HSBC Bank plc - Johannesburg Branch

Pillar 3 Half-year disclosure

June 2020

HSBC

PUBLIC

Contents

Regulatory framework for disclosure

HSBC Bank plc – Johannesburg Branch ('HSBC JOH' or 'the branch') is supervised by the Prudential Authority of the South African Reserve Bank, which receives information on the capital adequacy of, and sets capital requirements for South African banks and local branches of foreign banks. The capital requirements are calculated based on the various regulations relating to financial services, including the 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 processes are complemented by Pillar 3 disclosure requirements (to exert 'market discipline' through common and granular risk disclosure). The aim of the Pillar 3 disclosure framework is to require banks 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 at 30 June 2020 comprise all information required under Pillar 3, both quantitative and qualitative. HSBC Group has implemented the Basel Committee on Banking Supervision ('BCBS') final standards on revised Pillar 3 disclosures issued in January 2015. HSBC Holdings plc & HSBC Bank plc publishes comprehensive Pillar 3 disclosures annually, half-yearly and quarterly on the HSBC website: www.hsbc.com (under Investors) , which for the annual disclosures are simultaneous with the release of the Group's Annual Report and Accounts. Pillar 3 requirements may be met by inclusion in other disclosure sources within the wider Group. Where we adopt this 'sign-posting' 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. At 30 June 2020, 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 of its strategy.

During 2019, ExCo reviewed and approved the disclosure policy, which incorporates the revised Pillar 3 disclosure requirements set out by the BCBS.

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 matrics and overview of RWA

Table 1: Key metrics (KM1)

		At				
		30-Jun 2020 R'm	31-Mar 2020 R'm	31-Dec 2019 R'm	30-Sep 2019 R'm	30-Jun 2019 R'm
	Available capital (amounts)					
1	Common Equity Tier 1 (CET1)	5 502	5 326	5 268	5 432	5 444
1a	Fully loaded ECL accounting model	5 502	5 326	5 268	5 432	5 444
2	Tier 1	5 502	5 326	5 268	5 432	5 444
2a	Fully loaded accounting model Tier 1	5 502	5 326	5 268	5 432	5 444
3	Total capital	5 632	5 383	5 505	5 695	5 700
3a	Fully loaded ECL accounting model total capital	5 632	5 383	5 505	5 695	5 700
	Risk-weighted assets (amounts)					
4	Total risk-weighted assets (RWA)	23 035	26 654	23 344	25 471	24 783
	Risk-based capital ratios as a percentage of RWA					
5	Common Equity Tier 1 ratio (%)	23.89%	19.98%	22.57%	21.33%	21.97%
5a	Fully loaded ECL accounting model CET1 (%)	23.89%	19.98%	22.57%	21.33%	21.97%
6	Tier 1 ratio (%)	23.89%	19.98%	22.57%	21.33%	21.97%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	23.89%	19.98%	22.57%	21.33%	21.97%
7	Total capital ratio (%)	24.45%	20.19%	23.58%	22.36%	23.00%
7a	Fully loaded ECL accounting model total capital ratio (%)	24.45%	20.19%	23.58%	22.36%	23.00%
	Additional CET1 buffer requirements as a percentage of RWA					
8	Capital conservation buffer requirement (2.5% from 2019) (%)	2.50%	2.50%	2.50%	2.50%	2.50%
9	Countercyclical buffer requirement (%)	0.00%	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)	2.50%	2.50%	2.50%	2.50%	2.50%
12	CET1 available after meeting the bank's minimum capital requirements (%)	16.01%	12.11%	14.69%	13.45%	13.45%
	Basel III Leverage Ratio					
13	Total Basel III leverage ratio measure	59 321	65 781	53 758	62 824	59 135
14	Basel III leverage ratio (%) (row 2/row 13)	9.27%	8.10%	9.80%	8.65%	9.21%
14a	Fully loaded ECL accounting model Basel III leverage ratio (%) (row 2A/row 13)	9.27%	8.10%	9.80%	8.65%	9.21%
	Liquidity Coverage Ratio					
15	Total HQLA	36 845	25 852	26 262	28 296	22 668
16	Total net cash outflow	27 951	19 991	17 615	23 679	16 823
17	LCR ratio (%)	132%	129%	149%	119%	135%
	Net Stable Funding Ratio					
18	Total available stable funding	21 215	21 778	20 645	20 055	20 099
19	Total required stable funding	15 689	17 328	14 420	15 929	15 885
20	NSFR (%)	**135%**	**126%**	**126%**	**127%**	**128%**

Risk management

Table 2: Overview of risk management (OV1)

		RWA		Minimum capital requirements[1]
		30-Jun 2020 R'm	31-Mar 2020 R'm	30-Jun 2020 R'm
1	**Credit risk (excluding counterparty credit risk)**	**18,503**	**21,713**	**2,128**
2	Of which: standardised approach (SA)	18,503	21,713	2,128
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)**	**724**	**1,148**	**83**
7	Of which: standardised approach for counterparty credit risk	724	1,148	83
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**	**214**	**224**	**17**
21	Of which: standardised approach (SA)	214	224	17
22	Of which: internal model approaches (IMA)	-	-	-
23	**Capital charge for switch between trading book and banking book**	-	-	-
24	**Operational risk**	**3,211**	**3,211**	**369**
25	**Amounts below thresholds for deduction (subject to 250% risk weight)**	**383**	**357**	**44**
26	**Floor adjustment**	-	-	-
27	**Total (1+6+10+11+12+13+14+15+16+20+23+24+25+26)**	**23,035**	**26,654**	**2,642**

[1] This includes the Basel base minimum of 8%, plus Pillar 2A capital requirement, plus any applicable Basel buffers.

Composition of capital

Table 3: Composition of regulatory capital (CC1)

		30-Jun 2020 R'm
	Common Equity Tier 1 capital: instruments and reserves	
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	1 420
2	Retained earnings	3 861
3	Accumulated other comprehensive income (and other reserves)	222
4	*Directly issued capital subject to phase-out from CET1 (only applicable to non-joint stock companies)*	-
5	Common share capital issued by third parties (amount allowed in group CET1)	-
6	**Common Equity Tier 1 capital before regulatory deductions**	**5 502**
	Common Equity Tier 1 capital regulatory adjustments	
7	Prudent valuation adjustments	-
8	Goodwill (net of related tax liability)	-
9	Other intangibles other than mortgage servicing rights (net of related tax liability)	-
10	Deferred tax assets that rely on future profitability, excluding those arising from temporary differences (net of related tax liability)	-
11	Cash flow hedge reserve	-
12	Shortfall of provisions to expected losses	-
13	Securitisation gain on sale (as set out in paragraph 36 of Basel III securitisation framework)	-
14	Gains and losses due to changes in own credit risk on fair valued liabilities	-
15	Defined benefit pension fund net assets	-
16	Investments in own shares (if not already subtracted from paid-in capital on reported balance sheet)	-
17	Reciprocal cross-holdings in common equity	-
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-
20	Mortgage servicing rights (amount above 10% threshold)	-
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-
22	Amount exceeding 15% threshold	-
23	Of which: significant investments in the common stock of financials	-
24	Of which: mortgage servicing rights	-
25	Of which: deferred tax assets arising from temporary differences	-
26	National specific regulatory adjustments	-
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-
28	**Total regulatory adjustments to Common Equity Tier 1**	-

29	**Common Equity Tier 1 capital (CET1)**	5 502
	Additional Tier 1 capital: instruments	
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	-
31	OF which: classified as equity under applicable accounting standards	-
32	Of which: classified as liabilities under applicable accounting standards	-
33	*Directly issued capital instruments subject to phase-out from additional Tier 1*	-
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in AT1)	-
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	Investments in own additional Tier 1 instruments	-
38	Reciprocal cross-holdings in additional Tier 1 instruments	-
39	Investments in capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation	-
40	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation	-
41	National specific regulatory adjustments	-
42	Regulatory adjustments applied to additional Tier 1 due to insufficient Tier 2 to cover deductions	-
43	Total regulatory adjustments to additional Tier 1 capital	-
44	**Additional Tier 1 capital (AT1)**	**-**
45	**Tier 1 capital (T1= CET1 + AT1)**	**5 502**
	Tier 2 capital: instruments and provisions	
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	-
47	*Directly issued capital instruments subject to phase-out from Tier 2*	-
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	-
49	*Of which: instruments issued by subsidiaries subject to phase-out*	-
50	Provisions	130
51	**Tier 2 capital before regulatory adjustments**	130
	Tier 2 capital: regulatory adjustments	
52	Investments in own Tier 2 instruments	-
53	Reciprocal cross-holdings in Tier 2 instruments and other TLAC liabilities	-
54	Investments in capital and other TLAC liabilities of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-
54a	Investments in the other TLAC liabilities of banking, financial and insurance entities that are outside the scope of regulatory consolidation and where the bank does not own more than 10% of the issued common share capital of the entity: amount previously designated for the 5% threshold but that no longer meets the conditions (for G-SIBs only)	-
55	Significant investments in the capital and other TLAC liabilities of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-
56	National specific regulatory adjustments	-
57	**Total regulatory adjustments to Tier 2 capital**	130
58	**Tier 2 capital (T2)**	130
59	**Total regulatory capital (TC = T1 + T2)**	5 633
60	**Total risk-weighted assets**	23 035

61	**Common Equity Tier 1 (as a percentage of risk-weighted assets)**	23.89%
62	**Tier 1 (as a percentage of risk-weighted assets)**	23.89%
63	**Total capital (as a percentage of risk-weighted assets)**	24.45%
64	**Institution specific buffer requirement (capital conservation buffer plus countercyclical buffer requirements plus higher loss absorbency requirement, expressed as a percentage of risk-weighted assets)**	2.50%
65	**Of which: capital conservation buffer requirement**	2.50%
66	**Of which: bank-specific countercyclical buffer requirement**	0.00%
67	**Of which: higher loss absorbency requirement**	-
68	**Common Equity Tier 1 (as a percentage of risk-weighted assets) available after meeting the bank's minimum capital requirement.**	16.01%
	National minima (if different from Basel III)	
69	National Common Equity Tier 1 minimum ratio (if different from Basel III minimum)	-
70	National Tier 1 minimum ratio (if different from Basel III minimum)	-
71	National total capital minimum (if different from Basel III minimum)	-
	Amounts below the thresholds for deduction (before risk weighting)	
72	Non-significant investments in the capital and other TLAC liabilities of other financial entities	-
73	Significant investments in common stock of financial entities	-
74	Mortgage servicing rights (net of related tax liability)	-
75	Deferred tax assets arising from temporary differences (net of related tax liability)	153
	Applicable caps on the inclusion of provisions in Tier 2	
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	-
77	Cap on inclusion of provisions in Tier 2 under standardised approach	-
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	-
79	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	-
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)	
80	*Current cap on CET1 instruments subject to phase-out arrangements*	-
81	*Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)*	-
82	*Current cap on AT1 instruments subject to phase-out arrangements*	-
83	*Amount excluded from AT1 due to cap (excess after redemptions and maturities)*	-
84	*Current cap on T2 instruments subject to phase-out arrangements*	-
85	*Amount excluded from T2 due to cap (excess after redemptions and maturities)*	-

Macroprudential supervisory measures

Table 4 : Geographical distribution of credit exposures used in the countercyclical capital buffer (CCyB1)

Geographical breakdown	Countercyclical capital buffer rate	Exposure values and/or risk weighted assets used in the computation of the countercyclical capital buffer: Exposure value	Exposure values and/or risk weighted assets used in the computation of the countercyclical capital buffer: Risk weighted-assets	Bank-specific countercyclical capital buffer rate	Countercyclical buffer amount
		Rm	Rm		
United Kingdom	1.00%	-	-		
Hong Kong	2.50%	-	-		
SUM		**-**	**-**		
Total		**13 764**	**13 347**	**0.00%**	**-**

Leverage ratio

Our leverage ratio calculated in accordance with South African Banks Act, 1990 was 9.27% at 30 June 2020, decreased from 9.8% at 31 December 2019, mainly due to the increase in balance sheet exposures.

Table 5: Summary comparison of accounting assets vs leverage ratio exposure (LR1)

		30-Jun 2020 R'm
1	Total consolidated assets as per the BA 900	57,146
2	Adjustments for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	-
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	789
5	Adjustment for securities financing transactions (ie repos and similar secured lending)	8,670
6	Adjustments for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	2,612
7	Other adjustments	(9,896)
8	**Leverage ratio exposure measure**	**59,321**

Table 6: Leverage ratio (LR2)

		30-Jun 2020 R'm	31-Mar 2020 R'm
On-balance sheet exposures			
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	47,249	52,931
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)**	47,249	52,931
Derivative exposures			
4	Replacement cost associated with all derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	498	1,338
5	Add-on amounts for PFE associated with all derivatives transactions	291	348
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)**	789	1,686
Securities financing transactions			
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	8,670	8,404
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)**	8,670	8,404
Other off-balance sheet exposures			
17	Off-balance sheet exposure at gross notional amount	14,565	14,718
18	(Adjustments for conversion to credit equivalent amounts)	(11,953)	(11,957)
19	**Off-balance sheet items (sum of rows 17 and 18)**	2,612	2,761
Capital and total exposures			
20	**Tier 1 capital**	5,502	5,326
21	**Total exposures (sum of rows 3, 11, 16 and 19)**	59,321	65,781
Leverage ratio			
22	**Basel III leverage ratio**	**9.27%**	**8.10%**

Liquidity Risk

Table 7: Liquidity coverage ratio (LIQ1)

		Total unweighted value (average) R'm	Total weighted value (average) R'm
High-quality liquid assets			
1	Total HQLA		37,779
Cash outflows			
2	**Retail deposits and deposits from small business customers, of which:**		
3	Stable deposits	-	-
4	Less stable deposits	-	-
5	**Unsecured wholesale funding, of which:**		
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	2,895	724
7	Non-operational deposits (all counterparties)	43,552	36,140
8	Unsecured debt	-	-
9	**Secured wholesale funding**		-
10	**Additional requirements, of which:**		
11	Outflows related to derivative exposures and other collateral requirements	10,360	10,360
12	Outflows related to loss of funding of debt products	-	-
13	Credit and liquidity facilities	430	89
14	**Other contractual funding obligations**	-	-
15	**Other contingent funding obligations**	14,581	719
16	**TOTAL CASH OUTFLOWS**		48,032
Cash inflows			
17	**Secured lending (eg reverse repo)**	4,159	-
18	**Inflows from fully performing exposures**	9,855	7,108
19	**Other cash inflows**	10,267	10,267
20	**TOTAL CASH INFLOWS**	24,282	17,375
			Total adjusted value
21	**Total HQLA**		36,845
22	**Total net cash outflows**		27,951
23	**Liquidity coverage ratio (%)**		**132%**

The strong liquidity and funding position can be evidenced by the LCR of 132%. The reason for this differing to the above is table is that LIQ1 requires disclosure of the average LCR. HSBC has used a simple average of month end averages over the last 6 months in local currency.

The composition of the HQLA is T-bills and other government securities. As a result of the HQLA all being held in local currency there is a currency mismatch.

As a result of the target market and the number of clients there is a concentration of funding mitigated by large holding of liquid assets. The improvement is largely attributable to business-as-usual mix changes across both advances and deposits.

Table 8: Net stable ratio funding (NSFR) (LIQ2)

		Unweighted value by residual maturity				
		No maturity*	<6 months	6 months to <1 year	≥1 year	Weighted value
		R'm	R'm	R'm	R'm	R'm
Available stable funding (ASF) item						
1	Capital:				5 632	5 632
2	*Regulatory capital*	-	-	-	5 632	5 632
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*	-	2 758	-	-	1 379
9	*Other wholesale funding*	-	46 807	456	-	14 204
10	Liabilities with matching interdependent assets					
11	Other liabilities:					
12	*NSFR derivative liabilities*				14	
13	*All other liabilities and equity not included in the above categories*	-	689	-	-	-
14	**Total ASF**					21 215
Required stable funding (RSF) item						
15	Total NSFR high-quality liquid assets (HQLA)					-
16	Deposits held at other financial institutions for operational purposes		-	-	-	-
17	Performing loans and securities:		11 179			3 790
18	*Performing loans to financial institutions secured by Level 1 HQLA*	-	8 670	-	-	867
19	*Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions*	-	2 509	-	2 546	2 923
20	*Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:*	-	6 787	17	-	3 402
21	*With a risk weight of less than or equal to 35% under the Basel II standardised approach for credit risk*	-	-	-	-	-
22	*Performing residential mortgages, of which:*	-	-	-	-	-
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*	-	12 187	16 759	-	1 447
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*				500	50
31	*All other assets not included in the above categories*	-			6 223	6 223
32	Off-balance sheet items		14 565			728
33	***Total RSF***					**15 689**
34	***Net Stable Funding Ratio (%)***					**135%**

JOH exceeded the minimum NSFR regulatory requirement of 100% effective from 1 January 2018, and at 30 June 2020 NSFR is 135%.

The improvement is largely attributable to business-as-usual mix changes between corporate and financial institutional clients across both assets and liabilities.

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

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 2019.

Table 9: Credit quality of assets (CR1)

	Carrying values of		Allowances/ impairments	Net values
	Defaulted exposures	Non-defaulted exposures		
	R'm	R'm	R'm	R'm
Loans	-	30 763	847	29 916
Debt securities	-	29 084	121	28 963
Off-balance sheet exposures	-	14 565	22	14 543
Total	**-**	**74 413**	**991**	**73 422**

Table 10: Changes in stock of defaulted loans and debt securities (CR2)

		30-Jun 2020 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 11: 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 derivatives, of which: secured amount
		R'm	R'm	R'm	R'm	R'm	R'm	R'm
1	Loans	18 563	11 354	10 932	-	-	-	-
2	Debt securities	28 963	-	-	-	-	-	-
3	Total	47 526	11 354	10 932	-	-	-	-
4	Of which defaulted	-	-	-	-	-	-	-

Table 12: Credit risk exposure and Credit Risk Mitigation (CRM) effects (CR4)

		Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
	Asset classes	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	
1	Sovereigns and their central banks	30 114	-	29 132	-	20	0%
2	Non-central government public sector entities	1 307	27	1 307	0	1 305	7%
3	Multilateral development banks	-	-	-	-	-	-
4	Banks	12 699	3 808	5 357	817	3 315	18%
5	Securities firms	-	-	-	-	-	-
6	Corporates	15 728	10 730	12 463	556	13 349	72%
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	1 475	-	1 475	-	515	3%
14	**Total**	**61 323**	**14 565**	**49 735**	**1 372**	**18 503**	**100%**

Table 13: Standardised approach - exposures by asset classes and risk weights (CR5)

Asset classes	0%	10%	20%	35%	50%	75%	100%	150%	Others	Total credit 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
Sovereigns and their central banks	29 112	-	-	-	-	-	20	-	-	29 132
Non-central government public sector entities	-	-	-	-	5	-	1 302	-	-	1 307
Multilateral development banks	-	-	-	-	-	-	-	-	-	-
Banks	915	-	2 381	-	46	-	2 832	-	-	6 174
Securities firms	-	-	-	-	-	-	-	-	-	-
Corporates	-	-	-	-	2	-	11 215	1 802	-	13 019
Regulatory retail portfolios	-	-	-	-	-	-	-	-	-	-
Secured by residential property	-	-	-	-	-	-	-	-	-	-
Secured by commercial real estate	-	-	-	-	-	-	-	-	-	-
Equity	-	-	-	-	-	-	-	-	-	-
Past-due loans	-	-	-	-	-	-	-	-	-	-
Higher-risk categories	-	-	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	-	-	-	-
Total	**30 027**	**-**	**2 381**	**-**	**54**	**-**	**15 368**	**1 802**	**-**	**49 632**

Counterparty credit risk

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

Three approaches may be used to calculate exposure values for CCR: Current Exposure Methods ('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 14: 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)	491	440		1.4	1 303	733
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)					506	137
5	VaR for SFTs						
6	**Total**						**870**

Table 15: 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	425	138
4	Total subject to the CVA capital charge	**425**	**138**

Table 16: 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**
Sovereigns	-	-	-	-	-	89	-	-	**89**
Non-central government public sector entities (PSEs)	-	-	-	-	-	-	-	-	**-**
Multilateral development banks (MDBs)	-	-	-	-	-	-	-	-	**-**
Banks	570		-	-		-	-	-	**571**
Securities firms	-	-	-	-	-	-	-	-	**-**
Corporates						733	-	-	**733**
Regulatory retail portfolios	-	-	-	-	-	-	-	-	**-**
Other assets	-	-	-	-	-	-	-	-	**-**
Total	**570**	**-**	**-**	**-**	**-**	**821**	**-**	**-**	**1 392**

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 optimize return on risk while maintaining a market profile consistent with the Group's status as a premier provider of financial products and services.

Main market risk exposures in South Africa are:

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

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

Table 17: Market risk under the standardised approach (SA) (MR1)

		Capital charge in SA R'm
1	General interest rate risk	16
2	Equity risk	-
3	Commodity risk	-
4	Foreign exchange risk	1
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**	**17**

Abbreviations

AFS	Annual Financial Statements
ALCO	Asset and Liability Committee
BCBS	Basel Committee and Banking Supervision
BSM	Balance Sheet Management
CEM	Current Exposure Method
CRA	Credit Risk Adjustments
CRM	Credit Risk Mitigation
CCR	Counterparty Credit Risk
CCF	Credit Conversion Factor
CRO	Chief Risk Officer
CVA	Credit Valuation Adjustment
EAD	Exposure at Default
ECAs	Export Credit Agency
ExCo	Executive Committee
HBEU	HSBC Bank plc
HSBC JOH	HSBC Bank plc Johannesburg Branch
HQLA	Highly Qualifying Liquid Assets
IRB	Internal Rating Based
IMM	Internal Model Method
LCR	Liquidity Coverage Ratio
NSFR	Net Stable Ratio Funding
ORMF	Operational Risk Management Framework
RAS	Risk Appetite Statement
RMM	Risk Management Meeting
RWA	Risk Weighted Assets
SFT	Securities Funding Transactions
WMR	Wholesale Market Risk