Sainsbury's Bank plc

Annual Report and Consolidated Financial Statements for the year ended 28 February 2023

COMPANY NUMBER: 3279730

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Statutory profit before tax

£44m

(2022: £21m)

Financial Services Underlying profit before tax

£58m

(2022: £64m)

Net interest margin (underlying)

5.1%

(2022: 4.5%)

Bad debt asset ratio

2.1%

(2022: 1.2%)

Cost : income ratio (underlying)

64%

(2022: 68%)

CET 1 Capital Ratio (transitional)

15.5%

(2022: 15.6%)

Net Stable Funding Ratio

291%

(2022: 121%)

ⓘ Performance, including reference to the above headlines is explained in the financial review section on page 17.

The Alternative Performance measures have been defined and reconciled to the statutory disclosures on page 118.

Strategic report

The Directors present their strategic report for the year ended 28 February 2023.

The Annual Report and Financial Statements includes the Strategic Report, the Directors' Report and both the Company and Consolidated Group Financial Statements and accompanying notes as applicable. Reference to 'the Bank' means Sainsbury's Bank plc and reference to 'the Group' specifies the Bank and its subsidiaries. Further information on investment in group undertakings can be found in note 21.

The Bank has prepared consolidated financial statements under IFRS 10 for the first time . The prior year comparative figures have been restated to reflect the consolidated results and have been subject to audit.

The Bank is a wholly owned subsidiary of J Sainsbury plc, however is governed by its own Board and Executive Committee, independent from J Sainsbury plc (see Risk Overview and Governance sections on pages 21 and 26). These Group results are included in the consolidated J Sainsbury plc ('the Sainsbury's Group') financial statements which are publicly available.

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

Strategy

The Group is aligned to the Sainsbury's Group strategic priority to focus on being a brand that delivers 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.

Our strategic priorities remain consistent - to build momentum across the business while simplifying and strengthening the organisation.

Brands that Deliver
- Customer and profit focus
- Supporting the core food business

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	**Momentum**	**Strengthen**		**Simplify**
	• Further develop Argos Financial Services proposition • Financial Services model with Nectar at the core • Improve cards, loans and insurance momentum	**Focus on:** • Customer closeness • Capability • Conduct and culture • Operational resilience • Capital efficiency	**Core competency in:** • Digital • Data and analytics • Credit/ Operational risk • Partnerships	• Review vendor/supplier arrangements • Right size the cost base • Optimise cross-Group synergies

Bank by name, Sainsbury's by nature

Our Sainsbury's Bank brand proposition is "Bank by name, Sainsburys by nature" with three supporting brand pillars - making it easy, always offering value and being a trusted ally. Research showed that customers have real trust in the Sainsbury's brand associating it with great service, underpinned by offering value in their food and reward proposition, as well as making it easy for customers to shop every day.

Bank by name, Sainsbury's by nature

Putting our customers first by bringing the trusted Sainsbury's brand qualities of value, ease and customer service from an established supermarket brand into the world of banking

Always offering value | **Make it easy** | **Trusted Ally**

These same brand pillars underpin our Argos brand, Argos Financial Services, which provides payment solutions that generate high levels of engagement in the most loyal Argos customer groups. The Argos Card provides a flexible payment option for customers that drives frequency, value and sales.

Business model

We offer 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.

Sainsbury's Bank		***Argos Financial Services***	
Saving & Lending	**Commission**	**Lending**	**Commission**
Savings	Insurance	Argos Storecards	Argos Care
Loans	ATMs	Argos Monthly Payment Plan	Pet Insurance
Credit Cards	Travel Money		

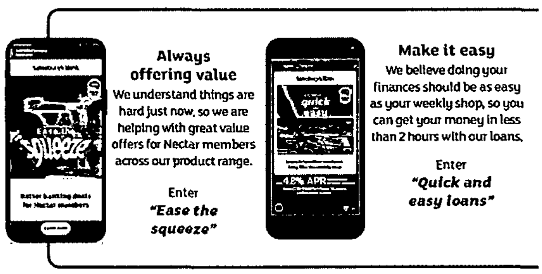
Saving & Lending products:
- Funds are raised through savings deposits and wholesale sources. We use these deposits to fund lending to customers or hold them as liquid assets.
- Our savings and lending products are sold and serviced online or by telephone and, in the case of Storecards, in store.

Commission based products:
- Third party Car, Home, Warranty, Life, Travel 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 also earn fees on prepaid cards and money transfer services. Travel Money has a physical presence at the Bureaux in Sainsbury's supermarkets and is also available online.
- Our ATMs have a physical presence in Sainsbury's and Argos stores.

Year in review

Always offering value and making it easy for our customers

Now more than ever, customers are shopping around to seek the best deals, with brands they trust at the top of their consideration list. We launched our new brand campaign for Sainsbury's Bank this year which could speak to the current consumer pressures with empathy at every touch point.



Our new brand proposition, Bank by name Sainsbury's by nature, is resonating well with customers. Following the launch of the campaign we have seen an incremental 1 million web visits. Our investment in brand, alongside our direct digital marketing investment, has contributed to further improving our direct/aggregator sourced customer mix (a 4% growth YoY) and helps us in reducing our cost to acquire new business.

In Argos Financial Services (AFS), we have enhanced connectivity with Argos throughout the year, with new marketing channels launching and increased integration of our products across Argos channels and events.

Our Net Promoter Score (NPS) for Sainsburys Bank and Argos Financial Services brands remains strong, supported by continued developments of customer online journeys.

Our digital strategy in action

The number of customers using digital channels continues to grow with now over half of our active credit card customers logging into the credit card app at least once a month - an uplift of 25% since last year. In Argos Financial Services, our customer base is more digitally engaged than ever with 91% of our active customers now registered for our Mobile app, up 3% from last year, and we saw a 2% increase in the share of payments coming through our digital channels – now up to 79% of total payment value. In Insurances we have seen a record level of our Car and Home Insurance customers register for online self-service, with 87% of our live book now registered customers. Our profile of digital customers shows that they spend more, borrow more and save more across our products.

In **Credit Cards,** we launched Apple Pay in June 2022 with customers already making 4.7m transactions. Further app functionality was added through the year.

In **Loans and Savings**, we delivered further enhancements to our new the application journey, offering a more seamless, fully digital "short apply" experience for existing customers looking for a loan or savings product.

In **Insurances**, to simplify and automate processes, improving customer experience and increasing efficiency within our Car and Home insurance business, we introduced robotic process automation.

Reopening of Travel Money Business

Travel Money, after a couple years of disruption, saw turnover more than treble as demand for foreign travel returned. Our 225 in-store bureaux re-opened, as colleagues returned from supporting Sainsburys stores, serving over 2 million customers. For the first time the campaign via Nectar360 was promoted to increase customer awareness in stores. Our Travel Money Card relaunched in November, increasing the number of currencies you can hold on it to 15.

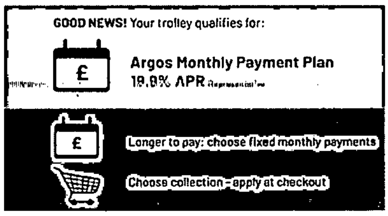
Response to cost of living

As a trusted ally, we're here to support customers through the cost-of-living crisis. Our cost-of-living hub launched on 30 Sept 2022, which houses tools, information and practical support for those in need.

Affordability calculations have been updated to reflect ongoing inflation, including rising energy costs, and we have strengthened our approach to validating customer income.

Launch of Monthly Payment Plan

Interest bearing **Monthly Payment Plans** rolled out to all Argos categories (excluding clothing) during this financial year, giving Argos customers a monthly payment option on higher price items when purchasing online for instore collection.



Delivering value for our shareholders

Capital Market Commitments

In order to maximise shareholder value, we announced six targets at our Capital Markets Day in September 2019, summarised below:

1) Stop putting cash into financial services	The Bank has received no further capital from J Sainsbury plc since the strategy launch.
2) Financial services to become cash generative	The Bank targeted paying dividends to our parent within 5 years. A dividend of £50m was paid in April 2022.
3) Reduce risk profile to the Group	We continue to operate with sufficient capital and liquidity buffers to protect against potential future stress scenarios and our mortgage book continues to run off.
4) Focus on Sainsbury's customer base	We continue developing our products and services that appeal to more Sainsbury's customers, listening to them and what they tell us. We continue to improve online customer journeys and invest in faster and smoother digital application processing.

Whilst very much still at the core of our focus and strategy, due to the economic headwinds of recent years we anticipate a delay in achieving the following targets:

5) Transform the cost base	We were targeting to reduce our cost to income ratio to circa 50% within 5 years, however this is challenging with Covid-19 and economic headwinds impacting revenue through reduced credit demand and travel. Our cost income ratio has decreased to 64% (from 68% in FY22) and is expected to further improve.
6) Improve returns	Our target was to double underlying profits and reach double digit ROCE within 5 years. While we expect profitability to improve, there is likely to be a delay in us reaching these levels.

Connectivity

Our number of customers in Sainsbury's Bank has increased from 1.8 million at February 2022 to 1.9 million at February 2023, largely driven by increases across Cards and Savings products. Customer numbers in Argos Financial Services remained stable at 2.1 million.

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. This year we issued 2.8 billion of Nectar points to our customers.

We continue to support the growth of our Sainsbury's core food business and general merchandising, funding over £1.7bn of retail spend on our Credit Cards, Store Cards and Monthly Payment Plan products across Sainsbury's, Argos and Habitat.

OUR APPROACH TO NON-FINANCIAL REPORTING

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

Non-Financial Reporting Directive

The Group has complied with the 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 Group seeks to provide quality financial services to Sainsbury's and Argos customers at an affordable price. The business model is outlined on page 4 of this Strategic Report
Environmental	Refer to Page 8 of Strategic Report for the Group's strategy for climate and pages 9 to 11 for an update on progress made in the year
Social	Details on our interaction with our communities is outlined on page 11
Our customers	Details on our approach to our customers in outlined page 11
Our employees	We aim to make the Group a great place to work for all colleagues. Our approach to achieve this is outlined on page 11
Gender Pay Gap	Details on gender pay gap is outlined on page 13
Human Rights and Modern Slavery	Details on our approach to Human Rights and Slavery is outlined on Page 13
Anti-corruption/Anti-bribery	Details on our approach to Anti-Corruption and Anti-Bribery is outlined on Page 13

Wates Corporate Governance Principles

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

Principle 1 – Purpose and Leadership	See our business model (page 4) and strategy (page 3) sections of the Strategic Report.
Principle 2 – Board Composition	Outlined in the directors' report on page 31 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 29.
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 pages 15 to 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 are right because they are also the way that many of us live outside of work too. Sainsbury's Group (including the Bank and its subsidiaries) has always had a strong sense of social, environmental and economic responsibility and an understanding that our success depends on society's success. Further details on our approach to diversity, environmental and social factors are outlined in the Non-Financial reporting section on pages 8 to 13.
- 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 Group while having due regard to all its stakeholders and to the matters set out in paragraphs a to f of section 172 of the Companies Act 2006.

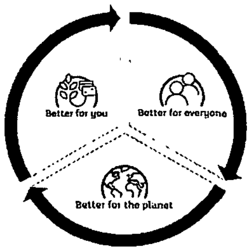
Further information of our consumer duty can be found on page 21 of the strategic report. Information on how we have interacted with our stakeholders is located as follows:

Stakeholder	Strategic Report Reference
Colleagues	Page 11
Customers	Page 11
Communities	Page 11
Investors	Page 14
Suppliers	Page 14
Regulators	Page 14

Environmental, Social and Governance

Our approach to ESG

We know our customers care about wide-ranging, complex issues that impact them and our wider world. They trust us to be a responsible business, whether that's by supporting the communities we serve and source from, managing our environmental impacts or contributing to a healthier, more inclusive society.



We strive to do the best for our customers and the business, addressing key ESG issues and living up to our Sainsbury's values. We are committed to driving improvements across the ESG agenda while also leveraging Sainsbury's environmental agenda.

The section below gives more details on our Environmental and Social strategy and along with some of our successes to date. Refer to page 26 for our section on Governance.

Environmental Strategy

Our ESG strategy specifically includes the commitment to reduce our own Scope 1 and 2 carbon emissions covering our direct and indirect emissions within our operations, and commit to be net zero by 2035, in line with the wider Sainsbury's Group target. 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/sustainability/plan-for-better/reports-policies-and-standards/2022

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. We take time to identify practical ways to reduce the environmental impact of our leaflets and Point of Sale materials in stores.

Things we have achieved since the launch of our plan for better strategy include:

- Reduction in paper usage by encouraging customers to go paperless for statements and delivering a number of online apps which encourage customers to self-serve online and in time will reduce the need for written correspondence
- Our new credit cards issues are made from 57% recycled plastic
- Adding symbols to our instore marketing materials so instore colleagues know how to recycle them
- In our offices we have upgraded to LED lighting and have an active campaign ongoing to reduce consumption of single-use plastics and paper
- Updated our Wholesale Credit Risk Policy such that the Group will not directly finance companies or organisations whose main activities actively contribute to climate change.

Environmental Key Performance Indicators (KPIs)

The following table compares Scope 1 and 2 Greenhouse gas emissions for FY23 (current year) and FY22 (prior year).

Environmental Data	2023	2022	% change
GHG emissions (tCO_2e) – Location Based			
Scope 1 bs	**290.32**	345.41	(16)%
Scope 2 emissions	**328.00**	227.63	44%
	618.32	573.04	8%
GHG emissions (tCO_2e) – Market Based			
Scope 1 emissions	**290.32**	345.41	(16)%
Scope 2 emissions	-	257.78	(100)%
	290.32	603.19	(52)%

The Group's Scope 1 emissions decrease was predominately driven by lower heating emissions in the offices, due to milder temperatures. Scope 2 location-based emissions increased this year due to improved data quality in year, removing estimations in the prior year. Our Science Based Targets Initiative (SBTi) target is based on market-based Scope 2 emissions.

Note on Scope 1 and Scope 2 emissions

All Scope 1 emissions have been calculated using UK Government's GHG Conversion Factors for Company Reporting 2022 for all sources. All Scope 2 Location based emissions have been calculated using UK Government's GHG Conversion Factors for Company Reporting 2022. Market based Electricity is covered by either a Power Purchase Agreement (PPA), a certified green tariff, or falls within onsite renewable generation from wind and solar energy.

The Scope 1 and Scope 2 emissions disclosed above relate to electricity and gas used in Group office locations and company car fuel use associated with Group 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. Currently unsecured consumer lending products are out of scope of the SBTi guidance for financial institutions.

In the absence of a methodology to calculate our scope 3 impact, we are none the less considering actions that will have a positive impact in this area. Active monitoring and management of our metrics and targets within our risk appetite statements contribute to this effort.

TCFD Roadmap

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 section of our annual report provides an update on our progress against the TCFD framework and indicates areas of future focus.

Governance

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

Achievements to Date	• The Bank Board has oversight of the Group's approach to managing climate change risks. This includes regular updates from the ESG Forum on plans to meet our climate strategy and progress against our Scope 1 and 2 targets. The Group is aligned with Sainsbury's Group governance on ESG matters with the Group's strategy presented at the Sainsbury's Group ESG Steerco. • Executive Risk Committee (ERC) and Board Risk Committee (BRC) have oversight of climate related financial risks. • The Bank Board is responsible for assessing and approving the climate-related disclosures in the annual report
Future Focus	• To establish and set the Group's Strategy in relation to scope 3 emission targets and a transition plan to support this.

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

Achievements to Date	• The Chief Risk Officer (CRO) is established as the Senior Manager responsible under the Senior Management and Certification Regime (SMCR) for managing the financial risks from climate change. The CRO chairs the ESG Forum which manages our assessment of climate related issues with attendees representing different areas of the business. • Whilst climate change risk has been assessed in the context of the Group's current suite of principal risks in line with the risk management framework, it was decided to establish a standalone ESG Policy which is currently being finalised. This articulates the types of climate-related risks that the Group is exposed to, definitions of the Group's risk appetite metrics in relation to climate, an outline of the minimum standards for the management of climate related risk, and a description of the Group's governance structure for the management of climate related risks.
Future Focus	• Board approval of the ESG policy and risk appetite metrics. • Continue to build knowledge and further embed business processes to support oversight and management of climate related risks and opportunities within the Group's business strategy.

Strategic report

Strategy

The climate-related risks and opportunities we have identified over the short, medium and long-term:

Achievements to Date	• Risks and opportunities deemed material to our five-year financial planning cycle are viewed as short-term. Aligned with SDTi's guidance for financial institutions, long term has been defined as beyond 15 years. Medium-term is therefore within the next 5-15 years. • Our target to reduce emissions from our own direct operations to net zero by 2035, against a 2019 baseline, is expected in the short to medium term horizon.
Future Focus	• Continue to embed climate-related decision making in business activities.

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

Achievements to Date	• We have embedded policy and procedures within business planning to ensure that key product and process decisions and the allocation of change resources considers climate related risks and opportunities.
Future Focus	• Further embed climate considerations into our supply chain and procurement processes

The resilience of our strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario:

Achievements to Date	• Climate stress testing was introduced as part of the Bank's ICAAP in 2021. The analysis included both a short-term assessment which considered the financial risks from climate change within the existing business planning horizon and a longer-term assessment of a range of different climate-related scenarios. At the time both assessments were limited and as a result highly qualitative in nature. • This year, the Group's approach to climate stress testing has evolved to obtain further insights into climate related financial risks using a more detailed modelled approach based on the three Climate Biennial Exposure Scenarios provided by the Bank of England, assessed over a 30-year period. • As part of this approach the Group's lending portfolios were split out according to sector, region and local area to ascertain those customers who may be most sensitive to physical and transition type risks under these different stressed economic scenarios. • The results of the stress testing exercise noted that the Group is most sensitive to scenarios where there are broader economic disruptions from the transition to net zero, especially impacting its credit risk profile via changes to unemployment. This is in line with its previous qualitative assumption given the Bank is a UK based unsecured lender, has no corporate lending and a mortgage portfolio in run down. • The outcome from the scenario analysis is being used to assess the overall risk profile and business strategy of the Group and to help form strategies to adopt the business model over time in light of climate changes.
Future Focus	• Continue to enhance scenario modelling capabilities. • Ensure we continue to respond to developing regulatory requirements on the approach to climate related risk

Risk Management

The process for identifying and assessing climate-related risks, the process for managing climate-related risks, and how our processes for identifying, assessing and managing climate-related risks are integrated into overall risk management:

Achievements to Date	• 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. • See Risk Overview section on page 21 for more details
Future Focus	• Continue to further integrate climate related risk management across business processes.

Metrics and Targets

The metrics used by the organisation to assess climate-related risks and opportunities:

Achievements to Date	• The Group is included in the Sainsbury's Group commitment to become a net zero operation by 2035. Further metrics have been proposed as part of its risk appetite suite of metrics, which requires final Board review and sign off.
Future Focus	• Remuneration targets related to sustainability commitments to be agreed and set. • Continue to improve data availability and accuracy to monitor and track progress against emissions targets. • Board approval of risk appetite metrics

Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas ("GHG") emissions, and the related risks and the targets used by the organisation to manage climate-related risks and opportunities and performance against targets:

Achievements to Date	• Location based and Market based GHG emissions (tCO2e) have been disclosed for Scope 1 and Scope 2. • The Group 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, which have been approved by the Science Based Targets initiative (SBTi) at a Group level, covering our direct and indirect emissions within our operations.
Future Focus	• Currently unsecured consumer lending products are out of scope of the SBTi guidance for financial institutions. We expect to set targets aligned with the SBTi approach as these methodologies develop. • Continue to monitor our performance against our climate-related targets

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 also want to make our services as simple as possible for everyone to use, including people who have a disability. Our website sets out the areas we are working hard to continually improve our online accessibility: https://www.sainsburysbank.co.uk/onlinesupport/support-online-accessibility

This year we commenced preparation for the forthcoming Consumer Duty regulation to ensure that good customers outcomes are delivered to all customers, including vulnerable customers. More detail on this programme of work has been included in the s172 statement on page 7.

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 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.

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 LGBT+ History Month, Black History Month and Purple Tuesday.

Proud@ Sainsbury's

In 2022/23, our colleagues raised over £60,000 for charity, with £55,000 of this 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 £150,000 for Maggie's Centres since then.

Colleagues

We aim to make the Group 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.

This financial year, we've enhanced our colleague proposition with the introduction of Smarter Working – a big, ambitious change for our business with a focus on more efficient meetings and working practices to allow more flexible working for all colleagues. By empowering our teams to work differently, we can individually and collectively be more productive, alongside having more time for customer-centric thinking, innovation, focussed work and personal development. And we unlock better flexibility, choice, and balance in the way we work. It's a bold opportunity to make things better for everyone, boost our productivity and engagement, and deliver improved outcomes for our customers.

People Data

	2023	2022
Permanent Employees	2,304	2,036
Contract Employees	100	186
Total Headcount	**2,404**	**2,222**
Of which:		
Full-Time	60%	67%
Part-Time	40%	33%
Full Time Equivalent (FTE)	**1,982**	**1,892**

Listening to our colleagues

How it feels to work at the Group makes us different because our Values guide everything we do. We want our colleagues to feel connected and engaged and we measure this through our annual colleague engagement survey. The colleague happiness score of 71 for FY23 is up from 66 last year. Feedback on how line management treat, and support colleagues continues to be 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 an additional 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, we support the Sainsbury's Group's vision to become the 'most inclusive' retailer by embracing our differences. The activities we're undertaking to be a more diverse and inclusive organisation are fundamentally about fairness and equality. We are active in our drive for inclusivity and the progression of our diverse talent. With this diversity comes a variety of ideas and views that inform decision-making and enable us to understand our customers better.

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

Gender Diversity	2023	2022
% Females of total employees	**60%**	**57%**
At each level:		
Lower	71%	74%
Lower Middle	47%	47%
Upper Middle	40%	39%
Upper	30%	26%
Board members	50%	38%

Ethnic Diversity	2023	2022
% Ethnically Diverse of total employees	**11%**	**8%**
At each level:		
Lower	12%	9%
Lower Middle	13%	9%
Upper Middle	8%	7%
Upper	11%	4%
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. In FY23, 81% of colleagues shared their ethnicity with us (up from 78% last year).

We have 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.

Gender Pay Gap

Note the statutory gender pay gap disclosure is for colleagues employed by Sainsbury's Bank legal entity. Both the Bank and Argos Financial Services are also included within the Sainsbury's Group disclosures, which can be found at: https://about.sainsburys.co.uk/sustainability/better-for-everyone/gender-pay-gap

The mean gender pay gap of 34.3% (as at April 2022) has marginally improved from 35.5% in April 2021. The gap is, in part, reflective of the number of in-store Travel Money Bureaux colleagues with around 32% of Sainsbury's Bank colleagues working in these roles on hourly rates of pay and over 70% of these roles being held by women. In addition to the Travel Money colleague composition, Sainsbury's Bank still has more men than women in the most senior roles and more women than men in hourly paid positions, further impacting the pay gap.

We continue to see an improvement in female representation at senior levels since signing up to the Women in Finance Charter (WIF) in 2018. We had a target to achieve 40% female representation at senior levels by February 2024. We have managed to meet this target a year early, reaching 41% by February 2023, up from 37% last year.

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**

Sainsbury's Bank plc

Mean Gender Pay Gap	34.3%
Median Gender Pay Gap	36.9%

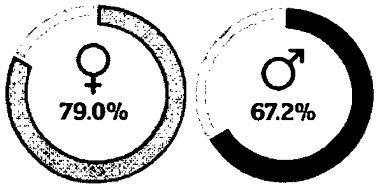
Pay quartile headcount gender %

	Female	Male
Upper	41.5%	58.5%
Upper Middle	51.4%	48.6%
Lower Middle	68.5%	31.5%
Lower	76.5%	23.5%

Mean Bonus Pay Gap	83.1%
Median Bonus Pay Gap	46.3%

Colleagues receiving bonus

Female | Male



Human rights and modern slavery

The Group 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 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 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 at https://www.sainsburysbank.co.uk/-/media/files/pdf/modern-slavery-statement.pdf.

Anti-Corruption / Anti-Bribery

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

Other Key Stakeholders

Investors

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

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's 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.

Consumer Duty

During the financial year, the Board and management invested extensive time and effort in understanding and monitoring the implementation of the FCA's new Consumer Duty rules. In March 2022 the Board was provided with a high level overview of Consumer Duty and its potential impact on the Bank and its subsidiaries together with an overview of the preparatory work underway at the time to meet the requirements of this significant regulatory change. This allowed the Board to understand and query the requirements from the business between then and July 2023 (when the new regulation comes into effect).

At the outset, the Board agreed that Consumer Duty related decisions may influence the strategic direction of the Group's products and services, determine how successfully they met the needs of the Group's customers and would define to what extent business profitability would be impacted. A dedicated change project was established, with the Bank's Chief Customer Officer appointed as Accountable Executive for its delivery although, given the cross-cutting nature of the changes needed, other holders of Senior Manager Functions within the Bank were appointed with accountability for delivering different aspects of it.

At its request, regular briefings on progress against the agreed milestones were provided to the Bank Board with extended updates provided by the Accountable Executive at its meetings in August, September and October 2022 and February 2023.

One of the Bank's Independent Non-Executive Directors was appointed as Board Champion for Consumer Duty, although all Board members were fully engaged in the project via the regular briefings. The Board Champion interrogated the detailed plan and worked with the business to ensure it was robust. The Board then signed off the Consumer Duty implementation plan at its October 2022 meeting in advance of the due date of the 31st October, 2022.

The Board agreed that adherence to the new Consumer Duty rules did not fall to one individual in the Group but to all colleagues and that compliance would support both the sustainability of the business and its customer driven culture. The rules would also reinforce a culture of fairness and reasonableness with the Group's colleagues.

During the regular briefings, the Board challenged management on whether they were satisfied that the Group was identifying all vulnerable customers properly. Management confirmed that the project would integrate its existing work on customer vulnerability into Consumer Duty. ExCo members have been more closely involved in strategic projects, specifically the development of the new Everyday Credit Card and Essentials Car insurance.

The Board agreed that compliance with the new Consumer Duty rules would ensure a positive impact on the communities the Group serves and would demonstrate greater levels of care for vulnerable customers in society. The Board was also advised that delivery of Consumer Duty would encourage greater collaboration and shared values with suppliers to achieve fair value and good outcomes for customers, whilst achieving mutually beneficial business models.

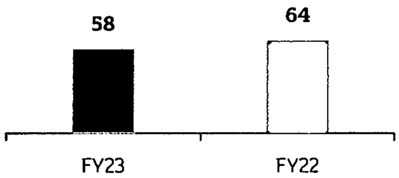
Overall, the Board was fully engaged with the development of the plans for compliance with the new Consumer Duty rules, devoting extensive time at its meetings to it, challenging management on progress and signing off the plans and approach as necessary.

Key Performance Indicators (KPIs)

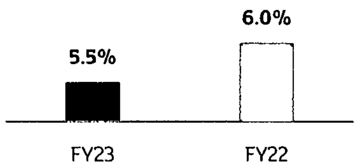
Financial

Deliver the financial plan

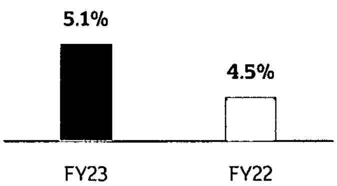
Underlying FS uPBT – profit before tax before any royalties paid to Argos and one-off items that are material and infrequent in nature



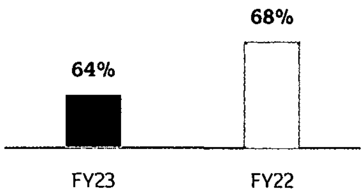
Return on capital employed – underlying FS profit after tax divided by average equity



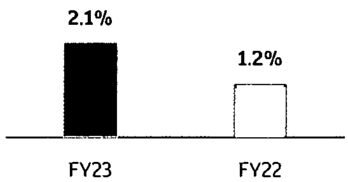
Net Interest Margin – *net interest income as a percentage of average interest-bearing assets*



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



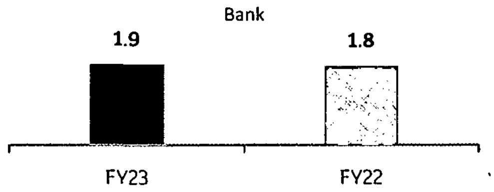
Bad Debt Asset ratio – *Impairment losses as a percentage of the average balance of loans and advances to customers*

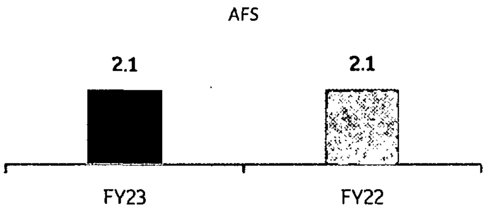


Customers

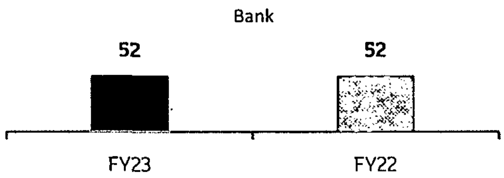
To be the provider of financial services for loyal Sainsbury's Group customers, delivered through simple mobile led customer journeys

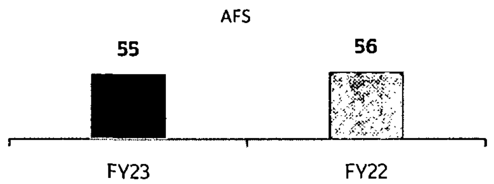
Active Customer numbers (million) – *the number of customers who hold an active account (savings / loans / credit card / insurance policy)*





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

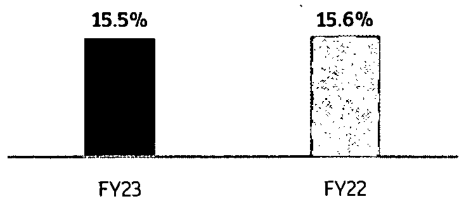




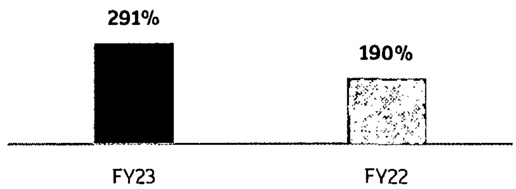
Safe and Sound

Manage the business within Risk Appetite

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



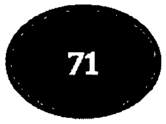
Liquidity Coverage Ratio (Spot) - *Percentage of the stock of high liquid assets such as cash to net cash out flow over a 30-day period*



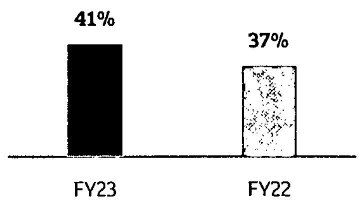
Colleagues

Continue to focus on an outstanding and engaged team

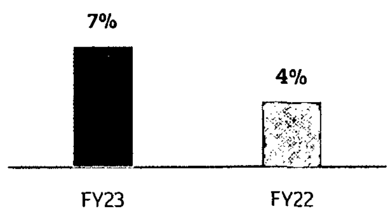
Happiness Score - *measures how happy colleagues are working at Sainsbury's Bank. Includes AFS.*



Females in Senior Roles – includes senior level colleagues and Board members. Includes AFS.



Ethnically Diverse colleagues in Senior Roles – includes senior level colleagues and Board members. Includes AFS.



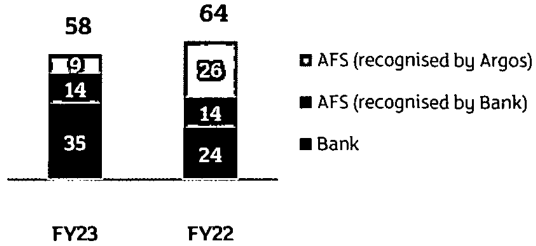
Our performance, including reference to the above KPIs is further outlined in the business review on page 4 and the financial review on page 17.

Financial review

This year we have made an Underlying Profit in Financial Services (before royalties paid to Argos) of £58m for the financial year, compared to £64m in the prior year.

Underlying Income is 18% higher than prior year driven by recovery of credit demand, improving yields and continued recovery of commission and fee-based income as foreign travel resumed.

Financial Services uPBT £m



Improving our cost to income ratio continues to be a key priority for the business. Notwithstanding our continued focus on costs, the improvement this year comes primarily from the recovery in income post Covid-19 as volumes return with close management of yields and funding.

Higher Impairments reflect the latest economic outlook assumptions, higher unsecured lending balances and an increase in arrears from the low level of the prior year.

As disclosed in J Sainsbury plc's preliminary results for FY 21/22, a £50m dividend was paid from Sainsbury's Bank to J Sainsbury plc for the first time in April 2022. The Bank remains well capitalised with a Total Capital ratio of 17.9%.

Summary Income Statement and Balance Sheet
The Group's performance for the year ended 28 February 2023 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	**2023 £m**	2022 £m	Change %
Statutory Income	**447**	359	25
Add: AFS Income/ Royalties to Argos	**9**	26	(65)
Underlying FS Income	**456**	385	18
Statutory Expenses	**(298)**	(280)	6
Add: items excluded from underlying results*	**6**	19	(68)
Underlying FS Expenses	**(292)**	(261)	12
Profit/(Loss) on financial instruments	**2**	4	(50)
Add: items excluded from underlying results*	**(1)**	(2)	(50)
Underlying FS Profit before Impairments	**165**	126	31
Impairment losses on Financial Assets	**(107)**	(62)	73
Underlying FS uPBT**	**58**	64	(9)
Less AFS Income in Argos	**(11)**	(10)	10
Less: Net AFS royalties to Argos	**2**	(16)	(113)
Underlying Profit before Taxation	**49**	38	29
Less: items excluded from underlying results	**(5)**	(17)	(71)
Statutory Profit before Taxation	**44**	21	110

* Items of an unusual and infrequent nature that do not relate to the Group's underlying performance are excluded in presenting underlying profit before tax. Further detail on non-underlying items can be found in Note 8.
** Underlying FS uPBT represents our profit before net royalties paid to Argos

Statutory profit before tax for the year ended 28 February 2023 was £44m compared to £21m in the prior year. This was driven by a 29% increase in underlying profit, reflective of the ongoing recovery from Covid-19 and a 68% decrease in non-underlying operating expenses as the prior year included one-off costs from the final portfolio transition from Lloyds Banking Group under our New Bank Programme.

Underlying FS uPBT for the year end 28 February 2023 was £58m compared to £64m in the prior year, with Underlying FS Profit before Impairments £165m, 31% higher than prior year.

Total underlying FS income increased by 18% to £456m, with net interest income up 15% due to higher unsecured balances, improving yields and a focus on managing the increased cost of funding. Net fee income, up 59%, has shown recovery post Covid-19 within Travel Money as demand for foreign travel returns and in Credit Cards due to higher retail spend.

Underlying FS expenses increased by 12% to £292m largely due to the reopening of the Travel Money business, new business volume growth and higher depreciation costs following the delivery of strategic projects (see intangible assets comment below).

Impairment losses increased by 73% reflecting the latest economic outlook assumptions on inflation, unemployment and GDP, as well as higher unsecured lending balances (up 10%) and an increase in arrears from the low levels of the prior year.

Summary balance sheet	**2023**	2022	Change
	£m	£m	%
Unsecured Loans and advances to customers	**4,729**	4,296	10
Secured loans and advances to customers	**564**	771	(27)
Cash and cash equivalents	**646**	508	27
Debt Securities	**741**	443	67
Intangible assets	**179**	191	(6)
Tangible assets	**9**	9	-
Other assets	**341**	318	7
Total assets	**7,209**	6,536	10
Customer deposits	**4,735**	4,235	12
Wholesale funds	**1,212**	1,024	18
Subordinated debt	**122**	179	(32)
Other liabilities	**274**	220	25
Total liabilities	**6,343**	5,658	12
Net assets	**866**	878	(1)

In balance sheet terms, our unsecured loans and advances to customers increased by 10%, notably Loans advances increased by 5% and our Credit Card advances by 20% as demand for unsecured credit started to recover. Mortgage balances have reduced 27% over the year, with balances ending the year at £564m.

Cash and cash equivalents increased 27% and debt securities by 67% reflecting our investment of excess deposits in additional high quality liquid assets.

Intangible assets decreased by 6% as our capital investment spend returned to more normal levels. Last year included the addition of 2 major strategic priorities – the new Monthly Payment Plan product in Argos Financial Services and enhancements to our banking platform to offer fully digital onboarding and servicing experience. Further enhancements to both these continued in 2022/23.

To support our growth in consumer lending, we grew customer deposits by 12% whilst carefully managing customer savings rates, the average blended rate increasing by 55bps.

Net interest income

Net interest income summary	**2023**	2022	Change
	£m	£m	%
Interest receivable	**394**	322	22
Interest payable	**(74)**	(43)	72
Net interest income	**320**	279	15
Net interest margin	**5.1%**	4.5%	0.6

Interest income increased to £394m (22%) due to unsecured credit balance growth, yield management and higher Bank of England (BoE) base rate driving higher income from Treasury Assets. Partially offsetting these gains, mortgage balances reduced by 27% in line with our plans to run off this portfolio.

Interest payable increased by £31m (72%) with the higher costs of funding being driven by increases in the BoE base rate and SONIA (Sterling Overnight Index Average).

Consolidated net interest margin increased by 60 basis points to 5.1%, driven by the growth in unsecured lending (up 10%), whilst lower margin Mortgage balances fell (down 27%), unsecured yield increases and management of funding costs.

Fee, commission, and other operating income

Fee, commission, and other operating income summary	2023	2022	Change
	£m	£m	%
Banking income	**72**	62	16
Insurance income	**36**	39	(8)
Other Income	**1**	2	(56)
Add: Argos Care Warranty Income[1]	**11**	10	10
Total fees and commissions receivable	**120**	113	6
Total fees and commissions payable	**(10)**	(29)	(66)
Other operating income	**28**	6	367
Add: Net AFS Royalties to Argos[1]	**(2)**	16	(113)
Net fees, commission, and other operating income	**136**	106	28

1. Note for Statutory reporting Argos Care Warranty Income is deduced from Commission Income (as reflected in Argos results) and the net of Argos Royalty Payment and Argos Retailer Fees is offset in Fees Payable.

Banking income increased by 16% largely due to higher Credit Card retail spend (14%) driving higher interchange income along with higher ATM transactions (3%)

Insurance income decreased by 8%, with Car and Home insurance impacted by the new FCA General Insurance Pricing Practices (GIPP) regulations introduced in January 22. This created significant market volatility and has adversely impacted new business volumes.

The 367% increase in other operating income was driven by our Travel Money business as travel restrictions were lifted, foreign travel resumed and the full bureaux estate of 225 was re-opened.

Operating expenses and investment

Operating expenses summary	2023	2022	Change
	£m	£m	%
Underlying staff costs[1]	**94**	85	11
Other underlying operating costs	**171**	171	-
Depreciation of property, plant and equipment	**2**	3	(33)
Amortisation of intangible assets	**31**	21	48
Statutory Expenses	**298**	280	6
Less: Non-underlying operating expenses	**6**	19	(68)
Underlying FS Operating Expenses	**292**	261	12

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

Underlying FS operating expenses of £292m increased by 12% due to a number of factors, including the re-opening of the full Travel Money bureaux estate, new business volume growth and colleague pay increases. We also saw amortisation rise following the delivery of strategic projects, such as enhancements made to our banking platform to offer fully digital onboarding and servicing experience and the new monthly payment plan product in Argos Financial Services.

Non-underlying operating expenses reduced by 68% to £6m as prior year included costs relating to the migration of the Loans Back Book, being the final remaining portfolio that sat on our legacy partner's systems. This year's cost largely relates to a provision made for liabilities relating to our historic New Bank Programme transition (£3m) as well as costs relating to Strategic Initiatives (£3m).

Impairment losses on financial assets

Impairment losses summary	2023 £m	2022 £m	Change %
Impairment losses on financial assets	**107**	62	73
Bad debt asset ratio	**2.1%**	1.2%	9

Higher Impairments reflect both the latest economic outlook assumptions on inflation, unemployment and GDP, as well as higher unsecured lending balances and the normalisation of low arrears levels in the prior year. Additionally, in line with our strategy of deepening relationships with Sainsburys Group customers, we have tested a looser credit stance on a limited tranche of personal loans new business over the period November 2021 to September 2022. In the year ended 28 February 2023 this represented 9% of new business lending. We are currently monitoring the performance of this cohort to assess overall results as the tranche matures.

Bad debt expense as a percentage of lending increased 90bps year on year to 2.1%, reflecting the above as well as the higher proportion of unsecured lending balances as the mortgage book runs down.

The Bank remains well capitalised with a CET1 ratio of 15.5%, a slight decrease from 15.6% last year as Risk Weighted Assets (RWA) have increased in line with higher lending balances. Additionally, the Bank continues to have excess liquidity with a LCR of 291%. This has risen from the 190% position in February 2022 reflecting investment of our excess deposits in additional high quality liquid assets.

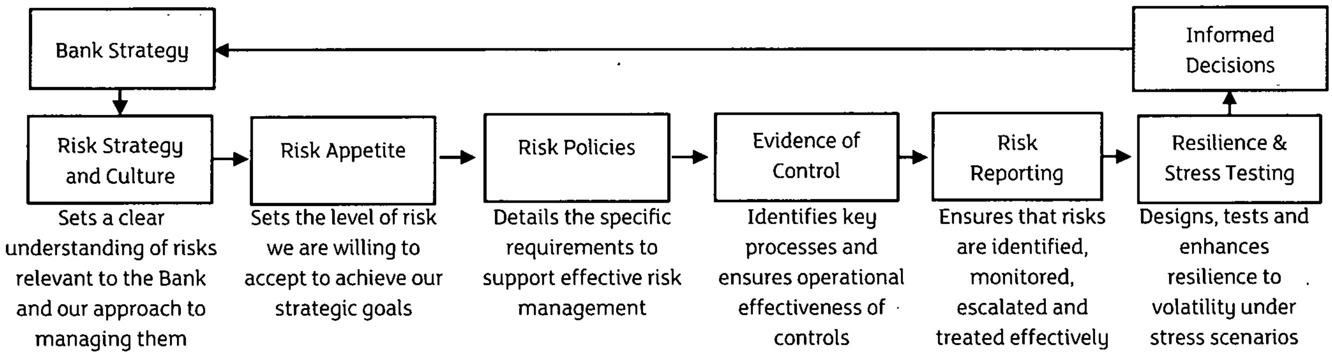
On a profit before impairment basis, the Group has returned to pre Covid-19 levels despite reduced customer lending balances and a challenging economic environment. Throughout the last few years, we have maintained strong capital and liquidity positions, which we can now deploy to continue to grow balances and revenues in a safe and controlled manner.

Risk overview

Introduction

An effective Enterprise-Wide Risk Management Framework (EWRMF) is a core component of our strategy and operations. We adopt a holistic, end-to-end view of risk, ensuring that the material risks arising from our key processes and activities are effectively identified, assessed, managed and controlled to make well informed decisions. This is supported and implemented via a three lines of defence model. This framework covers the Bank and its subsidiaries. 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 EWRMF includes the following key steps:



Risk Strategy and Culture

Our risk strategy and culture are a critical factor within the EWRMF which outlines the shared set of values and behaviours that defines how all colleagues approach and take ownership for the management of risks within the Bank. This approach is underpinned by the Senior Managers and Certification Regime introduced by the FCA in 2016. The following key aims and principles define 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	Material risks are identified, and key controls are tested and reported

Risk Appetite

The principal financial and non-financial risks identified within the EWRMF each have qualitative risk appetite statements that informs our strategy for managing risk. From these statements specific quantitative metrics are established which articulate how much risk the Group is to take in the pursuit of our strategic objectives. These metrics are reviewed and approved on an annual basis by Board.

The Group's risk appetite reporting structure includes:

- A 'High-Level' Risk Appetite Statement (RAS) that provides a concise set of key Group-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 Group's key risk types (e.g. retail credit risk, operational risk). These Directional limits are designed to give early indications of changes in the internal and external risk environment, providing an outlook on whether we remain on-track to meet our 'high-level' risk appetite targets.

Performance against both the 'High-level' and 'Directional' RAS measures are monitored and reported to our Executive Risk Committee (ERC) monthly, and at each Board Risk Committee (BRC). Additionally, escalation processes are 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.

Risk Policies

We have identified a set of principal risk types to which our business model is inherently exposed (*see separate section below*). Each risk type has a principal risk owner that actively manages and oversees the risks in the Group in line with associated policy and supporting policy standards. These policies clearly articulate the objectives and requirements to be met to ensure that that these risks are managed effectively on a day-to-day basis, in-line with risk appetite.

Evidence of Control

We use Process Risks and Control Assessments (PRCAs) to provide a process-centric approach to identify, measure and control our key risks, which is underpinned by a robust evidence-based assessment of the control environment. 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. Where it is identified that controls need to be strengthened, treatment plans are put in place and actioned to mitigate the risk. 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.

Our Business Enterprise Risk Tool (BERT) is used to record and manage our key processes, the controls we have in place, any treatment plans to improve our control environment and to record our management of risk events. All required colleagues have access to BERT enabling them to view risk data against their own processes as well as across the organisation.

We continually look to improve our controls in line with industry best practice and the environment in which we operate.

Risk Reporting

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 Group 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 with our business model and strategy which ensures there is effective oversight and challenge in place.

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

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

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 Group 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 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 given the cost-of-living pressures.
- **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 Group.

Cost of living – Sustained pressures on the cost of living, mostly driven by higher energy and food prices, rising interest rates and changes to taxes and benefits is straining customer's household incomes and their ability to spend thereby impacting economic growth prospects. Customer impacts are closely monitored with support offered as required. The Group 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, impacting the economic environment.

Cyber Security – The Russia/Ukraine conflict 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.

Banking Sector volatility – Following the recent bank failures in the US and Europe the Group has been actively tracking developments and possible impacts to the Group if we were to experience a broader financial crisis, albeit it is noted that the regulatory response has been strong to date. The Group's initial focus has been on the risks to the Treasury portfolio, which are held primarily for liquidity management purposes, consisting of floating rate assets with no exposures or limits to those impacted banks. The credit quality of the portfolio remains low risk, concentrated in AA-/Aa3 or higher counterparties, suggesting a very low probability of default.

Climate Change potentially exposes the Group 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 the Group's balance sheet. Climate change impacts on carbon-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 result in knock-on impacts to wholesale funding.	The Group'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 Group 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 revaluations related to climate change, this has not impacted any of the assets held as part of the wholesale funding portfolio. In April 2021 the Group 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,	Sovereign assets held by the Group are largely UK exposures, and this is unlikely to change materially 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.

Area	Assessment	Impact to date	Outlook
		finding that the majority of our counterparties are actively assessing the impact of climate change on their business. The Group continues to monitor this as part of its wholesale credit risk review processes. 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.'	
Credit risk	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. 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.	The Group 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.	As the mortgage book is declining, the potential increased credit risks as a result of climate change lie mainly within the unsecured book. The Group 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.
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 Group 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 and onboarding processes 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 8.	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.

Principal Risks

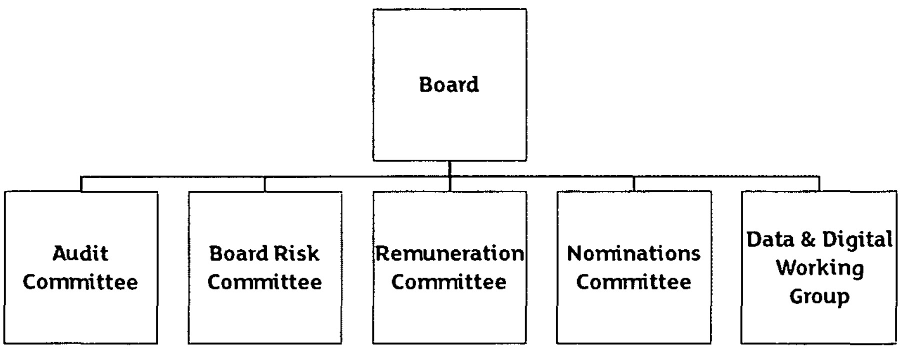
	Credit Risk	Operational Risk	Supplier Risk	Financial Crime Risk
What is It?	The risk that a retail customer fails to maintain their contractual obligations and repay their borrowing on time.	Losses or disruption resulting from inadequate or failed processes, people and systems or from external events.	The risk that key services and processes outsourced to 3rd party suppliers impair the quality of internal control within the Group.	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 Group. This can also manifest through lack of appropriate review and diligence of the third party by the Group.	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 Group.
How Do We Manage The Risk?	• We lend responsibly, considering the suitability of the product to meet our customers' needs and their ability to repay any debt. • We have policies to support vulnerable customers and those in financial difficulties. • Credit decisioning based on information from a number of credit related sources. • Regular stress testing is undertaken using a variety of plausible stress scenarios.	• 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 Group. • 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.	The management of supplier risk takes place at two key times, which are reviewed and approved by the accountable Executive: • During the selection of a new supplier, with a robust assessment of the high-level process steps associated with the service provisions, the key failure points which could occur in the process, and an understanding of the key controls and appropriate provision of MI that evidences the effective operation of these key controls. • On an ongoing basis as part of the Group'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).	• 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.
Changes in 2022/23	• Credit tightening due to economic conditions. • Investment in collections and recoveries.	The Group has further reduced its residual risk exposure across some of its top risks by implementing specific treatment plans over the course of the year	• Detailed analysis undertaken to assess the Group's supplier concentration risk in line with regulatory guidance SS2/21 (outsourcing and third-party risk management). • All new contracts now ensure compliance with SS2/21, and historic agreements have all been remedied, with the exception of 4 which are currently subject to remediation plans.	Annual review and refresh of key PRCA controls as well as an update to associated financial crime related risk metrics reflecting the current threat landscape.

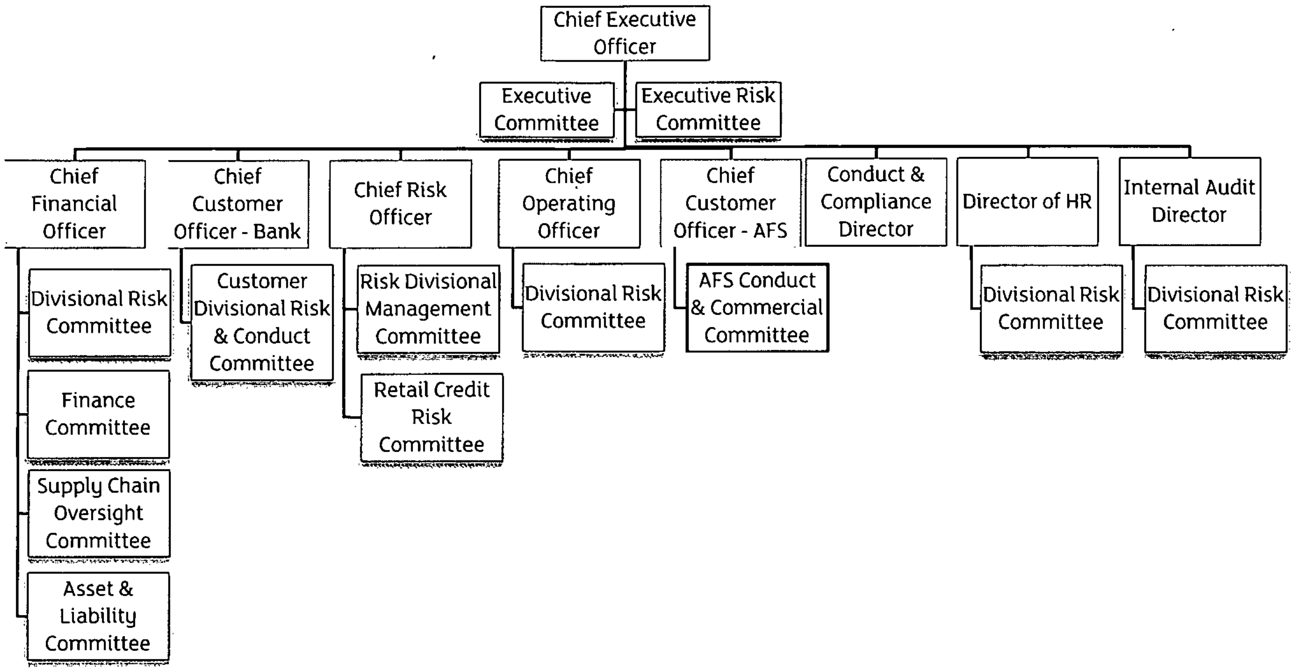
Principal Risks *(continued)*

	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 harm or 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 comply with regulation and legislation and failure to assess and understand the needs of our customers or to provide them with the level of product or service required at all stages of the customer journey, resulting in poor customer outcomes.	Changes in economic conditions or regulatory requirements may impact on the level of capital resources required.	Loss of confidence in the Group 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?	• Standards communicated through ten Policy Standards. • Processes and controls in place with clear reporting and escalation procedures. • Independent conduct and compliance oversight using a robust methodology. • 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.	• Target risk appetite range for level of capital held. • Monitoring of capital position, with triggers in place for escalation. • Capital adequacy target built into our planning processes. • Projected capital position updated for any strategic or external changes. • The annual ICAAP determines the adequacy of the level and type of capital resources held.	• 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.
Changes in 2022/23	• Embedding and ongoing enhancements to Conduct MI reporting and framework. • Ongoing enhancements to Conduct and Compliance policy statements to communicate the standard expected across the end to end business. • Participation in several FCA surveys and multi firm work. • External assurance of specific elements of the framework, including Customers With Vulnerable Characteristics policy and training materials. • Extensive planning and activity underway to implement new Consumer Duty requirements.	• Updated Stress testing scenario analysis undertaken in line with BoE guidelines, assessing the Group's resilience to the effects on capital adequacy from an economic downturn.	• A review and update of the Group's key behavioural assumptions used as part of the interest rate risk management process. • A review and update on the Group's liquidity stress testing framework.

Governance

The diagram below shows the Governance structure in place for Sainsbury's Bank as at 28 February 2023:





Board-level Governance

The Board is the key governance body, meeting at least nine times a year, holding overall accountability for the decisions made and outcomes achieved by the Bank, subject to specific reserved matters that require the consent of J Sainsbury plc. Details of the Board composition may be found below. The Directors of the subsidiary entities hold Board meetings to cover statutory matters however the key decision making is covered within the Bank Board.

Relationship with J Sainsbury Plc

The Bank is a wholly owned subsidiary of J Sainsbury plc, a listed retailer. J Sainsbury plc 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 Group. 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 Group'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 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.

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

The Board had a programme of nine main meetings in 2022/23. Additional Board meetings were convened to consider certain matters where it was not felt appropriate to defer until the next full meeting. Governance requirements (including quorum adherence) were applied as if these additional meetings were full Board meetings. A programme of nine main meetings is planned for 2023/24.

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:

- **Audit Committee**. The Audit Committee's key responsibility is to advise the Board on the Bank's financial statements, including systems and controls and related policy issues together with relationships with external auditors. The Audit

Committee also reviews and challenges where necessary management's response to any major External or Internal Audit recommendations. The Committee is responsible for reviewing and approving the internal audit plan and budget, and for ensuring that the function is adequately resourced. The Audit Committee meets at least four times a year. Additionally, the Audit Committee will meet with the External Auditors and Sainsbury's Bank Internal Audit Director without Executive Management being present.

- **Nominations Committee**. The Nominations Committee is responsible for reviewing the structure, size and composition of the Board. The Committee is also responsible for the succession planning of the Board and the Executive Management Team and for ensuring a formal, rigorous and transparent process for recommending appointments to the Board to the Bank's shareholder. The Bank recognises the benefits of achieving a diverse Board and Executive Management Team to reflect the environment in which it operates. The Nominations Committee will meet as required.
- **Remuneration Committee**. The role of the Remuneration Committee (RemCo) is to determine and agree with the Board the broad policy for remuneration and for compliance with the Remuneration Code (the Code) to the extent that the provisions apply to the Bank. RemCo is responsible for recommending, 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 Group'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 Group's purpose and advantages from being part of the wider Sainsbury's Group.

Responsibilities

In line with the provisions of the Senior Manager & Certification Regime (SMCR), the Group 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 Group'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.

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 Group 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 31).

Strategic report

Executive-level Governance

The Board delegates the appropriate responsibility, authority and accountability to the Chief Executive Officer (CEO) to deliver the Group'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 Group's activities, performance and making significant decisions relating to the executive management of the Group. 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 Group's Primary Risk types. The ERC meets ten times a year.
- **Retail Credit Risk Committee (RCRC)**. The RCRC is responsible for monitoring the performance of the retail lending book, ensuring there is an effective credit risk management framework and that the Group 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 Group's balance sheet 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 Group's finance function so that significant decisions are fully informed, transparent, recorded and reported and in line with risk appetite and relevant governance structures. The Finance Committee meets at least 6 times per year.
- **Supply Chain Oversight Committee**. The role of the committee is to ensure there is an effective group-wide supply chain performance and risk management framework that manages outsourcing, oversees delivery and makes decisions to ensure the Group is able to robustly manage and oversee its suppliers. The Supply Chain Committee meets monthly.

Divisional Risk Committees

Each division across the Group 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 2023. This report is published in the investor relations section of the J Sainsbury plc corporate website: https://about.sainsburys.co.uk/investors/results-reports-and-presentations#2023

By order of the Board

Donald McNaughton

Company Secretary
26 April 2023

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 2023.

Board of Directors

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

Name	Position	Remunerating entity	Appointment/ resignation date
Lesley Jones	Chair (Independent Non-Executive)	Sainsbury's Bank plc	
Carole Butler	Senior Independent Non-Executive*	Sainsbury's Bank plc	
Peter Clarke	Senior Independent Non-Executive	Sainsbury's Bank plc	Resigned 31/08/2022
Michael Ross	Independent Non-Executive	Sainsbury's Bank plc	
Guy Thomas	Independent Non-Executive	Sainsbury's Bank plc	
Rosanne Murison	Independent Non-Executive	Sainsbury's Bank plc	Appointed 31/08/2022
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	

*Carole became a Senior Non-Executive Director on 16/11/2022

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 provides 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 7 of the Strategic report for details on employee engagement.

Business relationships
Refer to the S172(1) statement on page 7 of the Strategic report for details on business relationships.

Directors' report

Colleagues
Refer to the S172(1) statement on page 7 for the Group'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 33 and the Risk Management section in the Strategic report on pages 21 to 26.

Future developments
The development of the Group is set out in the Strategic Report on pages 3 to 6.

Post balance sheet events
There were no events occurring after the reporting date that require disclosure or adjustment within 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 Group'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 Group 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 Group.

Further information on the key financial risks of the business can be found in note 33.

The Directors are satisfied that the Group 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 Bank profit after tax for the year attributable to the shareholders is £23m (2022: £6m), and on a Group basis including the profits of subsidiaries was £33m (2022 £18m). In April 2022, the Bank paid a special interim dividend payment of £50m (2022: £nil), and the Directors do not recommend payment of a final dividend (2022: £nil).

By order of the Board and signed on its behalf by

Donald.H.McNaughton

Donald McNaughton
Company Secretary
26 April 2023

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 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 M McNaughton

Donald McNaughton
Company Secretary
26 April 2023

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

Opinion

In our opinion:

- Sainsbury's Bank plc's group financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the parent company's affairs as at 28 February 2023 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with UK adopted international accounting standards;
- the parent company financial statements been properly prepared in accordance with UK adopted international accounting standards as applied in accordance with section 408 of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Sainsbury's Bank plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 28 February 2023 which comprise:

Group	Parent company
Consolidated income statement	Statement of financial position
Consolidated statement of comprehensive income	Statement of changes in equity
Consolidated statement of financial position	Cash flow statement
Consolidated statement of changes in equity	Related notes 1 to 39 to the financial statements (except for items within note 34 which are marked as unaudited), including a summary of significant accounting policies
Consolidated cash flows statement	
Related notes 1 to 39 to the financial statements (except for items within note 34 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 and as regards to the parent company financial statements, as applied in accordance with section 408 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 group and parent 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.

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

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 group and parent company's ability to continue to adopt the going concern basis of accounting included:

- We obtained an understanding of the Group's financial statement close process, which included how the going concern assessment for the Group is undertaken. We engaged with Management early to ensure all key factors were considered in the Group's going concern assessment;
- We obtained an understanding of the Directors' 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 performed inquiries of Management and those charged with governance;
- We evaluated the Group's going concern assessment which included reviewing the evaluation of the Group's resilience to financial and operational stress on capital and liquidity requirements. The Group 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 the Groups assessment by considering viability and operational resilience under different stress scenarios, including the impact of strategic plans and the continued impact of the current economic environment. We also challenged the Group's considerations of climate change risks in their assessment of going concern and associated disclosures;
- We have reviewed the stress and reverse stress testing performed in order to identify what factors would lead to all of the Group's capital and liquidity eroding during the going concern period and assessed those factors against the likelihood of occurrence;
- We reviewed the Group's going concern disclosures included in the annual report in order to assess whether 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 group and parent company's ability to continue as a going concern for a period of 12 months from when the financial statements are authorised for issue.

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

Overview of our audit approach

Audit scope	• We performed an audit of the complete financial information of the group and parent company. • All audit work performed for the purposes of the Group audit was undertaken by the primary team.
Key audit matters	• Expected credit loss provision • Effective Interest Rate accounting • Valuation of intangible assets • Reliance on the processes and controls of third-party service providers
Materiality	• Overall group materiality of £6.2m which represents 1.5% of gross margin.

Climate change

Stakeholders are increasingly interested in how climate change will impact Sainsbury's Bank plc. The Group has determined that the most significant future impacts from climate change on its operations will be from transitional risks on the wider UK economy. These are explained in the strategic report on pages 23-24. They have also explained their climate commitments on pages 9 to 11 in the Task Force for Climate-related Financial Disclosures. All of these disclosures form part of the "Other information," rather than the audited financial statements. Our procedures on these unaudited disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements, or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated, in line with our responsibilities on "Other information".

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

The Group has explained in note 33 to the financial statements on page 98 its articulation of how climate change has been reflected in the financial statements and of the significant judgements and estimates made in this regard. These disclosures also explain where governmental and societal responses to climate change risks are still developing, and where the degree of certainty of these changes means that they cannot be taken into account when determining asset and liability valuations under the requirements of International Accounting Standards.

Our audit effort in considering the impact of climate change on the financial statements was focused on evaluating management's assessment of the impact of climate risk, physical and transition, their climate commitments, the effects of material climate risks disclosed on pages 23 and 24 including the significant judgements As part of this evaluation, we performed our own risk assessment to determine the risks of material misstatement in the financial statements from climate change which needed to be considered in our audit.

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

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

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.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Expected Credit Loss Provisions		
Impairment Provision (2023: £259m, 2022: £221m) *Refer to Accounting policies (page 53); and Note 13 of the Consolidated Financial Statements (page 66)* Customer receivables comprise unsecured personal loans, credit cards, mortgages and store cards. Credit provisions represent Management's best estimate of	We assessed 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. This included consideration of model governance, data accuracy and completeness, multiple economic scenarios, and the allocation of assets into	We are satisfied provisions for the impairment of loans and advances to customers are reasonable and recognised in accordance with the applicable reporting framework based on our procedures performed. We reperformed the staging and noted no material differences. We also performed sensitivity analysis on the staging criteria and noted that substantial changes would be

Risk	Our response to the risk	Key observations communicated to the Audit Committee
impairment and significant judgments and estimates are made in determining the timing and measurement of expected credit loss ('ECL'). Key matters that could result in material misstatement in respect of ECLs include the: (a) Accounting interpretations and modelling assumptions used to build the models that calculate ECL; (b) Input and assumptions used to estimate the impact of the multiple economic scenarios (MES); (c) Allocation of assets to stage 1, 2 or 3 using criteria in accordance with the accounting standard; (d) Completeness and valuation of post model adjustments ("PMAs"); and (e) Accuracy and adequacy of the financial statement disclosures. We consider the risk related to the ECL provisions continues to be heightened as a result of ongoing economic uncertainty. The accuracy of underlying data upon which the ECL is calculated is also key to the overall estimate.	stage 1, 2 and 3. We reviewed the minutes of the model and risk committees where inputs, assumptions, and adjustments to the ECL were discussed and approved. We tested the data used in the ECL calculation by independently reconciling a sample of data feeding the models to source systems and underlying documentation where applicable. 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 formulae used, considering alternative modelling techniques and recalculating the Probability of Default, Loss Given Default and Exposure at Default for a sample of the models. 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. We tested the assumptions and inputs used in the ECL models with the support of our internal modelling and economic specialists. In particular, we challenged the correlation and impact of the macroeconomic factors to the ECL and independently recalculated critical components of the ECL. In addition, we assessed the base and alternative economic scenarios, including challenging probability weights and comparing to other scenarios from a variety of external sources, as well as EY internally developed forecasts. We challenged the criteria used to allocate an asset to stage 1, 2 and 3 in accordance with IFRS 9 and substantively reperformed in full the staging calculation to ensure that assets in stages 1, 2, and 3 were allocated to the appropriate stage.	needed to the criteria to result in a material difference. We ensured that the Audit Committee were aware of where we considered the most significant judgments to have been made in respect of the economic scenarios used, the weightings applied to scenarios, and the utilisation of PMAs to capture the risk of factors such as interest rate risk and inflation. We communicated that ultimately the considerations made by management in these areas meant that the ECL was reasonably stated. Other PMAs recorded by Management were appropriate and complete. Our testing of models and model assumptions identified no significant matters.

<table>
<tr><th>Risk</th><th>Our response to the risk</th><th>Key observations communicated to the Audit Committee</th></tr>
<tr><td></td><td>We challenged PMAs for appropriateness and completeness using our knowledge and experience across the industry. We performed testing over material PMAs together with our internal modelling specialists. We undertook analysis and benchmarking to assess whether sufficient consideration was given to the uncertainty arising as a result of inflationary and interest rate pressures on borrowers, which may not be captured in modelled outputs given limitations over historic data.

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.

We assessed the adequacy and appropriateness of disclosures for compliance with the accounting standards</td><td></td></tr>
<tr><td colspan="3">Effective Interest Rate Accounting</td></tr>
<tr><td>EIR Adjustment (2023: £108m, 2022: £112m)

Refer to notes 2,3 and 13 of the Consolidated Financial Statements (pages 59, 60 & 66)

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 and store 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.
The risks, as we see them, are that:</td><td>We assessed the design effectiveness of key controls across the processes relevant to the EIR calculation process.
We considered the completeness and accuracy of data inputs into the models by:

(i) inspecting reconciliations from the general ledger to the source systems; and subsequently from the general ledger to the enterprise data warehouse.
(ii) testing the data used in the EIR calculation by independently reconciling a sample of data feeding the model from the source system.

We tested the appropriateness of Management's assumptions by:
(i) Reviewing the methodology to ensure that all key variables were appropriately considered and were being accounted for in accordance with the applicable accounting standards.</td><td>We are satisfied that the assumptions used in determining the EIR asset balance are reasonable and in accordance with the applicable accounting framework.

We are satisfied with the completeness and accuracy of data used within the EIR models.</td></tr>
</table>

Risk	Our response to the risk	Key observations communicated to the Audit Committee
(a) the data used in making the estimate is not complete and accurate; (b) the judgements made are not appropriate; and (c) the calculation methodology is not applied correctly. 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.	(ii) Comparing judgements to:(a) observable recent customer behaviour, including those which captures the post Covid-19 behaviour; and (b) product pricing models. (iii) Testing for indications of Management bias through:(a) Comparison of customer behaviour to observable market data;(b) review of judgements made by Management for consistency with prior periods where appropriate; (c) performing a sensitivity analysis over the impact of alternative behavioural lives and challenging the current behavioural lives used; and (d) challenging model alignment adjustments ("true-ups") for appropriateness using our knowledge and experience across the industry, including assessing the appropriateness of the data, scenarios and calculations used in the determining the true-up applied. We tested the application of the calculation methodology by: (i) Engaging our internal modelling specialists to test whether the variables and assumptions stated in Management's methodology documentation are implemented in management's models; (ii) Engaging our internal modelling specialists to assess the macros that are used to input the raw data and perform the related calculations in the model files; (iii) Performing testing on the year-end calculation of EIR, including the underlying data integrity, the clerical accuracy of the calculation, and the application of relevant assumptions.	
Valuation of intangible assets		
Intangible Assets – Net Book Value (2023: £179m, 2022: £ 191m)	We obtained an understanding of the Bank's plans and considered the related risks when designing and executing our	We are satisfied that the valuation of intangible assets is reasonable and recognised in accordance with the applicable reporting framework

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Refer to Note 19 of the Consolidated Financial Statements (page 77) The Bank has embarked on a number of initiatives as a result of the strategic changes announced in September 2019. Additionally, the Bank continues to update their forecasts as the wider macro-economic environment changes. These changes have the potential to impact the valuation of existing intangible asset balances, as well as the capitalisation of future costs incurred. The risks, as we see them, are that: (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; and (b) The judgements made are not appropriate, including those related to future forecasts and the resulting impairment assessment.	planned audit procedures over impacted balances. We obtained an understanding of the key controls in place over the intangible asset process, including capitalisation and the impairment assessment. We assessed the design and operating effectiveness of those key controls identified. We reviewed and challenged Management's forecasts at a product level to identify risk areas within these. 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. We also reviewed historical performance against budget to conclude on the accuracy of the Bank's budgeting process. We obtained Management's indicators of impairment assessment that was prepared at year-end, and performed a review, critically assessing whether there had been either: (i) Any indicators of impairment that would require the bank to perform a full impairment assessment to determining whether any of its assets are impaired (ii) Any indication that the impairment loss recognised in the prior period may no longer exist or may have decreased (i.e., reversal of impairment) In instances where indicators of impairment were identified at a product level, we obtained and reviewed Management's impairment assessment. We undertook an analysis of the updated cash flow forecasts to identify key assumptions in the impairment calculation and whether these appropriately considered the impacts of cannibalisation and the related economic uncertainty. This included challenging the impacts of	based on our procedures performed. We raised several challenges with management, primarily relating to the forecasted cashflow for one specific asset held on the balance sheet where there were indicators of impairment. Specifically, we challenged the forecasted sales growth, the time period used by management over which cashflows are forecasted, the discount rate used, and judgements made in respect of how the launch of new products may impact upon future cashflows from existing products. We communicated what we considered to be reasonable movements in assumptions and cashflows and how these could result in an impairment. However we communicated that we were satisfied that Management's view was within an acceptable range of outcomes. Overall, we are satisfied that management have appropriately assessed the required indicators of impairment. We concur with management's assessment that there is no impairment of intangible assets, and we consider the overall intangible balance to be appropriately stated.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
	strategic management initiatives on future forecasted periods. We assessed the methodology applied by Management in overhead allocation and in calculating the headroom available. We undertook stress testing over the related key assumptions and then assessed the impact on the impairment assessment calculations. We assessed the useful economic lives assigned to a sample of intangibles assets to determine whether 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. 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. We performed testing over additions to, and disposals from the intangible asset register, as well as additions to WIP to confirm only spend that meets the capitalisation criteria is included within the register. 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 any changes in strategic direction during the year.	
Reliance on the processes and controls of third-party service providers		
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	We performed procedures to obtain an understanding of the processes which are outsourced to third-parties and their impact on the financial statements.	We obtained reasonable assurance over the Bank's processes and controls over the completeness and

Risk	Our response to the risk	Key observations communicated to the Audit Committee
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. 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: (a) not mitigated by compensating controls within the Bank's own control environment; and (b) not appropriately quantified by the Bank. 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.	We made inquiries of Management to understand the process through which the Bank: (i) Monitors control effectiveness at third parties; and (ii) Performs control activities over the completeness and accuracy of data received from third parties 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. We reviewed the assessment performed by Management over the third-party service provider control reports, including: (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 (ii) Management's evaluation of any ineffective controls within the control reports. 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	accuracy of data received from third parties. We inspected the SOC reports and are satisfied that Management have responded appropriately to relevant control deficiencies. We have also assessed the implementation of the appropriate complimentary end user controls where necessary.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
	and performed incremental substantive testing procedures in order to obtain reasonable assurance over account balances.	

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 Group to be £6.2m which is 1.5% of gross margin. We have not provided prior year comparatives for materiality thresholds because previously the Group has not presented consolidated financial information. We believe that gross margin provides us with an appropriate basis for materiality as the Group is composed of profit-orientated entities. This basis is consistent with the basis used for materiality in previous periods for the Parent Company financial statements when a consolidated Group position was not reported.

We determined materiality for the Parent Company to be £4.3m (2022: £3.6m), which is 1.5% (2022: 1.5%) of gross margin.

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 Group's overall control environment, our judgement was that performance materiality was 75% of our planning materiality, namely £4.7m. We have set performance materiality at this percentage due to a limited history of misstatements or significant control deficiencies.

Reporting threshold

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

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.3m which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

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

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the 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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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...], 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 group and parent 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 group or the parent 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.

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

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and determined that the most significant are the regulations, licence conditions and supervisory requirements of the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) and the Companies Act 2006.
- We understood how Sainsbury's Bank plc is complying with those frameworks 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.
- We assessed the susceptibility of the group's financial statements to material misstatement, including how fraud might occur by assessing the controls that have established to address risks of fraud identified by the Bank, or that otherwise seek to prevent, deter, or detect fraud. We also considered performance and incentive plan targets and their potential to influence Management to manage 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 the company on 16 August 2017 to audit the financial statements for the year ending 28 February 2018 and subsequent financial periods.
- The period of total uninterrupted engagement including previous renewals and reappointments is 6 years, covering the years ending 28 February 2018 to 28 February 2023.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company and we remain independent of the group and the parent 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.

Ernst & Young LLP

Blake Adlem (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Edinburgh
26 April 2023

Consolidated Income Statement

For the year-ended 28 February 2023

	Note	2023 £m	2022 £m
Interest income	3	**394**	322
Interest expense	3	**(74)**	(43)
Net interest income		**320**	279
Fees and commissions income	4	**109**	103
Fees and commissions expense	4	**(10)**	(29)
Net fees and commissions income		**99**	74
Other operating income	5	**28**	6
Total income		**447**	359
Administrative expenses	6	**(266)**	(256)
Impairment of Intangible and Tangible assets			
Property, plant and equipment	20	**-**	(1)
Depreciation and amortisation			
Property, plant and equipment	20	**(1)**	(2)
Intangible assets	19	**(31)**	(21)
Operating expenses		**(298)**	(280)
Impairment losses on financial assets	13	**(107)**	(62)
Realised gains on financial instruments	7	**1**	2
Fair value gains on financial instruments	7	**1**	2
Profit before taxation		**44**	21
Analysed as:			
Underlying profit before tax		**49**	37
Non-underlying items	8	**(5)**	(16)
		44	21
Taxation	12	**(11)**	(3)
Profit for the financial year attributable to the owners of the Group		**33**	18

The accompanying notes on pages 52 to 117 form part of these financial statements.

Consolidated statement of comprehensive income

For the year ended 28 February 2023

	Note	2023 £m	2022 £m
Profit for the financial year		**33**	18
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Financial assets fair value movements	30	**2**	-
FVOCI gains recycled to income statement	30	**(1)**	(2)
Total other comprehensive income, net of tax		**1**	(2)
Total comprehensive income / (expense)		**34**	16

All amounts are attributable to the owners of the Bank.

The accompanying notes on pages 52 to 117 form part of these financial statements.

Consolidated Balance Sheet
As at 28 February 2023

		The Group		The Bank	
		2023	2022	**2023**	2022
	Note	**£m**	£m	**£m**	£m
Assets					
Cash, balances with central banks and other demand deposits	15	**546**	387	**499**	346
Loans and advances to banks	16	**100**	121	**100**	121
Derivative financial instruments	17	**99**	35	**47**	19
Investment securities	18	**741**	443	**741**	443
Loans and advances to customers	13	**5,293**	5,067	**4,555**	4,311
Investments in subsidiaries	21	**-**	-	**325**	325
Intangible assets	19	**179**	191	**147**	162
Property, plant and equipment	20	**9**	9	**9**	9
Other assets	22	**242**	283	**691**	700
Total assets		**7,209**	6,536	**7,114**	6,436
Liabilities					
Customer accounts	23	**4,735**	4,235	**4,735**	4,235
Other deposits	24	**1,212**	1,024	**1,212**	1,024
Subordinated liabilities	25	**122**	179	**122**	179
Derivative financial instruments	17	**53**	19	**53**	19
Other liabilities	26	**190**	173	**144**	113
Provisions for liabilities and charges	27	**31**	28	**12**	9
Total liabilities		**6,343**	5,658	**6,278**	5,579
Equity					
Called up share capital	28	**701**	701	**701**	701
Retained earnings	29	**163**	176	**133**	155
Other reserves	30	**2**	1	**2**	1
Total equity		**866**	878	**836**	857
Total equity and liabilities		**7,209**	6,536	**7,114**	6,436

Retained profit for the year of £23m (2022: £6m) is attributable to the Bank.

The financial statements on pages 52 to 117 were approved by the Board of Directors on 26 April 2023 and signed on its behalf by:

Mike Larkin (Apr 26, 2023 18:33 GMT+1)

Michael Larkin
Director and Chief Financial Officer

The accompanying notes on pages 52 to 117 form part of these financial statements.

Sainsbury's Bank plc – Company number 3279730

Consolidated statement of changes in equity

For the year ended 28 February 2023

The Group	Note	**Called up share capital £m**	**Retained earnings £m**	**Other reserves £m**	**Total equity £m**
As at 1 March 2022		**701**	**175**	**1**	**877**
Profit for the financial year		**-**	**33**	**-**	**33**
Capital reduction		**-**	**-**	**-**	**-**
Other comprehensive income:					
Financial assets fair value movements (FVOCI)	30			**2**	**2**
FVOCI gains recycled to income statement	30	**-**	**-**	**(1)**	**(1)**
Total comprehensive income		**-**	**33**	**1**	**34**
Transactions with owners:					
Share-based payment (net of tax)		**-**	**5**	**-**	**5**
Dividends Paid		**-**	**(50)**	**-**	**(50)**
At 28 February 2023		**701**	**163**	**2**	**866**

The Group	Note	Called up share capital £m	Retained earnings £m	Other reserves £m	Total equity £m
As at 1 March 2021		901	(47)	3	857
Profit for the financial year		-	18	-	18
Capital reduction		(200)	200	-	-
Other comprehensive income:					
FVOCI gains recycled to income statement	30	-	-	(2)	(2)
Total comprehensive income		(200)	218	(2)	16
Transactions with owners:					
Share-based payment (net of tax)		-	4	-	4
At 28 February 2022		701	175	1	877

All amounts are attributable to the owners of the Group.

The accompanying notes on pages 52 to 117 form part of these financial statements.

Sainsbury's Bank statement of changes in equity

For the year ended 28 February 2023

The Bank	Note	**Called up share capital £m**	**Retained earnings £m**	**Other reserves £m**	**Total equity £m**
As at 1 March 2022		**701**	**155**	**1**	**857**
Profit for the financial year		-	**23**	-	**23**
Capital reduction		-	-	-	-
Other comprehensive income:					
Financial assets fair value movements (FVOCI)	30			**2**	**2**
FVOCI gains recycled to income statement	30	-	-	**(1)**	**(1)**
Total comprehensive income		-	**23**	**1**	**24**
Transactions with owners:					
Share-based payment (net of tax)		-	**5**	-	**5**
Dividends Paid		-	**(50)**	-	**(50)**
At 28 February 2023		**701**	**133**	**2**	**836**

The Bank	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

All amounts are attributable to the owners of the Bank.

The accompanying notes on pages 52 to 117 form part of these financial statements.

Consolidated Cash flow statement

For the year ended 28 February 2023

		The Group		The Bank	
		2023	2022	**2023**	2022
	Note	**£m**	£m	**£m**	£m
Profit/(Loss) before taxation		**44**	21	**31**	8
Non-cash and other items included in profit before taxation		**153**	102	**87**	53
Change in operating assets and liabilities		**167**	(702)	**231**	(668)
Income tax payments		**(4)**	-	**(4)**	-
Cash flows (used in) / generated from operating activities	14	**360**	(579)	**345**	(607)
Purchase of equipment		**(1)**	(1)	**(1)**	(1)
Purchase of intangibles		**(20)**	(49)	**(11)**	(26)
Cash flows used in investing activities		**(21)**	(50)	**(12)**	(27)
Interest paid on subordinated liabilities		**(9)**	(11)	**(9)**	(11)
Dividend Paid		**(50)**	-	**(50)**	-
Repayment of subordinated liabilities		**(175)**	-	**(175)**	-
Issuance of subordinated liabilities		**120**	-	**120**	-
Lease payments		**(1)**	(2)	**(1)**	(2)
Cash flows used in financing activities		**(115)**	(13)	**(115)**	(13)
Change in cash and cash equivalents		**224**	(642)	**218**	(647)
Opening cash and cash equivalents		**422**	1,064	**381**	1,028
Closing cash and cash equivalents		**646**	422	**599**	381

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

	The Group		The Bank	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
Cash, balances with central banks and other demand deposits	**546**	387	**499**	346
Less: mandatory reserve deposit held at central banks	**(15)**	(15)	**(15)**	(15)
	531	372	**484**	331
Loans and advances to banks	**-**	25	**-**	25
Investment securities	**115**	25	**115**	25
	646	422	**599**	381

The accompanying notes on pages 49 to 115 part of these financial statements.

Notes to the financial statements

1. Basis of Preparation

The Sainsbury's Bank consolidated financial statements represent the year ended 28 February 2023 and incorporate the financial statements of the Bank and the entities it controls. These financial statements have been prepared in accordance with UK adopted international accounting standards.

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

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

The Group has elected to take the exemption under section 408 of the Companies Act 2006 and therefore does not present the Income Statement and Statement of Comprehensive Income of the Bank on a standalone basis.

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 Group's current and projected performance. The Directors are satisfied that the Group 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 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 Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.

The risk management framework as described in the strategic report on page 21 is considered adequate in managing liquidity and other key risks in the current environment. The Group 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 Group. Further information on the key financial risks of the business can be found in note 33.

The Bank is a wholly-owned subsidiary of J Sainsbury plc and the Group results are included in the consolidated financial statements of J Sainsbury plc which are publicly available.

Foreign currencies

The Bank and Consolidated financial statements are presented in sterling which is the Group'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 Group 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 Group manages the risks relating to the underlying financial assets, including whether the Group's principal objective is to collect the contractual cashflows arising from the instruments (amortised cost), to sell the financial instruments (FVPL) or a combination thereof (FVOCI).

The Group'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 Group'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 Group's original expectations, the Group 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 Group assesses the contractual cashflow characteristics of financial assets to identify whether they can be considered solely payments of principal and interest (the SPPI test).

1. Basis of Preparation *(continued)*

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 Group 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 Group's financial liabilities are recognised at amortised cost. Derivatives are classified as FVPL.

Basis of consolidation
The consolidated financial statements of the Group comprise the financial statements of the Bank and all consolidated subsidiaries.

Subsidiaries
Subsidiaries are all entities, including special purpose entities, over which the Group has control. This is when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The results of subsidiaries are included in the income statement from the date of acquisition or, in the case of disposals, up to the effective date of disposal. Intercompany transactions and balances between Group companies are eliminated upon consolidation.

The consolidated subsidiaries of the Bank are as follows:
- Home Retail Group Card Services Ltd
- Home Retail Group Insurance Services Ltd
- ARG Personal Loans Ltd
- Drury Lane Funding 2020-1 plc

Standards and interpretations effective for the Company in these financial statements:
No new standards or interpretations became effective in the period or in the prior year that have a material impact on the Group.

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 Group or Bank's financial statements in future periods:
— IFRS 17 'Insurance Contracts'
No other interpretation or amendment effective in a future period has a material impact on the Company or Group

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, capitalisation of intangible assets and effective yield.

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.

2. Critical accounting estimates and judgements *(continued)*

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

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

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

The Group 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 Group's definition of default is used in determining those accounts classified as stage 3 (i.e. credit impaired). The Group 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 Group has also defined a number of unlikeliness to pay criteria that result in an account being deemed to have defaulted. These include:

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

Where an account no longer meets any of the default criteria, such as by bringing payments back up to date, the Group will continue to consider the account as being in default for the probation period (24 months for Loans and Cards, and 12 months for Storecards) from the date when it last met the definition of default.

IFRS 9 staging and management of credit risk
The Group'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 Group from losses, including the financial impacts of balances moving from stage 1 to stages 2 and 3, however we have since reversed our tightening strategy.

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 Group 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.

2. Critical accounting estimates and judgements *(continued)*

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

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

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

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

Overlays and PMAs applied in estimating the reported ECL at 28 February 2023 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.

	The Group		**The Bank**	
	2023	2022	2023	2022
	£m	£m	£m	£m
Economic overlays	**1**	5	2	2
Operational PMAs	**(4)**	10	(16)	9
Total	**(3)**	15	(14)	11

The proportion of net overlays and PMAs for the Group is -1% of the total ECL provision as at 28 February 2023 (2022: 7%).

Economic overlays are included where management judge the underlying models do not respond adequately to the economic scenarios. In the year, the Group introduced a new economic overlay of £5m (2022: £nil) in response to the ***cost of living crisis and the potential impact of inflation*** on customers' ability to repay debts. As current levels of inflations are the highest experienced in over 40 years, certain models have not been calibrated on such extreme values whilst others don't include inflation as an economic variable. Where appropriate, the modelled impact of inflation has been removed and overlays have been included to ensure the expected impacts of inflation are reflected in the provisions. Additionally, a £3m overlay was recognised in respect of ***interest rates*** as the models have been built using data from the recent historic low period for interest rates and do not adequately respond to the current economic forecasts in a higher rate environment. Finally, a £6m reduction in ECL was recognised via overlay in acknowledgement that the Group's economic scenarios of ***unemployment*** and ***GDP***, taken at December 2022 in order to be incorporated into the models, were overly pessimistic comparted to consensus views of the economic outlook as at 28 February 2023. As at February 2023 our base scenario showed peak unemployment of 5.7% in Q1 2025 whereas the Bank of England forecast predicted 5.2% at that time. Similarly, our GDP view of -1% in early 2023 was more pessimistic than the Bank of England's -0.5%.

In the year, the Group released the economic overlay relating to ***Covid-19 uncertainties*** (2022: £10m overlay recognised) as the residual risks associated with the pandemic are no longer considered likely.

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

Management use of ECL information
ECL forecasts and sensitivities are used in assessing the expected returns on different forms of lending and forms part of the assessment of whether 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 Group has engaged an external supplier to provide economic forecasts which are subject to review, challenge and approval through the Group's governance processes.

For the year ended 28 February 2023, the Group commissioned economic scenarios which considered a range of plausible but alternative economic conditions that could arise in relation to the ongoing impacts of the cost of living crisis and current economic uncertainty.

The ECL models utilise 4 scenarios (2022: 4 scenarios) including a 'base case' scenario considered to be the most likely outcome together with an upside, downside and severe downside scenario. The base case has been assigned a probability weighting of 40% with the upside, downside and severe downside scenarios weighted 30%, 25%, 5% respectively (2022: base scenario 45%, upside, downside and severe downside scenarios were 35%, 15% and 5% respectively).

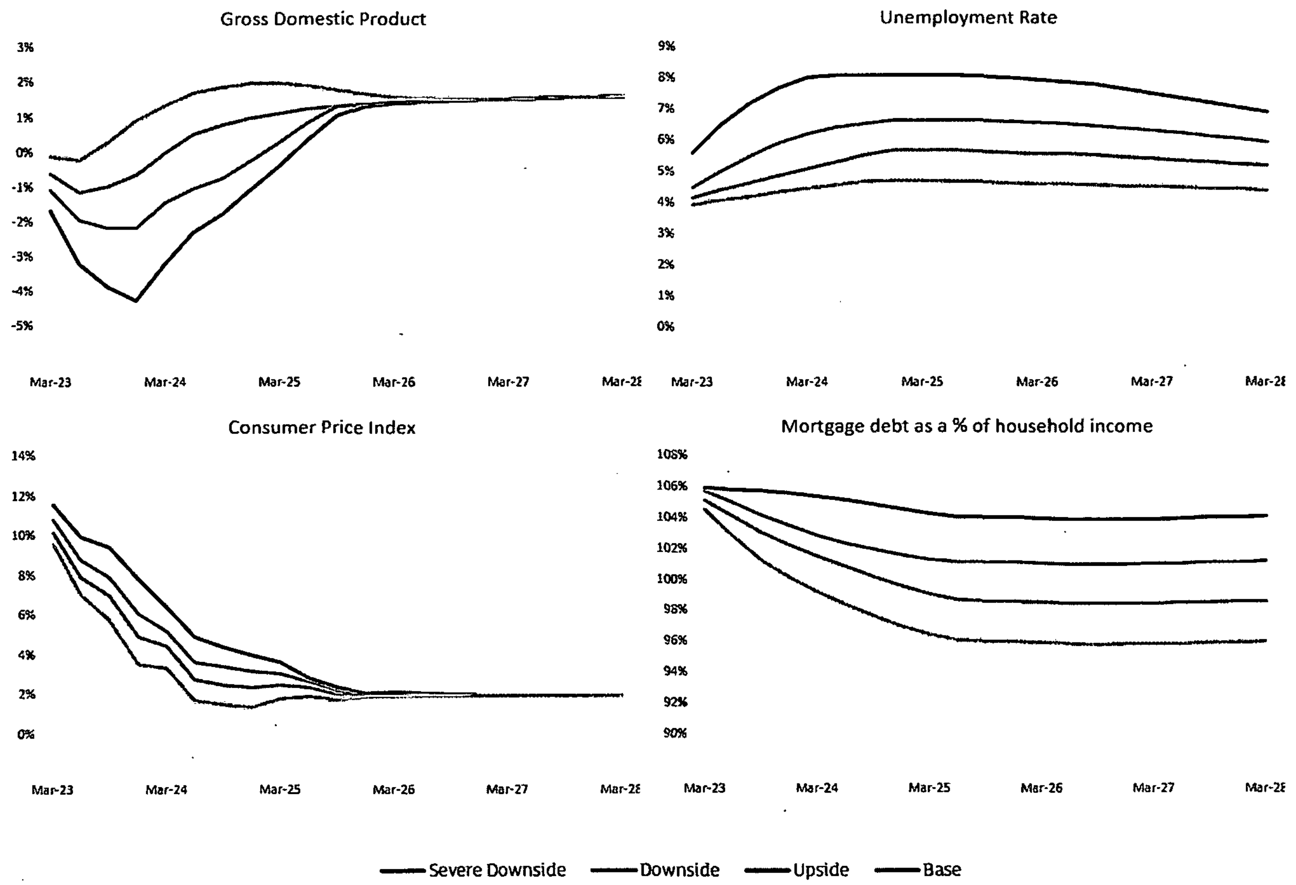
Each portfolio, when modelled for IFRS9, showed different characteristics with predictive tendencies and this is the key driver for using different economic variables across portfolios. Unsecured products place greater weighting on unemployment rates, GDP and inflation, whereas our secured portfolio includes reference to house prices and levels of mortgage debt.

Approval and governance of the Group 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 variables, such as unemployment and CPI rates.

Beyond the 5 year forecast period, forecast economic variables are assumed to revert to long term averages, with the exception of unemployment which is expected to experience a gradual return to 4% by 2034. They are applied in ECL models for the remaining residual behavioural life of the related financial instruments, which can also exceed 5 years.

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 5.70% in Q4 2024 before reverting to the long-term average in Q1 2034 and a spike in CPI of 10.71% in the 4th 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).

2. Critical accounting estimates and judgements *(continued)*

Scenario 5 Year Averages	As at 28 February 2023			
	Base	**Upside**	**Downside**	**Severe Downside**
	%	**%**	**%**	**%**
Unemployment rate	**5.3**	**4.5**	**6.2**	**7.6**
Consumer price growth	**3.4**	**2.9**	**3.8**	**4.3**
GDP	**0.8**	**1.4**	**0.3**	**(0.3)**
Mortgage debt as a percentage of household income	**99.9**	**97.6**	**102.0**	**104.5**
Real household disposable income	**0.8**	**1.2**	**0.2**	**(0.3)**
Probability weighting	**40**	**30**	**25**	**5**
Sensitivity analysis				
Increase (decrease) in gross balance stage allocation under 100% probability weighting:				
Stage 1	**£15.7m**	**£90.7m**	**£(95.5)m**	**£(330)m**
Stage 2	**£(15.7)m**	**£(90.7)m**	**£95.5m**	**£330m**
Increase (decrease) on ECL provision under 100% probability weighting	**£(2.5)m**	**£(12.5)m**	**£12.9m**	**£44.5m**
Unsecured	**£(2.5)m**	**£(12.5)m**	**£12.9m**	**£44.3m**
Secured	**(£0.0)m**	**£(0.0)m**	**£0.0m**	**£0.2m**

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) in gross balance stage allocation under 100% probability weighting:				
Stage 1	£14.4m	£82.0m	£(86.4)m	£(300.0)m
Stage 2	£(14.4)m	£(82.0)m	£86.4m	£300.0m
Increase (decrease) on ECL provision under 100% probability weighting	£(3.8)m	£(7.4)m	£9.7m	£30.6m
Unsecured	£(3.8)m	£(7.4)m	£9.7m	£30.4m
Secured	£(0.0)m	£(0.0)m	£0.0m	£0.2m

The significant changes in the base scenario reflect current uncertain conditions, with concerns of potential recession and spikes in inflation and interest rates. This contrasts with the prior year which saw the outlook improving following the Covid-19 pandemic, with higher levels of unemployment not materialising to the extent predicted.

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

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

2. Critical accounting estimates and judgements *(continued)*

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.

Details of any 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 Group takes into account all amounts that are integral to the yield of a financial instrument as well as incremental transaction costs. In the case of loans and advances to customers significant judgement is applied in estimating the effect of various factors, including future customer transactional and repayment behaviours, on future cash flows. As at 28 February 2023 the carrying value of the EIR asset was £108m (2022: £112m).

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

To the extent that post promotional yield were to shift by +/- 100bps, the value of EIR asset would change by +/- £5m. To the extent that the repayment rate were to increase by +/-5% the value of the EIR asset would change by +/- £2.5m.

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 for derivatives in a hedge accounting relationship. 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 is included within Interest expense on customer accounts, deposits and borrowings.

The Group	**2023 £m**	2022 £m
Interest income calculated using the effective interest rate method:		
Interest income on financial assets measured at amortised cost	**366**	319
Interest income on financial assets measured at FVOCI	**13**	2
Interest income on derivatives	**15**	-
Other interest income	**-**	1
Interest receivable	**394**	322
Interest expense on customer accounts, deposits and borrowings	**(62)**	(16)
Interest expense on subordinated liabilities	**(12)**	(11)
Interest expense on derivatives	**-**	(16)
Interest payable	**(74)**	(43)
Net interest income	**320**	279

4. Net fees and commissions income

Accounting policy

<u>Fees and commissions income</u>
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 Group 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 Group 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.

The Group	**2023 £m**	2022 £m
Banking income	**72**	62
Insurance income	**36**	39
Other income	**1**	2
Total fees and commission income	**109**	103
Fees payable	**(10)**	(29)
Total fees and commission payable	**(10)**	(29)
Net fees and commission income	**99**	74

Capitalised costs incurred to obtain contracts in the year were £2m (2022: £5m) and the unamortised balance as at the reporting date, included within other assets in note 22 was £5m (2022: £7m). 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 (2022: £4m).

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.

The Group	**2023 £m**	2022 £m
Travel Money income	**28**	6
Other operating income	**28**	6

Other operating income relates to the Bank's sale of foreign currency and related products through its Travel Money business. Income increased in the year as there were minimal travel restrictions compared to 2022 when restrictions resulted in Travel Money bureaux being closed for part of the period.

6. Administrative expenses

The Group	**2023 £m**	2022 £m
Staff costs:		
Wages and salaries	**(74)**	(71)
Social security costs	**(9)**	(8)
Pension costs	**(4)**	(5)
Share-based payments	**(5)**	(4)
	(92)	(88)
Other operating costs	**(174)**	(168)
	(266)	(256)

Staff costs and other operating costs include £6m (2022: £17m) 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

The Group	**2023 £m**	2022 £m
Realised gains on derecognition	**1**	2
Fair value gains on derivatives not in an effective hedge relationship	**1**	2

Further detail on the Group'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 Group's profit before taxation are of an unusual and infrequent nature and do not relate to the Group'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 Group. Underlying profit is not defined by IFRS and therefore may not be directly comparable with the 'adjusted' profit measures of other companies.

The Group	**2023** **£m**	2022 £m
Impairment of Intangible and Tangible assets	-	(1)
New Bank Programme transition costs	-	(12)
Provisions	**(3)**	-
Strategic initiatives	**(3)**	(5)
Total non-underlying items - Costs	**(6)**	(18)
Fair value gains on hedge ineffectiveness of derivatives in hedge relationship	**1**	2
Total non-underlying items - Gains / losses on financial instruments	**1**	2
Total non-underlying items	**(5)**	(16)

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

Provisions relate to liabilities arising from the historic New Bank Programme transition. As these are material and relate to a historic time period, they are recognised outside of underlying profit in order to provide a clear and consistent view of the Group's underlying performance. For more detail see note 27 on provisions.

In the year to 28 February 2023, costs relating to strategic initiatives reflect one off projects to simplify the business and drive efficiencies and predominantly is consultancy costs. In the year to 28 February 2022 strategic initiatives principally related 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.

9. Employees

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

The Group	**2023** **Number**	2022 Number
Full time	**1,299**	**1,265**
Part time	**924**	**851**
	2,223	**2,116**
Full time equivalent	**1,803**	**1,752**

Colleague costs are disclosed in administrative expenses in note 6.

Included in average colleague headcount were 87 Travel Money colleagues (2022: 203) who were seconded to the Sainsbury's retail business, with the related costs being recharged. Further details on recharges is provided in note 27.

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 Group 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 Group was entirely in relation to the defined contribution schemes.

10. Director's emoluments

The Bank	2023 £m	2022 £m
Emoluments	**2.1**	3.5
Share-based payments	**1.1**	1.1
	3.2	4.6
Highest paid director:		
Emoluments	**1.0**	1.8
Share-based payments	**0.7**	0.7
	1.7	2.5

The Directors' positions and remuneration status are set out in the Directors' report on page 31. The emoluments set out above include those Directors who held office during the year.

All executive Directors were employed and remunerated by the Group.

During the year two Directors (2022: two) received share awards under J Sainsbury plc share incentive schemes reflective of their qualifying services. Two Directors (2022: none) exercised share options in the year including the highest paid Director. Further detail of the relevant incentive plans is outlined in note 37.

During the year two Directors (2022: two) accrued retirement benefits in respect of qualifying services under defined contribution schemes. No directors (2022: 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 31 for further details.

11. Profit / (loss) before taxation

The Group	2023 £m	2022 £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	**-**	-
Impairment loss	**(0.1)**	(1.3)
Auditors' remuneration:		
Statutory audit of the Group	**(1.2)**	(1.1)

Audit-related assurance services were also performed by the Statutory Auditors during the year in respect of assurance work over consolidated management information and providing comfort in respect of figures included in a prospectus for the issuance of subordinated debt. Fees for this work totalled £0.15m (2022: £0.03m assurance over balances prepositioned with the Bank of England).

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.

The Group	**2023** **£m**	2022 £m
UK corporation tax on profit for the year	**7**	3
Adjustments in respect of prior years	**(2)**	-
Current tax	**5**	3
Deferred tax charge		
Change in tax rate	**-**	(3)
Origination and reversal of temporary differences	**2**	1
Adjustments in respect of prior years	**4**	2
Deferred tax	**6**	-
Total tax charge	**11**	3

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:

The Group	**2023** **£m**	2022 £m
Profit/(Loss) before taxation	**44**	21
Tax on ordinary activities at 19% (2022: 19%)	**8**	4
Effects:		
Change in Corporation Tax rate	**-**	(3)
Non-deductible expenses	**1**	-
Adjustment in respect of prior years	**2**	2
Total income tax (credit) recognised in the income statement	**11**	3

In the current period, the substantively enacted UK Corporation tax rate applicable to the company was 19% (2022: 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.

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.

It was announced on 27 October 2021 that the UK banking surcharge will decrease from 8% to 3% from 1 April 2023 and that the surcharge allowance available to banking groups would increase from £25m to £100m. This legislation was enacted on 24 February 2022.

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.

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 Group 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. Further details on these critical accounting judgements can be found in note 2.

Undrawn commitments

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

The Group 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 Balance Sheet. The ECLs in relation to undrawn commitments are disclosed in note 32. 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

Notes to the financial statements *(continued)*

13. Loans and advances to customers *(continued)*

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

	The Group		The Bank	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
Gross advances	**5,577**	5,286	**4,683**	4,429
Impairment	**(239)**	(203)	**(135)**	(118)
Adjustment in relation to fair value hedging	**(45)**	(16)	**7**	-
Loans and advances to customers	**5,293**	5,067	**4,555**	4,311
Gross advances being:				
Repayable on demand	**2,388**	2,031	**1,949**	1,624
Other loans and advances repayable:				
In 3 months or less	**531**	382	**222**	199
Between 3 months and 1 year	**662**	789	**519**	524
Between 1 and 5 years	**1,459**	1,409	**1,456**	1,408
After 5 years	**537**	675	**537**	674
	5,577	5,286	**4,683**	4,429

	The Group		The Bank	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
Individuals:				
Secured Lending	**581**	782	**581**	781
Unsecured Lending	**4,996**	4,504	**4,102**	3,648
Gross loans and advances to customers	**5,577**	5,286	**4.683**	4,429

Eligible personal and mortgage loans with applicable haircuts are used as collateral for the Group'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 2023 £414m (2022: £558m) of Personal Loans assets and £459m (2022: £626m) of Mortgage assets were pledged to the Bank of England facilitating funding of £660m (2022: £661) from the TFSME and £nil (2022: £225m) 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.

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 28 February 2023, the Bank had pledged £621m (2022: £621m) of personal loans to the SPV. Of the A notes held by the Bank £200m (2022: £200m) have been pre-positioned with the Bank of England to support the funding facilities outlined in the previous paragraph of which £80m (2022: £80m) was encumbered.

As at the 28 February 2023, the Bank had also pledged £nil (2022: £28m) of the A note as collateral in a repurchase agreement and £111m (2022: £28m) in a collateral swap. These are backed by £137m (2022: £69m) of personal loans generating £88m (2022: £50m) of funding.

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. The below reconciliations include expected credit losses on Gross Exposures and loan commitments, whereas the gross carrying amount is on balance sheet exposures only.

Notes to the financial statements *(continued)*

13. Loans and advances to customers *(continued)*

Unsecured allowance for impairment losses measured under IFRS 9

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

Unsecured Lending	Non-credit-impaired Stage 1		Stage 2		Credit-impaired Stage 3		Total	
The Group	GCA £m	ECL £m	GCA £m	ECL £m	GCA £m	ECL £m	GCA £m	ECL £m
As at 1 March 2022	3,823	(43)	513	(56)	168	(119)	4,504	(218)
of which Impairment on Gross Balance		(32)		(48)		(119)		(199)
of which Undrawn commitments Impairment		(11)		(8)		-		(19)
Transfers of financial assets:								
To Stage 1	232	(18)	(230)	17	(2)	1	-	-
To Stage 2	(215)	4	217	(4)	(2)	-	-	-
To Stage 3	(55)	2	(42)	10	97	(12)	-	-
Net Transfer between stages		(12)		23		(11)		-
Increases due to originations[1]	1,598	(17)	139	(10)	17	(8)	1,753	(35)
Decreases due to repayments	(1,068)	9	(100)	7	(26)	19	(1,194)	35
Write offs	(2)	-	(17)	4	(49)	33	(68)	37
Changes in credit risk[2]	-	8	-	(28)	-	(58)	-	(78)
As at 28 February 2023	4,313	(55)	480	(60)	203	(144)	4,995	(259)
of which Impairment on Gross Balance		(42)		(53)		(144)		(239)
of which Undrawn commitments Impairment		(13)		(7)		-		(20)

In addition to the natural flow of balances, transfers between stages identified above have also been driven by model calibration applied in the year. Overall, the closing proportion of stage 2 exposures within the unsecured portfolio was lower than at 28 February 2022 reflecting model calibration in respect of SICR criteria.

Unsecured Lending	Non-credit-impaired Stage 1		Stage 2		Credit-impaired Stage 3		Total	
The Group	GCA £m	ECL £m	GCA £m	ECL £m	GCA £m	ECL £m	GCA £m	ECL £m
As at 1 March 2021	3,649	(49)	546	(68)	206	(158)	4,401	(275)
of which Impairment on Gross Balance		(40)		(63)		(157)		(260)
of which Undrawn commitments Impairment		(9)		(5)		(1)		(15)
Transfers of financial assets:								
To Stage 1	95	(10)	(91)	10	(4)	0	-	-
To Stage 2	(201)	18	204	(18)	(3)	0	-	-
To Stage 3	(42)	6	(41)	(1)	83	(5)	-	-
Net Transfer between stages		14		(9)		(5)		-
Increases due to originations[1]	1,055	(17)	42	(7)	12	(4)	1,109	(28)
Decreases due to repayments	(726)	6	(140)	10	(29)	15	(895)	31
Write offs	(4)	-	(6)	1	(100)	79	(110)	80
Changes in credit risk[2]	-	2	-	18	-	(47)	-	(27)
As at 28 February 2022	3,826	(44)	514	(55)	165	(120)	4,505	(219)
of which Impairment on Gross Balance		(34)		(47)		(119)		(200)
of which Undrawn commitments Impairment		(10)		(8)		(1)		(19)

(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).

13. Loans and advances to customers *(continued)*

Unsecured Lending	**Non-credit-impaired**				**Credit-impaired**		**Total**	
	Stage 1		**Stage 2**		**Stage 3**			
The Bank	**GCA £m**	**ECL £m**	**GCA £m**	**ECL £m**	**GCA £m**	**ECL £m**	**GCA £m**	**ECL £m**
As at 1 March 2022	3,121	(24)	433	(30)	93	(69)	3,647	(123)
of which Impairment on Gross Balance		(21)		(26)		(68)		(115)
of which Undrawn commitments Impairment		(3)		(4)		(1)		(8)
Transfers of financial assets:								
To Stage 1	207	(11)	(206)	11	(1)	-	-	-
To Stage 2	(174)	2	175	(2)	(1)	-	-	-
To Stage 3	(28)	-	(23)	4	51	(4)	-	-
Net Transfer between stages		(9)		13		(4)		-
Increases due to originations[1]	1,513	(12)	119	(10)	12	(8)	1,644	(30)
Decreases due to repayments	(1,046)	9	(98)	6	(17)	14	(1,161)	29
Write offs	-	0	(11)	1	(16)	11	(27)	12
Changes in credit risk[2]	-	8	-	(7)	-	(31)	-	(30)
As at 28 February 2023	3,593	(28)	389	(27)	121	(87)	4,103	(142)
of which Impairment on Gross Balance		(23)		(25)		(86)		(134)
of which Undrawn commitments Impairment		(5)		(2)		(1)		(8)

Unsecured Lending	Non-credit-impaired				Credit-impaired		Total	
	Stage 1		Stage 2		Stage 3			
The Bank	GCA £m	ECL £m	GCA £m	ECL £m	GCA £m	ECL £m	GCA £m	ECL £m
As at 1 March 2021	2,903	(28)	463	(40)	137	(109)	3,503	(177)
of which Impairment on Gross Balance		(25)		(38)		(108)		(171)
of which Undrawn commitments Impairment		(3)		(2)		(1)		(6)
Transfers of financial assets:								
To Stage 1	71	(9)	(68)	9	(3)	-	-	-
To Stage 2	(149)	2	152	(2)	(3)	-	-	-
To Stage 3	(15)	(10)	(21)	(14)	36	24	-	-
Net Transfer between stages		(17)		(7)		24		-
Increases due to originations[1]	976	(8)	37	(4)	3	(3)	1,016	(15)
Decreases due to repayments	(661)	2	(124)	3	(20)	12	(805)	17
Write offs	(4)	-	(6)	1	(57)	45	(67)	46
Changes in credit risk[2]	-	26	-	18	-	(38)	-	6
As at 28 February 2022	3,121	(25)	433	(29)	93	(69)	3,647	(123)
of which Impairment on Gross Balance		(21)		(25)		(69)		(115)
of which Undrawn commitments Impairment		(4)		(4)		-		(8)

(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

Secured Lending	Non-credit-impaired Stage 1		Non-credit-impaired Stage 2		Credit-impaired Stage 3		Total	
The Group and Bank	**GCA £m**	**ECL £m**	**GCA £m**	**ECL £m**	**GCA £m**	**ECL £m**	**GCA £m**	**ECL £m**
As at 1 March 2022	**711**	**-**	**61**	**-**	**10**	**(3)**	**782**	**(3)**
of which Impairment on Gross Balance		**-**		**-**		**(3)**		**(3)**
of which Undrawn commitments Impairment		**-**		**-**		**-**		**-**
Transfers of financial assets:								
To Stage 1	**11**	**-**	**(10)**	**-**	**(2)**	**-**	**(1)**	**-**
To Stage 2	**(9)**	**-**	**10**	**-**	**-**	**-**	**1**	**-**
To Stage 3	**(1)**	**-**	**(1)**	**-**	**2**	**-**	**-**	**-**
Net Transfer between stages		**-**		**-**		**-**		**-**
Increases due to originations[1]	**-**	**-**	**0**	**-**	**-**	**-**	**-**	**-**
Decreases due to repayments	**(180)**	**-**	**(18)**	**-**	**(3)**	**-**	**(201)**	**-**
Write offs	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Changes in credit risk[2]		**-**		**-**		**2**		**2**
As at 28 February 2023	**532**	**-**	**42**	**-**	**7**	**(1)**	**581**	**(1)**
of which Impairment on Gross Balance		**-**		**-**		**(1)**		**(1)**
of which Undrawn commitments Impairment		**-**		**-**		**-**		**-**

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.

Secured Lending	Non-credit-impaired Stage 1		Non-credit-impaired Stage 2		Credit-impaired Stage 3		Total	
The Group and Bank	GCA £m	ECL £m	GCA £m	ECL £m	GCA £m	ECL £m	GCA £m	ECL £m
As at 1 March 2021	1,189	-	47	-	11	(3)	1,247	(3)
of which Impairment on Gross Balance		-		-		(3)		(3)
of which Undrawn commitments Impairment		-		-		-		-
Transfers of financial assets:								
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	-	61	-	10	(3)	782	(3)
of which Impairment on Gross Balance		-		-		(3)		(3)
of which Undrawn commitments Impairment		-		-		-		-

(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).

13. Loans and advances to customers *(continued)*

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

The Group	2023 Stage 1 £m	2023 Stage 2 £m	2023 Stage 3 £m	2023 Total £m	2022 Stage 1 £m	2022 Stage 2 £m	2022 Stage 3 £m	2022 Total £m
	Non-credit-impaired							
Transfers of financial assets:								
To Stage 1	**(18)**	**17**	**1**	**-**	(10)	10	-	-
To Stage 2	**5**	**(5)**	**-**	**-**	17	(17)	-	-
To Stage 3	**2**	**10**	**(12)**	**-**	6	(1)	(5)	-
Net Transfer between stages	**(11)**	**22**	**(11)**	**-**	13	(8)	(5)	-
Increases due to originations	**(17)**	**(10)**	**(8)**	**(35)**	(17)	(7)	(4)	(28)
Decreases due to repayments	**9**	**8**	**16**	**33**	8	9	16	33
Write offs	**0**	**4**	**33**	**37**	-	1	79	80
Changes in credit risk	**8**	**(28)**	**(56)**	**(76)**	2	17	(47)	(28)
Movement in ECL allowance	**(11)**	**(4)**	**(26)**	**(41)**	6	12	39	57
Net expected credit loss charge				**(76)**				(22)
Recoveries and write-offs				**(19)**				(29)
C&R charges				**(12)**				(13)
Total Income Statement Charge				**(107)**				(64)

Analysis of Total Stage 2 balances by driver

The Group	2023 Gross balances £m	2023 ECL £m	2022 Gross balances £m	2022 ECL £m
Currently >30 days past due	**35**	**11**	33	10
Currently <30 days past due:				
Breach on PD threshold	**418**	**47**	467	44
Policy Rule Changes	**69**	**3**	73	2
Total Stage 2 at 28 February 2023	**522**	**61**	573	56

The Bank	2023 Gross balances £m	2023 ECL £m	2022 Gross balances £m	2022 ECL £m
Currently >30 days past due	**20**	**5**	20	6
Currently <30 days past due:				
Breach on PD threshold	**342**	**20**	400	23
Policy Rule Changes	**68**	**2**	73	2
Total Stage 2 at 28 February 2023	**430**	**27**	493	31

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.

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

	The Group		The Bank	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
Profit / (loss) before taxation	**44**	21	**31**	8
Non-cash and other items included in profit before taxation				
Impairment losses on loans and advances	**107**	62	**46**	14
Depreciation on property, plant and equipment	**1**	2	**1**	2
Amortisation of intangible assets	**31**	21	**26**	20
Share-based payment expense	**5**	5	**5**	4
Impairment, gains, (losses) and disposals	**-**	1	**-**	2
Interest paid on subordinated liabilities	**9**	11	**9**	11
	153	102	**87**	53
Change in operating assets and liabilities				
Net decrease / (increase) in loans and advances to customers	**(333)**	263	**(290)**	274
Net (increase) in derivative assets	**(65)**	(17)	**(29)**	(17)
Net (increase) in Loans and advances to other banks greater than 3 months	**(4)**	(86)	**(4)**	(86)
Net (increase) / decrease in investment securities greater than 3 months	**(207)**	117	**(207)**	117
Net increase / (decrease) in derivative liabilities	**34**	(10)	**34**	(10)
Net decrease in other assets	**34**	35	**5**	54
Net increase / (decrease) in customer accounts	**500**	(893)	**500**	(893)
Net increase / (decrease) in borrowed funds	**188**	(137)	**188**	(137)
Net (decrease) in other liabilities including provisions	**20**	26	**34**	30
	167	(702)	**231**	(668)
Cash generated from / (used in) operations	**364**	(579)	**349**	(607)
Income taxes paid	**(4)**	-	**(4)**	-
Cash flows generated from / (used in) operating activities	**360**	(579)	**345**	(607)
Operational cash flows from interest				
Interest paid	**(40)**	(51)	**(28)**	(51)
Interest received	**407**	347	**284**	231
	367	296	**256**	180

14. Notes to the cash flow statement *(continued)*

Reconciliation of liabilities arising from financing activities

	The Group		The Bank	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
Subordinated liabilities:				
At 1 March	**179**	179	**179**	179
Issuance of loan notes	**120**	-	**120**	-
Redemption of loan notes	**(175)**	-	**(175)**	-
Non-cash movements	**(2)**	-	**(2)**	-
At 28 February	**122**	179	**122**	179

	The Group		The Bank	
	2022	2022	**2023**	2022
	£m	£m	**£m**	£m
Lease liabilities:				
At 1 March	**3**	5	**3**	5
Lease payments	**(1)**	(2)	**(1)**	(2)
Lease modifications	**-**	-	**-**	-
Lease interest	**-**	-	**-**	-
At 28 February	**2**	3	**2**	3

Restricted cash balances

	The Group		The Bank	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
Bank of England deposit	**15**	15	**15**	15
	15	15	**15**	15

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

	The Group		The Bank	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
Cash and balances with central banks	**471**	329	**471**	329
Other demand deposits	**75**	58	**28**	17
	546	387	**499**	346

The balances with central banks are repayable on demand, with the exception of the £15m (2022: £15m) 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 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.

	The Group and Bank	
	2023	2022
	£m	£m
Reverse repurchase agreements	**100**	50
Fixed Term Funds	**-**	71
	100	121
Other loans and advances to other banks:		
On demand	-	-
In 3 months or less	-	25
Between 3 months and 1 year	**100**	96
	100	121

Under IFRS9, the Group holds an impairment provision for loans and advances to other banks of £nil (2022: nil)

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 Group 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 Group 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 Group has adopted IFRS 9 hedge accounting requirements for fair value hedges of investment securities and its Fixed Rate Debt issuance. These instruments are hedged via plain vanilla interest rate swaps, with the critical

17. Derivative financial instruments *(continued)*

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

To qualify for hedge accounting the Group 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 Group 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 Group's entire derivative portfolio is executed for economic purposes. Under IAS 39 rules, for macro portfolio hedging, some of the Group'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. In October 2022, the Bank entered a £200m short term (<12 month) interest rate swap (2022: £nil) in order to manage the additional volatility experienced in the interest rate environment in late 2022.This swap was not designated into a hedge accounting relationship and therefore movements in fair value are recognised in the income statement without offset.

Foreign currency derivative contracts
Foreign currency exposure arises from currency holdings within the Group's travel money business.

The Group 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 2023, the Group reported a FX derivative asset of £nil (2022: £1m) and a FX derivative liability of £nil (2022: £1m).

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

	The Group			
		Carrying Amount		
	Notional amount £m	Assets £m	Liabilities £m	Ineffectiveness recognised in income statement £m
Interest rate swaps - Hedge of loans and advances				
At 28 February 2023	**2,824**	**98**	**(53)**	**-**
At 28 February 2022	3,226	34	(18)	2

Further detail on the fair value of hedged item can be found in Notes 13 and 25.

17. Derivative financial instruments *(continued)*

	The Bank			
		Carrying Amount		
	Notional amount £m	Assets £m	Liabilities £m	Ineffectiveness recognised in income statement £m
Interest rate swaps - Hedge of loans and advances				
At 28 February 2023	**2,203**	**46**	**(53)**	-
At 28 February 2022	2,614	19	(19)	2

Derivatives not in fair value hedge accounting relationship are as follows

	The Group and Bank		
	Notional amount £m	Assets £m	Liabilities £m
Interest rate swap			
At 28 February 2023	**209**	**1**	-
At 28 February 2022	9	0	-
Foreign currency swap			
At 28 February 2023	**14**	**0**	-
At 28 February 2022	113	1	(1)

The line item in the Balance Sheet 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:

	The Group				
	Maturity				
	Less than 1 month	1-3 months	3 months – 1 year	1-5 years	More than 5 years
As at February 2023					
Fair value hedges					
Nominal amount (£'m)	-	**125**	**589**	**748**	**1,362**
Average fixed interest rate	-	**0.7%**	**0.7%**	**1.2%**	**3.5%**
As at February 2022					
Fair value hedges					
- Nominal amount (£'m)	-	138	584	1,246	1,267
- Average fixed interest rate	-	0.5%	0.6%	0.7%	0.1%

	The Bank				
	Maturity				
	Less than 1 month	1-3 months	3 months – 1 year	1-5 years	More than 5 years
As at February 2023					
Fair value hedges					
Nominal amount (£'m)	-	**125**	**589**	**748**	**741**
Average fixed interest rate	-	**0.7%**	**0.7%**	**1.2%**	**5.3%**
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%

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 Group 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 Group and Bank	
	2023	2022
	£m	£m
Investment securities comprise the following:		
Equity investments	**2**	1
Gilts	**0**	98
Government backed investment securities	**71**	67
T-Bills	**25**	-
Covered bonds	**418**	169
Supranational investment securities	**13**	55
Asset backed securities	**162**	28
Commercial paper	**50**	25
	741	443
Of which:		
Equity investments	**2**	1
Maturing in three months or less	**115**	25
Maturing between three months and one year	**128**	196
Maturing between 1 and 5 years	**496**	199
Maturing in more than 5 years	**-**	22
	741	443

Investment securities include £nil (2022: £50m) pledged as collateral under sale and repurchase agreements or derivative contracts. Investment securities include £nil of collateral prepositioned with the Bank of England as at 28 February 2023. The fair value movement recognised in the Statement of Other Comprehensive Income during the year on investment securities was a profit of £1m (2022: £1m).

Under IFRS9, the Group holds an impairment provision for investment securities of £0.1m (2022: £0.1m)

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

19. Intangible assets *(continued)*

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.

	The Group		The Bank	
	2023	2022	**2023**	2022
The Group	**£m**	£m	**£m**	£m
Cost				
At 1 March	**361**	317	**330**	310
Additions	**19**	51	**11**	27
Disposals	**(2)**	(7)	**(2)**	(7)
As at 28 February	**378**	361	**339**	330
Accumulated amortisation				
At 1 March	**(170)**	(156)	**(168)**	(155)
Charge for the year	**(31)**	(21)	**(26)**	(20)
Impairment	**-**	-	**-**	-
Disposals	**2**	7	**2**	7
As at 28 February	**(199)**	(170)	**(192)**	(168)
Net book value as at 28 February	**179**	191	**147**	162

20. Property, Plant & Equipment

Accounting policy

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

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

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

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

20. Property, Plant & Equipment *(continued)*

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.

	The Group and Bank		
28 February 2023	**Land and buildings £m**	**Fixtures and equipment £m**	**Total £m**
Cost			
At 1 March 2022	**9**	**61**	**70**
Additions	**-**	**1**	**1**
Disposals/Write off	**-**	**(1)**	**(1)**
As at 28 February 2023	**9**	**61**	**70**
Accumulated depreciation			
At 1 March 2022	**(8)**	**(53)**	**(61)**
Charge for the year	**-**	**(1)**	**(1)**
Disposals/Write off	**-**	**1**	**1**
Impairment loss[1]	**-**	**-**	**-**
As at 28 February 2023	**(8)**	**(53)**	**(61)**
Net book value as at 28 February 2023	**1**	**8**	**9**

(1) For further details, see note 19

	The Group and Bank		
28 February 2022	Land and buildings £m	Fixtures and equipment £m	Total £m
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 2023	(8)	(53)	(61)
Net book value as at 28 February 2022	1	8	9

Land and buildings include right of use assets of £1m (2022: £1m) related to head office premises.

21. Investments in Subsidiaries

Accounting policy	Subsidiaries are entities, including special purpose vehicles (SPVs), over which the Bank has the power to govern the financial and operating policies.

The Bank's investment in subsidiaries was as follows.

The Bank	**2023 £m**	2022 £m
	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

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

22. Other assets

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

	The Group		**The Bank**	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
Amounts receivable from Sainsbury's Group companies	**6**	-	**473**	445
Funds in course of settlement	**115**	136	**103**	117
Prepayments and accrued income	**32**	33	**30**	31
Insurance instalment debtor	**25**	32	**25**	32
Current tax asset	**3**	5	**4**	5
Deferred tax asset	**8**	14	**4**	7
VAT Control	**1**	-	-	-
Cash collateral paid	**52**	63	**52**	63
	242	283	**691**	**700**

22. Other assets *(continued)*

Other assets have no fixed maturities but materially expected to be realised within 12 months See note 33 for further details on the residual contractual maturity of other assets.

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

	The Group		The Bank	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
At 1 March	**14**	13	**7**	7
Movement in deferred tax asset (charged) / credited to income statement	**(2)**	2	**(1)**	1
Movement in deferred tax asset credited to other comprehensive income	**-**	1	**-**	1
Adjustments in respect of prior years	**(4)**	(2)	**(2)**	(2)
At 28 February	**8**	14	**4**	7
Tax effect of timing differences due to:				
Other temporary differences*	**18**	20	**12**	13
Accelerated capital allowances	**(10)**	(6)	**(8)**	(6)
	8	14	**4**	7

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

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 Group has discharged its obligations, the contract is cancelled or it expires.

Customer accounts comprise Sterling interest bearing deposits.

	The Group and Bank	
	2023	2022
	£m	£m
Repayable:		
On demand	**3,806**	3,777
Within 3 months	**203**	79
Between 3 months and 1 year	**352**	227
Between 1 and 5 years	**374**	152
	4,735	4,235

Of the above balance, £4,289m (2022: £3,923m) qualified for protection under the Financial Services Compensation Scheme.

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 Group has* discharged its obligations, the contract is cancelled or it expires.

Other deposits comprise Sterling wholesale deposits, including drawings under the Bank of England's TFSME and ILTR schemes.

	The Group and Bank	
	2023	2022
	£m	£m
Repayable:		
Within 3 months	**229**	269
Between 3 months and 1 year	**291**	93
Between 1 and 5 years	**692**	662
	1,212	1,024

Of the above balance, £263m (2022: £20m) qualified for protection under the Financial Services Compensation Scheme. Included within this are £191m (2022: £nil) of deposits obtained via deposit aggregators where the ultimate depositors are retail customers.

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.

	The Group and Bank	
	2023	2022
	£m	£m
Fixed rate subordinated Tier 2 notes due March 2028	**120**	175
Accrued interest	**5**	3
Fair value hedge accounting adjustments	**(3)**	1
	122	179

The Group has £120m of fixed rate reset callable subordinated Tier 2 notes in issuance (28 Feb 2022: £175m). The Bank issued £120m of fixed rate reset callable subordinated Tier 2 notes on 12 September 2022. These notes pay interest on the principal amount at a rate of 10.5 per cent per annum, payable in equal instalments semi-annually in arrears, until 12 March 2028 at which time the interest rate will reset. The Bank has the option to redeem these notes on 12 March 2028.

This was issued in conjunction with a tender to repurchase and extinguish £120m of the existing £175m subordinated Tier 2 notes that were issued on 23 November 2017. On 23 November 2022, the Bank redeemed the remaining £55m in full on the call date.

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.

All other liabilities are expected to be settled within 3 months with the exception of lease liabilities.

	The Group		The Bank	
	2023	**2022**	**2023**	2022
	£m	**£m**	**£m**	£m
Customer funds in course of settlement	**11**	14	**10**	14
Accruals and deferred income	**90**	85	**67**	76
Amounts payable to Sainsbury's group companies	**22**	33	**-**	-
Cash collateral received	**61**	20	**61**	20
Current tax liability	**-**	2	**-**	-
Lease liabilities	**2**	3	**2**	3
Other creditors	**4**	16	**4**	-
	190	173	**144**	113

27. Provisions for liabilities and charges

Accounting policy	The Group 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.

	The Group		The Bank	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
Provision on loan commitments issued	**20**	18	**8**	8
Other provisions				
PPI customer remediation	**6**	9	**-**	-
Other	**5**	1	**4**	1
Other provisions total	**11**	10	**4**	1
	31	28	**12**	9

Provision on loan commitments issued is included in the movement analysis in note 13. It primarily relates to expected credit losses on credit card and store card commitments.

Other provisions

	The Group		The Bank	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
At 1 March	**10**	14	**1**	2
Charged to the income statement	**3**	2	**3**	1
Released	**-**	(1)	**-**	-
Utilised in the year	**(2)**	(5)	**0**	(2)
At 28 February	**11**	10	**4**	1

27. Provisions for liabilities and charges *(continued)*

The PPI customer remediation provision relates to the costs associated with potential redress from customers in respect of past sales of Payment Protection Insurance (PPI) policies. This liability sits with the Bank's subsidiary Home Retail Group Insurance Services Limited.

The FCA deadline for customers PPI claims through the complaints procedure passed on 29th August 2019. However, customers can continue to bring claims against firms through a legal route, claiming an Unfair Relationship under the Consumer Credit Act. The closing PPI provision of £6m (2022: £8m) represents the cost of future litigation claims and the associated costs, including solicitors' fees and the operational costs of processing claims. The provision represents management's best estimate of future costs and will remain under review. The eventual cost is dependent upon claim volumes, claim values and claim handling costs. These assumptions are inherently uncertain, and the ultimate financial impact may be different than the amount provided. The Group will continue to monitor the position and update its assumptions as more information becomes available.

Other provisions relate to liabilities arising from our historic New Bank Programme transition, dilapidations and onerous cost provisions associated with the Bank's head office property. £3m was charged to the income statement during the year ended 28 February 2023 in respect of the New Bank Programme transition (2022: £1m charged to income statement upon the decision of the Bank to exit and make part of the head office available for sub-let).

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

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.

	The Bank	
	2023	2022
	£m	£m
900,750,000 Authorised, allotted, called up and fully paid ordinary shares (£0.777963 / £1):		
At 1 March	**701**	901
Share capital reduction	**-**	(200)
At 28 February	**701**	701

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

In the prior year, there was a reduction of the ordinary share capital of the Bank from £900,750,000 to £700,750,172.25. 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.

29. Retained Earnings

	The Group		The Bank	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
At 1 March	**175**	(46)	**155**	(55)
Share Capital Reduction (note 28)	**-**	200	**-**	200
Profit/(Loss) for the financial year	**33**	18	**23**	6
Dividends Paid	**(50)**	-	**(50)**	-
Share-based payment (net of tax)	**5**	4	**5**	4
At 28 February	**163**	176	**133**	155

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.

The Group and Bank	**Other Reserves £m**
At 1 March 2022	**1**
Net unrealised gains	**2**
Realised gains reclassified to the income statement on disposal	**(1)**
At 28 February 2023	**2**
At 1 March 2021	3
Net unrealised gains	-
Realised gains reclassified to the income statement on disposal	(2)
At 28 February 2022	1

These balances include deferred tax of £1m in the reserve (2022: £1m).

31. Analysis of financial assets and liabilities by measurement basis

Accounting policy

Designation of financial instruments

The Group 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 Group classifies and measures its derivative portfolio at FVPL, as explained in note 17. The Group may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies.

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

Derecognition of financial assets

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

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

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

The Group **At 28 February 2023**	**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	**546**	**-**	**-**	**-**	**546**
Loans and advances to other banks	**100**	**-**	**-**	**-**	**100**
Derivative financial instruments	**-**	**-**	**99**	**-**	**99**
Investment securities	**50**	**691**	**-**	**-**	**741**
Loans and advances to customers	**5,293**	**-**	**-**	**-**	**5,293**
Investments in subsidiaries	**-**	**-**	**-**	**-**	**-**
Intangible assets	**-**	**-**	**-**	**179**	**179**
Property, plant and equipment	**-**	**-**	**-**	**9**	**9**
Other assets	**231**	**-**	**-**	**11**	**242**
	6,220	**691**	**99**	**199**	**7,209**
Liabilities					
Customer accounts	**(4,735)**	**-**	**-**	**-**	**(4,735)**
Other deposits	**(1,212)**	**-**	**-**	**-**	**(1,212)**
Other borrowed funds	**-**	**-**	**-**	**-**	**-**
Subordinated liabilities	**(122)**	**-**	**-**	**-**	**(122)**
Derivative financial instruments	**-**	**-**	**(53)**	**-**	**(53)**
Other liabilities	**(189)**	**-**	**-**	**(1)**	**(190)**
Provisions for liabilities and charges	**(20)**	**-**	**-**	**(11)**	**(31)**
	(6,278)	**-**	**(53)**	**(12)**	**(6,343)**

The Group 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	387	-	-	-	387
Loans and advances to other banks	121	-	-	-	121
Derivative financial instruments	-	-	35	-	35
Investment securities	25	418	-	-	443
Loans and advances to customers	5,067	-	-	-	5,067
Investments in subsidiaries	-	-	-	-	-
Intangible assets	-	-	-	191	191
Property, plant and equipment	-	-	-	9	9
Other assets	268	-	-	15	283
	5,868	418	35	215	6,536
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	(169)	-	-	(4)	(173)
Provisions for liabilities and charges	(27)	-	-	(1)	(28)
	(5,634)	-	(19)	(5)	(5,658)

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

The Bank At 28 February 2023	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	499	-	-	-	499
Loans and advances to other banks	100	-	-	-	100
Derivative financial instruments	-	-	47	-	47
Investment securities	50	691	-	-	741
Loans and advances to customers	4,555	-	-	-	4,555
Investments in subsidiaries	-	-	-	325	325
Intangible assets	-	-	-	147	147
Property, plant and equipment	-	-	-	9	9
Other assets	684	-	-	7	691
	5,888	691	47	488	7,114
Liabilities					
Customer accounts	(4,735)	-	-	-	(4,735)
Other deposits	(1,212)	-	-	-	(1,212)
Other borrowed funds	-	-	-	-	-
Subordinated liabilities	(122)	-	-	-	(122)
Derivative financial instruments	-	-	(53)	-	(53)
Other liabilities	(143)	-	-	(1)	(144)
Provisions for liabilities and charges	(7)	-	-	(5)	(12)
	(6,219)	-	(53)	(6)	(6,278)

The Bank 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
	5,495	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)

32. Loan commitments

Accounting policy	Undrawn Loan, Mortgage, Credit Card and AFS Storecard 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 Balance Sheet.

The contractual amount of the Group's off-balance sheet financial instruments that commit it to extend credit to customers is as follows:

	The Group and Bank	
	2023	2022
	£m	£m
Commitments to extend credit	**11**	26

Lending commitments reduced significantly year on year as a result of the continued digitisation of the loans application journey and reduction in timings between applications being approved and funds transferred to customers. The above table does not include undrawn limits on credit cards or AFS Storecards. These are not considered a contractual commitment but because in practice the Group does not expect to withdraw these credit limits from customers, they are within the scope of impairment provisioning as found in Note 13.

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

33. Risk management

The Group 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 34.

Credit risk

Credit risk is central to the Group's day to day activities and is managed in line with the Board approved risk appetite as detailed within the Principal Risks section (page 25).

Retail credit risk

Retail Credit Risk is the possibility of losses arising from a retail customer failing to meet their agreed repayment terms as they fall due. Retail Credit utilise automated scorecards to assess the credit worthiness and affordability criteria of new applicants and ongoing behavioural characteristics of existing customers. The outcome from all scorecard models is monitored utilising a set of credit quality metrics to ensure actual performance is in line with agreed expectations. Additional expert underwriting of credit applications is undertaken by a specialist operational team where further consideration is appropriate.

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

Wholesale and derivative credit risk

The Group'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.

33. Risk management *(continued)*

Limits are established for all counterparty and asset class exposures based on their respective credit quality and market liquidity. Consideration is also given to geographical region and the strength of relevant sovereign credit ratings.

Derivatives are subject to the same credit risk control procedures as are applied to other wholesale market instruments and the credit risk arising from mark-to-market derivative valuations is mitigated by daily margin calls, posting cash collateral to cover exposures. Daily monitoring is undertaken by the Group's Treasury and Financial Risk teams, including early warning indicators with appropriate triggers for escalation. Oversight of the Group's Wholesale credit risk positions included as part of ALCo.

At 28 February 2023, the maximum credit exposure of the Group 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 33 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.

	The Group		The Bank	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
Credit risk exposures relating to on balance sheet items				
Loans and advances to customers				
Unsecured	**4,729**	4,296	**3,991**	3,540
Secured	**564**	771	**564**	771
Cash and balances with central banks	**546**	387	**499**	346
Derivative financial instruments	**99**	35	**47**	19
Loans and advances to other Banks	**100**	121	**100**	121
Investment securities	**741**	443	**741**	443
Other assets	**231**	268	**684**	692
Credit risk exposures relating to off balance sheet items				
Loans commitments	**11**	26	**11**	26
Total credit risk exposures	**7,021**	6,347	**6,637**	5,958

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 Group's performance to developments affecting a particular industry, counterparty or geographical location.

The Group is a retail-focused financial institution operating solely in the UK. In line with its risk principles, the Group 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.

33. Risk Management *(continued)*

Geographical sectors

	The Group		The Bank	
	2023	2022	**2023**	2022
Maximum exposure	**£m**	£m	**£m**	£m
United Kingdom	**6,807**	6,124	**6,423**	5,734
Europe	**158**	182	**158**	183
Other	**56**	41	**56**	41
	7,021	**6,347**	**6,637**	5,958

Concentration by location for investment securities is measured based on the location of the issuer of the security. The analysis reflects the credit risk associated with the balance and is not reflective of a currency exposure.

Industry sectors

	The Group		The Bank	
	2023	2022	**2023**	2022
Maximum exposure	**£m**	£m	**£m**	£m
Retail	**5,304**	5,093	**4,566**	4,337
Financial institutions	**1,175**	805	**1,530**	1,172
Government	**542**	449	**541**	449
	7,021	6,347	**6,637**	5,958

Retail credit risk

The Group'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 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. Most notably, affordability calculations were updated and reinforced to reflect the rising cost of living. Reviews of credit risk appetite levels are subject to annual review and more frequently if required. Credit strategy is updated within appetite, to reflect emerging trends and/or changes to appetite.

We have considered whether any new or emerging risks (as detailed in the Strategic report on page 22) 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 an 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 8.

Notes to the financial statements *(continued)*

33. Risk Management *(continued)*

Credit quality per class of financial asset

Loans and advances are summarised as follows:

	The Group		The Bank	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
Impaired	**210**	174	**128**	102
Past due but not impaired	**60**	61	**20**	21
Neither past due nor impaired	**5,307**	5,051	**4,535**	4,306
Gross amount due	**5,577**	5,286	**4,683**	4,429
Less: allowance for impairment	**(239)**	(203)	**(135)**	(118)
hedging fair value adjustment	**(45)**	(16)	**7**	-
	5,293	5,067	**4,555**	4,311

Stage 3 gross impaired loans includes £7m of unsecured loans and £nil of secured loans that have cured however, are held in stage 3 due to the application of a probationary period.

Credit quality analysis

	The Group			
At 28 February 2023	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Unsecured lending	**£m**	**£m**	**£m**	**£m**
Impaired				
Less than 3 months, but impaired*	-	-	**31**	**31**
Over 3 months	-	-	**91**	**91**
Recoveries	-	-	**81**	**81**
Total gross impaired loans	-	-	**203**	**203**
Past due 30 days to 3 months	-	**23**	-	**23**
Past due less than 30 days	**10**	**26**	-	**36**
Not past due	**4,303**	**431**	-	**4,734**
Total gross amount due	**4,313**	**480**	**203**	**4,996**
Impairment				
Impairment on gross balance	**42**	**53**	**144**	**239**
Undrawn commitments impairment	**13**	**7**	**0**	**20**
Total impairment	**55**	**60**	**144**	**259**
Average 12 month PDs (stage 1 balances only)				**2.1%**
Average lifetime PDs (stage 2 balances only)				**39.2%**
Average LGD				**56.4%**
Coverage	**1.3%**	**12.5%**	**71.0%**	**5.2%**

*Includes £4m of loans that would have been past due had their terms not been renegotiated.

33. Risk Management *(continued)*

	The Group			
At 28 February 2022	Stage 1	Stage 2	Stage 3	Total
Unsecured lending	£m	£m	£m	£m
Impaired				
Less than 3 months, but impaired*	-	-	31	31
Over 3 months	-	-	75	75
Recoveries	-	-	59	59
Total gross impaired loans	-	-	165	165
Past due 30 days to 3 months	-	20	-	20
Past due less than 30 days	11	29	-	40
Not past due	3,815	465	-	4,280
Total gross amount due	3,826	514	165	4,505
Impairment				
Impairment on gross balance	34	47	119	200
Undrawn commitments impairment	10	8	1	19
Total impairment	44	55	120	219
Average 12 month PDs (stage 1 balances only)				1.7%
Average lifetime PDs (stage 2 balances only)				31.2%
Average LGD				54.9%
Coverage	1.2%	10.7%	72.7%	4.9%

*Includes £5m of loans that would have been past due had their terms not been renegotiated.

	The Bank			
At 28 February 2023	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Unsecured lending	**£m**	**£m**	**£m**	**£m**
Impaired				
Less than 3 months, but impaired*	-	-	**9**	**9**
Over 3 months	-	-	**31**	**31**
Recoveries	-	-	**81**	**81**
Total gross impaired loans	-	-	**121**	**121**
Past due 30 days to 3 months	-	**9**	-	**9**
Past due less than 30 days	-	**10**	-	**10**
Not past due	**3,593**	**370**	-	**3,963**
Total gross amount due	**3,593**	**389**	**121**	**4,103**
Impairment				
Impairment on gross balance	**23**	**25**	**86**	**134**
Undrawn commitments impairment	**5**	**2**	**1**	**8**
Total impairment	**28**	**27**	**87**	**142**
Average 12 month PDs (stage 1 balances only)				**0.8%**
Average lifetime PDs (stage 2 balances only)				**16.2%**
Average LGD				**57.2%**
Coverage	**0.8%**	**6.9%**	**71.9%**	**3.5%**

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

33. Risk Management *(continued)*

	The Bank			
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	-	8
Total impairment	25	29	69	123
Average 12 month PDs (stage 1 balances only)				0.5%
Average lifetime PDs (stage 2 balances only)				10.0%
Average LGD				53.2%
Coverage	0.8%	6.7%	74.1%	3.4%

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

	The Group and Bank			
At 28 February 2023	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Secured lending	**£m**	**£m**	**£m**	**£m**
Impaired				
Less than 3 months, but impaired*	-	-	**6**	**6**
Over 3 months	-	-	**1**	**1**
Recoveries	-	-	-	-
Total gross impaired loans	-	-	**7**	**7**
Past due 30 days to 3 months	-	-	-	-
Past due less than 30 days	-	**1**	-	**1**
Not past due	**532**	**41**	-	**573**
Total gross amount due	**532**	**42**	**7**	**581**
Impairment				
Impairment on gross balance	**0**	**0**	**1**	**1**
Undrawn commitments impairment	-	-	-	-
Total impairment	**0**	**0**	**1**	**1**
Average 12 month PDs (stage 1 balances only)				**0.5%**
Average lifetime PDs (stage 2 balances only)				**2.7%**
Average LGD				**0.0%**
Coverage	**0.01%**	**0.05%**	**10.44%**	**0.14%**

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

Notes to the financial statements *(continued)*

33. Risk Management *(continued)*

	The Group and Bank			
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
Average 12 month PDs (stage 1 balances only)				0.6%
Average lifetime PDs (stage 2 balances only)				2.2%
Average LGD				0.1%
Coverage	0.6%	0.75%	23.57%	0.37%

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

Unsecured coverage has increased from 4.9% to 5.2% year on year as a result of the change in economic outlook between reporting dates as post Covid-19 recoveries is partially offset by worsening economic outlook, as reflected in the economic scenarios applied as outlined in note 2.

Mortgages held over residential properties represent the only collateral held by the Group for retail exposures. The market value of collateral held for impaired loans and loans past due but not impaired was £17m (2022: £23m).

If a customer falls into arrears, the customer will be held in 'collections' where the Group 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 Group 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 Group 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, personal loans, AFS storecards and AFS MPP lending at 28 February 2023. Secured lending represents mortgage lending.

33. Risk Management *(continued)*

	IFRS 9 12 month PD (no change from 2022)
High quality:	<=3.02%
Satisfactory quality	>3.03%; < 11.10%
Low quality	>= 11.11%
Credit impaired	100%

Unsecured Lending

	The Group			
28 February 2023	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**Total £m**
High quality	**3,594**	**125**	**-**	**3,719**
Satisfactory quality	**641**	**215**	**-**	**856**
Low quality	**78**	**140**	**-**	**218**
Credit impaired	**-**	**-**	**203**	**203**
Total gross amount due	**4,313**	**480**	**203**	**4,996**

	The Group			
28 February 2022	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
High quality	3,401	233	-	3,634
Satisfactory quality	381	181	-	562
Low quality	44	100	-	144
Credit impaired	-	-	165	165
Total gross amount due	3,826	514	165	4,505

	The Bank			
28 February 2023	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**Total £m**
High quality	**3,143**	**125**	**-**	**3,268**
Satisfactory quality	**430**	**195**	**-**	**625**
Low quality	**20**	**69**	**-**	**89**
Credit impaired	**-**	**-**	**121**	**121**
Total gross amount due	**3,593**	**389**	**121**	**4,103**

	The Bank			
28 February 2022	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
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

33. Risk Management *(continued)*

Secured lending

	The Group and Bank			
28 February 2023	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**Total £m**
High quality	**532**	**30**	**-**	**5623**
Satisfactory quality	**-**	**10**	**-**	**10**
Low quality	**-**	**2**	**-**	**2**
Credit impaired	**-**	**-**	**7**	**7**
Total gross amount due	**532**	**42**	**7**	**581**

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

An analysis by loan-to-value (LTV) ratio of the Group'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.

	The Group and Bank			
At 28 February 2023	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**Total £m**
Less than 70%	**518**	**41**	**6**	**565**
70% to 80%	**14**	**1**	**1**	**16**
80% to 90%	**-**	**-**	**-**	**-**
90% to 100%	**-**	**-**	**-**	**-**
Greater than 100%	**-**	**-**	**-**	**-**
Total mortgages	**532**	**42**	**7**	**581**

	The Group and Bank			
At 28 February 2022	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
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

33. 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.

	The Group			
	2023		2022	
	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	**8,685**	**-**	8,803	-
Of which credit impaired	**50**	**-**	62	-
Financial assets measured at amortised cost – Retail lending	**5,577**	**581**	5,287	781
Of which credit impaired	**210**	**7**	174	9
Total	**14,262**	**581**	14,090	781
of which credit impaired	**260**	**7**	236	9

	The Bank			
	2023		2022	
	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	**5,873**	**-**	5,962	-
Of which credit impaired	**22**	**-**	19	-
Financial assets measured at amortised cost – Retail lending	**4,684**	**581**	4,430	781
Of which credit impaired	**128**	**7**	103	9
Total	**10,557**	**581**	10,392	781
of which credit impaired	**150**	**7**	122	9

Forbearance

The Group 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 Group 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 Group 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.

33. Risk Management *(continued)*

The Group						
	2023			2022		
	Gross loans and advances subject to forbearance	**Forbearance as a total loans and advances**	**Forbearance covered by impairment provision**	Gross loans and advances subject to forbearance	Forbearance as a total loans and advances	Forbearance covered by impairment provision
	£m	**%**	**%**	£m	%	%
Unsecured	**61**	**1.2**	**69.1**	52	1.2	72.0
Secured	**1**	**0.2**	**4.5**	2	0.3	25.7
Total	**62**	**1.1**	**68.1**	54	1.0	70.1

The Bank						
	2023			2022		
	Gross loans and advances subject to forbearance	**Forbearance as a total loans and advances**	**Forbearance covered by impairment provision**	Gross loans and advances subject to forbearance	Forbearance as a total loans and advances	Forbearance covered by impairment provision
	£m	**%**	**%**	£m	%	%
Unsecured	**35**	**0.9**	**67.1**	29	0.8	72.6
Secured	**1**	**0.2**	**4.5**	2	0.3	25.6
Total	**36**	**0.8**	**65.5**	31	0.7	69.3

Climate-related credit risk

Our assessment of climate related credit risk is outlined in the emerging risks section on page 22. 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.

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 2023 was £nil (2022: £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:

	The Group			
At 28 February 2023	**Cash and balances with central banks £m**	**UK government securities £m**	**Other investment securities £m**	**Total £m**
Aaa to A3	**-**	**25**	**716**	**741**
ATM cash and balances with central banks	**471**	**-**	**-**	**471**
Other demand deposits	**75**	**-**	**-**	**75**
	546	**25**	**716**	**1,287**

33. Risk Management *(continued)*

	The Bank			
At 28 February 2023	**Cash and balances with central banks £m**	**UK government securities £m**	**Other investment securities £m**	**Total £m**
Aaa to A3	**-**	**25**	**716**	**741**
ATM cash and balances with central banks	**471**	**-**	**-**	**471**
Other demand deposits	**28**	**-**	**-**	**28**
	499	**25**	**716**	**1,240**

	The Group			
At 28 February 2022	Cash and balances with central banks £m	UK government securities £m	Other investment securities £m	Total £m
Aaa to A3	-	98	345	443
ATM cash and balances with central banks	329	-	-	329
Other demand deposits	58	-	-	58
	387	98	345	830

	The Bank			
At 28 February 2022	Cash and balances with central banks £m	UK government securities £m	Other investment securities £m	Total £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

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

	The Group and Bank			
	2023		2022	
External Rating Grades	**Non-credit impaired Stage 1 £m**	**Total Gross Carrying Amount £m**	Non-credit impaired Stage 1 £m	Total Gross Carrying Amount £m
Aaa to A3	**741**	**741**	443	443
	741	**741**	443	443

33. 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:

	The Group					
				Related amounts not offset in the balance sheet		
At 28 February 2023	**Gross assets / (liabilities) recognised £m**	**Amounts offset £m**	**Net amounts recognised in the balance sheet £m**	**Financial instruments £m**	**Collateral pledged / (received) £m**	**Net amounts £m**
Derivative financial instruments – assets	**99**	**-**	**99**	**-**	**(49)**	**49**
Derivative financial instruments – liabilities	**(53)**	**-**	**(53)**	**-**	**52**	**(1)**
	46	**-**	**46**	**-**	**3**	**48**

	The Group					
				Related amounts not offset in the balance sheet		
At 28 February 2022	Gross assets / (liabilities) recognised £m	Amounts offset £m	Net amounts recognised in the balance sheet £m	Financial instruments £m	Collateral pledged / (received) £m	Net amounts £m
Derivative financial instruments – assets	35	-	35	-	(20)	15
Derivative financial instruments – liabilities	(19)	-	(19)	-	22	3
	16	-	16	-	2	18

	The Bank					
				Related amounts not offset in the balance sheet		
At 28 February 2023	**Gross assets / (liabilities) recognised £m**	**Amounts offset £m**	**Net amounts recognised in the balance sheet £m**	**Financial instruments £m**	**Collateral pledged / (received) £m**	**Net amounts £m**
Derivative financial instruments – assets	**47**		**47**	**-**	**(49)**	**(2)**
Derivative financial instruments – liabilities	**(53)**	**-**	**(53)**	**-**	**52**	**(1)**
	(6)	**-**	**(6)**	**-**	**3**	**(3)**

33. Risk Management *(continued)*

	The Bank					
				Related amounts not offset in the balance sheet		
At 28 February 2023	Gross assets / (liabilities) recognised £m	Amounts offset £m	Net amounts recognised in the balance sheet £m	Financial instruments £m	Collateral pledged / (received) £m	Net amounts £m
Derivative financial instruments – assets	19	-	19	-	(20)	(1)
Derivative financial instruments – liabilities	(19)	-	(19)	-	20	1
	-	-	-	-	-	-

The Group 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 Group'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 2023, the Group had posted cash collateral of £49m (2022: £20m) and received cash collateral of £52m (2022: £20m) against its derivative positions, and £21m of initial margin collateralised by encumbered Gilts (2022: £22m of initial margin collateralised by encumbered Gilts). Following the Bank's award of a credit rating in the year, the Group is no longer required to pledge cash collateral with Mastercard for the risk of issuing merchant spend credit and therefore the value pledged is USD nil (2022: USD 58.5m).

Liquidity and funding risk

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

The annual ILAAP enables the Group 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 Group maintains a stock of high-quality liquid assets that can be readily monetised by outright sale or repurchase agreement to meet the Group's obligations to depositors and other creditors.

The Group'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 below shows the undiscounted cash flows on the Group'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 Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

Notes to the financial statements *(continued)*

33. Risk Management *(continued)*

Residual contractual maturity analysis

	The Group					
At 28 February 2023	**Less than 1 month £m**	**1 to 3 months £m**	**3 to 12 months £m**	**1 to 5 years £m**	**Over 5 years £m**	**Total £m**
Assets						
Non-derivative assets						
Cash and balances at central banks	546	-	-	-	-	546
Loans and Advances to customers	2,591	544	735	1,686	822	6,378
Loans and Advances to Other Banks	-	-	100	-	-	100
Investment securities	2	54	246	552	-	854
Other Assets	225	-	-	-	-	225
Long term interest receivable	1	1	5	-	-	7
	3,365	599	1,086	2,238	822	8,110
Net derivative asset cash flows	12	5	45	46	4	112
Total cash inflows	3,377	604	1,131	2,284	826	8,222
Liabilities						
Non-derivative liabilities						
Customer accounts	3,978	208	365	386	-	4,937
Other deposits	94	137	318	738	-	1,287
Other liabilities (excluding lease liabilities)	191	-	-	-	-	191
Lease liabilities	0	0	1	1	-	2
Subordinated Debt	6	-	6	50	126	188
	4,269	345	690	1,175	126	6,605
Net derivative liability cash flows	1	5	22	29	-	57
Unrecognised loan commitments	(11)	-	-	-	-	(11)
Total cash outflows	4,259	350	712	1,204	126	6,651
Net liquidity	(882)	254	419	1,080	700	1,571

	The Bank					
At 28 February 2023	**Less than 1 month £m**	**1 to 3 months £m**	**3 to 12 months £m**	**1 to 5 years £m**	**Over 5 years £m**	**Total £m**
Assets						
Non-derivative assets						
Cash and balances at central banks	499	-	-	-	-	499
Loans and Advances to customers	1,995	241	604	1,716	824	5,380
Loans and Advances to Other Banks	-	-	100	-	-	100
Investment securities	2	54	246	552	-	854
Other Assets	678	-	-	-	-	678
Long term interest receivable	1	1	5	-	-	7
	3,175	296	955	2,268	824	7,518
Net derivative asset cash flows	11	0	23	17	4	55
Total cash inflows	3,186	296	978	2,285	828	7,573

33. Risk Management *(continued)*

Liabilities						
Non-derivative liabilities						
Customer accounts	**3,978**	**208**	**365**	**386**	**-**	**4,937**
Other deposits	**94**	**137**	**318**	**738**	**-**	**1,287**
Other liabilities (excluding lease liabilities)	**145**	**-**	**-**	**-**	**-**	**145**
Lease liabilities	**0**	**0**	**(1)**	**(1)**	**-**	**(2)**
Subordinated Debt	**6**	**-**	**6**	**50**	**126**	**188**
	4,223	**345**	**688**	**1,173**	**126**	**6,555**
Net derivative liability cash flows	**1**	**5**	**22**	**29**	**-**	**57**
Unrecognised loan commitments	**11**	**-**	**-**	**-**	**-**	**11**
Total cash outflows	**4,235**	**350**	**710**	**1,202**	**126**	**6,623**
Net liquidity	**(1,049)**	**(54)**	**268**	**1,083**	**702**	**950**

	The Group					
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						
Non-derivative assets						
Cash and balances at central banks	387	-	-	-	-	387
Loans and Advances to customers	2,572	154	630	1,620	879	5,855
Loans and Advances to Other Banks	25	-	96	-	-	121
Investment securities	26	-	199	204	25	454
Other Assets	255	-	-	-	-	255
Long term interest receivable	1	1	5	6	-	13
	3,266	155	930	1,830	904	7,085
Net derivative asset cash flows	-	-	12	35	1	48
Total cash inflows	3,266	155	942	1,865	905	7,133
Liabilities						
Non-derivative liabilities						
Customer accounts	3,798	57	230	154	-	4,239
Other deposits	30	40	297	675	-	1,042
Other liabilities (excluding lease liabilities)	166	-	-	-	-	166
Lease liabilities	-	-	1	1	1	3
Subordinated Debt	-	5	180	-	-	185
	3,994	102	708	830	1	5,635
Net derivative liability cash flows	-	2	8	22	-	32
Unrecognised loan commitments	26	-	-	-	-	26
Total cash outflows	4,020	104	716	852	1	5,693
Net liquidity	(754)	51	226	1,013	904	1,440

33. Risk Management *(continued)*

	The Bank					
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						
Non-derivative assets						
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	1,855	905	6,563
Liabilities						
Non-derivative liabilities						
Customer accounts	3,798	57	230	154	-	4,239
Other deposits	30	40	297	675	-	1,042
Other liabilities (excluding lease liabilities)	106	-	-	-	-	106
Lease liabilities	-	-	1	1	1	3
Subordinated Debt	-	5	180	-	-	185
	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	841	1	5,614
Net liquidity	(1,246)	51	226	1,014	904	949

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 Group. The encumbrance levels of assets and related recognised or off balance sheet liabilities are shown in the following tables.

	The Group		
At 28 February 2023	**Encumbered £m**	**Unencumbered £m**	**Total £m**
Loans and advances to customers	**1,116**	**4,177**	**5,293**
Debt securities	**-**	**741**	**741**
Other assets	**64**	**465**	**529**
Cash, balances with central banks and loans and advances to Banks	**15**	**631**	**646**
	1,195	**6,014**	**7,209**

33. Risk Management *(continued)*

	The Group		
At 28 February 2022	Encumbered £m	Unencumbered £m	Total £m
Loans and advances to customers	1,365	3,702	5,067
Debt securities	157	286	443
Other assets	40	478	518
Cash, balances with central banks and loans and advances to Banks	15	493	508
	1,577	4,959	6,536

	The Bank		
At 28 February 2023	**Encumbered £m**	**Unencumbered £m**	**Total £m**
Loans and advances to customers	**1,116**	**3,439**	**4,555**
Debt securities	**-**	**741**	**741**
Other assets	**64**	**1,155**	**1,219**
Cash, balances with central banks and loans and advances to Banks	**15**	**584**	**599**
	1,195	**5,919**	**7,114**

	The Bank		
At 28 February 2022	Encumbered £m	Unencumbered £m	Total £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

	The Group and Bank	
At 28 February 2023	**Carrying value of encumbered assets £m**	**Matching liabilities, contingent liabilities or securities lent £m**
Loans and advances to customers	**1,116**	**760**
Debt securities	**-**	**-**
Other assets	**64**	**-**
Cash, balances with central banks and loans and advances to Banks	**15**	**-**
	1,195	**760**

33. Risk Management *(continued)*

	The Group and Bank	
At 28 February 2022	Carrying value of encumbered assets £m	Matching liabilities, contingent liabilities or securities lent £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

The main sources of encumbrance in the Group 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 Group's business including intangible assets, property, plant and equipment, prepayments and accruals and deferred tax assets. These are included within the carrying value of unencumbered assets..

Market risk

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

Interest Rate Risk in the Banking Book

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

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

Foreign exchange risk

The Group is exposed to FX risk through its holding of cash denominated in foreign currencies, primarily Euro and US Dollar, within its travel money bureaux in J Sainsbury plc stores and its currency dispensing ATM machines. Foreign exchange risk is currently mitigated through forward rate transactions. Further details of the hedging arrangements in place at year end are disclosed in note 17.

Risk Appetite Measures

The Bank's market risk appetite statements defines limits for the following market risk measures:

- *Capital at Risk:* an aggregate measure based on assessing each of the IRRBB risks and allocating a capital charge against each risk driver using a series of plausible but severe interest rate stresses. This includes parallel and non-parallel movements of the yield curve. Where applicable a customer behavioural repayment profile is applied.

33. Risk Management *(continued)*

- *Annual Earnings at Risk*: measures the sensitivity of the Bank's earnings over the next 12 months, in response to adverse movements in interest rates.
- *Net Open Currency Position:* measures the Bank's net open currency position aggregated across all currencies.

Controls and Mitigants

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

The main hedging instruments used to hedge IRRBB exposures are interest swaps as well as taking into account natural hedges between assets and liabilities with similar repricing characteristics in the first instance. Any residual exposures are then assessed against Board approved limits.
Hedging strategies are implemented and reviewed on a regular basis at ALCo to ensure the Bank remains within limits.

As at 28 February 2023 earnings at risk (change in net interest income) for changes in interest rates of +/-100 basis points movements in rates are as follows:

	The Group		The Bank	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
+/- 100 basis points	**(1)/4**	(5)/(9)	**7/(7)**	1/(15)

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

34. Capital resources (unaudited)

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

	Transitional	**Full impact**	Transitional	Full impact
	2023	**2023**	2022	2022
	IFRS9	**IFRS9**	IFRS9	IFRS9
The Regulatory Consolidated Group	**£m**	**£m**	£m	£m
Common Equity Tier 1 (CET 1) capital:				
Ordinary share capital	**701**	**701**	701	701
Allowable reserves (unaudited)	**165**	**165**	126	126
CET 1 capital pre Regulatory adjustments	**866**	**866**	827	827
Regulatory adjustments:				
Intangible assets	**(165)**	**(165)**	(180)	(180)
Additional value adjustment	**(1)**	**(1)**	-	-
Non-Performing Exposures insufficient coverage	**(1)**	**(1)**	-	-
Transitional adjustment	**23**	**-**	38	-
Total Regulatory adjustments to CET 1 Capital	**(144)**	**(167)**	(142)	(180)

34. Capital resources *(continued)*

Tier 1 Capital	**722**	**699**	685	647
Loan notes (listed)	**113**	**113**	109	109
Tier 2 Capital	**113**	**113**	109	109
Total capital	**835**	**812**	794	756

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

The Regulatory Consolidated Group	**Transitional 2023 IFRS9 £m**	**Full impact 2023 IFRS9 £m**	Transitional 2022 IFRS9 £m	Full impact 2022 IFRS9 £m
At 1 March	**685**	**647**	791	726
Verified profit / (losses)	**38**	**38**	22	22
Foreseeable Dividend	**-**	**-**	(50)	(50)
Transitional adjustments	**(15)**	**-**	(27)	-
Other reserve movements	**1**	**1**	(2)	(2)
Movement in additional value adjustments	**(1)**	**(1)**	1	1
Movement in Non Performing Exposures insufficient coverage	**(1)**	**(1)**		
Movement in intangible assets	**15**	**15**	(50)	(50)
As at 28 February	**722**	**699**	685	647

Reconciliation of statutory reserves to regulatory reserves

The Regulatory Consolidated Group	**2023 £m**	2022 £m
Total shareholders' funds	**866**	856
Foreseeable Dividend	**-**	(50)
Total shareholders' funds of subsidiary undertakings and consolidation adjustments	**-**	20
Regulatory adjustments	**(144)**	(142)
CET 1 capital	**722**	685

Leverage ratio (unaudited)

The leverage ratio is defined as the ratio of Tier 1 capital to adjusted assets, which is measured below on a regulatory consolidated basis. The denominator represents the total non-risk weighted assets of the regulatory group adjusted for certain off 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 2023 on the UK basis which allows central bank assets to be excluded from the leverage exposures. The Bank's leverage ratio of 9.6% (2022: 9.7%) exceeds the minimum Basel leverage ratio of 3%.

34. Capital resources *(continued)*

The Regulatory Consolidated Group	**Transitional 2023 IFRS9 £m**	**Full impact 2023 IFRS9 £m**	Transitional 2022 IFRS9 £m	Full impact 2022 IFRS9 £m
Components of the leverage ratio				
Total assets as per published financial statements	**7,209**	**7,209**	6,536	6,536
Movement on consolidation of subsidiary undertakings	**(6)**	**(6)**	(20)	(20)
Exposure value for derivatives and securities financing transactions	**32**	**32**	37	37
Off balance sheet exposures: unconditionally cancellable (10%)	**867**	**867**	878	878
Off balance sheet: other (100%)	**2**	**2**	5	5
Other adjustments	**(243)**	**(266)**	(169)	(207)
Central Bank Claims	**(331)**	**(331)**	(219)	(219)
	7,530	**7,507**	7,048	7,010
Tier 1 capital	**722**	**699**	685	647
Leverage ratio	**9.6%**	**9.3%**	9.7%	9.2%

Capital management

The Group 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 Group has complied with all externally imposed capital requirements.

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

35. 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 Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

Level 1

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

Level 2

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

Level 3

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

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

35. Fair value of financial instruments *(continued)*

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

	The Group			
At 28 February 2023	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Derivatives designated as fair value hedging instruments	-	**98**	-	**98**
Derivatives not in fair value hedging relationships	-	**1**	-	**1**
Investment Securities	**689**	**2**	-	**691**
Total assets	**689**	**101**	-	**790**
Derivatives designated as fair value hedging instruments	-	**53**	-	**53**
Total liabilities	-	**53**	-	**53**

	The Bank			
At 28 February 2023	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Derivatives designated as fair value hedging instruments	-	**46**	-	**46**
Derivatives not in fair value hedging relationships	-	**1**	-	**1**
Investment Securities	**689**	**2**	-	**691**
Total assets	**689**	**49**	-	**738**
Derivatives designated as fair value hedging instruments	-	**53**	-	**53**
Total liabilities	-	**53**	-	**53**

	The Group			
At 28 February 2022	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Derivatives designated as fair value hedging instruments	-	34	-	34
Derivatives not in fair value hedging relationships	-	1	-	1
Investment Securities	417	1	-	418
Total assets	417	36	-	453
Derivatives designated as fair value hedging instruments	-	19	-	19
Total liabilities	-	19	-	19

35. Fair value of financial instruments *(continued)*

	The Bank			
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

The table below summarises the fair value of financial assets and liabilities that are not presented in the Group'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 Group as a going concern at 28 February 2023 or 28 February 2022.

	2023		2022	
The Group	**Carrying value £m**	**Fair value £m**	Carrying value £m	Fair value £m
Assets:				
Loans and advances to customers	**5,293**	**5,240**	5,067	5,094
Cash and balances at central banks	**546**	**546**	387	387
Loans and advances to other banks	**100**	**100**	121	121
Investment Securities	**50**	**50**	25	25
Liabilities:				
Customer accounts	**4,735**	**4.739**	4,235	4,236
Other deposits	**1,212**	**1,214**	1,024	1,024
Subordinated debt	**122**	**131**	179	180

	2023		2022	
The Bank	**Carrying value £m**	**Fair value £m**	Carrying value £m	Fair value £m
Assets:				
Loans and advances to customers	**4,555**	**4,433**	4,311	4,262
Cash and balances at central banks	**499**	**499**	346	346
Loans and advances to other banks	**100**	**100**	121	121
Investment Securities	**50**	**50**	25	25
Liabilities:				
Customer accounts	**4,735**	**4,739**	4,235	4,236
Other deposits	**1,212**	**1,214**	1,024	1,024
Subordinated debt	**122**	**131**	179	180

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

Notes to the financial statements *(continued)*

35. Fair value of financial instruments *(continued)*

The fair value hierarchy classification adopted by the Group in respect of assets not presented in the Group's balance sheet at fair value is shown in the following table:

	The Group				The Bank			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
At 28 February 2023	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Loans and advances to customers	-	**5,240**	-	**5,240**	-	**4,433**	-	**4,433**
Cash and balances at central banks	-	**546**	-	**546**	-	**499**	-	**499**
Loans and advances to other banks	-	**100**	-	**100**	-	**100**	-	**100**
Total assets	-	**5,886**	-	**5,886**	-	**5,032**	-	**5,032**
Customer accounts	-	**4.739**	-	**4,739**	-	**4,739**	-	**4,739**
Other deposits	-	**1,214**	-	**1,214**	-	**1,214**	-	**1,214**
Subordinated debt	**131**	-	-	**131**	**131**	-	-	**131**
Total liabilities	**131**	**5,953**	-	**6,084**	**131**	**5,953**	-	**6,084**

	The Group				The Bank			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
At 28 February 2022	£m	£m	£m	£m	£m	£m	£m	£m
Loans and advances to customers	-	5,094	-	5,094	-	4,262	-	4,262
Cash and balances at central banks	-	387	-	387	-	346	-	346
Loans and advances to other banks	-	121	-	121	-	121	-	121
Total assets	-	5,602	-	5,602	-	4.729	-	4,729
Customer accounts	-	4,236	-	4,236	-	4,236	-	4,236
Other deposits	-	1,024	-	1,024	-	1,024	-	1,024
Subordinated debt	180	-	-	180	180	-	-	180
Total liabilities	180	5,260	-	5,440	180	5,260	-	5,440

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.

36. Parent company

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

37. Share-based payments

Accounting policy	The Group, through schemes operated by its parent company J Sainsbury plc, provides benefits to employees (including Directors) in the form of equity-settled and cash-settled share-based payment transactions, whereby employees render services in exchange for shares, rights over shares or the value of those shares in cash terms. 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 Group recognised £5m (2022: £4m) of employee costs (note 6) related to share-based payment transactions made during the financial year. Of these, £nil (2022: £nil) were cash-settled.

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

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

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

	2023 Number of options million	**2023 Weighted average exercise price pence**	2022 Number of options million	2022 Weighted average exercise price pence
Outstanding at end of year	**1.5**	**176.2**	1.3	193.4
Exercisable at end of year	**0.2**	**164.9**	0.1	245.2
Exercisable price range		**161 to 260**		161 to 260

The weighted average share price of J Sainsbury plc during the period for options exercised over the year was 259 pence (2022: 260 pence). The weighted average remaining contractual life of share options outstanding at 28 February 2023 was 2.8 years (2022: 2.7 years). Options granted during the year were valued using the Black-Scholes option-pricing model.

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, which are financial and non-financial non-market conditions, have been met, the awards vest and the participants are able to exercise 100% of the awards received. For 2020 awards and prior, recipients were only able to receive 50% of their awards after 3 years and 50% of their awards after 4 years. Options granted will expire five years from the grant date.

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.

37. Share-based payments *(continued)*

	2023 Million	2022 Million
Outstanding at end of year	**1.9**	2.2

The weighted average remaining contractual life of share options outstanding at 28 February 2023 was 0.4 years (2022: 1.5 years).

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 weighted average share price during the year for options exercised was 233 pence (2022: 252 pence).

c. Bonus Share Award

Senior Managers and supermarket managers receive 60 per cent of their bonus in cash and 40 per cent of the award in shares. Director level managers receive 50 per cent of their bonus in cash and 50 per cent of the award in shares. Before 2021 awards had a three-year deferral period, however awards granted from 2021 now have a deferral period of two years (except for certain colleagues who are subject to a deferral period due to financial services regulations).

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

	2023 Million	2022 Million
Outstanding at end of year	**1.9**	1.3

The weighted average remaining contractual life of share options outstanding at 28 February 2023 was 1.3 years (2022: 1.1 years). The weighted average share price during the year for options exercised was 230 pence (2022: 246 pence).

38. Related party transactions

a) Transactions with Related Entities

J Sainsbury plc

The Bank is a wholly owned subsidiary of J Sainsbury plc. From time to time the Treasury function of J Sainsbury plc places short term cash deposits with the Bank on an arm's length basis, receiving interest in return.

The Group	**2023 £m**	2022 £m
Transactions during the year		
Deposits by J Sainsbury plc:		
Interest payable by the Group	**2**	-
Balances at end of year		
Deposits by J Sainsbury plc:		
Balance at the reporting date	**-**	-

38. Related party transactions *(continued)*

Sainsbury's Supermarkets Limited

Sainsbury's Supermarkets Limited is a fellow subsidiary of J Sainsbury plc. Certain services are provided between the 2 entities.

The Group	2023 £m	2022 £m
Transactions during the year		
Services provided by Sainsbury's Supermarkets Limited:		
Management services	**11**	20
Services provided to Sainsbury's Supermarkets Limited:		
Management services	**-**	(1)
Balances at end of year		
Payables:		
Management services	**9**	3

Included within management services provided by Sainsbury's Supermarkets Limited are amounts recharged to the Group for Nectar points. Services provided to Sainsbury's Supermarkets comprises Travel Money staff of the Group being redeployed to Sainsbury's Supermarkets store working during closed Bureaux periods as a result of Covid-19 pandemic travel restrictions. This was significantly reduced year on year as international travel returned in 2022.

Argos Limited

As described in note 21, Home Retail Group Card Services Limited and Home Retail Group Insurance Services Limited are subsidiaries of the Bank. These entities provide credit and insurance intermediary services on behalf or Argos Limited, a fellow subsidiary of J Sainsbury plc. Fees are payable and receivable under a transfer pricing agreement. Additionally, short term intercompany balances can exist where amounts are paid by or on behalf of Argos Limited, including in respect of retail sales made in Argos Limited stores financed by credit plans offered by Home Retail Group Card Services Limited.

The Group	2023 £m	2022 £m
Transactions during the year		
Fees (receivable) / payable by the Group in respect of services provided	**(1)**	16
Balances at end of year		
Payables	**16**	34

b) Transactions with key management personnel

For the purposes of IAS 24 'Related party disclosures', key management personnel comprise members of the Board and the Executive Committees of all Group companies, who held office during the year.

Remuneration and other compensation

The Group	2023 £m	2022 £m
Short term employee benefits	**4.4**	7.0
Termination benefits	**1.3**	-
Share-based payments	**1.5**	2.0
	7.2	9.0

38. Related party transactions *(continued)*

Short term employee benefits represent salary, bonus and benefits in kind. Share-based payments relates to share schemes operated by J Sainsbury plc (see note 37).

In the current year, there are no additional short term employee benefits met by another J Sainsbury plc group company (2022: £2.4m). For 2022, this amount is not included in staff costs (note 6).

Product transactions

Details of transactions, under terms and conditions available to all colleagues, between the Group and key management personnel are provided below. For this purpose, key management personnel include the Group key management personnel and members of their close families.

The Group	Number of key management personnel	Directors £000	Other £000
Mortgages, credit cards and term loans			
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**
Resignations during 2022/23	**(1)**	-	**(6)**
Appointments/ New accounts during 2022/23	**3**	-	-
Amounts advanced during the year	-	**16**	**68**
Interest Charged	-	-	**1**
Amounts repaid during the year	-	**(15)**	**(61)**
At 28 February 2023	**5**	**2**	**4**

Based on the Companies Act definition of Loans to Directors, total lending outstanding at 28 February 2023 was £nil (2022: £nil).

The Group	Number of key management personnel	Directors £000	Other £000
Savings and deposit accounts			
At 28 February 2021	2	39	-
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**	-	**36**
Resignations during 2022/23	-	-	-
Appointments/ New accounts during 2022/23	-	-	-
Amounts deposited during the year	-	-	**49**
Interest paid	-	-	-
Amounts withdrawn during the year	-	-	**(60)**
At 28 February 2023	**2**	-	**25**

39. 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:

	The Group		The Bank	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
Property, plant and equipment	**-**	-	**-**	-
Software development	**2**	5	**1**	5
	2	5	**1**	5

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 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
Financial Services Underlying Profit	Underlying Profit before net amounts payable to Argos	A reconciliation of Financial Services underlying profit before tax is provided in the summary income statement in the financial review
Net Interest Margin (NIM)	Net interest income as a percentage of average interest-earning assets	(see reconciliation below)
Bad Debt Asset Ratio (BDAR)	Impairment losses as a percentage of the average net balance of loans and advances to customers	(see reconciliation below)

Net Interest Margin (NIM) – Reconciliation

	Ref	2023	2022
Interest Income £m	IS	394	322
Interest expense £m	IS	(74)	(43)
Underlying Net Interest Income £m		320	279
Monthly average interest earning assets £m*		6,271	6,249
Underlying NIM		5.1%	4.5%

*Monthly average interest earning assets is not presented in the financial statements. The average balance at Feb-23 is £6,271m (2022: £6,249m) made up of;
- Average loans & advances to customers £5,178m (2022: £5,076m)
- Average treasury assets £1,094m (2022: £1,173m)

Bad Debt Asset Ratio (BDAR) – Reconciliation

	Ref	2023	2022
Impairment losses £m	IS	107	62
Monthly average customer lending £m*		5,178	5,076
BDAR		2.1%	1.2%

*Monthly average customer lending is not presented in the financial statements.

Alternative Performance Measures

APM	Definition/Purpose	Reconciliation	Ref	2023	2022
Cost: Income Ratio	Underlying operating expenses as a percentage of total income		**Ref**	**2023**	**2022**
		Operating expenses £m	IS	**298**	280
		Non-underlying items £m	Note 8	**(6)**	(19)
		Underlying FS expenses £m		**292**	261
		Total FS Income £m	IS	**456**	385
		Cost: Income ratio		**64%**	68%
Return on capital employed	Underlying profit after tax divided by average equity		**Ref**	**2023**	**2022**
		Underlying FS uPBT before tax £m	IS	**58**	64
		Notional tax charge £m		**(11)**	(12)
		Underlying FS profit after tax £m		**47**	52
		Monthly average equity £m*		**854**	864
		Return on tangible equity		**5.5%**	6.0%
		*Monthly average equity is not presented in the financial statements.			

In the above table, IS refers to the income statement presented in the financial review on page 17.

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 Group's financial strength as defined by the PRA. It captures Common Equity Tier 1 capital plus other Tier 1 securities in issue, but is subject to a deduction in respect of material holdings in financial companies.

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 Group 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 Group.

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) – 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.