Sainsbury's Bank plc

Pillar 3 Disclosures for the year ended 29 February 2020

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 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 remuneration rules falls within the responsibilities of the Remuneration Committee.

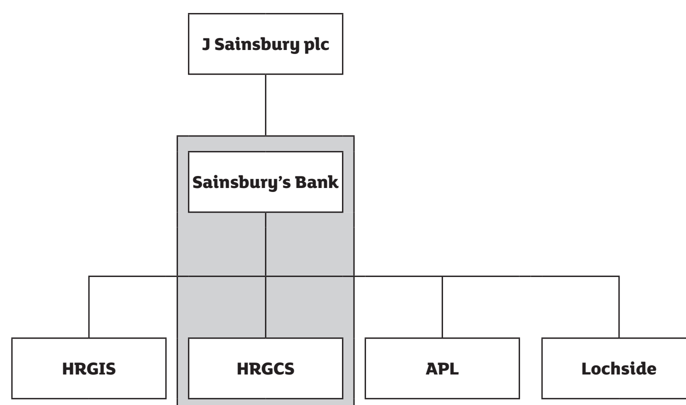
1.3 Scope of application

These disclosures are presented in respect of the year to 29 February 2020 for the Bank's prudential consolidated position under CRD IV.

These disclosures are based on the Bank's ownership as at 29 February 2020. 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 7). This subsidiary is not included in the prudential consolidation.

The Bank's group structure 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. 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

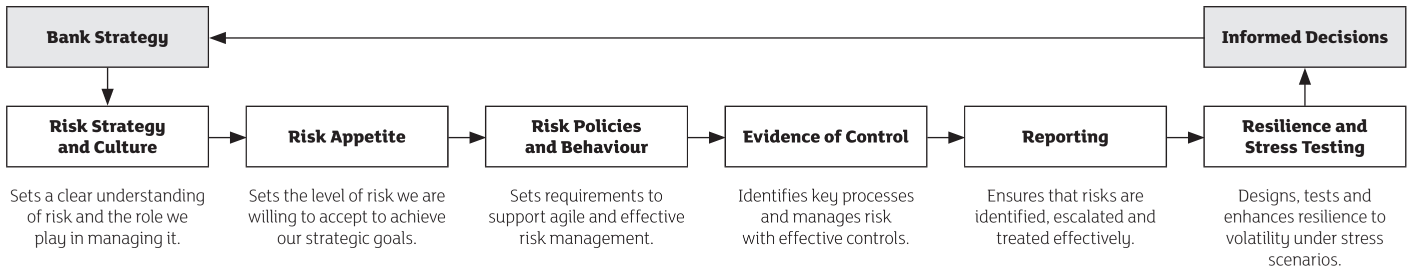
The Bank does not seek any exemption from disclosure on the basis of proprietary or confidential information.

2. Risk management objectives and policies

2.1 Risk management overview

Effective enterprise-wide risk management is a core component of our strategy and operations. We adopt a holistic, end-to-end view of risk, ensuring that the key risks arising from our activities are effectively identified, assessed and controlled. Our objective is to support the strategy of the Bank by thinking broadly about risks and managing them in an appropriate manner relative to the size and complexity of our business.

Our approach to enterprise-wide risk management includes the following key steps:



Risk strategy and culture

Our risk strategy and culture supports our business strategy and ensures it is delivered in a responsible and sustainable manner. This sets a clear, shared understanding of the risks we face and the role each of us plays in managing it. The following key aims and principles underpin our risk strategy and culture:

— **Insightful:** We identify and manage risk concentrations
— **Customer-focused:** Good customer outcomes are at the heart of what we do
— **Alert:** We anticipate market trends, we don't follow them
— **Resilient:** We fund before we lend and we control before we grow
— **Engaged:** We understand the part we play in identifying and escalating risks

Risk appetite

Our risk appetite is set and approved annually by the Board. It provides a clear articulation of the level of risk we are prepared to accept in order to achieve our strategic objectives. It is expressed and embedded through:

— A 'high-level' Risk Appetite Statement that provides a concise set of key Bank-wide targets and limits, with a balance of current, forward-looking and stress-based metrics for financial and non-financial risks.
— 'Directional' risk appetite limits for each of the Bank's key 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, escalation processes are embedded to notify Senior Executives and Board members 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. This enables us to understand the Bank's current and future risk profile, how it supports our strategic objectives and how it supports the best interests of our customers and other stakeholders.

Risk policies and behaviours

We have identified a set of principal risk types to which we are exposed through our activities *(see separate section below)*. Each risk type is actively managed through a key risk policy and supporting policy standards that clearly articulate the approach and boundaries by which the risks are managed and ensure everyone understands their individual responsibilities. The policies and policy standards set out the expected behaviours and requirements to support effective, agile and consistent decision-making across the Bank.

Evidence of control

We adopt a process-centric approach to identifying, measuring and controlling our key risks, ensuring that attention is focused on what matters most. We undertake Process Risk and Control Assessments (PRCA) across all of our key activities to ensure that appropriate and effective controls are in place, and treatment plans are identified where strengthening is required. Key risk responsibilities are viewed through an enterprise-wide lens, which allows for greater ownership of top risks by subject matter experts. Each material risk is assessed on the basis of its inherent exposure, its residual exposure in the prevailing control environment and its target exposure if different from current residual levels.

Our Business Enterprise Risk Tool (BERT) is used to record and manage our key processes, the controls we have in place, any treatment plans to improve our control environment and to record our management of risk events. All colleagues have access to BERT enabling them to view risk data across the organisation.

Reporting

Our risk reporting processes are critical to understanding the specific and aggregate levels 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.

Resilience plans and stress testing

Financial and operational resilience are key areas of focus. Our capital and liquidity adequacy are assessed on (at least) an annual basis through the ICAAP and ILAAP. Business recovery plans for severe incidents are reviewed on a regular basis, while our Recovery and Resolution Plans review our playbooks and recovery capacity in response to extreme but plausible threats to our viability. In line with recent regulatory guidance, we have implemented a Resilience Transformation Programme to set clear impact tolerances to disruption and embed the processes and resources required to meet them.

2.2 Risk management structure

We adopt a Three Lines of Defence framework to provide a basis for the identification and management of all risks associated with our business model and strategy. Within our Three Lines of Defence framework:

— **First Line.** Primary responsibility for the identification, management, monitoring and control of risks rests with our commercial and operational teams. The First Line teams, as subject matter experts, own the processes and controls used to manage risks within risk appetite and are responsible for the design, operation and testing of the key controls.
— **Second Line**. The independent Risk Management Division 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 frameworks and the design of key controls, as well as oversight and approval of PRCAs.
— **Third Line.** Our Internal Audit Division provides independent assurance on the effectiveness of risk management and internal control processes in mitigating and reporting risks.

2.3 Governance structure during the financial year ended 29 February 2020

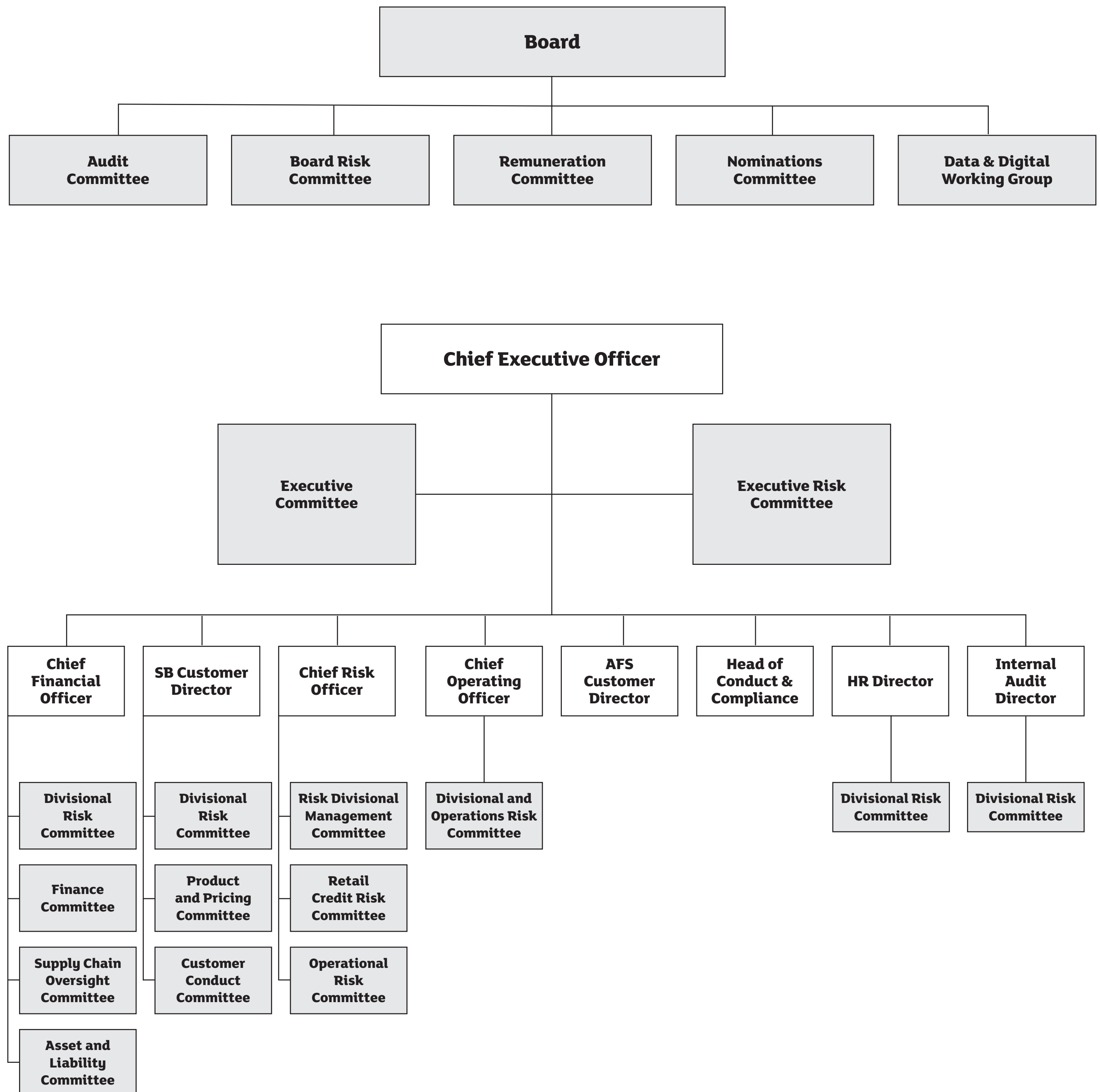
The diagram below shows the governance structure in place for Sainsbury's Bank as at 29 February 2020:

There were the following significant changes to our governance structure during the accounting period:

- The separation of the role of Chief Customer Officer into the SB Customer Director and Chief Operating Officer roles and removal of the Chief Transformation Officer role.
- The appointment of the Head of Conduct and Compliance to the Bank's Executive Committee to strengthen the business around these areas.

2.3.1 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. Further details on the Board composition may be found in section 2.6.



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 Bank 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 meets at least four times a 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.
- **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. The Remuneration Committee meets at least three times per year.
- **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 Board Risk Committee meets at least on a quarterly basis.

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 the Executive Committee. 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 FCA and PRA rules (Senior Manager 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.

Chief Risk Officer (CRO) Executive Committees:

- **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.
- **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 met 12 times in the financial year.
- **Operational Risk Committee (ORC).** The ORC assesses and challenges the adequacy and effectiveness of the design and implementation of the Bank's Operational, Conduct & Compliance and Financial Crime Risk frameworks (the Risk frameworks). The ORC met six times in the year.

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.
- **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.
- **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 Oversight Committee meets monthly.

SB Customer Director 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.
- **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.

2.3.2 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.

2.4 Board selection criteria
We regard succession at Board and senior management level as a key priority. Recruitment into the Board combines an assessment of both technical, leadership capability and competency skills to ensure the optimum blend of individual and aggregate capability having regard to our long-term strategic plan. Board recruitment is subject to the approval of the Nominations Committee, the Board and the relevant regulatory bodies (PRA/FCA).

2.5 Board diversity
We are committed to promoting a diverse and inclusive workplace at all levels, reflective of the communities in which we do business. 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 welcomed. The Nominations Committee is responsible for ensuring there is an appropriate balance of skills and experience across the Board.

2.6 Number of directorships held by members of the Board

Name	Position	Directorships Executive	Directorships Non-Executive
Roger Davis	Chairman (Independent Non-Executive)	–	3
Peter Clarke	Senior Independent Non-Executive	–	4
Michael Ross	Independent Non-Executive	1	2
Carole Butler	Independent Non-Executive	–	5
Guy Thomas	Independent Non-Executive	–	3
Clodagh Moriarty[1]	Non-Executive	1	1
James Brown[2]	Chief Executive Officer	1	–
Michael Larkin	Chief Financial 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 Clodagh Moriarty was appointed as a director of the Bank on 30 January 2020.
2 James Brown was appointed as a director of the Bank on 27 August 2019.

2.7 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.

2.8 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.

2.9 Our risk exposure
We have identified a set of principal risk types (see Annex XI) to which we are exposed through our activities. These are actively managed by the BRC and ERC in line with the guiding risk principles and overall risk appetite approved by the Board. Each risk type is actively managed through a key risk policy and supporting policy standards that clearly articulate the approach and boundaries by which the risks are managed and ensure everyone understands their individual responsibilities. This sets out the expected behaviours and requirements to support effective, agile and consistent decision-making across the Bank.

We adopt a process-centric approach to identifying, measuring and controlling our key risks, ensuring that attention is focused on what matters most. We undertake Process Risk and Control Assessments (PRCA) across all of our key activities to ensure that appropriate and effective controls are in place, or treatment plans are identified where strengthening is required. Key risk responsibilities are viewed through an enterprise-wide lens, which allows for greater ownership of top risks by subject matter experts. Each material risk is assessed on the basis of its inherent exposure, its residual exposure in the prevailing control environment and its target exposure if different from current residual levels.

Our risk reporting processes are critical to understanding the specific and 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.

Key uncertainties
We regularly monitor emerging and evolving changes in the risk environment in order to promote early discussion to understand and address any threats or opportunities to our business model. We consider specific emerging threats and opportunities under the following broad themes:

- **Strategic.** Reflects 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.** Reflects 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.
- **Political and Economic.** Reflects the impact of macroeconomic conditions and government policy on our markets. For example, we have reviewed 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.** Reflects continued developments within the financial services sector including PRA and FCA consultations and changes to Basel regulations. For example, the joint PRA and FCA consultation on operational resilience has influenced the scope and objectives of our Resilience Transformation Programme.

As more information is known about an emerging risk, it will be subject to a full risk assessment. Actions will then be taken to manage and control the risk, unless it is assessed as not relevant or not material to the Bank.

COVID-19. Since the year end, the COVID-19 pandemic has emerged as a material risk across all of the four themes noted above. The initial impact is primarily operational. Our business resilience plans and governance processes have been employed to ensure we continue to serve our customers and provide them with the support they need while also ensuring the safety of our colleagues and complying with government and regulatory guidance. We have engaged closely with our suppliers to support these efforts. In addition, secondary impacts are likely to include higher expected credit losses (ECLs) due to a deterioration in the economic outlook and lower revenues, including from some of the operational decisions taken (for example, the temporary closure of our Travel Money bureaus). Our capital and liquidity ratios are expected to remain strong and we continue to review a range of plausible stress outcomes to ensure we remain resilient.

Climate change is an emerging threat that potentially exposes us to both direct and indirect financial risks. In line with PRA guidance (SS3/19), we have developed a strategy to identify, assess and manage our exposure across the key areas of governance, risk management, scenario analysis and disclosure. A framework has been established to ensure appropriate visibility of the risks arising from climate change, while our ICAAP includes an assessment of the impact of financial risks from climate change, including the impact of extreme weather on our ability to serve our customers.

2.10 Interest rate risk

The Bank's market risk only arises in the Banking Book and it actively manages any potential losses due to fluctuations in interest rates via an established market risk framework which includes policies, limit setting, monitoring, and robust governance controls. Treasury are responsible for regular stress testing of risk positions against various interest rate scenarios to determine the sensitivity of earnings and capital valuations to manage compliance with Board risk appetite limits which is reported on a monthly basis to ALCo and Board.

Treasury monitor the Bank's exposure to interest rates through two key measures; Capital at Risk, which is an aggregate measure of five separate risk components, each being a distinct form of interest rate risk including repricing risk, basis risk, prepayment risk, MTM risk and credit spread risk, as well as Earnings at Risk (EaR).

Treasury use a specific interest rate risk measurement system which models interest rate risk exposures and makes use of behavioural assumptions of certain elements of the balance sheet to estimate the timings of repricing risk, being the Bank's main market risk driver. These behavioural assumptions are limited to the treatment of non-maturing assets, administered rate deposits, expectations of customer prepayment activity within the personal loan and mortgage portfolios as well as duration assumptions of equity capital. These assumptions are regularly reviewed by Treasury as part of an annual cycle to ensure they remain applicable and are approved by ALCo.

In order to mitigate the impact of any interest rate risk hedging activities are undertaken by Treasury on a monthly basis. In the first instance interest rate risks generated by lending and receiving deposits from customers are offset where they share common repricing risk characteristics. The remaining net exposure by placing cash collateralised interest rate swaps with a variety of Bank counterparties within parameters which are regularly reviewed and agreed by ALCo. For fixed rate assets within the Liquid Assets Portfolio these are swapped on a one to one basis by placing asset swaps at the deal's inception. Where possible, derivatives are designated into hedge accounting relationships from trade date to ensure mitigation of potential earnings volatility with derivative cashflows being provided by Treasury to Finance and reviewed on a monthly basis.

As at 29 February 2020, the market value sensitivity of EaR (change in net interest income) for changes in interest rates of +/-100 basis points are:

Change in net interest income	2020 £m	2019 £m
+/- 100 basis points	**(17)/19**	(10)/13

As at 29 February 2020, the Capital at Risk split by the five risk components is as follows:

Capital at Risk	2020 £m	2019 £m
Repricing Risk	**(17)**	(7)
Basis Risk	**–**	–
Prepayment Risk	**(2)**	(2)
Credit Spread Risk	**(3)**	(1)
MTM Risk	**(4)**	(1)
Total	**(26)**	(11)

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 29 February 2020 was £nil (2019: £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. COVID-19

The following sections of this report reflect the own funds and exposure values determined in line with the accounting treatment applied in the financial statements of Sainsbury's Bank and HRGCS as at 29 February 2020. At that point, the full extent of the economic impact of COVID-19 was not known and thus any subsequent information is treated as a non-adjusting event in the various financial statements.

Subsequent to the balance sheet date, there has been a sharp deterioration in the economic outlook in the UK as a consequence of the COVID-19 pandemic and measures taken by the government to control the spread of the virus. A significant reduction in UK economic output is now expected over an uncertain period with large rises in unemployment as a result of business closures and knock on supply chain impacts. Due to this, the Bank expects increased expected credit losses. These losses will be mitigated, to some degree, by UK government actions such as subsidies to businesses for furloughed employees and the self-employed. In order to estimate the increased credit losses resulting from this deterioration in outlook, the Bank has developed three unemployment scenarios which have been risk-weighted to determine an overlay applied to the existing IFRS 9 models. In line with guidance from the Bank of England, these scenarios assume that there will be significant economic disruption while social distancing measures are in place, followed by an expected sharp recovery when these are lifted. The three scenarios assume peak unemployment over the next 12 months of 6%, 8% and 10% respectively, with the weighted average resulting in an ECL uplift of £30m for Sainsbury's Bank and HRGCS.

This uplift in ECL would have the impact of reducing profits and thus may impact the Bank's own funds – although mitigated to some extent by IFRS 9 transitional capital rules. Our capital and liquidity ratios are expected to remain strong, though we continue to review a range of plausible stress outcomes to ensure we remain resilient.

4. 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 29 February 2020 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 ten years. Of this, £167m was eligible as Tier 2 capital at 29 February 2020 (Feb 2019: £172m). Annex IV provides further details. The Bank has no Additional Tier 1 (AT1) capital.

The table on page 7 shows the breakdown of total available capital resources of the Bank on a consolidated basis as at 29 February 2020. The own funds disclosure is shown in Annex V.

4.1 Total capital resources

Capital resources are presented below.

	29 February 2020 £m	28 February 2019 £m
Common Equity Tier 1 (CET1) capital:		
Ordinary share capital	**901**	866
Retained earnings	**92**	68
Accumulated other comprehensive income	**1**	(2)
CET1 capital before regulatory adjustments	**994**	932
Regulatory adjustments to CET1 capital:		
Intangible assets	**(237)**	(225)
Transitional adjustment	**66**	79
Additional value adjustments	**(1)**	(1)
Total regulatory adjustments to CET1 capital	**(172)**	(147)
CET1 capital	**822**	785
Tier 1 capital	**822**	785
Tier 2 capital:		
Loan notes (listed)	**167**	172
Tier 2 capital:	**167**	172
Total capital	**989**	957

	29 February 2020	28 February 2019
Risk-weighted assets (£m)	**5,816**	5,744
CET1 capital ratio (%)	**14.1**	13.7
Total capital ratio (%)	**17.0**	16.7

4.2 Movement in CET1 capital

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

	£m
CET1 capital at 28 February 2019	**785**
Ordinary share capital issued	**35**
Profit recognised in retained earnings	**20**
Share-based payments	**4**
Transitional adjustment	**(13)**
Movement in additional value adjustment	**–**
Movement in other comprehensive income	**3**
Movement in intangible assets	**(12)**
CET1 capital at 29 February 2020	**822**

4.3 Share capital

	Total shares £m
Allotted, called up and fully paid:	
At 1 March 2019	**866**
Issued ordinary shares	**35**
At 29 February 2020	**901**
At 1 March 2018	756
Issued ordinary shares	110
At 28 February 2019	866

During the year the Bank issued 35m (2019: 110m) ordinary shares of £1 each at par to J Sainsbury plc.

4.4 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	**1,000**
Consolidation of HRGCS	**(6)**
Subordinated debt included as Tier 2 capital	**167**
Regulatory adjustments to capital	**(172)**
Own funds at 29 February 2020	**989**

A reconciliation of the statutory balance sheet to regulatory exposures as at 29 February 2020 is included in Annex III.

4.5 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.

4.6 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, the net Day 1 charge to P&L reserves at 1 March 2018 was £84m.

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 – 85% of the transitional amount is added back to regulatory capital in the 2019/20 reporting period (£66m). In addition to the adjustment to own funds, transitional adjustments of £23m 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.

	29 February 2020 £m
Available capital	
CET1 capital	**822**
CET1 capital as if IFRS 9 transitional arrangements had not been applied	**756**
Tier 1 capital	**822**
Tier 1 capital as if IFRS 9 transitional arrangements had not been applied	**756**
Total capital	**989**
Total capital as if IFRS 9 transitional arrangements had not been applied	**923**
Risk-weighted assets	
Total risk-weighted assets	**5,816**
Total risk-weighted assets as if IFRS 9 transitional arrangements had not been applied	**5,793**
Capital ratios	
CET1 (as a percentage of risk exposure amount)	**14.1%**
CET1 as if IFRS 9 transitional arrangements had not been applied	**13.1%**
Tier 1	**14.1%**
Tier 1 as if IFRS 9 transitional arrangements had not been applied	**13.1%**
Total capital	**17.0%**
Total capital as if IFRS 9 transitional arrangements had not been applied	**15.9%**
Leverage ratio	
Leverage ratio total exposure measure	**10,160**
Leverage ratio	**8.1%**
Leverage ratio as if IFRS 9 transitional arrangements had not been applied	**7.4%**

5 Compliance with CRD IV and the overall Pillar 2 rule

5.1 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 requirement is calculated using the retail banking factor (12%) and the three-year average of the Bank's total income.

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.

5.2 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 2019 to 29 February 2020 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 2020: £465m; February 2019: £460m) and current Pillar 2A (February 2020: £202m; February 2019: £226m) capital requirements. Therefore the TCR is 11.5% at 29 February 2020 (28 February 2019: 11.9%).

Overview of RWAs

		Risk-weighted assets £m		Minimum capital requirement £m
		29 February 2020	28 February 2019	29 February 2020
1	Credit risk (excluding CCR)	**5,136**	5,058	**411**
2	Of which Standardised Approach	**5,136**	5,058	**411**
6	CCR	**–**	1	**–**
7	Of which marked to market	**–**	1	**–**
14	Securitisation exposures in the banking book (after the cap)	**16**	24	**1**
18	Of which Standardised Approach	**16**	24	**1**
19	Market risk	**–**	–	**–**
20	Of which Standardised Approach	**–**	–	**–**
23	Operational risk	**659**	653	**53**
25	Of which Standardised Approach	**659**	653	**53**
27	Amounts below the thresholds for deduction (subject to 250% risk weight)	**5**	8	**–**
29	**Total risk**	**5,816**	5,744	**465**

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 29 February 2020	Minimum capital requirement £m	Risk-weighted assets £m
Institutions	**2**	**27**
Corporates	**3**	**34**
Retail	**333**	**4,158**
Secured by mortgages on residential property	**51**	**636**
In default	**8**	**105**
Covered bonds	**2**	**24**
Securitisation positions	**1**	**16**
Other	**12**	**157**
Total credit/counterparty credit risk	**412**	**5,157**
Total operational risk	**53**	**659**
CVA risk	**–**	**–**
Total risk	**465**	**5,816**

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

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 movement in risk-weighted assets from 28 February 2019 to 29 February 2020 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
		29 February 2020	**29 February 2020**
4	All portfolios subject to the Standardised Method	**14.7**	**0.5**
5	Total subject to the CVA capital charge	**1.4**	**0.4**

Source: Template EU CCR2

6. Credit risk and dilution risk

6.1 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.

Ageing of past-due exposures

29 February 2020	≤ 30 days	> 30 days ≤ 60 days	> 60 days ≤ 90 days	> 90 days ≤ 180 days	> 180 days ≤ 1 year	> 1 year
	Gross carrying values £m					
Loans	**50**	**34**	**17**	**159**	**49**	**2**

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.

6.2 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

		2020	
		Net value of exposures at the end of the period £m	**Average net exposures over the period £m**
16	Central governments or central banks	**450**	**512**
19	Multilateral development banks	**319**	**243**
21	Institutions	**145**	**89**
22	Corporates	**34**	**35**
24	Retail	**5,544**	**5,554**
26	Secured by mortgages on immovable property	**1,817**	**1,734**
28	In default	**105**	**94**
30	Covered bonds	**237**	**283**
	Securitisation positions	**159**	**140**
34	Other	**456**	**524**
35	*Total Standardised Approach*	**9,266**	**9,208**
36	**Total credit risk exposure**	**9,266**	**9,208**

		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

Source: Template EU CRB-B
Note that the exposures are all deemed to relate to 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

		Risk weight £m									
	Exposure classes	**0%**	**2%**	**10%**	**20%**	**35%**	**50%**	**75%**	**100%**	**250%**	**Total**
1	Central governments of central banks	**450**	–	–	–	–	–	–	–	–	**450**
4	Multilateral development banks	**319**	–	–	–	–	–	–	–	–	**319**
6	Institutions	–	**13**	–	**132**	–	–	–	–	–	**145**
7	Corporates	–	–	–	–	–	–	–	**34**	–	**34**
8	Retail	–	–	–	–	–	–	**5,544**	–	–	**5,544**
9	Secured by mortgages on immovable property	–	–	–	–	**1,817**	–	–	–	–	**1,817**
10	Exposures in default	–	–	–	–	–	–	–	**105**	–	**105**
12	Covered bonds	–	–	**237**	–	–	–	–	–	–	**237**
	Securitisation	–	–	**159**	–	–	–	–	–	–	**159**
16	Other items	**160**	–	–	**185**	–	–	–	**105**	**6**	**456**
17	**Total**	**929**	**13**	**396**	**317**	**1,817**	–	**5,544**	**244**	**6**	**9,266**

Source: Template EU CR5

6.3 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.

The Bank is a retail-focused financial institution operating solely in the UK. 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.

6.4 Geographical and counterparty sectors
Credit exposure

29 February 2020[1]	**United Kingdom £m**	**Europe (excl. UK) £m**	**Other £m**	**Total £m**
Central governments or central banks	**374**	**36**	**40**	**450**
Multilateral development banks	**96**	**79**	**144**	**319**
Institutions	**145**	–	–	**145**
Corporates	**34**	–	–	**34**
Retail	**5,544**	–	–	**5,544**
Secured by mortgages on immovable property	**1,817**	–	–	**1,817**
In default	**105**	–	–	**105**
Covered bonds	**202**	**35**	–	**237**
Securitisation positions	**109**	**50**	–	**159**
Other	**456**	–	–	**456**
Total credit risk exposure	**8,882**	**200**	**184**	**9,266**

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

28 February 2019	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

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

6.5 Industry sector

Credit exposure by sector

29 February 2020	Corporates £m	Government £m	Financial institutions £m	Retail £m	Other £m	Total £m
7 Central governments or central banks	**–**	**450**	**–**	**–**	**–**	**450**
10 Multilateral development banks	**–**	**–**	**319**	**–**	**–**	**319**
12 Institutions	**–**	**–**	**145**	**–**	**–**	**145**
13 Corporates	**34**	**–**	**–**	**–**	**–**	**34**
14 Retail	**–**	**–**	**–**	**5,544**	**–**	**5,544**
15 Secured by mortgages on immovable property	**–**	**–**	**–**	**1,817**	**–**	**1,817**
16 In default	**–**	**–**	**–**	**105**	**–**	**105**
18 Covered bonds	**–**	**–**	**237**	**–**	**–**	**237**
Securitisation positions	**–**	**–**	**159**	**–**	**–**	**159**
22 Other	**–**	**–**	**–**	**–**	**456**	**456**
24 Total credit risk exposure	**34**	**450**	**860**	**7,466**	**456**	**9,266**

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

Source: Template EU CRB-D

6.6 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 29 February 2020 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 29 February 2020 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 cut to 0% with immediate effect on 11 March 2020.

At 29 February 2020	Exposure £m	Risk weight £m	Countercyclical rate
United Kingdom	**8,267**	**4,993**	**1%**
Spain	**–**	**–**	**0%**
Norway	**35**	**4**	**2%**
Average countercyclical rate			**1.0007%**

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%

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.

6.7 Residual maturity by exposure class

29 February 2020		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	**256**	**73**	**63**	**58**	**–**	**450**
10	Multilateral development banks	**–**	**10**	**309**	**–**	**–**	**319**
12	Institutions	**159**	**(3)**	**(11)**	**–**	**–**	**145**
13	Corporates	**9**	**–**	**–**	**25**	**–**	**34**
14	Retail	**–**	**2,318**	**3,161**	**65**	**–**	**5,544**
15	Secured by mortgages on immovable property	**–**	**56**	**233**	**1,528**	**–**	**1,817**
16	In default	**–**	**52**	**46**	**7**	**–**	**105**
18	Covered bonds	**–**	**–**	**237**	**–**	**–**	**237**
	Securitisation positions	**–**	**50**	**109**	**–**	**–**	**159**
22	Other exposures	**–**	**–**	**–**	**–**	**456**	**456**
23	***Total Standardised Approach***	**424**	**2,556**	**4,147**	**1,683**	**456**	**9,266**
24	**Total**	**424**	**2,556**	**4,147**	**1,683**	**456**	**9,266**

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
16	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

Source: Template EU CRB-E

6.8 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

29 February 2020	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	**450**	**–**	**–**	**–**	**450**
Multilateral development banks	**319**	**–**	**–**	**–**	**319**
Institutions	**74**	**71**	**–**	**–**	**145**
Corporates	**–**	**–**	**–**	**34**	**34**
Retail	**–**	**–**	**–**	**5,544**	**5,544**
Secured by mortgages on immovable property	**–**	**–**	**–**	**1,817**	**1,817**
In default	**–**	**–**	**–**	**105**	**105**
Covered bonds	**237**	**–**	**–**	**–**	**237**
Securitisation positions	**159**	**–**	**–**	**–**	**159**
Other	**–**	**–**	**–**	**456**	**456**
Total exposure post-mitigation	**1,239**	**71**	**–**	**7,956**	**9,266**

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

Credit quality of exposures by exposure class and instrument

		Gross carrying values of				
	29 February 2020	**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	**–**	**450**	**–**	**–**	**450**
19	Multilateral development banks	**–**	**319**	**–**	**–**	**319**
21	Institutions	**–**	**145**	**–**	**–**	**145**
22	Corporates	**–**	**34**	**–**	**–**	**34**
24	Retail	**–**	**5,631**	**87**	**–**	**5,544**
26	Secured by mortgages on immovable property	**–**	**1,817**	**–**	**–**	**1,817**
28	In default	**243**	**–**	**138**	**76**	**105**
30	Covered bonds	**–**	**237**	**–**	**–**	**237**
	Securitisation positions	**–**	**159**	**–**	**–**	**159**
34	Other	**–**	**456**	**–**	**–**	**456**
35	Total Standardised Approach	**243**	**9,248**	**225**	**76**	**9,266**
36	Total	**243**	**9,248**	**225**	**76**	**9,266**
37	Of which: Loans	**243**	**8,341**	**225**	**76**	**8,359**
38	Of which: Debt securities	**–**	**908**	**–**	**–**	**908**
39	Of which: Off-balance sheet exposures	**–**	**30**	**–**	**–**	**30**

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	**–**	**34**	**–**	**–**	**34**
Government	**–**	**450**	**–**	**–**	**450**
Financial institutions	**–**	**860**	**–**	**–**	**860**
Retail	**243**	**7,448**	**225**	**76**	**7,466**
Other	**–**	**456**	**–**	**–**	**456**
Total	**243**	**9,248**	**225**	**76**	**9,266**

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	**243**	**8,864**	**225**	**76**	**8,882**
2	Europe (excl. UK)	**–**	**200**	**–**	**–**	**200**
3	*Finland*	–	–	–	–	–
4	*France*	–	51	–	–	51
5	*Germany*	–	65	–	–	65
6	*Luxembourg*	–	49	–	–	49
7	*Belgium*	–	–	–	–	–
8	*Spain*	–	–	–	–	–
9	*Norway*	–	35	–	–	35
10	Rest of the world	**–**	**184**	**–**	**–**	**184**
11	*Philippines*	–	75	–	–	75
12	*Canada*	–	40	–	–	40
13	*USA*	–	69	–	–	69
14	**Total**	**243**	**9,248**	**225**	**76**	**9,266**

Source: Template EU CR1-C

6.9 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	**6,533**	**1,825**	**–**	**–**
2	Total debt securities	**648**	**159**	**15**	**86**
3	**Total exposures**	**7,181**	**1,984**	**15**	**86**
4	Of which defaulted	**98**	**8**	**–**	**–**

Source: Template EU CR3

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 29 February 2020 was £19m (28 February 2019: £12m). The fair value of collateral held against possession cases was £nil (28 February 2019: £nil). The Bank revalues collateral on a monthly basis using the UK House Price Index.

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 further enhancements of IFRS 9 forecasting and stress testing models and increased capture of income data for AFS applicants.

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 creditworthiness and affordability criteria of new applicants and ongoing behavioural characteristics of existing customers. The outcomes 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.

Wholesale

The maximum credit exposure to any client or counterparty as of 29 February 2020 was £314m to the Bank of England (28 February 2019: £308m) before taking into account collateral or other credit enhancements of £nil (28 February 2019: £nil). The Bank measures credit and market concentration risks as governed by GMRA, with exposures valued and margined daily.

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 Risk 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. As at 29 February 2020 the Bank held £86m of government guaranteed bonds.

Standardised Approach – Credit risk exposure and CRM effects

		Exposures before CCF and CRM £m		Exposures post-CCF and CRM £m		RWA and RWA density	
	Exposure classes	**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	**450**	**–**	**450**	**–**	**–**	**0%**
4	Multilateral development banks	**319**	**–**	**319**	**–**	**–**	**0%**
6	Institutions	**131**	**14**	**131**	**14**	**27**	**18%**
7	Corporates	**34**	**–**	**34**	**–**	**34**	**100%**
8	Retail	**5,615**	**9,131**	**5,529**	**15**	**4,158**	**75%**
9	Secured by mortgages on immovable property	**1,817**	**4**	**1,816**	**1**	**636**	**35%**
10	Exposures in default	**243**	**–**	**105**	**–**	**105**	**100%**
12	Covered bonds	**237**	**–**	**237**	**–**	**24**	**10%**
	Securitisation positions	**159**	**–**	**159**	**–**	**16**	**10%**
16	Other items	**456**	**–**	**456**	**–**	**157**	**35%**
17	**Total**	**9,461**	**9,149**	**9,236**	**30**	**5,157**	**56%**

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.

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

Retail

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

29 February 2020	**Retail £m**	**Secured by mortgages on immovable property £m**	**Total lending £m**
Impaired			
Less than 3 months, but impaired	**31**	**7**	**38**
Past due 3 to 6 months	**39**	**–**	**39**
Past due 6 to 12 months	**35**	**–**	**35**
Past due over 12 months	**1**	**1**	**2**
Recoveries	**130**	**–**	**130**
Total gross impaired loans	**236**	**8**	**244**
Past due but not impaired			
Past due up to 3 months but not impaired	**66**	**1**	**67**
Total gross past due but not impaired	**66**	**1**	**67**
Neither past due nor impaired			
Off-balance sheet	**15**	**1**	**16**
Not impaired[1]	**5,506**	**1,853**	**7,359**
Total gross neither past due nor impaired	**5,521**	**1,854**	**7,375**
Total gross amount due	**5,823**	**1,863**	**7,686**

1 Includes retail loans and advances of £6m that would have been past due or impaired had their terms not been renegotiated.

28 February 2019	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 £6m 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

		2020	
		Accumulated specific credit risk adjustments £m	**Accumulated general credit risk adjustments £m**
1	Opening balance	**190**	–
2	Increases due to amounts set aside for estimated loan losses during the period	**102**	–
3	Decreases due to amounts reversed for estimated loan losses during the period	–	–
4	Decreases due to amounts taken against accumulated credit risk adjustments	**(80)**	–
5	Transfers between credit risk adjustments	–	–
6	Impact of exchange rate differences	–	–
7	Business combinations, including acquisitions and disposals of subsidiaries	–	–
8	Other adjustments	**13**	–
9	**Closing balance**	**225**	–
10	Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	–	–
11	Specific credit risk adjustments recorded directly to the statement of profit or loss	**102**	–

Source: Template EU CR2-A

		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 recorded directly to the statement of profit or loss	89	–

Note that specific credit risk adjustments reflect the transitional position under IFRS 9 in 2019 and 2020, therefore differ from expected credit losses disclosed in the financial statements of Sainsbury's Bank plc and Home Retail Group Card Services Limited (HRGCS).

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

		2020
		Gross carrying amount of defaulted exposures £m
1	Opening balance	**200**
2	Loans and debt securities that have defaulted or impaired since the last reporting period	**154**
3	Returned to non-defaulted status	**(15)**
4	Amounts written off	**(95)**
5	Other changes	**–**
6	**Closing balance**	**244**

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.

Wholesale
The total gross amount of individually impaired loans and advances to banks as at 29 February 2020 was £nil (28 February 2019: £nil). The fair value of collateral held for loans and advances to banks was £nil (28 February 2019: £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 29 February 2020 was £nil (2019: £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.

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 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	**5**	**34**	**(29)**	**(28)**	**(1)**

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	**1**	**14**	**13**	**1**
6	Of which derivatives and long settlement transactions	**1**	**–**	**1**	**–**
11	**Total**	**1**	**14**	**13**	**1**

Source: Template EU CCR1

Exposures to CCPs

		EAD post CRM £m	RWAs £m
1	**Exposures to QCCPs (total)**	**13**	**1**
2	Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	**13**	**1**
3	(i) OTC derivatives	**13**	**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 £4,404m (2019: £4,631m). As at 29 February 2020 the gross positive fair value of contracts is £6m, with £6m netting benefits assumed to yield net derivatives exposure of £nil. The Potential Future Exposure (PFE) is £14m 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 (2020: £0.1m; 2019: £0.1m).

The other component of counterparty credit risk is the CVA capital charge which is disclosed separately (2020: £0.1m; 2019: £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.

7. 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 expired in May 2019 and the facility is currently in the amortisation phase. The total amount drawn on the facility as at 29 February 2020 was £101m (2019: £275m). This is secured by £182m 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 which are measured at amortised cost in the banking book (no trading book exists). 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 29 February 2020 are £0.5m, 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 regulated covered bonds, asset backed securities and asset backed commercial paper 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, and hedged via interest rate swaps.

Investments in covered bonds, asset backed securities and asset backed commercial paper are classified and subsequently measured as FVOCI on the balance sheet. Movements in these assets reflect allocation in these types of assets as a result of the Bank's investment strategy. There are no changes in methodology, key assumptions or inputs from the previous year.

	29 February 2020		28 February 2019	
	Capital requirement £m	**Risk-weighted assets £m**	Capital requirement £m	Risk-weighted assets £m
Residential Mortgage Backed Covered Bonds	**2**	**24**	2	26
Residential Mortgage Backed Securities	**1**	**11**	2	22
AB Commercial Paper	**–**	**5**	–	–
Auto Asset Backed Securities	**–**	**–**	–	2
Total	**3**	**40**	4	50

8. 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 29 February 2020. 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.

9. 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.

	29 February 2020 £m	28 February 2019 £m
Leverage ratio	**8.1%**	8.2%

	29 February 2020 £m	28 February 2019 £m
Components of the leverage ratio		
Total assets per published financial statements	**9,461**	8,881
Removal of accounting value of derivatives and securities financing transactions (SFTs)	**–**	–
Exposure value for derivatives and SFTs	**15**	18
Off-balance sheet exposures: unconditionally cancellable (10%)	**906**	810
Off-balance sheet: other	**16**	65
Other adjustments	**(238)**	(226)
Denominator	**10,160**	9,548
Tier 1 capital (numerator)	**822**	785

The Bank's leverage ratio of 8.1% exceeds the minimum Basel leverage ratio of 3%. The leverage ratio has remained consistent with 2019, with increased lending volumes balanced with new share capital issuance and an increase in retained earnings.

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

10. 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 29 February 2020 were £2,206m (28 February 2019: £1,897m).

Encumbered assets	**Carrying amount of encumbered assets 29 February 2020 £m**	**Carrying amount of unencumbered assets 29 February 2020 £m**	Carrying amount of encumbered assets 28 February 2019 £m	Carrying amount of unencumbered assets 28 February 2019 £m
Loans on demand	**30**	**281**	2	220
Debt securities	**339**	**594**	65	702
Loans and advances other than loans on demand	**1,819**	**6,093**	1,816	5,708
Other assets	**18**	**286**	14	354
Carrying amount of assets	**2,206**	**7,254**	1,897	6,984

'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 29 February 2020:

Encumbered assets	Carrying amount of encumbered assets (12-month average) £m	Carrying amount of unencumbered assets (12-month average) £m
Loans on demand	**23**	**200**
Debt securities	**99**	**803**
Loans and advances other than loans on demand	**1,982**	**5,923**
Other assets	**16**	**328**
Carrying amount of assets	**2,120**	**7,254**

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	**28**	**122**
Deposits	**1,122**	**1,722**
Debt securities issued	**182**	**260**
Other	**3**	**16**
Carrying amount of selected financial liabilities	**1,335**	**2,120**

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) and Discount Window Facility (DWF). 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.

11. 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 2019	Jun 2019	Sep 2019	Dec 2019	Feb 2020
Liquidity buffer	**1,085,461**	**1,072,881**	**1,057,981**	**1,039,337**	**1,018,424**
Net outflows over 30 days	**688,616**	**717,963**	**732,573**	**724,335**	**700,520**
Liquidity coverage ratio	**158%**	**149%**	**144%**	**143%**	**145%**

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

12. Remuneration

12.1 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 and 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 judgement, 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 relationship with the Board Risk Committee, and the sharing of information from the Risk Committee to the Remuneration Committee on matters which may be of importance when determining variable pay; 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 judgements 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.

12.2 Link between pay and performance

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 business-wide financial and non-financial measures, including customer-related objectives which are the same for all participants. Targets are confirmed at the start of the financial year, and are in line with the business plan. There is also a component of the bonus which is determined based on individual contribution, in the form of progress made against personal objectives. At the end of the financial year the bonus outcomes are subject to a risk adjustment process whereby the Remuneration Committee acts together with the Board Risk Committee to ensure reward outcomes are not disproportionate to risk performance for the year.

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, including how well colleagues manage risk, 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. At a senior management level, a portion of the variable reward package is delivered in the form of a share-based payment, and deferred for a number of years, in order to incentivise the long-term sustainable health of the company. Vesting is subject to continued employment. The Bank has not made any guaranteed bonus payments to date.

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.

12.3 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 29 February 2020. 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. Material Risk Taker emoluments are separately disclosed below for the Bank and HRGCS.

Year to 29 February 2020	Senior management £000	Other Material Risk Takers £000	Total £000
Sainsbury's Bank	**7,595**	**702**	**8,297**
HRGCS	**2,488**	**1,170**	**3,658**
Total remuneration (£'000)	**10,083**	**1,872**	**11,955**

Included within remuneration for senior management are emoluments for members of the Bank's Executive Management Team and Non-Executive Directors. During 2019/20, certain Non-Executive Directors were employees of the Bank's shareholders and were 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.

Two individuals earned remuneration between EUR 1m and EUR 1.5m.

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 Bank's 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 Bank's business objectives in line with the Board approved limits set in our risk appetite statement. The risk appetite statement is aligned to the key target outcomes identified by the Bank and in line with key risk principles designed to promote a risk aware culture. Within this structure, the Bank has embedded a process-centric approach to identifying, measuring and controlling its key risks, focusing attention on those risks that can cause the greatest harm to our customers, reputation or finances. It provides a view on inherent risk, control effectiveness and residual risk assessments. It informs a bi-annual attestation of control effectiveness that is reviewed by the Board.

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 its purpose of being the provider of financial services for loyal Sainsbury's Group customers. The Bank's objectives are to be an agile, capital and cost efficient provider of simple, mobile-led financial services and, supporting this, its key priorities over the next five years are to re-shape its balance sheet, simplify the organisation and strengthen the business. Underpinning this, the Bank sets a clear risk appetite to operate within and seeks to deliver best-in-class execution through highly engaged colleagues, working together to deliver its goals.

Risk management overview
Effective enterprise-wide risk management is a core component of our strategy and operations. We adopt a holistic, end-to-end view of risk, ensuring that the key risks arising from our activities are effectively identified, assessed and controlled. Our objective is to support the strategy of the Bank by thinking broadly about risks and managing them in an appropriate manner relative to the size and complexity of our business.

Risk appetite
The Bank's risk appetite is shaped by the Board, which provides 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.

Performance against risk appetite measures is monitored and reported to our Executive Risk Committee (ERC) on a monthly basis, and at each Board Risk Committee (BRC). Additionally, escalation processes are embedded to notify Senior Executives and Board members of any risk appetite measure operating outside of approved thresholds. A qualitative overlay provides additional insight to both current performance and any emerging trends or issues. This enables the ERC and BRC 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 2019/20. Figures below relate to the regulatory group unless otherwise stated.

	29 February 2020	28 February 2019
BDAR	**1.1%**	1.6%
Net interest margin	**3.4%**	3.8%
NSFR (Bank only)	**110.3%**	115.4%
CET1 capital ratio	**14.1%**	13.7%
Total capital ratio	**17.0%**	16.7%

Annex III – Reconciliation of regulatory balance sheet 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	499,849	505,813	508,063			(2,250)
Derivative financial instruments	5,509	5,509		5,509		
Loans and advances to customers	6,511,060	7,404,586	7,404,586			
Investment securities	852,877	852,877	693,454		159,423	
Investment in subsidiaries	325,125	125	125			
Other assets	377,616	401,074	373,326			27,748
Intercompany loan	558,548	16,070	16,070			
Intangible assets	234,401	237,166				237,166
Property, plant and equipment	37,659	37,734	37,734			
Total assets	**9,402,644**	**9,460,954**	**9,033,358**	**5,509**	**159,423**	**262,664**
Other deposits	1,680,265	1,680,265				1,680,265
Customer accounts	6,312,268	6,312,268				6,312,268
Other borrowed funds	101,303	101,303	13,058			88,244
Derivative financial instruments	34,740	34,740		5,509		29,231
Lease liability	5,768	5,768				5,768
Other liabilities	80,589	684,788	(1,268)			686,056
Subordinated liabilities	179,621	179,621				179,621
Provisions	8,363	26,722	19,498			7,224
Total liabilities	**8,402,917**	**9,025,475**	**31,288**	**5,509**		**8,988,678**

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)	9,460,954	9,033,358	5,509	159,423
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	9,025,475	31,288	5,509	–
3	Total net amount under regulatory scope of consolidation	435,480	9,002,070	–	159,423
4	Off-balance sheet amounts	9,148,967	15,921	15,921	–
5	*Differences in valuations*		24,111	–	–
9	*Transitional Capital Adjustment*		48,294	–	–
10	**Regulatory Exposures**	**9,584,447**	**9,090,396**	**15,921**	**159,423**

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)

		Method of regulatory consolidation				
Name of the entity	**Method of accounting 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)	£901m	£167m
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 35,000,000 'Ord' Class 26 June 2019	
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 subordinated 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 emailing 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	900,750	
	of which: ordinary share capital	900,750	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	92,349	26 (1) (c)
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	877	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**	**993,976**	
7	Additional value adjustments (negative amount)	(804)	34, 105
8	Intangible assets (net of related tax liability) (negative amount)	(237,166)	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	66,378	
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)**	**(171,592)**	
29	**Common Equity Tier 1 (CET1) capital**	**822,385**	
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)**	**822,385**	
46	Capital instruments and the related share premium accounts	166,993	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**	**166,993**	
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	–	63 b) (i), 66 (a), 67, 477 (2)
53	Holdings of T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	–	66 (b), 68, 477 (3)
54	Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	–	66 (c), 69, 70, 79, 477 (4)
54a	of which: new holdings not subject to transitional arrangements	–	
54b	of which: holdings existing before 1 January 2013 and subject to transitional arrangements	–	
55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	–	66 (d), 69, 79, 477(4)
56	Regulatory adjustments applied to Tier 2 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	–	
56a	Residual amounts deducted from Tier 2 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to Article 472 of Regulation (EU) 575/2013	–	472, 472 (3) (a), 472 (4), 472 (6), 472 (8) (a), 472 (9), 472 (10) (a), 472 (11) (a)
	of which: items to be detailed line by line, e.g. material net interim losses, intangibles, shortfall of provisions to expected losses etc.	–	
56b	Residual amounts deducted from Tier 2 capital with regard to deduction from Additional Tier 1 capital during the transitional period pursuant to Article 475 of Regulation (EU) No 575/2013	–	475, 475 (2) a), 475 (3), 475 (4) (a)
	of which: items to be detailed line by line, e.g. reciprocal cross holdings in AT1 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc.	–	
56c	Amount to be deducted from or added to Tier 2 capital with regard to additional filters and deductions required pre CRR	–	467, 468, 481
	of which:...possible filter for unrealised losses	–	467
	of which:...possible filter for unrealised gains	–	468
	of which:...	–	481
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**–**	
58	**Tier 2 (T2) capital 2**	**166,993**	
59	**Total capital (TC = T1+T2)**	**989,378**	
59a	Risk weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual – amounts)	–	
	of which:...items not deducted from CET1 (Regulation (EU) 575/2013 residual amounts) (items to be detailed line by line, e.g. deferred tax assets that rely on future profitability net of related tax liability, indirect holdings of own CET1, etc.)	–	472, 472 (5), 472 (8) (b), 472 (10) (b), 472 (11) (b)
	of which:...items not deducted from AT1 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. reciprocal cross holdings in T2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc.)	–	475, 475 (2) (b), 475 (2) (c), 475 (4) (b)
	Items not deducted from T2 items (Regulation (EU) 575/2013 residual amounts) (items to be detailed line by line, e.g. indirect holdings of own T2 instruments, indirect holdings of non-significant investments in the capital of other financial sector entities, indirect holdings of significant investments in the capital of other financial sector entities etc.)	–	477, 477 (2) (b), 477 (2) (c), 477 (4) (b)
60	**Total Risk Weighted Assets**	**5,815,608**	
61	Common Equity Tier 1 (as a percentage of risk exposure amount)	14.14%	92 (2) (a), 465
62	Tier 1 (as a percentage of risk exposure amount)	14.14%	92 (2) (b), 465
63	Total capital (as a percentage of risk exposure amount)	17.01%	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)	9.01%	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)	5,820	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	72,695	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: 29 February 2020
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	9,460,954
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	14,681
5	Adjustment for securities financing transactions (SFTs)	–
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	921,475
	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	(237,970)
8	**Leverage ratio total exposure measure**	**10,159,140**

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)	9,467,954
2	Asset amounts deducted in determining Tier 1 capital	(237,970)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	9,222,984
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)	14,681
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)**	14,681
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	9,135,140
18	Adjustments for conversion to credit equivalent amounts	8,213,666
19	**Other off-balance sheet exposures (sum of lines 17 to 18)**	921,475
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**	822,385
21	**Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU19a and EU19b)**	10,159,140
Leverage ratio		
22	End of quarter leverage ratio	8.10%
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:	9,460,954
EU-2	Trading book exposures	–
EU-3	Banking book exposures, of which:	9,460,954
EU-4	Covered bonds	237,452
EU-5	Exposures treated as sovereigns	450,019
EU-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	318,778
EU-7	Institutions	115,867
EU-8	Secured by mortgages of immovable properties	1,817,362
EU-9	Retail exposures	5,528,293
EU-10	Corporate	33,870
EU-11	Exposures in default	105,238
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	854,016

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	2,119,959	98,627			7,255,481	526,378		
030	Equity instruments	–	–			400			
040	Debt securities	98,627	98,627	98,627	98,627	803,434	526,378	803,434	526,378
050	Of which: covered bonds	–	–	–	–	277,442	277,442	277,442	277,442
060	Of which: asset backed securities	–	–	–	–	155,328	155,328	155,328	155,328
070	Of which: issued by general governments	98,627	98,627	98,627	98,627	93,608	93,608	93,608	93,608
080	Of which: issued by financial corporations	–	–	–	–	266,745	–	266,745	–
090	Of which: issued by non-financial corporations	–	–	–	–	10,311	–	10,311	–
120	Other assets	2,021,332	–			6,451,647	–		
121	Of which: Loans on demand	22,999	–			200,304	–		
122	Of which: Loans and advances other than loans on demand	1,981,891	–			5,922,920	–		
123	Of which: Other	16,442	–			328,424	–		

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	1,334,677	2,119,959
011	Of which: Derivatives	28,165	121,626
040	Of which: Deposits	1,121,619	1,721,795
090	Of which: Debt securities issued	182,081	260,096
120	Of which: Other sources of encumbrance	2,812	16,442

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	8,157,789	–	–	–	109,420	–	408,161	–	1,000	409,161	100	1
	Spain	–	–	–	–	–	–	–	–	–	–	100	0
	Norway	35,487	–	–	–	–	–	2,839	–	–	2,839	100	2
	Luxembourg	–	–	–	–	–	–	–	–	–	–	100	0
020	Total	8,193,276	–	–	–	109,420	–	411,000	–	1,000	412,000	100	1

Table 2 – Amount of institution-specific countercyclical capital buffer

		010
010	Total risk exposure amount (£000)	5,135,502
020	Institution-specific countercyclical buffer rate (%)	1.0007%
030	Institution-specific countercyclical buffer requirement (£000)	58,210

Annex IX – Non-performing and forborne exposures
Templates 2, 5, 6, 7, 8 and 10 have been omitted on instruction from the PRA.

Template 1: Credit quality of forborne exposures

		Gross carrying amount/nominal amount of exposures with forbearance measures £m				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions £m		Collateral received and financial guarantees received on forborne exposures £m	
			Non-performing forborne						of which collateral and financial guarantees received on non-performing exposures with forbearance measures
		Performance forborne		of which defaulted	of which: impaired	On performing forborne exposures	On non-performing forborne exposures		
1	Loans and advances	–	–	–	–	–	–	–	–
2	Central banks	–	–	–	–	–	–	–	–
3	General governments	–	–	–	–	–	–	–	–
4	Credit institutions	–	–	–	–	–	–	–	–
5	Other financial corporations	–	–	–	–	–	–	–	–
6	Non-financial corporations	–	–	–	–	–	–	–	–
7	Households	8,577	91,707	91,707	91,707	2,898	26,963	3,357	3,357
8	Debt securities	–	–	–	–	–	–	–	–
9	Loan commitments given	1,574	18,240	18,240	18,240	50	278	–	–
10	Total	10,151	109,947	109,947	109,947	2,948	26,685	3,357	3,357

Source: Template EU CR1-E

Template 3: Credit quality of performing and non-performing exposures by past due days.

		Gross carrying amount/nominal amount of exposures with forbearance measures £m											
		Performing exposures			Non-performing exposures								
			Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which defaulted
1	Loans and advances	–	–	–	–	–	–	–	–	–	–	–	–
2	Central banks	–	–	–	–	–	–	–	–	–	–	–	–
3	General governments	–	–	–	–	–	–	–	–	–	–	–	–
4	Credit institutions	–	–	–	–	–	–	–	–	–	–	–	–
5	Other financial corporations	–	–	–	–	–	–	–	–	–	–	–	–
6	Non-financial corporations	–	–	–	–	–	–	–	–	–	–	–	–
7	Of which SMEs	–	–	–	–	–	–	–	–	–	–	–	–
8	Households	7,274	7,251	23	258	62	40	96	60	–	–	–	258
9	Debt securities	–	–	–	–	–	–	–	–	–	–	–	–
10	Central banks	–	–	–	–	–	–	–	–	–	–	–	–
11	General governments	–	–	–	–	–	–	–	–	–	–	–	–
12	Credit institutions	–	–	–	–	–	–	–	–	–	–	–	–
13	Other financial corporations	–	–	–	–	–	–	–	–	–	–	–	–
14	Non-financial corporations	–	–	–	–	–	–	–	–	–	–	–	–
15	Off-balance sheet exposures	9,056	–	–	64	–	–	–	–	–	–	–	64
16	Central banks	–	–	–	–	–	–	–	–	–	–	–	–
17	General governments	–	–	–	–	–	–	–	–	–	–	–	–
18	Credit institutions	–	–	–	–	–	–	–	–	–	–	–	–
19	Other financial corporations	–	–	–	–	–	–	–	–	–	–	–	–
20	Non-financial corporations	–	–	–	–	–	–	–	–	–	–	–	–
21	Households	9,056	–	–	64	–	–	–	–	–	–	–	64
22	**Total**	**16,330**	**7,251**	**23**	**322**	**62**	**40**	**96**	**60**	**–**	**–**	**–**	**322**

Source: Template EU CRB-C

Template 3: Credit quality of performing and non-performing exposures by past due days.

		Gross carrying amount/nominal amount £m						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions £m								
		Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				Collateral and financial guarantees received £m	
			Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3	Accumulated partial write-off £m	On performing exposures	On non-performing exposures
1	Loans and advances	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
2	Central banks	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
3	General governments	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
4	Credit institutions	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
5	Other financial corporations	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
6	Non-financial corporations	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
7	Of which SMEs	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
8	Households	7,274	6,707	567	259	–	259	(12)	(9)	(3)	(81)	–	(81)	–	1,858	8
9	Debt securities	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
10	Central banks	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
11	General governments	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
12	Credit institutions	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
13	Other financial corporations	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
14	Non-financial corporations	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
15	Off-balance sheet exposures	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
16	Central banks	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
17	General governments	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
18	Credit institutions	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
19	Other financial corporations	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
20	Non-financial corporations	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
21	Households	9,056	8,817	239	64	–	64	3	2	1	(1)	–	(1)	–	–	–
22	**Total**	**16,330**	**15,524**	**806**	**323**	**–**	**322**	**(9)**	**(7)**	**(2)**	**(82)**	**–**	**(82)**	**–**	**1.858**	**8**

Source: Template EU CRB-C

Template 9: Collateral obtained by taking possession and execution processes

		Collateral obtained by taking possession	
		Value at initial recognition	Accumulated negative changes
1	Property, plant and equipment (PPE)	–	–
2	Other than PPE	–	–
3	Residential immovable property	–	–
4	Commercial immovable property	–	–
5	Movable property	–	–
6	Equity and debt instruments	–	–
7	Other	–	–
8	**Total**	**–**	**–**

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	**374**	**36**	–	21	15	–	–	–	–	**40**	–	40	–	**450**
10	Multilateral development banks	**96**	**79**	–	30	–	49	–	–	–	**144**	75		69	**319**
12	Institutions	**145**	**–**	–	–	–	–	–	–	–	**–**	–	–	–	**145**
13	Corporates	**34**	**–**	–	–	–	–	–	–	–	**–**	–	–	–	**34**
14	Retail	**5,544**	**–**	–	–	–	–	–	–	–	**–**	–	–	–	**5,544**
15	Secured by mortgages on immovable property	**1,817**	**–**	–	–	–	–	–	–	–	**–**	–	–	–	**1,817**
16	Exposures in default	**105**	**–**	–	–	–	–	–	–	–	**–**	–	–	–	**105**
18	Covered bonds	**202**	**35**	–	–	–	–	–	–	35	**–**	–	–	–	**237**
	Securitisation positions	**109**	**50**	–	–	50	–	–	–	–	**–**	–	–	–	**159**
22	Other exposures	**456**	**–**	–	–	–	–	–	–	–	**–**	–	–	–	**456**
23	**Total standardised approach**	**8,882**	**200**	–	51	65	49	–	–	35	**184**	75	40	69	**9,266**
24	**Total**	**8,882**	**200**	–	51	65	49	–	–	35	**184**	75	40	69	**9,266**

Source: Template EU CRB-C

Annex XI – Principal Risks

Credit risk

The risk that a retail customer fails to maintain their contractual obligations and repay their borrowing on time.

How it may arise

Changes 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.

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 to support vulnerable customers and those in financial difficulties.
- Credit decisioning based on information from a number of credit related sources.
- Regular stress testing is undertaken using a variety of plausible stress scenarios.

Changes in 2019/20

- Ceased new Mortgage lending in September 2019 following strategic review.
- Bank credit lending criteria continues to focus on Nectar card customers.
- Enhanced approach to assessing affordability.
- Planning for the potential impact of Brexit on future bad debt losses.

Operational risk

Losses or disruption resulting from inadequate or failed 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.

How do we manage the risk?

- A process-centric approach to risk & control assessment, designed to focus on what matters most.
- A clear operating model to embed consistency and boost capability across the Bank.
- Aggregated reporting and insight on our risk profile to ensure the highest priority items are escalated.
- Monthly review of our top risks with a rolling agenda of deep-dives.

Changes in 2019/20

- Enhancement of key risk and control process assessments.
- Executive member review of control environment robustness.
- Review of enterprise-wide risk ownership model responsibilities.
- Enhanced MI to manage a broad range of risks across the Bank.

Financial crime risk

Our products are used to facilitate financial crime and/or our processes, systems or controls are non-compliant.

How it may arise

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

How do we manage the risk?

- Prevention and detection processes, systems and controls in place.
- Proactive engagement with industry, sharing intelligence.
- Robust horizon scanning to identify and impact assess emerging threats.
- Money Laundering Reporting Officer provides regular reports on financial crime controls to Executive and Board committees.

Changes in 2019/20

- Investment in key fraud controls through the delivery of the Fraud Resilience Programme.
- Updated Policy Standards and enhanced process level controls.
- Independent assurance testing programme for key AML and Sanctions systems initiated.

Capital adequacy risk

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

How it may arise

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

How do we manage the risk?

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

Changes in 2019/20

- In line with our revised strategy, no new capital injections from JS plc are planned from September 2019.
- IFRS 9 'day 1' provisions increased in line with the transitional arrangements.

Conduct and compliance risks

The risk that our culture, behaviour or actions may lead to a failure to comply with regulators, or cause detriment to customers or the markets.

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.

How do we manage the risk?

- Control procedures and processes with clear reporting and escalation procedures.
- Independent oversight of the adequacy and effectiveness of issues and events.
- Horizon scanning of emerging threats or regulatory changes.
- Regular, open engagement with our regulators.
- Continuous monitoring of control testing outcomes through PRCA oversight and risk based assurance activity.

Changes in 2019/20

- Head of Conduct Risk (SMF16) appointed to ExCo.
- Enhanced 2nd Line independent oversight.
- Policy Standards updated and controls enhanced.
- Enriched Conduct risk MI.
- Implementation of SMCR in AFS subsidiaries.
- Strengthening of Data Protection controls and processes.

Liquidity, funding and market risks

The risk we are unable to meet our obligations as they fall due or are adversely hit by market rate or price movements.

How it may arise

Loss of confidence in the Bank leading to a material outflow of deposits and/or difficulties in accessing wholesale funding. Sudden changes or volatility in market values.

How do we manage the risk?

- Risk appetite limits set.
- Daily monitoring and reporting of key metrics.
- Liquidity and funding targets built into planning process.
- Liquidity Contingency Plan for action under stress.
- Hedging strategies used to reduce exposures to earnings volatility.
- The annual ILAAP determines the adequacy of liquidity and funding resources held.

Changes in 2019/20

- The Bank has commenced activity transitioning from LIBOR interest rate benchmark in line with the market and regulatory developments.
- Ceasing new Mortgage lending resulting in lower funding requirements and less hedging activity.