

## Enterprise wide Risk Management and Pension Risk in action



## Disclaimer

**The opinions expressed in this presentation reflects the personal views of the speaker, in his individual capacity and do not necessarily represent the views of any organisations with which he is affiliated.**

## Managing risk – Lessons from the financial crisis

- ▶ Risk Appetite – the driver for Risk Management
- ▶ Identification, measurement and management of risk in a comprehensive manner
- ▶ Responsible lending and focus on long term relationships
- ▶ Deposit funded lending – core value of HSBC
- ▶ Risk culture and values – Risk is everyone's business
- ▶ Stress Testing
- ▶ All risks matter – Pension Risk must be covered in an enterprise wide manner

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## Enterprise wide Risk Management - Core components

### Strong Governance Framework

- ▶ Group Risk Committee of the Board formed in response to the 'Walker' review and provides oversight and advice to the Board on material risk-related matters.
- ▶ Global Risk function is independent from the business, ensuring integrity and trust.
- ▶ A global operating model provides consistent and effective oversight and accountability of risk across all five regions and global businesses.

### Risk appetite and a forward-looking approach

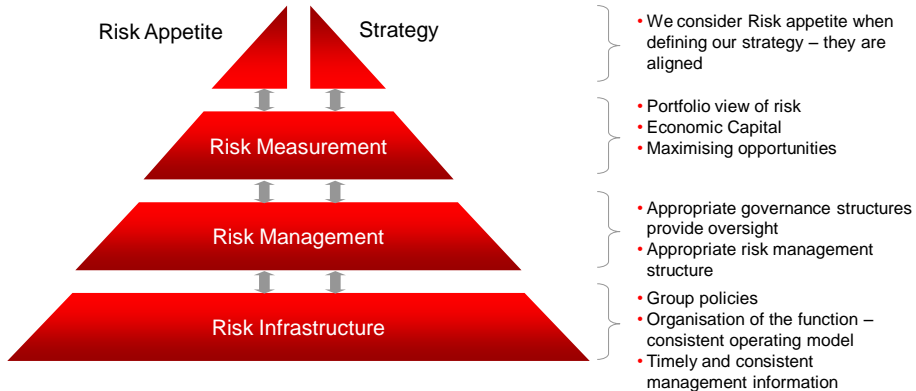
- ▶ Risk appetite is central to HSBC's management of risk.
- ▶ Identifying and monitoring top / emerging risks is also integral to risk management at HSBC.
- ▶ Our strategy continues to be focused on the needs of a fast changing global economy and building our business in emerging markets – capital must be allocated in a disciplined manner.

### Positioned to respond to 'stress' and regulatory changes

- ▶ Outcome of the EU-wide stress tests in July 2010 confirmed the robustness of our capital position. Results of the 2011 exercise will be released shortly.
- ▶ A strong balance sheet remains core to our banking philosophy. Capital and funding strength are increasingly important in light of proposed regulatory changes.
- ▶ We have a distinctive liquidity position: our ratio of customer advances to deposits remained steady at under 80% and indicates our funding strength.

## Enterprise-wide Risk Management at HSBC

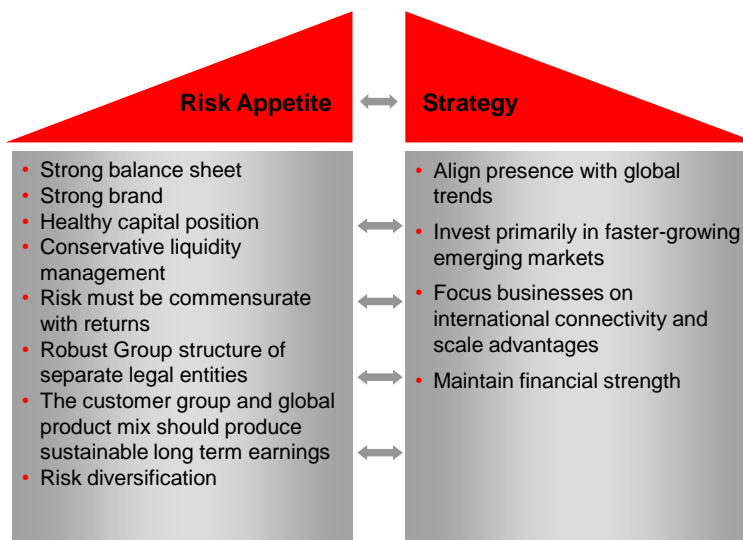
HSBC's risk management framework – an integrated approach applied to all risks



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## Alignment of Strategy and Risk Appetite

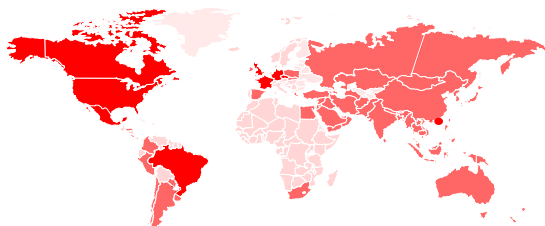
Provides the bedrock for the enterprise-wide risk management framework



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## Pension Risk – Must be managed to the same standards

Key financial measures	FY09	FY10
Total credit / (charge) to equity	(USD 3,586m)	(USD 60m)
Total credit / (charge) to P&L	(USD 688m)	(USD 1,076)
Liabilities (Pension and Healthcare)	(USD 31,632m)	(USD 33,773m)
Assets (Pension and HealthCare)	USD 24,665m	USD 29,960m
IAS 19 DB Pension Deficit	(USD 6,147m)	(USD 2,867m)



Group pension plan profile	FY09	FY10
Pension plans	211	218
Countries with International Accounting Standard (IAS) 19 liabilities > USD 50m (shown in solid red)	10	10
Top 10 Schemes as percentage of IAS 19 liabilities	95%	92%
Percentage of Group employees with DB pension benefits	29%	27%
Percentage of Group employees with DC pension benefits	59%	63%

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## Pension Risk Management

- **HSBC's Enterprise-wide Risk Management Framework ensures that an integrated assessment of Pension Risk is undertaken, in line with the Group's overall Risk Appetite**
- **A Pension Risk Appetite has been defined in detail and considers the impact on HSBC Group across the following areas**
  - Risk and Capital
  - Profit and Loss
- **The UK pension scheme, the Group's largest scheme, has a strong governance structure in place:**
  - **Trustee** - The Trustee Board which is supported by the Pension Executive
  - **Sponsor** – Pension Review Committee which is a sub committee of the European Risk Committee
- **The UK scheme has implemented a de-risking and hedging strategy**

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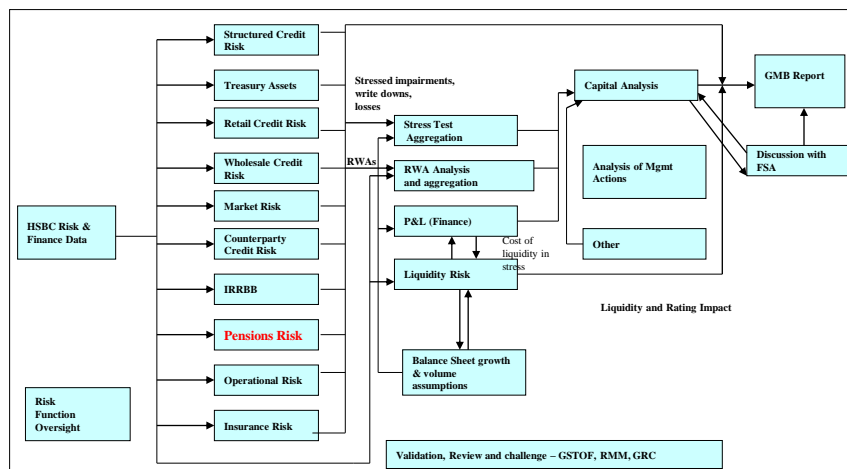
## Pension Risk Management – Building Blocks / Tools

- Pension Risk is assessed across the Group on an ongoing basis in relation to the following dimensions:
  - Investment Strategy (Credit and Market Risk)
  - Strategic Risk (incl Accounting / Regulatory changes)
  - Governance / Operational Risk
  - Reputational Risk
- The assessment is conducted on the current position as well as a forward looking projection.
- HSBC has implemented analytical pension software tool (PensionsFirst PFaroe) that allows for real time, in-depth and accurate valuations of pensions schemes
  - Regular and timely reporting
  - Transparency, accessibility and flexibility
  - Ability to conduct sensitivity analysis
- Pension Risk is an integral component of the Group wide stress test process (as illustrated in the next slide)

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## The Stress Test Process – A detailed and involved process: All risks including Pension must be covered

- ▶ Pension Risk forms an integral part of the overall stress testing process that is conducted at HSBC Group



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## Concluding remarks

### Strong Governance Framework

Our global business requires a Global Risk function positioned to respond to and support the strategic direction of the business in an ever-changing environment.

Our global operating model puts this into practice.

### Integrated Pension Risk Management

The Enterprise-wide risk management framework provides the platform for the assessment of Pension Risk across the Group and ensures alignment with the overall risk appetite

### Building Blocks / Tools in Place

The investment in analytical software enables ongoing, real time assessment and identification of risks