

Sainsbury's Bank plc

**Annual Report and Financial Statements
for the year ended 28 February 2022**

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Financial Headlines

Statutory profit before tax

£8m

(2021: loss £162m)

Underlying profit before tax

£24m

(2021: loss £36m)

Net interest margin (underlying)

3.2%

(2021: 2.4%)

Bad debt asset ratio

0.3%

(2021: 1.1%)

Cost : income ratio (underlying)

85%

(2021: 90%)

CET 1 Capital Ratio (transitional)

15.6%

(2021: 17.6%)

Net Stable Funding Ratio

121%

(2021: 125%)

ⁱ Performance, including reference to the above headlines is explained in the business review and financial review sections on pages 3 and 17.

The Alternative Performance measures have been defined and reconciled to the statutory disclosures on page 117.

Strategic Report

The Directors present their strategic report of Sainsbury's Bank plc ('the Bank') for the year ended 28 February 2022.

The Bank is a public company limited by shares, registered in England and domiciled in the United Kingdom. Its registered office is 33 Holborn, London, EC1N 2HT. Our principal place of business is 3 Lochside Avenue, Edinburgh, EH12 9DJ.

Business model

We provide a range of retail banking services and related financial services wholly within the UK. We provide simple, mobile led financial services for Sainsbury's and Argos customers.



- Funds are raised through savings deposits and wholesale sources. We lend these to customers or hold them as liquid assets.
- Our saving and lending products are sold and serviced online or by telephone and, in the case of Storecards, in an Argos store.

* Argos Storecards are funded by Sainsbury's Bank and are operated by our subsidiary; Home Retail Group Card Services Limited.

** We no longer originate new mortgage business.

- Third party Car, Home and Pet Insurance products are offered to customers where we act as a broker to a number of underwriters. All products are available online or via telephone
- Foreign currency is acquired wholesale and sold to customers at a retail rate with margin. We earn fees on prepaid cards and money transfer services. We have Travel Money Bureaux in Sainsbury's supermarkets and have an online presence.
- Our ATMs have a physical presence in Sainsbury's and Argos stores.
- Travel money is also available online or via telephone

As a bank authorised by the Prudential Regulation Authority (PRA), together with the Financial Conduct Authority (FCA), we are required to raise and hold specified minimum levels of capital (see note 35), and hold specified levels of liquid assets in order to meet our financial commitments as they are expected to fall due (see liquidity risk disclosures at note 34).

Our underlying profitability reflects the difference between income generated from our products compared to costs arising from marketing and operating those products, supplier and head office related costs, charges arising from impairment of customer balances and other realised gains and losses – these items are explained in the financial review on page 17.

We are a wholly owned subsidiary of J Sainsbury plc, governed by our own Board and Executive Committee, independent from J Sainsbury plc (see Risk Overview and Governance sections on pages 21 and 26).

The current financial statements continue to report the performance and position of the Bank as a standalone entity. Further disclosure on the combined Financial Services segment of the Sainsbury's Group ('the Group') is provided in the J Sainsbury plc Group financial statements and more information on transactions with Group Companies is provided at note 39.

Strategy

The Bank is aligned to the Sainsbury's Group strategic priority to focus on brands that deliver whilst supporting the core food business. We aim to drive value for the Sainsbury's Group by being an agile, capital and cost-efficient provider of simple, mobile led financial services for Sainsbury's and Argos customers. We know that when customers take out a Bank product, they are more loyal and spend more in Sainsbury's and Argos stores.

In September 2019, the Bank announced its five-year strategy, outlining its key objectives and priorities. Since the announcement, the market has changed considerably due to the impacts of COVID-19. Our balance sheet has reduced due to weaker credit demand. However, our focus continues to be to rebuild and reshape our balance sheet safely while simplifying and strengthening the organisation.



VISION	To be the provider of Financial Services for loyal Sainsbury's Group customers			
OBJECTIVE	An agile, capital and cost-efficient provider of simple, mobile led financial services			
PRIORITIES	Reshape the balance sheet	Strengthen the business		Simplify the organisation
	<ul style="list-style-type: none"> • Improve margins • Develop Argos Financial Services proposition • Improve card and insurance momentum • New Financial Services model with Nectar at the core • Run off mortgage book 	<p>Focus on:</p> <ul style="list-style-type: none"> • Operational resilience • Conduct • Capital efficiency 	<p>Build core competency in:</p> <ul style="list-style-type: none"> • Customer experience • Digital • Data and analytics • Credit/Operational risk • Partnerships 	<ul style="list-style-type: none"> • Right size the cost base • Rationalise product offering • Review vendor/supplier arrangements • Optimise cross-Group synergies

Strategic Report

Business Review

This year Sainsbury's Bank marked its 25th Year! We've come a long way since our initial joint venture with Bank of Scotland, and in our quarter century year we've successfully navigated COVID and have made an underlying profit of £24 million for the financial year, after an underlying loss of £36 million in the prior year. We have started to see increasing demand for credit and an increase in customer activity in our commission business, albeit not yet at pre COVID levels.



We continue to deliver great value financial solutions for Sainsbury's customers and have improved our already strong Net Promoter Score (NPS), up 7.1 points in the year, driven by our continued developments on customer online journeys. Most notably the experience for loans and savings customers has been materially enhanced as we have invested in faster and smoother digital application processing.

Our customer numbers remain steady at 1.8 million with a reduction in Mortgages and Savings, in line with our strategy as we reshape our balance sheet and aim to lower the cost of funding, offset by an increase in Car, Home and Pet Insurance customers. Nectar continues to be an integral part of our strategy to connect with Sainsbury's customers, with circa 80% of our customers holding a Nectar card and benefiting from Nectar points and rewards across a range of products.

We continue to expand our marketing channels, with specific focus on increasing our direct sales, which are up by 46% from last year. Additionally, we continue to leverage the opportunity of being part of the Group by improving the Bank's advertising space in store and at Petrol Stations, increasing the Bank's visibility to retail customers.

Banking business

Demand for **Credit Cards** has been increasing with new accounts up 32% and retail spend up by 22% compared to last year. We are not yet at pre-COVID levels and although customers are spending more, they continue to pay down debt at a greater rate than pre-COVID.



We continue to support the growth of our Sainsbury's core food business and general merchandising, connecting Sainsbury's shoppers and funding over £593m of retail spend with 15% of our customers' total spend being within Sainsbury's, Argos and Habitat. This highlights the great interconnection and value which Sainsbury's Bank adds. We have continued to reward our Credit Card customers by offering bonus Nectar points when opening an account and transferring a balance, on top of the usual reward points for spend.

New business lending in **Loans** is up 130% from prior year, reaching over £1.2 billion, as we start to see a return in demand. This increase has also been supported by our investment to enhance the customer journey and through targeted digital marketing. We have also enhanced our risk-based pricing capability and have made changes to our credit policy to allow us to support more customers.



As we start to see a return in demand for unsecured lending, our Loans and Credit Card lending balances have increased 3% and 9% respectively from February 2021.

Commission business

Travel Money turnover was up 239% as we saw the reopening of most of our bureaux in May and June 2021 but most closed again from October 2021 until Spring 2022 due to the weak demand for travel and continued restrictions on travel corridors throughout the year. We redeployed our colleagues to Sainsbury's stores to support with the seasonal period. We anticipate a higher demand returning next year with our bureaux reopening in time for spring and summer holidays. Cash demand in **ATMs** has also returned, with transaction volumes up 10% compared to last year due to increased footfall.

Strategic Report

Our **Car and Home Insurance** business remains resilient under competitive market conditions, with a 20% and 15% increase in new business sales respectively. We are now able to deliver better prices for our customers with new panel members added across Car and Home Insurance and we are making even greater use of Nectar data to drive even better pricing for our customers. Towards the end of this year, we successfully introduced the General Insurance Pricing Practices regulation, which sees new and existing customers receive the same pricing.

Pet Insurance builds upon its strong performance last year with an 35% increase in new business volumes this year, supported by offers to Nectar pet owners within Sainsbury's store. Renewals have also increased by 27% from the previous year.



Return to Profit

Total Income is 12% higher than prior year, driven by recovery of commission business as lockdown restrictions eased, a return of demand for unsecured credit and a significant reduction in funding costs achieved through customer re-price activity and lower customer deposits.

Improving our cost to income ratio continues to be a key priority for the business. Successful cost initiatives delivered in the year include improving the terms of some of our key supplier contracts and a reduction in colleague numbers as we delivered digital-led efficiencies.

As part of our capital markets day strategy refresh in September 2019, we committed to requiring no more Capital from Group and becoming cash generative. We are proud to say that we have paid a dividend of £50 million to our parent in April 2022. This is an important step in demonstrating our ability to be a successful brand that delivers as part of the Sainsbury's Group strategy.

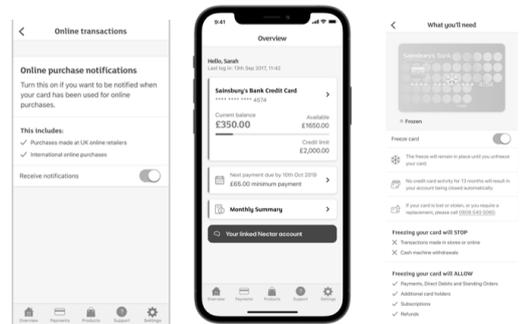
The Bank remains well capitalised with a CET1 ratio of 15.6%, a decrease from 17.6% last year due to the £50 million dividend payment to our parent. Additionally, the Bank continues to have excess liquidity with a LCR of 190%.

Our digital strategy in action

With a focus of being an agile, capital and cost-efficient provider of simple, mobile led financial services we have continued to invest in digital tools and building our data and analytics capacity.

Following the re-launch of **our Credit Card app** in 2020, the number of active customers using it has increased by 35% to 465,000, with the app becoming our primary credit cards payment channel. A new alert system has been launched which means that customers can now receive an SMS when their Credit Card is used, giving customers confidence that possible suspicious activity on their card can be spotted immediately. In addition, a new detection tool was added to help monitor potential fraud, and block cards from being used on fraudulent devices.

We have listened to our customers and integrated Nectar such that it is now possible to view Nectar points within the Credit Card app, as well as the amount of points earned on Sainsbury's Bank credit card spend. Further app functionality added this year includes the ability for customers to freeze and unfreeze their accounts, when their cards have been misplaced, lost or stolen. The Credit Card App has a high rating of 4.9 out of 5 on App Store and 4.6 out of 5 on Play Store.



This year we launched a new **Loans** application journey, streamlining our application process and delivering a great experience for our customers. This faster application process has meant that the vast majority of customers receive their funds the same day, with some in under 10 minutes.

Our digital **Insurance** offering remains strong, with our Insurance app, which launched in January 2019 for Car & Home, allowing policyholders to manage their Insurance via their smart device and allows customers access to their policies wherever and whenever they wish. We have also improved the self-serve capability within Insurance resulting in 66% of customers now managing their policies online.

In addition, we have launched the Pet Insurance Chatbot which allows customers to entirely self-serve online and via My Pet Portal. Since deployment we have seen our portal registrations grow from 39% last year to 68% at the end of this year. We also launched a Knowledge Bot on the quote and buy page for Life Insurance, which can answer the most common queries customers may have.



Strategic Report

Delivering value for our shareholders

In order to maximise shareholder value we made six commitments at our Capital Markets day in September 2019 and have summarised the progress to date against each of them below.

- 1. Stop putting cash into financial services.** The Bank has received no capital from the parent this year and we remain confident that Financial Services will not require capital injections from the Group due to our significant capital surplus and strong liquidity.
- 2. Improve returns.** We committed to double underlying profits and reach double digit ROCE within 5 years. We are still on track to make our commitments despite the challenges of the current environment.
Note this commitment is based on consolidated financial services (including Argos Financial Services) which has a ROCE of 6.0% (FY21: (1.4%)) compared to the Bank stand-alone ROCE 2.3% (FY21: (3.9%)).
- 3. Financial services to become cash generative.** We committed to paying dividends to our parent within 5 years. We paid a dividend of £50 million to our parent in April 2022.
- 4. Transform the cost base.** We committed to reducing the cost to income ratio to circa 50% within 5 years. We continue to take action to implement initiatives to drive income growth and reduce costs. *Note this commitment is based on consolidated financial services (including Argos Financial Services) which has a cost to income of 68% (FY21:72%) compared to the Bank stand-alone ratio of 85% (FY21: 90%).*
- 5. Reduce risk profile to the Group.** We are focused on growing and shaping our customer portfolio in the coming years to focus on capital efficient products with the most connectivity to Sainsbury's shoppers. We continue to operate with sufficient capital and liquidity buffers to protect against potential significant stress scenarios in the future. Our mortgage book continues to decline as it runs off.
- 6. Focus on Sainsbury's customer base.** Our continued focus on our customers and what they tell us means we continue to develop our products and services to appeal to more J Sainsbury's customers. We continue to make developments on customer online journeys as well as investing in faster and smoother digital application processing.

Strategic Report

Our approach to Non-Financial Reporting

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

Non-Financial Reporting Directive

The Bank has complied with the EU non-financial reporting directive requirements contained in sections 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 pages 1 to 2 of this Strategic Report.
Environmental	Refer to page 7 of Strategic Report for the Bank's strategy for climate and pages 8 to 9 for an update on progress made in the year
Social	Details on our interaction with our communities is outlined on page 9.
Our customers	Details on our approach to our customers is outlined on page 9.
Our employees	We aim to make our Bank a great place to work for all colleagues. Our approach to make our Bank a great place to work is outlined on page 10.
Gender Pay Gap	Details on gender pay gap is outlined on page 11.
Human Rights and Modern Slavery	Details on our approach to Human rights and Slavery is outlined on page 10.
Anti-corruption / Anti-Bribery	Details on our approach to Anti-corruption and anti-bribery is outlined on page 10.

Waites Corporate Governance Principles

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

Principle 1 – Purpose and Leadership	See our business model (page 1) and strategy (page 2) sections of the Strategic Report.
Principle 2 – Board Composition	Outlined in the directors report on page 32 and the Strategic Report on page 27
Principle 3 – Director Responsibilities	See the Strategic Report on page 28
Principle 4 – Opportunity and Risk	See the Strategic Report on page 29
Principle 5 – Remuneration	See the Strategic Report on page 30
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. For example, the Board approves a rolling five-year strategic plan on an annual basis and regularly monitors its progress through key metrics (which form the basis of KPIs outlined on page 16) and 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're right because they're also the way that many of us live outside of work too. Sainsbury's Group (including the Bank) 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 7 to 12.
- The views and interests of its key stakeholders. The Board seeks to understand the views of key stakeholders 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 key strategic decisions can be found on page 13 of the strategic report. Information on how we have interacted with our stakeholders is located as follows:

Stakeholder	Strategic Report Reference
Colleagues	Page 10
Customers	Page 9
Communities	Page 9
Investors	Page 13
Suppliers	Page 13
Regulators	Page 13

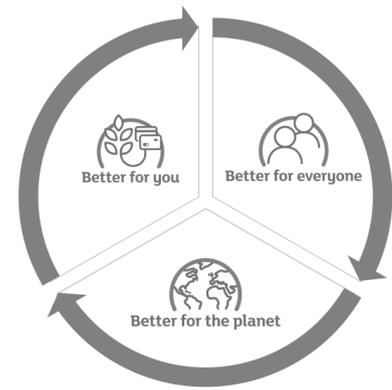
Environmental Strategy

The Bank is included in the Sainsbury's Group commitment to become a Net Zero operation by 2035 in a bid to limit global warming to 1.5°C. This target includes our Scope 1 and 2 emissions, covering our direct and indirect emissions within our operations. More information on the Sainsbury's Group commitment can be found in the Sainsbury's Sustainability update found at <https://www.about.sainsburys.co.uk/investors/results-reports-and-presentations>.

As part of Sainsbury's, our facilities management approach actively manages, and looks to continuously improve, our waste management and recycling. We frequently use video and telephone conferencing facilities rather than travel to meetings. Colleagues are encouraged to use public transport and cycle to work, with shower facilities provided at our head office and larger sites. We take time to identify practical ways to reduce the environmental impact of our leaflets and Point of Sale materials in stores.

Additionally, we have invested in digital capabilities reflecting the increasingly digital world our customers live in. This investment continues to drive more sustainable banking. For example, our Loans platform affords the Bank the ability to offer e-signatures thus removing the requirement to both generate and send physical Personal Loan documentation. Our Credit Card app also offers the ability to check your balance and get paperless statements, thus reducing the amount of physical paper statements being sent to customers. 77% of all Credit Card customers now receive paperless statements and for those that don't, we've redesigned the statements to reduce paper used.

However, we recognise the need to do more and have carried out an in-depth review and refresh of our own ESG strategy, which specifically includes the commitment to reduce our own scope 1 and 2 carbon emissions and commit to be net zero by 2035, in line with the wider Sainsbury's Group target. From our internal 'We're Listening' surveys we know this is at the heart of our colleague proposition and setting environmental and social targets are now an essential part of retaining and recruiting talent for the business to create a 'Great Place to Work'.



 Better for you Environmental External	 Better for the planet Environmental Internal	 Better for everyone Social
We will drive improvements in the sustainability of our supply chain by focusing on the environmental impact of our third-party sourcing	We will reduce our scope 1 and 2 carbon emissions and commit to be net zero by 2035	We will further develop the skills of our colleagues and champion opportunities for all
We will ensure that we do not invest in fossil fuel companies	We will reduce our usage of plastics and paper, transitioning to recycled materials where possible	We will continue our drive to make Sainsbury's Bank a truly inclusive place to work and bank
We will improve financial literacy, helping our customers make sound financial choices	We will consider climate and environmental issues within our risk management framework to protect the Bank and help drive action	

Strategic report

We are committed to seeking to better understand climate-related risk in relation to our business and prepare a response in alignment with the Task Force for Climate-related Financial Disclosure (TCFD). We have been working hard to update our governance and consider the impacts of climate change throughout our normal business practices. This new section of our annual report provides an update on our progress against the TCFD framework and indicates areas of future focus.

TCFD Roadmap

TCFD Recommendation	Achievements to Date	Future Focus
Governance		
<p>The Board's oversight of climate-related risks and opportunities</p> <p>Management's role in assessing and managing climate-related risks and opportunities</p>	<ul style="list-style-type: none"> Identified the Chief Risk Officer (CRO) in 2019 as the Senior Manager responsible under the Senior Management and Certification Regime (SMCR) for managing the financial risks from climate change Executive Risk Committee (ERC) and Board Risk Committee (BRC) have oversight of climate related financial risks An ESG Taskforce was mobilised to look at different aspects of how climate change impacts areas such as Strategy, Customer Strategy and Proposition, Net Zero Operations, Supply Chain, Risk Management and MI and Disclosure. The Taskforce progressed across 6 workstreams and with contribution of colleagues representing different areas of the business The Bank Board have been receiving regular updates on specific plans to meet our climate strategy and progress against our targets. The Bank is aligned with Group governance on ESG matters with the Bank's strategy presented at the Group ESG Steerco 	<ul style="list-style-type: none"> Work is ongoing to enhance our existing governance structures to embed oversight and management of climate-related risk ESG training for colleagues is being developed at a group level. ESG training to be developed and delivered to Bank Board members Remuneration targets related to sustainability commitments to be agreed and set
Strategy		
<p>The climate-related risks and opportunities the organisation has identified over the short, medium and long-term</p> <p>The impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning</p> <p>The resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario</p>	<ul style="list-style-type: none"> An initial view of climate-related risks and opportunities have been identified and used to inform ESG strategy including our net-zero commitment Scenario analysis capability in development and initial climate stress exercise used within Internal Capital Adequacy Assessment Process (ICAAP). Refer to page 22 in Risk Overview section for more detail 	<ul style="list-style-type: none"> Refine approach to customer engagement on climate-related risks and opportunities Further embed climate considerations into our supply chain and procurement processes Establish detailed climate strategy and actions to deliver, including dedicated resource to manage the Bank's approach to ESG
Risk Management		
<p>The processes for identifying, assessing and managing climate-related risks</p>	<ul style="list-style-type: none"> Climate change is an emerging threat that potentially exposes the Bank to direct and indirect financial risks and is included as one of the emerging risks, which we report on as part of the Risk Overview on page 21 	<ul style="list-style-type: none"> Going forward, we will continue to enhance how climate resilience risks are identified, assessed, and managed across our business
Metrics and Targets		
<p>The metrics used by the organisation to assess climate-related risks and opportunities</p> <p>Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas ("GHG") emissions, and the related risks</p> <p>The targets used by the organisation to manage climate-related risks and opportunities and performance against targets</p>	<ul style="list-style-type: none"> The Bank is included in the Sainsbury's Group commitment to become a Net Zero operation by 2035. This target includes our Scopes 1 and 2 emissions, which have been approved by the Science Based Targets initiative (SBTi) at a Group level Property changes are managed at a Group level as part of Sainsbury's carbon reduction plans. Operational targets met to reduce energy consumption in our office locations by moving to 100% modern LED lighting and with 100% of our electricity moving to renewable sources from October 2021 	<ul style="list-style-type: none"> Continue to improve data availability and accuracy to monitor and track progress against emissions targets

Strategic report

Environmental Key Performance Indicators (KPIs)

The following table compares Scope 1 and 2 Greenhouse gas emissions for FY22 (current year) and FY21 (prior year). This disclosure is based on consolidated financial services (including Argos Financial Services) given the integrated approach of running the business together across our office locations.

Environmental Data	2022	2021
Total GHG emissions (tCO ₂ e) – Market based		
Scope 1 emissions	345.41	312.37
Scope 2 emissions	257.78	412.47
	603.18	724.84

The Bank's scope 1 emissions increase was driven by colleagues returning to the offices this year and the Scope 2 reduction is a result of securing renewable electricity from the 1st of January 2022. Work is ongoing to reduce the environmental impact of our offices and much of this will be shaped by the return to office strategy, which is still uncertain due to the ongoing uncertainty post pandemic.

Note on scope 1 and scope 2 emissions

Sainsbury's Group have used the SBTi to set carbon reduction targets. More information on the methodology used can be found in the Sainsbury's Sustainability update. The scope 1 and scope 2 emissions disclosed above relate to electricity and gas used in Bank office locations and company car fuel use associated with Bank employee travel. Note it does not currently include a percentage allocation of office locations for centralised shared services.

Note on scope 3 emissions

The SBTi drives ambitious climate action by enabling companies to set science-based emissions reduction targets. Financial institutions differ from other economic sectors in that they provide finance to the companies that are responsible for reducing emissions, rather than exercise direct control over emission reductions. Therefore, financial institutions require an approach within the SBTi that is tailored to their role. In April 2021, SBTi updated their guidance for financial institutions to set science-based targets, to align their lending and investing activities with the 2015 Paris Agreement. Currently unsecured consumer lending products are out of scope of the SBTi guidance for financial institutions.

We are still in the early stages of our journey and in the absence of a methodology to calculate our scope 3 impact, we are still considering appropriate actions to take to reduce the impact of the products and services we offer of customers on the environment.

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, at the right time and through the right channels. We consider not only acquiring new customers, but also how best to retain and reward those already with us. We plan out customer journeys, with engaging, personalised content, overlaid by targeted communications when the time is right.

Customer satisfaction is measured through Net Promoter Score (NPS), capturing online and telephone feedback, and is reported to the Board. Findings are used to improve our customers' experience and engagement with knowledge being shared across all of our business. We also have a clear process for responding to customer complaints and any key themes that are identified are reviewed by the Board and senior management and discussed with our regulators. As noted earlier we have increased our NPS during the year by 7 points to 52.

Communities

The Sainsbury's Group Values and Sustainability Plan underpin our approach to what we do, and how. 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 really 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 Pride, Black History Month and Purple Tuesday.

Strategic report

In 2021/22, our colleagues raised over £7.5k for Maggie's who help to provide free practical, emotional and social support to people with Cancer. Maggie's have been our charity partner since 2019 and we have raised over £95,000 for Maggie's Centre's from 2019 – 2022.

Human rights and modern slavery

Sainsbury's Bank has a zero tolerance towards modern slavery and human trafficking. We are committed to acting ethically and with integrity in all of our business relationships. We will work closely with our business partners, suppliers and supply chains to ensure there is no place for modern slavery and human trafficking in any area of our business. We will regularly review our processes and controls to prevent modern slavery and human trafficking.

Our policies and procedures support and encourage colleagues to raise concerns relating to modern slavery or the presence of it in our supply chain at the earliest opportunity. Our full Modern Slavery statement is published on the Bank's website (<https://www.sainsburysbank.co.uk/~/-/media/files/pdf/modern-slavery-statement.pdf>).

Anti-Corruption / Anti-Bribery

As a financial services provider, 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 modules including Anti-Bribery and Corruption, Anti-Money Laundering, Conduct Rules, Conflicts of Interest and Whistleblowing. The training material is reviewed and updated to reflect changes in legislation or best practice (e.g. tailored senior management training). The Supply Chain Management team regularly monitors suppliers to ensure that processes and controls are in line with the Bank's required standards.

Colleagues

We aim to make our Bank a great place to work for all colleagues. Our 'Great Place to Work Group' is part of the group-wide approach, enabling colleagues' voices to be heard and providing an effective way to communicate what matters to our colleagues to make a difference in our business.

Listening to our colleagues

How it feels to work at our Bank makes us different because our Values guide everything we do. Cornerstones of our approach include investing time in two-way communication between leaders and other colleagues – informing and listening – and building trust through clear accountabilities and leadership.

79% of colleagues agree with the statement 'I feel supported by my manager'

We want our colleagues to feel connected and engaged and we measure this through our annual colleague engagement survey. The colleague happiness score of 66 for FY22 is in line with the Sainsbury's Group scores. Feedback on how line management treat and support colleagues is a real positive, with colleagues saying they felt supported with their wellbeing, are well communicated to and that their line manager is approachable and accessible. We also carry out a check-in survey to ensure we're engaging with colleagues regularly on how they're feeling and get their input on business activities.

A diverse and inclusive place to work

As part of the Sainsbury's Group, the Bank supports the Group's vision to become the 'most inclusive' retailer by embracing our differences across the Bank. The activities we're undertaking to be a more diverse and inclusive organisation are fundamentally about fairness and equality. A balanced workforce at all levels improves culture, behaviours, outcomes, profitability and productivity. With this diversity comes a variety of ideas and views that inform decision-making and enable us to understand our customers better.

We are active in our drive for inclusivity and the progression of our diverse talent, for example:

- We are committed to an equal opportunities policy for recruitment and selection, through training and development and to performance reviews and promotion and mandatory inclusive recruitment processes are well-embedded
- All management must have a personal goal that is inclusion-focused, linking remuneration to positive improvements in this area
- We have a workplace adjustments process in place for our colleagues who are living with a disability or long term health condition which operates through the Government's Access to Work scheme. Workplace adjustments can be made at any point during a colleague's employment with us
- We have a zero-tolerance policy on racist or offensive commentary, both externally and internally
- In the past year, we have introduced as part of Sainsbury's, significant enhancements to our family leave policy, have become Menopause Champions and launched new guidance to support women going through menopause while at work

Strategic report

During the year 22 of our Female colleagues took part in a Development Programme aimed at developing a strong pipeline of female successors at all levels across the business. There were also 6 separate mentoring circles set up across the business during the year to help with knowledge sharing, building relationships and building confidence.

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.

Gender Pay gap

Details of the Bank’s gender pay gap can be found within the Sainsbury’s Group disclosures at <https://about.sainsburys.co.uk/sustainability/better-for-everyone/gender-pay-gap>

The mean gender pay gap of 35.5% (as at April 2021) has marginally improved from 36.6% in April 2020. The gap is, in part, reflective of the structure of our business whereby in store Travel Money Bureaux colleagues are directly employed rather than filling our positions through a third-party agency. Around 36% of Sainsbury’s Bank colleagues work in these roles on hourly rates of pay and over 74% of these roles are held by women.

In addition to the Travel Money colleague composition, Sainsbury’s Bank still has more men than women in the most senior and higher paid roles and more women in hourly paid positions, further impacting the pay gap. We are continuing to see an improvement in female representation at senior levels since signing up to the Women in Finance Charter (WIF) in 2018. The Charter, which was created by HM Treasury, is designed to support and motivate finance companies to land activity and drive initiatives that, over time, will help address gender imbalance at senior leadership levels.

For consolidated financial services, including our Argos Financial Services business, we have a target to achieve 40% female representation at senior levels by the end of the 2023/24 financial year, with our current position at February 2022 being 37% female representation within Senior Roles – up from 33% last year.

We want to be a truly inclusive retailer and take our responsibility towards our non-binary and gender-fluid colleagues very seriously. Gender Pay Gap regulations mean we must identify our colleagues as men and women: however, we actively support our colleagues of all gender identities through our inclusion strategy and our LGBT+ colleague network, Proud@Sainsbury’s.

Ethnicity Pay gap

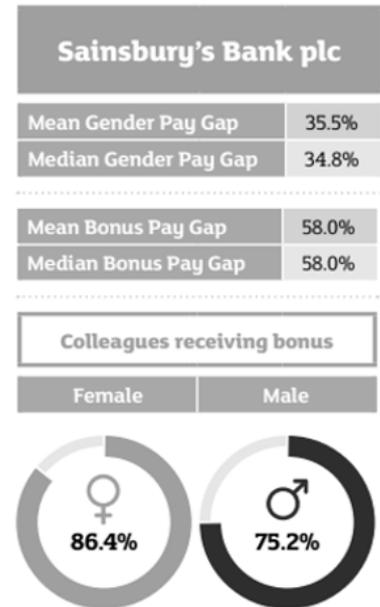
Sainsbury’s Group include voluntary disclosures on the ethnicity pay gap at a group level. This disclosure includes Bank colleagues and can be found at <https://about.sainsburys.co.uk/sustainability/better-for-everyone/gender-pay-gap>

Skills and opportunities for all

We want our colleagues to develop their skills and knowledge to reach their potential, learning from each other, their managers and through structured learning activity that develops behavioural, professional, technical and regulatory capability.

Reward proposition

The Bank offers a comprehensive and competitive total reward package. In support of the wider objectives of J Sainsbury plc, our colleagues are encouraged to participate in two all employee share plans, namely the Savings-Related Share Option Plan (‘Sharesave’) and the All-Employee Share Ownership Plan, of which the Sainsbury’s Share Purchase Plan (‘SSPP’) is a part.



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Colleague – Diversity and Inclusion Key Performance Indicators (KPIs)

The following table sets out the make-up of our colleague base as at February 2022. The disclosure is based on consolidated financial services (including Argos Financial Services) given the integrated approach of running the business together. This is different to the gender pay gap disclosure noted above and the colleague headcount disclosures in note 9 which are based on Sainsbury's Bank plc statutory entity only. Note the Females and Ethnically Diverse colleagues in senior roles included in the KPIs includes senior level employees and board members in one metric.

People Data	2022	2021
Permanent employees	1,984	2,291
Contract employees	195	247
	2,179	2,538
Percentage of full-time	67%	61%
Percentage of part-time	33%	39%
Colleagues split by level (%)		
Lower	56%	63%
Lower Middle	19%	17%
Upper Middle	24%	19%
Upper	1%	1%
Colleague split by age (%)		
< 19	1%	0%
20 - 34	30%	32%
35 – 44	24%	25%
45 - 60	37%	35%
>61	8%	8%

The above table can be expanded further to be categorised by diversity data, per below:

Diversity	2022	2021
Total female employees (%)	57%	62%
Females at each level:		
Lower	74%	74%
Lower Middle	47%	46%
Upper Middle	39%	42%
Upper	26%	22%
Female board members	38%	33%
Total Ethnically diverse employees (%)	8%	9%
Ethnically diverse employees at each level:		
Lower	9%	10%
Lower Middle	9%	8%
Upper Middle	7%	5%
Upper	4%	4%
Ethnically diverse board members (%)	0%	0%

It's important to highlight that it's not mandatory for colleagues to share their ethnicity with us, in the way it is for gender. We encourage colleagues to share their diversity data to support us in understanding the bigger picture and help drive improvement across the business. In FY22, 78% of colleagues shared their ethnicity with us, and we will continue to seek to increase this figure.

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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.

Our strategic aim is to be the provider of Financial Services for loyal Sainsbury's Group customers. The 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 the long-term success of the business. We seek a strong degree of engagement with 3rd party suppliers across the end-to-end supplier management process, from sourcing to procurement to relationship management to contract reviews. 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 in line with risks 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 for developing the business relationship and 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 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 and Argos brands and seek to maintain that by operating in a safe and sound way. Our Head of Conduct and Compliance provides oversight of any emerging compliance risks and reports any areas of concern to the Board.

Key Strategic Decisions

Strategic review of collections and recoveries

The Collections and Recoveries function is a key capability for the Bank. It provides a last line of defence in ensuring losses through outstanding debt are kept to a minimum. A highly effective operation is critical to the Bank in ensuring the fair treatment of customers and that losses, and exposure to losses, are minimised and mitigated. In the autumn of 2020, the Bank commenced a strategic review of its existing Collections and Recoveries operation, undertaking a robust and detailed supplier review, looking at market options, supplier benchmarking and liaising with its existing supplier on ways to improve the current service.

Following a review of proposals from two shortlisted suppliers, Intrum was selected as the preferred supplier, a decision that was ratified at a Bank Board meeting in April 2021. The new service is due to commence in May 2022.

In arriving at the decision to select Intrum, the Bank Board considered a number of factors. Firstly, as the country moved out of the COVID-19 restrictions and government financial support was removed, an increase in customers moving into Collections was forecast. As such, the Bank needed to ensure an effective collections operation was in place to mitigate Bad Debt losses by ensuring the best possible customer outcomes through this period and beyond. The Board recognised the need to take capability to the next level, consider the use of better technology and improve the Bank's customer service in this area; whilst understanding what that means for impairment, costs, the customer experience, affordability and how vulnerable customers are handled.

The Intrum service will include specialist teams that are trained and experienced in helping vulnerable customers and will seek regular feedback from customers to ensure the best possible customer service experience. The contact and collections strategy has been designed to ensure that the Bank treats customers fairly and remains compliant with regulations. Expansion in the number of contact methods will give customers a greater choice in how they can interact with the Bank. A set of Minimum Standards (SLAs) will be

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introduced for customer service levels, customer outcomes and controls/assurance with a tiered Service Credit mechanism in place if standards drop below certain thresholds.

The Board considered the risks associated with changing vendor at this time, being conscious of the wider economy as well as the general risk associated with large migrations and the potential for customer harm. The Bank recognised the challenges involved and the desire to complete the switchover with no customer impact. As such, the Board agreed to start with the Monthly Payment Plan product (a new product launched in March 2022 by our Argos Financial Services subsidiary) which would provide a strong test case for working through the stand up of Intrum's technology which could then be leveraged for the other products.

The remaining migration will be supported by a comprehensive plan and mitigants in place should something go wrong. Intrum has a mature solution, being used by other clients, that will deliver benefits from Day 1 and they have a clear and robust process for on-boarding new clients.

From a colleague perspective, the services are subject to TUPE legislation and all colleagues in scope at the time of cut-over from the Bank's incumbent supplier will be transferred to Intrum.

References from other firms who were currently served by Intrum were obtained through the process.

Property strategy

During the year the Board considered its future strategy for property and office locations in light of changes in the Bank's Ways of Working post COVID-19, the re-shaping of the business and the approach of the wider Sainsbury's Group. Six office locations (encompassing Bank and Argos Financial Services operations) were included in the review, namely in Edinburgh, London, Milton Keynes, Widnes, Bolton and Rosyth. The rapidly evolving landscape of how businesses function was felt to present an opportunity to right-size and rationalise the property estate to support a more efficient operating model, whilst still providing facilities needed by colleagues to continue to deliver for the Bank's customers.

The review focused on three key priorities - future-fit (ensuring that the property strategy met the needs of the business and enabled the delivery of the Bank strategy over the next three years), flexibility and reducing costs.

The Board considered and approved a proposal for colleagues (excluding those working in Contact Centres and certain colleagues in the Operations function) to be on site for approximately 40% of the time. This was based on learnings and experience during the COVID-19 pandemic, business consultation via an all-colleague survey and taking into account the importance of culture, teams and socialisation. The Board were satisfied that 40% provided the right balance between office based and home based working and supported retaining some flexibility but acknowledged that sentiment may change as colleagues were allowed back into offices.

It was agreed to close the Bolton office and transfer those colleagues to alternative locations.

In addition to cost savings from less use of office space, the Board agreed that these proposals would allow the Bank to source talent, and especially diverse talent, from a broader pool not limited by geography if potential colleagues did not have to be in the office 100% of their time. It was also felt that it may also help encourage female talent to return from maternity leave if this flexible approach to working life was adopted. The Board felt this re-balancing of office and home based working may prove attractive to potential new colleagues as well as existing colleagues who would value a hybrid way of working.

At the same time, the Board appreciated that some colleagues may not appreciate this flexible approach and raised a concern that development and training of younger colleagues may not easily be undertaken remotely. They were also mindful of maintaining the culture of the business when that culture was formed in a locational sense and that loyalty to an organisation may weaken when colleagues were working from home and did not have a sense of belonging. The Board were reassured that management had considered and discussed these risks, accepting that there was not a one size fits all solution. They were front of mind in determining the way forward and all involved appreciated that it was a complex issue to work through in terms of who was in the office, at what times and for how long.

It was agreed to establish some principles for when face to face engagements were required and when remote engagements were acceptable.

The Board considered and agreed a proposal to sub-lease part of the Bank's Head Office in Edinburgh following a reduced requirement for office space by the Bank from the new hybrid Ways of Working.

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There was no perceived negative impact on customer servicing from these ways of working. The new hybrid working arrangements are being monitored for any issues as colleagues have returned to the office in larger numbers post the end of COVID-19 related restrictions.

Decision to pay the Bank's first dividend

As noted in our strategic commitments on page 5, the Bank is committed to becoming capital self sufficient and returning capital to its shareholder, J Sainsbury plc.

At its meeting on the 26th January, 2022, the Bank Board approved a proposal, for which regulatory approval had already been obtained, for the Bank to pay a special interim dividend subject to shareholder approval (obtained 2nd February, 2022), interim accounts being approved and filed with Companies House (14th April, 2022) and final Bank Board confirmation shortly prior to payment (19th April, 2022).

In arriving at this decision, the interests of customers, colleagues and suppliers were protected through consideration of the Bank's future capital resources and liquidity requirements, taking into account:

- All known future regulatory changes (buffer rebuild, IFRS 9 transition, Basel 3.1).
- The Bank's growth ambitions, based on its approved Corporate Plan.
- A detailed review of the Bank's Pillar 2B stress testing assessment, with input from external advisers to assess if any further buffers were required.
- Available market benchmarks to assess the Bank's proposed stress losses.

The Board concluded that:-

- The Bank had significant excess regulatory capital resources.
- Despite known regulatory changes and growth plans, the Bank's capital surplus would remain significantly above appetite.
- The Bank had sufficient liquidity both to meet current and forecast requirements under stress conditions and also pay a dividend.

The Board therefore agreed that it was appropriate for the Bank to declare its first dividend.

Proposed sale of the Bank by J Sainsbury plc

Expressions of interest to purchase the Bank and its subsidiary entities were received by J Sainsbury plc in 2020, and engagement with interested parties continued into the current financial year. Throughout this period the Bank Board supported J Sainsbury plc as its sole shareholder by providing information to support the possible sale, while fulfilling its wider statutory obligations as an independent Board to promote the success of the Bank having due regard of its wider stakeholder groups. Our colleagues and regulators were kept appropriately informed throughout the process.

Following the announcement by J Sainsbury plc in October 2021 that retaining the Bank within the Sainsbury's Group represented the best value for the shareholders of J Sainsbury plc, the Bank Board have refocused efforts in delivering on the strategy to be a brand that delivers for the Group as outlined on pages 2 to 15.

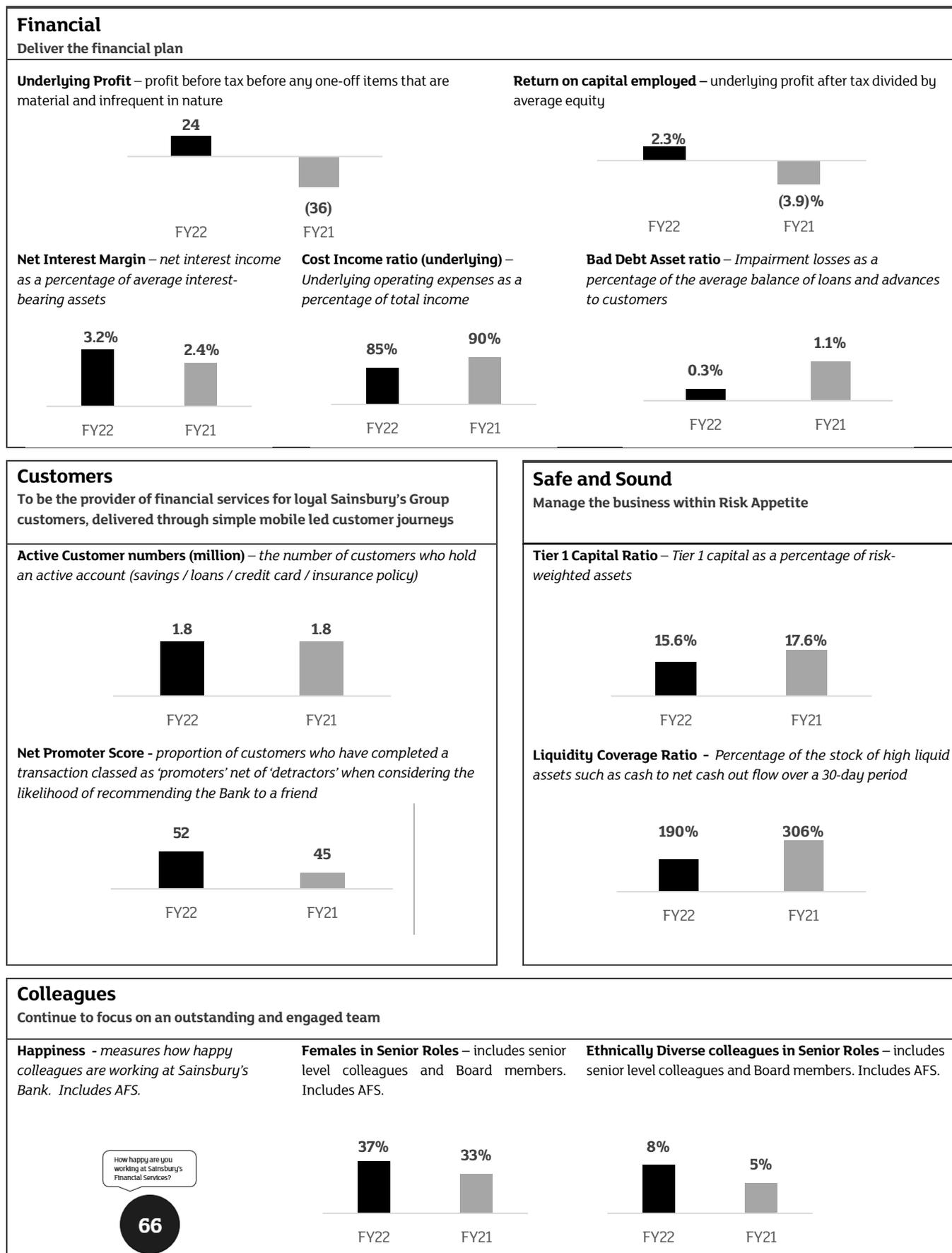
Argos Financial Services Monthly Payment Plan product

As part of the strategy update in 2019, the Bank Board gave its support to exploring the development of a new Monthly Payment Plan (MPP) proposition, to be offered by via our Argos Financial Services subsidiary, Home Retail Group Card Services Limited.

In 2020, the Bank Board considered and approved a proposal to appoint FIS, the provider of much of the Bank's existing technology, as the delivery partner for the development of the new proposition. In arriving at the decision, the Bank Board considered the proposal from an architectural perspective with FIS being the natural choice in terms of leveraging their current platform, the Bank's newly deployed APIs, its risk decision engine and fraud processes. This single source approach to decisioning was in line with the Board's desire to simplify the Bank. In addition, it was acknowledged that FIS was well understood in terms of delivery, being a known partner familiar with the Bank's current systems.

As well as ensuring the technology was delivered to specified requirements to deliver for Argos Financial Services, the Board closely considered any possible impacts on the Bank's existing infrastructure with FIS to ensure there would be no adverse impact to existing products, services and ultimately customers.

Key Performance Indicators (KPIs)



Our performance, including reference to the above KPIs is further outlined in the business review on page 3 and the financial review on page 17.

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Financial review

The Bank's performance for the year ended 28 February 2022 and financial position at the end of that period are presented in the income statement and balance sheet. A summarised income statement and balance sheet are presented below:

Summary income statement	2022	2021	Change
	£m	£m	%
Total income	247	221	12
Operating expenses	(229)	(326)	(30)
Add: items excluded from underlying results*	18	126	(86)
Underlying operating expenses	(211)	(200)	6
Impairment losses on financial assets	(14)	(58)	(76)
Profit/(Loss) on financial instruments	4	1	300
Add: items excluded from underlying results*	(2)	-	-
Underlying gains on financial instruments	2	1	100
Underlying profit before taxation	24	(36)	167
Statutory profit / (loss) before taxation	8	(162)	105

* Items of an unusual and infrequent nature that do not relate to the Bank's underlying performance have been excluded in presenting underlying profit before tax.

Statutory profit before tax for the year ended 28 February 2022 was £8 million compared to a loss of £162 million in the prior year. This was driven by a 167% increase in underlying profit, reflective of the ongoing recovery from COVID, and an 86% decrease in non-underlying operating expenses as last year included the write down of fixed assets following the review of the Bank's capitalised assets.

Income is 12% higher, with increasing demand for credit in the market and an increase in customer activity in our commission business supported by management action on savings rates to reduce the cost of funding.

Underlying costs increased by 6% with higher costs from reopening Travel Money Bureaux and from higher volumes offset by a reduction in FTE, lower volume driven costs on savings and lower third-party IT and supplier contract costs. Impairment losses decreased by 76% with stable arrears and the improving economic outlook enabling a release of £10m of the £35m charge taken for anticipated COVID-19 impacts in the prior year.

Summary balance sheet	2022	2021	Change
	£m	£m	%
Loans and advances to customers	4,311	4,599	(6)
Cash and cash equivalents	381	1,028	(63)
Other	1,744	1,811	(4)
Total assets	6,436	7,438	(13)
Customer deposits	4,235	5,128	(17)
Wholesale funds	1,024	1,161	(12)
Subordinated debt	179	179	-
Other	141	121	17
Total liabilities	5,579	6,589	(15)
Net assets	857	849	1

In balance sheet terms, our Loans advances increased by 3% and our Credit Card advances by 9% as demand for unsecured credit started to recover. Mortgage balances have reduced 38% throughout the year, with balances ending the year at £771 million.

Customer deposits decreased by 17% driven by careful management of the customer savings rates with average blended rates down 43bps from last year.

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Net interest income

Net interest income summary	2022	2021	Change
	£m	£m	%
Interest receivable	216	241	(10)
Interest payable	(43)	(81)	(47)
Net interest income	173	160	8
Net interest margin	3.2%	2.4%	0.8

Summary of funds lent to customers and held as liquid assets

	2022	2021	Change
	£m	£m	%
Unsecured loans and advances to customers	3,532	3,344	6
Secured loans and advances to customers	779	1,255	(38)
Cash, balances with central banks and other demand deposits	346	968	(64)
Financial investments	443	587	(25)
Loans and advances to banks	121	37	227
	5,221	6,191	(16)

Summary of funds raised

	2022	2021	Change
	£m	£m	%
Customer deposits	4,235	5,128	(17)
Other deposits	1,024	1,161	(12)
Subordinated debt	179	179	-
	5,438	6,468	(16)

Underlying interest income decreased to £216 million as lower lending in the prior year led to a fall in average balances despite the recovery of unsecured advances in the latter part of the year. The mortgage portfolio continues to run off as planned, balances reduced by £484 million and represent 18% of total lending as at 28 February 2022.

Interest payable decreased by 47% driven by a 43 basis points reduction in average blended savings rates and an 18% reduction in average customer deposit balances, with lower average lending balances to support. With the Mortgage book rolling off, overall funding requirements reduced throughout the year, partly exacerbated by the fall in new lending in the prior year as a result of lockdown restrictions. We have seen demand for unsecured lending return this year with higher new lending across both Loans and Cards compared to prior year.

Net interest margin increased to 3.2% driven by the continued reduction in savings rates, improvements in unsecured asset margins and a lower mix of secured lending

Fee, commission, and other operating income

Fee, commission, and other operating income summary	2022	2021	Change
	£m	£m	%
Banking income	49	41	20
Insurance income	32	26	23
Other income	1	1	-
Total fees and commissions receivable	82	68	21
Total fees and commissions payable	(14)	(9)	56
Other operating income	6	2	200
Net fees, commission, and other operating income	74	61	21

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Banking income increased by 20% largely driven by a 22% increase in retail spend and an increase in foreign travel driving higher Credit Card fees and a 10% increase in ATM transaction volumes as demand for cash returned as lockdown restrictions eased.

Insurance income increased by 23% with higher Car and Home Insurance income driven by a 20% and 15% increase in new business sales respectively. This increase in Insurance volumes has also contributed to the increased fees payable.

The 200% increase in other operating income was driven by the reopening of our Travel Money business through Spring and Summer of 2021 before closing again in the Autumn as travel restrictions remained in place.

Operating expenses and investment

Operating expenses summary	2022	2021	Change
	£m	£m	%
Underlying staff costs	69	58	19
Other underlying operating costs	120	119	1
Depreciation of property, plant and equipment	2	3	(33)
Amortisation of intangible assets	20	20	-
Underlying operating expenses	211	200	6
Non-underlying operating expenses	18	126	(86)
Total operating expenses	229	326	(30)

Underlying operating expenses of £211 million increased by £11 million year on year with higher costs from reopening Travel Money Bureaux and from higher volumes offset by

- Management action to reduce our colleague headcount (excluding return of Travel Money colleagues)
- Optimisation of our customer journey and operations
- Successful delivery of cost savings through contract negotiations

Non-underlying costs reduced by 86% as prior year had the costs of impairing fixed assets following a review of the Bank's capitalised assets in light of COVID-19. Non-underlying costs in this year relate to the migration of the Loans Back Book, being the final remaining portfolio that sat on our legacy partner's systems, and costs relating to strategic initiatives as we continue to reshape our business to remain efficient and cost effective.

Summary of fixed assets	2022	2021	Change
	£m	£m	%
Intangible assets	162	155	5
Property, plant and equipment	9	11	(18)
	171	166	3

Intangible assets increased by 5% as we continue to invest in digital tools and building our data and analytics capacity. This year we improved our mobile apps and enhanced our banking platforms to offer a fully digital onboarding and servicing experience for customers, as well as adapting to new regulations and creating operational efficiencies.

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Impairment losses on financial assets

Impairment losses summary	2022	2021	Change
	£m	£m	%
Impairment losses on financial assets	14	58	(76)
Bad debt asset ratio	0.3%	1.1%	(0.8)

Impairment losses have decreased by 76%, whilst the bad debt asset ratio decreased from 1.1% to 0.3%, as the prior year had the full COVID impact of providing for expected unemployment increases upfront. This year the unemployment outlook has improved whilst arrears have remained lower than expected enabling a £10m release of the £35m COVID provision taken previously.

The Bank remains well capitalised with a CET1 ratio of 15.6%, a decrease from 17.6% last year as we account for the £50 million dividend payment to our parent. Additionally, the Bank continues to have excess liquidity with a LCR of 190%. This has been managed down from the 306% LCR position last year as we saw a return of unsecured lending demand.

The Bank has weathered the impacts of COVID and lockdown restrictions, has returned to profit this year and has managed to successfully pay a £50 million dividend to our parent. Through all of this we have managed to maintain strong capital and liquidity positions, which we can now deploy to grow balances and revenues in a safe and controlled manner.

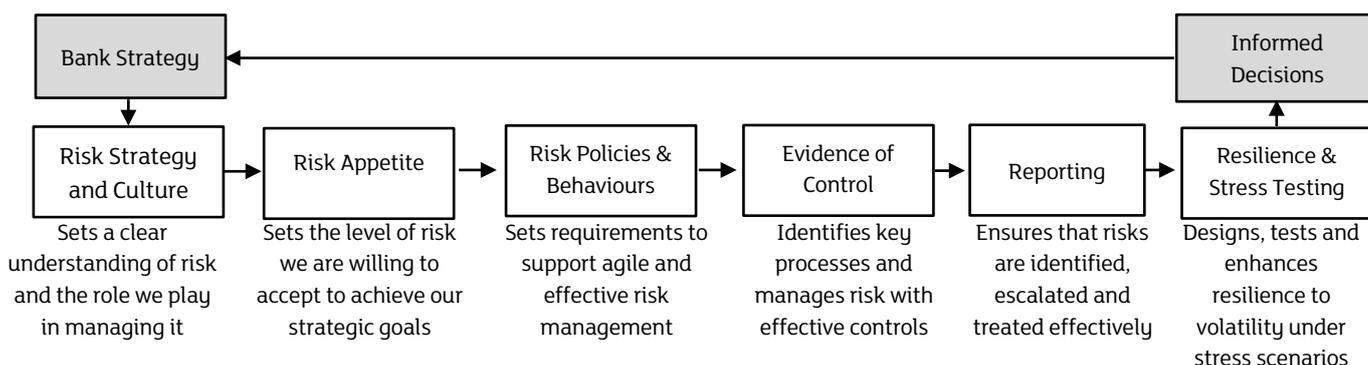
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Risk overview

Introduction

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

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



Risk Strategy and Culture

Our risk strategy and culture supports our business strategy and ensures it is delivered in a responsible and sustainable manner, where everyone understands the risks they personally manage and is empowered and qualified to be accountable for them. This approach is strengthened by the Senior Managers and Certification Regime introduced by the FCA in 2016. The following key aims and principles underpin our risk strategy and culture:

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

Risk Appetite

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

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

Performance against both the 'high-level' and 'Directional' RAS measures are monitored and reported to our Executive Risk Committee (ERC) on a monthly basis, and at each Board Risk Committee (BRC). Additionally, escalation processes are clearly embedded in the enterprise-wide risk management policy framework to notify Senior Executives and Board members of any high-level RAS measure operating outside of approved thresholds including recommendations to reduce exposures back within appetite levels.

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

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Risk Policies and Behaviours

We have identified a set of principal risk types to which we are exposed through our activities (*see separate section below*). Each risk type has a principal risk owner that actively manages and oversees the risks in the Bank in line with associated policy and supporting policy standards that clearly articulates the approach, boundaries and key requirements by which each risk type should be managed. The policies and policy standards also set out the expected behaviours to support effective, agile and consistent decision-making across the Bank.

Evidence of Control

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

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

Reporting

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

Resilience plans and stress testing

Financial and Operational Resilience are key areas of focus. Our capital and liquidity adequacy are assessed on at least an annual basis through the Internal Capital Adequacy Assessment process (ICAAP) and the Internal Liquidity Adequacy Assessment process (ILAAP). Business recovery plans for severe incidents are reviewed on a regular basis, while our Recovery and Resolution Plans review and test our playbooks and recovery capacity in response to extreme but plausible threats to our viability. The Bank also undertakes self-assessment of its Operational Resilience Framework on an annual basis which is approved by the Board.

Risk Management Structure

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

- **First Line.** Primary responsibility for the identification, management, monitoring and control of risks rests with our commercial and operational teams. The First Line teams, as subject matter experts, own the processes and controls used to manage risks within risk appetite and are responsible for the design, operation and testing of the key controls.
- **Second Line.** The independent Risk Management Division is responsible for providing risk frameworks, policies, guidance and oversight within which the First Line can manage its risks.
- **Third Line.** Our Internal Audit Division provides independent assurance on the effectiveness of risk management and internal control processes in mitigating and reporting risks.

Argos Financial Services (AFS)

These financial statements present the standalone financial performance and position of Sainsbury's Bank and do not consolidate the AFS subsidiaries. However, the risks associated with AFS business are managed in line with the SBAFS risk framework, with a suite of Risk Appetite measures in place for AFS and tracked within the wider SBAFS governance structure.

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Emerging Risks

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

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

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

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

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

COVID-19 – Performance across the Bank's lending portfolios has been robust to date, driven in part by the successful public policy interventions to address the financial impacts of COVID-19 which limited the increase in unemployment and helped keep bad debt charges under control. The Bank focused on managing its credit strategies during the pandemic and more recently has re-started lending by reversing the credit tightening implemented during that period. However, looking forward there are potential downside risks from increasing interest rates and inflation that will impact customer disposable income. Our capital and liquidity ratios remain strong and we continue to assess possible sensitivities and stress outcomes to our plans to ensure we remain resilient.

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

We have assessed climate related risk factors across credit, market and operational risk and have also considered reputational risk. To date none of the assessed risks has resulted in a material financial impact, however we continually monitor the outlook and amend our responses and risk appetite accordingly.

Area	Assessment	Impact to date	Outlook
Market risk	Increased sovereign risk could result in a downgrade to national or local government's credit rating, thereby impacting the value of securities held on bank's balance sheets. Climate change impacts on carbon-	The Bank's wholesale funding portfolio has not been impacted by the financial risks from climate change to date. The majority of sovereign assets held by the Bank are UK based, and the UK has been active in recognising the upcoming risks of climate change. While a small number of companies to date have been impacted by price changes and asset	Sovereign assets held by the Bank are largely UK exposures, and this is unlikely to change over the next 12 months. Any changes in valuation to the other investment assets held as a result of climate change impacts are likely to be minimal.

Strategic report

Area	Assessment	Impact to date	Outlook
	intensive sectors could also have implications for a broad range of prices related to energy and commodities, such as corporate bonds, equities and certain derivatives contracts. These factors could therefore result in a knock-on impact to wholesale funding.	<p>revaluations related to climate change, this has not impacted any of the assets held as part of the wholesale funding portfolio.</p> <p>In April 2021 the Bank performed a high-level review of the wholesale credit portfolio to assess the potential climate risks each of our approved counterparties could be exposed to, finding that the majority of our counterparties are actively assessing the impact of climate change on their business.</p> <p>In June 2021 the Wholesale Credit Risk Policy was updated to include the statement 'The Bank will not directly finance companies or organisations whose main activities actively contribute to climate change.'</p>	
Credit risk	<p>If damages from physical risks are not insured, extreme weather events can create significant losses for homeowners, reducing their ability to pay their mortgage and reducing the value of the property.</p> <p>This may also have a knock-on impact on the ability of customers to repay unsecured lending products. Increased severe weather conditions could also start to negatively impact the wider economy through sustained damage to national infrastructure and weakening factors such as employment, economic growth and inflation.</p>	<p>The Bank does not currently monitor any changes to the probability of default or loss given default that arise as a result of physical or transitional climate risk; this has been deemed reasonable given our lending book is predominantly unsecured.</p> <p>The mortgage portfolio as at 31st December 2020 has been analysed to assess the potential flood risk within the book; only 0.4% of the properties were in postcodes with a 'high' flood risk and 1.4% of properties were in postcodes with a 'medium' flood risk. 84.6% of properties within the mortgage book were in postcodes with no flood risk. (Note that only properties in England were assessed however this makes up over 90% of the mortgages book.)</p> <p>Per the Bank of England's climate related financial disclosure just under 10% of the value of mortgage exposures in England is on properties in flood-risk zones; the Bank is comparatively less exposed vs peers. These mortgages represent less than 0.2% of total RWAs as at December 2020 and hence do not present a risk to capital.</p>	<p>As the mortgage book is declining, the potential increased credit risks as a result of climate change lie mainly within the unsecured book.</p> <p>Current industry discussions have focused on underlying risks within mortgage portfolios given the clearer links to climate impacts; risks within unsecured portfolios are inherently second order in nature. The scenario paths from the BoE CBES scenarios have been reviewed; key macroeconomic variables do not vary significantly between each of the climate paths outlined over the next 5 years and therefore regardless of the climate actions taken over the next five years we do not expect a material climate impact on our assessment of credit risk.</p> <p>The Bank does not expect to be materially exposed to credit risks as a result of climate change over the next 5 years. We will however continue to review our assessments based on ongoing developments in the banking industry to ensure any potential increase in climate related credit risk can be identified if and when it arises.</p>
Operational risk	Business continuity is likely to be impacted by severe weather events, including infrastructure, staff, processes and offices.	We have seen immaterial impacts to date with occasional temporary closure of office sites and Travel Money bureaux as a result of severe weather events.	Given the infrequent nature of these events it has been assessed as unlikely that the Bank is at risk from material operational losses as a result of the operational risks arising from climate change over the period of our medium term financial forecasts, however the impact will continue to be monitored. Annual supplier review forms and supplier onboarding forms are being updated to ask suppliers to consider climate risk and environmental sustainability, however the recent widespread shift to home working for many workplaces will reduce the impact of office closures in the future.
Reputational risk	The reputation of banks could be impacted if market sentiment starts to focus in on the banking sector's response to climate risks.	Our response to climate change is outlined in our environmental strategy on page 7.	Given the increasing regulatory focus coupled with increasing activity within large UK banks to set net zero targets and communicate ambitions to support a green economy, it is expected that customers will be increasingly interested in our actions to address climate risks. The actions of the ESG taskforce will help to mitigate potential future reputational risks.

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

Strategic report

Principal Risks

	Credit Risk	Operational Risk	Supplier Risk	Financial Crime Risk
What is It?	The risk that a retail customer fails to maintain their contractual obligations and repay their borrowing on time.	Losses or disruption resulting from inadequate or failed processes, people and systems or from external events.	The risk that key services and processes outsourced to 3 rd party suppliers impair the quality of internal control within the Bank.	Our products are used to facilitate Financial Crime and/or our processes, systems or controls are non-compliant.
How May it Arise?	Changes in the economic conditions in the UK may impact on the ability of our customers to repay their loans leading to an increase in levels of bad debt.	Inadequate processes or internal controls may result in poor customer outcomes, service disruption, reputational damage and/or financial losses	Inadequate processes or internal controls of the third-party supplier may result in poor customer outcomes, service disruption, reputational damage and/or financial losses for the Bank. This can also manifest through lack of appropriate review and diligence of the third party by the Bank.	Failure to protect our customers may lead to financial loss, inconvenience to our customers and result in regulatory censure and loss of confidence in the Bank.
How Do We Manage The Risk?	<ul style="list-style-type: none"> We lend responsibly, considering the suitability of the product to meet our customers' needs and their ability to repay any debt. We have policies to support vulnerable customers and those in financial difficulties. Credit decisioning based on information from a number of credit related sources. Regular stress testing is undertaken using a variety of plausible stress scenarios. 	<ul style="list-style-type: none"> A process-centric approach to risk & control assessment, designed to focus on what matters most. A clear operating model to embed consistency and boost capability across the Bank. Aggregated reporting and insight on our risk profile to ensure the highest priority items are escalated. Monthly review of our Top Risks with a rolling agenda of deep-dives. 	<p>The management of supplier risk takes place at two key times, which are reviewed and approved by the accountable Bank Executive:</p> <ul style="list-style-type: none"> During the selection of a new supplier, with a robust assessment of the high-level process steps associated with the service provisions, the key failure points which could occur in the process, and an understanding of the key controls and appropriate provision of MI that evidences the effective operation of these key controls. On an ongoing basis as part of the Bank's operational risk management framework via the PRCA process as well as part of the regular monitoring of supplier performance (including the use of scorecards and other governance activity per the supply chain framework). 	<ul style="list-style-type: none"> 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.
<ul style="list-style-type: none"> Changes in 2021/22 	<ul style="list-style-type: none"> Reversal of credit tightening measures implemented to protect the Bank through the height of Covid. Investment in collections and recoveries 	The Bank has further reduced its residual risk exposure across some of its top risks by implementing specific treatment plans over the course of the year	<ul style="list-style-type: none"> Detailed analysis undertaken to assess the Bank's supplier concentration risk in line with regulatory guidance SS2/21 (outsourcing and third party risk management). Contract amendments to be made with all Tier 1 and 2 suppliers to ensure compliance with SS2/21. These were completed by 31 March 2022 for all new agreements and updates to historic agreements on track to be completed by 30 June 2022. 	<ul style="list-style-type: none"> New tools have been introduced and strong PRCA controls have matured such that fraud losses have reduced.

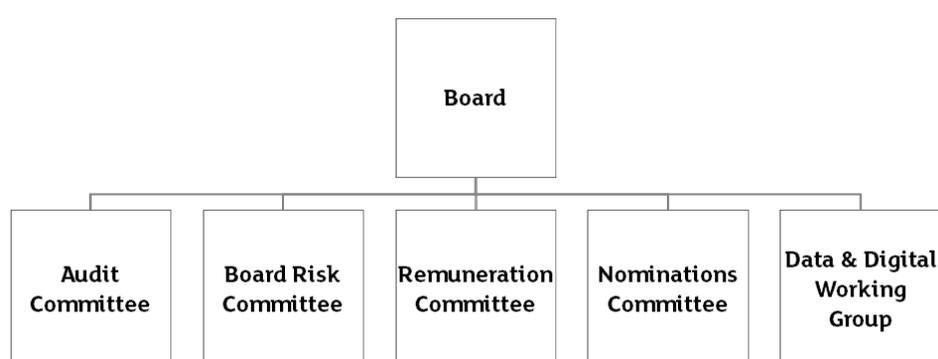
Strategic report

Principal Risks (continued)

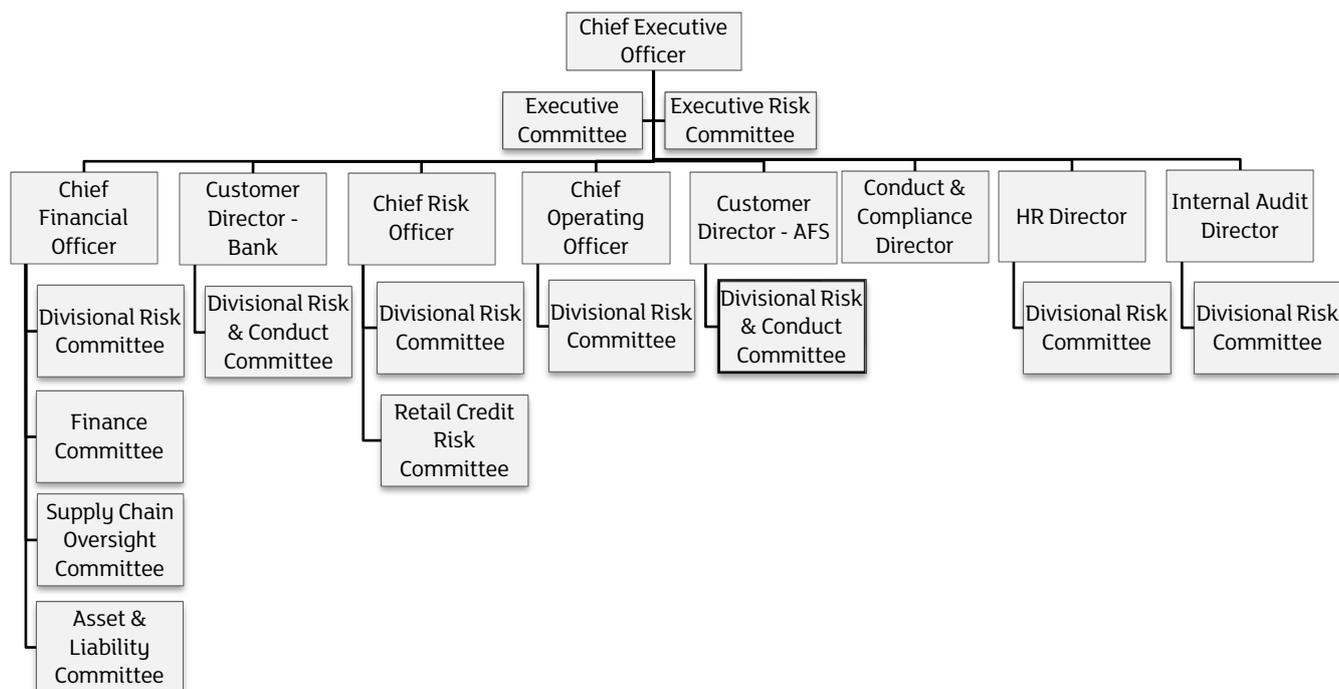
	Conduct and Compliance Risks	Capital Adequacy Risk	Liquidity, Funding and Market Risks
What is It?	The risk that our culture, behaviour or actions may lead to a failure to comply with regulators, or cause detriment to customers or the markets.	Holding insufficient capital to absorb losses in normal and stressed conditions or the ineffective use of capital.	The risk we are unable to meet our obligations as they fall due or are adversely hit by market rate or price movements.
How May it Arise?	Failure to understand the needs of our customers or to provide them with the level of service required at all stages of the customer journey.	Changes in economic conditions or regulatory requirements may impact on the level of capital resources required.	Loss of confidence in the Bank leading to a material outflow of deposits and/or difficulties in accessing wholesale funding. Sudden changes or volatility in market values.
How Do We Manage The Risk?	<ul style="list-style-type: none"> Control procedures and processes with clear reporting and escalation procedures. Independent oversight of the adequacy and effectiveness of issues and events. Horizon scanning of emerging threats or regulatory changes Regular, open engagement with our regulators. Continuous monitoring of control testing outcomes through PRCA oversight and risk based assurance activity. 	<ul style="list-style-type: none"> Target risk appetite range for level of capital held. Monitoring of capital position, with triggers in place for escalation. Capital adequacy target built in to our planning processes. Projected capital position updated for any strategic or external changes. The annual ICAAP determines the adequacy of the level and type of capital resources held. 	<ul style="list-style-type: none"> Risk appetite limits set. Daily monitoring and reporting of key metrics. Liquidity and funding targets built into planning process. Liquidity Contingency Plan for action under stress. Hedging strategies used to reduce exposures to earnings volatility. The annual ILAAP determines the adequacy of liquidity and funding resources held.
<ul style="list-style-type: none"> Changes in 2021/22 	<ul style="list-style-type: none"> Full review and launch of enhanced Conduct Risk Framework. Implementation of a new suite of Conduct MI reporting. Enhancements to Close and Continuous Monitoring processes through the delivery of monitoring reviews. Product Governance policy requirements updated to reflect FCA rules and guidance on General Insurance Pricing Practices. 	<ul style="list-style-type: none"> Updated Stress testing scenario analysis undertaken in line with BoE guidelines, assessing the Bank's resilience to the effects on capital adequacy from an economic downturn. Stress testing model enhancement made, with methodologies subject to review and challenge through engagement of third party experts. 	<ul style="list-style-type: none"> Increased contingent liquidity capacity including access to ILTR and acceptance of our securitisation notes as collateral by the Bank of England. Access to new funding sources including platform deposits. A review and update on the Bank's liquidity stress testing framework

Governance

The diagram below shows the Governance structure in place for Sainsbury's Bank as at 28 February 2022:



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Board-level Governance

The Board is the key governance body, meeting at least eight times a year, holding overall accountability for the decisions made and outcomes achieved by the Bank, subject to specific reserved matters that require the consent of J Sainsbury Plc. Details of the Board composition may be found below.

Relationship with J Sainsbury Plc

The Bank is a wholly owned subsidiary of J Sainsbury Plc, a listed retailer. J Sainsbury Plc currently has one Director on the Bank Board acting in the capacity of a Non-Executive Director. The J Sainsbury Plc appointed director has equal rights and powers as the other directors. 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, 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, Digital and E-Commerce. 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

Strategic report

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 become an agile, capital and cost-efficient provider of simple, mobile-led financial services to Sainsbury's and Argos customers.

The 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 26. Each of these is chaired by one of the Independent Non-Executive Directors.

Effectiveness

The Board last undertook a formal effectiveness review facilitated by an independent external advisor between December 2021 and March 2022.

Director Responsibilities

Accountability

Each Board Director has a clear understanding of their accountability and responsibilities via the Individual Accountability Regime which the Bank introduced in early 2016 and which has been regularly updated since then. 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 2021/22 and has the same planned for 2022/23. Additional Board meetings are convened as required to consider certain matters where it is not appropriate to defer until the next full meeting. Governance requirements (including quorum adherence) are applied as if these additional meetings were full Board meetings.

One of the Board meetings is usually set aside each year for strategic planning with the Executive Committee and key stakeholders from across the Bank, AFS and J Sainsbury Plc as appropriate. 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:

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

Strategy and risk management

The Board is responsible for the overall strategy and performance of the business and its management of risk. It undertakes a deep-dive review of the Bank's strategy on at least an annual basis, taking due account of changes in the operating environment and emerging risks and opportunities. This includes a review of long-term strategic opportunities, building upon the Bank's purpose and advantages from being part of the wider Sainsbury's Group.

The Board Risk Committee (BRC) provides the Board with a forward-looking view to anticipate future risks together with the monitoring and oversight over existing risks within the Risk Appetite set by the Board. It is responsible for reviewing and reporting its conclusions to the Board on the Bank's risk appetite and the Bank's risk management framework. The BRC meets at least five times a year.

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 AFS 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 21.

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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 Company 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 32).

Subsidiary companies

The remuneration strategy and policies set by RemCo are fully applied to Argos Financial Services.

Executive-level Governance

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

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

CEO Executive Committee:

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

Chief Risk Officer (CRO) Executive Committees:

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

CFO Executive Committees:

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

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Divisional Risk Committees

Each division across the Bank has its own Divisional Risk Committee (DRC) chaired by the relevant ExCo member. The role of the DRC is to ensure the effectiveness of the EWRMF within the Division, so that risks are effectively and consistently managed within the overall approved risk appetite. Each DRC provides input on material risks which may affect the Group to the Executive Risk Committee.

Pillar 3 report

Further information on the risks and controls can be found in the Bank's Pillar 3 Disclosure Report for the year ended 28 February 2022. This report is published in the investor relations section of the J Sainsbury plc corporate website: <https://www.about.sainsburys.co.uk/investors/results-reports-and-presentations#2022>

By order of the Board

Donald McNaughton

Company Secretary

27 April 2022

Directors' Report

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 2022.

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	
Peter Clarke	Senior Independent Non-Executive	Sainsbury's Bank plc	
Michael Ross	Independent Non-Executive	Sainsbury's Bank plc	
Carole Butler	Independent Non-Executive	Sainsbury's Bank plc	
Guy Thomas	Independent Non-Executive	Sainsbury's Bank plc	
Clodagh Moriarty	Non-Executive	J Sainsbury plc	
James Brown	Chief Executive Officer	Sainsbury's Bank plc	
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 6 of the Strategic report for details on employee engagement.

Business relationships

Refer to the S172(1) statement on page 6 of the Strategic report for details on business relationships.

Directors' report

Colleagues

Refer to the S172(1) statement on page 6 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.

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 34 and the Risk Management section in the Strategic report on pages 21 to 26.

Future developments

The development of the Bank is set out in the Strategic Report on pages 2 to 5.

Post balance sheet events

Details of events occurring after the reporting date are discussed in note 41 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.

The risk management framework as described in the strategic report on page 21 is considered adequate in managing liquidity and other key risks in the current environment. 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 34.

The Directors are satisfied that the Bank has adequate resources to continue in business 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. Consequently, the going concern basis continues to be appropriate in preparing the financial statements.

Dividends

The profit after tax for the year attributable to the shareholders is £6m (2021: £156m loss). The Directors have approved a special interim dividend payment of £50m (2021: £nil), and do not recommend payment of a final dividend (2021: £nil).

By order of the Board and signed on its behalf by

Donald McNaughton

Company Secretary

27 April 2022

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 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.

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 and Pillar 3 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

*Donald McNaughton
Company Secretary
27 April 2022*

Independent auditors' report to the members of Sainsbury's Bank plc

Opinion

We have audited the financial statements of Sainsbury's Bank Plc ("the Bank") for the year ended 28 February 2022 which comprise the Income Statement, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement, and the related notes 1 to 41 (except for items within note 35 which are marked as unaudited), including a summary of significant accounting policies. 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 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006; 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 listed 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:

- Performing a walkthrough to confirm our understanding of the Bank's financial statement close process, which included how Management undertakes their own going concern assessment. We engaged with Management early to ensure all key factors were considered in their assessment;
- We obtained an understanding of Management's rationale for the use of the going concern basis of accounting through reviewing their going concern assessment conclusions, which stressed the underlying forecasts and assumptions, and performing inquiries of Management and those charged with governance;
- We evaluated Management's going concern assessment which included reviewing their evaluation of the Bank's resilience to financial and operational stress on capital and liquidity requirements. The Bank included a number of adverse scenarios in their forecasts in order to incorporate unexpected changes to their forecasted capital and liquidity levels and we have tested the clerical accuracy of these forecasts and assessed the assumptions applied within the forecasts;
- We evaluated Management's assessment by considering viability under different stress scenarios, including the impact of strategic plans and the continued economic impact of COVID-19;
- We have reviewed Management's reverse stress testing in order to identify what factors would lead to all of the Bank's capital and liquidity eroding during the going concern period and assessed those factors against the likelihood of occurrence;
- We considered the Bank's operational resilience and its response to the continued impact COVID-19 has had on its business operations, including the operations of its third-party providers; and
- We reviewed the Bank's going concern disclosures included in the annual report in order to assess that the disclosures were appropriate 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 12 months from when the financial statements are authorised for issue.

Independent auditors' report to the members of Sainsbury's Bank plc

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	<ul style="list-style-type: none">• Expected credit loss provision• Revenue Recognition• Strategic changes planned or implemented by the Bank, particularly as it relates to the valuation of intangible assets• Reliance on the processes and controls of third-party service providers
Materiality	<ul style="list-style-type: none">• Overall materiality of £3.6m which represents 1.5% of gross margin.

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, including controls 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

There has been increasing interest from stakeholders as to how climate change will impact the Bank. The Bank has determined that the most significant future impacts from climate change on its operations and performance will be from transitional risks on the wider UK economy. Climate considerations are explained on pages 7-9 in the Task Force for Climate related Financial Disclosures (TCFD) Roadmap and on pages 23-24 in the risk overview, which form part of the "Other information," rather than the audited financial statements. Our procedures on these 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.

As explained in the TCFD Roadmap governmental and societal responses to climate change risks are still developing, and are interdependent upon each other, and consequently financial statements cannot capture all possible future outcomes as these are not yet known. The degree of certainty of these changes may also mean that they cannot be taken into account when determining asset and liability valuations and the timing of future cash flows under the requirements of International Accounting Standards. In note 34 to the financial statements consideration of the impact of possible changes in key assumptions as it pertains to the estimation of future credit losses has been noted.

Our audit effort in considering climate change was focused on ensuring that the effects of climate risks disclosed on pages 23 and 24 are not currently material to the financial statements. We also challenged the Directors' considerations of climate change in their assessment of going concern and viability and associated disclosures.

Whilst the Bank has stated its commitment to achieve net zero emissions by 2035, the Bank is currently unable to determine the full future economic impact on their business model, operational plans and customers to achieve this and therefore as set out above the potential impacts are not fully incorporated in these financial statements.

Key audit matters

Key audit matters are those matters that, in our professional judgment, 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.

Independent auditors' report to the members of Sainsbury's Bank plc

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Expected Credit Loss Provisions		
<p>Impairment Provision (2022: £126m, 2021: £183m) Refer to Accounting policies (page 53); and Note 13 of the Consolidated Financial Statements (page 64)</p> <p>Customer receivables comprise unsecured personal loans; credit cards; and, mortgages.</p> <p>Credit provisions represent Management's best estimate of impairment and significant judgements and estimates are made in determining the timing and measurement of expected credit loss ('ECL').</p> <p>The key judgements and estimates in respect of the timing and measurement of ECL include:</p> <p>(a) Completeness and accuracy of data;</p> <p>(b) The accounting interpretations and modelling assumptions used to build the models that calculate ECL;</p> <p>(c) Input and assumptions used to estimate the impact of the multiple economic scenarios (MES);</p> <p>(d) Allocation of assets to stage 1, 2 or 3 using criteria in accordance with the accounting standard;</p> <p>(e) Completeness and valuation of post model adjustments; and</p> <p>(f) Accuracy and adequacy of the financial statement disclosures.</p> <p>We consider the risk related to the ECL provisions continues to be heightened as a result of ongoing economic uncertainty from COVID-19 and the uncertain effects of the invasion of Ukraine.</p>	<p>We performed procedures to assess the design effectiveness of key controls across the processes relevant to the impairment provision calculation, involving specialists to assist us in performing our procedures where appropriate.</p> <p>This included consideration of model governance, data accuracy and completeness, multiple economic scenarios, and the allocation of assets into stages.</p> <p>We performed control testing over the key controls identified to ensure that the controls operated effectively throughout the period. This considered the key elements identified in the previous paragraph.</p> <p>We reviewed the minutes of the model and risk committees where inputs, assumptions, and adjustments to the ECL were discussed and approved.</p> <p>We verified the data used in the ECL calculation on a sample basis. In order to complete this testing, we independently reconciled a sample of data feeding the models to source systems.</p> <p>We considered the assumptions, inputs and formulas used across the entire population of ECL models. This included assessing the appropriateness of model design and the formulas used, considering alternative modelling techniques and recalculating the Probability of Default, Loss Given Default and Exposure at Default for a sample of the models.</p> <p>With the support of our internal modelling specialists, we performed testing over models implemented during the year to validate that they were functioning as intended.</p> <p>We tested the assumptions and inputs used in the ECL models with the support of our internal modelling and economic</p>	<p>We are satisfied that provisions for the impairment of loans and advances to customers were reasonable and recognised in accordance with the applicable reporting framework based on our procedures performed.</p> <p>We reperfomed the staging and noted no material differences. We also performed sensitivity analysis on the staging criteria and noted that substantial changes would be needed to the criteria to result in a material difference.</p> <p>We communicated to the Audit Committee that certain forecasted macroeconomic variables used within the models were outside of expected ranges, but that the economic overlays recorded by Management mitigated the effect of this and ultimately meant that the impairment provision was reasonably stated.</p> <p>Other overlays recorded by Management were appropriate and complete.</p> <p>Our testing of models and model assumptions identified some instances of over and under estimation. We aggregated these differences and were satisfied that the overall estimate recorded was reasonable</p>

Independent auditors' report to the members of Sainsbury's Bank plc

Risk	Our response to the risk	Key observations communicated to the Audit Committee
	<p>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.</p> <p>We assessed whether forecasted macroeconomic variables used within the models, such as GDP and unemployment, were appropriate by performing a benchmark analysis against the Bank's peers. We also considered the different weightings applied to the various economic scenarios in our analysis.</p> <p>We challenged the criteria used to allocate an asset to stage 1, 2 and 3 in accordance with IFRS 9 and reviewed assets in stages 1, 2, and 3 to verify that they were allocated to the appropriate stage. We reperformed in full, the allocation of assets to stages 1, 2 and 3 to ensure that SICR criteria is being applied as designed.</p> <p>We challenged model overlays for appropriateness and completeness using our knowledge and experience across the industry. We performed testing over material model overlays together with our credit modelling specialists.</p> <p>We assessed the appropriateness of the scenarios and calculations used in determining the overlay to be applied in response to the economic uncertainty due to COVID-19 and the invasion of Ukraine.</p> <p>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.</p>	

Independent auditors' report to the members of Sainsbury's Bank plc

Risk	Our response to the risk	Key observations communicated to the Audit Committee
	We assessed the adequacy and appropriateness of disclosures for compliance with the accounting standards.	
Revenue Recognition –EIR		
<p>EIR Asset (2022: £104m, 2021: £109m)</p> <p><i>Notes 2,3 and 13 of the Financial Statements (pages 57, 58 and 65)</i></p> <p>Accounting standards require that interest income on personal loans, credit cards and mortgages 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. As such, we have identified a fraud risk related to the timing of revenue recognition through the Management override of internal controls.</p> <p>The risks, as we see them, are that:</p> <p>(a) the data used in making the estimate is not complete and accurate;</p> <p>(b) the judgements made are not appropriate; and</p> <p>(c) the calculation methodology is not applied correctly.</p> <p>We consider the risk related to recognition of revenue using the effective interest rate method, including the associated fraud risk, to be consistent with the prior year.</p>	<p>We performed procedures to obtain an understanding of the key controls in place over the EIR process.</p> <p>We considered the completeness and accuracy of data inputs into the models by:</p> <ul style="list-style-type: none"> (i) inspecting reconciliations from the general ledger to the source systems; and subsequently from the general ledger to the enterprise data warehouse. (ii) verifying the data used in the EIR calculation on a sample basis. In order to complete this testing, we have independently reconciled a sample of data feeding the model from the source system. <p>We tested the appropriateness of Management's assumptions by:</p> <ul style="list-style-type: none"> • Reviewing Management's methodology paper to assess if the variables mentioned are in accordance with the applicable accounting standards. • Comparing judgements to: <ul style="list-style-type: none"> ○ Observable recent customer behaviour, including the continued impacts of COVID-19; ○ Product pricing models; and ○ Consideration of future expected changes. • Testing for indications of Management bias through: <ul style="list-style-type: none"> ○ Comparison of customer behaviour to observable market data; 	<p>We are satisfied that the assumptions used in determining the EIR asset balance are reasonable and in accordance with the applicable accounting framework.</p> <p>We obtained assurance over the completeness and accuracy of data used within the EIR models through performing reconciliations of the data to source systems and sample testing of data attributes.</p>

Independent auditors' report to the members of Sainsbury's Bank plc

Risk	Our response to the risk	Key observations communicated to the Audit Committee
	<ul style="list-style-type: none"> ○ Review of judgements made by Management for consistency with prior periods where appropriate; ○ Assessment of Management's sensitivity analysis to determine whether the EIR adjustments were within an appropriate range and reasonable in relation to the continued impact of COVID-19; ○ Performing a sensitivity analysis over the impact of alternative behavioural lives and challenging the current behavioural lives used; and ○ Challenging model true-ups for appropriateness using our knowledge and experience across the industry, including assessing the appropriateness of the data, scenarios and calculations used in the determining the true-up applied. <p>We tested the application of the calculation methodology by:</p> <ul style="list-style-type: none"> (i) Engaging our modelling experts to test that the variables / assumptions stated in Management's methodology paper are modelled in Management's workings; (ii) Engaging our modelling experts to review the macros that are used to input the raw data into the model files; (iii) Performing sample 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; and (iv) Performing sensitivity analysis on individual cohorts to validate the model moves in line with expectation. 	

Independent auditors' report to the members of Sainsbury's Bank plc

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>Strategic changes planned or implemented by the Bank, particularly as they relate to the valuation of intangible assets.</p>		
<p>Intangible Asset – Net Book Value (2022: £162m, 2021: £155 million)</p> <p><i>Note 19 of the Financial Statements (page 74)</i></p> <p>The Bank has embarked on a number of initiatives as a result of the strategic changes announced in September 2019.</p> <p>Additionally, the Bank continues to update their forecasts as a result of the uncertainty caused of COVID-19.</p> <p>These changes impact the valuation of existing intangible asset balances, as well as the capitalisation of future costs incurred.</p> <p>The risks, as we see them, are that:</p> <ul style="list-style-type: none"> (a) The impact(s) on the financial statements as a result of decisions in strategic direction are not recorded accurately or in a timely manner; (b) The judgements made are not appropriate, including those related to future forecasts and the resulting impairment assessment; and (c) controls and processes do not operate effectively across the business due to changes in personnel, increasing the risk of misstatement. 	<p>We obtained an understanding of the Bank's plans and considered the related risks when designing and executing our planned audit procedures over impacted balances.</p> <p>We performed procedures to obtain an understanding of the key controls in place over the intangible asset process, including capitalisation and the impairment assessment. We challenged the design and operating effectiveness of those key controls identified.</p> <p>We reviewed and challenged Management's forecasts at a product level to identify risk areas within management's budget. Additionally, we performed a sensitivity analysis over the growth in net interest margin for the key banking products where significant growth is projected (i.e., loans and credit cards) to determine how profits would react to changes in key income drivers.</p> <p>We also reviewed historical performance against budget to conclude on the accuracy of the Bank's budgeting process.</p> <p>We obtained Management's indicators of impairment assessment paper that was prepared at year-end, and performed a review, critically assessing whether there had been either:</p> <ul style="list-style-type: none"> • Any indicators of impairment, as per IAS 36 paragraph 9, that would require the bank to perform a full impairment assessment to determining whether any of its assets are impaired • Any indication that the impairment loss recognised in the prior period may no longer exist or may have decreased (i.e., reversal of impairment) as per IAS 36 paragraph 111 <p>We assessed the useful economic lives assigned to a sample of intangibles</p>	<p>We raised several challenges with management, primarily relating to growth in assets and their related forecasted profits. Specifically, we challenged the forecasted time period for returning to pre-Covid activity levels given changing consumer behaviours and competition in the market.</p> <p>Further, we challenged management's conclusion that there are no indicators that the prior period impairment loss relating to travel money assets should be reversed considering the forecasted growth in income.</p> <p>Overall, we are satisfied that management have appropriately assessed the required indicators of impairment and indicators of reversal of impairment. We concur with management's assessment that there are no such indicators, and we consider the overall intangible balance to be appropriately stated.</p>

Independent auditors' report to the members of Sainsbury's Bank plc

Risk	Our response to the risk	Key observations communicated to the Audit Committee
	<p>assets to ensure that the assigned lives are appropriate based on the asset class and the impacts of any strategic changes. We also performed a benchmarking assessment to identify whether Sainsbury's Bank's useful life policies are in line with industry standards.</p> <p>We reviewed the intangible asset register to confirm that no costs were capitalised for asset categories that were fully impaired as a result of previous impairments recorded in the prior year. Where asset categories had been partially impaired we verified that sufficient headroom existed post-impairment for further additions.</p> <p>We have performed a full recalculation of amortisation for the year based on the intangible asset register as at 28 February 2022, to ensure intangible assets are appropriately valued as at year end, in line with accounting standards.</p> <p>We performed test of details over a sample of additions to, and disposals from the intangible asset register, as well a sample of additions to WIP to confirm only spend that meets the capitalisation criteria is included within the register.</p> <p>We reviewed significant contracts and agreements with material third parties of the Bank and assessed the need for any onerous contract provisions to be recorded as a result of the strategic changes.</p>	
Reliance on the processes and controls of third-party service providers		
<p>Many of the Bank's IT systems are hosted by third parties. The Bank receives 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.</p>	<p>We performed procedures to obtain an understanding of the processes which are outsourced to third-parties and their impact on the financial statements.</p> <p>We made inquiries of Management to understand the process through which the Bank:</p>	<p>We obtained reasonable assurance over the Bank's processes and controls over the completeness and accuracy of data received from third parties.</p>

Independent auditors' report to the members of Sainsbury's Bank plc

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>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 report is not obtained, or assurance is unable to be obtained over the third-party control environment. These risks are:</p> <p>(a) not mitigated by compensating controls within the Bank's own control environment; and</p> <p>(b) not appropriately quantified by the Bank.</p> <p>We consider the risk related to the oversight of third-party service providers to have increased in the current year due to a change in the Bank's ability to rely on the design and operating effectiveness of controls in place at a key third party service organisation.</p>	<p>(i) Monitors control effectiveness at third parties, ; and</p> <p>(ii) Performs control activities over the completeness and accuracy of data received from third parties.</p> <p>For the third-party service provider control 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.</p> <p>We reviewed the assessment performed by Management over the third-party service provider control reports, including:</p> <p>(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</p> <p>(ii) Management's evaluation of any ineffective controls within the control reports.</p> <p>Where 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. Where we were no longer able to rely on controls as a result of the deficiencies identified, we reassessed our planned audit procedures over impacted balances and performed incremental substantive testing procedures in order to obtain reasonable assurance over account balances.</p>	

Independent auditors' report to the members of Sainsbury's Bank plc

In the prior year, our auditor's report also included all of the key audit matter discussed above.

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 £36 million (2021: £3.25 million), which was 1.5% (2021: 1.5%) of the forecast gross margin at the planning stage of the audit. We believe that gross margin provides us with an appropriate basis for materiality as the Bank is a profit-orientated entity.

During the course of our audit, we reassessed initial materiality and applied the 1.5% rate to the year end gross margin balance (£246m). This was a slight increase in comparison to our planning materiality threshold, however our planning materiality was initially conservative, with the Bank's performance improving marginally at year end due to an improved economic outlook given the current state of the covid pandemic.

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 50% (2021: 50%) of our planning materiality, namely £1.8m (2021: £1.6m). We have set performance materiality at this percentage due to various considerations including the past history of misstatements, the effectiveness of the control environment and other factors affecting the entity and its financial reporting, which is consistent with our approach in the prior year.

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 £0.18m (2021: £0.16m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. This is consistent with prior year.

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. 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.

Independent auditors' report to the members of Sainsbury's Bank plc

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 X, 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. Policy.
- 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 process and Whistleblowing

Independent auditors' report to the members of Sainsbury's Bank plc

- We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur by assessing the controls that the Bank has 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 earnings
- 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 performed 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 Bank 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 Bank 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 5 years, covering the years ending 28 February 2018 to 28 February 2022.

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.

*Peter Wallace (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Edinburgh
27 April 2022*

Income statement

For the year ended 28 February 2022

	Note	2022 £m	2021 £m
Interest income	3	216	241
Interest expense	3	(43)	(81)
Net interest income		173	160
Fees and commissions income	4	82	68
Fees and commissions expense	4	(14)	(9)
Net fees and commissions income		68	59
Other operating income	5	6	2
Total income		247	221
Administrative expenses	6	(206)	(198)
Impairment of Intangible and Tangible assets			
Property, plant and equipment	20	(1)	(23)
Intangible assets	19	-	(82)
Depreciation and amortisation			
Property, plant and equipment	20	(2)	(3)
Intangible assets	19	(20)	(20)
Operating expenses		(229)	(326)
Impairment losses on financial assets	11	(14)	(58)
Realised gains on financial instruments	7	2	1
Fair value gains on financial instruments	7	2	-
Profit / (loss) before taxation		8	(162)
Analysed as:			
Underlying profit / (loss) before tax		24	(36)
Non-underlying items	8	(16)	(126)
		8	(162)
Taxation	12	(2)	6
Profit / (loss) for the financial year attributable to the owners of the Bank		6	(156)

The accompanying notes on pages 52 to 114 form part of these financial statements.

Statement of comprehensive income

For the year ended 28 February 2022

	Note	2022 £m	2021 £m
Profit / (loss) for the financial year		6	(156)
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Financial assets fair value movements	30	-	1
FVOCI gains recycled to income statement	30	(2)	-
Items that do not qualify for reclassification to profit or loss:			
Financial assets fair value movements	30	-	1
Total other comprehensive income, net of tax		(2)	2
Total comprehensive income / (expense)		4	(154)

All amounts are attributable to the owners of the Bank.

The accompanying notes on pages 52 to 114 form part of these financial statements.

Balance sheet

As at 28 February 2022

	Note	2022 £m	2021 £m
Assets			
Cash, balances with central banks and other demand deposits	15	346	968
Loans and advances to banks	16	121	37
Derivative financial instruments	17	19	2
Investment securities	18	443	587
Loans and advances to customers	13	4,311	4,599
Investments in subsidiaries	21	325	325
Intangible assets	19	162	155
Property, plant and equipment	20	9	11
Other assets	22	700	754
Total assets		6,436	7,438
Liabilities			
Customer accounts	23	4,235	5,128
Other deposits	24	1,024	1,161
Subordinated liabilities	25	179	179
Derivative financial instruments	17	19	29
Other liabilities	26	113	84
Provisions for liabilities and charges	27	9	8
Total liabilities		5,579	6,589
Equity			
Called up share capital	28	701	901
Retained earnings	29	155	(55)
Other reserves	30	1	3
Total equity		857	849
Total equity and liabilities		6,436	7,438

The financial statements on pages 47 to 114 were approved by the Board of Directors on 27 April 2022 and signed on its behalf by:

Michael Larkin
Director and Chief Financial Officer

The accompanying notes on pages 52 to 114 form part of these financial statements.

Sainsbury's Bank plc – Company number 3279730

Statement of changes in equity

For the year ended 28 February 2022

	Note	Called up share capital £m	Retained earnings £m	Other reserves £m	Total equity £m
As at 1 March 2021		901	(55)	3	849
Profit for the financial year		-	6	-	6
Capital reduction		(200)	200	-	-
Other comprehensive income:					
FVOCI gains recycled to income statement	30	-	-	(2)	(2)
Total comprehensive income		(200)	206	(2)	4
Transactions with owners:					
Share based payment (net of tax)		-	4	-	4
At 28 February 2022		701	155	1	857
	Note	Called up share capital £m	Retained earnings £m	Other reserves £m	Total equity £m
As at 1 March 2020		901	98	1	1,000
Loss for the financial year		-	(156)	-	(156)
Other comprehensive income:					
Financial assets fair value movements (FVOCI)	30	-	-	2	2
Total comprehensive income		-	(156)	2	(154)
Transactions with owners:					
Share based payment (net of tax)		-	3	-	3
At 28 February 2021		901	(55)	3	849

All amounts are attributable to the owners of the Bank.

The accompanying notes on pages 52 to 114 form part of these financial statements.

Cash flow statement

For the year ended 28 February 2022

	Note	2022 £m	2021 £m
Profit/(Loss) before taxation		8	(162)
Non-cash and other items included in profit before taxation		53	202
Change in operating assets and liabilities		(668)	450
Income taxes repayments		-	2
Cash flows (used in) / generated from operating activities	14	(607)	492
Purchase of equipment		(1)	(1)
Purchase of intangibles		(26)	(23)
Cash flows used in investing activities		(27)	(24)
Interest paid on subordinated liabilities		(11)	(11)
Lease payments		(2)	(1)
Cash flows used in financing activities		(13)	(12)
Change in cash and cash equivalents		(647)	456
Opening cash and cash equivalents		1,028	572
Closing cash and cash equivalents		381	1,028

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

	2022 £m	2021 £m
Cash, balances with central banks and other demand deposits	346	968
Less: mandatory reserve deposit held at central banks	(15)	(17)
	331	951
Loans and advances to banks	25	27
Investment securities	25	50
	381	1,028

The accompanying notes on pages 52 to 114 part of these financial statements.

Notes to the financial statements

1. Basis of Preparation

The Bank's financial statements have been prepared in accordance with UK adopted international accounting standards.

These 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 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 Company'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 financial statements have been prepared on a going concern basis. This is discussed in the Directors' report, under the heading '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.

The risk management framework as described in the strategic report on page 21 is considered adequate in managing liquidity and other key risks in the current environment. 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 34.

The Directors are satisfied that the Bank has adequate resources to continue in business for the foreseeable future taking into account a range of possible operational, economic and legal scenarios. Consequently, the going concern basis continues to be appropriate in preparing the financial statements.

The Bank is a wholly-owned subsidiary of J Sainsbury plc and is included in the consolidated financial statements of J Sainsbury plc which are publicly available. Consequently, the Bank has taken advantage of the exemption from preparing consolidated financial statements under the terms of section 400 of the Companies Act 2006 and IFRS 10 4(a).

Foreign currencies

The 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 balance sheet 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).

Notes to the financial statements (continued)

1. Basis of Preparation (continued)

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).

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 are classified as FVOCI. Initial recognition and subsequent measurement is 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.

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:

The Bank adopted Interest Rate Benchmark Reform – Phase 1 (Amendments to IFRS 9, IAS 39 and IFRS 7) and early adopted the Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) (the Phase 2 amendments) in the prior year. No new standards or interpretations became effective in the period that have a material impact on the Bank.

Standards and interpretations effective for the Company in future periods:

None of the following 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:

— IFRS 17 'Insurance Contracts'

2. Critical accounting estimates 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 the valuation of investment securities.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. 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.

Impairment of loans and advances

Impairment loss models involve the estimation of future cash flows of financial assets, based on observable data at the balance sheet date and historical loss experience for assets with similar credit risk characteristics. 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.

Notes to the financial statements (continued)

2. Critical accounting estimates and judgements (continued)

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.

Depending on their materiality, model changes are approved at either MRC or Retail Credit Risk Committee (RCRC) for approval by either the Senior Managers or Head of Credit Risk and Chief Risk Officer.

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 in order to decline accounts that may demonstrate factors outside of risk appetite that are not yet reflected in PD measures. 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.

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 unlikelihood 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 a 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. At the onset of the Covid 19 pandemic our appetite for credit risk was reduced to protect the Bank from losses, including the financial impacts of balances moving from stage 1 to stages 2 and 3.

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, Credit Cards and Mortgages. 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,

Notes to the financial statements (continued)

2. Critical accounting estimates and judgements (continued)

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.

Post model adjustments (PMAs)

In the context of IFRS 9 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.

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

PMAs applied in estimating the reported ECL at 28 February 2022 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.

	As at 28 February 2022	As at 28 February 2021
	£m	£m
Economic adjustment	9	30
Operational overlays	2	(1)
Total	11	29

The proportion of PMAs is 9% of the total ECL provision as at 28 February 2022 (2021: 17%).

The Economic adjustment is included where management judge the underlying models do not respond adequately to the economic scenarios. As a result of Covid 19 there remains uncertainty over the levels of defaults that may arise following the cessation of government assistance schemes, and inflation is an emerging concern as markets re-open. The Economic adjustment has reduced significantly to £9m (2021: £30m) as a result of enhancements to our models to capture more of the impact of the uncertain economics within the modelled outputs and an improving economic outlook as Covid 19 restrictions have eased.

The majority of the Operational overlays relate to specific model limitations that have been manually corrected whilst a permanent fix is being developed.

For all PMAs there will always be an attempt to use existing IFRS9 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 or not lending should be offered. Default rates for certain subgroups within a portfolio drive forecasts 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.

For the year ended 28 February 2022, the Bank commissioned economic scenarios which considered a range of plausible but alternative economic conditions that could arise in relation to the ongoing impacts of the recovery from COVID-19.

The ECL models utilise 4 scenarios (2021: 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 45% with the upside, downside and severe downside scenarios weighted 35%, 15%, 5% respectively (2021: base scenario 40%, upside, downside and severe downside scenarios were 30%, 25% and 5% respectively).

Each portfolio, when modelled for IFRS9, showed different characteristic 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, whereas our secured portfolio includes reference to house prices and levels of mortgage debt.

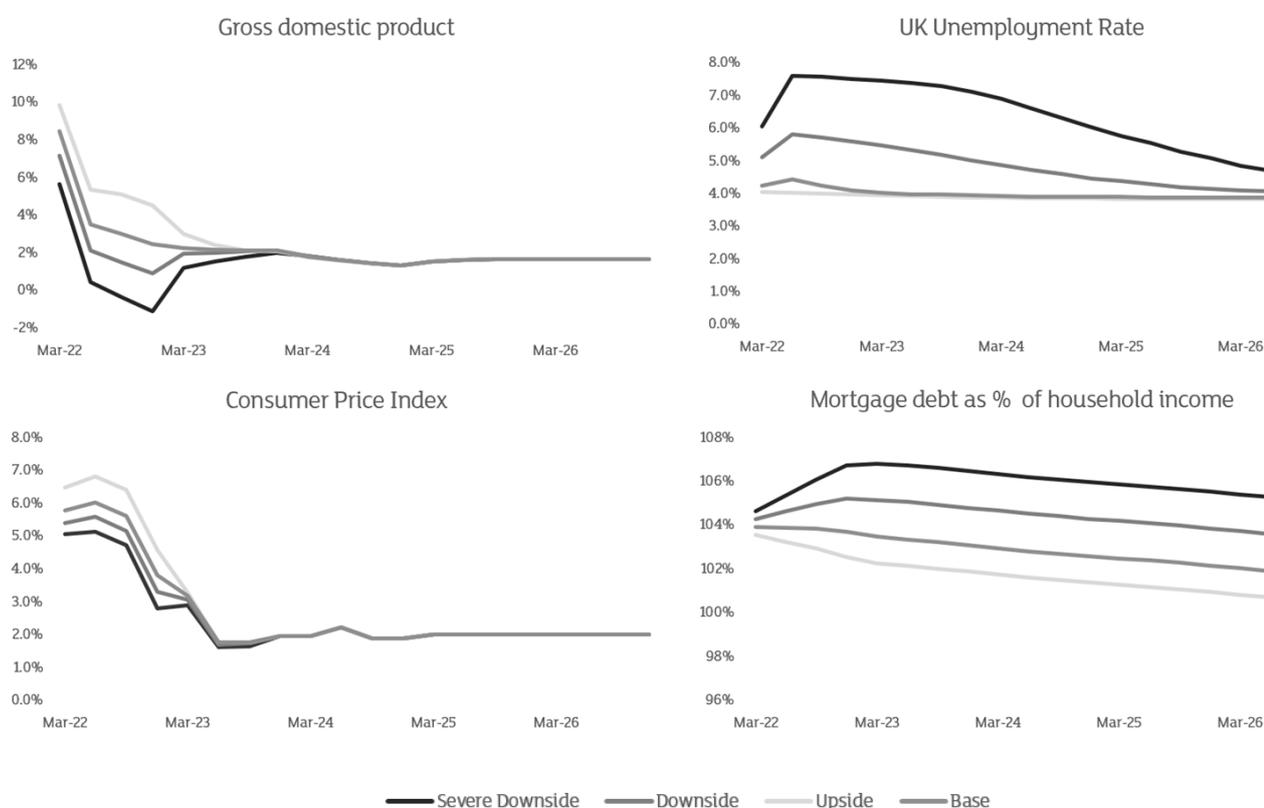
Approval and governance of our scenarios is via RCRC & ALCO, with ALCO approving the appropriate scenario weightings to be applied to ensure the most appropriate reflection of our views on future unemployment and CPI rates.

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.

Notes to the financial statements (continued)

2. Critical accounting estimates and judgements (continued)

The graphs below plot the data for Unemployment, GDP, Consumer price growth and mortgage debt as a percentage of household income for each of the 4 scenarios used in our IFRS 9 models:



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

Our base case scenario envisages a peak unemployment of 4.4% in June 2022 before reverting to the long-term average in 2024 and a spike in CPI of 6% in the 2nd quarter of 2022.

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):

Scenario 5 Year Averages	As at 28 February 2022			
	Base %	Upside %	Downside %	Severe Downside %
Unemployment rate	4.0	3.9	4.7	6.2
Consumer price growth	2.7	2.8	2.6	2.5
GDP	1.8	2.2	1.5	1.0
Mortgage debt as a percentage of household income	102.8	101.7	104.3	105.9
Real household disposable income	1.0	1.3	0.7	0.4
Probability weighting	45	35	15	5
Sensitivity analysis				
Increase (decrease) on ECL provision under 100% probability weighting	£(2.5)m	£(4.7)m	£5.8m	£20.8m
Unsecured	£(2.5)m	£(4.7)m	£5.8m	£20.6m
Secured	£(0.0)m	£(0.0)m	£0.0m	£0.2m

Notes to the financial statements (continued)

2. Critical accounting estimates and judgements (continued)

Scenario 5 Year Averages	As at 28 February 2021			
	Base %	Upside %	Downside %	Severe Downside %
Unemployment rate	5.2	4.5	6.4	8.2
Consumer price growth	1.8	1.9	1.7	1.6
GDP	3.1	4.0	2.7	2.3
Mortgage debt as a percentage of household income	101.6	100.6	102.0	102.4
Real household disposable income	1.9	2.2	1.7	1.4
Probability weighting	40	30	25	5
<u>Sensitivity analysis</u>				
Increase (decrease) on ECL provision under 100% probability weighting	£(0.5)m	£(9.8)m	£9.0m	£22.2m
Unsecured	£(0.5)m	£(9.7)m	£8.9m	£22.1m
Secured	-	£(0.1)m	£0.1m	£0.1m

The significant changes in the base scenario reflect year on year movements in the Covid 19 pandemic with initial expectations over increased unemployment rates not materialising to the extent predicted, whilst the re-opening of the economy has resulted in inflation increasing at higher rates than previously predicted.

The sensitivity disclosed above is based on the modelled ECL and the economic adjustment overlay and does not include the further operational overlays.

Further explanation of the inputs, assumptions, estimation techniques used at the reporting date in measuring ECLs are set out at note 13.

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 balance sheet 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.

Impairments recognised in the period are disclosed in notes 19 & 20.

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.

Estimates are based on historical experience from similar product types. Management considers that the most material judgement is the estimated life of Credit Card balances which is a maximum of 60 months (2021: 60months).

To the extent that behavioural life differs by +/- 12 months, the value of loans and advances to customers on the balance sheet would be £8m (2021: £7m) higher or £8m (2021: £8m) lower respectively.

Notes to the financial statements (continued)

3. 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.

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 subsequently become credit-impaired, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset net of any provision for expected credit losses. If the asset is no longer credit impaired, then the calculation of interest income reverts to the gross basis.

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.

Interest income and expense on other financial assets and financial liabilities at FVPL are presented in fair value gains on financial instruments (see note 7).

Interest expense on lease liabilities are included within Interest expense on customer accounts, deposits and borrowings (see note 32).

	2022	2021
	£m	£m
Interest income calculated using the effective interest rate method:		
Interest income on financial assets measured at amortised cost	213	236
Interest income on financial assets measured at FVOCI	2	4
Other interest income	1	1
Interest receivable	216	241
Interest expense on customer accounts, deposits and borrowings	(16)	(45)
Interest expense on subordinated liabilities	(11)	(11)
Interest expense on derivative liabilities	(16)	(25)
Interest payable	(43)	(81)
Net interest income	173	160

Notes to the financial statements (continued)

4. Net fees and commissions income

Accounting policy Fees and commissions income
Fees and commissions that are not integral to the effective interest rate calculation primarily relate to Credit Card and ATM interchange fees, and Insurance introduction commission receivable from insurance partners. These fees are recognised in line with the satisfaction of performance obligations. This can either be at a point in time or over time.

Banking income

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.

Insurance income

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.

Contract balances

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.

	2022	2021
	£m	£m
Banking income	49	41
Insurance income	32	26
Other income	1	1
Total fees and commission income	82	68
Fees payable	(14)	(9)
Total fees and commission payable	(14)	(9)
Net fees and commission income	68	59

Capitalised costs incurred to obtain contracts in the year were £5m (2021: £4m) and the unamortised balance as at the reporting date, included within other assets in note 22 was £7m (2021: £6m). 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 £4m (2021: £4m).

Notes to the financial statements (continued)

5. Other operating income

Accounting policy	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.		
		2022	2021
		£m	£m
Travel Money income		6	2
Other operating income		6	2

Travel Money income has increased in the year due to the re-opening of the Travel Money bureaux for the summer period from May to September as a result of the easing of travel restrictions. The bureaux were closed from October 2021 until Spring 2022 due to weak demand and continued travel restrictions.

6. Administrative expenses

	2022	2021
	£m	£m
Staff costs:		
Wages and salaries	57	48
Social security costs	7	6
Pension costs	4	3
Share based payments	4	3
	72	60
Other operating costs	134	138
	206	198

Staff costs and other operating costs include £17m (2021: £21m) of non-underlying items as described in note 8.

See note 9 for further details on employee arrangements.

7. Gains/(losses) on financial assets and liabilities

	2022	2021
	£m	£m
Realised gains on derecognition	2	1
Fair value gains on hedge ineffectiveness of derivatives in hedge relationship	2	-

Further detail on the Bank's hedging policies is provided in note 17.

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.

Notes to the financial statements (continued)

8. Non-underlying items

Certain items recognised in the Bank's profit before taxation are of an unusual and infrequent nature and do not relate to the Bank's underlying performance. The Directors believe that the 'underlying profit before tax' measure presented provides a clear and consistent presentation of the underlying performance of the Bank. Underlying profit is not defined by IFRS and therefore may not be directly comparable with the 'adjusted' profit measures of other companies.

	2022	2021
	£m	£m
Impairment of Intangible and Tangible assets	(1)	(105)
New Bank Programme transition costs	(12)	(15)
Strategic initiatives	(5)	(6)
Total non-underlying items - Costs	(18)	(126)
Fair value gains on hedge ineffectiveness of derivatives in hedge relationship	2	-
Total non-underlying items – Gains / losses on financial instruments	2	-
Total non-underlying items	(16)	(126)

During the previous year the Bank undertook an impairment review of its Intangible and Tangible assets due to the impact of the COVID-19 pandemic, which resulted in an impairment of £105m due to the related impacts on customer behaviours. Details of the impairment review are disclosed in note 19.

New Bank Programme transition costs principally comprise contractor and service provider costs relating to the migration of data and other services to the Bank's new infrastructure and operating model. This activity concluded in the year ended 28 February 2022.

In the year to 28 February 2022, strategic initiatives principally relate to costs associated with the strategic decision to exit certain elements of our office accommodation and costs connected to the potential sale of Sainsbury's Bank by J Sainsbury plc. In the previous year these related to one-off costs relating to projects – this included severance costs and related consultancy.

9. Employees

The average monthly number of colleagues working on the Bank's operations during the year is set out below.

	2022	2021
	Number	Number
Full time	978	987
Part time	773	1,071
Full time equivalent	1,751	2,058

Colleague costs are disclosed in administrative expenses in note 6.

Included in average colleague headcount were 203 Travel Money colleagues (2021: 740) who were seconded to the Sainsbury's retail business, with the related costs being recharged. Further details on recharges is provided in note 39.

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 6) represents contributions payable by the Bank was entirely in relation to the defined contribution schemes.

Notes to the financial statements (continued)

10. Directors' emoluments

	2022	2021
	£m	£m
Emoluments	3.5	2.0
Share based payments	1.1	0.8
	4.6	2.8
Highest paid director:		
Emoluments	1.8	0.8
Share based payments	0.7	0.4
	2.5	1.2

The Directors' positions and remuneration status are set out in the Directors' report on page 32. The emoluments set out above include those Directors who held office during the year.

All executive Directors were employed and remunerated by the Bank. The emoluments presented above include £1.1m (2021: £nil) met by another J Sainsbury plc group company including £0.7m (2021: £nil) paid to the highest paid director. These amounts are not included in staff costs (note 6).

During the year two Directors (2021: two) received share awards under J Sainsbury plc share incentive schemes reflective of their qualifying services. No Directors (2021: none) exercised share options in the year including the highest paid Director. Further detail of the relevant incentive plans is outlined in note 38.

During the year two Directors (2021: two) accrued retirement benefits in respect of qualifying services under defined contribution schemes. No directors (2021: 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 32 for further details.

11. Profit / (loss) before taxation

	2022	2021
	£m	£m
Profit / (loss) before taxation is stated including the following items of income and (expense):		
Loss on disposal of intangible assets	-	-
Loss on disposal of tangible assets	-	(1.6)
Impairment loss	(1.3)	(105.5)
Auditors' remuneration:		
Statutory audit of the Bank	(0.9)	(0.8)

Details of the impairment loss are disclosed in note 19.

Audit-related assurance services were also performed by the Statutory Auditors during the year in respect of assurance over balances prepositioned with the Bank of England. Fees for this work totalled £0.03m (2021: £0.02m for a limited assurance of interim balances).

12. Taxation

Accounting policy Taxation on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Taxation is determined using tax rates (and laws) enacted or substantively enacted at the balance sheet date. Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

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.

	2022 £m	2021 £m
UK corporation tax on profit for the year	1	-
Adjustments in respect of prior years	-	-
Current tax	1	-
Deferred tax charge		
Change in tax rate	(1)	-
Origination and reversal of temporary differences		(9)
Adjustments in respect of prior years	2	3
Deferred tax	1	(6)
Total tax (credit)	2	(6)

Differences between profit before tax multiplied by the UK corporation tax rate for the year of 19% and the income tax expense recognised in the income statement are explained below:

	2022 £m	2021 £m
Profit/(Loss) before taxation	8	(162)
Tax on ordinary activities at 19% (2021: 19%)	1	(31)
Effects:		
Change in Corporation Tax rate	(1)	-
Losses surrendered/(claimed) as group relief for nil consideration		22
Adjustment in respect of prior years	2	3
Total income tax (credit) recognised in the income statement	2	(6)

In the current period, the substantively enacted UK Corporation tax rate applicable to the company was 19% (2021: 19%).

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. Deferred income tax assets and liabilities are only offset where there is a legally enforceable right of offset and the deferred income tax assets and the deferred income tax liabilities relate to income taxes levied by the same taxation authority.

It was announced in the UK Government's Budget on 3 March 2021 that the main UK corporation tax rate will increase to 25% from 1 April 2023. This change was substantively enacted on 24 May 2021. Closing deferred tax assets and liabilities have therefore been recalculated taking into account this change of rate and the applicable period when the deferred tax assets and liabilities are expected to crystallise.

13. 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 balance sheet when cash is advanced.
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The accounting policies for classification and measurement under IFRS are detailed in note 1.

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 balance sheet 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 balance sheet 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 balance sheet 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.

Undrawn commitments

Undrawn loan and 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.

Notes to the financial statements (continued)

13. Loans and advances to customers (continued)

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 ECLs in relation to undrawn commitments are disclosed in note 33. The impairment allowance in respect of these instruments is included within provisions for liabilities and charges as there is no related asset on balance sheet against which to offset the related impairment allowance

The Bank's gross lending exposure before deduction of impairment provisions is analysed below:

	2022	2021
	£m	£m
Gross advances	4,429	4,750
Impairment	(118)	(174)
Adjustment in relation to fair value hedging	-	23
Loans and advances to customers	4,311	4,599
Gross advances being:		
Repayable on demand	1,624	1,518
Other loans and advances repayable:		
In 3 months or less	199	294
Between 3 months and 1 year	524	588
Between 1 and 5 years	1,408	1,304
After 5 years	674	1,046
	4,429	4,750

	2022	2021
	£m	£m
Individuals:		
Secured Lending	781	1,247
Unsecured Lending	3,648	3,503
Gross loans and advances to customers	4,429	4,750

Eligible personal and mortgage loans with applicable haircuts are used as collateral for the Bank's securitisation facility and the Bank of England's Term Funding Scheme Small and Medium-sized enterprises (TFSME) and Indexed Long-term Repo (ILTR) facilities.

As at 28 February 2022 £558m (2021: £623m) of Personal Loans assets and £626m (2021: £955m) of Mortgage assets were pledged to the Bank of England facilitating funding of £661m (2021: £nil) from the TFSME and £225m (2021: £150m) from the ILTR. These drawings were further supported by the indirect pledging of personal loans collateral via our securitisation facilities as outlined in the following paragraph. Following its maturity there were no drawings under the TFS (2021: £950m),

The Bank has also securitised and sold personal loans to a special purpose vehicle (SPV) as part of a securitisation. The SPV has issued a £500m Senior class A note and £121m Junior class Z note to the bank. As at the 28 February 2022, the Bank had pledged £621m (2021: £621m) of personal loans to the SPV. Of the A notes held by the Bank £200m (2021: £nil) have been pre-positioned with the Bank of England to support the funding facilities outlined in the previous paragraph, of this £80m (2021: £nil) was encumbered as at 28 February 2022. Further details are disclosed in note 39, related party transactions.

As at the 28 February 2022, the Bank had also pledged £28m of the A note as collateral in a repurchase agreement (2021: £11m) and £28m in a collateral swap (2021: £nil). These are backed by £69m (2021: £12m) of personal loans generating £50m (2021: £10m) of funding.

Notes to the financial statements (continued)

13. Loans and advances to customers (continued)

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.

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 £m	ECL £m
	GCA £m	ECL £m	GCA £m	ECL £m	GCA £m	ECL £m		
As at 1 March 2021	2,903	(25)	463	(38)	137	(108)	3,503	(171)
<i>Transfers of financial assets:</i>								
To Stage 1	71	(9)	(68)	9	(3)	-	-	-
To Stage 2	(149)	-	152	-	(3)	-	-	-
To Stage 3	(15)	(10)	(21)	(14)	36	24	-	-
Net Transfer between stages		(19)		(5)		24		-
Increases due to originations ⁽¹⁾	976	(8)	37	(4)	3	(3)	1,016	(15)
Decreases due to repayments	(661)	3	(124)	2	(20)	12	(805)	17
Write-offs	(4)	-	(6)	1	(57)	45	(67)	46
Changes in credit risk ⁽²⁾		28		18		(38)		8
As at 28 February 2022	3,121	(21)	433	(26)	93	(68)	3,647	(115)

(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).

In addition to the natural flow of balances, transfers between stages identified above have also been driven by model changes designed to make ECL models more responsive to the variable economic scenarios arising as a result of the Covid 19 pandemic. Overall the closing proportion of stage 2 exposures within the unsecured portfolio was marginally lower than at 28 February 2021 reflecting the overall improvements in the economic outlook since that time and a lower proportion of balances triggering SICR thresholds as a result.

	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 2020	4,225	(23)	412	(29)	168	(131)	4,805	(183)
<i>Transfers of financial assets:</i>								
To Stage 1	72	-	(72)	-	-	-	-	-
To Stage 2	(191)	12	192	(12)	(1)	-	-	-
To Stage 3	(28)	20	(25)	16	53	(36)	-	-
Net Transfer between stages		32		4		(36)		-
Increases due to originations ⁽¹⁾	417	(3)	19	(2)	2	(1)	438	(6)
Decreases due to repayments	(1,586)	2	(58)	2	(17)	11	(1,661)	15
Write-offs	(6)	-	(5)	1	(68)	51	(79)	52
Changes in credit risk ⁽²⁾		(33)		(14)		(2)		(49)
As at 28 February 2021	2,903	(25)	463	(38)	137	(108)	3,503	(171)

(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).

Notes to the financial statements (continued)

13. Loans and advances to customers (continued)

Secured allowance for impairment losses measured under IFRS 9

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

	Non-credit-impaired				Credit-impaired		Total	
	Stage 1		Stage 2		Stage 3		GCA	ECL
	GCA £m	ECL £m	GCA £m	ECL £m	GCA £m	ECL £m	£m	£m
As at 1 March 2021	1,189	(0)	47	(0)	11	(3)	1,247	(3)
<i>Transfers of financial assets:</i>								
To Stage 1	10	-	(10)	-	-	-	-	-
To Stage 2	(35)	-	36	-	(1)	-	-	-
To Stage 3	(3)	-	-	-	3	-	-	-
Net Transfer between stages								
Increases due to originations ⁽¹⁾	-	-	2	-	-	-	2	-
Decreases due to repayments	(450)	-	(14)	-	(3)	-	(467)	-
Write-offs	-	-	-	-	-	-	-	-
Changes in credit risk ⁽²⁾	-	-	-	-	-	-	-	-
As at 28 February 2022	711	(0)	61	(0)	10	(3)	782	(3)

(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).

The key movements seen between Stage 1 and Stage 2 is reflective of the maturing profile of our closed Mortgage book as it continues to be repaid.

	Non-credit-impaired				Credit-impaired		Total	
	Stage 1		Stage 2		Stage 3		GCA	ECL
	GCA £m	ECL £m	GCA £m	ECL £m	GCA £m	ECL £m	£m	£m
As at 1 March 2020 ¹	1,778	(0)	76	(0)	8	(0)	1,862	(0)
<i>Transfers of financial assets:</i>								
To Stage 1	26	-	(25)	-	(1)	-	-	-
To Stage 2	(16)	-	16	-	-	-	-	-
To Stage 3	(5)	-	(1)	-	6	-	-	-
Net Transfer between stages								
Increases due to originations ⁽¹⁾	4	-	2	-	-	-	6	-
Decreases due to repayments	(598)	-	(21)	-	(2)	-	(621)	-
Write-offs	-	-	-	-	-	-	-	-
Changes in credit risk ⁽²⁾	-	-	-	-	-	(3)	-	(3)
As at 28 February 2021	1,189	(0)	47	(0)	11	(3)	1,247	(3)

(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).

Notes to the financial statements (continued)

14. 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.
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Reconciliation of profit before taxation to cash flows used in operating activities

	2022	2021
	£m	£m
Profit / (loss) before taxation	8	(162)
Non-cash and other items included in profit before taxation		
Impairment losses on loans and advances	14	58
Depreciation on property, plant and equipment	2	3
Amortisation of intangible assets	20	20
Share based payment expense	4	3
Impairment, gains, (losses) and disposals	2	107
Interest paid on subordinated liabilities	11	11
	53	202

Change in operating assets and liabilities

Net decrease / (increase) in loans and advances to customers	274	1,854
Net (increase) / decrease in derivative assets	(17)	4
Net (increase) in Loans and advances to other banks greater than 3 months	(86)	(10)
Net decrease in investment securities greater than 3 months	117	269
Net (decrease) in derivative liabilities	(10)	(6)
Net decrease in other assets	54	145
Net (decrease) in customer accounts	(893)	(1,184)
Net (decrease) in borrowed funds	(137)	(621)
Net (decrease) in other liabilities including provisions	30	(1)
	(668)	450
Cash generated from / (used in) operations	(607)	490
Income taxes received	-	2
Cash flows generated from / (used in) operating activities	(607)	492

Operational cash flows from interest

Interest paid	(51)	(109)
Interest received	231	249
	180	140

Notes to the financial statements (continued)

14. Notes to the cash flow statement (continued)

Reconciliation of liabilities arising from financing activities

	2022	2021
	£m	£m
Subordinated liabilities:		
At 1 March	179	180
Issuance of loan notes	-	-
Non-cash movements	-	(1)
At 28 February	179	179
	2022	2021
	£m	£m
Lease liabilities:		
At 1 March	5	6
Lease payments	(2)	(1)
Lease modifications	-	1
Lease interest	-	(1)
At 28 February	3	5

Restricted cash balances

	2022	2021
	£m	£m
Bank of England deposit	15	17
	15	17

A reserve deposit is held with the Bank of England in accordance with statutory requirements. This deposit is not available for use in day-to-day operations and has been excluded from the cash and cash equivalents balance in the cash flow statement.

15. Cash, balances with central banks and other demand deposits

	2022	2021
	£m	£m
Cash and balances with central banks	329	937
Other demand deposits	17	31
	346	968

The balances with central banks are repayable on demand, with the exception of the £15m (2021: £17m) reserve deposit pledged to Bank of England as part of its Cash Ratio Deposit scheme (see note 14). There were no significant credit losses expected on cash and other demand deposits.

16. Loans and advances to other banks

Accounting policy	Loans and advances to other banks, including reverse repurchase agreements, are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method.	
	2022	2021
	£m	£m
Reverse repurchase agreements	50	37
Fixed Term Funds	71	-
	121	37
Other loans and advances to other banks:		
On demand	-	-
In 3 months or less	25	27
Between 3 months and 1 year	96	10
	121	37

17. 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 balance sheet as an asset. Alternatively, when the overall carrying value of a derivative is negative it is held and classified as a liability.

The Bank intends 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 its fair value hedges of investment securities and its one-for-one hedge on 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.

The Bank continues to adopt IAS 39 for its macro portfolio fair value hedges of fixed rate personal loans and residential mortgages, as it is permitted to do so under IFRS 9 and until the point that the new macro hedge accounting standard is finalised and adopted.

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% ratio corridor. Ineffectiveness on portfolio hedges can arise as a result of several factors, including floating leg valuation changes inherent within the hedging instrument that do not exist within the hedged item, mismatch in cash flow maturities

17. Derivative financial instruments (continued)

between the hedged item and hedging instrument and basis risk between cash flows discounted using different benchmark rates.

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 hedge is expected to be (prospectively) and, subsequently, has been (retrospectively) effective.

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.

Specific policies for hedges affected by IBOR reform

The Bank completed its London Interbank Offered Rate (LIBOR) novation in the financial year to 28 February 2021. As at 28 February 2021, the Bank had interest rate derivatives with a notional of £1,805m referencing LIBOR. £888m was linked to compressed and offsetting LIBOR swaps (collapsed at London Clearing House (LCH) as at the 8th and 9th March 2021) forming part of the Bank's LIBOR transition project. The remaining £917m were linked to LIBOR swaps with a maturity date in advance of the 31 December 2021. Such swaps were excluded from the bank's LIBOR novation project and were included in fair value hedge accounting relationships.

During the year ended 28 February 2022 all the Bank's remaining LIBOR linked derivatives matured and no positions referencing LIBOR were held as at the balance sheet date.

Foreign currency derivative contracts

Foreign currency exposure arises from currency holdings within the Bank's travel money business. The Bank also hedges a US-dollar denominated deposit placed with MasterCard.

The Bank entered into foreign exchange derivative contracts to hedge foreign currency exposure. Foreign exchange derivative instruments included FX spot, FX forwards and FX swaps. As at 28 February 2022, the Bank reported a FX derivative asset of £1m and a FX derivative liability of £1m.

Notes to the financial statements (continued)

17. Derivative financial instruments (continued)

Fair value hedges

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

	Notional amount £m	Carrying Amount		Ineffectiveness recognised in income statement £m
		Assets £m	Liabilities £m	
Interest rate swaps - Hedge of loans and advances				
At 28 February 2022	2,614	18	(18)	2
At 28 February 2021	3,363	-	(29)	-

Derivatives not in fair value hedge accounting relationship are as follows

	Notional amount £m	Assets £m	Liabilities £m
Interest rate swap			
At 28 February 2022	9	-	-
At 28 February 2021	897	-	-
Foreign currency swap			
At 28 February 2022	113	1	(1)
At 29 February 2021	62	2	-

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 the hedging instruments in fair value hedges of interest rates 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 2022					
Fair value hedges					
Nominal amount (£'m)	-	138	584	1,246	646
Average fixed interest rate	-	0.5%	0.6%	0.7%	0.1%
As at February 2021					
Fair value hedges					
- Nominal amount (£'m)	-	328	973	1,441	621
- Average fixed interest rate	-	0.9%	0.7%	0.6%	-

18. 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.

Impairment of investment securities

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).

	2022	2021
	£m	£m
Investment securities comprise the following:		
Equity investments	1	1
Gilts	98	-
Government backed investment securities	67	67
Covered bonds	169	126
Supranational investment securities	55	271
Asset backed securities	28	72
Commercial paper	25	50
	443	587
Of which:		
Equity investments	1	1
Maturing in three months or less	25	50
Maturing between three months and one year	196	91
Maturing between 1 and 5 years	198	445
Maturing in more than 5 years	23	-
	443	587

Investment securities include £50m (2021: £nil) pledged as collateral under sale and repurchase agreements or derivative contracts. Investment securities include £65m of collateral prepositioned with the Bank of England as at 28 February 2022. The fair value movement recognised in the Statement of Other Comprehensive Income during the year on investment securities was a profit of £1m (2021: £2m).

Under IFRS9, the bank holds an impairment provision for investment securities of £0.1m (2021: £0.2m)

19. Intangible assets

Accounting policy *Computer Software*
 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:

- Core banking software – fifteen years
- Other software – three to ten years

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.

Cost includes the purchase price after deducting discounts and rebates, and other directly attributable costs of preparing the asset for its intended use.

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

	2022	2021
	£m	£m
Cost		
At 1 March	310	287
Additions	27	23
Disposals	(7)	-
As at 28 February	330	310
Accumulated amortisation		
At 1 March	(155)	(53)
Charge for the year	(20)	(20)
Impairment	-	(82)
Disposals	7	-
As at 28 February	(168)	(155)
Net book value as at 28 February	162	155

Impairment*Approach and identification of cash generating units (CGUs)*

At each reporting date, the Bank reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss, or whether there are any indicators of reversal of previous impairment. If any such indications exist, 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.

The CGU is deemed to be each respective product or product group that is capable of generating cash flows independent of other products. Non-product assets are reviewed separately as corporate assets for the products that they support.

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.

Notes to the financial statements (continued)

19. Intangible assets (continued)

Identification of a triggering event

As at 28 February 2022 the Bank performed a review for indicators of impairment and indicators of reversal of impairment and concluded that there were none.

During the year ended 28 February 2021, the impacts of the COVID-19 pandemic on customer behaviour led to a reduction in the Bank's short-term profitability. This was deemed an indicator of impairment and a full impairment review was therefore performed with an effective date of 1 June 2020.

Approach and assumptions

The recoverable amounts for CGUs were determined using value in use calculations which were based on the cash flows expected to be generated, derived from the latest budget and forecast data which was reviewed by the Board. Budget and forecast data reflect both past experience and future expectation of market conditions.

The key assumptions in the value in use calculation were as follows:

Assumption	Detail
Composition of CGU	Property, plant and equipment and intangible assets attributable to each product (or group of products capable of generating independent cash flows)
Cash flow years / assumptions	Derived from Board approved corporate forecasts for five years and then extrapolated over the remaining useful lives of the assets being tested for impairment
Terminal value	No terminal value was applied within the assessment, as cashflows were limited to the period of the remaining useful lives of the assets being tested for impairment.
Discount rate	A post-tax discount rate representing the Bank's weighted average cost of capital (WACC) at that time, subsequently grossed up to a pre-tax rate of 12.8 per cent. The post-tax WACC has been calculated using a combination of adjusted market analysis and the actual cost of debt on Tier 2 capital instruments.

Of the total impairment charge of £105m recognised in the year ended 28 February 2021, £82m related to Intangible Assets and £23m related to Property, plant and equipment.

20. Property, plant and 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. Accounting policies in relation to the measurement of right of use assets are outlined in note 32.

Depreciation

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

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

	Land and buildings £m	Fixtures and equipment £m	Total £m
28 February 2022			
Cost			
At 1 March 2021	9	62	71
Additions	-	1	1
Disposals/Write off	-	(2)	(2)
As at 28 February 2022	9	61	70
Accumulated depreciation			
At 1 March 2021	(6)	(54)	(60)
Charge for the year	(1)	(1)	(2)
Disposals/Write off	-	2	2
Impairment loss	(1)	-	(1)
As at 28 February 2022	(8)	(53)	(61)
Net book value as at 28 February 2022	1	8	9

Notes to the financial statements (continued)

20. Property, plant and equipment (continued)

28 February 2021	Land and buildings £m	Fixtures and equipment £m	Total £m
Cost			
At 1 March 2020	9	68	77
Additions	-	1	1
Disposals/Write off	-	(7)	(7)
As at 28 February 2021	9	62	71
Accumulated depreciation			
At 1 March 2020	(4)	(35)	(39)
Charge for the year	(1)	(2)	(3)
Disposals	-	5	5
Impairment loss ¹	(1)	(22)	(23)
As at 28 February 2021	(6)	(54)	(60)
Net book value as at 28 February 2021	3	8	11

(1) For further details, see note 19, intangible assets.

Land and buildings include right of use assets of £1m (2021: £3m) related to head office premises. See note 32 for further details.

21. Subsidiary undertakings

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.

Investments in subsidiaries are carried at cost less any impairment loss in the financial statements of the Bank.

	2022 £m	2021 £m
As at 28 February	325	325

	Country of registration or incorporation	Ownership Interest	Registered address
Home Retail Group Card Services Limited	England	100%	489-499 Avebury Boulevard, Milton Keynes, United Kingdom, MK9 2NW
Home Retail Group Insurance Services Limited	England	100%	489-499 Avebury Boulevard, Milton Keynes, United Kingdom, MK9 2NW
ARG Personal Loans Limited	England	100%	489-499 Avebury Boulevard, Milton Keynes, United Kingdom, MK9 2NW

Notes to the financial statements (continued)

21. Subsidiary undertakings (continued)

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 and the Bank has the rights to substantially all the benefits from its activities. The company is therefore effectively controlled by the Bank.

	Country of registration or incorporation	Date started being a subsidiary	Registered address
Drury Lane Funding 2020-1 plc	England	11 November 2020	5 Churchill Place, 10th Floor, London, E14 5HU

In the comparative period, the securitisation programme linked to Lochside Asset Purchaser No.1 plc was fully redeemed on 27 May 2020. Therefore, the Bank no longer has the rights to the benefit of this entity and the holding entity Lochside Asset Purchaser No.1 Holdings Limited and these entities are no longer deemed to be subsidiaries of the Bank from that date.

	Country of registration or incorporation	Date ceased being a subsidiary	Registered address
Lochside Asset Purchaser No.1 Holdings Limited	England	27 May 2020	35 Great St. Helen's, London, EC3A 6AP
Lochside Asset Purchaser No.1 plc	England	27 May 2020	35 Great St. Helen's, London, EC3A 6AP

22. Other assets

Accounting policy	Other assets, including amounts receivable from Group companies, are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method.
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	2022	2021
	£m	£m
Amounts receivable from group companies (see note 39)	445	484
Funds in course of settlement	117	125
Prepayments and accrued income	31	36
Insurance instalment debtor	32	26
Current tax asset	5	4
Deferred tax asset	7	7
Cash collateral paid	63	72
	700	754

Other assets have no fixed maturities but are expected to be realised within 12 months, with the exception of the deferred tax asset and £12m (2021: £18m) included in prepayments and accrued income. This represents the present value of a rebate receivable in respect of the build of certain computer software which will be received over a period of time as the related software is utilised, which is expected to be greater than 12 months. See note 34 for further details on the residual contractual maturity of other assets.

Notes to the financial statements (continued)

22. Other assets (continued)

The deferred tax asset is in respect of temporary differences which will reverse and result in a higher tax charge in future years, as follows:

	2022	2021
	£m	£m
At 1 March	7	2
Movement in deferred tax asset credited to income statement	1	9
Movement in deferred tax asset charged to other comprehensive income	1	(1)
Adjustments in respect of prior years	(2)	(3)
At 28 February	7	7
Tax effect of timing differences due to:		
Other temporary differences	13	11
Accelerated capital allowances	(6)	(4)
	7	7

23. 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 balance sheet when the Bank has discharged its obligations, the contract is cancelled or it expires.
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Customer accounts comprise Sterling interest bearing deposits.

	2022	2021
	£m	£m
Repayable:		
On demand	3,777	4,530
Within 3 months	79	113
Between 3 months and 1 year	227	281
Between 1 and 5 years	152	204
	4,235	5,128

Notes to the financial statements (continued)

24. 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 balance sheet when the Bank has discharged its obligations, the contract is cancelled or it expires.
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Other deposits comprise Sterling wholesale deposits, including drawings under the Bank of England's TFSME and ILTR schemes.

	2022 £m	2021 £m
Repayable:		
Within 3 months	269	243
Between 3 months and 1 year	93	918
Between 1 and 5 years	662	-
	1,024	1,161

25. 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.
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	2022 £m	2021 £m
Fixed rate subordinated Tier 2 notes due November 2027	175	175
Accrued interest	3	2
Fair value hedge accounting adjustments	1	2
	179	179

The Bank has £175m of fixed rate reset callable subordinated Tier 2 notes in issuance (28 Feb 2021: £175m). The notes pay interest on the principal amount at a rate of 6% per annum, payable in equal instalments semi-annually in arrears, until 23 November 2022 at which time the interest rate will reset. The Bank has a call option to redeem these notes on 23 November 2022.

26. Other liabilities

Accounting policy	Other liabilities are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method. Specific policies in relation to the measurement of lease liabilities are outlined in note 32.
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All other liabilities are expected to be settled within 3 months with the exception of lease liabilities.

	2022 £m	2021 £m
Customer funds in course of settlement	14	20
Accruals and deferred income ¹	76	55
Cash collateral received	20	4
Lease liabilities	3	5
	113	84

1 – Cash collateral of £4m was previously presented within accruals and deferred income as at 28 February 2021.

Notes to the financial statements (continued)

27. Provisions for liabilities and charges

Accounting policy	The Bank recognises a provision if there is a present obligation as a consequence of either a legal or a constructive obligation resulting from a past event. To recognise this it should be probable that an outflow of economic resources, that can be reliably measured, will be required to settle the obligation. Provisions are measured as the discounted expected future cash flows taking account of the risks and uncertainties associated with the specific liability where appropriate.
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	2022	2021
	£m	£m
Provision on loan commitments issued	8	6
Other provisions	1	2
	9	8

Provision on loan commitments issued

The movement on the provision for loss allowance on loan commitments is set out in note 33. It primarily relates to expected credit losses on credit card commitments.

Other provisions

	2022	2021
	£m	£m
At 1 March	2	-
Charged to the income statement	1	7
Utilised in the year	(2)	(5)
At 28 February	1	2

In the year to 28 February 2022 the charge to the income statement and closing provision relates to dilapidations and onerous cost provisions associated with the Bank's head office property.

In the year ended 28 February 2021 the charge to income statement and closing provision related to customer redress activity. The costs of redress were reimbursed by a third-party in accordance with contractual indemnity provisions of the related service agreement. The costs were presented net of the reimbursement resulting in £nil charge in the Income Statement. The provision was fully utilised in the year to 28 February 2022 and no amounts remain provided at the reporting date with the liability having been fully extinguished.

28. Called up share capital

Accounting policy	Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.
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	2022	2021
	£m	£m
900,750,000 Authorised, allotted, called up and fully paid ordinary shares (£0.777963 / £1):		
At 1 March	901	901
Share capital reduction	(200)	-
At 28 February	701	901

Notes to the financial statements (continued)

28. Called up share capital (continued)

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

The reduction became effective on 1 April 2021 upon registration of the court order with Companies House and resulted in an equal and opposite increase to retained earnings. There were no movements in ordinary shares in the comparative period.

29. Retained earnings

	2022	2021
	£m	£m
At 1 March	(55)	98
Share Capital Reduction (note 28)	200	-
Profit/(Loss) for the financial year	6	(156)
Share based payment (net of tax)	4	3
At 28 February	155	(55)

30. Other reserves

Other reserves comprise the unhedged fair value movements for investment securities. The reserve will unwind in line with the maturity profile of the underlying investment securities.

	Other Reserves
	£m
At 1 March 2021	3
Net unrealised gains	-
Realised gains reclassified to the income statement on disposal	(2)
At 28 February 2022	1
At 1 March 2020	1
Net unrealised gains	3
Realised gains reclassified to the income statement on disposal	(1)
At 28 February 2021	3

These balances include deferred tax of £1m in the reserve (2021: £1m).

31. 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, FVOCI or FVPL.
	The Bank classifies and measures its derivative portfolio at FVPL, as explained in note 17. 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.
	<i>Derecognition of financial assets</i>
	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.

Notes to the financial statements (continued)

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

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 balance sheet by the class of financial instrument to which they are assigned, and therefore by the measurement basis:

At 28 February 2022	Amortised cost £m	Fair value through OCI £m	Fair value through profit or loss £m	Other £m	Total £m
Assets					
Cash, balances with central banks and other demand deposits	346	-	-	-	346
Loans and advances to other banks	121	-	-	-	121
Derivative financial instruments	-	-	19	-	19
Investment securities	25	418	-	-	443
Loans and advances to customers	4,311	-	-	-	4,311
Investments in subsidiaries	-	-	-	325	325
Intangible assets	-	-	-	162	162
Property, plant and equipment	-	-	-	9	9
Other assets	692	-	-	8	700
	5,494	418	19	504	6,436
Liabilities					
Customer accounts	(4,235)	-	-	-	(4,235)
Other deposits	(1,024)	-	-	-	(1,024)
Other borrowed funds	-	-	-	-	-
Subordinated liabilities	(179)	-	-	-	(179)
Derivative financial instruments	-	-	(19)	-	(19)
Other liabilities	(109)	-	-	(4)	(113)
Provisions for liabilities and charges	(8)	-	-	(1)	(9)
	(5,555)	-	(19)	(5)	(5,579)

Notes to the financial statements (continued)

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

At 28 February 2021	Amortised cost £m	Fair value through OCI £m	Fair value through profit or loss ¹ £m	Other £m	Total £m
Assets					
Cash, balances with central banks and other demand deposits	968	-	-	-	968
Loans and advances to other banks	37	-	-	-	37
Derivative financial instruments	-	-	2	-	2
Investment securities	-	587	-	-	587
Loans and advances to customers	4,599	-	-	-	4,599
Investments in subsidiaries	-	-	-	325	325
Intangible assets	-	-	-	155	155
Property, plant and equipment	-	-	-	11	11
Other assets	744	-	-	10	754
	6,348	587	2	501	7,438
Liabilities					
Customer accounts	(5,128)	-	-	-	(5,128)
Other deposits	(1,161)	-	-	-	(1,161)
Other borrowed funds	-	-	-	-	-
Subordinated liabilities	(179)	-	-	-	(179)
Derivative financial instruments	-	-	(29)	-	(29)
Other liabilities	(81)	-	-	(3)	(84)
Provisions for liabilities and charges	(6)	-	-	(2)	(8)
	(6,555)	-	(29)	(5)	(6,589)

32. Leases

Accounting policy

At inception of a contract, the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank uses the definition of a lease in IFRS 16.

The Bank leases office premises. The Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

Notes to the financial statements (continued)

32. Leases (continued)

The lease liability is initially measured at the present value of the lease payments, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate. The Bank determines its incremental borrowing rate by analysing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

Lease payments included in the measurement of the lease liability comprise fixed payments. The Bank is not party to any lease arrangements containing variable lease payments that depend on an index or a rate or amounts expected to be payable under a residual value guarantee. Lease payments in an optional renewal period are included where the Bank is reasonably certain to exercise an extension option.

Subsequently, the lease liability is adjusted for interest and lease payments. It is remeasured when there is a change in the Bank's estimate of the amount expected to be payable under the lease arrangements. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Bank presents right-of-use assets in property, plant and equipment (note 20) and lease liabilities in other liabilities (note 26) in the statement of financial position.

Short-term leases and leases of low-value assets

The Bank has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including leases of IT equipment. The Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Right-of-use assets

Right-of-use assets relate to leased office premises that are presented within property, plant and equipment (see note 20).

	Office Building
	£m
Balance at 1 March 2020	3
Depreciation charge for the year	(1)
Lease modification	1
Balance at 28 February 2021	3
Lease modification	-
Depreciation charge for the year	(1)
Impairment	(1)
Balance at 28 February 2022	1

The residual contractual maturity of lease liabilities is disclosed in note 34.

As of 1st October 2021, the Bank partitioned its leased office premises into two discrete cash generating units by vacating 43% of the office space. The retained space remains part of the corporate assets that form part of the core banking services. The new cash generating unit has been assessed for impairment, resulting in recognition of an impairment loss of £1m (2021: £nil).

Notes to the financial statements (continued)

32. Leases (continued)

Amounts recognised in profit or loss

	2022	2021
	£m	£m
Interest on lease liabilities (note 3)	-	(1)

Amounts recognised in statement of cashflows

	2022	2021
	£m	£m
Total cash outflow for leases (see note 14)	(2)	(2)

33. Loan commitments

Accounting policy	Undrawn Loan, Mortgage 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 13.
	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 off-balance sheet financial instruments that commit it to extend credit to customers is as follows:

	2022	2021
	£m	£m
Commitments to extend credit	26	64

Lending commitments reduced significantly year on year as a result of the digitisation of the loans application journey described on page 4 of the Strategic Report.

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 in the following table.

Reconciliation of Impairment Loss Allowance of Loan Commitments

	Non-credit impaired		Credit-impaired	Total
	Stage 1	Stage 2	Stage 3	
	£m	£m	£m	£m
As at 1 March 2021	(3)	(2)	(1)	(6)
<i>Transfers of financial assets:</i>				
To Stage 1	-	-	-	-
To Stage 2	2	(2)	-	-
To Stage 3	-	-	-	-
Net transfer between stages	2	(2)	-	-
New loan commitments originated and increases to existing commitments ¹	-	-	-	-
Loan commitments expired	-	-	-	-
Changes in credit risk	(2)	-	-	(2)
As at 28 February 2022	(3)	(4)	(1)	(8)

Notes to the financial statements (continued)

33. Loan commitments (continued)

	Non-credit impaired		Credit-impaired	Total
	Stage 1	Stage 2	Stage 3	
	£m	£m	£m	£m
As at 1 March 2020	(4)	(3)	(1)	(8)
<i>Transfers of financial assets:</i>				
To Stage 1	-	-	-	-
To Stage 2	1	(1)	-	-
To Stage 3	-	-	-	-
Net transfer between stages	1	(1)	-	-
New loan commitments originated and increases to existing commitments*	-	-	-	-
Loan commitments expired	-	-	-	-
Changes in credit risk	-	2	-	2
As at 28 February 2021	(3)	(2)	(1)	(6)

(1) This also reflects commitments which were originated in stage 1 and subsequently moved to stage 2 or stage 3 during the year.

The loss allowance on loan commitments are recognised as part of provisions for liabilities (see note 27).

34. 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 primary risk types are described in the Risk Overview section on page 21. Further detail on credit and liquidity risk exposures are shown below, with capital adequacy discussed further in note 35.

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 are monitored utilising a set of credit quality metrics to ensure actual performance is in line with agreed expectations. Additional expert underwriting of credit applications is undertaken by a specialist operational team where further consideration is appropriate.

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

Limits are established for all counterparty and asset class exposures based on their respective credit quality and market liquidity. Consideration is also given to geographical region and the strength of relevant sovereign credit ratings. Derivatives are subject to the same credit risk control procedures as are applied to other wholesale market instruments and the credit risk arising from mark-to-market derivative valuations is mitigated by daily margin calls, posting cash collateral to cover exposures. Daily monitoring is

Notes to the financial statements (continued)

34. Risk Management (continued)

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 included as part of ALCo.

At 28 February 2022, 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, loans and advances to banks, investment securities and credit lines and other commitments to lend. These are set out in notes 13, 16, 18 and 34 respectively. No account is taken of any collateral held and the maximum exposure to loss is considered to be the instrument's balance sheet carrying amount.

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

	2022	2021
	£m	£m
Credit risk exposures relating to on balance sheet items		
Loans and advances to customers		
Unsecured	3,537	3,344
Secured	774	1,255
Cash and balances with central banks	346	968
Derivative financial instruments	19	2
Loans and advances to other Banks	121	37
Investment securities	443	587
Other assets	692	744
Credit risk exposures relating to off balance sheet items		
Loans commitments	26	64
Total credit risk exposures	5,958	7,001

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

	2022	2021
	£m	£m
Maximum exposure		
United Kingdom	5,734	6,673
Europe	183	172
Other	41	156
	5,958	7,001

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.

Notes to the financial statements (continued)

34. Risk Management (continued)

Industry sectors

	2022	2021
	£m	£m
Maximum exposure		
Retail	4,337	4,663
Financial institutions	1,172	1,385
Government	449	953
	5,958	7,001

Retail credit risk

The Bank's retail credit risk management strategy is to ensure that its retail asset portfolios are suitably diversified through identifying and managing credit risk concentrations whilst serving our target market, being Sainsburys and/or Argos customers, in line with a targeted risk versus return framework. Retail credit risks are managed in accordance with limits set out within the Board Risk appetite which is documented in detailed policies and policy standards. There were no significant changes noted in appetite over the period albeit credit risk strategies were reviewed in the year and lending recommenced after credit risk restrictions were lifted in 2021 after Covid lockdowns in 2020. Reviews of credit risk strategies and appetite levels are subject to annual review and more frequently as required.

We have considered whether any new or emerging risks (as detailed in the Strategic report on page 23) result in an impact on our ECL provisions. The immediate impacts on inflation are considered as part of our provisions adequacy and have resulted in us holding a Economic uncertainty overlay as outlined in note 2. To date climate risk has not resulted in any significant impact on our observed expected credit losses. We continue to evolve our thinking in relation to this issue as described in the climate strategy on page 7.

Credit quality per class of financial asset

Loans and advances are summarised as follows:

	2022	2021
	£m	£m
Impaired	102	148
Past due but not impaired	21	20
Neither past due nor impaired	4,306	4,582
Gross amount due	4,429	4,750
Less: allowance for impairment	(118)	(174)
hedging fair value adjustment	-	23
	4,311	4,599

Notes to the financial statements (continued)

34. Risk Management (continued)

Credit quality analysis

At 28 February 2022	Stage 1	Stage 2	Stage 3	Total
Unsecured lending	£m	£m	£m	£m
Impaired				
Less than 3 months, but impaired*	-	-	11	11
Over 3 months	-	-	23	23
Recoveries	-	-	59	59
Total gross impaired loans	-	-	93	93
Past due 30 days to 3 months	-	7	-	7
Past due less than 30 days	-	13	-	13
Not past due	3,121	413	-	3,534
Total gross amount due	3,121	433	93	3,647
Impairment				
Impairment on gross balance	(21)	(25)	(69)	(115)
Undrawn commitments impairment	(4)	(4)	0	(8)
Total impairment	(25)	(29)	(69)	(123)
Coverage	0.8%	6.7%	74.2%	3.4%

*Includes £3m of loans that would have been past due had their terms not been renegotiated.

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

At 28 February 2022	Stage 1	Stage 2	Stage 3	Total
Secured lending	£m	£m	£m	£m
Impaired				
Less than 3 months, but impaired*	-	-	8	8
Over 3 months	-	-	1	1
Recoveries	-	-	-	-
Total gross impaired loans	-	-	9	9
Past due 30 days to 3 months	-	-	-	-
Past due less than 30 days	-	1	-	1
Not past due	713	59	-	772
Total gross amount due	713	60	9	782
Impairment				
Impairment on gross balance	0	1	2	3
Undrawn commitments impairment	-	-	-	-
Total impairment	0	1	2	3
Coverage	0.06%	0.75%	23.57%	0.37%

*Includes £nil of loans that would have been past due had their terms not been renegotiated.

Stage 3 gross impaired loans includes £8m of loans that have cured however, are held in stage 3 due to the application of a probationary period.

Notes to the financial statements (continued)

34. Risk Management (continued)

At 28 February 2021	Stage 1	Stage 2	Stage 3	Total
Unsecured lending	£m	£m	£m	£m
Impaired				
Less than 3 months, but impaired*	-	-	19	19
Over 3 months	-	-	25	25
Recoveries	-	-	93	93
Total gross impaired loans	-	-	137	137
Past due 30 days to 3 months	-	8	-	8
Past due less than 30 days	-	11	-	11
Not past due	2,903	444	-	3,347
Total gross amount due	2,903	463	137	3,503
Impairment				
Impairment on gross balance	(25)	(38)	(108)	(171)
Undrawn commitments impairment	(3)	(2)	(1)	(6)
Total impairment	(28)	(40)	(109)	(177)
Coverage	1.0%	8.6%	79.4%	5.1%

*Includes £3m of loans that would have been past due had their terms not been renegotiated.

At 28 February 2021	Stage 1	Stage 2	Stage 3	Total
Secured lending	£m	£m	£m	£m
Impaired				
Less than 3 months, but impaired*	-	-	10	10
Over 3 months	-	-	1	1
Recoveries	-	-	-	-
Total gross impaired loans	-	-	11	11
Past due 30 days to 3 months	-	-	-	-
Past due less than 30 days	-	1	-	1
Not past due	1,189	46	-	1,235
Total gross amount due	1,189	47	11	1,247
Impairment				
Impairment on gross balance	-	-	(3)	(3)
Undrawn commitments impairment	-	-	-	-
Total impairment	-	-	(3)	(3)
Coverage	0.02%	0.4%	19.7%	0.2%

*Includes £3m of loans that would have been past due had their terms not been renegotiated.

Unsecured coverage has fallen from 5.1% to 3.9% year on year as a result of the improved economic scenarios applied as outlined in note 2. Additionally £45m of non-performing stage 3 balances were written off or sold in January 2022 which results in a lower proportion of highly provided stage 3 accounts. As a result, the credit quality tables on the following page shows that 87% of unsecured balances are classified as high quality as at February 2022 compared to 81% as at February 2021.

Notes to the financial statements (continued)

34. Risk Management (continued)

Mortgages held over residential properties represent the only collateral held by the Bank for retail exposures. The market value of collateral held for impaired loans and loans past due but not impaired was £23m (2021: £26m).

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.

Collateral

The Bank holds collateral against loans and advances to customers in the form of mortgages over residential property and second charges over business assets, including commercial and residential property.

Credit quality

The Bank defines the following classifications for all credit exposures: High, Satisfactory, Low and Credit impaired. These are segmented by 12 month probability of default (PD) under IFRS 9. Unsecured lending represents credit cards and personal loan lending at 28 February 2022. Secured lending represents mortgage lending.

	IFRS 9 12 month PD
High quality:	<=3.02%
Satisfactory quality	>3.03%; < 11.10%
Low quality	>= 11.11%
Credit impaired	100%

Unsecured Lending

	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m
28 February 2022				
High quality	2,939	232	-	3,171
Satisfactory quality	178	158	-	336
Low quality	4	36	-	40
Credit impaired	-	7	93	100
Total gross amount due	3,121	433	93	3,647

	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m
28 February 2021				
High quality	2,683	161	-	2,844
Satisfactory quality	214	240	-	454
Low quality	6	62	-	68
Credit impaired	-	-	137	137
Total gross amount due	2,903	463	137	3,503

Notes to the financial statements (continued)

34. Risk Management (continued)

Secured lending

	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m
28 February 2022				
High quality	713	59	-	772
Satisfactory quality	-	1	-	1
Low quality	-	-	-	-
Credit impaired	-	-	9	9
Total gross amount due	713	60	9	782

	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m
28 February 2021				
High quality	1,189	45	-	1,234
Satisfactory quality	-	2	-	2
Low quality	-	0	-	0
Credit impaired	-	-	11	11
Total gross amount due	1,189	47	11	1,247

An analysis by loan-to-value (LTV) ratio of the Bank's residential mortgage lending is presented below. The value of collateral used in determining the LTV ratios has been estimated based upon the last actual valuation, adjusted to take into account subsequent movements in house prices.

	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m
At 28 February 2022				
Less than 70%	607	57	8	672
70% to 80%	102	2	1	105
80% to 90%	4	1	-	5
90% to 100%	-	-	0	0
Greater than 100%	-	-	-	-
Total mortgages	713	60	9	782

	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m
At 28 February 2021				
Less than 70%	795	37	8	840
70% to 80%	265	7	2	274
80% to 90%	128	3	1	132
90% to 100%	1	0	0	1
Greater than 100%	-	-	-	-
Total mortgages	1,189	47	11	1,247

Notes to the financial statements (continued)

34. Risk Management (continued)

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

	2022		2021	
	Maximum exposure to credit risk £m	Of which secured by collateral - Residential Property £m	Maximum exposure to credit risk £m	Of which secured by collateral - Residential Property £m
Loan Commitments	5,962	-	6,422	-
Of which credit impaired	19	-	25	-
Financial assets measured at amortised cost – Retail lending	4,430	781	4,750	1,247
Of which credit impaired	103	9	148	11
Total	10,392	781	11,172	1,247
of which credit impaired	122	9	173	11

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.

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 secured and unsecured advances that are subject to forbearance programmes.

	2022			2021		
	Gross loans and advances subject to forbearance £m	Forbearance as a total loans and advances %	Forbearance covered by impairment provision %	Gross loans and advances subject to forbearance £m	Forbearance as a total loans and advances %	Forbearance covered by impairment provision %
Unsecured	29	0.8	72.6	22	0.6	55.3
Secured	2	0.3	25.7	4	0.3	24.6
Total	31	0.7	69.3	26	0.5	50.9

Climate-related credit risk

Our assessment of climate related credit risk is outlined in the emerging risks section on page 23. 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. Due to our predominantly unsecured portfolios, we do not anticipate material exposure to credit risks as a result of climate change over the next 5 years, however we continually monitor this assumption.

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.

Notes to the financial statements (continued)

34. Risk Management (continued)

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 2022 was £nil (2021: £nil). The tables below present an analysis of the credit quality of cash and cash equivalents and the treasury assets portfolio by market value. Analysis is by rating agency designation, based on Moody's ratings:

	Cash and balances with central banks	UK government securities	Other investment securities	Total
At 28 February 2022	£m	£m	£m	£m
Aaa to A3	-	98	345	443
ATM cash and balances with central banks	329	-	-	329
Other demand deposits	17	-	-	17
	346	98	345	789

	Cash and balances with central banks	UK government securities	Other investment securities	Total
At 28 February 2021	£m	£m	£m	£m
Aaa to A3	-	-	587	587
ATM cash and balances with central banks	936	-	-	936
Other demand deposits	31	-	-	31
	967	-	587	1,554

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

External Rating Grades	2022		2021	
	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	443	443	587	587
	443	443	587	587

Notes to the financial statements (continued)

34. 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:

	Gross assets / (liabilities) recognised	Amounts offset	Net amounts recognised in the balance sheet	Related amounts not offset in the balance sheet		Net amounts
				Financial instruments	Collateral pledged / (received)	
At 28 February 2022	£m	£m	£m	£m	£m	£m
Derivative financial instruments – assets	19	-	19	-	(20)	(1)
Derivative financial instruments – liabilities	(19)	-	(19)	-	20	1
	-	-	-	-	-	-

	Gross assets / (liabilities) recognised	Amounts offset	Net amounts recognised in the balance sheet	Related amounts not offset in the balance sheet		Net amounts
				Financial instruments	Collateral pledged / (received)	
At 28 February 2021	£m	£m	£m	£m	£m	£m
Derivative financial instruments – assets	8	(6)	2	-	(2)	-
Derivative financial instruments – liabilities	(35)	6	(29)	-	30	1
	(27)	-	(27)	-	28	1

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 2022, the Bank had posted cash collateral of £20m (2021: £30m) and received cash collateral of £20m (2021: £2m) against its derivative positions, and £22m of initial margin collateralised by encumbered Gilts (2021: £25m of initial margin collateralised by encumbered Gilts). The Bank has also pledged and encumbered cash collateral of USD 58.5m (2021: USD 58.5m) to MasterCard against the risk of issuing merchant spend credit.

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.

Notes to the financial statements *(continued)*

34. Risk Management *(continued)*

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. Asset encumbrance ratios and key risk indicators for wholesale funding are also regularly monitored and reported to ALCO.

The table on the following page 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.

Notes to the financial statements (continued)

34. Risk Management (continued)

Residual contractual maturity analysis

At 28 February 2022	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						
<i>Non-derivative assets</i>						
Cash and balances at central banks	346	-	-	-	-	346
Loans and advances to customers	1,637	154	630	1,620	879	4,920
Loans and Advances to Banks	25	-	96	-	-	121
Investment securities	26	-	199	204	25	454
Other assets	679	-	-	-	-	679
Long term interest receivable	1	1	5	6	-	13
	2,714	155	930	1,830	904	6,533
Net derivative asset cash flows	0	(1)	5	25	1	30
Total cash inflows	2,714	154	935	1,854	905	6,563
Liabilities						
<i>Non-derivative liabilities</i>						
Customer accounts	3,798	57	230	154	-	4,239
Other deposits	30	40	297	675	-	1,042
Subordinated debt	-	5	180	-	-	185
Lease liabilities	-	-	1	1	1	3
Other liabilities (excluding lease liabilities)	106	-	-	-	-	106
	3,934	102	708	830	1	5,575
Net derivative liability cash flows	-	1	1	11	-	13
Unrecognised loan commitments	26	-	-	-	-	26
Total cash outflows	3,960	103	709	842	1	5,614
Net liquidity	(1,247)	51	226	1,013	904	949

Notes to the financial statements (continued)

34. Risk Management (continued)

Residual contractual maturity analysis (continued)

At 28 February 2021	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						
<i>Non-derivative assets</i>						
Loans and advances to customers	1,626	324	669	1,532	1,368	5,519
Cash and balances at central banks	968	-	-	-	-	968
Loans and advances to banks	27	-	10	-	-	37
Investment securities	21	34	102	435	-	592
Other assets	726	-	-	-	-	726
Long term interest receivable	1	1	1	13	-	20
	3,369	359	786	1,980	1,368	7,862
Net derivative asset cash flows	-	-	1	5	-	6
Total cash inflows	3,369	359	787	1,985	1,368	7,868
Liabilities						
<i>Non-derivative liabilities</i>						
Customer accounts	4,561	79	285	207	-	5,132
Other deposits	157	86	920	-	-	1,163
Subordinated debt	-	5	5	186	-	196
Lease liabilities	-	-	1	2	2	5
Other liabilities (excluding lease liabilities)	76	-	-	-	-	76
	4,794	170	1,211	395	2	6,572
Net derivative liability cash flows	2	3	12	23	0	40
Unrecognised loan commitments	64	-	-	-	-	64
Total cash outflows	4,860	173	1,223	418	2	6,676
Net liquidity	(1,491)	186	(436)	1,567	1,366	1,192

Notes to the financial statements (continued)

34. Risk Management (continued)

Asset Encumbrance

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

	Encumbered	Unencumbered	Total
At 28 February 2022	£m	£m	£m
Loans and advances to customers	1,365	2,946	4,311
Debt securities	157	286	443
Other assets	40	1,175	1,215
Cash, balances with central banks and loans and advances to Banks	15	452	467
	1,577	4,859	6,436

	Carrying value of encumbered assets	Matching liabilities, contingent liabilities or securities lent
	£m	£m
Loans and advances to customers	1,365	885
Debt securities	157	75
Other assets	40	27
Cash, balances with central banks and loans and advances to Banks	15	-
	1,577	987

	Encumbered	Unencumbered	Total
At 28 February 2021	£m	£m	£m
Loans and advances to customers	1,596	3,003	4,599
Debt securities	27	560	587
Other assets	76	678	754
Cash and balances with central banks	17	951	968
	1,716	5,191	6,908

	Carrying value of encumbered assets	Matching liabilities, contingent liabilities or securities lent
	£m	£m
Loans and advances to customers	1,596	1,110
Debt securities	27	-
Other assets	76	27
Cash and balances with central banks	17	-
	1,716	1,137

34. Risk Management (continued)

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. Eligible personal and mortgage loans with applicable haircuts are used as collateral for the securitisation facility and the Bank of England's Term Funding Scheme with additional incentives for SMEs (TFSME) and Indexed Long-term Repo (ILTR). The personal loans and mortgages used to secure the funding are held within Loans and advances to customers. There are assets which would not normally be considered available for encumbrance in the normal course of the Bank's business including intangible assets, property, plant and equipment, prepayments and accruals and deferred tax assets. These are included within the carrying value of unencumbered assets.

Market risk

Market risk is the risk that the value of the Bank's assets, liabilities, capital and earnings are exposed to the adverse change of the market risk drivers. The Bank's market risks include Interest Rate Risk in the Banking Book (IRRBB) and Foreign Exchange (FX) Risk. The Bank does not have a trading book.

Interest rate risk

IRRBB arises from interest rates movements which impact present value and timing of future cash flows resulting in changes in the underlying value of a bank's assets, liabilities and off-balance sheet instruments and hence its economic value. Interest rates movements also affect a bank's earnings by altering interest rate sensitive income and expenses, impacting its net interest income.

The main types of interest rate risk faced by the Bank are:

- *Re-pricing 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

The Bank's exposure to interest rate risk is assessed via a Capital at Risk ('CaR') approach to assess the value sensitivity of the Bank's capital to movements in interest rates under various interest rates shock scenarios, as well as, via an annual earnings at risk metric which measures the sensitivity of the Bank's earnings to movements in interest rates over a 12 month period. The CaR measure is an aggregate measure of five separate risk components, each being a distinct form of interest rate risk including repricing risk, basis risk, prepayment risk, mark to market risk and credit spread risk.

For interest rate risk measurement, all products are allocated within a re-pricing gap analysis based on their nearest re-pricing date (all non-maturing deposits are assumed to re-price in month one) and where applicable using a customer behavioural repayment profile. Interest rate risk exposures are then actively managed against high-level risk appetite limits by using financial instruments such as interest rate swaps and by taking into account natural hedges between assets and liabilities with similar repricing characteristics. Hedging strategies are implemented and reviewed on a regular basis at ALCo to ensure the Bank remains within its limits.

Notes to the financial statements (continued)

34. Risk Management (continued)

As at 28 February 2022 earnings at risk (change in net interest income) for changes in interest rates of +/-100 basis points movements in rates are as follows:

	2022	2021
	£m	£m
+/- 100 basis points	1/(15)	(7)/4

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

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's stores and its currency dispensing ATM machines. The Bank also has exposures in US Dollar for the cash collateral pledged to MasterCard. Foreign exchange risk is currently mitigated through forward rate transactions. Further details of the hedging arrangements in place at year end are disclosed in note 17.

35. Capital resources

From a prudential perspective, the Bank is monitored and supervised on a consolidated basis with its subsidiary, Home Retail Group Card Services Limited, from the point of acquisition of Argos Financial Services in September 2016. 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. The following table analyses the regulatory capital resources under CRD IV

	Transitional 2022 IFRS9 £m	Full impact 2022 IFRS9 £m	Transitional 2021 IFRS9 £m	Full impact 2021 IFRS9 £m
Common Equity Tier 1 (CET 1) capital:				
Ordinary share capital	701	701	901	901
Allowable reserves (unaudited - including subsidiary undertakings)	126	126	(44)	(44)
CET 1 capital pre Regulatory adjustments	827	827	857	857
Regulatory adjustments:				
Intangible assets (including subsidiary undertakings)	(180)	(180)	(130)	(130)
Additional value adjustment	-	-	(1)	(1)
Transitional adjustment	38	-	65	-
Total Regulatory adjustments to CET 1 Capital	(142)	(180)	(66)	(131)
Tier 1 Capital	685	647	791	726
Loan notes (listed)	109	109	120	119
Tier 2 Capital	109	109	120	119
Total capital	794	756	911	845

Notes to the financial statements (continued)

35. Capital Resources (continued)

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

	Transitional 2022 IFRS9 £m	Full impact 2022 IFRS9 £m	Transitional 2021 IFRS9 £m	Full impact 2021 IFRS9 £m
At 1 March	791	726	822	756
Verified profit / (losses) (including subsidiary undertakings)	22	22	(142)	(142)
Foreseeable Dividend	(50)	(50)		
Transitional adjustments	(27)	-	(1)	-
Other reserve movements	(2)	(2)	5	5
Movement in additional value adjustments	1	1	-	-
Movement in intangible assets	(50)	(50)	107	107
As at 28 February	685	647	791	726

Reconciliation of statutory reserves to regulatory reserves

	2022 £m	2021 £m
Total shareholders' funds	856	849
Foreseeable Dividend	(50)	-
Total shareholders' funds of subsidiary undertakings and consolidation adjustments	20	8
Regulatory adjustments	(142)	(66)
CET 1 capital	685	791

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 (Bank and Home Retail Group Card Services Limited) adjusted for certain off balance sheet exposures assets and regulatory deductions and provides a non-risk-weighted 'backstop' capital measure. The leverage ratio is calculated below as at 28 February 2022 on the UK basis which allows central bank assets to be excluded from the leverage exposures. The Bank's leverage ratio of 9.7% (2021: 9.5%) exceeds the minimum Basel leverage ratio of 3%.

Notes to the financial statements (continued)

35. Capital Resources (continued)

	Transitional 2022 IFRS9 £m	Full impact 2022 IFRS9 £m	Transitional 2021 IFRS9 £m	Full impact 2021 IFRS9 £m
Components of the leverage ratio				
Total assets as per published financial statements	6,436	6,436	7,438	7,438
Uplift on consolidation of subsidiary undertakings	80	80	58	58
Exposure value for derivatives and securities financing transactions	37	37	22	22
Off balance sheet exposures: unconditionally cancellable (10%)	878	878	917	917
Off balance sheet: other (100%)	5	5	13	13
Other adjustments	(169)	(207)	(79)	(143)
Central Bank Claims	(219)	(219)	-	-
	7,048	7,010	8,369	8,305
Tier 1 capital	685	647	791	726
Leverage ratio	9.7%	9.2%	9.5%	8.7%

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.

The Bank will disclose Pillar 3 information as required by the Capital Requirements Regulations and PRA prudential sourcebook on the J Sainsbury plc external website.

36. 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 LIBOR 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.

Notes to the financial statements (continued)

36. Fair value of financial instruments (continued)

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 2022	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Derivatives designated as fair value hedging instruments	-	18	-	18
Derivatives not in fair value hedging relationships	-	1	-	1
Investment Securities	417	1	-	418
Total assets	417	20	-	437
Derivatives designated as fair value hedging instruments	-	19	-	19
Total liabilities	-	19	-	19

At 28 February 2021	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Derivatives designated as fair value hedging instruments	-	-	-	-
Derivatives not in fair value hedging relationships	-	2	-	2
Investment Securities	586	1	-	587
Total assets	586	3	-	589
Derivatives designated as fair value hedging instruments	-	29	-	29
Total liabilities	-	29	-	29

The table on the following page summarises the fair value of financial assets and liabilities that are not presented in the Bank's balance sheet 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. The fair value information presented does not represent the fair value of the Bank as a going concern at 28 February 2022 or 28 February 2021.

	2022		2021	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Assets:				
Loans and advances to customers	4,311	4,262	4,599	4,576
Cash and balances at central banks	346	346	968	968
Loans and advances to other banks	121	121	37	37
Liabilities:				
Customer accounts	4,235	4,236	5,128	5,137
Other deposits	1,024	1,024	1,161	1,161
Subordinated debt	179	180	179	183

Notes to the financial statements (continued)

36. Fair value of financial instruments (continued)

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 balance sheet at fair value is shown in the following table:

At 28 February 2022	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Loans and advances to customers	-	4,262	-	4,262
Cash and balances at central banks	-	346	-	346
Loans and advances to other banks	-	121	-	121
Total assets	-	4,729	-	4,729
Customer accounts	-	4,236	-	4,236
Other deposits	-	1,024	-	1,024
Subordinated debt	180	-	-	180
Total liabilities	180	5,280	-	5,460

At 28 February 2021	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Loans and advances to customers	-	4,576	-	4,576
Cash and balances at central banks	-	968	-	968
Loans and advances to other banks	-	37	-	37
Total assets	-	5,581	-	5,581
Customer accounts	-	5,137	-	5,137
Other deposits	-	1,161	-	1,161
Other borrowed funds	-	-	-	-
Subordinated debt	183	-	-	183
Total liabilities	183	6,298	-	6,481

Information on how fair values are calculated for the financial assets and liabilities noted above is explained within the critical accounting estimates section of the accounting policies.

The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

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.

37. 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 Bank are consolidated. Copies of the parent company's financial statements may be obtained from www.j-sainsbury.co.uk.

38. Share-based payments

Accounting policy The Bank, through schemes operated by its parent company J Sainsbury plc, provides benefits to employees (including Directors) of the Bank 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.

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 or Monte Carlo). 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.

Income statement

The Bank recognised £5m (2021: £2.9m) of employee costs (note 6) related to share-based payment transactions made during the financial year. Of these, £nil (2021: £nil) were cash-settled.

The parent company, J Sainsbury plc, operates various share-based payment schemes, in which employees of the Bank participate, as set out on the following pages:

a. Savings Related Share Option Scheme ('SAYE')

The 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 the SAYE scheme, participants remaining in the Group's employment at the end of the three-year or five-year savings period are entitled to use their savings to purchase shares in J Sainsbury plc at a stated exercise price. Employees leaving for certain reasons are able to use their savings to purchase shares within six months of their leaving.

A reconciliation of Sharesave option movements is shown below:

	2022	2022		2021
	Number of	Weighted	2021	Weighted
	options	average	Number of	average
	million	exercise price	options	exercise price
		pence	million	pence
Outstanding at beginning of year	1.1	179	1.2	189
Granted	0.4	228	0.3	161
Forfeited	(0.2)	181	(0.2)	199
Exercised	(0.1)	204	(0.2)	185
Outstanding at end of year	1.2	193	1.1	179
Exercisable at end of year	0.0	244	0.1	185
Exercisable price range		185 to 260		161 to 260

The weighted average share price of J Sainsbury plc during the period for options exercised over the year was 260 pence (2021: 215 pence). The weighted average remaining contractual life of share options outstanding at 28 February 2022 was 2.5 years (2021: 2.6 years). Options granted during the year were valued using the Black-Scholes option-pricing model. No performance conditions were included in the fair value calculations. The fair value per option granted during the year and the assumptions used in the calculation are as follows:

Notes to the financial statements (continued)

38. Share-based payments (continued)

	2022	2021
Share price at grant date (pence)	227	226
Exercise price (pence)	248	161
Expected volatility - 3 year period (%)	30.8	29.9
- 5 year period (%)	0	0
Option life - 3 year period (years)	3.2	3.2
Expected dividends (expressed as dividend yield %)	4	5.1
Risk-free interest rate - 3 year period (%)	0.1	0.1
Fair value per option - 3 year period (pence)	59	80

The expected volatility is based on the standard deviation of J Sainsbury plc's 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 managers in the Company. The core 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 have been met, the awards vest and 50% of the award will be released. Subject to participants remaining in employment for a further year, the balance will then be released one year after the vesting date. Options granted to acquire the award of shares will expire five years from the grant date. Dividends will accrue on the shares that vest in the form of additional shares.

The core award can grow by up to four times, dependent on the level of performance. Straight-line vesting will apply if performance falls between two points. Awards are structured as nil cost options.

A reconciliation of the number of shares conditionally allocated is shown below:

	2022	2021
	Million	Million
Outstanding at beginning of year	1.5	1.4
Conditionally allocated	1.2	0.9
Forfeited	(0.1)	(0.1)
Exercised	-	-
Released to participants	(0.7)	(0.7)
Outstanding at end of year	1.9	1.5

The weighted average remaining contractual life of share options outstanding at 28 February 2022 was 1.5 years (2021: 1.4 years).

Details of shares conditionally allocated at 28 February 2022 are set out below:

	2022	2021
	million	million
Date of conditional award		
11 May 2017 (2017 Future Builder)	0.0	0.4
11 May 2018 (2018 Future Builder)	0.3	0.2
9 May 2019 (2019 Future Builder)	0.3	0.3
3 July 2019 (2019 Future Builder)	0.0	0.0
29 July 2019 (2019 Future Builder)	0.1	0.1
7 May 2020 (2020 Future Builder)	0.4	0.4
4 June 2021 (2021 Future Builder)	0.9	0.0
	2.0	1.5

Notes to the financial statements (continued)

38. Share-based payments (continued)

Options to acquire the award of shares were valued using the Black-Scholes option-pricing model. No performance conditions were included in the fair value calculations. The fair value per option granted during the year and the assumptions used in the calculation are as follows:

	2022	2021
Share price at grant date (pence)	267	199
Option life (years)	3	4.0
Fair value per option (pence)	267	199

The weighted average share price during the year for options exercised was 252 pence (2021: 196 pence).

c. Deferred Share Award

This plan is no longer operated, the last awards made under this plan were in 2020/21. The Deferred Share Award targets a diverse range of financial and strategic scorecard measures. These are intended to reward the top managers in the Group, including Executive Directors, for driving the short-term objectives that will directly lead to building the sustainable, long-term growth of the Group. Awards are structured as nil cost options.

Share-based awards are made to participants subject to performance against a basket of measures. At least 50% of the awards are based on the delivery of financial performance and returns to shareholders. The balances are based on measures which will assess the Group's performance relative to its competitors as well as key strategic goals.

Performance against the target is measured over one financial year, but any shares awarded are deferred for a further two years to ensure that management's interests continue to be aligned with those of shareholders. The shares are subject to forfeiture if the participant resigns or is dismissed for cause prior to their release date. Dividends accrue on the shares that vest in the form of additional shares.

A reconciliation of the number of shares granted over the year is shown below:

	2022	2021
	million	million
Outstanding at beginning of year	0.5	0.4
Granted	0.0	0.3
Exercised	(0.3)	(0.2)
Outstanding at end of year	0.2	0.5

The number of shares allocated at the end of the year is set out below:

	Shares conditionally allocated 2022 million	Shares conditionally allocated 2021 Million
9 May 2019	0.0	0.2
7 May 2020	0.2	0.3
7 May 2021	-	-
	0.2	0.5

The weighted average remaining contractual life of share options outstanding at 28 February 2022 was 0.1 years (2021: 0.5 years). The weighted average share price during the year for options exercised was 238 pence (2021: 203 pence).

Notes to the financial statements (continued)

38. Share-based payments (continued)

d. Bonus Share Award

The Bonus arrangements for senior managers include corporate and personal performance targets. A profit gateway is in place which means that a certain level of underlying profit before tax must be achieved before any bonus related to the corporate element of the bonus is released.

60% of the bonus is paid in cash and 40% awarded in shares. They are automatically released after three financial years. Shares are subject to forfeiture if the participant resigns or is dismissed.

Dividends accrue on these shares and are released at the end of the three-year retention period.

A reconciliation of the number of shares granted over the year is shown below:

	2022	2021
	Million	Million
Outstanding at beginning of year	1.1	1.1
Granted	0.3	0.6
Exercised	(0.3)	(0.4)
Lapsed	(0.2)	(0.2)
Outstanding at end of year	0.9	1.1

The number of shares conditionally allocated at the end of the year is set out below:

	2022	2021
	Million	Million
11 May 2018	0.0	0.2
9 May 2019	0.2	0.4
7 May 2020	0.4	0.5
7 May 2021	0.3	0.0
	0.9	1.1

The weighted average remaining contractual life of share options outstanding at 28 February 2022 was 1.0 years (2021: 1.3 years). The weighted average share price during the year for options exercised was 246 pence (2021: 187 pence).

Notes to the financial statements (continued)

39. Related party transactions

a) Transactions with Related Entities

J Sainsbury plc

The Bank is a wholly owned subsidiary of J Sainsbury plc.

	2022	2021
	£m	£m
Transactions during the year		
<i>Services and loans provided by J Sainsbury plc:</i>		
Management services	20	13
<i>Services and loans provided to J Sainsbury plc:</i>		
Management services	2	5
Balances at end of year		
<i>Payables:</i>		
Management services	3	4

Included within management services provided by J Sainsbury plc are amounts recharged to the Bank for Nectar points. Services and loans provided to J Sainsbury plc comprises Travel Money staff being redeployed to J Sainsbury plc store working during closed Bureaux periods as a result of COVID-19 pandemic travel restrictions.

Lochside Asset Purchaser No.1 plc

The Bank's personal loans securitisation programme issued via Lochside Asset Purchaser No.1 plc was fully redeemed on 27 May 2020 resulting in full repayment of the Senior class A note, Junior/Subordinated class B note and Reserve note.

	2022	2021
	£m	£m
Transactions during the year		
Interest paid on 'failed sale' liability	-	(1)
Servicer fee received	-	-
Redemption of Senior 'A Notes'	-	(101)
Repayment of Intercompany Loan	-	(6)

Notes to the financial statements (continued)

39. Related party transactions (continued)

Drury Lane Funding 2020-1 plc

On 11 November 2020, the Bank securitised and sold a pool of personal loans to Drury Lane Funding 2020-1 plc, an SPV controlled by the Bank. The SPV issued a £500m Senior class A notes and Junior/Subordinated class Z notes to the bank.

As at 28 February 2022 there were no external investors in the loan notes issued by the SPV and as a result the Bank does 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.

The securitised pool of personal loan assets fails the derecognition requirements of IFRS 9 therefore the Bank continues to recognise the personal loans on its balance sheet. As at the 28 February 2022, the Bank had pledged £621m of personal loans to the SPV.

The relevant personal loans continue to be serviced by the Bank and a servicer fee is receivable from the SPV as a result.

	2022	2021
	£m	£m
Transactions during the year		
Interest paid	-	(0.1)
Issuance of liquidity reserve	6	6
Balances at end of year		
<i>Other Assets:</i>		
Liquidity reserve	6	6
Intercompany asset	27	25
Book value of personal loans for which beneficial interest has transferred to SPV	621	621

The intercompany asset relates to cash collected on the securitised loans that has been paid across to the SPV. As the Bank retains the risk and rewards of the securitised loans and retains the notes issued by the SPV these cash payments are treated as an intercompany asset.

Home Retail Group Card Services Limited

The Bank provides funding to Home Retail Group Card Services Limited via an intercompany loan.

	2022	2021
	£m	£m
Transactions during the year		
<i>Services and loans provided by Sainsburys Bank plc:</i>		
Interest receivable on intercompany loan	12	16
Management services	5	1
Balances at end of year		
<i>Other assets:</i>		
Intercompany loan	411	453

Notes to the financial statements (continued)

39. Related party transactions (continued)

The loan to Home Retail Group Card Services Limited has no fixed repayment term but is repayable at the Bank's request. The loan operates as a revolving facility to fund the store card lending portfolio of Home Retail Group Card Services and the balance fluctuates in line with overall lending on that portfolio. Interest was payable 3 months in arrears at LIBOR plus a margin of 3% prior to transitioning to the Sterling Overnight Index Average (SONIA) rate from 8 February 2021. Interest remains payable 3 months in arrears, at SONIA plus a margin rate of 3.085%.

b) Transactions with key management personnel

For the purposes of IAS 24 'Related party disclosures', key management personnel comprise members of the Sainsbury's Bank plc Board and the Executive Committee of the Bank, who held office during the year.

Remuneration and other compensation

	2022	2021
	£m	£m
Short term employee benefits	7.0	3.9
Post-employment benefits	-	0.1
Termination benefits	-	-
Share-based payments	2.0	2.0
	9.0	6.0

Short term employee benefits represent salary, bonus and benefits in kind. Post-employment benefits relate to employer's contributions to money purchase pension schemes operated by J Sainsbury plc. Share based payments relates to share schemes operated by J Sainsbury plc (see note 38).

Included in the amounts shown above in short term employee benefits is £2.4m (2021: £nil) met by another J Sainsbury plc group company. These amounts are not included in staff costs (note 6).

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 Sainsbury's Bank plc key management personnel and members of their close families.

	Number of key management personnel	Directors £000	Other £000
Mortgages, credit cards and term loans			
At 29 February 2020	3	2	2
Resignations during 2020/21	(3)	(2)	(2)
Appointments/ New accounts during 2020/21	3	2	-
Amounts advanced during the year	-	10	8
Amounts repaid during the year	-	(9)	(6)
At 28 February 2021	3	3	2
Resignations during 2021/22	-	-	-
Appointments/ New accounts during 2021/22	-	-	-
Amounts advanced during the year	-	14	45
Amounts repaid during the year	-	(16)	(45)
At 28 February 2022	3	1	2

Notes to the financial statements (continued)

39. Related party transactions (continued)

	Number of key management personnel	Directors £000	Other £000
Savings and deposit accounts			
At 29 February 2020	5	9	149
Resignations during 2020/21	(4)	-	(149)
Appointments/ New accounts during 2020 / 21	1	12	-
Amounts deposited during the year	-	18	-
Interest paid	-	-	-
Amounts withdrawn during the year	-	-	-
At 28 February 2021	2	39	149
Resignations during 2021/22	-	-	-
Appointments/ New accounts during 2021/22	-	-	-
Amounts deposited during the year	-	-	46
Interest paid	-	-	-
Amounts withdrawn during the year	-	(39)	(10)
At 28 February 2022	2	0	36

Based on the Companies Act definition of Loans to Directors, total lending outstanding at 28 February 2022 was £nil (2021: £nil).

40. Capital commitments

There are commitments in respect of capital expenditure which have been authorised, but not provided for in the financial statements, for which contracts have been entered into, on:

	2022 £m	2021 £m
Property, plant and equipment	-	1
Software development	5	7
	5	8

41. Post balance sheet events

At their meeting on 19 April 2022 the Sainsbury's Bank Board approved the payment of a special interim dividend of £50m to J Sainsbury plc. The dividend was paid on 25 April 2022 and was recorded as a reduction in retained earnings at that date. Although this is a non-adjusting post balance sheet event under IFRS, the dividend payment had been provisionally approved by Board and formed part of management's financial plans as at 28 February 2022. It has therefore been treated as foreseeable and has been recognised as an adjustment to capital resources at the balance sheet date (see note 35 for further details).

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.

APM	Definition/Purpose	Reconciliation																								
Underlying profit before tax	Profit of loss before tax before any items recognised which, by virtue of their size and/or nature, do not reflect the Bank's underlying performance	A reconciliation of underlying profit before tax is provided in note 8 of the financial statements																								
Net Interest Margin (NIM)	Net interest income as a percentage of average interest-earning assets	<table border="1"> <thead> <tr> <th></th> <th>Ref</th> <th>2022</th> <th>2021</th> </tr> </thead> <tbody> <tr> <td>Interest Income</td> <td>IS</td> <td>216</td> <td>241</td> </tr> <tr> <td>Interest expense</td> <td>IS</td> <td>(43)</td> <td>(81)</td> </tr> <tr> <td>Underlying Net Interest Income</td> <td></td> <td>173</td> <td>160</td> </tr> <tr> <td>Monthly average interest earning assets*</td> <td></td> <td>5,488</td> <td>6,715</td> </tr> <tr> <td>Underlying NIM</td> <td></td> <td>3.2%</td> <td>2.4%</td> </tr> </tbody> </table> <p>*Monthly average interest earning assets is not presented in the financial statements. The closing balance at Feb-22 is £5,129m (2021: £6,060m); (made up of £4,311m (2021: £4,599m) Loans and advances to customers, £443m (2021: £587m) investment securities, and £375m (2021: £874m) of interest bearing deposits within cash held with central banks).</p>		Ref	2022	2021	Interest Income	IS	216	241	Interest expense	IS	(43)	(81)	Underlying Net Interest Income		173	160	Monthly average interest earning assets*		5,488	6,715	Underlying NIM		3.2%	2.4%
	Ref	2022	2021																							
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Bad Debt Asset Ratio (BDAR)	Impairment losses as a percentage of the average net balance of loans and advances to customers	<table border="1"> <thead> <tr> <th></th> <th>Ref</th> <th>2022</th> <th>2021</th> </tr> </thead> <tbody> <tr> <td>Impairment losses</td> <td>IS</td> <td>14</td> <td>58</td> </tr> <tr> <td>Monthly average customer lending*</td> <td></td> <td>4,315</td> <td>5,476</td> </tr> <tr> <td>BDAR</td> <td></td> <td>0.3%</td> <td>1.1%</td> </tr> </tbody> </table> <p>*Monthly average customer lending is not presented in the financial statements. The closing balance at Feb-22 is £4,311m (2021: £4,599m)</p>		Ref	2022	2021	Impairment losses	IS	14	58	Monthly average customer lending*		4,315	5,476	BDAR		0.3%	1.1%								
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BDAR		0.3%	1.1%																							

Alternative Performance Measures

APM	Definition/Purpose	Reconciliation			
Cost: Income Ratio	Underlying operating expenses as a percentage of total income		Ref	2022	2021
		Operating expenses	IS	229	326
		Non-underlying items	Note 8	(18)	(126)
		Underlying expenses		211	200
		Total Income	IS	247	221
		Cost: Income ratio		85%	90%
Return on capital employed	Underlying profit after tax divided by average equity		Ref	2022	2021
		Underlying profit/(loss) before tax	IS	24	(36)
		Notional tax charge		(4)	-
		Underlying profit/(loss) after tax		20	(36)
		Monthly average equity*		850	903
		Return on tangible equity		2.3%	(3.9)%
*Monthly average equity is not presented in the financial statements. The closing balance at Feb-22 is £857m (2021: £849m).					

In the above table, IS refers to the income statement presented on page 47.

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-balance sheet 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. This is a new balance sheet metric introduced by the PRA.

Liquidity Coverage Ratio (LCR) - Percentage of the stock of highly liquid assets such as cash to net cash outflow over a 30-day period.

Loans to deposits ratio - The ratio of loans and advances to customers net of allowance for impairment losses divided by customer deposits.

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.

Glossary

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.

Pillar 3 – The third pillar of the Basel III framework which aims to encourage market discipline by setting out disclosure requirements for Banks on their capital, risk exposures and risk assessment processes. These disclosures are aimed at improving the information made available to the market.

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.

Return on capital employed – Underlying profit after tax divided by average equity

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.