Discovery Bank

PILLAR III

PUBLIC DISCLOSURES

FOR THE HALF-YEAR ENDED 31 DECEMBER 2020

Discovery Bank Limited and Discovery Bank Holdings Limited Group

Contents

Strategy and Business Model

Discovery Bank is a confluence of technology, social responsibility and a deep understanding of the nature of behavioral risk, underpinned by the proven "shared value" business model. At the core of Discovery's 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 strategic objectives are fully aligned to business targets thereby enabling the Bank to measure its success in achieving the objectives set. The Bank's ambition is articulated below:

- *Discovery Bank will be the best bank in South Africa and globally recognised for its Shared-Value Banking model.*
- *Through Discovery Bank's Shared-Value model, clients will exhibit demonstrably better financial outcomes as a result of engagement with the Vitality Money programme, with the ability to monetise their financial and other behavior improvements through their personalised rewards stack. The model will drive rapid client growth, primary account utilisation, higher deposits and lower credit risk, resulting in superior value for clients and Discovery Bank.*
- *Discovery Bank will earn the trust, support and loyalty of clients through brilliant products, an exceptional full-service offering, intuitive customer journeys and robust security features which are underpinned by the unique application of world-class digital and data capabilities.*
- *The Bank will serve as the foundational asset to drive integration for the SA Composite by creating an ecosystem through which clients access their full suite of Discovery products, financial services and other partners resulting in the highest levels of customer engagement, persistency and long-term value.*

Discovery has identified three major trends that impact financial services and Banking, which results in clients reassessing the status quo and reconsidering the relationships with their financial services providers more frequently.

Nature of risk: Traditional banks segment and price clients on their socio-economic status, however, the nature of risk in banking is as much behavioural as it is socio-economic. This results in clients who manage their money well often paying more to borrow purely based on their socio-economic segment and subsidising higher risk clients.

Technology: Banking has evolved towards digital and contactless onboarding and payment solutions, making it easier for clients to open additional accounts.

Social responsibility: Clients are demanding that their companies, including banks, do business with focus on societal issues as much as profits.

These trends are transforming banking and highlight the case for a shared-value bank.

A shared-value Banking model considers individual financial behaviours to understand how financially healthy clients are. Clients get rewarded for managing their money well with:

- Lower interest rates on borrowings than what would typically apply based on their socio-economic status. In the case of Discovery Bank, clients have saved over R13 million on interest from their borrowings for managing their money well. Clients can reduce their rates by as much as 6.75% across income segments by managing their money well.

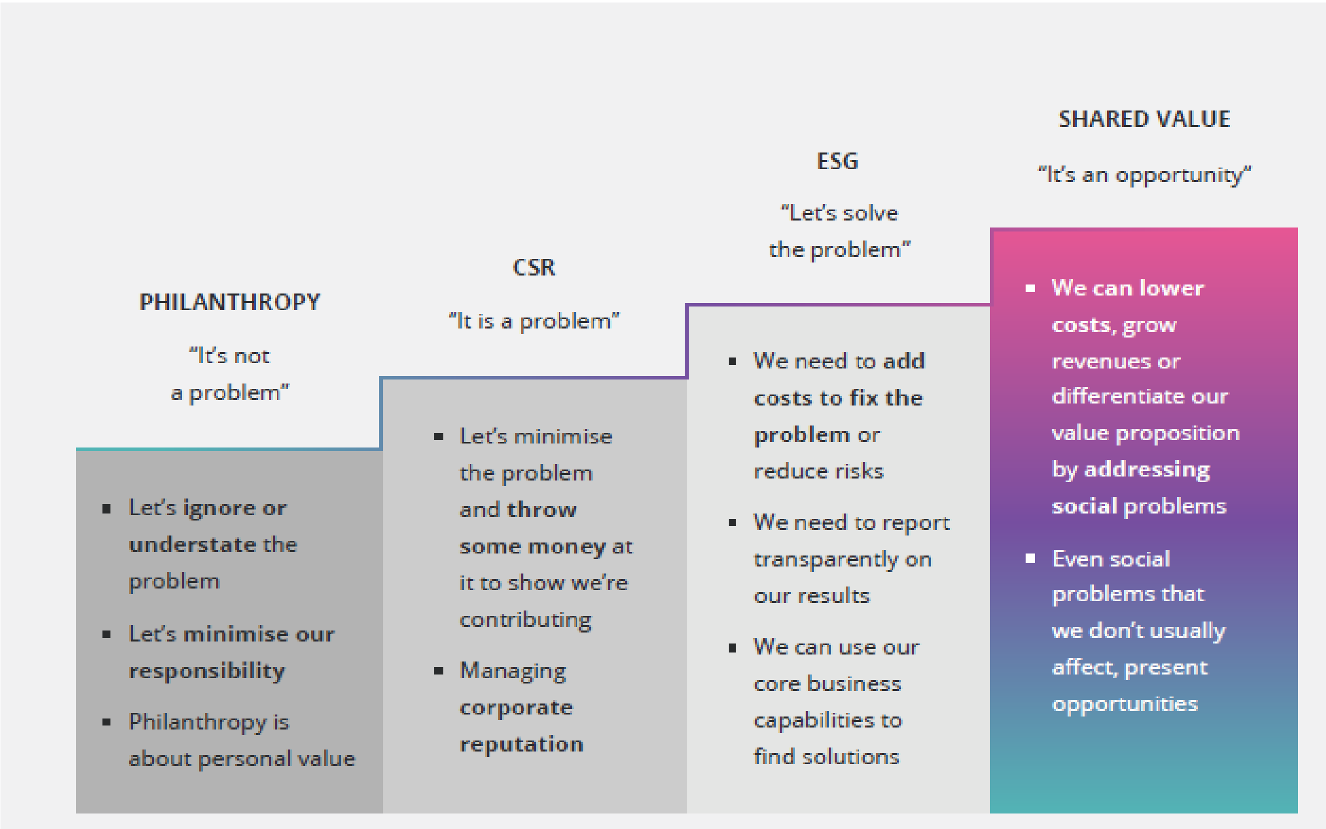
- Higher interest rates on their savings. Clients who manage their money well typically save more for longer periods. Through its shared-value model, Discovery Bank rewards clients with demand and short-term deposits with higher interest rates based on how well they manage their money, and clients have benefited from over R15.5 million in savings rate boosts. Clients can access higher interest rates for on-demand savings of up to 4.75%. These levels are typically only accessible through 18-24 month fixed deposits with conventional banking models.

- Better behavioural alignment and engagement. Engaged clients can earn multiples of their monthly fees back in rewards by using their accounts and managing their money well.

The impact of these factors is a Banking model which is better for clients, banks and society in general. An analysis of the 300 000 Discovery Bank clients shows that clients on Gold and Diamond Vitality Money status are 99% less likely to be in arrears, have deposits more than 17 times the average and spend over 4.5 times more than clients who are unengaged, regardless of income level.

The intersection of business, purpose and social good

Recently, there has been a growing need and demand for businesses to have a social purpose that goes beyond that of maximising profitability, largely to the exclusion of other factors. This has contributed to a change in the nature of capitalism an d a move away from a narrow shareholder focus toward a more holistic emphasis on stakeholder value with the understanding that businesses which are aligned with their clients and societies will be more sustainable and profitable in the long term.



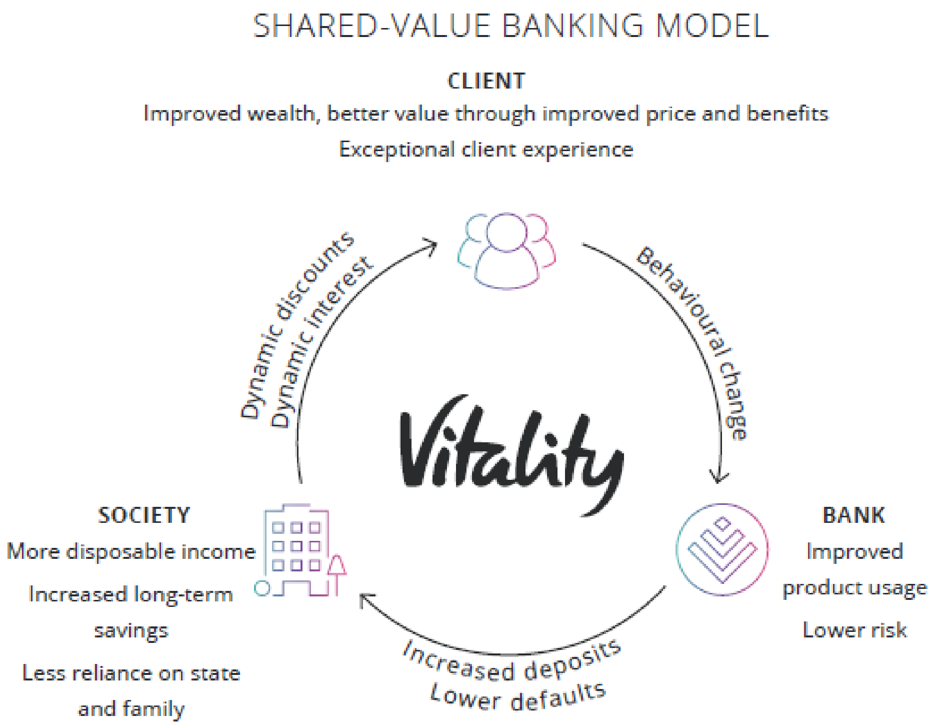
Source: Michael E Porter, Mark Kramer. Creating shared value, *Harvard Business Review*, January-February 2011.

The intersection of business, purpose and social good can take many forms. Traditionally, this has been concentrated in corporate social responsibility (CSR) activities, which operate outside companies' core strategies, leading to criticism for relegating social issues to the fringe. Increasingly, the investment in and societal impact of, a business, also consider environmental, social and governance (ESG) criteria, which, while necessary, are often treated as a tick-box exercise to manage reputational and regulatory risk. Both these paradigms demonstrate that models that rely on compliance are often lacking in foresight. In contrast, a model built on shared value enables companies to make the transformative link between strategy, higher purpose, and economic value. Shared value, which integrates social impact with core strategy, resonates with both the business community and civil society demonstrating the power of connecting social progress to a profitable, scalable business model.

Shared value in banking

A shared-value model in banking provides an effective platform to initiate the change clients need to make to improve their financial health. By providing incentives for individuals to make better financial decisions, a shared-value model in banking can generate higher savings levels, lower the risk of over-indebtedness, and increase wealth and financial resilience for society as a whole.

In insurance, Vitality's Shared-value Insurance model uses behaviour change to improve the health of clients resulting in lower risk premiums for clients, better persistency and profits for the insurer, and a healthier society in general.



Discovery Bank's Shared-value Banking model leverages the Vitality Money programme to change behaviours in banking. Discovery Bank's Shared-value Banking model considers individual financial behaviours to understand how financially healthy clients are. In turn, clients get rewards when they exhibit financial behaviours and outcomes that reflect that they are managing their money well. Through the Vitality Money programme, clients get an understanding of behaviours that influence their financial wellbeing and how to manage their money.

Vitality Money rewards clients when they:

01 | **Spend less than they earn.**
02 | **Have sufficient emergency funds.**
03 | **Pay off their property.**
04 | **Invest for the long-term.**
05 | **Have essential insurance in place.**

The five controllable behaviours, if left unmanaged, lead to 80% of the reasons why individuals do not meet their financial obligations. Vitality Money uses behavioural science and research that shows how changing these five behaviours can improve overall financial health.

Being able to assess financial health based on behaviour, removes the dependence on statically assessing an individual's financial position by their income level. Vitality Money unlocks benefits for all Discovery Bank clients on the basis of how well they manage their money on an ongoing basis. To make it easy, Discovery Bank measures financial health based on the five behaviours and awards a single Vitality Money status – Blue, Bronze, Silver, Gold or Diamond. The higher a client's Vitality Money status, the clearer the correlation that they manage their money well and exhibit lower risk of credit default.

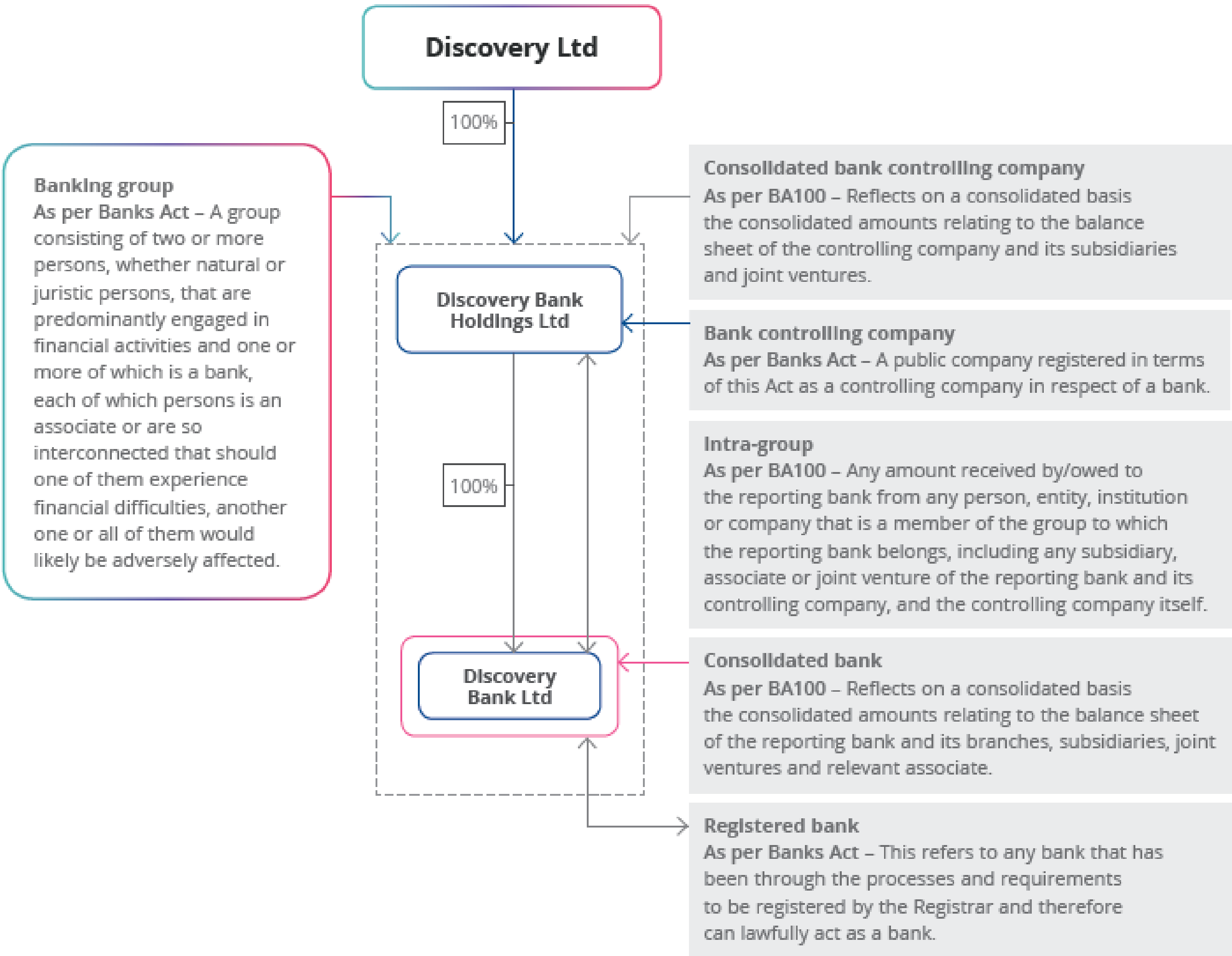
Quantitative Tables and Templates

Over the past six months, Discovery Bank has further strengthened its liquidity position to remain resilient during these uncertain economic times resulting in increased low-risk cash positions and contributing to the growth in its balance sheet.

The ratios provided in the subsequent tables continue to normalise and provide more meaningful insight into the Bank's position and performance. This is expected to further calibrate with time as a more comparable historical performance is gained.

Furthermore, table KM1and OV1 are reported on a consolidated level whereas the remaining tables are all reported on a Bank level.

The legal entity structure of Discovery Bank



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

	R'000	As at 31 December 2020	As at 30 September 2020	As at 30 June 2020	As at 31 March 2020	As at 31 December 2019
	Available capital (amounts)					
1	Common Equity Tier 1 (CET1)	744,956	766,220	620,332	583,513	609,607
1a	Fully loaded ECL accounting model	0	0	0	0	0
2	Tier 1	744,956	766,220	620,332	583,513	609,607
2a	Fully loaded ECL accounting model Tier 1	0	0	0	0	0
3	Total capital	790,793	813,713	647,950	599,285	620,605
3a	Fully loaded ECL accounting model total capital	0	0	0	0	0
	Risk-weighted assets (amounts)					
4	Total risk-weighted assets (RWA)	4,546,568	4,681,824	3,110,833	2,310,272	1,970,937
	Risk-based capital ratios as a percentage of RWA					
5	Common Equity Tier 1 ratio (%)	16.385%	16.365%	19.940%	25.257%	30.929%

R'000		As at 31 December 2020	As at 30 September 2020	As at 30 June 2020	As at 31 March 2020	As at 31 December 2019
5a	Fully loaded ECL accounting model Common Equity Tier 1(%)	.000%	.000%	.000%	.000%	.000%
6	Tier 1 ratio (%)	16.385%	16.365%	19.940%	25.257%	30.929%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	.000%	.000%	.000%	.000%	.000%
7	Total capital ratio (%)	17.393%	17.379%	20.829%	25.940%	31.487%
7a	Fully loaded ECL accounting model total capital ratio (%)	.000%	.000%	.000%	.000%	.000%
	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%	2.500%
9	Countercyclical buffer requirement (%)	.000%	.000%	.000%	.000%	.000%
10	Bank G-SIB and;or D-SIB additional requirements (%)	.000%	.000%	.000%	.000%	.000%
11	Total of bank CET1 specific buffer requirements (%) (row 8 + row 9 + row 10)	2.500%	2.500%	2.500%	2.500%	2.500%
12	CET1 available after meeting the bank's minimum capital requirements (%)	5.885%	5.865%	9.440%	16.507%	22.179%
	Basel III leverage ratio					
13	Total Basel III leverage ratio exposure measure	10,453,145	9,870,093	5,753,005	3,385,493	2,617,502
14	Basel III leverage ratio (%) (row 2 ; row 13)	7.127%	7.763%	10.783%	17.236%	23.290%
14a	Fully loaded ECL accounting model Basel III leverage ratio (%) (row 2a ;row13)	0	0	0	0	0
	Liquidity Coverage Ratio					
15	Total HQLA	1,634,500	713,847	385,751	283,288	184,081
16	Total net cash outflow	109,226	131,740	49,652	33,999	20,110
17	LCR ratio (%)	1576%	558%	780%	870%	915%

R'000		As at 31 December 2020	As at 30 September 2020	As at 30 June 2020	As at 31 March 2020	As at 31 December 2019
	Net Stable Funding Ratio					
18	Total available stable funding	12,971,239	11,508,583	9,785,871	7,084,202	6,202,173
19	Total required stable funding	8,383,026	8,092,285	6,946,204	5,989,978	5,506,548
20	NSFR ratio	155%	142%	141%	118%	113%

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

Discovery Bank's credit exposure and total risk weighted assets have remained constant following the completion of the migration of the Discovery Card business in July 2020. The Bank has increased the amount of HQLA's (Treasury Bills) held as a result of positive growth in retail deposits.

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		
		RWA		Minimum capital requirement	RWA		Minimum capital requirement
R'000		As at 31 December 2020	As at 30 September 2020	As at 31 December 2020	As at 31 December 2020	As at 30 September 2020	As at 31 December 2020
1	**Credit risk (excluding counterparty credit risk) (CCR)**	**4,044,566**	**4,169,755**	**424,679**	**4,044,816**	**4,170,005**	**424,706**
2	Of which standardised approach (SA)	4,044,566	4,169,755	424,679	4,044,816	4,170,005	424,706
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)**	**4,094**	**4,395**	**430**	**4,094**	**4,395**	**430**
7	Of which standardised approach for counterparty credit risk (SA-CCR)	4,094	4,395	430	4,094	4,395	430
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)**	**2,733**	**3,404**	**287**	**2,733**	**3,404**	**287**
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

R'000		Discovery Bank Limited			Discovery Bank Holdings Limited		
		RWA		Minimum capital requirement	RWA		Minimum capital requirement
		As at 31 December 2020	As at 30 September 2020	As at 31 December 2020	As at 31 December 2020	As at 30 September 2020	As at 31 December 2020
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**	**29,917**	**34,297**	**3,141**	**29,917**	**34,297**	**3,141**
21	Of which standardised approach (SA)	29,917	34,297	3,141	29,917	34,297	3,141
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**	**277,470**	**277,470**	**29,134**	**277,470**	**277,470**	**29,134**
25	Amounts below the thresholds for deduction (subject to 250% risk weight)	186,763	191,478	19,610	187,538	192,253	19,691
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)**	**4,545,543**	**4,680,799**	**477,282**	**4,546,568**	**4,681,824**	**477,390**

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

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

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 2020
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	6,138,789
2	Retained earnings	(1 870 441)
3	Accumulated other comprehensive income (and other reserves)	92,955
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	4,361,303
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)	462,142
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	735,291
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

R'000		As at 31 December 2020
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)	5,500
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	3,619,754
29	Common Equity Tier 1 capital (CET1)	741,549
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)	741,549
Tier 2 capital: instrument and provisions		
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	0

R'000		As at 31 December 2020
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	45,838
51	Tier 2 capital before regulatory adjustments	45,838
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)	45,838
59	Total capital (TC = T1 + T2)	787,387
60	Total risk weighted Exposure	4,545,543
Capital ratios and buffers		
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	16.31%
62	Tier 1 (as a percentage of risk weighted assets)	16.31%
63	Total capital (as a percentage of risk weighted assets)	17.32%
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)	7.00%
65	of which: capital conservation buffer requirement	2.50%
66	of which: bank specific countercyclical buffer requirement	0.00%
67	of which: G-SIB buffer requirement	0.00%
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	5.81%
National Minima (if different from Basel 3)		
69	National Common Equity Tier 1 minimum ratio (if different from Basel 3 minimum)	4.50%

R'000		As at 31 December 2020
70	National Tier 1 minimum ratio (if different from Basel 3 minimum)	6.00%
71	National total capital minimum ratio (if different from Basel 3 minimum)	8.000%
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)	74,705
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)	267,836
77	Cap on inclusion of provisions in Tier 2 under standardised approach	45,838
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 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.

		Balance sheet as in published financial statements	Balance Sheet under regulatory scope of consolidation
R'000		As at 31 December 2020	As at 31 December 2020
Assets			
1	Cash and balances at central banks	2,862,080	2,862,080
2	Short term negotiable securities	1,891,648	1,891,648
3	Derivative assets	2,718	2,718
4	Loans and advances to customers	3,365,224	3,365,224
5	Loans and advances to banks	465,739	465,739
6	Available for sale financial assets	0	0
7	Interest in subsidiaries	0	0
8	Interest in associate	0	0
9	Intangible assets	3,012,563	3,012,563
10	Current income tax assets	0	0
11	Deferred income tax assets	681,896	681,896
12	Property and equipment	0	0
13	Other assets	377,540	377,540
14	**Total assets**	**12,659,408**	**12,659,408**
Liabilities			
15	Deposits and current accounts	8,011,894	8,011,894
16	Derivative financial instruments	5,008	5,008
17	Provisions and other liabilities	281203	281203
18	Current income tax liabilities	0	0
19	Deferred income tax assets	0	0
20	**Total liabilities**	**8,291,084**	**8,291,084**
21	**Equity**		
22	Share capital and premium	6,138,789	6,138,789
23	Accumulated profit / (loss)	(1,870,441)	(1,870,441)
24	Other reserves	92,955	92,955

R'000		Balance sheet as in published financial statements As at 31 December 2020	Balance Sheet under regulatory scope of consolidation As at 31 December 2020
25	**Total equity**	**4,361,303**	**4,361,303**

Table 1	31 December 2020
Common Equity Tier 1 Capital	
Share capital and premium	6,138,789
Adjusted retained earnings	(1 870 441)
Retained earnings	(1 870 441)
Unappropriated profits	0
Total	4,268,348
Share based payment reserve	92,955
Other reserves	0
Total	4,361,303

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 2020	**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

As at 31 December 2020		Ordinary shares (Incl share premium)
8	Amount recognised in regulatory capital (currency in millions, as of most recent reporting date)	6,139
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

Leverage Ratio

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 2020.

R'000		As at 31 December 2020
1	Total consolidated assets as per published financial statements	13,069,244
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	3,292
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)	1,141,802
7	Other adjustments	(3 761 754)
8	**Leverage ratio exposure measure**	**10,452,584**

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.

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 2020	As at 30 September 2020
On-balance sheet exposures			
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs)	12,924,526	12,236,210
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	(3,619,754)	(3,543,726)
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of row 1 and 2)	9,304,772	8,692,484
Derivative exposures			
4	Replacement cost associated with all derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	2,719	941
5	Add-on amounts for PFE associated with all derivatives transactions	3,292	3,455
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)	6,011	4,396
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	5,709,010	5,863,230
18	(Adjustments for conversion to credit equivalent amounts)	(4,567,208)	(4,690,584)
19	Off-balance sheet items (sum of row 17 and 18)	1,141,802	1,172,646
Capital and total exposures			
20	Tier 1 capital	741,549	762,813

R'000		As at 31 December 2020	As at 30 September 2020
21	Total exposures (sum of rows 3,11,16 and 19)	10,452,585	9,869,526
Leverage ratio			
22	Basel III Leverage ratio	7.08	7.73

Liquidity

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 31 December 2020 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	1,634,500	713,847
Cash outflows				
2	Retail deposits and deposits from small business customers, of which:	2,390,206	239,021	168,019
3	Stable deposits	0	0	(292)
4	Less stable deposits	2,390,206	239,021	168,311
5	Unsecured wholesale funding, of which:	2,372,721	54,314	225,835
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	0	0	0
7	Non-operational deposits (all counterparties)	2,372,721	54,314	225,835
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	1	1	68
12	Outflows related to loss of funding on debt products	0	0	0
13	Credit and liquidity facilities	5,742,721	143,568	131,310
14	Other contractual funding obligations	0	0	0
15	Other contingent funding obligations	0	0	0
16	**TOTAL CASH OUTFLOWS**	**10,505,648**	**436,904**	**525,232**
Cash inflows				

As at 31 December 2020 R'000		Current Reporting Period		Previous Reporting Period
		Total Unweighted (average)	Total Weighted (average)	Total Weighted (average)
17	Secured lending (eg reverse repos)	0	0	0
18	Inflows from fully performing exposures	2,950,675	2,857,346	2,871,113
19	Other cash inflows			2
20	**TOTAL CASH INFLOWS**	**2,950,675**	**2,857,346**	**2,871,116**

		Total Adjusted value	Total Adjusted value
21	**Total HQLA**	**1,634,500**	**713,847**
22	**Total net cash outflows**	**109,226**	**131,740**
23	**Liquidity Coverage Ratio (%)**	**1576%**	**558%**

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. In line with COVID-19 relief efforts, the PA reduced the minimum regulatory ratio from 100% to 80%, as stipulated in Directive D1/2020 until such time the PA directs in writing that the financial markets have normalised and the previous ratio of 100% will be re-instated.

The LIQ1 table complies with the Pillar 3 requirements as stipulated by BCBS D400 (March 2017) and Directive D1/2020. The values in the table are calculated as the average of the 90-day calendar daily values over the period September to December 2020 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 HQLAs 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):

The HQLA's held by Discovery Bank are Treasury Bills with a maturity profile, spread across 91, 182, 274 and 364 days.

LIQ2: Net Stable Funding Ratio (NSFR)

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

	As at 31 December 20201 R'000	Unweighted value by residual maturity No Maturity	< 6 months	6 months to < 1 year	>= 1 year	Weighted value
1	Capital:	6,231,744	0	0	0	6,231,744
2	Regulatory capital	6,231,744	0	0	0	6,231,744
3	Other capital instruments	0	0	0	0	0
4	Retail deposits and deposits from small business customers:	0	3,538,557	885,504	1,232,066	5,213,721
5	Stable deposits	0	0	0	0	0
6	Less stable deposits	0	3,538,557	885,504	1,232,066	5,213,721
7	Wholesale funding:	0	482,451	1,064,469	64,334	1,509,940
8	Operational deposits	0	0	0	0	0
9	Other wholesale funding	0	482,451	1,064,469	64,334	1,509,940
10	Liabilities with matching interdependent assets	0	0	0	0	0
11	Other liabilities:	0	258,860	13,018	14,333	15,834
12	NSFR derivative liabilities	0	0	0	5,008	0
13	All other liabilities and equity not included in the above categories	0	258,860	13,018	9,325	15,834
14	**Total ASF**					**12,971,239**
15	Total NSFR high-quality liquid assets (HQLA)	0	3,975,752	777,975	0	103,379
16	Deposits held at other financial institutions for operational purposes	0	0	0	0	0
17	Performing loans and securities:	0	1,733,385	1,074,606	1,432,808	2,458,874
18	Performing loans to financial institutions secured by Level 1 HQLA	0	0	0	0	0

As at 31 December 20201 R'000		No Maturity	< 6 months	6 months to < 1 year	>= 1 year	Weighted value
		Unweighted value by residual maturity				
19	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	0	465,739	0	0	69,861
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	1,267,646	1,074,606	1,432,808	2,389,013
21	With a risk weight of less than or equal to 35% under the Basel II	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	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:	5,484,695	0	0	50,628	5,535,323
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	2,718	2,718
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	5,484,695	0	0	47,910	5,532,605
32	Off-balance sheet items	5,709,011	0	0	0	285,451
33	**Total RSF**					**8,383,026**
34	**Net Stable Funding Ratio (%)**					**155**

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 minimum NSFR requirements in South Africa is 100%.

Credit Risk

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 2020 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
		Defaulted Exposures	Non-defaulted exposures		Allocated in regulatory category of specific	Allocated in regulatory category of General		
1	Loans*	46,007	5,191,275	409,836	142,000	267,836	0	4,827,447
2	Debt Securities	0	0	0	0	0	0	0
3	Off-balance sheet exposures	45,722	5,645,921	0	0	0	0	5,691,643
4	**Total**	**91,730**	**10,837,196**	**409,836**	**142,000**	**267,836**	**0**	**10,519,090**

*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 is as follows (considering a 12-month outcome period):

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

Discovery Bank

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 2020
1	**Defaulted loans and debt securities at end of the previous**	**30,426**
2	Loans and debt securities that have defaulted since the last reporting period	46,008
3	Returned to non-defaulted status	4,093
4	Amounts written off	0
5	Other changes	19,389
6	**Defaulted loans and debt securities at end of the reporting**	**91,730**

CR3: Credit risk mitigation techniques - overview

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

As at 31 December 2020 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	4,827,447	0	0	0	0	0	0
2	Debt securities	0	0	0	0	0	0	0
3	**Total**	**4,827,447**	**0**	**0**	**0**	**0**	**0**	**0**
4	***Of which***	***46,008***	**0**	**0**	0	**0**	**0**	**0**

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

Table CR4 illustrates the effect of mitigation techniques used under the standardised approach when calculating Risk-weighted Assets. This table includes counterparty credit risk, therefore, the total for RWA reconciles to table OV1 when adding lines 1 and 6 together.

As at 31 December 2020 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**	1,891,648	0	1,891,648	0	0	0
2	Non-central government public sector entities	0	0	0	0	0	0
3	Multi-lateral development	0	0	0	0	0	0
4	**Banks**	463,811	0	463,811	0	95,654	21%
5	Securities firms	0	0	0	0	0	0
6	Corporates	0	0	0	0	0	0
7	Regulatory retail portfolios	3,635,143	5,691,643	3,635,143	1,138,329	3,575,466	75%
8	Secured by residential	0	0	0	0	0	0
9	Secured by commercial real estate	0	0	0	0	0	0
10	Equity	0	0	0	0	0	0
11	Past-due loans*	36,864	45,722	36,864	9,144	23,752	52%
12	Higher-risk categories	0	0	0	0	0	0
13	Other assets	6,252,183	0	6,252,183	0	377,540	6%
14	**Total**	**12,279,649**	**5,737,365**	**12,279,649**	**1,147,473**	**4,072,412**	**30%**

*Past-due loans correspond to the unsecured portion of any loan past due for more than 90 days and are disclosed separately, independent of asset class. Linkages for RWA: OV1 line 1+ 6 = CR4 line 14 - line 11

RWA is driven by exposures to retail portfolios.

Past due loans that are equal or greater than 90 days will follow the default definition as defined under table CR1.

Discovery Bank

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 2020 R'000	0%	10%	20%	35%	50%	75%	100%	150%	Others	Total credit exposure amount (post CCF and post-CRM)
	Asset Class										
1	Sovereigns and their central	1,891,648	0	0	0	0	0	0	0	0	1,891,648
2	Non-central government public sector entities (PSEs)	0	0	0	0	0	0	0	0	0	0
3	Multi-lateral development	0	0	0	0	0	0	0	0	0	0
4	Banks	0	0	460,196	0	0	0	3,615	0	0	463,811
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	44,845	4,727,464	829	334	0	4,773,472
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	44,845	0	829	334	0	46,008
12	Higher-risk categories	0	0	0	0	0	0	0	0	0	0
13	Other assets	2,862,080	0	0	0	0	0	377,540	0	3,012,563	6,252,183
14	**Total**	**4,753,728**	**0**	**460,196**	**0**	**89,690**	**4,727,464**	**382,813**	**668**	**3,012,563**	**13,427,122**

Counterparty Credit Risk

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 2020 R'000		Replacement cost	Potential future exposure	EEPE	Alpha used for computing regulatory EAD	EAD post-CRM	RWA
1	SA-CCR (for derivatives)	2,718	3,292		1	6,011	4,094
2	Internal Model Method (for derivatives and SFTs)			0	0	0	0
3	Simple Approach for credit risk mitigation (for SFTs)					0	0
4	Comprehensive Approach for credit risk mitigation (for SFTs)					0	0
5	VaR for SFTs					0	0
6	**Total**						**4,094**

CCR2: Credit valuation adjustment capital charge

As at 31 December 2020 R'000		EAD post-CRM	RWA
	Total portfolios subject to the advanced CVA capital charge		
1	(i) Var component (including the 3x multiplier)	0	0
2	(ii) Stressed VaR component (Including the 3x muliplier)	0	0
3	All portfolios subject to the Standardised CVA capital charge	6,011	4,094
4	Total subject to the CVA capital charge	**6,011**	**4,094**

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 participation in the Group'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 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 2020 R'000		0%	10%	20%	50%	75%	100%	150%	Others	Total credit exposure amount (post CCF and post-CRM)
Regulatory portfolio										
1	Sovereign	1,891,648	0	0	0	0	0	0	0	1,891,648
2	Non-central government public sector entities	0	0	0	0	0	0	0	0	0
3	Multi-lateral development	0	0	0	0	0	0	0	0	0
4	Banks	0	0	460,196	0	0	3,615	0	0	463,811
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	44,845	4,727,464	829	334	0	4,773,472
8	Other assets	2,862,080	0	0	0	0	377,540	0	3,012,563	6,252,183
9	**Total**	**4,753,728**	**0**	**460,196**	**44,845**	**4,727,464**	**381,984**	**334**	**3,012,563**	**13,381,114**

Market Risk

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 2020 R'000	Capital charge in SA
1	General interest rate risk	
2	Equity risk	0
3	Commodity risk	0
4	Foreign exchange risk	29,917
5	Credit spread risk - non securitisations	0
6	Credit spread risk -securitisations (non-correlation trading portfolio)	0
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**	**29,917**

To facilitate offshore card transactions by clients in foreign currencies, Visa requires that the Bank places US dollar collateral in its favour with a favourably rated international bank. A collateral amount of $2,039m is placed with United Overseas Bank (UOB) in Singapore (AA-rated) and is the only market risk exposure.

Abbreviation

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
CSR	Corporate Social Responsibility
CVA	Credit Valuation adjustment
ECL	Expected Credit Loss
D-SIB	Domestic Systemically Important Banks
ESG	Environmental, Social and Governance
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