

# Funding and liquidity management in HSBC

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# Introduction

Liquidity is one of HSBC's key strategic strengths



Well served by our conservative liquidity management principles and limited dependence on wholesale markets



Our liquidity framework has been shaped by our long history of operating in many different geographies



Liquidity has become increasingly important as regulatory standards are raised across the industry

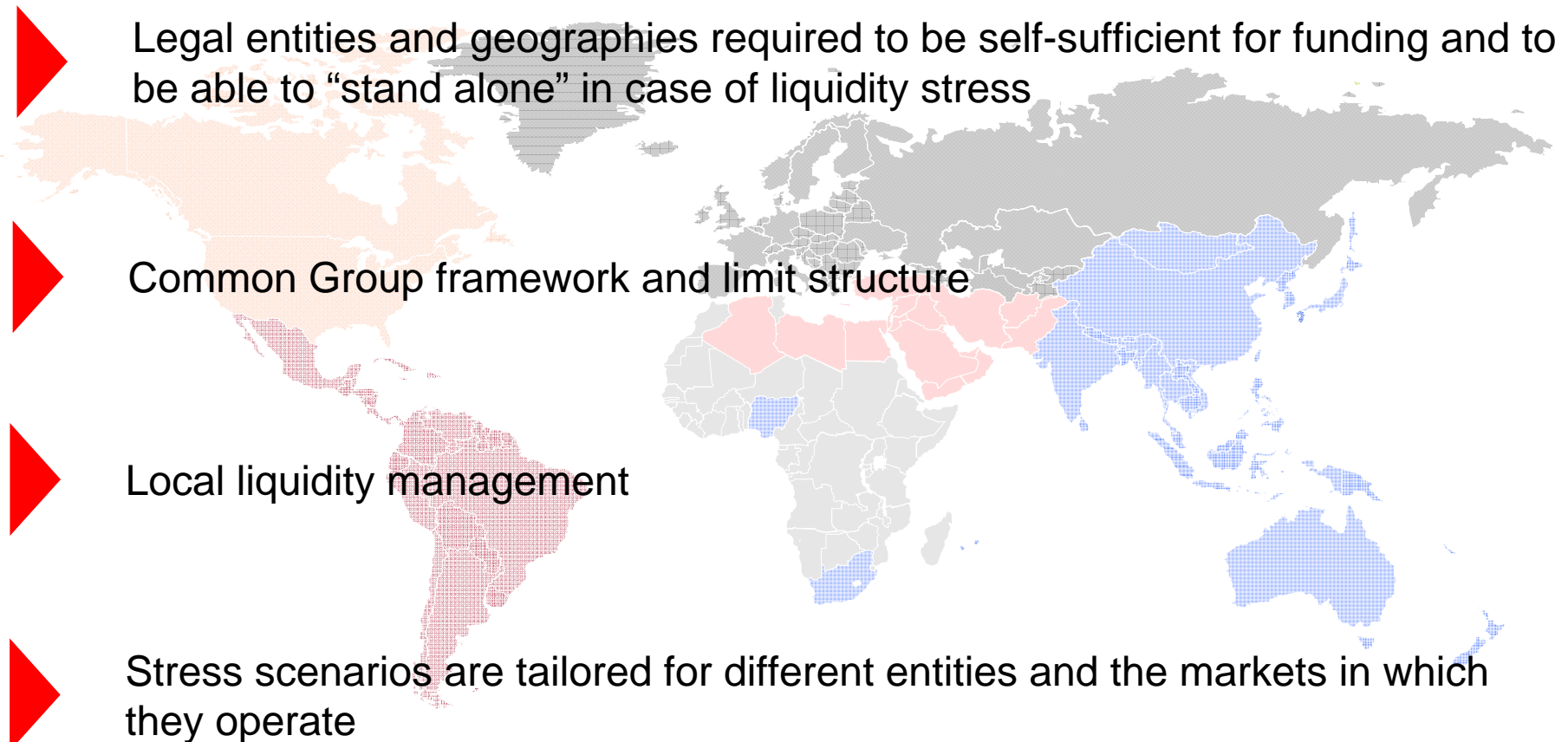


HSBC is well-positioned for the new environment

- Illiquid assets are funded by stable sources of funding
- Our surplus liquidity supports our business strategy towards emerging markets

# HSBC's liquidity risk management principles (1)

Liquidity and funding is managed by entities on a stand alone basis

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- ▶ Legal entities and geographies required to be self-sufficient for funding and to be able to “stand alone” in case of liquidity stress
  - ▶ Common Group framework and limit structure
  - ▶ Local liquidity management
  - ▶ Stress scenarios are tailored for different entities and the markets in which they operate

## HSBC's liquidity risk management principles (2)

### Emphasis on customer deposits as source of stable funding



Emphasis on core customer deposits to fund illiquid assets



Use long term professional funding in selected circumstances, e.g.:

- Where core customer deposits are unavailable
- To match specific maturities or currencies



Net liquidity provider to the interbank market

## HSBC's liquidity risk management principles (3)

Maintain liquidity buffers to protect against stress scenarios



Each entity maintains liquidity buffers to protect against name-specific and market-wide liquidity stress scenarios



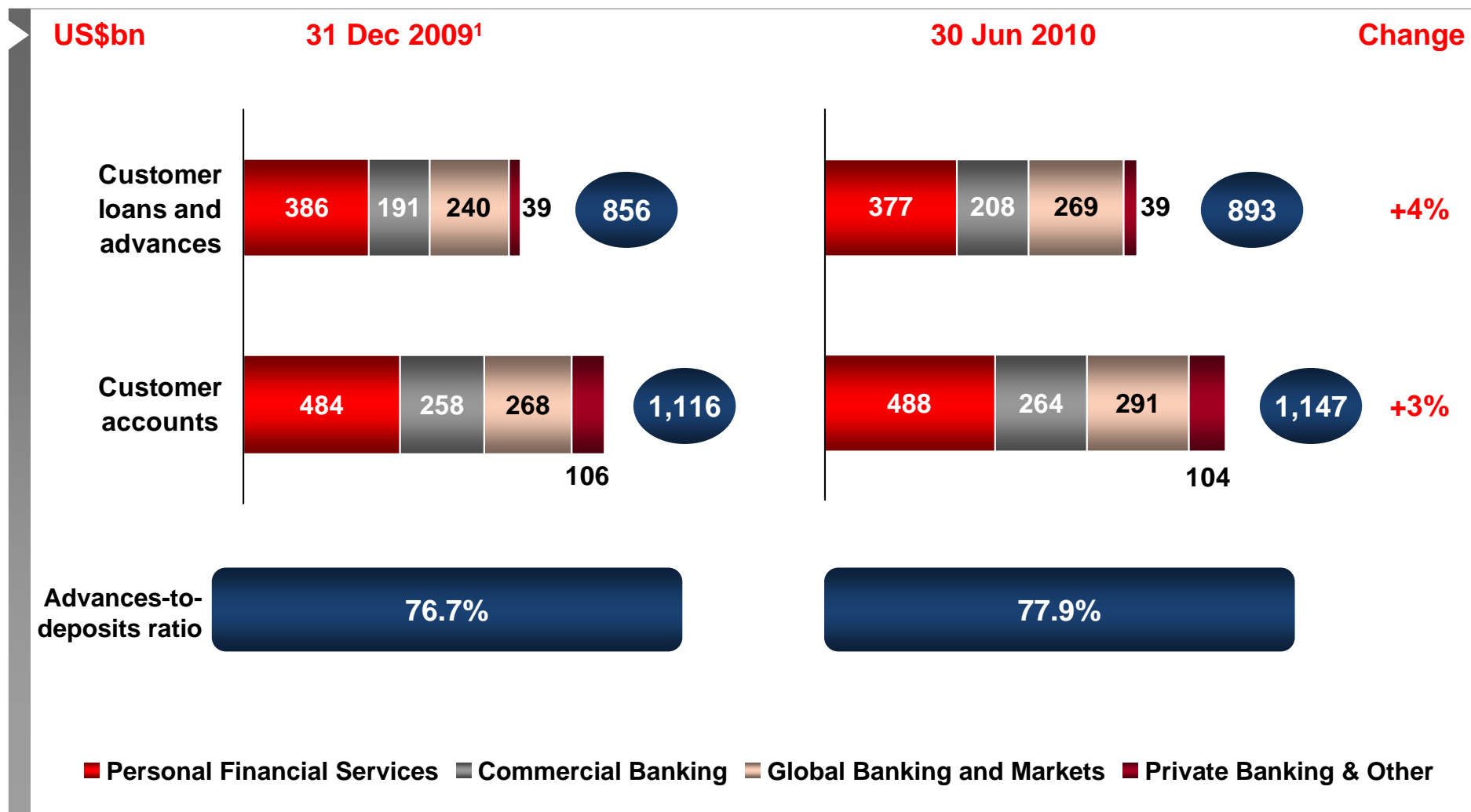
Conservative assumptions



No complex models

# Advances-to-deposits ratio: Group level

## Strong ratio of 77.9% across the Group



Note:  
(1) Underlying basis

# Main liquidity metrics

Advances to core funding & Stressed one month coverage ratios

▶ Distinguishing “core” from “non-core” deposits

▶ Advances to core funding ratio

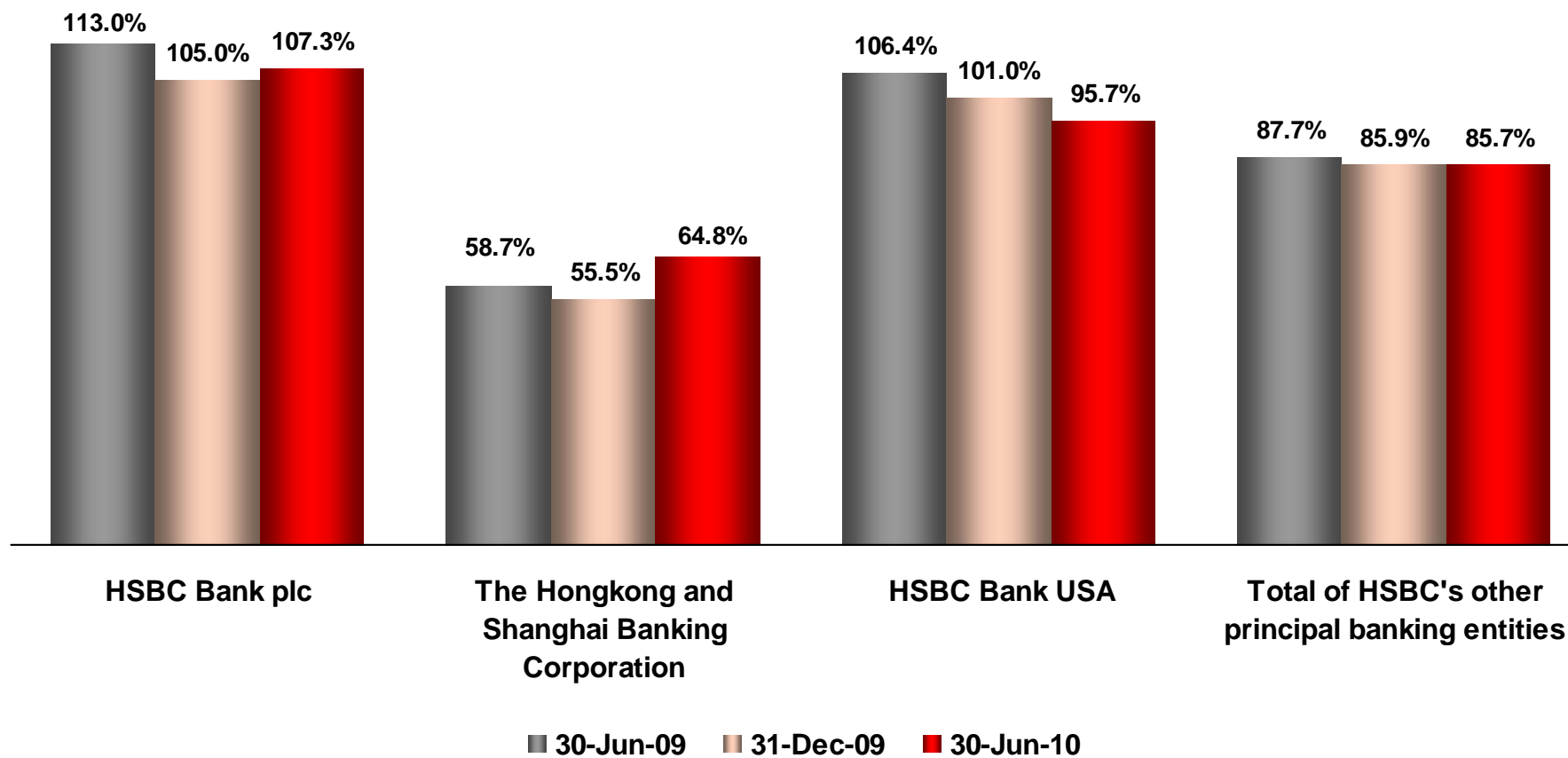
▶ Projected cash flow analysis

▶ Stressed one month coverage ratio

# Advances to Core Funding ratios by entity

Our surplus liquidity supports our business strategy towards emerging markets

Advances to core funding ratio<sup>(1)</sup>



Notes:

(1) As at the date specified. "Core funding" includes debt with a maturity of >1 year and excludes deposits deemed to be 'non-core' by Group standards



## Other liquidity metrics and tools

Liquidity risk cannot be captured by a single metric

- ▶ Liquidity and funding contingency plans
- ▶ Contingent liquidity commitment caps
- ▶ Monitoring depositor concentration
- ▶ Managing concentration and maturity profile of debt securities

# Capital markets funding

HSBC entities maintained good access to capital markets throughout the crisis

## Selected transactions completed in 2010:

### US market

- ▶ HSBC Holdings plc USD 3.8bn 8% Tier 1 Perpetual
- ▶ HSBC Bank USA USD 1.25bn Subordinated LT2 due 2020
- ▶ HSBC Bank plc USD 2bn Senior due 2015
- ▶ HSBC Bank plc USD 1.5bn Senior due 2020
- ▶ HSBC Bank plc USD 1.25bn Senior due 2013

### European markets

- ▶ HSBC Holdings plc GBP 900mn Subordinated LT2 due 2020
- ▶ HSBC France EUR 1.5bn Covered Bonds due 2017
- ▶ HSBC Bank plc EUR 1.5bn Senior due 2021
- ▶ HSBC France CHF 400mn Covered Bonds due 2015/2018
- ▶ HSBC Bank plc CHF 300mn Senior due 2016

### Other markets

- ▶ HSBC Bank plc AUD \$1.5bn Senior due 2015
- ▶ The Hongkong and Shanghai Banking Corporation Sydney Branch AUD 500mn Senior due 2013
- ▶ HSBC Bank Canada CAD 500mn Senior due 2015
- ▶ HSBC Bank plc JPY 109.6bn Senior Samurai due 2015

# Regulatory environment

Significant changes with unclear implementation timeline

▶ Significant overhaul of liquidity regulations following the 2008 liquidity crisis

▶ HSBC is supportive of regulators' initiatives to strengthen liquidity standards across the industry

▶ BCBS framework is broadly consistent with HSBC's

▶ More discussion needed:

- Definition of liquid assets
- Treatment of intragroup funding
- Disclosure and reporting

▶ Calibration is the biggest challenge

# Closing remarks

## HSBC is well-positioned for the new environment

▶ Liquidity regulatory standards will be raised across the industry. Quantum and timing remains unclear and may differ among countries

▶ We will continue to adapt our funding and liquidity management framework as the regulatory and business environments evolve

▶ HSBC is well-positioned for the new environment

- Culture of conservative liquidity management
- Illiquid assets are funded by stable sources of funding
- Our surplus liquidity supports our business strategy towards emerging markets