Standard Chartered PLC
Additional Capital Disclosures
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Standard Chartered PLC

Additional Capital Disclosures

Standard Chartered PLC is headquartered in London where it is authorised by the Prudential Regulation Authority (PRA), and Standard Chartered PLC Group and Standard Chartered Bank is 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.

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

Standard Chartered PLC

Additional Capital Disclosures

CRD IV Pro forma capital structure

We present capital positions under current rules and the transitional and end point positions under CRD IV. There are ongoing consultations in Europe on the implementation of CRD IV and 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 positions presented here do not therefore constitute either the likely outcome or a capital or leverage ratio forecast.

The package of reforms commonly referred to as the Capital Requirements Directive IV (CRD IV) comprising a Capital Requirements Regulation (CRR) and a Capital Requirements Directive (CRD) is expected to be implemented in the UK by January 2014, following the publication of the rules in the Official Journal of the European Union in June 2013.

In response to a greater demand for information on the impact of CRD IV, and ahead of its implementation in Europe, the PRA asked banks to prepare a capital reconciliation as at 30 June 2013, taking into account the effects of the CRD IV transitional arrangements as if 2013 was the start of the transitional period, which for the purposes of this disclosure is expected to run from 1 January 2014 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 CRD will be applied by the PRA and that the minimum pace of transition set out in the CRD IV legislation will not be accelerated, except as already stated by the PRA in respect of those areas where applying the minimum transitional provisions in CRD IV would, in the PRA's view, have the effect of weakening standards relative to those already in force in the UK prior to CRD IV implementation.

The Group remains strongly capitalised with a focus on Common Equity Tier 1 (CET1) capital. We currently estimate that our pro forma CET1 ratio is 10.6% on an end point basis. This is driven by increased regulatory deductions from CET1 and increased risk weighted assets (RWA), in particular the requirements for Credit Valuation Adjustments (CVA). This estimate is not a capital or RWA forecast as the actual outcome will depend on how the CRD IV rules are finally implemented, the future shape of the Group and the extent to which the PRA gives recognition to the Group's implementation of internal models for the calculation of RWA.

Basis of preparation

The CRD IV capital disclosure is based on the European Banking Authority's (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 PRA. The basis of the disclosure is the June 2013 CRD IV text, as presented in the Official Journal of the European Union.

New regulatory adjustments to CET1 are phased in from January 2014, so do not impact the transitional capital position at 30 June 2013. 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.

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. Banks will be 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.

The definition of Core Tier 1, as reported in the Capital section of the Half Year Report 2013, 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 Half Year Report 2013, fall below the thresholds prescribed in the June 2013 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 certain deferred tax assets. Amounts falling below the thresholds are risk-weighted at 250 per cent.

The CRD IV 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 CRD IV Capital disclosure, the Group deducts these positions, in line with the current approach for the Basel II capital position.

CRD IV Pro forma capital structure continued

On a fully phased basis, CET1 is $35,034 million, AT1 is nil, Total Tier 1 is $35,034 million, Tier 2 is $11,486 million and Total Capital is $46,520 million.

The CRD IV end point position compares to Basel II Core Tier 1 of $36,774 million, Total Tier 1 of $42,000 million, Tier 2 of $12,656 million and Total Capital of $54,650 million as shown in the current rules column.

Common Equity Tier 1

- Certain items previously deducted from Basel II CT1 have been added back in the transitional position 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 ($2,996 million) and the remainder is deducted from CET1 ($3,127 million). At the end of the transitional period, we expect these to be deducted in full from CET1.

Additional Tier 1

- The transitional position column records AT1 after regulatory adjustments as nil which reflects the fact that we do not expect that the Group's AT1 securities will be recognised as eligible under CRR Article 52, and therefore they will be grandfathered.
- As guided by the PRA, the initial extent of AT1 recognition is derived from the CRD IV transitional rules. This means that 20 per cent of the grandfathered AT1 capital instruments ($1,036 million) has not been recognised immediately, since they contain terms that constitute incentives to redeem and were issued before December 2011.
- The remaining AT1 capital instruments of $4,458 million are shown in the phase out row within the transitional position column implying that all these AT1 capital instruments will be afforded zero recognition at some point in the future.

Tier 2

- The transitional position column shows the CRD IV position of Tier 2 capital of $13,153 million, including the immediate impact of CRD IV, with a further de-recognition of $1,933 over time.
- The end point column shows $11,220 million of Tier 2 instruments as fully qualifying under 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. Zero end point recognition is afforded to Tier 2 instruments from other subsidiaries although this may be unduly conservative.
- The end point column implies the ultimate de-recognition of $2,345 million of Tier 2 capital instruments, although we believe it is 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 position 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 available-for-sale assets (equities).

CRD IV Pro forma capital structure continued

	Current rules 30.06.13	Transitional position [1] 30.0613	End point [2] 30.06.13
	$million	$million	$million
Parent company shareholders' equity per balance sheet	**44,768**	44,779	44,779
Share capital	**1,212**	1,212	1,212
Share premium	**5,494**	5,494	5,494
Retained earnings	**21,496**	21,493	21,493
Accumulated other comprehensive income	**16,566**	16,580	16,580
Preference shares classified as equity included in Tier 1 capital	**(1,494)**	(1,494)	(1,494)
Non-controlling interests	**270**	270	178
Non-controlling interests per balance sheet	**590**	590	590
Non-controlling Tier 1 capital included in other Tier 1 capital	**(320)**	(320)	(320)
Non-controlling Tier 1 capital subject to phase out from Common Equity Tier 1	-	-	(92)
Net effect of regulatory consolidation	**657**	**657**	409
Regulatory Adjustments	**(534)**	(758)	(374)
Unrealised gains on available-for-sale debt securities	**(22)**	(22)	-
Unrealised gains on available-for-sale equity securities included in Tier 2	**(362)**	(362)	-
Cash flow hedge reserve	**50**	50	50
Additional value adjustments, including Prudent Valuation Adjustments ('PVA') [3]	**(187)**	(383)	(383)
Defined benefit pension scheme assets	**35**	(7)	(7)
Other regulatory adjustments	**(34)**	(34)	(34)
Deductions	**(6,907)**	(3,257)	(8453)
Goodwill and other intangible assets[4]	**(6,100)**	(3,188)	(6,213)
Deferred tax assets that rely on future profitability and do not arise from temporary differences	**-**	(34)	(343)
Excess expected losses	**(930)**	-	(1,669)
Tax on excess expected losses	**234**	-	-
Securitisation positions	**(111)**	-	(222)
Free deliveries	**-**	(6)	(6)
Other deductions	**-**	-	-
Core Tier 1 (CT1)/Common Equity Tier 1 (CET1)	**36,774**	40,186	35,034
Additional capital instruments subject to phase out [5]	**5,494**	4,458	-
classified as equities under applicable accounting standards	**1,494**	1,494	1,494
classified as liabilities under applicable accounting standards	**4,000**	4,000	4,000
Additional Tier 1 capital instruments phased out	**-**	(1,036)	(5,494)
Deductions	**(275)**	(4,458)	-
Goodwill and other intangible assets	**-**	(2996)	-
Excess expected losses	**-**	(930)	-
Tax on excess expected losses	**227**	-	-
Significant direct and indirect holdings of CET1 instruments of relevant entities[6]	**(502)**	(421)	-
Securitisation positions	**-**	(111)	-
Total tier 1 capital	**42,000**	40,186	35,034

1 The transitional period for CRD IV runs from 1 January 2014 until 1 January 2019, although for this disclosure we are required to assume it begins in 2013.

2 This disclosure includes an end point CRD IV capital position at January 2022, which applies the rules as at the end of the transitional period and after amortising grandfathered instruments.

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CRD IV Pro forma capital structure continued

	Current rules 30.06.13 $million	Transitional position 30.06.13 $million	End point 30.06.13 $million
Tier 2 capital			
Tier 2 capital instruments [6]	**13,565**	13,153	11,220
Eligible capital instruments issued by the parent and held by third parties	**6,235**	6,235	6,235
Instruments issued by subsidiaries and held by third parties subject to phase out from Tier 2	**7,330**	7,330	7,330
Tier 2 capital instruments phased out [7]	-	(412)	(2,345)
Eligible reserves	**634**	634	272
Unrealised gains on available-for-sale-equity securities included in Tier 2	**362**	362	-
Eligible portfolio impairment provision [8]	**272**	272	272
Deductions	**(1,543)**	(1,468)	(6)
Excess expected losses	**(930)**	(930)	-
Significant direct and indirect holdings of CET1 instruments of relevant entities[9]	**(502)**	(421)	-
Direct and indirect holdings of own Tier 2	-	(6)	(6)
Securitisation positions	**(111)**	(111)	-
Tier 2 capital after regulatory adjustments	**12,656**	12,319	11,486
Deductions from total capital	**(6)**	-	-
Total capital	**54,650**	**52,505**	46,520
Risk weighted assets			
Total risk weighted assets	**323,776**	332,659	330,406
of which: Significant investments in other financial institutions	-	2,105	2,105
Insignificant investments in other financial institutions	1,286	1,286	1,286
Deferred tax assets arising from temporary differences	-	1,112	1,112
Core Tier 1/Common Equity Tier 1 ratio	11.4%	12.1%	10.6%
Tier 1 ratio	13.0%	12.1%	10.6%
Total capital ratio	16.9%	15.8%	14.1%

3 The estimated Prudential Valuation Adjustment (PVA) and combined Debit Valuation Adjustment (DVA) and Own Credit Adjustments (OCA) for 30 June 2013 are $191 million and $192 million respectively, which we recognise in full in the first year of the transitional period.

4 Goodwill and other intangibles are net of the associated deferred tax liability of $49 million that would be extinguished if the assets become impaired and includes $162 million of goodwill embedded within the Group's investments in the capital of other financial institutions.

5 Banks are required to 'phase out' over a 9 year period those Additional Tier 1 capital instruments that do not comply fully with CRD IV requirements (Article 52) at 1 January 2014. As at 30 June 2013, the cap on Additional Tier 1 capital instruments subject to phase out arrangements is $4,458 million. The Group deducts from Additional Tier 1 capital the amount above the cap of $1,036 million.

6 Significant is defined as a holding of at least 10 per cent of the issued share capital of other institutions. 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. As the Group's significant investments in financial sector entities of $1,004 million fall below the threshold, which is 10 per cent of Common Equity Tier 1 ($3,503 million at the end point), no deduction is required and these items are risk-weighted at 250 per cent

7 The Group expects to be subject to a deduction of $412 million in the future under Articles 87 and 88 of the June 2013 CRD IV text in respect of Tier 2 capital instruments..

8 Banks are required to de-recognise the capital treatment over a 9 year period of those Tier 2 capital instruments that do not comply fully with CRD IV requirements (Article 63) at 1 January 2014. As at 30 June 2013, the cap on Tier 2 capital instruments subject to phase out arrangements is $2,905 million. The Group deducts from Tier 2 capital the amount above the cap.

9 Banks are permitted to include in Tier 2 capital, portfolio impairment provision (PIP) up to a maximum of 1.25 per cent of credit risk-weighted assets under the standardised approach. As at 30 June 2013, the cap was $760 million based on current rules.

CRD IV Pro forma capital structure continued

Leverage ratio

The leverage ratio was one of the proposals included in the package of reforms developed by the Basel Committee on Banking Supervision (BCBS). 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 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 2014 to 1 January 2017. The BCBS's intention is to require a minimum leverage ratio of 3 per cent. This parallel run period will be used to assess whether the proposed 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 PRA requires 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.

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 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, 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 backstop tool, we would recommend that it be used only in conjunction with established risk sensitive measures.

The table opposite sets out the Group's leverage ratio on the two bases defined and mandated by the PRA. 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 AT1 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. 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 4.6 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 considering the Group's leverage ratio, it should be noted, in line with PRA guidance, that the published leverage ratio has not been prepared with reference to recent consultation from the BCBS on the leverage ratio (BCBS 251).

Leverage ratio

	30.06.13 $million
Tier 1 capital (transitional)[1]	**40,528**
Tier 1 capital (end point)[2]	**35,034**
Exposure measure	**768,796**
Leverage ratio (transitional)	**5.3%**
Leverage ratio (end point)	**4.6%**

Total on balance sheet assets	**663,809**
Derivatives	**54,548**
Securities financing transactions (SFT)	**9,941**
All other items	**599,320**
Off balance sheet items[3]	**127,900**
Unconditionally cancellable	**11,701**
Other	**116,199**
Regulatory netting benefits	**(14,086)**
Netting benefits under Basel II[4]	**(32,866)**
Potential future exposure (PFE)	**18,780**
Deductions	**(8,827)**
Exposure measure	**768,796**

1 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 ($5,494 million)

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

3 Off balance sheet items reflect 10 per cent of unconditionally cancellable commitments and 100 per cent of all other off balance sheet items.

4 CRD IV 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).

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 uncertainty surrounding the implementation of CRD IV in Europe. Consequently, the CRD IV transitional capital position presented in this disclosure could lack precision and change following the implementation of the final rules. The amounts subject to transitional arrangements do not take account of management actions during the transitional period, such as the accretion of profits and the issuance of eligible regulatory capital. The CRD IV end point position presented here does not constitute either the likely outcome or a capital, leverage or RWA 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 requirement, 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 PRA, we would recommend that this published leverage ratio be treated with a high degree of caution.

Acronyms

AT1	Additional Tier 1
BCBS	Basel Committee on Banking Supervision
CET1	Common Equity Tier 1
CRD	Capital Requirements Directive
CRM	Credit Risk Mitigation
CRR	Capital Requirements Regulation
CT1	Core Tier 1
CVA	Credit Valuation Adjustment
DVA	Debit Valuation Adjustment
EBA	European Banking Authority
FCA	Financial Conduct Authority
OCA	Own Credit Adjustment
PFE	Potential Future Exposure
PIP	Portfolio Impairment Provision
PRA	Prudential Regulation Authority
PVA	Prudent Valuation Adjustment
RWA	Risk Weighted Assets