Sainsbury's Bank plc

Pillar 3 Disclosures
for the year ended 28 February 2017

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.

The Bank is committed to ensuring that its remuneration practices are appropriate. Compliance with the Financial Conduct Authority (FCA) Remuneration Code, PRA Rulebook and CRD IV falls within the responsibilities of the Remuneration Committee.

1.3 Scope of application

These disclosures are presented in respect of the year to 28 February 2017 for the Bank's prudential consolidated position under CRD IV on a 'transitional basis'.

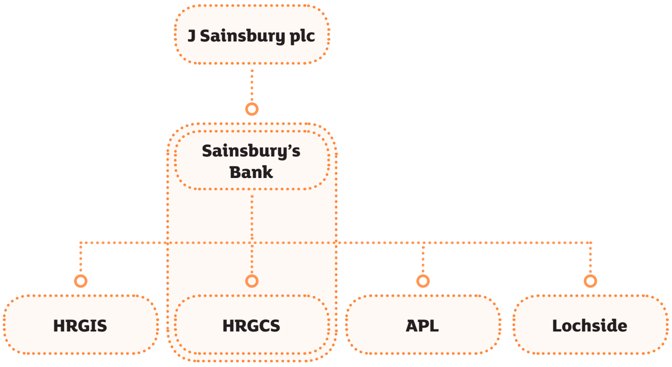
These disclosures are based on the Bank's ownership as at 28 February 2017. The Bank is a wholly-owned subsidiary of J Sainsbury plc and is included in the consolidated financial statements of J Sainsbury plc, which are publicly available. Consequently, the Bank has taken advantage of the exemption from 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 8). This subsidiary is not included in the prudential consolidation.

On 16 September 2016, the Bank acquired 100% of the share capital of the following companies:

- Home Retail Group Card Services Limited (HRGCS);
- Home Retail Group Insurance Services Limited (HRGIS); and
- ARG Personal Loans Limited (APL).

Of these, only HRGCS is included in the prudential consolidation, based on the nature of the business. Therefore, in summary, the prudential regulatory group includes the Bank and HRGCS – excluding HRGIS, 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 on 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 the credit and operational risk capital requirements, no Internal Ratings Based or Advanced Measurement Approach disclosures are included.

1.4 Frequency

The Bank's Pillar 3 Disclosures 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.

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 materiality or on the basis of proprietary or confidential information.

2. Risk management objectives and policies

2.1 Risk management approach

Effective risk management is a core component of our strategy and operations. Our Enterprise-wide Risk Management Framework (EWRMF) supports the Bank in delivering its target outcomes, enabling innovation, growth and flexibility but doing so in a safe and sustainable manner. It adopts a holistic, end-to-end view of risk across the Group ensuring that our aggregate risk exposure is understood, both now and under future plans.

The EWRMF is shaped by the 'tone from the top' from the Board and Executive Management. They define a clear risk strategy and vision that is complemented by the Bank's risk appetite (i.e. the level of risk it is willing to take to achieve its objectives). Policies, processes and methodologies are used to guide, cascade and embed the right principles and behaviours throughout the business. A range of risk management tools are then applied to identify, assess and manage the risks arising from our activities and to ensure the Bank's current and projected risk profile remains within its risk appetite.

Key enablers ensure that the EWRMF is designed and embedded effectively. These include a governance framework that provides clarity over accountabilities and delegated authorities and a 'three lines of defence' operating model. The Bank's values are aligned to our desired risk culture and 'ways of working' and are reflected in performance management and remuneration assessments. For example, each colleague has specific risk objectives that are measured as part of their performance and development reviews.

2.2 Risk strategy and risk appetite

The Bank's risk strategy is consistent with the key generic and firm-specific drivers of the Bank's risk capacity, but provides additional distinctive characteristics and qualities to support the delivery of the Bank's strategic vision. It is built upon four strategic risk objectives (with associated target risk behaviours and principles):

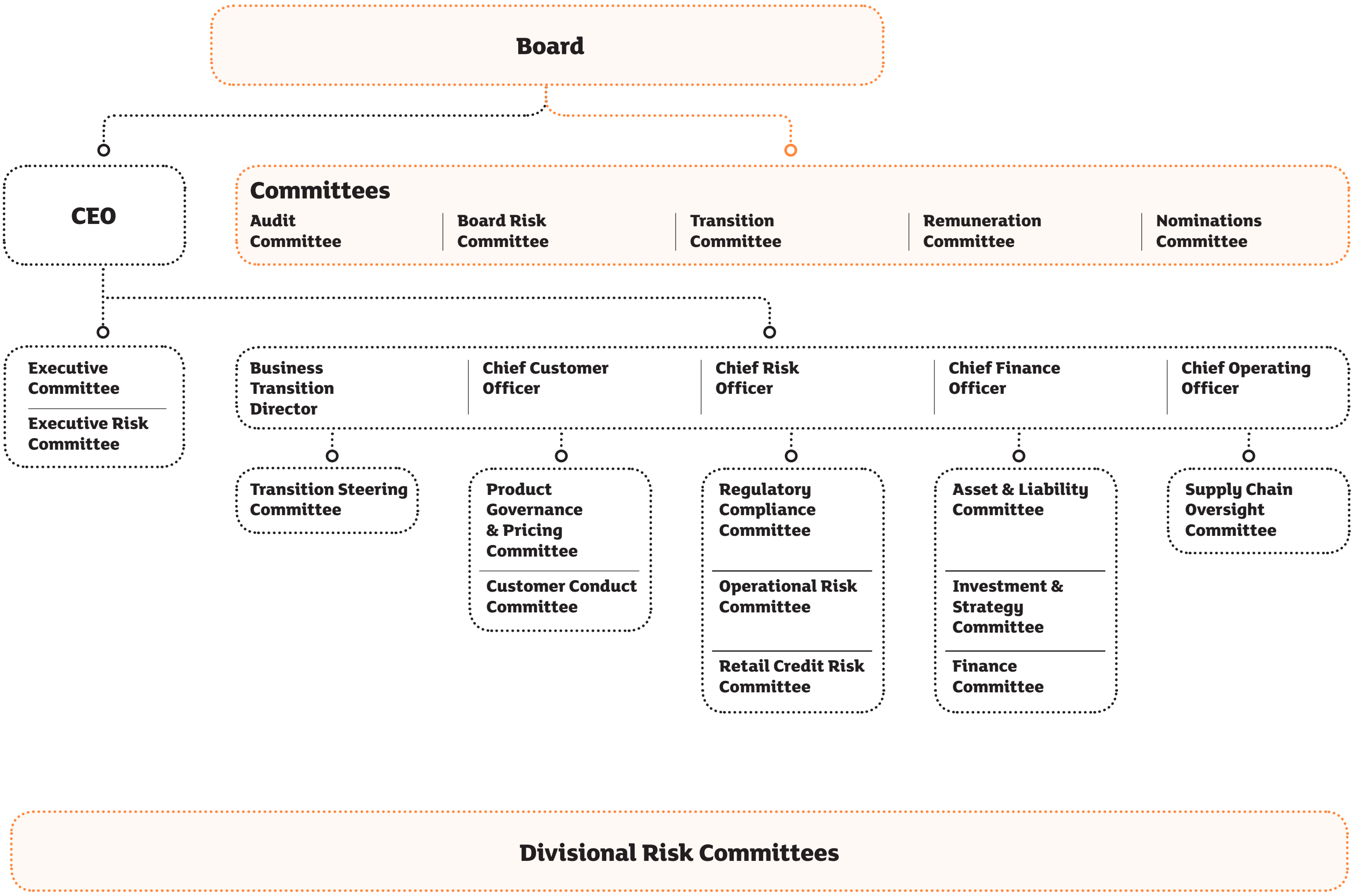
- To enhance and protect the brand value.
- To embed a strong risk culture and controls.
- To facilitate safe and sustainable growth.
- To enable insightful decision-making.

The Bank's risk appetite provides a clear articulation of the level and types of risk that it is prepared to accept in order to achieve its strategic objectives. It is expressed and embedded through a 'high-level' set of key Bank-wide target outcomes and 'Directional' risk appetite 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.

2.3 Governance structure during the financial year ended 28 February 2017

The diagram below shows the governance structure for Sainsbury's Bank effective throughout the reporting period.

Argos Financial Services (AFS), which consists of HRGCS, HRGIS and APL, currently has a separate governance structure, but with direct reporting lines to the Bank's Chief Executive Officer (CEO). A programme of work has commenced to integrate the AFS businesses. Risk management will be co-ordinated across the Bank and AFS, with clear reporting lines to the Bank's Credit Risk Officer (CRO).


Board
CEO
Committees
Audit Committee
Board Risk Committee
Transition Committee
Remuneration Committee
Nominations Committee
Executive Committee
Executive Risk Committee
Business Transition Director
Chief Customer Officer
Chief Risk Officer
Chief Finance Officer
Chief Operating Officer
Transition Steering Committee
Product Governance & Pricing Committee
Customer Conduct Committee
Regulatory Compliance Committee
Operational Risk Committee
Retail Credit Risk Committee
Asset & Liability Committee
Investment & Strategy Committee
Finance Committee
Supply Chain Oversight Committee
Divisional Risk Committees

2.3.1. Board-level governance

The Board is the key governance body, holding overall accountability for the outcomes achieved, decisions made and steering of the Bank, subject to specific reserved matters which 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.

A number of Board functions are delegated to five key sub-committees:

- **Audit Committee** The Audit Committee's key responsibility is to advise the Board on the Bank's financial statements, including systems and controls and related policy issues together with relationships with external auditors. The committee is also responsible for reviewing and approving the internal audit plan and budget, and for ensuring that the function is adequately resourced. 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.
- **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. 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.
- **Transition Committee** The Transition Committee oversees delivery of the New Bank Programme and the transition to new banking platforms, systems and processes following the transfer of full ownership to J Sainsbury plc in 2014. The Transition Committee meets monthly.
- **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 and senior control function 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 of appointment and severance terms for relevant employees. The Remuneration Committee meets at least twice per year.
- **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 Nominations Committee will meet at least once per year, with additional meetings convened as required.

2.3.2. Executive-level governance

The Board delegates the appropriate responsibility, authority and accountability to the CEO to deliver the Bank's strategy through the appropriate governance committees and Executive Management Team. The 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 ExCo is to advise and assist the CEO in overseeing the Bank's activities and performance and making significant decisions relating to the executive management of the Bank.

CRO Executive Committees:

- **Executive Risk Committee (ERC)** The ERC is responsible for ensuring that the EWRMF is effective and that risks are effectively 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.
- **Retail Credit Risk Committee (RCRC)** The RCRC is responsible for monitoring the performance of the retail lending book and the credit card portfolio, ensuring there is an effective credit risk management framework and that the Bank is operating within its credit risk appetite.
- **Operational Risk Committee (ORC)** The ORC assesses the adequacy and effectiveness of the overall risk framework and control environment of the Bank. It forms a view on the aggregate operational risk position relevant for both a control awareness (CA) and control environment (CE) assessment.
- **Regulatory Compliance Committee (RCC)** The role of the committee is to oversee delivery of an effective Bank-wide compliance risk management framework that ensures all compliance (including Anti-Money Laundering AML and Sanctions) and conduct risks are managed within the Bank's approved risk appetite.

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, liquidity & funding risk and capital adequacy.
- **Investment and Strategy Committee (ISC)** The ISC advises and assists the CFO in making significant decisions relating to the Bank's strategy and strategic investments in line with the Bank's agreed strategic priorities and agreed risk appetite.
- **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.

Chief Customer Officer (CCO) Executive Committees:

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

Chief Operating Officer (COO) Executive Committee:

- **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.

Business Transition Director Executive Committee:

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

2.3.3. 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 DRCs 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.

2.4 Board selection criteria

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

2.5 Board diversity

The Bank is committed to promoting a diverse and inclusive workplace at all levels, reflective of the communities in which it does business, and our diversity and inclusion vision aligns with that of our parent J Sainsbury plc whose aim is to be 'the most inclusive retailer'. We will achieve this aspiration by recruiting, retaining and developing diverse and talented people and creating an inclusive environment where everyone can be the best they can be and where diverse views are listened to. The 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)	–	5
Peter Griffiths	Chief Executive Officer	1	–
David Arden	Chief Financial Officer	1	–
Gwyn Burr	Non-Executive	–	6
Marcia Campbell	Independent Non-Executive	–	6
Graeme Forrester	Chief Risk Officer	1	–
David Jones	Chief Customer Officer	1	–
Richard Keys	Independent Non-Executive	–	5
Angie Risley	Non-Executive	1	1
John Rogers	Non-Executive	1	1
Michael Ross	Independent Non-Executive	1	1
Andrew Simmonds	Independent Non-Executive	–	3

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

2.7 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 Three lines of defence risk model

The 'three lines of defence' operating model underpins how risk is managed within the Bank. It ensures that the business holds primary responsibility for risk supported by oversight from an independent risk management function and assurance from an independent audit function.

The role of the first line of defence is to:

- Identify, actively manage and monitor both risks and controls of the functional business areas
- Operate and test the policy standard controls of the functional business area
- Review risks and manage objectives within risk appetite and policy standard requirements

The role of the second line of defence is to:

- Develop the Risk Management Framework and methodologies
- Develop primary risk policies to assist in management of risk
- Provide oversight, support and feedback to the first line of defence
- Analyse risk across the Bank and report to stakeholders

The role of the third line of defence is to:

- Provide opinion, through review and action on the effectiveness of the management of the risk and internal control environment in both first and second line of defence.

2.10 Risk exposures

The Bank has identified a set of primary risk types that are overseen by a dedicated second line function. These risks are retail credit risk, conduct & compliance risk, financial crime risk, operational risk, operational capability risk, capital adequacy risk, liquidity & funding risk, market risk and wholesale credit risk. They are actively managed through primary risk policies and supporting policy standards that clearly articulate the rules, boundaries and measures by which the risks are controlled and help each colleague to understand their individual responsibilities. Our risk reporting processes provide a detailed and aggregated view of these risks to facilitate an active review and management process within defined risk appetite.

The Bank also identifies specific material risks within these broader risk types. For example, cyber risks and IT failure risks are considered within the broader operational and operational capability risks. Each material risk is assessed on the basis of its inherent exposure, its residual exposure in the prevailing control environment and its target exposure where enhanced controls or mitigating actions are planned.

In addition, the Bank monitors the risk environment to detect early signs of potential important changes and risks that could impact on its activities and risk profile, based on the following categories:

- Strategic risks (e.g. changes in the competitive environment).
- Operational risks (e.g. threats to the Bank's operational capabilities and resilience).
- Financial & Economic risks (e.g. macro-economic uncertainty arising from the Brexit negotiations).
- Regulatory risks (e.g. new regulations that the Bank is required to comply with).

As more information is known about an emerging risk, it will be subject to a full residual risk assessment and action plan, be risk accepted or be deemed to be not relevant or not material to the Bank.

2.10.1 Retail credit risk

The Bank manages four main credit portfolios: Sainsbury's Bank unsecured loans portfolio, Sainsbury's Bank unsecured credit card portfolio, Argos Financial Services store card portfolio and a mortgage portfolio. As at 28 February 2017, the mortgage portfolio consisted of a very small legacy back book being managed down. However, the Bank will re-enter the UK mortgage market in 2017, creating an active book of new mortgage loans. The Bank conducts its activities in the 'prime' segment of the market (customers with clean credit histories who are not over-indebted).

Our risk appetite sets maximum levels for the Expected Loss from each of the credit portfolios along with a maximum bank-wide Bad Debt Asset Ratio that is acceptable under an extreme stress. These 'high-level' targets are supported by 'directional' limits for retail credit risk that define the target market for customers and the tolerance levels for key credit metrics.

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

The Bank monitors key economic indicators to identify changes to the external environment. Appropriate escalation triggers and management actions would be considered in response to a material change. Comprehensive MI on the economy, portfolio limits, quality of new business, stock performance, bad debts and collections and recoveries performance is discussed at the Retail Credit Risk Committee.

Standards are in place to ensure we are a responsible lender and to manage customers in financial difficulties appropriately. There are frameworks, toolkits, processes and procedures in place to adhere to policies and standards. Internal Audit and Risk Assurance teams carry out regular reviews of all elements of the framework.

2.10.2. Conduct & compliance risk

Conduct risk is the risk that our actions or decisions could result in unfair outcomes causing loss or detriment for our customers. Compliance risk is the risk of the consequences from the Bank failing to meet the requirements of legislation and regulatory requirements as defined by any relevant regulatory bodies. This can encompass legal and compliance risk, prudential risk and conduct with customers.

Keeping the trust of our customers is very important to us. Our risk appetite contains both quantitative and qualitative targets for the delivery of good customer outcomes and we are committed to managing the business in a way that ensures it mitigates the risk of customer detriment. Our aim is to meet all legal and regulatory requirements and minimise any reputational impact by maintaining an effective control framework. Compliance and conduct advice and guidance is provided to the business through a prescribed policy framework, implemented by the business and supported by effective second line monitoring and assurance. As the Bank is predominantly an outsourced business, this also applies to our third party suppliers. Management of our conduct and compliance risk is regularly reported through the Bank's governance procedures.

2.10.3. Financial crime risk

Financial crime risk is the risk of knowingly or unknowingly helping parties to commit or to further potentially illegal activity. The Bank has a range of effective fraud prevention and detection controls in place. We have also developed a financial crime policy that covers broader exposures to financial crime through, for example, money laundering, bribery and corruptions. A financial crime working group, chaired by the Money Laundering Reporting Officer (MLRO) provides technical oversight of the end-to-end financial crime control and governance framework to ensure it is compliant, effective and in line with risk appetite.

2.10.4. Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The Bank has a defined Operational Risk Policy which is reviewed at least annually through our governance structures to ensure alignment with our requirements for operational risk management, its alignment to our risk appetite and its continued relevance to our current and planned operations.

We identify, evaluate and monitor operational risks against our risk appetite through a number of core processes such as operational risk profiling, loss event reporting, the use of key risk indicators and control self-assessment. Regular reports are provided to various Bank governance bodies, such as the ORC, to ensure regular, effective review of operational risks both within the Bank and our extensive supplier base.

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

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

These risks are mitigated, for example, by defined processes for relationship management of outsourced activities, and contracts and service level agreements with service providers. Internal audit undertakes reviews across the business throughout the year under a risk-based programme agreed with the Bank Audit Committee.

2.10.5. Operational capability risk

The Bank has identified operational capability as a specific risk to ensure there is appropriate focus on maintaining acceptable performance in its key distribution channels under current and stress conditions. Performance is monitored on a regular basis with early warning indicators and triggers used to ensure appropriate and timely escalation. Controls and standards are in place around supplier performance, service standards and IT security. In addition to this an incident management process exists as part of a wider business continuity management framework. This is subject to an annual crisis test.

2.10.6. Capital adequacy risk

The Bank holds sufficient regulatory capital to ensure it is able to absorb losses both in current and stressed conditions. Our risk appetite sets out a target range for capital ratios under normal conditions and minimum acceptable capital and leverage ratios under an extreme stress. The capital adequacy policy is aligned to our risk appetite and outlines the management and governance processes for capital discussions. Capital ratios are monitored and reported on a daily basis with triggers used to ensure appropriate and timely escalation.

The Bank undertakes an annual Internal Capital Adequacy Assessment Process (ICAAP) that assesses the material risks faced by the Bank and the level of capital required to be held against them. The output is reviewed and approved through Executive and Board governance and (on a biennial basis) subject to a Supervisory Review and Evaluation Process from the PRA.

Further information on capital resources and capital adequacy is included in sections 3 and 4 of this document.

2.10.7. Liquidity & funding risk

Liquidity risk is the risk that the Bank cannot maintain or generate sufficient cash resources to meet its payment obligations as they are expected to fall due, or can only do so at extreme cost. We seek to ensure that we can meet our financial obligations at all times, even under stressed market conditions.

The annual Internal Liquidity Adequacy Assessment Process (ILAAP) enables the Bank to demonstrate that it understands the liquidity risks it is running and has appropriate controls in place to mitigate them. The ILAAP is also used to scale the limits that are applied to liquidity and funding and these are informed by a number of stress scenarios that assess the survival period of the Bank. In meeting internal limits as well as PRA requirements, the Bank maintains a stock of high quality liquid assets that can be readily sold, or form part of a sale and repurchase agreement, to meet the Bank's obligations to depositors and other creditors.

The Bank's Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) are regularly monitored and forecast alongside other cash flow and liquidity ratios. We prepare long-term and short-term forecasts to assess liquidity requirements, taking into account factors such as ATM cash management, investment maturities and customer deposit patterns and balances. These reports support daily liquidity management, with early warning indicators reviewed and appropriate triggers for escalation and action set in line with the Liquidity Contingency Plan. Asset encumbrance ratios and risk indicators for wholesale funding concentrations by type (total/secured/unsecured), maturity, sector, geography and counterparty are also reported to ALCO.

2.10.8. Market risk

Market risk is the risk that the value of the Bank's assets, liabilities, income or costs may fluctuate as a result of adverse change to market rates. The Bank's market risks include Interest Rate Risk in the Banking Book (IRRBB) and Foreign Exchange Risk. The Bank does not have a trading book. Non-trading book positions are managed and monitored using risk measures including stress tests and sensitivity analysis to minimise market value sensitivity and earnings volatility, taking into account current and expected future business flows.

IRRBB arises from the possibility of differences in rate resets for assets and liabilities arising from their potentially different re-pricing and maturity characteristics as well as the impact of using different indices when resetting contracted financial obligations. The main types of interest rate risk faced by the Bank are:

- Re-pricing risk: the risk arising from timing differences in the re-pricing and maturity of bank assets and liabilities (e.g. fixed rate personal loans and instant access savings accounts).
- Yield curve risk: the risk arising from changes in the slope and shape of the yield curve.
- Basis risk: risk arising from imperfect correlation between key market rates (e.g. administered rate on savings products and treasury assets linked to LIBOR).
- Prepayment risk: the risk arising from the timing of customer prepayments which differ from planning and hedging assumptions.
- Pipeline risk: the risk of a customer drawing down, or not, a product at a rate which is unfavourable for the Bank.
- Volatility of earnings arising from non interest sensitive liabilities and capital.

Interest risk exposure (based on net re-pricing gap) is managed by transacting interest rate swaps within limits that are aligned with the Bank's risk appetite. Hedging strategies are implemented to ensure the Bank remains within its limits. Where possible, the Bank takes advantage of natural hedging opportunities between fixed rate assets and liabilities with similar re-pricing characteristics. During the year, the Bank also transacted interest swap contracts to hedge the re-pricing risk on segments of the personal loan portfolio which earn fixed rate income. The Bank also transacted a series of swaps for the purpose of stabilising earnings arising from the Bank's net non-interest sensitive liabilities which include the Bank's reserves.

The primary measures used by the Bank to capture interest rate risk include analysis of the impact of small and extreme changes in interest rates on the market value of the Bank's assets and liabilities and on the Bank's earnings. For market value sensitivity measurement, all products are allocated within re-pricing gap analysis based on their nearest re-pricing date. All non-maturing deposits are assumed to re-price in month one and personal loans according to behavioural repayment profile.

As at 28 February 2017, the market value sensitivity of earnings at risk (change in net interest income) for changes in interest rates of +/-200 basis points and +/-100 basis points are:

Change in net interest income	**28 February 2017 £m**	29 February 2016 £m
+/- 200 basis points	**(32)/5**	(16)/5
+/- 100 basis points	**(16)/5**	(8)/5

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. Due to the relative low value of foreign currencies held, and frequent turnover of the currencies in stock, the Bank does not consider the foreign exchange risks arising during the year and at the balance sheet date to be material. The capital requirement as at 28 February 2017 was £1.1m (2016: £0.8m).

2.10.9. Wholesale credit risk

Wholesale credit risk is the risk of losses arising from institutional counterparties failing to meet their contractual cash flow obligations. The Bank is exposed to wholesale credit risk primarily through the assets that are held for the purpose of liquidity management. The Bank invests its liquidity resources 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 and UK regulated covered bond programmes.

Limits are established for all counterparty and asset class exposures based on their respective credit quality and market liquidity. Consideration is also given to geographical region and the strength of relevant sovereign credit ratings. Derivatives are subject to the same credit risk control procedures as are applied to other wholesale market instruments and the credit risk arising from mark-to-market derivative valuations is mitigated by daily margin calls, posting cash collateral to cover exposures. Daily monitoring is undertaken by the Bank's Treasury department, including early warning indicators with appropriate triggers for escalation.

3. Capital resources

The Bank is required to hold own funds (capital resources) in accordance with the CRR, which sets out the quantity and quality of own funds necessary to meet requirements (Pillar 1). The PRA sets and monitors capital requirements for the Bank (Pillar 2). In implementing current capital requirements the PRA requires the Bank to maintain a prescribed level of capital with reference to risk weighted assets and the perceived risk management framework.

At 28 February 2017 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 entirely of Common Equity Tier 1 (CET1) capital, representing ordinary share capital and reserves with regulatory deductions. The Bank has no Additional Tier 1 (AT1) or Tier 2 capital.

The table below shows the breakdown of total available capital resources of the Bank. This is shown on a Bank consolidated basis as at 28 February 2017, incorporating HRGCS which was acquired on 16 September 2016.

The transitional own funds disclosure is shown in Annex V.

3.1 Total capital resources

Capital resources are presented below.

	28 February 2017 £m	29 February 2016 £m
Common Equity Tier 1 (CET1) capital:		
Ordinary share capital	**566**	436
Retained earnings	**147**	166
Accumulated other comprehensive income	**1**	1
CET1 capital before regulatory adjustments	**714**	603
Regulatory adjustments to CET1 capital:		
Intangible assets	**(147)**	(118)
Total regulatory adjustments to CET1 capital	**(147)**	(118)
CET1 capital	**567**	485
Tier 1 capital	**567**	485
Total capital	**567**	485

	28 February 2017	29 February 2016
Risk weighted assets (£m)	**4,272**	3,069
CET1 capital ratio (%)	**13.3**	15.8
Total capital ratio (%)	**13.3**	15.8

3.2 Movement in CET1 capital

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

	£m
CET1 capital at 1 March 2016	485
Ordinary share capital issued	130
Profit recognised in retained earnings*	(19)
Movement in other comprehensive income	0
Movement in intangible assets	(29)
CET1 capital at 28 February 2017	**567**

*includes post acquisition retained earnings in respect of HRGCS.

3.3 Share capital

	Total shares £m
Allotted, called up and fully paid:	
At 1 March 2016	**436**
Issued ordinary shares	**130**
At 28 February 2017	**566**
At 1 March 2015	299
Issued ordinary shares	137
At 29 February 2016	436

During the year the Bank issued 130m (2016: 137m) ordinary shares of £1 each at par to J Sainsbury plc.

3.4 Own funds balance sheet reconciliation

Article 237 (1) of the CRR requires a reconciliation of own funds to audited financial positions in the Annual Report and Financial Statements. This should include all items that are components of, or are deducted from, regulatory own funds. The balance sheet reconciliation as at 28 February 2017 is included in Annex III.

3.5 Main features of capital instruments

Article 437 of the CRR requires the Bank to disclose the main features of capital resources. The disclosure of the main features of CET1 capital is included in Annex IV.

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

4.1 Assessment of the adequacy of internal capital

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

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

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

The Bank undertakes an annual 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 in excess of the capital requirement calculated in the ICAAP.

4.2 Minimum capital requirement

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

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

At 28 February 2017	Minimum capital requirement £m	Risk weighted assets £m
Institutions	**1**	**9**
Corporates	**3**	**35**
Retail	**273**	**3,412**
Secured by mortgages on residential property	**1**	**13**
In default	**4**	**55**
Covered bonds	**1**	**10**
Securitisation positions	**1**	**13**
Other	**8**	**103**
Total credit risk	**292**	**3,650**
Total operational risk	**49**	**609**
CVA risk	**0**	**2**
Total market risk	**1**	**11**
Total risk	**342**	**4,272**

The movement in risk-weighted assets from 29 February 2016 to 28 February 2017 represents movements in the volumes of the exposures.

At 29 February 2016	Minimum capital requirement £m	Risk weighted assets £m
Institutions	2	19
Corporates	–	1
Retail	196	2,452
Secured by mortgages on residential property	2	19
In default	3	36
Covered bonds	–	4
Other	12	153
Total credit risk	215	2,684
Total operational risk	29	368
CVA risk	1	7
Total market risk	1	10
Total risk	246	3,069

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

4.3 Capital buffers

Credit institutions are required to hold a capital conservation buffer and a counter-cyclical capital buffer to ensure that sufficient capital is accumulated during periods of economic growth to absorb losses in stressed periods. As at 28 February 2017 the capital conservation buffer is 1.25% of RWAs. 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 requirements in respect of this.

Institutions are required to calculate an institution-specific counter-cyclical capital buffer as a weighted average of the counter-cyclical buffer rates that apply in the countries where the credit exposures are located. Each member state designates an authority responsible for setting the counter-cyclical buffer rate in that member state on a quarterly basis, taking into account the growth of credit levels and changes to the ratio of credit to GDP. The Financial Policy Committee of the Bank of England is responsible for setting the rate in the UK. The Bank institution-specific counter-cyclical buffer rate at 28 February 2017 and throughout the year was 0%.

28 February 2017	Exposure £m	Counter-cyclical rate
United Kingdom	**5,357**	**0%**
Average countercyclical rate		**0%**

29 February 2016	Exposure £m	Counter-cyclical rate
United Kingdom	3,992	0%
Average countercyclical rate		0%

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

5. Credit risk and dilution risk

5.1 Impairment losses on loans and advances

Impairment loss calculations involve the estimation of future cash flows of financial assets, based on observable data at the balance sheet date and historical loss experience for assets with similar credit risk characteristics. These calculations are undertaken on a portfolio basis using various statistical modelling techniques. Impairment models are continually reviewed to ensure data and assumptions are appropriate. However, the accuracy of any such impairment calculation will be affected by unexpected changes to the economic situation, and assumptions which differ from actual outcomes. As such, judgement is also applied in selecting and updating impairment models. Currently this is determined on an incurred loss basis under IAS 39. The Bank is developing expected credit loss (ECL) provisioning models in line with the planned implementation of IFRS 9 in 2018.

5.2 Maximum exposure to credit risk

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

Credit exposure

	Average 2017 £m	Total 28 February 2017 £m
Central governments or central banks	**567**	**541**
Multilateral development banks	**89**	**95**
Institutions	**109**	**125**
Corporates	**44**	**56**
Retail	**3,893**	**4,600**
Secured by mortgages on immovable property	**45**	**36**
In default	**118**	**146**
Covered bonds	**86**	**101**
Securitisation positions	**140**	**71**
Other	**439**	**347**
Total credit risk exposure	**5,530**	**6,118**

	Average 2016 £m	Total 29 February 2016 £m
Central governments or central banks	613	560
Multilateral development banks	17	77
Institutions	149	171
Corporates	3	18
Retail	3,201	3,281
Secured by mortgages on immovable property	53	49
In default	105	106
Covered bonds	3	40
Securitisation positions*	89	107
Other	419	391
Total credit risk exposure	4,652	4,800

Note that the exposures are all deemed to relate to lending to retail customers. There is no lending to SMEs.

*Securitisation positions as at 29 February 2016 included £100m (risk weighted at 0%) in respect of the Bank's investment in the Lochside SPE. The balance as at 29 February 2017 of £88m has been offset against the liability of £400m and therefore is no longer included within credit risk exposures.

5.3 Risk concentrations

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

The Bank's risk appetite, policies and procedures include specific limits or guidelines to maintain a diversified portfolio. Identified concentrations of credit risks are controlled and managed according to client or counterparty (and their respective credit qualities), as opposed to geographical region or industry sector.

5.4 Geographical and counterparty sectors
Credit exposure

28 February 2017	United Kingdom £m	Europe (excl. UK) £m	Other £m	Total £m
Central governments or central banks	**541**	**–**	**–**	**541**
Multilateral development banks	**–**	**68**	**27**	**95**
Institutions	**98**	**27**	**–**	**125**
Corporates	**56**	**–**	**–**	**56**
Retail	**4,600**	**–**	**–**	**4,600**
Secured by mortgages on immovable property	**36**	**–**	**–**	**36**
In default	**146**	**–**	**–**	**146**
Covered bonds	**101**	**–**	**–**	**101**
Securitisation positions	**71**	**–**	**–**	**71**
Other	**347**	**–**	**–**	**347**
Total credit risk exposure	**5,996**	**95**	**27**	**6,118**

29 February 2016	United Kingdom £m	Europe (excl. UK) £m	Other £m	Total £m
Central governments or central banks	560	–	–	560
Multilateral development banks	–	60	17	77
Institutions	33	138	–	171
Corporates	18	–	–	18
Retail	3,281	–	–	3,281
Secured by mortgages on immovable property	49	–	–	49
In default	106	–	–	106
Covered bonds	40	–	–	40
Securitisation positions	107	–	–	107
Other	391	–	–	391
Total credit risk exposure	4,585	198	17	4,800

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

5.5 Industry sector
Credit exposure

28 February 2017	Corporates £m	Government £m	Financial institutions £m	Retail £m	Other £m	Total £m
Central governments or central banks	–	**541**	–	–	–	**541**
Multilateral development banks	–	–	**95**	–	–	**95**
Institutions	–	–	**125**	–	–	**125**
Corporates	**56**	–	–	–	–	**56**
Retail	–	–	–	**4,600**	–	**4,600**
Secured by mortgages on immovable property	–	–	–	**36**	–	**36**
In default	–	–	–	**146**	–	**146**
Covered bonds	–	–	**101**	–	–	**101**
Securitisation positions	–	–	**71**	–	–	**71**
Other	–	–	**268**	–	**79**	**347**
	56	**541**	**660**	**4,782**	**79**	**6,118**

29 February 2016	Corporates £m	Government £m	Financial institutions £m	Retail £m	Other £m	Total £m
Central governments or central banks	–	560	–	–	–	560
Multilateral development banks	–	–	77	–	–	77
Institutions	–	–	171	–	–	171
Corporates	18	–	–	–	–	18
Retail	–	–	–	3,281	–	3,281
Secured by mortgages on immovable property	–	–	–	49	–	49
In default	–	–	–	106	–	106
Covered bonds	–	–	40	–	–	40
Securitisation positions	–	–	107	–	–	107
Other	–	–	280	–	111	391
	18	560	675	3,436	111	4,800

5.6 Residual maturity by exposure class

28 February 2017	**<1 month £m**	**1-3 month £m**	**3-12 month £m**	**1-5 years £m**	**>5 years £m**	**Total £m**
Central governments or central banks	**234**	**40**	**220**	**21**	**26**	**541**
Multilateral development banks	**–**	**–**	**37**	**58**	**–**	**95**
Institutions	**41**	**48**	**12**	**24**	**–**	**125**
Corporates	**1**	**–**	**10**	**34**	**11**	**56**
Retail	**1,809**	**172**	**713**	**1,850**	**56**	**4,600**
Secured by mortgages on immovable property	**1**	**1**	**3**	**12**	**19**	**36**
In default	**60**	**5**	**22**	**56**	**3**	**146**
Covered bonds	**8**	**9**	**38**	**46**	**–**	**101**
Securitisation positions	**1**	**2**	**11**	**57**	**–**	**71**
Other	**347**	**–**	**–**	**–**	**–**	**347**
	2,502	**277**	**1,066**	**2,158**	**115**	**6,118**

29 February 2016	<1 month £m	1-3 month £m	3-12 month £m	1-5 years £m	>5 years £m	Total £m
Central governments or central banks	275	60	189	26	10	560
Multilateral development banks	–	–	27	50	–	77
Institutions	34	50	15	72	–	171
Corporates	–	–	6	12	–	18
Retail	883	156	640	1,571	31	3,281
Secured by mortgages on immovable property	–	1	4	17	27	49
In default	46	4	16	39	1	106
Covered bonds	40	–	–	–	–	40
Securitisation positions	–	–	–	107	–	107
Other	362	–	–	15	14	391
	1,640	271	897	1,909	83	4,800

5.7 Exposure by credit quality steps

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

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

28 February 2017	**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	**541**	**–**	**–**	**–**	**541**
Multilateral development banks	**95**	**–**	**–**	**–**	**95**
Institutions	**28**	**97**	**–**	**–**	**125**
Corporates	**22**	**–**	**–**	**34**	**56**
Retail	**–**	**–**	**–**	**4,600**	**4,600**
Secured by mortgages on immovable property	**–**	**–**	**–**	**36**	**36**
In default	**–**	**–**	**–**	**146**	**146**
Covered bonds	**101**	**–**	**–**	**–**	**101**
Securitisation positions	**64**	**–**	**–**	**7**	**71**
Other	**–**	**–**	**–**	**347**	**347**
Total exposure pre-mitigation	**851**	**97**	**–**	**5,170**	**6,118**
Total exposure post-mitigation	**899**	**49**	**–**	**5,170**	**6,118**

29 February 2016	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	560	–	–	–	560
Multilateral development banks	77	–	–	–	77
Institutions	83	86	2	–	171
Corporates	17	–	–	1	18
Retail	–	–	–	3,281	3,281
Secured by mortgages on immovable property	–	–	–	49	49
In default	–	–	–	106	106
Covered bonds	40	–	–	–	40
Securitisation positions	–	–	–	107	107
Other	–	–	–	391	391
Total exposure pre-mitigation	777	86	2	3,935	4,800
Total exposure post-mitigation	777	86	2	3,935	4,800

5.8 Credit risk mitigation

5.8.1 Retail

Mortgages held over residential properties represent the only collateral held by the Bank for retail exposures. The fair value of collateral held for impaired loans and loans past due but not impaired at 28 February 2017 was £ 7m (29 February 2016: £5m). The fair value of collateral held against possession cases was £nil (29 February 2016: £nil).

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

5.8.2 Wholesale

The maximum credit exposure to any client or counterparty as of 28 February 2017 was £235m to the Bank of England (29 February 2016: £509m) before taking into account collateral or other credit enhancements of £nil (29 February 2016: £nil).

In addition to repo and reverse repo transactions, the Bank manages collateral to mitigate derivatives credit risk exposures and in respect of its secured funding activities. Derivatives collateral is managed daily and adjusted to reflect derivatives market value fluctuations in line with International Swaps and Derivatives Association (ISDA) Credit Support Annexes (CSAs) between the Bank and its counterparties. Secured wholesale funding is obtained under the Bank of England's Funding for Lending Scheme (FLS) and from a bilateral personal loans securitisation facility. Both of these facilities are secured using the Bank's unsecured personal loans. These loans continue to be managed and serviced by the Bank, with measures such as asset quality and valuation reported regularly to relevant counterparties. The Bank has prepositioned similar loan collateral with the Bank of England to provide access to the Bank of England's Discount Window Facility (DWF), which forms part of the Bank's operational liquidity pool (OLP). The OLP is defined as the level of liquidity sufficient to ensure the survival of the Bank for at least three months under the worst case internal liquidity stress scenario. The OLP consists of high quality liquid assets (as defined by the EU Delegated Act on Liquidity), certificates of deposit and available DWF funding.

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

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

5.9.1 Retail

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

28 February 2017	Retail £m	Secured by mortgages on immovable property £m	Total lending £m
Impaired			
Less than 3 months, but impaired	**2**	**–**	**2**
Past due 3 to 6 months	**17**	**1**	**18**
Past due 6 to 12 months	**–**	**1**	**1**
Past due over 12 months	**–**	**–**	**–**
Recoveries	**125**	**–**	**125**
Possession	**–**	**–**	**–**
Total gross impaired loans	**144**	**2**	**146**
Past due but not impaired			
Past due up to 3 months but not impaired	**49**	**1**	**50**
Total gross past due but not impaired	**49**	**1**	**50**
Neither past due nor impaired			
Off balance sheet	**20**	**–**	**20**
Not impaired*	**4,531**	**35**	**4,566**
Total gross neither past due nor impaired	**4,551**	**35**	**4,586**
Total gross amount due	**4,744**	**38**	**4,782**

*Includes retail loans and advances of £38m that would have been past due or impaired had their terms not been renegotiated.

29 February 2016	Retail £m	Secured by mortgages on immovable property £m	Total lending £m
Impaired			
Less than 3 months, but impaired	2	–	2
Past due 3 to 6 months	8	–	8
Past due 6 to 12 months	–	1	1
Past due over 12 months	–	–	–
Recoveries	95	–	95
Possession	–	–	–
Total gross impaired loans	105	1	106
Past due but not impaired			
Past due up to 3 months but not impaired	12	1	13
Total gross past due but not impaired	12	1	13
Neither past due nor impaired			
Off balance sheet	12	8	20
Not impaired*	3,257	40	3,297
Total gross neither past due nor impaired	3,269	48	3,317
Total gross amount due	3,386	50	3,436

* Includes retail loans and advances of £2m 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.

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

Individual and collective impairment provisions are deducted from relevant retail exposures representing specific credit risk adjustments. The Bank does not apply any general credit risk adjustments. A reconciliation of movements on impairment provisions on loans and advances is shown below:

	Individual impairment £m	**Collective impairment £m**	**Total impairment £m**
Provision as at 1 March 2016	**71**	**8**	**79**
New impairment provisions less releases charged to the profit and loss account	**65**	**25**	**90**
Recoveries of amounts previously written off released to the profit and loss account	**(5)**	**–**	**(5)**
Amounts written off	**(21)**	**–**	**(21)**
Discount unwind on impaired loans and advances to customers	**(1)**	**–**	**(1)**
Provisions at 28 February 2017	**109**	**33**	**142**

	Individual impairment £m	Collective impairment £m	Total impairment £m
Provision as at 1 March 2015	77	10	87
New impairment provisions less releases charged to the profit and loss account	19	(2)	17
Recoveries of amounts previously written off released to the profit and loss account	(2)	–	(2)
Amounts written off	(22)	–	(22)
Discount unwind on impaired loans and advances to customers	(1)	–	(1)
Provisions at 29 February 2016	71	8	79

5.9.2 Wholesale

The total gross amount of individually impaired loans and advances to banks as at 28 February 2017 was £nil (29 February 2016: £nil). The fair value of collateral held for loans and advances to banks was £nil (29 February 2016: £nil). Collateral takes the form of security over UK government securities (gilts or Treasury bills) and cash.

The total gross amount of individually impaired debt securities, cash and balances with central banks, UK government securities (gilts and Treasury bills) and other eligible investment securities as at 28 February 2017 was £nil (2016: £nil).

Investment securities classified as available for sale are continually reviewed at the specific investment level for impairment. Impairment is recognised when there is objective evidence that a specific financial asset is impaired. Objective evidence of impairment might include a significant or prolonged decline in market value below the original cost of a financial asset and, in the case of debt securities, non-receipt of due interest or principal repayment, a breach of covenant within the security's terms and conditions or a measurable decrease in the estimated future cash flows since their initial recognition. The disappearance of active markets, declines in market value and ratings downgrades do not in themselves constitute objective evidence of impairment and, unless a default has occurred on a debt security, the determination of whether or not objective evidence of impairment is present at the balance sheet date requires the exercise of management judgement.

5.9.3 Counterparty credit risk

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

The Bank uses derivative contracts to manage IRRBB and foreign exchange risk on foreign denominated investments. Policies and contracts are in place to transfer/receive cash collateral when derivative mark-to-market exposures exceed agreed minimum transfer values, documented under standard ISDA agreements with supporting CSAs. The Bank now clears certain trades through central counterparties. In this case, the variation margin is determined by the central clearing party and paid daily with no minimum transfer value.

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

28 February 2017	Notional £m	MTM £m	Exposure £m	Collateral posted £m
Interest rate	**2,376**	**(20)**	**9**	**(22)**

29 February 2016	Notional £m	MTM £m	Exposure £m	Collateral posted £m
Interest rate	2,105	(17)	8	(13)

As at 28 February 2017 the gross positive fair value of contracts is £1m, with no netting benefits assumed and deduction of collateral of £1m to yield net credit derivatives exposure of nil. The Potential Future Exposure (PFE) is £9m 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 (2017: £0.1m, 2016: £0.2m).

The other component of counterparty credit risk is the CVA capital charge which is disclosed separately (2017: £0.1m, 2016: £0.5m).

The Bank is not currently exposed to wrong way risk (defined as the risk that occurs when exposure to a counterparty is adversely correlated with the credit quality of that counterparty, occurring when default risk and credit exposure increase together).

The Bank has no public credit rating.

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

6. Securitisation and covered bonds

The Bank entered into a bilateral securitisation transaction on 18 February 2015, where a £400m funding facility was obtained. The ability to draw down on this facility was due to expire in May 2017, 27 months after initial draw down. In February 2017, the Bank took steps to renew the facility and extend the revolving period by a further 27 months. The total amount drawn on the facility as at 28 February 2017 was £312m. This is secured by £400m of personal loans which were transferred to a special purpose entity 'Lochside Asset Purchaser No. 1 plc' for this purpose.

The Bank funds liquidity reserves and holds subordinated debt in the SPE. Therefore the Bank retains the risks and rewards of these transferred loans, and there is deemed to be no significant risk transfer. The loans continue to be held on the balance sheet of the Bank and are risk weighted as if no transfer had occurred, i.e. the retail credit risk continues to be calculated on these loans. The securitisation position is a financing transaction rather than a sale and is deemed to be risk weighted at 0%. The Bank continues to service the loans. All securitised loans that fall into default are repurchased by the Bank. Impaired assets as at 28 February 2017 are £0.4m, 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 purchased UK regulated covered bonds and asset backed securities, that are included in the Bank's liquidity resources. Key risks are credit, liquidity and interest rate risk. Covered bond investors benefit from dual recourse, whereby they have recourse to both the collateral pool backing a specific programme as well as a shortfall claim to the estate of the originator on its default. The Bank regularly monitors the credit rating of the covered bond and SPE security issuers to ensure these remain within the Bank's risk appetite. Other factors, such as asset coverage are monitored to ensure bonds are eligible for inclusion within the Bank's liquid assets. Covered bonds and asset backed securities with fixed rate coupons are subject to interest rate risk which is hedged using interest rate swaps.

Purchased covered bonds and asset backed securities are classified and subsequently measured as available for sale assets on the balance sheet.

	28 February 2017		29 February 2016	
	Capital requirement	Risk weighted assets	Capital requirement	Risk weighted assets
Bilateral personal loans securitisation	**–**	**–**	–	–
Residential mortgage backed covered bonds	**1**	**10**	–	4
Residential mortgage backed securities	**1**	**10**	–	–
Auto asset backed securities	**–**	**2**	–	–
Total	**2**	**22**	–	4

7. Non trading book exposure in equity

The Bank holds an equity exposure in Visa Inc. with a fair value of £0.4m as at 28 February 2017. The sale of the Bank's equity exposure in Visa Europe during the period resulted in a £1m gain.

8. Leverage

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

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

	28 February 2017 £m	29 February 2016 £m
Leverage ratio	**8.6%**	9.8%

	28 February 2017 £m	29 February 2016 £m
Components of the leverage ratio		
Total assets per published financial statements	**5,836**	4,499
Removal of accounting value of derivatives and securities financing transactions (SFTs)	**–**	–
Exposure value for derivatives and SFTs	**269**	245
Off balance sheet exposures: unconditionally cancellable (10%)	**633**	336
Off balance sheet: other	**20**	21
Other adjustments	**(168)**	(136)
Denominator	**6,590**	4,965
Tier 1 capital (numerator)	**567**	485

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

The Bank's leverage ratio of 8.6% exceeds the minimum Basel leverage ratio of 3%.

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

9. Asset encumbrance

An asset is defined as encumbered if it has been pledged as collateral against an existing on or off balance sheet liability and therefore is no longer available for disposal or as collateral to support liquidity or funding requirements of the Bank. Encumbered assets as at 28 February 2017 were £1,122m (29 February 2016: £885m).

Encumbered assets	Carrying amount of encumbered assets 28 February 2017 £m	Carrying amount of unencumbered assets 28 February 2017 £m	Carrying amount of encumbered assets 29 February 2016 £m	Carrying amount of unencumbered assets 29 February 2016 £m
Loans on demand	**22**	**162**	17	168
Equity instrument	**–**	**–**	–	1
Debt securities	**31**	**626**	10	545
Loans and advances other than loans on demand	**1,063**	**3,967**	853	2,758
Other assets	**6**	**218**	5	142
Carrying amount of assets	**1,122**	**4,973**	885	3,614

'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'. 'Equity instrument' relates to the valuation of the Bank's share in Visa Europe Limited.

The following tables show average asset encumbrance and sources of encumbrance for the most recent 12 month rolling period ended 28 February 2017:

Encumbered assets	Carrying amount of encumbered assets (12 month average) £m	Carrying amount of unencumbered assets (12 month average) £m
Loans on demand	**20**	**206**
Equity instrument	–	–
Debt securities	**28**	**563**
Loans and advances other than loans on demand	**967**	**3,324**
Other assets	**5**	**222**
Carrying amount of assets	**1,020**	**4,315**

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 bonds and ABSs encumbered (12 month average) £m
Derivatives	**19**	**36**
Deposits	**304**	**593**
Debt securities issued	**301**	**385**
Other	**5**	**5**
Carrying amount of selected financial liabilities	**629**	**1,019**

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 Funding for Lending Scheme (FLS), Term Funding Scheme (TFS), Discount Window Facility (DWF) and Indexed Long-Term Repo (ILTR). There are assets which would not normally be considered available for encumbrance in the normal course of the Bank's business including intangible assets, property, plant and equipment, prepayments and accrued income and deferred tax assets. These are included within the carrying value of unencumbered assets.

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

10. Remuneration

10.1 Remuneration Committee (RemCo)

The role of the RemCo is to determine and agree the broad policy for remuneration and for compliance with the FCA Remuneration Code (the Code) to the extent that the provisions apply to the Bank. RemCo is responsible for monitoring and noting the level and structure of remuneration for senior management (categorised as Code Staff/Material Risk Takers 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. The committee 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 the Remuneration Committee and for the revocation of any such appointments.

RemCo comprises no less than three members at any time, two of which are Independent Non-Executive Board Directors and the other an Executive from the Bank's parent undertaking (J Sainsbury's plc). The committee is constituted in a way that enables it to exercise independent judgement, and members do not perform any executive function within the Bank. The quorum is two committee members, one of whom is the Chairperson. 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 Colleague and Communications Director are invited to attend, except when issues regarding their own remuneration are discussed. Remuneration advisors provide independent opinion as requested by the Chairperson.

RemCo 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 risk management of the Bank through:

- the requirement for all bonus schemes to be reviewed by the Bank's Risk Function; and
- the competent and experienced nature of all individuals who are a member of or who attend the Remuneration Committee, which enables them to exercise independent 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 19A, which sets out the principles for pay, incentives and recognition within the Bank, taking into account its business strategy, objectives, risk tolerance and long-term interests. The key objective is to ensure that the Bank strikes an appropriate balance between risk and reward, consistent with its risk appetite.

10.2 Link between pay and performance

10.2.1 Assessment of performance

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

The Bank operates an annual bonus that is based on financial and non-financial targets, including customer-related objectives, which are aligned to the long-term strategic objectives of the organisation. Overall, through aligning reward to the Bank's strategic objectives, its aim is to recognise performance against targets including how well colleagues manage risk and therefore the long-term health of the business.

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

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

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

10.2.2 Long-term incentives

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

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.

10.3 Quantitative disclosures

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

The Bank is only deemed to operate in one business segment – Retail finance. The table below shows total remuneration awarded to Code Staff for the year to 28 February 2017. This includes fixed remuneration, defined as base salary and other cash payments and variable remuneration which includes bonus awards made in the financial period.

Year to 28 February 2017	Senior management	Other Code Staff	Total
Total remuneration (£'000)	**7,192**	**7,755**	**14,947**

Included within remuneration for senior management are emoluments for members of the Bank's Executive Management Team and Non-Executive Directors. During 2016/2017, certain Non-Executive Directors are employees of the Bank's shareholders and are paid by J Sainsbury plc. These Directors receive no remuneration for their role as a Non-Executive Director of the Bank. There has been no recharge to the Bank as their emoluments are deemed to be wholly attributable to services to the respective shareholder companies.

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

Two individuals earned remuneration between EUR 1.5m and EUR 2.0m.

Annex I – Board risk management declaration

The Bank has established an enterprise-wide risk management framework (EWRMF) that is designed to support the business in delivering its target outcomes while ensuring that any material risks associated with the Bank's activities are identified and effectively managed. The Board has approved statements of risk appetite and these are adhered to via detailed risk management policies, processes and controls and through reporting to the various governance committees.

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

Annex II – Risk statement

The Bank provides banking services and related financial services within the UK. The acquisition of AFS in September 2016 added the UK's largest store card portfolio (£615m of assets, 1.7m active accounts) to the Bank's existing business (£4.5 billion of total assets, over 1.7m active customers).

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

Enterprise-wide Risk Management Framework (EWRMF)

Effective risk management is a core component of our strategy and operations. Our EWRMF supports the Bank in delivering its target outcomes, enabling innovation, growth and flexibility but doing so in a safe and sustainable manner. It adopts a holistic, end-to-end view of risk across the Group ensuring that our aggregate risk exposure is understood, both now and under future plans.

The EWRMF is shaped by the 'tone from the top' from the Board and Executive Management. They define a clear risk strategy and vision that is complemented by the Bank's risk appetite. Policies, processes and methodologies are used to guide, cascade and embed the right principles and behaviours throughout the business. A range of risk management tools are then applied to identify, assess and manage the risks arising from our activities and to ensure the Bank's current and projected risk profile remains within its risk appetite.

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 and reviewed on an annual basis by the Board 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.

Strategic risk objective	Risk appetite outcome	Quantitative metric	Comment
Protect and enhance our brand value	Customer outcomes	— Measurement of fair customer outcomes — Events and issues with customer detriment	Achieving good customer outcomes is a core component of our strategy
	Operational capability	— Availability of key channels	Our channels are key to meeting our customers' needs
Embed a strong risk culture	Risk awareness	— Rating of awareness versus internal scale	A strong risk culture underpins the effectiveness of our risk framework
	Risk environment	— Rating of environment versus internal scale	We assess the adequacy and effectiveness of our key controls
Facilitate safe and sustainable growth	Capital adequacy	— Surplus to internal capital guidance and buffers — Minimum stressed capital and leverage ratio	We aim to have adequate capacity to absorb losses in current and stressed conditions
	Liquidity and funding	— Net stable funding ratio (NSFR) — Liquidity coverage ratio — Loan to deposit ratio — Liquidity as % of stressed outflows	We maintain a funding profile and liquid resources that are appropriate when considering current and stressed conditions
Enable insightful decision making	Earnings volatility	— Profit Before Tax (PBT) target under normal conditions — Minimum PBT under stress	Our earnings volatility targets help ensure a consistent calibration across all our risk appetite metrics
	Asset quality	— Expected loss by key portfolio — Maximum stressed Bad Debt Asset Ratio (BDAR)	Our appetite for expected and unexpected loss influences the lending we undertake and the capital we need

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

The following table sets out the actual ratios for some of the key metrics monitored for risk and performance purposes in 2016/17. Figures below relate to the regulatory group unless otherwise stated.

	28 February 2017	29 February 2016
BDAR (Bank only)	**0.6%**	0.4%
BDAR	**0.8%**	N/A
Net interest margin (Bank only)	**3.9%**	4.1%
Net interest margin	**4.4%**	N/A
NSFR (Bank only)	**113.1%**	125.6%
CET1 capital ratio	**13.4%**	15.8%
Total capital ratio	**13.4%**	15.8%

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

These Pillar 3 disclosures are presented in respect of the Bank's consolidated regulatory group, which includes the Bank and HRGCS. The Bank prepares individual financial statements, exercising the exemption from production of Group financial statements under section 400 of the Companies Act 2006.

Reconciliation of balances presented in the Bank's published financial statements to balances within regulatory scope

	February 2017				February 2016	
	Balance sheet per Bank financial statements £m	Balance sheet per HRGCS financial statements £m	Consolidation adjustments £m	Regulatory scope £m	Balance sheet per Bank financial statements £m	Regulatory scope £m
Assets						
Loans and advances to customers	**3,962**	**647**	**7**	**4,616**	3,353	3,353
Loans and advances to banks	**26**	**–**	**–**	**26**	25	25
Cash and balances with central banks	**377**	**–**	**–**	**377**	423	423
Derivative financial instruments	**1**	**–**	**–**	**1**	–	–
Investment securities	**398**	**–**	**–**	**398**	317	317
Of which: additional value adjustment	**–**	**–**	**–**	**–**	–	–
Investments in subsidiaries	**–**	**–**	**–**	**–**	–	–
Intangible assets	**146**	**1**	**–**	**147**	118	118
Of which deducted from regulatory capital	***146***	***1***	**–**	***147***	*118*	*118*
Property, plant and equipment	**44**	**–**	**–**	**44**	39	39
Other assets	**840**	**16**	**(629)**	**227**	224	224
Total assets	**5,794**	**664**	**(622)**	**5,836**	4,499	4,499
Liabilities						
Customer accounts	**4,101**	**–**	**–**	**4,101**	3,209	3,209
Other deposits	**509**	**643**	**(629)**	**523**	247	247
Other borrowed funds	**311**	**2**	**–**	**313**	299	299
Derivative financial instruments	**21**	**–**	**–**	**21**	18	18
Other liabilities	**105**	**33**	**–**	**138**	107	107
Of which: Tier 2	**–**	**–**	**–**	**–**	–	–
Provisions for liabilities and charges	**15**	**11**	**–**	**26**	16	16
Total liabilities	**5,063**	**689**	**(629)**	**5,123**	3,896	3,896
Equity						
Called up share capital	**566**	**48**	**(48)**	**566**	436	436
Of which: CET1	***566***	***48***	***(48)***	***566***	*436*	*436*
Of which: AT1	**–**	**–**	**–**	**–**	–	–
Of which: Tier 2	**–**	**–**	**–**	**–**	–	–
Retained earnings	**164**	**(73)**	**55**	**146**	166	166
Of which: prior year audited reserves	***164***	***(70)***	***70***	***164***	*168*	*168*
Of which: current year losses	**–**	***(3)***	***(15)***	***(18)***	*(2)*	*(2)*
Other reserves	**1**	**–**	**–**	**1**	1	1
Of which CET1	***1***	**–**	**–**	***1***	–	*1*
Total equity	**731**	**(25)**	**7**	**713**	603	603
Total equity and liabilities	**5,794**	**664**	**(622)**	**5,836**	4,499	4,499

Reconciliation of balances within regulatory scope to total credit risk exposures

February 2017	Regulatory scope	Assets deducted from own funds	Off balance sheet adjustments	Provisions	Other	Total credit risk exposures
	£m	£m	£m	£m	£m	£m
Assets						
Loans and advances to customers	**4,616**	**–**	**–**	**142**	**9**	**4,767**
Loans and advances to banks	**26**	**–**	**–**	**–**	**13**	**39**
Cash and balances with central banks	**377**	**–**	**–**	**–**	**–**	**377**
Derivative financial instruments	**1**	**–**	**–**	**–**	**–**	**1**
Investment securities	**398**	**–**	**–**	**–**	**–**	**398**
Intangible assets	**147**	**(147)**	**–**	**–**	**–**	**–**
Property, plant and equipment	**44**	**–**	**–**	**–**	**–**	**44**
Other assets	**227**	**–**	**–**	**–**	**(22)**	**205**
Total assets	**5,836**	**(147)**	**–**	**142**	**–**	**5,831**
Derivative PFEs	**–**	**–**	**8**	**–**	**–**	**8**
Credit converted commitments	**–**	**–**	**279**	**–**	**–**	**279**
Total	**5,836**	**(147)**	**287**	**142**	**–**	**6,118**

February 2016	Regulatory scope	Assets deducted from own funds	Off balance sheet adjustments	Provisions	Other	Total credit risk exposures
	£m	£m	£m	£m	£m	£m
Assets						
Loans and advances to customers	3,353	–	–	79	(16)	3,416
Loans and advances to banks	25	–	–	–	–	25
Cash and balances with central banks	423	–	–	–	–	423
Investment securities	317	–	–	–	–	317
Intangible assets	118	(118)	–	–	–	–
Property, plant and equipment	39	–	–	–	–	39
Other assets	224	–	–	–	90	314
Total assets	4,499	(118)	–	79	74	4,534
Derivative PFEs	–	–	6	–	–	6
Credit converted commitments	–	–	260	–	–	260
Total	4,499	(118)	266	79	74	4,800

Items within 'other' reflect the inclusion of exposures disclosed within liabilities in the financial statements and exclusion of certain assets which net against liabilities.

Annex IV – Capital instruments’ main features

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

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

Capital instruments’ main features template

CET1		
1	Issuer	Sainsbury’s Bank plc
2	Unique identifier (e.g. CUSIP, ISN or Bloomberg identifier for private placement)	Private placement
3	Governing law(s) of the instrument	English Law
Regulatory Treatment		
4	Transitional CRR rules	CET1
5	Post-transitional CRR rules	CET1
6	Eligible at solo/(sub-)consolidated/ solo & (sub-)consolidated	Consolidated
7	Instrument type (types to be specified by each jurisdiction)	Common Equity
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	£565.75m
9	Nominal amount of instrument	£1
9a	Issue price	£1
9b	Redemption price	Not applicable
10	Accounting classification	Shareholders’ equity
11	Original date of issuance	55- ‘A’ class 12 November 1996 45- ‘B’ class 12 November 1996 8,249,945- ‘A’ class 5 February 1997 6,749,955- ‘B’ class 5 February 1997 27,500,000- ‘A’ class 29 April 1997 22,500,000- ‘B’ class 29 April 1997 5,500,000- ‘A’ class 7 November 1997 4,500,000- ‘B’ class 7 November 1997 13,750,000- ‘A’ class 30 January 1998 11,250,000- ‘B’ class 30 January 1998 5,500,000- ‘A’ class 26 August 1998 4,500,000- ‘B’ class 26 August 1998 5,500,000- ‘A’ class 25 February 1999 4,500,000- ‘B’ class 25 February 1999 2,750,000- ‘A’ class 4 February 2000 2,250,000- ‘B’ class 4 February 2000 2,750,000- ‘A’ class 28 February 2000 2,250,000- ‘B’ class 28 February 2000 5,500,000- ‘A’ class 13 October 2003 4,500,000- ‘B’ class 13 October 2003 (7,000,000- ‘A’ class reclassification to ‘B’ class on 8 February 2007) 10,000,000- ‘A’ class 10 September 2007 10,000,000- ‘B’ class 10 September 2007 5,000,000- ‘A’ class 12 November 2007 5,000,000- ‘B’ class 12 November 2007 (85,000,000- ‘A’ class and 85,000,000 ‘B’ class reclassification to 170,000,000 ‘Ordinary’ class on 3 February 2014) 20,000,000 ‘Ord’ Class 7 February 2014 50,000,000 ‘Ord’ Class 28 February 2014 20,000,000 ‘Ord’ Class 22 July 2014 20,000,000 ‘Ord’ Class 29 September 2014 18,750,000 ‘Ord’ Class 18 December 2014 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
12	Perpetual or dated	Perpetual
13	Original maturity date	Not applicable
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	Not applicable
16	Subsequent call dates, if applicable	Not applicable
Coupons/dividends		
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	Not applicable
19	Existence of a dividend stopper	No
20a	Fully discretionary, partial discretionary or mandatory (in terms of timing)	Fully discretionary

CET1		
20b	Fully discretionary, partial discretionary or mandatory (in terms of amount)	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Non-cumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	Not applicable
25	If convertible, fully or partially	Not applicable
26	If convertible, conversion rate	Not applicable
27	If convertible, mandatory or optional conversion	Not applicable
28	If convertible, specify instrument type convertible into	Not applicable
29	If convertible, specify issuer of instrument it converts into	Not applicable
30	Write-down features	No
31	If write-down, write-down trigger(s)	Not applicable
32	If write-down, full or partial	Not applicable
33	If write-down, permanent or temporary	Not applicable
34	If temporary write-down, description of write-up mechanism	Not applicable
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	All liabilities
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	Not applicable

Annex V – Transitional own funds disclosure

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

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

Common Equity Tier 1 capital: instruments and reserves		(A) Amount at disclosure date (£'000)	(B) Regulation (EU) No 575/2013 Article reference	(C) Amounts subject to pre-regulation (EU) No 575/2013 treatment or prescribed residual amount of regulation (EU) No 575/2013
1	Capital instruments and the related share premium accounts	565,750		–
	of which: ordinary share capital	565,750	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	147,725	26 (1) (c)	–
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	1,088	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**	**714,563**		**–**
7	Additional value adjustments (negative amount)	(397)	34, 105	
8	Intangible assets (net of related tax liability) (negative amount)	(146,847)	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)	–

Common Equity Tier 1 capital: instruments and reserves		(A) Amount at disclosure date (£'000)	(B) Regulation (EU) No 575/2013 Article reference	(C) Amounts subject to pre-regulation (EU) No 575/2013 treatment or prescribed residual amount of regulation (EU) No 575/2013
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)	–
26	Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment	–		–
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 to 468	–		–
	of which:...filter for unrealised loss 1	–	467	–
	of which:...filter for unrealised loss 2	–	467	–
	of which:...filter for unrealised gain 1	–	468	–
	of which:...filter for unrealised gain 2	–	468	–
26b	Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre CRR	–	481	–
	of which:...	–	481	–
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	–	36 (1) (j)	–
28	**Total regulatory adjustments to Common equity Tier 1 (CET1)**	**(147,244)**		**–**
29	**Common Equity Tier 1 (CET1) capital**	**567,319**		**–**
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)	–		–

Common Equity Tier 1 capital: instruments and reserves		(A) Amount at disclosure date (£'000)	(B) Regulation (EU) No 575/2013 Article reference	(C) Amounts subject to pre-regulation (EU) No 575/2013 treatment or prescribed residual amount of regulation (EU) No 575/2013
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)**	**567,319**		**–**
46	Capital instruments and the related share premium accounts	–	62, 63	–
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2	–	486 (4)	–
	Public sector capital injections grandfathered until 1 January 2018	–	483 (4)	–
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34), issued by subsidiaries and held by third parties	–	87, 88, 480	–
49	of which: instruments issued by subsidiaries subject to phase out	–	486 (4)	–
50	Credit risk adjustments	–	62 (c) & (d)	–
51	**Tier 2 (T2) capital before regulatory adjustments**	**–**		**–**
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	–	63 b) (i), 66 (a), 67, 477 (2)	–
53	Holdings of T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	–	66 (b), 68, 477 (3)	–
54	Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	–	66 (c), 69, 70, 79, 477 (4)	–
54a	of which: new holdings not subject to transitional arrangements	–		–
54b	of which: holdings existing before 1 January 2013 and subject to transitional arrangements	–		–
55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	–	66 (d), 69, 79, 477(4)	–
56	Regulatory adjustments applied to Tier 2 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	–		–

	Common Equity Tier 1 capital: instruments and reserves	(A) Amount at disclosure date (£'000)	(B) Regulation (EU) No 575/2013 Article reference	(C) Amounts subject to pre-regulation (EU) No 575/2013 treatment or prescribed residual amount of regulation (EU) No 575/2013
56a	Residual amounts deducted from Tier 2 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to Article 472 of Regulation (EU) 575/2013	–	472, 472 (3) (a), 472 (4), 472 (6), 472 (8) (a), 472 (9), 472 (10) (a), 472 (11) (a)	–
	of which: items to be detailed line by line, e.g. material net interim losses, intangibles, shortfall of provisions to expected losses etc.	–		–
56b	Residual amounts deducted from Tier 2 capital with regard to deduction from Additional Tier 1 capital during the transitional period pursuant to Article 475 of Regulation (EU) No 575/2013	–	475, 475 (2) a), 475 (3), 475 (4) (a)	–
	of which: items to be detailed line by line, e.g. reciprocal cross holdings in AT1 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc.	–		–
56c	Amount to be deducted from or added to Tier 2 capital with regard to additional filters and deductions required pre CRR	–	467, 468, 481	–
	of which:...possible filter for unrealised losses	–	467	–
	of which:...possible filter for unrealised gains	–	468	–
	of which:...	–	481	–
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**–**		**–**
58	**Tier 2 (T2) capital 2**	**–**		**–**
59	**Total capital (TC = T1+T2)**	**567,319**		**–**
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**	**4,271,718**		
61	Common Equity Tier 1 (as a percentage of risk exposure amount)	13.28%	92 (2) (a), 465	
62	Tier 1 (as a percentage of risk exposure amount)	13.28%	92 (2) (b), 465	
63	Total capital (as a percentage of risk exposure amount)	13.28%	92 (2) (c)	
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)	1.25%	CRD 128, 129, 130	
65	of which: capital conservation buffer requirement	1.25%		
66	of which: countercyclical buffer requirement	–		
67	of which: systemic risk buffer requirement	–		
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	–	CRD 131	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	5.28%	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)	

Common Equity Tier 1 capital: instruments and reserves		(A) Amount at disclosure date (£'000)	(B) Regulation (EU) No 575/2013 Article reference	(C) Amounts subject to pre-regulation (EU) No 575/2013 treatment or prescribed residual amount of regulation (EU) No 575/2013
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)	4,222	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	53,396	62	
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	–	62	
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings based approach	–	62	
80	Current cap on CET1 instruments subject to phase out arrangements	–	484 (3), 486 (2) & (5)	
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	–	484 (3), 486 (2) & (5)	
82	Current cap on AT1 instruments subject to phase out arrangements	–	484 (4), 486 (3) & (5)	
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	–	484 (4), 486 (3) & (5)	
84	Current cap on T2 instruments subject to phase out arrangements	–	484 (5), 486 (4) & (5)	
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	–	484 (5), 486 (4) & (5)	

Annex VI – Leverage ratio

CRR Leverage Ratio – Disclosure Template

Reference date: 28 February 2017
Entity name: Sainsbury's Bank plc
Level of application: Consolidated

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)	5,835,050
2	Asset amounts deducted in determining Tier 1 capital	-147,244
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	5,687,806
Derivative exposures		
4	Replacement cost associated with derivatives transactions (i.e. net of eligible cash variation margin)	-568
5	Add-on amounts for PFE associated with derivatives transactions (mark-to-market method)	8,862
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	-18,859
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)**	-10,565
SFT exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	259,679
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)	259,679
Off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	6,427,944
18	Adjustments for conversion to credit equivalent amounts	5,775,344
19	**Other off-balance sheet exposures (sum of lines 17 to 18)**	652,600
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**	567,319
21	**Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU19a and EU19b)**	6,589,520
Leverage ratio		
22	End of quarter leverage ratio	8.61%
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	–

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:	5,835,050
EU-2	Trading book exposures	–
EU-3	Banking book exposures, of which:	5,835,050
EU-4	Covered bonds	100,623
EU-5	Exposures treated as sovereigns	377,942
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	95,328
EU-7	Institutions	28,711
EU-8	Secured by mortgages of immovable properties	36,242
EU-9	Retail exposures	4,530,116
EU-10	Corporate	34,647
EU-11	Exposures in default	54,823
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	576,618

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

Row		Column
1	Description of the processes used to manage the risk of excessive leverage	The capital position and leverage ratio are monitored by ALCO on a regular basis.
2	Description of the factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers	The leverage ratio is primarily affected by the level of Tier 1 capital, namely share capital and reserves including intangible asset and current period loss deductions. The levels of on balance sheet assets (mainly personal loans, 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 – Assets

		Carrying amount of encumbered assets (£'000)	Fair value of encumbered assets (£'000)	Carrying amount of unencumbered assets (£'000)	Fair value of unencumbered assets (£'000)
		010	040	060	090
010	Assets of the reporting institution	1,020,036		4,314,822	
020	Loans on demand	19,945		206,270	
030	Equity instruments	0	–	363	363
040	Debt securities	27,542	27,542	562,541	562,941
100	Loans and advances other than loans on demand	967,267		3,323,907	
120	Other assets	5,282		221,741	

Template B is excluded per PRA guidance.

Template C – Sources of encumbrance

		Matching liabilities, contingent liabilities or securities lent (£'000)	Assets collateral received and own debt securities issued other than covered bonds and ABSs encumbered (£'000)
		010	030
010	Carrying amount of selected financial liabilities	629,088	1,018,787
020	Derivatives	19,023	35,357
040	Deposits	303,783	593,199
090	Debt securities issued	301,000	384,949
120	Other sources of encumbrance	5,282	5,282

Templates A and C reflect 12 month rolling averages.

D – Information on importance of encumbrance

The main sources of encumbrance in the Bank relate to margin requirements for derivative transactions and collateral relating to secured funding transactions. Cash collateral is advanced and received as variation margin on derivatives transactions, 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 FLS, TFS, DWF and ILTR. The personal loans used to secure £312m 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

Row		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	5,285,733	–	–	–	71,114	–	290,204	–	1,028	291,332	100	0
020	Total	5,285,733	–	–	–	71,114	–	290,204	–	1,028	291,232	100	0

Table 2 – Amount of institution-specific countercyclical capital buffer

Row		Column
		010
010	Total risk exposure amount (£'000)	5,356,847
020	Institution – specific countercyclical buffer rate (%)	0%
030	Institution – specific countercyclical buffer requirement (£'000)	–