

Sainsbury's Bank plc

**Remuneration Pillar 3
Disclosures 2010**

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Pillar 3 Disclosures

1 Overview

1.1 Background

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

The aim of Pillar 3 is to encourage market discipline by developing a set of disclosure requirements which will allow market participants to assess key pieces of information regarding a firm's capital, risk exposures and risk assessment processes. The disclosures are to be made to the market for the benefit of the market. The Basel Committee on Banking Supervision has recently added disclosure requirements in respect of remuneration into the Third Capital Requirements Directive (CRD3). These requirements have been endorsed by the Financial Services Authority (FSA) and incorporated into the Remuneration Code (the Code).

This document represents the Pillar 3 Remuneration Disclosure by Sainsbury's Bank (the Bank). These supplementary disclosures accompany the main Pillar 3 Disclosure document produced by the Bank, also published on the J Sainsbury website (see below).

The Bank is required to publish Pillar 3 remuneration information as required by the Capital Requirements Directive and FSA Prudential Sourcebook, describing the remuneration policy of the Bank in relation to pay and performance and disclosing remuneration of 'Code Staff' and the Bank's policies relating to the compensation of staff. This document does not fulfil 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.

1.2 Scope of Application

The Bank has complied with Basel II throughout the year. This disclosure is presented in respect of the year to 31 December 2010.

This disclosure is based on the Bank's ownership as at 31 December 2010. J Sainsbury plc and Bank of Scotland plc each hold 50% of the issued share capital of the Bank, with a contractual arrangement in place to share joint control. Consequently there is no ultimate parent company. Bank of Scotland plc is part of Lloyds Banking Group plc (LBG).

Sainsbury's Bank plc does not employ colleagues directly but operates a secondment arrangement where colleagues are seconded to work directly for the Bank under the management of the Bank executive team, with payments met by the Bank. These colleagues fall under the remuneration policy of the Bank.

The Bank is committed to ensuring that its remuneration practices are appropriate and compliance with the Code falls within the responsibilities of the Remuneration Committee.

1.3 Frequency

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

This frequency will be reviewed if there is a material change in the regulatory requirements.

1.4 Medium and Location for Publication

The remuneration disclosure will be published on the J Sainsbury plc corporate website: www.j-sainsbury.co.uk/investor-centre/reports/.

1.5 Verification

These disclosures have been reviewed by the Bank's Remuneration Committee. The disclosures are not subject to audit except where they are equivalent to those prepared under accounting requirements and disclosed in the Bank's Annual Report and Accounts.

2 Governance

2.1 Remuneration Policy Statement

The remuneration policy of the Bank supports the firm's business strategy, which is based on providing shoppers with a compelling reason to purchase financial services from Sainsbury's, but does so in a way which considers and manages the financial impact of its business decisions.

The Bank has prepared a Remuneration Policy Statement (RPS), as required by SYSC 19A, which sets out the principles for pay, incentives and recognition within Sainsbury's 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.

2.2 Remuneration Committee (RemCo)

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

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

RemCo comprises no less than three members at any time, two of which are Non-Executive Board Directors and the other an executive from either parent organisation (Lloyds Banking Group plc or J Sainsbury plc). The Committee is constituted in such 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 Chairman. All members of RemCo are advised of the business to be transacted at any meeting even if they are unable to attend.

The Chairman of RemCo is a Non-Executive Director. The Chief Executive Officer and Sainsbury's Bank HR Director are invited to attend, except when issues regarding their own remuneration are discussed. Remuneration consultants and external advisors attend meetings as requested by the Chairman.

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

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

- the attendance at the Remuneration Committee of a Risk Director from Lloyds Banking Group plc;
- the requirement for all bonus schemes to be reviewed by the Bank's Board Risk Committee; and
- the competent and experienced nature of all individuals who are a member of or who attend the Bank's 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 RemCo.

RemCo has the ability to apply discretion to adjust awards that may arise through the Bank's bonus plan or other incentive arrangements.

3 Code Staff

For the 2010 financial year, the Bank has identified 18 individuals which it considers to be Code Staff, and these comprise the Executive Management Committee (EMT), Non-Executive Directors and certain other key roles that report to members of the EMT.

4 Link Between Pay and Performance

4.1 Assessment of Performance

Sainsbury's 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 that it depends upon for success.

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

Pay increases and personal bonus awards are influenced by the individual's level of performance. Performance is a balance of achieving a balanced scorecard range of personal objectives, as well as demonstrating the organisational 'ways of working' which reflect the Bank's culture. Consideration is given to how objectives have been met, and bonus awards will be reduced if the Bank's leadership behaviours and values have not been observed. 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.

Sainsbury's Bank has not made any guaranteed bonus payments to date. If any were to be awarded in the future, they must be overseen by the Remuneration Committee and be Code compliant (i.e. paid in exceptional circumstances; in the context of hiring new colleagues; and limited to the first year of service).

4.2 Long Term Incentives

Sainsbury's Bank, in conjunction with its parent employing organisations (J Sainsbury plc and Lloyds Banking Group plc), runs a small number of performance-based incentive plans. There are a number of performance hurdles which need to be cleared both at an organisational (parent and/or bank) and individual level for these awards to be made. If any Code Staff at Sainsbury's 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 either or both parent organisations and through the Bank's Remuneration Committee.

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

5 Design and Structure of Remuneration

5.1 Risk Management and Risk Tolerance

The Bank ensures that its remuneration practices promote sound and effective risk management, and do not encourage risk-taking that exceeds the firm's tolerated level of risk. The way in which its reward framework considers risk management is detailed below.

The Bank's strategy is used to determine its high-level risk principles and risk appetite measures. The risk appetite is proposed by the Executive and is reviewed and approved by the Bank Board, which in turn feeds into the Bank's remuneration practices. Decisions affecting Code Staff are made by the Bank's Remuneration Committee, which is attended by a Risk Director from Lloyds Banking Group plc.

RemCo considers a Quality of Earnings Review, prepared by the Board Risk Committee, which it uses to take into account the quality of capital and management of risk taken in achieving its financial targets. RemCo has the power to adjust bonus awards depending on the information contained in the Quality of Earnings Review - it can make adjustments for all types of current and potential risk and take into account the cost and quality of the capital employed and the liquidity required.

The Bank's Board Risk Committee approves all bonus schemes prior to launch.

Salaries are reviewed to ensure that there is an appropriate balance of fixed and variable remuneration. The Bank's incentive plans target a range of financial and operational measures. All bonus plans include an element for the achievement of personal performance targets, and these include risk objectives which must be met in full to 'unlock' a bonus payment. This places individual accountability on the management of risk.

Risk colleagues have more specific risk objectives which are reviewed every 6 months by the Risk Director, and the final bonus of senior Risk and Compliance colleagues is determined by RemCo.

5.2 Profit-based Measurement and Risk Adjustment

The Bank is able to demonstrate that its techniques for assessing variable remuneration take sufficient account of current and future risk.

Bonus awards are determined through the achievement of specific measures which are set annually by the Board and are agreed by RemCo and the Board Risk Committee and are calculated according to a pre-set formula.

The Bank's bonus scheme for all colleagues, including those who perform a significant influence function, incorporates a profit-based measure. The metrics which underpin the bonus plan are: underlying profit, customer-related metrics and personal performance, including specific risk-based targets.

In relation to Code Staff who are subject to deferral, the Remuneration Committee may make retrospective adjustments to the awards to take into account any material information that comes to light which affects the basis upon which the calculation was made.

6 Quantitative Disclosures

Under BIPRU 11.5, the Bank is required to make certain aggregate quantitative disclosures regarding the remuneration of Code Staff for the year. The complexity of disclosure is dependent on the size of the entity. Sainsbury's Bank falls into the 'Tier 2' category as it has capital resources between £50m and £1bn.

Bank colleagues are employed by J Sainsbury plc or Lloyds Banking Group plc with payments met by the Bank. Remuneration paid or allocated to Code Staff for the year ended 31 December 2010 was as follows:

	Senior Management £000	Other £000	Total £000
Fixed remuneration	1,865.4*	158.0	2,023.4
Variable remuneration	1,730.6	139.7	1,870.3
Total	3,596.0	297.7	3,893.7
Number of staff included above	15	3	18

- Fixed remuneration includes base salary and other cash payments made during the year (excluding variable pay).
- Variable remuneration includes bonus awards made in the 2010 financial year.
- * Included within fixed remuneration for senior management are emoluments for members of the Bank's Executive Management Team and Non-Executive Directors. Non-Executive Directors are employees of the Bank's shareholders and are paid by J Sainsbury plc or Lloyds Banking Group plc. They receive no remuneration for their role as a Director of the Bank. There has been no recharge to the Bank as their emoluments are deemed to be wholly attributable to services to the respective shareholder companies. These Directors are allocated a 'notional' fixed fee that is not subject to any performance-related achievement.
- 'Other' describes those additional members of staff whose actions are deemed to have a material impact on the risk profile of the Bank.

Sainsbury's Bank is only deemed to operate in one business segment: Retail Banking.