

HSBC Bank plc - Johannesburg Branch

Pillar 3 Annual Disclosure

December 2023



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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': 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 2023 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: <https://www.hsbc.com/investors/results-and-announcements/annual-report> 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.

We publish comprehensive Pillar 3 disclosures annually and at half year on our website www.hsbc.co.za.

Report oversight

HSBC JOH's Executive committee ('ExCo') has the responsibility for the oversight of risk for the Branch. At 31 December 2023, 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.

The ExCo has a disclosure policy, which has been updated to incorporate the 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 2023 R'm	30-Sep 2023 R'm	30-Jun 2023 R'm	31-Mar 2023 R'm	31-Dec 2022 R'm
Available capital (amounts)						
1	Common Equity Tier 1 (CET1)	4 685	4 684	4 661	4 678	4 697
1a	Fully loaded ECL accounting model	4 685	4 684	4 661	4 678	4 697
2	Tier 1	4 685	4 684	4 661	4 678	4 697
2a	Fully loaded accounting model Tier 1	4 685	4 684	4 661	4 678	4 697
3	Total capital	4 738	4 768	4 737	4 772	4 763
3a	Fully loaded ECL accounting model total capital	4 738	4 768	4 737	4 772	4 763
Risk-weighted assets (amounts)						
4	Total risk-weighted assets (RWA)	28 481	29 319	27 619	28 975	27 197
Risk-based capital ratios as a percentage of RWA						
5	Common Equity Tier 1 ratio (%)	16.45%	15.98%	16.87%	16.15%	17.27%
5a	Fully loaded ECL accounting model CET1 (%)	16.45%	15.98%	16.87%	16.15%	17.27%
6	Tier 1 ratio (%)	16.45%	15.98%	16.87%	16.15%	17.27%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	16.45%	15.98%	16.87%	16.15%	17.27%
7	Total capital ratio (%)	16.64%	16.26%	17.15%	16.47%	17.51%
7a	Fully loaded ECL accounting model total capital ratio (%)	16.64%	16.26%	17.15%	16.47%	17.51%
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 (%)	-	-	-	-	-
10	Bank D-SIB additional requirements (%)	-	-	-	-	-
11	Total of bank CET1 specific buffer requirements (%) (row 8 + row 9+ row 10)	2.50%	2.53%	2.53%	2.50%	2.50%
12	CET1 available after meeting the bank's minimum capital requirements (%)	8.55%	8.07%	8.97%	8.27%	9.39%
Basel III Leverage Ratio						
13	Total Basel III leverage ratio measure	76 834	84 611	86 427	77 517	82 987
14	Basel III leverage ratio (%) (row 2/row 13)	6.10%	5.54%	5.39%	6.03%	5.66%
14a	Fully loaded ECL accounting model Basel III leverage ratio (%) (row 2A/row 13)	6.10%	5.54%	5.39%	6.03%	5.66%
Liquidity Coverage Ratio						
15	Total HQLA	44 893	51 629	49 995	45 159	52 517
16	Total net cash outflow	34 898	37 714	41 849	34 422	41 484
17	LCR ratio (%)	129%	137%	119%	131%	127%
Net Stable Funding Ratio						
18	Total available stable funding	27 684	26 665	28 281	27 488	27 684
19	Total required stable funding	18 864	18 314	19 229	18 949	18 864
20	NSFR ratio (%)	147%	146%	147%	145%	147%

Risk management

Risk management framework

HSBC JOH follows the HSBC Group's risk management framework which is used across the organisation and across all risk types. It is underpinned by our culture and values. This is outlined in HSBC's risk management framework, including the key principles and practices that it employs in managing material risks, both financial and non-financial.

The framework fosters continuous monitoring of the risk environment and promotes risk awareness and a sound operational and strategic decision making and escalation process. It also ensures we have a consistent approach to monitoring, managing and mitigating the risks we accept and incur in our activities, with clear accountabilities. We continue to actively review and develop our risk management framework and enhance our approach to managing risk, through our activities regarding people and capabilities; governance; reporting and management information; risk management models; and data.

Further information on the risk management framework is set out on page 132 of the HSBC Holdings plc Annual Report and Accounts 2023. The management and mitigation of principal risks facing the Group is described in the top and emerging risks on page 140 of the HSBC Holdings plc Annual Report and Accounts 2023.

Risk culture

HSBC understands the importance of a strong culture. Our culture refers to our shared attitudes, values and standards that shape behaviours related to risk awareness, risk taking and risk management. It is instrumental in aligning the behaviours of individuals with our attitude to assuming and managing risk, which helps to ensure that our risk profile remains in line with our risk appetite. The fostering of a strong risk culture is a key responsibility of our senior executives.

Our culture is also reinforced by our approach to remuneration. Individual awards, including those for senior executives, are based on compliance with our values and the achievement of financial and non-financial objectives, which are aligned to our risk appetite and global strategy.

Further information on risk and remuneration is set out on page 293 of the HSBC Holdings plc Annual Report and Accounts 2023.

Risk governance

ExCo is HSBC JOH's most senior executive forum and has ultimate responsibility for the effective management of risk. HSBC Bank plc has delegated collective responsibility for the management and day-to-day running of HSBC JOH risk 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 and the Region.

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 and businesses. All employees do however 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.

Further information about the Group's three lines of defence model and executive risk governance structures is available on page 138 of the HSBC Holdings plc Annual report and Accounts 2023.

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 in the RMM, and concurrence is added by the ExCo.

Our risk appetite informs our strategic and financial planning process, defining the desired forward-looking risk profile of the Branch. It is also integrated within other risk management tools, such as stress testing, to ensure consistency in risk management. *This is consistent with the Group and is set out on page 136 of the HSBC Holdings plc Annual Report and Accounts 2023.*

At a Group level, performance against the RAS is reported to the Group Risk Management Meeting ('RMM') alongside key risk indicators to support targeted insight and discussion on breaches of risk appetite and associated mitigating actions. This reporting allows risks to be promptly identified and mitigated and informs risk-adjusted remuneration to drive a strong risk culture.

Details on the Group's overarching risk appetite are set out on page 136 of the HSBC Holdings plc Annual Report and Accounts 2023.

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:

- Risk identifies and monitors top and emerging risks, and the actions HSBC JOH takes to mitigate them.
- 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.

In addition, HSBC JOH's performs internal stress testing through the annual ICAAP process and reviewing of recovery plans.

Further information on stress testing and details of the Group's regulatory stress test results are set out on page 138 of the HSBC Holdings plc Annual Report and Accounts 2023.

Risk function

HSBC JOH has a dedicated Risk function, headed by the CRO and is responsible for the risk management framework. This includes implementing Group policy, monitoring risk profiles, and forward-looking risk identification and management.

The Risk function is independent from the global businesses in order to provide challenge, appropriate oversight and balance in risk/return decisions. The Global Risk function operates in line with the three lines of defence model and HSBC JOH follows this same approach (*page 138 of the HSBC Holdings plc Annual Report and Accounts 2023*).

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 311 of the HSBC Holdings plc Annual Report and Accounts 2023, where the Directors' Report on the effectiveness of internal controls can also be found.*
- *Page 12 of HSBC Holdings Pillar 3 Disclosures at 31 December 2023*

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. These attributes are accurately assessed, and the information is delivered in a timely manner for the 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, and auditors.

Table 2: Overview of risk management (OV1)

	a	b	c
	RWA		Minimum capital requirements ¹
	31-Dec 2023 R'm	30-Sep 2023 R'm	31-Dec 2023 R'm
1 Credit risk (excluding counterparty credit risk)	23 045	24 621	2 650
2 Of which: standardised approach (SA)	23 045	24 621	2 650
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)	1 503	1 046	173
7 Of which: standardised approach for counterparty credit risk	1 503	1 046	173
8 Of which: Internal Model Method (IMM)	-	-	-
9 Of which: other CCR	-	-	-
10 Credit valuation adjustment (CVA)	209	153	24
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	223	145	18
21 Of which: standardised approach (SA)	223	145	18
22 Of which: internal model approaches (IMA)	-	-	-
23 Capital charge for switch between trading book and banking book	-	-	-
24 Operational risk	2 950	2 819	339
25 Amounts below thresholds for deduction (subject to 250% risk weight)	550	535	63
26 Floor adjustment	-	-	-
27 Total (1+6+10+11+12+13+14+15+16+20+23+24+25+26)	28 481	29 319	3 268

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

Decrease in RWA's from December 2022 is as a result of lower surplus funds which needed to be deployed.

Financial performance

Table 3: Summarised statement of comprehensive income for the year ending 31 December 2023

	31-Dec 2023 R'm
Net interest income	1 266
Trading revenue and fee income	475
Gross operating income	1 741
Credit impairment (raised)/released	23
Operating expenses	(623)
Net profit before taxation	1 140
Taxation	(294)
Net profit after taxation	846
Other comprehensive income, net of tax	(1)
Total comprehensive income for the year	845

Table 4: Statement of financial position at December 2023

	31-Dec 2023 R'm
Cash and cash equivalents	3,305
Trading assets (including derivatives)	2,219
Investment securities	11,625
Loans and advances to banks	21,918
Loans and advances to customers	24,310
Balances with group companies	3,444
Current tax assets	9
Property and equipment	39
Other assets	1,385
Deferred tax asset	78
Total assets	68,333
Trading liabilities	464
Deposits from banks	94
Deposits from customers	54,230
Balances with group companies	6,532
Current tax liabilities	(0)
Other liabilities	762
Provision	157
Total liabilities	62,241
Branch capital	1,420
Fair value reserve	13
Retained earnings	4,659
Total equity	6,093
Total liabilities and equity	68,333

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)

	a	b	Carrying values of items:				g
	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 CCR 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	3 305	3 194	-	-	-	-	-
Trading assets	1 737	1 737	-	-	-	1 737	-
Derivative financial instruments	482	482	-	482	-	482	-
Loans and advances to banks	3 295	3 076	3 076	-	-	-	-
Loans and advances to customers	15 918	16 988	16 988	-	-	-	-
Reverse repurchase agreements and other similar secured lending	30 460	30 460	-	30 460	-	-	-
Investment securities	11 625	11 625	11 625	-	-	-	-
Current and deferred tax assets	87	23	23	-	-	-	78
Right of use asset	54	-	-	-	-	-	-
Property and equipment	39	94	-	-	-	-	-
Other assets	1 331	368	-	-	-	-	50
Total assets at 31 Dec 2023	68 333	68 045	31 711	30 942	-	2 219	128
Liabilities							
Deposits from banks	6 626	6 626	-	-	-	-	6 626
Items in the course of collection due to other banks	-	-	-	-	-	-	-
Customer accounts	54 230	54 230	-	-	-	-	54 230
Repurchase agreements and other similar secured borrowings	-	-	-	-	-	-	-
Trading portfolio liabilities	-	-	-	-	-	-	-
Financial liabilities designated at fair value	-	-	-	-	-	-	-
Derivative financial instruments	464	464	-	464	-	464	-
Other liabilities	919	1 786	-	-	-	-	1 786
Total liabilities at 31 Dec 2023	62 241	63 107	-	464	-	464	62 642

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	CCR framework	Market risk framework
		R'm	R'm	R'm	R'm
Asset carrying value amount under scope of regulatory consolidation	64 872	31 711	-	30 942	2 219
- 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	35 471	33 013	-	-	1 737
- differences due to credit risk mitigation and potential exposures for counterparty risk	721	-	-	721	-
- differences due to credit risk mitigation	-	-	-	-	-
- differences due to free deliveries and sundry balances	-	-	-	-	-
Exposure amounts considered for regulatory purposes	101 065	64 724	-	31 664	3 956

Composition of capital

Table 7: Composition of regulatory capital (CC1)

	31-Dec 2023 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	3 320
3 Accumulated other comprehensive income (and other reserves)	(4)
4	-
<i>Directly issued capital subject to phase-out from CET1 (only applicable to non-joint stock companies)</i>	
5 Common share capital issued by third parties (amount allowed in group CET1)	-
6 Common Equity Tier 1 capital before regulatory deductions	4 736
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)	(50)
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	(1)
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	(51)
29 Common Equity Tier 1 capital (CET1)	4 685

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	<i>Directly issued capital instruments subject to phase-out from additional Tier 1</i>	-
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	<i>Of which: instruments issued by subsidiaries subject to phase-out</i>	-
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)	4 685
Tier 2 capital: instruments and provisions		
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	-
47	<i>Directly issued capital instruments subject to phase-out from Tier 2</i>	-
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	<i>Of which: instruments issued by subsidiaries subject to phase-out</i>	-
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	53
58	Tier 2 capital (T2)	53
59	Total regulatory capital (TC = T1 + T2)	53
60	Total risk-weighted assets	28 481

61	Common Equity Tier 1 (as a percentage of risk-weighted assets)	16,45%
62	Tier 1 (as a percentage of risk-weighted assets)	16,45%
63	Total capital (as a percentage of risk-weighted assets)	16,64%
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	-
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.	8,55%
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)	56
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)

Geographical breakdown	Exposure values and/or risk weighted assets used in the computation of the countercyclical capital buffer			
	Countercyclical capital buffer rate	Exposure value	Risk weighted-assets	Bank-specific countercyclical capital buffer rate
		Rm	Rm	
United Kingdom	1.00%	851	590	
Hong Kong	1.00%	-	-	
SUM		851	590	
Total		23 381	21 149	0.03%

Leverage ratio

HSBC JOH's leverage ratio calculated in accordance with South African Banks Act, 1990 was 6.10% at 31 December 2023, higher than 5.66% at 31 December 2022. This improvement was driven by a smaller balance sheet.

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 presented to the ALCO every month.

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

	31-Dec 2023 R'm
1 Total consolidated assets as per the BA 900	68 101
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	378
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)	8 407
7 Other adjustments	(51)
8 Leverage ratio exposure measure	76 834

Table 10: Leverage ratio (LR2)

	31-Dec 2023 R'm	30-Sep 2023 R'm
On-balance sheet exposures		
1 On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	37 108	47 921
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)	37 108	47 921
Derivative exposures		
4 Replacement cost associated with <i>all</i> derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	482	397
5 Add-on amounts for PFE associated with <i>all</i> derivatives transactions	378	409
6 Gross-up for derivatives collateral provide where deducted from the balance sheet assets pursuant to the operative accounting framework	0	-
7 (Deductions of receivable assets for cash variation margin provided in derivatives)	-	-
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)	860	807
Securities financing transactions		
12 Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	30 460	28 162
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)	30 460	28 162
Other off-balance sheet exposures		
17 Off-balance sheet exposure at gross notional amount	32 283	30 862
18 (Adjustments for conversion to credit equivalent amounts)	(23 876)	(23 140)
19 Off-balance sheet items (sum of rows 17 and 18)	8 407	7 722
Capital and total exposures		
20 Tier 1 capital	4 685	4 684
21 Total exposures (sum of rows 3, 11, 16 and 19)	76 834	84 611
Leverage ratio		
22 Basel III leverage ratio	6.10%	5.54%

The leverage ratio improved year on year (2022: 5.66%) due smaller balance sheet and exposures.

Liquidity Risk

HSBC JOH follows the Group's liquidity framework.

HSBC has an internal liquidity and funding risk management framework ('LFRF') which aims to allow it to withstand very severe liquidity stresses. It is designed to be adaptable to changing business models, markets and regulations. The management of liquidity and funding is primarily undertaken locally in compliance with the Group's LFRF.

Liquidity is not managed through the explicit allocation of capital as is common with standard industry practice, HSBC does however recognise 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 LCR aims to ensure that a bank has sufficient unencumbered high-quality liquid assets ('HQLA') to meet its liquidity needs in a 30-calendar day liquidity stress scenario.

The NSFR requires HSBC JOH to maintain sufficient stable funding and reflects its long-term funding profile (funding with a term of more than one year) commensurate with the risk profile of the balance sheet.

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

In HSBC JOH, Markets Treasury ('MKTY') is responsible for managing liquidity and funding under the supervision of the local ALCO (which usually meets monthly). 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, MKTY invests in highly rated liquid assets in line with the Group's liquid asset policy. The majority of the surplus liquidity is invested in South African Treasury bills and Reverse Repurchase Agreements 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 234 of the HSBC Holdings plc Annual Report and Accounts 2023*
- *pages 23 of the HSBC Holdings plc Pillar 3 Disclosures at December 2023; and*
- *page 27 of the HSBC Bank plc Pillar 3 Disclosures at December 2023.*

Table 11: Liquidity coverage ratio (LIQ1)

	Total unweighted value (average) R'm	Total weighted value (average) R'm
High-quality liquid assets		
1 Total HQLA		48 094
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	4 688	1 172
7 Non-operational deposits (all counterparties)	54 994	45 577
8 Unsecured debt	-	-
9 Secured wholesale funding		-
10 Additional requirements, of which:		
11 Outflows related to derivative exposures and other collateral requirements	12 558	12 558
12 Outflows related to loss of funding of debt products	-	-
13 Credit and liquidity facilities	-	-
14 Other contractual funding obligations	4 361	211
15 Other contingent funding obligations	17 286	959
16 TOTAL CASH OUTFLOWS		60 477
Cash inflows		
17 Secured lending (eg reverse repo)	149	-
18 Inflows from fully performing exposures	16 579	12 530
19 Other cash inflows	12 573	12 573
20 TOTAL CASH INFLOWS	29 302	25 104
		Total adjusted value
21 Total HQLA		44 893
22 Total net cash outflows		34 898
23 Liquidity coverage ratio (%)		129%

The liquidity and funding position remains well within the regulatory minimums, and this can be evidenced by the LCR of 129% (2022: 127%). Line 1 is calculated on an average and Line 21 is an actual year end position, hence the different HQLA Totals. HSBC has used a simple average of month end observations over the last 12 months in local currency.

The composition of the HQLA is local 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 non-bank financial institution funding mitigated by large holding of liquid assets. The change year on year is as a result of business-as-usual mix changes across both advances and deposits.

Table 12: Net stable ratio funding (NSFR) LIQ2

	Unweighted value by residual maturity				e Weighted value R'm	
	a No maturity*	b <6 months R'm	c 6 months to <1 year			d ≥1 year R'm
			R'm	R'm		
Available stable funding (ASF) item						
1 Capital:				4 789	4 789	
2 <i>Regulatory capital</i>	-	-	-	4 789	4 789	
3 <i>Other capital instruments</i>	-	-	-	-	-	
4 Retail deposits and deposits from small business customers:						
5 <i>Stable deposits</i>	-	-	-	-	-	
6 <i>Less stable deposits</i>	-	-	-	-	-	
7 Wholesale funding:						
8 <i>Operational deposits</i>	-	5 844	-	-	2 922	
9 <i>Other wholesale funding</i>	-	53 828	92	-	17 772	
10 Liabilities with matching interdependent assets						
11 Other liabilities:						
12 <i>NSFR derivative liabilities</i>				464		
13 <i>All other liabilities and equity not included in the above categories</i>	-	1 786	-	-	-	
14 Total ASF					25 483	
Required stable funding (RSF) item						
15 Total NSFR high-quality liquid assets (HQLA)					-	
16 Deposits held at other financial institutions for operational purposes		3 194	-	-	-	
17 Performing loans and securities:		34 780			4 042	
18 <i>Performing loans to financial institutions secured by Level 1 HQLA</i>	-	30 460	-	-	3 046	
19 <i>Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions</i>	-	4 320	697	-	996	
20 <i>Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:</i>		9 541	612	-	5 077	
21 <i>With a risk weight of less than or equal to 35% under the Basel II standardised approach for credit risk</i>	-	-	-	-	-	
22 <i>Performing residential mortgages, of which:</i>						
23 <i>With a risk weight of less than or equal to 35% under the Basel II standardised approach for credit risk</i>	-	-	-	-	-	
24 <i>Securities that are not in default and do not qualify as HQLA, including exchange-traded equities</i>	-	7 253	-	-	668	
25 Assets with matching interdependent liabilities						
26 Other liabilities:						
27 <i>Physical traded commodities, including gold</i>	-				-	
28 <i>Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs</i>				-	-	
29 <i>NSFR derivative assets</i>				482	482	
30 <i>NSFR derivative liabilities before deduction of variation margin posted</i>				464	-	
31 <i>All other assets not included in the above categories</i>	-			5 433	5 433	
32 Off-balance sheet items		32 329			1 661	
33 Total RSF					17 363	
34 Net Stable Funding Ratio (%)					147%	

HSBC JOH exceeded the minimum NSFR regulatory requirement of 100%. At 31 December 2023 the NSFR was of 147% (2022: 147%). The main driver for this unchanged rate is the phase in of specified factors from 35% to 30% on non- financial corporations in June 2023 which has impacted the available stable funding.

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 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 147 of the HSBC Holdings plc Annual Report and Accounts 2023 and page 38 of HSBC Holdings plc Pillar 3 Disclosures at December 2023.

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 145 of HSBC Holdings plc Annual Report and Accounts 2023.

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 across 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 Group analyses past due but not impaired, impaired exposures and impairment allowances, and other credit risk provisions using accounting values on a regulatory consolidation basis. HSBC JOH follows the same process.

In general, HSBC calculates Expected Credit Losses ('ECLs') using three main components namely, (i) a probability of default, (ii) a loss given default, and (iii) 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 ('Lifetime 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 several 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 as 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		
1	Loans	-	50 743	74	50 669
2	Debt securities	-	13 362	1	13 361
3	Off-balance sheet exposures	-	32 283	5	32 278
4	Total	-	96 387	80	96 307

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

	31-Dec 2023 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 2023 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	89 931	22 242	2 558
Other African countries	677	844	97
Europe	5 256	1 335	154
Asia	141	29	3
North America	312	85	10
South America	-	-	-
Other	71	13	2
As at 31 Dec 2023	96 387	24 549	2 823

The exposure portfolio is concentrated in South Africa (93%) unchanged from prior year (2022: 93%) and is in line with the strategy to support 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	1	1	0
Mining and quarrying	1 031	516	59
Manufacturing	13 602	5 674	653
Electricity, gas and water supply	5 056	4 176	480
Construction	51	60	7
Wholesale and retail trade, repair of specified items, hotels and restaurants	7 476	2 998	345
Transport, storage and communication	9 543	3 913	450
Financial intermediation and insurance	55 629	5 213	599
Real estate	20	3	-
Business services	3 647	1 996	229
Community, social and personal services	-	-	-
Private households	-	-	-
Other	332	-	-
As at 31 Dec 2023	96 387	24 549	2 823

The exposure profile is concentrated in the financial intermediation sector accounting for 56% (2022: 63%) of EAD. The RWA composition shows that the highest RWA utilisation is in financial intermediation sectors accounting for 21% (2022: 18%).

Table 17: Credit risk exposure – by maturity

Standardised approach	Exposure value		
	Less than 1 year R'm	Between 1 to 5 years R'm	Total R'm
Corporate	46 349	7 252	53 601
Public sector entities	34	-	34
Sovereign (including central governments and central banks)	13 468	24	13 491
Banks	26 738	2 524	29 261
As at 31 Dec 2023	86 588	9 799	96 387

Risk mitigations

The approach when granting credit facilities is to do so based on 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 regarding 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.

Policy and procedures

Policies and procedures govern the protection of the Branch's position from the onset of the relationship with the customer. Such policies and procedures include for example, the acceptance of standard terms and conditions or specifically agreed documentation permitting the offset of credit balances against debt obligations. They also include thorough 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 and where stable it is less so. For market trading activities such as collateralised over the counter ('OTC') derivatives and SFTs, HSBC JOH typically carries 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 Government & Central Bank
- Public Sector Entities (PSE)
- Banks
- Banks: Short Term
- Securities firms
- Securities firms: Short term
- Corporate Entities

HSBC JOH has nominated two ECAIs for this purpose – Moody's Investor Service ('Moody's') and Standard and Poor's rating agency ('S&P'). 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 guarantees by central governments and central banks denominated in local currency are risk-weighted at 0% using the standardised approach, provided they are eligible under that approach for a 0% risk weighting. Supranational entities / banks like the IMF are also risk-weighted at 0%.

Table 18: Credit risk mitigation techniques – overview (CR3)

	a	b	c	d	e	f	g
	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	20 209	30 460	30 460	-	-	-	-
2 Debt securities	13 361	-	-	-	-	-	-
3 Total	33 569	30 460	30 460	-	-	-	-
4 Of which defaulted	-	-	-	-	-	-	-

Table 19: Credit risk exposure and Credit Risk Mitigation (CRM) effects (CR4)

The RWA density for Corporate is 92% (2022: 88%) and Banks 8% (2022: 12%). This is in line with the unrated RWA allocation per Table 8 in Regulation 23 of the Regulations Relating to Banks.

Asset classes	a	b	c	d	e f	
	Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
	R'm	R'm	R'm	R'm	R'm	
1 Sovereigns and their central banks	13 416	-	13 416	-	-	0%
2 Non-central government public sector entities	9	25	9	-	4	0%
3 Multilateral development banks	-	-	-	-	-	-
4 Banks	1 831	4 767	1 831	2 395	1 892	8%
5 Securities firms	-	-	-	-	-	-
6 Corporates	17 186	27 490	17 142	3 784	21 149	92%
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	32 441	32 283	32 397	6 178	23 045	100%

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

The major exposures are concentrated in corporates at a risk weight of 100%, sovereigns and the central bank with a risk weight of 0%. The sovereign exposure represents most of the HQLA portfolio.

Asset classes	Risk weight										Total credit exposures amount (post CCF and post-CRM) R'm
	a	b	c	d	e	f	g	h	i	j	
	0%	10%	20%	35%	50%	75%	100%	150%	Others		
	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	13 416	-	-	-	-	-	-	-	-	-	13 416
2 Non-central government public sector entities	-	-	-	-	9	-	-	-	-	-	9
3 Multilateral development banks	-	-	-	-	-	-	-	-	-	-	-
4 Banks	558	-	939	-	2 049	-	680	-	-	-	4 225
5 Securities firms	-	-	-	-	-	-	-	-	-	-	-
6 Corporates	-	-	-	-	-	-	20 480	446	-	-	20 926
7 Regulatory retail portfolios	-	-	-	-	-	-	-	-	-	-	-
8 property Secured by commercial real estate	-	-	-	-	-	-	-	-	-	-	-
9 Equity	-	-	-	-	-	-	-	-	-	-	-
10 Past-due loans	-	-	-	-	-	-	-	-	-	-	-
11 Higher-risk categories	-	-	-	-	-	-	-	-	-	-	-
12 Other assets	-	-	-	-	-	-	-	-	-	-	-
13 Total	13 974	-	939	-	2 058	-	21 159	446	-	-	38 576

Counterparty credit risk

Counterparty credit risk management

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

The two approaches that may be used to calculate exposure values for CCR are ((i) Standardised approach "SA-CCR", and (ii) IMM. Exposure values calculated under these approaches are used to determine RWAs. HSBC JOH uses the SA-CCR approach. The exposures under the SA-CCR consist of two components: replacement cost (RC) and potential future exposure (PFE).

Regulatory add-ons are the estimated amounts relating to the potential future exposure associated with the derivative trade. Regulatory add-ons are 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, 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 that are exempt from CVA include Intragroup bank, Central Counterparty and SFT's. For all derivative transactions with HSBC Bank plc, there is a risk participation agreement in place.

Collateral arrangements

The Branch policy is to revalue all traded transactions and associated collateral positions daily. An independent collateral management function manages the collateral process including pledging and receiving collateral, 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 27 of the *HSBC Bank plc Pillar 3 Disclosures at 31 December 2023*
- on page 187 of the *HSBC Holdings plc Pillar 3 Disclosures at 31 December 2023*.
- on page 75 of the *HSBC Bank plc Annual Report and Accounts 2023*; and
- on page 187 of the *HSBC Holdings plc Annual Report and Accounts 2023*.

CCR movement year on year is not significant.

Table 21: Analysis of counterparty credit risk (CCR) exposure by approach (CCR1)

	a	b	c	d	e	f
	Replacement cost	Potential future exposure	Effective EPE	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)	482	378		1.4	1 204	631
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)					1 990	873
5 VaR for SFTs					-	-
6 Total						1 503

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	642	209
4 Total subject to the CVA capital charge	642	209

Table 23: Standardised approach - CCR exposures by regulatory portfolio and risk weights (CCR3)

	a	b	c	d	e	f	g	h	i
	Risk weight								Total credit exposure
Regulatory portfolio	0%	10%	20%	50%	75%	100%	150%	Others	R'm
	R'm	R'm	R'm	R'm	R'm	R'm	R'm	R'm	R'm
Sovereigns	-	-	-	-	-	75	-	-	75
Non-central government public sector entities (PSEs)	-	-	-	-	-	-	-	-	-
Multilateral development banks (MDBs)	-	-	-	-	-	-	-	-	-
Banks	673	-	1 246	42	-	-	-	-	1 961
Securities firms	-	-	-	-	-	-	-	-	-
Corporates	-	-	-	-	-	1 158	-	-	1 158
Regulatory retail portfolios	-	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	-	-	-
Total	673	-	1 246	42	-	1 233	-	-	3 194

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	-	-	-	-	-	-
Cash - other currencies	-	-	-	-	-	-
Domestic sovereign debt	-	-	-	-	30 460	28 469
Government agency debt	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
Equity securities	-	-	-	-	-	-
Other collateral	-	-	-	-	-	-
Total	-	-	-	-	30 460	28 469

Market Risk

Market risk is the risk that movements in market risk factors, including foreign exchange rates, commodity prices, interest rates, credit spreads and equity prices, will reduce the Branch's income or the value of its portfolios.

HSBC JOH has adopted the standardised approach in respect of positions held in the trading book, and currently calculates capital on the current market value of interest rate and foreign exchange instruments held in the Branch's trading books.

HSBC JOH runs on a Hub and spoke offshore approach which ensures a consistent approach within HSBC.

The objective of HSBC JOH's market risk management is to manage and control market risk exposures in order to optimize the 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 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 Markets and Securities Services 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 daily.

HSBC JOH Risk, which is independent, 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 78 to 85 of the HSBC Bank plc Annual Report and Accounts 2023.
- on pages 218 to 220 of the HSBC Holdings plc Annual Report and Accounts 2023.
- on pages 92 of the HSBC Holdings plc Pillar 3 Disclosures 31 December 2023 and
- on page 13 HSBC Bank plc Pillar 3 Disclosures 31 December 2023

Table 25: Market risk under the standardised approach (SA) (MR1)

		a	
		31-Dec-23	31-Dec-22
		Capital charge in SA R'm	Capital charge in SA R'm
1	General interest rate risk	17	6
2	Equity risk	-	-
3	Commodity risk	-	-
4	Foreign exchange risk	1	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	18	7

Interest Rate Risk in the Banking Book (IRRBB)

Interest rate risk in the banking book ('IRRBB') is the risk of an adverse impact to earnings or capital due to changes in market interest rates. It is generated by our non-traded assets and liabilities, specifically loans, deposits and financial instruments that are not held for trading intent.

In order to manage this risk optimally, market risk in non-trading portfolios is transferred to MKTY under the supervision of ALCO. MKTY monitors and controls interest rate risk in the banking book.

Markets Treasury safeguards the bank by ensuring risk remains within appetite and seeks to generate sustainable returns through the management of those risks within the risk appetite as set by Treasury Risk.

Interest rate risk is measured daily against regionally approved limits. The transfer of market risk to books managed by MKTY is usually achieved by a series of internal deals between the business units and these books.

MKTY is also responsible for maintaining and updating the transfer pricing framework, informing the Asset and Liability Committee ('ALCO') of HSBC JOH's overall banking book interest rate risk exposure, and managing the balance sheet.

The large majority of MKTY activity is on a banking book basis. The only MKTY activity treated as trading is the use of FX swaps to manage cash. All returns generated by MKTY are transferred to the Global Businesses.

Table 26: Exposure to Interest Rate Risk in the Banking Book

	31-Dec 2023 R'm
Exposure to interest rate risk in the Banking Book	
NII sensitivity¹	
4% instantaneous increase in interest rates	88
4% instantaneous decline in interest rates	(186)
EVE sensitivity²	
4% instantaneous increase in interest rates	(268)
4% instantaneous decline in interest rates	279

Resilience and Operational risk

In HSBC, Operational risk is part of non-financial risk.

Non-financial risk is the risk to achieving our strategy or objectives as a result of inadequate or failed internal processes, people and systems or from external events. Sound non-financial risk management is central to achieving good outcomes for our customers. Non-financial risk is relevant to every aspect of our business and is broadly managed through the risk management framework ('RMF'). Non-financial risk covers a wide spectrum of issues, such as technology and cyber security, transaction processing, data risk, failure to manage third parties, building unavailability, failure to protect people and place from physical malevolent acts, business interruption and incident risk, workplace safety, financial crime and fraud, regulatory compliance, financial reporting and tax risk, legal risk, model risk and people risk. Losses arising from breaches of regulation and law, unauthorised activities, error, omission, inefficiency, fraud, systems failure or external events all fall within the definition of non-financial risk.

Further explanation of the group's approach to managing non-financial risk can be found:

- on page 81 onwards of the HSBC Bank plc Annual Report and Accounts 2023.
- on page 230 of the HSBC Holdings plc Annual Report and Accounts 2023.
- on page 97 of the HSBC Holdings plc Pillar 3 Disclosures 31 December 2023; and
- on page 13 of the HSBC Bank plc Pillar 3 Disclosures 31 December 2023

We currently use the standardised approach in determining our operational risk capital requirement. This is consistent with the prior year. It is reported under the following categories:

- trading and sales; and
- commercial banking.

Responsibility for managing non-financial risk lies with our people. We remain focused on strengthening our approach to managing non-financial risk. The RMF sets out our approach to governance and risk appetite and sets the principals for our management of non-financial risks and associated controls.

The Operational and Resilience Risk sub-function provides robust non-financial risk steward oversight of the management of risk by the Group businesses, functions and legal entities. The sub-function helps the business grow safely and ensures governance and management of Operational and Resilience Risk through the delivery and embedding of effective frameworks and policies, and continuous oversight and assurance of risks, controls, events and impacts.

The first line of defence owns the risk and is accountable for identifying, assessing, managing key existing and emerging risks. The second line of defence sets the policy and control standards to manage risks and provides advice and guidance to support these policies. It also challenges the first line to ensure it is managing risk effectively. The third line of defence is Global Internal Audit, which provides independent assurance to the Board and management that our risk management.

At HSBC JOH business managers are responsible for maintaining an appropriate level of internal controls, 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 RMF 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:

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

The risk and control assessment process are 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 have declined year on year due to lower revenue reported in 2023.

Table 27: Operational risk RWA's

	Capital Required	RWA's
	R'm	R'm
At 31 December 2023	236	2 950

Remuneration (REMA)

As a wholly owned subsidiary, HSBC Bank plc and consequently HSBC JOH is subject to the remuneration policy established by HSBC. Details of HSBC's remuneration practices, 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') is available in the *Directors' Remuneration Report on pages 276 to 301 of the HSBC Holdings plc Annual Report and Accounts 2023*.

HSBC JOH follows the approach adopted by the Group. HSBC's performance and pay strategy aims to competitively reward long-term sustainable performance. Our goal is to attract, motivate and retain the very best people, regardless of gender, ethnicity, age, disability or any other factor unrelated to performance or experience. This supports the long-term interests of our stakeholders, including our customers and the communities we serve, our shareholders and our regulators.

Our remuneration practices promote sound and effective risk management while supporting our business objectives and the delivery of our strategy.

The following key principles guide our remuneration decisions. We aim to:

- Focus on total compensation with a strong link between pay and performance.
- Judge not only what is achieved, but also how it is achieved, and whether it is in line with the HSBC Values
- Operate a thorough performance management and HSBC Values assessment process.
- Recognise and reward our employees for outstanding positive behaviour.
- Design our policy to align compensation with long-term stakeholder interests.
- Apply consequence management to strengthen the alignment between risk and reward.

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, and this includes the Risk function.

For the purpose of the Pillar 3 remuneration disclosures, local ExCo members are considered to be members of the management body.

Table 28: Remuneration awarded during the financial year (REM1)

(In ZAR million)

Remuneration amount		Senior management	Other material risk-takers
Fixed remuneration	Number of employees	9	2
	Total fixed remuneration (rows 3	25	15
	Of which: cash-based	25	15
	Of which: deferred	-	-
	Of which: shares or other share-linked instruments	-	-
	Of which: deferred	-	-
	Of which: other forms	-	-
	Of which: deferred	-	-
	Variable remuneration	Number of employees	8
Total variable remuneration (row		7	5
Of which: cash-based		7	2
Of which: deferred		-	2
Of which: shares or other share-linked instruments		-	3
Of which: deferred		0	17
Of which: other forms		-	-
Of which: deferred		-	-
Total remuneration (rows 2 + 10)		32	20

Table 29: Special payments (REM2)

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

Table 30: Deferred remuneration (REM3)

Deferred and retained remuneration (in millions)	Total amount of outstanding deferred remuneration	Of which:			Total amount of deferred remuneration paid out in the financial year
		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	
Senior management	2	2	-	-	3
Cash	-	-	-	-	-
Shares	1	1	-	-	1
Cash-linked instruments	-	-	-	-	-
Other	-	-	-	-	-
Other material risk-takers	2	2	-	-	2
Cash	5	5	-	-	3
Shares	8	8	-	-	11
Cash-linked instruments	-	-	-	-	-
Other	-	-	-	-	-
Total	14	14	-	-	11

Abbreviations

AFS	Annual Financial Statements
ALCO	Asset and Liability Committee
BCBS	Basel Committee and Banking Supervision
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
LCR	Liquidity Coverage Ratio
MKTY	Markets Treasury
NSFR	Net Stable Ratio Funding
RMF	Risk Management Framework
RAS	Risk Appetite Statement
RMM	Risk Management Meeting
RWA	Risk Weighted Assets
SA-CCR	Standardised Counterparty Credit Risk
SFT	Securities Funding Transactions
WMR	Wholesale Market Risk