PILLAR III

PUBLIC DISCLOSURES

FOR THE YEAR ENDED 30 JUNE 2019

Discovery Bank Limited and Discovery Bank Holdings Limited Group

EXECUTIVE SUMMARY

The year in review (through the risk lens)

On 25 March 2019, Discovery Bank launched the world's first behavioural bank in South Africa. This unique retail banking value proposition is delivered through a mobile digital platform and offers personalised banking solutions that encourage, incentivise and reward clients in reaching financial wellness.

It must be emphasised that, for the period under review, the Bank was still in a gradual test phase. Client onboarding was initially restricted to Bank staff only. This launch was based on a prudent strategy of limited and controlled new business volumes within an approved take-on glide path for the migration of existing 'FNB JV'[1] customers. This broadened further to selected non-bank staff and "new-to-bank" customers, in order to augment the testing regime. Customer numbers were deliberately limited and activity closely monitored.

During the build phase of the Bank, executive management has at all times adopted a prudent stance to our evolution as a digital entrant into the South African banking sector. Significant effort has been, and continues to be, undertaken with respect to ensuring resilience of the technology systems, seamless integration thereof, testing operating systems, client front-end processes and risk monitoring activities through the stressing of our numerous delivery channels and systems.

Executive management has concentrated on the transition from 'building' a bank to 'running' a bank, with focus on a 'business-as-usual' approach with regard to the risk management operating processes. Executive management is closely involved in ensuring stringent management of the risk universe, inclusive of capital and liquidity with the overall objective being one of finding an appropriate balance between risk and reward, cognisant of the strategic direction and the prevailing market conditions in which we operate.

Unacceptably low GDP growth, stubbornly high unemployment and disposable income under strain have placed a significant burden on the consumer. In the face of these challenges and cognisant of the stage to which the Bank has evolved, the Bank has delivered a credible performance against expectations and has, at all times, operated within the Board's approved risk appetite.

Independent validation has been performed on the various models underpinning the behavioural bank construct and associated business activity. This included a review of the business model, a validation of the appropriateness of assumptions used, a sensitivity analysis and a range of stress testing.

The primary objective was to test the threat to sustainability and profitability of the Bank, inclusive of capital and liquidity requirements under stressed scenarios, correlated to associated sensitivities. This analysis further informed suitability of the approved risk appetite and capital planning processes.

Principal areas of focus

Operational risk

The key focus to date in terms of operational risk has been designing and embedding the appropriate controls within the Bank's core processes, taking a risk-based approach within the context of the gradual test phase for the period under review. This is to minimise any losses that may occur as a result of inadequate or failed internal processes, people, systems, or external events. The Operational Risk Management (ORM) department pays particular attention to entrenching risk tools and knowledge within the first line operational areas of the Bank to ensure a mechanism for risk events or control breakdowns to be reported, investigated and remedied, further strengthening the control environment and reducing any operational risk exposure.

Security risk

Significant time and effort have been expended in the area of combating security risk, be it cyber, access, fraud or data related. A fully operational SOC (security operations centre) is in place and security monitoring capability and tools are implemented and functioning as intended.

Credit risk

Our credit exposures remain concentrated to a target market comprising middle and high-income individuals. The current macroeconomic environment does not fully support credit growth and as consumer pressure persists, Discovery Bank will remain conservative in its approach to new credit underwriting, reflected in the current policies, strategy and standards. In the face of the above, existing test clients have nevertheless remained fairly active during the year in review and impairment levels have been largely consistent with expectations.

Balance sheet management – Liquidity and capital considerations

The migration of the current Discovery Card (a Visa credit card that was launched by the Discovery Group in a joint venture with FirstRand Bank Limited in October 2004), from FirstRand Bank onto the Discovery Bank platforms has resulted in a growth in the balance sheet commensurate with the migrated client numbers – the asset quality of which has been preserved.

1 *Discovery Card joint venture with FNB.*

EXECUTIVE SUMMARY continued

The Bank continues to hold surplus liquid assets and has maintained a strong liquidity position that exceeds the Prudential Authority's minimum liquidity requirements. In addition, the Bank has secured a long-dated liquidity facility to further bolster the liquidity position. At all times, prudency in managing the liquidity position of the Bank has been front of mind.

Discovery Bank continues to meet the Prudential Authority's required indicated minimum capital adequacy. The Bank regularly updates its shareholder with a detailed capital plan and monitors the capital position on a monthly basis. The capital requirement is calculated monthly, taking into account expected growth and operational costs, as well as internal management buffers.

Share capital is issued as and when required, with a total of R3.8bn in capital issued by the Banking Group in FY2019. In addition to the management buffer, the Bank endeavours to maintain an appropriate headroom to adequately absorb any unexpected volatility during this phase of growth.

Reputational risk

Discovery Bank, as a new digital entrant, is acutely aware of the 'confidence sensitive' nature of banks generally. There has been significant interest in the Bank offering and prudency has resulted in a very measured client take-on since the March 2019 market launch.

The objective of the Risk Management Function is to assist the Discovery Bank Board in ensuring that a number of responsibilities in respect of risk management are properly executed.

Through achieving this objective, the Risk Management Function also gives the Board reasonable assurance that the risks to which Discovery Bank are exposed are identified and appropriately managed and controlled.

The role of the Risk Management Function is to ensure that:

1. All key risks and key performance indicators are identified and regularly monitored to ensure that the decision-making capability and accuracy of reporting is maintained at a high level;
2. The Bank's risk appetite is adequately defined and documented in a Risk Appetite Statement which should include the Bank's risk appetite, and the cascaded risk appetites, for the activities undertaken by the Bank;
3. An appropriate risk culture is fostered;
4. The overall systems of risk and capital management, including the related system of internal control, are adequate and effective in enhancing the Bank's ability to achieve its strategic objectives;
5. A risk mitigating strategy has been developed to ensure that risks are managed optimally;
6. Disclosures of risk matters are comprehensive, timely and relevant;
7. Adequate controls and processes are in place to secure the information assets of the Bank;
8. Adequate systems are in place to manage fraud and cyber security;
9. Appropriate processes and controls are in place to manage business continuity and disaster recovery within the Bank and Bank controlling company;
10. In addition to the evaluation of risk, introduce such measures as may serve to enhance the adequacy and efficiency of the risk management policies, procedures, practices and controls applied within that bank.

Discovery Bank Risk Management Philosophy – Coalescing agility with governance

Risk management continues to evolve rapidly. Traditional, siloed bottom-up risk thinking has long been augmented by top-down, integrated enterprise wide risk thinking. As the world has evolved from a one-dimensional, loss preventive mindset towards a more whole entity and value-added 'real-time' mindset, the modern risk management function is required to have an element of agility, carefully balancing investment in proactive 'prevention', whilst encouraging continued focus on innovation. The digital nature of our enterprise further emphasises a need for a continued appraisal of how we approach the management of risk.

How do we approach risk management within Discovery Bank?

We continue to embed and mature a robust and well-understood risk culture, emphasising results-based performance measures, allowing better risk decision-making from an empowered staff complement. This contributes to a culture that considers both the upside and the downside when making risk based decisions.

Traditional risk disciplines within the Bank are integrated with a combined assurance lens. However, with the advent of a better understanding of the behavioural sciences around decision-making, ever-evolving machine learning and an abundance of data with which we can work, it requires of us to have a fresh approach to our traditional disciplines. Although the focus to date has been on implementing the traditional disciplines, in the near future we envision an element of agility, certainly predictive and possibly self-managing systems that can detect and prevent risk through pattern recognition, even resulting in self-defence systems, a combination of which would form a cornerstone to vigilance.

We make use of embedded controls within business models, processes and services. We have recognised the immense value of data, filtering for relevance, with a high degree of confidence whilst maintaining an acute awareness of the need for privacy associated with personal information. The culmination of the use of data and machine learning is anticipated to be an ability to monitor, identify, predict new or emerging threats or anomalies and contain these threats effectively and timeously within the strategically defined risk appetite.

Strategic intent of enterprise risk management

Risk management aligned and central to the business strategy	Management of risk is central to the Bank's strategy. Risk management will support the strategic and operational goals of the Bank with a well developed enterprise risk management framework taking a holistic and forward looking view of risks.
Proactive risk management process	A rigorous, proactive risk management and compliance framework to prevent losses and unnecessary exposure to risk. The Bank is well prepared to respond to any negative risk implications. The embedded risk management and compliance processes throughout the organisation require our employees to take responsibility for the risks related to their work. The Bank's risk management and compliance framework allow it to see, in real-time, client exposures to risk and to intervene, when necessary.
Risk governance structure	The Bank has a robust governance structure which consists of a number of committees with varying areas of responsibility. The governance structure as illustrated further in this document, is underpinned by the three lines of defence operating model.
Data-enabled risk management	The Bank will use all its advanced technology and extensive data resources to identify risks and minimise potential operational and reputational losses and to facilitate compliance with applicable regulation. The Bank has built IT systems and related data architectures in line with the principles behind BCBS 239 regarding effective management of risk data required for decision-making. The technology properly organises our data in a manner that allows the Bank to extract risk information quickly and timeously, to report and monitor risk and effect mitigating actions when required. Optimised use of risk data will improve the calculations of regulatory and economic capital across the Bank. The Bank's data-enabled risk management framework will allow it to optimise the allocation of capital to ensure cost-effective monitoring and risk management.
Integrated risk management	Integrated risk management is a structured and disciplined approach to risk management; aligning strategy, processes, people and technology in evaluating and managing risk within the Bank. The implementation of the Bank's Combined Assurance model will be the basis to facilitate integrated risk management.
Foster risk culture	The effectiveness of the Bank's risk management program is underpinned by the risk culture within the Bank. The Bank's attitude towards risk is clear and appropriate through the strategy, risk appetite and the policies and framework.

In summary

The Bank's executive risk management function, having received the appropriate mandate from the Board, has assessed the impact on the primary risks and concluded that:

- Appropriate systems are in place, allowing for regular, timely and accurate consideration of risks, encouraging adaptability or flexibility in responding to changes in taxonomy or evolving conditions that could impact the risk profile of the Bank
- In support of the above, capital and liquidity demand and supply activity is actively considered, thereby ensuring the maintenance of adequate capital levels, appropriate to the nature or complexity of the Bank's activities
- Under a stress scenario, although business levels would soften, the bank would continue to maintain adequate liquidity and capital balances to support the continued operation of the Bank.

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BOARD APPROVED REPORT

BOARD APPROVED REPORT

The Discovery Bank Board of Directors, recognise the importance of the Pillar III disclosure report and is committed to providing information that is clear, comprehensive, meaningful, consistent and comparable.

In providing information relating to common risk metrics, we endeavour to promote confidence in the manner in which the Bank manages the business. This further provides comfort that risks are adequately catered for.

Discovery Bank endeavours to proactively embed a robust risk culture within the Bank, committed to establishing high standards of governance, ethics and integrity, a culture that considers both the upside, as well as the downside when making risk-based decisions. As a result, through emphasising results-based performance measures we aim to foster better risk decision making from an empowered staff complement.

Cognisant of the fact that for the period under review, the Bank was still largely in a test phase, we are comfortable that a balanced view of the risks inherent within the Bank is presented, highlighting those to which we are most exposed.

In assisting the Discovery Bank Board in delivering its mandate, the Chief Risk Officer (CRO) and the Risk Management Function, through the Bank Risk Management Function, use a number of executive committees such as the ORCO (Operational Risk Committee), ALCO (Asset and Liability Committee), CRRC (Credit Risk Review Committee) and the New Product Committee, duly constituted and mandated, with appropriate terms of reference and applicable policies. The office of the CRO is mandated to:

- Establish all necessary risk management processes, practices and procedures, appropriate to the size and nature of our current banking activities and guided by the committees and policies described above, the Bank's Executive Management are able to identify, measure, mitigate, monitor and report on the taxonomy of risks as referred to within the Risk Universe
- Consider these frameworks on an annual basis as part of the Board committee annual work plan including deliberations as to the adequacy of the Risk Management Framework in so far as it relates to the nature, size and complexity of the Bank
- Conduct periodic reviews of the annual work plan, and in circumstances where any enhancements, additions, new products or stress testing give rise to a changing risk profile, ensuring that such factors are considered and adjustments made
- Guide the implementation of, and adherence to, the business strategy, goals and objectives, taking into consideration that the Bank operates within an approved limit framework, including appropriate capital and liquidity buffers
- Ensure robust credit processes, such as assessing indebtedness, ensuring timely and appropriate measuring of credit impairments, and adequately identifying related parties
- Ensure due consideration is given to the ability of the Bank to assess all associated risks, aggregation of these risks, including the oversight of all outsourced activities
- Ensure that all breaches or material deviation from policy are escalated or reported in line with the stipulated policy framework
- Ensure that, in support of all the above, capital demand and supply activity is actively considered, thereby ensuring the maintenance of adequate capital levels, appropriate to the nature and complexity of the Bank's activities.

This Pillar III disclosure report complies with the Prudential Authority's requirements as stipulated through the Banks Act (Act No. 94 of 1990), and through the relevant regulations, directives and guidance notes issued, with particular reference to Regulation 43 – Public Disclosures. This in addition to guidance received from the Pillar III disclosure requirements, subsequent revisions thereto, outlined by the Prudential Authority (PA) most recently revised disclosure requirements in Directive D1 – 2019.

The Board is satisfied that:

- In line with Discovery Bank's prudent governance processes, all business owners, executive management and Board executives have reviewed this document,
- The information provided in this report was subject to a similar and appropriate level of internal review as the information provided for financial reporting purposes,
- Our Pillar III reports are published on the Discovery Group website, under Investor Relations, which we update as required.

PAUL SMITH

Chair – Risk and Capital Management Committee

Discovery Bank

02 RISK MANAGEMENT APPROACH

RISK MANAGEMENT APPROACH

Overall risk profile

Discovery Bank follows a comprehensive four-step process in its approach to managing risk, which defines our risk appetite statement as well as the process of monitoring and reporting of our risk profile.

Each step is fundamental to the process to ensure a measurable, executable and functional framework has been implemented for the Bank. Each of the core risk appetite components are then developed by considering questions such as the following:

- What risks will we not accept?
- What risks are we exposed to and what risks do we need to take?
- What risks are we willing to bear, and to what level?
- What resources are required to manage those risks?

The risk appetite statement encapsulates the Bank's overall risk tolerance levels, determining whether the Bank will seek, avoid or accept a particular risk to achieve an adequate balance between risk and reward. These activities are all linked to ensure the business objectives are achieved, and to ensure the risks associated with pursuing these objectives are monitored and in line with the Bank's objectives.

Strategy and business model

The strategic objectives are linked to business targets in order for the Bank to measure its success in achieving those objectives. The below statement articulates the Bank's vision at a high level:

To be the world's first 'behavioural bank' and South Africa's preferred digital retail bank:

That delivers personalised solutions to our client base through a 'mobile first' world-class digital platform
While enhancing their financial wellness through our unique 'shared-value model'
And delivering superior returns to our shareholders.

Launching the world's first behavioural bank in the South African retail banking market is a confluence of technology, social responsibility and a deep understanding of the nature of behavioural risk underpinned by the proven 'shared-value' business model of the Discovery Group. The science behind behavioural banking shows that five controllable behaviours give rise to three financial conditions that result in 80% of defaults or financial burden, now and in the future.

RISK MANAGEMENT APPROACH continued

Discovery Bank has developed a sophisticated tool that automates the calculation of a client's Vitality Money status. This status is dynamic and changes based on the client's financial health. Importantly, Discovery Bank assesses its clients' financial health regardless of whether they have existing products with Discovery Group.

There are three main components:

1 Know your financial health

Information collated from multiple sources

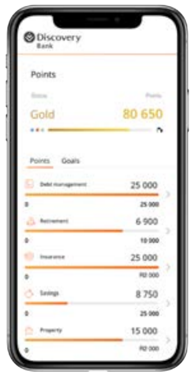
Lightstone PROPERTY

experian.

astute

Dynamic scoring using artificial intelligence (AI)

Simple user interface



2 Improve your financial health

Vitality Active Rewards

Simple and easy tools

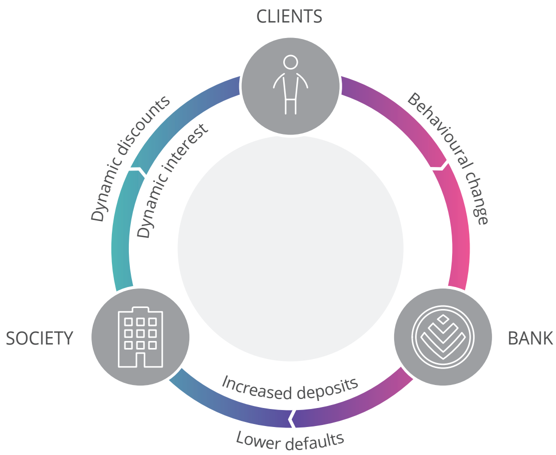
- Spend manager
- Retirement planner
- Financial education videos
- Debt manager
- Personalised goals

3 Get rewarded

Virgin active, planet fitness	Up to 100% back on gym memberships
Emirates, QANTAS	Up to 50% off international flights
kulula.com, British Airways (Operated by Comair)	Up to 75% off local flights
Woolworths, Pick n Pay	Up to 75% back on HealthyFood
Dis-Chem Pharmacies, Clicks	Up to 50% back on HealthyCare items
Sportsmans Warehouse, Totalsports	Up to 50% back on HealthyGear items
Shell, bp	Up to 15% back on fuel at Shell and BP
Uber	Up to 15% back on Uber trips

RISK MANAGEMENT APPROACH continued

As such, at the core of our business model is the utilisation of incentives and rewards, backed by advanced analytics and technology, to encourage clients to make positive decisions that enhance their financial wellness. This business model helps clients improve the quality of their lives while also generating sustainable long-term revenues for Discovery. The business has been built on a combination of the latest real-time processing technology and sophisticated behavioural data analytics.



Discovery Bank offers a personalised, intuitive and convenient banking solution across an extensive digital platform. This platform enables Discovery Bank to bring the latest and most cost-effective banking technology to market providing its clients with a lean, digitally enabled banking environment. The digital platform caters for day-to-day banking requirements, investment in products, and the integration of rewards programmes. Discovery Bank offers both savings and lending products, with different rates applicable to each product, depending on the amount deposited or borrowed and the behaviour of the client. The different products have different card colours that targets a specific market group based on their income bracket.

Dynamic Interest Rates, an industry first, will allow clients to improve their interest rates on savings and lending based on their Vitality Money engagement.

Governance structure

Risk management is central to the implementation of Discovery Bank's business strategy. The Bank is committed to gauging its risk appetite when evaluating its business decisions. It addresses risk holistically and recognises the relationships between different parts of the organisation and their impact on risk.

The Bank has adopted the 'three lines of defence' governance model in managing risk. This risk management model promotes transparency, accountability and consistency by clearly identifying and separating business management from governance and control structures. In addition, the Bank's risk management systems and processes are designed to be proactive. The digital banking platform is envisaged to identify potential risks and continuously improve the risk management capability.

In executing the risk management framework, we are guided by the following key principles:

Risk management aligned and central to the business strategy:
Managing risk is central to the Bank's strategy. Risk management and strategic processes are in line to ensure the Bank always considers its risk appetite when it makes strategic decisions. The Bank identifies, measures and manages risk holistically by carefully addressing the inter-relationships of risks throughout the organisation.

Proactive risk management and compliance:
Discovery Bank has a rigorous, proactive risk management framework. This framework assists in preventing losses and unnecessary exposure to risk. It also ensures that the Bank is well prepared to respond to any negative risk implications. The Bank continues to embed risk management processes throughout the organisation and requires employees to take responsibility for the risks related to their work. The Bank's risk management framework see, in real time, client exposures to risk and will intervene to avert and/or minimise losses when necessary.

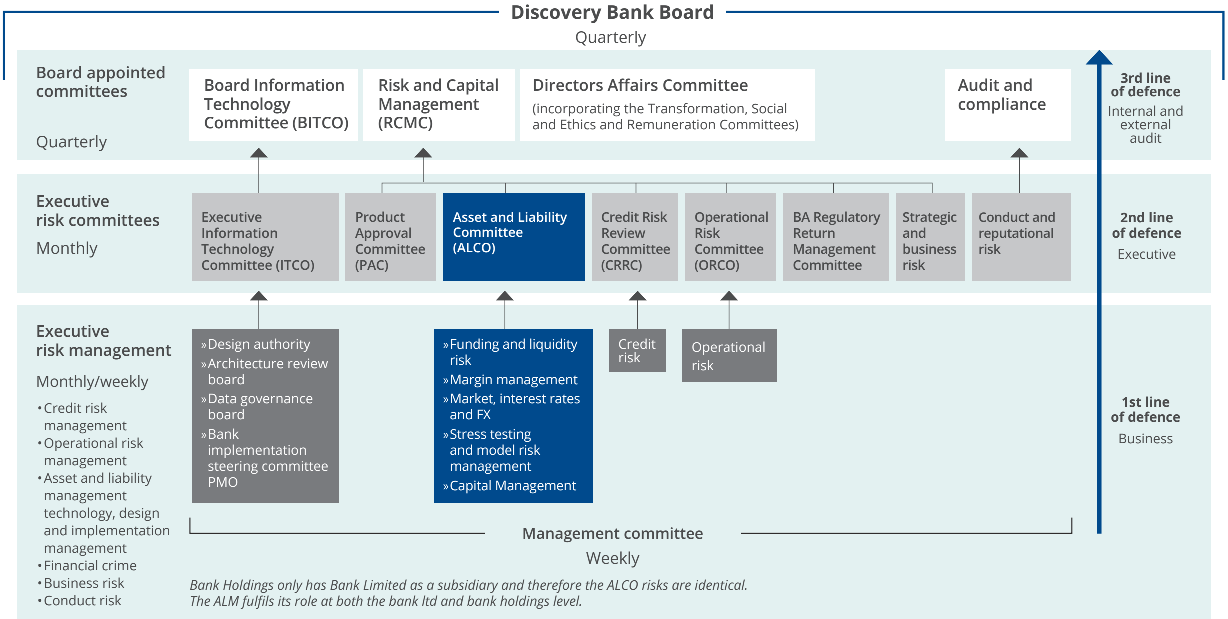
Data-enabled risk management:
The Bank uses advanced technology and extensive data resources to identify risks and minimise potential credit, market, liquidity, operational and reputational losses and thereby facilitates compliance with applicable regulation (most importantly in relation to KYC, AML and CFT).

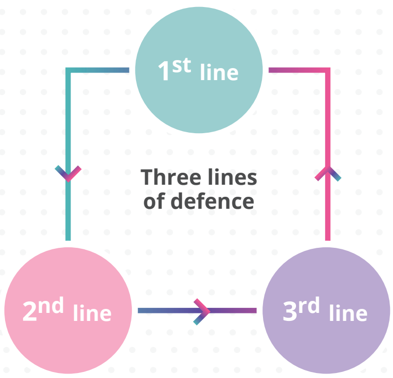
Discovery Bank uses its analytical systems to accurately assess both consumer risk and the risk to the Bank. These analytics capabilities enable us to have a comprehensive view of the client and thereby tailor specific products for their needs through providing the Bank with a deeper understanding of the client's financial circumstances and requirements. An example of this would be to timeously identify financially stressed clients and respond appropriately.

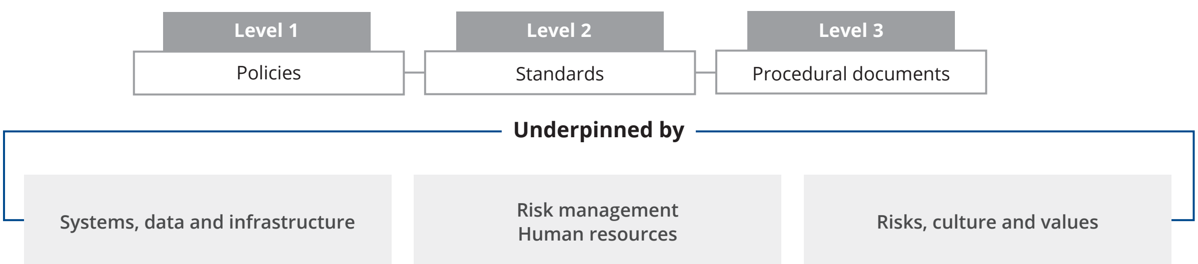
Augmenting the oversight framework, we make use of acknowledged industry experts who serve in a consultant capacity to assist the Board in assessing the risks as presented by the management team.

RISK MANAGEMENT APPROACH continued

Discovery Bank has robust risk management processes in place. This view is supported by our risk committees, and substantiated by the 'three lines of defence' model, which is supported by policies, standards and procedural documents.







Channels to communicate risks

The 'three lines of defence' risk management model promotes transparency, accountability and consistency by clearly identifying and separating business management from governance and control structures.

The model is used to communicate and manage risks.

I. Business units, through the EXCO committees, act as the first line of defence:
   - Responsible for the day-to-day management of risk and control within the business operations
   - Responsible for delivering the strategy and optimising business performance.

II. Second line of defence functions comprise the Bank's risk management function and the compliance function. These are independent functions that provide limited assurance to the Board with regard to the adequacy and effectiveness of the overall risk management system. These functions have the authority to communicate with any employee and obtain timeous access to any records required to carry out their responsibilities:
   - The Bank's risk management function is an independent function (of first-line business management) and is responsible for designing and ensuring the operational effectiveness of the risk management system for all risk types. This is a centralised function, headed up by the Chief Risk Officer.
   - The Compliance Function ensures that the Bank is able to meet its regulatory obligations and promotes a corporate culture of compliance and integrity.
   - Consists of the following key functions:
     - Credit risk
     - Operational risk
     - Security risk
     - Funding and strategic risk
     - Management information.

III. Third line of defence comprises of the Bank's independent assurance functions. This is the internal and external audit, that provide an independent and balanced view of the effectiveness of the first – and second-line functions as defined above.
   - Bank internal audit performs an assessment on the effectiveness of the risk management system on an annual basis or when requested to do so. The findings from these audits (external and internal) are reported to the Bank Audit and Compliance Committee and various other governance structures across the Bank.

Discovery Bank has a clearly articulated business strategy. The various risks to achieving this strategy have been identified and quantified (where possible), and risk appetite metrics (quantitative and qualitative) have been set.

In the Bank's risk appetite framework, key risk indicators are established against which all principal risks are monitored and managed. This ensures the business strategy is met whilst simultaneously managing (and limiting) the risks taken on to do so.

Risk appetite

Our risk appetite considers all the risks pertinent within the Discovery Bank risk universe to ensure no unnecessary exposure is introduced onto our balance sheet or within our operating environment. The associated parameterisation of this is embedded in our risk response and forms part of our daily, weekly and monthly monitoring processes. Any potential breaches are flagged timeously and remedial actions are agreed. The risk appetite measures remained well within approved appetite under the reporting period.

In order to execute on the Bank's strategy insofar as it applies to the risk appetite framework and achieve an adequate balance between risk and reward, the Bank will adopt the following principles:

We seek to write business that is well diversified, within the chosen and approved classes of underwritten business, and that will increase capital efficiency and maximise shareholder economic value

We seek to maintain a financially sound position by ensuring that the Bank is well capitalised and funded and will continue to meet its internal and regulatory capital and liquidity requirements

We avoid instances where the Bank is exposed to very volatile or potentially extreme outcomes that could threaten the viability of the business

We only accept risks that provide an appropriate balance between risk and reward

We only accept risks for which the Bank has the required expertise and is skilled at managing

We only accept risks arising from products sold to help clients improve their financial wellness while also generating sustainable long-term revenues for Discovery Bank.

Key risks

Strategic and business risk

Strategic and business risks are unavoidable and the Bank's performance could potentially be impacted by changes in the economic environment, competitive actions, or strategic actions such as acquisitions or mergers. The Bank is operated on a robust and sustainable financial basis to maintain the support and confidence of our stakeholders and the various rating agencies. The Bank has a very low tolerance for risks that would threaten our capital adequacy and liquidity. While the Bank actively monitors, manages and mitigates these risks, the risks are inherent in all business enterprise and the Bank accepts they cannot be mitigated completely.

Reputational risk

Discovery Bank takes reputational risk seriously and monitor both social channels and media to track any complaints against the brand. Client feedback is monitored through the client dial-in centre on a real-time basis. Discovery Bank aims to remain a client-focused, fair and transparent business who delivers a world-class product to clients.

Credit risk

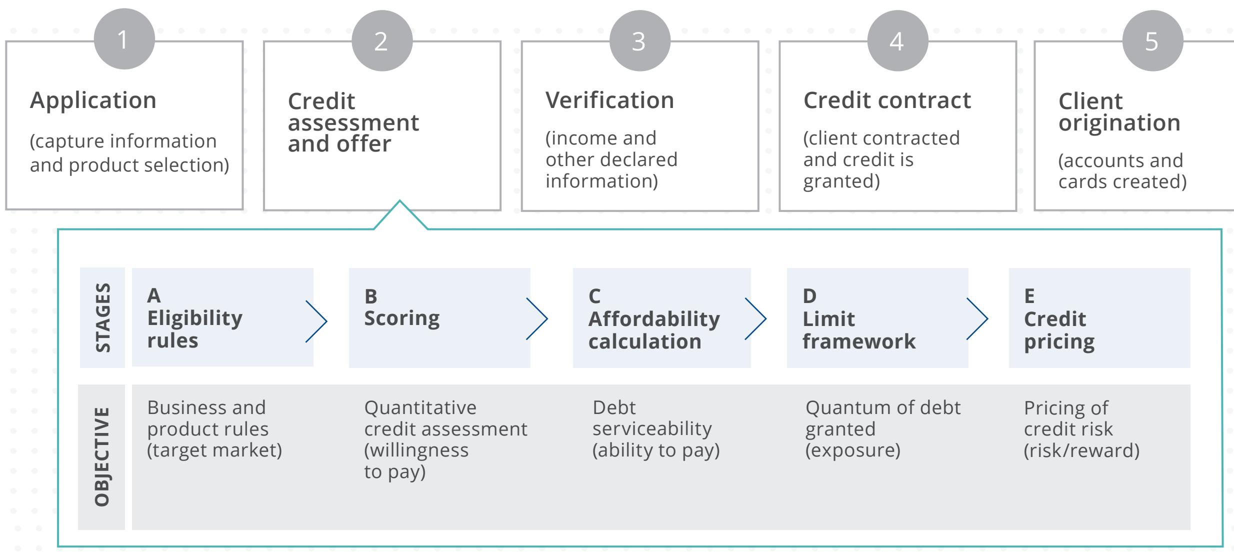
With regard to the broader lending products, Discovery Bank has adopted a 'low-and-grow' credit strategy, for new clients, allowing for a prudent approach to the offering of unsecured credit limits. Over time, these can vary in line with observed financial behaviour and financial health. All existing limits currently in place on Discovery branded joint venture credit cards will be migrated. Aligned to the prudent lending strategy, a progressive 'gate' methodology is in place to ensure risk is adequately mitigated while entering the lending market.

Discovery Bank offers one credit facility allocated across all linked accounts.

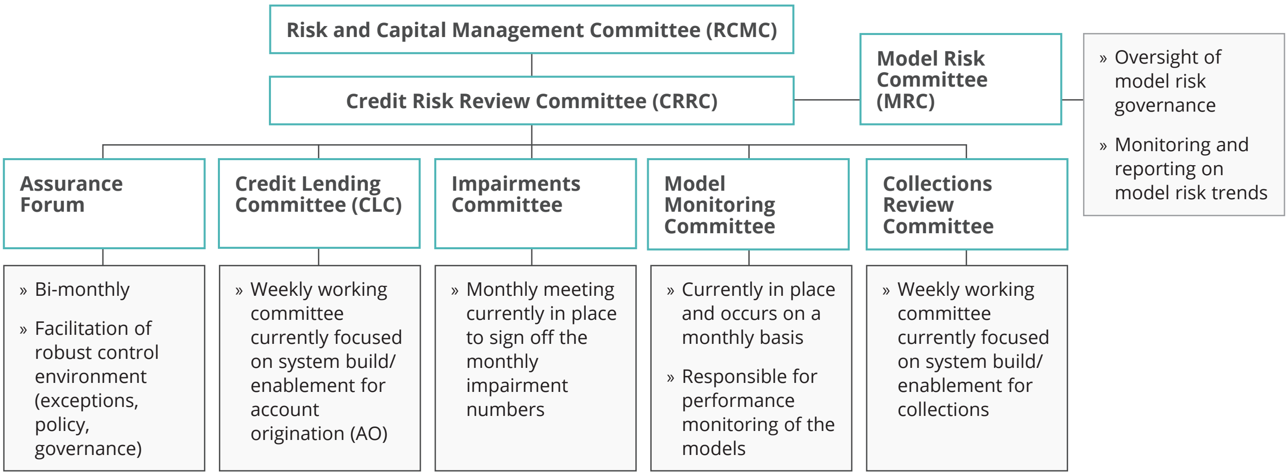
Discovery Bank target market focus is on private individuals with a set minimum gross income in order to ensure its limit allocation risk strategy provides 'superior or risk appropriate selection capability' and allows the business to effectively manage limits for clients. The credit unit operates within clearly established principles as expressed below:

- We understand clearly the definition of our focus target market
- We assess the credit worthiness of the client, both on a qualitative and quantitative approach
- Risk appetite underpins all considerations with respect to limit allocations
- We will ensure that we can monitor our exposure daily, through automated reporting mechanisms
- Robust governance and controls frameworks are in place to manage risk
- There is appropriate senior management interaction to provide guidance with respect to limit strategy and behavioural analytics.

Risk mitigation techniques form part of the overall risk governance process implemented by the Bank. We manage our risk (limiting credit losses and exposure on our books) through clearly defining, parameterising and monitoring various risk metrics, aligned to the Bank's strategy and articulated through our risk appetite. In assessing a prospective clients risk and set the terms (price and exposure) on which the Bank is willing to extend credit to a client, a five-step process, as depicted below, is followed:



This 5 step process is well managed, measured, monitored and mitigated as part of the credit governance processes, as depicted below:



Discovery Bank further applies a consistent definition of default for regulatory and accounting purposes. Discovery's default definition used for model development (considering a 12-month outcome period) is as follows:

- The account was 90 days past due
- The borrower was placed in debt counselling or debt review
- The account had undergone restructuring or special arrangement
- The account was placed in 'charge off' or legal status
- The account was written off.

Specific impairments are raised against accounts that are identified as being in default and where there is objective evidence that, after initial recognition, not all the amounts due will be collected.

Collections refers to the status of any account where the client is not meeting their contractual obligations, but the account has not yet been defaulted.

Although the primary aim of collections activity is to obtain sufficient payment from the client in order to return the account to a non-arrears status, focus is placed on rehabilitating the client and improving their financial position to prevent any repeat behaviour. This is an integral component of the behavioural model and the consequential improvement in the financial health of the client.

IFRS 9

Discovery Bank has early adopted, effective 1 July 2017, the International Financial Reporting Standards (IFRS) 9 Financial Instruments, and recognises expected credit losses on qualifying financial assets in accordance with IFRS 9.

In addition to Discovery Bank adopting the "Standardised Approach", it has applied the following definitions in calculating expected credit losses.

Past due loans: The unsecured portion of any loan (other than a qualifying residential mortgage loan) that is past due for more than 90 days, net of specific provisions to be included in this category.

Default/credit impaired: Default is defined on a facility level and considers both quantitative and qualitative factors as provided in the Basel capital framework. The qualitative criteria require banks to identify credit deterioration before the exposure becomes delinquent 'unlikeliness to pay' events, while the quantitative criteria require banks to look at the material delinquency status.

Regulation 67 of the Banks Act provides a definition of default, constituting both qualitative and quantitative components. Discovery Bank has been guided by this definition and considers the various factors as outlined below:

Qualitative

- The borrower is placed in debt counselling or debt review
- The borrower is deceased
- The facility has undergone a distressed restructure or special arrangement
- The facility has been transferred to 'charge off' or legal status
- The client is under debt review
- The client is insolvent
- The facility is written off.

Quantitative

- A material amount on the facility is 90 days or more in arrears.

Through the risk appetite framework, risk metrics or indicators are established, against which all activity is measured. This ensures alignment with achieving the business strategy, while simultaneously managing the risks taken to do so. Credit risk forms part of this risk appetite construct, approved by the Bank Board. Credit risk is actively managed, all exposure and loss tolerance monitored thereby mitigating against credit exposure on book. Monitoring occurs daily with escalation as defined by the governance process. In addition, broader reporting to the various governing bodies such as the Credit Risk Review Committee or the Risk and Capital Management Committee occurs either monthly or quarterly.

The credit team is an experienced, diverse banking team encompassing complementary credit disciplines. Considering our risk management capability collectively, the team, the loan strategy, the default definitions, the collections strategy, IFRS 9 accounting standards, governance oversight underpinned by sound risk fundamentals and Board approved risk appetite limits, we are comfortable that credit is managed appropriately and growth is in line with expectations.

The tables that follow provide an overview of the exposures per industry, geographical area, impairments as well as ageing analysis of accounting past due exposures.

Breakdown of exposures by geographical areas

Region name	Exposure	Expected Credit Loss
South Africa	438 432 753	580 961
Eastern Cape	294 201	11 002
Free State	2 046	67
Gauteng*	436 926 949	519 152
KwaZulu-Natal	501 767	24 829
Limpopo	21 208	2 393
Mpumalanga	3 791	124
North West	2 302	76
Western Cape	680 489	23 318
Singapore**	11 673 067	5
Total	450 105 819	580 966

Exposure and ECL as at 30 June 2019

* *Includes corporate exposures in South Africa (interbank loans and treasury bills).*

** *Bank exposure in Singapore.*

Breakdown of exposures by industry

Industry/Sector	Impairment exposure	Expected Credit Loss
Private households with employed persons*	13 148 715	552 131
Financial intermediation, except insurance and pension funding**	436 957 104	28 835
Total	450 105 819	580 966

Exposure and ECL as at 30 June 2019

* *Retail exposure.*

** *Includes interbank placements and holding of treasury bills.*

Ageing analysis

Arrears status (days past due)	Exposure	Expected Credit Loss
Performing*	449 948 447	490 460
1 – 29	78 773	31 556
30 – 59	0	0
60 – 89	78 600	58 950
Total	450 105 819	580 966

Exposure and ECL as at 30 June 2019

* *Includes corporate exposures (interbank loans and treasury bills).*

Liquidity and funding risk

Discovery Bank applies a comprehensive definition of liquidity risk and further distinguishes two types of liquidity that may pose a risk, namely:

- **Funding liquidity risk:**
  The risk that a bank may fail to meet its payment obligations when they fall due, replace funds when they are withdrawn or fund commitments to lend at the right time and place, and in the right currency (the risk of being unable to meet commitments, repayments and withdrawals without incurring unacceptable costs or losses).
- **Market liquidity risk:**
  The risk that describes a bank's inability to liquidate an asset within a specific time frame at a reasonable price.
  A reduction in market liquidity may adversely impact a bank's ability to turn assets into cash in an attempt to manage or mitigate the adverse effects of funding liquidity risk.

Discovery Bank recognises the importance of maintaining liquidity in order to carry out its day-to-day operations and continues to hold high levels of surplus liquid assets. Both the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) are above the regulatory requirements of 100%.

Even though the liquidity coverage ratio (LCR) is currently extremely high, this will decrease with the growth of the Bank.

The NSFR is currently heavily weighted by the components related to corporate actions in respect of FirstRand buyout and capitalised build costs. As a start-up bank, a significant portion of capital is invested in the purchase price of the joint venture (JV) book from FNB and reflects largely as intangible assets and the deferred tax asset. This will remain the case for some time. To more accurately show the 'run-the-bank' NSFR, we monitor the ratio by including as well as excluding the start-up costs.

The sophisticated platforms allow the bank to monitor key performance indicators on a daily basis. In addition to the sophisticated systems, the BA regulatory team has multiple checks in place to ensure key indicators remain within appetite.

To cope with market conditions, skilled resources are employed with no vacancies within the area to ensure sufficient levels of liquidity is maintained.

The funding strategy aligns to the requirements of the business case and to the anticipated pace of the card migration in addition to the projected growth in new business take-up; these are collectively referred to as the 'glide path'. Our retail client base is our principal source of funding and well-diversified product offerings are required to attract client's investment needs. The bank has a liquidity buffer in place ensuring we hold sufficient unencumbered high-quality liquid assets and or cash protecting the bank against any disruptions. The glide path is updated continuously to ensure risk is adequately managed.

Contingency funding plan

The contingency funding plan is an important component in the Liquidity Risk Management of the Bank. It describes the approach followed by the bank to identify the occurrence of contingencies and the management of liquidity risk during a range of stress events. It sets out the strategies for addressing liquidity shortfalls in emergency situations.

The contingency plan addresses the following areas:

- Determine any likely occurrence of a stressed liquidity situation by measuring qualitative and quantitative early warning indicators.
- Determine the level of stress based on an adverse liquidity situation
- Set out the action plan to be followed by various teams within the Bank to manage a liquidity crisis to ensure the financial integrity of the Bank
- Provide guidelines for the utilisation of liquidity buffers and sources of funding during a contingency liquidity situation.

Due to the maturity of the Bank, stress scenarios are currently based on the regulatory guidelines. Once the Bank has a larger client base, it will have more data to determine client behaviour. The Vitality Money programme (and associated rewards), as well as integration with Group products, will have a significant impact on the client's behavioural profile. More detailed stress testing will then be performed.

Market risk (including model risk and interest rate risk in the banking book)

Market risk is the risk that a firm's earnings, capital or business objectives will be adversely affected by changes in market prices. It is the risk of loss arising from the price movements in the financial markets. The risk of loss can be in a trading position, portfolio or an instrument resulting from volatility of market risk factors.

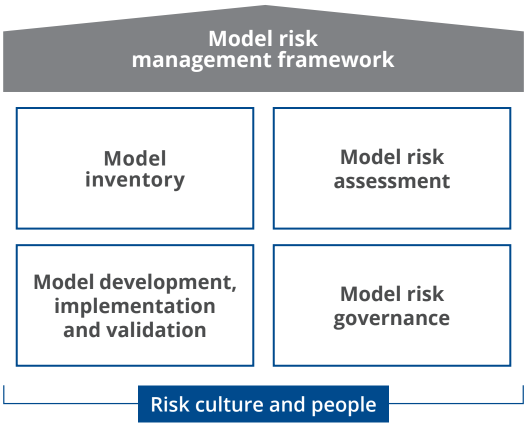
As a retail-focused bank, Discovery Bank has very limited appetite for market risk and as such there are no proprietary trading positions or transactions, or both, involving outright speculation. However, in providing its core services and products it assumes some market risk that is quantified, monitored and managed.

The Bank measures and monitors its interest rate risk to parallel shifts in the yield curve on both an earnings (NII) and value (EVE) basis. These risk models have been validated from a design adequacy perspective by both second and third line.

All new models developed follow the bank-wide model risk governance process and associated validation efforts.

Model risk

The Bank has adopted a 'risk-based' approach to the management of model risk. The nature and scope of the model governance requirements are dependent on the nature, complexity and materiality of the models being used. The Model Risk Management Framework is developed to include the below four dimensions. The Bank is moving from a fundamental level to a sophisticated level within the next few years.



Interest rate risk in the banking book

The nature of Discovery Bank's activities gives rise to continuous exposure to interest rate risk. Interest rate risk in the banking book (IRRBB) is the potential for financial loss as a result of the Bank's exposure to adverse movements in interest rates on both its net interest income (earnings) and the economic value of equity.

The sources of interest rate risk detailed below have a direct effect on the Bank's future net interest earnings and its economic value of equity when applied to our rate sensitive asset and liability portfolios.

The sources of **interest rate risk** include:

1 Gap risk arises from the term structure of banking book instruments and the timing of rate changes (for example, rate of interest paid on liabilities increases before the rate of interest received on assets)

The bank measures and monitors its interest rate risk to parallel shifts in the yield curve on both an earnings (NII) and value (EVE) basis. Currently exposure to non-parallel shifts would be similar to those of parallel shifts since the banking book does not extend beyond a year (no exposure to the midsection and long-end of the yield curve).

As the book size grows (in line with the expected glide path) the quantum of the basis risk between the JIBAR linked liabilities of the bank and the prime-linked assets will become more significant. The risk of the gap between these two floating rates fluctuating adversely is measured (on both a value and earnings basis), monitored and managed accordingly.

2 Basis risk arises from changes of interest rates for instruments that have similar tenors but are re-priced using different rate indices (specifically prime/repo rate vs JIBAR).

Discovery Bank considers the management of IRRBB of great importance, thereby ensuring stability of the net interest margin. The liabilities of the Bank are largely linked to the JIBAR rate, with the assets (unsecured retail lending) is linked to the prime/repo rate. Any narrowing in the gap between these two floating rates introduces basis risk which is well managed.

3 Embedded options risk arises from option derivative positions or from optional elements embedded in the balance sheet where the Bank or the client can alter the level of timing of their cash flows.

Discovery Bank is not materially exposed to behavioural embedded options risk. However, if unanticipated early withdrawals – prior to the contractual maturity date – manifest, a remediation mechanism, through the collection of fees, is applicable in compensation.

Discovery Bank has a defined IRRBB risk appetite that is appropriate to the nature, size and complexity of the Bank. Interest rate risk appetite is monitored in terms of approved limits applied to the impact of changes in interest rates on the net present value of equity.

Discovery Bank currently has a high level of equity relative to liabilities and this allows the ALCO to act on a mismatch between assets and liabilities in line with its view on interest rates.

Currency risk

Currency risk arises from changes in exchange rates between the rand and the foreign currencies in which assets and liabilities are denominated and may adversely affect profitability and shareholders' equity.

Currency risk has minimal impact on Discovery Bank's as our operations are predominately within South Africa. However, to facilitate offshore card transactions by our clients in foreign currencies, Visa has a requirement that the Bank places dollar collateral in its favour with a favourably rated international bank.

The only market risk exposure on the Bank's books relates to this requirement where an amount of US$825 797 has been placed with an AA-rated bank in Singapore.

The foreign exchange exposure is non-material.

Hedging

Discovery Bank measures and reports on interest rate mismatches or net static gap through the different investment tenors. The non-rate sensitive assets at year-end are largely related to corporate action in respect of the FirstRand transaction, capitalised development costs and operating start-up costs which are fully funded by common equity tier-1 capital.

Currently the natural hedges between the banking book items sufficiently reduce the exposure within defined limits. Interest rate swaps will be considered should the appetite limits be breached to convert floating rate funding to fixed to achieve the objective of matching the rate nature of assets and funding.

The currency risk is presently not significant and therefore has remained unhedged. This risk is closely monitored and is reviewed regularly. A hedging strategy will be reconsidered if and when circumstances deem it necessary.

Discovery Bank has developed a strategic roadmap, to comply with the proposed implementation date set by the prudential authority for interest-rate risk in the banking book by 1 June 2021 and the associated disclosure requirements by 1 January 2022.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems (for example, breakdown of IT systems, mistakes, fraud, other deficiencies in internal control), or from external events (natural disasters, external crime, and so on). This definition includes compliance, legal and financial reporting, information security, security and execution risk, but excludes strategic and reputational risk.

The various business activities undertaken by Discovery Bank expose the organisation to numerous types of operational risk:

- **Execution, delivery and process management:** The risk to service provision arising from a failure to carry out operational processes in an accurate, timely and complete manner.
- **Internal fraud:** The risk of deliberate acts by employees with the intention of obtaining advantage or causing harm to the organisation or third parties, or both.
- **External fraud:** The risk of deliberate acts by external parties with the intention of obtaining advantage or causing harm to the organisation or third parties, or both.
- **Information technology:** The risk associated with the use, ownership, operation, involvement, influence and adoption of IT within the Bank.
- **Property and facilities management:** The risk of ineffective design or management of physical infrastructure and equipment, or both.
- **Sales, products and business management:** The risk that the organisation, its products or staff fail to meet its professional, legal and fiduciary obligations towards its clients or third parties, or both.
- **Data governance:** The risk of ineffective management of data; quality, architecture, security and privacy.
- **Outsourcing:** The risk of failure, non-performance, ineffective management or oversight of an outsourcing partner or a binder agreement, or both.
- **Business continuity:** The risk of the inability to respond to incidents and business disruptions in order to recover business as usual activities.

It is the Bank's objective to minimise all losses or reputational damage that may arise from these operational risk types. In order to achieve this objective, the Bank has in place a set of processes which enables it to identify operational risks and mitigate potential losses arising. This operational risk management (ORM) framework includes:

- **ORM governance:** The ORM governance structure comprises the Board of Directors, the RCMC and ORCO.
- **ORM policy and procedures:** The ORM policy and standards documented and approved by ORCO cover ORM as a whole as well as the following specific ORM topics:
  - Risk and Control Self-Assessments (RCSAs) used to identify, categorise and quantify operational risks in terms of their severity and likelihood of occurring
  - Key Risk Indicators (KRIs) including limits that will be monitored to pre-empt operational risks occurring or mitigate their impact
  - Incident Management (IM) including operational loss data collection and analysis of actual losses and near misses
  - Fraud Risk Management (FRM).
- **ORM organisational structure:** The Bank's organisational structure for managing operational risks consists of the following three lines of defence:
  - Business Unit (BU)
  - Operational Risk Management Department (ORM)
  - Internal Audit Department (IA).
- **Reporting:** Reports approved by the ORCO are used at stipulated frequencies to monitor operational risk exposures within the overall ORM Framework. Reports will be submitted to relevant entities such as Board, RCMC, ORCO, business and support unit heads.

Key achievements to date

Incorporate the risk management strategy: The risk management agenda and strategy is articulated and presented at the ORCO and RCMC for approval.

Embed risk management in business processes: Core business areas have conducted a process based risk and control assessment. These were independently reviewed by operational risk management and have been approved by ORCO. As the business is constantly evolving, the process-based risk and control assessments are continuously updated when material changes to the business process or environment have occurred.

Embed risk tools: Several risk tools have been implemented within Discovery Bank. For example, RCSA, KRI, incident management, risk appetite. A period of embedment is required to ensure the risk tools are operating effectively.

Reporting on risks: Discovery Bank's risk appetite, risk profile and risk exposures are reported on a regular basis to the Board and senior management through the various governance committees. The reporting lines, format and frequency are adequate for the current business state, however these will be reviewed for adequacy as the Bank grows.

Design frameworks and policies: Discovery Bank's operational risk framework, policies and standards have been developed and are approved by the Board.

Ensure risk committee oversight: A robust and comprehensive governance structure has been implemented within the Bank. Risk committees provide appropriate oversight and ensure that the risk agenda is driven successfully.

Foster risk awareness: Risk and Incident Management is part of the compulsory training modules that need to be completed annually by all staff. The tone from senior management in the ORCO is used to cultivate a positive risk culture within the Bank.

Current focus of operational risk

- **Operationalise risk appetite:** Enhance operational risk management awareness and skills within the organisation, with specific focus on tracking the management of risk against the defined risk appetite. For key risks that are approaching appetite or trending outside of appetite, ORM will ensure comprehensive control reviews are conducted and mitigating action is implemented to trend back within the defined risk appetite.
- **Continuously improve risk management capability:** Continue the rollout and embedment of simple, efficient, and effective risk tools and systems to entrench risk management within the Bank. ORM advisory and support services to business will be prioritised to support the execution of the business strategy and strengthening of key controls.
- **Do targeted risk assessments:** Targeted risk assessments will be conducted to ensure that the Bank maintains the safe and controlled execution of the structured launch of the Bank and the migration of clients from FNB to Discovery Bank.
- **Build enterprise wide risk management skills:** A specific focus on people risk, considering the significant change agenda in the organisation. Key man dependencies exist and mitigating plans will be prioritised.

Operational risk priorities for 2020

- **Emerging risks and scenario planning:** Enhance the scenario-analysis process, with a focus on data quality and incorporation of emerging risks.
- **Combined assurance:** Implementation of initiatives to consolidate control and framework effectiveness testing with the rollout of the Discovery Bank combined assurance programme will be finalised by 2020. Discovery Bank's combined assurance plan and activities will also be integrated within the Discovery Group combined assurance plan to ensure efficient use of resources throughout the group.
- **Measuring management's approach to the control environment:** To ensure the appropriate risk management culture in embedded within the organisation, the implementation of a specific measurement of managements control approach will be implemented.

Capital management

As a start-up, Discovery Bank is committed to holding adequate capital as a buffer against unexpected losses and to meet the expectations of our key stakeholders. Typically, the regulator, depositors and creditors prefer higher capitalisation levels to increase their protection against unexpected losses, while its shareholder may prefer leaner capitalisation levels that generate higher returns on equity. A bank's capital base must therefore be appropriately sized in order to balance risk and reward. The two key aspects of capital management are as follows:

1 Quantity of capital

The Bank ensures that the overall capital level meets the requirements of the regulators as well as the Bank's own internal assessment of the level of risk being taken without compromising the returns expected by shareholders.

2 Quality of capital

The Bank has only issued the highest quality ordinary share capital namely Common Equity Tier 1 (CET 1).

Sound capital management encompasses both of these aspects, critically supported by long-term capital planning. The Bank ensures that the risk exposure and capital levels are optimised within the Bank's risk appetite as set by the Board.

The Bank performs long-term capital planning integrated with its strategic planning, projecting the amount of capital required in order to maintain its capital adequacy levels over a ten-year period.

This requires quantifying the impact of forecast operational costs, projected growth and expected risk profiles on risk exposures and capital position.

The Board of Directors sets forth the principles that underpin the capital planning process including the forward strategy and expansion of the Bank, an expression of risk appetite and view on the required capital adequacy levels to meet both the Bank's internal capital buffers and shareholders required returns. Approval of the capital plan falls within the remit of the risk and capital management committee and senior management, through relevant Executive committees, are involved in the capital planning process.

The Bank's capital-planning process reflects the input of different stakeholders from across the Bank. There is a strong link between the capital planning, budgeting and strategic planning processes within the Bank. Collectively, this forms a view of the Bank's current strategy, the risks associated with that strategy and an assessment of how those risks contribute to capital needs as measured by internal and regulatory standards.*

ICAAP

The Prudential Authority recognises that the integration of the Internal Capital Adequacy Assessment Process (ICAAP) of less sophisticated banks should be constructed in a way that allows the management body to assess, on an ongoing basis, the risks that are inherent in their activities and material specific to Discovery Bank. Therefore, the focus areas for the ICAAP document will be:

KEY COMPONENTS OF A ROBUST ICAAP

1. **Medium/long-term strategy**
   What are Discovery's strategic goals and financial forecast?
2. **Risk universe**
   What risks does Discovery's business model and strategic goals expose it to?
3. **Risk measurement, management and governance**
   How does the organisation measure, manage and govern the risks it is exposed to?
4. **Capital and liquidity planning**
   Does the organisation's balance sheet support the achievement of its strategic goals?
5. **Stress testing and scenario analysis**
   What could go wrong and how badly does it effect the organisation?
6. **Risk appetite**
   Are the risks that the organisation is exposed to within it's risk appetite?

* *Discovery Bank applies the following capital measurement approaches:*
Credit risk: The Standardised Approach (SA)
Operational risk: The Basic Indicator Approach (BIA)
Market risk: The Standardised Approach (SA) using Building Block method

Risk measurement system and risk reporting

Discovery Bank has robust risk management processes in place to manage our growing book. Controls are embedded into our daily operations and monitoring of these risks are managed by the treasury, credit risk, operational risk and compliance teams, underpinned by governing bodies to give assurance on the validity of monitoring. The management, measurement, monitoring and mitigation of risk across the Discovery Bank universe is a priority for the bank, with well-established risk committees and governance structures established. These executive committees are mandated by Board appointed committees.

Stress testing

Stress testing assists in risk identification and controls, complementing risk management tools and facilitating business decision-making. It helps to assess the Bank's resilience to a range of adverse shocks or stressed business conditions and ensures that the profitability is intact, not just to withstand those shocks, but also to support the real economy if a stress does materialise.

Forecast economic and interest rate scenarios are currently sourced from the Bureau for Economic Research. This includes one-year and two-year forward-looking scenarios.

Stress testing is applied to the areas where capital is calculated to ensure the bank is well capitalised in stressed scenarios. Discovery Bank is using the prescribed stress scenarios in line with relevant banking regulations that apply to our current environment.

03

REMUNERATION

REMUNERATION

Scope of policy

The Discovery Bank remuneration policy defines our total reward framework and has been approved by the Discovery Bank Board. This framework includes various types of reward, both financial and non-financial, and is intended to support our Employee Value Proposition and guide the management of total rewards across Discovery Bank.

At Discovery Bank, we believe that our employees will help us change the future of banking and are the foundation of our success. We offer a culture that is built on doing what is right, innovation, continuous learning and providing challenging and meaningful work. By liberating the best in our employees we believe that we will be able to achieve our ambition of successfully running the world's first behavioural bank that makes people financially healthier and enhances and protects their lives.

Aim of the policy

We are committed to offering competitive total rewards that enable us to:

- attract, retain and motivate high calibre people that have the right mix of skills, experience and knowledge to deliver on the strategy
- strengthen our desired owner-manager culture that is consistent with our core purpose and values
- align the financial wellbeing of our employees with the economic interest of the shareholders and needs of our clients to deliver sustained long term value guided by our shared value model
- create an environment that encourages innovative thinking and rewards extraordinary performance
- bring consistency, transparency, fairness and equity to pay principles which will increase trust and form the basis for a great employee experience
- recognise differences in individual performance, value and contribution through a flexible approach that ensures fair pay levels and decisions, and
- align with good corporate and reward governance and our risk management framework.

Remuneration governance

The Bank Board is ultimately responsible for the remuneration policy and has mandated the Director Affairs Committee (DAC), a Board committee consisting on non-executive directors, to assist in fulfilling its responsibilities for ensuring that total rewards are fair and responsible.

The purpose of the DAC is to consider, agree and recommend to the Bank Board an overall reward policy and framework for Discovery Bank that recognises the interests of all relevant stakeholders, and is aligned with the regulatory environment and the long term business strategy, risk appetite and organisational values.

The DAC's key responsibilities are to:

- approve and monitor adherence to the reward policy
- ensure alignment with the latest governance standards and risk appetite
- review and approve all short and long-term incentive structures and monitor overall liability
- regularly review incentive schemes to ensure alignment to and continued contribution towards shareholder value
- approve and report to the Board all reward elements for the CEO and other directors
- review total reward packages for executive management on an annual basis
- review the executive management annual allocations in the phantom share scheme[2]
- review and approve annual salary increase parameters
- achieve a balance between alignment with the Discovery Group and alignment with the banking sector, understanding where differences are required and why
- recommend the base for non-executive directors' fees to the Bank Board for approval
- waive or amend the performance criteria for variable remuneration should extraordinary circumstances arise, in consultation with Discovery's External Remuneration Committee (D-ERC)
- provide regular feedback to the D-ERC on decisions taken and provide information for inclusion in the annual reward shareholder report.

The DAC considers input and recommendations from the Chief Executive Officer (CEO) of Discovery Bank and from the Discovery Internal Remuneration Committee (D-IRC), comprising of the executive directors and Discovery business unit CEOs.

The DAC uses the services of a number of advisors to assist in tracking market trends related to all levels of employees. The following advisors or companies are used for benchmarking purposes:

- Remchannel – used for benchmarking on an ongoing basis
- Hay – used for initial benchmarking of executive packages and
- Vasdex – used for Director's benchmarking.

2 *Participants earn a cash bonus based on allocation of bonus scheme units which in turn are linked to the performance of the Discovery Limited share price. The bonus is earned if the participant is employed on each vesting date. For units issued in September, the vesting of the units is two, three, four and five years after allocation of the bonus units. The bonus may not be carried forward.*

The 2012 – 2017 allocations were pre-determined combinations of units that replicate the economics of a Discovery Limited share and units that replicate the economics of a call option over a Discovery Limited share.

Reward principles

- To succeed, we must have the right people in the right positions, and so strive to offer pay packages that are **competitive in the market**
- **'Pay for performance'** is at the heart of our remuneration philosophy and we encourage all employees to set and achieve ambitious goals which are aligned with the objectives of the company – exceptional performance is recognised and rewarded
- **We believe in pay that is right and fair** – we conduct regular salary surveys both internally and externally to ensure fairness and consistency across the business
- We recognise that pay is not the only reason why our employees join and stay at Discovery Bank, but it is of significant concern if it is not right or equitable
- We are **non-discriminatory** – all remuneration policies and practices are free from unfair discrimination based on race, gender, age, religion, marital status, sexual orientation and ethnic or social origin
- We employ a **total Cost to Company (CTC)** approach to remuneration, which includes both financial and non-financial components
- Our **short-term incentive schemes** are designed to encourage, recognise and reward performance and are based on rigorous objective setting and measurement, while allowing sufficient flexibility to respond to different business needs
- Our **long-term incentive schemes** create a sense of ownership in the company and specific schemes are designed for start-ups (to encourage an entrepreneurial mindset) and retention
- All reward policies and practices are governed by the Director Affairs Committee (DAC), a sub-committee of the Bank Board, which incorporates the Bank Remuneration Committee, with support from the Discovery External and Internal Remuneration Committees (D-ERC and D-IRC).

Total rewards

Our total rewards approach encompasses both financial and non-financial elements. The financial elements are explained in the section that follows:

Financial

- Guaranteed pay
- Compulsory benefits (medical aid, group risk cover)
- Retirement funding (pension and provident)
- Short-term incentives
- Long-term incentives

Non-financial

- Challenging and meaningful work
- Development and training
- Discovery culture and environment
- Recognition (Star awards etc.)
- Opportunity to work with great people
- Career opportunities

The mix of the financial pay elements is linked to organisational level, with the proportion of variable pay and 'pay at risk' increasing at more senior levels.

We offer competitive guaranteed rewards (around the market average), with opportunities in many roles to earn additional variable 'pay for performance' incentives, that lead to above market average total rewards for top performers.

Reward elements

The reward policy covers four elements, although not all employees participate in all elements:

1. Guaranteed monthly salary
2. Monthly performance-based pay
3. Short-term incentive (within one year) and
4. Long-term incentive (over three to five years, usually applicable only to selected senior management).

1. Guaranteed monthly salary

Our total Cost to Company (CTC) approach is designed to provide employees with flexibility and choice when it comes to compulsory benefits. All permanent non-sales employees, irrespective of level, receive a guaranteed component of pay, consisting of:

- Basic salary
- Compulsory benefits (e.g. medical aid, provident and pension funds, group risk cover)

Employees select:

- The Discovery Health Medical Scheme plan that best suits them (Discovery membership is compulsory for all employees unless they are a dependent on their partner's scheme)
- Their contribution level to the provident fund, ranging from 7.5% to 20% of guaranteed pay
- The structure of their provident fund portfolio, with a choice of conservative, moderate and aggressive fund.

The pension fund compulsory contribution is set at 5% of salary.

Guaranteed pay can be:

- Above the median to attract top talent, particularly in scarce and critical skill areas, and to retain top talent.
- At, or close to, the market median.
- Below the median for people who are partly qualified or new to their role and still need to grow fully into the role.

We use independent providers (i.e. Remchannel) to ensure we pay employees competitively. Benchmarking exercises are completed at least annually to keep track of market movements and these take into account factors such as industry, company size (revenue, profit, number of employees) and availability of skills. Some of our roles are unique and so market data is used to assist in making pay decisions, but is not the only reason we pay employees as we do.

'Pay for performance' is at the heart of our pay philosophy and as a result, most permanent employees also have an opportunity to earn performance-based pay. Employees are encouraged to strive to exceed their objectives while having regard for good regulatory practices and appropriate risk management.

2. Monthly performance-based pay

In many of the operational areas of the business where performance is highly measurable, monthly pay is made up of:

- Guaranteed monthly salary
- Performance-based pay ("variable pay")

The performance element ensures alignment between company goals and individual performance, and allows top performers to significantly enhance their earnings. Targets are reviewed and adjusted as required at the discretion of management to drive continuous improvement in the areas concerned.

Using this model, top performers earn well above the market benchmark for the role and so are retained and motivated to keep performing. Poor performers leave to get higher guaranteed pay elsewhere.

3. Short-term incentive schemes (STIs)

Short-term incentive schemes are designed to encourage and reward performance at every level. Different business areas run different schemes based on business priorities, and therefore scheme structures (payout percentages, pay periods and calculations) vary by scheme. Typically, short-term schemes span three to 12 months, and to receive payment, an employee must have been employed for a minimum of three months in the period, and have not resigned at time of payout. All schemes are performance based and reward delivery against pre-agreed stretch targets which may be at an individual, team and/or business level.

- At staff and team leader levels, payments may be bi-annual or annual, dependent on the scheme. Measures are set by management and aligned with business goals and continuous improvement.
- The management team participate in a bi-annual management incentive scheme which takes into account performance against both personal and business objectives.
- Senior managers participate in a Discovery Group profit pool scheme, where the size of the pool is determined by the growth in operating profit versus target.

Management discretion is applied in determining both the targets and the final payout amounts for all staff schemes, and all management schemes are subject to the DAC governance process.

The management schemes have thresholds below which no payment is made and maximum payment caps. Targets are set at company level using key performance indicators, and cross-company calibration ensures alignment with overall Discovery Group objectives and shareholder interests, as well as consistency across the various Group companies.

The measures may include among others:

- Profit
- New business
- Client satisfaction
- Employment equity

The on-target value of the management incentives are expressed as a percentage of salary, dependent on the level of the individual within the organisation. Actual payout takes into consideration individual, team, and business performance, and proposed payments are reviewed by the D-IRC and approved by the DAC. Typically, the more senior an employee, the higher the proportion of their total package is linked to 'pay at risk' or 'pay for performance'.

4. Long-term incentive plans (LTIPs)

Long-term incentives are used to drive longer term performance, retain key people and create opportunities for individuals to share in the success of the company. These schemes are restricted to senior managers and executives and align their interests with the longer term strategic goals of the Bank. LTIPs typically run over three to five years, but may be longer in the case of a start-up scheme.

Discovery currently operates a phantom share scheme linked to the Discovery share price performance, which selected senior managers are eligible to participate in. The D-ERC approves the total allocation value per annum and the individual director allocations. Allocations below director level vary by level and individual performance. Guidelines are provided by level, and each business unit CEO recommends the participants and associated allocations. The DAC approves the total allocation value and reviews the executive management allocations as proposed by the CEO. Payments are made in cash on the second, third, fourth and fifth anniversaries of allocation, subject to vesting criteria.

From time-to-time, the DAC may decide, in consultation with the D-ERC, to implement a specific long-term incentive to drive a particular business result. Participation is at the discretion of the DAC, on recommendation from the Bank Executive Committee. Payout under these schemes is typically linked to value created and profitability.

All bonus schemes are non-contractual and discretionary, and may be changed by the DAC with input from the Discovery Remuneration Committees. To qualify for payment for any incentive, a participant must be employed and not resigned or terminated on the date of payment.

Annual salary review process

The annual salary review process provides an opportunity to adjust salaries in line with the market, and takes place between April and June each year, with increases effective from July of each year. The D-ERC recommends the overall percentage increase to the salary bill taking into account benchmarking to understand market trends, particularly for scarce and critical skills, changes to the national cost of living, and business performance and affordability. Performance is primarily rewarded through the incentive structures, not through the salary increase process. Typically, an employee has to be employed for a minimum of three months to be part of the review process, and any increase may be moderated for length of service and time in role. This three-month exclusion may not apply in certain instances.

The DAC will approve the annual increase parameters for Bank employees, taking cognisance of any specific trends in the banking sector, as well as the D-ERC decision.

Interim increases may be awarded during the year at the discretion of senior management under the following circumstances:

- Successful internal recruitment into a higher paying role
- Qualification (key defined roles only)
- Promotion to a higher level
- Retention of key individuals.

Discovery Bank

04

RECOVERY PLAN

Discovery Bank

RECOVERY PLAN

As per agreement from the Prudential Authority, the final recovery and resolution plan will be presented in Q1 2020. The financial recovery and resolution plan will be an integral element of Discovery Bank's integrated risk management processes.

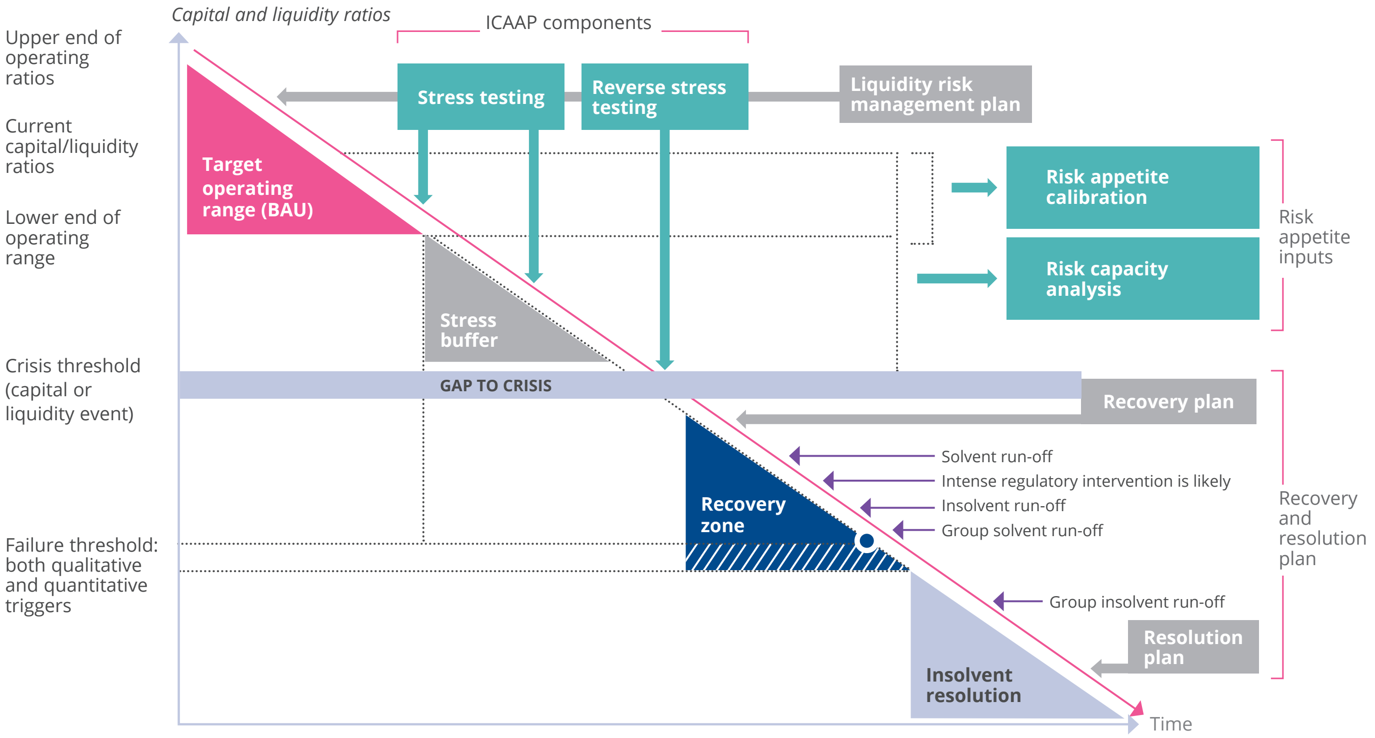
The Financial Stability Board (FSB) requires all systemically significant financial institutions to have recovery and resolution plans in place as per the *Key Attributes of Effective Resolution Regimes*. The South African Reserve Bank (SARB) has adopted this requirement and issued Directive 1 of 2015 on the minimum requirements for all Domestic Systemically Important Banks (D-SIBS) to develop their own recovery plans, thereby improving the stability of the banking system.

A recovery plan would be triggered when a financial institution is subject to extreme stress situations. The plan will outline actions designed to maintain the Bank as a going concern. The ultimate objective of the recovery plan is to save the Bank, provide regulators with confidence and build a valuable management tool. The consequences of poorly thought through recovery actions can be far reaching, therefore the central aim of the recovery plan is for risk and crisis management to be strategic rather than reactive.

Discovery Bank has started the journey of recovery planning however has an agreement with the Prudential Authority that the final recovery and resolution plan will be presented in Q1 2020. Discovery's approaches financial recovery and resolution planning as an integral element of the Bank's integrated risk management processes. The risk management framework as illustrated below, incorporates recovery and resolution planning to effectively and efficiently address the financial effects of an adverse shock, in order to avoid failure or resolution, as well as ensure that specific recovery options are in place to respond to each specific trigger point. In essence the below diagram illustrates the role of recovery and resolution planning, within the financial risk management landscape of the Bank.

Stages of a financial institution

Positioning the recovery zone of a financial institution

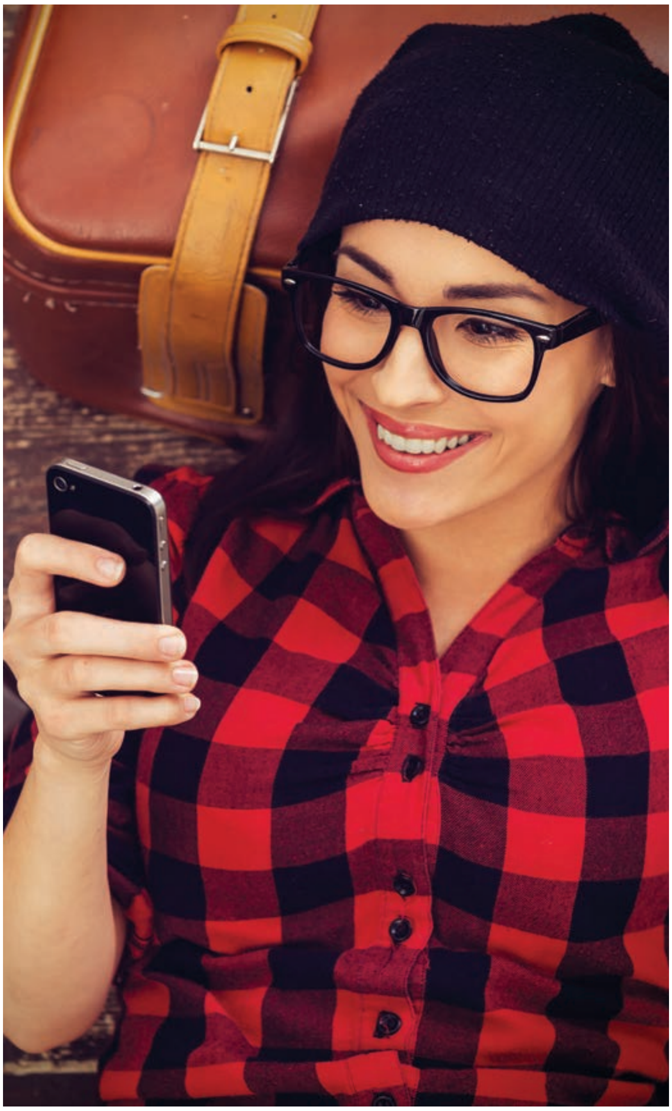


The proactive and integrated management of these risks is to ensure that Discovery Bank will not find itself in a position to initiate the recovery plan, however, the development of the recovery plan will outline simple and practical actions designed to maintain the Bank as a going concern under potential severe stress situations.

Discovery Bank's financial recovery plan will include:

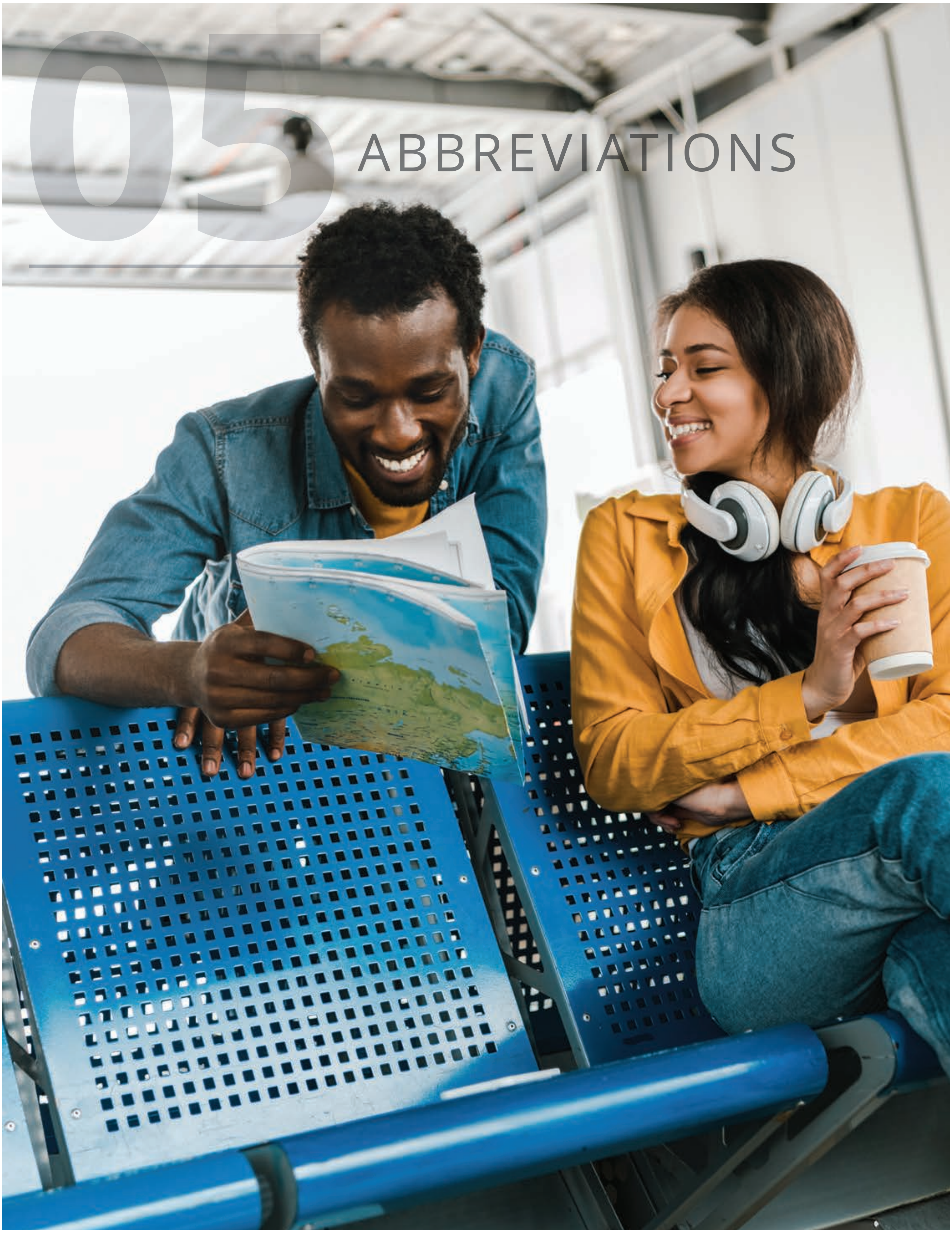
- Integration with existing contingency funding and capital planning
- Identification of early warning indicators and capital, liquidity, operations and risk governance triggers
- Simple and practical actions available to the Board and management to respond to the situation
- Group structure and key information on legal entities
- Analysis of stress scenarios.

Discovery Bank recognises that this is an ongoing process and that recovery planning does not stop once management has approved the plan. This continuous process will aim at improving Discovery Bank's resilience to and preparedness for severe shocks and will be adjusted as economic or idiosyncratic conditions change accordingly.



Discovery Bank

05 ABBREVIATIONS



ABBREVIATIONS

Abbreviation	Definition
A-IRB	Advanced Internal Ratings-Based Approach
AML	Anti-Money Laundering
ASF	Available Stable Funding
AT1	Additional Tier 1
BA	Banks Act
BASA	Banking Association of South Africa
BCBS	Basel Committee on Banking Supervision
BRM	Bank Risk Management
CCF	Credit Conversion Factor
CCPs	Central Counterparties
CCR	Counterparty Credit Risk
CET1	Common Equity Tier 1
CFT	Countering Financing of Terrorism
CRM	Credit Risk Mitigation
CVA	Credit Valuation Adjustment
DAC	Directors Affairs Committee
D-SIB	Domestic Systemically Important Banks
ECL	Expected Credit Loss
ERC	External Remuneration Committee
EVE	Economic Value of Equity
F-IRB	Foundation Internal Ratings-Based Approach
G-SIB	Global Systemically Important Banks
HQLA	High-Quality Liquid Assets
IAA	Internal Assessment Approach
ICAAP	Internal Capital Adequacy Assessment Process
IMA	Internal Model Approach
IMM	Internal Model Method

Abbreviation	Definition
IRB	Internal Ratings-Based
IRC	International Remuneration Committee
JV	Joint Venture
KYC	Know Your Client
LCR	Liquidity Coverage Ratio
MDB	Multilateral Development Banks
NII	Net Interest Income
NSFR	Net Stable Funding Ratio
PA	Prudential Authority of the South African Reserve Bank
PASA	Payments Association of South Africa
PSE	Public Sector Entities
RSF	Required Stable Funding
RWA	Risk-Weighted Assets
SA	Standardised Approach
SA–CCR	Standardised Approach for Counterparty Credit Risk
SAMOS	South African Multiple Option Settlement
SARB	South African Reserve Bank
SEC-ERBA	Securitisation External Ratings-Based Approach
SEC-IRBA	Securitisation Internal Ratings-Based Approach
SOC	Security Operations Centre
T1	Tier 1
T2	Tier 2
TC	Total Capital
TLAC	Total Loss Absorbing Capacity
VaR	Value at Risk
VISA	Visa International Service Association

06

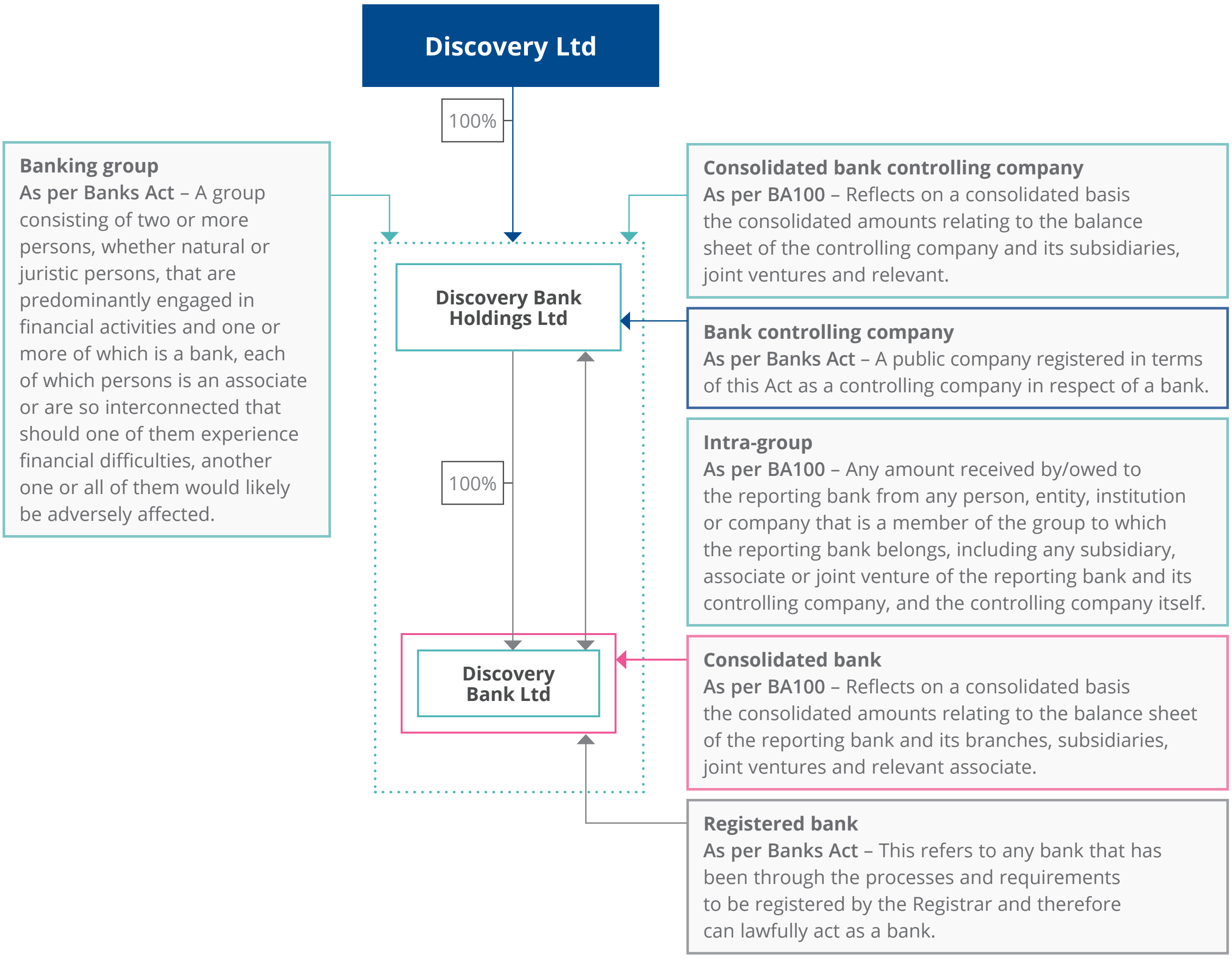
QUANTITATIVE TABLES AND TEMPLATES

QUANTITATIVE TABLES AND TEMPLATES

As mentioned previously in this document, Discovery Bank was still largely in the live testing phase of the Bank for the period under review. Therefore, the ratios provided in subsequent underlying tables may only become more meaningful once the Bank has fully migrated the JV card book from FNB, on-boarded many new customers and has reached a more business-as-usual steady-state phase of operation.

Furthermore, table KM1 is reported on a consolidated level whereas the remaining tables are all reported on a Bank level (unless otherwise stated in the table).

The legal entity structure of Discovery Bank



KM1: Key metrics (at consolidated group level)

The section provides information on Discovery's prudential regulatory metrics. Metrics include Discovery Bank's available capital and ratios, Risk-weighted Assets, leverage ratios, Liquidity Coverage Ratios and Net Stable Funding Ratios.

Discovery Bank adopted IFRS 9 on 1 July 2017. Therefore, the figures presented include the effects of IFRS 9.

R'000	As at 30 June 2019	As at 31 March 2019	As at 31 December 2018
Available capital (amounts)			
1 Common Equity Tier 1 (CET1)	589 765	278 992	2 943 843
1a Fully loaded ECL accounting model	0	0	0
2 Tier 1	589 765	278 992	2 943 843
2a Fully loaded ECL accounting model Tier 1	0	0	0
3 Total capital	590 281	279 285	2 943 927
3a Fully loaded ECL accounting model total capital	0	0	0
Risk-Weighted Assets (amounts)			
4 Total Risk-Weighted Assets (RWA)	1 306 638	1 318 655	4 005 965
Risk-based capital ratios as a percentage of RWA			
5 Common Equity Tier 1 ratio (%)	45.14%	21.157%	73.487%
5a Fully loaded ECL accounting model Common Equity Tier 1 (%)	0.00%	.000%	.000%
6 Tier 1 ratio (%)	45.14%	21.157%	73.487%
6a Fully loaded ECL accounting model Tier 1 ratio (%)	0.00%	.000%	.000%
7 Total capital ratio (%)	45.18%	21.180%	73.489%
7a Fully loaded ECL accounting model total capital ratio (%)	0.00%	.000%	.000%
Additional CET1 buffer requirements as a percentage of RWA			
8 Capital conservation buffer requirement (2.5% from 2019) (%)	2.500%	2.500%	1.875%
9 Countercyclical buffer requirement (%)	.000%	.000%	.000%
10 Bank G-SIB and/or D-SIB additional requirements (%)	.000%	.000%	.000%
11 Total of Bank CET1 specific buffer requirements (%) (row 8 + row 9 + row 10)	2.500%	2.500%	1.875%
12 CET1 available after meeting the Bank's minimum capital requirements (%)	36.009%	12.407%	64.862%
Basel III leverage ratio			
13 Total Basel III leverage ratio exposure measure	949 370	612 092	3 200 725
14 Basel III leverage ratio (%) (row 2; row 13)	62.12%	45.580%	91.974%
14a Fully loaded ECL accounting model Basel III leverage ratio (%) (row 2a; row13)	0	0	0
Liquidity Coverage Ratio			
15 Total HQLA	79 130	106 409	120 957
16 Total net cash outflow	470	81	30
17 LCR ratio (%)	16 830.776%	130 880.846%	402 759.702%
Net Stable Funding Ratio			
18 Total available stable funding	4 503 641	4 403 175	4 030 866
19 Total required stable funding	4 429 091	4 073 571	3 918 827
20 NSFR ratio (%)	102%	108%	103%

OV1: Overview of RWA (Risk-Weighted Assets)

The section provides an overview of the Risk-Weighted Assets of Discovery Bank and Discovery Bank Holdings Limited Group.

		Discovery Bank Limited			Discovery Bank Holdings Limited Consolidated		
		RWA		Minimum capital require-ment	RWA		Minimum capital require-ment
R'000		As at 30 June 2019	As at 31 March 2019	As at 30 June 2019	As at 30 June 2019	As at 31 March 2019	As at 30 June 2019
1	**Credit risk (excluding counterparty credit risk) (CCR)**	**544 156**	**142 355**	**62 578**	**544 400**	**213 595**	**62 606**
2	Of which Standardised Approach (SA)	544 156	142 355	62 578	544 400	213 595	62 606
3	Of which: Foundation Internal Ratings-Based (F-IRB) Approach	0	0	0	0	0	0
4	Of which: supervisory slotting approach	0	0	0	0	0	0
5	Of which: Advanced Internal Ratings-Based (A-IRB) Approach	0	0	0	0	0	0
6	**Counterparty credit risk (CCR)**	**17 326**	**13 450**	**1 992**	**17 326**	**13 450**	**1 992**
7	Of which: Current Exposure Method (CEM)	17 326	13 450	1 992	17 326	13 450	1 992
8	Of which: Internal Model Method (IMM)	0	0	0	0	0	0
9	Of which: other CCR	0	0	0	0	0	0
10	**Credit valuation adjustment (CVA)**	**11 321**	**9 689**	**1 302**	**11 321**	**9 689**	**1 302**
11	Equity positions under the simple Risk-Weight approach	0	0	0	0	0	0
12	Equity investments in funds – look-through approach	0	0	0	0	0	0
13	Equity investments in funds – mandate-based approach	0	0	0	0	0	0
14	Equity investments in funds – fall-back approach	0	0	0	0	0	0
15	Settlement risk	0	0	0	0	0	0
16	Securitisation exposures in banking book	0	0	0	0	0	0
17	Of which: Securitisation Internal Ratings-Based Approach (SEC-IRBA)	0	0	0	0	0	0
18	Of which: Securitisation External Ratings-Based Approach (SEC-ERBA), including internal assessment approach (IAA)	0	0	0	0	0	0
19	Of which: Securitisation Standardised Approach (SEC-SA)	0	0	0	0	0	0
20	Market risk	11 673	11 914	1 342	11 673	11 914	1 342
21	Of which: Standardised Approach (SA)	11 673	11 914	1 342	11 673	11 914	1 342
22	Of which: Internal Model Approaches (IMA)	0	0	0	0	0	0
23	Capital charge for switch between trading book and banking book	0	0	0	0	0	0
24	Operational risk	635 891	967 951	73 127	665 730	997 789	76 559
25	Amounts below the thresholds for deduction (subject to 250% risk weight)	56 186	71 240	6 461	56 186	72 218	6 461
26	Floor adjustment	0	0	0	0	0	0
27	**Total (1+6+10+11+12+13+14+15+16+20+23+24+25+26)**	**1 276 553**	**1 216 599**	**146 804**	**1 306 636**	**1 318 655**	**150 263**

Minimum capital required is calculated using the SARB mandated minimum for a South African local bank.

CC1: Composition of regulatory capital

This section provides information on the breakdown of the different elements that forms part of Discovery Bank's capital components.

R'000		As at 30 June 2019
Common Equity Tier 1 capital: instruments and reserves		
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	4 438 789
2	Retained earnings	(627 644)
3	Accumulated other comprehensive income (and other reserves)	23 116
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)	0
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	0
6	**Common Equity Tier 1 capital before regulatory adjustments**	**3 834 261**
Common Equity Tier 1 capital: regulatory adjustments		
7	Prudential valuation adjustments	0
8	Goodwill (net of related tax liability)	2 416 821
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	535 805
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	295 055
11	Cash-flow hedge reserve	0
12	Shortfall of provisions to expected losses	0
13	Securitisation gain on sale	0
14	Gains and losses due to changes in own credit risk on fair valued liabilities	0
15	Defined-benefit pension fund net assets	0
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	0
17	Reciprocal cross-holdings in common equity	0
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	0
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	0
20	Mortgage servicing rights (amount above 10% threshold)	0
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	0
22	Amount exceeding the 15% threshold	0
23	of which: significant investments in the common stock of financials	0
24	of which: mortgage servicing rights	0
25	of which: deferred tax assets arising from temporary differences	0
26	National specific regulatory adjustments	0
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	0
28	**Total regulatory adjustments to Common Equity Tier 1**	**3 206 598**
29	**Common Equity Tier 1 capital (CET1)**	**586 580**

CC1: Composition of regulatory capital continued

R'000		As at 30 June 2019
	Additional Tier 1 capital: instruments	
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	0
31	of which: classified as equity under applicable accounting standards	0
32	of which: classified as liabilities under applicable accounting standards	0
33	Directly issued capital instruments subject to phase out from Additional Tier 1	0
34	Additional Tier 1 instruments (and CET1 instruments not included in line 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	0
35	of which: instruments issued by subsidiaries subject to phase out	0
36	**Additional Tier 1 capital before regulatory adjustments**	0
	Additional Tier 1 capital: regulatory adjustments	
37	Investments in own Additional Tier 1 instruments	0
38	Reciprocal cross-holdings in Additional Tier 1 instruments	0
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the Bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	0
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	0
41	National specific regulatory adjustments	0
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	0
43	**Total regulatory adjustments to Additional Tier 1 capital**	**0**
44	**Additional Tier 1 capital (AT1)**	**0**
45	**Tier 1 capital (T1 = CET1 + AT1)**	**586 580**
	Tier 2 capital: instrument and provisions	
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	0
47	Directly issued capital instruments subject to phase out from Tier 2	0
48	Tier 2 instruments (and CET1 and AT1 instruments not included in lines 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	0
49	of which: instruments issued by subsidiaries subject to phase out	0
50	Provisions	516
51	**Tier 2 capital before regulatory adjustments**	**516**
	Tier 2 capital: regulatory adjustments	
52	Investments in own Tier 2 instruments	0
53	Reciprocal cross-holdings in Tier 2 instruments and other TLAC liabilities	0
54	Investments in the 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)	0
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)	0
55	Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	0
56	**National specific regulatory adjustments**	**0**
57	**Total regulatory adjustments to Tier 2 capital**	**0**
58	**Tier 2 capital (T2)**	**516**
59	**Total Capital (TC = T1 + T2)**	**587 096**
60	**Total risk-weighted exposure**	**1 276 555**

CC1: Composition of regulatory capital continued

R'000		As at 30 June 2019
Capital ratios and buffers		
61	Common Equity Tier 1 (as a percentage of Risk-Weighted Assets)	**45.95%**
62	Tier 1 (as a percentage of Risk-Weighted Assets)	**45.95%**
63	Total capital (as a percentage of Risk-Weighted Assets)	**45.99%**
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB buffer requirement, expressed as a percentage of Risk-Weighted Assets)	**7.000%**
65	of which: capital conservation buffer requirement	2.500%
66	of which: Bank-specific countercyclical buffer requirement	.000%
67	of which: G-SIB buffer requirement	.000%
68	Common Equity Tier 1 available to meet buffers (as a percentage of Risk-Weighted Assets) available after meeting the bank's minimum capital requirements	**36.95%**
National minima (if different from Basel III)		
69	National Common Equity Tier 1 minimum ratio (if different from Basel III minimum)	5.000%
70	National Tier 1 minimum ratio (if different from Basel III minimum)	6.750%
71	National total capital minimum ratio (if different from Basel III minimum)	9.000%
Amounts below the threshold for deductions (before risk weighting)		
72	Non-significant investments in the capital of other TLAC liabilities of other financial entities	0
73	Significant investments in the common stock of financial entities	0
74	Mortgage servicing rights (net of related tax liability)	0
75	Deferred tax assets arising from temporary differences (net of related tax liability)	22 475
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)	516
77	Cap on inclusion of provisions in Tier 2 under standardised approach	1 175
78	Provisions or credit impairments eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	0
79	Cap for inclusion of provisions or credit impairments in Tier 2 under internal ratings-based approach	0
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	0
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	0
82	Current cap on AT1 instruments subject to phase out arrangements	0
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	0
84	Current cap on T2 instruments subject to phase out arrangements	0
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	0

CC2: Reconciliation to balance sheet published in financial statements

This table shows the link between the Bank's balance sheet as presented in the financial statements and the capital numbers as reported in table CC1.

		Balance sheet as in financial statements	Balance sheet under regulatory scope of consolidation
R'000		As at 30 June 2019	As at 30 June 2019
Assets			
1	Cash and balances at central banks	392 156	392 156
2	Short term negotiable securities	45 722	45 722
3	Derivative assets	10 162	10 162
4	Loans and advances to customers	12 696	12 696
5	Loans and advances to banks	0	0
6	Available for sale financial assets	0	0
7	Interest in subsidiaries	0	0
8	Interest in associate	0	0
9	Intangible assets	3 030 221	3 030 221
10	Current income tax assets	0	0
11	Deferred income tax assets	239 934	239 934
12	Property and equipment	0	0
13	Other assets	457 080	457 080
14	**Total assets**	**4 187 971**	**4 187 971**
Liabilities			
15	Deposits and current accounts	21 817	21 817
16	Derivative financial instruments	5 760	5 760
17	Provisions and other liabilities	326 130	326 130
18	Current income tax liabilities	0	0
19	Deferred income tax assets	0	0
20	**Total liabilities**	**353 707**	**353 707**
21	**Equity**		
22	Share capital and premium	4 438 789	4 438 789
23	Accumulated profit/(loss)	(627 640)	(627 640)
24	Other reserves	23 115	23 115
25	**Total equity**	**3 834 264**	**3 834 264**

Table 1	30 June 2019
Common Equity Tier 1 Capital	
Share capital and premium	4 438 789
Adjusted retained earnings	627 640
Retained earnings	627 640
Unappropriated profits	0
Total	**3 811 145**
Share based payment reserve	23 115
Other reserves	0
Total	**3 834 264**

CCA: Main features of regulatory capital instruments, and for G-SIBs, other TLAC instruments

This section provides information on all the instruments Discovery Bank included in regulatory capital.

As at 30 June 2019		Ordinary shares (Incl share premium)
1	Issuer	Discovery Bank Limited
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	n/a
3	Governing law(s) of the instrument	South Africa
3a	Means by which enforceability requirement of Section 13 of the TLAC Term Sheet is achieved (for other TLAC-eligible instruments governed by foreign law)	n/a
4	Transitional Basel III rules	CET 1
5	Post-transitional Basel III rules	CET 1
6	Eligible at solo/group/group and solo	Group & solo
7	Instrument type (types to be specified by each jurisdiction)	Ordinary shares
8	Amount recognised in regulatory capital (currency in millions, as of most recent reporting date)	4 439
9	Par value of instrument	R1.00 per share
10	Accounting classification	IFRS: Equity
11	Original date of issuance	19 May 2016
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	n/a
16	Subsequent call dates, if applicable	n/a
Coupons/dividends		
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	n/a
19	Existence of a dividend stopper	No
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step-up or other incentive to redeem	n/a
22	Non-cumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	n/a
24	If convertible, conversion trigger(s)	n/a
25	If convertible, fully or partially	n/a
26	If convertible, conversion rate	n/a
27	If convertible, mandatory or optional conversion	n/a
28	If convertible, specify instrument type convertible into	n/a
29	If convertible, specify issuer of instrument it converts into	n/a
30	Writedown feature	n/a
31	If writedown, writedown trigger(s)	n/a
32	If writedown, full or partial	n/a
33	If writedown, permanent or temporary	n/a
34	If temporary write-own, description of writeup mechanism	n/a
34a	Type of subordination	
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument in the insolvency creditor hierarchy of the legal entity concerned).	Any amounts due and payable to Creditors
36	Non-compliant transitioned features	n/a
37	If yes, specify non-compliant features	n/a

LI1: Differences between accounting and regulatory scopes of consolidation and mapping of financial statements with regulatory risk categories (Bank Limited)

			Carrying values of items					
As at 30 June 2019 R'000	Carrying values as reported in published financial statements & under scope of regulatory consoli-dation	Carrying values under scope of regulatory consoli-dation	Subject to credit risk frame-work	Subject to counter-party credit risk frame-work	Subject to the securi-tisation frame-work	Subject to the market risk frame-work	Subject to the other risk frame-work	Not subject to capital require-ments or subject to deduc-tion from capital
Cash and balances at central banks	392 156	392 156	392 156	0	0	0	0	0
Short term negotiable securities	45 722	45 722	45 722	0	0	0	0	0
Derivative assets	10 162	10 162	–	10 162	0	0	0	0
Loans and advances to customers	12 696	12 696	12 696	0	0	11 673	0	0
Intangible assets	3 030 221	3 030 221	–	0	0	0	0	3 030 221
Deferred income tax assets	239 934	239 934	22 475	0	0	0	0	217 460
Property and equipment	–	–	–	0	0	0	0	0
Other assets	457 080	457 080	–	0	0	0	457 080	0
Total assets	**4 187 971**	**4 187 971**	**472 946**	**10 162**	**–**	**11 673**	**457 080**	**3 247 681**
Liabilities								
Deposits and current accounts	21 817	21 817	0	0	0	0	0	21 817
Derivative financial instruments	5 760	5 760	0	5 760	0	0	0	0
Provisions and other liabilities	326 130	326 130	0	0	0	0	0	326 130
Total liabilities	**353 707**	**353 707**	**0**	**5 760**	**0**	**0**	**0**	**347 947**
Equity								
Share capital and premium	4 438 789	4 438 789	0	0	0	0	0	4 438 789
Accumulated profit / (loss)	(627 640)	(627 640)	0	0	0	0	0	(627 640)
Other reserves	23 115	23 115	0	0	0	0	0	23 115
Total equity	**3 834 264**	**3 834 264**	**0**	**0**	**0**	**0**	**0**	**3 834 264**

LI2: Main sources of differences between regulatory exposure amounts and carrying values in financial statements

As at 30 June 2019 R'000	Total	Items subject to Credit risk framework	Securitisation framework	Counterparty credit risk framework	Market risk framework	Other
Asset carrying value amount under scope of regulatory consolidation (as per template LI1)	4 180 980	472 946	0	10 162	11 673	450 192
Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	346 719	0	0	0	0	0
Total net amount under regulatory scope of consolidation	**3 834 261**	**472 946**	**0**	**10 162**	**11 673**	**450 192**
Differences in valuation (monthly average)	(11 279)	(11 279)	0	0	0	0
Potential future exposures and credit valuation adjustments	7 164	0	0	7 164	0	0
Off-balance sheet amounts	42 752	42 752	0	0	0	0
Exposure amounts considered for regulatory purposes	**3 872 898**	**504 419**	**0**	**17 326**	**11 673**	**450 192**

LR1: Summary comparison of accounting assets versus leverage ratio exposure measure (simple consolidated without change)

This table reconciles the total assets as presented in the financial statements to the leverage ratio exposure measure as reported at 30 June 2019.

In the leverage calculation of the BA 700 table, credit impairment provisions are added back to the total assets line, and therefore the LR1 table aligns with this calculation methodology.

R'000		As at 30 June 2019
1	Total consolidated assets as per financial statements	4 187 971
2	Adjustment 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	7 163
5	Adjustment for securities financing transactions (i.e. repos and similar secured lending)	–
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	8 147
7	Other adjustments	(3 254 155)
8	**Leverage ratio exposure measure**	**949 126**

LR2: Leverage ratio disclosure template (simple consolidation without change)

The purpose of the leverage ratio disclosure is to provide a detailed breakdown of the components of the leverage ratio denominator.

R'000		As at 30 June 2019	As at 31 March 2019
On-balance sheet exposures			
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs)	4 171 335	3 949 543
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	(3 247 681)	(3 353 837)
3	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of row 1 and 2)**	**923 654**	**595 706**
Derivative exposures			
4	Replacement cost associated with all derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	10 162	6 388
5	Add-on amounts for PFE associated with all derivatives transactions	7 163	7 062
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	0	0
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	0	0
8	(Exempted CCP leg of client-cleared trade exposures)	0	0
9	Adjusted effective notional amount of written credit derivatives	0	0
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	0	0
11	**Total derivative exposures (sum of rows 4 to 10)**	**17 325**	**13 450**
Securities financing transaction exposures			
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	0	0
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	0	0
14	CCR exposure for SFT assets	0	0
15	Agent transaction exposures	0	0
16	**Total securities financing transaction exposures (sum of rows 12 to 15)**	**0**	**0**
Other off-balance sheet exposures			
17	Off-balance sheet exposure at gross notional amount	40 735	12 725
18	(Adjustments for conversion to credit equivalent amounts)	(32 588)	(10 180)
19	**Off-balance sheet items (sum of row 17 and 18)**	**8 147**	**2 545**
Capital and total exposures			
20	**Tier 1 capital**	**586 580**	**274 694**
21	**Total exposures (sum of rows 3, 11, 16 and 19)**	**949 126**	**611 701**
Leverage ratio			
22	**Basel III Leverage ratio**	61.8	45

LIQ1: Liquidity Coverage Ratio

Table LIQ1 shows the breakdown of Discovery Bank's expected cash outflows and cash inflows, as well as its available High-Quality Liquid Assets (HQLA), as measured and defined according to the LCR standard.

		Current reporting period		Previous reporting period
At 30 June 2019 R'000		Total unweighted (average)	Total weighted (average)	Total weighted (average)
	High-Quality Liquid Assets			
1	Total HQLA	**0**	**80 906**	106 996
	Cash outflows			
2	**Retail deposits and deposits from small business customers, of which:**	**13 859**	**1 386**	139
3	Stable deposits	**0**	**0**	0
4	Less stable deposits	**13 859**	**1 386**	139
5	**Unsecured wholesale funding, of which:**	**0**	**0**	0
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	**0**	**0**	0
7	Non-operational deposits (all counterparties)	**0**	**0**	0
8	Unsecured debt	**0**	**0**	0
9	**Secured wholesale funding**	**0**	**0**	0
10	**Additional requirements, of which:**	**0**	**0**	0
11	Outflows related to derivative exposures and other collateral requirements	**0**	**0**	0
12	Outflows related to loss of funding on debt products	**0**	**0**	0
13	Credit and liquidity facilities	**19 196**	**480**	168
14	**Other contractual funding obligations**	**0**	**0**	0
15	**Other contingent funding obligations**	**0**	**0**	0
16	TOTAL CASH OUTFLOWS	**33 055**	**1 866**	307
	Cash inflows			
17	**Secured lending (eg reverse repos)**	**0**	**0**	0
18	**Inflows from fully performing exposures**	**362 134**	**326 116**	220 030
19	Other cash inflows	**3**	**3**	4
20	TOTAL CASH INFLOWS	**362 137**	**326 119**	220 034
			Total Adjusted value	Total Adjusted value
21	**Total HQLA**	**0**	**80 906**	106 996
22	**Total net cash outflows**	**0**	**467**	77.10
23	**Liquidity Coverage Ratio (%)**	**0%**	**17.341%**	190.144%

The Liquidity Coverage Ratio (LCR) measures whether a bank has sufficient High-Quality Liquid Assets (HQLA) to survive a significant stress scenario lasting 30 calendar days.

The LIQ1 table complies with the Pillar III requirements as stipulated by BCBS d400 (March 2017) and Directive D1/2019.

The values in the table are calculated as the average of the 90-day calendar daily values over the period March to June 2019, for Discovery Bank Limited. Discovery Bank's weighted values are based on business days (excluding public holidays and weekends).

Deposits within the 30-day window are the key drivers of LCR. The weighted outflow is determined by the liabilities falling into the 30-day contractual bucket. The required HQLA's to be held are based on the characteristics of the liabilities within the 30-day bucket to set-off modelled stressed outflows.

The composition of the High-Quality Liquid Assets (HQLA)

To date, the HQLA's held by Discovery Bank are treasury bills, spread across 91, 182, 274 and 364 days.

LIQ2: Net Stable Funding Ratio

This section provides information of Discovery Bank's NSFR and details of some of its components.

As at 30 June 2019 R'000		Unweighted value by residual maturity: No Maturity	< 6 months	6 months to < 1 year	>= 1 year	Weighted value
1	Capital:	4 461 905	0	0	0	4 461 905
2	Regulatory capital	4 461 905	0	0	0	4 461 905
3	Other capital instruments	0	0	0	0	0
4	Retail deposits and deposits from small business customers:	0	20 112	1 647	57	19 640
5	Stable deposits	0	0	0	0	0
6	Less stable deposits	0	20 112	1 647	57	19 640
7	Wholesale funding:	0	0	0	0	0
8	Operational deposits	0	0	0	0	0
9	Other wholesale funding	0	0	0	0	0
10	Liabilities with matching interdependent assets	0	0	0	0	0
11	Other liabilities:	0	295 453	3 183	26 264	22 096
12	NSFR derivative liabilities		0	0	5 760	
13	All other liabilities and equity not included in the above categories		295 453	3 183	20 504	22 096
14	**Total ASF**					**4 503 641**
15	Total NSFR High-Quality Liquid Assets (HQLA)		46 643			2 286
16	Deposits held at other financial institutions for operational purposes	0	0	0	0	0
17	Performing loans and securities:	0	395 090	3 959	5 278	67 115
18	Performing loans to financial institutions secured by Level 1 HQLA	0	0	0	0	0
19	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	0	391 132	0	0	58 670
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:	0	3 958	3 959	5 278	8 445
21	With a risk weight of less than or equal to 35% under the Basel II standardised approach for credit risk	0	0	0	0	0
22	Performing residential mortgages, of which:	0	0	0	0	0
23	With a risk weight of less than or equal to 35% under the Basel II standardised approach for credit risk	0	0	0	0	0
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	0	0	0	0	0
25	Assets with matching interdependent liabilities	0	0	0	0	0
26	Other assets:	3 826 325	0	0	531 328	4 357 653
27	Physical traded commodities, including gold	0	0	0	0	0
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs	0	0	0	0	0
29	NSFR derivative assets	0	0	0	10 162	10 162
30	NSFR derivative liabilities before deduction of variation margin posted	0	0	0	0	0
31	All other assets not included in the above categories	3 826 325	0	0	521 166	4 347 491
32	Off-balance sheet items	40 736	0	0	0	2 037
33	**Total RSF**	**0**	**0**	**0**	**0**	**4 429 091**
34	**Net Stable Funding Ratio (%)**	0	0	0	0	102%

QUANTITATIVE TABLES AND TEMPLATES continued

The Net Stable Funding Ratio determines if an institution can maintain their stable funding profile when looking at their assets and off-balance sheet commitments on an ongoing basis. This ratio calculates the proportion Available Stable Funding (ASF) in liabilities over the required stable funding (RSF) for the assets. Sources of available funding for Discovery Bank include share capital and client deposits.

The values in the table are calculated as at 30 June 2019. The minimum NSFR requirement in South Africa is 100%.

CR1: Credit quality of assets

Table CR1 provides a comprehensive picture of the credit quality of Discovery Bank's assets, this is applicable for both the on- and *off-balance sheet.*

As at 30 June 2019 R'000		Gross carrying values		Allowances/ impairments**	Of which ECL accounting provisions for credit losses on SA exposure		Of which ECL accounting provisions for credit losses on IRB exposure	Net values (a+b-c)
		Defaulted exposures	Non-defaulted exposures		Allocated in regulatory category of specific	Allocated in regulatory category of general		
1	Loans*	119	419 911	581	65	516	0	419 449
2	Debt securities	0	0	0	0	0	0	0
3	Off-balance sheet exposures	1	42 752	0	0	0	0	42 753
4	**Total**	**120**	**462 663**	**581**	**65**	**516**	**0**	**462 202**

* *Loans include advances to customers and interbank advances, excluding sovereign exposures.*

** *Allowances/impairments relates to specific impairments, including portfolio/general impairments.*

Discovery Bank applies a consistent definition to default for regulatory and accounting purposes. Discovery Bank's default definition used for model development was as follows (considering a 12-month outcome period):

- The account was 90 days past due
- The borrower was placed in debt counselling or debt review
- The account had undergone restructuring or special arrangement
- The account was placed in charge-off or legal status
- The account was written off.

Specific impairments are raised against accounts that are identified as being in default and where there is objective evidence that after initial recognition that not all the amounts due will be collected.

Month-end limits were used (post CCF) in populating the defaulted and non-defaulted exposures.

Discovery Bank calculates Balance = Limit – off-balance sheet exposures, and thereby reconciling to table CR2.

CR2: Changes in stock of defaulted loans and debt securities

This section identifies the changes in Discovery Bank's stock of defaulted exposures, the flows between non-defaulted and defaulted exposures and reductions in the stock of defaulted exposures due to write-offs.

The daily averages were used when populating this table.

R'000		As at 30 June 2019
1	**Defaulted loans and debt securities at end of the previous reporting period**	**0**
2	Loans and debt securities that have defaulted since the last reporting period	119
3	Returned to non-defaulted status	0
4	Amounts written off	0
5	Other changes	0
6	**Defaulted loans and debt securities at end of the reporting period (1+2-3-4±5)**	**119**

CR3: Credit Risk Mitigation techniques (overview)

This section explains the Credit Risk Mitigation (CRM) techniques applied in Discovery Bank.

The daily average balances were used when populating this table.

	As at 30 June 2019 R'000	Exposures unsecured: carrying amount	Exposures secured by collateral	Exposure secured by collateral, of which: secured amount	Exposures secured by financial guarantees	Exposure secured by financial guarantees, of which: secured amount	Exposures secured by credit derivatives	Exposure secured by credit derivatives, of which: secured amount
1	Loans	409 875	0	0	0	0	0	0
2	Debt securities	0	0	0	0	0	0	0
3	**Total**	**409 875**	**0**	**0**	**0**	**0**	**0**	**0**
4	*Of which defaulted*	*119*	*0*	*0*	*0*	*0*	*0*	*0*

CR4: Standardised approach – credit risk exposure and Credit Risk Mitigation (CRM) effects

Table CR4 illustrates the effect of mitigation techniques used under the standardised approach when calculating Risk-Weighted Assets

		Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
	Asset Class As at 30 June 2019 R'000	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
1	**Sovereigns and their central banks**	45 722	0	45 722	0	0	0.000%
2	Non-central government public sector entities	0	0	0	0	0	0.000%
3	Multi-lateral development banks	0	0	0	0	0	0.000%
4	**Banks**	381 284	0	381 284	0	76 257	20.000%
5	Securities firms	0	0	0	0	0	0.000%
6	Corporates	0	0	0	0	0	0.000%
7	Regulatory retail portfolios	11 199	42 752	11 199	8 550	17 707	89.658%
8	Secured by residential property	0	0	0	0	0	0.000%
9	Secured by commercial real estate	0	0	0	0	0	0.000%
10	Equity	0	0	0	0	0	0.000%
11	Past-due loans	0	0	0	0	0	0.000%
12	Higher-risk categories	0	0	0	0	0	0.000%
13	Other assets	3 481 334	0	3 481 334	0	450 192	12.932%
14	**Total**	**3 873 817**	**42 752**	**3 813 817**	**8 550**	**544 156**	**14.047%**

RWA is driven by exposures to retail portfolios and sovereigns and their central banks.

The past due loans relate to the unsecured portion of any loan that is in arrears (less than 90 days). Past due loans that are equal or greater than 90 days will follow the default definition as defined under table CR1.

CR5: Standardised approach – exposures by asset classes and risk weights

This section shows the credit risk exposures under the standardised approach by asset class to show the effect of Credit Risk Mitigation.

This table includes counter-party credit risk.

As at 30 June 2019 R'000	Risk weight 0%	10%	20%	25%	50%	75%	100%	150%	Others	Total credit exposure amount (post CCF and post-CRM)
Asset class										
1 Sovereigns and their central banks	45 722	0	0	0	0	0	0	0	0	45 722
2 Non-central government public sector entities (PSEs)	0	0	0	0	0	0	0	0	0	0
3 Multi-lateral Development Banks (MDBs)	0	0	0	0	0	0	0	0	0	0
4 Banks	0	0	381 285	0	0	0	17 326	0	0	398 610
5 Securities firms	0	0	0	0	0	0	0	0	0	0
6 Corporates	0	0	0	0	0	0	0	0	0	0
7 Regulatory retail portfolios	0	0	0	0	23	8 186	11 510	31	0	19 750
8 Secured by residential property	0	0	0	0	0	0	0	0	0	0
9 Secured by commercial real estate	0	0	0	0	0	0	0	0	0	0
10 Equity	0	0	0	0	0	0	0	0	0	0
11 Past-due loans	0	0	0	0	0	0	0	0	0	0
12 Higher-risk categories	0	0	0	0	0	0	0	0	0	0
13 Other assets*	921	0	0	0	0	0	450 192	0	0	451 113
14 Total	**46 643**	**0**	**381 285**	**0**	**23**	**8 186**	**479 028**	**31**	**0**	**915 195**

* *Excludes goodwill and intangible assets.*

CCR1: Analysis of Counterparty Credit Risk (CCR) exposure by approach

As at end 30 June 2019 R'000	Replacement cost	Potential future exposure	EEPE	Alpha used for computing regulatory EAD	EAD post-CRM	RWA
1 SA – Current exposure method	10 162	7 164		1.4	17 326	17 326
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)						
5 VaR for SFTs						
6 Total						**17 326**

CCR2: Credit Valuation Adjustment capital charge

As at 30 June 2019 R'000		EAD post-CRM	RWA
Total portfolios subject to the advanced CVA capital charge		**0**	**0**
1	(i) VaR component (including the 3x multiplier)	0	0
2	(ii) Stressed VaR component (Including the 3x multiplier)	0	0
3	All portfolios subject to the Standardised CVA capital charge	17 326	17 326
4	Total subject to the CVA capital charge	0	0

The Credit Valuation Adjustment (CVA) compares the true portfolio value to the risk-free portfolio value by considering the possibility of a counterparty's default, thus CVA is the market value of counterparty credit risk. In the Basel context, CVA is the additional capital charge that considers instability in the derivate instruments values due to changes in the credit quality of the bank's counterparty.

The only derivatives on the Bank's balance sheet are purchased call options and total return swaps transacted with the large SA banks as the counterparties.

These derivatives are used to hedge the price risk on the Discovery Ltd (JSE:DSY) share in respect of the Bank's phantom staff share scheme incentive programmes.

These are cash margined under various CSAs (Credit Support Annex) to signed ISDA master contracts (allowing netting), thereby largely mitigating any potential counterparty credit risk and resulting in non-material CVA positions.

Regulatory capital is held (under the Standardised Approach) as a buffer for unexpected significant increases in the DSY share price which are followed by the inability to receive variation margin due to counterparty default(s).

CCR3: Standardised approach of CCR exposures by regulatory portfolio and risk weights

Table CCR3 provides a breakdown of the Counterparty Credit Risk (CCR) exposures calculation as prescribed under the standardised approach, by both portfolio and risk weights.

		Risk weight								
As at 30 June 2019 R'000		0%	10%	20%	50%	75%	100%	150%	Others	Total credit exposure amount (post CCF and post-CRM)
Regulatory portfolio										
1	Sovereign	0	0	0	0	0	0	0	0	0
2	Non-central government public sector entities	0	0	0	0	0	0	0	0	0
3	Multi-lateral development banks	0	0	0	0	0	0	0	0	0
4	Banks	0	0	0	0	0	17 326	0	0	17 326
5	Securities firms	0	0	0	0	0	0	0	0	0
6	Corporates	0	0	0	0	0	0	0	0	0
7	Regulatory retail portfolio	0	0	0	0	0	0	0	0	0
8	Other assets	0	0	0	0	0	0	0	0	0
9	Total	0	0	0	0	0	17 326	0	0	17 326

MR1: Market risk under standardised approach

This section provides information on the components of the capital charge under the standardised approach for market risk.

	30 June 2019 R'000	RWA
	Outright products	
1	Interest rate risk (general and specific)	0
2	Equity risk (general and specific)	0
3	Foreign exchange risk	11 673
4	Commodity risk	0
	Options	
5	Simplified approach	0
6	Delta-plus method	0
7	Scenario approach	0
8	Securitisation	0
9	**Total**	**11 673**

	31 December 2018 R'000	RWA
	Outright products	
1	Interest rate risk (general and specific)	0
2	Equity risk (general and specific)	0
3	Foreign exchange risk	11 800
4	Commodity risk	0
	Options	
5	Simplified approach	0
6	Delta-plus method	0
7	Scenario approach	0
8	Securitisation	0
9	**Total**	**11 800**

This market risk exposure on the Bank's books relates to this requirement where an amount of US$ 825 979 has been placed with AA-rated bank in Singapore. The foreign exchange exposure is small with an equivalent risk-weighted exposure of R11 673, slightly lower than December 2018 reporting due to the strengthening of the ZAR against the USD.

REM1: Remuneration awarded during the financial year

	as at end of June 2019		Senior management/ Other material risk-takers
	Remuneration amount		
1	**Fixed remuneration**	Number of employees	Two
2		Total fixed remuneration (3+5+7)	8 247 339
3		Of which: cash-based	7 606 758
4		Of which: deferred	
5		Of which: shares or other share-linked instruments	
6		Of which: deferred	
7		Of which: other forms*	640 581
8		Of which: deferred	
9	**Variable remuneration**	Number of employees	Two
10		Total variable remuneration (11+13+15)	8 782 145
11		Of which: cash-based	7 582 209
12		Of which: deferred	
13		Of which: shares or other share-linked instruments	1 199 936
14		Of which: deferred	
15		Of which: other forms	
16		Of which: deferred	
17	Total remuneration (2 + 10)**		17 029 484

* *Provident funds, medical aid contributions.*

** *Total as stated in the Annual Financial Statements.*

REM2: Special payments

	Guaranteed bonuses		Sign-on awards		Severance payments	
	Number of employees	Total amount	Number of employees	Total amount	Number of employees	Total amount
Senior management		0	0	0	0	0
Other material risk-takers						

No special payments were made to material risk takers/senior management during the period under review.

REM3: Deferred remuneration

	A	B	B	D	E
Deferred and retained remuneration	Total amount of outstanding deferred remuneration	Of which total amount of outstanding deferred and retained remuneration exposed to ex post explicit and/or implicit adjustment	Total amount of amendment during the year due to ex post explicit adjustments	Total amount of amendment during the year due to ex post implicit adjustments	Total amount of deferred remuneration paid out in the financial year
Senior management					
Cash					
Shares					
Cash-linked instruments	6 526 385.17	6 526 385.17	0	134 806.59	1 199 936.00
Other*	2 692 322.55	2 692 322.55	0	0	0
Other material risk-takers					
Cash					
Shares					
Cash-linked instruments					
Other					
Total	9 218 707.72	9 218 707.72		134 806.59	1 199 936.00

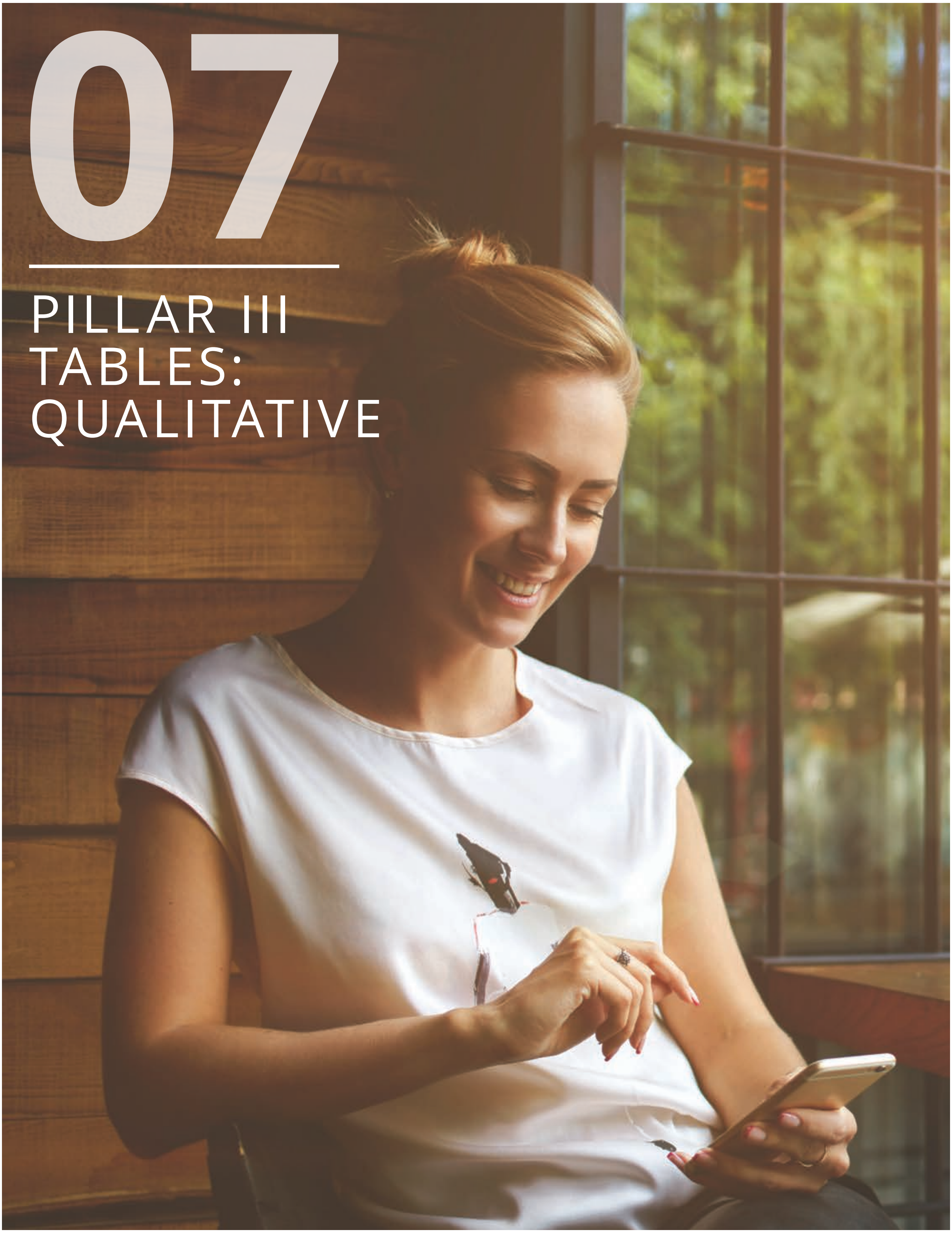
* *Long term incentive programme*

Definitions:

Outstanding exposed to ex post adjustment of the deferred and retained remuneration this is subject to direct adjustment clauses (for instance, subject to malus, clawbacks or similar reversal or downward revaluations of awards).

Outstanding exposed to ex post implicit adjustment part of the deferred and retained remuneration that is subject to adjustment clauses that could change the remuneration, due to the fact that they are linked to the performance of other indicators (for instance, fluctuation in the value of shares' performance or performance units).

In columns (a) and (b), the amounts at reporting date (cumulated over the last years) are expected. In Columns (c) – (e), movements during the financial year are expected. While columns (c) and (d) show the movements specifically related to column (b), column (e) shows payments that have affected column (a).



07

PILLAR III TABLES: QUALITATIVE

PILLAR III TABLES: QUALITATIVE

OVA – Bank risk management approach

Description	Key risk	Section in document	Page reference
(a) How the business model determines and interacts with the overall risk profile (e.g. the key risks related to the business model and how each of these risks is reflected and described in the risk disclosures) and how the risk profile of the Bank interacts with the risk tolerance approved by the Board	Risk appetite	2. Risk management – overall risk profile	14
	Credit risk	2. Risk management – overall risk profile	15
	Market risk	2. Risk management – overall risk profile	19
	Liquidity and funding risk	2. Risk management – overall risk profile	18
	Reputational risk	2. Risk management – overall risk profile	15
	Strategic and business risk	2. Risk management – overall risk profile	15
	Capital management risk	2. Risk management – overall risk profile	22
	Operational risk	2. Risk management – overall risk profile	20
(b) The risk governance structure: responsibilities attributed throughout the Bank (e.g. oversight and delegation of authority; breakdown of responsibilities by type of risk, business unit, etc.); relationships between the structures involved in risk management processes (e.g. Board of directors, executive management, separate risk committee, risk management structure, compliance function, internal audit function)	All risk	2. Risk management – Governance structure	12
(c) Channels to communicate, decline and enforce the risk culture within the Bank (e.g. code of conduct; manuals containing operating limits or procedures to treat violations or breaches of risk thresholds; procedures to raise and share risk issues between business lines and risk functions)	All risk	2. Risk management – channels to communicate risk	14
(d) The scope and main features of risk measurement systems	All risk	2. Risk management – Risk measurement system and risk reporting	23
(e) Description of the process of risk information reporting provided to the Board and senior management, in particular the scope and main content of reporting on risk exposure	All risk	2. Risk management – Risk measurement system and risk reporting	23
(f) Qualitative information on stress testing (e.g. portfolios subject to stress testing, scenarios adopted and methodologies used, and use of stress testing in risk management)	Stress testing	2. Risk management – Stress testing	23
	ICAAP	2. Risk management – ICAAP	23

PILLAR III TABLES: QUALITATIVE continued

OVA – Bank risk management approach continued

Description	Key risk	Section in document	Page reference
(g) The strategies and processes to manage, hedge and mitigate risks that arise from the Bank's business model and the processes for monitoring the continuing effectiveness of hedges and mitigants	Risk appetite	2. Risk management – overall risk profile	14
	Credit risk	2. Risk management – overall risk profile	15
	Market risk	2. Risk management – overall risk profile	19
	Liquidity and funding risk	2. Risk management – overall risk profile	18
	Reputational risk	2. Risk management – overall risk profile	15
	Strategic and business risk	2. Risk management – overall risk profile	15
	Capital management risk	2. Risk management – overall risk profile	22
	Operational risk	2. Risk management – overall risk profile	20

LIA: Explanations of difference between accounting and regulatory exposure amounts

Description	Section in document	Page reference
(a) Banks must explain the origins of any significant differences between amounts in columns (a) and (b) in LI1	Refer to table LI1: Differences between accounting and regulatory scopes of consolidation and mapping of financial statements with regulatory risk	43
(b) Banks must explain the origins of differences between carrying values and amounts considered for regulatory purposes shown in LI2	Discovery Bank didn't record differences between carrying values and amounts considered for regulatory purposes	
(c) In accordance with the implementation of the guidance on prudent valuation, banks must describe systems and controls to ensure that the valuation estimates are prudent and reliable Disclosure must include: ▪ Valuation methodologies, including an explanation of how far mark-to-market and mark-to-model methodologies are used. ▪ Description of the independent price verification process. ▪ Procedures for valuation adjustments or reserves (including a description of the process and the methodology for valuing trading positions by type of instrument).	Not applicable to Discovery Bank's current environment	

PILLAR III TABLES: QUALITATIVE continued

LIQA – Liquidity risk management

Description	Key risk	Section in document	Page reference
(a) Governance of liquidity risk management, including: risk tolerance; structure and responsibilities for liquidity risk management; internal liquidity reporting; and communication of liquidity risk strategy, policies and practices across business lines and with the Board of directors	Liquidity and funding risk	2. Risk management – overall risk profile	18
(b) Funding strategy, including policies on diversification in the sources and tenor of funding, and whether the funding strategy is centralised or decentralised	Liquidity and funding risk	2. Risk management – overall risk profile	18
(c) Liquidity risk mitigation techniques	Liquidity and funding risk	2. Risk management – overall risk profile	18
(d) An explanation of how stress testing is used	Liquidity and funding risk	2. Risk management – overall risk profile	18
(e) An outline of the Bank's contingency funding plans	Liquidity and funding risk	2. Risk management – overall risk profile	18

CRA – Banks must describe their risk management and policies for credit risk focusing in particular on:

Description	Key risk	Section in document	Page reference
(a) How the business model translates into the components of the Bank's credit risk profile	Credit risk	2. Risk management – overall risk profile/governance structure/ channels to communicate risk	15
(b) Criteria and approach used for defining credit risk management policy and for setting credit risk limits	Credit risk		
(c) Structure and organisation of the credit risk management and control function	Credit risk		
(d) Relationships between the credit risk management, risk control, compliance and internal audit functions	Credit risk		
(e) Scope and main content of the reporting on credit risk exposure and on the credit risk management function to the executive management and to the Board of directors	Credit risk		

PILLAR III TABLES: QUALITATIVE continued

CRB – Additional disclosure related to the credit quality of assets

Description	Key risk	Commentary/section in document	Page reference
(a) The scope and definitions of 'past due' and 'impaired' exposures used for accounting purposes and the differences, if any, between the definition of past due and default for accounting and regulatory purposes	Credit risk	2. Risk management – overall risk profile	15
(b) The extent of past due exposures (more than 90 days) that are not considered to be impaired and the reasons for this	Credit risk	As per the reporting period, the Bank does not have exposures that are past 90 days and not impaired	n/a
(c) Description of methods used for determining impairments	Credit risk	The Bank is guided by the impairment/provisioning requirements as identified in the IFRS 9 Financial Instruments ("IFRS 9", or "the standard") issued by the International Accounting Standards Board (IASB), bringing together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 and all previous versions of IFRS 9.	n/a
(d) The bank's own definition of a restructured exposure and a breakdown of restructured exposures between impaired and not impaired exposures	Credit risk	The Bank complies with Directive 7/2015 as issued by the SARB, but the Bank has not yet needed to do a restructure on the current book.	n/a
(e) Breakdown of exposures by geographical areas, industry and residual maturity	Credit risk	Discovery Bank only has revolving assets and hence no residual maturity is shown in the document. Rest of the information 2. Risk Management – overall risk profile	15
(f) Amounts of impaired exposures (according to the definition used by the bank for accounting purposes) and related allowances and write-offs, broken down by geographical areas and industry	Credit risk	2. Risk management – overall risk profile	15
(g) Ageing analysis of accounting past due exposures	Credit risk	2. Risk management – overall risk profile	15

PILLAR III TABLES: QUALITATIVE continued

CRC – Qualitative disclosure requirements related to credit risk mitigation techniques

Description	Commentary/section in document	Page reference
(a) Core features of policies and processes for, and an indication of the extent to which the bank makes use of, on- and off-balance sheet netting	Discovery Bank is not making use of any netting agreements.	n/a
(b) Core features of policies and processes for collateral	Discovery Bank focus is on unsecured lending and therefore collateral is not applicable for this submission.	n/a
(c) Information about market or credit risk concentrations under the credit risk mitigation instruments used (i.e. by guarantor type, collateral and credit derivative providers)	Credit risk 2. Risk management – overall risk profile	15

CRD – Qualitative disclosures on Banks' use of external credit ratings under standardised approach for credit risk

Description	Commentary	Page reference
(a) Names of the external credit assessment institutions (ECAIs) and export credit agencies (ECAs) used by the Bank, and the reasons for any changes over the reporting period;	In assessing the creditworthiness of legal entities, the Bank considers the letter grade ratings as provided by recognised external rating agencies for sovereigns, parastatals, banks and corporates. In respect of sovereigns, parastatals, banks and corporates, the Bank utilises the letter grade ratings as issued by eligible External Credit Assessment Institutions (ECAI). This includes Moody's, Fitch, Standard and Poor and Global Credit Ratings. The rating is determined on the international scale, or the national scale rating mapped to the international scale. In respect of multiple issuer assessments, the higher of the two risk weights (for 2 ratings) or the higher of the lower two risk weights (for 3 or more ratings) will apply. Any new banks and counterparties will be reviewed based on these criteria and reviewed by the ALCO.	n/a
(b) The asset classes for which each ECAI or ECA is used	Under the International Coverage of Capital Measurement and Capital Standards defined by the Basel Committee for Banking Supervision (BCBS) and incorporated under the Regulations related to South African Banks, each exposure is mapped to an asset class as per asset classification rules, which vary for different asset classes. The Bank adopted the asset classification rules defined by the SARB for credit risk measurement under the standardised approach. Asset classification is used to determine the regulatory treatment of an asset and to assign risk weights. There are two levels of classification: ▪ Counterparty level, for example, Retail, Bank, Corporate or Sovereign. ▪ Product level, for example, Retail Revolving Credit Card or Retail Other. Assets in the banking book are split between the retail book and wholesale book based on the turnover amount. The wholesale book consists of five main assets, namely Sovereign, Public Sector Entities, Banks, Securities Firms and Corporate Entities.	n/a
(c) A description of the process used to transfer the issuer to issue credit ratings onto comparable assets in the banking book	Discovery Bank is a retail focused bank and currently does not trade in financial instruments that might give rise to issuer risk.	n/a
(d) The alignment of the alphanumerical scale of each agency used with risk buckets (except where the relevant supervisor publishes a standard mapping with which the Bank has to comply)	Discovery Bank is using the standard asset class mapping table as prescribed by the SARB	n/a

CCRA – Qualitative disclosures related to counterparty credit risk including:

Description	Commentary	Page reference
(a) Risk management objectives and policies related to counterparty credit risk	Credit risk arises in the event an obligor is unable or unwilling to pay interest on the advances granted to them. Counterparty credit risk arises in the event the obligor is unable or unwilling to repay the contracted amount agreed with them. Counterparty credit risk forms part of credit risk and speaks to derivative contracts agreed between the parties as a mean of transferring credit risk to a 3rd party. Discovery Bank has limited risk related to counterparty credit risk as the bank doesn't trade in instruments all derivatives are managed by Discovery Group.	n/a
(b) The method used to assign the operating limits defined in terms of internal capital for counterparty credit exposures and for CCP exposures	n/a to Discovery Bank	n/a
(c) Policies relating to guarantees and other risk mitigants and assessments concerning counterparty risk, including exposures towards CCPs	As an unsecured retail focused bank, risk is managed through our lending strategy (targeting low credit risk clients), and not mitigated through collateral or guarantees	n/a
(d) Policies with respect to wrong-way risk exposures	Currently wrong-way risk is not considered due to the materiality of the counterparty credit risk exposure	n/a
(e) The impact in terms of the amount of collateral that the bank would be required to provide given a credit rating downgrade	n/a to Discovery Bank	n/a

PILLAR III TABLES: QUALITATIVE continued

MRA – Qualitative disclosure requirements related to market risk

Description	Key risk	Section in document	Page reference
Banks must describe their risk management objectives and policies for market risk according to the framework below (the granularity of the information should support the provision of meaningful information to users):			
(a) Strategies and processes of the Bank: this must include an explanation of management's strategic objectives in undertaking trading activities, as well as the processes implemented to identify, measure, monitor and control the Bank's market risks, including policies for hedging risk and strategies/ processes for monitoring the continuing effectiveness of hedges	Market risk	2. Risk management – overall risk profile	19
(b) Structure and organisation of the market risk management function: description of the market risk governance structure established to implement the strategies and processes of the Bank discussed in row (a) above, and describing the relationships and the communication mechanisms between the different parties involved in market risk management	Market risk	2. Risk management – Governance structure	12
(c) Scope and nature of risk reporting and/or measurement systems	Market risk	2. Risk Management – Risk measurement system and risk reporting	23

ORA – General qualitative information about operational risk management

Description	Commentary	Page reference
(a) In addition to the general qualitative disclosure requirement (paragraph 824), the approach(es) for operational risk capital assessment for which the Bank qualifies. (Capital management and allocation) BA 400	Discovery Bank adopted the Basic Indicator Approach (BIA) and under this approach the Bank shall hold capital for Operational Risk equal to a fixed percentage.	n/a
(b) Description of the advanced measurement approaches for operational risk (AMA), if used by the Bank, including a discussion of relevant internal and external factors considered in the bank's measurement approach. In the case of partial use, the scope and coverage of the different approaches used	Not disclosed as the Bank follows the standardised approach for operational risk	n/a
(c) For banks using the AMA, a description of the use of insurance for the purpose of mitigating operational risk		

IRRBBA – IRRBB risk management objectives and policies

Description	Key risk	Section in document	Page reference
(a) A description of how the Bank defines IRRBB for purposes of risk control and measurement	Market risk	2. Risk management – overall risk profile	19
(b) A description of the Bank's overall IRRBB management and mitigation strategies. Examples are: monitoring of Economic Value of Equity (EVE) and Net Interest Income (NII) in relation to established limits, hedging practices, conduct of stress testing, outcome analysis, the role of independent audit, the role and practices of the ALCO, the Bank's practices to ensure appropriate model validation, and timely updates in response to changing market conditions	Market risk	2. Risk management – overall risk profile	19
(c) The periodicity of the calculation of the bank's IRRBB measures, and a description of the specific measures that the Bank uses to gauge its sensitivity to IRRBB	Market risk	2. Risk management – overall risk profile	19
(d) A description of the interest rate shock and stress scenarios that the Bank uses to estimate changes in the economic value and in earnings	Market risk	2. Risk management – overall risk profile	19
(e) Where significant modelling assumptions used in the Bank's internal measurement systems (IMS) (ie the EVE metric generated by the Bank for purposes other than disclosure, eg for internal assessment of capital adequacy) are different from the modelling assumptions prescribed for the disclosure in template IRRBB1, the Bank should provide a description of those assumptions and their directional implications and explain its rationale for making those assumptions (eg historical data, published research, management judgment and analysis)	Market risk	2. Risk management – overall risk profile	19
(f) A high-level description of how the Bank hedges its IRRBB, as well as the associated accounting treatment	Market risk	2. Risk management – overall risk profile	19

IRRBBA – IRRBB risk management objectives and policies continued

Description	Key risk	Section in document	Page reference
(g) A high-level description of key modelling and parametric assumptions used in calculating ΔEVE and ΔNII in Table B, which includes: ▪ For ΔEVE, whether commercial margins and other spread components have been included in the cash flows used in the computation and discount rate used. ▪ How the average repricing maturity of non-maturity deposits has been determined (including any unique product characteristics that affect assessment of repricing behaviour). ▪ The methodology used to estimate the prepayment rates of customer loans, and/or the early withdrawal rates for time deposits, and other significant assumptions. ▪ Any other assumptions (including for instruments with behavioural optionalities that have been excluded) that have a material impact on the disclosed ΔEVE and ΔNII in Table B, including an explanation of why these are material. ▪ Any methods of aggregation across currencies and any significant interest rate correlations between different currencies.	Market risk	2. Risk Management – overall risk profile	19
(h) (Optional) Any other information which the Bank wishes to disclose regarding its interpretation of the significance and sensitivity of the IRRBB measures disclosed and/or an explanation of any significant variations in the level of the reported IRRBB since previous disclosures	Market risk	2. Risk management – overall risk profile	19

REMA – Remuneration policy

<table>
<tr><th>Description</th><th>Section in document</th><th>Page</th></tr>
<tr><td>Information relating to the bodies that oversee remuneration. Disclosures should include:
▪ Name, composition and mandate of the main body overseeing remuneration.
▪ External consultants whose advice has been sought, the body by which they were commissioned, and in what areas of the remuneration process.
▪ A description of the scope of the Bank's remuneration policy (eg by regions, business lines), including the extent to which it is applicable to foreign subsidiaries and branches.
▪ A description of the types of employees considered as material risk-takers and as senior managers.</td><td>3. Remuneration
Material risk-takers are employees whose professional actions have a material impact on the Bank's overall risk exposure. Discovery Bank defines material risk takers as the members of the Discovery Bank Executive management team that are also Directors of the Bank. Discovery Bank defines material risk-takers and senior managers similarly.</td><td>25</td></tr>
<tr><td>Information relating to the design and structure of remuneration processes. Disclosures should include:
▪ An overview of the key features and objectives of remuneration policy.
▪ Whether the remuneration committee reviewed the firm's remuneration policy during the past year, and if so, an overview of any changes that were made, the reasons for those changes and their impact on remuneration.
▪ A discussion of how the Bank ensures that risk and compliance employees are remunerated independently of the businesses they oversee.</td><td>3. Remuneration</td><td>25</td></tr>
<tr><td>Description of the ways in which current and future risks are taken into account in the remuneration processes. Disclosures should include an overview of the key risks, their measurement and how these measures affect remuneration.</td><td>3. Remuneration</td><td>25</td></tr>
<tr><td>Description of the ways in which the Bank seeks to link performance during a performance measurement period with levels of remuneration. Disclosures should include:
▪ An overview of main performance metrics for Bank, top-level business lines and individuals.
▪ A discussion of how amounts of individual remuneration are linked to Bank-wide and individual performance.
▪ A discussion of the measures the Bank will in general implement to adjust remuneration in the event that performance metrics are weak, including the Bank's criteria for determining "weak" performance metrics.</td><td>3. Remuneration</td><td>25</td></tr>
<tr><td>Description of the ways in which the bank seeks to adjust remuneration to take account of longer-term performance. Disclosures should include:
▪ A discussion of the Bank's policy on deferral and vesting of variable remuneration and, if the fraction of variable remuneration that is deferred differs across employees or groups of employees, a description of the factors that determine the fraction and their relative importance.
▪ A discussion of the Bank's policy and criteria for adjusting deferred remuneration before vesting and (if permitted by national law) after vesting through clawback arrangements.</td><td>3. Remuneration</td><td>25</td></tr>
<tr><td>Description of the different forms of variable remuneration that the Bank utilises and the rationale for using these different forms. Disclosures should include:
▪ An overview of the forms of variable remuneration offered (ie cash, shares and share-linked instruments and other forms).
▪ A discussion of the use of the different forms of variable remuneration and, if the mix of different forms of variable remuneration differs across employees or groups of employees), a description the factors that determine the mix and their relative importance.</td><td>3. Remuneration</td><td>25</td></tr>
</table>

08 ANNEXURE

ANNEXURE

Pillar III disclosure tables not applicable to Discovery Bank for the period under review

KM2	Key metric – TLAC requirements (at resolution group level)
PV1	Prudential valuation adjustments
TLAC1	TLAC disclosure for G-SIBs
TLAC2	Material subsidiary – creditor ranking at legal entity level
TLAC3	Resolution entity – credit ranking at legal entity level
CCyB1	Geographical distribution of credit exposures used in the countercyclical capital buffer
GSIB1	Disclosure on G-SIB indicators (simple consolidation without change)
CRE	Qualitative disclosures related to IRB models
CR6	IRB – Credit risk exposures by portfolio and PD range
CR7	IRB – Effect on RWA of credit derivatives used as CRM techniques
CR8	RWA flow statements of credit risk exposures under IRB
CR9	IRB – Back testing of probability of default (PD) per portfolio
CR10	IRB – Specialised lending and equities under the simple risk-weight method
CCR1	Analysis of CCR by approach
CCR4	IRB – CCR exposures by portfolio and PD scale
CCR5	Composition of collateral for CCR exposure
CCR6	Credit derivatives exposures
CCR7	RWA flow statements of CCR exposures under the Internal Model Method (IMM)
CCR8	Exposures to central counterparties
SECA	Qualitative disclosure requirements related to securitisation exposures
SEC1	Securitisation exposures in the banking book
SEC2	Securitisation exposures in the trading book
SEC3	Securitisation exposures in the banking book and associated regulatory capital requirements
SEC4	Securitisation exposures in the banking book and associated capital requirements
MRC	Desks' structure for banks using market risk IMA
MR2	RWA flow statements of market risk exposures under IMA
MR3	IMA values for trading portfolios
MR4	Comparison of VAR estimates with gains/losses
MRB	Qualitative disclosures for banks using the IMA
OR1	Historical losses used for SMA calculation
OR2	SMA – business indicators and subcomponents
OR3	Historical losses
IRRBB1	Quantitative information on IRRBB