8 May 2013

Sainsbury's to take full ownership of Sainsbury's Bank

- **Remaining 50 per cent shareholding to be acquired from Lloyds Banking Group for £248 million[1]**
- **Opportunity to increase number of Bank customers and enhance loyalty by offering accessible, high quality and tailored products which reward customers who bank and shop with us**
- **Well defined, 42 month transition plan in place to move onto flexible, modern banking platform**
- **Expected to deliver cash payback within eight years and returns above IRR hurdle**
- **Transaction will be funded from internal resources and is accretive to underlying EPS**
- **Highly cash generative in later years**

Justin King, Chief Executive said, "This is an exciting transaction for Sainsbury's which has the potential to deliver significant benefits to our shareholders, customers and colleagues. We have 23 million transactions each week by customers who know and trust the Sainsbury's brand. We see a great opportunity to increase the number of Bank customers by offering accessible, high quality financial services products which reward customers who bank and shop with us. We expect the Bank to become an important source of profit diversification and growth, building on the strengths of our core business."

Peter Griffiths, who was appointed Chief Executive of Sainsbury's Bank in November 2012, will lead the Bank forward in this important phase of its growth and development. Sainsbury's Bank will have its own robust governance structure. A separate Board with banking and financial services experience is being established for the Bank, including an independent Non-Executive Chairman as well as four independent Non-Executive Directors and three Non-Executive Directors appointed by Sainsbury's. We are also announcing today the appointment of Roger Davis as the new independent Non-Executive Chairman of the Bank. Roger has a strong track record in financial services and will bring a huge amount of expertise to the role.

In accordance with the Financial Services and Markets Act 2000, it is a condition of the acquisition that the Prudential Regulation Authority gives the necessary approvals in relation to Sainsbury's and Qatar Holding (as a holder of more than ten per cent of the shares of Sainsbury's) arising out of the transaction. Subject to this condition, completion is expected in January 2014.

Sainsbury's Bank and transaction rationale

The Bank, launched in 1997, has delivered five consecutive years of profit growth, with proven opportunities to complement Sainsbury's broader business. Profit before tax for the Bank as a whole was £59 million in 2012/13, with a three-year profit before tax compound annual growth rate of 40 per cent. The Bank has gross assets of circa £5 billion and no contingent liabilities.

Developing complementary channels and services to the existing supermarket business is a core part of Sainsbury's long-term strategy for growth and the Bank has been an increasingly successful part of that development. Sainsbury's believes that it is now an appropriate time in the development of the Bank to take full ownership. Full ownership will allow future products to be even more tailored to Sainsbury's customers, leveraging Nectar data to drive sales uplifts in both financial services and the core supermarket business. Currently, approximately one in 20 Sainsbury's customers holds a financial product with the Bank and there is significant opportunity to increase this number having taken full ownership. After taking out a Bank product, Sainsbury's shoppers become more loyal, spending more in-store.

Transition arrangements

Over a 42 month period, the Bank will transition support and back office services away from Lloyds Banking Group. Call centre services will be provided in-house by the Bank and banking platforms will be delivered by FIS. FIS has a proven track record in successfully delivering similar types of outsourced

[1] Cash consideration of £193 million for shares and purchase of £55 million of loan stock at par value. Actual cash consideration will depend on the book value of the assets on the date of completion. £193 million is based on the current estimate of the book value at 31 January 2014, the expected date of completion, plus £12 million premium, which is fixed.

services. All parties have been working together for a number of months to agree a detailed transition plan.

The transition will involve the transfer of data from legacy Lloyds Banking Group systems to the latest generation banking platform. This platform will allow a greater degree of flexibility, enabling new product launches and facilitating a much improved digital offer to customers.

Further details of the transaction

The acquisition price of £248 million is comprised of a cash consideration of £193 million[1] for the shares and the purchase of £55 million of loan stock at par value. This represents an exit multiple of circa one times Tangible Net Asset Value, and 9.5 times 2012 pro rata earnings.

A capital injection of £100 million will be made into the Bank by Sainsbury's over three years in order to maintain appropriate capital ratios. This will be offset by a £60 million repayment of dated loan stock. Therefore, the total cash investment made by Sainsbury's is £288 million.

The Bank headline percentage profit growth, excluding transition and double running costs, is expected to be in the high teens over the next five years. Once double running costs are included, underlying profit is expected to be broadly flat in the first two years, increasing thereafter as these costs fall away and other efficiencies are achieved.

Over a four year period, the Bank will also incur non-underlying transition revenue costs of £170 million and transition capital expenditure of £90 million, in order to build and move onto the new banking platform.

The transaction is expected to deliver cash payback within eight years, with returns above IRR hurdle and is accretive to underlying EPS. The transaction is projected to be highly cash generative in later years and dividend payments from the Bank to Sainsbury's are anticipated from year five onwards. Sainsbury's intends to fund the transaction from internal resources.

Background on Sainsbury's Bank

Sainsbury's Bank was the first supermarket bank in the UK, established in 1997 as a joint venture between Sainsbury's and Bank of Scotland, split 55:45 respectively. Its aim was to provide a range of financial services products to Sainsbury's customers under the Sainsbury's brand, leveraging the banking capabilities of Bank of Scotland. The relationship was redefined in 2007 to be a 50:50 joint venture between Sainsbury's and Halifax Bank of Scotland, later Lloyds Banking Group.

Today the Bank has around 1.5 million active accounts and offers a range of simple banking products to retail customers only, including credit cards, savings, personal loans, general insurance and travel money. The Bank also operates a network of ATMs and in-store travel bureaux.

General insurance products are delivered as bespoke products from a range of underwriting partners. Policies are not underwritten by the Bank, instead it receives a commission fee on each product. The insurance book comprises around 500,000 policies.

All new lending is unsecured, with a very small proportion of the back book secured as a result of a legacy mortgage portfolio, which is being run down.

Travel money is provided in partnership with Travelex, delivered both online and in-store.

Performance and risk

The Bank has a strong record of growing profits, while maintaining a low risk profile and ensuring prudent capital and liquidity management. The Bank is conservatively deposit funded, with a loan-to-deposit ratio of 78 per cent. The Tier 1 ratio will be maintained at 10.5 per cent going forward.

Robust financial management and a high quality customer base have led to a strong bad debt performance, which is amongst the lowest in the sector.

Governance and management

The Bank Board has been strengthened in preparation for taking full ownership, and will operate independently of Sainsbury's executive management and Board.

We announce today the appointment of Roger Davis as independent Non-Executive Chairman. Roger has a strong track record in financial services, having held a number of senior positions at Barclays, including Chief Executive Officer of UK Banking, Chief Executive Officer of Business Banking, and Chairman and Chief Executive Officer of Barclays Capital Asia Pacific. Prior to this he held a number of senior roles at companies including BZW Asia Pacific, Jardine Fleming and Robert Fleming.

Peter Griffiths was appointed Chief Executive Officer of the Bank in November 2012. Peter has a wealth of experience in the financial services industry, including a number of senior roles at NatWest over 20 years. Most recently he has been the Chief Executive of Principality, Wales' largest building society. During a decade in charge of the mutual he grew the business to seventh largest building society in the UK, with assets of £6.4 billion.

Hannah Bernard was appointed Deputy Chief Executive and Commercial Director of the Bank in November 2012, following a nine month period as Interim Chief Executive. Hannah joined the Bank from Sainsbury's in 2007, having held a number of senior finance positions over 12 years, most recently as Director of Financial Operations.

David Arden was appointed Chief Financial Officer at the Bank in February 2013, having held the interim position since March 2012. Prior to this he held a number of senior positions with RBS and Tesco Bank, including Managing Director for RBS credit cards and Finance and Risk Director for Tesco Bank. Most recently he was Chief Financial Officer at Shop Direct Financial Services.

Steve Burke joined the Bank in March 2013 as Chief Operating Officer. Prior to this, Steve was Chief Operating Officer of Diligenta, a subsidiary of Tata Consultancy Services, responsible for operational strategy, including IT transformation and outsourcing programmes. He previously worked in operations roles at Friends Life and Axa Life for over 20 years.

John Galloway joined the Bank as Chief Risk Officer in June 2005 having previously been Head of Risk and Retention at Intelligent Finance and Head of Credit Risk at Standard Life.

The two existing independent Non-Executive Directors Richard Keys and Alan Cook will be complemented by the appointment of two further independent directors with specific banking experience in risk and IT operations.

The existing Sainsbury's appointed Non-Executive Directors are John Rogers (Sainsbury's Chief Financial Officer) and Gwyn Burr (former Sainsbury's Customer & Colleague Director). We will additionally be proposing a third Sainsbury's appointed Non-Executive Director.

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