

PILLAR III

PUBLIC DISCLOSURES

FOR THE QUARTER ENDED 31 MARCH 2021

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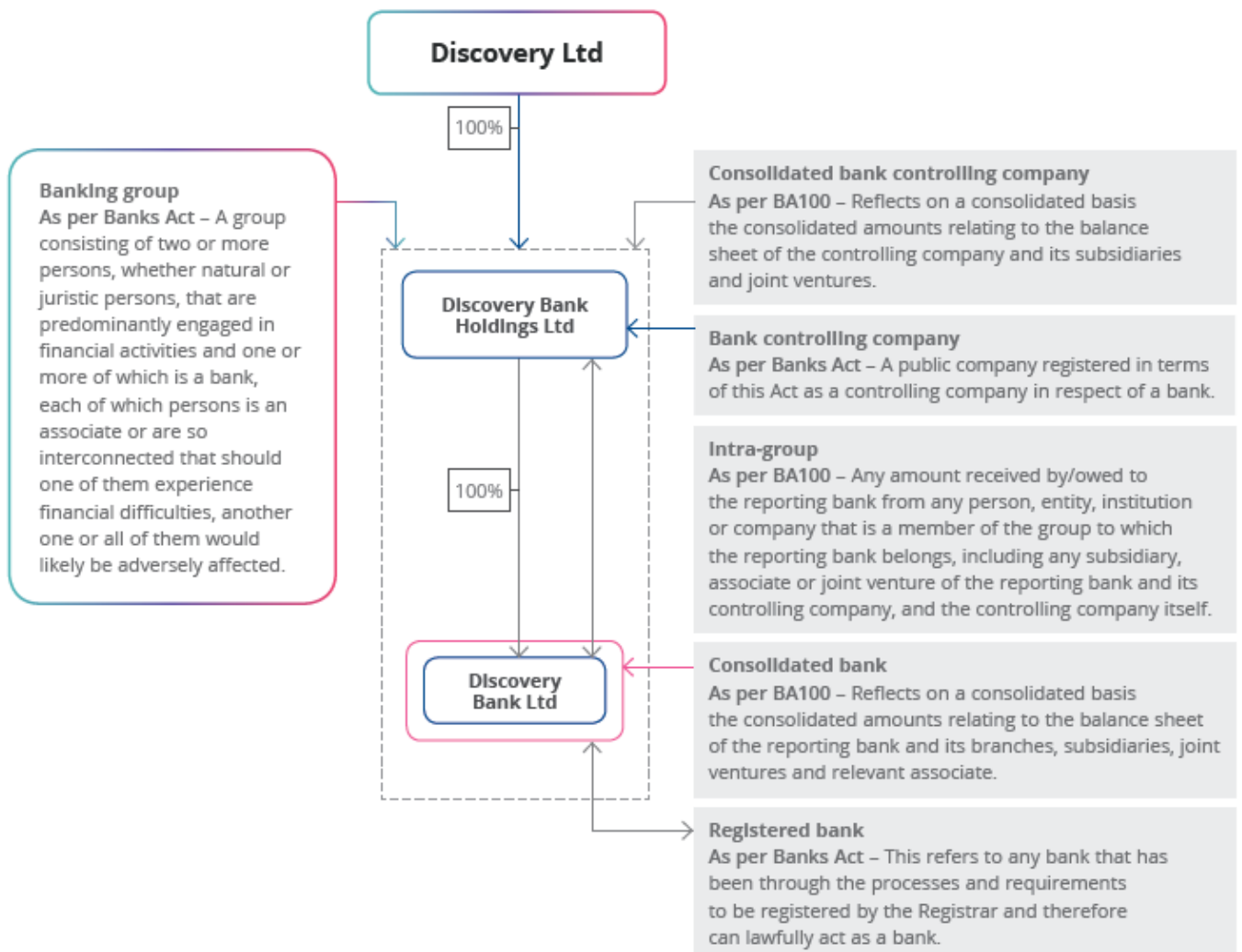
Quantitative Tables and Templates

Over the past three 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 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 31 March 2021 | As at 31 December 2020 | As at 30 September 2020 | As at 30 June 2020 | As at 31 March 2020 |
|---|---|---------------------------|---------------------------------|----------------------------------|--------------------------|---------------------------|
| Available capital (amounts) | | | | | | |
| 1 | Common Equity Tier 1 (CET1) | 739,378 | 744,956 | 766,220 | 620,332 | 583,513 |
| 1a | Fully loaded ECL accounting model | 0 | 0 | 0 | 0 | 0 |
| 2 | Tier 1 | 739,378 | 744,956 | 766,220 | 620,332 | 583,513 |
| 2a | Fully loaded ECL accounting model Tier 1 | 0 | 0 | 0 | 0 | 0 |
| 3 | Total capital | 784,736 | 790,793 | 813,713 | 647,950 | 599,285 |
| 3a | Fully loaded ECL accounting model total capital | 0 | 0 | 0 | 0 | 0 |
| Risk-weighted assets (amounts) | | | | | | |
| 4 | Total risk-weighted assets (RWA) | 4,425,177 | 4,546,568 | 4,681,824 | 3,110,833 | 2,310,272 |
| Risk-based capital ratios as a percentage of RWA | | | | | | |

| R'000 | | As at 31 March 2021 | As at 31 December 2020 | As at 30 September 2020 | As at 30 June 2020 | As at 31 March 2020 |
|-------|---|---------------------------|---------------------------------|----------------------------------|--------------------------|---------------------------|
| 5 | Common Equity Tier 1 ratio (%) | 16.707% | 16.385% | 16.365% | 19.940% | 25.257% |
| 5a | Fully loaded ECL accounting model Common Equity Tier 1(%) | .000% | .000% | .000% | .000% | .000% |
| 6 | Tier 1 ratio (%) | 16.707% | 16.385% | 16.365% | 19.940% | 25.257% |
| 6a | Fully loaded ECL accounting model Tier 1 ratio (%) | .000% | .000% | .000% | .000% | .000% |
| 7 | Total capital ratio (%) | 17.733% | 17.393% | 17.379% | 20.829% | 25.940% |
| 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 (%) | 6.207% | 5.885% | 5.885% | 9.440% | 16.507% |

Basel III leverage ratio

| | | | | | | |
|-----|--|------------|------------|-----------|-----------|-----------|
| 13 | Total Basel III leverage ratio exposure measure | 11,059,710 | 10,453,145 | 9,870,093 | 5,753,005 | 3,385,493 |
| 14 | Basel III leverage ratio (%) (row 2 ; row 13) | 6.685% | 7.127% | 7.763% | 10.783% | 17.236% |
| 14a | Fully loaded ECL accounting model Basel III leverage ratio (%) (row 2a ;row13) | 0 | 0 | 0 | 0 | 0 |

Liquidity Coverage Ratio

| | | | | | | |
|----|------------------------|-----------|-----------|---------|---------|---------|
| 15 | Total HQLA | 2,206,820 | 1,634,500 | 713,847 | 385,751 | 283,288 |
| 16 | Total net cash outflow | 122,611 | 109,226 | 131,740 | 49,652 | 33,999 |

| R'000 | | As at 31 March 2021 | As at 31 December 2020 | As at 30 September 2020 | As at 30 June 2020 | As at 31 March 2020 |
|---------------------------------|--------------------------------|---------------------------|---------------------------------|----------------------------------|--------------------------|---------------------------|
| 17 | LCR ratio (%) | 1896% | 1576% | 558% | 780% | 870% |
| Net Stable Funding Ratio | | | | | | |
| 18 | Total available stable funding | 14,220,671 | 12,971,239 | 11,508,583 | 9,785,871 | 7,084,202 |
| 19 | Total required stable funding | 8,658,105 | 8,383,026 | 8,092,285 | 6,946,204 | 5,989,978 |
| 20 | NSFR ratio | 164% | 155% | 142% | 141% | 118% |

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 has maintained their level of capital adequacy over the period. There has been an increase in the leverage ratio exposure measure, LCR and NSFR ratio's as a result of the healthy growth in retail deposits.

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 31 March 2021 | As at 31 December 2020 | As at 31 March 2021 | As at 31 March 2021 | As at 31 December 2020 | As at 31 March 2021 |
| 1 | Credit risk (excluding counterparty credit risk) (CCR) | 3,899,548 | 4,044,566 | 409,453 | 3,899,546 | 4,044,816 | 409,452 |
| 2 | Of which standardised approach (SA) | 3,899,548 | 4,044,566 | 409,453 | 3,899,546 | 4,044,816 | 409,452 |
| 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) | 17,668 | 4,094 | 1,855 | 17,668 | 4,094 | 1,855 |
| 7 | Of which standardised approach for counterparty credit risk (SA-CCR) | 17,668 | 4,094 | 1,855 | 17,668 | 4,094 | 1,855 |
| 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) | 11,468 | 2,733 | 1,204 | 11,468 | 2,733 | 1,204 |
| 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 March 2021 | As at 31 December 2020 | As at 31 March 2021 | As at 31 March 2021 | As at 31 December 2020 | As at 31 March 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 | 30,147 | 29,917 | 3,165 | 30,147 | 29,917 | 3,165 |
| 21 | Of which standardised approach (SA) | 30,147 | 29,917 | 3,165 | 30,147 | 29,917 | 3,165 |
| 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) | 188,105 | 186,763 | 19,751 | 188,878 | 187,538 | 19,832 |
| 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) | 4,424,406 | 4,545,543 | 464,563 | 4,425,177 | 4,546,568 | 464,643 |

Minimum capital required is calculated using the SARB mandated minimum for a South African local bank. Total RWA has decreased over the quarter in line with the tightening in retail lending in the current economic environment. The change in CCR was a result of the methodology change from the Current Exposure Method (CEM) to the Standardised Approach for Credit Concentration Risk (SA-CCR), effective January 2021.

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 March 2021.

| R'000 | | As at 31 March 2021 |
|--------------|--|--------------------------------|
| 1 | Total consolidated assets as per published financial statements | 13,771,691 |
| 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 | 17,673 |
| 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) | 1,142,409 |
| 7 | Other adjustments | (3 872 372) |
| 8 | Leverage ratio exposure measure | 11,059,401 |

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 2021 | As at 31 December 2020 |
|---|--|---------------------------|---------------------------------|
| On-balance sheet exposures | | | |
| 1 | On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs)) | 13,594,805 | 12,924,526 |
| 2 | (Asset amounts deducted in determining Basel III Tier 1 capital) | (3 697 472) | (3 619 754) |
| 3 | Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of row 1 and 2) | 9,897,333 | 9,304,772 |
| Derivative exposures | | | |
| 4 | Replacement cost associated with all derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting) | 1,111 | 2,719 |
| 5 | Add-on amounts for PFE associated with all derivatives transactions | 18,548 | 3,292 |
| 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) | 19,659 | 6,011 |
| 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 | 5,712,045 | 5,709,010 |
| 18 | (Adjustments for conversion to credit equivalent amounts) | (4 569 636) | (4 567 208) |
| 19 | Off-balance sheet items (sum of row 17 and 18) | 1,142,409 | 1,141,802 |
| Capital and total exposures | | | |
| 20 | Tier 1 capital | 735,982 | 741,549 |

| R'000 | | As at 31 March 2021 | As at 31 December 2020 |
|-----------------------|--|---------------------------|---------------------------------|
| 21 | Total exposures (sum of rows 3,11,16 and 19) | 11,059,401 | 10,452,585 |
| Leverage ratio | | | |
| 22 | Basel III Leverage ratio | 6.65 | 7.08 |

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 March 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 | 2,206,820 | 1,634,500 |
| Cash outflows | | | | |
| 2 | Retail deposits and deposits from small business customers, of which: | 2,925,715 | 292,572 | 239,021 |
| 3 | Stable deposits | 0 | 0 | 0 |
| 4 | Less stable deposits | 2,925,715 | 292,572 | 239,021 |
| 5 | Unsecured wholesale funding, of which: | 1,556,440 | 55,614 | 54,314 |
| 6 | Operational deposits (all counterparties) and deposits in networks of cooperative banks | 0 | 0 | 0 |
| 7 | Non-operational deposits (all counterparties) | 1,556,440 | 55,614 | 54,314 |
| 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 | 3 | 3 | 1 |
| 12 | Outflows related to loss of funding on debt products | 0 | 0 | 0 |
| 13 | Credit and liquidity facilities | 5,690,243 | 142,256 | 143,568 |
| 14 | Other contractual funding obligations | 0 | 0 | 0 |
| 15 | Other contingent funding obligations | 0 | 0 | 0 |
| 16 | TOTAL CASH OUTFLOWS | 10,172,401 | 490,445 | 436,904 |

| As at 31 March 2021 R'000 | | Current Reporting Period | | Previous Reporting Period |
|------------------------------|---|----------------------------|--------------------------|---------------------------|
| | | Total Unweighted (average) | Total Weighted (average) | Total Weighted (average) |
| Cash inflows | | | | |
| 17 | Secured lending (eg reverse repos) | 0 | 0 | 0 |
| 18 | Inflows from fully performing exposures | 3,251,772 | 3,157,455 | 2,857,346 |
| 19 | Other cash inflows | 2 | 2 | 0 |
| 20 | TOTAL CASH INFLOWS | 3,251,774 | 3,157,457 | 2,857,346 |

| | | Total Adjusted value | Total Adjusted value |
|----|-------------------------------------|----------------------|----------------------|
| 21 | Total HQLA | 2,206,820 | 1,634,500 |
| 22 | Total net cash outflows | 122,611 | 109,226 |
| 23 | Liquidity Coverage Ratio (%) | 1896% | 1576% |

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 January to March 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.

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 |