principal or interest for periods of:				
Over 1 year	**44**	**0.03%**	44	0.03%

There is no collateral held against overdue advances to banks.

Individually assessed impairment allowances against advances to banks overdue more than 3 months	**1**	1

13. Overdue advances to banks and customers (cont'd)

Figures in HK$m	***At 30 June 2013***	**% of advances to customers**	*At 31 December 2012*	% of advances to customers
(b) Overdue advances to customers				
Gross advances to customers which have been overdue with respect to either principal or interest for periods of:				
6 months or less but over 3 months	**99**	**0.02%**	239	0.06%
1 year or less but over 6 months	**260**	**0.06%**	605	0.15%
Over 1 year	**431**	**0.10%**	308	0.08%
	790	**0.18%**	1,152	0.29%
Fair value of collateral held against the covered portion of overdue advances to customers	**444**		381	
Covered portion of overdue advances to customers	**314**		262	
Uncovered portion of overdue advances to customers	**476**		890	

The covered portion of overdue advances to customers represents the amount of collateral held against outstanding balances. It does not include any collateral held over and above outstanding exposures.

The collateral held in respect of overdue advances to customers consists of cash, properties and securities.

	At 30 June 2013	*At 31 December 2012*
Individually assessed impairment allowances against advances to customers overdue more than 3 months	**385**	403

14. Rescheduled advances to customers

Figures in HK$m	***At 30 June 2013***	**% of advances to customers**	*At 31 December 2012*	% of advances to customers
Rescheduled advances to customers	**1,090**	**0.25%**	348	0.09%

Rescheduled advances are those advances, which have been restructured or renegotiated because of a deterioration in the financial position of the borrowers, or the inability of the borrowers to meet the original repayment schedule and for which the revised repayment terms are non-commercial to the Bank. Rescheduled advances to customers are stated net of any advances that have subsequently become overdue for over 3 months and reported as overdue advances in note 13.

As at 30 June 2013 and 31 December 2012, there were no rescheduled advances to banks and other financial institutions.

15. Repossessed assets

Figures in HK$m	***At 30 June 2013***	*At 31 December 2012*
Repossessed assets	**122**	32

Loan collateral acquired from borrowers due to restructuring or their inability to repay, continues to be recorded as "Advances to customers" in the balance sheet at the lower of fair value (less costs to sell) and the carrying amount of the loan (net of any impairment allowances), until the collateral is realised.

16. Investment securities

Figures in HK$m	***At 30 June 2013***	*At 31 December 2012*
Available-for-sale securities		
Certificates of deposit held	**31,489**	31,756
Other available-for-sale securities	**141,398**	133,733
	172,887	165,489
Loans and receivables – Debt securities	**5,232**	8,890
	178,119	174,379

17. Fixed assets

Figures in HK$m	***Buildings and leasehold land held for own use***	***Equipment, furniture & fixtures***	***Operating lease assets***	***Sub-total***	***Investment properties***	***Total***
Cost or valuation:						
At 1 January 2013	2,946	513	21,202	24,661	552	25,213
Effect of change in accounting policy	–	–	–	–	(41)	(41)
As restated	2,946	513	21,202	24,661	511	25,172
Additions	61	26	3,384	3,471	–	3,471
Disposals	(8)	(69)	–	(77)	–	(77)
Reclassifications	(8)	8	–	–	–	–
Net gains on revaluation	–	–	–	–	12	12
At 30 June 2013	2,991	478	24,586	28,055	523	28,578
Accumulated depreciation:						
At 1 January 2013	591	269	607	1,467	–	1,467
Charge for the period	52	67	476	595	–	595
Written back on disposals	(8)	(69)	–	(77)	–	(77)
At 30 June 2013	635	267	1,083	1,985	–	1,985
Net book value:						
At 30 June 2013	2,356	211	23,503	26,070	523	26,593
At 31 December 2012 (restated)	2,355	244	20,595	23,194	511	23,705

18. Investments in subsidiaries

The principal subsidiaries of the Bank are Prime Credit Limited, Standard Chartered Securities (Hong Kong) Limited, Standard Chartered APR Limited and Standard Chartered Leasing Group Limited.

19. Deposits from customers

Figures in HK$m	***At 30 June 2013***	*At 31 December 2012*
Current accounts	**111,856**	101,131
Savings accounts	**366,136**	373,620
Time, call and notice deposits	**255,341**	257,669
Deposits and balances of central banks	**40,696**	24,169
	774,029	756,589

20. Financial liabilities designated at fair value

Figures in HK$m	***At 30 June 2013***	*At 31 December 2012*
Structured customer deposits	**2,327**	3,574
Debt securities issued	**395**	38
	2,722	3,612

21. Debt securities in issue

Figures in HK$m	***At 30 June 2013***	*At 31 December 2012*
Certificates of deposit, measured at amortised cost	**17,668**	10,006

22. Other liabilities

Figures in HK$m	***At 30 June 2013***	*Restated At 31 December 2012*
Accruals and deferred income	**4,256**	5,009
Provision for liabilities and charges	**339**	230
Acceptances and endorsements	**4,340**	4,839
Unsettled trades and others	**10,752**	8,106
	19,687	18,184

23. Subordinated liabilities

Figures in HK$m	***At 30 June 2013***	*At 31 December 2012*
US$750 million 5.875% Fixed Rate Notes 2020[(1)]	**6,204**	6,565
SGD750 million 4.15% Fixed Rate Notes 2021[(2)]	**4,422**	4,702
	10,626	11,267

All subordinated liabilities are unsecured and subordinated to the claims of other creditors.

(1) Interest rate at 5.875 per cent per annum, payable semi-annually, to the maturity date on 24 June 2020.

(2) Interest rate at 4.15 per cent per annum, payable semi-annually, to the maturity date on 27 October 2021.

24. Reserves

Figures in HK$m	***At 30 June 2013***	*Restated At 31 December 2012*
Share premium	**12,477**	12,477
Capital redemption reserve	**3,804**	3,804
Cash flow hedge reserve	**32**	64
Available-for-sale investment reserve	**(50)**	102
Revaluation reserve	**146**	146
Foreign exchange reserve	**439**	370
Property revaluation reserve	**2**	2
Share option equity reserve	**120**	380
Retained earnings	**35,309**	29,315
	52,279	46,660

The HKMA requires the Bank and its subsidiaries to maintain a minimum level of impairment allowances which is in excess of the impairment allowances required under Hong Kong Financial Reporting Standards. Of the retained earnings as at 30 June 2013, an amount of HK$5,816 million (31 December 2012: HK$5,561 million) has been reserved for this purpose.

25. Off-balance sheet exposures

Figures in HK$m	***At 30 June 2013***	*At 31 December 2012*
a) Contingent liabilities and commitments		
Contractual or notional amounts		
Direct credit substitutes	**7,085**	7,963
Transaction-related contingencies	**11,506**	10,786
Trade-related contingencies	**23,077**	23,009
Forward asset purchases	**142**	140
Forward forward deposits placed	**5,478**	–
Other commitments:		
which are not unconditionally cancellable:		
with original maturity of not more than one year	**4,907**	8,649
with original maturity of more than one year	**21,268**	18,425
which are unconditionally cancellable	**337,611**	368,461
	411,074	437,433
Credit risk weighted amount	**35,997**	34,779

Contingent liabilities and commitments are credit-related instruments, which include letters of credit, guarantees and commitments to extend credit. The risk involved is similar to 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 defaults. As the facilities may expire without being drawn upon, the contracted amounts do not represent expected future cash flows.

25. Off-balance sheet exposures (cont'd)

Figures in HK$m	***At 30 June 2013***	*At 31 December 2012*
b) Derivatives		
Notional amounts		
Exchange rate contracts	**1,668,618**	1,291,005
Interest rate contracts	**109,235**	133,318
Others	**20,699**	2,442
	1,798,552	1,426,765

Derivatives are financial instruments that derive their value in reference to changes in interest or exchange rates, credit risk, financial instrument prices and indices. The notional amounts of these instruments indicate the volume of transactions outstanding and do not represent amounts at risk.

Fair values and credit risk weighted amounts of derivatives

Figures in HK$m	***At 30 June 2013***			*At 31 December 2012*		
	Fair value assets	***Fair value liabilities***	***Credit risk weighted amount***	*Fair value assets*	*Fair value liabilities*	*Credit risk weighted amount*
Exchange rate contracts	**10,034**	**9,801**	**9,317**	6,467	6,653	1,597
Interest rate contracts	**880**	**893**	**877**	1,079	1,749	360
Others	**112**	**173**	**187**	120	73	90
	11,026	**10,867**	**10,381**	7,666	8,475	2,047

The credit risk weighted amount refers to the amount as calculated in accordance with the Banking (Capital) Rules of the Hong Kong Banking Ordinance. The amount calculated is dependent upon the status of the counterparty and maturity characteristics of each type of contract.

Following the implementation of the Banking (Capital) (Amendment) Rules 2012 and 2013, the credit risk weighted amounts as at 30 June 2013 have included additional capital requirements for asset value correlation and credit valuation adjustment.

The fair values and credit risk weighted amounts do not take into account the effects of bilateral netting arrangements and accordingly these amounts are shown on a gross basis.

26. Cross border claims

Cross border claims are on-balance sheet exposures to counterparties based on the location of those counterparties after taking into account the transfer of risk. For a claim guaranteed by a party situated in a country different from the counterparty, risk will be transferred to the country of the guarantor. For a claim on the branch of a bank or other financial institution, the risk will be transferred to the country where its head office is situated. Claims on individual countries or areas, after risk transfer, amounting to 10% or more of the aggregate cross border claims are shown as follows:

Figures in HK$m	***Banks and Other Financial Institutions***	***Public Sector Entities***	***Others***	***Total***
As at 30 June 2013				
Asia Pacific excluding Hong Kong				
– Mainland China	**154,987**	**6,902**	**38,491**	**200,380**
– Others	**61,823**	**4,241**	**36,536**	**102,600**
	216,810	**11,143**	**75,027**	**302,980**
Western Europe				
– United Kingdom	**41,543**	**–**	**4,625**	**46,168**
– Others	**37,090**	**–**	**13,161**	**50,251**
	78,633	**–**	**17,786**	**96,419**
As at 31 December 2012				
Asia Pacific excluding Hong Kong				
– Mainland China	128,463	6,189	32,804	167,456
– Others	67,997	10,638	36,713	115,348
	196,460	16,827	69,517	282,804
Western Europe				
– United Kingdom	55,418	–	4,840	60,258
– Others	28,120	114	12,738	40,972
	83,538	114	17,578	101,230

27. Non-bank Mainland China exposure

Figures in HK$m	*On-balance sheet exposure*	*Off-balance sheet exposure*	*Total*	*Individually assessed impairment allowances*
As at 30 June 2013				
Mainland China entities	**44,330**	**65,418**	**109,748**	**112**
Companies and individuals outside Mainland China where the credit is granted for use in Mainland China	**17,614**	**33,542**	**51,156**	**15**
Other counterparties where the exposure is considered by the Bank to be non-bank Mainland China exposure	**8,436**	**1,967**	**10,403**	**–**
	70,380	**100,927**	**171,307**	**127**
As at 31 December 2012				
Mainland China entities	37,075	62,955	100,030	112
Companies and individuals outside Mainland China where the credit is granted for use in Mainland China	19,601	34,369	53,970	1
Other counterparties where the exposure is considered by the Bank to be non-bank Mainland China exposure	6,863	2,512	9,375	–
	63,539	99,836	163,375	113

The off-balance sheet exposure represents the amount at risk should the contract be fully drawn upon and the client defaults. As the facilities may expire without being drawn upon, the contractual amounts do not represent expected future cash flows.

28. Currency risk

The Bank and its subsidiaries had the following non-structural foreign currency positions which exceeded 10% of the net non-structural position in all foreign currencies. The net option position is calculated on the basis of the delta-weighted positions of all foreign exchange option contracts.

Figures in HK$m	***At 30 June 2013***	*At 31 December 2012*
US dollars exposure		
Spot assets	**358,326**	320,683
Spot liabilities	**(301,237)**	(279,069)
Forward purchases	**782,363**	608,542
Forward sales	**(836,769)**	(644,729)
Net option position	**–**	–
Net long non-structural position	**2,683**	5,427
Chinese renminbi exposure		
Spot assets	**114,547**	98,441
Spot liabilities	**(93,758)**	(86,732)
Forward purchases	**540,334**	382,433
Forward sales	**(560,526)**	(393,558)
Net option position	**–**	–
Net long non-structural position	**597**	584

The Bank and its subsidiaries had the following structural foreign currency positions which exceeded 10% of the net structural position in all foreign currencies:

Figures in HK$m	***At 30 June 2013***	*Restated At 31 December 2012*
Chinese Renminbi	**5,819**	5,085
Vietnamese Dong	**724**	764
US dollars	**915**	611
	7,458	6,460

29. Capital adequacy ratios

Figures in HK$m	***At 30 June 2013***	*At 31 December 2012*
Common Equity Tier 1 ("CET1") capital ratio	**11.3%**	10.4%
Tier 1 capital ratio	**11.3%**	10.4%
Total capital ratio	**14.4%**	13.6%

Basel III

In order to implement the first phase of revised regulatory capital standards as prescribed by the Basel Committee on Banking Supervision, the Hong Kong Monetary Authority issued the Banking (Capital) (Amendment) Rules 2012 and 2013 which have come into effect from 1 January 2013 and 30 June 2013 respectively. The consolidated capital ratios are therefore calculated in accordance with the Banking (Capital) Rules including these amendments. There is minimal impact to the consolidated capital ratios as a result of the Basel III implementation and the Bank and its subsidiaries continue to comply with the capital requirements under the revised rules.

The basis of consolidation for accounting purposes is in accordance with the Hong Kong Financial Reporting Standards. The principal subsidiaries of the Bank for accounting purposes are Standard Chartered APR Limited, Standard Chartered Securities (Hong Kong) Limited, Prime Credit Limited and Standard Chartered Leasing Group Limited.

The basis and scope of consolidation for the calculation of capital ratios for regulatory purposes is different from the basis and scope of consolidation for accounting purposes. Directly held subsidiaries not included in the consolidation for regulatory purposes are set out below:

Figures in HK$m		***At 30 June 2013***	
Name of company	**Principal Activity**	**Total assets**	**Total equity**
Standard Chartered Securities (Hong Kong) Limited	Equity capital markets, corporate finance and institutional brokerage	**1,948**	**398**
SC Learning Limited	Provision of learning solutions in the banking and finance industry	**38**	**(19)**
Standard Chartered Corporate Advisory Company Limited	Consultancy and advisory services	**106**	**(47)**
SCOPE International (China) Company Limited	Development and sales of software, data processing and information technology services	**329**	**179**
Standard Chartered Investment Services Limited	Investment management	**56**	**48**
Standard Chartered Trust (HK) Limited	Trustee services	**10**	**10**
Standard Chartered Trading (Shanghai) Limited	Commodities trading	**116**	**116**
Standard Chartered Nominees (Western Samoa) Limited	Nominees Services	**–**	**–**
Horsford Nominees Limited	Nominees Services	**–**	**–**
Standard Chartered Global Trading Investment Limited	Nominees Services	**–**	**–**
		2,603	**685**

Figures in HK$m		*At 31 December 2012*	
Name of company	**Principal Activity**	**Total assets**	**Total equity**
Standard Chartered Securities (Hong Kong) Limited	Equity capital markets, corporate finance and institutional brokerage	920	363
SC Learning Limited	Provision of learning solutions in the banking and finance industry	38	(19)
Standard Chartered Corporate Advisory Company Limited	Consultancy and advisory services	203	(58)
SCOPE International (China) Company Limited	Development and sales of software, data processing and information technology services	288	163
Standard Chartered Investment Services Limited	Investment management	44	34
Standard Chartered Trust (HK) Limited	Trustee services	10	10
Standard Chartered Nominees (Western Samoa) Limited	Nominees Services	–	–
Horsford Nominees Limited	Nominees Services	–	–
Standard Chartered Global Trading Investments Limited	Nominees Services	–	–
		1,503	493

The Bank's shareholdings in the above directly held subsidiaries are deducted from CET1 capital in accordance with the Banking (Capital) Rules. There is no relevant capital shortfall in any of the Bank's subsidiaries which are not included as part of the consolidation group for regulatory purposes.

The Bank uses the advanced internal ratings based ("AIRB") approach for both the measurement of credit risk capital and the management of credit risk for the majority of its portfolios. The Bank also uses the standardised (credit risk) approach for certain insignificant portfolios exempted from AIRB.

For the calculation of its capital charge for market risk, the Bank uses an internal models approach for two guaranteed funds and the standardized (market risk) approach for other exposures. In addition, the Bank adopts the standardized (operational risk) approach for operational risk.

The Bank applies the Internal Capital Adequacy Assessment Process ("ICAAP") to assess its capital demand on a current, planned and stressed basis. The assessment covers the major risks faced by the Bank, in addition to credit, market and operational risks that are covered under the minimum capital requirements. The ICAAP has been approved by the Asset and Liability Committee ("ALCO") and the Board of Directors ("the Board").

30. Liquidity ratio

Figures in HK$m	***6 months ended 30 June 2013***	*6 months ended 30 June 2012*
Average liquidity ratio for the period	**32.9%**	33.5%

The average liquidity ratio is computed as the simple average of each calendar month's average ratio and is in accordance with the Fourth Schedule to the Hong Kong Banking Ordinance.

31. Restatement of prior periods

Changes in accounting policy

The impact of the retrospective application of the *revised HKAS 19/IAS 19 Employee benefits* and *HKFRS 11/IFRS 11 Joint arrangements* as mentioned in the basis of preparation is set out below.

Figures in HK$m	***As previously reported***	***Effect of adoption of revised HKAS 19/IAS 19***	***Effect of adoption of HKFRS 11/ IFRS 11***	***Restated***
<u>For the 6 months ended 30 June 2012</u>				
Interest expense	(2,797)	–	3	(2,794)
Fee and commission expense	(289)	–	1	(288)
Staff cost	(3,322)	(46)	–	(3,368)
Taxation	(803)	8	–	(795)
Profit after taxation	4,425	(38)	4	4,391
<u>As at 31 December 2012</u>				
Placements with banks and other financial institutions	143,581	–	(2)	143,579
Fixed assets	23,746	–	(41)	23,705
Deferred tax assets	89	–	(1)	88
Amount due to fellow subsidiaries	5,117	–	(32)	5,085
Other liabilities	18,204	–	(20)	18,184
Reserves	46,652	–	8	46,660

Comparative figures

Certain comparative figures have been restated to conform with the current period's presentation. In particular, advances to customers and their related collateral in note 12 have been reclassified to better reflect the underlying business of the customers.

By order of the Board

Ling Fou Tsong
Director

Hong Kong
6 August 2013