PILLAR III

PUBLIC DISCLOSURES

FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

Discovery Bank Limited and Discovery Bank Holdings Limited Group

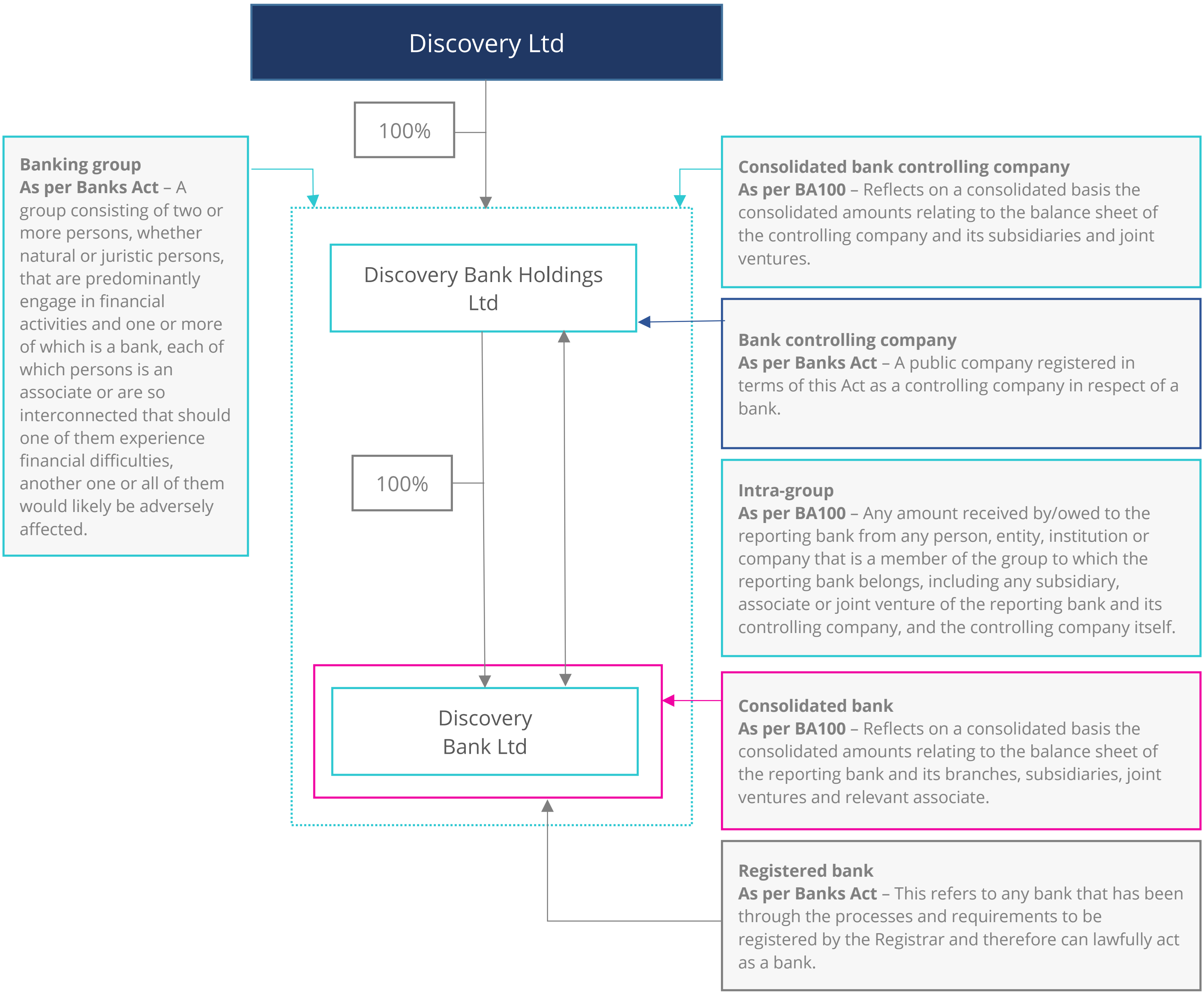
Contents

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		As at 31 December 2019	As at 30 September 2019	As at 30 June 2019	As at 31 March 2019	As at 31 December 2018
	Available capital (amounts)					
1	Common Equity Tier 1 (CET1)	609,607	517,016	589,765	278,992	2,943,843
1a	Fully loaded ECL accounting model					
2	Tier 1	609,607	517,016	589,765	278,992	2,943,843
2a	Fully loaded ECL accounting model Tier 1					
3	Total capital	620,605	522,929	590,281	279,285	2,943,927
3a	Fully loaded ECL accounting model total capital					
	Risk-Weighted Assets (amounts)					
4	Total Risk-Weighted Assets (RWA)	1,970,937	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 (%)	30.929%	29.905%	45.136%	21.157%	73.486%
5a	Fully loaded ECL accounting model Common Equity Tier 1(%)					
6	Tier 1 ratio (%)	30.929%	29.905%	45.136%	21.157%	73.486%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)					

R'000		As at 31 December 2019	As at 30 September 2019	As at 30 June 2019	As at 31 March 2019	As at 31 December 2018
	Available capital (amounts)					
7	Total capital ratio (%)	31.487%	30.248%	45.176%	21.179%	73.489%
7a	Fully loaded ECL accounting model total capital ratio (%)					
	Additional CET1 buffer requirements as a percentage of RWA					
8	Capital conservation buffer requirement (2.5% from 2019) (%)	2.500%	2.500%	2.500%	2.500%	1.875%
9	Countercyclical buffer requirement (%)					
10	Bank G-SIB and/or D-SIB additional requirements (%)					
11	Total of Bank CET1 specific buffer requirements (%)(row 8 + row 9 + row 10)	2.500%	2.500%	2.500%	2.500%	1.875%
12	CET1 available after meeting the Bank's minimum capital requirements (%)	22.179%	21.155%	36.386%	12.407%	64.861%
	Basel III leverage ratio					
13	Total Basel III leverage ratio exposure measure	2,617,502	1,746,709	949,370	612,092	3,200,725
14	Basel III leverage ratio (%) (row 2 ; row 13)	23.290%	29.599%	62.122%	45.580%	91.974%
14a	Fully loaded ECL accounting model Basel III leverage ratio (%) (row 2a ;row13)					
	Liquidity Coverage Ratio					
15	Total HQLA	184,081	90,215	79,130	106,409	120,957
16	Total net cash outflow	20,108	5,544	470	81	30
17	LCR ratio (%)	915%	1,627%	16,830%	130,880%	402,759%

R'000		As at 31 December 2019	As at 30 September 2019	As at 30 June 2019	As at 31 March 2019	As at 31 December 2018
	Net Stable Funding Ratio					
18	Total available stable funding	6,202,173	5,289,810	4,503,641	4,403,175	4,030,866
19	Total required stable funding	5,506,548	5,003,378	4,429,089	4,073,571	3,918,827
20	NSFR ratio	113%	106%	102%	108%	103%

Discovery Bank adopted IFRS 9 on 1 July 2017. Therefore, the figures presented include the effects of IFRS 9. Risk-weighted assets (RWA) are calculated according to the Basel Framework, and 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

The growth in business activities, clients and the operational balance sheet can be observed in the increasing Leverage Ratio Exposure Measure (Line 13), with the effective risk weighted growth noted in the Risk Weighted Assets (Line 4). Capital buffers are slowly being utilised as the capital requirement grows, with the Total Capital Ratio declining from 45% at 30 June 2019 to 31% at 31 December 2019. This is expected to continue to decline to a more efficient level as the business matures with less month-to-month volatility. The Liquidity Coverage Ratio (Line 17) remains high above requirements despite significant growth in Total net cash outflow (Line 16), but similarly continues to decline to a more efficient level as the business grows and matures. In contrast to this the Net Stable Funding Ratio (Line 20) continues to improve as the operational business grows, outweighing non-operational items with a ratio of 100% being funded in full by CET1 capital.

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

This section provides on 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	As at 31 December 2019	As at 30 September 2019	As at 31 December 2019	As at 31 December 2019	As at 30 September 2019	As at 31 December 2019
1	**Credit risk (excluding counterparty credit risk) (CCR)**	**1,339,574**	**969,278**	**154,051**	**1,339,818**	**969,522**	**154,079**
2	Of which standardised approach (SA)	1,339,574	969,278	154,051	1,339,818	969,522	154,079
3	Of which: foundation internal ratings-based (F-IRB) approach						
4	Of which: supervisory slotting approach						
5	Of which: advanced internal ratings-based (A-IRB) approach						
6	**Counterparty credit risk (CCR)**	**6,762**	**7,016**	**778**	**6,762**	**7,016**	**778**
7	Of which: current exposure method	6,762	7,016	778	6,762	7,016	778
8	Of which internal model method (IMM)						
9	Of which: other CCR						
10	**Credit valuation adjustment (CVA)**	**5,327**	**6,143**	**613**	**5,327**	**6,143**	**613**
11	Equity positions under the simple risk-weight approach						
12	Equity investments in funds – look-through approach						
13	Equity investments in funds – mandate-based approach						
14	Equity investments in funds – fallback approach						
15	Settlement risk						

R'000		Discovery Bank Limited			Discovery Bank Holdings Limited Group		
		RWA		Minimum capital requirement	RWA		Minimum capital requirement
		As at 31 December 2019	As at 30 September 2019	As at 31 December 2019	As at 31 December 2019	As at 30 September 2019	As at 31 December 2019
16	Securitisation exposures in banking book						
17	Of which: securitisation internal ratings-based approach (SEC-IRBA)						
18	Of which: securitisation external ratings-based approach (SEC-ERBA), including internal assessment approach (IAA)						
19	Of which: securitisation standardised approach (SEC-SA)						
20	**Market risk**	**11,717**	**12,612**	**1,347**	**11,717**	**12,612**	**1,347**
21	Of which standardised approach (SA)	11,717	12,612	1,347	11,717	12,612	1,347
22	Of which internal model approaches (IMA)						
23	Capital charge for switch between trading book and banking book						
24	**Operational risk**	**523,683**	**635,891**	**60,224**	**523,683**	**665,730**	**60,224**
25	Amounts below the thresholds for deduction (subject to 250% risk weight)	83,630	67,813	9,617	83,630	67,813	9,617
26	Floor adjustment						
27	**Total (1+6+10+11+12+13+14+15+16+20+23+24+25+26)**	**1,970,693**	**1,698,753**	**226,630**	**1,970,937**	**1,728,836**	**226,658**

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

2 Composition of Capital and Total loss absorbing capacity (TLAC) disclosure

2.1 CC1: Composition of regulatory capital

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

R'000		As at 31 December 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	4,893,789
2	Retained earnings	(983,945)
3	Accumulated other comprehensive income (and other reserves)	69,445
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)	
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	
6	**Common Equity Tier 1 capital before regulatory adjustments**	**3,979,289**
Common Equity Tier 1 capital: regulatory adjustments		
7	Prudential valuation adjustments	
8	Goodwill (net of related tax liability)	2,416,821
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	473,873
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	481,714
11	Cash-flow hedge reserve	
12	Shortfall of provisions to expected losses	
13	Securitisation gain on sale	
14	Gains and losses due to changes in own credit risk on fair valued liabilities	
15	Defined-benefit pension fund net assets	
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	
17	Reciprocal cross-holdings in common equity	
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	

R'000		As at 31 December 2019
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)	
20	Mortgage servicing rights (amount above 10% threshold)	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	
22	Amount exceeding the 15% threshold	
23	of which: significant investments in the common stock of financials	
24	of which: mortgage servicing rights	
25	of which: deferred tax assets arising from temporary differences	
26	National specific regulatory adjustments	
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	
28	**Total regulatory adjustments to Common equity Tier 1**	**3,372,408**
29	**Common Equity Tier 1 capital (CET1)**	**606,881**
Additional Tier 1 capital : instruments		
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	
31	of which: classified as equity under applicable accounting standards	
32	of which: classified as liabilities under applicable accounting standards	
33	Directly issued capital instruments subject to phase out from Additional Tier 1	
34	Additional Tier 1 instruments (and CET1 instruments not included in line 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	
35	of which: instruments issued by subsidiaries subject to phase out	
36	**Additional Tier 1 capital before regulatory adjustments**	
Additional Tier 1 capital: regulatory adjustments		
37	Investments in own Additional Tier 1 instruments	
38	Reciprocal cross-holdings in Additional Tier 1 instruments	
39	Investments in 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)	
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)	
41	National specific regulatory adjustments	
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	

R'000		As at 31 December 2019
43	**Total regulatory adjustments to Additional Tier 1 capital**	
44	**Additional Tier 1 capital (AT1)**	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**606,881**
Tier 2 capital: instrument and provisions		
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	
47	Directly issued capital instruments subject to phase out from Tier 2	
48	Tier 2 instruments (and CET1 and AT1 instruments not included in lines 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	
49	of which: instruments issued by subsidiaries subject to phase out	
50	Provisions	10,998
51	**Tier 2 capital before regulatory adjustments**	**10,998**
Tier 2 capital : regulatory adjustments		
52	Investments in own Tier 2 instruments	
53	Reciprocal cross-holdings in Tier 2 instruments and other TLAC liabilities	
54	Investments in the capital and other TLAC liabilities of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank doesn't not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	
54a	Investments in the other TLAC liabilities of banking, financial and insurance entities that are outside the scope of regulatory consolidation and where the bank does not own more than 10% of the issued common share capital of the entity: amount previously designated for the 5% threshold but that no longer meets the conditions (for G-SIBs only)	
55	Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	
56	**National specific regulatory adjustments**	
57	**Total regulatory adjustments to Tier 2 capital**	
58	**Tier 2 capital (T2)**	**10,998**
59	**Total capital (TC = T1 + T2)**	**617,879**
60	**Total risk weighted Exposure**	**1,970,693**
Capital ratios and buffers		
61	**Common Equity Tier 1 (as a percentage of Risk-Weighted Assets)**	**30.795%**
62	**Tier 1 (as a percentage of Risk-Weighted Assets)**	**30.795%**
63	**Total capital (as a percentage of Risk-Weighted Assets)**	**31.353%**

	R'000	As at 31 December 2019
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	
67	of which: G-SIB buffer requirement	
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**	**21.795%**
	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	
73	Significant investments in the common stock of financial entities	
74	Mortgage servicing rights (net of related tax liability)	
75	Deferred tax assets arising from temporary differences (net of related tax liability)	33,452
	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)	35,622
77	Cap on inclusion of provisions in Tier 2 under standardised approach	10,998
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)	
79	Cap for inclusion of provisions or credit impairments in Tier 2 under internal ratings-based approach	
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)	
80	Current cap on CET1 instruments subject to phase out arrangements	
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	
82	Current cap on AT1 instruments subject to phase out arrangements	
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	
84	Current cap on T2 instruments subject to phase out arrangements	
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	

2.2 CC2: Reconciliation of regulatory capital to balance of regulatory capital to balance sheet

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.

R'000		Balance sheet as in financial statements As at 31 December 2019	Balance Sheet under regulatory scope of consolidation As at 31 December 2019
	Assets		
1	Cash and balances at central banks	37,043	37,043
2	Short term negotiable securities	230,367	230,367
3	Derivative assets	1,331	1,331
4	Loans and advances to customers	733,975	733,975
5	Loans and advances to banks	825,851	825,851
6	Available for sale financial assets		
7	Interest in subsidiaries		
8	Interest in associate		
9	Intangible assets	3,020,468	3,020,468
10	Current income tax assets		
11	Deferred income tax assets	385,392	385,392
12	Property and equipment		
13	Other assets	459,760	459,760
14	**Total assets**	**5,694,187**	**5,694,187**
	Liabilities		
15	Deposits and current accounts	1,353,696	1,353,696
16	Derivative financial instruments	15,167	15,167
17	Provisions and other liabilities	346,035	346,035
18	Current income tax liabilities		
19	Deferred income tax assets		
20	**Total liabilities**	**1,714,898**	**1,714,898**
	Equity		
21	Share capital and premium	4,893,789	4,893,789
22	Accumulated profit / (loss)	(983,945)	(983,945)
23	Other reserves	69,445	69,445
24	**Total equity**	**3,979,289**	**3,979,289**

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

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

As at 31 December 2019		Ordinary shares (Incl share premium)
1	Issuer	Discovery Bank Limited
2	Unique identifier (e.g. 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)	4,894
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

As at 31 December 2019		Ordinary shares (Incl share premium)
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	Write-down feature	n/a
31	If write down, write down trigger(s)	n/a
32	If write down, full or partial	n/a
33	If write down, permanent or temporary	n/a
34	If temporary write-own, description of write-up 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

3 Leverage Ratio

3.1 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 31 December 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 31 December 2019
1	Total consolidated assets as per financial statements	5,730,666
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	5,430
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)	254,428
7	Other adjustments	(3,373,266)
8	**Leverage ratio exposure measure**	**2,617,258**

3.2 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 31 December 2019	As at 30 September 2019
	On-balance sheet exposures		
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs)	5,728,477	4,903,649
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	(3,372,408)	(3,315,197)
3	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of row 1 and 2)**	**2,356,069**	**1,588,452**
	Derivative exposures		
4	Replacement cost associated with all derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	1,331	1,080
5	Add-on amounts for PFE associated with all derivatives transactions	5,430	5,937
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework		
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)		
8	(Exempted CCP leg of client-cleared trade exposures)		
9	Adjusted effective notional amount of written credit derivatives		
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)		
11	**Total derivative exposures (sum of rows 4 to 10)**	**6,761**	**7,017**
	Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions		
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)		
14	CCR exposure for SFT assets		
15	Agent transaction exposures		
16	**Total securities financing transaction exposures (sum of rows 12 to 15)**		
	Other off-balance sheet exposures		
17	Off-balance sheet exposure at gross notional amount	1,272,140	754,980
18	(Adjustments for conversion to credit equivalent amounts)	(1,017,712)	(603,984)
19	**Off-balance sheet items (sum of row 17 and 18)**	**254,428**	**150,996**
	Capital and total exposures		
20	**Tier 1 capital**	**606,881**	**513,832**
21	**Total exposures (sum of rows 3,11,16 and 19)**	**2,617,258**	**1,746,465**
	Leverage ratio		
22	Basel III Leverage ratio	23	29

4 Liquidity

4.1 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.

	At 31 December 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		184,081	90,215
	Cash outflows			
2	**Retail deposits and deposits from small business customers, of which:**	**550,150**	**55,015**	11,310
3	Stable deposits			
4	Less stable deposits	550,150	55,015	11,310
5	**Unsecured wholesale funding, of which:**			
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks			
7	Non-operational deposits (all counterparties)			
8	Unsecured debt			
9	**Secured wholesale funding**			
10	**Additional requirements, of which:**			
11	Outflows related to derivative exposures and other collateral requirements	2	2	27
12	Outflows related to loss of funding on debt products			
13	Credit and liquidity facilities	1,016,564	25,414	10,841
14	**Other contractual funding obligations**			
15	**Other contingent funding obligations**			
16	**TOTAL CASH OUTFLOWS**	**1,566,716**	**80,432**	22,177
	Cash inflows			
17	**Secured lending (e.g. reverse repos)**			
18	**Inflows from fully performing exposures**	**684,824**	**670,286**	342,826
19	Other cash inflows			9
20	**TOTAL CASH INFLOWS**	**684,824**	**670,286**	342,835
			Total Adjusted value	**Total Adjusted value**
21	**Total HQLA**		**184,081**	90,215
22	**Total net cash outflows**		**20,108**	5,544
23	**Liquidity Coverage Ratio (%)**		**914%**	2,356%

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 d455 (December 2018) and Directive D1/2019.

The values in the table are calculated as the average of the 90-day calendar daily values over the period, October – December 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 with a maturity profile, spread across 91, 182, 274 and 364 days.

4.2 LIQ2: Net Stable Funding Ratio (NSFR)

This section provides information of Discovery Bank's Net Stable Funding Ratio (NSFR) and details of some of its components.

As at 31 December 2019 R'000		Unweighted value by residual maturity				
		No Maturity	< 6 months	6 months to < 1 year	>= 1 year	Weighted value
1	Capital:	4,963,234				4,963,234
2	Regulatory capital	4,963,234				4,963,234
3	Other capital instruments					
4	Retail deposits and deposits from small business customers:		876,864	41,405	73,567	900,009
5	Stable deposits					
6	Less stable deposits		876,864	41,405	73,567	900,009
7	Wholesale funding:		61,795	0	300,064	321,692
8	Operational deposits					
9	Other wholesale funding		61,795	0	300,064	321,692
10	Liabilities with matching interdependent assets					
11	Other liabilities:		323,538	10,521	27,144	17,238
12	NSFR derivative liabilities				15,167	
13	All other liabilities and equity not included in the above categories		323,538	10,521	11,977	17,238
14	**Total ASF**					**6,202,173**
15	Total NSFR high-quality liquid assets (HQLA)		224,306	43,104		12,304

As at 31 December 2019 R'000		Unweighted value by residual maturity: No Maturity	< 6 months	6 months to < 1 year	>= 1 year	Weighted value
16	Deposits held at other financial institutions for operational purposes					
17	Performing loans and securities:		1,060,731	229,532	306,042	616,220
18	Performing loans to financial institutions secured by Level 1 HQLA					
19	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions		825,851			123,878
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:		234,880	229,532	306,042	492,342
21	With a risk weight of less than or equal to 35% under the Basel II standardised approach for credit risk					
22	Performing residential mortgages, of which:					
23	With a risk weight of less than or equal to 35% under the Basel II standardised approach for credit risk					
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities					
25	Assets with matching interdependent liabilities					
26	Other assets:	4,356,353			458,064	4,814,417
27	Physical traded commodities, including gold					
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs					
29	NSFR derivative assets				1,331	1,331
30	NSFR derivative liabilities before deduction of variation margin posted					
31	All other assets not included in the above categories	4,356,353			456,733	4,813,086
32	Off-balance sheet items	1,272,140				63,607
33	**Total RSF**					**5,506,548**
34	**Net Stable Funding Ratio (%)**					**113%**

The NSFR 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 (AFS) in liabilities over the Required Stable Funding (RFS) 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 31 December 2019. The minimum NSFR requirements in South Africa is 100%.

5 Credit Risk

5.1 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 31 December 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*	1,546	1,722,692	36,479	857	35,622		1,687,759
2	Debt Securities							
3	Off-balance sheet exposures	714	1,330,930					1,331,644
4	**Total**	**2,261**	**3,053,622**	**36,479**	857	35,622		**3,019,403**

*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.

5.2 CR2: Changes in stock of defaulted loans and debt securities

This section identified 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 31 December 2019
1	**Defaulted loans and debt securities at end of the previous reporting period**	
2	Loans and debt securities that have defaulted since the last reporting period	1,546
3	Returned to non-defaulted status	
4	Amounts written off	
5	Other changes	
6	**Defaulted loans and debt securities at end of the reporting period (1+2-3-4±5)**	**1,546**

5.3 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 31 December 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	1,687,759						
2	Debt securities							
3	**Total**	**1,687,759**						
4	***Of which defaulted****	***1,546***						

5.4 CR4: Standardised approach – credit risk exposure and credit risk mitigation effects

Asset Class As at 31 December 2019 R'000		Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
		On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA Density
1	Sovereigns and their central banks	230,367		230,367			
2	Non-central government public sector entities						
3	Multi-lateral development banks						
4	Banks	750,530		750,530		155,515	20.720%
5	Securities firms						
6	Corporates						
7	Regulatory retail portfolios	707,380	1,331,644	707,380	266,329	731,061	75.080%
8	Secured by residential property						
9	Secured by commercial real estate						
10	Equity						
11	Past-due loans						
12	Higher-risk categories						
13	Other assets	3,517,271		3,517,271		459,760	13.071%
14	**Total**	**5,205,547**	**1,331,644**	**5,205,547**	**266,329**	***1,346,336**	**24.604%**

* The RWA number includes Counterparty Credit Risk of R6,762,000 and therefore doesn't link to table OV1 (row 2)

Table CR4 illustrates the effect of mitigation techniques used under the standardised approach when calculating Risk Weighted Assets (RWA).

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.

5.5 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 counterparty credit risk.

		Risk Weight									
As at 31 December 2019 R'000		**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	230,367									230,367
2	Non-central government public sector entities(PSEs)										
3	Multi-lateral development banks(MDBs)										
4	Banks			743,768				6,762			750,530
5	Securities firms										
6	Corporates										
7	Regulatory retail portfolios					378	972,162	18	1,150		973,708
8	Secured by residential property										
9	Secured by commercial real estate										
10	Equity										
11	Past-due loans										
12	Higher-risk categories										

		Risk Weight									
As at 31 December 2019 R'000		0%	10%	20%	25%	50%	75%	100%	150%	Others	Total credit exposure amount (post CCF and post-CRM)
13	Other assets	37,043						459,760		3,020,468	3,517,271
14	**Total**	**267,410**		**743,768**		**378**	**972,162**	**466,540**	**1,150**	**3,020,468**	**5,471,876**

6 Counterparty Credit Risk

6.1 CCR1: Analysis of counterparty credit risk exposure by approach

Table CCR1 summarised the methods used to calculate CCR as per regulatory requirements and each parameter used within this approach.

As at 31 December 2019 R'000		Replacement cost	Potential future exposure	EEPE	Alpha used for computing regulatory EAD	EAD post-CRM	RWA
1	SA-CCR	1,331	5,430		1.4	6,762	6,762
2	Internal Model Method (for derivatives and SFTs)						
3	Simple approach for credit risk mitigation (for SFT's)						
4	Comprehensive approach for credit risk mitigation (for SFT's)						
5	VaR for SFTs						
6	Total						6,762

6.2 CCR2: Credit valuation adjustment capital charge

As at 31 December 2019 R'000		EAD post-CRM	RWA
Total portfolios subject to the advanced CVA capital charge			
1	(i) VaR component (including the 3x multiplier)		
2	(ii) Stressed VaR component (Including the 3x multiplier)		
3	All portfolios subject to the Standardised CVA capital charge	6,762	6,762
4	**Total subject to the CVA capital charge**	**6,762**	**6,762**

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).

6.3 CCR3: Standardised approach of counterparty credit risk 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 31 December 2019 R'000		0%	10%	20%	50%	75%	100%	150%	Others	Total credit exposure amount (post CCF and post-CRM)
Regulatory retail portfolio										
1	Sovereign	230,367								230,367
2	Non-central government public sector entities									
3	Multi-lateral development banks									
4	Banks			743,768			6,762			750,530
5	Securities firms									
6	Corporates									
7	Regulatory retail portfolio				378	972,162	18	1,150		973,708
8	Other assets	37,043					459,760		3,020,468	3,517,271
9	**Total**	**267,410**		**743,768**	**378**	**972,162**	**466,540**	**1,150**	**3,020,468**	**5,471,876**

7 Market Risk

7.1 MR1: Market risk under standardised approach

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

As at 31 December 2019 R'000		Capital charge in SA
1	General interest rate risk	
2	Equity risk	0
3	Commodity risk	0
4	Foreign exchange risk	11,717
5	Credit spread risk - non securitisations	0
6	Credit spread risk -securitisations (non-correlation trading portfolio)	
7	Credit spread risk -securitisations (correlation trading portfolio)	0
8	Default risk - non securitisations	0
9	Default risk -securitisations (non-correlation trading portfolio)	0
10	Default risk -securitisations (correlation trading portfolio)	0
11	Residual risk add-on	0
12	**Total**	**11,717**

This market risk exposure on the Bank's books relates to a requirement where an amount of $825 979 has been placed with an AA-rated bank in Singapore. The foreign exchange exposure is small with an equivalent risk-weighted exposure of R11, 7m

8 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
G-SIB	Globally 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
SA	Standardised Approach
SA - CCR	Standardised Approach for Counterparty Credit Risk
TLAC	Total loss absorbing capacity
VaR	Value at Risk