



30<sup>th</sup> September 2011

# Risk

## Investor and Analyst Update

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HSBC 

# Forward-looking statements



**This presentation and subsequent discussion may contain certain forward-looking statements with respect to the financial condition, results of operations and business of the Group. These forward-looking statements represent the Group's expectations or beliefs concerning future events and involve known and unknown risks and uncertainty that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Additional detailed information concerning important factors that could cause actual results to differ materially is available in our Annual and Interim Report and Accounts. Past performance cannot be relied on as a guide to future performance.**

**This presentation contains non-GAAP financial information. Reconciliation of non-GAAP financial information to the most directly comparable measures under GAAP are provided in the 'Reconciliation of reported and underlying profit before tax' supplement available at [www.hsbc.com](http://www.hsbc.com).**

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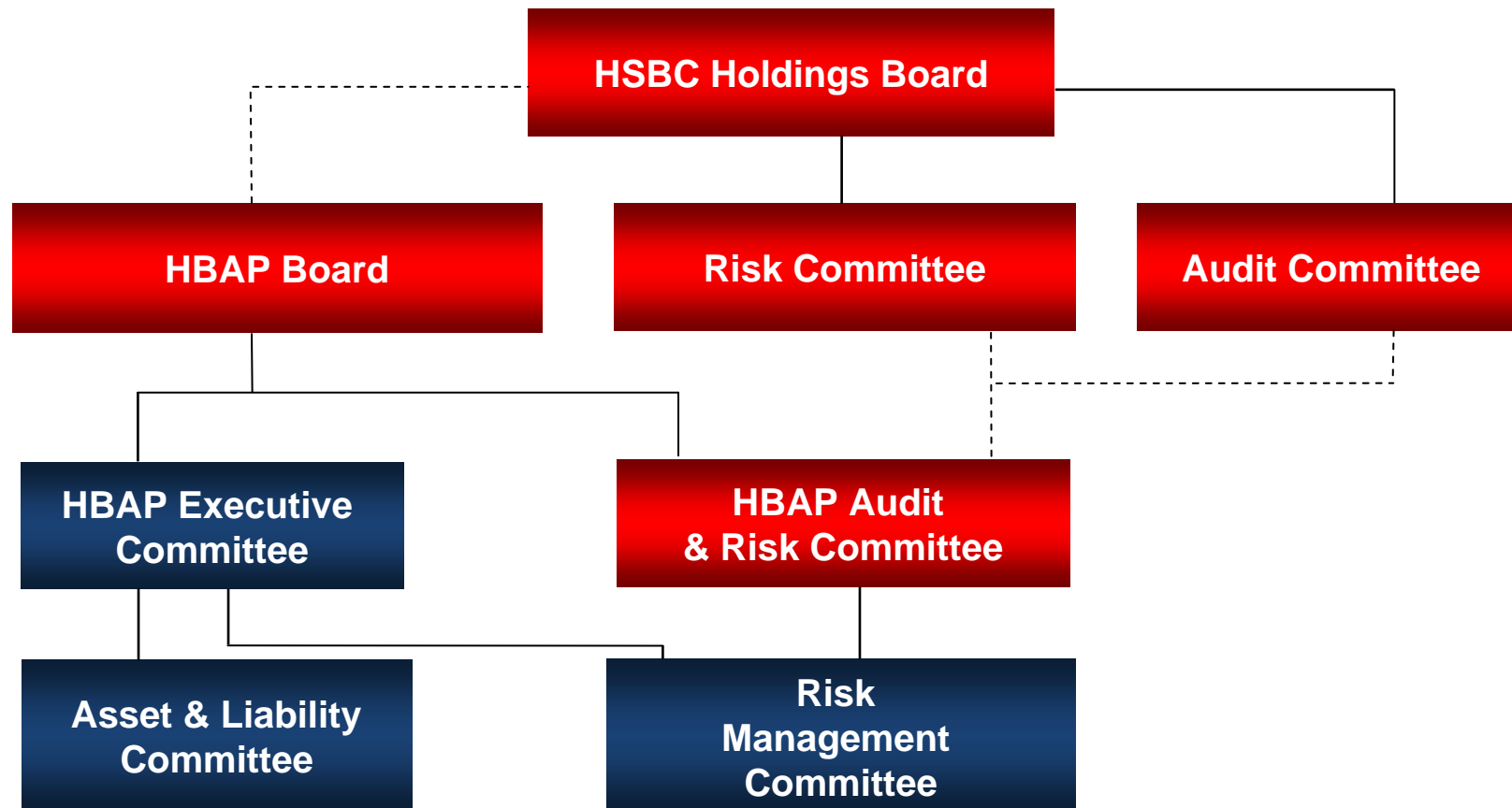
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# A Culture of Risk Awareness

**“ The board is responsible for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives. The board should maintain sound risk management and internal control systems.”**

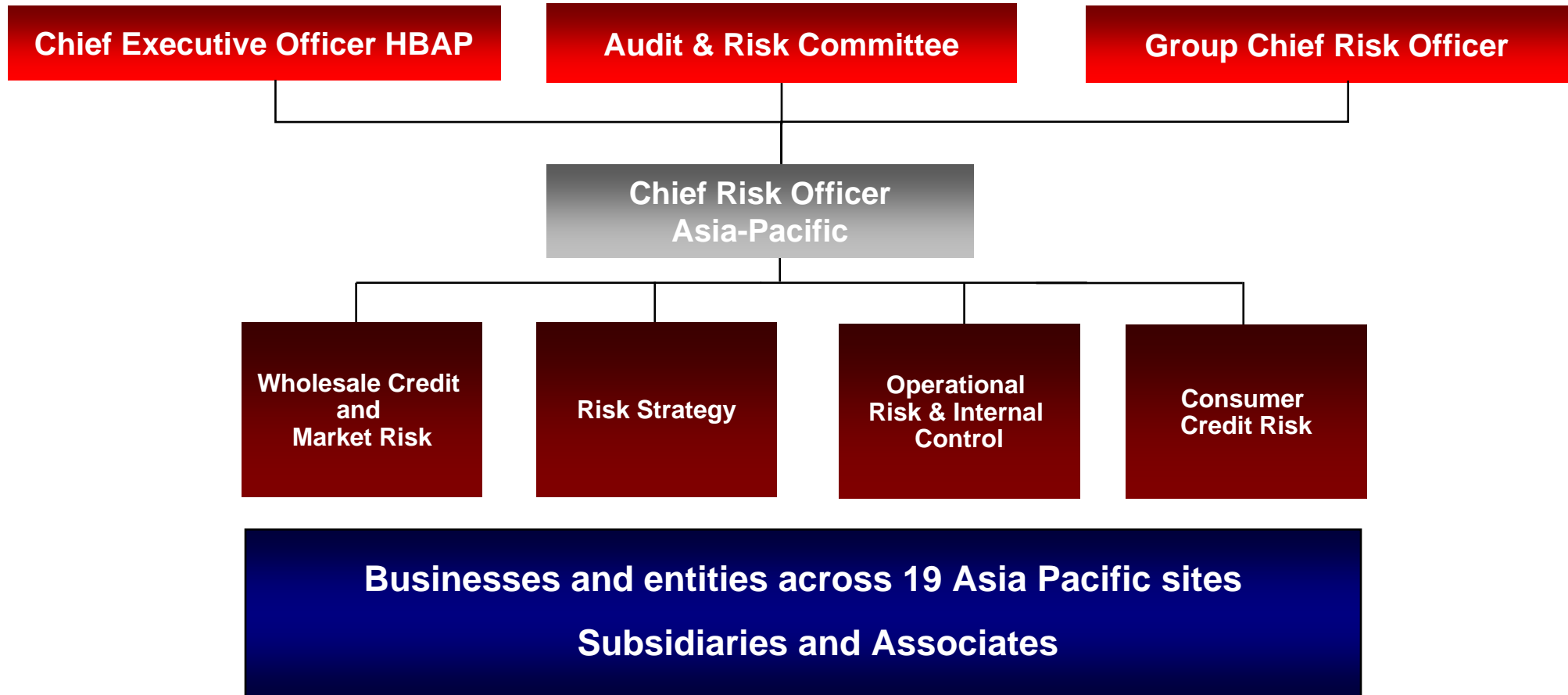
– The UK Corporate Governance Code (June 2010)

# 1 A Culture of Risk Awareness - Risk Governance



- Dedicated Board level Audit and Risk Committee
- CRO reports to the Regional CEO and to the Audit & Risk Committee

# 1 A Culture of Risk Awareness - Risk Governance



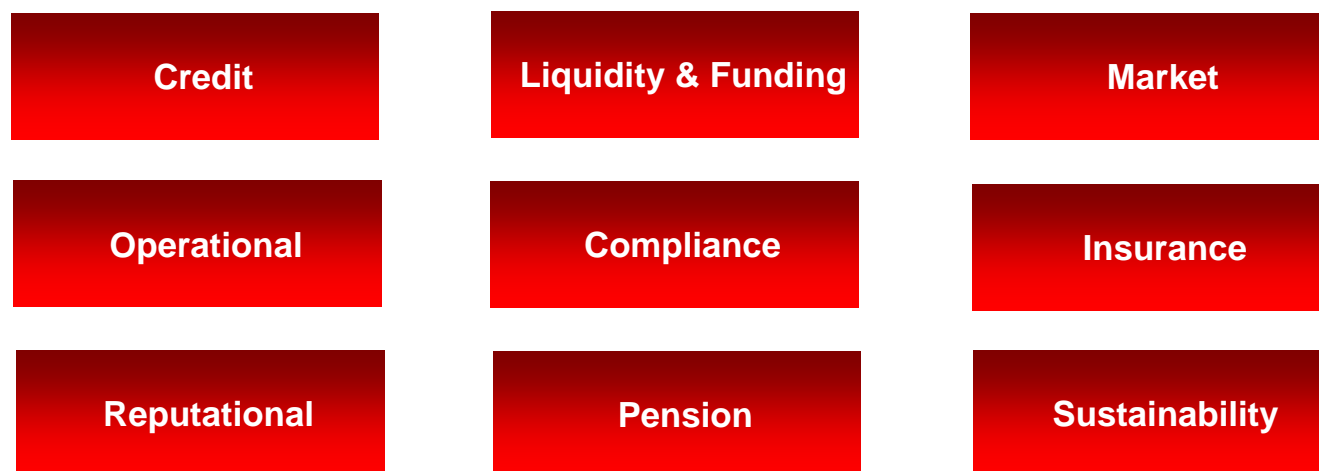
## 1 A Culture of Risk Awareness - Risk Governance



**“All of HSBC’s activities involve, to varying degrees, the measurement, evaluation, acceptance and management of risk or combinations of risks.”**

**“The Board, advised by the Group Risk Committee, ensures that the Group has a strong risk governance culture which shapes the Group’s risk strategy.”**

- 2010 HSBC Annual Report





## 1 A Culture of Risk Awareness - Risk Governance

- Risk is Everyone's Business at HSBC

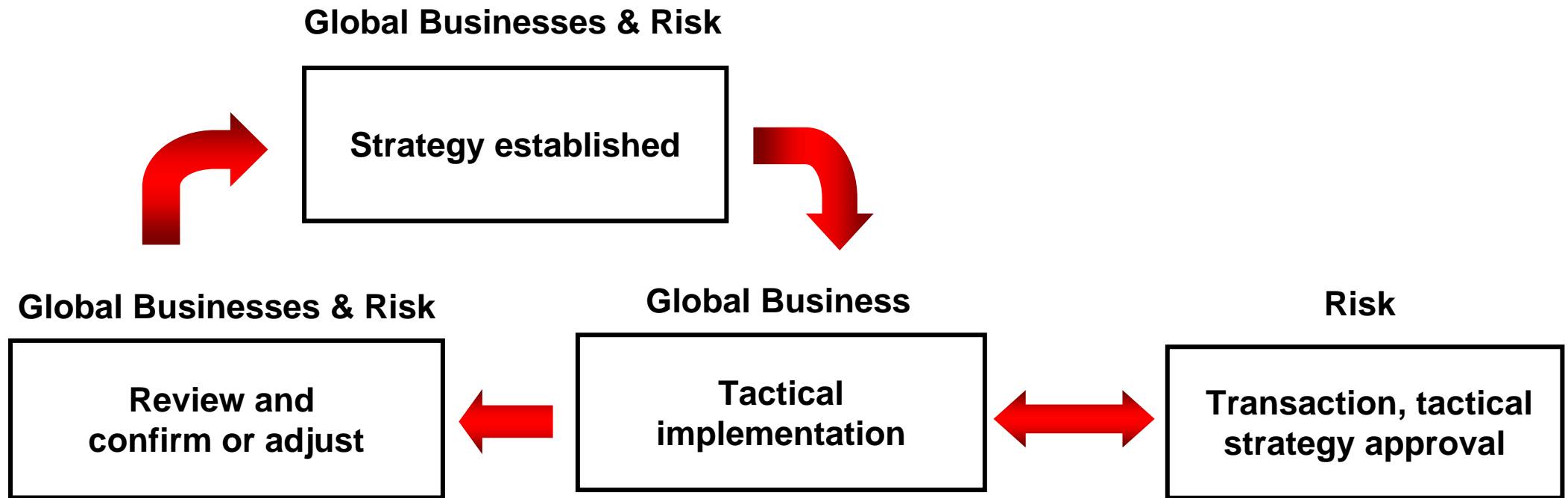
“Our **strong risk governance** reflects the importance placed by the Board on shaping the Group's risk strategy and managing risks effectively. It is supported by a **clear policy framework of risk ownership**, by the cascading from the Group Management Board of balanced scorecards that align business and risk objectives, and by the **accountability of all officers** for identifying, assessing and managing risks within the scope of their assigned responsibilities.”

# ① A Culture of Risk Awareness - Risk Governance

- Partnering with the Business
- Independent from the Business
- Continual review of quality and processes
- Risk culture - training and development programmes

# Risk Management

## 2 Risk Management



## 2 Risk Management – Risk Appetite

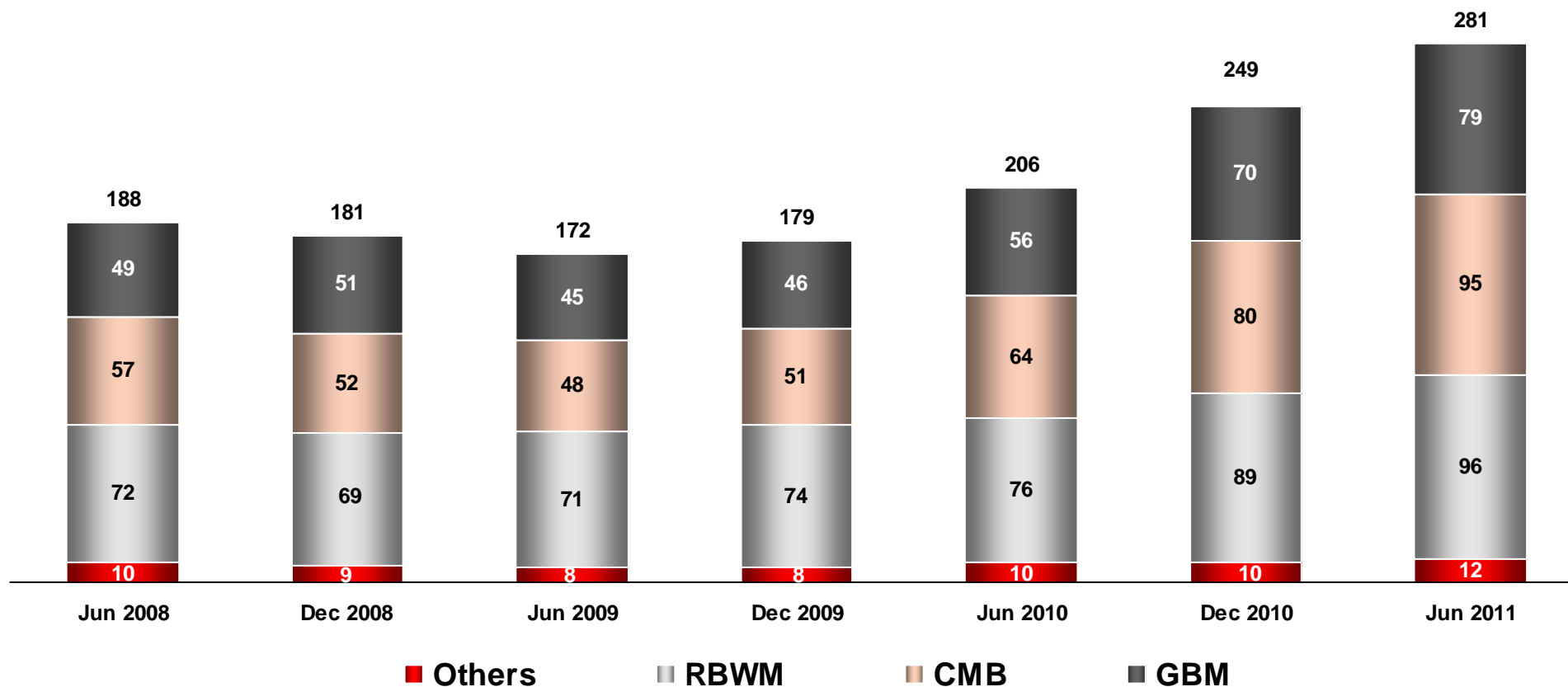
- Strong balance sheet
- Strong brand
- Healthy capital position
- Conservative liquidity management
- Risk must be commensurate with returns
- Global Business and global product mix should produce sustainable long term earnings growth
- Risk diversification

## 2 Risk Management – Tactical Implementation

- Setting risk appetite
  - Setting country risk plans
  - Day to day
- 
- ▶ Relationship from day one
  - ▶ Focus on management and decision makers
  - ▶ Relationship plan
  - ▶ Transfer trouble to independent management
- ▶ Sample testing
  - ▶ Portfolio quality
  - ▶ Independent portfolio review
  - ▶ Seek rehabilitation over forced liquidation

## 2 Hong Kong and Rest of Asia Pacific - Loans and Advances to Customers (net)

Loans and Advances to Customers, reported (net)<sup>1</sup>  
USDbn



### Concentration

- Well-balanced across global businesses, industry sectors and geographies

### Credit Quality

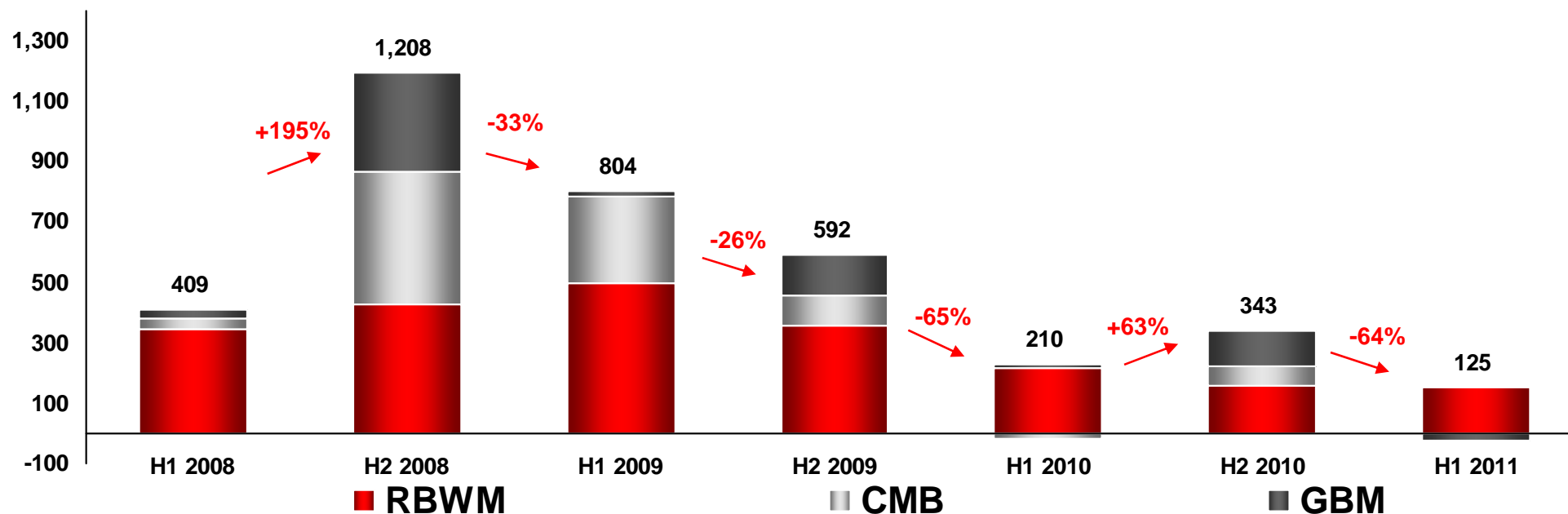
- Loan growth of 13% in H1 11 compared to H2 10.

Notes:  
<sup>1</sup> Numbers not adjusted for rounding

## 2 Hong Kong and Rest of Asia Pacific – Loan Impairment Charges



Reported Net Loan Impairment Charges  
USDm



- Secured Retail portfolios remain strong
- Loan Impairment Charges decreased, primarily driven by releases and recoveries in GBM
- Commercial banking portfolio performing in line with expectations, flattered by recoveries



## 2 Risk Management – Operational Risk

- Risk Appetite – Absolute measures
- Risk Control Framework
- Risk Control Assessments and Process Testing
- Metrics/Management Information
- New Product Approval and Regular Reviews
- Customer Service Reviews
- Management decisions

## 2 Risk Management – Business Continuity

- Thailand
- Queensland
- Christchurch
- Tokyo

Looking Forward

### 3 Key Performance Indicators, Group

Metric	H1 11	H2 10	Target/Benchmark
Return on average ordinary shareholders' equity	12.3%	8.9%	12% - 15%*
Cost efficiency ratio	57.5%	59.9%	48% - 52%
Earnings Per share	US\$0.51	US\$0.35	-
Core tier 1 ratio	10.8%	10.5%	9.5% - 10.5%**

- The improvement in profitability was driven by falling loan impairments and supported by targeted growth in a number of our most important markets. Profits were up in Asia, Latin America, the Middle East and North America.
- Cost efficiency ratio fell compared with 59.9% in the second half of 2010 as we controlled discretionary spending and took action to make sustainable savings.
- The core tier 1 ratio increased from 10.5% at the end of 2010 to 10.8%, largely driven by profit generation.

Notes:  
 \*Basel III basis  
 \*\*Assumed common equity tier 1 ratio under Basel III

### 3 Improve cost-efficiency and organisational effectiveness

USD2.5–3.5bn  
sustainable cost  
savings in 3 years

- Gross reduction of 30,000 positions over 3 years towards approx 10% Group cost base savings
- Reductions focused on back office, partly offset by front-office hiring in growth markets
- Target excluding businesses sold to third parties

Achieve 48–52%  
CER by 2013

- HK's CER already at 43.2% in H1 11, while RoAP at 53.0%
- Measures to contain cost rises amid high inflation environment
- Streamlining IT functions regionally
- Re-engineering processes globally

Clear objective to  
achieve positive  
jaws

- Implement consistent business models
- Grow revenue and contain costs through better resource deployment
- Achieve positive jaws across global businesses and countries

### 3 Looking Forward – Macro View

- **Risk Appetite**
  - Rolling Operating Plan
  - Medium Term Outlook
- **Stress Testing**
  - Scenario
  - Sensitivity
- **Top and emerging risk exercise**
- **Research function**
- **Specialists**
- **Local presence**
- **Relationships with Governments and Regulators**

# Conclusion



- Governance
- Organisation Structure
- Culture
- Pro-active
- Forward Looking
- Clients
- Products/ Services
- Network
- Brand
- People

# Contacts and further information



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