Sainsbury's Bank plc

Pillar 3 Disclosures
for the year ended 28 February 2022

COMPANY NUMBER: 3279730

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Statement of Compliance Senior Management

The management body is responsible for adopting policies to comply with the disclosure requirements in the Disclosure (CRR) Part of the PRA Rulebook. This includes maintenance of internal controls, systems and processes to confirm the Bank's Pillar 3 disclosures are compliant and accurate.

The Bank has a formal financial reporting and disclosure policy standard which is reviewed and approved at least annually. This policy addresses the risk of misreporting disclosure and details key controls in place to mitigate this risk. This policy standard outlines the specific regulations that apply to the Bank specifying the requirement to reply in line with Regulation (EU) No 575/2013 the Capital Requirements Regulation (CRR) and the PRA Rulebook (CRR) Part as published by the PRA. These disclosures have received a compliance review against the PRA CRR regulation.

All of the metrics and financial data that forms part of these disclosure undergo separate governance with each critical process having a specific owner, detailed review including at senior management level ahead of any external submission and analytical review and reconciliations of data. There are a series of formal controls the Bank has for completion of the financial reporting and disclosure which are maintained and refreshed at least annually through the formal Bank process risk and control assessment.

By order of the Management Body and signed on its behalf by

Michael Larkin

Chief Financial Officer

27 April 2022

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. The Prudential Regulation Authority (PRA) issued a new PRA CRR rule instrument (CRR2) adopted in the UK January 2022 and reflected in this document.

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 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 and are in compliance with the Financial Conduct Authority (FCA) Remuneration Code, PRA Rulebook and CRD IV remuneration rules. Responsibility for compliance is within the remit of the Remuneration Committee.

The prior year comparatives were completed using regulation effective at February 2021 and therefore the presentation of some of these balances may have changed to reflect new requirements. Where there are no prior year comparatives this is left blank. Annex XI provides a list of all omitted templates and rationale for not including in these disclosures.

1.3 Scope of application

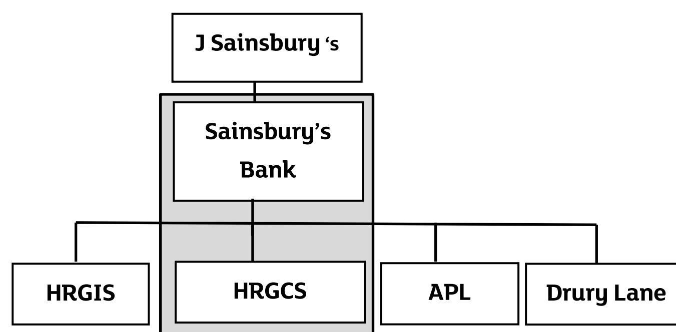
The Bank has made use of the derogation from individual consolidation method as laid down in Article 9 of the CRR. These disclosures are presented in respect of the year to 28 February 2022 for the Bank's prudential consolidated position under CRD IV.

These disclosures are based on the Bank's ownership as at 28 February 2022. 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. The Bank has a securitisation programme which involves 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 has no trading book exposures and therefore has omitted trading book disclosures as published by the PRA.

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.

There are no capital shortfalls in any of the subsidiaries of the prudential group.

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. The Bank falls into scope of other institutions per Article 433c of the Disclosure (CRR) Part of the PRA Rulebook and therefore is only required to publish annually. 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. The Bank will also report a key metrics supplementary schedule alongside the half yearly results in accordance with Article 447 of the Disclosure (CRR) Part of the PRA Rulebook.

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: https://www.about.sainsburys.co.uk/investors/results-reports-and-presentations.

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

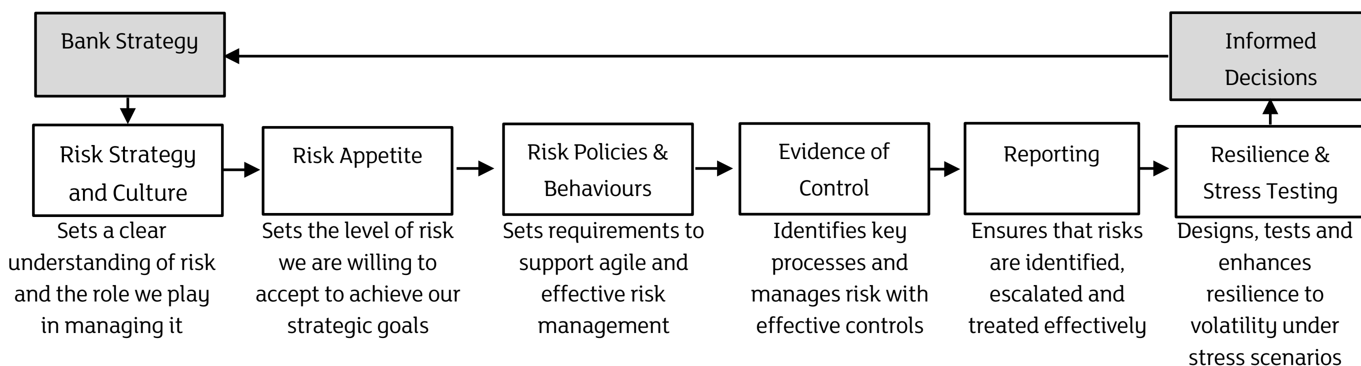
The Bank does not seek any exemption from disclosure on the basis of proprietary or confidential information.

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 processes and 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. The Chief Risk Officer performs a strategic risk management role and is responsible for managing and enhancing the enterprise-wide risk management framework.

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, where everyone understands the risks they personally manage and is empowered and qualified to be accountable for them. This approach is strengthened by the Senior Managers and Certification Regime introduced by the FCA in 2016. 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 to achieve our strategic objectives. It is expressed and embedded through:

- A 'high-level' Risk Appetite Statement (RAS) 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' RAS 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 internal and external risk environment that provides an outlook on whether we remain on-track to meet our 'high-level' risk appetite targets.

Performance against both the 'high-level' and 'directional' RAS 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 clearly embedded in the enterprise-wide risk management policy framework to notify Senior Executives and Board members of any high-level RAS measure operating outside of approved thresholds including recommendations to reduce exposures back within appetite levels.

Our risk appetite enables us to make clear and transparent decisions on potential trade-offs between different risk types and on our overall enterprise-wide risk profile. In this way, strategic decisions are made in the full context of these trade-offs 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 IX). Each risk type has a principal risk owner that actively manages and oversees the risks in the Bank in line with associated policy and supporting policy standards that clearly articulates the approach, boundaries and key requirements by which each risk type should be managed. The policies and policy standards also set out the expected behaviours 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 our key activities to ensure that appropriate and effective controls are in place. The 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 based on its inherent and residual risk 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. Where review identifies a need to strengthen controls, treatment plans are put in place and actioned.

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 relevant colleagues have access to BERT enabling them to view risk data against their own processes as well as 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 Internal Capital Adequacy Assessment process (ICAAP) and the Internal Liquidity Adequacy Assessment process (ILAAP). Business recovery plans for severe incidents are reviewed on a regular basis, while our Recovery and Resolution Plans review and test our playbooks and recovery capacity in response to extreme but plausible threats to our viability. The Bank also undertakes a review and self-assessment of its Operational Resilience Framework on an annual basis which is approved by Board.

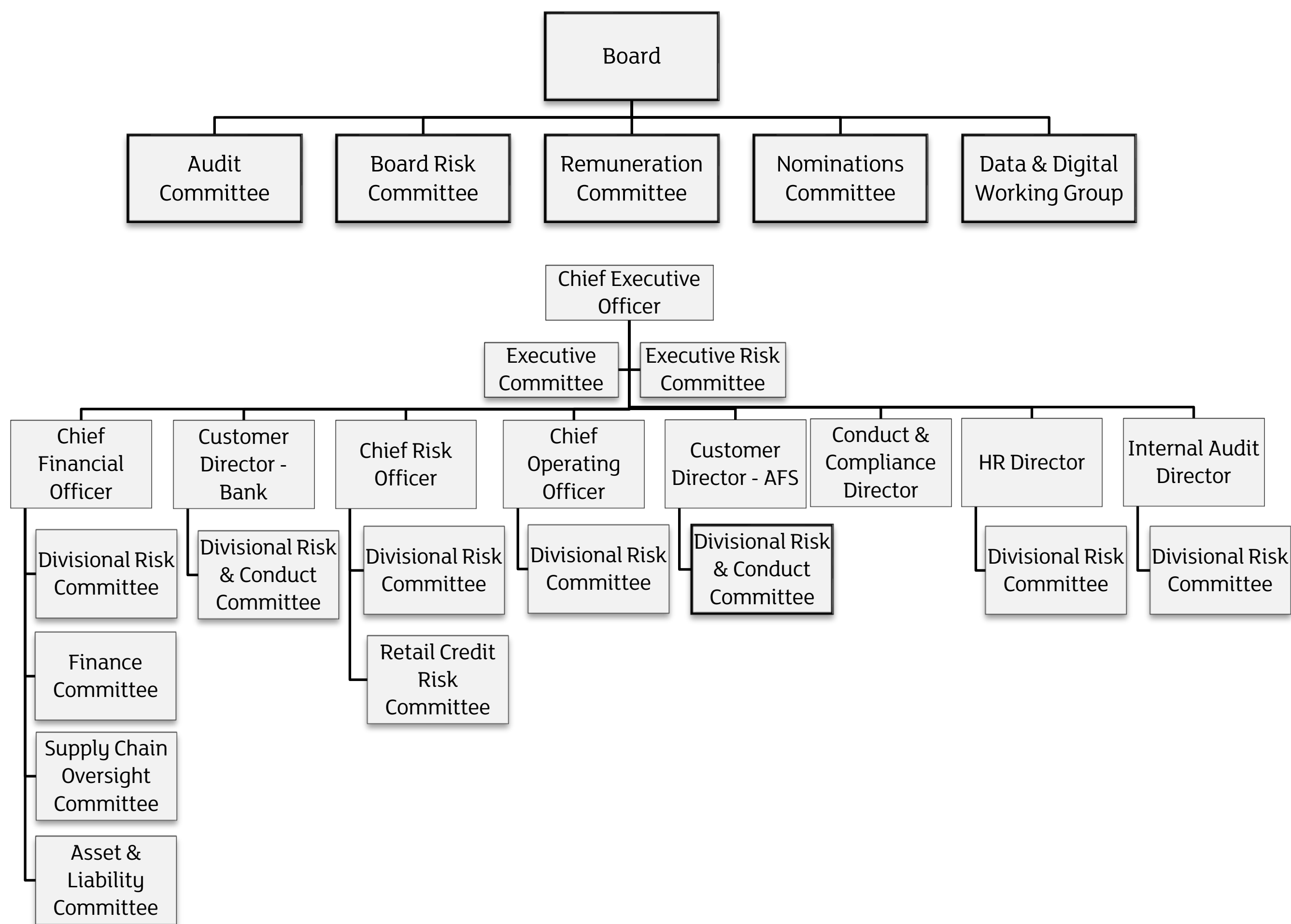
2.2 Risk management structure

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 which ensures there is effective oversight and challenge in place. 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 2022:



There were no significant changes to our governance structure during the accounting period.

2.3.1 Board-level Governance

The Board is the key governance body, meeting at least eight times a year, 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. Details of 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 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. Additionally, the Audit Committee will meet with the External Auditors and Sainsbury's Bank Director of Internal Audit without Executive Management being present.

- **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 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 four 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 bi-monthly.

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. Further information on diversity targets and progress against these can be found in the Bank's financial statements as found on the corporate website (per section 1.5).

2.6 Number of directorships held by members of the Board

The Board comprises two executive Directors and six non-executive Directors. The position and number of directorships of members who served during the year is described in the following table:

Name	Position	Directorships Executive	Directorships Non-Executive
Lesley Jones	Chair (Independent Non-Executive)	-	3
Peter Clarke	Senior Independent Non-Executive	-	4
Michael Ross	Independent Non-Executive	1	3
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	-

Unless otherwise stated above, all of the Directors in office at the date of this report served throughout the period, and up to the date of approval of these financial statements. 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.

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 regards to the Bank's profile and strategy. This declaration is included in Annex I.

2.8 Risk statement

The Bank's risk appetite statement, approved by the Board, 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

Emerging Risks

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.
- **Geo-Political and Economic**. Reflects the impact of macroeconomic conditions and government policy on our markets. For example, we continue to reflect on UK market conditions arising from the COVID-19 pandemic as well as the Russia/Ukraine conflict and the impact changes in interest rates, inflation, the employment market or house prices may have on the availability and 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.

As more information is known about an emerging risk relevant to SBAFS 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.

Inflationary pressures – Inflation has emerged as the most significant economic issue and is set to continue to rise via higher fuel costs coupled with increases in National Insurance. This is expected to put further strains on household incomes over the forthcoming year. Customer impacts are closely monitored with support offered as required. The Bank also undertakes stress testing scenarios to ensure it has enough capital and liquidity to operate over a range of economic outcomes including higher inflation.

Russia/Ukraine conflict - The impact of increasing geopolitical risks, via Russia and Ukraine, further exacerbates potential downside economic risks in energy and commodity shortages. In addition, this situation is also raising our inherent Information Security Risk, with heightened monitoring in place for the detection of ransomware attacks. We also see data protection risks increasing as a function of cyber threats which may feed through into higher conduct and fraud risk (anti money laundering and sanctions risks) if we were to witness non-compliant use of data.

COVID-19 - Performance across the Bank's lending portfolios has been robust to date, driven in part by the successful public policy interventions to address the financial impacts of COVID-19 which limited the increase in unemployment and helped keep bad debt charges under control. The Bank focused on managing its credit strategies during the pandemic and more recently has re-started lending by reversing the credit tightening implemented during that period. However, looking forward there are potential downside risks from increasing interest rates and inflation that will impact customer disposable income. 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 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. 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. Further detail on climate risk and the Bank's environment strategy can be found within the Bank's financial statements and notes to the accounts as published on the corporate website (per section 1.5).

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 the 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 approved risk appetite limits. The results are reported monthly to the Asset and Liability Committee (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, mark to market (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 reviewed annually by Treasury to ensure they remain applicable and are approved by ALCo.

A description of the specific risk measures that the Bank uses to gauge sensitivity to Interest Rate Risk in the Banking Book (IRRBB) can be found in Annex X.

The Bank assesses sensitivities to the changes in its directional and yield curve risk exposures via the net present value of net cashflows from movements in market interest rates across multiple interest rate paths. The scenarios considered include both parallel and non-parallel movements of the yield curve and have been designed to assess impacts across a range of severe but plausible changes in interest rates. The Bank's earnings sensitivity is a shorter-term measure over a 12-month horizon which includes current and forecasted balances against various parallel shift in interest rates to determine the impact to net interest income.

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 provided by Treasury and reviewed monthly.

As at 28 February 2022 change in economic value of equity and change in net interest are as follows:

		Change in Economic Value of Equity	Change in Net Interest Income	Tier 1 Capital
£m		**2022**	**2022**	**2022**
010	Parallel 250 shock up	2.9	8.4	
020	Parallel 250 shock down	(2.5)	(42.0)	
030	Steepener 150 shock	1.7		
040	Flattener 150 shock	(1.1)		
050	Short rates 300 shock up	0.1		
060	Short rates 300 shock down	(1.6)		
070	Maximum	2.9	(42.0)	
080	Tier 1 capital			685

Source: Template UK IRRBB1

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

As at 28 February 2022 average repricing maturity assigned to non-maturity deposits (NMDs) and longest repricing maturity assigned to NMDs are as follows:

Average repricing maturity assigned to NMDs.	4 months
Longest repricing maturity assigned to NMDs.	24 months

Source: Template UK IRRBBA

As at 28 February 2022, the Capital at Risk split by the five risk components is as follows:

Capital at Risk (£m)	**2022**	2021
Repricing risk	**(1)**	(6)
Basis risk	**(1)**	-
Prepayment risk	**(1)**	(1)
Credit spread risk	**(1)**	(2)
MTM risk	**-**	-
Total	**(4)**	(9)

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 for substantial periods reducing exposure to foreign exchange risk. The market risk capital requirement as at 28 February 2022 was £nil (2021: £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 exposure amounts and the perceived risk management framework.

At 28 February 2022 and throughout the period, the Bank complied with the capital requirements that were in force as set out by the PRA. The Bank manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its activities.

The Bank's regulatory capital currently consists of Common Equity Tier 1 (CET1) capital, representing ordinary share capital and reserves with regulatory deductions and Tier 2 capital representing subordinated debt. The Bank issued £175m of fixed rate subordinated debt on 27 November 2017 with a maturity of 10 years. Of this, £109m was eligible as Tier 2 capital at 28 February 2022 (2021: £120m). 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 2022. The own funds disclosure is shown in Annex V.

3.1 Total capital resources

Capital resources are presented below:

	2022 **£m**	2021 £m
Common Equity Tier 1 (CET1) capital:		
Ordinary share capital	701	901
Retained earnings*	125	(47)
Accumulated other comprehensive income	1	3
CET1 capital before regulatory adjustments	827	857
Regulatory adjustments to CET1 capital:		
Intangible assets**	(180)	(130)
Transitional adjustment	38	65
Additional value adjustments	0	(1)
Total regulatory adjustments to CET1 capital	(142)	(66)
CET1 capital	685	791
Tier 1 capital	685	791
Tier 2 capital:		
Loan notes (listed)	109	120
Tier 2 capital	109	120
Total capital	794	911

*Includes current year profit and share based payments net of foreseeable dividend
**Reversal of treatment of software intangibles with these assets being fully deducted in 2022, whereas part of these were risk weighted in 2021

	2022	2021
Risk weighted exposure amount (£m)	4,392	4,503
CET1 capital ratio (%)	15.6	17.6
Total capital ratio (%)	18.1	20.2

3.2 Movement in CET1 capital

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

	£m
CET1 capital at 28 February 2021	**791**
Profit/SBP recognised in retained earnings	**22**
Movement in foreseeable dividend	**(50)**
Transitional adjustment	**(27)**
Movement in additional value adjustment	**1**
Movement in other comprehensive income	**(2)**
Movement in intangible assets deduction	**(50)**
CET1 capital at 28 February 2022	**685**

3.3 Share capital

Total Shares	£m
Allotted, called up and fully paid:	
At 1 March 2021	**901**
Capital reduction	**(200)**
At 28 February 2022	**701**
At 1 March 2020	901
Issued ordinary shares	-
At 28 February 2021	901

During the year the Bank had a capital reduction of £200m (2021: £nil) as the nominal value of shares was reduced. This does not impact CET1 as this is offset by the increase in retained earnings.

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	**857**
Consolidation of HRGCS	**20**
Subordinated debt included as Tier 2 capital	**109**
Foreseeable dividend	**(50)**
Regulatory adjustments to capital	**(142)**
Own Funds at 28 February 2022	**794**

A reconciliation of the statutory balance sheet to regulatory exposures as at 28 February 2022 is included in Annex III.

3.5 Main features of capital instruments

Article 437 of the Disclosure (CRR) Part of the PRA Rulebook 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 £101m across the prudential group which were accounted for directly through profit and loss reserves. Including the effects of taxation, the net Day 1 charge to P&L reserves at 1 March 2018 was £84m.

The Bank has elected to apply the CRR Article 473a transitional approach to IFRS 9 and therefore recognises transitional adjustments within own funds (CET1 capital) and risk–weighted assets. The transitional adjustment reflects the after tax impact of increased provisioning under IFRS 9 at Day 1 plus any subsequent increases in non-defaulted ECL from Day 1 to 29 February 2020. This adjustment is amortised over 5 years - 50% of the transitional amount is added back to regulatory capital in the year ended 28 February 2022. In addition to the adjustment to own funds, transitional adjustments are also made to risk weighted assets with a standard risk weight of 100% for credit risk exposures.

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 adjustment is also amortised over 5 years, where 100% of the transitional amount is added back to regulatory capital in the year ended 28 February 2022. COVID-19 related credit risk exposure adjustments included in CET1 are also subject to a standard risk weight of 100%. At 28 February 2022, the Bank only benefits from IFRS9 transitional relief. As a result of ECL falling to below the 1 March 2020 figure the Bank no longer receives a transitional benefit from the impact of COVID-19. This has resulted in a total regulatory capital add back of £38m and a transitional adjustment of £25m made to risk weighted assets in the year ended 28 February 2022.

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.

	2022 £m
Available capital	
CET1 capital	**685**
CET1 capital as if IFRS 9 transitional arrangements had not been applied	**647**
Tier 1 capital	**685**
Tier 1 capital as if IFRS 9 transitional arrangements had not been applied	**647**
Total capital	**794**
Total capital as if IFRS 9 transitional arrangements had not been applied	**756**
Risk weighted assets	
Total risk weighted assets	**4,392**
Total risk weighted assets as if IFRS 9 transitional arrangements had not been applied	**4,367**
Capital ratios	
CET1 (as a percentage of risk exposure amount)	**15.6%**
CET1 as if IFRS 9 transitional arrangements had not been applied	**14.8%**
Tier 1	**15.6%**
Tier 1 as if IFRS 9 transitional arrangements had not been applied	**14.8%**
Total capital	**18.1%**
Total capital as if IFRS 9 transitional arrangements had not been applied	**17.3%**
UK Leverage ratio	
UK Leverage ratio total exposure measure	**7,048**
UK Leverage ratio excluding central bank claims	**9.7%**
UK Leverage ratio excluding central bank claims as if IFRS 9 transitional arrangements had not been applied	**9.2%**

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 in the year ended 28 February 2022 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 £351m (2021: £360m) and current Pillar 2A £87m (2021: £119m) capital requirements. Therefore, the TCR is 9.97% at 28 February 2022 (2021: 10.6%).

Overview of Risk Weighted Exposure Amounts (RWEAs) (£m)

		RWEA		**Total own funds requirements**
		28-Feb-22	28-Feb-21	**28-Feb-22**
1	**Credit risk (excluding CCR)**	**3,754**	3,850	**300**
2	*Of which standardised approach*	*3,754*	*3,850*	***300***
6	**CCR***	**43**	10	**3**
UK 8a	*Of which exposures to a CCP*	***1***	-	***0***
UK 8b	*Of which credit valuation adjustment - CVA*	***29***	-	***2***
9	*Of which other CCR*	***13***	*10*	***1***
16	**Securitisation exposures in the banking book (after the cap)**	**7**	15	**1**
18	*Of which SEC-ERBA (including IAA)*	***4***	-	***0***
19	*Of which SEC-SA approach*	***3***	*15*	***0***
23	**Operational risk**	**574**	607	**46**
23b	*Of which standardised approach*	***574***	*607*	***46***
24	**Amounts below the thresholds for deduction (subject to 250% risk weight)**	**14**	21	**1**
29	**Total risk**	**4,392**	4,503	**351**

Source: Template UK OV1

*At the year ended February 2021 the Bank used the mark to market method for the calculation of counterparty credit risk but following the regulatory changes for CRR2 the Bank has adopted the original exposure method for the current year. More information on counterparty credit risk can be found in section 5.9.

Minimum Capital Requirement by Exposure Class

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.

28 February 2022	**Minimum capital requirement £m**	**RWEA £m**
Institutions	**2**	**28**
Corporates	**1**	**12**
Retail	**258**	**3,219**
Secured by mortgages on residential property	**21**	**268**
In default	**4**	**52**
Covered bonds	**1**	**17**
Securitisation positions	**1**	**7**
Claims in the form of CIU	**2**	**28**
Equity exposures	**0**	**1**
Other	**13**	**157**
Total credit/counterparty credit risk	**303**	**3,789**
Total operational risk	**46**	**574**
CVA risk	**2**	**29**
Total risk	**351**	**4392**

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

28 February 2021	Minimum capital requirement £m	RWEA £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
Operational risk	49	607
Market risk	-	-
CVA risk	1	10
Total risk	360	4,503

The movement in risk weighted assets in the year ended 28 February 2022 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. The CVA has increased from prior year (2021: £1m) due to changes in exposure at default calculation following adoption of original exposure method to calculate the Bank's counterparty credit risk rather than previous calculations under the mark to market method.

CVA capital charge (£m)

28 February 2022		Exposure value	RWEA
4	Transactions subject to the standardised method	**28.3**	**28.8**
5	Total transactions subject to own funds requirements for CVA risk	**28.3**	**28.8**

Source: Template UK CCR2

At the core of managing operational risk in the Bank is Process Risk and Control Assessment (PRCA); a process centric systematic approach to identifying, measuring, and controlling operational risks, with an evidence-based assessment of the control environment. PRCA is applied where the Bank operates a process in house as well as where it is outsourced (both at the supplier selection phase, and thereafter). PRCA supports the Senior Managers & Certification Regime through clearly defining process and risk ownership. Operational risks are measured against specific risk appetite metrics, approved by Board, and associated policy and policy standards.

Operational risk is an umbrella term which encompasses a wide range of risk types. Ownership of these risk types is distributed across the Bank and managed through ten 'Top Risks', each of which has an Executive and Senior Manager owners being subject matter experts (SMEs). These SMEs are then accountable for designing the detailed standards to be met for their Top Risk and ensuring adequate and effective controls are in place to meet these standards which are detailed within the operational risk management policy framework.

The Bank's operational risk management framework is underpinned by a three lines of defence model. First line owns the risks, second line provides the framework, policies and oversight within which the first line must manage its risk reporting into the Chief Risk Officer, and third line provides independent assurance over the effectiveness of risk management and internal control processes in mitigating and reporting risks.

The PRCA approach captures the Bank's key processes, which are identified and owned by Process Owners (POs). These POs are responsible for approving the overall inherent and residual risk assessments, with oversight from the Risk function in line with specific standards set by the Top Risk Owner, documented in specific operational risk policies and policy standards. PRCAs are assessed and measured against a detailed PRCA methodology which identifies the key processes, risks, inherent risks before controls are applied, the control design, control effectiveness, residual risk assessment, risk acceptance or treatment plans through to risk reporting. The Bank uses a third-party proprietary system to capture all PRCA related risk data which is collated and reviewed by the Risk team and reported through to ERC, BRC and Board.

The Bank uses a standardised approach to operational risk under which the capital charge is set at 12% of the annual average of the sum of the Bank's total income from the last three years. Under Pillar 2A operational risk is assessed based on historical operational risk loss data, forecast operational risk loss data, and operational risk scenario analysis. Conduct risks are assessed separately to BAU operational risks.

Operational risk own funds requirements and risk weighted exposure amounts (£m)

		Relevant indicator			Own funds	Risk weighted
28 February 2022		Year-3	Year-2	Last year	requirements	exposure amount
2	Banking activities subject to standardised (TSA) / alternative standardised (ASA) approaches	**440**	**338**	**371**	**46**	**574**
3	*Subject to TSA:*	**440**	**338**	**371**		
4	*Subject to ASA:*	**-**	**-**	**-**		

Source: Template UK OR1

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. 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.

Non-performing and forborne exposures are disclosed in template UK CQ3 (see Annex VIII). 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 (£m)

28 February 2022	Net value of exposures at the end of the period	Average net exposures over the period
Central governments or central banks	**449**	**707**
Multilateral development banks	**54**	**122**
Institutions	**106**	**131**
Corporates	**12**	**15**
Retail	**4,293**	**4,081**
Secured by mortgages on residential property	**766**	**935**
In default	**52**	**54**
Covered bonds	**169**	**116**
Securitisation positions	**53**	**130**
Claims in the form of CIU	**71**	**39**
Equity exposures	**1**	**1**
Other	**363**	**428**
Total standardised approach	**6,389**	**6,759**
Total credit risk exposure	**6,389**	**6,759**

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

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

Standardised approach to determination of credit risk – Exposures by risk weight and exposure class (£m)

Exposure Classes	**Risk Weight**										**Total**
	0%	**2%**	**10%**	**15%**	**20%**	**35%**	**50%**	**75%**	**100%**	**250%**	
Central governments or central banks	**449**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**449**
Multilateral development banks	**54**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**54**
Institutions	**-**	**9**	**-**	**-**	**70**	**-**	**27**	**-**	**-**	**-**	**106**
Corporates	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**12**	**-**	**12**
Retail	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4,293**	**-**	**-**	**4,293**
Secured by mortgages on residential property	**-**	**-**	**-**	**-**	**-**	**766**	**-**	**-**	**-**	**-**	**766**
In default	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**52**	**-**	**52**
Covered bonds	**-**	**-**	**169**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**169**
Securitisation positions	**-**	**-**	**28**	**25**	**-**	**-**	**-**	**-**	**-**	**-**	**53**
Claims in the form of CIU	**-**	**-**	**-**	**-**	**25**	**-**	**46**	**-**	**-**	**-**	**71**
Equity exposures	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1**	**-**	**1**
Other	**182**	**-**	**-**	**-**	**59**	**-**	**-**	**-**	**107**	**15**	**363**
Total	**685**	**9**	**197**	**25**	**154**	**766**	**73**	**4,293**	**172**	**15**	**6,389**

Source: Template UK 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 Industry sector

Credit Exposure by sector (£m)

28 February 2022	**Corporates**	**Government**	**Financial Institutions**	**Retail**	**Other**	**Total**
Central governments or central banks	**-**	**449**	**-**	**-**	**-**	**449**
Multilateral development banks	**-**	**-**	**54**	**-**	**-**	**54**
Institutions	**-**	**-**	**106**	**-**	**-**	**106**
Corporates	**12**	**-**	**-**	**-**	**-**	**12**
Retail	**-**	**-**	**-**	**4,293**	**-**	**4,293**
Secured by mortgages on residential property	**-**	**-**	**-**	**766**	**-**	**766**
In default	**-**	**-**	**-**	**52**	**-**	**52**
Covered bonds	**-**	**-**	**169**	**-**	**-**	**169**
Securitisation positions	**-**	**-**	**53**	**-**	**-**	**53**
Claims in the form of CIU	**-**	**-**	**71**	**-**	**-**	**71**
Equity exposures	**-**	**-**	**-**	**-**	**1**	**1**
Other	**-**	**-**	**-**	**-**	**363**	**363**
Total credit risk exposure	**12**	**449**	**453**	**5,111**	**364**	**6,389**

28 February 2021	Corporates	Government	Financial Institutions	Retail	Other	Total
Central governments or central banks	-	956	-	-	-	956
Multilateral development banks	-	-	271	-	-	271
Institutions	-	-	108	-	-	108
Corporates	20	-	-	-	-	20
Retail	-	-	-	4,133	-	4,133
Secured by mortgages on residential property	-	-	-	1,231	-	1,231
In default	-	-	-	57	-	57
Covered bonds	-	-	126	-	-	126
Securitisation positions	-	-	122	-	-	122
Other	-	-	-	-	429	429
Total credit risk exposure	20	956	627	5,421	429	7,453

5.5 Capital buffers

Credit institutions are required to hold capital conservation buffers and countercyclical capital buffers to ensure that sufficient capital is accumulated during periods of economic growth to absorb losses in stressed periods. As at 28 February 2022 the capital conservation buffer is 2.5% of RWEAs. 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 via PS15/20.

Institutions are required to calculate an institution-specific countercyclical capital buffer (CCyB) as a weighted average of the countercyclical buffer rates that apply in the countries where the credit exposures are located. Each Basel Committee member state

designates an authority responsible for setting the countercyclical 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 has simplified the exposures to non-UK entities and allocated them instead to the UK as the relevant non-UK exposures are less than 2% of the credit and securitisation exposures in accordance with Commission delegated regulation (EU) 1152/2014. The countercyclical buffer rates therefore have no impact on the Group's capital requirement. Further disclosure of the countercyclical capital buffer requirement in accordance with Article 440 of the CRR is included in Annex VII. Therefore, the Bank institution countercyclical buffer rate at 28 February 2022 was 0%. The UK CCyB rate was reduced to 0% in March 2020, however the Financial Policy Committee have confirmed it will increase to 1% in December 2022.

5.6 Residual maturity of exposures (£m)

		Net Exposure Value					
	28 February 2022	**On demand**	**<=1 year**	**>1 year<=5 years**	**>5 years**	**No stated maturity**	**Total**
1	Loans and advances	287	1,715	2,691	775	-	**5,468**
2	Debt securities	-	221	198	22	0	**441**
3	Total	**287**	**1,936**	**2,889**	**797**	**0**	**5,910**

Source: Template UK CR1-A

5.7 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 exposure amounts 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 2022	Net Exposure Value (£m) Credit Quality Step 1	Credit Quality Step 2	Credit Quality Step 3	Unrated exposure	Total
Central governments or central banks	**449**	**-**	**-**	**-**	**449**
Multilateral development banks	**54**	**-**	**-**	**-**	**54**
Institutions	**78**	**27**	**-**	**1**	**106**
Corporates	**-**	**-**	**-**	**12**	**12**
Retail	**-**	**-**	**-**	**4,293**	**4,293**
Secured by mortgages on residential property	**-**	**-**	**-**	**766**	**766**
In default	**-**	**-**	**-**	**52**	**52**
Covered bonds	**169**	**-**	**-**	**-**	**169**
Securitisation positions	**53**	**-**	**-**	**-**	**53**
Claims in the form of CIU	**25**	**46**			**71**
Equity exposures	**-**	**-**	**-**	**1**	**1**
Other	**-**	**-**	**-**	**363**	**363**
Total exposure post-mitigation	**855**	**73**	**-**	**5,488**	**6,389**

Note that CRM techniques have no impact on the CQS of the Bank's exposures.

28 February 2021	Net Exposure Value (£m) Credit Quality Step 1	Credit Quality Step 2	Credit Quality Step 3	Unrated exposure	Total
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 residential 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

5.8 Credit risk mitigation

CRM techniques – Overview (£m)

		Unsecured carrying amount	Secured carrying amount	Of which secured by collateral	Of which secured by financial guarantees	Of which secured by credit derivatives
1	Loans and advances	**4,690**	**778**	**778**	**-**	**-**
2	Debt securities	**441**	**-**	**-**	**-**	**-**
3	**Total**	**5,131**	**778**	**778**	**-**	**-**
4	*Of which Non-performing exposures*	*46*	*6*	-	-	-
5	*Of which defaulted*	*46*	*6*	-	-	-

Source: Template UK 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 loans can be found in Annex VIII. The fair value of collateral held against possession cases was £nil (2021: £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 IX. The main key developments over the course of the year was the restarting of lending following COVID-19 which reversed the credit tightening which was implemented during that period in 2020.

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 2022 was £234m to the Bank of England (2021: £852m) before taking into account collateral or other credit enhancements of £nil (2021: £nil). The Bank measures credit and market concentration risks as governed by ISDA and 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 and does not have any exposures secured by financial guarantees.

Standardised approach - Credit risk exposure and CRM effects (£m)

		Exposures before CCF and CRM		Exposures post-CCF and CRM		RWEA and RWEA density	
	Exposure classes	**On-balance sheet amount**	**Off-balance sheet amount**	**On-balance sheet amount**	**Off-balance sheet amount**	**RWEAs**	**RWEA density**
1	Central governments or central banks	**449**	**-**	**449**	**-**	**-**	**0%**
4	Multilateral development banks	**54**	**-**	**54**	**-**	**-**	**0%**
6	Institutions*	**88**	**18**	**88**	**18**	**28**	**26%**
7	Corporates	**12**	**-**	**12**	**-**	**12**	**100%**
8	Retail**	**4,288**	**8,742**	**4,288**	**5**	**3,219**	**75%**
9	Secured by mortgages on residential property	**766**	**-**	**766**	**-**	**268**	**35%**
10	In default**	**52**	**61**	**52**	**-**	**52**	**100%**
12	Covered bonds	**169**	**-**	**169**	**-**	**17**	**10%**
	Securitisation positions	**53**	**-**	**53**	**-**	**7**	**12%**
14	Claims in the form of CIU	**71**	**-**	**71**	**-**	**28**	**39%**
15	Equity exposures	**1**	**-**	**1**	**-**	**1**	**100%**
16	Other items	**363**	**-**	**363**	**-**	**157**	**43%**
17	**Total**	**6,366**	**8,821**	**6,366**	**23**	**3,789**	**59%**

Source: Template UK CR4
*This includes the Bank's net collateral asset position £2m after netting impacts of £18m.
**Undrawn commitments for credit cards and HRGCS store card balances have a CCF of 0% and pipeline loans have a CCF of 20%.

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

5.9 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.

	Exposures (£m)		
28 February 2022	**Retail**	**Secured by mortgages on residential property**	**Total lending**
Impaired			
Less than 3 months, but impaired	**31**	**8**	**39**
Past due 3 to 6 months	**32**	**0**	**32**
Past due 6 to 12 months	**28**	**0**	**28**
Past due over 12 months	**15**	**1**	**16**
Recoveries	**59**	**-**	**59**
Total gross impaired loans	**165**	**9**	**174**
Past due but not impaired			
Past due up to 3 months but not impaired	**60**	**1**	**61**
Total gross past due but not impaired	**60**	**1**	**61**
Neither past due nor impaired			
Off-balance sheet	**5**	**-**	**5**
Not impaired*	**4,312**	**772**	**5,084**
Total gross neither past due nor impaired	**4,317**	**772**	**5,089**
Total gross amount due	**4,542**	**782**	**5,324**

*Includes retail loans and advances of £5m that would have been past due or impaired had their terms not been renegotiated.

	Exposures (£m)		
28 February 2021	Retail	Secured by mortgages on residential property	Total lending
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	-	37
Past due over 12 months	2	1	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*	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

* Includes retail loans and advances of £8m 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 the stock of non-performing loans and advances (£m)

		Gross carrying amount
010	Initial stock of non-performing loans and advances	**217**
020	Inflows to non-performing portfolios	**96**
030	Outflows from non-performing portfolios	**(139)**
040	*Outflows due to write-offs*	*(100)*
050	*Outflows due to other situations*	*(39)*
060	**Final stock of non-performing loans and advances**	**174**

Source: Template UK CR2

This table 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 2022 was £nil (2021: £nil). The fair value of collateral held for loans and advances to banks was £nil (2021: £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 2022 was £nil (2021: £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 2022, 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 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 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 2022, the Bank had received £20m of cash collateral for centrally cleared interest rate derivatives (2021: the bank had posted £29m – a difference of £49m). For interest rate derivatives not centrally cleared, the Bank has posted cash collateral of £19m (2021: £1m).

As at 28 February 2022, the Bank has pledged gilts as initial margin as required by its central clearing party with a value of £22m (2021: £28m).

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 under the CRR Original Exposure Method (OEM). The Bank calculates the Potential Future Exposure (PFE) which is multiplied by the standard factor 1.4 to calculate the derivative exposure value. As at 28 February 2022, the PFE is £26m, resulting in a derivative exposure value of £37m. Capital requirements under the OEM are disclosed within credit risk exposures (2022: £1m).

The other component of counterparty credit risk is the Credit Valuation Adjustment (CVA). This is disclosed separately (2022: £2.3m, 2021: £0.8m).

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). At the time of approval 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.

Analysis of CCR exposure by approach (£m)

		a	b	d	e	f	g	h
		Replacement cost (RC)	**Potential future exposure (PFE)**	**Alpha used for computing regulatory exposure value**	**Exposure value pre CRM**	**Exposure value post CRM**	**Exposure Value**	**RWEA**
1	Original exposure method (for derivatives)	0.3	20	1.4	28	28	28	13
6	**Total**	**0.3**	**20**		**28**	**28**	**28**	**13**

Source: Template UK CCR1

CCR exposures by regulatory exposure class and risk weights (£m)

	Exposure Class	a	b	c	d	e	f	g	h	i	k	l
		Risk Weight										
		0%	2%	10%	15%	20%	35%	50%	75%	100%	Other	Total Exposure Value
6	Institutions	-	9	-	-	3	-	25	-	-	-	37
11	**Total**	-	9	-	-	3	-	25	-	-	-	37

Source: Template UK CCR3

Composition of collateral for CCR exposures (£m)

	Collateral type	Collateral used in derivatives transactions				Collateral used in securities financing transactions (SFTs)	
		Fair value of collateral received		Fair value of collateral posted		Fair value of collateral received	Fair value of collateral posted
		Segregated	Unsegregated	Segregated	Unsegregated		
1	Cash	-	20	-	20	-	-
2	Debt	-	-	-	-	-	-
3	Equity	-	-	22	-	-	-
4	Other	-	-	-	-	-	-
5	**Total**	-	20	22	20	-	-

Source: Template UK CCR5

Exposures to CCPs (£m)

		Exposure Value	RWEA
1	**Exposures to QCCPs (total)**		0.2
2	Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	9	0.2
3	(i) OTC derivatives	9	0.2
7	Segregated initial margin	22	
11	**Exposures to non-QCCPs (total)**	-	-

Source: Template UK CCR8

5.10 Internal capital adequacy assessment process

The Bank undertakes an ICAAP on an annual basis (or more frequently if required) providing an internal assessment of Pillar 2A and Pillar 2B capital requirements and makes adjustments to increase if required. The ICAAP is prepared in accordance with CRD IV as implemented by the PRA's capital adequacy assessment rules and methodologies and its April 21 Statement of Policy on the methodologies for setting Pillar 2 capital. It is proportionate to the Bank's own assessment that its business model – a UK based core business with lines of banking products, general insurance, and Travel Money – is relatively simple, but is predominantly outsourced to key third party providers for its banking IT systems and infrastructure.

The Pillar 2A review considers firm specific risks and risks not included in Pillar 1 which are assessed in line with regulatory prescribe methodologies and Pillar 2B, which provides an assessment of the Bank's stressed capital adequacy in the context of its business strategy, risk appetite, risk profile and corporate plan. The Bank's corporate plan provides the baseline for the stress testing analysis

which considers the impact of alternative scenarios, as agreed by the Board, on the Bank's capital resources and requirements and the actions that can be taken to manage the capital position during these periods of stress.

The outcome of the ICAAP is approved by ERC, BRC and Board. The Bank is on a three-year review cycle with the PRA where the TCR is set by the regulator based on their assessment of the Bank's conclusions within the ICAAP.

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.

The Bank launched 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 (SPE), 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 £725m pool of personal loan assets. The SPE issued a £500m A note and a £225m Z note. As at 28 February 2022, the securitised loan pool was £621m. The A note was £500m and Z note was £121m.

As at 28 February 2022, 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 does not meet 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.

The Bank has no re-securitisation exposures.

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 and 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 UK 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 impacting 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.

The Bank has not provided support to any securitisation exposures.

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.

The Bank securitisation and covered bond exposures are captured in the below table. The Bank recognised expected credit losses (ECL) of £18k for covered bond exposures, £3k for RMBS exposures and £4k for ABCP exposures. All the Bank's RMBS investments are considered simple, transparent and standardised (STS) and are risk weighted accordingly.

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, Fitch and DBRS are used to rate securitisation transactions.

Securitisation and Covered Bond Exposures and RWEA (£m)

	2022			2021		
	Net Exposure	**RWEA**	**Capital Requirement**	Net Exposure	RWEA	Capital Requirement
Residential Mortgage Backed Covered Bonds	**169**	**17**	**2**	126	13	1
Residential Mortgage Backed Securities	**28**	**3**	**0**	72	7	1
AB Commercial Paper	**25**	**4**	**0**	50	7	1
Total	**222**	**24**	**2**	248	27	3

Securitisation exposures in the non-trading book (£m)

		Institution acts as originator				**Institution acts as investor**			
		Traditional		**Synthetic**	**Sub-total**	**Traditional**		**Synthetic**	**Sub-total**
		STS	**Non-STS**			**STS**	**Non-STS**		
1	**Total exposures**	**621**	**-**	**-**	**621**	**28**	**25**	-	**53**
2	Retail (total)	621	-	-	621	-	-	-	-
5	Other retail exposures	621	-	-	621	-	-	-	-
7	Wholesale (total)	-	-	-	-	28	25	-	53
10	Lease and receivables	- -	-	-	-	28	25	-	53

Source: Template UK SEC1

Note the Bank does not act as a sponsor for any securitisation exposures therefore this has been omitted from the above table.

Securitisation exposures in the non-trading book and associated regulatory capital requirements - institution acting as investor (£m)

		Exposure values (by RW bands/deductions)			Exposure values (by regulatory approach)		RWEA (by regulatory approach)		Capital charge after cap	
		≤20% RW	>20% to 50% RW	>50% to 100% RW	SEC-ERBA	SEC-SA	SEC-ERBA	SEC-SA	SEC-ERBA	SEC-SA
1	**Total exposures**	**53**	**-**	**-**	**25**	**28**	**4**	**3**	**0.32**	**0.24**
2	Traditional transactions	53	-	-	25	28	4	3	0.32	0.24
3	Securitisation	53	-	-	25	28	4	3	0.32	0.24
6	Wholesale	53	-	-	25	28	4	3	0.32	0.24
7	*Of which STS*	-	-	-	-	*28*	-	*3*	-	*0.24*

Source: Template UK SEC4

7 Non trading book exposure in equity

The Bank holds an equity exposure in Visa Inc. with a carrying value and fair value of £1.3m as at 28 February 2022. The Bank's investment strategy does not permit investment in equities, however this exposure originated due to a requirement to hold a share in Visa Europe in order to be a member of the credit card scheme. The original holding was exchanged for a share in Visa Inc. The Bank also holds £0.1m of investments in subsidiary undertakings that are excluded from the regulatory scope of consolidation (Home Retail Group Insurance Services Limited and ARG Personal Loans Limited).

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. The introduction of CRR2 allows the Bank to calculate the leverage ratio measure excluding central bank claims. See below for UK leverage ratio under transitional and fully loaded measures. For comparative purposes we have also included the EBA ratios in the table below.

	2022	2021
UK Leverage ratio - using a transitional definition of tier 1 capital (leverage)	**9.7%**	
UK Leverage ratio - using a fully phased-in definition of tier 1 capital (leverage)	**9.2%**	
EBA Leverage ratio - using a transitional definition of tier 1 capital (leverage)	**9.4%**	9.5%
EBA Leverage ratio - using a fully phased-in definition of tier 1 capital (leverage)	**8.9%**	

	2022 **£m**	2021 £m
Components of the leverage ratio		
Total assets per statutory financial statements*	**6,516**	7,497
Removal of accounting value of derivatives and securities financing transactions (SFTs)	**(19)**	-
Exposure value for derivatives and SFTs	**37**	22
Off-balance sheet exposures: unconditionally cancellable (10%)	**878**	917
Off-balance sheet: other	**5**	13
Other adjustments	**(189)**	(79)
Transitional adjustments	**38**	
Central bank claims	**(219)**	
UK Denominator – transitional definition	**7,048**	
UK Denominator– fully phased-in definition	**7,010**	
EBA Denominator – transitional definition	**7,267**	8,370
EBA Denominator– fully phased-in definition	**7,229**	
Tier 1 capital (numerator) - using a transitional definition of tier 1 capital (leverage)	**685**	791
Tier 1 capital (numerator) - using a fully phased-in definition of tier 1 capital (leverage)	**647**	

*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 9.7% exceeds the minimum UK leverage ratio of 3.25%. The EBA leverage ratio remained relatively static during the year driven by lower risk weighted exposure amounts and a proportionate reduction in capital. The adoption of the UK leverage ratio has therefore improved the Bank's leverage ratio by excluding the central bank claims to reduce the leverage adjusted assets.

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. Unsecured personal loans pledged as collateral for secured funding, the Bank of England Cash Ratio Deposit and collateral paid in respect of derivative margins are included 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 2022:

Encumbered and unencumbered assets (£m)

		Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
			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**	**1,566**	**82**			**5,303**	**804**		
030	Equity	-	-			1	-	1	-
040	Debt securities	82	82	82	82	408	340	408	340
050	*Of which: covered bonds*	*3*	*3*	*3*	*3*	*121*	*118*	*121*	*118*
060	*Of which: securitisations*	-	-	-	-	*110*	*45*	*110*	*45*
070	*Of which: issued by general governments*	*28*	*28*	*28*	*28*	*10*	*10*	*10*	*10*
080	*Of which: issued by financial corporations*	*51*	*51*	*51*	*51*	*167*	*167*	*167*	*167*
120	Other assets	1,484	-			4,894	464		

Source: Template UK AE1

Collateral received and own debt securities issued (£m)

		Fair value of encumbered collateral received or own debt securities issued		Unencumbered: Fair value of collateral received or own debt securities issued available for encumbrance	
			of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA
		010	030	040	060
130	**Collateral received by the reporting institution**	**43**	**43**	**11**	**11**
140	Loans on demand	6	6	-	-
150	Equity instruments	-	-	-	-
160	Debt securities	37	37	11	11
190	*Of which: issued by general governments*	*7*	*7*	*11*	*11*
200	*Of which: issued by financial corporations*	*30*	*30*	-	-
220	Loans and advances other than loans on demand	-	-	-	-
230	Other collateral received	-	-	-	-
240	**Own debt securities issued other than own covered bonds or securitisations**	-	-	-	-
241	**Own covered bonds and asset backed securities issued and not yet pledged**			497	410
250	**Total assets, collateral received and own debt securities issued**	**1,609**	**1,609**		

Source: Template UK AE2

Sources of encumbrance (£m)

		Matching liabilities, contingent liabilities or securities lent (£m)	Assets collateral received and own debt securities issued other than covered (£m)
		010	030
010	Carrying amount of selected financial liabilities	1,004	1,559

Source: Template UK AE3

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) 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 personal loans securitisation facility and the Bank of England's Term Funding Scheme Small and Medium-sized enterprises (TFSME) 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.

The Bank launched a securitisation programme in November 2020, which 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 £725m pool of personal loan assets. The SPE issued a £500m A note and a £225m Z note. As at 28 February 2022 the securitised loan pool was £621m. The A note was £500m and Z note was £121m. The £621m 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 (2022: £28m) and part in a collateral swap (2022: £28m). These are supported by £69m of lending and generated £50m of funding.

The Bank also has £15m of cash collateral encumbered as part of the Bank of England's Cash Ratio Deposit Scheme.

Additionally, the Bank has encumbered cash collateral of $58.5m (2021: $58.5m) to MasterCard against the risk of issuing merchant spend credit.

The Bank maintains a level of encumbrance commensurate with the scale and scope of its business activities with the aim of ensuring it has adequate access to a diverse range of funding options. The Bank monitors asset encumbrance on a regular basis and is included within its liquidity and funding risk appetite suite of metrics.

Source: Template UK AE4

10 Liquidity risk management

Strategies and processes in the management of liquidity risk

The Bank's liquidity risk appetite is set and approved annually by the Board. It provides a clear articulation of the level of liquidity risk the Bank is prepared to accept to achieve its strategic objectives.

The Bank's risk appetite is expressed and embedded through:

- ‘high-level’ Risk Appetite Statements (RAS) that provide a concise set of limits, with a balance of current, forward-looking and stress-based metrics for financial and non-financial risks
- ‘directional’ risk appetite metrics which are designed to control detailed positioning and provide assurance that the Bank remains on-track to meet its ‘high-level’ risk appetite targets

The Bank’s principal RAS in respect of liquidity requires that the Bank retains an appropriate quantum and composition of liquid assets to ensure that it has sufficient liquid resources in place to survive a period of 90 days in a stress scenario. The stress requirement is defined as the peak cumulative outflow over 3 months under the Bank’s worst case internal stress scenario, as modelled in its annual Internal Liquidity Adequacy Assessment Process (ILAAP). The Bank’s Operational Liquidity Pool (‘OLP’) must remain within the risk appetite.

The RAS also requires that the Bank complies with all relevant regulatory requirements for the below metrics:
- The Liquidity Coverage Ratio (LCR) plus any applicable Pillar 2 add-ons
- The Net Stable Funding Ratio (NSFR)

In addition, the Bank has in place further directional risk appetite metrics to effectively monitor and manage Bank’s liquidity and funding risk:
- Asset Encumbrance Ratio
- Available Contingent Funding
- Days of Positive Cumulative Liquidity

Funding concentrations and tenor are managed though a further suite of metrics with the key measures being:
- Wholesale funding as a percentage of total liabilities
- Wholesale funding maturing in 90, 180 and 360 days as a percentage of total liabilities
- Stable deposits as a percentage of total deposits
- Percentage of deposits on a fixed term arrangement

Structure and organisation of liquidity risk management function
The Treasurer is responsible for the management of liquidity risk, and the position is overseen by the Asset and Liability Committee (ALCo), chaired by the Chief Financial Officer. The day-to-day monitoring and management of Bank’s liquidity risk is co-ordinated by the Balance Sheet Management (BSM) team and the management of the liquidity buffer is performed by the Markets team, both of which sit within Treasury and report to the Treasurer. Liquidity risk is managed within the Board approved Risk Appetite Statement and in line with the liquidity and funding policy which is owned by the second line Financial Risk team. Activities of the first and second line teams are subject to review by the independent internal audit team. The Liquidity Contingency plan (LCP), which forms part of the Recovery and Resolution Plan (RRP) requires that liquidity stresses are addressed by the Crisis Management Team (CMT). The CMT is convened with the full delegated authority of the Bank’s Chief Executive Officer (CEO) to make the decisions necessary to deal with any liquidity stress encountered.

Degree of centralisation of liquidity management
Although management Liquidity Risk is the primary responsibility of the Treasury team the process requires engagement from several different units:
- The Finance team provide regulatory interpretations, data inputs and business forecasts
- Customer and product teams provide trading updates and specialist knowledge on the likely impact of periods of stress on specific products
- The 2nd Line Financial Risk team provides independent review, risk frameworks and policies together with guidance and oversight
- The 3rd line Internal Audit Division provides independent assurance on the effectiveness of risk management and internal control processes

These teams assess the Bank's liquidity position on a regular basis through the Interlock Forum, which feeds into ALCo.

Scope and nature of liquidity risk reporting and measurement systems

The Bank's liquidity position is formally monitored on a monthly basis, with exposures reported against high level RAS, directional risk appetite metrics and concentration metrics. The full suite of reports are reviewed at ALCO, with a subset escalated to ERC and BRC.

Estimates of the Bank's position versus the high level RAS metrics are reported to ALCo members daily, together with the associated 3 month forecast of these metrics alongside a suite of Early Warning Indicators.

Policies for hedging and mitigating liquidity risk

Liquidity and funding risk is primarily managed in line with the Liquidity and Funding policy which is written and owned by the 2nd Financial Risk Team. It is supplemented by the Liquidity Policy Standard which is owned by the 1st line Balance Sheet Management team. Together the policy and policy standard are designed to ensure that effective liquidity and funding risk management is maintained through liquidity planning, active monitoring of current and future balance sheet projections and the identification of available mitigating actions.

The policies require:

- Ongoing access to a diversified and stable funding base
- Maintenance of an appropriate contingent funding reserve
- Ongoing access to a diversified liquid asset portfolio, in line with regulatory guidelines, and which can be monetised when required
- Maintenance of a robust risk appetite and limit framework that is well defined and quantifiable and which is approved by the Board
- An appropriate liquidity contingency plan which is appropriately documented as part of the Recovery and Resolution plan
- Appropriate and transparent Liquidity Transfer Pricing policies which fairly attribute the cost of liquidity
- Effective collateral management ensuring the timely placement and draw-down of the Bank's collateral pools
- Monitoring and forecasting liquidity positions against limits and targets

Contingency funding plans

The Liquidity Contingency Plan (LCP) is approved by ALCo and tested on an annual basis. A liquidity stress would be managed by the CMT which has the full delegated authority of the CEO to take all actions necessary to manage liquidity in a stress scenario.

The LCP contains details of a range of actions that can be taken in the event of a liquidity stress, the main items of which are detailed below:

- Liquidate liquidity buffer
- Realise contingent liquidity resources
- Mitigate deposit outflows through customer communications and price changes
- Reduce lending
- Sell assets

The combined effect of these actions is forecast to realise sufficient liquidity to address stress outflows.

Liquidity stress testing

Liquidity tress testing forms the basis of the Bank's primary liquidity risk appetite statement, which requires that the Bank retains an appropriate quantum and composition of liquid assets to ensure that it has sufficient liquid resources in place to survive a period of 90 days in a stress scenario. The stress requirement is defined as the peak cumulative outflow over 3 months under the Bank's worst case internal stress scenario, as modelled in its annual Internal Liquidity Adequacy Assessment Process (ILAAP). Stress testing is performed monthly, using the 3 most severe scenarios as defined in Bank's ILAAP. Results of these stress tests are reported to ALCo. Additionally,

stressed outflows are estimated daily and compared to the Bank's available OLP for the purpose of monitoring its position against the high-level RAS metrics. This position is reported to ALCo members daily, together with the associated 3 month forecast of these metrics and a suite of Early Warning Indicators.

Adequacy of liquidity risk management

The Board, through its review and approval of the annual ILAAP and associated risk appetite measures ensures that material liquidity risks are identified, stress tested, monitored and managed. Through this process the Board ensures that appropriate liquidity risk management processes and systems are in place and that the Bank retains sufficient resources to withstand a severe but plausible liquidity stress over 90 days. Furthermore, the preparation and review of an associated funding plan ensures that the Bank maintains a stable and diversified funding base which ensures the ongoing security of the liquidity position.

Liquidity risk statement

The Bank's liquidity risk appetite is observed through the Bank's Overall Liquidity Adequacy Rule which is designed to ensure that liabilities can be met as they fall due. In particular, the Bank:

- Holds sufficient liquidity, defined as the Operational Liquidity Pool, to ensure the survival period of at least 3 months under the Bank's most severe internal stress scenario, as defined in ILAAP
- Will always exceed minimum regulatory requirements and maintain the Liquidity Coverage Ratio plus any applicable Pillar 2 add-ons above the regulatory minimum
- Will ensure that the available stable funding exceeds the stable funding requirement

10.1 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 2.1. The weighted average liquidity buffer (representing eligible High Quality Liquid Assets (HQLA)), 30-day net cash outflows and LCRs are shown below. The ratio exceeded all internal and regulatory minimum values throughout the year.

		Total unweighted value (average)					Total weighted value (average)				
UK 1a	Quarter ending	Feb 2022	Dec 2021	Sep 2021	Jun 2021	Mar 2021	Feb 2022	Dec 2021	Sep 2021	Jun 2021	Mar 2021
UK 1b	Number of data points used in the calculation of averages	13	13	13	13	13	13	13	13	13	13
	HIGH-QUALITY LIQUID ASSETS										
1	Total high-quality liquid assets (HQLA)						861	943	985	1,033	1,099
	CASH - OUTFLOWS										
2	Retail deposits and deposits from small business customers, of which:	4,625	4,764	4,937	5,162	5,416	308	348	398	453	506
3	*Stable deposits*	2,953	2,546	1,922	1,277	856	148	127	96	64	43
4	*Less stable deposits*	1,306	1,810	2,541	3,339	3,998	160	220	302	389	464
5	Unsecured wholesale funding	59	66	80	81	88	27	30	47	47	51
7	*Non-operational deposits (all counterparties)*	58	65	80	80	86	26	29	46	46	49
8	*Unsecured debt*	1	1	2	3	10	1	1	1	1	2
10	Additional requirements	24	24	24	25	25	24	24	24	25	25
11	*Outflows related to derivative exposures and other collateral requirements*	24	24	24	25	25	24	24	24	25	25
14	Other contractual funding obligations	57	63	69	73	73	35	37	36	32	26
15	Other contingent funding obligations	8,979	9,024	9,086	9,126	9,116	144	148	160	169	179
16	**TOTAL CASH OUTFLOWS**						**539**	**589**	**668**	**730**	**792**
	CASH - INFLOWS										
17	Secured lending (e.g. reverse repos)	8	12	12	15	15	-	-	-	-	-
18	Inflows from fully performing exposures	249	254	257	264	269	188	191	190	192	191
19	Other cash inflows	32	30	39	44	39	32	30	39	44	39
20	**TOTAL CASH INFLOWS**	**289**	**296**	**308**	**323**	**322**	**220**	**221**	**229**	**237**	**230**
UK-20c	*Inflows subject to 75% cap*	289	296	308	323	322	220	221	229	237	230
	TOTAL ADJUSTED VALUE										
UK-21	**LIQUIDITY BUFFER**						**861**	**943**	**985**	**1,033**	**1,099**
22	**TOTAL NET CASH OUTFLOWS**						**316**	**365**	**436**	**489**	**557**
23	**LIQUIDITY COVERAGE RATIO**						**272%**	**259%**	**226%**	**211%**	**197%**

Source: Template UK LIQ1

The Bank's LCR primarily consist of outflows from retail deposits, drawdowns via credit cards and additional collateral requirements. The Bank recognises contractual inflows that relate to performing balances only from Retail and Financial customers which consist of principal and interest payments. The Bank has observed a decrease in its net liquidity outflow requirement over the last twelve months, driven by the steady reduction in retail balances over this time due to lower funding requirements and changes to the stability of composition of the Bank's retail customer base.

The Bank is primarily exposed to term retail and wholesale funding concentrations. To avoid unwanted reliance on retail and wholesale funding sources and to promote a sound funding profile the Bank has implemented a limit framework across term maturity, term composition, FSCS protected balances and encumbrance metrics. The Bank also has off-balance sheet funding risks which are driven by undrawn credit card commitments, loan pipeline new business and derivative positions.

The average HQLA of £820m is calculated in accordance with Commission Delegated Regulation (EU) 2015/61 and the EBA Guidelines on LCR disclosure to complement the disclosure of liquidity risk management under Article 435 CRR. The Bank has no currency mismatch at the year end with all exposures being GBP in line with reported currency.

The Bank holds collateral in respect of variation margin linked to derivatives transactions and this potential outflow is recognised corresponding to the collateral requirement that would arise in adverse market conditions. To assess the impact of cash collateral requirements in the event of a market-wide stress or increased volatility in the financial markets, the Banks uses the higher of a 200bps parallel shift in the sterling swap curve, floored at zero. This is calculated based on the Pillar 1 Historical Look Back Approach (HLBA) approach. The Bank has secured funding via the Bank of England operations and has placed collateral for this funding. The deterioration of the asset pool due to economic stress or early redemptions could potentially result in collateral cash requirement.

The Pillar 3 disclosure obligations require Banks to disclose the 12 month rolling averages each quarter. We do not consider anything else relevant for disclosure.

11 Net stable funding ratio

The Bank monitors and reports the Net Stable Funding Ratio (NSFR) on a Bank solo consolidated reporting basis. This is monitored in line with internal risk appetite thresholds set by the Board as described in section 2.1. The NSFR position at 28 February 2022 is shown below. The ratio exceeds all internal and regulatory minimum values.

		Unweighted value by residual maturity				Weighted value
		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	
Available stable funding (ASF) Items						
1	Capital items and instruments	828	-	-	175	1,003
2	*Own funds*	828	-	-	175	1,003
4	Retail deposits		3,942	136	152	3,998
5	*Stable deposits*		3,417	112	129	3,481
6	*Less stable deposits*		525	24	23	517
7	Wholesale funding:		327	72	667	716
8	*Operational deposits*		-	-	-	-
9	*Other wholesale funding*		327	72	667	716
11	Other liabilities:	-	357	-	-	-
13	*All other liabilities and capital instruments not included in the above categories*		357	-	-	-
14	**Total ASF**					**5,717**

Required stable funding (RSF) Items						
15	Total high-quality liquid assets (HQLA)					58
17	Performing loans and securities:		1,479	489	3,240	3,839
19	*Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions*		142	-	-	15
20	*Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which:*		1,321	474	2,509	3,169
22	*Performing residential mortgages, of which:*		16	15	731	655
23	*With a risk weight of less than or equal to 35% under the Basel II standardised approach for credit risk*		16	15	731	655
24	*Other loans and securities that are not in default and do not qualify as HQLA, including exchange-traded equities and trade finance on-balance sheet products*		-	-	1	1
26	Other assets:		116	13	530	652
28	*Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs*		22	-	-	19
29	*NSFR derivative assets*		1			1
31	*All other assets not included in the above categories*		93	13	530	632
32	Off-balance sheet items		8,803	-	-	185
33	**Total RSF**					**4,734**
34	**Net Stable Funding Ratio (%)**					**120.7%**

Source: Template UK LIQ2

The Bank's stable funding is primarily made up of Retail Deposits, the Banks Capital and BOE borrowing. The stable funding represents the portion of capital and liabilities which is expected to be reliable for more than one year. This exceeds the Banks Stable Funding Requirement which is primarily made up of the Banks Retail Lending and Other Assets (Fixed Assets and Debtors).

12 Remuneration

12.1 Remuneration committee

The role of the Remuneration Committee is to determine and agree the broad policy for remuneration and for compliance with the FCA and the PRA remuneration requirements to the extent that the provisions apply to the Bank. The Remuneration Committee is responsible for monitoring and noting the level and structure of remuneration for all colleagues within Sainsbury's Bank and Argos Financial Services at all levels, including approval of remuneration for Material Risk Takers (see section below).

The Remuneration Committee continually reviews and assesses the impact of remuneration policies on the risk profile of the Bank and colleague behaviour. 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. During the year ended 28 February 2022, the Remuneration Committee met 4 times.

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; however the Remuneration Committee has not appointed their own independent Remuneration Committee advisors.

The Remuneration Committee reviews the Remuneration Policy (which applies to all permanent and fixed term colleagues of Sainsbury's Bank and Argos Financial Services) on an annual basis. In addition, an independent review is sought by Pricewaterhouse Coopers LLP to ensure that the Policy is in line with applicable remuneration regulations. As part of the most recent review of the Remuneration Policy, amendments were made in light of the introduction of CRD V, in particular to incorporate the relevant regulatory requirements on malus and clawback.

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 judgments regarding the remuneration decisions presented by management.

The long-term interests of all stakeholders are considered 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 Remuneration Committee has oversight over guarantees, buy-outs, retention and termination payments, and the associated criteria, which is set out in the Remuneration Policy.

The Bank prepares a Remuneration Policy Statement, 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.

Identification of Material Risk Takers

Material Risk Takers are defined as staff whose professional activities have a material impact on the institution's risk profile.

In line with the approved definitions and interpretations, the Bank's MRT population typically comprises all members of the Board and Executive Committee, in addition to the Heads of Control Functions (i.e. Risk, and Internal Audit), the members of relevant management committees and any other individuals whose professional activities have a material impact on the Bank's risk profile, which includes consideration of those individuals whose remuneration meets the quantitative criteria as prescribed by the EBA.

HR is responsible for carrying out the identification self-assessment process in line with the approved definitions and interpretations. Risk as well as relevant business support functions are involved in the identification process. The Executive Committee and CRO undertake a review of the list of MRTs to ensure that all individuals whose professional activities have a material impact on an institution's risk profile are captured prior to BRC review and subsequent RemCo approval.

12.2 Link between pay and 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.

Components of remuneration

The remuneration of all employees, including MRTs, is comprised of an appropriate balance of fixed pay and variable pay.

Fixed Pay

Base salaries are set to ensure colleagues are attracted and retained within SB Plc. A range of factors determine salary levels including individual skills and experience, potential, performance, job size and complexity, as well as comparable roles in other financial services companies.

A range of benefits are offered alongside base pay, such as pension and colleague discount. Other benefits are linked to grade, including car allowances and healthcare provision. The package is enhanced further by access to a number of voluntary benefits. Examples include the opportunity to participate in all-employee JS Plc share schemes, private health care (cash) plans and access to a wide range of staff discounts and special offers from well-known brands.

Variable Pay

All employees across the Bank, in line with JS Plc, have the opportunity to earn additional reward through schemes which are in place to reward the right behaviours including effective risk & control management and drive business performance.

Variable pay is only made when this is affordable and not detrimental to the Bank's capital base. Should such circumstances arise, variable awards would be scaled back to nil if required.

Annual bonus

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. Where targets are not achieved, the size of the award will be scaled back commensurate with this and may be nil.

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. For those in control functions, the scorecard includes a significant element linked to the performance of the relevant control function, with a removal of the Bank financial aspects of the scorecard to ensure their independence from the Bank. The Bank's bonus schemes do not include a guaranteed minimum figure and are also capped at a maximum level.

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

At more senior grades, an element of the annual bonus is deferred into J Sainsbury Plc shares vesting after 3 years.

Long-term incentives

The Bank rewards certain senior 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 conditions, which need to be met at an organisational level (both employer and parent) for these awards to vest. These performance conditions are assessed over a three year period and awards are granted in J Sainsbury plc shares.

Where Material Risk Takers at the Bank participate in such schemes, eligibility to receive an award is based on their individual performance over the year prior to the grant. Any long term incentive awards Material Risk Takers receive will comply with the relevant remuneration regulatory requirements 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.

Link between risk and remuneration

The incorporation of risk is a key component in determining variable remuneration awards at the Bank. Consideration is given to both current and future risks (ex-ante), as well as crystallised risk events (ex-post), when determining the size of the overall variable remuneration pool, as well as individual awards (collectively known as risk adjustment). The application of risk adjustment may reduce awards at a Bank, business unit and / or individual down to zero if required and may include the application of malus and / or clawback (see below) in respect of Material Risk Takers.

As part of the determination of bonus levels, the Risk and Compliance functions take into account the quality of profits made alongside the risk profile of the Bank. Risk performance is assessed at the end of the year by reference to the Risk Appetite Dashboard which includes consideration of financial risk, reputational risk, risk culture and governance.

Based on the input from the Board Risk Committee, Risk, Compliance and HR, the Remuneration Committee can then exercise discretion to apply an appropriate risk adjustment to variable remuneration awards.

Malus and Clawback

The Remuneration Committee can make adjustments to the awards of Material Risk Takers once they have been communicated through the reduction/lapsing of unvested awards (malus) and/or clawback of paid or vested awards, with clawback being able to be applied in line with applicable remuneration regulatory requirements.

Such adjustments may be considered in the following circumstances (this list is not exhaustive):

1. Evidence of misconduct or serious error by the colleague (e.g. breach of code of conduct and other internal rules, especially concerning risks)
2. Whether the institution and/or the business unit subsequently suffers a significant downturn in its financial performance (e.g. specific business indicators)
3. Whether the institution and/or the business unit in which the colleague works suffers a significant failure of risk management
4. Significant increases in the institution's or business unit's economic or regulatory capital base
5. Any regulatory sanctions where the conduct of the colleague contributed to the sanction

Shareholding requirements

Additionally, certain senior individuals who sit on the J Sainsbury plc Operating Board are required to develop a minimum shareholding of 1x salary, subject to a transition period of 5 years from appointment as a Board Director. This is designed to secure continuous focus on the long term performance of the business.

Guaranteed variable remuneration

Guaranteed variable reward, in the form of buyout of awards from previous employers and/or guaranteed bonuses for new joiners (restricted to their first year of service) or retention awards for existing colleagues, will only be considered in exceptional circumstances only, and will be structured to comply with any regulation and guidance from the PRA, FCA and EBA.

For new joiners, buyout awards will comply with the PRA buyout rules.

Severance Payments

Any termination payments shall be:

- Related to performance achieved over the course of the individual's employment.
- Designed in a way that does not reward failure.

- Fair and proportionate relative to prior performance where applicable.

The Remuneration Committee has oversight over guarantees, buyouts, retention and termination payments, and the associated criteria for these.

12.3 Quantitative disclosures

Under CRD V, 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 2022. Fixed remuneration is defined as base salary and other cash payments and variable remuneration includes bonus awards made in the financial period. The Bank is only deemed to operate in one business segment - Retail Banking. Material Risk Taker emoluments are separately disclosed below for the Bank and HRGCS.

	Year to 28 February 2022		Senior management	Other material risk takers	Total
1	Fixed remuneration	Number of identified staff	14	18	32
2		Total fixed remuneration	3,851	2,744	6,595
3		*Of which: cash-based*	*3,720*	*2,547*	*6,267*
7		*Of which: other forms*	*131*	*197*	*328*
9	Variable remuneration	Number of identified staff	9	18	32
10		Total variable remuneration	5,214	3,032	8,246
11		*Of which: cash-based*	*3,882*	*2,422*	*6,304*
13b		*Of which: share-linked instruments or equivalent non-cash instruments*	*1,332*	*610*	*1,942*
17	**Total remuneration**		9,065	5,776	14,841

Source: Template UK REM1

Included within remuneration for senior management are emoluments for members of the Bank's Executive Management Team and Non-Executive Directors. During the year ended 28 February 2022, 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.

Three individuals earned remuneration between EUR 1m and EUR 1.5m, one individual between EUR 1.5m and EUR 2m and one individual earned between EUR 2.5m and EUR 3m.

Firm wide proportionality

Based on our size and complexity, Sainsbury's Bank benefits from the derogation in Article 94(3) of CRD, and as such we have disapplied the rules relating to deferral and payment in shares that would otherwise apply to Material Risk Takers. As a result, all our Material Risk Takers benefit from this derogation (excluding the Non-Executive Directors who are not in receipt of variable remuneration).

These disclosures have been made in accordance with the associated guidance from the PRA for a firm of our size.

Annex I - Board risk management declaration

The Board has established a risk management structure to support the delivery of the Bank's strategic objectives. The Board approves and monitors limits detailed 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.

The Board considers that adequate systems and controls are in place regarding the Banks profile and strategy to actively manage the risks within the approved risk appetite statement

Annex II - Risk statement

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

The Bank's strategy is built upon its purpose of being the provider of financial services for loyal Sainsbury's Group Customers. The Bank's 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' risk 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) monthly, 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 Bank considers the risk that its financial position may be adversely impacted by its relationship with other entities in the same group. This includes the Bank's relationship with its parent (J Sainsburys plc), who provides the Bank with specific intra group services, and HRG Card Services, a wholly owned subsidiary of the Bank. Stress testing is used to assess and inform any financial risk sensitivities as well as considering more broader operational resilience type scenarios.

The following table sets out some of the key regulatory metrics. Figures below relate to the regulatory group.

		2022	2021
Available own funds (amounts)			
1	Common Equity Tier 1 (CET1) capital (£m)	**685**	791
2	Tier 1 capital (£m)	**685**	791
3	Total capital (£m)	**794**	911
	Risk weighted exposure amounts		
4	Total risk weighted exposure amount (£m)	**4,392**	4,503
	Capital ratios (as a percentage of risk weighted exposure amount)		
5	Common Equity Tier 1 ratio (%)	**15.6%**	17.6%
6	Tier 1 ratio (%)	**15.6%**	17.6%
7	Total capital ratio (%)	**18.1%**	20.2%
Additional own funds requirements based on SREP (as a percentage of RWEA)			
UK 7a	Additional CET1 SREP requirements (%)	**1.97%**	
UK 7d	Total SREP own funds requirements (%)	**9.97%**	10.64%
Combined buffer requirement (as a percentage of risk weighted exposure amount)			
8	Capital conservation buffer (%)	**2.5%**	2.5%
9	Institution specific countercyclical capital buffer (%)	**0%**	0.0004%
UK 9a	Systemic risk buffer (%)	**-**	-
11	Combined buffer requirement (%)	**2.5%**	2.5%
UK 11a	Overall capital requirements (%)	**12.5%**	13.1%
12	CET1 available after meeting the total SREP own funds requirements (%)	**5.7%**	7.0%
Leverage ratio			
13	PRA Leverage ratio total exposure measure (£m)*	**7,048**	-
14	PRA Leverage ratio (£m)	**9.7%**	9.5%
Liquidity Coverage Ratio			
15	Total high-quality liquid assets (HQLA) (Weighted value -average) (£m)	**518**	
UK 16a	Cash outflows - Total weighted value (£m)	**448**	
UK 16b	Cash inflows - Total weighted value (£m)	**175**	
16	Total net cash outflows (adjusted value) (£m)	**273**	
17	Liquidity coverage ratio (%)	**172.1%**	
Net Stable Funding Ratio			
18	Total available stable funding (£m)	**5,717**	
19	Total required stable funding (£m)	**4,736**	
20	NSFR ratio (%)	**120.7%**	

Source: Template UK KM1

* Using a transitional definition of tier 1 capital (leverage) and excluding central bank claims. See section 8 for further information.

The Bank also uses the below key metrics to monitor risk and performance, setting out the BDAR and net interest margin for the consolidated regulatory group for the period.

	2022	2021
BDAR	**1.2%**	1.8%
Net interest margin	**4.5%**	3.5%

Annex III – Reconciliation of regulatory balance sheet to financial statements

(£m)	Ref to UK CC1	Per Sainsbury's Bank financial statements	Carrying values (CV) under scope of regulatory consolidation	Reg adj to CV	Subject to credit risk framework	Subject to counterparty credit risk framework	Subject to securitisation framework	Not subject to capital requirements or subject to deduction from capital
Assets								
Cash, balances with central banks and other demand deposits		346	352		352			
Loans and advances to other banks		121	121		121			
Derivative financial instruments		19	19	18*		37		
Loans and advances to customers		4,311	5,084	(13)	5,071			
Investment securities		443	443		390		53	
Investment in subsidiaries		325	-					
Other assets		-	3	38	41			
Intercompany loan		700	295	20	315			
Intangible assets		162	190					190
Property, plant and equipment		9	9		9			
Total assets		**6,436**	**6,516**	**63**	**6,299**	**37**	**53**	**190**
Liabilities								
Other deposits		1,024	1,024					1,024
Customer accounts		4,235	4,237					4,237
Derivative financial instruments		19	19					19
Accruals and deferred income			9					9
Current corporation tax liability			2					2
Deferred income tax liability				10				10
Intercompany loan			48	20				68
Other liabilities		113	102	(10)				92
Subordinated debt		179	178					178
Provisions		9	20	(19)				1
Total liabilities		**5,579**	**5,639**	**1**				**5,640**
Shareholders' equity								
Share capital	(a)	701	701					
Retained earnings	(b)	155	175					
Other reserves	(c)	1	1					
Total shareholders' equity		857	877					

Source: Template UK LI1/ UK CC2

* This represents the off BS derivative business

Sources of differences between regulatory exposure amounts and carrying values in financial statements (£m)

		Total	Credit risk framework	Counterparty Credit Risk framework	Securitisation framework
1	Asset carrying value amount under scope of regulatory consolidation (as per template LI1)	6,389	6,299	37	53
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	-	-	-	-
3	Total net amount under regulatory scope of consolidation	6,389	6,299	37	53
4	Off-balance sheet amounts	8,820	8,820	-	-
5	*Differences in valuations*	*18*	*18*	-	-
9	*Differences due to credit conversion factors*	*(8,815)*	*(8,815)*	-	-
11	*Other differences**	*40*	*40*	-	-
12	**Exposure amounts considered for regulatory purposes**	**6,452**	**6,362**	**37**	**53**

Source: Template UK LI2

*Other regulatory adjustments including transitional adjustments as per section 3.6.

Template UK 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. We then disclose regulatory adjustments to derive the total exposure under regulatory consolidation. The carrying value of assets are then mapped to the relevant risk frameworks they are subject to, unless not risk weighted - such as intangible assets which are deducted from capital. The Bank has regulatory adjustments for subsidiary intercompany positions, an adjustment for the net collateral asset position and the transitional adjustment per section 3.6.

Template UK 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 after the application of CCF and differences in valuation for derivative positions are reconciled. 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	Equity method	Neither consolidated nor deducted	Deducted	Description of the entity
Sainsbury's Bank	Stand-alone	X	-	-	-	-	Credit Institution
HRCGS	Stand-alone	X	-	-	-	-	Financial Institution

Source: Template UK LI3

Annex IV – Main features of regulatory own funds instruments and eligible liabilities instruments

The Bank is required to disclose the main features of its capital instruments per Article 437(1) of the PRA Rulebook (CRR) Instrument 2021. 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.

		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)	Not applicable	GEM Listed- ISIN XS1721760624
2a	Public or private placement	Private placement	Public
3	Governing law(s) of the instrument	English Law	English Law
3a	Contractual recognition of write down and conversion powers of resolution authorities	Not applicable	Not applicable
	Regulatory Treatment		
4	Current treatment taking into account, where applicable, 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)	£685m	£109m
9	Nominal amount of instrument	£0.777963	£175m
9a	Issue price	£1	£175m
9b	Redemption price	Not applicable	£175m
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	23 November 2017

		(7,000,000- ‘A’ class reclassification to ‘B’ class on 8 February 2007) 10,000,000- ‘A’ class 10 September 2007 10,000,000- ‘B’ class 10 September 2007 5,000,000- ‘A’ class 12 November 2007 5,000,000- ‘B’ class 12 November 2007 (85,000,000- ‘A’ class and 85,000,000 ‘B’ class reclassification to 170,000,000 ‘Ordinary’ class on 3 February 2014) 20,000,000 ‘Ord’ Class 7 February 2014 50,000,000 ‘Ord’ Class 28 February 2014 20,000,000 ‘Ord’ Class 22 July 2014 20,000,000 ‘Ord’ Class 29 September 2014 18,750,000 ‘Ord’ Class 18 December 2014 20,000,000 'Ord' Class 31 March 2015 15,000,000 'Ord' Class 18 May 2015 42,000,000 'Ord' Class 24 June 2015 20,000,000 'Ord' Class 11 August 2015 20,000,000 'Ord' Class 28 September 2015 20,000,000 'Ord' Class 23 November 2015 100,000,000 'Ord' Class 15 September 2016 30,000,000 'Ord' Class 30 January 2017 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	Noncumulative 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
34a	Type of subordination (only for eligible liabilities)	Not applicable	Not applicable
34b	Ranking of the instrument in normal insolvency proceedings	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
37b	Link to the full term and conditions of the instrument (signposting	Not applicable	https://www.about.sainsburys.co.uk/~/media/Files/S/Sainsburys/Caister_Information%20Memorandum_Final_clean.pdf

Source: Template UK CCA

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

Annex V – Own funds disclosure

The following own funds disclosure aims to reflect the detailed capital position of the Bank. The Bank is required to disclose the specific items on own funds described in points (d) and (e) of Article 437 (1) of the PRA Rulebook (CRR) Instrument 2021.

		Amounts (£m)	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
			Per UK LI1/UK CC2
	Common Equity Tier 1 (CET1) capital: instruments and reserves		
1	Capital instruments and the related share premium accounts	701	
	of which: ordinary share capital	*701*	(a)
2	Retained earnings	154	(b)
3	Accumulated other comprehensive income (and other reserves)	1	(c)
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	(29)	(b)
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**827**	
	Common Equity Tier 1 (CET1) Capital: regulatory adjustments		
7	Additional value adjustments (negative amount)	(0)	
8	Intangible assets (net of related tax liability) (negative amount)	(180)	
27a	Other regulatory adjustments to CET1 capital (including IFRS 9 transitional adjustments when relevant)	38	
28	**Total regulatory adjustments to Common equity Tier 1 (CET1)**	**(142)**	
29	**Common Equity Tier 1 (CET1) capital**	**685**	
	Additional tier 1(AT1) capital: regulatory adjustments		
45	**Tier 1 capital (T1 = CET1 + AT1)**	**685**	
	Tier 2 (T2) capital: instruments		
46	Capital instruments and the related share premium accounts	109	
51	**Tier 2 (T2) capital before regulatory adjustments**	109	
	Tier 2 (T2) capital: regulatory adjustments		
58	**Tier 2 (T2) capital 2**	109	
59	**Total capital (TC = T1+T2)**	**794**	
60	**Total Risk exposure amount**	**4,392**	
	Capital ratios and buffers		
61	Common Equity Tier 1 (as a percentage of risk exposure amount)	15.6%	
62	Tier 1 (as a percentage of risk exposure amount)	15.6%	
63	Total capital (as a percentage of risk exposure amount)	18.1%	
64	Institution CET1 overall capital requirement (CET1 requirement in accordance with Article 92 (1) CRR, plus additional CET1 requirement which the institution is required to hold in accordance with point (a) of Article 104(1) CRD, plus combined buffer requirement in accordance with Article 128(6) CRD) expressed as a percentage of risk exposure amount)	8.1%	
65	*of which: capital conservation buffer requirement*	*2.5%*	
66	*of which: countercyclical buffer requirement*	*0%*	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	8.1%	
	Amounts below the thresholds for deduction (before risk weighting)		
75	Deferred tax assets arising from temporary differences (amount below 17,65% threshold, net of related tax liability where the conditions in Article 38 (3) CRR are met)	14	
	Applicable caps on the inclusion of provisions in Tier 2		
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	47	

Source: Template UK CC1

Annex VI – Leverage ratio

LRSum: Summary reconciliation of accounting assets and leverage ratio exposures (£m)	
	Applicable Amount
1 Total assets as per published financial statements	6,516
4 (Adjustment for exemption of exposures to central banks)	(219)
8 Adjustments for derivative financial instruments	18
10 Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	883
12 Other adjustments	(151)
13 **Total exposure measure**	**7,048**

Source: Template UK LR1

LRCom: Leverage ratio common disclosure (£m)			
		Leverage ratio exposures	
		28-Feb-22	28 -Feb-21
	On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	6,489	7,497
6	Asset amounts deducted in determining Tier 1 capital	(142)	(79)
7	**Total on-balance sheet exposures (excluding derivatives and SFTs)**	**6,347**	**7,417**
	Derivative exposures		
9b	Exposures determined under Original Exposure Method	37	-
	Add-on amounts for PFE associated with derivatives transactions (mark-to-market method)*	-	22
13	**Total derivative exposures (sum of lines 4 to 10)**	**37**	**22**
	Other Off-balance sheet exposures		
19	Off-balance sheet exposures at gross notional amount	8,803	9,229
20	(Adjustments for conversion to credit equivalent amounts)	(7,920)	(8,300)
22	**Off-balance sheet exposures**	**883**	**929**
	Capital and total exposure measure		
23	**Tier 1 capital (leverage)**	**685**	**791**
24	**Total exposure measure including claims on central banks**	**7,267**	**8,369**
24a	**(-) Claims on central banks excluded**	**(219)**	**-**
24b	**Total exposure measure excluding claims on central banks**	**7,048**	**8,369**
	Leverage Ratio		
25	Leverage ratio excluding claims on central banks (%)	9.72%	9.45%
25a	Fully loaded ECL accounting model leverage ratio excluding claims on central banks (%)	9.23%	-
25b	Leverage ratio excluding central bank reserves as if the temporary treatment of unrealised gains and losses measured at fair value through other comprehensive income had not been applied (%)	9.72%	-
25c	Leverage ratio including claims on central banks (%)	9.43%	-
	Additional leverage ratio disclosure requirements – leverage ratio buffers**		
	Additional leverage ratio disclosure requirements – disclosure of mean values**		

Source: Template UK LR2

*Row included for prior year before CRR2 changes.

**The Bank does not report these as not an LREQ firm.

LRSpl: Split-up of on balance sheet exposures (excluding derivatives and SFTs) (£m)		
		Leverage ratio exposures
UK-1	**Total on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures), of which:**	**6,489**
UK-2	Trading book exposures	-
UK-3	Banking book exposures, of which:	6,489
UK-4	Covered bonds	169
UK-5	Exposures treated as sovereigns	503
UK-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	-
UK-7	Institutions	69
UK-8	Secured by mortgages on residential property	766
UK-9	Retail	4,288
UK-10	Corporate	12
UK-11	In default	52
UK-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	631

Source: Template UK LR3

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.

Source: Template UK LRA

Annex VII – Disclosure of countercyclical capital buffer

Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer (£m)

		General credit exposures		Relevant credit exposures – Market risk		Securitisation exposures - Exposure value for non-trading book	Total exposure value	Own funds requirements				Risk weighted exposure amounts	Own funds requirement weights	Countercyclical capital buffer rate (%)
		Exposure value SA	Exposure value IRB	Sum of long and short position of trading book	Value of trading book exposure for internal models			Relevant credit exposures – Credit risk	Relevant credit exposures – Market risk	Relevant credit exposures – Securitisation positions in the non-trading book	Total			
		a	b	c	d	e	f	g	h	i	j	k	l	m
010	Breakdown by country													
	United Kingdom	5,727	-	-	-	53	5,780	300	-	1	301	3,761	100	0%
020	**Total**	**5,727**	**-**	**-**	**-**	**53**	**5,780**	**300**	**-**	**1**	**301**	**3,761**	**100**	**0%**

Source: Template UK CCyB1

Amount of institution-specific countercyclical capital buffer

Row		Column
		010
010	Total risk exposure amount (£m)	3,761
020	Institution specific countercyclical buffer rate (%)	0%
030	Institution specific countercyclical buffer requirement (£m)	-

Source: Template UK CCyB2

Annex VIII – Disclosure of credit risk quality

Credit quality of forborne exposures (£m)		Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
		Performing forborne	Non-performing forborne			On performing forborne exposures	On non-performing forborne exposures		of which collateral and financial guarantees received on non-performing exposures with forbearance measures
				Of which defaulted	Of which impaired				
005	**Cash balances at central banks and other demand deposits**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
010	**Loans and advances**	**-**	**55**	**55**	**55**	**-**	**(38)**	**2**	**2**
020	*Central banks*	-	-	-	-	-	-	-	-
030	*General governments*	-	-	-	-	-	-	-	-
040	*Credit institutions*	-	-	-	-	-	-	-	-
050	*Other financial corporations*	-	-	-	-	-	-	-	-
060	*Non-financial corporations*	-	-	-	-	-	-	-	-
070	*Households*	-	55	55	55	-	(38)	2	2
080	Debt securities	-	-	-	-	-	-	-	-
090	Loan commitments given	-	15	15	15	-	-	-	-
100	**Total**	**-**	**70**	**70**	**70**	**-**	**(38)**	**2**	**2**

Source: Template UK CQ1

Credit quality of performing and non-performing exposures by past due days (£m)													
		Gross carrying amount/nominal amount of exposures											
		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
005	**Cash balances at central banks and other demand deposits**	**242**	**242**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
010	**Loans and advances**	**5,266**	**5,246**	**20**	**174**	**56**	**32**	**69**	**17**	**-**	**-**	**0**	**174**
020	*Central banks*	-	-	-	-	-	-	-	-	-	-	-	-
030	*General governments*	-	-	-	-	-	-	-	-	-	-	-	-
040	*Credit institutions*	121	121	-	-	-	-	-	-	-	-	-	-
050	*Other financial corporations*	-	-	-	-	-	-	-	-	-	-	-	-
060	*Non-financial corporations*	-	-	-	-	-	-	-	-	-	-	-	-
070	*Of which SMEs*	-	-	-	-	-	-	-	-	-	-	-	-
080	*Households*	5,145	5,125	20	174	56	32	69	17	-	-	0	174
090	**Debt securities**	**441**	**441**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
100	*Central banks*	-	-	-	-	-	-	-	-	-	-	-	-
110	*General governments*	98	98	-	-	-	-	-	-	-	-	-	-
120	*Credit institutions*	194	194	-	-	-	-	-	-	-	-	-	-
130	*Other financial corporations*	149	149	-	-	-	-	-	-	-	-	-	-
140	*Non-financial corporations*	-	-	-	-	-	-	-	-	-	-	-	-
150	**Off-balance-sheet exposures**	**8,741**			**61**								**61**
160	*Central banks*	-			-								-
170	*General governments*	-			-								-
180	*Credit institutions*	-			-								-
190	*Other financial corporations*	-			-								-
200	*Non-financial corporations*	-			-								-
210	*Households*	8,741			61								61
220	Total	14,690	5,929	20	235	56	32	69	17	-	-	0	235

Source: Template UK CQ3

Performing and non-performing exposures and related provisions (£m)																
		Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-off	Collateral and financial guarantees received	
		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				On performing exposures	On non-performing exposures
			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			
005	**Cash balances at central banks and other demand deposits**	**242**	**242**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
010	**Loans and advances**	**5,266**	**4,692**	**573**	**174**	**-**	**174**	**(81)**	**(34)**	**(47)**	**(122)**	**-**	**(122)**	**-**	**772**	**9**
020	*Central banks*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
030	*General governments*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
040	*Credit institutions*	121	121	-	-	-	-	-	-	-	-	-	-	-	-	-
050	*Other financial corporations*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
060	*Non-financial corporations*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
070	*Of which SMEs*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
080	*Households*	5,145	4,571	573	174	-	174	(81)	(34)	(47)	(122)	-	(122)	-	772	9
090	**Debt securities**	**441**	**441**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
100	*Central banks*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
110	*General governments*	98	98	-	-	-	-	-	-	-	-	-	-	-	-	-
120	*Credit institutions*	194	194	-	-	-	-	-	-	-	-	-	-	-	-	-
130	*Other financial corporations*	149	149	-	-	-	-	-	-	-	-	-	-	-	-	-
140	*Non-financial corporations*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
150	**Off-balance-sheet exposures**	**8,741**	**8,421**	**319**	**61**	**-**	**61**	**(18)**	**(10)**	**(8)**	**(1)**	**-**	**(1)**	**-**	**-**	**-**
160	*Central banks*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
170	*General governments*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
180	*Credit institutions*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
190	*Other financial corporations*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
200	*Non-financial corporations*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
210	*Households*	8,741	8,421	319	61	-	61	(18)	(10)	(8)	(1)	-	(1)	-	-	-
220	**Total**	**14,690**	**13,796**	**892**	**235**	**-**	**235**	**(99)**	**(44)**	**(55)**	**(123)**	**-**	**(123)**	**-**	**772**	**9**

Source: Template UK CR1

Annex IX – 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
Key Changes in the year ended 28 February 2022 • Restarting of lending reversing credit tightening implemented during the height of COVID-19 • Investment in collections and recoveries
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
Key Changes in the year ended 28 February 2022 • Continued improvement in enhancing the control environment to reduce the Bank's residual risk profile
Supplier Risk
What is It? The risk that key services and processes outsourced to 3rd 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
Key Changes in the year ended 28 February 2022 • Detailed analysis undertaken to assess the Bank's supplier concentration risk in line with regulatory guidance SS2/21 (outsourcing and third party risk management) • Contract amendments to be made with all Tier 1 and 2 suppliers to ensure compliance with SS2/21. These were completed by 31 March 2022 for all new agreements and updates to historic agreements on track to be completed by 30 June 2022

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
Key Changes in the year ended 28 February 2022
• New tools have been introduced and strong PRCA controls have matured such that fraud losses have reduced • Anti-Money laundering residual risk exposure has decreased

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
Key Changes in the year ended 28 February 2022
• Full review and launch of enhanced Conduct Risk Framework • Implementation of a new suite of Conduct MI reporting • Enhancements to CCM processes through the delivery of Continuous Monitoring reviews • Product governance policy requirements updated to reflect FCA rules and guidance on General Insurance Pricing Practices

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 into 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

Key Changes in the year ended 28 February 2022

- Updated stress testing scenario analysis undertaken in line with BoE guidelines, assessing the effects on capital adequacy from an economic downturn
- Stress testing model enhancement made, with methodologies subject to review and challenge through engagement of third party experts

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

Key Changes in the year ended 28 February 2022

- Increased contingent liquidity capacity including access to ILTR and acceptance of our securitisation notes as collateral by the Bank of England
- Access to new funding sources including platform deposits
- A review and update on the Bank’s liquidity stress testing framework

Annex X – Specific risk measures used to gauge sensitivity to IRRBB

Basis risk: The risk of loss as a result of the balance sheet being adversely affected by the imperfect correlations between different index rates.

Directional Risk: The sensitivity to the overall direction of interest rate movements. Bank measures this risk by calculating the difference in balance sheet net present value if a 1bps shock is applied.

Yield Curve Risk: The sensitivity to the relative movement of interest rates at different maturities on the yield curve. Bank measures this risk by calculating the difference in balance sheet net present value if a regulatory yield curve shock is applied.

Prepayment Risk: The risk that an asset or liability repays more quickly or slowly than anticipated resulting in a mismatch between the asset, liability and associated hedge. Bank measures this risk by applying stress factor to the difference in balance sheet net present value if prepayments decrease by a prescribed percentage point value.

FX Risk: The loss of value due to adverse movements in foreign exchange rates. Bank measures this risk by calculating 99% Value-at-Risk (VaR) with 1 day holding period on the unhedged FX balances.

Credit Spread Risk: The sensitivity to changes in the credit spread on wholesale assets. Bank measures this by performing a VaR calculation which assesses historical changes in asset prices over a 5 year look-back horizon using a 99% confidence interval and a 12-month holding period.

Mark To Market ('MTM') Risk: The change in the fair value of a financial instrument over time. Bank measures this by applying a stress factor to the fair value of the swaps which are not in a hedge accounting relationship.

These metrics are all calculated monthly and reported to ALCO.

Annex XI - Disclosures excluded from current reporting

The below table lists all the disclosure tables not included in the Bank's Pillar 3 disclosures and provides the reasons for exemption. This is reviewed annually to ensure compliance.

Disclosure Reference	Disclosure Name	Reasons for excluding in the Bank's Pillar 3 at February 2022
UK INS1	Insurance participations	The Bank has no insurance participations
UK INS2	Financial conglomerates information on own funds and capital adequacy ratio	The Bank does not classify as a financial conglomerate
UK PV1	Prudent valuation adjustments (PVA)	Only institutions that apply the core approach under the Trading Book (CRR) Part of the PRA Rulebook are required to complete
UK CR2a	Changes in the stock of non-performing loans and advances and related net accumulated recoveries	Only required for large institutions with a non-performing loans ratio (per Article 47a of the CRR) greater than or equal to 5%. The Bank's ratio is below this threshold
UK CQ2	Quality of forbearance	Only required for large institutions with a non-performing loans ratio (per Article 47a of the CRR) greater than or equal to 5%. The Bank's ratio is below this threshold
UK CQ4	Quality of non-performing exposures by geography	Only required for institutions where non-domestic original exposures in all non-domestic countries in all exposure classes are equal to or higher than 10% of the total exposures. The Bank is below this threshold
UK CQ5	Credit quality of loans and advances to non-financial corporations by industry	All the Bank's exposures to corporate counterparties are financial
UK CQ6	Collateral valuation - loans and advances	Only required for large institutions with a non-performing loans ratio (per Article 47a of the CRR) greater than or equal to 5%. The Bank's ratio is below this threshold
UK CQ7	Collateral obtained by taking possession and execution processes (£m)	The Bank has no collateral obtained by taking possession
UK CQ8	Collateral obtained by taking possession and execution processes – vintage breakdown	Only required for large institutions with a non-performing loans ratio (per Article 47a of the CRR) greater than or equal to 5%. The Bank's ratio is below this threshold
UK CRE	Qualitative disclosure requirements related to IRB approach	The Bank does not use the IRB Approach
UK CR6	IRB approach – Credit risk exposures by exposure class and PD range	The Bank does not use the IRB Approach
UK CR6-A	Scope of the use of IRB and SA approaches	The Bank does not use the IRB Approach
UK CR7	IRB approach – Effect on the RWEAs of credit derivatives used as CRM techniques	The Bank does not use the IRB Approach
UK CR7-A	IRB approach – Disclosure of the extent of the use of CRM techniques	The Bank does not use the IRB Approach
UK CR8	RWEA flow statements of credit risk exposures under the IRB approach	The Bank does not use the IRB Approach
UK CR9	IRB approach – Back-testing of PD per exposure class (fixed PD scale)	The Bank does not use the IRB Approach

UK CR9.1	IRB approach – Back-testing of PD per exposure class (only for PD estimates according to point (f) of Article 180(1) CRR)	The Bank does not use the IRB Approach
UK CR10	Specialised lending and equity exposures under the simple risk weighted approach	The Bank has no specialised lending activities
UK MR1	Market risk under the standardised approach	The Bank's market risk is below 2% using the standardised approach and therefore there are no recognised balances
UK MR2-A	Market risk under the internal Model Approach (IMA)	The Bank uses the standardised approach for market risk
UK MR2-B	RWA flow statements of market risk exposures under the IMA	The Bank uses the standardised approach for market risk
UK MR3	IMA values for trading portfolios	The Bank uses the standardised approach for market risk
UK MR4	Comparison of VaR estimates with gains/losses	The Bank uses the standardised approach for market risk
UK MRB	Qualitative disclosure requirements for institutions using the internal Market Risk Models	The Bank uses the standardised approach for market risk
UK CCR4	IRB approach – CCR exposures by exposure class and PD scale	The Bank does not use the IRB Approach
UK CCR6	Credit derivatives exposures	The Bank has no credit derivative exposures
UK CCR7	RWEA flow statements of CCR exposures under the IMM	The Bank uses the OEM for the calculation of CCR
UK SEC2	Securitisation exposures in the trading book	The Bank does not have a trading book
UK SEC3	Securitisation exposures in the non-trading book and associated regulatory capital requirements - institution acting as originator or as sponsor	The Bank has no exposures where the institution acts as a sponsor. Where the Bank acts as an originator there is no significant risk transfer achieved
UK SEC5	Exposures securitised by the institution - Exposures in default and specific credit risk adjustments	The Bank has no exposures where the institution acts as a sponsor. Where the Bank acts as an originator there is no significant risk transfer achieved
UK REM2	Special payments to staff whose professional activities have a material impact on institutions' risk profile (identified staff)	The Bank meets the criteria for proportionality level three per Supervisory Statement SS2/17 and therefore disclosure is not required
UK REM3	Deferred remuneration	The Bank meets the criteria for proportionality level three per Supervisory Statement SS2/17 and therefore disclosure is not required
UK REM4	Remuneration of 1 million EUR or more per year	The Bank meets the criteria for proportionality level three per Supervisory Statement SS2/17 and therefore disclosure is not required