HSBC Bank plc – Johannesburg Branch

Pillar 3 Annual Disclosure

December 2017

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Regulatory framework for disclosures

HSBC Bank plc – Johannesburg Branch ('HSBC JOH') is supervised by the South African Reserve Bank, which receives information on the capital adequacy of, and sets capital requirements for South African banks. The capital requirements are calculated based on the various regulations relating to financial services, including Basel Capital Accord (Basel) III The Basel Committee's framework is structured around three 'pillars': the Pillar 1 minimum capital requirements and Pillar 2 supervisory review process are complemented by Pillar 3 market discipline. The aim of Pillar 3 is to produce disclosures that allow market participants to assess the scope of application by banks of the Basel Committee's framework and the rules in their jurisdiction, their capital condition, risk exposures and risk management processes, and hence their capital adequacy. Pillar 3 requires all material risks to be disclosed, enabling a comprehensive view of a bank's risk profile.

Pillar 3 disclosures

HSBC JOH's 2017 Pillar 3 disclosure comprises all information required under Pillar 3, both quantitative and qualitative. HSBC Bank plc publishes comprehensive Pillar 3 disclosures annually on the HSBC website www.hsbc.com, simultaneously with the release of the Annual Report and Accounts. Pillar 3 requirements may be met by inclusion in other disclosure media. Where we adopt this approach, references are provided to the relevant pages of the Annual Report and Accounts or other location.

Report oversight

HSBC JOH's Executive committee ('EXCO') has the responsibility for the oversight of risk for HSBC JOH. As at 31 December 2017, EXCO is satisfied that:

· HSBC JOH's risk, compliance, treasury and capital management generally operated effectively;

· HSBC JOH's business activities have been managed within the EXCO-approved risk appetite;

· HSBC JOH's is adequately funded and capitalised to support the execution of its strategy.

During 2016, EXCO approved the disclosure policy, which had been updated to incorporate the revised pillar 3 disclosure requirements set out by the Basel Committee on Banking Supervision (BCBS). The policy remains unchanged for the 2017 period.

The EXCO is satisfied that this report has been prepared in accordance with the requirements of the disclosure policy and that an appropriate control framework has been applied in the preparation of this report.

Financial performance and financial accounting reconciliation to regulatory scope

Summarised statement of comprehensive income for the period ending December:

	2017 ZARbn
Net interest income	0.80
Trading revenue and fee income	0.67
Gross operating income	1.47
Credit impairment (raised) released	-
Operating expenses	-0.47
Net profit before taxation	1.00
Taxation	-0.29
Net profit after taxation	0.71

Statement of financial position as at December:

	2017 ZARbn
Cash and cash equivalents	1.31
Trading assets	2.37
Loans and advances to banks	8.14
Loans and advances to customers	11.59
Balances with group companies	6.34
Investment securities	17.10
Property, plant and equipment	0.01
Other assets	0.40
Defferred tax asset	0.06
Total assets	47.68
Trading liabilities	2.61
Deposits from banks	1.35
Deposits from customers	30.81
Balances with group companies	6.63
Current tax liabilities	0.00
Other liabilities	0.61
Provision	0.18
Total liabilities	42.19
Branch capital	1.42
Fair value reserve (Available-for-sale financial assets)	-0.02
Retained earnings	4.09
Taxation	5.49
Net profit after taxation	47.68

HSBC

Risk management framework

HSBC JOH follows the Group enterprise-wide risk management framework which is used across the organisation and across all risk types. It is underpinned by the risk culture and is reinforced by HSBC Values and Global Standards programme.

The framework fosters continuous monitoring of the risk environment, and an integrated evaluation of risks and their interactions. It also ensures there is a consistent approach to monitoring, managing and mitigating the risks that is accepted and incur in the activities. Further information on the risk management framework is set out on page 20 of the HSBC plc Annual Report and Accounts 2017. The management and mitigation of principal risks facing the Group is described in the top and emerging risks on page 20 of the HSBC plc Annual Report and Accounts 2017.

Risk culture

HSBC has long recognised the importance of a strong risk culture, the fostering of which is a key responsibility of senior executives. HSBC's risk culture is reinforced by HSBC values and the global standards programme. It is instrumental in aligning the behaviours of individuals with the attitude of assuming and managing risk, which helps to ensure that the risk profile remains in line with HSBC's risk appetite.

HSBC's risk culture is further reinforced by the approach to remuneration. Individual awards, including those for local senior executives, are based on compliance with HSBC values and the achievement of financial and non-financial objectives that are aligned to HSBC's risk appetite and strategy.

Further information on risk and remuneration is set out on page 139, 141-158 of the HSBC Holdings Annual Report and Accounts 2017.

Risk governance

EXCO has the ultimate responsibility for the effective management of risk and approves HSBC JOH's risk appetite. EXCO is HSBC JOH's most senior executive forum. HSBC Bank plc has delegated collective responsibility for the management and day-to-day running of HSBC JOH to the EXCO. The EXCO members are accountable to HSBC Bank plc and are responsible for implementing the HSBC Group's strategy.

Executive accountability for the monitoring, assessment and management of risk resides with the Chief Risk Officer. The CRO is supported by the Risk Management Meeting ('RMM') and HSBC JOH's management team.

The management of financial crime risk resides with the Head of Financial Crime Compliance. The Head is supported by the Financial Crime Compliance Committee.

Day-to-day responsibility for risk management is delegated to senior managers with individual accountability for decision making. These managers are supported by global functions as described under 'Three lines of defence' (see page 23 and page 32 of the HSBC plc Annual Report and Accounts 2017).

HSBC JOH's risk governance structures ensures appropriate oversight and accountability of risk, which facilitates the reporting and escalation to the RMM (see page 23 of the HSBC plc Annual Report and Accounts 2017).

Risk appetite

Risk appetite is a key component of HSBC JOH's management of risk. It describes the aggregate level and risk types that the Bank is willing to accept in achieving the medium to long-term business objectives. Within HSBC JOH, risk appetite is managed through a risk appetite framework and articulated in a Risk Appetite Statement ('RAS'), which is approved by the EXCO.

The risk appetite informs HSBC JOH's strategic and financial planning process, defining the desired forward-looking risk profile. It is also integrated within other risk management tools, such as the top and emerging risks report and stress testing, to ensure consistency in risk management. This is consistent with the Group. Information on the Group' risk management tools (and consequently HSBC JOH) is set out on page 23 of the HSBC plc Annual Report and Accounts 2017. Details on the Group's overarching risk appetite are set out on page 23 of the Annual Report and Accounts 2017.

Stress testing

The extent of the stress-testing is commensurate with the size and complexity of HSBC JOH's business and the overall level of risk that it accepts. The EXCO and senior management ensures that a suitably robust infrastructure is in place to accommodate different and possibly changing stress tests at an appropriate level of granularity.

ALCO's responsibility:

· One of HSBC JOH's key Risk Weighted Assets ('RWA') drivers is the movement of foreign exchange ('FX') rates and its volatility. ALCO reviews various FX scenarios monthly assessing the impact on RWA and capital. In addition, it projects the capacity for additional Foreign Currency (FCY) exposure under a range of FX exchange rates;
· The FX stress testing facilitates the development of appropriate actions and plans for stressed conditions; and
· Liquidity Coverage Ratio (LCR) is the primary measure for managing liquidity risk. It facilitates stress testing of the liquidity of JOH and it is monitored monthly at ALCO.

RMM's responsibility:

· The Risk team periodically compiles industry reviews which include a review of the relevant credit portfolio to identify developing risks. Industry sector reviews and analysis of the clients in the portfolio is presented to the RMM with appropriate proposed actions where necessary;
· Constantly reviewing scenarios e.g. the impact of a sovereign downgrade;
· Appropriate actions are implemented to ensure that risk remains within acceptable levels; and
· Traded credit risk exposures are stressed on an on-going basis against several macro-economic scenarios.

Examining new products to identify potential risks is performed via the completion of a new product due diligence process, where each risk owner needs to sign off on the potential risk.

Further information on stress testing and details of the Group's regulatory stress test results are set out on page 24 of the HSBC plc Annual Report and Accounts 2017.

Risk function

HSBC JOH has a dedicated Risk function, headed by the Chief Risk Officer, which is responsible for the risk management framework. This includes implementing Group policy, monitoring risk profiles, and forward-looking risk identification and management. It is independent from the global businesses, including sales and trading functions, helping to ensure balance in risk/return decisions. The Risk function operates in line with the 'three lines of defence' model (see page 23 of the HSBC plc Annual Report and Accounts 2017). HSBC JOH follows this same approach.

Risk management and internal control systems

The EXCO is responsible for maintaining and reviewing the effectiveness of risk management and internal control systems, and for determining the aggregate level and risk types they are willing to accept in achieving the JOH's business objectives.

HSBC's key risk management and internal control procedures are described on page 20 of the HSBC plc Annual Report and Accounts 2017, where the Directors' Report on the effectiveness of internal controls can also be found.

Risk measurement and reporting systems

HSBC JOH's risk measurement and reporting systems are designed to help ensure that risks are comprehensively captured with all the attributes necessary to support well-founded decisions that those attributes are accurately assessed and that information is delivered in a timely manner for those risks to be successfully managed and mitigated. Risk measurement and reporting systems are also subject to a governance framework designed to ensure that their build and implementation are fit for purpose and functioning appropriately. Risk information systems development is a key responsibility of the Group Risk function, with local systems aligned accordingly.

A number of key initiatives and projects, to which HSBC JOH is a part of, enhances consistent data aggregation, reporting and management, and work towards meeting the Basel Committee data obligations are in progress. Group policy promotes the deployment of preferred technology where practicable. Group standards govern the procurement and operation of systems used to process risk information within business lines and risk functions. This is consistent with the approach of HSBC JOH.

Risk measurement and reporting structures deployed at Group level are applied throughout global businesses and major operating subsidiaries through a common operating model for integrated risk management and control. This model sets out the respective responsibilities of Group, global business, region and country level risk functions in respect of such matters as risk governance and oversight, compliance risks, approval authorities and lending guidelines, global and local scorecards, management information and reporting, and relations with third parties, including regulators, rating agencies and auditors.

Capital and RWAs

Capital management

HSBC JOH's objective in managing the Group's capital is to maintain appropriate levels of capital to support the business strategy and meet regulatory and stress testing related requirements.

HSBC JOH aims to maintain a strong capital base, to support the risks inherent in JOH's business and meeting local regulatory capital requirements at all times. HSBC JOH manages its own capital to support its planned business growth and meet its local regulatory requirements.

HSBC JOH's policy on capital management is underpinned by the Group's capital management framework and the internal capital adequacy assessment process, which enables HSBC JOH to manage its capital in a consistent manner. The framework incorporates a number of different capital measures that govern the management and allocation of capital within the Group.

These capital measures are defined as follows:

- Invested capital is the equity capital provided to the HSBC JOH by the Group;
- Economic capital is the internally calculated capital requirement that is deemed necessary by HSBC JOH to support the risks to which it is exposed; and
- Regulatory capital is the minimum level of capital that the HSBC JOH is required to hold in accordance with the rules established by the local regulators.

The following risks managed through the capital management framework have been identified as material: credit, counterparty credit, market, and operational risks. The main source of capital for HSBC JOH is capital invested by the Group and appropriated Retained Earnings.

For further details of our approach to capital management, please see page 56 of the HSBC plc Annual Report and Accounts 2017.

Pillar 1 minimum capital requirements and RWA flow

Pillar 1 covers the minimum capital resource requirements for credit risk, counterparty credit risk ('CCR'), equity, securitisation, market risk and operational risk. These requirements are expressed in terms of RWAs.

Annual overview

The Risk Weighted Assets increased by ZAR3.4bn year on year, the main drivers were higher reverse repo transactions with financial institutions and the related counterparty credit risk.

Total capital increased during the year by ZAR5.01bn, due to ZAR0.71bn of capital generated through profits.

Our leverage ratio was 9.58% at 31 December 2017.

OV1: Overview of RWA's	Dec-17 RWA ZARbn	Dec-16 RWA ZARbn	Dec-17 Capital Required ZARbn
1 Credit risk (excluding counterparty credit risk) (CCR)	17.57	15.02	1.89
2 Of which standardised approach (SA)	17.57	15.02	1.89
3 Of which internal rating-based (IRB) approach	-	-	-
4 Counterparty credit risk	2.46	1.68	0.26
5 Of which standardised approach for counterparty credit risk (SA-CCR)	2.46	1.68	0.26
6 Of which internal model method (IMM)	-	-	-
7 Equity positions in banking book under market-based approach	-	-	-
8 Equity investments in funds – look-through approach	-	-	-
9 Equity investments in funds – mandate-based approach	-	-	-
10 Equity investments in funds – fall-back approach	-	-	-
11 Settlement risk	-	-	-
12 Securitisation exposures in banking book	-	-	-
13 Of which IRB ratings-based approach (RBA)	-	-	-
14 Of which IRB Supervisory Formula Approach (SFA)	-	-	-
15 Of which SA/simplified supervisory formula approach (SSFA)	-	-	-
16 Market risk	0.40	0.52	0.04
17 Of which standardised approach (SA)	0.40	0.52	0.04
18 Of which internal model approaches (IMM)	-	-	-
19 Operational risk	3.01	2.79	0.33
20 Of which Basic Indicator Approach	-	-	-
21 Of which Standardised Approach	3.01	2.79	0.33
22 Of which Advanced Measurement Approach	-	-	-
23 Amounts below thresholds for deduction (subject to 250% risk weight)	0.15	0.16	0.02
24 Floor adjustment	-	-	-
25 Total	23.59	20.17	2.54

1 'Capital required' here and in all tables where the term is used, reprresents the Pillar 1 capital change at 0.75% of RWA's.

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Own funds

Own funds

	Capital Required ZARbn
Common equity tier 1 ('CET1') capital: instruments and reserves	
1 Capital instruments and the related share premium accounts	1.42
2 Retained earnings	3.60
3 Accumulated other comprehensive income (and other reserves)	-0.02
5 Minority interests (amount allowed in consolidated CET1)	
5a Independently reviewed interim net profits net of any foreseeable charge or dividend	-
6 Common equity tier 1 capital before regulatory adjustments	5.00
Common equity tier 1 capital: regulatory adjustments	-
7 Additional value adjustments	-
8 Intangible assets (net of related deferred tax liability)	-
10 Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-
11 Fair value reserves related to gains or losses on cash flow hedges	-
12 Negative amounts resulting from the calculation of expected loss amounts	-
14 Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-
15 Defined-benefit pension fund assets	-
16 Direct and indirect holdings of own CET1 instruments	-
19 Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions)	-
22 Amount exceeding the 15%/17.65% threshold	-
23 – direct and indirect holdings by the institution of the CET1 instruments of financial sector	
entities where the institution has a significant investment in those entities	-
25 – deferred tax assets arising from temporary differences	-
28 Total regulatory adjustments to Common equity tier 1	-
29 Common equity tier 1 capital	5.00
Additional tier 1 ('AT1') capital: instruments	-
30 Capital instruments and the related share premium accounts	-
31 – classified as equity under IFRSs	-
33 Amount of qualifying items and related share premium accounts subject to phase out from AT1	-
34 Qualifying tier 1 capital included in consolidated AT1 capital (including minority interests not included in CET1) issued by subsidiaries and held by third parties	-
35 – of which: instruments issued by subsidiaries subject to phase out	-
36 Additional tier 1 capital before regulatory adjustments	-
Additional tier 1 capital: regulatory adjustments	-
37 Direct and indirect holdings of own AT1 instruments	-

41b Residual amounts deducted from AT1 capital with regard to deduction from tier 2 ('T2') capital during the transitional period	-
– direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities	-
43 Total regulatory adjustments to additional tier 1 capital	-
44 Additional tier 1 capital	-
45 Tier 1 capital (T1 = CET1 + AT1)	5.00
Tier 2 capital: instruments and provisions	-
46 Capital instruments and the related share premium accounts	-
47 Amount of qualifying items and related share premium accounts subject to phase out from T2	-
48 Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in CET1 or AT1) issued by subsidiaries and held by third parties	-
49 – of which: instruments issued by subsidiaries subject to phase out	-
51 Tier 2 capital before regulatory adjustments	-
Tier 2 capital: regulatory adjustments	-
52 Direct and indirect holdings of own T2 instruments	-
55 Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions)	-
57 Total regulatory adjustments to tier 2 capital	0.01
58 Tier 2 capital	0.01
59 Total capital (TC = T1 + T2)	5.01
60 Total risk-weighted assets	23.59
Capital ratios and buffers	-
61 Common equity tier 1	21.16%
62 Tier 1	21.16%
63 Total capital	21.22%
64 Institution specific buffer requirement	1.25%
65 – capital conservation buffer requirement	0.00%
66 – counter cyclical buffer requirement	1.25%
67a – Global Systemically Important Institution ('G-SII') buffer	0.00%
68 Common equity tier 1 available to meet buffers	10.25%
National minima (if different from Basel III)	-
69 National CET I minimum ratio (if different from Basel III minimum) – excluding individual capital requirement (ICR) and	-
domestic systemically important banks (D-SIB)	-
70 National tier I minimum ratio (if different from Basel III minimum) – excluding ICR and D-SIB	-
71 National total capital minimum ratio (if different from Basel III minimum) – excluding ICR and D-SIB	-

Amounts below the threshold for deduction (before risk weighting)	-
72 Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	-
73 Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	-
75 Additional tier 1 capital	0.06
Applicable caps on the inclusion of provisions in tier 2	-
77 Cap on inclusion of credit risk adjustments in T2 under standardised approach	-
79 Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	-
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022)	-
82 Current cap on AT1 instruments subject to phase out arrangements	-
83 Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-
84 Current cap on T2 instruments subject to phase out arrangements	-
85 Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-

HSBC

Leverage ratio

Summary reconciliation of accounting assets and leverage ratio exposures	2017 ZARbn
1 Total assets as per published financial statements	47.68
Adjustments for:	
2 - entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	-
4 - derivative financial instruments	-
5 - securities financing transactions ('SFT')	-
6 - off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	3.95
7 - other	0.46
8 Total leverage ratio exposure	52.09

Leverage ratio common disclosure	2017 ZARbn
On-balance sheet exposures (excluding derivatives and SFT)	
1 On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	38.57
2 (Asset amounts deducted in determining tier 1 capital)	-
3 Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	38.57
Derivative exposures	-
4 Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	1.84
5 Add-on amounts for potential future exposure ('PFE') associated with all derivatives transactions (mark-to-market method)	0.42
6 Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to IFRSs	-
7 (Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-
8 (Exempted central counterparty ('CCP') leg of client-cleared trade exposures)	-
9 Adjusted effective notional amount of written credit derivatives	-
10 Adjusted effective notional offsets and add-on deductions for written credit derivatives	-
11 Total derivative exposures	2.26
Securities financing transaction exposures	
12 Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	7.31
13 (Netted amounts of cash payables and cash receivables of gross SFT assets)	-
14 Counterparty credit risk exposure for SFT assets	-
16 Total securities financing transaction exposures	7.31
Other off-balance sheet exposures	
17 Off-balance sheet exposures at gross notional amount	16.94
18 (Adjustments for conversion to credit equivalent amounts)	12.99
19 Total off-balance sheet exposures	3.95
Capital and total exposures	

Leverage ratio

20 Tier 1 capital	4.99
21 Total leverage ratio exposure	52.09
22 Leverage ratio	9.58

Mapping of financial statement with regulatory risk categories

Regulatory exposure classes are based on different criteria from accounting asset types and are therefore not comparable on a line by line basis. The following tables show in two steps how the accounting values in the regulatory balance sheet link to regulatory Exposure at Default ('EAD').

In a first step, LI1 below shows a breakdown of the accounting balances into the risk types that form the basis for regulatory capital requirements. LI 2 then shows the main differences between the accounting balances and regulatory exposures by regulatory risk type.

LI1: Mapping of financial statements categories with regulatory risk categories

	Carrying values of items:					
	1 Carrying values under scope of regulatory AFS consolidation	Subject to credit risk framework	2 Subject to CRR framework	Subject to the securitisation framework	Subject to the market risk framework	Subject to deduction from capital or not subject to regulatory capital requirements
	ZARbn	ZARbn	ZARbn	ZARbn	ZARbn	ZARbn
Assets						
Cash and cash equivalents	1.31	1.31	-	-	-	-
Trading assets	0.89	0.89	-	-	-	-
Derivative financial instruments	1.84	-	1.84	-	1.84	-
Loans and advances to banks	8.14	8.14	-	-	-	-
Loans and advances to customers	11.59	11.59	-	-	-	-
Reverse repurchase agreements and other similar secured lending	6.34	-	6.34	-	-	-
Investment securities	17.10	17.10	-	-	-	-
Current and deferred tax assets	0.06	0.06	-	-	-	0.06
Property and equipment	0.01	0.01	-	-	-	-
Other assets	0.40	0.40	-	-	-	-
Total assets at 31 Dec 2017	47.68	39.51	8.18	-	1.84	0.06

1 The amounts shown in the column 'Carrying values under scope of regulatory consolidation' do not equal the sum of the amounts shown in the remaining columns of this table for line items 'Derivatives' and 'Trading assets', as some of the assets included in these items are subject to regulatory capital charges for both CCR and market risk

2 The amounts shown in the column 'Subject to CCR framework' include both non-trading book and trading book.

HSBC

Linkages between financial statements and regulatory exposures

LI2: Main sources of differences between regulatory exposure values and carrying values in financial statements

	Items subject to:					
	Total	Subject to credit risk framework	Subject to CRR framework	Subject to the securitisation framework	Subject to the market risk framework	Subject to deduction from capital or not subject to regulatory capital requirements
Asset carrying value amount under scope of regulatory consolidation	47.34	39.17	8.18	-	1.84	0.06
– differences due to reversal of IFRS netting	-	-	-	-	-	-
– differences due to financial collateral on standardised approach	-	-	-	-	-	-
– differences due to modelling and standardised CCFs for credit risk and other differences	-	-	-	-	-	-
– differences due to credit risk mitigation and potential exposures for counterparty risk	-	-	-	-	-	-
– differences due to credit risk mitigation	-	-	-	-	-	-
– differences due to free deliveries and sundry balances	-	-	-	-	-	-
Exposure amounts considered for regulatory purposes	47.34	39.17	8.18	-	1.84	0.06

HSBC

Overview and responsibilities

Credit risk represents the largest regulatory capital requirement for HSBC JOH.

The principal objectives of the credit risk management function are:

· to maintain across HSBC, a strong culture of responsible lending and a robust credit risk policy and control framework;

· to both partner and challenge the businesses in defining, implementing and continually re-evaluating the credit risk appetite under actual and stress scenario conditions; and

· to ensure there is independent, expert scrutiny of credit risks, their costs and their mitigation.

The credit risk functions within wholesale credit and market risk are the constituent parts of Risk that support the Chief Risk Officer in overseeing credit risks. Their major duties comprise undertaking independent reviews of large and high-risk credit proposals, overseeing large exposure policy and reporting on wholesale credit risk management disciplines, owning the credit policy and credit systems programmes, overseeing portfolio management and reporting on risk matters to senior executive management and to regulators.

The Risk functions works closely with other parts of the business; for example, with operational risk on the internal control framework. In addition, they work jointly with Global Finance on stress testing and the risk appetite process.

The credit responsibilities of Global Risk are described on page 26 of the HSBC plc Annual Report and Accounts 2017.

Group-wide, the credit risk functions comprise a network of credit risk management offices reporting within regional risk functions. They fulfil an essential role as independent risk control units distinct from business line management in providing objective scrutiny of risk rating assessments, credit proposals for approval and other risk matters.

Credit risk operates through a hierarchy of personal delegated credit limit approval authorities. Such authorities are delegated to HSBC JOH's Chief Executive Officer, who in turn, delegates authority to the Chief Risk Officer and management teams on an individual basis. HSBC JOH is responsible for the quality and performance of its credit portfolios in accordance with Group standards. Above these thresholds of delegated personal credit limited approval authorities, approval must be sought from the regional and, as appropriate, global credit risk function.
Risk proposals in certain portfolios – sovereign obligors, banks, some non-bank financial institutions and intra-Group exposures – are approved centrally in Global Risk to facilitate efficient control and the reporting of regulatory large and cross-border exposures.

Credit risk management

Exposure to credit risk arises from a wide range of customer and product types, and the risk rating systems in place to measure and monitor these risks are correspondingly diverse. Senior management receives a variety of reports on credit risk exposures including loan impairments, total exposures and RWAs, as well as updates on specific portfolios that are considered to have heightened credit risk.

Credit risk exposures are generally measured and managed in portfolios of either customer types or product categories. Group risk rating systems are designed to assess the default propensity of, and loss severity associated with, distinct customers who are typically managed as individual relationships.

Rating systems for individually managed relationships typically use customer financial statements and market data analysis, but also qualitative elements and a final subjective overlay to better reflect any idiosyncratic elements of the customer's risk profile.

A fundamental principle of the policy and approach is that analytical risk rating systems and scorecards are all valuable tools at the disposal of management. The credit process provides for at least an annual review of facility limits granted. Review may be more frequent, as required by circumstances such as the emergence of adverse risk factors.

The Group constantly seeks to improve the quality of risk management. For central management and reporting purposes, Group IT systems to process credit risk data continue to be enhanced in order to deliver both comprehensive management information in support of business strategy and solutions to evolving regulatory reporting requirements. Group standards govern the process through which risk rating systems are initially developed, judged fit for purpose, approved and implemented. They also govern the conditions under which analytical risk model outcomes can be over-ridden by decision makers and the process of model performance monitoring and reporting. The emphasis is on an effective dialogue between business line and risk management, suitable independence of decision-takers, and a good understanding and robust challenge on the part of senior management.

Like other facets of risk management, analytical risk rating systems are not static and are subject to review and modification in light of the changing environment, the greater availability and quality of data and any deficiencies identified through internal and external regulatory review. Structured processes and metrics are in place to capture relevant data and feed this into continuous model improvement.

Credit risk models governance

Compliance with Group standards is subject to examination both by Risk oversight and review from within the Risk function itself, and by Internal Audit.

IFRS 9

IFRS 9 introduces new accounting concepts and measures such as significant credit deterioration and lifetime loss measurement. Existing stress testing and regulatory models, skills and expertise were harnessed and leveraged in order to meet the IFRS 9 requirements. Data from various clients, finance and risk systems and integrated and validated, as a result of IFRS 9 adoption, management has additional insight and measures not previously available which, over time, may influence our risk appetite and risk management processes.

Credit quality of assets

HSBC Group is a universal bank with a conservative approach to credit risk. This is reflected in the credit risk profile being diversified cross a number of asset classes and geographies with a credit quality profile mainly concentrated in the higher quality bands.

CR1: Credit quality of assets

	Gross carrying values of:			
	Defaulted exposures ZARbn	Non-defaulted exposures ZARbn	Allowances/Impairments ZARbn	Net values (a+b+c) ZARbn
1 Loans	-	27.12	0.00	27.11
2 Debt securities	-	17.14	-	17.14
3 Off-balance sheet exposures	-	16.91	-	16.91
4 Total	-	61.17	0.00	61.16

The impairment allowance of ZAR 13 million is a collective impairment raised on the manufacturing industry.

CR2: Defaulted loans and debt securities ments

	Exposure ZARbn
1 Defaulted loans and debt securities at end of the previous reporting period	-
2 Loans and debt securities that have defaulted since the last reporting period	-
3 Returned to non-defaulted status	-
4 Amounts written off	-
5 Other changes	-
6 Defaulted loans and debt securities at end of the reporting period	-

During the 2017 financial year no exposures defaulted. The impairment allowance is a collective impairment raised on the manufacturing industry.

Credit risk exposure

CRB: Credit risk exposure – by geographical region

Standardised approach	Exposure ZARbn	RWA ZARbn	Capital ZARbn
South Africa	52.09	14.90	1.60
Other African countries	1.72	1.41	0.15
Europe	10.34	1.61	0.17
Asia	0.42	0.29	0.03
North America	1.46	0.39	0.04
South America	0.02	0.01	-
Other	1.02	0.53	0.07
As at 31 December 2017	67.07	19.14	2.06

The exposure portfolio is concentrated in South Africa (76%) in line with the strategy to grow HSBC multi-national clients in country.

CRB: Credit risk exposure – by industry sector

Standardised approach	Exposure ZARbn	RWA ZARbn	Capital ZARbn
Agriculture, hunting, forestry and fishing	0.53	0.38	0.04
Mining and quarrying	2.01	1.01	0.11
Manufacturing	9.20	6.75	0.73
Electricity, gas and water supply	2.68	1.54	0.17
Construction	1.14	0.58	0.06
Wholesale and retail trade, repair of specified items, hotels and restaurants	3.52	1.42	0.15
Transport, storage and communication	0.55	0.10	0.01
Financial intermediation and insurance	45.40	6.47	0.70
Real estate	-	-	-
Business services	1.61	0.46	0.05
Community, social and personal services	0.05	0.05	0.01
Private households	-	-	-
Other	0.38	0.38	0.03
As at 31 Dec 2017	67.07	19.14	2.06

The exposure profile is concentrated in the financial intermediation sector accounting for 67% of EAD. The RWA composition shows that the highest RWA utilisation is in the manufacturing and financial intermediation sectors accounting for 35% and 34% respectively.

CRB: Credit risk exposure – by maturity

	Exposure value		
Standardised approach	Less than 1 year ZARbn	Between 1-5 years ZARbn	Total ZARbn
Corporate	20.09	7.19	27.28
Public sector entities	0.14	-	0.14
Sovereign (including central governments and central banks)	16.60	0.69	17.29
Banks	20.44	1.92	22.36
As at 31 Dec 2017	57.27	9.80	67.07

Past due but not impaired exposures, impaired exposures, renegotiated exposures and credit risk adjustments

The approach for determining impairment allowances is explained in Note 1.2(d) of the HSBC Bank plc Annual Report and Accounts 2017, and the Group's definitions for accounting purposes of 'past due', 'impaired' and 'renegotiated' are set out on pages 40, 41, 42, respectively. The accounting definition of impaired and the regulatory definition of default are generally aligned.

Under the accounting standards currently adopted by HSBC JOH, impairment allowances, value adjustments and credit-related provisions for off-balance sheet amounts are treated as specific Credit Risk Adjustments ('CRAs').

During the disclosure period, no advances where classified as past due.

No advances were specifically impaired and only a collective impairment of ZAR13m was raised on the manufacturing industry.

No loans were restructured during the reporting period.

The approach when granting credit facilities is to do so on the basis of capacity to repay, rather than placing primary reliance on credit risk mitigants. Depending on a customer's standing and the type of product, facilities may be provided unsecured. Mitigation of credit risk is a key aspect of effective risk management and takes many forms.

The general policy is to promote the use of credit risk mitigation, justified by commercial prudence and capital efficiency. Specifically, detailed policies cover the acceptability, structuring and terms with regard to the availability of credit risk mitigation; for example in the form of collateral security. These policies, together with the setting of suitable valuation parameters, are subject to regular review to ensure that they are supported by empirical evidence and continue to fulfil their intended purpose.

Collateral

The most common method of mitigating credit risk is to take collateral. In the commercial and industrial sectors, charges are created over business assets such as premises, stock and debtors.

In the ordinary course of lending activities, HSBC JOH holds collateral and guarantees as security to mitigate credit risk in the loans and advances portfolio however a zero security value is assigned for tangible security other than cash and share based loans. Internal scorecards and a parental support framework is used to establish credit ratings for all clients and guarantors. The rating is used for credit assessment and decision making.

In the institutional sector, trading facilities are supported by charges over financial instruments, such as cash, debt securities and equities. Financial collateral in the form of marketable securities is used in much of the Group's derivatives activities and in securities financing transactions, such as repos, reverse repos, securities lending and borrowing. Netting is used extensively and is a prominent feature of market standard documentation.

Policy and procedures

Policies and procedures govern the protection of HSBC JOH's position from the outset of a customer relationship; for instance, in requiring standard terms and conditions or specifically agreed documentation permitting the offset of credit balances against debt obligations, and through controls over the integrity, current valuation and, if necessary, realization of collateral security.

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. For market trading activities such as collateralized over-the-counter ('OTC') derivatives and SFTs, HSBC JOH typically carries out daily valuations.

Recognition of risk mitigation under the standardised approach

Where credit risk mitigation is available in the form of an eligible guarantee or 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 mismatches (and for omission of restructuring clauses for credit derivatives, where appropriate) 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. For exposures fully or partially covered by eligible financial collateral, the value of the exposure is adjusted under the financial collateral comprehensive method using supervisory volatility adjustments, including those arising from currency mismatch, which are determined by the specific type of collateral (and, in the case of eligible debt securities, their credit quality) and its liquidation period. The adjusted exposure value is subject to the risk weight of the obligor.

CRB: 4 Credit risk mitigation techniques– overview

	Exposures unsecured: carrying amount	Exposures secured by collateral	of which secured amount	Exposures secured by financial guarantees	of which secured amount	Exposures secured by credit derivatives	of which secured amount
	ZARbn	ZARbn	ZARbn	ZARbn	ZARbn	ZARbn	ZARbn
1 Loans	22.55	-	-	-	-	-	-
2 Debt Securities	17.14	-	-	-	-	-	-
3 Off-balance sheet exposures	16.91	-	0.07	-	-	-	-
4 Derivative instruments	2.26	-	-	-	-	-	-
5 Repurchase agreements	8.21	-	-	-	-	-	-
6 Total as at 31 Dec 2017	67.07	-	0.07	-	-	-	-
7 Of which defaulted	-	-	-	-	-	-	-

Qualitative disclosures on banks' use of external credit ratings under the standardised approach for credit risk

The standardised approach is applied which requires banks to use risk assessments prepared by External Credit Assessment Institution ('ECAIs') or Export Credit Agency ('ECAs') to determine the risk weightings applied to rated counterparties. ECAI risk assessments are used within the Group as part of the determination of risk weightings for the following classes of exposure:

· central governments and central banks;
· financial institutions;
· corporates;
· short-term claims on institutions and corporates; and
· regional governments and local authorities.

Risk mitigations

HSBC JOH has nominated three ECAIs for this purpose – Moody's Investor Service ('Moody's'), Standard and Poor's rating agency ('S&P') and Fitch Ratings ('Fitch'). We have not nominated any ECAs. Data files of external ratings from the nominated ECAIs are matched with customer records in the credit database.

When calculating the risk-weighted value of an exposure using ECAI risk assessments, risk systems identify the customer in question and look up the available ratings in the central database according to the rating selection rules. The systems then apply the prescribed credit quality step mapping to derive from the rating the relevant risk weight. All other exposure classes are assigned risk weightings as prescribed in the Regulations relating to Banks Regulation 23 Table 8.

Exposures to, or guaranteed by, central governments and central banks and denominated in local currency are risk-weighted at 0% using the standardised approach, provided they would be eligible under that approach for a 0% risk weighting.

CR4: Standardised approach – credit risk exposure and Credit Risk Mitigation (CRM) effects

	Exposure before CCF & CRM		Exposure post CCF & CRM		RWA & RWA density	
	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density%
Asset classes	ZARbn	ZARbn	ZARbn	ZARbn	ZARbn	%
Sovereigns and their central banks	17.29	-	17.29	-	0.15	1%
Non-central government public sector entities	0.14	-	0.14	-	-	-
Multilateral development banks	-	-	-	-	-	-
Banks	18.28	3.88	13.31	1.07	4.64	24%
Securities firms	-	-	-	-	-	-
Corporates	14.45	13.03	11.53	2.27	14.22	75%
Regulatory retail portfolios	-	-	-	-	-	-
Secured by residential property	-	-	-	-	-	-
Secured by commercial real estate	-	-	-	-	-	-
Equity	-	-	-	-	-	-
Past-due loans	-	-	-	-	-	-
Higher-risk categories	-	-	-	-	-	-
Other assets	-	-	-	-	-	-
Total	50.16	16.91	42.27	3.44	19.01	100%

The RWA density for Corporate is 75% and Banks 24%. This is in line with the unrated RWA allocation per Table 8 in Regulation 23 of the Regulations Relating to Banks.

CR5: Standardised approach – exposures by asset classes and risk weights

Risk Weight	0%	10%	20%	35%	50%	75%	100%	150%	Others	Total credit exposures amount (post CFF & CRM)
Asset classes	ZARbn	ZARbn	ZARbn	ZARbn	ZARbn	ZARbn	ZARbn	ZARbn	ZARbn	ZARbn
Sovereigns and their central banks	17.4	-	-	-	-	-	0.05	-	-	17.19
Non-central government public sector entities	-	-	-	-	0.02	-	-	-	-	0.02
Multilateral development banks	-	-	-	-	-	-	-	-	-	-
Banks	3.75	-	3.26	-	3.58	-	1.78	-	-	12.37
Securities firms	-	-	-	-	-	-	-	-	-	-
Corporates	-	-	-	-	-	-	8.77	1.36	-	10.13
Regulatory retail portfolios	-	-	-	-	-	-	-	-	-	-
Secured by residential property	-	-	-	-	-	-	-	-	-	-
Secured by commercial real estate	-	-	-	-	-	-	-	-	-	-
Equity	-	-	-	-	-	-	-	-	-	-
Past-due loans	-	-	-	-	-	-	-	-	-	-
Higher-risk categories	-	-	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	-	-	-	-
Total	20.89	-	3.26	-	3.60	-	10.60	1.36	-	39.71

The major risk weight is concentrated in the sovereigns and their central banks with a risk weight of 0%.

HSBC

Counterparty credit risk management

Counterparty Credit Risk ('CCR') risk arises from derivatives and Securities Financing Transactions ('SFTs'). It is calculated in both the trading and non-trading books, and is the risk that a counterparty may default before settlement of the transaction.

Four approaches may be used to calculate exposure values for CCR: mark-to-market, original exposure, standardised and Internal Model Method ('IMM'). Exposure values calculated under these approaches are used to determine RWAs. HSBC JOH uses the standardised approach. Under the mark-to-market approach, the EAD is calculated as current exposure plus regulatory add-ons.

Add-on is the estimated amount relating to the potential future exposure. Total Notional amount multiplied by the CCF (subject to product type and remaining maturity).

Limits for CCR exposures are assigned within the overall credit process. The Credit Risk function assigns a limit against each counterparty to cover derivatives exposure which may arise as a result of a counterparty default. The magnitude of this limit will depend on the overall risk appetite and type of derivatives trading undertaken with the counterparty.

Credit valuation adjustment

A regulatory capital charge to cover Credit Valuation Adjustment ('CVA') risk was introduced, to cover the risk related to mark to market losses on the JOH's expected exposure to counterparty risk on derivative transactions. The standardised approach has been applied. Certain exposures are exempt from CVA, such as non-financial counterparties and sovereigns.

Collateral arrangements

HSBC JOH's policy is to revalue all traded transactions and associated collateral positions on a daily basis. An independent collateral management function manages the collateral process including pledging and receiving collateral and investigating disputes and non-receipts.

Currently, HSBC JOH does not apply any collateral to counterparty credit risk.

Counterparty credit risk

CCR1: Analysis of counterparty credit risk exposure by approach

	Replacement cost	Potential future exposure	EEPE	Alpha used for computing regulatory EAD	EAD post CRM	RWA
	ZARbn	ZARbn	ZARbn	ZARbn	ZARbn	ZARbn
1 SA-CCR (for derivatives)	1.84	0.42	-	-	2.26	2.27
2 Internal Model Method (for derivatives and SFTs)			-	-	-	-
3 Simple Approach for credit risk mitigation (for SFTs)					0.40	0.49
4 Comprehensive Approach for credit risk mitigation (for SFTs)					-	-
5 VaR for SFTs					-	-
6 Total						2.46

CCR2: Credit valuation adjustment (CVA) capital charge

Total portfolios subject to the Advanced CVA capital charge	EAD post CRM ZARbn	RWA ZARbn
1 (i) VaR component (including the 3 multiplier)		-
2 (ii) Stressed VaR component (including the 3 multiplier)		-
3 All portfolios subject to the Standardised CVA capital charge	1.7	0.6
4 Total subject to the CVA capital charge	1.7	0.6

HSBC

Interest Rate Risk (Banking Book)

Interest rate risk in the banking book ('IRRBB') is defined as the exposure of 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 regionally 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 Group.

Exposure to interest rate risk

	2017
Exposure to interest rate risk in the Banking Book	ZARbn
NII sensitivity 1	-
1% instantaneous decline in interest rates	0.09
EVE sensitivity 2	-
1% instantaneous decline in interest rates	0.18

Operational risk

Operational risk is the risk to achieving the strategy or objectives as a result of inadequate or failed internal processes, people and systems or from external events. Operational risk is relevant to every aspect of the business. It covers a wide spectrum of categories, in particular accounting tax, legal, regulatory compliance, financial crime, internal and external fraud, security of people, physical assets, information and cyber security, employment practices and relations, building unavailability and workplace safety, systems and data integrity, operations (transaction processing and failure in other principal risk processes all fall within the definition of operational risk. HSBC JOH has historically experienced operational risk losses in the following major event types:

· internal fraud;
· business disruption and systems failure; and
· execution, delivery, and process management.

And under the following categories:
· trading and sales; and
· commercial banking.

The regulatory environment in which HSBC JOH operates is increasing the cost of doing business and could reduce our future profitability. HSBC continued the ongoing work to strengthen those controls that manage the most material risks. We further developed controls to help ensure that we know our customers, ask the right questions, monitor transactions and escalate concerns to detect, prevent and deter financial crime risk.

HSBC JOH has historically adopted, and currently uses, the standardised approach (TSA) in determining the operational risk capital requirement and has in place an operational risk model.

HSBC JOH recognises that operational risk losses can be incurred for a wide variety of reasons, including rare but extreme events. The objective of operational risk management is to manage and control operational risk in a cost-effective manner and within risk appetite, as defined by the Risk Management Meeting guided by the Group.

Responsibility for managing operational risk lies with HSBC's employees. During 2017 HSBC JOH also implemented the group's new operational risk management framework ('ORMF') and Group-wide risk management system. The new ORMF provides an end-to-end view of the non-financial risks, enhancing focus on the risks that matter the most and their associated controls. It provides a platform to drive forward-looking risk awareness and assist management focus. It also helps the organization understand the level of risk it is willing to accept.

Activity to strengthen HSBC JOH risk culture and better embed the use of the new ORMF, particularly the three lines of defence model, was a key focus in 2017. The first line of defence owns the risk and is responsible for identifying, recording, reporting, managing the risks and ensuring that the right controls and assessments are in place to mitigate these risks. The second line of defence sets the policy and guidelines for managing the risks and provides advice, guidance and challenge to the first line of defence on effective risk management. The third line of defence is Internal Audit which independently ensures we are managing risk effectively.

Operational risk

At HSBC JOH business managers are responsible for maintaining an appropriate level of internal control, commensurate with the scale and nature of operations. They are responsible for identifying and assessing risks, designing controls and monitoring the effectiveness of these controls. The ORMF helps managers to fulfil these responsibilities by defining a standard risk assessment methodology and providing a tool for the systematic reporting of operational loss data.

More details on our ORMF may be found on page 32 of the HSBC Bank plc Annual Report.

Operational risk and control assessments are performed by HSBC JOH global business and product units:
· Global Banking and CMB;
· Global Markets;
· GTRF; and
· GLCM.

The risk and control assessment process is designed to provide business areas and functions with a forward-looking view of operational risks, an assessment of the effectiveness of controls, and a tracking mechanism for action plans so that they can proactively manage operational risks within acceptable levels.

HSBC JOH uses the Group-wide risk management system to record the results of our operational risk management process.

During the year the Operation Risk RWA's increased by ZAR0.3bn in line with the higher gross revenues in 2017.

Table 17: Operational risk RWA's

	2017	
	Capital required	RWA's
	ZARbn	ZARbn
At 31 Dec 2017	3.01	0.32

Liquidity risk

Liquidity risk is the risk that HSBC JOH does not have sufficient financial resources to meet its obligations as they fall due, or will have to access such resources at an excessive cost. The risk arises from mismatches in the timing of cash flows. HSBC JOH follows the Group liquidity framework.

The objective of the Group's internal liquidity and funding risk management framework ('LFRF') is to allow it to withstand very severe liquidity stresses and be adaptable to changing business models, markets and regulations.

Liquidity is not managed through the explicit allocation of capital as, in common with standard industry practice, this is not considered to be an appropriate or adequate mechanism for managing these risks. However, HSBC recognises that a strong capital base can help to mitigate liquidity risk.

The primary sources of funding are customer current and savings accounts payable on demand or short notice.

In HSBC JOH, Balance Sheet Management ('BSM') is responsible for managing liquidity and funding under the supervision of the local ALCO (which usually meets on a monthly basis). In executing the management of the liquidity risk on behalf of ALCO, and managing the interest rate risk in the banking book positions transferred to it, BSM invests in highly rated liquid assets in line with the Group's liquid asset policy. The majority of the liquidity is invested in central bank deposits, South African Treasury bills and government securities with most of the remainder held in short-term interbank and central bank loans.

For further details on liquidity and funding risk management, see page 48 onwards of the HSBC Bank plc Annual Report and Accounts 2017.

Table 18: LCR common disclosure template

	ZARm	
	Total	Total
High quality liquid assets	Unweighted value (average)	Weighted value (average)
1 Total high quality liquid assets (HQLA)	21,823	21,823
CASH OUTFLOWS:		
2 Retail deposits and deposits from small business customers of which:		
3 Stable deposits	-	-
4 Less stable deposits	-	-
5 Unsecured wholesale funding of which:		
6 Operational deposits (all counterparties) and deposits in networks of cooperative banks	2,765	691
7 Non-operational deposits (all counterparties)	35,390	24,859
8 Unsecured debt		
9 Secured wholesale funding	3,959	-

10 Additional requirements of which:		
11 Outflows related to derivative exposure	10,584	10,584
12 Outflows related to loss of funding on debt products		
13 Credit and liquidity facilities	1,763	234
14 Other contractual funding obligations	-	-
15 Other contingent funding obligations	17,032	842
16 Total cash outflows	71,493	37,210
Cash inflows:		
17 Secured lending (eg reverse repos)	4,160	-
18 Inflows from fully performing exposures	11,581	10,080
19 Other cash inflows	10,600	10,600
20 Total cash inflows	26,341	20,680
21 Total HQLA		21,823
22 Total net cash outflows		16,530
23 Liquidity coverage ratio (%)		132%

Market risk

HSBC JOH has adopted the standardised Approach in respect of positions held in the trading book, and currently calculates capital on the current market value of interest rate and foreign exchange instruments held in the HSBC JOH's trading books.

The objective of HSBC JOH's market risk management is to manage and control market risk exposures in order to optimize return on risk while maintaining a market profile consistent with the Group's status as a premier provider of financial products and services.

Main market risk exposures in South Africa are:

- Foreign exchange - arising from sales and trading of foreign exchange products such as spots, forwards, swaps and options; and
- Interest rate - arising from rates trading activity, sale of interest rate products to clients and balance sheet management activity.

Risk exposures are short dated with the large majority having tenors of less than a year. Market risk on options (Foreign exchange and Interest) arises from the sale of these products to clients and is fully backed out to HSBC Bank plc.

HSBC separates exposures to market risk into either trading or non-trading portfolios. Trading portfolios include those positions arising from market-making, proprietary position-taking and other marked-to-market positions so designated. The contribution of the marked-to-market positions so designated but not held with trading intent is disclosed separately.

Non-trading portfolios primarily arise from the interest rate management of the commercial banking assets and liabilities and investment securities designated as available for sale. The management of market risk is principally undertaken in Global Markets using risk limits approved by the Regional Market Risk Control function. Limits are set for portfolios, products and risk types, with market liquidity being a principal factor in determining the level of limits set. The Group's Wholesale and Market Risk control function ('WMR'), an independent unit within the Group develops the Group's market risk management techniques and measurement techniques. Each major operating entity has an independent market risk control function which is responsible for measuring market risk exposures in accordance with the policies defined by WMR, and monitoring and reporting these exposures against the prescribed limits on a daily basis.

HSBC JOH has an independent market risk control function which is responsible for measuring market risk exposures in accordance with the policies defined by WMR, and monitoring and reporting back on these exposures against the prescribed Group limits on a daily basis. HSBC JOH uses sensitivity analysis, value at risk ('VAR') and stress testing to monitor its market risk exposures.

Limits are set for individual risk types as well as aggregated risk limits through appropriate stress scenarios, VAR limits and where required correlation risk limits. HSBC JOH attempts to control market risk by setting limits on transactions and constant monitoring and reporting of limits and thresholds breaches at RMM.

Market risk

The table below reflects the components of capital requirement under the standardised approach for market risk.

Market risk under standardised approach:

Outright products	RWA ZARbn
1 Interest rate risk (general and specific)	0.004
2 Equity risk (general and specific)	-
3 Foreign exchange risk	
4 Commodity risk	
Options	
5 Simplified approach	
6 Delta-plus method	
7 Scenario approach	-
8 Securitisation	-
9 Total	0.004

HSBC

Remuneration

HSBC JOH follows the approach adopted by the 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 group which HSBC JOH follows. Key principles of the remuneration strategy are:

- Assess performance and values-aligned behavior 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 human capital are key to sustained financial performance and the development of HSBC JOH and 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 page 141 of the HSBC Holdings plc annual report and accounts 2017.

HSBC JOH 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 JOH 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.

Of the amounts paid to individuals' holding a prescribed office, R30m were material risk takers as defined in the group policy.

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

Remuneration paid in 2017					Remuneration paid:		
	Guaranteed bonus awarded	Sign-on awards	Severance payment	Outstanding deferred compensation: Phantom shares	Fixed pay	Variable remuneration	Prescribed Officers
Awarded 2017: ZARbn	-	-	-	0.03	0.20	0.07	0.06
Number of employees		-	-			212	

HSBC

Abbreviations

AFS	Annual Financial Statements
ALCO	Asset and Liability Committee
CRA	Credit Risk Adjustments
CRM	Credit Risk Mitigation
CRR	Counterparty Credit Risk
CCF	Credit Conversion Factor
EAD	Exposure at Default
ECAs	Export Credit Agency
EXCO	Executive Committee
FI	Financial Institutions
FCY	Foregin Currency
FX	Foreign Exchange
HSBC JOH	HSBC Bank plc – Johannesburg Branch
HBEU	HSBC Bank plc
IRB	Internal Rating Based
IMM	Internal Model Method
LCR	Leverage Coverage Ratio
ORMF	Operational Risk Management Framework
RAS	Risk Appetite Statement
RMM	Risk Management Meeting
RWA	Risk Weighted Assets
SFTs	Securities Financing Transactions