Standard Chartered PLC
Pillar 3 Disclosures
31 December 2014

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

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Contents

Standard Chartered PLC (SC 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* regions of Greater China, North East (NE) Asia, South Asia, ASEAN, MENAP, are defined in the Glossary on page 65 - 68. Throughout this document unless specified the disclosures are at Group level. 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.

Tables

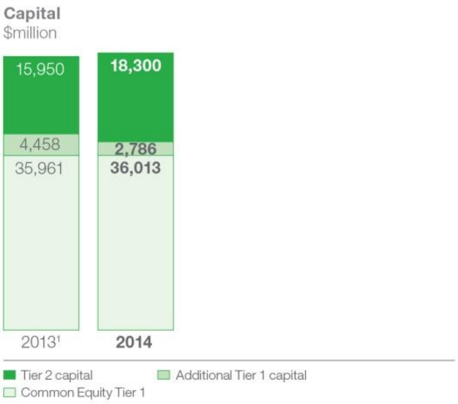
1 Introduction

1.1 Purpose

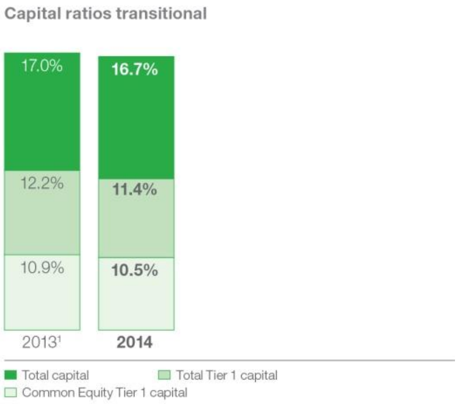
The Pillar 3 Disclosures comprise detailed information on the underlying drivers of risk-weighted assets (RWA) and capital ratios as at 31 December 2014 in accordance with the European Union's (EU) Capital Requirement Regulation (CRR) as implemented in the United Kingdom (UK) by the Prudential Regulation Authority (PRA).

1.2 Highlights

- The Group has a strong balance sheet: diverse, well capitalised, highly liquid with an efficient funding structure and low leverage.
- The Group is well capitalised with an end-point Common Equity Tier 1 (CET1) ratio of 10.7 per cent that is well ahead of the PRA's current requirement for large UK banks of 7 per cent and the Group's current known 2019 minimum CET1 requirement of 8.7 per cent.
- The Group's is not highly leveraged. Its leverage ratio of 4.5 per cent is well ahead of the current known 2019 leverage requirement of 3.35 per cent. Issuance of Additional Tier 1 (AT1) capital would further strengthen the Group's leverage ratio.
- Our increased focus on RWA management and optimal capital deployment has delivered RWA efficiencies of $12.2 billion and released $8.5 billion of RWA from the management of low return relationships.



[1] 2013 Basel II capital position has been adjusted for the CRD IV rules as at 1 January 2014



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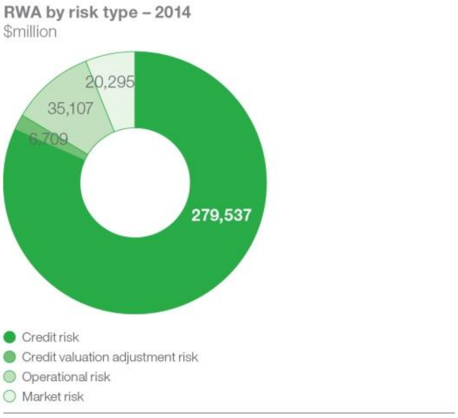

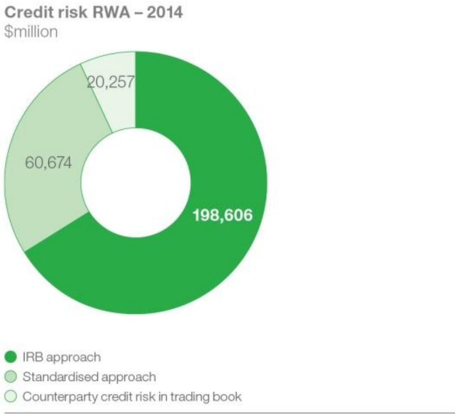

1.3 Regulatory disclosure framework

The Group complies with the Basel III framework as implemented in the UK on 1 January 2014. Basel III is structured around three 'pillars'.

Pillar 1: Prescribes the minimum capital requirements for credit risk, market risk and operational risk.

Pillar 2: Covers the consideration of whether further capital is required in addition to Pillar 1 calculations.

Pillar 3: Aims to provide a consistent and comprehensive disclosure framework that enhances comparability between banks and further promotes improvements in risk management. Pillar 3 requires all material risks to be disclosed, enabling a comprehensive view of the bank's risk profile.

Pillar 3 Disclosures 2014 comprise all information required under Pillar 3 in the UK and are prepared at the Group consolidated level. Where disclosure has been withheld as proprietary or non-material, as permitted by the rules, appropriate comment has been included. 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. A summary of differences and cross references between the Annual Report and the Pillar 3 Disclosures can be found on pages 69 and 70 of this document.

Risk Management

The management of risk lies at the heart of the Group's business. One of the main risks we incur arises from extending credit to customers through our trading and lending operations. Beyond credit risk, we are 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 in our strategy, product range and geographical coverage. Our approach to the management of risk can be found in the Risk review section in the 2014 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 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.

The Group manages its credit exposures following the principle of diversification across products, geographies, industries, collateral types and client segments,

Since 1 January 2008, the Group has used the advanced Internal Ratings Based (IRB) approach to calculate credit risk capital requirements with the approval of our relevant regulators. This approach builds on the Group's risk management practices and is the result of a continuing investment in data warehouses and risk models.

For portfolios where the Group does not have IRB approval, or where the exposures are permanently exempt from the IRB approach, the Standardised Approach is used.

Market Risk

Market risk is the potential for loss of earnings or economic value due to adverse changes in financial market rates or prices. The Group's exposure to market risk arises predominantly from providing clients access to financial markets, facilitation of which entails the Group's taking moderate market risk positions. All trading teams support client activity; there are no proprietary trading teams. Hence, income earned from market risk related activities is broadly stable. Market risk also arises in the non-trading book from the requirement to hold a large liquid assets buffer of high quality liquid debt securities and from the translation of non-US dollar denominated assets, liabilities and earnings.. The primary categories of market risk for the Group 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

We define operational risk as the potential for loss from inadequate or failed internal processes, people, and systems or from the impact of external events, including legal risks. 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. Remuneration disclosures can be found in the Directors' remuneration report in the 2014 Annual Report.

Frequency

In accordance with Group policy the Pillar 3 Disclosures are made annually as at 31 December and are 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.

Verification

Whilst the Pillar 3 Disclosures 2014 are not required to be externally audited, the document has been verified internally in accordance with the Group's policies on disclosure and its financial reporting and governance processes. Controls comparable to those for the 2014 Annual Report have been applied to confirm compliance with PRA regulations.

1.4 Enhancements and future developments of Pillar 3

Capital Requirements Directive IV (CRD IV) came into force on 1 January 2014 and our disclosures are further developed to meet the regulatory and accounting standard requirements. The principle changes to our Pillar 3 Disclosures 2014 compared with prior year are:

- Enhanced capital and leverage disclosures and
- Additional credit risk analysis tables

The UK authorities have a number of areas of ongoing regulatory focus to improve the transparency and comparability of UK banks' Pillar 3 disclosures.

In January 2015 the Basel Committee issued Standards for Pillar 3 disclosure setting out the requirements for the first phase of review of the Pillar 3 disclosure requirements. The focus of this phase is on disclosure requirements in the areas of credit, market, counterparty credit, equity and securitisation risk. The disclosure requirements for other risk elements covered by the existing Pillar 3 framework will be considered in phase two of the project. The standard requires the national authorities to give effect to the public disclosure requirements set out in the standard by the end of 2016.

1.5 Accounting and regulatory consolidation

The Pillar 3 Disclosures are prepared at the Group consolidated level. The principal undertakings presented below are the same as those disclosed in the 2014 Annual Report, and Table 7 on page 12 of this document provides additional disclosures of the capital resources for those significant subsidiaries in accordance with CRR Article 13.

The accounting policy for financial consolidation is provided in the notes to the financial statements in the 2014 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 risk-weighted subject to the CRD IV threshold calculation. 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 than 10 per cent of the issued share capital	The Group risk-weights the investment	Agricultural Bank of China
Investment	The Group holds more than 10 per cent and less than 20 per cent of the issued share capital	The Group risk-weights the investment subject to the CRD IV threshold calculation	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

1.6 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 on Table 3 on page 8. 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 with regulatory risk categories

	2014							
			Regulatory banking book			Regulatory trading book		
	Assets per Group's balance sheet	Regulatory balance sheet [1]	Of which subject to credit risk	Of which subject to counter-party credit risk	Of which subject to securitisation framework	Subject to market risk & counterparty credit risk	Of which subject to counter-party credit risk	Not subject to regulatory capital requirements
	$million	$million	$million	$million	$million	$million	$million	$million
Assets								
Cash and balances at central banks	97,282	98,605	98,605	-	-	-	-	-
Financial assets held at fair value through profit or loss	32,623	32,760	5,323	-	-	27,437	-	-
Derivative financial instruments	65,834	65,850	-	701	-	65,149	65,149	-
Loans and advances to banks	83,890	84,091	63,742	7,671	-	12,678	10,765	-
Loans and advances to customers	284,695	295,953	260,653	5,131	22,250	7,919	6,290	-
Investment securities	104,238	105,828	94,615	-	11,213	-	-	-
Other assets	38,689	39,536	24,190	-	-	15,346	-	-
Current tax assets	362	362	362	-	-	-	-	-
Prepayments and accrued income	2,647	2,704	2,542	-	-	162	-	-
Interests in associates	1,962	1,192	1,192	-	-	-	-	-
Goodwill and intangible assets	5,190	5,426	-	-	-	-	-	5,426
Property, plant and equipment	7,984	8,097	8,097	-	-	-	-	-
Deferred tax assets	518	518	339	-	-	-	-	179
Total assets	725,914	740,922	559,660	13,503	33,463	128,691	82,204	5,605
Liabilities								
Deposits by banks	54,391	54,568	-	9,984	-	-	-	44,584
Customer accounts	405,353	417,569	-	6,324	-	-	-	411,245
Financial Liabilities held at fair value through profit or loss	22,390	22,390	-	-	-	9,103	-	13,287
Derivative financial instruments	63,313	63,322	-	609	-	62,713	62,713	-
Debt securities in issue	71,951	72,337	-	-	-	-	-	72,337
Other liabilities	31,274	32,555	-	-	-	-	-	32,555
Current tax liabilities	891	920	-	-	-	-	-	920
Accruals and deferred income	5,915	6,017	-	-	-	-	-	6,017
Subordinated liabilities and other borrowed funds	22,947	22,948	-	-	-	-	-	22,948
Deferred tax liabilities	246	254	-	-	-	-	-	254
Provisions for liabilities and charges	92	112	-	-	-	-	-	112
Retirement benefit obligation	413	416	-	-	-	-	-	416
Total liabilities	679,176	693,408	-	16,917	-	71,816	62,713	604,675
Capital & reserves	46,738	47,514						
Total Liabilities and shareholders' funds	725,914	740,922						

Table 2: Comparison of accounting balance sheet with regulatory risk categories continued

Reconciliation of financial balance sheet to regulatory exposure	$million
Total Assets as per Regulatory balance sheet	740,922
Less: Not subject to credit risk	(52,092)
Balance assets subject to credit risk	688,830
Of which	
Assets subject to credit risk	559,660
Assets subject to counterparty credit risk	13,503
Assets subject to securitisation framework	33,463
Assets subject to counterparty credit risk in trading book	82,204
Less: Derivatives netting benefit[2]	(43,735)
Total net asset amount under regulatory scope of consolidation (excluding off balance sheet items)	645,095
Differences due to consideration of provisions	3,474
Differences due to capital deductions	(199)
Differences due to off-balance sheet amounts recognised in regulatory exposures	139,819
Other	(89)
Regulatory exposure at default pre credit risk mitigation	788,100

Reconciliation of financial Capital & reserves to Common Equity Tier 1	$million
Capital & reserves as per Regulatory balance sheet	47,514
Less: Foreseeable dividends net of scrip	(1,160)
Net capital & reserves under regulatory scope of consolidation	46,354
Differences due to ineligible minority interest	(488)
Differences due to consideration of preference share premium balance as Additional Tier 1 capital	(1,494)
Regulatory Common Equity Tier 1 pre deductions	44,372

[1] Regulatory balance sheet primarily includes full consolidation of PT Bank Permata Tbk a joint venture (JV) where the Group's liability to the JV is greater than the capital held

[2] Reflects the effect of master netting agreements in addition to the netting permitted under International Accounting Standard (IAS) 32 requirement

2. Capital

2.1 Capital management

Our approach to capital management is maintaining the Group's strong capital and leverage position in support of our clients, the refreshed business strategy and to meet regulatory requirements.

The Capital section of the 2014 Annual Report sets out our approach to capital management.

2.2 Capital resources

All capital instruments included in the capital base meet the requirements set out in CRD IV, except for those which are subject to a grandfathering period and which will be fully phased out by 1 January 2022. Table 3 below summarises the consolidated capital position of the Group.

Table 3: CRD IV Capital base

	2014 CRD IV Transitional position $million	2014 CRD IV End-point adjustment $million	2014 CRD IV End-point position $million	2013 CRD IV Transitional position [1] $million
Common Equity Tier 1 (CET1) capital: instruments and reserves				
Capital instruments and the related share premium accounts	5,225	-	5,225	5,213
Of which: Share premium accounts	3,989	-	3,989	4,001
Retained earnings [2]	27,394	-	27,394	28,560
Accumulated other comprehensive income (and other reserves)	9,690	-	9,690	10,794
Non-controlling interests (amount allowed in consolidated CET1)	583	-	583	607
Independently reviewed interim and year-end profits [3]	2,640	-	2,640	-
Foreseeable dividends net of scrip [4]	(1,160)	-	(1,160)	-
Common Equity Tier 1 capital before regulatory adjustments	44,372	-	44,372	45,174
Common Equity Tier 1 capital: regulatory adjustments				
Additional value adjustments	(196)	-	(196)	(180)
Intangible assets	(5,449)	-	(5,449)	(6,173)
Deferred tax assets that rely on future profitability	(180)	-	(180)	(273)
Fair value reserves related to gains or losses on cash flow hedges	55	-	55	(15)
Negative amounts resulting from the calculation of expected loss	(1,719)	-	(1,719)	(1,738)
Gains or losses on liabilities at fair value resulting from changes in own credit	(167)	-	(167)	(85)
Defined-benefit pension fund assets	(13)	-	(13)	(6)
Fair value gains and losses from own credit risk related to derivative liabilities	(9)	-	(9)	(5)
Exposure amounts which could qualify for risk weighting	(199)	-	(199)	(190)
Of which: securitisation positions	(177)	-	(177)	(184)
Of which: free deliveries	(22)	-	(22)	(6)
Regulatory adjustments relating to unrealised gains	(481)	481	-	(546)
Other	(1)	-	(1)	(2)
Total regulatory adjustments to Common Equity Tier 1	(8,359)	481	(7,878)	(9,213)
Common Equity Tier 1	36,013	481	36,494	35,961
Additional Tier 1 (AT1) capital: instruments				
Capital Instruments and the related share premium accounts	2,786	(2,786)	-	4,458
Additional Tier 1 (AT1) capital before regulatory adjustments	2,786	(2,786)	-	4,458
Additional Tier 1 capital[5]	2,786	(2,786)	-	4,458
Tier 1 capital (T1 = CET1 + AT1)	38,799	(2,305)	36,494	40,419
Tier 2 (T2) capital: instruments and provisions				
Capital instruments and the related share premium accounts	13,167	-	13,167	9,010
Qualifying items and the related share premium accounts subject to phase out from T2	959	(959)	-	1,447
Qualifying own funds instruments included in T2 issued by subsidiaries and held by third parties	4,178	(1,519)	2,659	5,267
Credit risk adjustments	-	-	-	237
Tier 2 capital before regulatory adjustments[5]	18,304	(2,478)	15,826	15,961
Tier 2 capital: regulatory adjustments				
Direct and indirect holdings by an institution of own Tier 2 instruments and subordinated loans	(4)	-	(4)	(11)
Total regulatory adjustments to Tier 2 capital	(4)	-	(4)	(11)
Tier 2 capital	18,300	(2,478)	15,822	15,950
Total capital (TC = T1 + T2)	57,099	(4,783)	52,316	56,369

2.2 Capital resources continued

Table 4 : CRD IV Capital ratios and risk-weighted assets

	2014 CRD IV Transitional position $million	2014 CRD IV End-point adjustment $million	2014 CRD IV End-point position $million	2013 CRD IV Transitional position $million
Amounts below the thresholds for deduction (before risk weighting)				
Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	1,206	-	1,206	2,274
Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	1,164	-	1,164	911
Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	403	-	403	319
Risk-weighted assets				
Credit risk	279,537	-	279,537	273,356
Credit valuation adjustment	6,709	-	6,709	7,900
Operational risk	35,107	-	35,107	33,289
Market risk	20,295	-	20,295	16,751
Total risk-weighted assets [6]	341,648	-	341,648	331,296
Capital ratios				
Common Equity Tier 1	10.5%	0.2%	10.7%	10.9%
Tier 1 capital	11.4%	(0.7%)	10.7%	12.2%
Total capital	16.7%	(1.4%)	15.3%	17.0%

1 The '2013 CRD IV Transitional Position' column shows the 31 December 2013 Basel II position adjusted for the CRD IV rules as at 1 January 2014. This has been re-presented to align with the EBA disclosure template

2 Retained earnings under CRD IV include the effect of regulatory consolidation adjustments

3 Independently reviewed interim and year-end profits for CRD IV are in accordance with the regulatory consolidation

4 Foreseeable dividends include the proposed final dividend for 2014.The final dividend element is reported net of scrip (using a 25 per cent scrip dividend assumption)

5 Tables 5 and 6 give further details and include ineligible minority interest

6 The risk-weighted assets are not covered by the scope of the Audit

2.2 Capital Resources continued

For regulatory purposes, capital is categorised into two tiers, depending on the degree of permanence and loss absorbency exhibited. These are Tier 1 and Tier 2 capital which are described below.

Further details of the Group's capital instruments are set out in the Regulatory Capital Instruments Main Features Document available on the Group's website at http://investors.sc.com/en/disclaimer3.cfm.

Tier 1 capital

Tier 1 capital is going concern capital and is available for unrestricted and immediate use to cover risks and losses whilst enabling the organisation to continue trading.

Tier 1 capital comprises permanent share capital, profit and loss account and other eligible reserves, equity non-controlling interests and Additional 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. 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.

Additional Tier 1 securities are deeply subordinated instruments which have loss absorbing qualities such as discretionary coupons, principal write-down or conversion to equity and can therefore be included as Tier 1 capital.

The following table sets out details of the Tier 1 instruments in issue and their primary terms:

Table 5 : Additional Tier 1 Capital instruments

Security Ref [1]#	ISIN	Issuer	Description	2014 $million	2013 $million
2	GB0008399700	SC PLC	£100 million 8.250 per cent Non-cumulative Irredeemable Preference shares [4]	144	152
3	GB0008401324	SC PLC	£100 million 7.375 per cent Non-cumulative Irredeemable Preference shares [4]	140	147
4	US85354AA86/ USGB84228AT58	SC PLC	$750 million 6.409 per cent Non-cumulative Redeemable Preference shares [4]	747	747
5	US853254AB69 / US853254AC43	SC PLC	$750 million7.014 per cent Non-cumulative Redeemable Preference shares [4]	747	747
6a	XS0129229141	SCB	£300 million 8.103 per cent Step-up Callable Perpetual Preferred securities [4]	467	493
6b	XS0129229141	SCB	£300 million 8.103 per cent Step-up Callable Perpetual Preferred securities [4]	555	586
N/A	XS0347919457	SCB	$1,500 million 9.5 per cent Step up Redeemable Preferred Securities (callable 2014)[2]	-	1,498
N/A	US500633AD41	SCBK	$300 million 7.267 per cent Hybrid tier 1 securities (callable 2014)[2]	-	320
Total [3]				2,800	4,690

[1] Refer to the **Standard Chartered PLC Regulatory Capital Instruments Main Features Document** as published on the Standard Chartered website.

[2] The right to redeem these securities was exercised in full on the respective callable date and the securities are not included in the Reporting Capital Instruments Main Features Document.

[3] Includes ineligible minority interest

[4] These securities are not CRR compliant and will be fully phased out by 1 January 2022

Tier 2 capital

Tier 2 capital is going concern capital to help ensure senior creditors and depositors can be repaid in the event of the organisation's failure. Tier 2 capital consists of capital instruments 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 Tier 2 instruments in issue and their primary terms:

Table 6 : Tier 2 Capital instruments

Security Ref [1]#	ISIN	Issuer	Description	2014 $million	2013 $million
7	GB0008387283	SC PLC	$400 million Primary Capital Undated Floating Rate Notes[2]	44	44
8	XS0010826633	SC PLC	$300 million Primary Capital Undated Floating Rate Notes (Series 2) [2]	80	80
9	XS0010159159	SC PLC	$400 million Primary Capital Undated Floating Rate Notes (Series 3) [2]	64	64
10	XS0010276466	SC PLC	$200 million Primary Capital Undated Floating Rate Notes (Series 4) [2]	50	50
11	GB0008389008	SC PLC	£150 million Primary Capital Undated Floating Rate Notes[2]	47	51
12	US853254AJ95/ XS0874014722	SC PLC	$2,000 million 3.95% Subordinated Notes 2023	1,992	1991
13	XS1049699926/ US853254AN08	SC PLC	$2,000 million 5.7% Subordinated Notes 2044	1,983	-
14	XS0803659340	SC PLC	$1,250 million 4% Subordinated Notes 2022 (callable 2017)	1,248	1237
15	XS0736418962	SC PLC	$1,000 million 5.7% Subordinated Notes 2022	995	995
16	US853254AL42/ XS0969864916	SC PLC	$1,000 million 5.2% Subordinated Notes 2024	996	995
17a	US853254AK68/ XS0875267394	SC PLC	$500 million 5.3% Subordinated Notes 2043	496	496
17b	US853254AK68/ XS0875267394	SC PLC	$250 million 5.3% Subordinated Notes 2043	256	256
18	XS0983704718	SC PLC	€1,250 million 4% Subordinated Notes 2025 (callable 2020)	1,509	1716
19	XS0858585051	SC PLC	€750 million 3.625% Subordinated Notes 2022	901	1024
20	XS1140857316	SC PLC	€500 million 3.125% Subordinated Notes 2024	600	-
21	XS1075419694	SC PLC	£900 million 5.125% Subordinated Notes 2034	1,376	-
22	XS1020855588	SC PLC	SGD700 million 4.4% Subordinated Notes 2026 (callable 2021)	528	-
23	US853250AB48 XS0323650787	SCB	$1,000 million 6.4% Subordinated Notes 2017	529	730
24	XS0130337735/ US853250AA64	SCB	$700 million 8 % Subordinated Notes 2031	427	427
25a	XS0323411016	SCB	€700 million 5.875% Subordinated Notes 2017	449	705
25b	XS0323411016	SCB	€400 million 5.875% Subordinated Notes 2017	256	403
26a	XS0355789271	SCB	£500 million 7.75% Subordinated Notes 2018	493	702
26b	XS0355789271	SCB	£200 million 7.75% Subordinated Notes 2018	198	282
27a	XS0222434200	SCB	£400 million 5.375% Undated Subordinated Step-up Notes (callable 2020)[5]	180	191
27b	XS0222434200	SCB	£275 million 5.375% Undated Subordinated Step-up Notes (callable 2020)[5]	427	454
28	XS0119816402	SCB	£200 million 7.75% Undated Subordinated Step-up Notes (callable 2022)[5]	383	402
29a	XS0356750868	SCB	SGD200 million 5.25% Subordinated Notes 2023 (callable 2018)[5]	150	158
29b	XS0356750868	SCB	SGD250 million 5.25% Subordinated Notes 2023 (callable 2018)[5]	188	197
30	XS0359358867	SCB	JPY10 billion 3.35% Subordinated Notes 2023 (callable 2018)[5]	83	95
31	XS0520042416	SCB HK	$750 million 5.875% Subordinated Notes 2020	746	745
32	XS0698410403	SCB HK	SGD750 million 4.15% Subordinated Notes 2021 (callable 2016)	566	590
33	KR3823014V34	SCBK	KRW90 billion 6.05% Subordinated Notes 2018	51	85
34	KR60001111C4	SCBK	KRW270 billion 4.67% Subordinated Notes 2021 (callable 2016)	245	256
35	N/A	Permata	$100 million 9.75% Subordinated Notes 2021 (callable 2016)	50	44
36	BNLI02SB	Permata	IDR1,750 billion 11% Subordinated Notes 2018	93	122
N/A	KR6000115W41	SCBK	KRW300 billion 7.05 per cent Subordinated Notes (callable 2014)[3]	-	284
N/A	TW000G104095	SCB Taiwan	TWD10 billion 2.9 per cent Subordinated Notes (callable 2014)[3]	-	336
Total [4]				18,679	16,207

[1] Refer to the **Standard Chartered PLC Regulatory Capital Instruments Main Features Document** as published on the Standard Chartered PLC website.

[2] 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

[3] The right to redeem these securities was exercised in full on the respective call date and the securities are not included in the Regulatory Capital Instruments Main Features Document.

[4] Includes ineligible minority interest

[5] These securities are not CRR compliant and will be fully phased out by 1 January 2022

2.2 Capital resources continued

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.

CRR Article 13 concerns the application of disclosure requirements of significant subsidiaries of EU parent institutions and those subsidiaries which are of material significance to their local market.

The capital resources of the Group's significant subsidiaries under CRR Article 13 are presented below. These subsidiaries are Standard Chartered Bank (SCB), a UK incorporated banking entity including overseas branches, and subsidiaries, Standard Chartered Bank (HK) 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.

Further disclosure for the legal entity Standard Chartered Bank may be found in Annex 2 and the 2014 Annual Report. Annex 1 provides the capital resources and requirements of Standard Chartered Bank (Solo Consolidated) the regulated entity.

The table below provides a summary view of the significant subsidiaries:

Table 7: Capital resources of significant subsidiaries

	2014		
	Standard Chartered Bank[1] $million	Standard Chartered Bank (HK) Ltd $million	Standard Chartered Bank Korea Ltd $million
Local Regulator	PRA	HKMA[2]	FSS[3]
Common Equity Tier 1 capital before regulatory adjustments	43,583	7,405	4,093
Regulatory adjustments	(7,937)	(1,241)	(60)
Common Equity Tier 1 capital	35,646	6,164	4,033
Additional Tier 1 (AT1) capital: instruments	2,434	488	-
Tier 1 capital (T1 = CET1 + AT1)	38,080	6,652	4,033
Tier 2 capital	17,806	1,401	410
Total capital (TC = T1 + T2)	55,886	8,053	4,443
Total risk-weighted assets	339,842	49,127	30,226

1 Standard Chartered Bank disclosed in the table above aligns with the basis of disclosure used for the Standard Chartered Bank Accounts

2 Hong Kong Monetary Authority

3 Financial Supervisory Services

2.3 Leverage ratio

The Basel Committee on Banking Supervision (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 leverage ratio compares Tier 1 capital to total exposures, which includes certain exposures held off balance sheet as adjusted by regulatory credit conversion factors.

Final adjustments to the definition and calibration of the leverage ratio in the EU will be made during the first half of 2017, with a view to migrating the leverage ratio to a binding Pillar 1 requirement by 1 January 2018. In June 2014, in an update to Supervisory Statement SS3/13, the PRA set out a requirement for the eight major UK institutions (of which the Group is one) to meet an end-point leverage ratio of at least 3 per cent from 1 July 2014.

In July 2014 the Financial Policy Committee (FPC) issued a consultation on the UK leverage ratio, the results of which were published in November 2014. The FPC proposed a minimum leverage ratio of 3 per cent together with supplementary leverage ratio buffers set at 35 per cent of the corresponding risk-weighted global systemically important institutions (G-SII) and countercyclical buffers, as those buffers are applicable to individual banks and as phased in. Based on the FPC's proposals, the Group's future minimum leverage ratio requirement will be 3.35 per cent, which comprises (i) the minimum 3 per cent and (ii) a 0.35 per cent G-SII leverage buffer (calculated as 35 per cent of the Group's 1 per cent risk-weighted G-SII buffer).

The basis of calculating the leverage ratio is set by the PRA. It uses the end-point CRR definition of Tier 1 for the numerator and permits either (i) the BCBS January 2014 definition for the leverage exposure denominator or (ii) the CRR definition of leverage exposure adopted by a European Union delegated act in October 2014. The Group has used the October 2014 CRR definition. At 30 June 2014 the Group's leverage ratio was calculated using the PRA's prevailing guidance of: (i) a capital measure using the end-point Tier 1 capital definition in the final CRR text and the Own Funds Regulatory Technical Standards published by the EBA and (ii) an exposure measure based on the BCBS January 2014 definition. The differences arising from the change in basis of calculation between 30 June 2014 and 31 December 2014 are not material for the Group.

The Group's current leverage ratio of 4.5 per cent is above the current PRA minimum requirement and the FPC's proposed requirement. The Group has not yet issued any CRR-compliant AT1 capital, but the PRA permits 0.75 per cent of the leverage requirement to be met with CRR compliant AT1 capital.

Table 8: Leverage ratio

	2014 CRD IV $million
Tier 1 capital (transitional position)	38,799
Additional Tier 1 capital subject to phase out	(2,786)
Regulatory adjustments relating to unrealised gains	481
Tier 1 capital end point	36,494
Derivative financial instruments	65,834
Derivative cash collateral	10,311
Securities financing transactions (SFTs)	29,856
Loans and advances and other assets	619,913
Total on balance sheet assets	725,914
Regulatory consolidation adjustments	15,008
Derivatives adjustments	
Derivatives netting	(43,735)
Adjustments to cash collateral	(17,316)
Net written credit protection	7,885
Potential future exposure on derivatives	46,254
Total derivatives adjustments	(6,912)
Counterparty risk leverage exposure measure for SFTs	9,963
Regulatory deductions and other adjustments	(7,701)
Off-balance sheet items	67,042
Total leverage exposure end point	803,314
Leverage ratio end point	4.5%

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 in the Risk review section in the 2014 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, Exposure at Default (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 (2013: 78 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 Corporate and Institutional and Commercial (CIC) and Retail models under the IRB approach are covered in more detail in Section 3.3 Internal Ratings Based models.

CRR article 150 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 apply to:

- Africa – all Retail portfolios;
- Private Banking;
- Private Equity;
- Development Organisations;
- Jordan and Lebanon;
- Purchased receivables;
- Hedge Funds

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 model 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 model 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 III. The risk-weight applied under the Standardised Approach is given by the CRR and is based on the asset class to which the exposure is assigned.

3.3. Internal Ratings Based models

The IRB models used by the Group calculate a PD, LGD and EAD. The model performance data is contained in Table 9: CIC model results and Table 10: Retail model results.

Models are developed by analytics teams within the Risk Measurement function. 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 in detail by a model validation team, which is separate from the teams that develop and maintain the models. Model validation findings are presented to the Credit Model Assessment Committee (MAC). The Credit MAC supports the Credit Risk Committee (CRC) in ensuring risk identification and measurement capabilities are objective and consistent, so that risk and origination decisions are properly informed. 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 that counterparties would default on existing exposures. These methods afford high discriminatory power by identifying counterparty characteristics that have 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 a qualitative framework 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 Development 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

Accuracy of Model Estimates

Internal Ratings Based models were developed from a dataset that spans at least a full business cycle. The 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

Estimates of PD are computed as of 1 January 2014 and are compared with default observations through 31 December 2014.

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 2014.

The actual default rate for corporates and institutions exposures in 2014 remained below IRB model predictions as at the beginning of 2014, reflecting the impact of the Group's prudent and proactive credit management.

The actual default rates for retail asset classes remained also below model predictions, with the exception of 'Other Retail'. The higher actual default rate for the 'Other Retail' asset class is due to an increase in Personal Debt Rehabilitation Service filings in Korea and increased defaults in low income segments in UAE. The actual default rate for Retail SME increased compared to the prior year as a result of an increased number of defaults in business clients segments in Korea and Hong Kong.

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 2014 defaults, making it meaningless to compare realised versus predicted outcomes in a manner similar to that for PD and EAD.

To address this, for corporates and institutions we have adopted an approach based on a four-year rolling period of predicted and realised LGD, which for the current reporting year includes 2011 to 2014 defaults that have completed their workout process as at the end of 2014. 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 corporates and institutions 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.

For retail asset classes, the observed LGD was calculated based on actual recoveries during the 2012 to 2014 period for existing defaults as of December 2011 and new defaults in 2012. This is compared to the predicted outcome of the same set of defaults.

Under this approach, realised LGDs for all retail asset classes are lower than predicted LGDs, primarily due to the regulatory guidance to calibrate LGD values to downturn conditions. This is most evident in the mortgage portfolios, where predicted LGDs include a significant assumed reduction in property values.

Exposure at default

EAD takes into consideration the potential draw down of a commitment as an obligor defaults by estimating the Credit Conversion Factor (CCF) of undrawn commitments.

For assets which defaulted in 2014, the comparison of realised versus predicted EAD is summarised in the ratio of EAD one year prior to default to the outstanding amount at time of default. The ratios for all models 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. For residential mortgages, the ratio is close to one as a reflection of the non-revolving nature of the product.

The Group has a strong monitoring and governance framework in place to identify and mitigate model performance issues. While the majority of models is conservative and over predicts PD, LGD and EAD, any under predicting model is subject to a post model adjustment to ensure adequate capitalization, and has a remediation plan in place. The estimates provided in the Table are before the application of any conservative adjustment.

Table 9: CIC model results

	PD Predicted %	PD Observed %	LGD Predicted (2011-2014) %	LGD Realised (2011-2014) %	EAD Predicted/ Realised
IRB Exposure Class					
Central governments or central banks	0.20	-	N/A	N/A	N/A
Institutions	0.20	*0.00	51.20	-	1.20
Corporates	1.92	1.16	46.46	26.02	1.19
Corporate SME	2.33	1.00	69.38	52.68	1.21

* 0.003 per cent when expanded to 3 decimals.

3.3. Internal Ratings Based models continued

Table 10: Retail model results

	PD Predicted %	PD Observed %	LGD Predicted %	LGD Observed %	EAD Predicted/ Observed
IRB Exposure Class					
Qualifying revolving retail	1.49	1.22	80.40	67.94	1.19
Other retail	2.87	3.99	78.28	67.00	1.06
Residential mortgages	0.60	0.31	16.11	5.60	1.04
Retail SME	1.83	1.75	64.16	29.87	1.19

3.4. Credit risk regulatory capital requirements

The table below presents the minimum regulatory credit risk capital requirements, including counterparty credit risk, as at 31 December 2014, calculated as 8 per cent of RWA based on the approaches previously described. The regulatory credit risk capital requirement below of $22,899 million is substantially lower, even with the inclusion of market risk $1,624 million (Table 43) and operational risk $2,809 million (Table 47), than total capital resources of $57,099 million in Table 3.

Table 11: Credit risk regulatory capital requirements

	2014 CRD IV				2013 Basel II			
Credit Risk Capital Requirements	Regulatory capital requirement $million	Risk-weighted assets $million	EAD before the effect of CRM $million	Risk-weighted asset density %	Regulatory capital requirement $million	Risk-weighted assets $million	EAD before the effect of CRM $million	Risk-weighted asset density %
IRB Exposure Class								
Central governments or central banks	1,611	20,144	171,495	12	1,474	18,428	124,782	15
Institutions	1,097	13,719	110,294	12	1,530	19,121	130,640	15
Corporates	10,872	135,903	196,183	69	9,814	122,674	176,394	70
Retail, of which	1,926	24,077	90,386	27	2,174	27,177	92,786	29
Secured by real estate collateral	470	5,873	60,966	10	547	6,834	59,520	11
Qualifying revolving retail	476	5,952	16,411	36	503	6,295	17,503	36
Retail SME	73	918	1,184	78	90	1,129	1,970	57
Other retail	907	11,334	11,825	96	1,034	12,919	13,793	94
Equity	-	-	-	-	-	-	-	-
Securitisation positions	319	3,985	31,438	13	315	3,943	27,473	14
Non-credit obligation assets	62	778	858	91	56	697	696	100
Total IRB	15,888	198,606	600,654	33	15,363	192,040	552,771	35
Standardised Exposure Class								
Central governments or central banks	145	1,811	3,630	45	151	1,892	3,886	49
Multilateral development banks	2	30	13,676	-	-	-	10,074	-
Institutions	13	162	1,271	13	16	204	612	33
Corporates	1,380	17,250	29,930	91	1,420	17,753	31,039	88
Retail	864	10,795	16,097	70	1,028	12,849	17,996	75
Secured on real estate property	717	8,968	18,458	49	766	9,571	18,815	51
Past due items	22	269	561	100	107	1,340	1,285	135
Items belonging to regulatory high risk categories	491	6,140	4,213	149	40	502	386	150
Other items[1]	1,220	15,249	15,427	113	1,129	14,107	16,653	85
Total Standardised	4,854	60,674	103,263	59	4,657	58,218	100,746	66
Counterparty credit risk capital component (credit risk in the trading book)[2]	1,621	20,257	84,183	26	1,246	15,576	59,057	26
Credit Valuation Adjustment (CVA)	537	6,709	25,394	-	-	-	-	-
Concentration risk capital component[3]	-	-	-	-	-	-	-	-
Total	22,899	286,246	813,493	-	21,266	265,834	712,574	38

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 $74.4 billion with $20 billion 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

Key points

- RWA increased by $20.6 billion, from 31 December 2013. Of this $15.7 billion was a result of transition to CRD IV as at 1 January 2014 including an additional credit valuation adjustment charge of $6.7 billion.
- RWA under the IRB approach increased by $10 billion due to the change in the method for calculating EAD for certain IRB models, negative credit migration due to downgrades primarily in the Europe and ASEAN regions offset by the translation impact due to the depreciation of currencies in Europe, Africa and India.

3.4. Credit risk 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 12: Credit risk regulatory capital requirements of significant subsidiaries

	2014		
Credit Risk Capital Requirements	Standard Chartered Bank $million	Standard Chartered Bank (HK) Ltd $million	Standard Chartered Bank Korea Ltd $million
Local Regulator	PRA	HKMA	FSS
IRB Exposure Class			
Central governments or central banks	1,611	50	-
Institutions	1,096	364	-
Corporates	10,872	1,406	501
Retail, of which	1,926	642	524
Secured by real estate collateral	470	251	161
Qualifying revolving retail	476	127	35
Retail SME	73	17	-
Other retail	907	247	327
Equity	-	-	38
Securitisation positions	319	22	-
Non-credit obligation assets	62	-	-
Other[1]	-	357	7
Total IRB	15,886	2,841	1,070
Standardised Exposure Class			
Central governments or central banks	147	-	1
Institutions	13	1	101
Corporates	1,380	152	401
Retail	864	20	18
Secured on real estate property	717	13	-
Past due items	22	6	-
Items belonging to regulatory high risk categories	491	-	97
Securitisation positions	-	-	-
Other items	1,220	150	128
Total Standardised	4,854	342	746
Counterparty credit risk capital component (credit risk in the trading book)	1,621	32	189
Credit Valuation Adjustment (CVA)	537	71	99
Concentration risk capital component[2]	-		
Total	22,898	3,286	2,104

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

- Credit risk capital requirement increased in Hong Kong due to the transition of a 15 per cent risk-weight floor requirement and 2 times PD multiplier imposed by HKMA on IRB exposure secured by real estate collateral.
- Credit risk capital requirement increased in Korea due to a transition to Basel III as at 1 January 2014.

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 the 2014 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 CRR rules which are 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 13: Exposure at default by geography

	2014 CRD IV									
	Greater China	NE Asia	South Asia	ASEAN	MENAP	Africa	Americas	Europe	Average	Period End Total $million
IRB Exposure Class										
Central governments or central banks	37,975	16,235	5,541	15,660	8,356	4,889	47,914	37,449	150,631	174,019
Institutions	39,601	8,372	2,125	20,005	4,163	1,631	18,288	60,613	164,254	154,798
Corporates	48,227	14,970	13,044	41,127	19,445	8,552	16,627	61,591	205,875	223,583
Retail	38,197	21,830	2,463	26,544	1,352	-	-	-	91,586	90,386
Equity	-	-	-	-	-	-	-	-	-	-
Securitisation positions	3,347	-	-	1,489	-	-	934	25,668	29,455	31,438
Non-credit obligation assets	380	-	-	-	-	-	-	478	782	858
Total IRB	167,727	61,407	23,173	104,825	33,316	15,072	83,763	185,799	642,583	675,082
Standardised Exposure Class										
Central governments or central banks	13	324	-	3,005	288	-	-	-	3,757	3,630
Multilateral development banks	317	6	8	2,257	270	126	1,352	11,201	13,722	15,537
Institutions	113	51	393	350	137	-	32	5,712	3,699	6,788
Corporates	5,414	525	872	18,271	598	328	248	6,043	31,685	32,299
Retail	4,272	324	1,651	6,208	1,886	1,755	-	1	17,047	16,097
Secured on real estate	9,888	461	1,096	3,842	1,721	233	-	1,217	18,636	18,458
Past due items	222	37	45	148	102	7	-	-	923	561
Items belong to regulatory high risk category	2,037	231	264	680	223	114	-	664	2,298	4,213
Other items	2,285	1,931	899	3,527	2,296	913	72	3,512	16,089	15,435
Total Standardised	24,561	3,890	5,228	38,288	7,521	3,476	1,704	28,350	107,856	113,018
Total	192,288	65,297	28,401	143,113	40,837	18,548	85,467	214,149	750,439	788,100

Key points

- The growth in loans to central governments or central banks of $46 billion since December 2013 is primarily across the Americas and Europe and driven in part by liquidity management activity. Given the nature of this book, it is predominantly short term.
- The Retail Clients segment has decreased since December 2013 and is reflective of our decision to de-risk the Credit Card, Personal Loans (CCPL) and other unsecured lending books largely in North East Asia. This was largely offset by growth in secured lending primarily in Hong Kong.

3.5. Exposure values continued

Table 13: Exposure at default by geography continued

	2013 Basel II									
	Greater China $million	North East Asia $million	South Asia $million	ASEAN $million	MENAP $million	Africa $million	Americas $million	Europe $million	Average Total $million	Period End Total $million
IRB Exposure Class										
Central governments or central banks	33,168	17,599	5,184	18,117	6,532	5,276	27,266	14,110	129,006	127,252
Institutions	45,856	10,637	3,256	26,225	5,076	1,555	21,224	59,880	160,632	173,709
Corporates	45,028	10,787	11,840	37,621	17,201	6,991	10,083	48,500	183,366	188,051
Retail	35,521	24,236	2,477	29,480	1,072	-	-	-	92,786	92,786
Equity	-	-	-	-	-	-	-	-	-	-
Securitisation positions	2,128	-	1	1,060	-	-	301	23,982	26,764	27,472
Non-credit obligation assets	308	-	-	-	-	-	-	389	678	697
Total IRB	162,009	63,259	22,758	112,503	29,881	13,822	58,874	146,861	593,232	609,967
Standardised Exposure Class										
Central governments or central banks	-	326	-	3,079	311	-	-	168	2,774	3,884
Multilateral development banks	419	4	21	1,621	155	42	994	8,650	10,237	11,906
Institutions	27	-	-	452	125	-	-	6	1,867	610
Corporates	5,484	1,246	906	17,491	758	272	978	3,937	26,043	31,072
Retail	4,476	572	1,450	6,915	2,462	1,812	-	309	18,636	17,996
Secured on real estate	10,194	628	1,626	3,520	1,401	80	-	1,366	18,521	18,815
Past due items	377	189	90	388	128	83	-	30	1,248	1,285
Items belong to regulatory high risk category	23	-	112	123	83	7	-	38	480	386
Other items	4,714	2,052	980	2,836	1,517	1,360	67	3,127	17,228	16,653
Total Standardised	25,714	5,017	5,185	36,425	6,940	3,656	2,039	17,631	97,034	102,607
Total	187,723	68,276	27,943	148,928	36,821	17,478	60,913	164,492	690,266	712,574

3.5. Exposure values continued

Industry analysis

The mortgage portfolio makes up 67 per cent of the Retail IRB exposure classes, (2013: 64 per cent). The CIC 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 2014 Annual Report although certain industries are included in 'Other'[1].

Table 14: Exposure at default by industry

	2014 CRD IV										
	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	-	-	-	24	57	32	162,628	6,846	229	4,203	174,019
Institutions	-	-	-	91	1	-	112	154,594	-	-	154,798
Corporates	-	14	12,421	40,967	51,456	12,474	609	41,065	19,435	45,142	223,583
Retail	60,586	28,236	1,564	-	-	-	-	-	-	-	90,386
Equity	-	-	-	-	-	-	-	-	-	-	-
Securitisation positions	-	9	1,485	1,485	-	-	-	8,206	56	20,197	31,438
Non-credit obligation assets	-	-	5	2	-	-	-	-	723	128	858
Total IRB	60,586	28,259	15,475	42,569	51,514	12,506	163,349	210,711	20,443	69,670	675,082
Standard Exposure Class											
Central governments or central banks	-	-	-	-	-	-	319	-	-	3,311	3,630
Multilateral development banks	-	-	-	-	-	-	1,098	6,490	-	7,949	15,537
Institutions	-	1	-	-	-	-	-	6,222	-	565	6,788
Corporates	-	3	18,981	959	1,242	19	174	2,756	171	7,994	32,299
Retail	-	11,526	4,571	-	-	-	-	-	-	-	16,097
Secured on real estate	13,304	-	4,850	59	9	20	-	1	2	213	18,458
Past due items	143	211	124	50	11	-	-	2	11	9	561
Items belong to regulatory high risk category	5	260	587	538	369	348	-	578	37	1,491	4,213
Other items	-	6	-	268	-	-	-	80	-	15,081	15,435
Total Standardised	13,452	12,007	29,113	1,874	1,631	387	1,591	16,129	221	36,613	113,018
Total	74,038	40,266	44,588	44,443	53,145	12,893	164,940	226,840	20,664	106,283	788,100

[1] The industry class 'Other' includes Mining & Quarrying ($21.2 billion), Construction ($8.8 billion), Electricity Gas & Water ($8.6 billion), Agriculture Forestry & Fishing ($1.7 billion)

Key points

- Increases in Government exposures are driven by liquidity management activity mentioned earlier (refer to key point for Table 13).
- Retail exposures decreased as a result of portfolio re-shaping and de-risking as we reduced our unsecured lending book.
- The growth in this year was largely in Financing, Insurance and Business Services. This was driven by increased trade finance volumes. In addition the Greater China region also saw a higher level of leveraged finance and IPO financing transactions. Other industry concentrations are broadly consistent year on year.

3.5. Exposure values continued

Table 14: Exposure at default by industry continued

	2013 Basel II										
	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
Equity	-	-	-	-	-	-	-	-	-	-	-
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

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 61 per cent (2013: 60 per cent) of the Group's exposure is short term, having residual maturity of one year or less. The CIC portfolio is predominantly short term with 72 per cent (2013: 71 per cent) of EAD having a residual maturity of one year or less. In Retail, the longer maturity profile of the IRB portfolio is driven by the mortgage book which makes up 67 per cent (2013: 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 15: Exposure at default by maturity

	2014 CRD IV			
	One year or less $million	One to five years $million	Over five years $million	Total $million
IRB Exposure Class				
Central governments or central banks	141,605	27,847	4,567	174,019
Institutions	124,579	27,687	2,532	154,798
Corporates	135,386	66,632	21,565	223,583
Retail	9,731	21,451	59,204	90,386
Equity	-	-	-	-
Securitisation positions	11,557	13,051	6,830	31,438
Non-credit obligation assets	318	228	312	858
Total IRB	423,176	156,896	95,010	675,082
Standardised Exposure Class				
Central governments or central banks	3,229	400	1	3,630
Multilateral development banks	1,962	13,087	488	15,537
Institutions	3,218	1,690	1,880	6,788
Corporates	26,817	2,203	3,279	32,299
Retail	5,798	6,276	4,023	16,097
Secured on real estate property	2,676	981	14,801	18,458
Past due items	226	53	282	561
Items belonging to regulatory high risk categories	3,613	412	188	4,213
Other items	13,395	107	1,933	15,435
Total Standardised	60,934	25,209	26,875	113,018
Total	484,110	182,105	121,885	788,100

Key points

- Increase in one year or less exposure category is driven by liquidity management activity mentioned earlier (refer key to point for Table 13) and growth in Chinese interbank placements with short maturity patterns as a result of the internationalization of RMB

3.5. Exposure values continued

Table 15: Exposure at default by maturity continued

	2013 Basel II			
	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
Equity	-	-	-	-
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

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 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. Collateral is held to mitigate credit risk exposures and risk mitigation policies determine the eligibility of collateral types.

Our approach to credit risk mitigation can be found in the Risk review section of the 2014 Annual Report.

Table 16 below provides 'EAD after the effect of CRM' with exposure shown against the exposure class of the original counterparty rather than the guarantor.

Table 16: Exposure at default after CRM

	2014 CRD IV	
	EAD after the effect of collateral $million	Of which: EAD covered by guarantees/credit derivatives $million
IRB Exposure Class		
Central governments or central banks	166,307	348
Institutions	118,295	3,257
Corporates	179,139	16,576
Retail	30,038	15
Equity	-	-
Securitisation positions	30,837	-
Non-credit obligation assets	858	-
Total IRB	525,474	20,196
Standardised Exposure Class		
Central governments or central banks	3,213	12
Multilateral development banks	14,994	-
Institutions	6,113	-
Corporates	25,380	5,438
Retail	15,510	62
Secured on real estate property	606	2
Past due items	414	-
Items belonging to regulatory high risk categories	4,227	127
Other items	15,435	-
Total Standardised	85,892	5,640
Total Exposure	611,366	25,836

Table 17 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 CRR Chapter 4. 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 CRR, 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 57 per cent (2013: 60 per cent) of all credit risk mitigants.

Table 17 below provides 'EAD before the effect of CRM' and 'EAD after the effect of CRM' with exposure shown against the exposure class of the guarantor.

3.6. Credit risk mitigation continued

Table 17: Credit risk mitigation for IRB and Standardised exposure classes

	2014 CRD IV				
	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	174,019	1,193	412	172,414	6,874
Institutions	154,798	30,588	4,031	120,179	5,220
Corporates	223,583	20,625	27,288	175,669	12,618
Retail	90,386	51	60,297	30,039	14
Equity	-	-	-	-	-
Securitisation positions	31,438	1,003	-	30,435	-
Non-credit obligation assets	858	-	-	858	-
Total IRB	675,082	53,460	92,028	529,594	24,726
Standardised Exposure Class					
Central governments or central banks	3,630	-	-	3,630	26
Multilateral development banks	15,537	-	-	15,537	544
Institutions	6,788	109	-	6,679	291
Corporates	32,299	12,383	-	19,916	242
Retail	16,097	643	-	15,455	7
Secured on real estate property	18,458	58	17,794	606	-
Past due items	561	5	142	414	-
Items belonging to regulatory high risk categories	4,213	40	72	4,100	-
Other items	15,435	-	-	15,435	-
Total Standardised	113,018	13,238	18,008	81,772	1,110
Total	788,100	66,698	110,036	611,366	25,836

	2013 Basel II				
	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
Equity	-	-	-	-	-
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

[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 $4.2 billion, calculated at 31 December 2013 in respect of 2013, against the net impairment charge for 2014 of $1.6 billion, for the IRB portfolio. This results in a gap between the two measures of $2.6 billion compared to $3.1 billion when the 31 December 2012 regulatory expected loss of $4.3 billion is compared to the 2013 net individual charge of $1.2 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 of the Risk review in the 2014 Annual Report.

During 2013, regulatory expected loss increased as a result of portfolio growth and credit migration within CIC, 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 18: Regulatory expected loss

	2013	2014	2012	2013
	Regulatory expected loss $million	Net individual impairment charge[1] $million	Regulatory expected loss $million	Net individual impairment charge[1] $million
IRB Exposure Class				
Central governments or central banks	104	-	98	-
Institutions	401	4	461	(1)
Corporates	2,603	926	2,588	567
Retail, of which	1,083	628	1,138	617
Secured by real estate collateral	106	(2)	128	1
Qualifying revolving retail	388	318	462	295
Retail SME	32	37	24	46
Other retail	557	275	524	275
Equity				
Total IRB	4,191	1,558	4,285	1,183

	2011	2012	2010	2011
	Regulatory expected loss $million	Net individual impairment charge[1] $million	Regulatory expected loss $million	Net individual impairment charge[1] $million
IRB Exposure Class				
Central governments or central banks	67	-	45	-
Institutions	448	6	447	12
Corporates	1,904	537	1,751	317
Retail, of which	929	359	954	255
Secured by real estate collateral	125	8	127	3
Qualifying revolving retail	422	185	470	126
Retail SME	14	46	17	36
Other retail	368	120	340	90
Equity				
Total IRB	3,348	902	3,197	584

[1] Excludes ‘other credit risk provisions’

3.8. Risk grade profile

Exposures by internal credit grading

For CIC IRB portfolios an alphanumeric credit risk-grading system is used. For Retail IRB portfolios, individual client product PDs are used to estimate RWAs and an alphanumeric credit risk-grading system is used only for reporting purposes. 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 CIC 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.

For Retail exposures, models generate individual probability of default rates which are used to estimate RWA. These models are based on application and behavioural scorecards which make use of credit bureau information as well as the Group's own data.

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 CIC 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 Retail 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 CIC 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 Retail, 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 CRD IV 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. 79 per cent (2013: 76 per cent) of exposures are classified as credit grades 1 to 5.

Table 19: Exposure at default after CRM by risk grade

	2014 CRD IV					
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	164,177	4,907	3,330	-	-	172,413
Institutions	113,449	5,278	1,251	3	198	120,179
Corporates	95,389	53,509	16,539	4,610	5,622	175,669
Retail, of which	13,278	8,724	6,833	585	619	30,039
Retail exposures secured by real estate collateral	282	244	116	6	23	671
Qualifying revolving retail	10,204	3,091	2,588	310	217	16,410
Retail SME	164	595	317	19	37	1,132
Other retail	2,628	4,794	3,812	250	342	11,826
Equity						
Securitisation positions	30,340	32	63	-	-	30,435
Non-credit obligation assets	306	320	105	18	109	858
Total IRB	416,939	72,769	28,122	5,216	6,549	529,594

	2013 Basel II					
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
Equity						
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

Key points

- The increase in Grades 1 – 5 exposures are driven by an increase in institutional exposure in China.

3.8. Risk grade profile continued

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

Table 20: Undrawn commitments by risk grade

	2014 CRD IV					
	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	369	4	208	-	-	581
Institutions	8,804	324	2	-	-	9,130
Corporates	27,919	8,925	2,081	93	127	39,145
Retail, of which	5,526	2,141	718	32	7	8,424
Secured by real estate collateral	3,059	615	287	3	-	3,964
Qualifying revolving retail	-	-	-	-	-	-
Retail SME	9	15	71	1	5	101
Other retail	2,458	1,511	360	28	2	4,359
Total IRB	42,618	11,394	3,009	125	134	57,280

	2013 Basel II					
	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

3.8. Risk grade profile continued

The following tables set out analysis of risk-weighted assets grouped by internal credit grade and CRD IV exposure class. Risk-weighted assets are derived from EAD before the effect of CRM.

Table 21: Risk-weighted assets by risk grade

	2014 CRD IV					
	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	12,585	3,669	4,262	-	-	20,516
Institutions	13,937	3,541	1,314	8	54	18,854
Corporates	34,082	52,442	27,826	16,423	19,565	150,338
Retail	4,295	7,412	9,602	1,420	1,349	24,078
Secured by real estate collateral	2,400	1,819	1,098	96	461	5,874
Qualifying revolving retail	737	958	3,106	749	402	5,952
Retail SME	45	430	322	29	92	918
Other retail	1,113	4,205	5,076	546	394	11,334
Equity	-	-	-	-	-	-
Securitisation positions	3,136	139	710	-	-	3,985
Non-credit obligation assets	306	320	105	18	28	777
Total	68,341	67,523	43,819	17,869	20,996	218,548

	2013 Basel II					
	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
Equity						
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

3.8. Risk grade profile continued

The following tables set out analysis of risk-weighted assets grouped by risk-weight and CRD IV exposure class. Risk-weighted assets are derived from EAD before the effect of CRM.

Table 22: Risk-weighted assets density % by risk grade

	2014 CRD IV					
	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	74	127	-	-	12
Institutions	10	49	79	237	27	12
Corporates	31	71	107	267	306	67
Retail, of which	7	45	110	209	139	27
Secured by real estate collateral	5	23	56	98	125	10
Qualifying revolving retail	7	31	120	241	185	36
Retail SME	25	70	98	141	232	78
Other retail	42	88	133	219	115	96
Equity	-	-	-	-	-	-
Securitisation positions	10	436	1,122	-	-	13
Non-credit obligation assets	100	100	100	100	26	91
Total IRB	13	65	110	261	274	32

	2013 Basel II					
	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
Equity						
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

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 and for each relevant geographical location. These weighted averages have been calculated using EAD before taking into account the impact of credit risk mitigation.

Table 23: Exposure weighted average PD% by risk grade

	2014 CRD IV					
	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	1.15	3.45	-	-	0.12
Institutions	0.07	0.99	3.50	22.20	100.00	0.29
Corporates	0.17	1.06	5.35	23.54	99.94	4.62
Retail, of which	0.11	1.03	5.57	25.63	91.85	1.98
Secured by real estate collateral	0.10	1.02	5.28	27.45	92.39	0.99
Qualifying revolving retail	0.14	0.94	6.16	25.24	88.27	2.88
Retail SME	0.23	1.42	4.66	23.50	93.83	5.65
Other retail	0.27	1.07	5.39	25.57	93.31	5.47
Equity						
Securitisation positions	-	-	-	-	-	-
Non-credit obligation assets	0.12	1.08	4.52	27.94	-	1.81
Total	0.08	1.06	5.14	23.74	98.82	1.83

	2013 Basel II					
	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
Equity						
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

Table 24: Exposure weighted average PD % by geography

	2014 CRD IV								
	Greater China %	North East Asia %	South Asia %	ASEAN %	MENAP %	Africa %	Americas %	Europe %	Total %
IRB Exposure Class									
Central governments or central banks	0.02	0.02	0.48	0.06	0.67	1.69	0.01	0.04	0.12
Institutions	0.06	0.08	0.50	1.00	0.62	0.56	0.17	0.22	0.29
Corporates	2.44	2.76	9.94	2.96	10.14	9.93	0.92	4.42	4.62
Retail	0.69	2.90	6.02	2.59	6.43	6.26	0.23	1.40	1.98
Equity	-	-	-	-	-	-	-	-	-
Securitisation positions	-	-	-	-	-	-	-	-	-
Non-credit obligation assets	2.19	-	-	-	-	-	-	1.42	1.81
Total IRB	0.89	1.72	6.21	2.02	6.43	6.26	0.23	1.60	1.83

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 and for each relevant geographical location. 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 40 per cent (2013: 39 per cent).

Table 25: Exposure weighted average LGD% by risk grade

	2014 CRD IV					
	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	24	27	29	43	41	24
Corporates	46	38	35	51	53	42
Retail, of which	28	51	69	75	56	37
Secured by real estate collateral	13	17	16	16	19	14
Qualifying revolving retail	87	82	85	83	76	86
Retail SME	72	77	83	75	69	77
Other retail	80	84	84	88	81	83
Equity	-	-	-	-	-	-
Securitisation Positions	-	-	-	-	-	-
Non-credit obligation assets	45	45	45	45	45	45
Total IRB	39	40	43	53	53	40

	2013 Basel II					
	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	40	-	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
Equity	88	82	100	-	-	88
Securitisation Positions	45	45	45	45	45	45
Non-credit obligation assets	39	39	43	50	54	39
Total IRB	39	39	43	50	54	39

Table 26: Exposure weighted average LGD % by geography

	2014 CRD IV								
	Greater China	North East Asia	South Asia	ASEAN	MENAP	Africa	Americas	Europe	Total
	%	%	%	%	%	%	%	%	%
IRB Exposure Class									
Central governments or central banks	46	46	43	45	46	46	46	45	46
Institutions	23	26	28	22	27	38	27	21	24
Corporates	37	35	40	41	43	44	36	43	42
Retail	38	-	39	33	46	44	41	50	37
Equity	-	-	-	-	-	-	-	-	-
Securitisation positions	-	-	-	-	-	-	-	-	-
Non-credit obligation assets	45	45	45	45	45	45	45	45	45
Total IRB	37	37	39	36	44	44	40	44	40

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, Corporates and Retail. These exposure classes represent 82 per cent of the Group's total exposure.

Table 27: IRB credit exposure by internal PD grade for Central governments or central banks.

2014 CRD IV

SCB internal ratings	PD range %	EAD after the effect of CRM $million	Average PD %	Average LGD %	Average EAD $million	RWA $million	RWA Density %	Standard & Poor's external rating equivalent
1A	0.000 - 0.015	109,521	0.01	46	83,791	4,361	4	AAA/AA+
1B	0.015 - 0.025	20,654	0.02	45	23,617	1,652	8	AA/AA-
2A	0.025 - 0.035	22,627	0.03	46	21,234	2,503	11	AA-/A+
2B	0.035 - 0.045	-	-	-	695	-	-	A+
3A	0.045 - 0.060	175	0.05	44	285	25	14	A
3B	0.060 - 0.083	516	0.07	46	748	79	15	A-
4A	0.083 - 0.110	2,878	0.09	46	2,665	604	21	A-
4B	0.110 - 0.170	1,507	0.13	46	1,575	414	27	BBB+
5A	0.170 - 0.300	6,071	0.22	44	6,216	2,820	44	BBB/BBB-
5B	0.300 - 0.425	228	0.39	46	116	127	56	BB+
6A	0.425 - 0.585	3	0.51	46	139	2	57	BB
6B	0.585 - 0.770	263	0.67	46	249	183	70	BB
7A	0.770 - 1.020	2,705	0.89	45	2,078	1,688	61	BB-
7B	1.020 - 1.350	709	1.17	46	757	604	85	B+
8A	1.350 - 1.750	827	1.54	46	1,168	772	93	B+/B
8B	1.750 - 2.350	400	2.04	46	635	420	104	B
9A	2.350 - 3.050	2,281	2.67	46	1,265	2,735	119	B-
9B	3.050 - 4.000	750	3.51	46	1,227	985	130	B-/CCC
10A	4.000 - 5.300	87	4.62	46	67	122	141	
10B	5.300 - 7.000	-	-	-	-	-	-	CCC/C
11A/B/C	7.000 - 15.750	212	11.13	46	274	420	198	CCC/C
12A/B/C	15.750 - 50.000	-	-	-	-	-	-	CCC/C
13	50.000 - 100.00	-	-	-	-	-	-	N/A
14	100.000	-	-	-	-	-	-	N/A
Unrated		-	-	-	-	-	-	N/A
Total		172,414	0.12	46	148,953	20,516	12	

Table 27: IRB credit exposure by internal PD grade for Central governments or central banks continued.

	2013 Basel II						
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	

3.8 Risk grade profile continued

Table 28: IRB credit exposure by internal PD grade for Institutions

		2014 CRD IV						
SCB internal ratings	PD range %	EAD after the effect of CRM $million	Average PD %	Average LGD %	Average EAD $million	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	41,546	0.03	20	43,633	2,643	5	AA-/A+
2B	0.035 - 0.045	16,026	0.04	27	17,350	1,280	7	A+
3A	0.045 - 0.060	15,464	0.05	24	17,573	1,426	8	A
3B	0.060 - 0.083	11,955	0.07	22	11,892	1,415	8	A-
4A	0.083 - 0.110	6,896	0.09	29	8,639	1,042	13	A-
4B	0.110 - 0.170	8,083	0.13	28	8,428	1,692	20	BBB+
5A	0.170 - 0.300	11,676	0.22	28	9,692	3,641	25	BBB/BBB-
5B	0.300 - 0.425	1,803	0.39	26	3,526	798	28	
6A	0.425 - 0.585	919	0.51	27	2,431	519	34	BB
6B	0.585 - 0.770	844	0.68	20	1,053	491	41	BB
7A	0.770 - 1.020	1,822	0.91	28	2,275	1,162	49	BB-
7B	1.020 - 1.350	654	1.20	29	890	475	55	B+
8A	1.350 - 1.750	504	1.55	39	525	404	79	B+/B
8B	1.750 - 2.350	535	2.04	30	623	490	68	B
9A	2.350 - 3.050	845	2.70	31	742	807	79	B-
9B	3.050 - 4.000	171	3.46	21	523	167	43	B-/CCC
10A	4.000 - 5.300	86	4.60	39	158	100	110	B-/CCC
10B	5.300 - 7.000	19	6.07	29	38	25	135	CCC/C
11A/B/C	7.000 - 15.750	130	9.03	40	97	215	165	CCC/C
12A/B/C	15.750 - 50.000	3	21.55	43	14	8	237	CCC/C
13	50.000 - 100.00	171	100	41	206	54	32	N/A
14	100.000	27	100	39	207	-	-	N/A
Unrated	-	-	-	-	-	-	-	N/A
Total		120,179	0.29	24	130,515	18,854	12	

3.8 Risk grade profile continued

Table 28: IRB credit exposure by internal PD grade for Institutions continued.

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
				2013 Basel II			
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	

3.8 Risk grade profile continued

Table 29 IRB credit exposure by internal PD grade for Corporates

		2014 CRD IV						
SCB internal ratings	PD range %	EAD after the effect of CRM $million	Average PD %	Average LGD %	Average EAD $million	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	5,775	0.03	46	4,940	751	13	AA
2B	0.035 - 0.045	6,206	0.04	46	3,941	729	11	AA-
3A	0.045 - 0.060	5,235	0.05	42	4,350	833	15	A+
3B	0.060 - 0.083	11,236	0.07	43	9,845	2,276	19	A
4A	0.083 - 0.110	14,458	0.09	51	12,774	3,823	25	A-
4B	0.110 - 0.170	17,371	0.13	49	13,889	6,313	30	BBB+
5A	0.170 - 0.300	19,894	0.22	45	18,465	10,018	41	BBB
5B	0.300 - 0.425	15,214	0.39	43	15,051	9,339	50	BBB-
6A	0.425 - 0.585	10,819	0.52	46	10,666	8,993	68	BB+
6B	0.585 - 0.770	10,258	0.67	39	10,600	8,568	58	BB+
7A	0.770 - 1.020	11,221	0.90	43	10,065	11,275	77	BB
7B	1.020 - 1.350	7,208	1.18	32	7,469	6,814	65	BB-
8A	1.350 - 1.750	7,275	1.55	43	6,950	8,294	89	BB-
8B	1.750 - 2.350	6,728	2.04	34	7,061	8,498	82	BB-/B+
9A	2.350 - 3.050	5,279	2.70	35	4,817	7,174	90	B+
9B	3.050 - 4.000	3,787	3.56	36	3,997	5,506	94	B+/B
10A	4.000 - 5.300	3,220	4.62	39	3,918	5,417	117	B
10B	5.300 - 7.000	1,543	6.15	37	1,402	2,665	118	B/B-
11A/B/C	7.000 - 15.750	2,710	11.76	31	2,704	7,064	135	
12A/B/C	15.750 - 50.000	4,610	23.54	51	3,371	16,423	267	B-/CCC
13	50.000 - 100.00	1,892	100	50	2,025	13,744	586	N/A
14	100.000	3,730	100	56	2,906	5,821	143	N/A
Unrated	-	-	-	-	-	-	-	N/A
Total		175,669	4.62	42	161,206	150,338	67	

3.8 Risk grade profile continued

Table 29: IRB credit exposure by internal PD grade for Corporates continued.

				2013 Basel II			
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	

3.8 Risk grade profile continued

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

	2014 CRD IV						
SCB internal ratings	PD range %	EAD after the effect of CRM $million	Average PD %	Average LGD %	Average EAD $million	RWA $million	RWA Density %
1A	0.000 - 0.015	-	-	-	-	-	-
1B	0.015 - 0.025	-	-	-	-	-	-
2A	0.025 - 0.035	1,535	0.03	15	1,697	264	2
2B	0.035 - 0.045	140	0.04	12	155	124	3
3A	0.045 - 0.060	205	0.05	15	242	223	3
3B	0.060 - 0.083	1,213	0.07	30	1,285	278	5
4A	0.083 - 0.110	2,228	0.09	40	2,288	432	6
4B	0.110 - 0.170	2,229	0.14	37	2,284	614	8
5A	0.170 - 0.300	3,550	0.23	42	3,613	1,326	13
5B	0.300 - 0.425	2,178	0.36	49	2,316	1,034	23
6A	0.425 - 0.585	1,893	0.50	50	2,065	1,127	30
6B	0.585 - 0.770	1,850	0.66	53	1,930	1,132	34
7A	0.770 - 1.020	1,337	0.88	46	1,445	1,180	40
7B	1.020 - 1.350	1,216	1.17	51	1,344	1,143	51
8A	1.350 - 1.750	1,151	1.53	55	1,331	1,144	60
8B	1.750 - 2.350	1,277	2.05	54	1,360	1,686	72
9A	2.350 - 3.050	1,239	2.68	65	1,297	1,411	83
9B	3.050 - 4.000	1,373	3.50	69	1,451	1,659	98
10A	4.000 - 5.300	1,228	4.56	68	1,302	1,652	102
10B	5.300 - 7.000	1,262	6.15	71	1,388	1,850	118
11A/B/C	7.000 - 15.750	1,731	9.91	72	1,851	3,030	144
12A/B/C	15.750 - 50.000	585	25.63	75	614	1,420	209
13	50.000 - 100.00	203	75.20	60	205	360	120
14	100.000	416	100	54	417	989	148
Unrated	-	-	-	-	-	-	-
Total		30,039	1.98	37	31,880	24,078	27

3.8 Risk grade profile continued

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

	2013 Basel II					
SCB internal ratings	PD range %	EAD after the effect of CRM $million	Average PD %	Average LGD %	RWA $million	RWA Density %
1A	0.000 - 0.015	-	-	-	-	-
1B	0.015 - 0.025	-	-	-	-	-
2A	0.025 - 0.035	1,860	0.03	17	178	10
2B	0.035 - 0.045	169	0.04	16	43	25
3A	0.045 - 0.060	280	0.05	17	73	26
3B	0.060 - 0.083	1,356	0.07	33	162	12
4A	0.083 - 0.110	2,348	0.09	43	276	12
4B	0.110 - 0.170	2,340	0.14	39	471	20
5A	0.170 - 0.300	3,677	0.23	38	1,583	43
5B	0.300 - 0.425	2,454	0.36	46	1,155	47
6A	0.425 - 0.585	2,238	0.50	48	1,314	59
6B	0.585 - 0.770	2,010	0.67	48	1,417	71
7A	0.770 - 1.020	1,553	0.88	44	1,443	93
7B	1.020 - 1.350	1,473	1.17	51	1,478	100
8A	1.350 - 1.750	1,510	1.55	53	1,403	93
8B	1.750 - 2.350	1,442	2.05	50	2,111	146
9A	2.350 - 3.050	1,355	2.66	64	1,619	119
9B	3.050 - 4.000	1,530	3.49	65	1,913	125
10A	4.000 - 5.300	1,377	4.55	62	1,955	142
10B	5.300 - 7.000	1,514	6.15	63	2,255	149
11A/B/C	7.000 - 15.750	1,971	8.78	63	3,492	177
12A/B/C	15.750 - 50.000	642	25.67	72	1,566	244
13	50.000 - 100.00	206	72	66	329	160
14	100.000	417	100	49	941	226
Unrated	-	-	-	-	-	-
Total		33,721	3.80	47	27,177	81

3.9. Credit quality steps profile

External ratings, where available, are used to assign-risk weights. These external ratings must come from EU approved rating agencies, known as External Credit Assessment Institutions (ECAI); which currently includes Moody's, Standard & Poor's, Fitch and Dun & Bradstreet. 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 CRR.

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

The following tables set out an analysis of EAD and EAD after CRM associated with each credit step prescribed in Part Three, Title II, Chapter 2 of the CRR.

Table 31: Exposure at default by credit quality steps

	2014 CRD IV							
Exposure Class	Step 1 $million	Step 2 $million	Step 3 $million	Step 4 $million	Step 5 $million	Step 6 $million	Unrated $million	Total $million
Central governments or central banks	739	-	27	272	16	-	2,576	3,630
Multilateral development banks	14,719	-	-	-	-	-	818	15,537
Institutions	293	321	56	25	26	-	6,067	6,788
Corporates	3,045	214	36	-	-	-	29,004	32,299
Retail	-	-	-	-	-	-	16,097	16,097
Secured on real estate property	-	-	-	-	-	-	18,458	18,458
Past due items	-	-	-	-	-	-	561	561
Items belonging to regulatory high risk categories	-	-	-	-	-	-	4,213	4,213
Other items	-	-	-	-	-	-	15,435	15,435
Total Standardised	18,796	535	119	298	41	-	93,229	113,018

Table 32: Exposure at default after CRM by credit quality steps

	2014 CRD IV							
Exposure Class	Step 1 $million	Step 2 $million	Step 3 $million	Step 4 $million	Step 5 $million	Step 6 $million	Unrated $million	Total $million
Central governments or central banks	739	-	27	272	16	-	2,576	3,630
Multilateral development banks	14,719	-	-	-	-	-	818	15,537
Institutions	293	321	56	25	26	-	5,958	6,679
Corporates	1,057	214	36	-	-	-	18,609	19,916
Retail	-	-	-	-	-	-	15,455	15,455
Secured on real estate property	-	-	-	-	-	-	606	606
Past due items	-	-	-	-	-	-	414	414
Items belonging to regulatory high risk categories	-	-	-	-	-	-	4,100	4,100
Other items	-	-	-	-	-	-	15,435	15,435
Total Standardised	16,808	535	119	297	42	-	63,971	81,772

3.10. 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.

Counterparty Credit Risk is managed within the overall credit risk appetite for corporate and financial institutions.

The Group 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, the Group is permitted to offset assets and liabilities and present these net on the Group's balance sheet, only if there is a legally enforceable right to set off and the Group intends to settle on a net basis or realise the asset and liability simultaneously.

The Group also 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 a 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.

A daily operational process takes place to calculate the MTM on all trades captured under CSAs. 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.

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.

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.

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 CRR 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 CRR articles.

3.10. 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 33: Counterparty credit risk

	2014 CRD IV				
	EAD before credit risk mitigation $million	Netting benefits $million	Netted current credit exposure $million	Collateral held $million	Net derivatives credit exposure $million
Derivative contracts	131,353	78,431	57,553	4,596	48,326
Repo style transactions	26,121	-	26,121	20,314	5,807
Credit derivatives	1,769	1,260	508	145	363
Total	159,243	79,691	84,182	25,055	54,496

	2013 Basel II				
	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	1,939	1,434	505	159	346
Total	120,066	61,010	59,056	14,881	44,175

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 34: Counterparty credit risk by derivative type

	2014 CRD IV			2013 Basel II		
	Notional value $million	Netted current credit exposures $million	Regulatory capital requirement $million	Notional value $million	Netted current credit exposures $million	Regulatory capital requirement $million
Derivative contracts:						
Interest rate contracts	3,765,189	12,444	266	2,905,309	9,568	262
Foreign exchange contracts	3,201,765	36,816	906	2,390,227	30,618	689
Equity and stock index options	16,585	572	22	15,683	276	8
Commodity contracts	130,058	7,721	248	162,859	3,733	222
Credit derivatives:						
Credit default swaps	29,281	354	5	38,829	388	5
Total return swaps	2,774	154	4	2,145	118	2
Credit valuation adjustment:			-			-
Total derivatives	7,145,652	58,061	1,451	5,515,052	44,701	1,188
Repo style transactions:						
Repo		8,732	17		3,040	6
Reverse repo		17,390	75		11,316	52
Total	7,145,652	84,183	1,543	5,515,052	59,057	1,246

3.10. Counterparty credit risk in the trading book continued

Table 35: Counterparty credit risk analysis

	2014 CRD IV				2013 Basel II			
	Traded on recognised exchanges $million	Settled by central counterparties $million	Not settled by central counterparties $million	Total $million	Traded on recognised exchanges $million	Settled by central counterparties $million	Not settled by central counterparties $million	Total $million
Derivative contracts:								
Interest rate contracts	-	1,071,784	2,693,405	3,765,189	-	905,631	1,999,678	2,905,309
Foreign exchange contracts	-	-	3,201,765	3,201,765	-	5	2,390,222	2,390,227
Equity and stock index options	10	-	16,575	16,585	15	-	15,668	15,683
Commodity contracts	-	39,776	90,281	130,058	39,811	-	123,048	162,859
Credit derivatives	-	-	32,055	32,055	-	-	40,974	40,974
Total derivatives	10	1,111,560	6,033,456	7,145,652	39,826	905,636	4,569,590	5,515,052

The following table covers the notional amounts of credit derivative transactions segregated between protection bought and sold within each product type.

Table 36: Credit derivative notional amounts by product type

	2014 CRD IV		
	Bought $million	Sold $million	Total $million
Credit default swaps	16,613	12,668	29,281
Total return swaps	2,590	183	2,774
Total credit derivatives	19,203	12,851	32,055

3.11. 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); and
- Risk taking (as investor).

The Group has $31.4 billion (2013: $27.5 billion) of EAD classified as securitisation positions, as shown in Table 11 on page 18. 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 less than $0.1 billion (2013: $0.8 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 in the 2014 Annual Report.

Asset Backed Securities

The carrying value of Asset Backed Securities (ABS) of $10.2 billion (2013: $6.6 billion), held either as investments or arranged for clients, represents 1 per cent of the Group's total assets (2013: 1 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 98 per cent of the overall portfolio is rated A- or better, and over 90 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+.

39 per cent of the overall portfolio is invested in Residential Mortgage Backed Securities (RMBS), with a weighted average credit rating of AAA (AA+ in 2013).

4 per cent of the overall portfolio is in Commercial Mortgage Backed Securities (CMBS), of which $39 million is in respect of US CMBS. The weighted average credit grade of the CMBS portfolio is at BBB (BB- in 2013).

1 per cent of the overall portfolio is in Collateralised Debt Obligations (CDOs). This includes $20 million of exposures to CDOs of ABS (Mezzanine and High Grade), all of which have been impaired. The remainder of the other CDOs amounting to $62 million has a weighted average credit rating of AA-.

56 per cent of the overall portfolio is in Other ABS, which includes securities backed auto loans, credit cards, diversified payment types and student loans with a weighted credit rating of AAA (AA+ in 2013).

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 the notes to the financial statements of the 2014 Annual Report. The ABS portfolio is assessed frequently for objective evidence of impairment. In 2014, there were no impairments in the portfolio (2013: $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.

3.11. 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 37: Securitisation: ABS purchased or retained

	2014 CRD IV		
		Notional amount	
	Carrying value of asset backed securities	Traditional securitisation programmes	Synthetic securitisation programmes
	$million	$million	$million
Residential Mortgage Backed Securities (RMBS)			
US Alt-A	7	19	-
US Prime	-	-	-
Other[2]	4,000	3,983	-
Collateralised Debt Obligations (CDOs)			
Asset Backed Securities	-	20	-
Other CDOs	54	62	-
Commercial Mortgage Backed Securities (CMBS)			
US CMBS	38	39	-
Other	287	351	-
Other Asset Backed Securities (Other ABS)	5,795	5,796	-
	10,181	10,270	-
Of which included within:			
Financial assets held at fair value through profit or loss	282	286	-
Investment securities - available-for-sale	8,548	8,624	-
Investment securities - loans and receivables	1,351	1,360	-
	10,181	10,270	-

	2013 Basel II		
		Notional amount	
	Carrying value of asset backed securities	Traditional securitisation programmes	Synthetic securitisation programmes
	$million	$million	$million
Residential mortgages	3,052	3,059	-
Commercial mortgages	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	-

3.11. Securitisation continued

Portfolio Management

The Group via its Portfolio Management (PM) 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 providers. Deposits collected 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 in 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 PM, 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, PM monitors the credit risk of the underlying securitised assets by leveraging on the Group's client and risk management system.

As of 31 December 2014 $89 million of Trade Finance (2013: $71 million) and $84 million of Commercial Loans (2013: $72 million) totalling $173 million (2013: $143 million) of securitised exposures were classified as impaired and past due. The year on year increase is mainly attributable to continued seasoning of the securitisation programme, offset by less impaired and past due in new transactions. Three securitisation transactions were originated in 2014 to replace matured transactions.

The Group has ten synthetic securitisation transactions originated and managed by PM, with an aggregate hedge capacity of $22.2 billion (2013: $21.4 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.

PM 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 38 below provides details of current securitisation programmes originated and managed by the Group.

The Group has engaged in structures, such as the ones outlined in Table 38, 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 IV, notes were issued by SPEs. For the Mana IV 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 Global Business Balance Sheet Committee (GBBSC), 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 III 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 38, meet the credit risk transfer requirement to be accounted for as securitisations under the CRR.

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 were 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 had minimal impact on the existing CLO programmes.

Accounting
The Group's approach to accounting for SPEs can be found in the notes to the financial statements in the 2014 Annual Report.

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

Table 38: Securitisation programmes (as originator)

2014 CRD IV

	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
Sealane II	Trade Finance	Public	08/2011	02/2015	2,982	2,802	1,747	91	38
Shangren II	Trade Finance	Private	12/2011	03/2015	2,496	2,325	2,284	123	22
Pamir	Trade Finance	Private	10/2011	04/2015	1,494	1,404	1,399	82	23
Start VII	Commercial Loan	Public	12/2011	06/2015	2,000	1,860	1,810	111	44
Pumori	Commercial Loan	Private	03/2012	09/2015	1,248	1,160	1,095	73	25
Oryza 1	Commercial Loan	Private	06/2012	12/2015	1,488	1,383	1,310	86	22
Start VIII	Commercial Loan	Public	11/2012	05/2016	1,489	1,384	1,326	90	23
Mana IV	Trade Finance	Private	06/2014	06/2016	4,000	3,760	3,837	213	71
Start IX	Commercial Loan	Public	04/2014	10/2017	1,500	1,395	1,415	102	34
Sumeru II	Commercial Loan	Private	12/2014	06/2018	3,500	3,255	3,303	231	76
Total					22,197	20,728	19,526	1,202	378

2013 Basel II

	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

[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 $57 million capital retained due to currency and collateral haircuts (2013 : $64 million)

3.11. 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 39: Securitisation positions by risk-weight category

2014 CRD IV

Credit Assessments		Originated						ABS		Total	
		Senior		Non Senior		Non Granular Pools					
Moody's	Risk weight %	Exposure $ million	Capital requirement $ million	Exposure $ million	Capital requirement $ million	Exposure $ million	Capital requirement $ million	Exposure $ million	Capital requirement $ million	Exposure $ million	Capital requirement $ million
Aaa	7% to 20%	17,103	102	447	4	-	-	9,252	54	26,802	160
Aa	8% to 25%	-	-	-	-	-	-	237	1	237	1
A1	10% to 35%	-	-	1,675	26	-	-	34	-	1,709	26
A2	12% to 35%	-	-	-	-	-	-	267	3	267	3
A3	20% to 35%	-	-	726	21	-	-	214	3	940	24
Baa1	35% to 50%	-	-	513	22	-	-	34	-	547	22
Baa2	60% to 75%	-	-	-	-	-	-	38	2	38	2
Baa3	100%	-	-	130	11	-	-	27	1	157	12
Ba1	250%	-	-	-	-	-	-	7	1	7	1
Ba2	425%	-	-	-	-	-	-	32	11	32	11
Ba3	650%	-	-	-	-	-	-	-	-	-	-
Supervisory formula		-	-	1,468	57	-	-	-	-	1,468	57
Deductions		-	-	135	135	-	-	43	-	178	135
Total		17,103	102	5,094	276	-	-	10,181	76	32,382	454

2013 Basel II

Credit Assessments		Originated						ABS		Total	
		Senior		Non Senior		Non Granular Pools					
Moody's	Risk weight %	Exposure $ million	Capital requirement $ million	Exposure $ million	Capital requirement $ million	Exposure $ million	Capital requirement $ million	Exposure $ million	Capital requirement $ million	Exposure $ million	Capital requirement $ 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

3.11. Securitisation continued

In the following table, securitisation programmes present the maximum notional of the securitised exposures by geography. The securitised exposures in 2014 and 2013 are lower than the maximum notional (as shown in Table 40), due to several programmes (Start VII and Sealane II in 2014; Start VI, Mana III, Sumeru and Sealane II in 2013) were not replenished to the maximum notional.

Table 40: Securitisation positions by region

	2014 CRD IV			2013 Basel II		
	Securitisation programmes $million	ABS $million	Total $million	Securitisation programmes $million	ABS $million	Total $million
Greater China	6,741	174	6,915	6,060	-	6,060
North East Asia	1,003	765	1,768	1,458	500	1,958
South Asia	2,862	-	2,862	3,197	-	3,197
ASEAN	4,333	1,536	5,869	4,243	1,145	5,388
MENAP	2,745	-	2,745	2,780	-	2,780
Africa	1,478	-	1,478	1,132	-	1,132
Americas	1,049	2,262	3,311	766	1,257	2,023
Europe	1,067	5,444	6,511	1,019	3,692	4,711
Total	21,278	10,181	31,459	20,655	6,594	27,249

4. Market risk

Market risk is the potential for loss of earnings or economic value due to adverse changes in financial market rates or prices. The Group's exposure to market risk arises predominantly from providing clients access to financial markets, facilitation of which entails the Group's taking moderate market risk positions. All trading teams support client activity; there are no proprietary trading teams. Hence, income earned from market risk related activities is broadly stable. Market risk also arises in the non-trading book from the requirement to hold a large liquid assets buffer of high quality liquid debt securities and from the translation of non-US dollar denominated assets, liabilities and earnings.

The primary categories of market risk for the Group 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 Valuation and Benchmarks Committee (VBC), a sub-committee of the Market Traded Credit 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. In addition, the VBC also provides governance over SCB's benchmark rates review process.

Our approach to market risk can be found in the Risk review section in the 2014 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 in the Risk review section in the 2014 Annual Report.

Market risk changes

The average levels of VaR in 2014 were slightly higher than in 2013: Total VaR +4.7 per cent, Non-trading VaR +3.1 per cent, Trading VaR +8.7 per cent. The increases were driven by increases in interest rate risk +3.3 per cent and equity risk +16.1 per cent, offset by decreases in foreign exchange risk (14.1 per cent) and commodity risk (4.7 per cent).

The actual levels of VaR at 31 December were considerably lower in 2014 than in 2013: Total VaR (31.1 per cent), Non-trading VaR (23.0 per cent), Trading VaR (16 per cent), with all asset class risks being reduced except trading book equities which was higher by +10.8 per cent.

4. Market Risk continued

Table 41: Daily value at risk by risk type (VaR at 97.5 per cent, one day)

	2014 CRD IV				2013 Basel II			
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[1]								
Interest rate risk[2]	25.8	36.8	19.0	22.0	25.0	37.4	18.2	23.3
Foreign exchange risk	3.6	6.7	2.2	4.7	4.2	7.6	2.3	7.0
Commodity risk	1.4	2.9	0.7	0.7	1.5	2.6	0.9	1.5
Equity risk	17.9	20.0	15.1	16.4	15.4	18.4	13.0	18.3
Total[3]	34.4	47.4	25.2	26.5	32.8	44.8	22.1	38.5
Trading[1]								
Interest rate risk[2]	9.3	21.3	5.7	5.7	9.1	15.0	6.5	8.1
Foreign exchange risk	3.6	6.7	2.2	4.7	4.2	7.6	2.3	7.0
Commodity risk	1.4	2.9	0.7	0.7	1.5	2.6	0.9	1.5
Equity risk	1.6	2.4	1.3	2.0	1.5	2.1	1.1	1.8
Total[3]	10.6	20.8	7.1	7.6	9.8	14.9	7.3	9.1
Non-trading								
Interest rate risk[2]	20.9	27.4	14.6	18.0	22.6	34.3	16.9	22.1
Equity risk	17.2	19.1	15.5	16.1	14.9	17.6	12.4	17.4
Total[3]	30.1	39.0	17.3	25.1	29.2	34.9	19.6	32.7

[1] Trading book for market risk is defined in accordance with the EU Capital Requirements Regulation (CRD IV/CRR) Part 3 Title I Chapter 3 which restricts the positions permitted in the trading book. This regulatory definition is narrower than the accounting definition of the trading book within IAS 39 'Financial Instruments: Recognition and Measurement'
[2] Interest rate risk VaR includes credit spread risk arising from securities held for trading or available-for-sale
[3] The total VaR shown in the tables above is not a sum of the component risks due to offsets between them
[4] Highest and lowest VaR for each risk factor are independent and usually occur on different days
[5] Actual one day VaR at period end date

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

Table 42: Daily value at risk by product (VaR at 97.5 per cent, one day)

	2014 CRD IV				2013 Basel II			
By product	Average $million	High[3] $million	Low[3] $million	Actual[4] $million	Average $million	High[3] $million	Low[3] $million	Actual[4] $million
Total Trading and Non-trading	34.4	47.4	25.2	26.5	32.8	44.8	22.1	38.5
Trading[1]								
Rates	6.3	13.7	3.7	3.9	6.4	12.2	3.5	5.5
Global FX	3.6	6.7	2.2	4.7	4.2	7.6	2.3	7.0
Credit Trading & Capital Markets	3.9	8.2	2.8	2.8	3.1	4.3	2.2	3.4
Commodities	1.4	2.9	0.7	0.7	1.5	2.6	0.9	1.5
Equities	1.6	2.4	1.3	2.0	1.5	2.1	1.1	1.8
Total[2]	10.6	20.8	7.1	7.6	9.8	14.9	7.3	9.1
Non-trading								
ALM	20.6	26.6	14.5	17.7	22.2	33.9	17.1	21.2
Other FM non-trading book	1.2	1.5	0.9	1.3	1.6	2.4	1.0	1.3
Listed private equity	17.2	19.1	15.5	16.1	14.9	17.6	12.4	17.4
Total[2]	30.1	39.0	17.3	25.1	29.2	34.9	19.6	32.7

[1] Trading book for market risk is defined in accordance with the EU Capital Requirements Regulation (CRD IV/CRR) Part 3 Title I Chapter 3 which restricts the positions permitted in the trading book. This regulatory definition is narrower than the accounting definition of the trading book within IAS 39 'Financial Instruments: Recognition and Measurement'
[2] The total VaR shown in the tables above is not a sum of the component risks due to offsets between them
[3] Highest and lowest VaR for each risk factor are independent and usually occur on different days
[4] Actual one day VaR at period 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 permission to use the Internal Model Approach (IMA) covering the majority of interest rate, foreign exchange, precious metals, base metals, energy and agriculture market risk in the trading book. Positions outside the IMA scope are assessed according to standard PRA rules.

At 31 December 2014 the Group's market risk regulatory capital requirement was $1,624 million (31 December 2013: $1,850 million). The reduction from 2013 was largely attributable to a reduction in capital requirements on options under CRDIV standard rules which came into effect on 1 January 2014.

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

Table 43: Market risk regulatory capital requirements

	2014 CRD IV		2013 Basel II	
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]	398	4,973	371	4,638
Equity	88	1,100	231	2,888
Options	152	1,900	542	6,776
Commodity[2]	28	350	41	513
Foreign exchange[2]	222	2,775	122	1,525
Internal Models Approach[3]	736	9,197	543	6,788
Total	1,624	20,295	1,850	23,128

1 Securitisation positions contributed $5 million to the interest rate position risk requirement (PRR) and $63 million to interest rate RWA as at 31 December 2014 (securitised positions contributed $4.1 million to the interest rate PRR and $51.3 million to interest rate RWA as at 31 December 2013)

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 44: Market risk regulatory capital requirements for significant subsidiaries

	2014		
Market risk capital requirements for trading book	Standard Chartered Bank $million	Standard Chartered Bank (HK) Ltd $million	Standard Chartered Bank Korea Ltd $million
Local Regulators	PRA	HKMA	FSS
Interest rate[1]	398	107	20
Equity	88	34	14
Options	152		
Commodity[2]	28	-	-
Foreign exchange[2]	222	16	-
Internal Models Approach[3]	736	6	86
Total	1,624	163	120
Market Risk – RWA	20,295	2,033	1,505

1 For Standard Chartered Bank securitisation positions contributed $4.7 million to the interest rate PRR and $58.7 million to interest rate RWA as at 31 December 2014 (securitised positions contributed $4.1 million to the interest rate PRR and $51.3 million to interest rate RWA as at 31 December 2013)

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 2014 to December 2014 and the actual position on 31 December 2014. 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

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Table 45: Stressed VaR

	January to December 2014				January to December 2013			
	Average $million	High[1] $million	Low[1] $million	Actual[2] $million	Average $million	High[1] $million	Low[1] $million	Actual[2] $million
Stressed VaR	41.5	69.5	21.7	40.9	35.3	59.1	20.7	40.9

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 46: Stressed VaR contribution to Group level IMA capital requirements

	2014 CRD IV		2013 Basel II	
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]	244	3,050	186	2,325
Stressed VaR - based	492	6,150	357	4,463
Incremental risk charge[2]	-	-	-	-
All price risk[2]	-	-	-	-
Total	736	9,200	543	6,788

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 CRR 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 CRR, to determine the operational risk capital requirement. Our approach to the management of operational risk can be found in the Risk review section of the 2014 Annual Report. The table below details the operational risk capital requirement for the Group:

Table 47: Operational risk regulatory capital requirement and RWA by business

	2014 CRD IV		2013 Basel II	
	Regulatory capital requirement $million	Risk-Weighted Assets $million	Regulatory capital requirement $million	Risk-Weighted Assets $million
Corporate and Institutional Clients	1,786	22,322	1,693	21,166
Commercial Clients	222	2,778	211	2,634
Private Banking Clients	72	902	68	855
Retail Clients	729	9,105	691	8,634
Total	2,809	35,107	2,663	33,289

Key points

- The increase in operational risk capital requirement reflects the change in income of the Group over the period.

The table below details the operational risk regulatory 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 48: Operational risk regulatory capital requirement for significant subsidiaries

		2014	
Subsidiary	Local Regulators	Regulatory capital requirement $million	Risk-Weighted Assets $million
Standard Chartered Bank	PRA	2,815	35,186
Standard Chartered Bank (HK) Ltd	HKMA	482	6,025
Standard Chartered Bank Korea Ltd	FSS	198	2,475

6. 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.

Any forward-looking statement contained in this document is based on past or current trends and/or activities of the Group and should not be taken as a representation that such trends or activities will continue in the future.

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.

Annex 1. Standard Chartered Bank (Solo Consolidated)

Regulatory view

The capital resources and minimum credit risk, market risk and operational risk capital requirements of Solo Consolidated, a UK regulated entity including overseas branches and certain subsidiaries which are permitted to be consolidated for capital adequacy purposes, are presented in the tables below.

Table A: CRD IV Capital resources

	2014 CRD IV $million
Local Regulator	PRA
Common Equity Tier 1 (CET1)	
Capital instruments and the related share premium accounts	20,859
Of which: Share premium accounts	296
Retained earnings	10,217
Accumulated other comprehensive income (and other reserves)	795
Non-controlling interests (amount allowed in consolidated CET1)	-
Independently reviewed interim profits net of any foreseeable charge or dividend	(1,225)
Common Equity Tier 1 capital before regulatory adjustments	30,646
Common Equity Tier 1 : regulatory adjustments	
Additional value adjustments	(108)
Intangible assets (net of related tax liability)	(4,569)
Deferred tax assets that rely on future profitability	(90)
Fair value reserves related to gains or losses on cash flow hedges	55
Negative amounts resulting from the calculation of expected loss	(1,583)
Gains or losses on liabilities at fair value resulting from changes in own credit	(73)
Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (transiti	(3,337)
Defined-benefit pension fund assets	(13)
Fair value gains and losses arising from the institution's own credit risk related to derivative liabilities	(6)
Exposure amounts which could qualify for risk weighting	(200)
Of which: securitisation positions	(177)
Of which: free deliveries	(23)
Regulatory adjustments relating to unrealised gains	(178)
Other	-
Total regulatory adjustments to Common Equity Tier 1	(10,102)
Common Equity Tier 1 /Core Tier 1 capital	20,544
Additional Tier 1 (AT1) capital: instruments	2,231
Tier 1 capital (T1 = CET1 + AT1)	22,775
Tier 2 (T2) capital	15,545
Total capital (TC = T1 + T2)	38,320

Annex for Standard Chartered Bank (Solo Consolidated) - continued

Table B: Regulatory capital requirements and risk-weighted assets

Credit Risk Capital Requirements	2014 CRD IV $million
IRB Exposure Class	
Central governments or central banks	753
Institutions	1,213
Corporates	7,536
Retail, of which	323
Secured by real estate collateral	29
Qualifying revolving retail	148
Other retail	146
Equity	2,030
Securitisation positions	183
Non-credit obligation assets	2
Other	-
Total IRB	12,040
Standardised Exposure Class	
Central governments or central banks	22
Institutions	10
Corporates	434
Retail	209
Secured on real estate property	182
Past due items	3
Items belonging to regulatory high risk categories	50
Securitisation positions	-
Other items	923
Total Standardised	1,833
Counterparty credit risk capital component (credit risk in the trading book)	1,533
Credit Valuation Adjustment (CVA)	500
Concentration risk capital component	-
Total	15,906

Operational Risk Capital Requirements	
Operational risk	1,625

Market Risk Capital Requirements for the Trading Book	
Interest rate	294
Equity	88
Commodity	28
Foreign Exchange	350
Internal Models Approach	720
Total	1,480

Risk-weighted assets	
Credit risk	192,576
Credit Valuation Adjustment (CVA)	6,256
Operational risk	20,310
Market risk	18,495
Total	237,637

Annex 2. Standard Chartered Bank

Capital management

The Capital section of the 2014 Standard Chartered Bank Accounts sets out our approach to capital management. Table C below summarises the consolidated capital position of Standard Chartered Bank.

Table C: CRD IV Capital resources

	2014 CRD IV Transitional position $million	2014 CRD IV End-point adjustment $million	2014 CRD IV End-point position $million
Common Equity Tier 1 (CET1) capital: instruments and reserves			
Capital instruments and the related share premium accounts	21,150	-	21,150
Of which: Share premium accounts	296	-	296
Retained earnings[1]	16,108	-	16,108
Accumulated other comprehensive income (and other reserves)	4,044	-	4,044
Non-controlling interests (amount allowed in consolidated CET1)	1,565	-	1,565
Independently reviewed interim and year-end profits[2]	1,874	-	1,874
Foreseeable dividends net of scrip[3]	(1,160)	-	(1,160)
Common Equity Tier 1 capital before regulatory adjustments	43,583	-	43,583
Common Equity Tier 1 capital: regulatory adjustments			
Additional value adjustments	(200)	-	(200)
Intangible assets	(5,041)	-	(5,041)
Deferred tax assets that rely on future profitability	(180)	-	(180)
Fair value reserves related to gains or losses on cash flow hedges	58	-	58
Negative amounts resulting from the calculation of expected loss	(1,717)	-	(1,717)
Gains or losses on liabilities at fair value resulting from changes in own credit	(167)	-	(167)
Defined-benefit pension fund assets	(13)	-	(13)
Fair value gains and losses from own credit risk related to derivative liabilities	(9)	-	(9)
Exposure amounts which could qualify for risk weighting	(199)	-	(199)
Of which: securitisation positions	(177)	-	(177)
Of which: free deliveries	(22)	-	(22)
Regulatory adjustments relating to unrealised gains	(469)	469	-
Other	-	-	-
Total regulatory adjustments to Common Equity Tier 1	(7,937)	469	(7,468)
Common Equity Tier 1 capital	35,646	469	36,115
Additional Tier 1 (AT1) capital: instruments			
Capital Instruments and the related share premium accounts	2,434	(2,434)	-
Significant direct and indirect holdings of CET1 instruments of relevant entities	-	-	-
Tax on excess expected losses	-	-	-
Additional Tier 1 (AT1) capital before regulatory adjustments	2,434	(2,434)	-
Additional Tier 1 capital	2,434	(2,434)	-
Tier 1 capital (T1 = CET1 + AT1)	38,080	(1,965)	36,115
Tier 2 (T2) capital: instruments and provisions			
Capital instruments and the related share premium accounts	12,815	-	12,815
Qualifying items and the related share premium accounts subject to phase out from T2	928	(928)	-
Qualifying own funds instruments included in T2 issued by subsidiaries and held by third parties	4,067	(1,494)	2,573
Credit risk adjustments	-	-	-
Tier 2 capital before regulatory adjustments	17,810	(2,422)	15,388
Tier 2 capital: regulatory adjustments			
Direct and indirect holdings by an institution of own Tier 2 instruments and subordinated loans	-	-	-
Deductions from total capital	(4)	-	(4)
Total regulatory adjustments to Tier 2 capital	(4)	-	(4)
Tier 2 capital	17,806	(2,422)	15,384
Total capital (TC = T1 + T2)	55,886	(4,387)	51,499

Table D : CRD IV Capital ratios and risk-weighted assets

	2014 CRD IV Transitional position $million	2014 CRD IV End-point adjustment $million	2014 CRD IV End-point position $million
Amounts below the thresholds for deduction (before risk weighting)			
Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	1,206	-	1,206
Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	1,164	-	1,164
Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	403	-	403
Risk-weighted assets			
Credit risk	277,653	-	277,653
Credit valuation adjustment	6,709	-	6,709
Operational risk	35,186	-	35,186
Market risk	20,295	-	20,295
Total risk-weighted assets[4]	339,842	-	339,842
Capital ratios			
Common Equity Tier 1 (CET1) for CRD IV	10.5%	0.1%	10.6%
Tier 1 capital	11.2%	(0.6%)	10.6%
Total capital	16.4%	(1.2%)	15.2%

[1] Retained earnings under CRD IV include the effect of regulatory consolidation adjustments

[2] Independently reviewed interim profits for CRD IV are in accordance with the regulatory consolidation

[3] Foreseeable dividends include the proposed final dividend for FY 2014.The final dividend element is reported net of scrip (using 25% scrip dividend assumption)

[4] The risk-weighted assets are not covered by the scope of the Audit

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
CCPL	Credit Card, Personal Loans
CCR	Counterparty Credit Risk
CDOs	Collateralised Debt Obligations
CET1	Common Equity Tier 1
CIC	Corporate and Institutional and Commercial
CMBS	Commercial Mortgage Backed Securities
CRC	Credit Risk Committee
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
GBBSC	Global Business Balance Sheet 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
G-SII	Global Systemically Important Institutions
HKMA	Hong Kong Monetary Authority
IAS	International Accounting Standard
IASB	International Accounting Standards Board
ICAAP	Internal Capital Adequacy Assessment Process
ICG	Individual Capital Guidance
IMA	Internal Model Approach
IRB	advanced Internal Ratings Based approaches
IFRS	International Financial Reporting Standards
LGD	Loss Given Default
LMC	Liquidity Management Committee
MAC	Model Assessment Committee
MR	Market Risk
MTM	Mark-to-Market
NII	Net Interest Income
PD	Probability of Default
PFE	Potential Future Exposure
PIP	Portfolio Impairment Provision
PM	Portfolio Management
PRA	Prudential Regulation Authority
PRR	Position Risk Requirement
PVA	Prudent Valuation Adjustment
RMB	Renminbi
RMBS	Residential Mortgage Backed Securities
RPC	Reward Plan Committee

RWA	Risk-Weighted Assets
SFT	Securities Financing Transactions
SIF	Significant Influence Function
SME	Small and Medium - sized Enterprise
SPE	Special Purpose Entity
SREP	Supervisory Review and Evaluation Process
VaR	Value at Risk
VBC	Valuation and Benchmarks Committee

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'.
ASEAN	Association of South East Asian Nations (ASEAN) which includes the Group's operation in Brunei, Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam.
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 III 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.
Common Equity Tier 1 ratio	Common Equity Tier 1 capital as a percentage of risk-weighted assets.
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 III	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 / CRR or modelled by the bank, an estimate of the amount the Group expects a customer to have drawn 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, Fitch and Dun and Bradstreet.
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.
Greater China	Greater China includes the Group's operation in the People's Republic of China, the Hong Kong Special Administrative Region of the People's Republic of China and Taiwan.
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 Corporate and Institutional and Commercial client segments 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 / Basel III 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.
MENAP	Middle East, North Africa and Pakistan (MENAP) includes the Group's operation in Afghanistan, Bahrain, Egypt, Islamic Republic of Iran, Iraq, Jordan, Lebanon, Oman, Pakistan, Occupied Palestinian Territory , Qatar, Saudi Arabia and United Arab Emirates (UAE).
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.
North East (NE) Asia	North East (NE) Asia includes the Group's operation in the Democratic Republic of Korea and Japan.
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 / Basel III 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 / CRR, 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.

RWA density	The risk-weighted asset as a percentage of exposure at default
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.
South Asia	South Asia includes the Group's operation in the People's Republic of Bangladesh, India, Nepal and Sri Lanka.
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 Common Equity Tier 1 capital plus Additional Tier 1 securities and related share premium accounts.
Tier 1 capital ratio	Tier 1 capital as a percentage of risk-weighted assets.
Tier 2 capital	Tier 2 capital comprises qualifying subordinated liabilities and related share premium accounts.
Trading book	The trading book 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 2014 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 modeled 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.

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

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, provides details on risk from a regulatory perspective to fulfil Basel III / CRD IV rule requirements which have been implemented in UK by the Prudential Regulatory Authority (PRA) via EU legislation, Capital Requirement Regulation (CRR), Part Eight.
Basis of preparation	• The quantitative credit risk disclosures in the Risk review are based on IFRS. • Loans and advances are analysed between the four client segments of Corporate & Institutional, Commercial, Private Banking and Retail (split by 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 modeled risk metrics such as PD, LGD and EAD under Basel rules. • Loans and advances are analysed between those that are internal ratings basis (IRB) and standardised, split by standard CRR 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.	• The credit risk disclosures are provided for approved portfolios as per the IRB approach and remaining portfolios are assessed as per Standardised rules as prescribed in the CRR. • The PRA has granted the Group permission to use the Internal Model Approach (IMA) covering the majority of market risk in the trading book. Positions outside the IMA scope are assessed according to standard CRR rules. • The Standardised Approach consistent with the CRR requirements is used to assess its regulatory operational risk capital requirement.

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

Credit rating and measurement	• Overview of credit risk management credit grading and the use of IRB models is on page 108. • Maximum exposure to credit risk set out on page 64. • Internal credit grading analysis provided by business for loans neither past due nor impaired on page 75. • External credit grading analysis for unimpaired debt securities and treasury bills is set out on page 84.	• Details of IRB and Standardised approach to credit risk is set out on pages 14 to 17. • For the IRB portfolio, pages 36 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 18. • 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 30 to 35. • Credit quality step analysis for Standardised portfolio is provided on page 44.
Credit risk mitigation	• CRM approach is set out on page 100. • Overview of collateral held and other credit risk mitigants provided on page 70. 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 26 and 27. • 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 48 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 45 to 47.
Loan portfolio	• Group overview of the loan portfolio provided by business by geography is on page 66. A more detailed analysis by industry classification and Retail product is set out on page 67. Maturity analysis provided on page 68.	• EAD by geography, split between IRB and Standardised portfolios page 20 and by industry types on page 22. • Maturity of EAD, split by IRB and Standardised on page 24.
Problem credit management and provisioning	• Provisioning approach set out on page 110 and definition of non-performing loans on page 74. • 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 28.
Market risk	• Details of the VaR methodology, and VAR (trading and non trading) is disclosed by risk type on pages 89. • Details on Group Treasury's market risk, including a table showing a parallel shift in the yield curves, on page 92.	• 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.