

LSPP Executive Program

Three Lines of Defense

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Nov 2014

Here for good

Agenda

- Strategic Intent – Risk as an Enabler
- Risk Management Framework
- Three Lines of Defense
- Roles and Responsibilities

Three Lines of Defence

Strategic Intent



Strategic Intent

Our Ambition

The world's best international bank

Our Strategy

We bank the people and companies driving investment, trade and the creation of wealth across Asia, Africa and the Middle East

Our Brand Promise

Here for good

Our Aspirations	Relationships Build trusted relationships with the people, companies and institutions shaping our markets' future	Investment Play a leading role in facilitating investment and deepening financial markets	Trade Become the undisputed leader in commercial payments and financing for and in Asia, Africa and the Middle East	Wealth Be recognised as a leader in growing and protecting our clients' wealth	Relevant scale Establish sufficient scale, balance sheet and franchise strength to be relevant and influential in our key markets
	Courageous We stand up for what the Bank believes and do the right thing	Responsive We can be relied on to respond quickly and deliver lasting value	International We value others and actively collaborate	Creative We adapt and innovate to meet evolving needs	Trustworthy We act with integrity and earn the trust of others
	Colleagues A great place to work, enabling individuals to grow and teams to win	Society A force for good, promoting sustainable economic and social development	Investors A distinctive investment, delivering consistently superior performance via disciplined growth	Regulators A responsible partner with exemplary governance and ethics	



Strategic Intent

Our enablers

Finance

Measuring and managing financial performance

Human Resources

Acquiring, developing and retaining talent

Technology and Operations

Providing the infrastructure and support for the Group to effectively and efficiently carry out its activities

Risk

Upholding the overall integrity of the Group's risk/return decisions; ensuring that risks are assessed and controlled in accordance with the Group's standards and risk appetite

Compliance

Ensuring the Group's activities and conduct comply with legal and regulatory requirements

Treasury

Managing the Group's capital and liquidity, including ensuring we meet regulatory requirements and have sufficient capacity to absorb losses

Other central support functions

- Corporate Real Estate
- Strategy
- Corporate Development
- Corporate Affairs
- Legal
- Audit
- Corporate Secretariat
- Research

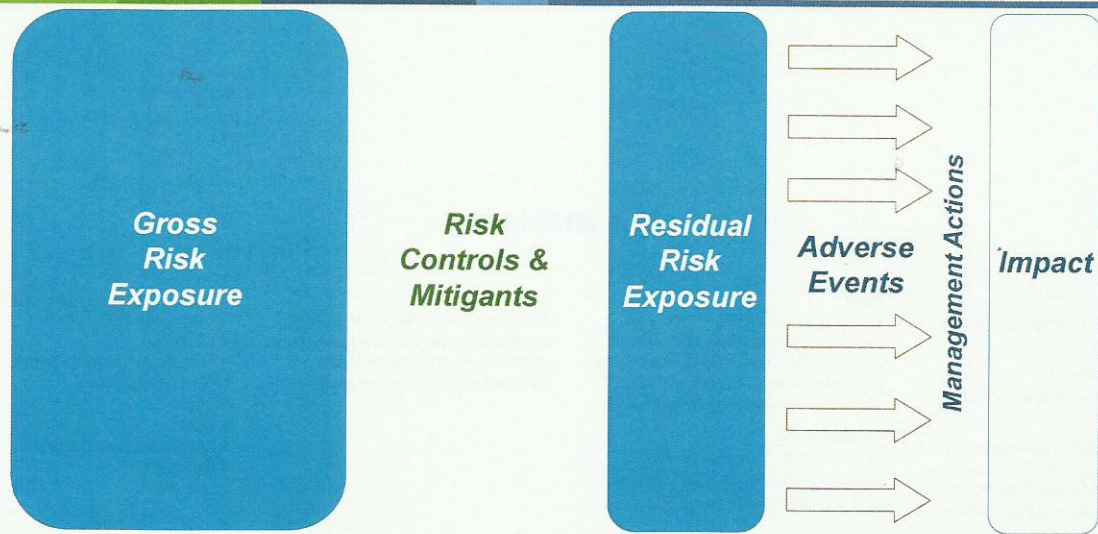


Three Lines of Defence

Risk Management Framework



Risk Management Framework



- Risk is the potential for an adverse impact on the interests of the Bank
- *Gross risk exposure* is a function of the business the Bank has chosen to participate in and which the Bank has retained;
- Risk controls and mitigants we have in place reduce the potential for loss;
- The combined effects of our gross risk exposures and our controls and mitigants determine the Bank's *residual risk* exposure to adverse events that may arise
- The impact of these events can often be reduced to financial loss, resulting in earnings volatility or may take other non-financial forms which adversely affect the future earnings generating capacity of the Group

Risk Management Framework

- **The Risk Management Framework (RMF) defines:**
 - Common principles & standards
 - Shared framework & language
 - Clear accountability and authority
- **Key Objectives :**
 - A holistic approach & consistent standards for managing risk
 - Risk Type definitions to provide common, comprehensive basis for risk identification and classifications
 - Improve risk identification process
 - Provide clear roles & responsibilities around three Lines of Defence
 - Define the scope, roles and responsibilities for assurance activities

Ultimately to reinforce risk capabilities and culture!

Risk Management Principles

Risk Management Principles

Balancing risk and return

- We take risk in line with the requirements of stakeholders
- We take risk within our risk appetite, consistent with our approved strategy
- We avoid taking risks which have a material probability of causing financial distress to the Group or its clients or customers

Responsibility

- We take individual responsibility to ensure risk-taking is disciplined and focused, particularly within our area of authority
- We take account of our social responsibilities and our commitments to customers in taking risk to produce a return

Accountability

- We only take risk within agreed authorities and where there is appropriate infrastructure and resource
- We make sure risk-taking is transparent, controlled and reported

Anticipation

- We anticipate material future risks and ensure awareness of all known risk

Competitive Advantage

- We seek competitive advantage through efficient and effective risk management and control

Risk Management Principles are statements of intent that:

Standard
Chartered



- Describe the risk culture that the Group wishes to sustain
- Inform the standards set out in our Risk Management Approach and other parts of the RMF

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Risk Management Approach

Risk management refers to the set of end-to-end activities through which risk-taking decisions are made and the risk-reward profile of the organisation is controlled and optimised. It is a bank-wide activity and starts right at the front line

Our approach to risk management:

1. **Plan** – Set risk appetite in line with strategic objectives
2. **Inform** – Identify, measure and monitor all material risk
3. **Control** – Set parameters to keep our risk profile within risk appetite
4. **Originate** – Structure and document transactions
5. **Optimise** – Balance risk and return (and risk vs. cost of control) to best effect
6. **Communicate** – Influence, interpret and demonstrate compliance with external stakeholder requirements relating to risk management

- Within each of these inter-dependent process categories the Group maintains standards which collectively constitute the Group's risk management approach

Standard
Chartered



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Risk Types

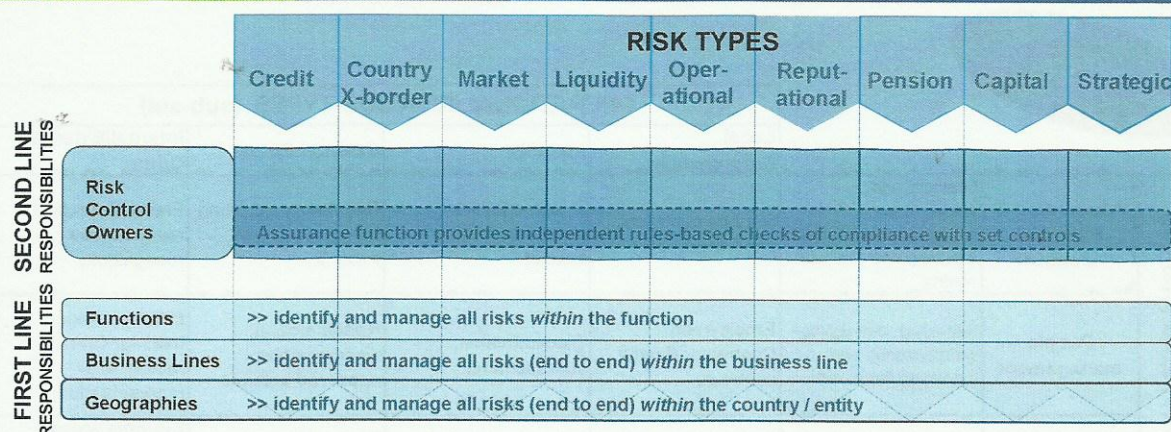
Risk Types & definitions
CREDIT - Potential for loss due to failure of counterparty to meet its obligations to pay the Group in accordance with agreed terms
COUNTRY CROSS BORDER - Potential for loss due to the inability to obtain payment from customers / third parties on their contractual obligations, as a result of certain actions taken by foreign governments, chiefly relating to convertibility and transferability of foreign currency
MARKET - Potential for loss due to changes in the value of financial instruments, resulting from a movement in rates or market prices
PENSION - Potential for loss due to having to meet an actuarially assessed shortfall in the Group's pension schemes
OPERATIONAL - Potential for loss arising from the failure of people, process or technology or the impact of external events
LIQUIDITY - Potential for the Group to have insufficient liquid financial resources to meet its payment obligations when they fall due or that it can secure them only at excessive cost
CAPITAL - Potential for actual or opportunity loss from sub-optimal allocation of capital or increase in cost of capital
STRATEGIC - Potential for opportunity loss from failure to optimise the earnings potential of the Group's franchise
REPUTATIONAL - Potential for damage to the franchise, resulting in loss of earnings or adverse impact on market capitalisation as a result of stakeholders taking a negative view of the organisation or its actions

Operational Risk sub-types
EXTERNAL RULES & REGULATIONS - Potential for actual or opportunity loss due to failure to comply with laws or regulations, or as a result of changes in laws or regulations or in their interpretation or application
LIABILITY - Potential for loss or sanction due to a legal claim against any part of the Group or individuals within the Group
LEGAL ENFORCEABILITY - Potential for loss due to failure to protect legally the Group's interests or from difficulty in enforcing the Group's rights
DAMAGE TO ASSETS - Potential for loss or damage to physical assets and other property from natural disaster and other events
SAFETY & SECURITY - Potential for loss or damage to health or safety of staff, customers or third parties arising from internal failures or the effects of external events
INTERNAL CRIME OR DISHONESTY - Potential for loss due to action by staff which is intended to defraud, misappropriate property or to circumvent the law or company policy
EXTERNAL FINANCIAL CRIME - Potential for loss due to criminal acts by external parties such as fraud, theft and other criminal activity
PROCESSING FAILURE - Potential for loss due to failure of an established process or to a process design weakness
MODEL - Potential for loss due to a significant discrepancy between the output of risk measurement models and actual experience

Three Lines of Defence

Three Lines of Defence

Risk Types



- **First Line of Defence** is that all employees ensure the effective management of all risks within the scope of their direct organisational responsibilities
 - **Second Line of Defence** comprises *Risk Control Owners*, supported by their respective control functions and the Assurance function; they ensure that the residual risks within their *Risk Control Area* remain within appetite
- Note: Operational Risk comprises several *Risk Control Owners* based on areas of specialist activity; Operational Risk function has overall responsibility
- **Third Line of Defence** is the independent assurance provided by Group Internal Audit of the effectiveness of the First and Second Lines of Defence

Roles & Responsibilities - 3 Lines of Defence

First Line of Defence	Second Line of Defence
Scope: Direct functional / biz responsibility <ul style="list-style-type: none"> Ensure all material risks are identified, assessed, mitigated, monitored and reported Ensure all applicable policies, procedures, limits and other risk control requirements are implemented and complied with Propose control enhancements to ensure that any known risks are controlled within acceptable boundaries and to consistent standards Identify for the consideration of Risk Control Owners, activities that should be a focus for independent assurance Align business (or functional) strategy with risk appetite and seek to optimise the risk-return profile of the business Set the right tone for the risk management culture of the team in internal communication and performance objectives 	Scope: Specific Risk Control Area (risk type) <ul style="list-style-type: none"> Identify and report key risks material to Group Maintain a good understanding of applicable laws and regulations Define and maintain controls and mitigants for exposures material to the Group Define key control standards and key control self assessment requirements as appropriate Ensure effective communication of policies and other control requirements Assure compliance with and effectiveness of the risk control environment Monitor 'live' risk issues and events material to Group and ensure appropriate management action is being taken to mitigate their impact Advise governance bodies on key risks, the effectiveness of mitigants and controls, and alignment of residual risks with appetite

- Second Line responsibilities are additional to any First Line responsibilities that the *Risk Control Owner* may have as a function manager
- The application of laws, regulations, rules and other codes of practice are the responsibility (in the Second Line) of the *Risk Control Owner* within whose scope of activities they apply

Operational Risk Control Areas

ILLUSTRATIVE

ILLUSTRATION

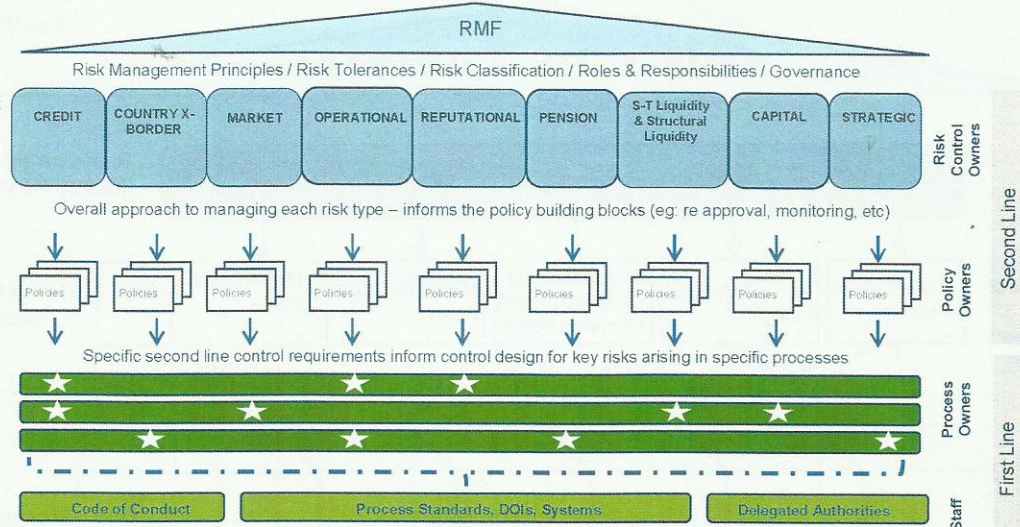
		OPERATIONAL RISK SUB-TYPES (sub-set)				
		Legal Enforceability	Liability	External Rules	Internal/External Crime	
RISK CONTROL AREAS (sub-set)	Accounting & Financial Control	Financial and management accounting, associated reporting and financial control	Service contracts; price feeds; etc	Process failure >> client / investor lawsuit	Regulatory reporting; Large exposures; Pillar 3	Fraud; Dishonest revenue/loss recognition;
	People management	Recruiting, developing, compensating and managing employees	Employment Contracts; Payroll contracts	Discrimination; Harrassment;	Remuneration; discrimination; approved persons	Bribery; Insider dealing; Criminal record; Misrepresentation; ...
	Technology management	Developing, maintaining and using information technology	System Licensing; Support; Outsourcing; SLAs;	Process failure >> client lawsuit	Data protection; Data quality; Record retention	Systems access security; Denial of service attacks; Viruses
	Property management	Managing property assets, projects and facilities.	Leases; service contracts; etc	Lawsuit from customers / employees / others	Health & safety laws	Access security;

- Operational Risk Control Owners must identify and ensure adequate controls for all types of operational risk exposure arising from the activities for which they are responsible, wherever they arise across the Group

Three Lines of Defence

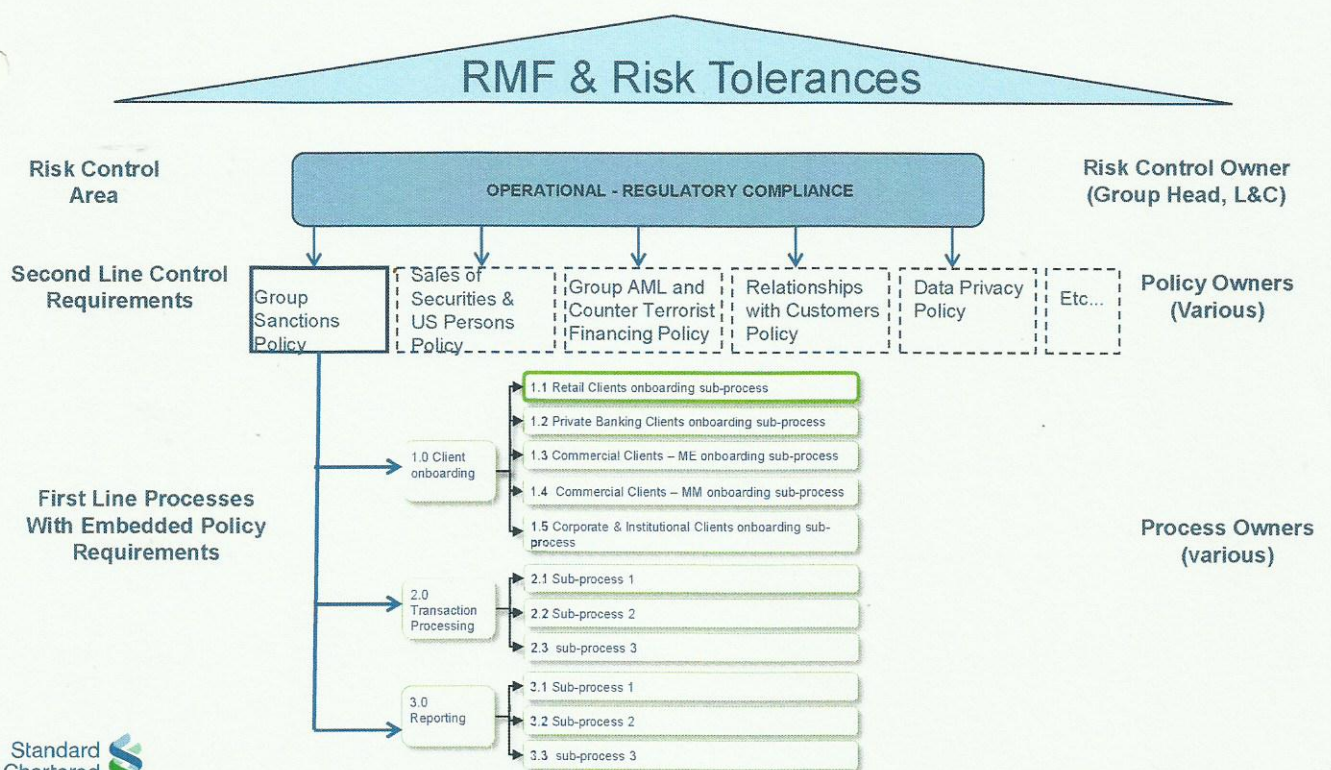
Roles and Responsibilities

Conduct – systems and controls

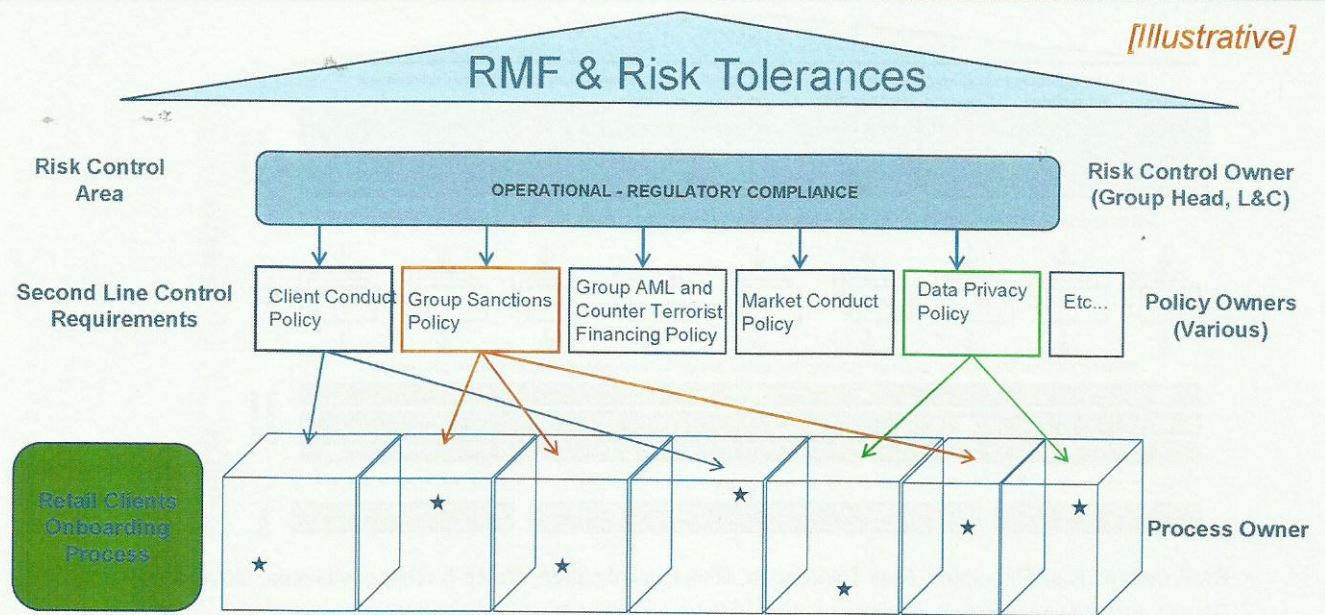


- RMF defines Risk Principles, Risk Tolerances, Risk Classification, Roles & Responsibilities, Governance
- Risk Control Owners define overall approach to management & control of each risk type
- Policy Owners define specific second line control requirements for key risks
- Process Owners (First Line) design & operate processes that embed those policy control requirements
- Staff simply follow the standard procedures applicable to their role and Group Code of Conduct
- ORF helps Policy Owners and Process Owners obtain assurance that process-level controls are effective

Policy Requirements embedded in specific Processes - illustrative



Process Design incorporates multiple Policy Requirements - illustrative



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