Discovery Bank

PILLAR III

PUBLIC DISCLOSURES

FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

Discovery Bank Limited and Discovery Bank Holdings Limited Group

Discovery Bank Limited and Discovery Bank Holdings Limited Group Public Disclosures for the half-year ended 31 December 2018

The Bank for International Settlements (BIS), through the Pillar III disclosure requirements, encourages banks to promote market discipline by providing market participants with meaningful information relating to their common key risk metrics such as the capital position, an assessment of their risk outlook applicable to crucial activities, as well as the manner in which they manage such risks.

The Prudential Authority regulates, through the Banks Act, (Act No. 94 of 1990) and the Regulations, Directives and Guidance Notes issued in relation thereto, with particular reference to Regulation 43 – Public Disclosure. This is in addition to that received from the Pillar III disclosure requirements outlined by the Basel Committee on Banking Supervision's (BCBS) most recently revised disclosure requirements in Directive D1 – 2018.

When providing this information, disclosures are required to be clear, comprehensive, meaningful, consistent and comparable. This is designed to foster confidence in the manner in which banks manage their respective businesses and further provide comfort that risks are adequately catered for in terms of their available capital composition and liquidity position. When considering the principle relating to "Consistency" (enable interested parties to identify trends in the bank's risk profile), it must be highlighted, that interested parties should expect substantial changes between reporting periods, with particular reference to key metrics such as Net Stable Funding Ratio (NSFR) and Liquidity Coverage Ratio (LCR) as a result of increased migration of Discovery Card clients as well as organic growth in client accounts.

Discovery Bank Limited has adopted a very prudent stance to its evolution as a digital entrant into the banking sector. The Bank fully complies with its regulatory obligations with respect to the various BA returns, AML and CFT reporting, in addition to complying with industry PASA/SAMOS/VISA standards amongst others. This prudency will continue after the public launch of Discovery Bank, as we evolve slowly and steadily, growing in a safe and responsible manner. The initial focus will be on migrating our existing Discovery Card clients as a priority, while opening to broader client segments over the coming months.

Significant effort has, and continues to be undertaken with respect to ensuring resilience of the technology systems, seamless integration thereof, testing operating systems, customer front-end processes and risk monitoring activities through stressing of the numerous delivery channels and systems.

The migration of the current Discovery Card (a Visa credit card that was launched by the Discovery Group in a joint venture with FirstRand Bank Limited in October 2004), from FirstRand Bank onto the Discovery Bank platforms, in addition to the market launch of Discovery Bank, will drive the evolution of the change to key metrics such as those referred to above. As such, subsequent Pillar III disclosures will continue to re-align as the card migration materializes and new product offerings are added onto the Discovery Bank platform. A more settled and comparable representation is expected in forthcoming years.

In this submission, the report encompasses the Discovery Bank (and the Discovery Bank Holdings Limited Group) entity and complies with both the letter as well as the spirit of the law with respect to the relevant Pillar III disclosures.

Discovery Bank Limited applied for condonation from the Prudential Authority on 2 July 2018 as it had not launched to the public and with limited information could not produce meaningful information relating to its common key risk metrics as well as the manner in which it manages such risks. In a response letter from the Prudential Authority, dated 8 August 2018, an extension was granted for submission of the Pillar III reports, for the Annual Report dated 30 June 2018 as well as the Quarterly report dated 30 September 2018. This semi-annual report will thus contain no comparative figures due to the extension granted by the Prudential Authority.

Contents

01 | Overview of Risk Management and Risk-Weighted Assets

1.1 | KM1: Key metrics (at Holdings Consolidated Group Level)

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

	R'000	As at 31 December 2018
	Available capital (amounts)	
1	Common Equity Tier 1 (CET1)	2 943 843
1a	Fully loaded ECL accounting model	
2	Tier 1	2 943 843
2a	Fully loaded ECL accounting model Tier 1	
3	Total capital	2 943 927
3a	Fully loaded ECL accounting model total capital	
	Risk-Weighted Assets (amounts)	
4	Total Risk-Weighted Assets (RWA)	4 005 965
	Risk-based capital ratios as a percentage of RWA	
5	Common Equity Tier 1 ratio (%)	73.480%
5a	Fully loaded ECL accounting model Common Equity Tier 1 (%)	
6	Tier 1 ratio (%)	73.480%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	
7	Total capital ratio (%)	73.480%
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) (%)	1.875%
9	Countercyclical buffer requirement (%)	0.000%
10	Bank G-SIB and/or D-SIB additional requirements (%)	0.000%
11	Total of Bank CET1 specific buffer requirements (%) (row 8 + row 9 + row 10)	1.875%
12	CET1 available after meeting the Bank's minimum capital requirements (%)	64.860%

	R'000	As at 31 December 2018
	Basel III leverage ratio	
13	Total Basel III leverage ratio exposure measure	3 200 725
14	Basel III leverage ratio (%) (row 2; row 13)	92.970%
14a	Fully loaded ECL accounting model Basel III leverage ratio (%) (row 2a; row 13)	
	Liquidity Coverage Ratio	
15	Total HQLA	120 957
16	Total net cash outflow	30
17	LCR (%)	402 786.510%
	Net Stable Funding Ratio	
18	Total available stable funding	4 030 866
19	Total required stable funding	3 918 827
20	NSFR	103

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

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

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

		Discovery Bank Limited		Discovery Bank Holdings Limited Group	
	R'000	RWA	Minimum capital requirement	RWA	Minimum capital requirement
		As at 31 December 2018	As at 31 December 2018	As at 31 December 2018	As at 31 December 2018
1	**Credit risk (excluding counterparty credit risk) (CCR)**	**2 847 965**	**227 837**	**48 671**	**3 894**
2	Of which: standardised approach (SA)	2 847 965	227 837	2 847 965	3 894
3	Of which: foundation internal ratings-based (F-IRB) approach	0	0	0	0
4	Of which: supervisory slotting approach	0	0	0	0
5	Of which: advanced internal ratings-based (A-IRB) approach	0	0	0	0
6	**Counterparty credit risk (CCR)**	**25 537**	**2 043**	**25 537**	**2 043**
7	Of which: standardised approach for counterparty credit risk (SA-CCR)	25 537	2 043	25 537	2 043
8	Of which: internal model method (IMM)	0	0	0	0
9	Of which: other CCR	0	0	0	0
10	**Credit valuation adjustment (CVA)**	**20 025**	**1 602**	**20 025**	**1 602**
11	Equity positions under the simple risk-weight approach	0	0	0	0
12	Equity investments in funds: look-through approach	0	0	0	0
13	Equity investments in funds: mandate-based approach	0	0	0	0
14	Equity investments in funds: fall-back approach	0	0	0	0
15	Settlement risk	0	0	0	0
16	Securitisation exposures in banking book	0	0	0	0
17	Of which: securitisation internal ratings-based approach (SEC-IRBA)	0	0	0	0
18	Of which: securitisation external ratings-based approach (SEC-ERBA), including internal assessment approach (IAA)	0	0	0	0
19	Of which: securitisation standardised approach (SEC-SA)	0	0	0	0

R'000		Discovery Bank Limited RWA	Discovery Bank Limited Minimum capital requirement	Discovery Bank Holdings Limited Group RWA	Discovery Bank Holdings Limited Group Minimum capital requirement
		As at 31 December 2018	As at 31 December 2018	As at 31 December 2018	As at 31 December 2018
20	**Market risk**	11 800	944	11 800	944
21	Of which: standardised approach (SA)	11 800	944	11 800	944
22	Of which: internal model approaches (IMA)	0	0	0	0
23	Capital charge for switch between trading book and banking book	0	0	0	0
24	**Operational risk**	967 952	77 436	997 790	79 823
25	Amounts below the thresholds for deduction (subject to 250% risk-weight)	102 848	11 519	102 848	11 519
26	Floor adjustment	0	0	0	0
27	**Total (1+6+10+11+12+13+14+15+16+20+23+24+25+26)**	**3 976 127**	**321 381**	**1 206 671**	**99 825**

Line 2 of the OV1 table includes other assets of R2.8bn (RWA R2.8bn). This includes R2.7bn of prepayments relating to the purchase of the Discovery Card business.

02 I 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 2018
	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	3 998 789
2	Retained earnings	(493 383)
3	Accumulated other comprehensive income (and other reserves)	7 602
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)	0
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	0
6	**Common Equity Tier 1 capital before regulatory adjustments**	**3 513 008**
	Common Equity Tier 1 capital: regulatory adjustments	
7	Prudential valuation adjustments	0
8	Goodwill (net of related tax liability)	0
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	395 445
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	177 627
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

	R'000	As at 31 December 2018
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	0
20	Mortgage servicing rights (amount above 10% threshold)	0
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	0
22	Amount exceeding the 15% threshold	0
23	of which: significant investments in the common stock of financials	0
24	of which: mortgage servicing rights	0
25	of which: deferred tax assets arising from temporary differences	0
26	National specific regulatory adjustments	0
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	0
28	**Total regulatory adjustments to Common Equity Tier 1**	**573 072**
29	**Common Equity Tier 1 capital (CET1)**	**2 939 936**
	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

	R'000	As at 31 December 2018
43	**Total regulatory adjustments to Additional Tier 1 capital**	**0**
44	**Additional Tier 1 capital (AT1)**	**0**
45	**Tier 1 capital (T1 = CET1 + AT1)**	**2 939 936**
	Tier 2 capital: instrument and provisions	
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	0
47	Directly issued capital instruments subject to phase out from Tier 2	0
48	Tier 2 instruments (and CET1 and AT1 instruments not included in lines 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	0
49	of which: instruments issued by subsidiaries subject to phase out	0
50	Provisions	84
51	**Tier 2 capital before regulatory adjustments**	**84**
	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)**	**84**
59	**Total capital (TC = T1 + T2)**	**2 940 020**
60	**Total Risk-Weighted Exposure**	**3 976 127**
	Capital ratios and buffers	
61	**Common Equity Tier 1 (as a percentage of Risk-Weighted Assets)**	**79.930%**
62	**Tier 1 (as a percentage of Risk-Weighted Assets)**	**79.930%**
63	**Total capital (as a percentage of Risk-Weighted Assets)**	**79.940%**

	R'000	As at 31 December 2018
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)**	**6.375%**
65	of which: capital conservation buffer requirement	1.870%
66	of which: bank specific countercyclical buffer requirement	0.000%
67	**of which: G-SIB buffer requirement**	**0.000%**
68	**Common Equity Tier 1 available to meet buffers (as a percentage of Risk-Weighted Assets) available after meeting the bank's minimum capital requirements**	**64.680%**
	National Minima (if different from Basel III)	
69	National Common Equity Tier 1 minimum ratio (if different from Basel III minimum)	5.500%
70	National Tier 1 minimum ratio (if different from Basel III minimum)	7.000%
71	National total capital minimum ratio (if different from Basel III minimum)	9.250%
	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)	41 139
	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)	84
77	Cap on inclusion of provisions in Tier 2 under standardised approach	608
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

2.2 | CC2: Reconciliation of regulatory capital to balance sheet

This table shows the linkage between Discovery 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	Balance sheet under regulatory scope of consolidation
		As at 31 December 2018	As at 31 December 2018
	Assets		
1	Cash and balances at central banks	4 706	4 706
2	Short-term negotiable securities	121 638	121 638
3	Derivative assets	17 922	17 922
4	Loans and advances to customers	1 643	1 643
5	Loans and advances to banks	205 827	205 827
6	Available for sale financial assets	0	0
7	Interest in subsidiaries	0	0
8	Interest in associate	0	0
9	Intangible assets	395 445	395 445
10	Current income tax assets	0	0
11	Deferred income tax assets	218 766	218 766
12	Property and equipment	0	0
13	Other assets	2 799 294	2 799 294
14	**Total assets**	**3 765 241**	**3 765 241**
	Liabilities		
15	Deposits and current accounts	807	807
16	Derivative financial instruments	3 039	3 039
17	Provisions and other liabilities	248 387	248 387
18	Current income tax liabilities	0	0
19	Deferred income tax assets	0	0
20	**Total liabilities**	**252 233**	**252 233**
	Equity		
21	Share capital and premium	3 998 789	3 998 789
22	Accumulated profit/(loss)	(493 383)	(493 383)
23	Other reserves	7 602	7 602
24	**Total equity**	**3 513 008**	**3 513 008**

2.3 | CCA: Main features of regulatory capital instruments and of other Total loss absorbing capacity (TLAC) eligible instruments

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

	As at 31 December 2018	Ordinary shares (including 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 and 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)	3 999
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

	As at 31 December 2018	Ordinary shares (including share premium)
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 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

03 | Leverage ratio

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

This table reconciles the total assets as presented in the financial statements to the Leverage ratio exposure measure as reported at 31 December 2018.

	R'000	As at 31 December 2018
1	Total consolidated assets as per published financial statements	3 765 325
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	7 615
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)	857
7	Other adjustments	(573 072)
8	**Leverage ratio exposure measure**	**3 200 725**

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.

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

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

	R'000	As at 31 December 2018
	On-balance sheet exposures	
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs)	3 747 403
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	(573 072)
3	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of row 1 and 2)**	**3 174 331**
	Derivative exposures	
4	Replacement cost associated with all derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	17 922
5	Add-on amounts for PFE associated with all derivatives transactions	7 615
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	0
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	0
8	(Exempted CCP leg of client-cleared trade exposures)	0
9	Adjusted effective notional amount of written credit derivatives	0
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	0
11	**Total derivative exposures (sum of rows 4 to 10)**	**25 537**
	Securities financing transaction exposures	
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	0
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	0
14	CCR exposure for SFT assets	0
15	Agent transaction exposures	0
16	**Total securities financing transaction exposures (sum of rows 12 to 15)**	**0**
	Other off-balance sheet exposures	
17	Off-balance sheet exposure at gross notional amount	4 285
18	(Adjustments for conversion to credit equivalent amounts)	(3 428)
19	**Off-balance sheet items (sum of row 17 and 18)**	**857**

	R'000	As at 31 December 2018
	Capital and total exposures	
20	**Tier 1 capital**	**2 939 936**
21	**Total exposures (sum of rows 3, 11, 16 and 19)**	**3 200 725**
	Leverage ratio	
22	Basel III Leverage ratio	92

04 I Liquidity disclosure requirements

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.

	Average for the period 1 October 2018 - 31 December 2018 R'000	Current reporting period	
		Total unweighted (average)	Total weighted (average)
	High-quality liquid assets		
1	Total HQLA	0	120 957
	Cash outflows		
2	**Retail deposits and deposits from small business customers, of which:**	**776**	**78**
3	Stable deposits	0	0
4	Less stable deposits	776	78
5	**Unsecured wholesale funding, of which:**	**0**	**0**
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	0	0
7	Non-operational deposits (all counterparties)	0	0
8	Unsecured debt	0	0
9	**Secured wholesale funding**	**0**	**0**
10	**Additional requirements, of which:**	**0**	**0**
11	Outflows related to derivative exposures and other collateral requirements	1	1
12	Outflows related to loss of funding on debt products	0	0
13	Credit and liquidity facilities	1 641	41
14	**Other contractual funding obligations**	**0**	**0**
15	**Other contingent funding obligations**	**0**	**0**
16	**TOTAL CASH OUTFLOWS**	**2 418**	**119**

	Average for the period 1 October 2018 - 31 December 2018 R'000	Current reporting period	
		Total unweighted (average)	Total weighted (average)
	Cash inflows		
17	**Secured lending (e.g. reverse repos)**	0	0
18	**Inflows from fully performing exposures**	283 876	282 796
19	Other cash inflows	2	2
20	**TOTAL CASH INFLOWS**	283 878	282 798
			Total adjusted value
21	**Total HQLA**	0	120 957
22	**Total net cash outflows**	0	30
23	**Liquidity Coverage Ratio (%)**	0	662 461.410%

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

The LIQ1 table complies with the Pillar III requirements as stipulated by BCBS d400 (March 2017) and Directive D1 – 2018.

The values in the table are calculated as the average of the 90-day calendar daily values over the period October – December 2018, for Discovery Bank Limited. Discovery Bank's weighted values are based on business days (excluding public holidays and weekends).

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

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

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

As at the reporting date, Discovery Bank has not launched to the public therefore the LCR values would not be a true reflection of the long-term expected LCR.

4.2 | LIQ2: Net Stable Funding Ratio (NSFR)

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

	As at 31 December 2018 R'000	Unweighted value by residual maturity				
		No maturity	**< 6 months**	**6 months to < 1 year**	**>= 1 year**	**Weighted value**
1	Capital:	4 006 391	0	0	0	4 006 391
2	Regulatory capital	4 006 391	0	0	0	4 006 391
3	Other capital instruments	0	0	0	0	0
4	Retail deposits and deposits from small business customers:	0	778	25	0	723
5	Stable deposits	0	0	0	0	0
6	Less stable deposits	0	778	25	0	723
7	Wholesale funding:	0	0	0	0	0
8	Operational deposits	0	0	0	0	0
9	Other wholesale funding	0	0	0	0	0
10	Liabilities with matching interdependent assets	0	0	0	0	0
11	Other liabilities:	0	218 295	12 686	20 448	23 752
12	NSFR derivative liabilities	0	0	0	3 039	0
13	All other liabilities and equity not included in the above categories	0	218 295	12 686	17 409	23 752
14	**Total ASF**					**4 030 866**
15	Total NSFR high-quality liquid assets (HQLA)	0	126 344	0	0	6 082
16	Deposits held at other financial institutions for operational purposes	0	0	0	0	0

	As at 31 December 2018 R'000	Unweighted value by residual maturity				
		No maturity	< 6 months	6 months to < 1 year	>= 1 year	Weighted value
17	Performing loans and securities:	0	186 164	514	685	28 944
18	Performing loans to financial institutions secured by Level 1 HQLA	0	0	0	0	0
19	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	0	185 650	0	0	27 848
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	514	514	685	1 096
21	With a risk-weight of less than or equal to 35% under the Basel II standardised approach for credit risk	0	0	0	0	0
22	Performing residential mortgages, of which:	0	0	0	0	0
23	With a risk-weight of less than or equal to 35% under the Basel II standardised approach for credit risk	0	0	0	0	0
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	0	0	0	0	0
25	Assets with matching interdependent liabilities	0	0	0	0	0
26	Other assets:	1 066 455	0	0	2 817 132	3 883 587
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	17 922	17 922
30	NSFR derivative liabilities before deduction of variation margin posted	0	0	0	0	0

	As at 31 December 2018 R'000	Unweighted value by residual maturity				
		No maturity	< 6 months	6 months to < 1 year	>= 1 year	Weighted value
31	All other assets not included in the above categories	1 066 455	0	0	2 799 210	3 865 665
32	Off-balance sheet items	4 284		0	0	214
33	**Total RSF**					**3 918 827**
34	**Net Stable Funding Ratio (%)**					**103%**

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

The values in the table are calculated as at 31 December 2018. The minimum NSFR requirement in South Africa is 100%.

05 I 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 2018 R'000	Gross carrying values		Allowances/ impairments**	Net values (a+b-c)
		Defaulted exposures	Non-defaulted exposures		
1	Loans*	0	260 963	0	260 963
2	Debt securities	0	0	0	0
3	Off-balance sheet exposures	0	4 874	0	4 874
4	**Total**	**0**	**265 837**	**0**	**265 837**

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

** Allowances/impairments relate to specific impairments, and excludes portfolio/general impairments.

Discovery Bank applies a consistent definition to default for regulatory and accounting purposes. Discovery'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/debt review;
- The account had undergone restructuring/special arrangement;
- The account was placed in charge off/legal status or;
- 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.

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

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

	R'000	As at 31 December 2018
1	**Defaulted loans and debt securities at the end of the previous reporting period**	**0**
2	Loans and debt securities that have defaulted since the last reporting period	0
3	Returned to non-defaulted status	0
4	Amounts written off	0
5	Other changes	0
6	**Defaulted loans and debt securities at the end of the reporting period (1+2-3-4±5)**	**0**

The reporting period under review is 1 July 2018 to 31 December 2018. There were no defaulted loans recorded during this period.

5.3 | CR3: Credit Risk Mitigation techniques – Overview

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

	As at 31 December 2018 R'000	**Exposures unsecured: carrying amount**	**Exposures secured by collateral**	**Exposures secured by collateral, of which: secured amount**	**Exposures secured by financial guarantees**	**Exposures secured by financial guarantees, of which: secured amount**	**Exposures secured by credit derivatives**	**Exposures secured by credit derivatives, of which: secured amount**
1	Loans	74 208	0	0	0	0	0	0
2	Debt securities	0	0	0	0	0	0	0
3	**Total**	**74 208**	**0**	**0**	**0**	**0**	**0**	**0**
4	***Of which defaulted***	***0***	***0***	***0***	***0***	***0***	***0***	***0***

5.4 | CR4: Standardised approach – Credit Risk Exposure and Credit Risk Mitigation (CRM) effect

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

	Asset class As at 31 December 2018 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	121 638	0	121 638	0	0	0.000%
2	**Non-central government public sector entities**	**0**	**0**	**0**	**0**	**0**	**0.000%**
3	**Multi-lateral development banks**	**0**	**0**	**0**	**0**	**0**	**0.000%**
4	Banks	258 382	0	258 382	0	72 106	27.907%
5	Securities firms	0	0	0	0	0	0.000%
6	Corporates	0	0	0	0	0	0.000%
7	Regulatory retail portfolios	1 131	4 874	1 131	975	2 102	99.826%
8	Secured by residential property	0	0	0	0	0	0.000%
9	**Secured by commercial real estate**	**0**	**0**	**0**	**0**	**0**	**0.000%**
10	**Equity**	**0**	**0**	**0**	**0**	**0**	**0.000%**
11	Past-due loans	0	0	0	0	0	0.000%
12	**Higher-risk categories**	**0**	**0**	**0**	**0**	**0**	**0.000%**
13	Other assets	3 199 445	0	3 199 445	0	2 799 294	87.493%
14	**Total**	**3 580 596**	**4 874**	**3 580 596**	**975**	**2 873 502**	**80.230%**

Risk-Weighted Assets are 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 in arrears for 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.

	As at 31 December 2018 R'000	Risk-weight 0%	20%	75%	100%	Total credit exposure amount (post CCF and post-CRM)
	Asset class					
1	Sovereigns and their central banks	121 638	0	0	0	**121 638**
2	Non-central government public sector entities (PSEs)	0	0	0	0	**0**
3	Multi-lateral development banks (MDBs)	0	0	0	0	**0**
4	Banks	0	232 845	0	25 537	**258 382**
5	Securities firms	0	0	0	0	**0**
6	Corporates	0	0	0	0	**0**
7	Regulatory retail portfolios	0	0	15	2 091	**2 105**
8	Secured by residential property	0	0	0	0	**0**
9	Secured by commercial real estate	0	0	0	0	**0**
10	Equity	0	0	0	0	**0**
11	Past-due loans	0	0	0	0	**0**
12	Higher-risk categories	0	0	0	0	**0**
13	Other assets	4 706	0	0	2 799 294	**2 804 000**
14	Total	126 344	232 845	15	2 826 922	**3 186 125**

06 I Counterparty credit risk

6.1 | CCR2: Credit Valuation Adjustment (CVA) capital charge

	As at 31 December 2018 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 multiplier)	0	0
3	All portfolios subject to the standardised CVA capital charge	25 537	25 537
4	Total subject to the CVA capital charge	0	0

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

6.2 | CCR3: Standardised approach of Counterparty credit risk (CCR) exposures by regulatory portfolio and risk-weights

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

		Risk-weight				
	As at 31 December 2018 R'000	0%	20%	75%	100%	Total credit exposure amount (post CCF and post-CRM)
	Regulatory portfolio					
1	Sovereign	121 638	0	0	0	**121 638**
2	Non-central government public sector entities	0	0	0	0	**0**
3	Multi-lateral development banks	0	0	0	0	**0**
4	Banks	0	232 845	0	25 537	**258 382**
5	Securities firms	0	0	0	0	**0**
6	Corporates	0	0	0	0	**0**
7	Regulatory retail portfolio	0	0	15	2 091	**2 105**
8	Other assets	4 706	0	0	2 799 294	**2 804 000**
9	Total	126 344	232 845	15	2 826 922	**3 186 125**

This table reconciles to table CR5 as reported earlier in the document. There were no exposures in the 10%, 50% and 150% risk-weight buckets at 31 December 2018.

07 I Market risk

7.1 | MR1: Market risk under Standardised approach (SA)

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

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

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

08 I Abbreviations

Abbreviation	Definition
A-IRB	Advanced Internal ratings-based approach
AML	Anti-Money Laundering
ASF	Available Stable Funding
AT1	Additional Tier 1
BASA	Banking Association of South Africa
BCBS	Basel Committee on Banking Supervision
CCF	Credit Conversion Factor
CCPs	Central Counterparties
CCR	Counterparty Credit Risk
CET1	Common Equity Tier 1
CFT	Countering Financing of Terrorism
CRM	Credit Risk Mitigation
CVA	Credit Valuation adjustment
ECL	Expected Credit Loss
D-SIB	Domestic Systemically Important Banks
F-IRB	Foundation internal ratings-based approach
G-SIB	Global Systemically Important Banks
HQLA	High-Quality Liquid Assets
IAA	Internal Assessment Approach
IMA	Internal model approach
IMM	Internal model method
IRB	Internal Ratings-Based
LCR	Liquidity Coverage Ratio
MDB	Multilateral development banks
NSFR	Net stable funding ratio
PA	Prudential Authority of South Africa
PASA	Payments Association of South Africa
PSE	Public Sector entities
RSF	Required Stable Funding
RWA	Risk-Weighted Assets
SAMOS	South African Multiple Option Settlement
SA	Standardised Approach
SA-CCR	Standardised Approach for Counterparty Credit Risk
SEC-ERBA	Securitisation external ratings-based approach
SEC-IRBA	Securitisation internal ratings-based approach
T1	Tier 1
T2	Tier 2
TC	Total Capital
TLAC	Total loss absorbing capacity
VAR	Value at Risk
VISA	Visa International Service Association