3.10. Securitisation continued

Table 26: Securitisation: notional amount

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

	2011		
		Notional amount	
	Carrying value of asset backed securities	Traditional securitisation programmes	Synthetic securitisation programmes
	$million	$million	$million
Residential mortgages (RMBS)	688	769	-
Commercial mortgages (CMBS)	488	621	12
CDOs of ABS – RMBS	9	30	-
CDOs Other: Leveraged loans/Trust preferred/Real Estate	232	268	10
Other ABS:			
Credit card receivables	-	-	-
Loans to corporates or Corporate SMEs	24	25	-
Student loans	124	138	-
Auto loans	51	52	-
Diversified payment types	291	299	-
Other assets	189	198	-
Total	2,096	2,400	22

3.10. Securitisation continued

Wholesale Banking Portfolio Management

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

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

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

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

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

As of 31 December 2012 $79 million of Trade Finance and $3 million of Commercial Loans totalling $82 million (2011: $56 million) of securitised exposures were classified as impaired and past due.

The Group has eleven synthetic securitisation transactions originated and managed by WBPM, with an aggregate hedge capacity of $22.1 billion (2011: $19.3 billion). Of the eleven transactions, seven are private deals with bilateral investors and four are public deals distributed to a broad spectrum of investors. The Group originated four synthetic securitisations in 2012 with an aggregate hedge capacity of up to $7.8 billion. Of the $7.8 billion newly originated capacity, $5.0 billion of synthetic securitisations were originated to replace maturing transactions and the remaining $2.8 billion was new capacity. All eleven transactions are structured as non-disclosed pools for reason of client confidentiality.

WBPM as the originator has not acted as sponsor to securitise third-party exposure and does not manage or advise any third-party entity that invests in the securitisation positions. Table 27 below provides details of current securitisation programmes originated and managed by the Group.

3.10. Securitisation continued

Table 27: Securitisation programmes (as originator)

	Underlying facilities hedged	ECAI	Public/Private	Start date	Scheduled maturity	2012 Maximum notional $million	2012 Retained exposures[1] $million	2012 Outstanding exposures[2] $million
SUPRA TF	Trade Finance	Not Rated	Private	Apr 2010	Oct 2013	**850**	**799**	**820**
Start VI	Commercial Loan	Not Rated	Public	Nov 2010	Apr 2014	**1,250**	**1,162**	**1,135**
Mana III	Trade Finance	Moody's	Private	Dec 2012	Jun 2014	**3,500**	**3,290**	**3,256**
Sumeru	Commercial Loan	Not Rated	Private	Jun 2010	Sep 2014	**3,296**	**3,041**	**2,903**
Sealane II	Trade Finance	Moody's	Public	Aug 2011	Feb 2015	**3,000**	**2,820**	**2,826**
Shangren II	Trade Finance	Moody's	Private	Dec 2011	Mar 2015	**2,500**	**2,325**	**2,311**
Pamir	Trade Finance	Moody's	Private	Oct 2011	Apr 2015	**1,500**	**1,410**	**1,398**
Start VII	Commercial Loan	Moody's	Public	Dec 2011	Jun 2015	**2,000**	**1,860**	**1,867**
Pumori	Commercial Loan	Moody's	Private	Mar 2012	Sep 2015	**1,250**	**1,162**	**1,162**
Oryza 1	Commercial Loan	Moody's	Private	Jun 2012	Dec 2015	**1,500**	**1,395**	**1,353**
Start VIII	Commercial Loan	Moody's	Public	Nov 2012	May 2016	**1,500**	**1,395**	**1,361**
Total						**22,146**	**20,659**	**20,392**

During the year the following securitisation programmes were originated: Mana III, Start VIII (replaced Mana II and Asiamea respectively), Pumori and Oryza 1.

	Underlying facilities hedged	ECAI	Public/Private	Start date	Scheduled maturity	2011 Maximum notional $million	2011 Retained exposures[1] $million	2011 Outstanding exposures[2] $million
Asiamea	Commercial Loan	Not Rated	Private	Dec 2007	Dec 2012	1,500	1,399	1,248
Mana II	Trade Finance	Moody's	Private	Nov 2011	Feb 2013	3,500	3,290	3,288
SUPRA TF	Trade Finance	Not Rated	Private	Apr 2010	Oct 2013	850	799	812
Start VI	Commercial Loan	Not Rated	Public	Nov 2010	Apr 2014	1,250	1,162	1,127
Sumeru	Commercial Loan	Not Rated	Private	Jun 2010	Sep 2014	3,246	2,995	2,966
Sealane II	Trade Finance	Moody's	Public	Aug 2011	Feb 2015	3,000	2,820	2,732
Shangren II	Trade Finance	Moody's	Private	Dec 2011	Mar 2015	2,500	2,325	2,235
Pamir	Trade Finance	Moody's	Private	Oct 2011	Apr 2015	1,500	1,410	1,370
Start VII	Commercial Loan	Moody's	Public	Dec 2011	Jun 2015	2,000	1,860	1,748
Total						19,346	18,060	17,526

[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.

3.10. Securitisation continued

Table 28: Securitisation programmes - capital requirement

Table 28 below provides details of the capital requirement for securitisation programmes that have been originated by the Group.

				2012		
	Underlying facilities hedged	Start date	Scheduled maturity	Maximum notional $million	Capital Requirement before securitisation $million	Capital Requirement after securitisation[1] $million
SUPRA TF	Trade Finance	Apr 2010	Oct 2013	**850**	**37**	**13**
Start VI	Commercial Loan	Nov 2010	Apr 2014	**1,250**	**79**	**23**
Mana III	Trade Finance	Dec 2012	Jun 2014	**3,500**	**178**	**55**
Sumeru	Commercial Loan	Jun 2010	Sep 2014	**3,296**	**198**	**78**
Sealane II	Trade Finance	Aug 2011	Feb 2015	**3,000**	**158**	**57**
Shangren II	Trade Finance	Dec 2011	Mar 2015	**2,500**	**130**	**22**
Pamir	Trade Finance	Oct 2011	Apr 2015	**1,500**	**85**	**29**
Start VII	Commercial Loan	Dec 2011	Jun 2015	**2,000**	**132**	**42**
Pumori	Commercial Loan	Mar 2012	Sep 2015	**1,250**	**87**	**27**
Oryza 1	Commercial Loan	Jun 2012	Dec 2015	**1,500**	**105**	**33**
Start VIII	Commercial Loan	Nov 2012	May 2016	**1,500**	**95**	**33**
Total				**22,146**	**1,284**	**412**

[1] Capital requirement after securitisation includes $69 million capital retained due to currency and collateral haircuts.

				2011		
	Underlying facilities hedged	Start date	Scheduled maturity	Maximum notional $million	Capital Requirement before securitisation $million	Capital Requirement after securitisation[1] $million
Asiamea	Commercial Loan	Dec 2007	Dec 2012	1,500	84	48
Mana II	Trade Finance	Dec 2012	Jun 2014	3,500	182	51
SUPRA TF	Trade Finance	Apr 2010	Oct 2013	850	35	13
Start VI	Commercial Loan	Nov 2010	Apr 2014	1,250	77	24
Sumeru	Commercial Loan	Jun 2010	Sep 2014	3,246	189	76
Sealane II	Trade Finance	Aug 2011	Feb 2015	3,000	155	57
Shangren II	Trade Finance	Dec 2011	Mar 2015	2,500	124	23
Pamir	Trade Finance	Oct 2011	Apr 2015	1,500	77	29
Start VII	Commercial Loan	Dec 2011	Jun 2015	2,000	123	43
Total				19,346	1,046	364

[1] Capital requirement after securitisation includes $77 million capital retained due to currency and collateral haircuts, and future premium payments.

3.10. Securitisation continued

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

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

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

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

Accounting

The SPEs associated with the programmes above are not consolidated into the Group. SPEs are only consolidated when the Group has control of the SPE. Control is assessed based on the Group's exposure to the majority of the risks of the SPE and the right to obtain the majority of the benefits of the SPE. The assessment of risks and benefits is based on the assessed risk exposures at inception and these risks and benefits are re-considered if and when circumstances change. These circumstances may include situations when the Group acquires additional interests in the SPE, or the Group acquires control of the financial and operating policies of the SPE.

In the synthetic securitisation transactions such as those listed above, the underlying assets are not transferred into the associated SPE. Since the Group continues to own or hold all of the risks and returns relating to these assets and the credit protection afforded by the synthetic securitisation only serves to protect the Group against losses upon the occurrence of certain credit events, the assets are not de-recognised from the Group balance sheet. The assets will be fully de-recognised from the Group balance sheet if all the risks and returns relating to the assets have been transferred to the relevant SPE, and this typically entails a true sale of the assets to the SPE. Alternatively, the assets can be partially de-recognised from the Group balance sheet if a significant portion of risks and returns relating to the assets are transferred to the SPE and only a portion of the assets that is commensurate with the retained risk and return of the assets is recognised on the Group balance sheet.

Retained notes are initially valued at cost and subsequently determined using market price quotations where available, or in their absence, dealer quotes. The assumptions used for valuation are based on observable transactions in similar securities and are verified by external pricing sources, where available.

Governance of securitisation activities

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

Execution of each securitisation transaction must either be under an individual Transaction Programme Authorisation or Product Program Framework; 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, and Finance advises on the accounting and regulatory treatment and facilitates communication with the regulator.

Basel II for securitisation positions

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

- 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.

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

The table below presents a summary of the securitisation positions retained and the carrying value of ABS purchased or arranged by the Group, analysed by risk weight band and geographical breakdown. The majority of the exposures are rated AAA.

3.10. Securitisation continued

Table 29: Securitisation programmes by risk weight

	2012					
				Regulatory capital requirement		
Risk weight bands	Securitisation programmes[1] $million	ABS $million	Total $million	Securitisation programmes[1] $million	ABS[2] $million	Total $million
0% – 20%	**19,498**	**3,814**	**23,312**	**121**	**25**	**146**
20% – 40%	**593**	**375**	**968**	**18**	**23**	**41**
40% – 60%	**312**	**34**	**346**	**13**	**5**	**18**
60% – 80%	**-**	**162**	**162**	**-**	**2**	**2**
100% and above	**70**	**88**	**158**	**6**	**9**	**15**
Deducted from regulatory capital	**186**	**46**	**232**	**-**	**-**	**-**
Total	**20,659**	**4,519**	**25,178**	**158**	**64**	**222**

	2011					
				Regulatory capital requirement		
Risk weight bands	Securitisation programmes[1] $million	ABS $million	Total $million	Securitisation programmes[1] $million	ABS[2] $million	Total $million
0% – 20%	17,315	1,275	18,590	106	4	99
20% – 40%	387	313	700	12	13	21
40% – 60%	100	260	360	4	2	13
60% – 80%	70	78	148	4	4	12
80% – 100%	-	46	46	-	18	28
100% and above	26	89	115	3	10	3
Deducted from regulatory capital	162	35	197	-	-	-
Total	18,060	2,096	20,156	129	51	176

[1] Retained exposures that are included in the securitisation programmes originated by the Group and have not been sold to investors.

[2] ABS regulatory capital requirement excludes securitisation positions held in the trading book, which attract a market risk capital requirement of $3 million (2011: $2 million).

Table 30: Securitisation programmes by region

	2012			2011		
	Securitisation programmes[1] $million	ABS $million	Total $million	Securitisation programmes[1] $million	ABS $million	Total $million
Hong Kong	**2,949**	**-**	**2,949**	3,430	-	3,430
Singapore	**1,508**	**-**	**1,508**	1,258	14	1,272
Korea	**1,649**	**606**	**2,255**	1,154	455	1,609
Other Asia Pacific	**5,169**	**298**	**5,467**	4,395	48	4,443
India	**2,768**	**-**	**2,768**	2,767	-	2,767
Middle East & Other S Asia	**3,539**	**296**	**3,835**	3,096	280	3,376
Africa	**1,382**	**-**	**1,382**	806	6	812
Americas, UK & Europe	**3,182**	**3,319**	**6,501**	2,421	1,293	3,714
Total	**22,146**	**4,519**	**26,665**	19,327	2,096	21,423

[1] In the table above securitisation programmes presents the maximum notional of the securitised exposures by geography. The securitised exposures in 2011 are $19 million lower than the maximum notional (as presented in Table 28), due to Asiamea which was not replenished to the maximum notional.

4. Market risk

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

The primary categories of market risk for Standard Chartered are:

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

Market risk regulatory capital

The FSA 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 FSA has granted the Group Capital Adequacy Directive 2 (CAD2) internal model approval covering the majority of interest rate, foreign exchange, precious metals, base metals, energy and agriculture market risk in the trading book. In 2012 the CAD2 scope was extended to include coal market risk in the trading book. CRD 3 introduced the Stressed VaR model at the end of December 2011. Positions outside the CAD2 scope are assessed according to standard FSA rules.

At 31 December 2012 the Group's market risk regulatory capital requirement was $1,956 million (31 December 2011: $1,708 million). The increase was driven by the introduction of CRD 3 in December 2011 together with position changes in 2012, and an increase in the Equity capital requirements due to the growth of the Equity business.

Valuation framework

Products may only be traded subject to a formally approved Product Programme which identifies the risks, controls and regulatory treatment. The control framework is assessed by the relevant Group functions as well as Group Internal Audit (GIA) on an ongoing basis.

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

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

Our approach to market risk can be found on pages 99 to 102 of the Risk review in the 2012 Annual Report and Accounts. This includes tables which show the average, high and low trading and non-trading VaR over the year 2012, and 31 December 2012 actual position on page 100. Market risk VaR coverage and Group Treasury market risk, including the table which shows Group Treasury Net Interest Income (NII) sensitivity to parallel shifts in yield curves can be found on page 101.

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

Table 31: Market risk capital requirement

	2012		2011	
Market risk capital requirements for trading book	**Regulatory capital requirement $million**	**Risk Weighted Assets $million**	Regulatory capital requirement $million	Risk Weighted Assets $million
Interest rate[1]	**431**	**5,388**	404	5,054
Equity	**159**	**1,987**	86	1,073
Options	**451**	**5,625**	414	5,183
Commodity[2]	**3**	**50**	36	445
Foreign exchange[2]	**168**	**2,100**	98	1,220
Internal Models Approach[3]	**744**	**9,300**	670	8,379
Total	**1,956**	**24,450**	1,708	21,354

[1] Securitisation positions contributed $2.3 million to the interest rate position risk requirement (PRR) and $28.8 million to interest rate RWA as at 31 December 2012.

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

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

4. Market risk continued

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

Table 32: Market risk capital requirement for significant subsidiaries

	2012			2011		
Market Risk Capital Requirements for Trading Book	Standard Chartered Bank $million	Standard Chartered Bank (HK) Ltd $million	Standard Chartered Bank Korea Ltd $million	Standard Chartered Bank $million	Standard Chartered Bank (HK) Ltd $million	Standard Chartered Bank Korea Ltd $million
Local Regulator	FSA	HKMA	FSS	FSA	HKMA	FSS
Interest rate[1]	371	122	3	322	112	4
Equity	159	29	13	86	-	5
Options	451	-	-	412	-	-
Commodity[2]	3	4	-	36	-	-
Foreign exchange[2]	156	10	-	130	19	-
Internal Models Approach[3]	707	9	127	670	9	23
Total	1,847	174	143	1,656	140	32
Market Risk – RWA	23,092	2,173	1,791	20,695	1,750	400

[1] For Standard Chartered Bank securitisation positions contributed $2.3 million to the interest rate Position Risk Requirement (PRR) and $28.8 million to Interest rate RWA as at 31 December 2012.

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

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

Internal Models Approach – Stressed VaR

The table below shows the average, high and low Stressed VaR for the period January 2012 to December 2012 and the actual position on 31 December 2012. 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 33: Stressed VaR

	January to December 2012				October to December 2011			
	Average $million	High[1] $million	Low[1] $million	Actual[2] $million	Average $million	High[1] $million	Low[1] $million	Actual[2] $million
Stressed VaR	38.5	67.4	22.2	38.5	32.8	42.9	24.1	30.6

[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.

5. Operational risk

Measurement

The Group uses the Standardised Approach consistent with the FSA's BIPRU 6.4 requirements to assess its regulatory and internal capital requirements for operational risk. Under the Standardised Approach, a pre-determined beta co-efficient is applied to the average income for the previous three years across each of the eight business lines prescribed in FSA's BIPRU, to determine the operational risk capital requirement. Our approach to the management of operational risk can be found on pages 111 and 112 in the Risk review of the 2012 Annual Report and Accounts. The table below details the operational risk capital requirement for the Group:

Table 34: Operational risk capital requirement by business

	2012	2011
	Operational risk capital requirement	Operational risk capital requirement
	$million	$million
Consumer Banking	**753**	744
Wholesale Banking	**1,708**	1,557
Total	**2,461**	2,301

The increase in operational risk capital requirements reflects the strong performance of the Group over the period. The table below details the operational risk capital requirement for the Group's significant subsidiaries presented in accordance with the regulatory requirements applicable in the countries in which they are incorporated.

Table 35: Operational risk capital requirement for significant subsidiaries

		2012	2011
		Operational risk capital requirement	Operational risk capital requirement
Subsidiary	Local Regulators	$million	$million
Standard Chartered Bank	FSA	**1,403**	1,259
Standard Chartered Bank (HK) Ltd	HKMA	**394**	355
Standard Chartered Bank Korea Ltd	FSS	**241**	237

6. Remuneration

The following tables show the remuneration decisions made by the Group in respect of 2012 and the subsequent sections provide brief information on the decision-making policies for remuneration and the links between pay and performance. More detailed information on the Group's performance and reward philosophy, process and policies is contained in the Directors' remuneration report (DRR) of the 2012 Annual Report and Accounts, which can be found on pages 160 to 185.

These disclosures reflect the requirements of the Financial Services Authority (FSA) Prudential sourcebook for Banks, Building Societies and Investment Firms (BIPRU) 11.5.18 (1) - (7).

Table 36: Code staff employees remuneration by business

Aggregate remuneration expenditure for Code Staff[1]	Consumer Banking $000's	Wholesale Banking $000's	Other[2] $000's
2012	**18,566**	**119,088**	**88,398**
2011	18,676	124,759	97,479

[1] Code staff are those Group employees whose professional activities could have a material impact on the Group's risk profile. Further information is shown below.

[2] Includes all support functions and general management positions, executive and non-executive directors.

Table 37: Code staff employees remuneration by fixed/variable compensation

Analysis of remuneration for Code Staff employees between fixed and variable compensation	2012		2011	
	Senior Management[4] $000's	**Other Code Staff Employees $000's**	Senior Management[4] $000's	Other Code Staff Employees $000's
Fixed compensation[1]	**44,195**	**14,808**	41,357	14,794
Variable compensation	**110,411**	**56,638**	112,816	71,946
Up front cash	**20,287**	**12,150**	21,041	15,691
Up front shares	**20,065**	**11,650**	20,095	14,208
Deferred awards[2]	**45,540**	**27,936**	46,816	35,713
Performance shares[3]	**24,519**	**4,902**	24,864	6,334
Number of code staff	**78**	**35**	77	35

[1] Fixed compensation includes base salary and other cash allowances, and in the case of non-executive directors, any fees.

[2] Includes any element of deferred cash for senior management (2012: $11,580,392 and 2011: $8,537,280) and other code staff employees (2012: $10,180,340 and 2011: $14,172,362).

[3] Includes the expected value of any performance shares to be granted in respect of 2011 and 2012 performance respectively.

[4] Senior Management is defined below in the section on Code Staff on page 52.

Table 38: Deferred remuneration

Analysis of deferred remuneration[1]	2012		2011	
	Senior Management $000's	**Other Code Staff Employees $000's**	Senior Management $000's	Other Code Staff Employees $000's
Start of the year (1 January)	**219,377**	**79,114**	254,916	110,869
Awarded during the financial year[2]	**111,177**	**42,982**	84,928	46,417
Vested during the year[3]	**109,106**	**43,351**	67,547	38,171
Non vested due to performance adjustments[4]	**17,147**	**433**	7,480	123
Close of the year (31 December)[5]	**239,659**	**86,242**	223,718	101,155

[1] Deferred remuneration includes both deferred awards and performance shares. Code staff populations in 2011 and 2012 differ.

[2] Value of deferred remuneration awarded during the year is based on the share price at grant.

[3] Value of vested deferred remuneration during the year is based on the share price as at 31 December in that year.

[4] Value of deferred remuneration which has lapsed as a result of (i) performance conditions not being satisfied or (ii) claw-back.

[5] Value of deferred remuneration as at 31 December is based on the share price at the respective dates in that year.

Table 39: Significant payments and severance

Analysis of sign-on payments and severance	2012		2011	
	Senior Management $000's	**Other Code Staff Employees $000's**	Senior Management $000's	Other Code Staff Employees $000's
Sign-on payments[1]	**1,632**	**4,800**	700	-
Severance payments[2]	**-**	**396**	381	-

[1] Includes the value of any guaranteed performance awards (cash or shares) which were made on appointment. In 2012 and 2011 there were two and one employee(s) respectively.

[2] In 2012 and in 2011 this relates to one employee respectively.

6. Remuneration continued

Governance and alignment to regulatory best practice

The Board Remuneration Committee (the Committee) has oversight of all reward policies for the Group's employees. It is responsible for setting the principles and governance framework for all compensation decisions. The DRR in the 2012 Annual Report and Accounts provides more information on the Committee's role and focus, details of which can be found on pages 160 to 185.

The Committee's terms of reference are available at www.standardchartered.com

To ensure there is appropriate, formal input to the decision making process there are a number of business specific Reward Plan Committees (RPCs) responsible for making sure that information from the risk, compliance and human resources functions are taken into account. The accuracy of the finance data used in the decision making process is overseen by risk and finance representatives jointly.

Decisions on reward for control function employees are determined independently of the business and they do not personally participate in any business specific plan to maintain independence.

The Group Reward Plan Committee (GRPC), which includes the Group Chief Executive, the Group Finance Director, the Group Head of Human Resources and Communications and the Group Chief Risk Officer (GCRO), oversees each of the business specific RPCs to ensure consistency across the Group. The GRPC ensures compensation decision making is in accordance with the Group's established performance and reward strategy and acts as a link to the Committee, providing feedback to the other RPCs as necessary.

Aligning performance and reward

The Group's One Bank philosophy and approach to remuneration applies consistently to all employees including Code Staff and is central to the Group's performance and reward philosophy. This ensures that behaviours, including prudent risk management and values are rewarded as well as business performance. The Group believes that performance and related reward outcomes should be a consequence of both how performance is delivered and what is delivered. This is taken into account in all personal objectives, performance assessments and reward decisions made within the Group and has a tangible impact on the reward that employees receive.

All employees have the opportunity to receive an element of performance-related compensation, subject to their contractual entitlement. Typically, the higher the total compensation, the greater the proportion delivered in variable compensation (through a mix of cash and shares, both upfront and deferred, depending on the individual and quantum of the award).

The variable compensation element is differentiated by performance. The Group's aim is to achieve a high performance culture in which every employee has a clear set of objectives, receives ongoing feedback on performance and behaviour and is appropriately rewarded for their individual contribution. Differentiating performance and values ratings at all levels enables targeting of spend towards those who have made the most effective contribution to the Group's performance and unique culture, recognises and aids retention of the Group's highest performers and balances this with affordability considerations. There is no direct formulaic link between business income generated by an individual and that individual's reward.

Understanding the Code Staff criteria

The following groups of employees have been identified as meeting the FSA's criteria for Code Staff:

- Employees performing a Significant Influence Function (SIF) within the Group;
- Senior managers. In accordance with the FSA Remuneration Code this includes direct reports to a director of Standard Chartered Bank (the regulated entity) who are the head of a significant business function or business group with Risk and/or profit and loss accountability and not previously classified as SIF;
- Other staff identified as risk takers.

The combination of the first two categories above are referred to in this report as "senior management".

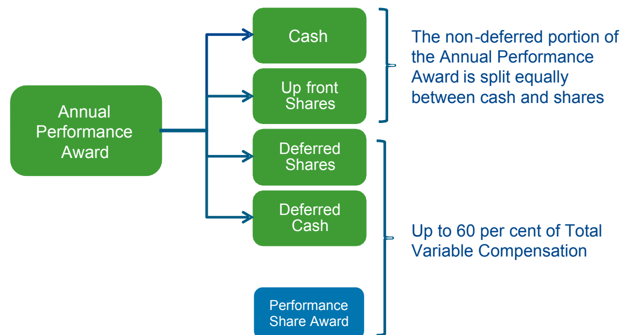
Per the FSA's definition, "risk takers", are those whose professional activities are deemed to have a potentially material impact on the firm's risk profile, and are drawn from the following areas:

- Heads of material support or control functions (not already classified as senior managers or SIFs);
- Heads of significant Corporate Finance (CF) and Financial Markets (FM) units (this includes all product sales or trading businesses) and who sit on the CF or FM leadership teams;
- Other designated risk professionals not otherwise covered above;
- Other designated Wholesale Banking employees not otherwise covered above.

6. Remuneration continued

Structure of remuneration for Code Staff

Remuneration for Code Staff is typically delivered through a combination of base salary, benefits and variable compensation (split between an annual performance award and a performance share award). Non-executive directors only receive a base fee. More information is contained in the DRR of the 2012 Annual Report and Accounts, which can be found on pages 160 to 185.



Variable compensation for Code Staff is structured in line with the FSA Remuneration Code requirements. 40 to 60 per cent of variable compensation is deferred over a period of three years.

Non-deferred variable compensation is delivered 50 per cent in upfront shares and 50 per cent in cash.

Deferred variable compensation is delivered through a mix of the following depending on the individual and quantum of the award:

- Deferred restricted shares;
- Deferred cash (eligible employees may elect to receive 50 per cent of the deferred amount in cash rather than just deferred restricted shares);
- Performance shares.

Deferred compensation (cash and shares) is subject to the Group's claw-back policy and continued employment (which may be terminated by the Group in the event of material misconduct). Both upfront and deferred shares are subject to a Group shareholding requirement level set out in our Structure of Discretionary Variable Compensation Policy. More details on claw-back and Shareholding Requirement can be found in the DRR.

Performance share awards are subject to the satisfaction of conditions being met over a three year performance period - one third of each award is subject to a Total Shareholder Return (TSR), Earnings per Share (EPS) or a Return on Risk Weighted Assets (RoRWA) measure.

7. Immaterial portfolios

Non Trading Book Equities & Specialised Lending Exposures

For the purposes of BIPRU requirements 11.5.15 and 11.5.11 the holdings of non-trading book equities and the specialised lending portfolio are considered immaterial. At 31 December 2012, non-trading book equity holdings amount to $4.3 billion (2011: $3.1 billion) and specialised lending exposure total $3.3 billion (2011: $3.9 billion), which together total less than two per cent of the Group's total exposure after credit risk mitigation. The 2011 non-trading book equity holdings have been restated to include the Group's strategic equity investments.

8. Forward looking statements

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

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

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

There remains significant uncertainty surrounding both the final rules and definitions in CRD IV and the implementation dates and timing of transitional periods in Europe. Consequently, the CRD IV transitional capital (own funds) position presented in this disclosure could lack precision and change significantly following the final rules and definitions being published. The amounts subject to transitional arrangements do not take account of management actions during the period, such as the accretion of profits and the issuance of eligible regulatory capital. The CRD IV position presented here does not constitute either the likely outcome or a capital forecast.

The Group is committed to a transparent and open disclosure. However, in the case of the leverage ratio that we are being required to disclose, this is difficult to achieve given the evolving nature of this new requirement, the significant uncertainty that its early disclosure presents, the potential for changes in definitions and calibration and its disregard for the impact of any earnings accretion and other management actions over the transitional period. As such, whilst we are required to disclose a leverage ratio by the FPC, we would recommend that this published leverage ratio be treated with a high degree of caution.

9. Acronyms

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

Glossary

Advanced Internal Rating Based (IRB) approach	The advanced IRB approach under the Basel II framework is used to calculate credit risk capital based on the Group's own estimates of certain parameters.
Arrears	A debt or other financial obligation is considered to be in a state of arrears when payments are overdue. Loans and advances are considered to be delinquent when consecutive payments are missed. Also known as 'delinquency'.
Asset Backed Securities (ABS)	Securities that represent an interest in an underlying pool of referenced assets. The referenced pool can comprise any assets which attract a set of associated cash flows but are commonly pools of residential or commercial mortgages and in the case of Collateralised Debt Obligations (CDOs), the reference pool may be ABS.
Attributable profit to ordinary shareholders	Profit for the year after non-controlling interests and the declaration of dividends on preference shares classified as equity.
Basel II	The capital adequacy framework issued by the Basel Committee on Banking Supervision (BCBS) in June 2006 in the form of the 'International Convergence of Capital Measurement and Capital Standards'.
Basel 2.5	In 2009 the European Commission proposed further changes to the CRD (CRD3) to address the lessons of the financial crisis. These changes reflected international developments and follow the agreements reached by the Basel Committee on Banking Supervision (BCBS). They included higher capital requirements for re-securitisations, upgrading disclosure standards for securitisation exposures and strengthening market risk capital requirements.
Basel III	In December 2010, the BCBS issued the Basel III rules text, which were updated in June 2011, and represents the details of strengthened global regulatory standards on bank capital adequacy and liquidity. The new requirements were to be phased starting on 1 January 2013 with full implementation expected by the 1 January 2019, although the implementation date in Europe under CRD IV has been delayed.
Credit Conversion Factor (CCF)	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 in a committed facility.
Common equity tier 1 capital	Common Equity Tier 1 capital consists of the common shares issued by the bank and related share premium, retained earnings, accumulated other comprehensive income and other disclosed reserves, eligible non-controlling interests and regulatory adjustments required in the calculation of Common Equity Tier 1.
Core Tier 1 capital	Core Tier 1 capital comprises called-up ordinary share capital and eligible reserves plus non-controlling interests, less goodwill and other intangible assets and deductions relating to excess expected losses over eligible provisions and securitisation positions as specified by the UK's Financial Services Authority (FSA).
Core Tier 1 ratio	**Core Tier 1 capital** as a percentage of **risk weighted assets**.
CRD 3	See **Basel 2.5**.
CRD IV	Represents the Capital Requirements Directive (CRD) and Capital Requirements Regulation (CRR) that implement the **Basel III** proposals in Europe.
Credit 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)	Under Basel III proposals, the Group would be required to hold 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.
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.

Glossary continued

Exposure at Default (EAD)	The estimation of the extent to which the Group may be exposed to a customer or counterparty in the event of, and at the time of, that counterparty's default. At default, the customer may not have drawn the loan fully or may already have repaid some of the principal, so that exposure is typically less than the approved loan limit.
External Credit Assessment Institutions (ECAI)	For the Standardised Approach to credit risk for sovereigns, corporates and institutions, external ratings are used to assign risk weights. These external ratings must come from FSA approved rating agencies, known as External Credit Assessment Institutions (ECAI); namely Moody's, Standard & Poor's and Fitch.
Fair value	The value of an asset or liability when it is transacted on an arm's length basis between knowledgeable and willing parties.
Foundation Internal Ratings Based (Foundation IRB) Approach	A method of calculating credit risk capital requirements using internal PD models but with supervisory estimates of LGD and conversion factors for the calculation of EAD.
Free delivery	When a bank takes receipt of a debt or equity security, a commodity or foreign exchange without making payment, or where a bank delivers a debt or equity security, a commodity or foreign exchange without receiving payment.
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 or 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 individual identified 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.
Impairment allowances	Impairment allowances are a provision held on the balance sheet as a result of the raising of a charge against profit for the incurred loss. An impairment allowance may either be identified or unidentified and individual (specific) or collective (portfolio).
Impairment losses	Impairment losses are incurred on a financial asset or a group of financial assets is if, and only if, there is objective evidence of impairment as a result of one or more events occurring after the initial recognition of the asset (a loss event), and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.
Individually assessed loan impairment provisions	Also known as specific impairment provisions. Impairment is measured individually for assets that are individually significant to the Group. Typically assets within the Wholesale Banking business of the Group are assessed individually.
Individual impairment charge	The amount of **individually assessed loan impairment provisions** that are charged to the income statement in the reporting period.
Individual liquidity guidance	Guidance given to the Group about the amount, quality and funding profile of liquidity resources that the FSA 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	In accordance with the Capital Adequacy Directive and the Banking Consolidation Directive, an institution is a credit institution or an investment firm.
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')	The IRB approach is used to calculate risk weighted assets in accordance with the Basel Capital Accord where capital requirements are 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.
Loans and advances	This represents lending made under bilateral agreements with customers entered into in the normal course of business and is based on the legal form of the instrument. An example of a loan product is a home loan.
Loss Given Default (LGD)	LGD is the percentage of an exposure that a lender expects to lose in the event of obligor default in economic downturn periods.
Mark-to-market approach	One of the approaches available to banks to calculate the exposure value associated with derivative transactions. The approach calculates the current replacement cost of derivative contracts, by determining the market value of the contract and considering any potential future exposure.

Glossary continued

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 Internal Ratings based approach to credit risk and for the calculation of market risk capital requirements.
Minimum capital requirement	Minimum capital required to be held for credit, market and operational risk.
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.
Past due items	Under the **standardised approach** to credit risk, exposures that are 90 days past due attract a risk-weight of 100 per cent where impairment provisions cover at least 20 per cent of the exposure. Otherwise, a risk-weight of 150 per cent must be applied.
Pillar 1	The first Pillar of the three pillars of Basel II, which provides the approach to the calculation of the minimum capital requirements for credit, market and operational risk. Minimum capital requirements are 8 per cent of the Group's **risk-weighted assets**.
Pillar 2	Pillar 2, 'Supervisory Review', requires banks to undertake a comprehensive assessment of their risks and to determine the appropriate amounts of capital to be held against these risks where other suitable mitigants are not available.
Pillar 3	Pillar 3 aims to provide a consistent and comprehensive disclosure framework that enhances comparability between banks and further promotes improvements in risk practices.
Point in time (PIT)	Considers the economic conditions at the point in the economic cycle at which default occurs when estimating the **probability of default**
Probability of Default (PD)	PD is an internal estimate for each borrower grade of the likelihood that an obligor will default on an obligation within 12 months.
Prudent Valuation Adjustment (PVA)	This represents adjustments to **Tier 1 capital** where the prudent value of a position in the trading book is assessed by the Group as being materially below the fair value recognised in the financial statements.
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**.
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).
Retail Internal Ratings Based (Retail IRB) Approach	In accordance with the FSA handbook BIPRU 4.6, the approach to calculating credit risk capital requirements for eligible retail exposures.
Risk appetite	Risk appetite is an expression of the amount of risk we are willing to take in pursuit of our strategic objectives, reflecting our capacity to sustain losses and continue to meet our obligations arising from a range of different stress trading conditions.
Risk weighted assets (RWAs)	A measure of a bank's assets adjusted for their associated risks. Risk weightings are established in accordance with the Basel Capital Accord as implemented by the FSA.
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.
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. – 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 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.

Glossary continued

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** approach, which considers the economic conditions at the point of the economic cycle at which the default occurs.
Tier 1 capital	Tier 1 capital comprises Core Tier 1 capital plus innovative Tier 1 securities and preference shares and tax on excess expected losses less material holdings in credit or financial institutions.
Tier 1 capital ratio	**Tier 1 capital** as a percentage of **risk weighted assets**.
Tier 1 capital notes ('Innovative Tier 1')	Innovative Tier 1 capital consists of instruments which incorporate certain features, the effect of which is to weaken marginally the key characteristics of Tier 1 capital (that is, fully subordinated, perpetual and non-cumulative). Innovative Tier 1 capital is subject to a limit of 15 per cent of total Tier 1 capital.
Tier 2 capital	Tier 2 capital comprises qualifying subordinated liabilities, allowable portfolio impairment provision and unrealised gains in the eligible revaluation reserves arising from the fair valuation of equity instruments held as available-for-sale.
Trading book	Trading book is defined as per the FSA's Handbook BIPRU. BIPRU 1.2.3 states 'The trading book of a firm consists of all position in CRD financial instrument and commodities held either with trading intent or in order to hedge other elements of the trading book and which are either free of any restrictive covenants on their tradability or ability to be hedged'
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.
Wrong-way risk	The risk that the probability of default associated with counterparty to a derivative transaction increases when the exposure increases.
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.

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

The Group's Pillar 3 disclosures for 31 December 2012 provide details from a regulatory perspective on certain aspects of credit risk, market risk and operational risk. The quantitative disclosures in the Pillar 3 disclosures will not, however, be directly comparable to those in the Risk review of the Annual Report and Accounts 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 80 per cent of our credit risk RWA.

Topic	Annual Report and Accounts	Pillar 3 disclosures
Basis of requirements	• The Group's Annual Report is prepared in accordance with the requirements of IFRS, the UK Companies Act 2006, and the UK, Hong Kong and India Listing rules.	• The Group's Pillar 3 disclosures provide details on risk from a regulatory perspective to fulfil Basel II rule requirements, which have been implemented in the UK through GENPRU and BIPRU.
Basis of preparation	• The quantitative credit risk disclosures in the Risk review are based on IFRS. • Loans and advances are analysed between Consumer Banking (split by product), Wholesale Banking (split by standard industry classification codes). • Market risk disclosures are presented using VaR methodology for the trading and non-trading books.	• Provides details from a regulatory perspective on certain aspects of credit risk, market risk and operational risk. For credit risk this is largely based on internally modelled risk metrics such as PD, LGD and EAD under Basel rules. • Loans and advances are analysed between those that are IRB and standardised, split by standard BIPRU categories. • Market risk and operational risk disclosures are based on the capital required.
Coverage	• All external assets which have an exposure to credit risk. • Market risk exposure is the trading and non-trading books. • Liquidity risk analysis of contractual maturities, liquid assets and encumbered assets.	• A number of the credit risk disclosures within the Pillar 3 disclosures are only provided for the IRB portfolio, which represents 80 per cent of our credit risk RWA. The remainder of the portfolio is on the standardised rules as prescribed in the BIPRU sourcebook.

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

Topic	Annual Report and Accounts	Pillar 3 disclosures
Credit rating and measurement	• Overview of credit risk management credit grading and the use of IRB models. Page 65. • Maximum exposure to credit risk set out on page 68. • Internal credit grading analysis provided by business for loans neither past due nor impaired on page 71. • External credit grading analysis for unimpaired debt securities and treasury bills is set out on page 93.	• A detailed analysis of IRB and standardised approach to credit risks is set out on pages 19 to 21. • A more detailed explanation of IRB models is set out on pages 20 and 21. • For the IRB portfolio, page 33 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 pages 22 and 23. • Credit grade analysis provided for the IRB portfolio only. EAD within the IRB portfolio after CRM, Undrawn commitments, exposure weighted average LGD and weighted average risk weight internal credit grade on pages 34 to 37.
Credit risk mitigation	• CRM approach is set out on page 66. • Overview of fair value of collateral held and other credit risk mitigants for the loan portfolio, with further details on Consumer Banking (CB) collateral provided on page 79 and Wholesale Banking (WB) on page 89. • Quantitative overview of other risk mitigants including: – Securitisations - includes disclosures of both retail transferred and synthetic securitisation. – Master netting, CSAs and cash collateral for derivatives.	• Provides details on CRM from a regulatory perspective by providing EAD after CRM by IRB exposure class. Explanation is given on what constitutes eligible collateral including explanations of funded and unfunded protection. The main type of collateral for the Group's standardised portfolio is also disclosed. Please refer to pages 30 and 31. • 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 41 to 47. • 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 38 to 40.
Loan portfolio	• Group overview of the loan portfolio provided by business by geography is on page 69. A more detailed analysis by CB product is set out on pages 76 and 77 and by WB counterparty (based on standard industry classifications) on page 85. • Maturity analysis provided on pages 70, 77 and 86.	• EAD by geography, split between IRB and standardised portfolios (page 24) and by industry types (as specified by BIPRU) on page 26. • Maturity of EAD, split by IRB and standardised on page 28.
Problem credit management and provisioning	• Provisioning approach set out on page 73 and definition on non-performing loans on page 73. • Disclosures of non-performing loans, neither past due nor impaired, past due and impaired loans, individual impairment charge and portfolio Impairment charge by geography, product and industry.	• Disclosures around the expected loss model used for regulatory purposes and a tabular disclosure showing the regulatory expected loss against the net individual impairment charge. Please refer to page 32.
Market risk	• Details of the VaR methodology, and VAR (trading and non trading) is disclosed by risk type on page 99 to 101. • Details on Group Treasury's market risk, including a table showing a parallel shift in the yield curves, on pages 101 and 102.	• Provides details of the internal model approvals, such as the CAD2 granted by the FSA 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 pages 48 and 49.