Sainsbury's Bank plc
Pillar 3 Disclosures
for the period ended 28 February 2015

COMPANY NUMBER: 3279730

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Sainsbury's Bank Pillar 3 Disclosures

1. Overview

1.1 Background

The Basel II Capital Requirements Directive (Basel II) introduced consistent capital adequacy standards and an associated supervisory framework in the European Union.

In June 2013, the European Commission published the final version of the Capital Requirements Directive (CRD) and the Capital Requirements Regulation (CRR), which together make up CRD IV. CRD IV reflects the Basel III proposals for capital and liquidity reform, plus additional rules for non-compliance with prudential rules, corporate governance and remuneration. The regulations were implemented on 1 January 2014, with the first reporting under the framework for the reference date ending 31 March 2014.

The Regulation element became law in member states directly, replacing existing sections of the existing rulebooks (GENPRU and BIPRU in the UK) with significant changes to regulations. The regulations include changes to the definition of capital, new definitions for the calculation of counterparty credit risk and leverage ratios, additional capital buffers and development of a global liquidity standard.

The Basel framework consists of three 'pillars'. Pillar 1 of the standards sets out the minimum capital requirements firms are required to meet for credit, market and operational risk. Under Pillar 2, firms and supervisors have to take a view on whether a firm should hold additional capital against risks not covered in Pillar 1.

The aim of Pillar 3 is to encourage market discipline by developing a set of disclosure requirements which will allow market participants to assess key pieces of information on a firm's capital, risk exposures, risk assessment processes and remuneration approach.

This document represents the Pillar 3 Disclosure by Sainsbury's Bank plc ('the Bank').

1.2 Disclosure policy

The information has been prepared purely for the purposes of: explaining the basis on which the Bank has prepared and disclosed certain capital requirements; providing information about the management of risks relating to those requirements; and presenting remuneration information as required by CRD IV and the Prudential Regulation Authority (PRA) prudential sourcebook. This report has not been prepared for any other purpose. It therefore does not constitute any form of financial statement of the Bank nor does it constitute any form of contemporary or forward looking record or opinion of the Bank.

The Bank is committed to ensuring that its remuneration practices are appropriate and compliance with the Financial Conduct Authority Remuneration Code (the Code) and CRD IV will fall within the responsibilities of the Remuneration Committee (RemCo).

1.3 Scope of application

These Disclosures are presented in respect of the 14 months from 1 January 2014 to 28 February 2015 under CRD IV, on a 'transitional basis'. Comparatives as at 31 December 2013 represent Basel II disclosures and have not been restated under CRD IV; however disclosures of exposures have been adapted to reflect the required CRD IV categorisation.

These disclosures are based on the Bank's ownership as at 28 February 2015. Up until 31 January 2014, the Bank was a joint venture between J Sainsbury plc and Bank of Scotland plc with a contractual arrangement in place to govern the sharing of joint control. Bank of Scotland plc is a subsidiary of the Lloyds Banking Group plc. J Sainsbury plc and Bank of Scotland plc are incorporated and domiciled in England and Scotland respectively. Sainsbury's Bank plc is incorporated and domiciled in England.

Since 1 February 2014, the Bank is a wholly-owned subsidiary of J Sainsbury plc and is included in the consolidated financial statements of J Sainsbury plc which are publicly available. Consequently, the Bank has taken advantage of the exemption from preparing consolidated financial statements under the terms of section 400 of the Companies Act 2006.

Subsidiaries are entities, including special purpose entities (SPEs), over which the Bank has the power to govern the financial and operating policies. The results of subsidiaries are included in the income statement of the ultimate parent J Sainsbury plc.

On 16 April 2015, the Bank entered a secured funding transaction with JP Morgan which involved the legal transfer of certain personal loan balances into an SPE, Lochside Asset purchaser No1 plc. This subsidiary is not included in the prudential consolidation.

The basis of preparation of accounting information under International Financial Reporting Standards (IFRS) and for regulatory purposes is the same. These disclosures include a balance sheet reconciliation information as required in point (a) of Article 437(1) of Regulation (EU) No 575/2013.

As the Bank has adopted the standardised approach to the calculation of the credit and operational risk capital requirements, no Internal Ratings Based or Advanced Measurement Approach disclosures are included.

1.4 Frequency

The Bank's Pillar 3 Disclosures will be published on an annual basis in a reporting cycle aligned with the publication of the Bank's Annual Report and Financial Statements.

This frequency will be reviewed if there is a material change in the approaches used for the calculation of capital, characteristics of the business or regulatory requirements.

1.5 Medium and location for publication

The Pillar 3 Disclosures and Annual Report and Financial Statements will be published on the J Sainsbury plc corporate website: www.j-sainsbury.co.uk/investor-centre.

1.6 Verification

These Disclosures have been reviewed and recommended by the Bank's Audit Committee. The Disclosures are not subject to audit. However certain information has been extracted from the Annual Report and Financial Statements of the Bank, the Financial Statements having been subject to independent external audit.

1.7 Non-material, proprietary or confidential information

The Bank does not seek any exemption from disclosure on the basis of materiality or on the basis of proprietary or confidential information.

2. Risk management objectives and policies

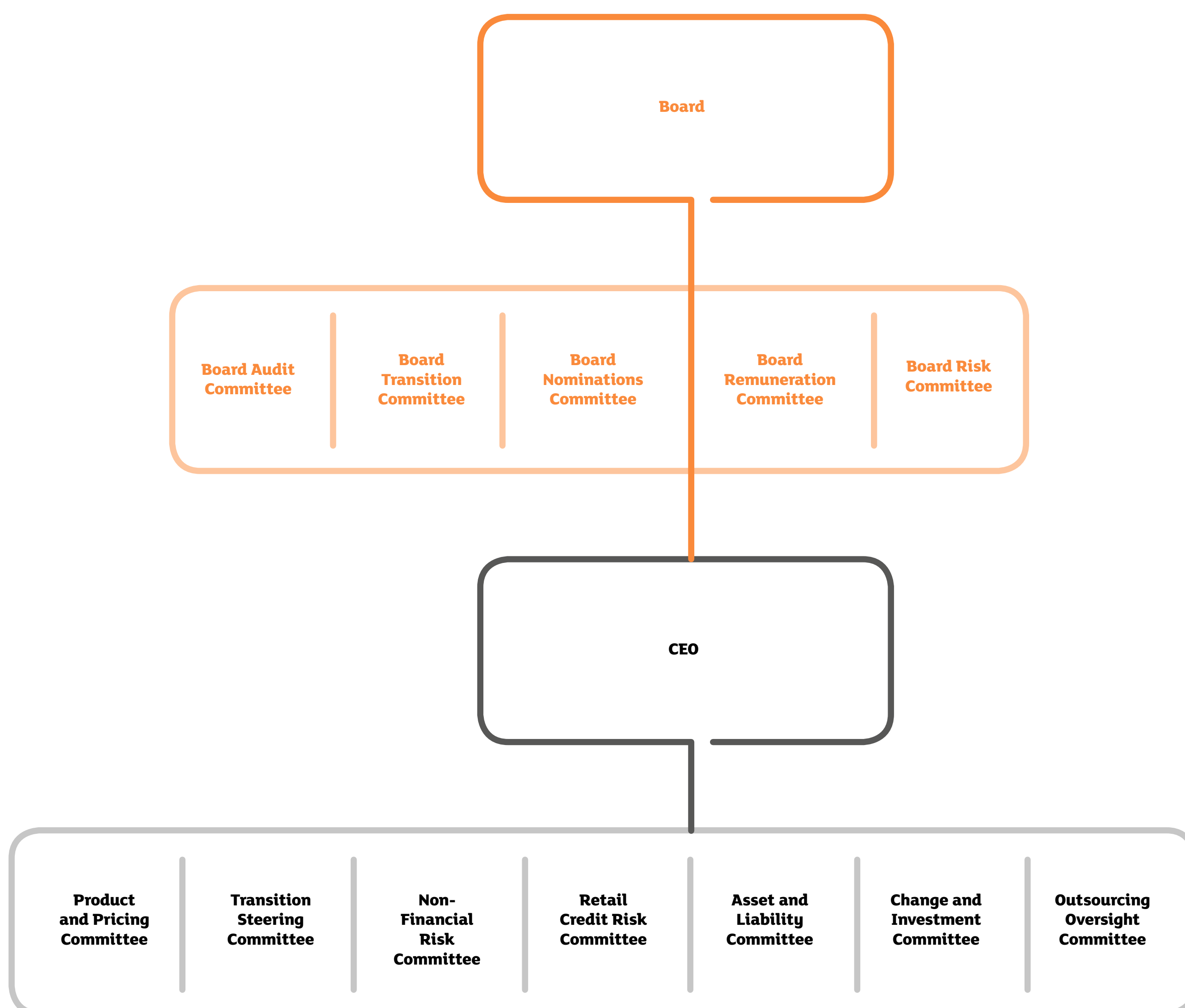
2.1 Risk management approach

The Bank aims to appropriately manage all risks that arise from its activities. Through its normal operations the principal risks to the Bank are retail credit risk, wholesale credit risk, liquidity & funding risk, market risk, operational risk and compliance & conduct risk. Alongside these, the Bank is currently exposed to additional operational risks associated with its transition to a new stand-alone operating model following the transfer to full ownership by J Sainsbury plc in 2014.

The Bank has established a risk framework and formal structure to monitor and manage risks across its operations. The Board has agreed statements of risk appetite and these are adhered to via detailed risk management policies and through reporting through various governance committees.

The governance framework in place at the Bank vertically segregates into three levels:

- Board level governance
- Collective management level governance
- Executive level governance



2.1.1 Board level governance
The Board level governance holds overall accountability for the outcomes achieved, decisions made and steering the Bank, subject to specific reserved matters which require the consent of J Sainsbury plc. The Board then subsequently delegates the appropriate responsibility, authority and accountability to the CEO to deliver the Bank's Strategy through the appropriate governance committees and Executive Management Team.

– **The Board**
The Board is the key governance body and is responsible for the overall strategy, performance of the business and management of risk. It has delegated responsibility for the day to day running of the business to the Chief Executive and the Executive Management Team through apportionment of responsibility and delegated authorities.

The Board meets at least nine times a year. It is comprised of key Executive members from the Bank, and Non-Executive Directors from J Sainsbury plc as well as Independent Non-Executive Directors. The chairman is an Independent Non-Executive Director. A number of Board functions are delegated to five key sub-committees – the Board Risk Committee (BRC), Audit Committee, Remuneration Committee (RemCo), Nominations Committee and Transition Committee.

– **Audit Committee**
The Audit Committee's key responsibility is to advise the Board on the Bank's financial statements both interim and final, including systems and controls and related policy issues together with relationships with external auditors. The Committee is also responsible for reviewing and approving the internal audit plan and budget, and for ensuring that the function is adequately resourced. During 2014, the Committee monitored the effectiveness of internal audit and approved the resourcing model to support delivery of the audit plan.

– **Transition Committee**
The Transition Committee oversees delivery of the New Bank Programme and the transition to new banking platforms, systems and processes following the transfer of full ownership to J Sainsbury plc in 2014.

– **Nominations Committee**
The Nominations Committee is responsible for reviewing the structure, size and composition of the Board. The Committee is also responsible for succession planning of the Board and the Executive management team and for ensuring a formal, rigorous and transparent process for recommending appointments to the Board to the Bank's shareholders.

– **Remuneration Committee**
The role of the Remuneration Committee (RemCo) is to determine and agree with the Board the broad policy for remuneration and for compliance with the Remuneration Code (the Code) to the extent that the provisions apply to the Bank. RemCo is responsible for recommending, monitoring and noting the level and structure of remuneration for senior management (categorised as 'Code Staff' for the purposes of the Code) and senior risk management and compliance colleagues.

RemCo continually reviews and assesses the impact of remuneration policies on the risk profile of the Bank and employee behaviour. RemCo has oversight over appointment and severance terms for relevant employees (including payments of guaranteed remuneration for appointees and retention terms).

– **Board Risk Committee**
The Board Risk Committee (BRC) is forward looking to anticipate future risks and monitoring and providing oversight over existing risks. It is responsible for reviewing and reporting its conclusions to the Board on the Bank's risk appetite and the Bank's risk management framework.

2.1.2 Collective management level governance
The collective management level governance is established to ensure appropriate checks, balances and transparency on executive decision making. Responsibilities include general operational management delivery of the agreed business plan in line with agreed risk appetite, approval of new business plans or strategic changes prior to submission to the Board and senior management resourcing. The CEO's oversight and governance of the Bank is supported and affected through a number of management committees.

– **Product and Pricing Committee**
The Product and Pricing Committee (PPC) oversees and manages the Bank's product portfolio; including management of tactical decisions regarding pricing and product terms and conditions, and product/channel alignment. It also makes those decisions in relation to products and pricing that are necessary to ensure that the Bank operates within relevant and defined risk appetite.

– **Transition Steering Committee**
The Transition Steering Committee is responsible for ensuring that there is effective governance and oversight of the New Bank Programme, focusing on delivering on time, within budget, and to prescribed quality standards.

– **Non-Financial Risk Committee**
The Non-Financial Risk Committee (NFRC) is in place to ensure the effective management of operational risk and compliance & conduct risk, including areas such as fraud, information security and business continuity. It makes those decisions necessary to ensure that the Bank operates within its defined risk appetite.

– **Retail Credit Risk Committee**
The Retail Credit Risk Committee (RCRC) is responsible for monitoring the performance of the retail lending book and the credit card portfolio. This Committee receives regular reports about the performance of all retail credit portfolios. This includes the credit cards and loans application process as well as collections and recoveries performance.

– **Asset and Liability Committee**
The Asset and Liability Committee (ALCO) is responsible for ensuring the balance sheet of the Bank is managed effectively with its main areas of responsibility being market risk, wholesale credit risk, liquidity & funding risk, including capital adequacy.

– **Change and Investment Committee**
The Change and Investment Committee (CIC) is responsible for the management and oversight of the operational risk associated with the Bank's 'business as usual' change portfolio ensuring appropriate prioritisation of projects and tracking of progress versus plan.

– **Outsourcing Oversight Committee**
The Outsourcing Oversight Committee (OOC) is responsible for ensuring that outsourcing component of operational risk is managed in line with the approved risk appetite and a consistent approach is taken to managing supplier relationships across the Bank.

2.1.3 Executive level governance
This is the Executive Committee and their mandates in relation to working groups.

2.2 Board selection criteria
We take succession at Board and senior management level very seriously and recruitment into the Board combines an assessment of both technical capability and competency skills to ensure the optimum blend of individual and aggregate capability having regard to the Bank's long term strategic plan. Board recruitment is subject to the approval of the Nominations Committee, the Board and the relevant regulatory bodies (PRA/FCA).

2. Risk management objectives and policies continued

2.3 Board diversity

The Company is committed to promoting a diverse and inclusive workplace at all levels, reflective of the communities in which it does business, and our diversity and inclusion vision aligns with that of our parent J Sainsbury plc whose aim is to be 'the most inclusive retailer'. We will achieve this aspiration by recruiting, retaining and developing diverse and talented people and creating an inclusive environment where everyone can be the best they can be and where diverse views are listened to. The Nominations Committee is responsible for ensuring there is an appropriate balance of skills and experience across the Board.

2.4 Number of directorships held by members of the Board

Name	Position	Directorships Executive	Directorships Non Executive
Roger Davis	Chairman (Independent Non-Executive)	–	4
Peter Griffiths	Chief Executive Officer	1	–
David Arden	Chief Financial Officer	1	–
Gwyn Burr	Non-Executive	–	6
Marcia Campbell	Independent Non-Executive	–	3
Alan Cook	Independent Non-Executive	–	3
Stuart Deane	Chief Trading Officer	1	1
Richard Keys	Independent Non-Executive	–	3
Mark Mullington	Chief Risk Officer	1	–
John Rogers	Non-Executive	1	1
Andrew Simmonds	Independent Non-Executive	–	1
Sarah Warby	Non-Executive	–	1

Disclosed directorships include Sainsbury's Bank. Those held within the same group are counted as a single directorship and those in non-commercial organisations are not included.

2.5 Adequacy of risk management arrangements

The Board of Directors is ultimately responsible for the risk management framework of the Bank. The Board provides an annual declaration on the adequacy of the Bank's risk management arrangements. This is to provide assurance that the risk management systems put in place are adequate with regard to the Bank's profile and strategy. This declaration is included in Annex I.

2.6 Risk statement

The Bank's risk statement (Annex II) represents the articulation of the Bank's risk appetite, is approved by the Board and defines the level of risk that the Bank is prepared to accept to achieve its strategic objectives. The Board Risk Committee approves the articulation of these risk appetite statements in relation to retail credit risk, wholesale credit risk, market risk (interest rate risk), operational risk, liquidity & funding risk, and compliance & conduct risk.

The Bank operates within appetite tolerances and regularly reports against performance to the Board.

2.7 Risk model

As part of the Enterprise Wide Risk Management Framework ('EWRMF') that the Bank operates, the risk model requires that the roles and responsibilities of risk management, risk oversight and risk assurance are clearly delineated from those of the commercial and operational activities of the Bank, and there is in place effective segregation. This is known as the Three Lines of Defence model and operates as follows:

- The first line of defence is responsible for execution of the Bank's strategy, business performance, setting and implementation of policy and management of risks and internal controls. This primarily lies with the Chief Executive, the Executive Committee (ExCo) and through delegated authority to management committees. On a day-to-day basis, management and control of risk in the business is owned by the individual business units. Escalation procedures exist such that any control failures are reported to the Bank's independent risk team, and to the Executive and relevant governance bodies.
- The second line of defence provides risk oversight, an independent and objective challenge to the first line of defence. The various committees in the risk governance structure challenge the main risk types, ensuring the risks are managed effectively in line with the risk and related risk appetite.
- The third line of defence provides independent and objective assurance on the effectiveness of the Bank's risk management, internal control and governance. This is provided by an in-house internal audit team and is supplemented by J Sainsbury plc Internal Audit or external firms. The Board retains ultimate responsibility for risk management in the Bank.

2.8 Risk exposures

The principal risks to the Bank are retail and wholesale credit risk, liquidity & funding risk, market risk, operational risk and compliance & conduct risk. The principal risks and uncertainties are described in more detail below together with examples of relevant controls and mitigating factors. It should be noted that the risk assessment and mapping employed by the Bank goes beyond this assessment and captures less material risks that may still impact the business and require monitoring for future changes in materiality. In addition, the Bank continues to monitor uncertainties, such as new regulations impacting the Bank's credit card interchange fees, to assess whether they give rise to new risks to the business.

As noted above, the Bank is managing through a transitional period following the transfer to full ownership by J Sainsbury plc in 2014. During this period, the Bank is exposed to additional operational risks associated with the transition which could have an impact on people, processes, regulatory compliance and technical infrastructure. Oversight of these transitional risks is being maintained through the Bank's existing risk oversight framework.

2.8.1 Retail credit risk

The Bank manages three credit portfolios. The unsecured personal loans and credit card portfolios are active books. The mortgage book, which represents a very small percentage of the Bank's assets, is closed to new business and therefore running down. The Bank conducts the majority of its activities in the 'prime' segment of the market (customers with clean credit histories who are not over-indebted).

The Bank's risk appetite for retail credit risk is defined in the Retail Credit Appetite Statement, which defines:

- the target market for its lending; and
- tolerance levels for the quality of loans and credit card stock and new business.

The Bank monitors external economic indicators to identify changes to the external environment. Appropriate management actions are detailed which would be considered in response to the change in the level of economic stress.

The risk of customer defaults on loans and credit cards is managed through automated decision systems using scorecards and policy rules developed by the Bank.

Application scorecards for loans and credit cards, and account management scorecards for credit cards, are developed using data from the Bank's own credit portfolios supplemented by data from the credit bureaux. The effectiveness of the scorecards and policy rules is regularly monitored, and re-calibration undertaken where necessary. In addition, behavioural scoring is used to assess the conduct of customers' accounts on an ongoing basis, for example granting extensions to limits. Where subjective assessments are undertaken, these are subject to strict controls and monitoring with manual underwriting being undertaken by specialist teams in operational areas.

Comprehensive management information on the economy, portfolio limits, quality of new business, stock performance, bad debts trends and collections and recoveries performance is presented to the Retail Credit Risk Committee.

Within the EWRMF, the Retail Credit Risk policy is classified as a key risk policy and is approved by the Board. The Retail Credit Risk Committee ensures that standards are in place to ensure that we are responsible lenders and manage customers in financial difficulties appropriately. There are appropriate frameworks, toolkits, processes and procedures in place to ensure adherence to policies and standards. Internal Audit and Risk Assurance teams carry out regular reviews of all elements of the framework.

2.8.2 Wholesale credit risk

The Bank places surplus deposits raised through retail markets in a variety of investments as set out in the Risk Appetite Statement and Tolerance section in the Bank's Lending Policy. Allowable investments include Deposits with the Bank of England (Reserve Account), Unsecured Cash Deposits, Repurchase Arrangements, Gilts, Treasury Bills, Debt Securities issued by Multilateral Development Banks (Eligible assets only), Certificates of Deposit and Money Market Funds.

These investments give rise to the risk of loss arising from a counterparty being unable to meet their financial obligations to the Bank when they are expected to fall due. To mitigate this risk, all investment activity is controlled through dealing mandates with pre-approved high quality counterparties as agreed by ALCO and subject to Board Risk Committee/Board overview.

In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risk are controlled and managed according to counterparty (and their respective credit qualities). Consideration is also given to geographical sector and in the case of wholesale credit risk the strength of the relevant sovereign.

Daily monitoring is undertaken by the Bank's Treasury department with updates provided to senior management and ALCO on a daily basis. These daily updates also make reference to early warning indicators which have been established to ensure wholesale risk is identified on a timely basis.

For the effective management of risks, any changes to potential counterparties, their limits or their ratings are approved by or advised to ALCO and BRC/Board. Derivatives are subject to the same credit risk control procedures as are applied to other wholesale market instruments and the credit risk arising from mark to market derivative valuations is mitigated by daily margin calls, posting cash collateral to cover exposures.

2.8.3 Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

The Bank has a defined Operational Risk Policy which is reviewed at least annually by the NFRC and the BRC to ensure alignment with the Bank's requirements for operational risk management, its alignment to the Bank's Risk Appetite Statement and its continued relevance to the Bank's current and planned operations.

The Bank identifies, evaluates and monitors operational risks against its defined risk appetite through a number of core processes such as operational risk profiling, loss event reporting, the use of key risk indicators and control self assessment. Regular reports are provided to the NFRC and other governance bodies, such as the OOC to ensure regular, effective review of operational risks both within the Bank and our extensive supplier base.

The major potential sources of operational risks faced by the Bank include:

- Outsourcing
- Internal and external fraud
- Failure of systems and processes
- Inadequate change management
- Data security and integrity
- Cyber attacks.

These risks are mitigated, for example, by defined processes for relationship management of outsourced activities, and contracts and service level agreements with service providers.

Internal audit undertakes reviews across the business throughout the year under a risk-based programme agreed with the Bank Audit Committee.

2.8.4 Compliance & conduct risk

Compliance & conduct risk is the risk of the consequences from the Bank failing to meet the requirements of legislation and regulatory requirements as defined by any relevant regulatory bodies. This can encompass legal and compliance risk, prudential risk and conduct with customers.

The Bank's aim is to meet all legal and regulatory requirements and minimise any reputational impact by maintaining an effective control framework. Compliance and conduct advice and guidance is provided to the business structured predominately through a prescribed policy framework supported by effective second line monitoring and assurance.

Conduct risk is the risk that our actions or decisions could result in an unfair outcome causing loss or inconvenience for our customers. Keeping the trust of our customers is very important to the Bank. The Bank therefore has a low risk appetite to conduct risk and is committed to managing the business in a way that ensures it mitigates the risk of unfair outcomes.

As the Bank is a predominantly outsourced business, this also applies to our third party suppliers.

The compliance and conduct risk teams regularly report to the NFRC, the BRC and the Board.

2.8.5 Liquidity & funding risk

Liquidity risk is the risk that the Bank cannot maintain or generate sufficient cash resources to meet its payment obligations as they are expected to fall due, or can only do so at extreme cost. The Bank seeks to maintain a liquidity and funding profile to ensure that it can meet its financial obligations under stressed market conditions.

As required by the regulations, the Bank has completed an Individual Liquidity Adequacy Assessment (ILAA). This allows the Bank to demonstrate that it understands the liquidity risks it is running and has appropriate controls in place to mitigate them. The Bank has established a risk appetite as well as a suite of limits stemming from the ILAA process that determines the minimum level of liquidity held. Limits are informed by a number of stress scenarios that assess the survival period of the Bank. These include idiosyncratic stresses, market stresses and a combination of both.

In meeting internal limits as well as regulatory requirements the Bank maintains a stock of high quality liquid assets that can be readily sold to meet the Bank's obligations to depositors and other creditors. The portfolio of assets is managed on a daily basis and within the framework as outlined in the ILAA and by the PRA.

In addition to this, the Bank prepares both long term and short term forecasts to assess liquidity requirements. Short term forecasting covers a rolling twelve month period and takes into account factors such as ATM cash management, investment maturities and customer deposit patterns and balances. These reports support daily liquidity management and are reviewed daily by senior management along with other early warning indicators. Early warning indicators include market stress indicators such as the 3 month LIBOR and the yield spread on UK bonds and also firm specific indicators such as early signs of withdrawals on the Bank's retail deposits.

The Bank's Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) are regularly monitored and forecast alongside other cash flow and liquidity ratios. Actual and forward looking forecasts for these ratios are reported to the Treasurer and Treasury Risk daily and to ALCO, BRC and the Board.

2. Risk management objectives and policies continued

2.8.6 Market risk

The main source of market risk is Interest Rate Risk in the Banking Book (IRRBB) which arises from the provision of financial products to the Bank's retail customer base as well as from wholesale exposures. The possibility of differences in rate resets for assets and liabilities arising from their potentially different re-pricing and maturity characteristics as well as the impact of using different indices when resetting contracted financial obligations (basis risk), creates interest rate exposures requiring management.

Oversight of interest rate risk is the responsibility of ALCO. The Bank's Market Risk Policy is reviewed annually and approved by ALCO and the Board Risk Committee. The Bank does not take any market risk for speculative purposes and does not operate a trading book.

The Policy sets the framework and standards under which the Bank will measure, monitor and manage interest rate risk. Interest rate risk limits aligned with the policy are defined on an aggregate portfolio basis across differing maturity periods.

Interest rate risk exposure is managed through hedging of the fixed rate elements of the Bank's retail lending. Where possible, the Bank takes advantage of natural hedging opportunities between fixed rate assets and liabilities with similar re-pricing characteristics. Net re-pricing gaps are managed within limits set by the Board Risk Committee using cash collateralised interest rate swaps. Residual exposures are monitored by ALCO and the Board Risk Committee according to risk appetite.

During the year, the Bank continued to transact hedging swaps with the objective of managing interest rate risk arising predominantly from the personal loan portfolio. These pay fixed, receive LIBOR rate interest swap contracts are designed to hedge the re-pricing risk on segments of the personal loan portfolio which earn fixed rate income and hence reduce net interest earnings volatility.

The Bank also transacted a series of receive fixed, pay LIBOR swaps for the purpose of stabilising earnings arising from the Bank's net non-interest sensitive liabilities which include the Bank's reserves.

The impact of adverse movements in interest rates is modelled across a range of instantaneous parallel interest rate shocks and reported to ALCO on a monthly basis. Input parameters for the modelling, such as product behavioural assumptions, and product pricing in the event of rate movements, are approved by ALCO.

The Bank's sensitivity of interest income to a 200 basis points instantaneous parallel rate shock was:

2015 – Parallel instantaneous rate shift	Impact on income	
	–200 bps	**+200 bps**
NII Sensitivity	**£18m**	**£(17)m**

2013 – Parallel instantaneous rate shift	Impact on income	
	–200 bps	+200 bps
NII Sensitivity	£2m	£(4)m

3. Capital resources

The Bank is required to hold own funds (capital resources) in accordance with the Capital Requirements Regulations (CRR), which sets out the quantity and quality of own funds. The PRA sets and monitors capital requirements for the Bank. In implementing current capital requirements the PRA requires the Bank to maintain a prescribed level of capital with reference to risk weighted assets and the perceived risk management framework.

At 28 February 2015 and throughout the period, the Bank complied with the capital requirements that were in force as set out by the PRA.

The Bank manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its activities.

The Bank's regulatory capital is analysed into two tiers:

- Tier 1 capital includes ordinary share capital and reserves with regulatory deductions; and
- Tier 2 capital includes subordinated loan capital plus collective impairment allowance.

Tier 2 capital is limited to 25% of total capital.

The table below shows the breakdown of total available capital for the Bank.

3.1 Total capital resources

Capital resources are presented below. Capital ratios for the year ended 31 December 2013 are shown under Basel II basis while ratios for the period ended 28 February 2015 are calculated under CRD IV.

	28 Feb 2015 £m	31 Dec 2013 £m
Core Equity Tier 1 (CET 1) capital:		
Ordinary share capital	**299**	170
Reserves	**184**	139
Losses recognised	**(25)**	–
Deduction for intangible assets	**(104)**	(4)
Total CET 1 capital	**354**	305
Total Tier 1 capital	**354**	305
Tier 2 capital:		
Undated subordinated notes	**–**	50
Allowable element of provisions	**–**	6
Dated subordinated notes	**–**	12
Total Tier 2	**–**	68
Total capital	**354**	373

	28 Feb 2015	31 Dec 2013
Risk weighted assets (£m)	**2,782**	2,475
CET 1 capital ratio (%)	**12.7**	12.3
Risk asset ratio (%)	**12.7**	15.1

3.2 Movement in CET 1 capital

The table below shows the movement in CET 1 capital during the period.

	£m
CET 1 capital at 1 January 2014	305
Ordinary share capital issued	129
Profit recognised in reserves	45
Current year losses recognised	(25)
Movement in intangible assets	(100)
CET 1 capital at 28 February 2015	**354**

3.3 Share capital

	'A' ordinary shares of £1 £m	'B' ordinary shares of £1 £m	Ordinary shares of £1 £m	Total shares £m
Allotted, called up and fully paid:				
At 1 January 2014	85	85	–	170
Reclassification	(85)	(85)	170	–
Issued ordinary shares	–	–	129	129
At 28 February 2015	**–**	**–**	**299**	**299**
At 1 January 2013	85	85	–	170
Issued ordinary shares	–	–	–	–
At 31 December 2013	85	85	–	170

Prior to 1 February 2014 share capital was divided into class 'A' and class 'B' ordinary shares which ranked pari passu in all respects. From 1 February 2014, the Bank altered its Articles of Association to change the status of its share capital to one class of ordinary shares. At the same time, the authorised share capital limit of the Bank was removed in line with the provisions of the Companies Act 2006.

During the year the Bank issued 50m ordinary shares of £1 each to J Sainsbury plc in exchange for repayment of the subordinated undated loan capital.

During the year the year the Bank issued 78.75m ordinary shares of £1 each at par to J Sainsbury plc.

The shareholders' agreement prescribes that a distribution of profits may not be made if the distribution would result in the Bank being in regulatory test deficit, the distribution would or would be likely to result in a breach of any covenant to any lender, or if a distribution would not be prudent having regard to the future outlook and performance of the Bank.

3.4 Subordinated loan capital

	2015 £m	2013 £m
Dated loan capital		
£60 million floating rate subordinated loan 2014		
Repayable in less than 1 year	–	60
Repayable between 1 and 5 years	–	–
	–	60
Undated loan capital		
£50 million floating rate subordinated loan – undated	–	50

Dated loan capital

At 31 December 2013 the dated subordinated loan was split in proportion to shareholder funding. On 1 February 2013 the £30m loan from Lloyds Banking Group was transferred to J Sainsbury plc. The £60m loan was repaid on its maturity date of 2 December 2014 following approval from the Prudential Regulation Authority. Interest on the £60 million Floating Rate subordinated loan dated 2014, was payable three months in arrears at LIBOR plus a margin of 0.60% per annum for the duration of the loan.

Undated loan capital

At 31 December 2013 the undated subordinated loans were split in proportion to shareholder funding. On 1 February 2013 the £25m loan from Lloyds Banking Group was transferred to J Sainsbury plc and on 28 February 2014 the £50m loan was repaid by issue of 50m of £1 ordinary shares to J Sainsbury plc following approval from the PRA. Interest on the £50 million Floating Rate undated loan capital was payable three months in arrears at LIBOR plus a margin of 1.0% per annum for the duration of the loan.

3.5 Own funds balance sheet reconciliation

Article 237 (1) of the CRR requires a reconciliation of own funds to audited financial positions in the Annual Report and Financial Statements. This should include all items that are components of or are deducted from regulatory own funds. The balance sheet reconciliation as at 28 February 2015 is included in Annex III.

3.6 Main features of capital instruments

Article 437 of the CRR requires the Bank to disclose the main features of capital resources. The disclosure of the main features of CET 1 capital are included in Annex IV.

4. Compliance with CRD IV and the overall Pillar 2 rule

4.1 Assessment of the adequacy of internal capital

In order to protect the solvency of the Bank, internal capital is held to provide a cushion for unexpected losses. The extent of the capital held is determined by the regulator's guidance on capital adequacy, supplemented by the Bank's prudent approach which requires that a buffer in excess of the regulatory requirement is maintained at all times.

The Bank has adopted the Standardised Approach to the calculation of credit risk and operational risk.

The Bank determined that the benefits of implementing the Internal Ratings Based approach for credit risk and the Advanced Measurement Approach for operational risk to calculate risk weightings are currently outweighed by the costs of complying with their requirements. This is subject to regular review.

The Bank undertakes an annual Internal Capital Adequacy Assessment Process (ICAAP) to assess the risks to the adequacy of its capital, how it mitigates these risks and how much capital it requires to hold currently and in the future.

Capital adequacy is reviewed by the Board, and ALCO, and is reported to the PRA on a quarterly basis. The Bank holds capital well in excess of the capital requirement calculated in the ICAAP.

4.2 Minimum capital requirement

The Bank calculates the Pillar 1 capital requirement for Credit and Operational Risk under the Standardised Approach. The Credit Valuation Adjustment (CVA) is required by Article 375 of the CRR.

The following table shows the Bank's minimum capital requirement for each of the risk exposure classes. The minimum capital requirement is calculated as 8% of the risk weighted exposures.

As at 28 February 2015	**Minimum capital requirement £m**	**Risk weighted assets £m**
Retail	**177**	**2,217**
Collective investment undertakings (CIUs)	**–**	**–**
Secured by mortgages on immovable property	**2**	**20**
Institutions	**3**	**35**
In default	**3**	**33**
Other	**8**	**102**
Total credit risk	**193**	**2,407**
Total operational risk	**29**	**368**
CVA risk	**1**	**7**
Total risk	**223**	**2,782**

The movement in risk-weighted assets from 31 December 2013 to 28 February 2015 represents movements in the volumes of the exposures.

As at 31 December 2013	Minimum capital requirement £m	Risk weighted assets £m
Retail	151	1,887
CIUs	5	61
Secured by mortgages on immovable property	2	25
Institutions	4	44
In default	2	29
Other	7	85
Total credit risk	171	2,131
Total operational risk	28	344
Total risk	199	2,475

The Other category above is non-credit risk weighted assets e.g. tangible assets, accrued income, items in course of collection.

5. Credit risk and Dilution risk

5.1 Impairment losses on loans and advances

Impairment loss calculations involve the estimation of future cash flows of financial assets, based on observable data at the balance sheet date and historical loss experience for assets with similar credit risk characteristics. These calculations are undertaken on a portfolio basis using various statistical modelling techniques. Impairment models are continually reviewed to ensure data and assumptions are appropriate. However, the accuracy of any such impairment calculation will be affected by unexpected changes to the economic situation, and assumptions which differ from actual outcomes. As such, judgement is also applied in selecting and updating impairment models.

5.2 Maximum exposure to credit risk

The table below shows the maximum exposure to credit risk for the components of the balance sheet, including derivatives. The maximum exposure is shown gross, before the effect of mitigation through the use of collateral agreements. Note that the exposures differ from those presented in the financial statements as they include off balance sheet items after application of credit conversion factors (CCF). Categories reflect those set out in Article 112 of the CRR, however those categories with nil values have been excluded. Comparative values have been restated to reflect the new categories.

Credit exposure

	Average 2015 £m	**Total 28 Feb 2015 £m**
Retail	**2,746**	**2,972**
CIUs	**87**	**–**
Secured by mortgages on immovable property	**62**	**56**
Central governments or central banks	**617**	**777**
In default	**102**	**107**
Securitisation positions	**4**	**55**
Institutions	**190**	**166**
Other	**375**	**394**
Total credit risk exposure	**4,183**	**4,527**

	Average 2013 £m	Total 31 Dec 2013 £m
Retail	2,479	2,526
CIUs	336	307
Secured by mortgages on immovable property	75	68
Central governments or central banks	484	514
In default	101	101
Securitisation positions	–	–
Institutions	1,103	1,096
Other	306	292
Total credit risk exposure	4,884	4,904

5.3 Risk concentrations

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed according to client or counterparty (and their respective credit qualities), as opposed to geographical region or industry sector.

5.4 Geographical and counterparty sectors

Credit exposure

28 February 2015	**United Kingdom £m**	**Europe £m**	**Total £m**
Retail	**2,972**	**–**	**2,972**
CIUs	**–**	**–**	**–**
Secured by mortgages on immovable property	**56**	**–**	**56**
Central governments or central banks	**777**	**–**	**777**
In default	**107**	**–**	**107**
Securitisation positions	**55**	**–**	**55**
Institutions	**90**	**76**	**166**
Other	**394**	**–**	**394**
	4,451	**76**	**4,527**

31 December 2013	United Kingdom £m	Europe £m	Total £m
Retail	2,526	–	2,526
CIUs	–	307	307
Secured by mortgages on immovable property	68	–	68
Central governments or central banks	514	–	514
In default	101	–	101
Securitisation positions	–	–	–
Institutions	1,064	32	1,096
Other	292	–	292
	4,565	339	4,904

Concentration by location for institutional exposures is based on the country of incorporation of the counterparty or issuer of the security.

5.5 Capital buffers

The Bank is not currently classified as a 'globally important institution' (G-SII) or an 'other systemically important institution' (O-SII) and therefore has no additional capital requirements in respect of this.

Credit institutions are required to hold a capital conservation buffer and a counter-cyclical capital buffer to ensure that sufficient capital is accumulated during periods of economic growth to absorb losses in stressed periods.

The capital conservation buffer will apply from 1 January 2016 on a transitional basis. This is currently set at nil.

Institutions are required to calculate an institution-specific counter-cyclical capital buffer as a weighted average of the counter-cyclical buffer rates that apply in the countries where the credit exposures are located. Each member state designates an authority responsible for setting the counter-cyclical buffer rate in that member state on a quarterly basis, taking into account the growth of credit levels and changes to the ratio of credit to GDP. The Financial Policy Committee (FPC) of the Bank of England is responsible for setting the rate in the UK. The Bank institution-specific counter-cyclical buffer rate at 28 February 2015 and throughout the period was 0%.

28 February 2015	Exposure £m	Counter-cyclical rate
United Kingdom	4,451	0%
France	48	0%
Switzerland	28	0%
Average counter-cyclical rate		0%

5.6 Residual Maturity by Exposure Class

28 February 2015	**< 1 month £m**	**1-3 months £m**	**3-12 months £m**	**1-5 years £m**	**> 5 years £m**	**Total £m**
Retail	**812**	**145**	**593**	**1,399**	**23**	**2,972**
CIUs	**–**	**–**	**–**	**–**	**–**	**–**
Secured by mortgages on immovable property	**1**	**1**	**4**	**19**	**31**	**56**
Central governments or central banks	**480**	**80**	**212**	**–**	**5**	**777**
In default	**29**	**5**	**21**	**51**	**1**	**107**
Securitisation positions	**–**	**–**	**–**	**55**	**–**	**55**
Institutions	**85**	**75**	**–**	**6**	**–**	**166**
Other	**394**	**–**	**–**	**–**	**–**	**394**
	1,801	**306**	**830**	**1,530**	**60**	**4,527**

31 December 2013	< 1 month £m	1-3 months £m	3-12 months £m	1-5 years £m	> 5 years £m	Total £m
Retail	376	139	577	1,434	–	2,526
CIUs	307	–	–	–	–	307
Secured by mortgages on immovable property	1	1	4	22	40	68
Central governments or central banks	97	146	266	–	5	514
In default	15	6	24	56	–	101
Securitisation positions	–	–	–	–	–	–
Institutions	1,012	50	–	34	–	1,096
Other	292	–	–	–	–	292
	2,100	342	871	1,546	45	4,904

5.7 Exposure by credit quality steps

Exposures are shown below by credit quality steps. The mappings between the main external credit assessment institutions used by the Bank and the credit quality steps used to determine the risk-weight is detailed in the following table. Where no external rating is used in the risk weighted asset calculation, the unrated credit quality step applies. This captures all retail exposures, where the risk-weight is prescribed by arrears status.

Credit exposure	Moody's assessments	Fitch assessments
Step 1	Aaa to Aa3	AAA to AA–
Step 2	A1 to A3	A+ to A–
Step 3	Baa1 to Baa3	BBB+ to BBB–
Step 4	Ba1 to Ba3	BB+ to BB–
Step 5	B1 to B3	B+ to B–
Step 6	Caa1 and below	CCC+ and below

28 February 2015	**Credit Quality Step 1 £m**	**Credit Quality Step 2 £m**	**Credit Quality Step 3 £m**	**Unrated exposure £m**	**Total £m**
Retail	**–**	**–**	**–**	**2,972**	**2,972**
CIUs	**–**	**–**	**–**	**–**	**–**
Secured by mortgages on immovable property	**–**	**–**	**–**	**56**	**56**
Central governments or central banks	**777**	**–**	**–**	**–**	**777**
In default	**–**	**–**	**–**	**107**	**107**
Securitisation positions	**–**	**–**	**–**	**55**	**55**
Institutions	**49**	**117**	**–**	**–**	**166**
Other	**–**	**–**	**–**	**394**	**394**
Total exposure pre-mitigation	**826**	**117**	**–**	**3,584**	**4,527**
Total exposure post-mitigation	**826**	**117**	**–**	**3,584**	**4,527**

31 December 2013	Credit Quality Step 1 £m	Credit Quality Step 2 £m	Credit Quality Step 3 £m	Unrated exposure £m	Total £m
Retail	–	–	–	2,526	2,526
CIUs	307	–	–	–	307
Secured by mortgages on immovable property	–	–	–	68	68
Central governments or central banks	514	–	–	–	514
In default	–	–	–	101	101
Institutions	–	1,063	33	–	1,096
Other	–	–	–	292	292
Total exposure pre-mitigation	821	1,063	33	2,987	4,904
Total exposure post-mitigation	821	136	33	2,987	3,977

5. Credit risk and Dilution risk continued

5.8 Credit risk mitigation

5.8.1 Retail

Mortgages held over residential properties represent the only collateral held by the Bank for retail exposures. The fair value of collateral held for impaired loans and loans past due but not impaired at 28 February 2015 was £7m (31 Dec 2013: £7m). The fair value of collateral held against possession cases was £nil (31 Dec 2013: £nil).

Where the arrears status of a customer deteriorates and there is a failure to respond to correspondence or an acceptable repayment proposal, including notice of default, the customer balance will fall into 'recoveries'. Recoveries will take steps to recover the debt, using their expertise to determine the optimum recovery strategy.

5.8.2 Financial institutions

The maximum credit exposure to any client or counterparty as of 28 February 2015 was £28m (31 Dec 2013: £963m) before taking into account collateral or other credit enhancements of £nil (31 Dec 2013: £211m). This exposure at 31 December 2013 was to Lloyds Banking Group plc (LBG) and represents short-term interbank deposits, lending under a reverse repo arrangement which is supported by 100% UK gilt collateral, and derivative exposures. This exposure was extinguished on 31 January 2014 when the deposits were liquidated and used to repay the credit facility provided by LBG in preparation for the change of ownership that was completed that day.

In addition to repo and reverse repo transactions, the Bank manages collateral to mitigate derivatives credit risk exposures and in respect of its secured funding activities. Derivatives collateral is managed daily and adjusted to reflect derivatives market value fluctuations in line with ISDA Credit Support Annexes between the Bank and its counterparties. Secured wholesale funding is obtained under the Bank of England's Funding for Lending Scheme (FLS) and from a bilateral facility provided by a JP Morgan managed conduit. Both the Bank of England and JP Morgan funding is secured using the Bank's book of unsecured personal loans. The Bank has prepositioned similar loan collateral with the Bank of England to provide access to the Bank of England's Discount Window Facility, which forms part of the Bank's liquidity crisis contingency plans.

5.9 Credit quality impairment and past due analysed by class of financial asset

5.9.1 Retail

Loans and advances to customers are all within the United Kingdom and are summarised as follows:

28 February 2015	Retail £m	Secured by mortgages on immovable property £m	Total lending £m
Impaired			
Less than 3 months, but impaired	**2**	**–**	**2**
Past due 3 to 6 months	**6**	**–**	**6**
Past due 6 to 12 months	**–**	**–**	**–**
Past due over 12 months	**–**	**1**	**1**
Recoveries	**98**	**–**	**98**
Possession	**–**	**–**	**–**
Total gross impaired loans	**106**	**1**	**107**
Past due but not impaired			
Past due up to 3 months but not impaired	**14**	**2**	**16**
Total gross past due but not impaired	**14**	**2**	**16**
Neither past due nor impaired			
Off balance sheet	**14**	**7**	**21**
Not impaired*	**2,944**	**47**	**2,991**
Total gross neither past due nor impaired	**2,958**	**54**	**3,012**
Total gross amount due	**3,078**	**57**	**3,135**

* Includes retail loans and advances that would have been past due or impaired had their terms not been renegotiated of £2m.

31 December 2013	Retail £m	Secured on real estate property £m	Total lending £m
Impaired			
Less than 3 months, but impaired	2	–	2
Past due 3 to 6 months	7	1	8
Past due 6 to 12 months	–	–	–
Past due over 12 months	–	–	–
Recoveries	91	–	91
Possession	–	–	–
Total gross impaired loans	100	1	101
Past due but not impaired			
Past due up to 3 months but not impaired	14	3	17
Total gross past due but not impaired	14	3	17
Neither past due nor impaired			
Off balance sheet	10	9	19
Not impaired*	2,502	56	2,558
Total gross neither past due nor impaired	2,512	65	2,577
Total gross amount due	2,626	69	2,695

* Includes retail loans and advances that would have been past due or impaired had their terms not been renegotiated of less than £2m.

Past due is defined as one day or over and impaired is defined as three missed payments.

For the Bank's portfolios of loans and advances to customers, provisions are calculated for groups of assets, otherwise impairment is identified at a counterparty specific level following objective evidence that a financial asset is impaired. Such evidence may include a missed interest or principal payment or the breach of a banking covenant. The present value of estimated cash flows recoverable is determined after taking into account any security held. The amount of impairment is calculated by comparing the present value of the cash flows discounted at the loans' original effective interest rate with the balance sheet carrying value.

The Bank provides relief to assist certain customers in financial difficulty through a renegotiated payment profile. The aim of forbearance is to return customers to a position where they can meet their financial obligations. Forborne balances are separately monitored. A write-off is made when all or part of a claim is deemed uncollectible or forgiven.

An allowance for impairment losses is also maintained in respect of assets which are impaired at the balance sheet date but which have not been identified as such, based on historical loss experience and other relevant factors. The methodology and assumptions used are regularly reviewed to reduce any differences between estimates and actual results.

Note that the non-impaired or past due figures differ from the financial statements disclosures due to off balance sheet commitments multiplied by the appropriate credit conversion factor.

A reconciliation of movements on impairment provisions on loans and advances is shown below:

	Individual impairment £m	Collective impairment £m	Total impairment £m
Provision as at 1 January 2014	**76**	**6**	**82**
New impairment provisions less releases charged to the profit and loss account	**24**	**4**	**28**
Recoveries of amounts previously written off released to the profit and loss account	**(2)**	**–**	**(2)**
Amounts written off	**(19)**	**–**	**(19)**
Discount unwind on impaired loans and advances to customers	**(2)**	**–**	**(2)**
Provisions at 28 February 2015	**77**	**10**	**87**
Provisions at 1 January 2013	86	7	93
New impairment provisions less releases charged to the profit and loss account	36	(1)	35
Recoveries of amounts previously written off released to the profit and loss account	(7)	–	(7)
Amounts written off	(37)	–	(37)
Discount unwind on impaired loans and advances to customers	(2)	–	(2)
Provisions at 31 December 2013	76	6	82

5. Credit risk and Dilution risk continued

5.9.2 Loans and advances to banks

The total gross amount of individually impaired loans and advances to banks as at 28 February 2015 was £nil (31 December 2013 – £nil). The fair value of collateral held for loans and advances to banks was £nil (31 December 2013 – £209m). Collateral takes the form of security over UK gilt securities. The table below presents an analysis of lending to banks by rating agency designation, based on Moody's ratings:

	2015 £m	2013 £m
Aaa to A3	**138**	1,059
Total	**138**	1,059

5.9.3 Debt securities, treasury bills and other eligible bills

The total gross amount of individually impaired debt securities, cash and balances with central banks, Treasury bills and other eligible bills as at 28 February 2015 was £nil (2013: £nil). No collateral is held regarding these assets. The tables below present an analysis of the credit quality of money market funds included within cash and cash equivalents. The credit quality of Treasury bills and investment securities by market value is also included.

Analysis is by rating agency designation, based on Moody's ratings:

28 February 2015	**Cash and balances with central banks £m**	**Treasury bills £m**	**Investment securities £m**	**Total £m**
Aaa to A3	**–**	**53**	**–**	**53**
ATM cash and balances with central banks	**696**	**–**	**–**	**696**
	696	**53**	**–**	**749**

31 December 2013	Cash and balances with central banks £m	Treasury bills £m	Investment securities £m	Total £m
Aaa to A3	307	510	–	817
Baa1 to Baa3	–	–	32	32
ATM cash and balances with central banks	137	–	–	137
	444	510	32	986

Investment securities classified as available for sale are continually reviewed at the specific investment level for impairment. Impairment is recognised when there is objective evidence that a specific financial asset is impaired. Objective evidence of impairment might include a significant or prolonged decline in market value below the original cost of a financial asset and, in the case of debt securities, non-receipt of due interest or principal repayment, a breach of covenant within the security's terms and conditions or a measurable decrease in the estimated future cash flows since their initial recognition.

The disappearance of active markets, declines in market value and ratings downgrades do not in themselves constitute objective evidence of impairment and, unless a default has occurred on a debt security, the determination of whether or not objective evidence of impairment is present at the balance sheet date requires the exercise of management judgement.

5.9.4 Counterparty credit risk

The Bank uses derivative contracts to manage interest rate risk in the banking book and foreign exchange risk on foreign denominated investments.

The capital effects of this are monitored in the Bank's budgetary process and assessed in the ICAAP process.

Policies and contracts are in place to transfer/receive cash collateral when derivative mark to market exposures exceed agreed minimum transfer values, documented under standard ISDA agreements with supporting credit support annex agreements (CSA).

At 28 February 2015, the notional values of interest rate swaps were £1,657m and foreign exchange interest rate swaps were £nil.

Exposures are calculated under the CRR mark to market method.

28 February 2015	**Notional £m**	**MTM £m**	**Exposure £m**	**Collateral posted £m**
Foreign exchange	**–**	**–**	**–**	**–**
Interest rate	**1,657**	**(5)**	**6**	**(5)**

31 December 2013	Notional £m	MTM £m	Exposure £m	Collateral posted £m
Foreign exchange	27	(6)	1	–
Interest rate	637	2	2	2

6. Securitisation

The Bank entered a funding transaction with JP Morgan on 16 February 2015 where £300m of funding was obtained with a maturity of 27 months, of which £150m was immediately drawn down. This was secured by £200m of personal loans which were transferred to an SPE 'Lochside Asset Purchaser No 1' for this purpose. The Bank holds subordinated debt in the SPE, which is payable after senior debt issued to JP Morgan. Therefore the Bank retains the risks and rewards of these transferred loans, and there is deemed to be no significant risk transfer. The loans continue to be held on the balance sheet of the Bank and are risk weighted as if no transfer had occurred, ie the retail credit risk continues to be calculated on these loans. Therefore the securitisation position is deemed to be risk weighted at 0%. The Bank continues to service the loans.

A deemed loan liability is recorded within the Bank's accounts, representing the fair value of the advance.

Hedging of interest rate risk within the SPE is executed using 'pay fixed/ receive floating' interest rate swaps executed with JP Morgan.

		28 Feb 2015		31 Dec 2013
	Capital requirement	**Risk Weighted Assets**	Capital requirement	Risk Weighted Assets
Securitisation position	**–**	**–**	–	–

7. Leverage

The Bank calculates and monitors a non-risk based leverage ratio as required by CRD IV. This measures the ratio of the capital resources to total assets and supplements risk weighted capital adequacy requirements.

The ratio is calculated as Tier 1 capital/total assets (on and off balance sheet) adjusted for capital deductions. Note that the leverage ratio calculated under CRD IV transitional rules is identical to the ratio under final rules.

	28 Feb 2015	31 Dec 2013
Leverage ratio	**7.4%**	6.0%

	28 Feb 2015 £m	31 Dec 2013 £m
Components of the leverage ratio		
Total assets	**4,237**	4,801
Removal of accounting value of derivatives	**(1)**	(2)
Exposure value for derivatives	**5**	3
Off balance sheet exposures: unconditionally cancellable (10%)	**313**	255
Off balance sheet: other (100%)	**318**	49
Deduction of Intangible assets	**(104)**	(4)
Denominator	**4,768**	5,102
Tier 1 capital (numerator)	**353**	305

The disclosure above represents the period end position under both transitional and end point CRD IV measures. The leverage ratio is planned to become a Pillar 1 measure from 1 January 2018.

The Bank's leverage ratio of 7.4% exceeds the minimum Basel leverage ratio of 3%. The Financial Policy committee of the Bank of England are currently consulting on additional leverage requirements for UK Banks.

8. Asset encumbrance

An asset is defined as encumbered if it has been pledged as collateral against an existing or off balance sheet liability and therefore is no longer available for disposal or as collateral to support liquidity or funding requirements of the Bank. Encumbered assets as at 28 February 2015 were £688m.

Encumbered Assets	Carrying amount of encumbered assets 28 Feb 2015 £m	Carrying amount of unencumbered assets 28 Feb 2015 £m
Loans on demand	5	702
Debt securities	–	56
Loans and advances other than loans on demand	678	2,354
Other assets	5	61
Carrying amount of assets	688	3,173

'Encumbered loans and advances other than loans on demand' represent unsecured personal loans pledged as collateral for secured funding. Collateral paid in respect of derivative margins is included in 'Loans on demand'. The Bank of England Cash Ratio Deposit is held within 'other assets'.

8. Asset encumbrance continued

The following tables show average asset encumbrance and sources of encumbrance for the most recent 12 month rolling period ended 28 February 2015:

Encumbered Assets	Carrying amount of encumbered assets (12 month average) £m	Carrying amount of unencumbered assets (12 month average) £m
Loans on demand	3	541
Debt securities	37	224
Loans and advances other than loans on demand	339	2,625
Other assets	5	271
Carrying amount of assets	384	3,661

Sources of encumbrance	Matching liabilities, contingent liabilities or securities lent (12 month average) £m	Assets, collateral received and own debt securities issued other than covered (12 month average) £m
Derivatives	3	3
Deposits	185	365
Debt securities issued	12	16
Carrying amount of selected financial liabilities	200	384

The main sources of encumbrance in the Bank relate to margin requirements for derivative transactions and collateral relating to secured funding transactions. Cash collateral is advanced and received as variation margin on derivatives transactions. Eligible personal loans with applicable haircuts are used as collateral for securitisation and central bank funding. Included within the carrying value of unencumbered assets, there are assets which would not normally be considered available for encumbrance in the normal course of the Bank's business including intangible assets, property, plant and equipment, prepayments and accruals and deferred tax assets.

9. Remuneration

9.1 Remuneration Committee (RemCo)

The role of RemCo is to determine and agree the broad policy for remuneration and for compliance with the FCA Remuneration Code ('the Code') to the extent that the provisions apply to the Bank. RemCo is responsible for monitoring and noting the level and structure of remuneration for senior management (categorised as Code Staff for the purposes of the Code) and senior risk management and compliance staff.

RemCo continually reviews and assesses the impact of remuneration policies on the risk profile of the Bank and colleague behaviour. RemCo has oversight over appointment and severance terms for relevant colleagues (including payments of guaranteed remuneration for appointees and retention terms). The Board is responsible for the appointment of members to RemCo and for the revocation of any such appointments.

RemCo comprises no less than three members at any time, two of which are Non-Executive Board Directors and the other an Executive from the Bank's parent undertaking (J Sainsbury's plc). The Committee is constituted in a way that enables it to exercise independent judgment, and members do not perform any executive function within the Bank. The quorum is two Committee members, one of whom is the Chairman. All members of RemCo are advised of the business to be transacted at any meeting even if they are unable to be present.

The Chairman of RemCo is a Senior Non-Executive Director. The Chief Executive Officer and Bank Colleague and Communications Director are invited to attend, except when issues regarding their own remuneration are discussed. Remuneration advisors provide independent opinion as requested by the Chairman.

RemCo reviews the general principles underpinning the Remuneration Policy on an annual basis. No independent review of the Policy is undertaken, but it can be carried out at the request of RemCo.

Remuneration decisions take into account the implications for risk and risk management of the Bank through:

- the requirement for all bonus schemes to be reviewed by the Bank's Board Risk Committee; and
- the competent and experienced nature of all individuals who are a member of or who attend RemCo, which enables them to exercise independent judgments regarding the remuneration decisions presented by management.

The long-term interests of all stakeholders are taken into account through the process of debating, tabling and agreeing remuneration decisions through RemCo.

RemCo has the ability to apply discretion to adjust awards that may arise through the Bank's bonus plan or other incentive arrangements. The Remuneration Policy of the Bank supports the firm's business strategy, which is based on providing shoppers with a compelling reason to purchase financial services from Sainsbury's, but doing so in a way which considers and manages the financial impact of its business decisions.

The Bank prepares a Remuneration Policy Statement (RPS), as required by SYSC 19A, which sets out the principles for pay, incentives and recognition within the Bank, taking into account its business strategy, objectives, risk tolerance and long-term interests. The key objective is to ensure that the Bank strikes an appropriate balance between risk and reward, consistent with its risk appetite.

9.2 Link between pay and performance

9.2.1 Assessment of performance

The Bank aims to base colleague reward and remuneration on both the Bank's performance and individual performance, while at the same time being sufficiently competitive to ensure that it attracts and retains the people it depends upon for success.

The Bank operates a balanced bonus framework and has developed this into balanced scorecard objectives. The annual bonus is based on financial and non-financial targets including customer-related objectives and certain criteria which are unique to individual departments. Overall, through aligning reward to the Bank's balanced scorecard, its aim is to recognise performance against targets including how well colleagues manage risk and therefore the long term health of the business.

Pay increases and personal bonus awards are influenced by the individual's level of performance. Performance is a balance of achieving a balanced scorecard range of personal objectives, as well as demonstrating the organisational 'ways of working' which reflect the Bank's culture. Consideration is given to how objectives have been met, and bonus awards will be reduced if the Bank's leadership behaviours and values have not been observed. In addition all colleagues have a duty to avoid operational losses by following the correct policies and procedures and improving risk prevention through appropriate control self-assessments. The targets included within each colleague's balanced scorecard measures are benchmarked against last year's performance. The Bank's bonus schemes do not include a guaranteed minimum figure and are also capped at a maximum level.

The Bank has geared its remuneration structures so that a higher proportion of the reward package is 'at risk' commensurate with the seniority of the individual, but this is balanced to ensure that individuals are not incentivised inappropriately.

The Bank has not made any guaranteed bonus payments to date. However, a small number of retention awards have been made in this financial year, to certain senior colleagues in order to retain them during the Bank's transition. The cash awards are deferred and subject to individual performance and were overseen by RemCo and are allowed for within the Remuneration Code and are therefore considered compliant.

9.2.2 Long-term incentives

The Bank rewards certain staff with long-term incentive plans. These plans have been and continue to be operated on the Bank's behalf by J Sainsbury plc. There are a number of performance hurdles, which need to be met both at an organisational level (employer and parent) and individual level for these awards to be made. If any Code Staff at the Bank participate in such schemes, any long term incentive awards they receive will comply with the Code and any changes to the arrangements will be agreed with J Sainsbury plc through RemCo.

RemCo will review any future long term incentive requirements proposed for the Bank to ensure that targets are aligned with the long-term performance of the organisation.

9.3 Quantitative disclosures

Under CRD IV, the Bank is required to make certain aggregate quantitative disclosures regarding the remuneration of Code Staff for the year.

The Bank is only deemed to operate in one business segment – Retail Banking.

The table below shows total fixed and variable remuneration awarded to Code Staff for the 14 month period to 28 February 2015. Fixed remuneration is defined as base salary and other cash payments and variable remuneration includes bonus awards made in the financial period.

14 months to 28 February 2015	Senior management	Other code staff	Total
Number of beneficiaries	15	20	35
Fixed reward (£'000)	2,927	2,398	5,325
Variable reward (£'000)	2,011	569	2,580
Total remuneration (£'000)	4,938	2,967	7,905

Included within remuneration for senior management are emoluments for members of the Bank's Executive Management Team and Non-Executive Directors. During 2014, certain Non-Executive Directors are employees of the Bank's shareholders and are paid by J Sainsbury plc. These Directors receive no remuneration for their role as a Director of the Bank. There has been no recharge to the Bank as their emoluments are deemed to be wholly attributable to services to the respective shareholder companies. These Directors are allocated a 'notional' fixed fee that is not subject to any performance-related achievement.

'Other code staff' describes those additional members of staff whose actions are deemed to have a material impact on the risk profile of the Bank.

The amounts and forms of variable remuneration, split into cash, shares, share-linked instruments and other types is;

	Senior management	Other code staff	Total
Cash	400	469	869
Performance share awards	1,611	100	1,711
Total remuneration	2,011	569	2,580

The amounts of outstanding deferred remuneration, split into vested and unvested portions is;

	Senior management	Other code staff	Total
Vested	–	–	–
Unvested	1,611	100	1,711
Total remuneration	1,611	100	1,711

Of the above deferred remuneration awarded during the financial period, £nil has been paid out and £nil has been reduced through performance adjustments.

The amounts of new sign-on and severance payments and the number of beneficiaries were as follows:

	Number	Total (£'000)
Joining awards	–	–
Severance payments	2	206
Total	2	206

The highest severance payment awarded to a single person was £140,753.

One individual had remuneration between EUR 1m and EUR 1.5m.

Annex I – Board risk management declaration

The Bank has established a risk framework and formal structure to monitor and manage risks that arise from its activities. The Board has agreed statements of risk appetite and these are adhered to via detailed risk management policies and through reporting to the various governance committees.

The Board considers that it has adequate risk management arrangements in place with regard to the Bank's profile and strategy.

Annex II – Risk statement

The Bank provides banking services and related financial services within the UK. The Bank continues to develop its customer offer through sales of its core products: personal loans, savings accounts, credit cards and general insurance products.

The Bank's Board approves the Bank's risk appetite, which defines the level of risk that the Bank is prepared to accept to achieve its strategic objectives. The Board Risk Committee approves the articulation of these risk appetite statements in relation to retail credit risk, wholesale credit risk, market risk, liquidity & funding risk, and compliance & conduct risk. The Bank also closely monitors the capital adequacy position of the Bank.

The Bank has a framework of policies and standards in place, which are a manifestation of its risk appetite statements, to manage key risks. Each policy has an owner who is responsible for maintenance of the policy and ensures it is reviewed at least annually and approved by the relevant governance committees.

The Bank has developed and operates an Enterprise Wide Risk Management Framework (EWRMF) which details the process through which risk is managed this is detailed within the Risk model section.

The Bank operates within appetite tolerances, with limits below regulatory tolerance levels to enable early corrective action in stress conditions. Risk levels are regularly monitored and reported to the Board through its management committees.

	28 Feb 2015	31 Dec 2013
Bad debt asset ratio	**0.7%**	1.1%
Net interest margin	**3.6%**	2.7%
Core Equity Tier 1 capital ratio	**12.7%**	12.3%
Risk asset ratio	**12.7%**	15.1%

The Bank operates within appetite tolerances, with limits below regulatory tolerance levels to enable early corrective action in stress conditions. Risk levels are regularly monitored and reported to the Board through its management committees.

Risk area	Metric	Comment
Retail credit risk	Bad debt asset ratio	The Bank has a low credit risk appetite with an outcome which is a better than average credit quality being maintained. The impact of severe economic scenarios is regularly considered as part of stress testing and capital adequacy assessment process. The Bank has a dedicated credit risk team who report directly to the Chief Risk Officer (CRO).
Wholesale credit risk	Credit ratings	The Bank's exposure to wholesale credit risk is regularly reported to ALCO, BRC, Audit Committee and the Board, including reference to CDS prices, news and industry consensus. Any changes to risk appetite or credit lines are approved by ALCO, BRC and Board.
Market risk (interest rate risk)	Net interest margin and Market value sensitivity	The Bank has a detailed market risk policy, which sets out its risk appetite statement with reference to defined interest rate shocks. Regular reporting to ALCO allows the Bank to monitor earnings and market value sensitivity and monthly prepayment behaviour versus forecast and general product re-pricing assumptions. All new banking products or amendments to the terms of existing products are reviewed from an interest rate risk perspective to ensure compliance with existing risk appetite.
Operational risk	Various metrics	The Operational Risk team acts as a second line of defence, reporting to the CRO, as part of the Enterprise Risk team. The adequacy of the control framework including quantification of risk and controls is considered following an agreed methodology and appropriate oversight is maintained by NFRC, BRC and the Board. The Bank formally engages with strategic partners to understand the impact of change. All projects are managed according to a methodology and level of assessed risk and appetite.
Compliance & conduct risk	Various metrics	The compliance and conduct risk team provides second line of defence reporting directly to the CRO. The Bank pro-actively monitors regulatory change with regular reporting of regulatory risks to NFRC, BRC, and Board. The Bank has regular and open communication with the FCA and PRA on all aspects of Bank activity but with particular focus on compliance and conduct risk.
Liquidity & funding risk	ILG	The Bank undergoes an annual liquidity assessment process (ILAA) which is provided to the PRA. Through this process the Bank's Individual Liquidity Guidance (ILG) is calculated to determine the liquidity buffer requirements. The Bank aims to maintain sufficient funding to cover operations for a 90 day period whilst ensuring it meets regulatory requirements for minimum holdings of eligible assets. The ILG position of the Bank consistently exceeds both internal and external requirements. In addition to liquid buffer assets the Bank's Treasury function maintains and monitors a wider range of assets for liquidity operations in the 'Operational Liquidity Pool'.
	LCR	Since January 2014, the Bank has monitored the Liquidity Coverage Ratio (LCR) in accordance with CRD IV. LCR measures the ability of the Bank to maintain sufficient funding to cover operations for a 30 day period under stressed conditions.
	Core Tier 1 capital ratio, Total capital ratio	The Bank aims to achieve a minimum buffer above the regulatory individual capital guidance (ICG) threshold and has operated at a surplus to that internal minimum buffer throughout the current period.

Annex III – Balance sheet reconciliation

The accounting and prudential reporting bases purposes are the same, i.e. the assets of the SPE Lochside Asset Purchaser No 1 plc are not included. Therefore there is no requirement to reconcile balance sheet items on a line by line basis. A reconciliation of own funds with shareholders equity is set out below.

	28 Feb 2015 £m
Total shareholders' funds at 28 February	**458**
Intangible assets	**(104)**
CET 1 capital as at 28 February 2015	**354**

	31 Dec 2013 £m
Total shareholders' funds at 31 December (restated)	353
Profits not verified at balance sheet date*	(41)
Restated costs per accounting policy change	(3)
Intangible assets	(4)
CET 1 capital as at 31 December 2013	305

* Relates to Bank audited profits to December 2013 which were not recognised in regulatory reserves in the prior year financial statements. These were not yet verified by the Bank's auditors at the accounting date. It is now standard industry practice to include annual profits in reserves for the period to which they relate, providing these have been verified prior to the date the financial statements are signed. Losses are recognised as a deduction form CET 1 capital as they arise.

Annex IV – Capital instruments' main features

The Bank is required to disclose the main features of its capital instruments per Article 437(1) of the CRR (Regulation (EU) No 575/2013).

The template should be completed for the categories: Common Equity Tier 1 instruments, Additional Tier 1 instruments and Tier 2 instruments. The Bank only has Common Equity Tier 1 instruments.

Capital instruments main features template

		CET 1
1	Issuer	Sainsbury's Bank plc
2	Unique identifier (eg CUSIP, ISN or Bloomberg identifier for private placement)	Private placement
3	Governing law(s) of the instrument	English Law
	Regulatory Treatment	
4	Transitional CRR rules	CET 1
5	Post-transitional CRR rules	CET 1
6	Eligible at solo/(sub-)consolidated/ solo & (sub-)consolidated	Solo
7	Instrument type (types to be specified by each jurisdiction)	Common Equity
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	£298.75m
9	Nominal amount of instrument	£1
9a	Issue price	£1
9b	Redemption price	Not applicable
10	Accounting classification	Shareholders' equity
11	Original date of issuance	55 – 'A' class 12 November 1996 45 – 'B' class 12 November 1996 8,249,945 – 'A' class 5 February 1997 6,749,955 – 'B' class 5 February 1997 27,500,000 – 'A' class 29 April 1997 22,500,000 – 'B' class 29 April 1997 5,500,000 – 'A' class 7 November 1997 4,500,000 – 'B' class 7 November 1997 13,750,000 – 'A' class 30 January 1998 11,250,000 – 'B' class 30 January 1998 5,500,000 – 'A' class 26 August 1998 4,500,000 – 'B' class 26 August 1998 5,500,000 – 'A' class 25 February 1999 4,500,000 – 'B' class 25 February 1999 2,750,000 – 'A' class 4 February 2000 2,250,000 – 'B' class 4 February 2000 2,750,000 – 'A' class 28 February 2000 2,250,000 – 'B' class 28 February 2000 5,500,000 – 'A' class 13 October 2003 4,500,000 – 'B' class 13 October 2003 (7,000,000 – 'A' class reclassification to 'B' class on 8 February 2007) 10,000,000 – 'A' class 10 September 2007 10,000,000 – 'B' class 10 September 2007 5,000,000 – 'A' class 12 November 2007 5,000,000 – 'B' class 12 November 2007 (85,000,000 – 'A' class and 85,000,000 'B' class reclassification to 170,000,000 'Ordinary' class on 3 February 2014) 20,000,000 'Ord' Class 7 February 2014 50,000,000 'Ord' Class 28 February 2014 20,000,000 'Ord' Class 22 July 2014 20,000,000 'Ord' Class 29 September 2014 18,750,000 'Ord' Class 18 December 2014
12	Perpetual or dated	Perpetual
13	Original maturity date	Not applicable
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	Not applicable
16	Subsequent call dates, if applicable	Not applicable
	Coupons/dividends	
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	Not applicable
19	Existence of a dividend stopper	No
20a	Fully discretionary, partial discretionary or mandatory (in terms of timing)	Fully discretionary

Annex IV – Capital instruments' main features continued

		CET 1
20b	Fully discretionary, partial discretionary or mandatory (in terms of amount)	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Non-cumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	Not applicable
25	If convertible, fully or partially	Not applicable
26	If convertible, conversion rate	Not applicable
27	If convertible, mandatory or optional conversion	Not applicable
28	If convertible, specify instrument type convertible into	Not applicable
29	If convertible, specify issuer of instrument it converts into	Not applicable
30	Write-down features	No
31	If write-down, write-down trigger(s)	Not applicable
32	If write-down, full or partial	Not applicable
33	If write-down, permanent or temporary	Not applicable
34	If temporary write-down, description of write-up mechanism	Not applicable
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	All liabilities
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	Not applicable

Annex V – Transitional own funds disclosure

The following transitional own funds disclosure aims to reflect the detailed capital position of the Bank.

The Bank is required to disclose the specific items on own funds described in points (d) and (e) of Article 437 (1) of Regulation (EU) No 575/2013. By way of derogation, during the period from 31 March 2014 to 31 December 2017, in accordance with regulation, the Bank shall disclose transitional own funds.

	Common Equity Tier 1 capital: instruments and reserves	(A) Amount at disclosure date (£000)	(B) Regulation (EU) No 575/2013 Article reference	(C) Amounts subject to pre-regulation (EU) No 575/2013 treatment or prescribed residual amount of regulation (EU) No 575/2013
1	Capital instruments and the related share premium accounts	298,750		–
	of which: ordinary share capital	298,750	26 (1), 27, 28, 29, EBA list 26 (3)	–
	of which: instrument type 2	–	list 26 (3)	–
	of which: instrument type 3	–	list 26 (3)	–
2	Retained earnings	184,271	26 (1) (c)	–
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	–	26 (1)	–
3a	Funds for general banking risk	–	26 (1) (f)	–
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1	–	486 (2)	–
	Public sector capital injections grandfathered until 1 January 2018	–	483 (2)	–
5	Minority interests (amount allowed in consolidated CET1)	–	84, 479, 480	–
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	–	26 (2)	–
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**483,021**		–
7	Additional value adjustments (negative amount)	(53)	34, 105	–
8	Intangible assets (net of related tax liability) (negative amount)	(103,938)	36 (1) (b), 37, 472 (4)	–
9	Empty Set in the EU	–		–
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	–	36 (1) (c), 38, 472 (5)	–
11	Fair value reserves related to gains or losses on cash flow hedges	–	33 (a)	–
12	Negative amounts resulting from the calculation of expected loss amounts	–	36 (1) (d), 40, 159, 472 (6)	–
13	Any increase in equity that results from securitised assets (negative amount)		32 (1)	–
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	–	33 (b)	–
15	Defined-benefit pension fund assets (negative amount)	–	36 (1) (e), 41, 472 (7)	–
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	–	36 (1) (f), 42, 472 (8)	–
17	Holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	–	36 (1) (g), 44, 472 (9)	–
18	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above the 10% threshold and net of eligible short positions) (negative amount)	–	36 (1) (h), 43, 45, 46, 49 (2) (3), 79, 472 (10)	–
19	Direct, indirect and synthetic holdings by the institution of CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	–	36 (1) (i), 43, 45, 47, 48 (1) (b), 49 (1) to (3), 79, 470, 472 (11)	–
20	Empty Set in the EU	–		–
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	–	36 (1) (k)	–
20b	of which: qualifying holdings outside the financial sector (negative amount)	–	36 (1) (k) (i), 89 to 91	–
20c	of which: securitisation positions (negative amount)	–	36 (1) (k) (ii), 243 (1) (b), 244 (1) (b), 258	–
20d	of which: free deliveries (negative amount)	–	36 (1) 9k) (iii), 379 (3)	–
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in 38 (3) are met) (negative amount)	–	36 (1) (c), 38, 48 (1) (a), 470, 472 (5)	–
22	Amount exceeding the 15% threshold (negative amount)	–	48 (1)	–
23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	–	36 (1) (i), 48 (1) (b), 470, 472 (11)	–
24	Empty Set in the EU	–		–
25	of which: deferred tax assets arising from temporary differences	–	36 (1) (c), 38, 48 (1) (a), 470, 472 (5)	–

Annex V – Transitional own funds disclosure continued

	Common Equity Tier 1 capital: instruments and reserves	(A) Amount at disclosure date (£000)	(B) Regulation (EU) No 575/2013 Article reference	(C) Amounts subject to pre-regulation (EU) No 575/2013 treatment or prescribed residual amount of regulation (EU) No 575/2013
25a	Losses for the current financial year (negative amount)	(25,069)	36 (1) (a), 472 (3)	–
25b	Foreseeable tax changes relating to CET1 items (negative amount)	–	36 (1) (l)	–
26	Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment	–		–
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 to 468	–		–
	of which: filter for unrealised loss 1	–	467	–
	of which: filter for unrealised loss 2	–	467	–
	of which: filter for unrealised gain 1	–	468	–
	of which: filter for unrealised gain 2	–	468	–
26b	Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre CRR	–	481	–
	of which:	–	481	–
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	–	36 (1) (j)	–
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**(129,060)**		–
29	**Common Equity Tier 1 (CET1) capital**	**353,961**		–
30	Capital instruments and the related share premium accounts	–	51, 52	–
31	of which: classified as equity under applicable accounting standards	–		–
32	of which: classified as liabilities under applicable accounting standards	–		–
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1	–	486 (3)	–
	Public sector capital injections grandfathered until 1 January 2018	–	483 (3)	–
34	Qualifying Tier capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	–	85, 86, 480	–
35	of which: instruments issued by subsidiaries subject to phase out	–	486 (3)	–
36	Additional Tier 1 (AT1) capital before regulatory adjustments	–		–
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	–	52 (1) (b), 56 (a), 57, 475 (2)	–
38	Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	–	56 (b), 58, 475 (3)	–
39	Direct and indirect holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above the 10% threshold and net of eligible short positions) (negative amount)	–	56 (c), 59, 60, 79, 475 (4)	–
40	Direct and indirect holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above the 10% threshold net of eligible short positions) (negative amount)	–	56 (d), 59, 79, 475 (4)	–
41	Regulatory adjustments applied to additional tier 1 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	–		–
41a	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	–	472, 472 (3) (a), 472 (4), 472 (6), 472 (8) (a), 472 (9), 472 (10) (a), 472 (11) (a)	–
	Of which items to be detailed line by line, e.g. Material net interim losses, intangibles, shortfall of provisions to expected losses etc	–		–
41b	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Tier 2 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013	–	477, 477 (3), 477 (4) (a)	–
	Of which items to be detailed line by line, e.g. Reciprocal cross holdings in Tier 2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc	–		–
41c	Amount to be deducted from or added to Additional Tier 1 capital with regard to additional filters and deductions required pre-CRR	–	467, 468, 481	–
	of which: possible filter for unrealised losses	–	467	–
	of which: possible filter for unrealised gains	–	468	–
	of which:	–	481	–
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	–	56 (e)	–
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	**–**		–

Annex V – Transitional own funds disclosure continued

	Common Equity Tier 1 capital: instruments and reserves	(A) Amount at disclosure date (£000)	(B) Regulation (EU) No 575/2013 Article reference	(C) Amounts subject to pre-regulation (EU) No 575/2013 treatment or prescribed residual amount of regulation (EU) No 575/2013
44	**Additional Tier 1 (AT1) capital**	**–**		–
45	**Tier 1 capital (T1 = CET1 + AT1)**	**353,961**		–
46	Capital instruments and the related share premium accounts	–	62, 63	–
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2	–	486 (4)	–
	Public sector capital injections grandfathered until 1 January 2018	–	483 (4)	–
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34), issued by subsidiaries and held by third parties	–	87, 88, 480	–
49	of which: instruments issued by subsidiaries subject to phase out	–	486 (4)	–
50	Credit risk adjustments	–	62 (c) & (d)	–
51	**Tier 2 (T2) capital before regulatory adjustments**	**–**		–
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	–	63 b) (i), 66 (a), 67, 477 (2)	–
53	Holdings of T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	–	66 (b), 68, 477 (3)	–
54	Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	–	66 (c), 69, 70, 79, 477 (4)	–
54a	of which: new holdings not subject to transitional arrangements	–		–
54b	of which: holdings existing before 1 January 2013 and subject to transitional arrangements	–		–
55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	–	66 (d), 69, 79, 477(4)	–
56	Regulatory adjustments applied to Tier 2 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	–		–
56a	Residual amounts deducted from Tier 2 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to Article 472 of Regulation (EU) 575/2013	–	472, 472 (3) (a), 472 (4), 472 (6), 472 (8) (a), 472 (9), 472 (10) (a), 472 (11) (a)	–
	of which: items to be detailed line by line, e.g. material net interim losses, intangibles, shortfall of provisions to expected losses etc	–		–
56b	Residual amounts deducted from Tier 2 capital with regard to deduction from Additional Tier 1 capital during the transitional period pursuant to Article 475 of Regulation (EU) No 575/2013	–	475, 475 (2) a), 475 (3), 475 (4) (a)	–
	of which: items to be detailed line by line, e.g. reciprocal cross holdings in AT1 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc	–		–
56c	Amount to be deducted from or added to Tier 2 capital with regard to additional filters and deductions required pre CRR	–	467, 468, 481	–
	of which: possible filter for unrealised losses	–	467	–
	of which: possible filter for unrealised gains	–	468	–
	of which:	–	481	–
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**–**		–
58	**Tier 2 (T2) capital 2**	**–**		–
59	**Total capital (TC = T1+T2)**	**353,961**		–
59a	Risk weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual-amounts)	–		–
	of which: items not deducted from CET1 (Regulation (EU) 575/2013 residual amounts) (items to be detailed line by line, e.g. deferred tax assets that rely on future profitability net of related tax liability, indirect holdings of own CET1, etc)	–	472, 472 (5), 472 (8) (b), 472 (10) (b), 472 (11) (b)	–
	of which: items not deducted from AT1 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. reciprocal cross holdings in T2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc)	–	475, 475 (2) (b), 475 (2) (c), 475 (4) (b)	–
	Items not deducted from T2 items (Regulation (EU) 575/2013 residual amounts) (items to be detailed line by line, e.g. indirect holdings of own T2 instruments, indirect holdings of non-significant investments in the capital of other financial sector entities, indirect holdings of significant investments in the capital of other financial sector entities etc)	–	477, 477 (2) (b), 477 (2) (c), 477 (4) (b)	–

Annex V – Transitional own funds disclosure continued

	Common Equity Tier 1 capital: instruments and reserves	(A) Amount at disclosure date (£000)	(B) Regulation (EU) No 575/2013 Article reference	(C) Amounts subject to pre-regulation (EU) No 575/2013 treatment or prescribed residual amount of regulation (EU) No 575/2013
60	**Total Risk Weighted Assets**	**2,781,855**		
61	Common Equity Tier 1 (as a percentage of risk exposure amount)	12.72%	92 (2) (a), 465	–
62	Tier 1 (as a percentage of risk exposure amount)	12.72%	92 (2) (b), 465	–
63	Total capital (as a percentage of risk exposure amount)	12.72%	92 (2) (c)	–
64	Institution specific buffer requirement (CET1 requirement in accordance with Article 92 (1) (a) plus capital conservation and counter-cyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (G-SII or O-SII buffer) expressed as a percentage of risk exposure amount)	4.50%	CRD 128, 129, 130	–
65	of which: capital conservation buffer requirement	–		–
66	of which: counter-cyclical buffer requirement	–		–
67	of which: systemic risk buffer requirement	–		–
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	–	CRD 131	–
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	4.72%	CRD 128	–
69	Empty set in the EU	–		–
70	Empty set in the EU	–		–
71	Empty set in the EU	–		–
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	–	36 (1) (h), 45, 46, 472 (10), 56 (c), 59, 60, 475 (4), 66 (c), 69, 70, 477 (4)	–
73	Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	–	36 (1) (i), 45, 48, 470, 472 (11)	–
74	Empty set in the EU	–		–
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in 38 (3) are met)	1,211	36 (1) (c), 38, 48, 470, 472 (5)	–
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	–	62	–
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	34,763	62	–
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	–	62	–
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings based approach	–	62	–
80	Current cap on CET1 instruments subject to phase out arrangements	–	484 (3), 486 (2) & (5)	–
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	–	484 (3), 486 (2) & (5)	–
82	Current cap on AT1 instruments subject to phase out arrangements	–	484 (4), 486 (3) & (5)	–
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	–	484 (4), 486 (3) & (5)	–
84	Current cap on T2 instruments subject to phase out arrangements	–	484 (5), 486 (4) & (5)	–
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	–	484 (5), 486 (4) & (5)	–

Annex VI – Leverage ratio

CRR Leverage Ratio – Disclosure Template

Reference date: 28 February 2015
Entity name: Sainsbury's Bank plc
Level of application: Solo

Table LRSum: Summary reconciliation of accounting assets and leverage ratio exposures

		Applicable Amounts (£000)
1	Total assets as per published financial statements	4,236,735
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	–
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure according to Article 429(11) of Regulation (EU) NO. 575/2013	–
4	Adjustments for derivative financial statements	4,877
5	Adjustments for securities financing transactions	–
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	631,123
7	Other adjustments	(103,938)
8	**Leverage ratio exposure**	4,768,797

Table LRCom: Leverage ratio common disclosure

		CRR leverage ratio exposures (£000)
On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	4,235,880
2	Asset amounts deducted in determining Tier 1 capital	(103,938)
3	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)**	4,131,942
Derivative exposures		
4	Replacement cost associated with derivatives transactions	856
5	Add-on amounts for PFE associated with derivatives transactions	4,877
EU-5a	Exposures determined under Original Exposure Method	–
6	Empty set in the EU	–
7	Empty set in the EU	–
8	Empty set in the EU	–
9	Empty set in the EU	–
10	Empty set in the EU	–
11	**Total derivative exposures (sum of lines 4 to 5a)**	5,733
Securities financing transaction exposures		
12	Empty set in the EU	–
EU-12a	SFT exposure according to Article 220 of Regulation (EU) NO. 575/2013	–
EU-12b	SFT exposure according to Article 222 of Regulation (EU) NO. 575/2013	–
13	Empty set in the EU	–
14	Empty set in the EU	–
15	Empty set in the EU	–
16	**Total securities financing transaction exposures**	
Off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	3,444,726
18	Adjustments for conversion to credit equivalent amounts	(2,813,603)
19	**Total off-balance sheet exposures (sum of lines 17 to 18)**	631,123
Capital and Total Exposures		
20	**Tier 1 capital**	353,961
EU-21a	Exposures of financial sector entities according to Article 429(4) 2nd subparagraph of Regulation (EU) NO. 575/2013	–
21	**Total Exposures (sum of lines 3, 11, 16, 19 and 21a)**	4,768,798
Leverage Ratios		
22	End of quarter leverage ratio	7.42%
EU-22a	Leverage ratio (avg of the monthly leverage ratios over the quarter)	7.80%
Choice of transitional arrangements and amount of derecognised fiduciary items		
EU-23	Choice on transitional arrangements for the definition of the capital measure	–
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) NO. 575/2013	–

Annex VI – Leverage ratio continued

Table LRSpl: Split-up of on balance sheet exposures (excluding derivatives and SFTs)

		CRR leverage ratio exposures (£000)
EU-1	Total on-balance sheet exposures (excluding derivatives and SFTs), of which:	4,235,880
EU-2	Trading book exposures	–
EU-3	Banking book exposures, of which:	4,235,880
EU-4	Covered bonds	–
EU-5	Exposures treated as sovereigns	537,575
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	–
EU-7	Institutions	477,500
EU-8	Secured by mortgages of immovable properties	48,458
EU-9	Retail exposures	2,876,389
EU-10	Corporate	–
EU-11	Exposures in default	106,931
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	189,027

Table LRQua: Free format text boxes for disclosure on qualitative items

Row		Column
1	Description of the processes used to manage the risk of excessive leverage	The capital position and leverage ratio are monitored by the Banks's ALCO on a regular basis.
2	Description of the factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers	The leverage ratio is primarily affected by the level of Tier 1 capital, namely share capital and reserves including intangible asset and current period loss deductions. The levels of on balance sheet assets (mainly personal loans and credit cards lending) and off balance sheet commitments such as credit card undrawn balances, also affect the ratio.

Annex VII – Disclosure on asset encumbrance

Template A – Assets

		Carrying amount of encumbered assets (£000)	Fair value of encumbered assets (£000)	Carrying amount of unencumbered assets (£000)	Fair value of unencumbered assets (£000)
		010	040	060	090
010	Assets of the reporting institution	384,363	N/A	3,661,172	N/A
020	Loans on demand	3,234	N/A	541,410	N/A
030	Equity instruments	–	–	–	–
040	Debt securities	37,500	37,500	224,272	224,272
100	Loans and advances other than loans on demand	338,824	N/A	2,624,564	N/A
120	Other assets	4,805	N/A	270,926	N/A

Template B is excluded per PRA guidance.

Template C – Sources of encumbrance

		Matching liabilities, contingent liabilities or securities lent (£000)	Assets collateral received and own debt securities issued other than covered (£000)
		010	030
010	Carrying amount of selected financial liabilities	200,163	384,363
020	Derivatives	2,819	3,234
040	Deposits	185,000	365,220
090	Debt securities issued	12,344	15,909
120	Other sources of encumbrance	–	–

D – Information on importance of encumbrance

The main sources of encumbrance in the Bank relate to margin requirements for derivative transactions and collateral relating to secured funding transactions. Cash collateral is advanced and received as variation margin on derivatives transactions. Eligible personal loans with applicable haircuts are used as collateral for securitisation and central bank funding. Personal loans used to secure £150m of funding through securitisation are held within Loans and advances to customers. Included within the carrying value of unencumbered assets, there are assets which would not normally be considered available for encumbrance in the normal course of the Bank's business including intangible assets, property, plant and equipment, prepayments and accruals and deferred tax assets.