# Risk

## Risk management

**All banking activity involves taking risk. Our risk management framework allows us to analyse, evaluate and manage the risks that are part of our business.**

**HSBC's strong performance in 2010 was achieved while taking a measured approach to risk. By maintaining a strong balance sheet, reducing exposure to riskier asset classes, and managing a diversified lending portfolio across our regions, customer groups and products, we continue to ensure that risk is effectively and strategically managed, and that we are not dependent on a few countries or markets to generate income and growth.**

**Our risks fall into eight main categories.**

See our *Annual Report and Accounts 2010*, pages 86-176 for more detailed analysis.

### Credit risk

Credit risk is the risk of financial loss if a customer or counterparty fails to make a contractual payment.

*Mitigation* HSBC maintains a strong culture of responsible lending and a robust risk policy and control framework. All areas of the business are required to re-evaluate risks continually under different scenarios. We ensure that there is independent expert scrutiny of credit risks, their costs and mitigation.

### Liquidity and funding risk

This is the risk that we do not have sufficient financial resources to meet our obligations as they fall due.

*Mitigation* The objective of our liquidity and funding management framework is to ensure that all foreseeable funding commitments can be met when due and that we can respond quickly to unforeseen liquidity requirements. HSBC maintains a diversified and stable funding base, further supported by wholesale funding and widely based portfolios of highly liquid assets.

### Market risk

This is the risk that movements in market factors, such as interest rates or credit spreads, will reduce our income or the value of our portfolios.

*Mitigation* We use a range of tools to manage and control our exposure to market risk. In doing so, we optimise return on risk, while maintaining a market profile consistent with our status as one of the world's largest financial services organisations.

### Operational risk

Operational risk is inherent in every business and includes losses arising from fraud, unauthorised activities, errors, omissions, inefficiencies, systems failures and external events.

*Mitigation* Our operational risk framework is aimed at managing and, where possible, controlling these risks in a cost-effective way. Each of our subsidiaries is responsible for controlling operational risk in line with the scale of their business.

### Pensions risk

HSBC operates a number of pension plans around the world.

*Mitigation* A primary risk is that investments deliver returns below that required to provide the projected benefits. Interest rates or inflation can cause an increase in the scheme liabilities, or scheme members can live longer than expected, causing a deficit in the plans. Our investment strategy is determined after taking these market risks into account.

### Reputational risk

Reputational risk is of paramount importance to our continued prosperity and safeguarding our reputation is the responsibility of every member of staff.

*Mitigation* Our good reputation depends on the way we do business and so we regularly review our policies and procedures to ensure they guard against new reputational risks.

### Sustainability risk

This arises from providing financial services to companies, which may result in an adverse impact on sustainable development.

*Mitigation* A thorough assessment of whether the environmental and social impact of financing particular projects outweighs the economic benefit is firmly embedded in our overall risk management process. Our Group Corporate Sustainability team has clear accountability for managing these risks globally.

### Insurance risk

The principal insurance risk HSBC faces is that the cost of acquiring and administering a contract, claims and benefits may exceed the amount of premiums received and investment income.

*Mitigation* We manage this risk by using controls and processes appropriate to the product concerned, including exercising underwriting controls, and using third-party reinsurers.