

Sainsbury's Bank plc
Interim Pillar 3 Disclosures
for HY 2023-24

Introduction

This report presents the interim Pillar 3 disclosures of Sainsbury's Bank plc ('the Bank') as at 31 August 2023. These disclosures are presented for the Bank's prudential regulatory group, consisting of Sainsbury's Bank and Home Retail Group Card Services (HRGCS).

Basis of preparation

The disclosures have been prepared in accordance with the Disclosure (CRR) Part of the Prudential Regulation Authority Rulebook.

The Bank has a formal financial reporting and disclosure policy standard which is reviewed and approved at least annually. This policy standard outlines the specific regulations that apply to the Bank, specifying the requirement to comply in line with Regulation (EU) No 575/2013 the Capital Requirements Regulation (CRR) and the PRA Rulebook (CRR) Part as published by the PRA.

The Bank falls into scope of 'other institutions' per Article 433c of the PRA rulebook and therefore is required to publish Pillar 3 disclosures twice per year, with the interim disclosure containing only the key metrics referred to in Article 447 of the PRA rulebook which are included in this report using prescribed templates.

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 amount of day 1 relief between 28 February 2023 and 31 August 2023 reduced from 25% to 0% due to annual phasing out. The COVID-19 pandemic related relief implemented in March 2020 reduced from 75% to 50%. Only the transitional basis has been disclosed in this report. The application of IFRS9 transitional arrangements do not have a material impact on the Bank's reported capital ratios.

More detailed information on the Bank's approach to capital and risk management along with group structure can be found in the annual Pillar 3 disclosures for year ended 28 February 2023, published on the J Sainsbury plc corporate website:

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

Verification and medium for publication

These disclosures have been reviewed through internal governance and approved by the Bank's Board. The information presented in this Pillar 3 report is not required to be, and has not been, subject to external audit.

The interim pillar 3 disclosures will be published on the J Sainsbury plc corporate website:

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

Key metrics and overview of risk weighted exposure amounts

		Aug 2023	Feb 2023	Aug 2022
Available own funds (amounts)				
1	Common Equity Tier 1 (CET1) capital (£m)	713	722	669
2	Tier 1 capital (£m)	713	722	669
3	Total capital (£m)	824	835	714
Risk weighted exposure amounts				
4	Total risk weighted exposure amount (£m)	4,561	4,703	4,537
Capital ratios (as a percentage of risk weighted exposure amount)				
5	Common Equity Tier 1 ratio (%)	15.6%	15.4%	14.7%
6	Tier 1 ratio (%)	15.6%	15.4%	14.7%
7	Total capital ratio (%)	18.1%	17.8%	15.7%
Additional own funds requirements based on SREP (as a percentage of RWEA)				
UK 7a	Additional CET1 SREP requirements (%)	1.7%	1.7%	1.7%
UK 7d	Total SREP own funds requirements (%)	9.7%	9.7%	9.7%
Combined buffer requirement (as a percentage of risk weighted exposure amount)				
8	Capital conservation buffer (%)	2.5%	2.5%	2.5%
9	Institution specific countercyclical capital buffer (%)	2%	1%	-
UK 9a	Systemic risk buffer (%)	-	-	-
11	Combined buffer requirement (%)	4.5%	3.5%	2.5%
UK 11a	Overall capital requirements (%)	14.2%	13.2%	12.2%
12	CET1 available after meeting the total SREP own funds requirements (%)	5.9%	5.6%	5.0%
Leverage ratio				
13	PRA Leverage ratio total exposure measure (£m) ¹	7,004	7,531	7,669
14	PRA Leverage ratio (£m)	10.2%	9.6%	8.7%
Liquidity Coverage Ratio²				
15	Total high-quality liquid assets (HQLA) (Weighted value -average) (£m)	1,024	748	695
UK 16a	Cash outflows - Total weighted value (£m)	621	548	497
UK 16b	Cash inflows - Total weighted value (£m)	194	193	200
16	Total net cash outflows (adjusted value) (£m)	427	355	297
17	Liquidity coverage ratio (%)	239.8%	210.4%	233.5%
Net Stable Funding Ratio²				
18	Total available stable funding (£m)	6,274	6,018	6,128
19	Total required stable funding (£m)	4,888	4,886	4,944
20	NSFR ratio (%)	128.3%	123.2%	123.9%

Source: Template UK KM1

1 - Using a transitional definition of tier 1 capital (leverage) and excluding central bank claims.

2 - LCR and NSFR are disclosed on an average basis

Capital Ratios

The Bank's capital position continues to be strong with >5% CET1 surplus available after meeting own funds requirements. CET1 capital has decreased to £713m (28 February 2023: £722m) driven by annual reduction in IFR9 transitional relief, offset by period earnings after tax.

Risk weighted exposure amounts (RWEA's) decreased to £4,561m (28 February 2023: £4,703) primarily due to mortgage book sale in August 2023, offset by increased other net retail lending.

As a result of the movement in regulatory capital and RWEA's outlined above, CET1 ratio and total capital ratio increased by 0.2% and 0.3% respectively.

Leverage Ratio

The leverage ratio has been calculated in accordance with the UK's leverage ratio framework, calculated on an IFRS9 transitional basis excluding central bank claims. The leverage ratio has increased to 10.2% (28 February 2023: 9.6%) due to an overall decrease in leverage exposure, driven by mortgage book sale in August 2023, offset by increased other net retail lending. The Bank's leverage ratio remains in excess of the 3.25% UK minimum level.

Liquidity Coverage Ratio (LCR)

The Bank's LCR is reported in this report on an average basis in line with requirements outlined in the CRR. On this basis at 31 August 2023, the Bank's average LCR was 239.8% (28 February 2023: 210.4%). The increased ratio is driven by increased high quality liquid assets.

Net Stable Funding Ratio (NSFR)

The Bank's NSFR is reported in this report on an average basis in line with requirements outlined in the CRR. On this basis at 31 August 2023, the Bank's average NSFR was 128.3% (28 February 2023: 123.2%). The increased ratio is driven by increased retail deposits.

Glossary of Terms

	Definition
Additional Tier 1 capital (AT1)	Instruments that are not common equity but are eligible as tier 1. Examples are securities convertible to equity when CET1 capital falls below certain threshold
Capital conservation buffer	An additional layer of usable capital built up outside of periods of stress which can be drawn down when losses are incurred
Capital Requirements Regulation (CRR)	The Capital Requirements Regulation is an EU law. The CRR aims to decrease the likelihood that banks become insolvent, reflecting Basel III rules on capital measurement and capital standards in conjunction with the PRA Rulebook
Capital resources	Capital held in order to satisfy capital requirements. Currently made up of Tier 1 and Tier 2 capital
Common Equity Tier 1 capital (CET1)	The highest quality of regulatory capital as it absorbs losses immediately as they occur. Comprising of shareholder equity, share premium and retained earnings and other reserves, less regulatory adjustments such as intangible assets
Common Equity Tier 1 (CET1) ratio	CET1 capital of the bank as a proportion of RWEA at a given date
Countercyclical capital buffer (CCyB)	An additional layer of capital requirement built up outside of periods of stress which can be drawn down when losses are incurred. It is aimed at taking account of the Bank's macro-economic financial environment. Calculated as a weighted average of the countercyclical buffer rates that apply in the countries from which the Bank hold exposures
Credit valuation adjustment	An adjustment to the fair value of derivative financial instruments held with a counterparty to account for counterparty credit risk
Leverage ratio	CET1 capital divided by the exposure measure.
Liquidity Coverage Ratio (LCR)	Percentage of the stock of highly liquid assets such as cash to net cash outflow over a 30-day period
Net Stable Funding Ratio (NSFR)	A liquidity standard requiring banks to hold enough stable funding to cover its required stable funding
Pillar 3	The third pillar of the Basel III framework which aims to encourage market discipline by setting out disclosure requirements for Banks on their capital, risk exposures and risk assessment processes. These disclosures are aimed at improving the information made available to the market
Prudential Regulation Authority (PRA)	UK financial services regulatory body responsible for the setting of standards and policies for banks to meet. It also monitors compliance
Risk-weighted exposure amount (RWEA)	On and off-balance sheet assets of the Bank which have been allocated a risk weighting in accordance with the appropriate measurement method
Tier 1 capital	A measure of the Group's financial strength as defined by the PRA. It captures Common Equity Tier 1 capital plus other Tier 1 securities in issue, but is subject to a deduction in respect of material holdings in financial companies
Tier 2 capital	A component of regulatory capital, comprising qualifying subordinated debt, deemed less reliable than tier 1 capital and more difficult to liquidate