HSBC Bank plc – Johannesburg Branch

Pillar 3 Half-Year Disclosure

June 2018

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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 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 June 2018 comprise all information required under Pillar 3, both quantitative and qualitative. HSBC Group has implemented Basel Committee on Banking Supervision ('BCBS') final standards on revised Pillar 3 disclosures issued in January 2015. HSBC Bank plc publishes comprehensive Pillar 3 disclosures annually and half yearly 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 the branch. As at 30 June 2018, 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
- HSBC is adequately funded and capitalised to support the execution its strategy.

EXCO approved the disclosure policy, which had been updated to incorporate the revised pillar 3 disclosure requirements set out by the BCBS. The policy remains unchanged for the 2018 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.

All disclosures in this report are unaudited.

Key Prudential metrics and overview of RWA

Table 1: Key Metrics (KM1)

		At				
		30 Jun 2018	31 Mar 2018	31 Dec 2017	30 Sep 2017	30 Jun 2017
		R'm	R'm	R'm	R'm	R'm
	Available Capital (Amounts)					
1	Common Equity Tier 1 (CET1)	4,919	4,941	4,991	5,015	5,014
1a	Fully loaded ECL accounting model	4,919	4,941	4,991	5,015	5,014
2	Tier 1	4,919	4,941	4,991	5,015	5,014
2a	Fully loaded accounting model Tier 1	4,919	4,941	4,991	5,015	5,014
3	Total capital	5,045	5,045	5,005	5,029	5,027
3a	Fully loaded ECL accounting model total capital	5,045	5,045	5,005	5,029	5,027
	Risk-weighted assets (amounts)					
4	Total risk-weighted assets (RWA)	25,363	23,228	23,586	22,923	23,273
	Risk-based capital ratios as a percentage of RWA					
5	Common Equity Tier 1 ratio (%)	19.39%	21.27%	21.27%	21.16%	21.88%
5a	Fully loaded ECL accounting model CET1 (%)	19.39%	21.27%	21.27%	21.16%	21.88%
6	Tier 1 ratio (%)	19.39%	21.27%	21.27%	21.16%	21.88%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	19.39%	21.27%	21.27%	21.16%	21.88%
7	Total capital ratio (%)	19.89%	21.72%	21.72%	21.22%	21.94%
7a	Fully loaded ECL accounting model total capital ratio (%)	19.89%	21.72%	21.72%	21.22%	21.94%
	Additional CET1 buffer requirements as a percentage of RWA					
8	Capital conservation buffer requirement (2.5% from 2019) (%)	1.88%	1.88%	1.25%	1.25%	1.25%
9	Countercyclical bugger requirement (%)	0.04%	0.00%	0.00%	0.00%	0.00%
10	Bank D-SIB additional requirements (%)	0.00%	0.00%	0.00%	0.00%	0.00%
11	Total of bank CET1 specific buffer requirements (%) (row 8+row 9+row 10)	1.91%	1.88%	1.25%	1.25%	1.25%
12	CET1 available after meeting the bank's minimum capital requirements (%)	8.77%	10.60%	10.97%	10.47%	11.19%
	Basel III Leverage Ratio					
13	Total Basel III leverage ratio measure	56,495	50,465	52,094	56,581	58,779
14	Basel III leverage ratio (%) (row 2/row 13)	8.71%	9.79%	9.48%	8.82%	8.53%
14a	Fully loaded ECL accounting model Basel III leverage ratio (%) (row 2A/row 13)	8.71%	9.79%	9.48%	8.82%	8.53%
	Liquidity Coverage Ratio					
15	Total HQLA	24,606	17,981	21,948	21,278	23,533
16	Total net cash outflow	22,021	13,964	17,808	14,234	15,119
17	LCR ratio (%)	112%	129%	123%	149%	156%
	Net Stable Funding Ratio					
18	Total available stable funding	17,259	17,688	18,020	19,465	20,638
19	Total required stable funding	15,332	14,138	15,333	14,708	13,888
20	NSFR ratio (%)	113%	125%	118%	132%	149%

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Key Prudential metrics and overview of RWA (continued)

Given the strong capital adequacy position of HSBC Bank plc - Johannesburg Branch, the local EXCO have approved that the Transitional arrangements detailed in D5 of 2018 will not be utilised and that full IFRS 9 impact be taken into account on 1 January 2018.

Table 2: Overview of risk management (OV1)

		RWA		Minimum Capital Requirements
		30 Jun 2018	31 Mar 2018	30 Jun 2018
		R'm	R'm	R'm
1	**Credit risk (excluding counterparty credit risk)**	19,004	17,616	2,121
2	Of which: standardised approach (SA)	19,004	17,616	2,121
3	Of which: foundation internal ratings-based (F-IRB) approach	-	-	-
4	Of which: supervisory slotting approach	-	-	-
5	Of which: advanced internal ratings-based (A-IRB) approach	-	-	-
6	**Counterparty credit risk (CCR)**	2,630	2,011	294
7	Of which: standardised approach for counterparty credit risk	2,630	2,011	294
8	Of which: Internal Model Method (IMM)	-	-	-
9	Of which: other CCR	-	-	-
10	**Credit valuation adjustment (CVA)**	-	-	-
11	**Equity positions under the simple risk weight approach**	-	-	-
12	**Equity investments in funds - look-through approach**	-	-	-
13	**Equity investments in funds - mandate-based approach**	-	-	-
14	**Equity investments in funds - fall-back approach**	-	-	-
15	**Settlement risk**	-	-	-
16	**Securitisation exposures in the banking book**	-	-	-
17	Of which: securitisation internal ratings-based approach (SEC-IRBA)	-	-	-
18	Of which: securitisation external ratings-based approach (SEC-ERBA), including internal assessment approach	-	-	-
19	Of which: securitisation standardised approach (SEC-SA)	-	-	-
20	**Market risk**	513	446	57
21	Of which: standardised approach (SA)	513	446	57
22	Of which: internal model approaches (IMA)	-	-	-
23	**Capital charge for switch between trading book and banking book**	-	-	-
24	**Operational risk**	3,012	3,012	336
25	**Amounts below thresholds for deduction (subject to 250% risk weight)**	205	144	23
26	**Floor adjustment**	-	-	-
27	**Total (1+6+10+11+12+13+14+15+16+20+23+24+25+26)**	**25,363**	**23,228**	**2,831**

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Macroprudential Supervisory Measures

The proportion of capital held for CCyB requirements in geographies other than South Africa are shown in the table below.

Table 3: Geographical distribution of credit exposures used in the countercyclical capital buffer (CCyB1)

		Exposure values and/or risk weighted assets used in the computation of the countercyclical capital buffer			
Geographical breakdown	Countercyclical capital buffer rate	Exposure value	Risk weighted assets	Bank-specific countercyclical capital buffer rate	Countercyclical buffer amount
Singapore	0.00%	264	264		
United Kingdom	0.50%	804	804		
SUM		**804**	**804**		
Total		**9,867**	**9,985**	**0.04%**	**-**

Leverage Ratio

The leverage ratio calculated in accordance with South African Banks Act, 1990 was 8.71% at 30 June 2018, down from 9.58% at 31 December 2017, mainly due to the growth of balance sheet exposures.

Table 4: Summary comparison of accounting assets vs leverage ratio exposure (LR1)

	30 Jun 2018
	R'm
1 Total consolidated assets as per the BA 900	52,411
2 Adjustments for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory	-
3 Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	-
4 Adjustments for derivative financial instruments	2,388
5 Adjustment for securities financing transactions (ie repos and similar secured lending)	8,401
6 Adjustments for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	3,373
7 Other adjustments	-10,078
8 **Leverage ratio exposure measure**	**56,495**

Leverage Ratio (continued)

Table 5: Leverage ratio (LR2)

		30 Jun 2018	31 Mar 2018
	On-Balance sheet exposures	R'm	R'm
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	42,333	43,772
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	-	-
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of row 1 and 2)	42,333	43,772
	Derivitave exposures		
4	Replacement cost associated with all derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	1,645	1,430
5	Add-on amounts for PFE associated with all derivatives transactions	743	400
6	Gross-up for derivatives collateral provide where deducted from the balance sheet assets pursuant to the operative accounting framework	-	-
7	(Deductions of receivable assets for cash variation margin provided in derivatives transactions)	-	-
8	(Exempted 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 (sum of rows 4 to 10)**	2,388	1,830
	Securities financing transactions		
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactionsaccounting transactions	8,401	1,309
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-	-
14	CCR exposure for SFT assets	-	-
15	Agent transaction exposures	-	-
16	**Total securities financing transaction exposures (sum of rows 12 to 15)**	8,401	1,309
	Other off-balance sheet exposures		
17	Off-balance sheet exposure at gross notional amount	14,959	15,271
18	(Adjustments for conversion to credit equivalent amounts)	-11,586	-11,716
19	**Off-balance sheet items (sum of rows 17 and 18)**	3,373	3,555
	Capital and total expsures		
20	**Tier 1 capital**	4,918	4,941
21	**Total exposures (sum of rows 3, 11, 16 and 19)**	56,495	50,465
	Leverage ratio		
22	**Basel III leverage ratio**	**8.71**	**9.79**

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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, HSBC JOH 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 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.

Liquidity Risk (continued)

Table 6: Liquidity coverage ratio (LIQ1)

		Total unweighted value (average)	Total weighted value (average)
	High quality liquid assets	R'm	R'm
1	Total HQLA		**23,694**
	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:**	**34,786**	**26,118**
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	3,230	807
7	Non-operational deposits (all counterparties)	31,556	25,311
8	Unsecured debt	-	-
9	**Secured wholesale funding**		-
10	**Additional requirements, of which:**	**13,444**	**11,723**
11	Outflows related to derivative exposures and other collateral requirements	11,458	11,458
12	Outflows related to loss of funding of debt products	-	-
13	Credit and liquidity facilities	1,986	265
14	**Other contractual funding obligations**	-	-
15	**Other contingent funding obligations**	**12,821**	**635**
16	**TOTAL CASH OUTFLOWS**		**38,477**
	Cash inflows		
17	**Secured lending (eg reverse repo)**	2,540	-
18	**Inflows from fully performing exposures**	8,747	7,158
19	**Other cash inflows**	11,386	11,386
20	**TOTAL CASH INFLOWS**	**22,673**	**18,544**
	Total adjusted value		
21	**Total HQLA**		**23,694**
22	**Total net cash outflows**		**19,933**
23	**Liquidity coverage ratio (%)**		**119%**

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Liquidity Risk (continued)

Table 7: Net stable ratio funding (LIQ2)

	Unweighted value by residual maturity				
	No maturity*	<6 months	6 months to <1 year	>1 year	Weighted value
Available stable funding (ASF) item	R'm	R'm	R'm	R'm	R'm
1 Capital:	-	-	-	5,045	5,045
2 Regulatory capital	-	-	-	5,045	5,045
3 Other capital instruments	-	-	-	-	-
4 Retail deposits and deposits from small business customers:	-	-	-	-	-
5 Stable deposits	-	-	-	-	-
6 Less stable deposits	-	-	-	-	-
7 Wholesale funding:	-	-	-	-	-
8 Operational deposits	-	3,023	-	-	1,512
9 Other wholesale funding	-	40,799	331	-	10,702
10 Liabilities with matching interdependent assets	-	-	-	-	-
11 Other liabilities:	-	-	-	-	-
12 NSFR derivative liabilities		-	-	303	
13 All other liabilities and equity not included in the above categories	-	565	-	-	-
14 **Total ASF**					17,259
Required stable funding (RSF) item	-	-	-	-	-
15 Total NSFR high-quality liquid assets (HQLA)	-	-	-	-	23,694
16 Deposits held at other financial institutions 17 for operational purposes	-	-	-	-	-
18 Performing loans and securities:	-	17,248	-	-	4,955
19 Performing loans to financial institutions secured by Level 1 HQLA	-	8,401	-	-	840
20 Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	-	8,847	425	2,576	4,115
21 Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:	-	3,582	1,226	-	2,404
22 With a risk weight of less than or equal to 35% under the Basel II standardised approach for credit risk	-	-	-	-	-
23 With a risk weight of less than or equal to 35% under the Basel II standardised approach for credit risk	-	-	-	-	-
24 Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	-	9,234	7,784	1,381	920
25 Assets with matching interdependent liabilities	-	-	-	-	-
26 Other liabilities:	-	-	-	-	-
27 Physical traded commodities, including gold	-				-
28 Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs		-	-	-	-
29 NSFR derivative assets		-	-	-	-
30 NSFR derivative liabilities before deduction of variation margin posted		-	-	1,909	191
31 All other assets not included in the above categories	-	-	-	6,082	6,082
32 Off-balance sheet items		14,959	-	-	748
33 **Total RSF**					**15,332**
34 **Net Stable Funding Ratio (%)**					**113%**

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Credit Risk

Credit risk is the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract. Credit risk represents our largest regulatory capital requirement.There have been no material changes to our policies and practices,which are described in the Pillar 3 Disclosures at 31 December 2017.

On 1 January 2018, HSBC implemented the requirements of IFRS 9 'Financial Instruments.'

Table 8: Credit quality of assets (CR1)

		Carrying values of			
		Defaulted exposures	Non-defaulted exposures	Allowances/ impairments	Net values (a+b+c)
		R'm	R'm	R'm	R'm
1	Loans	-	37,785	114	37,671
2	Debt securities	-	18,459	5	18,454
3	Off-balance sheet exposures	-	14,959	84	14,875
4	**Total**	-	**71,203**	**204**	**70,999**

Table 9: Changes in stock of defaulted loans and debt securities (CR2)

		30 Jun 2018
		R'm
1	**Defaulted loans and debt securities at the end of the previous reporting period**	-
2	Loans and debt securities that have defaulted since the last reporting period	-
3	Returned to non-default status	-
4	Amounts written off	-
5	Other changes	-
6	**Defaulted loans and debt securities at the end of the reporting period (1+2-3-4±5)**	-

Table 10: Credit risk mitigation techniques – overview (CR3)

		Exposures unsecured: carrying amount	Exposures secured by collateral	Exposures secured by collateral of which: secured amount	Exposures secured by financial guarantees	Exposures secured by financial guarantees of which: secured amount	Exposures secured by credit derivatives	Exposures secured by credit deriva-tives of which: secured amount
		R'm	R'm	R'm	R'm	R'm	R'm	R'm
1	Loans	37,785	12,132	12,132	-	-	-	-
2	Debt securities	18,459	-	-	-	-	-	-
3	Total	56,244	12,132	12,132	-	-	-	-
4	Of which defaulted	-	-	-	-	-	-	-

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Table 11: Credit risk exposure and Credit Risk Mitigation (CRM) effects (CR4)

	Asset classes	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
		R'm	R'm	R'm	R'm	R'm	R'm
1	Sovereigns and their central banks	18,465	-	18,465	-	54	0%
2	Non-central government public sector entities	755	57	755	28	778	99%
3	Multilateral development banks	-	-	-	-		
4	Banks	20,244	3,216	12,565	729	5,494	41%
5	Securities firms	-	-	-	-		
6	Corporates	16,779.22	11,686	12,476	1,591	14,352	102%
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**	**56,244**	**14,959**	**44,261**	**2,348**	**20,678**	-

Table 12: Standardised approach - exposures by asset classes and risk weights (CR5)

	Asset classes	0%	10%	20%	35%	50%	75%	100%	150%	Others	Exposures amount (post CCF and post CRM
		R'm	R'm	R'm	R'm	R'm	R'm	R'm	R'm	R'm	R'm
1	Sovereigns and their central banks	18,411	-	-	-	-	-	54	-	-	18,465
2	Non-central government public sector entities	-	-	-	-	10	-	773	-	-	783
3	Multilateral development banks	-	-	-	-	-	-	-	-	-	-
4	Banks	2,913	-	2,933	-	5,082	-	2,366	-	-	13,294
5	Securities firms	-	-	-	-	-	-	-	-	-	-
6	Corporates	-	-	-	-	-	-	13,281	785	-	14,066
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**	**21,325**	-	**2,933**	-	**5,092**	-	**16,475**	**785**	-	**46,609**

Counterparty Credit Risk

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.

Table 13: Analysis of counterparty credit risk (CCR) exposure by approach (CCR1)

		Replacement cost	Potential future exposure	EEPE	Alpha used for computing regulatory EAD	EAD post CRM	RWA
		R'm	R'm	R'm	R'm	R'm	R'm
1	SA-CCR (for derivatives)	1,645	930		1.4	3,489	2,539
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)					530	286
5	VaR for SFTs					-	-
6	**Total**						**2,825**

Table 14: Credit valuation adjustment (CVA) capital charge (CCR2)

		EAD post CRM	RWA
		R'm	R'm
	Total portfolios subject to the Advanced CVA capital charge	-	-
1	(i) VaR component (including the 3x multiplier)	-	-
2	(ii) Stressed VaR component (including the 3x multiplier)	-	-
3	All portfolios subject to the Standardised CVA capital charge	1,619	645
4	**Total subject to the CVA capital charge**	**1,619**	**645**

Table 15: Standardised approach - CCR exposures by regulatory portfolio and risk weights (CCR3)

		Risk weight								
	Regulatory portfolio	0%	10%	20%	50%	75%	100%	150%	Others	Total credit exposure
		R'm	R'm	R'm	R'm	R'm	R'm	R'm	R'm	R'm
1	Sovereigns	-	-	-	-	-	10	-	-	10
2	Non-central government public sector entities (PSEs)	-	-	-	-	-	-	-	-	-
3	Multilateral development banks (MDBs)	-	-	-	-	-	-	-	-	-
4	Banks	1,052	-	26	45	-	108	-	-	1,231
5	Securities firms	-	-	-	-	-	-	-	-	-
6	Corporates	-	-	-	-	-	2,204	152	-	2,356
7	Regulatory retail portfolios	-	-	-	-	-	-	-	-	-
8	Other assets	-	-	-	-	-	-	-	-	-
9	**Total**	**1,052**	**-**	**26**	**45**	**-**	**2,322**	**152**	**-**	**3,597**

Market Risk

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

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.

There were no material changes to the policies and practices for the management of market risk.

Table 16: Market risk under the standardised approach (SA) (MR1)

		Capital charge in SA
		R'm
1	General interest rate risk	54
2	Equity risk	-
3	Commodity risk	-
4	Foreign exchange risk	3
5	Credit spread risk - non-securitisations	-
6	Credit spread risk - securitisations (non-correlation trading portfolio)	-
7	Credit spread risk - securitisation (correlation trading portfolio)	-
8	Default risk - non-securitisations	-
9	Default risk - securitisations (non-correlation trading portfolio)	-
10	Default risk - securitisations (correlation trading portfolio)	-
11	Residual risk add-on	-
12	**Total**	**57**

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 repricing 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 (repricing) 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.

Table 17: Exposure to interest rate risk in the Banking Book

	30 Jun 2018
Exposure to interest rate risk in the banking book	R'm
NII sensitivity1	
2% instantaneous increase in interest rates	-238
2% instantaneous decline in interest rates	238
EVE sensitivity2	
2% instantaneous increase in interest rates	-231
2% instantaneous decline in interest rates	231

HSBC

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 (continued)

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

Table 18: Operational risk RWA's

	Capital required	RWA's
	R'm	R'm
At 30 June 2018	241	3,012

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.

Abbreviations

AFS	Annual Financial Statements
ALCO	Asset and Liability Committee
BCBS	Basel Committee on Banking Supervision
BSM	Balance Sheet Management
CEM	Current Exposure Method
CRA	Credit Risk Adjustments
CRM	Credit Risk Mitigation
CCF	Credit Conversion Factor
CCR	Counterparty Credit Risk
CVA	Credit Valuation Adjustment
EAD	Exposure at Default
ECAs	Export Credit Agency
EXCO	Executive Committee
FI	Financial Institutions
HBEU	HSBC Bank plc
HQLA	Highly Qualifying Liquid Assets
IRB	Internal Rating Based
IMM	Internal Model Method
JOH	HSBC Bank plc – Johannesburg Branch
LCR	Leverage Coverage Ratio
NSFR	Net Stable Ratio Funding

Abbreviations (continued)

RAS	Risk Appetite Statement
RMM	Risk Management Meeting
RWA	Risk Weighted Assets