Discovery Bank

PILLAR III

Public disclosures

FOR THE YEAR ENDED 30 JUNE 2021

Discovery Bank Limited and Discovery Bank Holdings Limited Group

Discovery Bank's financial performance

In 2021, Discovery Bank continued to focus on product innovation and building a differentiated and sophisticated digital platform. This included the rollout of payment platforms like Apple Pay and Discovery Pay, an enhanced account origination journey with unique features such as virtual cards; a more valuable Discovery Miles currency; enhancements to travel benefits; and more differentiated products in the pipeline.

There was a notable improvement in utilisation over the period. Compared with July 2020, clients depositing their salary, initiating debit orders and making digital payments grew substantially, driving strong NIR levels. The shared-value fundamentals also emerged as expected with clients on Gold and Diamond Vitality Money status exhibiting superior banking dynamics: 94% lower arrears rate compared with clients on Blue Vitality Money status, four times higher spend compared with clients on Blue status, and nine times higher average deposits compared to the average client.

Discovery Bank's operating loss for the financial year was R1 094 million, 7% lower than the prior period. The Bank continued to gain traction with 362 000 clients (versus 274 000 clients in July 2020) and 649 000 accounts (versus 505 000 accounts in July 2020), expanding its existing Discovery and non-Discovery client base and achieving 500 average daily new-to-bank sales, in line with the medium-term forecast. There was a steady improvement in product mix over the year with transaction accounts and credit cards making up over 80% of new business. Retail deposits grew by 167% to R8.18 billion. A deliberate decision to pursue a prudent credit strategy resulted in moderate advances growth of 5% to R3.83 billion at 30 June 2021. The quality-focused credit strategy was evidenced by the low credit loss ratio of 4.6%, which includes a COVID-19 overlay, and high average client non-interest revenue (NIR) levels.

Contents

01

Strategy and business model

Strategy and business model

Discovery Bank represents a confluence of technology, social responsibility and a deep understanding of the nature of behavioural risk, underpinned by the proven shared-value business model. At the core of Discovery's business model is the utilisation of incentives and rewards, backed by advanced analytics and technology, to encourage clients to make positive decisions that enhance their financial wellness. This business model helps clients improve the quality of their lives while also generating sustainable long-term revenues for Discovery.

The strategic objectives are fully aligned to business targets thereby enabling the Bank to measure its success in achieving the objectives set. The Bank's ambition is:

To be the **best bank in South Africa** and **globally recognised** for its **shared-value banking model.**	A disruptive bank built on purpose and values, reflected in the demand for its products, systems and services. This manifests quantitatively in client growth, risk and expense management, and qualitatively in client perceptions and bank usage.
Through Discovery Bank's shared-value model, clients will exhibit demonstrably **better financial outcomes** as a result of **engagement with the Vitality Money programme,** with the ability to monetise their financial and other behaviour improvements through their **personalised rewards stack.** The model will drive **rapid client growth, primary account utilisation, higher deposits and lower credit risk,** resulting in superior value for clients and Discovery Bank.	Key performance indicators include Vitality Money engagement levels, status distribution and full manifestation of the shared-value model in both client and Discovery Bank outcomes.
Discovery Bank will earn the **trust, support and loyalty of clients** through **brilliant products,** an exceptional **full-service** offering, **intuitive client journeys and robust security features,** which are underpinned by **world-class digital and data capabilities.**	The best people for every role, fully engaged and focused on our clients.
Discovery Bank will serve as the **foundational asset to drive integration for the Discovery SA composite** by creating an **ecosystem** through which every client has a Discovery Bank account to access their **full suite of Discovery products and financial services and other partners** resulting in the **highest levels of client engagement, retention and long-term value.**	The highest mobile app utilisation frequency, ratings and Vitality engagement levels driving superior behaviour change, resulting in global best-in-class product take-up, low lapse rates and VNB (value of new business).

Strategy and business model / CONTINUED

Strong progress towards our ambition across every area of the business has been evidenced[1].

Discovery has identified three major trends that impact financial services and banking, which results in clients reassessing the status quo and reconsidering the relationships with their financial services providers more frequently.

1 Nature of risk	Traditional banks segment and price clients on their socio-economic status, however, the nature of risk in banking is as much behavioural as it is socio-economic. This results in clients who manage their money well often paying more to borrow purely based on their socio-economic segment and subsidising riskier clients.
2 Technology	Banking has evolved towards digital and contactless onboarding and payment solutions, making it easier for clients to open additional accounts.
3 Social responsibility	Clients are demanding that their companies, including banks, do business with a focus on societal issues as much as profits.

These trends are transforming banking and highlight the case for a shared-value bank.

A shared-value banking model considers individual financial behaviours to understand how financially healthy clients are. Clients get rewarded for managing their money well with:

- Lower interest rates on borrowings than what would typically apply based on their socio-economic status. Clients can reduce their rates across income segments by managing their money well.
- Higher interest rates on their savings. Clients who manage their money well typically save more for longer periods. Through its shared-value model, Discovery Bank rewards clients with demand and short-term deposits with higher interest rates based on how well they manage their money. Clients can access higher interest rates for on-demand savings of up to 4.25%[2]. These levels are typically only accessible through 18–24-month fixed deposits with conventional banking models.
- Better behavioural alignment and engagement. Engaged clients can earn multiples of their monthly fees in rewards by using their accounts and managing their money well.

The impact of these factors is a banking model which is better for clients, banks and society in general. An analysis of Discovery Bank clients shows that clients on Gold and Diamond Vitality Money status are 99% less likely to be in arrears, have deposit amounts more than 17 times the average and spend over 4.5 times more than clients who are unengaged, regardless of income level[3].

[1] *Discovery Bank Quarterly Business Update, September 2021*
[2] *As at 31 August 2021*
[3] *The application of shared value in banking: A focus on interest rates and the potential benefits for South Africans, March 2021*

Discovery Bank

The intersection of **business, purpose and social good**

There has been a growing need and demand for businesses to have a social purpose that goes beyond that of maximising profitability, largely to the exclusion of other factors and stakeholders. This has contributed to a change in the nature of capitalism and a move away from a narrow shareholder focus toward a more holistic emphasis on stakeholder value with the understanding that businesses which are aligned with their clients and societies will be more sustainable and profitable in the long term.

PHILANTHROPY

"It's not a problem"

- Let's **ignore or understate** the problem
- Let's **minimise our responsibility**
- Philanthropy is about personal value

CSR

"It is a problem"

- Let's minimise the problem and **throw some money** at it to show we're contributing
- Managing **corporate reputation**

ESG

"Let's solve the problem"

- We need to **add costs to fix the problem** or reduce risks
- We need to report transparently on our results
- We can use our core business capabilities to find solutions

SHARED VALUE

"It's an opportunity"

- We **can lower costs**, grow revenues or differentiate our value proposition by **addressing social** problems
- Even social problems that we don't usually affect, present opportunities

Source: Michael E Porter, Mark Kramer. Creating shared value, *Harvard Business Review*, January–February 2011.

The intersection of business, purpose and social good can take many forms. Traditionally, this has been concentrated in corporate social responsibility (CSR) activities, which operate outside companies' core strategies, leading to criticism for relegating social issues to the fringe. Increasingly, the investment in and societal impact of a business also considers environmental, social and governance (ESG) criteria, which, while necessary, are often treated as a tick-box exercise to manage reputational and regulatory risk. Both these paradigms demonstrate that models which rely on compliance are often lacking in foresight. In contrast, a model built on shared value enables companies to make the transformative link between strategy, higher purpose, and economic value. Shared value, which integrates social impact with core strategy, resonates with the business community and civil society, demonstrating the power of connecting social progress to a profitable, scalable business model.

Shared value in banking

A shared-value model[4] in banking provides an effective platform to initiate the change clients need to make to improve their financial health. By providing incentives for individuals to make better financial decisions, a shared-value model in banking can generate higher savings levels, lower the risk of over-indebtedness, and increase wealth and financial resilience for society as a whole.

In insurance, Vitality's Shared-value Insurance model uses behavioural change to improve the health of clients resulting in lower risk premiums for clients, better persistency and profits for the insurer, and a healthier society.

SHARED-VALUE BANKING MODEL

CLIENT
Improved wealth, better value through improved price and benefits
Exceptional client experience

SOCIETY
More disposable income
Increased long-term savings
Less reliance on state and family

BANK
Improved product usage
Lower risk

Discovery Bank's Shared-value Banking model leverages the Vitality Money programme to change behaviours in banking. It considers individual financial behaviours to understand how financially healthy clients are. In turn, clients get rewards when they exhibit financial behaviours and outcomes that reflect that they are managing their money well.

Through the Vitality Money programme, clients get an understanding of behaviours that influence their financial wellbeing and how to manage their money or manage it better.

[4] *The application of shared value in banking: A focus on interest rates and the potential benefits for South Africans, March 2021*

Shared value in banking / CONTINUED

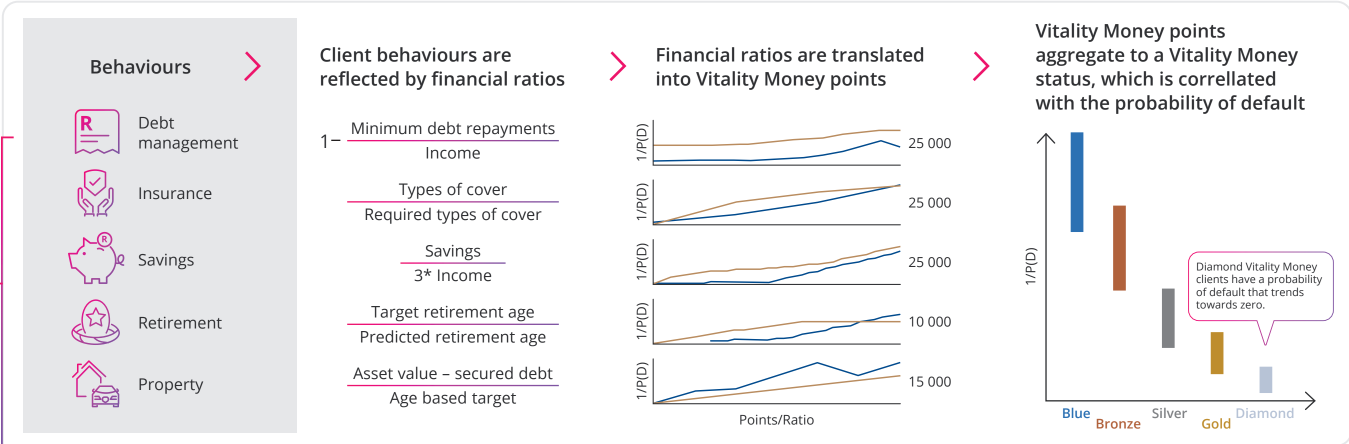
Vitality Money rewards clients when they:

1. Spend less than they earn
2. Have sufficient emergency funds
3. Pay off their property
4. Invest for the long-term
5. Have essential insurance in place.

The five controllable behaviours, if left unmanaged, explains 80% of risk of defaulting on their financial obligations. Vitality Money uses behavioural science and research that shows how changing these five behaviours can improve overall financial health.

Being able to assess financial health based on behaviour removes the dependence on statistically assessing an individual's financial position by their income level. Vitality Money unlocks benefits for all Discovery Bank clients based on how well they manage their money on an ongoing basis. To make it easy, Discovery Bank measures financial health based on the five behaviours and awards a single Vitality Money status – Blue, Bronze, Silver, Gold or Diamond. The higher a client's Vitality Money status, the clearer the correlation that they manage their money well and exhibit a lower risk of credit default.

By identifying and modelling individual behaviours, Discovery Bank can more accurately stratify clients.



Spending less than the monthly household income: Debt needs to be carefully managed so that people avoid spending the bulk of their monthly income on paying off debt and not having any money left for short-term saving and long-term investing. In the retail affluent segment, 28% of South Africans spend more than they earn[1].

Having protection for insurable events: Insurance goes hand in hand with saving to keep financial assets secure when unexpected events happen, such as a car accident or illness. Having insurance that covers these emergencies, means that financial plans can stay intact when life-changing events occur. On average, over a quarter of South Africans do not have insurance, exposing them to catastrophic risks.

Have sufficient emergency funds: Savings offer a safety net for life's unexpected expenses. By having enough savings built up, people do not have to cash in retirement investments or go into debt when these expenses arise. Saving money plays a major part in long-term financial independence and wellbeing. South Africa has one of the lowest household savings rates in the world. This is further demonstrated by the fact that over 50% of emerging middle-class households in South Africa are classified as financially exposed or financially unstable[2].

Investing for the long-term: When in retirement, people still need an income to pay for monthly expenses. To stop working at some point and not be reliant on a monthly income from a job or state pension, it's crucial to have investment assets that can generate this income in retirement. Many South Africans struggle to maintain their lifestyle, especially in retirement.

Paying off property: Whether buying a house or choosing to rent, it's important to plan for this expense in retirement. Property management and retirement planning are closely related. People either need to have a home that is paid off before retirement or have enough savings built up to cover rent and living expenses in retirement. In South Africa, 50% of people between 55 years and 65 years still have outstanding balances on their mortgages[1].

[1] *Discovery Retail Affluent survey*
[2] *UNISA SA Household Financial Wellness Index 2014*

Impact of shared value on banking

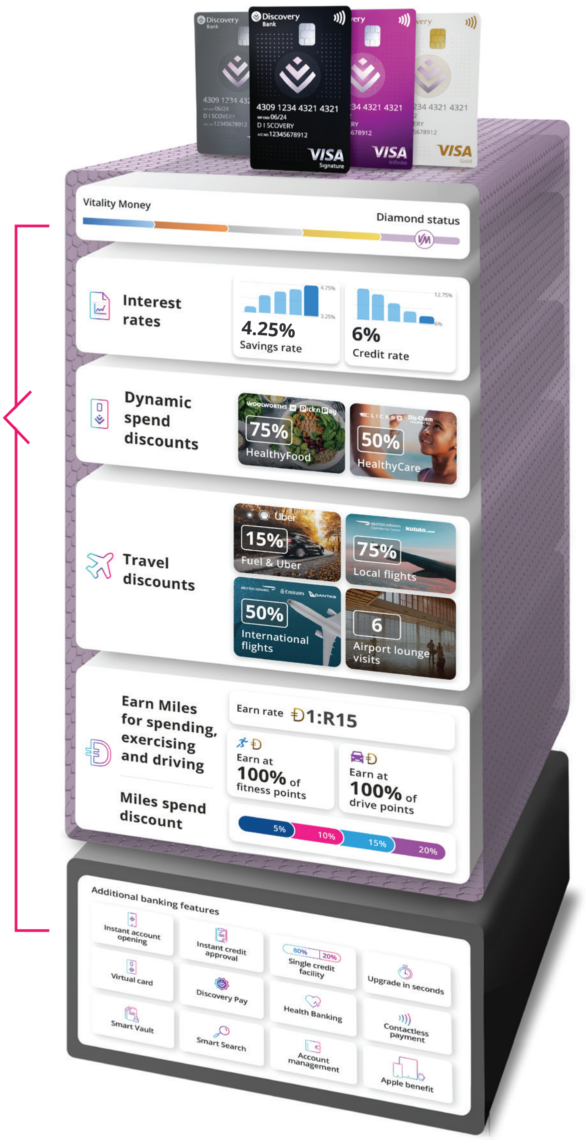
Early signs since inception indicate that Vitality Money is effective in incentivising clients to change their behaviours and rewarding clients who manage their money well.

Clients with a higher Vitality Money status are displaying strong signs of financial resilience. Clients on Gold and Diamond Vitality Money status are 99% less likely to be in arrears, have deposit amounts more than 17 times the average, and spend over 4.5 times more than clients that are unengaged, regardless of income level.

This enables a **shared-value stack of rewards** in four key categories, namely interest rates, spend discounts, travel rewards, and Discovery Miles. Each benefit is the richest in the industry in their respective categories.

Through Dynamic Interest Rates, the total client base has benefited with boosts on savings and saved on their borrowings. Sharing value through rewards along with a simple and intuitive digital banking experience has resulted in Discovery Bank taking on more clients, growing their accounts and having the fastest growing deposit book in the country with over R8 billion[5] in deposits.

The Discovery Bank **Shared-Value Rewards Stack**



[5] *As at 30 June 2021*

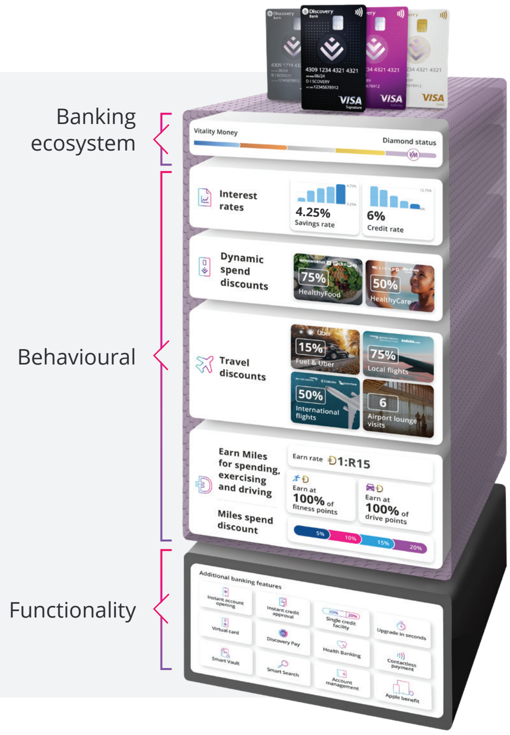
A **full-service shared-value** bank

Discovery Bank's shared-value proposition focuses on high-quality client growth, attracting deposits, growing quality advances, having powerful shared-value fundamentals and currency and lastly, to have market-leading functionalities.

FY21 Annual results presentation

Strategic focus areas

1. High-quality client growth
2. Attracting deposits
3. Growing quality advances
4. Powerful shared-value fundamentals and currency
5. Market-leading functionality

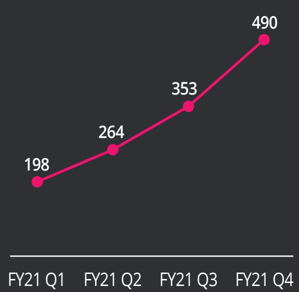


1 Robust growth to approximately 500 average daily sales with high-quality growth

New-to-bank daily sales

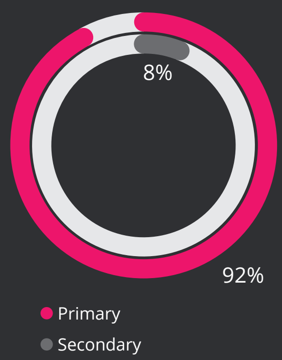
±500 average daily new-to-bank sales

Achieved the medium-term targets

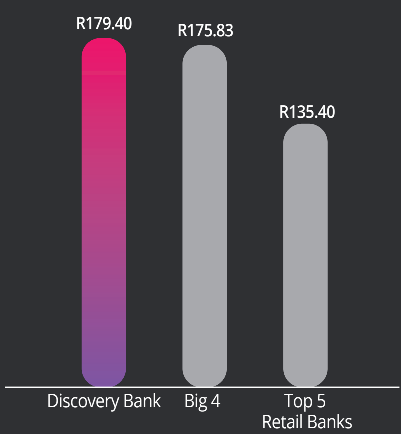


Quality client growth

Primary versus secondary clients



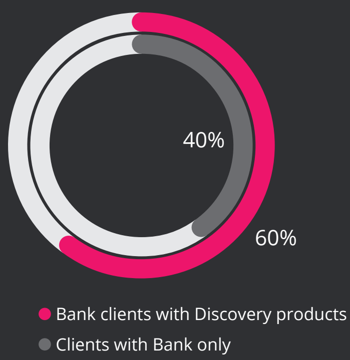
Average NIR per client per month



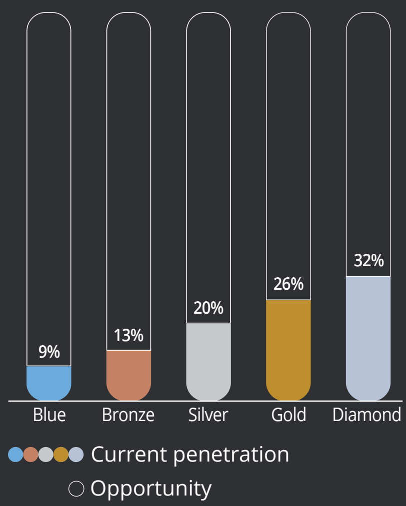
Big 4 and top 5 NIR is the client-weighted average
Big 4 include Standard Bank, FNB, ABSA and Nedbank
Top 5 retail banks include Standard Bank, FNB, ABSA, Nedbank and Capitec

Opportunity within the Discovery and non-Discovery client base

Discovery product uptake – Bank new business



Vitality Money penetration



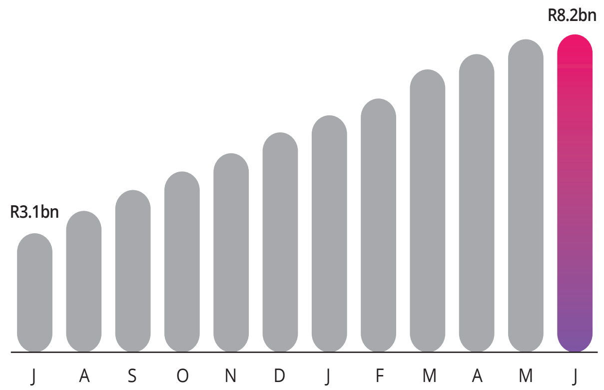
Significant effort has been expended in driving business growth with a comprehensive rollout of additional sales channels and targeted marketing campaigns. Driving sales is important, as the current environment resulted in a change in client behavioural patterns, and a savings culture has become evident. While savings underpins the liquidity position of the Bank, it does focus pressure on advance sensitivity and the business case. The Bank is acutely aware of the consequence of this change and has embarked on a broad balance sheet optimisation strategy.

2 Deposits have continued their strong growth trajectory

Consistent growth in retail deposits

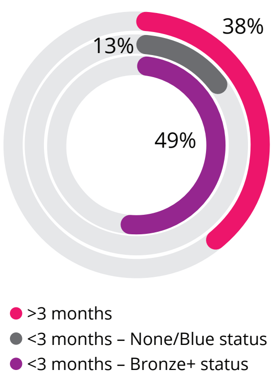
R8.18bn

Growth of 167% from July 2020 to June 2021 vs 7% for the market

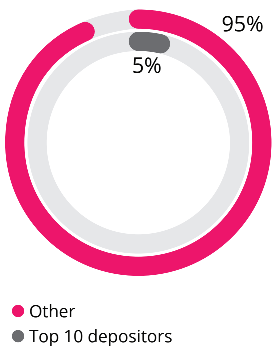


Deposits are sticky and diverse

Duration



Concentration



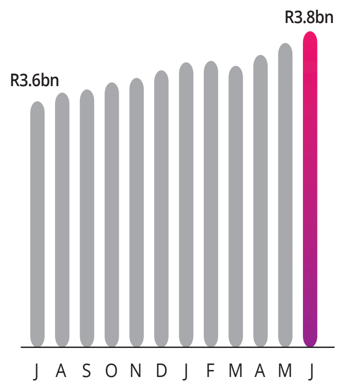
We have seen significant growth in our deposits while being mindful of managing our cost of funding while growing the book. We ensured that our top 10 depositors remain below appetite to not give rise to concentration risk.

A **full-service shared-value** bank / CONTINUED

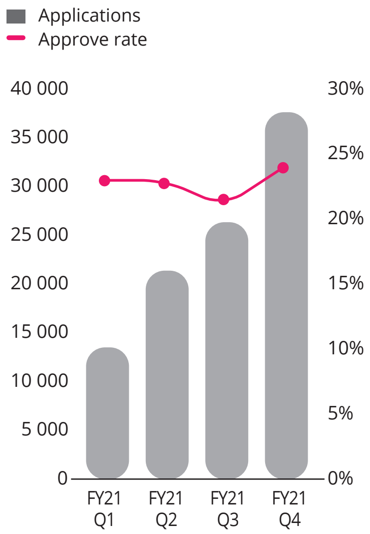
3 Deliberate decision to pursue a prudent, quality-focused credit strategy

Retail advances

Growth of 5% from July 2020 to June 2021 – above market growth of 4.5%

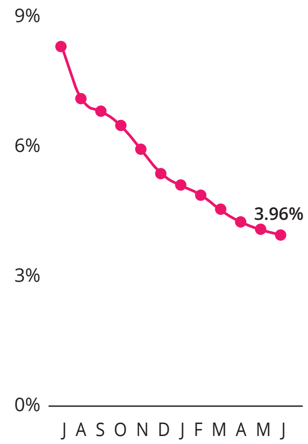


New-to-bank credit application metrics



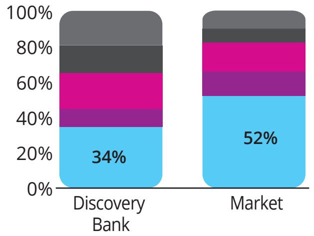
Credit loss ratio

(excluding COVID-19 overlay)

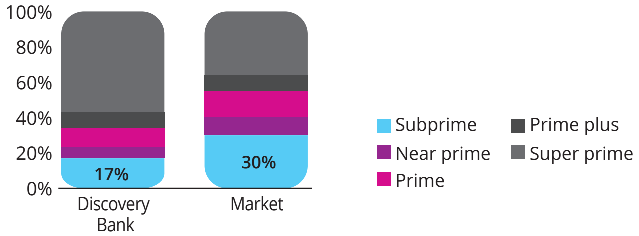


Superior credit risk metrics

New clients risk distribution
Jan – Mar 2021



Existing clients risk distribution
Jan – Mar 2021



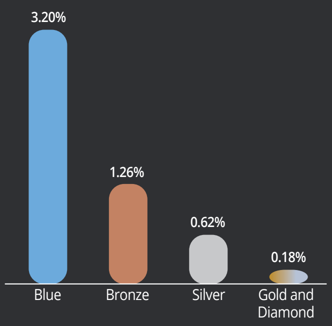
We continued with our prudent risk strategy to ensure that our clients' risk profiles are superior to those in the market. This can be seen in our downward credit loss ratio trend. Although the uptake for retail advances was slow, growth was still above market growth (Discovery Bank at 5% versus the 4.5% market growth).

4 Shared-value fundamentals emerging as expected with Discovery Miles as a powerful rewards currency

Shared-value fundamentals

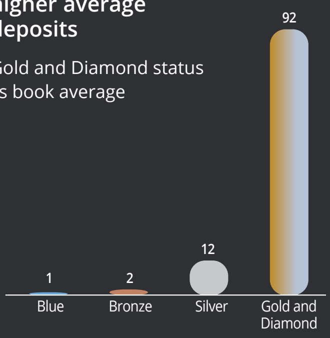
94%
lower arrears rate

Gold and Diamond vs Blue Vitality Money status



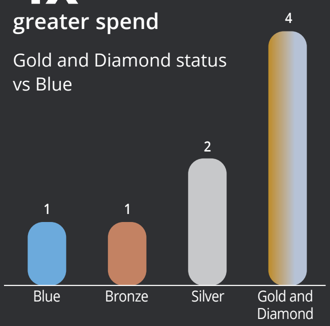
9x
higher average deposits

Gold and Diamond status vs book average



4x
greater spend

Gold and Diamond status vs Blue



The Discovery Miles currency is central to the Bank's ecosystem and the SA composite

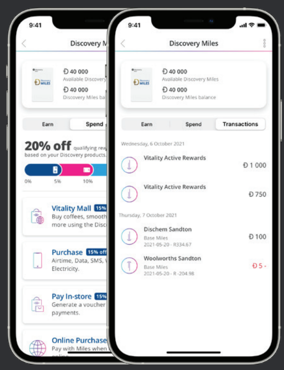
Earn Discovery Miles

Physical activity to Ɖ

Drive to Ɖ

Spend

HealthyLiving



Spend Discovery Miles

Online and in-store

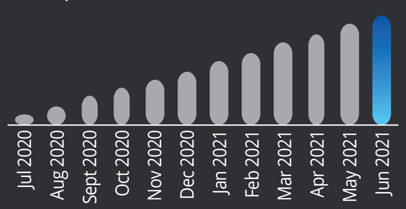
Prepaid products and services

Travel

Transfer and convert

Clients get up to **20% discount** when they spend their Discovery Miles in the Vitality Mall, online and in-store and on prepaid products and services

Cumulative Discovery Miles earned and spent



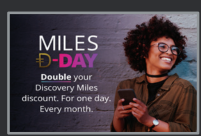
4.9bn earned in FY2021

2.9bn spent in FY2021

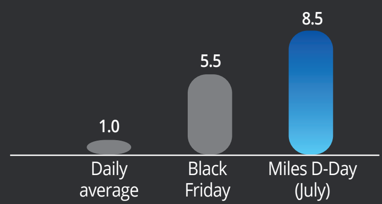
Continued innovation

New ways to earn

New ways to spend



Discovery Miles spend



Discovery Miles is central to the Bank's ecosystem and more valuable than cash with the additional discount available when clients spend their Discovery Miles in the Vitality Mall, in-store, online and on prepaid products and services.

5 Differentiated, market-leading functionality with a focus on digital sophistication

Continued innovation

Innovations successfully rolled out

Account origination

- Sign up 24/7/365 in <5 mins
- Transact immediately with a virtual card

Payments

- Apple Pay
- Discovery Pay

Account management

- Seamless account setup
- Manage accounts and cards in-app

Service

- Live Assist
- 24/7/365 online

Rewards

- Shared-value stack: Interest rates, shopping and retail discounts
- Discovery Miles are more valuable than cash at a broad partner network

Travel

- Discounts on local and international flights
- Lounges
- Priority FastTrack

Security

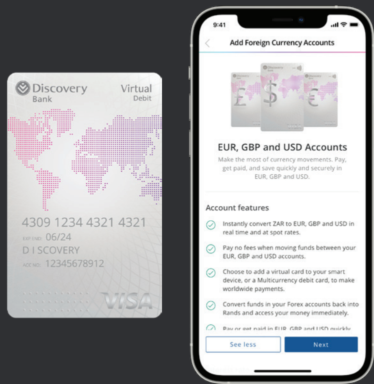
Four-factor protection:

- Smart delays: Geo-fencing and AI account monitoring, hard daily transfer caps, distressed facial recognition

Continued innovation

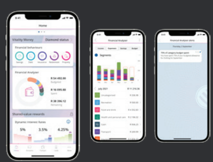
Several enhancements being rolled out from September 2021

Forex proposition

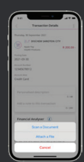


1. Simple account opening in under two minutes
2. Real-time exchange rates and transactions
3. Easily manage foreign currency allowances

Vitality Money Financial Analyser



Smart Vault



Health payments and Pay as you Gym

To date, the functional elements delivered by the team have been remarkable. Apple Pay was launched successfully, which had the additional benefit of creating a substantial uptick in Bank leads and sales. In addition to this, several core product initiatives and integration into the wider Group landed. Recently, the Bank also announced the launch of several unique features[7] to take it closer to its goal of creating the best bank in the country:

- A fully integrated foreign currency account capability for clients to transact and save in US Dollars, Euros and British Pounds, with real-time currency conversions and offshore allowance tracking.
- The Vitality Money Financial Analyser utilises our big data capability to categorise client expenditure with remarkable accuracy, create budgets at the touch of a button, and track spend, savings and income (and this is live on the Discovery Bank app today).
- The fully integrated Vitality Travel platform enables clients to book domestic and international flights, accommodation at over 2 000 local destinations, car hire, and travel packages directly from the Discovery Bank website and app (and automatically benefit from Discovery Bank dynamic lifestyle rewards at our partners).
- Share and asset trading (including crypto baskets) in the Discovery Bank app through a partnership with EasyEquities.
- The ability for clients to utilise their Discovery Invest funds as security for high-value credit facilities.
- An enhanced payment platform, Discovery Pay, that now caters to instant settlement of healthcare bills and Pay as you Gym functionality at over 150 Virgin Active and Planet Fitness gyms.
- Discovery Pay will be made available to all Discovery Health and Vitality members. This will give them access to several core Bank capabilities (including Vitality Money, Discovery Pay, Discovery Miles and the Vitality Travel platform) at no monthly fee. This is a major step to making the Bank the front-end to the whole Discovery SA composite.

The Bank's sophisticated digital banking platform is now available across all devices. While still a mobile-first bank, we've enhanced our banking features to be accessible across all devices, including laptops and tablets, while still offering the highest security protections no matter which device our clients prefer.

Our new online banking platform has transactional capabilities with a familiar design and features our clients have come to know and love on the Discovery Bank app. Online banking gives the convenience of using a larger workspace, and the rich layout that's been created for tablet use has been widely celebrated and now augments our digital flexibility.

For example, clients can:

- See all their accounts and cards in one glance on one convenient dashboard and manage them with our quick links.
- Manage their beneficiaries, personal information and settings, and do their day-to-day banking, such as making digital payments and transfers, with a step-up to the banking app to maintain the highest security levels.
- Personalise and download statements and find specific transactions with Smart Search.
- Access pictures and files stored on their device to conveniently attach directly to transactions, enabling clients to use their bank accounts as a secure and fully searchable vault for all their records.
- View our helpful how-to videos.

Our latest updates on the app include the updated account origination process, Discovery Pay, Live Assist and Smart Vault functionality. We believe these features further entrench how Discovery Bank continues to provide cutting-edge banking.

[7] *Discovery Day – 30 September 2021*

02

Risk management approach

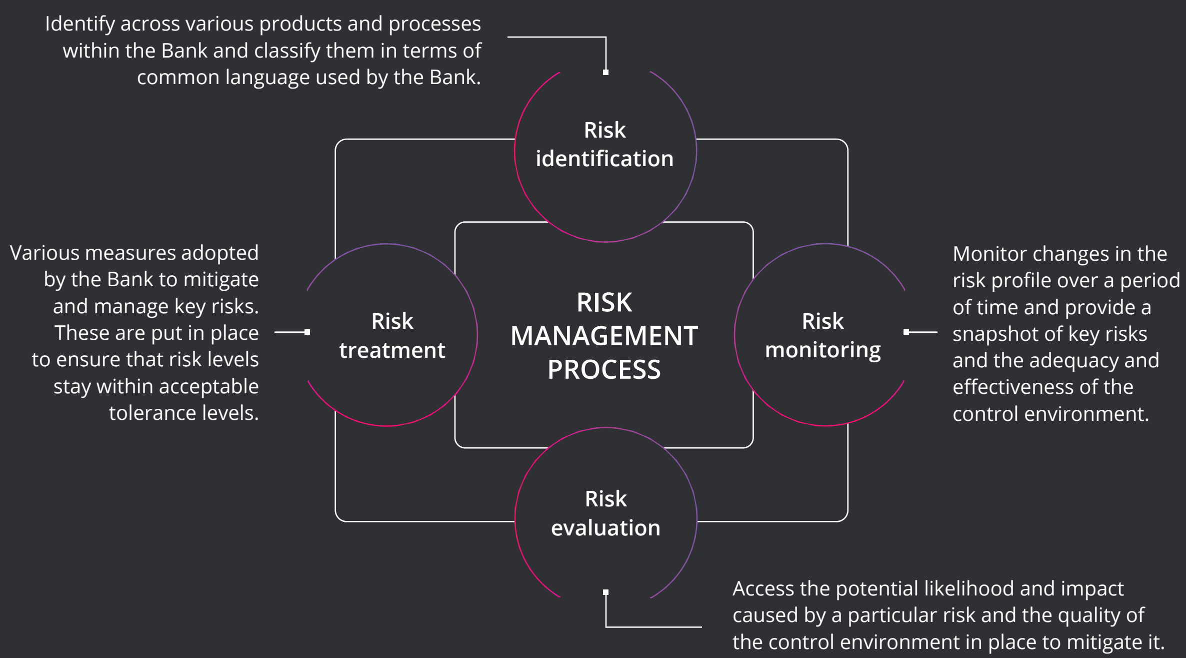
Discovery Bank

Risk management approach

Risk management involves the process of identifying events relevant to the Bank's objectives, measuring them in terms of impact and likelihood, monitoring the risks and managing them by developing risk mitigation strategies.

The Bank defines risk as the possibility of an event materialising that can have a negative or positive impact on the Bank, and as such, encourages risk-based decision making.

Risk-management is a process which is:
- Ongoing within the Bank
- Put into effect by all Bank employees
- Applied across the Bank and its various individual operations
- Designed to identify potential threats and opportunities affecting the Bank
- Used to manage risks within the defined appetite and tolerance limits.

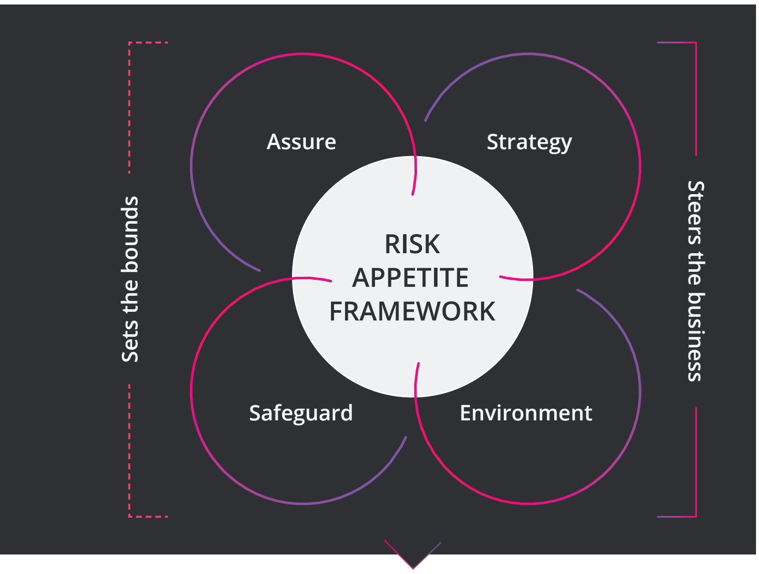


For each significant risk type faced by the Bank, a policy framework exists which is divided into policies, standards and procedural documents. By identifying and proactively addressing these risks and opportunities, the Bank can protect and create value for its stakeholders.

Discovery Bank's key risk types include the following:

- Strategic and business risk
- Market risk (including Interest Rate Risk in the Banking Book)
- Reputational risk
- Model risk
- Credit risk
- Operational risk
- Liquidity and funding risk
- Regulatory risk

Discovery Bank has identified and considered all risks currently within the Bank's environment to ensure no unnecessary risk exposures are brought onto the Bank's balance sheet or brought within its operating environment. The identified risks are embedded within the Bank's risk environment and form part of the Bank's daily, weekly and monthly monitoring processes. Any potential breaches are flagged immediately, and remedial actions are agreed upon. All of these are managed through the Risk Appetite of the Bank.



Each step of the Risk Appetite is fundamental to the process to ensure a measurable, executable and functional framework has been implemented for the Bank. Each core risk appetite component is then developed by considering questions such as the following:

- What risks will we not accept?
- What are the risks we are exposed to, and what risks do we need to take?
- What risks are we willing to bear, and to what level?
- What resources are required to manage those risks?

During 2020/2021, the Bank executed its shared-value strategy and ensured the business targets and objectives in each risk area were met. This was managed by the Combined Assurance function.

Combined Assurance approach

To achieve better cohesion across the different assurance forums in the Bank, a Combined Assurance function is in effect. The purpose of Combined Assurance is not to alter the mandates of the assurance providers but rather to coordinate the efforts of assurance providers in an integrated assurance approach to ensure that material risks are addressed efficiently.

The Combined Assurance Forum mandate is to ensure that all key risks have controls that are being managed by the different risk areas. The risk members which consist of Internal Audit, Regulatory Compliance, Balance Sheet Management, Credit Risk and Enterprise Risk Management; have identified key risks from their areas and linked them to the delivery of each of the Bank's strategic objectives. The Combined Assurance Forum was established in January 2021, in which a planner was drafted to ensure that risks identified link to the Bank's strategic objectives. Combined risk assurance is a coordinated approach that ensures that all assurance activities provided by management, internal assurance providers and external assurance providers adequately address material risks facing the Bank and that suitable controls exist to mitigate these risks to an acceptable level. Within the lines of defence, Discovery Bank has an independent Internal Audit Function, a Risk Management Function and a Compliance Function which, while independent, provide combined assurance in a coordinated approach through:

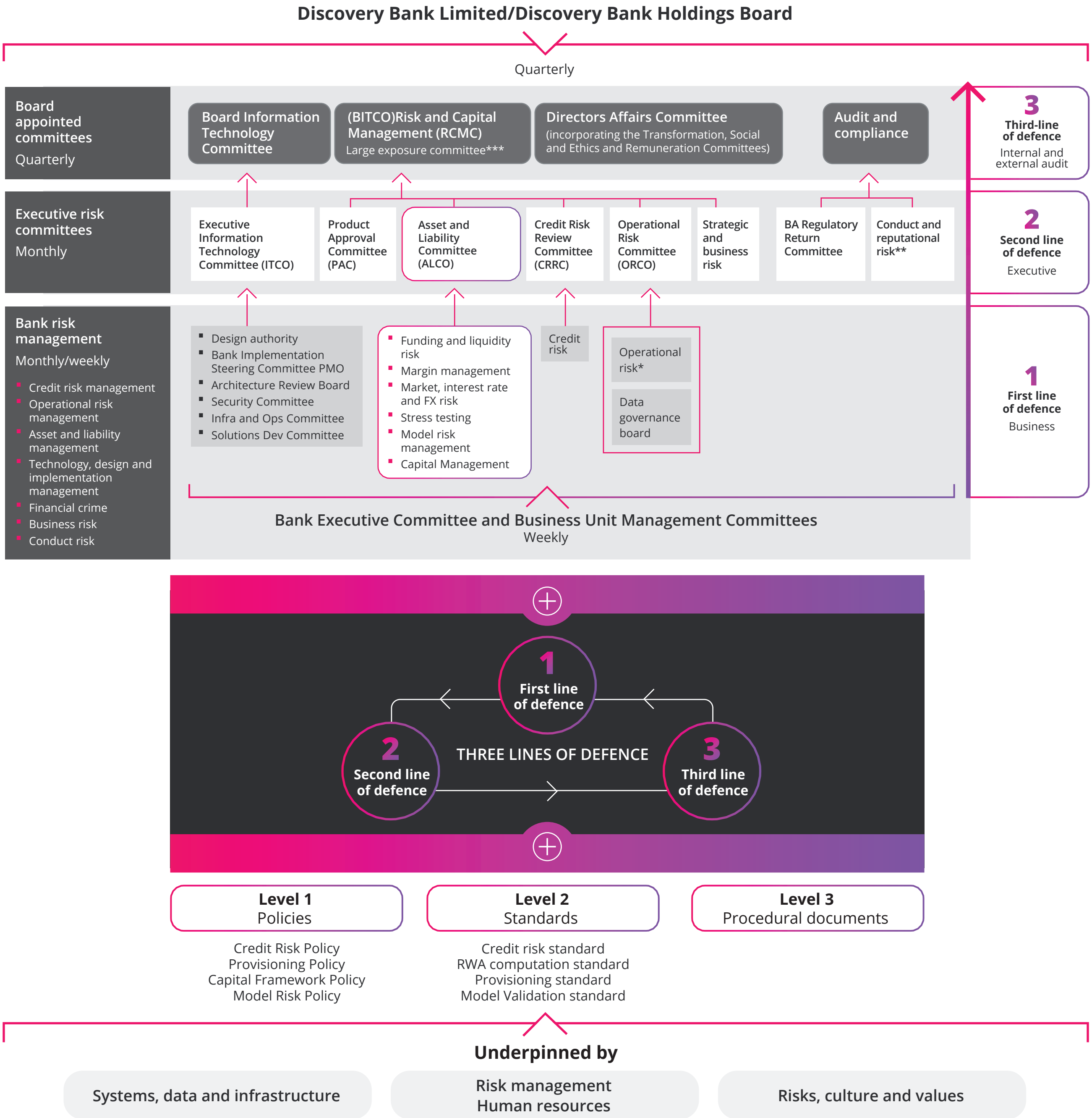
- Aligning risk management activities with assurance activities. This will also assist the regulators and auditors to review the effectiveness of the risk management system.
- Providing the basis for identifying any areas of potential assurance gaps and duplication of the resources within the Combined Assurance Framework.
- Informing the Discovery Bank Board as well as the Discovery Bank Audit and Compliance Committee (ACC) and Discovery Bank Risk and Capital Management Committee (RCMC) and assisting to provide a coverage view regarding the Combined Assurance status in the Group Report.
- Providing an integrated assurance service and enhancing accountability. As such, it contributes to the prevention of business and corporate failure as well as to business success and value creation.
- Ensuring an adequate and effective risk control environment aligned with risk appetite, ensuring the integrity of the risk related reports thereby informing better decision-making.

The organisational strategy is core and serves as the basis for the identification and formulation of objectives as part of the drive to implement the strategy. In essence, controls associated with the risks will be utilised and modified to manage risk within appetite levels. Therefore, the combined assurance planner includes each of the Bank's strategic objectives, key risks identified by each risk area, proposed key controls, control theme (areas responsible for managing the identified key risks and controls), and application of the risk monitoring plan through a three-year financial plan.

Risk management approach / CONTINUED

The strategy, objectives, high inherent and residual risks, and guidance received from the risk governance committees will inform the priorities to be included in the coverage. Furthermore, the Bank's Combined Assurance Forum has identified key material impact risks from non-combined assurance stakeholders, input such as the Finance, HR and Research and Development (R&D) departments for input and updates; in ensuring a holistic Combined Assurance approach. Finally, the forum will continue to track progress, raise risks and concerns in ensuring all identified key controls provide adequate control coverage.

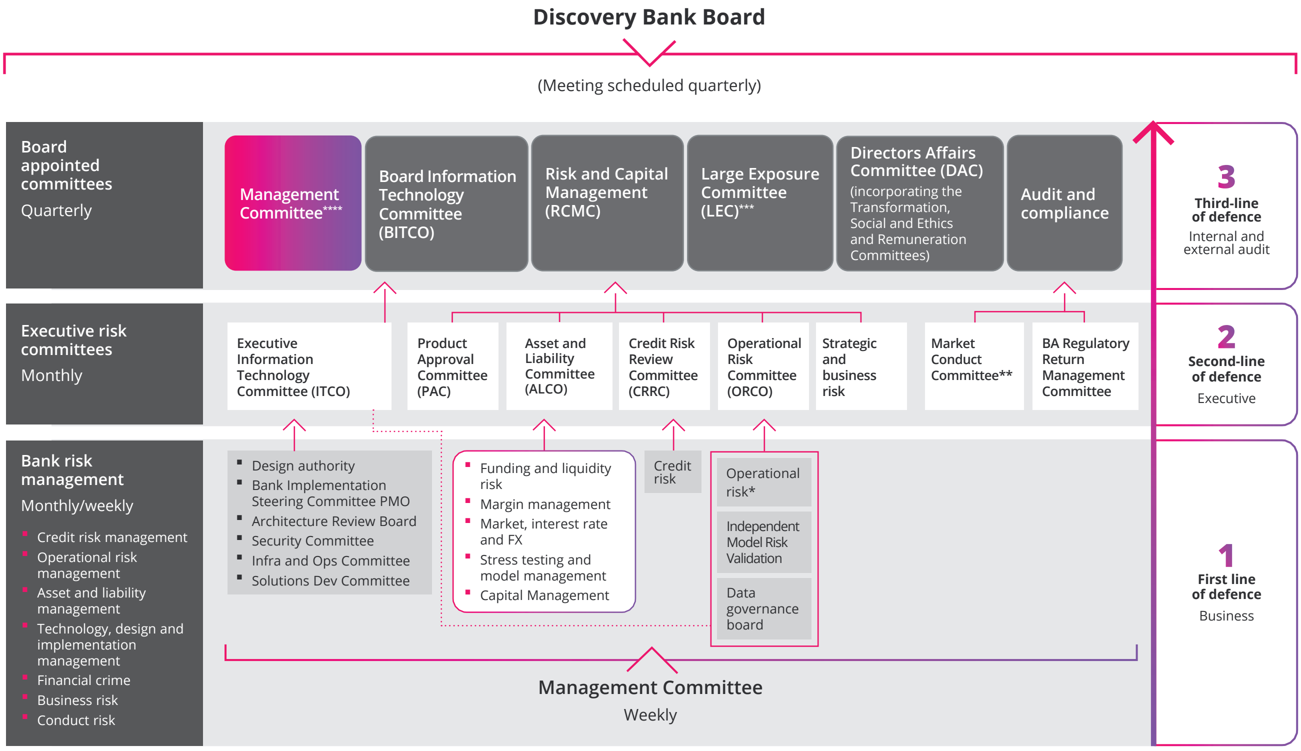
Key components of Discovery Bank Enterprise Risk Management



A robust governance framework is in place to ensure risks are adequately monitored and mitigated. The third line of defence is operational within the business, with fully functional Bank-board-appointed committees. Strategies, policies and controls are fit for purpose and continue to evolve with the maturity of the business.

Risk management approach / CONTINUED

A review of the Bank's governance framework is currently underway to streamline, align and remove duplication between weekly executive and management committees.



* *Operational Risk includes IT risk, regulatory compliance risk, including financial crime as per Discovery Bank risk taxonomy.*

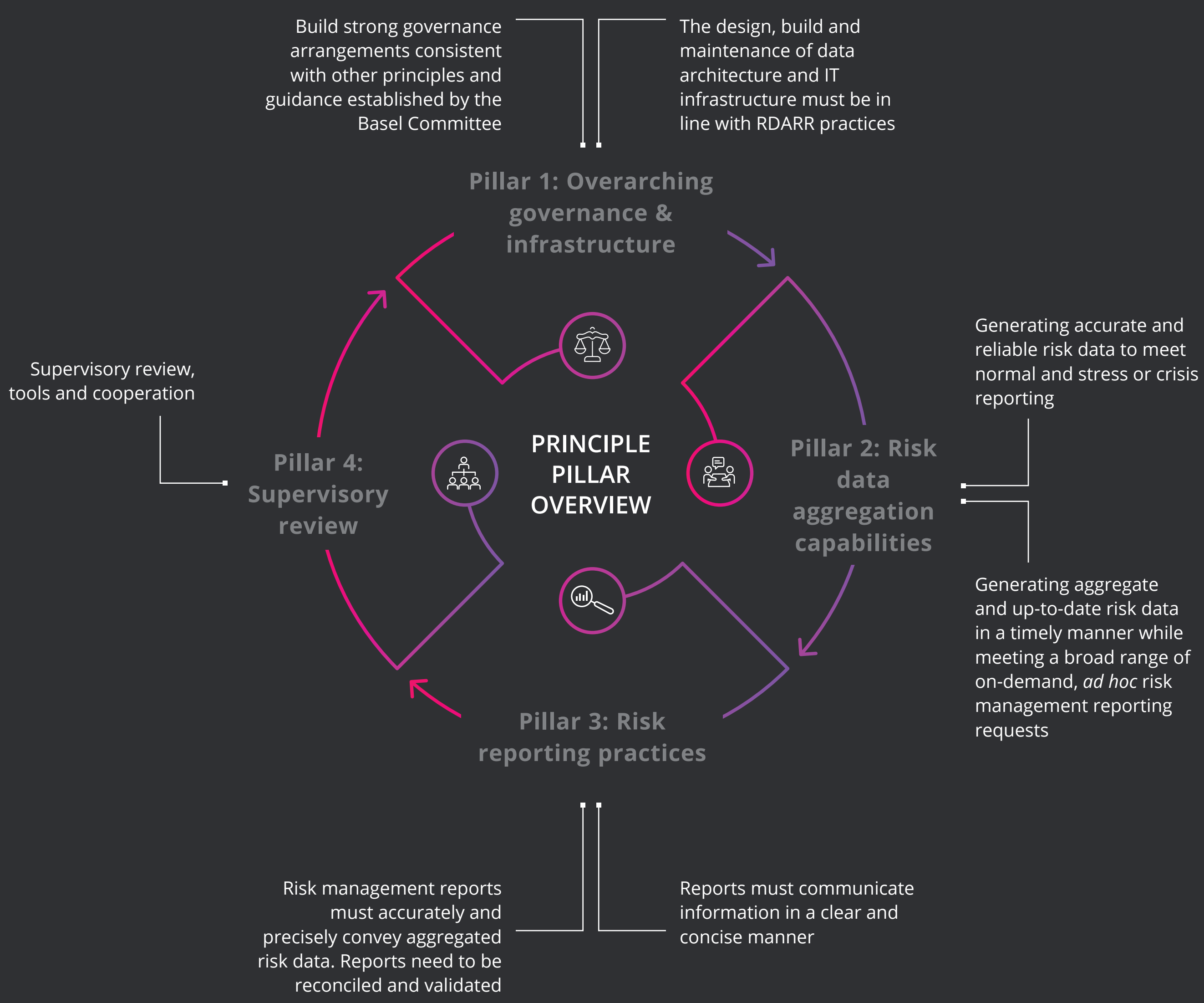
** *Reputation risk falls under strategic and business risk as per the Discovery Bank risk taxonomy. The Board has elected to incorporate reputation with market conduct risk into the audit and compliance board subcommittee.*

*** *Large Exposure Committee - The LEC is a hybrid committee created by statute and is not a board committee. Its membership is constituted from both the board of directors and executive management. A formal advisory link between the Credit Risk Review Committee and the Large Exposure Committee exists*

**** *Management Committee to be implemented in Q4 2021.*

Compliance with principles for effective Risk Data Aggregation and Risk Reporting (RDARR)

In addition to the assurance forum created, the Bank is making incremental strides with the implementation of the Risk Data Aggregation and Risk Reporting (RDARR) processes. RDARR will ensure accurate measuring and reporting of risk data among other BCBS 239 principles introduced. The onsite visit from the Prudential Authority (PA) focussed on the progress to date with regards to the 11 principles, and no concerns were highlighted during the engagement.



Risk management approach / CONTINUED

Compliance with these principles demonstrates that the Bank is largely compliant, and business areas are working to ensure they are fully compliant.

Fully compliant	Largely compliant	Materially non-compliant	Not implemented

RDARR Capabilities and Practices

Pillar	Status	Component	Justification
Governance and architecture	Largely compliant	**Principle 1:** Governance	We have developed a governance committee structure underpinned by clear risk data ownership and responsibilities. Minor shortcomings relating to the **documentation of a centralised service level agreement, BCP and BIA** for data-related processes and **reporting during stressful conditions** have been identified.
		Principle 2: Data architecture and IT infrastructure	Real-time and accurate access to a single trustworthy golden source of record exists for most of our risk data. Asset change (enhancement or fix) is centralised and in real time.
Risk data aggregation capabilities	Largely compliant	**Principle 3:** Accuracy and integrity	Our ability to consume, validate the accuracy and monitor the integrity of data in real time throughout the reporting and information landscape is operational. A need for a **standardised data aggregation approach has been identified where manual processes** exist.
		Principle 4: Completeness	We have a sufficient level of control in our single enterprise warehouse, across our reporting landscape, and supporting our business operations and analytics.
		Principle 5: Timeliness	Our capability to produce risk data on a timely basis, including the production of rapid risk data to assess critical risk in stress or crisis is treated the same way as with normal situations. **Documentation of our processes under normal and stress or crisis periods** require documentation.
		Principle 6: Adaptability	The design and configuration of risk reports is predominately a business task, with additional support from IT. The Bank's approach to self-service reporting enables the capability for quick decision-making and supports data customisations (such as dashboards and weekly risk reports).
Risk reporting practices	Largely compliant	**Principle 7:** Reporting accuracy	Where critical reports are concerned, an independent validation process exists, which includes an appropriate sign-off process (regulatory reporting). As we continue to develop this capability across the Bank's risk taxonomy, we are **continuously assessing and documenting controls.**
		Principle 8: Comprehensiveness	The Enterprise Risk Management Committee (ERCO) and other committees are in place and provide comprehensive reports that allow management to make informed decisions across all in-scope risk areas (credit, market, operational, liquidity, business, and strategic risks).
		Principle 9: Clarity and usefulness	Discovery Bank maintains an appropriate balance between risk data, analysis and interpretation, and qualitative explanation. A higher degree of qualitative interpretation is evident in committee packs that are distributed to senior management and higher.
		Principle 10: Reporting frequency	The purpose of each report is to routinely assess the committee's mandate and whether its frequency is appropriate.
		Principle 11: Reporting distribution	Discovery Bank ensures that reports are distributed to the relevant parties while consciously ensuring that confidentiality is maintained through committee distribution lists. A role-based access control approach is under review.

Channels to communicate risks

The 'three lines of defence' risk management model promotes transparency, accountability and consistency by clearly identifying and separating business management from governance and control structures.

The three lines of defence model is used to communicate and manage risks:

1 Business units, through the EXCO committees, act as the **first line of defence,** and are:

- Responsible for the day-to-day management of risk and control within the business operations, and
- Deliver the strategy and optimise business performance.

2 **Second-line defence** functions comprise of the Bank's risk management function and compliance function. These are independent functions that provide limited assurance to the Board concerning the adequacy and effectiveness of the overall risk management system. These functions have the authority to communicate with any employee and obtain timeous access to any records required to carry out their responsibilities:

- The risk management function is independent (of first-line business management) and is responsible for designing and ensuring the operational effectiveness of the risk management system for all risk types. This is a centralised function, headed up by the Chief Risk Officer.
- The compliance function ensures that the Bank can meet its regulatory obligations and promotes a corporate culture of compliance and integrity. This function also provides limited assurance to the Board concerning the adequacy and effectiveness of the overall risk management system.
- Second-line defence functions comprise of the following key functions:
  - Credit risk
  - Operational risk
  - Security risk
  - Balance sheet management
  - Information management.

3 **Third-line defence** comprises of the Bank's independent assurance functions (internal and external audit) that provide an independent and balanced view of the effectiveness of the first- and second-line functions as defined above.

- Bank internal audit performs an assessment on the effectiveness of the risk management system on an annual basis or when requested to do so. The findings from these audits (external and internal) are reported to the Bank Audit and Compliance Committee and various other governance structures across the Bank.

Risk appetite

To execute the Bank's strategy insofar as it applies to the risk appetite framework and achieve an adequate balance between risk and reward, the Bank adopted the following principles.

- We seek to maintain a financially sound position by ensuring that the Bank is well capitalised and funded and will continue to meet its internal and regulatory capital and liquidity requirements.
- We avoid instances where the Bank is exposed to very volatile or potentially extreme outcomes which could threaten the viability of the business.
- We only accept risks that provide an appropriate balance between risk and reward.
- We only accept risks for which the Bank has the required expertise and is skilled at managing.
- We only accept risks arising from products sold to help clients improve their financial wellness while generating sustainable long-term revenues for Discovery.

Our risk appetite considers all the risks pertinent within the Discovery Bank risk universe to ensure no unnecessary exposure is introduced onto our balance sheet or within our operating environment. The associated parameterisation of this is embedded in our risk response, articulated in the Risk Appetite Statement and forms an integral part of our monitoring processes. Overall, the risk portfolio is "at appetite" with no concerns in terms of risk management.

Key risks

Strategic risk

Strategic risk refers to the risk inherent in the chosen strategies of the Bank and the possibility that these strategies may not result in the desired or planned outcome. These strategies, in the context of Discovery Bank, refer to growth optimisation, products, channels, customer value offerings, partnerships, marketing and systems. Strategic risk is, therefore, the possible source of loss that might arise from the pursuit of an unsuccessful business plan, making poor business decisions, substandard execution of decisions, or inadequate resource allocation.

Business risk

Business risk refers to the risk caused by uncertainty in the ability of the business to generate sufficient returns given the current and changing operating environment in which the Bank operates. It is the risk that the Bank faces due to fluctuations in earnings, readily observable and driven mainly by volumes, margins and fees. In the extreme event, business risk can be seen as the risk of being unable to cover one's cost base should all or most of an entity's earnings fall away.

Banks typically have three major components of business risk in their profit and loss:

- **Net interest income**
  - Net interest income is impacted by the Bank's margin management and is dependent on business volumes, funding costs and other external factors.
- **Non-interest revenue**
  - Non-interest revenue will be affected by the volatility of the fee and commission income linked to the Bank's lending business. The stability of fee income may also be affected by economic cycles.
- **Operating expenses**
  - The level of operating expenses will depend on the proportion of variable costs to total costs and management's ability to reduce these in times of stress. Predictability of other expenses and adherence to predefined budgets is also key.

An adjacent priority is retention of, in addition to our overall staff complement, key individuals within the Bank, with interventions introduced to alleviate work pressure, managing the blurring of the workday as a consequence of work-from-home realities and ensuring a healthy work-life balance. This is to ensure longevity within the Bank and appropriate coverage within the business.

Key business risk metrics are managed through the risk appetite, and governance processes are in place to manage any undue risk that might arise from these.

Reputational risk

Reputational risk is a risk of loss resulting from damages to the Bank's reputation consequent to an adverse event that affects the company irrespective of whether the event is the result of the Bank's own actions or an external party's actions. Reputational risk losses typically manifest through other risk types of events. For example:

- Business risk: Lost revenue due to lower client volumes/ customer attrition.
- Operational risk: Increased operating regulatory costs.
- Liquidity and funding risk: Increased funding costs or loss of liquidity.
- Other: Destruction of shareholder value.

Reputational risk is difficult to quantify as it arises when one or more of the other key risks manifests and, therefore, is indirectly captured therein. In particular, operational risk events typically have the greatest propensity to result in damage to the Bank's reputation. The Bank approaches the management of reputational risk not dissimilar to the other risk types, through a process of identification, assessment, monitoring, mitigation and controls.

The typical sources of reputational risk are related to:

- Regulatory compliance
- Ethical practices
- Financial performance
- Corporate governance.

Discovery Bank has a low risk tolerance for reputational risk. The Bank adheres to best practices in providing quality services to clients. Besides customer grievance, another causal factor of reputational risk, is addressed in a timely and effective manner. The Bank monitors both social media channels and traditional media to track any complaints against the brand. Client feedback is monitored through the client contact centre on a real-time basis. Discovery Bank aims to remain a client-focused, fair and transparent business that delivers a world-class product to clients. If any reputational event occurs, it will be investigated and the results thereof, as well as the proposed response plan, will be reported to the Enterprise Risk Committee (ERCO).

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems (for example, the breakdown of IT systems, human error, fraud, other deficiencies in internal control) or from external events (natural disasters, external crime, etc.). This definition includes compliance, legal and financial reporting, information security, security and execution risk but excludes strategic and reputational risk.

The various business activities that are undertaken by Discovery Bank expose the organisation to numerous types of operational risk:

- **Execution, delivery and process management:** The risk to service provision arising from a failure to carry out operational processes in an accurate, timely and complete manner.
  - **Internal fraud:** The risk of deliberate acts by employees with the intention to obtain an advantage or cause harm to the organisation or third parties.
  - **External fraud:** The risk of deliberate acts by external parties to obtain an advantage or cause harm to the organisation or third parties.
- **Information technology:** The risk associated with the use, ownership, operation, involvement, influence, and adoption of IT within the Bank.
- **Property and facilities management:** The risk of ineffective design or management of physical infrastructure and equipment.
- **Sales, products and business management:** The risk that the organisation, its products or employees fail to meet its professional, legal and fiduciary obligations towards its clients or third parties.
- **Data governance:** The risk of ineffective management of data with respect to quality, architecture, security and privacy.
- **Outsourcing:** The risk of failure, non-performance, ineffective management and/or oversight of an outsourcing partner, a binding agreement or a service level agreement.
- **Business continuity:** The risk of an inability to respond to incidents and business disruptions to recover business as usual activities.

It is the Bank's objective to minimise all losses or reputational damage that may arise from these operational risk types. To achieve this objective, the Bank has in place a robust set of processes that enables it to identify operational risks and mitigate potential losses arising.

Risk management approach / CONTINUED

Key achievements to date

- **Risk awareness:** Risk and incident management is part of the compulsory training modules that need to be completed annually by all employees. The tone from senior management in the ERCO is used to cultivate a positive risk culture within the Bank.
- **Operationalising risk assessment against appetite:** Operational risk management awareness and skills within the organisation have been enhanced, with a specific focus on tracking the management of risk against the defined risk appetite. For key risks that are approaching appetite or trending outside of appetite, the operations risk management team ensures comprehensive control reviews are conducted and mitigating action is implemented to trend back within the defined risk appetite.
- **Continuous improvement of risk management capability:** We have continued to rollout and embed simple, efficient, and effective risk tools to entrench risk management within the Bank. ORM advisory and support services to the business have been prioritised to support the execution of the business strategy and the strengthening of key controls.

The current focus of operational risk

- **Emerging risks and scenario planning:** An 'Enhance the scenario' analysis process has been adopted with a focus on data quality and incorporation of emerging risks.
- **Combined assurance:** The Combined Assurance Forum mandate is to ensure that all key risks have controls that are being managed by the different risk areas. The risk members which consist of internal audit, regulatory compliance, balance sheet management, credit risk, and enterprise risk management have identified key risks from their areas and linked them to the delivery of each of the Bank's strategic objectives. The Combined Assurance Forum was established in January 2021 in which a planner was drafted to ensure that risks identified link to the Bank's strategic objectives. The combined assurance planner includes each of the Bank's strategic objectives, key risks identified by each risk area, proposed key controls, control theme (areas responsible for managing the identified key risks and controls), and application of the risk monitoring plan through a three-year financial plan.

Regulatory risk

Discovery Bank conducts its business activities within a highly regulated environment and has zero tolerance for regulatory risk. Implementation and enforcement of the recent Protection of Personal Information Act (POPIA) through the organisation and across different data platforms were successful.

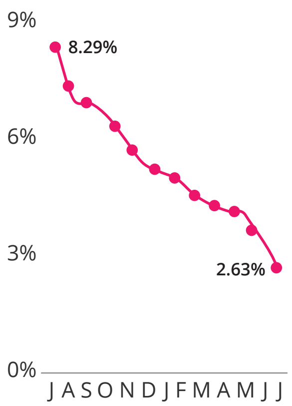
Credit risk

The COVID-19 pandemic has triggered changes in the way we approach credit risk. We had to adapt and reground our impairment models to ensure we remain in step with current realities and appropriately relevant. Changes include segmenting the creditworthiness for specific workplace sectors, not only at an industry level. When considering our core purpose to be a force for social good, it was also important to be socially responsible in our collections process, sensitive to our clients' changing financial circumstances.

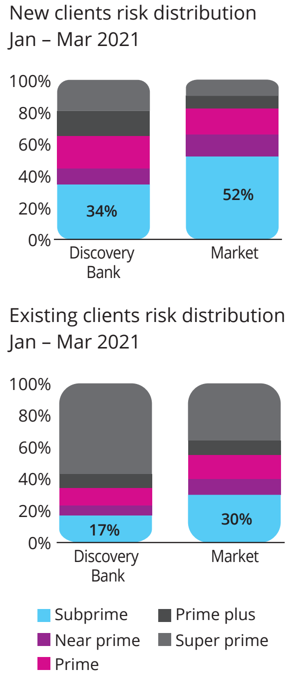
Although the primary aim of collections[8] activity is to obtain sufficient payment from the client to return the account to a non-arrears status, significant focus is placed on rehabilitating the client and improving their financial position to prevent any repeat behaviour. This is an integral component of the behavioural model and the consequential improvement in the financial health of the client.

The Bank's deliberate approach is to pursue a prudent, quality-focused credit strategy. Our portfolio[9] shows a superior credit quality compared to that in the market, with credit loss ratios trending downwards.

Credit loss ratio
(excluding COVID-19 overlay)



Superior credit risk metrics



[8] Collections refers to the status of any account where the client is not meeting their contractual obligations, but the account has not yet been defaulted
[9] Employee webinar, September 2021

Risk management approach / CONTINUED

Discovery Bank further applies a consistent definition of default for regulatory and accounting purposes. The Bank's default definition for model development (considering a 12-month outcome period) considers whether:

- 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
- 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, not all the amounts due will be collected.

The new standardised approach for calculating the EAD of counterparty credit risk exposures was also successfully implemented on 1 January 2021. This approach was to replace the Current Exposure Method (CEM) with the Standardised Approach for Credit Concentration Risk (SA-CCR).

IFRS 9

Discovery Bank calculates all impairments and credit losses based on the International Financial Reporting Standards (IFRS) approach. The COVID-19 overlay provision was increased during FY21 and is included in the impairment numbers. The COVID-19 overlay provision anticipated potential future credit losses resulting from the pandemic and considers:

- Advances to clients employed in industries and sectors impacted by COVID-19
- Clients who applied for COVID-19 restructures
- Underlying Vitality Money drivers, like savings and debt scores
- Change in the utilisation and repayment behaviour of clients.

In aligning our reporting standards in addition to the adopted "Standardised Approach", Discovery Bank uses the following definitions:

Past due loans: The unsecured portion of any loan (other than a qualifying residential mortgage loan) that is past due for more than 90 days, net of specific provisions, is to be included in this category.

Default/credit-impaired: Default is defined on a facility level and considers both quantitative and qualitative factors as provided in the Basel capital framework. The qualitative criteria require banks to identify credit deterioration before the exposure becomes delinquent, considering "unlikeliness to pay" events, while the quantitative criteria require banks to look at the material delinquency status.

Regulation 67 of the Bank's act defines default as constituting both qualitative and quantitative components. Discovery Bank is guided by this definition and considers the various factors as outlined below:

Qualitative:

- The borrower is placed in debt counselling/debt review
- The borrower is deceased
- The facility has undergone a distressed restructure/special arrangement
- The facility has been transferred to charge off/legal status
- The client is under debt review
- The client is insolvent
- The facility is written off.

Quantitative:

- A material amount on the facility is 90 days or more in arrears.

Through the risk appetite framework, risk metrics/key indicators are established, against which all activity is tracked and measured. This ensures alignment with achieving the business strategy, while simultaneously managing the risks taken to do so. Credit risk is an integral part of this risk appetite construct, approved by the Bank board. Credit risk is actively managed, all exposure and loss tolerance monitored, thereby mitigating against credit exposure on book. Monitoring occurs daily with escalation as defined by the governance process. In addition, broader reporting to the various governing bodies such as the Credit Risk Review Committee or the Risk and Capital Management Committee, or both, occurs either monthly or quarterly.

Considered collectively, the team, the loan strategy, the default definitions, the collections strategy, IFRS 9 accounting standards, governance oversight underpinned by sound risk fundamentals and Board-approved risk appetite limits, we are comfortable that credit is managed appropriately and growth is in line with expectations.

The tables that follow provide an overview of the exposures per industry, geographical area, impairments as well as ageing analysis of "accounting past due" exposures.

Breakdown of exposures by geographical areas
Exposure and expected credit loss as at 30 June 2021

Region name	Exposure	Expected Credit Loss
South Africa	**8 853 131 585**	**465 280 183**
Eastern Cape	101 435 038	12 911 367
Free State	51 688 944	7 676 318
Gauteng*	7 291 844 158	275 139 678
KwaZulu-Natal	405 844 660	54 426 088
Limpopo	40 735 985	6 286 170
Mpumalanga	69 143 506	9 920 956
Northern Cape	14 117 579	2 176 225
Northwest	53 223 267	7 596 197
Western Cape	824 994 375	89 135 013
Unknown	104 073	12 171
Singapore**	29 028 536	13
Total	**8 882 160 121**	**465 280 196**

** Includes corporate exposures in South Africa (interbank loans and treasury bills).*
*** Bank exposure in Singapore (collateral placements).*

Breakdown of exposures by industry
Exposure and expected credit loss as at 30 June 2021

Industry/Sector	Exposure	Expected Credit Loss
Private households with employed persons*	3 794 566 311	465 068 640
Financial intermediation, except insurance and pension funding**	5 087 593 811	211 557
Total	**8 882 160 121**	**465 280 196**

** Retail exposure.*
*** Includes corporate exposures in South Africa (interbank loans **and** treasury bills) and Bank exposure in Singapore (collateral placements).*

Ageing analysis

Arrears status	Exposure	Expected Credit Loss
CURRENT*	8 591 460 756	248 007 037
1 – 29	38 262 025	11 648 489
30 – 59	24 141 313	8 208 730
60 – 89	19 344 418	11 709 194
> = 90	208 951 610	185 706 746
Total	**8 882 160 121**	**465 280 196**

** Includes corporate exposures in South Africa (interbank loans and treasury bills)* **and** *Bank exposure in Singapore (collateral placements).*

The Bank has done some COVID-19 restructures under Directive D7 of 2015 and D3 of 2020:
Total restructure values[10]:

	Exposure	Expected Credit Loss
Restructured loans	24 724 794	20 812 938

Liquidity and funding risk

Discovery's funding strategy is focused on ensuring that funding sources are predominantly retail and notwithstanding a robust contingency funding plan in place, our retail client base is our principal source of funding. During the extended lockdown period, the Bank's deposit base growth outperformed our competitors, allowing us to accumulate substantial liquidity surpluses. During this period, existing wholesale funding from Group entities was repaid highlighting the resilience to liquidity risk. The Bank had significant growth in its deposit base while reducing the cost of funding. Furthermore, the deposit book is sticky and diverse in maturity bands.

Various stress tests were conducted to determine the appropriate liquidity buffer for the Bank, to protect the Bank against any disruptions. It was accepted that the liquidity buffer approved would equate to a 45-day survival horizon period over which the Bank would not require adjustments to its business model. With a substantial surplus, the Bank is, therefore, well-funded to support its growth strategies and mitigate extremely severe liquidity stress. In 2021, various balance sheet optimisation exercises were conducted considering both the Funding and Advances components of the Bank's balance sheet, which resulted in the identification of several opportunities for the Bank to enhance its NII.

[10] Total restructures under D7 of 2015 and D3 of 2020

During the year under review, liquidity risk in Discovery Bank could arise in:

1 Short-term deposit portfolio where clients withdraw their deposits

2 Credit facilities/lines from other banks are withdrawn, or

3 Failure of credit card customers to repay committed instalments.

Since Discovery Bank only holds highly liquid instruments in the form of Treasury Bills (to meet both its statutory and internal liquid assets requirements) its risk to market illiquidity is low. In addition, the Bank continues to hold high levels of surplus liquid assets. As a result, both the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) are significantly well above the regulatory requirements.

This year, the renewed focus was afforded to the efficient use of the balance sheet and the soundness of the liquidity position. Detailed analysis was presented on behavioural characteristics of the current asset and liability mix, which allowed the Bank to optimally manage balance sheet risks.

Liquidity and funding risk is governed through a robust liquidity risk Management Framework. The contingency funding plan is an important component in the liquidity risk management of the Bank. It describes the approach to be followed by the Bank to identify the occurrence of contingencies and the management of liquidity risk during a range of stress events. It sets out the strategies for addressing liquidity shortfalls in emergencies. Different tools were defined to follow different liquidity stresses.

Business as usual		**Distress**	**Failure**
BAU and intraday Liquidity Risk management **LCR and NSFR**	Liquidity Buffer **Initiate Contingency Funding Plan**	**Initiate Recovery Options**	**Trigger Resolution**
Normal supervision, liquidity risk management		Recovery Plan, intensified supervision	Resolution Plan

Risk management approach / CONTINUED

The contingency funding plan includes the following areas:

- Determining any likely occurrence of a stressed liquidity situation by measuring qualitative and quantitative early warning indicators.
- Determining the level of stress based on an adverse liquidity situation.
- Formulating the action plan to be followed by various teams within the Bank to manage a liquidity event to ensure the financial integrity of the Bank.
- Providing guidelines for the utilisation of liquidity buffers and sources of funding during a contingency liquidity event.

Funding and liquidity stress scenarios are currently based on the regulatory guidelines and managed in our sophisticated funding and liquidity management system. This system collectively looks at different stress scenarios for different rate changes in the maturity of a product and overlaying this with the Vitality Money and Vitality Health status to give a true reflection of the actual exposure the Bank is faced with.

Recovery plan

The Discovery Bank Recovery Plan (RP) serves as a valuable management tool. The ultimate objective is to establish upfront actions that would be taken to ensure the continued sustainability of the Bank and provide regulators with confidence that such actions will indeed achieve the same.

In essence, the RP integrates management actions as described in the capital plans, and the contingency funding plan can be practically implemented. The Bank's recovery plan is designed to be clear, simple, flexible, and more importantly, viable.

Discovery Bank views the RP as comprehensive and commensurate with the Bank's simplicity, risk profile and scope of operations. The Bank can track, trigger and manage the recovery of the Bank; however, the RP will continue to be tested and will evolve as the Bank advances.

Market risk

Market risk is the risk that a firm's earnings, capital or business objectives will be adversely affected by changes in market prices. It is the risk of loss arising from the price movements in the financial markets. The risk of loss can be in a trading position, portfolio or instrument resulting from volatility of market risk factors.

As a retail-focused bank, Discovery Bank has a very 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 the negligible market risk that is quantified, monitored and managed. Market risk will become more relevant in the next financial year with the approval received from the PA to be an authorised dealer in foreign exchange. This includes the ability to convert between currencies, make forex payments/remittances, accept receipts as well as holding balances in multi-currency accounts. The intention is not yet to trade or enter into proprietary or speculative positions. One of the key considerations was the Bank's ability to execute foreign currency transactions via the authorised payment mechanism and for all cross-border payments to be reported to the Financial Surveillance Department of the SARB. The SARB evaluated the reporting system and issued the authorised dealer license in July of 2021.

Currently, the nature of Discovery Bank's activities gives rise to continuous exposure to interest rate risk. Interest rate risk in the banking book (IRRBB) is the potential for financial loss because of the Bank's exposure to adverse movements in interest rates on both its net interest income (earnings) and the economic value of equity.

The sources of **interest rate risk** include:

1. **Gap risk:** *Arises from the term structure of banking book instruments and the timing of rate changes (for example, rate of interest paid on liabilities increases before the rate of interest received on assets).*

   The Bank measures and monitors its interest rate risk to parallel shifts in the yield curve on both earnings (NII) and value (EVE) basis. Currently, exposure to non-parallel shifts would be similar to those of parallel shifts since the banking book has limited products that extend beyond a year (limited exposure to the mid and long ends of the yield curve).
2. **Basis risk:** *Arises from changes of interest rates for instruments that have similar tenors but are repriced using different rate indices (specifically Prime/Repo vs JIBAR).*

   The Bank has limited exposure to basis risk, but the current gap between these two floating rates is measured (on both a value and earnings basis), monitored and managed accordingly.
3. **Embedded options risk:** *Arises from option derivative positions or from optional elements embedded in the balance sheet where the Bank or the client can alter the level of the timing of their cash flows.*

   Discovery Bank is not materially exposed to behavioural embedded options risk, however, if unanticipated early withdrawals before the contractual maturity date manifest, a remediation mechanism through the collection of fees is applicable in compensation.

Due to the high level of equity relative to liabilities within the Bank's portfolio, the ALCO acts on the mismatch between assets and liabilities in line with its view on interest rates.

Translation risk

Currency risk arises from changes in exchange rates between the rand and the foreign currencies in which assets and liabilities are denominated and may adversely affect profitability and shareholders' equity.

Currency risk has minimal impact on Discovery Bank as our operations are exclusively within South Africa (as at 30 June 2021). However, to facilitate offshore card transactions by our clients in foreign currencies, Visa has a requirement that the Bank places foreign currency denominated collateral in its favour with a designated and highly rated international bank. The only market risk exposure on the Bank's books relates to this requirement, and this position is closely monitored within appropriate risk appetite limits.

Hedging

Discovery Bank measures and reports on interest rate mismatches or net static gap across the different investment tenors.

The currency risk is presently not significant and therefore has remained unhedged. This risk is closely monitored and is reviewed regularly. A hedging strategy will be re-considered when circumstances deem it necessary.

Discovery Bank has developed a strategic roadmap to comply with the proposed implementation date set by the Prudential Authority for interest rate risk in the banking book by June 2022.

Model risk

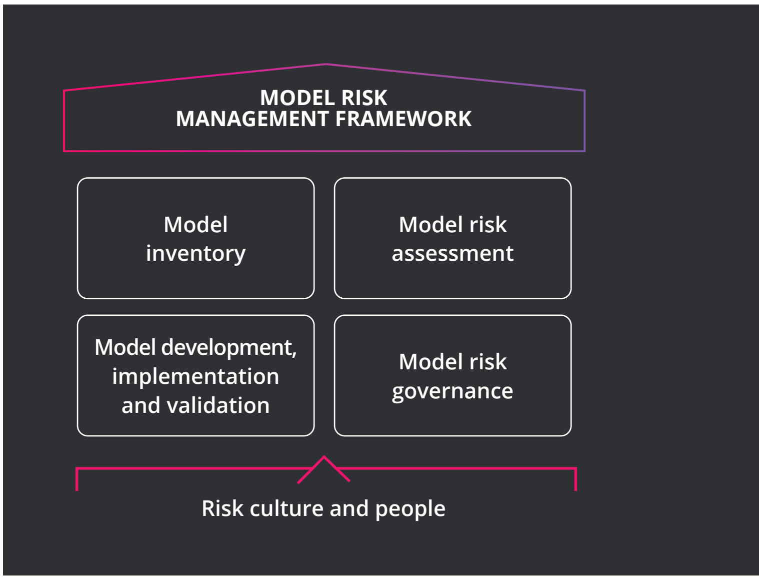
The Bank ensures that all models conform to the Bank-wide model risk governance process. This includes risk rating the various models in terms of materiality and complexity and establishing the associated validation efforts required.

Fundamentally, Model Risk Management (MRM) aims at ensuring that the Bank implements the right level of controls for all material models supporting business and decision-making processes. The successful implementation of this framework improved the Bank's ability to identify models that are not fit for purpose, consider and prioritise model development and enhancements requirements while ensuring appropriate governance is maintained.

All three lines of defence have a role to play in MRM, and a clear delineation of responsibilities is articulated for each control activity throughout the lifecycle of the model, from origination to retirement. The design of this framework endorsed optimum allocation of responsibility, ensuring efficient and effective control of model risk.

The Bank has adopted a risk-based approach to the management of model risk. The nature and scope of the model governance requirements are dependent on the model rating which is derived from the complexity and materiality of the models being used. The model risk is regarded as a principal level 1 risk by Discovery Bank.

The Model Risk Management Framework has been developed, approved and operationalised. The Model Risk Committee (MRC) is an executive committee constituted by the CRO and currently chaired by the deputy CEO. The MRC creates and oversees the comprehensive framework for model risk governance within the Bank and reports on model risk issues and trends to the Bank Executive Committees and the Board of Directors. The framework includes the below dimensions:



We have successfully compiled a full model inventory with the relevant model risk ratings for the Bank and have updated it. The current focus is the constant refresh of the model inventory while working through the models that need full validation and rating.

Capital management

Discovery Bank is committed to holding adequate capital to absorb unexpected losses, protect our depositors and meet the expectations of our key stakeholders. The Bank aims to manage its capital efficiently and adequately to balance risk and reward.

The key principles of capital management are described below:

Principle 1: Risk and capital management

Discovery Bank will always be adequately capitalised to mitigate its short-term risks and will always have an adequate capital plan to meet its long-term strategic objectives.

- **Risk identification and quantification:**

The Bank has implemented and operationalised a comprehensive risk management framework where its risk universe is well defined and roles and responsibilities for the management of each risk type have been set (according to the three lines-of-defence risk management model).

- **Capital adequacy:**
  - The Bank holds sufficient capital to meet the minimum regulatory capital adequacy requirements, as specified by the Prudential Authority.

    Currently, the Bank has set its internal capital in line with the following standardised regulatory capital approaches:

    1. **Credit risk:** The Standardised Approach (SA).
    2. **Operational risk:** The Standardised Measurement Approach (SMA)[11].
    3. **Market risk:** The Standardised Approach (SA) using the building block method.

The Bank also adheres to the high-level Internal Capital Adequacy Assessment Process (ICAAP) requirements as set out in Guidance Note 4/2015 issued in terms of section 6(5) of the Banks Act 94 of 1990.

Principle 2: Capital plan and forecast

The Bank has implemented a capital management and planning process that is integrated with its strategic planning and projects its capital adequacy positions over the longer term. This ensures its capital supply is adequately, timeously and appropriately managed. A thorough forecasting process is required to measure available capital against capital demand and is frequently updated based on any changes in assumptions to the business case model, as well as prevailing operating conditions.

Principle 3: Capital raising

For the first few years following the launch of the Bank, it is anticipated that the Bank will be unprofitable and therefore reliant on the sole shareholder as a provider of capital. Discovery Group has agreed to support the Bank's capital requirement in line with the Bank's business plan. The expected capital required as well as additional capital that it might potentially require under adverse stress scenarios has been incorporated into the Group's ORSA (Own Risk and Solvency Assessment) and capital forecasts.

Discovery Group makes available capital for the Bank's operational and development costs and other regulatory capital demands. Once the Bank has become profitable, consideration will be given to an alternative capital-raising plan.

Management formally assesses the capital position of the Bank on a monthly basis and issues ordinary shares prior to the end of the month in anticipation of capital requirements determined by estimated growth in retail lending, movements in treasury liquidity cash placements and operational losses for the month. The drawdowns of capital are performed within the capital plan and framework approved by the Bank's Board.

Principle 4: Capital quality

The Bank maintains its capital structure to meet the minimum regulatory requirement with the highest quality of capital being Common Equity Tier 1. The composition and structuring of the Bank's capital will initially prioritise the highest quality, but in the future may consider alternative forms of capital.

Principle 5: Capital buffer

The Bank aims to ensure that capital resources will always be above the total regulatory capital requirement. In addition to the internal management buffer to cater for future unexpected growth and volatility in risk-weighted exposures, the Bank holds a temporary COVID-19 relief and estimation risk buffer[12].

The Bank's capital management process has proven effective and efficient and is in line with the Bank's strategy.

[11] The issued standardised measurement approach for operational risk capital is being evaluated. (BCBS December 2017)
[12] The COVID-19 relief buffer is temporary and will be reviewed by the PA on an ongoing basis

ICAAP

The Bank has robust and effective risk and capital management processes that were developed and implemented in the early establishment phase of the Bank. These have since matured in line with the Bank's evolution. The ICAAP document provided evidence of its fit-for-purpose and well-governed risk and capital management process to ensure that capital supply adequately meets capital demand and that this capital adequacy approach is embedded within the Bank's decision-making process.

Stress testing

Extreme market movements and crises over the preceding period highlight that it is inadequate to manage risks solely based on "normal" business conditions. When a bank is affected by a severe market shock, it may incur substantial losses as a result of the following:

- The assumptions of how markets behave during normal conditions no longer hold.
- New concentrations of risk emerge through unexpected linkages of different markets.
- Rapid price movements and squeeze in liquidity or funding across multiple markets, or both.
- Sudden deterioration in the economic conditions of affected countries or regions.
- Difficulties in unwinding or hedging positions during a crisis.

For this reason, the Bank employs stress-testing techniques to estimate the Bank's possible losses under adverse conditions to better prepare for such situations. These stresses are aligned to the size and complexity of the Bank's balance sheet. Apart from considering the effects of exceptional (but plausible) events, the Bank looked at various other levels of adversity (for example, by including mildly stressed scenarios) to assess its vulnerability under differing conditions.

The Bank's stress testing framework considers the nine revised BCBS[13] principles.

ST 1
Stress-testing frameworks should have clearly articulated and formally adopted objectives
ST 2
Stress-testing frameworks should include an effective governance structure
ST 3
Stress-testing should be used as a risk management tool and to inform business decisions
ST 4
Frameworks should capture material and relevant risks and apply stresses that are sufficiently severe
ST 5
Resources and organisational structures should be adequate to meet stress-testing objectives
ST 6
Stress tests should be supported by accurate and sufficiently granular data, and by robust IT systems
ST 7
Models and methodologies to assess the impacts of scenarios and sensitivities should be fit for purpose
ST 8
Stress-testing models, results and frameworks should be subject to challenge and regular review
ST 9
Stress-testing practices and findings should be communicated within and across jurisdictions

Stress testing enables the Bank to assess the likely impact of unlikely but plausible events. The financial impact indicated by stress testing is compared with tolerance limits, and necessary remedial actions are initiated for any breach of limits over the period.

Since it is not possible to envisage all possible stress situations in advance, the remedial actions are considered on a case-to-case basis commensurate to the level of perceived risk by the relevant committee.

Currently, stress testing practices are aligned to the size and complexity of our book. Once the Bank has a larger client base and complex product suite, consideration will be given to more sophisticated stress testing scenarios.

[13] *The Basel Committee on Banking Supervision Stress Testing Principles (d450), October 2018*

COVID-19 update

During the latter part of Q4 2020, we anticipated a measured, orderly and safe return of our employees to the office. The consequences of the resurgence in cases then required a re-evaluation of that strategy. Similar to the second wave, the Bank had seen sharp increases in COVID-19 infections during the third wave. Client services were not impacted due to incorporating flexibility and overtime, however, there was some impact on project deliveries. The majority of the positive cases reported were employees working from home. All safety protocols within the office are being strictly maintained. To date, most employees are still working from home, and there is a long-term intent to adopt a hybrid model with employees returning to the office for a minimum of two days a week from January 2022. Again, we will ensure that our governance forums and control environment continue to operate effectively while ensuring the health and safety of our employees.

03 Remuneration

Remuneration

"Material risk-takers are employees whose professional actions have a material impact on the Bank's overall risk exposure. Discovery Bank defines other material risk-takers as the members of the Discovery Bank Executive management team that are also Directors of the Bank. Discovery Bank defines other material risk-takers and senior managers similarly."

At Discovery Bank, we believe that our employees are the foundation of our success. We offer a culture built on innovation, exceptional client service, doing what is right, continuous learning and providing challenging and meaningful work. By liberating the best in our employees, we believe that we will be able to achieve our ambition of successfully running the world's first behavioural bank that makes people financially healthier and enhances and protects their lives. We are committed to offering competitive total rewards that enable us to:

- Attract, retain and motivate high calibre people from diverse backgrounds who have the right mix of skills, experience and knowledge to deliver on the strategy.
- Encourage and incentivise performance and reward employees who exceed their objectives.
- Align the financial wellbeing of our employees with the economic interest of the shareholders and needs of our clients to deliver sustained long-term value guided by our shared-value model.
- Create an environment that encourages innovation.
- Bring consistency, transparency, fairness and equity to pay principles which will increase trust and form the basis for a great employee experience.
- Recognise differences in individual performance, value and contribution through a flexible approach that ensures fair pay levels and defensible decisions.
- Align with good corporate and reward governance and our risk management framework.
- Strengthen our desired owner-manager culture that is consistent with our core purpose and values.

We balance a flexible approach that recognises differences in individual performance, value and contribution to the organisation with a consistent framework that ensures fair pay levels and decisions.

Remuneration principles

- To succeed, we must have talented people in appropriately suitable roles, and so strive to offer pay packages that are competitive in the market.
- 'Pay for performance' is at the heart of our remuneration philosophy, and we encourage all employees to set and achieve ambitious goals which are aligned with the objectives of the company – exceptional performance is recognised and rewarded.
- We believe in pay that is right and fair – we conduct regular salary surveys both internally and externally to ensure fairness and consistency across the business.
- We recognise that pay is not the only reason why our employees join and stay at Discovery Bank, but it is of significant concern if it is not right or equitable.
- We are non-discriminatory – all remuneration policies and practices are free from unfair discrimination based on race, gender, age, religion, marital status, sexual orientation and ethnic or social origin.
- We employ a total Cost-to-Company (CTC) approach to remuneration, which includes both financial and non-financial components.
- Our short-term incentive schemes are designed to encourage, recognise and reward performance and are based on rigorous objective setting and measurement, while allowing sufficient flexibility to respond to different business needs.
- Our long-term incentive schemes create a sense of ownership in the company, and specific schemes are designed for start-ups (to encourage an entrepreneurial mindset) and retention.
- Our remuneration policy assists Managers to make educated and defensible pay decisions.
- All reward policies and practices are governed by the Director Affairs Committee (DAC), a committee of the Bank Board, which incorporates the Bank Remuneration Committee, with support from the Discovery External and Internal Remuneration Committees (D-ERC and D-IRC).

Remuneration governance

The Bank Board is ultimately responsible for the remuneration policy and has mandated the Bank's Director Affairs Committee (DAC), a Board committee consisting of non-executive directors, to assist in fulfilling its responsibilities for ensuring that total rewards are fair and responsible.

The purpose of the DAC is to consider, agree and recommend to the Bank Board an overall reward policy and framework for Discovery Bank that recognises the interests of all relevant stakeholders and is aligned with the regulatory environment and the long-term business strategy, risk appetite and organisational values. In discharging this purpose, the key responsibilities of the DAC are to:

- Approve and monitor adherence to the reward policy.
- Ensure alignment with the latest governance standards and risk appetite.
- Review and approve all short and long-term incentive structures and monitor overall liability.
- Approve targets for short-term incentives to ensure alignment with the Bank's business plan.
- Regularly review incentive schemes to ensure alignment to and continued contribution towards shareholder value.
- Approve and report to the Board all reward elements for the CEO and other directors.
- Review total reward packages for executive management on an annual basis.
- Review the executive management annual allocations in the Discovery share scheme(s).
- Review and approve annual salary increase parameters.
- Achieve a balance between alignment with the Discovery Group and alignment with the banking sector, understanding where differences are required and why.
- If appropriate, amend the performance criteria for variable remuneration should extraordinary circumstances arise, in consultation with Discovery's External Remuneration Committee (D-ERC).
- Recommend the base for non-executive directors' fees to the Board for approval.

The DAC receives input and recommendations from the CEO of the Bank and takes into consideration recommendations from the Discovery Internal Remuneration Committee (D-IRC) (comprising the executive directors and business unit CEOs). The D-IRC is responsible for:

- Providing detailed analysis and research-based recommendations to the DAC.
- Ensuring the remuneration packages of management and employees in general (except for directors) are in line with the policy.
- Implementing the increase and incentive processes and reporting any anomalies to the D-ERC and DAC.
- Recommending new schemes and scheme restructures to the D-ERC and DAC.

The DAC uses the services of several advisors to assist in tracking market trends related to all levels of employees. The following advisors or companies are used for benchmarking purposes:

- Remchannel – used for benchmarking on an ongoing basis.
- Vasdex – used for benchmarking Director remuneration.

Total rewards

Our total rewards approach encompasses both financial and non-financial elements. The financial elements are explained in the sections that follow.

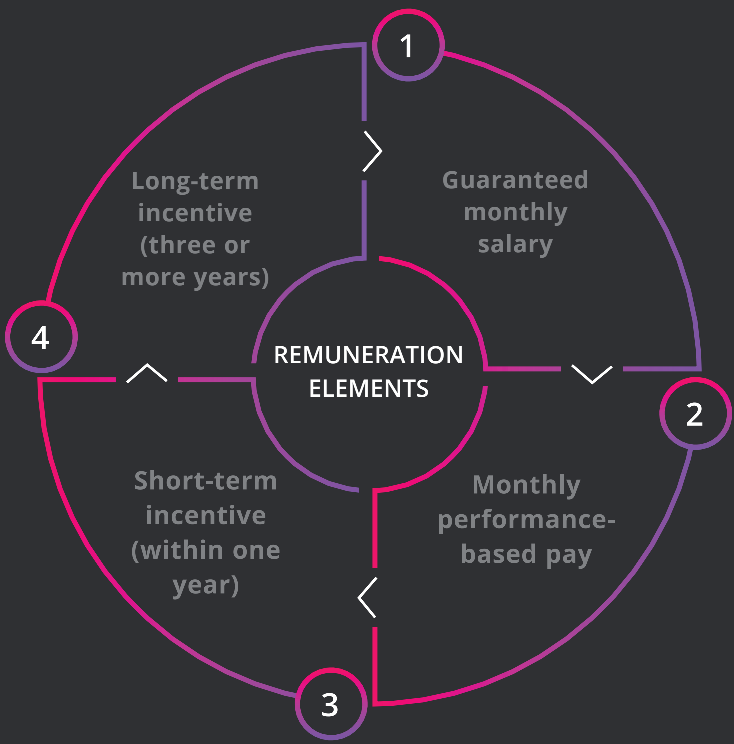
FINANCIAL	NON-FINANCIAL
Guaranteed pay	Challenging and meaningful work
Compulsory benefits (medical, group life)	Development and training
Retirement funding (pension and provident)	Discovery culture and environment
Short term incentives	Recognition (Star awards etc.)
Long term incentives	Opportunity to work with great people
	Career opportunities

The mix of the financial pay elements is linked to the organisational level, with the proportion of variable pay and pay at risk increasing at more senior levels.

We offer competitive guaranteed rewards (around the market average), with opportunities in many roles to earn additional variable pay-for-performance incentives, that lead to above market average total rewards for top performers.

Remuneration elements

The remuneration policy covers four remuneration elements, although not all employees participate in all elements:



1 Guaranteed monthly salary

Our total CTC approach is designed to provide employees with flexibility and choice when it comes to compulsory benefits. All permanent non-sales employees, irrespective of level, receive a guaranteed component of remuneration, consisting of:

- Basic salary
- Compulsory benefits (medical aid, provident and pension funds, group life cover).

Employees select:

- The Discovery medical aid plan that best suits them (Discovery membership is compulsory for all employees unless they are a dependent on their spouse's scheme).
- Their contribution level to the provident fund, ranging from 7.5% to 20% of guaranteed pay.
- The structure of their provident fund portfolio, with a choice of conservative, moderate and aggressive funds.
- The pension fund compulsory contribution is set at 5% of salary.

Guaranteed pay can be:

- Above the median to attract top talent, particularly in scarce and critical skill areas, and to retain top talent.
- At, or close to, the market median.
- Below the median for people who are part-qualified or new to their role and still need to grow fully into the role.

We use independent providers (Remchannel) to ensure we pay employees competitively. Benchmarking exercises are completed at least annually to keep track of market movements and these consider factors such as industry, company size (revenue, profit, number of employees) and availability of skills. Some of our roles are unique and so market data is used to assist in making pay decisions but is not the only reason we pay employees as we do.

'Pay for performance' is at the heart of our pay philosophy and as a result, most permanent employees also have an opportunity to earn performance-based pay. Employees are encouraged to strive to exceed their objectives while having regard for good regulatory practices and appropriate risk management.

2 Monthly performance-based pay

In many of the operational areas of the business where performance is highly measurable, monthly pay is made up of:

- Guaranteed monthly salary
- Performance-based pay.

The performance element ensures alignment between company goals and individual performance and allows top performers to significantly enhance their earnings. Targets are reviewed and adjusted as required at the discretion of management to drive continuous improvement in the areas concerned.

Using this model, top performers earn well above the market benchmark for the role and so are retained and motivated to keep performing.

3 Short-term Incentive Schemes (STIs)

Short-term incentive schemes are designed to encourage and reward performance at every level. Different business areas run different schemes based on business priorities and, therefore, scheme structures (payout percentages, pay periods and calculations) vary by scheme. Typically, short-term schemes span six to 12 months, and to receive payment, an employee must have been employed for a minimum of three months in the period and have not resigned at the time of payout. All schemes are performance-based and reward delivery against pre-agreed stretch targets which may be at an individual, team or business level:

- At staff and team-leader levels, payments may be bi-annual or annual, dependent on the scheme. Measures are set by management and aligned with business goals and continuous improvement.
- Sales teams participate in production-related incentives applicable to their roles.
- The management team participates in a bi-annual management incentive scheme which considers performance against both personal and business objectives.
- Senior managers participate in a Discovery Group profit pool scheme, where the size of the pool is determined by the growth in operating profit versus target.

Management discretion is applied in determining both the targets and the final payout amounts for all staff schemes, and all management schemes are subject to the DAC governance process.

The management schemes have thresholds below which no payment is made and maximum payment caps. Targets are set at company level using key performance indicators, and cross-company calibration ensures alignment with overall Discovery Group objectives and shareholder interests, as well as consistency across the various Group companies. The measures may include among others:

- Profit
- New business
- Client satisfaction
- Innovation
- Employment equity
- Key financial ratios.

The Discovery Profit Pool Scheme is based on the achievement of a target level of growth in Group Operating Profit. The on-target value of the management incentives is expressed as a percentage of salary, dependent on the level of the individual within the organisation. Actual payout takes into consideration individual, team, and business performance, and proposed payments are reviewed by the D-IRC and approved by the DAC. Any payouts outside the approved parameters of the scheme will be signed off by the DAC before payout.

The DAC, with input from the chairs of the various bank committees, has the discretion to apply a governance moderator to the incentive score based on their evaluation of the effectiveness and independence of control functions and adherence to governance processes. This moderator may apply to all participants of the scheme or only to the executives leading the control functions.

Typically, the more senior an employee is, the higher the proportion of their total package is linked to “pay at risk” or pay-for-performance.

4 Share-based payments and long-term incentive plans

Discovery Limited (Discovery) operates various share-based payments and long-term incentive arrangements. The details of these arrangements are described below:

1. BEE staff share trust

Qualifying Discovery Bank employees participate in the BEE staff share trust. Discovery Bank receives services and has no obligation to settle. Discovery Limited is required to settle obligations in its own shares.

Discovery Limited’s shares are issued to the BEE staff share trust for current and future employees. The trust consists of two components; the allocation scheme and the option scheme as described below:

Allocation scheme

Shares have been allocated to senior black South African employees based on level of seniority and length of past service. The shares vest to employees two, three, four and five years after allocation at a rate of 25% per annum. On each vesting date, the trustees shall distribute to the employees the allocated shares to which the employee may be entitled.

Option scheme

Options granted to black employees may be exercised two, three, four and five years after the option is granted at a rate of 25% per annum. Any options not exercised by the end of the fifth year from the grant date shall lapse. On exercise of the option, the employee pays cash to the trust for the full purchase price of the option.

2. Discovery Limited Phantom Scheme

Participants earn a cash bonus based on the allocation of bonus scheme units which in turn are linked to the performance of the Discovery Limited share price. The bonus is earned if the participant is employed and not resigned on each vesting date. For units issued in September, the vesting of the units is two, three, four and five years after allocation of the bonus units. The bonus may not be carried forward.

The 2013 to 2018 allocations were pre-determined combinations of units that replicate the economics of a Discovery Limited share and units that replicate the economics of a call option over a Discovery Limited share.

3. Discovery's long-term incentive plan (equity-settled)

The Discovery Long-term incentive plan (LTIP) was introduced in the financial year ended 30 June 2020. Participants receive Discovery Limited shares subject to performance criteria and if the participant is employed and not resigned on each vesting date. The performance conditions are aligned to the organic growth methodology of the Group and will vest from between the third and fifth anniversary of these awards.

To fund the Discovery LTIP scheme, and to limit the dilutive effect of the issuance of shares, Discovery Limited set up the 'Discovery Long-term Incentive Plan Trust (Trust). The trust acquires the shares when the awards are granted to participants. The Trust holds the acquired shares until they vest with the participants. If performance criteria are met the participant will receive their shares. If the performance or service criteria, or both, are not met, the shares will forfeit and will be kept in the trust for future purposes as per the trust deed. Each participating company in the Discovery Group was required to make a contribution to the trust which in turn enabled the trust to subscribe and acquire the required number of Discovery Limited shares for the participants of the participating company.

4. Discovery Bank long term incentive plan (Equity settled)

Discovery created a Bank-specific long-term incentive plan (Bank-LTIP) to enable members of the executive team and other key individuals to share in the success of the business while ensuring their long-term retention. Participants will share in the 'value created', which references the growth in the value of Discovery Bank business after capital invested and interest, thereby ensuring alignment of participants' interests with the longer-term strategic goals of the Bank. The value created will be settled in Discovery Limited shares.

Following shareholder feedback and in light of best practice, the D-ERC and DAC have the discretion, where defined trigger events have taken place, to invoke malus (pre-vesting forfeiture) or clawback (post-vesting forfeiture). The malus and clawback provisions and the application thereof are governed by the Discovery malus and clawback policy, which is a related policy to the Discovery remuneration policy. The provisions will be incorporated in the relevant variable pay documents/rules. Trigger events include the following:

- Material misstatement of financial results
- Fraud, dishonestly or gross misconduct
- Events or behaviours which have caused reputational damage to Discovery.

All bonus schemes are non-contractual and discretionary and may be changed by the DAC with input from the Discovery Remuneration Committees. To qualify for payment for any incentive, a participant must be employed and not resigned or terminated on the date of payment.

Annual salary review process

The annual salary review process provides an opportunity to adjust salaries in line with the market and takes place between April and June each year, with increases effective from July of each year. The D-ERC recommends the overall percentage increase to the salary bill considering benchmarking to understand market trends, particularly for scarce and critical skills, changes to the national cost of living, and business performance and affordability.

Performance is primarily rewarded through the incentive structures, not through the salary increase process. Typically, an employee must be employed for a minimum of three months to be part of the review process, and any increase may be moderated for the length of service and time in the role.

This three-month exclusion may not apply in certain instances. The DAC will approve the annual increase parameters for Bank employees, taking cognisance of any specific trends in the banking sector, as well as the D-ERC decision. Interim increases may be awarded during the year at the discretion of senior management under the following circumstances:

- Successful internal recruitment into a higher paying role
- Qualification (key defined roles only)
- Promotion to a higher level
- Retention of key individuals.

04

Quantitative tables and templates

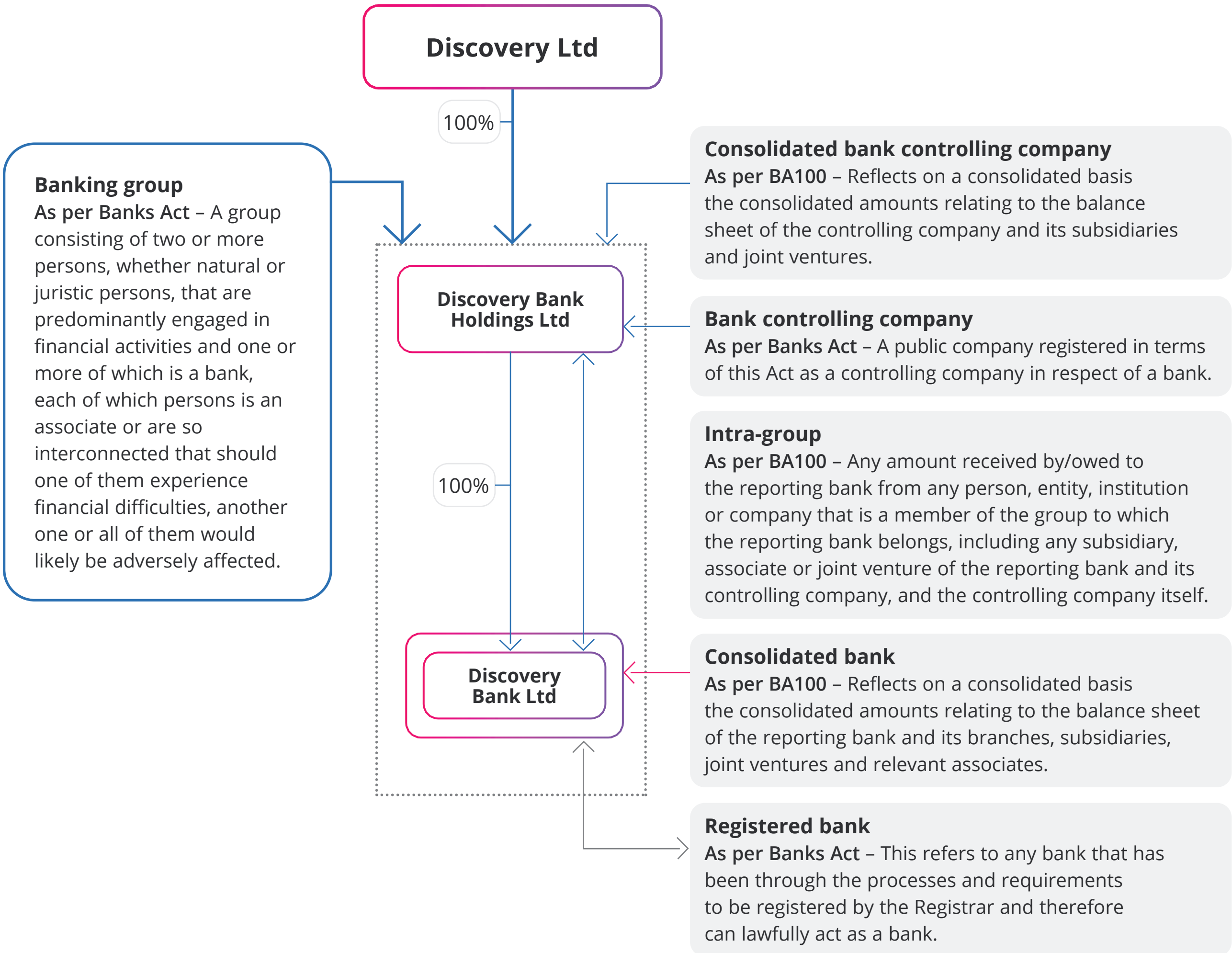
Quantitative tables and templates[1]

Over the past twelve 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



[1] *Discovery Bank produced its Pillar III document based on audited financials and audited regulatory returns following formal sign-off by the Discovery Bank Risk and Capital Management Committee*

KM1: Key metrics (at consolidated group level)

R'000		As at 30 June 2021	As at 31 March 2021	As at 31 December 2020	As at 30 September 2020	As at 30 June 2020
Available capital (amounts)						
1	Common Equity Tier 1 (CET1)	858 200	739 378	744 956	766 220	620 332
1a	Fully loaded ECL accounting model	0	0	0	0	0
2	Tier 1	858 200	739 378	744 956	766 220	620 332
2a	Fully loaded ECL accounting model Tier 1	0	0	0	0	0
3	Total capital	905 085	784 736	790 794	813 713	647 950
3a	Fully loaded ECL accounting model total capital	0	0	0	0	0
Risk-weighted assets (amounts)						
4	Total risk-weighted assets (RWA)	4 983 408	4 425 177	4 546 568	4 681 824	3 110 833
Risk-based capital ratios as a percentage of RWA						
5	Common Equity Tier 1 ratio (%)	17.221%	16.707%	16.385%	16.365%	19.940%
5a	Fully loaded ECL accounting model Common Equity Tier 1(%)	.000%	.000%	.000%	.000%	.000%
6	Tier 1 ratio (%)	17.221%	16.707%	16.385%	16.365%	19.940%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	.000%	.000%	.000%	.000%	.000%
7	Total capital ratio (%)	18.161%	17.733%	17.393%	17.379%	20.829%
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 (%)	6.721%	6.207%	5.885%	5.865%	9.440%

Quantitative tables and templates / CONTINUED

KM1: Key metrics (at consolidated group level) / CONTINUED

R'000	As at 30 June 2021	As at 31 March 2021	As at 31 December 2020	As at 30 September 2020	As at 30 June 2020
Basel III leverage ratio					
13 Total Basel III leverage ratio exposure measure	11 600 193	11 059 710	10 453 145	9 870 093	5 753 005
14 Basel III leverage ratio (%) (row 2; row 13)	7.398%	6.685%	7.127%	7.763%	10.783%
14a Fully loaded ECL accounting model Basel III leverage ratio (%) (row 2a; row 13)	0	0	0	0	0
Liquidity Coverage Ratio					
15 Total HQLA	3 850 497	2 206 820	1 634 500	713 847	385 751
16 Total net cash outflow	155 682	122 611	109 226	131740	49 652
17 LCR ratio (%)	2 708%	1 896%	1 576%	558%	780%
Net Stable Funding Ratio					
18 Total available stable funding	15 156 473	14 220 671	12 971 239	11 508 583	9 785 871
19 Total required stable funding	8 971 749	8 658 105	8 383 026	8 092 285	6 946 204
20 NSFR ratio	169%	164%	155%	142%	141%

OV1: Overview of RWA (risk-weighted assets)

		DISCOVERY BANK LIMITED			DISCOVERY BANK HOLDINGS LIMITED		
		RWA		Minimum capital require-ment	RWA		Minimum capital require-ment
	R'000	As at 30 June 2021	As at 31 March 2021	As at 30 June 2021	As at 30 June 2021	As at 31 March 2021	As at 30 June 2021
1	**Credit risk (excluding counterparty credit risk) (CCR)**	**4 040 002**	**3 899 548**	**424 200**	**4 040 002**	**3 899 546**	**424 200**
2	Of which: Standardised approach (SA)	4 040 002	3 899 548	424 200	4 040 002	3 899 546	424 200
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)**	**13 375**	**17 668**	**1 404**	**13 375**	**17 668**	**1 404**
7	Of which: Standardised approach for counterparty credit risk (SA-CCR)	13 375	17 668	1 404	13 375	17 668	1 404
8	Of which: Internal model method (IMM)	0	0	0	0	0	0
9	Of which: Other CCR	0	0	0	0	0	0

Quantitative tables and templates / CONTINUED

OV1: Overview of RWA (risk-weighted assets) / CONTINUED

		DISCOVERY BANK LIMITED			DISCOVERY BANK HOLDINGS LIMITED		
		RWA		Minimum capital require-ment	RWA		Minimum capital require-ment
	R'000	As at 30 June 2021	As at 31 March 2021	As at 30 June 2021	As at 30 June 2021	As at 31 March 2021	As at 30 June 2021
10	**Credit valuation adjustment (CVA)**	**7 433**	**11 468**	**780**	**7 433**	**11 468**	**780**
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
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**	**29 029**	**30 147**	**3 048**	**29 029**	**30 147**	**3 048**
21	Of which: Standardised approach (SA)	29 029	30 147	3 048	29 029	30 147	3 048
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**	**277 470**	**70 463**	**671 079**	**277 470**	**70 463**
25	Amounts below the thresholds for deduction (subject to 250% risk weight)	221 743	188 105	23 283	222 490	188 878	23 361
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)	**4 982 661**	**4 424 406**	**523 179**	**4 983 408**	**4 425 177**	**523 258**

CC1: Composition of regulatory capital

R'000		As at 30 June 2021
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	6 608 289
2	Retained earnings	(2 163 576)
3	Accumulated other comprehensive income (and other reserves)	207 313
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**	**4 652 026**
Common Equity Tier 1 capital: Regulatory adjustments		
7	Prudential valuation adjustments	0
8	Goodwill (net of related tax liability)	2 416 821
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	471 428
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	876 804
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
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)	32 058
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	88 697
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**	**3 797 111**
29	**Common Equity Tier 1 capital (CET1)**	**854 915**

Discovery Bank

CC1: Composition of regulatory capital / CONTINUED

R'000		As at 30 June 2021
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
43	**Total regulatory adjustments to Additional Tier 1 capital**	**0**
44	**Additional Tier 1 capital (AT1)**	**0**
45	**Tier 1 capital (T1 = CET1 + AT1)**	**854 915**
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	46 885
51	**Tier 2 capital before regulatory adjustments**	**46 885**

Quantitative tables and templates / CONTINUED

CC1: Composition of regulatory capital / CONTINUED

R'000		As at 30 June 2021
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)**	**46 885**
59	**Total capital (TC = T1 + T2)**	**901 800**
60	**Total risk weighted exposure**	**4 982 661**
Capital ratios and buffers		
61	**Common Equity Tier 1 (as a percentage of risk weighted assets)**	**17.158%**
62	**Tier 1 (as a percentage of risk weighted assets)**	**17.158%**
63	**Total capital (as a percentage of risk weighted assets)**	**18.099%**
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)**	**7.000%**
65	Of which: Capital conservation buffer requirement	**2.500%**
66	Of which: Bank-specific countercyclical buffer requirement	.000%
67	**Of which: G-SIB buffer requirement**	**.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**	**6.658%**
National Minima (if different from Basel III)		
69	National Common Equity Tier 1 minimum ratio (if different from Basel III minimum)	4.500%
70	National Tier 1 minimum ratio (if different from Basel III minimum)	6.000%
71	National total capital minimum ratio (if different from Basel III minimum)	8.000%
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)	88 697

Quantitative tables and templates / CONTINUED

CC1: Composition of regulatory capital / CONTINUED

R'000		As at 30 June 2021
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)	244 225
77	Cap on inclusion of provisions in Tier 2 under standardised approach	46 885
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*

CC2: Reconciliation to balance sheet published in financial statements

R'000		Balance sheet as in published financial statements As at 30 June 2021	Balance sheet under regulatory scope of consolidation As at 30 June 2021
Assets			
1	Cash and balances at central banks	1 368 795	1 368 795
2	Short term negotiable securities	4 108 935	4 108 935
3	Derivative assets	608	608
4	Loans and advances to clients	3 360 822	3 360 822
5	Loans and advances to banks	979 355	979 355
6	Available for sale financial assets	0	0
7	Interest in subsidiaries	0	0
8	Interest in associate	0	0
9	Intangible assets	3 013 780	3 013 780
10	Current income tax assets	0	0
11	Deferred income tax assets	872 029	872 029
12	Property and equipment	0	0
13	Other assets	289 163	289 163
14	**Total assets**	**13 993 487**	**13 993 487**
	Liabilities		
15	Deposits and current accounts	8 984 572	8 984 572
16	Derivative financial instruments	20 386	20 386
17	Provisions and other liabilities	336 503	336 503
18	Current income tax liabilities	0	0
19	Deferred income tax assets	0	0
20	**Total liabilities**	**9 341 461**	**9 341 461**
21	**Equity**		
22	Share capital and premium	6 608 289	6 608 289
23	Accumulated profit/(loss)	(2 163 576)	(2 163 576)
24	Other reserves	207 313	207 313
25	**Total equity**	**4 652 026**	**4 652 026**

Table1	30 June 2021
Common Equity Tier 1 Capital	0
Share capital and premium	6 608 289
Adjusted retained earnings	(2 163 576)
Retained earnings	(2 163 576)
Unappropriated profits	0
Total	**4 444 713**
Share based payment reserve	207 313
Other reserves	0
Total	**4 652 026**

Quantitative tables and templates / CONTINUED

CCA: Main features of regulatory capital instruments and other TLAC instruments

	As at 30 June 2021	Ordinary shares (including share premium)
1	Issuer	Discovery Bank Limited
2	Unique identifier (for example, 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 & 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)	6 608
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
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 writeup 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

LI1: Differences between accounting and regulatory scopes of consolidation and mapping of financial statements with regulatory risk categories

			Carrying values of items					
As at 30 June 2021 R'000	Carrying values as reported in published financial statements and under scope of regulatory consolidation	Carrying values under scope of regulatory consolidation	Subject to credit risk framework	Subject to counterparty credit risk framework	Subject to the securitisation framework	Subject to the market risk framework	Subject to the other risk framework	Not subject to capital requirements or subject to deduction from capital
Assets								
1 Cash and balances at central banks	2 318 502	1 368 795	1 368 795	0	0	0	0	0
2 Short term negotiable securities	4 108 935	4 108 935	4 108 935	0	0	0	0	0
3 Derivative assets	608	608	0	608	0	0	0	0
4 Loans and advances to customers	3 360 822	4 340 177	4 340 177	0	0	29 029	0	0
5 Available for sale financial assets	0	0	0	0	0	0	0	0
6 Interest in subsidiaries	0	0	0	0	0	0	0	0
7 Interest in associate	0	0	0	0	0	0	0	0
8 Intangible assets	3 013 780	3 013 780	0	0	0	0	0	3 013 780
9 Current income tax assets	0	0	0	0	0	0	0	0
10 Deferred income tax assets	872 029	872 029	120 755	0	0	0	0	751 273
11 Property and equipment	0	0	0	0	0	0	0	0
12 Other assets	347 577	289 163	0	0	0	0	289 163	0
13 **Total assets**	**14 022 253**	**13 993 487**	**9 938 662**	**608**	**0**	**29 029**	**289 163**	**3 765 053**

Quantitative tables and templates / CONTINUED

LI1: Differences between accounting and regulatory scopes of consolidation and mapping of financial statements with regulatory risk categories / CONTINUED

As at 30 June 2021 R'000		Carrying values as reported in published financial statements and under scope of regulatory consolidation	Carrying values under scope of regulatory consolidation	Carrying values of items: Subject to credit risk framework	Subject to counterparty credit risk framework	Subject to the securitisation framework	Subject to the market risk framework	Subject to the other risk framework	Not subject to capital requirements or subject to deduction from capital
Liabilities									
14	Deposits and current accounts	8 984 602	8 984 572	0	0	0	0	0	0
15	Derivative financial instruments	20 386	20 386	0	0	0	0	0	0
16	Provisions and other liabilities	365 239	336 503	0	0	0	0	0	0
17	Current income tax liabilities	0	0	0	0	0	0	0	0
18	Deferred income tax assets	0	0	0	0	0	0	0	0
19	**Total liabilities**	**9 370 227**	**9 341 461**	**0**	**0**	**0**	**0**	**0**	**0**
Equity									
20	Share capital and premium	6 608 289	6 608 289	0	0	0	0	0	0
21	Accumulated profit/(loss)	(2 163 576)	(2 163 576)	0	0	0	0	0	0
22	Other reserves	207 313	207 313	0	0	0	0	0	0
23	**Total equity**	**4 652 026**	**4 652 026**	**0**	**0**	**0**	**0**	**0**	**0**

Commentary for deltas:

1 and 4. Interbank operational deposits are treated as Cash and Cash Equivalents from an IFRS perspective in the Annual Financial Statements. These deposits are categorised as 'Other loans & advances, in the Banks Act returns.

12 and 16. Intercompany balances are disclosed on a gross basis on the Annual Financial Statements despite the legal right to set-off, and the net presentation on the Banks Act returns.

Other minor differences are the result of rounding for reporting purposes.

LI2: Main sources of differences between regulatory exposure amounts and carrying values in financial statements

		Items subject to:				
As at 30 June 2021 R'000	Total	Credit risk framework	Securitisation framework	Counterparty credit risk framework	Market risk framework	Other
Asset carrying value amount under scope of regulatory consolidation (as per template LI1)	13 993 487	9 938 662	0	608	0	289 163
Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	9 332 296	0	0	0	0	0
Total net amount under regulatory scope of consolidation	**4 661 191**	**9 938 662**	**0**	**608**	**0**	**289 163**
Off-balance sheet amounts	5 716 936	1 143 350	0	0	0	0
Exposure amounts considered for regulatory purposes	**10 378 127**	**11 082 012**	**0**	**608**	**0**	**289 163**

LR1: Summary comparison of accounting assets versus leverage ratio exposure measure

	R'000	As at 30 June 2021
1	Total consolidated assets as per published financial statements	14 458 767
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	15 942
5	Adjustment for securities financing transactions (ie repos and similar secured lending)	0
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	1 143 350
7	Other adjustments	(4 018 165)
8	**Leverage ratio exposure measure**	**11 599 894**

LR2: Leverage ratio common disclosure template

	R'000	As at 30 June 2021	As at 31 March 2021
On-balance sheet exposures			
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs))	14 237 105	13 594 805
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	(3 797 111)	(3 697 472)
3	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of rows 1 and 2)**	**10 439 994**	**9 897 333**
Derivative exposures			
4	Replacement cost associated with all derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	608	1 111
5	Add-on amounts for PFE associated with all derivatives transactions	15 942	18 548
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)**	**16 550**	**19 659**
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	5 716 750	5 712 045
18	(Adjustments for conversion to credit equivalent amounts)	(4 573 400)	(4 569 636)
19	**Off-balance sheet items (sum of rows 17 and 18)**	**1 143 350**	**1 142 409**
Capital and total exposures			
20	Tier 1 capital	854 915	735 982
21	**Total exposures (sum of rows 3, 11, 16 and 19)**	**11 599 894**	**11 059 401**
Leverage ratio			
22	Basel III leverage ratio	7.37%	6.65%

LIQ1: Liquidity Coverage Ratio

At 30 June 2021 R'000		Current reporting period Total unweighted (average)	Current reporting period Total weighted (average)	Previous reporting period Total weighted (average)
High-quality liquid assets				
1	Total HQLA	0	3 850 497	2 206 820
Cash outflows				
2	**Retail deposits and deposits from small business clients**	**3 417 377**	**341 738**	**292 572**
3	Of which: Stable deposits	0	0	0
4	Of which: Less stable deposits	3 417 377	341 738	292 572
5	**Unsecured wholesale funding**	**1 403 262**	**140 290**	**55 614**
6	Of which: Operational deposits (all counterparties) and deposits in networks of cooperative banks	0	0	0
7	Of which: Non-operational deposits (all counterparties)	1 403 262	140 290	55 614
8	Of which: Unsecured debt	0	0	0
9	**Secured wholesale funding**	**0**	**0**	**0**
10	**Additional requirements**	**0**	**0**	**0**
11	Of which: Outflows related to derivative exposures and other collateral requirements	0	0	3
12	Of which: Outflows related to loss of funding on debt products	0	0	0
13	Of which: Credit and liquidity facilities	5 627 922	140 698	142 256
14	**Other contractual funding obligations**	**0**	**0**	**0**
15	**Other contingent funding obligations**	**0**	**0**	**0**
16	**TOTAL CASH OUTFLOWS**	**10 448 562**	**622 726**	**490 445**
Cash inflows				
17	**Secured lending (e.g. reverse repos)**	**0**	**0**	**0**
18	**Inflows from fully performing exposures**	**2 127 317**	**2 032 238**	**3 157 455**
19	**Other cash inflows**	**0**	**0**	**2**
20	**TOTAL CASH INFLOWS**	**2 127 317**	**2 032 238**	**3 157 457**
			Total Adjusted value	**Total Adjusted value**
21	**Total HQLA**		**3 850 497**	**2 206 820**
22	**Total net cash outflows**		**155 682**	**122 611**
23	**Liquidity Coverage Ratio (%)**		**2 708%**	**1 896%**

LIQ2: Net Stable Funding Ratio (NSFR)

As at 30 June 2021 R'000		Unweighted value by residual maturity				
		No maturity	< 6 months	6 months to < 1 year	>= 1 year	Weighted value
1	Capital:	6 815 602	0	0	0	6 815 602
2	Regulatory capital	6 815 602	0	0	0	6 815 602
3	Other capital instruments	0	0	0	0	0
4	Retail deposits and deposits from small business clients:	0	5 578 951	999 597	1 596 763	7 517 456
5	Stable deposits	0	0	0	0	0
6	Less stable deposits	0	5 578 951	999 597	1 596 763	7 517 456
7	Wholesale funding:	0	9 260	0	800 000	803 241
8	Operational deposits	0	0	0	0	0
9	Other wholesale funding	0	9 260	0	800 000	803 241
10	Liabilities with matching interdependent assets	0	312 403	7 853	36 633	20 174
11	Other liabilities:	0	0	0	0	0
12	NSFR derivative liabilities	0	0	0	20 386	0
13	All other liabilities and equity not included in the above categories	0	312 403	7 853	16 247	20 174
14	**Total ASF**					**15 156 473**

Quantitative tables and templates / CONTINUED

As at 30 June 2021 R'000		Unweighted value by residual maturity No maturity	< 6 months	6 months to < 1 year	>= 1 year	Weighted value
15	Total NSFR high-quality liquid assets (HQLA)	0	3 884 005	1 593 725	0	216 426
16	Deposits held at other financial institutions for operational purposes	0	0	0	0	0
17	Performing loans and securities:	0	2 127 186	1 147 831	1 530 441	2 595 610
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	979 355	0	0	146 903
20	Performing loans to non-financial corporate clients, loans to retail and small business clients, and loans to sovereigns, central banks and PSEs	0	1 147 831	1 147 831	1 530 441	2 448 707
21	Of which: 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	0	0	0	0	0
23	Of which: 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:	5 873 268	0	0	608	5 873 876
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	608	608
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	5 873 268	0	0	0	5 873 268
32	Off-balance sheet items	5 716 748	0	0	0	285 837
33	**Total RSF**					**8 971 749**
34	**Net Stable Funding Ratio (%)**					**169%**

CR1: Credit quality of assets

As at 30 June 2021 R'000	Gross carrying values			Of which: ECL accounting provisions for credit losses on SA exposure			
Regulatory portfolio/ Risk weight	**Defaulted exposures**	**Non-defaulted exposures**	**Allowances/ impairments****	**Allocated in regulatory category of Specific**	**Allocated in regulatory category of General**	**Of which: ECL accounting provisions for credit losses on IRB exposure**	**Net values (a+b-c)**
1 Loans*	242 222	4 379 953	465 280	221 055	244 225	0	4 156 895
2 Debt securities	0	0	0	0	0	0	0
3 Off-balance sheet exposures	0	0	0	0	0	0	0
4 **Total**	**242 222**	**4 379 953**	**465 280**	**221 055**	**244 225**	**0**	**4 156 895**

* Loans include advances to clients and interbank advances, excluding sovereign exposures (on-balance sheet).

** Off-balance sheet exposures are reported gross of CRM and CCF and exclude revocable commitments.

CR2: Changes in stock of defaulted loans and debt securities

	R'000	As at 30 June 2021
1	**Defaulted loans and debt securities at end of the previous reporting period**	**153 446**
2	Loans and debt securities that have defaulted since the last reporting period	91 221
3	Returned to non-defaulted status	73
4	Amounts written off	0
5	Other changes	(2 372)
6	**Defaulted loans and debt securities at end of the reporting period (1 + 2 – 3 – 4 ± 5)**	**242 222**

CR3: Credit risk mitigation techniques – overview

	As at 30 June 2021 R'000	Exposures unsecured: Carrying amount	Exposures secured by collateral	Exposure secured by collateral, of which: Secured amount	Exposures secured by financial guarantees	Exposure secured by financial guarantees, of which: Secured amount	Exposures secured by credit derivatives	Exposure secured by credit derivatives, of which: Secured amount
1	Loans	4 156 895	0	0	0	0	0	0
2	Debt securities	0	0	0	0	0	0	0
3	**Total**	**4 156 895**	**0**	**0**	**0**	**0**	**0**	**0**
4	**Of which defaulted**	**242 222**	**0**	**0**	**0**	**0**	**0**	**0**

Quantitative tables and templates / CONTINUED

CR4: Standardised approach – credit risk exposure and credit risk mitigation (CRM) effects

As at 30 June 2021 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**	4 108 935	0	4 108 935	0	0	0%
2	Non-central government public sector entities	0	0	0	0	0	0%
3	Multi-lateral development banks	0	0	0	0	0	0%
4	**Banks**	741 788	0	741 788	0	159 057	21%
5	Securities firms	0	0	0	0	0	0%
6	Corporates	0	0	0	0	0	0%
7	Regulatory retail portfolios	3 638 165	5 544 713	3 625 645	1 108 943	3 560 115	75%
8	Secured by residential property	0	0	0	0	0	0%
9	Secured by commercial real estate	0	0	0	0	0	0%
10	Equity	0	0	0	0	0	0%
11	Past due loans	242 222	89 234	34 219	17 847	45 041	87%
12	Higher risk categories	0	0	0	0	0	0%
13	Other assets	4 671 738	0	4 671 738	0	289 163	6%
14	**Total**	**13 402 848**	**5 633 947**	**13 182 325**	**1 126 790**	**4 053 376**	**28%**

The on-balance sheet exposures are reported gross of impairment, CCF and CRM. Off-balance sheet exposures include revocable facilities.

CR5: Standardised approach – exposures by asset classes and risk weights

As at 30 June 2021 R'000	Risk Weight 0%	10%	20%	35%	50%	75%	100%	150%	Others	Total credit exposure amount (post CCF and post-CRM)
Asset class										
1 Sovereigns and their central banks	4 108 935	0	0	0	0	0	0	0	0	4 108 935
2 Non-central government public sector entities (PSEs)	0	0	0	0	0	0	0	0	0	0
3 Multi-lateral development banks (MDBs)	0	0	0	0	0	0	0	0	0	0
4 Banks	0	0	728 413	0	0	0	13 375	0	0	741 788
5 Securities firms	0	0	0	0	0	0	0	0	0	0
6 Corporates	0	0	0	0	0	0	0	0	0	0
7 Regulatory retail portfolios	0	0	0	0	0	4 734 588	0	0	0	4 734 588
8 Secured by residential property	0	0	0	0	0	0	0	0	0	0
9 Secured by commercial real estate	0	0	0	0	0	0	0	0	0	0
10 Equity	0	0	0	0	0	0	0	0	0	0
11 Past-due loans	0	0	0	0	47 697	0	2 000	2 369	0	52 066
12 Higher-risk categories	0	0	0	0	0	0	0	0	0	0
13 Other assets	1 368 795	0	0	0	0	0	289 163	0	3 013 780	4 671 738
14 **Total**	**5 477 730**	**0**	**728 413**	**0**	**47 697**	**4 734 588**	**304 538**	**2 369**	**3 013 780**	**14 309 115**

CCR1: Analysis of counterparty credit risk (CCR) exposure by approach

As at 30 June 2021 R'000		Replacement cost	Potential future exposure	EEPE	Alpha used for computing regulatory EAD	EAD post-CRM	RWA
1	SA-CCR (for derivatives)	608	8 946		1.4	13 375	13 375
2	Internal Model Method (for derivatives and SFTs)						
3	Simple Approach for credit risk mitigation (for SFTs)						
4	Comprehensive Approach for credit risk mitigation (for SFTs)						
5	VaR for SFTs						
6	**Total**						**13 375**

CCR2: Credit valuation adjustment (CVA) capital charge

As at 30 June 2021 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 muliplier)	0	0
3	All portfolios subject to the standardised CVA capital charge	13 375	13 375
4	Total subject to the CVA capital charge	13 375	13 375

CCR3: Standardised approach – CCR exposures by regulatory portfolio and risk weights

As at 30 June 2021 R'000	Risk weight								
	0%	10%	20%	50%	75%	100%	150%	Others	Total credit exposure amount (post-CCF and post-CRM)
Regulatory portfolio									
1 Sovereign	0	0	0	0	0	0	0	0	0
2 Non-central government public sector entities	0	0	0	0	0	0	0	0	0
3 Multilateral development banks	0	0	0	0	0	0	0	0	0
4 Banks	0	0	728 413	0	0	13 375	0	0	741 788
5 Securities firms	0	0	0	0	0	0	0	0	0
6 Corporates	0	0	0	0	0	0	0	0	0
7 Regulatory retail portfolio	0	0	0	0	0	0	0	0	0
8 Other assets	0	0	0	0	0	0	0	0	0
9 **Total**	**0**	**0**	**728 413**	**0**	**0**	**13 375**	**0**	**0**	**741 788**

MR1: Market risk under standardised approach

As at 30 June 2021 R'000		Capital charge in SA
1	General interest rate risk	0
2	Equity risk	0
3	Commodity risk	0
4	Foreign exchange risk	29 029
5	Credit spread risk – non-securitisations	0
6	Credit spread risk – securitisations (non-correlation trading portfolio)	0
7	Credit spread risk – securitisations (correlation trading portfolio)	0
8	Default risk – non-securitisations	0
9	Default risk – securitisations (non-correlation trading portfolio)	0
10	Default risk – securitisations (correlation trading portfolio)	0
11	Residual risk add-on	0
12	**Total**	**29 029**

Quantitative tables and templates / CONTINUED

REM 1: Remuneration awarded during the financial year

As at end of June 2021 R'000			Senior management/ other material risk-takers
Remuneration amount			
1	Fixed remuneration	Number of employees	Three
2		**Total fixed remuneration (3 + 5 + 7)**	**17 857**
3		Of which: Cash-based	16 506
4		Of which: Deferred	
5		Of which: Shares or other share-linked instruments	
6		Of which: Deferred	
7		Of which: Other forms*	1 351
8		Of which: Deferred	
9	Variable remuneration	Number of employees	Three
10		**Total variable remuneration (11 + 13 + 15)**	**32 445**
11		Of which: Cash-based	25 213
12		Of which: Deferred	
13		Of which: Shares or other share-linked instruments	7 232
14		Of which: Deferred	
15		Of which: Other forms	
16		Of which: Deferred	
17	**Total remuneration (2 + 10)****		**50 302**

* Provident funds and medical aid contributions.
** Total as stated in the Annual Financial Statements.

REM 2: Special payments

Special payments	Guaranteed bonuses		Sign-on awards		Severance payments	
	Number of employees	Total amount	Number of employees	Total amount	Number of employees	Total amount
Senior management/other material risk-takers	Three	0	Three	0	Three	0

No special payments were made to material risk-takers/senior management during the period under review.

Quantitative tables and templates / CONTINUED

REM 3: Deferred remuneration

	A	B	C	D	E
Deferred and retained remuneration R'000	Total amount of outstanding deferred remuneration	Of which total amount of outstanding deferred and retained remuneration exposed to ex post explicit and/or implicit adjustment	Total amount of amendment during the year due to ex post explicit adjustments	Total amount of amendment during the year due to ex post implicit adjustments	Total amount of deferred remuneration paid out in the financial year
Senior management/other material risk-takers					
Cash	0	0	0	0	0
Shares	35 290	35 290	0	2 172	1 209
Cash-linked instruments	27 233	27 233	0	4 684	5 221
Other	0	0	0	0	0
Other material risk-takers					
Total	**62 523**	**62 523**	**0**	**6 856**	**6 430**

Definitions:

Outstanding exposed to ex-post adjustment of the deferred and retained remuneration that is subject to direct adjustment clauses (for instance, subject to malus, clawbacks or similar, or reversal or downward revaluations of awards).

Outstanding exposed to ex-post implicit adjustment and part of the deferred and retained remuneration that is subject to adjustment clauses that could change the remuneration due to the fact that they are linked to the performance of other indicators (for instance, fluctuation in the value of shares performance or performance units).

In columns (a) and (b), the amounts at reporting date (cumulated over the last years) are expected. In columns (c) to (e), movements during the financial year are expected. While columns (c) and (d) show the movements specifically related to column (b), column (e) shows payments that have affected column (a).

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Qualitative tables

Discovery Bank

Qualitative tables

OVA – Bank risk management approach

Description	Key risk	Section in document	Page reference
(a) How the business model determines and interacts with the overall risk profile (for example, the key risks related to the business model and how each of these risks are reflected and described in the risk disclosures) and how the risk profile of the bank interacts with the risk tolerance approved by the board	Risk appetite	Risk management approach and key risks	19 – 26
	Credit risk	Risk management approach and key risks	28
	Market risk	Risk management approach and key risks	32
	Liqudity and funding risk	Risk management approach and key risks	30 – 33
	Reputational risk	Risk management approach and key risks	27
	Strategic risk	Risk management approach and key risks	26
	Business risk	Risk management approach and key risks	26
	Capital management	Risk management approach and key risks	34
	Regulatory risk	Risk management approach and key risks	28
	Model risk	Risk management approach and key risks	33
	Operational risk	Risk management approach and key risks	27 – 28
(b) The risk governance structure: Responsibilities attributed throughout the bank (for example, oversight and delegation of authority, breakdown of responsibilities by type of risk, business unit, etc.), and relationships between the structures involved in risk management processes (for example, board of directors, executive management, separate risk committee, risk management structure, compliance function, internal audit function)	All risk	Risk management approach	20 – 22
(c) Channels to communicate, decline and enforce the risk culture within the bank (for example, a code of conduct, manuals containing operating limits or procedures to treat violations or breaches of risk thresholds, and procedures to raise and share risk issues between business lines and risk functions)	All risk	Risk management – channels to communicate risk	25
(d) The scope and main features of risk measurement systems	All risk	Risk management	26 – 34
(e) Description of the process of risk information reporting provided to the board and senior management, in particular, the scope and main content of reporting on risk exposure	All risk	Risk management	25
(f) Qualitative information on stress testing (for example, portfolios subject to stress testing, scenarios adopted and methodologies used, and use of stress testing in risk management)	Stress testing	Key risks – Stress testing	35
	ICAAP	Key risks – ICAAP	35

Qualitative tables / CONTINUED

OVA – Bank risk management approach / CONTINUED

Description	Key risk	Section in document	Page reference
(g) The strategies and processes to manage, hedge and mitigate risks that arise from the bank's business model, and the processes for monitoring the continuing effectiveness of hedges and mitigants	Risk appetite	Risk management approach and key risks	19 – 36
	Credit risk	Risk management approach and key risks	
	Market risk	Risk management approach and key risks	
	Liqudity and funding risk	Risk management approach and key risks	
	Reputational risk	Risk management approach and key risks	
	Strategic and business risk	Risk management approach and key risks	
	Capital management risk	Risk management approach and key risks	
	Operational risk	Risk management approach and key risks	

Qualitative tables / CONTINUED

LIA – Explanations of differences between accounting and regulatory exposure amounts

	Description	Section in document	Page reference
(a)	Banks must explain the origins of any significant differences between amounts in columns (a) and (b) in LI1	Refer to table LI1: Differences between accounting and regulatory scopes of consolidation and mapping of financial statements with regulatory risk	55
(b)	Banks must explain the origins of differences between carrying values and amounts considered for regulatory purposes shown in LI2	Refer to table LI2: Main sources of differences between regulatory exposure amounts and carrying values in financial statements	56
(c)	In accordance with the implementation of the guidance on prudent valuation, banks must describe systems and controls to ensure that the valuation estimates are prudent and reliable. Disclosure must include: ▪ Valuation methodologies, including an explanation of how far mark-to-market and mark-to-model methodologies are used ▪ Description of the independent price verification process ▪ Procedures for valuation adjustments or reserves (including a description of the process and methodology for valuing trading positions by type of instrument)	Not applicable to Discovery Bank's current environment	n/a

Qualitative tables / CONTINUED

LIQA – Liquidity risk management

Description		Key risk	Section in document	Page reference
(a)	Governance of liquidity risk management, including: Risk tolerance, structure and responsibilities for liquidity risk management, internal liquidity reporting, and communication of liquidity risk strategy, policies and practices across business lines and with the board of directors	Liqudity and funding risk	Risk management and key risks	21 – 22 and 30 – 33
(b)	Funding strategy, including policies on diversification in the sources and tenor of funding, and whether the funding strategy is centralised or decentralised	Liqudity and funding risk		
(c)	Liquidity risk mitigation techniques	Liqudity and funding risk		
(d)	An explanation of how stress testing is used	Liqudity and funding risk		
(e)	An outline of the bank's contingency funding plans	Liqudity and funding risk		

CRA – Banks must describe their risk management and policies for credit risk focusing in particular on:

Description		Key risk	Section in document§	Page reference
(a)	How the business model translates into the components of the bank's credit risk profile	Credit risk	Risk Management and Key Risks	21 – 22 and 28 – 30
(b)	Criteria and approach used for defining credit risk management policy and for setting credit risk limits	Credit risk		
(c)	Structure and organisation of the credit risk management and control function	Credit risk		
(d)	Relationships between the credit risk management, risk control, compliance and internal audit functions	Credit risk		
(e)	Scope and main content of the reporting on credit risk exposure and the credit risk management function to the executive management and to the board of directors	Credit risk		

Qualitative tables / CONTINUED

CRB – Additional disclosure related to the credit quality of assets

Description	Key risk	Commentary/section in document	Page reference
(a) The scope and definitions of "past due" and "impaired" exposures used for accounting purposes and the differences, if any, between the definition of past due and default for accounting and regulatory purposes	Credit risk	Risk management and key risks	28 – 30
(b) The extent of past due exposures (more than 90 days) that are not considered to be impaired and the reasons for this		As per the reporting period, the bank does not have exposures that are past 90 days and not impaired.	n/a
(c) Description of methods used for determining impairments		The bank is guided by the impairment/ provisioning requirements, as identified in the IFRS 9 Financial Instruments ("IFRS 9", or "the standard") issued by the International Accounting Standards Board (IASB), bringing together the classification and measurement, impairment, and hedge accounting phases of the IASB's project to replace IAS 39 and all previous versions of IFRS 9.	n/a
(d) The bank's own definition of a restructured exposure and a breakdown of restructured exposures between impaired and non-impaired exposures		The bank complies with Directive 7/2015, as issued by the SARB, and have done some COVID-19 restructures under Directive 3 of 2020.	n/a
(e) Breakdown of exposures by geographical areas, industry, and residual maturity		Discovery Bank only has revolving assets and, hence, no residual maturity is shown in the document. The rest of the information can be found in the Risk Management and key risks section.	28 – 30
(f) Amounts of impaired exposures (according to the definition used by the bank for accounting purposes) and related allowances and write-offs, broken down by geographical areas and industry		Risk management and key risks	30
(g) Ageing analysis of accounting past due exposures		Risk management and key risks	30

Qualitative tables / CONTINUED

CRC – Qualitative disclosure requirements related to credit risk mitigation techniques

Description		Commentary/section in document	Page reference
(a)	Core features of policies and processes for, and an indication of the extent to which the bank makes use of on- and off-balance sheet netting	Discovery Bank is not making use of any netting agreements.	n/a
(b)	Core features of policies and processes for collateral	Discovery Bank's focus is on unsecured lending and, therefore, collateral is not applicable for this submission.	n/a
(c)	Information about market or credit risk concentrations under the credit risk mitigation instruments used (meaning by guarantor type, collateral, and credit derivative providers)	Risk management and key risks	30

Qualitative tables / CONTINUED

CRD – Qualitative disclosures on the bank's use of external credit ratings under standardised approach for credit risk

Description		Commentary	Page reference
(a)	Names of the external credit assessment institutions (ECAIs) and export credit agencies (ECAs) used by the bank, and the reasons for any changes over the reporting period	In assessing the creditworthiness of legal entities, the bank considers the letter grade ratings as provided by recognised external rating agencies for sovereigns, parastatals, banks and corporates. In respect of sovereigns, parastatals, banks and corporates, the bank utilises the letter grade ratings, as issued by eligible External Credit Assessment Institutions (ECAI). This includes Moody's, Fitch, Standard and Poor, and Global Credit Ratings. The rating is determined on the international scale or the national scale rating mapped to the international scale. In respect of multiple issuer assessments, the higher of the two risk weights (for two ratings) or the higher of the lower two risk weights (for three or more ratings) will apply. Any new banks and counterparties will be reviewed based on these criteria, and reviewed by the ALCO.	n/a
(b)	The asset classes for which each ECAI or ECA is used	Under the International Coverage of Capital Measurement and Capital Standards, defined by the Basel Committee for Banking Supervision (BCBS) and incorporated under the regulations related to South African Banks, each exposure is mapped to an asset class as per asset classification rules which vary for different asset classes. The bank adopted the asset classification rules defined by the SARB for credit risk measurement under the standardised approach. Asset classification is used to determine the regulatory treatment of an asset and to assign risk weights. There are two levels of classification: ▪ Counterparty level, for example, Retail, Bank, Corporate or Sovereign. ▪ Product level, for example, Retail Revolving Credit Card or Retail Other. Assets in the banking book are split between the retail book and wholesale book based on the turnover amount. The wholesale book consists of five main assets, namely Sovereign, Public Sector Entities, Banks, Securities Firms and Corporate Entities.	n/a
(c)	A description of the process used to transfer the issuer to issue credit ratings onto comparable assets in the banking book	Discovery Bank is a retail-focused bank and currently does not trade in financial instruments that might give rise to issuer risk.	n/a
(d)	The alignment of the alphanumerical scale of each agency used with risk buckets (except where the relevant supervisor publishes a standard mapping with which the bank has to comply)	Discovery Bank is using the standard asset class mapping table as prescribed by the SARB.	n/a

Qualitative tables / CONTINUED

CCRA – Qualitative disclosures related to counterparty credit risk including:

Description		Commentary	Page reference
(a)	Risk management objectives and policies related to counterparty credit risk	Credit risk arises in the event an obligor is unable or unwilling to pay interest on the advances granted to them. Counterparty credit risk arises in the event the obligor is unable or unwilling to repay the capital granted to them. Counterparty credit risk forms part of credit risk and speaks to derivative contracts agreed between the parties as a means of transferring credit risk to a third party. Discovery Bank has limited risk related to counterparty credit risk as the bank does not trade in instruments, and all derivatives are managed by Discovery Group.	n/a
(b)	The method used to assign the operating limits defined in terms of internal capital for counterparty credit exposures and CCP exposures	n/a to Discovery Bank	n/a
(c)	Policies relating to guarantees and other risk mitigants and assessments concerning counterparty risk, including exposures towards CCPs	As an unsecured retail-focused bank, risk is managed through the bank's lending strategy (targeting low-credit-risk clients) and not mitigated through collateral or guarantees.	n/a
(d)	Policies with respect to wrong-way risk exposures	Currently, wrong-way risk is not considered due to the materiality of the counterparty credit risk exposure.	n/a
(e)	The impact in terms of the amount of collateral that the bank would be required to provide given a credit rating downgrade	n/a to Discovery Bank	n/a

Qualitative tables / CONTINUED

MRA – Qualitative disclosure requirements related to market risk

Description	Key risk	Section in document	Page reference
Banks must describe their risk management objectives and policies for market risk according to the framework below (the granularity of the information needs to support the provision of meaningful information to users):			
(a) Strategies and processes of the bank: This must include an explanation of management's strategic objectives in undertaking trading activities, as well as the processes implemented to identify, measure, monitor and control the bank's market risks, including policies for hedging risk and strategies or processes for monitoring the continuing effectiveness of hedges	Market risk	Risk management and key risks	32 – 33
(b) Structure and organisation of the market risk management function: This is a description of the market risk governance structure established to implement the strategies and processes of the bank discussed in row (a) above, as well as describing the relationships and communication mechanisms between the different parties involved in market risk management	Market risk	Risk management and key risks	32 – 33
(c) Scope and nature of risk reporting or measurement systems, or both	Market risk	Risk management and key risks	21 – 22 and 32 – 33

Discovery Bank

Qualitative tables / CONTINUED

ORA – Operational risk

Description		Commentary	Page reference
(a)	In addition to the general qualitative disclosure requirement (paragraph 824), the approach(es) for operational risk capital assessment for which the bank qualifies. (Capital Management and allocation) BA 400	Discovery Bank adopted the Basic Indicator Approach (BIA) and under this approach, the bank will hold capital for operational risk equal to a fixed percentage.	n/a
(b)	This is a description of the advanced measurement approaches for operational risk (AMA), if used by the bank, including a discussion of relevant internal and external factors considered in the bank's measurement approach. In the case of partial use, the scope and coverage of the different approaches used	Not disclosed as the bank follows the standardised approach for operational risk.	n/a
(c)	For banks using the AMA, a description of the use of insurance for the purpose of mitigating operational risk		

Qualitative tables / CONTINUED

IRRBBA – IRRBB risk management objective and policies

Description		Key risk	Section in document	Page reference
(a)	A description of how the bank defines IRRBB for purposes of risk control and measurement	Market risk	Risk management and key risks	30 – 33
(b)	A description of the bank's overall IRRBB management and mitigation strategies. Examples are: Monitoring of economic value of equity (EVE) and net interest income (NII) in relation to established limits, hedging practices, conduct of stress testing, outcome analysis, the role of independent audit, the role and practices of the ALCO, the bank's practices to ensure appropriate model validation, and timely updates in response to changing market conditions	Market risk	Risk management and key risks	
(c)	The periodicity of the calculation of the bank's IRRBB measures and a description of the specific measures that the bank uses to gauge its sensitivity to IRRBB	Market risk	Risk management and key risks	
(d)	A description of the interest rate shock and stress scenarios that the bank uses to estimate changes in the economic value and in earnings	Market risk	Risk management and key risks	
(e)	Where significant modelling assumptions used in the bank's internal measurement systems (IMS) (meaning the EVE metric generated by the bank for purposes other than disclosure, for example, for internal assessment of capital adequacy) are different from the modelling assumptions prescribed for the disclosure in Template IRRBB1, the bank should provide a description of those assumptions and their directional implications and explain its rationale for making those assumptions (for example, historical data, published research, management judgment and analysis)	Market risk	Risk management and key risks	
(f)	A high-level description of how the bank hedges its IRRBB, as well as the associated accounting treatment	Market risk	Risk management and key risks	

Qualitative tables / CONTINUED

IRRBBA – IRRBB risk management objective and policies / CONTINUED

Description	Key risk	Section in document	Page reference
(g) A high-level description of key modelling and parametric assumptions used in calculating ΔEVE and ΔNII in Table B, which includes: ▪ For ΔEVE, whether commercial margins and other spread components have been included in the cash flows used in the computation and discount rate used. ▪ How the average repricing maturity of non-maturity deposits has been determined (including any unique product characteristics that affect assessment of repricing behaviour). ▪ The methodology used to estimate the prepayment rates of customer loans, and/or the early withdrawal rates for time deposits, and other significant assumptions. ▪ Any other assumptions (including for instruments with behavioural optionalities that have been excluded) that have a material impact on the disclosed ΔEVE and ΔNII in Table B, including an explanation of why these are material. ▪ Any methods of aggregation across currencies and any significant interest rate correlations between different currencies.	Market risk	Risk management and key risks	30 – 33
(h) (Optional) Any other information which the bank wishes to disclose regarding its interpretation of the significance and sensitivity of the IRRBB measures disclosed and/or an explanation of any significant variations in the level of the reported IRRBB since previous disclosures	Market risk	Risk management and key risks	
Quantitative disclosures			
1. Average repricing maturity assigned to NMDs	Market risk	Risk management and key risks	
2. Longest repricing maturity assigned to NMDs	Market risk	Risk management and key risks	

REMA – Remuneration

Description	Section in document	Page reference
Information relating to the bodies that oversee remuneration. Disclosures should include: ▪ Name, composition and mandate of the main body overseeing remuneration. ▪ External consultants whose advice has been sought, the body by which they were commissioned, and in what areas of the remuneration process. ▪ A description of the scope of the bank's remuneration policy (for example, by regions or business lines), including the extent to which it is applicable to foreign subsidiaries and branches. ▪ A description of the types of employees considered as material risk-takers and as senior managers.	Material risk-takers are employees whose professional actions have a material impact on the Bank's overall risk exposure. Discovery Bank defines other material risk-takers as the members of the Discovery Bank Executive management team that are also Directors of the Bank. Discovery Bank defines other material risk-takers and senior managers similarly.	38
Information relating to the design and structure of remuneration processes. Disclosures should include: ▪ An overview of the key features and objectives of remuneration policy. ▪ Whether the remuneration committee reviewed the firm's remuneration policy during the past year, and if so, an overview of any changes that were made, the reasons for those changes and their impact on remuneration. ▪ A discussion of how the bank ensures that risk and compliance employees are remunerated independently of the businesses they oversee.	Remuneration	38 – 42
Description of the ways in which current and future risks are taken into account in the remuneration processes. Disclosures should include an overview of the key risks, their measurement and how these measures affect remuneration.		38 – 42
Description of the ways in which the bank seeks to link performance during a performance measurement period with levels of remuneration. Disclosures should include: ▪ An overview of main performance metrics for the bank, top-level business lines and individuals. ▪ A discussion of how amounts of individual remuneration are linked to bank-wide and individual performance. ▪ A discussion of the measures the bank will in general implement to adjust remuneration in the event that performance metrics are weak, including the bank's criteria for determining "weak" performance metrics.		38 – 42

Qualitative tables / CONTINUED

REMA: Remuneration policy / CONTINUED

Description	Section in document	Page reference
Description of the ways in which the bank seeks to adjust remuneration to take account of longer-term performance. Disclosures should include: ▪ A discussion of the bank's policy on deferral and vesting of variable remuneration and, if the fraction of variable remuneration that is deferred differs across employees or groups of employees, a description of the factors that determine the fraction and their relative importance. ▪ A discussion of the bank's policy and criteria for adjusting deferred remuneration before vesting and (if permitted by national law) after vesting through clawback arrangements.	Remuneration	38 – 42
Description of the different forms of variable remuneration that the bank utilises and the rationale for using these different forms. Disclosures should include: ▪ An overview of the forms of variable remuneration offered (meaning cash, shares and share-linked instruments, and other forms). ▪ A discussion of the use of the different forms of variable remuneration and, if the mix of different forms of variable remuneration differs across employees or groups of employees), a description of the factors that determine the mix and their relative importance.		

06
Abbreviations

Abbreviations

ABBREVIATION	DEFINITION
A-IRBA	Advanced Internal Ratings-Based Approach
AML	Anti-Money Laundering
ASF	Available Stable Funding
AT1	Additional Tier 1
BA	Banks Act
BASA	Banking Association of South Africa
BCBS	Basel Committee on Banking Supervision
CCF	Credit Conversion Factor
CCPs	Central Counterparties
CCR	Counterparty Credit Risk
CEM	Credit Exposure Method
CET1	Common Equity Tier 1
CFT	Countering Financing of Terrorism
CRM	Credit Risk Mitigation
CSR	Corporate Social Responsibility
CVA	Credit Valuation adjustment
DAC	Directors Affairs Committee
D-SIB	Domestic Systemically Important Banks
ECL	Expected Credit Loss
ERC	External Remuneration Committee
ERMF	Enterprise Risk Management Framework
ESG	Environmental, social and governance
EVE	Economic Value of Equity
F-IRB	Foundation internal ratings-based approach
G-SIB	Global Systemically Important Banks
HQLA	High-Quality Liquid Assets
IAA	Internal Assessment Approach
ICAAP	Internal Capital Adequacy Assessment Process
IMA	Internal model approach
IMM	Internal model method
IRB	Internal Ratings Based
IRC	International Remuneration Committee
IRMSA	The Institute for Risk Management South Africa
DiscoveryCard	Joint venture between Discovery Bank and First National Bank
KYC	Know Your Client

ABBREVIATION	DEFINITION
LCR	Liquidity Coverage Ratio
LTIPs	Long-term Incentive Plans
MDB	Multilateral development banks
MRM	Model Risk Management
NII	Net Interest Income
NSFR	Net stable funding ratio
ORSA	Own Risk and Solvency Assessment
PA	Prudential Authority of South Africa
PASA	Payments Association of South Africa
PSE	Public Sector entities
PSMOR	The Principles for the Sound Management of Operational Risk
POPIA	Protection of Personal Information Act
RACM	Risk and Control Matrix
R&D	Research and Development
RP	Recovery Plan
RSF	Required Stable Funding
RWA	Risk-Weighted Assets
SA	Standardised Approach
SA–CCR	Standardised Approach for Counterparty Credit Risk
SAMOS	South African Multiple Option Settlement
SARB	South African Reserve Bank
SEC-ERBA	Securitisation external ratings-based approach
SEC-IRBA	Securitisation internal ratings-based approach
SOC	Security Operations Centre
STIs	Short-term Incentive Schemes
T1	Tier 1
T2	Tier 2
TC	Total Capital
TLAC	Total Loss-absorbing Capacity
VAR	Value at Risk
VAS	Value-added Services
VISA	Visa International Service Association

07
Annexure

Annexure

Tables not applicable to Discovery Bank

ABBREVIATION	DEFINITION
KM2	Key metric – TLAC requirements (at resolution group level)
PV1	Prudential valuation adjustments
TLAC1	TLAC disclosure for G-SIBs
TLAC2	Material subsidiary – creditor ranking at legal entity level
TLAC3	Resolution entity – credit ranking at legal entity level
CCyB1	Geographical distribution of credit exposures used in the countercyclical capital buffer
GSIB1	Disclosure on G-SIB indicators (simple consolidation without change)
CRE	Qualitative disclosures related to IRB models
CR6	IRB – Credit risk exposures by portfolio and PD range
CR7	IRB – Effect on RWA of credit derivatives used as CRM techniques
CR8	RWA flow statements of credit risk exposures under IRB
CR9	IRB – Back testing of probability of default (PD) per portfolio
CR10	IRB – Specialised lending and equities under the simple risk weight method
CCR1	Analysis of CCR by approach
CCR4	IRB – CCR exposures by portfolio and PD scale
CCR5	Composition of collateral for CCR exposure
CCR6	Credit derivatives exposures
CCR7	RWA flow statements of CCR exposures under the internal model method (IMM)
CCR8	Exposures to central counterparties
SECA	Qualitative disclosure requirements related to securitisation exposures
SEC1	Securitisation exposures in the banking book
SEC2	Securitisation exposures in the trading book
SEC3	Securitisation exposures in the banking book and associated regulatory capital requirements
SEC4	Securitisation exposures in the banking book and associated capital requirements
MRC	Desks' structure for banks using market risk IMA
MR2	RWA flow statements of market risk exposures under IMA
MR3	IMA values for trading portfolios
MR4	Comparison of VaR estimates with gains/losses
MRB	Qualitative disclosures for banks using the IMA
OR1	Historical losses used for SMA calculation
OR2	SMA – business indicators and subcomponents
OR3	Historical losses
IRRBB1	Quantitative information on IRRBB

discovery.co.za

1 Discovery Place, Sandhurst, Sandton, PO Box 786722, Sandton, 2196 | 0800 07 96 97 | www.discovery.co.za

All interest rates are as at 5 November 2021. Always see the Discovery Bank app or discovery.co.za for the latest interest rates, as well as the latest product information.