Sainsbury's Bank plc

Pillar 3 Disclosures
for the year ended 28 February 2019

COMPANY NUMBER: 3279730

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1. Overview

1.1 Background

The Basel II Capital Requirements Directive (Basel II) introduced consistent capital adequacy standards and an associated supervisory framework for internationally active banks. Subsequently, Basel III introduced further capital and liquidity reform, plus additional rules for non-compliance with prudential rules, corporate governance and remuneration.

The Basel framework consists of three 'pillars'. Pillar 1 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.

The Basel requirements are applied in the European Union through European Commission Directive 2013/36/EU, referred to as the Capital Requirements Directive (CRD), and EU Regulation No 575/2013, the Capital Requirements Regulation (CRR), which together make up CRD IV.

This document represents the Pillar 3 Disclosures 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) Rulebook. 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.

These disclosures are reviewed internally by the Risk function, independently reviewed externally and approved by the Bank's Audit Committee. The Bank is committed to ensuring that its remuneration practices are appropriate. Compliance with the Financial Conduct Authority (FCA) Remuneration Code, PRA Rulebook and CRD IV falls within the responsibilities of the Remuneration Committee.

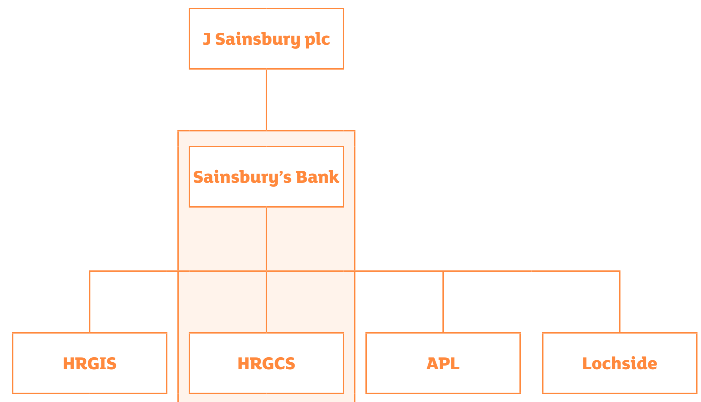
1.3 Scope of application

These disclosures are presented in respect of the year to 28 February 2019 for the Bank's prudential consolidated position under CRD IV.

These disclosures are based on the Bank's ownership as at 28 February 2019. 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 18 February 2015, the Bank entered a secured funding transaction which involved the legal transfer of certain personal loan balances into an SPE, Lochside Asset Purchaser No. 1 plc (Lochside). This contract was renewed in February 2017 (see section 6). This subsidiary is not included in the prudential consolidation.

The Bank's group is shown below; of this only Home Retail Group Card Services Limited (HRGCS) is included in the prudential consolidation, based on the nature of the business. Therefore, in summary, the prudential regulatory group includes the Bank and HRGCS – excluding Home Retail Group Insurance Services Limited (HRGIS), ARG Personal Loans Limited (APL) and Lochside – see diagram below. There is no current or foreseen material, practical or legal impediment to the prompt transfer of own funds or repayment of liabilities between Sainsbury's Bank and HRGCS.



J Sainsbury plc, Sainsbury's Bank and HRGCS are incorporated and domiciled in England. The basis of preparation of accounting information under International Financial Reporting Standards and for regulatory purposes is different as the Bank prepares unconsolidated financial statements. Therefore a reconciliation of the balance sheet between the Bank's financial statements and a regulatory consolidated basis is disclosed in Annex III as required in point (a) of Article 437(1) of the CRR.

As the Bank has adopted the standardised approach to the calculation of 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 are 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.

As the Bank does not fall into scope of the European Banking Authority's (EBA) *'Guidelines on disclosure requirements under Part Eight of Regulation (EU) No 575/2013'*, it has elected to publish Pillar 3 disclosures on an annual basis, rather than more frequently.

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 for approval 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 and HRGCS, these 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 proprietary or confidential information.

2. Risk management objectives and policies

2.1 Risk management overview

Effective risk management is a core component of our strategy and operations. Our objective is to support the growth of the Bank by thinking broadly about risks and managing them in a manner relative to the size and complexity of our business. In order to achieve this we focus on:

- **Our Risk Management Structure:** we have embedded a Three Lines of Defence framework to provide a basis for the identification, and management of all risks associated to our business model and strategy.
- **Our risk principles:** we have set six key risk principles (see below) that provide a compass to guide the future direction of the Bank and promote an effective risk-aware culture throughout the Bank.
- **Our risk appetite:** we have set clear boundaries aligned to our risk principles that determine the level and nature of risk which we are comfortable to operate with, in order to achieve our strategic objectives.
- **Our risk exposure:** we think about all risk types, their interactions and our mitigating actions. We look at both internal and external risk sources and the direct and indirect knock-on effects of each risk.

2.2 Our risk management structure

Within our Three Lines of Defence framework:

- Primary responsibility for the identification, management, monitoring and control of risks rests with our operational and commercial teams (First Line). The First Line owns the processes and controls used to manage risks within risk appetite and are responsible for the design, operation and testing of the key controls.
- The Risk Management Division (Second Line) is independent from the Bank's operational and commercial functions. It is responsible for providing risk frameworks, policies and oversight within which the First Line can manage its risks. It also provides training and support on the implementation of the frameworks and the design of key controls, as well as oversight and approval of Process Risk & Control Assessments (PRCAs). The Chief Risk Officer provides regular insight and updates to Executive and Board committees on the Bank's aggregate risk profile, performance vs. risk appetite and changes in its risk environment.
- Our Internal Audit Division (Third Line) provide independent assurance on the effectiveness of risk management and internal control processes in mitigating and reporting risks.

2.3 Our risk principles

Our six risk principles help us to build sustainable foundations that support our strategic plans and competitive advantage. They encapsulate a wide scope of strategic objectives and activities, from our target market to our target balance sheet shape to our focus on achieving fair outcomes for our customers. Our principles are:

Principle:	Good Customer Outcomes at the Heart of What We Do	Control Before We Grow	Our Customers are Sainsbury's and/or Argos Customers
Aim:	We are open, feel able to raise issues, use the right incentives and treat our customers fairly	We identify and understand the risks inherent in our business activities and focus our controls on the things that matter	We are disciplined in matching what we do to our competencies and serving our target market and building customer trust
Expressed through:	— Fair customer outcomes — Conduct risk appetite — Operational capability metrics	— Risk awareness ratings — Control effectiveness ratings — Operational risk losses	— Customers with Nectar cards — Activity rates — Retention rates

Principle:	Identify and Manage Risk Concentrations	Fund Before We Lend	Anticipate Market Trends, Don't Follow Them
Aim:	We target an appropriate level of diversification across our asset portfolio, systems and supply chain	We have sufficient access to resources to support our plans and to manage exposure to stress	We provide insight on emerging threats and opportunities and manage volatility in our earnings
Expressed through:	— Diversification targets — Portfolio Limits — Supplier risk management	— Capital adequacy targets — Liquidity targets — Funding targets	— Earnings stability targets — Diversified income stream — Market risk limits

2.4 Our risk appetite

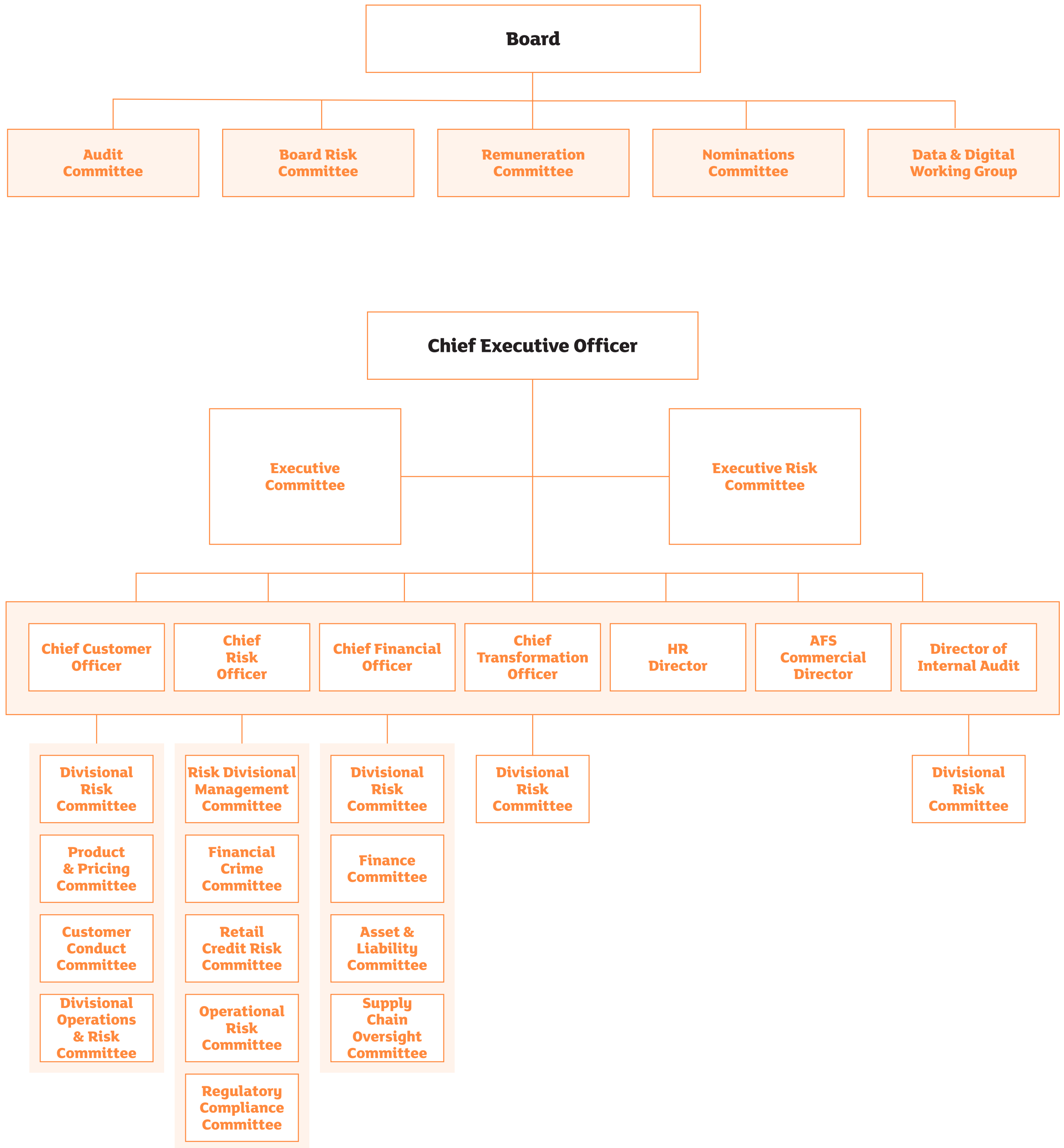
Our Board have approved a risk appetite that is consistent with our risk principles. It provides a clear articulation of the level and types of risk that we are prepared to accept in order to achieve our strategic objectives and is expressed and embedded through:

- A 'high-level' Risk Appetite Statement – set and reviewed on an annual basis by the Board – that provides a concise set of key Bank-wide targets and limits, aligned to our risk principles and business strategy. It contains a balance between current, forward-looking and stress-based metrics.
- 'Directional' risk appetite limits that are set for each of the Bank's Primary Risk types (e.g. retail credit risk, operational risk). These Directional limits are designed to provide early indications of changes in the operating environment and an outlook on whether we remain on-track to meet our 'high-level' risk appetite targets.

Performance against both the 'high-level' risk appetite and 'Directional' measures is monitored and reported to our Executive Risk Committee (ERC) on a monthly basis, and at each Board Risk Committee (BRC). Additionally the Chief Risk Officer (CRO) has established an escalation process to notify both Board members and Executives of any Risk Appetite measure operating outside of approved thresholds.

Our risk appetite enables us to make clear and transparent decisions on potential trade-offs between different aspects of our risk profile. In this way strategic decisions are made in the full context of those factors likely to be of interest to a range of stakeholders, enabling us to understand the Bank's current and future risk profile and how it supports our strategic objectives.

2.5 Governance structure during the financial year ended 28 February 2019
The diagram before shows the Governance structure in place for Sainsbury's Bank as at 28 February 2019.



2.5.1 Board-level governance

The Board is the key governance body, holding overall accountability for the decisions made and outcomes achieved by the Bank, subject to specific reserved matters that require the consent of J Sainsbury Plc. The Board meets at least seven times a year and is comprised of an independent Non-Executive Chairman, other Independent Non-Executive Directors, Non-Executive Directors from J Sainsbury plc and key Executive members from the Bank. Over the course of the reporting period the full Board met on seven occasions. Further details on the Board composition may be found in section 2.7.

A number of Board functions are delegated to four key sub-committees. The role and scope of authority for each sub-committee is fully outlined in a documented Terms of Reference:

- Audit Committee. The Audit Committee's key responsibility is to advise the Board on the Sainsbury's Bank Group financial statements, including systems and controls and related policy issues together with relationships with external auditors. The Audit Committee also reviews and challenges where necessary management's response to any major External or Internal Audit recommendations. The Committee is also responsible for reviewing and approving the internal audit plan and budget, and for ensuring that the function is adequately resourced. The Audit Committee met four times during the year. At least once a year the Audit Committee will meet without Executive Management being present. Additionally, the Audit Committee will meet with the External Auditors and Sainsbury's Bank Director of Internal Audit.
- Nominations Committee. The Nominations Committee is responsible for reviewing the structure, size and composition of the Board. The Committee is also responsible for the 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. The Bank recognises the benefits of achieving a diverse Board and Executive Management Team to reflect the environment in which it operates. The Nominations Committee will meet at least once per year, with additional meetings convened as required. In the reporting period the Nominations Committee met on two occasions.
- 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 and it continually reviews and assesses the impact of remuneration policies on the risk profile of the Bank and employee behaviour. RemCo also has oversight over appointment and severance terms for relevant employees. RemCo meets at least three per year and met on four occasions in the reporting period.
- Board Risk Committee. The Board Risk Committee (BRC) provides the Board with a forward-looking view to anticipate future risks together with the monitoring and oversight over existing risks within the Risk Appetite set by the Board. 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. The BRC meets at least on a quarterly basis. In the reporting period the Board Risk Committee met on five scheduled occasions.

Executive-level governance

The Board delegates the appropriate responsibility, authority and accountability to the Chief Executive Officer (CEO) to deliver the Bank's strategy through the appropriate governance committees and Executive Management Team. The CEO chairs the Executive Committee (ExCo) and is supported by a number of other executive-level committees to provide the appropriate checks, balances and transparency on decision making.

Each committee has a documented Terms of Reference, with delegated authority to the Chair who is the appropriate identified accountable individual in line with their Statement of Responsibilities under Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA) rules (Senior Managers Regime).

CEO Executive Committee:

- Executive Committee (ExCo). The role of the Committee is to advise and assist the CEO in overseeing the Bank's activities, performance and making significant decisions relating to the executive management of the Bank. ExCo meets on a monthly basis. In the reporting period ExCo met on 12 scheduled occasions.
- Executive Risk Committee (ERC). The ERC is responsible for ensuring that the Enterprise Wide Risk Management Framework (EWRMF) is effective in ensuring that risks are adequately and consistently managed within risk appetite. In doing so the ERC ensures that appropriate policies and methodologies are in place to manage the Bank's Primary Risk types. The ERC meets on a monthly basis. Over the course of the reporting period the ERC met on 13 occasions

Chief Risk Officer (CRO) Executive Committees:

- Retail Credit Risk Committee (RCRC). The RCRC is responsible for monitoring the performance of the retail lending book, ensuring there is an effective credit risk management framework and that the Bank is operating within its credit risk appetite. The RCRC meets on a monthly basis. Over the course of the reporting period the RCRC met on 13 occasions.
- Operational Risk Committee (ORC). The ORC assesses the adequacy and effectiveness of the overall risk framework and control environment of the Bank. It forms a view on the aggregate operational risk position relevant for both a control awareness (CA) and control environment (CE) assessment and meets six times a year. Over the course of the reporting period the ORC met on six occasions.
- Regulatory Compliance Committee (RCC). The role of the committee is to oversee delivery of an effective Bank-wide compliance risk management framework that ensures all compliance (including Anti Money Laundering (AML) and Sanctions) and conduct risks are managed within the Bank's approved risk appetite. RCC meets three times a year. Over the course of the reporting period the RCC met on three occasions.
- Financial Crime Committee (FCC). The role of the committee is to provide oversight of the firm's end to end Financial Crime (FC) control and governance framework to ensure that it is: fully implemented, compliant and effectively managing the Bank's FC risk within agreed risk appetite. The committee is chaired by the Money Laundering Reporting Officer (MLRO) and reports direct to the CRO. Over the course of the reporting period the FCC met on seven occasions.

Chief Financial Officer (CFO) Executive Committees:

- Asset and Liability Committee (ALCo). ALCo is responsible for ensuring the balance sheet of the Bank is managed effectively and within risk appetite with its main areas of responsibility being market risk, wholesale credit risk, interest rate risk, liquidity & funding risk and capital adequacy. ALCo meets monthly. Over the course of the year met on 12 scheduled occasions.
- Finance Committee. The role of the committee is to ensure there are effective levels of governance in place across the Bank's finance function so that significant decisions are fully informed, transparent, recorded and reported and in line with risk appetite and relevant governance structures. The Finance Committee meets monthly, and met on ten occasions.
- Supply Chain Oversight Committee. The role of the committee is to ensure there is an effective Bank-wide supply chain performance and risk management framework that manages outsourcing, oversees delivery and makes decisions to ensure the Bank is able to robustly manage and oversee its suppliers. The Supply Chain Committee meets monthly. Over the course of the reporting period the Supply Chain Oversight Committee met on eight occasions.

Chief Customer Officer (CCO) Executive Committees:

- Product Governance and Pricing Committee. The role of the committee is to oversee and maintain a product portfolio and pricing structure which enables the Bank to meet its commercial and strategic objectives within risk appetite parameters and to manage tactical decisions regarding pricing, product terms and conditions, and product/channel alignment. Over the course of the reporting period the Product Governance and Pricing Committee met on 20 occasions.
- Customer Conduct Committee. The role of the committee is to ensure that the Bank provides customers with fair outcomes in line with the FCA's requirements around Treating Customers Fairly and Conduct Risk, and the Bank's own Conduct Risk Policy framework and risk appetite. The Customer Conduct Committee meets monthly. Over the course of the reporting period the Customer Conduct Committee met on 11 occasions.

2.5.2 Divisional Risk Committees

Each division across the Bank has its own Divisional Risk Committee (DRC) chaired by the relevant ExCo member. The role of the DRC is to ensure the effectiveness of the EWRMF within the Division, so that risks are effectively and consistently managed within the overall approved risk appetite. Each DRC provides input on material risks which may affect the Group to the Executive Risk Committee.

2.6 Board selection criteria

We regard succession at Board and senior management level as a key priority. Recruitment into the Board combines an assessment of technical, leadership 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).

2.7 Board diversity

The Bank 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 Bank has signed the HM Treasury Women in Finance Charter, pledging to set targets and improve the gender balance and diversity of our senior team. The Nominations Committee is responsible for ensuring there is an appropriate balance of skills and experience across the Board.

2.8 Number of directorships held by members of the Board

Name	Position	Directorships Executive	Directorships Non-Executive
Roger Davis	Chairman (Independent Non-Executive)	–	4
Peter Clarke	Senior Independent Non-Executive	–	4
Marcia Campbell	Independent Non-Executive	–	5
Michael Ross	Independent Non-Executive	1	2
Andrew Simmonds[1]	Independent Non-Executive	–	3
Carole Butler	Independent Non-Executive	–	5
Guy Thomas	Independent Non-Executive	–	2
Gwyn Burr	Non-Executive	–	6
Angie Risley	Non-Executive	1	2
John Rogers	Non-Executive	1	2
Peter Griffiths	Chief Executive Officer	1	–
Michael Larkin	Chief Financial Officer	1	–
Graeme Forrester	Chief Risk Officer	1	–
David Jones	Chief Customer Officer	1	–

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

1 Andrew Simmonds resigned as a director of the Bank on 29 June 2018.

2.9 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.

2.10 Risk statement

The Bank's risk statement 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 Bank operates within appetite tolerances and regularly reports against performance to the Board. The risk statement is included in Annex II.

2.11 Our risk exposure

We have identified a set of primary risk types (see below) to which we are exposed through our activities. Each risk type is actively managed through primary risk policies and supporting policy standards that clearly articulate the rules, boundaries and measures by which the risks are controlled and help everyone to understand their individual responsibilities. This provides a consistent approach to risk awareness, risk behaviours and decision making.

Our risk reporting processes are critical to understanding the aggregate level of risk to which we are exposed and the effectiveness of our controls to manage these risks. We promote insightful reporting at all levels to encourage debate on what matters most, and to ensure effective action is being taken at an appropriate level to address any current or emerging areas of concern.

We also identify and manage specific material key risks that cut across our business areas and primary risk types (for example, cyber risks and IT failure). Each material risk is assessed on the basis of its inherent exposure, its residual exposure in the prevailing control environment and its target exposure where enhanced controls or mitigating actions are planned.

Key uncertainties

In line with our risk principle of "anticipate market trends, don't follow them", we regularly monitor emerging and evolving changes in the risk environment. Nevertheless by prompting early discussion we can better understand and address any threats or opportunities to our business model. We consider specific emerging threats and opportunities under the following broad themes:

- Strategic risks and opportunities consider both our business model and the markets in which we operate. For example, regular consideration is given to changes in the competitive market resulting from new entrants or, Mergers and Acquisitions (M&A) activity, and any resultant impact on margins.
- Operational risks and opportunities reflect changes in technology, the impact of internal processes or emerging external best practices. For example, we continually review the evolving nature of cyber-crime and its impact on the Bank in terms of financial losses and operational costs to protect our customers.
- Financial and Economic risks and opportunities reflect the impact of macroeconomic conditions and government policy on our markets. This has included consideration of the impact on UK market conditions arising from Brexit and the impact of changes in interest rates, employment market or house prices on the demand for our products.
- Regulatory and Conduct risk remains a key area of focus in light of continued developments within the financial services sector including PRA and FCA consultations and changes to Basel/European regulations. For example, the proposed changes to mortgage reporting requirements resulting from a joint PRA and FCA consultation (CP18/41) will be considered and implemented over the coming period.

Primary risk types

The Board of Directors retain overall responsibility for setting the Bank's strategy and Principal Risks below (Primary Risk Types detailed on page 2). These are actively managed by the BRC and ERC in line with the guiding risk principles and overall risk appetite approved by the Board.

Retail credit risk

Losses arising from a retail customer failing to meet their agreed repayment terms as they fall due.

How it may arise

Change in the economic conditions in the UK may impact on the ability of our customers to repay their loans leading to an increase in levels of bad debt.

What has changed?

- Consumer credit lending criteria provides for a greater focus on customers holding a Nectar card.
- Balance transfer periods have been shortened for Credit Cards.
- Affordability approach has been reviewed following PS18/19 Assessing Creditworthiness in Consumer Credit.
- Extension of Mortgage products with Buy-to-Let and First Time Buyer propositions. Portfolio continues to grow, with broker network extended.
- Launch of new models to support change in financial reporting to IFRS 9 in March 2018.

How do we manage the risk?

- We lend responsibly, considering the suitability of the product to meet our customers' needs and their ability to repay any debt.
- We have policies in place to support vulnerable customers and those in financial difficulties.
- Credit decisions based on information from a number of credit-related sources.
- Regular stress testing is undertaken using a variety of plausible stress scenarios.

Further information on our Credit Risk exposure may be found in the Notes to Financial Statements.

Conduct and compliance risk

Failing to meet the letter and spirit of all relevant legislative regulatory and customer conduct requirements.

How it may arise

Failure to understand the needs of our customers or to provide them with the level of service required at all stages of the customer journey.

What has changed?

- Allocation of Senior Manager Function and Prescribed Responsibilities updated to reflect recent structural changes at Bank executive level. Project underway to extend SMCR within AFS and ensure clear accountabilities at entity and Group level.
- Conduct Risk Framework has been designed and conduct risk, Management Information (MI) is being developed to support adequate oversight of conduct and compliance risk across the Bank.
- A process-centric approach taken in the review of Conduct & Compliance Policy Standards.
- Delivered Data Protection Programme to update and align controls and processes to the new General Data Protection Regulation (GDPR).
- Data Protection Officer (DPO) reporting to CRO.

How do we manage the risk?

- Control procedures and processes in place, with clear reporting and escalation procedures.
- Central team provide advice and support on conduct and compliance issues, with a monitoring and assurance plan for processes and controls.
- Central team provide support on conduct and compliance policies, with a monitoring and assurance plan for processes and controls.
- Central team representation at Executive and Divisional committees.
- Central team review and challenge of adequacy and quality of risk event reporting.
- Horizon scanning of emerging threats or changes in the regulatory environment.
- Regular and open engagement with PRA, FCA and Information Commissioner's Office (ICO). Contribution, where relevant, to consultations by FCA and ICO (directly or via trade bodies) on specific issues.
- Operational Risk Framework re-enforces the consideration of regulatory requirements in all operational processes.
- Deliver Data Protection/Privacy by design through change and delivery engagement.
- Continuous monitoring of control testing outcomes through PRCA oversight and risk-based assurance activity to assess the control environment and potential data protection risks.

Financial crime risk

That the Bank's products/services are used to facilitate Financial Crime and/or its processes, systems and controls are non-compliant with regulatory requirements.

How it may arise

Failure to protect our customers may lead to a financial loss to the Bank, inconvenience to our customers and result in regulatory censure and loss of confidence in the Bank.

What has changed?

- Transition of Credit Cards fraud detection capability from legacy fraud detection infrastructure to that of a new strategic supplier.
- Launch of Fraud Transformation Programme to identify and implement fraud prevention and detection measures.
- There has been a rise in the number of external data breaches leading to identity and transactional card fraud.

How do we manage the risk?

- Financial Crime prevention and detection processes, systems and controls in place.
- Proactive industry engagement and intelligence sharing to ensure early identification of emerging/migrating financial crime trends.
- Robust horizon scanning in place to proactively identify and impact assess changes to financial crime legislation and regulation.
- Effective governance established to oversee policy and effectiveness of controls.
- Money Laundering Reporting Officer provides regular reports on financial crime controls to Executive and Board committees.

Operational capability risk

Disruption to systems or processes which impact on web channels telephony or the ATM network and ensuring adequate business continuity arrangements are in place.

How it may arise

Failing to protect systems and processes or have adequate recovery processes in place may impact on availability of services and lead to reputational damage.

What has changed?

- Transition of Credit Cards business from legacy platform to strategic supplier.
- Expansion of customer contact centre across Rosyth and Lochside to support peak demand levels.
- Enhanced focus on oversight and assurance over the Bank's most critical third party suppliers.
- Delivery of the Bank's first mobile app for iOS and Android devices.

How do we manage the risk?

- Performance is monitored on a regular basis with triggers in place for timely escalation.
- Incident Management Plan is in place and tested.
- A combined crisis management capability has been created across the Bank and AFS.
- Outsourced services managed via key Service Agreements with a range of SLAs.
- A first line of defence model delivers support through the Bank's Process Risk and Control (PRCA) approach, with a second line function enhancing and embedding the Bank's operational resilience framework.

Operational risk

Losses resulting from inadequate or failed internal processes, people and systems or from external events.

How it may arise

Inadequate processes or internal controls may result in poor customer outcomes, service disruption, reputational damage and/or financial losses.

What has changed?

New foundations were delivered during the year for how we manage operational risk including:

- A single integrated framework for managing Operational Risk, published in a user-friendly Handbook;
- At the heart of this is a process-centric approach (PRCA) to risk & control assessment, supported by a new event management and escalation process and approach to risk & control treatment plans to focus on what matters most; and
- Implementation of a new governance, risk & controls system as a single source of truth for Operational Risk management and provides detailed automated MI.
- Establishment of a revised risk operating model to strengthen the First Line of Defence leadership team, promote consistency and increase capability across the business.

How do we manage the risk?

- Board-approved risk appetite measures provide clear thresholds within which to achieve our business objectives.
- Our Policy Framework, clearly defines the mandatory rules within which we all must operate, and within which we expect our suppliers to provide key services to us.
- Aggregated insightful reporting of our risk profile from business level, to ensure the highest priority items are swiftly escalated.
- Monthly review of our Top Operational Risks with a rolling agenda of deep-dives tabled at both Executive and Board level risk committees.

Capital adequacy risk

Holding insufficient capital to absorb losses in normal and stressed conditions or the ineffective deployment of capital.

How it may arise

Changes in economic conditions or regulatory requirements may impact on the level of capital resources required.

What has changed?

- Capital injections from parent to support growth and to meet increased regulatory buffers.
- Capital conservation buffer fully phased-in (2.5%).
- UK counter-cyclical buffer increased to 1%.
- IFRS 9 transitional arrangements implemented.

How do we manage the risk?

- Target risk appetite range for level of capital held
- Daily monitoring and reporting of capital position, with triggers in place for escalation.
- Projected capital position updated for any changes in business strategy or the external environment.
- Capital adequacy built in to our strategic planning and capital plans.
- The annual ICAAP review determines the adequacy of the level and type of capital resources held.

Liquidity & funding risk

The risk that the Bank is unable to meet its obligations as they fall due or can only do so at excessive cost.

How it may arise

Loss of confidence in the Bank leading to a material and rapid outflow of savings deposits and/or difficulties in accessing wholesale funding markets.

What has changed?

- No material changes to the Bank's liquidity and funding risk profile.

How do we manage the risk?

- Daily monitoring and reporting of key Liquidity and Funding EWIs, with triggers in place for escalation.
- Liquidity and funding targets built in to our strategic planning and capital plans.
- The annual ILAAP review determines the adequacy of liquidity and funding plans.
- Liquidity Contingency Plan in place with identified management actions under stress conditions.
- Further information on our Liquidity and Funding Risk exposure may be found in the Notes to Financial Statements.

Market risk

The risk of loss as a result of the value of financial assets or liabilities (including off-balance sheet instruments) being adversely affected by movements in market rates or prices.

How it may arise

The Bank does not have a trading book, but is exposed to the impact of sudden changes in interest rates on its lending book as well as market risk in the assets held for liquidity purposes.

What has changed?

- A new Capital at Risk metric has been introduced which is an aggregate measure being derived from assessing each of the key market risk drivers which are relevant to the Bank.

How do we manage the risk?

- A range of market risk limits are in place. Exposures are modelled and reported on a regular basis.
- Hedging risk management strategies used to reduce exposures to earnings volatility.
- Behavioural assumptions are applied to the treatment of non-interest bearing balances and expectations within the Bank's balance sheet.
- Further information on our Market Risk exposure may be found in the Notes to Financial Statements.

Wholesale credit risk

Losses arising from institutional counterparties failing to meet their contractual cash flow obligations.

How it may arise

Default or downgrades in the credit rating of counterparties.

What has changed?

- Composition of Liquid Asset Buffer regularly reviewed and tested.

How do we manage the risk?

- Counterparty limits and credit assessment process are in place to control exposure levels.
- Key ratios are monitored and reported on a daily basis with triggers in place for escalation.
- Investment activity for liquid assets focused on a small set of asset classes with proven credit performance.

2.12 Interest Rate Risk

The Bank has a low appetite for financial risk and actively strives to manage potential losses due to fluctuations in interest rates through robust financial risk management limits, as well as effective system and controls. Treasury monitor the Bank's exposure to interest rates through two key measures; Economic Value (EV) and Earnings at Risk (EaR). The Bank is exposed to an upward shift in the yield curve because of the term structure of the banking book instruments. The Bank mainly funds its fixed rate assets through variable rate savings which exposes the Bank to interest rate movements. Treasury manages this risk through various hedging strategies, whilst optimising any natural hedges.

As at 28 February 2019, the market value sensitivity of earnings at risk (change in net interest income) for changes in interest rates of +/-200 basis points and +/-100 basis points are:

Change in net interest income	28 February 2019 £m	28 February 2018 £m
+/- 200 basis points	**(19)/18**	(28)/5
+/- 100 basis points	**(10)/13**	(14)/6

The Bank is exposed to foreign exchange risk through its holding of cash denominated in foreign currencies, primarily Euro and US Dollar, within its travel money bureaux in J Sainsbury's stores. This risk in respect of Euro and US dollar holdings is currently mitigated through forward rate transactions, thus reducing the capital requirement. The market risk capital requirement as at 28 February 2019 was £nil (2018: £nil). Due to the relative low value of other foreign currencies held, and frequent turnover of the currencies in stock, the foreign exchange risks arising during the year and at the balance sheet date are deemed to be low.

3. Capital resources

The Bank is required to hold own funds (capital resources) in accordance with the CRR, which sets out the quantity and quality of own funds necessary to meet requirements (Pillar 1). The Bank is also subject to additional capital requirements reflecting risks not captured by Pillar 1 which is set by the PRA (Pillar 2). 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 2019 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 currently consists of Common Equity Tier 1 (CET1) capital, representing ordinary share capital and reserves with regulatory deductions and Tier 2 capital representing subordinated debt. The Bank issued £175m of fixed rate subordinated debt on 27 November 2017 with a maturity of 10 years. Of this, £172m (Feb 2018: £155m) was eligible as Tier 2 capital at 28 February 2019 (see Annex IV for details). The Bank has no Additional Tier 1 (AT1) capital.

The table in section 3.1 shows the breakdown of total available capital resources of the Bank on a consolidated basis as at 28 February 2019. The own funds disclosure is shown in Annex V.

3.1 Total capital resources

Capital resources are presented below.

	28 February 2019 £m	28 February 2018 £m
Common Equity Tier 1 (CET1) capital:		
Ordinary share capital	**866**	756
Retained earnings	**68**	173
Accumulated other comprehensive income	**(2)**	1
CET1 capital before regulatory adjustments	**932**	930
Regulatory adjustments to CET1 capital:		
Intangible assets	**(225)**	(205)
Transitional adjustment	**79**	–
Additional value adjustments	**(1)**	–
Total regulatory adjustments to CET1 capital	**(147)**	(205)
CET1 capital	**785**	725
Tier 1 capital	**785**	725
Tier 2 capital:		
Loan notes (listed)	**172**	155
Tier 2 capital:	**172**	155
Total capital	**957**	880

	28 February 2019	28 February 2018
Risk-weighted assets (£m)	**5,744**	5,133
CET1 capital ratio (%)	**13.7**	14.1
Total capital ratio (%)	**16.7**	17.1

3.2 Movement in CET1 capital

The table below shows the movement in CET1 capital during the period.

	£m
CET1 capital at 28 February 2018	**725**
Ordinary share capital issued	**110**
IFRS 9 adjustment to retained earnings on 1 March 2019	**(84)**
Loss recognised in retained earnings	**(24)**
Share-based payments	**3**
Transitional adjustment	**79**
Movement in additional value adjustment	**(1)**
Movement in other comprehensive income	**(3)**
Movement in intangible assets	**(20)**
CET1 capital at 28 February 2019	**785**

3.3 Share capital

	Total shares £m
Allotted, called up and fully paid:	
At 1 March 2018	**756**
Issued ordinary shares	**110**
At 28 February 2019	**866**
At 1 March 2017	566
Issued ordinary shares	190
At 28 February 2018	756

During the year the Bank issued 110m (2018: 190m) ordinary shares of £1 each at par to J Sainsbury plc.

3.4 Own funds balance sheet reconciliation

Article 437 (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.

	£m
Shareholders' funds per Bank statutory financial statements	**951**
Consolidation of HRGCS	**(19)**
Subordinated debt included as Tier 2 capital	**172**
Regulatory adjustments to capital	**(147)**
Own funds at 28 February 2019	**957**

A reconciliation of the statutory balance sheet to regulatory exposures as at 28 February 2019 is included in Annex III.

3.5 Main features of capital instruments

Article 437 of the CRR requires the Bank to disclose the main features of capital resources. This is included in Annex IV.

3.6 IFRS 9 Impact

From 1 March 2018, the Bank and HRGCS account for expected credit losses (ECL) under IFRS 9. Moving from an incurred loss model (under IAS 39) to IFRS 9 ECL resulted in increased bad debt provisions of £101m across the prudential group which were accounted for directly through profit and loss reserves including the effects of taxation (Day 1 impact) of £84m as at 1 March 2018.

The Bank has elected to apply the CRR Article 473a transitional approach to IFRS 9 and therefore recognises transitional adjustments within own funds (CET1 capital) and risk-weighted assets. The transitional adjustment reflects the after tax impact of increased provisioning under IFRS 9 at Day 1 plus any subsequent increases in non-defaulted ECL from Day 1 to the reporting date. This adjustment is amortised over five years – 95% of the transitional amount is added back to regulatory capital in the 2018/19 reporting period (£79m). In addition to the adjustment to own funds, transitional adjustments of £28m are also made to risk-weighted assets reflecting the transitional impact on specific credit risk adjustments and deferred tax.

The table below discloses the impact of transitional adjustments on own funds and capital ratios by comparison with these values in the absence of transitional arrangements.

	28 February 2019 £m
Available capital	
CET1 capital	**785**
CET1 capital as if IFRS 9 transitional arrangements had not been applied	**706**
Tier 1 capital	**785**
Tier 1 capital as if IFRS 9 transitional arrangements had not been applied	**706**
Total capital	**957**
Total capital as if IFRS 9 transitional arrangements had not been applied	**878**
Risk-weighted assets	
Total risk-weighted assets	**5,744**
Total risk-weighted assets as if IFRS 9 transitional arrangements had not been applied	**5,716**
Capital ratios	
CET1 (as a percentage of risk exposure amount)	**13.7%**
CET1 as if IFRS 9 transitional arrangements had not been applied	**12.4%**
Tier 1	**13.7%**
Tier 1 as if IFRS 9 transitional arrangements had not been applied	**12.4%**
Total capital	**16.7%**
Total capital as if IFRS 9 transitional arrangements had not been applied	**15.4%**
Leverage ratio	
Leverage ratio total exposure measure	**9,548**
Leverage ratio	**8.2%**
Leverage ratio as if IFRS 9 transitional arrangements had not been applied	**7.4%**

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 operational risk determination is based on the average of three years of historical income risk weighted as retail banking (12%).

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 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 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. The movement in risk-weighted assets from 28 February 2018 to 28 February 2019 mainly represents movements in the volumes of the exposures. Net exposures are also impacted by increased IFRS 9 ECL, offset by a 'scalar' adjustment reflecting the transitional adjustment applied to own funds.

The Total Capital Requirement (TCR) is the aggregate of the Pillar 1 (February 2019: £460m: February 2018: £411m) and current Pillar 2A (February 2019: £226m: February 2018: £208m) capital requirements. Therefore the TCR is 11.9% at 28 February 2019 (28 February 2018: 12.1%).

Overview of RWAs

		Risk-weighted assets £m		Minimum capital requirement £m
		28 February 2019	**28 February 2018**	**28 February 2019**
1	Credit risk (excluding CCR)	**5,058**	4,458	**405**
2	Of which Standardised Approach	**5,058**	4,458	**405**
6	CCR	**1**	2	**–**
7	Of which marked to market	**1**	2	**–**
14	Securitisation exposures in the banking book (after the cap)	**24**	22	**2**
18	Of which Standardised Approach	**24**	22	**2**
19	Market risk	**–**	–	**–**
20	Of which Standardised Approach	**–**	–	**–**
23	Operational risk	**653**	637	**52**
25	Of which Standardised Approach	**653**	637	**52**
27	Amounts below the thresholds for deduction (subject to 250% risk weight)	**8**	14	**1**
29	**Total risk**	**5,744**	5,133	**460**

These are the standard row identifiers for template EU OV1 per the EBA guidelines (EBA/GL2016/11).
Source: Template EU OV1

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.

At 28 February 2019	Minimum capital requirement £m	Risk-weighted assets £m
Institutions	**1**	**12**
Corporates	**3**	**40**
Retail	**335**	**4,191**
Secured by mortgages on residential property	**39**	**483**
In default	**8**	**94**
Covered bonds	**2**	**26**
Securitisation positions	**2**	**24**
Other	**18**	**220**
Total credit/counterparty credit risk	**408**	**5,090**
Total operational risk	**52**	**653**
CVA risk	**–**	**1**
Total market risk	**–**	**–**
Total risk	**460**	**5,744**

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

At 28 February 2018	Minimum capital requirement £m	Risk-weighted assets £m
Institutions	1	14
Corporates	3	36
Retail	321	4,014
Secured by mortgages on residential property	9	118
In default	6	78
Covered bonds	2	23
Securitisation positions	2	22
Other	16	189
Total credit/counterparty credit risk	360	4,494
Total operational risk	51	637
CVA risk	–	2
Total market risk	–	–
Total risk	411	5,133

The movement in risk-weighted assets from 28 February 2018 to 28 February 2019 mainly represents movements in the volumes of the exposures. Net exposures are also impacted by increased IFRS 9 ECL, offset by a 'scalar' adjustment reflecting the transitional adjustment applied to own funds.

The Credit Valuation Adjustment (CVA) is required by Article 381-386 of the CRR.

CVA capital charge

		Exposure value £m	RWAs £m
		28 February 2019	**28 February 2019**
4	All portfolios subject to the Standardised Method	**17.9**	**0.6**
5	Total subject to the CVA capital charge	**1.5**	**1.4**

Source: Template EU CCR2

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. Prior to March 2018 this was determined on an incurred loss basis under IAS 39. IFRS 9 expected credit loss provisioning models have been applied from March 2018.

The Bank does not calculate general credit risk adjustments. Expected credit losses (ECL) reflect specific credit risk adjustments determined on individual assets. ECL are deducted from asset gross carrying values on a portfolio basis and risk weighting the net exposure.

5.1.1 Ageing of past-due exposures

	Gross carrying values £m					
28 February 2019	≤ 30 days	> 30 days ≤ 60 days	> 60 days ≤ 90 days	> 90 days ≤ 180 days	> 180 days ≤ 1 year	> 1 year
Loans	**52**	**31**	**17**	**158**	**20**	**1**

Source: Template EU CR1-D

Non-performing and forborne exposures are disclosed in template EU CR1-E (see Annex IX). Non-performing assets are defined as those assets that are greater than 90 days past due or are deemed to be unlikely to pay (for example are bankrupt). Past due items reflect those balances where payment has not been received when due and are thus in arrears.

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 net, after 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.

Total and average net amount of exposures

		2019	
		Net value of exposures at the end of the period £m	Average net exposures over the period £m
16	Central governments or central banks	**574**	**742**
19	Multilateral development banks	**121**	**105**
21	Institutions	**78**	**94**
22	Corporates	**40**	**34**
24	Retail	**5,588**	**5,456**
26	Secured by mortgages on immovable property	**1,380**	**934**
28	In default	**94**	**80**
30	Covered bonds	**261**	**254**
	Securitisation positions	**118**	**128**
34	Other	**545**	**495**
35	*Total Standardised Approach*	**8,799**	**8,322**
36	**Total credit risk exposure**	**8,799**	**8,322**

		2018	
		Net value of exposures at the end of the period £m	Average net exposures over the period £m
16	Central governments or central banks	869	698
19	Multilateral development banks	104	86
21	Institutions	79	106
22	Corporates	36	46
24	Retail	5,352	5,057
26	Secured by mortgages on immovable property	336	122
28	In default	78	65
30	Covered bonds	230	141
	Securitisation positions	119	98
34	Other	490	476
35	*Total Standardised Approach*	7,693	6,895
36	Total credit risk exposure	7,693	6,895

Source: Template EU CRB-B
Note that the exposures are all deemed to relate lending to retail customers. There is no lending to SMEs.

The table below shows the risk weights applied to the Bank's exposures by exposure class.

Standardised approach to determination of credit risk

	Exposure classes	Risk Weight £m 0%	2%	10%	20%	35%	50%	75%	100%	250%	Total
1	Central governments of central banks	**574**	–	–	–	–	–	–	–	–	**574**
4	Multilateral development banks	**121**	–	–	–	–	–	–	–	–	**121**
6	Institutions	–	**18**	–	**60**	–	–	–	–	–	**78**
7	Corporates	–	–	–	–	–	–	–	**40**	–	**40**
8	Retail	–	–	–	–	–	–	**5,588**	–	–	**5,588**
9	Secured by mortgages on immovable property	–	–	–	–	**1,380**	–	–	–	–	**1,380**
10	Exposures in default	–	–	–	–	–	–	–	**94**	–	**94**
12	Covered bonds	–	–	**261**	–	–	–	–	–	–	**261**
	Securitisation	–	–	–	**118**	–	–	–	–	–	**118**
16	Other items	**198**	–	–	**164**	–	–	–	**180**	**3**	**545**
17	**Total**	**893**	**18**	**261**	**342**	**1,380**	–	**5,588**	**314**	**3**	**8,799**

Source: Template EU CR5

5.3 Risk concentrations

Concentrations arise when a number of customers or counterparties are engaged in similar business activities or geographic regions, 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 customer group, product type or geographical location.

In line with its risk principles, the Bank seeks to actively identify and manage risk concentrations across its business areas and activities. It has set clear targets for diversification within its asset and liability portfolios and sources of income. These are supported by a range of portfolio limits and a focus on key processes and controls across its activities, systems and supply chain.

Within its assets held for liquidity purposes, concentration by location is measured based on the location of the issuer of the investment security. The analysis reflects the credit risk associated with the balance and is not reflective of a currency exposure.

5.4 Geographical and counterparty sectors
Credit exposure

28 February 2019[1]	United Kingdom £m	Europe (excl. UK) £m	Other £m	Total £m
Central governments or central banks	**469**	**95**	**10**	**574**
Multilateral development banks	**9**	**77**	**35**	**121**
Institutions	**78**	–	–	**78**
Corporates	**40**	–	–	**40**
Retail	**5,588**	–	–	**5,588**
Secured by mortgages on immovable property	**1,380**	–	–	**1,380**
In default	**94**	–	–	**94**
Covered bonds	**181**	**80**	–	**261**
Securitisation positions	**118**	–	–	**118**
Other	**545**	–	–	**545**
Total credit risk exposure	**8,502**	**252**	**45**	**8,799**

1 Full breakdown of credit risk exposure by country (Template EU CRB-C) is included within Annex X.

28 February 2018	United Kingdom £m	Europe (excl. UK) £m	Other £m	Total £m
Central governments or central banks	771	98	–	869
Multilateral development banks	12	77	15	104
Institutions	79	–	–	79
Corporates	36	–	–	36
Retail	5,352	–	–	5,352
Secured by mortgages on immovable property	336	–	–	336
In default	78	–	–	78
Covered bonds	150	80	–	230
Securitisation positions	69	50	–	119
Other	490	–	–	490
Total credit risk exposure	7,373	305	15	7,693

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

5.5 Industry sector

Credit exposure by sector

28 February 2019	Corporates £m	Government £m	Financial institutions £m	Retail £m	Other £m	Total £m
7 Central governments or central banks	–	**574**	–	–	–	**574**
10 Multilateral development banks	–	–	**121**	–	–	**121**
12 Institutions	–	–	**78**	–	–	**78**
13 Corporates	**40**	–	–	–	–	**40**
14 Retail	–	–	–	**5,588**	–	**5,588**
15 Secured by mortgages on immovable property	–	–	–	**1,380**	–	**1,380**
16 In default	–	–	–	**94**	–	**94**
18 Covered bonds	–	–	**261**	–	–	**261**
Securitisation positions	–	–	**118**	–	–	**118**
22 Other	–	–	–	–	**545**	**545**
24 Total credit risk exposure	**40**	**574**	**578**	**7,062**	**545**	**8,799**

28 February 2018	Corporates £m	Government £m	Financial institutions £m	Retail £m	Other £m	Total £m
7 Central governments or central banks	–	869	–	–	–	869
10 Multilateral development banks	–	–	104	–	–	104
12 Institutions	–	–	79	–	–	79
13 Corporates	36	–	–	–	–	36
14 Retail	–	–	–	5,352	–	5,352
15 Secured by mortgages on immovable property	–	–	–	336	–	336
16 In default	–	–	–	78	–	78
18 Covered bonds	–	–	230	–	–	230
Securitisation positions	–	–	119	–	–	119
22 Other	–	–	–	–	490	490
24 Total credit risk exposure	36	869	532	5,766	490	7,693

Source: Template EU CRB-D

5.6 Capital buffers

Credit institutions are required to hold capital conservation buffers and counter-cyclical capital buffers to ensure that sufficient capital is accumulated during periods of economic growth to absorb losses in stressed periods. As at 28 February 2019 the capital conservation buffer is 2.5% of RWAs. The Bank's institutional countercyclical buffer rate is shown below. The Bank is not currently classified as a 'global systemically important institution' (G-SII) or an 'other systemically important institution' (O-SII) and therefore has no additional capital buffer requirements.

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 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 2019 was 1%. This rate reflects application of a 2% counter-cyclical buffer rate to Norwegian covered bonds, however the majority of exposures are UK based. Note that the UK countercyclical rate was 0% at 28 February 2018, increasing to 0.5% from 27 June 2018 and then again to 1% from 28 November 2018.

At 28 February 2019	Exposure £m	Risk weight £m	Countercyclical rate
United Kingdom	**7,945**	**4,849**	**1%**
Spain	**45**	**5**	**0%**
Norway	**35**	**3**	**2%**
Average countercyclical rate			**0.9998%**

At 28 February 2018	Exposure £m	Risk weight £m	Countercyclical rate
United Kingdom	6,511	4,464	0%
Spain	50	5	0%
Norway	30	3	2%
Luxembourg	50	10	0%
Average countercyclical rate			0.0013%

Further disclosure of information in relation to the requirement for a countercyclical capital buffer in accordance with Article 440 of the CRR is included in Annex VIII.

5.7 Residual maturity by exposure class

	28 February 2019	On demand £m	<=1 year £m	>1 year <=5 years £m	>5 years £m	No stated maturity £m	Total £m
7	Central governments or central banks	**295**	**237**	**28**	**14**	**–**	**574**
10	Multilateral development banks	**–**	**77**	**44**	**–**	**–**	**121**
12	Institutions	**60**	**–**	**18**	**–**	**–**	**78**
13	Corporates	**10**	**5**	**24**	**1**	**–**	**40**
14	Retail	**–**	**2,150**	**3,343**	**95**	**–**	**5,588**
15	Secured by mortgages on immovable property	**–**	**44**	**184**	**1,152**	**–**	**1,380**
19	In default	**–**	**37**	**52**	**5**	**–**	**94**
18	Covered bonds	**–**	**31**	**230**	**–**	**–**	**261**
	Securitisation positions	**–**	**10**	**108**	**–**	**–**	**118**
22	Other exposures	**–**	**–**	**–**	**–**	**545**	**545**
23	***Total Standardised Approach***	**365**	**2,591**	**4,031**	**1,267**	**545**	**8,799**
24	**Total**	**365**	**2,591**	**4,031**	**1,267**	**545**	**8,799**

	28 February 2018	On demand £m	<=1 year £m	>1 year <=5 years £m	>5 years £m	No stated maturity £m	Total £m
7	Central governments or central banks	675	169	11	14	–	869
10	Multilateral development banks	–	71	33	–	–	104
12	Institutions	42	16	21	–	–	79
13	Corporates	1	–	29	6	–	36
14	Retail	–	2,108	3,172	70	2	5,352
15	Secured by mortgages on immovable property	–	15	57	264	–	336
19	In default	–	19	43	2	14	78
18	Covered bonds	–	5	225	–	–	230
	Securitisation positions	–	64	55	–	–	119
22	Other exposures	–	–	–	–	490	490
23	*Total Standardised Approach*	718	2,467	3,646	356	506	7,693
24	Total	718	2,467	3,646	356	506	7,693

Source: Template EU CRB-E

5.8 Exposure by credit quality steps

Exposures are shown below by credit quality steps. The mappings between the external credit assessment institutions used by the Bank and the credit quality steps used to determine the risk-weight are 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 2019	Credit Quality Step 1 £m	Credit Quality Step 2 £m	Credit Quality Step 3 £m	Unrated exposure £m	Total £m
Central governments or central banks	**574**	**–**	**–**	**–**	**574**
Multilateral development banks	**121**	**–**	**–**	**–**	**121**
Institutions	**62**	**16**	**–**	**–**	**78**
Corporates	**–**	**1**	**–**	**39**	**40**
Retail	**–**	**–**	**–**	**5,588**	**5,588**
Secured by mortgages on immovable property	**–**	**–**	**–**	**1,380**	**1,380**
In default	**–**	**–**	**–**	**94**	**94**
Covered bonds	**261**	**–**	**–**	**–**	**261**
Securitisation positions	**118**	**–**	**–**	**–**	**118**
Other	**–**	**–**	**–**	**545**	**545**
Total exposure post-mitigation	**1,136**	**17**	**–**	**7,646**	**8,799**

28 February 2018	Credit Quality Step 1 £m	Credit Quality Step 2 £m	Credit Quality Step 3 £m	Unrated exposure £m	Total £m
Central governments or central banks	869	–	–	–	869
Multilateral development banks	104	–	–	–	104
Institutions	16	36	–	27	79
Corporates	–	–	–	36	36
Retail	–	–	–	5,352	5,352
Secured by mortgages on immovable property	–	–	–	336	336
In default	–	–	–	78	78
Covered bonds	230	–	–	–	230
Securitisation positions	112	–	–	7	119
Other	–	–	–	490	490
Total exposure post-mitigation	1,331	36	–	6,326	7,693

Credit quality of exposures by exposure class and instrument

		Gross carrying values of				
28 February 2019		**Defaulted exposures £m**	**Non-defaulted exposures £m**	**Specific credit risk adjustment £m**	**Accumulated write-offs £m**	**Net values £m**
16	Central governments or central banks	**–**	**574**	**–**	**–**	**574**
19	Multilateral development banks	**–**	**121**	**–**	**–**	**121**
21	Institutions	**–**	**78**	**–**	**–**	**78**
22	Corporates	**–**	**40**	**–**	**–**	**40**
24	Retail	**–**	**5,672**	**84**	**–**	**5,588**
26	Secured by mortgages on immovable property	**–**	**1,380**	**–**	**–**	**1,380**
28	In default	**200**	**–**	**106**	**124**	**94**
30	Covered bonds	**–**	**261**	**–**	**–**	**261**
	Securitisation positions	**–**	**118**	**–**	**–**	**118**
34	Other	**–**	**545**	**–**	**–**	**545**
35	Total Standardised Approach	**200**	**8,789**	**190**	**124**	**8,799**
36	Total	**200**	**8,789**	**190**	**124**	**8,799**
37	Of which: Loans	**200**	**8,003**	**190**	**124**	**8,012**
38	Of which: Debt securities	**–**	**786**	**–**	**–**	**786**
39	Of which: Off-balance sheet exposures	**–**	**83**	**–**	**–**	**83**

Source: Template EU CR1-A

Credit quality of exposures by industry or counterparty types

	Gross carrying values of				
	Defaulted exposures £m	Non-defaulted exposures £m	Specific credit risk adjustment £m	Accumulated write-offs £m	Net values £m
Corporates	**–**	**40**	**–**	**–**	**40**
Government	**–**	**574**	**–**	**–**	**574**
Financial institutions	**–**	**578**	**–**	**–**	**578**
Retail	**200**	**7,052**	**190**	**124**	**7,062**
Other	**–**	**545**	**–**	**–**	**545**
Total	**200**	**8,78 9**	**190**	**124**	**8,799**

Source: Template EU CR1-B

Credit quality of exposures by geography

		Gross carrying values of				
		Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustment	Accumulated write-offs	Net values
1	United Kingdom	**200**	**8,492**	**190**	**124**	**8,502**
2	Europe (excl. UK)	**–**	**252**	**–**	**–**	**252**
3	*Finland*	–	14	–	–	14
4	*France*	–	76	–	–	76
5	*Germany*	–	21	–	–	21
6	*Luxembourg*	–	56	–	–	56
7	*Belgium*	–	5	–	–	5
8	*Spain*	–	45	–	–	45
9	*Norway*	–	35	–	–	35
10	Rest of the world	**–**	**45**	**–**	**–**	**45**
11	*Philippines*	–	25	–	–	25
12	*Canada*	–	10	–	–	10
13	*USA*	–	10	–	–	10
14	**Total**	**200**	**8,789**	**190**	**124**	**8,799**

Source: Template EU CR1-C

5.9 Credit risk mitigation

CRM techniques – Overview

		Exposures unsecured – Carrying amount £m	Exposures secured – Carrying amount £m	Exposures secured by collateral £m	Exposures secured by financial guarantees £m
1	Total loans	**6,628**	**1,385**	**–**	**–**
2	Total debt securities	**537**	**118**	**20**	**111**
3	**Total exposures**	**7,165**	**1,503**	**20**	**111**
4	Of which defaulted	**90**	**5**	**–**	**–**

Source: Template EU CR3

5.9.1 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 2019 was £12m (28 February 2018: £6m). The fair value of collateral held against possession cases was £nil (28 February 2018: £nil).

Credit Risk is central to the Bank's day-to-day activities and is managed in line with the Board approved risk appetite. Key developments over the course of the year have been the successful migration of Credit Cards from LBG to the New Bank Programme systems and processes, and the continuing growth of the mortgage portfolio, exceeding £1bn in the period. The Bank has implemented IFRS 9 modelling capacity for the 2018/19 financial year.

Retail Credit Risk is the possibility of losses arising from a retail customer failing to meet their agreed repayment terms as they fall due. Retail Credit utilise automated scorecards to assess the credit-worthiness and affordability criteria of new applicants and on-going behavioural characteristics of existing customers. The outcome from all scorecard models are monitored utilising a set of credit quality metrics to ensure actual performance is in line with agreed expectations. Additional expert underwriting of credit applications is undertaken by a specialist operational team where further consideration is appropriate.

If a customer falls into arrears, the customer will be held in 'collections' where the Bank will work with the customer to try and regularise the position over a period of time. Where the arrears status of a customer deteriorates and there is a failure to respond to correspondence or agree an acceptable repayment proposal, including notice of default, the customer balance will fall into 'recoveries'. A specialist debt recovery team will take steps to recover the debt, using their expertise to determine the optimum recovery strategy.

5.9.2 Wholesale

The maximum credit exposure to any client or counterparty as of 28 February 2019 was £308m to the Bank of England (28 February 2018: £675m) before taking into account collateral or other credit enhancements of £nil (28 February 2018: £nil).

The Bank's treasury portfolio is held primarily for liquidity management purposes and in the case of derivatives, for the purpose of managing market risk. The liquidity portfolio is invested in eligible investment securities that qualify for the regulatory Liquidity Coverage Ratio (LCR) and internal Operational Liquidity Pool (OLP). These investments include the Bank of England's (BoE) reserve account, UK government securities (gilts or Treasury bills), multilateral development bank securities, government guaranteed agency securities UK regulated covered bond programmes and asset backed securities.

Limits are established for all counterparty and asset class exposures based on their respective credit quality and market liquidity. Consideration is also given to geographical region and the strength of relevant sovereign credit ratings. 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. Daily monitoring is undertaken by the Bank's Treasury department, including early warning indicators with appropriate triggers for escalation.

The Bank does not transact credit derivatives. Certain government guaranteed bonds are risk weighted in line with the relevant government's rating.

Standardised Approach – Credit risk exposure and CRM effects

Exposure classes		Exposures before CCF and CRM £m		Exposures post-CCF and CRM £m		RWA and RWA density	
		On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWAs £m	RWA density
1	Central governments or central banks	**574**	**–**	**574**	**–**	**–**	**0%**
4	Multilateral development banks	**121**	**–**	**121**	**–**	**–**	**0%**
6	Institutions	**66**	**18**	**60**	**18**	**12**	**16%**
7	Corporates	**40**	**–**	**40**	**–**	**40**	**100%**
8	Retail	**5,648**	**8,217**	**5,564**	**24**	**4,191**	**75%**
9	Secured by mortgages on immovable property	**1,339**	**206**	**1,339**	**41**	**483**	**35%**
10	Exposures in default	**200**	**–**	**94**	**–**	**94**	**100%**
12	Covered bonds	**261**	**–**	**261**	**–**	**26**	**10%**
	Securitisation positions	**118**	**–**	**118**	**–**	**24**	**20%**
16	Other items	**553**	**–**	**545**	**–**	**220**	**40%**
17	**Total**	**8,920**	**8,441**	**8,716**	**83**	**5,090**	**58%**

Source: Template EU CR4

The Bank invests in certain government-backed securities. In these cases, the exposure class is transferred to 'central governments or central banks' exposure class and risk weighted accordingly.

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

5.10.1 Retail

Loans and advances to customers all reflect lending to individual customers within the UK including HRGCS store card balances and are summarised below. Past due is defined as one day or over and impaired is defined as three missed payments.

28 February 2019 (IFRS 9)	Retail £m	Secured by mortgages on immovable property £m	Total lending £m
Impaired			
Less than 3 months, but impaired	**27**	**4**	**31**
Past due 3 to 6 months	**23**	**–**	**23**
Past due 6 to 12 months	**5**	**–**	**5**
Past due over 12 months	**–**	**1**	**1**
Recoveries	**140**	**–**	**140**
Total gross impaired loans	**195**	**5**	**200**
Past due but not impaired			
Past due up to 3 months but not impaired	**79**	**–**	**79**
Total gross past due but not impaired	**79**	**–**	**79**
Neither past due nor impaired			
Off-balance sheet	**24**	**41**	**65**
Not impaired[1]	**5,569**	**1,339**	**6,908**
Total gross neither past due nor impaired	**5,593**	**1,380**	**6,973**
Total gross amount due	**5,867**	**1,385**	**7,252**

1 Includes retail loans and advances of £13m that would have been past due or impaired had their terms not been renegotiated.

28 February 2018 (IAS 39)	Retail £m	Secured by mortgages on immovable property £m	Total lending £m
Impaired			
Less than 3 months, but impaired	2	1	3
Past due 3 to 6 months	22	–	22
Past due 6 to 12 months	–	–	–
Past due over 12 months	–	1	1
Recoveries	142	–	142
Possession	–	–	–
Total gross impaired loans	166	2	168
Past due but not impaired			
Past due up to 3 months but not impaired	53	1	54
Total gross past due but not impaired	53	1	54
Neither past due nor impaired			
Off-balance sheet	20	34	54
Not impaired[1]	5,309	271	5,580
Total gross neither past due nor impaired	5,329	305	5,634
Total gross amount due	5,548	308	5,856

1 Includes retail loans and advances of £3m that would have been past due or impaired had their terms not been renegotiated.

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.

Changes in stock of general and specific credit risk adjustments

		2019	
		Accumulated specific credit risk adjustments £m	Accumulated general credit risk adjustments £m
1	Opening balance	**171**	**–**
2	Increases due to amounts set aside for estimated loan losses during the period	**89**	**–**
3	Decreases due to amounts reversed for estimated loan losses during the period	**–**	**–**
4	Decreases due to amounts taken against accumulated credit risk adjustments	**(64)**	**–**
5	Transfers between credit risk adjustments	**–**	**–**
6	Impact of exchange rate differences	**–**	**–**
7	Business combinations, including acquisitions and disposals of subsidiaries	**–**	**–**
8	Other adjustments	**(6)**	**–**
9	**Closing balance**	**190**	**–**
10	Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	**–**	**–**
11	Specific credit risk adjustments directly recorded directly to the statement of profit or loss	**89**	**–**

Source: Template EU CR2-A

		2018	
		Accumulated specific credit risk adjustments £m	Accumulated general credit risk adjustments £m
1	Opening balance	142	–
2	Increases due to amounts set aside for estimated loan losses during the period	68	–
3	Decreases due to amounts reversed for estimated loan losses during the period	–	–
4	Decreases due to amounts taken against accumulated credit risk adjustments	(57)	–
5	Transfers between credit risk adjustments	–	–
6	Impact of exchange rate differences	–	–
7	Business combinations, including acquisitions and disposals of subsidiaries	–	–
8	Other adjustments	–	–
9	**Closing balance**	153	–
10	Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	–	–
11	Specific credit risk adjustments directly recorded directly to the statement of profit or loss	68	–

Note that specific credit risk adjustments reflect the transitional position under IFRS 9 in 2019, therefore differ from expected credit losses disclosed in the financial statements of Sainsbury's Bank plc and Home Retail Group Card Services Limited (HRGCS). The 2018 comparative reflects provisions under IAS 39.

Changes in the stock of defaulted and impaired loans and debt securities

		2019
		Gross carrying amount of defaulted exposures £m
1	Opening balance	**172**
2	Loans and debt securities that have defaulted or impaired since the last reporting period	**121**
3	Returned to non- defaulted status	**(17)**
4	Amounts written off	**(76)**
5	Other changes	**–**
6	**Closing balance**	**200**

Source: Template EU CR2-B

This shows the movement in the gross balance of exposures classified as being impaired or in default over the period.

5.10.2 Wholesale

The total gross amount of individually impaired loans and advances to banks as at 28 February 2019 was £nil (28 February 2018: £nil). The fair value of collateral held for loans and advances to banks was £nil (28 February 2018: £nil).

The total gross amount of individually impaired debt securities, cash and balances with central banks, UK Government securities (Gilts and Treasury bills) and other eligible investment securities as at 28 February 2019 was £nil (2018: £nil).

Investment securities classified as Fair Value through Other Comprehensive Income (FVOCI) 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.

5.10.3 Counterparty credit risk

Counterparty credit risk is the risk that the counterparty to a transaction may default prior to the final settlement of the cash flows pertaining to that transaction. This may relate to financial derivatives, securities financing transactions and long settlement transactions. The Bank is exposed to counterparty credit risk through derivative transactions.

The Bank uses derivative contracts to manage Interest Rate Risk in the Banking Book (IRRBB) and foreign exchange risk on foreign denominated investments. 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 CSAs. The Bank now clears certain trades through central counterparties. In this case, the variation margin is determined by the central clearing party and paid daily with no minimum transfer value.

The Bank assigns counterparty credit limits based on the credit rating of the counterparty and monitors exposures against these limits on a daily basis. The Bank's exposures to counterparty credit risk are measured under the CRR mark-to-market method, representing the market value of derivative assets plus the potential future exposure.

Impact of netting and collateral held on exposure values

	Gross positive fair value or net carrying amount £m	Netting benefits £m	Netted current credit exposure £m	Collateral held £m	Net credit exposure £m
Derivatives	**8**	**8**	**–**	**–**	**–**

Source: Template EU CCR5-A

Analysis of CCR exposure by approach

		Replacement cost/Current market value £m	Potential future exposure £m	EAD post CRM £m	RWAs £m
1	Mark to market	**–**	**18**	**18**	**1**
6	Of which derivatives and long settlement transactions	**–**	**–**	**–**	**–**
11	**Total**	**–**	**18**	**18**	**1**

Source: Template EU CCR1

Exposures to CCPs

		EAD post CRM £m	RWAs £m
1	**Exposures to QCCPs (total)**	**17**	**1**
2	Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	**17**	**1**
3	(i) OTC derivatives	**17**	**1**
11	**Exposures to non-QCCPs (total)**	**1**	**–**
12	Exposures for trades at non-QCCPs (excluding initial margin and default fund contributions); of which	**1**	**–**
13	(i) OTC derivatives	**1**	**–**

Source: Template EU CCR8

The notional value of derivative contracts was £4,631m (2018: £2,923m). As at 28 February 2019 the gross positive fair value of contracts is £8m, with £8m netting benefits assumed to yield net derivatives exposure of £nil. The Potential Future Exposure (PFE) is £17m under the mark to market method. The calculated exposures are risk weighted under the standardised approach for credit risk. Minimum capital requirements for mark to market and PFE are disclosed within the credit risk disclosures (2019: £0.1m, 2018: £0.1m).

The other component of counterparty credit risk is the CVA capital charge which is disclosed separately (2019: £0.1m, 2018: £0.1m).

The Bank is not currently exposed to wrong way risk (defined as the risk that occurs when exposure to a counterparty is adversely correlated with the credit quality of that counterparty, occurring when default risk and credit exposure increase together). The Bank has no public credit rating.

Central counterparties may require additional initial margin to be posted in the event of deterioration of the Bank's credit risk. The Bank currently has no exposure to credit derivative transactions.

6. Securitisation and covered bonds

The Bank entered into a bilateral securitisation transaction on 18 February 2015. This was renewed in February 2017 and the revolving period is due to expire in May 2019. The facility was reduced during the year at the request of the Bank from £400m to £300m. The total amount drawn on the facility as at 28 February 2019 was £275m (2018: £312m). This is secured by £353m of personal loans which were transferred to a SPE 'Lochside Asset Purchaser No. 1 plc' for this purpose. The securitisation is not subject to a credit rating.

The Bank funds liquidity reserves and holds subordinated debt in the SPE. 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, i.e. the retail credit risk continues to be calculated on these loans. The securitisation position is a financing transaction rather than a sale and is deemed to be risk weighted at 0%. The Bank continues to service the loans. All securitised loans that fall into default are repurchased by the Bank. Impaired assets as at 28 February 2018 are £0.9m, reflecting timing of repurchase.

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 interest rate swaps.

The Bank does not sponsor SPEs, nor does it manage or advise investors in originated or sponsored securitisation positions.

The Bank also has exposures to investments in the UK and Norwegian regulated covered bonds and UK asset backed securities that are included in the Bank's liquidity resources. Key risks are credit, liquidity and interest rate risk. Covered bond investors benefit from dual recourse, whereby they have recourse to both the collateral pool backing a specific programme as well as a shortfall claim to the estate of the originator on its default. The Bank regularly monitors the credit rating of the covered bond and SPE security issuers to ensure these remain within the Bank's risk appetite. Other factors, such as the asset coverage are monitored to ensure bonds are eligible for inclusion within the Bank's liquid assets. Covered bonds and asset backed securities with fixed rate coupons are subject to interest rate risk which is hedged via interest rate swaps.

Investments in covered bonds and asset backed securities are classified and subsequently measured as FVOCI on the balance sheet. Movements in asset backed securities and covered bonds reflect increased investment in these types of assets as a result of the Bank's investment strategy.

	28 February 2019		29 February 2018	
	Capital requirement £m	**Risk-weighted assets £m**	Capital requirement £m	Risk-weighted assets £m
Residential Mortgage Backed Covered Bonds	**2**	**26**	2	23
Residential Mortgage Backed Securities	**2**	**22**	1	8
AB Commercial Paper	**–**	**–**	1	10
Auto Asset Backed Securities	**–**	**2**	–	4
Total	**4**	**50**	4	45

7. Non trading book exposure in equity

The Bank holds an equity exposure in Visa Inc. with a carrying value and fair value of £0.4m as at 28 February 2019. The Bank's investment strategy does not permit investment in equities, however this exposure originated due to a requirement to hold a share in Visa Europe in order to be a member of the credit card scheme. The original holding was exchanged for a share in Visa Inc. The Bank also holds £0.1m of investments in subsidiary undertakings that are excluded from the regulatory scope of consolidation (Home Retail Group Insurance Services Limited and ARG Personal Loans Limited). These investments are treated as unrated equity exposures for the purpose of capital requirements.

8. 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.

	28 February 2019 £m	28 February 2018 £m
Leverage ratio	**8.2%**	8.6%

	28 February 2019 £m	28 February 2018 £m
Components of the leverage ratio		
Total assets per published financial statements	**8,881**	7,826
Removal of accounting value of derivatives and securities financing transactions (SFTs)	**–**	–
Exposure value for derivatives and SFTs	**18**	27
Off-balance sheet exposures: unconditionally cancellable (10%)	**810**	716
Off-balance sheet: other	**65**	54
Other adjustments	**(226)**	(205)
Denominator	**9,548**	8,418
Tier 1 capital (numerator)	**785**	725

The Bank's leverage ratio of 8.2% exceeds the minimum Basel leverage ratio of 3%. The leverage ratio has remained consistent with 2018, with increased lending volumes balanced with new share capital issuance and retained earnings.

Detailed disclosures of the leverage ratio and total exposure measure are included in Annex VI.

9. Asset encumbrance

An asset is defined as encumbered if it has been pledged as collateral against an existing on- 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 2019 were £1,897m (28 February 2018: £1,942m).

Encumbered assets	**Carrying amount of encumbered assets 28 February 2019 £m**	**Carrying amount of unencumbered assets 28 February 2019 £m**	Carrying amount of encumbered assets 28 February 2018 £m	Carrying amount of unencumbered assets 28 February 2018 £m
Loans on demand	**2**	**220**	4	196
Debt securities	**65**	**702**	25	495
Loans and advances other than loans on demand	**1,816**	**5,708**	1,905	4,882
Other assets	**14**	**354**	8	314
Carrying amount of assets	**1,897**	**6,984**	1,942	5,887

'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'.

The following tables show average asset encumbrance and sources of encumbrance for the most recent 12-month rolling period ended 28 February 2019:

Encumbered assets	Carrying amount of encumbered assets (12-month average) £m	Carrying amount of unencumbered assets (12-month average) £m
Loans on demand	3	211
Debt securities	34	721
Loans and advances other than loans on demand	1,874	5,262
Other assets	12	335
Carrying amount of assets	1,923	6,529

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	9	35
Deposits	1,011	1,511
Debt securities issued	242	369
Other	12	12
Carrying amount of selected financial liabilities	1,274	1,927

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 derivative transactions, whilst eligible treasury assets are pledged as collateral for initial margin requirements on derivatives which are centrally cleared. Eligible personal loans, with applicable haircuts, are used as collateral for the bilateral personal loans securitisation facility and Bank of England funding facilities, encompassing Term Funding Scheme (TFS), Discount Window Facility (DWF) and Indexed Long-Term Repo (ILTR). 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 accrued income and deferred tax assets. These are included within the carrying value of unencumbered assets.

Further disclosures on asset encumbrance can be found in Annex VII.

10. Liquidity Coverage Ratio

The Bank monitors and reports the Liquidity Coverage Ratio (LCR) on a Bank unconsolidated reporting basis. This is monitored in line with internal risk appetite thresholds set by the Board as described in section 2.11. The weighted average liquidity buffer (representing eligible High Quality Liquid Assets (HQLA)), 30 day net cash outflows and LCRs are shown below:

Total weighted value (12-month average) for quarter ended £000:	Mar 2018	Jun 2018	Sep 2018	Dec 2018	Feb 2019
Liquidity buffer	893,875	960,860	1,055,844	1,104,446	1,096,175
Net outflows over 30 days	612,958	626,079	644,600	680,132	694,965
Liquidity coverage ratio	146%	153%	164%	162%	158%

The ratio exceeded all internal and regulatory minimum values throughout the year.

11. Remuneration

11.1 Remuneration Committee

The role of the Remuneration Committee 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. The Remuneration Committee is responsible for monitoring and noting the level and structure of remuneration for all colleagues within Sainsbury's Bank Argos Financial Services at all levels.

The Remuneration Committee continually reviews and assesses the impact of remuneration policies on the risk profile of the Bank and colleague behaviour. The Remuneration Committee has oversight over buy-out, retention and termination payments, and the associated criteria. The Board is responsible for the appointment of members to the Remuneration Committee, for setting the terms of members' appointments and for the revocation of any such appointments.

The Remuneration Committee comprises no less than three members at any time, all of whom shall be Non-Executive Directors of the Bank. 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 Chair. All members of the Remuneration Committee are advised of the business to be transacted at any meeting even if they are unable to be present.

The CEO and Bank HR Director are invited to attend, except when issues regarding their own remuneration are discussed. Remuneration advisors provide independent opinion to the Bank.

The Remuneration Committee reviews the Remuneration Policy on an annual basis. An independent review of the Policy was undertaken by PricewaterhouseCoopers LLP this year and the Policy was found to be compliant.

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

- the requirement for all bonus plans to be reviewed by the Bank's Risk Function; and
- the competent and experienced nature of all individuals who are a member of or who attend the Remuneration Committee, 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 the Remuneration Committee.

The Remuneration Committee 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 the Bank, but doing so in a way which considers and manages the financial impact of its business decisions.

The Bank prepares a Remuneration Policy Statement, as required by SYSC 19D, 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.

11.2 Link between pay and performance

11.2.1 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 an annual bonus that is based on financial and non-financial targets, including customer-related objectives, which are aligned to the long-term strategic objectives of the organisation. Overall, through aligning reward to the Bank's Strategic Objectives, 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 combination of achieving a balanced scorecard 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.

11.2.2 Long-term incentives

The Bank rewards certain colleagues 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 at an organisational level (both employer and parent) for these awards to be made. If any Material Risk Takers 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 the Remuneration Committee.

The Remuneration Committee 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.

11.3 Quantitative disclosures
Under CRD IV, the Bank is required to make certain aggregate quantitative disclosures regarding the remuneration of Material Risk Takers for the year.

The table below shows total fixed and variable remuneration awarded to Material Risk Takers for the year to 28 February 2019. Fixed remuneration is defined as base salary and other cash payments and variable remuneration includes bonus awards made in the financial period. The Bank is only deemed to operate in one business segment – Retail Banking. For 2018/19 the list of Material Risk Takers include Argos Financial Services colleagues. Material Risk Taker emoluments are separately disclosed below for the Bank and HRGCS.

Year to 28 February 2019	Senior management £000	Other Material Risk Takers £000	Total £000
Sainsbury's Bank	**5,124**	**6,977**	**12,101**
HRGCS	**637**	**258**	**895**
Total remuneration	**5,761**	**7,235**	**12,996**

Included within remuneration for senior management are emoluments for members of the Bank's Executive Management Team and Non-Executive Directors. During 2018/19, 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 Non-Executive 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.

'Other Material Risk Takers' describes those additional members of staff whose actions are deemed to have a material impact on the risk profile of the Bank/HRGCS.

One individual earned remuneration between EUR 1.5m and EUR 2m.

Annex I – Board risk management declaration
The Board has established a risk management structure to support the delivery of the Bank's business objectives. The Board approves and monitors limits detailed in our risk appetite statement aligned to the primary risk policies and standards and in line with our risk principles designed to promote a risk aware culture.

The Board considers that adequate systems and controls are in place with regard to the Banks profile and strategy to actively manage the risks within the approved risk appetite statement.

A risk management structure has been established to support the delivery of the Banks business objectives in line with the Board approved limits set put in our risk appetite statement. The risk appetite statement is aligned to the primary risks identified by the Bank and in line with a set of risk principles designed to promote a risk aware culture. Within this structure further practical guidance on the processes and controls is provided through a suite of policy standards.

Annex II – Risk statement
The Bank provides banking services and related financial services within the UK. This is delivered through two principal brands, namely Sainsbury's Bank and Argos Financial Services.

The Bank's strategy is built upon significant growth opportunities in its customer base, balance sheet and product range. The Sainsbury's Bank branded business currently consists of three core business lines: Banking products (personal loans, savings accounts, credit cards, mortgages and ATMs), Insurance and Travel Money. AFS provides Argos and Habitat customers with a range of credit plans and also offers pet insurance via introducer contracts, replacement product care, breakdown cover and furniture care for purchased products.

Risk Management Overview
Effective risk management is a core component of our strategy and operations. Our objective is to support the growth of the Bank by thinking broadly about risks and managing them in a manner relative to the size and complexity of our business. In order to achieve this we focus on:

- Our Risk Management Structure: We have embedded a Three Lines of Defence framework to provide a basis for the identification, and management of all risks associated to our business model and strategy.
- Our risk principles: we have set six key risk principles (see below) that provide a compass to guide the future direction of the Bank and promote an effective risk-aware culture throughout the Bank.
- Our risk appetite: we have set clear boundaries aligned to our risk principles that determine the level and nature of risk which we are comfortable to operate with, in order to achieve our strategic objectives.
- Our risk exposure: we think about all risk types, their interactions and our mitigating actions. We look at both internal and external risk sources and the direct and indirect knock-on effects of each risk.

Risk appetite
The Bank's risk appetite is shaped by the Board, who provide a clear articulation of the level and types of risk that the Bank is prepared to accept in order to achieve its desired strategic outcomes. It is expressed and embedded through a 'high-level' Risk Appetite Statement that is set on an annual basis by the Board with regular reviews to consider both internal and external market developments and through 'directional' limits for key factors that influence the target outcomes.

A clear risk appetite enables the Bank to understand potential links between different aspects of its risk profile. In this way, strategic decisions are made in the full context of those factors likely to be of interest to a range of stakeholders, enabling them to understand the Bank's current and future risk profile, how it benchmarks versus others and how it supports our strategic objectives.

Principle	Aim	Expressed through:
Good Customer Outcomes at the Heart of What We Do	We are open, feel able to raise issues, use the right incentives and treat our customers fairly	— Fair customer outcomes — Conduct risk appetite — Operational capability metrics
Control Before We Grow	We identify and understand the risks inherent in our business activities and focus our controls on the things that matter	— Risk awareness ratings — Control effectiveness ratings — Operational risk losses
Our Customers are Sainsbury's and/or Argos Customers	We are disciplined in matching what we do to serving our target market and building customer trust	— Customers with Nectar cards — Activity Rates — Retention Rates
Identify and Manage Risk Concentrations	We target an appropriate level of diversification across our asset portfolio, systems and supply chain	— Diversification targets — Portfolio limits — Supplier Risk Management
Fund Before We Lend	We have sufficient access to resources to support our plans and to manage exposure to stress	— Capital adequacy targets — Liquidity targets — Funding targets
Anticipate Market Trends, Don't Follow Them	We provide insight on emerging threats and opportunities and manage volatility in our earnings	— Earnings stability targets — Diversified income streams — Market risk targets

The Executive Risk Committee (ERC) receives an aggregated view of the quantitative metrics and additional directional indicators on a monthly basis. A qualitative overlay against each of these Risk Appetite Outcomes provides additional insight to both current performance and any emerging trends or issues. This enables the ERC members to both challenge and provide direction to ensure the Bank remains within the agreed risk appetite and support the achievement of its strategic goals.

The following table sets out the actual ratios for some of the key metrics monitored for risk and performance purposes in 2018/19. Figures below relate to the regulatory group unless otherwise stated.

	28 February 2019	28 February 2018
BDAR	**1.6%**	1.3%
Net interest margin	**3.8%**	4.9%
NSFR (Bank only)	**115.4%**	119.8%
CET1 capital ratio	**13.7%**	14.1%
Total capital ratio	**16.7%**	17.1%

Annex III – Reconciliation of balance sheet under regulatory basis of consolidation to financial statements

	Per Sainsbury's Bank financial statements £000	Carrying values under scope of regulatory consolidation £000	Subject to credit risk framework £000	Subject to counterparty credit risk framework £000	Subject to the securitisation framework £000	Not subject to capital requirements or subject to deduction from capital £000
Assets						
Cash, balances with central banks and other deposits	534,172	538,476	561,901			(23,425)
Derivative financial instruments	7,563	7,563	–	7,563		
Loans and advances to customers	6,191,958	6,987,241	6,991,940			(4,699)
Investment securities	766,697	766,697	648,434		118,263	
Investment in subsidiaries	325,125	125	125			
Other assets	737,687	311,188	309,143			2,045
Intangible assets	224,116	225,337	–			225,337
Property, plant and equipment	44,309	44,400	44,400			
Total assets	**8,831,627**	**8,881,027**	**8,555,943**	**7,563**	**118,263**	**199,258**
Other deposits	1,376,086	1,376,086				1,376,086
Customer accounts	5,949,897	5,949,897				5,949,897
Other borrowed funds	275,038	275,038	10,308			264,730
Derivative financial instruments	7,956	7,956		7,563		393
Other liabilities	89,249	592,107	(1,251)			593,358
Subordinated liabilities	175,833	175,833				175,833
Provisions	7,078	53,576	17,554			36,022
Total liabilities	**7,881,137**	**8,430,493**	**26,611**	**7,563**		**8,396,319**

Source: Template EU LI1

Sources of differences between regulatory exposure amounts and carrying values in financial statements

		Total £000	Credit risk framework £000	Counterparty Credit risk framework £000	Securitisation framework £000
1	Asset carrying value amount under scope of regulatory consolidation (as per template LI1)	8,881,027	8,555,943	7,563	118,263
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	8,430,493	26,611	7,563	–
3	Total net amount under regulatory scope of consolidation	450,534	8,529,332	–	118,263
4	Off-balance sheet amounts	8,441,321	64,814	17,787	–
5	*Differences in valuations*		10,442	–	–
9	*Transitional Capital Adjustment*		57,464	–	–
10	**Regulatory Exposures**	**8,891,855**	**8,662,052**	**17,787**	**118,263**

Source: Template EU LI2

Template LI-1 shows the Bank's statutory balance sheet is disclosed in the financial statements on an unconsolidated basis. Here we reconcile the Bank's balance sheet by line to the prudential group by addition of HRGCS balances plus consolidation adjustments. The carrying value of assets are then mapped to the relevant risk frameworks they are subject to, unless not risk weighted – such as intangible assets which are deducted directly from capital. Liabilities are only included in risk categories under certain circumstances. Derivative liabilities are included under counterparty credit risk where netting exists. Additionally, any liabilities included within asset categories in the financial statements have been removed to correctly show the balance subject to credit risk and likewise any assets included within liability captions are identified as these are subject to credit risk.

Template LI-2 reconciles the carrying values of assets and liabilities subject to each risk framework with the regulatory exposure values. For example off-balance sheet exposures such as pipeline lending for retail lending and potential future exposures for derivatives are disclosed by risk framework after the application of credit conversion factors (CCF). The total column shows the full exposure prior to application of CCF. Exposures are shown net of credit risk adjustments.

Differences in the scopes of consolidation (entity by entity)

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation: Full consolidation	Proportional consolidation	Neither consolidated nor deducted	Deducted	Description of the entity
Sainsbury's Bank	Full consolidation	✔				Credit institution
HRGCS	Not included	✔				Financial institution

Source: Template EU LI3

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 has Common Equity Tier 1 instruments and Tier 2 instruments.

Capital instruments' main features template

		CET1	Tier 2
1	Issuer	Sainsbury's Bank plc	Sainsbury's Bank plc
2	Unique identifier (e.g. CUSIP, ISN or Bloomberg identifier for private placement)	Private placement	GEM Listed- ISIN XS1721760624
3	Governing law(s) of the instrument	English Law	English Law
Regulatory Treatment			
4	Transitional CRR rules	CET1	Tier 2
5	Post-transitional CRR rules	CET1	Tier 2
6	Eligible at solo/(sub-)consolidated/solo & (sub-)consolidated	Consolidated	Consolidated
7	Instrument type (types to be specified by each jurisdiction)	Common Equity	Dated fixed rate subordinated note
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	£866m	£172m
9	Nominal amount of instrument	£1	£175m
9a	Issue price	£1	£175m
9b	Redemption price	Not applicable	£175m
10	Accounting classification	Shareholders' equity	Liability and amortised cost
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)	23 November 2017

		CET1	Tier 2
		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 20,000,000 'Ord' Class 31 March 2015 15,000,000 'Ord' Class 18 May 2015 42,000,000 'Ord' Class 24 June 2015 20,000,000 'Ord' Class 11 August 2015 20,000,000 'Ord' Class 28 September 2015 20,000,000 'Ord' Class 23 November 2015 100,000,000 'Ord' Class 15 September 2016 30,000,000 'Ord' Class 30 January 2017 50,000,000 'Ord' Class 22 March 2017 50,000,000 'Ord' Class 27 June 2017 10,000,000 'Ord' Class 7 August 2017 60,000,000 'Ord' Class 26 September 2017 20,000,000 'Ord' Class 23 October 2017 30,000,000 'Ord' Class 25 September 2018 50,000,000 'Ord' Class 23 November 2018 30,000,000 'Ord' Class 17 December 2018	
12	Perpetual or dated	Perpetual	Dated
13	Original maturity date	Not applicable	23 November 2027
14	Issuer call subject to prior supervisory approval	No	Yes
15	Optional call date, contingent call dates and redemption amount	Not applicable	23 November 2022
16	Subsequent call dates, if applicable	Not applicable	Not applicable
Coupons/dividends			
17	Fixed or floating dividend/coupon	Floating	Fixed
18	Coupon rate and any related index	Not applicable	6%
19	Existence of a dividend stopper	No	No
20a	Fully discretionary, partial discretionary or mandatory (in terms of timing)	Fully discretionary	Mandatory
20b	Fully discretionary, partial discretionary or mandatory (in terms of amount)	Fully discretionary	Mandatory
21	Existence of step up or other incentive to redeem	No	No
22	Non-cumulative or cumulative	Non-cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	Not applicable	Not applicable
25	If convertible, fully or partially	Not applicable	Not applicable
26	If convertible, conversion rate	Not applicable	Not applicable
27	If convertible, mandatory or optional conversion	Not applicable	Not applicable
28	If convertible, specify instrument type convertible into	Not applicable	Not applicable
29	If convertible, specify issuer of instrument it converts into	Not applicable	Not applicable
30	Write-down features	No	No
31	If write-down, write-down trigger(s)	Not applicable	Not applicable
32	If write-down, full or partial	Not applicable	Not applicable
33	If write-down, permanent or temporary	Not applicable	Not applicable
34	If temporary write-down, description of write-up mechanism	Not applicable	Not applicable
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	All subordinate notes	All other liabilities
36	Non-compliant transitioned features	No	No
37	If yes, specify non-compliant features	Not applicable	Not applicable

Terms and conditions of the capital instruments are available on request by e-mailing Investor Relations at Shareholder.Services@sainsburys.co.uk

Annex V – Own funds disclosure

The following 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.

		Amount at disclosure date (£000)	Regulation (EU) No 575/2013 Article reference
1	Capital instruments and the related share premium accounts	865,750	
	of which: ordinary share capital	865,750	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	68,341	26 (1) (c)
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	(1,528)	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**	**932,563**	
7	Additional value adjustments (negative amount)	(767)	34,105
8	Intangible assets (net of related tax liability) (negative amount)	(225,337)	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)
25a	Losses for the current financial year (negative amount)	–	36 (1) (a), 472 (3)
25b	Foreseeable tax changes relating to CET1 items (negative amount)	–	36 (1) (l)

		Amount at disclosure date (£000)	Regulation (EU) No 575/2013 Article reference
26	Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment	78,854	
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)**	**(147,250)**	
29	**Common Equity Tier 1 (CET1) capital**	**785,313**	
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**	**–**	
44	**Additional Tier 1 (AT1) capital**	**–**	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**785,313**	
46	Capital instruments and the related share premium accounts	171,500	62, 63

		Amount at disclosure date (£000)	Regulation (EU) No 575/2013 Article reference
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**	**171,500**	
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**	**171,500**	
59	**Total capital (TC = T1+T2)**	**956,813**	
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) No 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) No 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)
60	**Total Risk-Weighted Assets**	**5,744,094**	
61	Common Equity Tier 1 (as a percentage of risk exposure amount)	13.67%	92 (2) (a), 465
62	Tier 1 (as a percentage of risk exposure amount)	13.67%	92 (2) (b), 465
63	Total capital (as a percentage of risk exposure amount)	16.66%	92 (2) (c)

		Amount at disclosure date (£000)	Regulation (EU) No 575/2013 Article reference
64	Institution specific buffer requirement (CET1 requirement in accordance with Article 92 (1) (a) plus capital conservation and countercyclical 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)	3.50%	CRD 128, 129, 130
65	of which: capital conservation buffer requirement	2.50%	
66	of which: countercyclical buffer requirement	1.00%	
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)	8.66%	CRD 128
69	Non relevant in EU regulation	–	
70	Non relevant in EU regulation	–	
71	Non relevant in EU regulation	–	
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)	3,023	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	71,801	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 2019
Entity name: Sainsbury's Bank plc
Level of application: Consolidated

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

		Applicable amount (£000)
1	Total assets as per published financial statements	8,881,027
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 total exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013)	–
4	Adjustments for derivative financial instruments	17,787
5	Adjustment for securities financing transactions (SFTs)	–
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	874,760
	EU-6a (Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(7) of Regulation (EU) No 575/2013)	–
	EU-6b (Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(14) of Regulation (EU) No 575/2013)	–
7	Other adjustments	(226,104)
8	**Leverage ratio total exposure measure**	**9,547,470**

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, SFTs and fiduciary assets, but including collateral)	8,881,027
2	Asset amounts deducted in determining Tier 1 capital	(226,104)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	8,654,923
Derivative exposures		
4	Replacement cost associated with derivatives transactions (i.e. net of eligible cash variation margin)	–
5	Add-on amounts for PFE associated with derivatives transactions (mark-to-market method)	17,787
EU-5a	Exposures determined under Original Exposure Method	–
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	–
7	Deductions of receivable assets for cash variation margin provided in derivatives transactions	–
8	Exempted CCP leg of client-cleared trade exposures	–
9	Adjusted effective notional amount of written credit derivatives	–
10	Adjusted effective notional offsets and add-on deductions for written credit derivatives	–
11	**Total derivative exposures (sum of lines 4 to 10)**	17,787
SFT exposures		–
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	–
13	Netted amounts of cash payables and cash receivables of gross SFT assets	–
14	Counterparty credit risk exposure for SFT assets	–
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429b(4) and 222 of Regulation (EU) No 575/2013	–
15	Agent transaction exposures	–
EU-15a	Exempted CCP leg of client-cleared SFT exposure	–
16	**Total securities financing transaction exposures (sum of lines 12 to 15a)**	**–**
Off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	8,423,534
18	Adjustments for conversion to credit equivalent amounts	7,548,774
19	**Other off-balance sheet exposures (sum of lines 17 to 18)**	874,760
Exempted exposures in accordance with Article 429(7) and (14) of Regulation (EU) No 575/2013		
EU-19a	Intragroup exposures (solo basis) exempted in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on- and off-balance sheet)	–
EU-19b	Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on- and off-balance sheet)	–
Capital and total exposure measure		
20	**Tier 1 capital**	785,313
21	**Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU19a and EU19b)**	9,547,470
Leverage ratio		
22	End of quarter leverage ratio	8.23%
Choice of transitional arrangements and amount of derecognised fiduciary items		
EU-23	Choice on transitional arrangements for the definition of the capital measure	Fully phased in
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) No 575/2013	–

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, SFTs and exempted exposures), of which:	8,881,027
EU-2	Trading book exposures	–
EU-3	Banking book exposures, of which:	8,881,027
EU-4	Covered bonds	261,119
EU-5	Exposures treated as sovereigns	573,964
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	120,884
EU-7	Institutions	42,068
EU-8	Secured by mortgages of immovable properties	1,379,881
EU-9	Retail exposures	5,522,842
EU-10	Corporate	39,547
EU-11	Exposures in default	94,413
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	846,309

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

1	Description of the processes used to manage the risk of excessive leverage	The capital position and leverage ratio are monitored by ALCo on a regular basis. If the leverage ratio declines beneath internal minimum thresholds, then corrective action would be taken immediately to increase the ratio.
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, credit card and storecard lending) and off-balance sheet commitments such as credit card and storecard undrawn balances, also affect the ratio.

Annex VII – Disclosure on asset encumbrance

Template A – Encumbered and unencumbered 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)	
			of which EHQLA and HQLA		of which EHQLA and HQLA		of which EHQLA and HQLA		of which EHQLA and HQLA
		010	030	040	050	060	080	090	100
010	Assets of the reporting institution	1,923,027	31,709			6,529,080	492,490		
030	Equity instruments	–	–			400			
040	Debt securities	34,184	31,709	34,184	31,709	720,560	492,490	720,560	492,490
050	Of which: covered bonds	–	–	–	–	253,860	253,860	253,860	253,860
060	Of which asset backed securities	–	–	–	–	128,358	128,358	128,358	128,358
070	Of which: issued by general governments	31,709	31,709	31,709	31,709	110,272	110,272	110,272	110,272
080	Of which: issued by financial corporations	2,475	–	2,475	–	217,414	–	217,414	–
090	Of which: issued by non-financial corporations	–	–	–	–	10,656	–	10,656	–
120	Other assets	1,888,843	–			5,808,120	–		
121	Of which: Loans on demand	3,070	–			210,843	–		
122	Of which: Loans and advances other than loans on demand	1,874,218	–			5,262,227	–		
123	Of which: Other	11,555	–			335,050	–		

Template B has been omitted on instruction from the PRA.

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	1,274,259	1,927,757
011	Of which: Derivatives	9,003	35,354
040	Of which: Deposits	1,011,000	1,511,486
090	Of which: Debt securities issued	242,200	368,861
120	Of which: Other sources of encumbrance	12,056	12,056

D – Information on importance of encumbrance

These templates reflect 12-month rolling averages, assessed on a quarterly basis. 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, whilst eligible treasury assets are pledged as collateral for initial margin requirements on derivatives which are centrally cleared. Eligible personal loans with applicable haircuts are used as collateral for the bilateral personal loans securitisation facility and the Bank of England funding facilities encompassing TFS, DWF and ILTR. The personal loans used to secure £275m of funding through securitisation are held within Loans and advances other than loans on demand. 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 accrued income and deferred tax assets. These are included within the carrying value of unencumbered assets.

Annex VIII – Disclosure in relation to the requirement for a countercyclical capital buffer

Table 1 – Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer

		General credit exposures		Trading book exposures		Securitisation exposure		Own funds requirements					
		Exposure value for SA (£000)	Exposure value IRB (£000)	Sum of long and short position of trading book (£000)	Value of trading book exposure for internal models (£000)	Exposure value for SA (£000)	Exposure value for IRB (£000)	Of which: General credit exposures (£000)	Of which: Trading book exposures (£000)	Of which: Securitisation exposures (£000	Total (£000)	Own funds requirement weights	Countercyclical capital buffer rate (%)
		010	020	030	040	050	060	070	080	090	100	110	120
010	Breakdown by country												
	United Kingdom	7,827,003	–	–	–	118,263	–	398,002	–	1,892	399,894	100	1
	Spain	45,435						3,635			3,635	100	0
	Norway	34,909						2,793			2,793	100	2
	Luxembourg	–										100	0
020	Total	7,907,347	–	–	–	118,263	–	404,430	–	1,892	406,322	100	1

Table 2 – Amount of institution-specific countercyclical capital buffer

		010
010	Total risk exposure amount (£000)	5,077,864
020	Institution-specific countercyclical buffer rate (%)	0.9998%
030	Institution-specific countercyclical buffer requirement (£000)	57,428

Annex IX – Non-performing and forborne exposures

		Gross carrying amount of performing and non-performing exposures £m							Accumulated impairment and provisions and negative fair value adjustments due to credit risk £m				Collateral and financial guarantees received £m	
					Of which non-performing				On performing exposure		On non-performing exposures			
			Of which performing but past due >30 days and <=90 days	of which performing forborne		of which: defaulted	of which: impaired	of which: forborne		of which: forborne		of which: forborne	On non-performing exposures	of which: forborne exposures
010	Debt Securities	786	–	–	–	–	–	–	–	–	–	–	–	–
020	Loans and advances	8,203	79	9	200	200	200	84	84	2	106	54	–	–
030	Off-balance sheet exposures	83	–	–	–	–	–	–	–	–	–	–	–	–

Source: Template EU CR1-E

Annex X – Geographical breakdown of exposures

		Net value £m													
		United Kingdom	**Europe (excl. UK)**	Finland	France	Germany	Luxembourg	Belgium	Spain	Norway	**Rest of the world**	Philippines	Canada	USA	**Total**
7	Central governments or central banks	**469**	**95**	–	69	21	–	5	–	–	**10**	–	10	–	**574**
10	Multilateral development banks	**9**	**77**	14	7	–	56	–	–	–	**35**	25	–	10	**121**
12	Institutions	**78**	**–**	–	–	–	–	–	–	–	**–**	–	–	–	**78**
13	Corporates	**40**	**–**	–	–	–	–	–	–	–	**–**	–	–	–	**40**
14	Retail	**5,588**	**–**	–	–	–	–	–	–	–	**–**	–	–	–	**5,588**
15	Secured by mortgages on immovable property	**1,380**	**–**	–	–	–	–	–	–	–	**–**	–	–	–	**1,380**
16	Exposures in default	**94**	**–**	–	–	–	–	–	–	–	**–**	–	–	–	**94**
18	Covered bonds	**181**	**80**	–	–	–	–	–	45	35	**–**	–	–	–	**261**
	Securitisation positions	**118**	**–**	–	–	–	–	–	–	–	**–**	–	–	–	**118**
22	Other exposures	**545**	**–**	–	–	–	–	–	–	–	**–**	–	–	–	**545**
23	**Total standardised approach**	**8,502**	**252**	14	76	21	56	5	35	45	**45**	25	10	10	**8,799**
24	**Total**	**8,502**	**252**	14	76	21	56	5	35	45	**45**	25	10	10	**8,799**

Source: Template EU CRB-C