
Standard Chartered PLC

Pillar 3 Disclosures

31 December 2012



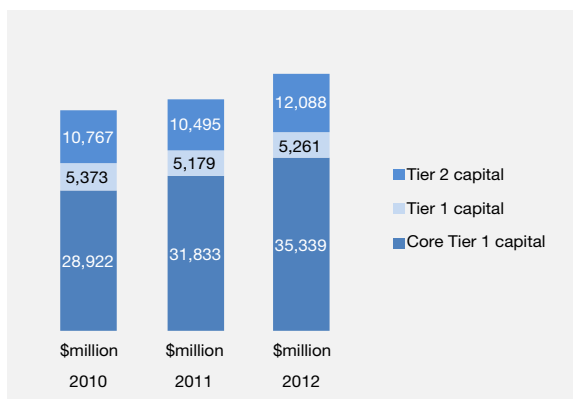
Incorporated in England with registered number 966425
Principal Office: 1 Aldermanbury Square, London, EC2V 7SB, England

Standard Chartered PLC

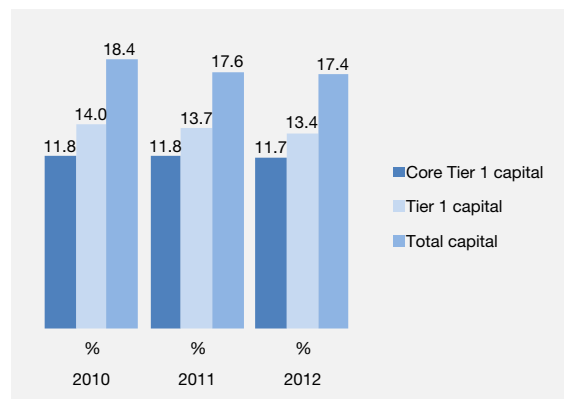
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Highlights

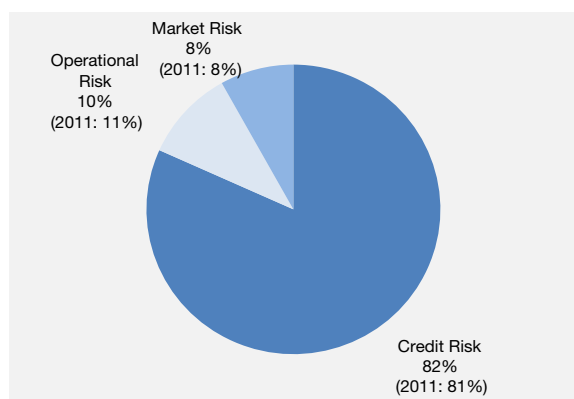
- Strongly capitalised, with a focus on Core Tier 1, Tier 1 and total capital, to support a conservative, diversified balance sheet with low exposure to higher-risk asset classes and segments.
- Our capital position, allied with strong liquidity, continues to allow us to support our clients and customers.



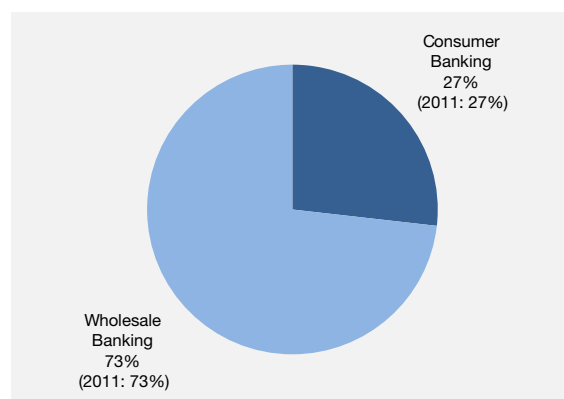
Basel II - Capital



Basel II - Capital ratios



Basel II - RWA



Basel II - RWA by business

Standard Chartered PLC is headquartered in London where it is regulated by the UK's Financial Services Authority (FSA). On 1 April 2013, the FSA will cease to exist and from this date onwards Standard Chartered Bank will be authorised by the Prudential Regulation Authority (PRA) and, Standard Chartered PLC Group and Standard Chartered Bank will be regulated by the Financial Conduct Authority (FCA) and the PRA.

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

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

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

In January 2012 the Group's subsidiary in Korea, SC First Bank Korea Ltd, was rebranded to Standard Chartered Bank Korea Ltd and will be referred to as such throughout this document.

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Introduction

Standard Chartered complies with the Basel II framework which has been implemented in the UK through the FSA's 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 and Accounts. The Group considers a number of factors in determining where disclosure is made between the Annual Report and Accounts and Pillar 3, including International Financial Reporting Standards (IFRS), regulatory requirements and industry best practice.

2012 Pillar 3 disclosures

Ahead of the implementation of Capital Requirements Directive (CRD) IV, the FSA, the Enhanced Disclosures Task Force (EDTF) and the European Banking Authority (EBA), have made a series of disclosure recommendations. In response to these recommendations, and in consultation with the British Bankers' Association Disclosure Working Group, we have made changes to our 2012 Pillar 3 disclosures. Principal changes compared with the previous year include new disclosures related to Basel III transitional capital and leverage ratio and enhancement of our securitisation disclosures. We have also removed information that is already disclosed in the 2012 Annual Report and Accounts but have included references to that information where appropriate. A summary of differences and cross references between the Annual Report and Accounts and the Pillar 3 disclosures can be found on pages 60 and 61 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 62 of the Risk review in the 2012 Annual Report and Accounts.

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. This approach builds on the Group's risk management practices and is the result of a significant investment in data warehouses and risk models.

Our approach to credit risk and disclosures in respect of problem credit management and provisioning can be found on page 73 of the Risk review in the 2012 Annual Report and Accounts.

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 market risk capital for part of the trading book exposures where permission to use such models has been granted by the FSA. 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.

Our approach to market risk can be found on page 99 of the Risk review in the 2012 Annual Report and Accounts.

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 determining the capital requirements for operational risk. Our approach to operational risk can be found on pages 111 and 112 of the Risk review in the 2012 Annual Report and Accounts.

Remuneration

The remuneration disclosure follows the requirements of the FSA Policy Statement PS10/21 issued in December 2010. Further details on Remuneration can be found on pages 160 to 185 of the Directors' remuneration report in the 2012 Annual Report and Accounts.

Basel III

Basel III rules published in December 2010 and updated in June 2011 by the Basel Committee on Banking Supervision (BCBS) are due to be implemented via EU legislation (the package of reforms commonly referred to as CRD IV comprising the current proposals for a Capital Requirements Regulation and a Capital Requirements Directive). In response to the Financial Policy Committee (FPC) and the FSA disclosure recommendations in the UK, the Group has provided Basel III 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 FSA BIPRU Handbook. This review has not been repeated since there has been no significant change to the BIPRU requirements. The 2012 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 www.standardchartered.com aligning with the publication date of the Group's Annual Report and Accounts.

Standard Chartered PLC

Pillar 3 Disclosures

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Pillar 3 Disclosures

1. Scope of Basel framework

Basel II

Pillar 1

The Group's lead supervisor, the FSA, formally approved underlying models and the Group's use of the IRB approach for calculating regulatory capital requirements in 2007 and since 1 January 2008, the Group has been using the IRB approach for the measurement of credit risk capital requirements. The IRB models approved by the FSA cover 80 per cent of the Group's credit risk weighted assets (RWA), (2011: 79 per cent).

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

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

Pillar 2

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

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

The ICAAP framework has been designed to be applied consistently across the organisation to meet the Pillar 2 requirements of local regulators. A description of the risk management framework is set out on page 62 of the Risk review in the Group's 2012 Annual Report and Accounts.

Under Pillar 2, the FSA is required to undertake a review of the Group's ICAAP. This is currently referred to as the Supervisory Review and Evaluation Process (SREP). The SREP forms part of the FSA's Advanced Risk Response Operating Framework (ARROW) and determines the minimum regulatory capital requirements of the Group, referred to as Individual Capital Guidance (ICG).

Pillar 3

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

In response to recommendations from the FSA, EDTF and the EBA, a number of changes have been made to the 2012 Annual Report and Accounts and Pillar 3 disclosures. These include an increase in cross-referencing, the removal of duplication from Pillar 3 disclosures and additional disclosures in respect of the accounting and regulatory consolidation, Basel III transitional capital and the leverage ratio. In order to facilitate navigation between the 2012 Annual Report and Accounts and Pillar 3 disclosures a summary of differences and cross-references has been included in both documents. This summary can be found on pages 60 and 61 of this document.

Pages 119 and 120 of the 2012 Annual Report and Accounts include tables describing the movement in total capital and risk-weighted assets during the year. Pages 111 and 112 include enhanced disclosures on operational risk.

Pillar 3 disclosures include a comparison of the accounting and regulatory consolidation (see Table 1) and provide the constituent parts of the capital base under Basel III, as if 31 December 2012 was the first day of the CRD IV transitional period, which runs from 1 January 2013 until the end point of 1 January 2022 (see Table 9). The leverage ratio (see Table 10) is based on both the end point Tier 1 capital under Basel III and a measure of Tier 1 capital that includes in full Additional Tier 1 instruments that are expected to be phased out during the transitional period.

Further details and disclosures of risk, liquidity, capital management and remuneration are presented in the 2012 Annual Report and Accounts.

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Pillar 3 Disclosures

1.1. Accounting and regulatory consolidation

The Pillar 3 disclosures are made for the consolidated Standard Chartered PLC Group. The principal undertakings presented below are the same as those disclosed in the 2012 Annual Report and Accounts, and Table 8 on page 13 of this document provides additional disclosures of the capital resources for those significant subsidiaries that represent at least 10 per cent of the Group's regulatory capital requirements, in accordance with BIPRU 11.4.5.

The accounting policy for consolidation is provided in note 1 of the financial statements in the 2012 Annual Report and Accounts. All banking subsidiaries are fully consolidated, and the treatment is the same for both regulatory and accounting

purposes. For associates, the regulatory treatment differs from the accounting policy, which applies the equity accounting method. Investments in associates that are between 20 and 50 per cent owned are proportionately consolidated for regulatory purposes and the investment in associates that are between 10 and 20 per cent owned are deducted from capital resources. Joint ventures are proportionately consolidated for both accounting and regulatory purposes.

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

Type	Description	Regulatory consolidation	Principal undertakings
Investment	The Group holds less than 10 per cent of the issued share capital	The Group risk weights the investment	Agricultural Bank of China
Investment	The Group holds at least 10 per cent and less than 20 per cent of the issued share capital	The Group deducts the carrying value of the investment from its regulatory capital	Asia Commercial Bank China Bohai Bank
Associate	The Group holds at least 20 per cent and up to 50 per cent of the issued share capital	The Group proportionately consolidates its share of the assets, liabilities, income, expenses and exposures	Fleming Family & Partners
Joint Venture	The Group enters into a contractual arrangement to exercise joint control over an undertaking	The Group proportionately consolidates its share of the assets, liabilities, income, expenses and exposures	PT Bank Permata Tbk
Subsidiary	The Group holds more than 50 per cent of the issued share capital	The Group fully consolidates the undertaking	Standard Chartered Bank Standard Chartered Bank Korea Limited Standard Chartered Bank Malaysia Berhad Standard Chartered Bank (Pakistan) Limited Standard Chartered Bank (Taiwan) Limited Standard Chartered Bank (Hong Kong) Limited Standard Chartered Bank (China) Limited Standard Chartered Bank (Thai) Public Company Limited Standard Chartered Bank Nigeria Limited Standard Chartered Bank Kenya Limited Standard Chartered Private Equity Limited, Hong Kong

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1.1. Accounting and regulatory consolidation continued

Table 1 below shows that the difference between the basis of consolidation for accounting and regulatory purposes is not material. The difference is due to consolidation adjustments made for the proportionate consolidation of associates. The

more significant difference between the two bases is the treatment of capital, which is presented in Table 2 on pages 8 and 9. The assets and liabilities presented in Table 1 under the regulatory scope of consolidation are before any regulatory adjustments.

Table 1: Comparison of accounting and regulatory consolidation

	2012		
	Accounting Balance Sheet as in published financial statements \$million	Consolidation of banking associates/ other entities \$million	Under regulatory scope of consolidation \$million
Assets			
Cash and balances at central banks	61,043	8	61,051
Financial assets held at fair value through profit or loss	27,084		27,084
Derivative financial instruments	49,496		49,496
Loans and advances to banks	68,381		68,381
Loans and advances to customers	283,885		283,885
Investment securities	99,413	1	99,414
Other assets	28,818	2	28,820
Current tax assets	215		215
Prepayments and accrued income	2,581	2	2,583
Interests in associates	953	(35)	918
Goodwill and intangible assets	7,312	1	7,313
Property, plant and equipment	6,646	1	6,647
Deferred tax assets	691		691
Total assets	636,518	(20)	636,498
Liabilities			
Deposits by banks	36,477		36,477
Customer accounts	377,639		377,639
Financial liabilities held at fair value	23,064		23,064
Derivative financial instruments	47,192		47,192
Debt securities in issue	55,979		55,979
Other liabilities	24,504	1	24,505
Current tax liabilities	1,069		1,069
Accruals and deferred income	4,860	3	4,863
Subordinated liabilities and other borrowed funds	18,799		18,799
of which tier 1 capital instruments	3,758		3,758
of which tier 2 capital instruments ¹	15,041		15,041
Deferred tax liabilities	161		161
Provisions for liabilities and charges	215	1	216
Retirement benefit obligations	504		504
Share capital	1,207	5	1,212
Reserves	44,155	(30)	44,125
Non-controlling interests	693	-	693
Total liabilities and equity	636,518	(20)	636,498

¹ Tier 2 capital includes eligible Tier 2 instruments, which are included in regulatory capital of \$12,989 million.

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2. Capital

2.1. Basel II Capital structure

Capital management

The Capital section of the 2012 Annual Report and Accounts on page 116 provides our approach to capital management. Table 2 below summarises the consolidated capital position of the Group.

Movement in capital

Core Tier 1 capital increased by \$3,506 million since 31 December 2011. This increase is principally due to profit of \$4,887 million, partly offset with dividends paid to shareholders of \$1,407 million.

Other Tier 1 capital after regulatory adjustments increased by \$82 million since 31 December 2011, due mainly to favourable

exchange movements. Tier 2 capital increased by \$1,641 million since 31 December 2011, principally due to issuances of US Dollar and Euro denominated debt totalling \$3,222 million, partly offset by redemptions totalling \$1,447 million and amortisation of \$163 million.

A movement in total capital can be found on page 119 of the 2012 Annual Report and Accounts.

In light of the uncertain economic environment and evolving regulatory debate on banks' capital structures, the Group continues to believe it is appropriate to remain strongly capitalised with a Core Tier 1 capital ratio of 11.7 per cent, Tier 1 capital ratio of 13.4 per cent and total capital ratio of 17.4 per cent.

Table 2: Capital base

	2012 \$million	2011 \$million
Shareholders' equity		
Parent company shareholders' equity per balance sheet	45,362	40,714
Preference shares classified as equity included in other Tier 1 capital	(1,495)	(1,494)
	43,867	39,220
Non-controlling interests		
Non-controlling interests per balance sheet	693	661
Non-controlling Tier 1 capital included in other Tier 1 capital	(320)	(320)
	373	341
Regulatory adjustments		
Unrealised (gains) losses on available-for-sale debt securities	(97)	282
Unrealised gains on available-for-sale equity securities included in Tier 2 capital	(490)	(241)
Cash flow hedge reserve	(81)	13
Other adjustments	(35)	(46)
	(703)	8
Deductions		
Goodwill and other intangible assets	(7,312)	(7,061)
50 per cent excess of expected losses ¹	(966)	(702)
50 per cent of tax on expected losses	240	186
50 per cent of securitisation positions	(118)	(106)
Other regulatory adjustments	(42)	(53)
	(8,198)	(7,736)
Core Tier 1 capital	35,339	31,833
Other Tier 1 capital		
Preference shares included within shareholder's equity (refer to Table 4)	1,495	1,494
Preference shares included within 'Subordinated debt and other borrowings' (refer to Table 4)	1,205	1,194
Innovative Tier 1 securities (excluding non-controlling Tier 1 capital) (refer to Table 5)	2,553	2,506
Non-controlling Tier 1 capital (refer to Table 5)	320	320
	5,573	5,514
Deductions		
50 per cent of tax on expected losses	240	186
50 per cent of material holdings	(552)	(521)
	(312)	(335)
Total Tier 1 capital	40,600	37,012

¹ Excess of expected losses in respect of advanced IRB portfolios are shown gross of tax benefits.

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Pillar 3 Disclosures

2.1. Basel II Capital structure continued

Table 2: Capital base continued

	2012 \$million	2011 \$million
Tier 2 capital:		
Qualifying subordinated liabilities:²		
Subordinated liabilities and other borrowed funds as per balance sheet	18,799	16,717
Preference shares eligible for Tier 1 capital ³	(1,205)	(1,194)
Innovative Tier 1 securities eligible for Tier 1 capital	(2,553)	(2,506)
Adjustments relating to fair value hedging and non-eligible securities	(2,052)	(1,669)
	12,989	11,348
Regulatory adjustments		
Reserves arising on revaluation of available-for-sale equities	490	241
Portfolio impairment provision	248	239
	738	480
Deductions		
50 per cent excess of expected losses ¹	(966)	(702)
50 per cent of material holdings	(552)	(521)
50 per cent of securitisation positions	(118)	(106)
	(1,636)	(1,329)
Total Tier 2 capital	12,091	10,499
Deductions from Tier 1 and Tier 2 capital	(3)	(4)
Total capital base	52,688	47,507

¹ Excess of expected losses in respect of advanced IRB portfolios are shown gross of tax benefits.

² Consists of perpetual subordinated debt \$1,314 million (2011: \$1,489 million) and other eligible subordinated debt \$11,675 million (2011: \$9,859 million). Lower Tier 2 instruments that mature within 5 years include amortisation.

³ Represents \$1,336 million (2011: \$1,338 million) reported in note 32 of the financial statements in the 2012 Annual Report and Accounts, after deduction of \$131 million (2011: \$144 million) of ineligible fair value gains.

Table 3: Risk weighted assets and capital ratios

	2012 \$million	2011 \$million
Risk weighted assets		
Credit risk	246,650	220,394
Operational risk	30,761	28,762
Market risk	24,450	21,354
Total risk weighted assets	301,861	270,510
Capital ratios		
Core Tier 1 capital	11.7%	11.8%
Tier 1 capital	13.4%	13.7%
Total capital ratio	17.4%	17.6%

Further information on risk weighted assets including a movement table and analysis by business and geography can be found on page 120 in the Capital section of the 2012 Annual Report and Accounts.

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2.1. Basel II Capital structure continued

Capital instruments issued by the Group

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

Tier 1 capital

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

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

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

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

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

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

Table 4 : Capital instruments - Preference shares

				2012	2011
Description	Terms			\$million	\$million
Hybrid Tier 1 capital with no incentive to redeem ¹					
£100 million 8.250 per cent Preference shares	Perpetual	Non-cumulative	Irredeemable ³	146	143
£100 million 7.375 per cent Preference shares	Perpetual	Non-cumulative	Irredeemable ³	145	137
\$750 million 7.014 per cent Preference shares	Perpetual	Non-cumulative	Redeemable (callable Jul 2037, re-set to 3 month LIBOR plus 1.46 per cent) ²	748	747
\$750 million 6.409 per cent Preference shares	Perpetual	Non-cumulative	Redeemable (callable Jan 2017, re-set to 3 month LIBOR plus 1.51 per cent) ²	747	747
\$925 million 8.125 per cent Preference shares	Perpetual	Non-cumulative	Redeemable (callable Nov 2013) ³	914	914
				2,700	2,688

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

² These preference shares are treated as equity from an accounting perspective, and included in 'other Tier 1 Capital' on page 8.

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

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

Table 5 : Capital instruments - Innovative Tier 1 securities

				2012	2011
Description	Terms			\$million	\$million
Hybrid Tier 1 capital with incentive to redeem ¹					
£600 million 8.103 per cent Preferred securities	Perpetual	Cumulative	Redeemable (callable May 2016 and annually thereafter, step-up in May 2016 to 5 year UK gilts plus 4.275 per cent) ²	1,059	1,017
\$300 million 7.267 per cent Hybrid tier 1 securities	Non-perpetual	Non-cumulative	Redeemable (callable Mar 2014, maturity Mar 2034, extendable for 30 year periods, 7.267 per cent to Mar 2014, step-up in Mar 2014 to 3 month LIBOR plus 4.29 per cent) ²	320	320
\$1,500 million 9.5 per cent Preferred Securities	Perpetual	Cumulative	Redeemable, (callable Dec 2014, step-up in Dec 2014 to 5 year Treasuries plus 6.78 per cent) ²	1,494	1,489
				2,873	2,826

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

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

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2.1. Basel II Capital structure continued

Tier 2 capital

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

Table 6: Capital instruments – Upper Tier 2

Description	Terms		2012 \$million	2011 \$million
Primary capital floating rate				
\$400 million	Perpetual	Either 6 month LIBOR plus 0.125 per cent or Residual Period LIBOR plus 0.0625 per cent ¹	44	57
£150 million	Perpetual	3 month LIBOR plus 0.1875 per cent ¹	50	234
\$300 million	Perpetual	6 month LIBOR plus 0.25 per cent ¹	80	81
\$400 million	Perpetual	6 month LIBOR plus 0.275 per cent ¹	64	83
\$200 million	Perpetual	6 month LIBOR plus 0.15 per cent ¹	50	51
Subordinated notes				
£675 million	Perpetual	Callable Jul 2020, 5.375 per cent coupon with step-up in Jul 2020 to 3 month LIBOR plus 1.89 per cent	631	602
£200 million	Perpetual	Callable Jan 2022, 7.75 per cent coupon with step-up in Jan 2022 to 5 year benchmark gilt plus 3.8 per cent	395	381
			1,314	1,489

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

Standard Chartered PLC

Pillar 3 Disclosures

2.1. Basel II Capital structure continued

Lower Tier 2 capital

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

Table 7: Capital instruments - Lower Tier 2 subordinated notes

Description	Terms		2012 \$million	2011 \$million
£300 million	6 per cent	Maturing Jan 2018, callable Jan 2013, step-up in Jan 2013 to 3 month LIBOR plus 0.79 per cent	486	465
£700 million	7.75 per cent	Maturing Apr 2018	1,133	1,085
€750 million	3.625 per cent	Maturing Feb 2017, callable Feb 2012, step-up in Feb 2012 to 3 month EURIBOR plus 0.87 per cent ¹	-	974
€675 million	Floating rate	Maturing Mar 2018, callable Mar 2013, coupon 3 month EURIBOR plus 0.30 per cent, step-up in Mar 2013 to 3 month LIBOR plus 0.80 per cent	890	876
€1,100 million	5.875 per cent	Maturing Sep 2017	1,351	1,426
€750 million	3.63 per cent	Maturing Nov 2022	980	-
\$700 million	8 per cent	Maturing May 2031	426	426
\$100 million	Floating rate	Maturing Mar 2018, callable Mar 2013, coupon 3 month LIBOR plus 0.30 per cent, step-up in Mar 2013 to 3 month LIBOR plus 0.80 per cent	100	100
\$1,000 million	6.4 per cent	Maturing Sep 2017	930	996
\$300 million	Floating rate	Maturing Apr 2017, callable Apr 2012, coupon 3 month LIBOR plus 0.25 per cent, step-up in Apr 2012 to 3 month LIBOR plus 0.75 per cent ²	-	300
\$22 million	9.75 per cent	Maturing Jun 2021, callable Jun 2016, step-up in Jun 2016 to 6 month LIBOR plus 6.6035 per cent	22	25
\$750 million	5.875 per cent	Maturing Jun 2020	745	745
\$1,000 million	5.7 per cent	Maturing Jan 2022	995	-
\$1,250 million	4.0 per cent	Maturing Jul 2022, callable Jul 2017	1,244	-
BWP 75 million	Floating rate	Maturing Nov 2017, 91 day BOBC plus 0.40 per cent, step-up in Nov 2012 to 91 day BOBC plus 0.90 per cent ³	-	10
IDR 1,750 billion	11 per cent	Maturing Jun 2018	76	82
JPY 10,000 million	3.35 per cent	Maturing Apr 2023, callable Apr 2018, step-up in Apr 2018 to 4.35 per cent	115	130
KRW 90 billion	6.05 per cent	Maturing Mar 2018	84	78
KRW 260 billion	6.08 per cent	Maturing Apr 2018, callable Apr 2013	243	225
KRW 300 billion	7.05 per cent	Maturing Apr 2019, callable Apr 2014, step-up in Apr 2014 to 7.55 per cent	280	260
KRW 270 billion	4.67 per cent	Maturing Dec 2021, callable Dec 2016	252	234
MYR 500 million	4.28 per cent	Maturing Nov 2017, callable Nov 2012, step-up in Nov 2012 to 3 month KLIBOR plus 0.69 per cent ⁴	-	155
SGD 450 million	5.25 per cent	Maturing Apr 2023, callable Apr 2018, step-up in Apr 2018 to 6 month SGDSOR plus 3.1025 per cent	367	346
SGD 750 million	4.15 per cent	Maturing Oct 2021, callable Oct 2016, re-set in Oct 2016 to 5 year SGDSOR plus 2.975 per cent	612	591
TWD 10 billion	2.9 per cent	Maturing Oct 2019, callable Oct 2014, step-up in Oct 2014 to 3.4 per cent	344	330
			11,675	9,859

¹ In February 2012, Standard Chartered Bank exercised its right to redeem these securities in full.

² In April 2012, Standard Chartered Bank (Hong Kong) Limited exercised its right to call these securities in full.

³ In November 2012, Standard Chartered Bank Botswana Limited gave notice of its intention to exercise its right to call these securities in full. The securities were redeemed in full in January 2013.

⁴ In November 2012, Standard Chartered Bank Malaysia Berhad exercised its right to call these securities in full.

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Pillar 3 Disclosures

2.1. Basel II Capital structure continued

Regulatory deductions

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

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

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

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

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

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

Capital resources of significant subsidiaries

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

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

Table 8: Capital resources of significant subsidiaries

	2012			2011		
	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
Core Tier 1 capital						
Called up ordinary share capital	12,054	12	1,826	12,054	12	1,139
Eligible reserves ¹	11,352	4,970	2,197	10,088	4,281	2,316
Non-controlling interests	-	3	-	-	7	-
50 per cent excess of expected losses	(561)	-	-	(408)	-	-
50 per cent of securitisation positions	(116)	-	-	(90)	-	-
Goodwill and other intangible assets	(1,702)	(198)	(52)	(1,615)	(186)	(39)
Other regulatory adjustments	(2)	(23)	(104)	(7)	(37)	(100)
Total Core Tier 1 capital	21,025	4,764	3,867	20,022	4,077	3,316
Innovative Tier 1 securities	2,553	-	326	2,507	-	300
Preference shares	2,414	-	-	2,415	-	-
50 per cent of tax on expected losses ¹	110	-	-	113	-	-
50 per cent of material holdings	(6,647)	(356)	-	(7,113)	(381)	-
Total Tier 1 capital	19,455	4,408	4,193	17,944	3,696	3,616
Tier 2 capital						
Eligible revaluation reserves	125	3	192	85	-	6
Regulatory Reserve	-	45	19	-	42	100
Portfolio impairment provision (applicable to Standardised portfolios)	66	21	110	66	20	78
Excess provision over EL	-	194	97	-	174	-
50 per cent excess of expected losses	(561)	-	-	(408)	-	-
Qualifying subordinated liabilities:						
Perpetual subordinated debt	3,114	-	-	3,289	-	258
Other eligible subordinated debt	11,919	1,454	859	8,123	1,686	798
Amortisation of qualifying subordinated liabilities	-	-	-	-	-	-
50 per cent of material holdings	(6,648)	(356)	-	(7,113)	(381)	-
50 per cent of securitisation positions	(116)	-	-	(90)	-	-
Other regulatory deductions	-	-	-	-	(21)	-
Total Tier 2 capital	7,899	1,361	1,277	3,952	1,520	1,240
Deductions from Tier 1 and Tier 2 capital²	(2,298)	(26)	-	(2,268)	(26)	-
Total capital base	25,056	5,743	5,470	19,628	5,190	4,856

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

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

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Pillar 3 Disclosures

2.2. Basel III Capital structure

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.

In response to a greater demand for information on the impact of Basel III recommendations, and ahead of the implementation in Europe of these proposals as part of the package of reforms commonly referred to as CRD IV, comprising the current proposals for a Capital Requirements Regulation and Capital Requirements Directive, the FSA asked banks to prepare a capital reconciliation as at 31 December 2012, taking into account the effects of the proposed CRD IV transitional arrangements as if 31 December 2012 was the start of the transitional period, which for the purposes of this disclosure is expected to run from 1 January 2013 to 1 January 2019. The period during which we amortise grandfathered capital instruments is expected to end by 1 January 2022. In preparing these disclosures we have assumed that the Basel III proposals will be applied by the FSA and that implementation will not be accelerated beyond that permitted by the draft CRD IV proposals.

We present here a reconciliation of the Group's Core Tier 1 capital, as reported in Table 2 on pages 8 and 9, to the transitional and end point total capital positions under CRD IV. The disclosure shows the effects of transitional arrangements, being those amounts that will increase or decrease items of capital, and regulatory adjustments as the Group moves through the transitional period.

Although the CRD IV rules have not been finalised, we expect our Common Equity Tier 1 (CET1) ratio would be around 100 bps lower than our reported Basel II Core Tier 1 ratio on a pro forma basis. This movement is driven by increased RWAs, in particular the introduction of capital requirements for Credit Valuation Adjustments (CVA) and increased regulatory deductions from CET1. The actual outcome will depend on how the emerging rules are implemented, what the future shape of the Group is and the extent to which the Group's regulators give recognition to the Group's implementation of internal models for the calculation of RWA.

Basis of preparation

The own funds disclosure presented in the 2012 Pillar 3 disclosures in Table 9 on pages 16 and 17 is based on the EBA consultation, in June 2012, on the Disclosure for Own Funds by institutions (EBA/CP/2012/04). The Group has aligned its disclosure with the proposed transitional template included in that consultation, where appropriate, omitting items that are either not relevant or immaterial to the Group and in line with the guidance issued by the FSA. The basis of the disclosure is the July 2011 CRD IV text, with the exception of the calculation of eligible non-controlling interest, which has been based on the Basel III text published in December 2010 and updated in June 2011.

New regulatory adjustments to CET1 are phased in from January 2014, so do not impact the transitional capital position at 31 December 2012. We have considered the phasing out of grandfathered capital instruments, being those that are not expected to comply fully with the final CRD IV rules, and calculated a declining ceiling to the recognition of these instruments over time. New regulatory adjustments and deductions from CET1 include deferred tax assets that depend on the future profitability of the Group and do not arise from temporary differences and the requirement to leave in reserves any gains and losses associated with assets in the available for sale category. The effect of these, and all other relevant adjustments and deductions, is shown in the 'amounts subject to transitional arrangements' column of the own funds disclosure.

Under Basel II, banks are permitted to recognise in Core Tier 1 capital some of the non-controlling interest on the balance sheet, where that non-controlling interest is in common shares. Under Basel III proposals, banks are required to calculate how much surplus capital in the less than wholly-owned banking subsidiaries is available for recognition in the consolidated capital resources of the Group. In accordance with FSA guidance, we have used the BCBS Basel III text, as at June 2011, as the basis for this calculation and the impact of this change is shown in amounts subject to transitional arrangements.

The definition of Core Tier 1, as reported in the 2012 Annual Report and Accounts, requires the deduction in full of goodwill and other intangibles. However, for the purposes of the transitional CRD IV capital position, goodwill and other intangibles are deducted from Additional Tier 1 (AT1), and any excess amount is deducted from CET1 where there is insufficient AT1 capital available. At the end of the transitional period, we expect goodwill and intangible assets to be deducted in full from CET1.

Material holdings, as presented in the Capital section of the 2012 Annual Report and Accounts, fall below the thresholds prescribed in the July 2011 CRD IV text, which requires the deduction of significant investments in undertakings in the financial sector where they exceed 10 per cent of the Group's CRD IV capital base, before any adjustments for significant investments and deferred tax assets that depend on the future profitability of the bank and do not arise from temporary differences. Amounts falling below the thresholds are risk-weighted at 250 per cent.

The CRD IV proposed rules give banks a choice as to whether to deduct from CET1 or risk weight at 1250 per cent any securitisation positions that attract 1250 per cent risk-weight and free deliveries that have remained unsettled for more than 5 business days after the contractual settlement date. For the purposes of the own funds disclosure, the Group deducts these positions, in line with the current approach for the Basel II capital position, as shown in Table 9 on pages 16 and 17 of this document.

Own funds disclosure

The basis for future disclosure of CET1, AT1 and Tier 2 capital within Pillar 3 is not yet clear since CRD IV has not yet been finalised. The following comments refer to Table 9 on pages 16 and 17.

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Pillar 3 Disclosures

2.2. Basel III Capital structure continued

On a fully phased basis, CET1 is \$33,752 million, AT1 is \$0 million, Total Tier 1 is \$33,752 million, Tier 2 is \$6,100 million and Total Capital is \$39,852 million. These figures are derived from applying the transitional impacts shown in the transitional column and the immediate CRD IV impacts shown in the first column of Table 10.

The CRD IV outcome compares to Basel II Core Tier 1 of \$35,339 million, Total Tier 1 of \$40,600 million, Tier 2 of \$12,091 million and Total Capital of \$52,688 million as shown in Table 2 on pages 8 and 9.

Common Equity Tier 1

- The 2012 column shows the CET1 position of \$39,393 million including the immediate pro forma impact of CRD IV with a further deduction of \$5,641 million shown in the transition column.
- Certain items previously deducted from Basel II CT1 have been added back in the 2012 column in the computation of CET1.
- There are a number of deductions that are taken from AT1 capital, to the extent there is sufficient AT1 capacity that will transfer to CET1 over the transition period. As there are more deductions than there is AT1 capacity at the outset, a portion of these are taken from AT1 and the remainder is deducted from CET1. At the end of the transitional period, we expect these to be deducted in full from CET1.

Additional Tier 1

- The 2012 column shows the AT1 net position of zero with no net amounts subject to transition. This is the result of the interplay between the extent of recognition afforded to the AT1 securities which is exactly offset by the amount of goodwill and other intangibles deducted from AT1 (with the remainder deducted from CET1).
- As guided by the FSA, the initial extent of AT1 recognition is derived from the CRD IV transitional rules which are not yet finalised. This means that 10 per cent of the AT1 capital instruments (\$557 million) has not been recognised immediately, since they all have terms that constitute incentives to redeem and were issued before July 2011.
- The remainder of the current AT1 capital instruments (\$5,573 million) is shown in the transitional column implying that all the AT1 capital instruments will be afforded zero recognition at some point in the future.

Tier 2

- The 2012 column shows the CRD IV Tier 2 position of \$11,605 million including the immediate impact of CRD IV with a further deduction of \$5,505 million shown in the transitional column.
- The 2012 column shows \$7,347 million of Tier 2 instruments as fully qualifying under the proposed CRD IV on the grounds that they do not contain incentives to redeem, and are issued by either Standard Chartered Bank or Standard Chartered PLC. The Group considers it unlikely that these instruments will be impacted by the proposed CRD IV.
- The transitional column implies the ultimate de-recognition of \$7,061 million of Tier 2 instruments, although it is believed unlikely that all these instruments will be afforded zero Tier 2 capital credit before they are called or mature.
- The other Tier 2 amounts in the transitional column relate to regulatory adjustments made to Tier 2 capital that will be applied to CET1 by the end of the transitional period, including the excess of expected losses, securitisation positions and revaluation reserves on AFS assets (equities).

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Pillar 3 Disclosures

2.2. Basel III Capital structure continued

Table 9: CRD IV transitional capital base (own funds)

	2012	Amounts subject to transitional arrangements	End point
	\$million	\$million	\$million
Core Tier 1 Capital	35,339	-	35,339
Add back regulatory adjustments	9,221	-	9,221
Goodwill and other intangibles assets	7,312	-	7,312
Unrealised gains on available-for-sale debt securities	97	-	97
Unrealised gains on available-for-sale equity securities	490	-	490
Cash flow hedge reserve	81	-	81
Non-controlling interests in Other Tier 1	320	-	320
Other regulatory adjustments	77	-	77
50 per cent excess of expected losses	966	-	966
50 per cent of tax on expected losses	(240)	-	(240)
50 per cent of securitisation positions	118	-	118
Common Equity Tier 1 capital before regulatory adjustments	44,560	-	44,560
Eligible capital instruments	1,207	-	1,207
Share premium	3,981	-	3,981
Retained earnings	26,561	-	26,561
Accumulated other comprehensive income	12,811	-	12,811
Regulatory Adjustments	(4,577)	(5,992)	(10,569)
Goodwill and other intangible assets, net of any related deferred tax liability ¹	(3,922)	(3,461)	(7,383)
Additional value adjustments ²	(210)	-	(210)
Cash flow hedge reserve	(81)	-	(81)
Defined benefit pension assets	(7)	-	(7)
Excess of expected losses ³	-	(1,932)	(1,932)
Ineligible non-controlling interests ⁴	(320)	(269)	(589)
Deferred tax assets that depend on future profitability and do not relate to timing differences ⁵	(37)	(330)	(367)
Exposure amounts of the following items, which qualify for 1250% risk-weight	(3)	(236)	(239)
Securitisation positions	-	(236)	(236)
Free deliveries	(3)	-	(3)
Regulatory adjustments applied in respect of Pre-CRD IV requirements	(587)	587	-
Unrealised gains on available-for-sale debt securities ⁶	(97)	97	-
Unrealised gains on available-for-sale equity securities ⁶	(490)	490	-
Common Equity Tier 1 capital	39,393	(5,641)	33,752
Additional Tier 1 Capital instruments	5,573	(5,573)	-
of which: classified as equity under applicable accounting standards	1,495	(1,495)	-
of which: classified as debt under applicable accounting standards	4,078	(4,078)	-
Qualifying capital instruments subject to phase out from Additional Tier 1	5,573	(5,573)	-
of which: Additional Tier 1 capital instruments issued by subsidiaries and held by third parties	2,873	(2,873)	-
Amount excluded from Additional Tier 1 due to cap ⁷	(557)	557	-
Regulatory Adjustments	(5,016)	5,016	-
Intangibles assets net of any related deferred tax liability	(3,461)	3,461	-
50 per cent excess of expected losses	(966)	966	-
Significant direct and indirect holdings of capital instruments of relevant entities ⁸	(471)	471	-
Securitisation positions	(118)	118	-
Total Tier 1 capital	39,393	(5,641)	33,752

Standard Chartered PLC

Pillar 3 Disclosures

2.2. Basel III Capital structure continued

Table 9: CRD IV transitional capital base (own funds) continued

	2012 \$million	Amounts subject to transitional arrangements \$million	End point \$million
Tier 2 capital instruments and provisions			
Capital instruments and related share premium accounts	12,989	(7,061)	5,928
Eligible capital instruments and related premium ⁹	7,347	(1,419)	5,928
Instruments issued by subsidiaries and held by third parties subject to phase out from Tier 2	5,642	(5,642)	-
Amount excluded from Tier 2 due to cap ¹⁰	(564)	564	-
Portfolio impairment provision included in Tier 2 in respect of standardised exposures ¹¹	248	-	248
Tier 2 capital before regulatory adjustments	12,673	(6,497)	6,176
Regulatory Adjustments	(1,068)	992	(76)
Direct and indirect holdings of own Tier 2 instruments and subordinated loans	(3)	-	(3)
Significant direct and indirect holdings of capital instruments of relevant entities	(471)	398	(73)
50 per cent excess of expected losses	(966)	966	-
Securitisation positions	(118)	118	-
Revaluation reserve	490	(490)	-
Tier 2 capital after regulatory adjustments	11,605	(5,505)	6,100
Total capital	50,998	(11,146)	39,852

¹ Goodwill and other intangibles as shown in Table 1 on page 7 are net of any associated deferred tax liability that would be extinguished if the assets become impaired or derecognised under the relevant accounting standards. For 31 December 2012 the amount of associated deferred tax liability was \$92 million. The goodwill also includes \$163 million of goodwill embedded within the Group's investments in the capital of other banks and financial institutions.

² The estimated Prudent Valuation Adjustment (PVA) and Debit Valuation Adjustment (DVA) for 31 December 2012 are \$115 million and \$25 million respectively, which we recognise in full in the first year of the transitional period.

³ Banks are required to deduct from capital the excess of expected losses over accounting provisions. Under CRD IV, banks are not permitted to adjust this deduction for any tax benefits that would arise should accounting provisions increase to the level of expected losses.

⁴ The amount of non-controlling interest eligible for inclusion in CET1 is based on the level of surplus capital in the subsidiary giving rise to the minority interest. The calculation of this adjustment is based on the methodology proposed in BCBS Basel III text published in December 2010 and updated in June 2011.

⁵ Banks are required to deduct in full from CET1, the amount of deferred tax assets that are dependent on the future profitability of the Group to be realised and where such assets do not relate to timing differences. The FSA requires banks to deduct 10 per cent of such assets in the first year of the transitional period.

⁶ Under CRD IV, unrealised gains or losses related to available-for-sale assets and debt securities are to remain in CET1.

⁷ As per the July 2011 CRD IV text, banks are required to 'phase out' over a 10 year period those Additional Tier 1 capital instruments that do not comply fully with CRD IV requirements (Article 49) at the 1 January 2013. As at 31 December 2012, the cap on Additional Tier 1 capital instruments subject to phase out arrangements is \$5,016 million. The Group deducts from Additional Tier 1 capital any amount above the cap.

⁸ Significant is defined as a holding of at least 10 per cent of the issued share capital of relevant institutions, being financial institutions and insurance undertakings. Under Basel II, these are described as material holdings and are deducted from Tier 1 and Tier 2 capital. However, under CRD IV, the deduction is made using a corresponding deduction approach. The amount deducted excludes any goodwill embedded within the value of the investment.

⁹ The eligible Tier 2 capital includes instruments issued by Standard Chartered Bank, \$7,061 million of subordinated notes, which the Group expects to be subject to a deduction of \$1,419 million in the future under Articles 82 and 83 of the July 2011 CRD IV text.

¹⁰ As per the July 2011 CRD IV text, banks are required to 'phase out' over a 10 year period those Tier 2 capital instruments that do not comply fully with CRD IV requirements (Article 60) at the 1 January 2013. As at 31 December 2012, the cap on Tier 2 capital instruments subject to phase out arrangements is \$5,078 million. The Group deducts from Tier 2 capital any amount above the cap.

¹¹ Banks are permitted to include in Tier 2 capital, portfolio impairment provisions up to a maximum of 1.25 per cent of credit risk-weighted assets under the standardised approach, as presented in Table 12 on page 22. As at 31 December 2012, the cap was \$680 million.

2.2. Basel III Capital structure continued

Leverage ratio

The leverage ratio is one of the proposals included in the package of reforms developed by the BCBS to address the lessons of the global financial crisis. The BCBS's intention is for the leverage ratio to constrain the build-up of leverage in the banking sector, and supplement risk-based requirements with a simple, non-risk based backstop measure of leverage.

The proposed leverage ratio compares Tier 1 capital to total exposures, which includes those exposures held off balance sheet as adjusted by stipulated credit conversion factors. The BCBS will monitor the leverage ratio during a parallel run period from 1 January 2013 to 1 January 2017. The BCBS's current intention is to require a minimum leverage ratio of 3 per cent. This parallel run period will be used to assess whether the proposed leverage ratio remains suitable through the credit cycle and for different business models, and to develop appropriate tracking and disclosure templates. The international timeline set out by the BCBS for publication of the leverage ratio is from 1 January 2015.

The UK FPC recommended in November 2012 that the FSA encourage UK banks to disclose a Basel III leverage ratio from the beginning of 2013, two years in advance of the BCBS's recommended start date. This is despite a report from the EDTF, which concluded that banks should not disclose the Basel III leverage and liquidity ratios until the rules and requirements are final and in force.

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.

As the leverage ratio is intended by the BCBS to be a simple and backstop tool, we would recommend that it be used only in conjunction with established risk sensitive methodologies.

Table 10 sets out the Group's leverage ratio on the two bases defined and mandated by the FPC and the FSA. The exposure measure is calculated on the basis of accounting values for assets and adjusted for off-balance sheet transactions. The Tier 1 capital (end-point) basis represents pro forma Tier 1 based on full CRD IV implementation. It gives no credit to any of the Group's Additional Tier 1 instruments as these are issued under current rules and will be phased out over the CRD IV transitional phase to 2022 unless they are called at an earlier date. Due to the continuing uncertainty as to the end state CRD IV rules on capital eligibility we (like all European Union banks) have not yet been able to issue CRD IV compliant Additional Tier 1 instruments. The Tier 1 capital (transitional) basis also represents pro forma Tier 1 based on full CRD IV implementation save only that full recognition is given to existing AT1 instruments that will ultimately be phased out during the transitional period.

The Group's leverage ratios on both an end point (of 4.5 per cent) and transitional basis (of 5.3 per cent) are above the BCBS's currently proposed minimum leverage ratio of 3 per cent.

When evaluating the Group's leverage ratio, we recommend that the following points be considered:

- The leverage ratio is based on proposals that are neither finalised nor yet in force. Such uncertainty presents challenges to the calculation of, and the ability to draw meaningful conclusions from, the published ratios. It could also require more complex reconciliations between disclosure frameworks.
- The leverage ratio uses a definition of Tier 1 capital that will exist at 1 January 2022, after completion of the transition to CRD IV. This is based on definitions of capital that are not yet finalised and so give rise to a measure of capital and leverage that is potentially inconsistent with the regulatory end state.
- The leverage ratio does not reflect the impact of equity generation and business growth throughout the relevant period, nor any other potential balance sheet management actions, such as capital issuance.
- The FPC and the FSA have confirmed that disclosure of the leverage ratio by UK banks from early 2013 will not be accompanied by the implementation of minimum standards, although these are expected to be implemented after the relevant definitions and calibration of the leverage ratio have been finalised.

Table 10: Leverage ratio

	2012 \$million
Tier 1 capital (end point) ¹	33,752
Tier 1 capital (transitional) ²	39,325
Exposure measure	742,534
Leverage ratio (end point)	4.5%
Leverage ratio (transitional)	5.3%
Total on balance sheet assets	636,518
Derivatives financial instruments	49,496
Securities financing transactions	10,660
All other on balance sheet items	576,362
Off balance sheet transactions ³	120,623
Unconditionally cancellable	11,014
Other	109,609
Recognition of regulatory netting benefits ⁴	(5,731)
Deductions from CRD IV Tier 1 capital ⁵	(8,876)
Total exposure measure for leverage ratio	742,534

¹ This represents Tier 1 capital based on the CRD IV rules as at January 2022 at the end of the transitional period.

² This represents the sum of Tier 1 capital (end point) and the full amount of Additional Tier 1 instruments that are expected to phase out during the transitional period (\$5,573 million)

³ Off balance sheet transactions reflect 10 per cent of unconditionally cancellable commitments and 100 per cent of all other off balance sheet commitments, as reported in note 42 to the financial statements of the 2012 Annual Report and Accounts.

⁴ Basel III rules allow the recognition of Basel II netting benefits for derivatives but require that the Group includes an add-on for potential future exposure (PFE) on derivative transactions.

⁵ Deductions from Tier 1 capital have been applied as presented within the end point column in Table 9 on pages 16 and 17 (\$10,569 million and \$239 million), excluding that relating to excess of expected losses (\$1,932 million).

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3. Credit risk

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

Our approach to credit risk can be found on pages 65 to 68 of the Risk review in the 2012 Annual Report and Accounts.

3.1. Internal Ratings Based Approach to credit risk

The Group uses the IRB approaches to manage credit risk for the majority of its portfolios. This allows the Group to use its own internal estimates of Probability of Default (PD), Loss Given Default (LGD), Exposure at Default (EAD) and Credit Conversion Factor (CCF) to determine an asset risk weighting. The IRB models cover 80 per cent of the Group's credit risk RWA (2011: 79 per cent).

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

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

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

The permanent exemptions for Consumer Banking include:

- Africa – all retail portfolios;
- Private Banking; and
- Portfolios where the size or nature makes application of the advanced approach inefficient.

For Wholesale Banking, permanent exemptions apply to:

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

The Group also applies the Standardised Approach to portfolios that are currently being transitioned to the IRB approach in accordance with the Group's 'IRB Roll Out Plan'. During 2012 the Group was given approval to use an IRB model for the Hong Kong SME portfolio. Direct comparability between current and prior year data for certain portfolios may not be possible during this transition period.

3.2. Standardised Approach to credit risk

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

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

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); which currently includes Moody's, Standard & Poor's and Fitch. The Group uses the ECAI ratings from these agencies in its day to day business, which are tracked and kept updated. Assessments provided by approved ECAI are mapped to credit quality steps as prescribed by the FSA.

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

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3.3. Internal Ratings Based models

Model governance

The IRB models used by the Group calculate a PD, LGD and EAD, and the model performance data is contained in Table 11: Wholesale Banking model results.

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

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

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

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

PD model development

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

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

The general approaches fall into three categories:

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

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

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

LGD model development

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

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

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

EAD model development

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

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

Model use

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

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

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

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3.3. Internal Ratings Based models continued

Wholesale Banking model results

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

Probability of Default

IRB PD estimates are computed as of 1 January 2012 and are compared with default observations through 31 December 2012. The historical default experience for institutions, central governments or central banks is minimal, so the predicted PD for institutions reflects a particularly low number of defaults. For central governments or central banks, there were no defaults during 2012. The actual default rate among corporates and institutions exposures in 2012 remained below IRB model predictions as at the beginning of 2012, reflecting the impact of the Group's prudent and proactive credit management during this challenging environment.

Loss Given Default

The calculation of realised versus predicted LGD is affected by the fact that it may take a number of years for the workout process to be completed. As such, an observed recovery value cannot be assigned to the majority of the 2012 defaults, making it therefore not meaningful to compute realised versus predicted outcomes in a manner similar to that for PD and EAD.

The predicted LGD is a downturn LGD based on the model outputs as of 1 January 2012. For the realised LGD, on the other hand, instead of restricting its computation to 2012 defaults only, we have used the long run average realisations from 1995 to 2012, including downturn periods. Therefore, the predicted LGD is not directly comparable to the realised LGD.

The predicted LGD estimate takes into account the impact of enhanced risk mitigation techniques (e.g. netting) and proactive Early Alert risk management actions. These have been more prevalent in recent years and are therefore not reflected in the long run average LGD to the same extent as they are in the predicted LGD.

The increased level of netting agreements achieved with institutions over recent years results in the predicted LGD for institutions being materially lower than the long run realised value. In determining realised LGD we apply a principle of including unresolved cases that had been in workout for a number of years, unless they are still in active litigation. Therefore, the 2012 realised LGD for institutions is inflated by the inclusion of a few defaults during the 2008 global financial crisis which are still under workout, but deemed resolved by the above stated principle.

The same effect, albeit to a lower degree, applies to corporates, where realised LGD largely reflects losses during the Asian financial crisis. Also recent trends and mitigation techniques put in place in recent years, which are taken into account in the predicted LGD, will not be fully reflected in the long run average LGD.

Exposure at Default

EAD takes into consideration potential drawdown of commitment as a counterparty defaults by estimating the CCF of undrawn commitments. For assets which defaulted in 2012, the comparison of realised versus predicted EAD is summarised in the ratio of the EAD one year prior to default to the outstanding amount at time of default. The ratios for both corporates and institutions are larger than one, indicating that the predicted EAD is higher than the realised outstanding amount at default. This is explained by the regulatory guidance to assign conservatism to the CCF of certain exposure types, as well as by the impact of management action leading to a reduction in actual exposure prior to default.

Table 11: Wholesale Banking model results

	Predicted PD %	Observed PD %	Predicted LGD %	Realised LGD %	Predicted/ Realised EAD
IRB Exposure Class					
Central governments or central banks	0.16	-	28.16	N/A	N/A
Institutions	0.21	0.14	18.39	56.27	1.1
Corporates	1.47	1.04	41.24	52.53	1.2

Consumer Banking model results

The Group has a strong monitoring and governance process in place to identify and mitigate model performance issues. While the majority of Consumer Banking's IRB models are conservative and over predict for PD, LGD and EAD, any under predicting portfolios are subject to a model adjustment and have a remediation plan. Based on model monitoring results in 2012, RWA from post model adjustments applied to under predicting portfolios increased from \$0.8 billion in 2011 to \$1.4 billion in 2012.

Due to the wide spread of countries and products within Consumer Banking, an aggregation of the predicted and observed values for the IRB models at asset class level are deemed not meaningful, while disclosures at country and product level are considered to be proprietary information.

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3.4. Regulatory capital requirements

The table below presents the minimum regulatory credit risk capital requirements, including counterparty credit risk, as at 31 December 2012, calculated as 8 per cent of RWA based on the approaches described above in sections 3.1 and 3.2. The regulatory credit risk capital requirement below of \$19,731 million is substantially lower, even with the inclusion of market risk \$1,956 million (Table 31) and operational risk \$2,461 million (Table 34), than total capital resources of \$52,688 million in Table 2.

Table 12: Regulatory capital requirements

	2012			2011		
	Regulatory Capital Requirement	Risk weighted assets	EAD before the effect of CRM	Regulatory Capital Requirement	Risk weighted assets	EAD before the effect of CRM
	\$million	\$million	\$million	\$million	\$million	\$million
Credit Risk Capital						
IRB Exposure Class						
Central governments or central banks	1,383	17,282	128,587	917	11,462	107,446
Institutions	1,400	17,506	105,794	1,301	16,264	98,779
Corporates	8,731	109,143	166,920	7,919	98,986	158,646
Retail, of which	2,385	29,812	97,214	2,001	25,022	90,240
Secured by real estate collateral	643	8,033	62,654	620	7,752	60,674
Qualifying revolving retail	593	7,413	18,379	555	6,942	17,607
Retail SME	71	890	1,629	39	486	1,179
Other retail	1,078	13,476	14,552	787	9,842	10,780
Securitisation positions	290	3,627	26,057	248	3,105	20,827
Non-credit obligation assets	53	660	660	26	321	321
Total IRB	14,242	178,030	525,232	12,412	155,160	476,259
Standardised Exposure Class						
Central governments or central banks	47	587	1,664	87	1,089	1,625
Multilateral Development Banks	-	-	7,849	-	-	4,910
Institutions	108	1,355	3,123	56	700	2,030
Corporates	1,017	12,715	20,980	985	12,318	19,443
Retail	1,064	13,300	19,277	906	11,329	16,555
Secured on real estate property	751	9,391	18,226	724	9,051	18,701
Past due items	103	1,288	1,211	107	1,337	1,203
Items belonging to regulatory high risk categories	63	782	573	40	498	342
Other items ¹	1,198	14,980	17,803	1,100	13,756	16,323
Total Standardised	4,351	54,398	90,706	4,005	50,078	81,132
Counterparty credit risk capital component (credit risk in the trading book)	1,138	14,222	56,447	1,213	15,156	54,284
Concentration risk capital component ²	-	-	-	-	-	-
Total	19,731	246,650	672,385	17,630	220,394	611,675

¹ Other items include cash, equity holdings, fixed assets, prepayments and accrued income.

² The concentration risk capital component is the additional capital requirement to be held where exposures in the Trading Book to a counterparty exceeds 25 per cent of capital resources.

The growth in credit risk capital requirements during 2012 was driven mainly by increased exposures to central governments or central banks, due to an increase in liquid balances, and to corporates, due to asset growth in Wholesale Banking, in particular within transaction banking and corporate finance in the Americas, UK and Europe region.

IRB other retail growth was mainly driven by an increase in personal loans in Korea, due in part to foreign currency translation differences. Overall, qualifying revolving retail exposure increased during 2012 due to growth in credit card balances in Hong Kong and Singapore.

The increase in standardised retail exposures results from asset growth in Hong Kong Private Banking and the SME portfolios in Malaysia, India and Indonesia.

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3.4. Regulatory capital requirements continued

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

Table 13: Regulatory capital requirements of significant subsidiaries

	2012			2011		
	Standard Chartered Bank	Standard Chartered Bank (HK) Ltd	Standard Chartered Bank Korea Ltd	Standard Chartered Bank	Standard Chartered Bank (HK) Ltd	Standard Chartered Bank Korea Ltd
	\$million	\$million	\$million	\$million	\$million	\$million
Credit Risk Capital						
Local Regulator	FSA	HKMA	FSS	FSA	HKMA	FSS
IRB Exposure Class						
Central governments or central banks	590	37	-	378	21	-
Institutions	1,364	288	-	1,258	253	-
Corporates	5,548	1,438	598	4,958	1,357	538
Retail, of which	754	534	736	618	475	680
Secured by real estate collateral	322	106	162	305	102	157
Qualifying revolving retail	269	135	52	179	129	45
Retail SME	-	17	-	-	13	-
Other retail	163	276	522	134	231	478
Securitisation positions	173	16	12	154	8	13
Non-credit obligation assets	-	-	-	17	-	-
Other ¹	-	286	-	-	216	-
Total IRB	8,429	2,599	1,346	7,383	2,330	1,231
Standardised Exposure Class						
Central governments or central banks	19	-	2	22	-	3
Institutions	62	1	65	43	3	56
Corporates	471	119	454	422	126	402
Retail	471	10	17	408	10	15
Secured on real estate property	131	18	-	128	19	-
Past due items	21	25	-	27	46	-
Items belonging to regulatory high risk categories	4	-	-	4	-	138
Securitisation positions	-	-	85	-	-	-
Other items	599	29	163	433	22	206
Total Standardised	1,778	202	786	1,487	226	820
Counterparty credit risk capital component (credit risk in the trading book)	1,068	1	120	1,064	2	175
Concentration risk capital component ²	-	-	-	-	-	-
Total	11,275	2,802	2,252	9,934	2,558	2,226

¹ The IRB exposure class 'Other' is an asset class under the Hong Kong Monetary Authority (HKMA) regulations.

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

For Standard Chartered Bank, the growth in credit risk capital requirements during 2012 is driven by increased exposures to corporates, which is due to asset growth in Wholesale Banking, in particular within transaction banking and corporate finance in the Americas, UK & Europe region and growth in qualifying revolving retail exposures driven by growth in credit card balances in Singapore.

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3.5. Exposure values

The following tables detail the Group's EAD before the effect of credit risk mitigation (CRM), broken down by the relevant exposure class against the relevant geography, industry and maturity. EAD is based on the current outstandings and accrued interest and fees, which are recognised in the Group's balance sheet in accordance with IFRS, plus a proportion of the undrawn component of the facility that is reported in contingent liabilities and commitments in note 42 of the financial statements in the 2012 Annual Report and Accounts. The amount of the undrawn facility included is dependent on the product type and for IRB exposure classes this amount is modelled internally.

Geographical analysis

The table below provides EAD analysed by the booking location of the exposure. The asset classifications are presented in accordance with BIPRU rules in the FSA Handbook which is different from the Annual Report and Accounts.

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

Table 14: Exposure at default by geography

	2012									
	Hong Kong	Singapore	Korea	Other Asia Pacific	India	Middle East & Other S Asia	Africa	Americas UK & Europe	Average Total	Period End Total
	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
IRB Exposure Class										
Central governments or central banks	14,497	9,567	13,107	26,437	5,512	7,317	4,214	50,109	119,980	130,760
Institutions	31,979	17,351	6,874	16,451	2,213	6,746	1,508	64,432	142,779	147,554
Corporates	27,651	24,833	10,447	22,679	10,331	19,974	7,331	55,435	175,060	178,681
Retail	33,321	22,845	28,836	8,786	2,443	983	-	-	93,727	97,214
Securitisation positions	1,806	551	-	-	-	-	-	23,700	23,172	26,057
Non-credit obligation assets	259	-	-	-	-	-	-	401	491	660
Total IRB	109,513	75,147	59,264	74,353	20,499	35,020	13,053	194,077	555,208	580,926
Standardised Exposure Class										
Central governments or central banks	-	-	-	1,407	-	257	-	-	1,645	1,664
Multilateral development banks	76	2,377	-	60	10	135	9	5,900	6,983	8,567
Institutions	93	1,663	172	364	2	201	-	628	2,577	3,123
Corporates	2,267	6,864	1,377	5,578	741	812	385	2,991	20,235	21,015
Retail	1,056	3,797	845	7,147	1,164	3,422	1,494	352	17,916	19,277
Secured on real estate	1,287	1,376	654	12,148	895	649	77	1,140	18,464	18,226
Past due items	91	62	186	608	80	158	23	3	1,207	1,211
Items belong to regulatory high risk category	161	39	-	177	40	83	58	15	458	573
Other items	4,181	892	1,879	2,789	1,184	1,720	1,136	4,022	17,070	17,803
Total Standardised	9,212	17,070	5,113	30,278	4,116	7,437	3,182	15,051	86,552	91,459
Total	118,725	92,217	64,377	104,631	24,615	42,457	16,235	209,128	641,760	672,385

The Group's exposure to credit risk is concentrated in Hong Kong, Korea, Singapore, Other Asia Pacific and Americas, UK & Europe. In Wholesale Banking the increased exposure is driven by trade finance, corporate finance and balances with central governments or central banks and institutions due to higher clearing balances and to meet regulatory liquidity requirements.

In Consumer Banking most of the Retail IRB growth is concentrated in Hong Kong and Singapore driven by growth in residential mortgages. RWA growth within Hong Kong Retail IRB portfolios during 2012 is also attributable to the Group obtaining approval from the FSA for the use of an IRB model for the SME portfolio. The decrease in retail exposures within Korea is due mainly to the sale of fixed rate mortgages, which were sold to Korea Housing Finance Corporation under a mortgage purchase programme.

The Group's holding of securitisation positions increased during the year due to the origination of four new securitisation programmes in conjunction with asset backed securities (ABS) purchases in UK and Hong Kong.

Non-credit obligation assets relate to the residual value of operating lease assets associated with the Group's aviation and shipping businesses.

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3.5. Exposure values continued

Table 14: Exposure at default by geography continued

	2011									
	Hong Kong	Singapore	Korea	Other Asia Pacific	India	Middle East & Other S Asia	Africa	Americas UK & Europe	Average Total	Period End Total
	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
IRB Exposure Class										
Central governments or central banks	12,398	8,776	10,996	27,007	5,380	6,040	2,736	35,866	98,792	109,199
Institutions	28,774	16,223	7,525	16,721	4,069	5,849	1,434	57,409	128,572	138,004
Corporates	24,929	21,733	10,652	23,488	9,860	20,161	6,763	53,853	162,307	171,439
Retail	28,741	17,367	32,621	8,417	2,196	898	-	-	90,147	90,240
Securitisation positions	562	252	-	-	-	-	-	20,013	19,693	20,827
Non-credit obligation assets	111	-	-	-	-	-	-	210	264	321
Total IRB	95,515	64,351	61,794	75,633	21,505	32,948	10,933	167,351	499,775	530,030
Standardised Exposure Class										
Central governments or central banks	-	-	-	1,198	-	427	-	-	1,324	1,625
Multilateral development banks	46	1,725	-	50	11	82	43	3,441	4,146	5,398
Institutions	145	835	83	451	6	23	15	472	1,784	2,030
Corporates	3,299	6,071	888	4,597	740	841	307	2,711	17,913	19,454
Retail	1,448	3,493	309	6,020	1,087	2,711	1,150	337	15,251	16,555
Secured on real estate	1,976	1,495	85	12,648	898	857	60	682	18,258	18,701
Past due items	331	98	99	413	105	132	23	2	1,016	1,203
Items belong to regulatory high risk category	95	-	61	123	48	-	5	10	477	342
Other items	3,299	989	2,229	2,667	760	1,658	916	3,819	16,065	16,337
Total Standardised	10,639	14,706	3,754	28,167	3,655	6,731	2,519	11,474	76,234	81,645
Total	106,154	79,057	65,548	103,800	25,160	39,679	13,452	178,825	576,009	611,675

The exposure associated within the Other Asia Pacific and Africa regions has been restated for 2011 following a transfer of governance of the Mauritius franchise from Other Asia Pacific to Africa.

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3.5. Exposure values continued

Industry analysis

The mortgage portfolio makes up 64 per cent of the Consumer Banking IRB asset classes, compared to 67 per cent in 2011.

The Wholesale Banking portfolio is well diversified across industry, with no significant concentration within the broad

industry classifications of Manufacturing; Financing, Insurance and Business Services; Commerce; or Transport, Storage and Communication. The industry classifications below are aligned with those in the Risk review section of the 2012 Annual Report and Accounts although immaterial industries are included in 'Other'.

Table 15: Exposure at default by industry

EAD	2012										
	Loans to Individuals - Mortgage	Loans to Individuals - Other	SME	Commerce	Manufacturing	Commercial Real Estate	Government	Financing Insurance & Business Services	Transport & Storage & Communication	Other	Total
	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
IRB Exposure Class											
Central governments or central banks	-	-	-	249	-	15	126,112	3,786	-	598	130,760
Institutions	-	29	-	24	109	125	302	146,312	20	633	147,554
Corporates	-	69	6,545	39,879	48,072	12,741	734	11,103	18,674	40,864	178,681
Retail	62,629	32,931	1,654	-	-	-	-	-	-	-	97,214
Securitisation positions	-	-	-	2,035	-	-	-	2,073	209	21,740	26,057
Non-credit obligation assets	-	-	-	-	-	-	-	-	655	5	660
Total IRB	62,629	33,029	8,199	42,187	48,181	12,881	127,148	163,274	19,558	63,840	580,926
Standardised Exposure Class											
Central governments or central banks	-	-	-	-	-	-	138	238	-	1,288	1,664
Multilateral development banks	-	-	-	50	-	-	1,501	2,195	-	4,821	8,567
Institutions	-	1	-	-	-	-	-	2,944	-	178	3,123
Corporates	1	24	14,704	802	2,161	1	4	471	314	2,533	21,015
Retail	-	12,980	6,297	-	-	-	-	-	-	-	19,277
Secured on real estate	15,636	25	2,432	37	8	2	-	48	1	37	18,226
Past due items	178	432	296	53	110	3	-	45	19	75	1,211
Items belong to regulatory high risk category	-	-	141	188	54	90	-	21	-	79	573
Other items	1	114	-	841	1,105	66	-	1,151	146	14,379	17,803
Total Standardised	15,816	13,576	23,870	1,971	3,438	162	1,643	7,113	480	23,390	91,459
Total	78,445	46,605	32,069	44,158	51,619	13,043	128,791	170,387	20,038	87,230	672,385

Exposure growth was seen across a broad range of industry sectors during 2012, with the main increase in IRB exposures in central governments or central banks and institutions, which increased by \$22.7 billion and \$9.1 billion respectively. The Group placed excess liquidity within these sectors to meet increasing regulatory liquidity requirements.

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3.5. Exposure values continued

Table 15: Exposure at default by industry continued

	2011										
	Loans to Individuals - Mortgage	Loans to Individuals - Other	SME	Commerce	Manu- facturing	Commercial Real Estate	Government	Financing Insurance & Business Services	Transport & Storage & Communi- cation	Other	Total
EAD	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
IRB Exposure Class											
Central governments or central banks	-	-	-	221	30	485	103,434	4,007	-	1,022	109,199
Institutions	-	28	-	291	8	69	369	137,189	50	-	138,004
Corporates	2	43	5,563	35,145	43,455	10,930	805	16,294	17,264	41,938	171,439
Retail	60,675	28,386	1,179	-	-	-	-	-	-	-	90,240
Securitisation positions	-	-	-	17	-	-	-	1,622	150	19,038	20,827
Non-credit obligation assets	-	-	-	-	56	-	-	-	262	3	321
Total IRB	60,677	28,457	6,742	35,674	43,549	11,484	104,608	159,112	17,726	62,001	530,030
Standardised Exposure Class											
Central governments or central banks	-	-	-	-	-	-	7	-	-	1,618	1,625
Multilateral development banks	-	-	-	50	-	-	774	1,369	-	3,205	5,398
Institutions	-	-	-	-	-	-	-	1,438	-	592	2,030
Corporates	-	-	13,711	1,208	1,744	-	5	154	350	2,282	19,454
Retail	-	10,489	6,066	-	-	-	-	-	-	-	16,555
Secured on real estate	15,386	-	3,228	-	-	-	-	-	-	87	18,701
Past due items	162	382	326	84	30	2	27	61	-	129	1,203
Items belong to regulatory high risk category	-	-	78	28	110	92	-	26	-	8	342
Other items	1	121	-	133	171	-	-	576	80	15,255	16,337
Total Standardised	15,549	10,992	23,409	1,503	2,055	94	813	3,624	430	23,176	81,645
Total	76,226	39,449	30,151	37,177	45,604	11,578	105,421	162,736	18,156	85,177	611,675

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3.5. Exposure values continued

Maturity analysis

The table below shows the Group's exposure on a residual maturity basis, which is the same as the maturity analysis of the Annual Report and Accounts which is based on accounting balances. Approximately 59 per cent (2011: 59 per cent) of the Group's exposure is short term, having residual maturity of one year or less. The Wholesale Banking portfolio is predominantly short term with 68 per cent (2011: 70 per cent) of EAD having a residual maturity of one year or less. In Consumer Banking the

longer maturity profile of the IRB portfolio is driven by the mortgage book which makes up 64 per cent (2011: 67 per cent) of the portfolio and is traditionally longer term in nature and well secured. Whilst the Other and SME loans in Consumer Banking have short contractual maturities, typically they can be renewed and repaid over longer terms in the normal course of business.

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

Table 16: Exposure at default by maturity

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

The increase in IRB exposure to corporates with a residual maturity of over five years is due to the renewal of longer maturity facilities and an increase in aviation leasing agreements booked in Hong Kong.

Standardised exposure to multilateral development banks with a residual maturity of one to five years increased by 77 per cent compared to 2011 owing mainly to increased ALM holdings to comply with regulatory requirements.

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3.5. Exposure values continued

Table 16: Exposure at default by maturity continued

	2011			
	One year or less \$million	One to five years \$million	Over five years \$million	Total \$million
EAD				
IRB Exposure Class				
Central governments or central banks	91,360	15,167	2,672	109,199
Institutions	107,500	26,552	3,952	138,004
Corporates	105,427	51,795	14,217	171,439
Retail	10,851	20,989	58,400	90,240
Securitisation positions	1,386	18,105	1,336	20,827
Non-credit obligation assets	66	99	156	321
Total IRB	316,590	132,707	80,733	530,030
Standardised Exposure Class				
Central governments or central banks	1,625	-	-	1,625
Multilateral development banks	856	4,277	265	5,398
Institutions	2,028	2	-	2,030
Corporates	16,037	834	2,583	19,454
Retail	6,354	6,049	4,152	16,555
Secured on real estate property	1,963	718	16,020	18,701
Past due items	511	334	358	1,203
Items belonging to regulatory high risk categories	113	229	-	342
Other items	16,278	37	22	16,337
Total Standardised	45,765	12,480	23,400	81,645
Total	362,355	145,187	104,133	611,675

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3.6. Credit risk mitigation

Potential credit losses from any given account, customer or portfolio are mitigated using a range of tools such as collateral, netting agreements, credit insurance, credit derivatives and other guarantees. The reliance that can be placed on these mitigants is carefully assessed in light of issues such as legal certainty and enforceability, market valuation, correlation risk and counterparty risk of the guarantor. Where appropriate,

credit derivatives are used to reduce credit risks in the portfolio. Due to their potential impact on income volatility, such derivatives are used in a controlled manner with reference to their expected volatility. Risk mitigation policies determine the eligibility of collateral types.

Our approach to credit risk mitigation can be found on pages 66, 68, 79 and 89 in the Risk review section of the 2012 Annual Report and Accounts.

Table 17: IRB exposure at default after CRM

	2012		2011	
	EAD after the effect of CRM \$million	Of which: EAD covered by guarantees/credit derivatives \$million	EAD after the effect of CRM \$million	Of which: EAD covered by guarantees/credit derivatives \$million
IRB Exposure Class				
Central governments or central banks	124,207	159	103,340	79
Institutions	124,572	3,515	114,571	2,662
Corporates	145,832	8,792	141,016	9,200
Retail	38,006	10	32,352	-
Securitisation positions	24,869	1,487	19,758	1,286
Non-credit obligation assets	660		321	-
Total IRB	458,146	13,963	411,358	13,227

Table 17 above provides 'EAD after the effect of CRM' with exposure shown against the exposure class of the original counterparty rather than the guarantor.

Table 18 below identifies the effect of credit risk mitigation on EAD for the IRB and standardised portfolios. Eligible financial collateral consists primarily of cash, debt securities, equities and gold.

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

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

The growth in IRB was mainly in other eligible collateral received from corporate customers in Korea, Indonesia and UAE.

The main type of collateral for the Group's standardised portfolio is real estate property which accounts for 63 per cent (2011: 69 per cent) of all credit risk mitigants.

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3.6. Credit risk mitigation continued

Table 18: Credit risk mitigation

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

Table 18 provides 'EAD before CRM' and 'EAD after CRM' with exposure shown against the exposure class of the guarantor.

	2011				
	EAD before the effect of CRM	EAD covered by eligible financial collateral	EAD covered by other eligible collateral	EAD after the effect of CRM	of which: EAD covered by guarantees/credit derivatives
	\$million	\$million	\$million	\$million	\$million
IRB Exposure Class					
Central governments or central banks	109,199	854	208	108,137	4,937
Institutions	138,004	16,982	4,369	116,653	4,683
Corporates	171,439	14,161	23,141	134,137	2,321
Retail	90,240	-	57,888	32,352	-
Securitisation positions	20,827	1,069	-	19,758	1,286
Non-credit obligation assets	321	-	-	321	-
Total IRB	530,030	33,066	85,606	411,358	13,227
Standardised Exposure Class					
Central governments or central banks	1,625	-	-	1,625	7
Multilateral development banks	5,398	-	-	5,398	11
Institutions	2,030	-	-	2,030	1,928
Corporates	19,454	6,526	-	12,928	4
Retail	16,555	1,415	-	15,140	-
Secured on real estate property	18,701	67	18,135	499	-
Past due items	1,203	16	155	1,032	-
Items belonging to regulatory high risk categories	342	9	1	332	-
Other items	16,337	49	-	16,288	-
Total Standardised	81,645	8,082	18,291	55,272	1,950
Total	611,675	41,148	103,897	466,630	15,177

Table 18 provides 'EAD before CRM' and 'EAD after CRM' with exposure shown against the exposure class of the guarantor.

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3.7. Regulatory expected loss vs impairment charges

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

The table below compares the regulatory expected loss of \$3.3 billion, calculated at 31 December 2011 in respect of 2012, against the net impairment charge for 2012 of \$0.9 billion. This results in a gap between the two measures of \$2.4 billion compared to \$2.6 billion when the 31 December 2010 regulatory expected loss of \$3.2 billion is compared to the 2011 net individual charge of \$0.6 billion.

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

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

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

The net individual impairment charge is a point in time actual charge raised in accordance with accounting standards that require the Group to either provide for or write-off debts when certain conditions are met as described in the problem credit management and provisioning section on page 73 of the Risk review in the 2012 Annual Report and Accounts.

During 2012, regulatory expected loss increased as a result of portfolio growth and credit migration within Wholesale Banking, in particular in India and Korea. The Group continues to be disciplined in its approach to risk management and proactive in collection efforts to minimise account delinquencies.

As explained in note 1 of the financial statements in the 2012 Annual Report and Accounts, the International Accounting Standards Board (IASB) during the first quarter of 2013 is expected to issue its latest proposals on the recognition of credit losses, proposing an expected loss versus an incurred loss model. This approach is likely to be different from the methodology required for measuring regulatory expected loss.

Table 19: Regulatory expected loss

	2011	2012	2010	2011
	Regulatory expected loss \$million	Net individual impairment charge ¹ \$million	Regulatory expected loss \$million	Net individual impairment charge \$million
IRB Exposure Class				
Central governments or central banks	67	-	45	-
Institutions	448	6	447	12
Corporates	1,904	537	1,751	317
Retail, of which	929	359	954	255
Secured by real estate collateral	125	8	127	3
Qualifying revolving retail	422	185	470	126
Retail SME	14	46	17	36
Other retail	368	120	340	90
Total IRB	3,348	902	3,197	584
	2009	2010	2008	2009
	Regulatory expected loss \$million	Net individual impairment charge ¹ \$million	Regulatory expected loss \$million	Net individual impairment charge \$million
IRB Exposure Class				
Central governments or central banks	60	-	27	-
Institutions	406	6	200	122
Corporates	1,680	324	1,056	683
Retail, of which	773	340	788	537
Secured by real estate collateral	101	6	111	13
Qualifying revolving retail	380	163	379	252
Retail SME	31	38	50	77
Other retail	261	133	248	195
Total IRB	2,919	670	2,071	1,342

¹ Excludes 'other credit risk provisions'.

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3.8. Risk grade profile

Exposures by internal credit grading

For IRB portfolios a standard alphanumeric credit risk-grading system is used in both Wholesale and Consumer Banking. The grading is based on the Group's internal estimate of probability of default over a one-year horizon, with customers or portfolios assessed against a range of quantitative and qualitative factors. The numeric grades run from 1 to 14 and some of the grades are sub-classified A, B or C. Lower credit grades are indicative of a lower likelihood of default. Credit grades 1A to 12C are assigned to performing customers or accounts, while credit grades 13 and 14 are assigned to non-performing or defaulted customers.

The Group's credit grades in Wholesale Banking are not intended to replicate external credit grades, and ratings assigned by ECAI are not used in determining internal credit grades. Nonetheless, as the factors used to grade a borrower may be similar, a borrower rated poorly by an ECAI is typically expected to be assigned a weak internal credit grade.

As an indicative guide for reference the mapping below presents the Group's credit grades in relation to that of Standard & Poor's credit ratings.

Standard & Poor's Mapping		
SCB Credit Grade	Corporate/NBFI	Bank
1A	AAA	AAA/AA+
1B	AA+	AA/AA-
2A	AA	A+
2B	AA-	A
3A	AA-	A/A-
3B	A+	A-/BBB+
4A	A/A-	BBB+
4B	A-/BBB+	BBB
5A	BBB	BBB/BBB-
5B	BBB-	BBB-/BB+
6A	BB+	BB+
6B	BB+	BB
7A	BB	BB/BB-
7B	BB	BB-
8A	BB-	BB-/B+
8B	BB-	B+
9A	B+	B
9B	B+	B/B-
10A	B	B-
10B	B	B-/CCC
11A/B/C	B-	CCC
12A/B/C	NA	NA

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

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

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

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

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3.8. Risk grade profile continued

The following table sets out analysis of EAD within the IRB portfolios by internal credit grading and Basel II exposure classes. EAD has been calculated after taking into account the

impact of credit risk mitigation. Where exposure is guaranteed or covered by credit derivatives, exposure is shown against the asset class of the guarantor or derivative counterparty. 76 per cent (2011: 75 per cent) of exposures are classified as credit grades 1 to 5.

Table 20: Exposure at default after CRM by risk grade

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

EAD	2011					
	Grades 1-5 \$million	Grades 6-8 \$million	Grades 9-11 \$million	Grade 12 \$million	Grades 13-14 \$million	Total \$million
Total exposure						
Central governments or central banks	102,331	3,950	1,855	1	-	108,137
Institutions	105,166	9,696	959	250	582	116,653
Corporates	69,519	48,727	11,515	1,633	2,743	134,137
Retail, of which	14,005	9,918	7,333	596	500	32,352
Retail exposures secured by real estate collateral	1,519	989	210	16	52	2,786
Qualifying revolving retail	9,587	4,035	3,349	400	236	17,607
Retail SME	401	676	76	9	17	1,179
Other retail	2,498	4,218	3,698	171	195	10,780
Securitisation positions	19,573	124	61	-	-	19,758
Non-credit obligation assets	169	106	25	21	-	321
Total IRB	310,763	72,521	21,748	2,501	3,825	411,358

Exposure growth during 2012 in the Group's IRB portfolio continues to be focussed in the better quality grades, Grades 1-5 and is driven mainly by the placement of excess liquidity within central governments or central banks. The increase in Grades 12, 13 and 14 for corporates is caused by downgrades in India and Korea within Wholesale Banking.

For securitisation positions, the external ratings of the tranches within the programmes have been mapped to internal credit grades, whereas previously we used the rating afforded by the securitisation Special Purpose Entity (SPE). The Group's holdings of such positions reflect highly rated tranches and the growth during 2012 results from further purchases of ABS and the origination of securitisation programmes, as can be seen in Tables 26 and 27 on pages 42 and 44 respectively.

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3.8. Risk grade profile continued

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

Table 21: Undrawn commitments by risk grade

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

	2011					Total \$million
	Grades 1-5 \$million	Grades 6-8 \$million	Grades 9-11 \$million	Grade 12 \$million	Grades 13-14 \$million	
Undrawn commitments						
Central governments or central banks	38	17	47	-	-	102
Institutions	3,115	626	13	35	9	3,798
Corporates	30,931	11,726	2,910	38	51	45,656
Retail, of which	4,206	2,463	666	14	2	7,351
Retail exposures secured by real estate collateral	2,548	1,025	467	2	1	4,043
Qualifying revolving retail	-	-	-	-	-	-
Retail SME	13	153	1	-	-	167
Other retail	1,645	1,285	198	12	1	3,141
Total IRB	38,290	14,832	3,636	87	62	56,907

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3.8. Risk grade profile continued

Tables 22 and 23 set out exposure weighted average LGD and exposure weighted average risk weight of the credit risk trading and non-trading books respectively. These weighted averages have been calculated using EAD before taking into account the impact of credit risk mitigation. The average exposure weighted LGD across the IRB portfolio is 37 per cent (2011: 33 per cent).

Table 22: Exposure weighted average LGD by risk grade

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

	2011					
	Grades 1-5 %	Grades 6-8 %	Grades 9-11 %	Grade 12 %	Grades 13-14 %	Total %
Exposure weighted average LGD						
Central governments or central banks	28	41	41	41	-	29
Institutions	25	29	33	35	45	26
Corporates	43	39	31	46	55	41
Retail, of which	28	44	54	66	49	36
Retail exposures secured by real estate collateral	13	18	18	19	19	14
Qualifying revolving retail	85	83	81	82	76	84
Retail SME	21	43	68	55	51	37
Other retail	71	79	83	85	82	79
Total IRB	31	39	39	50	53	33

The FSA introduced a floor of 45 per cent to the unsecured LGD associated with central governments or central bank exposures during 2012, which increased LGD from 29 per cent to 46 per cent. The Group experienced no defaults with such exposures during the period. The LGD associated with the Retail SME portfolio increased by 30 per cent during 2012 following the FSA approving the use of an IRB model for the Hong Kong SME portfolio.

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3.8. Risk grade profile continued

Table 23: Exposure weighted average risk weight

	2012					Total %
	Grades 1-5 %	Grades 6-8 %	Grades 9-11 %	Grade 12 %	Grades 13-14 %	
Exposure weighted average risk weight						
Central governments or central banks	8	88	127	-	-	13
Institutions	11	49	81	211	111	16
Corporates	32	71	103	230	298	66
Retail, of which	7	44	103	201	119	31
Retail exposures secured by real estate collateral	4	26	59	108	93	13
Qualifying revolving retail	7	31	112	235	165	40
Retail SME	9	64	105	148	158	55
Other retail	40	87	132	215	109	93
Securitisation positions	9	357	1161	-	-	13
Non-credit obligation assets	100	100	100	100	100	100
Total IRB	13	64	104	224	240	33

	2011					Total %
	Grades 1-5 %	Grades 6-8 %	Grades 9-11 %	Grade 12 %	Grades 13-14 %	
Exposure weighted average risk weight						
Central governments or central banks	6	73	109	211	-	11
Institutions	11	47	95	195	120	16
Corporates	32	74	85	241	340	62
Retail, of which	6	38	90	200	115	28
Retail exposures secured by real estate collateral	4	22	54	114	86	13
Qualifying revolving retail	7	32	108	240	161	39
Retail SME	8	50	104	142	167	41
Other retail	36	85	129	212	116	91
Securitisation positions	8	193	1,145	-	-	14
Non-credit obligation assets	100	100	100	100	-	100
Total IRB	14	63	88	226	270	32

For securitisation positions, the external ratings of the tranches within the programmes have been mapped to internal credit grades, whereas previously we used the rating afforded by the securitisation SPE. The Group's holdings of such positions reflects highly rated tranches and the growth during 2012 results from further purchases of ABS and the origination of securitisation programmes, as can be seen in Tables 26 and 27 on pages 42 and 44 respectively.

The average risk weight for corporates increased from 62 per cent to 66 per cent during 2012, due to credit migration across Wholesale Banking, in particular within India and Korea, in conjunction with a reduction in the value of eligible financial collateral. An increase in facilities with longer maturities, including leasing agreements for aircraft and shipping, also contributed to a higher average risk-weight when compared to 2011.

The average risk weight for our corporate exposures in Grades 13 and 14 reduced during 2012, from 340 per cent to 298 per cent, due to an increase in the Group's level of individual impairment charges during the year.

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3.9. Counterparty credit risk in the trading book

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

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

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

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

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

Credit reserves

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

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

Wrong way risk

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

Exposure value calculation

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

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3.9. Counterparty credit risk in the trading book continued

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

Table 24: Counterparty credit risk - derivatives

	2012				
	EAD before credit risk mitigation	Netting benefits	Netted current credit exposure	Collateral held	Net derivatives credit exposure
	\$million	\$million	\$million	\$million	\$million
Derivative contracts	84,301	44,891	39,410	3,304	36,107
Repo style transactions	14,417	-	14,417	8,345	6,072
Credit derivatives ¹	3,973	1,353	2,620	87	2,532
Total	102,691	46,244	56,447	11,736	44,711

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

	2011				
	EAD before credit risk mitigation	Netting benefits	Netted current credit exposure	Collateral held	Net derivatives credit exposure
	\$million	\$million	\$million	\$million	\$million
Derivative contracts	88,561	48,285	40,276	2,610	37,666
Repo style transactions	13,100	-	13,100	10,296	2,804
Credit derivatives ¹	5,043	4,135	908	4	904
Total	106,704	52,420	54,284	12,910	41,374

¹ Of the \$908 million netted current credit exposure, \$817 million of protection has been purchased and \$91 million of protection has been sold.

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3.9. Counterparty credit risk in the trading book continued

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

Table 25: Counterparty credit risk by derivative type

2012						
	Notional value	Netted current credit exposures	Regulatory capital requirement	Derivatives gross notional value traded OTC	Of which settled by central counterparties	Derivatives gross notional value traded on Recognised Trading Exchange
	\$million	\$million	\$million	\$million	\$million	\$million
Derivative contracts:						
Interest rate contracts	1,914,852	9,536	320	1,914,852	615,448	-
Foreign exchange contracts	2,083,219	25,922	514	2,083,219	7	-
Equity and stock index options	12,223	442	10	7,520	-	4,703
Commodity contracts	138,642	3,511	199	132,010	-	6,632
Credit derivatives:						
Credit default swaps	57,891	2,357	50			
Total return swaps	3,295	263	8			
Total derivatives	4,210,122	42,031	1,101	4,137,601	615,455	11,335
Repo style transactions:						
Repo		7,199	21			
Reverse repo		7,219	16			
Total		56,449	1,138			

2011						
	Notional value	Netted current credit exposures	Regulatory capital requirement	Derivatives gross notional value traded OTC	Of which settled by central counterparties	Derivatives gross notional value traded on Recognised Trading Exchange
	\$million	\$million	\$million	\$million	\$million	\$million
Derivative contracts:						
Interest rate contracts	2,525,804	9,210	339	2,525,804	453,758	-
Foreign exchange contracts	2,228,871	27,846	652	2,228,871	-	-
Equity and stock index options	12,057	395	18	12,057	-	-
Commodity contracts	62,426	2,825	162	42,134	-	20,292
Credit derivatives:						
Credit default swaps	75,901	749	11			
Total return swaps	1,875	159	7			
Total derivatives	4,906,934	41,184	1,189	4,808,866	453,758	20,292
Repo style transactions:						
Repo		4,646	6			
Reverse repo		8,454	17			
Total		54,284	1,212			

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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 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 \$26.1 billion (2011: \$20.8 billion) of EAD classified as securitisation positions, as shown in Section 3.5 Exposure values on Table 14 on page 24. These transactions meet the criteria to qualify as securitisation positions under the FSA'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 \$1.3 billion (2011: \$2.2 billion), which do not qualify as securitisation positions under the FSA framework and are not detailed within this section. Further details can be found on page 68 of the 2012 Annual Report and Accounts.

Asset Backed Securities

The carrying value of Asset Backed Securities (ABS) purchased by Wholesale Banking of \$4.5 billion (2011: \$2.1 billion), held either as investments or arranged for clients, represents 0.7 per cent of the Group's total assets (2011: 0.3 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 90 per cent of the overall portfolio is rated A- or better, and 61 per cent of the overall portfolio is rated as AAA. The portfolio is broadly diversified across asset classes and geographies, and there is no direct exposure to the US sub-prime market. 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 2011).

10 per cent of the overall portfolio is in Commercial Mortgage Backed Securities (CMBS), of which \$107 million is in respect of US CMBS. The weighted average credit grade of the CMBS portfolio is at BBB- (BBB+ in 2011).

5 per cent of the overall portfolio is in Collateralised Debt Obligations (CDOs). This includes \$23 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 \$264 million has a weighted average credit rating of AA.

39 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.

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 205 of the 2012 Annual Report and Accounts. The ABS portfolio is assessed frequently for objective evidence of impairment. In 2012, this consisted of a net recovery of \$3 million in the impaired book.

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

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

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3.10. Securitisation continued

Table 26: Securitisation: notional amount

	2012		
	Notional amount		
	Carrying value of asset backed securities \$million	Traditional securitisation programmes \$million	Synthetic securitisation programmes \$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 \$million	Traditional securitisation programmes \$million	Synthetic securitisation programmes \$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

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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.

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3.10. Securitisation continued

Table 27: Securitisation programmes (as originator)

						2012		
	Underlying facilities hedged	ECAI	Public/Private	Start date	Scheduled maturity	Maximum notional \$million	Retained exposures ¹ \$million	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.

						2011		
	Underlying facilities hedged	ECAI	Public/Private	Start date	Scheduled maturity	Maximum notional \$million	Retained exposures ¹ \$million	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.

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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.

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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.

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3.10. Securitisation continued

Table 29: Securitisation programmes by risk weight

Risk weight bands	2012					
	Securitisation programmes ¹	ABS	Total	Regulatory capital requirement		
				Securitisation programmes ¹	ABS ²	Total
	\$million	\$million	\$million	\$million	\$million	\$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

Risk weight bands	2011					
	Securitisation programmes ¹	ABS	Total	Regulatory capital requirement		
				Securitisation programmes ¹	ABS ²	Total
	\$million	\$million	\$million	\$million	\$million	\$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	ABS	Total	Securitisation programmes ¹	ABS	Total
	\$million	\$million	\$million	\$million	\$million	\$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.

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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	
	Regulatory capital requirement	Risk Weighted Assets	Regulatory capital requirement	Risk Weighted Assets
	\$million	\$million	\$million	\$million
Market risk capital requirements for trading book				
Interest rate ¹	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.

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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		
	Standard Chartered Bank	Standard Chartered Bank (HK) Ltd	Standard Chartered Bank Korea Ltd	Standard Chartered Bank	Standard Chartered Bank (HK) Ltd	Standard Chartered Bank Korea Ltd
Market Risk Capital Requirements for Trading Book	\$million	\$million	\$million	\$million	\$million	\$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.

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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

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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

	Consumer Banking	Wholesale Banking	Other ²
	\$000's	\$000's	\$000's
Aggregate remuneration expenditure for Code Staff¹			
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

	2012		2011	
	Senior Management ⁴	Other Code Staff Employees	Senior Management ⁴	Other Code Staff Employees
	\$000's	\$000's	\$000's	\$000's
Analysis of remuneration for Code Staff employees between fixed and variable compensation				
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

	2012		2011	
	Senior Management	Other Code Staff Employees	Senior Management	Other Code Staff Employees
	\$000's	\$000's	\$000's	\$000's
Analysis of deferred remuneration¹				
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

	2012		2011	
	Senior Management	Other Code Staff Employees	Senior Management	Other Code Staff Employees
	\$000's	\$000's	\$000's	\$000's
Analysis of sign-on payments and severance				
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.

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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.

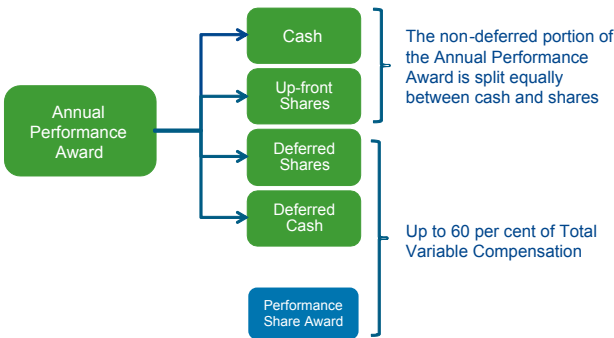
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6. Remuneration continued

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.

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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.

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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

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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.

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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 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.

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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: <ul style="list-style-type: none">– 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.

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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.

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Pillar 3 Disclosures

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	<ul style="list-style-type: none"> The Group's Annual Report is prepared in accordance with the requirements of IFRS, the UK Companies Act 2006, and the UK, Hong Kong and India Listing rules. 	<ul style="list-style-type: none"> The Group's Pillar 3 disclosures 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	<ul style="list-style-type: none"> The quantitative credit risk disclosures in the Risk review are based on IFRS. Loans and advances are analysed between 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. 	<ul style="list-style-type: none"> Provides details from a regulatory perspective on certain aspects of credit risk, market risk and operational risk. For credit risk this is largely based on internally 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	<ul style="list-style-type: none"> All external assets which have an exposure to credit risk. Market risk exposure is the trading and non-trading books. Liquidity risk analysis of contractual maturities, liquid assets and encumbered assets. 	<ul style="list-style-type: none"> 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.

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Pillar 3 Disclosures

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	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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: <ul style="list-style-type: none"> Securitisations - includes disclosures of both retail transferred and synthetic securitisation. Master netting, CSAs and cash collateral for derivatives. 	<ul style="list-style-type: none"> Provides details on CRM from a regulatory perspective by providing EAD after CRM by IRB exposure class. Explanation is given on what constitutes eligible collateral including explanations of funded and unfunded protection. The main type of collateral for the Group's standardised portfolio is also disclosed. Please refer to pages 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	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> Disclosures around the expected loss model used for regulatory purposes and a tabular disclosure showing the regulatory expected loss against the net individual impairment charge. Please refer to page 32.
Market risk	<ul style="list-style-type: none"> Details of the VaR methodology, and VAR (trading and non trading) is disclosed by risk type on 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. 	<ul style="list-style-type: none"> 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.