

Pillar 3 Disclosures 2015

Driving investment, trade and the creation
of wealth across Asia, Africa and the Middle East



Standard Chartered PLC

Pillar 3 Disclosures

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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 pages 76 - 79. 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. The Group does not use the Foundation IRB approach.

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Pillar 3 Disclosures

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 2015 in accordance with the European Union's (EU) Capital Requirements Regulation (CRR) as implemented in the United Kingdom (UK) by the Prudential Regulation Authority (PRA).

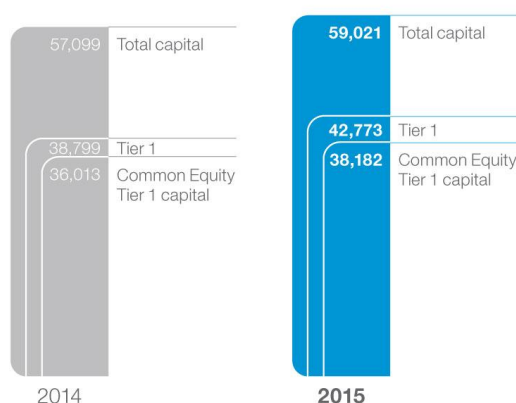
1.2 Highlights

- The Group's balance sheet remains resilient and well diversified, 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 12.6 per cent that is well ahead

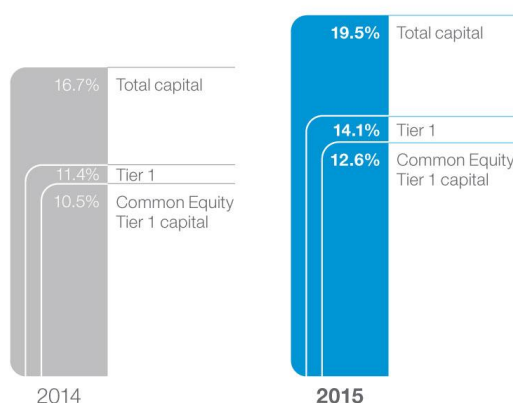
of the PRA's current requirement for large UK banks of 7 per cent and the Group's current expected 2019 minimum CET1 requirement of 9.1 per cent.

- The Group is not highly leveraged and only 3.2 per cent of its assets are encumbered. Its leverage ratio of 5.5 per cent is well ahead of the current known 2019 leverage requirement of 3.37 per cent.
- The Group continues to manage its balance sheet proactively, with a particular focus on the efficient management of RWA. The Strategic Review highlighted over \$100 billion - approximately one third - of Group RWA for restructuring. Over the course of 2015, Group RWA reduced by \$39 billion, or 11 per cent, mainly due to management actions including more selective origination, de-risking, disposals and other efficiencies.

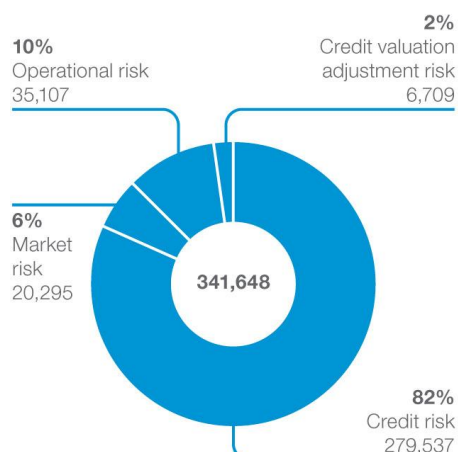
Capital \$million



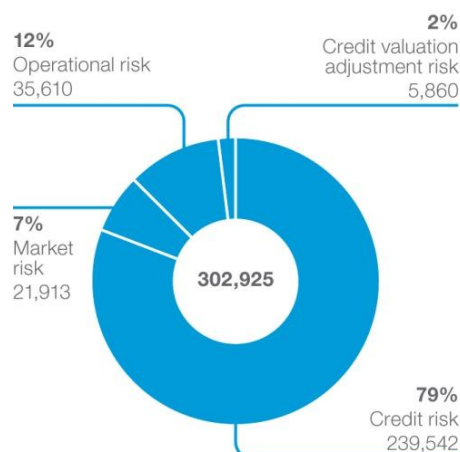
Capital ratios transitional



RWA by risk type 2014 \$million



RWA by risk type 2015 \$million



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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 builds on the three pillars of the Basel II framework.

- 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.

The Pillar 3 Disclosures 2015 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 80 and 81 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, capital, 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 2015 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 not highly volatile. 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 requirements 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 resulting 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 set of management processes that drive risk identification, assessment, control and monitoring consistently across the Group. The Group aims to control operational risks to ensure that operational losses (financial or reputational), including any related to conduct of business matters, do not cause material damage to the Group's franchise. 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 2015 Annual Report.

The Group has been identified as a Global Systemically Important Bank (G-SIB) by the Financial Stability Board (FSB) since November 2012. The Group's score from the Basel Committee's methodology for assessing and identifying G-SIBs has resulted in an additional loss absorbency requirement of 1% of CET1. This requirement will be phased in over the period 1 January 2016 to 1 January 2019. The CRR mandates the Group to publicly disclose the value of its Global Systemically Important Institution (G-SII) indicators on an annual basis. The terms 'G-SIB' and 'G-SII' are interchangeable - 'G-SIB' is used by the FSB and Basel Committee, whereas 'G-SII' is terminology from the CRR. The Standard Chartered PLC 2014 G-SII disclosure is published on Standard Chartered PLC website.

<http://investors.sc.com/en/showresults.cfm?CategoryID=360>

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?CategoryID=360> aligning with the publication date of the Group's Annual Report.

Verification

Whilst the Pillar 3 Disclosures 2015 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 2015 Annual Report have been applied to confirm compliance with PRA regulations.

1.4 Enhancements and future developments of Pillar 3

The EU and UK authorities release standards and guidelines and our disclosures are further developed to meet the regulatory and accounting standard requirements. The principle changes to our Pillar 3 Disclosures 2015 compared with prior year are:

- Enhanced leverage ratio disclosures
- Countercyclical capital buffer disclosure
- Encumbered and unencumbered assets disclosures
- Interest rate risk in the banking book

In December 2014 the EBA issued guidelines (EBA/GL/2014/14) on materiality, proprietary and confidentiality and on disclosure frequency under Part Eight of the CRR setting out the framework to be followed:

- The process and criteria that institutions should follow in their assessments of the use of any disclosure waiver and of their need to disclose information in Part Eight of the CRR more frequently than annually
- The information that institutions should provide when using the disclosure waivers or choosing to disclose more frequently.

The national authorities are required to implement these guidelines by incorporating them in their supervisory procedures within six months after publication of the final guidelines.

In January 2015 the Basel Committee on Banking Supervision (BCBS) 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 risks. 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. Amendments to disclosures relating to these requirements are expected in the 2016 Annual Report and Pillar 3 documents.

1.5 Accounting and regulatory consolidation

The Pillar 3 Disclosures are prepared at the Group consolidated level. The accounting policy for financial consolidation is provided in the notes to the financial statements in the 2015 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 regulatory 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.

The primary difference between financial consolidation and regulatory consolidation is PT Bank Permata Tbk. PT Bank Permata Tbk's annual report in compliance with their local regulations is published on their website.

<https://www.permatabank.com/en/About/Investor-Relations/>

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Table 1: Regulatory consolidation

Type	Description	Regulatory consolidation	Principal undertakings within each category
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	
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

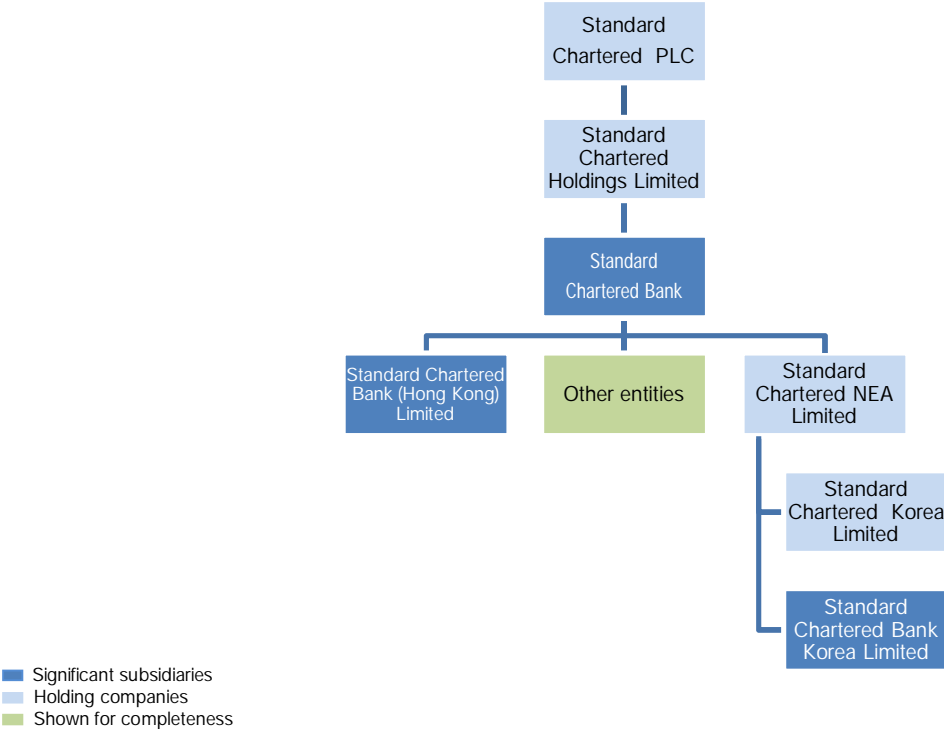
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1.6 Significant subsidiaries

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

market. The chart below represents a simplified regulatory-hierarchy of the Group.



Standard Chartered Bank (SCB) is the main operating subsidiary of the Group. The Group has two other significant subsidiaries, Standard Chartered Bank (Hong Kong) Limited (SCBHK) and Standard Chartered Bank Korea Limited (SCB Korea) regulated by the Hong Kong Monetary Authority (HKMA) and the Financial Supervisory Services (FSS) in Korea respectively. SCBHK and SCB Korea disclose separate Pillar 3 reports in compliance with their local regulations. A summary of the disclosure for the significant subsidiaries may be found in Annex 1.

1.7 Comparison of accounting balance sheet and exposure at default

The difference between the basis of consolidation for accounting and regulatory purposes is due to the requirement to proportionately consolidate associates and to

fully consolidate one of the Group's joint ventures. The more significant difference between the two bases is the treatment of capital, which is presented in Table 3 based on the regulatory balance sheet and not the financial accounting balance sheet. The alphabetic references in the following table link to the corresponding references in Table 3 identifying balances which form part of that calculation. 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.

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

	2015						
	Assets per Group's balance sheet \$million	Regulatory balance sheet ¹ \$million	Subject to credit risk \$million	Subject to counter-party credit risk \$million	Subject to securitisation framework \$million	Subject to market risk \$million	Not subject to regulatory capital requirements \$million
Assets							
Cash and balances at central banks	65,312	66,407	66,407	-	-	-	-
Financial assets held at fair value through profit or loss	23,401	23,401	6,530	7,428	96	20,546	-
Derivative financial instruments	63,143	63,169	-	63,169	-	62,319	-
Loans and advances to banks	64,494	65,106	50,052	15,054	-	12,199	-
Loans and advances to customers	257,356	266,997	233,807	11,260	21,931	14,033	-
Investment securities	114,767	115,926	91,287	-	6,489	54	41
Other assets	34,601	35,224	18,999	-	-	17,409	13,430
Current tax assets	388	388	388	-	-	-	-
Prepayments and accrued income	2,174	2,234	2,234	-	-	158	-
Interests in associates and joint ventures	1,937	1,257	1,257	-	-	-	-
Goodwill and intangible assets	4,642	4,848	-	-	-	-	4,848
Property, plant and equipment	7,209	7,293	7,293	-	-	-	-
Deferred tax assets	1,059	1,059	847	-	-	-	212
Total assets	640,483	653,309	479,101	96,911	28,516	126,718	18,531
Liabilities							
Deposits by banks	37,611	37,695	-	7,598	-	-	30,097
Customer accounts	350,633	361,369	-	13,008	-	-	348,361
Financial liabilities held at fair value through profit or loss	20,872	20,872	-	-	-	5,637	20,872
Derivative financial instruments	61,939	61,952	-	61,952	-	61,345	-
Debt securities in issue	59,880	60,199	-	-	-	-	60,199
Other liabilities	32,011	32,344	9,329	-	-	13,567	23,015
Current tax liabilities	769	769	-	-	-	-	769
Accruals and deferred income	5,451	5,540	-	-	-	-	5,540
Subordinated liabilities and other borrowed funds	21,852	22,427	-	-	-	-	22,427
of which: considered as Additional Tier 1 capital	-	1,260	-	-	-	-	1,260
of which: considered as Tier 2 capital	-	17,220	-	-	-	-	17,220
Deferred tax liabilities	293	294	-	-	-	-	294
Provisions for liabilities and charges	215	217	-	-	-	-	217
Retirement benefit obligation	445	439	-	-	-	-	439
Total liabilities	591,971	604,117	9,329	82,558	-	80,549	512,230
Capital & reserves	48,512	49,192					
of which: Share and related premium accounts included in Common Equity Tier 1 capital	-	5,596					
of which: Share and related premium accounts included in Additional Tier 1 capital	-	3,481					
of which: Non-controlling interest included in Common Equity Tier 1 capital	-	1,001					
of which: Retained earnings and reserves included in Common Equity Tier 1 capital	-	39,114					
Total Liabilities and shareholders' funds	640,483	653,309					

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

	2015		
	Subject to credit risk	Subject to counter-party credit risk	Subject to securitisation framework
	\$million	\$million	\$million
Total assets amount under regulatory scope of consolidation ¹	479,101	96,911	28,516
Derivatives netting benefit ²	-	(38,766)	-
Differences due to consideration of provisions	7,108	-	-
Differences due to consideration of collateral	-	(23,252)	-
Differences due to capital deductions	-	-	-
Differences due to off-balance sheet amounts recognised in regulatory exposures	80,567	80,073	-
Differences due to the impact of the use of own-models in exposures	-	-	810
Other	(284)	(488)	151
Regulatory exposure at default pre credit risk mitigation	566,492	114,478	29,477

¹ Regulatory balance sheet primarily includes full consolidation of PT Bank Permata Tbk a joint venture (JV)

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

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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 2015 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 CRR, 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. The alphabetic references link back to Table 2, which shows where these items are presented in the regulatory balance sheet.

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Table 3: Capital base

	2015 Transitional position \$million	2015 End point adjustment \$million	2015 End point position \$million	2014 Transitional position \$million
Common Equity Tier 1 (CET1) capital: instruments and reserves				
Capital instruments and the related share premium accounts	5,596	-	5,596	5,225
Of which: Share premium accounts	3,957	-	3,957	3,989
Retained earnings ¹	29,128	-	29,128	27,394
Accumulated other comprehensive income (and other reserves)	12,180	-	12,180	9,690
Non-controlling interests (amount allowed in consolidated CET1)	582	-	582	583
Independently reviewed interim and year-end profits/(loss) ²	(2,194)	-	(2,194)	2,640
Foreseeable dividends net of scrip	(115)	-	(115)	(1,160)
Common Equity Tier 1 capital before regulatory adjustments	45,177	-	45,177	44,372
Common Equity Tier 1 capital: regulatory adjustments				
Additional value adjustments	(564)	-	(564)	(196)
Intangible assets	(4,820)	-	(4,820)	(5,449)
Deferred tax assets that rely on future profitability	(212)	-	(212)	(180)
Fair value reserves related to gains or losses on cash flow hedges	38	-	38	55
Negative amounts resulting from the calculation of expected loss	(569)	-	(569)	(1,719)
Gains or losses on liabilities at fair value resulting from changes in own credit	(630)	-	(630)	(167)
Defined-benefit pension fund assets	(4)	-	(4)	(13)
Fair value gains and losses from own credit risk related to derivative liabilities	(34)	-	(34)	(9)
Exposure amounts which could qualify for risk weighting	(200)	-	(200)	(199)
Of which: securitisation positions	(168)	-	(168)	(177)
Of which: free deliveries	(32)	-	(32)	(22)
Regulatory adjustments relating to unrealised gains	-	-	-	(481)
Other	-	-	-	(1)
Total regulatory adjustments to Common Equity Tier 1	(6,995)	-	(6,995)	(8,359)
Common Equity Tier 1	38,182	-	38,182	36,013
Additional Tier 1 (AT1) capital: instruments				
Capital Instruments and the related share premium accounts	4,611	(2,624)	1,987	2,786
Of which: classified as equity under applicable accounting standards	3,769	(1,782)	1,987	
Of which: classified as liabilities under applicable accounting standards	842	(842)	-	
Additional Tier 1 (AT1) capital before regulatory adjustments ³	4,611	(2,624)	1,987	2,786
Additional Tier 1 capital: regulatory adjustments				
Direct and indirect holdings by an institution of own Additional Tier 1 (AT1) instruments and subordinated loans	(20)	-	(20)	
Total regulatory adjustments to Additional Tier 1 capital	(20)	-	(20)	
Additional Tier 1 capital	4,591	(2,624)	1,967	2,786
Tier 1 capital (T1 = CET1 + AT1)	42,773	(2,624)	40,149	38,799
Tier 2 (T2) capital: instruments and provisions				
Capital instruments and the related share premium accounts	12,751	-	12,751	13,167
Qualifying items and the related share premium accounts subject to phase out from T2	640	(640)	-	959
Qualifying own funds instruments included in T2 issued by subsidiaries and held by third parties	2,887	(1,457)	1,430	4,178
Unrealised gains on available-for-sale equity securities included in Tier 2	-	-	-	-
Tier 2 capital before regulatory adjustments ³	16,278	(2,097)	14,181	18,304
Tier 2 capital: regulatory adjustments				
Direct and indirect holdings by an institution of own Tier 2 instruments and subordinated loans	(30)	-	(30)	(4)
Total regulatory adjustments to Tier 2 capital	(30)	-	(30)	(4)
Tier 2 capital	16,248	(2,097)	14,151	18,300
Total capital (TC = T1 + T2)	59,021	(4,721)	54,300	57,099
Total risk-weighted assets ⁴	302,925	-	302,925	341,648

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Table 4 : Capital ratios and risk-weighted assets

	2015 Transitional position \$million	2015 End point adjustment \$million	2015 End point position \$million	2014 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)	1,284	-	1,284	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)	1,194	-	1,194	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)	904	-	904	403
Risk-weighted assets				
Credit risk	239,542	-	239,542	279,537
Credit valuation adjustment risk	5,860	-	5,860	6,709
Operational risk	35,610	-	35,610	35,107
Market risk	21,913	-	21,913	20,295
Total risk-weighted assets ⁴	302,925	-	302,925	341,648
Capital ratios				
Common Equity Tier 1 capital	12.6%	0.0%	12.6%	10.5%
Tier 1 capital	14.1%	(0.8%)	13.3%	11.4%
Total capital	19.5%	(1.6%)	17.9%	16.7%

¹ Retained earnings under CRD IV includes the effect of regulatory consolidation adjustments

² Independently reviewed interim and year-end profits/(loss) for CRD IV are in accordance with the regulatory consolidation

³ Excludes ineligible minority interest. Tables 5 and 6 give further details and include ineligible minority interest

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

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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 Standard Chartered PLC Main Features of Capital Instruments 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 Additional Tier 1 instruments in issue and their primary terms:

Table 5 : Additional Tier 1 Capital Instruments

Security Ref ¹ #	ISIN	Issuer	Description	2015 \$million	2014 \$million
2	GB0008399700	SC PLC	£100 million 8.250 per cent Non-cumulative Irredeemable Preference shares ²	146	144
3	GB0008401324	SC PLC	£100 million 7.375 per cent Non-cumulative Irredeemable Preference shares ²	142	140
4	US85354AA86/USGB84228AT58	SC PLC	\$750 million 6.409 per cent Non-cumulative Redeemable Preference shares ²	747	747
5	US853254AB69 / US853254AC43	SC PLC	\$750 million 7.014 per cent Non-cumulative Redeemable Preference shares ²	747	747
6	USG84228CE61/ US853254AT77	SCPLC	\$2,000 million 6.5 per cent Fixed Rate Resetting Perpetual Subordinated Contingent Convertible Securities	1,987	-
7a	XS0129229141	SCB	£300 million 8.103 per cent Step-up Callable Perpetual Preferred securities ²	442	467
7b	XS0129229141	SCB	£300 million 8.103 per cent Step-up Callable Perpetual Preferred securities ²	530	555
Total ³				4,741	2,800

¹ Refer to the Standard Chartered PLC Main Features of Capital Instruments document as published on the Standard Chartered PLC website.

² These securities are not CRR compliant and will be fully phased out of Tier 1 by 1 January 2022

³ Includes ineligible minority interest

Tier 2 capital

Tier 2 capital is gone 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:

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Table 6: Tier 2 Capital instruments

Security Ref ¹ #	ISIN	Issuer	Description	2015 \$million	2014 \$million
8	GB0008387283	SC PLC	\$400 million Primary Capital Undated Floating Rate Notes ²	44	44
9	XS0010826633	SC PLC	\$300 million Primary Capital Undated Floating Rate Notes (Series 2) ²	80	80
10	XS0010159159	SC PLC	\$400 million Primary Capital Undated Floating Rate Notes (Series 3) ²	64	64
11	XS0010276466	SC PLC	\$200 million Primary Capital Undated Floating Rate Notes (Series 4) ²	50	50
12	GB0008389008	SC PLC	£150 million Primary Capital Undated Floating Rate Notes ²	45	47
13	US853254AJ95/ XS0874014722	SC PLC	\$2,000 million 3.95% Subordinated Notes 2023	1,992	1,992
14	XS1049699926/ US853254AN08	SC PLC	\$2,000 million 5.7% Subordinated Notes 2044	1,983	1,983
15	XS0803659340	SC PLC	\$1,250 million 4% Subordinated Notes 2022 (callable 2017)	1,248	1,248
16	XS0736418962	SC PLC	\$1,000 million 5.7% Subordinated Notes 2022	995	995
17	US853254AL42/ XS0969864916	SC PLC	\$1,000 million 5.2% Subordinated Notes 2024	996	996
18a	US853254AK68/ XS0875267394	SC PLC	\$500 million 5.3% Subordinated Notes 2043	496	496
18b	US853254AK68/ XS0875267394	SC PLC	\$250 million 5.3% Subordinated Notes 2043	256	256
19	XS0983704718	SC PLC	€1,250 million 4% Subordinated Notes 2025 (callable 2020)	1,355	1,509
20	XS0858585051	SC PLC	€750 million 3.625% Subordinated Notes 2022	809	901
21	XS1140857316	SC PLC	€500 million 3.125% Subordinated Notes 2024	539	600
22	XS1075419694	SC PLC	£900 million 5.125% Subordinated Notes 2034	1,302	1,376
23	XS1020855588	SC PLC	SGD700 million 4.4% Subordinated Notes 2026 (callable 2021)	494	528
24	US853250AB48/ XS0323650787	SCB	\$1,000 million 6.4% Subordinated Notes 2017	330	529
25	XS0130337735/ US853250AA64	SCB	\$700 million 8 % Subordinated Notes 2031	427	427
26a	XS0323411016	SCB	€700 million 5.875% Subordinated Notes 2017	251	449
26b	XS0323411016	SCB	€400 million 5.875% Subordinated Notes 2017	143	256
27a	XS0355789271	SCB	£500 million 7.75% Subordinated Notes 2018	319	493
27b	XS0355789271	SCB	£200 million 7.75% Subordinated Notes 2018	128	198
28a	XS0222434200	SCB	£400 million 5.375% Undated Subordinated Step-up Notes (callable 2020) ³	171	180
28b	XS0222434200	SCB	£275 million 5.375% Undated Subordinated Step-up Notes (callable 2020) ³	404	427
29	XS0119816402	SCB	£200 million 7.75% Undated Subordinated Step-up Notes (callable 2022) ³	367	383
30a	XS0356750868	SCB	SGD200 million 5.25% Subordinated Notes 2023 (callable 2018) ³	140	150
30b	XS0356750868	SCB	SGD250 million 5.25% Subordinated Notes 2023 (callable 2018) ³	176	188
31	XS0359358867	SCB	JPY10 billion 3.35% Subordinated Notes 2023 (callable 2018) ³	83	83
32	XS0520042416	SCB HK	\$750 million 5.875% Subordinated Notes 2020	656	746
33	XS0698410403	SCB HK	SGD750 million 4.15% Subordinated Notes 2021 (callable 2016)	530	566
34	KR3823014V34	SCBK	KRW90 billion 6.05% Subordinated Notes 2018	33	51
35	KR60001111C4	SCBK	KRW270 billion 4.67% Subordinated Notes 2021 (callable 2016)	230	245
35	N/A	Permata	\$100 million 9.75% Subordinated Notes 2021 (callable 2016)	50	50
37	BNLI02SB	Permata	IDR1,750 billion 11% Subordinated Notes 2018	59	93
Total ⁴				17,245	18,679

¹ Refer to the Standard Chartered PLC Main Features of Capital Instruments 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 These securities are not CRR compliant and will be fully phased out of Tier 2 by 1 January 2022

⁴ Includes ineligible minority interest

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2.3 Countercyclical capital buffer

The Group's countercyclical capital buffer requirement will be determined by applying various country specific countercyclical buffer rates to the Group's qualifying credit exposures in the relevant country (based on the jurisdiction of the obligor) on a weighted average basis.

As at December 2015, only Norway and Sweden had set countercyclical capital buffer rates, both jurisdictions setting a 1 per cent rate from October 2015. As a result of the Group's negligible exposures to these jurisdictions, this does not result in a meaningful countercyclical buffer for the Group. The Hong Kong Monetary Authority (HKMA) announced a Hong Kong countercyclical capital buffer rate

of 0.625 per cent applied from January 2016. In the UK, the FPC noted that the PRA would reciprocate the HKMA's countercyclical buffer rate of 0.625 per cent on Hong Kong exposures. This results in an estimated 7 bps countercyclical capital buffer from January 2016, assuming no change in the countercyclical capital buffer rate in Hong Kong and a constant proportion of Hong Kong exposures in the Group.

As at December 2015, the Group's countercyclical capital buffer is immaterial (less than 1bps). As a result, the geographical distribution of relevant credit exposures has not been provided.

2.4 Leverage ratio

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.

UK banks are subject to a minimum leverage ratio of 3 per cent, together with supplementary leverage ratio buffers set at 35 per cent of the corresponding G-SII's and countercyclical buffers, as those buffers are applicable to individual banks and as phased in. As a result, the Group's current expected leverage ratio requirement for 2019 will be 3.37 per cent, which comprises (i) the minimum 3 per cent, (ii) a 0.35 per cent G-SII leverage ratio buffer and (iii) a 0.02 per cent countercyclical leverage ratio buffer, assuming

existing countercyclical capital buffer rates and a constant proportion of exposures to the relevant jurisdictions.

The basis of calculating the leverage ratio uses the end-point CRR definition of Tier 1 for the numerator and the CRR definition of leverage exposure as the denominator.

The Group's current leverage ratio of 5.5 per cent is above the current minimum requirement. The increase of 1.0 percentage point in the leverage ratio since December 2014 is mainly due to the increase in Tier 1 capital from the 2015 rights issue, AT1 issuance and a decrease in the exposure measure.

Table 7. Leverage ratio

	2015 \$million	2014 \$million
Total assets as per published financial statements	640,483	725,914
Adjustment difference between the accounting scope of consolidation and the regulatory scope of consolidation	12,826	15,008
Adjustments for derivative financial instruments	5,283	(6,912)
Adjustments for securities financing transactions (SFTs)	11,299	9,963
Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	65,660	67,042
Other adjustments	(6,331)	(7,701)
Total leverage ratio exposure	729,220	803,314

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Table 8. Leverage ratio common disclosure

	2015 \$million	2014 \$million
On-balance sheet exposures (excluding derivatives and SFTs)		
On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	553,376	645,215
(Asset amounts deducted in determining Tier 1 capital)	(6,331)	(7,701)
Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	547,045	637,514
Derivative exposures		
Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	14,329	22,115
Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	58,379	46,254
Exposure determined under Original Exposure Method	-	-
Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	-	-
(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	(13,179)	(17,316)
(Exempted CCP leg of client-cleared trade exposures)	-	-
Adjusted effective notional amount of written credit derivatives	11,707	12,851
(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	(2,785)	(4,966)
Total derivative exposures	68,451	58,938
Securities financing transaction exposures		
Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	36,765	29,857
(Netted amounts of cash payables and cash receivables of gross SFT assets)	-	-
Counterparty credit risk exposure for SFT assets	11,299	9,963
Derogation for SFTs: Counterparty credit risk exposure in accordance with Article 429b (4) and 222 of Regulation (EU) No 575/2013	-	-
Agent transaction exposures	-	-
(Exempted CCP leg of client-cleared SFT exposure)	-	-
Total securities financing transaction exposures	48,064	39,820
Other off-balance sheet exposures		
Off-balance sheet exposures at gross notional amount	227,546	221,680
(Adjustments for conversion to credit equivalent amounts)	(161,886)	(154,638)
Other off-balance sheet exposures	65,660	67,042
Exempted exposures in accordance with CRR Article 429 (7) and (14) (on and off balance sheet)		
(Exemption of intragroup exposures (solo basis) in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	-	-
(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	-	-
Capital and total exposures		
Tier 1 capital (end point)	40,149	36,494
Total leverage ratio exposures	729,220	803,314
Leverage ratio	5.5%	4.5%
Choice on transitional arrangements and amount of derecognised fiduciary items		
Choice on transitional arrangements for the definition of the capital measure	Fully phased in	Fully phased in
Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) NO 575/2013	-	-

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Table 9: Leverage ratio: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

	2015	2014
	\$million	\$million
Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	553,376	637,514
Trading book exposures	30,252	40,169
Banking book exposures, of which:	523,124	597,345
Covered bonds	5,959	6,066
Exposures treated as sovereigns	172,562	184,182
Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	16	-
Institutions	59,856	92,898
Secured by mortgages of immovable properties	74,260	75,183
Retail exposures	24,301	29,810
Corporates	134,895	167,159
Exposures in default	272	274
Other exposures (eg equity, securitisations, and other non-credit obligation assets)	51,003	41,772

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3. Credit risk

Our approach to credit risk can be found in the Risk review section in the 2015 Annual Report.

3.1. Internal Ratings Based Approach to credit risk

The Group uses the IRB approach 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 77 per cent of the Group's credit RWA (2014: 78 per cent).

PD is the likelihood that an obligor will default on an obligation within 12 months. Banks utilising the 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.

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.

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 Organizations
- Jordan and Lebanon
- Purchased receivables
- Hedge Funds

The Standardised Approach 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 prescribed within the CRR and is based on the asset class to which the exposure is assigned.

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3. 3 Internal Ratings Based models

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 2015 and are compared with default observations through 31 December 2015.

The historical default experience for institutions, central governments or central banks is minimal, so the predicted PD reflects a particularly low number of defaults. For institutions and central governments or central banks, there were no defaults during 2015.

The actual default rates for corporate exposures in 2015 remained below IRB model predictions as at the beginning of 2015, reflecting the impact of the Group's prudent and proactive credit management.

The actual default rates for the 'Residential mortgages' and 'Qualifying revolving retail' asset classes remained below the model predictions; but were above the model predictions for the 'Other Retail' and 'Retail SME' asset classes. The higher actual default rate for the 'Other Retail' asset class is due to the persistence of Personal Debt Rehabilitation Service filings in Korea and increased defaults in the low income segments in the UAE. The actual default rate for Retail SME increased compared to the prior year as a result of an increased number of defaults in the business clients segment in Korea.

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 2015 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 2012 to 2015 defaults that have completed their workout process as at the end of 2015. 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 LGD values for corporates and institutions are lower than predicted. This is explained by the regulatory guidance to calibrate LGD models 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 2015 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 LGD values for all retail asset classes are lower than predicted, primarily due to the regulatory guidance to calibrate LGD models to downturn conditions. This is most evident in the mortgage portfolios, where predicted LGD values 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 2015, 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 and to calibrate the models to downturn conditions, as well as by the impact of management action leading to a reduction in actual exposure prior to default.

The Group has a strong monitoring and governance framework in place to identify and mitigate model performance issues. While most models are conservative and over predict PD, LGD and EAD, in cases where models under predict, a post model adjustment may be taken to ensure adequate capitalisation, in addition to having a remediation plan in place.

The estimates provided in the Table are before the application of any conservative adjustment.

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3.3. Internal Ratings Based models continued

Table 10: CIC model results

	PD Predicted %	PD Observed %	LGD Predicted (2012-2015) %	LGD Realised (2012-2015) %	EAD Predicted/ Realised
Corporate, Institutions and Commercial					
Central governments or central banks	0.13	0.00	N/A	N/A	N/A
Institutions	0.19	0.00	41.58	14.35	N/A
Corporates	2.14	1.99	45.06	21.38	1.24
Corporate SME	4.01	3.22	52.52	37.42	1.02

Table 11: Retail model results

	PD Predicted %	PD Observed %	LGD Predicted (2012-2015) %	LGD Realised (2012-2015) %	EAD Predicted/ Observed
Retail					
Qualifying revolving retail	1.45	1.15	79.86	69.66	1.20
Other retail	3.05	3.74	80.16	74.26	1.10
Residential mortgages	0.53	0.24	15.11	4.25	1.04
Retail SME	2.02	2.61	55.10	35.75	1.02

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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 2015, calculated as 8 per cent of RWA based on the approaches previously described. The regulatory

credit risk capital requirement below of \$19,163 million is substantially lower, even with the inclusion of market risk \$1,753 million (Table 45) and operational risk \$2,849 million (Table 50), than total capital resources of \$54,300 million in Table 3.

Table 12: Credit risk regulatory capital requirements

	2015				2014			
	Regulatory capital requirement	Risk-weighted assets	EAD before the effect of CRM	Risk-weighted asset density	Regulatory capital requirement	Risk-weighted assets	EAD before the effect of CRM	Risk-weighted asset density
	\$million	\$million	\$million	%	\$million	\$million	\$million	%
Credit Risk Capital Requirements								
IRB Exposure Class								
Central governments or central banks	1,603	20,039	155,528	13	1,611	20,144	171,495	12
Institutions	894	11,177	69,205	16	1,097	13,719	110,294	12
Corporates	8,791	109,892	163,748	67	10,872	135,903	196,183	69
Retail, of which	1,619	20,236	87,533	23	1,926	24,077	90,386	27
Secured by real estate collateral	348	4,349	60,385	7	470	5,873	60,966	10
Qualifying revolving retail	448	5,601	15,817	35	476	5,952	16,411	36
Retail SME	56	699	947	74	73	918	1,184	78
Other retail	767	9,587	10,384	92	907	11,334	11,825	96
Equity	-	-	-	-	-	-	-	-
Securitisation positions	308	3,848	29,476	13	319	3,985	31,438	13
Non-credit obligation assets	73	916	921	99	62	778	858	91
Total IRB	13,288	166,108	506,411	33	15,888	198,606	600,654	33
Standardised Exposure Class								
Central governments or central banks	325	4,066	4,341	94	145	1,811	3,630	45
Multilateral development banks	-	-	15,866	-	2	30	13,676	0
Institutions	24	284	1,564	20	13	162	1,271	13
Corporates	1,213	15,172	23,253	105	1,380	17,250	29,930	91
Retail	709	8,872	13,001	72	864	10,795	16,097	70
Secured on real estate property	665	8,314	16,179	52	717	8,968	18,458	49
Past due items	22	270	660	100	22	269	561	100
Items belonging to regulatory high risk categories	399	4,983	3,355	150	491	6,140	4,213	149
Other Items ¹	929	11,614	11,340	102	1,158	14,469	15,427	107
Total Standardised	4,286	53,575	89,559	67	4,792	59,894	103,263	67
Counterparty credit risk capital component²								
Default Fund contribution	1,556	19,451	114,478	17	1,621	20,257	84,183	26
Settlement risk	32	401	-	-	61	763	-	-
	1	7	-	-	1	17	-	-
Total	19,163	239,542	710,448	-	22,363	279,537	788,100	-

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 \$98.8 billion with \$18.7 billion RWA are based on the IRB approach

Key Points

- RWA decreased by \$40 billion, from 31 December 2014. Of this \$17.3 billion was a result of RWA efficiencies, \$9.6 billion from asset reduction in the period and \$8.8 billion reductions from foreign currency translation.

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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 2015 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

	2015									
	Greater China \$million	NE Asia \$million	South Asia \$million	ASEAN \$million	MENAP \$million	Africa \$million	Americas \$million	Europe \$million	Average	Period End Total \$million
IRB Exposure Class										
Central governments or central banks	44,329	18,393	5,241	15,611	8,764	4,713	26,004	39,177	168,126	162,232
Institutions	30,449	6,276	1,381	12,404	4,161	1,248	13,001	53,390	138,554	122,310
Corporates	36,031	13,868	12,238	35,126	16,664	7,387	17,233	64,196	213,163	202,743
Retail	40,015	21,098	2,475	22,661	1,285	-	-	-	88,960	87,534
Equity	-	-	-	-	-	-	-	-	-	-
Securitisation positions	2,587	-	-	1,007	-	-	795	25,087	30,457	29,476
Non-credit obligation assets	567	-	-	-	-	-	-	354	890	921
Total IRB	153,978	59,635	21,335	86,809	30,874	13,348	57,033	182,204	640,150	605,216
Standardised Exposure Class										
Central governments or central banks	191	151	422	2,862	485	10	137	83	3,986	4,341
Multilateral development banks	274	2	31	2,742	557	24	1,774	12,728	16,835	18,132
Institutions	61	89	539	252	135	-	4,893	5,446	9,102	11,415
Corporates	4,162	254	1,128	13,946	1,219	258	284	5,527	29,539	26,778
Retail	3,056	8	1,522	5,222	1,807	1,285	-	103	14,550	13,003
Secured on real estate	8,401	2	1,161	3,246	1,839	401	-	1,146	17,327	16,196
Exposures in default	176	3	48	183	128	42	-	80	611	660
Items belong to regulatory high risk category	1,591	95	132	707	153	49	-	629	3,785	3,356
Other items	3,015	991	850	2,836	708	971	145	1,835	13,393	11,351
Total Standardised	20,927	1,595	5,833	31,996	7,031	3,040	7,233	27,577	109,128	105,232
Total	174,905	61,230	27,168	118,805	37,905	16,388	64,266	209,781	749,278	710,448

Key points

- The decrease in loans to central governments or central banks of \$12 billion since December 2014 is primarily across the Americas and driven in part by liquidity management activity.
- Exposure decreased by \$53 billion to institutions and corporates from 31 December 2014 is mainly due to disposal / exit from low return relationships, foreign currency translation impact, additional provisions and increased Credit Support Annex (CSA) coverage.

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3.5. Exposure values continued

Table 13: Exposure at default by geography

	2014									
	Greater China	North East Asia	South Asia	ASEAN	MENAP	Africa	Americas	Europe	Average Total	End Total
	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$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	0	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
Exposures in default	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

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3.5. Exposure values continued

Industry analysis

The mortgage portfolio makes up 69 per cent of the Retail IRB exposure classes, (2014: 67 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 2015 Annual Report although certain industries are included in 'Other'¹.

Table 14: Exposure at default by industry

	2015										
	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	-	-	-	-	34	33	151,932	8,404	157	1,672	162,232
Institutions	-	-	-	-	469	-	914	118,997	1	1,929	122,310
Corporates	-	4	7,243	31,432	45,897	10,239	171	54,089	16,756	36,912	202,743
Retail	60,106	26,202	1,226	-	-	-	-	-	-	-	87,534
Equity	-	-	-	-	-	-	-	-	-	-	-
Securitisation positions	-	26	1,485	951	-	-	-	6,669	-	20,345	29,476
Non-credit obligation assets	-	-	5	2	-	-	-	-	878	36	921
Total IRB	60,106	26,232	9,959	32,385	46,400	10,272	153,017	188,159	17,792	60,894	605,216
Standardised Exposure Class											
Central governments or central banks	-	-	-	-	-	-	339	-	-	4,002	4,341
Multilateral development banks	-	-	-	-	-	-	964	4,746	-	12,422	18,132
Institutions	-	-	-	-	-	-	-	11,019	-	396	11,415
Corporates	-	76	14,632	1,224	933	291	3	3,799	95	5,725	26,778
Retail	-	9,787	3,216	-	-	-	-	-	-	-	13,003
Secured on real estate	11,502	9	3,895	188	93	200	-	32	13	264	16,196
Exposures in default	111	189	145	65	36	-	-	3	4	107	660
regulatory high risk category	6	195	451	288	225	449	-	523	245	974	3,356
Other items	-	6	199	293	8	4	-	69	5	10,767	11,351
Total Standardised	11,619	10,262	22,538	2,058	1,295	944	1,306	20,191	362	34,657	105,232
Total	71,725	36,494	32,497	34,443	47,695	11,216	154,323	208,350	18,154	95,551	710,448

¹ The industry class 'Other' includes Mining & Quarrying (\$16.2billion), Construction (\$8.4bn), Electricity Gas & Water (\$7.8 billion), Agriculture Forestry & Fishing (\$1.3 billion)

Key points

- Decreases in Government and Financing, Insurance and Business Services exposures are mainly driven by reduction in loans and advances to banks as part of the liquidity management activity mentioned earlier (refer to key point for Table 13).
- The decrease in Retail unsecured portfolio was mainly due to a) market conditions & regulation, b) sales channel realignment and c) risk actions in specific markets. There has otherwise been no significant change in the shape of our Retail products portfolio.

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3.5. Exposure values continued

Table 14: Exposure at default by industry

	2014										
	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 \$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
Standardised 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
Exposures in default	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

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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 59 per cent (2014: 61 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 70 per cent (2014: 72 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 69 per cent (2014: 67 per cent) of the portfolio and is traditionally longer term in nature and well secured. Whilst the Other and SME loans in Retail 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

	2015			Total \$million
	One year or less \$million	One to five years \$million	Over five years \$million	
IRB Exposure Class				
Central governments or central banks	124,142	33,803	4,287	162,232
Institutions	98,881	20,486	2,943	122,310
Corporates	126,396	59,351	16,996	202,743
Retail	8,404	19,331	59,799	87,534
Equity	-	-	-	-
Securitisation positions	5,536	19,193	4,747	29,476
Non-credit obligation assets	241	318	362	921
Total IRB	363,600	152,482	89,134	605,216
Standardised Exposure Class				
Central governments or central banks	2,899	116	1,326	4,341
Multilateral development banks	1,295	16,334	503	18,132
Institutions	8,474	1,335	1,606	11,415
Corporates	22,449	1,235	3,094	26,778
Retail	5,093	4,809	3,101	13,003
Secured on real estate property	2,187	914	13,095	16,196
Exposures in default	340	51	269	660
Items belonging to regulatory high risk categories	2,915	211	230	3,356
Other items	9,981	121	1,249	11,351
Total Standardised	55,633	25,126	24,473	105,232
Total	419,233	177,608	113,607	710,448

Key points

- Decrease in one year or less exposure category is driven by liquidity management activity mentioned earlier (refer key to point for Table 13).

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3.5. Exposure values continued

Table 15: Exposure at default by maturity

	2014			Total \$million
	One year or less \$million	One to five years \$million	Over five years \$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
Exposures in default	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

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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.

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.

The requirement for collateral is not a substitute for the ability to pay, which is the primary consideration for any lending decision. Our approach to credit risk mitigation can be found in the Risk review section of the 2015 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

	2015		2014	
	EAD after the effect of collateral \$million	Of which: EAD covered by guarantees/credit derivatives \$million	EAD after the effect of collateral \$million	Of which: EAD covered by guarantees/credit derivatives \$million
IRB Exposure Class				
Central governments or central banks	153,560	91	166,307	348
Institutions	91,501	4,199	118,295	3,257
Corporates	157,582	16,616	179,139	16,576
Retail	28,285	7	30,038	15
Equity	-	-	-	-
Securitisation positions	29,962	486	30,837	-
Non-credit obligation assets	921	-	858	-
Total IRB	461,811	21,399	525,474	20,196
Standardised Exposure Class				
Central governments or central banks	3,864	23	3,213	12
Multilateral development banks	17,911	-	14,994	-
Institutions	5,753	162	6,113	-
Corporates	19,386	3,693	25,380	5,438
Retail	12,478	91	15,510	62
Secured on real estate property	481	4	606	2
Exposures in default	430	-	414	-
Items belonging to regulatory high risk categories	3,449	204	4,227	127
Other items	11,343	-	15,435	-
Total Standardised	75,095	4,177	85,892	5,640
Total Exposure	536,906	25,576	611,366	25,836

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 47 per cent (2014: 57 per cent) of all credit risk mitigants.

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

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3.6. Credit risk mitigation continued

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

	2015				
	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	162,232	1,955	409	159,868	6,883
Institutions	122,310	26,940	4,276	91,094	3,889
Corporates	202,743	24,403	23,111	155,229	13,732
Retail	87,534	29	59,220	28,285	5
Equity	-	-	-	-	-
Securitisation positions	29,476	-	-	29,476	-
Non-credit obligation assets	921	-	-	921	-
Total IRB	605,216	53,327	87,016	464,873	24,509
Standardised Exposure Class					
Central governments or central banks	4,341	-	-	4,341	496
Multilateral development banks	18,132	-	-	18,132	221
Institutions	11,415	5,542	-	5,873	283
Corporates	26,778	10,988	113	15,677	60
Retail	13,003	605	5	12,393	7
Secured on real estate property	16,196	75	15,640	481	-
Exposures in default	660	2	148	510	-
Items belonging to regulatory high risk categories	3,356	19	62	3,275	-
Other items	11,351	-	-	11,351	-
Total Standardised	105,232	17,231	15,968	72,033	1,067
Total	710,448	70,558	102,984	536,906	25,576

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

	2014				
	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	-
Exposures in default	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

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

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3.7. Regulatory expected loss vs. impairment charge

Details of impaired exposures, individual impairment provision and portfolio impairment provision are set out in the Risk and capital review section of the 2015 Annual Report.

The table below compares the regulatory expected loss of \$5.2 billion, calculated at 1 January 2015 against the net impairment charge for 2015 of \$4.4 billion, for the IRB portfolio.

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 higher than 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 2015 Annual Report.

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3.7. Regulatory expected loss vs. impairment charges continued

Table 18: Regulatory expected loss

	1st January 2015	31st December 2015	1st January 2014	31st December 2014
	Regulatory expected loss \$million	Net impairment charge \$million	Regulatory expected loss \$million	Net impairment charge ¹ \$million
IRB Exposure Class				
Central governments or central banks	95	-	104	-
Institutions	168	72	401	4
Corporates	3,925	3,853	2,603	926
Retail, of which	1,004	453	1,083	628
Secured by real estate collateral	85	-	106	(2)
Qualifying revolving retail	360	251	388	318
Retail SME	44	36	32	37
Other retail	516	166	557	275
Equity	-	-	-	-
Total IRB	5,192	4,378	4,191	1,558

	1st January 2013	31st December 2013	1st January 2012	31st December 2012
	Regulatory expected loss \$million	Net impairment charge \$million	Regulatory expected loss \$million	Net impairment charge \$million
IRB Exposure Class				
Central governments or central banks	98	-	67	-
Institutions	461	(1)	448	6
Corporates	2,588	567	1,904	537
Retail, of which	1,138	617	929	359
Secured by real estate collateral	128	1	125	8
Qualifying revolving retail	462	295	422	185
Retail SME	24	46	14	46
Other retail	524	275	368	120
Equity				
Total IRB	4,285	1,183	3,348	902

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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, which takes into consideration PD, LGD and EAD in the calculation of expected loss and risk-weighted assets, is used 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 underwriting and portfolio management actions such as credit line increase/decrease and top-up for instalment loans;
- 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.

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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 (2014: 79 per cent) of exposures are classified as credit grades 1 to 5.

Table 19: Exposure at default after CRM by risk grade

EAD	2015					
	Grades 1-5	Grades 6-8	Grades 9-11	Grade 12	Grades 13-14	Total
	\$million	\$million	\$million	\$million	\$million	\$million
Total exposure						
Central governments or central banks	151,524	6,993	1,351	-	-	159,868
Institutions	86,057	4,222	541	4	270	91,094
Corporates	88,391	42,769	13,217	901	9,951	155,229
Retail, of which	13,554	7,780	5,758	482	711	28,285
Retail exposures secured by real estate collateral	936	173	30	4	24	1,167
Qualifying revolving retail	9,810	3,159	2,367	287	194	15,817
Retail SME	182	499	193	11	32	917
Other retail	2,626	3,949	3,168	180	461	10,384
Equity	-	-	-	-	-	-
Securitisation positions	29,412	-	64	-	-	29,476
Non-credit obligation assets	345	394	128	51	3	921
Total IRB	369,283	62,158	21,059	1,438	10,935	464,873

Table 19: Exposure at default after CRM by risk grade

EAD	2014					
	Grades 1-5	Grades 6-8	Grades 9-11	Grade 12	Grades 13-14	Total
	\$million	\$million	\$million	\$million	\$million	\$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

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3.8. Risk grade profile continued

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

Table 20: Undrawn commitments by risk grade

	2015					
	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	290	121	123	-	-	534
Institutions	1,259	178	32	-	-	1,469
Corporates	38,891	8,792	2,496	101	120	50,400
Retail, of which	3,606	2,062	448	32	18	6,166
Secured by real estate collateral	1,730	308	86	1	1	2,126
Qualifying revolving retail	-	-	-	-	-	-
Retail SME	-	-	6	0	0	6
Other retail	1,876	1,754	356	31	17	4,034
Total IRB	44,046	11,153	3,099	133	138	58,569

Table 20: Undrawn commitments by risk grade

	2014					
	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

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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

2015						
	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	12,219	6,410	1,877	-	-	20,506
Institutions	10,392	3,467	837	9	741	15,446
Corporates	29,105	39,799	22,811	4,118	28,010	123,843
Retail	4,047	5,904	7,805	1,226	1,252	20,234
Secured by real estate collateral	2,205	1,217	522	102	303	4,349
Qualifying revolving retail	705	989	2,846	709	352	5,601
Retail SME	53	338	207	17	84	699
Other retail	1,084	3,360	4,230	398	513	9,585
Equity	-	-	-	-	-	-
Securitisation positions	3,148	-	700	-	-	3,848
Non-credit obligation assets	345	393	128	47	3	916
Total	59,256	55,973	34,158	5,400	30,006	184,793

Table 21: Risk-weighted assets by risk grade

2014						
	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

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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 density is derived from EAD before the effect of CRM.

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

	2015					Total %
	Grades 1-5 %	Grades 6-8 %	Grades 9-11 %	Grade 12 %	Grades 13-14 %	
Risk-weighted assets density by risk grade						
Central governments or central banks	8	91	141	-	-	13
Institutions	9	61	107	243	275	13
Corporates	26	68	108	263	254	61
Retail, of which	6	41	112	205	135	23
Secured by real estate collateral	4	17	41	81	124	7
Qualifying revolving retail	7	31	120	247	181	35
Retail SME	35	85	131	190	253	92
Other retail	41	85	134	220	112	92
Equity	-	-	-	-	-	-
Securitisation positions	11	-	1,091	-	-	13
Non-credit obligation assets	100	100	100	100	100	100
Total IRB	13	65	113	243	245	30

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

	2014					Total %
	Grades 1-5 %	Grades 6-8 %	Grades 9-11 %	Grade 12 %	Grades 13-14 %	
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

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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

	2015					
	Grades 1-5 %	Grades 6-8 %	Grades 9-11 %	Grade 12 %	Grades 13-14 %	Total %
Exposure weighted average PD						
Central governments or central banks	0.02	1.42	4.87	-	-	0.13
Institutions	0.07	1.11	6.52	19.08	100.00	0.38
Corporates	0.15	1.06	5.97	25.67	99.98	6.66
Retail, of which	0.10	1.00	5.32	26.62	95.91	1.84
Secured by real estate collateral	0.09	0.98	4.45	32.16	96.71	0.70
Qualifying revolving retail	0.14	0.95	6.07	25.06	92.19	2.77
Retail SME	0.24	1.22	4.88	23.82	96.41	5.45
Other retail	0.26	1.03	5.12	25.60	97.07	6.77
Equity	-	-	-	-	-	-
Securitisation positions	-	-	-	-	-	-
Non-credit obligation assets	0.18	1.12	10.91	20.11	-	3.45
Total	0.07	1.08	5.79	25.92	99.68	2.59

Table 23: Exposure weighted average PD% by risk grade

	2014					
	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

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Table 24: Exposure weighted average PD% by geography

	2015								
	Greater China %	North East Asia %	South Asia %	ASEAN %	MENAP %	Africa %	Americas %	Europe %	Total %
IRB Exposure Class									
Central governments or central banks	0.02	0.03	0.55	0.05	0.62	1.79	0.01	0.03	0.13
Institutions	0.06	0.08	0.50	1.56	0.41	4.47	0.36	0.22	0.38
Corporates	3.33	2.63	14.30	5.05	12.11	11.75	0.85	8.37	6.66
Retail	0.59	2.85	4.09	2.59	6.78	-	-	-	1.84
Equity	-	-	-	-	-	-	-	-	-
Securitisation positions	-	-	-	-	-	-	-	-	-
Non-credit obligation assets	3.20	-	-	-	-	-	-	3.85	3.45
Total IRB	0.96	1.64	8.84	2.95	7.05	7.55	0.34	3.03	2.59

Table 24: Exposure weighted average PD% by geography

	2014								
	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	-	-	-	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

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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 39 per cent (2014: 40 per cent).

Table 25: Exposure weighted average LGD% by risk grade

	2015					Total
	Grades 1-5	Grades 6-8	Grades 9-11	Grade 12	Grades 13-14	
	%	%	%	%	%	%
Exposure weighted average LGD						
Central governments or central banks	46	46	46	-	-	46
Institutions	22	30	29	41	48	23
Corporates	37	37	33	46	56	38
Retail, of which	26	49	73	73	65	35
Secured by real estate collateral	12	14	13	14	19	12
Qualifying revolving retail	88	82	86	85	76	86
Retail SME	74	76	85	77	71	77
Other retail	81	83	85	88	83	83
Equity	-	-	-	-	-	-
Securitisation Positions	-	-	-	-	-	-
Non-credit obligation assets	45	45	45	45	45	45
Total IRB	38	39	43	56	57	39

Table 25: Exposure weighted average LGD% by risk grade

	2014					Total
	Grades 1-5	Grades 6-8	Grades 9-11	Grade 12	Grades 13-14	
	%	%	%	%	%	%
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

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Table 26: Exposure weighted average LGD% by geography

	2015								
	Greater China %	North East Asia %	South Asia %	ASEAN %	MENAP %	Africa %	Americas %	Europe %	Total %
IRB Exposure Class									
Central governments or central banks	46	46	44	46	46	46	46	45	46
Institutions	24	26	25	23	27	38	22	18	23
Corporates	37	35	39	38	41	44	37	38	38
Retail	36	32	39	30	97	-	-	-	35
Equity	-	-	-	-	-	-	-	-	-
Securitisation positions	-	-	-	-	-	-	-	-	-
Non-credit obligation assets	45	45	45	45	45	45	45	45	45
Total IRB	37	37	39	35	43	44	38	41	39

Table 26: Exposure weighted average LGD% by geography

	2014								
	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	0	39	33	46	-	-	-	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

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3.8. Risk grade profile continued

The following tables provide further detail on the 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 81 per cent (2014: 82 per cent) of the Group's total exposure.

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

2015								Standard & Poor's external rating equivalent
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	95,957	0.01	46	102,739	4,333	5	AAA/AA+
1B	0.016 - 0.025	10,616	0.02	41	15,635	652	5	AA/AA-
2A	0.026 - 0.035	34,750	0.03	46	28,689	3,809	11	AA-/A+
2B	0.036 - 0.045	1,972	0.04	46	986	275	14	A+
3A	0.046 - 0.060	337	0.05	46	256	56	17	A
3B	0.061 - 0.083	289	0.07	46	403	63	22	A-
4A	0.084 - 0.110	1,872	0.09	46	2,375	408	22	A-
4B	0.111 - 0.170	943	0.13	46	1,225	291	31	BBB+
5A	0.171 - 0.300	4,398	0.22	44	5,235	2,125	46	BBB/BBB-
5B	0.301 - 0.425	390	0.39	46	309	207	53	BB+
6A	0.426 - 0.585	-	-	-	2	-	-	BB
6B	0.586 - 0.770	229	0.67	42	246	170	68	BB
7A	0.771 - 1.020	2,506	0.89	46	2,606	1,959	78	BB-
7B	1.021 - 1.350	986	1.17	46	848	835	85	B+
8A	1.351 - 1.750	531	1.54	46	679	503	95	B+/B
8B	1.751 - 2.350	2,741	2.03	46	1,571	2,943	107	B
9A	2.351 - 3.050	271	2.67	46	1,276	312	115	B-
9B	3.051 - 4.000	657	3.51	46	704	831	126	B-/CCC
10A	4.001 - 5.300	176	4.62	46	132	246	140	B-/CCC
10B	5.301 - 7.000	-	-	-	-	-	-	CCC/C
11A/B/C	7.001 - 15.750	247	11.07	46	230	488	198	CCC/C
12A/B/C	15.751 - 50.000	-	-	-	-	-	-	CCC/C
13	50.001 - 99.999	-	-	-	-	-	-	N/A
14	100.000	-	-	-	-	-	-	N/A
Unrated		-	-	-	-	-	-	N/A
Total		159,868	0.13	46	166,141	20,506	13	

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3.8. Risk grade profile continued

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

2014							
SCB internal ratings	PD range %	EAD after the effect of CRM \$million	Average PD %	Average LGD %	Average EAD \$million	RWA \$million	Standard & Poor's RWA external rating Density equivalent %
1A	0.000 - 0.015	109,521	0.01	46	83,791	4,361	4 AAA/AA+
1B	0.016 - 0.025	20,654	0.02	45	23,617	1,652	8 AA/AA-
2A	0.026 - 0.035	22,627	0.03	46	21,234	2,503	11 AA-/A+
2B	0.036 - 0.045	-	-	-	695	-	- A+
3A	0.046 - 0.060	175	0.05	44	285	25	14 A
3B	0.061 - 0.083	516	0.07	46	748	79	15 A-
4A	0.084 - 0.110	2,878	0.09	46	2,665	604	21 A-
4B	0.111 - 0.170	1,507	0.13	46	1,575	414	27 BBB+
5A	0.171 - 0.300	6,071	0.22	44	6,216	2,820	44 BBB/BBB-
5B	0.301 - 0.425	228	0.39	46	116	127	56 BB+
6A	0.426 - 0.585	3	0.51	46	139	2	57 BB
6B	0.586 - 0.770	263	0.67	46	249	183	70 BB
7A	0.771 - 1.020	2,705	0.89	45	2,078	1,688	61 BB-
7B	1.021 - 1.350	709	1.17	46	757	604	85 B+
8A	1.351 - 1.750	827	1.54	46	1,168	772	93 B+/B
8B	1.751 - 2.350	400	2.04	46	635	420	104 B
9A	2.351 - 3.050	2,281	2.67	46	1,265	2,735	119 B-
9B	3.051 - 4.000	750	3.51	46	1,227	985	130 B-/CCC
10A	4.001 - 5.300	87	4.62	46	67	122	141 B-/CCC
10B	5.301 - 7.000	-	-	-	-	-	- CCC/C
11A/B/C	7.001 - 15.750	212	11.13	46	274	420	198 CCC/C
12A/B/C	15.751 - 50.000	-	-	-	-	-	- CCC/C
13	50.001 - 99.999	-	-	-	-	-	- N/A
14	100.000	-	-	-	-	-	- N/A
Unrated		-	-	-	-	-	- N/A
Total		172,414	0.12	46	148,953	20,516	12

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3.8 Risk grade profile continued

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

2015								Standard & Poor's
SCB internal ratings	PD range %	EAD after the effect of CRM \$million	Average PD %	Average LGD %	Average EAD \$million	RWA \$million	RWA Density %	external rating equivalent
1A	0.000 - 0.015	-	-	-	-	-	-	AAA/AA+
1B	0.016 - 0.025	-	-	-	-	-	-	AA/AA-
2A	0.026 - 0.035	34,230	0.03	21	37,888	2,237	5	AA-/A+
2B	0.036 - 0.045	13,709	0.04	25	14,868	1,040	7	A+
3A	0.046 - 0.060	13,011	0.05	18	14,238	1,265	6	A
3B	0.061 - 0.083	6,376	0.07	21	9,166	815	9	A-
4A	0.084 - 0.110	4,371	0.09	25	5,634	661	13	A-
4B	0.111 - 0.170	7,501	0.13	29	7,792	1,822	19	BBB+
5A	0.171 - 0.300	5,676	0.22	24	8,676	1,990	23	BBB/BBB-
5B	0.301 - 0.425	1,183	0.39	24	1,493	562	29	BB+
6A	0.426 - 0.585	517	0.51	32	718	283	48	BB
6B	0.586 - 0.770	796	0.68	21	820	559	36	BB
7A	0.771 - 1.020	968	0.92	32	1,395	771	63	BB-
7B	1.021 - 1.350	623	1.20	36	639	530	76	B+
8A	1.351 - 1.750	569	1.55	38	537	530	86	B+/B
8B	1.751 - 2.350	749	2.05	33	642	794	83	B
9A	2.351 - 3.050	150	2.67	40	498	168	110	B-
9B	3.051 - 4.000	97	3.51	15	134	128	46	B-/CCC
10A	4.001 - 5.300	12	4.80	41	49	17	141	B-/CCC
10B	5.301 - 7.000	13	6.05	41	16	20	153	CCC/C
11A/B/C	7.001 - 15.750	269	11.03	34	200	504	156	CCC/C
12A/B/C	15.751 - 50.000	4	19.08	41	4	9	243	CCC/C
13	50.001 - 99.999	94	99.99	63	133	737	782	N/A
14	100.000	176	100	41	102	4	2	N/A
Unrated	-	-	-	-	-	-	-	N/A
Total		91,094	0.38	23	105,637	15,446	13	

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3.8 Risk grade profile continued

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

2014							
SCB internal ratings	PD range %	EAD after the effect of CRM \$million	Average PD %	Average LGD %	Average EAD \$million	RWA \$million	Standard & Poor's RWA external rating Density equivalent %
1A	0.000 - 0.015	-	-	-	-	-	- AAA/AA+
1B	0.016 - 0.025	-	-	-	-	-	- AA/AA-
2A	0.026 - 0.035	41,546	0.03	20	43,633	2,643	5 AA-/A+
2B	0.036 - 0.045	16,026	0.04	27	17,350	1,280	7 A+
3A	0.046 - 0.060	15,464	0.05	24	17,573	1,426	8 A
3B	0.061 - 0.083	11,955	0.07	22	11,892	1,415	8 A-
4A	0.084 - 0.110	6,896	0.09	29	8,639	1,042	13 A-
4B	0.111 - 0.170	8,083	0.13	28	8,428	1,692	20 BBB+
5A	0.171 - 0.300	11,676	0.22	28	9,692	3,641	25 BBB/BBB-
5B	0.301 - 0.425	1,803	0.39	26	3,526	798	28 BB+
6A	0.426 - 0.585	919	0.51	27	2,431	519	34 BB
6B	0.586 - 0.770	844	0.68	20	1,053	491	41 BB
7A	0.771 - 1.020	1,822	0.91	28	2,275	1,162	49 BB-
7B	1.021 - 1.350	654	1.20	29	890	475	55 B+
8A	1.351 - 1.750	504	1.55	39	525	404	79 B+/B
8B	1.751 - 2.350	535	2.04	30	623	490	68 B
9A	2.351 - 3.050	845	2.70	31	742	807	79 B-
9B	3.051 - 4.000	171	3.46	21	523	167	43 B-/CCC
10A	4.001 - 5.300	86	4.60	39	158	100	110 B-/CCC
10B	5.301 - 7.000	19	6.07	29	38	25	135 CCC/C
11A/B/C	7.001 - 15.750	130	9.03	40	97	215	165 CCC/C
12A/B/C	15.751 - 50.000	3	21.55	43	14	8	237 CCC/C
13	50.001 - 99.999	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

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3.8 Risk grade profile continued

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

2015								
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	45	0	70	23	2	4	AAA
1B	0.016 - 0.025	-	-	-	-	-	-	AA+
2A	0.026 - 0.035	6,550	0.03	23	6,163	865	7	AA
2B	0.036 - 0.045	6,018	0.04	36	6,112	671	11	AA-
3A	0.046 - 0.060	8,879	0.05	27	7,057	1,251	10	A+
3B	0.061 - 0.083	11,119	0.07	38	11,178	2,310	19	A
4A	0.084 - 0.110	10,752	0.09	43	12,605	2,922	24	A-
4B	0.111 - 0.170	16,227	0.13	45	16,799	5,550	30	BBB+
5A	0.171 - 0.300	16,485	0.22	42	18,190	7,742	38	BBB
5B	0.301 - 0.425	12,316	0.39	38	13,765	7,792	48	BBB-
6A	0.426 - 0.585	9,827	0.51	38	10,323	7,396	58	BB+
6B	0.586 - 0.770	8,542	0.67	39	9,400	6,889	64	BB+
7A	0.771 - 1.020	8,075	0.90	38	9,648	7,403	69	BB
7B	1.021 - 1.350	6,105	1.18	35	6,657	5,880	69	BB-
8A	1.351 - 1.750	4,392	1.55	36	5,834	4,933	78	BB-
8B	1.751 - 2.350	5,828	2.05	35	6,278	7,298	82	BB-/B+
9A	2.351 - 3.050	3,517	2.71	33	4,398	4,840	93	B+
9B	3.051 - 4.000	3,490	3.55	36	3,639	4,875	97	B+/B
10A	4.001 - 5.300	2,074	4.63	36	2,647	3,345	109	B
10B	5.301 - 7.000	1,714	6.13	39	1,629	3,109	129	B/B-
11A/B/C	7.001 - 15.750	2,422	11.90	25	2,566	6,642	120	B- or B-/CCC
12A/B/C	15.751 - 50.000	901	25.67	46	2,756	4,118	263	B-/CCC
13	50.001 - 99.999	901	99.85	45	1,397	6,234	516	N/A
14	100.000	9,050	100	58	6,390	21,776	221	N/A
Unrated	-	-	-	-	-	-	-	N/A
Total		155,229	6.66	38	165,449	123,843	61	

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3.8 Risk grade profile continued

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

2014								
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	0.016 - 0.025	-	-	-	-	-	-	AA+
2A	0.026 - 0.035	5,775	0.03	46	4,940	751	13	AA
2B	0.036 - 0.045	6,206	0.04	46	3,941	729	11	AA-
3A	0.046 - 0.060	5,235	0.05	42	4,350	833	15	A+
3B	0.061 - 0.083	11,236	0.07	43	9,845	2,276	19	A
4A	0.084 - 0.110	14,458	0.09	51	12,774	3,823	25	A-
4B	0.111 - 0.170	17,371	0.13	49	13,889	6,313	30	BBB+
5A	0.171 - 0.300	19,894	0.22	45	18,465	10,018	41	BBB
5B	0.301 - 0.425	15,214	0.39	43	15,051	9,339	50	BBB-
6A	0.426 - 0.585	10,819	0.52	46	10,666	8,993	68	BB+
6B	0.586 - 0.770	10,258	0.67	39	10,600	8,568	58	BB+
7A	0.771 - 1.020	11,221	0.90	43	10,065	11,275	77	BB
7B	1.021 - 1.350	7,208	1.18	32	7,469	6,814	65	BB-
8A	1.351 - 1.750	7,275	1.55	43	6,950	8,294	89	BB-
8B	1.751 - 2.350	6,728	2.04	34	7,061	8,498	82	BB-/B+
9A	2.351 - 3.050	5,279	2.70	35	4,817	7,174	90	B+
9B	3.051 - 4.000	3,787	3.56	36	3,997	5,506	94	B+/B
10A	4.001 - 5.300	3,220	4.62	39	3,918	5,417	117	B
10B	5.301 - 7.000	1,543	6.15	37	1,402	2,665	118	B/B-
11A/B/C	7.001 - 15.750	2,710	11.76	31	2,704	7,064	135	B- or B-/CCC
12A/B/C	15.751 - 50.000	4,610	23.54	51	3,371	16,423	267	B-/CCC
13	50.001 - 99.999	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	

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3.8 Risk grade profile continued

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

2015

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	0.016 - 0.025	-	-	-	-	-	-
2A	0.026 - 0.035	1,883	0.03	14	1,709	276	1
2B	0.036 - 0.045	215	0.04	12	178	175	3
3A	0.046 - 0.060	258	0.05	14	232	228	4
3B	0.061 - 0.083	1,198	0.07	30	1,206	303	5
4A	0.084 - 0.110	2,062	0.09	36	2,145	438	6
4B	0.111 - 0.170	2,222	0.14	39	2,226	560	8
5A	0.171 - 0.300	3,735	0.22	42	3,643	1,176	13
5B	0.301 - 0.425	1,981	0.36	49	2,080	891	23
6A	0.426 - 0.585	1,891	0.50	50	1,892	1,005	28
6B	0.586 - 0.770	1,413	0.67	43	1,632	994	31
7A	0.771 - 1.020	1,681	0.89	55	1,509	1,046	40
7B	1.021 - 1.350	902	1.17	46	1,059	838	46
8A	1.351 - 1.750	980	1.53	54	1,066	901	57
8B	1.751 - 2.350	913	2.06	48	1,095	1,120	62
9A	2.351 - 3.050	1,128	2.71	67	1,184	1,320	88
9B	3.051 - 4.000	1,102	3.50	71	1,238	1,356	97
10A	4.001 - 5.300	1,314	4.55	71	1,271	1,656	103
10B	5.301 - 7.000	878	6.02	76	1,070	1,194	121
11A/B/C	7.001 - 15.750	1,336	10.09	79	1,534	2,279	153
12A/B/C	15.751 - 50.000	482	26.62	73	534	1,226	205
13	50.001 - 99.999	164	80.77	73	184	236	122
14	100.000	547	100	63	482	1,016	143
Unrated	-	-	-	-	-	-	-
Total		28,285	1.84	35	29,162	20,234	23

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3.8 Risk grade profile continued

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

2014							
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	0.016 - 0.025	-	-	-	-	-	-
2A	0.026 - 0.035	1,535	0.03	15	1,697	264	2
2B	0.036 - 0.045	140	0.04	12	155	124	3
3A	0.046 - 0.060	205	0.05	15	242	223	3
3B	0.061 - 0.083	1,213	0.07	30	1,285	278	5
4A	0.084 - 0.110	2,228	0.09	40	2,288	432	6
4B	0.111 - 0.170	2,229	0.14	37	2,284	614	8
5A	0.171 - 0.300	3,550	0.23	42	3,613	1,326	13
5B	0.301 - 0.425	2,178	0.36	49	2,316	1,034	23
6A	0.426 - 0.585	1,893	0.50	50	2,065	1,127	30
6B	0.586 - 0.770	1,850	0.66	53	1,930	1,132	34
7A	0.771 - 1.020	1,337	0.88	46	1,445	1,180	40
7B	1.021 - 1.350	1,216	1.17	51	1,344	1,143	51
8A	1.351 - 1.750	1,151	1.53	55	1,331	1,144	60
8B	1.751 - 2.350	1,277	2.05	54	1,360	1,686	72
9A	2.351 - 3.050	1,239	2.68	65	1,297	1,411	83
9B	3.051 - 4.000	1,373	3.50	69	1,451	1,659	98
10A	4.001 - 5.300	1,228	4.56	68	1,302	1,652	102
10B	5.301 - 7.000	1,262	6.15	71	1,388	1,850	118
11A/B/C	7.001 - 15.750	1,731	9.91	72	1,851	3,030	144
12A/B/C	15.751 - 50.000	585	25.63	75	614	1,420	209
13	50.001 - 99.999	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

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3.9. Credit quality steps profile

External ratings, where available, are used to assign risk weights for standardised approach (SA) exposures. 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: Standardised approach exposure at default pre CRM by credit quality steps

Exposure Class	2015							Total \$million
	Step 1 \$million	Step 2 \$million	Step 3 \$million	Step 4 \$million	Step 5 \$million	Step 6 \$million	Unrated \$million	
Central governments or central banks	88	-	99	241	-	-	3,913	4,341
Multilateral development banks	16,984	-	-	-	-	-	1,148	18,132
Institutions	5,043	90	214	15	44	-	6,009	11,415
Corporates	2,955	171	10	37	-	-	23,605	26,778
Retail	374	-	-	-	-	-	12,629	13,003
Secured on real estate property	-	1	-	-	-	-	16,195	16,196
Exposures in default	-	-	-	-	-	-	660	660
Items belonging to regulatory high risk categories	-	1	5	-	-	1	3,349	3,356
Other items	-	-	-	-	-	-	11,351	11,351
Total Standardised	25,444	263	328	293	44	1	78,859	105,232

Table 31: Standardised approach exposure at default pre CRM by credit quality steps

Exposure Class	2014							Total \$million
	Step 1 \$million	Step 2 \$million	Step 3 \$million	Step 4 \$million	Step 5 \$million	Step 6 \$million	Unrated \$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	55	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
Exposures in default	-	-	-	-	-	-	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

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3.9. Credit quality steps profile

Table 32: Standardised approach exposure at default after CRM by credit quality steps

Exposure Class	2015							Total \$million
	Step 1 \$million	Step 2 \$million	Step 3 \$million	Step 4 \$million	Step 5 \$million	Step 6 \$million	Unrated \$million	
Central governments or central banks	84	-	99	241	-	-	3,917	4,341
Multilateral development banks	16,984	-	-	-	-	-	1,148	18,132
Institutions	513	90	215	16	44	-	4,995	5,873
Corporates	636	156	10	18	-	-	14,857	15,677
Retail	339	-	-	-	-	-	12,054	12,393
Secured on real estate property	-	1	-	-	-	-	480	481
Exposures in default	-	-	-	-	-	-	510	510
Items belonging to regulatory high risk categories	-	1	5	-	-	-	3,269	3,275
Other items	-	-	-	-	-	-	11,351	11,351
Total Standardised	18,556	248	329	275	44	-	52,581	72,033

Table 32: Standardised approach exposure at default after CRM by credit quality steps

Exposure Class	2014							Total \$million
	Step 1 \$million	Step 2 \$million	Step 3 \$million	Step 4 \$million	Step 5 \$million	Step 6 \$million	Unrated \$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
Exposures in default	-	-	-	-	-	-	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

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3.10. Counterparty credit risk

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.

CCR 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.

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.

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.

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3.10. Counterparty credit risk 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

	2015				
	EAD before netting benefit \$million	Netting benefits \$million	Netted current credit exposure \$million	Collateral held \$million	Net derivatives credit exposure \$million
Derivative contracts	127,192	67,822	59,370	6,225	53,145
Repo style transactions	54,528	-	54,528	43,025	11,503
Credit derivatives	1,341	761	580	133	447
Total	183,061	68,583	114,478	49,383	65,095

Table 33: Counterparty credit risk

	2014 ¹				
	EAD before netting benefit \$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	509	145	363
Total	159,243	79,691	84,183	25,055	54,496

¹ This relates to counterparty credit risk in the trading book

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

	2015			2014 ¹		
	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	2,780,857	11,129	208	3,765,189	12,444	266
Foreign exchange contracts	3,171,976	37,251	951	3,201,765	36,816	906
Equity and stock index options	9,384	3,603	38	16,585	572	22
Commodity contracts	96,984	7,387	224	130,058	7,721	248
Credit derivatives:						
Credit default swaps	21,744	298	6	29,281	354	5
Total return swaps	1,817	282	6	2,774	154	4
Total derivatives	6,082,762	59,950	1,433	7,145,652	58,061	1,451
Repo style transactions:						
Repo	-	20,827	55	-	8,732	17
Reverse repo	-	33,701	68	-	17,390	75
Total	6,082,762	114,478	1,556	7,145,652	84,183	1,543

¹ This relates to counterparty credit risk in the trading book

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3.10. Counterparty credit risk continued

Table 35: Counterparty credit risk analysis

	2015				2014			
	Traded on recognised exchanges	Settled by central counterparties	Not settled by central counterparties	Total	Traded on recognised exchanges	Settled by central counterparties	Not settled by central counterparties	Total
	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Derivative contracts:								
Interest rate contracts	-	976,153	1,804,704	2,780,857	-	1,071,784	2,693,405	3,765,189
Foreign exchange contracts	-	0	3,171,976	3,171,976	-	-	3,201,765	3,201,765
Equity and stock index options	23	-	9,361	9,384	10	-	16,575	16,585
Commodity contracts	-	25,666	71,318	96,984	-	39,776	90,282	130,058
Credit derivatives	-	-	23,561	23,561	-	-	32,055	32,055
Total derivatives	23	1,001,819	5,080,920	6,082,762	10	1,111,560	6,034,082	7,145,652

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

	2015			2014		
	Bought \$million	Sold \$million	Total ¹ \$million	Bought \$million	Sold \$million	Total ¹ \$million
Credit default swaps	10,461	11,283	21,744	16,613	12,668	29,281
Total return swaps	1,393	424	1,817	2,591	183	2,774
Total credit derivatives	11,854	11,707	23,561	19,204	12,851	32,055

¹ Principally related to intermediary activity

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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 \$29.5 billion (2014: \$31.4 billion) of EAD classified as securitisation positions, as shown in Table 12 on page 21. 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 (2014: \$0.1 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 2015 Annual Report.

Asset Backed Securities

The carrying value of Asset Backed Securities (ABS) of \$7.7 billion (2014: \$10.2 billion), held either as investments or arranged for clients, represents 1 per cent of the Group's total assets (2014: 1 per cent).

The year on year decrease in this portfolio is mainly attributable to natural amortisations, reduction in the bank's legacy portfolio and reduced ABS positions in the liquidity portfolio purchased by the Asset and Liability Management (ALM) desk. 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. 98 per cent of the overall portfolio is rated A- or better, and over 91 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+.

38 per cent of the overall portfolio is invested in Residential Mortgage Backed Securities (RMBS), with a weighted average credit rating of AAA (AAA in 2014).

18 per cent of the overall portfolio is in Credit Cards ABS and 35 per cent in Auto ABS, with a weighted average credit rating of AAA.

7 per cent of the overall portfolio is in Other ABS, which mainly includes securities backed by diversified payment types and trade receivables with a weighted credit rating of A.

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 2015 Annual Report. The ABS portfolio is assessed frequently for objective evidence of impairment. In 2015, there were no additional impairments in the portfolio, with write backs on impaired book seen through asset sales.

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.

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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

	2015			2014		
	Carrying value of asset backed securities	Notional amount		Carrying value of asset backed securities	Notional amount	
		Traditional securitisation programmes	Synthetic securitisation programmes		Traditional securitisation programmes	Synthetic securitisation programmes
	\$million	\$million	\$million	\$million	\$million	\$million
Residential Mortgage Backed Securities (RMBS)	2,983	2,988	-	4,007	4,002	-
Collateralised Debt Obligations (CDOs)	15	35	-	54	82	-
(CMBS)	38	75	-	325	389	-
Auto Asset Backed Securities	1,435	1,438	-	2,185	2,185	-
Credit Cards Asset Backed Securities	2,696	2,705	-	2,982	2,984	-
Other Asset Backed Securities	566	567	-	628	627	-
	7,733	7,808	-	10,181	10,270	-
Of which included within:						
Financial assets held at fair value through profit or loss	96	96	-	282	286	-
Investment securities - available-for-sale	6,489	6,551	-	8,548	8,624	-
Investment securities - loans and receivables	1,148	1,161	-	1,351	1,360	-
	7,733	7,808	-	10,181	10,270	-

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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 2015 \$52 million of Trade Finance (2014: \$89 million) and \$26 million of Commercial Loans (2014: \$84 million) totalling \$78 million (2014: \$173 million) of securitised exposures were classified as impaired and past due. The year on year decrease is mainly attributable to significant number of securitisation transactions maturing in 2015 and hence the impaired and past due referenced in these securitisation transactions as of 2014 have dropped off.

The Group has eight synthetic securitisation transactions originated and managed by PM, with an aggregate hedge capacity of \$23.0 billion (2014: \$22.2 billion). Of the eight transactions, four are private transactions with bilateral investors and four are public transactions distributed to a broad spectrum of investors. All eight transactions are structured as non-disclosed pools for reason of client confidentiality. Four securitisation transactions were originated in 2015 to replace matured transactions.

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.

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3.11. Securitisation continued

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 implementing Basel III agreement was published on 27 June 2013 and Institutions started to apply the new rules from the 1 January 2014.

Accounting

The Group's approach to accounting for SPEs can be found in the notes to the financial statements in the 2015 Annual Report.

All programmes listed in the tables below are rated by an external credit assessment institution, namely Moody's.

Table 38: Securitisation programmes (as originator)

2015

		Public /			Maximum	Retained	Outstanding	Capital	Capital
	Underlying facilities hedged	Private	Start date	Scheduled maturity	notional	exposures ¹	exposures ²	requirement before securitisation	requirement after securitisation ³
					\$million	\$million	\$million	\$million	\$million
Start VIII	Commercial Loan	Public	Nov-12	May-16	1,490	1,395	1,260	75	24
Mana IV	Trade Finance	Private	Jun-14	Jun-16	3,986	3,760	3,697	186	57
Start IX	Commercial Loan	Public	Apr-14	Oct-17	1,491	1,395	1,327	84	25
Sumeru II	Commercial Loan	Private	Dec-14	Jun-18	3,500	3,255	3,098	201	76
Shangren III	Trade Finance	Private	Jun-15	Sep-18	3,990	3,760	3,692	191	64
Sealane III	Trade Finance	Public	Jun-15	Dec-18	2,995	2,835	2,758	149	55
Start X	Commercial Loan	Public	Sep-15	Mar-19	3,500	3,264	3,181	210	78
Baruntse	Commercial Loan	Private	Nov-15	May-19	2,000	1,865	1,770	116	45
Total					22,952	21,529	20,783	1,212	424

2014

		Public/			Maximum	Retained	Outstanding	Capital	Capital
	Underlying facilities hedged	Private	Start date	Scheduled maturity	notional	exposures ¹	exposures ²	requirement before securitisation	requirement after securitisation ³
					\$million	\$million	\$million	\$million	\$million
Sealane II	Trade Finance	Public	Aug-11	Feb-15	2,982	2,802	1,747	91	38
Shangren II	Trade Finance	Private	Dec-11	Mar-15	2,496	2,325	2,284	123	22
Pamir	Trade Finance	Private	Oct-11	Apr-15	1,494	1,404	1,399	82	23
Start VII	Commercial Loan	Public	Dec-11	Jun-15	2,000	1,860	1,810	111	44
Pumori	Commercial Loan	Private	Mar-12	Sep-15	1,248	1,160	1,095	73	25
Oryza 1	Commercial Loan	Private	Jun-12	Dec-15	1,488	1,383	1,310	86	22
Start VIII	Commercial Loan	Public	Nov-12	May-16	1,489	1,384	1,326	90	23
Mana IV	Trade Finance	Private	Jun-14	Jun-16	4,000	3,760	3,837	213	71
Start IX	Commercial Loan	Public	Apr-14	Oct-17	1,500	1,395	1,415	102	34
Sumeru II	Commercial Loan	Private	Dec-14	Jun-18	3,500	3,255	3,303	231	76
Total					22,197	20,728	19,526	1,202	378

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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 requirement after securitisation includes \$56 million capital retained due to currency and collateral haircuts (2014 : \$57 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

2015											
Credit Assessments		Originated						ABS		Total	
		Senior		Non Senior		Non Granular Pools					
		Risk weight %	Exposure \$ million	Capital requirement \$ million	Exposure \$ million	Capital requirement \$ million	Exposure \$ million	Capital requirement \$ million	Exposure \$ million	Capital requirement \$ million	Exposure \$ million
Moody's											
Aaa	7% to 20%	17,463	104	515	5	-	-	7,079	42	25,057	151
Aa	8% to 25%	-	-	-	-	-	-	132	-	132	-
A1	10% to 35%	-	-	1,845	28	-	-	22	-	1,867	28
A2	12% to 35%	-	-	-	-	-	-	88	1	88	1
A3	20% to 35%	-	-	766	23	-	-	330	6	1,096	29
Baa1	35% to 50%	-	-	509	22	-	-	50	1	559	23
Baa2	60% to 75%	-	-	-	-	-	-	50	2	50	2
Baa3	100%	-	-	215	18	-	-	-	-	215	18
Ba1	250%	-	-	-	-	-	-	-	-	-	-
Ba2	425%	-	-	-	-	-	-	-	-	-	-
Ba3	650%	-	-	-	-	-	-	-	-	-	-
Supervisory		-	-	1,471	56	-	-	-	-	1,471	56
Deductions		-	-	168		-	-	57	-	225	-
Total		17,463	104	5,489	152	-	-	7,808	52	30,760	308

2014											
Credit Assessments		Originated						ABS		Total	
		Senior		Non Senior		Non Granular Pools					
		Risk weight	Capital requirement	Capital requirement	Capital requirement	Capital requirement	Capital requirement	Exposure	Capital requirement	Exposure	Capital requirement
Moody's	%	\$ million	\$ million	\$ million	\$ million	\$ million	\$ million	\$ million	\$ million	\$ million	\$ 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		-	-	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

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3.11. Securitisation continued

In the following table, securitisation programmes present the maximum notional of the securitised exposures by geography.

Table 40: Securitisation positions by region

	2015			2014		
	Securitisation programmes \$million	ABS \$million	Total \$million	Securitisation programmes \$million	ABS \$million	Total \$million
Greater China	6,251	58	6,309	6,741	174	6,915
North East Asia	1,484	574	2,058	1,003	765	1,768
South Asia	3,361	-	3,361	2,862	-	2,862
ASEAN	4,686	993	5,679	4,333	1,536	5,869
MENAP	3,163	413	3,576	2,745	-	2,745
Africa	1,514	-	1,514	1,478	-	1,478
Americas	1,184	1,728	2,912	1,049	2,262	3,311
Europe	1,309	4,042	5,351	1,067	5,444	6,511
Total	22,952	7,808	30,760	21,278	10,181	31,459

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3.12. Encumbered and unencumbered assets

The following is disclosures of encumbered and unencumbered assets is based on the requirements in Part Eight of the CRR and related guidelines issued by the EBA on 27 June 2014

Table 41: Encumbered and unencumbered assets

	2015			
	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
	\$million	\$million	\$million	\$million
Assets of Reporting Institution	21,810	-	680,390	-
Equity Instruments	-	-	7,255	7,255
Debt Securities	5,565	5,565	124,223	124,244
Other Assets ¹	16,741	-	547,186	-

¹All remaining regulatory balance sheet assets

Table 42: Encumbered assets/collateral received and associated liabilities

	2015	
	Matching liabilities contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
	\$million	\$million
Carrying amount of selected financial liabilities	27,476	29,763

In accordance to the threshold criteria set out by the Supervisory Standards issued by the PRA (SS11/14) in Compliance with the EBA's Guidelines on the disclosure of encumbered and unencumbered assets, the Group is not required to report the fair value of encumbered collateral received.

As at 31 December 2015, the Group had a median value of \$22 billion of encumbered assets and \$680 billion of unencumbered assets. These numbers differ from the Group's disclosures in the 2015 Annual Report of \$20 billion (2014: \$20 billion) encumbered assets and \$620 billion (2014: \$705 billion) of unencumbered assets. This is mainly due to the basis of calculation as per EBA guidelines, which is based on median values using quarterly data.

Encumbered assets represent those on-balance sheet assets pledged or used as collateral in respect of certain Group liabilities. Debt securities are predominantly related to repurchase agreements. Other assets include Hong Kong government certificates of indebtedness, which secure currency notes in circulation and cash collateral pledged against derivatives are included in other assets. Taken together, these encumbered assets represent 3.2 per cent (2014: 2.8 per cent) of total assets, continuing the Group's historical low level of encumbrance.

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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 primarily driven by the volume of client activity rather than risk-taking. 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.

Interest rate risk from non-trading book portfolios is transferred to Financial Markets where it is managed by local Asset and Liability Management (ALM) desks under the supervision of local Asset and Liability Committees. ALM deals in the market in approved financial instruments in order to manage the net interest rate risk, subject to approved Value-at-Risk (VaR) and risk limits.

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 2015 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 2015 Annual Report.

Management VaR

Management VaR is used by management to monitor the total market risk within the trading and banking books.

Regulatory Var

Regulatory VaR is used to estimate the potential loss, from market movements, across trading book positions for which the Bank has received permission to apply the Internal Model Approach (IMA). Regulatory VaR, including Stressed VaR and Risk Not in VaR (RNIV) measures, is used to calculate market risk RWA for positions falling under the IMA permission.

Regulatory VaR vs Management VaR

Variable	Regulatory VaR	Management VaR
Confidence level	99%	97.5%
Historical Observation Period	1 year	1 year
Liquidity Horizon	1 day	1 day
Scope	As approved by the UK PRA, under Internal Model Approval (IMA)	All non-structural market risk exposures across the trading and non-trading books.

Backtesting

Backtesting is performed to ensure that the VaR model is fit for purpose. It measures the ability of the model to correctly predict potential losses under normal trading conditions, for a certain confidence level.

A backtesting breach is recorded when the net trading P&L loss in one day is greater than the estimated VaR for the same day. Prudential regulation specifies that a model with fewer than 5 backtesting exceptions in a 12 month period is deemed to be in the 'green zone'. During 2015, SCB remained in the 'green zone'.

Regulatory Stress Testing

Group-wide stress testing is performed to measure the potential loss on a portfolio of financial positions due to low probability market events or risk to the Bank posed by a breakdown of risk model assumptions.

So stress testing supplements the use of VaR as the primary measure of risk. The roles and responsibilities of the various business functions are set out in a Market Risk Stress Testing Policy.

Market risk changes

The average level of Total VaR in 2015 was slightly lower than in 2014 by 4 per cent. This decline was due to reductions in both average Equity VaR (by 23 per cent) as listed Private Equity positions were reduced, and average trading book interest rate VaR (by 25 per cent) as positions declined. Otherwise for the other risk classes average VaR levels rose in 2015 with heightened market volatility due to uncertainty about the Chinese economy and the timing of anticipated US interest rate rises.

The actual level of Total VaR as at 31 December was 36 per cent higher in 2015 than in 2014 reflecting increased levels of VaR in all categories except Equities. The main driver for the rise was non-trading book interest rate risk which rose by 68 per cent due to increased market volatility in 2015. Equities VaR was lower by 33 per cent due to reduced positions in both listed Private Equity and on the trading book.

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4. Market risk continued

Table 43: Daily management value at risk by risk type (VaR at 97.5 per cent, one day)

	2015				2014			
	Average	High ⁴	Low ⁴	Actual ⁵	Average	High ⁴	Low ⁴	Actual ⁵
By risk type	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Trading and non-trading								
Interest rate risk	26.9	35.5	18.9	30.7	25.8	36.8	19.0	22.0
Foreign exchange risk	4.9	9.0	2.3	4.8	3.6	6.7	2.2	4.7
Commodity risk	1.6	2.6	0.7	1.6	1.4	2.9	0.7	0.7
Equity risk	13.7	18.2	9.7	11	17.9	20.0	15.1	16.4
Total ³	32.9	45.9	24.4	36.1	34.4	47.4	25.2	26.5
Trading ¹								
Interest rate risk ²	7.0	8.8	5.3	6.4	9.3	21.3	5.7	5.7
Foreign exchange risk	4.9	9.0	2.3	4.8	3.6	6.7	2.2	4.7
Commodity risk	1.6	2.6	0.7	1.6	1.4	2.9	0.7	0.7
Equity risk	1.7	2.8	0.7	0.8	1.6	2.4	1.3	2.0
Total ³	9.9	13.2	6.8	9.7	10.6	20.8	7.1	7.6
Non-trading								
Interest rate risk ²	24.1	34.6	15.6	30.3	20.9	27.4	14.6	18.0
Equity risk	12.9	17.9	9.2	10.4	17.2	19.1	15.5	16.1
Total ³	29.6	37.8	23.2	31.4	30.1	39.0	17.3	25.1

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

	2015				2014			
	Average	High ⁴	Low ⁴	Actual ⁵	Average	High ⁴	Low ⁴	Actual ⁵
By product	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Total Trading and Non-trading	32.9	45.9	24.4	36.1	34.4	47.4	25.2	26.5
Trading ¹								
Rates	5.5	7.0	3.5	5.1	6.3	13.7	3.7	3.9
Global FX	4.9	9.0	2.3	4.8	3.6	6.7	2.2	4.7
Credit Trading & Capital Markets	2.7	4.3	1.9	2.4	3.9	8.2	2.8	2.8
Commodities	1.6	2.6	0.7	1.6	1.4	2.9	0.7	0.7
Equities	1.7	2.8	0.7	0.8	1.6	2.4	1.3	2.0
Total ³	9.9	13.2	6.8	9.7	10.6	20.8	7.1	7.6
Non-trading								
ALM	24.1	34.6	15.6	30.3	20.6	26.6	14.5	17.7
Other FM non-trading book	0.6	2.2	0.1	0.3	1.2	1.5	0.9	1.3
Listed private equity	12.9	17.9	9.2	10.4	17.2	19.1	15.5	16.1
Total ³	29.6	37.8	23.2	31.4	30.1	39.0	17.3	25.1

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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 2015 the Group's market risk regulatory capital requirement was \$1,753 million (31 December 2014: \$1,624 million). The increase from 2014 was largely attributable to a change in the capitalisation of exposures booked in Standard Chartered Bank (China) Limited, which is now capitalised on a standalone basis.

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

Table 45: Market risk regulatory capital requirements

	2015		2014	
	Regulatory capital requirement	Risk Weighted Assets	Regulatory capital requirement	Risk Weighted Assets
	\$million	\$million	\$million	\$million
Market risk capital requirements for trading book				
Interest rate ¹	297	3,713	398	4,973
Equity	13	163	88	1,100
Options	256	3,200	152	1,900
Commodity ²	15	187	28	350
Foreign exchange ²	206	2,575	222	2,775
Internal Models Approach ³	966	12,075	736	9,197
Total	1,753	21,913	1,624	20,295

¹ Securitisation positions contributed \$17 million to the interest rate position risk requirement (PRR) and \$20.9 million to interest rate RWA as at 31 December 2015 (securitised positions contributed \$4.7 million to the interest rate PRR and \$58.8 million to interest rate RWA as at 31 December 2014)

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

Internal Models Approach – Stressed VaR

The table below shows the average, high and low Stressed VaR for the period January 2015 to December 2015 and the actual

position on 31 December 2015. The Stressed VaR results reflect only the Group portfolio covered by the internal model approach and are calculated at a 99 per cent confidence level.

Table 46: Stressed VaR

	2015				2014			
	Average \$million	High ¹ \$million	Low ¹ \$million	Actual ² \$million	Average \$million	High ¹ \$million	Low ¹ \$million	Actual ² \$million
Stressed VaR	41.4	63.1	24.6	26.9	41.5	69.5	21.7	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 47: Stressed VaR contribution to Group level IMA capital requirements

	2015		2014	
	Regulatory capital requirement	Risk-Weighted Assets	Regulatory capital requirement	Risk-Weighted Assets
	\$million	\$million	\$million	\$million
IMA market risk capital requirements for the trading book				
VaR - based	210	2,625	244	3,050
Stressed VaR - based	756	9,450	492	6,150
Incremental risk charge	-	-	-	-
All price risk	-	-	-	-
Total	966	12,075	736	9,200

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5. Interest rate risk in the banking book

Interest rate risk in the banking book is predominantly managed by the ALM function within Financial Markets. Interest rate risk positions are measured, reported and monitored independently against limits on a daily basis.

Assumptions on loan prepayment and behaviour of deposits are country and product specific. Transfer pricing of interest rate risk is overseen by local ALCOs in accordance with the Group's Fund Transfer Pricing Policy.

The interest rate risk in the client businesses outside of the trading book is transferred to ALM where it is managed on an integrated basis. The risk is measured and reported on an economic value basis irrespective of accounting treatments and summarised in Table 48. This table reflects ALM's interest rate risk profile (at year end) and is a measure of the economic value sensitivity that would result from increasing interest rates by 1 basis point (instantaneous parallel shift). The PV01 is controlled and monitored at country and currency level. Any basis risk that is not transferred and cannot be hedged by ALM is reported and overseen at local ALCOs.

Table 48: Non-trading book PV01 by currency

	2015	2014
	Actual ¹	Actual ¹
By currency	\$million	\$million
HKD	0.3	0.2
INR	(0.6)	(0.5)
KRW	(0.5)	(0.4)
RMB ²	(0.5)	(0.3)
SGD	0.1	0.3
USD ³	-	(0.5)
Other	(0.8)	(0.4)
Total Non-trading book	(2.0)	(1.7)

¹ Actual PV01 at period end date

² RMB includes onshore CNY and CNH

³ The figures may not add up due to rounding.

The changes during 2015 reflect consistent balance sheet management activities as well as the relatively benign interest rate environment leading ALM to actively hedge longer dated interest rate risk.

Interest rate risk originated in Group Treasury arises primarily from the investment into the Group of equity and other non-rate sensitive capital resources. The resulting interest-rate risk has a structural component and remains in Group Treasury. This

structural risk is measured monthly in terms of the impact on net interest income (NII) of an instantaneous 25 bps interest rate parallel shift up and down.

Structural exposures remaining in Group Treasury are largely denominated in functional currencies across the Group's worldwide operations. The currency split of Group Treasury's Earnings at risk is presented in Table 49.

Table 49: Group Treasury Earnings at Risk by currency

	2015	2015	2014	2014
	Actual ¹	Actual ¹	Actual ¹	Actual ¹
	\$million	\$million	\$million	\$million
By currency	+25bp	-25bp	+25bp	-25bp
HKD	11	(11)	10	(10)
SGD	2	(2)	2	(2)
INR	4	(4)	3	(3)
USD ²	10	(10)	2	(2)
OTH	19	(19)	22	(22)
Total Non-trading book	47	(47)	39	(39)

¹ Actual PV01 at period end date

² The main change between 2014 and 2015 is driven by the rights issue in December 2015

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6. 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 regulatory defined beta co-efficient is applied to the average gross income for the previous three years across each of the eight business lines prescribed in the 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 2015 Annual Report. The table below details the operational risk capital requirement for the Group:

Table 50: Operational risk regulatory capital requirement and RWA by business

	2015		2014	
	Regulatory capital requirement \$million	Risk-Weighted Assets \$million	Regulatory capital requirement \$million	Risk-Weighted Assets \$million
Corporate and Institutional Clients	1,807	22,586	1,786	22,322
Commercial Clients	141	1,759	222	2,778
Private Banking Clients	81	1,015	72	902
Retail Clients	820	10,250	729	9,105
Total	2,849	35,610	2,809	35,107

7. Forward-looking statements

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

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

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.

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Annex 1. Standard Chartered Significant Subsidiaries

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 the 2015 Annual Report. Annex 2 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 A: Capital resources of significant subsidiaries

	2015			2014		
	Standard Chartered Bank ¹	Standard Chartered Bank (HK) Ltd	Standard Chartered Bank Korea Ltd	Standard Chartered Bank ¹	Standard Chartered Bank (HK) Ltd	Standard Chartered Bank Korea Ltd
	\$million	\$million	\$million	\$million	\$million	\$million
Local Regulator	PRA	HKMA ²	FSS ³	PRA	HKMA ²	FSS ³
Common Equity Tier 1 capital before regulatory adjustments	41,756	7,189	3,609	43,583	7,405	4,093
Regulatory adjustments	(6,568)	(1,095)	(59)	(7,937)	(1,241)	(60)
Common Equity Tier 1 capital	35,188	6,094	3,550	35,646	6,164	4,033
Additional Tier 1 (AT1) capital: instruments	4,452	497	-	2,434	488	-
Tier 1 capital (T1 = CET1 + AT1)	39,640	6,591	3,550	38,080	6,652	4,033
Tier 2 capital	15,334	1,233	405	17,806	1,401	410
Total capital (TC = T1 + T2)	54,974	7,824	3,954	55,886	8,053	4,443
Total risk-weighted assets	300,114	42,693	27,385	339,842	49,127	30,226

¹ Standard Chartered Bank disclosed in the table above aligns with the capital section of the Standard Chartered Bank Accounts

² Hong Kong Monetary Authority

³ Financial Supervisory Services

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Capital management – Standard Chartered Bank

The Capital section of the 2015 Standard Chartered Bank Accounts sets out our approach to capital management. Tables B & C below summarises the consolidated capital position of Standard Chartered Bank.

Table B: Capital resources

	2015 Transitional position \$million	2015 End point adjustment \$million	2015 End point position \$million	2014 Transitional position \$million
Standard Chartered Bank				
Common Equity Tier 1 (CET1) capital: instruments and reserves				
Capital instruments and the related share premium accounts	23,032	-	23,032	21,150
Of which: Share premium accounts	296	-	296	296
Retained earnings ¹	19,147	-	19,147	16,108
Accumulated other comprehensive income (and other reserves)	112	-	112	4,044
Non-controlling interests (amount allowed in consolidated CET1)	2,326	-	2,326	1,565
Independently reviewed interim and year-end profits/(loss) ²	(2,746)	-	(2,746)	1,874
Foreseeable dividends net of scrip	(115)	-	(115)	(1,160)
Common Equity Tier 1 capital before regulatory adjustments	41,756	-	41,756	43,583
Common Equity Tier 1 capital: regulatory adjustments				
Additional value adjustments	(564)	-	(564)	(200)
Intangible assets	(4,395)	-	(4,395)	(5,041)
Deferred tax assets that rely on future profitability	(212)	-	(212)	(180)
Fair value reserves related to gains or losses on cash flow hedges	38	-	38	58
Negative amounts resulting from the calculation of expected loss	(567)	-	(567)	(1,717)
Gains or losses on liabilities at fair value resulting from changes in own credit	(630)	-	(630)	(167)
Defined-benefit pension fund assets	(4)	-	(4)	(13)
Fair value gains and losses from own credit risk related to derivative liabilities	(34)	-	(34)	(9)
Exposure amounts which could qualify for risk weighting	(200)	-	(201)	(199)
Of which: securitisation positions	(168)	-	(168)	(177)
Of which: free deliveries	(32)	-	(32)	(22)
Regulatory adjustments relating to unrealised gains	-	-	-	(469)
Other	-	-	-	-
Total regulatory adjustments to Common Equity Tier 1	(6,568)	-	(6,568)	(7,937)
Common Equity Tier 1 capital	35,188	-	35,188	35,646
Additional Tier 1 (AT1) capital: instruments				
Capital Instruments and the related share premium accounts	4,472	(2,472)	2,000	2,434
Additional Tier 1 (AT1) capital before regulatory adjustments	4,472	(2,472)	2,000	2,434
Additional Tier 1 capital	4,452	(2,452)	2,000	2,434
Tier 1 capital (T1 = CET1 + AT1)	39,640	(2,452)	37,188	38,080
Tier 2 (T2) capital: instruments and provisions				
Capital instruments and the related share premium accounts	12,625	-	12,625	12,815
Qualifying items and the related share premium accounts subject to phase out from T2	31	(31)	-	928
Qualifying own funds instruments included in T2 issued by subsidiaries and held by third parties	2,708	(2,641)	67	4,067
Credit risk adjustments	-	-	-	-
Tier 2 capital before regulatory adjustments	15,364	(2,672)	12,692	17,810
Tier 2 capital: regulatory adjustments				
Direct and indirect holdings by an institution of own Tier 2 instruments and subordinated loans	(30)	-	(30)	(11)
Total regulatory adjustments to Tier 2 capital	(30)	-	(30)	(11)
Tier 2 capital	15,334	(2,672)	12,662	17,799
Total capital (TC = T1 + T2)	54,974	(5,124)	49,850	55,879

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Table C: Capital ratios and risk-weighted assets

	2015 Transitional position \$million	2015 End point adjustment \$million	2015 End point position \$million	2014 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)	1,284	-	1,284	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)	1,194	-	1,194	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)	904	-	904	403
Risk-weighted assets				
Credit risk	238,140	-	238,140	277,653
Credit valuation adjustment	5,860	-	5,860	6,709
Operational risk	34,201	-	34,201	35,186
Market risk	21,913	-	21,913	20,295
Total Risk Weighted Assets³	300,114	-	300,114	339,842
Capital ratios and buffers				
CET1 capital	11.7%	0.0%	11.7%	10.5%
Tier 1 capital	13.2%	(0.8%)	12.4%	11.2%
Total capital	18.3%	(1.7%)	16.6%	16.4%

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

² Independently reviewed interim and year-end profits/(loss) for CRD IV are in accordance with the regulatory consolidation

³ The risk-weighted assets are not covered by the scope of the Audit

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Table D: Credit risk regulatory capital requirements of significant subsidiaries

	2015			2014		
	Standard Chartered Bank	Standard Chartered Bank (HK) Ltd	Standard Chartered Bank Korea Ltd	Standard Chartered Bank	Standard Chartered Bank (HK) Ltd	Standard Chartered Bank Korea Ltd
Credit Risk Capital Requirements	\$million	\$million	\$million	\$million	\$million	\$million
Local Regulator	PRA	HKMA	FSS	PRA	HKMA	FSS
IRB Exposure Class						
Central governments or central banks	1,603	79	-	1,611	50	-
Institutions	915	194	-	1,096	364	-
Corporates	8,796	1,098	513	10,872	1,406	501
Retail, of which	1,619	696	453	1,926	642	524
Secured by real estate collateral	348	360	166	470	251	161
Qualifying revolving retail	448	128	29	476	127	35
Retail SME	56	16	-	73	17	-
Other retail	767	192	258	907	247	327
Equity	-	-	32	-	-	38
Securitisation positions	308	17	-	319	22	-
Non-credit obligation assets	45	-	-	62	-	-
Other	-	305	7	-	357	7
Total IRB	13,286	2,389	1,005	15,886	2,841	1,070
Standardised Exposure Class						
Central governments or central banks	325	-	1	147	-	1
Institutions	13	5	48	13	1	101
Corporates	1,224	143	328	1,380	152	401
Retail	710	18	10	864	20	18
Secured on real estate property	665	10	-	717	13	-
Past due items	22	6	-	22	6	-
Items belonging to regulatory high risk categories	323	-	97	491	-	97
Other items	926	173	126	1,219	150	128
Total Standardised	4,208	355	611	4,853	342	746
Counterparty credit risk capital component	1,556	26	186	1,621	32	189
Credit valuation adjustment risk	469	25	94	537	71	99
Settlement risk	1	-	-	1	-	-
Total Credit Risk (including CVA)	19,520	2,795	1,896	22,898	3,286	2,104

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Table E. Leverage ratio common disclosure - Standard Chartered Bank

	2015
Capital and total exposures	\$million
Tier 1 capital	37,188
Total leverage ratio exposures	728,921
Leverage ratio	5.1%

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Table F: Market risk regulatory capital requirements for significant subsidiaries

	2015			2014		
	Standard Chartered Bank	Standard Chartered Bank (HK) Ltd	Standard Chartered Bank Korea Ltd	Standard Chartered Bank	Standard Chartered Bank (HK) Ltd	Standard Chartered Bank Korea Ltd
Market Risk regulatory capital Requirements for Trading Book	\$million	\$million	\$million	\$million	\$million	\$million
Local Regulators	PRA	HKMA	FSS	PRA	HKMA	FSS
Interest rate ¹	297	94	30	398	107	20
Equity	13	8	4	88	34	14
Options	256	-	-	152	-	-
Commodity ²	15	-	-	28	-	-
Foreign exchange ²	206	30	-	222	16	-
Internal Models Approach ³	966	6	92	736	6	86
Total	1,753	138	126	1,624	163	120
Market Risk – RWA	21,913	1,721	1,576	20,295	2,033	1,505

Table G: Operational risk regulatory capital requirement for significant subsidiaries

Subsidiary	Local Regulators	2015		2014	
		Regulatory capital requirement	Risk-Weighted Assets	Regulatory capital requirement	Risk-Weighted Assets
		\$million	\$million	\$million	\$million
Standard Chartered Bank	PRA	2,736	34,201	2,815	35,186
Standard Chartered Bank (HK) Ltd	HKMA	485	6,063	482	6,025
Standard Chartered Bank Korea Ltd	FSS	169	2,115	198	2,475

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Annex 2. Standard Chartered Bank (Solo Consolidated)

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 H: Capital resources

	2015 \$million	2014 \$million
Local Regulator	PRA	PRA
Common Equity Tier 1 (CET1)		
Capital instruments and the related share premium accounts	23,032	20,859
Of which: Share premium accounts	296	296
Retained earnings	9,104	10,217
Accumulated other comprehensive income (and other reserves)	(40)	795
Non-controlling interests (amount allowed in consolidated CET1)	-	0
Independently reviewed interim profits/loss net of any foreseeable charge or dividend	(1,681)	(1,225)
Common Equity Tier 1 capital before regulatory adjustments	30,415	30,646
Common Equity Tier 1 : regulatory adjustments		
Additional value adjustments	(419)	(108)
Intangible assets (net of related tax liability)	(4,005)	(4,569)
Deferred tax assets that rely on future profitability	(81)	(90)
Fair value reserves related to gains or losses on cash flow hedges	33	55
Negative amounts resulting from the calculation of expected loss	(533)	(1,575)
Gains or losses on liabilities at fair value resulting from changes in own credit	(494)	(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	(3,848)	(2,973)
Defined-benefit pension fund assets	(4)	(13)
Fair value gains and losses arising from the institution's own credit risk related to derivative liabilities	(28)	(6)
Exposure amounts which could qualify for risk weighting	(198)	(200)
Of which: securitisation positions	(168)	(177)
Of which: free deliveries	(30)	(22)
Regulatory adjustments relating to unrealised gains	-	(178)
Other	-	-
Total regulatory adjustments to Common Equity Tier 1	(9,577)	(9,730)
Common Equity Tier 1	20,838	20,916
Additional Tier 1 (AT1) capital: instruments	3,969	2,231
Tier 1 capital (T1 = CET1 + AT1)	24,807	23,147
Tier 2 (T2) capital	14,543	15,545
Total capital (TC = T1 + T2)	39,350	38,692

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Annex 2: Standard Chartered Bank (Solo Consolidated) - continued

Table I: Regulatory capital requirements and risk-weighted assets

Credit Risk Capital Requirements	2015 \$million	2014 \$million
IRB Exposure Class		
Central governments or central banks	692	753
Institutions	1,019	1,307
Corporates	6,146	7,520
Retail, of which	303	324
Secured by real estate collateral	26	29
Qualifying revolving retail	139	149
Other retail	138	146
Equity	1,538	1,923
Securitisation positions	177	183
Non-credit obligation assets	-	2
Total IRB	9,875	12,010
Standardised Exposure Class		
Central governments or central banks	169	22
Multilateral development banks	-	2
Institutions	10	14
Corporates	461	434
Retail	199	209
Secured on real estate property	185	182
Past due items	4	3
Items belonging to regulatory high risk categories	76	50
Securitisation positions	-	-
Other items	755	858
Total Standardised	1,859	1,776
Counterparty credit risk capital component	1,540	1,450
Default Fund contribution	30	61
Settlement risk	1	1
Total	13,305	15,299
Operational Risk Capital Requirements		
Operational risk	1,690	1,625
Market Risk Capital Requirements for the Trading Book		
Interest rate	290	294
Equity	13	88
Commodity	15	28
Foreign Exchange	383	350
Internal Models Approach	900	720
Total	1,601	1,480
Risk-weighted assets		
Credit risk	166,313	191,236
Credit valuation adjustment risk	5,869	6,256
Operational risk	21,127	20,310
Market risk	20,013	18,495
Total	213,322	236,297

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
CCB	Countercyclical Capital Buffer
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
PV01	Present Value 01
PVA	Prudent Valuation Adjustment
RMB	Renminbi

Acronyms continued

RMBS	Residential Mortgage Backed Securities
RPC	Reward Plan Committee
RWA	Risk-Weighted Assets
SA	Standardised Approach
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

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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 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.
Basis point (bps)	One hundredth of a per cent (0.01 per cent); 100 basis points is 1 percent. Used in quoting movements in interest rates or yields on securities
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.
Counterparty credit risk	The risk that a counterparty defaults before satisfying its obligations under a contract.
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.

Glossary continued

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.

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Pillar 3 Disclosures

Glossary continued

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.
Present Value 01	This represents the change in present value of an asset or liability for a 1 basis point change in the nominal yield curve.
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.

Glossary continued

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.

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Pillar 3 Disclosures

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

The Group's Pillar 3 Disclosures for 31 December 2015 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 and capital review section of the Annual Report as they are largely based on internally modelled risk metrics such as PD, LGD and EAD under Basel rules, whereas the quantitative disclosures in the Risk review are based on IFRS. EAD differs from the IFRS exposure primarily due to the inclusion of undrawn credit lines and off-balance sheet commitments. In addition, a number of the credit risk disclosures within the Pillar 3 Disclosures are only provided for the internal ratings based portfolio, which represents 77 per cent of the Group's credit risk RWA.

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

Topic	Annual Report	Pillar 3 Disclosures
Basis of requirements	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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 Requirements Regulation (CRR), Part Eight.
Basis of preparation	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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.

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Pillar 3 Disclosures

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

Credit rating and measurement	<ul style="list-style-type: none"> • Overview of credit risk management credit grading and the use of IRB models is on page 207. • Maximum exposure to credit risk set out on page 161. • Internal credit grading analysis provided by business for loans neither past due nor impaired on page 172. • External credit grading analysis for unimpaired debt securities and treasury bills is set out on page 182. 	<ul style="list-style-type: none"> • Details of IRB and Standardised approach to credit risk is set out on pages 18 to 19. • For the IRB portfolio, pages 33 to 48 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 21. • 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 33 to 40. • Credit quality step analysis for Standardised portfolio is provided on page 49 and 50.
Credit risk mitigation	<ul style="list-style-type: none"> • CRM approach is set out on page 208. • Overview of collateral held and other credit risk mitigants provided on page 208. Quantitative overview of other risk mitigants including: <ul style="list-style-type: none"> • Securitisations - includes disclosures of both retail transferred and synthetic securitisation. • Master netting, CSAs and cash collateral for derivatives. 	<ul style="list-style-type: none"> • 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 28 and 29. • 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 54 to 59. • 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 51 to 53.
Loan portfolio	<ul style="list-style-type: none"> • Group overview of the loan portfolio provided by business by geography is on page 163. A more detailed analysis by industry classification and Retail product is set out on page 164. Maturity analysis provided on page 165. 	<ul style="list-style-type: none"> • EAD by geography, split between IRB and Standardised portfolios page 22 and by industry types on page 24. • Maturity of EAD, split by IRB and Standardised on page 26 and 27.
Problem credit management and provisioning	<ul style="list-style-type: none"> • Provisioning approach set out on page 209 and definition of non-performing loans on page 171. • 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 can be found of pages 163-165 	<ul style="list-style-type: none"> • 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 31.
Market risk	<ul style="list-style-type: none"> • Details of the VaR methodology, and VAR (trading and non trading) is disclosed by risk type on pages 187. • Details on Group Treasury's market risk, including a table showing a parallel shift in the yield curves, on page 190. 	<ul style="list-style-type: none"> • 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 63.