Standard Chartered PLC

Pillar 3 Disclosures

Introduction

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

2013 Pillar 3 Disclosures

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

Risk Management

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

Credit Risk

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

Credit risk is managed through a framework that sets out policies and procedures covering the measurement and management of credit risk. There is a clear segregation of duties between transaction originators in the businesses and approvers in the Risk function. All credit exposure limits are approved within a defined credit approval authority framework.

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

Market Risk

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

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

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

Operational Risk

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

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

Remuneration

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

Basel III

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

Verification

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

Frequency

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

3.10. Securitisation

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

Securitisations may be categorised as either:

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

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

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

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

Asset Backed Securities

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

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

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

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

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

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

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

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

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

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

3.10. Securitisation continued

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

Table 35: Securitisation: ABS purchased or retained

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

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

3.10. Securitisation continued

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

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

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

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

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

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

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

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

3.10. Securitisation continued

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

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

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

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

Governance of securitisation activities

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

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

Basel II for securitisation positions

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

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

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

CRD IV

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

Accounting

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

3.10. Securitisation continued

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

Table 36: Securitisation programmes (as originator)

2013	Underlying facilities hedged	Public/ Private	Start date	Scheduled maturity	Maximum notional $million	Retained exposures[1] $million	Outstanding exposures[2] $million	Capital requirement before securitisation $million	Capital requirement after securitisation[3] $million
Start VI	**Commercial Loan**	**Public**	**11/2010**	**04/2014**	**1,250**	**1,162**	**750**	**40**	**22**
Mana III	**Trade Finance**	**Private**	**12/2012**	**06/2014**	**3,496**	**3,286**	**3,214**	**190**	**52**
Sumeru	**Commercial Loan**	**Private**	**06/2010**	**09/2014**	**3,443**	**3,176**	**2,533**	**159**	**72**
Sealane II	**Trade Finance**	**Public**	**08/2011**	**02/2015**	**2,996**	**2,816**	**2,835**	**174**	**54**
Shangren II	**Trade Finance**	**Private**	**12/2011**	**03/2015**	**2,499**	**2,325**	**2,335**	**143**	**23**
Pamir	**Trade Finance**	**Private**	**10/2011**	**04/2015**	**1,498**	**1,408**	**1,416**	**88**	**27**
Start VII	**Commercial Loan**	**Public**	**12/2011**	**06/2015**	**2,000**	**1,860**	**1,770**	**118**	**42**
Pumori	**Commercial Loan**	**Private**	**03/2012**	**09/2015**	**1,249**	**1,161**	**1,070**	**74**	**25**
Oryza 1	**Commercial Loan**	**Private**	**06/2012**	**12/2015**	**1,500**	**1,395**	**1,373**	**91**	**32**
Start VIII	**Commercial Loan**	**Public**	**11/2012**	**05/2016**	**1,500**	**1,395**	**1,354**	**100**	**32**
Total					**21,431**	**19,984**	**18,650**	**1,177**	**381**

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

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

2 Underlying exposures that have been securitised in the programmes

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

3.10. Securitisation continued

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

Table 37: Securitisation positions by risk-weight category

		2013									
		Originated						ABS		Total	
Credit Assessments		Senior		Non Senior		Non Granular Pools					
Moody's	Risk weight %	Exposure $ million	Capital requirement $ million	Exposure $ million	Capital requirement $ million	Exposure $ million	Capital requirement $ million	Exposure $ million	Capital requirement $ million	Exposure $ million	Capital requirement $ million
Aaa	**7% to 20%**	**17,980**	**105**	**293**	**3**	**-**	**-**	**5,449**	**31**	**23,722**	**139**
Aa	**8% to 25%**	**-**	**-**	**-**	**-**	**-**	**-**	**396**	**3**	**396**	**3**
A1	**10% to 35%**	**-**	**-**	**567**	**9**	**-**	**-**	**-**	**-**	**567**	**9**
A2	**12% to 35%**	**-**	**-**	**-**	**-**	**-**	**-**	**437**	**4**	**437**	**4**
A3	**20% to 35%**	**-**	**-**	**594**	**18**	**-**	**-**	**15**	**-**	**609**	**18**
Baa1	**35% to 50%**	**-**	**-**	**313**	**13**	**-**	**-**	**109**	**3**	**422**	**16**
Baa2	**60% to 75%**	**-**	**-**	**-**	**-**	**-**	**-**	**86**	**4**	**86**	**4**
Baa3	**100%**	**-**	**-**	**70**	**6**	**-**	**-**	**1**	**-**	**71**	**6**
Ba1	**250%**	**-**	**-**	**-**	**-**	**-**	**-**	**5**	**1**	**5**	**1**
Ba2	**425%**	**-**	**-**	**-**	**-**	**-**	**-**	**34**	**12**	**34**	**12**
Ba3	**650%**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Supervisory formula		**-**	**-**	**1,489**	**102**	**-**	**-**	**62**	**-**	**1,551**	**102**
Deductions		**-**	**-**	**125**	**125**	**-**	**-**	**-**	**-**	**125**	**125**
Total		**17,980**	**105**	**3,451**	**276**	**-**	**-**	**6,594**	**58**	**28,025**	**439**

		2012									
		Originated						ABS		Total	
Credit Assessments		Senior		Non Senior		Non Granular Pools					
Moody's	Risk weight %	Exposure $ million	Capital requirement $ million	Exposure $ million	Capital requirement $ million	Exposure $ million	Capital requirement $ million	Exposure $ million	Capital requirement $ million	Exposure $ million	Capital requirement $ million
Aaa	7% to 20%	18,637	109	293	3	-	-	3,004	17	21,934	129
Aa	8% to 25%	-	-	-	-	-	-	544	3	544	3
A1	10% to 35%	-	-	568	9	-	-	-	1	568	10
A2	12% to 35%	-	-	-	-	-	-	266	3	266	3
A3	20% to 35%	-	-	594	18	-	-	272	5	866	23
Baa1	35% to 50%	-	-	313	13	-	-	137	4	450	17
Baa2	60% to 75%	-	-	-	-	-	-	162	8	162	8
Baa3	100%	-	-	70	6	-	-	10	1	80	7
Ba1	250%	-	-	-	-	-	-	38	8	38	8
Ba2	425%	-	-	-	-	-	-	40	13	40	13
Ba3	650%	-	-	-	-	-	-	-	1	-	1
Supervisory formula		-	-	1,526	109	-	-	46	-	1,572	109
Deductions		-	-	145	145	-	-	-	-	145	145
Total		18,637	109	3,509	303	-	-	4,519	64	26,665	476

3.10. Securitisation continued

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

Table 38: Securitisation positions by region

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

4. Market risk

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

The primary categories of market risk for Standard Chartered are:

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

Valuation framework

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

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

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

Market risk changes

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

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

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

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

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

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

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

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

5 Actual one day VaR at year end date

4. Market Risk continued

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

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

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

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

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

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

[4] Actual one day VaR at year end date

4. Market risk continued

Market risk regulatory capital requirements

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

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

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

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

Table 41: Market risk capital requirements

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

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

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

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

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

Table 42: Market risk capital requirements for significant subsidiaries

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

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

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

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

4. Market risk continued

Internal Models Approach – Stressed VaR

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

Table 43: Stressed VaR

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

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

[2] Actual one day VaR as at period end date

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

Table 44: Stressed VaR - Group portfolio

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

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

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

5. Operational risk

Measurement

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

Table 45: Operational risk capital requirement by business

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

Key points

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

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

Table 46: Operational risk capital requirement for significant subsidiaries

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

6. Immaterial portfolios

Non trading book equities & specialised lending exposures

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

7. Forward looking statements

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

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

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

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

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

8. Acronyms

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

Glossary

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

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

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

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

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

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

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

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

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