HSBC Bank plc - Johannesburg Branch

Pillar 3 Annual Disclosure - December 2016

Abbreviations

AFS	Annual Financial Statements
ALCO	Asset and Liability Committee
CEO	Chief Executive Officer
CRO	Chief Risk Officer
CRR	Counterparty Credit Risk
CCF	Credit Conversion Factor
CRA	Credit Risk Adjustments
CRM	Credit Risk Mitigation
CVA	Credit Valuation Adjustment
CEM	Current Exposure Method
EXCO	Executive Committee
ECA	Export Credit Agency
EAD	Exposure at Default
FI	Financial Institutions
FCY	Foreign Currency
FX	Foreign Exchange
HBEU	HSBC Bank plc
HSBC JOH	HSBC Bank plc – Johannesburg Branch
BRANCH	HSBC Branch plc - Johannesburg Branch
IMM	Internal Model Method
IRB	Internal Rating Based
LCR	Leverage Coverage Ratio
RAS	Risk Appetite Statement
RMM	Risk Management Meeting
RWA	Risk Weighted Assets
SFT	Securities Financing Transactions

Contents

Regulatory framework for disclosures

HSBC JOH is supervised by the South African Reserve Bank, which receives information on the capital adequacy and sets capital requirements for South African banks. The capital requirements is 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 Pillar 3 disclosures 2016 comprise all information required under Pillar 3, both quantitative and qualitative. HSBC JOH has implemented the Basel Committee on Banking Supervision ('BCBS') final standards on revised Pillar 3 disclosures issued in January 2015. HSBC Bank plc publish 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 HSBC JOH adopts 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 the branch. As at 31 December 2016, EXCO is satisfied that:

- HSBC's risk, compliance, treasury and capital management generally operated effectively;
- HSBC's business activities have been managed within the EXCO-approved risk appetite; and
- HSBC is adequately funded and capitalised to support the execution its strategy.

EXCO approved the disclosure policy, which has been updated to incorporate the revised pillar 3 disclosure requirements set out by the BCBS.

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.

All disclosures in this report are unaudited, unless marked as audited.

Financial performance

Summarised statement of comprehensive income for the period ending December:

	2016 ZARm	2015 ZARm
Net interest income	624	394
Trading revenue and fee income	949	968
Gross operating income	1 572	1 362
Credit impairment (raised)/released	-	-6
Operating expenses	-413	-368
Net profit before taxation	**1 160**	**988**
Taxation	-325	-277
Net profit after taxation	**835**	**711**

Statement of financial position as at December:

	2016 ZARm	2015 ZARm
Cash and cash equivalents	1 290	1 002
Trading assets	2 738	4 468
Loans and advances to banks	8 532	8 257
Loans and advances to customers	9 437	12 206
Balances with group companies	2 901	3 746
Investment securities	19 453	19 233
Current tax assets	3	-
Property and equipment	9	10
Other assets	263	744
Deferred tax asset	63	67
Total assets	**44 690**	**49 732**
Trading liabilities	2 654	4 642
Deposits from banks	679	547
Deposits from customers	29 952	34 965
Balances with group companies	5 841	4 623
Current tax liabilities	-	1
Other liabilities	597	860
Provision	117	161
Total liabilities	**39 901**	**45 798**
Branch capital	1 420	1 420
Fair value reserve (Available-for-sale financial assets)	-16	-36
Retained earnings	3 384	2 549
Total equity	**4 789**	**3 933**
Total liabilities and equity	**44 690**	**49 732**

Risk Management

Risk management framework

HSBC JOH follows the HSBC 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 68 of the HSBC plc Annual Report and Accounts 2016. The management and mitigation of principal risks facing the Group is described in the top and emerging risks on page 64 of the HSBC plc Annual Report and Accounts 2016.

Risk culture

HSBC Group 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 to 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 64 of the HSBC plc Annual Report and Accounts 2016.

Risk governance

EXCO has 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').

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 69 of the HSBC plc Annual Report and Accounts 2016).*

HSBC JOH's risk governance structures ensures appropriate oversight and accountability of risk, which facilitates the reporting and escalation to the RMM *(see page 68 of the HSBC plc Annual Report and Accounts 2016).*

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 HSBC JOH's is willing to accept in achieving the medium to long-term business objectives. The 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 Parents' risk management tools (and consequently the Branch) is set out on page 68 of the HSBC plc Annual Report and Accounts 2016.

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 RWA's drivers is the movement of exchange 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 exposures under a range of FX rates;
- The FX stress testing facilitates the development of appropriate actions and plans for stressed conditions; and
- LCR is the primary measure for managing liquidity risk. It facilitates stress testing of the liquidity of the branch 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 70 of the Annual Report and Accounts 2016.

Risk function

HSBC JOH has a dedicated Risk function, headed by the CRO, 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 69 of the HSBC plc Annual Report and Accounts 2016). The Branch 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 HSBC JOH's business objectives.

HSBC's key risk management and internal control procedures are described on page 145 of the HSBC plc Annual Report and Accounts 2016, 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 enhance 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 the Branch.

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 HSBC JOH's business and to invest in accordance with the Group's six filters framework, 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 the Branch 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, market, and operational risks.

The main source of capital for HSBC JOH is capital invested by the Group and appropriated Retained Earnings.

Quarterly Overview

The Risk Weighted Assets ('RWAs') decreased by ZAR1.7bn quarter on quarter, the main drivers was lower Exposure at Default ('EAD') with Financial Institutions and Corporates reducing Credit risk by ZAR2.4bln.

During the quarter the Operation Risk RWA's increase by ZAR0.6bn in line with the higher gross revenues in 2016.

		Dec-16 RWA	Sep-16 RWA	Dec-16 Capital Required [1]
		ZARbn	ZARbn	ZARbn
1	**Credit risk (excluding counterparty credit risk) (CCR)**	**15.2**	**17.6**	**1.2**
2	Of which standardised approach (SA)	**15.2**	**17.6**	**1.2**
3	Of which internal rating-based (IRB) approach	-	-	-
4	**Counterparty credit risk**	**1.7**	**1.4**	**0.1**
5	Of which standardised approach for counterparty credit risk (SA-CCR)	**1.7**	**1.4**	**0.1**
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**	**0.5**	**0.7**	**0.0**
17	Of which standardised approach (SA)	**0.5**	**0.7**	**0.0**
18	Of which internal model approaches (IMM)	-	-	-
19	**Operational risk**	**2.8**	**2.2**	**0.2**
20	Of which Basic Indicator Approach	-	-	-
21	Of which Standardised Approach	**2.8**	**2.2**	**0.2**
22	Of which Advanced Measurement Approach	-	-	-
23	**Amounts below the thresholds for deduction (subject to 250% risk weight)**	-	-	-
24	**Floor adjustment**	-	-	-
25	**Total**	**20.2**	**21.9**	**1.6**

1 'Capital required' here and in all tables where the term is used, represents the Pillar 1 capital charge at 8% of RWAs.

Linkages between financial statements and regulatory exposures

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, table 2 below shows a breakdown of the accounting balances into the risk types that form the basis for regulatory capital requirements. Table 3 then shows the main differences between the accounting balances and regulatory exposures by regulatory risk type.

Tabel 2: Mapping of financial statements categories with regulatory risk categories

	Carrying values of items:					
	1 Carrying values under scope of regulatory and AFS consolidation ZARbn	Subject to credit risk framework ZARbn	2 Subject to CRR framework ZARbn	Subject to the securitisation framework ZARbn	Subject to the market risk framework ZARbn	Subject to deduction from capital or not subject to regulatory capital requirements ZARbn
Assets						
Cash and cash equivalents	1.2	1.2	-	-	-	-
Trading assets	-	-	-	-	-	-
Derivative financial instruments	1.4	-	1.4	-	1.4	
Loans and advances to banks	9.1	9.1	-	-	-	-
Loans and advances to customers	9.4	9.4	-	-	-	-
Reverse repurchase agreements and other similar secured lending	3.8	-	3.8	-	-	-
Investment securities	19.5	19.5	-	-	-	-
Current and deferred tax assets	0.1	0.1	-	-	-	0.1
Property and equipment	-	-	-	-	-	-
0.6	0.6	-	-	-	-	-
Total assets at 31 Dec 2016	45.1	39.9	5.2	-	1.4	0.1

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.

Table 3: Main sources of differences between regulatory exposure values and carrying values in financial statements

		Gross carrying values of			
		Defaulted exposures ZARm	Non-defaulted exposures ZARm	Allowances/ impairments ZARm	Net values (a+b-c) ZARm
1	Loans	-	22 175.2	-13.6	22 161.7
2	Debt Securities	-	19 435.0	-	19 453.0
3	Off-balance sheet exposures	-	17 599.2	-	17 599.2
4	**Total**	-	59 227.4	-13.6	59 213.9

Own funds

Table 4: Own funds

		2016 ZARm
	Common equity tier 1 ('CET1') capital: instruments and reserves	
1	Capital instruments and the related share premium accounts	**1 420**
2	Retained earnings	**3 394**
3	Accumulated other comprehensive income (and other reserves)	**-15**
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	**4 799**
	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	**0**
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	**4 799**
	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 the 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	-
	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)	**4 799**
	Tier 2 capital: instruments and provisions	
46	Capital instruments and the related share premium accounts	-
47	Amount of qualifying items and the 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	**14**
58	Tier 2 capital	**14**
59	Total capital (TC = T1 + T2)	**4 812**
60	Total risk-weighted assets	**20 155**

	Capital ratios and buffers	2016 ZARm
61	Common equity tier 1	23.8%
62	Tier 1	23.8%
63	Total capital	23.8%
64	Institution specific buffer requirement	0.0625%
65	– capital conservation buffer requirement	0.0625%
66	– counter cyclical buffer requirement	0%
	– Global Systemically Important Institution (‘G-SII’) buffer	0%
68	Common equity tier 1 available to meet buffers	23.7%
	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)	6.9%
70	National tier I minimum ratio (if different from Basel III minimum) – excluding ICR and D-SIB	8.1%
71	National total capital minimum ratio (if different from Basel III minimum) – excluding ICR and D-SIB	10.4%
	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	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability)	63
	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)	-

Leverage Ratio

Table 5: Summary reconciliation of accounting assets and leverage ratio exposures

		2016 ZARm
1	Total assets as per published financial statements	44 690
	Adjustments for:	
2	– entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	-
4	– derivative financial instruments	529
5	– securities financing transactions (‘SFT’)	-
6	– off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	4 648
7	– other	416
8	**Total leverage ratio exposure**	50 283

Table 6: Leverage ratio common disclosure

		2016 ZARm
	On-balance sheet exposures (excluding derivatives and SFT)	
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	**39 865**
2	(Asset amounts deducted in determining tier 1 capital)	**-**
3	Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	**39 865**
	Derivative exposures	
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	**1 409**
5	Add-on amounts for potential future exposure ('PFE') associated with all derivatives transactions (mark-to-market method)	**529**
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	**1 939**
	Securities financing transaction exposures	
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	**3 831**
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	**3 831**
	Other off-balance sheet exposures	
17	Off-balance sheet exposures at gross notional amount	**17 599**
18	(Adjustments for conversion to credit equivalent amounts)	**-12 951**
19	Total off-balance sheet exposures	**4 648**
	Capital and total exposures	
20	Tier 1 capital	**4 799**
21	Total leverage ratio exposure	**50 283**
22	Leverage ratio	**9.54**

Credit Risk

Overview and responsibilities

Credit risk represents the largest regulatory capital requirement.

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 CRO 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 Finance on stress testing and the risk appetite process.

The credit responsibilities of Global Risk are described on page 69 of the HSBC plc Annual Report and Accounts 2016.

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 the branch Chief Executive Officer (‘CEO’), who in turn, delegates authority to the CRO and management teams on an individual basis. The Branch 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 overridden 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.

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.

Table 7: Credit quality of assets

		Gross carrying values of			
		Defaulted exposures ZARm	Non-defaulted exposures ZARm	Allowances/ impairments ZARm	Net values (a+b-c) ZARm
1	Loans	-	22 175.2	-13.6	22 161.7
2	Debt Securities	-	19 435.0	-	19 453.0
3	Off-balance sheet exposures	-	17 599.2	-	17 599.2
4	**Total**	-	59 227.4	-13.6	59 213.9

The impairment allowance is a collective impairment raised on the manufacturing industry.

Table 8: Defaulted loans and debt securities

		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**	-

Table 9: Credit risk exposure – by geographical region

Standardised approach	Exposure ZARbn	RWA ZARbn	Capital ZARbn
South Africa	56.0	12.6	1.01
Other African countries	2.7	1.8	0.15
Europe	4.2	0.8	0.06
Asia	0.1	-	-
North America	1.2	0.3	0.02
South America	0.0	0.0	0.00
Other	1.2	0.3	0.02
As at 31 Dec 2016	65.4	15.8	1.3

The exposure portfolio is concentrated in South Africa (86%) in line with the strategy to grow HSBC multi-national clients in county.

Table 10: Credit risk exposure – by industry sector

Standardised approach	Exposure ZARbn	RWA ZARbn	Capital ZARbn
Agriculture, hunting, forestry and fishing	0.7	0.5	0.0
Mining and quarrying	2.2	1.1	0.1
Manufacturing	6.8	4.4	0.4
Electricity, gas and water supply	2.7	1.3	0.1
Construction	1.9	0.8	0.1
Wholesale and retail trade, repair of specified items, hotels and restaurants	4.1	1.4	0.1
Transport, storage and communication	0.3	0.1	0.0
Financial intermediation and insurance	44.4	4.6	0.4
Real estate	-	-	-
Business services	1.6	0.8	0.1
Community, social and personal services	0.1	0.1	0.0
Private households	-	-	-
Other	0.7	0.7	0.1
As at 31 Dec 2016	65.4	15.8	1.3

The exposure profile is concentrated in the financial intermediation sector accounting for 67% of EAD. The RWA composition is shows that the highest RWA utilisation is in the manufacturing and financial intermediation sectors with 29% and 28% respectively.

Table 11: Credit risk exposure – by maturity

	Exposure value		
Standardised approach	Less than 1 year ZARbn	Between 1 to 5 years ZARbn	Total ZARbn
Corporate	17.8	8.0	25.8
Public sector entities	0.0	-	0.0
Sovereign (including central governments and central banks)	19.1	0.5	19.6
Banks	17.9	2.2	20.0
As at 31 Dec 2016	54.7	10.7	65.4

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

The approach for determining impairment allowances is explained on page 199 of the HSBC Holdings plc Annual Report and Accounts 2016,and the Group's definitions for accounting purposes of 'past due', 'impaired' and 'renegotiated' are set out on pages 88, 90 and 74, 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 where restructured during the reporting period.

Risk Mitigations

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 the Branch'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, realisation 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 collateralised over-the-counter ('OTC') derivatives and SFTs, the Branch typically carry 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.

Table 12: Credit risk mitigation techniques– overview

			Exposures secured by collateral		Exposures secured by financial guarantees		Exposures secured by credit derivatives	
		Exposures unsecured: carrying amount ZARbn	ZARbn	of which: secured amount ZARbn	ZARbn	of which: secured amount ZARbn	ZARbn	of which: secured amount ZARbn
1	Loans	21.2	-	-	-	-	-	-
2	Debt Securities	19.5	-	-	-	-	-	-
3	**Total as at 31 Dec 2016**	**40.7**	-	-	-	-	-	-
4	**Of which defaulted**	-	-	-	-	-	-	-

Qualitative disclosures on HSBC JOH 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;
- institutions;
- corporates;
- short-term claims on institutions and corporates; and
- regional governments and local authorities.

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.

Table 13: Standardised approach – credit risk exposure and Credit Risk Mitigation (CRM) effects

		Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and 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**	**%**
1	Sovereigns and their central banks	**19.6**	**-**	**19.6**	**-**	**0.1**	**-**
2	Non-central government public sector entities	-	-	-	-		-
3	Multilateral development banks	-	-	-	-		-
4	Banks	**16.4**	**3.7**	**12.7**	**1.0**	**2.9**	**21%**
5	Securities firms	-	-	-			-
6	Corporates	**11.9**	**13.9**	**10.5**	**2.5**	**12.9**	**99%**
7	Regulatory retail portfolios	-	-	-	-	-	-
8	Secured by residential property	-	-	-	-	-	-
9	Secured by commercial real estate	-	-	-	-	-	-
10	Equity	-	-	-	-	-	-
11	Past-due loans	-	-	-	-	-	-
12	Higher-risk categories	-	-	-	-	-	-
13	Other assets	-	-	-	-	-	-
14	**Total**	**47.8**	**17.5**	**42.7**	**3.5**	**15.8**	**34%**

The RWA density for Corporate is 99% and Banks 21%. This is in line with the unrated RWA allocation per Table 8 in Regulation 23 of the Regulations Relating to Banks.

Table 14: Standardised approach – exposures by asset classes and risk weights

Risk Weight	0%	10%	20%	35%	50%	75%	100%	150%	Others	Totalcredit exposures amount (post CCF and post-CRM)
Asset Class	**ZARbn**	**ZARbn**	**ZARbn**	**ZARbn**	**ZARbn**	**ZARbn**	**ZARbn**	**ZARbn**	**ZARbn**	**ZARbn**
Sovereigns and their central banks	-	-	-	-	-	-	19.6	-	-	19,6
Non-central government public sector entities	-	-	-	-	-	-	-	-	-	-
Multilateral development banks	-	-	-	-	-	-	-	-	-	-
Banks	3.6	-	7.6	-	2.2	-	0.3	-	-	13.7
Securities firms	-	-	-	-	-	-	-	-	-	-
Corporates	-	-	-	-	-	-	13.0	-	-	13.0
Regulatory retail portfolios	-	-	-	-	-	-	-	-	-	-
Secured by residential property	-	-	-	-	-	-	-	-	-	-
Secured by commercial real estate	-	-	-	-	-	-	-	-	-	-
Equity	-	-	-	-	-	-	-	-	-	-
Past-due loans	-	-	-	-	-	-	-	-	-	-
Higher-risk categories	-	-	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	-	-	-	-
Total	3.6	-	7.6	-	2.2	-	32.9	-	-	46.3

The major risk weight is concentrated in the corporate portfolio with a risk weight of 100%.

Counterparty credit risk

Counterparty credit risk management

Counterparty Credit Risk ('CCR') risk arises from derivatives and 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.

Three approaches may be used to calculate exposure values for CCR: CEM, standardised and IMM. Exposure values calculated under these approaches are used to determine RWAs. We use the CEM approach. Under the CEM, the EAD is calculated as current replacement cost 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 branch's expected exposure to counterparty risk on derivative transactions. The standardised approach has been applied. Certain exposures are exempt from CVA, Intragroup bank, Central Counterparty and SFT's.

Collateral arrangements

The Branch 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, the Branch does not apply any collateral to counterparty credit risk.

Table 15: 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)	1.41	0.53	-	-	1.94	1.28
2	Internal Model Method (for derivatives and SFTs)			-	-	-	-
3	Simple Approach for credit risk mitigation (for SFTs)					-	-
4	Comprehensive Approach for credit risk mitigation (for SFTs)					0.28	0.01
5	VaR for SFTs					-	-
6	Total						1.29

Table 16: Credit valuation adjustment (CVA) capital charge

Total portfolios subject to the Advanced CVA capital charge	EAD post CRM ZARbn	RWA ZARbn
(i) VaR component (including the 3×multiplier)		-
(ii) Stressed VaR component (including the 3×multiplier)		-
All portfolios subject to the Standardised CVA capital charge	1.3	0.3
Total subject to the CVA capital charge	1.3	0.3

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 I 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.

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 issues, in particular legal, compliance, security and fraud. Losses arising from breaches of regulation and law, unauthorised activities, error, omission, inefficiency, fraud, systems failure or external events all fall within the definition of operational risk. HSBC JOH has historically experienced operational risk losses in the following major categories:

- fraudulent and other criminal activities;
- breakdowns in processes/procedures due to human error, misjudgment or malice;
- system failure or non-availability; and
- breach of regulatory and/or legislative requirements.

HSBC JOH is striving to comply with an ever increasing volume of local and global regulatory requirements, increasing the cost of doing business as well as exposing us to new and increased regulatory compliance risks. The implementation of Global Standards remains one of the key strategic priorities for the Group and HSBC JOH and is ongoing. 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 staff. The Group Operational Risk Management Framework ('ORMF') is the overarching approach to managing operational risk, the purpose of which is to:

- identify and manage operational risks in an effective manner;
- remain within the Branch and Group's operational risk appetite, which helps the organisation understand the level of risk it is willing to accept; and
- drive forward-looking risk awareness and assist management focus during 2016.

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

Table 17: Operational risk RWA's

	2016	
	Capital Required ZARbn	RWA's ZARbn
At 31 Dec	0.2	2.8

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 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, the Bank recognises that a strong capital base can help to mitigate liquidity risk. Funding risk is a form of liquidity risk arising when the liquidity

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

Table 18: LCR common disclosure template

		ZARm	
		Total Unweighted value (average)	**Total Weighted value (average)**
	HIGH-QUALITY LIQUID ASSETS		
1	Total high-quality liquid assets (HQLA)		
	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	-	-
7	Non-operational deposits (all counterparties)	**42 136**	**30 859**
8	Unsecured debt	-	-
9	Secured wholesale funding	**1 964**	-
10	Additional requirements of which:		
11	Outflows related to derivative exposures and other collateral requirements	**17 110**	**17 110**
12	Outflows related to loss of funding on debt products	-	-
13	Credit and liquidity facilities	**3 076**	**355**
14	Other contractual funding obligations	**5 768**	**262**
15	Other contingent funding obligations	**12 781**	**639**
16	**TOTAL CASH OUTFLOWS**	**82 834**	**49 224**
	CASH INFLOWS:		
17	Secured lending (eg reverse repos)	**1 941**	-
18	Inflows from fully performing exposures	**11 882**	**10 228**
19	Other cash inflows	**17 128**	**17 128**
20	**TOTAL CASH INFLOWS**	**30 952**	**27 357**
21	TOTAL HQLA		**22 966**
22	TOTAL NET CASH OUTFLOWS		**21 868**
23	LIQUIDITY COVERAGE RATIO (%)		**105%**

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 Branch's trading books.

The objective of HSBC JOH's market risk management is to manage and control market risk exposures in order to optimise 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. The Branch attempts to control market risk by setting limits on transactions and constant monitoring and reporting of limits and thresholds breaches at ALCO.

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

Table 19: Market risk under standardised approach

		RWA ZARbn
	Outright products	
1	Interest rate risk (general and specific)	**0.04**
2	Equity risk (general and specific)	-
3	Foreign exchange risk	**0.01**
4	Commodity risk	-
	Options	
5	Simplified approach	-
6	Delta-plus method	-
7	Scenario approach	-
8	Securitisation	-
9	**Total**	**0.05**

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 the Branch 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 the Branch 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 153 of the HSBC Holdings plc Annual Report and Accounts 2016.

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.

Of the amounts paid to individuals' holding a prescribed office, R9 206 217 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.

Table 20: Remuneration paid in 2016

								Remuneration paid:
	Guaranteed bonus awarded	**Sign-on awards**	**Severance payment**	**Outstanding deferred compensation: Phantom Shares**	**Outstanding deferred compensation: Cash**	**Fixed pay**	**Variable remuneration**	**Prescribed Officers**
Awarded 2016: ZARm	-	-	-	21.37	-	172.16	62.95	54.60
Number of employees		-	-				191	