## Sainsbury's Bank plc

# Annual Report and Financial Statements for the year ended 28 February 2025

COMPANY NUMBER: 3279730

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## Performance Highlights

### Statutory profit / (loss) before tax from Continuing Operations

**£48m**

(2024: £17m)[1]

### Net interest margin (underlying)

**3.3%**

(2024: 3.5%)[1]

### CET 1 Capital Ratio (transitional)

**23.0%**

(2024: 17.1%)

### Liquidity Coverage Ratio

**532%**

(2024: 352%)

ⓘ Performance, including reference to the above headlines is explained in the financial review section on page 19.

The alternative performance measures have been defined and reconciled to the statutory disclosures on page 109.

[1] The prior year has been re-presented following the classification of discontinued operations and adjusted for deconsolidation. Refer to notes 3 and 14.

## Strategic report

The Directors present their strategic report for the year ended 28 February 2025.

The Annual Report and Financial Statements includes the strategic report, the Directors' report and the Company Financial Statements and accompanying notes as applicable. Reference to 'the Bank' means Sainsbury's Bank plc and reference to 'the Group' specifies the Bank and its subsidiaries. Further information on investment in group undertakings can be found in note 22.

The Bank is a wholly owned subsidiary of J Sainsbury plc ('the Sainsbury's Group'), however, it is governed by its own Board and Executive Committee, independent from J Sainsbury plc (see Risk Overview and Governance sections on pages 22 and 29). The Group results are included in the consolidated J Sainsbury plc financial statements which are publicly available.

The Bank is a public company limited by shares, incorporated and registered in England, and domiciled in the United Kingdom. Its registered office is 33 Holborn, London, EC1N 2HT. Our principal place of business is 1 New Park Square, Airborne Place, Edinburgh, EH12 9GR.

## Strategic update

On 18 January 2024, J Sainsbury plc, announced that, following a strategic review of its Financial Services division, and consistent with its clear focus on the retail business, there would be a phased withdrawal from the Core Banking business with financial services products in the future being provided through third parties.

Thereafter, throughout the year we have critically evaluated the strategic opportunities available to support the Sainsbury's Group in continuing to offer high-quality, great value financial services products through a distributed model to our customers.

On 20 June 2024, J Sainsbury plc announced that it had, pursuant to Part VII of the UK Financial Services and Markets Act 2000 and the required regulatory consents, entered into an agreement for the sale of the Bank's personal loan, credit card and retail deposit portfolios (together the "Core Banking Business") to NatWest Group ("NatWest"). The sale is expected to be completed during the first half of 2025. A Transitional Service Agreement ("TSA") has been agreed with NatWest for the provision of our banking services until these services can be migrated, targeted for late 2025.

On 26 September 2024, J Sainsbury plc announced the sale of its ATM estate and a new Partnership with NoteMachine, a Brink's Company. The transition of ownership and management of the estate (1,370 ATMs nationwide) is expected to be completed by May 2025. All sold ATMs will remain open and in position at the existing sites, meaning customers will still receive convenient, free access to cash, with no change to how they currently withdraw their money. In the Partnership, the Sainsbury's Group will receive a commission income stream.

On 31 October 2024, J Sainsbury plc announced that the financial services subsidiary Home Retail Group ("HRG") Card Services Limited, part of Sainsbury's Bank plc, sold its Storecards portfolio to NewDay Group Holdings ("NewDay"). The transfer of beneficial ownership completed on the 28 February 2025, with proceeds received and assets derecognised from the balance sheet. The legal title will transfer following the completion of a migration period, expected to be completed in Q1 2026.

The Bank will continue to work with the Sainsbury's Group to continue to review options for the remaining financial services products. We expect this review to conclude within the next financial year.

We have continued to focus on customers first, whilst being supportive and transparent with colleagues throughout the strategic planning process as we plan for colleague exits in conjunction with transformation milestones.

We continue to prepare our accounts on a going concern basis, after due consideration of the risks resulting from the strategic change. More detail on this assessment is provided on page 34.

## Business model

Throughout the financial year, notwithstanding our strategic transformational activity currently underway, we continued to drive value for the Sainsbury's Group with a strong focus on cost control and capital whilst continuing to deliver the high quality of service and outcomes our customers expect. We have continued to offer a range of retail banking services and related financial services wholly within the UK.

Banking products:

- Following the announcement we ceased acquisition of new Loans and Credit Card accounts during the year. However, we have continued to ensure we support our existing customers.
- We continued to offer new savings accounts until March 2025 to ensure we maintained liquidity

| Banking | Commission |
|---|---|
| Savings | Insurance |
| Loans | ATMs |
| Credit Cards | Travel Money |

Commission products:

- Insurance products are offered to customers where we act as a broker to a number of underwriters on Car and Home and as an Introducer to several insurers across Pet, Life and Travel. All products are available online or via telephone.
- Travel Money services are available to customers at our Bureaux counters in Sainsbury's supermarkets and online. Foreign currency is acquired wholesale and sold to customers at a retail rate with margin.
- Our ATMs provided easy and free access to cash with machines, predominately within Sainsbury's stores. We commenced the transfer of these machines to NoteMachine during the year.

## Year in review

### Continued offering support and value to our customers

Supported by our brand and aligned to our consumer duty commitments, customers have been at the forefront of strategic decisions. We continue to ensure that customers continue to receive the high level of service which they have come to expect.

Our total number of customers has decreased from 1.8 million at February 2024 to 1.5 million at February 2025. This was driven by our Banking products with cessation of new business and is reflective of our strategic direction.

### Commission business

Our **Travel Money** offering had a great year with nearly 2.8 million customers served, up 11% on prior year. This year 2.6 million customers have visited one of our 226 instore bureau locations across the UK. Our current NPS of 77, is up 1 point, with 82% of customers scoring the travel money service at 9 or 10 out of 10.

Customers are benefiting from improvements in our online journey, including the introduction of Applepay and Google pay. We have also enhanced our customer proposition for home delivery this year, with a 45% year on year increase in customers using this service. Customers have also benefited from our 'Get more with Nectar Prices' campaign.

Across our **Insurance** products, we have sold or renewed over 850,000 policies to customers this year, an increase of 10%. Our current overall Insurance NPS score is 49.

Pet insurance number of active policies is up 9% from last year, aided by successful and innovative marketing campaigns.


Our **ATM** estate continues to be one of the busiest networks in the UK. We are proud to say that £1 in every £10.70 withdrawn through the ATM LINK network in the UK is from a Sainsbury's Bank machine. The long-term partnership and transition of ownership to NoteMachine is expected to complete by May 2025, providing the Sainsbury's Group with a shared commission income stream.

### Banking business

In recognition of the signing of the deal to sell our Loans, Credit Cards and Savings portfolios, we have taken numerous actions during the year to ensure we make this transition as easy as possible for the bank and our customers. In this regard:

- We ceased all new business applications on **Loans** and **Credit Cards** in July 24 and August 24 respectively
- Communications with all in-scope customers have commenced regarding the proposed transfer – we have put in place dedicated online and telephony support for customer queries.
- We have now fully mobilised and are working with NatWest to prepare for the migration of these customers (subject to the Part VII of the Financial Services and Markets Act 2000 being granted), ensuring we are building robust plans to ensure the migrations are delivered safely and with good customer outcomes at the forefront of our considerations. More information on the proposed transfer can be found on www.sainsburysbank.co.uk/transfer-scheme

In support of our Banking business our Treasury Management activities continue to be important to ensure we maintain access to liquidity during this transition. We have successfully grown our Platform Deposits to ensure diversity of sources of funds (increased by £0.4bn) and have delivered positive returns from the investment of this excess liquidity in our low risk Treasury Asset Portfolio.

We have continued to prioritise the protection of our customers from fraud. We have seen an 8% reduction in fraud losses during the year and we will continue to protect our customers through our transformation.

The **Mortgage** portfolio was sold to The Co-operative Bank Plc on 15 August 2023, with a successful migration and legal transfer completed In June 2024.

## NON-FINANCIAL AND SUSTAINABILITY INFORMATION STATEMENT

This page sets out how the Bank has complied with various reporting and regulatory and governance requirements

### Non-Financial Reporting Directive

The Bank has complied with the updated non-financial reporting directive requirements contained in sections 414C, 414CA and 414CB of the Companies Act 2006. The table below sets out how we have responded to the requirements, with reference to other sections of the Annual Report where necessary.

| | |
|---|---|
| **Business Model** | The Bank seeks to provide quality financial services to Sainsbury's and Argos customers at an affordable price. The business model is outlined on page 3 of this Strategic Report |
| **Environmental** | Refer to Page 6 of Strategic Report for the Bank's strategy for climate and pages 6 to 12 for an update on progress made in the year |
| **Social** | Details on our interaction with our communities is outlined on page 13 |
| **Our customers** | Details on our approach to our customers in outlined page 13 |
| **Our employees** | We aim to make the Bank a great place to work for all colleagues. Our approach to achieve this is outlined on page 13 |
| **Gender Pay Gap** | Details on gender pay gap is outlined on page 14 |
| **Human Rights and Modern Slavery** | Details on our approach to Human Rights and Slavery is outlined on Page 14 |
| **Anti-corruption/Anti-bribery** | Details on our approach to Anti-Corruption and Anti-Bribery is outlined on Page 14 |

### Wates Corporate Governance Principles

Sainsbury's Bank plc applies the Wates Corporate Governance Principles for Large Private Companies (available on the Financial Reporting Council website). Information demonstrating how we applied the principles can be found throughout the Strategic Report as outlined below:

| | |
|---|---|
| **Principle 1 – Purpose and Leadership** | See our business model (page 3) and strategy (page 3) sections of the Strategic Report. |
| **Principle 2 – Board Composition** | Outlined in the directors' report on page 33 and the Strategic Report on page 29. |
| **Principle 3 – Director Responsibilities** | See the Strategic Report on page 30. |
| **Principle 4 – Opportunity and Risk** | See the Strategic Report on page 31. |
| **Principle 5 - Remuneration** | See the Strategic Report on page 33. |
| **Principle 6 – Stakeholder Relationships and Engagement** | Our engagement with stakeholders is outlined in the Section 172 statement opposite. |

### Section 172

The Board fully recognises its obligations under the Companies Act 2006, including those set out in section 172. Its governance framework and regular programme of agenda items ensures it has due regard to:

- The likely longer-term consequences of its decisions. Historically the Board approved a rolling five-year strategic plan on an annual basis, regularly monitoring progress through key metrics. Given the strategic transformation currently underway, a series of key metrics (which form the basis of the KPIs outlined on pages 17 to 19) covering the medium and longer-term consequences of the change are monitored by the Board to enable it, and it sub-committees, to provide appropriate review, balanced challenge and transparency on decision making.
- Maintaining the reputation of the Bank (and the Sainsbury's Group brands it uses) for high standards of business conduct. The Board promotes the values of the wider Sainsbury's Group across the organisation. These values help colleagues to know how to act at work and we believe they are right because they are also the way that many of us live outside of work too. The Sainsbury's Group (including the Bank and its subsidiaries) has always had a strong sense of social, environmental and economic responsibility and an understanding that our success depends on society's success. Further details on our approach to diversity, environmental and social factors are outlined in the Non-Financial reporting section on pages 6 to 14.
- The views and interests of its key stakeholders. The Board seeks to understand these in order to inform effective decision-making and to deliver long-term success. It identifies our core stakeholders as: customers and communities; colleagues; investors; suppliers; and regulators.

By taking regard of these factors, the Board seeks to ensure that the Directors have acted both individually and collectively in a way that would, in good faith, be considered likely to promote the success of the Bank while having due regard to all its stakeholders and to the matters set out in paragraphs a to f of section 172 of the Companies Act 2006.

Further information of our consumer duty can be found on page 17 of the strategic report. Information on how we have interacted with our stakeholders is located as follows:

| Stakeholder | Strategic Report Reference |
|---|---|
| Colleagues | Page 13 |
| Customers | Page 13 |
| Communities | Page 13 |
| Investors | Page 14 |
| Suppliers | Page 15 |
| Regulators | Page 15 |

## Environmental, Social and Governance

### Our approach to ESG

In January 2024, it was announced that following Sainsbury's strategic review, and consistent with its clear focus on the retail business, there would be a phased withdrawal from the core banking business. In this context, we recognise that it is no longer appropriate to necessarily continue or introduce new initiatives that do not specifically align with the strategic direction of the business.

It is noted that as at the year-end period, being 28 February 2025, the Group still maintained a portfolio of assets including loans, cards and storecards, however new business for cards and loans ceased in late 2024. In this context references in this section continue to be made to these products and the related financial risks from climate change, albeit going forward the risks will materially reduce as the assets are eventually sold. Correspondingly, risk metrics and targets will also be less relevant to the Group over time.

This impact is mostly seen in the inability to carry out medium and longer-term Environmental goals that would be outwith the lifespan of the Bank. It is noted that Social and Governance commitments are largely unaffected.

## Environmental strategy

The latest assessment against the recommendations set out by the Task Force on Climate Related Financial Disclosure (TCFD) can be found throughout the Strategic Report as outlined below. Where relevant, this includes the impact of the strategic change.

| | | |
|---|---|---|
| **Governance** | Page 7 | - Board oversight of climate-related risks and opportunities<br>- Management's role in assessing and managing climate-related risks and opportunities |
| **Strategy** | Page 8 | - Climate-related risks and opportunities identified over the short, medium and long term<br>- The impact of climate-related risks and opportunities on our businesses, strategy and financial planning<br>- The resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario |
| **Risk management** | Page 9 | - Our processes for identifying and assessing climate-related risks<br>- Our processes for managing climate-related risks<br>- How our processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management |
| **Metrics and targets** | Page 10 | - The metrics used to assess climate-related risks and opportunities in line with its strategy and risk management process<br>- Scope 1 and Scope 2 emissions and the related risks<br>- The targets used to manage climate-related risks and opportunities and performance against targets |

## Governance

As well as being aligned with Sainsbury's Group governance on ESG related matters the Bank also has an objective of ensuring that any product and or process related decisions including the allocation of change resources/change programmes consider the environmental risk impact in a proportionate way and that this is appropriately documented.

The Bank complies with Section 172(1) of the Companies Act 2006 which sets out the matters that directors must have regard to in fulfilling their duties to promote the success of the company, which include the interests of various stakeholders, and, in doing so, have regard to the impact of the Bank's operations on the community and the environment.

**Roles and responsibilities**

The Group defines roles and responsibilities in relation to climate risk under the 'three lines of defence' approach.

**The Board's oversight of climate-related risks and opportunities**

The Bank Board is the key governance body, meeting at least nine 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. The Chief Risk Officer (CRO) has been identified as the Senior Manager responsible under the Senior Management and Certification Regime for managing the financial risks from climate change. The Bank is aligned with Sainsbury's Group governance on ESG matters with the Group's strategy presented at the Sainsbury's Group ESG Steerco.

See page 29 for the full committee structure diagram.

*Board*
The Board reviews the ESG policy on an annual basis as well as associated risk appetite metrics. The Board approves the Bank's Internal Capital Adequacy Assessment Process (ICAAP), which includes climate stress testing analysis, and the strategic report that contains disclosures in respect of the environment.

*Board Risk Committee (BRC)*
The BRC oversees the development, implementation, and maintenance of ESG Risk management including responsibility for reviewing climate change risks and to alert the Board to any areas of concern. At its meeting in March 2024, the BRC approved the Bank's ESG Risk Appetite following review and discussion at ERC. High-Level Risk Appetite metrics are presented at each meeting and the BRC is consulted on any breach of the Bank's risk appetite and proposed management actions in response. The BRC reviews and recommends to the Board the approval of the Bank's ICAAP (which includes climate stress testing analysis).

*Audit Committee*
The Audit Committee reviews the Taskforce for Climate-related Financial Disclosures ('TCFD') included in the Bank's Annual Report, considering the evolving regulatory landscape.

*Remuneration Committee*
The Remuneration Committee ensures that ESG-related commitments are included, and assessed, as part of the Executive balance scorecard which is used in assessing variable remuneration. The remuneration policy is reviewed on an annual basis.

**Management's role in assessing and managing climate-related risks and opportunities**

Management continues to ensure that climate-related risks and opportunities within the Sainsbury's Group's business strategy are reviewed as appropriate.

*Executive Committee (ExCo)*
The ExCo reviews ESG related metrics as part of the Executive balance scorecard.

*Executive Risk Committee (ERC)*
The ERC oversees the ESG risk management framework and reviews performance against the ESG risk appetite metrics. The ERC is consulted on any breach of the Bank's ESG risk appetite and proposed management actions, informing the BRC as appropriate.

*ESG Forum*
Following the change in the Bank's strategy it was agreed by the CRO to retire the ESG Forum in 2024 and instead capture any ESG specific discussion points within the monthly CRO report which, assesses key risk areas for the attention of ERC and BRC.

*Asset and Liability Committee (ALCo)*
ALCo oversees the approach and results of climate-related stress testing which is included in the Bank's ICAAP.

*Wholesale Credit Risk Forum*
The Wholesale Credit Risk Forum review exposures, limits, and counterparty credit risk performance which includes reviewing ESG related external credit ratings on the Bank's Treasury assets where this is applicable.

## Strategy

The Bank's environmental strategy remains a 'pragmatist strategy', as agreed by the Board, of doing what is right and sensible for both our customers and our wider business whilst ensuring we meet our legal and regulatory requirements related to climate risk. We do recognise that the change in the Group's broader strategy to exit banking does result in limitations in the number of active opportunities that can be pursued over the longer term. However, the Bank does remain included within the Sainsbury's Group's Net Zero Commitments and will continue to remain so to up until the point of total withdrawal. It is noted that given the natural run down in the balance sheet this will also have a corresponding reduction in the Bank's environmental footprint.

The ESG objectives are summarised below:

1. *Assess Climate-related risks & opportunities* – measure, manage and disclose climate risks and opportunities.
2. *Support the transition to net zero* up until the point it can actively contribute in line with the Sainsbury's Group's target via reducing the Bank's own emissions.
3. *Alignment with industry developments* – ensure that the Bank remains in line with climate-related developments where it is practical to implement in the context of the strategic change.
4. *No direct support or investment in carbon related assets* – the Banks Wholesale Credit Risk Policy states that the Bank will not directly finance companies or organisations whose main activities actively contribute to climate change.

**Climate-related risks and opportunities identified over the short, medium and long term**

The Bank has previously identified climate risk and opportunities in line with specific defined time horizons from the short (0-3 years), medium (3-5 years) and long term (5-30 years). However, it is acknowledged that following the strategic announcement it is likely that these medium and long term risks which are highlighted will materially reduce as the assets are eventually sold. Opportunities are considered but these are short term and are only where it may be practical to implement.

**The impact of climate-related risks and opportunities on our businesses, strategy and financial planning**

The Bank's corporate plan is also the basis on which climate-related stress testing is undertaken and used as a means of quantifying the materiality of the risks based on the Bank's chosen strategy. At the current time, the financial risks from climate change to the Bank are low as there are no significant impacts on our financial performance or financial position from climate-related issues, and this is expected to remain so over the current planning horizon (which incorporates the wind down and exit from core banking).

Additionally, as the Bank is part of Sainsbury's Group, we will contribute to their transition plan which can be found within the J Sainsbury plc Annual Report and Accounts as published on the website.

*Analysis of products, services and Operations*
Products and services are offered through Sainsbury's Bank as well as Argos Financial Services. In support of our aim to support the transition to net zero, progress has been made in the period in the following areas:

- In the period, there have been several initiatives impacting our Edinburgh offices. In September 2024, we moved to our new office site with a smaller footprint, positively impacting Scope 1 and 2 emissions. In our canteen, we transitioned from single-use items to ceramic tableware, and offered used coffee grounds to colleagues, saving 20kg of coffee from landfill.
- At our Widnes office, energy saving has been optimised by a change of layout and use of space.
- Argos Financial Services new customer acquisition remains digital-only, while improvements to the functionality of our app, specifically around ability to change address and set up a direct debit, will reduce volume into the contact centre.
- Across Credit Cards, Loans, Travel Money and Savings, we have continued to pursue our digital strategy, improving capabilities and customer journeys across the product range, reducing volumes into the call centre.
- Following a move to a new supplier, we have increased the use of recycled plastic for the Bank Credit Cards and AFS Storecards to 57% and 79% recycled plastic, respectively.
- In Travel Money, we continue to transition from plastic cards to a sustainable plastic substitute (PLA cards) reducing environmental pollution.
- We continue to prioritise digital channels where possible to minimise paper use, however, where customer communications are required to be sent by mail, we work with our print suppliers to promote the use of recycled paper.

**The resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario**

*Scenario analysis*
The Bank has developed a proportionate approach to climate risk scenario analysis as part of our ICAAP, to understand the potential future impacts of climate change on our overall risk profile and to inform strategic planning, albeit this has become less relevant given the strategic change to withdrawal from banking.

*Scenario testing approach*
In 2021, the Bank of England released CBES (Climate Biennial Exposure Scenarios) exploring physical and transition climate risks over a 30-year period. The scenarios addressed outcomes relating to different transition paths to a low carbon economy, as well as a path where no transition occurs and the resulting impact on key variables. Whilst the Bank aligned to the CBES approach in 2023, the PRA now recommend adoption of NGFS (Network for Greening the Financial System) and associated climate scenarios which represent an updated view over CBES.

*Scenario description*

| NGFS – Orderly | NGFS – Disorderly | NGFS – Hot house world |
|---|---|---|
| *Immediate policies and actions implemented. Global warming limited to 1.8°C by 2050.* | *Delayed and uncoordinated policies start in 2030. Global warming limited to 1.8°C by 2050.* | *Limited and insufficient climate policies. Global warming reaches 2.9°C by 2050.* |

*Scenario conclusions*
The testing assessed potential vulnerabilities and impacts from a credit risk perspective and Expected Credit Losses to which the Bank could be exposed as a result of the various climate paths and its impact on capital requirements. Overall, the Bank concluded that there are limited impacts under the range of future climate paths modelled out to 2050. Moreover, it is also highlighted that given the Bank's strategic direction to exit banking, longer term timelines of up to 25 years would be deemed irrelevant, though have been included in the Bank's ICAAP in line with regulatory guidelines.

## Risk management

The Bank includes the financial risks from climate change within its ESG principal risk which is defined as the risk of any financial losses, reputational damage or failing to meet minimum regulatory requirements stemming from ESG-related factors. These factors have a bearing on existing risk types across the Group's other principal risk types (i.e. credit, market or operational related risks).

**Our processes for managing climate-related risks**

The management of climate-related financial risks and opportunities has been incorporated into the Bank's ERMF and governance processes which ensures that the risks are managed in line with Board approved risk appetite and decisions to mitigate, transfer, accept or control any significant climate-related risks are made in accordance with ERMF principles. This involves assessing the potential impact and likelihood of risk crystallisation using approved risk measurement tools, making a materiality determination, and escalating through the risk governance and committee structures as appropriate.

The Bank has a Board approved ESG risk policy (the 'Policy') that forms part of the Bank's suite of principal risk policies. The Policy must be reviewed, updated, and approved on (at least) an annual basis or more frequently if there are any material changes required in the management and control of ESG risk within the Bank. ESG risk appetite metrics are an aggregate measure based on an assessment of each of the underlying ESG risk drivers that are most relevant to the Bank.

The two key sub-categories of Environmental Risk are highlighted below, which can manifest principally via increases to the Bank's other principal risk categories, namely retail and wholesale credit, market, reputational, operational, regulatory, legal, technological or liquidity and funding risks.

*Transition risks:* These arise from the adjustment towards net-zero emissions, which will require significant structural changes to the economy and therefore could impact asset values, energy prices, a fall in income and creditworthiness of some borrowers and lead to credit losses

*Physical risks*: These risks arise from the increasing severity and frequency of climate and weather-related events, such as sea-level rise and floods. These events damage property and other infrastructure, disrupt business supply chains, impact agricultural output and, more broadly, can lead to loss of life and migration. This reduces asset values, results in lower profitability for companies, damages public finances, increases the cost of settling underwriting losses for insurers and may lead to gaps in insurance coverage. Indirect effects on the macroeconomic environment, such as lower output and productivity, exacerbate these direct impacts.

**Our processes for identifying and assessing climate-related risks**

Climate-related financial risks are currently low for the Bank as it does not expect these risks to have a significant impact on its profitability or capital position before the Bank withdraws from banking. This conclusion is primarily driven from the fact that its lending portfolios are on an unsecured basis, so the key financial risks from climate change are more closely linked to the wider transition risks faced by the UK.

To ensure that these conclusions are regularly reviewed and validated, certain risk management processes and methodologies, aligned to the ERMF, are used to facilitate the ongoing identification, assessment, treatment, and monitoring of this risk type and of its materiality to the Bank. This includes regulatory horizon scanning, emerging risk reviews, risk appetite monitoring, stress testing and use of the incident management processes.

*Breaches and escalation processes*

A breach is classified as a non-compliance with the requirements of the ESG policy where no approved waiver or dispensation is in place. Any breach must be identified and escalated in line with the appropriate process to ensure that appropriate management action is agreed to remediate the breach within approved risk limits. This is fully documented with the Policy and in line with the ERMF.

## Metrics and targets

**The metrics used to assess climate-related risks and opportunities in line with its strategy and risk management process**

The Bank's core target is to achieve net zero emissions by 2035 in line with the Sainsbury's Group's Net Zero Commitment – we aim to ensure that our Scope 1 and 2 Emissions, covering our direct and indirect emissions, are appropriately monitored, measured, and aligned to this target.

In previous years, the Bank has reported emissions associated with our upstream and downstream impact as part of scope 3 emissions. In the current period, the Bank's decision to withdraw from banking means that we are unable to accurately capture and report these scope 3 emissions. As the Group has withdrawn from banking, these climate metrics and targets have had a reduced usefulness in strategic planning and decision making. Furthermore, in the current period, we have also encountered data limitations, which has the potential to impact reporting on these metrics and targets and therefore have not been disclosed.

In addition to achieving net zero emissions, the Bank (as part of its Board approved risk appetite framework), has in place specific climate-related risk metrics (non-GHG emissions metrics) which are tracked and reported monthly to the ERC and BRC. These metrics are deemed to be appropriate and proportionate at the current time based on the materiality of the financial risks arising from climate change, which are aligned to the Bank's business strategy. In line with the ERMF risk appetite, metrics are subject to an annual review to confirm that they remain fit for purpose or may need to be retired given the change in the strategic direction of the Bank. The performance and management of the risk exposures against Board approved metrics are also considered as part of remuneration assessment processes at the year end.

The key climate-related risk metrics and their performance are highlighted below:

- *Physical risk events* – number of events that are related to specific physical climate risk events that could lead to operational risk losses have been nil across the period
- *Minimum amount of waste recycled* – the Bank's minimum percentage of waste recycled within its real estate has been within limits (=>30%) across the period.

**Scope 1 and Scope 2 greenhouse gas (GHG) emissions, and the related risks**

| Emission Source | Baseline | Results | | |
|---|---|---|---|---|
| | 2021 | 2023 | 2024 | 2025 |
| Scope 1 GHG emissions ($tCO_2e$) | 312.37 $tCO_2e$ | 290.32 $tCO_2e$ | 328.24 $tCO_2e$ | 221.00 $tCO_2e$ |
| Scope 2 (Location-based) GHG emissions ($tCO_2e$) | 375.63 $tCO_2e$ | 328 $tCO_2e$ | 342.61 $tCO_2e$ | 259.00 $tCO_2e$ |
| Total ($tCO_2e$) | 688 $tCO_2e$ | 618.32 $tCO_2e$ (10.13% reduction against baseline) | 670.85 $tCO_2e$ (2.49% reduction against baseline) | 480.00 $tCO_2e$ |
| | | | | |
| Scope 1 GHG emissions ($tCO_2e$) | 312.37 $tCO_2e$ | 290.32 $tCO_2e$ | 328.24 $tCO_2e$ | 221.00 $tCO_2e$ |
| Scope 2 (Market-based) GHG emissions ($tCO_2e$) | 412.47 $tCO_2e$ | 0 $tCO_2e$ | 0 $tCO_2e$ | 0 $tCO_2e$ |
| Total ($tCO_2e$) | 724.84 $tCO_2e$ | 290.32 $tCO_2e$ (59.95% reduction against baseline) | 328.24 $tCO_2e$ (54.72% reduction against baseline) | 221.00 $tCO_2e$ (69.5% reduction against baseline) |

Emission calculations and reporting aligning with the GHG Protocol Corporate Accounting and Reporting Standard (revised edition), utilising emission factors from the UK Government's GHG Conversion Factors for Company Reporting 2024, IEA 2024 and Association of Issuing Bodies (AIB) 2024. Our emissions reporting encompasses all mandatory sources as outlined by the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013.

Scope 1 emissions include stationary combustion, mobile combustion, and refrigerants. Scope 2 emissions are reported using both the location-based method and the market-based method. Scope 2 emissions comprise purchased electricity, on-site renewable energy (solar and wind), and Power Purchase Agreements with wind farms. Purchased electricity includes consumption from corporate contracts, non-operational sites which are vacant and contracts with other suppliers whereby the landlords are not reporting on electricity consumption themselves. For all corporate contract electricity and gas consumption, half-hourly data was used where possible, to increase the overall accuracy.

During the 2024/25 reporting year, the latest global warming potential (GWP) emission factors from the IPCC's Sixth Assessment Report (AR6) have been used where available. Where AR6 factors were not available, emission factors from the Fifth Assessment Report (AR5) have been applied

In 2024/25, 100 percent of electricity is sourced from renewable sources (a combination of energy sourced directly from on-site Solar and Wind, Power Purchase Agreements with UK wind farms, as well as certificate-backed renewable electricity from the UK, Northern Ireland, and the Republic of Ireland).

The Sainsbury's Group's near-term target is to reduce their Scope 1 and 2 emissions by 68% by 2030/31, which will help them achieve net zero by 2035.

**The targets used to manage climate-related risks and opportunities and performance against targets**

The Bank has adopted (and feeds into) GHG emission reduction targets from Sainsbury's Group, which are used to monitor progress against the Sainsbury's Group's 'Plan for Better' strategy. These GHG emission reduction targets are measured and monitored at the Sainsbury's Group level. The Bank feeds into certain non-GHG emission reduction targets from the Sainsbury's Group with the same view/approach.

Additional details on the methodologies used to calculate the below targets and measures can be found within the J Sainsbury plc Annual report and Accounts.

**Sainsbury's Group targets**

| Focus | Metric | Baseline | Results | | | Target[5] |
|---|---|---|---|---|---|---|
| | | 2019 | 2023 | 2024 | 2025 | |
| **Reduction in carbon emissions** | Absolute Scope 1 and 2 GHG emissions within our own operations ($tCO_2e$) | N/A[1] | 290.32 $tCO_2e$ | 328.24 $tCO_2e$ | 221.00 $tCO_2e$ | - 68% Reduction by 2030<br>- Net Zero by 2035 |
| | Electricity which comes from renewable sources (%) | 17% | 100% | 100% | 100% | 100% renewable electricity |
| **Reduction in water use** | Absolute water usage within our own operations (m3) | 15.570 tonnes | 11,951.60 m3 | 10,840.10 m3 | 5,464.12 m3 | - Water Neutral by 2040 |
| **Reduction in food waste[3/4]** | Food waste to anaerobic digestion (tonnes) | N/A[1] | 8.027 tonnes | 3.630 tonnes | 4.848 tonnes | N/A |

[1] Sainsbury's Group targets are based on a 2019 baseline, however Bank data for Scope 1/2 is only available from 2021.
[2] Water consumption at Caledonia House and Royal Avenue Widnes has been consistently lower than the previous year
[3] Measured from April of the preceding year to March of the noted year.
[4] Bank uses a different approach to Sainsbury's Group with its metric for food waste, relying on a tonnage rather than intensity percentage-based metric.
[5] The numbers presented in table are for the Bank however the targets are set by the Sainsbury's Group. Whilst targets are presented here, they are beyond the lifespan of the Bank overall.

## Social Strategy

### Customers

We have a customer strategy that makes best use of our data and insight to ensure we speak to our customers about relevant topics, in the right way, at the right time and through the right channels. We also want to make sure our services are accessible and easily understood by everyone, including people who have a disability or may need help understanding our more complex products.

We have now implemented the FCA's new Consumer Duty regulation and as part of this, monitor customer outcomes regularly across all our products and services. This ensures we are delivering good outcomes for our customers, including those with vulnerable characteristics.

We have a clear process for responding to customer complaints and any key themes that are identified are reviewed by the Board and senior management. Customer advocacy is measured through Net Promoter Score (NPS), capturing customer feedback across the product suite and customer satisfaction is measured using CSAT in customer journeys. Findings from both are used to improve our customers' experience and engagement, with knowledge being shared across all our business and reported to the Board.

It is noted that the Bank initiated a customer wide communication process in January 2025 which outlined the proposed transfer of customer accounts from the Bank to NatWest. This will be implemented by a banking business transfer scheme under Part VII of the Financial Services and Markets Act 2000 and is expected to take effect on 1 May 2025, subject to approval of the High Court. It also explains that our customers can object, complain and query the transfer, and that we're providing a dedicated Part VII scheme helpline for this. The communications direct customers to keep up to date through our website.

### Communities

Proud @ Sainsbury's

By acting in the best interests of all our stakeholders, we can make a sustainable and positive contribution to our community. We also know that playing an active and supportive role in our community is important to our colleagues. It makes us all feel good to know we're doing something for someone else. We actively participate in national awareness events, such as LGBT+ History Month, Black History Month and Purple Tuesday and ensure all Bank colleagues are able to access and take part in the activities that are available through the Sainsbury's networks.

### Colleagues

At Sainsbury's, our colleagues are the heart of our business, and we are committed to creating an environment that is inclusive and representative of the communities in which we operate. To ensure that we hold ourselves accountable for achieving our diversity, equity, and inclusion goals, we have refreshed our representation targets in 2024 and report on these regularly and transparently. We continue to work together to ensure that our colleagues can fulfil their potential, and our customers feel welcome when they shop with us.

*Listening to our colleagues*
We get feedback from our colleagues through our bi-annual engagement survey, regular 'temperature check' surveys, all colleague calls and ongoing colleague listening. This helps us to understand what is important to our colleagues and to identify how we can continue to support them. After each colleague engagement survey, line managers discuss the results with their teams and work together to plan and implement actions that will help make Sainsbury's a truly great place to work.

Our happiness score is 71, up two points on this time last year. It's encouraging to see that some of our top strengths are coaching colleagues, team communication, feeling supported by managers and speaking your mind.

*A diverse and inclusive place to work*
As part of Sainsbury's Group, we support their goal in being a truly inclusive retailer. The activities we're undertaking to be a more diverse and inclusive organisation are fundamentally about fairness and equality. We are active in our drive for inclusivity and the progression of our diverse talent. With this diversity comes a variety of ideas and views that inform decision-making and enable us to understand our customers better.

Being an inclusive organisation with diverse representation at all levels of our business is important to us. We acknowledge we still have a way to go, and we are committed to driving positive, sustainable change to improve the lived experience and opportunities for under-represented groups, be they colleagues or customers.

We have a workplace adjustment process to support colleagues with disabilities or long-term health conditions. We often work with our Occupational Health provider and the Government's Access to Work scheme to ensure that we meet their needs. Workplace adjustments can be made at any point of a colleague's employment with us.

| Gender Diversity | 2025 | 2024 |
|---|---|---|
| % Females of Total Employees | 59% | 58% |
| At each level: | | |
| Upper | 41% | 39% |
| Upper Middle | 54% | 52% |
| Lower Middle | 67% | 67% |
| Lower | 76% | 72% |

| Ethnicity Diversity | 2025 | 2024 |
|---|---|---|
| % Ethnically Diverse of Total Employees | 17% | 16% |
| Upper | 16% | 14% |
| Upper Middle | 18% | 13% |
| Lower Middle | 21% | 25% |
| Lower | 13% | 11% |

*All numbers quoted are based on the Full Pay Relevant headcount as at 5 April within each reporting year.

*Gender Pay Gap*
Note the statutory gender pay gap disclosure is for colleagues employed by the Sainsbury's Group legal entity. Both the Bank and Argos Financial Services are also included within the J Sainsbury plc Annual report and Accounts.

The mean gender pay gap of 31.7% (as of April 2024) has increased from 31.1% in April 2023.

The gap is, in part, reflective of the number of in-store Travel Money colleagues with around 42% of Sainsbury's Group colleagues working in these roles on hourly rates of pay (and are not eligible for a bonus) with over 71% of these roles being held by women. In addition to the Travel Money colleague composition, Sainsbury's Group still has more men than women in the most senior roles and more women than men in hourly paid positions, further impacting the pay gap.

We actively support our colleagues of all gender identities through our inclusion strategy and our LGBT+ colleague network, Proud@Sainsbury's.

*Ethnicity Pay Gap*
Sainsbury's Group include voluntary disclosures on the ethnicity pay gap at a Sainsbury's Group level. We continue to be committed to transparency and have once again expanded our reporting to include specific reporting on our Asian, Mixed, and other ethnicity colleagues. This disclosure includes Bank colleagues.

**Sainsbury's Bank plc**

| | |
|---|---|
| Mean Gender Pay Gap | 31.7% |
| Median Gender Pay Gap | 33.3% |

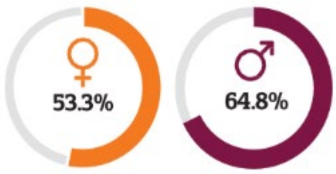
**Pay quartile headcount gender %**

| | Female | Male |
|---|---|---|
| Upper | 40.7% | 59.3% |
| Upper Middle | 53.9% | 46.1% |
| Lower Middle | 66.8% | 33.2% |
| Lower | 76.0% | 24.0% |

| | |
|---|---|
| Mean Bonus Pay Gap | 57.5% |
| Median Bonus Pay Gap | 66.8% |

**Colleagues receiving bonus**

| Female | Male |
|---|---|




### Human rights and modern slavery

The Bank stands against all forms of modern slavery, and we are committed to preventing, detecting and remedying it. We are committed to acting ethically and with integrity in all our business relationships, and we work closely with our business partners and suppliers to ensure there is no place for modern slavery and human trafficking in any area of our business (including our supply chain). Our policies and procedures support and encourage colleagues to raise concerns relating to modern slavery or the suspected presence of it in our supply chain at the earliest opportunity. The Bank's Modern Slavery Statement is published on our website.

### Anti-corruption / Anti-bribery

The Bank is exposed to the risk of facilitating bribery or aiding corruption through the provision of financial services. This risk is managed through a clear set of policies, procedures and controls which are communicated to colleagues through regular mandatory training. The training material is reviewed and updated to reflect changes in legislation or best practice. The Supply Chain Management team regularly monitors suppliers to ensure that processes and controls are in line with the Bank's required standards.

### Other key stakeholders

### Investors

J Sainsbury plc owns 100% of our equity capital and we also have debt investors through our Tier 2 capital issuance. Our Board sets our risk appetite to support and protect investor value and to ensure we operate within appropriate and agreed levels and types of risks.

The Sainsbury's Group's interests are represented by an appointed non-executive director to ensure effective challenge and collaboration to grow our connected services. Where interests are not aligned, this is managed through disclosure and activities to minimise potential conflicts.

## Suppliers

Our Board understands the importance of our supply chain in delivering our plans and continuing to support our customers through this period of strategic change as the Bank exits arrangements with suppliers. As part of this we will continue to seek a strong degree of engagement with third party suppliers across the end-to-end supplier management cycle, through the process of termination in order to ensure safe exit. We recognise that when we outsource a service, we do not outsource the responsibility. We ensure our suppliers are compliant with regulatory requirements and have the necessary controls in place to manage risks effectively to make sure we continue to meet a high standard of conduct for our customers. Our Supply Chain Oversight Committee provides performance oversight of our suppliers and reports to senior management and the Board.

Continuous and pro-active collaboration with our suppliers is undertaken on a regular basis. This provides a forum to ensure we receive an effective service, identify, and manage risk appropriately and operate in line with our values. A key factor in building effective relationships with our suppliers is ensuring our requirements are clear and that they are paid on time. The Bank's iSupplier internet portal provides suppliers with access to the purchase orders raised and allows them to allocate their respective invoices once they have fulfilled the order requirements.

## Regulators

We are regulated by the Prudential Regulation Authority for prudential issues and by the Financial Conduct Authority for conduct of business matters. We engage with regulators on an open, honest, and proactive basis, ensuring full compliance with the letter and spirit of the rules we operate within.

We recognise the trust that customers place in the Sainsbury's and Argos brands and seek to maintain that by operating in a safe and sound way. Our Conduct and Compliance Director provides oversight of any emerging compliance risks and reports any areas of concern to the Board.

## Sale of Core Banking Business to NatWest Group

On 18 January 2024, J Sainsbury plc, the Bank's shareholder, announced that, following a strategic review of its Financial Services division, and consistent with its clear focus on the retail business, there would be a phased withdrawal from the Core Banking business with financial services products in the future being provided through third parties.

This decision, taken with the full support of the Bank Board, recognises that, in the period since the Bank was first launched in 1997 there has been a significant level of change in the financial services industry with increased competition, more sophisticated customer expectations and reduced margins all of which have impacted the long-term strategic aim of the Bank to be the provider of financial services for loyal Sainsbury's customers.

On 20 June 2024, J Sainsbury plc announced that it had, pursuant to Part VII of the UK Financial Services and Markets Act 2000 and the required regulatory consents, entered into an agreement for the sale of the Bank's personal loan, credit card and retail deposit portfolios (together the "Core Banking Business") to NatWest Group ("NatWest").

The Board recognises that the sale of the Core Banking Business to NatWest, one of the UK's leading banks, will ensure that Sainsbury's financial services customers continue to receive the high level of service which they have come to expect.

Ahead of the announcement on 20 June 2024 the Board met to consider and confirm that, from the perspective of the Bank, the preparatory work required to support the announcement, including a detailed risk assessment, had been undertaken and that there were appropriate plans in place to mitigate the risks identified. NatWest has a long history of proving financial services, with best-in-class digital capabilities and the same shared commitment to excellent customer service. The Board considers that the transfer of the Core Banking Business customers to NatWest will ensure that their financial needs will continue to be met and that the breadth of services and products these customers will then be able to access will be enhanced.

In the period since the announcement on 20 June 2024, detailed planning has been undertaken to support the migration of customers following satisfaction of the conditions that are required to complete the sale of the Core Banking Business. A Transitional Service Agreement ("TSA") has been agreed with NatWest for the provision of our banking services until these services can be migrated. Subject to all necessary approvals, the deal itself is expected to be completed during the first half of 2025, with the TSA running for a period thereafter until Sainsbury's and NatWest are ready for the full migration of the services. The migration of all customers to NatWest systems is targeted by the end of 2025.

Communications with all in-scope customers regarding the proposed transfer have already commenced. More information on the proposed transfer can be found on [www.sainsburysbank.co.uk/transfer-scheme](http://www.sainsburysbank.co.uk/transfer-scheme)

## Sale of ATM network to NoteMachine

On 26 September 2024, J Sainsbury plc announced the sale of its ATM business to NoteMachine, a Brink's Company, and one of the UK's leading ATM operators. Under the terms of the deal, NoteMachine, assume ownership and management of Sainsbury's ATM business, which includes around 1,370 ATMs nationwide. The long-term partnership and transition of ownership is expected to be completed by May 2025, providing other Sainsbury's Group companies with a shared commission income stream while further simplifying its financial services business and reducing costs.

All ATMs will remain open and in position at the existing sites, meaning customers will still receive convenient, free access to cash, with no change to how they currently withdraw their money.

**Sale of Argos Financial Services Cards Portfolio to NewDay Group**

On 31 October 2024, J Sainsbury plc announced the sale of the existing Argos Financial Services ("AFS") cards portfolio by HRG (a wholly owned subsidiary of the Bank) to NewDay. The AFS cards support around 20 percent of Argos sales, with the portfolio comprising around two million Argos customers who use Argos credit to manage the cost of their purchases. On 28 February 2025, the sale completed, resulting in transfer of beneficial title to NewDay, with legal title to transfer following the completion of a migration period (expected to be approximately 12 months.

J Sainsbury plc also announced the creation of a strategic partnership with NewDay to create a new Argos-branded digital credit proposition. This will, in time, replace the current Argos card credit propositions with a wider choice of modern, flexible and more convenient ways for Argos customers to manage the cost of purchases.

During the year, the Board has devoted extensive time at its meetings in evaluating the potential impact of the strategic change on the Bank, its subsidiaries, and its stakeholders. In addition to the shareholder, the Board has, at all times, sought to consider these proposals from the point of view of customers, colleagues, suppliers and regulators. A dedicated Strategic Transformation Programme has been established, and the Programme Director and the Accountable Executive(s) have provided regular progress updates to the Board throughout the year. As appropriate, the Board has, on occasion, sought and received from management assurances in relation to the treatment of, and interactions with, the Bank's stakeholders.

The Board and the Bank's shareholder have critically evaluated the strategic opportunities available to support J Sainsbury plc in continuing to offer high-quality, great value financial services products through a distributed model. The Board has at each stage, assessed the available options, and subsequent execution plans, against a range of criteria including the delivery of good customer outcomes and continued compliance with existing policies and regulations. Additional Board meetings were held to ensure that the Directors had sufficient opportunity to review, discuss and challenge the proposals from management.

The potential people risk as a result of the strategic announcement was an area that was recognised by the Board as being significant. A number of initiatives have been put in place to mitigate this risk:

- Regular and transparent communications with the Chief Executive Officer about the journey the Bank is going through has enabled a level of trust to be built with colleagues, as have regular Executive Committee listening sessions with colleagues. Engagement levels have also been closely monitored and we have seen an increase in engagement scores in the period since the announcement on 18 January 2024.
- Through the Remuneration Committee the Board has satisfied itself that appropriate retention and incentivisation mechanisms are in place to ensure alignment between driving business outcomes for our customers and maintaining colleague engagement.
- Colleague wellbeing and learning opportunities have been enhanced with additional services and trainings being offered.

Whilst the Board understands this is a difficult time for colleagues, their engagement and dedication to serving our customers has remained throughout the year, as reflected by our colleague survey results and customer Net Promoter Scores (NPS). Key people indicators are regularly reviewed and will continue to be monitored closely by the Board as we move into delivery of the plan in 2025.

In light of the future strategic direction of the Bank, the Bank has been executing a communication plan with all suppliers, ensuring that they are informed, as appropriate, on the decisions taken by the Board and how these will likely impact them and their colleagues, as well as ensuring the focus remains on serving our customers. All suppliers have had communication updates regarding the key strategic transactions, as well as targeted communication related to products which they specifically support. Our key suppliers are involved in the migration activities already underway, and there is a wider supplier exit plan and forecast of events and activities which have been discussed with our key suppliers. The Board recognises the importance of transparent and collaborative communications with our suppliers throughout this period. It will be important that this approach is maintained as we increasingly rely on our suppliers to support the migration events and execute upon the strategic decisions made by the Board.

The Board recognises that this continues to be a period of significant change for the Bank. Throughout this process the Board and management have sought to provide clarity to customers, colleagues, and other stakeholders on the future strategic direction of the Bank through regular progress updates. This process will continue throughout the coming year as further progress is made consistent with the strategic decision of J Sainsbury plc to focus on the retail business with financial services products in the future being provided through third parties.

Members of the Board and the Bank's senior management continue to be actively engaged with its regulators throughout this process.

**Disposal of the mortgage portfolio**

Further to the sale agreed on 15 August 2023, the Board was pleased to note the successful migration of the historic mortgage portfolio to the Co-operative Bank during June 2024.

**Consumer Duty**

An important focus during the year was the implementation and embedding of FCA Consumer Duty regulations. In March 2024, ahead of regulatory timescales, management presented the Annual Governing Body Report to the Board and in July 2024, the Bank completed its implementation of Consumer Duty for its closed products. The Board recognises that continued compliance with the Consumer Duty rules should ensure a positive impact on the customers which the Bank serves, including demonstrating appropriate levels of care for customers with vulnerable characteristics.

The Board Consumer Duty Champion, Rosanne Murison, a non-executive director, has continued to oversee the delivery of fair value assessments and action plans outcomes and to receive monthly briefings from management about outcomes data, trends and risks. Ongoing monitoring of good customer outcomes and full compliance with the regulation is overseen by the Board, which is provided with quarterly customer outcome reports and regular activity reports from Senior Manager Function (SMF) holders within the Bank specific to their areas of accountabilities, as well as second- and third-line assurance activities.

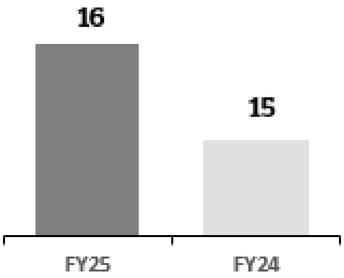
## Key performance indicators (KPIs)

The Bank's disclosure of KPIs and Financial Review are completed on a management basis which includes the Bank and Drury Lane, the securitisation SPV, but excludes dividends from subsidiaries. See page 109 for the reconciliation between the management and statutory basis, including management basis of segmentation between discontinued and continuing operations. The KPIs used to manage the business were unchanged for the year ended 29 February 2024. Given the strategic change and planned move to provide financial services via a distributed model, we expect KPIs may change in future. This will be determined as our plans are developed.

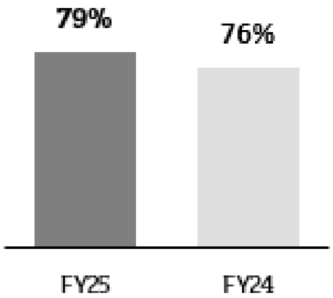
### Financial

**Deliver the financial plan**

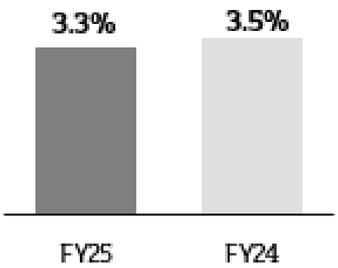
**Underlying group contribution (£m)** – profit before tax before one-off items that are material and infrequent in nature



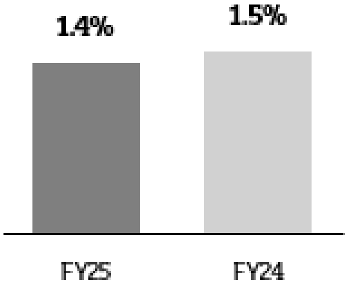

**Cost income ratio (underlying)** – *Underlying operating expenses as a % of total income*




**Net interest margin** – *Net interest income as a % of average interest-bearing assets*



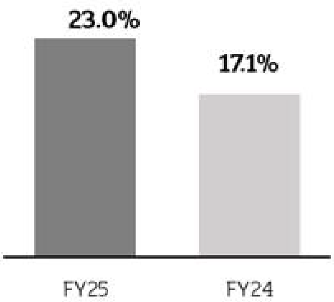

**Bad debt asset ratio** – *Impairment losses as a % of the average balance of loans and advances to customers*



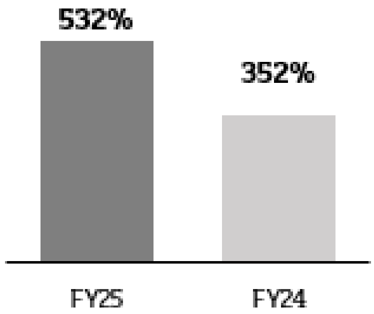
## Safe and sound

**Manage the business within risk appetite**

**Tier 1 Capital Ratio** – *Tier 1 capital as a percentage of risk-weighted assets. Includes AFS*



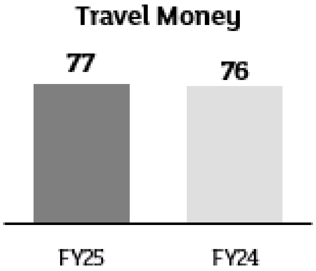

**Liquidity Coverage Ratio (spot)** - *Percentage of the stock of high liquid assets such as cash to net cash out- flow over a 30-day period. Includes AFS*

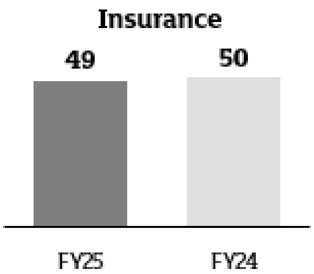



## Customers

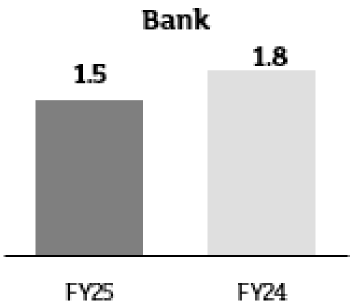
**To be the provider of financial services for loyal Sainsbury's Group customers, delivered through simple mobile led customer journeys**

**Net promoter score -** *proportion of customers who have completed a transaction classed as 'promoters' net of 'detractors' when considering the likelihood of recommending the Bank to a friend*



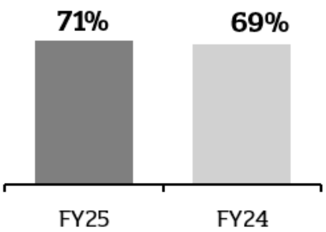

**Active customer numbers (million)** – *the number of customers who hold an active account (savings / loans / credit card / insurance policy)*



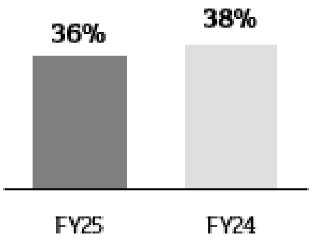

## Colleagues[1]

**Continue to focus on an outstanding and engaged team**

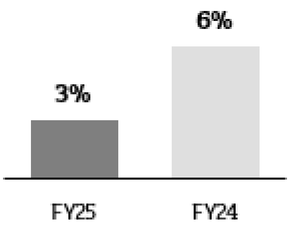
**Happiness score (%) -** *measures how happy colleagues are working at Sainsbury's Bank. Includes AFS.*




**Females in senior roles (%) -** includes senior level colleagues and Board members. Includes AFS.



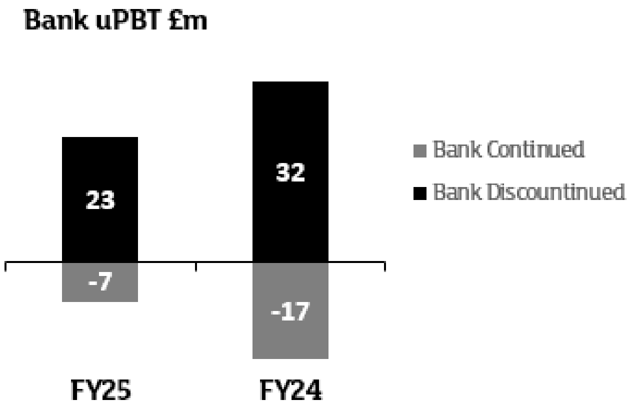

**Ethnically diverse colleagues in senior roles (%) -** includes senior level colleagues and Board members. Includes AFS.



Our performance, including reference to the above KPIs is further outlined in the business review on page 4 and the financial review below.

## Financial review

This financial year we have made an underlying profit on a management basis of £16m, a £1m increase compared to £15m in the prior year. This growth is driven by reduced costs and bad debts, which have helped to offset income foregone from ceasing new personal loan and credit card lending.




Underlying income is 10% lower than prior year, reflecting the ongoing impact of Bank of England base rate increase in the prior year, which has adversely affected our funding costs. Interest payable is up 13% and this cost has not been fully passed on to customers. Underlying interest receivable slightly decreased largely due to rundown of Loans and Cards balances following cessation of new lending. Additionally, the prior year's interest income included interest income from Mortgages, which have since been sold. This has been partially offset by higher income from Treasury asset portfolio.

Underlying FS expenses decreased by 6% primarily due to a fixed asset write off in prior year, reduced operational volume related costs and lower fraud costs. This decrease is partially offset by impact of inflation.

Impairment losses decreased by 30% due to cessation of new lending and rundown of existing book. Bad debt as a percentage of lending improved by 10bps.

The Bank remains well capitalised with a Tier 1 capital ratio of 23.0%, compared to 17.1% at February 2024, driven by the sale of the AFS Cards portfolio and the rundown of the Cards and Loans books which have offset the statutory loss incurred due to sale and migration activity. It continues to have surplus liquidity with an LCR of 532% which has risen from 352% in February 2024 as a result of the inflow of cash proceeds from the NewDay transaction on 28th February 2025.

### Summary income statement and statement of financial position

The Banks's performance for the year ended 28 February 2025 and financial position at the end of that period are presented in the income statement and statement of financial position. A summarised income statement and balance sheet are presented below:

| Summary income statement | 2025 £m | 2024 £m | Change % |
|---|---|---|---|
| Net interest income | **171** | 197 | (13%) |
| Other operating income | **107** | 112 | (4%) |
| **Underlying income** | **278** | 309 | (10%) |
| **Underlying expenses** | **(220)** | (234) | (6%) |
| Profit on financial instruments | **1** | 1 | 0% |
| **Underlying profit before impairments** | **59** | 76 | (22%) |
| Impairment losses on financial assets | **(43)** | (61) | (30%) |
| **Underlying group contribution** | **16** | 15 | 7% |
| Less: items excluded from underlying results | **(176)** | (189) | (7%) |
| **Statutory (loss)/profit before taxation** | **(160)** | (174) | (8%) |

Statutory loss for the year ended 28 February 2025 was £160m compared to £174m loss in the prior year.

The overall loss of £160m is largely driven by a number of one-off non-underlying items as a result of the Strategy announcement (totalling £176m). These include migration costs and supplier exit costs. See notes 9, 14.3 and 14.4 for details.

| Summary statement of financial position | 2025 £m | 2024 £m | Change % |
|---|---|---|---|
| Loans and advances to customers | **-** | 3,715 | n/m |
| Assets classified as held for sale | **2,511** | - | n/m |
| Cash and cash equivalents | **1,138** | 1,078 | 6% |
| Debt securities | **2,284** | 770 | 196% |
| Investment in Subs | **325** | 325 | 0% |
| Other assets | **142** | 858 | (83%) |
| **Total assets** | **6,400** | 6,746 | (5%) |
| Customer deposits | **-** | 4,165 | n/m |
| Liabilities held for sale | **3,140** | - | n/m |
| Other deposits | **1,968** | 1,557 | 26% |
| Subordinated debt | **124** | 122 | 2% |
| Other liabilities | **520** | 173 | 201% |
| **Total liabilities** | **5,752** | 6,017 | (4%) |
| **Net assets** | **648** | 729 | (11 %) |

In statement of financial position terms, our year end assets classified as held for sale (Loans and Cards balances classified as loans and advances to customers in 2024) decreased by 32% as balances reduced following the decision to exit Core Banking and the cessation of new Lending activity.

Cash and cash equivalents increased 6% and debt securities by 196% reflecting our investment in our Treasury asset portfolio.

Customer deposits (classified within liabilities of the disposal group held for sale at the reporting date) reduced by 25%. We carefully managed our liquidity allowing our deposit balances to fall as our lending balances reduced. Wholesale funding was increased to strengthen liquidity. The surplus funds were mainly invested in high quality liquid assets (being debt securities) which also returned an overall positive margin.

## Net interest income

| Net interest income summary | 2025 | 2024 | Change |
|---|---|---|---|
| | **£m** | £m | % |
| Interest receivable | **389** | 390 | 0% |
| Interest payable | **(218)** | (193) | 13% |
| **Net interest income** | **171** | 197 | (13%) |
| **Net interest margin** | **3.3%** | 3.5% | (19bps) |

Interest receivable slightly decreased to £389m (down £1m on prior year), primarily due to the rundown of Loans and Cards balances following cessation of new lending. Prior year results included half a year's income from mortgages, which has since been sold. This decrease was partially offset by an increase in Treasury asset income.

Consolidated net interest margin decreased by 19 basis points to 3.3%, driven by higher funding costs mitigated by Treasury asset income growth and higher unsecured lending margins.

## Fee, commission, and other operating income

| Fee, commission, and other operating income summary | 2025 | 2024 | Change |
|---|---|---|---|
| | **£m** | £m | % |
| Banking income | **45** | 56 | (20%) |
| Insurance income | **32** | 33 | (3%) |
| Travel Money income | **39** | 35 | 11% |
| **Total fees and commissions receivable** | **116** | 124 | (6%) |
| Total fees and commissions payable | **(9)** | (12) | 25% |
| **Net fees, commission, and other operating income** | **107** | 112 | (4)% |

Banking income decreased by 20%, largely due to reduction in income from ATMs following the commencement of the migration of ATMs to NoteMachine in October 2025 as well as lower Cards interchange fee resulting from the cessation of new Cards acquisitions.

Insurance income decreased by 3% due to the impact of a competitive market.

Travel money income increased by 11%, driven by 10% year-on-year growth in sales. This sales growth was achieved through strategic pricing initiatives aimed at mitigating the impact of subdued market demand.

## Operating expenses and investment

| Operating expenses summary | 2025 | 2024 | Change |
|---|---|---|---|
| | **£m** | £m | % |
| Underlying staff costs[1] | **92** | 85 | 8% |
| Underlying operating costs | **128** | 124 | 3% |
| Depreciation of property, plant and equipment | **-** | 2 | (100%) |
| Amortisation of intangible assets | **-** | 24 | (100%) |
| **Underlying expenses** | **220** | 235 | (6%) |

[1] Note that underlying staff costs includes payroll costs only. All other staff related costs (recruitment, training, and travel costs) are included in underlying operating costs.

Underlying Bank expenses of £220m decreased by 6%. Staff costs increased by 8% partially impacted by inflationary colleague pay increases. Operating expenses increased by 4% mainly due to inflation and costs incurred for property relocation, which are offset by lower volume related and fraud costs. . Following an Intangible asset write off in the prior year, amortisation of intangible assets is nil.

## Impairment losses on financial assets

| Impairment losses summary | 2025 | 2024 | Change |
|---|---|---|---|
| | **£m** | £m | % |
| Impairment losses on financial assets | **43** | 61 | (30%) |
| Bad debt asset ratio | **1.4%** | 1.5% | (10bps) |

Bad debt as a percentage of lending improved by 10bps at 1.4% (FY 2023/24: 1.5%).

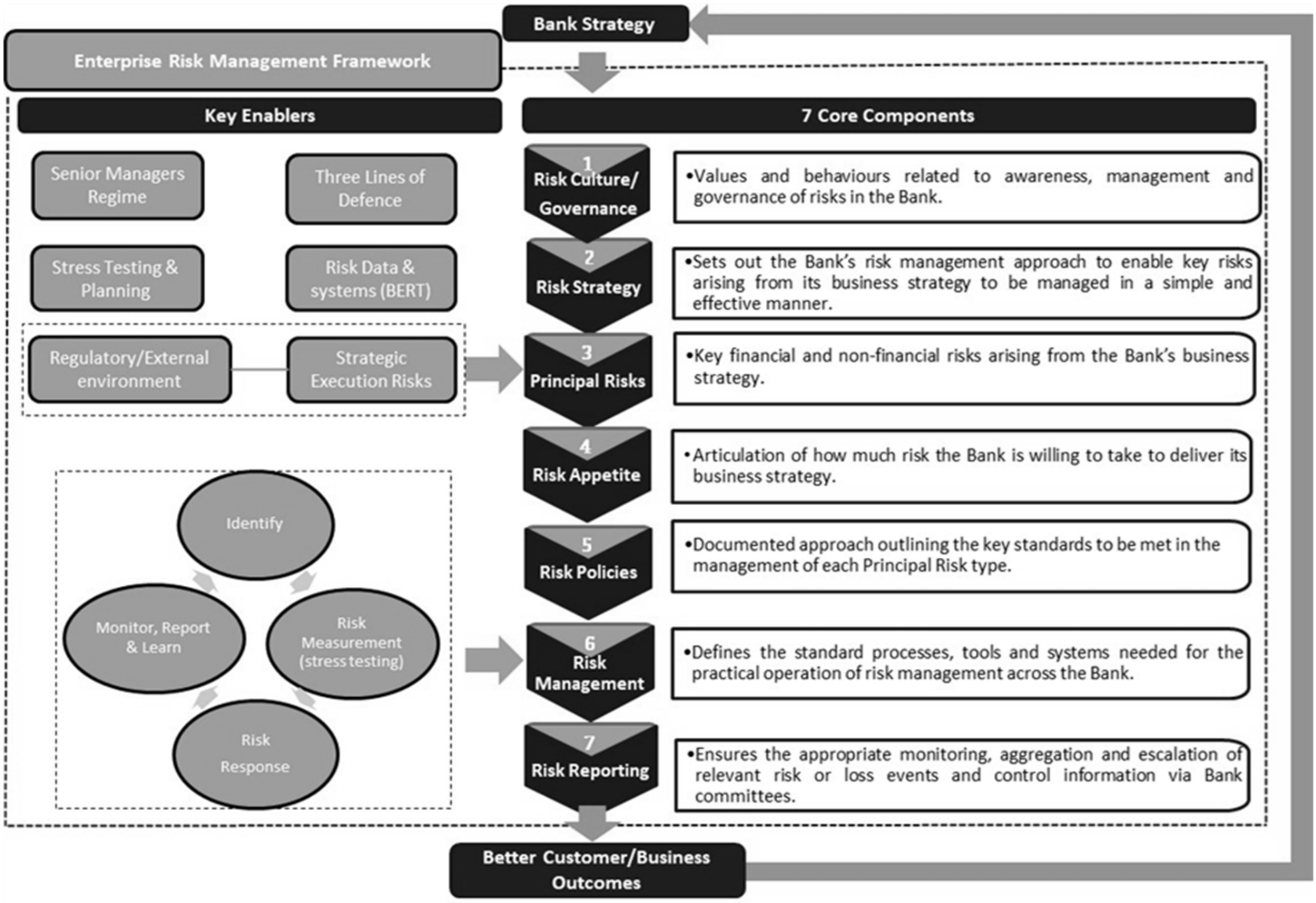
## Risk overview

As the Bank continues to progress in withdrawing from its core banking business, risk management remains a key priority in ensuring that our strategic goals are achieved in a safe and timely manner. Over the course of the financial year this has involved ensuring and validating that our risk approach and frameworks are fit for purpose, appropriately aligned to the Bank's strategy and ultimately supports the transformation journey that we are on.

### Introduction

The Bank operates an Enterprise Risk Management Framework (ERMF) which articulates the Bank's approach to risk management. It is a core component of our strategy and operations. We adopt a holistic, end-to-end view of risk, ensuring that the principal risks arising from our key processes and activities are effectively identified, assessed, managed, and controlled to make well informed decisions. This is supported and implemented via a three lines of defence model. The Chief Risk Officer performs a strategic risk management role and is responsible for managing and enhancing the ERMF.

An overview of the Bank's ERMF is outlined below:




### Risk culture

| | |
|---|---|
| **Definition** | Risk culture is an essential element of effective risk management, underpinning how our ERMF is embedded across the business and into decision making via the values and behaviours related to the awareness, management, and governance of risks in the Bank. |

The risk culture of the Bank aims to ensure that all business functions and employees consider risk management and consult and engage with the Risk function as required. In order to foster this risk management mindset there are certain key risk related aims and principles which sets out how all colleagues should approach and take ownership for the management of risks within the Bank. Given the impending period of strategic change this is highlighted more prominently within these risk principles.

This is summarised in the table below:

| Aims (what) | Alert | Engaged | Resilient | Insightful | Responsible |
|---|---|---|---|---|---|
| Principles (how) | Identify and anticipate the impact of strategic change and emerging risks | Manage material risks and ensure key controls are tested and reported | Ensure robust processes provide resilience under stress | Manage risk concentrations, aggregate impacts, and the effects of change. | Support customers and colleagues through change |

### Risk Governance

| | |
|---|---|
| **Definition** | Risk governance refers to the processes followed to support risk-based decision making and oversight of risk across all our operations. Appropriate committee structures and our risk culture support the Board in discharging its accountability for risk oversight, with management responsible for day-to-day decision making and management of risk. |

The Board is the governing body, responsible for overseeing the implementation and execution of the strategy and holding management to account. It meets at least nine times a year. To support the Board in the delivery of its responsibilities, there are four Board sub-committees, each with distinct mandates, Terms of Reference and recorded actions and minutes.

Further detail on the Bank's governance structure can be found on page 29.

| Definition | Key Responsibilities | Chair |
|---|---|---|
| Board | Approves risk appetite and considers ERMF effectiveness. | INED |
| Board Risk Committee | Responsible for effectiveness of the ERMF and adherence to its components. Recommends risk appetite and reports on ERMF effectiveness to Board. | INED |
| Remuneration Committee | Recommend to the Board the remuneration strategy for the Chair of the Board, Executive Directors, Senior Management and Material Risk Takers and to determine, the remuneration policy aligned to the long-term success of the Company as well as promoting effective risk management and compliance with applicable statutory and regulatory requirements. | INED |
| Audit Committee | Appoint the Internal Audit Director, evaluate the performance and assess the effectiveness of the Audit Function. | INED |
| Nominations Committee | Responsible for reviewing the structure, size and composition of the Board. This also includes succession planning of the Board and the Executive Management team and for ensuring a transparent process for recommending appointments to the Board to the Bank's shareholder. Meets as required. | INED |

**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 governance committees and the Executive Committee. The CEO chairs the Executive Committee ('ExCo') and is supported by other Executive Level committees to provide the 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). A diagram showing the risk committee structure by SMR holder can be found on page 29.

| Definition | Key Responsibilities | Chair |
|---|---|---|
| Executive Risk Committee | Review the management of the Principal Risks and the exposure of Principal Risks. Recommend risk appetite to Board Risk Committee. Review and consider current and emerging risk issues which may impact Principal Risks. | Chief Risk Officer |
| Executive Committee | The role of the Committee is to advise and assist the CEO in overseeing the Bank's activities, performance and making significant decisions relating the executive management of the Bank. | Chief Executive Officer |
| Divisional Risk Committees and Sub-Committees | Ensure the effectiveness of the ERMF within each division/function. | Executive of each Division |
| Model Risk Committee | Ensure that the Model Risk and End-User Computing (EUC) Risk are effectively managed within appetite. | Head of Model Risk |
| Supply Chain Committee | Ensure there is an effective supply chain performance and risk management framework across the Bank that manages outsourcing. Ensure the Bank is able to robustly manage and oversee the performance and delivery of critical third-party supply arrangements in line with the defined risk appetite. | Chief Finance Officer |
| Asset Liability Committee | Ensure there is an effective risk management framework that manages market, liquidity and funding, interest rate and wholesale credit risks and ensures robust capital management. Oversee the execution of the Bank's business within the context of those frameworks. To make those decisions necessary to ensure that the Bank operates within the relevant and defined risk appetite statements. To be the expert forum to advise the board on any Treasury related items and issues. | Chief Finance Officer |
| Finance Committee | Ensure that 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 in line with risk appetite and relevant governance structures. | Chief Finance Officer |
| Retail Credit Risk Committee | Oversee delivery of an effective credit risk management framework. Make decisions to ensure the Bank operates with the defined credit risk appetite. | Director of Credit Risk |

*Roles and Responsibilities*

We adopt a Three Lines of Defence framework to provide a basis for the identification and management of all risks associated with our business model and strategy, which ensures there is effective oversight and challenge in place.

Our Three Lines of Defence framework is deployed on the following basis:

- **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 complying with requirements detailed within risks policies and policy standards.
- **Second line**. The independent risk management division is responsible for setting 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.

### Risk Strategy

| Definition | The Bank's Risk Strategy sets out the risk management approach to enable key risks arising from our business strategy to be managed in a simple, transparent and effective manner. |
|---|---|

The Bank's Risk Strategy sets out how the Bank manages the Principal Risks arising from the business strategy. Specifically, this includes establishing an overarching Risk Strategy objective which is underpinned by a series of High-Level Risk Appetite Statements and metrics which forms part of the suite of risk reports which is presented via Risk Committees.

### Principal Risks

| Definition | The Financial and Non-Financial Risks arising from the Bank's business strategy. |
|---|---|

The Bank has identified and assessed 13 Principal risks as being the most material risks based on the Bank's business strategy. These will continue to be regularly reviewed to ensure they remain relevant as the Bank's strategy evolves over time. Each principal risk identified within the ERMF has associated qualitative risk appetite statements that informs our strategy for managing risk. From these statements, specific quantitative metrics are established which articulate how much risk the Bank can take in the pursuit of our strategic objectives. These metrics are reviewed and approved by Board on an annual basis.

| PRINCIPAL RISKS<br>Definition | Risk Management | Key activities 2024/25 |
|---|---|---|
| **Strategic Execution Risk** | | |
| A failure to execute its business strategy as a result of poor decision making, substandard execution of decisions, inadequate resource allocation or from a failure to effectively respond to changes in the business/market environment. | Strategic Execution Risk is fully considered and assessed within the Bank's ERMF given it's knock on impact on risk strategy, existing principal risk types and therefore to risk exposures and limits. | • The Bank has established a Strategic Review Forum which considers specific risks as a result of the strategic changes in addition to the Bank's established risk reporting routes via ERC/BRC and Board. |
| **Financial Risks** | | |
| **Retail Credit Risk** | | |
| Exposure to personal customer lending on credit cards, storecards and loans. Sainsbury's Bank may be exposed to losses if a customer fails to maintain their contractual obligations and repay the borrowing on time and/or the value of the Sainsbury's Group security reduces. | 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 more than one source. Regular stress testing is undertaken using a variety of plausible stress scenarios. | • Lending to new customers ceased in the year and certain Retail Credit Risk metrics were revised to take account of this albeit not material changes. |
| **Capital Management** | | |
| Risk that an insufficient quantity or quality of capital is held to meet minimum regulatory requirements, or where Sainsbury's Bank has an inefficient level of capital or where capital is inefficiently deployed to support its strategic objectives and plans. | 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. | • ICAAP completed during the year including a stress testing assessment in line with BoE guidance. |
| **Liquidity and Funding** | | |
| Risk that the Bank is unable to meet its obligations as they fall due or can only do so at excessive cost. | We set risk appetite limits set. Daily monitoring and reporting of key metrics. Liquidity and funding targets built into planning process. Liquidity Contingency Plan in place and tested for options and actions under stress. The annual ILAAP determines the adequacy of liquidity and funding resources held. | • A review and update of the annual ILAAP.<br>• Repayment of TFSME.<br>• Maintenance of robust forecasting, MI and early warning indicator monitoring. |
| **Market Risk** | | |
| Risk of loss as a result of the value of financial assets or liabilities (including off balance sheet instruments) being adversely affected by the movement in market prices, interest rates or exchange rates. | A suite of risk appetite metrics in place with hedging activity deployed to manage exposures within limits. Risk measurement systems employed to capture all material sources of relevant market risk. Effective controls in place to ensure the timely identification, measurement, monitoring, and control of risk. | • Annual review and update of behavioural assumptions via ALCo.<br>• Annual review and update of market risk policy and appetite limits. |
| **Wholesale Credit Risk** | | |
| Risk to earnings and capital arising from the failure of a debtor within the Bank's liquid asset portfolio to meet their legal and contractual obligations. | Prudent wholesale credit risk management is ensured through effective treasury assets allocation via appropriate limits set by 2nd line of defence. Active monitoring of current counterparty positions including regular counterparty and asset class credit risk assessments. Early warning indicators indicating prospective credit risk threat. A suite of limits in place to effectively manage concentrations. | • Continued monitoring of asset class and individual counterparty credit risk reviews including appropriateness of limits via the Wholesale Credit Risk Forum. |
| **Financial Crime** | | |
| Sainsbury's Bank is committed to preventing its products, services and delivery channels from being used to commit or facilitate fraud, sanctions, money laundering, terrorist financing, bribery and corruption risk resulting in harm to the business or its customers. | 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. | • Continued benefits from the delivery of the fraud enhancements optimisation project. |

| Non-Financial Risks<br>Definition | Risk Management | Key Activities 2024/25 |
|---|---|---|
| **Operational Risk and Capability** | | |
| Risk of loss resulting from inadequate or failed internal process, people, and systems, or from external events. It is inherent in all activities, processes and products that are carried out by, or on behalf of, Sainsbury's Bank. | 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. | • Risk assessment methodology migrated from a process led approach to a risk control self-assessment (RCSA) approach which simplified the identification of risk and enabled a focus on material risks most relevant to the revised corporate strategy. |
| **Cyber Risk** | | |
| Risk of data loss, financial loss, compromised operational capacity, and reputational damage through a cyber event affecting the systems which store, process and transmit data, or the people and processes which interact with data. | Training and awareness Security risk management including assurance, continuity and incident management. Support for 1st line in the design and testing of key controls | • Following the announcement of strategic change, Cyber Risk was categorised as a Principal Risk with appropriate risk appetite metrics. Controls in preventing and detecting data loss via colleagues or threat actor were implemented. |
| **People Risk** | | |
| Risk that colleague attrition cannot be maintained within thresholds and that people capability, capacity and culture cannot be sustained. | Incentive and retention schemes, training and development opportunities/resources, manager performance vs objectives reviews. | • Following the announcement of strategic change, People Risk was categorised as a Principal Risk.<br>• Quarterly measurements were increased to monthly and high-level risk appetite metrics for attrition were introduced. |
| **Model Risk** | | |
| Risk that a model is specified incorrectly, implemented incorrectly or used inappropriately resulting in severe customer financial, regulatory, reputational and operational impacts. | Model Risk Committee in place for the approval, monitoring and technical discussion of models used across the Bank. Model Risk Policy and specific risk appetite metrics used to track any exposures. | • There has been a reduction in models following the decision to stop selling new Loans and Credit Cards in July 2024.<br>• Monitoring of the EUC inventory has been extended to include Medium Materiality EUCs. |
| **Environmental, Social and Governance (ESG)** | | |
| The risks of any financial losses, reputational damage or failing to meet minimum regulatory requirements stemming from ESG related factors. | Monitoring of directional and aggregate High-Level Risk appetite metric. | • Continued focus on net zero aspirations to the extent the Bank can continue to contribute given the strategic change. |
| **Conduct & Compliance** | | |
| Risk that our culture, behaviours, or actions may lead to a failure to comply with regulatory requirements and/or cause harm to our customer, or to the markets that we operate in. | Standards communicated through ten Policy Standards. Processes and controls in place with clear reporting and escalation procedures.<br>Independent conduct and compliance oversight using a robust methodology. Horizon scanning of emerging threats or regulatory changes. Regular, open engagement with our regulators.<br>Continuous monitoring of control testing outcomes through PRCA oversight and risk-based assurance activity. | • Risk appetite metrics were updated to align to the four FCA Consumer Duty outcomes. |

### Risk Appetite

| | |
|---|---|
| **Definition** | Risk Appetite is the quantitative articulation of how much risk Sainsburys' Group is prepared to take in delivering its risk strategy. |

The Bank maintains a series of High-Level Risk Appetite Statements linked to the suite of Principal risks which are noted below:

- Deliver good customer outcomes for Bank customers in line with our values and regulatory requirements including customer duty.
- Maintain safety and financial soundness.
- Adhere to applicable legislation, regulation and regulatory and policy makers expectations.
- Minimise reputational damage.
- Ensure people related risks are minimised and colleagues are supported.
- Return of excess capital to the parent through the wind down process

The Bank's risk appetite reporting structure includes:

- 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 principal risk types (e.g. retail credit risk, operational risk). These directional limits are designed to give early indications of changes in the internal and external risk environment, providing 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) monthly, and at each Board Risk Committee (BRC). Additionally, escalation processes are in place 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.

### Principal Risk Policies and Policy Standards

| | |
|---|---|
| **Definition** | Documented approach outlining the key standards to be met in the management of each Principal Risk type. |

Our risk policies are aligned to the principal risk types to which our business model is inherently exposed. Each principal 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. These policies clearly articulate the objectives and requirements to be met to ensure that that these risks are managed effectively on a day-to-day basis, in-line with risk appetite.

### Risk Management

| | |
|---|---|
| **Definition** | Defines the standard processes, tools and systems needed for the practical operation of risk management across the Bank. |

Risk management is the process of identifying, assessing and responding to risk in order to deliver Sainsburys' Bank's business strategy. The purpose is not to eliminate risks, but to prioritise risks and manage them appropriately within acceptable levels. Various risk management tools are used to identify, assess and record different types of risk.


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 required 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.

### Risk reporting

| | |
|---|---|
| **Definition** | Ensures the appropriate monitoring, aggregation and escalation of relevant risk or loss events and control information via Bank Committees. |

Our internal 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 self-assessment of its Operational Resilience Framework on an annual basis, which is approved by the Board. It is noted that, ordinarily, the Bank would undertake an annual test of its Liquidity Contingency Plan. However, this was superseded as the Bank made live preparations ahead of the strategic announcement and for a period after to assess for any increases in liquidity outflows. This included increased oversight and governance via ALCo and daily liquidity interlock meetings which reviewed and confirmed the adequacy of available liquidity options that could be deployed in a stress supported by detailed daily MI to detect any early warning indicators.

## Emerging Risks

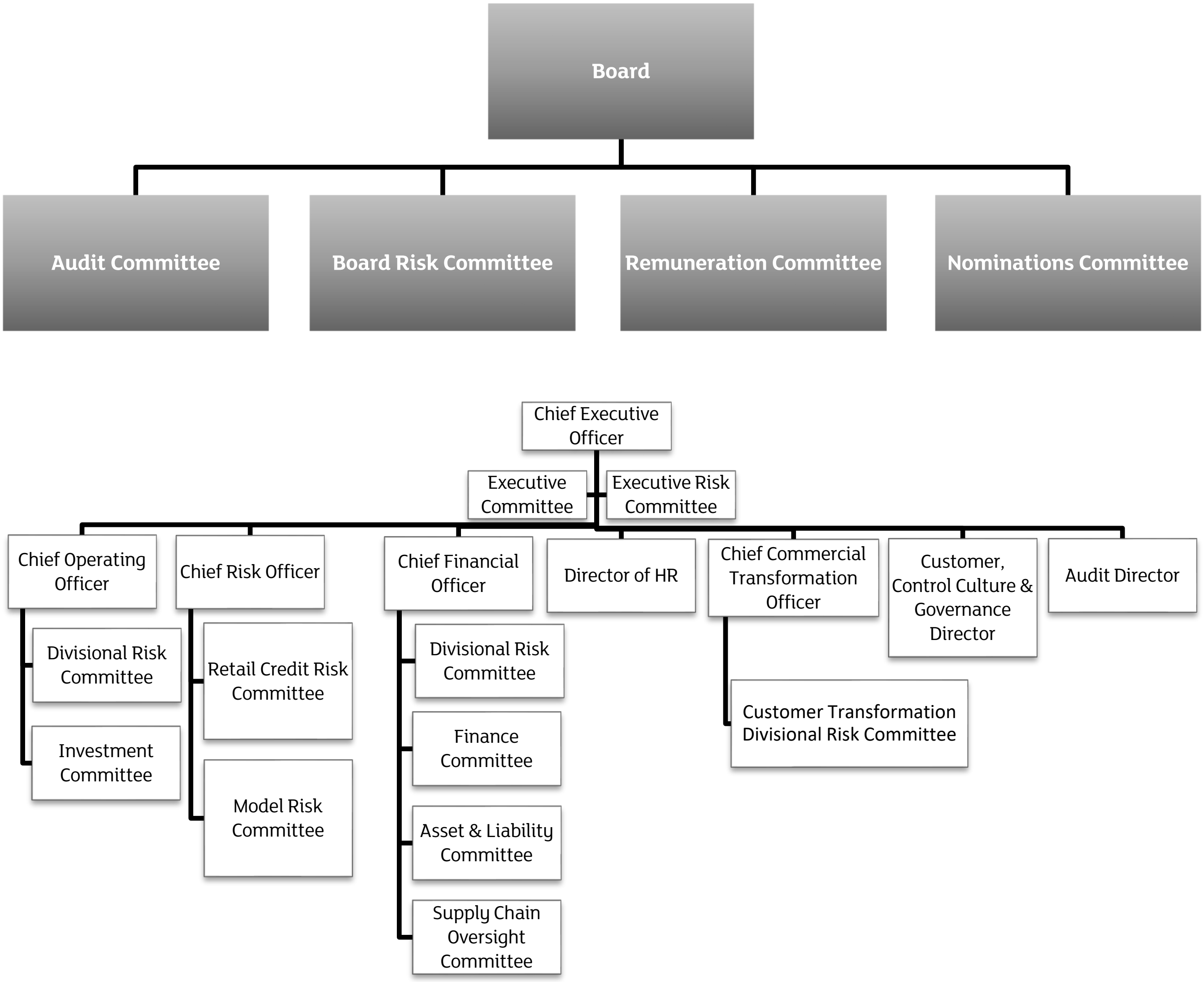
We regularly monitor emerging and evolving changes in the risk environment in order to promote early discussion to understand and address any threats or opportunities to our business model. We consider specific emerging threats and opportunities under the following broad themes:

- **Strategic Execution Risk**. Reflects internal decision-making, execution of strategy, allocation of resources and external factors relating to third parties. This would include people related risks.
- **Operational**. Reflects changes in technology, the impact of internal processes or emerging external best practices. There is a constantly evolving threat from cyberattacks that are increasing in terms of sophistication, impact, severity and frequency. Continuing and further geopolitical tensions also raises our inherent risk profile 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.
- **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 geo-political conflicts, including Russia/Ukraine, escalating middle east tensions, major US policy changes or the financial impacts from climate change. Economic performance including the impact of changes in interest rates, inflation, the employment market and consumer spending may affect the availability and demand for our products. Having ceased lending to new customers during the year and with the upcoming sale of our main banking portfolios, the economic risks to the Bank are considered to be much reduced.
- **Regulatory and conduct**. Reflects continued developments within the financial services sector such as Solvent Exit Execution Plan and including PRA and FCA consultations and changes to Basel regulations.

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

## Governance

The diagram below shows the Governance structure in place for Sainsbury's Bank as at 28 February 2025:




### Board-level governance

The Board is the key governance body, with a minimum of nine meetings scheduled in the 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 below. The Directors of the subsidiary entities hold Board meetings to cover statutory matters however the key decision making is covered within the Bank Board.

*Relationship with J Sainsbury Plc*

The Bank is a wholly owned subsidiary of J Sainsbury plc, a listed retailer. J Sainsbury plc is not involved in the day-to-day management of the Bank. However, J Sainsbury plc has certain reserved powers and decisions which fall within those powers must be referred to them by the Bank Board for their consent before being confirmed as fully approved. Primarily, these reserved matters relate to significant change in the size and scale of the Bank's operations including asset disposals, changes in its capital structure including any increases or decreases to capital, significant contracts or legal disputes, changes to Directors or Officers of the Bank and share schemes.

### Board composition

*Chair*

The Bank has a separate Chair (an Independent Non-Executive Director) and Chief Executive (an Executive Director) to ensure that the balance of responsibilities, accountabilities and decision making are effectively maintained. The Chair plays a key role in creating the conditions for overall Board and individual director effectiveness.

*Balance and diversity*
Recruitment on to the Bank Board combines an assessment of both technical capability and competency skills to ensure the optimum blend of individual and aggregate expertise having regards to the Bank's long term strategic plan. Such recruitment is subject to the approval of the Nominations Committee, the Bank Board, J Sainsbury plc (as the decision falls within reserved matters) and the relevant regulatory bodies (where applicable).

Independent Non-Executive Directors bring their experience to bear from across various sectors, notably Financial Services but also from across Retail, E-Commerce and Strategic and Regulatory Change. These are key areas of focus for the Bank and aligned to its strategy. Directors update their skills, knowledge and familiarity with the Bank by meeting senior management, a programme of developmental training (from both internal and external speakers) and by attending appropriate external seminars. There is an induction programme for all new Directors which is tailored to their specific needs and which provides access to all parts of the business.

The Independent Non-Executive Directors are wholly independent in that they have no material business or relationships with the company that might influence their independence or judgement. In addition, certain governance responsibilities are delegated to other Board Committees (Audit Committee, Board Risk Committee, Remuneration Committee and Nominations Committee). Membership of these committees is entirely made up of Non-Executive Directors of the Bank with members of the Bank's Executive team and other senior colleagues in attendance. These committees support effective decision making and independent challenge.

*Size and structure*
The structure of the Bank Board seeks to ensure the right leadership is in place to oversee and scrutinise the Bank's long term strategic plan.

The current Bank Board is comprised of an Independent Chair, four other Independent Non-Executive Directors, one Non-Executive Director nominated by J Sainsbury plc, and two Executive Directors – the Bank's Chief Executive Officer and its Chief Financial Officer. A biography for each Board Director can be found on the J Sainsbury plc corporate website: www.about.sainsburys.co.uk/about-us/our-management#sainsburys-bank

The Directors have equal voting rights when making decisions, except the Chair, who has a casting vote at the Bank Board. All Directors have access to the advice and services of the Company Secretary and may, if they wish, take professional advice at the company's expense. Directors' duties are exercised through the Board and its sub-committees per the Governance structure on page 29. Each of these committees is chaired by one of the Independent Non-Executive Directors.

**Director responsibilities**

*Accountability*
Each Board Director has a clear understanding of their accountability and responsibilities via the Individual Accountability Regime. Whilst Board oversight is always maintained, key decisions are made by the individuals and committees with the most appropriate knowledge and experience.

The Board had a programme of nine main meetings in 2024/25 with additional Board meetings being convened to consider certain matters where it was not felt appropriate to defer until the next full meeting. Governance requirements (including quorum adherence) were applied as if these additional meetings were full Board meetings. An initial programme of nine main meetings is planned for 2025/26.

As part of their annual review, the Bank Chair undertakes a Fit and Proper Assessment and Attestation with each Board Director. The Senior Independent Non-Executive Director undertakes the same for the Bank Chair.

*Integrity of information*
The Board receives regular and timely information at its meeting on all key aspects of the business supported by a range of Key Performance Indicators (KPIs). The Bank's various functions prepare and maintain the integrity of this information in accordance with the Bank's risk management framework.

*Conflicts of interest*
Any potential conflicts of interest are identified and considered as part of the recruitment process for on-boarding new Directors on to the Bank Board. Where there are any concerns raised, they are considered by the Bank's Nominations Committee and again at the Board meeting when the recommendation is brought for approval.

Once in situ, should a Director be offered the opportunity to take up a position (Executive or Non-Executive), whilst retaining their role on the Bank Board, they are required to inform the Bank Chair and the Board would then be asked to confirm that no conflicts of interest existed or were perceived to exist before accepting the additional role. Where there are any potential conflicts, appropriate safeguards would be implemented.

*Committees*
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 Internal Audit Director 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 shareholder. 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 and monitoring 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. 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 of 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. Reflecting the significant level of strategic change currently underway, the cadence of BRC meetings was increased in 2024/25 from the previously typical five times a year.

## Strategy and risk management

The Board is responsible for the overall strategy and performance of the business and its management of risk. Due consideration is given by the Board to the Bank's strategy, changes in the operating environment and emerging risks and opportunities.

*Responsibilities*
In line with the provisions of the Senior Manager & Certification Regime (SMCR), the Bank has allocated the Senior Manager Functions and prescribed responsibilities in so far as they apply to Sainsbury's Bank plc and its subsidiaries. A Management Responsibility Map (MRM) is in place to provide a description of the Bank's management and governance arrangements including the reporting lines and details of the individuals who are part of those arrangements and their prescribed responsibilities. The MRM is owned by the Board.

Risks are identified and managed via the process-centric approach described in the Risk Overview on page 22.

## Remuneration

*Setting remuneration*
The Board-level Remuneration Committee (RemCo) recommends to the Board the remuneration strategy for the Executive Directors, Chair, Senior Management and Material Risk Takers. Within this framework, its remuneration policy is aligned to the long-term success of the Bank as well as promoting effective risk management and compliance with applicable statutory and regulatory requirements. RemCo also has oversight over appointment and severance terms for relevant employees.

*Policies*
A review is carried out annually (with input from external advisors) to ensure that the remuneration policy and practices are industry competitive and in line with the size and complexity of the business and compliant with all applicable legal and regulatory requirements. The policy also sets out the approach which ensures that reward decisions are objective, fair and inclusive.

The Directors' positions and remuneration status are set out in the Directors' report (page 33).

## 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. Reflecting the period of significant strategic change currently underway and to ensure that appropriate time is allocated, the agenda for the scheduled monthly ExCo meetings is divided between (i) the ExCo Strategic Review Forum ("SRF"), which is responsible for overseeing all aspects of strategic transformation, with the Programme Director for Strategic Transformation in attendance and (ii) the ExCo Business Operations Management meeting ("BOM") which is responsible for overseeing delivery against the business strategy (including commercial performance), Customer Outcomes, Operations Management and HR matters. To ensure appropriate oversight and timely decision making in respect of the Strategic Transformation Programme, the SRF typically meets fortnightly with additional meetings scheduled as required.

*Chief Risk Officer (CRO) Executive Committees:*

- **Executive Risk Committee (ERC)**. The ERC is responsible for ensuring that the Enterprise Risk Management Framework (ERMF) 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 ten times a year.
- **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 Bank's statement of financial position 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 at least 12 times a year.
- **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 at least six times per year.
- **Supply Chain Oversight Committee**. The role of the committee is to ensure there is an effective group-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 monthly.

**Divisional Risk Committees**

The role of the Divisional Risk Committee (DRC), chaired by the relevant ExCo member is to ensure the effectiveness of the ERMF 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 Bank to the Executive Risk Committee.

By order of the Board

*Michael Larkin*
*Chief Financial Officer*
*16 April 2025*

The Directors have the pleasure in submitting their annual report and the financial statements of Sainsbury's Bank plc ("the Bank") for the year ended 28 February 2025.

## Board of Directors

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

| Name | Position | Remunerating entity | Appointment/ resignation date |
|---|---|---|---|
| Lesley Jones | Chair (Independent Non-Executive) | Sainsbury's Bank plc | |
| Carole Butler | Senior Independent Non-Executive | Sainsbury's Bank plc | |
| Michael Ross | Independent Non-Executive | Sainsbury's Bank plc | Resigned 26 June 2024 |
| Guy Thomas | Independent Non-Executive | Sainsbury's Bank plc | |
| Rosanne Murison | Independent Non-Executive | Sainsbury's Bank plc | |
| Helen Normoyle | Independent Non-Executive | Sainsbury's Bank plc | Appointed 18 November 2024 |
| Bruce Richardson | Non-Executive | J Sainsbury plc | Appointed 1 May 2024 |
| Robert Mulhall | Chief Executive Officer | Sainsbury's Bank plc | Appointed 9 April 2024 |
| James Brown | Chief Executive Officer | Sainsbury's Bank plc | Resigned 31 March 2024 |
| Michael Larkin | Chief Financial Officer | Sainsbury's Bank plc | |

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.

### *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).

### *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.

### *Directors' indemnities*

The Bank has provided an indemnity for the benefit of all of its current Directors which is a qualifying third-party indemnity provision for the purpose of the Companies Act 2006. This was in force throughout the financial year and at the date of signing of the financial statements. Directors' and Officers' insurance is provided through the J Sainsbury plc Group policy. Neither the indemnities nor the insurance provide cover in the event that the Director is proved to have acted fraudulently.

### *Statement of corporate governance arrangements*

The Bank applied the main principles and complied with the relevant provisions of the Wates Corporate Governance Principles for Large Companies (available on the Financial Reporting Council website). Information demonstrating how the Bank applied the principles can be found throughout the Strategic Report.

### *Employee engagement*

Refer to the S172(1) statement on page 5 of the Strategic report for details on employee engagement.

### *Business relationships*

Refer to the S172(1) statement on page 5 of the Strategic report for details on business relationships.

### *Colleagues*

Refer to the S172(1) statement on page 5 for the Bank's policies on colleagues and the employment of disabled persons.

### *Independent auditors*

Ernst & Young LLP have expressed their willingness to continue in office as auditors for the 2025/26 financial year.

### *Disclosure of information to auditors*

At the date of this report, each of the Directors in office has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Bank's auditors are aware of that information. As far as each Director is aware, there is no relevant audit information of which the Bank's auditors are unaware.

### *Financial risk management*

Details of the use of financial instruments, together with risk management disclosures, can be found in note 32 and the Risk Management section in the Strategic report on pages 22 to 28.

### *Future developments*

The development of the Bank is set out in the Strategic Report on pages 3 to 4.

### *Post balance sheet events*

Details of events occurring after the reporting date are discussed in note 38 to the Financial Statements.

### *Going concern*

The Directors have considered the appropriateness of the going concern basis of preparation of the financial statements, taking into account the Bank's current and projected performance, with specific additional consideration given to the impacts of the strategic changes to the business as described in the Strategic Report on page 3, including new or amended risks in respect of capital and liquidity adequacy. The Directors are satisfied the Bank has the ability to continue as a going concern for the foreseeable future, being at least 12 months from the date of approval of the Financial Statements, taking into account a range of possible operational, economic and legal scenarios. The Directors have also considered factors beyond this timeframe where longer term financial and operational forecasts and scenarios have been prepared. Consequently, the going concern basis continues to be appropriate in preparing the financial statements. Further information on the risks considered in the going concern assessment is set out in Note 1 to the financial statements

Further information on the risks considered in the going concern assessment is set out in Note 1 to the financial statements.

### *Dividends*

The Bank loss after tax for the year attributable to the shareholders is £91m (2024: £112m loss). The Directors do not recommend payment of a dividend.

### *Statement of Directors' responsibilities*

The Directors are responsible for preparing the Strategic report, Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with UK adopted international accounting standards. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of Sainsbury's Bank plc ('the Company') and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies in accordance with International Accounting Standard (IAS) 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in UK adopted international accounting standards is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the financial performance; and
- state that the Bank has complied with UK adopted international accounting standards, subject to any material departures and explained in the financial statements.

## Directors' report

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Annual Report and Financial Statements disclosures included on the J Sainsbury plc website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

*By order of the Board and signed on its behalf by*

*Michael Larkin*
*Chief Financial Officer*
*16 April 2025*

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SAINSBURY'S BANK PLC

### Opinion

We have audited the financial statements of Sainsbury's Bank PLC (the Company) for the year ended 28 February 2025 which comprise the Income Statement, Statement of comprehensive income, the Statement of financial position, the Statement of changes in equity, the Cash flow statement and the related notes 1 to 38, including material accounting policy information. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards.

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 28 February 2025 and of its loss for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- We obtained an understanding of how the going concern assessment for the Company was undertaken, which is summarised in the basis of preparation note 1, page 50. This included the identification of factors which may arise as a result of the Company's change in strategic direction. We considered the appropriateness of the timeframe used by the directors in making their assessment, which included consideration of longer-term forecasts than the 12 months minimum timeframe required for forecasting going concern.
- We obtained an understanding of the directors' rationale for the use of the going concern basis of accounting through reviewing and challenging their going concern assessment and conclusions.
- We assessed the change in strategic direction announced by the J Sainsbury Group. We considered whether the current progression of the planned phased withdrawal from the core banking business and the impending sale of the personal loan, credit card and retail deposit portfolios (together the "Core Banking Business") represented a cessation of trade. We evaluated the Board approved future legal entity structure plans, including assessing the directors' current intention to remove the Banking licence from the Bank while retaining the permissions necessary for it to serve as the 'go forward' legal entity for Financial Services commission products and other arrangements in support of the J Sainsbury's Group.
- We designed our audit procedures to evaluate the effect of these key judgements on the Company's ability to continue as a going concern.
- We reviewed the directors' evaluation of the Company's resilience to financial and operational stress, including severe but plausible scenario analysis performed as part of the Bank's liquidity stress testing, which considered the current and forecast levels of liquidity and capital together with the related headroom, including the potential impact of the strategic change and the risks arising thereon. Their evaluation included the quantification of any potentially adverse impacts of customer behaviour and delays in the sale timelines.
- We reviewed the Company's going concern disclosures included in the financial statements in order to assess whether the disclosures were appropriate, consistent with the risks and responses considered in the going concern assessment, and in conformity with the reporting standards.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

**Overview of our audit approach**

| | |
|---|---|
| Key audit matters | • Accounting and reporting for the Company's phased withdrawal from core banking<br>• Expected credit loss provision<br>• Effective interest rate accounting<br>• Reliance on the processes and controls of third-party service providers |
| Materiality | • Overall materiality of £3.3m which represents 0.5% of equity. |

**An overview of the scope of our audit**

**Tailoring the scope**

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Company and effectiveness of controls, the potential impact of climate change and changes in the business environment when assessing the level of work to be performed. All audit work was performed directly by the audit engagement team.

**Climate change**

Stakeholders are increasingly interested in how climate change will impact Sainsbury's Bank Plc. The Company has determined that the most significant future impacts from climate change on its operations will be from transitional risks on the wider UK economy. These are explained on pages 6 to 12 in the Strategic Report including recommendations of the Taskforce for Climate-related Financial Disclosures. All of these disclosures form part of the "Other information," rather than the audited financial statements. Our procedures on these unaudited disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated, in line with our responsibilities on "Other information".

In planning and performing our audit we assessed the potential impacts of climate change on the Company's business and any consequential material impact on its financial statements.

The company has explained in note 2 to the financial statements on page 52 its articulation of how they have reflected the impact of climate change in their financial statements and the significant judgements and estimates made in this regard. Note 32 to the financial statements on page 92 further explains where governmental and societal responses to climate change risks are still developing, and where the degree of certainty of these changes means that they cannot be taken into account when determining asset and liability valuations under the requirements of UK Adopted International Accounting Standard.

Our audit effort in considering the impact of climate change on the financial statements was focused on evaluating management's assessment of the impact of climate risk, physical and transition, their climate commitments, the effects of material climate risks disclosed on pages 6 and 12 and including significant judgements. As part of this evaluation, we performed our own risk assessment, supported by our climate change internal specialists, to determine the risks of material misstatement in the financial statements from climate change which needed to be considered in our audit.

Where considerations of climate change were relevant to our assessment of going concern, these are described above.

Based on our work we have not identified the impact of climate change on the financial statements to be a key audit matter or to impact a key audit matter.

**Key audit matters**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

| Accounting and reporting for the company's phased withdrawal from core banking | |
|---|---|
| **Risk** | **Our response to the risk** |
| Refer to Notes 1, 9 and 28 of the Financial Statements (page 50, 62 and 83)<br><br>In January 2024 J Sainsbury's Group announced a phased withdrawal from the core banking business. Subsequently, agreements have been reached to sell the Bank's portfolios as follows:<br>• In June 2024, an agreement was reached for the sale of the personal loan, credit card and retail deposit portfolios to NatWest, which is expected to be finalised in May 2025.<br>• In September 2024, an agreement was reached to sell the ATM estate to Note Machine.<br><br>As a result, a number of accounting estimates are required to be made to reflect the sale, which includes providing for restructuring costs, migration costs, onerous contracts, as well as determining the overall loss on the sale of the portfolios.<br><br>We have therefore identified risks in the following areas, driven by the complexity and level of management judgement involved in determining the appropriate accounting treatment:<br>• Appropriateness and completeness of onerous contracts and other provisions (£77.2m of provision for onerous contracts and suppliers' restructuring, £27.2m of migration cost provisions, £24.8m of redundancy provision, refer to note 28)<br>• Classification, measurement and disclosure considerations under IFRS 5, IFRS 7 and IFRS 9 (refer to notes a, b and c)<br>• Fair value disclosures | We assessed the design effectiveness of key controls across the processes relevant to the company's evaluation of accounting impacts from withdrawal of core banking business.<br><br>We determined the appropriateness and completeness of provisions for onerous contracts by:<br>• Challenging the calculation methodology, input data and key assumptions used;<br>• Undertaking completeness check to validate that all significant contracts are considered within the onerous contract assessment;<br>• Validating the accuracy of the provisions made through vouching of terms and values to a sample of contracts, including lower and nil value contracts.<br><br>For other provisions, we determined the appropriateness and completeness of provisions by:<br>• Challenging the calculation methodology, input data and key assumptions used;<br>• Validating that provisions reflected communications made by the Company, and agreements entered into with third parties;<br>• Performing substantive testing over data points used in the calculations.<br><br>Fair value disclosures were assessed against the contractual sale terms, which reflect the value at which the portfolios are expected to transfer to third parties.<br><br>We assessed the classification, measurement principles and disclosures required through review of Management's accounting documents and engaging IFRS specialists in this process. |
| **Key observations communicated to the Audit Committee** | |
| Accounting and reporting for the company's phased withdrawal from core banking was appropriately reflected within the financial statements, and related disclosures were adequate in all material respects. | |

| Expected Credit Loss Provisions | |
|---|---|
| **Risk** | **Our response to the risk** |
| Impairment Provision (2025: £151m, 2024: £154m)<br><br>Refer to Accounting policies (page 52); and Note 15 of the Financial Statements (page 69)<br><br>Customer receivables comprise unsecured personal loans and credit cards.<br><br>Credit provisions represent management's best estimate of impairment, and significant judgments and estimates are made in determining the timing and measurement of expected credit loss ('ECL').<br><br>Key matters that could result in material misstatement in respect of ECLs include the:<br><br>(a) Accounting interpretations and modelling assumptions used to build the models that calculate ECL;<br><br>(b) Input and assumptions used to estimate the impact of the multiple economic scenarios (MES);<br><br>(c) Allocation of assets to stage 1, 2 or 3 using criteria in accordance with the accounting standard;<br><br>(d) Completeness and valuation of post model adjustments ("PMAs"); and<br><br>(e) Accuracy and adequacy of the financial statement disclosures made for judgements on significant increase in credit risk, multiple economic scenarios and assessment of overlays.<br><br>We consider the risk related to the ECL provision remains high due to the level of complexity of the calculation, as well as the need for specialist judgment around factors such as economic assumptions and the derivation of PMAs.<br><br>The accuracy of underlying data upon which the ECL is calculated is also key to the overall estimate. | We assessed the design effectiveness of key controls across the processes relevant to the impairment provision calculation.<br><br>This included consideration of model governance, data accuracy and completeness, multiple economic scenarios, and the allocation of assets into stage 1, 2 and 3.<br><br>We reviewed the minutes of the model and risk committees where inputs, assumptions, and adjustments to the ECL were discussed and approved.<br><br>We tested the data used in the ECL calculation by independently reconciling a sample of data feeding the models to source systems and underlying documentation.<br><br>We considered the assumptions, inputs and formulas used across the population of ECL models. This included assessing the appropriateness of model design and the formulae used, considering alternative modelling techniques and recalculating the Probability of Default, Loss Given Default and Exposure at Default for a sample of the models.<br><br>We tested the assumptions and inputs used in the ECL models with the support of our internal modelling and economic specialists. In particular, we challenged the correlation and impact of the macroeconomic factors to the ECL and independently recalculated critical components of the ECL. In addition, we assessed the base and alternative economic scenarios, including challenging probability weights and comparing to other scenarios from a variety of external sources, as well as EY internally developed forecasts.<br><br>We challenged the criteria used to allocate an asset to stage 1, 2 and 3 in accordance with IFRS 9 and substantively reperformed in full the staging calculation to ensure that assets in stages 1, 2, and 3 were allocated to the appropriate stage. We also performed sensitivity analysis on the staging criteria.<br><br>We challenged management over the appropriateness and completeness or PMAs using our knowledge and experience across the industry. We performed testing over material PMAs together with our internal modelling specialists.<br><br>We performed stand back analysis through industry benchmarking to peers and other available sources of information to help assess the appropriateness of the ECL provision overall.<br><br>We assessed the adequacy and appropriateness of disclosures for compliance with the accounting standards. |

**Key observations communicated to the Audit Committee**

We communicated that we were satisfied that the provisions for impairment of loans and advances to customers were reasonable and recognised in compliance with the requirements of IFRS 9.

Our testing of staging allocation, models and model assumptions identified no significant matters.

We communicated that the economic scenarios used, the weightings applied to scenarios, and the utilisation of PMAs to capture the risk of factors such as interest rate risk and inflation were reasonable. Other PMAs recorded by management were considered to be appropriate and complete.

We communicated that the considerations made by management in these areas meant that the ECL was reasonably stated.

We communicated that we were satisfied with the accuracy and adequacy of the disclosures made.

| Effective Interest Rate Accounting | |
|---|---|
| **Risk** | **Our response to the risk** |
| EIR Adjustment on the balance sheet (2025: £37m, 2024: £68m)<br><br>Refer to Notes 2, 4 and 15 of the Financial Statements (page 52, 59 & 69)<br><br>Accounting standards require that interest income on personal loans and credit cards is recognised at the effective interest rate (EIR). For products with introductory rates, such as credit cards, where the reversionary interest rate in future years is expected to be greater, but receipt of such interest income depends on the customer remaining with the Bank, there is significant judgement involved in forecasting customer behaviour and estimating the future expected cash flows.<br><br>EIR adjustments are sensitive to judgements about the expected behavioural lives and future yields of the product portfolios to which they relate.<br><br>The risks, as we see them, are that:<br><br>(a) the data used in making the estimate is not complete and accurate;<br><br>(b) the judgements made are not appropriate; and<br><br>(c) the calculation methodology is not applied correctly. | We assessed the design effectiveness of key controls across the processes relevant to the EIR calculation process.<br><br>We considered the completeness and accuracy of data inputs into the models by:<br>(i) inspecting reconciliations from the general ledger to the source systems; and subsequently from the general ledger to the enterprise data warehouse.<br><br>(ii) testing the data used in the EIR calculation by independently reconciling a sample of data feeding the model from the source system.<br><br>We tested the appropriateness of assumptions by:<br>(i) Reviewing the methodology to assess whether all key variables were appropriately considered and were being accounted for in accordance with the applicable accounting standards.<br><br>(ii) Comparing judgements to:(a) observable recent customer behaviour, and (b) product pricing models.<br><br>(iii) Evaluating the continued reasonableness of future cashflows as a result of the impact of the strategic decision to undertake a phased withdrawal from core banking business.<br><br>(iv) Testing for indications of management bias through: (a) comparison of customer behaviour to observable market data; (b) review of judgements made by management for consistency with prior periods where appropriate; (c) performing sensitivity analysis over the impact of alternative behavioural lives and challenging the current behavioural lives used; and (d) challenging model alignment adjustments ("true-ups") for appropriateness using our knowledge and experience across the industry, including assessing the appropriateness of the data, scenarios and calculations used in determining the true-up applied.<br><br>We tested the application of the calculation methodology by:<br><br>(i) Engaging our internal modelling specialists to test whether the variables and assumptions stated in management's methodology documentation are implemented in management's models;<br><br>(ii) Engaging our internal modelling specialists to assess the macros that are used to input the raw data and perform the related calculations in the model files;<br><br>(iii) Performing testing on the year-end calculation of EIR, including the underlying data integrity, the clerical accuracy of the calculation, and the application of relevant assumptions. |
| **Key observations communicated to the Audit Committee** | |
| We communicated that we were satisfied that the assumptions used in determining the EIR asset balance were reasonable and in accordance with the applicable accounting framework, and that we were satisfied with the completeness and accuracy of data used within the EIR models. | |

| Reliance on the processes and controls of third-party service providers | |
|---|---|
| **Risk** | **Our response to the risk** |
| Many of the Bank's IT systems are hosted by third parties. The Bank receives Service and Organisation Control (SOC) reports, prepared by independent audit firms, on the effectiveness of the third parties' control environments. In some instances, deficiencies in the control environment were identified or assurance was unable to be provided by the third party over the design and operating effectiveness of their control environment.<br><br>There is a risk that there is insufficient oversight of the third-party service providers and where control deficiencies at the third-party are identified, a Service and Organisation Control report is not obtained, or assurance is unable to be obtained over the third-party control environment. These risks are:<br><br>(a) not mitigated by<br><br>compensating controls within the Bank's own control environment; and<br><br>(b) not appropriately quantified by the Bank. | We performed procedures to obtain an understanding of the processes which are outsourced to third-parties and their impact on the financial statements.<br><br>We made inquiries of management to understand the process through which the Bank:<br><br>i) Monitors control effectiveness at third parties; and<br><br>ii) Performs control activities over the completeness and accuracy of data received from third parties.<br><br>For the third-party SOC reports obtained by the Bank, we obtained and inspected the reports to understand the design and operating effectiveness of the key controls in place. Where control deficiencies were identified or assurance over the control environment was unable to be provided, we assessed the impact on our planned audit procedures and, where necessary, performed incremental procedures in order to obtain reasonable assurance over the impacted account balances.<br><br>We reviewed the assessment performed by management over the third-party service provider control reports, including:<br><br>(i) The mapping of the key controls within the report to the processes in place at the Bank and identification of any complimentary end user controls in place at the Bank; and<br><br>(ii) management's evaluation of any ineffective controls within the control reports.<br><br>Where SOC reports were not obtained or reports that were obtained were unable to provide reliance over the third-party control environment, we obtained and reviewed management's assessment of these observations and the mitigating controls in place at the Bank. We tested the compensating controls where appropriate. |
| **Key observations communicated to the Audit Committee** | |
| We obtained reasonable assurance over the Bank's processes and controls over the completeness and accuracy of data received from third parties.<br><br>We inspected the Service and Organisation Control reports and are satisfied that management have responded appropriately to relevant control deficiencies. We have also assessed the implementation of the appropriate complimentary end-user controls where necessary. | |

In the prior year, our auditor's report included a key audit matter in relation to going concern. In the current year, increased clarity on the impact of the Bank's strategic change on capital and liquidity adequacy, as well as its future trade has reduced the level of auditor attention required. Consequently, going concern is not considered a key audit matter this year.

**Our application of materiality**

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

**Materiality**

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Company to be £3.3 million (2024: £3.7 million), which is 0.5% (2024: 0.5%) of equity. We believe that equity provides us with the most appropriate basis for materiality, given the importance to the Bank of continuing to meet regulatory capital requirements as it undertakes a phased withdrawal from its core banking business over time. The materiality basis and level used is consistent the prior year.

**Performance materiality**

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgement was that performance materiality was 75% (2024: 75%) of our planning materiality, namely £2.5m (2024: £2.8m). We have set performance materiality at this percentage due to a limited history of misstatements or significant control deficiencies.

**Reporting threshold**

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.2m (2024: £0.2m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

**Other information**

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

**Opinions on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

**Matters on which we are required to report by exception**

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

**Responsibilities of directors**

As explained more fully in the directors' responsibilities statement set out on page 34, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

**Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

**Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud**

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are the regulations, licence conditions and supervisory requirements of the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) and the Companies Act 2006.
- We understood how Sainsbury's Bank plc is complying with those frameworks by making inquiries of management, internal audit, and those responsible for legal and compliance matters. We also performed review of regulatory correspondence and reviewed minutes of the Board and Board Risk Committee meetings held. We gained an understanding of the Bank's approach to governance demonstrated by the Board's enterprise risk management framework ('ERMF') and internal control processes. We also reviewed the Bank's complaints and whistleblowing processes.
- We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur by assessing the controls that have established to address risks of fraud identified by the Bank, or that otherwise seek to prevent, deter, or detect fraud. We also considered performance and incentive plan targets and their potential to influence management to manage financial results.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved inquiries of legal counsel, executive management, internal audit, and performing procedures over the risk of management override of internal control. We also focused our audit procedures on areas identified as higher risk as referred to in the key audit matters section of this report.
- The company operates in the financial services industry which is a highly regulated environment. As such, the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.

A further description of our responsibilities for the audit of the financial statements is located on the

Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

**Other matters we are required to address**

Following the recommendation from the audit committee we were appointed by the company on 16 August 2017 to audit the financial statements for the year ending 28 February 2018 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments is 8 years, covering the years ending 28 February 2018 to 28 February 2025.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the company and we remain independent of the company in conducting the audit.

The audit opinion is consistent with the additional report to the audit committee.

**Use of our report**

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Blake Adlem (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Edinburgh
16 April 2025

## Income statement

For the year-ended 28 February 2025

| | Note | 2025 £m | 2024 £m Re-presented[1] |
|---|---|---|---|
| Interest income | 4 | **145** | 112 |
| Interest expense | 4 | **(99)** | (74) |
| **Net interest income** | | **46** | 38 |
| Fees and commissions income | 5 | **32** | 33 |
| Fees and commissions expense | 5 | **(9)** | (11) |
| **Net fees and commissions income** | | **23** | 22 |
| Other operating income | 6 | **68** | 59 |
| **Total income** | | **137** | 119 |
| Administrative expenses | 7 | **(88)** | (69) |
| Impairment of Intangible and Tangible assets | | | |
| Property, plant and equipment | 21 | **-** | - |
| Intangible assets | 20 | **-** | (20) |
| Depreciation and amortisation | | | |
| Property, plant and equipment | 21 | **-** | - |
| Intangible assets | 20 | **-** | (12) |
| **Operating expenses** | | **(88)** | (101) |
| Impairment losses on financial assets | 15 | **(2)** | (2) |
| Realised gains on financial instruments | 8 | **1** | 1 |
| **Profit before taxation** | | **48** | 17 |
| Analysed as: | | | |
| Underlying profit before tax | | **63** | 42 |
| Non-underlying items | 9 | **(15)** | (25) |
| | | **48** | 17 |
| **Taxation** | 13 | **(5)** | (4) |
| **Profit for the financial year from continuing operations** | | **43** | 13 |
| **Discontinued operations** | | | |
| (Loss) after tax from discontinued operations | 14 | **(134)** | (125) |
| **(Loss) for the financial year attributable to the owners of the Bank** | | **(91)** | (112) |

[1] The prior year has been re-presented following the classification of discontinued operations. Refer to notes 3 and 14

The accompanying notes on pages 50 to 107 form part of these financial statements.

## Statement of comprehensive income

For the year ended 28 February 2025

| | 2025 £m | 2024 £m |
|---|---|---|
| **(Loss) for the financial year** | **(91)** | (112) |
| **Other comprehensive income:** | | |
| Items that may be reclassified subsequently to profit or loss: | | |
| Financial assets fair value movements | **-** | - |
| FVOCI gains recycled to income statement | **-** | - |
| **Total other comprehensive income, net of tax** | **-** | - |
| **Total comprehensive expense** | **(91)** | (112) |
| **Total comprehensive (expense) / income for the year attributable to the owners of the Bank** | | |
| Continuing operations | **43** | 13 |
| Discontinued operations | **(134)** | (125) |

All amounts are attributable to the owners of the Bank.

The accompanying notes on pages 50 to 107 form part of these financial statements.

## Statement of financial position

As at 28 February 2025

| | Note | 2025 £m | 2024 £m |
|---|---|---|---|
| **Assets** | | | |
| Cash, balances with central banks and other demand deposits | 17 | **1,138** | 1,078 |
| Derivative financial instruments | 18 | **5** | 15 |
| Investment securities | 19 | **2,284** | 770 |
| Loans and advances to customers | 15 | **-** | 3,715 |
| Assets held for sale | 14.5 | **2,511** | - |
| Investments in subsidiaries | 22 | **325** | 325 |
| Intangible assets | 20 | **-** | - |
| Property, plant and equipment | 21 | **-** | - |
| Other assets | 23 | **137** | 843 |
| **Total assets** | | **6,400** | 6,746 |
| **Liabilities** | | | |
| Customer accounts | 24 | **-** | 4,165 |
| Liabilities held for sale | 14.5 | **3,140** | - |
| Other deposits | 25 | **1,968** | 1,557 |
| Subordinated liabilities | 26 | **124** | 122 |
| Derivative financial instruments | 18 | **7** | 56 |
| Other liabilities | 27 | **407** | 92 |
| Provisions for liabilities and charges | 28 | **106** | 25 |
| **Total liabilities** | | **5,752** | 6,017 |
| **Equity** | | | |
| Called up share capital | 29 | **701** | 701 |
| Retained earnings | | **(55)** | 26 |
| Other reserves | | **2** | 2 |
| **Total equity** | | **648** | 729 |
| **Total equity and liabilities** | | **6,400** | 6,746 |

The financial statements on pages 45 to 50 were approved by the Board of Directors on 16 April 2025 and signed on its behalf by:

Michael Larkin
Director and Chief Financial Officer

The accompanying notes on pages 50 to 107 form part of these financial statements.

Sainsbury's Bank plc – Company number 3279730

## Statement of changes in equity

For the year ended 28 February 2025

| | Note | Called up share capital £m | Retained earnings £m | Other reserves £m | Total equity £m |
|---|---|---|---|---|---|
| **As at 1 March 2024** | | **701** | **26** | **2** | **729** |
| Loss for the financial year | | **-** | **(91)** | **-** | **(91)** |
| Other comprehensive income: | | | | | |
| Financial assets fair value movements (FVOCI) | | **-** | **-** | **-** | |
| FVOCI gains recycled to income statement | | **-** | **-** | **-** | **-** |
| **Total comprehensive income** | | **-** | **(91)** | **-** | **(91)** |
| Transactions with owners: | | | | | |
| Share-based payment (net of tax) | | **-** | **10** | **-** | **10** |
| Dividends Paid | | **-** | **-** | **-** | **-** |
| **At 28 February 2025** | | **701** | **(55)** | **2** | **648** |

| | Note | Called up share capital £m | Retained earnings £m | Other reserves £m | Total equity £m |
|---|---|---|---|---|---|
| As at 1 March 2023 | | 701 | 133 | 2 | 836 |
| Profit for the financial year | | - | (112) | - | (112) |
| Other comprehensive income: | | | | | |
| Financial assets fair value movements (FVOCI) | | | | - | - |
| FVOCI gains recycled to income statement | | - | - | - | - |
| Total comprehensive income | | - | (112) | - | (112) |
| Transactions with owners: | | | | | |
| Share-based payment (net of tax) | | - | 5 | - | 5 |
| Dividends Paid | | - | - | - | - |
| At 29 February 2024 | | 701 | 26 | 2 | 729 |

All amounts are attributable to the owners of the Bank.

The accompanying notes on pages 50 to 107 form part of these financial statements.

## Cash flow statement

For the year ended 28 February 2025

| | Note | 2025 £m | 2024 £m |
|---|---|---|---|
| Profit before taxation from continuing operations[1] | | **48** | 17 |
| Non-cash and other items included in profit before taxation | | **36** | 48 |
| Change in operating assets and liabilities | | **765** | 153 |
| Income tax payments | | **3** | (3) |
| **Cash flows generated from operating activities** | 16 | **852** | 215 |
| Purchase of equipment | | **-** | (1) |
| Purchase of intangibles | | **-** | - |
| **Cash flows used in investing activities** | | **-** | (1) |
| Interest paid on subordinated liabilities | | **(13)** | (13) |
| Lease payments | | **-** | (1) |
| **Cash flows used in financing activities** | | **(13)** | (14) |
| **Change in cashflows from Continuing operations** | | **839** | 200 |
| **Change in cashflows from Discontinued Operations** | | **141** | 274 |
| **Total Change in cash and cash equivalents** | | **980** | 474 |
| Opening cash and cash equivalents | | **1,073** | 599 |
| **Closing cash and cash equivalents** | | **2,053** | 1,073 |

[1] The prior year has been re-presented following the classification of discontinued operations. Refer to notes 3 and 14.

For the purposes of the cash flow statements, cash and cash equivalents comprise the following:

| | 2025 £m | 2024 £m |
|---|---|---|
| Cash, balances with central banks and other demand deposits | **1,138** | 1,078 |
| Less: mandatory reserve deposit held at central banks | **-** | (14) |
| | **1,138** | 1,064 |
| Investment securities | **915** | 9 |
| | **2,053** | 1,073 |

The accompanying notes on pages 50 to 107 part of these financial statements.

## Notes to the financial statements

### 1. Basis of Preparation

The Sainsbury's Bank financial statements represent the year ended 28 February 2025 and have been prepared in accordance with UK-adopted international accounting standards.

The Bank is a wholly-owned subsidiary of J Sainsbury plc and the Group results are 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 401 of the Companies Act 2006 and IFRS 10 4(a). The prior year comparatives have as a result been re-presented for the results of Sainsbury's Bank only, rather than the previously presented Group results. More details can be found in Note 3.

The Bank provides a range of retail banking services and related financial services wholly within the UK.

The financial statements have been prepared under the historical cost convention as modified for the revaluation of financial assets and liabilities (including derivative instruments) held at fair value through profit and loss and fair value through other comprehensive income. The principal accounting policies have been applied consistently throughout the year.

The financial statements have been prepared on a going concern basis. The Directors have considered the appropriateness of the going concern basis of preparation of the financial statements, taking into account the Bank's current and projected performance, with specific additional consideration given to the impacts of the strategic changes to the business as originally described in the Strategic Report on page 3. In assessing the Bank's ability to continue as a going concern, the Directors have considered the most recent corporate planning and budgeting processes. The assessment period for the purposes of considering going concern is the 12 months to 16 April 2026, however, in accordance with IAS 1, the Directors have also considered factors beyond this timeframe where longer term financial and operational forecasts and scenarios have been prepared.

The J Sainsbury plc strategy change introduces new or amended risks in respect of the Bank's liquidity and capital adequacy which arise from the move to offer financial services products through dedicated financial services providers and the phased withdrawal from the core banking business.

Critical considerations within this plan from a going concern perspective include:

- forecast capital and liquidity throughout the transformation timeline, including the Bank's approach and assumptions within these forecasts and sensitivities to these
- capital and liquidity stress scenarios, as well as escalation paths to invoke any recovery actions that might be required in a such a stress event
- the quantification of any potentially adverse impacts of customer behaviour and the timing of repayment of external funding
- risk management, including the Bank's approach to identifying, managing and monitoring risks to the successful delivery of activities required to execute the solvent transition as we exit core banking and dedicated programme risk assurance activities
- the identification of barriers to successfully execute the plan with necessary corresponding actions in place to remove them.

Analysis of the above concludes the Directors are comfortable in the ability of the Bank to complete our transformation journey in a safe and controlled manner on a solvent basis. The Directors intend to surrender the banking licence from the Sainsbury's Bank entity and retain permissions required for the 'go forward' business of financial services commission products and other arrangements in support of the Sainsbury's Group. Accordingly, the Directors currently have no intention to liquidate the company.

Consequently, the going concern basis continues to be appropriate in preparing the financial statements.

The preparation of financial statements in conformity with the requirements of the Companies Act 2006 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.

The risk management framework as described in the strategic report on page 22 is considered adequate in managing liquidity and other key risks in the current environment including managing the elevated risks following the change in strategy. The Bank continues to maintain its strong capital and liquidity position and has also been subject to review and challenge by the PRA as part of its remit as lead regulator of the Bank. Further information on the key financial risks of the business can be found in note 32.

## 1. Basis of Preparation *(continued)*

### Foreign currencies

These financial statements are presented in sterling which is the Bank's functional and presentation currency. Foreign currency transactions are translated into sterling at the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities are translated at financial position date exchange rates. Exchange differences arising are recognised in the income statement.

### Classification and measurement of financial instruments

The Bank classifies all of its financial assets based on the business model for managing the assets and the assets' contractual terms, measured at either:

- Amortised cost,
- Fair value through other comprehensive income (FVOCI), or
- Fair value through profit and loss (FVPL)

To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

The business model assessment reflects how the Bank manages the risks relating to the underlying financial assets, including whether the Bank's principal objective is to collect the contractual cashflows arising from the instruments (amortised cost), to sell the financial instruments (FVPL) or a combination thereof (FVOCI).

The Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as how performance is reported to the entity's key management personnel, the way that risks are managed, how managers of the business are compensated and the expected frequency, value and timing of sales are also important aspects of the Bank's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

As a second step of its classification process, where the business model involves the collection of contractual cashflows, the Bank assesses the contractual cashflow characteristics of financial assets to identify whether they can be considered solely payments of principal and interest (the SPPI test).

In light of the portfolio sales of the personal loans and credit cards portfolios, the Bank has considered whether any changes to the business model assessment exist under IFRS 9 and have concluded the principal objective of the Bank has changed from collection of contractual cashflows to realise value through the sale of the portfolio effective June 2024 when the sale was agreed. The Bank is not required to reclassify the financial assets from amortised cost to FVPL until the reclassification date, which is the first day of the first reporting period following the change in business model, and as a result the Bank continued to classify the financial assets at amortised cost at 28 February 2025.

*Amortised cost*

Financial assets that are principally held for the collection of contractual cashflows which pass the SPPI test are classified as amortised cost. Initial recognition is at fair value and subsequent measurement is at amortised cost, using the effective interest rate method, less provision for impairment as described in the impairment section below.

*Fair value through other comprehensive income*

Financial assets that are held for both the purpose of collecting contractual cashflows and to sell which pass the SPPI test are classified as FVOCI. Initial recognition and subsequent measurement are at fair value, with movements in fair value being recognised through OCI. Interest income is measured using the effective interest rate method and impairment gains and losses are recognised in the income statement.

*Fair value through profit and loss*

Financial assets that do not meet amortised cost or FVOCI criteria are classified as FVPL.

*Equity instruments*

Upon initial recognition, the Bank occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of Equity under IAS 32 *Financial instruments: Presentation* and are not held for trading. Such classification is determined on an instrument-by-instrument basis. Gains and losses on these equity instruments are never recycled to profit or loss. Dividends are recognised in profit or loss as other operating income.

Where this election is not applied equity instruments are measured at FVPL.

## 1. Basis of Preparation *(continued)*

*Financial liabilities*

Other than derivative financial liabilities, all of the Bank's financial liabilities are recognised at amortised cost. Derivatives are classified as FVPL.

**Standards and interpretations effective for the Company in these financial statements:**

No new standards or interpretations became effective in the period or in the prior year that have a material impact on the Bank.

**Standards and interpretations effective for the Company in future periods:**

No new standards, issued by the IASB but not yet effective, are expected to have a material impact on the Bank's financial statements in future periods.

## 2. Material accounting policies and judgements

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, most critically in respect of impairment losses on loans and advances, effective yield and provisions.

Judgements and estimates are evaluated regularly and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Any revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

All accounting policies material to the Bank's financial statements are included within each respective line item's disclosure note. Accounting policies relating to immaterial transactions, events or conditions are themselves immaterial and therefore not disclosed.

In assessing the Bank's judgements and sources of estimation uncertainty, consideration has been given to the impact of climate change risk on these. Climate change risks do not have any impacts on the Bank's judgements or sources of estimation uncertainty.

Consideration has also been given to the judgements and estimates arising from the strategic change development and portfolio sales arising in the year.

Key judgements have included the classification of costs as non-underlying items (Note 9), provisioning (Note 28) and IFRS 5 fair value adjustments resulting from recognition of assets as held for sale.

**Impairment of loans and advances**

Impairment loss models involve the estimation of future cash flows of financial assets, based on observable data at the financial position date and historical loss experience for assets with similar credit risk characteristics. This will typically take into account the level of arrears, security, past loss experience and default levels.

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 with the most material assumption being around expected loss rates.

The Bank has an Independent Model Oversight function who periodically validate the performance of IFRS 9 models including methodology and predictive accuracy. Monitoring is undertaken at Model Risk Committee (MRC) on a monthly basis with actions put in place to remediate any deficiencies.

*Significant increase in credit risk (SICR)*

The Bank determines whether there has been a significant increase in credit risk by reference to quantitative thresholds, qualitative indicators and has also chosen to adopt the rebuttable backstop presumption that credit risk has significantly increased if contractual payments are more than 30 days past due.

Quantitative thresholds have been determined that when the PD of an instrument as at the reporting date has increased to greater than a specified multiple of the origination PD, a significant increase in credit risk is deemed to have occurred. Qualitative tests are based around selective credit origination policy rules. In addition to variable risk appetite metrics, certain rules are in place at account origination for Loans and Credit Cards in order to decline accounts that may demonstrate factors outside of risk appetite that are not yet reflected in PD. At the reporting date, if an account satisfies any of these policy decline rules that it had not at the point of origination, it will be considered to have significantly increased in credit risk.

There is no probationary period applied in respect of accounts that cure from stage 2 to stage 1. Transfer criteria have been subject to extensive analysis to ensure that they appropriately reflect the flow of accounts from origination to default so as to maximise the number of accounts that flow through the stages and minimise accounts that jump directly from stage 1 to stage 3, or that fail to enter stage 3 from stage 2.

**2. Material accounting policies and judgements (continued)**

The Bank has applied the low credit risk exemption in respect of its high-quality treasury portfolio held for liquidity purposes. This exemption permits low credit risk loans (i.e. those considered investment grade) to remain in stage 1 without an assessment of significant increase in credit risk.

*Definition of default*
The Bank's definition of default is used in determining those accounts classified as stage 3 (i.e. credit impaired). The Bank has chosen not to rebut the backstop presumption prescribed by IFRS 9 that where an account is 90 days or more past its due date then default has occurred.

The Bank has also defined a number of unlikeliness to pay criteria that result in an account being deemed to have defaulted. These include:

- Where operational collections activities have been exhausted on accounts that are less than 90 days past due and the account is subject to recoveries processes
- If any forbearance has been granted on the account
- Where the customer is subject to insolvency proceedings
- Where the customer is deceased

Where an account no longer meets any of the default criteria, such as by bringing payments back up to date, the Bank will continue to consider the account as being in default for the probation period of 24 months from the date when it last met the definition of default.

*IFRS 9 staging and management of credit risk*
The Bank's staging criteria as outlined above is used to monitor credit risk performance at various management forums, and board-level governance including Audit Committee and Board Risk Committee. Key metrics such as coverage ratio and proportion of balances in each stage are monitored for directional movements, albeit there are no explicit risk appetite thresholds in this area.

*Write off*
Loans and advances to customers are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to write off. Subsequent recoveries of amounts previously written off result in impairment gains recorded in the income statement.

*Expected lifetime*
For the purposes of considering the lifetime probability of default, the expected lifetime of a financial asset is the contractual term where this is fixed within the contract, or in the case of revolving products such as credit cards a behavioural life is determined by reference to historic trends.

*Portfolios*
The Bank calculates its ECL on a portfolio-based approach (collective assessment). The different portfolios the Bank has are Loans, and Credit Cards. The products within the different portfolios share key characteristics such as term, interest rate, repayment expectations and operational processes which drive related assumptions within ECL models.

*Modified financial assets*
When the contractual cash flows of a financial asset have been renegotiated or modified and the financial asset was not derecognised, its gross carrying amount is recalculated as the present value of the modified contractual cash flows, discounted at the original effective interest rate with a gain or loss recognised in the income statement. In practice the renegotiation of lending is linked to an impairment event (forbearance) and any related gains or losses are reflected in the impairment charge recognised in the income statement.

*Overlays and Post model adjustments (PMAs)*
Overlays and PMAs are short-term increases or decreases to the ECL at either a customer or portfolio level to account for items that have not been fully reflected in the existing models. Consistent with the most recent recommendations of the Taskforce on Disclosures about Expected Credit Losses (DECL), the Bank has defined overlays as adjustments made outside of the granular account level ECL calculation and PMAs as being calculated at granular account level, most often in respect of known data or model limitations.

Internal governance is in place to approve and monitor overlays and PMAs regularly and to reduce the reliance on them through model recalibration or redevelopment, as appropriate.

Overlays and PMAs applied in estimating the reported ECL at 28 February 2025 are set out in the following table. The table includes adjustments in relation to data and model limitations. It shows the adjustments applicable to the scenario-weighted ECL numbers.

## 2. Material accounting policies and judgements *(continued)*

| | 2025 £m | 2024 £m |
|---|---|---|
| Economic overlays | - | 2 |
| Operational PMAs | (3) | (13) |
| **Total** | **(3)** | (11) |

The proportion of net overlays and PMAs for the Bank is 2% of the total ECL provision at 28 February 2025 (2024: 7%).

Economic overlays are included where management judge the underlying models do not respond adequately to the economic scenarios. The overlay held at 29 February 2024 for the risk of higher interest rates was released during the current financial year as the likelihood of a significant step change in interest rates has reduced in our forecasts, and we have seen no significant deviation between observed defaults versus model predictions as a result of the rate increases over recent years.

The majority of the operational PMAs relate to specific model limitations that have been identified, analysed and manually corrected for. The year-on-year reduction of £10m in operational PMAs is primarily due to the release of PMAs following the implementation of permanent model fixes.

For all PMAs there will always be an attempt to use existing IFRS 9 models as a base and amend assumptions and methodology as required to determine the level of impact a specific change would make. This change in ECL is recognised as a PMA until such time as those changes are implemented into production and the PMA can be removed.

*Management use of ECL information*

ECL forecasts and sensitivities are used in assessing the expected returns on different forms of lending and forms part of the assessment of whether lending should be offered. Default rates for certain subgroups within a portfolio drive forecast and estimates when investigating the risks of lending changes within that portfolio.

ECL information is a key driver of financial performance and key performance drivers are regularly included in internal financial reporting. Where relevant, plausible alternative scenarios and assumptions will be presented as sensitivities to the current position or forecast to enable informed decisions on lending and provisioning to be made.

*Macro-economic scenarios*

IFRS 9 requires that the measurement of ECL should reflect an unbiased and probability weighted amount that is determined by evaluating a range of forward-looking economic assumptions. The Bank has engaged an external supplier to provide economic forecasts which are subject to review, challenge and approval through the Bank's governance processes.

The ECL models utilise 4 scenarios (2024: 4 scenarios) including a 'base case' scenario considered to be the most likely outcome together with an upside, downside and severe downside scenario. The base case has been assigned a probability weighting of 40% with the upside, downside and severe downside scenarios weighted 30%, 25% and 5% respectively (2024: base scenario 40%, upside, downside and severe downside scenarios were 30%, 25% and 5% respectively).

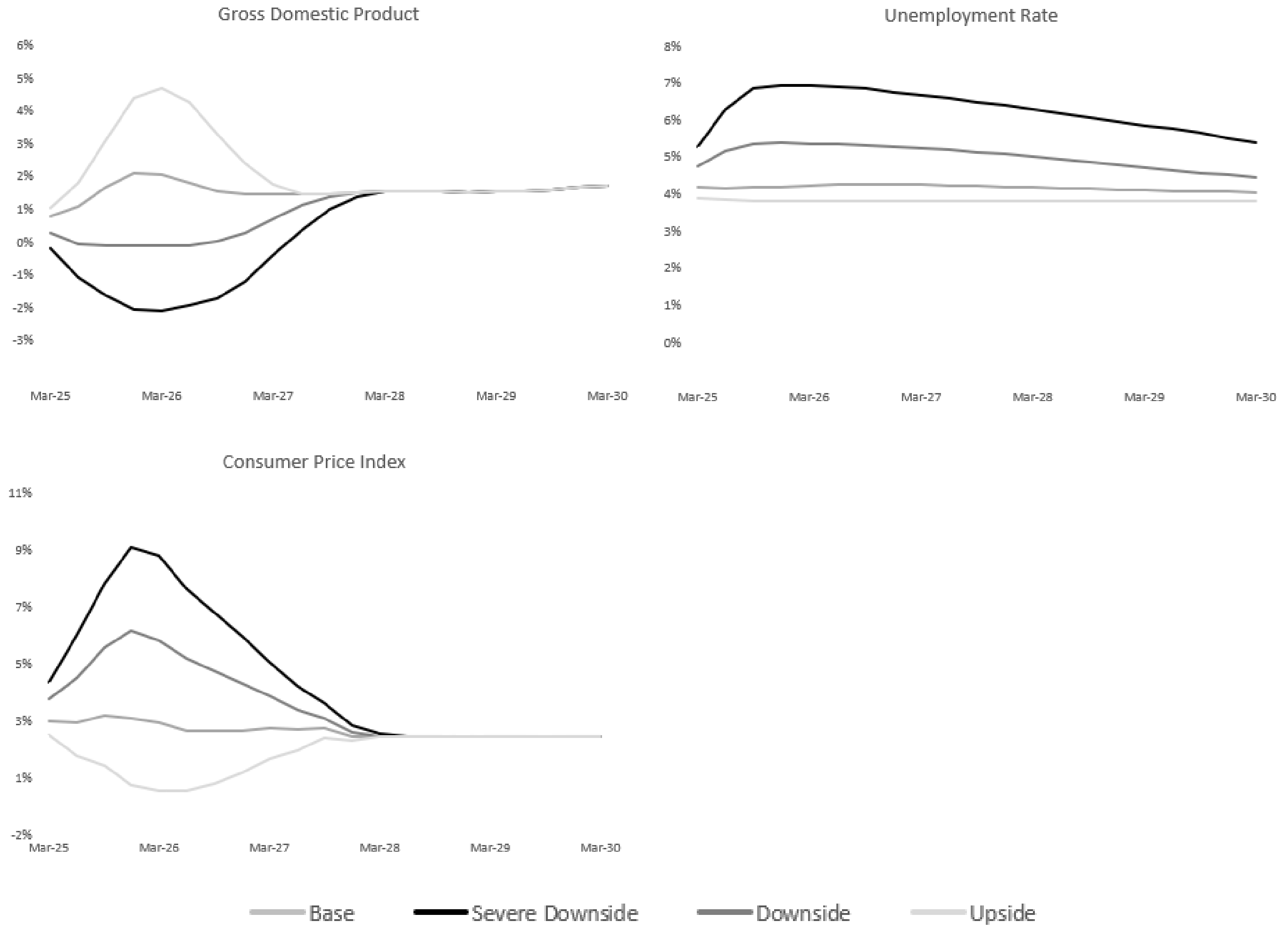
Each portfolio, when modelled for IFRS 9, showed different characteristics with predictive tendencies and this is the key driver for using different economic variables across portfolios. Unsecured products place greater weighting on unemployment rates, GDP and inflation.

Approval and governance of the scenarios is via the Bank's RCRC & ALCo, with ALCo approving the appropriate scenario weightings to be applied to ensure the most appropriate reflection of our views on future variables, such as unemployment and CPI rates.

Beyond the 5-year forecast period, forecast economic variables are assumed to revert to long term averages. They are applied in ECL models for the remaining residual behavioural life of the related financial instruments, which can also exceed 5 years.

The graphs below plot the data for Unemployment, GDP and Consumer price growth for each of the 4 scenarios used in our IFRS 9 models:

## 2. Material accounting policies and judgements *(continued)*




The most material economic variables to the calculation of ECL are unemployment and GDP.

Our base case scenario envisages a peak unemployment of 4.3% in Q1 2026 before reverting to the long-term average of 4% in Q4 2030 and a GDP low point of 0.8% in Q1 2025 before settling at a long-term average of 1.8% by Q1 2030.

The key macro-economic assumptions included in the ECL calculation have also been summarised in the table below (shown as 5-year averages from the reporting date).

## 2. Material accounting policies and judgements *(continued)*

| **Scenario 5 Year Averages** | **As at 28 February 2025** | | | |
|---|---|---|---|---|
| | **Base** | **Upside** | **Downside** | **Severe Downside** |
| | **%** | **%** | **%** | **%** |
| Unemployment rate | **4.2** | **3.8** | **5.1** | **6.3** |
| Consumer price growth | **2.2** | **1.4** | **3.2** | **4.1** |
| GDP | **1.6** | **2.2** | **0.9** | **0.2** |
| Probability weighting | **40** | **30** | **25** | **5** |
| Sensitivity analysis | | | | |
| Increase (decrease) in gross balance stage allocation under 100% probability weighting: | | | | |
| Stage 1 | **£10.1m** | **£30.3m** | **£(40.9)m** | **£(139.6)m** |
| Stage 2 | **£(10.1)m** | **£(30.3)m** | **£40.9m** | **£139.6m** |
| Increase (decrease) on ECL provision under 100% probability weighting | **£(1.8)m** | **£(5.1)m** | **£6.2m** | **£19.6m** |

| Scenario 5 Year Averages | As at 29 February 2024 | | | |
|---|---|---|---|---|
| | Base | Upside | Downside | Severe Downside |
| | % | % | % | % |
| Unemployment rate | 4.4 | 4.0 | 5.5 | 7.2 |
| Consumer price growth | 2.0 | 1.1 | 3.1 | 4.3 |
| GDP | 1.2 | 1.8 | 0.3 | (0.6) |
| Probability weighting | 40 | 30 | 25 | 5 |
| Sensitivity analysis[1] | | | | |
| Increase (decrease) in gross balance stage allocation under 100% probability weighting: | | | | |
| Stage 1 | £33.6m | £82.1m | £(110.2)m | £(444.0)m |
| Stage 2 | £(33.6)m | £(82.1)m | £110.2m | £444.0m |
| Increase (decrease) on ECL provision under 100% probability weighting | £(4.6)m | £(11.6)m | £13.9m | £51.6m |

[1]The prior year has been adjusted for deconsolidation

The sensitivity disclosed above is based on the modelled ECL and does not include overlays and PMAs.

Further explanation of the inputs, assumptions, estimation techniques used at the reporting date in measuring ECLs are set out at note 15.

## 2. Material accounting policies and judgements *(continued)*

**Effective interest rate**

In calculating the effective interest rate of a financial instrument, the Bank takes into account all amounts that are integral to the yield of a financial instrument as well as incremental transaction costs. In the case of loans and advances to customers significant judgement is applied in estimating the effect of various factors, including future customer transactional and repayment behaviours, on future cash flows. As at 28 February 2025 the carrying value of the EIR asset for the Bank was £37m (2024: £68m).

Estimates are based on historical experience from similar product types. Management considers that the most material judgements are the post promotional yield and the repayment rate on the Bank's credit card portfolio.

To the extent that post promotional yield were to shift by +/- 100bps, the value of EIR asset would change by +/- £5m. To the extent that the repayment rate was to increase by +/-5% the value of the EIR asset would change by +/- £1m.

**Provisions for Onerous Contracts and Supplier Restructuring**

Provisions for onerous contracts are recognised in line with IAS 37 where the Bank believes that the unavoidable costs of meeting or novating a contract exceed the economic benefits expected to be received under it. In assessing this the Bank is required to use the best estimate of the benefits to be realised in respect of the contracts, as opposed to requiring a committed plan that renders contracts onerous. The unavoidable costs reflect the lower of the incremental costs of fulfilling the contract and any penalties arising from failure to fulfil it. Further detail can be found in Note 28.

**Restructuring Provisions**

A restructuring provision is recognised when the Bank has developed a detailed formal plan and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring.

**IFRS 5 Non-current assets (or disposal groups) held for sale**

IFRS 5 requires a non-current asset (or disposal group) to be classified as held for sale if it's carrying amount will be recovered principally through a sale transaction rather than through continuing use. To achieve this, the asset must be available for immediate sale in its present condition, the sale must be highly probable, management must be committed to a plan to sell with an active programme to locate a buyer initiated and the assets must be actively marketed for sale at a reasonable price in relation to fair value.

Non-current assets (or disposal groups) should be measured at the lower of its carrying amount and fair value less costs to sell (FVLCS). Immediately before the initial classification of an asset (or disposal group) as held for sale, the carrying amounts of all assets will be remeasured in accordance with applicable IFRS. For example, financial assets that are measured in accordance with IFRS 9 however form part of a disposal group will continue to be measured in accordance with IFRS 9 and subsequently remeasured as part of a disposal group under IFRS 5.

Assets (or disposal groups) that meet the criteria to be classified as held for sale are presented separately in the statement of financial position with no requirement to re-present prior periods.

**IFRS 5 discontinued operations**

A discontinued operation is a component of an entity which is classified as held for sale in accordance with IFRS 5 and is part of a single co-ordinated plan to dispose of a separate major line of business. Discontinued operations should be disclosed as a single amount in the statement of comprehensive income as the total of the post-tax profit or loss of discontinued operations and the post-tax gain or loss recognised on the measurement to fair value less costs to sell. There is also requirement to disclose the net cash flows attributable to the discontinued operation and the amount of income from both continuing and discontinued operations attributable to the owners of the parent. This analysis may be presented within the statement of comprehensive income or in the notes to the financial statements. Entities should re-present disclosures for prior periods in the financial statements.

**Capitalisation and carrying value of intangible assets**

Capitalisation of intangible assets involves an assessment as to the appropriateness of costs that meet the qualifying criteria of IAS 38.

Intangible assets are assessed to ensure they continue to meet the criteria of IAS 38, and for indicators of impairment, at each statement of financial position date or more frequently where required by changes in circumstances.

Where impairments are indicated, the carrying values of fixed assets are written down by the amount of the impairment and the charge is recognised in profit or loss in the period in which it occurs. A previously recognised impairment charge on an intangible asset may be reversed in full or in part where a change in circumstances leads to a change in the estimates used to determine its recoverable amount. The carrying value of the asset will only be increased to the carrying value at which it would have been held had the impairment not been recognised.

### 3. Prior year re-presentations

Following the announcement on 20 June 2024 that the Bank had entered into an agreement to sell its personal loan, credit card and retail deposit portfolios to NatWest Group and the announcement on 25 September 2024 of the sale of the ATM assets to NoteMachine, these operations have been classified as discontinued in the current year.

The comparative figures in the income statement have therefore been restated in line with the current year presentation of discontinued operations. More detail on discontinued operations can be found in Note 14.

In addition, the Bank has taken the exemption from preparing consolidated financial statements under the terms of section 400 of the Companies Act 2006. Accordingly, the prior year comparatives have been re-presented to reflect the results of the Bank only.

The impacts of this re-presentation on the comparative figures for the year ended 29 February 2024 are shown below.

| 2024 | **As previously reported £m** | Less: De-consolidation adjustments £m | Discontinued Operations £m | **Re-presented £m** |
|---|---|---|---|---|
| Interest income | **460** | (133) | (215) | **112** |
| Interest expense | **(192)** | 29 | 89 | **(74)** |
| **Net interest income** | **268** | (104) | (126) | **38** |
| Fees and commissions income | **145** | (57) | (55) | **33** |
| Fees and commissions expense | **(12)** | - | 1 | **(11)** |
| **Net fees and commissions income** | **133** | (57) | (54) | **22** |
| Other operating income | **34** | 25 | - | **59** |
| **Total income** | **435** | (136) | (180) | **119** |
| Administrative expenses | **(296)** | 62 | 165 | **(69)** |
| Impairment of Intangible and Tangible assets | | | | |
| Property, plant and equipment | **(9)** | - | 9 | **-** |
| Intangible assets | **(162)** | 37 | 105 | **(20)** |
| Depreciation and amortisation | | | | |
| Property, plant and equipment | **(2)** | 1 | 1 | **-** |
| Intangible assets | **(30)** | 6 | 12 | **(12)** |
| **Operating expenses** | **(499)** | 106 | 292 | **(101)** |
| Impairment losses on financial assets | **(102)** | 41 | 59 | **(2)** |
| Realised gains on financial instruments | **1** | - | - | **1** |
| **Loss before taxation** | **(165)** | 11 | 171 | **17** |
| Analysed as: | | | | |
| Underlying profit before tax | **17** | 11 | 14 | **42** |
| Non-underlying items | **(182)** | - | 157 | **(25)** |
| | **(165)** | 11 | 171 | **17** |
| **Taxation** | **39** | - | (43) | **(4)** |
| **Loss for the financial year from continuing operations** | **(126)** | 11 | 128 | **13** |
| Profit / (loss) after tax from discontinued operations | **3** | - | (128) | **(125)** |
| **Loss for the financial year attributable to the owners of the Bank** | **(123)** | 11 | - | **(112)** |

## 4. Net interest income

| | |
|---|---|
| **Accounting policy** | Interest income and expense in the income statement is determined using the effective interest rate method. This calculation takes into account all amounts that are integral to the yield as well as incremental transaction costs. The effective interest rate is the rate that discounts the expected future cash flows over the expected life of the financial instrument to the net carrying amount of the financial asset or liability at initial recognition.<br><br>The effective interest rate of a financial asset is calculated on initial recognition and is applied to the gross carrying amount of the asset. For financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset net of impairment. If the asset is no longer credit impaired, then the calculation of interest income reverts to the gross basis.<br><br>Interest income calculated using the effective interest method presented in the income statement includes interest on financial assets and financial liabilities measured at amortised cost, at fair value through other comprehensive income and the effective portion of hedge accounting instruments. Interest expense presented in the statement of profit or loss includes financial liabilities measured at amortised cost and the effective portion of hedge accounting instruments for derivatives in a hedge accounting relationship.<br><br>Interest income and expense on other financial assets and financial liabilities at FVPL are presented in fair value gains on financial instruments (see note 8).<br><br>Interest expense on lease liabilities is included within Interest expense on customer accounts, deposits and borrowings. |

| Continuing operations | **2025 £m** | 2024 £m Re-presented[1] |
|---|---|---|
| Interest income calculated using the effective interest rate method: | | |
| Interest income on financial assets measured at amortised cost[2] | **69** | 73 |
| Interest income on financial assets measured at FVOCI | **76** | 39 |
| Interest income on derivatives | **-** | - |
| Other interest income | **-** | - |
| Interest receivable | **145** | 112 |
| | | |
| Interest expense on customer accounts, deposits and borrowings | **(84)** | (61) |
| Interest expense on subordinated liabilities | **(13)** | (13) |
| Interest expense on derivative liabilities | **(2)** | - |
| Interest payable | **(99)** | (74) |
| | | |
| **Net interest income** | **46** | 38 |

[1] The prior year has been re-presented following the classification of discontinued operations and adjusted for deconsolidation. Refer to notes 3 and 14.

[2] Included within the figures above is £41m of interest earned in the year ended February 2025 (2024: £35m) relating to an intercompany loan to the Bank's subsidiary Home Retail Group Cards Services. This loan was repaid on 28th February following that businesses' sale of the AFS Card portfolio. No such substantial loan to or associated income from subsidiaries is anticipated in the future. The income is presented with Continuing Operations as it does not meet the technical criteria to be considered part of Discontinued Operations.

## 5. Net fees and commissions income

| | |
|---|---|
| **Accounting policy** | Fees and commissions that are not integral to the effective interest rate calculation primarily relate to credit card fees, ATM interchange fees, insurance introduction commission and warranty commission receivable from insurance partners. These are recognised in the income statement on an accruals basis as performance obligations are satisfied.<br><br>*Banking income*<br>The Bank earns income on credit card and ATM interchange fees, and from transaction-based fees which are charged to the customer's account. The revenue relating to transactions is recognised at the point in time when the transaction takes place.<br><br>*Insurance income*<br>The Bank earns commission income from the sale of insurance policies underwritten by a third party. This commission income is recognised as policies are sold, in line with the satisfaction of performance obligations to the customers.<br><br>*Contract balances*<br>Contract assets relate to the incremental costs of obtaining a contract with a customer. These costs are capitalised and deferred over the period to which performance obligations are satisfied and revenue is earned. Judgement is applied by management when determining what costs qualify to be capitalised, in particular whether these costs are incremental and whether they are expected to be recoverable. |

*Disaggregation of fee and commission income*

In the following table, fee and commission income from contracts with customers in scope of IFRS 15 is disaggregated by major type of service.

| Continuing operations | **2025 £m** | 2024 £m Re-presented[1] |
|---|---|---|
| Banking income | **-** | - |
| Insurance income | **31** | 32 |
| Other income | **1** | 1 |
| Total fees and commission income | **32** | 33 |
| Fees payable | **(9)** | (11) |
| Total fees and commission payable | **(9)** | (11) |
| **Net fees and commission income** | **23** | 22 |

[1] The prior year has been re-presented following the classification of discontinued operations and adjusted for deconsolidation. Refer to notes 3 and 14.

Capitalised costs incurred to obtain contracts in the year were £2m (2024: £3m) and the unamortised balance as at the reporting date, included within other assets in note 23 was £4m (2024: £4m). These costs relate to incremental costs of acquiring insurance contracts with customers.

The amount of amortisation recognised in the year relating to capitalised costs to obtain contracts with customers was £3m (2024: £4m).

## 6. Other operating income

| | |
|---|---|
| **Accounting policy** | Other operating income comprises dividend income from subsidiaries and the margin from the sale of Travel Money, representing the difference between the purchase price and the selling price, is recognised on the effective date of the customer transaction. |

| Continuing operations | 2025 £m | 2024 £m |
|---|---|---|
| Travel Money income | **38** | 34 |
| Dividend income | **30** | 25 |
| **Other operating income** | **68** | 59 |

## 7. Administrative expenses

| Continuing operations | 2025 £m | 2024 £m Re-presented[1] |
|---|---|---|
| Staff costs: | | |
| Wages and salaries | **(41)** | (28) |
| Social security costs | **(4)** | (3) |
| Pension costs | **(1)** | (1) |
| Share-based payments | **(3)** | (1) |
| | **(49)** | (33) |
| Other operating costs | **(39)** | (36) |
| | **(88)** | (69) |

[1] The prior year has been re-presented following the classification of discontinued operations and adjusted for deconsolidation. Refer to notes 3 and 14.

Staff costs and other operating costs on continuing operations include £8m (2024: £3m) of non-underlying items as described in note 9.

See note 10 for further details on employee arrangements.

## 8. Gains on financial assets and liabilities

| Continuing operations | 2025 £m | 2024 £m Re-presented[1] |
|---|---|---|
| Realised gains on derecognition | **1** | 1 |

[1] The prior year has been re-presented following the classification of discontinued operations and adjusted for deconsolidation. Refer to notes 3 and 14.

Further detail on the Bank's hedging policies is provided in note 18.

Finance fair value movements relate to net fair value movements on derivative financial instruments not designated in a hedging relationship and any hedge ineffectiveness that is expected to amortise over the remaining life of the hedged items.

## 9. Non-underlying items

In order to provide shareholders with additional insight into the year-on-year performance of the business, underlying profit measures are provided to supplement the reported IFRS numbers and reflect how the business measures performance internally. These adjusted measures exclude items recognised in reported profit, which, if included, could distort comparability between periods.

Determining which items are to be adjusted requires judgement, in which the Bank considers items which are significant either by virtue of their size and/or nature, or that are non-recurring in that they do not relate to the ongoing business. The same assessment is applied consistently to any reversals of prior non-underlying items. Underlying profit is not defined by IFRS and therefore may not be directly comparable with the 'adjusted' profit measures of other companies.

Non-underlying items relating to continuing operations are analysed below and those relating to discontinued operations are analysed in note 14.3.

**Strategic review of the financial services division**
Further to the announcement in January 2024 regarding the move to a third-party distributed model and a phased withdrawal from the core banking business, the Bank has incurred significant costs in executing this strategy. Such costs that are directly attributable to the core banking and ATM sales are reported in discontinued operations and analysed in note 28 and those that are not directly attributable to those sales are reported in continuing operations and analysed below.

The key non-underlying items from continuing operations relating to the strategic review are impairment of non-financial assets (comprising mainly computer software for which the level of activities it was designed to fulfil is now significantly curtailed in terms of both volume and period of use), onerous contracts and employee bonus, retention and severance costs.

**Analysis of non-underlying items (continuing operations)**

| | 2025 £m | 2024 £m Re-presented[1] |
|---|---|---|
| **Strategic review of the financial services division** | | |
| Impairment of non-financial assets | - | (20) |
| Onerous contracts and supplier restructuring[2] | (7) | (2) |
| Employee costs | (8) | (3) |
| | (15) | (25) |
| Income tax credit | 3 | - |
| **Total non-underlying items from continuing operations** | **(12)** | **(25)** |

[1] The prior year has been re-presented following the classification of discontinued operations and adjusted for deconsolidation. Refer to notes 3 and 14.
[2] Comprises long dated IT contracts where anticipated early termination will result in the unavoidable costs of meeting the obligations under a contract exceeding the economic benefits expected to be received under it. Costs represent the lower of the costs of fulfilling contracts and the costs of terminating.

## 10. Employees

The average monthly number of colleagues working on the Bank's operations during the year is set out below inclusive of employees within the scope of discontinued operations within the reporting period.

| | 2025 Number | 2024 Number Re-presented[1] |
|---|---|---|
| Full time | **886** | 1,087 |
| Part time | **894** | 927 |
| Total employee numbers | **1,780** | 2,014 |
| **Full time equivalent** | **1,351** | 1,579 |

[1] The prior year has been adjusted for deconsolidation.

Colleague costs are disclosed in administrative expenses in note 7.

Colleagues are eligible to join the defined contribution pension arrangements of J Sainsbury plc. These plans are also used where colleagues have been automatically enrolled into a pension. Contributions paid by the Bank are based on grade and the amount that the colleague chooses to pay or whether they have been automatically enrolled.

The pension cost charge for the year (see note 7) represents contributions payable by the Bank and was entirely in relation to the defined contribution schemes.

## 11. Directors' emoluments

| | 2025 £m | 2024 £m |
|---|---|---|
| Emoluments | **3.6** | 2.6 |
| Share-based payments | **1.3** | 1.6 |
| | **4.9** | 4.2 |
| Highest paid director: | | |
| Emoluments | **1.8** | 1.2 |
| Share-based payments | **0.3** | 1.0 |
| | **2.1** | 2.2 |

The Directors' positions and remuneration status are set out in the Directors' report on page 33. The emoluments set out above include those Directors who held office during the year.

All executive Directors were employed and remunerated by the Bank.

During the year three Directors (2024: two) received share awards under J Sainsbury plc share incentive schemes reflective of their qualifying services with the Bank. Two Directors (2024: two) exercised share options in the year including the highest paid Director. Further detail of the relevant incentive plans is outlined in note 36.

During the year one Director (2024: one) accrued retirement benefits in respect of qualifying services under defined contribution schemes. No directors (2024: none) were paid a sum following retirement in the year.

Payments were made to independent Non-Executive Directors who served during the year and are included in the above details. There was no recharge to the Bank in respect of emoluments for Non-Executive Directors who were employed by J Sainsbury plc as their emoluments are deemed to be wholly attributable to services to the parent company. See Directors report on page 33 for further details.

## 12. Profit before taxation

| Continuing operations | 2025 £m | 2024 £m Re-presented[1] |
|---|---|---|
| Profit before taxation is stated including the following items of (expense): | | |
| Impairment loss on non-financial assets | **-** | (20) |
| Auditors' remuneration: | | |
| Statutory audit of the Bank | **(1)** | (1) |

[1] The prior year has been re-presented following the classification of discontinued operations and adjusted for deconsolidation. Refer to notes 3 and 14.

There were no other audit-related assurance services performed by the Statutory Auditors during the year (2024: £0.01m assurance services for interim profit verification).

## 13. Taxation

| | |
|---|---|
| **Accounting policy** | Taxation on the profit or loss for the year comprises current and deferred tax.<br><br>Current tax is accounted for on the basis of tax laws enacted or substantively enacted at the statement of financial position date. Current tax is charged or credited to the income statement, except when it relates to items charged to equity or other comprehensive income.<br><br>Deferred tax is accounted for on the basis of temporary differences arising from differences between the tax base and accounting base of assets and liabilities.<br><br>Deferred tax is recognised for all temporary differences, except to the extent where it arises from the initial recognition of an asset or a liability in a transaction that is not a business combination and, at the time of transaction, affects neither accounting profit nor taxable profit. It is determined using tax rates (and laws) that have been enacted or substantively enacted at the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.<br><br>Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred tax assets and liabilities are offset against each other when there is a legally enforceable right to set-off current taxation assets against current taxation liabilities and it is the intention to settle these on a net basis. |

| Continuing operations | 2025 £m | 2024 £m Re-presented[1] |
|---|---|---|
| UK corporation tax on profit for the year | **3** | 6 |
| Current tax | **3** | 6 |
| Origination and reversal of temporary differences | **2** | (2) |
| Deferred tax | **2** | (2) |
| **Total tax charge** | **5** | **4** |

[1] The prior year has been re-presented following the classification of discontinued operations. Refer to notes 3 and 14.

### 13. Taxation *(continued)*

Differences between profit before tax multiplied by the effective corporation tax rate for the year of 25% (2024: 24.5%) and the income tax expense recognised in the income statement are explained below.

| Continuing operations | **2025 £m** | 2024 £m Re-presented[1] |
|---|---|---|
| Profit before taxation from continuing operations | **48** | 17 |
| Tax on ordinary activities at 25% (2024: 24.5%)[2] | **12** | 4 |
| Effects of underlying items: | | |
| Change in Corporation Tax rate | **-** | - |
| Rate differences on losses carried back | **-** | - |
| Non-deductible expenses | **(7)** | - |
| Adjustment in respect of prior years | **-** | - |
| **Total income tax charge recognised in the income statement** | **5** | 4 |

[1] The prior year has been re-presented following the classification of discontinued operations. Refer to notes 3 and 14.
[2] The UK corporation tax rate increased from 19% to 25% on 1 April 2023

Deferred income tax assets have been recognised in respect of all income tax losses and other temporary differences giving rise to deferred income tax assets because it is probable that these assets will be recovered. The Bank expects to recover the majority of these assets by surrendering the underlying losses to other J Sainsbury plc group companies. In the year, the Bank surrendered losses to other J Sainsbury plc group companies, with £4m (2024: £4m) tax value of losses surrendered to the Bank's subsidiary, Home Retail Group Card Services Limited and the remaining £35m (2024: £22m) tax value of losses surrendered to other group companies outside of the Financial Services Segment. These surrendered losses include those from Discontinued Operations.

### 14. Discontinued operations

| | |
|---|---|
| **Accounting policy** | A discontinued operation is a component of the Bank which represents a significant line of business which has either been disposed or is classified as held for sale. Classification as a discontinued operation occurs on disposal or earlier if beneficial title and risk has transferred to the purchaser.<br><br>Where the sale of a component of the Bank is considered highly probable and the business is available for immediate sale in its present condition, it is classified as held for sale. Asset and liabilities associated with assets held for sale are measured at the lower of carrying amount and fair value less costs to sell. |

In January 2024 the J Sainsbury plc announced it had completed its strategic review of the Financial Services division, culminating in a single co-ordinated plan to move to a third-party distributed model. Owing to the complex nature of assets and liabilities that make up the separate major lines of business, this will result in a phased withdrawal with components completing at various stages.

On 20th June 2024, J Sainsbury's announced the Bank had entered into an agreement for the sale of personal loan, credit card and retail deposit portfolios to NatWest Group, with an expected sale completion in the first half of calendar year 2025. The sale is subject to court approval of a Part VII transfer under the Financial Services and Markets Act 2000, as well as regulatory approval. Management believes legal and regulatory approval to be highly likely and as a result, a completed sale is highly probable within 12 months. The assets and liabilities of the disposal group are presented as held for sale as at 28 February 2025 and the related results have been presented separately as discontinued operations in the income statement, statement of comprehensive income and cash flow statement in accordance with IFRS 5. The financial assets of the disposal group continue to be measured at amortised cost in accordance with IFRS 9, whilst the disposal group is measured at fair value less costs to sell in accordance with IFRS 5. Assets of the disposal group held for sale have been recognised net of associated costs of disposal.

On 25 September 2024 the Bank announced the sale of its ATM estate assets to NoteMachine and the Sainsbury's Group entered into a partnership for the ongoing provision of ATM services, providing Sainsbury's with a shared commission income stream while further simplifying its banking business and reducing costs. The transfer of assets is expected to be completed by May 2025. Under IAS 36, an entity must assess whether there is any indication that an impairment loss recognised in prior periods no longer exists. The ATM sale announcement acts as such an indicator for impairment reversal. ATM assets fully impaired in prior reporting periods have been partially reversed in the current year (see note 21). The associated assets were classified as held for sale as at 28 February 2025 and operations presented as discontinued in accordance with IFRS 5.

## 14. Discontinued operations *(continued)*

The Bank has classified its core banking business and ATM estate business as discontinued operations under the requirements of IFRS 5 including all directly attributable costs / income. The cost of central departments supporting these businesses and treasury assets and liabilities which cannot be directly attributed to the sold portfolios are included, under IFRS 5, within continuing operations. Also included within continuing operations is interest received on the intercompany loan to HRG Card Services which was repaid on 28th February 2025, this being the mechanism by which lending in that entity prior to its sale of its Argos Card portfolio was funded.

The post tax profit of discontinued operations is presented in a single amount on the face of the Income Statement, and the prior year has also been re-presented on a consistent basis. See Note 3 for further details on re-presentation of prior year comparatives.

On 28 February 2025, the Bank's subsidiary, Home Retail Group Card Services Ltd, completed the sale and transfer of beneficial title of the AFS cards portfolio to NewDay. As part of this sale, the Bank provided a corporate loan of £50m to NewDay in the form of a transferable vendor loan note with a three year term issued on 28 February 2025 by NewDay Group (Jersey) Ltd, the holding company of NewDay Group Holdings S.à r.l. As a result of the strategic change, the Bank has no intention of holding the loan to maturity and accordingly, it was immediately sold, resulting in a loss of £5m. The AFS cards sale is part of the Sainsbury's Group's single strategic and co-ordinated plan to withdraw from core banking which is defined as one of its separate major line of business. Therefore, the loss on the loan note recognised by the Bank is part of the discontinued operations and is included in note 14.4 below.

The Bank disposed of its mortgage portfolio in August 2023, which formed a major line of business and was presented as a discontinued operation in the prior year financial statements and so is also included within the discontinued operations comparative for year ended 29 February 2024. The income statement attributable to discontinued operations is presented below.

### 14.1 Total loss after tax

| Discontinued operations | Note | **2025 £m** | 2024 £m Re-presented[1] |
|---|---|---|---|
| Loss after tax excluding net loss arising from disposals | 14.2 | **(63)** | (120) |
| Net loss after tax arising from disposals | 14.4 | **(71)** | (5) |
| **Loss after tax** | | **(134)** | (125) |
| | | | |
| Of which: | | | |
| Underlying items | | **(23)** | 5 |
| Non-underlying items | 14.3, 14.4 | **(111)** | (130) |
| **Loss after tax attributable to the owners of the Bank from discontinued operations[2]** | | **(134)** | (125) |

[1] The prior year has been re-presented following the classification of discontinued operations and adjusted for deconsolidation. Refer to notes 3 and 14.

[2] Reconciliation between the statutory profit after tax from discontinued operations and the loss before tax inclusive of funding costs and overheads can be found in the alternative performance measures on page 108.

### 14.2 Income statement

| Discontinued operations | **2025 £m** | 2024 £m Re-presented[1] |
|---|---|---|
| Interest income | **134** | 138 |
| Fees and commission income | **45** | 56 |
| Other income | **8** | - |
| **Total income** | **187** | 194 |
| | | |
| Total operating expenses | **(240)** | (295) |
| Impairment losses on financial assets | **(41)** | (59) |
| Realised gains (losses) on financial instruments | **(5)** | - |
| Fair value gains (losses) on financial instruments | **15** | (1) |
| **Loss before tax from discontinued operations and before loss on disposal** | **(84)** | (161) |
| Tax adjustment | **21** | 41 |
| **Loss after tax from discontinued operations and before loss on disposal** | **(63)** | (120) |

[1] The prior year has been re-presented following the classification of discontinued operations and adjusted for deconsolidation. Refer to notes 3 and 14.

[2] Reconciliation between the statutory profit after tax from discontinued operations and the loss before tax inclusive of funding costs and overheads can be found in the alternative performance measures on page 108.

## 14. Discontinued operations *(continued)*

### 14.3 Non-underlying costs

The key non-underlying items from discontinued operations relating to the strategic review are impairment of non-financial assets, additional allowances arising from a reassessment of the effective interest rate applied to the amortised cost of financial assets, strategy programme costs, employee bonus, retention and severance costs and onerous contracts.

**Derivative fair value gains & hedge ineffectiveness**

Under IAS 39 rules for macro portfolio hedging, some of the Bank's hedging derivatives do not qualify, or prove too onerous, to be designated into an effective hedged relationship. In those instances, the interest rate swaps are viewed as trading derivatives under IFRS 9 with any movements in fair value recognised in the income statement, without offset. As a result of the strategic change, the Bank's personal loan hedging derivatives no longer qualify into an effective hedging relationship, with fair value movements recognised in the income statement. This became effective from June 2024 following the agreement of the sale of the portfolios to NatWest Group.

| Discontinued operations | Note | **2025 £m** | 2024 £m Re-presented[1] |
|---|---|---|---|
| **Strategic review of the financial services division** | | | |
| Impairment of non-financial assets | | **-** | (114) |
| Effective Interest Rate adjustment applied to financial assets[2] | | **-** | (21) |
| Onerous contracts[3] | | **(58)** | (15) |
| Employee costs | | **(32)** | (3) |
| Other | | **2** | - |
| **Reversal of ATMs impairment** | 21 | **2** | - |
| **Other Strategic initiatives** | | **-** | (2) |
| **Derivative fair value gains & hedge ineffectiveness** | | **33** | (1) |
| **Total non-underlying costs before tax** | | **(53)** | (156) |
| Income tax credit | | **13** | 31 |
| **Total non-underlying items from discontinued operations** | | **(40)** | (125) |

[1] The prior year has been re-presented following the classification of discontinued operations and adjusted for deconsolidation. Refer to notes 3 and 14.

[2] The withdrawal from core banking operations has a commercial impact upon future management initiatives and actions which could lead to different customer behaviours than previously forecasted. This resulted in revised assumptions about customer behaviours which led to a reduction in the amortised cost of financial assets (credit cards) shown in loans and advances to customers with the impacts being recognised in revenue.

[3] Comprises primarily long dated IT contracts where anticipated early termination will result in the unavoidable costs of meeting the obligations under a contract exceeding the economic benefits expected to be received under it. Costs represent the lower of the costs of fulfilling contracts and the costs of terminating.

### 14.4 Net loss on disposals

| Discontinued operations | **2025 £m** | 2024 £m |
|---|---|---|
| Total cash consideration (payable)/received | **(556)** | 445 |
| Carrying amount of net liabilities/(assets) being disposed | **518** | (449) |
| Costs of Disposal[1] | **(57)** | (3) |
| **Loss on Disposal before tax** | **(95)** | (7) |
| Income tax credit | **24** | 2 |
| **Loss on Disposal after tax** | **(71)** | (5) |

[1] Comprises primarily migration costs, TSA day 1 readiness costs and data retention costs associated with the sale of portfolios

The loss on disposal comprises the expected sale of the core banking activities to NatWest Group, the sale of the vendor loan note on completion of the AFS cards sale and the ATM sales completed during the year (2024: comprises the sale of the mortgage portfolio). The expected loss on disposal of core banking activities comprises the net liabilities to be disposed of on completion of the sale, net of a discount of £132m based on pricing mechanisms set out in the sale agreement but measured at the reporting date of 28 February 2025. The discount expected at the date of completion is £125m. It also includes £57m (2024: £3m) of costs directly attributable to the disposal, primarily migration costs, TSA day 1 readiness costs and data retention costs.

## 14. Discontinued operations *(continued)*

### 14.5 Assets and liabilities of disposal group and non-current assets classified as held for sale

Assets and liabilities of the disposal group are presented separately in the current year statement of financial position. There is no requirement to represent prior years as the disposal groups did not meet IFRS 5 held for sale criteria at this point. The assets and liabilities of the disposal group have been measured at fair value less costs to sell.

| Discontinued operations | 2025 £m |
|---|---|
| **Non-current assets classified as held for sale** | |
| ATM assets | **1** |
| **Assets of disposal group classified as held for sale** | |
| Loans and advances to customers – amortised cost | **2,542** |
| IFRS 5 fair value adjustment | **(32)** |
| | **2,510** |
| **Total assets of disposal group and non-current assets classified as held for sale** | **2,511** |
| **Liabilities of disposal group classified as held for sale** | |
| Customer accounts[1] | **(3,109)** |
| ECL for off balance sheet provisions | **(4)** |
| Provisions for cost of disposal | **(27)** |
| **Net liabilities held for sale associated with discontinued operations** | **(3,140)** |
| **Net liabilities held for sale** | **(629)** |

[1] £2,804m (2024: £3,752m per Note 24) qualified for protection under the Financial Services Compensation Scheme.

Loans and advances to customers and customer accounts within assets and liabilities of disposal groups are held at amortised cost under IFRS 9. A fair value adjustment is held under IFRS 5 to measure the disposal group at level 2 fair value less costs to sell.

**Costs of disposal provision**

This provision primarily comprises migration and data retention costs, including legal and consultancy costs, directly associated with the sale of portfolios.

### 14.6 Cash flow statement

| Discontinued operations | 2025 £m | 2024 £m Re-presented[1] |
|---|---|---|
| Net cash flows from operating activities | **141** | 276 |
| Net cash flows from investing activities | **-** | (2) |
| Net cash flows from financing activities | **-** | - |
| **Change in cash and cash equivalents from discontinued operations** | **141** | 274 |

[1] The prior year has been re-presented following the classification of discontinued operations and adjusted for deconsolidation. Refer to notes 3 and 14.

## 15. Loans and advances to customers

**Accounting policy**

Loans and advances are initially recognised at fair value and subsequently held at amortised cost, using the effective interest method, less provision for impairment and recognised on the statement of financial position when cash is advanced.

The accounting policies for classification and measurement under IFRS are detailed in note 2.

*Expected credit loss (ECL) impairment model*
IFRS 9 uses a 3 stage forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Bank to record an allowance for ECL for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is calculated by reference to the estimated probability of default (PD), exposure at default (EAD) and loss given default (LGD).

The probability of default represents the likelihood of a borrower defaulting either within 12 months from the statement of financial position date or within the expected lifetime of the instrument.

Exposure at default represents the expected amount due from the borrower at the point of default by reference to exposure at the statement of financial position date adjusted for expected future changes including repayments and utilisation of undrawn facilities.

Loss given default represents the expected percentage loss at the point of default relative to the EAD. The estimate takes into account utilisation of any expected collections and recoveries strategies, debt sale arrangements and collateral.

The 3 stage model to determine impairment allowance is summarised as follows:

- *Stage 1* – Impairment allowance on financial assets that have not significantly increased in credit risk since origination, nor are credit impaired, is calculated using the probability that a borrower will default within 12 months from the statement of financial position date. Interest income is recognised on the gross carrying value of the financial asset.
- *Stage 2* – Where a financial asset exhibits a significant increase in credit risk (SICR) but is not yet considered to be credit impaired, the probability of default considered in the impairment allowance is based upon the lifetime probability of the borrower defaulting. Interest income continues to be recognised on the gross carrying value of the financial asset.
- *Stage 3* – Assets considered to be credit impaired. One or more events has occurred that has resulted in a detrimental impact on the estimated future cash flows of the asset. Stage 3 assets will continue to recognise lifetime expected impairment losses (with a 100% probability of default) and interest income will be recognised on the net carrying amount (i.e., gross amount less impairment allowance).

In determining ECL allowances, expected future recoveries are discounted to the reporting date at the original effective interest rate of the relevant instrument.

A number of inputs and variables used in the ECL calculation are not defined within IFRS 9 and involve complex modelling and application of judgement as discussed in the remainder of this section. Further details on these critical accounting judgements can be found in note 2.

*Undrawn commitments*
Undrawn loan, credit card commitments are commitments under which the Bank is required to provide a loan with pre-specified terms to the customer. Under IFRS 9 these contracts are in scope of the ECL requirements.

The Bank is required to estimate the extent to which undrawn commitments and facilities will be utilised by borrowers.

The nominal contractual value of these commitments, where the lending agreed to be provided is on market terms, are not recorded in the statement of financial position. The ECL in relation to undrawn commitments are disclosed in note 31. The impairment allowance in respect of these instruments is included within provisions for liabilities and charges as there is no related asset on the statement of financial position against which to offset the related impairment allowance.

## 15. Loans and advances to customers *(continued)*

The Bank's gross lending exposure before deduction of impairment provisions is analysed below. All of the Bank's loans and advances to customers were classified as held for sale assets at the reporting date in accordance with IFRS 5. See note 14 for further details. The table below shows the contractual maturity of gross unsecured lending to customers. Residual contractual maturity of these loans can be found in note 32.

| | 2025 £m | 2024 £m |
|---|---|---|
| Loans and advances to customers[1] | **-** | 3,823 |
| Held for sale assets | **2,666** | - |
| Total gross unsecured lending | **2,666** | 3,823 |
| Impairment | **(148)** | (149) |
| Adjustment in relation to fair value hedging | **24** | 41 |
| Net unsecured lending | **2,542** | 3,715 |
| | | |
| IFRS 5 fair value adjustment | **(32)** | - |
| Carrying Value | **2,510** | 3,715 |
| | | |
| Gross unsecured lending analysed as: | | |
| Repayable on demand | **1,075** | 1,575 |
| Other loans and advances repayable: | | |
| Less than 1 year | **549** | 722 |
| Between 1 and 5 years | **1,024** | 1,479 |
| After 5 years | **18** | 47 |
| | **2,666** | 3,823 |

[1] Loans and advances to customers include the impact of non-underlying effective interest rate adjustment as set out in note 9.

As at 29 February 2024, eligible personal loans with applicable haircuts were used as collateral for the Bank of England's Term Funding Scheme Small and Medium-sized enterprises (TFSME) and Indexed Long-term Repo (ILTR) facilities. This included £889m of Personal Loan assets pledged to the Bank of England, facilitating funding of £600m from the TFSME. During the year ended 28 February 2025, the Bank fully repaid its drawings under the TFSME scheme, however £485m of personal loan assets remain pledged to the Bank of England to facilitate funding from the Bank of England schemes if required.

The drawings at 29 February 2024 were further supported by the indirect pledging of personal loans collateral via our securitisation facilities. The Bank had securitised and sold personal loans to a special purpose vehicle (SPV), Drury Lane Funding 2020-1 plc. The SPV had issued £426m Senior class A note and £121m Junior class Z note to the Bank. In return, the Bank pledged £547m of personal loans to the SPV. Of the A notes held by the Bank at the prior year end, £426m were pre-positioned with the Bank of England to support the funding facilities outlined in the previous paragraph, of which £426m were encumbered. The securitisation programme linked to Drury Lane Funding 2020-1 plc was fully redeemed on 28 October 2024. As at 28 February 2025, there are no Senior class A notes or Junior class Z notes in issue to the Bank and as such, there are no longer class A or class Z notes pre-positioned with the Bank of England.

The Bank has also repaid the £5m of drawings held under the ILTR scheme at 29 February 2024, for which it had pledged a £25m covered bond. Within the reconciliations which follow, transfers reflect balance and provision movements between the opening or origination classification of an account and its classification at the closing date of the reporting period. It does not reflect the cumulative impact of intra period movements such as an account moving multiple times between stages during the period.

## 15. Loans and advances to customers *(continued)*

### Unsecured allowance for impairment losses measured under IFRS 9

*Reconciliation of Expected Credit Loss Allowance (ECL) and Gross Carrying Amount (GCA) of unsecured Loans and advances measured at amortised cost*

| | **Non-credit-impaired** | | | | **Credit-impaired** | | **Total** | |
|---|---|---|---|---|---|---|---|---|
| | **Stage 1** | | **Stage 2** | | **Stage 3** | | | |
| | **GCA[3] £m** | **ECL £m** | **GCA[3] £m** | **ECL £m** | **GCA[3] £m** | **ECL £m** | **GCA[3] £m** | **ECL £m** |
| As at 1 March 2024 | 3,354 | (28) | 329 | (25) | 140 | (96) | 3,823 | (149) |
| *Transfers of financial assets:* | | | | | | | | |
| To Stage 1 | **167** | **(10)** | **(167)** | **10** | **-** | **-** | **-** | **-** |
| To Stage 2 | **(76)** | **1** | **76** | **(1)** | **-** | **-** | **-** | **-** |
| To Stage 3 | **(36)** | **1** | **(31)** | **7** | **67** | **(8)** | **-** | **-** |
| Net transfer between stages | | **(8)** | | **16** | | **(8)** | | **-** |
| Increases due to originations[1] | **561** | **(5)** | **25** | **(2)** | **8** | **(6)** | **594** | **(13)** |
| Decreases due to repayments | **(1,597)** | **13** | **(87)** | **6** | **(24)** | **17** | **(1,708)** | **36** |
| Write offs | **(6)** | **-** | **(4)** | **1** | **(33)** | **22** | **(43)** | **23** |
| Changes in credit risk[2] | **-** | **13** | **-** | **(11)** | **-** | **(47)** | **-** | **(45)** |
| **As at 28 February 2025** | **2,367** | **(15)** | **141** | **(15)** | **158** | **(118)** | **2,666** | **(148)** |

[1] This also reflects assets which were originated in stage 1 and subsequently moved to stage 2 or stage 3 during the year.
[2] Changes in credit risk includes changes to the allowance for credit impairment losses arising from stage transfers and other changes to risk parameters (such as management overlays).
[3] All loans and advances to customers at the statement of financial position date comprise assets that are held for sale within a disposal group in accordance with IFRS 5. See note 14 for further detail.

| | Non-credit-impaired | | | | Credit-impaired | | Total | |
|---|---|---|---|---|---|---|---|---|
| | Stage 1 | | Stage 2 | | Stage 3 | | | |
| | GCA £m | ECL £m | GCA £m | ECL £m | GCA £m | ECL £m | GCA £m | ECL £m |
| As at 1 March 2023 | 3,593 | (23) | 389 | (25) | 121 | (86) | 4,103 | (134) |
| *Transfers of financial assets:* | | | | | | | | |
| To Stage 1 | 145 | (9) | (145) | 9 | - | - | - | - |
| To Stage 2 | (170) | 3 | 171 | (3) | (1) | - | - | - |
| To Stage 3 | (35) | 1 | (29) | 6 | 64 | (7) | - | - |
| Net transfer between stages | | (5) | | 12 | | (7) | | - |
| Increases due to originations[1] | 1,494 | (11) | 89 | (6) | 15 | (11) | 1,598 | (28) |
| Decreases due to repayments | (1,666) | 11 | (141) | 8 | (17) | 12 | (1,824) | 31 |
| Write offs | (7) | - | (5) | 1 | (42) | 30 | (54) | 31 |
| Changes in credit risk[2] | - | - | - | (15) | - | (34) | - | (49) |
| As at 29 February 2024 | 3,354 | (28) | 329 | (25) | 140 | (96) | 3,823 | (149) |

[1] This also reflects assets which were originated in stage 1 and subsequently moved to stage 2 or stage 3 during the year.
[2] Changes in credit risk includes changes to the allowance for credit impairment losses arising from stage transfers and other changes to risk parameters (such as management overlays).

Further analysis of the credit risk and credit quality of loans and advances to customers, including ECL coverage rates, is provided in note 32.

## 15. Loans and advances to customers *(continued)*

### Reconciliation of movements in total loss allowance in the year to the income statement

The below table includes the movements in loss allowance from undrawn loan commitments, which are detailed in note 31.

| | 2025 | | | | 2024 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Stage 1 £m** | **Stage 2 £m** | **Stage 3 £m** | **Total £m** | Stage 1 £m | Stage 2 £m | Stage 3 £m | Total £m |
| *Transfers of financial assets:* | | | | | | | | |
| To Stage 1 | **(10)** | **10** | **-** | **-** | (10) | 10 | - | - |
| To Stage 2 | **1** | **(1)** | **-** | **-** | 3 | (3) | - | - |
| To Stage 3 | **1** | **7** | **(8)** | **-** | 1 | 6 | (7) | - |
| Net transfer between stages | **(8)** | **16** | **(8)** | **-** | (6) | 13 | (7) | - |
| Increases due to originations | **(5)** | **(2)** | **(6)** | **(13)** | (12) | (5) | (11) | (28) |
| Decreases due to repayments | **13** | **6** | **17** | **36** | 11 | 8 | 12 | 32 |
| Write offs | **-** | **1** | **22** | **23** | - | 1 | 30 | 31 |
| Changes in credit risk | **13** | **(11)** | **(47)** | **(45)** | 4 | (16) | (35) | (47) |
| Movement in ECL allowance | **13** | **10** | **(22)** | **1** | (3) | 1 | (11) | (12) |
| Net expected credit loss charge | | | | **(20)** | | | | (43) |
| Recoveries and write-offs | | | | **(17)** | | | | (12) |
| C&R charges | | | | **(6)** | | | | (6) |
| Total income statement charge[1] | | | | **(43)** | | | | (61) |

[1]£2m of the income statement charge relates to continuing operations (2024: £2m) and £41m relates to discontinued operations (2024: £59m).

### Analysis of total stage 2 balances by driver

| | **2025 Gross balances[2] £m** | **ECL[1] £m** | 2024 Gross balances £m | ECL[1] £m |
|---|---|---|---|---|
| Currently >30 days past due | **17** | **5** | 22 | 7 |
| *Currently <30 days past due:* | | | | |
| Breach on PD threshold | **105** | **9** | 245 | 17 |
| Policy rule changes | **18** | **1** | 62 | 2 |
| **Total stage 2 at 28/29 February** | **140** | **15** | 329 | 26 |

[1] Stage 2 ECL includes both drawn and undrawn per notes 15 and 31.
[2] All loans and advances to customers at the statement of financial position date comprise assets that are held for sale within a disposal group in accordance with IFRS 5. See note 14 for further detail.

## 16. Notes to the cash flow statement

| | |
|---|---|
| **Accounting policy** | For the purpose of the cash flow statement, cash and cash equivalents comprises cash in hand, deposits at central banks (less mandatory deposits) and deposits with banks with an original maturity of three months or less, together with Treasury Bills and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. |

**Reconciliation of profit before taxation to cash flows used in operating activities**

| | **2025 £m** | 2024 £m |
|---|---|---|
| (Loss) / profit before taxation from continuing operations[1] | **48** | 17 |
| **Non-cash and other items included in profit before taxation** | | |
| Impairment losses on loans and advances | **2** | - |
| Amortisation of intangible assets | **-** | 1 |
| Impairment of right of use asset | **2** | 12 |
| Share-based payment expense | **5** | 2 |
| Interest paid on subordinated liabilities | **13** | 20 |
| Provision charges and releases | **14** | 13 |
| | **36** | 48 |
| **Change in operating assets and liabilities** | | |
| Net (increase) / decrease in derivative assets | **(1)** | 1 |
| Net decrease in Loans and advances to other banks greater than 3 months | **-** | 100 |
| Net (increase) in investment securities greater than 3 months | **(607)** | (136) |
| Net decrease / (increase) in other assets | **677** | (101) |
| Net increase in borrowed funds | **411** | 345 |
| Net increase / (decrease) in other liabilities including provisions | **285** | (56) |
| | **765** | 153 |
| Cash generated from operations | **849** | 218 |
| Income taxes received / (paid) | **3** | (3) |
| **Cash flows generated from operating activities** | **852** | 215 |

[1] The prior year has been re-presented following the classification of discontinued operations and adjusted for deconsolidation. Refer to notes 3 and 14.

| | | |
|---|---|---|
| **Operational cash flows from interest** | | |
| Interest paid | **(94)** | (68) |
| Interest received | **115** | 71 |
| | **21** | 3 |

## 16. Notes to the cash flow statement *(continued)*

**Reconciliation of liabilities arising from financing activities**

| | **2025** | 2024 |
|---|---|---|
| | **£m** | £m |
| Subordinated liabilities: | | |
| At 1 March | **122** | 122 |
| Non-cash movements | **2** | - |
| **At 28/29 February** | **124** | 122 |

**Restricted cash balances**

| | **2025** | 2024 |
|---|---|---|
| | **£m** | £m |
| Bank of England deposit | **-** | 14 |
| | **-** | 14 |

On 5 March 2024, the reserve deposit previously held with the Bank of England in accordance with statutory requirements was repaid and replaced by the Bank of England's new levy scheme. This deposit was still held in the prior period and was not available for use in day-to-day operations resulting in its exclusion from the cash and cash equivalents balance in the cash flow statement.

## 17. Cash, balances with central banks and other demand deposits

| | **2025** | 2024 |
|---|---|---|
| | **£m** | £m |
| Cash and balances with central banks | **1,119** | 1,051 |
| Other demand deposits | **19** | 27 |
| | **1,138** | 1,078 |

On 5 March 2024, the reserve deposit previously held with the Bank of England in accordance with statutory requirements was repaid and replaced by the Bank of England's new levy scheme. This deposit was still held in the prior period and was not available for use in day-to-day operations resulting in its exclusion from the cash and cash equivalents balance in the cash flow statement. There were no significant credit losses expected on cash and other demand deposits.

## 18. Derivative financial instruments

**Accounting policy**

All derivative financial instruments are initially recognised at fair value on the contract date and are re-measured to their fair value at each subsequent reporting date. Changes in fair value of all derivative instruments are recognised immediately in the income statement. Fair values are obtained from observable market data before the application of appropriate discounting factors.

Where the overall carrying value of a derivative is positive it is held and classified on the statement of financial position as an asset. Alternatively, when the overall carrying value of a derivative is negative it is held and classified as a liability.

The Bank's policy is to use derivatives for economic purposes only, and not for trading. Where possible it will elect to designate the derivative into an effective hedge accounting relationship, where the gains and losses on derivatives are offset by effective hedged item adjustments within the income statement.

*Fair value hedging*
The Bank designates certain derivatives as fair value hedges where the derivative financial instrument hedges the change in fair value of the particular risks inherent in recognised assets or liabilities (fair value hedges).

The Bank has adopted IFRS 9 hedge accounting requirements for fair value hedges of investment securities and its Fixed Rate Debt issuance. These instruments are hedged via plain vanilla interest rate swaps, with the critical economic terms of both the hedging instrument and hedged item matching. The notional amount, fixed interest legs and maturity dates are economically matched. The main source of ineffectiveness within the micro hedge relationships relates to the floating leg valuation changes inherent within the hedging instrument that do not exist within the hedged item.

Under IAS 39, portfolio fair value hedging allows the designation of the whole or part of a portfolio of assets or liabilities with similar risk exposures. The hedged item can be designated based on expected maturities to match the hedging derivative maturity. Hedge effectiveness is considered to have been met where the change in fair value of the hedged item offsets the change in fair value of hedging instruments, within the 80 to 125 per cent ratio corridor.

To qualify for hedge accounting the Bank documents at the inception of the hedge, the hedging risk management strategy, the relationship between the hedging instrument and the hedged item or transaction and the nature of the risks being hedged. The Bank also documents the assessment of the effectiveness of the hedging relationship, to show that the hedging relationship is expected to be effective (prospectively) and, subsequently, has been effective (retrospectively). In respect of all fair value hedge relationships, changes in fair value of the derivatives offset changes in the fair value of the hedged items through the income statement, with any ineffective portion also being recognised in the income statement.

The Bank uses portfolio fair value hedging as a risk management tool for hedging interest rate risk on personal loans, platform deposits and up to the point of disposal in August 2023, also the mortgage portfolio. As it is permitted to do so under IFRS 9, the Bank adopts IAS 39 for its macro portfolio fair value hedges of fixed rate personal loans so long has the hedged item can be designated in an effective hedging relationship.

**Derivatives not in a hedge accounting relationship**

The Bank's entire derivative portfolio is executed for economic purposes. Under IAS 39 rules for macro portfolio hedging, some of the Bank's hedging derivatives do not qualify, or prove too onerous, to be designated into an effective hedged relationship. In those instances, the interest rate swaps are viewed as trading derivatives under IFRS 9 with any movements in fair value recognised in the income statement, without offset.

*Foreign currency derivative contracts*

Foreign currency exposure arises from currency holdings within the Bank's travel money business.
The Bank enters into foreign exchange derivative contracts to hedge foreign currency exposure. Foreign exchange derivative instruments included FX spot, FX forwards and FX swaps. The Bank reported a FX derivative asset of £nil (2024: £nil) and a FX derivative liability of £nil (2024: £nil).

## 18. Derivative financial instruments *(continued)*

### Fair value hedges

In the year, as a result of the strategic change, the Bank's personal loan hedging derivatives no longer qualify into an effective hedging relationship. Hedge accounting ceased in June 2024 following the sale of the portfolio to NatWest Group., at which point the fair value movements are recognised in the income statement.

*The amounts relating to items designated as hedging instruments and hedge ineffectiveness were as follows:*

| | Notional amount | Carrying amount | | Ineffectiveness recognised in income statement |
|---|---|---|---|---|
| | | Assets | Liabilities | |
| | £m | £m | £m | £m |
| Interest rate swaps - Hedge of loans and advances | | | | |
| At 28 February 2025 | **120** | **1** | **-** | **-** |
| At 29 February 2024 | 1,765 | 15 | (56) | - |

*Derivatives not in fair value hedge accounting relationship are as follows:*

| | Notional amount | Carrying amount | | Fair value gains recognised in income statement[1] |
|---|---|---|---|---|
| | | Assets | Liabilities | |
| | £m | £m | £m | £m |
| Interest rate swap | | | | |
| At 28 February 2025 | **1,290** | **4** | **(7)** | **10** |
| At 29 February 2024 | - | - | - | - |
| Foreign currency swap | | | | |
| At 28 February 2025 | **19** | **-** | **-** | **-** |
| At 29 February 2024 | 45 | - | - | - |

[1] These gains are recognised as derivate fair value gains within the Bank's non-underlying items as a result of the Bank's strategic change - see note 14.3.

The line item in the statement of financial position where the hedging instrument is included is 'Derivative financial instruments'. The line item in the income statement that includes hedge ineffectiveness is 'Fair value gains on financial instruments'.

The maturity profile and average price/rate of interest rate derivatives were as follows:

| | Maturity | | | | |
|---|---|---|---|---|---|
| | Less than 1 month | 1-3 months | 3 months – 1 year | 1-5 years | More than 5 years |
| **As at February 2025** | | | | | |
| Fair value hedges | | | | | |
| Nominal amount (£m) | **-** | **67** | **532** | **807** | **4** |
| Average fixed interest rate | **-** | **3.6%** | **3.7%** | **4.4%** | **3.6%** |
| As at February 2024 | | | | | |
| Fair value hedges | | | | | |
| - Nominal amount (£m) | - | 17 | 231 | 956 | 562 |
| - Average fixed interest rate | - | 0.6% | 0.7% | 3.9% | 2.9% |

## 19. Investment securities

| | |
|---|---|
| **Accounting policy** | These comprise debt securities and other fixed interest securities, including Treasury and other eligible bills and are recognised on the date the contract is entered into. Investment securities are measured at amortised cost or FVOCI based on their contractual terms and the business model in which they are held.<br>*Impairment of investment securities*<br>As with customer lending, impairment of investment securities is determined under IFRS 9- again using a 3 stage forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Bank to record an allowance for ECL for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is calculated by reference to the estimated probability of default (PD), exposure at default (EAD) and loss given default (LGD) |

| | **2025 £m** | 2024 £m |
|---|---|---|
| Investment securities comprise the following: | | |
| Equity investments | **-** | 2 |
| Gilts | **126** | - |
| Government backed investment securities | **-** | 46 |
| T-Bills | **1,527** | - |
| Covered bonds | **576** | 645 |
| Asset backed securities | **55** | 77 |
| | **2,284** | 770 |
| Of which: | | |
| Equity investments | **-** | 2 |
| Maturing in three months or less | **915** | 9 |
| Maturing between three months and one year | **612** | 17 |
| Maturing between 1 and 5 years | **757** | 742 |
| | **2,284** | 770 |

Investment securities include £nil of collateral prepositioned with the Bank of England as at 28 February 2025 (2024: £25m). The fair value movement recognised in the Statement of Other Comprehensive Income during the year on investment securities was £nil (2024: £nil).

Under IFRS 9, the Bank holds an impairment provision for investment securities of £nil (2024: £nil).

## 20. Intangible assets

| | |
|---|---|
| **Accounting policy** | *Computer Software*<br>Computer software is carried at cost less accumulated amortisation and any provision for impairment. Externally acquired software and licences are capitalised and amortised on a straight-line basis over their useful economic lives. Costs relating to development of computer software for internal use are capitalised once the recognition criteria of IAS 38 'Intangible Assets' are met. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. When the software is available for its intended use, these costs are amortised on a straight-line basis over their useful economic lives being:<br>• Core banking software – fifteen years<br>• Other software – three to ten years<br>Capitalised development expenditure and purchased software is stated at cost less accumulated amortisation and impairment losses. Such assets are assessed for impairment where there is an indication of impairment or, in the case of assets which are not yet available for use, at least annually. Where impairment exists, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss recognised in the income statement. The amortisation charge for the asset is then adjusted to reflect the asset's revised carrying amount.<br>Cost includes the purchase price after deducting discounts and rebates, and other directly attributable costs of preparing the asset for its intended use. |

## 20. Intangible assets *(continued)*

Subsequent expenditure is only capitalised when it increases the future economic benefits embodied in the specific asset to which it relates.

At each reporting date, the Bank reviews the carrying amounts to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is determined based on the fair value less cost to dispose and a value in use (VIU) calculation which is based upon the cash flows expected to be generated.
Any impairment loss is recognised in the income statement in the year in which it occurs. Where an impairment loss subsequently reverses due to a change in the original estimate, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, or its original carrying value less notional accumulated depreciation if lower.

The Sainsbury's Group change in strategy to exit core Banking and move to a fully distributed model was an indicator of impairment triggering a full impairment review in January 2024, with related impairment being recognised in the same month. This resulted in full impairment of all the Bank's intangible assets.

| | **2025** | 2024 |
|---|---|---|
| | **£m** | £m |
| **Cost** | | |
| At 1 March | **337** | 339 |
| Additions | **-** | 2 |
| Disposals | **(15)** | (4) |
| **As at 28/29 February** | **322** | 337 |
| **Accumulated amortisation** | | |
| At 1 March | **(337)** | (192) |
| Charge for the year[1] | **-** | (24) |
| Impairment[2] | **-** | (125) |
| Disposals | **15** | 4 |
| **As at 28/29 February** | **(322)** | (337) |
| **Net book value as at 28/29 February** | **-** | - |

[1] £4m of the 2024 charge for the year relates to continuing operations and £20m to discontinued operations.
[2] £20m of the 2024 impairment loss relates to continuing operations and £105m to discontinued operations.

## 21. Property, plant & equipment

**Accounting policy**

*Land and buildings*
Land and buildings are stated at cost less accumulated depreciation and any recognised provision for impairment. Capital work in progress is held at cost less any recognised provision for impairment. Cost includes the original purchase price of the asset and the costs incurred attributable to bringing the asset to its working condition for intended use. This includes capitalised borrowing costs.

*Fixtures and equipment*
Fixtures and equipment, including tenant's improvements, are held at cost less accumulated depreciation and any recognised provision for impairment. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition and its intended use.

*Right of use assets*
Right of use assets obtained under a lease arrangement are included in the above categories as appropriate and depreciated as described below.

*Depreciation*
Depreciation is calculated to write down the cost of the assets to their residual values, on a straight-line method over their useful economic life, on the following bases:

- Freehold buildings and leasehold properties – fifty years, or the lease term if shorter

## 21. Property, plant & equipment *(continued)*

- Fixtures and equipment – three to fifteen years or, in the case of tenant's improvements, the lease term if shorter
- Capital work in progress is not depreciated.

Gains and losses on disposal are determined by comparing proceeds with the asset's carrying amount and are recognised within operating profit. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.
At each reporting date, the Bank reviews the carrying amounts to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset, being the higher of its fair value less costs to dispose and its value in use, is estimated in order to determine the extent of the impairment loss.

As described in Note 9, the Bank's tangible assets were fully impaired in 2024 following the change in strategy to exit core Banking and move to a fully distributed model. In September 2024, the Bank classified ATM assets as held for sale, resulting in reversal of previously recognised impairment of £2m.

| **2025** | **Land and buildings £m** | **Fixtures and equipment £m** | **Total £m** |
|---|---|---|---|
| **Cost** | | | |
| At 1 March 2024 | **10** | **62** | **72** |
| Additions | **2** | **-** | **2** |
| Disposals/Write off | **(9)** | **(17)** | **(26)** |
| Transfer to Assets Held for Sale | **-** | **(33)** | **(33)** |
| **As at 28 February 2025** | **3** | **12** | **15** |
| **Accumulated depreciation** | | | |
| At 1 March 2024 | **(10)** | **(62)** | **(72)** |
| Charge for the year | **-** | **-** | **-** |
| Disposals/Write off | **9** | **17** | **26** |
| Impairment (loss) / reversal[2] | **(2)** | **2** | **-** |
| Transfer to Assets Held for Sale | **-** | **31** | **31** |
| **As at 28 February 2025** | **(3)** | **(12)** | **(15)** |
| **Net book value as at 28 February 2025** | **-** | **-** | **-** |

| 2024 | Land and buildings £m | Fixtures and equipment £m | Total £m |
|---|---|---|---|
| **Cost** | | | |
| At 1 March 2023 | 9 | 61 | 70 |
| Additions | 1 | 1 | 2 |
| Disposals/Write off | - | - | - |
| **As at 29 February 2024** | 10 | 62 | 72 |
| **Accumulated depreciation** | | | |
| At 1 March 2023 | (8) | (53) | (61) |
| Charge for the year[1] | (1) | (1) | (2) |
| Disposals/Write off | - | - | - |
| Impairment loss[2] | (1) | (8) | (9) |
| **As at 29 February 2024** | (10) | (62) | (72) |
| **Net book value as at 29 February 2024** | - | - | - |

[1] The 2024 charge for the year relates entirely to discontinued operations.
[2] £2m (2024: £nil) of the impairment loss relates to continuing operations offset by £2m reversal of impairment relating to discontinued operations (2024: £9m impairment loss).

## 21. Property, plant & equipment *(continued)*

Land and buildings include right of use assets of £nil (2024: £nil) related to head office premises. At the commencement of a lease, the Bank recognises a right-of-use asset and a lease liability. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability and any restoration costs. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term and is periodically reduced by impairment losses, if any.

On 1 March 2024, the Bank commenced a lease for new head office premises at which point a right of use asset was recognised and immediately impaired in full, following the strategy change announcement. The corresponding impairment charge recognised in the income statement for the current year is £2m (2024: £nil). The right of use asset in relation to the Bank's former head office premises lease was fully impaired in the prior period and disposed at the lease conclusion in September 2024.

## 22. Investments in subsidiaries

| | |
|---|---|
| **Accounting policy** | Subsidiaries are entities, including special purpose vehicles (SPVs), 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's investment in subsidiaries was as follows.

| | **2025** | 2024 |
|---|---|---|
| | **£m** | £m |
| | **325** | 325 |

| | Country of registration or incorporation | Ownership Interest | Registered address |
|---|---|---|---|
| Home Retail Group Card Services Limited | England | 100% | 33 Holborn, London, England, EC1N |
| Home Retail Group Insurance Services Limited | England | 100% | 33 Holborn, London, England, EC1N |
| ARG Personal Loans Limited[1] | England | 100% | 33 Holborn, London, England, EC1N |

[1] ARG Personal Loans Limited was struck off the register in the financial reporting period.

The strategic decision to exit the core Banking business has been identified as a potential indicator of impairment on the Bank's investment in Home Retail Group Card Services Limited. An impairment review was undertaken following the completion of the sale of the AFS storecard portfolio from the subsidiary to NewDay on 28 February 2025 and, based on the net asset position of the subsidiary and the transfer pricing arrangement for any potential future losses in the subsidiary, the Bank has concluded that no impairment exists.

The Bank has no direct or indirect ownership interest in the equity of the Drury Lane Funding 2020-1 plc, however the company was established for the purpose of providing a source of funding to the Bank by way of contractual agreement. The securitisation programme linked to Drury Lane Funding 2020-1 plc was fully redeemed on 28 October 2024, at which point the Bank no longer has the rights to substantially all the benefits from its activities. The company is therefore no longer effectively controlled by the Bank from that date.

| | Country of registration or incorporation | Date started being a subsidiary | Registered address |
|---|---|---|---|
| Drury Lane Funding 2020-1 plc | England | 11 November 2020 | 18a Capricorn Centre, Cranes Farm Road, Basildon, Essex, SS14 3JJ |

## 23. Other assets

| | |
|---|---|
| **Accounting policy** | Other assets, including amounts receivable from Sainsbury's Group companies, are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method. |

| | **2025** | 2024 |
|---|---|---|
| | **£m** | £m |
| Amounts receivable from Sainsbury's Group companies | **6** | **576** |
| Funds in course of settlement | **42** | **119** |
| Prepayments and accrued income | **17** | **24** |
| Insurance instalment debtor | **30** | **33** |
| Current tax asset | **9** | **12** |
| Deferred tax asset | **15** | **14** |
| Cash collateral paid | **18** | **65** |
| | **137** | **843** |

The Bank's other assets have no fixed maturities but are materially expected to be realised within 12 months, with the exception of cash collateral paid. Amounts receivable from group companies in the prior year includes a loan of £523m to Home Retail Group Card Services Limited which provided funding on an ongoing basis but was technically repayable on demand. See note 32 for further details on the residual contractual maturity. The sale of the AFS storecard portfolio from Home Retail Group Card Services Limited to NewDay completed on 28 February 2025 and this loan was repaid from the proceeds.

The deferred tax asset is in respect of temporary differences which will reverse and result in a higher tax charge in future years, is analysed below. Further detail on the recoverability of these can be found in Note 13.

| | **2025** | 2024 |
|---|---|---|
| | **£m** | £m |
| At 1 March | **14** | 4 |
| Movement in deferred tax asset credited to income statement | **1** | 10 |
| **At 28/29 February** | **15** | 14 |
| | | |
| Tax effect of timing differences due to: | | |
| Other temporary differences[1] | **12** | 10 |
| Accelerated capital allowances | **3** | 4 |
| | **15** | 14 |

[1] Other temporary differences predominately relate to the day 1 reduction to retained earnings following adoption of IFRS 9, which is deductible evenly over the 10 year period following adoption.

## 24. Customer accounts

| | |
|---|---|
| **Accounting policy** | Financial liabilities comprise customer accounts, deposits from banks, subordinated liabilities and other wholesale deposits. All financial liabilities are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method. A financial liability is derecognised from the statement of financial position when the Bank has discharged its obligations, the contract is cancelled or it expires. |

Customer accounts comprise Sterling interest-bearing deposits. The table below shows the contractual maturity of customer accounts. All of the Bank's customer deposits were classified as liabilities of the disposal group held for sale at the reporting date. See note 14 for further details.

## 24. Customer accounts *(continued)*

| | 2025 £m | 2024 £m |
|---|---|---|
| Customer deposits | - | 4,165 |
| Liabilities of the disposal group held for sale | 3,109 | - |
| | 3,109 | 4,165 |
| Repayable: | | |
| On demand | 2,406 | 3,166 |
| Within 3 months | 256 | 243 |
| Between 3 months and 1 year | 340 | 573 |
| Between 1 and 5 years | 107 | 183 |
| | 3,109 | 4,165 |

Of the above balance, £2,804m (2024: £3,752m) qualified for protection under the Financial Services Compensation Scheme.

## 25. Other deposits

| | |
|---|---|
| **Accounting policy** | All financial liabilities are initially recognised at fair value and subsequently measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium on issue of funds, and costs that are an integral part of the EIR. A financial liability is derecognised from the statement of financial position when the Bank has discharged its obligations, the contract is cancelled or it expires. |

Other deposits comprise Sterling wholesale deposits. The prior year comparative below includes £605m of drawings under the Bank of England's TFSME and ILTR schemes, which have been fully repaid in the current year. See note 32 for further details on the residual contractual maturity of other deposits.

| | 2025 £m | 2024 £m |
|---|---|---|
| Repayable: | | |
| Within 3 months | 1,431 | 957 |
| Between 3 months and 1 year | 524 | 577 |
| Between 1 and 5 years | 13 | 23 |
| | 1,968 | 1,557 |

Included within above are £1,066m (2024: £518m) of deposits obtained via deposit aggregators, where the ultimate depositors are retail customers. Of the above balance, £1,327m (2024: £707m) qualified for protection under the Financial Services Compensation.

## 26. Subordinated liabilities

| | |
|---|---|
| **Accounting policy** | Subordinated liabilities are initially recognised at fair value and subsequently held at amortised cost. Amortised cost is calculated by taking into account any discount or premium on issue of funds, and costs that are an integral part of the EIR. Interest is recognised in the income statement through interest payable. |

| | 2025 £m | 2024 £m |
|---|---|---|
| Fixed rate subordinated Tier 2 notes due 2033 | 120 | 120 |
| Accrued interest | 5 | 5 |
| Fair value hedge accounting adjustments | (1) | (3) |
| | 124 | 122 |

The Bank issued £120m of fixed rate reset callable subordinated Tier 2 notes on 12 September 2022. These notes pay interest on the principal amount at a rate of 10.5 per cent per annum, payable in equal instalments semi-annually in arrears, until 12 March 2028 at which time the interest rate will reset. The Bank has the option to redeem these notes from 12 September 2027 to 12 March 2028.

## 27. Other liabilities

| | |
|---|---|
| **Accounting policy** | Other liabilities are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method. |

All other liabilities are expected to be settled within 3 months with the exception of cash collateral received and lease liabilities. See note 32 for further details on the residual contractual maturity of other liabilities.

| | 2025 £m | 2024 £m |
|---|---|---|
| Customer funds in course of settlement | **10** | 11 |
| Accruals and deferred income | **79** | 64 |
| Amounts payable to Sainsbury's group companies[1] | **313** | 3 |
| Cash collateral received | **-** | 10 |
| Lease liabilities | **2** | 1 |
| Other creditors | **3** | 3 |
| | **407** | 92 |

[1] Includes £286m deposit placed with Bank by HRG Card Services following the sale of the AFS Storecard portfolio (2024: £nil)

## 28. Provisions for liabilities and charges

| | |
|---|---|
| **Accounting policy** | Provisions are recognised when the Bank has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic recourses will be required to settle the obligation and where the amount can be reliably estimated.<br><br>Provisions are measured as the discounted expected future cash flows taking account of the risks and uncertainties associated with the specific liability where appropriate.<br><br>Provisions for onerous contracts are recognised when the Bank believes that the unavoidable costs of meeting or novating a contract exceed the economic benefits expected to be received under it. Where assets are dedicated to the fulfilment of a contract that cannot be redirected to other parts of the Bank, an impairment charge is recognised to reduce the carrying value of the assets to £nil before recognising a separate onerous contract.<br><br>Provision is made for restructuring costs, including the costs of redundancy, when the Bank has a constructive obligation. An obligation exists when the Bank has a detailed formal plan for the restructuring and has raised a valid expectation in those affected by starting to implement the plan of by announcing its main features. |

| | Expected credit loss provisions £m | Onerous contract and supplier restructuring provisions £m | Restructuring provision £m | Other provisions £m | Cost to sell provision[3] £m | Total £m |
|---|---|---|---|---|---|---|
| At 1 March 2024 | 5 | 18 | - | 2 | - | 25 |
| Additional provisions[1] | - | 63 | 28 | 3 | 38 | 132 |
| Unused amounts reversed[2] | (1) | - | - | (1) | (3) | (5) |
| Utilisation of provision | - | (4) | (3) | - | (8) | (15) |
| Transfer to liabilities held-for-sale | (4) | - | - | - | (27) | (31) |
| **At 28 February 2025** | **-** | **77** | **25** | **4** | **-** | **106** |
| | | | | | | |
| At 1 March 2023 | 8 | - | - | 4 | - | 12 |
| Additional provisions[1] | - | 18 | - | - | - | 18 |
| Unused amounts reversed[2] | (3) | - | - | - | - | (3) |
| Utilisation of provision | - | - | - | (2) | - | (2) |
| At 29 February 2024 | 5 | 18 | - | 2 | - | 25 |

[1] £15m (2024: £2m) of the additional provisions charge relates to continuing operations and £117m (2024: £16m) to discontinued operations.
[2] £1m (2024: £nil) of the unused amounts reversed relates to continuing operations and £4m (2024: £3m) to discontinued operations.
[3]The costs to sell provision is recognised as a liability of the disposal group. Further details can be found in Note 14.

## 28. Provisions for liabilities and charges *(continued)*

**Expected credit loss provisions**

Provision on loan commitments issued is included in the movement analysis in note 31. It primarily relates to expected credit losses on credit card commitments.

**Onerous contact and supplier restructuring provisions**

The onerous contract provision primarily relates to the strategic review of the business. The Bank assessed all existing material supplier contracts recognising provisions where the unavoidable costs are greater than expected future benefits under the strategic initiatives as applicable. The provision is determined by estimating future costs and economic benefits associated with the contracts and allocating other costs that directly relate to fulfilling the contracts. The most judgemental aspect of the provision is the estimation of future economic benefits. However, as the provision is calculated as the lower of the costs to fulfil the contract or the costs to exit the contract, it is not particularly sensitive to changes in the estimated economic benefits.

**Restructuring provision**

The restructuring provision comprises primarily redundancy costs due to the phased withdrawal from the core banking business.

**Other provisions**

Other provisions primarily relate to liabilities arising from dilapidations and onerous cost provisions associated with the Bank's head office property, both in the current year and prior year.

Where charges on provisions are material and relate to a historic time periods, they are recognised outside of underlying profit in order to provide a clear and consistent view of the Bank's underlying performance.

## 29. Called up share capital

| | **2025 £m** | 2024 £m |
|---|---|---|
| 900,750,000 Authorised, allotted, called up and fully paid ordinary shares (£0.777963 / £1): | | |
| At 1 March | **701** | 701 |
| **At 28/29 February** | **701** | 701 |

There were no movements in share capital in the current period.

## 30. Analysis of financial assets and liabilities by measurement basis

**Accounting policy**

*Designation of financial instruments*

The Bank classifies all of its financial assets based on the business model for managing the assets and the assets' contractual terms, measured at either Amortised cost, Fair value through other comprehensive income (FVOCI) or Fair value through profit or less (FVPL).

The Bank classifies and measures its derivative portfolio at FVPL, as explained in note 18. The Bank may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies.

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVPL when they are held for trading and derivative instruments, or the fair value designation is applied.

*Derecognition of financial assets*

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership

Financial assets and financial liabilities are measured on an on-going basis either at fair value or at amortised cost. The principal accounting policies describe how financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the financial assets and liabilities in the statement of financial position by the class of financial instrument to which they are assigned, and therefore by the measurement basis:

## 30. Analysis of financial assets and liabilities by measurement basis (continued)

| At 28 February 2025 | Amortised cost £m | FVOCI £m | FVPL £m | Other £m | Total £m |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash, balances with central banks and other demand deposits | **1,138** | **-** | **-** | **-** | **1,138** |
| Derivative financial instruments | **-** | **-** | **5** | **-** | **5** |
| Investment securities | **-** | **2,284** | **-** | **-** | **2,284** |
| Loans and advances to customers | **-** | **-** | **-** | **-** | **-** |
| Investments in subsidiaries | **-** | **-** | **-** | **325** | **325** |
| Intangible assets | **-** | **-** | **-** | **-** | **-** |
| Property, plant and equipment | **-** | **-** | **-** | **-** | **-** |
| Assets held for sale | **-** | **-** | **-** | **2,511** | **2,511** |
| Other assets | **122** | **-** | **-** | **15** | **137** |
| | **1,260** | **2,284** | **5** | **2,851** | **6,400** |
| **Liabilities** | | | | | |
| Customer accounts | **-** | **-** | **-** | **-** | **-** |
| Liabilities held for sale | **-** | **-** | **-** | **(3,140)** | **(3,140)** |
| Other deposits | **(1,968)** | **-** | **-** | **-** | **(1,968)** |
| Subordinated liabilities | **(124)** | **-** | **-** | **-** | **(124)** |
| Derivative financial instruments | **-** | **-** | **(7)** | **-** | **(7)** |
| Other liabilities | **(401)** | **-** | **-** | **(6)** | **(407)** |
| Provisions for liabilities and charges | **-** | **-** | **-** | **(106)** | **(106)** |
| | **(2,493)** | **-** | **(7)** | **(3,252)** | **(5,752)** |

| At 29 February 2024 | Amortised cost £m | FVOCI £m | FVPL £m | Other £m | Total £m |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash, balances with central banks and other demand deposits | 1,078 | - | - | - | 1,078 |
| Derivative financial instruments | - | - | 15 | - | 15 |
| Investment securities | - | 770 | - | - | 770 |
| Loans and advances to customers | 3,715 | - | - | - | 3,715 |
| Investments in subsidiaries | - | - | - | 325 | 325 |
| Intangible assets | - | - | - | - | - |
| Property, plant and equipment | - | - | - | - | - |
| Other assets | 827 | - | - | 16 | 843 |
| | 5,620 | 770 | 15 | 341 | 6,746 |
| **Liabilities** | | | | | |
| Customer accounts | (4,165) | - | - | - | (4,165) |
| Other deposits | (1,557) | - | - | - | (1,557) |
| Subordinated liabilities | (122) | - | - | - | (122) |
| Derivative financial instruments | - | - | (56) | - | (56) |
| Other liabilities | (91) | - | - | (1) | (92) |
| Provisions for liabilities and charges | (5) | - | - | (20) | (25) |
| | (5,940) | - | (56) | (21) | (6,017) |

## 31. Loan commitments

| | |
|---|---|
| **Accounting policy** | Undrawn loan and credit card commitments are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer. These contracts are in scope of the ECL requirements and accounting policies in relation to this are detailed in Note 15.<br>The nominal contractual value of these commitments, where the lending agreed to be provided is on market terms, are not recorded in the statement of financial position. |

The contractual amount of the Bank's financial instruments that are held off statement of financial position that commit it to extend credit to customers is as follows:

| | **2025** | 2024 |
|---|---|---|
| | **£m** | £m |
| Commitments to extend credit | **-** | 6 |

The above table does not include undrawn limits on credit cards. These are not considered a contractual commitment but, because, in practice, the Bank does not expect to withdraw these credit limits from customers, they are within the scope of impairment provisioning as found in Note 15.

*Reconciliation of impairment loss allowance of loan commitments*

| | **Non-credit impaired** | | **Credit-impaired** | |
|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| | **£m** | **£m** | **£m** | **£m** |
| As at 1 March 2024 | (3) | (1) | (1) | (5) |
| *Transfers of financial assets:* | | | | |
| To Stage 1 | **-** | **-** | **-** | **-** |
| To Stage 2 | **-** | **-** | **-** | **-** |
| To Stage 3 | **-** | **-** | **-** | **-** |
| Net transfer between stages | **-** | **-** | **-** | **-** |
| Net (increase)/decrease due to commitments originated and commitments expired[1] | **-** | **-** | **-** | **-** |
| Changes in credit risk[2] | **1** | **-** | **-** | **1** |
| **As at 28 February 2025** | **(2)** | **(1)** | **(1)** | **(4)** |

[1] This also reflects assets which were originated in stage 1 and subsequently moved to stage 2 or stage 3 during the year.

[2] Changes in credit risk includes changes to the allowance for credit impairment losses arising from stage transfers and other changes to risk parameters (such as management overlays).

## 31. Loan commitments *(continued)*

| | Non-credit impaired Stage 1 £m | Stage 2 £m | Credit-impaired Stage 3 £m | Total £m |
|---|---|---|---|---|
| As at 1 March 2023 | (5) | (2) | (1) | (8) |
| *Transfers of financial assets:* | | | | |
| To Stage 1 | (1) | 1 | - | - |
| To Stage 2 | - | - | - | - |
| To Stage 3 | - | - | - | - |
| Net transfer between stages | (1) | 1 | - | - |
| Net (increase)/decrease due to commitments originated and commitments expired[1] | (1) | 1 | - | - |
| Changes in credit risk[2] | 4 | (1) | - | 3 |
| As at 29 February 2024 | (3) | (1) | (1) | (5) |

[1] This also reflects assets which were originated in stage 1 and subsequently moved to stage 2 or stage 3 during the year.

[2] Changes in credit risk includes changes to the allowance for credit impairment losses arising from stage transfers and other changes to risk parameters (such as management overlays).

## 32. Risk management

The Bank encounters a range of different risks and uncertainties as it undertakes its day-to-day activities and seeks to achieve its strategic objectives. Our approach to risk management and an overview of the Principal risk types are described in the Risk Overview section on page 22. Further detail on credit and liquidity risk exposures are shown below, with capital adequacy discussed further in note 33.

**Credit risk**

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 Principal Risks section (page 25).

*Retail credit risk*

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 is 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.

The Retail Credit Risk Committee provide portfolio oversight control over credit risk strategy to maintain lending in line with the Board approved risk appetite, with additional oversight and control provided by the Executive Risk Committee and Board Risk Committee. Internal Audit provide additional assurance by undertaking regular reviews on the adequacy of credit risk policies and procedures.

*Wholesale and derivative credit risk*

The Bank's Treasury liquid assets portfolio is held primarily for liquidity management purposes and in the case of derivatives, for the purpose of managing market risk. The Treasury liquid 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.

Regular monitoring is undertaken by the Bank's Treasury and Financial Risk teams, including early warning indicators with appropriate triggers for escalation. Oversight of the Bank's Wholesale credit risk positions are included as part of ALCo.

## 32. Risk management *(continued)*

At 28 February 2025, the maximum credit exposure of the Bank in the event of other parties failing to perform their obligations is equal to the sum of loans and advances to customers, investment securities and credit lines and other commitments to lend. These are set out in notes 15, 19 and 31 respectively. No account is taken of any collateral held and the maximum exposure to loss is considered to be the instrument's statement of financial position carrying amount.

The table below shows the maximum exposure to credit risk for the components of the statement of financial position, including derivatives. The maximum exposure is shown gross, before the effect of mitigation through the use of collateral agreements.

| Credit risk exposures | **2025 £m** | 2024 £m |
|---|---|---|
| **On statement of financial position items** | | |
| Loans and advances to customers | **-** | 3,715 |
| Assets held for sale | **2,510** | - |
| Cash and balances with central banks | **1,138** | 1,078 |
| Derivative financial instruments | **5** | 15 |
| Loans and advances to other banks | **-** | - |
| Investment securities | **2,284** | 770 |
| Other assets | **122** | 827 |
| **Off statement of financial position items** | | |
| Loans commitments | **-** | 6 |
| Total credit risk exposures | **6,059** | 6,411 |

*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.

*Geographical sectors*

| Maximum exposure | **2025 £m** | 2024 £m |
|---|---|---|
| United Kingdom | **5,945** | 6,209 |
| Europe | **-** | 55 |
| Other | **114** | 147 |
| | **6,059** | 6,411 |

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.

*Industry sectors*

| Maximum exposure | **2025 £m** | 2024 £m |
|---|---|---|
| Retail | **2,514** | 3,721 |
| Financial institutions | **850** | 1,758 |
| Government | **2,695** | 932 |
| | **6,059** | 6,411 |

## 32. Risk management *(continued)*

### *Retail credit risk*

The Bank's retail credit risk management strategy has evolved in line with the overall strategy to exit financial services. Acquisition of new Loans and Credit Cards ceased during the financial year, meaning credit risk management on the Sainsbury's Bank brand is limited to existing credit card customers only. Retail credit risks are managed in accordance with limits set out within Board Risk appetite which is documented in detailed policies and policy standards. The cessation of acquisition for Loans and Cards constituted a significant change in the business, however in broad terms there were no significant changes in appetite to Credit Risk and risk profile. Some strategies were reviewed, mainly around continuing to update affordability calculations to reflect the rising cost of living. Reviews of credit risk appetite levels are subject to annual review and more frequently if required. Credit strategy is updated within appetite, to reflect emerging trends and/or changes to appetite.

We have considered whether any new or emerging risks (as detailed in the Strategic report on page 28) result in an impact on our ECL provisions. The economic uncertainty overlay held at 29 February 2024 was released during the current financial year, as outlined in note 2. To date climate risk has not resulted in any significant impact on our observed expected credit losses.

*Credit quality per class of financial asset*
The Bank's loans and advances to customers are summarised as follows:

| | **2025**[1] **£m** | 2024 £m |
|---|---|---|
| Impaired | **158** | 139 |
| Past due but not impaired | **17** | 22 |
| Neither past due nor impaired | **2,491** | 3,662 |
| Gross amount due | **2,666** | 3,823 |
| Less: allowance for impairment | **(148)** | (149) |
| hedging fair value adjustment | **24** | 41 |
| | **2,542** | 3,715 |
| IFRS 5 fair value adjustment | **(32)** | - |
| Carrying value | **2,510** | 3,715 |

[1]Classified as assets held for sale on the statement of financial position at 28 February 2025.

Stage 3 gross impaired loans includes £4m (2024: £6m) of unsecured loans that have cured however, are held in stage 3 due to the application of a probationary period.

## 32. Risk management *(continued)*

*Credit quality analysis*

| **28 February 2025** | **Stage 1 £m** | **Stage 2 £m** | **Stage 3 £m** | **Total £m** |
|---|---|---|---|---|
| **Impaired** | | | | |
| Less than 3 months, but impaired[1] | **-** | **-** | **10** | **10** |
| Over 3 months | **-** | **-** | **34** | **34** |
| Recoveries | **-** | **-** | **114** | **114** |
| Total gross impaired loans | **-** | **-** | **158** | **158** |
| | | | | |
| Past due 30 days to 3 months | **-** | **8** | **-** | **8** |
| Past due less than 30 days | **-** | **9** | **-** | **9** |
| Not past due | **2,367** | **124** | **-** | **2,491** |
| Total gross amount due | **2,367** | **141** | **158** | **2,666** |
| | | | | |
| Impairment | | | | |
| Impairment on gross balance | **15** | **15** | **118** | **148** |
| Undrawn commitments impairment | **2** | **1** | **1** | **4** |
| Total impairment | **17** | **16** | **119** | **152** |
| | | | | |
| Average 12 month PDs (stage 1 balances only) | | | | **0.7%** |
| Average lifetime PDs (stage 2 balances only) | | | | **21.0%** |
| Average LGD | | | | **55.8%** |
| Coverage | **0.7%** | **11.0%** | **75.4%** | **5.7%** |

[1]Includes £2m of loans that would have been past due had their terms not been renegotiated.

| 29 February 2024 | Stage 1 £m | Stage 2 £m | Stage 3 £m | Total £m |
|---|---|---|---|---|
| **Impaired** | | | | |
| Less than 3 months, but impaired[1] | - | - | 10 | 10 |
| Over 3 months | - | - | 41 | 41 |
| Recoveries | - | - | 88 | 88 |
| Total gross impaired loans | - | - | 139 | 139 |
| | | | | |
| Past due 30 days to 3 months | - | 11 | - | 11 |
| Past due less than 30 days | - | 11 | - | 11 |
| Not past due | 3,355 | 307 | - | 3,662 |
| Total gross amount due | 3,355 | 329 | 139 | 3,823 |
| | | | | |
| Impairment | | | | |
| Impairment on gross balance | 28 | 25 | 96 | 149 |
| Undrawn commitments impairment | 3 | 1 | 1 | 5 |
| Total impairment | 31 | 26 | 97 | 154 |
| | | | | |
| Average 12 month PDs (stage 1 balances only) | | | | 0.8% |
| Average lifetime PDs (stage 2 balances only) | | | | 17.5% |
| Average LGD | | | | 57.7% |
| Coverage | 0.9% | 7.9% | 69.8% | 4.0% |

[1]Includes £2m of loans that would have been past due had their terms not been renegotiated.

Bank unsecured coverage has increased from 4.0% to 5.7% year-on-year, driven by the cessation of new lending during the year following agreement to sell the lending portfolios which resulted in significant decreases in stage 1 and 2 balances.

## 32. Risk management *(continued)*

If a customer falls into arrears, the customer will be held in 'collections' where the Bank will work with the customer to try to 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 optimal recovery strategy.

*Credit quality*

The credit quality of the Bank's assets held for sale, comprising loans and advances to customers only, are summarised as follows:

| **IFRS 9**<br>**12 month probability of default** | **Probability %**<br>(no change from 2024) |
|---|---|
| High quality | <=3.02% |
| Satisfactory quality | >3.03%; < 11.10% |
| Low quality | >= 11.11% |
| Credit impaired | 100% |

| **28 February 2025** | **Stage 1**<br>**£m** | **Stage 2**<br>**£m** | **Stage 3**<br>**£m** | **Total**<br>**£m** |
|---|---|---|---|---|
| High quality | **2,103** | **20** | **-** | **2,123** |
| Satisfactory quality | **261** | **75** | **-** | **336** |
| Low quality | **3** | **46** | **-** | **49** |
| Credit impaired | **-** | **-** | **158** | **158** |
| **Total gross amount due** | **2,367** | **141** | **158** | **2,666** |

| 29 February 2024 | Stage 1<br>£m | Stage 2<br>£m | Stage 3<br>£m | Total<br>£m |
|---|---|---|---|---|
| High quality | 2,870 | 81 | - | 2,951 |
| Satisfactory quality | 471 | 174 | - | 645 |
| Low quality | 14 | 74 | - | 88 |
| Credit impaired | - | - | 139 | 139 |
| Total gross amount due | 3,355 | 329 | 139 | 3,823 |

The following table shows the maximum exposure to credit risk for commitments and balances measured at amortised cost in accordance with IFRS 9 along with the related amounts which are credit impaired at the reporting date.

| | **2025**<br>**Maximum exposure to credit risk**<br>**£m** | 2024<br>Maximum exposure to credit risk<br>£m |
|---|---|---|
| **Loan Commitments** | **4,089** | 5,078 |
| Of which credit impaired | **19** | 19 |
| **Financial assets measured at amortised cost – Retail lending** | | 3,823 |
| Of which credit impaired | | 139 |
| **Held for sale assets** | **2,666** | |
| Of which credit impaired | **158** | |
| **Total** | **6,755** | 8,901 |
| Of which credit impaired | **177** | 158 |

*Forbearance*

The Bank provides support to customers who are experiencing financial difficulties. Forbearance is relief granted by a lender to assist customers in financial difficulty, through arrangements which temporarily allow the customer to pay an amount other than the contractual amounts due. These temporary arrangements may be initiated by the customer or the Bank where financial difficulty would prevent repayment within the original terms and conditions of the contract. The main aim of forbearance is to support customers in returning to a position where they are able to meet their contractual obligations.

## 32. Risk management *(continued)*

The Bank has well defined forbearance policies and processes. A number of forbearance options are made available to customers. These include arrangements to repay arrears over a period of time, by making payments above the contractual amount, that ensure the loan is repaid within the original repayment term and short-term concessions, where the borrower is allowed to make reduced repayments (or in exceptional circumstances, no repayments) on a temporary basis to assist with short-term financial hardship.

The table below details the values of unsecured advances that are subject to forbearance programmes.

| | **2025** | | | 2024 | | |
|---|---|---|---|---|---|---|
| | **Gross loans and advances subject to forbearance £m** | **Forbearance as a total of loans and advances %** | **Forbearance covered by impairment provision %** | Gross loans and advances subject to forbearance £m | Forbearance as a total of loans and advances % | Forbearance covered by impairment provision % |
| Unsecured | **48** | **1.8** | **68.2** | 38 | 1.0 | 65.9 |

*Climate-related credit risk*

To date we have not seen and do not actively monitor any changes to the probability of default or loss given default that arise as a result of physical or transitional climate risk. Given the Bank's strategic direction to exit core banking expected to occur over the short term we do not anticipate there will be any material exposure to credit risks as a result of climate change.

Governmental and societal responses to climate change risks are still developing, and are interdependent upon each other, consequently financial statements cannot capture all possible future outcomes as these are not yet known.

*Debt securities, balances with central banks and other eligible investment securities*

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 2025 was £nil (2024: £nil). The tables below present an analysis of the credit quality of cash and cash equivalents and the treasury assets portfolio by market value.

| **At 28 February 2025** | **Cash and balances with central banks £m** | **UK government securities £m** | **Other investment securities £m** | **Total £m** |
|---|---|---|---|---|
| Aaa to A3 | **-** | **1,653** | **631** | **2,284** |
| ATM cash and balances with central banks | **1,119** | **-** | **-** | **1,119** |
| Other demand deposits | **19** | **-** | **-** | **19** |
| | **1,138** | **1,653** | **631** | **3,422** |

| At 29 February 2024 | Cash and balances with central banks £m | UK government securities £m | Other investment securities £m | Total £m |
|---|---|---|---|---|
| Aaa to A3 | - | - | 770 | 770 |
| ATM cash and balances with central banks | 1,051 | - | - | 1,051 |
| Other demand deposits | 27 | - | - | 27 |
| | 1,078 | - | 770 | 1,848 |

*Credit Risk Profile by external rating grades of Treasury Assets measured at FVOCI*

| | **2025** | | 2024 | |
|---|---|---|---|---|
| External Rating Grades | **Non-credit impaired Stage 1 £m** | **Total Gross Carrying Amount £m** | Non-credit impaired Stage 1 £m | Total Gross Carrying Amount £m |
| Aaa to A3 | **2,284** | **2,284** | 770 | 770 |
| | **2,284** | **2,284** | 770 | 770 |

## 32. Risk management *(continued)*

*Financial assets and liabilities subject to offsetting, master netting agreements and similar agreements*

The following table shows financial instruments which are subject to offsetting, master netting and similar agreements:

| **At 28 February 2025** | **Gross assets / (liabilities) recognised £m** | **Amounts offset £m** | **Net amounts recognised in the statement of financial position £m** | **Related amounts not offset in the statement of financial position: Financial instruments £m** | **Related amounts not offset in the statement of financial position: Collateral pledged / (received) £m** | **Net amounts £m** |
|---|---|---|---|---|---|---|
| Derivative financial instruments – assets | **5** | **-** | **5** | **-** | **-** | **5** |
| Derivative financial instruments – liabilities | **(7)** | **-** | **(7)** | **-** | **7** | **-** |
| | **(2)** | **-** | **(2)** | **-** | **7** | **5** |

| At 29 February 2024 | Gross assets / (liabilities) recognised £m | Amounts offset £m | Net amounts recognised in the statement of financial position £m | Related amounts not offset in the statement of financial position: Financial instruments £m | Related amounts not offset in the statement of financial position: Collateral pledged / (received) £m | Net amounts £m |
|---|---|---|---|---|---|---|
| Derivative financial instruments – assets | 15 | | 15 | - | (10) | 5 |
| Derivative financial instruments – liabilities | (56) | - | (56) | - | 56 | - |
| | (41) | - | (41) | - | 46 | 5 |

The Bank has derivatives which are governed by the International Swaps and Derivatives Association (ISDA), credit support annex (CSA) and cleared derivatives execution agreement (CDEA) whereby if the fair value exceeds a pre-agreed level, cash collateral is exchanged. The Bank's exposures are held with a central clearing counterparty, the London Clearing House (LCH), the terms of which also required an initial margin to be provided. At 28 February 2025, the Bank had posted cash collateral of £2m (2024: £40m) and received cash collateral of £nil (2024: £10m) against its derivative positions, and posted £16m of initial margin in the form of cash (2024: £16m).

**Liquidity and funding risk**

Liquidity risk is the risk that the Bank cannot meet its payment obligations as they fall due or can only do so at excessive cost. The Bank seeks to ensure that financial obligations can be met at all times, even under liquidity stress conditions.

The annual ILAAP enables the Bank to:

- Identify and assess its most relevant liquidity risk drivers
- Quantify its liquidity needs under various stress scenarios and
- Put in place appropriate limits and controls to mitigate liquidity risks.

In meeting its internal limits as well as PRA requirements, the Bank maintains a stock of high-quality liquid assets that can be readily monetised by outright sale or repurchase agreement to meet the Bank's obligations to depositors and other creditors.

The Bank's Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) are regularly monitored and forecast alongside net cash flows and key funding ratios. Treasury prepare long term and short-term forecasts to assess liquidity requirements, taking into account factors such as ATM cash management, contractual maturities, and customer deposit patterns (stable or less stable deposits) as well as outflows regarding undrawn commitments. These reports support daily liquidity risk management, with early warning indicators reviewed on a daily basis and appropriate triggers for escalation and action in line with risk appetite, Liquidity and Funding Risk Policy and Liquidity Contingency Plan (which is incorporated in the Recovery Plan). Asset encumbrance ratios and key risk indicators for wholesale funding are also regularly monitored and reported to ALCo.

## 32. Risk management *(continued)*

The table below shows the undiscounted cash flows on the Bank's financial assets, liabilities, and unrecognised loan commitments on the basis of their earliest possible contractual maturity. The expected (behavioural) cash flows on these instruments vary significantly from this analysis and as such are regularly modelled to ensure operational net cash flows are managed. The disclosure for derivatives shows a gross inflow and outflow amount. As derivatives have a simultaneous net settlement it is not considered representative to show only the outflow amount.

Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay, and the table does not reflect the expected cash flows indicated by the Bank 's deposit retention history.

| At 28 February 2025 | Less than 1 month £m | 1 to 3 months £m | 3 to 12 months £m | 1 to 5 years £m | Over 5 years £m | Total £m |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| *Non-derivative assets* | | | | | | |
| Cash and balances at central banks | 1,138 | - | - | - | - | 1,138 |
| Held for sale assets | 1,023 | 151 | 557 | 1,091 | 18 | 2,840 |
| Investment securities | 295 | 636 | 650 | 793 | - | 2,374 |
| Other assets | 75 | 7 | 32 | 11 | - | 125 |
| Long term interest receivable | - | - | - | - | - | - |
| | 2,531 | 794 | 1,239 | 1,895 | 18 | 6,477 |
| Net derivative asset cash flows | 10 | 9 | 44 | 58 | - | 121 |
| Total cash inflows | 2,541 | 803 | 1,283 | 1,953 | 18 | 6,598 |
| **Liabilities** | | | | | | |
| *Non-derivative liabilities* | | | | | | |
| Liabilities held for sale | (2,536) | (268) | (354) | (113) | - | (3,271) |
| Other deposits | (712) | (740) | (542) | (14) | - | (2,008) |
| Other liabilities | (404) | - | - | (2) | - | (406) |
| Subordinated Debt | (6) | - | (7) | (145) | - | (158) |
| | (3,658) | (1,008) | (903) | (274) | - | (5,843) |
| Net derivative liability cash flows | (6) | (9) | (48) | (60) | - | (123) |
| Unrecognised loan commitments | - | - | - | - | - | - |
| Total cash outflows | (3,664) | (1,017) | (951) | (334) | - | (5,966) |
| Net liquidity | (1,123) | (214) | 332 | 1,619 | 18 | 632 |

## 32. Risk management *(continued)*

| At 29 February 2024 | Less than 1 month £m | 1 to 3 months £m | 3 to 12 months £m | 1 to 5 years £m | Over 5 years £m | Total £m |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| *Non-derivative assets* | | | | | | |
| Cash and balances at central banks | 1,078 | - | - | - | - | 1,078 |
| Loans and advances to customers | 1,533 | 240 | 682 | 1,624 | 48 | 4,127 |
| Loans and advances to other banks | - | - | - | - | - | - |
| Investment securities | 5 | 16 | 49 | 809 | - | 879 |
| Other assets | 729 | 16 | 46 | 41 | - | 832 |
| Long term interest receivable | - | - | - | - | - | - |
| | 3,345 | 272 | 777 | 2,474 | 48 | 6,916 |
| Net derivative asset cash flows | 20 | 1 | 43 | 108 | 2 | 174 |
| Total cash inflows | 3,365 | 273 | 820 | 2,582 | 50 | 7,090 |
| **Liabilities** | | | | | | |
| *Non-derivative liabilities* | | | | | | |
| Customer accounts | 3,367 | 252 | 600 | 194 | - | 4,413 |
| Other deposits | 733 | 220 | 626 | 44 | - | 1,623 |
| Other liabilities | 81 | 1 | 4 | 6 | - | 92 |
| Subordinated Debt | 6 | - | 6 | 164 | - | 176 |
| | 4,187 | 473 | 1,236 | 408 | - | 6,304 |
| Net derivative liability cash flows | 8 | 11 | 52 | 114 | - | 185 |
| Unrecognised loan commitments | 6 | - | - | - | - | 6 |
| Total cash outflows | 4,201 | 484 | 1,288 | 522 | - | 6,495 |
| Net liquidity | (836) | (211) | (468) | 2,060 | 50 | 595 |

*Asset Encumbrance*

An asset is defined as encumbered if it has been pledged as collateral against a recognised or off statement of financial position liability and therefore is no longer available for disposal or as collateral to support liquidity or funding requirements of the Bank. The encumbrance levels of assets and related recognised or off statement of financial position liabilities are shown in the following tables.

| **At 28 February 2025** | **Encumbered £m** | **Unencumbered £m** | **Total £m** |
|---|---|---|---|
| Loans and advances to customers[1] | **-** | **-** | **-** |
| Assets held for sale | **485** | **2,026** | **2,511** |
| Debt securities | **-** | **2,284** | **2,284** |
| Other assets | **18** | **449** | **467** |
| Cash, balances with central banks | **-** | **1,138** | **1,138** |
| | **503** | **5,897** | **6,400** |

[1]Classified as assets held for sale at 28 February 2025.

| At 29 February 2024 | Encumbered £m | Unencumbered £m | Total £m Represented[1] |
|---|---|---|---|
| Loans and advances to customers | 1,444 | 2,271 | 3,715 |
| Debt securities | 25 | 745 | 770 |
| Other assets | 76 | 1,107 | 1,183 |
| Cash, balances with central banks | 14 | 1,064 | 1,078 |
| | 1,559 | 5,187 | 6,746 |

[1]The prior year has been re-presented on the basis of Sainsbury's Bank plc producing solo financial statements in the current year.

## 32. Risk management (continued)

| At 28 February 2025 | Carrying value of encumbered assets £m | Matching liabilities, contingent liabilities or securities lent £m |
|---|---|---|
| Loans and advances to customers | **-** | **-** |
| Assets held for sale | **485** | **-** |
| Debt securities | **-** | **-** |
| Other assets | **18** | **2** |
| Cash, balances with central banks and loans and advances to banks | **-** | **-** |
| | **503** | **2** |

| At 29 February 2024 | Carrying value of encumbered assets £m | Matching liabilities, contingent liabilities or securities lent £m |
|---|---|---|
| Loans and advances to customers | 1,444 | 602 |
| Debt securities | 25 | 5 |
| Other assets | 76 | 41 |
| Cash, balances with central banks and loans and advances to banks | 14 | - |
| | 1,559 | 648 |

The main sources of encumbrance in the Bank relate to margin requirements for derivative transactions and collateral relating to secured funding transactions. Cash collateral is advanced and received as variation margin on derivatives transactions, whilst eligible treasury assets are pledged as collateral for initial margin requirements on derivatives which are centrally cleared. As at 29 February 2024, eligible personal loans with applicable haircuts were used as collateral for the Bank of England's Term Funding Scheme Small and Medium-sized enterprises (TFSME) and Indexed Long-term Repo (ILTR) facilities. During the year ended 28 February 2025, the Bank fully repaid its drawings under the TFSME scheme, however £485m of personal loan assets remain pledged to the Bank of England to facilitate funding from the Bank of England if required. 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.

### Market risk

Market risk is the risk of loss as a result of the value of the Bank's assets, liabilities and off-balance-sheet instruments being adversely affected by movements in market prices, interest rates or foreign exchange rates which leads to a reduction in either earnings or economic value. The key market risks are Interest Rate Risk in the Banking Book (IRRBB) and Foreign Exchange risk. The Bank does not have a trading book.

*Interest Rate Risk in the Banking Book*

IRRBB is the current or prospective risk to both earnings and economic value from movements in interest rates. The main sub-types of IRRBB include:

- *Re-pricing risk (or gap risk)*: the risk arising from timing differences in the interest rate changes of Bank assets and liabilities (e.g. fixed rate personal loans and instant access savings accounts).
- *Yield curve risk*: the risk arising from changes in the slope and shape of the yield curve.
- *Basis risk*: risk arising from imperfect correlation between different interest rate indices (e.g. administered rate on savings products and treasury assets linked to SONIA).
- *Prepayment risk*: the risk arising from the timing of customer prepayments which differ from planning and hedging assumptions.
- *Credit Spread Risk*: the risk of adverse effects resulting from a change in credit spreads, arising via the Bank's treasury assets portfolio.

## 32. Risk management *(continued)*

*Foreign exchange risk*
The Bank is exposed to FX risk through its holding of cash denominated in foreign currencies, primarily Euro and US Dollar, within its travel money bureaux in J Sainsbury plc stores and its currency dispensing ATM machines. Foreign exchange risk is currently mitigated through forward rate transactions. Further details of the hedging arrangements in place at year end are disclosed in note 18.

*Risk Appetite Measures*
The Bank's market risk appetite statements defines limits for the following market risk measures:

- *Capital at Risk:* an aggregate measure based on assessing each of the IRRBB risks and allocating a capital charge against each risk driver using a series of plausible but severe interest rate stresses. This includes parallel and non-parallel movements of the yield curve. Where applicable a customer behavioural repayment profile is applied.
- *Annual Earnings at Risk*: measures the sensitivity of the Bank's earnings over the next 12 months, in response to adverse movements in interest rates.

*Controls and Mitigants*
The Market Risk Policy defines the approach the Bank must apply to measure, monitor, and control market risk which includes the Board approved market risk appetite statement and specific limits. The Treasury function undertakes the day-to-day management of market risk, using systems and models to assess risk exposure against limits. Oversight is provided by the Financial Risk team in 2nd line.

The main hedging instruments used to hedge IRRBB exposures are interest swaps as well as taking into account natural hedges between assets and liabilities with similar repricing characteristics in the first instance. Any residual exposures are then assessed against Board approved limits.

Hedging strategies are implemented and reviewed on a regular basis at ALCo to ensure the Bank remains within limits.

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

| | **2025** | 2024 |
|---|---|---|
| | **£m** | £m |
| +/- 100 basis points | **5/(5)** | 1/2 |

The methodology used in calculation of earnings at risk shows a dynamic view of the statement of financial position.

## 33. Capital resources (unaudited)

From a prudential perspective, the Bank is monitored and supervised on a consolidated basis with its subsidiary, Home Retail Group Card Services Limited. The Bank has obtained an individual consolidation waiver from the PRA, which allows the Bank to monitor its capital position on a consolidated basis only. Therefore, the capital position shown below is on a regulatory consolidated basis.

Regulatory capital is calculated under the Capital Requirements Regulations and Capital Requirements Directive (collectively known as CRD IV). In 2020, an alternative transitional model was introduced to relieve Covid-19 related ECL increases within regulatory capital over a period of five years. The Bank no longer benefits from the transitional relief and as a result, the capital resources on a transitional basis are the same as the full impact basis at the statement of financial position date as shown below.

| The regulatory consolidated group | **Transitional 2025 IFRS9 £m** | **Full impact 2025 IFRS9 £m** | Transitional 2024 IFRS9 £m | Full impact 2024 IFRS9 £m |
|---|---|---|---|---|
| **Common Equity Tier 1 (CET 1) capital:** | | | | |
| Ordinary share capital | **701** | **701** | 701 | 701 |
| Allowable reserves | **(51)** | **(51)** | 48 | 48 |
| **CET 1 capital pre Regulatory adjustments** | **650** | **650** | 749 | 749 |
| **Regulatory adjustments:** | | | | |
| Additional value adjustment | **(9)** | **(9)** | (1) | (1) |
| Transitional adjustment | **-** | **-** | 1 | - |
| **Total Regulatory adjustments to CET 1 Capital** | **(9)** | **(9)** | - | (1) |
| **Tier 1 Capital** | **641** | **641** | 749 | 748 |
| Loan notes (listed) | **64** | **64** | 100 | 100 |
| **Tier 2 Capital** | **64** | **64** | 100 | 100 |
| **Total capital** | **705** | **705** | 849 | 848 |

The movement of CET 1 capital during the financial year is analysed as follows:

| The regulatory consolidated group | **Transitional 2025 IFRS9 £m** | **Full impact 2025 IFRS9 £m** | Transitional 2024 IFRS9 £m | Full impact 2024 IFRS9 £m |
|---|---|---|---|---|
| At 1 March | **749** | **748** | 722 | 699 |
| Loss for the year (including subsidiaries) | **(100)** | **(100)** | (117) | (117) |
| Transitional adjustments | **(1)** | **-** | (22) | - |
| Other reserve movements | **1** | **1** | - | - |
| Movement in additional value adjustments | **(8)** | **(8)** | - | - |
| Movement in non-performing exposures insufficient coverage | **-** | **-** | 1 | 1 |
| Movement in intangible assets | **-** | **-** | 165 | 165 |
| **As at 28/29 February** | **641** | **641** | 749 | 748 |

## 33. Capital resources (unaudited) *(continued)*

*Reconciliation of statutory reserves to regulatory reserves*

| The regulatory consolidated group | 2025 £m | 2024 £m |
|---|---|---|
| Total shareholders' funds of the Bank | **648** | 729 |
| Total shareholders' funds of subsidiary undertakings and consolidation adjustments | **2** | 20 |
| Regulatory adjustments | **(9)** | - |
| **CET 1 capital** | **641** | 749 |

*Leverage ratio (unaudited)*

The leverage ratio is defined as the ratio of Tier 1 capital to adjusted assets, which is measured below on a regulatory consolidated basis. The denominator represents the total non-risk weighted assets of the regulatory group adjusted for certain off statement of financial position exposures assets and regulatory deductions and provides a non-risk-weighted 'backstop' capital measure. The leverage ratio is calculated below as at 28 February 2025 on the UK basis which allows central bank assets to be excluded from the leverage exposures. The Bank's leverage ratio of 11.5% (2024: 11.3%) exceeds the minimum Basel leverage ratio of 3%.

| The regulatory consolidated group | Transitional 2025 IFRS9 £m | Full impact 2025 IFRS9 £m | Transitional 2024 IFRS9 £m Re-presented[1] | Full impact 2024 IFRS9 £m Re-presented[1] |
|---|---|---|---|---|
| **Components of the leverage ratio** | | | | |
| Total assets as per published financial statements | **6,400** | **6,400** | 6,746 | 6,746 |
| Movement on consolidation of subsidiary undertakings[1] | **(209)** | **(209)** | 64 | 64 |
| Exposure value for derivatives and securities financing transactions | **7** | **7** | 30 | 30 |
| Off statement of financial position exposures: unconditionally cancellable (10%) | **411** | **411** | 769 | 769 |
| Off statement of financial position: other (100%) | **-** | **-** | 1 | 1 |
| Other adjustments | **(13)** | **(13)** | (78) | (78) |
| Transitional adjustment | **-** | **-** | 1 | - |
| Central bank claims | **(1,043)** | **(1,043)** | (886) | (886) |
| | **5,553** | **5,553** | 6,647 | 6,646 |
| Tier 1 capital | **641** | **641** | 749 | 748 |
| **Leverage ratio** | **11.5%** | **11.5%** | 11.3% | 11.3% |

[1]The prior year has been re-presented on the basis of Sainsbury's Bank plc producing solo financial statements in the current year. The movement on consolidation of subsidiary undertakings represents the consolidation of Home Retail Group Cards Services into the regulatory consolidated group.

*Capital management*

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. Capital adequacy is monitored on an on-going basis by senior management, the ALCo, the Executive Risk Committee and the Board Risk Committee. Our submissions to the PRA in the year have shown that the Bank has complied with all externally imposed capital requirements.

## 34. Fair value of financial instruments

### Fair value hierarchy

IFRS 13 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions. These two types of inputs have created the following fair value hierarchy:

*Level 1*

Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges (for example, London Stock Exchange, Frankfurt Stock Exchange, New York Stock Exchange) and exchange traded derivatives like futures.

*Level 2*

Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). The sources of input parameters like SONIA yield curve or counterparty credit risk are Bloomberg and Reuters.

*Level 3*

Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible.

The below table provides an analysis of the relevant fair value hierarchy for items recognised at fair value:

| **At 28 February 2025** | **Level 1 £m** | **Level 2 £m** | **Level 3 £m** | **Total £m** |
|---|---|---|---|---|
| Derivatives designated as fair value hedging instruments | **-** | **1** | **-** | **1** |
| Derivatives not in fair value hedging relationships | **-** | **4** | **-** | **4** |
| Investment Securities | **2,104** | **180** | **-** | **2,284** |
| Total assets | **2,104** | **185** | **-** | **2,289** |
| Derivatives designated as fair value hedging instruments | **-** | **7** | **-** | **7** |
| Total liabilities | **-** | **7** | **-** | **7** |

| At 29 February 2024 | Level 1 £m | Level 2 £m | Level 3 £m | Total £m |
|---|---|---|---|---|
| Derivatives designated as fair value hedging instruments | - | 15 | - | 15 |
| Derivatives not in fair value hedging relationships | - | - | - | - |
| Investment Securities | 768 | 2 | - | 770 |
| Total assets | 768 | 17 | - | 785 |
| Derivatives designated as fair value hedging instruments | - | 56 | - | 56 |
| Total liabilities | - | 56 | - | 56 |

The table below summarises the fair value of financial assets and liabilities that are not presented in the Bank's statement of financial position at fair value. The fair values of financial instruments are based on market prices where available or are estimated using other valuation techniques. Where they are short term in nature or re-price frequently, fair value approximates to carrying value.

## 34. Fair value of financial instruments *(continued)*

| | **2025** Carrying value £m | **2025** Fair value £m | 2024 Carrying value £m | 2024 Fair value £m |
|---|---|---|---|---|
| **Assets:** | | | | |
| Loans and advances to customers | **-** | **-** | 3,715 | 3,534 |
| Cash and balances at central banks | **1,138** | **1,138** | 1,078 | 1,078 |
| **Liabilities:** | | | | |
| Customer accounts | **-** | **-** | 4,165 | 4,172 |
| Other deposits | **1,968** | **1,990** | 1,557 | 1,561 |
| Subordinated debt | **124** | **142** | 122 | 136 |

During the year, loans and advances to customers and customer accounts have been transferred to assets and liabilities held for sale respectively. The loans and advances to customers continue to be held at amortised cost under IFSRS 9 (see note 1 for details), with a fair value adjustment to reflect the assets held for sale at fair value less costs to sell under IFRS 5. See note 14 for further detail.

The carrying value of other assets and other liabilities is a reasonable approximation of fair value.

The fair value hierarchy classification adopted by the Bank in respect of assets not presented in the Bank's statement of financial position at fair value is shown in the following table:

| **At 28 February 2025** | **Level 1 £m** | **Level 2 £m** | **Level 3 £m** | **Total £m** |
|---|---|---|---|---|
| Loans and advances to customers | - | - | - | - |
| Cash and balances at central banks | - | **1,138** | - | **1,138** |
| Total assets | - | **1,138** | - | **1,138** |
| Customer accounts | - | - | - | - |
| Other deposits | - | **1,990** | - | **1,990** |
| Subordinated debt | **142** | - | - | **142** |
| Total liabilities | **142** | **1,990** | - | **2,132** |

| At 29 February 2024 | Level 1 £m | Level 2 £m | Level 3 £m | Total £m |
|---|---|---|---|---|
| Loans and advances to customers | - | 3,534 | - | 3,534 |
| Cash and balances at central banks | - | 1,078 | - | 1,078 |
| Total assets | - | 4,612 | - | 4,612 |
| Customer accounts | - | 4,172 | - | 4,172 |
| Other deposits | - | 1,561 | - | 1,561 |
| Subordinated debt | 136 | - | - | 136 |
| Total liabilities | 136 | 5,733 | - | 5,869 |

In the prior year, the estimated fair value of loans and advances to customers represented the discounted amount of estimated future cash flows to be received. Cash flows were discounted at current market rates to determine fair value. The market rates used in discounting ensured a required level of return to market participants taking into account factors such as interest rate risk, credit risk and prepayment risk and therefore it is appropriate to discount contractual cash inflows by these amounts. In the current year, loans and advances to customers have been transferred to asset held for sale and are carried at fair value less costs to sell in accordance with IFRS 5.

For fixed interest-bearing deposits and other borrowings without quoted market price, valuations are based on discounted cash flows using market interest rates for new lending with similar remaining maturity. The estimated fair value of deposits with no stated maturity is the amount repayable on demand.

## 35. Parent company

The immediate and ultimate parent company and controlling party of the Bank is J Sainsbury plc, which is registered in England. Its registered office is 33 Holborn, London, EC1N 2HT. J Sainsbury plc forms the only group into which the financial statements of the Group are consolidated. Copies of the parent company's financial statements may be obtained from www.about.sainsburys.co.uk.

## 36. Share-based payments

| | |
|---|---|
| **Accounting policy** | The Bank, through schemes operated by its parent company J Sainsbury plc, provides benefits to employees (including Directors) in the form of equity-settled and cash-settled share-based payment transactions, whereby employees render services in exchange for shares, rights over shares or the value of those shares in cash terms.<br><br>For equity-settled share-based payments the fair value of the employee services rendered is determined by reference to the fair value of the shares awarded or options granted, excluding the impact of any non-market vesting conditions. All share options are valued using an option-pricing model (Black-Scholes). This fair value is charged to the income statement over the vesting period of the share-based payment scheme with a corresponding increase to equity.<br><br>The value of the charge is adjusted in the income statement over the remainder of the vesting period to reflect expected and actual levels of options vesting, with the corresponding adjustments made in equity and accruals. |

### Income statement

The Bank recognised a total of £8m (2024: £6m) of employee costs related to share-based payment transactions made during the financial year, of which £3m (2024: £1m) related to continuing operations (see note 7). Of these, £nil (2024: £nil) were cash-settled.

The parent company, J Sainsbury plc, operates various share-based payment schemes, in which employees of the Bank participate.

### a. Savings Related Share Option Scheme (Sharesave)

The Sainsbury's Group operates a Savings-Related Share Option Scheme, which is open to all UK employees with more than three months' continuous service. This is an approved HMRC Scheme and was established in 1980. Under Sharesave, participants remaining in the Sainsbury's Group's employment at the end of the three-year (and historically also five-year) savings period are entitled to use their savings to purchase shares in J Sainsbury plc at a pre-stated exercise price.

Employees leaving for certain reasons can use their savings to purchase shares within six months of their leaving.

| | **2025 Number of options million** | **2025 Weighted average exercise price pence** | 2024 Number of options million | 2024 Weighted average exercise price pence Re-presented[1] |
|---|---|---|---|---|
| Outstanding at end of year | **1.2** | **193** | 1.4 | 188 |
| Exercisable at end of year | **-** | **-** | - | - |
| Exercisable price range | | **161 to 228** | | 161 to 260 |
| Weighted average share price at date of exercise | | **262** | | 267 |
| Weighted average remaining contractual life | | **2.1 years** | | 2.3 years |

[1] The prior year has been adjusted for deconsolidation.

Options granted during the year were valued using the Black-Scholes option-pricing model. No performance conditions were included in the fair value calculations.

## 36. Share-based payments *(continued)*

| | **2025** | 2024 |
|---|---|---|
| Share price at grant date | **275p** | 300p |
| Exercise price | **200p** | 213p |
| Expected volatility | **24.1%** | 25.2% |
| Option life | **3.2 years** | 3.2 years |
| Expected dividend yield | **4.8%** | 4.9% |
| Risk-free interest rate | **4.9%** | 5.3% |
| Fair value per option | **57p** | 66p |

The expected volatility is based on the standard deviation of the J Sainsbury plc share price for the period immediately prior to the date of grant of award, over the period identical to the vesting period of the award, adjusted for management's view of future volatility of the share price.

### b. Long-Term Incentive Plan

Under the Long-Term Incentive Plan, shares in J Sainsbury plc are conditionally awarded to the senior leaders in the Company. Awards are calculated as a percentage of the participants' salaries and scaled according to grades.

Performance is measured at the end of the three-year performance period. If the required performance conditions, which are financial and non-financial non-market conditions, have been met, the awards vest and the participants are able to exercise 100% of the awards received. For 2020 awards and prior, recipients were only able to receive 50% of their awards after three years and 50% of their awards after four years. From 2021 onwards, schemes vest and participants are able to exercise after three years. Awards will expire five years from the grant date.

For awards granted in and before the year ended 4 March 2023, a core share award was granted which could grow by up to four times, dependent on the level of performance. For awards granted in the years ended 2 March 2024 and 1 March 2025, the maximum share award is allocated, and the award will vest between 0 per cent and 100 per cent based on performance against targets. Awards are structured as nil cost.

Dividends will accrue on the shares that vest in the form of additional shares, except for certain colleagues who are unable to receive dividend equivalents due to financial services regulations.

| | **2025 Million** | 2024 Million Re-presented[1] |
|---|---|---|
| Outstanding at end of year | **5.0** | 2.8 |
| Weighted average share price at date of exercise | **268 pence** | 281 pence |
| Weighted average remaining contractual life | **3.2 years** | 3.1 years |

[1] The prior year has been adjusted for deconsolidation.

No performance conditions were included in the fair value calculations.

### c. Nil-cost Share Award

The nil-cost share schemes include Bonus Share Awards and other Conditional Awards.

Senior Leaders receive a percentage of their bonus award in shares. Before 2021, bonus awards had a three-year deferral period. However, awards granted from 2021 now have a deferral period of two years, except for certain colleagues who are subject to a deferral period due to financial services regulations.

Other conditional awards relate to the retention and recruitment of Senior Leaders as part of the wider reward strategy. Awards vest, typically between one and three years, subject to participants remaining in employment at the vesting date.

Dividends accrue on these shares and vest in the form of additional shares released at the end of the deferral period.

### 36. Share-based payments *(continued)*

| | **2025** **Million** | 2024 Million Re-presented[1] |
|---|---|---|
| Outstanding at end of year | **2.2** | 2.1 |
| Weighted average share price at date of exercise | **263 pence** | 262 pence |
| Weighted average remaining contractual life | **1.7 years** | 2.5 years |

### 37. Related party transactions

#### a) Transactions with related entities

**J Sainsbury plc**

The Bank is a wholly owned subsidiary of J Sainsbury plc. From time to time the Treasury function of J Sainsbury plc places short term cash deposits with the Bank on an arm's length basis, receiving interest in return.

| | **2025** **£m** | 2024 £m |
|---|---|---|
| **Transactions during the year** | | |
| *Deposits by J Sainsbury plc:* | | |
| Interest payable by the Bank | **1** | 2 |
| **Balances at end of year** | | |
| *Deposits by J Sainsbury plc:* | | |
| Balance at the reporting date | **-** | - |

**Sainsbury's Supermarkets Limited**

Sainsbury's Supermarkets Limited is a fellow subsidiary of J Sainsbury plc. Certain services are provided between the two entities.

| | **2025** **£m** | 2024 £m |
|---|---|---|
| **Transactions during the year** | | |
| Transactions with Sainsbury's Supermarkets Limited | **17** | 24 |
| **Balances at end of year** | | |
| *Other assets:* | | |
| *Tax losses surrendered* | **3** | 22 |
| *Other liabilities:* | | |
| Expenses recharged | **(27)** | (3) |
| Net intercompany (payable)/receivable | **(24)** | 19 |

Included within expenses recharged by Sainsbury's Supermarkets Limited are amounts relating to Nectar points, operating expenses and disposal transaction costs.

## 37. Related party transactions *(continued)*

**Home Retail Group Card Services**

| | 2025 £m | 2024 £m |
|---|---|---|
| **Transactions during the year** | | |
| Interest receivable on intercompany loan | **(41)** | (35) |
| Management services provided by Sainsbury's Bank plc | **(6)** | (9) |
| Dividend received | **(30)** | (25) |
| **Balances at end of year** | | |
| *Other assets:* | | |
| Intercompany loan | **-** | 523 |
| *Other liabilities:* | | |
| Intercompany deposit | **(286)** | - |
| Net intercompany (payable)/receivable | **(286)** | 523 |

The Bank provides funding to Home Retail Group Card Services Limited via an intercompany loan. Following the sale completion of the AFS Storecard portfolio from HRG to NewDay on 28 February 2025, the proceeds were used to pay the Bank an interim dividend of £30m, and the outstanding intercompany loan balance at that date was repaid. The remaining proceeds of the sale were placed on deposit with the Bank on 28 February 2025.

**Drury Lane Funding 2020-1 plc**

The Bank has no direct or indirect ownership interest in the equity of the Drury Lane Funding 2020-1 plc, however the company was established for the purpose of providing a source of funding to the Bank by way of contractual agreement. On 11 November 2020, the Bank securitised and sold a pool of personal loans to Drury Lane Funding 2020-1 plc. The SPV issued £500m Senior class A notes and Junior/Subordinated class Z notes to the bank.

The securitisation programme linked to Drury Lane Funding 2020-1 plc was fully redeemed on 28 October 2024. From inception to the redemption date, there were no external investors in the loan notes issued by the SPV and as a result, the Bank had effective control over the SPV. The Bank did not recognise a liability for the failed sale and separate asset for the notes held to avoid double counting of the rights and obligations pertaining to the personal loans subject to the securitisation. Furthermore, the securitised pool of personal loan assets failed the derecognition requirements of IFRS 9 therefore the Bank continued to recognise the personal loans on its balance sheet. The relevant personal loans continue to be serviced by the Bank, with a servicer fee receivable from the SPV up to redemption.

The prior year intercompany asset relates to cash collected by the Bank on the securitised loans that has been paid across to the SPV. As the Bank retained the risk and rewards of the securitised loans and retained the notes issued by the SPV, these cash payments were treated as an intercompany asset. As at the 29 February 2024, the Bank had pledged £547m of personal loans to the SPV. Following the redemption of the securitisation programme, there are no longer any loans pledged to the SPV, and all outstanding intercompany balances have been repaid.

From the redemption date, the Bank no longer has the rights to substantially all the benefits from the activities of Drury Lane Funding 2020-1 plc. The company is therefore no longer effectively controlled by the Bank from that date.

| | 2025 £m | 2024 £m |
|---|---|---|
| **Transactions during the year** | | |
| Interest received | **(40)** | (31) |
| **Balances at end of year** | | |
| *Other Assets:* | | |
| Liquidity reserve | **-** | 6 |
| Intercompany asset | **-** | 25 |
| Book value of personal loans for which beneficial interest has transferred to SPV | | 547 |
| Net intercompany receivable | **-** | 31 |

## 37. Related party transactions *(continued)*

### b) Transactions with key management personnel

The key management personnel of the Bank comprise members of the Sainsbury's Bank Board and the Executive Committees of the Bank, who held office during the year. The key management personnel compensation is as follows:

| | **2025 £m** | 2024 £m |
|---|---|---|
| Short term employee benefits | **6.7** | 6.0 |
| Other long-term benefits | **0.5** | - |
| Pension contributions | **0.1** | 0.1 |
| Termination benefits | **0.6** | - |
| Share-based payments | **2.5** | 2.9 |
| | **10.4** | 9.0 |

Short term employee benefits represent salary, bonus and benefits in kind. Share-based payments relate to share schemes operated by J Sainsbury plc (see note 36).

In the current year, there are no additional short term employee benefits met by another J Sainsbury plc group company (2024: £nil).

*Product transactions*
Details of transactions, under terms and conditions available to all colleagues, between the Bank and key management personnel are provided below. For this purpose, key management personnel include the Bank's key management personnel and members of their close families.

| | **Number of key management personnel** | **Directors £000** | **Other £000** |
|---|---|---|---|
| **Credit cards and term loans** | | | |
| At 28 February 2023 | 5 | 2 | 4 |
| Resignations during 2023/24 | - | - | - |
| Appointments/ New accounts during 2023/24 | 1 | - | 23 |
| Amounts advanced during the year | - | 17 | 81 |
| Interest Charged | - | - | 1 |
| Amounts repaid during the year | (1) | (17) | (85) |
| At 29 February 2024 | **5** | **2** | **24** |
| Resignations during 2024/25 | **(1)** | **-** | **-** |
| Appointments/ New accounts during 2024/25 | **-** | **-** | **-** |
| Amounts advanced during the year | **-** | **2** | **75** |
| Interest Charged | **-** | **-** | **-** |
| Amounts repaid during the year | **-** | **(4)** | **(78)** |
| **At 28 February 2025** | **4** | **-** | **21** |

Based on the Companies Act definition of Loans to Directors, total lending outstanding at 28 February 2025 was £nil (2024: £nil).

## 37. Related party transactions *(continued)*

| | Number of key management personnel | Directors £000 | Other £000 |
|---|---|---|---|
| **Savings and deposit accounts** | | | |
| At 28 February 2023 | 2 | - | 25 |
| Resignations during 2023/24 | (2) | - | (25) |
| Appointments/ New accounts during 2023/24 | - | - | - |
| Amounts deposited during the year | - | - | - |
| Interest paid | - | - | - |
| Amounts withdrawn during the year | - | - | - |
| At 29 February 2024 | - | - | - |
| Resignations during 2024/25 | - | - | - |
| Appointments/ New accounts during 2024/25 | - | - | - |
| Amounts deposited during the year | - | - | - |
| Interest paid | - | - | - |
| Amounts withdrawn during the year | - | - | - |
| **At 28 February 2025** | - | - | - |

## 38. Post balance sheet events

On 16 April 2025, the High Court approved the transfer of the personal loans, credit cards and retail deposit portfolios to NatWest Group concluding the Part VII process. Following this approval, the transaction will complete on 1 May 2025 at which point legal title of these portfolios will transfer from Sainsbury's Bank to NatWest Group.

## Alternative performance measures

In the reporting of financial information, the Directors use various alternative performance measures (APMs) which they believe provide additional useful information for understanding the financial performance and financial health of the Bank. These APMs should be considered in addition to and are not intended to substitute for IFRS measurements. As they are not defined by International Financial Reporting Standards, they may not be directly comparable with other companies who use similar measures. All of the following APMs relate to the current period's results and comparative periods where provided.

The Bank also discloses a number of capital and liquidity metrics relevant to its financial position which are required under prudential rules issued by the PRA and FCA. The bases of calculation of those metrics is defined within the relevant legislation and are disclosed in the Glossary.

<table>
<tr><th>APM</th><th>Definition/Purpose</th><th>Reconciliation</th></tr>
<tr><td>Underlying profit before tax</td><td>Profit before tax before any items recognised which, by virtue of their size and/or nature, do not reflect the Bank's underlying performance</td><td>A reconciliation of underlying profit before tax is provided in Note 9 of the financial statements</td></tr>
<tr><td>Financial services group contribution</td><td>Underlying contribution before net amounts payable to Argos</td><td>A reconciliation of financial services underlying profit before tax is provided in the summary income statement in the financial review</td></tr>
<tr><td>Net interest margin (NIM)</td><td>Net interest income as a percentage of average interest-earning assets</td><td>
<table>
<tr><th></th><th>Ref</th><th>2025</th><th>2024</th></tr>
<tr><td>Interest income £m</td><td></td><td>389</td><td>390</td></tr>
<tr><td>Interest expense £m</td><td></td><td>(218)</td><td>(193)</td></tr>
<tr><td>Underlying Net Interest Income £m</td><td>IS Rec</td><td>171</td><td>197</td></tr>
<tr><td>Monthly average interest earning assets £m*</td><td></td><td>5,169</td><td>5,653</td></tr>
<tr><td>Underlying NIM</td><td></td><td>3.3%</td><td>3.5%</td></tr>
</table>
* Monthly average interest earning assets is not presented in the financial statements. The average balance at Feb-25 is £5,169 (2024: £5,653m) made up of;<br>
- Average loans & advances to customers £3,125m (2024: £4,180m)<br>
- Average treasury assets £2,044m (2024: £1,474m)</td></tr>
<tr><td>Bad debt asset ratio (BDAR)</td><td>Impairment losses as a percentage of the average net balance of loans and advances to customers</td><td>
<table>
<tr><th></th><th>Ref</th><th>2025</th><th>2024</th></tr>
<tr><td>Impairment losses £m</td><td>IS Rec</td><td>43</td><td>61</td></tr>
<tr><td>Monthly average customer lending £m*</td><td></td><td>3,125</td><td>4,180</td></tr>
<tr><td>BDAR</td><td></td><td>1.4%</td><td>1.5%</td></tr>
</table>
*Monthly average customer lending is not presented in the financial statements.</td></tr>
</table>

## Alternative performance measures

| | | | Ref | 2025 | 2024 |
|---|---|---|---|---|---|
| Cost: income Ratio | Underlying operating expenses as a percentage of total income | Underlying Bank expenses £m | | **220** | 234 |
| | | Total Bank Income £m* | IS Rec | **278** | 309 |
| | | Cost: Income ratio | | **79%** | 76% |

In the above table, IS Rec refers to the income statement reconciliation presented below. This highlights expected differences between the statutory view and the above alternative performance measures driven from discontinued operations.

### Reconciliation management view to statutory view

The APMs above and financial review utilise management view rather than statutory view. A reconciliation has been provided to reconcile the summary income statement on page 20 to the statutory income statement on page 45.

| **Summary income statement 2025** | Management view | Discontinued operations | Non-underlying items | Statutory adjustments[1] | Statutory view |
|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m |
| Net interest income | 171 | (112) | - | (13) | 46 |
| Net fees and commissions income | - | (46) | - | 69 | 23 |
| Other operating income | 107 | - | - | (39) | 68 |
| **Income** | **278** | (158) | - | 17 | 137 |
| **Expenses** | **(220)** | 148 | (16) | - | (88) |
| Profit on financial instruments | 1 | - | - | - | 1 |
| **Profit / (loss) before impairments** | **59** | (10) | (16) | 17 | 50 |
| Impairment losses on financial assets | (43) | 41 | - | - | (2) |
| **Profit / (loss) before taxation** | **16** | 31 | (16) | 17 | 48 |
| Less: items excluded from underlying results | (176) | 147 | 16 | 13 | - |
| **Statutory (loss) / profit before taxation** | **(160)** | 178 | - | 30 | 48 |
| Taxation | | | | | (5) |
| **Statutory profit after tax from continuing operations** | | | | | **43** |

[1]Statutory adjustments include the recognition of dividends received from subsidiaries which are not included in the management view, reclassifications of income and costs to meet statutory reporting requirements and the removal of Drury Lane, the securitisation SPV which is included in the management view given it's integral to the lending portfolio.

| **Summary income statement 2024** | Management view | Discontinued operations | Non-underlying items | Statutory adjustments[1] | Statutory view |
|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m |
| Net interest income | 197 | (159) | - | - | 38 |
| Net fees and commissions income | - | (56) | - | 78 | 22 |
| Other operating income | 112 | - | - | (53) | 59 |
| **Income** | 309 | (215) | - | 25 | 119 |
| **Expenses** | (234) | 158 | (25) | - | (101) |
| Profit on financial instruments | 1 | - | - | - | 1 |
| **Profit / (loss) before impairments** | 76 | (57) | (25) | 25 | 19 |
| Impairment losses on financial assets | (61) | 59 | - | - | (2) |
| **Profit / (loss) before taxation** | 15 | 2 | (25) | 25 | 17 |
| Less: items excluded from underlying results | (189) | 164 | 25 | - | - |
| **Statutory (loss) / profit before taxation** | (174) | 166 | - | 25 | 17 |
| Taxation | | | | | (4) |
| **Statutory loss after tax from continuing operations** | | | | | 13 |

[1]Statutory adjustments include the recognition of dividends received from subsidiaries which are not included in the management view, reclassifications of income and costs to meet statutory reporting requirements and the removal of Drury Lane, the securitisation SPV which is included in the management view given it's integral to the lending portfolio.

## Glossary

**Bad debt asset ratio** – Impairment losses as a percentage of the average net balance of loans and advances to customers.

**Tier 1 capital** - A measure of the Bank'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.

**Common equity tier 1 capital ratio** - Tier 1 capital as a percentage of risk-weighted assets.

**Cost: income ratio (underlying)** – Underlying operating expenses as a percentage of total income.

**Debt securities** – Assets held by the Bank representing certificates of indebtedness of credit institutions, public bodies or other undertakings, excluding those issued by central banks.

**Earnings at risk** - Approach set out for the quantification of interest rate risk expressed as the impact of the sensitivity analysis on the change to net interest income.

**Effective interest rate** - The effective interest rate method calculates the amortised cost of a financial asset or financial liability and allocates the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or financial liability.

**Encumbered Asset** - An asset is defined as encumbered if it has been pledged as collateral against an existing or off statement of financial position liability and therefore is no longer available for disposal or as collateral to support liquidity or funding requirements of the Bank.

**Fair value** – The amount for which an asset could be exchanged, or a liability settled, between willing parties in an arm's length transaction.

**Financial Services Compensation Scheme (FSCS)** – The UK's independent statutory compensation fund for customers of authorised financial services firms and pays compensation if a firm is unable to pay claims against it. The FSCS is funded by management expenses levies and, where necessary, compensation levies on authorised firms.

**Full time equivalent** - The hours worked by part time employees are accumulated along with the number of full time employees and counted as full time equivalents. This is a more consistent measure of the amount of time worked than employee numbers which will fluctuate as the mix of part time and full time employees changes.

**Impaired loans** - Impaired loans are loans for which all the full contractual cash flows are no longer expected to be collected or collection of such cash flows will not be as they are contractually due.

**Impairment losses** - An impairment loss is the reduction in value that arises after the impairment review of an asset that determines that the asset's value is lower than its carrying value.

**Interest rate risk** - The risk of a reduction in the value of earnings or assets resulting from an adverse movement in interest rates.

**Loans past due** – These are loans for which a customer has failed to make payment as and when they are contractually due.

**Leverage ratio** – CET 1 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.

**Master netting agreement** - An agreement between two counterparties that have multiple derivative contracts with each other that provides for the net settlement of all contracts through a single payment, in a single currency, in the event of default on, or termination of, any one contract.

**Net interest margin** - Net interest margin is net interest income as a percentage of average interest-earning assets.

**Net stable funding ratio** - Amount of available stable funding (ASF) relative to the amount of required stable funding (RSF) over a one year time horizon, assuming a stressed scenario.

**Repurchase agreements** - An agreement where one party, the seller, sells a financial asset to another party, the buyer, at the same time the seller agrees to reacquire and the buyer to resell the asset at a later date. From the seller's perspective such agreements are repurchase agreements (repos) and they are reverse repurchase agreements (reverse repos) from the buyer's perspective.

**Securitisation** – This is a process by which a group of assets, usually loans, are aggregated into a pool, which is used to back the issuance of new securities.

**$tCO_2e$ –** tonnes of $CO_2$ equivalent