HSBC Bank plc – Johannesburg Branch

Semi - Annual Pillar 3 Disclosure

30 June 2016

HSBC

Public

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Capital management and risk disclosure 30 June 2016

HSBC Bank plc publishes comprehensive Pillar 3 disclosures annually on the HSBC internet site www.hsbc.com, simultaneously with the release of the Annual Report and Accounts. The following document should be read in conjunction with the HSBC Bank plc Pillar 3 Disclosures for the period ended 30 June 2016 and the HSBC Bank plc – Johannesburg Branch ("Branch") Annual Financial statements for the year ended 31 December 2015. (http://www.hsbc.com/investor-relations/financial-and-regulatory-reports)

1. Scope of application

The Branch's immediate holding company is HSBC Bank plc and its ultimate holding company is HSBC Holdings plc, which is incorporated in the United Kingdom with limited liability.

2. Financial performance

Statement of Financial Position	***At 30 June 2016*** **ZAR 000's**
Assets	
Cash and balances with central bank	887 343
Short term negotiable securities	17 656 968
Loans and advances to customers	30 882 194
Gross loans and advances	30 895 774
Less: credit impairments	-13 580
Investment and trading securities	1 027 946
Derivative financial instruments	1 966 637
Property and equipment	8 973
Deferred income tax assets	49 687
Other assets	522 629
Total assets	**53 002 377**
Liabilities and equities	
Deposits, current accounts and other creditors	45 997 010
Derivative financial instruments and other trading liabilities	1 849 722
Current income tax liabilities	3 288
Provisions	22 995
Other liabilities	708 304
Total liabilities	**45 581 319**
Total equity attributable to equity holders	4 421 058
Total equity	**4 421 058**
Total equity and liabilities	**53 002 377**

2. Financial performance (Continued)

Statement of Financial Position	***At 30 June 2016*** **ZAR 000's**
Interest and similar income	1 599 770
Interest expense and similar charges	-1 298 996
Net interest income	**300 774**
Fee and commission income	414 437
Fee and commission expense	-184 184
Net fee and commission income	**230 253**
Net trading income	268 180
Other gains less losses	0
Other operating income	53 147
Non Interest revenue	**551 580**
Gross operating income	**852 354**
Credit losses	715
Operating expenses	-192 613
Operating profit before non-trading and capital items	**660 456**
Direct taxation	-184 739
Profit for the year	**475 717**

3. Financial position

3.1. Risk measurement and management

The Executive Committee (EXCO) is ultimately responsible for the governance of risk and capital within the Branch. In discharging this duty, it is supported by key management committees (i.e. Risk Management Committee (RMC) and Asset and Liability Management Committee (ALCO)) which are responsible for overseeing the processes, strategies and systems for managing risk and ensuring that capital is adequate to support the Branch's scale, complexity and strategic objectives.

The Branch's risk governance framework follows that of the Group. The Groups' framework is described on page 103 of the HSBC Holdings plc Annual Report and Accounts 2015. The Group's risk management and measurement is further disclosed in the HSBC Holdings plc Capital and Risk Management Pillar 3 Disclosures at 31 December 2015. It details the Group's strategies and processes; the scope and nature of its risk reporting and risk management systems.

All risks impacting the Branch are monitored in the monthly Risk Management Committee, including:

- Accounting
- Tax
- Financial management
- Asset, Liability & Capital Management
- Wholesale Credit and Market Risk
- Legal
- Conduct
- Reputational
- Strategic
- Contingency Risk
- People
- Sustainability
- Systems
- Projects
- Operations
- Information Security
- Compliance
- Fiduciary
- Political Risk
- Security and Fraud

3. Financial position (Continued)

3.1. Risk measurement and management

Risk Management is aligned with the Group Framework.

The following table presents the governance structure of the Branch in 2016:

The Executive Committee (EXCO)		
Risk Management Meeting (RMM)	Asset and Liability Management Committee (ALCO)	Financial Crime Compliance and Regulatory Compliance (FCC and RC)

3.2 Capital adequacy and capital structure

The following represents the capital structure, the risk weighted assets and the capital ratios for the Branch:

	At 30 June 2016 **ZAR 000's**
Endowment capital	1 420 025
Retained Earnings	3 011 526
Other Comprehensive Income	-10 493
Regulatory adjustments	-
Common Equity Tier 1 Capital	**4 421 058**
Tier 2 capital and provisions	13 580
Total Qualifying Capital and Reserves	**4 434 638**
Credit Risk	18 776 263
Operational Risk	2 192 089
Market Risk	820 050
Other Risk	655 820
Total Risk Weighted Assets	**22 444 222**
Common Tier 1	**19.70%**
Total Capital Ratio	**19.76%**

3. Financial position (Continued)

3.3 Assessing adequacy of capital

The Branch with the parent company's assistance assesses the adequacy of its capital by considering the resources necessary to cover unexpected losses arising from risks, being those which it chooses to accept (such as credit risk and market risk), and risks by which arise by virtue of its operations (such as operational risk). The Branch's capital management and policy is underpinned by the Group's capital management framework. The capital management framework and related policies define the Internal Capital Adequacy Assessment Process ('ICAAP').

This ensures that the Branch's level of capital:
- remains sufficient to support the Branch's risk profile and outstanding commitments;
- exceeds the Branch's minimum regulatory capital requirements by an appropriate buffer;
- is capable of withstanding a severe economic downturn stress scenario; and
- remains consistent with the Branch's strategic and operational goals, and Group's expectations.

Risks not explicitly assessed via capital:
- Liquidity ; and
- Interest rate risk in the banking book.

3.4 Reconciliation between qualifying capital, reserve funds, accounting equity and reserves

The following represents the reconciliation between qualifying capital, reserve funds, accounting equity and reserves:

	At 30 June 2016 **ZAR 000's**	
	Accounting Balance sheet	**Regulatory disclosure**
Share capital and premium	1 420 025	1 420 025
Retained earnings	3 011 526	3 011 526
Other reserve funds	-10 493	-10 493
Unrealised gains and losses on available for sale	-10 493	-10 493
General allowance for credit impairments	13 580	13 580

3.5 Nature and extent of risk exposures

Credit Risk

All credit portfolios are measured on the standardised approach. Credit risk is the risk of financial loss if a customer or counterparty fails to meet a contractual payment obligation under contract. It arises principally from direct lending and trade finance, but also from off-balance sheet products such as counterparty risk guarantees and from the Branch's holdings of debt securities. Credit risk generates the largest regulatory capital requirement in the Branch.

Credit risk is part of the Global Risk function in HSBC. Across the Group, Credit risk fulfils the role of an independent credit control unit while engaging with the business to set priorities, define risk appetite and monitor and report high risk exposures. The Credit risk function locally is supported by the Group Credit

3. Financial position (Continued)

3.5 Nature and extent of risk exposures (continued)

Risk function within Regional centres. Its responsibilities include: formulating policy, guiding operating companies on credit appetite, independent reviews, monitoring performance of portfolios across the group, maintaining and developing HSBC's risk rating framework and systems.

The Branch is responsible for implementing credit policies procedures and lending guidelines to meet local requirements while conforming to Group standards.

The Branch takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Impairment allowances are provided for losses that have been incurred at the reporting date. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration in the Branch's portfolio, could result in losses that are different from those provided for at the statement of reporting date. Management therefore carefully manages its exposure to credit risk.

The Branch structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk by product, industry sector and by country are approved quarterly by the RMC.

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on- and off-statement of financial position exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily. Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and guarantees.

The minimum regulatory credit risk capital requirements, the related risk weighted assets, and related exposures as at 30 June 2016 per sector:

	At 30 June 2016 ZAR 000's			
	Exposure at Default	**Gross Credit Exposure**	**Risk Weighted assets**	**Regulatory capital requirements**
Corporate	28 076 738	30 551 098	13 268 213	1 476 089
Public sector entities	376 066	376 066	372 033	41 389
Sovereign	18 833 866	20 249 262	84 884	9 443
Bank	24 189 108	29 859 189	5 051 133	561 939
Total	**71 475 778**	**81 035 616**	**18 776 263**	**2 088 860**

3. Financial position (Continued)

3.5 Nature and extent of risk exposures (continued)

The residual maturity analysis by gross balance sheet exposure by category of exposure class:

	At 30 June 2016 ZAR 000's			
	Less than 1 year	**1 - 5 years**	**5-10 years**	**Total**
Bank	28 644 402	1 214 792	-	**29 859 194**
Corporate	24 584 649	5 966 444	-	**30 551 093**
Sovereign	19 321 361	927 902	-	**20 249 263**
Public sector entities	376 066	-	-	**376 066**
Total	**72 926 478**	**8 109 138**	**-**	**81 035 616**

Industry breakdown of credit risk exposures:

Industry	*At 30 June 2016* ZAR 000's
Agriculture, hunting, forestry and fishing	630 771
Mining and quarrying	2 364 623
Manufacturing	6 309 420
Electricity, gas and water supply	2 581 809
Construction	2 594 023
Wholesale and retail trade, repair of specified items, hotels and restaurants	6 786 922
Transport, storage and communication	658 053
Financial intermediation and insurance	57 359 200
Real estate	449 996
Business services	1 209 215
Community, social and personal services	84 984
Other	6 599
Total	**81 035 616**

Average gross credit exposure for the 2016 year:

	At 30 June 2016 ZAR 000's
Corporate	30 802 092
Public sector entities	708 449
Sovereign	18 983 402
Bank	32 961 679
Total	**83 455 622**

3. Financial position (Continued)

3.5 Nature and extent of risk exposures (continued)

Past due and impairments

The following table discloses the allowances for specific and collective impairment losses on loans and advances in ZAR thousands:

	Specific impairments	Collective impairments
Opening balance	-	13 580
Credit impairments raised	-	-
Closing balance	-	**13 580**

Impaired Loans:	**284 252**

Past due but not impaired gross financial instruments are those loans where, although customers have failed to make payments in accordance with the contractual terms of their facilities, they have not met the impaired loan criteria described below.

Impaired loans and advances are those that meet any of the following criteria:

- wholesale loans and advances classified as Customer Risk Rating ('CRR') 9 or CRR 10. These grades are assigned when the Branch or HSBC considers that either the customer is unlikely to pay their credit obligations in full, without recourse to security, or when the customer is more than 90 days past due on any material credit obligation to HSBC.

- renegotiated loans and advances that have been subject to a change in contractual cash flows as a result of a concession which the lender would not otherwise consider, and where it is probable that without the concession the borrower would be unable to meet the contractual payment obligations in full, unless the concession is insignificant and there are no other indicators of impairment. Renegotiated loans remain classified as impaired until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, and there are no other indicators of impairment.

Loan impairment approach

Losses for impaired loans are recognised promptly when there is objective evidence that impairment of a loan or portfolio of loans has occurred. Impairment losses are calculated on individual loans and on loans assessed collectively. Losses expected from future events, no matter how likely, are not recognised. Reversals of impairment are recognised as income in the profit or loss. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. No assessment of impairment is performed for financial assets at fair value through profit or loss.

3. Financial position (Continued)

3.5 Nature and extent of risk exposures (continued)

Individually assessed loans

Impairment losses are calculated by discounting the expected future cash flows of a loan at its original effective interest rate, and comparing the resultant present value with the loan's current carrying amount. Any loss is recognised in profit or loss. The carrying amount of impaired loans on the statement of financial position is reduced through the use of an allowance account.

The recoverable amount of originated loans and advances identified as impaired is calculated as the present value of the expected future cash flows, discounted at each instrument's original effective interest rate. Short-term balances are not discounted. Loans and advances are presented net of credit impairment write-downs. Specific impairments are made against the carrying amount of loans and advances that are identified as being impaired based on regular reviews of outstanding balances to reduce these loans and advances to their recoverable amounts. If management determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The expected cash flows for portfolios of similar assets are estimated based on historic experience and taking into account the credit rating of the underlying customers and late payments of interest or penalties. Impairments and reversals of impairment write-downs are recognised in the profit or loss.

The Branch's approach for determining impairment allowances is consistent with the Parent and Group company and is explained on page 348 of the Annual Report and Accounts 2015, and the Group's definitions for accounting purposes of 'past due' and 'impaired' is set out on pages 125 to 201.

Recognition of risk mitigation under the standardised approach

Where credit risk mitigation is available in the form of an eligible guarantee and non-financial collateral, the exposure is divided into covered and uncovered portions. The covered portion, which is determined after applying an appropriate 'haircut' for currency and maturity mismatch to the amount of the protection provided, attracts the risk weight of the protection provider. The uncovered portion attracts the risk weight of the obligor.

Valuation strategies are established to monitor collateral mitigants to ensure that they will continue to provide the anticipated secure secondary repayment source. Where collateral is subject to high volatility, valuation is frequent; where stable, less so.

The Branch's approach for policies and processes relating to valuation and management of collateral is disclosed on page 68 of the HSBC Holdings plc Capital and Risk Management Pillar 3 Disclosures.

The main types of collateral accepted by the Branch are:
- cash collateral, and
- guarantees.

3. Financial position (Continued)

3.5 Nature and extent of risk exposures (continued)

Credit Risk Mitigation

The disclosures set out in the tables below include financial assets and financial liabilities that:

- are offset in the statement of financial position; or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

The similar agreements include derivative clearing agreements, global master repurchase agreements, and global master securities lending agreements. Similar financial instruments include derivatives, sales and repurchase agreements, reverse sale and repurchase agreements, and securities borrowing and lending agreements. Financial instruments such as loans and deposits are not disclosed in the tables below unless they are offset in the statement of financial position.

The ISDA and similar master netting arrangements do not meet the criteria for offsetting in the statement of financial position. This is because they create for the parties to the agreement a right of set-off of recognised amounts that is enforceable only following an event of default, insolvency or bankruptcy of the Group or the counterparties or following other predetermined events. In addition, the Group and its counterparties do not intend to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

HSBC receives and gives collateral in the form of cash and marketable securities in respect of the following transactions:

- derivatives; and
- sale and repurchase, and reverse sale and repurchase agreements.

Such collateral is subject to standard industry terms including, when appropriate, an ISDA Credit Support Annex. This means that securities received/given as collateral can be pledged or sold during the term of the transaction but have to be returned on maturity of the transaction. The terms also give each party the right to terminate the related transactions on the counterparty's failure to post collateral.

The Branch's approach for policies and processes is consistent with the Group and those relating to on- and off-balance sheet netting is disclosed on page 74 of the HSBC Holdings plc Capital and Risk Management Pillar 3 Disclosures.

Branch's total exposures after netting of Credit Risk Mitigation (CRM):

	At 30 June 2016 **ZAR 000's**	
	Total credit exposure pre CRM	**Credit exposure post CRM**
Corporate	30 551 098	28 076 738
Public sector entities	376 066	376 066
Sovereign	20 249 262	18 833 866
Bank	29 859 189	24 189 108
Total	**81 035 616**	**71 475 778**

3. Financial position (Continued)

3.5 Nature and extent of risk exposures (continued)

Market Risk

The Branch uses the standardised approach to assess its regulatory and internal capital requirements for market risk. The Market Risk capital requirement for the Branch and the related risk weighted assets is:

	At 30 June 2016 ZAR 000's	
	Regulatory capital requirement	**Risk weighted assets**
Market risk (Banking book)	79 955	820 050

Regulatory capital requirement is broken down as follows:

Interest rate risk	55 837
Foreign exchange risk	9 767
Systemic risk add-on (pillar 2a) market risk requirement	14 351
Total	**79 955**

Operational Risk

The Branch uses the standardised approach to assess its regulatory and internal capital requirements for Operational Risk. The table below details the Operational Risk capital requirement for the Branch in ZAR:

	At 30 June 2016 ZAR 000's	
	Regulatory capital requirement	**Risk weighted assets**
Operational risk	213 729	2 192 089

3. Financial position (Continued)

3.5 Nature and extent of risk exposures (continued)

Interest Rate Risk (Banking Book)

Interest rate risk in the banking book ('IRRBB') is defined as the exposure of our non-trading products to interest rates. Interest rate risk in non-trading portfolios arises principally from mismatches between the future yield on assets and their funding cost, as a result of interest rate changes. The prospective change in future net interest income from non-trading portfolios will be reflected in the current realisable value of these positions, should they be sold or closed prior to maturity. In order to manage this risk optimally, market risk in non-trading portfolios is transferred to Markets under the supervision of ALCO. Interest-rate risk is measured on a daily basis against group approved limits.

The transfer of market risk to books managed by Global Markets is usually achieved by a series of internal deals between the business units and these books. When the behavioural characteristics of a product differ from its contractual characteristics, the behavioural characteristics are assessed to determine the true underlying interest rate risk. ALCO is required to regularly monitor all such behavioural assumptions and interest rate risk positions, to ensure they comply with interest rate risk limits established by the Region.

	At 30 June 2016 **ZAR 000's**
Change in economic value of equity	
Interest rate increase	-183 277
Interest rate decrease	183 277
Impact on Net Interest Income	
Impact of adverse change in specified key rates	-7 038

4. Remuneration

The Branch follows the approach adopted by the HSBC Group. The principle purpose of HBSC Group's remuneration strategy is to reward competitively the achievement of long-term sustainable performance and attract and motivate the very best people who are committed to maintaining a long-term career with the Group and performing their role in the long-term interests of the shareholders.

A global reward strategy for the HSBC Group was approved by the Group Remuneration Committee. This strategy provided a reward framework for the HSBC Group which the Branch follows. Key principles of the remuneration strategy are:

- Assess performance and values-aligned behaviour with reference to clear and relevant objectives set within a balanced scorecard framework;

- Under this framework, objectives are set under four categories – financial, process (including risk mitigation), customer and people. Significant importance is given to the achievement of efficiency and risk objectives as well as financial objectives; and

- Objectives relating to customer development and the productivity of our human capital are key to sustained financial performance and the development of the Branch and HSBC Group over the short and medium term.

As a wholly owned subsidiary, HSBC Bank plc and its branches are subject to the remuneration policy established by the Group. Details of the Group's remuneration policy, including details on the Remuneration Committee membership and its activities, the remuneration strategy and tables showing the remuneration details of HSBC's Identified Staff and Material Risk Takers may be found in the Remuneration Policy on the website **(http://www.hsbc.com/investor-relations/governance)** and in the Directors' Remuneration Report on pages 285 - 321 of the HSBC Holdings plc Annual Report and Accounts 2015.

The Branch does not have its own remuneration committee. The Group considers South Africa in its deliberation via the Functions and Lines of Business. As a result the Branch does not have its own remuneration pool on an entity approved basis but rather at a Function and Lines of Business. Each Function and Line of Business is separately assessed at the group level, this includes the Risk Function.

Other salient information on remuneration, there are no significant changes from 2015:

At 30 June 2016
ZAR 000's

	Guaranteed bonus award during the financial year	Severance payment during the financial year	Outstanding deferred remuneration: Phantom shares	Remuneration paid: Fixed and variable remuneration	Remuneration paid: Deferred remuneration	Remuneration paid: Prescribed Officer
2015	470	-	6522	174 453	61 432	31 679

Of the amounts paid to individuals' holding a prescribed office, R 7 618 509 were Material Risk Takers as defined in the Group Policy.

Key management have not transacted with the Branch during the year under review, except for the remuneration as indicated above.