

PILLAR III

# PUBLIC DISCLOSURES

FOR THE QUARTER ENDED 30 SEPTEMBER 2020

---

Discovery Bank Limited and Discovery Bank Holdings Limited Group

## Contents

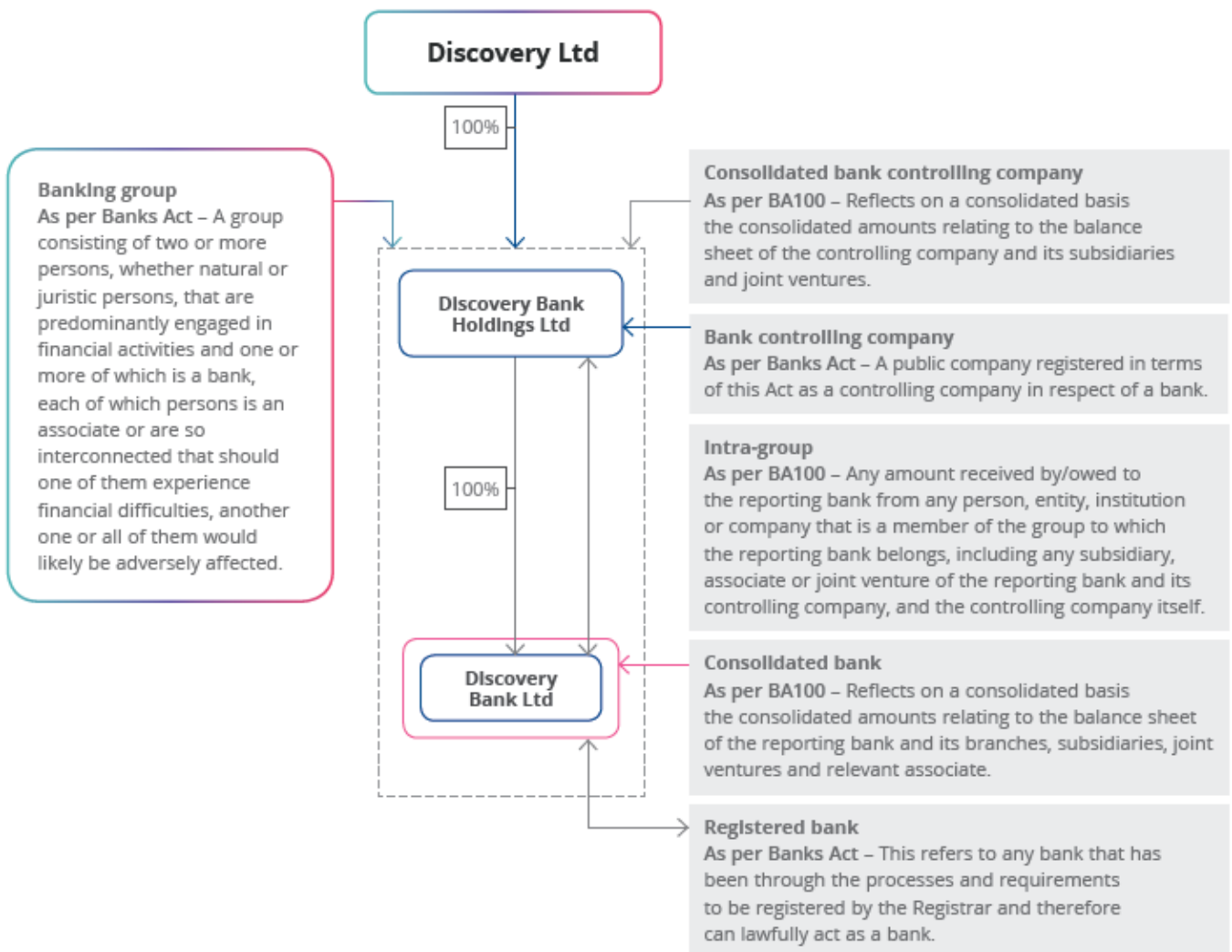
<b>Quantitative Tables and Templates</b> .....	3
<b>1 Overview of Risk Management and Risk-Weighted Assets</b> .....	4
1.1 KM1: Key metrics (at consolidated Group level).....	4
1.2 OV1: Overview of Risk-Weighted Assets (RWA).....	7
<b>2 Leverage ratio</b> .....	9
2.1 LR1: Summary comparison of Accounting assets vs Leverage ratio exposure measure (January 2014 standard) .....	9
2.2 LR2: Leverage ratio common disclosure template (January 2014 standard).....	9
<b>3 Liquidity</b> .....	11
3.1 LIQ1: Liquidity Coverage Ratio (LCR) .....	11
<b>4 Annexure</b> .....	13

## Quantitative Tables and Templates

Since public launch, Discovery Bank’s retail credit exposure has grown significantly as the Bank has taken on new clients and migrated clients from the Discovery Card business. Discovery Bank has also strengthened its liquidity position to remain resilient during uncertain economic times resulting in increased low-risk cash positions and contributing to the growth in its balance sheet.

The ratios provided in the following tables continue to normalise and provide more meaningful insight into the Bank’s position and performance and will carry on doing so with time as a more comparable historical performance is gained. Furthermore, tables 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



# 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 30 September 2020	As at 30 June 2020	As at 31 March 2020	As at 31 December 2019	As at 30 September 2019
<b>Available capital (amounts)</b>						
1	Common Equity Tier 1 (CET1)	766,220	620,332	583,513	609,607	517,016
1a	Fully loaded ECL accounting model	-	-	-	-	-
2	Tier 1	766,220	620,332	583,513	609,607	517,016
2a	Fully loaded ECL accounting model Tier 1	-	-	-	-	-
3	Total capital	813,713	647,950	599,285	620,605	522,929
3a	Fully loaded ECL accounting model total capital	-	-	-	-	-
<b>Risk-weighted assets (amounts)</b>						
4	Total risk-weighted assets (RWA)	4,681,824	3,110,833	2,310,272	1,970,937	1,728,836
<b>Risk-based capital ratios as a percentage of RWA</b>						
5	Common Equity Tier 1 ratio (%)	16.37%	19.94%	25.26%	30.93%	29.91%
5a	Fully loaded ECL accounting model Common Equity Tier 1(%)	0.00%	0.00%	0.00%	0.00%	0.00%

R'000		As at 30 September 2020	As at 30 June 2020	As at 31 March 2020	As at 31 December 2019	As at 30 September 2019
6	Tier 1 ratio (%)	16.37%	19.94%	25.26%	30.93%	29.91%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	0.00%	0.00%	0.00%	0.00%	0.00%
7	Total capital ratio (%)	17.38%	20.83%	25.94%	31.49%	30.25%
7a	Fully loaded ECL accounting model total capital ratio (%)	0.00%	0.00%	0.00%	0.00%	0.00%
<b>Additional CET1 buffer requirements as a percentage of RWA</b>						
8	Capital conservation buffer requirement (2.5% from 2019) (%)	2.50%	2.50%	2.50%	2.50%	2.50%
9	Countercyclical buffer requirement (%)	0.00%	0.00%	0.00%	0.00%	0.00%
10	Bank G-SIB and/or D-SIB additional requirements (%)	0.00%	0.00%	0.00%	0.00%	0.00%
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 (%)	5.87%	9.44%	16.51%	22.18%	21.16%
<b>Basel III leverage ratio</b>						
13	Total Basel III leverage ratio exposure measure	9,870,093	5,753,005	3,385,493	2,617,502	1,746,709
14	Basel III leverage ratio (%) (row 2 ; row 13)	7.76%	10.78%	17.24%	23.29%	29.60%
14a	Fully loaded ECL accounting model Basel III leverage ratio (%) (row 2a ;row13)	0.00%	0.00%	0.00%	0.00%	0.00%
<b>Liquidity Coverage Ratio</b>						
15	Total HQLA	713 846	385 751	283 288	184 081	90 215
16	Total net cash outflow	131 740	49 652	32 999	20 110	5 544
17	LCR ratio (%)	558%	780%	870%	915%	1627%

R'000		As at 30 September 2020	As at 30 June 2020	As at 31 March 2020	As at 31 December 2019	As at 30 September 2019
<b>Net Stable Funding Ratio</b>						
18	Total available stable funding	11,508,583	9,785,871	7,084,202	6,202,173	5,289,810
19	Total required stable funding	8,092,285	6,946,204	5,989,978	5,506,548	5,003,378
20	NSFR ratio	142%	141%	118%	113%	106%

## 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 2020	As at 30 June 2020	As at 30 September 2020	As at 30 September 2020	As at 30 June 2020	As at 30 September 2020
1	<b>Credit risk (excluding counterparty credit risk) (CCR)</b>	<b>4,169,755</b>	<b>2,648,544</b>	<b>437,824</b>	<b>4,170,005</b>	<b>2,648,794</b>	<b>437,851</b>
2	Of which standardised approach (SA)	4,169,755	2,648,544	437,824	4,170,005	2,648,794	437,851
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	<b>Counterparty credit risk (CCR)</b>	<b>4,395</b>	<b>5,864</b>	<b>461</b>	<b>4,395</b>	<b>5,864</b>	<b>461</b>
7	Of which standardised approach for counterparty credit risk (SA-CCR)	4,395	5,864	461	4,395	5,864	461
8	Of which internal model method (IMM)	-	-	-	-	-	-
9	Of which: other CCR	-	-	-	-	-	-
10	<b>Credit valuation adjustment (CVA)</b>	<b>3,404</b>	<b>3,960</b>	<b>357</b>	<b>3,404</b>	<b>3,960</b>	<b>357</b>
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	-	-	-	-	-	-

R'000		Discovery Bank Limited			Discovery Bank Holdings Limited		
		RWA		Minimum capital requirement	RWA		Minimum capital requirement
		As at 30 September 2020	As at 30 June 2020	As at 30 September 2020	As at 30 September 2020	As at 30 June 2020	As at 30 September 2020
14	Equity investments in funds – fall-back approach	-	-	-	-	-	-
15	<b>Settlement risk</b>						
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	<b>Market risk</b>	<b>34,297</b>	<b>35,490</b>	<b>3,601</b>	<b>34,297</b>	<b>35,490</b>	<b>3,601</b>
21	Of which standardised approach (SA)	34,297	35,490	3,601	34,297	35,490	3,601
22	Of which internal model approaches (IMA)	-	-	-	-	-	-
23	Capital charge for switch between trading book and banking book	-	-	-	-	-	-
24	<b>Operational risk</b>	<b>277,470</b>	<b>277,470</b>	<b>29,134</b>	<b>277,470</b>	<b>277,470</b>	<b>29,134</b>
25	Amounts below the thresholds for deduction (subject to 250% risk weight)	191,478	139,255	20,105	192,253	139,255	20,187
26	Floor adjustment	-	-	-	-	-	-
27	<b>Total (1+6+10+11+12+13+14+15+16+20+23+24+25+26)</b>	<b>4,680,799</b>	<b>3,110,583</b>	<b>491,484</b>	<b>4,681,824</b>	<b>3,110,833</b>	<b>491,591</b>

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



## 2 Leverage ratio

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

The only adjustments made to the total assets per the financial statements in arriving at the leverage ratio exposure measure are in line with those required as part of the leverage ratio calculation outlined in the regulations.

R'000		As at 30 September 2020
1	Total consolidated assets as per published financial statements	12,326,139
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	-
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the Leverage ratio exposure measure	-
4	Adjustments for derivative financial instruments	3,455
5	Adjustment for securities financing transactions (i.e. repos and similar secured lending)	-
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	1,172,646
7	Other adjustments	(3 632 714)
8	<b>Leverage ratio exposure measure</b>	<b>9,869,526</b>

### 2.2 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 30 September 2020	As at 30 June 2020
<b>On-balance sheet exposures</b>			
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs))	12,236,210	8,545,274
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	(3,543,726)	(3,493,161)
3	<b>Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of row 1 and 2)</b>	8,692,484	5,052,113
<b>Derivative exposures</b>			
4	Replacement cost associated with all derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	941	689

R'000		As at 30 September 2020	As at 30 June 2020
5	Add-on amounts for PFE associated with all derivatives transactions	3,455	5,175
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	<b>Total derivative exposures (sum of rows 4 to 10)</b>	4,396	5,864
<b>Securities financing transaction exposures</b>			
12	Gross SFT assets (with no recognition of netting) after adjusting for asle 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	<b>Total securities financing transaction exposures (sum of rows 12 to 15)</b>	-	-
<b>Other off-balance sheet exposures</b>			
17	Off-balance sheet exposure at gross notional amount	5,863,230	3,473,890
18	(Adjustments for conversion to credit equivalent amounts)	(4,690,584)	(2,779,112)
19	<b>Off-balance sheet items (sum of row 17 and 18)</b>	1,172,646	694,778
<b>Capital and total exposures</b>			
20	<b>Tier 1 capital</b>	762,813	617,235
21	<b>Total exposures (sum of rows 3,11,16 and 19)</b>	9,869,526	5,752,755
<b>Leverage ratio</b>			
22	Basel III Leverage ratio	7.73	10.73

## 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 30 September 2020 R'000		Current Reporting Period		Previous Reporting Period
		Total Unweighted (average)	Total Weighted (average)	Total Weighted (average)
<b>High-quality liquid assets</b>				
1	Total HQLA	0	713,846	385,751
<b>Cash outflows</b>				
2	<b>Retail deposits and deposits from small business customers, of which:</b>	<b>1,677,255</b>	<b>168,017</b>	<b>137,191</b>
3	Stable deposits	(5,835)	(292)	(8)
4	Less stable deposits	1,683,089	168,309	137,199
5	<b>Unsecured wholesale funding, of which:</b>	<b>2,638,335</b>	<b>226,633</b>	-
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-	-
7	Non-operational deposits (all counterparties)	2,638,335	226,633	-
8	Unsecured debt	-	-	-
9	<b>Secured wholesale funding</b>	-	-	-
10	<b>Additional requirements, of which:</b>	-	-	-
11	Outflows related to derivative exposures and other collateral requirements	-	-	-
12	Outflows related to loss of funding on debt products	-	-	-
13	Credit and liquidity facilities	5,262,264	131,557	61,416
14	<b>Other contractual funding obligations</b>	-	-	-
15	<b>Other contingent funding obligations</b>	-	-	-
16	<b>TOTAL CASH OUTFLOWS</b>	<b>9,577,853</b>	<b>526,499</b>	<b>198,607</b>
<b>Cash inflows</b>				
17	<b>Secured lending (eg reverse repos)</b>	-	-	-
18	<b>Inflows from fully performing exposures</b>	<b>2,946,788</b>	<b>2,866,763</b>	<b>1,535,603</b>
19	Other cash inflows	2	2	-
20	<b>TOTAL CASH INFLOWS</b>	<b>2,946,790</b>	<b>2,866,765</b>	<b>1,535,603</b>
			<b>Total Adjusted value</b>	<b>Total Adjusted value</b>
21	<b>Total HQLA</b>		<b>713,846</b>	<b>385,751</b>
22	<b>Total net cash outflows</b>		<b>131,740</b>	<b>49,652</b>
23	<b>Liquidity Coverage Ratio (%)</b>		<b>558%</b>	<b>780%</b>

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 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, July-September 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, 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
CCR	Counterparty Credit Risk
CET1	Common Equity Tier 1
CRM	Credit Risk Mitigation
CVA	Credit Valuation adjustment
ECL	Expected Credit Loss
D-SIB	Domestic 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
STA	Standardised Approach
SA - CCR	Standardised Approach for Counterparty Credit Risk
TLAC	Total loss absorbing capacity