

PILLAR III

PUBLIC DISCLOSURES

FOR THE QUARTER ENDED 31 MARCH 2020

Contents

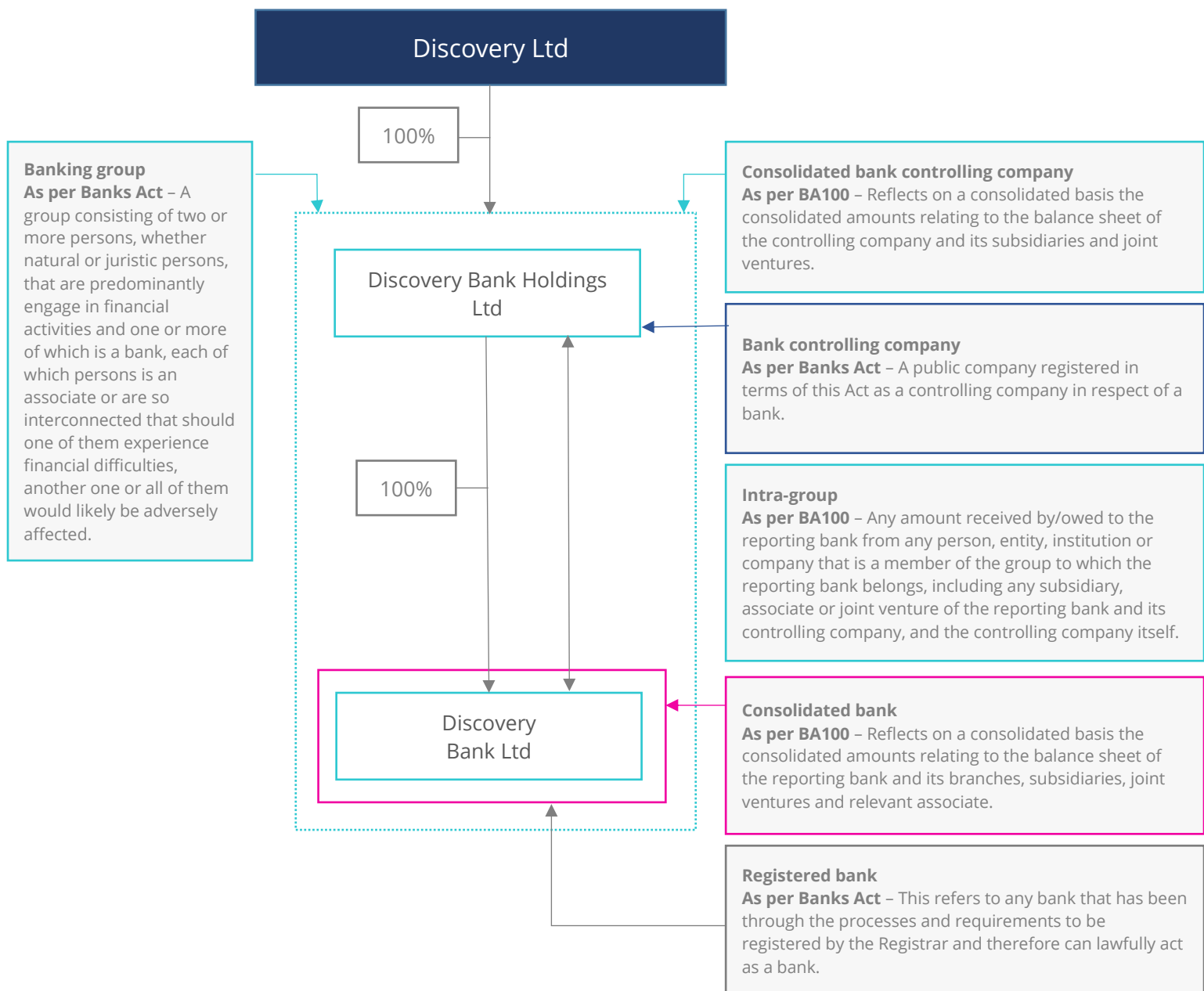
| | |
|---|----|
| Quantitative Tables and Templates | 3 |
| 1 Overview of Risk Management and Risk-Weighted Assets | 4 |
| 1.1 KM1: Key metrics (at consolidated Group level)..... | 4 |
| 1.2 OV1: Overview of Risk-Weighted Assets (RWA)..... | 7 |
| 2 Leverage Ratio | 9 |
| 2.1 LR1: Summary comparison of accounting assets versus leverage ratio exposure measure (simple consolidated without change)..... | 9 |
| 2.2 LR2: Leverage ratio disclosure template (simple consolidation without change)..... | 9 |
| 3 Liquidity | 10 |
| 3.1 LIQ1: Liquidity Coverage Ratio (LCR) | 10 |
| 4 Annexure | 13 |

Quantitative Tables and Templates

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

It should be noted that table KM1 is reported on a consolidated level whereas the remaining tables are all reported on a Bank level (unless otherwise stated in the table).

The legal entity structure of Discovery Bank



1 Overview of Risk Management and Risk-Weighted Assets

1.1 KM1: Key metrics (at consolidated Group level)

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

| R'000 | | As at 31 March 2020 | As at 31 December 2019 | As at 30 September 2019 | As at 30 June 2019 | As at 31 March 2019 |
|---|---|------------------------|------------------------------|-------------------------------|-----------------------|------------------------|
| Available capital (amounts) | | | | | | |
| 1 | Common Equity Tier 1 (CET1) | 583,513 | 609,607 | 517,016 | 589,765 | 278,992 |
| 1a | Fully loaded ECL accounting model | | | | | |
| 2 | Tier 1 | 583,513 | 609,607 | 517,016 | 589,765 | 278,992 |
| 2a | Fully loaded ECL accounting model Tier 1 | | | | | |
| 3 | Total capital | 599,285 | 620,605 | 522,929 | 590,281 | 279,285 |
| 3a | Fully loaded ECL accounting model total capital | | | | | |
| Risk-Weighted Assets (amounts) | | | | | | |
| 4 | Total Risk-Weighted Assets (RWA) | 2,310,272 | 1,970,937 | 1,728,836 | 1,306,638 | 1,318,655 |
| Risk-based capital ratios as a percentage of RWA | | | | | | |
| 5 | Common Equity Tier 1 ratio (%) | 25.26% | 30.93% | 29.91% | 45.14% | 21.16% |
| 5a | Fully loaded ECL accounting model Common Equity Tier 1(%) | | | | | |
| 6 | Tier 1 ratio (%) | 25.26% | 30.93% | 29.91% | 45.14% | 21.16% |
| 6a | Fully loaded ECL accounting model Tier 1 ratio (%) | | | | | |

| R'000 | | As at 31 March 2020 | As at 31 December 2019 | As at 30 September 2019 | As at 30 June 2019 | As at 31 March 2019 |
|---|--|------------------------|------------------------------|-------------------------------|-----------------------|------------------------|
| 7 | Total capital ratio (%) | 25.94% | 31.49% | 30.25% | 45.18% | 21.18% |
| 7a | Fully loaded ECL accounting model total capital ratio (%) | | | | | |
| Additional CET1 buffer requirements as a percentage of RWA | | | | | | |
| 8 | Capital conservation buffer requirement (2.5% from 2019) (%) | 2.50% | 2.50% | 2.50% | 2.50% | 2.50% |
| 9 | Countercyclical buffer requirement (%) | | | | | |
| 10 | Bank G-SIB and/or D-SIB additional requirements (%) | | | | | |
| 11 | Total of Bank CET1 specific buffer requirements %(row 8 + row 9 + row 10) | 2.50% | 2.50% | 2.50% | 2.50% | 2.50% |
| 12 | CET1 available after meeting the Bank's minimum capital requirements (%) | 16.51% | 22.18% | 21.16% | 36.39% | 12.41% |
| Basel III leverage ratio | | | | | | |
| 13 | Total Basel III leverage ratio exposure measure | 3,385,493 | 2,617,502 | 1,746,709 | 949,370 | 612,092 |
| 14 | Basel III leverage ratio (%) (row 2 ; row 13) | 17.24% | 23.29% | 29.60% | 62.12% | 45.58% |
| 14a | Fully loaded ECL accounting model Basel III leverage ratio (%) (row 2a ;row13) | | | | | |
| Liquidity Coverage Ratio | | | | | | |
| 15 | Total HQLA | 283,288 | 184,081 | 90,215 | 79,130 | 106,409 |
| 16 | Total net cash outflow | 32,999 | 20,108 | 5,544 | 470 | 81 |
| 17 | LCR ratio (%) | 870% | 914% | 1,627% | 16,830% | 130,880% |
| Net Stable Funding Ratio | | | | | | |
| 18 | Total available stable funding | 7,084,202 | 6,202,173 | 5,289,810 | 4,503,641 | 4,403,175 |
| 19 | Total required stable funding | 5,989,978 | 5,506,548 | 5,003,378 | 4,429,089 | 4,073,571 |
| 20 | NSFR ratio | 118% | 113% | 106% | 102% | 108% |

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

Risk-weighted assets (RWA) are calculated according to the Basel Framework, and Discovery Bank applies the following capital measurement approaches:

- Credit risk: The Standardised Approach (SA)
- Operational risk: The Basic Indicator Approach (BIA)
- Market risk: The Standardised Approach (SA) using Building Block method

Discovery Bank continued to grow its balance sheet through retail deposits and unsecured lending. This resulted in maturing of its key ratios, with the capital adequacy and leverage ratios normalising further over the quarter toward a more efficient level. The movement in the liquidity coverage ratio is reflective of the balanced growth experienced with a weighting towards short term retail deposits, whereas the net stable ratio is still trending better as retail operations make up a bigger proportion of the total balance sheet. Overall the bank is well-positioned to attract significant growth through its revolutionary behavioural banking model and attractive retail deposit pricing.

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

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

| R'000 | | Discovery Bank Limited | | | Discovery Bank Holdings Limited Group | | |
|-------|--|------------------------|------------------------|-----------------------------|---------------------------------------|------------------------|-----------------------------|
| | | RWA | | Minimum capital requirement | RWA | | Minimum capital requirement |
| | | As at 31 March 2020 | As at 31 December 2019 | As at 31 March 2020 | As at 31 March 2020 | As at 31 December 2019 | As at 31 March 2020 |
| 1 | Credit risk (excluding counterparty credit risk) (CCR) | 1,676,468 | 1,339,574 | 192,794 | 1,676,713 | 1,339,818 | 192,822 |
| 2 | Of which standardised approach (SA) | 1,676,468 | 1,339,574 | 192,794 | 1,676,713 | 1,339,818 | 192,822 |
| 3 | Of which: foundation internal ratings-based (F-IRB) approach | | | | | | |
| 4 | Of which: supervisory slotting approach | | | | | | |
| 5 | Of which: advanced internal ratings-based (A-IRB) approach | | | | | | |
| 6 | Counterparty credit risk (CCR) | 5,808 | 6,762 | 668 | 5,808 | 6,762 | 668 |
| 7 | Of which standardised approach for counterparty credit risk (SA-CCR) | 5,808 | 6,762 | 668 | 5,808 | 6,762 | 668 |
| 8 | Of which internal model method (IMM) | | | | | | |
| 9 | Of which: other CCR | | | | | | |
| 10 | Credit valuation adjustment (CVA) | 4,456 | 5,327 | 512 | 4,456 | 5,327 | 512 |
| 11 | Equity positions under the simple risk-weight approach | | | | | | |
| 12 | Equity investments in funds – look-through approach | | | | | | |
| 13 | Equity investments in funds – mandate-based approach | | | | | | |
| 14 | Equity investments in funds – fall-back approach | | | | | | |
| 15 | Settlement risk | | | | | | |

| R'000 | | Discovery Bank Limited | | | Discovery Bank Holdings Limited Group | | |
|-------|---|------------------------|------------------------|-----------------------------|---------------------------------------|------------------------|-----------------------------|
| | | RWA | | Minimum capital requirement | RWA | | Minimum capital requirement |
| | | As at 31 March 2020 | As at 31 December 2019 | As at 31 March 2020 | As at 31 March 2020 | As at 31 December 2019 | As at 31 March 2020 |
| 16 | Securitisation exposures in banking book | | | | | | |
| 17 | Of which: securitisation internal ratings-based approach (SEC-IRBA) | | | | | | |
| 18 | Of which: securitisation external ratings-based approach (SEC-ERBA), including internal assessment approach (IAA) | | | | | | |
| 19 | Of which: securitisation standardised approach (SEC-SA) | | | | | | |
| 20 | Market risk | 14,929 | 11,717 | 1,717 | 14,929 | 11,717 | 1,717 |
| 21 | Of which standardised approach (SA) | 14,929 | 11,717 | 1,717 | 14,929 | 11,717 | 1,717 |
| 22 | Of which internal model approaches (IMA) | | | | | | |
| 23 | Capital charge for switch between trading book and banking book | | | | | | |
| 24 | Operational risk | 523,683 | 523,683 | 60,224 | 523,683 | 523,683 | 60,224 |
| 25 | Amounts below the thresholds for deduction (subject to 250% risk weight) | 84,683 | 83,630 | 9,738 | 84,683 | 83,630 | 9,738 |
| 26 | Floor adjustment | | | | | | |
| 27 | Total (1+6+10+11+12+13+14+15+16+20+23+24+25+26) | 2,310,027 | 1,970,693 | 265,653 | 2,310,272 | 1,970,937 | 265,681 |

Minimum capital required is calculated using the SARB mandated minimum for a South African local bank at 31 March 2020.

2 Leverage Ratio

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

This table reconciles the total assets as presented in the financial statements to the leverage ratio exposure measure as reported at 31 March 2020.

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

| R'000 | | As at 31 March 2020 |
|-------|--|---------------------|
| 1 | Total consolidated assets as per published financial statements | 6,484,266 |
| 2 | Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation | 0 |
| 3 | Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the Leverage ratio exposure measure | 0 |
| 4 | Adjustments for derivative financial instruments | 5,454 |
| 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) | 347,692 |
| 7 | Other adjustments | (3,452,165) |
| 8 | Leverage ratio exposure measure | 3,385,247 |

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

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

| R'000 | | As at 31 March 2020 | As at 31 December 2019 |
|-----------------------------------|---|------------------------|---------------------------|
| On-balance sheet exposures | | | |
| 1 | On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs)) | 6,475,611 | 5,728,477 |
| 2 | (Asset amounts deducted in determining Basel III Tier 1 capital) | (3,443,864) | (3,372,408) |
| 3 | Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of row 1 and 2) | 3,031,747 | 2,356,069 |
| Derivative exposures | | | |

| R'000 | | As at 31 March 2020 | As at 31 December 2019 |
|---|--|------------------------|---------------------------|
| 4 | Replacement cost associated with all derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting) | 354 | 1,331 |
| 5 | Add-on amounts for PFE associated with all derivatives transactions | 5,454 | 5,430 |
| 6 | Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework | | |
| 7 | (Deductions of receivables assets for cash variation margin provided in derivatives transactions) | | |
| 8 | (Exempted CCP leg of client-cleared trade exposures) | | |
| 9 | Adjusted effective notional amount of written credit derivatives | | |
| 10 | (Adjusted effective notional offsets and add-on deductions for written credit derivatives) | | |
| 11 | Total derivative exposures (sum of rows 4 to 10) | 5,808 | 6,761 |
| Securities financing transaction exposures | | | |
| 12 | Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions | | |
| 13 | (Netted amounts of cash payables and cash receivables of gross SFT assets) | | |
| 14 | CCR exposure for SFT assets | | |
| 15 | Agent transaction exposures | | |
| 16 | Total securities financing transaction exposures (sum of rows 12 to 15) | | |
| Other off-balance sheet exposures | | | |
| 17 | Off-balance sheet exposure at gross notional amount | 1,738,460 | 1,272,140 |
| 18 | (Adjustments for conversion to credit equivalent amounts) | (1,390,768) | (1,017,712) |
| 19 | Off-balance sheet items (sum of row 17 and 18) | 347,692 | 254,428 |
| Capital and total exposures | | | |
| 20 | Tier 1 capital | 580,787 | 606,881 |
| 21 | Total exposures (sum of rows 3,11,16 and 19) | 3,385,247 | 2,617,258 |
| Leverage ratio | | | |
| 22 | Basel III Leverage ratio | 17 | 23 |

3 Liquidity

3.1 LIQ1: Liquidity Coverage Ratio (LCR)

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

| | At 31 March 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 | | 283,288 | 184,081 |
| | Cash outflows | | | |
| 2 | Retail deposits and deposits from small business customers, of which: | 939,059 | 93,906 | 55,015 |
| 3 | Stable deposits | | | |
| 4 | Less stable deposits | 939,059 | 93,906 | 55,015 |
| 5 | Unsecured wholesale funding, of which: | 366,186 | | |
| 6 | Operational deposits (all counterparties) and deposits in networks of cooperative banks | | | |
| 7 | Non-operational deposits (all counterparties) | 366,186 | | |
| 8 | Unsecured debt | | | |
| 9 | Secured wholesale funding | | | |
| 10 | Additional requirements, of which: | | | |
| 11 | Outflows related to derivative exposures and other collateral requirements | 9 | 9 | 2 |
| 12 | Outflows related to loss of funding on debt products | | | |
| 13 | Credit and liquidity facilities | 1,523,286 | 38,082 | 25,414 |
| 14 | Other contractual funding obligations | | | |
| 15 | Other contingent funding obligations | | | |
| 16 | TOTAL CASH OUTFLOWS | 2,828,539 | 131,997 | 80,432 |
| | Cash inflows | | | |
| 17 | Secured lending (eg reverse repos) | | | |
| 18 | Inflows from fully performing exposures | 876,880 | 852,344 | 670,286 |
| 19 | Other cash inflows | | | |
| 20 | TOTAL CASH INFLOWS | 876,880 | 852,344 | 670,286 |
| | | | Total Adjusted value | Total Adjusted value |
| 21 | Total HQLA | | 283,288 | 184,081 |
| 22 | Total net cash outflows | | 32,999 | 20,108 |
| 23 | Liquidity Coverage Ratio (%) | | 870% | 914% |

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

The LIQ1 table complies with the Pillar 3 requirements as stipulated by BCBS d455 (December 2018) and Directive

D1/2019.

The values in the table are calculated as the average of the 90-day calendar daily values over the period, January – March 2020, for Discovery Bank Limited. Discovery Bank’s weighted values are based on weekdays (excluding public holidays and weekends).

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

THE COMPOSITION OF THE HIGH-QUALITY LIQUID ASSETS (HQLA):

To date the HQLA’s held by Discovery Bank are Treasury Bills with a maturity profile, spread across 91, 182, 274 and 364 days.

4 Annexure

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