HSBC Bank plc - Johannesburg Branch

Pillar 3 Half-year disclosure

June 2021

HSBC

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 2021 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 2021, 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 2021 R'm	31 Mar 2021 R'm	31 Dec 2020 R'm	30 Sep 2020 R'm	30 Jun 2020 R'm
	Available capital (amounts)					
1	Common Equity Tier 1 (CET1)	4 718	4 691	4 747	5 455	5 455
1a	Fully loaded ECL accounting model	4 718	4 691	4 747	5 455	5 455
2	Tier 1	4 718	4 691	4 747	5 455	5 455
2a	Fully loaded accounting model Tier 1	4 718	4 691	4 747	5 455	5 455
3	Total capital	4 766	4 781	4 852	5 577	5 577
3a	Fully loaded ECL accounting model total capital	4 766	4 781	4 852	5 577	5 577
	Risk-weighted assets (amounts)					
4	Total risk-weighted assets (RWA)	20 971	20 179	21 613	23 722	23 035
	Risk-based capital ratios as a percentage of RWA					
5	Common Equity Tier 1 ratio (%)	22.50%	23.25%	21.96%	23.00%	23.89%
5a	Fully loaded ECL accounting model CET1 (%)	22.50%	23.25%	21.96%	23.00%	23.89%
6	Tier 1 ratio (%)	22.50%	23.25%	21.96%	23.00%	23.89%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	22.50%	23.25%	21.96%	23.00%	23.89%
7	Total capital ratio (%)	22.73%	23.70%	22.45%	23.51%	24.45%
7a	Fully loaded ECL accounting model total capital ratio (%)	22.73%	23.70%	22.45%	23.51%	24.45%
	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 (%)	14.62%	15.37%	14.09%	15.12%	16.01%
	Basel III Leverage Ratio					
13	Total Basel III leverage ratio measure	63 803	58 305	64 199	59 279	59 321
14	Basel III leverage ratio (%) (row 2/row 13)	7.40%	8.05%	7.39%	9.20%	9.27%
14a	Fully loaded ECL accounting model Basel III leverage ratio (%) (row 2A/row 13)	7.40%	8.05%	7.39%	9.20%	9.27%
	Liquidity Coverage Ratio					
15	Total HQLA	42 407	38 276	36 450	32 121	36 845
16	Total net cash outflow	29 465	27 811	25 349	22 911	27 951
17	LCR ratio (%)	144%	138%	144%	140%	132%
	Net Stable Funding Ratio					
18	Total available stable funding	23 663	21 356	24 117	19 547	21 215
19	Total required stable funding	12 497	13 545	14 814	14 794	15 689
20	NSFR ratio (%)	**189%**	**158%**	**163%**	**132%**	**135%**

Risk management

Table 2: Overview of risk management (OV1)

		RWA		Minimum capital requirements[1]
		30 Jun 2021 R'm	31 Mar 2021 R'm	30 Jun 2021 R'm
1	**Credit risk (excluding counterparty credit risk)**	**15 064**	**14 274**	**1 732**
2	Of which: standardised approach (SA)	15 064	14 274	1 732
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)**	**1 373**	**1 454**	**158**
7	Of which: standardised approach for counterparty credit risk	1 373	1 454	158
8	Of which: Internal Model Method (IMM)	-	-	-
9	Of which: other CCR	-	-	-
10	**Credit valuation adjustment (CVA)**	370	438	-
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**	**256**	**226**	**21**
21	Of which: standardised approach (SA)	256	226	21
22	Of which: internal model approaches (IMA)	-	-	-
23	**Capital charge for switch between trading book and banking book**	-	-	-
24	**Operational risk**	**3 273**	**3 273**	**376**
25	**Amounts below thresholds for deduction (subject to 250% risk weight)**	**635**	**514**	**73**
26	**Floor adjustment**	-	-	-
27	**Total (1+6+10+11+12+13+14+15+16+20+23+24+25+26)**	**20 971**	**20 179**	**2 360**

[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 2021 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	3 315
3	Accumulated other comprehensive income (and other reserves)	(5)
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**	**4 730**
	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)	(12)
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**	(12)
29	**Common Equity Tier 1 capital (CET1)**	4 718

	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)**	**4 718**
	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	48
51	**Tier 2 capital before regulatory adjustments**	48
	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**	48
58	**Tier 2 capital (T2)**	48
59	**Total regulatory capital (TC = T1 + T2)**	4 766
60	**Total risk-weighted assets**	20 971

	Capital ratios and buffers	
61	**Common Equity Tier 1 (as a percentage of risk-weighted assets)**	22.50%
62	**Tier 1 (as a percentage of risk-weighted assets)**	22.50%
63	**Total capital (as a percentage of risk-weighted assets)**	22.73%
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.**	14.62%
	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)	38
	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	Risk weighted-assets	Bank-specific countercyclical capital buffer rate	Countercyclical buffer amount
		Rm	Rm		
United Kingdom	1.00%	-	-		
Hong Kong	2.50%	-	-		
SUM		**-**	**-**		
Total		**10 928.04**	**10 564**	**0.00%**	**-**

Leverage ratio

Our leverage ratio calculated in accordance with South African Banks Act, 1990 was 7.40% at 30 June 2021, largely unchanged from 7.39% at 31 December 2020. The ratio did improve to 8.05% at March 2021, but returned to December levels in June 2021. These movements in the last months were driven by off balance sheet exposures.

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

		30 Jun 2021 R'm
1	Total consolidated assets as per the BA 900	60 610
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	622
5	Adjustment for securities financing transactions (ie repos and similar secured lending)	-
6	Adjustments for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	2 794
7	Other adjustments	(222)
8	**Leverage ratio exposure measure**	**63 803**

Table 6: Leverage ratio (LR2)

		30 Jun 2021 R'm	31 Mar 2021 R'm
On-balance sheet exposures			
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	38 560	37 914
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)**	38 560	37 914
Derivative exposures			
4	Replacement cost associated with all derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	718	755
5	Add-on amounts for PFE associated with all derivatives transactions	611	398
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)**	1 329	1 153
Securities financing transactions			
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	21 120	16 729
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)**	21 120	16 729
Other off-balance sheet exposures			
17	Off-balance sheet exposure at gross notional amount	16 201	13 768
18	(Adjustments for conversion to credit equivalent amounts)	(13 407)	(11 259)
19	**Off-balance sheet items (sum of rows 17 and 18)**	2 794	2 510
Capital and total exposures			
20	**Tier 1 capital**	4 718	4 691
21	**Total exposures (sum of rows 3, 11, 16 and 19)**	63 803	58 305
Leverage ratio			
22	**Basel III leverage ratio**	**7.40%**	**8.05%**

Liquidity Risk

Table 7: Liquidity coverage ratio (LIQ1)

		Total unweighted value (average)	Total weighted value (average)
		R'm	R'm
High-quality liquid assets			
1	Total HQLA		38 070
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	2 991	748
7	Non-operational deposits (all counterparties)	40 126	31 700
8	Unsecured debt	-	-
9	**Secured wholesale funding**		-
10	**Additional requirements, of which:**		
11	Outflows related to derivative exposures and other collateral requirements	8 044	8 044
12	Outflows related to loss of funding of debt products	-	-
13	Credit and liquidity facilities	353	54
14	**Other contractual funding obligations**	-	-
15	**Other contingent funding obligations**	13 733	679
16	**TOTAL CASH OUTFLOWS**		41 225
Cash inflows			
17	**Secured lending (eg reverse repo)**	3 944	-
18	**Inflows from fully performing exposures**	8 947	6 139
19	**Other cash inflows**	8 032	8 032
20	**TOTAL CASH INFLOWS**	20 923	17 375
			Total adjusted value
21	**Total HQLA**		42 407
22	**Total net cash outflows**		29 465
23	**Liquidity coverage ratio (%)**		**144%**

The Branch had a strong liquidity and funding position, which can be evidenced by the LCR of 144%. 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. As a result of the HQLA all being held in local currency there is a no currency mismatch.

As a result of the target market and the number of clients there is a concentration of funding mitigated by large holdings 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:				-	-
2	*Regulatory capital*	-	-	-	4 766	4 766
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*	-	2 998	-	-	1 499
9	*Other wholesale funding*	-	50 015	931	-	17 398
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*	-	617	-	-	-
14	**Total ASF**					23 663
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:		25 661			3 667
18	*Performing loans to financial institutions secured by Level 1 HQLA*	-	21 120	-	-	2 112
19	*Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions*	-	4 541	143	802	1 555
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:*	-	5 767	1 344	-	3 596
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*	-	17 401	4 752	-	1 116
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*		-	-	-	11
30	*NSFR derivative liabilities before deduction of variation margin posted*				-	-
31	*All other assets not included in the above categories*	-			-	2 602
32	Off-balance sheet items		-			-
33	***Total RSF***					**12 497**
34	***Net Stable Funding Ratio (%)***					**189%**

JOH exceeded the minimum NSFR regulatory requirement of 100% which were effective from 1 January 2018, and at 30 June 2021 NSFR is 189%.

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 2020.

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
1	Loans	-	45 145	243	44 902
2	Debt securities	-	22 342	13	22 329
3	Off-balance sheet exposures	-	16 201	2	16 198
4	**Total**	**-**	**83 688**	**259**	**83 429**

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

		30 Jun 2021 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	22 235	22 910	21 904	-	-	-	-
2	Debt securities	22 342	-	-	-	-	-	-
3	Total	44 577	22 910	21 904	-	-	-	-
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	22 873	-	22 480	-	116	1%
2	Non-central government public sector entities	1 074	27	1 074	-	1 072	6%
3	Multilateral development banks	-	-	-	-	-	-
4	Banks	29 677	3 504	11 412	773	3 701	22%
5	Securities firms	-	-	-	-	-	-
6	Corporates	13 864	12 670	10 490	651	11 548	68%
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	-	-	-	-	540	3%
14	**Total**	**67 487**	**16 201**	**45 455**	**1 424**	**16 976**	**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
1	Sovereigns and their central banks	22 364	-	-	-	-	-	116	-	-	22 480
2	Non-central government public sector entities	-	-	-	-	4	-	1 070	-	-	1 074
3	Multilateral development banks	-	-	-	-	-	-	-	-	-	-
4	Banks	1 901	-	5 542	-	4 299	-	443	-	-	12 185
5	Securities firms	-	-	-	-	-	-	-	-	-	-
6	Corporates	-	-	-	-	-	-	10 326	814	-	11 141
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**	**24 265**	**-**	**5 542**	**-**	**4 303**	**-**	**11 955**	**814**	**-**	**46 880**

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.

HSBC JOH uses the SA CCR which takes the Fair value (Replacement cost) + Add-on which gives us the Exposure at default. Exposure values calculated under these approaches are used to determine RWAs.

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
SA-CCR (for derivatives)	611	-		1.4	1 860	1 088
Internal Model Method (for derivatives and SFTs)						
Simple Approach for credit risk mitigation (for SFTs)						
Comprehensive Approach for credit risk mitigation (for SFTs)					1 089	285
VaR for SFTs						
Total						**1 373**

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	1 043	370
4	Total subject to the CVA capital charge	**1 043**	**370**

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	22	-	-	-	-	116	-	-	**138**
Non-central government public sector entities (PSEs)	-	-	-	-	-	-	-	-	**-**
Multilateral development banks (MDBs)	-	-	-	-	-	-	-	-	**-**
Banks	982		715	-		-	-	-	**1 698**
Securities firms	-	-	-	-	-	-	-	-	**-**
Corporates						1 114	-	-	**1 114**
Regulatory retail portfolios	-	-	-	-	-	-	-	-	**-**
Other assets	-	-	-	-	-	-	-	-	**-**
Total	**1 004**	**-**	**715**	**-**	**-**	**1 230**	**-**	**-**	**2 949**

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.

The 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	20
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**	**21**

Abbreviations

AFS	Annual Financial Statements
ALCO	Asset and Liability Committee
BCBS	Basel Committee and Banking Supervision
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