HSBC Bank plc - Johannesburg Branch

Pillar 3 Annual disclosure

December 2019

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 31 December 2019 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 31 December 2019, 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 approved the disclosure policy, which had been updated to incorporate 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 metrics and overview of RWA

Table 1: Key metrics (KM1)

		At				
		31-Dec 2019 R'm	30-Sep 2019 R'm	30-Jun 2019 R'm	31-Mar 2019 R'm	31-Dec 2018 R'm
	Available capital (amounts)					
1	Common Equity Tier 1 (CET1)	5 268	5 432	5 444	5 452	5 414
1a	Fully loaded ECL accounting model	5 268	5 432	5 444	5 452	5 414
2	Tier 1	5 268	5 432	5 444	5 452	5 414
2a	Fully loaded accounting model Tier 1	5 268	5 432	5 444	5 452	5 414
3	Total capital	5 505	5 695	5 700	5 625	5 586
3a	Fully loaded ECL accounting model total capital	5 505	5 695	5 700	5 625	5 586
	Risk-weighted assets (amounts)					
4	Total risk-weighted assets (RWA)	23 344	25 471	24 783	24 613	28 017
	Risk-based capital ratios as a percentage of RWA					
5	Common Equity Tier 1 ratio (%)	22.57%	21.33%	21.97%	22.15%	19.33%
5a	Fully loaded ECL accounting model CET1 (%)	22.57%	21.33%	21.97%	22.15%	19.33%
6	Tier 1 ratio (%)	22.57%	21.33%	21.97%	22.15%	19.33%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	22.57%	21.33%	21.97%	22.15%	19.33%
7	Total capital ratio (%)	23.58%	22.36%	23.00%	22.85%	19.94%
7a	Fully loaded ECL accounting model total capital ratio (%)	23.58%	22.36%	23.00%	22.85%	19.94%
	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 (%)	14.69%	13.45%	13.45%	13.45%	13.45%
	Basel III Leverage Ratio					
13	Total Basel III leverage ratio measure	53 758	62 824	59 135	60 185	63 704
14	Basel III leverage ratio (%) (row 2/row 13)	9.80%	8.65%	9.21%	9.06%	8.50%
14a	Fully loaded ECL accounting model Basel III leverage ratio (%) (row 2A/row 13)	9.80%	8.65%	9.21%	9.06%	8.50%
	Liquidity Coverage Ratio					
15	Total HQLA	26 262	28 296	22 668	32 082	29 098
16	Total net cash outflow	17 615	23 679	16 823	24 619	21 658
17	LCR ratio (%)	149%	119%	135%	130%	134%
	Net Stable Funding Ratio					
18	Total available stable funding	20 645	20 055	20 099	21 059	22 579
19	Total required stable funding	14 420	15 929	15 885	16 400	16 707
20	NSFR ratio (%)	**143%**	**126%**	**127%**	**128%**	**135%**

Risk management

Risk management framework

HSBC JOH follows the HSBC Group's enterprise-wide risk management framework which is used across the organisation and across all risk types. It is underpinned by our risk culture.

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 incurred in the activities.

Further information on the risk management framework is set out on page 74 of the *HSBC Holdings plc Annual Report and Accounts 2019 on* www.hsbc.com/investors/investor-events-and-presentations?page=1&take=20 . The management and mitigation of principal risks facing the Group is described in the top and emerging risks on page 76 of the *HSBC Holdings plc Annual Report and Accounts 2019.*

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. 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. The fostering of a strong culture is a key responsibility of our senior executives.

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 73 and 185 *of the HSBC Holdings plc Annual Report and Accounts 2019.*

Risk governance

ExCo has ultimate responsibility for the effective management of risk. 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 ('CRO'). The CRO is supported by the Risk Management Meeting ('RMM') and the HSBC JOH management team. HSBC JOH's risk appetite is approved by the 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. All employees have a role to play in risk management. These roles are defined using the three lines of defence model, which takes into account the Group's business and functional structures.

HSBC JOH's risk governance structures ensure appropriate oversight and accountability of risk, which facilitates the reporting and escalation to the RMM (see page 74 of the *HSBC Holdings plc Annual Report and Accounts 2019).*

Risk appetite

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

The risk appetite informs HSBC JOH's strategic and financial planning process, defining the desired forward-looking risk profile. It is also integrated within other risk management tools, such as the top and emerging risks report and stress testing, to ensure consistency in risk management. This is consistent with the Group. Information on the Group' risk management tools (and consequently the Branch) is set out on page 74 of the *HSBC Holdings plc Annual Report and Accounts 2019*. Details on the Group's overarching risk appetite are set out on page 73 of the *HSBC Holdings plc Annual Report and Accounts 2019*.

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.

Asset and Liability committee's ('ALCO') responsibility:

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

RMM's responsibility:

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

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

Further information on stress testing and details of the Group's regulatory stress test results are set out on page 75 of the *HSBC Holdings plc Annual Report and Accounts 2019*.

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 75 of the *HSBC Holdings plc Annual Report and Accounts 2019)*. HSBC JOH follows this same approach.

Risk management and internal control systems

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

HSBC’s key risk management and internal control procedures are described on page 173 of the *HSBC Holdings plc Annual Report and Accounts 2019*, 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.

HSBC continues to invest significant resources in IT systems and processes in order to maintain and improve our risk management capabilities. Group standards govern the procurement and operation of systems used in our subsidiaries to process risk information within business lines and risk functions. Group policy promotes the deployment of preferred technology where practicable. This is consistent with the approach of HSBC JOH.

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

Table 2: Overview of risk management (OV1)

		RWA		Minimum capital requirements[1]
		31-Dec 2019 R'm	30-Sep 2019 R'm	31-Dec 2019 R'm
1	**Credit risk (excluding counterparty credit risk)**	**18 439**	**20 384**	**2 120**
2	Of which: standardised approach (SA)	18 439	20 384	2 120
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)**	**1 051**	**1 268**	**121**
7	Of which: standardised approach for counterparty credit risk	1 051	1 268	121
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**	**201**	**208**	**16**
21	Of which: standardised approach (SA)	201	208	16
22	Of which: internal model approaches (IMA)	-	-	-
23	**Capital charge for switch between trading book and banking book**	-	-	-
24	**Operational risk**	**3 211**	**3 181**	**369**
25	**Amounts below thresholds for deduction (subject to 250% risk weight)**	**441**	**430**	**51**
26	**Floor adjustment**	-	-	-
27	**Total (1+6+10+11+12+13+14+15+16+20+23+24+25+26)**	**23 344**	**25 471**	**2 677**

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

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Financial performance

Table 3: Summarised statement of comprehensive income for the year ending 31 December 2019

	31-Dec 2019 R'm
Net interest income	**1 149**
Trading revenue and fee income	**460**
Gross operating income	**1 609**
Credit impairment (raised)/released	**(349)**
Operating expenses	**(459)**
Net profit before taxation	**800**
Taxation	**(226)**
Net profit after taxation	**574**

Table 4: Statement of financial position at December 2019

	31-Dec 2019 R'm
Cash and cash equivalents	1 209
Trading assets	733
Loans and advances to banks	9 352
Loans and advances to customers	13 275
Balances with group companies	1 114
Investment securities	22 579
Current tax assets	28
Right-of-use asset	84
Property and equipment	80
Other assets	1 718
Deferred tax asset	169
Total assets	**50 340**
Trading liabilities	601
Deposits from banks	27
Deposits from customers	36 711
Balances with group companies	5 865
Current tax liabilities	-
Other liabilities	1 607
Provision	110
Total liabilities	**44 921**
Branch capital	**1 420**
Fair value reserve (available-for-sale financial assets)	**(1)**
Retained earnings	**4 001**
Total equity	**5 420**
Total liabilities and equity	**50 340**

Linkage between financial statements and regulatory exposures

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

In a first step, LI1 below shows a breakdown of the accounting balances into the risk types that form the basis for regulatory capital requirements. LI2 then shows the main differences between the accounting balances and regulatory exposures by regulatory risk type.

Table 5: Mapping of financial statement with regulatory risk categories (LI1)

			Carrying values of items:				
	Carrying values as reported the annual financial statements R'm	Carrying values under scope of regulatory consolidation[1] R'm	Subject to credit risk framework R'm	Subject to CRR framework R'm	Subject to the securitisation framework R'm	Subject to the market risk framework R'm	Subject to deduction from capital or not subject to regulatory capital requirements R'm
Assets							
Cash and cash equivalents	**1 209**	**1 060**	1 060	-	-	-	-
Trading assets	**1 387**	**1 387**	-	1 387	-	-	-
Derivative financial instruments	**733**	**733**	-	733	-	-	-
Loans and advances to banks	**9 452**	**9 609**	9 609	-	-	-	-
Loans and advances to customers	**11 423**	**11 511**	11 511	-	-	-	-
Reverse repurchase agreements and other similar secured lending	**2 866**	**2 866**	-	2 866	-	-	-
Investment securities	**22 579**	**22 579**	22 579	-	-	-	-
Current and deferred tax assets	**197**	**210**	33	-	-	-	177
Right of use asset	**84**	**-**	-				
Property and equipment	**80**	**162**	-	-	-	-	162
Other assets	**331**	**230**	-	-	-	-	230
Total assets at 31 Dec 2019	**50 340**	**50 346**	**44 792**	**4 985**	**-**	**-**	569
Liabilities							
Deposits from banks	**5 892**	**5 520**	-	-	-	-	5 520
Items in the course of collection due to other banks	**-**	**-**	-	-	-	-	-
Customer accounts	**36 711**	**36 890**	-	-	-	-	36 890
Repurchase agreements and other similar secured borrowings	**-**	**-**	-	-	-	-	-
Trading portfolio liabilities	**1 381**	**1 381**	-	**1 381**	-	-	-
Financial liabilities designated at fair value	**-**	**-**	-	**-**	-	-	-
Derivative financial instruments	**601**	**601**	-	**601**	-	-	-
Other liabilities	**336**	**543**	-	-	-	-	543
Total liabilities	**44 921**	**44 935**	**-**	1 982	-	-	42 952

[1] Differences between carrying values in the annual financial statements and regulatory values in current and deferred tax assets is due to the timing of the reported values. Right of use assets, other assets and Property and equipment is due to disclosure classifications.

Table 6: Main sources of differences between regulatory exposure values and carrying values in financial statements (LI2)

		Items subject to:			
	Total	Credit risk framework	Securitisation framework	CRR framework	Market risk framework
		R'm	R'm	R'm	R'm
Asset carrying value amount under scope of regulatory consolidation	**49 777**	**44 792**	**-**	**4 985**	**-**
– differences due to reversal of IFRS netting	**-**	**-**	**-**	**-**	**-**
– differences due to financial collateral on standardised approach	**-**	**-**	**-**	**-**	**-**
– differences due to modelling and standardised CCFs for credit risk and other differences	**14 428**	**12 727**	**-**	**-**	**-**
– differences due to credit risk mitigation and potential exposures for counterparty risk	**1 701**	**-**	**-**	**1 701**	**-**
– differences due to credit risk mitigation	**-**		**-**	**-**	**-**
– differences due to free deliveries and sundry balances	**-**	**-**	**-**	**-**	**-**
Exposure amounts considered for regulatory purposes	**65 906**	**57 519**	**-**	**6 686**	**-**

Composition of capital

Table 7: Composition of regulatory capital (CC1)

		31-Dec 2019 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)	(1)
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**	**5 280**
	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)	(11)
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**	(11)
29	**Common Equity Tier 1 capital (CET1)**	5 268
	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)**	**5 268**
	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	-
51	**Tier 2 capital before regulatory adjustments**	-
	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**	237
58	**Tier 2 capital (T2)**	237
59	**Total regulatory capital (TC = T1 + T2)**	237
60	**Total risk-weighted assets**	23 344
	Capital ratios and buffers	
61	**Common Equity Tier 1 (as a percentage of risk-weighted assets)**	22.57%
62	**Tier 1 (as a percentage of risk-weighted assets)**	22.57%
63	**Total capital (as a percentage of risk-weighted assets)**	23.58%
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.**	14.69%
	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)	177
	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 8: 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
No requirement	0.00%	-	-		
SUM		**-**	**-**		
Total		**-**	**-**	**0.00%**	**-**

Leverage ratio

HSBC JOH's leverage ratio calculated in accordance with South African Banks Act, 1990 was 9.8% at 31 December 2019, higher than 8.5% at 31 December 2018, driven by lower on balance sheet exposures and lower off balance sheet exposures.

The risk of excessive leverage is managed as part of HSBC's global risk appetite framework and monitored using a leverage ratio metric within our risk appetite statement ('RAS'). The RAS articulates the aggregate level and types of risk that HSBC is willing to accept in its business activities in order to achieve its strategic business objectives. The RAS is monitored via the risk appetite profile report, which includes comparisons of actual performance against the risk appetite and tolerance thresholds assigned to each metric, to ensure that any excessive risk is highlighted, assessed and mitigated appropriately. The risk appetite profile report is presented monthly to the RMM.

The leverage ratio is also calculated and presented to the ALCO every month.

Table 9: Summary comparison of accounting assets vs leverage ratio exposure (LR1)

		31-Dec 2019 R'm
1	Total consolidated assets as per the BA 900	50 346
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	1 052
5	Adjustment for securities financing transactions (ie repos and similar secured lending)	4 253
6	Adjustments for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	3 587
7	Other adjustments	(5 479)
8	**Leverage ratio exposure measure**	**53 758**

Table 10: Leverage ratio (LR2)

		31-Dec 2019 R'm	30-Sep 2019 R'm
On-balance sheet exposures			
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	44 867	48 934
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)**	44 867	48 934
Derivative exposures			
4	Replacement cost associated with all derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	746	781
5	Add-on amounts for PFE associated with all derivatives transactions	305	456
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)**	1 052	1 237
Securities financing transactions			
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	4 253	7 285
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)**	4 253	7 285
Other off-balance sheet exposures			
17	Off-balance sheet exposure at gross notional amount	15 696	15 696
18	(Adjustments for conversion to credit equivalent amounts)	(12 110)	(10 328)
19	**Off-balance sheet items (sum of rows 17 and 18)**	3 587	5 368
Capital and total exposures			
20	**Tier 1 capital**	5 268	5 432
21	**Total exposures (sum of rows 3, 11, 16 and 19)**	53 758	62 824
Leverage ratio			
22	**Basel III leverage ratio**	**9.8%**	**8.6%**

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.

The key aspects of the internal LFRF which is used to ensure that HSBC JOH maintains an appropriate overall liquidity risk profile are:

- each entity must manage liquidity and funding risk on a standalone basis without reliance on other members of the group or central banks,
- minimum liquidity coverage ratio ('LCR') requirement; and
- minimum net stable funding ratio ('NSFR') requirement

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.

There has been no change in HSBC JOH's funding strategy.

Further details are provided on page 130 of the *HSBC Holdings plc Annual Report and Accounts 2019* and page 71 of the *HSBC Holdings plc Pillar 3 2019.*

Table 11: Liquidity coverage ratio (LIQ1)

		Total unweighted value (average)	Total weighted value (average)
		R'm	R'm
High-quality liquid assets			
1	Total HQLA		26 542
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	3 901	975
7	Non-operational deposits (all counterparties)	32 824	25 025
8	Unsecured debt	-	-
9	**Secured wholesale funding**		-
10	**Additional requirements, of which:**		
11	Outflows related to derivative exposures and other collateral requirements	8 249	8 249
12	Outflows related to loss of funding of debt products	-	-
13	Credit and liquidity facilities	2 471	370
14	**Other contractual funding obligations**	-	-
15	**Other contingent funding obligations**	13 515	669
16	**TOTAL CASH OUTFLOWS**		35 287
Cash inflows			
17	**Secured lending (eg reverse repo)**	2 444	-
18	**Inflows from fully performing exposures**	9 620	7 273
19	**Other cash inflows**	8 328	8 328
20	**TOTAL CASH INFLOWS**	20 392	15 601
			Total adjusted value
21	**Total HQLA**		26 262
22	**Total net cash outflows**		17 615
23	**Liquidity coverage ratio (%)**		**149%**

The strong liquidity and funding position can be evidenced by the LCR of 149%. 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 12 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 12: Net stable ratio funding (NSFR)

		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:				5 505	5 505
2	*Regulatory capital*	-	-	-	5 505	5 505
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*	-	4 187	-	-	2 093
9	*Other wholesale funding*	-	38 956	649	-	13 047
10	Liabilities with matching interdependent assets					
11	Other liabilities:					
12	*NSFR derivative liabilities*				-	
13	*All other liabilities and equity not included in the above categories*	-	543	-	-	-
14	**Total ASF**					20 645
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:		11 897			5 118
18	*Performing loans to financial institutions secured by Level 1 HQLA*	-	4 253	-	-	425
19	*Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions*	-	7 645	890	3 101	4 693
20	*Performing loans to non-financial corporate clients,*	-	5 365	498	-	2 931
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*	-	14 513	8 065	-	1 129
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*				-	131
30	*NSFR derivative liabilities before deduction of variation margin posted*				601	60
31	*All other assets not included in the above categories*	-			4 224	4 224
32	Off-balance sheet items		15 696			785
33	***Total RSF***					**14 420**
34	***Net Stable Funding Ratio (%)***					**143%**

JOH exceeded the minimum NSFR regulatory requirement of 100% effective from 1 January 2018, with a December 2019 of 143%. The improvement is largely attributable to business-as-usual mix changes between corporate and financial institutional clients across both assets and liabilities.

Credit risk

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

The principal objectives of the credit risk management function are:

- to maintain across HSBC a strong culture of responsible lending and a robust credit risk policy and control framework;
- to both partner and challenge the businesses in defining, implementing and continually re-evaluating the credit risk appetite under actual and stress scenario conditions; and
- to ensure there is independent, expert scrutiny of credit risks, their costs and their mitigation.

The credit risk functions within Wholesale Credit and Market Risk are the constituent parts of Risk that support the 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 Risk; for example, with Operational Risk on the internal control framework. In addition, they work jointly with Global Finance on stress testing and the risk appetite process.

The credit responsibilities of Global Risk are described on page 75 of the *HSBC Holdings plc Annual Report and Accounts 2019* and *HSBC Holdings plc Pillar 3 2019*.

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

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

Credit risk management

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

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

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

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

HSBC constantly seeks to improve the quality of risk management. For central management and reporting purposes, Group IT systems to process credit risk data continue to be enhanced in order to deliver both comprehensive management information in support of business strategy and solutions to evolving regulatory reporting requirements.

Group standards govern the process through which risk rating systems are initially developed, judged fit for purpose, approved and implemented. They also govern the conditions under which analytical risk model outcomes can be over-ridden by decision makers and the process of model performance monitoring and reporting. The emphasis is on an effective dialogue between business line and risk management, suitable independence of decision-takers, and a good understanding and robust challenge on the part of senior management.

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

Credit risk models governance

HSBC JOH adopts the Groups Credit risk models. Compliance with Group standards is subject to examination both by Risk oversight and review from within the Risk function itself, and by Internal Audit.

Further information is available on page 146 of *HSBC Holdings plc Annual Report and Accounts 2019*.

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.

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

HSBC analyses past due but not impaired, impaired exposures and impairment allowances, and other credit risk provisions using accounting values on a regulatory consolidation basis. In HSBC JOH there are no differences.

In general HSBC calculates Expected Credit Losses ('ECLs) using three main components, a probability of default, a loss given default, and the exposure at default. ECLs include impairment allowances (or provision in the case of commitments and guarantees) for the 12-month ECL ('12-month ECL') and lifetime ECL, and on financial assets that are considered to be in default or otherwise credit impaired.

ECL resulting from default events that are possible within the next 12 months are recognised for financial instruments in stage 1. An assessment of whether credit risk has increased significantly since initial recognition is performed at each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument. Unless identified at an earlier stage, all financial assets are deemed to have suffered a significant increase in credit risk when 30 days past due. ECL resulting from default events that are possible beyond 12 months ('Life time ECL') are recognised for financial instruments in stages 2 & 3. Change in expected credit losses and other credit impairment charges represent the movement in the ECL during the year including write-offs, recoveries and foreign exchange.

Renegotiated loans and forbearance

The contractual terms of a loan may be modified for a number of reasons including changing market conditions, customer retention and other factors not related to the current or potential credit deterioration of a customer. Where such modifications are undertaken, and there are no concerns regarding the customer's credit performance, they are referred to as commercial restructurings. Commercial restructurings are neither required to be considered to be defaults for capital purposes, nor classified as credit-impaired or renegotiated loans and advances for financial reporting purposes.

When the contractual payment terms of loans and advances are modified to provide a customer with a concession as a result of significant concerns about the borrower's ability to meet its contractual payments when due, the loan must be disclosed in the Group Financial Statements as renegotiated loans and advances.

Within the HSBC Group, renegotiated loans and advances are commonly referred to as forborne and forbearance refers to the modifications necessary to meet the Distressed Restructuring Default criteria.

'Forbearance' describes concessions made on the contractual terms of a loan in response to an obligor's financial difficulties. A loan is classed as 'renegotiated' when we modify the contractual payment terms on concessionary terms because we have significant concerns about the borrowers' ability to meet contractual payments when due. Non-payment-related concessions (e.g. covenant waivers), while potential indicators of impairment, do not trigger identification as renegotiated loans.

On execution of a renegotiation, the loan will also be classified as credit impaired if it is not already so classified. In wholesale lending, all facilities with a customer, including loans that have not been modified, are considered credit impaired following the identification of a renegotiated loan. Wholesale renegotiated loans are classified as credit impaired until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, observed over a minimum one-year period, and there are no other indicators of impairment.

Table 13: 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
1	Loans	-	25 813	735	25 077
2	Debt securities	-	22 696	9	22 687
3	Off-balance sheet exposures	-	15 696	16	15 681
4	**Total**	**-**	**64 205**	**760**	**63 445**

Table 14: Changes in stock of defaulted loans and debt securities (CR2)

		31-Dec 2019 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)**	-

During the 2019 financial year no exposures defaulted.

Table 15: Credit risk exposure by geographic region (CRB)

Standardised approach	Exposure R'm	RWA R'm	Capital R'm
South Africa	54,771	14,316	1,602
Other African countries	2,334	2,444	273
Europe	4,938	1,222	137
Asia	722	351	39
North America	867	119	13
South America	22	21	2
Other	551	450	50
As at 31 Dec 2019	**64,205**	**18,923**	**2,117**

The exposure portfolio is concentrated in South Africa (85%) in line with the strategy to grow HSBC multi-national clients in country.

Table 16: Credit risk exposure by industry sector overview (CRB)

Standardised approach	Exposure R'm	RWA R'm	Capital R'm
Agriculture, hunting, forestry and fishing	275	51	6
Mining and quarrying	1,637	1,375	154
Manufacturing	6,396	3,522	394
Electricity, gas and water supply	1,780	1,555	174
Construction	1,413	1,096	123
Wholesale and retail trade, repair of specified items, hotels and restaurants	4,158	1,520	170
Transport, storage and communication	1,367	679	76
Financial intermediation and insurance	44,284	7,765	869
Real estate	-	-	-
Business services	1,734	674	75
Community, social and personal services	24	24	3
Private households	-	-	-
Other	1,138	662	74
As at 31 Dec 2019	**64,205**	**18,923**	**2,117**

The exposure profile is concentrated in the financial intermediation sector accounting for 69% (2018: 74%) of EAD. The RWA composition shows that the highest RWA utilisation is in financial intermediation sectors accounting for 41% (2018: 48%).

Table 17: Credit risk exposure – by maturity

	Exposure value		
Standardised approach	**Less than 1 year R'm**	**Between 1 to 5 years R'm**	**Total R'm**
Corporate	21 804	4 770	26 574
Public sector entities	35	1 050	1 085
Sovereign (including central governments and central banks)	22 817	58	22 875
Banks	11 197	2 474	13 671
As at 31 Dec 2019	**55 852**	**8 352**	**64 205**

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. Detailed policies cover the acceptability, structuring and terms with regard to the availability of credit risk mitigation; such as 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, HSBC JOH 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.

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

The standardised approach is applied which requires banks to use risk assessments prepared by External Credit Assessment Institution ('ECAIs') or 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'). 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 Regulation 23 of the South African Bank's Act.

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 18: 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	25 813	5 388	5 388	-	-	-	-
2	Debt securities	22 687	-	-	-	-	-	-
3	Total	48 500	5 388	5 388	-	-	-	-
4	Of which defaulted	-	-	-	-	-	-	-

Table 19: 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	22 875	-	22 705	-	24	0%
2	Non-central government public sector entities	1 050	35	1 050	0	1 050	6%
3	Multilateral development banks	-	-	-	-	-	-
4	Banks	9 629	4 042	7 456	980	4 174	23%
5	Securities firms	-	-	-	-	-	-
6	Corporates	14 955	11 619	11 494	1 475	12 798	69%
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	1 452	-	1 452	-	392	2%
14	**Total**	**49 961**	**15 696**	**44 157**	**2 455**	**18 439**	**100%**

The RWA density for Corporate is 69% (2018: 62%) and Banks 23% (2018: 34%). This is in line with the unrated RWA allocation per Table 8 in Regulation 23 of the Regulations Relating to Banks.

Table 20: Standardised approach - exposures by asset classes and risk weights (CR5)

		Risk weight									
	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
1	Sovereigns and their central banks	22 681	-	-	-	-	-	24	-	-	22 705
2	Non-central government public sector entities	-	-	-	-	-	-	1 050	-	-	1 050
3	Multilateral development banks	-	-	-	-	-	-	-	-	-	-
4	Banks	762	-	2 955	-	1 977	-	2 742	-	-	8 436
5	Securities firms	-	-	-	-	-	-	-	-	-	-
6	Corporates	-	-	-	-	-	-	11 853	1 116	-	12 969
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**	**23 442**	**-**	**2 955**	**-**	**1 977**	**-**	**15 669**	**1 116**	**-**	**45 160**

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

Counterparty credit risk

Counterparty credit risk management

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. HSBC JOH use the CEM approach. Under the CEM, the EAD is calculated as current replacement cost plus regulatory add-ons.

Regulatory add-ons are the estimated amount relating to the potential future exposure associated with the derivative trade (and calculated as the 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 within the WMR 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.

Further explanation of the group’s approach to managing counterparty credit risk can be found:

- on page 57 of the *HSBC Bank plc Annual Report and Accounts 2019;*
- on page 24 of the *HSBC Bank plc Pillar 3 Disclosures 31 December 2019*
- on page 119 of the *HSBC Holdings plc Annual Report and Accounts 2019; and*
- on pages 55 to 57 of *the HSBC Holdings plc Pillar 3 Disclosures 31 December 2019.*

Table 21: 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)	746	305		1.4	1 052	677
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)					312	200
5	VaR for SFTs					-	-
6	**Total**						**876**

Table 22: 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	640	175
4	Total subject to the CVA capital charge	**640**	**175**

Table 23: 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	-	-	-		-	-		-	**-**
Non-central government public sector entities (PSEs)	-	-	-	-	-	-	-	-	**-**
Multilateral development banks (MDBs)	-	-	-	-	-	-	-	-	**-**
Banks	375		-	-		148			**523**
Securities firms	-	-	-	-	-	-	-	-	**-**
Corporates						529	-		**529**
Regulatory retail portfolios	-	-	-	-	-	-	-	-	**-**
Other assets									**-**
Total	**375**	**-**	**-**	**-**	**-**	**677**	**-**	**-**	**1 052**

Table 24: Composition of collateral for CCR exposure (CCR5)

	Collateral used in derivative transactions				Collateral used in SFTs	
	Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received	Fair value of posted collateral
	Segregated	Unsegregated	Segregated	Unsegregated		
Cash - domestic currency	-	-	-	-	1 381	1 381
Cash - other currencies	-	-	-	-	-	-
Domestic sovereign debt	-	-	-	-	4 253	4 007
Government agency debt	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
Equity securities	-	-	-	-	-	-
Other collateral	-	-	-	-	-	-
Total	-	-	-	-	5 634	5 388

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.

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 within WMR team which is responsible for monitoring market risk exposures in accordance with the policies defined by WMR and reporting back on these exposures against the prescribed Group limits on a daily basis. The group 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 RMM.

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

Further explanation of the Group's approach to managing market risk can be found:
- on pages 66 to 68 of *the HSBC Bank plc Annual Report and Accounts 2019;*
- on page 25 of the *HSBC Bank plc Pillar 3 Disclosures 31 December 2019*
- on pages 135 to 143 of the *HSBC Holdings plc Annual Report and Accounts 2019; and*
- on pages 64 to 69 of the *HSBC Holdings plc Pillar 3 Disclosures 31 December 2019.*

Table 24: 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	-
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**	**16**

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 BSM 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 BSM 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 25: Exposure to interest rate risk in the Banking Book

Exposure to interest rate risk in the Banking Book	**31-Dec 2019 R'm**
NII sensitivity1	
2% instantaneous increase in interest rates	**(84)**
2% instantaneous decline in interest rates	**84**
EVE sensitivity2	
2% instantaneous increase in interest rates	**347**
2% instantaneous decline in interest rates	**(347)**

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. Material losses and near-misses are recorded in an event and impact management module in the operational risk management system of record.

Responsibility for managing operational risk lies with all HSBC's employees. During 2019 we continued to strengthen our approach to managing operational risk as set out in the operational risk management framework ('ORMF'). The approach sets out governance, appetite and provides a single view of non-financial risks, and associated controls. It incorporates a risk management system to enable active risk management. The enhancement and embedding of the risk appetite framework for non-financial risk, and the improvement of the consistency of the adoption of the end-to-end risk and control assessment processes were a particular focus in 2019. While there remains more to do, we made progress in strengthening the control environment and the management of non-financial risk. Activities to strengthen the three lines of defence model, continued to be a key focus in 2019.

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.

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 material risks, designing key 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.

Operational risk and control assessments are performed by HSBC JOH global business and product units:

- Global Banking and Commercial Banking;
- Global Markets;
- Global Trade and Receivable Finance; and
- Global Liquidity and Cash management.

Key controls are owned and operated by global businesses and/or by global functions.

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 a group-wide operational risk management system to record the results of our operational risk management process.

Operational Risk RWA's remained consistent with 2018.

Table 26: Operational risk RWA's

	Capital Required	RWA's
	R'm	R'm
At 31 December 2019	257	3 211

Remuneration (REMA)

The purpose of this section is to describe the bank's remuneration policy as well as key features of the remuneration system

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 consequently JOH) is subject to the remuneration policy established by HSBC. Details of HSBC's remuneration policy, including details on the Remuneration Committee membership and its activities, the remuneration strategy, and remuneration structure of HSBC's Identified Staff and Material Risk-Takers ('MRT') are set out in the Remuneration Policy on the HSBC Group website (https://www.hsbc.com/our-approach/corporate-governance/remuneration) and in the Directors' Remuneration Report on pages 184 to 210 of the *HSBC Holdings plc Annual Report and Accounts 2019*.

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, HSBC 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.

Table 27: Remuneration awarded during the financial year (REM1)

(in ZAR million)

	Remuneration amount		Senior management	Other material risk-takers
1	Fixed remuneration	Number of employees	16	2
2		Total fixed remuneration (rows 3 + 5 + 7)	22.98	16.74
3		Of which: cash-based	22.98	16.74
4		Of which: deferred		
5		Of which: shares or other share-linked instruments		
6		Of which: deferred		
7		Of which: other forms		
8		Of which: deferred		
9	Variable remuneration	Number of employees	14	3
10		Total variable remuneration (rows 11 + 13 + 15)	33.49	22.66
11		Of which: cash-based	15.50	5.77
12		Of which: deferred	12.22	11.12
13		Of which: shares or other share-linked instruments	5.77	5.77
14		Of which: deferred		
15		Of which: other forms		
16		Of which: deferred		
17	Total remuneration (rows 2 + 10)		56.47	39.40

Table 28: Special payments (REM2)

	Guaranteed bonuses		Sign-on awards		Severance payments	
	Number of employees		Number of employees	Total amount	Number of employees	Total amount
Senior management	-	-	-	-	2	3.12
Other material risk-takers	-	-	-	-	-	-

Table 29: Deferred remuneration (REM3)

Deferred and retained remuneration	Total amount of outstanding deferred remuneration	Of which: total amount of outstanding deferred and retained remuneration exposed to ex post explicit and/or implicit adjustment	Total amount of amendment during the year due to ex post explicit adjustments	Total amount of amendment during the year due to ex post implicit adjustments	Total amount of deferred remuneration paid out in the financial year
Senior management	7	7	7		7
Cash	2.34	2.34	0.22	-	3.44
Shares	-	-	-	-	-
Cash-linked instruments	-	-	-	-	-
Other	-	-	-	-	-
Other material risk-takers	3	3	3		1
Cash	9.03	9.03	-	-	2.08
Shares	26.93	26.93	0.87	-	-
Cash-linked instruments	-	-	-	-	-
Other	-	-	-	-	-
Total	38.29	38.29	1.08	-	5.51

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
ECLs	Expected Credit Losses
ExCo	Executive Committee
HBEU	HSBC Bank plc
HSBC JOH	HSBC Bank plc Johannesburg Branch
HQLA	Highly Qualifying Liquid Assets
IRB	Internal Rating Based
IRRBB	Interest Rate Risk in the Banking Book
IMM	Internal Model Method
JOH	HSBC Bank plc – Johannesburg Branch
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