PILLAR III

Public disclosures

FOR THE YEAR ENDED 30 JUNE 2023

Discovery Bank Limited and Discovery Bank Holdings Limited Group

Highlights

The clear headwinds facing South Africa are well documented, and the economic environment is expected to remain challenging over the medium term. As we navigate this period, cognisant of the associated trying macro- and social economic conditions impacting our clients and employees alike, Discovery Bank has remained focused on ensuring we achieve our strategic objectives.

Discovery Bank is ahead of budgeted financial metrics and is expected to reach operational break-even on a monthly basis within the 2024 financial year. The Bank remains organisationally resilient and financially healthy with a robust balance sheet. An enabling yet prudent risk management framework underpinned by an environmentally appropriate risk appetite has ensured a solid capital position and a healthy liquidity position.

The key strategic metrics for the year ending 30 June 2023 are summarised below:

June 2023 highlights Discovery Bank[1]

Retail advances
R5 172 billion
(FY22: R4 347 billion)

Total capital ratio
17.6%
(FY22: 17.6%)

Common equity Tier I Ratio
16.8%
(FY22: 16.7%)

Liquidity coverage ratio
2 566%
(FY22: 2 668%)

Net stable funding ratio
183%
(FY22: 168%)

High quality liquid assets (R'000)
8 753 199
(FY22: R5 289 626)

Foreign exchange exposure (R'000)
R73 728
(FY22: R40 518)

Leverage ratio
6.37%
(FY22: 7.17%)

Credit loss ratio (excluding overlays)
3.23%
(FY22: 1.52%)

The increase in the credit loss ratio (CLR) was due to sustained adverse macro-economic pressures on clients, which was partially offset by once-off impairment reground releases.

1 *LCR uses three-month average balances, whereas the retail advances value is the value as at 30 June 2023.*

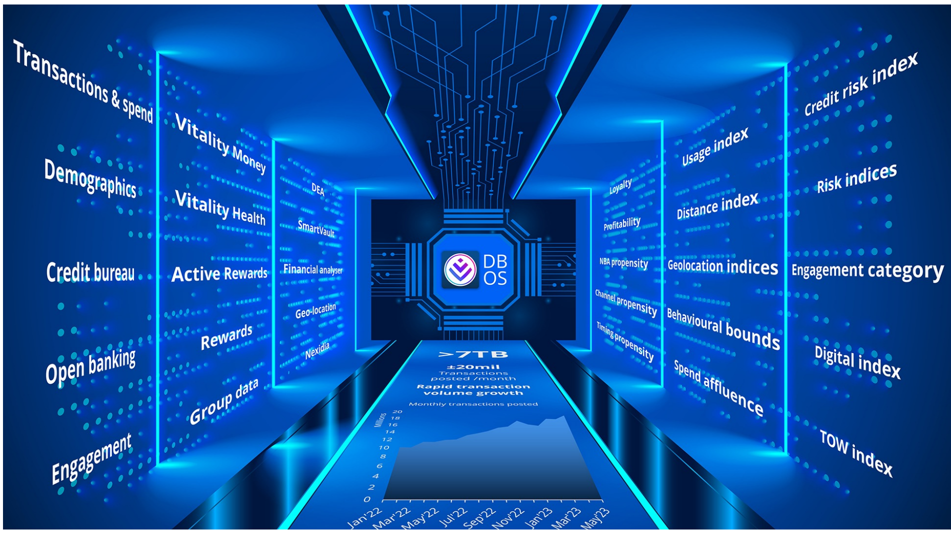
Executive summary

Discovery Bank is a highly innovative, disruptive and fully retail-funded shared-value bank built on making people financially healthier by encouraging our clients to make positive financial decisions. Our unique shared-value product offering, built using advanced analytics and technology, enables us to deliver exceptional service and create long-term value for our clients and shareholders. This innovative and disruptive mindset was recognised by MyBroadband when Discovery Bank was awarded as the Best Digital Bank of 2023.

The MyBroadband team states that **"Discovery[2] Bank was selected as the winner thanks to the excellent features and services its banking app offers, along with its outstanding usability and integration with a variety of internal and external platforms. Candidates for the 2023 MyBroadband Award for Best Digital Bank were chosen based on the products and services they offer within the digital banking space and the level at which these products and services perform. Discovery Bank stood above other banks in this regard, courtesy of its industry-leading banking app and the top-level service it offers to clients."**

This award affirms the bank's ambition to be the best full-service digital bank globally.

Over the past year[3], we've invested significantly in the further development of Discovery Bank as the operating platform for the Discovery SA composite. The starting point was to provide access to a client's full Discovery product portfolio with key policy information in the Discovery Bank app. To support this strategy, we also launched the Discovery Account, which unlocks the full Discovery ecosystem for all Discovery members via Discovery Bank with a fully digital, zero-monthly-fee account and provides Discovery Group clients with access to all of the Discovery Bank features, including the Vitality Travel booking platform; Discovery Pay for seamless, real-time Health and Vitality payments; and a Discovery Miles Account to earn and monetise rewards across all their Discovery products. With Discovery Bank app logins averaging over six million per month, it accounts for over 60% of the Group's digital engagement.



In an increasingly complex world, Discovery Bank offers a simple app that can do it all. It allows clients to:

- Manage their financial portfolio and Discovery products.
- Top up prepaid electricity or data.
- Book flights to most destinations in the world.
- Make real-time payments instantly from as little as R1.

It's all effortless with the Discovery Bank app.[4]

2 *Internal Communication – 21 Feb 2023 "And the best 2023 Digital Bank of the Year goes to…".*
3 *Active Rewards 3.0 go-live: Hylton Kallner.*
4 *Bank communication – 4 August 2023.*

Changing the world for the better

Discovery Bank's growth and success is based on the same tenets as the Shared-value Insurance model of the Discovery Group (the Group), namely focusing on a few key behaviours that drive most of the risk, improving these behaviours to the benefit of both clients and the company, and sharing the value created, driving further positive behaviour. This results in a banking model that is better for clients, for the bank, and for society.

Managing risk

The domestic growth outlook for 2023/2024 continues to worsen on the back of increased levels of electricity loadshedding and deteriorating fiscal balances. Other local growth constraints in early 2023 include elevated interest rates as a result of the rate of inflation remaining above the midpoint of the South African Reserve Bank's (SARB)[5] inflation target, driven by double-digit annual food price increases, continued transport, and logistical bottlenecks. Furthermore, the rand weakened by 9.5%, 12%, and 16%, against the US dollar, the euro and the pound respectively in the first half of 2023. A worsening of domestic macro fundamentals, including moving from a current account surplus to a deficit, SA's Financial Action Task Force (FATF) grey listing in February 2023, and a diplomatic spat with the US, dented foreign investor sentiment towards SA[6]. Aside from the intense domestic power and logistical constraints, Discovery Bank's strategy is on track with financial metrics remaining front of mind.

In terms of risk, non-financial risks are closely monitored, particularly in relation to operational resilience, information security and cyber capability and the oversight of third-party service providers. Discovery Bank ensures that all controls are appropriate, adequate, and effective in ensuring that Discovery Bank remains resilient and within the approved risk appetite as evidenced in the key performance indicators shown later in this report.

(Section 02 Risk Management Philosophy)

In addition to our focus on measurable risks, Discovery also considers the effects of climate change and how the company can manage the impact of climate risk within Discovery Bank. The climate risk exposure for the Bank is limited because the bank is primarily a retail bank, with no commercial lending products in its existing product suite. However, Discovery does adopt Group policies and tools where appropriate, and works closely with Group Risk to provide input to climate-change-related Group submissions and disclosures, commensurate with the nature of Discovery Bank's business and the materiality of its climate-related risk exposure. The Bank has representation on the Group Climate and Environment Steering Committee, a sub-committee of the Group Board Committees responsible for oversight of all climate change-related activities across the Group.

Discovery Bank, through industry associations, actively participates in consultation papers on policy and frameworks related to climate change as well as sustainability-related matters. Where appropriate, the Bank engages with the financial sector regulators on forward-looking climate-related regulatory developments and frameworks. Further to comments previously provided by the Group, Discovery Bank has provided comment on the Prudential Authority's proposed guidance on climate-related disclosures and climate-related risk practices for banks.

"In another innovative first, Discovery CEO Adrian Gore unveiled Discovery Green, a renewable energy platform that will unlock an investment of roughly R20 billion to R25 billion in South Africa's energy infrastructure. The platform, developed with the support of Rand Merchant Bank (RMB), Discovery's investment banking partner, connects businesses across South Africa to affordable, renewable power generated by utility-scale renewable plants. The team began to focus on how corporations consumed energy and how Discovery could reduce their carbon footprint."[7]

The solution will therefore extend Discovery's existing Shared-value Insurance model into the area of climate change for positive impact by reducing members, household emissions. Further work on carbon credit development accruing from these reduced emissions is ongoing and is part of our overall long-term strategy to achieve net zero emissions while also driving continuous product development.

In line with our prudent risk and governance processes, the quantitative tables in this report were based on audited financials and audited regulatory reporting returns, formally signed off by the Discovery Bank Risk and Capital Management Committee.

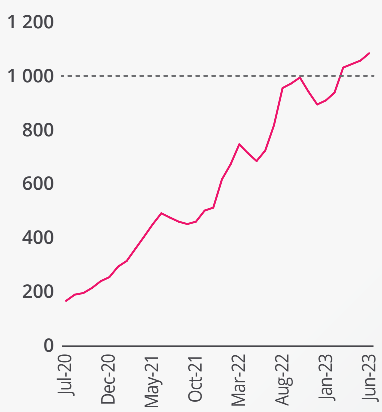
5 *BER Scenario Report – May 2023.*
6 *BER Scenario Report – August 2023.*
7 *https://www.iol.co.za/business-report/companies/adrian-gore-launches-discovery-green-a-game-changing-renewable-energy-platform-e2c3b71d-b2e0-4102-bd0c-4fd427ab647f.*

Discovery Bank's
financial performance

Discovery Bank has shown remarkable growth and is due to reach operational break-even in FY24[8]. The revenue growth was driven by increased velocity, as shown in the performance indicators.

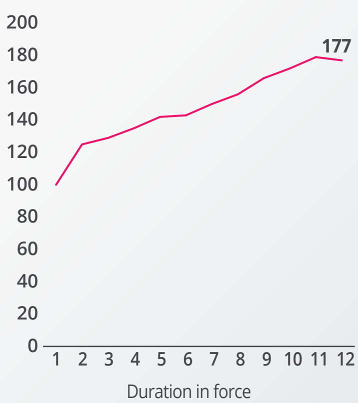
Accelerating growth in client base

Over 1 000 average daily sales



Increasing engagement over time

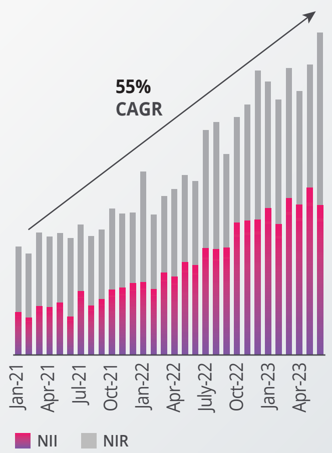
NIR by duration*



* *Indexed to 100.*

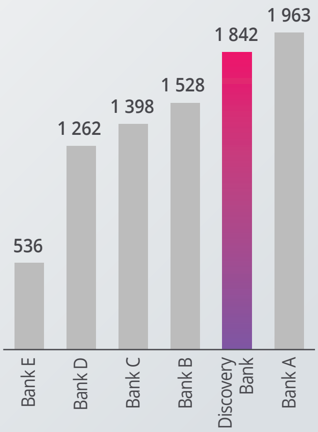
Rapid growth in revenue

NII and NIR per month



High NIR compared to the market

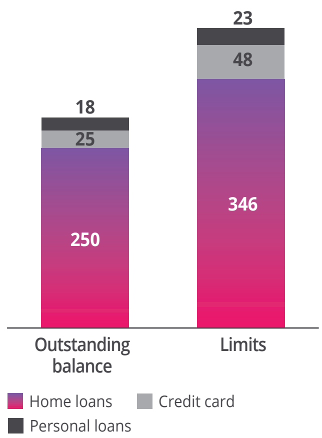
NIR per customer



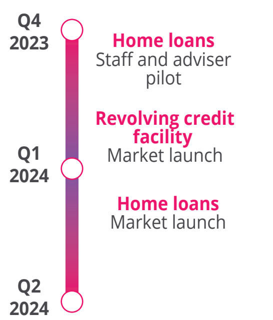
Discovery Bank is expanding credit offerings by adding home loans and revolving credit facility offerings to clients.

R250bn
in home loan balances

Discovery Bank clients' advances as at Aug 23 (Rbn)



Expanding credit offerings



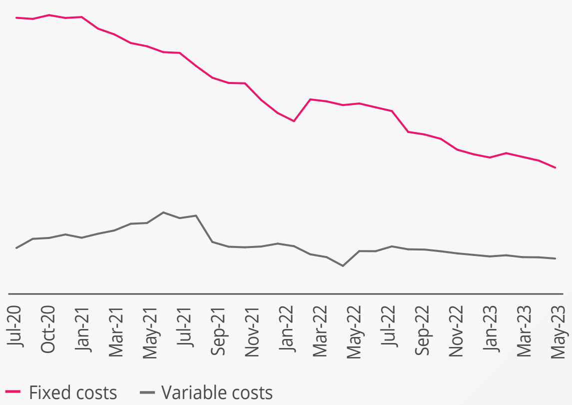
8 *Audited Financial Results – Annual – Discovery Group.*

Discovery Bank's financial performance / CONTINUED

The operational efficiencies are contributing to the earlier than projected breakeven point.

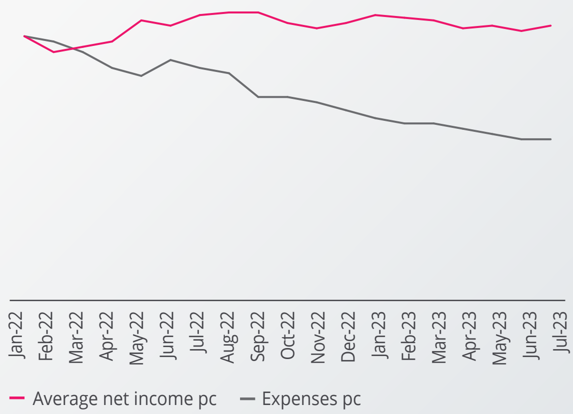
Expense efficiencies realised as the Bank continues to scale

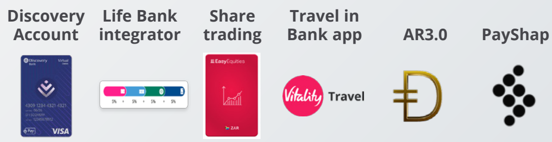
Fixed and variable costs over time



Operating leverage as more products are added

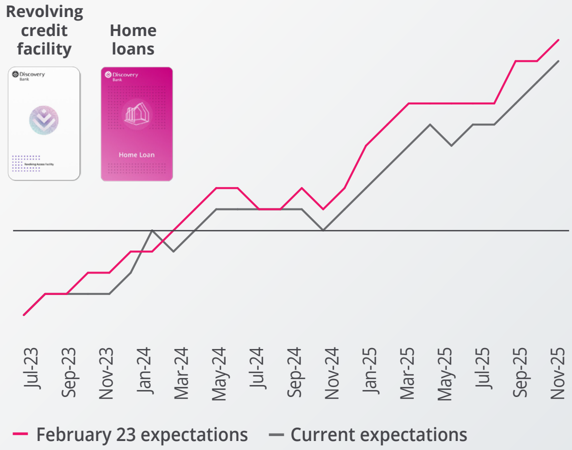
Expenses and income per customer (R)





Reaching breakeven earlier than expected

Profit before new business acquisition costs



Contents

04 Quantitative tables and templates *continued*

01

Strategy and business model

Strategy and business model

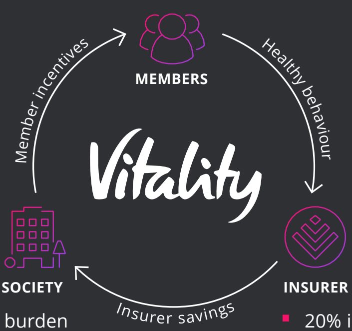
Discovery Bank represents a confluence of technology, social responsibility and a deep understanding of the nature of behavioural risk, underpinned by a proven Shared-value Insurance model. At the core of Discovery's business model is the utilisation of incentives and rewards, backed by advanced analytics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

WHY

Make people healthier and enhance and protect their lives

HOW

Improved wealth, better value through improved price and benefits



SOCIETY

- Reduced healthcare burden
- Improved productivity
- Healthier society

INSURER

- 20% improved Life claims
- 60% lower motor-loss ratio
- 96% lower arrears rates
- ±60% lower healthcare costs

WHAT

- Life insurance
- Health insurance
- Short-term insurance
- Long-term savings
- Banking

Discovery Bank provides the operating system for Discovery's SA Composite strategy. Discovery Health, Life, Insure, Invest, and Vitality leverage the Discovery Bank's architecture to serve its clients better.

The strategic objectives are fully aligned with business targets, so we can measure our success in achieving the set objectives.

STRATEGIC FOCUS AREAS

Develop a full product suite, attract new segments and build platforms.

Achieve 1 000 sales per day through operational, product and distribution initiatives.

Grow high-quality advances; diversify lending offering with a focus on personal loans, term-financing and mortgages.

Leverage data assets and machine learning capability to increase utilisation and engagement.

Combine growth and expense efficiencies to deliver attractive financial results and achieve break-even.

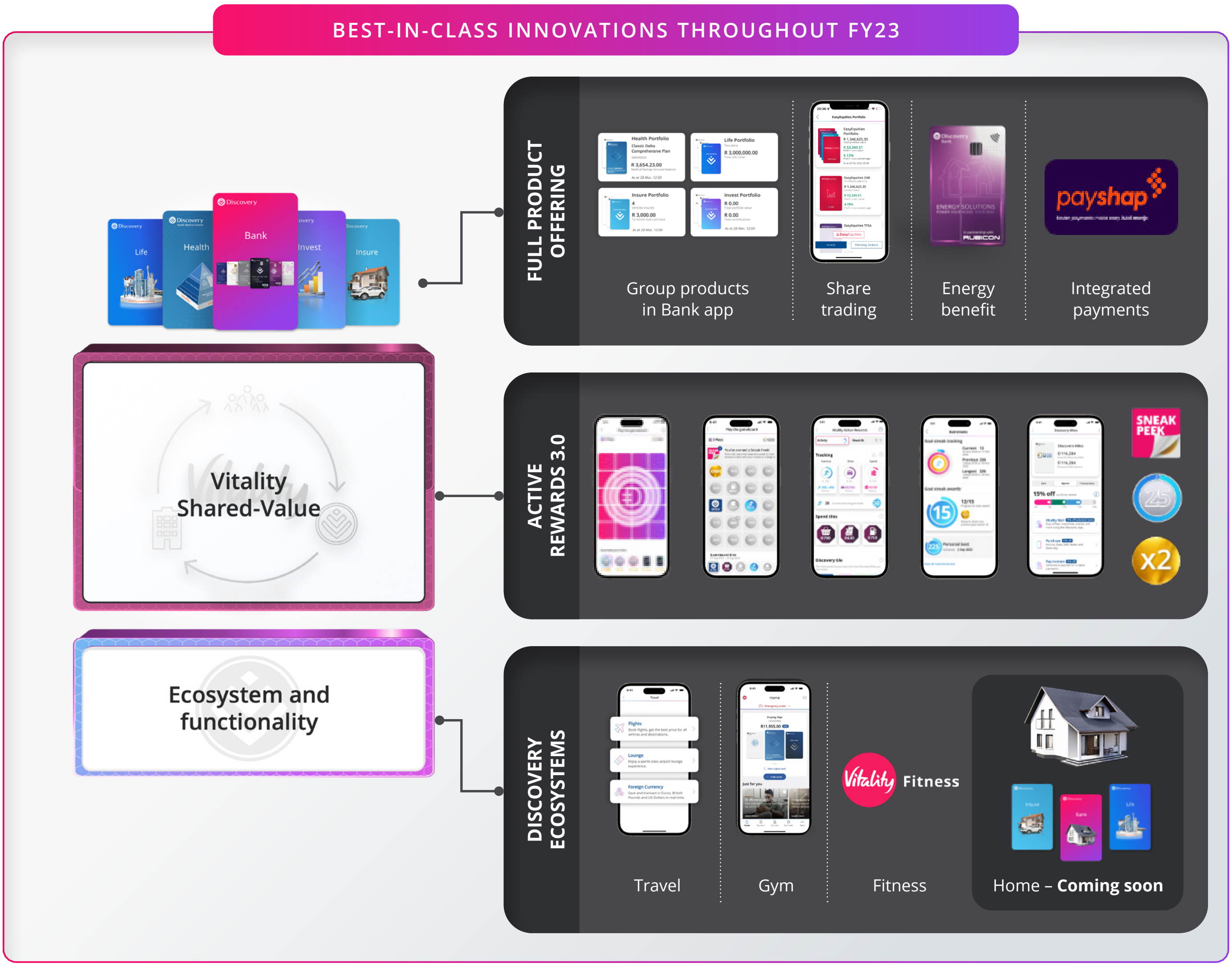
Our ambition remains:

Discovery Bank aims to be the best **full-service digital bank** and **globally recognised** for its **Shared-value Banking model. Discovery Bank** will earn the **trust**, **support and loyalty of clients** through **brilliant products**, an exceptional **full-service** offering and **intuitive client journeys**, which will be coupled with **robust security features and underpinned** by the unique application of **world-class digital and data capabilities**.

Through Discovery Bank's Shared-value model, clients will exhibit better financial behaviour, which will demonstrably allow for **better financial outcomes** because of their **engagement with the Vitality Money programme**. They have the ability to monetise their financial and other healthy behaviour improvements through their **personalised rewards stack**. The model will drive **rapid client growth, primary account utilisation, higher deposits, and lower credit risk**, resulting in superior value for clients, Discovery Bank and society.

Discovery Bank serves as the **foundational asset to drive integration for Discovery's South African composite** by creating an ecosystem through which every client has a Discovery Bank account to access their **full suite of Discovery products**, **financial services, and other partners**, resulting in the **highest levels of client engagement, persistency and long-term value**.

This full-service digital bank platform is operational as a result of the delivery of various innovations throughout the 2023 financial year.



Product innovation, distribution, and service are all underpinned by robust data and analytics. The bank is building the leading financial services data as a product ecosystem, enabling data-driven decision-making based on comprehensive data and robust insights.

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

1 NATURE OF RISK

Traditional banks segment and price clients based on their socio-economic status. However, the nature of risk in banking is as much behavioural as it is socio-economic. This results in clients who manage their money well often paying more to borrow purely based on their socioeconomic segment and subsidising riskier clients.

2 TECHNOLOGY

Banking has evolved towards digital and contactless onboarding and payment solutions, making it easier for clients to open additional accounts, transact in real time, pay through Apple, Samsung and Google accounts, and invest in forex (FX).

3 SOCIAL RESPONSIBILITY

Clients are demanding that the companies they do business with and interact with, including banks, do business with a focus on societal issues as much as profits. Based on our shared-value model, we use our unique approach to deepen societal value. At Discovery Bank in particular, we apply dynamic interest rates to boost savings and lower interest on credit based on a client's risk profile and their success in making smart financial choices.

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

- Lower interest rates on borrowings than what would typically apply with traditional risk metrics. Clients can reduce their rates across income segments by managing their money well.
- Higher interest rates on their savings. Clients who manage their money well typically save more over longer periods. Through its shared-value model, Discovery Bank rewards clients with demand and short-term deposits with higher interest rates based on how well they manage their money.
- Better behavioural alignment and engagement. Engaged clients can earn multiples of their monthly fees in rewards by using their accounts and managing their money well.

The impact of these factors is a banking model that is better for clients and society.

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

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

PHILANTHROPY
"It's not a problem"

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

CSR
"It is a problem"

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

ESG
"Let's solve the problem"

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

SHARED VALUE
"It's an opportunity"

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

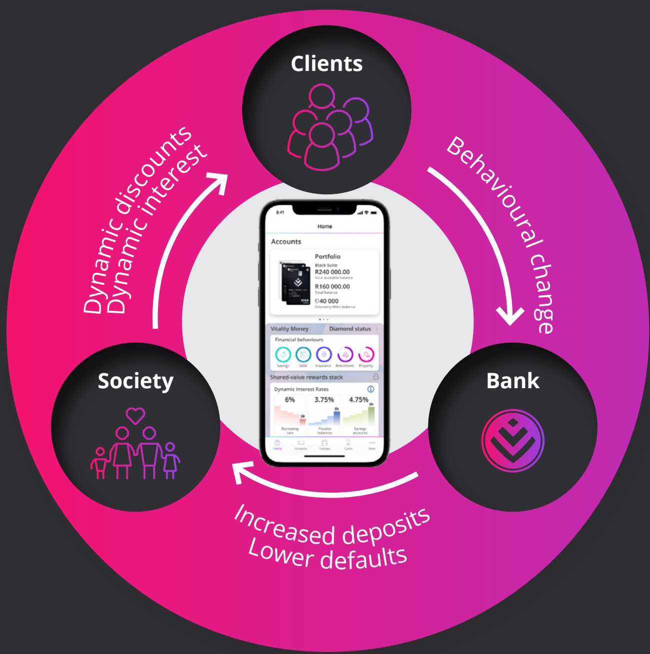
Source: Michael E Porter, Mark Kramer. Creating shared value, *Harvard Business Review*, January–February 2011.

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

Shared value in banking

South Africans are prolific borrowers and poor savers. A combination of habits like reliance on credit and a disinclination for saving leave people significantly exposed to financial crises in both the short and long term, putting us in a position that's financially precarious, both individually and as a society. Discovery Bank considers our clients' behaviours. We know that incentivising people to make better financial decisions generates higher savings levels, lower risk and increased wealth for society. Through Vitality Money, Discovery is helping clients understand and practise five key financial behaviours:

- SPEND LESS THAN YOU EARN
- INSURE FOR ADVERSE EVENTS
- SAVE REGULARLY
- PAY OFF YOUR PROPERTY
- INVEST FOR THE LONG TERM



Discovery Bank uses these behaviours to measure a client's financial health based on behaviour, and not income level, and award them a Vitality Money status – Blue, Bronze, Silver, Gold, or Diamond. A higher Vitality Money status means clients manage their money well and have a lower risk of credit defaults. This is our Shared-value Banking model in action – through effective interest rates and rewards incentivising good behaviour, clients manage their money well, and we share the value with them. Discovery Bank clients have access to a range of tools to help them manage their money better and become financially stronger. These include a retirement planner, a financial education video series, and access to discounted advanced education courses, debt tools and personalised goals and the Vitality Money Financial Analyser – all of which help our clients make smarter financial choices.

Rewards can be increased by linking to Vitality and integrating across Discovery's product universe.

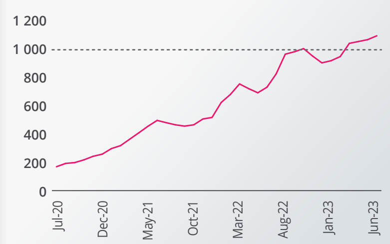
A **full-service, shared-value** bank

Discovery Bank's shared-value strategies to sustain growth and progress:

- Maintain strong service levels and operations to deliver excellent client experiences, high availability, and payment excellence.
- Drive new business growth through marketing, operational, and distribution initiatives while maintaining the optimal product mix.
- Develop a full product suite, attract new segments and build platforms while entrenching Discovery Bank as Discovery South Africa's composite-maker.
- Leverage Discovery Bank's shared-value model to grow advances through high-quality lending and continue to attract deposits.
- Increase non-interest revenue (NIR) through increased utilisation and engagement, supported by robust data and machine-learning functionality.
- Capitalise on growth and mitigate expenses to deliver attractive financial results, within an acceptable risk framework.

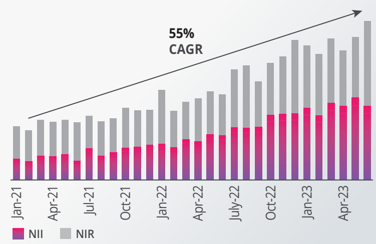
1 GROWTH

Over 1 000 average daily sales



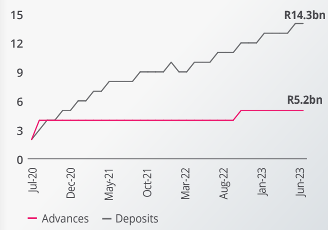
2 ENGAGEMENT AND REVENUE

NII and NIR per month

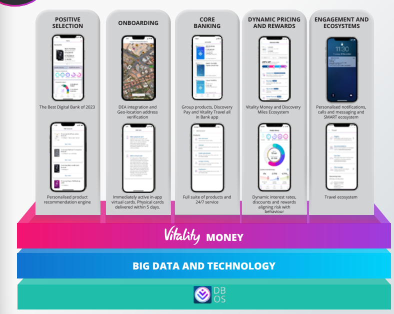


* *Indexed to 100.*

3 LENDING AND DEPOSITS

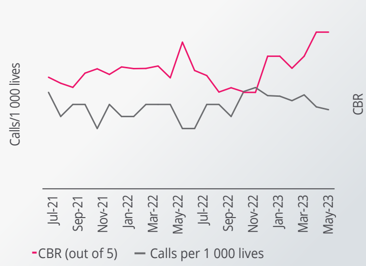


4 PRODUCT



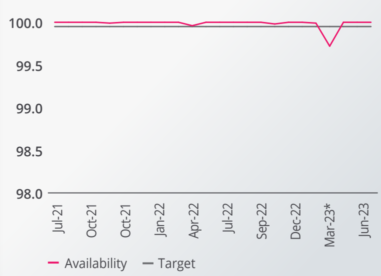
5 SERVICE DELIVERY

Service delivery



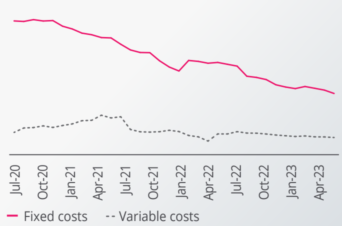
6 SYSTEM AVAILABILITY

Systems stability



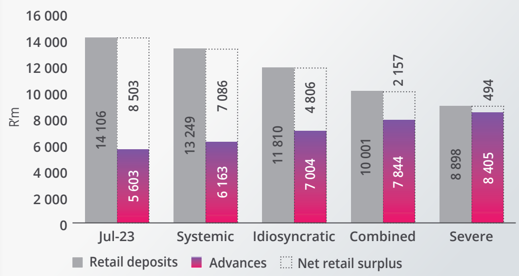
7 SCALABILITY

Fixed costs per client and variable costs per client (moving average)



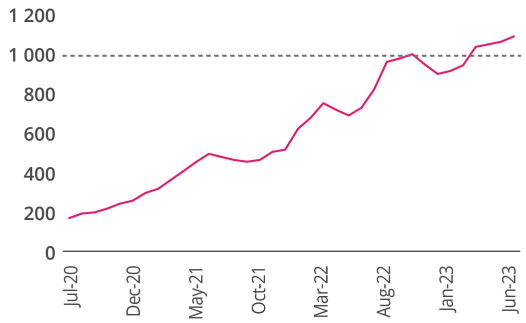
8 FUNDING

Liquidity stresses (average balances)



1 GROWTH TO OVER 1 000 SALES PER DAY WITH IMPROVING QUALITY

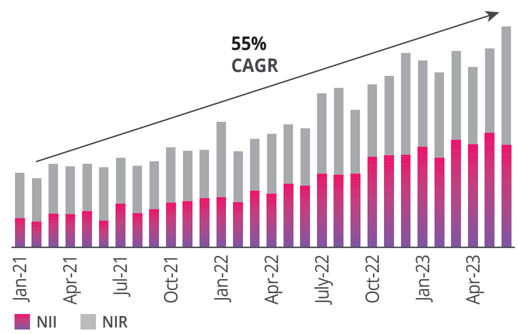
Over 1 000 average daily sales



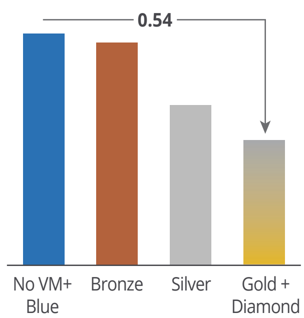
Significant effort has been expended in driving business growth through the comprehensive rollout of additional sales channels and targeted marketing campaigns. The sales efficiency improved, resulting in daily sales exceeding 1 000 during June 2023. Discovery Bank has also continued to grow the "new to Discovery" segment, all of this through a high-quality, diversified client base. The Bank has grown to over 702 000 clients and over 1 625 000 accounts.

2 ENGAGEMENT AND REVENUE

NII and NIR per month



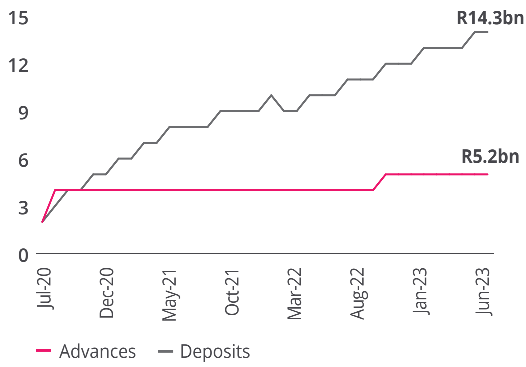
Lapse rate by VM status
(Indexed to No VM + Blue)



Discovery Bank has seen growing engagement over time and by client tenure, resulting in lower lapses. Higher engagement levels are seen via payments, spend, debit orders, and app logins. These lower lapses are highly correlated with the Vitality Money status. The Bank's total NII for FY23 also exceeded the FY23 budget by more than 10%.

3 STRONG LENDING AND DEPOSIT GROWTH

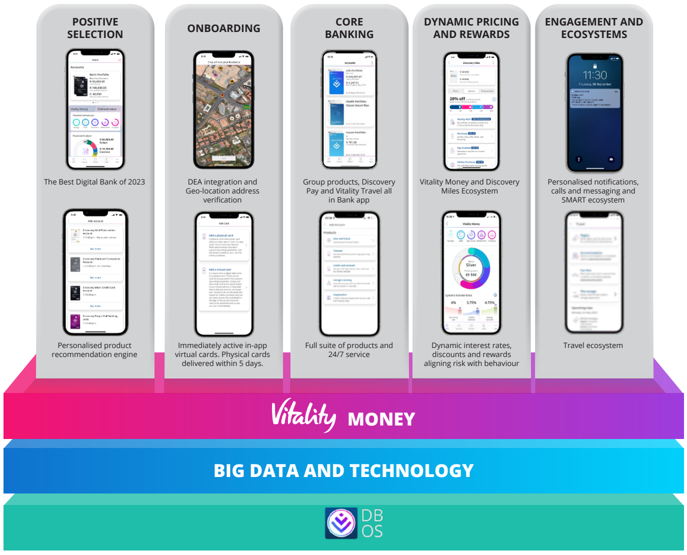
Lending and deposits



Discovery Bank continues to see steady growth in deposits reporting R14.3 billion in retail deposits in June 2023. That is more than the market-leading growth in deposits when compared to the top four banks in the industry. The growth in advances is attributed to a rise in credit applications and approval rates. We continue to attract good credit risk clients, thus maintaining the credit quality of the book.

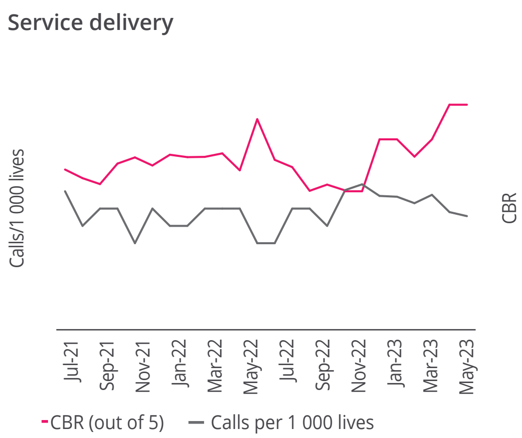
A **full-service, shared-value** bank / CONTINUED

4 CONTINUED PRODUCT INNOVATION



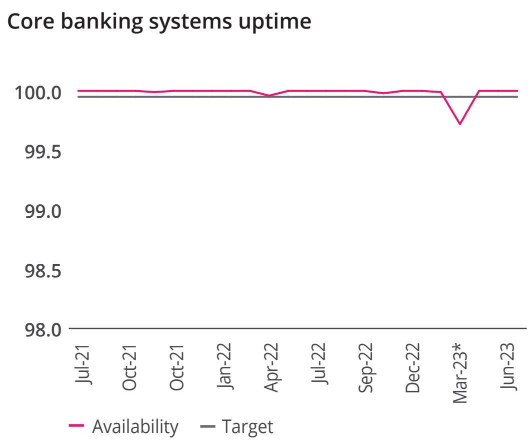
Through our unique ecosystems, a client can access our travel platform, instantly settle and pay for gym visits, search for healthcare providers, and instantly settle out-of-pocket medical expenses with a full spectrum of credit products in the pipeline.

5 STRONG SERVICE DELIVERY



We have seen strong service delivery, with card delivery volumes continuing to increase and complaints declining.

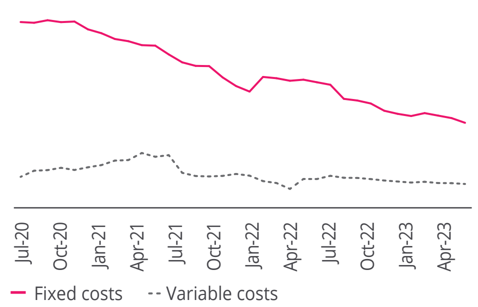
6 RESILIENT SYSTEMS AND SYSTEM AVAILABILITY



Discovery Bank continues to see resilient system, and payment stability. All system sources are closely monitored, and any downtime incidents are tracked and treated in terms of severity.

7 SCALABILITY

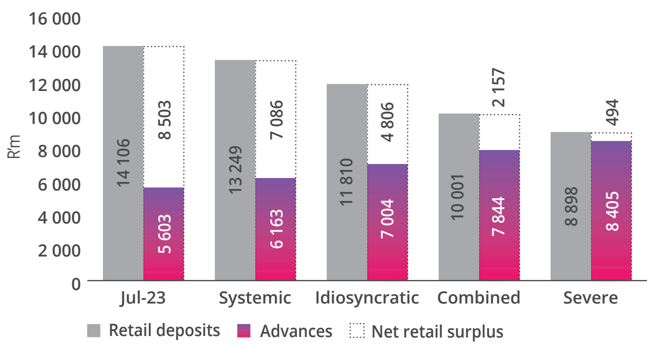
Fixed costs per client and variable costs per client
(3-months moving average)



For the past financial year, the revenue per client has been improving, with the operating expenses per client reducing to ensure operating efficiency.

8 FUNDING

Liquidity stresses
(average balances)



Discovery Bank remains well-funded across all sensitivities. The book has grown to over R14.3 billion in retail deposits, 32% compound annual growth rate (CAGR) over the past two years.

02

Risk management philosophy

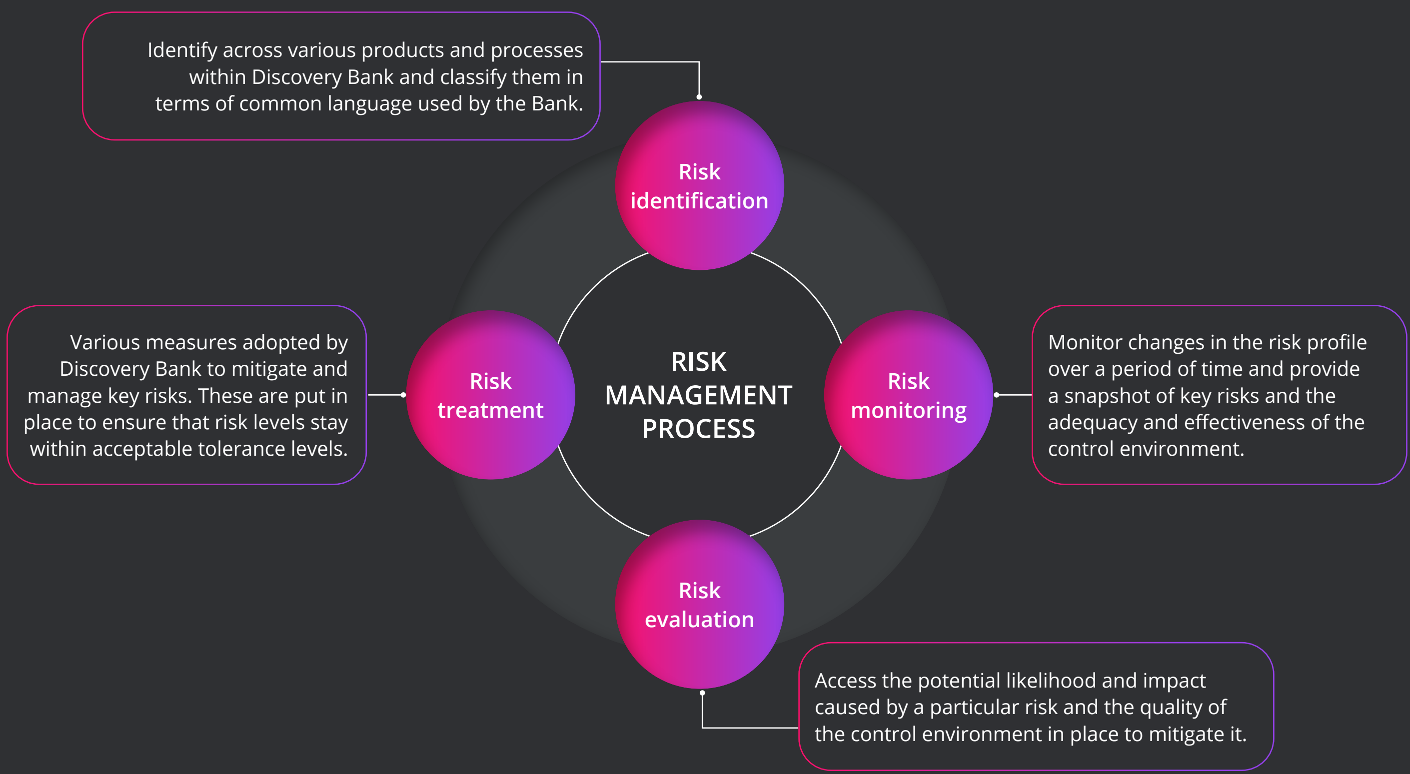
Risk management philosophy

The core risk management philosophy of Discovery Bank is to ensure a balance of both risk and reward in enabling the delivery of strategic business objectives or opportunities. Discovery Bank seeks to minimise potential losses while simultaneously ensuring operating resilience within its approved risk appetite. The risk framework incorporates the process of identifying potential events relevant to Discovery Bank's objectives, measuring them in terms of impact and likelihood, monitoring the risks, and managing them by developing appropriate risk mitigation strategies.

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

Risk management is a process that is:

- Ongoing within Discovery Bank
- Implemented by all of Discovery Bank's employees
- Applied across Discovery Bank and its various individual operations
- Designed to identify potential threats and opportunities affecting Discovery Bank
- Used to manage risks within the defined appetite and tolerance limits.



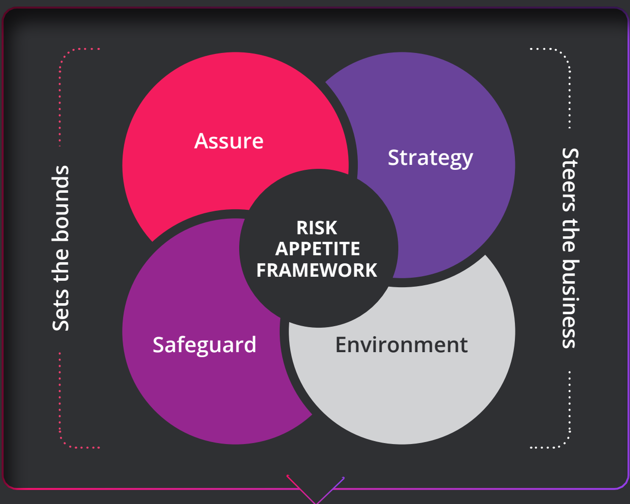
For each significant risk type faced by Discovery Bank, a policy framework exists which is divided into policies, standards, and procedural documents. By identifying and proactively addressing these risks and opportunities, Discovery Bank can protect and create value for its stakeholders.

Discovery Bank's risk universe includes the following key risk types:

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

Risk management philosophy / CONTINUED

Discovery Bank has identified and considered all risks currently within our environment to ensure risks beyond our risk appetite are not brought onto the bank's balance sheet or within its operating environment. These risks are embedded within the bank's Risk environment and form part of the bank's daily, weekly and monthly monitoring processes. Any potential breaches are flagged immediately, and remedial actions are agreed upon. All of these are managed through the risk appetite of Discovery Bank.



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

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

For the 2022/2023-year, Discovery Bank executed its shared-value strategy and ensured the business targets and objectives in each risk area were met.

Three lines of defence model

Discovery Bank manages its risk using a three lines of defence model embedded in our governance framework. Discovery Bank has undertaken an exercise during 2022 to review and streamline its governance framework, ensuring that it is appropriate given the nature, size, complexity, and needs of the business. The work undertaken enabled better standardisation across the bank in terms of decision-making and the ongoing management of risks and issues. It clarified roles, responsibilities, and mandates for each of the governance committees, creating a transparent framework within which to operate and ensuring adequate coverage of the bank's risks, aligned to the overarching ERM framework.

Scope of work included:

- A revised governance structure with clearly defined levels and escalation paths;
- A documented Terms of Reference for each of the committees within the structure containing the committee mandate, roles and responsibilities, scope, membership,
- An overarching Terms of Reference for each level within the governance structure to govern how the committees should operate. For example, frequency, quorum, appointment of members, minutes, reporting, and so on;
- Formal adoption of Discovery Group policies wherever possible and bank-specific nuances documented as required;
- Development of work plans for each Executive Management Committee, aligned to the Board sub-committee work plans as well as the relevant Terms of Reference.

There was also a focus to ensure interaction between Group and Bank CROs, to ensure learnings from the highly regulated Discovery Bank is aligned to the governance processes of Discovery Group.

The Bank governance structure was also revisited and updated where appropriate (see following page).

Risk management philosophy / CONTINUED

GOVERNANCE STRUCTURE

Revised · New

Discovery Bank / Discovery Bank Holdings

Board Sub-Committees
Quarterly or as per committee requirements

- Board Information Technology Committee (BITCO)
- Risk and Capital Management Committee (RCMC)
- Large Exposure Committee (LEX)
- Directors Affairs Committee (DAC)
- Remuneration Committee (REMCO) – Incorporating matters pertaining to People and Transformation
- Audit and Compliance Committee (ACC)
- Management Committee (ManCo)

Executive Management Committees
Aligned to Board Sub-committees

Bank Executive Management Committee – Monthly and Weekly (where required)

- Information Technology Committee (ITCO)
- Asset and Liability Committee (ALCO)
- Credit Risk Review Committee (CRRC)
- Regulatory Affairs Committee
- Marketing and Distribution Committee
- Product and Research & Development Committee

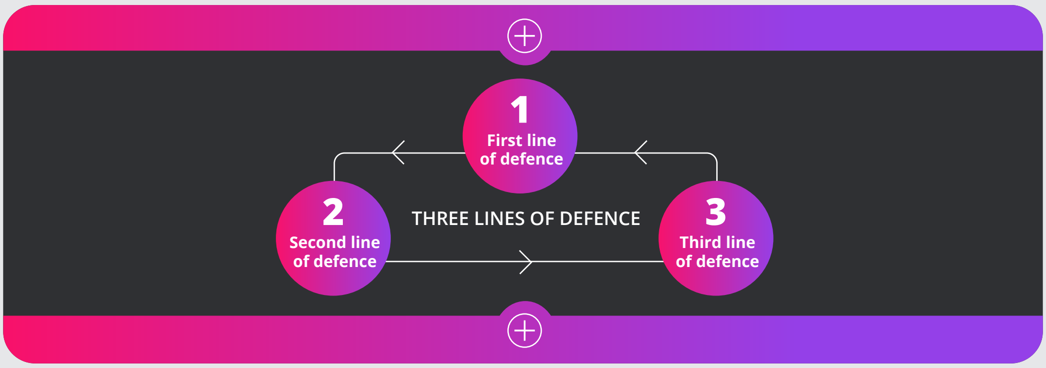
Enterprise Risk Committee

Management Steerco's, Working Groups, Forums and Execution Committees
Weekly/Monthly

- Architecture Review Committee
- IT OPS Committee
- Security Committee
- PCS Committee
- Monetary Policy Committee
- Model risk Management Committee
- Impairments Sign-off Committee
- RDARR Data Governance Committee
- Fraud Committee
- BC & DR Committee
- Combine Assurance Forum
- Operational Risk Co. ORCO *
- Employment Equity Forum
- Market Conduct Committee
- Financial Crime Committee
- BA Regulatory Reporting Committee
- Design Authority

SERVICE AND OPERATIONS

IMPLEMENTATION



Level 1 Policies	Level 2 Standards	Level 3 Procedural documents
Credit Risk Policy Provisioning Policy Capital Framework Policy Model Risk Policy	Credit risk standard RWA computation standard Provisioning standard Model Validation standard	

Underpinned by

- Systems, data and infrastructure
- Risk management
Human resources
- Risks, culture and values

Channels to communicate risks

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

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

1

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

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

2

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

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

3

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

- Bank internal audit performs an assessment of 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 Discovery Bank.

Combined assurance

Discovery Bank has created a combined assurance framework to better achieve cohesion across the different assurance functions. The purpose of the Combined Assurance approach is not to alter the mandates of the assurance providers but rather to coordinate the efforts of assurance providers in an integrated assurance approach to ensure that material risks are addressed efficiently with the mandate thereby ensuring that all key risks have controls that are being managed by the different risk areas.

Within the three lines of defence, Discovery Bank has an independent Internal Audit, Risk Management and Compliance functions which, while independent, provide combined assurance in a coordinated approach through:

- Aligning risk management activities with assurance activities.
- Providing the basis for identifying any areas of potential assurance gaps and duplication of efforts within the Combined Assurance Framework.
- Ensuring an adequate and effective risk control environment that is aligned with risk appetite and ensuring the integrity of risk-related reports to inform better decision-making.

The organisational strategy is core and serves as the basis for the identification and formulation of objectives as part of the drive to implement the strategy. To manage risk within acceptable levels, controls associated with the risks are used and modified.

The Combined Assurance Forum has identified key material impact risks from non-combined assurance stakeholders in ensuring a holistic Combined Assurance approach.

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

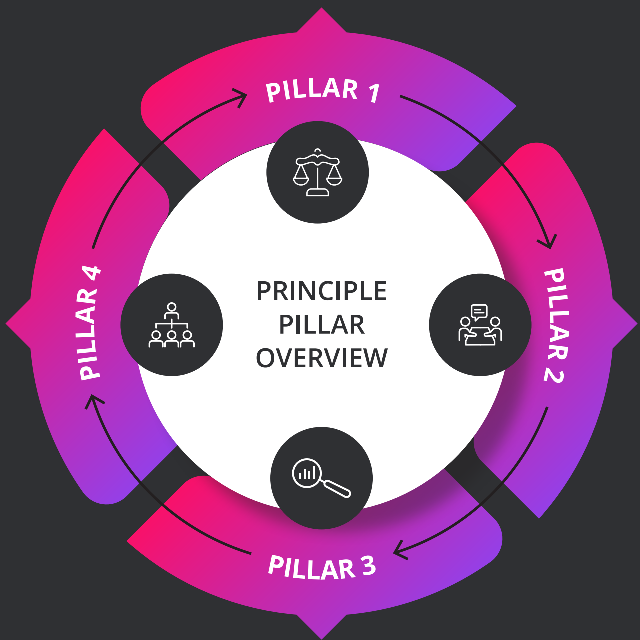
BCBS 239: Principles for Effective Risk Data Aggregation and Risk Reporting was issued in January 2013 and has been incorporated into local bank regulations through Directive 2/2015, which requires all banks to comply with the principles.

Discovery Bank has concluded its RDARR journey and is RDARR compliant as required.

Overarching governance & infrastructure

Build strong governance arrangements consistent with other principles and guidance established by the Basel Committee

The design, build and maintenance of data architecture and IT infrastructure must be in line with RDARR practices



Risk data aggregation capabilities

Generating accurate and reliable risk data to meet normal and stress or crisis reporting

Generating aggregate and up-to-date risk data in a timely manner while meeting a broad range of on-demand, *ad hoc* risk management reporting requests

Supervisory review

Supervisory review, tools and cooperation

Risk reporting practices

Risk management reports must accurately and precisely convey aggregated risk data. Reports need to be reconciled and validated

Reports must communicate information in a clear and concise manner

Compliance with these principles demonstrates that Discovery Bank is fully compliant and that business areas continue to be fully compliant.

Fully compliant | Largely compliant | Materially non-compliant | Not implemented

RDARR Capabilities and Practices

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

Risk appetite

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

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

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

Key risks

Strategic risk

Strategic risk refers to the risk inherent in the chosen strategy of the bank and the possibility that the strategy may not result in the desired or planned outcome. In context of Discovery Bank, the strategy encompasses growth optimisation, 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, poor business decisions, substandard execution of decisions, or inadequate resource allocation. Although Discovery Bank is a relatively new entrant to the market with a unique strategy, the period since inception to date, has demonstrated the efficacy of the shared value model, manifesting through the Vitality Money construct.

Business risk

Business risk refers to the risk caused by uncertainty in the ability of the business to generate sufficient returns given the current challenging economic environment in which the bank operates. It is the risk that the bank faces due to fluctuations in earnings, readily observable and driven mainly by volumes, margins and fees. In an 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 and client activity.

- **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 are also key.

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

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

Risk management philosophy / CONTINUED

Model risk

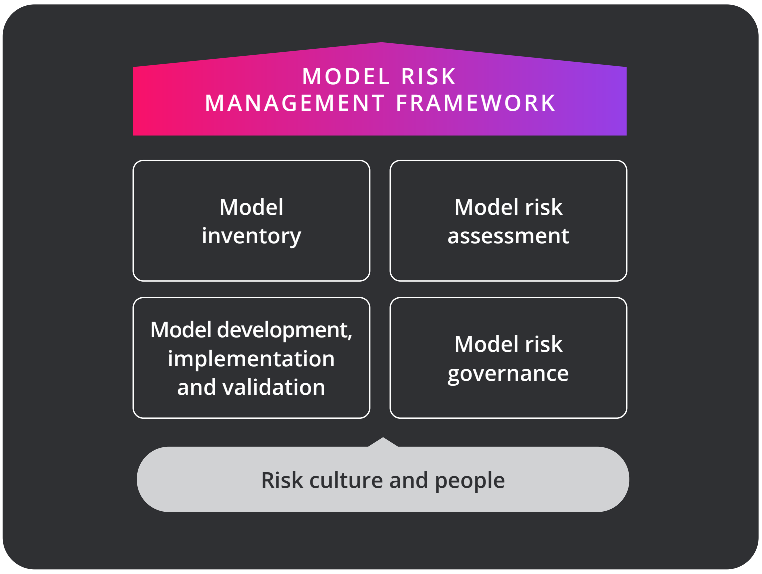
Discovery Bank ensures that all models conform to the bank-wide model risk governance process. This includes risk rating the various models in terms of materiality and complexity and thereby establishing the associated validation efforts required.

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

All three lines of defence have a role to play in MRM, and a clear delineation of responsibilities is articulated for each control activity throughout the lifecycle of the model, from origination to retirement. The design of this framework endorses an 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 an assessment of the complexity and materiality of the models being used.

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



Our model inventory is updated regularly with the relevant model risk ratings for the bank. The current focus is on the constant refresh of the model inventory while working through the models that need full validation.

Reputational risk

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

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

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

The typical sources of reputational risk are related to:

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

Discovery Bank has a low tolerance for reputational risk. Discovery Bank adheres to best practices in providing quality services to clients. Client grievances, another causal factor of reputational risk, are addressed in a timely and effective manner. Discovery Bank monitors both social media channels and traditional media to track any complaints against the brand. Client feedback is monitored through the client contact centre on a real-time basis, with clear escalation processes in place should first call resolution not materialise. Discovery Bank aims to remain a client-focused, fair, and transparent business that delivers a world-class product to clients. If any reputational event occurs, it will be investigated, and the results thereof, as well as the proposed response plan, will be reported to the Enterprise Risk Committee (ERCO).

Operational risk

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

THE VARIOUS BUSINESS ACTIVITIES THAT ARE UNDERTAKEN BY DISCOVERY BANK EXPOSE THE ORGANISATION TO NUMEROUS TYPES OF OPERATIONAL RISK

Operational risk includes:

Fraud (incl. internal fraud; external fraud)
The risk of financial crime and unlawful conduct impacting on the Bank.

Employee practices and workplace safety
Losses arising from acts inconsistent with employment, health or safety laws or agreements, from payment of personal injury claims, or from diversity/ discrimination events.

Clients, products, and business practices
Risk of losses arising from unintentional or negligent failures to meet professional obligations to specific clients (including fiduciary and suitability requirements), or from the nature or design of products.

Execution, delivery, and process management
The risk to organisation's service provision arising from a failure to carry out operational processes in an accurate, timely and complete manner.

It is the Bank's objective to minimize all losses or reputational damage that may arise from these operational risk types. To achieve this objective, the Bank has in place a robust set of processes that enables it to identify operational risks and mitigate potential losses. Operational risk is managed through the 3 lines of Defense model.

Technology Risk Includes:

Business resilience (incl. damage to physical assets; business disruption and systems failure)
The risk that the Bank will be unable to anticipate, prepare for, and respond and adapt to incremental change and sudden disruptions to survive and prosper.

Information technology (incl. cyber security; information technology)
Risk associated with the use, ownership, operation, involvement, influence, adoption, and development of technology within the Bank. It consists of technology-related events and conditions that could potentially impact the business.

Information security
Risk of accidental or intentional unauthorised use, modification, disclosure, or destruction of information resources, which would compromise the confidentiality, integrity or availability of information assets and personal information.

Fraud risk strategy aims to develop effective mitigation controls that will protect the bank from the risks of fraud. Therefore, specific focus was placed on fraud strategies that succeed in comprehensive fraud prevention and detection while balancing a frictionless client experience.

THE STRATEGY AIMS TO DEVELOP EFFECTIVE MITIGATION CONTROLS THAT WILL PROTECT THE BANK AND OUR STAKEHOLDERS FROM THE RISKS OF FRAUD.

Objective

To prevent, detect and respond appropriately to fraud threats, through timely remedial action.

To identify client activities that could give rise to risk with the aim of achieving a frictionless experience and prevent fraud through the support of frameworks, policies, operating protocol and fraud prevention tools.

Protect all stakeholders and minimise the impact from any compromise, intentionally or unintentionally, in real time.

Ecosystem	Fraud Strategy, Frameworks, Policy and Processes	▪ Management of fraud risk appetite measures ▪ Policies (Internal anti-fraud culture measures and controls i.e. financial crime risk management & anti-fraud policies) ▪ Standards & Procedures – protocol
Governance	Fraud Oversight through the Enterprise Risk – Fraud Governance Committees	▪ Regular Fraud Risk Committee ▪ Monthly Industry Fraud Committees and Working Groups: SABRIC, PASA, SAFPS ▪ VISA monthly fraud insights sharing
Anticipate	Fraud Trends, Fraud rule environment Optimisation	▪ Weekly fraud rule performance assessment measuring rule effectiveness ▪ Global and local trend analysis (Bank and industry data) ▪ Projects and initiatives to support the fraud strategy
Prevent	Fraud Systems & Tools	▪ Fraud Engine VISA, Actimize, SAFPS ▪ Advanced fraud data analytics ▪ Adhoc fraud trend and case investigations
Respond & Recover	Fraud Operations	▪ Client satisfaction and data Management ▪ Management of quality within acceptable levels ▪ Real-time fraud response and client support ▪ Fraud resolution rates and loss management
Resilience	Fraud Awareness – stakeholders, clients and staff	▪ Monthly newsletter and adhoc fraud and security awareness campaigns ▪ Dedicated fraud notification through the Banking App

Due to the digital nature of the Discovery Bank's offering, the necessity to accept some level of security risk has been recognised. However, tolerance for security risk is low and the bank ensures that through robust vulnerability scanning and continuous updates, security risk is minimised. We continually aim to ensure that the security risk is minimised by proactively managing the following three key risks:

THREE KEY RISKS

Ensure no environments remain unmanaged

Protect the Bank against unwanted visitors

Ensure we remain robust to protect against any unknown attacks

Securing the perimeter	Securing the endpoints	Managing the keys	Detecting the intruders	Keeping our eyes on the glass
Firewalls settings	Anti-virus	User account management	Phishing mitigation	24x7 monitoring
VPN access	Patching levels	Privilege access management	Endpoint detection and response	SOC operations
Internet content filtering	Data loss prevention	2nd Factor authentication for critical patches	Threat detection platforms	
DDOS Mitigation	Endpoint encryption	Password vault	Security operations center (SOC) rules (business and technical)	
Network access control	Vulnerability scanning			

Cyber Risk

External threat levels

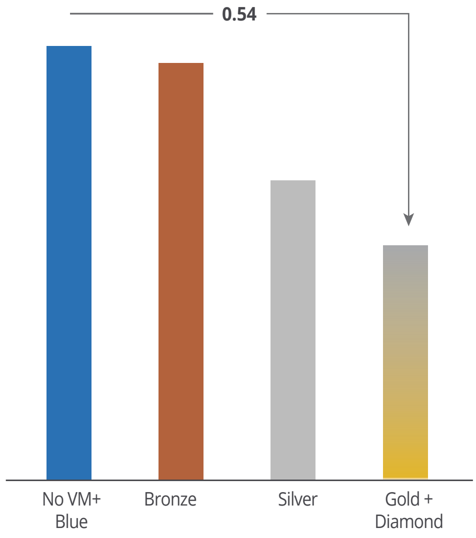
Vulnerability scan coverage

Regulatory risk

Discovery Bank conducts its business activities within a highly regulated environment and has zero tolerance for regulatory risk. Implementation and enforcement of the Protection of Personal Information Act (POPIA) throughout the organisation and across different data platforms was successful. All regulatory risk reports that are in line with the Bank's Act (BA) are system-generated by design and, in addition, have various checks and balances with appropriate levels of sign-off in place to ensure accurate and timely submissions. All regulatory ratios continue to meet all regulatory requirements.

Regulatory compliance and financial crime are both tracked and reported to the Audit and Compliance Committee (ACC) and have remained within risk appetite for the period under review.

Lapse rate by Vitality Money (VM) status
(Indexed to No VM + Blue)



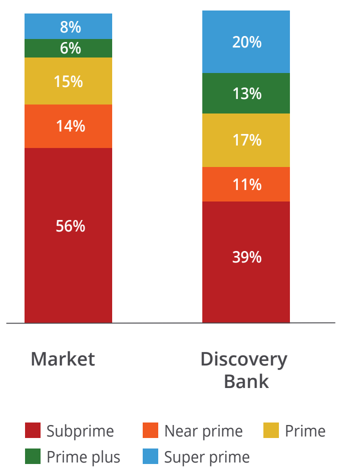
Credit risk

Discovery Bank's deliberate approach is to pursue a prudent, quality-focused credit strategy. Year on year, the credit loss ratio increased by 1.71% to 3.23% as a result of increased defaults in line with market experience. Nonetheless, the credit loss ratio ended the financial reporting period within risk appetite. The Bank's portfolio still shows superior credit quality compared to the other players in the retail credit card market.

The Vitality Money status shows how financially healthy clients are less likely to default as per our share model assumptions, especially the Diamond status cohort.

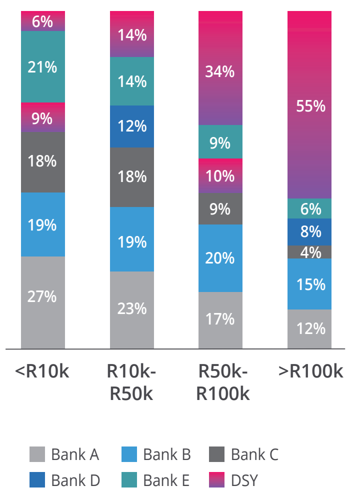
Market share by risk tier

New credit card volumes by risk tier (Discovery vs. top 5 Banks: Jan 22-Mar 23)

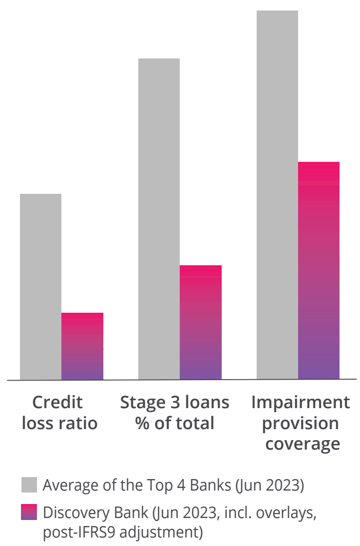


Market share by monthly income

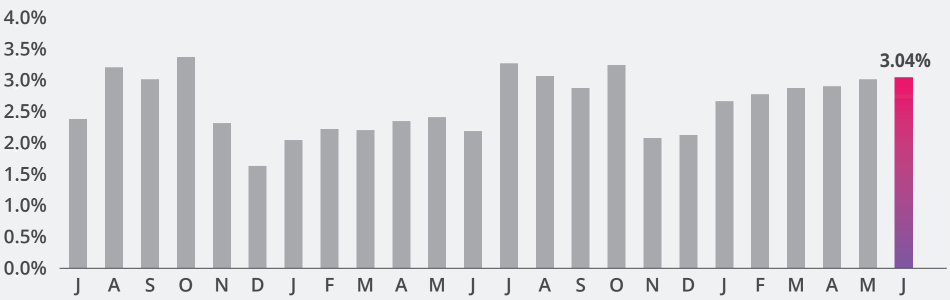
New credit card volumes by monthly income (Discovery vs. top 5 Banks: Jan 22-Mar 23)



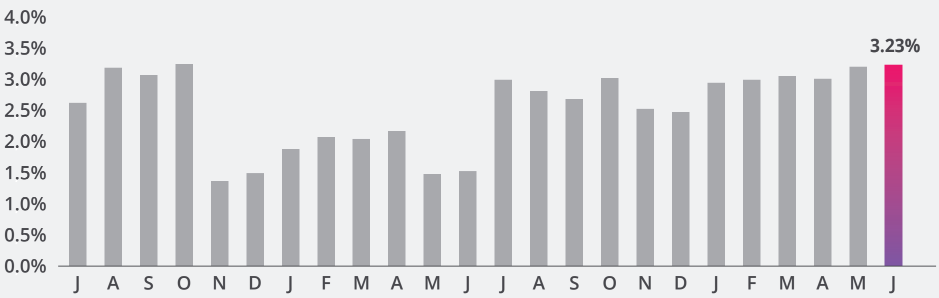
Market-beating credit metrics



Credit loss ratio (including overlays, pre-IFRS adjustments)



Credit loss ratio (excluding overlays, pre-IFRS adjustments)



The aggressive interest rate hike cycle, coupled with elevated inflation and extreme levels of loadshedding, has placed some strain on the economy and some of our clients within our credit portfolio. This is evident from the increase in arrears and default rates experienced, particularly during FY23 H2. High levels of inflation, interest rates, and debt service ratios, which are proven to correlate with Discovery Bank's default experience, are anticipated to remain relevant for the next 12 to 18 months[9].

Considering default experience lags interest rate increases, and should interest rates not decline in the foreseeable future, the Bank is conservatively provided for consequential higher future credit losses.

9 The Bureau of Economic Research (BER) provides Discovery Bank with a macroeconomic forecast on a quarterly basis.

IFRS 9

Discovery Bank calculates all impairments and credit losses based on the International Financial Reporting Standards (IFRS) approach.

The current local and global economic climate poses a risk of increased credit losses in the foreseeable future – over and above the expected losses estimated by Discovery Bank's IFRS 9 models. A macroeconomic overlay credit impairment provision is raised as a measure of prudence by applying a probability of default stress, informed by the Bank's macroeconomic model, to the retail credit portfolio. The quantum of the macroeconomic overlay is reviewed on a quarterly basis when updated macroeconomic outlook information is received from the Bureau for Economic Research (BER).

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

- **Past-due loans:** The unsecured portion of any loan (other than a qualifying residential mortgage loan) that is past due for more than 90 days, net of specific provisions, is to be included in this category.
- **Default or credit-impaired:** Default is defined on a facility level and considers both quantitative and qualitative factors as provided in the Basel Capital Framework. The qualitative criteria require banks to identify credit deterioration before the exposure becomes delinquent, considering "unlikeliness to pay" events, while the quantitative criteria require banks to look at the material delinquency status. Regulation 67 of the Bank's Act defines default as constituting both qualitative and quantitative components. Discovery Bank is guided by this definition and considers the various factors as outlined below:

Qualitative:

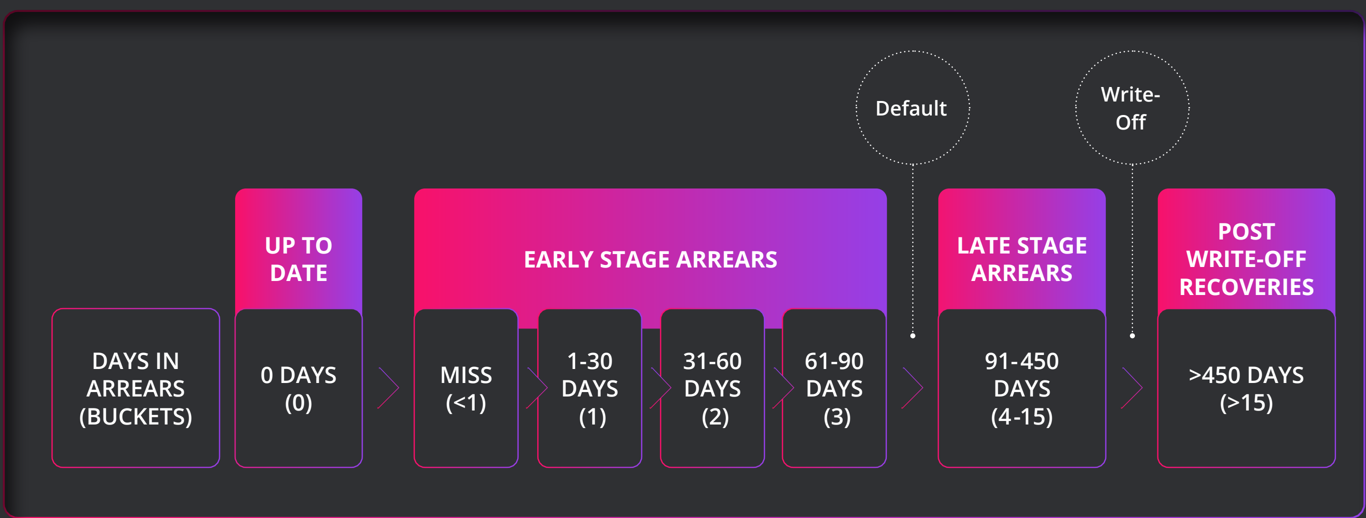
- The borrower is placed in debt counselling or debt review
- The borrower is deceased
- The facility has undergone a distressed restructure or special arrangement
- The facility has been transferred to 'charge off' or legal status
- The borrower is under debt review
- The borrower is insolvent
- The 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, or key indicators are established against which all activity is tracked and measured. This ensures alignment with achieving the business strategy while simultaneously managing the risks taken to do so. Credit risk is an integral part of this risk appetite construct, approved by the Discovery Bank Board. Credit risk is actively managed, all exposure and loss tolerance is monitored, thereby mitigating adverse 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, or both, occurs either monthly or quarterly.

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



Risk management philosophy / CONTINUED

Summary of exposures by industry

Exposure and expected credit loss as at 30 June 2023

Industry/Sector	Exposure	Expected Credit Loss
Private households with employed persons*	5 113 799 039	469 074 441
Financial intermediation, except insurance and pension funding**	7 626 868 863	5 393
Total	**12 740 667 903**	**469 079 834**

* *Retail exposure.*

** *Includes exposures to the sovereign and banks in South Africa (interbank loans, government bonds and treasury bills) and bank exposure in Singapore and the UK (collateral placements and Nostro accounts)*

Summary of exposures by geographical areas

Exposure and expected credit loss as at 30 June 2023

Region Name	Exposure	Expected Credit Loss
South Africa	**12 421 312 697**	**469 079 729**
Eastern Cape	139 869 599	14 221 772
Free State	69 654 324	8 048 764
Gauteng*	10 257 995 086	267 208 381
KwaZulu-Natal	547 316 848	57 769 575
Limpopo	59 512 177	7 889 967
Mpumalanga	95 342 408	12 926 161
Northern Cape	20 577 673	2 498 600
Northwest	81 136 021	9 568 582
Western Cape	1 149 876 947	88 938 013
Unknown	31 614	9 913
Singapore**	72 165 297	24
UK**	**247 189 908**	**81**
Total	**12 740 667 903**	**469 079 834**

* *Includes corporate exposures in South Africa (Interbank Loans, Bonds, Debentures and Treasury Bills)*

** *Bank exposure in Singapore (collateral placements)*

****Bank exposure in UK*

Ageing analysis

Arrears Status	Exposure	Expected Credit Loss
CURRENT*	12 437 033 761	239 941 717
1 – 29	44 192 273	22 291 268
30 – 59	32 368 427	17 350 022
60 – 89	26 141 438	20 765 945
>=90	200 932 004	168 730 883
Total	**12 740 667 903**	**469 079 834**

* *Includes exposures in South Africa (interbank loans, (bonds and treasury bills with no ECL on sovereign debt) and a collateral placement exposure in Singapore.*

Discovery Bank had granted some restructures under Directive 3 of 2020 as part of the COVID-19 relief strategy, which are now being treated as distressed restructures under Directive 7 of 2015. The remainder of the restructures reported are related to exposures under debt review.

Total restructure values*

Arrears Status	Exposure	Expected Credit Loss
Restructured loans	**84 939 647**	**73 216 125**

* *Restructured loans are all impaired and classified as Stage 3/non performing loans.*

Market risk in the banking book

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

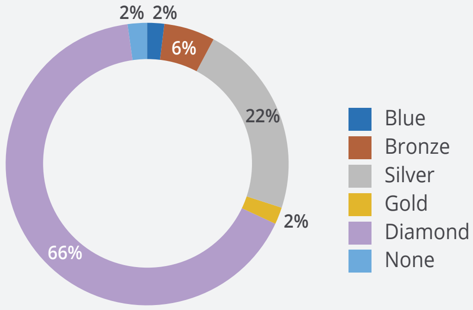
As a retail-focused bank, Discovery Bank has a limited appetite for market risk, and as such, there are no proprietary trading positions or transactions involving outright speculation. However, in providing its core services and products, the Bank assumes some market risk that is quantified, monitored and hedged.

Discovery Bank launched its multicurrency forex account at the start of 2022, and this product has grown by more than 160% year on year. This includes the ability to convert between currencies, make forex payments or remittances, accept receipts, and hold balances in multicurrency accounts. The Bank's Treasury manages a flow book, acting as a liquidity provider for the client's forex activity described above. The intention is not to trade or enter proprietary or speculative positions. Net Open Position limits have been set and are managed and monitored actively.

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 materialised with the launch of the forex multicurrency account and is actively managed daily, within approved limits. The limits are designed to facilitate client activity solely and are not for proprietary position-taking. The different currencies are also monitored to track materiality as per BA 330 requirements. Currently, our major currencies are well below the 5% materiality threshold. In addition to this, to facilitate offshore card transactions by our clients in foreign currencies, Visa has a requirement that Discovery Bank place foreign currency-denominated collateral in its favour with a designated and highly rated international bank and be closely monitored within appropriate risk appetite limits.

Currency risks



Interest Rate Risk in the Banking Book

The nature of Discovery Bank's activities gives rise to continuous exposure to interest rate risk. Interest Rate Risk in the Banking Book (IRRBB) is the potential for financial loss because of the bank's exposure to adverse movements in interest rates on both its net interest income (earnings) and the economic value of equity. IRRBB is measured and managed through both internal and regulatory lenses.

- Banking regulations (BA 330 returns) monthly submissions and the exposure of both earnings (NII) and value (EVE) to interest rates are calculated.
- Internal view includes stresses and scenarios tailored to the structure of our balance sheet and may contain different sets of interest rate perturbations.
- Economic and interest rate scenarios are currently based on forecasts by the Bureau for Economic Research.

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).*

- **Risk to parallel shifts** is measured looking at impacts on both NII and EVE and managed within risk appetite limits.
- **Risk to non-parallel shifts** has increased since purchasing longer-dated bonds. However, the exposure in the long-end is limited and does not extend beyond 10 years (meaning limited exposure to the long end of the yield curve).

2

Basis risk: *Arises from changes of interest rates for instruments that have similar tenors but are repriced using different rate indices (specifically prime or repo rate vs JIBAR).* The wholesale liabilities of Discovery Bank are linked to the JIBAR rate, while the retail assets are linked to the prime rate. With the repayment of some wholesale money, the risk is insignificant, but the current gap between these two floating rates is measured (on both a value and earnings basis), monitored, and managed accordingly.

3

Embedded options risk:

Optionality can be broken down into two sub-types:

- *Automatic option risk arising from standalone instruments, such as exchange-traded and over-the-counter option contracts, or explicitly embedded within the contractual terms of an otherwise standard financial instruments, and where the holder will almost certainly exercise the option if it is in their financial interest to do so, and*
- *Behavioural option risk arising from flexibility embedded implicitly or within the terms of financial contracts, such that changes in interest rates may effect a change in the behaviour of the client (for example, the rights of a borrower to repay a loan, with or without penalty, or the rights of a depositor to withdraw their balance in search of a higher yield).*[10]

Currently, Discovery Bank has limited optionality within our current environment, as our product offering consists of only retail products and no standalone instruments. Discovery Bank currently does not have home loans, and our fixed deposit risk of early withdrawal is limited due to the contractual obligations that are in place. We also charge a penalty fee for early breakages, which can compensate for the loss of interest between the date of withdrawal and the economic cost of breaking the contract.

The standardised framework also considers that if the client has an option that, if exercised, will alter the timing of a bank's cash flows. Factors that might influence exercising this option can be due to changes in interest rates. Typically, Discovery Bank reviews rates weekly, and if conditions necessitate, effect interest rate adjustments, thereby ensuring the clients are not worse off with rate changes. We also track all the outflows of volatile money over time to determine if we can see an uptick in outflows.

Discovery Bank has incorporated the prescribed BCBS stress scenarios into its banking book and went live with them on 1 January 2023 in respect of BA regulatory reporting. The methodology and implementation were independently validated by an external service provider to ensure accuracy when reporting on the new BA 330 form. The form validation summary is reported below:

"We reviewed Discovery Bank's population of the new BA330 from January 2023 and February 2023 month-ends prior to submission to the PA and were comfortable for Discovery Bank to submit the BA 330."

Discovery Bank used various analytical techniques to measure interest rate sensitivity monthly on both an earnings and economic value basis. The analysis includes the application of both parallel and non-parallel interest rate shocks.

10 *Interest Rate Risk in the Banking Book Standards – April 2016*

NII Sensitivity

- Net interest income sensitivity measures the change in nominals expected over the specified horizon (up to 12M) in response to an instantaneous (parallel) shift in interest rates. The Revised Basel Standards now take into consideration different shocks for different currencies to apply in the parallel shifts, no longer a 200bps parallel shock across all currencies.
- Earnings are assuming a constant balance sheet.
- The risk and size of risk can be inferred from the static re-pricing gap.
- Earnings risk per bucket = cumulative gap × bucket length (years) in the case of a Parallel Shock (to Yield Curve) × interest rate shock (%)

EVE sensitivity

- Economic value of equity (EVE) is the net of the economic value (EV) of the bank's assets and liabilities.
- Static EV sensitivity analysis examines the impact of interest rate changes on the EV of the contract.
- The contract's projected cashflow stream is discounted to present value, using a suitable discount curve, and revaluations are performed under the assumption of an instantaneous shock to interest and forex rates and curves.
- Credit spread or margin can be included or stripped out. This needs to be communicated to the regulator.
- EVE scenarios have evolved from a 200-bps parallel shock across all currencies to a more sophisticated approach under the Revised Basel Standards taking into consideration different shocks for different currencies as well as parallel and non-parallel yield curve shocks, which the next section discusses.

The interest rate risk sensitivity analysis below illustrates how the value of Net Interest Income would be impacted by a 400-basis point (2022: 200 basis point) increase or decrease in interest rates. These new requirements were implemented on 1 January 2023 and require South African banks to apply a 400-basis point parallel interest rate shock.

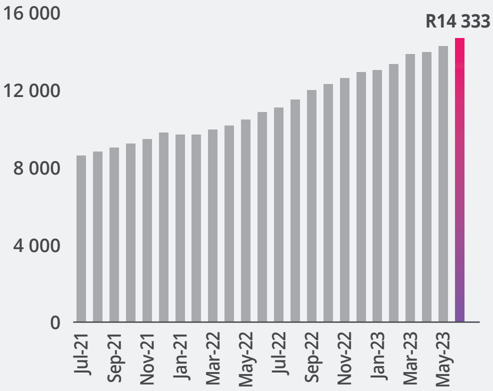
R'000	30 June 2023 4% shock	31 December 2022 2% shock
Interest rate increase	**(57 331)**	(21 145)
Interest rate decrease	**57 331**	21 145

As at June 2023 the NII sensitivity of the Discovery Bank's banking book for a 1% parallel decrease in interest rates, measured over 12 months, was 1,57% (1,57% for a 1% parallel increase in interest rates), which is well below the board's approved risk limit of < 5.5%.

Liquidity and funding risk

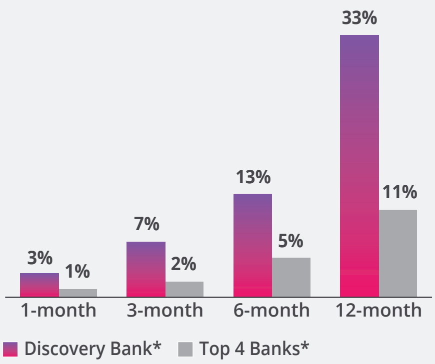
Discovery Bank continues to hold substantial liquidity surpluses amounting to R6.99 billion at the end of June 2023. Growth in the Bank's retail deposits remains solid, and the bank still holds a large net retail funding surplus of R9.162 billion, with retail deposits recorded above the R14 billion mark (2022: R10.6 billion) as at 30 June 2023. The bank's wholesale funding (NCDs) has been fully repaid as of June 2023. The bank is now fully retail-funded.

Retail deposits (R'm)



Market-leading growth in deposits

Retail deposits growth vs market



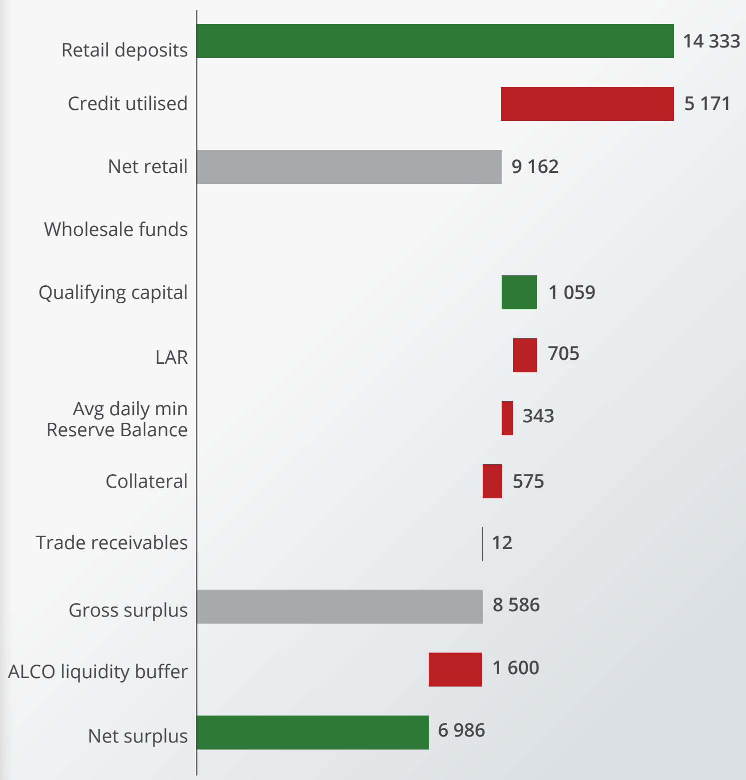
* *BA 900 reports*

Various stress tests were previously conducted, and a R2.3 billion liquidity buffer comprising of R705m regulatory High Quality Liquid Assets Reserves (HQ-LaR) and R1.6 billion internal ALCO Liquidity Buffer was approved. These two buffers equate to a 45-day survival horizon over which the bank would not require adjustments to its business model.

The combination of the ALCO liquidity buffer and net surplus indicates that the bank is still very well-funded to support its growth strategies and mitigate an extremely severe liquidity stress scenario. The waterfall represents a conservative view of the bank's surplus funds without making use of the available Liquid Asset Requirement (LaR), Average minimum daily reserve with the Reserves Bank (RES), and collateral reserves at the SARB for any funding.

The strategy remains to leverage the shared-value model to grow advances through high-quality lending and continue to attract deposits. We continue to strategically target steady growth in deposits as well as managing the cost of deposits with a deliberate maturity profile and margin-enhancing strategy. The BSM team frequently tests liquidity sensitivities by stressing different outflows on both stable and volatile deposits. The bank has excess liquidity and stable funding as measured by the LCR (2,730% at 30 June 2023) and NSFR (183% at 30 June 2023).

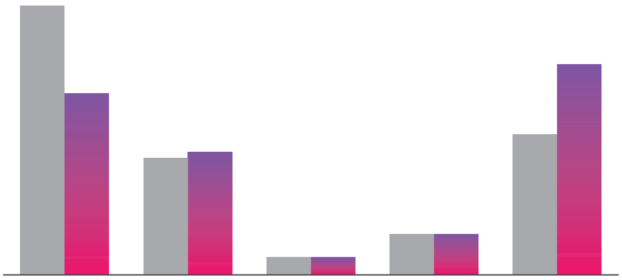
Funding position (R'm)*



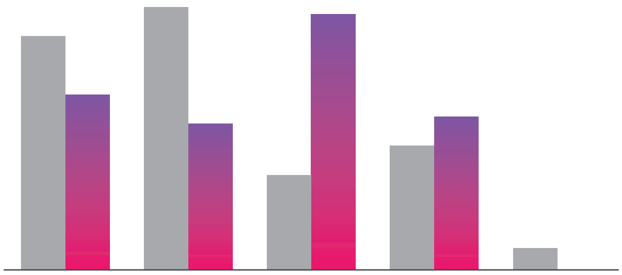
* *As at 30 June 2023.*

Discovery Bank's wholesale funds consist of high-quality liquid assets (mix of R186, R2030 and R2032 South African government bonds in a held-to-maturity portfolio), as shown below.

Treasury assets held (%)



Funding sources (%)



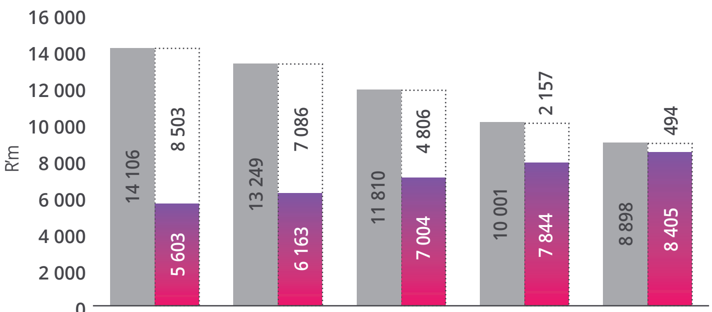
Liquidity and funding risk is governed through a robust Liquidity Risk Management Framework. The contingency funding plan is an important component in the liquidity risk management of the Bank. It describes the approach to be followed by the Bank to identify the occurrence of contingencies and the management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

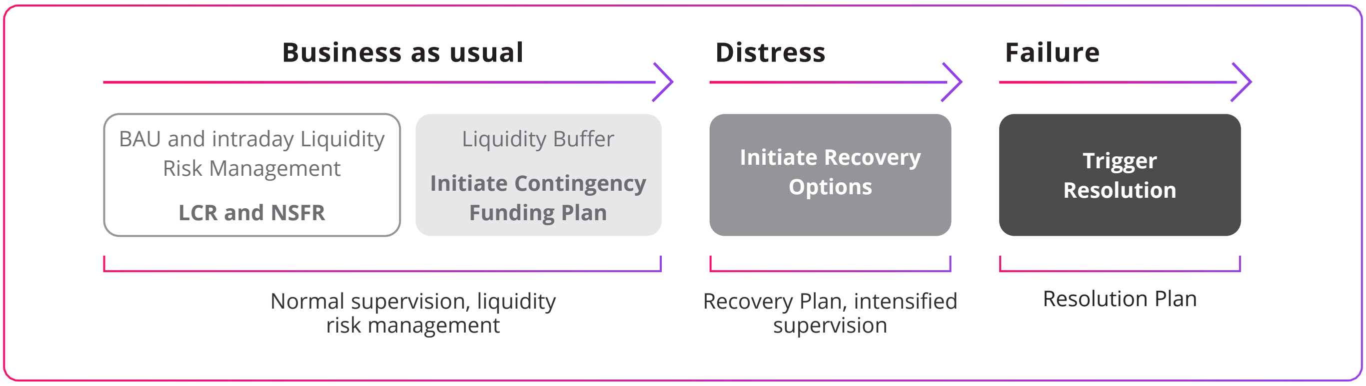
Stress-testing liquidity scenarios on balance sheet

Scenarios	Idiosyncratic	Systemic	Combined	Severe
Description	Events specific to the Bank (for example, a loss of market confidence resulting in a significant downgrade)	Stresses due to events that affect the banking sector/ economy in its entirety	Combination of the systemic and idiosyncratic scenarios	Stressing the "combination" scenario even further
Credit Card Utilisation Increase	25%	10%	40%	50%
Volatile Liabilities Outflow	-25%	-10%	-40%	-50%
Stable Liabilities Outflow	-5%	-1%	-15%	-20%

Net retail surplus by stress scenario

Liquidity stresses
(average balances)



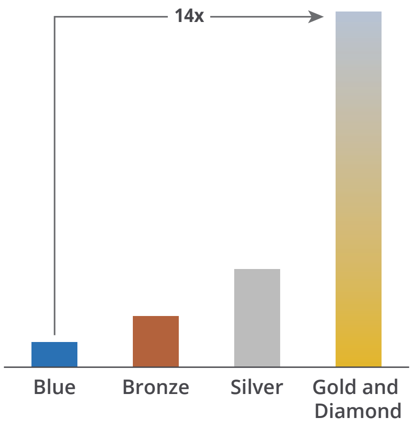


The contingency funding plan incorporates the following areas:

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

Funding and liquidity stress scenarios are currently managed in our funding and liquidity management system based on regulatory guidelines. This system collectively looks at different stress scenarios for different rate changes in the maturity of a product, and overlaying this with the Vitality Money (VM) and Vitality Health statuses to give a true reflection of the actual exposure the bank is faced with. Behavioural analysis has shown that highly engaged VM status clients (Gold and Diamond status) tend to withdraw their deposits at a slower velocity than unengaged clients, contributing to sticky money and providing funding.

Deposits by VM status
(indexed to Blue)



Capital management

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

The key principles of capital management are described below:

Principle 1: Risk and capital management

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

- **Risk identification and quantification**

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

- **Capital adequacy**

  Discovery Bank holds sufficient capital to meet the minimum regulatory capital adequacy requirements, as specified by the Prudential Authority.

Required CET1 Ratio June 23	Discovery Bank	Discovery Bank Holdings
Base minimum	8.00%	8.00%
Systemic risk add-on	1.00%	1.00%
Conservation buffer	2.50%	2.50%
Additional CET1 capital	5.32%	5.36%
Common Equity Tier 1 ratio (%)	**16.82%**	**16.86%**
Total Capital ratio (CAR)	**17.60%**	**17.65%**

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

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

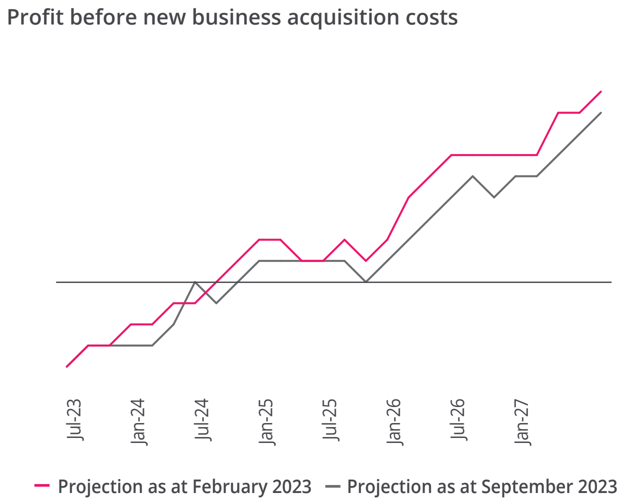
Discovery Bank also adheres to the high-level Internal Capital Adequacy Assessment Process (ICAAP) requirements as set out in Guidance Note 4/2015 issued in terms of section 6(5) of the Banks Act 94 of 1990.

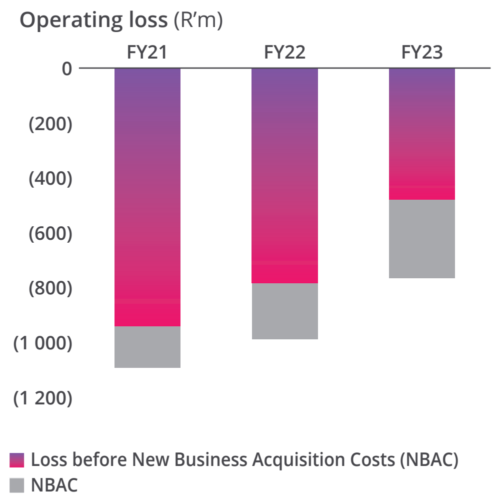
Principle 2: Capital plan and forecast

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

Principle 3: Capital raising

For the first few years following the launch of Discovery Bank, it was forecast that the bank would be unprofitable and therefore reliant on the sole shareholder as a provider of capital. Discovery Bank is approaching operational profitability, which will be followed by full profitability.





Discovery Group has agreed to support Discovery Bank's capital requirement in line with the bank's business plan. The expected capital required, as well as any additional capital required under adverse stress scenarios, has been factored into the group's ORSA (Own Risk and Solvency Assessment) and capital forecasts.

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

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

CAPITAL MANAGEMENT TEAM PROCEDURE TO OBTAIN CAPITAL FROM DISCOVERY GROUP

1. Month-end finalised
   BA 700 prepared
   Previous month capital estimate calculations compared to month-end actuals
2. Review variances from previous month's capital estimate to actual
3. Make estimations for the current month capital requirements using best available information and expectations including credit impairments expectations from the credit risk division.
   Prepare estimation of financial performance and balance sheet growth to calculate estimated capital requirements.
4. The Capital Management team meet with the Risk division and CFO to discuss expected month-end capital requirements. Make revisions if required. Agree on estimated numbers to maintain targeted capital ratio of at least 16.5% and confirm in line with pre-approved directors' resolution.
5. The CFO contacts the CEO to advise on expected capital requirements. Obtain approval to issue shareholders' resolutions. CFO advises Discovery Group Finance and Discovery Group Risk on capital requirements for the end of month. They advise Group of date to pay capital, usually two to three working days before month end, per directors' resolution.
6. Shareholders' resolutions issued.
   (Directors' resolutions are approved quarterly in advance for each month at Board meeting, providing approval for a specified range of amounts based on monthly estimation calculations)
7. On the due date, capital is paid to Discovery Bank by Discovery Group Finance.

This includes estimating the growth in retail lending considering current strategies and movements in treasury liquidity cash placement, discussing forecasted impairment numbers and any notable movers, and discussing movements in other assets and capital deductions

Principle 4: Capital quality

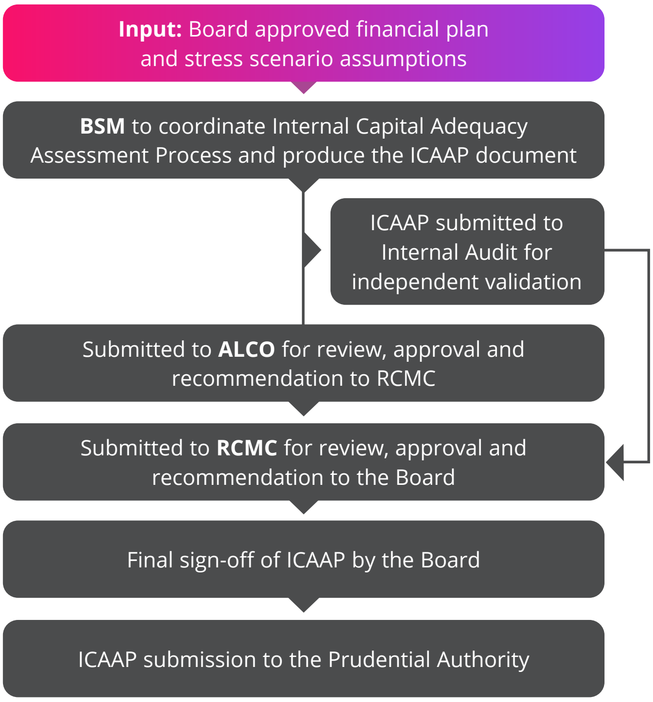
Discovery Bank maintains its capital structure such that it meets the minimum regulatory requirement with respect to the highest quality of capital, Common Equity Tier 1. The composition and structuring of the bank's capital will initially prioritise the highest quality, but in the future, it may consider the most cost-efficient and effective forms of capital where appropriate.

Principle 5: Capital buffer

Discovery Bank aims to ensure that the level of capital resources will always be in excess of the total regulatory capital requirement. In addition to the internal management buffer to cater for future unexpected growth and volatility in risk-weighted exposures, the bank also holds an estimation risk buffer.

ICAAP

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



Stress testing

Discovery Bank employs stress-testing techniques to estimate the bank's possible losses under adverse conditions and better prepare for such situations. These stresses are aligned with the size and complexity of Discovery Bank's balance sheet. Apart from considering the effects of exceptional (but plausible) events, the bank looked at various other levels of adversity (for example, by including mildly stressed scenarios) to assess its vulnerability under differing conditions. Discovery Bank's stress testing framework considers the nine revised BCBS[11] principles.

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

Stress testing enables Discovery Bank to assess the likely impact of unlikely but plausible events. The financial impact indicated by stress testing is compared with tolerance limits. Necessary remedial actions are then initiated for any breach of limits over the period. Since it is not possible to envisage all possible stress situations in advance, remedial actions are considered on a case-by-case basis commensurate with the level of perceived risk by the relevant committee. Currently, stress testing practices are aligned to the size and complexity of our book. Once the bank has a larger client base and a complex product suite, consideration will be given to more sophisticated stress testing scenarios.

Discovery Group has undertaken to support Discovery Bank's capital requirements in line with Discovery Bank's future (10-year) business plan. The expected capital required as well as any additional capital that it might potentially require under adverse stress scenarios have been incorporated into the Group's ORSA (Own Risk and Solvency Assessment) and capital and funding forecasts. The bank submits at least 20 stresses to the Group to ensure that capital planning remains sufficient and available during adverse scenarios.

The bank also does various other liquidity stresses of the book to ensure the bank remains viable even in difficult circumstances.

11 The Basel Committee on Banking Supervision Stress Testing Principles (d450), October 2018.

Recovery plan

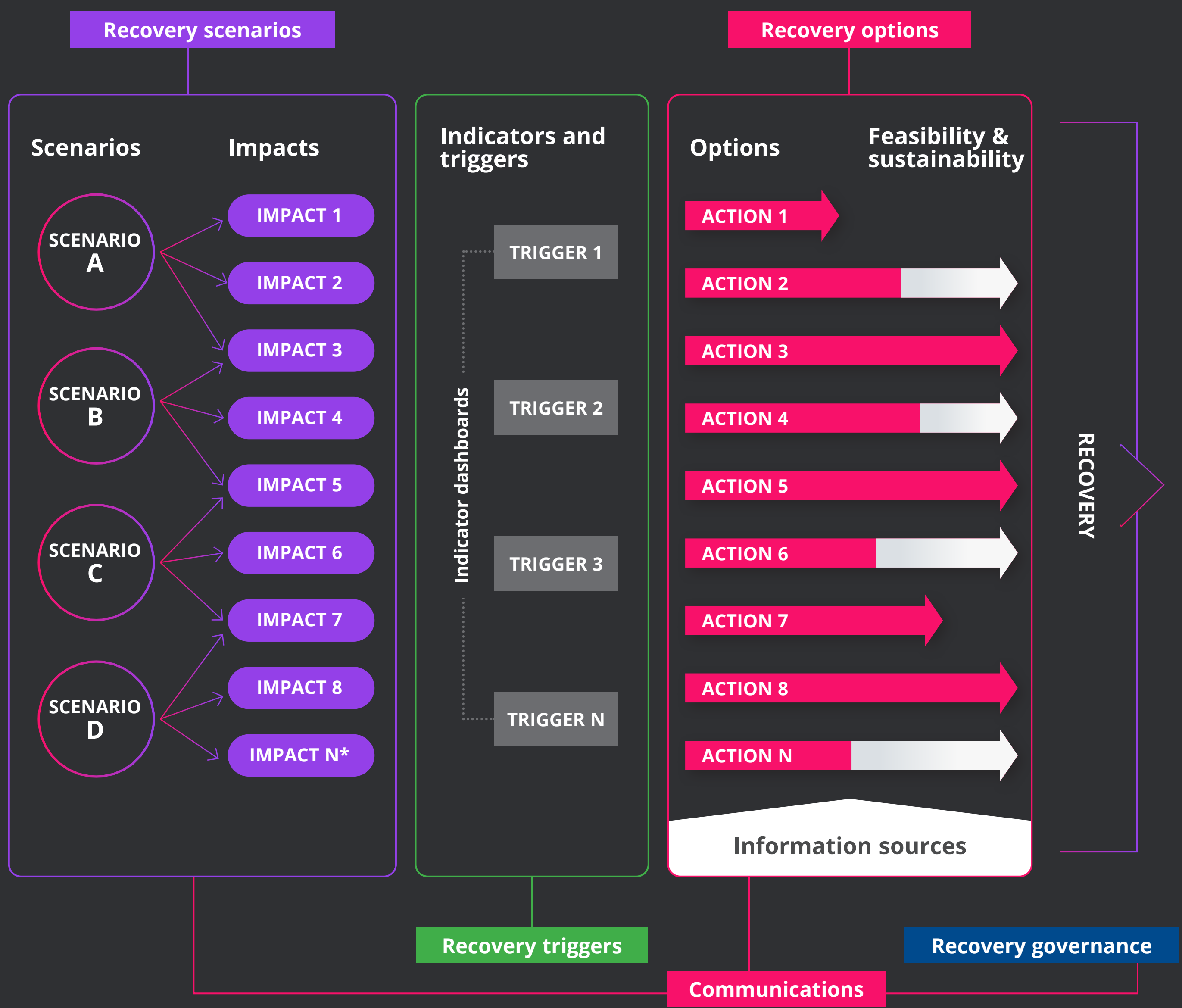
The Discovery Bank Recovery Plan (RP) serves as a valuable management and risk framework. The ultimate objective is to establish upfront actions that would be taken to ensure the continued sustainability of the bank and provide regulators with confidence that such actions will indeed achieve the same. In essence, the RP integrates management actions as described in the capital plans, and the contingency funding plan can be practically implemented. The bank's recovery plan is designed to be clear, simple, flexible, and, more importantly, viable. Discovery Bank views the RP as comprehensive and commensurate with the bank's simplicity, risk profile, and scope of operations. The bank can track, trigger, and manage the recovery of the bank but the RP will continue to be tested and will evolve as the bank advances.

The bank engaged with the Prudential Authority on 21 April 2023 to discuss the RP and the enhancements going forward.

The RP describes the approach to be followed by the bank to:

1. Identify the occurrence of stressed events.
2. The management of liquidity and capital risk during a range of stress events.
3. Identify an operational risk event that can lead to the collapse of the bank.

The bank uses the schematic when considering risk events as well as the actions associated with mitigating these risks.



Risk management philosophy / CONTINUED

Climate-related risk management

Oversight of climate change-related strategy, developments, and risks is held at the Group Board level and is more specifically championed by the Group Chief Executive. The Board of Directors has entrusted responsibility to three board committees, which manage information and make decisions related to climate change. The Risk and Compliance Committee of the Board provides oversight of the management of climate-related risks and opportunities and relevant disclosures. It is supported by the Group Chief Risk Officer, who is responsible for ensuring that risk management policies and frameworks adequately allow for climate-related risks, that they are monitored and managed at a business and Group level, and that they are included in regulatory reporting. The Social and Ethics Committee of the Board reviews performance against the Group Climate Change Strategy and specific climate-related metrics, such as energy, water, waste, and climate change programmes, and the implementation of targets and action plans. The Remuneration Committee of the Board provides oversight for the Group scorecard, which includes both financial and sustainability performance measures that link back to executive remuneration.

Discovery has a well-established and mature Enterprise Risk Management (ERM) framework in place that details the appropriate principles and processes to manage risk within the business. The process followed to identify, assess, and respond to climate-related risks and opportunities follows the process outlined in the ERM Framework, as for any other risk. The Discovery ERM Policy and ERM Framework set out the principles to use when identifying, assessing, treating, reporting, and monitoring risk exposures. The other relevant policies and frameworks include the risk appetite statements, risk taxonomy and focused policies such as the Responsible Investment Policy. The other risk tools used to identify, assess and respond include: top-down risk assessments, bottom-up risk assessments, environmental scanning and surveillance, key risk indicators, risk and assurance reviews, incident management, operational resilience assessments, and recovery and resolution plans (currently in place for Discovery Bank as per regulatory requirements). Overall, these adequately allow for the principles needed to identify, assess, and respond to climate-related risks.

The Second Line Risk Management Function within Discovery Group has conducted a formal risk assessment, aligning with the recommendations set out by the Task Force on Climate-related Financial Disclosures (TCFD). The results of this assessment have been used to formulate the Discovery Climate Change Strategy. It has also formed the basis for the risk disclosures and is updated regularly as initiatives within the organisation have taken place or the subject matter is better understood and policy requirements are developed and communicated within the industry.

03

Remuneration

Remuneration

Material risk takers:

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 Executive Directors of Discovery Bank.

Senior management:

Discovery Bank defines senior management as the CEO's direct reports who are members of the Executive committee, excluding the Executive Directors of Discovery Bank.

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

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

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

Remuneration principles

- To succeed, we must have talented people in the right roles and 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 that 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 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 may be designed for start-ups (to encourage an entrepreneurial mindset) and retention.
- Our remuneration policy empowers managers to make educated and defensible pay decisions.
- All reward policies and practices are governed by the Director Affairs Committee (DAC), a committee of the Discovery Bank Board that incorporates the Bank Remuneration Committee, with support from the Discovery External and Internal Remuneration Committees (D-ERC and D-IRC). From 1 July 2023, all remuneration matters will be governed by the Bank Remuneration Committee, a newly formed committee of the Board.
- We will align with Discovery Group on remuneration matters, except where there is a justifiable reason for taking a different approach.
- We have no contractual commitments to provide any payment to the executives due to change of control or termination of employment, beyond compliance with the applicable statutory requirements, and any amounts due in terms of the applicable conditions of Discovery's share plan.
- The remuneration of heads of control functions will not be predominantly linked to the financial performance of the bank and will be consistent with the long-term strategy and the financial soundness of the bank.

Remuneration governance

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

The purpose of the DAC is to consider, agree on, 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, long-term business strategy, risk appetite and organisational values. The key responsibilities of the DAC are to:

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

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

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

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

- RemChannel – used for external market benchmarks on an ongoing basis.
- Bowman Gilfillan – used for benchmarking Director and Executive remuneration and to advise on scheme design.

Total value proposition

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

Value proposition categories

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

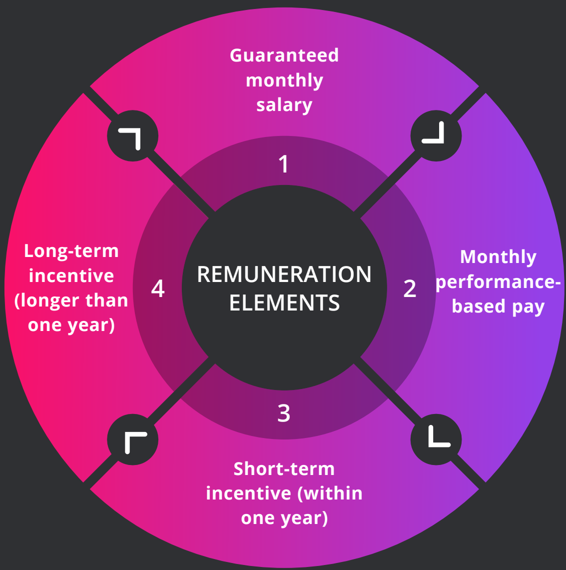
The mix of the financial pay elements is linked to the organisational level, with the proportion of variable pay and pay at risk increasing at more senior levels.

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

Remuneration / CONTINUED

Remuneration elements

THE REMUNERATION POLICY COVERS FOUR REMUNERATION ELEMENTS, ALTHOUGH NOT ALL EMPLOYEES PARTICIPATE IN ALL ELEMENTS



1 Guaranteed monthly salary

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

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

Employees select:

- The Discovery medical aid plan that best suits them (Discovery membership is compulsory for all employees unless they are a dependent on their spouse's scheme).
- Their contribution level to the provident fund, ranging from 7.5% to 22.5% of their guaranteed package or base pay. However, their compulsory pension fund contribution is set at 5%.
- The structure of their provident fund portfolio, with a choice of conservative, moderate and aggressive funds.
- Employees who work in sales environments typically receive a variable monthly remuneration linked directly to their sales productivity relative to target. The expected monthly salary or "deemed salary" is used as the basis to calculate benefits.

Discovery engages the services of independent external service providers to benchmark salaries paid to employees against salaries paid by other financial services companies in South Africa. Benchmarking exercises are completed at least annually to keep track of market movements, and these consider factors such as industry, company size (revenue, profit, number of employees), and availability of skills. Discovery does not differentiate pay on arbitrary grounds and strives to ensure that employment processes do not result in unfair pay differentials.

Discovery targets the market-median guaranteed pay level per role. However, guaranteed pay can be:

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

Annual salary review process

The annual salary review process provides an opportunity to adjust salaries in line with the market and takes place between April and June each year, with salary increases effective from 1 July. The Discovery Group Remuneration Committee (D-ERC) recommends the overall percentage increase to the salary bill, taking into account benchmarking to understand market trends, particularly scarce and critical skills, changes to the national cost of living, and business performance and affordability. Performance is primarily rewarded through incentive structures, not through the salary increase process. An employee must be employed for a minimum of three months to be part of the review process, and any increase may be moderated for length of service and time in the role. This three-month exclusion may not apply in certain instances.

The DAC approves 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
- Achieving a higher qualification for certain critical skills
- Promotion to a higher level
- Equity considerations to correct unjustifiable income differentials
- Increased responsibilities
- Retention of key individuals.

2 Monthly performance-based pay

'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. Discovery offers competitive guaranteed rewards (at the market median), with opportunities in many roles to earn additional variable pay-for-performance incentives that lead to above-market median total rewards for top performers.

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

- Guaranteed monthly salary
- Performance-based pay.

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

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

3 Short-term incentive (STI) schemes

Short-term incentive schemes are designed to encourage and reward performance at every level. Different business areas run different schemes based on business priorities, and, therefore, scheme structures (pay-out percentages, pay periods, and calculations) vary by scheme. Typically, short-term schemes span six to 12 months. To receive payment, an employee must have been employed for a minimum of three months in the period and still be working at Discovery 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, bank, or group level.

- At staff and team-leader levels, payments may be bi-annually or annually, depending on the scheme. Measures are set by management and aligned with business goals and continuous improvement.
- At manager, divisional manager and equivalent specialist levels, employees participate in the bi-annual management incentive scheme, which considers both personal and business performance against objectives and pays a cash award (STI) on a bi-annual basis.
- Based on talent retention considerations, some managers and divisional managers may receive a deferred award (LTI).

4 Single incentive plan (SIP): Implemented from the financial year 2022

In FY22, Discovery replaced the old STI and LTI schemes with the Single Incentive Plan (SIP) for deputy general manager and above levels. The scheme rewards the delivery of key financial and non-financial objectives consistent with the Discovery Group and Bank strategy, measured over the short and long term. The SIP pays out in a combination of cash and deferred shares.

The SIP is based on the annual award of a single total incentive relating to performance at Group, bank, and individual level, assessed against financial (quantitative) and non-financial (qualitative) measures. D-ERC sets the Group short- and long-term performance measures, targets, and weightings annually to reflect Discovery's key financial, operational and strategic priorities. The bank performance scorecard is approved by the DAC on a bi-annual basis.

D-ERC retains the discretion to consider performance holistically and, if needed, adjust any formulaic outcomes to ensure that final remuneration awards align with Discovery's sustainable performance and core purpose. Furthermore, the SIP enhances executive directors' alignment with shareholder expectations.

The Group financial measures will be measured on a three-year trailing basis from FY24 onwards, with a two-year transition period over FY22 and FY23, where they will be measured over one-year and two-year periods, respectively. The threshold and stretch performance levels are generally set symmetrically to the target. A score of 100% is provided for target performance for each measure, with 0% for performance below threshold, 50% at threshold, and 150% at stretch and above, with linear interpolation between these levels.

Award outcomes are assessed annually after year-end based on the following formula: Annual SIP Value = Annual CTC x SIP % x Performance Multiplier (Group, individual and bank)

The Annual SIP Value is then split between a cash portion and a deferred portion, with the mix determined by the level of management. The deferred portion vests in the third, fourth and fifth years for Group Directors and the first, second and third years for other participants, without further performance conditions and based on continued employment, subject to malus and clawback provisions. Generally, deferred awards will be implemented using Group Deferred Shares, and will be governed by the rules of the LTIP scheme, settled by the delivery of Discovery shares on the vesting date. A cash drawdown is paid in March of each year based on H1 business and individual performance.

Once the proposed SIP methodology is applied to determine the single incentive pool for the year, it is tested against the following safeguards:

- "Clip-rate" safeguard: The total cost of the year's SIP – including the value of the cash portion and the at-grant value of the deferred share awards – as a percentage of the normalised operating profit, pre-tax and incentive expenses attributable to the year, should not exceed 12% of normalised profits, except in exceptional circumstances approved by D-ERC
- "Burn-rate" safeguard: The total number of Discovery share awards included in the deferred awards should not exceed 1% of Discovery-issued shares, except in circumstances approved by D-ERC.
- Should either of these safeguards be breached, D-ERC will apply discretion to adjust the cash or deferred share awards of the annual SIP award to address these breaches.

In addition to the SIP, the Discovery Bank CEO participates in an Outperformance Single Incentive Plan (OPSI). This plan runs over three years and is linked to achievement of the bank's stretch targets. It is intended to motivate and incentivise the CEO for the significant role played in building the Bank into a sustainable and profitable business. The CEO does not participate in the bank Start-Up Incentive plan.

Note: The bank start-up incentive is not included in the Single Incentive Plan.

5 Start-up long-term incentive plan (Equity settled)

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

Historical LTIP awards (made up to 2021): Vesting and vesting conditions

The LTIP allocations up to and including 2021 will continue to vest as per the rules of each award. Vesting is subject to performance conditions, which are measured on a compound basis over the full life of the award.

A portion of the LTIP awards to general managers, deputy general managers, divisional managers and managers is not subject to performance conditions but largely aimed at retention and remaining aligned with the market from a total pay perspective. These awards remain subject to share price increases and decreases. Awards to directors and sub-directors are fully subject to the performance measures for vesting and share price movement for value. The Discovery Group LTIP performance conditions applicable for grants up to and including 2021 are aligned to the organic growth methodology.

Vesting of allocated awards is capped at 100%. Where the performance criteria are not fully met, vesting of the percentage not achieved will lapse in the respective years. As the overall vesting is capped at 100%, outperformance in one measure may only contribute towards mitigating underperformance in another measurement category. Any outperformance "subsidy" is subject to the approval of D-ERC.

Discovery Bank performance measures

Measures are linked to individual and Discovery Bank performance. Discovery Bank's scorecard and targets are proposed by management on a bi-annual basis and approved by the DAC. Typically, the scorecard will include the following elements:

- Profit/loss
- Business growth (new business)
- Client service perception
- Innovation and product development
- Employment equity

Each measure has a weighting that is applied to the score. If a score of less than 50% is achieved for any individual measure, then the weighted outcome for that measure will be zero. The sum of the weighted scores results in the overall bank score.

Group performance measures

The Group scorecard is set on an annual basis and includes the following:

- 60% financial measures (profit, HEPS, ROE and revenue)
- 40% non-financial measures (Clients, ESG, strategy and people)

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 on the date of payment.

Malus and clawback

In accordance with the Malus and Claw-Back Policy, subject to a trigger event, Discovery has the right to clawback the incentive remuneration amount from a participant for a period of three years from the date of payment or vesting, as applicable.

The trigger events include, but are not limited to:

- A material misstatement of the financial results resulting in an adjustment in the audited consolidated accounts of Discovery Bank or Discovery Bank Limited.
- In the case of awards that are subject to the achievement of performance conditions, the assessment of any performance metric or condition in respect of an award or payment that was based on error or inaccurate or misleading information.
- The fact that any information used to determine the quantum of an Incentive Remuneration Amount was based on error or inaccurate or misleading information.
- Action or conduct of a participant which, in the reasonable opinion of the Board, amounts to serious misconduct or gross negligence.
- Events or behaviour of a participant or the existence of events attributable to a participant that led to the censure of Discovery, Discovery Bank or a member of the Group, by a regulatory authority or have had a significant detrimental impact on the reputation of Discovery and/or Discovery Bank.

Vesting after termination of employment

Following an employee's termination of employment, the following vesting criteria will apply:

- **Retirement at 65 years old or above and disability:** the unvested shares will continue to vest on the original vesting dates and are not prorated for time served.
- **Early retirement between 60 and 65 years old and good leavers:** The vesting for good leavers and for early retirement between the ages of 60 and 65 years will be discretionary based on, inter alia, tenure and performance, subject to approval by the D-ERC for general managers and above and the DAC for employees below general manager.
- **Resignation:** the unvested shares will be forfeited.
- **Death:** the unvested shares will vest at 100% performance, where applicable.

Contract terms for executive directors and prescribed officers

All executive directors and prescribed officers are employed. Employment contracts can be cancelled with between one- and three-months' notice by either the executive or Discovery.

Guaranteed bonuses, sign-ons, buy-outs, retention and restraint of trade payments

Discovery Bank remuneration policy provides for additional payments that could be made to employees. All additional payments are made when deemed necessary to attract and retain critical employees. These are approved by the Bank EXCO, and for executives, by the DAC and disclosed appropriately.

Non-executive directors

Discovery Bank non-executive directors receive a combination of fixed and meeting attendance fees for their participation on the Bank Board and Board Committees. Non-Executive Directors do not receive annual incentive awards. The DAC reviews the fees paid to non-executive directors annually and, on a bi-annual basis, fees are benchmarked against other local financial services companies with similar market capitalisations to ensure the fees remain competitive. Recommendations are made to the Bank Board for consideration and recommendation to shareholders.

The Chairperson of the Board receives an all-inclusive retainer and does not receive any other fees or retainer for attendance at Board or Committee meetings.

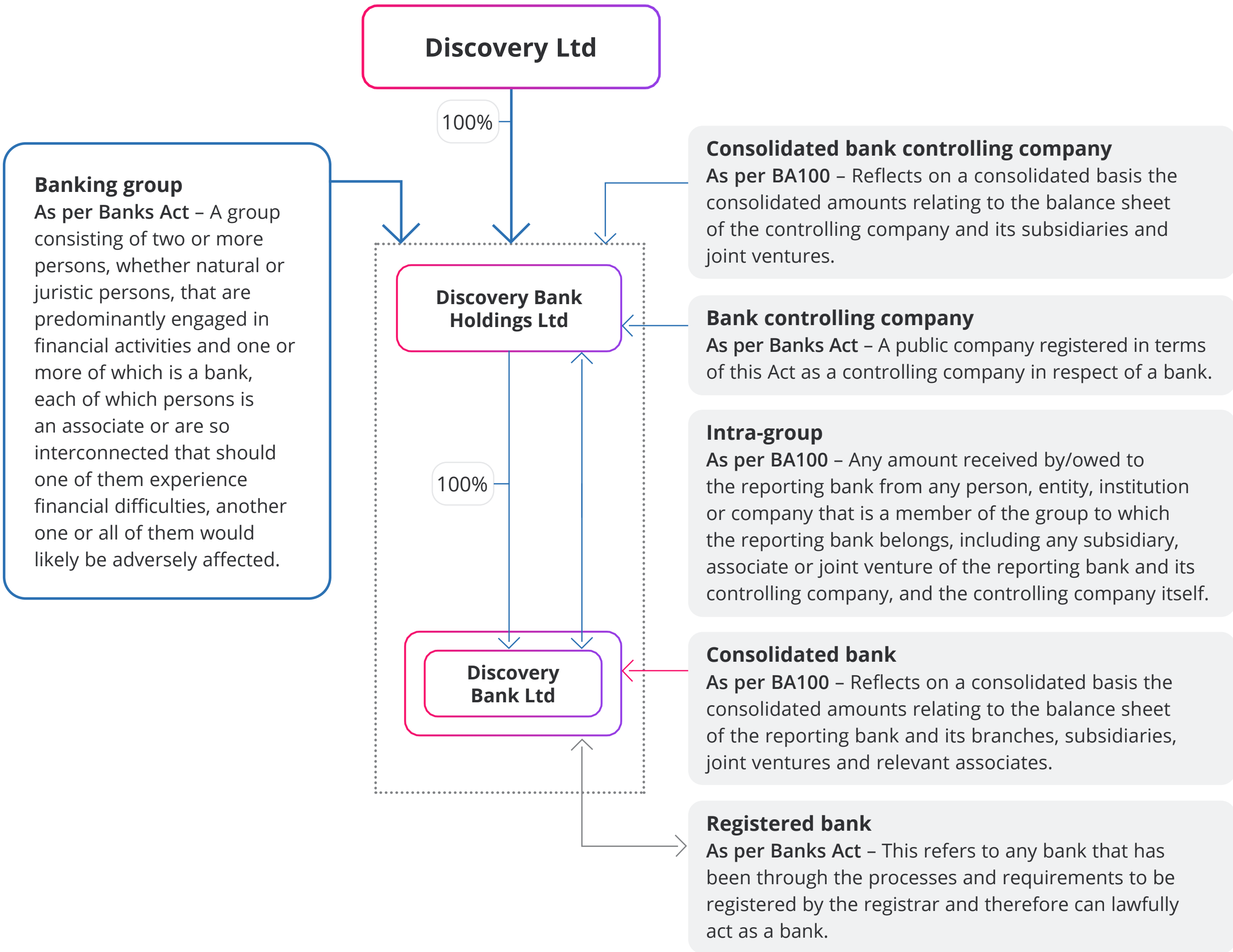
04

Quantitative tables
and templates

Quantitative tables and templates

During the past 12 months, Discovery Bank has continued to bring new products to the market and taking us closer to our goal of building the best bank in the country. The liquidity position remains strong, and the retail assets book has grown as a result of product enhancements. The team has made astounding progress and are reflected in the numbers presented in the tables*.

The legal entity structure of Discovery Bank



** All comparative tables are uploaded and saved on the Discovery Bank website (https://www.discovery.co.za/corporate/discovery-bank-reports).*

Overview of Risk Management and Risk-Weighted Assets

1.1 KM1: Key metrics (at consolidated group level)

This section provides information on Discovery's prudential regulatory metrics. Metrics include Discovery Bank's available capital and ratios, risk-weighted assets, leverage ratio, liquidity coverage ratios, and net stable funding ratios. These metrics are presented at a Discovery Bank Holdings Limited Group level. Discovery Bank adopted IFRS 9 on 1 July 2017, and the figures presented include the effects of this.

	R'000	As at 30 June 2023	As at 31 March 2023	As at 31 December 2022	As at 30 September 2022	As at 30 June 2022
Available capital (amounts)						
1	Common Equity Tier 1 (CET1)	1 062 501	1 103 767	1 112 879	1 002 725	993 529
1a	Fully loaded ECL accounting model	0	0	0	0	0
2	Tier 1	1 062 501	1 103 767	1 112 879	1 002 725	993 529
2a	Fully loaded ECL accounting model Tier 1	0	0	0	0	0
3	Total capital	1 111 961	1 164 375	1 170 457	1 057 222	1 045 277
3a	Fully loaded ECL accounting model total capital	0	0	0	0	0
Risk-weighted assets (amounts)						
4	Total risk-weighted assets (RWA)	6 300 408	6 765 391	6 737 433	6 122 441	5 932 529
Risk-based capital ratios as a percentage of RWA						
5	Common Equity Tier 1 ratio (%)	16.86%	16.32%	16.52%	16.38%	16.75%
5a	Fully loaded ECL accounting model Common Equity Tier 1(%)	0	0	0	0	0
6	Tier 1 ratio (%)	16.86%	16.32%	16.52%	16.38%	16.75%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	0	0	0	0	0
7	Total capital ratio (%)	17.65%	17.21%	17.37%	17.27%	17.62%
7a	Fully loaded ECL accounting model total capital ratio (%)	0	0	0	0	0
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%	2.50%
9	Countercyclical buffer requirement (%)	0	0	0	0	0
10	Bank G-SIB and; or D-SIB additional requirements (%)	0	0	0	0	0
11	Total of bank CET1 specific buffer requirements (%) (row 8 + row 9 + row 10)	2.50%	2.50%	2.50%	2.50%	2.50%
12	CET1 available after meeting the bank's minimum capital requirements (%)	5.36%	4.82%	5.02%	4.88%	5.25%

Overview of Risk Management and Risk-Weighted Assets / continued

1.1 KM1: Key metrics (at consolidated group level) / continued

R'000		As at 30 June 2023	As at 31 March 2023	As at 31 December 2022	As at 30 September 2022	As at 30 June 2022
Basel III leverage ratio						
13	Total Basel III leverage ratio exposure measure	16 634 833	16 928 034	16 039 734	15 027 791	13 792 670
14	Basel III leverage ratio (%) (row 2; row 13)	6.39%	6.52%	6.94%	6.67%	7.20%
14a	Fully loaded ECL accounting model Basel III leverage ratio (%) (row 2a; row 13)	0	0	0	0	0
Liquidity coverage ratio						
15	Total HQLA	8 753 199	7 883 386	6 751 274	5 906 066	5 289 626
16	Total net cash outflow	350 713	310 302	227 791	204 660	203 985
17	LCR (%)	2 565.98%	2 623.43%	2 968.86%	2 886.68%	2 668.26%
Net stable funding ratio						
18	Total available stable funding	21 892 651	21 086 080	20 158 918	18 978 208	17 893 063
19	Total required stable funding	11 953 161	11 735 161	11 653 232	11 025 297	10 624 709
20	NSFR	183%	180%	173%	172%	168%

Key metrics are monitored daily and incorporated as part of the early warning indicators (EWI) to ensure our liquidity and capital position remains adequate.

Risk-weighted assets (RWA) are calculated according to the Basel Framework, and Discovery Bank applies the following capital measurement approaches:

- Credit risk: The Standardised Approach (SA)
- Operational risk: The Basic Indicator Approach (BIA)
- Market risk: The Standardised Approach (SA) using the Building Block method.

All regulatory ratios continue to exceed minimum requirements.

Overview of Risk Management and Risk-Weighted Assets / continued

1.2 OV1: Overview of RWA

This section provides on overview of the risk-weighted assets of Discovery Bank Limited and 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 2023	As at 31 March 2023	As at 30 June 2023	As at 30 June 2023	As at 31 March 2023	As at 30 June 2023
1	**Credit risk (excluding counterparty credit risk) (CCR)**	**4 345 895**	**5 401 193**	**499 778**	**4 346 486**	**5 401 193**	**499 846**
2	Of which: standardised approach (SA)	4 345 895	5 401 193	499 778	4 346 486	5 401 193	499 846
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)**	**196**	**1 370**	**23**	**196**	**1 370**	**23**
7	Of which: standardised approach for counterparty credit risk (SA-CCR)	196	1 370	23	196	1 370	23
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)**	**556**	**779**	**64**	**556**	**779**	**64**
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

Overview of Risk Management and Risk-Weighted Assets / continued

1.2 OV1: Overview of RWA / continued

R'000		DISCOVERY BANK LIMITED			DISCOVERY BANK HOLDINGS LIMITED		
		RWA		Minimum capital requirement	RWA		Minimum capital requirement
		As at 30 June 2023	As at 31 March 2023	As at 30 June 2023	As at 30 June 2023	As at 31 March 2023	As at 30 June 2023
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**	**73 278**	**63 672**	**8 427**	**73 278**	**63 672**	**8 427**
21	Of which standardised approach (SA)	73 278	63 672	8 427	73 278	63 672	8 427
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**	**1 604 797**	**1 015 164**	**184 552**	**1 604 797**	**1 015 164**	**184 552**
25	Amounts below the thresholds for deduction (subject to 250% risk weight)	274 384	282 495	31 554	275 095	283 213	31 636
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)**	**6 299 106**	**6 764 673**	**724 397**	**6 300 408**	**6 765 391**	**724 547**

The market RWA increased quarter-on-quarter because of the uptake and growth of the forex product offering launched in 2022. The CVA and CCR decrease relates to the derivatives that are used to hedge the price risk on the Discovery Ltd (JSE:DSY) share in respect of the bank's phantom staff share scheme incentive programmes. On 31 March 2023, one of the derivatives matured, and in June 2023, the risk weighting on the remaining derivatives changed as a result of the maturity of these derivatives. This contributed to the movement in RWA. The Operational Risk is calculated using June annual operating income to calculate RWA, whereas March uses estimates.

Composition of Capital and Total loss absorbing capacity (TLAC) disclosure

CC1: Composition of regulatory capital

R'000		As at 30 June 2023
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	8 617 889
2	Retained earnings	(3 570 582)
3	Accumulated other comprehensive income (and other reserves)	251 041
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**	**5 298 348**
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)	513 048
10	Deferred tax assets that rely on future profitability, excluding those arising from temporary differences (net of related tax liability)	1 270 945
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 the 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)	38 163
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	109 753
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**	**4 238 977**
29	**Common Equity Tier 1 capital (CET1)**	**1 059 371**

Composition of Capital and Total loss absorbing capacity (TLAC) disclosure / continued

CC1: Composition of regulatory capital / continued

R'000		As at 30 June 2023
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 the10% 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)**	**1 059 371**
Tier 2 capital: instruments 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	49 460
51	**Tier 2 capital before regulatory adjustments**	**49 460**

Composition of Capital and Total loss absorbing capacity (TLAC) disclosure / continued

CC1: Composition of regulatory capital / continued

R'000		As at 30 June 2023
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 the 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)**	**49 460**
59	**Total capital (TC = T1 + T2)**	**1 108 831**
60	**Total risk-weighted exposure**	**6 299 105**
Capital ratios and buffers		
61	**Common Equity Tier 1 (as a percentage of risk-weighted assets)**	**16.82%**
62	**Tier 1 (as a percentage of risk-weighted assets)**	**16.82%**
63	**Total capital (as a percentage of risk-weighted assets)**	**17.60%**
64	**Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB buffer requirement, expressed as a percentage of risk-weighted assets)**	**7.00%**
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**	**5.32%**
National Minima (if different from Basel 3)		
69	National Common Equity Tier 1 minimum ratio (if different from the Basel 3 minimum)	5.00%
70	National Tier 1 minimum ratio (if different from the Basel 3 minimum)	6.75%
71	National total capital minimum ratio (if different from the Basel 3 minimum)	9.00%
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)	109 753

Composition of Capital and Total loss absorbing capacity (TLAC) disclosure / continued

CC1: Composition of regulatory capital / continued

R'000		As at 30 June 2023
Applicable caps on the inclusion of provisions in Tier 2		
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to a standardised approach (prior to application of cap)	231 878
77	Cap on inclusion of provisions in Tier 2 under standardised approach	49 460
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 the 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

Composition of Capital and Total loss absorbing capacity (TLAC) disclosure / continued

CC2: Reconciliation of regulatory capital to balance sheet

R'000		Balance sheet as in published financial statements As at 30 June 2023	Balance sheet under regulatory scope of consolidation As at 30 June 2023
Assets			
1	Cash and balances at central banks	3 077 754	3 077 754
2	Short-term negotiable securities	3 003 654	3 003 654
3	Derivative assets	0	0
4	Loans and advances to customers	4 702 463	4 702 463
5	Loans and advances to banks	860 375	860 375
6	Available for sale financial assets	**0**	**0**
7	Interest in subsidiaries	0	0
8	Interest in associate	0	0
9	Intangible assets	3 024 921	3 024 921
10	Investment and trading securities	3 501 331	3 501 331
11	Current income tax assets	0	0
12	Deferred income tax assets	1 323 809	1 323 809
13	Property and equipment	0	0
14	Other assets	389 060	389 060
15	**Total assets**	**19 883 367**	**19 883 367**
Liabilities			
16	Deposits and current accounts	14 332 536	14 332 536
17	Derivative financial instruments	1 978	1 978
18	Provisions and other liabilities	250 505	250 505
19	Current income tax liabilities	0	0
20	Deferred income tax assets	0	0
21	**Total liabilities**	**14 585 019**	**14 585 019**
22	**Equity**		
23	Share capital and premium	8 617 889	8 617 889
24	Accumulated profit/(loss)	(3 570 582)	(3 570 582)
25	Other reserves	251 041	251 041
26	**Total equity**	**5 298 348**	**5 298 348**

Table 1	30 June 2023
Common Equity Tier 1 Capital	0
Share capital and premium	8 617 889
Adjusted retained earnings	(3 570 582)
Retained earnings	(3 570 582)
Unappropriated profits	0
Total	**5 047 307**
Share-based payment reserve	251 041
Other reserves	0
Total	**5 298 348**

Composition of Capital and Total loss absorbing capacity (TLAC) disclosure / continued

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

	As at 30 June 2023	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 the 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 at most recent reporting date)	8 618
9	Par value of instrument	R1.00 per share
10	Accounting classification	IFRS: Equity
11	Original date of issuance	Thursday, May 19, 2016
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	No maturity
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 write-up mechanism	n/a
34a	Type of subordination	0
35	Position in the subordination hierarchy in liquidation (specify instrument type immediately senior to the instrument in the insolvency creditor hierarchy of the legal entity concerned).	Any amounts due and payable to creditors
36	Non-compliant transitioned features	n/a
37	If yes, specify non-compliant features	n/a

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

			Carrying values of items					
As at 30 June 2023 R'000	Carrying values as reported in published financial statements and under the scope of regulatory consolidation	Carrying values under the scope of regulator consolidation	Subject to the credit risk framework	Subject to the counterparty credit risk framework	Subject to the securitisation framework	Subject to the market-risk framework	Subject to the other risk frameworks	Not subject to capital requirements or subject to deduction from capital
1 Cash and balances at central banks	3 865 981	3 077 754	3 077 754	0	0	0	0	0
2 Short-term negotiable securities	6 504 984	6 504 984	6 504 984	0	0	0	0	0
3 Derivative assets	0	0	0	0	0	0	0	0
4 Loans and advances to customers	4 702 458	5 562 838	5 562 838	0	0	73 278	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	3 024 921	3 024 921	0	0	0	0	0	3 024 921
9 Current income tax assets	0	0	0	0	0	0	0	0
10 Deferred income tax assets	1 323 809	1 323 809	147 916	0	0	0	0	1 175 893
11 Property and equipment	0	0	0	0	0	0	0	0
12 Other assets	452 607	389 060	0	0	0	0	389 060	0
13 **Total assets**	**19 874 761**	**19 883 366**	**15 293 492**	**0**	**0**	**73 278**	**389 060**	**4 200 814**

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

			Carrying values of items					
As at 30 June 2023 R'000	Carrying values as reported in published financial statements and under the scope of regulatory consolidation	Carrying values under the scope of regulator consolidation	Subject to the credit risk framework	Subject to the counterparty credit risk framework	Subject to the securitisation framework	Subject to the market-risk framework	Subject to the other risk frameworks	Not subject to capital requirements or subject to deduction from capital
Liabilities	0	0	0	0	0	0	0	0
14 Deposits and current accounts	14 332 536	14 332 536	0	0	0	0	0	0
15 Derivative financial instruments	1 978	1 978	0	0	0	0	0	0
16 Provisions and other liabilities	241 900	250 505	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**	**14 576 414**	**14 585 019**	**0**	**0**	**0**	**0**	**0**	**0**
Equity	0	0	0	0	0	0	0	0
20 Share capital and premium	8 617 889	8 617 889	0	0	0	0	0	0
21 Accumulated profit/(loss)	(3 570 582)	(3 570 582)	0	0	0	0	0	0
22 Other reserves	251 041	251 041	0	0	0	0	0	0
23 **Total equity**	**5 298 348**	**5 298 348**	**0**	**0**	**0**	**0**	**0**	**0**

Commentary for deltas:

1 and 4. Interbank operational deposits are treated as 'Cash and cash equivalents' from an IFRS perspective in the annual financial statements.

These deposits are categorised as 'Other loans and advances' in the Banks Act returns.

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

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

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

		Items subject to				
As at 30 June 2023 R'000	Total	Credit-risk framework	Securitisation framework	Counterparty credit-risk framework	Market-risk framework	Other
Asset carrying value amount under the scope of regulatory consolidation (as per template LI1)	19 883 366	15 293 492	0	0	73 278	389 060
Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	14 585 019	0	0	0	0	
Total net amount under the regulatory scope of consolidation	**5 298 347**	**15 293 492**	**0**	**0**	**73 278**	**389 060**
Off-balance sheet amounts	7 539 132	753 913*	0	0	0	
Exposure amounts considered for regulatory purposes	**12 837 479**	**16 047 405**	**0**	**0**	**73 278**	**389 060**

* *The only material movement YoY is the decrease in the off balances sheet credit exposures (2022: 1 273 025) due to the Bank changing from a CCF of 20% to a CCF of 0% after approval from the PA and Audit*

Leverage Ratio

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

This table reconciles the total assets as presented in the financial statements to the leverage ratio exposure measure as at 30 June 2023.

R'000		As at 30 June 2023
1	Total consolidated assets as per published financial statements	20 352 447
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	1 396
5	Adjustment for securities financing transactions (meaning repos and similar secured lending)	0
6	Adjustment for off-balance sheet items (meaning conversion to credit equivalent amounts of off-balance sheet exposures)	753 913
7	Other adjustments	(4 476 175)
8	**Leverage ratio exposure measure**	**16 631 582**

Leverage Ratio / continued

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 2023	As at 31 March 2023
On-balance sheet exposures			
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs))	20 115 249	19 634 641
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	(4 238 977)	(4 171 325)
3	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of row 1 and 2)**	**15 876 272**	**15 463 316**
Derivative exposures			
4	Replacement cost associated with all derivatives transactions (where applicable, net of eligible cash variation margin and/or with bilateral netting)	0	0
5	Add-on amounts for PFE associated with all derivatives transactions	1 396	1 891
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)**	**1 396**	**1 891**
Securities financing transaction exposures			
12	Gross SFT assets (with no recognition of netting) after adjusting for asle accounting transactions	0	0
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	0	0
14	CCR exposure for SFT assets	0	0
15	Agent transaction exposures	0	0
16	**Total securities financing transaction exposures (sum of rows 12 to 15)**	0	0
Other off-balance sheet exposures			
17	Off-balance sheet exposure at gross notional amount	7 539 130	7 312 700
18	(Adjustments for conversion to credit equivalent amounts)	(6 785 217)	(5 850 160)
19	**Off-balance sheet items (sum of row 17 and 18)**	**753 913**	**1 462 540**
Capital and total exposures			
20	Tier 1 capital	1 059 371	1 100 609
21	**Total exposures (sum of rows 3, 11, 16 and 19)**	**16 631 582**	**16 927 747**
Leverage ratio			
22	Basel III leverage ratio*	6.37%	6.5%

** The applicable leverage buffer for Discovery Bank is 2.37%*

Liquidity

LIQ1: Liquidity Coverage Ratio (LCR)

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

As at 30 June 2023 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	8 753 199	7 883 386
Cash outflows				
2	**Retail deposits and deposits from small business customers, of which:**	**8 279 184**	**827 918**	**790 409**
3	Stable deposits	0	0	(58)
4	Less stable deposits	8 279 184	827 918	790 467
5	**Unsecured wholesale funding, of which:**	**256 977**	**27 554**	**1 825**
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	0	0	0
7	Non-operational deposits (all counterparties)	256 977	27 554	1 825
8	Unsecured debt	0	0	0
9	**Secured wholesale funding**	**0**	**0**	**0**
10	**Additional requirements, of which:**	**0**	**0**	**0**
11	Outflows related to derivative exposures and other collateral requirements	0	0	0
12	Outflows related to loss of funding on debt products	0	0	0
13	Credit and liquidity facilities	7 259 964	181 499	174 379
14	**Other contractual funding obligations**	**0**	**0**	**0**
15	**Other contingent funding obligations**	**0**	**0**	**0**
16	**Total cash outflows**	**15 796 125**	**1 036 972**	**966 613**
Cash inflows				
17	Secured lending (for example, reverse repos)	0	0	0
18	Inflows from fully performing exposures	979 341	848 481	1 768 148
19	Other cash inflows	0	0	0
20	**Total cash inflows**	**979 341**	**848 481**	**1 768 148**

Total Adjusted value		Total Adjusted value	
21	Total HQLA	8 753 199	7 883 386
22	Total net cash outflows	350 713	310 302
23	**Liquidity Coverage Ratio (%)**	**2 566%**	**2 623%**

Liquidity / continued

LIQ1: Liquidity Coverage Ratio (LCR) / continued

The Liquidity Coverage

The liquidity coverage ratio (LCR) measures whether a bank has sufficient high-quality liquid assets (HQLA) to survive a significant stress scenario lasting 30 calendar days.

The LIQ1 table complies with the Pillar 3 requirements as stipulated by BCBS D400 (March 2017) and Directive D8. The values in the table are calculated as the average of the 90-day calendar daily values over the period April to June 2023 for Discovery Bank Limited. Discovery Bank's weighted values are based on business days (excluding public holidays and weekends).

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

THE COMPOSITION OF THE HIGH-QUALITY LIQUID ASSETS (HQLA):

The HQLAs held by Discovery Bank are Treasury Bills and Bonds (R2,030, R2,032 and R186) with a maturity profile, spread up to 10 years, as well as the surplus balance within the SAMOS account, based on the new Monetary Policy Implementation Framework (MPIF) model.

Liquidity / continued

LIQ2: Net Stable Funding Ratio (NSFR)

This section provides information pertaining to Discovery Bank's net stable funding ratio (NSFR) and details of some of its components.

		Items subject to				
	As at 30 June 2023 **R'000**	**No Maturity**	**< 6 months**	**6 months to < 1 year**	**>= 1 year**	**Weighted value**
1	**Capital:**	**8 868 930**	**0**	**0**	**0**	**8 868 930**
2	Regulatory capital	8 868 930	0	0	0	8 868 930
3	Other capital instruments	0	0	0	0	0
4	**Retail deposits and deposits from small business customers:**	**0**	**12 193 678**	**894 470**	**1 244 388**	**13 023 721**
5	Stable deposits	0	0	0	0	0
6	Less stable deposits	0	12 193 678	894 470	1 244 388	13 023 721
7	**Wholesale funding:**	**0**	**0**	**0**	**0**	**0**
8	Operational deposits	0	0	0	0	0
9	Other wholesale funding	0	0	0	0	0
10	Liabilities with matching interdependent assets	0	250 505	0	1 978	0
11	Other liabilities:	0	0	0	0	0
12	NSFR derivative liabilities	0	0	0	1 978	0
13	All other liabilities and equity not included in the above categories	0	250 505	0	0	0
14	**Total ASF**					**21 892 651**
15	Total NSFR high-quality liquid assets (HQLA)	0	5 103 357	1 059 107	3 420 275	342 215
16	Deposits held at other financial institutions for operational purposes	0	0	0	0	0
17	Performing loans and securities:	0	2 633 571	1 456 436	1 941 915	3 394 499
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	860 380	0	0	129 057
20	Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:	0	1 773 191	1 456 436	1 941 915	3 265 442
21	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, of which:	0	0	0	0	0
23	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:	7 839 292	0	0	0	7 839 292
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	0	0
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	7 839 292	0	0	0	7 839 292
32	Off-balance sheet items	7 539 330	0	0	0	376 957
33	**Total RSF**					**11 953 161**
34	**Net Stable Funding Ratio (%)**					**183%**

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

Credit Risk

The following tables show the credit quality of both on- and off-balance sheet assets and the impact of impairments as at financial year-end, as well as exposures per asset class, pre- and post-credit conversion factors and credit risk mitigation.

CR1: Credit quality of assets

As at 30 June 2023 R'000		Gross carrying values			Of which: ECL accounting provisions for credit losses on SA exposure			
		Defaulted exposures	Non-defaulted exposures	Allowances/ impair-ments**	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)
Regulatory portfolio/risk weight								
1	Loans*	261 319	5 858 294	469 076	237 198	231 878	0	5 650 537
2	Debt securities	0	0	0	0	0	0	0
3	Off-balance sheet exposures	0	0	0	0	0	0	0
4	**Total**	**261 319**	**5 858 294**	**469 076**	**237 198**	**231 878**	**0**	**5 650 537**

* *Loans include advances to clients and interbank advances, excluding sovereign exposures (on-balance sheet) using monthly average balances.*
** *Off-balance sheet exposures are reported gross of CRM and CCF and exclude revocable commitments.*

CR2: Changes in stock of defaulted loans and debt securities

R'000		As at 30 June 2023
1	**Defaulted loans and debt securities at the end of the previous reporting period**	**198 490**
2	Loans and debt securities that have defaulted since the last reporting period	123 546
3	Returned to non-defaulted status	10 805
4	Amounts written off	51 764
5	Other changes	1 853
6	**Defaulted loans and debt securities at the end of the reporting period (1+2-3-4±5)**	**261 319**

CR3: Credit risk mitigation techniques – overview

As at 30 June 2023 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	5 650 537	0	0	0	0	0	0
2	Debt securities	0	0	0	0	0	0	0
3	**Total**	**5 650 537**	**0**	**0**	**0**	**0**	**0**	**0**
4	**of which: defaulted**	**47 828**	**0**	**0**	**0**	**0**	**0**	**0**

Table CR3 uses monthly average balances.

Credit Risk / continued

CR4: Standardised approach – credit risk exposure and Credit Risk Mitigation (CRM) effects

As at 30 June 2023 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**	6 866 030	0	6 866 030	0	0	0
2	Non-central government public sector entities	0	0	0	0	0	0
3	Multilateral development banks	0	0	0	0	0	0
4	Banks	855 847	0	856 826	0	171 365	20
5	Securities firms	0	0	0	0	0	0
6	Corporates	0	0	0	0	0	0
7	Regulatory retail portfolios	5 002 446	7 307 236	5 002 274	0*	3 751 706	75
8	Secured by residential property	0	0	0	0	0	0
9	Secured by commercial real estate	0	0	0	0	0	0
10	Equity	0	0	0	0	0	0
11	Past-due loans	261 319	99 790	63 344	0	33 960	54
12	Higher-risk categories	0	0	0	0	0	0
13	Other assets	6 491 735	0	6 491 735	0	389 060	6
14	**Total**	**19 477 378**	**7 407 026**	**19 280 210**	**0**	**4 346 091**	**23**

** The only material movement YoY is the decrease in the off balances sheet credit exposures due to the Bank changing from a CCF of 20% to a CCF of 0% after approval from the PA and Audit*

Credit Risk / continued

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

As at 30 June 2023 R'000	Risk weight 0%	10%	20%	35%	50%	75%	100%	150%	Others	Total credit exposure amount (post CCF and post-CRM)
1 **Sovereigns and their central banks**	6 866 030	0	0	0	0	0	0	0	0	6 866 030
2 Non-central government public sector entities (PSEs)	0	0	0	0	0	0	0	0	0	0
3 Multilateral development banks (MDBs)	0	0	0	0	0	0	0	0	0	0
4 Banks	0	0	856 826	0	0	0	0	0	0	856 826
5 Securities firms	0	0	0	0	0	0	0	0	0	0
6 Corporates	0	0	0	0	0	0	0	0	0	0
7 Regulatory retail portfolios	0	0	0	0	0	5 002 274		0	0	5 002 274
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	59 575	0	2 963	807	0	63 344
12 Higher-risk categories	0	0	0	0	0	0	0	0	0	0
13 Other assets	3 077 754	0	0	0	0	0	389 060	0	3 024 921	6 491 735
14 **Total**	**9 943 784**	**0**	**856 826**	**0**	**59 575**	**5 002 274**	**392 023**	**807**	**3 024 921**	**19 280 210**

Exposure amounts and CCFs applied to off-balance sheet exposures, categorised based on risk bucket of converted exposures

Risk weight	A On-balance sheet exposure	B Off-balance sheet exposure	C Weighted average CCF*	D Exposure (post-CCF and post-CRM)
1 Less than 40%	10 799 631	–	–	10 800 610
2 40 – 70%	255	87	–	60
3 75%	5 002 446	7 307 236	–	5 002 274
4 85%				
5 90 – 100%	394	644	–	392
6 105 – 130%				
7 150%	826	12	–	807
8 250%				
9 400%				
10 1 250%				
11 **Total exposures**	**16 452 456**	**7 407 026**	**–**	**16 255 289**

* *Weighting is based on off-balance sheet exposure (pre-CCF).*

Counterparty Credit Risk

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

As at 30 June 2023 R'000	Replacement cost	Potential future exposure	EEPE	Alpha used for computing regulatory EAD	EAD post-CRM	RWA
1 SA-CCR (for derivatives)		699		1.4	979	196
2 Internal Model Method (for derivatives and SFTs)						
3 Simple Approach for credit risk mitigation (for SFTs)						
4 Comprehensive Approach for credit risk mitigation (for SFTs)						
5 VaR for SFTs						
6 **Total**						**196**

CCR2: Credit valuation adjustment (CVA) capital charge

As at 30 June 2023 R'000	EAD post-CRM	RWA
Total portfolio subject to the advanced CVA capital charge		
1 (i) VaR component (including the 3x multiplier)	0	0
2 (ii) Stressed VaR component (including the 3x muliplier)	0	0
3 All portfolios subject to the standardised CVA capital charge	979	196
4 **Total subject to the CVA capital charge**	**979**	**196**

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

As at 30 June 2023 R'000	Risk weight								
	0%	10%	20%	50%	75%	100%	150%	Others	Total credit exposure amount (post-CCF and post-CRM)
Regulatory portfolio									
1 Sovereign	0	0	0	0	0	0	0	0	0
2 Non-central government public sector entities	0	0	0	0	0	0	0	0	0
3 Multilateral development banks	0	0	0	0	0	0	0	0	0
4 Banks	0	0	856 826	0	0	0	0	0	856 826
5 Securities firms	0	0	0	0	0	0	0	0	0
6 Corporates	0	0	0	0	0	0	0	0	0
7 Regulatory retail portfolio	0	0	0	0	0	0	0	0	0
8 Other assets	0	0	0	0	0	0	0	0	0
9 **Total**	**0**	**0**	**856 826**	**0**	**0**	**0**	**0**	**0**	**856 826**

Market Risk

MR1: Market risk under Standardised Approach

	As at 30 June 2023 **R'000**	Capital charge in SA
1	General interest rate risk	0
2	Equity risk	0
3	Commodity risk	0
4	Foreign exchange risk	73 278
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 securitisation	0
9	Default risk – securitisations (non-correlation trading portfolio)	0
10	Default risk – securitisation (correlation trading portfolio)	0
11	Residual risk add-on	0
12	**Total**	**73 278**

REM 1: Remuneration awarded during the financial year

as at end of June 2023			Senior management	Other material risk-takers
Remuneration amount				
1	Fixed Remuneration	Number of employees	7	3
2		**Total fixed remuneration (3+5+7)**	**26 615 008**	**17 668 584**
3		Of which: cash-based	23 535 311	16 271 049
4		Of which: deferred		
5		Of which: shares or other share-linked instruments		
6		Of which: deferred		
7		*Of which: other forms	3 079 697	1 397 536
8		Of which: deferred		
9	Variable Remuneration	Number of employees		
10		**Total variable remuneration (11+13+15)**	**35 687 894**	**43 086 189**
11		Of which: cash-based	26 431 753	17 154 690
12		Of which: deferred		
13		Of which: shares or other share-linked instruments	9 256 141	25 931 499
14		Of which: deferred		
15		Of which: other forms		
16		Of which: deferred		
17	****Total remuneration (2 +10)**		**62 302 902**	**60 754 774**

* *Provident funds, medical aid contributions*

** *Total as stated in the Annual Financial Statements*

REM 2: Special payments

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

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

Quantitative tables and templates / CONTINUED

REM 3: Deferred remuneration

	A	B	C	D	E
Deferred and retained remuneration R'000	Total amount of outstanding deferred remuneration	Of which: total amount of outstanding deferred and retained remuneration exposed to ex-post explicit and/or implicit adjustment	Total amount of amendment during the year due to ex-post explicit adjustments	Total amount of amendment during the year due to ex-post implicit adjustments	Total amount of deferred remuneration paid out in the financial year
Senior management					
Cash					
Shares					
Cash-linked instruments	2 240 548	2 240 548	0	(1 921 830)	21 840 853
Other	58 830 056	58 830 056	0	4 178 069	4 090 643
Other material risk-takers					
Cash					
Shares					
Cash-linked instruments	1 357 426	1 357 426	0	(50 200)	3 124 187
Other	58 555 420	58 555 420	0	4 797 744	5 148 604
Total	**120 983 450**	**120 983 450**	**0**	**7 003 784**	**34 204 287**

Definitions:

Outstanding amount 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 reversals or downward revaluations of awards).

Outstanding amount 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 few years) are expected. In columns (c) to (e), movements during the financial year are expected. While columns (c) and (d) show the movements specifically related to column (b), column e shows payments that have affected column (a).

05

Qualitative tables

Discovery Bank

Qualitative tables

OVA – Bank risk management approach

Description		Key risk	Section in document	Page reference
(a)	How the business model determines and interacts with the overall risk profile (for example, the key risks related to the business model and how each of these risks 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	Risk management approach & Key Risks	19 – 20
		Credit Risk	Risk management approach & Key Risks	31 – 34
		Market Risk	Risk management approach & Key Risks	35
		Liquidity & Funding Risk	Risk management approach & Key Risks	38 – 39
		Reputational Risk	Risk management approach & Key Risks	27
		Strategic Risk	Risk management approach & Key Risks	26
		Business Risk	Risk management approach & Key Risks	26
		Capital Management	Risk management approach & Key Risks	41 – 42
		Regulatory Risk	Risk management approach & Key Risks	30
		Model Risk	Risk management approach & Key Risks	27
		Operational Risk	Risk management approach & Key Risks	28 – 29
(b)	The risk governance structure: responsibilities attributed throughout the bank (for example, oversight and delegation of authority; breakdown of responsibilities by type of risk, business unit, etc.); relationships between the structures involved in risk management processes (for example, board of directors, executive management, separate risk committee, risk management structure, compliance function, internal audit function).	All Risk	Risk management approach	22
(c)	Channels to communicate, decline, and enforce the risk culture within the bank (for example, 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	Risk Management – channels to communicate risk	23
(d)	The scope and main features of risk measurement systems.	All Risk	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	Risk Management	23 – 25
(f)	Qualitative information on stress testing (for example, portfolios subject to stress testing, scenarios adopted and methodologies used, and use of stress testing in risk management).	Stress Testing	Key Risks – Stress Testing	43
(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.	ICAAP	Key Risks – ICAAP	43
		Risk appetite	Risk management approach & Key Risks	26 – 45
		Credit Risk	Risk management approach & Key Risks	31 – 34
		Market Risk	Risk management approach & Key Risks	35
		Liquidity & Funding Risk	Risk management approach & Key Risks	38 – 39
		Reputational Risk	Risk management approach & Key Risks	27
		Strategic and Business Risk	Risk management approach & Key Risks	26
		Capital Management Risk	Risk management approach & Key Risks	41 – 42
		Operational Risk	Risk management approach & Key Risks	28 – 29

LIA – Explanations of differences between accounting and regulatory exposure amounts

	Description	Section in document	Page reference
(a)	Banks must explain the origins of any significant differences between amounts in columns (a) and (b) in LI1.	Refer to table LI1: Differences between accounting and regulatory scopes of consolidation and mapping of financial statements with regulatory risk	67
(b)	Banks must explain the origins of differences between carrying values and amounts considered for regulatory purposes, as shown in LI2.	Refer to table LI2: Main sources of differences between regulatory exposure amounts and carrying values in financial statements	68
(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 current environment	n/a

Qualitative tables / CONTINUED

LIQA – Liquidity risk management

Description		Key risk	Section in document	Page Reference
(a)	Governance of liquidity risk management includes: 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 & Funding Risk	Risk Management and Key Risks	22 and 38 – 39
(b)	Funding strategy, including policies on diversification in the sources and tenor of funding, and whether the funding strategy is centralised or decentralised.	Liquidity & Funding Risk		39
(c)	Liquidity risk mitigation techniques.	Liquidity & Funding Risk		39
(d)	An explanation of how stress testing is used.	Liquidity & Funding Risk		39
(e)	An outline of the bank's contingency funding plans.	Liquidity & Funding Risk		40

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

Description		Key risk	Section in document	Page reference
(a)	How the business model translates into the components of the bank's credit risk profile.	Credit Risk	Risk Management and Key Risks	31 – 34
(b)	Criteria and approaches used for defining credit risk management policies and setting credit risk limits.	Credit Risk		
(c)	Structure and organisation of the credit risk management and control function.	Credit Risk		31 – 34
(d)	Relationships between the credit risk management, risk control, compliance, and internal audit functions.	Credit Risk		31 – 34
(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		31 – 34

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 definitions of past due and default for accounting and regulatory purposes.	Credit Risk	Risk Management and Key Risks	33
(b)	The extent of past-due exposures (more than 90 days) that are not considered to be impaired and the reasons for this.		As per the reporting period, the bank does not have exposures that are past 90 days and not impaired.	n/a
(c)	Description of methods used for determining impairments.		The bank is guided by the impairment/ provisioning requirements as identified in the IFRS 9 Financial Instruments ("IFRS 9", or "the standard") issued by the International Accounting Standards Board (IASB).	n/a
(d)	The bank's own definition of a restructured exposure and a breakdown of restructured exposures between impaired and not impaired exposures.		The Bank had granted some restructures under Directive 3 of 2020 as part of the COVID-19 relief strategy,of which a handful are left and are now being treated as distressed restructures under Directive 7 of 2015. The remainder of the restructures reported are related to exposures under debt review.	n/a
(e)	Breakdown of exposures by geographical areas, industry and residual maturity.		Discovery Bank only has revolving assets, and hence no residual maturity is shown in the document. The rest of the information can be found in sections Risk Management and Key Risks.	34
(f)	Amounts of impaired exposures (according to the definition used by the bank for accounting purposes) and related allowances and write-offs, broken down by geographical areas and industry.		Risk Management and Key Risks	34
(g)	Ageing analysis of accounting past due exposures.		Risk Management and Key Risks	34

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, so collateral is not applicable for this submission.	n/a
(c)	Information about market or credit risk concentrations under the credit risk mitigation instruments used (by guarantor type, collateral and credit derivative providers).	Risk Management and Key Risks	31 – 34

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

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

CCRA – Qualitative disclosures related to counterparty credit risk, including:

	Description	Commentary	Page reference
(a)	Risk management objectives and policies related to counterparty credit risk.	Credit risk arises in the event an obligor is unable or unwilling to pay interest on the advances granted to them. Counterparty credit risk arises in the event the obligor is unable or unwilling to repay the capital granted to them. Counterparty credit risk forms part of credit risk and refers to derivative contracts agreed between the parties as a means of transferring credit risk to a third party. Discovery Bank has limited risk related to counterparty credit risk as the bank doesn't trade in instruments and all derivatives are managed by Discovery Group.	n/a
(b)	The method used to assign the operating limits defined in terms of internal capital for counterparty credit exposures and for CCP exposures.	Not applicable 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.	Not applicable to Discovery Bank.	n/a

MRA – Qualitative disclosure requirements related to market risk

Description		Key risk	Section in document	Page reference
Banks must describe their risk management objectives and policies for market risk according to the framework below (the granularity of the information 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 or processes for monitoring the continuing effectiveness of hedges.	Market Risk	Risk Management and Key Risks	35
(b)	Structure and organisation of the market risk management function: A 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	Risk Management and Key Risks	35
(c)	Scope and nature of risk reporting and/or measurement systems.	Market Risk	Risk Management and Key Risks	35

Operational Risk

	Description	Commentary	Page reference
(a)	In addition to the general qualitative disclosure requirement (paragraph 824), the approach(es) for operational risk capital assessment for which the bank qualifies. (Capital Management and allocation) BA 400.	Discovery Bank adopted the Basic Indicator Approach (BIA) and under this approach, the Bank 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.		

Qualitative tables / CONTINUED

IRRBBA – IRRBB risk management objectives and policies

Description		Key risk	Section in document	Page reference
(a)	A description of how the bank defines IRRBB for purposes of risk control and measurement.	Market Risk	Risk Management and Key Risks	36 – 37
(b)	A description of the bank's overall IRRBB management and mitigation strategies. Examples are: monitoring of economic value of equity (EVE) and net interest income (NII) in relation to established limits, hedging practices, conduct of stress testing, outcome analysis, the role of independent audit, the role and practices of the ALCO, the bank's practices to ensure appropriate model validation, and timely updates in response to changing market conditions.	Market Risk	Risk Management and Key Risks	
(c)	The periodicity of the calculation of the bank's IRRBB measures and a description of the specific measures that the bank uses to gauge its sensitivity to IRRBB.	Market Risk	Risk Management and Key Risks	
(d)	A description of the interest rate shock and stress scenarios that the bank uses to estimate changes in the economic value and in earnings.	Market Risk	Risk Management and Key Risks	
(e)	Where significant modelling assumptions used in the bank's internal measurement systems (IMS) (meaning the EVE metric generated by the bank for purposes other than disclosure. For example, for internal assessment of capital adequacy) are different from the modelling assumptions prescribed for the disclosure in Template IRRBB1, the bank should provide a description of those assumptions and their directional implications and explain its rationale for making those assumptions (for example, historical data, published research, management, judgement and analysis).	Market Risk	Risk Management and Key Risks	
(f)	A high-level description of how the bank hedges its IRRBB, as well as the associated accounting treatment.	Market Risk	Risk Management and Key Risks	

IRRBBA – IRRBB risk management objectives 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 the assessment of repricing behaviour). • The methodology used to estimate the prepayment rates of customer loans, and/or the early withdrawal rates for time deposits, and other significant assumptions. • Any other assumptions (including for instruments with behavioural optionalities that have been excluded) that have a material impact on the disclosed ΔEVE and ΔNII in Table B, including an explanation of why these are material. • Any methods of aggregation across currencies and any significant interest rate correlations between different currencies.	Market Risk	Risk Management and Key Risks	36 – 37
(h) (Optional) Any other information that the bank wishes to disclose regarding its interpretation of the significance and sensitivity of the IRRBB measures disclosed and/or an explanation of any significant variations in the level of the reported IRRBB since previous disclosures.	Market Risk	Risk Management and Key Risks	
Quantitative disclosures		Risk Management and Key Risks	
1 Average repricing maturity assigned to NMDs.	Market Risk	As a new entrant into the market, the Bank does not yet have sufficient years of data to calculate NMDs. This is however currently being worked on	n/a
2 Longest repricing maturity assigned to NMDs.	Market Risk	As a new entrant into the market, the Bank does not yet have sufficient years of data to calculate NMDs. This is however currently being worked on	

Remuneration

Description	Section in document	Page reference
Information relating to the bodies that oversee remuneration. Disclosures should include: • Name, composition, and mandate of the main body overseeing remuneration. • External consultants whose advice has been sought, the body by which they were commissioned, and in what areas of the remuneration process. • A description of the scope of the bank's remuneration policy (for example, by regions, business lines), including the extent to which it is applicable to foreign subsidiaries and branches. • A description of the types of employees considered as material risk-takers and as senior managers.	Material risk-takers are employees whose professional actions have a material impact on the Bank's overall risk exposure. Discovery Bank defines material risk-takers as the members of the Discovery Bank Executive Management team that are also Executive Directors of the Bank. Discovery Bank defines senior management as the CEO's direct reports who are members of the Executive committee, excluding the Executive Directors of the Bank.	47
Information relating to the design and structure of remuneration processes. Disclosures should include: • An overview of the key features and objectives of remuneration policy • Whether the remuneration committee reviewed the firm's remuneration policy during the past year, and if so, an overview of any changes that were made, the reasons for those changes, and their impact on remuneration. • A discussion of how the bank ensures that risk and compliance employees are remunerated independently of the businesses they oversee.	Remuneration	47 – 53
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.		47 – 53
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 the main performance metrics for the bank, top-level business lines and individuals. • A discussion of how amounts of individual remuneration are linked to bank-wide and individual performance. • A discussion of the measures the bank will in general implement to adjust remuneration in the event that performance metrics are weak, including the bank's criteria for determining "weak" performance metrics.		47 – 53

Remuneration / continued

Description	Section in document	Page reference
Description of the ways in which the bank seeks to adjust remuneration to take account of longer-term performance. Disclosures should include: • A discussion of the bank's policy on deferral and vesting of variable remuneration and, if the fraction of variable remuneration that is deferred differs across employees or groups of employees, a description of the factors that determine the fraction and their relative importance. • A discussion of the bank's policy and criteria for adjusting deferred remuneration before vesting and (if permitted by national law) after vesting through clawback arrangements.		47 – 53
Description of the different forms of variable remuneration that the bank utilises and the rationale for using these different forms. Disclosures should include: • An overview of the forms of variable remuneration offered (meaning cash, shares, 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.		47 – 53

06

Abbreviations

Abbreviations

ABBREVIATION	DEFINITION
A-IRBA	Advanced Internal Ratings-based Approach
ASF	Available Stable Funding
AT1	Additional Tier 1
CCF	Credit Conversion Factor
CCPs	Central Counterparties
CCR	Counterparty Credit Risk
CEM	Credit Exposure Method
CET1	Common Equity Tier 1
CFT	Countering Financing of Terrorism
CRM	Credit Risk Mitigation
CSR	Corporate Social Responsibility
CVA	Credit Valuation adjustment
DAC	Directors Affairs Committee
D-SIB	Domestic Systemically Important Banks
ECL	Expected Credit Loss
ERC	External Remuneration Committee
ERMF	Enterprise Risk Management Framework
ESG	Environmental, social and governance
EVE	Expected Value of Equity
F-IRB	Foundation internal ratings-based approach
FX	Foreign Exchange
G-SIB	Global Systemically Important Banks
HQLA	High-Quality Liquid Assets
ICAAP	Internal Capital Adequacy Assessment Process
IRB	Internal Ratings Based
IRC	Internal Remuneration Committee
LCR	Liquidity Coverage Ratio
LTIPs	Long-term Incentive Plans

ABBREVIATION	DEFINITION
MDB	Multilateral development banks
MRM	Model Risk Management
NII	Net Interest Income
NIR	Non-Interest Revenue
NSFR	Net stable funding ratio
ORSA	Own Risk and Solvency Assessment
PA	Prudential Authority of South Africa
PSE	Public Sector entities
RACM	Risk and Control Matrix
R&D	Research and Development
RP	Recovery Plan
RSF	Required Stable Funding
RWA	Risk-Weighted Assets
SA	Standardised Approach
SA – CCR	Standardised Approach for Counterparty Credit Risk
SAMOS	South African Multiple Option Settlement
SARB	South African Reserve Bank
SEC-ERBA	Securitisation external ratings-based approach
SEC-IRBA	Securitisation internal ratings-based approach
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

Discovery Bank

Discovery Bank | +27 11 529 2888 | www.discovery.co.za