

Sainsbury's

Sainsbury's



Sainsbury's Bank plc

Tier 2 Investor  
Presentation

August 2022

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## Credit highlights

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- Well established Bank with over 25 years trading history
- Major component of J Sainsbury ecosystem, benefiting from the strong and trusted Sainsbury's brand
- Modern scalable banking platform
- Well-diversified business model with significant fee income
- Prudent risk stance evidenced in superior asset quality
- Strong capital, funding and liquidity position
- Proposed Tier 2 transaction will optimise and diversify the Bank's sources of capital
- Moody's has assigned a first time rating of Baa1 (stable) to the Bank, with the proposed Tier 2 expected to be rated Baa2
- Concurrent cash tender for existing 6% GBP175m Tier 2 is being made as part of the active management of the Bank's capital base

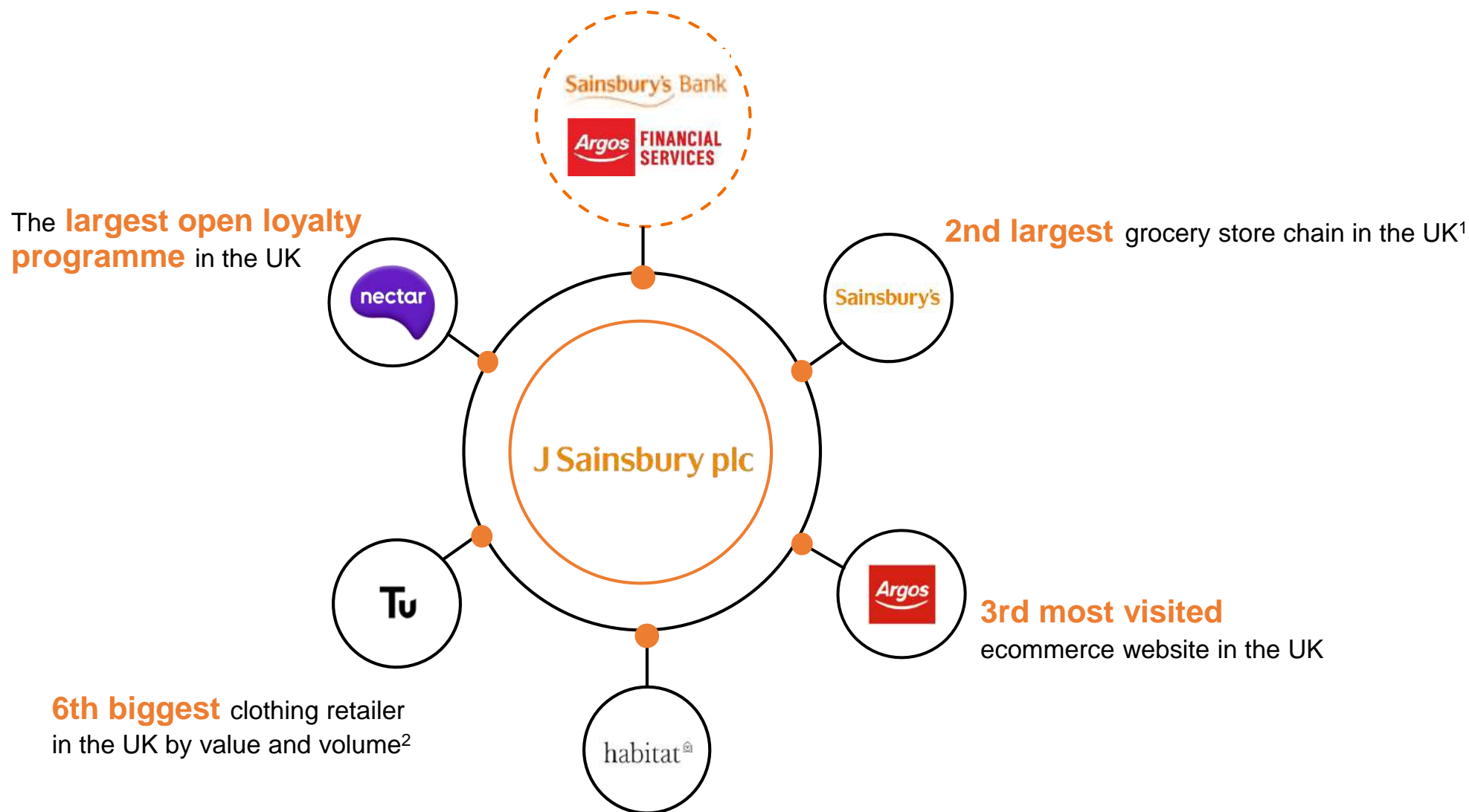
# Sainsbury's Bank

Free cash withdrawals



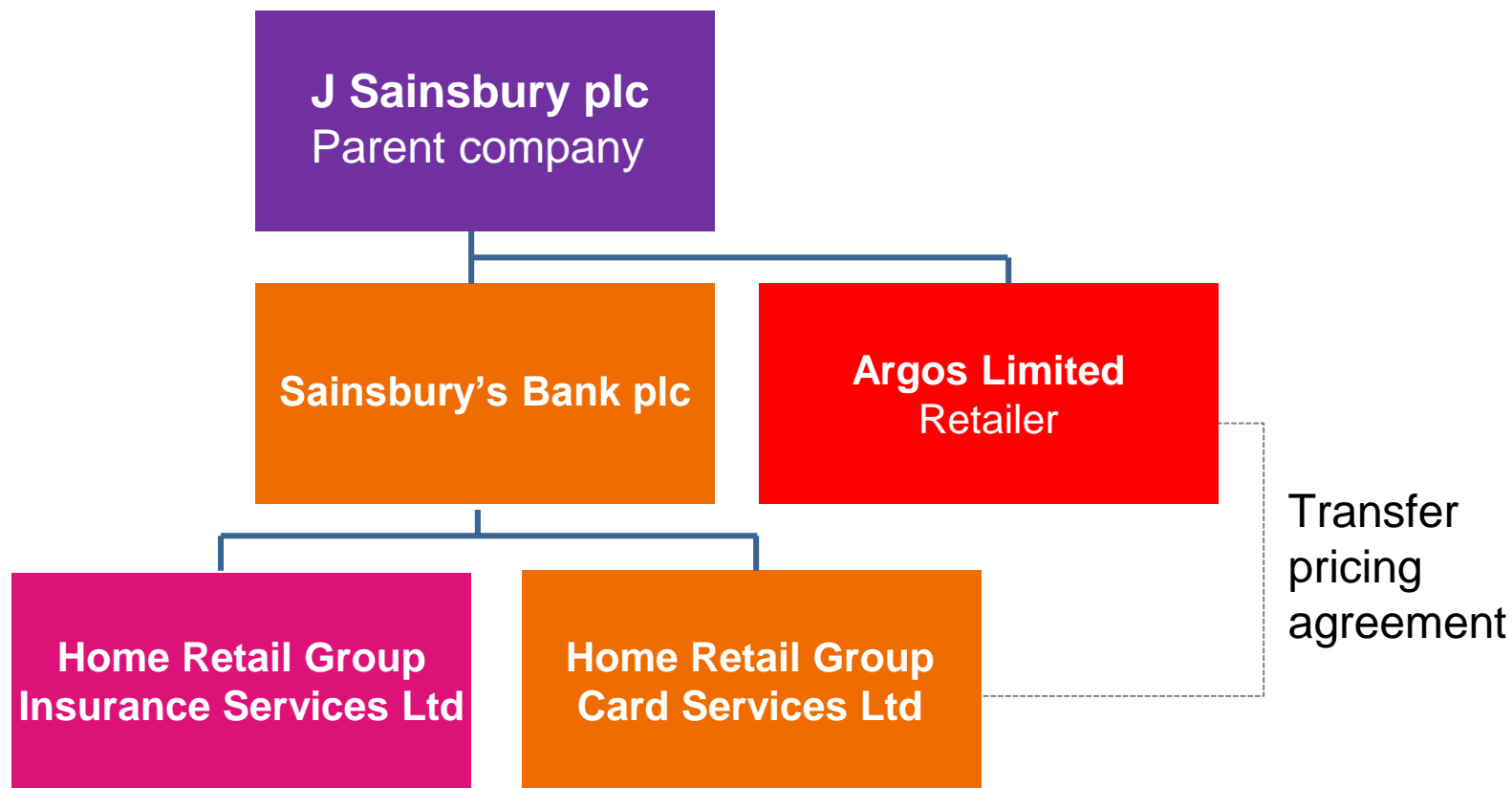
## Business Overview

# J Sainsbury is a leading retail group with a strong ecosystem



## Sainsbury's Bank has a clear and simple ownership structure ...

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Prudential Regulatory Group

## ... and is the financial services provider in the ecosystem

### Of Sainsbury's

Ownership

100% owned subsidiary of J Sainsbury plc

Group Strategy



### For Sainsbury's

Customer

17.5mn Nectar customer base  
c. 4mn Active Financial Services customers

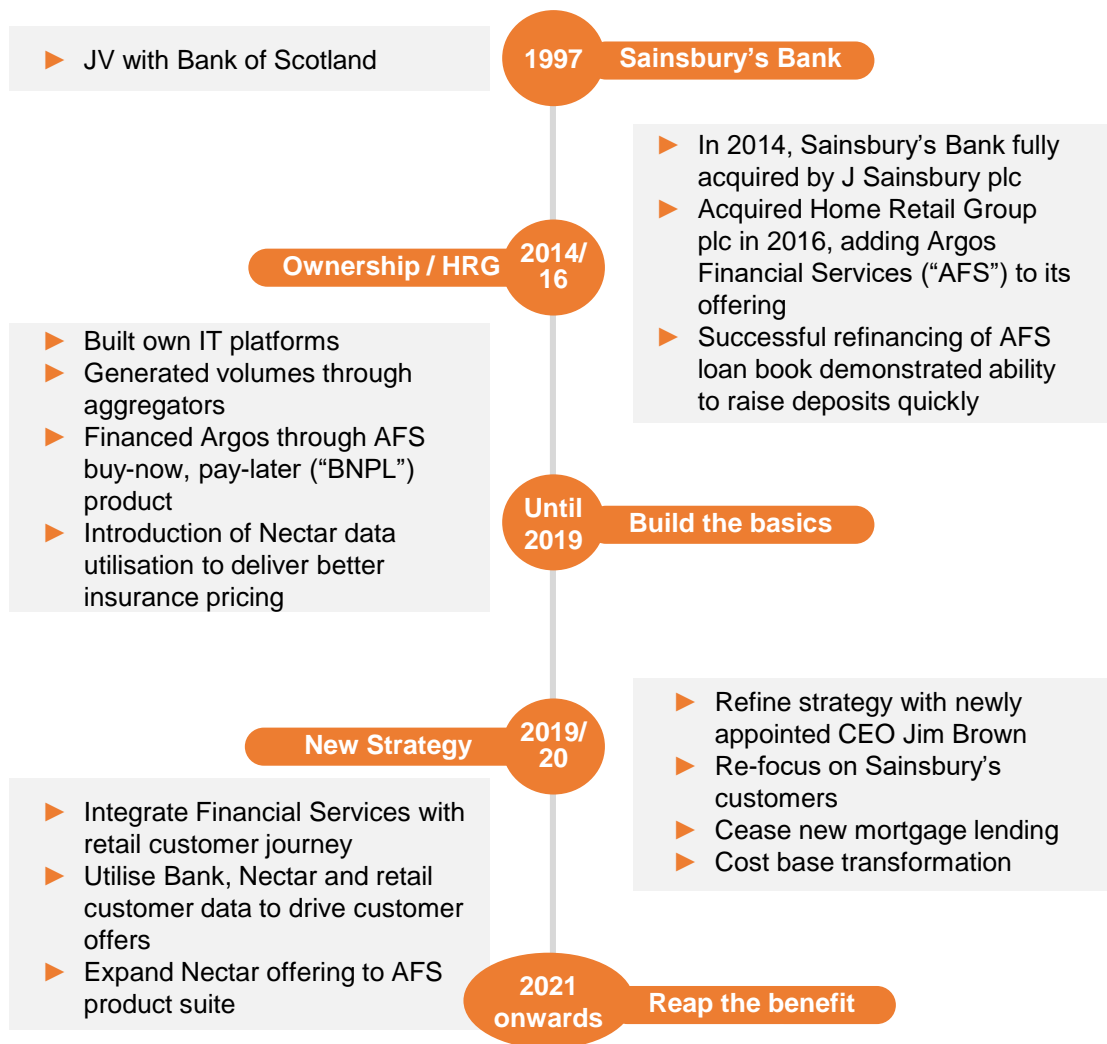
Around 80% Bank and insurance customers have Nectar card

Franchise

2<sup>nd</sup> largest grocery store chain with more than 153 years of history  
11.3% grocery market share<sup>1</sup>







# ... with a long history of supporting J Sainsbury Group customers

## Our History






## Our Products

### Saving and lending

-  Savings
-  Loans
-  Credit cards
-  Mortgages<sup>1</sup>
-  Argos storecards<sup>2</sup>
-  Argos monthly payment plan (MPP)

### Commission-based

- Insurance 
- ATMs 
- Travel money 

# We have exclusive access to J Sainsbury ecosystem ...

**Sainsbury's** **Argos**

- 21m Weekly Transactions
- 1.6m Weekly Transactions
- 1,407 Supermarkets and stores
- 1,063 Stores and collection points



**Sainsbury's Bank**

- c. 4m Customers
- £4.2bn Customer deposits

**Argos FINANCIAL SERVICES**

**nectar**

17.5m Customers

Broad-based



**Significant digital participation**

- 4.9 App store rating SB Credit card
- 72% Active SB Credit Card Users
- 80% AFS Digital participation
- <10 mins Fastest time to loan

## ... and its loyal customers



**Customers  
love us**

Brands	NPS <sup>1</sup>
METRO BANK	82
Argos FINANCIAL SERVICES	55
Sainsbury's Bank	52
TESCO Bank	28
Virgin money	19
NatWest	5



**95%** of Nectar points are redeemed on spend inside the group



**56%** of bank customers shopped at Sainsbury's in the last **3 months**



**30%** of bank customers have been with the Bank **5+ years**



**50%** of AFS customers have been with AFS **4+ years**

# Sainsbury's Bank



Free cash withdrawals



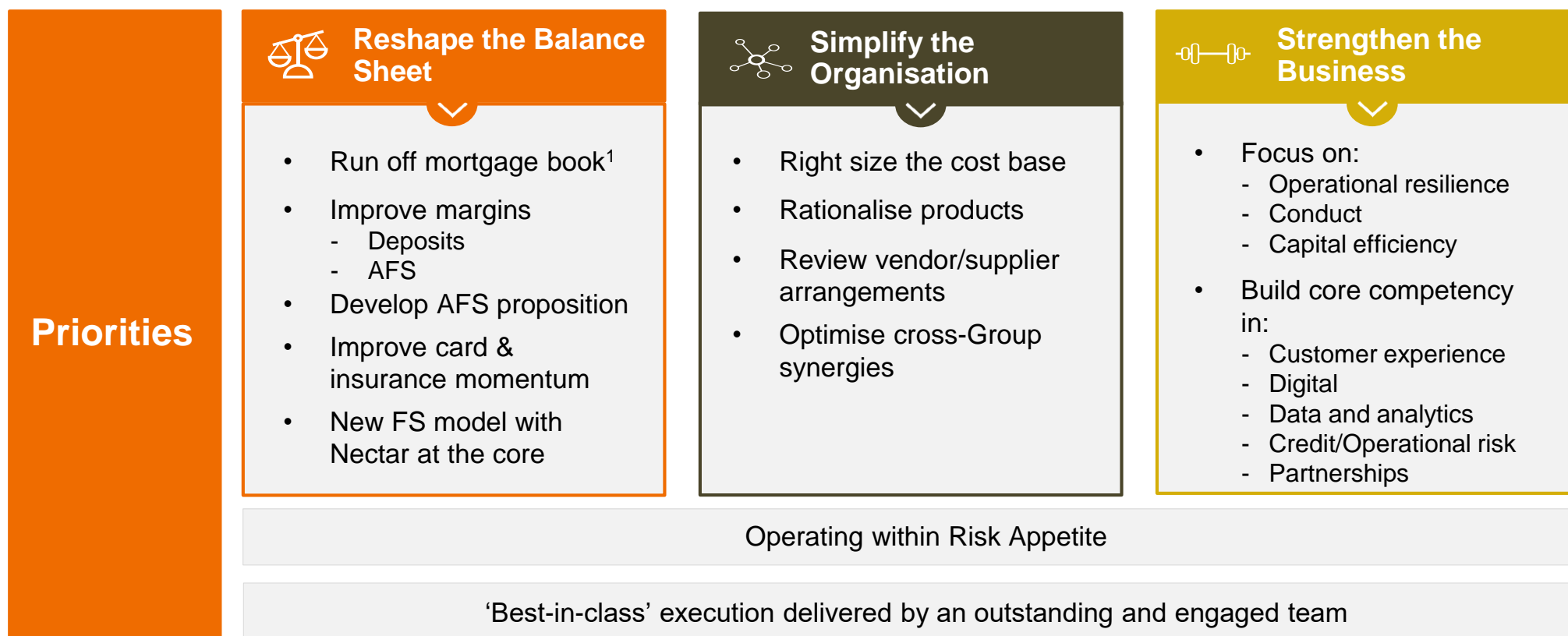
## Strategy

## In September 2019, we set out a 5-year strategy to transform the bank ...

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<b>Vision</b>	To be the provider of Financial Services for Loyal Sainsbury's Group customers			
<b>Objective</b>	An agile, capital and cost efficient provider of simple, mobile-led financial services			
<b>Priorities</b>	Reshape the balance sheet  Simplify the organisation  Strengthen the business			
<b>FY23/24 Targets</b>	<b>Customer</b> NPS $\geq$ 60%	<b>Colleague</b> Sustainable Engagement in top quartile UK FS Females in Senior Roles $\geq$ 40% BAME in Senior Roles $\geq$ 8%	<b>Financial</b> ROCE $\geq$ 10% Cost to income ~50%	<b>Safe and Sound</b> CET1 $\geq$ 13.5% LCR $\geq$ 115%

## ... which will be delivered through focussing on 3 key priorities



## The business is delivering on the strategy ...



### Reshape the Balance Sheet



Mortgage portfolio in run off, new panel insurance model



Portfolios repriced



BNPL 12 month sales mostly moved to  $\leq 6$  months



Nectar Credit Card, Monthly Payment Plan launched, and Nectar FS proposition mobilised



### Simplify the Organisation



Simplified Bank Board, new ExCo team, strengthened leadership



Organisation redesign complete



Lloyds migration complete



Digitalisation of customer journey



### Strengthen the Business



Info sec and operational resilience capabilities enhanced



Enhanced capability to drive significant reduction in fraud losses



Across Group, Retail/ Nectar/ Financial Services priorities forums mobilised



Collections and Recoveries Transformation



Funding sources broadened with first securitisation launched

## ... and we are broadly on track to meet our market commitments

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<b>1</b> <b>Stop putting cash into Financial services</b>	<b>2</b> <b>Improve returns</b>	<b>3</b> <b>Financial services cash generative</b>	<b>4</b> <b>Transform the cost base</b>	<b>5</b> <b>Reduce risk profile to group</b>	<b>6</b> <b>Focus on Sainsbury's customer base</b>
No capital input from the group <sup>1</sup>	Double uPBT; double digit ROCE within 5 years	Upstream cash within 5 years <sup>2</sup>  First dividend to group declared	Cost to income c.50% <sup>3</sup> within 5 years	Mortgage acquisition ceased; stable balance sheet	Increase connectivity and value for group

# Sainsbury's Bank

Free cash withdrawals

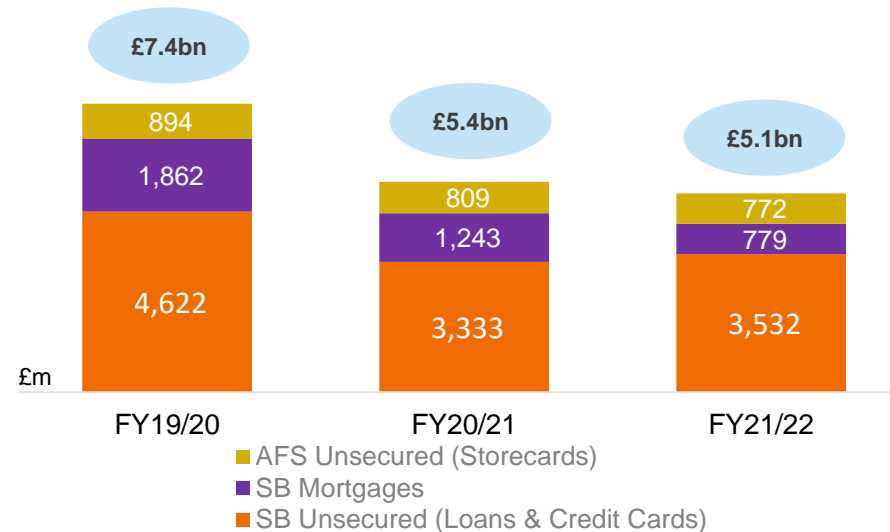


## Portfolio Overview & Performance

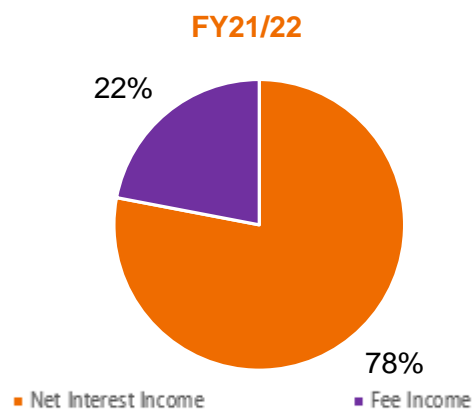
# We have a well-diversified business with strong fee income ...

- Current lending products principally consist of unsecured personal loans, credit cards, Argos store cards and the Argos monthly payment plan (launched in March 2022)
- As part of Sainsbury's Bank's strategy to reshape the balance sheet, the origination of new mortgages was ceased in September 2019
- Lending balances have decreased over the last two years, as a result of the impact of both COVID-19 and the run-off of the mortgage book
- Bad debt as a percentage of lending is low relative to industry

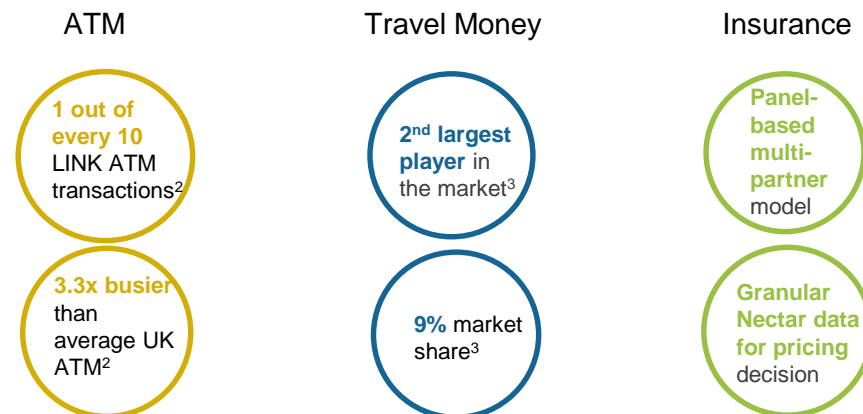
## Lending balances



## Strong fee income<sup>1</sup>



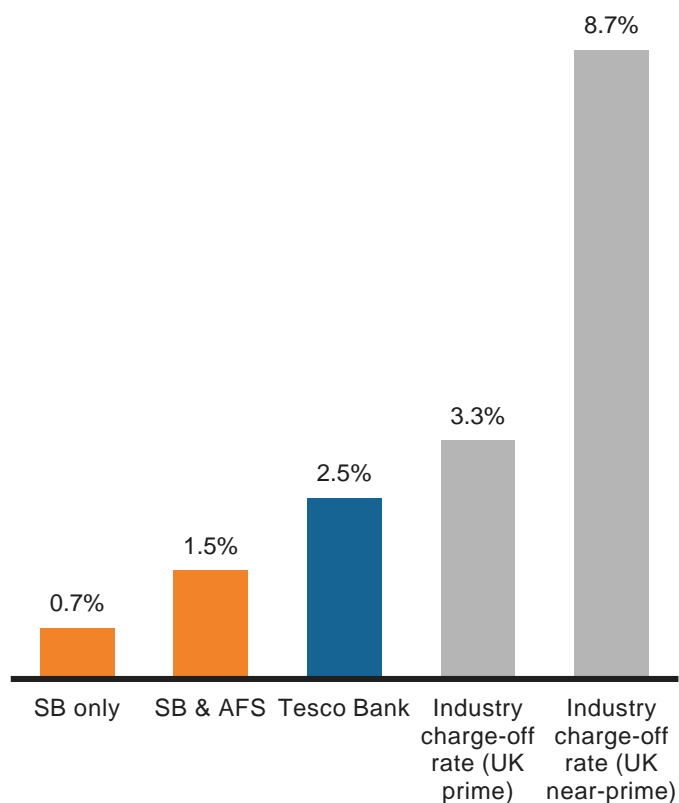
## Strong market position



## ... and high-quality loan portfolio with appropriate provisioning

### Bad debt as a percentage of lending<sup>1</sup>

Two-year average



### Provisioning

Sufficient provisioning in place to mitigate negative macroeconomic impacts

ECL stock and ECL coverage by product line and IFRS stage

Portfolio	Stage	Total ECL provision* (£m)			Total Coverage (%)		
		Feb-20	Feb-21	Feb-22	Feb-20	Feb-21	Feb-22
SB Unsecured (Loans and Credit cards)	Stage 1	27	28	25	1	1	1
	Stage 2	32	40	29	8	9	7
	Stage 3	132	109	69	79	79	74
	<b>Total</b>	<b>191</b>	<b>177</b>	<b>123</b>	<b>4</b>	<b>5</b>	<b>3</b>
AFS Unsecured (Storecards)	Stage 1	21	22	19	3	3	3
	Stage 2	25	28	25	31	39	32
	Stage 3	50	49	50	73	70	70
	<b>Total</b>	<b>96</b>	<b>98</b>	<b>95</b>	<b>10</b>	<b>11</b>	<b>11</b>
SB Secured (Mortgages)	Stage 1	0	0	0	0	0	0
	Stage 2	0	0	1	0	0	1
	Stage 3	0	3	2	4	20	24
	<b>Total</b>	<b>0</b>	<b>3</b>	<b>3</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total Portfolio</b>		<b>287</b>	<b>279</b>	<b>221</b>	<b>4</b>	<b>5</b>	<b>4</b>

\* Including provision for undrawn commitments

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Free cash withdrawals

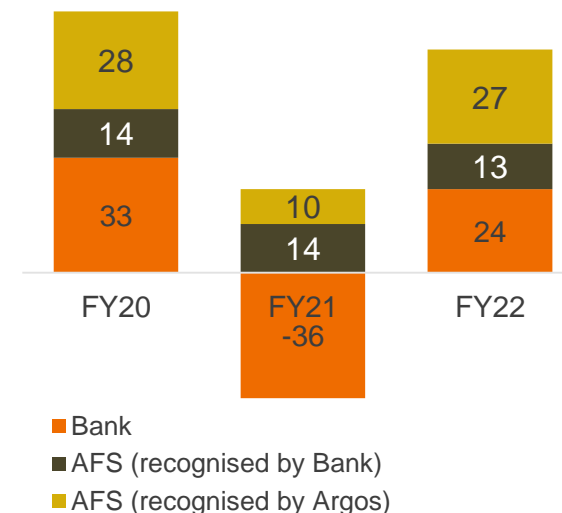


## Financial Highlights

## Our financial performance is recovering towards pre-COVID levels ...

Statutory consolidated basis	FY19/20	FY20/21	FY21/22	Yo2Y Change
Total income <sup>1</sup>	£429m	£342m	£359m	(16)%
Underlying profit before tax	£47m	£(22)m	£37m	(21)%
Customer lending <sup>2</sup>	£7.4bn	£5.4bn	£5.1bn	(31)%
Customer deposits	£6.3bn	£5.1bn	£4.2bn	(33)%
Active customers – Bank	2.1m	1.8m	1.8m	(14)%
Active customers – Argos FS	2.2m	2.2m	2.1m	(4)%
Cost to income ratio	71%	74%	74%	(300)bps
Net interest margin <sup>3</sup>	3.4%	3.5%	4.5%	110bps
Bad debt as a percentage of lending <sup>4</sup>	1.1%	1.8%	1.2%	(10)bps
Total Capital Ratio	17.0%	20.2%	18.1%	110bps
Liquidity Coverage Ratio <sup>5</sup>	145%	194%	190%	450bps
Total Headcount <sup>6</sup>	2,226	2,015	1,837	(17)%

Underlying profit before tax - Group contribution basis (£m)



1 Net interest, net commission and other operating income

2 Amounts due from customers at the Balance Sheet date in respect of loans, mortgages, credit cards and store cards net of provisions

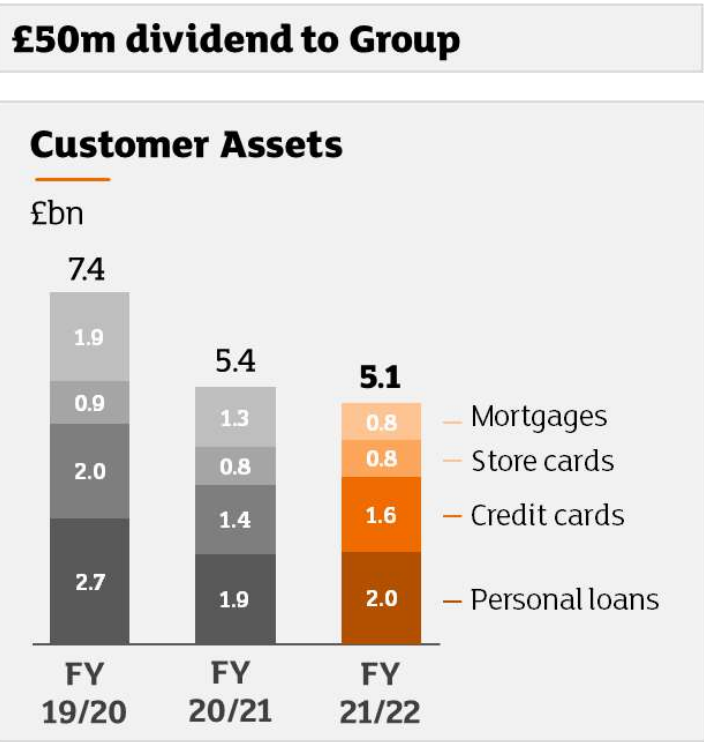
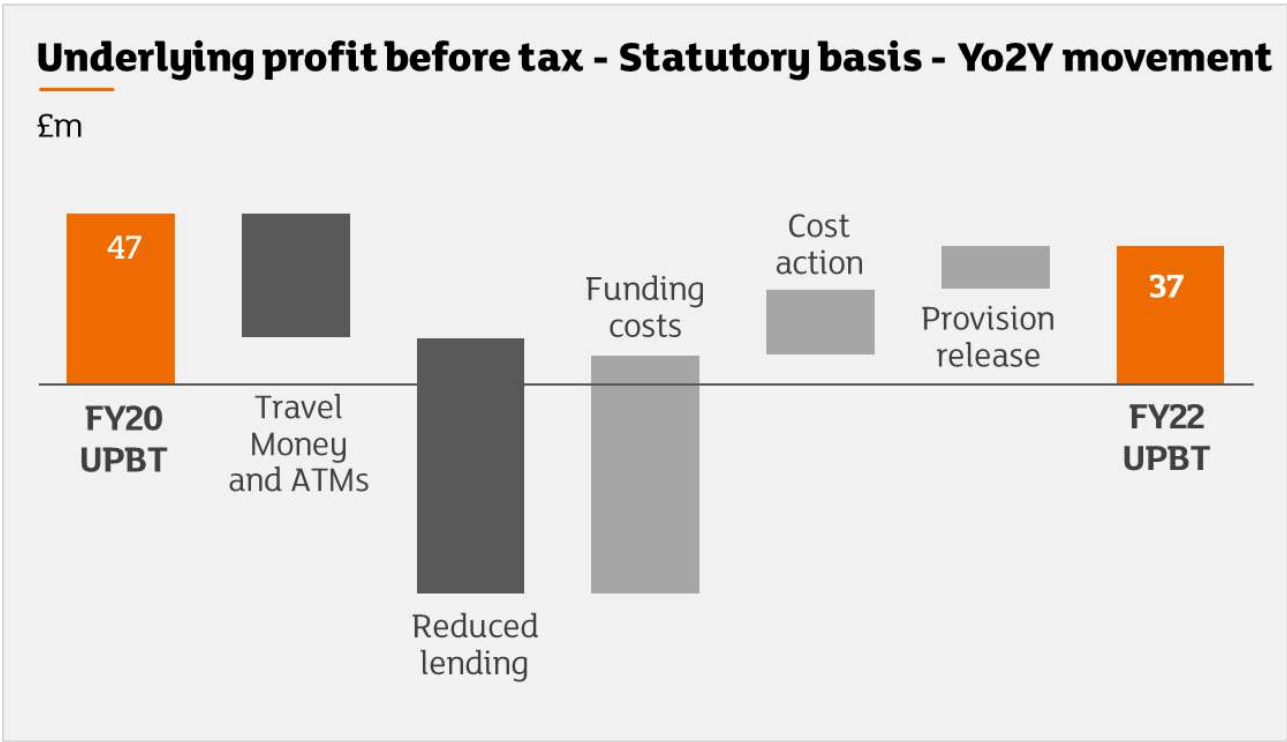
3 Net interest receivable / average interest-bearing assets

4 Bad debt expense / average net lending

5 Liquidity coverage ratio 12 month average

6 FTE and contractors

# ... with underlying profit recovering strongly despite lower customer assets



## Consolidated income statement – Statutory basis

FY21/22 (£m)	Sainsbury's Bank plc <sup>1</sup>	Home Retail Group Card Services Ltd <sup>1</sup>	Other subsidiaries <sup>1,2</sup>	Consolidation adjustments <sup>3</sup>	Consolidated Group
Net interest income	173	106	1	(1)	279
Net fee income	68	5	1	0	74
Other operating income	6	0	0	0	6
<b>Total income</b>	<b>247</b>	<b>111</b>	<b>2</b>	<b>(1)</b>	<b>359</b>
Operating expenses	(229)	(50)	(2)	1	(280)
Impairment losses on financial assets	(14)	(48)	0	0	(62)
Other gains and losses on financial instruments	4	0	16	(16)	4
<b>Profit / (loss) before taxation</b>	<b>8</b>	<b>13</b>	<b>16</b>	<b>(16)</b>	<b>21</b>
<b>Analysed as:</b>					
- Underlying profit / (loss) before taxation	24	13	16	(16)	37
- Non-underlying items	(16)	0	0	0	(16)
	8	13	16	(16)	21
Taxation	(2)	(1)	0	0	(3)
<b>Profit / (loss) for the year</b>	<b>6</b>	<b>12</b>	<b>16</b>	<b>(16)</b>	<b>18</b>

## Consolidated balance sheet – Statutory basis

FY21/22 (£m)	Sainsbury's Bank plc <sup>1</sup>	Home Retail Group Card Services Ltd <sup>1</sup>	Other subsidiaries <sup>1,2</sup>	Consolidation adjustments <sup>3</sup>	Consolidated Group
Cash, balances with central banks and other deposits	346	6	35	0	387
Loans and advances to banks	121	0	0	0	121
Derivative assets	19	0	16	0	35
Investment securities	443	0	0	0	443
Loans and advances to customers	4,311	772	0	(16)	5,067
Investments in subsidiaries	325	0	0	(325)	0
Intangible assets	162	29	0	0	191
Property, plant and equipment	9	0	0	0	9
Other assets	700	34	481	(932)	283
<b>Total assets</b>	<b>6,436</b>	<b>841</b>	<b>532</b>	<b>(1,273)</b>	<b>6,536</b>
Customer accounts	(4,235)	0	0	0	(4,235)
Other deposits	(1,024)	0	0	0	(1,024)
Other borrowed funds	0	0	(506)	506	0
Subordinated liabilities	(179)	0	0	0	(179)
Derivative liabilities	(19)	0	0	0	(19)
Other liabilities	(113)	(485)	(1)	426	(173)
Provisions for liabilities and charges	(9)	(11)	(8)	0	(28)
<b>Total liabilities</b>	<b>(5,579)</b>	<b>(496)</b>	<b>(515)</b>	<b>932</b>	<b>(5,658)</b>
Called up share capital	(701)	0	(26)	26	(701)
Retained earnings	(155)	(345)	9	315	(176)
Other reserves	(1)	0	0	0	(1)
<b>Total equity</b>	<b>(857)</b>	<b>(345)</b>	<b>(17)</b>	<b>341</b>	<b>(878)</b>
<b>Total equity and liabilities</b>	<b>(6,436)</b>	<b>(841)</b>	<b>(532)</b>	<b>1,273</b>	<b>(6,536)</b>

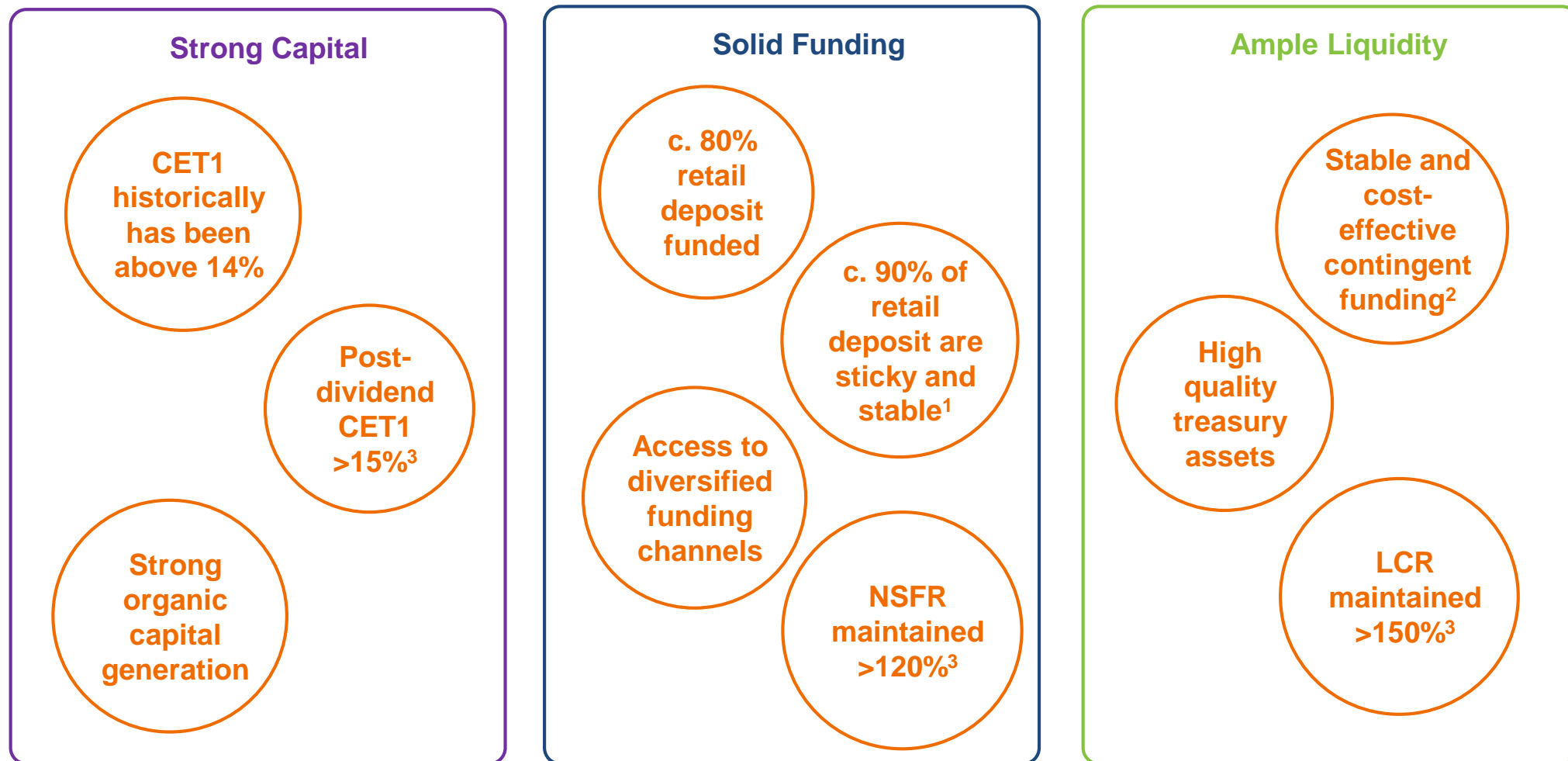
# Sainsbury's Bank

Free cash withdrawals



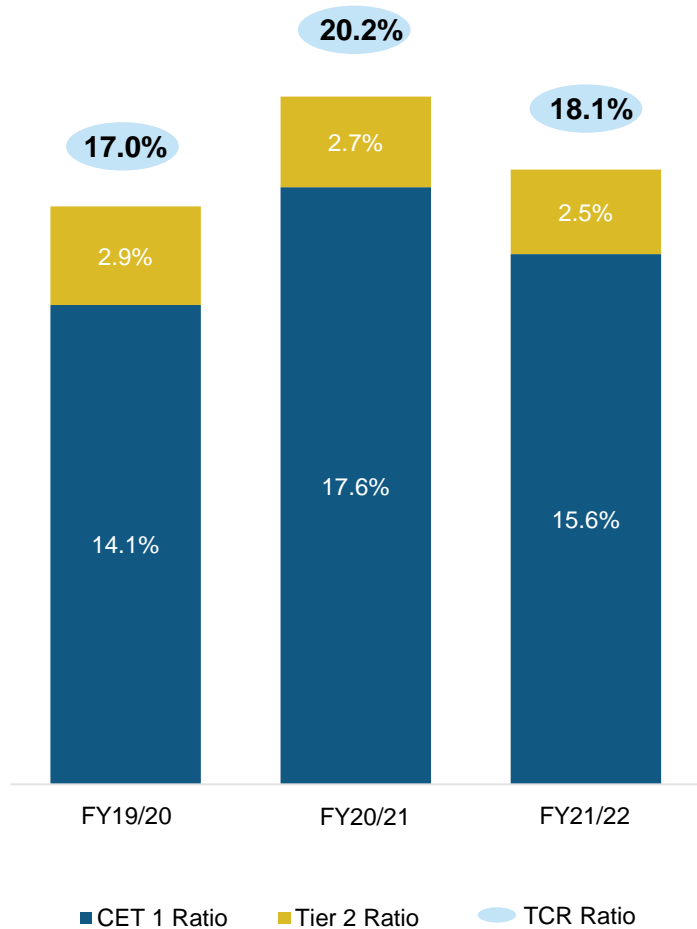
**Capital,  
Funding  
and  
Liquidity**

## We have strong capital, solid funding and ample liquidity ...



... with a consistently robust and prudent capital position ...

### Total capital position



### Regulatory capital<sup>1</sup>

(£m, unless otherwise stated)	FY19/20	FY20/21	FY21/22
CET1	822	791	685
Tier 2	167	120	109
<b>Total capital resources</b>	<b>989</b>	<b>911</b>	<b>794</b>
<b>Total RWAs</b>	<b>5,816</b>	<b>4,503</b>	<b>4,392</b>
<b>CET1 ratio</b>	<b>14.1%</b>	<b>17.6%</b>	<b>15.6%</b>
<b>Tier 2 ratio</b>	<b>2.9%</b>	<b>2.7%</b>	<b>2.5%</b>
<b>Total capital ratio (TCR)</b>	<b>17.0%</b>	<b>20.2%</b>	<b>18.1%</b>
<b>Leverage ratio</b>	<b>8.1%</b>	<b>9.5%</b>	<b>9.7%</b>
<b>Pillar 1 Requirement</b>	<b>8.0%</b>	<b>8.0%</b>	<b>8.0%</b>
<b>Pillar 2a Requirement</b>	<b>3.5%</b>	<b>2.6%</b>	<b>2.0%</b>
<b>Pillar 1 + 2a Requirement<sup>2</sup></b>	<b>11.5%</b>	<b>10.6%</b>	<b>10.0%</b>

1 £50m dividend already reflected in FY21/22

2 Total Capital Requirement (Pillar 1 + 2a) does not include the PRA buffer (not disclosed), Capital Conservation Buffer (currently 2.5% of RWA) or UK Countercyclical Capital Buffer (increasing to 1% in December 2022 and 2% in July 2023)

## ... supported by a diversified funding and liquidity profile

### Diversified sources of funding

#### Secured

BOE facilities  
Repo market  
Capital markets

ILTR / TFSME

Regularly transacted in the markets with existing repo counterparties

Drury Lane securitisation programme

#### Unsecured

Wholesale deposit  
Retail deposit  
Capital markets

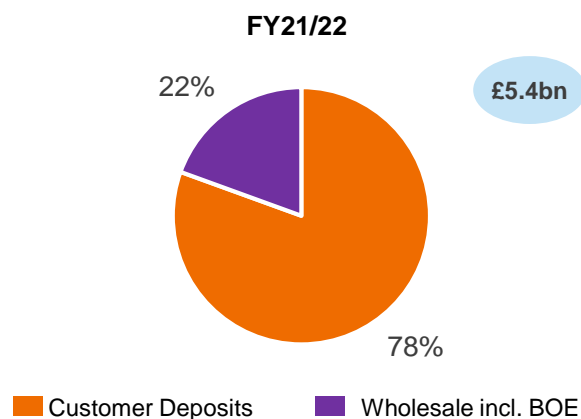
Deposit platform and broker relationship

Prudent 80% Retail / 20% Wholesale target funding mix with c. 90% sticky<sup>1</sup> retail deposit

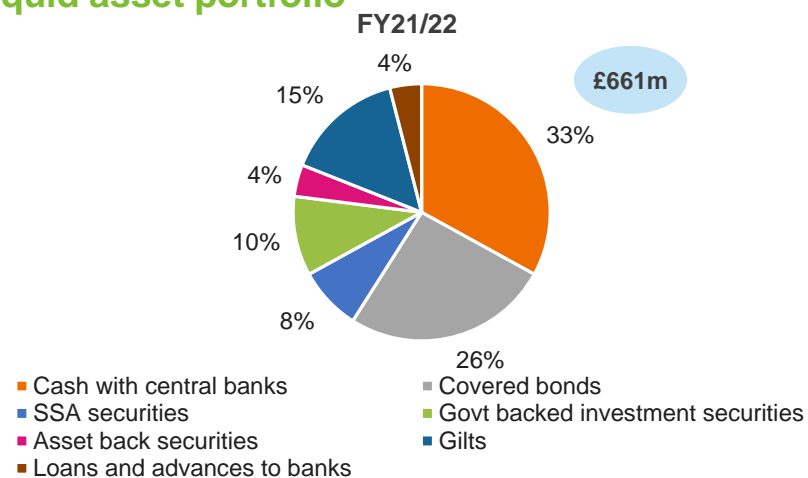
Access demonstrated by Tier 2 issuance

- Solid liquidity and funding ratios: LCR of 190% and NSFR of 125% (FY21/22)

### Stable Funding Profile

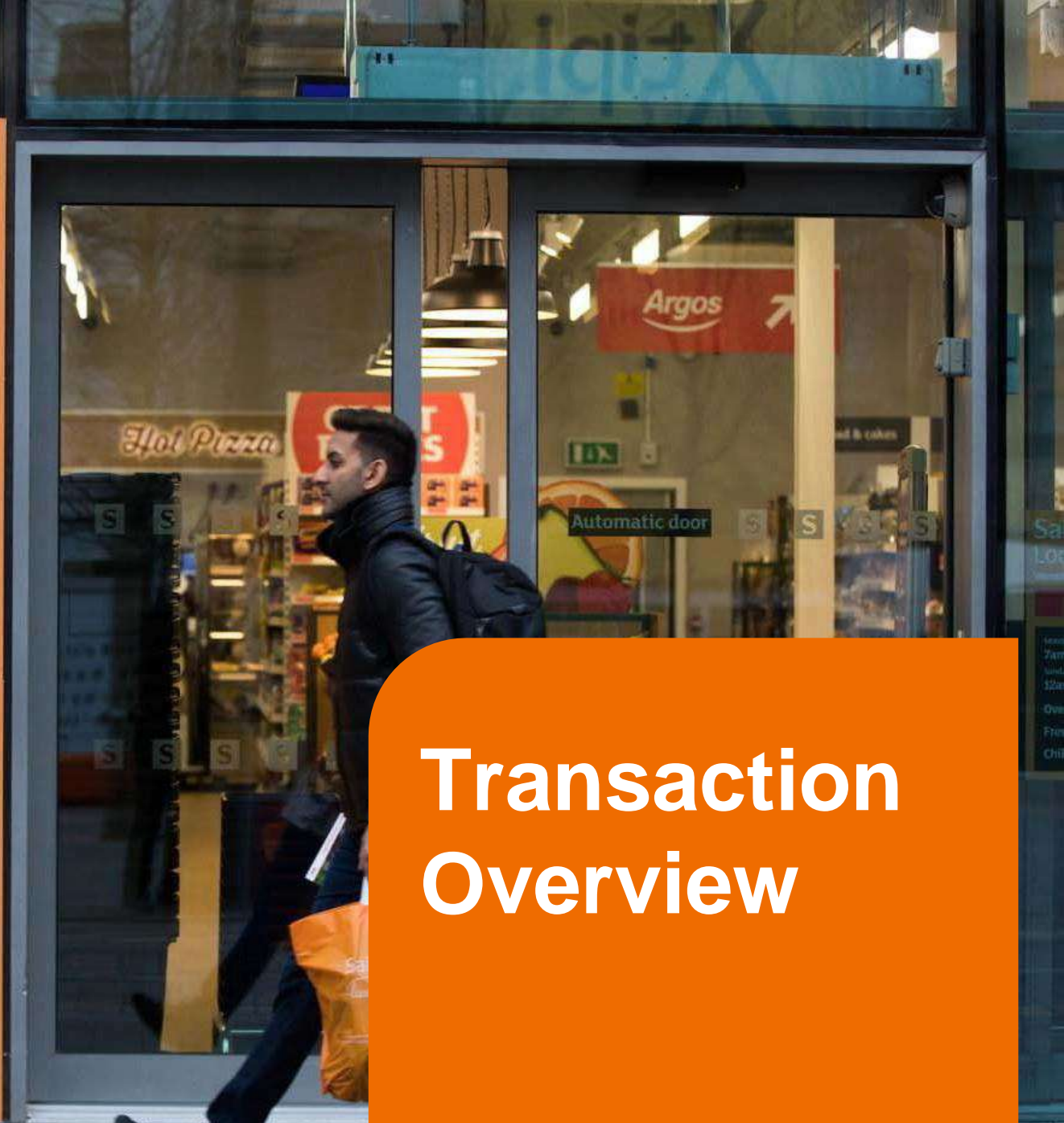


### Liquid asset portfolio



# Sainsbury's Bank

Free cash withdrawals



## Transaction Overview

## Transaction overview

### Transaction Overview & Rationale

- New GBP 10.5NC5.5 Tier 2 and concurrent cash tender for existing 6% GBP175m Tier 2
- The new issue will diversify and further strengthen the Bank's capital structure
- The tender offer is being made as part of the active management of the Bank's capital base, and will provide noteholders with liquidity and an opportunity to redeploy funding into the new notes

### Tender Offer Summary Terms

- Cash tender for existing GBP175m Subordinated Notes due 23 November 2027, with a reset date and optional redemption on 23 November 2022
- Purchase price of 100.35% and expires at 4pm UKT on 7 September 2022
- Aggregate principal amount accepted for purchase to be determined by the Bank, which is expected to be at least equal to the aggregate principal amount of the new notes
- When allocating the new notes, preference may be given to those noteholders that, prior to such allocation, have validly tendered their notes
- Offer is conditional upon the successful completion of the new issue

### New GBP 10.5NC5.5 Tier 2 Indicative Summary Terms

<b>Issuer</b>	Sainsbury's Bank plc
<b>Instrument</b>	GBP Fixed Rate Reset Callable Subordinated Notes
<b>Issuer Rating</b>	Baa1 stable (Moody's)
<b>Expected Issue Rating</b>	Baa2 (Moody's)
<b>Size</b>	GBP 120-130m (expected)
<b>Reset Date / Maturity Date</b>	[•] March 2028 / [•] March 2033 (10.5NC5.5)
<b>Optional Redemption</b>	From [•] September 2027 to the Reset Date (6m par call)
<b>Early Redemption</b>	Following a Tax Event or a Capital Disqualification Event, subject to conditions
<b>Interest</b>	Fixed rate, semi-annual. Resets to 5yr Gilt rate plus the Margin from the Reset Date
<b>Governing Law</b>	English Law
<b>Format</b>	Reg S, Registered Notes
<b>Denominations / Listing</b>	GBP 100k + 1k / Euronext Dublin's Global Exchange Market (GEM)
<b>Documentation</b>	Preliminary Information Memorandum dated 30 August 2022

# Sainsbury's Bank

Free cash withdrawals



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