HSBC Bank plc – Johannesburg Branch
Semi-Annual Pillar 3 Disclosure
30 June 2015

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Pillar 3 Disclosure

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HSBC Bank plc publishes comprehensive Pillar 3 disclosures annually on the HSBC internet site www.hsbc.com, simultaneously with the release of the Annual Report and Accounts. The following document should be read in conjunction with the HSBC Bank plc Pillar 3 Disclosures for the period ended 31 December 2014 and the HSBC Bank plc – Johannesburg Branch ("Branch") Annual Financial statements for the year ended 31 December 2014.

1. Scope of application

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

2. Financial performance

Statement of Financial Position	At 30 June 2015 ZAR'000
Assets	
Cash and balances with central bank	713 427
Short term negotiable securities	16 854 539
Loans and advances to customers	30 802 946
Gross loans and advances	30 810 477
Less: credit impairments	(7 531)
Investment and trading securities	674 875
Derivative financial instruments	809 593
Property and equipment	10 674
Current income tax assets	6 319
Deferred income tax assets	46 498
Other assets	671 584
Total assets	**50 590 455**
Liabilities and equities	
Deposits, current accounts and other creditors	45 395 183
Derivative financial instruments and other trading liabilities	655 117
Current income tax liabilities	–
Provisions	15 215
Other liabilities	880 786
Total liabilities	46 946 301
Total equity attributable to equity holders	3 644 154
Total equity	**3 644 154**
Total equity and liabilities	**50 590 455**

2. Financial performance (continued)

Statement of profit and loss	**At 30 June 2015 ZAR'000**
Interest and similar income	1 100 960
Interest expensive and similar charges	(911 474)
Net interest income	**189 486**
Fee and commission income	333 691
Fee and commission expense	(146 585)
Net fee and commission income	**187 106**
Net trading income/(loss)	256 070
Other gains less losses	–
Other operating income/(loss)	58 521
Non-interest revenue	**501 697**
Gross operating income/(loss)	**691 183**
Credit losses	–
Operating expenses	(173 394)
Operating profit/(loss) before non-trading and capital items	**517 789**
Direct taxation	(143 049)
Profit/(loss) for the period	**374 740**

3. Financial position

3.1 Risk measurement and management

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

The Branch's risk governance framework follows that of the Group. The Groups' framework is described on page 112 of the HSBC Holdings plc Annual Report and Accounts 2014. The Group's risk management and measurement is further disclosed in the HSBC Holdings plc Capital and Risk Management Pillar 3 Disclosures at 31 December 2014. It details the Group's strategies and processes; the scope and nature of its' risk reporting and risk management systems.

3. Financial position (continued)

3.1 Risk measurement and management (continued)

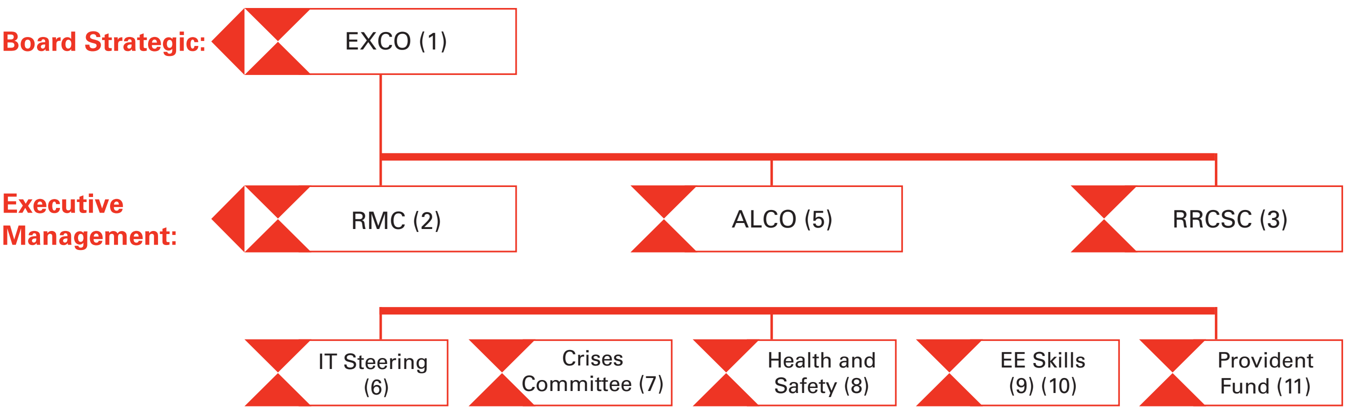
All risks impacting the Branch are monitored in the monthly Risk Management Committee, including:

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

Risk Management is aligned with the Group Framework.

The following table presents the governance structure of the Branch in 2015:

Governance structure



Banks Act
- Capital Risk (5)
- Compliance Risk (3)
- Concentration Risk (2) (5)
- Credit Risk (2)
- Currency Risk (5)
- Equity arising from positions held in the banks banking book (5)
- Interest Rate Risk (5)
- Liquidity Risk (5)
- Market Risk (position risk) in respect of position held in the bank's trading book (5)
- Operational Risk (2)
- Reputation Risk (3)
- Risk relating to procyclicality (2)
- Solvency Risk (5)

GSM Risks
- Market Risk (5) (2)
- Credit Risk (2)
- Liquidity Risk (5)
- Capital Risk (2)
- Business Performance Risk (1)
- Concentration Risk (5)
- Legal Risk (3)
- Operational Risk (7)
- Security Risk (6)
- Technological Risk (6)
- Business Continuity Risk (7)

3. Financial position (continued)

3.2 Capital adequacy and capital structure

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

	30 June 2015 ZAR'000
Endowment capital	1 420
Retained earnings	2 231
Other comprehensive income	(7)
	3 644
Regulatory adjustments	–
Common Equity Tier 1 Capital	**3 644**
Tier 2 capital and provisions	**6**
Total qualifying capital and reserves	**3 650**
Credit risk	22 541
Operational risk	1 756
Market risk	789
Other risk	799
Total risk weighted assets	**25 888**
Common Tier 1	**14.08%**
Total capital ratio	**14.10%**

3.3 Assessing adequacy of capital

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

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

3. Financial position (continued)

3.3 Assessing adequacy of capital (continued)

Risks not explicitly assessed via capital:

- Liquidity; and
- Interest rate risk in the banking book.

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

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

	30 June 2015 ZAR'000	
	Accounting balance sheet	Regulatory disclosure
Share capital and premium	1 420 025	1 420 025
Retained earnings	2 231 229	2 231 229
Other reserve funds	(7 100)	(7 100)
Unrealised gains and losses on available-for-sale	(7 100)	(7 100)
General allowance for credit impairments	7 531	5 949

3.5 Nature and extent of risk exposures

Credit Risk

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

Credit risk is part of the Global Risk function in HSBC. Across the Group, Credit risk fulfils the role of an independent credit control unit while engaging with the business to set priorities, define risk appetite and monitor and report high risk exposures. The Credit risk function locally is supported by the Group Credit Risk function within Regional centres. Its responsibilities include: formulating policy, guiding operating companies on credit appetite, independent reviews, monitoring performance of portfolios across the group, maintaining and developing HSBC's risk rating framework and systems.

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

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

3. Financial position (continued)

3.5 Nature and extent of risk exposures (continued)

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

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

The minimum regulatory credit risk capital requirements, the related risk weighted assets, and related exposures as at 30 June 2015 per sector:

	ZAR'000			
	Exposure at default	Gross credit exposure	Risk weighted assets	Regulatory capital requirements
Bank	23 539	29 103	8 988	7 190
Corporate	27 942	25 778	12 741	10 193
Public sector	–	616	–	–
Sovereign	17 546	17 738	–	–
Total	**69 027**	**73 234**	**21 729**	**17 383**

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

	30 June 2015 ZAR'000			
	Less than 1 year	1 – 5 years	5 – 10 years	Total
Bank	22 621	7 154	–	29 776
Corporate	15 145	9 961	–	25 105
Public sector entities	818	–	–	818
Sovereign	17 024	512	–	17 536
Total	**55 608**	**17 626**	**–**	**73 234**

3. Financial position (continued)

3.5 Nature and extent of risk exposures (continued)

A breakdown of loans and advances per industry:

	30 June 2015 ZAR'000
Agriculture, hunting, forestry and fishing	467
Mining and quarrying	2 529
Manufacturing	5 625
Electricity, gas and water supply	748
Construction	2 916
Wholesale and retail trade, repair of specified items, hotels and restaurants	4 922
Transport, storage and communication	1 254
Financial intermediation and insurance	53 458
Real estate	298
Business services	1 018
Community, social and personal services	1
Total	**73 234**

Average gross credit exposure per reporting period:

	30 June 2015 ZAR'000
Corporate	25 012
Public sector entities	817
Sovereign	16 835
Bank	31 362
Total	**74 026**

Past due and impairments

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

	30 June 2015 ZAR'000		
	Impairment loans	Specific impairments	Collective impairments
Opening balance	–	–	8
Credit impairments raised	–	–	–
Closing balance	**–**	**–**	**8**

3. Financial position (continued)

3.5 Nature and extent of risk exposures (continued)

The following table provides a breakdown per industry of the specific and collective impairments for the period ended per industry:

	30 June 2015 ZAR'000	
	Specific impairments	Collective impairments
Manufacturing	–	8
Total	**–**	**8**

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

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

- wholesale loans and advances classified as Customer Risk Rating ('CRR') 9 or CRR 10. These grades are assigned when the Branch or HSBC considers that either the customer is unlikely to pay their credit obligations in full, without recourse to security, or when the customer is more than 90 days past due on any material credit obligation to HSBC.
- renegotiated loans and advances that have been subject to a change in contractual cash flows as a result of a concession which the lender would not otherwise consider, and where it is probable that without the concession the borrower would be unable to meet the contractual payment obligations in full, unless the concession is insignificant and there are no other indicators of impairment. Renegotiated loans remain classified as impaired until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, and there are no other indicators of impairment.

Loan impairment approach

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

Individually assessed loans

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

3. Financial position (continued)

3.5 Nature and extent of risk exposures (continued)

Individually assessed loans (continued)

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

The Branch's approach for determining impairment allowances is consistent with the Parent and Group company and is explained on page 349 of the Annual Report and Accounts 2014, and the Group's definitions for accounting purposes of 'past due' and 'impaired' is set out on pages 136 and 137.

Recognition of risk mitigation under the standardised approach

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

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

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

The main types of collateral accepted by the Branch are:

- cash collateral, and
- guarantees.

3. Financial position (continued)

3.5 Nature and extent of risk exposures (continued)

Credit Risk Mitigation

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

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

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

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

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

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

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

The Branch's approach for policies and processes is consistent with the Group and those relating to on- and off-balance sheet netting is disclosed on page 72 of the HSBC Holdings plc Capital and Risk Management Pillar 3 Disclosures.

3. Financial position (continued)

3.5 Nature and extent of risk exposures (continued)

Credit Risk Mitigation (continued)

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

	30 June 2015 ZAR'000			
	Total credit exposure pre CRM	**Credit exposure post CRM**	**Total credit exposure pre CRM**	**Credit exposure post CRM**
Corporate	25 778	23 539	19 927	19 730
Public sector entities	616	616	1 149	588
Sovereign	17 738	17 546	17 067	17 067
Bank	29 103	27 942	30 625	27 377
Total	**73 234**	**69 643**	**68 768**	**64 402**

Market risk

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

	30 June 2015 ZAR'000	
	Regulatory capital requirement	**Risk weighted assets**
Market risk (Banking Book)	**79**	**789**

Capital requirement per sub-category of market risk:

	30 June 2015 ZAR'000
	Regulatory capital requirement
Interest rate risk	55
Foreign exchange risk	9
Systematic risk add-on (pillar 2a) market risk requirement	16
Total	**79**

3. Financial position (continued)

3.5 Nature and extent of risk exposures (continued)

Operational risk

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

	30 June 2015 ZAR'000 Regulatory capital requirement	Risk weighted assets
Operational risk	**176**	**1 756**

Interest Rate Risk (Banking Book)

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

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

	30 June 2015 ZAR'000 Change in the economic value of equity
Interest rate increase	(133)
Interest rate decrease	133
Impact of adverse change in specified key rates	(15)

4. Remuneration

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

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

- Assess performance and values-aligned behaviour with reference to clear and relevant objectives set within a balanced scorecard framework;
- Under this framework, objectives are set under four categories – financial, process (including risk mitigation), customer and people. Significant importance is given to the achievement of efficiency and risk objectives as well as financial objectives; and
- Objectives relating to customer development and the productivity of our human capital are key to sustained financial performance and the development of the Branch and HSBC Group over the short and medium term.

As a wholly owned subsidiary, HSBC Bank plc and its branches are subject to the remuneration policy established by the Group. Details of the Group's remuneration policy, including details on the Remuneration Committee membership and its activities, the remuneration strategy and tables showing the remuneration details of HSBC's Identified Staff and Material Risk Takers may be found in the Remuneration Policy on the website (http://www.hsbc.com/investor-relations/governance) and in the Directors' Remuneration Report on pages 300 – 323 of the HSBC Holdings plc Annual Report and Accounts 2014.

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

Other salient information on remuneration

ZAR'000	Guaranteed bonuses awarded during the financial year	Severance payments made during the financial year	Outstanding deferred remuneration: Phantom shares	Remuneration paid: Fixed and variable remuneration	Remuneration paid: Deferred remuneration	Remuneration paid: Prescribed office
2014	**400**	**728**	**13 334**	**226 561**	**63 954**	**33 743**

Remuneration paid to a prescribed office

Of the amounts paid to individuals' holding a prescribed office, R18 898 000 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.