Discovery Bank

PILLAR III

Public **disclosures**

FOR THE YEAR ENDED 30 JUNE 2020

Discovery Bank Limited and Discovery Bank Holdings Limited Group

The year **in review**

Building on the successful launch to the market of our retail shared-value banking value proposition on 25 March 2019, Discovery Bank (the Bank) has finalised the migration of all Discovery Cards (a Visa credit card that was launched by the Discovery Group in a joint venture with FirstRand Bank Limited in October 2004) from FirstRand Bank onto the Discovery Bank platform. The last migration was completed in July 2020, and these clients now have access to a new Bank channel with the option to upgrade and access all the other Bank products and benefits. In addition, the growth in "new-to-Bank" clients is steady.

The proactive actions by our Government to counter the threat of the COVID-19 pandemic, which resulted in the associated lockdown, have required significant agility from the Bank team. Clearly, 2020 has been an extraordinary year thus far and we envision the effects to remain with us for the foreseeable future. A period of exceptional challenges, be they economic, health-related or of significant consequential social impact, has required an unprecedented response. Of immediate priority were the planning considerations associated with ensuring the health and safety of our employees, the result of which is that approximately 90% of our employees are working from home, necessitating fluidity in our interactions, as well as in our approach to risk management. It was important to ensure that the "portability of the control environment" continued to allow a robust and resilient control ecosystem, while ensuring the protection of the Bank's functionality and safety of employees.

Employee safety was not our only critical priority. During this difficult time for banks and clients, we also ensured that we provided meaningful support to our clients while maintaining a very strong financial position, which was capable of withstanding substantial stress to the balance sheet. In an environment that is arguably worse than the global financial crisis of 2008, all key metrics track substantially ahead of requirements. To augment industry client relief actions announced by the Government and the Prudential Authority, focus had been on landing a number of COVID-19 initiatives, such as substantial amendments to the HealthyFood offering and introducing a "Discovery Miles for fitness points" benefit during the lockdown period.

Simultaneously, Executive Management continued to concentrate on ensuring a seamless transition from the "build' phase of the Bank's evolution to that of a fully running bank. This shift requires constant refocus to broaden our risk landscape to a more holistic and enterprise-wide view, encompassing operational, strategic, business, credit, market, liquidity and funding risk. Our objective is to continually respond to environmental fluidity and realign business strategy, risk strategy, capital management, business processes, people and technology to evaluate and manage our business opportunities, uncertainties and threats in a structured and disciplined manner. This process assists in ensuring that the Bank considers risk and capital implications when making strategic and operational decisions.

Our maturing pro-active approach to risk management further provides:

- Increased consistency in the measurement, treatment and communication of risks within the Bank
- Enhanced reporting and analysis of risks faced by the Bank
- Improved focus, attention and perspective to risk data which will be used in the calculation of regulatory and internal capital across the Bank
- Efficiency and effectiveness of activities related to all assurance matters
- Cost-effective management and monitoring of risks.

The stringent management of the risk universe remains paramount, constantly assessing the soundness and effectiveness of our control environment as well as our general governance frameworks. Particularly within the current challenges associated with the COVID-19 pandemic, there has been significant effort to foster resilience, with no compromise afforded to governance considerations during these extraordinary times (underpinning a robust and thoroughly considered COVID-19 response plan, with detailed consideration afforded to the Bank's resilience).

Communication and interaction between management structures, the Executive, the various committees, Board, and our broader stakeholders have been frequent, with a constant reassessment of the risk universe. In addition, interaction with our Group Risk colleagues has been equally frequent. Of significance is interaction with respect to possible stress scenarios related to the impact of COVID-19. These were predominantly financial in nature but included a thorough analysis of our client cohort make-up, the impact on industry segmentation, behavioural changes to credit limit utilisation, associated impairments, capital consequences, liquidity stresses, and associated funding requirements.

The modelling impact focussed specifically on the following risks:

- Credit stress testing and effect on our impairments and our lending book
- The credit acquisition strategy, the impact of approval rates and the sales channels affected
- The forbearance strategy and the joint efforts to implement strategy on both banking platforms (Discovery Bank and those clients that had not yet migrated from the FNB platform)
- Liquidity and funding risk and the impact of simultaneous loss of retail deposits coupled with an increase in credit utilisation by our clients
- The capital impact and the additional losses as a result of the pandemic.

As expected during this period, interaction with the Regulator has been frequent with daily, weekly or monthly interactions covering a number of risk types predominantly aimed at ensuring constant industry feedback to the Prudential Authority regarding idiosyncratic events that could impact the stability of the financial system. While our general risk universe has experienced heightened risk, be it traditional risks such as credit, operational or business risk or non-financial risks such as conduct, financial crime or cyber risks, we have ensured that our governance forums and control environment continues to operate effectively during this period.

Key risk areas

In addressing our key risk areas, we conform to our established principles to ensure we create an environment where we:

- Embed a robust and resilient risk culture to ensure the protection of both functionalities within the banking environment and the safety of our employees
- Ensure client support remains uninterrupted and meaningful
- Maintain a strong financial position to withstand substantial stress to the balance sheet
- Transition smoothly to a fully functional bank
- Use embedded controls within business models, processes, services and products
- Recognise the value of available data, and have an acute awareness of the need for privacy associated with personal information.

COVID-19

Since the implementation of the Disaster Management Act on 18 March 2020, Discovery Bank, in conjunction with the Discovery Group (the Group), has taken several steps in line with the key priorities for the Group's COVID-19 response of:

- Protecting our people
- Protecting and supporting our clients
- Supporting our country
- Maintaining financial strength and resilience

The initial thinking was that the direct impact of the lockdown would last up to three months, but it became more severe. However, the widespread impact on productivity has, by and large, not been a significant negative factor and the Bank has successfully completed the BIN-by-BIN migrations over the period. Specifically:

- Spatial separation has taken place on a "place-one, skip-one" basis for employees
- Technology capabilities continue to work well
- Our business continuity site remains a back-up "cold site"
- A number of Group walk-in centres have re-opened
- Steps have been taken to mitigate fraud risk associated with working from home.

Operational risk

Building on our previous efforts to design and build a robust control environment, we have made significant strides in embedding risk tools and knowledge within the business to enable effective management of operational risks in line with what is expected of a fully functioning bank, and moving to a "run-the-bank" model. The Principles for the Sound Management of Operational Risk (PSMOR), as published by the Basel Committee, have been adopted by the Bank as the framework against which we benchmark our internal capability and competency to managing operational risk. Regular self-assessments are performed against the detailed principles outlined in the standard, enabling us to benchmark our risk management maturity against leading industry practice. This affords the Bank the opportunity to continually improve the manner in which we approach the management of operational risk.

Fraud risk management strategy remained pivotal in managing the Bank's fraud losses during the year in review, with the implementation of additional fraud risk management tools and practices. Fraud risk evaluation for both internal and external fraud is embedded in the fraud risk strategy. The implementation and enhancement of fraud controls continue to create robust detection and prevention techniques in minimising fraud risk.

Significant time and effort have been expended in the area of combating security risk and we remain vigilant with our threat intelligence partner along with maintaining information sharing through industry forums and key service providers. We continue to ensure that we maintain high levels of hygiene within our infrastructure estate, with an increase in our perimeter security during the COVID-19 work-from-home initiatives enhancing end-user security services. Additional focus has been placed on the vulnerability and patch management capabilities to identify, evaluate, treat, and report on security exposures across the landscape to ensure that security weaknesses are not left unchecked. The implementation of our identity and access management capabilities allows for job position and job code maintenance in a single system, which in turn allows for user entitlements to be provisioned based on the onboarding, employee movement and off-boarding processes adopted in the Bank. A security awareness campaign has been developed to ensure both employees and clients are aware of the importance of protecting sensitive information, what they need to handle information securely, and the risks that come with interacting in a digital world.

Credit risk

The Bank has adopted a very prudent "low-and-grow" credit strategy, aimed at allowing credit growth, over time, to grow commensurate with balance sheet resilience and the manifestation of our behavioural model through the "good financial behaviour" of our clients. Aligned to the conservative lending strategy, a progressive "gate[1]" methodology is in place to ensure risk is adequately mitigated whilst entering the lending market. The acquisition strategy remained unchanged during this time as it adequately monitored the risk profile of all new applications. Credit scorecard methodology was further enhanced considering evolving available data metrics. Furthermore, extensive stress testing factors have been considered relevant to the current crisis (industry type, number of COVID-19 relief requests and change in client payment behaviour) and included as a "COVID-19 overlay" in the impairment numbers of the Bank.

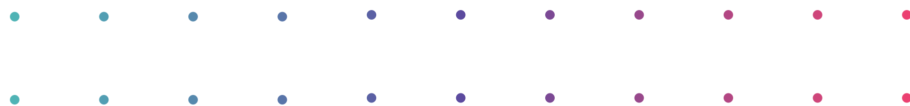
Balance sheet management: Liquidity and funding considerations

The migration of the Discovery Card from FirstRand Bank onto the Discovery Bank platform has resulted in a growth in the balance sheet commensurate with the migrated client numbers – the asset quality of which has been preserved. A range of dynamic COVID-19 related stress scenarios were conducted on our forecast book to test the Bank's liquidity resilience to a simultaneous loss of retail deposits coupled with an increase in credit utilisation by clients on existing funding facilities. This included low (bad), central (expected) and high (good) scenarios in line with the views of our external economists (Bureau of Economic Research (BER)) for the potential outcomes of this unprecedented COVID-19 pandemic.

The Bank continues to hold surplus liquid assets and has maintained a strong liquidity position which substantially exceeds the South African Reserve Bank's (SARB) minimum liquidity ratio requirement. At all times, prudence in managing the liquidity position of the Bank has been top of mind.

Discovery Bank continues to meet the Prudential Authority's required indicated minimum capital adequacy. In addition to the management buffer, the Bank endeavours to maintain an appropriate headroom to adequately absorb any unexpected volatility during this period.

1 *Gate methodology refers to the approach taken by management to include different milestones that need to be achieved to provide comfort that existing controls and functionalities are working. Each "gate" has associated risks and measures of success that evoke increased exposures.*



Discovery Bank

Interest rate risk in the Banking Book

All rate cuts by the SARB during 2020 were closely monitored and the resultant net interest income data was analysed to ensure the Bank continues to meet its strategic objectives. The Bank further finalised an ALM system to enhance our liquidity and interest rate measurement, reporting and stress testing capacity.

Model risk

The Bank ensures that all models follow 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.

Strategic and business risk

We have successfully implemented our unique retail shared-value banking proposition. We are committed to ensuring foundations are in place that will realise significant rewards for both clients and shareholders. The successful migration of the Discovery Card book and the subsequent upgrading of many clients to full banking suites have resulted in increasing revenues thereby mitigating business risk.

Reputational risk

Discovery Bank is acutely aware of the "confidence sensitive" nature of banks generally. Discovery Bank takes reputational risk seriously and monitors both social channels and media to track any complaints against the brand. Client feedback is monitored through the call centre on a real-time basis. Discovery Bank aims to remain a client-focused, fair and transparent business that delivers world-class products and services to clients.

In summary:

- The Bank has recorded solid growth in its first year of operation, despite a delay in the Bank launch and the resulting complexities from COVID-19.
- The resultant portability of our controlled environment, arising from the "work-from-home" construct has proved highly effective and resilient.
- Balance sheet profile, related metrics and regulatory measures are substantially sound.
- The Bank's retail deposit base continues to grow strongly and ahead of expectations, while wholesale funding raised has strengthened the Bank's liquidity and provides scope to prudently grow the loan book.
- The Bank has successfully completed the BIN migrations, with the last migration completed in July 2020.
- The Bank has an advances book, which in aggregate is of a higher quality when compared to the market. This has resulted in a relatively smaller portion of clients being impacted by COVID-19, which has enabled the Bank to continue focusing efforts on enhancing the client value proposition.
- Discovery Bank is positioned to be the leading digital bank in South Africa, with its advanced technology platform and shared-value banking model. The Bank will continue to develop and innovate products to drive our strategy.
- The Bank has continued to both mature and deepen its governance, risk management and general operating capabilities over the last year.

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01

Board approved disclosure policy

Discovery Bank

Board approved disclosure policy

Discovery Bank, a new entrant to the South African banking market, is the world's first behavioural bank implementing a shared-value business model that is both disruptive and innovative. Client financial wellness is measured holistically using the internally developed Vitality Money construct. The Bank has the unique ability to incentivise and guide clients to manage their financial position better. As they do, they present a lower risk to the Bank and the wider banking system, with a lower likelihood of financial default. This creates economic value for the Bank, which is then shared by offering clients higher rates of interest on savings, lower rates of interest on debt, and greater rewards for managing their money better.

The Bank encourages people to objectively assess their financial situation and make the necessary changes using innovative financial tools. This creates a virtuous cycle that aligns the interests of the Bank with those of its clients. By actively promoting the financial wellbeing of clients, the Bank gains a deep understanding of the clients banking behaviour. Consequently, the Bank is better able to identify, manage, price and mitigate client risk, and the client benefits by receiving rewards and incentives.

The Bank has successfully executed a COVID-19 response plan, entrenched a risk awareness and risk-averse culture, and has managed the funding of risk in line with the strategic plan to have appropriate liquidity buffers and further sets out to grow the business.

The consequences of the continued response to the COVID-19 pandemic and the resultant new normal applicable to the working environment has been admirably addressed by the entire Bank team. It has been required by all to remain significantly agile in their interactions, management style and responses to keep employees engaged, but more importantly, empowered. Clarity of outcome expectations and direction is increasingly important and so is the requirement for leadership to project presence, albeit through digital channels.

The Bank intensified its focus on mitigating risk, governance and preserving financial resilience whilst still assisting clients in managing the impact of COVID-19 on them. The migration of the Visa credit card BINs from the FNB platform has successfully concluded.

The Board is satisfied that Discovery Bank is adequately capitalised to mitigate short-term risks and takes measures to ensure it is adequately capitalised to meet its long-term strategic objectives.

Furthermore, the Board is satisfied that:

- In line with Discovery prudent governance processes, all business owners, Executive Management and Board Executives have reviewed this document.
- The information provided in this document was subject to a similar and appropriate level of internal review, as the information provided for financial reporting purposes.
- Our Pillar 3 reports are published on the Discovery Group website, under Investor Relations, and is aligned to the mandatory frequency of such disclosures.

PAUL SMITH

Chair – Risk and Capital Management Committee

02 Risk management approach

Discovery Bank

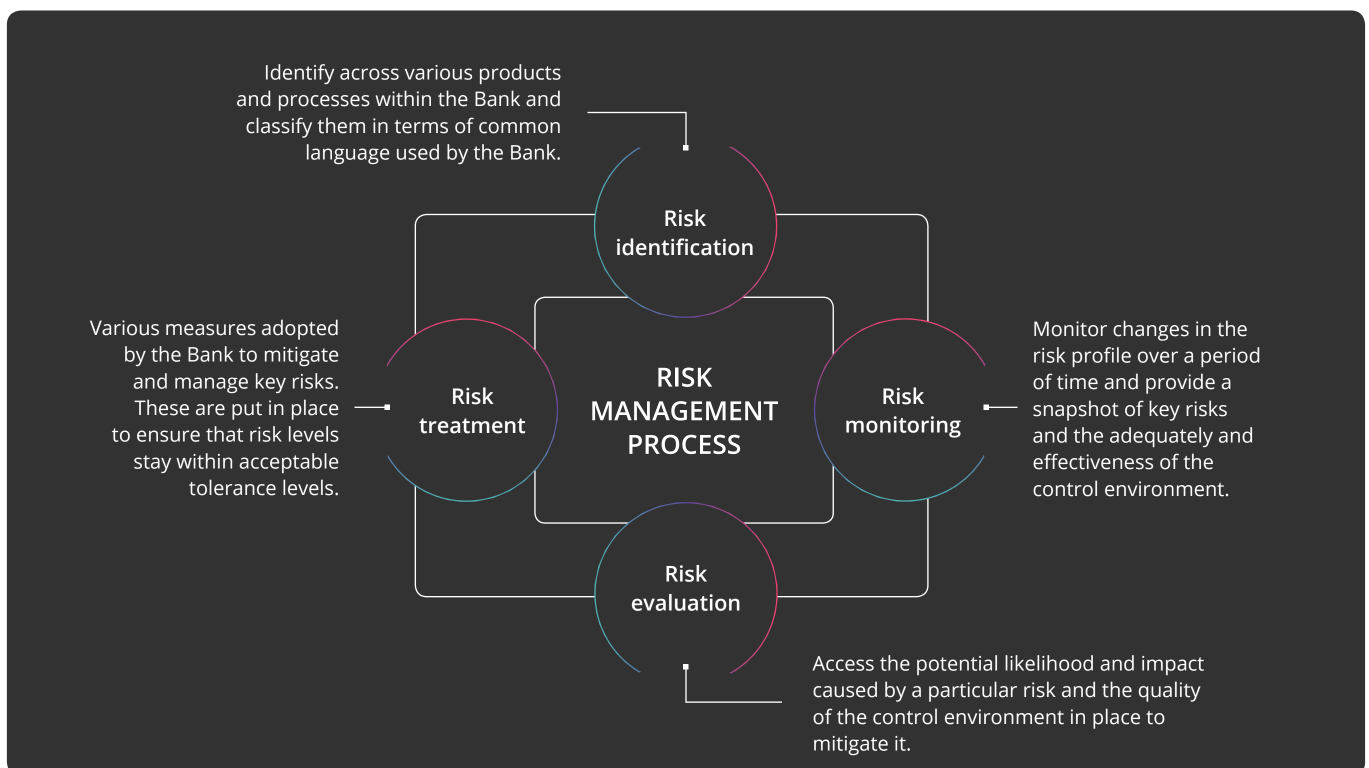
Risk management approach

Overall risk profile

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.

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.



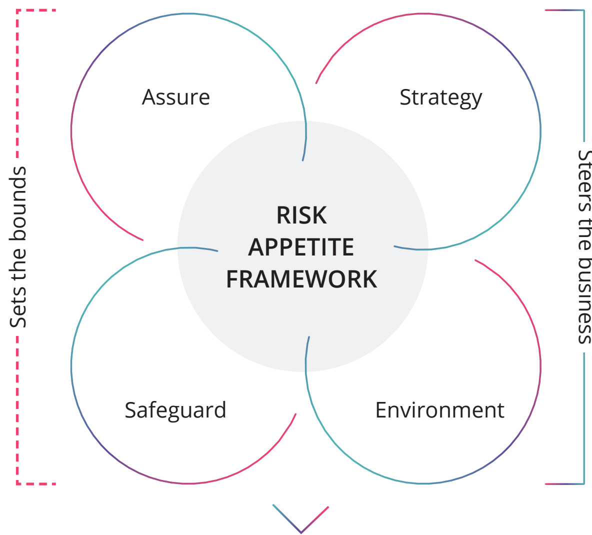
For each significant risk type faced by the Bank, a policy landscape exists which is divided into policies, standards and procedural documents. By identifying and proactively addressing these risks and opportunities, the Bank is able to protect and create value for its stakeholders.

Discovery Bank's key risk types include the following:

- Strategic and business risk
- Reputational risk
- Credit risk
- Liquidity and funding risk
- Market risk (including Interest Rate Risk in the Banking Book)
- Model risk
- Operational 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. Where possible, the Bank reduced exposure to risk for minimal impact and employed daily stress testing scenarios to assess the impact of the risk. Early warning indicators were updated and limit strategies reviewed. This was 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?

With the Bank transitioning to a "run state", the focus of the Bank's risk appetite has shifted from primarily operational measures aimed at limiting such losses, to more strategic measures aimed at driving the Bank's business plan thereby ensuring Discovery Bank meets its strategic and business goals. Based on the focus for 2020, the work planned for refining and embedding the Bank's risk appetite is as follows:

- Whilst maintaining a prudent approach to managing risk, work must be done to refine and recalibrate risk appetite metrics to align to the Bank's strategic plans for growth, profitability and sustainability, through identifying the critical success factors to ensure the Bank is sustainable within an acceptable timeframe.
- Ensure alignment between senior management and Board expectations of delivery of the strategic objectives, and agree on suitable tolerances for risk appetite, monitoring and reporting.
- Cascade metrics by risk type to appropriate business units.
- Embed risk appetite through evolving an appropriate risk culture within Discovery Bank.

Strategy and business model

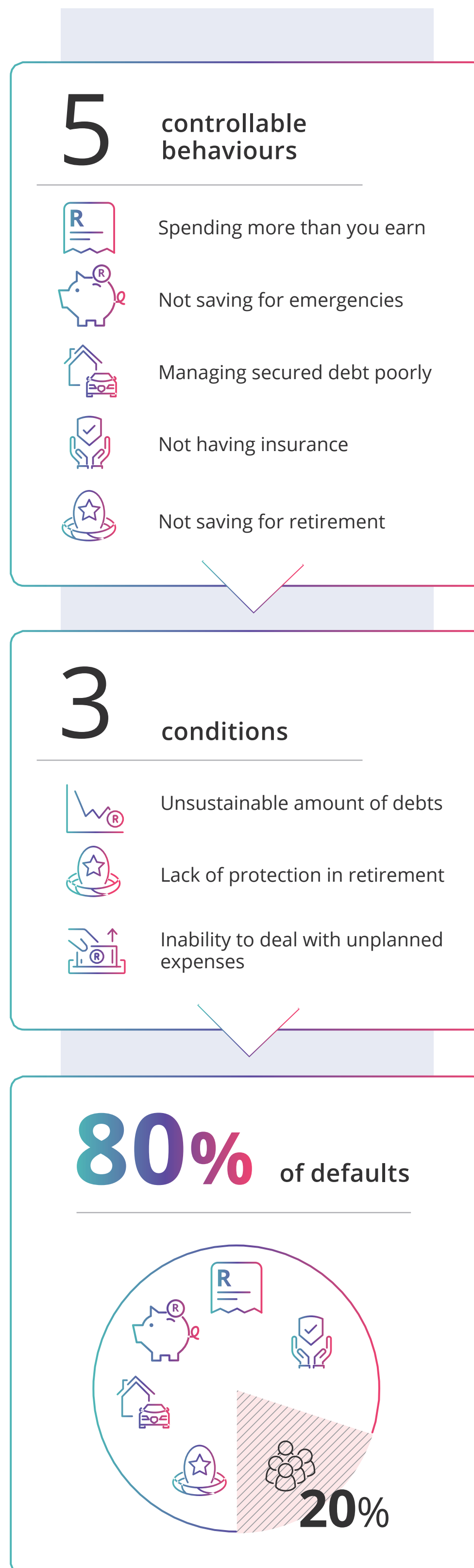
The strategic objectives are linked to business targets in order for the Bank to measure its success in achieving those objectives. The below statement articulates the Bank's vision at a high-level:

To be the world's first "behavioural bank" and South Africa's preferred digital retail Bank.

- which delivers personalised solutions to our client base through a "mobile first" world-class digital platform
- whilst enhancing their financial wellness through our unique "shared-value banking model"
- and delivering superior returns to our shareholders.

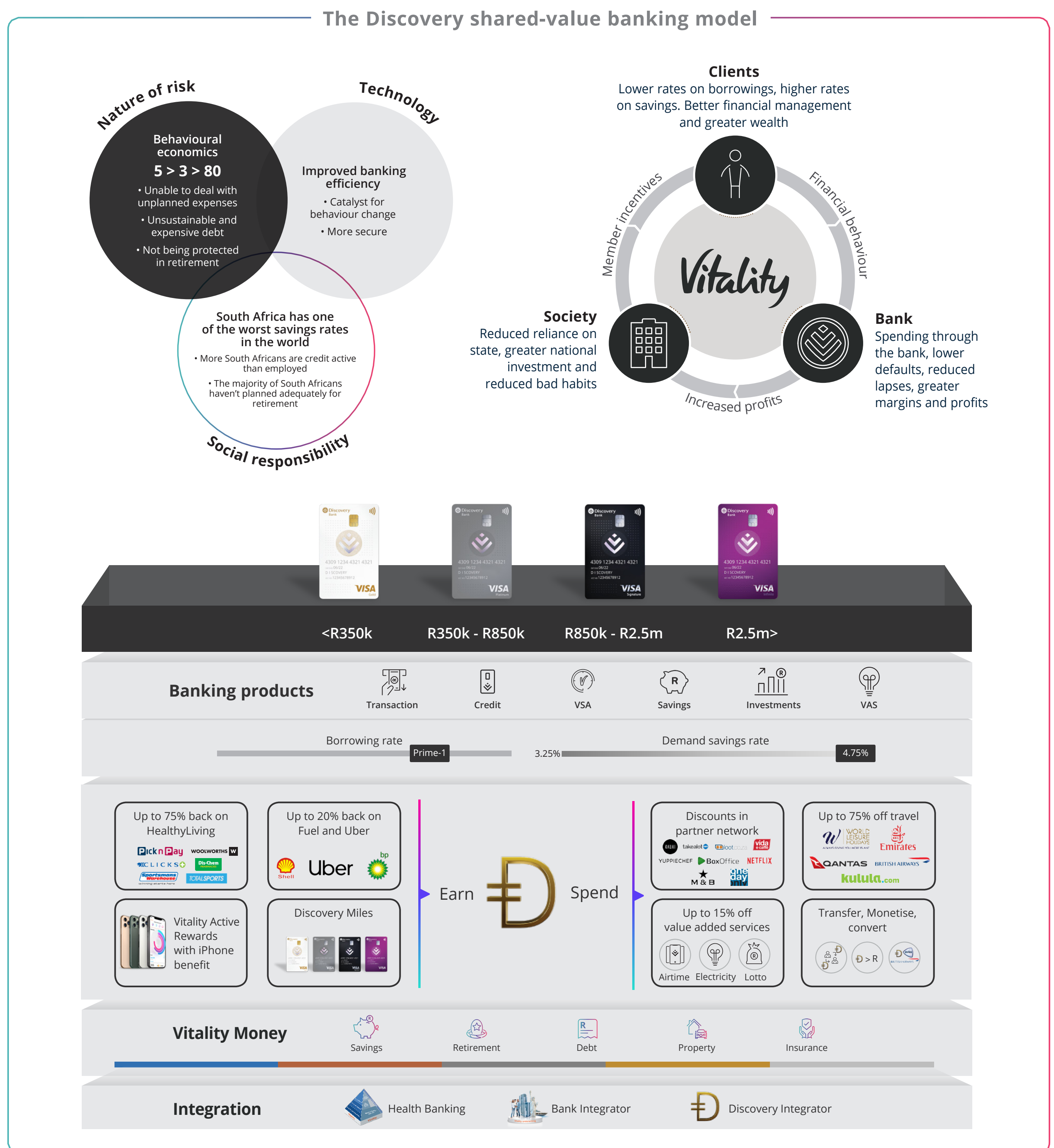
We have launched the world's first behavioural bank into the South African retail banking market – a confluence of technology, social responsibility and a deep understanding of the nature of behavioural risk underpinned by the proven Discovery shared-value business model. The science behind behavioural banking shows that five controllable behaviours give rise to three financial conditions that result in 80% of defaults or financial burden now and in the future.

Discovery Bank leverages world-class capabilities built by Discovery over the last 25 years and uses the science and scale of Vitality to offer market-leading rewards for getting financially healthy, and offers unrivalled rewards through integration with other Discovery products.

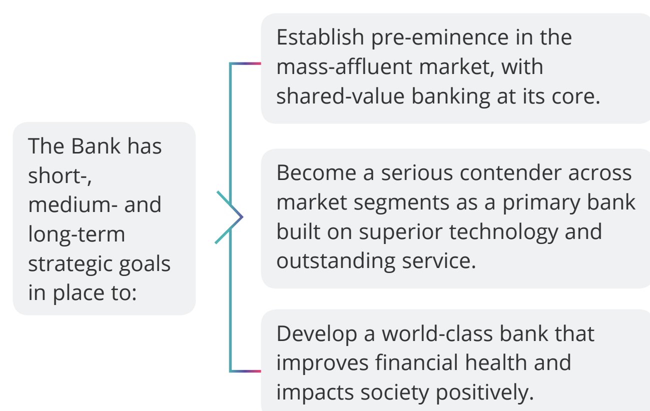


Risk management approach / CONTINUED

As such, 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 business has been built on a combination of the latest real-time processing technology and sophisticated behavioural data analytics.



Discovery Bank offers a personalised, intuitive and convenient banking solution across a wide digital platform. This platform enables Discovery Bank to bring the latest and most cost-effective banking technology to market providing its clients with a lean, digitally enabled banking environment. The digital platform caters for day-to-day banking requirements, investment in products and integration with client rewards programmes. Discovery Bank offers both savings and credit products with different rates applicable to each product depending on the amount deposited or borrowed and the behaviour of the client. The range of products have different card colours that target specific market groups based on their income bracket. Dynamic Interest Rates, an industry first, allows clients to improve their interest rates on savings and credit based on their Vitality Money programme engagement.



With the Bank transitioning to a "run state", more strategic measures will be aimed at driving the Bank's business plan thereby ensuring Discovery Bank meets its strategic and business goals. To align the Risk Appetite statement to the Bank's taxonomy on risk, the following strategic objectives will need to be met:

- **Remain dynamic and responsive to changing conditions** – to develop investor and regulatory confidence, as well as shareholder value, by creating a sustainable business which is well capitalised through diversified funding and has a deposit led strategy with an appropriate loan-to-deposit ratio. And write "good" business within the approved credit loss appetite statement.
- **Grow market share** – retain and obtain risk appetite by getting appropriate, engaged clients through the successful migration of the Discovery Card (within goodwill tolerance), and the development of a compelling cross-selling strategy which primarily leverages the existing Discovery Card.
- **Personalised and client-centric products, rewards and experience** – create a single view of the client across the Discovery Group with a client-centric low-touch ecosystem and experience in line with strategic objectives of the Bank whilst driving innovation.
- **Regulatory prudence and excellence** – fully fulfil our obligations in terms of all regulatory compliance and market conduct requirements.
- **Fulfil our social contract** – by demonstrating progress towards employment equity targets.

Governance structure

Discovery Bank has a robust governance framework in place to ensure risks are adequately monitored and mitigated. For each significant risk type, a policy landscape exists.

The Bank has adopted the "Three lines of defence governance" model for managing risk. This risk management model promotes transparency, accountability and consistency by clearly identifying and separating business management from governance and control structures. In addition, the Bank's risk management systems and processes are designed to be proactive. The digital banking platform identifies potential risks and continuously improves risk management capability.

Risk management approach / CONTINUED

In executing the risk management framework, the following key principles apply:

Risk management aligned and central to the business strategy

Managing risk is central to the Bank's strategy. Risk management and strategic processes are well aligned to ensure the Bank always considers its risk appetite when it makes strategic decisions. The Bank identifies, measures and manages risk holistically by carefully addressing the inter-relationships of risks throughout the organisation.

Proactive risk management and compliance

Discovery Bank has a rigorous, proactive risk management framework. This framework assists in preventing losses and unnecessary exposure to risk. It also ensures that the Bank is well prepared to respond to any negative risk implications. The Bank continues to embed risk management processes throughout the organisation and requires its employees to take responsibility for the risks related to their work. The Bank's risk management framework sees, in real time, client exposures to risk and seeks to intervene, when necessary, to avert losses.

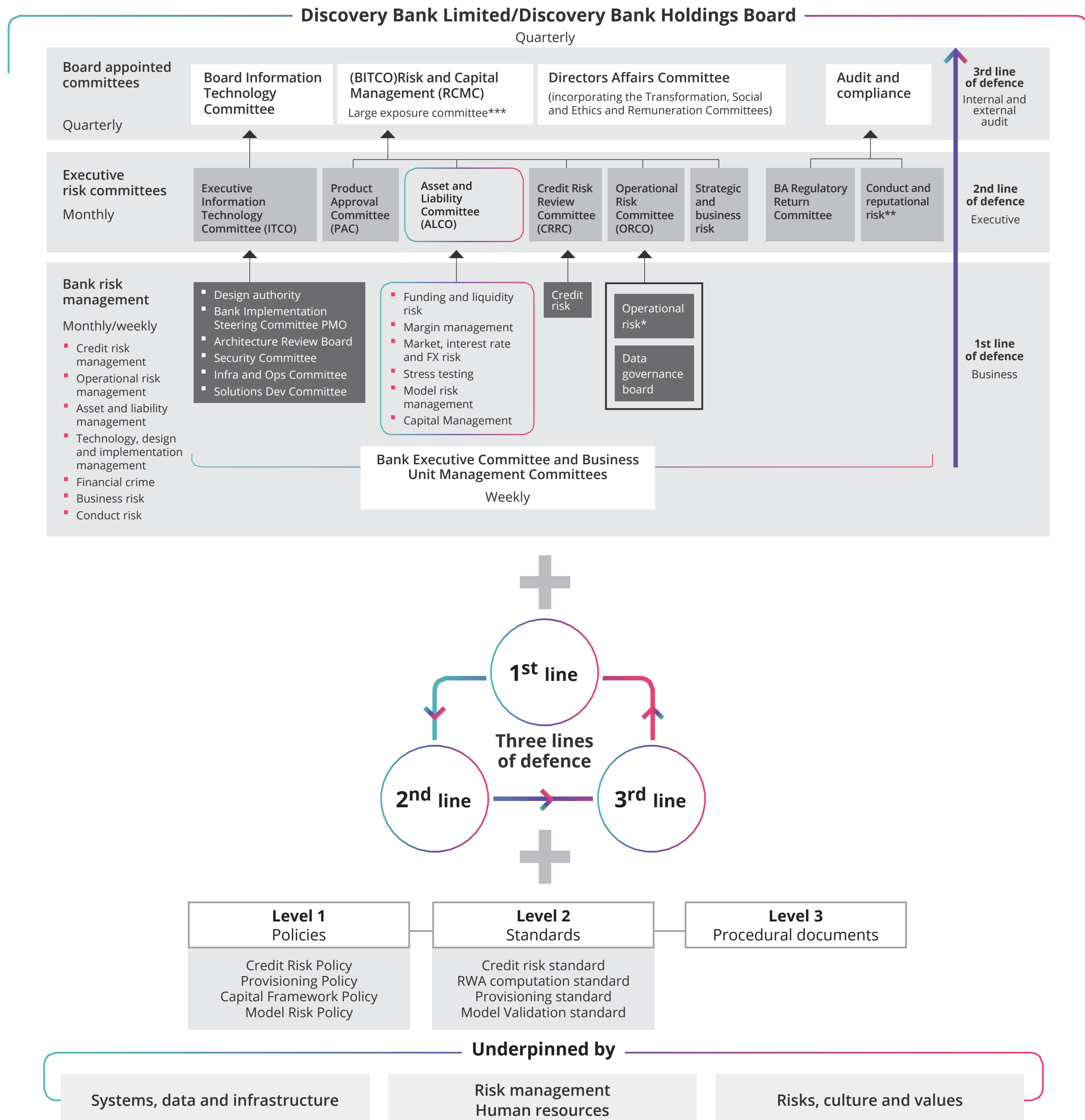
Data-enabled risk management

The Bank uses advanced technology and extensive data resources to identify risks and minimise potential credit, market, liquidity, operational and reputational losses and thereby facilitates compliance with applicable regulation (most importantly in relation to KYC, AML and CFT regulations). Strong controls are in place to manage client confidentiality and data privacy.

Discovery Bank uses its analytical systems to accurately assess both consumer risk and the risk to the Bank. These analytical capabilities enable us to have a comprehensive view of the client and their financial habits, and tailor specific products to their needs. This is through a deeper understanding of the client's financial circumstances and requirements. An example of this would be to timeously identify financially stressed clients and respond appropriately. For example, offering forbearance arrangements.

Risk management approach / CONTINUED

Augmenting the oversight framework, we make use of acknowledged industry experts who serve in a consultant capacity to assist the Board in assessing the risks as presented by the management team.



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.

* *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 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.*

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:

- They are responsible for the day-to-day management of risk and control within the business operations.
- They deliver strategy and optimise business performance.

2 The second line of defence is made up of the Bank's risk management function and the compliance function. These are independent functions that provide limited assurance to the Board with regards to the adequacy and effectiveness of the overall risk management system. These functions have the authority to communicate with any employee and obtain access to any records required to carry out their responsibilities:

- The risk management function is an independent function (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 is able to meet its regulatory obligations and promotes a corporate culture of compliance and integrity. This function also provides limited assurance to the Board with regards to the adequacy and effectiveness of the overall risk management system. It consists of the following key functions:
  - Credit risk
  - Operational risk
  - Security risk
  - Balance sheet management
  - Management information.

3 The third line of 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. This means:

- Bank internal audit assesses 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.

Discovery Bank has a clearly articulated business strategy. The various risks to achieving this strategy have been identified and quantified, where possible, and risk appetite metrics (quantitative and qualitative) have been set and are monitored on an ongoing basis.

In the Bank's risk appetite framework, key risk indicators are established against which all principal risks are monitored and managed. This ensures the business strategy is met whilst simultaneously managing (and limiting) the risks taken on to do so.

Policies, processes, practices and procedures and controls were implemented to support risk management in the Bank. This typically involved:

- Identifying particular events or circumstances relevant to the Bank's objectives (risks and opportunities)
- Measuring them in terms of impact and likelihood
- Monitoring the risks against the limits set and capital available
- Managing risks by developing risk mitigation strategies and action plans where necessary
- Providing the Board and senior management with oversight of the risks faced by the business through a regular risk reporting process with special consideration being given to emerging risks as a new bank entrant into the market.

RISK MANAGEMENT PROCESSES

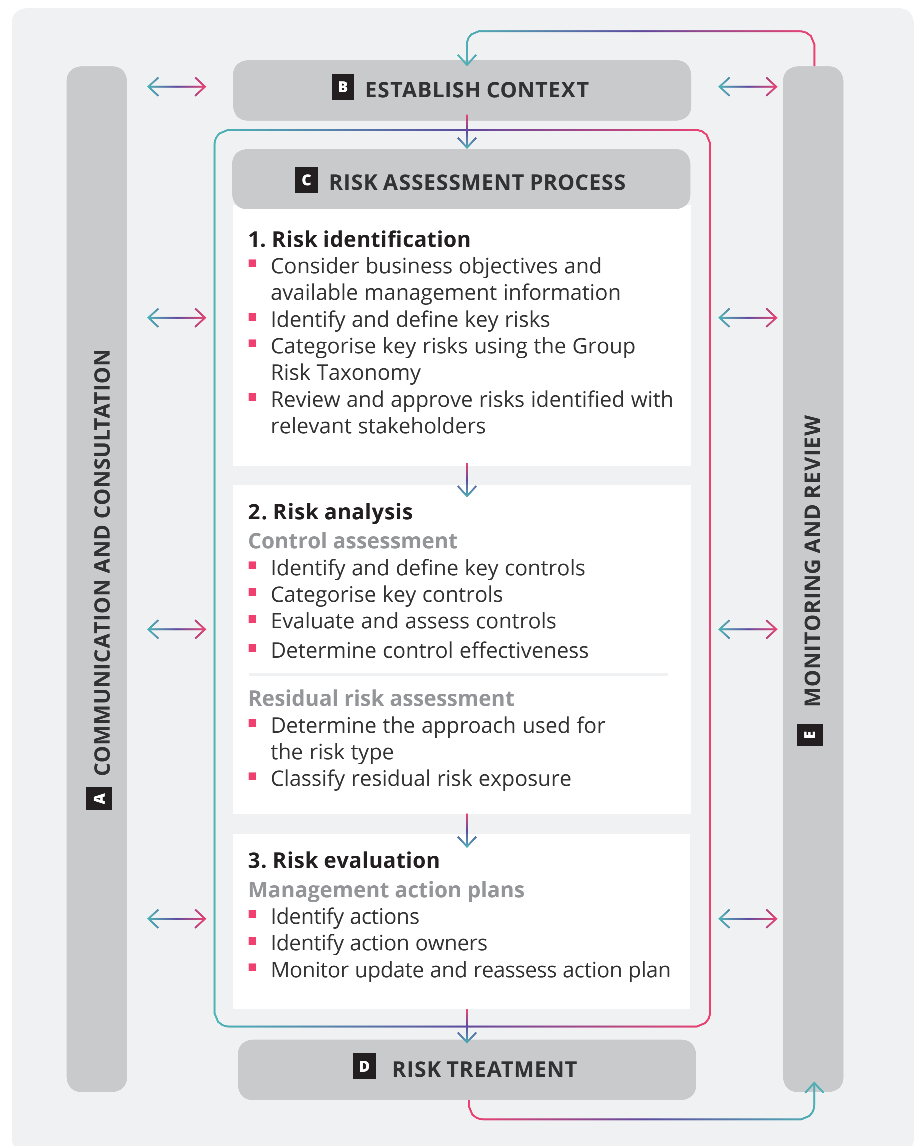
Risk management processes and procedures are in place to ensure risks and controls are identified, analysed, evaluated and reported on a consistent basis.

Risk assessments are performed at three levels

BOTTOM-UP RISK ASSESSMENT (PCSA)
Identifying the core business processes for each entity and performing a Process and control Self Assessment (PCSA)

TOP-DOWN RISK ASSESSMENT (RCSA)
Assessment of all the risks defined in the Group Risk Taxonomy and defining risk mitigation strategies for each risk identified

EMERGING RISK ASSESSMENT
Identification of key risk drivers of the changing risk landscape which includes new economic, technological, socio-political and environmental developments as well as the growing interdependencies between them which can lead to an increasing accumulation of the risk exposure that the Group faces



On the back of the 2008 global financial crisis, there has been a renewed focus by regulators on the risk culture of an organisation. Risk culture is central to the human decisions that govern the day-to-day activities of every business and is one of the key drivers of effective risk management. The Institute for Risk Management South Africa (IRMSA) describes risk culture as the values, beliefs, knowledge and understanding about risk. This culture arises from the repeated positive risk behaviour of its employees.

It is strongly suggested that companies with inappropriate risk culture may find themselves allowing activities that are not in line with their policies and procedures, which can lead to the disregard or condoning of undesirable behaviour. Risk culture may be a formidable barrier to improving risk management performance. Risk culture often evolves as the organisation evolves and it is recommended that organisations use self-assessment techniques, internal surveys, focus groups, questionnaires and other techniques to understand the current state of risk culture. Extensive best practice research has been conducted into the key factors that contribute to risk culture within an organisation. These factors have been extracted, compared and consolidated to develop a framework within which to measure the Bank's risk culture. Based on these themes a questionnaire has been developed to self-assess risk culture across all levels and divisions within the Bank. This has been approved at the ORCO and rolled out, beginning with all executives within the Bank and cascading to the other areas within the Bank.

Risk appetite

Our risk appetite considers all the risks that apply within the Discovery Bank risk universe to ensure no unnecessary exposure is introduced onto the Bank's balance sheet or within the operating environment. The associated parameterisation of this is embedded in our risk response and forms part of our daily, weekly and monthly monitoring processes. Overall the risk portfolio is "at appetite" with no concerns in terms of risk management. Where approved appetite was breached, the appropriate governance procedures were followed and reported. As the Bank evolved and matured, including the BIN migrations, the Bank metrics were reviewed or reassessed to ensure alignment for this growth within control.

To execute on the Bank's strategy insofar as it applies to the risk appetite framework and achieve an adequate balance between risk and reward, we at 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 also generating sustainable long-term revenues for Discovery.

There are several ways in which new risk can be identified and reported:

Risk champions have been identified and are embedded within each functional area.

The risk champions have support and are being upskilled in the risk management competency. They are responsible for documenting and reporting on any new risks or risk incidents that have occurred within their respective areas.

Standardised risk and incident reporting templates have been developed to aid the risk champions in reporting new operational risks. This is broken down into the risk level categories.

A risk reporting one-pager report is completed by each risk champion and sent through to the risk function as risks are identified. This provides a bottom-up perspective on risk.

Key risks

Strategic and business risk

Strategic risk refers to the risk inherent in the chosen strategies of the Bank and the chance that these strategies may not result in the desired or planned outcome. These strategies, in the context of Discovery Bank, refer to products, channels, client 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 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. In other words, 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.

It is important to note that the fluctuations in earnings captured should not be attributable to the influence of any other risk type.

It is the responsibility of the enterprise risk team to review these measures and report any breaches into the ALCO, ORCO, and BA Regulatory Committee.

Reputational risk

Reputational risk is a risk of loss resulting from damages to the Bank's reputation consequent to an adverse event which 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 type events. For example:

- Business risk – lost revenue due to lower client volumes/client attrition
- Operational risk – increased operating regulatory costs
- Liquidity and funding risk – increased funding costs or loss of liquidity
- Other – the destruction of shareholder value.

Reputational risk is difficult to quantify as it arises when one or more of the other key risks fail therefore it is indirectly captured. In particular, operational risk events typically have the greatest propensity to result in damage to the Bank's reputation.

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, client grievances (which are another cause of reputation risk) are handled timeously and effectively. The Bank manages the reputational risk like other risks, namely, identify, assess, monitor, mitigate and control.

The Bank monitors both social channels and 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 world-class products to its clients. In the event that any reputational event occurs, it will be investigated and its results, as well as the proposed response plan, will be reported to the ORCO.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems (for example, breakdown of IT systems, mistakes, 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 exclude strategic and reputational risk.

To conduct business, Discovery Bank is exposed to various operational risks:

- **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 of obtaining an advantage or causing harm to the organisation and/or third parties.
- **External fraud:** The risk of deliberate acts by external parties with the intention of obtaining an advantage or causing harm to the organisation and/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 and/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 and/or third parties.
- **Data governance:** The risk of ineffective management of data; quality, architecture, security and privacy.
- **Outsourcing:** The risk of failure, non-performance, ineffective management and/or oversight of an outsourcing partner or a binder agreement.
- **Business continuity:** The risk of the 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 set of processes which enables it to identify operational risks and mitigate potential losses.

Building on our previous efforts to design and build a robust control environment, Discovery Bank has made significant strides in embedding risk tools and knowledge within the business to enable effective management of operational risks in line with what is expected of a fully functioning bank, while moving into a "run state".

Risk management approach / CONTINUED

The Principles for the Sound Management of Operational Risk (PSMOR), as published by the Basel Committee, has been adopted by the Bank as the framework against which we benchmark our internal capability and competency to manage operational risk.

The PSMOR outlines ten key principles that serve to guide the industry in terms of leading practice to ensure a strong risk management culture, an appropriate and fully integrated risk management framework, effective governance, including oversight, monitored risk appetite thresholds and escalation and decision channels, risk identification and assessment for the business as a whole, for all processes and procedures and for all products prior to following an approval process, monitoring and reporting of material exposure to losses, a strong control environment and transparent disclosures.

Discovery Bank performs regular self-assessments against the detailed standards outlined beneath each of the PSMOR principles, enabling the Bank to benchmark risk management maturity against current protocols and identify opportunities for continuous improvement in the way the Bank manages operational risk.

Our focus to date has been on successfully embedding the risk tools and knowledge required within the first line operational areas of the Bank to ensure a mechanism for risk events and/or control breakdowns to be reported, investigated and remedied, further strengthening the control environment and reducing any operational risk exposure. Through this work, we have strengthened the risk culture of the organisation and instilled positive behaviours and disciplines in terms of transparency and the reporting of risk incidents and potential operational risks and/or issues within the business. There has also been great focus on strengthening and maturing the governance structure, committees and processes through which operational risk is reported, discussed and debated.

Moving forward, we intend to extend our efforts around the identification and assessment beyond our most immediate and current risk to a broader view of emerging risks thereby extending our horizon and better enabling us to plan ahead and develop advanced warning signals or key risk indicators. By conducting scenario analysis on potential emerging risks, we will be better placed to proactively determine the most appropriate response based on the possible timing and impact of the risk, as well as our ability to absorb any associated losses.

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 ORCO 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 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, ORM 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 roll out and embed simple, efficient, and effective risk tools to entrench risk management within the Bank. ORM advisory and support services to business have been prioritised to support the execution of the business strategy and strengthening of key controls.

The current focus of operational risk

- **Emerging risks and scenario planning:** "Enhance the scenario" analysis process, with a focus on data quality and incorporation of emerging risks.
- **Automated analytics enabled by machine learning capabilities:** Building on the advanced analytics capacity and capabilities in the Bank to integrate ORM, measurement and appetite. The automated analytics will be accessible through digital channels, which will provide management with instant and rich data about the state of risk management within the Bank.
- **Combined assurance:** Implementation of initiatives to consolidate control and framework effectiveness testing with the rollout of the Discovery Bank combined assurance programme will be finalised by 2020. Discovery Bank's combined assurance plan and activities will also be integrated within the Discovery Group combined assurance plan to ensure efficient use of resources throughout the Group.
- **Risk culture assessment:** To ensure the appropriate risk management culture is embedded within the organisation, an assessment will be conducted to determine the Bank's risk maturity against key criteria such as tone at the top, governance, competency and decision-making.

Credit risk

Discovery Bank has adopted a low-and-grow credit strategy for new clients allowing for a prudent approach to the offering of unsecured credit limits. The existing limits on the Discovery Card remained in place during the migration and are not affected by the low-and-grow strategy. Aligned to the conservative lending strategy, a progressive "gate" methodology is in place to ensure risk is adequately mitigated whilst entering the lending market. The Bank has successfully migrated more than 220 000 Discovery Card clients from the FNB platform onto the Discovery Bank platform, with new clients joining the Bank daily. Our goals remain as follows:

TARGET MARKET

Our target market represents a digitally-savvy low credit risk, retail customer base with an affinity for innovative product design, similar to the Discovery Group's existing customer base.

PRODUCT

We deliver a personalised, intuitive and convenient banking solution to the selected target market across an extensive digital platform.

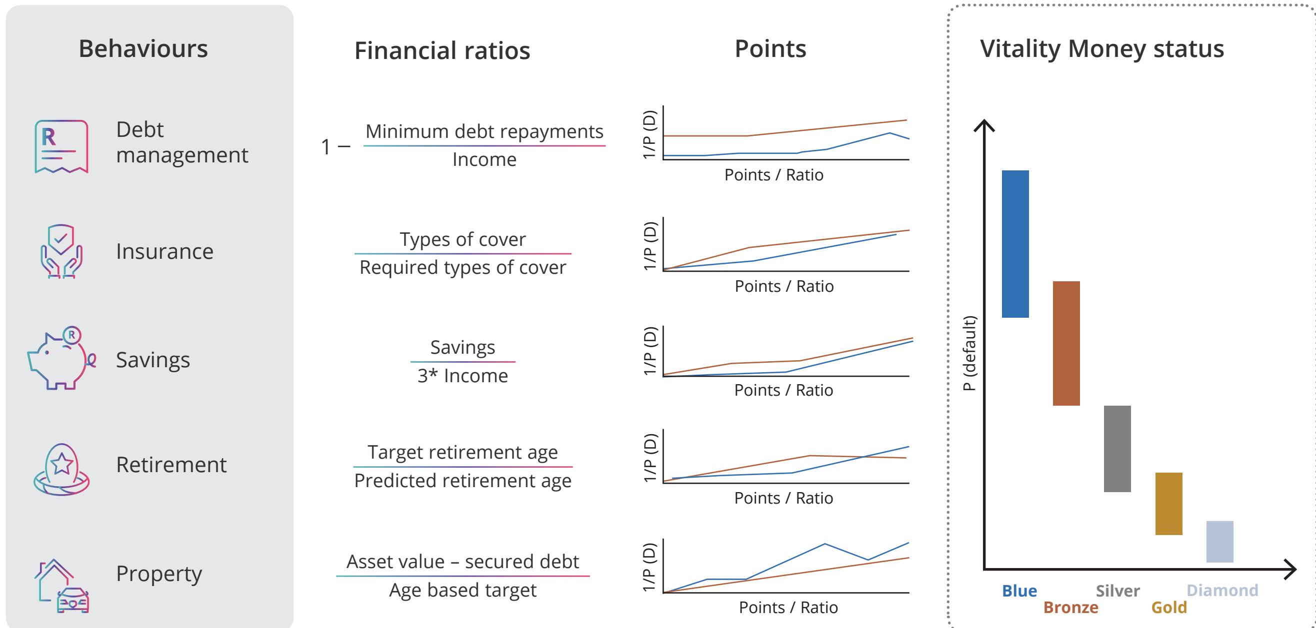
COMPETITIVE ADVANTAGE

Our business model uses incentives and rewards, backed by advanced analytics and technology, to encourage customers to make positive decisions that enhance their financial wellness.

INFRASTRUCTURE

We will build our business on a combination of the latest real-time processing technology and sophisticated behavioural data analytics.

The rewards model is based on the Vitality Money programme, which ensures that clients positively change their behaviour when managing their debt, insurance, savings, retirement and property.



The mechanics behind the behavioural banking proposition considers the following:

	What we measure	How to improve it	Annual income	
			<R349 999	R350 000>
Debt	▪ How much income is being used to pay off debt every month ▪ How consistently debt is being paid off	▪ Pay extra towards existing debt and avoid taking on more debt ▪ Ensure total monthly repayment obligations for unsecured debt are less than 5% of gross monthly income	30 000	25 000
Insurance	▪ What insurance is in place	▪ Have all three types of cover ▪ Activate cover that is missing and upload proof to the app	25 000	25 000
Savings	▪ How close you are to achieving the three-month gross salary benchmark	▪ Increase the amount saved each month to meet the three-month gross salary benchmark ▪ Upload savings documents on the app to earn points for savings with other non-benchmark financial institutions	30 000	25 000
Retirement	▪ How on track you are to retiring at the desired retirement age with the required amount	▪ Increase monthly contributions ▪ Increase retirement age – up to 65 years old ▪ Decrease the amount planned to spend in retirement	10 000	10 000
Property	▪ Home owners: how much is outstanding on your bond compared to an age-related benchmark ▪ Renters: how much savings and investments can be used to cover rent	▪ Pay off more of the secured debt (home loan and vehicle finance) ▪ Build up more savings towards paying for property or rent in retirement	5 000	15 000

The core of our business model is the utilisation of incentives and rewards in terms of Dynamic Interest Rates and Dynamic Discounts.

Dynamic rewards

Dynamic Interest Rates

Clients get rewarded with higher savings rates, lower borrowing rates and interest on positive balances.

Vitality Active Rewards

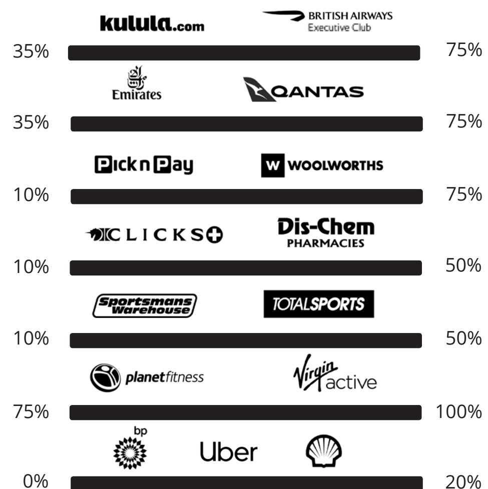
Clients can earn more rewards by spending responsibly and achieving their weekly money goals.

Discovery Miles

Clients can earn Discovery Miles based on their qualifying monthly credit card spend and through Vitality Active Rewards.

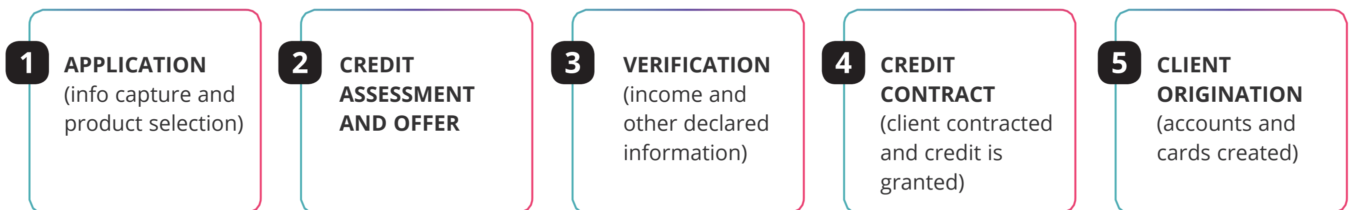
Dynamic Discounts

Clients get rewarded with boosted Vitality rewards on flights, healthy food, personal care items, sports gear, fuel, gym and Uber rides.

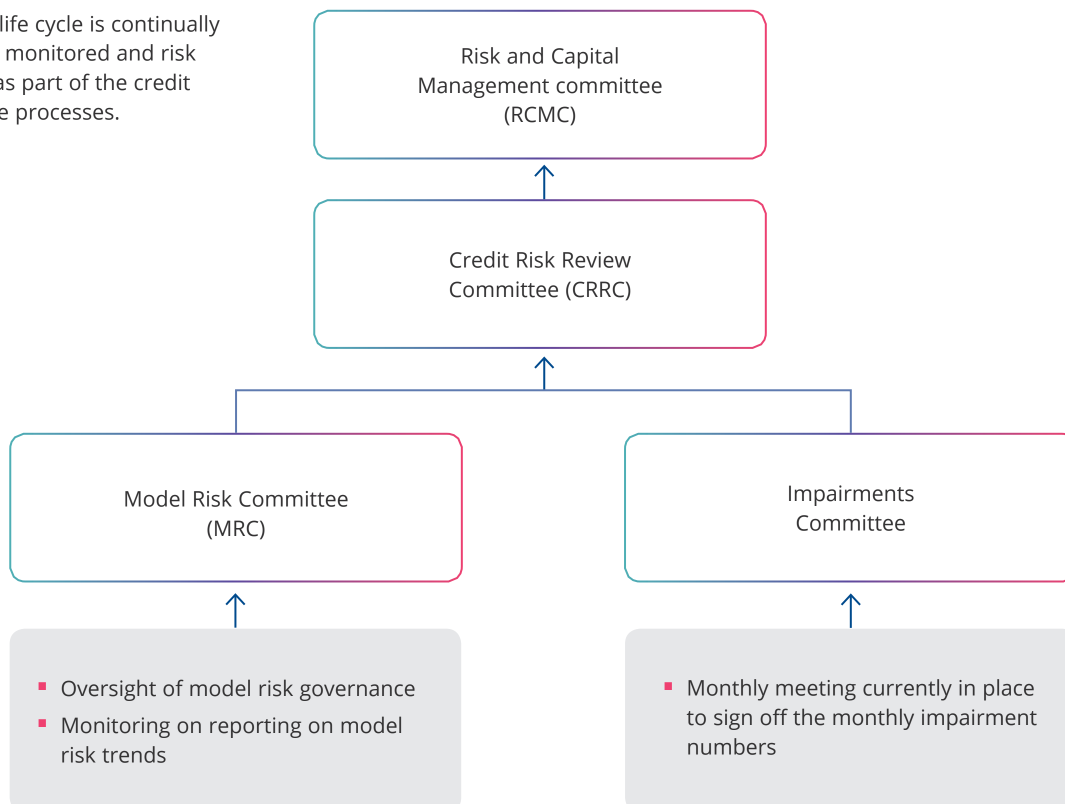


Risk mitigation techniques form part of the overall risk governance process implemented by the Bank. We manage our risk (limiting credit losses and exposure on our books) through clearly defining, parameterising and monitoring various risk metrics, aligned to the Bank's strategy and articulated through our risk appetite. There is a clear segregation of duties, with the credit team looking at the credit strategy and the risk operations team focused on the execution of credit duties. Both teams have adequate capacity.

An experienced and well-diversified team is in place to quantify and manage the risk associated with credit lending. The team's experience spans across all the different disciplines within credit risk, with the majority of the team having previously worked in the banking industry. Most of the key positions are filled, and employees are appointed in roles that fully utilise their experience and abilities. The credit operating model enforces cross-skilling to avoid any area being key-person dependent. In assessing a prospective clients risk and set the terms (price and exposure) on which the Bank is willing to extend credit to a client, a five-step credit lifecycle process occurs.



The credit life cycle is continually measured, monitored and risk mitigated as part of the credit governance processes.



Discovery Bank further applies the consistent definition of "default" for regulatory and accounting purposes. Discovery's default definition used for model development (considering a 12-month outcome period) is as follows:

The account was 90 days past due:

1. The borrower was placed in debt counselling/debt review
2. The account had undergone restructuring/special arrangement
3. The account was placed in charge off/legal status
4. 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 forbearance strategy for clients impacted by COVID-19 was implemented on 11 April 2020. Relief was offered to clients who contacted the Bank (inbound, not outbound). The relief offered and the restrictions applied were informed by the risk, performance (arrears status) and severity of reduction in income.

Both the policy and standards were updated in line with Directive 3 of 2020 by the SARB to only accommodate COVID-19-related impact. The three options offered to clients who qualified were:

1. Three-month payment holiday
2. Repayment term extension
3. Restructure

Collections activity refers to the status of any account where the client is not meeting their contractual obligations, but the account has not yet been defaulted.

Although the primary aim of collections activity is to obtain sufficient payment from the client to return the account to a non-arrears status, 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 subsequent improvement in the financial health of the client.

IFRS 9

Discovery Bank has early adopted the International Financial Reporting Standards (IFRS), and all impairments and credit losses are calculated using this approach. A COVID-19-specific overlay was included in the impairment numbers to account for the impact of the pandemic. This COVID-19 overlay considered:

- Concentration in industries 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 existing 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 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 "unlikeliness to pay" events, while the quantitative criteria require banks to look at the material delinquency status.

Regulation 67 of the Bank's Act provides a definition of "default", constituting both qualitative and quantitative components. Discovery Bank has been 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/indicators are established against which all activity is measured. This ensures alignment with achieving the business strategy, whilst simultaneously managing the risks taken to do so. Credit risk forms part of this risk appetite construct, approved by the Bank Board. Credit risk is actively managed so all exposure and loss tolerance is monitored, thereby mitigating against credit exposure on the 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 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 satisfied 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, and 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 2020

Region name	Exposure	Expected credit loss
South Africa	3 738 002 011	181 841 647
Eastern Cape	55 920 706	5 250 309
Free State	28 982 220	3 377 944
Gauteng*	2 876 688 720	104 111 807
KwaZulu-Natal	229 369 811	22 322 217
Limpopo	19 508 611	2 110 950
Mpumalanga	34 120 207	3 651 869
Northern Cape	5 559 914	593 845
Northwest	29 405 724	3 089 449
Unknown	57 949	3 542
Western Cape	458 388 148	37 329 715
Singapore**	35 486 459	16
Total	**3 773 488 470**	**181 841 662**

* *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 2020	Exposure	Expected credit loss
Industry/sector		
Private households with employed persons*	2 005 046 653	181 657 922
Financial intermediation, except insurance and pension funding**	1 768 441 817	183 740
Total	**3 773 488 470**	**181 841 662**

* *Retail exposure*

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

Aging analysis

	Exposure	Expected credit loss
Arrears status		
CURRENT*	3 664 140 102	137 314 093
1-29	46 317 483	11 911 599
30-59	24 879 927	6 582 645
60-89	16 666 548	9 537 143
>=90	21 484 411	16 496 181
Total	**3 773 488 470**	**181 841 662**

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

Liquidity and funding risk

Discovery Bank applies a comprehensive definition of liquidity risk and further distinguishes two subtypes, namely:

- **Funding liquidity risk:** The risk that the Bank may fail to meet its payment obligations when they fall due, replace funds when they are withdrawn, fund its commitments to lend or has insufficient capacity to fund growth in assets (the risk of being unable to meet commitments repayments), and withdrawals without incurring unacceptable costs or losses.
- **Market liquidity risk:** The risk that describes a Bank's inability to liquidate an asset within a specific time frame at a reasonable price. A reduction in market liquidity may adversely impact a Bank's ability to turn assets into cash in an attempt to manage or mitigate the adverse effects of funding liquidity risk.

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

- The short-term deposit portfolio where clients withdraw their deposits.
- Credit facilities/lines from other banks that are withdrawn.
- Failure of credit card clients to repay committed instalments.

The Bank has a liquidity buffer in place ensuring sufficient unencumbered high-quality liquid assets and/or cash protecting the Bank against any disruptions.

During the year, the Bank migrated the bulk of the Discovery Card book from the FNB platform. The projected cash flows and funding requirements were proactively quantified, managed and secured prior to the BIN migration. The funding strategy aligned to the requirements of the business case, the anticipated pace of the card migration, in addition to the projected growth in new business take-up, is collectively referred to as the "glide path. The glide path was updated continuously to ensure risk was adequately managed.

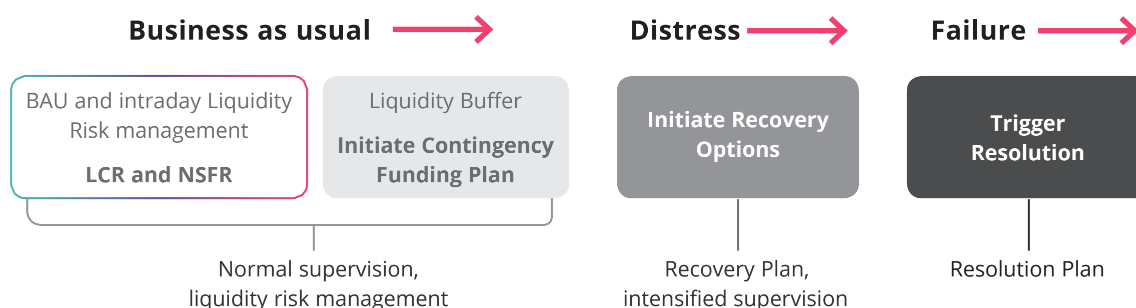
Discovery Bank's funding strategy is on par with a fully retail-led bank and our retail client base is our principal source of funding. During the lockdown period (following the COVID-19 pandemic) the Bank secured substantial wholesale funding as a liquidity buffer resulting in a large surplus to absorb any sudden or dramatic shocks to the drivers of liquidity risk (the loss of retail deposits and/or the drawdown of unutilised retail credit facilities by our clients). The various COVID-19-related stress tests (including extreme scenarios) applied to our balance sheet highlighted the resilience to liquidity risk.

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 of 80% (COVID-19 adjustment allowed under directive D1/2020) and 100% respectively.

Discovery Bank assets are currently weighted by commencement costs relating to corporate actions and capitalised build costs. A significant portion of commencement capital is invested in the purchase price of the Discovery Card business and reflects as intangible assets. This will remain the case for some time. To more accurately determine a "run the bank" NSFR, we calculate and monitor the ratio excluding the commencement costs.

The Bank has implemented sophisticated ALM systems and platforms to quantify, measure and monitor key performance indicators on a daily basis. Skilled employees ensure that sufficient levels of liquidity are maintained.

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 strategies for addressing liquidity shortfalls in emergencies. Different tools were defined to follow different liquidity stresses.



The contingency funding plan addresses the following areas:

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

Funding and liquidity stress scenarios are currently based on the regulatory guidelines, but the banking book integration system (recently implemented) is addressing the funding and stress testing needs. This system collectively looks at different stress scenarios for different rate changes in the maturity of a product and overlays 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 with the ultimate objective of establishing 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 same.

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

Discovery Bank views the RP as comprehensive and commensurate with the Bank's simplicity, risk profile, and scope of operations. The Bank has the ability to 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 and Interest Rate Risk in the Banking Book

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 an instrument resulting from volatility of market risk factors.

As a retail-focused bank, Discovery Bank has a 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 some market risk that is quantified, monitored and managed.

Interest rate risk is the risk to earnings or value arising from movements of interest rates (parallel, non-parallel and/or basis risk).

Interest rate risk is largely created due to the endowment effect of the Bank's capital and the re-pricing gap between the Bank's retail assets and wholesale liabilities.

The Bank measures and monitors its interest rate risk to parallel shifts in the yield curve on both an earnings (NII) and value (EVE) basis. These risk models have been validated from a design adequacy perspective by both second and third line.

The Bank finalised a banking book integration system to enhance our analytic reporting to include more dynamic stress testing and ad-hoc simulations, including parallel, non-parallel and basis risk stresses in different maturity bucketing.

All new models developed follows the bank-wide model risk governance process and associated validation efforts.

Interest Rate Risk in the Banking Book (IRRBB)

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 as a result 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 detailed below have a direct effect on the Bank's future net interest earnings and its economic value of equity when applied to our rate-sensitive asset and liability portfolios.

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, the 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 an 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 re-priced using different rate indices (specifically Prime/Repo vs Jibar).*

Discovery Bank considers the management of IRRBB of great importance to ensure the stability of the net interest margin. The liabilities of the Bank are largely linked to the Jibar rate, with the assets (unsecured retail lending) is linked to the Prime/Repo rate. Any narrowing in the gap between these two floating rates introduces basis risk, which is managed well within the Board-approved risk appetite limits.

With the growth of the book the quantum of the basis risk between the Jibar linked liabilities of the bank and the prime-linked assets becomes more significant. The risk of the gap between these two floating rates fluctuating adversely 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 timing of their cash flows.*

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

Discovery Bank has a defined IRRBB risk appetite that is appropriate to the nature, size and complexity of the Bank. Interest rate risk appetite is monitored in terms of approved limits applied to the impact of changes in interest rates on the net present value of equity.

Discovery Bank currently has a high level of equity relative to liabilities, and this allows the ALCO to act on a mismatch between assets and liabilities in line with its view on interest rates.

Currency 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. However, to facilitate offshore card transactions by clients in foreign currencies, Visa has a requirement that the Bank places dollar collateral in its favour with a favourably rated international bank. The only market risk exposure on the Bank's books relates to this requirement where an amount of $2m (US) has been placed with an AA-rated Bank in Singapore. This position is closely monitored within appropriate risk appetite limits.

Hedging

Discovery Bank measures and reports on interest rate mismatches or net static gap through the different investment tenors. The non-rate sensitive assets at year-end are largely related to corporate action in respect of the FirstRand transaction, capitalised development costs and operating start-up costs, which are fully funded by common equity Tier 1 capital.

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 reconsidered if and when circumstances deem it necessary.

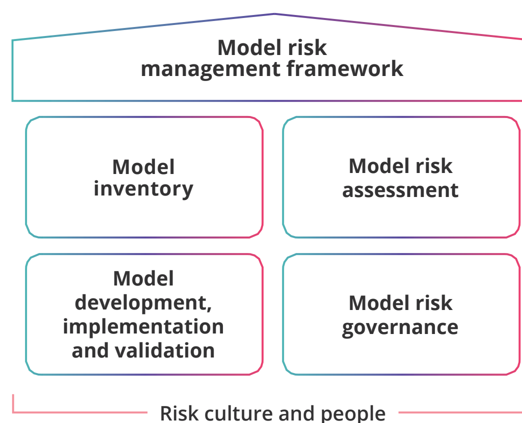
Discovery Bank has developed a strategic roadmap to comply with the proposed implementation date set by the Prudential Authority for Interest Rate Risk in the Banking Book by 1 June 2021 and the associated disclosure requirements by 1 January 2022.

Model risk

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 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 endorses the 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 and approved. 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. The framework includes the below dimensions:



We have successfully compiled and updated a full model inventory with the relevant model risk ratings for the Bank. The current focus is working through the model Inventory to determine the effort required for full validation of current models guided by the model rating.

Capital management

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

We follow a principle-based approach when managing our capital:

Principle 1: Risk and capital management

Discovery Bank strives to be adequately capitalised to mitigate its short-term risks and will always be adequately capitalised 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 (refer to the ERM policy for more information).

Capital adequacy:

- Regulatory capital: The Bank strives to hold sufficient capital to meet the minimum regulatory capital adequacy requirements, as specified by the South African Registrar of Banks and/or the Prudential Authority.

The Bank applies the following standardised regulatory capital approaches:

1. **Credit risk:** The Standardised Approach (SA)
2. **Operational risk:** The Basic Indicator Approach (BIA)
3. **Market risk:** The Standardised Approach (SA) using the building block method.

The Bank, as a minimum, 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 embedded a capital management and planning process that is integrated with its strategic planning. It also projects its capital adequacy positions over the longer term. This ensures that 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 and/or prevailing operating conditions.

Principle 3: Capital raising

Management assesses the capital position of the Bank formally on a monthly basis and issues ordinary shares before the end of the month in anticipation of the capital requirement determined by estimated growth in retail lending, movements in liquidity cash placements and operational performance for the month. These estimations are assessed against the latest short-term budgets or projections. These 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 such that it meets the minimum regulatory requirement in respect of the highest quality of capital being Common Equity Tier 1.

Principle 5: Capital buffer

The Bank ensures that the level of capital resources will always be in excess of the total regulatory capital requirement. The Bank has also added an internal management headroom buffer to its capital demand calculation to cater for future unexpected growth and volatility in risk-weighted exposures.

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

The Bank regularly analyses and updates adverse scenarios that could require additional capital investment. These numbers are incorporated into the Group's ORSA (Own Risk and Solvency Assessment) and capital forecasts.

All wholesale funding requirements are regularly assessed under base case assumptions and positive (high growth) and negative (low growth) scenarios.

The Bank has implemented and operationalised a comprehensive risk management framework.

- The Bank's risk universe has been analysed and is well defined.
- Roles and responsibilities for the management of each risk type have been set, according to the three-lines-of-defence risk management model.
- The Board's risk appetite statements have been documented, and a comprehensive risk appetite framework is in place.

ICAAP

Discovery Bank has a robust and effective risk and capital management process that was developed and implemented in the early establishment phase of the Bank. These have since matured in line with the Bank's evolution. The Bank was granted its banking licence in 2017 on the basis, amongst others, of an initial business case model and a capital management plan. This process has been steadily executed, culminating in 2019 in an inaugural internal capital adequacy assessment process (ICAAP) document.

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. We assessed our capital adequacy process by looking at the following areas:

Our strategy

- Our behavioural banking strategy enables a deep understanding of our clients and associated risks.

Our governance and capital planning process

- To match regulatory capital demand with capital supply, we have an efficient governance process in place that facilitates effective risk and capital management.

Our capital demand, supply and adequacy

- For our risk universe, and in line with our client strategy, the capital demand quantification is conservative in nature. Further, we have a clear view of our capital supply and the targeted level of capital.

Our risk appetite

- To allow value creation within our risk appetite boundaries, we have limits and targets in place to implement our chosen strategy.

Our robust capital position

- We have management actions in place to ensure the robustness of capital management and ensure the ongoing sustainability of the Bank.

Risk measurement system and risk reporting

Discovery Bank has robust risk management processes in place to manage our growing book. Controls are embedded into our daily operations and monitoring of these risks are managed by the treasury, credit risk, operational risk and compliance teams, underpinned by governing bodies to give assurance on the validity of monitoring. The management, measurement, monitoring and mitigation of risk across the Discovery Bank universe is a priority for the Bank, with well-established risk committees and governance structures established. These executive committees are mandated by Board-appointed committees.

Stress testing

Discovery Bank's stress testing framework has been developed considering the nine revised BSBS principles.

BCBS stress-testing 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

Risk management approach / CONTINUED

The primary purpose of the stress-testing programme is to assist senior management and the Board in developing sustainable strategies that would allow the Bank to continue operating under severe but plausible stressed conditions. Stress testing, therefore, forms an essential component of the Bank's risk culture. The Bank's stress-testing programme is forward-looking, considers all material risks to which the Bank is exposed as well as the Bank's level of sophistication and its nature, size and complexity of operations.

The Bank's stress-testing programme covers the following types of stresses:

STRESS TESTING

Sensitivity analysis (Single factor)

- Access the effect of a large move in one risk factor
- It is easily understood, established and simple to apply
- No capturing of dependencies

Reverse stress testing

- Scenario that will make the business model non-viable
- Helps the Bank understand vulnerabilities
- Allows for better liquidity and capital planning

Scenario planning (Multi-factor)

- Historical scenarios
- Hypothetical scenarios (idiosyncratic, systematic and hybrid scenarios)
- Capture dependencies among risk factors

Forecast economic and interest rate scenarios are currently sourced from the Bureau for Economic Research (BER). This includes one-year and two-year forward-looking scenarios. These macro-economic indicators impact the following key risk metrics and are closely monitored:

- Retail deposits: Retail deposits are withdrawn by clients (as the need arises to use savings to sustain living expenses).
- Undrawn amounts: Increase by clients of the utilisation of their credit limits (use now, pay back over time).
- Arrears and defaults: Delay in the repayment of minimum payments due as a result of financial stress.
- Low and slow credit strategy: Bank management actively reducing its growth strategy in respect of credit limit increases and new clients.

Stress testing is also applied in the ICAAP. Discovery Bank is developing more customised stress tests in addition to those prescribed by the relevant banking regulations.

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 material risk-takers as the members of the Discovery Bank Executive Management team that are also directors of the bank. Senior management refers to those members of the Discovery Bank Executive Management team.

We believe that our employees will help us change the future of banking and are the foundation of our success. We offer a culture that is built on doing what is right, innovation, 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 that have the right mix of skills, experience and knowledge to deliver on the strategy
- Encourage performance and reward employees who exceed business 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 the right people in the right positions, 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 mind-set) and retention
- Our remuneration policy assists Managers to make educated and defensible pay decisions, and
- 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 / CONTINUED

Remuneration governance

The Bank Board is ultimately responsible for the remuneration policy and has mandated the Director Affairs Committee (DAC), a Board committee consisting on 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. It serves 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
- 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
- Waive or 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 (with the exception of 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 a number of 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 Director's benchmarking.

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 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.
2. Monthly performance-based pay.
3. Short-term incentive (within one year).
4. Long-term incentive (over three to five years, usually applicable only to selected senior management).

1. Guaranteed monthly salary

Our total cost-to-company 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 Health Medical Scheme plan that best suits them (Discovery membership is compulsory for all employees unless they are a dependant 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 partly 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 take into account factors such as industry, company size (revenue, profit, number of employees) and availability of skills. Some of our roles are unique 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 (variable par).

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. Poor performers leave to get higher guaranteed pay elsewhere.

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, 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 and/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 takes into account 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 employee 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 prior to 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, the higher the proportion of their total package is linked to “pay at risk” or pay for performance.

4. Long-term incentive plans (LTIPs)

Long-term incentives are used to drive longer-term performance, retain key people and create opportunities for individuals to share in the success of the company. These schemes are restricted to senior managers and executives and align their interest with the longer-term strategic goals of the Bank. LTIPs typically run over three to five years but may be longer in the case of a start-up scheme.

In 2019, Discovery switched from a Phantom Share Scheme linked to the Discovery share price performance to a real share scheme. The D-ERC approves the total allocation value per annum and the individual director allocations. Allocations below director level vary by level and individual performance.

Guidelines are provided by level, and each business CEO recommends the participants and associated allocations. The DAC approves the total allocation value and reviews the executive management allocations as proposed by the CEO. Under the Phantom scheme, payments are made in cash on the second, third, fourth and fifth anniversaries of allocation, subject to vesting criteria. Taking cognisance of shareholder feedback, the vesting period for the new real share scheme has been adjusted to 33% per year from year three to year five also subject to vesting criteria.

Periodically, the DAC may decide, in consultation with the D-ERC, to implement a specific long-term incentive to drive a particular business result. Participation is at the discretion of the DAC, on recommendation from the Bank Executive Committee. A start-up scheme is in place for executives and key role players in Discovery Bank. This LTIP aligns the interests of participants with those of the shareholder. Payout is linked to value created and profitability and participants can elect to start vesting their allocation from year three following the Bank's public launch up until year seven.

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 into 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, which 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 taking into account 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 has to 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 Abbreviations

Discovery Bank

Abbreviations

Abbreviation	Definition
A-IRBA	Advanced Internal Ratings-Based Approach
ALCO	Asset and Liability Committee
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
BRM	Bank Risk Management
CCF	Credit Conversion Factor
CCPs	Central Counterparties
CCR	Counterparty Credit Risk
CET1	Common Equity Tier 1
CFT	Countering Financing of Terrorism
CRM	Credit Risk Mitigation
CRRC	Credit Risk Review Committee
CVA	Credit Valuation Adjustment
DAC	Directors Affairs Committee
Discovery Card	Joint Venture between Discovery Bank and FNB
D-SIB	Domestic Systemically Important Banks
ECL	Expected Credit Loss
ERC	External Remuneration Committee
ERMF	Enterprise Risk Management Framework
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
ITCO	Executive Information Technology Committee
KYC	Know Your Client
LCR	Liquidity Coverage Ratio
LTIPs	Long-term Incentive Plans
MDB	Multilateral Development Banks
NII	Net Interest Income
NSFR	Net Stable Funding Ratio
ORCO	Operational Risk Committee
ORSA	Own Risk and Solvency Assessment
PA	Prudential Authority of the South African Reserve Bank
PAC	Product Approval Committee
PASA	Payments Association of South Africa
PSE	Public Sector Entities
PSMOR	The Principles for the Sound Management of Operational Risk
RACM	Risk and Control Matrix
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

05 Quantitative tables and templates

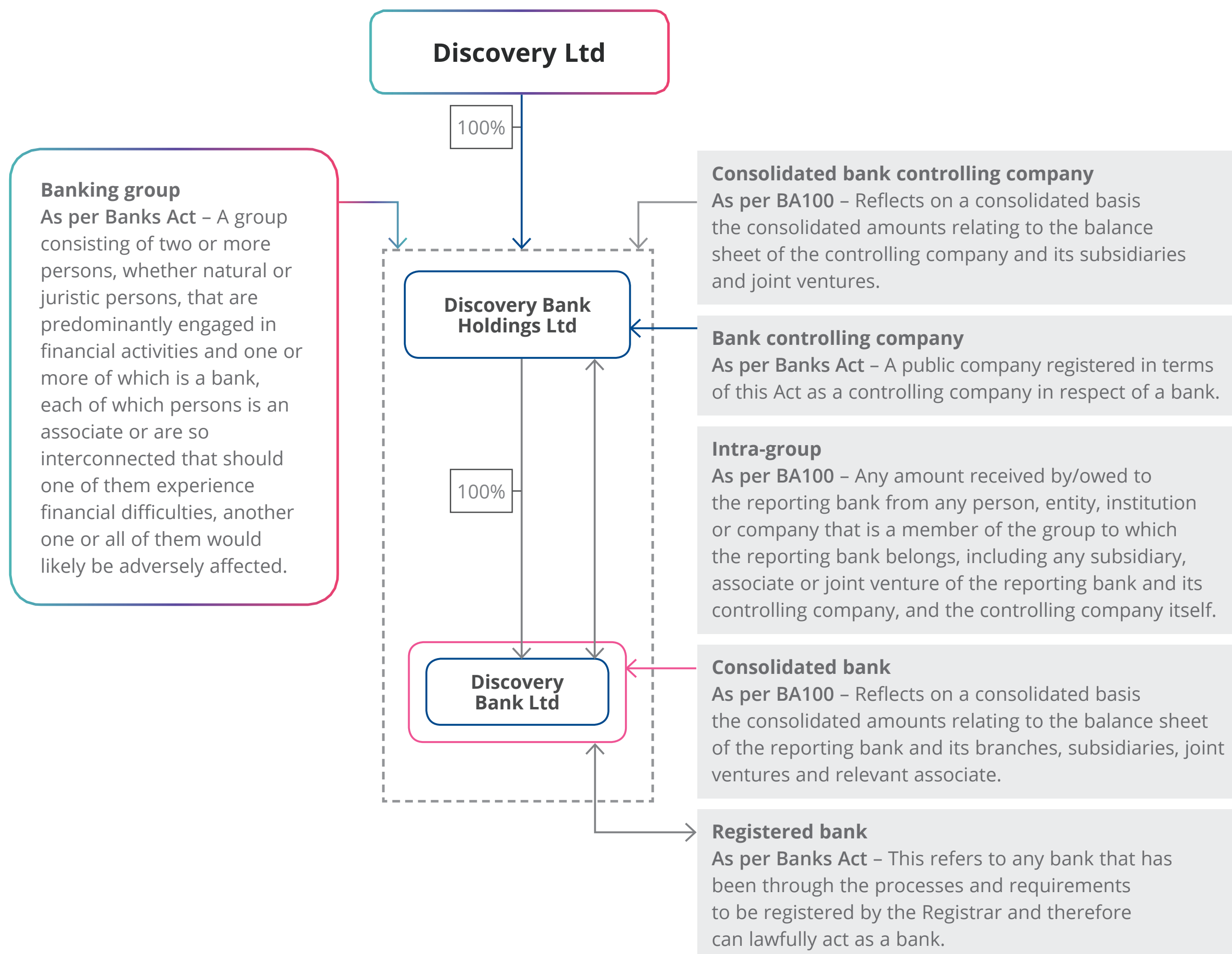
Quantitative tables and templates

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

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

Furthermore, tables KM1and OV1 are reported on a consolidated level whereas the remaining tables are all reported on a Bank level (unless otherwise stated in the table).

The legal entity structure of Discovery Bank



KM1: Key metrics (at consolidated Group level)

The section provides information on Discovery's prudential regulatory metrics. Metrics include Discovery Bank's available capital and ratios, Risk-weighted Assets, Leverage Ratios, Liquidity Coverage Ratios and Net Stable Funding Ratios.

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

R'000		As at 30 June 2020	As at 31 March 2020	As at 31 December 2019	As at 30 September 2019
Available capital (amounts)					
1	Common Equity Tier 1 (CET1)	620 332	583 513	609 607	517 016
1a	Fully loaded ECL accounting model	0	0	0	0
2	Tier 1	620 332	583 513	609 607	517 016
2a	Fully loaded ECL accounting model Tier 1	0	0	0	0
3	Total capital	647 950	599 285	620 605	522 929
3a	Fully loaded ECL accounting model total capital	0	0	0	0
Risk-weighted assets (amounts)					
4	Total risk-weighted assets (RWA)	3 110 833	2 310 272	1 970 937	1 728 836
Risk-based capital ratios as a percentage of RWA					
5	Common Equity Tier 1 ratio (%)	19.94%	25.26%	30.93%	29.91%
5a	Fully loaded ECL accounting model Common Equity Tier 1(%)	.00%	.00%	.00%	.00%
6	Tier 1 ratio (%)	19.94%	25.26%	30.93%	29.91%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	.00%	.00%	.00%	.00%
7	Total capital ratio (%)	20.83%	25.94%	31.49%	30.25%
7a	Fully loaded ECL accounting model total capital ratio (%)	.00%	.00%	.00%	.00%
Additional CET1 buffer requirements as a percentage of RWA					
8	Capital conservation buffer requirement (2.5% from 2019) (%)	2.50%	2.50%	2.50%	2.50%
9	Countercyclical buffer requirement (%)	.00%	.00%	.00%	.00%
10	Bank G-SIB and/or D-SIB additional requirements (%)	.00%	.00%	.00%	.00%
11	Total of bank CET1 specific buffer requirements (%) (row 8 + row 9 + row 10)	2.50%	2.50%	2.50%	2.50%
12	CET1 available after meeting the bank's minimum capital requirements (%)	9.44%	16.51%	22.18%	21.16%
Basel III leverage ratio					
13	Total Basel III leverage ratio exposure measure	5 753 005	3 385 493	2 617 502	1 746 709
14	Basel III leverage ratio (%) (row 2; row 13)	10.78%	17.24%	23.29%	29.60%
14a	Fully loaded ECL accounting model Basel III leverage ratio (%) (row 2a; row 13)	0	0	0	0
Liquidity Coverage Ratio					
15	Total HQLA	385 751	283 288	184 081	90 215
16	Total net cash outflow	49 652	32 999	20 110	5 544
17	LCR ratio (%)	780%	870%	915%	1627%

Quantitative tables and templates / CONTINUED

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

OV1: Overview of RWA (risk-weighted assets)

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

		DISCOVERY BANK LIMITED			DISCOVERY BANK HOLDINGS LIMITED		
		RWA		Minimum capital requirement	RWA		Minimum capital requirement
	R'000	As at 30 June 2020	As at 31 March 2020	As at 30 June 2020	As at 30 June 2020	As at 31 March 2020	As at 30 June 2020
1	**Credit risk (excluding counterparty credit risk) (CCR)**	**2 648 544**	**1 676 468**	**278 097**	**2 648 794**	**1 676 713**	**278 123**
2	Of which: Standardised approach (SA)	2 648 544	1 676 468	278 097	2 648 794	1 676 713	278 123
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)**	**5 864**	**5 808**	**616**	**5 864**	**5 808**	**616**
7	Of which: Standardised approach for counterparty credit risk (SA-CCR)	5 864	5 808	616	5 864	5 808	616
8	Of which: Internal model method (IMM)	0	0	0	0	0	0
9	Of which: Other CCR	0	0	0	0	0	0
10	**Credit valuation adjustment (CVA)**	**3 960**	**4 456**	**416**	**3 960**	**4 456**	**416**
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

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

R'000		DISCOVERY BANK LIMITED			DISCOVERY BANK HOLDINGS LIMITED		
		RWA		Minimum capital require-ment	RWA		Minimum capital require-ment
		As at 30 June 2020	As at 31 March 2020	As at 30 June 2020	As at 30 June 2020	As at 31 March 2020	As at 30 June 2020
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**	**35 490**	**14 929**	**3 726**	**35 490**	**14 929**	**3 726**
21	Of which: Standardised approach (SA)	35 490	14 929	3 726	35 490	14 929	3 726
22	Of which: Internal model approaches (IMA)	0	0	0	0	0	0
23	Capital charge for switch between trading book and banking book	0	0	0	0	0	0
24	**Operational risk**	**277 470**	**523 683**	**29 134**	**277 470**	**523 683**	**29 134**
25	Amounts below the thresholds for deduction (subject to 250% risk weight)	139 255	84 683	14 622	139 255	84 683	14 622
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)**	**3 110 583**	**2 310 027**	**326 611**	**3 110 833**	**2 310 272**	**326 637**

CC1: Composition of regulatory capital

This section provides information on the breakdown of the different elements that form part of Discovery Bank's capital components.

R'000		As at 30 June 2020
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	5 413 789
2	Retained earnings	(1 428 288)
3	Accumulated other comprehensive income (and other reserves)	124 895
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**	**4 110 396**
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)	456 024
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	620 316
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)	0
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	55 702
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**	**3 493 161**
29	**Common Equity Tier 1 capital (CET1)**	**617 235**

CC1: Composition of regulatory capital / CONTINUED

R'000		As at 30 June 2020
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)**	**617 235**
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	27 618
51	**Tier 2 capital before regulatory adjustments**	**27 618**

CC1: Composition of regulatory capital / CONTINUED

	R'000	As at 30 June 2020
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)**	**27 618**
59	**Total capital (TC = T1 + T2)**	**644 853**
60	**Total risk weighted exposure**	**3 110 583**
Capital ratios and buffers		
61	**Common Equity Tier 1 (as a percentage of risk weighted assets)**	**19.84%**
62	**Tier 1 (as a percentage of risk weighted assets)**	**19.84%**
63	**Total capital (as a percentage of risk weighted assets)**	**20.73%**
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)**	**2.50%**
65	Of which: Capital conservation buffer requirement	**2.50%**
66	Of which: Bank-specific countercyclical buffer requirement	0
67	**Of which: G-SIB buffer requirement**	**0**
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**	**9.34%**
National Minima (if different from Basel 3)		
69	National Common Equity Tier 1 minimum ratio (if different from Basel 3 minimum)	4.50%
70	National Tier 1 minimum ratio (if different from Basel 3 minimum)	6.00%
71	National total capital minimum ratio (if different from Basel 3 minimum)	8.00%
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)	55 702

CC1: Composition of regulatory capital / CONTINUED

R'000		As at 30 June 2020
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)	153 016
77	Cap on inclusion of provisions in Tier 2 under standardised approach	27 618
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

This table shows the linkage between the Bank's balance sheet as presented in the financial statements and the capital numbers as reported in table CC1.

R'000		Balance sheet as in published financial statements As at 30 June 2020	Balance sheet under regulatory scope of consolidation As at 30 June 2020
Assets			
1	Cash and balances at central banks	779 970	779 970
2	Short term negotiable securities	438 826	438 826
3	Derivative assets	689	689
4	Loans and advances to clients	1 848 415	1 848 415
5	Loans and advances to banks	1 337 083	1 337 083
6	Available for sale financial assets	0	0
7	Interest in subsidiaries	0	0
8	Interest in associate	0	0
9	Intangible assets	3 014 648	3 014 648
10	Current income tax assets	0	0
11	Deferred income tax assets	534 215	534 215
12	Property and equipment	0	0
13	Other assets	439 102	439 102
14	**Total assets**	**8 392 948**	**8 392 948**
	Liabilities		
15	Deposits and current accounts	3 958 367	3 958 367
16	Derivative financial instruments	24 517	24 517
17	Provisions and other liabilities	299 668	299 668
18	Current income tax liabilities	0	0
19	Deferred income tax assets	0	0
20	**Total liabilities**	**4 282 552**	**4 282 552**
21	**Equity**		
22	Share capital and premium	5 413 789	5 413 789
23	Accumulated profit/(loss)	(1 428 288)	(1 428 288)
24	Other reserves	124 895	124 895
25	**Total equity**	**4 110 396**	**4 110 396**

Table1	30 June 2020
Common Equity Tier 1 Capital	0
Share capital and premium	5 413 789
Adjusted retained earnings	(1 428 288)
Retained earnings	(1 428 288)
Unappropriated profits	0
Total	**3 985 501**
Share based payment reserve	124 895
Other reserves	0
Total	**4 110 396**

CCA: Main features of regulatory capital instruments, for G-SIBs, and other TLAC instruments

This section provides information on all the instruments Discovery Bank included in regulatory capital.

	As at 30 June 2020	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)	5 414
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

	As at 30 June 2020 R'000			Carrying values of items					
		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
1	Cash and balances at central banks	2 110 147	2 110 147	779 970	0	0	0	0	0
2	Short term negotiable securities	438 826	438 826	438 826	0	0	0	0	0
3	Derivative assets	689	689	0	689	0	0	0	0
4	Loans and advances to customers	1 848 415	3 185 498	3 185 498	0	0	35 490	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	3 014 648	3 014 648	0	0	0	0	0	3 014 648
9	Current income tax assets	0	0	0	0	0	0	0	0
10	Deferred income tax assets	534 215	534 215	55 702	0	0	0	0	620 316
11	Property and equipment	0	0	0	0	0	0	0	0
12	Other assets	460 889	460 889	0	0	0	0	439 102	0
13	**Total assets**	**8 407 830**	**8 407 830**	**4 459 996**	**689**	**0**	**0**	**439 102**	**3 634 964**

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

As at 30 June 2020 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	2 952 083	2 952 083	0	0	0	0	0	0
15	Derivative financial instruments	24 517	24 517	0	0	0	0	0	0
16	Provisions and other liabilities	1 320 830	1 320 830	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**	**4 297 430**	**4 297 430**	**0**	**0**	**0**	**0**	**0**	**0**
Equity									
20	Share capital and premium	5 413 789	5 413 789	0	0	0	0	0	0
21	Accumulated profit/(loss)	(1 428 288)	(1 428 288)	0	0	0	0	0	0
22	Other reserves	124 895	124 895	0	0	0	0	0	0
23	**Total equity**	**4 110 396**	**4 110 396**	**0**	**0**	**0**	**0**	**0**	**0**

Commentary for deltas

Lines 1 and 4: Interbank operational deposits are treated as cash and cash equivalents from an IFRS perspective in the Annual Financial Statements (AFS). These deposits are categorised as "Other loans and advances" in the Banks Act returns.

Lines 12 and 16: Intercompany balances are disclosed on a gross basis on the AFS 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

As at 30 June 2020 R'000	Total	Items subject to: 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)	8 392 948	4 459 996	0	689	0	439 102
Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	4 282 552	0	0	0	0	0
Total net amount under regulatory scope of consolidation	**4 110 396**	**4 459 996**	**0**	**689**	**0**	**439 102**
Off-balance sheet amounts	3 473 903	694 778	0	0	0	0
Exposure amounts considered for regulatory purposes	**7 584 299**	**5 154 774**	**0**	**689**	**0**	**439 102**

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

This table reconciles the total assets as presented in the financial statements to the leverage ratio exposure measure as reported at 30 June 2020.

R'000		As at 30 June 2020
1	Total consolidated assets as per published financial statements	8 574 790
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	0
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	0
4	Adjustments for derivative financial instruments	5 175
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)	694 778
7	Other adjustments	(3 521 988)
8	**Leverage ratio exposure measure**	**5 752 755**

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

LR2: Leverage Ratio disclosure template (simple consolidation without change)

The purpose of the Leverage Ratio disclosure is to provide a detailed breakdown of the components of the Leverage Ratio denominator.

R'000		As at 30 June 2020	As at 31 March 2020
On-balance sheet exposures			
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs))	8 545 274	6 475 611
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	(3 493 161)	(3 443 864)
3	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of rows 1 and 2)**	**5 052 113**	**3 031 747**
Derivative exposures			
4	Replacement cost associated with all derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	689	354
5	Add-on amounts for PFE associated with all derivatives transactions	5 175	5 454
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)**	**5 864**	**5 808**
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	3 473 890	1 738 460
18	(Adjustments for conversion to credit equivalent amounts)	(2 779 112)	(1 390 768)
19	**Off-balance sheet items (sum of rows 17 and 18)**	**694 778**	**347 692**
Capital and total exposures			
20	Tier 1 capital	617 235	580 787
21	**Total exposures (sum of rows 3, 11, 16 and 19)**	**5 752 755**	**3 385 247**
Leverage ratio			
22	Basel III leverage ratio	11	17

LIQ1: Liquidity Coverage Ratio

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

At 30 June 2020 R'000		Current reporting period		Previous reporting period
		Total unweighted (average)	Total weighted (average)	Total weighted (average)
High-quality liquid assets				
1	Total HQLA	0	385 751	283 288
Cash outflows				
2	**Retail deposits and deposits from small business clients**	**1 371 832**	**137 191**	**93 906**
3	Of which: Stable deposits	(163)	(8)	0
4	Of which: Less stable deposits	1 371 994	137 199	93 906
5	**Unsecured wholesale funding**	**554 887**	**0**	**0**
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)	554 887	0	0
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	0
12	Of which: Outflows related to loss of funding on debt products	0	0	0
13	Of which: Credit and liquidity facilities	2 456 632	61 416	38 082
14	**Other contractual funding obligations**	**0**	**0**	**0**
15	**Other contingent funding obligations**	**0**	**0**	**0**
16	**TOTAL CASH OUTFLOWS**	**4 383 351**	**198 607**	**131 997**
Cash inflows				
17	**Secured lending (e.g. reverse repos)**	**0**	**0**	**0**
18	**Inflows from fully performing exposures**	**1 571 383**	**1 535 603**	**852 344**
19	**Other cash inflows**	**0**	**0**	**0**
20	**TOTAL CASH INFLOWS**	**1 571 383**	**1 535 603**	**852 344**
			Total Adjusted value	Total Adjusted value
21	**Total HQLA**		**385 751**	**283 288**
22	**Total net cash outflows**		**49 652**	**32 999**
23	**Liquidity Coverage Ratio (%)**		**780%**	**870%**

LIQ1: Liquidity Coverage Ratio / CONTINUED

The Liquidity Coverage Ratio (LCR) measures whether a bank has sufficient High-quality Liquid Assets (HQLA) to survive a significant stress scenario lasting 30 calendar days. In line with COVID-19 relief efforts, the PA reduced the minimum regulatory ratio from 100% to 80%, as stipulated in Directive D1/2020 until such time the PA directs in writing that the financial markets have normalised and the previous ratio of 100% will be re-instated.

The LIQ1 table complies with the Pillar 3 requirements as stipulated by BCBS d400 (March 2017) and Directive D1/2020.

The values in the table are calculated as the average of the 90-day calendar daily values over the period March to June 2020 for Discovery Bank Limited. Discovery Bank's weighted values are based on business days (excluding public holidays and weekends).

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

The composition of the High-quality Liquid Assets (HQLA):

To date the HQLAs held by Discovery Bank are treasury bills, spread across 91, 182, 274 and 364 days.

LIQ2: Net Stable Funding Ratio (NSFR)

This section provides information of Discovery Bank's NSFR and details of some of its components.

		Unweighted value by residual maturity				
	As at 30 June 2020 R'000	No maturity	< 6 months	6 months to < 1 year	>= 1 year	Weighted value
1	Capital:	5 538 684	0	0	0	5 538 684
2	Regulatory capital	5 538 684	0	0	0	5 538 684
3	Other capital instruments	0	0	0	0	0
4	Retail deposits and deposits from small business clients:	0	1 984 864	165 208	277 013	2 212 078
5	Stable deposits	0	0	0	0	0
6	Less stable deposits	0	1 984 864	165 208	277 013	2 212 078
7	Wholesale funding:	0	0	469 164	1 062 117	1 296 699
8	Operational deposits	0	0	0	0	0
9	Other wholesale funding	0	0	469 164	1 062 117	1 296 699
10	Liabilities with matching interdependent assets	0	0	0	0	0
11	Other liabilities:	0	285 292	2 420	36 473	13 166
12	NSFR derivative liabilities	0	0	0	24 517	0
13	All other liabilities and equity not included in the above categories	0	285 292	2 420	11 956	13 166
14	**Total ASF**					**9 785 871**

LIQ2: Net Stable Funding Ratio (NSFR) / CONTINUED

As at 30 June 2020 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)		1 170 908	47 888		24 373
16	Deposits held at other financial institutions for operational purposes	0	0	0	0	0
17	Performing loans and securities:	0	1 927 430	590 348	849 562	1 513 037
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	1 337 083	0	0	200 562
20	Performing loans to non-financial corporate clients, loans to retail and small business clients, and loans to sovereigns, central banks and PSEs	0	590 347	590 348	849 562	1 312 475
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:	4 921 449	0	0	313 651	5 235 100
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	689	689
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	4 921 449	0	0	312 962	5 234 411
32	Off-balance sheet items	3 473 889	0	0	0	173 694
33	**Total RSF**	**0**	**0**	**0**	**0**	**6 946 204**
34	**Net Stable Funding Ratio (%)**	**0**	**0**	**0**	**0**	**141%**

The Net Stable Funding Ratio determines if an institution can maintain their stable funding profile when looking at its assets and off-balance sheet commitments on an ongoing basis. This ratio calculates the proportion of Available Stable Funding (ASF) in liabilities over the required stable funding (RSF) for the assets. Sources of available funding for Discovery Bank include share capital and client deposits.

The values in the table are calculated as at 30 June 2020. The minimum NSFR requirement in South Africa is 100%.

Quantitative tables and templates / CONTINUED

CR1: Credit quality of assets

Table CR1 provides a comprehensive picture of the credit quality of Discovery Bank's assets, this is applicable for both the on- and off-balance sheet.

As at 30 June 2020 R'000		Gross carrying values			Of which: ECL accounting provisions for credit losses on SA exposure			
		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*	21 575	3 843 802	181 842	28 826	153 016	–	3 683 536
2	Debt securities	–	–	–	–	–	–	–
3	Off-balance sheet exposures	8 850	3 586 974	–	–	–	–	3 595 824
4	**Total**	**30 426**	**7 430 776**	**181 842**	**28 826**	**153 016**	**–**	**7 279 360**

* Loans include advances to clients and interbank advances, excluding sovereign exposures.

** Allowances/impairments relate to specific impairments, and exclude portfolio/general impairments.

Discovery Bank applies a consistent definition to default for regulatory and accounting purposes. Discovery Bank's default definition used for model development was as follows (considering a 12-month outcome period):

- 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 that not all the amounts due will be collected.

Specific impairments are raised against accounts that are identified as being in default and where there is objective evidence that after initial recognition that not all the amounts due will be collected.

Month-end limits were used (post CCF) in populating the defaulted and non-defaulted exposures.

CR2: Changes in stock of defaulted loans and debt securities

This section identifies the changes in Discovery Bank's stock of defaulted exposures, the flows between non-defaulted and defaulted exposures, and reductions in the stock of defaulted exposures due to write-offs.

	R'000	As at 30 June 2020
1	**Defaulted loans and debt securities at end of the previous reporting period**	**1 546**
2	Loans and debt securities that have defaulted since the last reporting period	21 133
3	Returned to non-defaulted status	472
4	Amounts written off	0
5	Other changes	8 219
6	**Defaulted loans and debt securities at end of the reporting period (1 + 2 – 3 – 4 ± 5)**	**30 426**

The daily averages were used when populating this table.

CR3: Credit risk mitigation techniques – overview

This section explains the credit risk mitigation (CRM) techniques applied in Discovery Bank.

	As at 30 June 2020 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	3 683 536	0	0	0	0	0	0
2	Debt securities	0	0	0	0	0	0	0
3	**Total**	**3 683 536**	**0**	**0**	**0**	**0**	**0**	**0**
4	**Of which defaulted**	**21 575**	**0**	**0**	**0**	**0**	**0**	**0**

The daily averages were used when populating this table.

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

Table CR4 illustrates the effect of mitigation techniques used under the standardised approach when calculating Risk-weighted Assets. This table includes counterparty credit risk, therefore, the total for RWA reconciles to table OV1 when adding lines 1 and 6 together.

As at 30 June 2020 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**	438 826	0	438 826	0	0	0.000%
2	Non-central government public sector entities	0	0	0	0	0	0.000%
3	Multi-lateral development banks	0	0	0	0	0	0.000%
4	**Banks**	1 275 882	0	1 275 882	0	259 868	20%
5	Securities firms	0	0	0	0	0	0.000%
6	Corporates	0	0	0	0	0	0.000%
7	Regulatory retail portfolios	1 870 331	3 595 824	1 870 331	719 165	1 955 438	76%
8	Secured by residential property	0	0	0	0	0	0.000%
9	Secured by commercial real estate	0	0	0	0	0	0.000%
10	Equity	0	0	0	0	0	0.000%
11	Past due loans	0	0	0	0	0	0.000%
12	Higher risk categories	0	0	0	0	0	0.000%
13	Other assets	4 233 720		4 233 720		439 102	10%
14	**Total**	**7 818 759**	**3 595 824**	**7 818 759**	**719 165**	**2 654 408**	**31%**

RWA is driven by exposures to retail portfolios and sovereigns and their central banks.

The past due loans relate to the unsecured portion of any loan that is in arrears (less than 90 days). Past due loans that are equal or greater than 90 days will follow the default definition as defined under table CR1.

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

This section shows the credit risk exposures under the standardised approach by asset class to show the effect of credit risk mitigation. This table includes counterparty credit risk.

As at 30 June 2020 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	438 826	0	0	0	0	0	0	0	0	438 826
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	1 270 018	0	0	0	5 864	0	0	1 275 882
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	6 295	2 567 920	316	14 965	0	2 589 496
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	0	0	0	0	0	0
12 Higher-risk categories	0	0	0	0	0	0	0	0	0	0
13 Other assets*	779 970	0	0	0	0	0	439 102	0	3 014 648	4 233 720
14 **Total**	**1 218 796**	**0**	**1 270 018**	**0**	**6 295**	**2 567 920**	**445 282**	**14 965**	**3 014 648**	**8 537 924**

* Excludes goodwill and intangible assets.

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

As at 30 June 2020 R'000		Replace-ment cost	Potential future exposure	EEPE	Alpha used for computing regulatory EAD	EAD post-CRM	RWA
1	SA-current exposure method	689	5 175	0	1	5 864	5 864
2	Internal Model Method (for derivatives and SFTs)	0	0	0	0	0	0
3	Simple Approach for credit risk mitigation (for SFTs)	0	0	0	0	0	0
4	Comprehensive Approach for credit risk mitigation (for SFTs)	0	0	0	0	0	0
5	VaR for SFTs	0	0	0	0	0	0
6	**Total**	**0**	**0**	**0**	**0**	**0**	**5 864**

CCR2: Credit valuation adjustment (CVA) capital charge

As at 30 June 2020 R'000		EAD post-CRM	RWA
Total portfolios subject to the advanced CVA capital charge		**0**	**0**
1	(i) VaR component (including the 3x multiplier)	0	0
2	(ii) Stressed VaR component (Including the 3x multiplier)	0	0
3	All portfolios subject to the Standardised CVA capital charge	5 864	5 864
4	Total subject to the CVA capital charge	0	0

The Credit Valuation Adjustment (CVA) compares the true portfolio value to the risk-free portfolio value by considering the possibility of a counterparty's default thus CVA is the market value of counterparty credit risk. In the Basel context, CVA is the additional capital charge that considers instability in the derivate instruments values due to changes in the credit quality of the Bank's counterparty.

The only derivatives on the Bank's balance sheet are purchased call options and total return swaps transacted with the large SA banks as the counterparties. These derivatives are used to hedge the price risk on the Discovery Ltd (JSE:DSY) share in respect of the Bank's phantom employees' share scheme incentive programmes. These are cash margined under various CSAs (Credit Support Annex) to signed ISDA master contracts (allowing netting) thereby largely mitigating any potential counterparty credit risk and resulting in non-material CVA positions.

Regulatory capital is held (under the standardised approach) as a buffer for unexpected significant increases in the DSY share price, which is followed by the inability to receive variation margin due to counterparty default(s).

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

Table CCR3 provides a breakdown of the counterparty credit risk (CCR) exposures calculation as prescribed under the standardised approach by both portfolio and risk weights.

As at 30 June 2020 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	438 826	0	0	0	0	0	0	0	438 826
2 Non-central government public sector entities	0	0	0	0	0	0	0	0	0
3 Multi-lateral development banks	0	0	0	0	0	0	0	0	0
4 Banks	0	0	1 270 018	0	0	5 864	0	0	1 275 882
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	6 295	2 567 920	316	14 965	0	2 589 496
8 Other assets	779 970	0	0	0	0	439 102	0	3 014 648	4 233 720
9 **Total**	**1 218 796**	**0**	**1 270 018**	**6 295**	**2 567 920**	**445 282**	**14 965**	**3 014 648**	**8 537 924**

MR1: Market risk under standardised approach

This section provides information on the components of the capital charge under the standardised approach for market risk.

As at 30 June 2020 R'000		Capital charge in SA
1	General interest rate risk	0
2	Equity risk	0
3	Commodity risk	0
4	Foreign exchange risk	35 490
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**	**35 490**

To facilitate offshore card transactions by clients in foreign currencies, Visa has a requirement that the Bank places US dollar collateral in its favour with a favourably rated international bank. The collateral amount of $2,039m is placed with an AA-rated bank in Singapore (United Overseas Bank (UOB)), and this is also currently the only market risk exposure on the Bank's books. This amount increased from the previous reporting period ($825,979) in line with the growth of the book and the corresponding weakening of the ZAR against the USD.

Quantitative tables and templates / CONTINUED

REM 1: Remuneration awarded during the financial year

As at end of June 2020			Senior management/ other material risk-takers
Remuneration amount			
1	Fixed remuneration	Number of employees	Three
2		**Total fixed remuneration (3 + 5 + 7)**	**13 498 000**
3		Of which: Cash-based	12 477 000
4		Of which: Deferred	
5		Of which: Shares or other share-linked instruments	
6		Of which: Deferred	
7		Of which: Other forms*	1 021 000
8		Of which: Deferred	
9	Variable remuneration	Number of employees	Three
10		**Total variable remuneration (11 + 13 + 15)**	**14 109 000**
11		Of which: Cash-based	13 109 000
12		Of which: Deferred	
13		Of which: Shares or other share-linked instruments	1 000 000
14		Of which: Deferred	
15		Of which: Other forms	
16		Of which: Deferred	
17	**Total remuneration (2 + 10)****		**27 607 000**

* Provident funds and medical aid contributions.
** Total as stated in annual financial statements.

REM 2: 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.

REM 3: Deferred Remuneration

	A	B	C	D	E
Deferred and retained remuneration	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	0	0	0	0	0
Cash	0	0	0	0	0
Shares	0	0	0	0	0
Cash-linked instruments	3 491 996	3 491 996	0	(1 641 732)	2 199 733
Other	27 361 810	27 361 810	0	0	0
Other material risk-takers	0	0	0	0	0
Cash	0	0	0	0	0
Shares	0	0	0	0	0
Cash-linked instruments	0	0	0	0	0
Other	0	0	0	0	0
Total	**30 853 806**	**30 853 806**		**(1 641 732)**	**2 199 733**

Definitions:

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

Outstanding exposed to ex-post implicit adjustment 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 the reporting date (cumulated over the last years) are expected. In columns (C) - (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).

06

Pillar III tables – Qualitative

Pillar III tables – Qualitative

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 (e.g. the key risks related to the business model and how each of these risks is 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	3. Risk management	20
	Credit risk	3. Risk management	23
	Market risk	3. Risk management	30
	Liquidity and funding risk	3. Risk management	29
	Reputational risk	3. Risk management	21
	Strategic and business risk	3. Risk management	20
	Capital management risk	3. Risk management	32
	Operational risk	3. Risk management	21
(b) The risk governance structure: responsibilities attributed throughout the Bank (e.g. oversight and delegation of authority; breakdown of responsibilities by type of risk, business unit, etc.); relationships between the structures involved in risk management processes (e.g. Board of directors, executive management, separate risk committee, risk management structure, compliance function, internal audit function)	All risk	3. Risk management	15
(c) Channels to communicate, decline and enforce the risk culture within the Bank (e.g. code of conduct; manuals containing operating limits or procedures to treat violations or breaches of risk thresholds; procedures to raise and share risk issues between business lines and risk functions)	All risk	3. Risk management	18
(d) The scope and main features of risk measurement systems	All risk	3. Risk management	19
(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	3. Risk management	17
(f) Qualitative information on stress testing (e.g. portfolios subject to stress testing, scenarios adopted and methodologies used, and use of stress testing in risk management)	Stress testing	3. Risk management	33
	ICAAP	3. Risk management	33

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	3. Risk management	20
	Credit risk	3. Risk management	23
	Market risk	3. Risk management	30
	Liquidity and funding risk	3. Risk management	29
	Reputational risk	3. Risk management	21
	Strategic and business risk	3. Risk management	20
	Capital management risk	3. Risk management	32
	Operational risk	3. Risk management	21

LIA: Explanation 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	54
(b)	Banks must explain the origins of differences between carrying values and amounts considered for regulatory purposes shown in LI2	Discovery Bank didn't record differences between carrying values and amounts considered for regulatory purposes	
(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 the methodology for valuing trading positions by type of instrument).	Not applicable to Discovery Bank's current environment	

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	Liquidity and funding risk	3. Risk management	15, 29
(b)	Funding strategy, including policies on diversification in the sources and tenor of funding, and whether the funding strategy is centralised or decentralised	Liquidity and funding risk	3. Risk management	15, 29
(c)	Liquidity risk mitigation techniques	Liquidity and funding risk	3. Risk management	15, 29
(d)	An explanation of how stress testing is used	Liquidity and funding risk	3. Risk management	15, 29
(e)	An outline of the Bank's contingency funding plans	Liquidity and funding risk	3. Risk management	15, 29

CRA: Banks must describe their risk management and policies for credit risk

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	3. Risk management	15, 23
(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 on the credit risk management function to the executive management and to the Board of directors	Credit risk		

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	3. Risk management	27
(b) The extent of past due exposures (more than 90 days) that are not considered to be impaired and the reasons for this	Credit risk	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	Credit risk	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 not impaired exposures	Credit risk	The Bank complies with Directive 7/2015 as issued by the SARB, but the Bank has not yet needed to do a restructure on the current book.	n/a
(e) Breakdown of exposures by geographical areas, industry and residual maturity	Credit risk	Discovery Bank only has revolving assets and hence no residual maturity is shown in the document. Rest of the information 3. Risk Management	28
(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	Credit risk	3. Risk management	28
(g) Ageing analysis of accounting past due exposures	Credit risk	3. Risk management	28

Pillar III tables – Qualitative / 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 (i.e. by guarantor type, collateral and credit derivative providers)	3. Risk management	23

CRD: Qualitative disclosures on the Bank's use of external credit ratings under the 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 2 ratings) or the higher of the lower two risk weights (for 3 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

CCRA: Qualitative disclosure related to counterparty credit risk

	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 contracted amount agreed with them. Counterparty credit risk forms part of credit risk and speaks to derivative contracts agreed between the parties as a mean of transferring credit risk to a 3rd party. Discovery Bank has limited risk related to counterparty credit risk as the bank doesn't trade in instruments 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 for 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 our 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

Pillar III tables – Qualitative / CONTINUED

MRA: General 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 should 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/ processes for monitoring the continuing effectiveness of hedges	Market risk	3. Risk management	30
(b) Structure and organisation of the market risk management function: description of the market risk governance structure established to implement the strategies and processes of the Bank discussed in row (a) above, and describing the relationships and the communication mechanisms between the different parties involved in market risk management	Market risk	3. Risk management	15
(c) Scope and nature of risk reporting and/or measurement systems	Market risk	3. Risk management	15

ORA: General qualitative information about operational risk management

	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 shall hold capital for Operational Risk equal to a fixed percentage.	n/a
(b)	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		

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	3. Risk management	30
(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	3. Risk management	30
(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	3. Risk management	30
(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	3. Risk management	30
(e) Where significant modelling assumptions used in the Bank's internal measurement systems (IMS) (ie the EVE metric generated by the Bank for purposes other than disclosure, eg 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 (eg historical data, published research, management judgment and analysis)	Market risk	3. Risk management	30
(f) A high-level description of how the Bank hedges its IRRBB, as well as the associated accounting treatment	Market risk	3. Risk management	30

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	3. Risk management	30
(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	3. Risk management	30
Quantitative disclosures			
1. Average repricing maturity assigned to NMDs	Market risk	3. Risk management	30
2. Longest repricing maturity assigned to NMDs	Market risk	3. Risk management	30

REMA: Remuneration policy

Description	Section in document	Page
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 (eg by regions, 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.	3. Remuneration Material risk-takers are employees whose professional actions have a material impact on the Bank's overall risk exposure. Discovery Bank defines material risk takers as the members of the Discovery Bank Executive management team that are also Directors of the Bank. Discovery Bank defines material risk-takers and senior managers similarly.	36
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.	3. Remuneration	36
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.	3. Remuneration	36
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 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.	3. Remuneration	36

Pillar III tables – Qualitative / CONTINUED

REMA: Remuneration policy / CONTINUED

Description	Section in document	Page
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.	3. Remuneration	36
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 (ie 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 the factors that determine the mix and their relative importance.	3. Remuneration	36

07 Annexure

Annexure

Tables not applicable to Discovery Bank

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 – Backtesting 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

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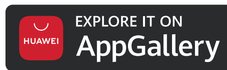

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