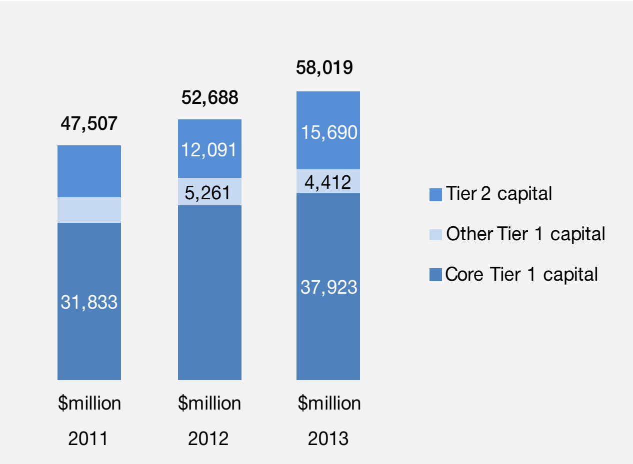
Standard Chartered PLC
Pillar 3 Disclosures
31 December 2013

Incorporated in England with registered number 966425
Principal Office: 1 Basinghall Avenue, London, EC2V 5DD, England

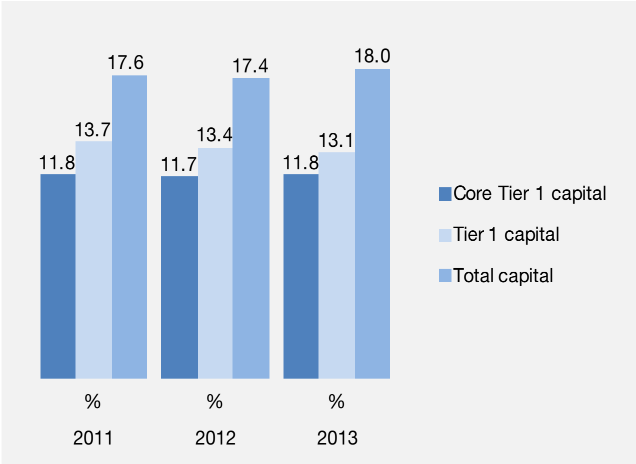
Highlights

- Well capitalised, with a focus on Core Tier 1 and Total Capital, to support our business strategy.
- Proactively managing our financial framework to best position the Group to meet and stay ahead of evolving regulatory capital requirements.
- Our capital position, allied with strong liquidity and a conservative, diversified balance sheet, continues to allow us to support the people and companies driving investment, trade and the creation of wealth across Asia, Africa and the Middle East.

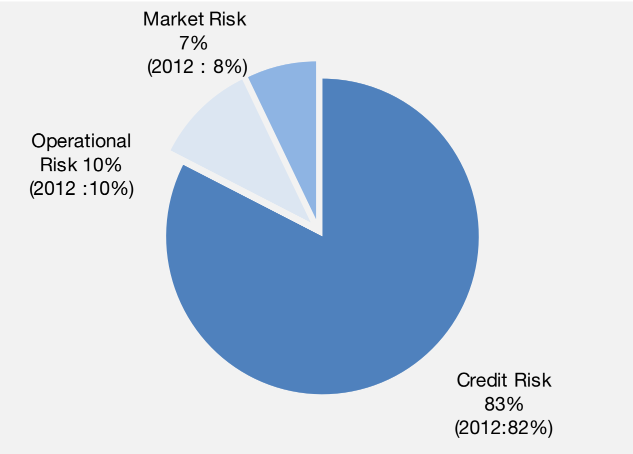
Basel II



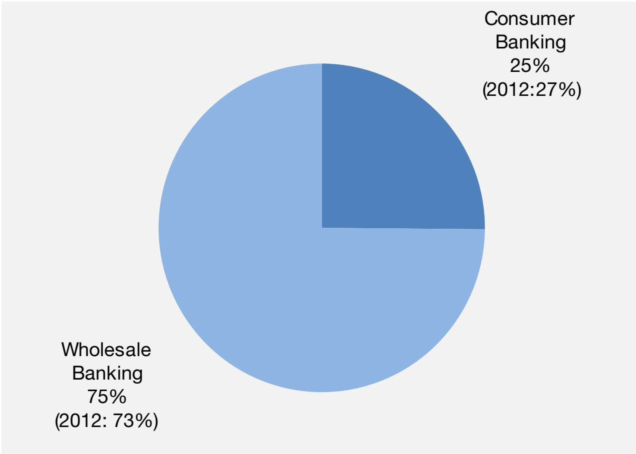
Capital



Capital ratios

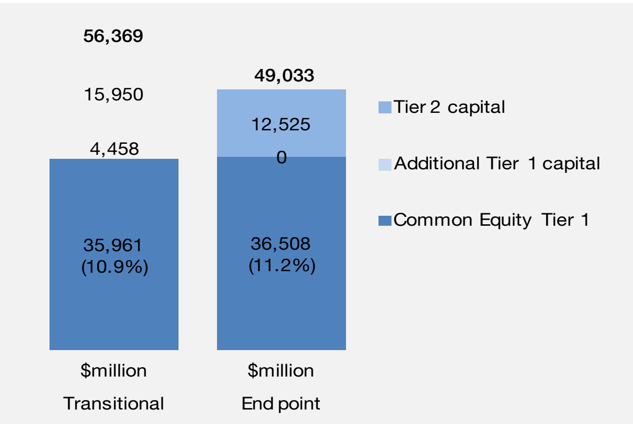


RWA: 2013

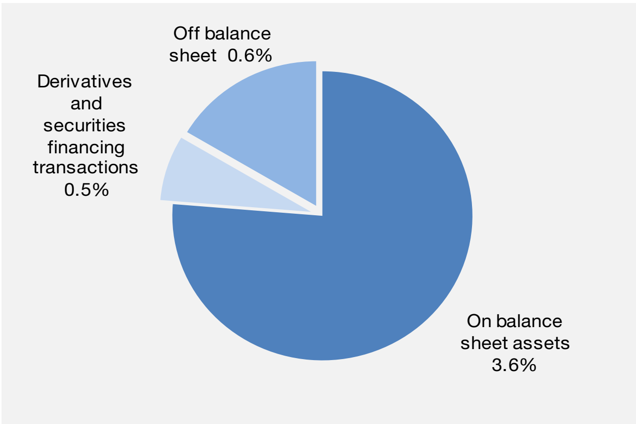


RWA by business: 2013

CRD IV



CRD IV Capital: 2013



End point Leverage ratio: 2013 4.7%

Standard Chartered PLC

Pillar 3 Disclosures

Introduction

Standard Chartered complies with the Basel II framework which has been implemented in the UK through the Prudential Regulation Authority's (PRA) General Prudential Sourcebook (GENPRU) and its Prudential Sourcebook for Banks, Building Societies and Investment Firms (BIPRU). Basel II is structured around three 'pillars'. Pillar 3 aims to bolster market discipline through enhanced disclosure by banks. It is the Group's intention that the Pillar 3 Disclosures be viewed as an integral, albeit separately reported, element of the Annual Report. The Group considers a number of factors in determining where disclosure is made between the Annual Report and Pillar 3, including International Financial Reporting Standards (IFRS), regulatory requirements and industry best practice.

2013 Pillar 3 Disclosures

Ahead of the effective implementation of the Capital Requirements Directive (CRD) IV on 1 January 2014, the PRA, the Enhanced Disclosures Task Force (EDTF) and the European Banking Authority (EBA), have made a series of 2013 disclosure recommendations. In response to these recommendations, and in consultation with the British Bankers' Association Disclosure Working Group, we have made changes to our 2013 Pillar 3 Disclosures. Principal changes compared with the previous year include new disclosures on credit exposure and providing a mapping of internal grades to Probability of Default (PD) bands. Enhanced disclosures relate to CRD IV transitional requirements for capital and leverage ratio representing the view of the EBA/CP/2012/04, adapted as appropriate, enhancement of our securitisation disclosures. Our remuneration disclosures can now be found in the Directors' remuneration report in the 2013 Annual Report. A summary of differences and cross references between the Annual Report and the Pillar 3 Disclosures can be found on pages 65 and 66 of this document.

Risk Management

The management of risk lies at the heart of our business. One of the main risks incurred arises from extending credit to customers through our trading and lending operations. Beyond credit risk, Standard Chartered is also exposed to a range of other risk types such as country cross-border, market, liquidity, operational, pension, reputational and other risks that are inherent to the Group's strategy, product range and geographical coverage. Our approach to the management of risk can be found on page 69 of the Risk review in the 2013 Annual Report.

Credit Risk

Credit risk is the potential for loss due to the failure of a counterparty to meet its obligations to pay the Group in accordance with agreed terms. Credit exposures may 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 approvers in the Risk function. All credit exposure limits are approved within a defined credit approval authority framework.

From 1 January 2008 the Group has predominantly been using the advanced Internal Ratings Based (IRB) approach for the measurement of credit risk capital requirement. This approach builds on the Group's risk management practices and is the result of a continuing investment in data warehouses and risk models.

Market Risk

We recognise market risk as the potential for loss of earnings or economic value due to adverse changes in financial market rates or prices. Our exposure to market risk arises principally from customer-driven transactions. The objective of our market risk policies and processes is to obtain the best balance of risk and return while meeting customers' requirements.

The primary categories of market risk for Standard Chartered are interest rate risk, currency exchange rate risk, commodity price risk and equity price risk.

We use a Value at Risk (VaR) model for the measurement of the market risk capital requirement for part of the trading book exposures where permission to use such models has been granted by the PRA. Where our market risk exposures are not approved for inclusion in VaR models, the capital requirements are determined using standard rules provided by the regulator.

Operational Risk

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

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

Remuneration

The remuneration disclosure follows the requirements of Policy Statement PS10/21 issued in December 2010 by the PRA. This year remuneration disclosures can be found in the Directors' remuneration report in the 2013 Annual Report on pages 176 to 212.

Basel III

Basel III rules published in December 2010 and updated in June 2011 by the Basel Committee on Banking Supervision (BCBS) were implemented in the UK on 1 January 2014 via EU legislation (the package of reforms commonly referred to as CRD IV, comprising the current proposals for a Capital Requirements Regulation (CRR) and a CRD). In December 2013, the PRA issued its final rules on CRD IV in PS7/13, which contains the final rules and supervisory statements to implement CRD IV in the UK. In response to the Financial Policy Committee (FPC) and the PRA disclosure recommendations in the UK, the Group has provided CRD IV transitional capital and leverage ratio disclosures. These disclosures illustrate the potential impact of the new regulation on regulatory capital.

Verification

Pillar 3 Disclosures are not subject to audit, although the 2008 disclosures were reviewed by KPMG to ensure compliance with Chapter 11 of the PRA BIPRU Handbook. This review has not been repeated since there has been no significant change to the BIPRU requirements. The 2013 Pillar 3 Disclosures have been reviewed and verified by senior management.

Frequency

In accordance with Group policy the Pillar 3 Disclosures will be made annually as at 31 December and will be published on the Standard Chartered PLC website http://investors.sc.com/en/showresults.cfm aligning with the publication date of the Group's Annual Report.

Contents

Tables

Standard Chartered PLC is headquartered in London where it is authorised by the UK's Prudential Regulation Authority (PRA), and Standard Chartered PLC Group and Standard Chartered Bank are regulated by the Financial Conduct Authority (FCA) and the PRA.

Within this document 'the Group' refers to Standard Chartered PLC together with its subsidiary undertakings. The Hong Kong Special Administrative Region of the People's Republic of China is referred to as Hong Kong; The Republic of Korea is referred to as Korea or South Korea; Middle East and Other South Asia (MESA) includes: Bahrain, Bangladesh, Jordan, Pakistan, Qatar, Sri Lanka and the United Arab Emirates (UAE); and Other Asia Pacific includes: Brunei, China, Indonesia, Malaysia, the Philippines, Taiwan, Thailand and Vietnam.

Throughout this document, unless another currency is specified, the word 'dollar' or symbol $ means United States dollar.

Throughout this document IRB refers to internal ratings based models used. The Group does not use the Foundation IRB approach.

1. Scope of Basel framework

Basel II

Pillar 1

The Group's lead supervisor, the PRA, formally approved underlying models and the Group's use of the IRB approach for calculating regulatory capital requirements in 2007. Since 1 January 2008 the Group has been using the IRB approach for the measurement of credit risk capital requirements. The IRB models approved by the PRA cover 78 per cent of the Group's credit risk-weighted assets (RWA) (2012: 80 per cent).

The Group applies a VaR model for the measurement of market risk capital requirements in accordance with the scope of the permission to use such a model granted by the PRA. Where the Group's market risk exposures are not approved for inclusion in its VaR model, capital requirements are based on standard rules provided by the regulator which are less risk sensitive.

The Group is also required to calculate a capital charge to cover operational risk for which the Group applies the Standardised Approach.

Pillar 2

Pillar 2 requires banks to undertake a comprehensive assessment of their risks and to determine the appropriate amounts of capital to be held against these risks where other suitable mitigants are not available. This risk and capital assessment is commonly referred to as the Internal Capital Adequacy Assessment Process (ICAAP). The range of risks that need to be covered by the ICAAP is much broader than Pillar 1, which covers only credit risk, market risk and operational risk.

The Group has developed an ICAAP framework which closely integrates the risks and capital assessment processes, and ensures that adequate levels of capital are maintained to support the Group's current and projected demand for capital under expected and stressed conditions.

The ICAAP framework has been designed to be applied consistently across the organisation to meet the Pillar 2 requirements of local regulators. A description of the risk management framework is set out on page 69 of the Risk review in the Group's 2013 Annual Report.

Under Pillar 2, the PRA is required to undertake a review of the Group's ICAAP. This is referred to as the Supervisory Review and Evaluation Process (SREP). The SREP forms part of the PRA's Risk Framework, and determines the amount and quality of capital that the PRA considers the firm should hold to meet the overall financial adequacy rule, referred to as Individual Capital Guidance (ICG).

Pillar 3

Pillar 3 aims to provide a consistent and comprehensive disclosure framework that enhances comparability between banks and further promotes improvements in risk practices. The Group has implemented a Pillar 3 policy and procedure framework to address the requirements laid down for Pillar 3 disclosure. The information provided here has been reviewed and verified by senior management and is in accordance with the rules in force at the reporting date and laid out in the PRA Handbook and BIPRU chapter 11, covering both the qualitative and quantitative items. Disclosure relating to remuneration, found in the Directors' remuneration report in the 2013 Annual Report, follows the requirements of PRA Policy Statement PS10/21 issued in December 2010.

In response to general guidance from the PRA, EDTF and the EBA, a number of changes have been made to the 2013 Annual Report and Pillar 3 Disclosures. These include enhanced disclosures in respect of the difference between the accounting and regulatory consolidation. In order to facilitate navigation between the 2013 Annual Report and Pillar 3 Disclosures a summary of differences and cross-references has been included in both documents.

Pages 132 and 134 of the 2013 Annual Report include tables describing the movement in total capital and risk-weighted assets during the year. Pages 123 and 124 include enhanced disclosures on operational risk.

The enhanced Pillar 3 Disclosures include:

- a comparison of the accounting balance sheet and exposure at default (Table 2);
- the constituent parts of the capital base under CRD IV, as if 31 December 2013 was the first day of the CRD IV transitional period, which runs from 1 January 2014 until 1 January 2019;
- the leverage ratio (Table 12) which is based on both the end point Tier 1 capital under Basel III and a measure of Tier 1 capital that includes in full Additional Tier 1 instruments that are expected to be phased out during the transitional period;
- securitisation positions by risk-weight category (Table 37).

Further details and disclosures of risk, liquidity, capital management and remuneration are presented in the 2013 Annual Report.

1.1. Accounting and regulatory consolidation

The Pillar 3 Disclosures are made for the consolidated Standard Chartered PLC Group. The principal undertakings presented below are the same as those disclosed in the 2013 Annual Report, and Table 9 on page 13 of this document provides additional disclosures of the capital resources for those significant subsidiaries that represent at least 10 per cent of the Group's regulatory capital requirements, in accordance with BIPRU 11.4.5.

The accounting policy for financial consolidation is provided in note 1 of the financial statements in the 2013 Annual Report. All banking subsidiaries are fully consolidated, and the treatment is the same for both regulatory and accounting purposes. For associates and joint ventures, the regulatory treatment differs from the accounting policy, which applies the equity accounting method. Investments in associates that are between 20 and 50 per cent owned are proportionately consolidated for regulatory purposes. Investment in associates that are between 10 and 20 per cent owned are deducted from capital resources. Joint ventures are either fully or proportionately consolidated for regulatory purposes, dependent upon the Group's participation and liability in respect of the undertaking.

The regulatory consolidation approaches used by the Group are shown below, which identifies the principal undertakings, including investments, associates and joint ventures, which are all principally engaged in the business of banking and provision of other financial services.

Table 1: Regulatory consolidation

Type	Description	Regulatory consolidation	Principal undertakings
Investment	The Group holds no more than10 per cent of the issued share capital	The Group risk-weights the investment	Agricultural Bank of China
Investment	The Group holds more than10 per cent and less than 20 per cent of the issued share capital	The Group deducts the carrying value of the investment from its regulatory capital	Asia Commercial Bank China Bohai Bank
Associate	The Group holds at least 20 per cent and up to 50 per cent of the issued share capital	The Group proportionately consolidates its share of the assets, liabilities, income, expenses and exposures	Fleming Family & Partners
Joint Venture	The Group enters into a contractual arrangement to exercise joint control over an undertaking	Where the Group's liability to the joint venture is greater than the capital held, full consolidation is undertaken. Otherwise joint ventures are proportionately consolidated.	PT Bank Permata Tbk
Subsidiary	The Group holds more than 50 per cent of the issued share capital	The Group fully consolidates the undertaking	Standard Chartered Bank Standard Chartered Bank Korea Limited Standard Chartered Bank Malaysia Berhad Standard Chartered Bank (Pakistan) Limited Standard Chartered Bank (Taiwan) Limited Standard Chartered Bank (Hong Kong) Limited Standard Chartered Bank (China) Limited Standard Chartered Bank (Singapore) Limited Standard Chartered Bank (Thai) Public Company Limited Standard Chartered Bank Nigeria Limited Standard Chartered Bank Kenya Limited Standard Chartered Private Equity Limited, Hong Kong

1.2. Comparison of accounting balance sheet and exposure at default

The difference between the basis of consolidation for accounting and regulatory purposes is due to the requirement to proportionately consolidate associates and to fully consolidate one of the Group's joint ventures. The more significant difference between the two bases is the treatment of capital, which is presented in Table 3 on pages 8 and 9. The table below shows the effect of regulatory adjustments required to derive the Group's exposure at default (EAD) for the purposes of calculating its credit risk capital requirements.

Table 2: Comparison of accounting balance sheet and exposure at default

	2013							
	Assets per Group's balance sheet	Effect of regulatory consoli -dation	Regulatory balance sheet	Assets only subject to market risk[1]	Assets deducted from capital[1]	Credit risk mitigation[2]	Recognition of off balance sheet items and PFE on derivatives[3]	Credit risk EAD
	$million	$million	$million	$million	$million	$million	$million	$million
Assets								
Cash and balances at central banks	54,534	1,187	55,721	-	-	-	-	55,721
Financial assets held at fair value through profit or loss	29,335	94	29,429	-	-	-	-	29,429
Derivative financial instruments	61,802	36	61,838	-	-	(37,438)	21,408	45,808
Loans and advances to banks	83,702	541	84,243	-	-	(4,154)	15,893	95,982
Loans and advances to customers	290,708	10,090	300,798	-	-	(1,373)	56,346	355,771
Investment securities	102,716	874	103,590	(18,137)	(184)	-	-	85,269
Other assets	33,570	659	34,229	-	-	-	-	34,229
Current tax assets	234	-	234	-	-	-	-	234
Prepayments and accrued income	2,510	59	2,569	-	-	-	-	2,569
Interests in associates	1,767	(693)	1,074	-	(1,074)	-	-	-
Goodwill and intangible assets	6,070	20	6,090	-	(6,090)	-	-	-
Property, plant and equipment	6,903	130	7,033	-	-	-	-	7,033
Deferred tax assets	529	-	529	-	-	-	-	529
Total assets	674,380	12,997	687,377	(18,137)	(7,348)	(42,965)	93,647	712,574

The key differences between the accounting and regulatory views are:

1 Some of the Group's assets do not attract any credit risk, notably those assets that according to the PRA's handbook would attract only market risk capital requirements or would be deducted from regulatory capital. The column for 'Assets only subject to market risk' includes equity and debt instruments held by the Group in the regulatory trading book. The column for 'Assets deducted from capital' includes certain securitisation positions that are deducted from regulatory capital.

2 IFRS does not permit the offsetting of assets and liabilities in all cases, which means that credit risk mitigation arrangements with clients and customers are not always reflected on the Group's financial balance sheet. However, in the majority of cases credit risk mitigation would be eligible for the purposes of calculating EAD. In the 'Credit risk mitigation' column we also reflect the effect of netting agreements in place for derivatives and securities financing transactions.

3 EAD recognises not only the amount drawn by the customer at the reporting date but also an estimate of the amount of the unutilised facility that the Group expects to be drawn should the customer default within the next 12 months. For the purposes of calculating the EAD associated with derivatives, the Group includes the current market value of derivative contracts and an amount for any potential future exposure. These differences are reflected in the 'Recognition of off balance sheet items and potential future exposure (PFE) on derivatives' column.

2. Capital

2.1. Basel II Capital structure

Capital management

The Capital section of the 2013 Annual Report on page 128 sets out our approach to capital management. Table 3 below summarises the consolidated capital position of the Group.

Movement in capital

Core Tier 1 (CT1) capital increased by $2,584 million since 31 December 2012. This increase is principally due to profit of $4,090 million, partly offset by dividends paid to shareholders net of scrip of $2,068 million. Other large movements are a decrease in the goodwill and intangible deduction of $1,242 million which is mainly driven by goodwill impairment in Korea.

Other Tier 1 capital after deductions decreased by $849 million since 31 December 2012, due mainly to the redemption of $925 million non-cumulative preference shares. Tier 2 capital increased by $3,599 million since 31 December 2012, principally due to issuances of US Dollar and Euro denominated debt totalling $5,454 million, partly offset by redemptions of $1,719 million.

A movement in total capital can be found on page 132 of the 2013 Annual Report.

In light of the uncertain economic environment and continuing uncertainty as to the end state for banks' capital structures, the Group continues to believe it is appropriate to remain strongly capitalised. It has a Core Tier 1 capital ratio of 11.8 per cent, Tier 1 capital ratio of 13.1 per cent and total capital ratio of 18.0 per cent.

Table 3: Capital base

	2013 $million	2012 $million
Shareholders' equity		
Parent company shareholders' equity per balance sheet	46,246	45,362
Preference shares classified as equity included in other Tier 1 capital	(1,494)	(1,495)
	44,752	43,867
Non-controlling interests		
Non-controlling interests per balance sheet	595	693
Non-controlling Tier 1 capital included in other Tier 1 capital	(320)	(320)
	275	373
Regulatory adjustments		
Unrealised (gains) losses on available-for-sale debt securities	75	(97)
Unrealised gains on available-for-sale equity shares included in Tier 2 capital	(744)	(490)
Cash flow hedge reserve	(15)	(81)
Other adjustments[1]	351	(35)
	(333)	(703)
Deductions		
Goodwill and other intangible assets	(6,070)	(7,312)
50 per cent of excess of expected losses [2]	(869)	(966)
50 per cent of tax on excess of expected losses[2]	259	240
50 per cent of securitisation positions	(92)	(118)
Other regulatory adjustments	1	(42)
	(6,771)	(8,198)
Core Tier 1 capital	37,923	35,339
Other Tier 1 capital		
Preference shares included within shareholder's equity (refer to Table 5)	1,494	1,495
Preference shares included within 'Subordinated debt and other borrowings' (refer to Table 5)	299	1,205
Innovative Tier 1 securities (excluding non-controlling Tier 1 capital) (refer to Table 6)	2,577	2,553
Non-controlling Tier 1 capital (refer to Table 6)	320	320
	4,690	5,573
Deductions		
50 per cent of tax on excess of expected losses[2]	259	240
50 per cent of material holdings	(537)	(552)
	(278)	(312)
Total Tier 1 capital	42,335	40,600

2.1. Basel II Capital structure continued

Table 3: Capital base continued

	2013 $million	2012 $million
Tier 2 capital:		
Qualifying subordinated liabilities:[3]		
Subordinated liabilities and other borrowed funds as per balance sheet[4]	20,397	18,799
Preference shares eligible for Tier 1 capital	(299)	(1,205)
Innovative Tier 1 securities eligible for Tier 1 capital	(2,577)	(2,553)
Adjustments relating to fair value hedging and non-eligible securities	(1,314)	(2,052)
	16,207	12,989
Regulatory adjustments		
Reserves arising on revaluation of available-for-sale equity shares	744	490
Portfolio impairment provision	237	248
	981	738
Deductions		
50 per cent of excess of expected losses[2]	(869)	(966)
50 per cent of material holdings	(537)	(552)
50 per cent of securitisation positions	(92)	(118)
	(1,498)	(1,636)
Total Tier 2 capital	15,690	12,091
Deductions from Tier 1 and Tier 2 capital	(6)	(3)
Total capital base	58,019	52,688

1 Other adjustments include the effect of regulatory consolidation and own credit adjustment

2 Excess of expected losses in respect of advanced IRB portfolios are shown gross of tax benefits

3 Consists of perpetual subordinated debt $1,336 million (2012: $1,314 million) and other eligible subordinated debt $14,871 million (2012: $11,675 million). Lower Tier 2 instruments that mature within 5 years include amortisation

4 The amount for 2012 does not agree to note 33 of the 2013 Annual Report, as the prior period was re-stated due to the use of equity accounting for associates and joint ventures

Table 4: Risk-weighted assets and capital ratios

	2013 $million	2012 $million
Risk-weighted assets		
Credit risk	265,834	246,650
Operational risk	33,289	30,761
Market risk	23,128	24,450
Total risk-weighted assets	322,251	301,861
Capital ratios		
Core Tier 1 capital	11.8%	11.7%
Tier 1 capital	13.1%	13.4%
Total capital ratio	18.0%	17.4%

Further information on risk-weighted assets including a movement table and analysis by business and geography can be found on pages 133 and 134 in the Capital section of the 2013 Annual Report.

2.1. Basel II Capital structure continued

Capital instruments issued by the Group

All capital instruments included in the capital base meet the requirements of the rules and guidance in GENPRU. For regulatory purposes, capital is categorised into two main categories, or tiers, depending on the degree of permanence and loss absorbency exhibited. These are Tier 1 and Tier 2 capital which are described below where relevant.

Tier 1 capital

Tier 1 capital comprises permanent share capital, profit and loss account and other eligible reserves, equity non-controlling interests, perpetual non-cumulative preference shares and innovative Tier 1 instruments, after the deduction of certain regulatory adjustments.

Permanent share capital is an item of capital issued by an organisation to an investor, which is fully paid-up and where the proceeds of issue are immediately and fully available. There is no obligation to pay a coupon or dividend to the shareholder.

The capital is available for unrestricted and immediate use to cover risks and losses, and enable the organisation to continue trading. It can only be redeemed on the winding-up of the organisation.

Profit and loss account and other eligible reserves are accumulated resources included in shareholders' funds in an organisation's balance sheet, with certain regulatory adjustments applied.

Equity non-controlling interests represent the equity stakes held by non-controlling shareholders in the Group's undertakings.

Perpetual non-cumulative preference shares are permanent holdings, for which there is no obligation to pay a dividend, and the dividend payment is not cumulative. Such shares do not generally carry voting rights, but rank higher than ordinary shares for dividend payments and in the event of a winding-up or other return of capital. The following table sets out details of the preference shares in issue and their primary terms:

Table 5 : Capital instruments - Preference shares

Description	Terms			2013 $million	2012 $million
Hybrid Tier 1 capital with no incentive to redeem [1]					
£100 million 8.250 per cent Preference shares	Perpetual	Non-cumulative	Irredeemable [2]	**152**	146
£100 million 7.375 per cent Preference shares	Perpetual	Non-cumulative	Irredeemable [2]	**147**	145
$750 million 7.014 per cent Preference shares	Perpetual	Non-cumulative	Redeemable (callable Jul 2037, re-set to 3 month LIBOR plus 1.46 per cent) [3]	**747**	748
$750 million 6.409 per cent Preference shares	Perpetual	Non-cumulative	Redeemable (callable Jan 2017, re-set to 3 month LIBOR plus 1.51 per cent) [3]	**747**	747
$925 million 8.125 per cent Preference shares	Perpetual	Non-cumulative	Redeemable (callable Nov 2013) [2,4]	**-**	914
				1,793	2,700

1 Treated as Tier 1 capital under GENPRU TP8A which relates to the eligibility of hybrid capital instruments for inclusion in Innovative Tier 1 Capital

2 These preference shares are treated as subordinated debt from an accounting perspective, and included in 'subordinated debt and other borrowings' in Table 3 on page 8

3 These preference shares are treated as equity from an accounting perspective, and included in 'other Tier 1 Capital' in Table 3 on page 8

4 In November 2013, Standard Chartered PLC exercised its right to redeem these securities in full

Innovative Tier 1 securities are deeply subordinated debt instruments which despite their legal form, have loss absorbency qualities and can therefore be included as Tier 1 capital. The following table sets out the Innovative Tier 1 securities in issue and their primary terms:

Table 6 : Capital instruments - Innovative Tier 1 securities

Description	Terms			2013 $million	2012 $million
Hybrid Tier 1 capital with incentive to redeem [1]					
£600 million 8.103 per cent Preferred securities	Perpetual	Cumulative	Redeemable (callable May 2016 and annually thereafter, step-up in May 2016 to 5 year UK gilts plus 4.275 per cent) [2]	**1,079**	1,059
$300 million 7.267 per cent Hybrid tier 1 securities	Non-perpetual	Non-cumulative	Redeemable (callable Mar 2014, maturity Mar 2034, extendable for 30 year periods, 7.267 per cent to Mar 2014, step-up in Mar 2014 to 3 month LIBOR plus 4.29 per cent) [2]	**320**	320
$1,500 million 9.5 per cent Preferred Securities	Perpetual	Cumulative	Redeemable, (callable with interest rate re-set in Dec 2014, step-up in Dec 2019 to 5 year Treasuries plus 6.78 per cent) [2]	**1,498**	1,494
				2,897	2,873

1 Treated as Tier 1 capital under GENPRU TP8A which relates to the eligibility of hybrid capital instruments for inclusion in Innovative Tier 1 Capital

2 These securities are treated as non-controlling interests for accounting purposes and are included in 'other Tier 1 Capital' in Table 3 on page 8

2.1. Basel II Capital structure continued

Tier 2 capital

Tier 2 capital is comprised of Upper Tier 2 and Lower Tier 2 capital. The main components are subordinated debt instruments. Upper Tier 2 capital includes perpetual subordinated debt instruments, revaluation reserves and general provisions. The following table sets out the Upper Tier 2 instruments in issue and their primary terms:

Table 7: Capital instruments – Upper Tier 2

Description	Terms		2013 $million	2012 $million
Primary capital floating rate				
$400 million	Perpetual	Either 6 month LIBOR plus 0.125 per cent or Residual Period LIBOR plus 0.0625 per cent [1]	**44**	44
£150 million	Perpetual	3 month LIBOR plus 0.1875 per cent [1]	**51**	50
$300 million	Perpetual	6 month LIBOR plus 0.25 per cent [1]	**80**	80
$400 million	Perpetual	6 month LIBID plus 0.275 per cent [1]	**64**	64
$200 million	Perpetual	6 month LIBOR plus 0.15 per cent [1]	**50**	50
Subordinated notes				
£675 million	Perpetual	Callable Jul 2020, 5.375 per cent coupon with step-up in Jul 2020 to 3 month LIBOR plus 1.89 per cent	**645**	631
£200 million	Perpetual	Callable Jan 2022, 7.75 per cent coupon with step-up in Jan 2022 to 5 year benchmark gilt plus 3.8 per cent	**402**	395
			1,336	1,314

1 These securities are past their first call date and are callable at the option of the issuer on any future interest payment date, in accordance with their terms and conditions

2.1. Basel II Capital structure continued

Lower Tier 2 capital

Lower Tier 2 capital consists of dated capital instruments i.e. of a fixed term, which are normally of medium to long-term maturity with an original maturity of at least five years. For regulatory purposes, it is a requirement that these instruments be amortised on a straight-line basis in their final five years of maturity. The following table sets out the Lower Tier 2 instruments in issue net of amortisation and their primary terms:

Table 8: Capital instruments – Lower Tier 2 subordinated notes

Description	Terms		2013 $million	2012 $million
$1,000 million	6.4 per cent	Maturing Sep 2017	**730**	930
$100 million	Floating rate	Maturing Mar 2018, callable Mar 2013, coupon 3 month LIBOR plus 0.30 per cent, step-up in Mar 2013 to 3 month LIBOR plus 0.80 per cent[1]	**-**	100
$750 million	5.875 per cent	Maturing Jun 2020	**745**	745
$100 million	9.75 per cent	Maturing Jun 2021, callable Jun 2016, step-up in Jun 2016 to 6 month LIBOR plus 6.6035 per cent	**44**	22
$1,000 million	5.7 per cent	Maturing Jan 2022	**995**	995
$1,250 million	4.0 per cent	Maturing Jul 2022, callable Jul 2017	**1,237**	1,244
$2,000 million	3.95 per cent	Maturing Jun 2023	**1,991**	-
$1,000 million	5.2 per cent	Maturing Jan 2024	**995**	-
$700 million	8 per cent	Maturing May 2031	**427**	426
$750 million	5.3 per cent	Maturing Jan 2043	**752**	-
£300 million	6 per cent	Maturing Jan 2018, callable Jan 2013, step-up in Jan 2013 to 3 month LIBOR plus 0.79 per cent[1]	**-**	486
£700 million	7.75 per cent	Maturing Apr 2018	**984**	1,133
€1,100 million	5.875 per cent	Maturing Sep 2017	**1,108**	1,351
€675 million	Floating rate	Maturing Mar 2018, callable Mar 2013, coupon 3 month EURIBOR plus 0.30 per cent, step-up in Mar 2013 to 3 month LIBOR plus 0.80 per cent[1]	**-**	890
€750 million	3.63 per cent	Maturing Nov 2022	**1,024**	980
€1,250 million	4.0 per cent	Maturing Oct 2025	**1,716**	-
IDR 1,750 billion	11 per cent	Maturing Jun 2018	**122**	76
JPY 10,000 million	3.35 per cent	Maturing Apr 2023, callable Apr 2018, step-up in Apr 2018 to 4.35 per cent	**95**	115
KRW 90 billion	6.05 per cent	Maturing Mar 2018	**85**	84
KRW 260 billion	6.08 per cent	Maturing Apr 2018, callable Apr 2013[1]	**-**	243
KRW 300 billion	7.05 per cent	Maturing Apr 2019, callable Apr 2014, step-up in Apr 2014 to 7.55 per cent	**284**	280
KRW 270 billion	4.67 per cent	Maturing Dec 2021, callable Dec 2016	**256**	252
SGD 750 million	4.15 per cent	Maturing Oct 2021,callable Oct 2016, re-set in Oct 2016 to 5 year SGDSOR plus 2.975 per cent	**590**	612
SGD 450 million	5.25 per cent	Maturing Apr 2023, callable Apr 2018, step-up in Apr 2018 to 6 month SGDSOR plus 3.1025 per cent	**355**	367
TWD 10 billion	2.9 per cent	Maturing Oct 2019, callable Oct 2014, step-up in Oct 2014 to 3.4 per cent	**336**	344
			14,871	11,675

[1] The right to redeem these securities was exercised in full on the respective callable date.

2.1. Basel II Capital structure continued

Regulatory deductions

The PRA requires deductions and prudential filters to be applied in calculating capital for regulatory purposes. The following items are deducted from Core Tier 1 capital:

- Goodwill, which is the accounting adjustment recognised in the preparation of a group's consolidated accounts arising on an acquisition; and
- Intangible assets such as software licences.

The following are deducted from Core Tier 1 and Tier 2 capital in equal proportions:

- The excess of expected loss over related provisions; and
- The retained portion of the securitisation asset pool which has been assigned a risk-weighting of 1250 per cent.

Material holdings (being investments in excess of 10 per cent of the share capital of a credit or financial institution) are deducted from Tier 1 and Tier 2 capital in equal proportions.

Lending of a capital nature to a connected party or guarantees provided to such a party are deducted from the total of Tier 1 and Tier 2 capital.

Capital resources of significant subsidiaries

For local capital adequacy purposes, a range of approaches are applied in accordance with the regulatory requirements in force in each jurisdiction. Wherever possible, the approaches adopted at the Group level are applied locally.

The capital resources of the Group's more significant subsidiaries are presented below. These subsidiaries are Standard Chartered Bank (a UK incorporated banking entity including overseas branches, and certain subsidiaries which are permitted to be consolidated for capital adequacy purposes), Standard Chartered Bank (Hong Kong) Limited and Standard Chartered Bank Korea Limited. The capital resources of these subsidiaries are calculated in accordance with the regulatory requirements applicable in the countries in which they are incorporated, and therefore cannot be aggregated, but are presented to align with the Group format.

Table 9: Capital resources of significant subsidiaries

	2013			2012		
	Standard Chartered Bank $million	Standard Chartered Bank (HK) Ltd[3] $million	Standard Chartered Bank Korea Ltd[3] $million	Standard Chartered Bank $million	Standard Chartered Bank (HK) Ltd $million	Standard Chartered Bank Korea Ltd $million
Local Regulator	PRA	HKMA	FSS	PRA	HKMA	FSS
Core Tier 1 capital						
Called up ordinary share capital	17,754	12	1,844	12,054	12	1,826
Eligible reserves[1]	12,353	5,848	2,512	11,352	4,970	2,197
Non-controlling interests	-	-	-	-	3	-
50 per cent excess of expected losses	(466)	-	-	(561)	-	-
50 per cent of securitisation positions	(92)		-	(116)	-	-
Goodwill and other intangible assets	(1,552)	(213)	(42)	(1,702)	(198)	(52)
Other regulatory/ Significant investment adjustments	39	(166)	5	(2)	(23)	(104)
Total Core Tier 1 capital	28,036	5,481	4,319	21,025	4,764	3,867
Innovative Tier 1 securities	2,577	-	297	2,553	-	326
Preference shares	1,499	-	-	2,414	-	-
50 per cent of tax on excess of expected losses[1]	101	-	-	110	-	-
50 per cent of material holdings	(7,522)	-	-	(6,647)	(356)	-
Total Tier 1 capital	24,691	5,481	4,616	19,455	4,408	4,193
Tier 2 capital						
Eligible revaluation reserves	114	7	-	125	3	192
Regulatory Reserve	-	44	-	-	45	19
Portfolio impairment provision (applicable to Standardised portfolios)	54	5	121	66	21	110
Excess provision over expected losses	-	214	16	-	194	97
50 per cent excess of expected losses	(466)	-	-	(561)	-	-
Qualifying subordinated liabilities:						
Perpetual subordinated debt	3,169	-	-	3,114	-	-
Other eligible subordinated debt	12,296	1,308	548	11,919	1,454	859
50 per cent of material holdings	(7,522)	(109)	-	(6,648)	(356)	-
50 per cent of securitisation positions	(92)	-	-	(116)	-	-
Total Tier 2 capital	7,553	1,469	685	7,899	1,361	1,277
Deductions from Tier 1 and Tier 2 capital[2]	(2,275)	(8)	-	(2,298)	(26)	-
Total capital base	29,969	6,942	5,301	25,056	5,743	5,470

1 The tax benefit on excess of expected losses is included 50 per cent in 'Eligible reserves' and '50 per cent of tax on excess of expected losses'

2 Total deductions from Tier 1 and Tier 2 for Standard Chartered Bank primarily relate to lending of a capital nature

3 As at December 2013, two of the Group's significant subsidiaries reported under the Basel III approach

2.2. CRD IV Capital structure

The CRD IV position presented here derived in accordance with the Group's current understanding of the final CRD IV rules, does not constitute either a capital or RWA forecast and may be subject to change. Whilst the CRD IV rules text is finalised it remains subject to final European Banking Authority technical standards and certain aspects remain subject to ongoing national discretion or future regulatory decisions.

The PRA asked banks to prepare a capital reconciliation as at 31 December 2013, taking into account the effects of the proposed CRD IV transitional arrangements as if 31 December 2013 was the first day of the CRD IV transitional period, which runs from 1 January 2014 to 1 January 2019. The period during which we amortise grandfathered capital instruments is expected to end by 1 January 2022.

We present here a reconciliation of the Group's Core Tier 1 capital, as reported in Table 3 on pages 8 and 9, to the transitional and end point capital positions under CRD IV. The disclosure shows the effects of transitional arrangements on capital recognition, based on the Group's current understanding of the prevailing requirements.

Basis of preparation

With respect to the own funds disclosure presented in Table 10 on pages 16 and 17, the Group has aligned its disclosure with the CRR text of November 2013 with reference to the own funds technical standard, the PRA rulebook, and where appropriate to the required template. New regulatory adjustments to Common Equity Tier 1 (CET1) are phased in from January 2014. We have considered the phasing out of grandfathered capital instruments, being those that are not expected to comply fully with CRD IV rules, and calculated a declining ceiling to the recognition of these instruments over time.

Under Basel II, banks are permitted to recognise in Core Tier 1 capital some of the non-controlling interest on the balance sheet, where that non-controlling interest is in common shares. Under CRD IV this calculation only takes into account the amount of capital above the future minimum requirements, thereby reducing the amount of consolidated capital recognised.

Material holdings, as presented in the Capital section of the 2013 Annual Report, fall below the thresholds prescribed in CRD IV. This requires the deduction of 'significant investments in undertakings in the financial sector' where they exceed 10 per cent of the Group's CRD IV CET1 capital base. This is before any adjustments for significant investments and deferred tax assets that depend on the future profitability of the bank and do not arise from temporary differences. Amounts falling below the thresholds are risk-weighted at 250 per cent.

CRD IV gives banks a choice to either deduct from CET1 or risk-weight at 1250 per cent any securitisation positions that attract 1250 per cent risk-weight and free deliveries that have remained unsettled for more than five business days after the contractual settlement date. For the purposes of the own funds calculation and disclosure, the Group deducts these positions from CET1, as shown in Table 10 on pages 16 and 17 of this document.

2.2. CRD IV Capital structure continued

Own funds disclosure

The following comments refer to Table 10 on pages 16 and 17.

The "Current rules" shows the 31 December 2013 position under Basel II as illustrated on pages 8 and 9; the "Transitional position" shows a pro forma of the 31 December 2013 position adjusted for the application of the rules in the UK as at 1 January 2014 and the "End point position" shows a pro forma of the 31 December 2013 position based on the CRD IV rules currently expected to be applicable as at 1 January 2022.

On the end point basis, CET1 is $36,508 million, AT1 is nil, Total Tier 1 is $36,508 million, Tier 2 is $12,525 million and Total Capital is $49,033 million.

Common Equity Tier 1

- The transitional position shows CET1 of $35,961 million which reflects the impact of a reduction in Core Tier 1, through the application of the rules applicable in the UK as at 1 January 2014. This reduction of $1,960 million is due to increased regulatory adjustments or deductions to CET1 including: excess expected losses, securitisation positions, deferred tax assets and the removal of the tax shield on excess expected losses.
- The end point position shows CET1 of $36,508 million which represents the transitional position adjusted for the future expected inclusion of unrealised gains on available for sale equity shares within CET1.

Additional Tier 1

- The transitional position shows Additional Tier 1 (AT1) of $4,458 million. This primarily reflects the de-recognition of $232 million of AT1 as at 1 January 2014 which comprises the amount by which the current stock of AT1 exceeds the current cap (80 per cent of its stock of eligible AT1 capital) on the extent to which such instruments can be recognised.
- The end point position shows AT1 as zero which reflects the fact that the Group expects that those securities among its current stock of AT1 securities that have not been called or repurchased prior to 2022 would not be eligible for recognition under the rules expected to be in force at that date.
- In terms of regulatory adjustments to AT1, the transitional position shows that the benefit of tax on excess expected losses is no longer available under CRD IV and the deduction relating to significant holdings of CET1 of relevant entities from AT1 of $537 million becomes a risk-weighting at 250 per cent under CRD IV.

Tier 2

- The deductions from Tier 2 shown in the current rules position mostly relate to regulatory adjustments made to Tier 2 capital that will be applied to CET1, including excess expected losses, securitisation positions and revaluation reserves on AFS assets (equities). The deduction relating to significant holdings of CET1 of relevant entities from Tier 2 of $537 million becomes a risk-weighting of 250 per cent under CRD IV.
- The transitional position shows CRD IV Tier 2 capital instruments of $15,724 million. CRD IV requires partial de-recognition of subsidiary-issued capital instruments in the consolidated capital position of the Group. The current stock of grandfathering Tier 2 does not exceed the current cap on recognition of grandfathering Tier 2 instruments (80 per cent of the grandfathering Tier 2 stock as at December 31 2012).
- The end point position shows $12,299 million of Tier 2 instruments as fully qualifying under CRD IV. This includes the de-recognition of $3,919 million of Tier 2 instruments in existence at 31 December 2013, although it is believed unlikely that all these instruments will be afforded zero Tier 2 capital credit before they reach their effective maturity date.

Risk-Weighted Assets

- The transitional position shows that pro forma risk-weighted assets increase by $9 billion on transition to CRD IV. In addition to the risk-weighting at 250 per cent of significant investments ($2,278 million) and certain deferred tax assets ($797 million) which are below the relevant CRD IV threshold, the increase in RWA is mainly due to the introduction of the Credit Valuation Adjustment (CVA) and Asset Value Correlation (AVC) components of CRD IV.

CRD IV Ratios

- The transitional position shows a CET1 ratio of 10.9 per cent which is around 90bps lower than the current rules for Core Tier 1. The CRD IV impact is due to both increased regulatory deductions from CET1 capital (particularly the full deduction for excess expected losses relative to provisions and the deduction of certain deferred tax assets) and additional RWA.
- The end point position shows a CET1 ratio of 11.2 per cent which is around 30bps higher than the transitional CRD IV position ratio due to (a) the impact of estimated mitigation of the CVA RWA increase through use of internal models (subject to regulatory approval) and increased central clearing of certain derivatives and (b) the inclusion of unrealised gains on available for sale equity shares in the end point calculation which are expected to be recognised from 2015 onwards.
- The CRR and the proposed EBA final technical standard on own funds refer to the deduction of foreseeable dividends when calculating CET1 in certain circumstances. The impact of the deduction of the final proposed dividend for 2013 of $1,385 million from the Group's CET1 calculation would be around 40bps which reduces to around 30bps assuming a 25 per cent scrip dividend.

2.2. CRD IV Capital structure continued

Table 10: CRD IV capital base (own funds)

	Basel II Current rules 2013 $million	CRD IV Transitional position 2013 $million	CRD IV End point position 2013 $million
Parent company shareholders' equity per balance sheet	**46,246**	**46,246**	**46,246**
Share capital	1,214	1,214	1,214
Share premium	5,493	5,493	5,493
Retained earnings	22,351	22,351	22,351
Accumulated other comprehensive income	17,188	17,188	17,188
Preference shares classified as equity included in Tier 1 capital	**(1,494)**	**(1,494)**	**(1,494)**
Non-controlling interests	**275**	**149**	**149**
Non-controlling interests per balance sheet (allowed in consolidated CET1)	595	595	595
Non-controlling Tier 1 capital included in other Tier 1 capital	(320)	(320)	(320)
Haircut applied under CRD IV to eligible non-controlling interests	-	(126)	(126)
Net effect of regulatory consolidation	**446**	**273**	**273**
Core Tier 1/Common Equity Tier 1 before regulatory adjustments	**45,473**	**45,174**	**45,174**
Regulatory adjustments	**(778)**	**(660)**	**(113)**
Unrealised (gains)/losses on available-for-sale debt securities	75	-	-
Unrealised (gains)/losses on available-for-sale equity shares included in Tier 2	(744)	(547)	-
Cash flow hedge reserve	(15)	(15)	(15)
Own Credit Adjustment (OCA)	(85)	(85)	(85)
Debt Valuation Adjustment (DVA)	-	(5)	(5)
Defined benefit pension scheme assets	(6)	(6)	(6)
Recognition of deficit reduction amount for relevant defined benefit pension schemes	32	-	-
Other regulatory adjustments	(35)	(2)	(2)
Deductions	**(6,772)**	**(8,553)**	**(8,553)**
Goodwill and other intangible assets [1]	(6,070)	(6,172)	(6,172)
Prudent Valuation Adjustment (PVA)	-	(180)	(180)
Deferred tax assets that rely on future profitability and not arise from temporary differences	-	(273)	(273)
Excess of expected losses	(869)	(1,738)	(1,738)
Tax on excess of expected losses	259	-	-
Securitisation positions	(92)	(184)	(184)
Free deliveries	-	(6)	(6)
Core Tier 1/Common Equity Tier 1 after regulatory adjustments	**37,923**	**35,961**	**36,508**
Additional Tier 1 capital	**4,690**	**4,458**	**-**
of which: classified as equity under applicable accounting standards	1,494	1,494	1,494
of which: classified as liabilities under applicable accounting standards	3,196	3,196	3,196
of which: Additional Tier 1 capital instruments subject to phase out	-	(232)	(4,690)
Deductions	**(278)**	**-**	**-**
Tax on excess of expected losses	259	-	-
Significant direct and indirect holdings of Common Equity Tier 1 instruments of relevant entities [2]	(537)	-	-
Total Tier 1 capital	**42,335**	**40,419**	**36,508**

2.2. CRD IV Capital structure continued

Table 10: CRD IV capital base (own funds) continued

	Basel II Current rules 2013 $million	CRD IV Transitional position 2013 $million	CRD IV End point position 2013 $million
Tier 2 capital instruments	**16,218**	**15,724**	**12,299**
Eligible Tier 2 capital instruments issued by the parent and held by third parties	9,010	9,010	9,010
Instruments issued by subsidiaries and held by third parties	7,208	7,208	7,208
Tier 2 capital instruments subject to phase out or surplus deduction	-	(494)	(3,919)
Eligible reserves	**981**	**237**	**237**
Unrealised gains on available-for-sale equity securities included in Tier 2	744	-	-
Eligible portfolio impairment provision [3]	237	237	237
Deductions	**(1,509)**	**(11)**	**(11)**
Excess expected losses	(869)	-	-
Significant direct and indirect holdings of Common Equity Tier 1 instruments of relevant entities [2]	(537)	-	-
Direct and indirect holdings of own Tier 2	(11)	(11)	(11)
Securitisation positions	(92)	-	-
Tier 2 capital after regulatory adjustments	**15,690**	**15,950**	**12,525**
Deductions from total capital	**(6)**	**-**	**-**
Total capital base (own funds)	**58,019**	**56,369**	**49,033**

1 Goodwill and other intangibles are net of the associated deferred tax liability of $60 million that would be extinguished if the assets become impaired and includes $162 million of goodwill embedded within the Group's investments in the capital of other financial institutions

2 Significant is defined as a holding of at least 10 per cent of the issued share capital of other institutions. Under Basel II, these are described as material holdings and are deducted from Tier 1 and Tier 2 capital. However, under CRD IV, the deduction is made using a corresponding deduction approach. The amount deducted excludes any goodwill embedded within the value of the investment. As the Group's significant investments in financial sector entities of $1,074 million fall below the threshold, which is 10 per cent of Common Equity Tier 1 ($3,651 million at the end point), no deduction is required and these items are risk-weighted at 250 per cent

3 Banks are permitted to include in Tier 2 capital, portfolio impairment provision (PIP) up to a maximum of 1.25 per cent of credit risk-weighted assets under the Standardised approach. As at 31 December 2013, the cap was $728 million

Table 11: CRD IV Risk-weighted assets

	Basel II Current rules 2013 $million	CRD IV Transitional position 2013 $million	CRD IV End point 2013 $million
Total risk-weighted assets	**322,251**	**331,296**	**325,196**
of which: Significant investments in other financial institutions	-	2,278	2,278
of which: Deferred tax assets arising from temporary differences	-	797	797
Core Tier 1 / Common Equity Tier 1 ratio	11.8%	10.9%	11.2%
Tier 1 ratio	13.1%	12.2%	11.2%
Total capital ratio	**18.0%**	**17.0%**	**15.1%**

2.2. CRD IV Capital structure continued

Leverage ratio

The leverage ratio is an evolving requirement and there remains potential for changes in definitions and calibration. It does not recognise the impact of any earnings accretion and other management actions over the transitional period. As such, while we are required to disclose a leverage ratio by the PRA, we would recommend that this published leverage ratio be treated with a degree of caution.

The BCBS introduced the leverage ratio to constrain the build-up of leverage in the banking sector, and supplement risk-based capital requirements with a "simple, non-risk based backstop measure" of leverage. The proposed leverage ratio compares Tier 1 capital to total exposures, which includes certain exposures held off balance sheet as adjusted by stipulated credit conversion factors. The final CRD IV text adopted in 2013 includes proposals for the introduction of the leverage ratio.

Leverage ratio disclosure is required from 1 January 2015 under CRD IV, with final calibration and any further adjustments to the definition, to be completed by 2017.

The UK FPC recommended in November 2012 that the PRA encourage UK banks to disclose a leverage ratio from the beginning of 2013, two years in advance of the BCBS's recommended start date and before the basis for calculation and calibration is finalised.

Table 12 sets out the Group's leverage ratio in accordance with the PRA's guidance. The capital measure is based on the final CRR text of 30 November 2013 with reference to the PRA Rulebook where appropriate. The exposure measure is based on the Basel III text of December 2010.

The Tier 1 capital on an end point and transitional position basis reconcile to the corresponding values shown in Table 10.

The Group's leverage ratios at the end point (of 4.7 per cent) and at the transitional position (of 5.2 per cent) are above the BCBS's currently proposed minimum leverage ratio of 3 per cent.

Following a consultation exercise concluding in September 2013, the BCBS issued a revised leverage ratio framework and disclosure requirements during January 2014. If the EBA adopts the BCBS recommendation, this would result in a small increase in the end point leverage ratio.

Table 12: Leverage ratio

	2013 $million
Tier 1 capital (transitional position)	40,419
Tier 1 capital (end point position)	36,508
Exposure measure	784,829
Leverage ratio (transitional)	**5.2%**
Leverage ratio (end point)	**4.7%**
Total on balance sheet assets	687,377
Derivatives financial instruments	61,838
Securities financing transactions	19,883
All other on balance sheet items	605,656
Off balance sheet transactions[1]	129,301
Unconditionally cancellable	12,348
Other	116,953
Recognition of regulatory netting benefits	(25,011)
Benefits of derivative netting recognised under Basel II[2]	(37,438)
Benefits of SFT netting recognised under Basel II	(5,527)
Potential Future Exposure add-on for derivatives	17,954
Deductions from CRD IV Tier 1 capital	(6,838)
Total exposure measure for leverage ratio	**784,829**

Reconciliation of accounting to regulatory assets	2013 $million
Total assets per financial balance sheet	**674,380**
Net effect of regulatory consolidation	**12,997**
Total on balance sheet assets	**687,377**

1 Off balance sheet items reflect 10 per cent of unconditionally cancellable commitments and 100 per cent of all other off balance sheet items

2 CRD IV rules allow the recognition of Basel II netting benefits for derivatives but require that the Group includes an add-on for PFE

3. Credit risk

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

Our approach to credit risk can be found on pages 72 to 74 of the Risk review in the 2013 Annual Report.

3.1. Internal Ratings Based Approach to credit risk

The Group uses the IRB approaches to manage credit risk for the majority of its portfolios. This allows the Group to use its own internal estimates of Probability of Default (PD), Loss Given Default (LGD), Residual Maturity, EAD and Credit Conversion Factor (CCF) to determine an asset risk-weighting. The IRB models cover 78 per cent of the Group's credit RWA (2012: 80 per cent).

PD is the likelihood that an obligor will default on an obligation within 12 months. All banks utilising an IRB approach must assign an internal PD to all borrowers in each borrower grade. EAD is the expected amount of exposure to a particular facility at the point of default. CCF is an internally modelled parameter based on historical experience to determine the amount that is expected to be further drawn down from the undrawn portion of a facility. LGD is the percentage of EAD that a lender expects to lose in the event of obligor default, EAD/CCF and LGD are measured based on expectation in economic downturn periods.

All assets under the IRB approach have sophisticated PD, LGD and EAD/CCF models developed to support the credit decision making process. RWA under the IRB approach is determined by regulatory specified formulae dependent on the Group's estimates of residual maturity, PD, LGD and EAD. The development, use and governance of models under the IRB approach are covered in more detail in Section 3.3 Internal Ratings Based models.

Regulation (BIPRU 4.2.30) allows IRB banks to elect to permanently exclude certain exposures from the IRB approach and use the Standardised Approach. These are known as permanent exemptions, and are required to be no greater than 15 per cent of the Group's credit risk RWA.

The permanent exemptions for Consumer Banking include:

- Africa – all Consumer Bank portfolios;
- Private Banking; and
- Portfolios which cannot be modelled due to their size or nature.

For Wholesale Banking, permanent exemptions apply to:

- Private Equity;
- Development Organisations;
- Jordan and Lebanon;
- Purchased receivables.

The Group also applies the Standardised Approach to portfolios that are currently being transitioned to the IRB approach in accordance with the Group's 'IRB Roll Out Plan'.

3.2. Standardised Approach to credit risk

The Standardised Approach is applied to portfolios that are classified as permanently exempt from the IRB approach, and those portfolios that are currently under transition to the IRB approach in accordance with the Group's 'IRB Roll Out Plan'.

The Standardised Approach to credit risk measures credit risk pursuant to fixed risk-weights and is the least sophisticated of the capital requirement calculation methodologies under Basel II. The risk-weight applied under the Standardised Approach is given by the PRA and is based on the asset class to which the exposure is assigned.

For sovereigns, corporates and institutions, external ratings, where available, are used to assign-risk weights. These external ratings must come from PRA approved rating agencies, known as External Credit Assessment Institutions (ECAI); which currently includes Moody's, Standard & Poor's and Fitch. The Group uses the ECAI ratings from these agencies in its day to day business, which are tracked and kept updated. Assessments provided by approved ECAI are mapped to credit quality steps as prescribed by the PRA.

The Group currently does not use assessments provided by export credit agencies for the purpose of evaluating RWA in the Standardised Approach.

3.3. Internal Ratings Based models

Model governance

The IRB models used by the Group calculate a PD, LGD and EAD. The model performance data is contained in Table 13: Wholesale Banking model results and Table 14: Consumer Banking model results.

Models are developed by analytics teams within the Consumer Banking and Wholesale Banking Risk functions. The model development process is conducted and documented in line with specific criteria setting out the minimum standards for model development. All IRB models are validated by a model validation team reporting to the Group Chief Credit Officer, thereby maintaining independence from the model build processes. Model validation findings are presented to the Group Model Assessment Committee (MAC) which in turn makes approval recommendations to the Consumer Banking and Wholesale Banking Risk Committees. These decision making bodies are comprised of divisional senior management whose role is to challenge model assumptions and performance and agree on appropriate model use for business decision making and regulatory capital requirement calculations. The Group Risk Committee (GRC) and Board Risk Committee (BRC) periodically review overall model performance.

The model validation process involves a qualitative and quantitative assessment of the model, data, systems and governance. This would typically include an assessment of the:

- model assumptions;
- validity of the technical approach used;
- statistical and empirical measures of performance;
- appropriateness of intended model use;
- model application and infrastructure;
- data integrity and history;
- model response to changes in internal and external environment - the extent to which the model provides point in time or through the cycle measures of risk;
- model monitoring standards and triggers; and
- levels of conservatism applied.

Statistical testing is used to determine a model's discriminatory power, predicted versus observed/realised performance and stability over time with pre-defined thresholds for passing such tests.

PD model development

The Group employs a variety of techniques to develop its PD models. In each case the appropriate approach is dictated by the availability and appropriateness of both internal and external data.

If there is a perceived weakness in the data, for example shorter histories or fewer instances of default, an appropriate amount of conservatism is applied to predicted default rates.

The general approaches fall into three categories:

Default History Based ('Good-Bad') – where a sufficient number of defaults are available, the Group deploys a variety of statistical methods to determine the likelihood of default on existing exposures. These methods afford very high discriminatory power by identifying counterparty exposure characteristics that have a significant predictive ability. The majority of the Group's consumer and corporate exposures are rated under such an approach.

Shadow Rating Approach – if it is determined that the Group's internal data does not provide a sufficient default history (for example, so called 'low default portfolios'), then the Group develops models which are designed to be comparable to the ranking of issuer ratings assigned by established external credit assessment institutions, where those agencies have access to large databases of defaults over a long time period on a variety of credit obligations.

Constrained Expert Judgement – for certain types of exposure there is little or no internal default history, and no reliable external ratings. In such rare cases, the Group has quantitative frameworks to incorporate the expert opinions of the Group's credit risk management personnel into the model development process.

LGD model development

The Group develops LGD models by assessing recoveries and the forced sale value of collateral together with the economic costs in securing these recoveries, and the timing in which such cash flows occur. All such cash flows are then measured at net present value using a suitable discount rate to derive a recovery rate. LGD is therefore the EAD less these estimated recoveries.

Recoveries are estimated based upon empirical evidence which has shown that factors such as customer segment, product and geography have predictive content.

All LGD models are conservatively calibrated to a 'downturn', with lower collateral values and recoveries on exposures, compared to those estimated over the long run.

EAD model development

An EAD model is developed for uncertain exposure products such as lines of credit, credit cards, overdrafts and other commitments. Based on the Group's experience (and supplemented by external data), EAD models assess changes to limits and the likely draw-down of undrawn committed and uncommitted limits as an exposure approaches default. The factor generated by the model and applied to the undrawn limit is referred to as the CCF.

The Group has used conservative assumptions in assessing EAD, in keeping with the expected experience in an economic downturn.

Model use

In addition to supporting credit decisions, IRB models also support risk-based pricing methodologies and measures used to assess business performance such as Economic Capital, Economic Revenue and Economic Profit.

The use of models is governed by a suite of policies:

- the Credit Grading policy and procedure which defines the applicability of each model, details the procedure for use and sets the conditions and approval authority required to override model output; and
- the Group Model Risk Policy specifies that models are subject to regular monitoring and review with the underlying Group Model Standards for IRB Credit Risk Models specifying statistical thresholds and other triggers which determine when models need to be redeveloped.

3.3. Internal Ratings Based models continued

Wholesale Banking model results
Wholesale Banking models have been developed from a dataset which covers a long period, including default and recovery experience from the 1997 Asian financial crisis. This data has been used to calibrate estimates of PD to the Group's long run experience. Actual ('point in time') default rates will typically differ from this 'through the cycle' experience as economies move above or below cyclical norms.

Probability of Default
IRB PD estimates are computed as of 1 January 2013 and are compared with default observations during the year ending 31 December 2013. The historical default experience for institutions, central governments or central banks is minimal, so the predicted PD for institutions reflects a particularly low number of defaults. For central governments or central banks, there were no defaults during 2013.

The actual default rate among corporates and institutions exposures in 2013 remained below IRB model predictions as at the beginning of 2013, reflecting the Group's prudent and proactive credit management.

Loss Given Default
The calculation of realised versus predicted LGD is affected by the fact that it may take a number of years for the workout process to be completed. As such, an observed recovery value cannot be assigned to the majority of the 2013 defaults, making it therefore not meaningful to compute realised versus predicted outcomes in a manner similar to that for PD and EAD.

In past years, for the purpose of the disclosure, the realised LGD was computed based on the long run average realisations from 1995 to the reporting date, instead of restricting its computation to the current year's defaults only.

In the current year we have therefore adopted a different approach based on a four-year rolling period of predicted and realised LGD. This includes 2010 to 2013 defaults that have completed their workout process as at the end of 2013. This approach compares the four-year rolling predicted LGD, providing the predicted outcome of these resolved defaults one year prior to default, against the realised LGD for the same set of defaults. These two figures are fully comparable, providing thereby a meaningful assessment of LGD model performance.

Under this approach, realised LGDs for both institutions and corporates are lower than predicted LGDs. This is explained by the regulatory guidance to calibrate LGD values to downturn conditions. For Central Governments and Central Banks no values are provided reflecting the fact that there have been no defaults in the past four years.

Exposure at Default
EAD takes into consideration the potential drawdown of a commitment as a counterparty defaults by estimating the CCF of undrawn commitments.

For assets which defaulted in 2013, the comparison of realised versus predicted EAD is summarised in the ratio of the EAD one year prior to default to the outstanding amount at time of default. The ratios for both corporates and institutions are larger than one, indicating that the predicted EAD is higher than the realised outstanding amount at default. This is explained by the regulatory guidance to assign conservatism to the CCF of certain exposure types, as well as by the impact of management action leading to a reduction in actual exposure prior to default.

Table 13: Wholesale Banking model results

	PD Predicted %	PD Observed %	LGD Predicted (2010-2013) %	LGD Realised (2010-2013) %	EAD Predicted/ Realised
IRB Exposure Class					
Central governments or central banks	0.18	-	N/A	N/A	N/A
Institutions	0.34	0.01	51.20	-	1.10
Corporates	1.71	1.07	50.51	40.34	1.20

3.3. Internal Ratings Based models continued

Consumer Banking model results

For December 2013 reporting, PD was computed as at 31 December 2012 and compared to the actual default observations during the year to 31 December 2013. The observed default rate for all asset classes is in line with, or lower than, the predicted PD with the exception of the Other Retail asset class. The observed default rate for this asset class has increased since 2012, due to increased Personal Debt Rehabilitation Scheme filings in Korea. Across all other Retail asset classes the observed default rates have reduced or remained comparable to the December 2012 results.

The observed LGD shown below is calculated based on recoveries that were realised as of December 2013 on defaults that had occurred at December 2010 and within the following 12 month period. This is compared to the predicted LGD of these assets at December 2010. Observed LGDs are lower than the predicted values for all asset classes, primarily due to the models using 'downturn' parameter settings to predict LGD. This is most evident in the mortgage portfolios, where the predicted LGDs include a significant assumed reduction in property values.

The Group has a strong monitoring and governance process in place to identify and mitigate model performance issues. While the majority of Consumer Banking's IRB models are conservative and over predict PD, LGD and EAD, any under predicting portfolios are subject to a post model adjustment, to ensure adequate capital is assigned, and have a remediation plan.

The estimates detailed in Table 14 below are before any conservative adjustments are applied.

Table 14: Consumer Banking model results

	PD Predicted %	PD Observed %	LGD Predicted %	LGD Observed %	EAD Predicted/ Observed
IRB Exposure Class					
Qualifying revolving retail	1.73	1.24	78.56	60.62	1.2
Other retail	3.38	4.19	77.13	56.67	1.0
Residential mortgages	0.71	0.38	16.24	4.45	1.0
Retail SME	1.85	1.15	42.88	35.95	1.1
Corporate SME	2.04	0.62	46.81	29.77	1.1

3.4. Regulatory capital requirements

The table below presents the minimum regulatory credit risk capital requirements, including counterparty credit risk, as at 31 December 2013, calculated as 8 per cent of RWA based on the approaches described in sections 3.1 and 3.2. The regulatory credit risk capital requirement below of $21,266 million is substantially lower, even with the inclusion of market risk $1,850 million (Table 41) and operational risk $2,663 million (Table 45), than total capital resources of $58,019 million in Table 3.

Table 15: Regulatory capital requirements

	2013				2012			
Credit Risk Capital Requirements	**Regulatory capital requirement $million**	**Risk-weighted assets $million**	**EAD before the effect of CRM $million**	Risk-weighted asset density[4] %	Regulatory capital requirement $million	Risk-weighted assets $million	EAD before the effect of CRM $million	Risk-weighted asset density[1] %
IRB Exposure Class								
Central governments or central banks	**1,474**	**18,428**	**124,782**	**15%**	1,383	17,282	128,587	13%
Institutions	**1,530**	**19,121**	**130,640**	**15%**	1,400	17,506	105,794	17%
Corporates	**9,814**	**122,674**	**176,394**	**70%**	8,731	109,143	166,920	65%
Retail, of which	**2,174**	**27,177**	**92,786**	**29%**	2,385	29,812	97,214	31%
Secured by real estate collateral	**547**	**6,834**	**59,520**	**11%**	643	8,033	62,654	13%
Qualifying revolving retail	**503**	**6,295**	**17,503**	**36%**	593	7,413	18,379	40%
Retail SME	**90**	**1,129**	**1,970**	**57%**	71	890	1,629	55%
Other retail	**1,034**	**12,919**	**13,793**	**94%**	1,078	13,476	14,552	93%
Securitisation positions	**315**	**3,943**	**27,473**	**14%**	290	3,627	26,057	14%
Non-credit obligation assets	**56**	**697**	**696**	**100%**	53	660	660	100%
Total IRB	**15,363**	**192,040**	**552,771**	**35%**	14,242	178,030	525,232	34%
Standardised Exposure Class								
Central governments or central banks	**151**	**1,892**	**3,886**	**49%**	47	587	1,664	35%
Multilateral development banks	**-**	**-**	**10,074**	**0%**	-	-	7,849	0%
Institutions	**16**	**204**	**612**	**33%**	108	1,355	3,123	43%
Corporates	**1,420**	**17,753**	**31,039**	**88%**	1,017	12,715	20,980	61%
Retail	**1,028**	**12,849**	**17,996**	**75%**	1,064	13,300	19,277	69%
Secured on real estate property	**766**	**9,571**	**18,815**	**51%**	751	9,391	18,226	52%
Past due items	**107**	**1,340**	**1,285**	**135%**	103	1,288	1,211	106%
Items belonging to regulatory high risk categories	**40**	**502**	**386**	**150%**	63	782	573	136%
Other items[1]	**1,129**	**14,107**	**16,653**	**85%**	1,198	14,980	17,803	84%
Total Standardised	**4,657**	**58,218**	**100,746**	**66%**	4,351	54,398	90,706	60%
Counterparty credit risk capital component (credit risk in the trading book)[2]	**1,246**	**15,576**	**59,057**	**26%**	1,138	14,222	56,447	25%
Concentration risk capital component[3]	**-**	**-**	**-**	**-**	-	-	-	-
Total	**21,266**	**265,834**	**712,574**	**38%**	19,731	246,650	672,385	37%

1. Other items include cash, equity holdings, fixed assets, prepayments and accrued income
2. Counterparty credit risk includes assets which are assessed under both approaches. Exposures of $57,195 million with $15.5 million RWA are based on the IRB approach
3. The concentration risk capital component is the additional capital requirement to be held where exposures in the Trading Book to a counterparty exceeds 25 per cent of capital resources
4. Risk-weighted asset density is calculated using exposure as defined within the current PRA handbook, and not 'EAD before the effect of CRM' as presented in the above table. 'EAD before the effect of CRM' is a prudent view of the maximum loss and is gross of any valuation adjustments

Key points

- The growth in credit risk capital requirements during 2013 was driven mainly by increased exposures to corporates. This arose from asset growth in the Wholesale Banking business in Hong Kong, Singapore and the Americas, UK and Europe region. Additionally, it was also impacted by a change in parental support policy and negative credit grade migration, largely as a result of a small number of large accounts being downgraded.
- Exposure to institutions increased due to higher lending in the Americas, UK and Europe and Other APR regions. The decrease in IRB retail secured by real estate was mainly due to a decrease in the mortgage portfolio in Korea as a result of asset sales to Korea Housing Finance Corporation under a mortgage purchase programme.
- Capital requirements have also been impacted as the Group now fully consolidates Permata, its joint venture, for regulatory purposes.

3.4. Regulatory capital requirements continued

The minimum credit risk capital requirements of the Group's significant subsidiaries are calculated in accordance with the regulatory requirements applicable in the countries in which they are incorporated, and against which we are required to hold capital. The regulatory requirements presented below have been aligned with the Group format.

Table 16: Regulatory capital requirements of significant subsidiaries

	2013			2012		
Credit Risk Capital Requirements	**Standard Chartered Bank $million**	**Standard Chartered Bank (HK) Ltd $million**	**Standard Chartered Bank Korea Ltd $million**	Standard Chartered Bank $million	Standard Chartered Bank (HK) Ltd $million	Standard Chartered Bank Korea Ltd $million
Local Regulator	**PRA**	**HKMA**	**FSS**	PRA	HKMA	FSS
IRB Exposure Class						
Central governments or central banks	**615**	**51**	**-**	590	37	-
Institutions	**1,408**	**306**	**-**	1,364	288	-
Corporates	**6,761**	**1,598**	**511**	5,548	1,438	598
Retail, of which	**261**	**569**	**701**	754	534	736
Secured by real estate collateral	**31**	**153**	**176**	322	106	162
Qualifying revolving retail	**137**	**126**	**46**	269	135	52
Retail SME	**-**	**19**	**-**	-	17	-
Other retail	**93**	**271**	**479**	163	276	522
Securitisation positions	**187**	**16**	**8**	173	16	12
Non-credit obligation assets	**-**	**-**	**-**	-	-	-
Other[1]	**-**	**297**	**29**	-	286	-
Total IRB	**9,232**	**2,837**	**1,249**	8,429	2,599	1,346
Standardised Exposure Class						
Central governments or central banks	**23**	**-**	**2**	19	-	2
Institutions	**14**	**1**	**86**	62	1	65
Corporates	**390**	**126**	**488**	471	119	454
Retail	**262**	**10**	**19**	471	10	17
Secured on real estate property	**219**	**16**	**-**	131	18	-
Past due items	**16**	**6**	**-**	21	25	-
Items belonging to regulatory high risk categories	**16**	**-**	**78**	4	-	-
Securitisation positions	**-**	**-**	**-**	-	-	85
Other items	**386**	**136**	**134**	599	29	163
Total Standardised	**1,326**	**295**	**807**	1,778	202	786
Counterparty credit risk capital component (credit risk in the trading book)	**1,140**	**88**	**225**	1,068	1	120
Concentration risk capital component[2]	**-**	**-**	**-**	-	-	-
Total	**11,698**	**3,220**	**2,281**	11,275	2,802	2,252

1 The IRB exposure class 'Other' is an asset class under the regulations of the Hong Kong Monetary Authority (HKMA) and the Financial Supervisory Service (FSS) in Korea

2 The concentration risk capital component is the additional capital requirement to be held where exposure to a trading book counterparty exceeds 25 per cent of capital resources

Key points

- For Standard Chartered Bank, the growth in credit risk capital requirements during 2013 is driven by an increase in exposures with corporates due to asset growth in Wholesale Banking, in Singapore, the Americas and UK & Europe. This was offset by a decrease in retail exposures due to the incorporation in October 2013 of our retail and small and medium-sized enterprise (SME) banking operations, previously in the Singapore branch, into a new Singapore subsidiary.

3.5. Exposure values

The following tables detail the Group's EAD (including counterparty risk) before the effect of credit risk mitigation (CRM), broken down by exposure class against the relevant geography, industry and maturity. EAD is based on the current outstanding exposure and accrued interest and fees, which are recognised in the Group's balance sheet in accordance with IFRS, plus a proportion of the undrawn component of the facility that is reported in contingent liabilities and commitments in note 44 of the 2013 Annual Report. The amount of the undrawn facility included is dependent on the product type and for IRB exposure classes this amount is modelled internally.

Geographical analysis

The table below provides EAD analysed by the booking location of the exposure. The exposure classes are presented in accordance with BIPRU rules in the PRA Handbook which is different from the Annual Report.

The Group sets limits on the exposure to any counterparty and credit risk is spread over a variety of different personal customers and commercial clients. Single borrower concentration risk has been mitigated by active distribution of assets to banks and institutional investors, some of which is achieved through credit-default swaps and synthetic risk transfer structures. The portfolio remains well diversified across geographies.

Table 17: Exposure at default by geography

	2013									
	Hong Kong $million	Singapore $million	Korea $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Average Total $million	Period End Total $million
IRB Exposure Class										
Central governments or central banks	19,201	10,044	12,187	27,453	4,161	7,555	5,276	41,375	129,006	127,252
Institutions	30,273	19,696	7,138	25,611	2,813	5,518	1,556	81,104	160,632	173,709
Corporates	31,270	27,342	9,849	24,976	9,955	19,086	6,991	58,582	183,366	188,051
Retail	35,352	21,031	24,236	8,618	2,477	1,072	-	-	95,000	92,786
Securitisation positions	2,128	1,060	-	-	-	-	-	24,284	26,765	27,472
Non-credit obligation assets	308	-	-	-	-	-	-	389	678	697
Total IRB	118,532	79,173	53,410	86,658	19,406	33,231	13,823	205,734	595,447	609,967
Standardised Exposure Class										
Central governments or central banks	-	-	327	3,079	-	311	-	167	2,773	3,884
Multilateral development banks	419	1,569	-	56	21	155	42	9,644	10,237	11,906
Institutions	27	309	-	143	-	126	-	5	1,866	610
Corporates	3,529	9,427	1,134	10,131	810	854	272	4,915	26,043	31,072
Retail	983	3,113	571	7,297	817	3,094	1,812	309	18,636	17,996
Secured on real estate	1,201	1,192	628	11,321	1,601	1,426	80	1,366	18,521	18,815
Past due items	74	68	189	622	66	151	84	31	1,249	1,285
Items belong to regulatory high risk category	-	50	-	97	112	83	7	37	479	386
Other items	3,954	800	2,046	2,802	816	1,680	1,360	3,195	17,228	16,653
Total Standardised	10,187	16,528	4,895	35,548	4,243	7,880	3,657	19,669	97,032	102,607
Total	128,719	95,701	58,305	122,206	23,649	41,111	17,480	225,403	692,479	712,574

Key points

- In the Other Asia Pacific region exposures to institutions grew significantly due to a growth in demand for refinancing and new loans in China, and higher trade loans in Japan. It was also impacted by the full consolidation of Permata.
- In Americas, UK and Europe, higher exposures to institutions and corporates were driven by increased collateralised lending coupled with higher trade and export financing.
- In Hong Kong, higher holdings of government securities increased exposure to central governments or central banks. Loan growth in corporate lending, mortgages, credit cards and trade loans to SME customers also increased exposure.
- Total exposure in Korea decreased year on year largely as a result of lower retail exposures due to the asset sales to Korea Housing Finance Corporation under a mortgage purchase programme. In addition there has been some de-risking of the personal loan portfolio and a decrease in lower margin mortgage products.

3.5. Exposure values continued

Table 17: Exposure at default by geography continued

	2012									
	Hong Kong $million	Singapore $million	Korea $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Average Total $million	Period End Total $million
IRB Exposure Class										
Central governments or central banks	14,497	9,567	13,107	26,437	5,512	7,317	4,214	50,109	119,980	130,760
Institutions	31,979	17,351	6,874	16,451	2,213	6,746	1,508	64,432	142,779	147,554
Corporates	27,651	24,833	10,447	22,679	10,331	19,974	7,331	55,435	175,060	178,681
Retail	33,321	22,845	28,836	8,786	2,443	983	-	-	93,727	97,214
Securitisation positions	1,806	551	-	-	-	-	-	23,700	23,172	26,057
Non-credit obligation assets	259	-	-	-	-	-	-	401	491	660
Total IRB	109,513	75,147	59,264	74,353	20,499	35,020	13,053	194,077	555,209	580,926
Standardised Exposure Class										
Central governments or central banks	-	-	-	1,407	-	257	-	-	1,645	1,664
Multilateral development banks	76	2,377	-	60	10	135	9	5,900	6,983	8,567
Institutions	93	1,663	172	364	2	201	-	628	2,577	3,123
Corporates	2,267	6,864	1,377	5,578	741	812	385	2,991	20,235	21,015
Retail	1,056	3,797	845	7,147	1,164	3,422	1,494	352	17,916	19,277
Secured on real estate	1,287	1,376	654	12,148	895	649	77	1,140	18,464	18,226
Past due items	91	62	186	608	80	158	23	3	1,207	1,211
Items belong to regulatory high risk category	161	39	-	177	40	83	58	15	458	573
Other items	4,181	892	1,879	2,789	1,184	1,720	1,136	4,022	17,070	17,803
Total Standardised	9,212	17,070	5,113	30,278	4,116	7,437	3,182	15,051	86,555	91,459
Total	118,725	92,217	64,377	104,631	24,615	42,457	16,235	209,128	641,764	672,385

3.5. Exposure values continued

Industry analysis

The mortgage portfolio makes up 64 per cent of the Consumer Banking IRB exposure classes, (2012: 64 per cent). The Wholesale Banking portfolio is well diversified across industry, with no significant concentration within the broad industry classifications of Manufacturing; Financing, Insurance and Business Services; Commerce; or Transport, Storage and Communication. The industry classifications below are aligned with those in the Risk review section of the 2013 Annual Report although certain industries are included in 'Other'[1].

Table 18: Exposure at default by industry

	2013										
	Loans to Individuals - Mortgage $million	Loans to Individuals - Other $million	SME $million	Commerce $million	Manu-facturing $million	Commercial Real Estate $million	Government $million	Financing Insurance & Business Services $million	Transport & Storage & Communi-cation $million	Other[1] $million	Total $million
IRB Exposure Class											
Central governments or central banks	-	-	-	389	-	5	119,569	4,789	146	2,354	127,252
Institutions	-	12	-	12	139	418	61	173,063	4	-	173,709
Corporates	-	8	7,560	45,041	50,323	13,811	350	9,800	18,787	42,371	188,051
Retail	59,449	31,296	2,040	-	-	-	-	-	-	1	92,786
Securitisation positions	-	21	-	367	-	-	-	5,825	124	21,135	27,472
Non-credit obligation assets	-	-	15	44	-	-	-	-	635	3	697
Total IRB	59,449	31,337	9,615	45,853	50,462	14,234	119,980	193,477	19,696	65,864	609,967
Standardised Exposure Class											
Central governments or central banks	-	-	-	-	-	-	3,317	-	-	567	3,884
Multilateral development banks	-	-	-	-	-	-	2,182	9,724	-	-	11,906
Institutions	-	-	-	-	-	-	-	195	-	415	610
Corporates	6	21	19,994	6,229	2,406	36	1,035	449	317	579	31,072
Retail	-	11,797	6,199	-	-	-	-	-	-	-	17,996
Secured on real estate	15,443	17	3,300	16	2	-	-	5	-	32	18,815
Past due items	149	495	319	52	105	2	-	7	12	144	1,285
Items belong to regulatory high risk category	-	6	143	42	23	118	-	16	25	13	386
Other items	-	42	82	524	784	79	-	890	138	14,114	16,653
Total Standardised	15,598	12,378	30,037	6,863	3,320	235	6,534	11,286	492	15,864	102,607
Total	75,047	43,715	39,652	52,716	53,782	14,469	126,514	204,763	20,188	81,728	712,574

[1] The industry class 'Other' includes Mining & Quarrying ($22.6 billion), Construction ($8.6 billion), Electricity Gas & Water ($8 billion), Agriculture Forestry & Fishing ($3.2 billion)

Key points

- Exposure growth was seen across a broad range of industry sectors during 2013. The largest increase was to the financing, insurance and business services sector reflecting a growing demand for collateralised lending, growth in the commodities business and increased trade and export financing, particularly in China and the Americas, UK and Europe region.
- Wholesale Banking saw good growth in loans to corporate customers in the commerce and manufacturing sectors.
- Exposure to governments decreased marginally due to lower deposits at central banks as the Group deployed surplus liquidity.
- EAD was also impacted as the Group now fully consolidates its Permata joint venture for regulatory purposes.

3.5. **Exposure values** continued

Table 18: Exposure at default by industry continued

	2012										
	Loans to Individuals - Mortgage	Loans to Individuals - Other	SME	Commerce	Manu-facturing	Commercial Real Estate	Government	Financing Insurance & Business Services	Transport & Storage & Communi-cation	Other	Total
	$million	$million	$million	$million	$million	$million	$million	$million	$million	$million	$million
IRB Exposure Class											
Central governments or central banks	-	-	-	249	-	15	126,112	3,786	-	598	130,760
Institutions	-	29	-	24	109	125	302	146,312	20	633	147,554
Corporates	-	69	6,545	39,879	48,072	12,741	734	11,103	18,674	40,864	178,681
Retail	62,629	32,931	1,654	-	-	-	-	-	-	-	97,214
Securitisation positions	-	-	-	2,035	-	-	-	2,073	209	21,740	26,057
Non-credit obligation assets	-	-	-	-	-	-	-	-	655	5	660
Total IRB	62,629	33,029	8,199	42,187	48,181	12,881	127,148	163,274	19,558	63,840	580,926
Standardised Exposure Class											
Central governments or central banks	-	-	-	-	-	-	138	238	-	1,288	1,664
Multilateral development banks	-	-	-	50	-	-	1,501	7,016	-	-	8,567
Institutions	-	1	-	-	-	-	-	2,944	-	178	3,123
Corporates	1	24	14,704	802	2,161	1	4	471	314	2,533	21,015
Retail	-	12,980	6,297	-	-	-	-	-	-	-	19,277
Secured on real estate	15,636	25	2,432	37	8	2	-	48	1	37	18,226
Past due items	178	432	296	53	110	3	-	45	19	75	1,211
Items belong to regulatory high risk category	-	-	141	188	54	90	-	21	-	79	573
Other items	1	114	-	841	1,105	66	-	1,151	146	14,379	17,803
Total Standardised	15,816	13,576	23,870	1,971	3,438	162	1,643	11,934	480	18,569	91,459
Total	78,445	46,605	32,069	44,158	51,619	13,043	128,791	175,208	20,038	82,409	672,385

3.5. Exposure values continued

Maturity analysis

The table below shows the Group's exposure on a residual maturity basis. This is consistent with the maturity analysis in the Annual Report which is based on accounting balances. Approximately 60 per cent (2012: 59 per cent) of the Group's exposure is short term, having residual maturity of one year or less. The Wholesale Banking portfolio is predominantly short term with 71 per cent (2012: 68 per cent) of EAD having a residual maturity of one year or less. In Consumer Banking the longer maturity profile of the IRB portfolio is driven by the mortgage book which makes up 64 per cent (2012: 64 per cent) of the portfolio and is traditionally longer term in nature and well secured. Whilst the Other and SME loans in Consumer Banking have short contractual maturities, typically they can be renewed and repaid over longer terms in the normal course of business.

The following tables show the maturity of EAD by exposure class.

Table 19: Exposure at default by maturity

	2013			
	One year or less $million	One to five years $million	Over five years $million	Total $million
IRB Exposure Class				
Central governments or central banks	101,777	21,495	3,980	127,252
Institutions	135,865	33,109	4,735	173,709
Corporates	113,267	56,774	18,010	188,051
Retail	11,807	21,857	59,122	92,786
Securitisation positions	8,212	14,653	4,607	27,472
Non-credit obligation assets	195	221	281	697
Total IRB	371,123	148,109	90,735	609,967
Standardised Exposure Class				
Central governments or central banks	3,574	308	2	3,884
Multilateral development banks	1,348	9,818	740	11,906
Institutions	591	-	19	610
Corporates	24,976	2,055	4,041	31,072
Retail	7,276	6,934	3,786	17,996
Secured on real estate property	1,725	958	16,132	18,815
Past due items	461	406	418	1,285
Items belonging to regulatory high risk categories	231	149	6	386
Other items	16,650	2	1	16,653
Total Standardised	56,832	20,630	25,145	102,607
Total	427,955	168,739	115,880	712,574

Key points

- A large proportion of the increase in exposure year on year, both IRB and Standardised, has a residual maturity of less than one year and reflects trade bias and increased business with institutions and corporates.
- The increase in IRB securitisation positions with a maturity of one year or less, and the corresponding decrease in the one to five years category, was as a result of 3 programmes scheduled for maturity in 2014 (retained exposures of $7.6 billion) compared to only one programme in 2013 (retained exposures $0.8 billion).
- EAD was also impacted as the Group now fully consolidates Permata, its joint venture, for regulatory purposes.

3.5. **Exposure values** continued

Table 19: Exposure at default by maturity continued

	2012			
	One year or less $million	One to five years $million	Over five years $million	Total $million
IRB Exposure Class				
Central governments or central banks	110,440	16,106	4,214	130,760
Institutions	115,505	29,167	2,882	147,554
Corporates	105,344	55,124	18,213	178,681
Retail	13,190	24,910	59,114	97,214
Securitisation positions	811	22,056	3,190	26,057
Non-credit obligation assets	201	207	252	660
Total IRB	345,491	147,570	87,865	580,926
Standardised Exposure Class				
Central governments or central banks	1,584	80	-	1,664
Multilateral development banks	585	7,587	395	8,567
Institutions	2,856	254	13	3,123
Corporates	17,058	876	3,081	21,015
Retail	7,273	7,092	4,912	19,277
Secured on real estate property	1,755	656	15,815	18,226
Past due items	478	254	479	1,211
Items belonging to regulatory high risk categories	405	164	4	573
Other items	17,787	10	6	17,803
Total Standardised	49,781	16,973	24,705	91,459
Total	395,272	164,543	112,570	672,385

3.6. Credit risk mitigation

Potential credit losses from any given account, customer or portfolio are mitigated using a range of tools such as collateral, netting agreements, credit insurance, credit derivatives and other guarantees. The reliance that can be placed on these mitigants is carefully assessed in light of issues such as legal certainty and enforceability, market valuation, correlation risk and counterparty risk of the guarantor. Where appropriate, credit derivatives are used to reduce credit risks in the portfolio. Due to their potential impact on income volatility, such derivatives are used in a controlled manner with reference to their expected volatility. Risk mitigation policies determine the eligibility of collateral types.

Our approach to credit risk mitigation can be found on pages 73, 74, 76 and 92 in the Risk review section of the 2013 Annual Report.

Table 20 below provides 'EAD after the effect of CRM' with exposure shown against the exposure class of the original counterparty rather than the guarantor.

Table 20: IRB exposure at default after CRM

	2013		2012	
	EAD after the effect of collateral $million	Of which: EAD covered by guarantees/credit derivatives $million	EAD after the effect of collateral $million	Of which: EAD covered by guarantees/credit derivatives $million
IRB Exposure Class				
Central governments or central banks	**120,665**	**122**	124,207	159
Institutions	**136,239**	**6,310**	124,572	3,515
Corporates	**154,654**	**11,246**	145,832	8,792
Retail	**33,721**	**1**	38,006	10
Securitisation positions	**26,444**	**169**	24,869	1,487
Non-credit obligation assets	**696**	**-**	660	-
Total IRB	**472,419**	**17,848**	458,146	13,963

Table 21 identifies the effect of credit risk mitigation on EAD for the IRB and Standardised portfolios. Eligible financial collateral consists primarily of cash, debt securities, equities and gold.

The eligible collateral shown meets the requirements set out in PRA Handbook BIPRU Chapter 5. Eligible credit risk mitigation includes funded and unfunded protection. Funded protection is where the Group can either take rights over assets, or reduce its liabilities, if the borrower does not pay, and unfunded protection relates to instances where the Group enters into an agreement with a third party to step in and make payment if the borrower defaults.

Eligible credit risk mitigation includes but is not limited to netting agreements, collateral, guarantees and credit derivatives. To be eligible for recognition, credit risk mitigation must meet the eligibility criteria in the PRA handbook, which includes but is not limited to the requirement for agreements to be legally enforceable in all jurisdictions.

The growth in IRB was mainly in eligible financial collateral received from institutions due to a growing demand for collateralisation within the industry.

The main type of collateral for the Group's Standardised portfolio is real estate property which accounts for 60 per cent (2012: 63 per cent) of all credit risk mitigants.

3.6. Credit risk mitigation continued

Table 21 below provides 'EAD before CRM' and 'EAD after CRM' with exposure shown against the exposure class of the guarantor.

Table 21: Credit risk mitigation for IRB and Standardised exposure classes

	2013				
	EAD before the effect of CRM $million	EAD covered by eligible financial collateral $million	EAD covered by other collateral[1] $million	EAD after the effect of CRM $million	of which: guarantees/credit derivatives provided $million
IRB Exposure Class					
Central governments or central banks	127,252	1,259	501	125,492	5,185
Institutions	173,709	25,764	7,093	140,852	10,688
Corporates	188,051	13,359	27,944	146,748	3,340
Retail	92,786	12	59,053	33,721	1
Securitisation positions	27,472	1,197	-	26,275	-
Non-credit obligation assets	697	-	-	697	-
Total IRB	609,967	41,591	94,591	473,785	19,214
Standardised Exposure Class					
Central governments or central banks	3,884	-	-	3,884	241
Multilateral development banks	11,906	-	-	11,906	632
Institutions	610	1	-	609	440
Corporates	31,072	10,886	-	20,186	1,090
Retail	17,996	830	-	17,166	6
Secured on real estate property	18,815	56	17,773	986	-
Past due items	1,285	16	173	1,096	-
Items belonging to regulatory high risk categories	386	47	-	339	-
Other items	16,653	5	-	16,648	-
Total Standardised	102,607	11,841	17,946	72,820	2,409
Total	712,574	53,432	112,537	546,605	21,623

	2012				
	EAD before the effect of CRM $million	EAD covered by eligible financial collateral $million	EAD covered by other collateral[1] $million	EAD after the effect of CRM $million	of which: guarantees/credit derivatives provided $million
IRB Exposure Class					
Central governments or central banks	130,760	954	315	129,491	5,429
Institutions	147,554	16,320	5,855	125,379	4,320
Corporates	178,681	12,084	26,856	139,741	2,726
Retail	97,214	4	59,204	38,006	1
Securitisation positions	26,057	1,188	-	24,869	1,487
Non-credit obligation assets	660	-	-	660	-
Total IRB	580,926	30,550	92,230	458,146	13,963
Standardised Exposure Class					
Central governments or central banks	1,893	-	-	1,893	178
Multilateral development banks	8,567	-	-	8,567	7
Institutions	2,894	-	-	2,894	2,704
Corporates	21,015	7,486	-	13,529	8
Retail	19,277	1,506	-	17,771	7
Secured on real estate property	18,226	20	16,000	2,206	-
Past due items	1,211	14	170	1,027	-
Items belonging to regulatory high risk categories	573	48	-	525	-
Other items	17,803	25	-	17,778	-
Total Standardised	91,459	9,099	16,170	66,190	2,904
Total	672,385	39,649	108,400	524,336	16,867

[1] Other collateral predominantly consists of real estate and other physical assets

3.7. Regulatory expected loss vs. impairment charges

Impairment for regulatory purposes is under the expected loss model whereas impairment in the financial accounts is based on incurred loss whereby the Group recognises a provision where there is objective evidence of a loss.

The table below compares the regulatory expected loss of $4.3 billion, calculated at 31 December 2012 in respect of 2013, against the net impairment charge for 2013 of $1.2 billion, for the IRB portfolio. This results in a gap between the two measures of $3.1 billion compared to $2.4 billion when the 31 December 2011 regulatory expected loss of $3.3 billion is compared to the 2012 net individual charge of $0.9 billion.

Regulatory expected loss is based on a through-the-cycle methodology using risk parameters and observations over a period of time. It is a conservative and appropriately prudent calculation underpinning regulatory capital requirements, but:

- does not take account of any benefit from management actions to reduce exposures to riskier customers, clients or segments as conditions deteriorate;
- does not take account of any diversification benefit; and
- is calculated in accordance with rules which enforce a certain level of conservatism.

Regulatory expected loss therefore bears little resemblance to impairment as defined for accounting purposes. This is illustrated by the table below which shows expected loss consistently at a multiple of impairment even following the financial crisis of 2008.

The net individual impairment charge is a point in time actual charge raised in accordance with accounting standards that require the Group to either provide for or write-off debts when certain conditions are met as described in the problem credit management and provisioning section on page 84 of the Risk review in the 2013 Annual Report.

During 2013, regulatory expected loss increased as a result of portfolio growth and credit migration within Wholesale Banking, in particular in India and Korea. The Group continues to be disciplined in its approach to risk management and proactive in collection efforts to minimise account delinquencies.

As explained in note 1 of the financial statements in the 2013 Annual Report, the International Accounting Standards Board (IASB) during the first quarter of 2013 issued proposals on the recognition of credit losses, proposing an expected loss versus an incurred loss model. This approach is likely to be different from the methodology required for measuring regulatory expected loss.

Table 22: Regulatory expected loss

	2012	**2013**	2011	2012
	Regulatory expected loss	**Net individual impairment charge[1]**	Regulatory expected loss	Net individual impairment charge[1]
	$million	**$million**	$million	$million
IRB Exposure Class				
Central governments or central banks	**98**	**-**	67	-
Institutions	**461**	**(1)**	448	6
Corporates	**2,588**	**567**	1,904	537
Retail, of which	**1,138**	**617**	929	359
Secured by real estate collateral	**128**	**1**	125	8
Qualifying revolving retail	**462**	**295**	422	185
Retail SME	**24**	**46**	14	46
Other retail	**524**	**275**	368	120
Total IRB	**4,285**	**1,183**	3,348	902

	2010	2011	2009	2010
	Regulatory expected loss	Net individual impairment charge[1]	Regulatory expected loss	Net individual impairment charge[1]
	$million	$million	$million	$million
IRB Exposure Class				
Central governments or central banks	45	-	60	-
Institutions	447	12	406	6
Corporates	1,751	317	1,680	324
Retail, of which	954	255	773	340
Secured by real estate collateral	127	3	101	6
Qualifying revolving retail	470	126	380	163
Retail SME	17	36	31	38
Other retail	340	90	261	133
Total IRB	3,197	584	2,919	670

[1] Excludes ‘other credit risk provisions’

3.8. Risk grade profile

Exposures by internal credit grading

For IRB portfolios an alphanumeric credit risk-grading system is used in both Wholesale and Consumer Banking. The grading is based on the Group's internal estimate of probability of default over a one-year horizon, with customers or portfolios assessed against a range of quantitative and qualitative factors. 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 Group's credit grades in Wholesale Banking are not intended to replicate external credit grades, and ratings assigned by ECAI are not used in determining internal credit grades. Nonetheless, as the factors used to grade a borrower may be similar, a borrower rated poorly by an ECAI is typically expected to be assigned a weak internal credit grade.

Credit grades for Consumer Banking accounts covered by IRB models are based on a probability of default. These models are based on application and behavioural scorecards which make use of credit bureau information as well as the Group's own data. For Consumer Banking portfolios where IRB models have not yet been developed, the probability of default is calculated using historical portfolio delinquency flow rates and expert judgement, where applicable.

IRB models cover a substantial majority of the Group's loans and are used extensively in assessing risks at customer and portfolio level, setting strategy and optimising the Group's risk-return decisions.

The Group makes use of internal risk estimates of PD, LGD and EAD in the areas of:

- Credit Approval and Decision – The level of authority required for the sanctioning of credit requests and the decision made is based on a combination of PD, LGD and EAD of the obligor with reference to the nominal exposure;
- Pricing – In Wholesale Banking a pre-deal pricing calculator is used which takes into consideration PD, LGD and EAD in the calculation of expected loss and risk-weighted assets for the proposed transactions to ensure appropriate return. In Consumer Banking a standard approach to risk-return assessment is used to assess the risk using PD, LGD and EAD against the expected income for pricing and risk decisions;
- Limit Setting – In Wholesale Banking single name concentration limits are determined by PD, LGD and EAD. The limits operate on a sliding scale to ensure that the Group does not have over concentration of low credit quality assets. In Consumer Banking, the estimates of PD, LGD and EAD are used in the credit approval documents to define the credit boundaries and risk limits. It is also used in the score cut-off analysis to limit underwriting within the lower quality or unprofitable score bands;
- Provisioning – Portfolio Impairment Provisions (PIP) are raised at the portfolio level and are set with reference to expected loss which is based on PD, LGD and EAD amongst other quantitative and qualitative factors;
- Risk Appetite – PD, LGD and EAD models provide some of the key inputs into the risk-based methodologies used in the assessment of business and market variables which in turn are key components in the approach taken in setting Risk Appetite; and
- Economic Capital – PD, LGD and EAD are key components of the model used to calculate Economic Capital which is used in the pricing and performance measurement processes at business unit, portfolio and client relationship level.

3.8. Risk grade profile continued

The following table sets out analysis of EAD within the IRB portfolios by internal credit grading and Basel II exposure classes. EAD has been calculated after taking into account the impact of credit risk mitigation. Where exposure is guaranteed or covered by credit derivatives, exposure is shown against the exposure class of the guarantor or derivative issuer. 76 per cent (2012: 76 per cent) of exposures are classified as credit grades 1 to 5.

Table 23: Exposure at default after CRM by risk grade

	2013					
EAD	Grades 1-5 $million	Grades 6-8 $million	Grades 9-11 $million	Grade 12 $million	Grades 13-14 $million	Total $million
Total exposure						
Central governments or central banks	117,710	5,146	2,636	-	-	125,492
Institutions	128,096	10,314	1,788	25	629	140,852
Corporates	71,122	52,117	17,138	2,132	4,239	146,748
Retail, of which	14,484	10,226	7,746	642	623	33,721
Retail exposures secured by real estate collateral	107	181	156	6	17	467
Qualifying revolving retail	10,826	3,318	2,781	341	237	17,503
Retail SME	504	1,123	293	14	23	1,957
Other retail	3,047	5,604	4,516	281	346	13,794
Securitisation positions	26,115	52	107	-	-	26,274
Non-credit obligation assets	242	338	77	6	35	698
Total IRB	357,769	78,193	29,492	2,805	5,526	473,785

	2012					
EAD	Grades 1-5 $million	Grades 6-8 $million	Grades 9-11 $million	Grade 12 $million	Grades 13-14 $million	Total $million
Total exposure						
Central governments or central banks	122,648	4,309	2,534	-	-	129,491
Institutions	113,061	9,558	2,013	36	711	125,379
Corporates	69,989	50,267	13,841	2,254	3,390	139,741
Retail, of which	16,325	11,442	8,904	700	635	38,006
Retail exposures secured by real estate collateral	2,009	1,047	315	16	53	3,440
Qualifying revolving retail	10,261	3,695	3,768	375	279	18,378
Retail SME	466	943	187	11	18	1,625
Other retail	3,589	5,757	4,634	298	285	14,563
Securitisation positions	24,712	104	53	-	-	24,869
Non-credit obligation assets	168	402	48	4	38	660
Total IRB	346,903	76,082	27,393	2,994	4,774	458,146

Key points

- Exposure growth during 2013 in the Group's IRB portfolio continues to be focussed in the higher quality grades 1-5 and is driven mainly by an increase in lending to institutions.
- Corporate exposure in the credit grade 9-11 category has increased since 31 December 2012, reflecting a change in parental support policy and some credit grade migration.
- The increase in Grades 13 and 14 for corporates is caused by downgrades in Wholesale Banking, most notably in India.

3.8. Risk grade profile continued

The following table sets out analysis of undrawn commitments by internal credit grading and Basel II exposure classes.

Table 24: Undrawn commitments by risk grade

	2013					
	Grades 1-5 $million	Grades 6-8 $million	Grades 9-11 $million	Grade 12 $million	Grades 13-14 $million	Total $million
Undrawn commitments						
Central governments or central banks	226	36	38	-	-	300
Institutions	5,767	688	9	-	23	6,487
Corporates	26,719	13,717	3,217	37	189	43,879
Retail, of which	6,022	2,807	948	31	9	9,817
Secured by real estate collateral	3,404	1,037	596	6	1	5,044
Qualifying revolving retail	-	-	-	-	-	-
Retail SME	30	202	3	-	6	241
Other retail	2,588	1,568	349	25	2	4,532
Total IRB	38,734	17,248	4,212	68	221	60,483

	2012					
	Grades 1-5 $million	Grades 6-8 $million	Grades 9-11 $million	Grade 12 $million	Grades 13-14 $million	Total $million
Undrawn commitments						
Central governments or central banks	98	20	57	-	-	175
Institutions	4,269	722	64	1	9	5,065
Corporates	32,836	12,692	2,614	33	31	48,206
Retail, of which	6,485	3,331	985	24	9	10,834
Secured by real estate collateral	4,012	1,591	637	2	1	6,243
Qualifying revolving retail	-	-	-	-	-	-
Retail SME	18	127	4	-	7	156
Other retail	2,455	1,613	344	22	1	4,435
Total IRB	43,688	16,765	3,720	58	49	64,280

Key points

- Due to the proactive monitoring and management of undrawn facilities, related exposures have decreased since 31 December 2012 by $3.8 billion.
- A large proportion of the undrawn facilities (73 per cent) are to corporate customers, and over 90 per cent of these corporate exposures are to customers with a credit grade of 8 or better.

3.8. Risk grade profile continued

The following tables set out analysis of risk-weighted assets grouped by internal credit grade and Basel II exposure class. Risk-weighted assets are derived from EAD before the effect of CRM and risk-weight density (Table 26).

Table 25: Risk-weighted assets by risk grade

	2013					
	Grades 1-5 $million	Grades 6-8 $million	Grades 9-11 $million	Grade 12 $million	Grades 13-14 $million	Total $million
Risk-weighted assets						
Central governments or central banks	10,716	4,542	3,717	-	-	18,975
Institutions	15,461	6,582	2,032	55	643	24,773
Corporates	28,283	50,163	30,747	7,227	15,600	132,020
Retail	3,940	9,165	11,234	1,567	1,271	27,177
Secured by real estate collateral	1,884	2,592	1,747	142	469	6,834
Qualifying revolving retail	754	1,009	3,314	809	409	6,295
Retail SME	50	692	335	23	29	1,129
Other retail	1,252	4,872	5,838	593	364	12,919
Securitisation positions	2,509	206	-	-	-	2,715
Non-credit obligation assets	241	338	77	6	35	697
Total	61,150	70,996	47,807	8,855	17,549	206,357

	2012					
	Grades 1-5 $million	Grades 6-8 $million	Grades 9-11 $million	Grade 12 $million	Grades 13-14 $million	Total $million
Risk-weighted assets						
Central governments or central banks	10,274	3,788	3,533	-	-	17,595
Institutions	13,431	6,102	2,250	81	859	22,723
Corporates	26,124	48,752	24,671	7,652	11,442	118,641
Retail, of which	4,190	9,847	12,866	1,721	1,188	29,812
Secured by real estate collateral	2,018	3,112	2,327	183	392	8,032
Qualifying revolving retail	707	1,131	4,235	882	458	7,413
Retail SME	44	604	198	16	28	890
Other retail	1,421	5,000	6,106	640	310	13,477
Securitisation positions	2,481	530	615	-	-	3,626
Non-credit obligation assets	168	402	48	4	38	660
Total	56,668	69,421	43,983	9,458	13,527	193,057

Key points

- The above table shows the effects of asset growth, credit migration and model changes affecting RWA.
- The majority of the Group's exposure is within the Corporate exposure class, which is subject to RWA movements resulting from credit migration to a greater extent than the other exposure classes.
- Corporate RWA has increased by $13.4 billion, largely driven by an increase in EAD due to business growth, a change in parental support policy and some credit grade migration.

3.8. Risk grade profile continued

The following tables set out the average risk-weight of credit risk exposures in the trading and non-trading books. These weighted averages have been calculated using EAD before taking into account the impact of credit risk mitigation.

Table 26: Risk-weighted assets density % by risk grade

	2013					
	Grades 1-5 %	Grades 6-8 %	Grades 9-11 %	Grade 12 %	Grades 13-14 %	Total %
Risk-weighted assets density by risk grade						
Central governments or central banks	9	88	139	-	-	15
Institutions	10	46	88	214	102	14
Corporates	34	70	111	249	321	71
Retail, of which	7	45	108	205	122	29
Secured by real estate collateral	4	25	62	111	109	11
Qualifying revolving retail	7	30	119	237	172	36
Retail SME	10	61	113	151	127	57
Other retail	41	87	129	211	105	94
Securitisation positions	9	375	1,144	-	-	14
Non-credit obligation assets	100	100	100	100	100	100
Total IRB	14	64	114	239	317	34

	2012					
	Grades 1-5 %	Grades 6-8 %	Grades 9-11 %	Grade 12 %	Grades 13-14 %	Total %
Risk-weighted assets density by risk grade						
Central governments or central banks	8	88	127	-	-	13
Institutions	11	49	81	211	111	16
Corporates	32	71	103	230	298	66
Retail, of which	7	44	103	201	119	31
Secured by real estate collateral	4	26	59	108	93	13
Qualifying revolving retail	7	31	112	235	165	40
Retail SME	9	64	105	148	158	55
Other retail	40	87	132	215	109	93
Securitisation positions	9	357	1,161	-	-	13
Non-credit obligation assets	100	100	100	100	100	100
Total IRB	13	64	104	224	240	33

Key points

- Higher RWA density reflects a higher-degree of modelled risk. RWA density can fluctuate due to credit migration, change in the mix of products and as a result of IRB model changes.
- Increases in the density between 2012 and 2013 for corporates are largely as a result of the change in parental support policy coupled with a lowering in the forced sale value applied to commodities exposures.

3.8. Risk grade profile continued

The following tables set out the average PD percentage of credit risk exposures in the trading and non-trading books. These weighted averages have been calculated using EAD before taking into account the impact of credit risk mitigation.

Table 27: Exposure weighted average PD% by risk grade

	2013					
	Grades 1-5	Grades 6-8	Grades 9-11	Grade 12	Grades 13-14	Total
	%	%	%	%	%	%
Exposure weighted average PD						
Central governments or central banks	0.03	1.29	4.85	-	-	0.18
Institutions	0.09	0.84	3.67	21.16	100.00	0.56
Corporates	0.19	1.10	5.95	26.04	99.99	4.40
Retail, of which	0.12	1.04	5.58	25.67	92.67	2.18
Secured by real estate collateral	0.11	1.02	5.42	26.83	95.71	1.27
Qualifying revolving retail	0.14	0.93	6.25	25.27	87.21	2.93
Retail SME	0.19	1.28	4.03	25.17	96.05	2.69
Other retail	0.27	1.08	5.37	25.65	92.40	5.10
Securitisation positions	-	-	-	-	-	-
Non-credit obligation assets	0.23	1.14	8.24	33.00	100.00	7.94
Total	0.10	1.06	5.67	25.94	98.84	1.97

	2012					
	Grades 1-5	Grades 6-8	Grades 9-11	Grade 12	Grades 13-14	Period end Total
	%	%	%	%	%	%
Exposure weighted average PD						
Central governments or central banks	0.03	1.32	4.77	-	-	0.17
Institutions	0.08	0.82	3.84	24.00	100.00	0.75
Corporates	0.17	1.07	5.82	23.40	99.98	3.97
Retail, of which	0.13	1.07	5.19	27.29	92.40	2.19
Secured by real estate collateral	0.12	1.08	4.58	34.22	96.06	1.32
Qualifying revolving retail	0.14	0.97	5.95	25.50	87.48	3.34
Retail SME	0.18	1.22	4.27	28.63	91.51	2.44
Other retail	0.26	1.10	5.14	25.53	91.85	4.46
Non-credit obligation assets	0.20	1.20	8.32	24.55	100.00	7.72
Total	0.09	1.05	5.45	24.19	98.67	1.90

Key points

- The overall average PD percentage for corporates has increased from 3.97 per cent to 4.40 per cent since 2012. This reflects a change in parental support policy and some credit grade migration.

3.8. Risk grade profile continued

The following tables set out the average LGD of credit risk exposures in the trading and non-trading books. These weighted averages have been calculated using EAD before taking into account the impact of credit risk mitigation. The average exposure weighted LGD across the IRB portfolio is 39 per cent (2012: 37 per cent).

Table 28: Exposure weighted average LGD% by risk grade

	2013					
	Grades 1-5 %	Grades 6-8 %	Grades 9-11 %	Grade 12 %	Grades 13-14 %	Total %
Exposure weighted average LGD						
Central governments or central banks	46	46	46	-	-	46
Institutions	25	29	33	41	48	25
Corporates	44	38	35	44	55	41
Retail, of which	30	49	65	72	53	39
Secured by real estate collateral	14	19	18	18	19	15
Qualifying revolving retail	87	81	84	81	75	85
Retail SME	23	52	75	61	62	48
Other retail	79	83	82	84	81	82
Securitisation Positions	88	82	100	-	-	88
Non-credit obligation assets	45	45	45	45	45	45
Total IRB	39	39	43	50	54	39

	2012					
	Grades 1-5 %	Grades 6-8 %	Grades 9-11 %	Grade 12 %	Grades 13-14 %	Total %
Exposure weighted average LGD						
Central governments or central banks	46	46	46	-	-	46
Institutions	26	31	34	39	39	27
Corporates	44	37	33	40	53	40
Retail, of which	29	47	63	70	53	38
Secured by real estate collateral	13	19	19	19	19	15
Qualifying revolving retail	85	79	82	81	75	83
Retail SME	23	55	69	58	66	48
Other retail	78	83	84	86	81	82
Securitisation positions	91	82	100	-	-	91
Non-credit obligation assets	45	46	45	45	45	45
Total IRB	36	39	43	46	51	37

Key points

- The PRA introduced a floor of 45 per cent to the unsecured LGD associated with central governments or central bank exposures during 2012
- The increase of total weighted average LGD for corporates from 37 per cent in 2012 to 39 per cent in 2013 is as a result of a lowering in the forced sale value applied to commodities exposures and other collateral values.

3.8. Risk grade profile continued

The following tables provide further detail on the non-retail IRB exposure classes subject to credit risk in the trading and non-trading books, in particular for Central governments or central banks, Institutions and Corporates. These exposure classes represent 69 per cent of the Group's total exposure.

Table 29: IRB credit exposure by internal PD grade for Central governments or central banks.

				2013			
SCB internal ratings	PD range %	EAD after the effect of CRM $million	Average PD %	Average LGD %	RWA $million	RWA Density %	Standard & Poor's external rating equivalent
1A	0.000 - 0.015	58,062	0.01	45	2,388	4	AAA/AA+
1B	0.015 - 0.025	26,580	0.02	46	1,877	7	AA/AA-
2A	0.025 - 0.035	19,842	0.03	48	2,315	12	A+
2B	0.035 - 0.045	1,390	0.04	46	192	14	A
3A	0.045 - 0.060	395	0.05	46	83	21	A/A-
3B	0.060 - 0.083	981	0.07	46	206	21	A-/BBB+
4A	0.083 - 0.110	2,452	0.09	46	549	22	BBB+
4B	0.110 - 0.170	1,644	0.13	46	393	24	BBB
5A	0.170 - 0.300	6,361	0.22	44	2,710	43	BBB/BBB-
5B	0.300 - 0.425	4	0.39	46	2	49	BBB-/BB+
6A	0.425 - 0.585	274	0.51	46	157	57	BB+
6B	0.585 - 0.770	236	0.67	46	172	73	BB
7A	0.770 - 1.020	1,452	0.89	46	1,086	75	BB/BB-
7B	1.020 - 1.350	805	1.17	46	778	97	BB-
8A	1.350 - 1.750	1,508	1.54	46	1,434	95	BB-/B+
8B	1.750 - 2.350	871	2.03	46	914	105	B+
9A	2.350 - 3.050	249	2.67	46	286	115	B
9B	3.050 - 4.000	1,703	3.51	45	2,173	128	B/B-
10A	4.000 - 5.300	47	4.62	45	89	191	B-
10B	5.300 - 7.000	301	6.08	46	481	160	B-/CCC
11A/B/C	7.000 - 15.750	336	12.16	45	689	205	CCC
12A/B/C	15.750 - 50.000	-	-	-	-	-	N/A
13	50.000 - 99.999	-	-	-	-	-	N/A
14	100.000	-	-	-	-	-	N/A
Unrated		-	-	-	-	-	N/A
Total		125,493	0.18	46	18,974	15	

Key points

- The above table shows the distribution of the Group's EAD, RWA and other credit risk metrics across the Group's internal credit grades for its exposures to sovereign counterparties.
- The majority of the Group's exposure is to higher-rated sovereigns. Following instructions from the PRA, the LGD for the Group's exposures to sovereigns is at least 45 per cent. The Group has never experienced any defaults associated with sovereign exposures.

3.8 Risk grade profile continued

Table 30: IRB credit exposure by internal PD grade for Institutions

2013

SCB internal ratings	PD range %	EAD after the effect of CRM $million	Average PD %	Average LGD %	RWA $million	RWA Density %	Standard & Poor's external rating equivalent
1A	0.000 - 0.015	-	-	-	-	-	AAA/AA+
1B	0.015 - 0.025	-	-	-	-	-	AA/AA-
2A	0.025 - 0.035	41,838	0.03	24	2,193	5	A+
2B	0.035 - 0.045	18,752	0.04	25	1,459	7	A
3A	0.045 - 0.060	19,682	0.03	21	1,575	6	A/A-
3B	0.060 - 0.083	11,829	0.07	24	1,337	9	A-/BBB+
4A	0.083 - 0.110	10,382	0.09	28	1,472	12	BBB+
4B	0.110 - 0.170	8,773	0.13	33	1,812	20	BBB
5A	0.170 - 0.300	11,592	0.22	25	3,370	20	BBB/BBB-
5B	0.300 - 0.425	5,249	0.39	30	2,243	33	BBB-/BB+
6A	0.425 - 0.585	3,942	0.51	28	1,911	36	BB+
6B	0.585 - 0.770	1,262	0.67	22	809	35	BB
7A	0.770 - 1.020	2,728	0.90	31	1,851	52	BB/BB-
7B	1.020 - 1.350	1,126	1.18	29	904	57	BB-
8A	1.350 - 1.750	546	1.58	36	480	73	BB-/B+
8B	1.750 - 2.350	710	2.07	36	627	80	B+
9A	2.350 - 3.050	639	2.68	30	654	73	B
9B	3.050 - 4.000	799	3.53	34	867	88	B/B-
10A	4.000 - 5.300	229	4.74	36	309	109	B-
10B	5.300 - 7.000	56	6.30	43	87	146	B-/CCC
11A/B/C	7.000 - 15.750	64	11.51	37	116	157	CCC
12A/B/C	15.750 - 50.000	25	21.16	41	55	214	N/A
13	50.000 - 99.999	242	100	41	342	142	N/A
14	100.000	387	100	52	301	78	N/A
Unrated	-	-	-	-	-	-	N/A
Total		140,852	0.56	25	24,774	14	

Key points

- The above table shows the distribution of the Group's EAD, RWA, and other credit risk metrics across the Group's internal credit grades for its exposures to institutions.
- The Group's exposures to institutions are concentrated within the higher quality internal grades, the external equivalent being between A+ and BBB+. Regulatory guidance states that the PD for the Group's exposures to institutions must be at least 0.03 per cent.

3.8 Risk grade profile continued

Table 31: IRB credit exposure by internal PD grade for Corporates

		2013					
SCB internal ratings	PD range %	EAD after the effect of CRM $million	Average PD %	Average LGD %	RWA $million	RWA Density %	Standard & Poor's external rating equivalent Corporate/NBFI
1A	0.000 - 0.015	-	-	-	-	-	AAA
1B	0.015 - 0.025	-	-	-	-	-	AA+
2A	0.025 - 0.035	4,105	0.03	47	720	18	AA
2B	0.035 - 0.045	1,676	0.04	36	280	13	AA-
3A	0.045 - 0.060	3,464	0.05	35	532	13	AA-
3B	0.060 - 0.083	8,454	0.07	42	1,701	20	A+
4A	0.083 - 0.110	11,090	0.09	53	3,374	30	A/A-
4B	0.110 - 0.170	10,407	0.13	50	3,944	35	A-/BBB+
5A	0.170 - 0.300	17,036	0.22	43	8,246	39	BBB
5B	0.300 - 0.425	14,888	0.39	40	9,486	50	BBB-
6A	0.425 - 0.585	10,514	0.51	46	8,101	66	BB+
6B	0.585 - 0.770	10,943	0.67	40	9,351	68	BB+
7A	0.770 - 1.020	8,909	0.89	37	8,460	73	BB
7B	1.020 - 1.350	7,731	1.17	33	7,644	71	BB
8A	1.350 - 1.750	6,625	1.55	35	7,104	80	BB-
8B	1.750 - 2.350	7,395	2.05	35	9,503	87	BB-
9A	2.350 - 3.050	4,354	2.69	35	6,070	97	B+
9B	3.050 - 4.000	4,208	3.55	36	6,129	102	B+
10A	4.000 - 5.300	4,617	4.68	48	9,267	145	B
10B	5.300 - 7.000	1,261	6.17	34	2,348	117	B
11A/B/C	7.000 - 15.750	2,698	12.46	24	6,933	106	B-
12A/B/C	15.750 - 50.000	2,132	26.04	45	7,227	251	N/A
13	50.000 - 99.999	2,158	100	55	13,263	517	N/A
14	100.000	2,082	100	57	2,337	104	N/A
Unrated	-	-	-	-	-	-	N/A
Total		146,747	4.37	42	132,020	71	

Key points

- The above table shows the distribution of the Group's EAD, RWA, and other credit risk metrics across the Group's internal credit grades for its exposures to corporates.
- The Group's exposures to corporates are concentrated within the higher and medium quality internal grades, the external equivalent being between A+ and BB. Regulatory guidance states that the PD for the Group's exposures to corporates must be at least 0.03 per cent.

3.9. Counterparty credit risk in the trading book

Counterparty credit risk (CCR) is the risk that the Group's counterparty in a foreign exchange, interest rate, commodity, equity or credit derivative contract defaults prior to maturity date of the contract and that the Group at the time has a claim on the counterparty. CCR arises predominantly in the trading book, but also arises in the non-trading book due to hedging of external funding.

The credit risk arising from all financial derivatives is managed as part of the overall lending limits to banks and customers.

The Group seeks to negotiate Credit Support Annexes (CSAs) with counterparties on a case by case basis, where collateral is deemed a necessary or desirable mitigant to the exposure. The credit terms of the CSA are specific to each legal document and determined by the credit risk approval unit responsible for the counterparty. The nature of the collateral is specified in the legal document and is typically cash or highly liquid securities.

The Group further reduces its credit exposures to counterparties by entering into contractual netting agreements which result in a single amount owed by or to the counterparty through netting the sum of the positive (amounts owed by the counterparty) and negative (amounts owed by the Group) mark-to-market (MTM) values of these transactions. Following International Accounting Standard (IAS) 32 requirements, exposures are however presented on a gross basis in the financial statements as such transactions are not intended to be settled net in the ordinary course of business.

A daily operational process takes place to calculate the MTM on all trades captured under the CSA. Additional collateral will be called from the counterparty if total uncollateralised MTM exposure exceeds the threshold and minimum transfer amount specified in the CSA. Additional collateral may be required from the counterparty to provide an extra buffer to the daily variation margin process.

Credit reserves

Using risk factors such as PD and LGD a regulatory expected loss is calculated for each counterparty across the CCR portfolio, and based on this calculation credit reserves are set aside for traded products. The reserve is a dynamic calculation based on the expected risk profile for each counterparty, alongside PD and LGD factors.

In line with market convention, the Group negotiates CSA terms for certain counterparties where the thresholds related to each party are dependent on their ECAI long term rating. Such clauses are typically mutual in nature. It is therefore recognised that a downgrade in the Group's rating could result in counterparties seeking additional collateral calls to cover negative MTM portfolios where thresholds are lowered.

Wrong way risk

Wrong way risk occurs when an exposure increase is coupled with a decrease in the credit quality of the obligor. For example, as the MTM on a derivative contract increases in favour of the Group, the counterparty may increasingly be unable to meet its payment, margin call or collateral posting requirements. The Group employs various policies and procedures to ensure that wrong way risk exposures are recognised upfront and monitored.

Exposure value calculation

Exposure values for regulatory capital requirement purposes on over the counter traded products are calculated according to the CCR Current Exposure Method. This is calculated as the sum of the current replacement cost and the potential future credit exposure. The current replacement cost is the USD equivalent amount owed by the counterparty to the Group for various financial derivative transactions. The potential future credit exposure is an add-on based on a percentage of the notional principal of each transaction. Such percentages are prescribed by the PRA in the BIPRU guidelines and vary according to the underlying asset class and tenor of each trade. The benefit from master netting agreements is applied to the portfolio of counterparty trades in the CCR calculation according to the Net to Gross Ratio rules provided in the PRA Handbook BIPRU 13.

3.9. Counterparty credit risk in the trading book continued

The following tables cover the credit exposure on derivative transactions after taking into account the benefits from legally enforceable netting agreements and the capital requirement by derivative type. The notional values settled with central counterparties and on a recognised trading exchange are also shown.

Table 32: Counterparty credit risk

	2013				
	EAD before credit risk mitigation $million	Netting benefits $million	Netted current credit exposure $million	Collateral held $million	Net derivatives credit exposure $million
Derivative contracts	103,771	59,576	44,195	3,904	40,291
Repo style transactions	14,356	-	14,356	10,818	3,538
Credit derivatives[1]	1,939	1,434	505	159	346
Total	120,066	61,010	59,056	14,881	44,175

1 Of the $506 million netted current credit exposure, $445 million of protection has been purchased and $61 million of protection has been sold

	2012				
	EAD before credit risk mitigation $million	Netting benefits $million	Netted current credit exposure $million	Collateral held $million	Net derivatives credit exposure $million
Derivative contracts	84,301	44,891	39,410	3,304	36,106
Repo style transactions	14,417	-	14,417	8,345	6,072
Credit derivatives	3,973	1,353	2,620	87	2,533
Total	102,691	46,244	56,447	11,736	44,711

1 Of the $2,620 million netted current credit exposure, $1,114 million of protection has been purchased and $1,506 million of protection has been sold

3.9. Counterparty credit risk in the trading book continued

The following tables cover the notional value, the credit exposure on derivative transactions after taking into account the benefits from legally enforceable netting agreements and the capital requirement by derivative types. The notional values settled by central counterparties and on a recognised trading exchange are also shown.

Table 33: Counterparty credit risk by derivative type

	2013			2012		
	Notional value	Netted current credit exposures	Regulatory capital requirement	Notional value	Netted current credit exposures	Regulatory capital requirement
	$million	$million	$million	$million	$million	$million
Derivative contracts:						
Interest rate contracts	2,905,309	9,568	262	1,914,852	9,536	320
Foreign exchange contracts	2,390,227	30,618	689	2,083,219	25,922	513
Equity and stock index options	15,683	276	8	12,223	442	10
Commodity contracts	162,859	3,733	222	138,642	3,511	199
Credit derivatives:						
Credit default swaps	38,829	388	5	57,891	2,357	50
Total return swaps	2,145	118	2	3,295	263	8
Total derivatives	5,515,052	44,701	1,188	4,210,122	42,031	1,100
Repo style transactions:						
Repo		3,040	6		7,199	21
Reverse repo		11,316	52		7,219	16
Total	5,515,052	59,057	1,246	4,210,122	56,449	1,137

Table 34: Counterparty credit risk analysis

	2013				2012			
	Traded on recognised exchanges	Settled by central counterparties	Not settled by central counterparties	Total	Traded on recognised exchanges	Settled by central counterparties	Not settled by central counterparties	Total
	$million	$million	$million	$million	$million	$million	$million	$million
Derivative contracts:								
Interest rate contracts	-	905,631	1,999,678	2,905,309	-	615,448	1,299,404	1,914,852
Foreign exchange contracts	-	5	2,390,222	2,390,227	-	7	2,083,212	2,083,219
Equity and stock index options	15	-	15,668	15,683	4,703	-	7,520	12,223
Commodity contracts	39,811	-	123,048	162,859	6,632	-	132,010	138,642
Credit derivatives	-	-	40,974	40,974	-	-	61,186	61,186
Total derivatives	39,826	905,636	4,569,590	5,515,052	11,335	615,455	3,583,332	4,210,122

3.10. Securitisation

Securitisation is defined as a structure where the cash flow from a pool of assets is used to service obligations to at least two different tranches or classes of creditors.

Securitisations may be categorised as either:

- traditional securitisation: assets are sold to a Special Purpose Entity (SPE), which finances the purchase by issuing notes in different tranches with different risk and return profiles. Cash flow arising from those assets is used by the SPE to service its debt obligations, or:
- synthetic transaction: a securitisation whereby only the credit risk, or part of the credit risk of a pool of assets is transferred to a third party via credit derivatives. The pool of assets remains on the Group's balance sheet.

Securitisation activities are undertaken by the Group for a variety of purposes, by various businesses acting in a different capacity:

- Risk mitigation, funding and capital management (as Originator);
- Fee generation (as arranger/ lead manager);
- Risk taking (as investor).

The Group has $27.5 billion (2012: $26.1 billion) of EAD classified as securitisation positions, as shown in Table 15 on page 23. These transactions meet the criteria to qualify as securitisation positions under the PRA's securitisation framework and the particulars of these transactions are discussed below. In addition to these positions, the Group has transferred to third parties by way of securitisation the rights to any collection of principal and interest on customer loan assets with a face value of $0.8 billion (2012: $1.3 billion), which do not qualify as securitisation positions under the PRA's framework and are not detailed within this section. Further details can be found on page 76 of the 2013 Annual Report.

Asset Backed Securities

The carrying value of Asset Backed Securities (ABS) purchased by Wholesale Banking of $6.6 billion (2012: $4.5 billion), held either as investments or arranged for clients, represents 1 per cent of the Group's total assets (2012: 0.7 per cent).

The year on year increase in this portfolio is mainly attributable to high quality ABS paper purchased by the Asset and Liability Management (ALM) desk with the intention to diversify the bank's liquidity deployment. These purchases by ALM are governed by a set of portfolio limits and standards which include an aggregate portfolio limit besides sub limits on the underlying collateral types, jurisdictions, originators, issue size, seniority, rating and tenor.

The credit quality of the ABS exposures remains strong. With the exception of those securities which have been subject to an impairment charge, over 95 per cent of the overall portfolio is rated A- or better, and 80 per cent of the overall portfolio is rated as AAA. The portfolio is broadly diversified across asset classes and geographies. The portfolio has an average credit grade of AA+.

46 per cent of the overall portfolio is invested in Residential Mortgage Backed Securities (RMBS), with a weighted average credit rating of AA+ (AA+ in 2012).

5 per cent of the overall portfolio is in Commercial Mortgage Backed Securities (CMBS), of which $49 million is in respect of US CMBS. The weighted average credit grade of the CMBS portfolio is at BB- (BBB- in 2012).

3 per cent of the overall portfolio is in Collateralised Debt Obligations (CDOs). This includes $21 million of exposures to CDOs of ABS (Mezzanine and High Grade), of which $20 million have been impaired. The remainder of the other CDOs amounting to $202 million has a weighted average credit rating of AA.

46 per cent of the overall portfolio is in Other ABS, which includes securities backed by loans to corporates or corporate SMEs, student loans, auto loans, and diversified payment types, with a weighted credit rating of AA+ (AA in 2012).

The notional and carrying values of the ABS purchased or retained by the Group are shown in the table below analysed by underlying asset type. ABS are accounted for as financial assets. For further details regarding recognition and impairment, refer to note 1 of the financial statements on page 240 of the 2013 Annual Report. The ABS portfolio is assessed frequently for objective evidence of impairment. In 2013, this consisted of a net impairment of $1 million.

Valuation of retained interest is initially and subsequently determined using market price quotations where available or internal pricing models that utilise variables such as yield curves, prepayment speeds, default rates, loss severity, interest rate volatilities and spreads. The assumptions used for valuation are based on observable transactions in similar securities and are verified by external pricing sources, where available.

The ABS portfolio is closely managed by a centralised dedicated team. The team has developed a detailed analysis and reporting framework of the underlying portfolio to allow senior management to make an informed holding decision with regards to specific assets, asset classes or parts of an asset class. These ABS portfolio reports are closely monitored by the Risk function in the Group.

3.10. **Securitisation** continued

The notional and carrying values of the ABS purchased or retained by the Group are shown below in the table below analysed by underlying asset type.

Table 35: Securitisation: ABS purchased or retained

	2013		
		Notional amount	
	Carrying value of asset backed securities	Traditional securitisation programmes	Synthetic securitisation programmes
	$million	$million	$million
Residential mortgages (RMBS)	3,052	3,059	-
Commercial mortgages (CMBS)	242	321	-
CDOs of ABS – RMBS	1	21	-
CDOs Other: Leveraged loans/Trust preferred/Real Estate	180	202	-
Other ABS:			
Credit card receivables	749	751	-
Loans to corporates or Corporate SMEs	106	106	-
Student loans	45	49	-
Auto loans	1,618	1,618	-
Diversified payment types	527	527	-
Other assets	74	75	-
Total	6,594	6,729	-

	2012		
		Notional amount	
	Carrying value of asset backed securities	Traditional securitisation programmes	Synthetic securitisation programmes
	$million	$million	$million
Residential mortgages (RMBS)	2,114	2,160	-
Commercial mortgages (CMBS)	355	467	11
CDOs of ABS – RMBS	3	23	-
CDOs Other: Leveraged loans/Trust preferred/Real Estate	200	237	-
Other ABS:			
Credit card receivables	229	229	-
Student loans	88	100	-
Auto loans	674	673	-
Diversified payment types	662	669	-
Other assets	194	198	-
Total	4,519	4,756	11

3.10. Securitisation continued

Wholesale Banking Portfolio Management

The Group via its Wholesale Banking Portfolio Management (WBPM) unit buys synthetic protection for its banking book credit portfolio. Securitisation provides capacity for client-focused growth and improves efficiency of economic and regulatory capital. The Group as the originator performs multiple roles, including protection buyer, calculation agent and credit event monitor agent. The protection buyer executes and maintains securitisation transactions. The calculation agent computes periodic coupon payments and loss payouts. The credit event monitor agent validates and provides notifications of credit events.

The ALM unit performs a different role, acting as deposit taker for funds collected from the credit protection provider. Deposits collected enhance the liquidity position of the Group and eliminate counterparty risk for transactions where the Group is the protection buyer.

The securitised assets consist of commercial loans and trade finance facilities extended by the Group's branches and subsidiaries to borrowers mainly from the emerging markets of Asia, Africa and Middle East. The securitised assets are subject to changes in general economic conditions, performance of relevant financial markets, political events and developments or trends in a particular industry. Historically, the trading volume of loans in these emerging markets has been small relative to other more developed debt markets due to limited liquidity in the secondary loan market.

The securitised assets are originated by the Group in its ordinary course of business. Given the synthetic nature of securitisations originated by WBPM, the securitised assets remain on the Group's balance sheet and continue to be subject to the Group's credit review and monitoring process and risk methodology. Accordingly retained positions are not hedged.

In its role as credit event monitor agent, WBPM monitors the credit risk of the underlying securitised assets by leveraging on the Group's client and risk management system.

As of 31 December 2013 $71 million of Trade Finance (2012: $79 million) and $72million of Commercial Loans (2012: $3 million) totalling $143 million (2012: $82 million) of securitised exposures were classified as impaired and past due. The year on year increase is mainly attributable to seasoning of the overall securitisation pool and higher accumulation of past due items pending verification. No new securitisation programmes were originated in 2013 whereas four securitisation programmes were originated in 2012.

The Group has ten synthetic securitisation transactions originated and managed by WBPM, with an aggregate hedge capacity of $21.4 billion (2012: $22.1 billion). Of the ten transactions, six are private transactions with bilateral investors and four are public transactions distributed to a broad spectrum of investors. All ten transactions are structured as non-disclosed pools for reason of client confidentiality.

WBPM as the originator has not acted as sponsor to securitise third-party exposures and does not manage or advise any third-party entity that invests in the securitisation positions. Table 36 below provides details of current securitisation programmes originated and managed by the Group.

3.10. Securitisation continued

The Group has engaged in structures, such as the ones outlined in Table 36, in order to transfer credit risk of a pool of assets to a third party via credit derivatives.

Typically, these synthetic securitisation transactions are facilitated through entities which are considered to be SPEs for accounting purposes.

In these transactions, the underlying assets are not sold into the relevant SPE. Instead, the credit risk of the underlying assets is transferred to the SPEs synthetically via credit default swaps whereby the SPEs act as sellers of credit protection and receive premiums paid by the Group in return. The SPEs in turn issue credit-linked notes to third party investors who fund the credit protection in exchange for coupon on the notes purchased. The premium received by the SPEs and interest earned on the funded amount of the purchased notes are passed through to the third party investors as coupon on the purchased notes. Payment to the third party investors is made in accordance with the priority of payments stipulated in the transaction documents.

For all transactions except Mana III, notes were issued by SPEs. For the Mana III transaction, notes were issued directly by Standard Chartered Bank under its Structured Product Programme.

Governance of securitisation activities

Securitisation transactions proposed for funding and capital management must first obtain support from the respective Balance Sheet Committee (BSC), which manages the capital requirements of the business, before going to Group Capital Management Committee (GCMC) for final approval and Liquidity Management Committee (LMC) for noting.

Execution of each securitisation transaction must either be under a Product Program Framework or an individual Transaction Programme Authorisation; such that all relevant support, control and risk functions are involved in the transaction. Specifically, Compliance covers issues like confidentiality of clients' information and insider information, Group Tax provides an opinion on taxation, Group Risk advises on the regulatory treatment and Finance advises on the accounting treatment and facilitates communication with the regulator.

Basel II for securitisation positions

The calculation of risk-weighted exposure amounts for securitisation positions is based on the following two calculation methods advised by the PRA:

- IRB method for third party senior securitisation positions bought and securitisation positions originated and retained by the Group (including haircuts due to currency and collateral mismatch); and
- Standardised Approach for the residual risk-weighted exposure amounts for all other securitisation positions originated by the Group and sold. For instance, risk-weight substitution under the Standardised Approach is adopted in unfunded transactions where cash collateral is with a third party.

All existing securitisation transactions originated by the Group, in Table 36, meet the credit risk transfer requirement to be accounted for as securitisations under the Basel II regulatory capital regime.

CRD IV

The new legislation CRD IV implementing Basel III agreement was published on 27 June 2013 and fully entered into force on 17 July 2013. Institutions are required to apply the new rules from the 1 January 2014. The securitisation framework in CRD IV is broadly similar with BIPRU's and hence has minimal impact on the existing CLO programme.

Accounting

The Group's approach to accounting for SPEs can be found in note 24: 'Structured entities' on pages 283 and 284 in the 2013 Annual Report.

3.10. Securitisation continued

All programmes listed in the tables below are rated by an external credit assessment institution, namely Moody's with the exception of SUPRA TF, Start VI and Sumeru, which are not rated.

Table 36: Securitisation programmes (as originator)

2013

	Underlying facilities hedged	Public/ Private	Start date	Scheduled maturity	Maximum notional $million	Retained exposures[1] $million	Outstanding exposures[2] $million	Capital requirement before securitisation $million	Capital requirement after securitisation[3] $million
Start VI	Commercial Loan	Public	11/2010	04/2014	1,250	1,162	750	40	22
Mana III	Trade Finance	Private	12/2012	06/2014	3,496	3,286	3,214	190	52
Sumeru	Commercial Loan	Private	06/2010	09/2014	3,443	3,176	2,533	159	72
Sealane II	Trade Finance	Public	08/2011	02/2015	2,996	2,816	2,835	174	54
Shangren II	Trade Finance	Private	12/2011	03/2015	2,499	2,325	2,335	143	23
Pamir	Trade Finance	Private	10/2011	04/2015	1,498	1,408	1,416	88	27
Start VII	Commercial Loan	Public	12/2011	06/2015	2,000	1,860	1,770	118	42
Pumori	Commercial Loan	Private	03/2012	09/2015	1,249	1,161	1,070	74	25
Oryza 1	Commercial Loan	Private	06/2012	12/2015	1,500	1,395	1,373	91	32
Start VIII	Commercial Loan	Public	11/2012	05/2016	1,500	1,395	1,354	100	32
Total					21,431	19,984	18,650	1,177	381

2012

	Underlying facilities hedged	Public/ Private	Start date	Scheduled maturity	Maximum notional $million	Retained exposures[1] $million	Outstanding exposures[2] $million	Capital requirement before securitisation $million	Capital requirement after securitisation[3] $million
SUPRA TF	Trade Finance	Private	04/2010	10/2013	850	799	820	37	13
Start VI	Commercial Loan	Public	11/2010	04/2014	1,250	1,162	1,135	79	23
Mana III	Trade Finance	Private	12/2012	06/2014	3,500	3,290	3,256	178	55
Sumeru	Commercial Loan	Private	06/2010	09/2014	3,296	3,041	2,903	198	78
Sealane II	Trade Finance	Public	08/2011	02/2015	3,000	2,820	2,826	158	57
Shangren II	Trade Finance	Private	12/2011	03/2015	2,500	2,325	2,311	130	22
Pamir	Trade Finance	Private	10/2011	04/2015	1,500	1,410	1,398	85	29
Start VII	Commercial Loan	Public	12/2011	06/2015	2,000	1,860	1,867	132	42
Pumori	Commercial Loan	Private	03/2012	09/2015	1,250	1,162	1,162	87	27
Oryza 1	Commercial Loan	Private	06/2012	12/2015	1,500	1,395	1,353	105	33
Start VIII	Commercial Loan	Public	11/2012	05/2016	1,500	1,395	1,361	95	33
Total					22,146	20,659	20,392	1,284	412

1 Exposures that have not been sold to investors but have been retained by the Group

2 Underlying exposures that have been securitised in the programmes

3 Capital requirements after securitisation includes $64 million capital retained due to currency and collateral haircuts (2012 : $69 million)

3.10. Securitisation continued

The following tables show the distribution of the Group’s securitisation exposures across risk-weights and how these relate to external credit ratings. The vast majority of the Group’s exposure to securitisation programmes is to the higher-rated tranches. Rating based approach is used to calculate risk-weights for all the rated tranches. Those exposures where the Group uses the supervisory formula approach to determine credit risk capital requirements relates to certain originated securitisations and asset-backed securities where the Group invests.

Table 37: Securitisation positions by risk-weight category

2013

Credit Assessments		**Originated**						**ABS**		**Total**	
		Senior		**Non Senior**		**Non Granular Pools**					
Moody's	**Risk weight**	**Exposure**	**Capital requirement**	**Exposure**	**Capital requirement**	**Exposure**	**Capital requirement**	**Exposure**	**Capital requirement**	**Exposure**	**Capital requirement**
	%	**$ million**	**$ million**	**$ million**	**$ million**	**$ million**	**$ million**	**$ million**	**$ million**	**$ million**	**$ million**
Aaa	**7% to 20%**	**17,980**	**105**	**293**	**3**	**-**	**-**	**5,449**	**31**	**23,722**	**139**
Aa	**8% to 25%**	**-**	**-**	**-**	**-**	**-**	**-**	**396**	**3**	**396**	**3**
A1	**10% to 35%**	**-**	**-**	**567**	**9**	**-**	**-**	**-**	**-**	**567**	**9**
A2	**12% to 35%**	**-**	**-**	**-**	**-**	**-**	**-**	**437**	**4**	**437**	**4**
A3	**20% to 35%**	**-**	**-**	**594**	**18**	**-**	**-**	**15**	**-**	**609**	**18**
Baa1	**35% to 50%**	**-**	**-**	**313**	**13**	**-**	**-**	**109**	**3**	**422**	**16**
Baa2	**60% to 75%**	**-**	**-**	**-**	**-**	**-**	**-**	**86**	**4**	**86**	**4**
Baa3	**100%**	**-**	**-**	**70**	**6**	**-**	**-**	**1**	**-**	**71**	**6**
Ba1	**250%**	**-**	**-**	**-**	**-**	**-**	**-**	**5**	**1**	**5**	**1**
Ba2	**425%**	**-**	**-**	**-**	**-**	**-**	**-**	**34**	**12**	**34**	**12**
Ba3	**650%**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Supervisory formula		**-**	**-**	**1,489**	**102**	**-**	**-**	**62**	**-**	**1,551**	**102**
Deductions		**-**	**-**	**125**	**125**	**-**	**-**	**-**	**-**	**125**	**125**
Total		**17,980**	**105**	**3,451**	**276**	**-**	**-**	**6,594**	**58**	**28,025**	**439**

2012

Credit Assessments		Originated						ABS		Total	
		Senior		Non Senior		Non Granular Pools					
Moody's	Risk weight	Exposure	Capital requirement	Exposure	Capital requirement	Exposure	Capital requirement	Exposure	Capital requirement	Exposure	Capital requirement
	%	$ million	$ million	$ million	$ million	$ million	$ million	$ million	$ million	$ million	$ million
Aaa	7% to 20%	18,637	109	293	3	-	-	3,004	17	21,934	129
Aa	8% to 25%	-	-	-	-	-	-	544	3	544	3
A1	10% to 35%	-	-	568	9	-	-	-	1	568	10
A2	12% to 35%	-	-	-	-	-	-	266	3	266	3
A3	20% to 35%	-	-	594	18	-	-	272	5	866	23
Baa1	35% to 50%	-	-	313	13	-	-	137	4	450	17
Baa2	60% to 75%	-	-	-	-	-	-	162	8	162	8
Baa3	100%	-	-	70	6	-	-	10	1	80	7
Ba1	250%	-	-	-	-	-	-	38	8	38	8
Ba2	425%	-	-	-	-	-	-	40	13	40	13
Ba3	650%	-	-	-	-	-	-	-	1	-	1
Supervisory formula		-	-	1,526	109	-	-	46	-	1,572	109
Deductions		-	-	145	145	-	-	-	-	145	145
Total		18,637	109	3,509	303	-	-	4,519	64	26,665	476

3.10. Securitisation continued

In the following table, securitisation programmes present the maximum notional of the securitised exposures by geography. The securitised exposures in 2013 are lower than the maximum notional (as shown in Table 36), due to Start VI, Mana III, Sumeru and Sealane II which were not replenished to the maximum notional.

Table 38: Securitisation positions by region

	2013			2012		
	Securitisation programmes $million	ABS $million	Total $million	Securitisation programmes $million	ABS $million	Total $million
Hong Kong	**2,708**	**-**	**2,708**	2,949	-	2,949
Singapore	**1,965**	**2**	**1,967**	1,508	-	1,508
Korea	**1,426**	**501**	**1,927**	1,649	606	2,255
Other Asia Pacific	**5,674**	**1,143**	**6,817**	5,169	298	5,467
India	**2,596**	**-**	**2,596**	2,768	-	2,768
Middle East & Other S Asia	**3,370**	**242**	**3,612**	3,539	296	3,835
Africa	**1,132**	**-**	**1,132**	1,382	-	1,382
Americas, UK & Europe	**1,784**	**4,706**	**6,490**	3,182	3,319	6,501
Total	**20,655**	**6,594**	**27,249**	22,146	4,519	26,665

4. Market risk

Standard Chartered recognises market risk as the potential for loss of earnings or economic value due to adverse changes in financial market rates or prices. The Group is exposed to market risk arising principally from customer-driven transactions. The objective of the Group's market risk policies and processes is to achieve the optimal balance of risk and return while meeting customers' requirements.

The primary categories of market risk for Standard Chartered are:

- interest rate risk: arising from changes in yield curves, credit spreads and implied volatilities on interest rate options;
- equity price risk: arising from changes in the prices of equities, equity indices, equity baskets and implied volatilities on related options;
- commodity price risk: arising from changes in commodity prices and commodity option implied volatilities; covering energy, precious metals, base metals and agriculture; and
- currency exchange rate risk: arising from changes in exchange rates and implied volatilities on foreign exchange options.

Valuation framework

Valuation of financial assets and liabilities held at fair value is subject to an independent review by Valuation Control within the Finance function. For those financial assets and liabilities whose fair value is determined by reference to externally quoted prices or market observable pricing inputs or to a valuation model, an assessment is made by Valuation Control against external market data and consensus services. Valuation Control also ensures adherence to the valuation adjustment policies to incorporate bid/ask spreads, model risk and other reserves, and, where appropriate, to mark all positions in accordance with prevailing accounting and regulatory guidelines.

The Financial Markets Valuation Committee, a sub-committee of the Group Market Risk Committee, provides oversight and governance of all Financial Markets valuation adjustment and price testing policies and reviews the results of the valuation control process on a monthly basis.

Our approach to market risk can be found on pages 110 to 114 of the Risk review in the 2013 Annual Report. Market risk VaR coverage and Group Treasury market risk, including the table which shows Group Treasury Net Interest Income (NII) sensitivity to parallel shifts in yield curves, can be found on pages 113 and 114.

Market risk changes

The average levels of total VaR and non-trading VaR were higher in 2013 than 2012 by 14 per cent and 8 per cent respectively. This was primarily due to increased market volatility following comments by the chairman of the Federal Reserve on 22 May 2013 that they were considering tapering its quantitative easing programme. The average level of trading VaR in 2013 was 23 per cent lower than 2012, with reduction in both interest rate and foreign exchange risk.

As at 31 December, 2013, the total VaR, non-trading VaR and trading VaR were up 31 per cent, 37 per cent and 14 per cent respectively as compared to at end of 2012. This again was primarily due to the increase in market volatility observed after 22 May 2013 rather than increases in positions.

Table 39: Daily value at risk (VaR at 97.5%, one day)

	2013				2012			
By risk type	Average $million	High[4] $million	Low[4] $million	Actual[5] $million	Average $million	High[4] $million	Low[4] $million	Actual[5] $million
Trading and non-trading								
Interest rate risk[1]	**25.0**	**37.4**	**18.2**	**23.3**	25.8	31.1	20.7	24.4
Foreign exchange risk	**4.2**	**7.6**	**2.3**	**7.0**	4.8	7.7	2.3	4.2
Commodity risk	**1.5**	**2.6**	**0.9**	**1.5**	1.7	3.0	1.0	1.0
Equity risk	**15.4**	**18.4**	**13.0**	**18.3**	15.9	18.5	13.9	16.4
Total[2]	**32.8**	**44.8**	**22.1**	**38.5**	28.8	38.5	22.6	29.5
Trading[3]								
Interest rate risk[1]	**9.1**	**15.0**	**6.5**	**8.1**	10.4	15.7	6.1	8.2
Foreign exchange risk	**4.2**	**7.6**	**2.3**	**7.0**	4.8	7.7	2.3	4.2
Commodity risk	**1.5**	**2.6**	**0.9**	**1.5**	1.7	3.0	1.0	1.0
Equity risk	**1.5**	**2.1**	**1.1**	**1.8**	1.5	2.8	0.6	1.9
Total[2]	**9.8**	**14.9**	**7.3**	**9.1**	12.8	20.8	6.8	8.0
Non-trading								
Interest rate risk[1]	**22.6**	**34.3**	**16.9**	**22.1**	22.2	26.7	17.8	21.4
Equity risk	**14.9**	**17.6**	**12.4**	**17.4**	16.7	18.0	14.4	16.9
Total[2]	**29.2**	**34.9**	**19.6**	**32.7**	27.1	33.5	21.9	23.9

1 Interest rate risk VaR includes credit spread risk arising from securities held for trading or available-for-sale

2 The total VaR shown in the tables above is not a sum of the component risks due to offsets between them

3 Trading book for market risk is defined in accordance with the relevant section of the PRA's Handbook for Banks, Building Societies and Investment Firms (BIPRU). On 1 January 2014 this regulation was superseded by the EU Capital Requirements Regulation. The PRA permits only certain types of financial instruments or arrangements to be included within the trading book, so this regulatory definition is narrower than the accounting definition of the trading book within IAS39 'Financial Instruments: Recognition and Measurement'

4 Highest and lowest VaR for each risk factor are independent and usually occur on different days

5 Actual one day VaR at year end date

4. Market Risk continued

The following table sets out how trading and non-trading VaR is distributed across the Group's products;

Table 40: Daily value at risk (VaR at 97.5%, one day)

	2013				2012			
By product	**Average $million**	**High[3] $million**	**Low[3] $million**	**Actual[4] $million**	Average $million	High[1] $million	Low[3] $million	Actual[4] $million
Total Trading and Non-trading [1]	**32.8**	**44.8**	**22.1**	**38.5**	28.8	38.5	22.6	29.5
Trading[2]								
Rates	**6.4**	**12.2**	**3.5**	**5.5**	7.9	12.0	4.6	7.1
Global FX	**4.2**	**7.6**	**2.3**	**7.0**	4.8	7.7	2.3	4.2
Credit Trading & Capital Markets	**3.1**	**4.3**	**2.2**	**3.4**	4.2	7.0	2.7	3.7
Commodities	**1.5**	**2.6**	**0.9**	**1.5**	1.7	3.0	1.0	1.0
Equities	**1.5**	**2.1**	**1.1**	**1.8**	1.5	2.8	0.6	1.9
Total[1]	**9.8**	**14.9**	**7.3**	**9.1**	12.8	20.8	6.8	8.0
Non-trading								
ALM	**22.2**	**33.9**	**17.1**	**21.2**	20.9	25.8	16.3	20.2
Other FM non-trading book	**1.6**	**2.4**	**1.0**	**1.3**	1.9	4.9	0.4	2.0
Listed private equity	**14.9**	**17.6**	**12.4**	**17.4**	16.7	18.0	14.4	16.9
Total[1]	**29.2**	**34.9**	**19.6**	**32.7**	27.1	33.5	21.9	23.9

1 The total VaR shown in the tables above is not a sum of the component risks due to offsets between them

2 Trading book for market risk is defined in accordance with the relevant section of the PRA's Handbook for Banks, Building Societies and Investment Firms (BIPRU). On 1 January 2014 this regulation will be superseded by the EU Capital Requirements Regulation. The PRA permits only certain types of financial instruments or arrangements to be included within the trading book, so this regulatory definition is narrower than the accounting definition of the trading book within IAS39 'Financial Instruments: Recognition and Measurement'

3 Highest and lowest VaR for each risk factor are independent and usually occur on different days

4 Actual one day VaR at year end date

4. Market risk continued

Market risk regulatory capital requirements

The PRA specifies minimum capital requirements against market risk in the trading book. Interest rate risk in the non-trading book is covered separately under the Pillar 2 framework. The PRA has granted the Group Capital Adequacy Directive 2 (CAD2) internal model approval covering the majority of interest rate, foreign exchange, precious metals, base metals, energy and agriculture market risk in the trading book. Positions outside the CAD2 scope are assessed according to standard PRA rules.

At 31 December 2013 the Group's market risk regulatory capital requirement was $1,850 million (31 December 2012: $1,956 million). The reduction was attributable to a number of offsetting moves, including a reduction in exposures in the Credit Trading business.

The most significant impact from CRD IV and CRR on market risk capital requirement is on the treatment of options under standard rules. These changes came into effect on 1 January 2014, and are unlikely to result in an increase in capital requirement.

The minimum regulatory market risk capital requirements for the trading book are presented below for the Group.

Table 41: Market risk capital requirements

	2013		2012	
Market risk capital requirements for trading book	**Regulatory capital requirement $million**	**Risk Weighted Assets $million**	Regulatory capital requirement $million	Risk Weighted Assets $million
Interest rate[1]	**371**	**4,638**	431	5,388
Equity	**231**	**2,888**	159	1,987
Options	**542**	**6,776**	451	5,625
Commodity[2]	**41**	**513**	3	50
Foreign exchange[2]	**122**	**1,525**	168	2,100
Internal Models Approach[3]	**543**	**6,788**	744	9,300
Total	**1,850**	**23,128**	1,956	24,450

1 Securitisation positions contributed $4.1 million to the interest rate position risk requirement (PRR) and $51.3 million to interest rate RWA as at 31 December 2013 (securitised positions contributed $2.3 million to the interest rate PRR and $28.8 million to interest rate RWA as at 31 December 2012)

2 Commodity and foreign exchange cover non-trading book as well as trading book

3 Where the risks are not within the approved scope of the internal models approach, they are captured in the relevant category above based on the Standardised Approach

The minimum regulatory market risk capital requirement for the trading book is presented below for the Group's significant subsidiaries in accordance with local regulatory requirements applicable in the countries in which they are incorporated.

Table 42: Market risk capital requirements for significant subsidiaries

	2013			2012		
Market Risk Capital Requirements for Trading Book	**Standard Chartered Bank $million**	**Standard Chartered Bank (HK) Ltd $million**	**Standard Chartered Bank Korea Ltd $million**	Standard Chartered Bank $million	Standard Chartered Bank (HK) Ltd $million	Standard Chartered Bank Korea Ltd $million
Local Regulators	**PRA**	**HKMA**	**FSS**	PRA	HKMA	FSS
Interest rate[1]	**267**	**143**	**15**	371	122	3
Equity	**232**	**32**	**17**	159	29	13
Options	**540**	**-**	**-**	451	-	-
Commodity[2]	**41**	**3**	**-**	3	4	-
Foreign exchange[2]	**125**	**21**	**-**	156	10	-
Internal Models Approach[3]	**459**	**5**	**150**	707	9	127
Total	**1,664**	**204**	**182**	1,847	174	143
Market Risk – RWA	**20,800**	**2,556**	**2,271**	23,092	2,173	1,791

1 For Standard Chartered Bank securitisation positions contributed $4.1 million to the interest rate PRR and $51.3 million to interest rate RWA as at 31 December 2013 (securitised positions contributed $2.3 million to the interest rate PRR and $28.8 million to interest rate RWA as at 31 December 2012)

2 Commodity and foreign exchange cover non-trading book as well as trading book

3 Where the risks are not within the approved scope of the internal models approach, they are captured in the relevant category above based on the Standardised Approach

4. **Market risk** continued

Internal Models Approach – Stressed VaR

The table below shows the average, high and low Stressed VaR for the period January 2013 to December 2013 and the actual position on 31 December 2013. The Stressed VaR results reflect only the Group portfolio covered by the internal model approach and are calculated at a 99 per cent confidence level.

Table 43: Stressed VaR

	January to December 2013				January to December 2012			
	Average $million	High[1] $million	Low[1] $million	Actual[2] $million	Average $million	High[1] $million	Low[1] $million	Actual[2] $million
Stressed VaR	35.3	59.1	20.7	40.9	38.5	67.4	22.2	38.5

1 Highest and lowest VaR for each risk factor are independent and usually occur on different days

2 Actual one day VaR as at period end date

Stressed VaR contributes to the Group level internal model approach to market risk capital requirements as follows;

Table 44: Stressed VaR - Group portfolio

	2013		2012	
IMA market risk capital requirements for the trading book	Regulatory capital requirement $million	Risk Weighted Assets $million	Regulatory capital requirement $million	Risk Weighted Assets $million
VaR - based[1]	186	2,325	300	3,750
Stressed VaR - based	357	4,463	444	5,550
Incremental risk charge[2]	-	-	-	-
All price risk[2]	-	-	-	-
Total	543	6,788	744	9,300

1 Including conservative capital estimates for Risks-not-in-VaR which are not included in VaR or cannot be captured in VaR

2 There is no internal model approach contribution from incremental risk charge or all price risk

5. Operational risk

Measurement

The Group uses the Standardised Approach consistent with the PRA's BIPRU 6.4 requirements to assess its regulatory and internal capital requirements for operational risk. Under the Standardised Approach, a pre-determined beta co-efficient is applied to the average income for the previous three years across each of the eight business lines prescribed in PRA's BIPRU, to determine the operational risk capital requirement. Our approach to the management of operational risk can be found on pages 123 and 124 in the Risk review of the 2013 Annual Report. The table below details the operational risk capital requirement for the Group:

Table 45: Operational risk capital requirement by business

	2013 Regulatory capital requirement $million	2012 Regulatory capital requirement $million
Consumer Banking	**833**	753
Wholesale Banking	**1,830**	1,708
Total	**2,663**	2,461

Key points

- The increase in operational risk capital requirement reflects the strong performance of the Group over the period. The capital requirement for operational risk was further increased due to full consolidation of one of the joint ventures for regulatory purposes

The table below details the operational risk capital requirement for the Group's significant subsidiaries presented in accordance with the regulatory requirements applicable in the countries in which they are incorporated

Table 46: Operational risk capital requirement for significant subsidiaries

Subsidiary	Local Regulators	2013 Regulatory capital requirement $million	2012 Regulatory capital requirement $million
Standard Chartered Bank	PRA	**1,473**	1,403
Standard Chartered Bank (HK) Ltd	HKMA	**444**	394
Standard Chartered Bank Korea Ltd	FSS	**232**	241

6. Immaterial portfolios

Non trading book equities & specialised lending exposures

For the purposes of BIPRU requirements 11.5.15 and 11.5.11 the holdings of non-trading book equities and the specialised lending portfolio are considered immaterial. At 31 December 2013, non-trading book equity holdings amount to $4.2 billion (2012: $4.3 billion) and specialised lending exposure total $3.1 billion (2012: $3.3 billion), which together total less than two per cent of the Group's total exposure after credit risk mitigation.

7. Forward looking statements

It is possible that this document could or may contain forward-looking statements that are based on current expectations or beliefs, as well as assumptions about future events. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements often use words such as anticipate, target, expect, estimate, intend, plan, goal, believe, will, may, should, would, could or other words of similar meaning. Undue reliance should not be placed on any such statements because, by their very nature, they are subject to known and unknown risks and uncertainties and can be affected by other factors that could cause actual results, and the Group's plans and objectives, to differ materially from those expressed or implied in the forward-looking statements.

There are several factors that could cause actual results to differ materially from those expressed or implied in forward looking statements. Among the factors that could cause actual results to differ materially from those described in the forward looking statements are changes in the global, political, economic, business, competitive, market and regulatory forces, future exchange and interest rates, changes in tax rates and future business combinations or dispositions.

The Group undertakes no obligation to revise or update any forward looking statement contained within this document, regardless of whether those statements are affected as a result of new information, future events or otherwise.

The CRD IV position presented here derived in accordance with the Group's current understanding of the final CRD IV rules, does not constitute either a capital or RWA forecast and may be subject to change. Whilst the CRD IV rules text is finalised it remains subject to final European Banking Authority technical standards and certain aspects remain subject to ongoing national discretion or future regulatory decisions.

In the case of the leverage ratio, this is an evolving requirement, and there remains potential for changes in definitions and calibration. It does not recognise the impact of any earnings accretion and other management actions over the transitional period. As such, whilst we are required to disclose a leverage ratio by the PRA, we would recommend that this published leverage ratio be treated with a degree of caution.

8. Acronyms

ABS	Asset Backed Securities
ALM	Asset and Liability Management
ARROW	Advanced Risk Response Operating Framework
AT1	Additional Tier 1
BCBS	Basel Committee on Banking Supervision
BSC	Balance Sheet Committee
BIPRU	Prudential Sourcebook for Banks, Building Societies and Investment Firms
BRC	Board Risk Committee
CAD2	Capital Adequacy Directive 2
CCF	Credit Conversion Factor
CCR	Counterparty Credit Risk
CDOs	Collateralised Debt Obligations
CET1	Common Equity Tier 1
CMBS	Commercial Mortgage Backed Securities
CRD	Capital Requirements Directive
CRM	Credit Risk Mitigation
CRO	Chief Risk Officer
CRR	Capital Requirements Regulation
CSA	Credit Support Annex
CVA	Credit Valuation Adjustment
DRR	Directors Remuneration Report
DVA	Debit Valuation Adjustment
EAD	Exposure at Default
EBA	European Banking Authority
ECAI	External Credit Assessment Institutions
EDTF	Enhanced Disclosures Task Force
FCA	Financial Conduct Authority
FPC	Financial Policy Committee
FSS	Financial Supervisory Service (South Korea)
GALCO	Group Asset and Liability Committee
GCMC	Group Capital Management Committee
GCRO	Group Chief Risk Officer
GENPRU	General Prudential Sourcebook for Banks, Building Societies, Insurers, and Investment Firms
GIA	Group Internal Audit
GRC	Group Risk Committee
GRPC	Group Reward Plan Committee
HKMA	Hong Kong Monetary Authority
IAS	International Accounting Standard
IASB	International Accounting Standards Board
ICAAP	Internal Capital Adequacy Assessment Process
ICG	Individual Capital Guidance
IRB	advanced Internal Ratings Based approaches
IFRS	International Financial Reporting Standards
LGD	Loss Given Default
LMC	Liquidity Management Committee
MAC	Model Assessment Committee
MTM	Mark-to-Market
NII	Net Interest Income
PD	Probability of Default
PFE	Potential Future Exposure
PIP	Portfolio Impairment Provision
PRA	Prudential Regulation Authority
PRR	Position Risk Requirement
PVA	Prudent Valuation Adjustment
RMBS	Residential Mortgage Backed Securities
RPC	Reward Plan Committee
RWA	Risk-Weighted Assets
SIF	Significant Influence Function
SME	Small and Medium - sized Enterprise
SPE	Special Purpose Entity
SREP	Supervisory Review and Evaluation Process
WBPM	Wholesale Banking Portfolio Management
VaR	Value at Risk

Glossary

Arrears	A debt or other financial obligation is considered to be in a state of arrears when payments are overdue. Loans and advances are considered to be delinquent when consecutive payments are missed. Also known as 'delinquency'.
Asset Backed Securities (ABS)	Securities that represent an interest in an underlying pool of referenced assets. The referenced pool can comprise any assets which attract a set of associated cash flows but are commonly pools of residential or commercial mortgages and in the case of Collateralised Debt Obligations (CDOs), the reference pool may be ABS.
Attributable profit to ordinary shareholders	Profit for the year after non-controlling interests and the declaration of dividends on preference shares classified as equity.
Basel II	The capital adequacy framework issued by the Basel Committee on Banking Supervision (BCBS) in June 2006 in the form of the 'International Convergence of Capital Measurement and Capital Standards'.
Basel 2.5	In 2009 the European Commission proposed further changes to **CRD 3** to address the lessons of the financial crisis. These changes reflected international developments and follow the agreements reached by the Basel Committee on Banking Supervision (BCBS). They included higher capital requirements for re-securitisations, upgrading disclosure standards for **securitisation** exposures and strengthening **market risk** capital requirements.
Basel III	In December 2010, the BCBS issued the Basel III rules text, which were updated in June 2011, and represents the details of strengthened global regulatory standards on bank capital adequacy and liquidity. The new requirements will be phased in and fully implemented by 1 January 2019.
BIPRU	The PRA's Prudential Sourcebook for Banks, Building Societies and Investment Firms.
Capital resources	Sum of **Tier 1** and **Tier 2 capital** after regulatory adjustments.
Common equity tier 1 capital	Common Equity Tier 1 capital consists of the common shares issued by the bank and related share premium, retained earnings, accumulated other comprehensive income and other disclosed reserves, eligible non-controlling interests and regulatory adjustments required in the calculation of Common Equity Tier 1.
Core Tier 1 capital	Core Tier 1 capital comprises called-up ordinary share capital and eligible reserves plus non-controlling interests, less goodwill and other intangible assets and deductions relating to excess expected losses over eligible provisions and securitisation positions as specified by the UK's PRA.
Core Tier 1 ratio	**Core Tier 1 capital** as a percentage of **risk-weighted assets**.
Counterparty credit risk	The risk that a counterparty defaults before satisfying its obligations under a contract.
CRD 3	See **Basel 2.5.**
CRD IV	Represents the Capital Requirements Directive (CRD) and Capital Requirements Regulation (CRR) that implement the **Basel III** proposals in Europe.
Credit Conversion Factor (CCF)	Either prescribed by **BIPRU** or modelled by the bank, an estimate of the amount the Group expects a customer to have down further on a facility limit at the point of default.
Credit quality step	Credit Quality Steps (CQS) are used to derive the risk-weight to be applied to exposures treated under the Standardised approach to credit risk.
Credit risk	Credit risk is the potential for loss due to the failure of a counterparty to meet its obligations to pay the Group in accordance with agreed terms. Credit exposures may arise from both the banking and **trading books**.
Credit risk mitigation (CRM)	Credit risk mitigation is a process to mitigate potential credit losses from any given account, customer or portfolio by using a range of tools such as collateral, netting agreements, credit insurance, credit derivatives and other guarantees.
Credit Valuation Adjustment (CVA)	Additional regulatory capital in respect of mark to market losses associated with derivative transactions.
Debit Valuation Adjustment (DVA)	Adjustments required to **Tier 1 capital** to derecognise any unrealised fair value gains and losses associated with fair valued liabilities that are attributable to the market's perception of the Group's credit worthiness.
Equity price risk	The financial risk involved in holding equity in a particular investment. Arises from changes in the prices of equities, equity indices, equity baskets and implied volatilities on related options.
Expected Loss (EL)	The Group measure of anticipated loss for exposures captured under an internal ratings based credit risk approach for capital adequacy calculations. It is measured as the Group-modelled view of anticipated loss based on **Probability of Default (PD)**, **Loss Given Default (LGD)** and **Exposure at Default (EAD)**, with a one-year time horizon.
Exposure	Credit exposures represent the amount lent to a customer, together with any undrawn commitment.
Exposure at Default (EAD)	The estimation of the extent to which the Group may be exposed to a customer or counterparty in the event of, and at the time of, that counterparty's default. At default, the customer may not have drawn the loan fully or may already have repaid some of the principal, so that exposure is typically less than the approved loan limit.

External Credit Assessment Institutions (ECAI)	For the **Standardised Approach** to credit risk for sovereigns, corporates and institutions, external ratings are used to assign risk-weights. These external ratings must come from PRA approved rating agencies, known as **External Credit Assessment Institutions (ECAI**); namely Moody's, Standard & Poor's and Fitch.
Fair value	The value of an asset or liability when it is transacted on an arm's length basis between knowledgeable and willing parties.
Foundation Internal Ratings Based (Foundation IRB) Approach	A method of calculating credit risk capital requirements using internal **PD** models but with supervisory estimates of **LGD** and conversion factors for the calculation of **EAD**.
Free delivery	When a bank takes receipt of a debt or equity security, a commodity or foreign exchange without making payment, or where a bank delivers a debt or equity security, a commodity or foreign exchange without receiving payment.
General Prudential Sourcebook(GENPRU)	The PRA's General Prudential Sourcebook for Banks, Building Societies, Insurers and Investment Firms.
Haircut	A haircut, or volatility adjustment, ensures the value of exposures and collateral are adjusted to account for the volatility caused by foreign exchange or maturity mismatches, when the currency and maturity of an exposure differ materially to the currency and maturity of the associated collateral.
Held-to-maturity	Held-to-maturity assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the intention and ability to hold to maturity.
Impaired loans	Loans where individually assessed impairment provisions have been raised and also include loans which are collateralised or where indebtedness has already been written down to the expected realisable value. The impaired loan category may include loans, which, while impaired, are still performing.
Individually assessed loan impairment provisions	Also known as specific impairment provisions. Impairment is measured individually for assets that are individually significant to the Group. Typically assets within the Wholesale Banking business of the Group are assessed individually.
Individual impairment charge	The amount of individually assessed loan impairment provisions that are charged to the income statement in the reporting period.
Individual liquidity guidance	Guidance given to the Group about the amount, quality and funding profile of liquidity resources that the PRA has asked the Group to maintain.
Innovative Tier 1 Capital	Innovative Tier 1 capital consists of instruments which incorporate certain features, the effect of which is to weaken (but only marginally) the key characteristics of **Tier 1 capital** (that is, fully subordinated, perpetual and non-cumulative). Innovative Tier 1 capital is subject to a limit of 15 per cent of total **Tier 1 capital.**
Institution	A credit institution or an investment firm.
Internal Capital Adequacy Assessment Process (ICAAP)	A requirement on institutions under **Pillar 2** of the **Basel II** framework to undertake a comprehensive assessment of their risks and to determine the appropriate amounts of capital to be held against these risks where other mitigants are not available.
Internal Model Approach (IMA)	The approach used to calculate **market risk** capital and RWA with an internal market risk model approved by the PRA under the terms of **CRD IV**/CRR. Formerly referred to as CAD2.
Interest rate risk (IRR)	Interest rate risk arises due to the investment of equity and reserves into rate-sensitive assets, as well as some tenor mismatches between debt issuance and placements.
Internal ratings-based approach ('IRB')	An approach used to calculate **risk-weighted assets** based on a firm's own estimates of certain parameters.
Items belonging to regulatory high-risk categories	In relation to the **Standardised Approach** to **credit risk**, items which attract a risk-weight of 150 per cent. This includes exposures arising from venture capital business and certain positions in collective investment schemes.
Leverage ratio	A ratio introduced under **CRD IV** that compares **Tier 1 capital** to total exposures, including certain exposures held off balance sheet as adjusted by stipulated **credit conversion factors**. Intended to be a simple, non-risk based backstop measure.
Loans and advances	This represents lending made under bilateral agreements with customers entered into in the normal course of business and is based on the legal form of the instrument. An example of a loan product is a home loan.
Loss Given Default (LGD)	LGD is the percentage of an exposure that a lender expects to lose in the event of obligor default in economic downturn periods.
Mark-to-market approach	One of the approaches available to banks to calculate the exposure value associated with derivative transactions. The approach calculates the current replacement cost of derivative contracts, by determining the market value of the contract and considering any **potential future exposure**.
Market risk	The potential for loss of earnings or economic value due to adverse changes in financial market rates or prices.

Maturity	The time from the reporting date to the contractual maturity date of an exposure, capped at five years. Maturity is considered as part of the calculation of risk-weights for the Group's exposures treated under the **IRB** approach to **credit risk** and for the calculation of **market risk** capital requirements.
Minimum capital requirement	Minimum capital required to be held for **credit**, **market** and **operational risk**.
Model validation	The process of assessing how well a model performs using a predefined set of criteria including the discriminatory power of the model, the appropriateness of the inputs, and expert opinion.
Multilateral Development Banks	An institution created by a group of countries to provide financing for the purpose of development. Under the **Standardised approach** to **credit risk**, eligible multilateral development banks attract a zero per cent risk-weight.
Operational risk	The potential for loss arising from the failure of people, process, or technology, or the impact of external events.
Over-the-Counter (OTC) traded products / OTC derivatives	A bilateral transaction that is not exchange traded and is valued using valuation models.
Past due items	A loan payment that has not been made as of its due date.
Pillar 1	The first Pillar of the three pillars of **Basel II**, which provides the approach to the calculation of the minimum capital requirements for **credit**, **market** and **operational risk**. Minimum capital requirements are 8 per cent of the Group's **risk-weighted assets**.
Pillar 2	Pillar 2, 'Supervisory Review', requires banks to undertake a comprehensive assessment of their risks and to determine the appropriate amounts of capital to be held against these risks where other suitable mitigants are not available.
Pillar 3	Pillar 3 aims to provide a consistent and comprehensive disclosure framework that enhances comparability between banks and further promotes improvements in risk practices.
Point in time (PIT)	Considers the economic conditions at the point in the economic cycle at which default occurs when estimating the **probability of default**.
Portfolio Impairment Provision (PIP)	The amount of loan impairment provisions assessed on the collective portfolio that are charged to the income statement in the reporting period.
Potential Future Exposure (PFE)	As estimate of the potential exposure that may arise on a derivative contract in future, used to derive the exposure amount.
Probability of Default (PD)	PD is an internal estimate for each borrower grade of the likelihood that an obligor will default on an obligation within 12 months.
Prudent Valuation Adjustment (PVA)	This represents adjustments to **Tier 1 capital** where the prudent value of a position in the **trading book** is assessed by the Group as being materially below the fair value recognised in the financial statements.
Qualifying Revolving Retail Exposure (QRRE)	Retail IRB exposures that are revolving, unsecured, and, to the extent they are not drawn, immediately and unconditionally cancellable, such as credit cards.
Regulatory capital	Regulatory capital represents the sum of **Tier 1 Capital** and **Tier 2 Capital** after taking into account any regulatory adjustments. The Group is required to maintain regulatory capital at a minimum of 8 per cent of its **risk-weighted assets**.
Repurchase agreement (repo) / reverse repurchase agreement (reverse repo)	A short term funding agreement which allows a borrower to sell a financial asset, such as ABS or Government bonds as collateral for cash. As part of the agreement the borrower agrees to repurchase the security at some later date, usually less than 30 days, repaying the proceeds of the loan. For the party on the other end of the transaction (buying the security and agreeing to sell in the future) it is a reverse repurchase agreement or reverse repo.
Residential Mortgage-Backed Securities (RMBS)	Securities that represent interests in a group of residential mortgages. Investors in these securities have the right to cash received from future mortgage payments (interest and/or principal).
Residual maturity	The remaining maturity of a facility from the reporting date until either the contractual maturity of the facility or the effective maturity date.
Retail Internal Ratings Based (Retail IRB) Approach	In accordance with the PRA handbook BIPRU 4.6, the approach to calculating **credit risk capital** requirements for eligible retail exposures.
Risk appetite	Risk appetite is an expression of the amount of risk we are willing to take in pursuit of our strategic objectives, reflecting our capacity to sustain losses and continue to meet our obligations arising from a range of different stress trading conditions.
Risk-weighted assets (RWAs)	A measure of a bank's assets adjusted for their associated risks, expressed as a percentage of an exposure value in accordance with the applicable **Standardised** or **IRB approach** rules.
Securities Financing Transactions (SFT)	The act of loaning a stock, derivative, other security to an investor.
Securitisation	Securitisation is a process by which debt instruments are aggregated into a pool, which is used to back new securities. A company sells assets to a **special purpose entity (SPE)** who then issues securities backed by the assets based on their value. This allows the credit quality of the assets to be separated from the credit rating of the original company and transfers risk to external investors.

Securitisation position(s)	The positions assumed by the Group following the purchase of securities issued by Asset-Backed Securitisation programmes or those retained following the origination of a securitisation programme.
Special Purpose Entities (SPEs)	SPEs are entities that are created to accomplish a narrow and well defined objective. There are often specific restrictions or limits around their ongoing activities. Transactions with SPEs take a number of forms, including: the provision of financing to fund asset purchases, or commitments to provide finance for future purchases; derivative transactions to provide investors in the SPE with a specified exposure; the provision of liquidity or backstop facilities which may be drawn upon if the SPE experiences future funding difficulties; and direct investment in the notes issued by SPEs.
Standardised Approach	In relation to **credit risk**, a method for calculating **credit risk capital** requirements using **External Credit Assessment Institutions (ECAI)** ratings and supervisory risk-weights. In relation to **operational risk**, a method of calculating the **operational risk** capital requirement by the application of a supervisory defined percentage charge to the gross income of eight specified business lines.
Stressed Value at Risk (VaR)	A regulatory **market risk** measure based on potential market movements for a continuous one-year period of stress for a trading portfolio.
Sub-prime	Sub-prime is defined as loans to borrowers typically having weakened credit histories that include payment delinquencies and potentially more severe problems such as court judgements and bankruptcies.
Through the cycle (TTC)	Reduces the volatility in the estimation of the **probability of default** by considering the average conditions over the economic cycle at the point of default, versus the **point in time (PIT)** approach, which considers the economic conditions at the point of the economic cycle at which the default occurs.
Tier 1 capital	**Tier 1 capital** comprises **Core Tier 1 capital** plus **innovative Tier 1** securities and preference shares and tax on excess expected losses less material holdings in credit or financial institutions.
Tier 1 capital ratio	**Tier 1 capital** as a percentage of **risk-weighted assets**.
Tier 1 capital notes ('Innovative Tier 1')	**Innovative Tier 1** capital consists of instruments which incorporate certain features, the effect of which is to weaken marginally the key characteristics of **Tier 1 capital** (that is, fully subordinated, perpetual and non-cumulative). **Innovative Tier 1** capital is subject to a limit of 15 per cent of total **Tier 1 capital.**
Tier 2 capital	**Tier 2 capital** comprises qualifying subordinated liabilities, allowable portfolio impairment provision and unrealised gains in the eligible revaluation reserves arising from the fair valuation of equity instruments held as available-for-sale.
Trading book	Trading book is defined as per the PRA's Handbook BIPRU.BIPRU 1.2.3 states 'The trading book of a firm consists of all position in CRD financial instrument and commodities held either with trading intent or in order to hedge other elements of the trading book and which are either free of any restrictive covenants on their tradability or ability to be hedged'.
Value at Risk (VaR)	VaR, in general, is a quantitative measure of **market risk** that applies recent historical market conditions to estimate the potential future loss in market value that will not be exceeded in a set time period at a set statistical confidence level.
Write downs	After an advance has been identified as impaired and is subject to an impairment allowance, the stage may be reached whereby it is concluded that there is no realistic prospect of further recovery. Write downs will occur when and to the extent that, the whole or part of a debt is considered irrecoverable.

Summary of differences between Pillar 3 Disclosures and the Risk review section of the Annual Report

The Group's Pillar 3 Disclosures for 31 December 2013 provide details from a regulatory perspective on certain aspects of credit risk, market risk and operational risk. The quantitative disclosures in the Pillar 3 Disclosures will not, however, be directly comparable to those in the Risk review of the Annual Report as they are largely based on internally modelled risk metrics such as PD, LGD and EAD under Basel rules, whereas the quantitative disclosures in the Risk review are based on IFRS. EAD differs from the IFRS exposure primarily due to the inclusion of undrawn credit lines and off-balance sheet commitments. In addition, a number of the credit risk disclosures within the Pillar 3 Disclosures are only provided for the internal ratings based portfolio, which represents 78 per cent of the Group's credit risk RWA.

Topic	Annual Report	Pillar 3 Disclosures
Basis of requirements	• The Group's Annual Report is prepared in accordance with the requirements of IFRS, the UK Companies Act 2006, and the UK, Hong Kong and India Listing rules.	• The Group's Pillar 3 Disclosures provide details on risk from a regulatory perspective to fulfil Basel II rule requirements, which have been implemented in the UK through GENPRU and BIPRU.
Basis of preparation	• The quantitative credit risk disclosures in the Risk review are based on IFRS. • Loans and advances are analysed between Consumer Banking (CB) (split by product), Wholesale Banking (WB) (split by standard industry classification codes). • Market risk disclosures are presented using VaR methodology for the trading and non-trading books.	• Provides details from a regulatory perspective on certain aspects of credit risk, market risk and operational risk. For credit risk this is largely based on internally modelled risk metrics such as PD, LGD and EAD under Basel rules. • Loans and advances are analysed between those that are IRB and Standardised, split by standard BIPRU categories. • Market risk and operational risk disclosures are based on the capital required.
Coverage	• All external assets which have an exposure to credit risk. • Market risk exposure is the trading and non-trading books. • Liquidity risk analysis of contractual maturities, liquid assets and encumbered assets.	• A number of the credit risk disclosures within the Pillar 3 Disclosures are only provided for the IRB portfolio, which represents 78 per cent of our credit risk RWA. The remainder of the portfolio is on the Standardised rules as prescribed in the BIPRU Sourcebook.

Summary of cross references between Pillar 3 Disclosures and the Risk review section of the Annual Report

Topic	Annual Report	Pillar 3 Disclosures
Credit rating and measurement	• Overview of credit risk management credit grading and the use of IRB models. Page 72. • Maximum exposure to credit risk set out on page 75. • Internal credit grading analysis provided by business for loans neither past due nor impaired on page 72. • External credit grading analysis for unimpaired debt securities and treasury bills is set out on page 72.	• Details of IRB and Standardised approach to credit risk is set out on pages 19 to 21. • A more detailed explanation of IRB models is set out on pages 20 to 22. • For the IRB portfolio, pages 41 to 43 provides an indicative mapping of the Group's credit grades in relation to Standard & Poor's credit ratings. • Minimum regulatory capital requirements for credit risk on page 23. • Credit grade analysis provided for the IRB portfolio only. EAD within the IRB portfolio after CRM, Undrawn commitments, exposure weighted average LGD and weighted average risk-weight internal credit grade on pages 34 to 40.
Credit risk mitigation	• CRM approach is set out on page 73. • Overview of fair value of collateral held and other credit risk mitigants for the loan portfolio, with further details on CB collateral provided on page 92 and WB on page 101. • Quantitative overview of other risk mitigants including: – Securitisations - includes disclosures of both retail transferred and synthetic securitisation. – Master netting, CSAs and cash collateral for derivatives.	• Provides details on CRM from a regulatory perspective by providing EAD after CRM by IRB exposure class. Explanation is given on what constitutes eligible collateral including explanations of funded and unfunded protection. The main type of collateral for the Group's Standardised portfolio is also disclosed. Please refer to pages 31 and 32. • Extensive disclosures on securitisation including notional and carrying amounts, details of securitisation programmes where the Group is an originator, the accounting and governance of securitisation activities and retained exposures and carrying value by risk weight band and by geography. Please refer to pages 47 to 53. • EAD for items subject to CCR risk pre and post credit mitigation is disclosed. The products that are covered under CCR include 'repo style' transactions and derivative transactions. Please refer to pages 44 to 46.
Loan portfolio	• Group overview of the loan portfolio provided by business by geography is on page 78. A more detailed analysis by CB product is set out on pages 89 and by WB counterparty (based on standard industry classifications) on page 96. • Maturity analysis provided on pages 78, 90 and 97.	• EAD by geography, split between IRB and Standardised portfolios (page 25) and by industry types (as specified by BIPRU) on page 27. • Maturity of EAD, split by IRB and Standardised on page 29.
Problem credit management and provisioning	• Provisioning approach set out on page 85 and definition of non-performing loans on page 84. • Disclosures of non-performing loans, neither past due nor impaired, past due and impaired loans, individual impairment charge and portfolio impairment charge by geography, product and industry.	• Disclosures around the expected loss model used for regulatory purposes and a tabular disclosure showing the regulatory expected loss against the net individual impairment charge. Please refer to page 33.
Market risk	• Details of the VaR methodology, and VAR (trading and non trading) is disclosed by risk type on pages 111 to 113. • Details on Group Treasury's market risk, including a table showing a parallel shift in the yield curves, on page 114.	• Provides details of the internal model approvals, such as the CAD2 granted by the PRA and the extension of the CAD2 scope to include coal market risk. • Market risk capital requirements for the trading book disclosed by risk type on page 56.