

PILLAR III

Public disclosures

FOR THE QUARTER ENDED 30 SEPTEMBER 2021

Discovery Bank Limited and
Discovery Bank Holdings Limited Group



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Quantitative tables

Quantitative Tables and Templates

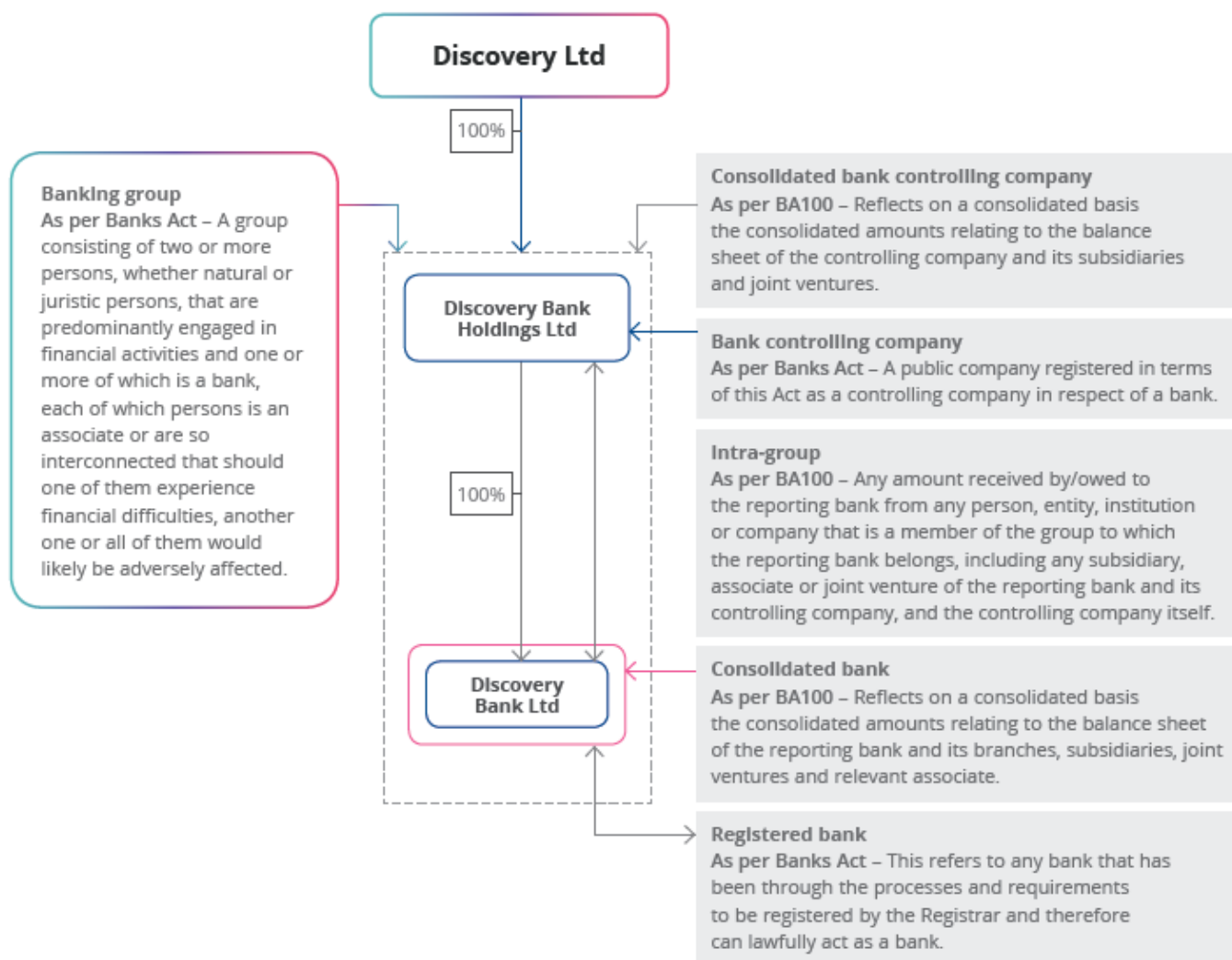
The Pillar 3 risk management report provides the quarterly view of Discovery Bank and Discovery Bank Holdings Limited Group for the period ending September 2021. It complies with

- The Basel Committee on Banking Supervision (BCBS) Pillar 3 disclosure requirements (Revised Pillar 3 framework – January 2015) as well as the consolidated and enhanced framework issued in March 2017 and the updated framework on Pillar 3 disclosure requirements in December 2018.
- Consolidated Basel Pillar III disclosure requirements through Directive 1/2019
- Regulation 43(1) of the Regulations relating to Banks (Regulations), issued in terms of the Banks Act, 1990 (Act No. 94 of 1990), where not superseded by the Pillar 3 disclosure requirements.

For the reporting period, management is satisfied that the Bank’s risk and capital management processes operated effectively, and the Bank is adequately capitalised and funded to support the execution of its strategy.

Table KM1 and 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 30 September 2021	As at 30 June 2021	As at 31 March 2021	As at 30 December 2020	As at 30 September 2020
Available capital (amounts)						
1	Common Equity Tier 1 (CET1)	860,712	858,200	739,378	744,956	766,220
1a	Fully loaded ECL accounting model	0	0	0	0	0
2	Tier 1	860,712	858,200	739,378	744,956	766,220
2a	Fully loaded ECL accounting model Tier 1	0	0	0	0	0
3	Total capital	906,925	905,085	784,736	790,794	813,713
3a	Fully loaded ECL accounting model total capital	0	0	0	0	0
Risk-weighted assets (amounts)						
4	Total risk-weighted assets (RWA)	5,269,022	4,983,408	4,425,177	4,546,568	4,681,824
Risk-based capital ratios as a percentage of RWA						
5	Common Equity Tier 1 ratio (%)	16.335%	17.221%	16.707%	16.385%	16.364%
5a	Fully loaded ECL accounting model Common Equity Tier 1(%)	.000%	.000%	.000%	.000%	.000%

R'000		As at 30 September 2021	As at 30 June 2021	As at 31 March 2021	As at 30 December 2020	As at 30 September 2020
Available capital (amounts)						
6	Tier 1 ratio (%)	16.335%	17.221%	16.707%	16.385%	16.364%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	.000%	.000%	.000%	.000%	.000%
7	Total capital ratio (%)	17.211%	18.161%	17.733%	17.393%	17.379%
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 (%)	5.835%	6.721%	6.207%	5.885%	5.864%
Basel III leverage ratio						
13	Total Basel III leverage ratio exposure measure	12,232,561	11,600,193	11,059,710	10,453,145	9,870,093
14	Basel III leverage ratio (%) (row 2 ; row 13)	7.036%	7.398%	6.685%	7.127%	7.763%
14a	Fully loaded ECL accounting model Basel III leverage ratio (%) (row 2a ;row13)	0	0	0	0	0
Liquidity Coverage Ratio						
15	Total HQLA	3,956,448	3,850,497	2,206,820	1,634,500	714,225
16	Total net cash outflow	149,356	155,828	122,611	109,226	131,509
17	LCR ratio (%)	2,650%	2,707%	1,896%	1,576%	561%

R'000		As at 30 September 2021	As at 30 June 2021	As at 31 March 2021	As at 30 December 2020	As at 30 September 2020
Available capital (amounts)						
Net Stable Funding Ratio						
18	Total available stable funding	15,768,475	15,156,473	14,220,670	12,971,239	11,508,583
19	Total required stable funding	9,539,418	8,971,748	8,658,105	8,383,026	8,092,285
20	NSFR ratio	165%	169%	164%	155%	142%

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

All regulatory ratios continue to exceed minimum requirements.

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		
		RWA		Minimum capital requirement	RWA		Minimum capital requirement
		As at 30 September 2021	As at 30 June 2021	As at 30 September 2021	As at 30 September 2021	As at 30 June 2021	As at 30 September 2021
1	Credit risk (excluding counterparty credit risk) (CCR)	4,328,791	4,040,002	454,523	4,328,790	4,040,002	454,523
2	Of which standardised approach (SA)	4,328,791	4,040,002	454,523	4,328,790	4,040,002	454,523
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)	11,406	13,375	1,198	11,406	13,375	1,198
7	Of which standardised approach for counterparty credit risk (SA-CCR)	11,406	13,375	1,198	11,406	13,375	1,198
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)	7,394	7,433	776	7,394	7,433	776
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 30 September 2021	As at 30 June 2021	As at 30 September 2021	As at 30 September 2021	As at 30 June 2021	As at 30 September 2021
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	30,765	29,029	3,230	30,765	29,029	3,230
21	Of which standardised approach (SA)	30,765	29,029	3,230	30,765	29,029	3,230
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	671,079	671,079	70,463	671,079	671,079	70,463
25	Amounts below the thresholds for deduction (subject to 250% risk weight)	218,840	221,743	22,978	219,588	222,490	23,057
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)	5,268,275	4,982,661	553,169	5,269,022	4,983,408	553,247

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

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 30 September 2021.

R'000		As at 30 September 2021
1	Total consolidated assets as per published financial statements	15,204,160
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	13,094
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)	1,142,795
7	Other adjustments	(4,127,788)
8	Leverage ratio exposure measure	12,232,261

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 30 September 2021	As at 30 June 2021
On-balance sheet exposures			
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs))	14,946,187	14,237,105
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	(3,870,005)	(3,797,111)
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of row 1 and 2)	11,076,182	10,439,994
Derivative exposures			
4	Replacement cost associated with all derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	190	608

R'000		As at 30 September 2021	As at 30 June 2021
On-balance sheet exposures			
5	Add-on amounts for PFE associated with all derivatives transactions	13,094	15,942
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)	13,284	16,550
Securities financing transaction exposures			
12	Gross SFT assets (with no recognition of netting) after adjusting for asle accounting transactions	0	0
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	0	0
14	CCR exposure for SFT assets	0	0
15	Agent transaction exposures	0	0
16	Total securities financing transaction exposures (sum of rows 12 to 15)	0	0
Other off-balance sheet exposures			
17	Off-balance sheet exposure at gross notional amount	5,713,975	5,716,750
18	(Adjustments for conversion to credit equivalent amounts)	(4,571,180)	(4,573,400)
19	Off-balance sheet items (sum of row 17 and 18)	1,142,795	1,143,350
Capital and total exposures			
20	Tier 1 capital	857,424	854,915
21	Total exposures (sum of rows 3,11,16 and 19)	12,232,261	11,599,894
Leverage ratio			
22	Basel III Leverage ratio	7.00%	7.37%

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 30 September 2021 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	3,956,448	3,850,497
Cash outflows				
2	Retail deposits and deposits from small business customers, of which:	4,522,946	452,295	341,738
3	Stable deposits	0	0	0
4	Less stable deposits	4,522,946	452,295	341,738
5	Unsecured wholesale funding, of which:	890,604	2,812	140,290
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	0	0	0
7	Non-operational deposits (all counterparties)	890,604	2,812	140,290
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	62	62	3
12	Outflows related to loss of funding on debt products	0	0	0
13	Credit and liquidity facilities	5,690,138	142,253	140,698
14	Other contractual funding obligations	0	0	0
15	Other contingent funding obligations	0	0	0
16	TOTAL CASH OUTFLOWS	11,103,751	597,423	622,729
Cash inflows				
17	Secured lending (eg reverse repos)	0	0	0
18	Inflows from fully performing exposures	2,482,781	2,386,597	2,032,238
19	Other cash inflows	7	0	0
20	TOTAL CASH INFLOWS	2,482,789	2,386,597	2,032,238
			Total Adjusted value	Total Adjusted value
21	Total HQLA		3,956,448	3,850,497
22	Total net cash outflows		149,356	155,828
23	Liquidity Coverage Ratio (%)		2650%	2707%

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 PA have issued Directive 8 - Withdrawal of the temporary relief measure related to the liquidity coverage ratio which replaces the proposed Directive - 15/8/1/3. The purpose of this directive is to withdraw the temporary relief measure related to the liquidity coverage ratio (LCR) implemented at the onset of the Coronavirus (COVID-19) pandemic stress period. Banks are directed to comply with the following revised minimum LCR requirement:

With effect from:	Minimum LCR
1 January 2022	90%
1 April 2022	100%

The LIQ1 table complies with the Pillar 3 requirements as stipulated by BCBS D400 (March 2017) and Directive D8. The values in the table are calculated as the average of the 90-day calendar daily values over the period July to September 2021 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 30 Sep 2021 R'000	Unweighted value by residual maturity				Weighted value
	No Maturity	< 6 months	6 months to < 1 year	>= 1 year	
1 Capital:	7,099,935	0	0	0	7,099,935
2 Regulatory capital	7,099,935	0	0	0	7,099,935
3 Other capital instruments	0	0	0	0	0
4 Retail deposits and deposits from small business customers:	0	6,420,041	844,161	1,559,749	8,097,531
5 Stable deposits	0	0	0	0	0
6 Less stable deposits	0	6,420,041	844,161	1,559,749	8,097,531
7 Wholesale funding:	0	9,414	500,000	300,000	553,295
8 Operational deposits	0	0	0	0	0
9 Other wholesale funding	0	9,414	500,000	300,000	553,295
10 Liabilities with matching interdependent assets	0	309,959	15,781	23,647	17,715
11 Other liabilities:	0	0	0	0	0
12 NSFR derivative liabilities	0	0	0	13,823	0
13 All other liabilities and equity not included in the above categories	0	309,959	15,781	9,824	17,715
14 Total ASF	0	0	0	0	15,768,475
15 Total NSFR high-quality liquid assets (HQLA)	0	2,906,726	1,296,133	633,484	252,682
16 Deposits held at other financial institutions for operational purposes	0	0	0	0	0
17 Performing loans and securities:	0	1,536,667	1,160,921	1,547,894	2,532,993
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	375,746	0	0	56,362
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	1,160,921	1,160,921	1,547,894	2,476,631
21 With a risk weight of less than or equal to 35% under the Basel II standardised	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	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:	6,467,864	0	0	190	6,468,054
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	190	190
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	6,467,864	0	0	0	6,467,864
32 Off-balance sheet items	5,713,795	0	0	0	285,690
33 Total RSF	0	0	0	0	9,539,418
34 Net Stable Funding Ratio (%)	0	0	0	0	165

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 (ASF) in liabilities over the Required Stable Funding (RSF) for the assets. Sources of available funding for Discovery Bank include share capital and client deposits.

Abbreviation

ABBREVIATION	DEFINITION
ASF	Available Stable Funding
AT1	Additional Tier 1
BA	Banks Act
BASA	Banking Association of South Africa
BCBS	Basel Committee on Banking Supervision
CCR	Counterparty Credit Risk
CEM	Credit Exposure Method
CET1	Common Equity Tier 1
CRM	Credit Risk Mitigation
CSR	Corporate Social Responsibility
CVA	Credit Valuation adjustment
D-SIB	Domestic Systemically Important Banks
ECL	Expected Credit Loss
G-SIB	Global Systemically Important Banks
HQLA	High-Quality Liquid Assets
LCR	Liquidity Coverage Ratio
NSFR	Net stable funding ratio
PA	Prudential Authority of South Africa
RWA	Risk-Weighted Assets
SA	Standardised Approach
SA-CCR	Standardised Approach for Counterparty Credit Risk
TLAC	Total Loss-absorbing Capacity