

PILLAR III

PUBLIC DISCLOSURES

FOR THE QUARTER ENDED 30 SEPTEMBER 2019

Discovery Bank Limited and Discovery Bank Holdings Limited Group

Contents

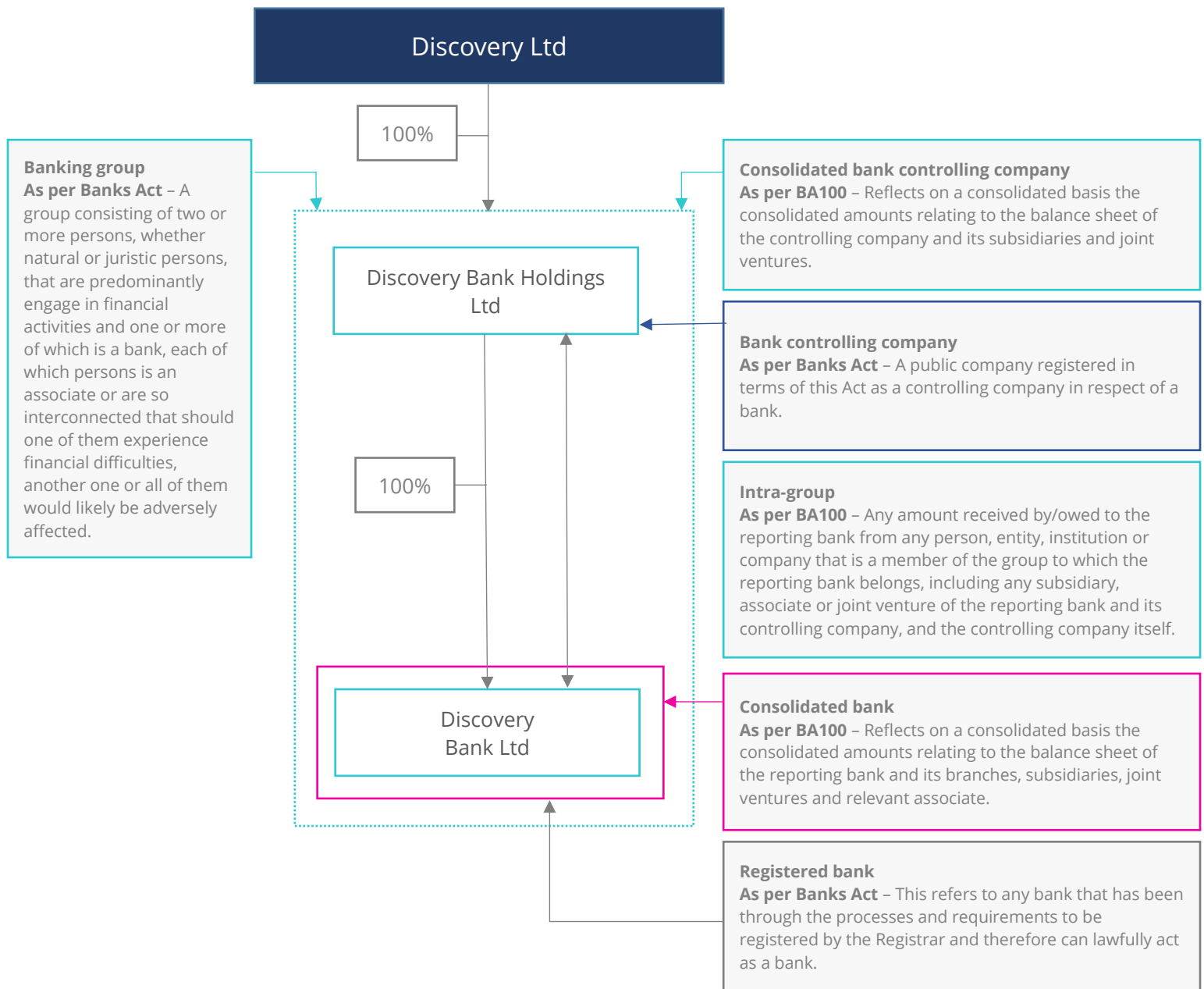
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Quantitative Tables and Templates

The ratios provided in the subsequent tables may only become more meaningful once the Bank has fully migrated the Discovery Card business, on-boarded many new customers and has reached a more business-as-usual steady-state phase of operation.

It should be noted that 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



1 Overview of Risk Management and Risk-Weighted Assets

1.1 KM1: Key metrics (at consolidated Group level)

This section provides information on Discovery's prudential regulatory metrics. Metrics include Discovery Bank's available capital and ratios, risk-weighted assets, leverage ratio, liquidity coverage ratios and net stable funding ratios. These metrics are presented at a Discovery Bank Holdings Limited Group level.

R'000		30 September 2019	30 June 2019	31 March 2019	31 December 2018
Available capital (amounts)					
1	Common Equity Tier 1 (CET1)	517,016	589,765	278,992	2,943,843
1a	Fully loaded ECL accounting model	0	0	0	0
2	Tier 1	517,016	589,765	278,992	2,943,843
2a	Fully loaded ECL accounting model Tier 1	0	0	0	0
3	Total capital	522,929	590,281	279,285	2,943,927
3a	Fully loaded ECL accounting model total capital	0	0	0	0
Risk-Weighted Assets (amounts)					
4	Total Risk-Weighted Assets (RWA)	1,728,836	1,306,638	1,318,655	4,005,965
Risk-based capital ratios as a percentage of RWA					
5	Common Equity Tier 1 ratio (%)	29.91%	45.14%	21.16%	73.49%
5a	Fully loaded ECL accounting model Common Equity Tier 1(%)	0.00%	0.00%	0.00%	0.00%
6	Tier 1 ratio (%)	29.91%	45.14%	21.16%	73.49%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	0.00%	0.00%	0.00%	0.00%

R'000		30 September 2019	30 June 2019	31 March 2019	31 December 2018
7	Total capital ratio (%)	30.25%	45.18%	21.18%	73.49%
7a	Fully loaded ECL accounting model total capital ratio (%)	0.00%	0.00%	0.00%	0.00%
Additional CET1 buffer requirements as a percentage of RWA					
8	Capital conservation buffer requirement (2.5% from 2019) (%)	2.50%	2.50%	2.50%	1.88%
9	Countercyclical buffer requirement (%)	0.00%	0.00%	0.00%	0.00%
10	Bank G-SIB and/or D-SIB additional requirements (%)	0.00%	0.00%	0.00%	0.00%
11	Total of Bank CET1 specific buffer requirements %(row 8 + row 9 + row 10)	2.50%	2.50%	2.50%	1.88%
12	CET1 available after meeting the Bank's minimum capital requirements (%)	21.16%	36.39%	12.41%	64.86%
Basel III leverage ratio					
13	Total Basel III leverage ratio exposure measure	1,746,709	949,370	612,092	3,200,725
14	Basel III leverage ratio (%) (row 2 ; row 13)	29.60%	62.12%	45.58%	91.97%
14a	Fully loaded ECL accounting model Basel III leverage ratio (%) (row 2a ;row13)	0	0	0	0
Liquidity Coverage Ratio¹					
15	Total HQLA	90,215	79,130	106,409	120,957
16	Total net cash outflow	5,544	470	81	30
17	LCR ratio (%)	1 627.11%	16 830.78%	130 880.85%	402 759.70%
Net Stable Funding Ratio					
18	Total available stable funding	5,289,810	4,503,641	4,403,175	4,030,866
19	Total required stable funding	5,003,378	4,429,089	4,073,571	3,918,827

¹ KM1 is based on a Group Consolidated view, whereas LIQ1 is based on a Bank Solo view, and therefore the numbers will not tie as per BCBS linkages.

R'000		30 September 2019	30 June 2019	31 March 2019	31 December 2018
20	NSFR ratio	106%	102%	108%	103%

1.2 OV1: Overview of Risk-Weighted Assets (RWA)

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

		Discovery Bank Limited			Discovery Bank Holdings Limited Group		
		RWA		Minimum capital requirement	RWA		Minimum capital requirement
R'000		30 September 2019	30 June 2019	30 September 2019	30 September 2019	30 June 2019	30 September 2019
1	Credit risk (excluding counterparty credit risk) (CCR)	969,278	544,156	111,467	969,522	544,400	111,495
2	Of which standardised approach (SA)	969,278	544,156	111,467	969,522	544,400	111,495
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)	7,016	17,326	807	7,016	17,326	807
7	Of which standardised approach for counterparty credit risk (SA-CCR)	7,016	17,326	807	7,016	17,326	807
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)	6,143	11,321	706	6,143	11,321	706
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

		Discovery Bank Limited			Discovery Bank Holdings Limited Group		
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	12,612	11,673	1,450	12,612	11,673	1,450
21	Of which standardised approach (SA)	12,612	11,673	1,450	12,612	11,673	1,450
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	635,891	73,127	665,730	665,730	76,559
25	Amounts below the thresholds for deduction (subject to 250% risk weight)	67,813	56,188	7,798	67,813	56,188	7,798
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)	1,698,753	1,276,555	195,357	1,728,836	1,306,638	198,816

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

2 Leverage ratio

2.1 LR1: Summary comparison of Accounting assets vs Leverage ratio exposure measure (January 2014 standard)

The only adjustments made to the total assets per the financial statements in arriving at the leverage ratio exposure measure are in line with those required as part of the leverage ratio calculation outlined in the regulations.

R'000		As at 30 September 2019
1	Total consolidated assets as per published financial statements	4 904 959
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	0
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the Leverage ratio exposure measure	0
4	Adjustments for derivative financial instruments	5 937
5	Adjustment for securities financing transactions (i.e. repos and similar secured lending)	0
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	150 996
7	Other adjustments	(3 314 967)
8	Leverage ratio exposure measure	1 746 925

2.2 LR2: Leverage ratio common disclosure template (January 2014 standard)

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

R'000		30 September 2019	30 June 2019
On-balance sheet exposures			
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs))	4,903,649	4,171,335
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	(3,315,197)	(3,247,681)
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of row 1 and 2)	1,588,452	923,654
Derivative exposures			
4	Replacement cost associated with all derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	1,080	10,162
5	Add-on amounts for PFE associated with all derivatives transactions	5,937	7,163

	R'000	30 September 2019	30 June 2019
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)	7,017	17,325
Securities financing transaction exposures			
12	Gross SFT assets (with no recognition of netting), after adjusting for asle 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	754,980	40,735
18	(Adjustments for conversion to credit equivalent amounts)	(603,984)	(32,588)
19	Off-balance sheet items (sum of row 17 and 18)	150,996	8,147
Capital and total exposures			
20	Tier 1 capital	513,832	586,580
21	Total exposures (sum of rows 3,11,16 and 19)	1,746,465	949,126
Leverage ratio			
22	Basel III Leverage ratio	29	62

3 Liquidity

3.1 LIQ1: Liquidity Coverage Ratio (LCR)

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

As at 30 September 2019 R'000		Current Reporting Period		Previous Reporting Period
		Total Unweighted (average)	Total Weighted (average)	Total Weighted (average)
	High-quality liquid assets			
1	Total HQLA	0	90,215	79,130
	Cash outflows			
2	Retail deposits and deposits from small business customers, of which:	113,096	11,310	1,391
3	Stable deposits	0	0	0
4	Less stable deposits	113,096	11,310	1,391
5	Unsecured wholesale funding, of which:			
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	0	0	0
7	Non-operational deposits (all counterparties)	114,829	0	0
8	Unsecured debt	0	0	0
9	Secured wholesale funding	0	0	0
10	Additional requirements, of which:			
11	Outflows related to derivative exposures and other collateral requirements	27	27	0
12	Outflows related to loss of funding on debt products	0	0	0
13	Credit and liquidity facilities	433,634	10,841	489
14	Other contractual funding obligations	0	0	0
15	Other contingent funding obligations	0	0	0
16	TOTAL CASH OUTFLOWS	661,586		1,880
	Cash inflows			
17	Secured lending (eg reverse repos)	0	0	0
18	Inflows from fully performing exposures	347,610	342,826	361,304
19	Other cash inflows	9	9	3
20	TOTAL CASH INFLOWS	347,619	342,835	361,307
			Total Adjusted value	Total Adjusted value
21	Total HQLA	0	90,215	79,130
22	Total net cash outflows	0	5,544	470
23	Liquidity Coverage Ratio (%)	0%	2,356	17 379%

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 3 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, June-September 2019, for Discovery Bank Limited. Discovery Bank's weighted values are based on weekdays (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.

4 Annexure

Abbreviation	Definition
ASF	Available Stable Funding
BASA	Banking Association of South Africa
BCBS	Basel Committee on Banking Supervision
CCR	Counterparty Credit Risk
CET1	Common Equity Tier 1
CRM	Credit Risk Mitigation
CVA	Credit Valuation adjustment
ECL	Expected Credit Loss
D-SIB	Domestic Systemically Important Banks
HQLA	High-Quality Liquid Assets
LCR	Liquidity Coverage Ratio
NSFR	Net stable funding ratio
PA	Prudential Authority of South Africa
RSF	Required Stable Funding
RWA	Risk-Weighted Assets
STA	Standardised Approach
SA - CCR	Standardised Approach for Counterparty Credit Risk
TLAC	Total loss absorbing capacity