Sainsbury's Bank plc

Pillar 3 Disclosures
for the year ended 28 February 2021

COMPANY NUMBER: 3279730

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1 Overview

1.1 Background

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

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

The aim of Pillar 3 is to encourage market discipline by developing a set of disclosure requirements which will allow market participants to assess key pieces of information on a firm's capital, risk exposures, risk assessment processes and remuneration approach.

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

This document represents the Pillar 3 Disclosures by Sainsbury's Bank plc (the Bank).

1.2 Disclosure policy

The information has been prepared purely for the purposes of: explaining the basis on which the Bank has prepared and disclosed certain capital requirements; providing information about the management of risks relating to those requirements; and presenting remuneration information as required by CRD IV and the Prudential Regulation Authority (PRA) Rulebook. This report has not been prepared for any other purpose. It therefore does not constitute any form of financial statement of the Bank nor does it constitute any form of contemporary or forward-looking record or opinion of the Bank.

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

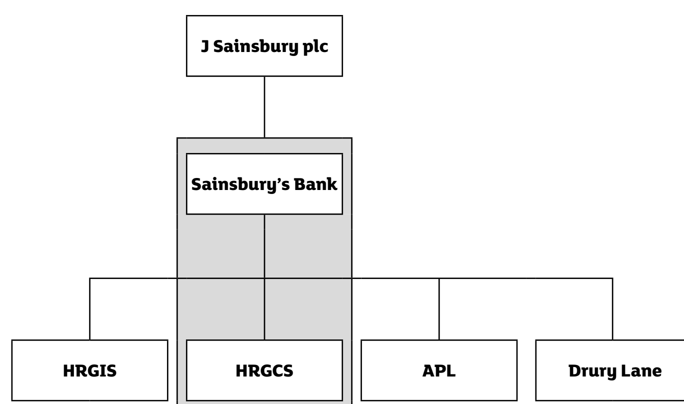
1.3 Scope of application

These disclosures are presented in respect of the year to 28 February 2021 for the Bank's prudential consolidated position under CRD IV.

These disclosures are based on the Bank's ownership as at 28 February 2021. 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 11 November 2020, the Bank entered a new securitisation programme which involved the sale of personal loan assets into a UK SPE (Drury Lane Funding 2020-1 plc) (see section 6). This subsidiary is not included in the prudential consolidation.

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



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

As the Bank has adopted the Standardised Approach to the calculation of credit and operational risk capital requirements, no Internal Ratings Based or Advanced Measurement Approach disclosures are included.

The Bank calculates its capital requirements for market risk under the Standardised Approach in line with requirements in the CRR. The Bank is not exposed to position risk or commodities risk. The Bank has no capital requirement for FX risk as the FX balances are below the threshold trigger which would require own funds to be held.

1.4 Frequency

The Bank's Pillar 3 Disclosures are published on an annual basis in a reporting cycle aligned with the publication of the Bank's Annual Report and Financial Statements.

This frequency will be reviewed if there is a material change in the approaches used for the calculation of capital, characteristics of the business or regulatory requirements.

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

1.5 Medium and location for publication

The Pillar 3 Disclosures and Annual Report and Financial Statements will be published on the J Sainsbury plc corporate website: www.about.sainsburys.co.uk/about-us/our-management#sainsburys-bank.

1.6 Verification

These Disclosures have been reviewed and recommended for approval by the Bank's Audit Committee. The Disclosures are not subject to audit. However, certain information has been extracted from the Annual Report and Financial Statements of the Bank and HRGCS, these financial statements having been subject to independent external audit.

1.7 Non-material, proprietary or confidential information

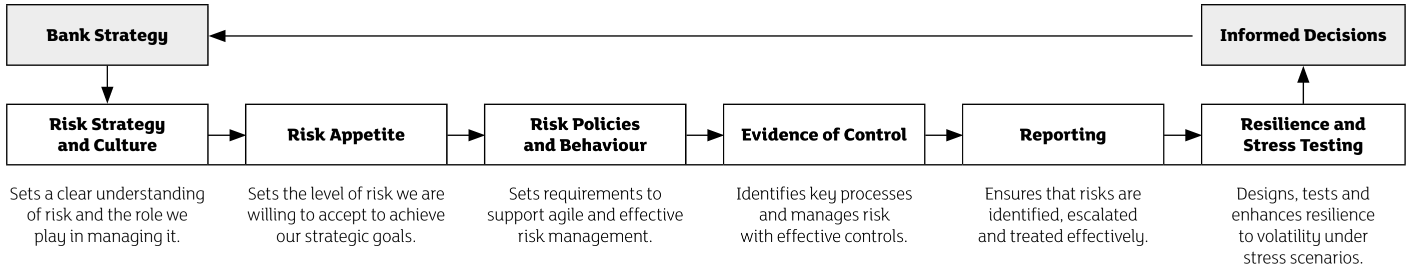
The Bank does not seek any exemption from disclosure on the basis of proprietary or confidential information.

2 Risk management objectives and policies

2.1 Risk management overview

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

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



Risk strategy and culture

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

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

Risk appetite

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

- A 'high-level' Risk Appetite Statement that provides a concise set of key Bank-wide targets and limits, with a balance of current, forward-looking and stress-based metrics for financial and non-financial risks.
- 'Directional' risk appetite limits for each of the Bank's key risk types (e.g. retail credit risk, operational risk). These Directional limits are designed to provide early indications of changes in the operating environment and an outlook on whether we remain on-track to meet our 'high-level' risk appetite targets.

Performance against both the 'high-level' Risk Appetite and 'Directional' measures are monitored and reported to our Executive Risk Committee (ERC) on a monthly basis, and at each Board Risk Committee (BRC). Additionally, escalation processes are embedded to notify Senior Executives and Board members of any risk appetite measure operating outside of approved thresholds.

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

Risk policies and behaviours

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

Evidence of control

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

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

We continually look to improve our controls in line with industry best practice and the environment in which we operate.

Reporting

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

Resilience plans and stress testing

Financial and Operational Resilience are key areas of focus. Our capital and liquidity adequacy are assessed on (at least) an annual basis through the ICAAP and ILAAP. Business recovery plans for severe incidents are reviewed on a regular basis, while our Recovery and Resolution Plans review our playbooks and recovery capacity in response to extreme but plausible threats to our viability.

Risk management during COVID-19

The effectiveness of our resilience planning was evident in our response to the COVID-19 pandemic. Our crisis management team (CMT) was formally invoked in March and daily crisis management activity remained in place until October. Reporting packs were created using both existing and new MI to ensure focus on the most important issues as the situation evolved. The CMT was re-implemented in January due to the increased COVID-19 infection rates across the UK and the national lockdown and remains alert to any further changing circumstances that may impact the Bank.

2.2 Risk management structure

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

— **First Line.** Primary responsibility for the identification, management, monitoring and control of risks rests with our commercial and operational teams. The First Line teams, as subject matter experts, own the processes and controls used to manage risks within risk appetite and are responsible for the design, operation and testing of the key controls.

— **Second Line.** The independent Risk Management Division is responsible for providing risk frameworks, policies, guidance and oversight within which the First Line can manage its risks.

— **Third Line.** Our Internal Audit Division provides independent assurance on the effectiveness of risk management and internal control processes in mitigating and reporting risks.

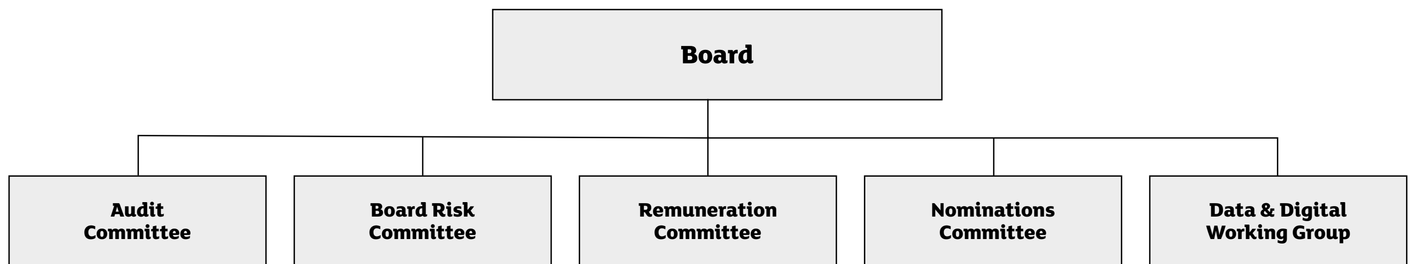
2.3 Governance structure

The diagram below shows the governance structure in place for Sainsbury's Bank as at 28 February 2021:

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

— The Customer Conduct Committee and the Product and Pricing Committees were merged with the Customer Divisional Risk Committee to form the Divisional Risk & Conduct Committee shown in the diagram below.

— The Operational, Conduct and Financial crime risk Committee was stood down as its purpose and responsibilities were deemed to be adequately covered elsewhere, outside of this particular committee. The MI and reports that were previously tabled at this committee are now all tabled at the respective Divisional Risk Committees, with a clear line of sight from there into the aggregated report at the Executive Risk Committee, including the divisional and Top Risk profiles.



Chief Executive Officer

Executive Committee

Executive Risk Committee

Chief Financial Officer
- Divisional Risk Committee
- Finance Committee
- Supply Chain Oversight Committee
- Asset & Liability Committee

Customer Director – Bank
- Divisional Risk & Conduct Committee

Chief Risk Officer
- Divisional Risk Committee
- Retail Credit Risk Committee

Chief Operating Officer
- Divisional Risk Committee

Customer Director – AFS
- AFS Conduct & Commercial Committee

Conduct & Compliance Director

HR Director
- Divisional Risk Committee

Internal Audit Director
- Divisional Risk Committee

2.3.1 Board-level governance

The Board is the key governance body, holding overall accountability for the decisions made and outcomes achieved by the Bank, subject to specific reserved matters that require the consent of J Sainsbury plc. The Board meets at least eight times a year and is comprised of an independent Non-Executive Chair, other Independent Non-Executive Directors, Non-Executive Directors from J Sainsbury plc and key Executive members from the Bank. Further details on the Board composition may be found in section 2.6.

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

- **Audit Committee.** The Audit Committee's key responsibility is to advise the Board on the Bank's financial statements, including systems and controls and related policy issues together with relationships with external auditors. The Audit Committee also reviews and challenges where necessary management's response to any major external or internal audit recommendations. The Committee is also responsible for reviewing and approving the internal audit plan and budget, and for ensuring that the function is adequately resourced. The Audit Committee meets at least four times a year. At least once a year the Audit Committee will meet without Executive Management being present. Additionally, the Audit Committee will meet with the External Auditors and Sainsbury's Bank Director of Internal Audit.
- **Nominations Committee.** The Nominations Committee is responsible for reviewing the structure, size and composition of the Board. The Committee is also responsible for the succession planning of the Board and the Executive Management Team and for ensuring a formal, rigorous and transparent process for recommending appointments to the Board to the Bank's shareholders. The Bank recognises the benefits of achieving a diverse Board and Executive Management Team to reflect the environment in which it operates. The Nominations Committee will meet at least once per year, with additional meetings convened as required.
- **Remuneration Committee.** The role of the Remuneration Committee (RemCo) is to determine and agree with the Board the broad policy for remuneration and for compliance with the Remuneration Code (the Code) to the extent that the provisions apply to the Bank. RemCo is responsible for recommending, monitoring and noting the level and structure of remuneration for senior management (categorised as 'Code Staff' for the purposes of the Code) and senior risk management and compliance colleagues and it continually reviews and assesses the impact of remuneration policies on the risk profile of the Bank and employee behaviour. RemCo also has oversight over appointment and severance terms for relevant employees. The Remuneration Committee meets at least three times per year.
- **Board Risk Committee.** The Board Risk Committee (BRC) provides the Board with a forward-looking view to anticipate future risks together with the monitoring and oversight over existing risks within the risk appetite set by the Board. It is responsible for reviewing and reporting its conclusions to the Board on the Bank's risk appetite and the Bank's risk management framework. The Board Risk Committee meets at least five times a year.

2.3.2 Executive-level governance

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

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

CEO Executive Committee:

- **Executive Committee (ExCo).** The role of the committee is to advise and assist the CEO in overseeing the Bank's activities, performance and making significant decisions relating to the Executive Management of the Bank. ExCo meets on a monthly basis.

Chief Risk Officer (CRO) Executive Committees:

- **Executive Risk Committee (ERC).** The ERC is responsible for ensuring that the Enterprise Wide Risk Management Framework (EWRMF) is effective in ensuring that risks are adequately and consistently managed within risk appetite. In doing so the ERC ensures that appropriate policies and methodologies are in place to manage the Bank's Primary Risk types. The ERC meets on a monthly basis.
- **Retail Credit Risk Committee (RCRC).** The RCRC is responsible for monitoring the performance of the retail lending book, ensuring there is an effective credit risk management framework and that the Bank is operating within its credit risk appetite. The RCRC meets on a monthly basis.

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. Its main areas of responsibility are market risk, wholesale credit risk, interest rate risk, liquidity & funding risk and capital adequacy. ALCo meets on a monthly basis.
- **Finance Committee.** The role of the committee is to ensure there are effective levels of governance in place across the Bank's finance function so that significant decisions are fully informed, transparent, recorded and reported and in line with risk appetite and relevant governance structures. The Finance Committee meets on a monthly basis.
- **Supply Chain Oversight Committee.** The role of the committee is to ensure there is an effective Bank-wide supply chain performance and risk management framework that manages outsourcing, oversees delivery and makes decisions to ensure the Bank is able to robustly manage and oversee its suppliers. The Supply Chain Committee meets six times a year.

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 DRC is to ensure the effectiveness of the EWRMF within the Division, so that risks are effectively and consistently managed within the overall approved risk appetite. Each DRC provides input on material risks which may affect the Group to the Executive Risk Committee.

2.4 Board selection criteria

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

2.5 Board diversity

We are committed to promoting a diverse and inclusive workplace at all levels, reflective of the communities in which we do business. Our diversity and inclusion vision aligns with that of our parent J Sainsbury plc whose aim is to be 'the most inclusive retailer'. We will achieve this aspiration by recruiting, retaining and developing diverse and talented people and creating an inclusive environment where everyone can be the best they can be and where diverse views are welcomed. The Nominations Committee is responsible for ensuring there is an appropriate balance of skills and experience across the Board.

2.6 Number of directorships held by members of the Board

Name	Position	Directorships Executive	Directorships Non-Executive
Lesley Jones[1]	Chair (Independent Non-Executive)	–	3
Peter Clarke	Senior Independent Non-Executive	–	4
Michael Ross	Independent Non-Executive	1	2
Carole Butler	Independent Non-Executive	–	4
Guy Thomas	Independent Non-Executive	–	3
Clodagh Moriarty	Non-Executive	1	1
James Brown	Chief Executive Officer	1	–
Michael Larkin	Chief Financial Officer	1	–

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

1 Lesley Jones was appointed as Chair of the Bank on 29 January 2021.

2.7 Adequacy of risk management arrangements

The Board of Directors is ultimately responsible for the risk management framework of the Bank. The Board provides an annual declaration on the adequacy of the Bank's risk management arrangements. This is to provide assurance that the risk management systems put in place are adequate with regard to the Bank's profile and strategy. This declaration is included in Annex I.

2.8 Risk statement

The Bank's risk statement represents the articulation of the Bank's risk appetite, is approved by the Board and defines the level of risk that the Bank is prepared to accept to achieve its strategic objectives. The Bank operates within appetite tolerances and regularly reports against performance to the Board. The risk statement is included in Annex II.

2.9 Our risk exposure

Key uncertainties

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

- **Strategic.** Reflects both our business model and the markets in which we operate. For example, regular consideration is given to changes in the competitive market resulting from new entrants or mergers and acquisitions (M&A) activity, and any resultant impact on margins.
- **Operational.** Reflects changes in technology, the impact of internal processes or emerging external best practices. For example, we continually review the evolving nature of cyber-crime and its impact on the Bank in terms of financial losses and operational costs to protect our customers.
- **Political and Economic.** Reflects the impact of macroeconomic conditions and government policy on our markets. For example, we continue to reflect the expected impact on UK market conditions arising from the COVID-19 pandemic and the impact of changes in interest rates, the employment market or house prices on the demand for our products.
- **Regulatory and Conduct.** Reflects continued developments within the financial services sector including PRA and FCA consultations and changes to Basel regulations. For example, the implementation of payment holidays as a result of the COVID-19 pandemic.

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

COVID-19 has had a significant impact over the last year across all of the four themes noted above. The Bank responded initially from an operational perspective and deployed its business resilience plans and governance processes to ensure that both customers and colleagues were supported. The Bank also focused on managing its credit strategies as the pandemic evolved over the year and extensive support was given to the launch of Emergency Payment Freezes to assist customers in managing their finances. Whilst the bad debt charge increased due to the impact of COVID-19, overall the Bank's portfolios remained robust and continued focus remains on detecting any signs of emerging deterioration. Our capital and liquidity ratios remain strong and we continue to assess possible sensitivities and stress outcomes to our plans to ensure we remain resilient.

Climate change is an emerging threat that potentially exposes the Bank to direct and indirect financial risks. In line with PRA guidance (SS3/19), we have developed a strategy to identify, assess and manage our exposure across the key areas of governance, risk management, scenario analysis and disclosure. The Bank remains on track to embed its approach to managing the financial risks from climate change by the end of 2021. A framework has been established to ensure appropriate visibility of the risks arising from climate change and our ICAAP includes an assessment of the impact of financial risks from climate change, including the impact of extreme weather on our ability to serve our customers.

2.10 Interest rate risk

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

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

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

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

As at 28 February 2021 earnings at risk (change in net interest income) for changes in interest rates of +/-100 basis points movements in rates are as follows:

Change in net interest income	2021 £m	2020 £m
+/- 100 basis points	**(14)/5**	(17)/19

The above analysis assumes that interest rates would floor at 0% and would not result in negative rates becoming applicable.

As at 28 February 2021, the Capital at Risk split by the five risk components is as follows:

Capital at Risk	2021 £m	2020 £m
Repricing Risk	**(6)**	(17)
Basis Risk	**–**	–
Prepayment Risk	**(1)**	(2)
Credit Spread Risk	**(2)**	(3)
MTM Risk	**–**	(4)
Total	**(9)**	(26)

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. The Bank also has exposures in US Dollar for the cash collateral pledged to MasterCard. Foreign exchange risk is currently mitigated through forward rate transactions. However it is noted that during the COVID-19 pandemic Travel Money Bureaux were closed and hence the exposure to foreign exchange risk is reduced. The market risk capital requirement as at 28 February 2021 was £nil (2020: £nil).

3 Capital resources

The Bank is required to hold own funds (capital resources) in accordance with the CRR, which sets out the quantity and quality of own funds necessary to meet requirements (Pillar 1). The Bank is also subject to additional capital requirements reflecting risks not captured by Pillar 1 which is set by the PRA (Pillar 2). In implementing current capital requirements, the PRA requires the Bank to maintain a prescribed level of capital with reference to risk weighted assets and the perceived risk management framework.

At 28 February 2021 and throughout the period, the Bank complied with the capital requirements that were in force as set out by the PRA.

The Bank manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its activities.

The Bank's regulatory capital currently consists of Common Equity Tier 1 (CET1) capital, representing ordinary share capital and reserves with regulatory deductions and Tier 2 capital representing subordinated debt. The Bank issued £175 million of fixed rate subordinated debt on 27 November 2017 with a maturity of ten years. Of this, £120 million was eligible as Tier 2 capital at 28 February 2021 (Feb 2020: £167 million). Annex IV provides further details. The Bank has no Additional Tier 1 (AT1) capital.

The table in section 3.1 shows the breakdown of total available capital resources of the Bank on a consolidated basis as at 28 February 2021. The own funds disclosure is shown in Annex V.

3.1 Total capital resources

Capital resources are presented below:

	28 Feb 2021 £m	29 Feb 2020 £m
Common Equity Tier 1 (CET1) capital:		
Ordinary share capital	**901**	901
Retained earnings	**(47)**	92
Accumulated other comprehensive income	**3**	1
CET1 capital before regulatory adjustments	**857**	994
Regulatory adjustments to CET1 capital:		
Intangible assets	**(130)**	(237)
Transitional adjustment	**65**	66
Additional value adjustments	**(1)**	(1)
Total regulatory adjustments to CET1 capital	**(66)**	(172)
CET1 capital	**791**	822
Tier 1 capital	**791**	822
Tier 2 capital:		
Loan notes (listed)	**120**	167
Tier 2 capital	**120**	167
Total capital	**911**	989

	28 Feb 2021	29 Feb 2020
Risk weighted assets (£m)	**4,503**	5,816
CET1 capital ratio (%)	**17.6**	14.1
Total capital ratio (%)	**20.2**	17.0

3.2 Movement in CET1 capital

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

	£m
CET1 capital at 29 February 2020	**822**
Loss recognised in retained earnings	**(142)**
Share based payments	**3**
Transitional adjustment	**(1)**
Movement in additional value adjustment	**–**
Movement in other comprehensive income	**2**
Movement in intangible assets deduction[1]	**107**
CET1 capital at 28 February 2021	**791**

1 Further details on change in treatment of software intangibles in the year found in section 3.7.

3.3 Share capital

	Total shares £m
Allotted, called up and fully paid:	
At 1 March 2020	**901**
Issued ordinary shares	**–**
At 28 February 2021	**901**
At 1 March 2019	866
Issued ordinary shares	35
At 29 February 2020	901

During the year the Bank issued £nil (2020: £35 million) ordinary shares of £1 each at par to J Sainsbury plc.

3.4 Own funds balance sheet reconciliation

Article 437 (1) of the CRR requires a reconciliation of own funds to audited financial positions in the Annual Report and Financial Statements. This should include all items that are components of, or are deducted from, regulatory own funds.

	£m
Shareholders' funds per Bank statutory financial statements	**849**
Consolidation of HRGCS	**8**
Subordinated debt included as Tier 2 capital	**120**
Regulatory adjustments to capital	**(66)**
Own funds at 28 February 2021	**911**

A reconciliation of the statutory balance sheet to regulatory exposures as at 28 February 2021 is included in Annex III.

3.5 Main features of capital instruments

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

3.6 Transitional capital benefit

From 1 March 2018, the Bank and HRGCS account for ECL under IFRS 9. Moving from an incurred loss model (under IAS 39) to IFRS 9 ECL resulted in increased bad debt provisions of £101 million across the prudential group which were accounted for directly through profit and loss reserves. Including the effects of taxation, the net Day 1 charge to P&L reserves at 1 March 2018 was £84 million.

The Bank has elected to apply the CRR Article 473a transitional approach to IFRS 9 and therefore recognises transitional adjustments within own funds (CET1 capital) and risk-weighted assets. The transitional adjustment reflects the after tax impact of increased provisioning under IFRS 9 at Day 1 plus any subsequent increases in non-defaulted ECL from Day 1 to 29 February 2020. This adjustment is amortised over five years – 70% of the transitional amount is added back to regulatory capital in the 2020/21 reporting period. In addition to the adjustment to own funds, transitional adjustments are also made to risk-weighted assets. In the year there was a clarification to Article 473a to simplify the calculation of risk-weighted assets replacing the requirement to rescale specific credit risk exposures with a standard risk weight of 100%.

On 3 April 2020, the Basel Committee on Banking Supervision (BCBS) published "Measures to reflect the impact of COVID-19". This paper introduces an alternative transitional model to relieve COVID-19 related ECL increases within regulatory capital over the next two years. This new approach introduces a new COVID-19 specific element including increases in non-defaulted ECL from 1 March 2020 to the reporting period. This new adjustment is also amortised over five years, where 100% of the transitional amount is added back to regulatory capital in the 2020/21 reporting period. In line with the above change to Article 473a, these COVID-19 related credit risk exposure adjustments included in CET1 are also subject to a standard risk weight of 100%. This has resulted in a total regulatory capital add back of £65 million and a transitional adjustment of £46 million made to risk-weighted assets in the 2020/21 reporting period.

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

	28 February 2021 £m
Available capital	
CET1 capital	**791**
CET1 capital as if IFRS 9 transitional arrangements had not been applied	**726**
Tier 1 capital	**791**
Tier 1 capital as if IFRS 9 transitional arrangements had not been applied	**726**
Total capital	**911**
Total capital as if IFRS 9 transitional arrangements had not been applied	**845**
Risk-weighted assets	
Total risk-weighted assets	**4,503**
Total risk-weighted assets as if IFRS 9 transitional arrangements had not been applied	**4,457**
Capital ratios	
CET1 (as a percentage of risk exposure amount)	**17.6%**
CET1 as if IFRS 9 transitional arrangements had not been applied	**16.3%**
Tier 1	**17.6%**
Tier 1 as if IFRS 9 transitional arrangements had not been applied	**16.3%**
Total capital	**20.2%**
Total capital as if IFRS 9 transitional arrangements had not been applied	**19.0%**
Leverage ratio	
Leverage ratio total exposure measure	**8,369**
Leverage ratio	**9.5%**
Leverage ratio as if IFRS 9 transitional arrangements had not been applied	**8.7%**

3.7 Capital with deduction of software intangibles

In December 2020 the EBA accelerated the implementation of the CRR II treatment of intangible assets. This change allows part of the software intangibles to be risk weighted rather than be fully deducted from capital. Application of this amendment increased the Bank's CET1 ratio by 46 bps and increased leverage by 27 bps. The PRA are currently consulting on reversing this amendment. If they proceed with their proposal then reinstatement to the original requirement of fully deducting these assets will take effect in 2021.

4 Compliance with CRD IV and the overall Pillar 2 rule

4.1 Assessment of the adequacy of internal capital

In order to protect the solvency of the Bank, internal capital is held to provide a cushion for unexpected losses. The extent of the capital held is determined by the regulator's guidance on capital adequacy, supplemented by the Bank's prudent approach which requires that a buffer in excess of the regulatory requirement is maintained at all times. The Bank has adopted the Standardised Approach to the calculation of credit risk and operational risk. The operational risk requirement is calculated using the retail banking factor (12%) and the three-year average of the Bank's total income.

The Bank determined that the benefits of implementing the Internal Ratings Based approach for credit risk and the Advanced Measurement Approach for operational risk to calculate risk weightings are currently outweighed by the costs of complying with their requirements. This is subject to regular review. The Bank undertakes an annual ICAAP to assess the risks to the adequacy of its capital, how it mitigates these risks and how much capital it requires to hold currently and in the future. Capital adequacy is reviewed by the Board, and ALCo, and is reported to the PRA on a quarterly basis. The Bank holds capital well in excess of the capital requirement calculated in the ICAAP.

4.2 Minimum capital requirement

The Bank calculates the Pillar 1 capital requirement for credit and operational risk under the Standardised Approach. The following table shows the Bank's minimum capital requirement for each of the risk exposure classes. The minimum capital requirement is calculated as 8% of the risk weighted exposures. The movement in risk-weighted assets from 29 February 2020 to 28 February 2021 mainly represents movements in the volumes of the exposures. Net exposures are also impacted by increased IFRS 9 ECL, offset by a 'scalar' adjustment reflecting the transitional adjustment applied to own funds.

The Total Capital Requirement (TCR) is the aggregate of the Pillar 1 (February 2021: £360 million; February 2020: £465 million) and current Pillar 2A (February 2021: £119 million; February 2020: £202 million) capital requirements. Therefore, the TCR is 10.6% at 28 February 2021 (29 February 2020: 11.5%).

Overview of RWAs

		Risk weighted assets £m		Minimum capital requirement £m
*		**28-Feb-21**	29-Feb-20	**28-Feb-21**
1	Credit risk (excluding CCR)	**3,850**	5,136	**306**
2	Of which standardised approach	**3,850**	5,136	**306**
6	CCR	**10**	–	**1**
7	Of which marked to market	**10**	–	**1**
14	Securitisation exposures in the banking book (after the cap)	**15**	16	**1**
18	Of which standardised approach	**15**	16	**1**
19	Market risk	**–**	–	**–**
20	Of which standardised approach	**–**	–	**–**
23	Operational risk	**607**	659	**49**
25	Of which standardised approach	**607**	659	**49**
27	Amounts below the thresholds for deduction (subject to 250% risk weight)	**21**	5	**3**
29	**Total risk**	**4,503**	5,816	**360**

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

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

At 28 February 2021	Minimum capital requirement £m	Risk weighted assets £m
Institutions	**2**	**22**
Corporates	**2**	**20**
Retail	**248**	**3,098**
Secured by mortgages on residential property	**34**	**431**
In default	**5**	**57**
Covered bonds	**1**	**13**
Securitisation positions	**1**	**15**
Other	**17**	**230**
Total credit/counterparty credit risk	**310**	**3,886**
Total operational risk	**49**	**607**
CVA risk	**1**	**10**
Total risk	**360**	**4,503**

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

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

The movement in risk-weighted assets from 29 February 2020 to 28 February 2021 mainly represents movements in the volumes of the exposures and regulatory adjustments such as transitional adjustments and treatment of software intangibles.

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

CVA capital charge

		Exposure value £m	RWA's £m
		28-Feb-21	**28-Feb-21**
4	All portfolios subject to the Standardised Method	**22.5**	**4.9**
5	Total subject to the CVA capital charge	**9.3**	**4.7**

Source: Template EU CCR2

5 Credit risk and dilution risk

5.1 Impairment losses on loans and advances

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

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

Ageing of past due exposures

28-Feb-21	Gross carrying values £m					
	≤ 30 days	> 30 days ≤ 60 days	> 60 days ≤ 90 days	> 90 days ≤ 180 days	> 180 days ≤ 1 year	> 1year
Loans	61	26	15	45	99	28

Source: Template EU CR1-D

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

5.2 Maximum exposure to credit risk

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

Total and average net amount of exposures

		2021	
		Net value of exposures at the end of the period £m	**Average net exposures over the period £m**
16	Central governments or central banks	**956**	**656**
19	Multilateral development banks	**271**	**291**
21	Institutions	**108**	**100**
22	Corporates	**20**	**26**
24	Retail	**4,133**	**4,665**
26	Secured by mortgages on immovable property	**1,231**	**1,507**
28	In default	**57**	**71**
30	Covered bonds	**126**	**172**
	Securitisation positions	**122**	**143**
34	Other	**429**	**419**
35	***Total standardised approach***	**7,453**	**8,050**
36	**Total credit risk exposure**	**7,453**	**8,050**

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

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

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

Standardised Approach to determination of credit risk

	Exposure classes	Risk weight £m										Total
		0%	2%	10%	15%	20%	35%	50%	75%	100%	250%	
1	Central governments or central banks	**956**	–	–	–	–	–	–	–	–	–	**956**
4	Multilateral development banks	**271**	–	–	–	–	–	–	–	–	–	**271**
6	Institutions	–	**13**	–	–	**86**	–	**9**	–	–	–	**108**
7	Corporates	–	–	–	–	–	–	–	–	**20**	–	**20**
8	Retail	–	–	–	–	–	–	–	**4,133**	–	–	**4,133**
9	Secured by mortgages on immovable property	–	–	–	–	–	**1,231**	–	–	–	–	**1,231**
10	Exposures in default	–	–	–	–	–	–	–	–	**57**	–	**57**
12	Covered bonds	–	–	**126**	–	–	–	–	–	–	–	**126**
	Securitisation	–	–	**72**	**50**	–	–	–	–	–	–	**122**
16	Other items	**91**	–	–	–	**151**	–	–	–	**179**	**8**	**429**
17	**Total**	**1,318**	**13**	**198**	**50**	**237**	**1,231**	**9**	**4,133**	**256**	**8**	**7,453**

Source: Template EU CR5

5.3 Risk concentrations

Concentrations arise when a number of customers or counterparties are engaged in similar business activities, or activities in the 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, counterparty or geographical location.

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

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

5.4 Geographical and counterparty sectors

Credit exposure

28 February 2021*	United Kingdom £m	Europe (excl. UK) £m	Other £m	Total £m
Central governments or central banks	**889**	**27**	**40**	**956**
Multilateral development banks	**75**	**79**	**117**	**271**
Institutions	**108**	–	–	**108**
Corporates	**20**	–	–	**20**
Retail	**4,133**	–	–	**4,133**
Secured by mortgages on immovable property	**1,231**	–	–	**1,231**
In default	**57**	–	–	**57**
Covered bonds	**110**	**16**	–	**126**
Securitisation positions	**72**	**50**	–	**122**
Other	**429**	–	–	**429**
Total credit risk exposure	**7,124**	**172**	**157**	**7,453**

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

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

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

5.5 Industry sector
Credit exposure by sector

	28 February 2021	Corporates £m	Government £m	Financial institutions £m	Retail £m	Other £m	Total £m
7	Central governments or central banks	**–**	**956**	**–**	**–**	**–**	**956**
10	Multilateral development banks	**–**	**–**	**271**	**–**	**–**	**271**
12	Institutions	**–**	**–**	**108**	**–**	**–**	**108**
13	Corporates	**20**	**–**	**–**	**–**	**–**	**20**
14	Retail	**–**	**–**	**–**	**4,133**	**–**	**4,133**
15	Secured by mortgages on immovable property	**–**	**–**	**–**	**1,231**	**–**	**1,231**
16	In default	**–**	**–**	**–**	**57**	**–**	**57**
18	Covered bonds	**–**	**–**	**126**	**–**	**–**	**126**
	Securitisation positions	**–**	**–**	**122**	**–**	**–**	**122**
22	Other	**–**	**–**	**–**	**–**	**429**	**429**
24	**Total credit risk exposure**	**20**	**956**	**627**	**5,421**	**429**	**7,453**

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

Source: Template EU CRB-D

5.6 Capital buffers

Credit institutions are required to hold capital conservation buffers and counter-cyclical capital buffers to ensure that sufficient capital is accumulated during periods of economic growth to absorb losses in stressed periods. As at 28 February 2021 the capital conservation buffer is 2.5% of RWAs. The Bank's institutional countercyclical buffer rate is shown below. The Bank is not currently classified as a 'global systemically important institution' (G-SII) or an 'other systemically important institution' (O-SII) and therefore has no systemic risk buffer. The Bank however is required to hold additional CET1 capital as set by the PRA following their decision to decrease the Pillar 2A buffer.

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 2021 was 0%. This rate reflects application of a 1% counter-cyclical buffer rate to Norwegian covered bonds, however the majority of exposures are UK based. The UK counter-cyclical rate was reduced to 0% in March 2020. The Bank of England have confirmed that an increase to the UK counter-cyclical rate would not be implemented until Q4 2022 at the earliest.

28 February 2021	Exposure £m	Risk weight £m	Countercyclical rate
United Kingdom	**6,052**	**3,855**	**0%**
Germany	**50**	**8**	**0%**
Norway	**16**	**2**	**1%**
Average countercyclical rate			**0.0004%**

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

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

5.7 Residual maturity by exposure class

	28 February 2021	On demand £m	<= 1 year £m	>1 year <= 5 years £m	>5 years £m	No stated maturity £m	Total £m
7	Central governments or central banks	**872**	**18**	**49**	**17**	**–**	**956**
10	Multilateral development banks	**–**	**73**	**198**	**–**	**–**	**271**
12	Institutions	**108**	**–**	**–**	**–**	**–**	**108**
13	Corporates	**1**	**–**	**–**	**19**	**–**	**20**
14	Retail	**–**	**2,189**	**1,913**	**31**	**–**	**4,133**
15	Secured by mortgages on immovable property	**–**	**44**	**168**	**1,019**	**–**	**1,231**
16	In default	**–**	**29**	**20**	**8**	**–**	**57**
18	Covered bonds	**–**	**–**	**126**	**–**	**–**	**126**
	Securitisation positions	**–**	**50**	**72**	**–**	**–**	**122**
22	Other exposures	**–**	**–**	**–**	**–**	**429**	**429**
23	***Total standardised approach***	**981**	**2,403**	**2,546**	**1,094**	**429**	**7,453**
24	**Total**	**981**	**2,403**	**2,546**	**1,094**	**429**	**7,453**

	29 February 2020	On demand £m	<= 1 year £m	>1 year <= 5 years £m	>5 years £m	No stated maturity £m	Total £m
7	Central governments or central banks	256	73	63	58	–	450
10	Multilateral development banks	–	10	309	–	–	319
12	Institutions	159	(3)	(11)	–	–	145
13	Corporates	9	–	–	25	–	34
14	Retail	–	2,318	3,161	65	–	5,544
15	Secured by mortgages on immovable property	–	56	233	1,528	–	1,817
16	In default	–	52	46	7	–	105
18	Covered bonds	–	–	237	–	–	237
	Securitisation positions	–	50	109	–	–	159
22	Other exposures	–	–	–	–	456	456
23	***Total standardised approach***	424	2,556	4,147	1,683	456	9,266
24	**Total**	424	2,556	4,147	1,683	456	9,266

Source: Template EU CRB-E

5.8 Exposure by credit quality steps

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

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

28 February 2021	**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	**956**	**–**	**–**	**–**	**956**
Multilateral development banks	**271**	**–**	**–**	**–**	**271**
Institutions	**24**	**84**	**–**	**–**	**108**
Corporates	**–**	**–**	**–**	**20**	**20**
Retail	**–**	**–**	**–**	**4,133**	**4,133**
Secured by mortgages on immovable property	**–**	**–**	**–**	**1,231**	**1,231**
In default	**–**	**–**	**–**	**57**	**57**
Covered bonds	**126**	**–**	**–**	**–**	**126**
Securitisation positions	**122**	**–**	**–**	**–**	**122**
Other	**–**	**–**	**–**	**429**	**429**
Total exposure post-mitigation	**1,499**	**84**	**–**	**5,870**	**7,453**

29 February 2020	Credit quality Step 1 £m	Credit quality Step 2 £m	Credit quality Step 3 £m	Unrated exposure £m	Total £m
Central governments or central banks	450	–	–	–	450
Multilateral development banks	319	–	–	–	319
Institutions	74	71	–	–	145
Corporates	–	–	–	34	34
Retail	–	–	–	5,544	5,544
Secured by mortgages on immovable property	–	–	–	1,817	1,817
In default	–	–	–	105	105
Covered bonds	237	–	–	–	237
Securitisation positions	159	–	–	–	159
Other	–	–	–	456	456
Total exposure post-mitigation	1,239	71	–	7,956	9,266

Credit quality of exposures by exposure class and instrument

28 February 2021		Gross carrying values of: Defaulted exposures £m	Gross carrying values of: Non-defaulted exposures £m	Specific credit risk adjustment £m	Accumulated write-offs £m	Net values £m
16	Central governments or central banks	–	956	–	–	956
19	Multilateral development banks	–	271	–	–	271
21	Institutions	–	108	–	–	108
22	Corporates	–	20	–	–	20
24	Retail	–	4,251	118	–	4,133
26	Secured by mortgages on immovable property	–	1,231	–	–	1,231
28	In default	217	–	160	127	57
30	Covered bonds	–	126	–	–	126
	Securitisation positions	–	122	–	–	122
34	Other	–	429	–	–	429
35	Total standardised approach	217	7,514	278	127	7,453
36	Total	217	7,514	278	127	7,453
37	Of which: Loans	217	6,869	278	127	6,808
38	Of which: Debt securities	–	645	–	–	645
39	Of which: Off-balance sheet exposures	–	34	–	–	34

Source: Template EU CR1-A

Credit quality of exposures by industry or counterparty types

	Gross carrying values of: Defaulted exposures £m	Gross carrying values of: Non-defaulted exposures £m	Specific credit risk adjustment £m	Accumulated write-offs £m	Net values £m
Corporates	–	20	–	–	20
Government	–	956	–	–	956
Financial institutions	–	627	–	–	627
Retail	217	5,482	278	127	5,421
Other	–	429	–	–	429
Total	217	7,514	278	127	7,453

Source: Template EU CR1-B

Credit quality of exposures by geography

		Gross carrying values of: Defaulted exposures £m	Gross carrying values of: Non-defaulted exposures £m	Specific credit risk adjustment £m	Accumulated write-offs £m	Net values £m
1	United Kingdom	217	7,185	278	127	7,124
2	Europe (excl. UK)	–	173	–	–	173
3	*Finland*	–	–	–	–	–
4	*France*	–	58	–	–	58
5	*Germany*	–	50	–	–	50
6	*Luxembourg*	–	49	–	–	49
7	*Belgium*	–	–	–	–	–
8	*Spain*	–	–	–	–	–
9	*Norway*	–	16	–	–	16
10	Rest of the world	–	156	–	–	156
11	*Philippines*	–	75	–	–	75
12	*Canada*	–	40	–	–	40
13	*USA*	–	41	–	–	41
14	**Total**	217	7,514	278	127	7,453

Source: Template EU CR1-C

5.9 Credit risk mitigation

CRM techniques – Overview

		Exposures unsecured – Carrying amount £m	Exposures secured – Carrying amount £m	Exposures secured by collateral £m	Exposures secured by financial guarantees £m
1	Total loans	**5,569**	**1,239**	**–**	**–**
2	Total debt securities	**434**	**122**	**22**	**67**
3	**Total exposures**	**6,003**	**1,361**	**22**	**67**
4	Of which defaulted	**49**	**8**	**–**	**–**

Source: Template EU CR3

Retail

Mortgages held over residential properties represent the only collateral held by the Bank for retail exposures. The market value of collateral held for impaired loans and loans past due but not impaired at 28 February 2021 was £26 million (29 February 2020: £19 million). The fair value of collateral held against possession cases was £nil (29 February 2020: £nil). The Bank revalues collateral monthly using the UK House Price Index.

Credit risk is central to the Bank's day to day activities and is managed in line with the Board approved risk appetite as detailed within the Annex XI. Key developments over the course of the year were the response to COVID-19 as the pandemic evolved, including supporting the launch of Emergency Payment Freezes and the restart of retail lending.

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

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

Wholesale

The maximum credit exposure to any client or counterparty as of 28 February 2021 was £852 million to the Bank of England (29 February 2020: £314 million) before taking into account collateral or other credit enhancements of £nil (29 February 2020: £nil). The Bank measures credit and market concentration risks as governed by GMRA, with exposures valued and margined daily.

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

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

The Bank does not transact credit derivatives. Certain government guaranteed bonds are risk weighted in line with the relevant government's rating. As at 28 February 2021 the Bank held £67 million of government guaranteed bonds.

Standardised Approach – Credit risk exposure and CRM effects

		Exposures before CCF and CRM £m		Exposures post-CCF and CRM £m		RWA and RWA density	
	Exposure classes	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWAs £m	RWA density
1	Central governments or central banks	**956**	**–**	**956**	**–**	**–**	**0%**
4	Multilateral development banks	**271**	**–**	**271**	**–**	**–**	**0%**
6	Institutions	**87**	**21**	**87**	**21**	**22**	**20%**
7	Corporates	**20**	**–**	**20**	**–**	**20**	**100%**
8	Retail	**4,134**	**9,215**	**4,120**	**13**	**3,098**	**75%**
9	Secured by mortgages on immovable property	**1,231**	**–**	**1,231**	**–**	**431**	**35%**
10	Exposures in default	**58**	**(1)**	**57**	**–**	**57**	**100%**
12	Covered bonds	**126**	**–**	**126**	**–**	**13**	**10%**
	Securitisation positions	**122**	**–**	**122**	**–**	**15**	**12%**
16	Other items	**429**	**–**	**429**	**–**	**230**	**54%**
17	**Total**	**7,434**	**9,235**	**7,419**	**34**	**3,886**	**52%**

Source: Template EU CR4

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

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

Retail

Loans and advances to customers reflects 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 or other indication of unlikeliness to pay.

28 February 2021	Retail £m	Secured by mortgages on immovable property £m	Total lending £m
Impaired			
Less than 3 months, but impaired	**36**	**10**	**46**
Past due 3 to 6 months	**39**	**–**	**39**
Past due 6 to 12 months	**36**	**1**	**37**
Past due over 12 months	**2**	**–**	**2**
Recoveries	**93**	**–**	**93**
Total gross impaired loans	**206**	**11**	**217**
Past due but not impaired			
Past due up to 3 months but not impaired	**56**	**–**	**56**
Total gross past due but not impaired	**56**	**–**	**56**
Neither past due nor impaired			
Off balance sheet	**13**	**–**	**13**
Not impaired[1]	**4,165**	**1,235**	**5,400**
Total gross neither past due nor impaired	**4,178**	**1,235**	**5,413**
Total gross amount due	**4,440**	**1,246**	**5,686**

1 Includes retail loans and advances of £8 million that would have been past due or impaired had their terms not been renegotiated.

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

1 Includes retail loans and advances of £6 million 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 not impaired at the balance sheet date based on the probability of the asset defaulting in future in accordance with IFRS 9. The methodology and assumptions used are regularly reviewed to reduce any differences between estimates and actual results.

Changes in stock of general and specific credit risk adjustments

		2021	
		Accumulated specific credit risk adjustments £m	**Accumulated general credit risk adjustments £m**
1	Opening balance	**225**	**–**
2	Increases due to amounts set aside for estimated loan losses during the period	**198**	**–**
3	Decreases due to amounts reversed for estimated loan losses during the period	**–**	**–**
4	Decreases due to amounts taken against accumulated credit risk adjustments	**(128)**	**–**
5	Transfers between credit risk adjustments	**–**	**–**
6	Impact of exchange rate differences	**–**	**–**
7	Business combinations, including acquisitions and disposals of subsidiaries	**–**	**–**
8	Other adjustments	**(17)**	**–**
9	**Closing balance**	**278**	**–**
10	Recoveries on credit risk adjustments recorded directly to the statement of profit or loss		**–**
11	Specific credit risk adjustments directly recorded to the statement of profit or loss	**198**	**–**

Source: Template EU CR2-A

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

Note that specific credit risk adjustments reflect the transitional position under IFRS 9 in 2020 and 2021, therefore differ from expected credit losses disclosed in the financial statements of Sainsbury's Bank plc and Home Retail Group Card Services Limited (HRGCS).

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

		2021 Gross carrying amount of defaulted exposures £m
1	Opening balance	**244**
2	Loans and debt securities that have defaulted or impaired since the last reporting period	**119**
3	Returned to non-defaulted status	**(29)**
4	Amounts written off	**(117)**
5	Other changes	**–**
6	**Closing balance**	**217**

Source: Template EU CR2-B

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

Wholesale
The total gross amount of individually impaired loans and advances to banks as at 28 February 2021 was £nil (29 February 2020: £nil). The fair value of collateral held for loans and advances to banks was £nil (29 February 2020: £nil).

The total gross amount of individually impaired debt securities, cash and balances with central banks, UK Government securities (Gilts and Treasury bills) and other eligible investment securities as at 28 February 2021 was £nil (29 February 2020: £nil).

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

Counterparty credit risk
Counterparty credit risk is the risk that the counterparty to a transaction may default prior to the final settlement of the cash flows pertaining to that transaction. This may relate to derivative financial instruments, securities financing instruments and long dated settlement transactions. The Bank is exposed to counterparty credit risk solely as a result of derivative financial instruments. As at 28 February 2021, the Bank has no exposures to counterparty credit risk resulting from securities financing instruments and long dated settlement events.

The Bank enters derivative contracts to hedge Interest Rate Risk in the Banking Book (IRRBB), fixed rate securities and foreign exchange rate risk. All the Bank's derivative contracts fall under standard International Swaps and Derivative Association (ISDA) Master Agreements. The Bank has instigated additional policies and contracts resulting in the posting of cash collateral against derivative mark-to-market exposures and volatility in interest rate swap/FX markets.

The Bank centrally clears all its interest rate derivative contracts with a central clearing counterparty with the exception of one interest rate swap linked to a securitisation programme. For centrally cleared interest rate derivative contracts, cash variation margin is calculated by the central clearing counterparty and settled on the calculation date. As at 28 February 2021, the Bank had posted £29 million of cash collateral for centrally cleared interest rate derivatives (2020: £27 million). For interest rate derivatives not centrally cleared, the Bank has posted cash collateral of £1 million (2020: £1 million).

As at 28 February 2021, the Bank has pledged gilts as initial margin as required by its central clearing party with a value of £28 million (2020: £40 million).

The Bank assigns individual counterparty credit limits linked to the short and long credit ratings of the counterparty and monitors exposures against these limits daily.

The Bank's exposures to counterparty credit risk are measured under the CRR mark-to-market method, calculated as the market value of derivative assets plus potential future exposure. These exposures are then risk weighted using the Standardised Approach for reporting.

Impact of netting and collateral held on exposure values

	Gross positive fair value or net carrying amount £m	Netting benefits £m	Netted current credit exposure £m	Collateral held £m	Net credit exposure £m
Derivatives	**6**	**(34)**	**(28)**	**30**	**2**

Source: Template EU CCR5-A

Analysis of CCR exposure by approach

		Replacement cost/ Current market value £m	Potential future exposure £m	EAD post CRM £m	RWAs £m
1	Mark to market	**2**	**20**	**22**	**5**
6	***Of which derivatives & long settlement transactions***	**2**	**–**	**2**	**–**
11	**Total**	**2**	**20**	**22**	**5**

Source: Template EU CCR1

Exposures to CCPs

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

Source: Template EU CCR8

The notional value of derivative contracts was £4,260 million (2020: £4,404 million). As at 28 February 2021 the positive fair value of derivative contracts was £6 million, with £4 million netting affects resulting in a net derivatives exposure of £2 million. The Potential Future Exposure (PFE) is £21 million under the mark to market method. The calculated exposures are reported under the Standardised Approach for credit risk. Capital requirements for mark-to-market and PFE are disclosed within the credit risk disclosures (2021: £0.4 million; 2020: £0.1 million).

The other component of counterparty credit risk is the Credit Valuation Adjustment (CVA). This is disclosed separately (2021: £0.8 million; 2020: £0.1 million).

The Bank is not currently exposed to wrong way risk (the risk that results from a positive correlation between an exposure to a counterparty and the short/long-term credit rating of that counterparty). The Bank has no public credit rating.

Central clearing counterparties can ask for additional initial margin to be posted in the event of an increase in the Bank's credit risk. The Bank currently has no exposure to credit derivative financial instruments.

6 Securitisation and covered bonds

A securitisation is an instrument/loan note with cash flows linked to a single securitised exposure or pool of securitised exposures. The instrument/programme has a tranche structure.

On 27 May 2020, the Bank collapsed its old securitisation programme issued from its Lochside Asset Purchaser No1 plc SPE. This saw the full redemption of the issued loan notes (an A note issued to an external investor and a B note issued to the Bank).

The Bank entered into a new securitisation programme on 11 November 2020. This involved the sale of a pool of personal loan assets into a UK Special Purpose Entity (Drury Lane Funding 2020-1 plc). The SPE issued securitised loan notes to the Bank (in the form of a senior class A and junior class Z notes). The Bank has no equity investment in the SPE. At inception, the Bank securitised a £725 million pool of personal loan assets. The SPE issued a £500 million A note and a £225 million Z Note. As at 28 February 2021, the securitised loan pool was £621 million. The A note was £500 million and Z note was £121.2 million.

As at 28 February 2021, the A note was rated AAA by Fitch Ratings and Aaa by Moody's Investors Service. The Bank and SPE hedge the potential exposure to interest rate risk with interest rate swaps. The Bank continues to recognise the financial assets (personal loan assets) in its solo financial statements as it fails the derecognition requirements set out in IFRS 9. The Bank is exempt from preparing consolidated financial statements (Companies Act Section 400 and IFRS 10.4). As a result, the SPE is not consolidated as part of the Bank's financial statements. The Bank is not a sponsor for any securitisation programmes. As the Bank continues to recognise the financial assets (personal loans) in its financial statements, no new exposure is recognised as a result of the securitisation.

Further information on the Bank's accounting policies is disclosed within the Bank's financial statements and notes to the accounts as found on the corporate website (per section 1.5).

Covered bond and securitisation investments:
The Bank has investments in several different securitisation exposures including investments in regulated covered bonds, residential mortgage backed securities (RMBS) and asset backed commercial papers (ABCPs). The key risks associated with investments in covered bond and securitisation exposures are credit, liquidity and interest rate risk.

The Bank's Treasury Markets function is responsible for the Bank's investments in high quality liquid assets (HQLA). The Bank invests in covered bond and securitisation assets approved by the regulator for inclusion in liquid assets as part of liquidity coverage ratio (LCR) reporting/counterbalancing capacity as part of PRA110/ALMM reporting. Additionally, the Bank collateralises treasury instruments to generate funding from repurchase agreements, collateral swaps and secured funding from central banks and/or market participants. The Bank has exposures in UK government, multilateral development banks, government agencies, covered bonds and RMBS.

The Bank uses the long-term credit ratings of covered bond and RMBS issuers and uses the short-term credit ratings of ABCP issuers. The Bank considers factors such as the financial strength, bond structure and the securitised pool of assets the bond/loan notes are issued against.

The Financial Risk function (2nd line) monitors and provides insights into the primary Treasury Risks that the Bank is exposed to. This includes considering the potential impacts of investments in new treasury instruments, new or revised legal agreements and regulatory changes on the Bank's treasury risk exposure. All new treasury investments or changes to existing limits require approval and sign off from Financial Risk.

Investments in covered bond and securitisation positions with fixed rate cash flows exposes the Bank to interest rate risk. This interest rate risk is hedged with interest rate swaps.

Investments in covered bonds and RMBS are reported at fair value through other comprehensive income (FVOCI) in line with IFRS 9 recognition requirements. Asset backed commercial papers are reported at amortised cost. Investments in financial assets are reported as part of investment securities in the Bank's financial statements.

As at 28 February 2021, the Bank reported £126 million of covered bond assets, £72 million of RMBS and £50 million of ABCPs. The Bank also recognised expected credit losses (ECL) of £0.1 million for covered bond exposures, £0.1 million for RMBS exposures and £Nil for ABCP exposures. In the financial year, the Bank sold £22 million of RMBS positions for a profit of £0.1 million and sold £112 million of covered bond positions for a profit of £0.6 million.

In the financial year to 28 February 2021, the Bank completed its LIBOR to SONIA novation project. The Bank now has no LIBOR linked covered bond or securitisation exposures maturing beyond 31 December 2021.

The Bank has no investments in re-securitisation or synthetic securitisation positions.

The Bank follows the Standardised Approach for the reporting of its exposures in covered bonds and RMBS. For exposures in asset backed commercial papers, the Bank follows the external ratings based approach (ERBA). The Bank uses the credit ratings from the external credit assessment institutions recognised by the PRA/FCA. The rating services of Standard & Poor's, Moody's and Fitch are used to rate securitisation transactions.

	28 February 2021		29 February 2020	
	Capital requirement £m	**Risk weighted assets £m**	Capital requirement £m	Risk weighted assets £m
Residential mortgage backed covered bonds	**1**	**13**	2	24
Residential mortgage backed securities	**1**	**7**	1	11
AB Commercial Paper	**1**	**7**	–	5
Total	**3**	**27**	3	40

Securitisation and covered bond exposures by risk weight

	28 February 2021			29 February 2020		
Risk weight	**Net exposure £m**	**Risk weighted assets £m**	**Capital requirement £m**	Net exposure £m	Risk weighted assets £m	Capital requirement £m
10%	**198**	**20**	**2**	397	40	3
15%	**50**	**7**	**0**	–	–	–
Total	**248**	**27**	**2**	397	40	3

7 Non trading book exposure in equity

The Bank holds an equity exposure in Visa Inc. with a carrying value and fair value of £1.3 million as at 28 February 2021. The Bank's investment strategy does not permit investment in equities, however this exposure originated due to a requirement to hold a share in Visa Europe in order to be a member of the credit card scheme. The original holding was exchanged for a share in Visa Inc. The Bank also holds £0.1 million of investments in subsidiary undertakings that are excluded from the regulatory scope of consolidation (Home Retail Group Insurance Services Limited and ARG Personal Loans Limited).

8 Leverage

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

The ratio is calculated as Tier 1 capital/total assets (on and off balance sheet) adjusted for capital deductions.

	28 February 2021	29 February 2020
Leverage ratio	**9.5%**	8.1%

Components of the leverage ratio	**28 February 2021 £m**	29 February 2020 £m
Total assets per statutory financial statements[1]	**7,497**	9,461
Removal of accounting value of derivatives and securities financing transactions (SFTs)	**–**	–
Exposure value for derivatives and SFTs	**22**	15
Off balance sheet exposures: unconditionally cancellable (10%)	**917**	906
Off balance sheet: Other	**13**	16
Other adjustments	**(79)**	(238)
Denominator	**8,370**	10,160
Tier 1 capital (numerator)	**791**	822

1 Total assets of Sainsbury's Bank and Home Retail Group Card Services Limited. The entities published accounts are on a stand-alone basis.

The Bank's leverage ratio of 9.5% exceeds the minimum Basel leverage ratio of 3%. The leverage ratio increased during the year driven by lower lending volumes partially offset by lower capital due to current year losses.

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 a recognised 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. The encumbrance levels of assets and related recognised or off balance sheet liabilities are shown in the following tables:

Encumbered assets[1]	Carrying amount of encumbered assets 28 February 2021 £m	Carrying amount of unencumbered assets 28 February 2021 £m	Carrying amount of encumbered assets 29 February 2020 £m	Carrying amount of unencumbered assets 29 February 2020 £m
Loans on demand	**34**	**164**	30	281
Debt securities	**27**	**586**	339	594
Loans and advances other than loans on demand	**1,638**	**4,845**	1,819	6,093
Other assets	**17**	**217**	18	286
Carrying amount of assets	**1,716**	**5,812**	2,206	7,254

1 Carrying amount includes total consolidated assets plus £32 million collateral received.

'Encumbered loans and advances other than loans on demand' represent unsecured personal loans pledged as collateral for secured funding. Collateral paid in respect of derivative margins is included in 'Loans on demand'. The Bank of England Cash Ratio Deposit is held within 'other assets'.

The following tables show average asset encumbrance and sources of encumbrance for the most recent 12 month rolling period ended 28 February 2021:

Encumbered assets	Carrying amount of encumbered assets (12 month average) £m	Carrying amount of unencumbered assets (12 month average) £m
Loans on demand	**42**	**213**
Debt securities	**41**	**683**
Loans and advances other than loans on demand	**1,898**	**5,029**
Other assets	**18**	**262**
Carrying amount of assets	**1,999**	**6,187**

Sources of encumbrance	Matching liabilities, contingent liabilities or securities lent (12 month average) £m	Assets, collateral received and own debt securities issued other than covered (12 month average) £m
Derivatives	**44**	**76**
Deposits	**1,148**	**1,882**
Debt securities issued	**17**	**38**
Other	**0**	**18**
Carrying amount of selected financial liabilities	**1,209**	**2,014**

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 and mortgage loans with applicable haircuts are used as collateral for the bilateral personal loans securitisation facility and the Bank of England's Term Funding Scheme (TFS) and Indexed Long-term Repo (ILTR) facilities. The personal loans and mortgages used to secure the funding are held within Loans and advances to customers. 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 accruals and deferred tax assets. These are included within the carrying value of unencumbered assets.

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

10 Liquidity Coverage Ratio

The Bank monitors and reports the Liquidity Coverage Ratio (LCR) on a Bank unconsolidated reporting basis. This is monitored in line with internal risk appetite thresholds set by the Board as described in section 2.10. The weighted average liquidity buffer (representing eligible High Quality Liquid Assets (HQLA)), 30-day net cash outflows and LCRs are shown below:

Total weighted value (12 month average) for quarter ended £000:	Mar 2020	Jun 2020	Sep 2020	Dec 2020	Feb 2021
Liquidity buffer	**1,020,503**	**1,068,962**	**1,045,863**	**1,016,723**	**1,093,883**
Net outflows (30 days)	**699,221**	**666,762**	**623,143**	**594,311**	**562,486**
LCR	**146%**	**160%**	**168%**	**171%**	**194%**

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

11 Remuneration

11.1 Remuneration Committee

The role of the Remuneration Committee is to determine and agree the broad policy for remuneration and for compliance with the FCA and the PRA to the extent that the provisions apply to the Bank. The Remuneration Committee is responsible for monitoring and noting the level and structure of remuneration for all colleagues within Sainsbury's Bank Argos Financial Services at all levels.

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

The Remuneration Committee comprises no less than three members at any time, all of whom shall be Non-Executive Directors of the Bank. The Committee is constituted in a way that enables it to exercise independent judgement, and members do not perform any executive function within the Bank. The quorum is two Committee members, one of whom is the Chair. All members of the Remuneration Committee are advised of the business to be transacted at any meeting even if they are unable to be present.

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

The Remuneration Committee reviews the Remuneration Policy on an annual basis. In addition, an independent review is sought by Pricewaterhouse Coopers LLP to ensure that the Policy is in line with remuneration regulation.

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

- the relationship with the Board Risk Committee, and the sharing of information from the Risk Committee to the Remuneration Committee on matters which may be of importance when determining variable pay, and
- the competent and experienced nature of all individuals who are a member of or who attend the Remuneration Committee, which enables them to exercise independent judgements regarding the remuneration decisions presented by management.

The long-term interests of all stakeholders are taken into account through the process of debating, tabling and agreeing remuneration decisions through the Remuneration Committee.

The Remuneration Committee has the ability to apply discretion to adjust awards that may arise through the Bank's bonus plan or other incentive arrangements. The Remuneration Policy of the Bank supports the firm's business strategy, which is based on providing shoppers with a compelling reason to purchase financial services from the Bank, but doing so in a way which considers and manages the financial impact of its business decisions.

The Bank prepares a Remuneration Policy Statement, as required by SYSC 19D, which sets out the principles for pay, incentives and recognition within the Bank, taking into account its business strategy, objectives, risk tolerance and long-term interests. The key objective is to ensure that the Bank strikes an appropriate balance between risk and reward, consistent with its risk appetite.

11.2 Link between pay and performance

Assessment of performance

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

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

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

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

Long-term incentives

The Bank rewards certain colleagues with long-term incentive plans. These plans have been and continue to be operated on the Bank's behalf by J Sainsbury plc. There are a number of performance hurdles, which need to be met at an organisational level (both employer and parent) for these awards to be made. If any Material Risk Takers at the Bank participate in such schemes, any long-term incentive awards they receive will comply with the Code and any changes to the arrangements will be agreed with J Sainsbury plc through the Remuneration Committee.

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

11.3 Quantitative disclosures

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

The table below shows total fixed and variable remuneration awarded to Material Risk Takers for the year to 28 February 2021. Fixed remuneration is defined as base salary and other cash payments and variable remuneration includes bonus awards made in the financial period. The Bank is only deemed to operate in one business segment – Retail Banking. Variable and fixed remuneration information for the regulatory consolidated group can be found below.

Year to 28 February 2021	Senior management	Other Material Risk Takers	Total
Fixed remuneration	**3,723**	**3,617**	**7,340**
Variable remuneration	**1,836**	**994**	**2,830**
Total remuneration (£000)	**5,559**	**4,611**	**10,170**

Included within remuneration for senior management are emoluments for members of the Bank's Executive Management Team and Non-Executive Directors. During 2020/21, one Non-Executive Director is an employee of the Bank's shareholder and is remunerated by J Sainsbury plc. This Director receives no remuneration for their role as a Non-Executive Director of the Bank. There has been no recharge to the Bank as their emoluments are deemed to be wholly attributable to services to the respective shareholder companies.

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

One individual earned remuneration between EUR 1 million and EUR 1.5 million.

Annex I – Board risk management declaration

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

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

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

Annex II – Risk statement

The Bank provides banking services and related financial services within the UK. This is delivered through two principal brands, namely Sainsbury's Bank and Argos Financial Services (AFS).

The Bank's strategy is built upon its purpose of being the provider of financial services for loyal Sainsbury's Group customers. The Bank's objective is to be an agile, capital and cost efficient provider of simple, mobile-led financial services and, supporting this, its key priorities are to maintain a stable balance sheet and improve returns, focussing on the Sainsbury's customer base. Underpinning this, the Bank sets a clear risk appetite within which to operate and seeks to deliver best-in-class execution through highly engaged colleagues, working together to deliver its goals.

Risk management overview

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

Risk appetite

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

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

Performance against risk appetite measures is monitored and reported to our Executive Risk Committee (ERC) on a monthly basis, and at each Board Risk Committee (BRC). Additionally, escalation processes are embedded to notify Senior Executives and Board members of any risk appetite measure operating outside of approved thresholds. A qualitative overlay provides additional insight to both current performance and any emerging trends or issues. This enables the ERC and BRC members to both challenge and provide direction to ensure the Bank remains within the agreed risk appetite and support the achievement of its strategic goals.

The following table sets out the actual ratios for some of the key metrics monitored for risk and performance purposes in 2020/21. Figures below relate to the regulatory group unless otherwise stated.

	28 Feb 2021	29 Feb 2020
BDAR	**1.8%**	1.1%
Net interest margin	**3.5%**	3.4%
NSFR (Bank only)	**125.3%**	110.3%
CET1 capital ratio	**17.6%**	14.1%
Total capital ratio	**20.2%**	17.0%

Annex III – Reconciliation of regulatory balance sheet to financial statements

	Per Sainsbury's Bank financial statements £000	Carrying values under scope of regulatory consolidation £000	Subject to credit risk framework £000	Subject to counterparty credit risk framework £000	Subject to the securitisation framework £000	Not subject to capital requirements or subject to deduction from capital £000
Assets						
Cash, balances with central banks and other deposits	1,004,442	1,009,263	1,015,806	–	–	(6,542)
Derivative financial instruments	1,647	1,647	–	1,647	–	–
Loans and advances to customers	4,598,661	5,407,884	5,413,606	–	–	(5,722)
Investment securities	587,413	587,413	465,320	–	122,093	–
Investment in subsidiaries	325,125	125	125	–	–	–
Other assets	270,601	306,284	306,673	–	–	(1,389)
Intercompany loan	483,752	11,995	30,987	–	–	(18,992)
Intangible assets	155,429	161,632	31,717	–	–	129,914
Property, plant and equipment	11,352	11,413	11,413	–	–	–
Total assets	**7,438,422**	**7,496,656**	**7,275,647**	**1,647**	**122,093**	**97,269**
Other deposits	1,161,591	1,161,591	–	–	–	1,161,591
Customer accounts	5,127,506	5,127,506	–	–	–	5,127,507
Derivative financial instruments	29,078	29,078	–	1,647	–	27,431
Lease liability	4,691	4,691	–	–	–	4,691
Other liabilities	79,360	117,900	–	–	–	117,900
Subordinated liabilities	179,150	179,150	–	–	–	179,150
Provisions	8,417	20,047	15,493	–	–	4,553
Total liabilities	**6,589,793**	**6,639,963**	**15,493**	**1,647**	**–**	**6,622,823**

Source: Template EU LI1

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

		Total £000	Credit risk framework £000	Counterparty credit risk framework £000	Securitisation framework £000
1	Asset carrying value amount under scope of regulatory consolidation (as per template LI1)	7,496,656	7,275,647	1,647	122,093
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	6,639,963	15,493	1,647	–
3	Total net amount under regulatory scope of consolidation	856,693	7,260,154	–	122,093
4	Off-balance sheet amounts	9,234,926	33,665	–	–
5	Differences in valuations	–	(27,431)	–	–
9	Transitional capital adjustment	–	64,825	–	–
10	**Regulatory exposures**	**10,091,619**	**7,331,213**	**–**	**122,093**

Source: Template EU LI2

Template LI1 shows the Bank's statutory balance sheet as disclosed in the financial statements on an unconsolidated basis. Here we reconcile the Bank's balance sheet by line to the prudential group by addition of HRGCS balances plus consolidation adjustments. The carrying value of assets are then mapped to the relevant risk frameworks they are subject to, unless not risk weighted – such as intangible assets which are partly deducted from capital. Liabilities are only included in risk categories under certain circumstances. Derivative liabilities are included under counterparty credit risk where netting exists. Additionally, any liabilities included within asset categories in the financial statements have been removed to correctly show the balance subject to credit risk and likewise any assets included within liability captions are identified as these are subject to credit risk.

Template LI2 reconciles the carrying values of assets and liabilities subject to each risk framework with the regulatory exposure values. For example off balance sheet exposures such as pipeline lending for retail lending and potential future exposures for derivatives are disclosed by risk framework after the application of credit conversion factors (CCF). The total column shows the full exposure prior to application of CCF. Exposures are shown net of credit risk adjustments.

Differences in the scopes of consolidation (entity by entity)

		Method of regulatory consolidation				
Name of the entity	Method of accounting consolidation*	Full consolidation	Proportional consolidation	Neither consolidated nor deducted	Deducted	Description of the entity
Sainsbury's Bank	Stand-alone	✔	–	–	–	Credit institution
HRGCS	Stand-alone	✔	–	–	–	Financial institution

Source: Template EU LI3

Annex IV – Capital instruments' main features

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

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

Capital instruments' main features template

		CET1	Tier 2
1	Issuer	Sainsbury's Bank plc	Sainsbury's Bank plc
2	Unique identifier (e.g. CUSIP, ISN or Bloomberg identifier for private placement)	Private placement	GEM Listed- ISIN XS1721760624
3	Governing law(s) of the instrument	English Law	English Law
Regulatory treatment			
4	Transitional CRR rules	CET1	Tier 2
5	Post-transitional CRR rules	CET1	Tier 2
6	Eligible at solo/(sub-)consolidated/solo & (sub-)consolidated	Consolidated	Consolidated
7	Instrument type (types to be specified by each jurisdiction)	Common Equity	Dated fixed rate subordinated note
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	£901 million	£120 million
9	Nominal amount of instrument	£1	£175 million
9a	Issue price	£1	£175 million
9b	Redemption price	Not applicable	£175 million
10	Accounting classification	Shareholders' equity	Liability & amortised cost
11	Original date of issuance	55- 'A' class 12 November 1996 45- 'B' class 12 November 1996 8,249,945- 'A' class 5 February 1997 6,749,955- 'B' class 5 February 1997 27,500,000- 'A' class 29 April 1997 22,500,000- 'B' class 29 April 1997 5,500,000- 'A' class 7 November 1997 4,500,000- 'B' class 7 November 1997 13,750,000- 'A' class 30 January 1998 11,250,000- 'B' class 30 January 1998 5,500,000- 'A' class 26 August 1998 4,500,000- 'B' class 26 August 1998 5,500,000- 'A' class 25 February 1999 4,500,000- 'B' class 25 February 1999 2,750,000- 'A' class 4 February 2000 2,250,000- 'B' class 4 February 2000 2,750,000- 'A' class 28 February 2000 2,250,000- 'B' class 28 February 2000 5,500,000- 'A' class 13 October 2003 4,500,000- 'B' class 13 October 2003 (7,000,000- 'A' class reclassification to 'B' class on 8 February 2007) 10,000,000- 'A' class 10 September 2007 10,000,000- 'B' class 10 September 2007 5,000,000- 'A' class 12 November 2007 5,000,000- 'B' class 12 November 2007 (85,000,000- 'A' class and 85,000,000 'B' class reclassification to 170,000,000 'Ordinary' class on 3 February 2014)	23 November 2017

		CET1	Tier 2
		20,000,000 'Ord' Class 7 February 2014 50,000,000 'Ord' Class 28 February 2014 20,000,000 'Ord' Class 22 July 2014 20,000,000 'Ord' Class 29 September 2014 18,750,000 'Ord' Class 18 December 2014 20,000,000 'Ord' Class 31 March 2015 15,000,000 'Ord' Class 18 May 2015 42,000,000 'Ord' Class 24 June 2015 20,000,000 'Ord' Class 11 August 2015 20,000,000 'Ord' Class 28 September 2015 20,000,000 'Ord' Class 23 November 2015 100,000,000 'Ord' Class 15 September 2016 30,000,000 'Ord' Class 30 January 2017 50,000,000 'Ord' Class 22 March 2017 50,000,000 'Ord' Class 27 June 2017 10,000,000 'Ord' Class 7 August 2017 60,000,000 'Ord' Class 26 September 2017 20,000,000 'Ord' Class 23 October 2017 30,000,000 'Ord' Class 25 September 2018 50,000,000 'Ord' Class 23 November 2018 30,000,000 'Ord' Class 17 December 2018 35,000,000 'Ord' Class 26 June 2019	
12	Perpetual or dated	Perpetual	Dated
13	Original maturity date	Not applicable	23 November 2027
14	Issuer call subject to prior supervisory approval	No	Yes
15	Optional call date, contingent call dates and redemption amount	Not applicable	23 November 2022
16	Subsequent call dates, if applicable	Not applicable	Not applicable
Coupons/dividends			
17	Fixed or floating dividend/coupon	Floating	Fixed
18	Coupon rate and any related index	Not applicable	6%
19	Existence of a dividend stopper	No	No
20a	Fully discretionary, partial discretionary or mandatory (in terms of timing)	Fully discretionary	Mandatory
20b	Fully discretionary, partial discretionary or mandatory (in terms of amount)	Fully discretionary	Mandatory
21	Existence of step up or other incentive to redeem	No	No
22	Non-cumulative or cumulative	Non-cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	Not applicable	Not applicable
25	If convertible, fully or partially	Not applicable	Not applicable
26	If convertible, conversion rate	Not applicable	Not applicable
27	If convertible, mandatory or optional conversion	Not applicable	Not applicable
28	If convertible, specify instrument type convertible into	Not applicable	Not applicable
29	If convertible, specify issuer of instrument it converts into	Not applicable	Not applicable
30	Write-down features	No	No
31	If write-down, write-down trigger(s)	Not applicable	Not applicable
32	If write-down, full or partial	Not applicable	Not applicable
33	If write-down, permanent or temporary	Not applicable	Not applicable
34	If temporary write-down, description of write-up mechanism	Not applicable	Not applicable
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	All subordinated notes	All other liabilities
36	Non-compliant transitioned features	No	No
37	If yes, specify non-compliant features	Not applicable	Not applicable

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

Capital reduction

On 23 March 2021 the High Court Of Justice (Business and Property Courts of England and Wales Companies Court) approved a reduction of the ordinary share capital of the Bank from £900,750,000 to £700,750,172.25, having previously been resolved on and effected by a Special Resolution passed at a General Meeting of the Bank held on 23 February 2021.

The reduction became effective on 1 April 2021 upon registration of the court order with Companies House and resulted in an equal and opposite increase to retained earnings.

Annex V – Own funds disclosure

The following own funds disclosure aims to reflect the detailed capital position of the Bank. The Bank is required to disclose the specific items on own funds described in points (d) and (e) of Article 437 (1) of Regulation (EU) No 575/2013.

Common Equity Tier 1 capital: instruments and reserves		Amount at disclosure date (£000)	Regulation (EU) No 575/2013 Article reference
1	Capital instruments and the related share premium accounts	900,750	
	of which: ordinary share capital	900,750	26 (1), 27, 28, 29, EBA list 26 (3)
	of which: instrument type 2	–	list 26 (3)
	of which: instrument type 3	–	list 26 (3)
2	Retained earnings	(46,861)	26 (1) (c)
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	2,819	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**	**856,708**	
7	Additional value adjustments (negative amount)	(537)	34, 105
8	Intangible assets (net of related tax liability) (negative amount)	(129,915)	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 1,250%, 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) (k) (iii), 379 (3)
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in 38 (3) are met) (negative amount)	–	36 (1) (c), 38, 48 (1) (a), 470, 472 (5)
22	Amount exceeding the 15% threshold (negative amount)	–	48 (1)

Common Equity Tier 1 capital: instruments and reserves		Amount at disclosure date (£000)	Regulation (EU) No 575/2013 Article reference
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	64,825	
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)**	**(65,627)**	
29	**Common Equity Tier 1 (CET1) capital**	**791,081**	
30	Capital instruments and the related share premium accounts	–	51, 52
31	of which: classified as equity under applicable accounting standards	–	
32	of which: classified as liabilities under applicable accounting standards	–	
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1	–	486 (3)
	Public sector capital injections grandfathered until 1 January 2018	–	483 (3)
34	Qualifying Tier capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	–	85, 86, 480
35	of which: instruments issued by subsidiaries subject to phase out	–	486 (3)
36	Additional Tier 1 (AT1) capital before regulatory adjustments	–	
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	–	52 (1) (b), 56 (a), 57, 475 (2)
38	Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	–	56 (b), 58, 475 (3)
39	Direct and indirect holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above the 10% threshold and net of eligible short positions) (negative amount)	–	56 (c), 59, 60, 79, 475 (4)
40	Direct and indirect holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above the 10% threshold net of eligible short positions) (negative amount)	–	56 (d), 59, 79, 475 (4)
41	Regulatory adjustments applied to additional tier 1 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	–	
41a	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	–	472, 472 (3) (a), 472 (4), 472 (6), 472 (8) (a), 472 (9), 472 (10) (a), 472 (11) (a)
	Of which items to be detailed line by line, e.g. Material net interim losses, intangibles, shortfall of provisions to expected losses etc.	–	
41b	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Tier 2 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013	–	477, 477 (3), 477 (4) (a)
	Of which items to be detailed line by line, e.g. Reciprocal cross holdings in Tier 2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc.	–	
41c	Amount to be deducted from or added to Additional Tier 1 capital with regard to additional filters and deductions required pre-CRR	–	467, 468, 481
	of which: possible filter for unrealised losses	–	467
	of which: possible filter for unrealised gains	–	468

	Common Equity Tier 1 capital: instruments and reserves	Amount at disclosure date (£000)	Regulation (EU) No 575/2013 Article reference
	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)**	**791,081**	
46	Capital instruments and the related share premium accounts	119,748	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**	**119,748**	
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	–	63 (b) (i), 66 (a), 67, 477 (2)
53	Holdings of T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	–	66 (b), 68, 477 (3)
54	Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	–	66 (c), 69, 70, 79, 477 (4)
54a	of which: new holdings not subject to transitional arrangements	–	
54b	of which: holdings existing before 1 January 2013 and subject to transitional arrangements	–	
55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	–	66 (d), 69, 79, 477(4)
56	Regulatory adjustments applied to Tier 2 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	–	
56a	Residual amounts deducted from Tier 2 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to Article 472 of Regulation (EU) 575/2013	–	472, 472 (3) (a), 472 (4), 472 (6), 472 (8) (a), 472 (9), 472 (10) (a), 472 (11) (a)
	of which: items to be detailed line by line, e.g. material net interim losses, intangibles, shortfall of provisions to expected losses etc.	–	
56b	Residual amounts deducted from Tier 2 capital with regard to deduction from Additional Tier 1 capital during the transitional period pursuant to Article 475 of Regulation (EU) No 575/2013	–	475, 475 (2) a), 475 (3), 475 (4) (a)
	of which: items to be detailed line by line, e.g. reciprocal cross holdings in AT1 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc.	–	
56c	Amount to be deducted from or added to Tier 2 capital with regard to additional filters and deductions required pre CRR	–	467, 468, 481
	of which:...possible filter for unrealised losses	–	467
	of which:...possible filter for unrealised gains	–	468
	of which:...	–	481
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**–**	
58	**Tier 2 (T2) capital**	**119,748**	
59	**Total capital (TC = T1+T2)**	**910,829**	
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)

	Common Equity Tier 1 capital: instruments and reserves	Amount at disclosure date (£000)	Regulation (EU) No 575/2013 Article reference
	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**	**4,503,439**	
61	Common Equity Tier 1 (as a percentage of risk exposure amount)	17.57%	92 (2) (a), 465
62	Tier 1 (as a percentage of risk exposure amount)	17.57%	92 (2) (b), 465
63	Total capital (as a percentage of risk exposure amount)	20.23%	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)	2.50%	CRD 128, 129, 130
65	of which: capital conservation buffer requirement	2.50%	
66	of which: countercyclical buffer requirement	0.00%	
67	of which: systemic risk buffer requirement	–	
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	–	CRD 131
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	9.59%	CRD 128
69	Non relevant in EU regulation	–	
70	Non relevant in EU regulation	–	
71	Non relevant in EU regulation	–	
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	–	36 (1) (h), 45, 46, 472 (10), 56 (c), 59, 60, 475 (4), 66 (c), 69, 70, 477 (4)
73	Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	–	36 (1) (i), 45, 48, 470, 472 (11)
74	Empty set in the EU	–	
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in 38 (3) are met)	20,548	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	56,293	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 2021
Entity name: Sainsbury's Bank plc
Level of application: Consolidated

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

		Applicable Amount (£000)
1	Total assets as per published financial statements	7,496,656
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	–
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013)	–
4	Adjustments for derivative financial instruments	22,467
5	Adjustment for securities financing transactions (SFTs)	–
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	929,324
	EU-6a (Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(7) of Regulation (EU) No 575/2013)	–
	EU-6b (Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(14) of Regulation (EU) No 575/2013)	–
7	Other adjustments	(79,300)
8	**Leverage ratio total exposure measure**	**8,369,147**

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)	7,496,656
2	Asset amounts deducted in determining Tier 1 capital	(79,300)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	7,417,356
Derivative exposures		
4	Replacement cost associated with derivatives transactions (i.e. net of eligible cash variation margin)	–
5	Add-on amounts for PFE associated with derivatives transactions (mark-to-market method)	22,467
EU-5a	Exposures determined under Original Exposure Method	–
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	–
7	Deductions of receivable assets for cash variation margin provided in derivatives transactions	–
8	Exempted CCP leg of client-cleared trade exposures	–
9	Adjusted effective notional amount of written credit derivatives	–
10	Adjusted effective notional offsets and add-on deductions for written credit derivatives	–
11	**Total derivative exposures (sum of lines 4 to 10)**	22,467
SFT exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	–
13	Netted amounts of cash payables and cash receivables of gross SFT assets	–
14	Counterparty credit risk exposure for SFT assets	–
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429b(4) and 222 of Regulation (EU) No 575/2013	–
15	Agent transaction exposures	–
EU-15a	Exempted CCP leg of client-cleared SFT exposure	–
16	**Total securities financing transaction exposures (sum of lines 12 to 15a)**	–
Off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	9,229,502
18	Adjustments for conversion to credit equivalent amounts	8,300,178
19	**Other off-balance sheet exposures (sum of lines 17 to 18)**	929,324
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**	791,081
21	**Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU19a and EU19b)**	8,369,147
Leverage ratio		
22	End of quarter leverage ratio	9.45%
Choice of transitional arrangements and amount of derecognised fiduciary items		
EU-23	Choice on transitional arrangements for the definition of the capital measure	Fully phased in
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) NO. 575/2013	–

Table LRSpl: Split-up of on balance sheet exposures (excluding derivatives and SFTs)		CRR leverage ratio exposures (£000)
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures), of which:	7,496,657
EU-2	Trading book exposures	–
EU-3	Banking book exposures, of which:	7,496,657
EU-4	Covered bonds	125,710
EU-5	Exposures treated as sovereigns	955,898
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	270,971
EU-7	Institutions	63,342
EU-8	Secured by mortgages of immovable properties	1,231,076
EU-9	Retail exposures	4,119,510
EU-10	Corporate	19,931
EU-11	Exposures in default	57,328
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	630,424

Table LRQua: Free format text boxes for disclosure on qualitative items		
1	Description of the processes used to manage the risk of excessive leverage	The capital position and leverage ratio are monitored by ALCo on a regular basis. If the leverage ratio declines beneath internal minimum thresholds, then corrective action would be taken immediately to increase the ratio.
2	Description of the factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers	The leverage ratio is primarily affected by the level of Tier 1 capital, namely share capital and reserves including intangible asset and current period loss deductions. The levels of on balance sheet assets (mainly personal loans, credit card and store card lending) and off balance sheet commitments such as credit card and store card undrawn balances, also affect the ratio.

Annex VII – Disclosure on asset encumbrance

Template A – Encumbered and unencumbered assets

		Carrying amount of encumbered assets (£000)		Fair value of encumbered assets (£000)		Carrying amount of unencumbered assets (£000)		Fair value of unencumbered assets (£000)	
			of which EHQLA and HQLA		of which EHQLA and HQLA		of which EHQLA and HQLA		of which EHQLA and HQLA
		010	030	040	050	060	080	090	100
010	Assets of the reporting institution	1,999,055	30,314			6,186,765	313,116		
030	Equity instruments	–	–			400	–		
040	Debt securities	41,254	30,314	41,254	30,314	682,882	313,116	682,882	313,116
050	Of which: covered bonds	1,042	–	1,042	–	167,770	167,770	167,770	167,770
060	Of which: asset backed securities	–	–	–	–	135,213	135,213	135,213	135,213
070	Of which: issued by general governments	30,314	30,314	30,314	30,314	10,133	10,133	10,133	10,133
080	Of which: issued by financial corporations	9,898	–	9,898	–	365,584	–	365,584	–
090	Of which: issued by non-financial corporations	–	–	–	–	4,182	–	4,182	–
120	Other assets	1,957,801	–			5,503,483	–		
121	Of which: Loans on demand	42,065	–			212,568	–		
122	Of which: Loans and advances other than loans on demand	1,897,523	–			5,029,269	–		
123	Of which: Other	18,213	–			261,646	–		

Template B has been omitted on instruction from the PRA.

Template C – Sources of encumbrance

		Matching liabilities, contingent liabilities or securities lent (£000)	Assets collateral received and own debt securities issued other than covered (£000)
		010	030
010	Carrying amount of selected financial liabilities	1,209,159	2,013,747
011	Of which: Derivatives	43,715	76,201
040	Of which: Deposits	1,147,862	1,881,621
090	Of which: Debt securities issued	17,582	37,712
120	Of which: Other sources of encumbrance	–	18,213

D – Information on importance of encumbrance

These templates reflect 12 month rolling averages, assessed on a quarterly basis. The primary 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 (primarily Gilts and Treasury bills) are pledged as collateral for initial margin requirements on derivatives which are centrally cleared. Eligible personal and mortgage loans with applicable haircuts are used as collateral for the bilateral personal loans securitisation facility and the Bank of England's Term Funding Scheme (TFS) and Indexed Long-term Repo (ILTR) facilities.

The Bank entered into a new securitisation programme on 11 November 2020. This involved the sale of a pool of personal loan assets into a UK Special Purpose Entity (Drury Lane Funding 2020-1 plc). The SPE issued securitised loan notes to the Bank (in the form of a senior class A and junior class Z note). The Bank has no equity investment in the SPE. At inception, the Bank securitised a £725 million pool of personal loan assets. The SPE issued a £500 million A note and a £225 million Z Note. As at 28 February 2021, the securitised loan pool was £621 million. The A note was £500 million and Z note was £121.2 million. The £621 million pool of securitised personal loan assets is not considered encumbered as the SPE has issued the associated A and Z notes in full to the Bank.

However, the Bank has subsequently pledged a part of the A note as collateral in a repurchase agreement. This generated £10 million of funding. £11 million of personal loan assets (the element of the securitised pool covering the A notes collateralised as part of the classic repurchase agreement) are considered encumbered as at 28 February 2021.

The Bank also has £17 million of cash collateral encumbered as part of the Bank of England's Cash Ratio Deposit Scheme.

The Bank has also encumbered cash collateral of $58.5 million (2020: $58.4 million) to MasterCard against the risk of issuing merchant spend credit.

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

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

		General credit exposures		Trading book exposures		Securitisation exposure		Own funds requirements					
		Exposure value for SA (£000)	Exposure value IRB (£000)	Sum of long and short position of trading book (£000)	Value of trading book exposure for internal models (£000)	Exposure value for SA (£000)	Exposure value for IRB (£000)	Of which: General credit exposures (£000)	Of which: Trading book exposures (£000)	Of which: Securitisation exposures (£000)	Total (£000)	Own funds requirement weights	Countercyclical capital buffer rate (%)
		010	020	030	040	050	060	070	080	090	100	110	120
010	Breakdown by country												
	United Kingdom	5,980,272	–	–	–	72,070	–	307,863	–	537	308,400	100	0
	Germany	–	–	–	–	50,023	–	–	–	640	640	100	0
	Norway	15,562	–	–	–	–	–	160	–	–	160	100	1
020	Total	5,995,834	–	–	–	122,093	–	308,023	–	1,177	309,200	100	0

Table 2 – Amount of institution-specific countercyclical capital buffer

		010
010	Total risk exposure amount (£000)	3,864,060
020	Institution specific countercyclical buffer rate (%)	0.0004%
030	Institution specific countercyclical buffer requirement (£000)	18

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

Template 1: Credit quality of forborne exposures

	Gross carrying amount/nominal amount of exposures with forbearance measures £m				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions £m		Collateral received and financial guarantees received on forborne exposures £m	
		Non-performing forborne						
	Performing forborne		Of which defaulted	Of which impaired	On performing forborne exposures	On non-performing forborne exposures		of which collateral and financial guarantees received on non-performing exposures with forbearance measures
1 Loans and advances	–	–	–	–	–	–	–	–
2 Central banks	–	–	–	–	–	–	–	–
3 General governments	–	–	–	–	–	–	–	–
4 Credit institutions	–	–	–	–	–	–	–	–
5 Other financial corporations	–	–	–	–	–	–	–	–
6 Non-financial corporations	–	–	–	–	–	–	–	–
7 Households	8	53	53	53	(2)	(33)	3	3
8 Debt securities	–	–	–	–	–	–	–	–
9 Loan commitments given	12	16	16	16	–	–	–	–
10 Total	20	69	69	69	(2)	(33)	3	3

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

	Gross carrying amount/nominal amount of exposures £m											
	Performing exposures			Non-performing exposures								
		Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which defaulted
1 Loans and advances	–	–	–	–	–	–	–	–	–	–	–	–
2 Central banks	–	–	–	–	–	–	–	–	–	–	–	–
3 General governments	–	–	–	–	–	–	–	–	–	–	–	–
4 Credit institutions	–	–	–	–	–	–	–	–	–	–	–	–
5 Other financial corporations	–	–	–	–	–	–	–	–	–	–	–	–
6 Non-financial corporations	–	–	–	–	–	–	–	–	–	–	–	–
7 Of which SMEs	–	–	–	–	–	–	–	–	–	–	–	–
8 Households	5,457	5,436	21	218	65	34	93	26	–	–	–	218
9 Debt securities	–	–	–	–	–	–	–	–	–	–	–	–
10 Central banks	–	–	–	–	–	–	–	–	–	–	–	–
11 General governments	–	–	–	–	–	–	–	–	–	–	–	–
12 Credit institutions	–	–	–	–	–	–	–	–	–	–	–	–
13 Other financial corporations	–	–	–	–	–	–	–	–	–	–	–	–
14 Non-financial corporations	–	–	–	–	–	–	–	–	–	–	–	–
15 Off-balance-sheet exposures	–	–	–	–	–	–	–	–	–	–	–	–
16 Central banks	–	–	–	–	–	–	–	–	–	–	–	–
17 General governments	–	–	–	–	–	–	–	–	–	–	–	–
18 Credit institutions	–	–	–	–	–	–	–	–	–	–	–	–
19 Other financial corporations	–	–	–	–	–	–	–	–	–	–	–	–
20 Non-financial corporations	–	–	–	–	–	–	–	–	–	–	–	–
21 Households	9,157	–	–	72	–	–	–	–	–	–	–	72
22 Total	**14,614**	**5,436**	**21**	**290**	**65**	**34**	**93**	**26**	**–**	**–**	**–**	**290**

This page was updated on 12th July 2021

Template 4: Performing and non-performing exposures and related provisions

		Gross carrying amount/nominal amount £m						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions £m								
		Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions			Accumulated partial write-off £m	Collateral and financial guarantees received £m	
			Of which Stage 1	Of which Stage 2		Of which Stage 2	Of which Stage 3		Of which Stage 1	Of which Stage 2		Of which Stage 2	Of which Stage 3		On performing exposures	On non-performing exposures
1	Loans and advances	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
2	Central banks	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
3	General Governments	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
4	Credit Institutions	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
5	Other financial corporations	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
6	Non-financial corporations	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
7	Of which SMEs	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
8	Households	5,457	4,864	593	218	–	218	(104)	(41)	(63)	(159)	–	(159)	–	1,237	10
9	Debt Securities	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
10	Central Banks	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
11	General governments	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
12	Credit institutions	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
13	Other financial corporations	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
14	Non-financial corporations	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
15	Off-balance-sheet exposures	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
16	Central banks	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
17	General governments	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
18	Credit institutions	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
19	Other financial corporations	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
20	Non-financial corporations	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
21	Households	9,157	8,856	301	72	–	72	(15)	(10)	(5)	(1)	–	(1)	–	–	–
22	**Total**	**14,614**	**13,720**	**894**	**290**	**–**	**290**	**(119)**	**(51)**	**(68)**	**(160)**	**–**	**(160)**	**–**	**1.237**	**10**

Template 9: Collateral obtained by taking possession and execution processes

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

Annex X – Geographical breakdown of exposures

£m		**United Kingdom**	**Europe (excl. UK)**	Finland	France	Germany	Luxembourg	Belgium	Spain	Norway	**Rest of the world**	Philippines	Canada	USA	**Total**
7	Central governments or central banks	**889**	**27**	–	27	–	–	–	–	–	**40**	–	40	–	**956**
10	Multilateral development banks	**75**	**79**	–	30	–	49	–	–	–	**117**	76		41	**271**
12	Institutions	**108**	**–**	–	–	–	–	–	–	–	**–**	–	–	–	**108**
13	Corporates	**20**	**–**	–	–	–	–	–	–	–	**–**	–	–	–	**20**
14	Retail	**4,133**	**–**	–	–	–	–	–	–	–	**–**	–	–	–	**4,133**
15	Secured by mortgages on immovable property	**1,231**	**–**	–	–	–	–	–	–	–	**–**	–	–	–	**1,231**
16	Exposures in default	**57**	**–**	–	–	–	–	–	–	–	**–**	–	–	–	**57**
18	Covered bonds	**110**	**16**	–	–	–	–	–	–	16	**–**	–	–	–	**126**
	Securitisation positions	**72**	**50**	–	–	50	–	–	–	–	**–**	–	–	–	**122**
22	Other exposures	**429**	**–**	–	–	–	–	–	–	–	**–**	–	–	–	**429**
23	**Total standardised approach**	**7,124**	**172**	–	57	50	49	–	–	16	**157**	76	40	41	**7,453**
24	**Total**	**7,124**	**172**	–	57	50	49	–	–	16	**157**	76	40	41	**7,453**

Source: Template EU CRB-C

Annex XI – Principal risks

Credit risk

What is it?

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

How may it arise?

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

How do we manage the risk?

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

Changes in 2020/21

- Key focus in the year was the response to COVID-19.
- Management of credit strategies as the pandemic evolved.
- Assisting with the launch of Emergency Payment Freezes.
- Supporting gradual restart of lending.

Operational risk

What is it?

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

How may it arise?

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

How do we manage the risk?

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

Changes in 2020/21

- Ensuring business resilience plans were operating effectively throughout the pandemic.
- Enhanced MI to manage a broad range of risks across the Bank.

Supplier risk

What is it?

The risk that key services and processes outsourced to third party suppliers impair the quality of internal control within the Bank.

How may it arise?

Inadequate processes or internal controls of the third-party supplier may result in poor customer outcomes, service disruption, reputational damage and/or financial losses for the Bank. This can also manifest through lack of appropriate review and diligence of the third party by the Bank.

How do we manage the risk?

The management of supplier risk takes place at two key times, which are reviewed and approved by the accountable bank executive:

- **During the selection of a new supplier**, with a robust assessment of the high-level process steps associated with the service provisions, the key failure points which could occur in the process, and an understanding of the key controls and appropriate provision of MI that evidences the effective operation of these key controls.
- **On an ongoing basis** as part of the Bank's operational risk management framework via the PRCA process as well as part of the regular monitoring of supplier performance (including the use of scorecards and other governance activity per the supply chain framework).

Changes in 2020/21

- Review of supply chain to ensure compliance with new European Banking Association Outsourcing guidelines.
- New workflow and contract management tool being implemented to enhance controls and compliance.

Financial crime risk

What is it?

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

How may it arise?

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

How do we manage the risk?

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

Changes in 2020/21

- 2nd line oversight and assurance deep dive reviews in order to limit any potential fraud risk exposures.
- Improvements in fraud prevention capability.
- Ensuring fraud risk resiliency on the back of COVID-19.

Conduct and compliance risks

What is it?

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

How may it arise?

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

How do we manage the risk?

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

Changes in 2020/21

- Finalised organisational redesign for the function with key roles now filled.
- Enhanced policy oversight model.
- Full implementation of SMCR, including Conduct rules, in AFS and Argos Limited.
- Enhanced risk reporting.

Capital adequacy risk

What is it?

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

How may it arise?

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

How do we manage the risk?

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

Changes in 2020/21

- PS15/20 came into effect on 16 Dec 20 which implemented a shift in regulatory capital requirements from minimum Total Capital Requirements into buffers that can be used in a stress.
- The impacts of COVID-19 have been updated including expectation of higher losses. Furthermore stress testing analysis has been undertaken to assess worst case impacts.

Liquidity, funding and market risks

What is it?

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

How may it arise?

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

How do we manage the risk?

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

Changes in 2020/21

- Replacement of secured funding facility with a cost effective retained securitisation (Drury Lane) which offers increased flexibility and reduced reliance on BoE facilities.
- Review and assessment of negative rates from a hedging and interest rate risk perspective.