

Sainsbury's Bank plc

**Annual Report and Consolidated Financial
Statements for the year ended 29 February 2024**

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Performance Highlights

Statutory (loss)/profit before tax from Continuing Operations

£(165)m

(2023: £24m¹)

Net interest margin (underlying)

4.7%

(2023: 5.1%)

Bad debt asset ratio

2.1%

(2023: 2.1%)

Cost : income ratio (underlying)

67%

(2023: 64%)

CET 1 Capital Ratio (transitional)

17.1%

(2023: 15.4%)

Liquidity Coverage Ratio

352%

(2023: 281%)

ⁱ Performance, including reference to the above headlines is explained in the financial review section on page 26.

The alternative performance measures have been defined and reconciled to the statutory disclosures on page 132.

¹The prior year has been restated following the classification of the mortgage business as a discontinued operation. Refer to notes 3 & 14

Strategic report

The Directors present their strategic report for the year ended 29 February 2024.

The Annual Report and Consolidated 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 23.

The Bank is a wholly owned subsidiary of J Sainsbury plc, however, it is governed by its own Board and Executive Committee, independent from J Sainsbury plc (see Risk Overview and Governance sections on pages 29 and 36). 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.

Strategic update

On the 18 January 2024 the Sainsbury's Group announced a strategy update, where the financial services products offered in the future will be provided by dedicated financial services providers through a distributed model.

Over time, this means we will have a phased withdrawal from our core Banking business, with all our financial services products being provided by third parties.

The Group is currently developing plans aligned to this strategic intent and revised future operating model. We will continue to support colleagues, customers and our existing products through this transitional phase.

We continue to prepare our accounts on a going concern basis, after due consideration of the risks resulting from this strategy change. More detail on this assessment is provided on page 41.

Current business model

Throughout the financial year 2023/24, we continued to drive value for the Sainsbury's Group by striving to be an agile, capital and cost-efficient provider of simple, mobile led financial services for Sainsbury's and Argos customers.

We offer a range of retail banking services and related financial services wholly within the UK.

Banking		Commission	
Savings		Insurance	
Loans		ATMs	
Credit Cards		Travel Money	
Argos Storecards			

Banking products:

- Funds are raised through savings deposits and wholesale sources. We use these sources of funding to lend to customers or hold them as liquid assets.
- Our savings and lending products are sold and serviced online or by telephone.
- Our Mortgages business was sold to the Co-Operative Bank in August 2023 – see page 5 for details.

Commission products:

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

Year in review

Always offering value and making it easy for our customers

Ever more so with on-going cost of living pressures, customers seek the best deals with brands they can trust. Throughout the year, we have sought to be the natural choice for Sainsbury's shoppers with seamless, straightforward financial products. Supported by our brand and aligned to our consumer duty commitments, we are focused on delivering value while being a trusted ally to our customers.



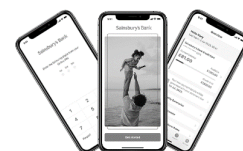
In Argos Financial Services (AFS), we have seen fantastic levels of connectivity with Argos throughout the year, for example with the launch of our "Pay No Interest" campaign to coincide with the Argos 50th birthday celebrations.

Our Net Promoter Score (NPS) for Sainsbury's Bank and Argos Financial Services brands remains strong, supported by continued developments of customer online journeys. Argos Financial Services is up 2.5 points while Sainsbury's Bank is up 2 points from Q4 last year.

Stepping up in Digital for our Customers

With customers at the heart of our digital designs, we have continually enhanced, tested and optimised each step of their product journeys with us, resulting in a 13% increase for the Bank's customer satisfaction score on last year.

In **Credit Cards**, our mobile app has seen numerous improvements in functionality throughout the year. These enhancements include View PIN, dynamic minimum payments, balance transfers and Pay by Bank. Pay By Bank gives our customers more payment options, with around half of all app payments being made using this method.



In **Loans** our streamlined application process has seen higher levels of customers complete the journey they begin, and the new digital top-up functionality gives our customers a new channel of choice, with 87% of loan top ups now done online.



In **Insurances**, Pet have made improvements in both self-service and the digital claims journey, including easier navigation of policy information at claim stage. Within Car and Home, digital customer journeys have been improved to make it clearer to customers which product and optional extras are right for them. Travel Insurance customers are now able to check documents, make changes and renew policies online. Life insurance also launched on Compare the Market, increasing our visibility.

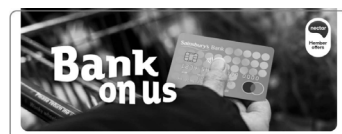
Travel Money made usability and customer experience improvements within the mobile app, which helped us see an extra 37,000 transactions from customers 'loading' their cards with currency than the previous year. Our mobile app has a strong rating of 4.6 and 4.2 stars on the Apple App and Google Play stores respectively at February 2024 (out of 5 stars).



Connectivity

Our total number of customers in Sainsbury's Bank decreased slightly, from 1.9 million at February 2023 to 1.8 million at February 2024. This was driven by Credit Cards, where we significantly reduced Balance Transfers in light of market pricing relative to increased funding costs; but partially offset by Loans and Insurance customer increases. Customer numbers in Argos Financial Services have reduced from 2.1 million to 2.0 million at February 2024 due to the tightening of credit policy, reducing the number of new accounts being accepted.

Nectar continued to be an integral part of our strategy to connect with Sainsbury's customers, with 81% of our customers holding a Nectar card and benefiting from Nectar points and rewards across a range of products. We are communicating more with our customers through nectar channels, which delivers 37% of our non-digital direct sales.



We continued 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.

Sale of the mortgage business

The mortgage portfolio was sold to The Co-operative Bank Plc on 15 August 2023, reflecting the earlier strategic decision to exit mortgages to simplify the business. This reduced customer lending by £449m on sale. Although the risks and rewards of the business have transferred, we continue to service mortgages customers until legal transfer takes place, expected in summer 2024.

Following this, the Group has reclassified the mortgage business as a discontinued operation in the current year in accordance with the requirements of IFRS 5 “Non-current assets held for sale and discontinued operations.” The consolidated income statement has been restated accordingly to show only the Continuing Operations of the Group, with profit after tax from discontinued operations presented as a single line at the foot of the statement. Interest expense of £9m (2023: £13m) in respect of the cost of funding the mortgage business is presented within net interest income from continuing operations, as it cannot be attributed to liabilities entered into specifically to fund the mortgage business. All notes to the financial statements supporting the consolidated income statement have also been restated, with prior year restatements explained in Note 3. The Group has disclosed an income statement, statement of cash flows and the net loss on disposal relating to this transaction in Note 14, where we also present management views of the profitability of the business inclusive of funding costs and an allocation of overhead costs.

Banking business

We launched our ‘Everyday Credit Card’, which has increased our customer eligibility for a Sainsbury’s credit card. Loans personal pricing was launched in July 2023, providing our customers with an early indication of their likelihood of acceptance and interest rate. In June, we won Moneyfacts Best Personal Loan Provider for the second year in a row and were commended for Best Card Provider.

In Savings, we launched a partnership with Hargreaves Lansdown, meaning we can serve more customers in a new channel with more propositions.

In Argos Financial Services Store Cards, our ‘pay no interest’ offering has supported an increase in credit sales of 5% from last year, as well as providing incremental sales for Argos.

With our announced future move to a distributed model, we have withdrawn our Monthly Payment Plan from Argos Financial Services.

We made some targeted investments in existing fraud systems as well as expanding our use of remote document verification and behavioural biometrics on personal Loans and Credit Cards. This resulted in improved fraud resilience across all our unsecured credit products, with a 44% year-on-year reduction in fraud losses across the Group.

Commission business

Our **Insurance** strategy is to be the insurance provider of choice for Sainsbury’s shoppers. We want to be the provider of products of great value for Sainsbury’s Nectar card holders, through discounts and intelligent pricing, with the quality-of-service Sainsbury’s is known for. Our switch and save campaign helped to contribute towards new business within Pet which is up 10% from last year. Home has also seen a strong year of new business growth, up 30% from last year. We launched our ‘Essentials’ product within Car in June 2023, offering our customers more choice at a price point which is right for them.

Our **Travel Money** product had a brilliant year, when looking at our NPS score which is up 29 points from Q4 last year. Sainsbury’s customers loved our launch of Nectar prices, with over 1 million transactions on Nectar rates since launch helping drive total currency transactions for the year up 27% from last year. Our customers ordering online are also now able to collect Euros and US Dollars at their local instore bureau from as little as four hours after ordering.

Our **ATM** estate supports the access to cash initiative, legislation put in place by the government to ensure financial inclusion across the UK. We installed 12 ATMs in areas identified as needing access to cash following recent closures of other ATMs. These machines are not in Sainsbury’s or Argos stores. We are proud to say that £1 in every £9 withdrawn through the ATM LINK network in the UK is from a Sainsbury’s Bank machine, highlighting how important our ATMs are to customers.

Consumer Duty

Delivering good customer outcomes has always been our focus, this is core to our brand and culture. New Consumer Duty regulations came into force in July 2023, providing us with an opportunity to reassess our delivery of good customer outcomes, while making sure that we are compliant. Our customers have had external pressures from rising costs, driven primarily through higher inflation, higher interest rates and the price of energy, meaning it’s more important than ever that we continue to support them. Whilst we have not identified any significant risks for customers receiving poor outcomes, we have taken action to make improvements.

Our new strategy will provide better choices, functionality and, ultimately, improve outcomes for customers in the medium to longer term. The risks and impacts of this change will be carefully managed during any transition.

NON-FINANCIAL AND SUSTAINABILITY INFORMATION STATEMENT

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

Business Model	The Group seeks to provide quality financial services to Sainsbury's and Argos customers at an affordable price. The business model is outlined on page 3 of this Strategic Report
Environmental	Refer to Page 7 of Strategic Report for the Group's strategy for climate and pages 7 to 19 for an update on progress made in the year
Social	Details on our interaction with our communities is outlined on page 20
Our customers	Details on our approach to our customers in outlined page 20
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 20
Gender Pay Gap	Details on gender pay gap is outlined on page 21
Human Rights and Modern Slavery	Details on our approach to Human Rights and Slavery is outlined on Page 21
Anti-corruption/Anti-bribery	Details on our approach to Anti-Corruption and Anti-Bribery is outlined on Page 21

Wates Corporate Governance Principles

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

Principle 1 – Purpose and Leadership	See our business model (page 3) and strategy (page 3) sections of the Strategic Report.
Principle 2 – Board Composition	Outlined in the directors' report on page 40 and the Strategic Report on page 37.
Principle 3 – Director Responsibilities	See the Strategic Report on page 37.
Principle 4 – Opportunity and Risk	See the Strategic Report on page 38.
Principle 5 - Remuneration	See the Strategic Report on page 38.
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. The Board has historically approved a rolling five-year strategic plan on an annual basis, regularly monitoring progress through key metrics (which form the basis of KPIs outlined on pages 24 to 26) and sub-committees to provide appropriate review, balanced challenge and transparency on decision making. Given the recent strategic change, the Board will continue to consider the medium and longer-term consequences of any decisions and will develop appropriate KPIs as the strategy develops.
- Maintaining the reputation of the Bank (and the Sainsbury's Group brands it uses) for high standards of business conduct. The Board promotes the values of the wider Sainsbury's Group across the organisation. These values help colleagues to know how to act at work and we believe they are right because they are also the way that many of us live outside of work too. The Sainsbury's Group (including the Bank and its subsidiaries) has always had a strong sense of social, environmental and economic responsibility and an understanding that our success depends on society's success. Further details on our approach to diversity, environmental and social factors are outlined in the Non-Financial reporting section on pages 7 to 21.
- 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 23 of the strategic report. Information on how we have interacted with our stakeholders is located as follows:

Stakeholder	Strategic Report Reference
Colleagues	Page 20
Customers	Page 20
Communities	Page 20
Investors	Page 22
Suppliers	Page 22
Regulators	Page 22

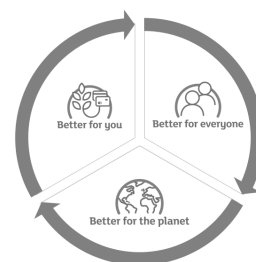
Environmental, Social and Governance

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 36 for our section on Governance.



Environmental strategy

This is the Group's third year of reporting against the recommendations set out by the Task Force on Climate-Related Financial Disclosures (TCFD). The latest assessment can be found throughout the Strategic Report as outlined below:

Governance	Page 7	- Board oversight of climate-related risks and opportunities - Management's role in assessing and managing climate-related risks and opportunities
Strategy	Page 8	- Climate-related risks and opportunities identified over the short, medium and long term - The impact of climate-related risks and opportunities on our businesses, strategy and financial planning - The resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario
Risk management	Page 13	- Our processes for identifying and assessing climate-related risks - Our processes for managing climate-related risks - How our processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management
Metrics and targets	Page 17	- The metrics used to assess climate-related risks and opportunities in line with its strategy and risk management process - Scope 1, Scope 2 and Scope 3 greenhouse gas (GHG) emissions, and the related risks - The targets used to manage climate-related risks and opportunities and performance against targets

Governance

The Group is aligned with J Sainsbury's plc governance on Environmental, Social and Governance ('ESG') related matters and is part of their "Plan for Better" initiative. It also has an objective of ensuring that key product and process decisions and the allocation of change resources/change programmes consider the environmental risk impact in a proportionate way and that this is appropriately documented.

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

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

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

See page 36 for the full committee structure diagram.

Board

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

At its meeting in September 2023, the Board approved the annual refresh of the Group's Corporate Plan which considered, amongst other items, the Plan's impact on the future strategy across the ESG spectrum in relation to the Group's product portfolios.

ESG updates are scheduled quarterly throughout the 2024 calendar year, which will include monitoring of climate-related metrics and targets (including those in relation to GHG emissions). This will be supplemented with ESG-related training as and when required.

Board Risk Committee (BRC)

The BRC oversees the development, implementation, and maintenance of ESG risk management including responsibility for reviewing climate change risks and to alert the Board to any areas of concern. The committee is consulted on any breach of the Group's risk appetite and proposed management actions in response to any breach. The BRC reviews and recommends to the Board the approval of the Group's ICAAP (which includes climate stress testing analysis).

At its meeting in June 2022, the BRC approved the Group's ESG Risk Policy and Appetite following review and discussion at ERC via the ESG Forum. The High-Level Risk Appetite metrics were reported for the first time at the October 2023 committee and are presented at each meeting.

Audit Committee

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

In addition, a high-level summary of the Group's current and emerging risk profile, which includes any climate-related financial risks, are presented as part of the CRO's risk report.

Remuneration Committee

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

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

Management continues to build knowledge and further embed business processes to support oversight of climate-related risks and opportunities within the Sainsbury's Group's business strategy.

The ESG Programme Manager has responsibility for developing and delivering the Group's ESG strategy.

Executive Committee (ExCo)

The ExCo reviews and recommends the Group's ESG strategy to the Bank Board on an annual basis.

Executive Risk Committee (ERC)

The ERC oversees the ESG risk management framework and reviews performance against the ESG risk appetite metrics. The ERC is consulted on any breach of the Group's ESG risk appetite and proposed management actions, informing the BRC as appropriate.

ESG Forum

The ESG forum meets on a quarterly basis with representatives across the business to discuss ESG plans and areas of further development, tracking progress against targets and broader ESG-related matters ahead of presenting this information to the ERC, BRC and/or the Board as appropriate. The ESG forum is chaired by the Chief Risk Officer (CRO), who is the Senior Manager responsible under the Senior Management and Certification Regime (SMCR) for managing the financial risks from climate change. The ESG Forum is attended by management-level colleagues from relevant areas of the Group so they can be kept informed about (and support with) climate-related issues that are monitored as they arise. ESG-related risks are identified and reviewed along with a materiality assessment using the Group's Operational Risk Assessment Impact Matrix.

Asset and Liability Committee (ALCo)

ALCo oversees the approach and results of climate-related stress testing which is included in the Group's ICAAP.

Wholesale Credit Risk Forum

The Wholesale Credit Risk Forum review exposures, limits, and counterparty credit risk performance with regards to ESG-related assets.

Strategy

The Group's broader ESG approach is a 'pragmatist strategy', as agreed by Board, of doing what is right and sensible for both our customers and our wider business whilst ensuring we meet our legal and regulatory requirements related to climate risk. As the Group is included within the Sainsbury's Group's Net Zero Commitment, we aim to ensure that our Scope 1 and 2 emissions are net zero by 2035 and our Scope 3 emissions are net zero by 2050 and that they are appropriately monitored, measured, and aligned to this target.

The Group's key strategic climate-related objectives are proportionate to the Group's broader strategy which is based solely on unsecured lending with no mortgage portfolio (sold in 2023) or corporate lending propositions, as well as being predominantly outsourced and having no appetite for any exposure to carbon intensive industries.

These objectives are summarised below:

1. *Assess Climate-related risks & opportunities* – measure, manage and disclose climate risks and opportunities.

2. *Support the transition to net zero* – in line with the Sainsbury's Group's target via reducing the Group's own emissions.
3. *Alignment with industry developments* – ensure that the Group remains in line with climate-related developments.
4. *No direct support or investment in carbon related assets* – the Group's Wholesale Credit Risk Policy states that the Group will not directly finance companies or organisations whose main activities actively contribute to climate change.
5. *Managing Scope 3 emissions* – ensuring that we focus on addressing Scope 3 emissions as well as being aware of future market developments in how this is measured.

It is noted that the announced planned strategic shift in the Group's product offering to a distributed model through dedicated financial service providers, resulting in a phased withdrawal from its core banking business over time, will have an impact on future ESG goals. This will be subject to ongoing review as part of the ESG Forum as these broader strategic changes develop.

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

Definition of Time Horizons

Time Horizon		Description
Short Term	0 to 3 years	Over the Group's planning horizon
Medium Term	3 to 5 years	
Long Term	5 to 30 years	Determined by ICAAP climate risk stress testing horizon

Climate-related risks

Risks to the Bank from climate change arise through two factors, physical and transition risk. Further details of our assessment of these risks and mitigants is noted within the Risk management section of the TCFD report.

The Bank has assessed and judged the materiality of the related risks based on their relevance to our business model and operating environment using an operational risk impact assessment matrix included within the Enterprise Risk Management Framework (ERMF). This assesses the impact and likelihood of occurrence of each risk which results in a risk score and rating, with 'High' being a severe impact and almost certain of occurring (>£5m financial impact), 'Medium' being a significant and possible (£0.25m-£3m impact) and 'Low' being unexpected and minor (<£0.25m).

Climate risk factor	Description	Key drivers	Materiality based on business model	Horizon
Physical risks	Arise from the increased severity and frequency of extreme climate and weather-related events.	Flooding	Medium	Long term
		Subsidence	Low	
		Coastal erosion	Low	
		Heatwaves	Low	
		Wildfires	Low	
		Hurricanes	Low	
		Desertification	Low	
Transition risks	Arise from the process of adjustment towards a low carbon economy.	Government/Regulatory Policy	High	Medium term
		Carbon pricing	Medium	Medium/Long term
		Consumer sentiment	Medium	
		Investor sentiment	Medium	
		Technological change	Low	Long Term

Climate-related opportunities

As well as risks, the Group has identified several potential climate-related opportunities as part of our support of the transition to a net zero economy, which will be appropriately assessed in terms of their financial impact and viability.

Opportunities	Description	Stakeholders	Horizon
Green finance	Ongoing assessment whether there exists a market for new products to help Group customers reduce their carbon footprint, keeping us aligned with customer sentiment.	Customers	Medium term
Knowledge sharing	Engagement with colleagues, customers, and suppliers to increase understanding of climate-related risks and drive transition to net zero. This ensures we're responding to legislative/regulatory developments and changes in customer sentiment appropriately.	Customers	Short/Medium term
		Colleagues Third party suppliers	

Memberships and affiliations	Assess whether opportunities exist to join or partner with external organisations to increase our understanding of climate-related risks and opportunities. This increases our awareness of technological changes that could impact our business.	Colleagues Customers Third party suppliers	Short/Medium term
Waste and recycling	Both reduce waste and increase the amount of recycling undertaken within the Group's real estate. We will be eliminating single use items from the majority of Group canteens early in our next financial year.	Colleagues Third party suppliers	Short term
ESG-related training	Upskilling of colleagues to improve their understanding of ESG-related topics and ability to tackle them.	Colleagues	Short term

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

The Group's corporate planning process (the 'corporate plan') is used to determine the actions and financial resources required to meet the Group's strategic objectives, assessed against key financial targets and risk appetite metrics over a 5-year period (whereas our budget looks ahead over a 1-year period). As part of this process, the financial risks and opportunities from climate change are considered and assessed based on key inputs gathered from across the Group, which is then reviewed and approved by Board. Additionally, each business product owner is asked to consider the climate impact of their product and steps taken to reduce that impact.

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

Our business strategy is most likely to be impacted by climate-related risks and opportunities in the following ways:

Key potential impacts	Group response
Physical Risks	
An increase in adverse weather events, such as flooding, may impact the resilience of our operations through damage to our premises, infrastructure, and disruption to our critical third-party services and colleagues.	Our current real estate footprint is relatively small. The contract for our office in Edinburgh will end in 2024 and the new building that has been chosen has a much smaller footprint to ensure we are matching our needs with our demands. Ways of working already in place, including remote and hybrid working have seen an increase in working from home. Call centre staff are also included from an operational perspective. As part of the supplier onboarding process, an assessment of the environmental credentials of its suppliers and available alternatives is in place, looking to improve the Group's indirect environmental impact where it is cost effective to do so. Annual supplier review forms are in place which consider climate-related information, where this is applicable on our supplier base. We consider the environmental credentials of third-party suppliers in the selection and management of external relationships. Contingency plans in the event of disruption to third party operations.
An increase in adverse climate-related events, such as forest fires and storms, impact the delivery of some of our products & services.	Forest fires in the summer resulted in increased demands on travel insurance and hence both claims and higher premiums. Increased number of storms impact the level of claims and premiums, and we see this increasing in factors, whereby only one event a year was used for calculations, and this is not increasing in forecasting due to higher than planned adverse weather.

Transition Risk	
Changes in government policy or new regulatory requirements are introduced which increases the costs of doing business.	Horizon scanning for new and emerging regulatory changes including government related policies. Research and development opportunities to ensure we move in line with market as and when it changes. Climate targets are developed and implemented to minimise and reduce our emissions over the medium to longer term. Assessing opportunities to invest in green related assets within the Treasury portfolio.
An increased focus from customers/stakeholders on our green credentials may impact our reputation if the risks and opportunities are not effectively managed and disclosed.	
Increased demand for green products may impact on our profitability and growth if we fail to adapt to meeting changing customer preferences.	
Macroeconomic shocks in the UK due to increased global disruption from climate change may impact our future profitability and growth because of increased unemployment and/or reductions in house prices.	Scenario analysis completed as part of our Internal Capital Adequacy Assessment Process ('ICAAP') process to better understand the potential financial related physical risk impacts.

As the corporate plan is reviewed and updated on annual basis, the Group has a mechanism to review, respond and adapt as well as mitigate any potential risks as they arise that may impact the Group's strategy.

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

Analysis of products & services

Products and services are offered through Sainsbury's Bank as well as Argos Financial Services, we've broken down our review into two key themes below:

Operations

Sainsbury's Bank

- **Reduction in carbon emissions, energy, and wastage through digitisation of products & services:**
 - There have been significant digital improvements across Credit Cards, Loans and Travel Money products, providing customers with the ability to self-serve whilst reducing customer calls into contact centre. As part of Consumer Duty, over 70 of our core customer journeys had been simplified to make it easier for customers to self-serve. Below are some of the key achievements for this financial year:
 - *Credit Cards* – we have simplified our digital offering, with digital in-application balance transfers, which has helped reduce calls relating to balance transfers by 32%. We have also launched capabilities for reminding customers their card PIN digitally.
 - *Loans* – we have provided customers with the ability to top up their existing loan digitally, reducing calls relating to loans top ups by 6% in the first month of launching this capability. Customers can also sign their documentation digitally now instead of using paper and complete ID checks without the use of paper/mail.
 - *Travel Money* – we have made digital journey updates providing a seamless customer experience and increasing online conversion by 3%.
 - *Savings* – Digital signature functionality also added in the last year and it is now possible to complete ID checks digitally instead of issuing through mail on paper.
- **Removal of plastic cards and introduction of a sustainable plastic substitute (PLA cards) for Travel Money creating a more sustainable way to pay**
 - PLA cards have replaced previous plastic cards with a recyclable form reducing environmental pollution.
- **Reduction in paper production through use of digital solutions**
 - *Travel Money* – removal of paper application for the Travel Money card and introducing digital applications at the bureau.
 - *Car & Home Insurance* – aim to reduce c.15% of paper production in the next financial year.

- **Reduction in air pollution through our transition to Electric Vehicles**
 - Replacement of company car fleet, used by support staff, with electric vehicles at renewal is supporting our efforts in reducing carbon dioxide emissions.
- **Working with partners who share the same ethos of digital-first**
 - Online claims process for Pet, Travel, Car, and Home Insurance via third party underwriters and reducing reliance on paper and calls into multiple contact centres.

Argos Financial Services

- At the end of January 2024, we turned off the in-store acquisition channel which is currently completely paper-based, making us digital-only acquisition.
- We are already 80%+ for paperless statements with the removal of the store acquisition channel. Customers will no longer be unable to provide an email address, so all new customers will be digital by default.
- Ongoing improvements to the functionality of our app, specifically around ability to change address and set up a direct debit, should reduce volume into the contact centre.

Opportunities

Sainsbury's Bank

- **Future opportunities for consideration**
 - Electric car insurance, a new product development, remains on our roadmap.
 - Offset carbon footprint through new product development into car and home insurance and contributing towards carbon offset projects.

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

Scenario analysis

The Group has developed a proportionate approach to climate risk scenario analysis as part of our ICAAP, to understand the potential future impacts of climate change on our overall risk profile and to inform strategic planning.

Scenario testing approach

Aligned with the Bank of England's Climate Biennial Exploratory Scenario exercise, the Group models three climate-related scenarios as part of the ICAAP. As the exercise was released in 2021, the Early Action scenario assumes the beginning of the transition in that year. The scenarios assess the potential impacts from different combinations of physical, transition and economic risks over a 30-year period. Impacts on expected losses are modelled on a static balance sheet i.e., assuming no new business or repayments of assets and liabilities and no management actions. It is noted that the modelling of climate change impacts is complex and uncertain, which is primarily driven from the long-time horizons that the risks are expected to materialise over, as well as uncertainties and impacts of future government climate-related policies.

Scenario description

	Late Action	Early Action	No policy Action
Description	Disorderly transition to a net zero economy by 2050	Orderly transition to a net zero economy by 2050.	No further climate policy leading to 3.3°C degree increase in temperatures by 2050.
Transition risk	High	Medium	Low
Transition begins	2031	2021	n/a
Economic impact	Sudden recession	Temporary downturn	Significant downturn
Physical risk	Low	Low	High
Global temperature increase	Limited to +1.8°C	Limited to +1.8°C	Reaches +3.3°C

Scenario conclusions

The exploratory climate scenario analysis completed during 2023 has provided the following insights:

- The primary risk associated with the Early Action scenario is ensuring that there is an adequate framework in place to assess the risks from climate change as transitions risks emerge. This is detailed in the Risk Management section.
- The Group has limited impacts to physical risks both currently and under a range of future climate paths modelled over the next 30 years as the Group does not have a mortgage portfolio or undertake any corporate lending.

- Most material impacts are related to transition risks under a late or no action scenario where overall actions to achieve a net zero are disorderly significantly impacting economic conditions. For the Group an increase in unemployment has a direct increase in total expected losses, however even under these scenarios the Group's business model and capital position were found to be resilient to the risks. If the stress results were deemed to be significantly material, then a re-assessment of the Group's strategy would be undertaken.
- The Group continues to review and refine our scenario testing capabilities as additional data becomes available and further industry good practice emerges.

Risk management

The financial risks from climate change are included within the Environmental Risk component of the ESG principal risk type that forms part of the ERMF. The two key sub-categories of Environmental Risk are highlighted below, which can manifest principally via increases to the Group's other principal risk categories, namely retail and wholesale credit, market, reputational, operational, regulatory, legal, technological or liquidity and funding risks.

Transition risks: These arise from the adjustment towards net-zero emissions, which will require significant structural changes to the economy. These changes will prompt a reassessment of a wide range of asset values, a change in energy prices and a fall in income and creditworthiness of some borrowers. In turn, this entails potential credit losses for lenders and market losses for investors. The transition to a net-zero economy also presents some opportunities for the financial sector, which are noted in detail below.

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

Our processes for identifying and assessing climate-related risks

Climate-related financial risks are currently low for the Group as it does not expect these risks to have a significant impact on its profitability or capital position now or over its 5-year corporate planning horizon. This conclusion is primarily driven from the fact that its lending portfolios are on an unsecured basis following the sale of the mortgage portfolio in 2023, so the key financial risks from climate change are more closely linked to the wider transition risks faced by the UK.

To ensure that these conclusions are regularly reviewed and validated, certain risk management processes and methodologies, aligned to the ERMF, are used to facilitate the ongoing identification, assessment, treatment, and monitoring of this risk type and of its materiality to the Group. A summary of the key elements of this process are noted below:

- **Regulatory horizon scanning** – The Group runs a robust horizon scanning process to identify, action and monitor any regulatory developments relating to climate risk matters which could impact corporate objectives and the delivery of our strategy. Each new development is flagged, assigned to a relevant individual/team, prioritised, and tracked through to compliance with oversight provided by the ESG Forum, Executive Risk Committee and Board Risk Committee.
- **Emerging risk review process** – Within its suite of risk committee-level reporting, any key emerging risks connected to climate-related financial risks are identified, tracked, and discussed where appropriate at the ESG Forum, ERC and/or BRC.
- **Risk appetite & monitoring** – A high level risk appetite metric is in place for ESG risk, which is tracked by the ESG Forum, ERC and BRC. This is subject to an annual review and recalibration in line with the Group's broader review of all its other high level risk appetite metrics.
- **Stress testing (including operational risk scenarios)** – The financial risk impact of climate risk on our portfolios is assessed via stress testing which is quantified within the Group's ICAAP. This considers potential financial vulnerabilities as a result of three climate scenarios set out by the BoE as part of the Climate Biennial Exposure Scenarios (CBES) exercise. Additionally, scenario analysis is used as part of the ICAAP to ensure the Group retains sufficient capital for extreme, but plausible, operational risk events.
- **Incident management processes** – Maintenance of an operational risk management framework, outlining the process for identification, assessment, mitigation and monitoring of operational risks, incident management protocols and reporting any operational risk losses are in place. This can be used to track for any potential physical risk events and assessing the materiality of any impacts.

A summary of the relevant climate-related risks for the Group and potential risk impacts are noted below:

Risk factor	Risk description	Horizon	Risk mitigants	Materiality
Retail & wholesale credit risk				
Physical/ Transition 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 may also have a knock-on impact on the ability of customers to repay unsecured lending products. Increasingly 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. Increased default risk for wholesale counterparties exposed to climate change.	Medium/ Long term	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 transition climate risk; this has been deemed reasonable given our lending book is predominantly unsecured and does not have a mortgage portfolio. ICAAP transition stress testing is undertaken to assess any impact of significant macro-economic impacts from climate change and what this means for the Group. Horizon scanning for technological changes, changes in consumer sentiment of government and or regulator policies so we are kept appropriately aware of developments. Most sovereign assets held by the Group are UK-based, and the UK has been active in recognising the upcoming risks of climate change. The Group's Wholesale Credit Risk Policy states that the Group will not directly finance companies or organisations whose main activities contribute to climate change. An ESG risk assessment is included in the Group's wholesale counterparty credit risk assessment processes.	Low
Market risks				
Transition risk	Changes in market pricing as a result of the implementation of new climate policies. Changes in the value of certain financial assets and liabilities as a result of macro-economic events in response to climate change.	Long term	ICAAP stress testing is undertaken to assess any impact of significant macro-economic impacts from climate change and what this means for the Group.	Medium

Operational risk				
Physical risk	Business continuity is likely to be impacted by severe weather events, including infrastructure, staff, processes and offices and business disruption events arising from new and changing policy standards. Internal capability affected by physical events (i.e., floods, storms, etc.) preventing colleagues from accessing the office. Increases in operational losses linked to climate events.	Medium/ Long term	Corporate insurance policy is in place. Business continuity planning and operational resilience incorporates any flood-related events across the Group's real estate. Remote working capabilities. ICAAP Pillar 2A assessments of operational risk capital which reviews whether any capital may be needed to cover physical risk type events based on likelihood and impact. Regulatory horizon scanning and compliance assessments.	Low
Reputational risk				
Transition risk	Stakeholder expectations and focus increase with regards to the Group's management and response to climate risk, which could increase reputational-related risks. Reputational damage from third party relationships.	Medium/ Long term	Ongoing research and development to identify any market trends/opportunities including any new product development ideas specifically around 'green' products to ensure the Group meets customer demand and expectations. Supplier due diligence and exit planning. Annual supplier review forms and supplier onboarding forms are being updated to ask suppliers to consider climate risk and environmental sustainability.	Medium
Liquidity & funding risk				
Transition risk	Erosion of savings deposits (e.g., due to property re-fit costs or loss of income from climate-related macroeconomic or transition impacts, etc.). Increased cost of wholesale funding due to change in investor appetite for green bonds. Changes in customer behaviour in relation to their assets/saving products.	Medium/ Long term	Annual ILAAP and recovery planning processes. Daily monitoring of the Group's liquidity position and a suite of early warning indicators. Liquidity management actions under the Recovery Plan. Climate risk disclosures articulating the Group's approach to the management of climate risk. Review and assess any 'green' product propositions as appropriate to assess whether there is any viability for the Group.	Low

Regulatory & legal risk				
Transition risk	The Group is not compliant with ongoing legal and regulatory changes around climate risk. Increased operating costs as a result of higher compliance costs that impacts profitability.	Medium/ Long term	Regulatory horizon scanning presented to ESG Forum, ERC and BRC. Gap analysis and compliance assessments undertaken including any cost impacts.	Low
Technological risk				
Transition risk	Costs to transition to lower emissions technology increases and/or unsuccessful investment in new technologies.	Medium/ Long term	Ongoing review of the market in terms of developments in new or alternative technologies.	Low

Our processes for managing climate-related risks

The management of climate-related financial risks and opportunities has been incorporated into the Group's ERMF and governance processes which ensures that the risks are visible and are being managed in line with Board approved risk appetite.

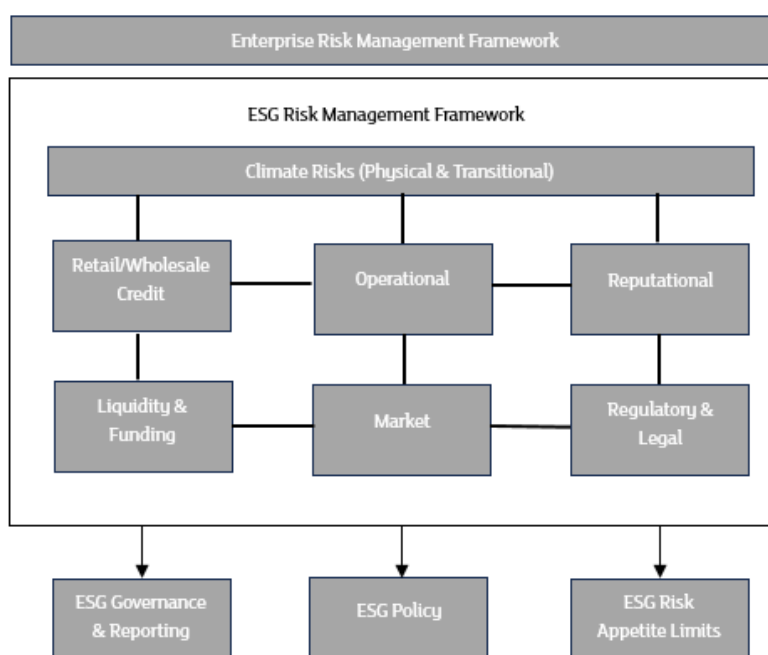
Specifically, decisions to mitigate, transfer, accept or control any significant climate-related risks identified are made in accordance with ERMF principles. This involves assessing the potential impact and likelihood of risk crystallisation using approved risk measurement tools, making a materiality determination, and escalating through the risk governance and committee structures as appropriate.

How our processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management

The Group's broader ESG approach is a 'pragmatist strategy', as agreed by Board, of doing what is right and sensible for both our customers and wider business whilst ensuring it meets legal and regulatory requirements, including the Sainsbury's Group's Net Zero Commitment by 2035. The Group's associated risk management approach is aligned to this strategy, and we have developed a climate risk management framework, which forms part of the ERMF, to ensure that climate risks and opportunities are appropriately identified, measured, managed, monitored, and reported.

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

The management of climate-related risks and opportunities has been incorporated into existing governance and risk management processes, where appropriate, and ensures that the risks are being managed in line with the Board approved risk appetite.



- **Governance & reporting** – The Chief Risk Officer (CRO) has been identified as the Senior Manager responsible under the Senior Management and Certification Regime for managing the financial risks from climate change. Executive Risk Committee (ERC) and Board Risk Committee (BRC) have oversight of climate-related financial risks and receive monthly high level risk appetite metrics related to climate risk. The Bank Board receive regular updates on specific plans to meet our climate strategy and progress against our 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. A quarterly ESG forum has been set up to identify and assess climate change impacts in areas such as Strategy, Risk Management and MI and Disclosure. This provides a view of climate-related risks and opportunities which is used to inform progress around the Group's ESG strategy and net-zero commitments.
- **ESG risk policy** – The Group has a Board approved ESG risk policy (the 'Policy') and forms part of the Group's suite of principal risk policies. The Policy must be reviewed, updated, and approved on (at least) an annual basis or more frequently if there are material changes required in the management and control of ESG risk within the Group.
- **ESG risk appetite limits** – The Policy includes details of the Board approved High Level risk appetite metric, which is an aggregate measure based on an assessment of each the underlying ESG risk drivers (or directional risk metrics) that are most relevant to the Group. This is reported to the ESG Forum, ERC and BRC and is subject to an annual review and recalibration process in line with the Group's broader risk appetite review.
- **Breaches and escalation processes** – A breach is classified as non-compliance with the requirements of the ESG policy where no approved waiver or dispensation is in place. Any breach must be identified and escalated in line with the appropriate process to ensure that appropriate management action is agreed to remediate the breach within approved risk limits. This is fully documented within the Policy and in line with the ERMF.
- **Roles and responsibilities** – The Group defines roles and responsibilities in relation to climate risk under the 'three lines of defence' approach.

Metrics and targets

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

The Group's core target is to achieve net zero emissions by 2035 in line with the Sainsbury's Group's Net Zero Commitment – we aim to ensure that our Scope 1 and 2 Emissions, covering our direct and indirect emissions, are appropriately monitored, measured, and aligned to this target. The Group also contributes to the Sainsbury's Group's target for our Scope 3 emissions to be net zero by 2050.

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

The key climate-related risk metrics are highlighted below:

- **Physical risk events** – number of events that are related to specific physical climate risk events that could lead to operational risk losses.
- **Minimum amount of waste recycled** – the Group seeks to ensure that a minimum percentage of waste is recycled within its real estate.
- **Wholesale asset investments** – the Group is looking to increase investments, where possible, in ESG eligible assets and has set out a minimum target to be reached.

It is noted that the key risk for the Group remains closely linked to the wider economic risks from climate change or transition risks faced by the UK. This is assessed via specific stress testing as part of the ICAAP process and is deemed immaterial at the current time. The Group does not have any specific risk appetite metric for transition risk; however, it would be considered as part of the Group's capital adequacy principal risk where capital related limits are in place.

We have ESG related investments within our Treasury liquid asset portfolio, which corresponds to c.2% of our total Treasury assets.

Scope 1, Scope 2 and Scope 3 greenhouse gas (GHG) emissions, and the related risks

Scope 1 & 2 emissions

Emission Source	Baseline	Results		
	2021	2022	2023	2024
Scope 1 GHG emissions (tCO₂e)	312.37 tCO ₂ e	345.41 tCO ₂ e	290.32 tCO ₂ e	328.24 tCO ₂ e
Scope 2 (Location-based) GHG emissions (tCO₂e)	375.63 tCO ₂ e	227.63 tCO ₂ e	328 tCO ₂ e	342.61 tCO ₂ e
Total (tCO₂e)	688 tCO ₂ e	573.04 tCO ₂ e (16.71% reduction against baseline)	618.32 tCO ₂ e (10.13% reduction against baseline)	670.85 tCO ₂ e (2.49% reduction against baseline)
Scope 1 GHG emissions (tCO₂e)	312.37 tCO ₂ e	345.41 tCO ₂ e	290.32 tCO ₂ e	328.24 tCO ₂ e
Scope 2 (Market-based) GHG emissions (tCO₂e)	412.47 tCO ₂ e	257.78 tCO ₂ e	0 tCO ₂ e	0 tCO ₂ e
Total (tCO₂e)	724.84 tCO ₂ e	603.18 tCO ₂ e (16.78% reduction against baseline)	290.32 tCO ₂ e (59.95% reduction against baseline)	328.24 tCO ₂ e (54.72% reduction against baseline)

All Scope 1 emissions have been calculated using UK Government's GHG Conversion Factors for Company Reporting 2023 for all sources. All Scope 2 Location based emissions have been calculated using UK Government's GHG Conversion Factors for Company Reporting 2023.

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 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 that the above does not currently include: 1) a percentage allocation of office locations for shared services, and 2) a percentage allocation for our travel money bureaux in Sainsbury's stores.

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

Scope 3 emissions

	Baseline	Results				
	2019	2020	2021	2022	2023	2024
Scope 3 GHG emissions	3,725,444.72 tCO ₂ e	3,854,204.16 tCO ₂ e	3,258,250.15 tCO ₂ e	2,840,287.03 tCO ₂ e	3,370,918.61 tCO ₂ e	3,665,241.92 tCO ₂ e

Whilst the Group recognises there is a lack of an industry standard view of calculating Scope 3 emissions, we have adopted our own approach designed in collaboration between Sainsbury's Group and The Carbon Trust, the results of which can be seen in the tables above and below. Over time, as methodologies develop and mature, the Group will look to eventually align with industry standards and, in the interim, look to enhance our own approach where opportunities exist to do so.

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

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

One of our office sites (Widnes) is split between Sainsbury's Group and Group colleagues, but it should be noted the site as a whole has been included in the below.

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

Focus	Metric	Baseline	Results			Target ⁵
		2019	2022	2023	2024	
Reduction in carbon emissions	Absolute Scope 1 and 2 GHG emissions within our own operations (tCO ₂ e)	N/A ²	603.18 tCO ₂ e	290.32 tCO ₂ e	328.24 tCO ₂ e	- 68% Reduction by 2030 - Net Zero by 2035
	Electricity which comes from renewable sources (%)	17%	41%	100%	100%	100% renewable electricity
	Absolute Scope 3 GHG emissions (tCO ₂ e) ¹	3,725,444.72 tCO ₂ e	2,840,287.03 tCO ₂ e	3,370,918.61 tCO ₂ e	3,665,241.92 tCO ₂ e	- 50.45% reduction by 2030 - 90% reduction by 2050
Reduction in water use	Absolute water usage within our own operations (m ³)	14,673.33 m ³	11,549.90 m ³	11,951.60 m ³	10,840.10 m ³	- Water Neutral by 2040
Reduction in food waste ^{3/4}	Food waste to anaerobic digestion (tonnes)	15.570 tonnes	13.860 tonnes	8.027 tonnes	3.630 tonnes	N/A

¹Group is out of scope of FLAG (Forest, Land and Agriculture)-related activities and therefore only focuses on the energy/industry component of the Sainsbury's Group Scope 3 Emissions targets.

²Sainsbury's Group targets are based on a 2019 baseline, however Group data for Scope 1/2 is only available from 2021.

³Measured from April of the preceding year to March of the noted year.

⁴Group uses a different approach to Sainsbury's Group with its metric for food waste, relying on a tonnage rather than intensity percentage-based metric.

⁵The numbers presented in table are for the Group however the targets are set by the Sainsbury's Group.

Social Strategy

Customers

We have a customer strategy that makes best use of our data and insight to ensure we speak to our customers about relevant topics, in the right way, at the right time and through the right channels. We consider not only acquiring new customers, but also how best to retain, reward and support those already with us. We also want to make sure our services are accessible and easily understood by everyone, including people who have a disability or may need help understanding our more complex products.

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

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 Group's Environmental, Social and Governance (ESG) Forum supports the work of the ESG Programme Manager in setting our strategic approach as well as how we implement and embed it. By acting in the best interests of all our stakeholders, we can make a sustainable and positive contribution to our community. We also know that playing an active and supportive role in our community is important to our colleagues. It makes us all feel good to know we're doing something for someone else. We actively participate in national awareness events, such as LGBT+ History Month, Black History Month and Purple Tuesday.

In 2023/2024 our colleagues raised over £52,500 for charity, with the majority (£52,000) of that being for Maggie's, who provide free practical, emotional, and social support for people affected by cancer. Maggie's has been our charity partner since 2019 and we have raised over £200,000 for Maggie's Centres since then.

Colleagues

We aim to make the Group a great place to work for all colleagues. Our 'Making it Better Together 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 continued to embed Smarter Working as part of our colleague proposition – which focuses 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, focused work, and personal development. Unlocking better flexibility, choice, and balance in the way we work.

Listening to our colleagues

We want our colleagues to feel connected and engaged, we measure this through our annual colleague engagement survey. The colleague happiness score of 69 is marginally down from 71 last year. Feedback on how line management treat, and support colleagues continues to be a positive, with colleagues saying they felt supported with their wellbeing, are well communicated to and that their line manager is approachable and accessible. We have an active colleague engagement plan that includes ExCo listening sessions, colleague roadshows, and leader events to provide a broad range of opportunities to ask questions and share their feedback.

A diverse and inclusive place to work

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

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



People Data		
	2024	2023
Permanent Employees	2,242	2,304
Contract Employees	24	100
Total Headcount	2,266	2,404
Of which:		
Full-Time	58%	60%
Part-Time	42%	40%
Full Time Equivalent (FTE)	1,836	1,982

Gender Diversity		
	2024	2023
% Females of Total Employees	58%	60%
At each level:		
Upper	39%	42%
Upper Middle	52%	51%
Lower Middle	67%	69%
Lower	72%	77%

*All numbers quoted are based on the Full Pay Relevant headcount as at 5 April within each reporting year. The comparative figures have been restated as a result

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. At our most recent snapshot in April 2023, 83.5% of colleagues shared their ethnicity with us.

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

Gender Pay Gap

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

The mean gender pay gap of 31.1% (as at April 2023) has marginally improved from 34.3% in April 2022. The gap is, in part, reflective of the number of in-store Travel Money colleagues with around 35% of Sainsbury's Bank colleagues working in these roles on hourly rates of pay and over 71% 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.

Through the Women in Finance Charter (WIF), we had a target to achieve 40% female representation at senior levels by February 2024. We reached this target last year, with 41% in February 2023, but this has reduced slightly to 39% as of February this year. As a result of the strategic update in January 2024, we're reviewing all resignations that we receive and that will mean several different outcomes, which could include not backfilling all roles, which will have an impact on our representation levels throughout the organisation. We continue to ensure both gender and ethnicity is moderated through our talent and recruitment processes and will keep monitoring over the coming months but anticipate there could be further movement.

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

Ethnicity Pay Gap

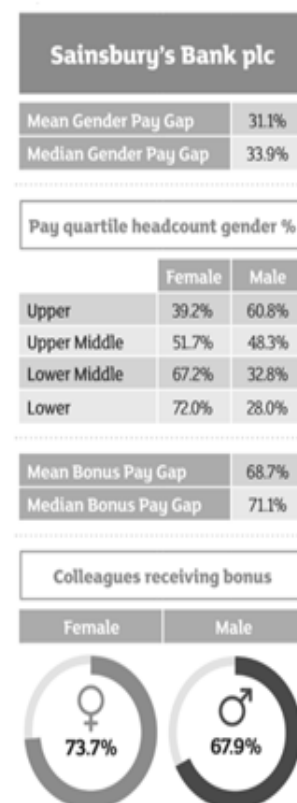
Sainsbury's Group include voluntary disclosures on the ethnicity pay gap at a Sainsbury's Group level. This disclosure includes Group colleagues.

Human rights and modern slavery

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

Anti-corruption / Anti-bribery

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.

The Sainsbury's Group's interests are represented by an appointed non-executive director to ensure effective challenge and collaboration to grow our connected services. Where interests are not aligned, this is managed through disclosure and activities to minimise potential conflicts. In the financial year, the Sainsbury's Group appointed non-executive director resigned and a new non-executive director is expected to be appointed in May 2024.

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 third 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 to manage risks effectively to make sure we continue to meet a high standard of conduct for our customers. Our Supply Chain Oversight Committee provides performance oversight of our suppliers and reports to senior management and the Board.

Continuous and pro-active collaboration with our suppliers is undertaken on a regular basis. This provides a forum 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 Group's iSupplier internet portal provides suppliers with access to the purchase orders raised and allows them to allocate their respective invoices once they have fulfilled the order requirements.

Regulators

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

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

Strategic review of Financial Services division

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

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

Identifying that financial services could still unlock additional value through meeting certain customer needs around credit and loyalty, Sainsbury's commissioned a series of independent third-party reviews to answer the following three questions:

- What are the financial service needs of Sainsburys/ Argos customers?
- Where is the best place for these services to be provided?
- What operating model is required to support the future direction?

Following these reviews, the Board and the Bank's shareholder recognised that there were several alternative operating models in which the Group could both improve the financial services products offered to Sainsbury's customers whilst also continuing to support a clear strategic focus on the Group's retail business.

Throughout the strategic review, the Board has been fully engaged with the development of the proposals and, where appropriate, has utilised its sub-committees to rigorously interrogate the range of potential outcomes ensuring that central to these discussions were, (i) customers, (ii) colleagues, (iii) risk mitigation, (iv) brand and reputation, and (v) key business partners. During the year the Board devoted extensive time at its meetings in evaluating the potential impact of the strategic change on the Bank, its subsidiaries, and its stakeholders. A dedicated change programme was established, and the Programme Director and the Accountable Executive provided regular updates to the Board throughout.

Ahead of the announcement by J Sainsbury plc on the 18 January 2024, the Board met to consider and confirm that, from the perspective of the Group, the preparatory work required to support the announcement, including a detailed risk assessment, had been undertaken and that there were appropriate plans in place to mitigate the risks identified.

During the coming year, the Board and the Bank's shareholder will critically evaluate the opportunities available to support the Group in continuing to offer high-quality, great value financial services products through a distributed model, as is already the case with the existing insurance products. Whilst there are alternative operating models which could achieve this goal, the Board will critically evaluate the options, and subsequent execution plans, against a range of criteria including the delivery of good customer outcomes and continued compliance with existing policies and regulations.

The Board recognises that this will be a significant period of change for the Group and the intention is to provide clarity to customers, colleagues, and other stakeholders on the future strategic direction of the Group through regular updates throughout the coming year. In the short term, there will be no immediate changes to the Group's existing products and services. Members of the Board and the Group's senior management are actively engaging with its regulators throughout this process.

Disposal of the mortgage portfolio

Following a strategic decision taken in 2019 to discontinue new mortgages lending, the Bank had sought to sell the portfolio as a final step towards additional simplicity, cost reduction and eliminate the residual operational and conduct risks associated with running a small historic portfolio of assets.

The Board sought to minimise the impact on colleagues, with only 2-3 individuals working directly on the mortgage book in the run up to the sales, with the wider operation supported by central functions and outsourced service providers. The sale would provide customers with more choice in terms of products and reduce the operational risk associated with managing a small book in run-off with limited resources. In recognising the fostering of good relationships with suppliers, the Board ensured that consultation took place between the Bank and the main third-party servicing supplier that would be impacted by the sale. The supplier was then engaged with possible purchasers who would likely continue to use them as a servicer in the medium term. In recognising the need to act fairly, it was warranted that any transaction would be completed at Fair Value thus ensuring all parties were treated fairly.

After careful consideration the Board determined that the Mortgage sale would benefit the company and was in line with the Company's strategy, at the time of August 2023, to reshape the balance sheet, simplify the organisation and strengthen the business for the benefit of its stakeholders. The priority for the Bank had been to find a buyer that would best meet the needs of its mortgage customers and the Board concluded that the purchasing entity would serve these customers well.

Consumer Duty

During the financial year, the Board and management continued preparation for the Consumer Duty regulation and invested extensive time and effort into understanding and monitoring the implementation of the FCA's Consumer Duty rules. This followed and built on, the extensive Consumer Duty work that was detailed in the Strategic Report in the previous year. The Bank's Chief Customer Officer continued to be the Accountable Executive for delivery of the project although, given the cross-cutting nature of the Consumer Duty rules, other Senior Manager Functions (SMF) holders within the Group remained accountable for delivering different aspects of it. Rosanne Murison, a non-executive director, continued as Consumer Duty Board Champion and, with the Chair, CEO and Accountable Executive, ensured that project and business delivery, and customer outcomes monitoring results were being regularly considered, reviewed and discussed by the Board.

Regular briefings on progress against the agreed milestones were provided to the Board by the Accountable Executive. During the regular briefings, the Board reviewed the embedding and monitoring of customer outcomes across the business and action plans where there could be potential customer harm. In addition, the Board challenged management to ensure that the Group was appropriately identifying all customers with vulnerable characteristics and how outcomes monitoring could be improved.

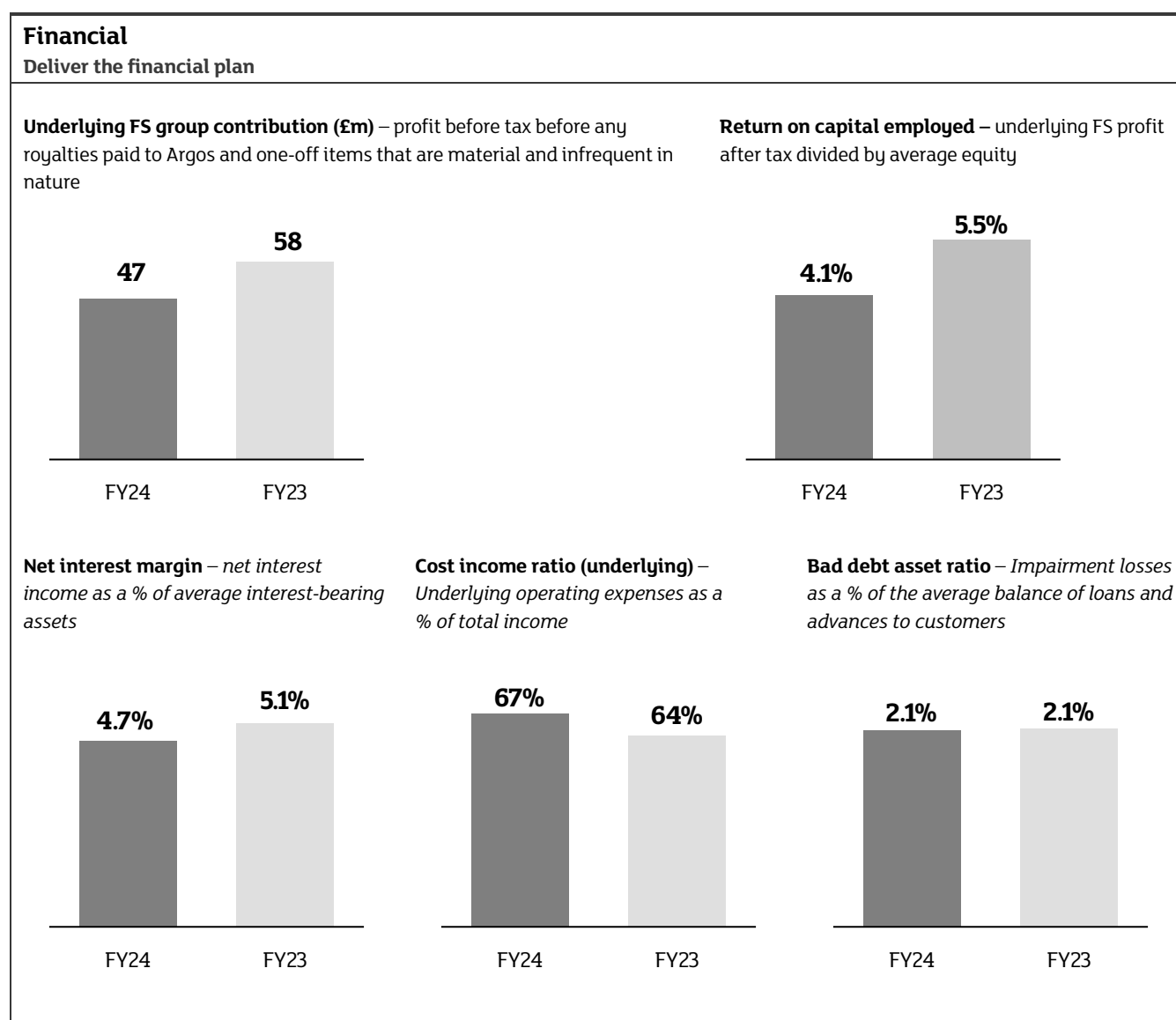
The Group achieved compliance with Consumer Duty (open book) for July 2023 (when the new regulation came into effect). Following this deadline, the scope and deliverables for the second phase of the Consumer Duty project were agreed with five workstreams, each with an Executive Committee sponsor. These workstreams were designed to (i) ensure that the new ways of working delivered by the business in phase one were fully embedded, (ii) where management identified material risk of poor customer outcomes (pain points) these areas were rectified quickly, and (iii) ensure that the Mortgages book was compliant with the Consumer Duty requirements at the point of handover to the Co-operative Bank. A suite of new reporting templates was agreed for Customer Outcome Board Reporting which came into use from July 2023 onwards. This reporting included detailed metrics flagging exceptions by Consumer Duty outcome to Executive Committee and the Board, to permit effective escalation and for each SMF to identify trends for discussion and oversight of where corrective actions and plans were being taken. The Group is on track to deliver regulatory compliance by the end of July 2024 for the closed book products.

The Board recognises that compliance with the Consumer Duty rules should ensure a positive impact on the communities which the Group serves, including demonstrating appropriate levels of care for customers with vulnerable characteristics in society and reinforcing a culture of fairness and reasonableness with colleagues. 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 Consumer Duty regulation to ensure our customers receive good outcomes, devoting extensive time at its meetings, challenging management on progress, signing off the implementation plans and approach as necessary.

Key performance indicators (KPIs)

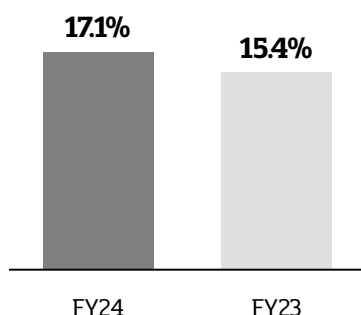
The Group's disclosure of KPIs and Financial Review are completed on a management basis. See page 132 for the reconciliation between the management and statutory basis, including management basis of segmentation between discontinued and continuing operations. The KPIs used to manage the business were unchanged for the year ended 29 February 2024. Given the strategic change and planned move to provide financial services via a distributed model, we expect KPIs may change in future. This will be determined as our plans are developed.



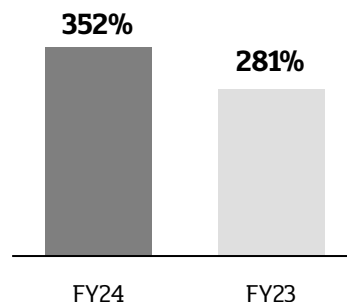
Safe and sound

Manage the business within risk appetite

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



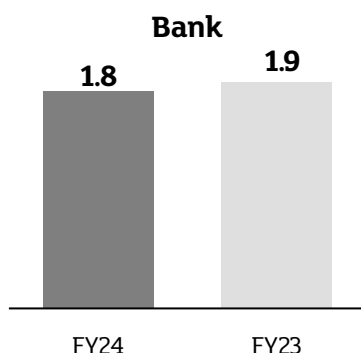
Liquidity Coverage Ratio (spot) - Percentage of the stock of high liquid assets such as cash to net cash out-flow over a 30-day period



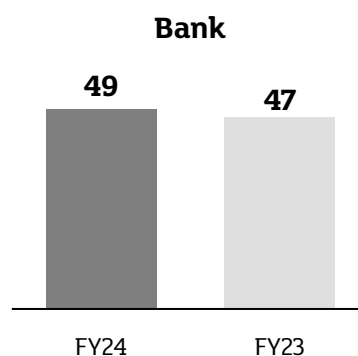
Customers

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

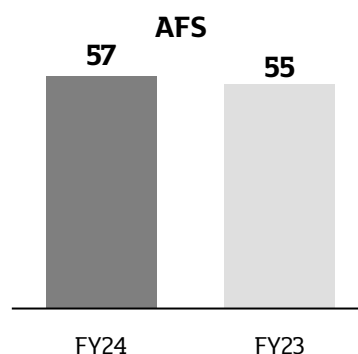
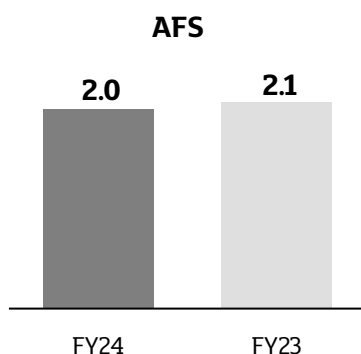
Active customer numbers (million) – the number of customers who hold an active account (savings / loans / credit card / insurance policy)



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



Bank NPS methodology was changed to give equal importance to all customers, no matter which product is held. FY23 recalibrated score is 47, restated from 52



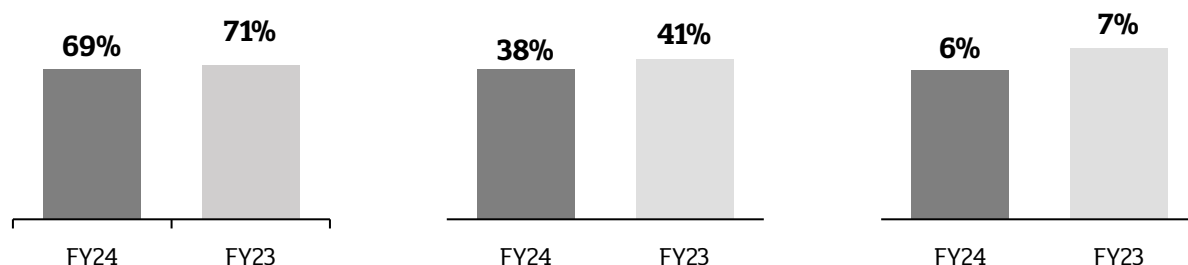
Colleagues¹

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.

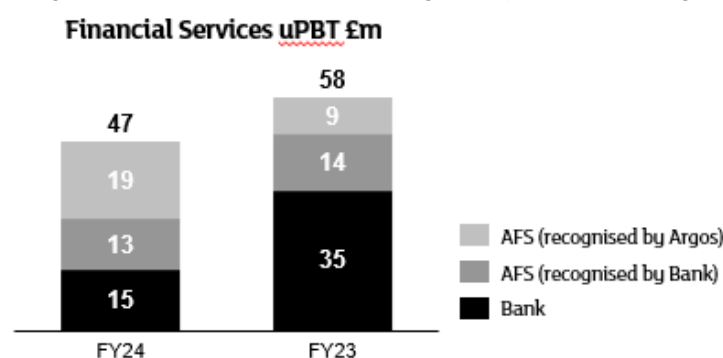


¹This data was gathered in a survey of colleagues in Q4 2023, which was prior to the announcement of the change to future strategy to a distributed model.

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

Financial review

This financial year we have made an underlying profit (group contribution) in Financial Services of £47m, compared to £58m in the prior year. The reduction results from margin compression following rising interest rates.



Underlying income is 2% lower than prior year, reflecting the sharp and rapid increase in the Bank of England Base Rate adversely impacting our funding costs. Interest payable is up 161% and this cost has not been fully passed on to customers. We have had strong underlying interest receivable growth of 25%, driven by selective unsecured customer lending growth, customer margin management and from growth in Treasury assets. Fee, commission, and other operating income increased by 7%, notably in Travel Money and Argos Care.

Underlying FS expenses increased by 2% due to inflation and higher volumes leading to higher colleague and operating costs only being partially offset by lower fraud losses, marketing spend and depreciation. Our cost to income ratio has increased to 67% (FY 2022/23: 64%), reflecting this pressure on income and costs.

Impairment losses decreased by 5% reflecting the latest economic outlook for inflation and unemployment, a slightly reduced unsecured lending book and broadly stable arrears. While Loans arrears are slightly higher, this has been offset by lower arrears for Store Cards. Bad debt as a percentage of lending stayed flat year-on-year at 2.1%.

The Bank remains well capitalised with a total capital ratio of 19.4%, compared to 17.8% at February 2023, driven by lower customer assets, being both a slightly reduced unsecured lending book and the absence of the mortgage portfolio sold in August 2023.

Summary income statement and balance sheet

The Group's performance for the year ended 29 February 2024 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	2024 £m	2023 £m	Change %
Net interest income	300	320	(6%)
Other operating income	145	136	7%
Underlying income	445	456	(2%)
Underlying expenses	(297)	(292)	2%
Profit on financial instruments	1	1	0%
Underlying profit before impairments	149	165	(10%)
Impairment losses on financial assets	(102)	(107)	(5%)
Underlying group contribution¹	47	58	(19%)
Less amounts recognised in Argos	(19)	(9)	111%
Underlying profit before taxation	28	49	(43%)
Less: items excluded from underlying results	(189)	(5)	N/A
Statutory (loss)/profit before taxation	(161)	44	(466%)

¹ Underlying FS group contribution represents our profit before net royalties paid to Argos

Statutory loss for the year ended 29 February 2024 was £161m compared to £44m profit in the prior year. The Financial Services Business announced a strategy update on the 18 January 2024 which has driven material changes to the results for the year.

The overall loss of £161m is largely driven by a number of one-off non-underlying items as a result of the Strategy announcement (totalling £189m), including the write down of all intangible and tangible fixed assets (see below), and a £7m loss from the mortgage book sale to the Co-operative Bank on 15 August 2023. At the time of sale, the mortgage book value was £449m.

Summary balance sheet	2024 £m	2023 £m	Change %
Unsecured loans and advances to customers	4,518	4,729	(4%)
Secured loans and advances to customers	-	564	(100%)
Cash and cash equivalents	1,112	646	72%
Debt securities	770	741	4%
Intangible assets	-	179	(100%)
Tangible assets	-	9	(100%)
Other assets	416	341	22%
Total assets	6,816	7,209	(5%)
Customer deposits	4,165	4,735	(12%)
Wholesale funds	1,557	1,212	28%
Subordinated debt	122	122	0%
Other liabilities	223	274	(19%)
Total liabilities	6,067	6,343	(4%)
Net assets	749	866	(14%)

In balance sheet terms, our year end unsecured loans and advances to customers decreased by 4%. Most notably, Credit Card advances decreased by 20% as we reduced non-interest-bearing balances in light of increased funding costs (through reduction of promotion periods and balance transfer offers). Personal loans advances increased by 5%.

Cash and cash equivalents increased 72% and debt securities by 4% reflecting our investment of excess deposits in additional high quality liquid assets.

As referenced above, intangible and tangible fixed assets have been fully written down as a result of the announced change in strategy. Mortgage balances, our secured loans, were sold in the year.

As we optimised funding, customer deposits reduced by 12%. We carefully managed our customer rates to allow our deposit balances to fall as our lending balances reduced. Wholesale funding was increased to invest high quality liquid assets (being debt securities) for margin.

Net interest income

Net interest income summary	2024	2023	Change
	£m	£m	%
Interest receivable	493	394	25%
Interest payable	(193)	(74)	161%
Net interest income	300	320	(6%)
Net interest margin	4.7%	5.1%	(40bps)

Interest received increased to £493m (25%) driven by increased unsecured balances, higher asset pricing on cards and loans, higher income from our Treasury liquid asset portfolio and the increased income on our interest rate swap portfolio.

Consolidated net interest margin decreased by 40 basis points to 4.7%, driven by higher funding costs mitigated by Treasury asset income growth, higher unsecured lending margins as well as higher average unsecured lending balances.

Fee, commission, and other operating income

Fee, commission, and other operating income summary	2024	2023	Change
	£m	£m	%
Banking income	68	72	(6%)
Insurance income	53	47	13%
Other Income	1	1	0%
Total fees and commissions receivable	122	120	2%
Total fees and commissions payable	(11)	(12)	(8%)
Other operating income	34	28	21%
Net fees, commission, and other operating income	145	136	7%

Banking income decreased by 6%, largely due to less customers being charged over-limit and arrears fees given the strong credit quality observed and as a result of updates to our criteria storecards.

Insurance income (which includes Argos Care) increased 13%, in large part due to the receipt of a larger than usual profit share from one of our insurance underwriter partners. We also saw Argos Care Warranty penetration (of eligible sales in Argos) increase.

The 21% increase in other operating income was driven by our Travel Money business as total sales grew 21% year-on-year as international travel was fully open for the entire financial year following the COVID 19 pandemic.

Operating expenses and investment

Operating expenses summary	2024	2023	Change
	£m	£m	%
Underlying staff costs ¹	100	94	7%
Underlying operating costs	172	165	4%
Depreciation of property, plant and equipment	1	2	(35%)
Amortisation of intangible assets	24	31	(24%)
Underlying expenses	297	292	2%

¹Note 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 £297m increased by 2%. Inflationary colleague pay increases drove an uplift of 7% to staff costs. Excluding staff costs, operating expenses were flat with higher operating costs due to inflation and higher trading volumes offset by lower advertising and marketing spend, fraud losses and depreciation.

Impairment losses on financial assets

Impairment losses summary	2024 £m	2023 £m	Change %
Impairment losses on financial assets	102	107	(5%)
Bad debt asset ratio	2.1%	2.1%	-

Bad debt as a percentage of lending stayed flat at 2.1% (FY 2022/23: 2.1%).

The Bank remains well capitalised with a CET1 ratio of 17.1%, an increase from 15.4% last year, and continues to have ample liquidity with an LCR of 352%. This has risen from the 281% position in February 2023.

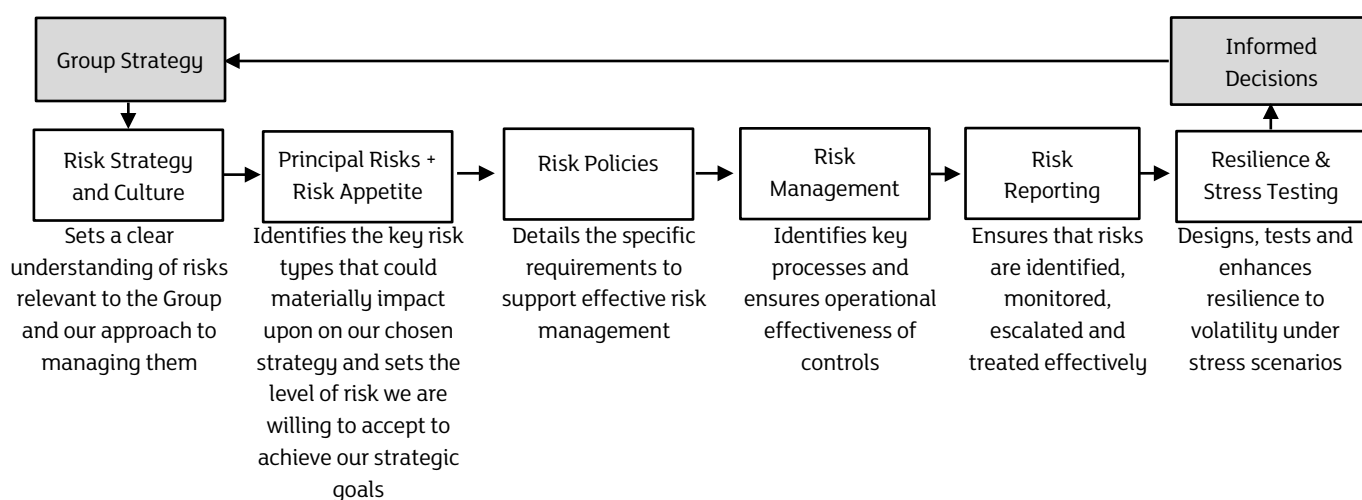
Risk overview

On the 18 January 2024, the Group announced a planned strategic shift in its product offering to a distributed model through dedicated financial service providers, which over time will result in a phased withdrawal from its core banking business. This introduces execution related risks as well as a series of other heightened risk types including people, liquidity and funding and profitability impacting capital adequacy. Our existing risk structures, as described below, were assessed and remain fit for purpose as we enter this period of change.

Introduction

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

Our approach to ERMF includes the following key steps underpinned by a robust risk governance framework:



Risk strategy and culture

Our risk strategy and culture are critical components within the ERMF 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 Group. 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 control before we grow	Material risks are identified, and key controls are tested and reported

Risk Appetite

Our principal risks represent those financial and non-financial risk types that are most material in the execution of the business strategy. There are ten principal risks which have been recognised and approved by the Board. These are reviewed annually to ensure they remain appropriate.

Each principal risk identified within the ERMF has associated qualitative risk appetite statements that informs our strategy for managing risk. From these statements, specific quantitative metrics are established which articulate how much risk the Group can take in the pursuit of our strategic objectives. These metrics are reviewed and approved by Board on an annual basis.

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 principal risk types (e.g. retail credit risk, operational risk). These directional limits are designed to give early indications of changes in the internal and external risk environment, providing an outlook on whether we remain on-track to meet our 'high-level' risk appetite targets.

Performance against both the 'high-level' and 'directional' RAS measures are monitored and reported to our Executive Risk Committee (ERC) monthly, and at each Board Risk Committee (BRC). Additionally, escalation processes are in place to notify Senior Executives and Board members of any high-level RAS measure operating outside of approved thresholds, including recommendations to reduce exposures back within appetite levels.

Risk policies

Our risk policies are aligned to the ten principal risk types to which our business model is inherently exposed (*see separate section below*). Each principal 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 these risks are managed effectively on a day-to-day basis, in-line with risk appetite.

Risk management tools

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

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.
- **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 the Group, 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.

Economic and rate volatility – High interest rates and sustained pressures on the cost of living, mostly driven by higher energy and food prices, created uncertain economic conditions in 2023 straining customer's household incomes and their ability to spend. 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.

Geopolitical environment - The impact of increasing geopolitical risks, via Russia and Ukraine as well as with the expansion of tensions in the Middle East, further exacerbates potential downside economic risks in energy and commodity shortages, impacting the economic environment.

Cyber-attacks – There is a constantly evolving threat from cyberattacks that are increasing in terms of sophistication, impact, severity and frequency. Continuing and further geopolitical tensions also raises our inherent risk profile with heightened monitoring in place for the detection of ransomware attacks. We also see data protection risks increasing as a function of cyber threats, which may feed through into higher conduct and fraud risk (anti money laundering and sanctions risks) if we were to witness non-compliant use of data.

Artificial Intelligence (AI) and ethical data practices – The increased speed of change with regards to technological advancements relating to AI and machine learning is recognised. In particular, the need to balance competing priorities of maximising customer experience or opportunities with the need to ensure that trust and confidence is maintained in customer data privacy, protecting customers from fraud as well as adhering evolving data privacy regulations.

Climate change – Climate change risks represent a source of systemic risks in the financial system and more specifically the potential for increased financial impacts both from physical and transition risks which could lead to widespread disruption. Further details are included in our Task Force on Climate-related Financial Disclosures (TCFD) included on page 7.

Principal risks

Following the Sainsbury's Group's strategy announcement **execution risk**, which can arise from a failure to execute its business strategy as a result of poor decision making, substandard execution of decisions, inadequate resource allocation or from failure to effectively respond to changes in the business/market environment is a key focus and has had a knock on impact on the Group's risk strategy, existing Principal risk types (noted in the table below) and therefore to risk exposures.

In this context, an assessment of the impact of the strategy change on the Group's risk profile was completed to inform a recommendation by the Bank Board to Sainsbury's Group ahead of a final decision to proceed with the proposed strategy completed by our second line risk function. This assessed each of the Group's principal risk types and highlighted where any material shifts were noted and included the following:

- **People risk:** As a smaller bank, we retain a relatively concentrated pool of expertise and senior experience, making it essential that we retain critical subject matter experts, including within regulated roles., despite personal uncertainty arising from the strategy. Whilst currently contracting with third party suppliers of skilled contingency resource, it should not be assumed that critical embedded knowledge (e.g. detail of the Group's technology suite and data) can be readily supplanted. Further, there is a cultural risk as colleagues may become disenfranchised and contract resources may not be invested in corporate values, posing risks to execution quality, customer outcomes, and risk management such as cyber awareness.

Key actions: Investment in appropriate measures to retain, motivate and incentivise key staff, Additionally, securing third party expertise on areas where the Group currently lacks capacity, expertise, or capability, along with enhanced tracking of cultural indicators. Opportunities to review and/or stagger upcoming activities i.e. change portfolios.

- **Fraud:** Customers will be targeted with scam messages, e.g. instructions to move money / divulge security codes, immediately following any announcements. Changes to normal patterns of activity (e.g. heightened savings flows) may obscure detection of abnormal events central to controls. Insider fraud risk is also heightened due to job insecurity, potential for higher staff turnover and use of contractors, and supplier performance of operational processes may degrade. Despite sound controls evidenced in BAU performance, residual risk remains elevated due to anticipated inbound attack volumes.

Key actions: Tighten authentication limits, complete implementation of behavioural biometrics, increase customer messages, daily monitoring, enhanced industry intelligence gathering.

- **Liquidity risk:** Liquidity impacts may stem from increased and unpredictable customer deposit withdrawals, reducing financial soundness and regulatory compliance buffers. However, the Group has a mature control environment with ALCO governance, ILAAP stress testing, and daily MI generation. In addition to a strong ingoing liquidity position, action has already been implemented to diversify funding sources and top up collateral at the Bank of England. It is noted that available liquidity resources significantly exceed modelled plausible stress outflow scenarios. However, poorly handled communications, adverse media coverage, mis-information on social media, or operational outages could cause unpredictable stress.

Key actions: Enhanced ALCO oversight including continuous vigilance over daily liquidity movements, product pricing and offerings could be adjusted to counter outflows.

- **Cyber risk:** Malicious actors are likely to seek to exploit perceived vulnerabilities, e.g. data exfiltration / lax phishing control discipline due to disenfranchised or inexperienced staff and contractors, any failure to promptly patch system vulnerabilities, and potential large movements of customer data and/or technology change during a sale or transitional service process.

Key actions: Enhanced colleague monitoring, strengthened / restricted data loss prevention protocols, continued investment in vulnerability management, increased colleague awareness communications, continued cross-industry collaboration and intelligence gathering.

Chief Risk Officer reporting to Executive Risk Committee (ERC) and Board Risk Committee (BRC) will be used to capture execution risks and monitor how these develop as strategy implementation progresses. This will be assessed in line with the established Enterprise Risk Management Framework principles.

Principal Risks (continued)

	Retail credit risk	Operational risk & capability	Liquidity and funding 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 we are unable to meet our obligations as they fall due or can only do so at excessive cost.	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.	Loss of confidence in the Group leading to a material outflow of deposits and/or difficulties in accessing wholesale funding.	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 more than one source. • 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.	• Risk appetite limits set. • Daily monitoring and reporting of key metrics. • Liquidity and funding targets built into planning process. • Liquidity Contingency Plan in place and tested for options and actions under stress. • The annual ILAAP determines the adequacy of liquidity and funding resources held.	• 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.
Key activities in 2023/24	• Affordability calculations were updated and reinforced to reflect the rising cost of living. • Everyday Credit Card was launched in April 23 with strong affordability checks in place and pricing aligned to risk.	Ongoing implementation of specific treatment plans over the course of the year to reduce residual risk exposures.	• A review and update of the annual ILAAP. • Ahead of the strategic announcement preparations were made to ensure liquidity risks and available resources were appropriately considered and managed via increased governance and MI reviews. • Post announcement monitoring continues but has reverted to a BAU basis.	• Targeted investments in existing fraud systems and data • Expanded use of remote document verification and behavioural biometrics on loans and cards.

Principal Risks (continued)

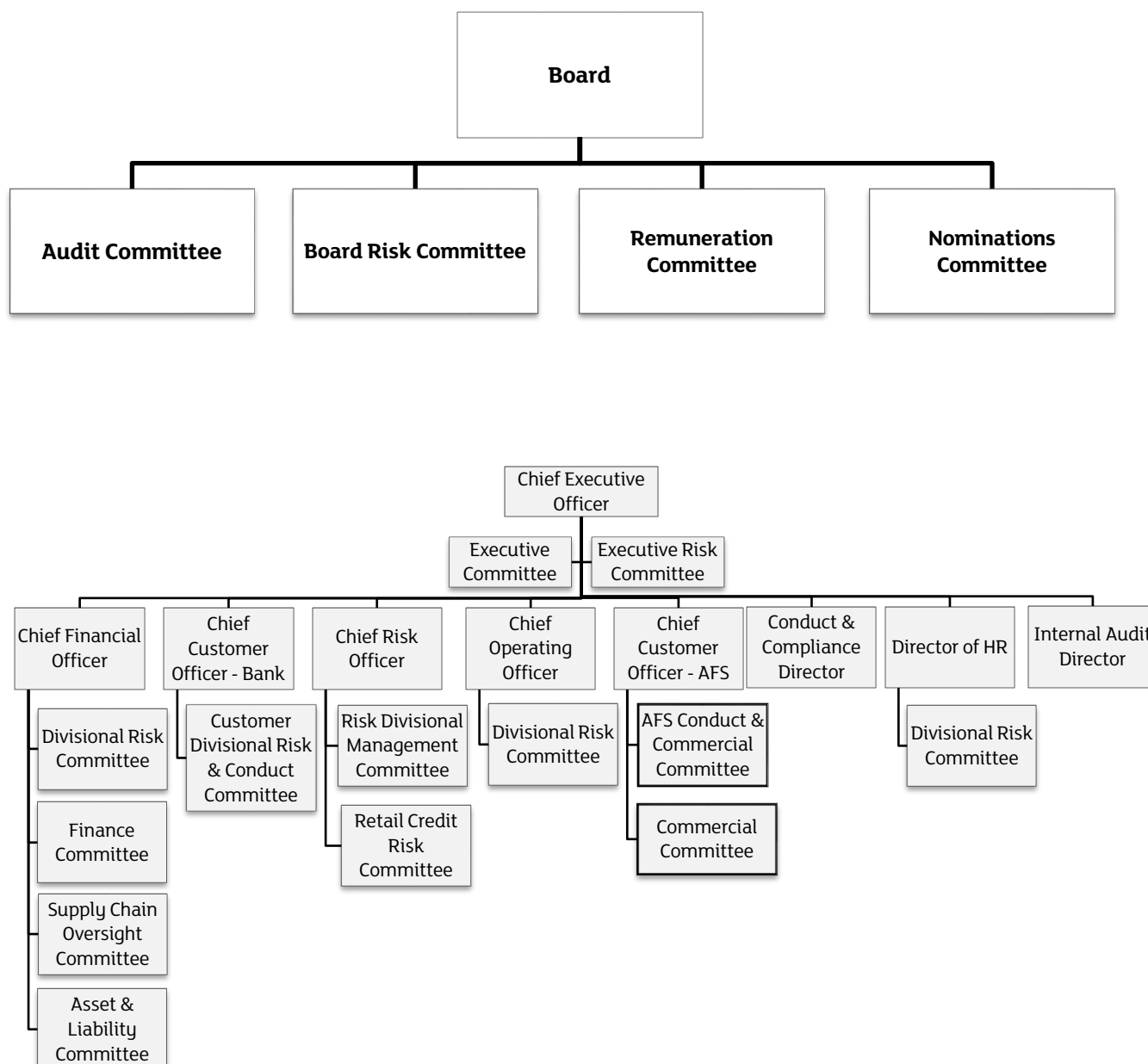
	Conduct and compliance risks	Capital adequacy risk	Market risk	Wholesale credit risk
What is It?	The risk that our culture, behaviour or actions may lead to a failure to comply with regulators, or cause harm or detriment to customers or the markets.	Holding insufficient capital to absorb losses in normal and stressed conditions or the ineffective use of capital.	The risk of loss as a result of the value of financial assets or liabilities (including off-balance sheet instruments) being impacted adversely by the movement in market prices, interest rates or exchange rates. This loss can be reflected in near term earnings, or in the longer term as a result of changes in the economic value of future cashflows.	The risk to earnings and capital arising from the failure of a debtor within the Treasury Liquid Asset portfolio to meet their legal and contractual obligations.
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.	Market risk can arise from: • Timing differences in the interest rate changes of Group assets and liabilities (e.g. fixed rate personal loans and instant access savings accounts) along with the change in the slope and shape of the yield curve. • Additionally, prepayment risk can arise from the timing of customer prepayments which differ from planning and hedging assumptions. • Credit Spread Risk can result from a change in credit spreads, arising via the Group's treasury assets portfolio.	Arises via investment activities within the Treasury Liquid Asset portfolio with the inherent risk that these counterparties could fail to meet their obligations to repay the Bank.
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.	• A suite of risk appetite metrics in place with hedging activity deployed to manage exposures within limits. • Risk measurement systems employed to capture all material sources of relevant market risk. • Effective controls in place to ensure the timely identification, measurement, monitoring, and control of risk.	• Prudent wholesale credit risk management is ensured through effective treasury assets allocation via appropriate limits set by 2nd line of defence. • Active monitoring of current counterparty positions including regular counterparty and asset class credit risk assessments. • Early warning indicators indicating prospective credit risk threat. • A suite of limits in place to effectively manage concentrations.
Key activities in 2023/24	• Delivering and embedding Consumer Duty Standards. • 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 Conduct and Compliance Policy Standards.	• 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.	• Annual review and update of customer behavioural assumptions. • Annual review and update of High-Level Risk Appetite limits.	• Regular asset class and counterparty credit risk reviews as well as associated assessment of the appropriateness of limits set.

Principal risks (continued)

	Model risk	ESG risks
What is It?	The risk that our models are specified or implemented incorrectly, or used inappropriately resulting in severe customer, financial, regulatory, reputational or operational impacts.	The risk of any financial losses, reputational damage or failing to meet minimum regulatory requirements stemming from ESG related factors.
How May it Arise?	Failure at any point in the model development lifecycle processes and key stages including: • Incorrect model use. • Model developed incorrectly. • Lack of model approval and implementation. • Lack of appropriate independent model validation. • Lack of ongoing model monitoring • Model details not captured and tracked on a central model inventory.	• Physical risk – specific weather events and longer-term shifts in climate that could lead to physical damage in property. • Transition risks – can arise from the process of adjustment towards a low carbon economy. • Social risks – risk of not managing key relationships which could cause reputational impacts. • Governance risk – failures of key processes that may affect decision making and/or inaccurate reporting to key stakeholders.
How Do We Manage the Risk?	• Model Risk Committee in place for the approval, monitoring and technical discussion of models used across the Group. • Model Risk Policy and specific risk appetite metrics used to track any exposures.	• Quarterly ESG Forum in place. • ESG Policy and High-Level Risk appetite metrics. • Regular spotlight sessions to ExCo and Board.
Key activities in 2023/24	• Model Risk introduced as a Principal risk type. • Model Risk Principal Risk Policy introduced.	ESG policy introduced along with specific High Level Risk Appetite metrics approved by ERC and BRC.

Governance

The diagram below shows the Governance structure in place for Sainsbury's Bank as at 29 February 2024:



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 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 Group'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 Group and aligned to its strategy. Directors update their skills, knowledge and familiarity with the Group by meeting senior management, a programme of developmental training (from both internal and external speakers) and by attending appropriate external seminars. There is an induction programme for all new Directors which is tailored to their specific needs and which provides access to all parts of the business.

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

Size and structure

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

The current Bank Board is comprised of an Independent Chair, four other Independent Non-Executive Directors and two Executive Directors – the Bank's Chief Executive Officer and its Chief Financial Officer. During the year we also had one Non-Executive Director nominated by J Sainsbury plc resign. 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 36. 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 2023/24. 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 2024/25.

One of the Board meetings is usually set aside each year for strategic planning with the Executive Committee and key stakeholders from across the Group, 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 Group's various functions prepare and maintain the integrity of this information in accordance with the Group'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 Group'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 Group. RemCo is responsible for recommending and monitoring the level and structure of remuneration for senior management (categorised as 'Code Staff' for the purposes of the Code) and senior risk management and compliance colleagues. It continually reviews and assesses the impact of remuneration policies on the risk profile of the Group and employee behaviour. RemCo also has oversight over appointment and severance terms for relevant employees. The Remuneration Committee meets at least four times per year.
- **Board Risk Committee.** The Board Risk Committee (BRC) provides the Board with a forward-looking view to anticipate future risks together with the monitoring and oversight of existing risks within the Risk Appetite set by the Board. It is responsible for reviewing and reporting its conclusions to the Board on the Group's risk appetite and the Group'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. Due consideration is given by the Board to the Group's strategy, changes in the operating environment and emerging risks and opportunities.

Responsibilities

In line with the provisions of the Senior Manager & Certification Regime (SMCR), the Group has allocated the Senior Manager Functions and prescribed responsibilities in so far as they apply to Sainsbury's Bank plc and its subsidiaries. A Management Responsibility Map (MRM) is in place to provide a description of the 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 29.

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 40).

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 Risk Management Framework (ERMF) is effective in ensuring that risks are adequately and consistently managed within risk appetite. In doing so the ERC ensures that appropriate policies and methodologies are in place to manage the 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 six times per year.
- **Supply Chain Oversight Committee.** The role of the committee is to ensure there is an effective group-wide supply chain performance and risk management framework that manages outsourcing, oversees delivery and makes decisions to ensure the Group is able to robustly manage and oversee its suppliers. The Supply Chain Committee meets monthly.

Divisional Risk Committees

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

The PRA approved our application for the Bank to become a Small Domestic Deposit Taker (SDDT) effective 11 January 2024. As a result, the Bank is no longer required to report a Pillar 3 Disclosure Report.

By order of the Board

Michael Larkin
Chief Financial Officer
24 April 2024

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 29 February 2024.

Board of Directors

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

Name	Position	Remunerating entity	Appointment/ resignation date
Lesley Jones	Chair (Independent Non-Executive)	Sainsbury's Bank plc	
Carole Butler	Senior Independent Non-Executive	Sainsbury's Bank plc	
Michael Ross	Independent Non-Executive	Sainsbury's Bank plc	
Guy Thomas	Independent Non-Executive	Sainsbury's Bank plc	
Rosanne Murison	Independent Non-Executive	Sainsbury's Bank plc	
Clodagh Moriarty	Non-Executive	J Sainsbury plc	Resigned 15 May 2023
James Brown ¹	Chief Executive Officer	Sainsbury's Bank plc	Resigned 31 March 2024
Michael Larkin	Chief Financial Officer	Sainsbury's Bank plc	

¹James Brown resigned as the Bank's CEO on 31 March 2024. His successor Robert Mulhall was appointed as Chief Executive Officer effective 9 April 2024 following approval from the regulator.

Unless otherwise stated above, all of the Directors in office at the date of this report served throughout the period, and up to the date of approval of these financial statements.

Board selection criteria

We regard succession at Board and senior management level as a key priority. Recruitment into the Board combines an assessment of both technical, leadership capability and competency skills to ensure the optimum blend of individual and aggregate capability having regard to our long-term strategic plan. Board recruitment is subject to the approval of the Nominations Committee, the Board and the relevant regulatory bodies (PRA/FCA).

Board diversity

We are committed to promoting a diverse and inclusive workplace at all levels, reflective of the communities in which we do business. Our diversity and inclusion vision aligns with that of our parent J Sainsbury plc whose aim is to be 'the most inclusive retailer'. We will achieve this aspiration by recruiting, retaining and developing diverse and talented people and creating an inclusive environment where everyone can be the best they can be and where diverse views are welcomed. The Nominations Committee is responsible for ensuring there is an appropriate balance of skills and experience across the Board.

Directors' indemnities

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

Statement of corporate governance arrangements

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

Employee engagement

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

Business relationships

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

Colleagues

Refer to the S172(1) statement on page 6 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 for the 2024/25 financial year.

Directors' report

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 29 to 35.

Future developments

The development of the Group is set out in the Strategic Report on pages 3 to 5.

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 with specific additional consideration given to the impacts of the strategic changes to the business as described in the Strategic Report on page 3. The Directors are satisfied that the Group does not intend to cease trading and has sufficient capital and liquidity to continue trading for the foreseeable future, being at least 12 months from the date of approval of the Financial Statements, taking into account a range of possible operational, economic and legal scenarios. The Directors have also considered factors beyond this timeframe where longer term financial and operational forecasts and scenarios have been prepared. Consequently, the going concern basis continues to be appropriate in preparing the financial statements. Further information on the risks considered in the going concern assessment is set out in Note 1 to the financial statements.

Dividends

The Bank loss after tax for the year attributable to the shareholders is £112m (2023: £23m profit), and on a Group basis including subsidiaries, the loss after tax was £123m (2023 £33m profit). The Directors do not recommend payment of a dividend.

By order of the Board and signed on its behalf by

Michael Larkin
Chief Financial Officer
24 April 2024

Statement of Directors' responsibilities

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

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

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

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

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

By order of the Board and signed on its behalf by

*Michael Larkin
Chief Financial Officer
24 April 2024*

INDEPENDENT AUDITOR'S 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 29 February 2024 and of the group's loss 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 have 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 29 February 2024 which comprise:

Group	Parent company
Consolidated income statement	Balance sheet
Consolidated statement of comprehensive income	Statement of changes in equity
Consolidated balance sheet	Cash flow statement
Consolidated statement of changes in equity	Related notes 1 to 38 to the financial statements (except for items within note 34 which are marked as unaudited), including a summary of significant accounting policies
Consolidated cash flow statement	
Related notes 1 to 38 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.

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.

We 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, with specific additional consideration given to the impacts of the strategic changes to the business as described in the Strategic Report on page 3. The strategy change introduces new or increased risks in respect of capital and liquidity adequacy as well as a change as regards the manner in which future trade of the Group is undertaken. As a result, we have expanded the procedures performed in respect of going concern. We also consider going concern to be a key audit matter.

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:

How we evaluated the directors' assessment

- We obtained an understanding of how the going concern assessment for the group was undertaken, which is summarised in the basis of preparation note 1 on page 60. This included the identification of factors which may arise as a result of the group's change in strategic direction. We considered the appropriateness of the timeframe used by the directors in making their assessment, which included consideration of longer term forecasts than the 12 months minimum timeframe required for forecasting going concern.
- We obtained an understanding of the directors' rationale for the use of the going concern basis of accounting through reviewing and challenging their going concern assessment and conclusions.
- We assessed the change in strategic direction announced by the group. We considered whether the planned phased withdrawal from the core banking business represented a cessation of trade.
- We designed our audit procedures to evaluate the effect of these key judgements on the group's ability to continue as a going concern.
- We reviewed the directors' evaluation of the group's resilience to financial and operational stress, including severe but plausible scenario analysis performed as part of the group's liquidity stress testing, which took into account the current and forecast levels of liquidity and capital together with the related headroom, including the potential impact of the strategic change and the risks arising thereon. Their evaluation included the quantification of any potentially adverse impacts of customer behaviour.
- We evaluated the timing of repayment of external funding on liquidity requirements, including reviewing regulatory correspondence to understand the impact on those balances described in note 26 on page 94 which have now been classified as current liabilities. We considered the appropriateness and completeness of the stress testing performed by management in light of the planned phased withdrawal of the core banking business. We involved subject matter experts in our assessment to evaluate the completeness of management's considerations. We have challenged management's forecasts and stress tests through independent assessment.
- We reviewed the group's going concern disclosures included in the financial statements in order to assess whether the disclosures were appropriate, consistent with the risks and responses considered in the going concern assessment, and in conformity with the reporting standards.

Our key observations in relation to going concern

- We concluded it reasonable that the directors considered that the change in group strategy did not represent a cessation of trade.
- We have assessed that the severe but plausible scenarios identified by the directors in their stress testing were reasonable.

Conclusion in relation to going concern

We have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group'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	• Going concern basis used in preparation of the financial statements • Accounting and reporting for the group's phased withdrawal from core banking • Expected credit loss provision • Effective Interest Rate accounting • Reliance on the processes and controls of third-party service providers
Materiality	• Overall group materiality of £6m which represents 0.8% of equity.

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 page 31. They have also explained their climate commitments on pages 7 to 19 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 110 its articulation of how climate change has been reflected in the financial statements and 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. The group has set out these uncertainties on page 13, within the Strategic Report.

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 7 to 19 including the significant judgements. As part of this evaluation, we performed our own risk assessment, supported by our climate change internal specialists, to determine the risks of material misstatement in the financial statements from climate change which needed to be considered in our audit.

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

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

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.

In addition to the key audit matters in the table below our response to the going concern key audit matter is set out in the 'Conclusions relating to going concern' section of this report.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Accounting and reporting for the group's phased withdrawal from core banking		
<i>Refer to Notes 1, 9 and 29 of the Consolidated Financial Statements (page 60, 72 & 95)</i> The group announced the completion of a strategic review of the Bank, which will result in a phased withdrawal of the core banking business, with products that continue to be offered being provided by dedicated financial services providers through a distributed model. A significant change in strategy triggers a number of accounting risks which can involve complexity and significant management judgement. We determined the risk to be most prevalent in financial statement line items and higher risk estimates which relied on prospective financial information or which contained direct financial impacts as a result of the change in strategy. These included: a) The appropriateness and completeness of provisions for onerous contracts (£20m of onerous contract provisions, <i>refer to note 29</i>); b) The appropriateness of the complete impairment of fixed and intangible assets (£171m impairment charge, <i>refer to note 12</i>); c) Classification, measurement and disclosure considerations under IFRS 5, IFRS 7 and IFRS 9 (<i>refer to notes 14, 19 and 35</i>). d) The going concern basis of accounting (<i>refer to note 1</i>); We consider there to be significant judgement required by management in making these accounting considerations.	We assessed the design effectiveness of key controls across the processes relevant to the group's evaluation of accounting impacts from the change in strategy. We evaluated the revised forecasts underpinning the group's change in strategy. This involved consideration of the significant impacts of either a sale of financial instrument portfolios or a managed wind-down of these portfolios. This involved an assessment of the group's use of specialists to forecast these scenarios, involvement of independent specialist and subject matter experts to challenge and validate the reasonableness of these scenarios, and an assessment of the accounting impact of these scenarios. We challenged the appropriateness and completeness of provisions for onerous contracts and other related exposures by: (i) Scrutinising the calculations, input data and assumptions used by management in computing the provisions; (ii) Assessing the completeness of the provisions by examining significant contracts and a sample of lower value contracts and recalculated the expected onerous contract provision; (iii) Reviewing internal papers presented the J Sainsbury's Group and Bank Operating Boards and communications issued by the Bank to assess whether additional liabilities existed at the balance sheet date. We validated the impairment of fixed and intangible assets by: (i) Inspecting the impairment tests performed by management and confirming that these indicated a full impairment was appropriate; (ii) Inspecting management's cashflow forecasts and validating the appropriateness of assumptions and calculations used to derive these forecasts; (iii) Considering the sensitivity of the impairment to reasonable movements in key assumptions;	We concluded that the accounting impacts were reasonably considered and reported. We obtained sufficient and appropriate evidence as to the completeness and appropriateness of the onerous contract provisions. We considered that the full impairment of the Group's fixed and intangible assets was appropriate. We communicated that there were material changes to the measurement of EIR adjustments as a result of revised forecasts under the group's change in strategy. We communicated that the resulting adjustments to income and balance sheet were materially appropriate. We confirmed that the financial statement disclosures, as well as the classification and measurement of significant balances within the financial statements, were appropriate in all material respects. This included disclosures which required additional judgement as a result of the change in strategy, including the classification and measurement of financial instruments under IFRS 5 and 9 and the reporting of fair value disclosures. We confirmed the going concern basis of accounting was appropriate as described above on page 43 of this report.

	(iv) Performing a stand-back analysis to identify whether the forecasts that supported a full impairment were consistent in all material respects with other areas of forecasting, including going concern. We assessed the forecasts underpinning the EIR adjustments for consistency with the change in strategy. We tested the change in value in EIR adjustments as a result of the revised management forecasts. We considered and evaluated the appropriate classification, measurement and disclosure of material items within the financial statements through: (i) Reviewing internal papers and expected timelines for key milestones of the strategic review as presented to the Board prior to the announcement to set an expectation for the status at the balance sheet date and the impact of financial statement reporting; (ii) Enquiring of key management personnel at the J Sainsbury's Group and the Bank, to understand the specific circumstances and status relating to the strategic review as at the balance sheet date and obtaining supporting evidence to corroborate management's conclusions and resultant impacts on the financial statements; and (iii) inspection of the financial statements and significant disclosures, consulting and engaging with our IFRS technical specialists, and comparison to relevant best practice and peer disclosures.	
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Expected Credit Loss Provisions		
Impairment Provision (2024: £250m, 2023: £259m) <i>Refer to Accounting policies (page 62); and Note 15 of the Financial Statements (page 77)</i> Customer receivables comprise unsecured personal loans, credit cards and store cards. Credit provisions represent management's best estimate of impairment, and significant judgments and estimates are made in determining the timing and measurement of expected credit loss ('ECL'). 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 made for judgements on significant increase in credit risk, multiple economic scenarios and assessment of overlays. 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.	We assessed the design effectiveness of key controls across the processes relevant to the impairment provision calculation. This included consideration of model governance, data accuracy and completeness, multiple economic scenarios, and the allocation of assets into 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. We considered the assumptions, inputs and formulas used across the population of ECL models. This included assessing the appropriateness of model design and the formulae used, considering alternative modelling techniques and recalculating the Probability of Default, Loss Given Default and Exposure at Default for a sample of the models. 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. We also performed sensitivity analysis on the staging criteria. We challenged management over the appropriateness and completeness of PMAs 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 communicated that we were satisfied that the provisions for impairment of loans and advances to customers were reasonable and recognised in compliance with the requirements of IFRS 9. Our testing of staging allocation, models and model assumptions identified no significant matters. We communicated that the economic scenarios used, the weightings applied to scenarios, and the utilisation of PMAs to capture the risk of factors such as interest rate risk and inflation were reasonable. Other PMAs recorded by management were considered to be appropriate and complete. We communicated that the considerations made by management in these areas meant that the ECL was reasonably stated. We communicated that we were satisfied with the accuracy and adequacy of the disclosures made.

	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.	
Effective Interest Rate Accounting		
EIR Adjustment on the balance sheet (2024: £76m, 2023: £108m) <i>Refer to Notes 2,4 and 15 of the Consolidated Financial Statements (page 67, 69 & 77)</i> Accounting standards require that interest income on personal loans, credit cards and store cards 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. EIR adjustments are sensitive to judgements about the expected behavioural lives and future yields of the product portfolios to which they relate. The risks, as we see them, are that: (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. In addition to the above, we determined that the group's change in strategic direction for the Bank would affect certain judgments made in respect of EIR accounting. Specific elements of this are set out more fully in the key audit matter below "Accounting and reporting for the group's phased withdrawal from core banking".	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 assumptions by: (i) Reviewing the methodology to assess whether all key variables were appropriately considered and were being accounted for in accordance with the applicable accounting standards. (ii) Comparing judgements to: (a) observable recent customer behaviour, and (b) product pricing models. (iii) Evaluating the reasonableness of future cashflows as a result of the impact of the strategic decision to undertake a phased withdrawal from core banking business. (iv) Testing for indications of management bias through: (a) comparison of customer behaviour to observable market data; (b) review of judgements made by management for consistency with prior periods where appropriate; (c) performing sensitivity analysis over the impact of alternative behavioural lives and challenging the current behavioural lives used; and (d) challenging model alignment adjustments ("true-ups") for appropriateness using our knowledge and experience across the industry, including assessing the appropriateness of the data, scenarios and calculations used in determining the true-up applied.	We communicated that we were satisfied that the assumptions used in determining the EIR asset balance were reasonable and in accordance with the applicable accounting framework, and that we were satisfied with the completeness and accuracy of data used within the EIR models.

	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.	
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 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 performed procedures to obtain an understanding of the processes which are outsourced to third-parties and their impact on the financial statements. 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.	We obtained reasonable assurance over the Bank's processes and controls over the completeness and accuracy of data received from third parties. We inspected the Service and Organisation Control reports and are satisfied that management have responded appropriately to relevant control deficiencies. We have also assessed the implementation of the appropriate complimentary end-user controls where necessary.

	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.	
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Accounting and reporting for the group's phased withdrawal from core banking is a new key audit matter in the current year because this has involved significant auditor judgement. Our evaluation of the directors' going concern assessment has required an increased level of auditor attention and therefore is also a new key audit matter in the current year.

Our application of materiality

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

Materiality

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

We determined materiality for the group to be £6m (2023: £6.2m) which is 0.8% of equity (2023: 1.5% of gross margin). We believe that equity provides us with the most appropriate basis for materiality, given the importance to the group of continuing to meet regulatory capital requirements as it undertakes a phased withdrawal from its core banking business over time. This represents a change from gross margin as the materiality basis in prior year, given the focus on capital adequacy over the withdrawal period. Revised materiality calculations undertaken on a basis of 1% equity would have led to increased materiality thresholds; however we did not consider it appropriate to raise materiality levels. As a result, materiality was capped broadly at the levels previously calculated amounts at 1.5% of gross margin, which results in 0.8% of equity.

We determined materiality for the Parent Company to be £3.7m (2023: £4.3m), which is 0.5% of equity (2023: 1.5% of gross margin). This basis is consistent with the basis used for materiality of the group financial statements.

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 £4.5m. 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 [set out on pages 2 to 42, 134 and 135], 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 42, 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.

- 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 ('ERM') and internal control processes. We also reviewed the Bank's complaints and Whistleblowing processes.
- 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 financial results.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved inquiries of legal counsel, executive management, internal audit, and 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 7 years, covering the years ending 28 February 2018 to 29 February 2024.

- 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.

*Blake Adlem (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Edinburgh
24 April 2024*

Consolidated income statement

For the year-ended 29 February 2024

	Note	2024 £m	2023 £m Restated ¹
Interest income	4	460	376
Interest expense	4	(192)	(74)
Net interest income		268	302
Fees and commissions income	5	145	108
Fees and commissions expense	5	(12)	(10)
Net fees and commissions income		133	98
Other operating income	6	34	28
Total income		435	428
Administrative expenses	7	(296)	(264)
Impairment of Intangible and Tangible assets			
Property, plant and equipment	22	(9)	-
Intangible assets	21	(162)	-
Depreciation and amortisation			
Property, plant and equipment	22	(2)	(1)
Intangible assets	21	(30)	(31)
Operating expenses		(499)	(296)
Impairment losses on financial assets	15	(102)	(109)
Realised gains on financial instruments	8	1	1
(Loss) / profit before taxation		(165)	24
Analysed as:			
Underlying profit before tax		17	29
Non-underlying items	9	(182)	(5)
		(165)	24
Taxation	13	39	(7)
(Loss) / profit for the financial year from continuing operations		(126)	17
Discontinued operations			
Profit after tax from discontinued operations	14	3	16
(Loss) / profit for the financial year attributable to the owners of the Group		(123)	33

¹ The prior year has been restated following the classification of the mortgage business as a discontinued operation. Refer to notes 3 and 14

The accompanying notes on pages 60 to 130 form part of these financial statements.

Consolidated statement of comprehensive income

For the year ended 29 February 2024

	Note	2024 £m	2023 £m
(Loss) / profit for the financial year		(123)	33
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Financial assets fair value movements		-	2
FVOCI gains recycled to income statement		-	(1)
Total other comprehensive income, net of tax		-	1
Total comprehensive (expense) / income		(123)	34
Total comprehensive (expense) / income for the year attributable to the owners of the Group			
Continuing operations		(126)	18
Discontinued operations		3	16

All amounts are attributable to the owners of the Bank.

The accompanying notes on pages 60 to 130 form part of these financial statements.

Consolidated balance sheet

As at 29 February 2024

		The Group		The Bank	
		2024	2023	2024	2023
	Note	£m	£m	£m	£m
Assets					
Cash, balances with central banks and other demand deposits	17	1,112	546	1,078	499
Loans and advances to banks	18	-	100	-	100
Derivative financial instruments	19	62	99	15	47
Investment securities	20	770	741	770	741
Loans and advances to customers	15	4,518	5,293	3,715	4,555
Investments in subsidiaries	23	-	-	325	325
Intangible assets	21	-	179	-	147
Property, plant and equipment	22	-	9	-	9
Other assets	24	354	242	843	691
Total assets		6,816	7,209	6,746	7,114
Liabilities					
Customer accounts	25	4,165	4,735	4,165	4,735
Other deposits	26	1,557	1,212	1,557	1,212
Subordinated liabilities	27	122	122	122	122
Derivative financial instruments	19	56	53	56	53
Other liabilities	28	126	190	92	144
Provisions for liabilities and charges	29	41	31	25	12
Total liabilities		6,067	6,343	6,017	6,278
Equity					
Called up share capital	30	701	701	701	701
Retained earnings		46	163	26	133
Other reserves		2	2	2	2
Total equity		749	866	729	836
Total equity and liabilities		6,816	7,209	6,746	7,114

Retained loss for the year of £(112)m (2023: retained profit of £23m) is attributable to the Bank. Of this, retained losses of £(115)m (2023: retained profit of £7m) is relating to continuing operations and retained profit of £3m (2023: £16m) relates to the discontinued operations. Details of prior year restatements between continuing and discontinued operations for the Group can be found in Note 3.

The financial statements on pages 54 to 130 were approved by the Board of Directors on 24 April 2024 and signed on its behalf by:

Michael Larkin
Director and Chief Financial Officer

The accompanying notes on pages 60 to 130 form part of these financial statements.

Sainsbury's Bank plc – Company number 3279730

Consolidated statement of changes in equity

For the year ended 29 February 2024

The Group	Note	Called up share capital £m	Retained earnings £m	Other reserves £m	Total equity £m
As at 1 March 2023		701	163	2	866
Loss for the financial year		-	(123)	-	(123)
Other comprehensive income:					
Financial assets fair value movements (FVOCI)				-	-
FVOCI gains recycled to income statement		-	-	-	-
Total comprehensive (expense)		-	(123)	-	(123)
Transactions with owners:					
Share-based payment (net of tax)		-	6	-	6
Dividends Paid		-	-	-	-
At 29 February 2024		701	46	2	749

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
Other comprehensive income:					
Financial assets fair value movements (FVOCI)				2	2
FVOCI gains recycled to income statement		-	-	(1)	(1)
Total comprehensive (expense)		-	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

All amounts are attributable to the owners of the Group.

The accompanying notes on pages 60 to 130 form part of these financial statements.

Sainsbury's Bank statement of changes in equity

For the year ended 29 February 2024

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

	Note	Called up share capital £m	Retained earnings £m	Other reserves £m	Total equity £m
The Bank					
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)		-	-	2	2
FVOCI gains recycled to income statement		-	-	(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

All amounts are attributable to the owners of the Bank.

The accompanying notes on pages 60 to 130 form part of these financial statements.

Consolidated cash flow statement

For the year ended 29 February 2024

	Note	The Group		The Bank	
		2024 £m	2023 £m	2024 £m	2023 £m
(Loss) / profit before taxation from continuing operations ¹		(165)	24	(153)	11
Profit before taxation from discounted operations ¹		4	20	4	20
Total profit before tax		(161)	44	(149)	31
Non-cash and other items included in profit before taxation		328	153	244	87
Change in operating assets and liabilities		326	167	400	231
Income tax payments		(3)	(4)	(3)	(4)
Cash flows (used in) / generated from operating activities	16	490	360	492	345
Purchase of equipment		(2)	(1)	(2)	(1)
Purchase of intangibles		(13)	(20)	(2)	(11)
Cash flows (used in) / generated investing activities		(15)	(21)	(4)	(12)
Interest paid on subordinated liabilities		(13)	(9)	(13)	(9)
Dividend Paid		-	(50)	-	(50)
Repayment of subordinated liabilities		-	(175)	-	(175)
Issuance of subordinated liabilities		-	120	-	120
Lease payments		(1)	(1)	(1)	(1)
Cash flows (used in) / generated financing activities		(14)	(115)	(14)	(115)
Change in cash and cash equivalents		461	224	474	218
Total Change in cash and cash equivalents		461	224	474	218
Opening cash and cash equivalents		646	422	599	381
Closing cash and cash equivalents		1,107	646	1,073	599

¹The prior year has been restated following the classification of the mortgage business as a discontinued operation.

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

	The Group		The Bank	
	2024 £m	2023 £m	2024 £m	2023 £m
Cash, balances with central banks and other demand deposits	1,112	546	1,078	499
Less: mandatory reserve deposit held at central banks	(14)	(15)	(14)	(15)
	1,098	531	1,064	484
Investment securities	9	115	9	115
	1,107	646	1,073	599

The accompanying notes on pages 60 to 130 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 29 February 2024 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. 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, with specific additional consideration given to the impacts of the strategic changes to the business as described in the Strategic Report on page 3. The strategy change introduces new or amended risks in respect of capital and liquidity adequacy as well as a change as regards the manner in which future trade of the Group is undertaken. There is no intention to cease trading, as outlined in the commitment to continue the provision of financial services via a distributed model. The assessment period for the purposes of considering going concern is the 12 months to 24 April 2025, however, in accordance with IAS 1, the Directors have also considered factors beyond this timeframe where longer term financial and operational forecasts and scenarios have been prepared.

The strategy change introduces new or amended risks in respect of liquidity and capital adequacy which arise from the move to offer financial services products by dedicated financial services providers and the phased withdrawal from the core banking business. Taking into account the current and forecast levels of liquidity and capital together with the related headroom, the Directors have considered and assessed the potential impact of the strategic change and the risks arising thereon. The evaluation has included the quantification of any potentially adverse impacts of customer behaviour as well as the timing of repayment of external funding. Having undertaken this assessment, the Directors are satisfied that the Group has sufficient liquidity and capital resources to withstand severe but plausible adverse scenarios stemming from the risks of the strategic change prior to any additional mitigating actions being taken. In the event of any mitigations being required, the Directors are confident that additional liquidity could be raised through future asset securitisations or other sources of funding. Accordingly, it has been concluded that this does not result in any material uncertainties affecting the Group's ability to continue as a going concern. The Directors are also comfortable that, as at the date of approval of these financial statements, none of the scenarios considered result in the legal entity ceasing to trade.

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 29 is considered adequate in managing liquidity and other key risks in the current environment including managing the elevated risks post the change in strategy. 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 financial position date exchange rates. Exchange differences arising are recognised in the income statement.

1. Basis of Preparation (continued)

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. In light of the recent strategic change regarding the Group moving to a distributed provision of financial services, the Group has considered whether any changes to the business model assessment exist under IFRS 9 and have concluded there has been no change at the 29 February 2024, meaning the Group's business model continues to be collection of contractual cashflows.

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).

Amortised cost

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

Fair value through other comprehensive income

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

Fair value through profit and loss

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

Equity instruments

Upon initial recognition, the 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.

1. Basis of Preparation (continued)

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 Limited
- Home Retail Group Insurance Services Limited
- ARG Personal Loans Limited
- Drury Lane Funding 2020-1 plc

Argos Personal Loans Limited has an active proposal to strike off the register at Companies House.

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:

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

2. Material accounting policies and judgements

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

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

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

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

Consideration has also been given to the judgements and estimates arising from the announcement that financial services products to be offered in the future will be provided by dedicated financial services providers through a distributed model and over time this will result in a phased withdrawal from the core banking business.

Key judgements have included the classification of costs as non-underlying items (Note 9), provisioning including the introduction of an Onerous Contracts Provision (Note 29) and management forecasts of future performance used to determine impairments and probability weighting on related cash flow projections to support such charges. In this regard two scenarios were considered to represent the range of possible outcomes as the Group implements the revised strategy, one comprising a sale of certain portfolios and the other a run down of certain portfolios over time (Notes 15 and 33).

Impairment of loans and advances

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

These calculations are undertaken on a portfolio basis using various statistical modelling techniques. Impairment models are continually reviewed to ensure data and assumptions are appropriate with the most material assumption being around expected loss rates.

The 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.

2. Material accounting policies and judgements (continued)

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 unlikelihood to pay criteria that result in an account being deemed to have defaulted. These include:

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

Where an account no longer meets any of the default criteria, such as by bringing payments back up to date, the Group will continue to consider the account as being in default for the probation period (24 months for Loans and Credit 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.

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. Material accounting policies 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, 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 29 February 2024 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	
	2024	2023	2024	2023
	£m	£m	£m	£m
Economic overlays	2	1	2	2
Operational PMAs	(1)	(4)	(13)	(16)
Total	1	(3)	(11)	(14)

The proportion of net overlays and PMAs for the Group is 1% of the total ECL provision at 29 February 2024 (2023: -1%).

Economic overlays are included where management judge the underlying models do not respond adequately to the economic scenarios. The key economic uncertainty is the threat from 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 and therefore hold a post model adjustment.

The majority of the operational PMAs relate to specific model limitations that have been manually corrected whilst a permanent fix is being developed. These are driving the majority of the year on year movement in operational PMAs as model fixes have been promoted into live. Additionally, we include a PMA for VAT recoverable via Bad Debt Relief where the debt arose as a consequence of sales in Sainsbury's or Argos.

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

Management use of ECL information

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

2. Material accounting policies and judgements (continued)

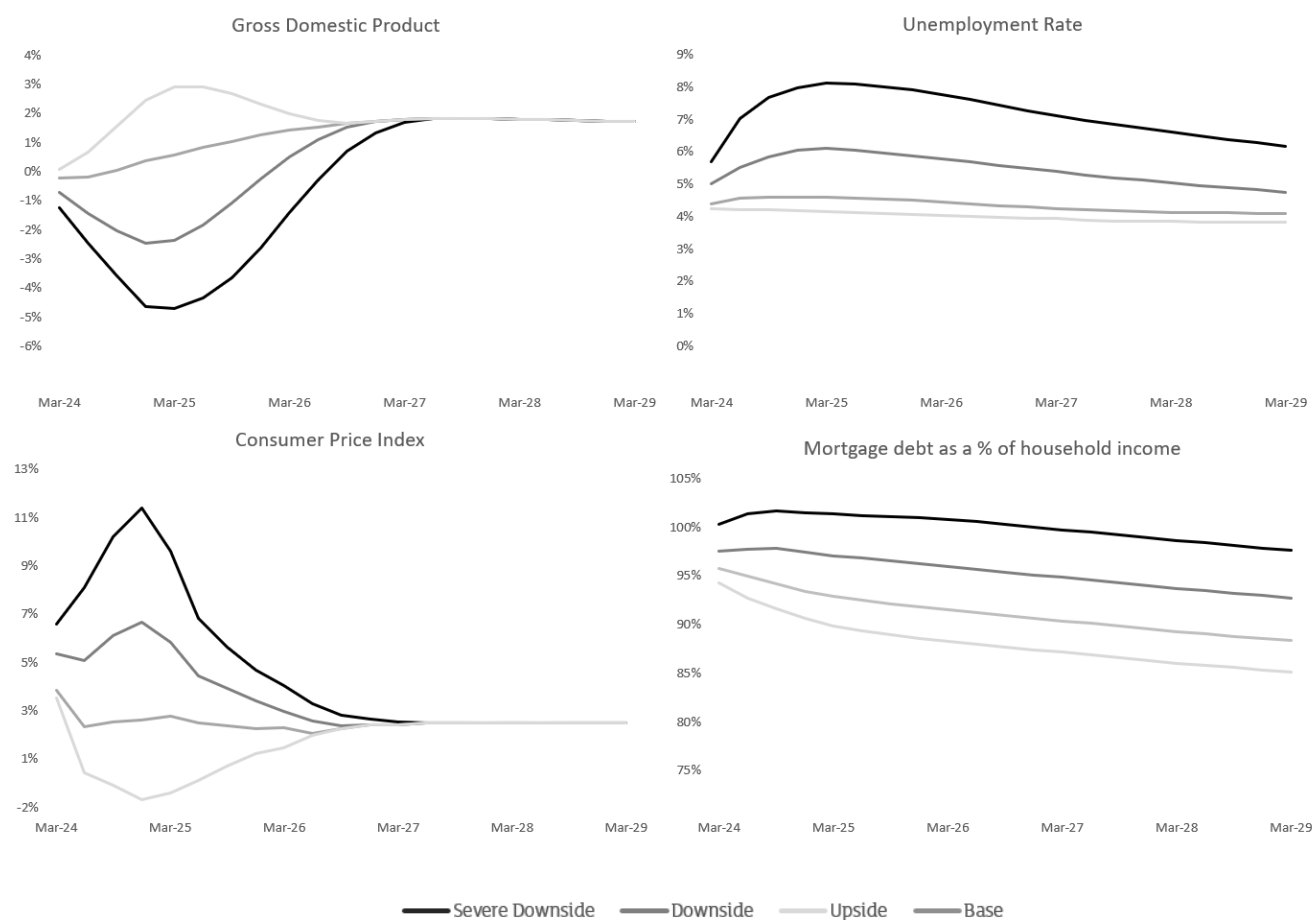
The ECL models utilise 4 scenarios (2023: 4 scenarios) including a 'base case' scenario considered to be the most likely outcome together with an upside, downside and severe downside scenario. The base case has been assigned a probability weighting of 40% with the upside, downside and severe downside scenarios weighted 30%, 25% and 5% respectively (2023: base scenario 40%, upside, downside and severe downside scenarios were 30%, 25% 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.

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 2030. They are applied in ECL models for the remaining residual behavioural life of the related financial instruments, which can also exceed 5 years.

The graphs below plot the data for Unemployment, GDP, 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 4.6% in Q2 2024 before reverting to the long-term average in Q4 2030 and a spike in CPI of 3.4% in the first quarter of 2024.

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

2. Material accounting policies and judgements (continued)

Scenario 5 Year Averages	As at 29 February 2024			
	Base %	Upside %	Downside %	Severe Downside %
Unemployment rate	4.4	4.0	5.5	7.2
Consumer price growth	2.0	1.1	3.1	4.3
GDP	1.2	1.8	0.3	(0.6)
Mortgage debt as a percentage of household income	91.4	88.4	95.5	100.1
Real household disposable income	1.6	2.3	0.7	(0.2)
Probability weighting	40	30	25	5

Sensitivity analysis

Increase (decrease) in gross balance stage allocation under 100% probability weighting:

Stage 1	£35.1m	£89.4m	£(119.2)m	£(466.5)m
Stage 2	£(35.1)m	£(89.4)m	£119.2m	£466.5m
Increase (decrease) on ECL provision under 100% probability weighting	£(5.3)m	£(15.0)m	£17.9m	£61.8m

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

The base scenarios continue to reflect current uncertain conditions, particularly around interest rates. In the prior year conditions were similarly uncertain, however there were additionally concerns of potential recession and spikes in inflation.

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

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

2. Material accounting policies and judgements (continued)

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 impairments recognised in the period including the approach undertaken and the Group's accounting policy are disclosed in notes 21 & 22.

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 29 February 2024 the carrying value of the EIR asset was £76m (2023: £108m). In the financial year, the Group recognised a £21m reduction resulting from the strategic change impacting assumptions about future behaviours.

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

To the extent that post promotional yield were to shift by +/- 100bps, the value of EIR asset would change by +/- £5m. To the extent that the repayment rate was to increase by +/-5% the value of the EIR asset would change by +/- £3m.

Provisions for Onerous Contracts

Provisions for onerous contracts are recognised in line with IAS 37 where the Group believes that the unavoidable costs of meeting or novating a contract exceed the economic benefits expected to be received under it. In assessing this the Group is required to use the best estimate of the benefits to be realised in respect of the contracts, as opposed to requiring a committed plan that renders contracts onerous. The unavoidable costs reflect the lower of the incremental costs of fulfilling the contract and any penalties arising from failure to fulfil it. Further detail can be found in Note 29.

3. Prior year restatements

Following the Group's announcement to sell the mortgage portfolio in August 2023, the Group has classified the mortgage business as a discontinued operation in the current year. More detail on this can be found in Note 14. The comparative figures in the consolidated income statement have therefore been restated in line with the current year presentation of the mortgage business. The impacts of these restatements on the comparative figures for the year ended 28 February 2023 are presented below.

The Group	As previously reported £m	Discontinued Operations £m	Restated £m
Interest income	394	(18)	376
Interest expense	(74)	-	(74)
Net interest income	320	(18)	302
Fees and commissions income	109	(1)	108
Fees and commissions expense	(10)	-	(10)
Net fees and commissions income	99	(1)	98
Other operating income	28	-	28
Total income	447	(19)	428
Administrative expenses	(266)	2	(264)
Depreciation and amortisation	-	-	-
Property, plant and equipment	(1)	-	(1)
Intangible assets	(31)	-	(31)
Operating expenses	(298)	2	(296)
Impairment losses on financial assets	(107)	(2)	(109)
Realised gains on financial instruments	1	-	1
Fair value gains on financial instruments	1	(1)	-
Profit before taxation	44	(20)	24
Analysed as:			
Underlying profit before tax	49	(20)	29
Non-underlying items	(5)	-	(5)
	44	(20)	24
Taxation	(11)	4	(7)
Profit for the financial year attributable to the owners of the Group	33	(16)	17

4. Net interest income

Accounting policy Interest income and expense in the income statement is determined using the effective interest rate method. This calculation takes into account all amounts that are integral to the yield as well as incremental transaction costs. The effective interest rate is the rate that discounts the expected future cash flows over the expected life of the financial instrument to the net carrying amount of the financial asset or liability at initial recognition.

The effective interest rate of a financial asset is calculated on initial recognition and is applied to the gross carrying amount of the asset. For financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset net of impairment. If the asset is no longer credit impaired, then the calculation of interest income reverts to the gross basis.

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 8).

Interest expense on lease liabilities is included within Interest expense on customer accounts, deposits and borrowings.

The Group	2024 £m	2023 £m
Continuing operations		Restated ¹
Interest income calculated using the effective interest rate method:		
Interest income on financial assets measured at amortised cost	399	351
Interest income on financial assets measured at FVOCI	39	13
Interest income on derivatives	22	12
Interest receivable	460	376
Interest expense on customer accounts, deposits and borrowings	(179)	(62)
Interest expense on subordinated liabilities	(13)	(12)
Interest payable	(192)	(74)
Net interest income	268	302

¹ The prior year has been restated following the classification of the mortgage business as a discontinued operation. Refer to notes 3 and 14

5. Net fees and commissions income

Accounting policy Fees and commissions income
Fees and commissions that are not integral to the effective interest rate calculation primarily relate to credit card and Storecard fees, ATM interchange fees, insurance introduction commission and warranty commission receivable from insurance partners. These are recognised in the income statement on an accruals basis as performance obligations are satisfied.

Banking income

The Group earns income on credit card, Storecard 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	2024	2023
	£m	£m
Continuing operations		Restated ¹
Banking income	67	71
Insurance income	41	36
Other income	37	1
Total fees and commission income	145	108
Fees payable	(12)	(10)
Total fees and commission payable	(12)	(10)
Net fees and commission income	133	98

¹ The prior year has been restated following the classification of the mortgage business as a discontinued operation. Refer to notes 3 and 14

Capitalised costs incurred to obtain contracts in the year were £3m (2023: £2m) and the unamortised balance as at the reporting date, included within other assets in note 24 was £4m (2023: £5m). 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 (2023: £4m).

Other income primarily comprises royalty income from Argos Limited, a fellow subsidiary undertaking of J Sainsbury plc.

6. Other operating income

Accounting policy	Other operating income comprises the margin from the sale of Travel Money, representing the difference between the purchase price and the selling price, is recognised on the effective date of the customer transaction.	
	2024	2023
The Group	£m	£m
Travel Money income	34	28
Other operating income	34	28

7. Administrative expenses

The Group	2024	2023
	£m	£m
Continuing operations		Restated ¹
Staff costs:		
Wages and salaries	(88)	(74)
Social security costs	(10)	(9)
Pension costs	(5)	(4)
Share-based payments	(6)	(5)
	(109)	(92)
Other operating costs	(187)	(172)
	(296)	(264)

¹ The prior year has been restated following the classification of the mortgage business as a discontinued operation. Refer to notes 3 and 14

Staff costs and other operating costs include £32m (2023: £6m) of non-underlying items as described in note 9.

See note 10 for further details on employee arrangements.

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

The Group	2024	2023
	£m	£m
Continuing operations		Restated ¹
Realised gains on derecognition	1	1
Fair value gains on derivatives not in an effective hedge relationship	-	-

¹ The prior year has been restated following the classification of the mortgage business as a discontinued operation. Refer to notes 3 and 14

Further detail on the Group's hedging policies is provided in note 19.

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

9. Non-underlying items

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

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

Strategic review of the financial services division

In January 2024, J Sainsbury plc announced that financial services products to be offered in the future will be provided by dedicated financial services providers through a distributed model and over time this would result in a phased withdrawal from the core banking business. Costs associated with this restructuring are set out in the table below with key components comprising full impairment of non-financial assets (comprising mainly computer software for which the level of activities which it was designed to fulfil is now significantly curtailed in terms of both volume and period use), additional allowances arising from a reassessment of the effective interest rate applied to the amortised cost of financial assets and onerous contracts. Further costs associated with this restructuring will be incurred in future years once more detailed plans to execute these changes are formulated and communicated.

Disposal of the mortgage portfolio

During the period, the Group disposed of its mortgage portfolio for proceeds of £445m which resulted in a non-underlying charge of £7m. This includes a loss on disposal including transaction costs of £4m and the recognition of onerous contract provisions.

Other strategic initiatives

In the year to 29 February 2024, as 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 comprise consultancy costs.

Analysis of non-underlying items

		2024	2023
The Group		£m	£m
Strategic review of the financial services division			
Impairment of non-financial assets		(171)	-
Effective interest rate adjustment applied to financial assets	a)	(21)	-
Onerous contracts	b)	(19)	-
Other costs		(10)	-
Income from other group companies		42	-
Disposal of the mortgage portfolio		(7)	-
Provisions		1	(3)
Other strategic initiatives		(3)	(3)
Fair value (loss) / gain on hedge ineffectiveness of derivatives in hedge relationship		(1)	1
Total non-underlying items		(189)	(5)
a) The withdrawal from core banking operations has a commercial impact upon future management initiatives and actions which could lead to different customer behaviours than previously forecasted. This resulted in revised assumptions about customer behaviours which led to a reduction in the amortised cost of financial assets (credit cards) shown in loans and advances to customers with the impacts being recognised in revenue. b) Comprises long dated IT contracts where anticipated early termination will result in the unavoidable costs of meeting the obligations under a contract exceeding the economic benefits expected to be received under it. Costs represent the lower of the costs of fulfilling contracts and the costs of terminating.			

10. Employees

The average monthly number of colleagues working on the Group's operations during the year is set out below. This differs to the employee numbers within the strategic report which are calculated on a spot basis at the year end.

The Group	2024 Number	2023 Number
Full time	1,352	1,299
Part time	999	924
	2,351	2,223
Full time equivalent	1,898	1,803

Colleague costs are disclosed in administrative expenses in note 7.

Colleagues are eligible to join the defined contribution pension arrangements of J Sainsbury plc. These plans are also used where colleagues have been automatically enrolled into a pension. Contributions paid by the 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 7) represents contributions payable by the Group was entirely in relation to the defined contribution schemes.

11. Directors' emoluments

The Bank	2024 £m	2023 £m
Emoluments	2.6	2.1
Share-based payments	1.6	1.1
	4.2	3.2
Highest paid director:		
Emoluments	1.2	1.0
Share-based payments	1.0	0.7
	2.2	1.7

The Directors' positions and remuneration status are set out in the Directors' report on page 40. 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 (2023: two) received share awards under J Sainsbury plc share incentive schemes reflective of their qualifying services. Two Directors (2023: two) 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 one Director (2023: one) accrued retirement benefits in respect of qualifying services under defined contribution schemes. No directors (2023: 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 40 for further details.

12. (Loss) / profit before taxation

The Group	2024 £m	2023 £m Restated ¹
Continuing operations		
(Loss)/profit before taxation is stated including the following items of income and (expense):		
Impairment loss on non-financial assets	(171)	-
Auditors' remuneration:		
Statutory audit of the Group	(1)	(1)

¹ The prior year has been restated following the classification of the Mortgage business as a discontinued operation. Refer to notes 3 and 14

Audit-related assurance services were also performed by the Statutory Auditors during the year in respect of interim profit verification. Fees for this work totalled £0.01m (2023: £0.15m assurance over figures included in a prospectus for the issuance of subordinated debt).

13. Taxation

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

The Group	2024 £m	2023 £m Restated ¹
Continuing operations		
UK corporation tax on profit for the year	(28)	3
Adjustments in respect of prior years	-	(2)
Current tax	(28)	1
Origination and reversal of temporary differences	(11)	2
Adjustments in respect of prior years	-	4
Deferred tax	(11)	6
Total tax (credit) / charge	(39)	7

¹ The prior year has been restated following the classification of the mortgage business as a discontinued operation. Refer to notes 3 and 14

13. Taxation (continued)

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

The Group	2024	2023
	£m	£m
Continuing operations		Restated ¹
(Loss) / profit before taxation from continuing operations	(165)	24
Tax on ordinary activities at 24.5% (2023: 19%)	(41)	4
Effects of underlying items:		
Rate differences on losses carried back	2	-
Non-deductible expenses	-	1
Adjustment in respect of prior years	-	2
Total income tax (credit) recognised in the income statement	(39)	7

¹ The prior year has been restated following the classification of the Mortgage business as a discontinued operation. Refer to notes 3 and 14

The main UK corporation tax rate increased to 25% on 1 April 2023, as announced in the UK Government's Budget on 3 March 2021. The change was enacted during the year ended 28 February 2022, with the corresponding revaluation of deferred tax taking place during that period.

The Spring Budget on 21 March 2023 confirmed the introduction of Pillar 2 reporting requirements for the UK, and were enacted on 18 July 2023, confirming that the rules will apply to Sainsburys Group for accounting periods starting on or after 31 December 2023. Pillar 2 reporting will see the introduction of a global minimum 15 per cent tax rate by the end of 2023, and the Sainsbury's Group will be required to file certain returns evidencing the payment of tax at this rate. The potential impact of this has been assessed, and the Sainsbury's Group does not consider there to be a material top up tax liability at this stage, under the transitional safe harbour rules. Following this assessment, the Group does not consider there to be a significant impact on the Bank and its subsidiary undertakings.

It is unclear if the Pillar Two model rules create additional temporary differences, whether to remeasure deferred taxes and which tax rate to use to measure deferred taxes. The Group has therefore applied the mandatory temporary exception in the amended IAS 12 'Income taxes' from the requirement to recognise or disclose information about deferred tax assets and liabilities related to the proposed Pillar Two model rules.

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

14. Discontinued operations

Accounting policy A discontinued operation is a component of the Group which represents a significant line of business which has been sold. Classification as a discontinued operation occurs on disposal or earlier if beneficial title and risk has transferred to the purchaser.

Where the sale of a component of the Group is considered highly probable and the business is available for immediate sale in its present condition, it is classified as held for sale. Asset and liabilities associated with assets held for sale are measured at the lower of carrying amount and fair value less costs to sell.

As described in note 3, the Group disposed of its mortgage portfolio during the year and this has been disclosed as a discontinued operation as this represented the disposal of a major line of business.

The cost of funding of the Group relevant to the mortgage business continues to be presented within the net interest income of the continuing operations as it cannot be directly attributed to the mortgage business as is required under IFRS 5. Management's estimated view of the income statement attributable to the mortgage portfolio is presented below.

The post tax profit is presented in a single amount on the face of the consolidated income statement, and the prior year has been restated to present this on a consistent basis. There is no requirement for the Group to disclose the assets and liabilities of the disposal group separately in the consolidated balance sheet in the current year as these lending balances were not reclassified as assets held by the disposal group ahead of disposal.

Income statement - discontinued operations

	The Group	
	2024	2023
	£m	£m
Interest income	12	18
Fees and commission income	1	1
Total income	13	19
Total operating expenses	(5)	(2)
Impairment losses on financial assets	-	2
Fair value gains on financial instruments	-	1
Profit before tax and losses on disposal from discontinued operations	8	20
Tax adjustment	(2)	(4)
Profit after tax from discontinued operations	6	16
Loss on disposal of discontinued operations after tax (see below)	(3)	-
Profit after tax attributable to the owners of the Group from discontinued operations¹	3	16
Alternative Performance Measures:		
Profit before tax of mortgages business inclusive of funding costs	2	6
Loss before tax of mortgages business inclusive of funding costs and overheads ¹	(3)	(5)

¹Reconciliation between the statutory profit after tax from discontinued operations and the loss before tax inclusive of funding costs and overheads can be found in the alternative performance measures on page 132.

14. Discontinued operations (continued)**Net loss on disposal**

	2024
	£m
Total cash consideration received	445
Carrying amount of net assets sold	(449)
Loss on sale before tax	(4)
Tax adjustment	1
Loss on sale after tax	(3)

Statement of cash flows - discontinued operations

	2024	2023
	£m	£m
Net cash flows from operating activities	582	218
Net cash flows from investing activities	-	-
Net cash flows from financing activities	-	-
Change in cash and cash equivalents from discontinued operations	582	218

15. Loans and advances to customers

Accounting policy	Loans and advances are initially recognised at fair value and subsequently held at amortised cost, using the effective interest method, less provision for impairment and recognised on the balance sheet when cash is advanced.
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The accounting policies for classification and measurement under IFRS are detailed in note 1.

Expected credit loss (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.

15. Loans and advances to customers (continued)

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.

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

	The Group		The Bank	
	2024	2023	2024	2023
	£m	£m	£m	£m
Gross advances	4,760	5,577	3,823	4,683
Impairment	(235)	(239)	(149)	(135)
Adjustment in relation to fair value hedging	(7)	(45)	41	7
Loans and advances to customers	4,518	5,293	3,715	4,555
Gross advances being:				
Repayable on demand	2,006	2,388	1,575	1,949
Other loans and advances repayable:				
In 3 months or less	535	531	200	222
Between 3 months and 1 year	689	662	522	519
Between 1 and 5 years	1,483	1,459	1,479	1,456
After 5 years	47	537	47	537
	4,760	5,577	3,823	4,683

15. Loans and advances to customers (continued)

	The Group		The Bank	
	2024	2023	2024	2023
	£m	£m	£m	£m
Individuals:				
Secured Lending	-	581	-	581
Unsecured Lending	4,760	4,996	3,823	4,102
Gross loans and advances to customers	4,760	5,577	3,823	4,683

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

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 29 February 2024, £889m (2023: £414m) of personal loans assets and £nil (2023: £459m) of mortgage assets were pledged to the Bank of England facilitating funding of £600m (2023: £660m) from the TFSME. 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 £426m (2023: £500m) Senior class A note and £121m Junior class Z note to the Bank. As at 29 February 2024, the Bank had pledged £547m (2023: £621m) of personal loans to the SPV. Of the A notes held by the Bank, £426m (2023: £200m) have been pre-positioned with the Bank of England to support the funding facilities outlined in the previous paragraph of which £426m (2023: £80m) was encumbered.

As at the 29 February 2024, there were no further pledges of A Notes (2023: £111m of A Notes generated £88m of funding via a collateral swap).

The Bank has also pledged a covered bond of £25m (2023: £nil) to the Bank of England facilitating £5m of ILTR 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.

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				Credit-impaired		Total	
	Stage 1		Stage 2		Stage 3			
	GCA £m	ECL £m	GCA £m	ECL £m	GCA £m	ECL £m	GCA £m	ECL £m
The Group								
As at 1 March 2023	4,313	(42)	480	(53)	203	(144)	4,996	(239)
<i>Transfers of financial assets:</i>								
To Stage 1	182	(18)	(180)	17	(2)	1	-	-
To Stage 2	(199)	5	201	(5)	(2)	-	-	-
To Stage 3	(60)	2	(45)	10	105	(12)	-	-
Net transfer between stages		(11)		22		(11)		-
Increases due to originations ⁽¹⁾	1,853	(20)	110	(12)	28	(20)	1,991	(52)
Decreases due to repayments	(1,915)	17	(149)	10	(25)	18	(2,089)	45
Write offs	(19)	1	(19)	6	(100)	69	(138)	76
Changes in credit risk ⁽²⁾	-	9	-	(23)	-	(51)	-	(65)
As at 29 February 2024	4,155	(46)	398	(50)	207	(139)	4,760	(235)

(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).

15. Loans and advances to customers (continued)

Unsecured lending	Non-credit-impaired				Credit-impaired		Total	
	Stage 1		Stage 2		Stage 3			
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	(32)	513	(48)	168	(119)	4,504	(199)
<i>Transfers of financial assets:</i>								
To Stage 1	232	(14)	(230)	13	(2)	1	-	-
To Stage 2	(215)	3	217	(3)	(2)	-	-	-
To Stage 3	(55)	2	(42)	9	97	(11)	-	-
Net transfer between stages		(9)		19		(10)		-
Increases due to originations ⁽¹⁾	1,598	(14)	139	(14)	17	(8)	1,754	(36)
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⁾	-	4	-	(21)	-	(59)	-	(76)
As at 28 February 2023	4,313	(42)	480	(53)	203	(144)	4,996	(239)

(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).

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

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

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

15. 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	(21)	433	(26)	93	(68)	3,647	(115)
<i>Transfers of financial assets:</i>								
To Stage 1	207	(9)	(206)	9	(1)	-	-	-
To Stage 2	(174)	2	175	(2)	(1)	-	-	-
To Stage 3	(28)	-	(23)	4	51	(4)	-	-
Net transfer between stages		(7)		11		(4)		-
Increases due to originations ⁽¹⁾	1,513	(10)	119	(11)	12	(8)	1,644	(29)
Decreases due to repayments	(1,046)	9	(98)	6	(17)	14	(1,161)	29
Write offs	-	-	(11)	1	(16)	11	(27)	12
Changes in credit risk ⁽²⁾	-	6	-	(6)	-	(31)	-	(31)
As at 28 February 2023	3,593	(23)	389	(25)	121	(86)	4,103	(134)

(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).

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

The below table includes the movements in loss allowance from undrawn loan commitments, which are detailed in note 32.

The Group	2024				2023			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
<i>Transfers of financial assets:</i>								
To Stage 1	(21)	20	1	-	(18)	17	1	-
To Stage 2	5	(5)	-	-	5	(5)	-	-
To Stage 3	2	11	(13)	-	2	10	(12)	-
Net transfer between stages	(14)	26	(12)	-	(11)	22	(11)	-
Increases due to originations	(21)	(9)	(20)	(50)	(17)	(10)	(8)	(35)
Decreases due to repayments	17	10	18	45	9	8	16	33
Write offs	1	6	69	76	-	4	33	37
Changes in credit risk	16	(27)	(51)	(62)	8	(28)	(56)	(76)
Movement in ECL allowance	(1)	6	4	9	(11)	(4)	(26)	(41)
Net expected credit loss charge				(68)				(76)
Recoveries and write-offs				(21)				(19)
C&R charges				(13)				(12)
Total income statement charge				(102)				(107)

15. Loans and advances to customers (continued)

Analysis of total stage 2 balances by driver

	2024		2023	
	Gross balances	ECL ¹	Gross balances ²	ECL ²
The Group	£m	£m	£m	£m
Currently >30 days past due	36	13	35	11
Currently <30 days past due:				
Breach on PD threshold	298	38	418	47
Policy rule changes	64	3	69	3
Total stage 2 at 29/28 February	398	54	522	61

¹Stage 2 ECL includes both drawn and undrawn per notes 15 and 32.²Prior year comparative is inclusive of Secured lending disposed of in the current year.

	2024		2023	
	Gross balances	ECL ¹	Gross balances ²	ECL ²
The Bank	£m	£m	£m	£m
Currently >30 days past due	22	7	20	5
Currently <30 days past due:				
Breach on PD threshold	245	17	342	20
Policy rule changes	62	2	68	2
Total stage 2 at 29/28 February	329	26	430	27

¹Stage 2 ECL includes both drawn and undrawn per notes 15 and 32.²Prior year comparative is inclusive of Secured lending disposed of in the current year.

16. Notes to the cash flow statement

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

	The Group		The Bank	
	2024	2023	2024	2023
	£m	£m	£m	£m
(Loss) / profit before taxation from continuing operations ¹	(165)	24	(153)	11
Profit before taxation from discounted operations ¹	4	20	4	20
Total profit before tax	(161)	44	(149)	31
Non-cash and other items included in profit before taxation				
Impairment losses on loans and advances	102	107	61	46
Loss on Sale of Mortgage Portfolio	4	-	4	-
Depreciation on property, plant and equipment	2	1	2	1
Amortisation of intangible assets	30	31	24	26
Share-based payment expense	6	5	6	5
Impairment, gains, (losses) and disposals	171	-	134	-
Interest paid on subordinated liabilities	13	9	13	9
	328	153	244	87
Change in operating assets and liabilities				
Net decrease / (increase) in loans and advances to customers	669	(333)	775	(290)
Net decrease / (increase) in derivative assets	37	(65)	32	(29)
Net decrease / (increase) in Loans and advances to other banks greater than 3 months	100	(4)	100	(4)
Net (increase) in investment securities greater than 3 months	(135)	(207)	(135)	(207)
Net increase in derivative liabilities	3	34	3	34
Net (increase) / decrease in other assets	(69)	34	(111)	5
Net (decrease) / increase in customer accounts	(570)	500	(570)	500
Net increase in borrowed funds	345	188	345	188
Net (decrease) / increase in other liabilities including provisions	(54)	20	(39)	34
	326	167	400	231
Cash generated from / (used in) operations	493	364	495	349
Income taxes paid	(3)	(4)	(3)	(4)
Cash flows generated from / (used in) operating activities	490	360	492	345
Operational cash flows from interest				
Interest paid	(145)	(40)	(115)	(28)
Interest received	501	407	368	284
	356	367	253	256

¹ The prior year has been restated following the classification of the Mortgage business as a discontinued operation.

16. Notes to the cash flow statement (continued)**Reconciliation of liabilities arising from financing activities**

	The Group		The Bank	
	2024	2023	2024	2023
	£m	£m	£m	£m
Subordinated liabilities:				
At 1 March	122	179	122	179
Issuance of loan notes	-	120	-	120
Redemption of loan notes	-	(175)	-	(175)
Non-cash movements	-	(2)	-	(2)
At 28/29 February	122	122	122	122

Restricted cash balances

	The Group		The Bank	
	2024	2023	2024	2023
	£m	£m	£m	£m
Bank of England deposit	14	15	14	15
	14	15	14	15

A reserve deposit is held with the Bank of England in accordance with statutory requirements at the reporting date. 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. This deposit was repaid to the Bank on 5 March 2024, to be replaced by Bank of England's new levy scheme.

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

	The Group		The Bank	
	2024	2023	2024	2023
	£m	£m	£m	£m
Cash and balances with central banks	1,051	471	1,051	471
Other demand deposits	61	75	27	28
	1,112	546	1,078	499

The balances with central banks are repayable on demand, with the exception of the £14m (2023: £15m) reserve deposit pledged to Bank of England as part of its Cash Ratio Deposit scheme (see note 16). There were no significant credit losses expected on cash and other demand deposits.

18. Loans and advances to banks

Accounting policy	The Group and Bank	
	2024	2023
	£m	£m
Reverse repurchase agreements	-	100
Total Loans and advances to other banks	-	100
Between 3 months and 1 year	-	100
Total Loans and advances to other banks	-	100

Under IFRS 9, the Group holds an impairment provision for loans and advances to other banks of £nil (2023: £nil)

19. 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.
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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's policy is to use derivatives for economic purposes only, and not for trading. Where possible it will elect to designate the derivative into an effective hedge accounting relationship, where the gains and losses on derivatives are offset by effective hedged item adjustments within the income statement.

Fair value hedging

The 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 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 uses portfolio fair value hedging as a risk management tool for hedging interest rate risk on the personal loans and up to the point of disposal in August 2023, also the mortgage portfolio. Portfolio fair value hedging allows the designation of the whole or part of a portfolio of assets or liabilities with similar risk exposures. The hedged item can be designated based on expected maturities to match the hedging derivative maturity. Hedge effectiveness is considered to have been met where the change in fair value of the hedged item offsets the change in fair value of hedging instruments, within the 80 to 125 per cent ratio corridor.

19. Derivative financial instruments (continued)

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.

Foreign currency derivative contracts

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

The Group enters into foreign exchange derivative contracts to hedge foreign currency exposure. Foreign exchange derivative instruments included FX spot, FX forwards and FX swaps. The Group reported a FX derivative asset of £nil (2023: £nil) and a FX derivative liability of £nil (2023: £nil).

Fair value hedges

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

	The Group			
	Notional amount £m	Carrying amount		Ineffectiveness recognised in income statement £m
		Assets £m	Liabilities £m	
Interest rate swaps - Hedge of loans and advances				
At 29 February 2024	2,312	62	(56)	-
At 28 February 2023	2,824	98	(53)	-

Further detail on the fair value of hedged item can be found in Notes 15 and 27.

	The Bank			
	Notional amount £m	Carrying amount		Ineffectiveness recognised in income statement £m
		Assets £m	Liabilities £m	
Interest rate swaps - Hedge of loans and advances				
At 29 February 2024	1,765	15	(56)	-
At 28 February 2023	2,203	46	(53)	-

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 29 February 2024	-	-	-
At 28 February 2023	209	1	-
Foreign currency swap			
At 29 February 2024	45	-	-
At 28 February 2023	14	-	-

19. Derivative financial instruments (continued)

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 2024					
Fair value hedges					
Nominal amount (£m)	-	17	231	956	1,109
Average fixed interest rate	-	0.6%	0.7%	3.9%	2.2%

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%

	The Bank				
	Maturity				
	Less than 1 month	1-3 months	3 months – 1 year	1-5 years	More than 5 years
As at February 2024					
Fair value hedges					
Nominal amount (£m)	-	17	231	956	562
Average fixed interest rate	-	0.6%	0.7%	3.9%	2.9%

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%

20. 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.
	<i>Impairment of investment securities</i>
	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)

20. Investment securities (continued)

	The Group and Bank	
	2024	2023
	£m	£m
Investment securities comprise the following:		
Equity investments	2	2
Government backed investment securities	46	71
T-Bills	-	25
Covered bonds	645	418
Supranational investment securities	-	13
Asset backed securities	77	162
Commercial paper	-	50
	770	741
Of which:		
Equity investments	2	2
Maturing in three months or less	9	115
Maturing between three months and one year	17	128
Maturing between 1 and 5 years	742	496
	770	741

Investment securities include £25m of collateral prepositioned with the Bank of England as at 29 February 2024 (2023: £nil). The fair value movement recognised in the Statement of Other Comprehensive Income during the year on investment securities was a profit of £nil (2023: £1m).

Under IFRS 9, the Group holds an impairment provision for investment securities of £nil (2023: £0.1m)

21. Intangible assets

Accounting policy	<i>Computer Software</i>
	Computer software is carried at cost less accumulated amortisation and any provision for impairment. Externally acquired software and licences are capitalised and amortised on a straight-line basis over their useful economic lives. Costs relating to development of computer software for internal use are capitalised once the recognition criteria of IAS 38 'Intangible Assets' are met. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. When the software is available for its intended use, these costs are amortised on a straight-line basis over their useful economic lives being:

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

Capitalised development expenditure and purchased software is stated at cost less accumulated amortisation and impairment losses. Such assets are assessed for impairment where there is an indication of impairment or, in the case of assets which are not yet available for use, at least annually. Where impairment exists, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss recognised in the income statement. The amortisation charge for the asset is then adjusted to reflect the asset's revised carrying amount.

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

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

21. Intangible assets (continued)

At each reporting date, the Group reviews the carrying amounts to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is determined based on the fair value less cost to dispose and a value in use (VIU) calculation which is based upon the cash flows expected to be generated.

Any impairment loss is recognised in the income statement in the year in which it occurs. Where an impairment loss subsequently reverses due to a change in the original estimate, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, or its original carrying value less notional accumulated depreciation if lower.

	The Group		The Bank	
	2024	2023	2024	2023
The Group	£m	£m	£m	£m
Cost				
At 1 March	378	361	339	330
Additions	13	19	2	11
Disposals	(4)	(2)	(4)	(2)
As at 29/28 February	387	378	337	339
Accumulated amortisation				
At 1 March	(199)	(170)	(192)	(168)
Charge for the year	(30)	(31)	(24)	(26)
Impairment	(162)	-	(125)	-
Disposals	4	2	4	2
As at 29/28 February	(387)	(199)	(337)	(192)
Net book value as at 29/28 February	-	179	-	147

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

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

The Group have identified and assessed two individual CGUs, namely one for Sainsbury's Bank plc (SB CGU) and one for Home Retail Group Card Services Limited (HRGCS CGU). SB CGU comprises unsecured lending for Credit Cards and Personal Loans, funding from Savings, Treasury and AFS Intercompany, as well as ATMs, Travel Money, Insurances and legal entity specific central costs including overheads. Conversely the HRGCS CGU includes Storecards, Monthly Payment Plan and legal entity specific central costs including overheads.

Identification of a triggering event

As described in note 9, the Group's change in strategy to exit core banking and move to a fully distributed model was an indicator of impairment, triggering a full impairment review. This review was undertaken in January 2024 with related impairment being recognised in the same month. No further indicators of impairment or reversal of impairment have been identified since this impairment assessment was undertaken.

21. Intangible assets (continued)**Approach and assumptions**

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

Assumption	Detail
Composition of CGU	Assets attributable to each product (or group of products capable of generating independent cash flows)
Cash flow assumptions	Two scenarios of cash flow projection used to reflect the options available to the Group to exit core banking, one comprising a sale of certain portfolios and the other a run down of certain portfolios over time . These scenarios are considered appropriate in capturing the full range of uncertain outcomes and have been probability weighted in determining VIU. The cash flows included are consistent with the useful lives of the assets being tested for impairment.
Terminal value	No terminal value is applied within the assessment, as cashflows are limited to the period of the remaining useful lives of the assets being tested for impairment.
Discount rate	A post-tax discount rate representing the Group's weighted average cost of capital (WACC), subsequently grossed up to a pre-tax rate of 14.7 per cent. The post-tax WACC has been calculated using a combination of adjusted market analysis and the actual cost of debt on Tier 2 capital instruments.
Growth Rate	The only product with cash flow projections beyond the financial forecast period of the Group (driven by the useful lives of the underlying assets) was ATMs. ATM cashflows are assumed to shrink by 5% annually beyond the forecast period as cash reliance expectations continue to fall.

Sensitivities

The Group has completed sensitivity analysis to consider reasonably possible changes in the above assumptions. The most material sensitivity is a change to the forecast cashflow assumptions. Impairment would only begin to be reversed if future product profitability were to increase by 73% for the SB CGU and 40% for the HRGCS CGU.

Capital Commitments

As a result of the full impairment of fixed assets, the Group is no longer intending to capitalise any expenditure and has therefore not disclosed any capital commitments in the current year.

22. Property, plant & equipment**Accounting policy***Land and buildings*

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

Fixtures and equipment

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

Right of use assets

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

Depreciation

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

- Freehold buildings and leasehold properties – fifty years, or the lease term if shorter
- Fixtures and equipment – three to fifteen years or, in the case of tenant's improvements, the lease term if shorter

Capital work in progress is not depreciated.

Gains and losses on disposal are determined by comparing proceeds with the asset's carrying amount and are recognised within operating profit. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

At each reporting date, the Group reviews the carrying amounts to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset, being the higher of its fair value less costs to dispose and its value in use, is estimated in order to determine the extent of the impairment loss.

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

22. Property, plant & equipment (continued)

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

Land and buildings include right of use assets of £nil (2023: £1m) related to head office premises.

Impairment

An impairment trigger has been identified as set out for intangible assets in note 21, and the approach and assumptions used in testing are set out therein. This review has resulted in an impairment loss as set out in the table above.

23. 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.
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The Bank's investment in subsidiaries was as follows.

				2024	2023
The Bank				£m	£m
				325	325
	Country of registration or incorporation	Ownership Interest	Registered address		
Home Retail Group Card Services Limited	England	100%	33 Holborn, London, England, EC1N		
Home Retail Group Insurance Services Limited	England	100%	33 Holborn, London, England, EC1N		
ARG Personal Loans Limited ¹	England	100%	33 Holborn, London, England, EC1N		

¹At the date of signing, ARG Personal Loans Limited has an active proposal for strike off.

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.

The strategic decision to exit the core Banking business has been identified as a potential indicator of impairment on the Bank's investment in Home Retail Group Card Services Limited. However, based on the net asset position of the subsidiary, the fair value assessment of these assets and the transfer pricing arrangement for any potential future losses in the subsidiary, the Bank has concluded that no impairment exists.

23. Investments in subsidiaries (continued)

	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, England, E14 5HU

24. 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.
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	The Group 2024	2023	The Bank 2024	2023
	£m	£m	£m	£m
Amounts receivable from Sainsbury's Group companies	69	6	576	473
Funds in course of settlement	128	115	119	103
Prepayments and accrued income	28	32	24	30
Insurance instalment debtor	33	25	33	25
Current tax asset	12	3	12	4
Deferred tax asset	19	8	14	4
VAT Control	-	1	-	-
Cash collateral paid	65	52	65	52
	354	242	843	691

The Group's other assets have no fixed maturities but are materially expected to be realised within 12 months, with the exception of cash collateral paid. Within Bank, amounts receivable from Group companies includes a loan to Home Retail Group Card Services Limited which is technically repayable on demand but in practice the Bank expects to provide funding for the foreseeable future. See note 33 for further details on the residual contractual maturity.

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

	The Group 2024	2023	The Bank 2024	2023
	£m	£m	£m	£m
At 1 March	8	14	4	7
Movement in deferred tax asset credited / (charged) to income statement	11	(2)	10	(1)
Adjustments in respect of prior years	-	(4)	-	(2)
At 29/28 February	19	8	14	4

Tax effect of timing differences due to:

Other temporary differences ¹	15	18	10	12
Accelerated capital allowances	4	(10)	4	(8)
	19	8	14	4

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

25. 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.
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Customer accounts comprise Sterling interest-bearing deposits.

	The Group and Bank	
	2024	2023
	£m	£m
Repayable:		
On demand	3,166	3,806
Within 3 months	243	203
Between 3 months and 1 year	573	352
Between 1 and 5 years	183	374
	4,165	4,735

Of the above balance, £3,752m (2023: £4,289m) qualified for protection under the Financial Services Compensation Scheme.

26. 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.
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Other deposits comprise Sterling wholesale deposits, including drawings under the Bank of England's TFSME and ILTR schemes. See note 33 for further details on the residual contractual maturity of other deposits.

	The Group and Bank	
	2024	2023
	£m	£m
Repayable:		
Within 3 months	957	229
Between 3 months and 1 year	577	291
Between 1 and 5 years	23	692
	1,557	1,212

Included within above are £518m (2023: £191m) of deposits obtained via deposit aggregators, where the ultimate depositors are retail customers. Of the above balance, £707m (2023: £263m) qualified for protection under the Financial Services Compensation.

Following the strategic decision to move to offer financial services products through dedicated financial services providers and the phased withdrawal from the core banking business, amounts due in respect of the Bank of England's Term Funding Scheme Small and Medium-sized enterprises (TFSME) have been classified as liabilities, payable in less than twelve months. This is in line with the terms and conditions of the Term Funding Scheme with additional incentives for SMEs, although the latest repayment dates remain July 2025 (£40m), August 2025 (£385m) and September 2025 (£175m). It should also be noted that in the post balance sheet period, prior to the date of approval of the financial statements, the Bank has repaid £100m of the outstanding TFSME liability as part of its normal liquidity management activity.

27. Subordinated liabilities

Accounting policy	Subordinated liabilities are initially recognised at fair value and subsequently held at amortised cost. Amortised cost is calculated by taking into account any discount or premium on issue of funds, and costs that are an integral part of the EIR. Interest is recognised in the income statement through interest payable.
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	The Group and Bank	
	2024	2023
	£m	£m
Fixed rate subordinated Tier 2 notes due March 2028	120	120
Accrued interest	5	5
Fair value hedge accounting adjustments	(3)	(3)
	122	122

The Group has £120m of fixed rate reset callable subordinated Tier 2 notes in issuance (28 Feb 2023: £120m). 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.

28. Other liabilities

Accounting policy	Other liabilities are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method.
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All other liabilities are expected to be settled within 3 months with the exception of cash collateral received and lease liabilities. See note 33 for further details on the residual contractual maturity of other liabilities.

	The Group		The Bank	
	2024	2023	2024	2023
	£m	£m	£m	£m
Customer funds in course of settlement	12	11	11	10
Accruals and deferred income	84	90	64	67
Amounts payable to Sainsbury's group companies	15	22	3	-
Cash collateral received	10	61	10	61
Lease liabilities	1	2	1	2
Other creditors	4	4	3	4
	126	190	92	144

29. Provisions for liabilities and charges

Accounting policy	Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic resources will be required to settle the obligation and where the amount can be reliably estimated.
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Provisions are measured as the discounted expected future cash flows taking account of the risks and uncertainties associated with the specific liability where appropriate.

Provisions for onerous contracts are recognised when the Group believes that the unavoidable costs of meeting or novating a contract exceed the economic benefits expected to be received under it. Where assets are dedicated to the fulfilment of a contract that cannot be redirected to other parts of the Group, an impairment charge is recognised to reduce the carrying value of the assets to £nil before recognising a separate onerous contract.

29. Provisions for liabilities and charges (continued)

	Expected credit loss provisions	Onerous contract provisions	PPI customer remediation	Other provisions	Total
The Group	£m	£m	£m	£m	£m
At 1 March 2023	20	-	6	5	31
Additional provisions	-	20	-	-	20
Unused amounts reversed	(5)	-	-	(1)	(6)
Utilisation of provision	-	-	(1)	(3)	(4)
At 29 February 2024	15	20	5	1	41
At 1 March 2022	19	-	8	2	29
Additional provisions	2	-	-	3	5
Unused amounts reversed	(1)	-	-	-	(1)
Utilisation of provision	-	-	(2)	-	(2)
At 28 February 2023	20	-	6	5	31

	Expected credit loss provisions	Onerous contract provisions	PPI customer remediation	Other provisions	Total
The Bank	£m	£m	£m	£m	£m
At 1 March 2023	8	-	-	4	12
Additional provisions	-	18	-	-	18
Unused amounts reversed	(3)	-	-	-	(3)
Utilisation of provision	-	-	-	(2)	(2)
At 29 February 2024	5	18	-	2	25
At 1 March 2022	8	-	-	1	9
Additional provisions	-	-	-	3	3
Unused amounts reversed	-	-	-	-	-
Utilisation of provision	-	-	-	-	-
At 28 February 2023	8	-	-	4	12

Expected credit loss provisions

Provision on loan commitments issued is included in the movement analysis in note 32. It primarily relates to expected credit losses on credit card and store card commitments.

Onerous contract provisions

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

29. Provisions for liabilities and charges (continued)**PPI customer remediation**

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 29 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 £5m (2023: £6m) 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

Other provisions relate to liabilities arising from dilapidations and onerous cost provisions associated with the Group's existing head office property in the current year (2023: £3m in respect of the New Bank Programme transition).

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

30. Called up share capital

	The Bank	
	2024	2023
	£m	£m
900,750,000 Authorised, allotted, called up and fully paid ordinary shares (£0.777963 / £1):		
At 1 March	701	701
At 29/28 February	701	701

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

31. Analysis of financial assets and liabilities by measurement basis

Accounting policy	<i>Designation of financial instruments</i>
	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 or loss (FVPL).
	The Group classifies and measures its derivative portfolio at FVPL, as explained in note 19. 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.
	<i>Derecognition of financial assets</i>
	Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the 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 29 February 2024	Amortised cost £m	FVOCI £m	FVPL £m	Other £m	Total £m
Assets					
Cash, balances with central banks and other demand deposits	1,112	-	-	-	1,112
Loans and advances to other banks	-	-	-	-	-
Derivative financial instruments	-	-	62	-	62
Investment securities	-	770	-	-	770
Loans and advances to customers	4,518	-	-	-	4,518
Investments in subsidiaries	-	-	-	-	-
Intangible assets	-	-	-	-	-
Property, plant and equipment	-	-	-	-	-
Other assets	333	-	-	21	354
	5,963	770	62	21	6,816
Liabilities					
Customer accounts	(4,165)	-	-	-	(4,165)
Other deposits	(1,557)	-	-	-	(1,557)
Subordinated liabilities	(122)	-	-	-	(122)
Derivative financial instruments	-	-	(56)	-	(56)
Other liabilities	(125)	-	-	(1)	(126)
Provisions for liabilities and charges	(14)	-	-	(27)	(41)
	(5,983)	-	(56)	(28)	(6,067)

The Group At 28 February 2023	Amortised cost £m	FVOCI £m	FVPL £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)
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)

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

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

The Bank At 28 February 2023	Amortised cost £m	FVOCI £m	FVPL £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)
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)

32. Loan commitments

Accounting policy Undrawn Loan, Credit Card and AFS Storecard commitments are commitments under which, over the duration of the commitment, the Group is required to provide a loan with pre-specified terms to the customer. These contracts are in scope of the ECL requirements and accounting policies in relation to this are detailed in Note 15.

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	
	2024	2023
	£m	£m
Commitments to extend credit	6	11

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 15.

Reconciliation of impairment loss allowance of loan commitments

The Group	Non-credit impaired		Credit-impaired	Total
	Stage 1	Stage 2	Stage 3	
	£m	£m	£m	£m
As at 1 March 2023	(13)	(7)	-	(20)
<i>Transfers of financial assets:</i>				
To Stage 1	(3)	3	-	-
To Stage 2	-	-	-	-
To Stage 3	-	1	(1)	-
Net transfer between stages	(3)	4	(1)	-
Net (increase)/decrease due to commitments originated and commitments expired ¹	(1)	3	-	2
Changes in credit risk ²	7	(4)	-	3
As at 29 February 2024	(10)	(4)	(1)	(15)

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

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

32. Loan commitments (continued)

The Group	Non-credit impaired		Credit-impaired	Total £m
	Stage 1 £m	Stage 2 £m	Stage 3 £m	
As at 1 March 2022	(11)	(8)	-	(19)
<i>Transfers of financial assets:</i>				
To Stage 1	(4)	4	-	-
To Stage 2	1	(1)	-	-
To Stage 3	-	1	(1)	-
Net transfer between stages	(3)	4	(1)	-
Net (increase)/decrease due to commitments originated and commitments expired ¹	(3)	4	-	1
Changes in credit risk ²	4	(7)	1	(2)
As at 28 February 2023	(13)	(7)	-	(20)

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

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

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

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

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

32. Loan commitments (continued)

The Bank	Non-credit impaired		Credit-impaired	Total £m
	Stage 1 £m	Stage 2 £m	Stage 3 £m	
As at 1 March 2022	(3)	(4)	(1)	(8)
<i>Transfers of financial assets:</i>				
To Stage 1	(2)	2	-	-
To Stage 2	-	-	-	-
To Stage 3	-	-	-	-
Net transfer between stages	(2)	2	-	-
Net (increase)/decrease due to commitments originated and commitments expired ¹	(2)	1	-	(1)
Changes in credit risk ²	2	(1)	-	1
As at 28 February 2023	(5)	(2)	(1)	(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).

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 Principal risk types are described in the Risk Overview section on page 29. 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 33).

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

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

Derivatives are subject to the same credit risk control procedures as are applied to other wholesale market instruments and the credit risk arising from mark-to-market derivative valuations is mitigated by daily margin calls, posting cash collateral to cover exposures.

33. Risk management (continued)

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 are included as part of ALCo.

At 29 February 2024, 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 15, 18, 20 and 32 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	
	2024	2023	2024	2023
Credit risk exposures	£m	£m	£m	£m
On balance sheet items				
Loans and advances to customers				
Unsecured	4,518	4,729	3,715	3,991
Secured	-	564	-	564
Cash and balances with central banks	1,112	546	1,078	499
Derivative financial instruments	62	99	15	47
Loans and advances to other banks	-	100	-	100
Investment securities	770	741	770	741
Other assets	333	231	827	684
Off balance sheet items				
Loans commitments	6	11	6	11
Total credit risk exposures	6,801	7,021	6,411	6,637

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	
	2024	2023	2024	2023
Maximum exposure	£m	£m	£m	£m
United Kingdom	6,599	6,807	6,209	6,423
Europe	55	158	55	158
Other	147	56	147	56
	6,801	7,021	6,411	6,637

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	
	2024	2023	2024	2023
Maximum exposure	£m	£m	£m	£m
Retail	4,524	5,304	3,721	4,566
Financial institutions	1,345	1,175	1,758	1,530
Government	932	542	932	541
	6,801	7,021	6,411	6,637

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 31) 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.

Following the Group's sale of the mortgage portfolio, all lending is unsecured comprising of Personal Loans, Credit Cards, AFS Storecards and the Monthly Payment Plan.

33. Risk management (continued)*Credit quality per class of financial asset*

Loans and advances are summarised as follows:

	The Group		The Bank	
	2024	2023	2024	2023
	£m	£m	£m	£m
Impaired	207	210	139	128
Past due but not impaired	55	60	22	20
Neither past due nor impaired	4,498	5,307	3,662	4,535
Gross amount due	4,760	5,577	3,823	4,683
Less: allowance for impairment	(235)	(239)	(149)	(135)
hedging fair value adjustment	(7)	(45)	41	7
	4,518	5,293	3,715	4,555

Stage 3 gross impaired loans includes £6m (2023: £7m) of unsecured loans that have cured however, are held in stage 3 due to the application of a probationary period.

Credit quality analysis

	The Group			
	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m
29 February 2024				
Impaired				
Less than 3 months, but impaired ¹	-	-	27	27
Over 3 months	-	-	92	92
Recoveries	-	-	88	88
Total gross impaired loans	-	-	207	207
Past due 30 days to 3 months	-	25	-	25
Past due less than 30 days	8	22	-	30
Not past due	4,147	351	-	4,498
Total gross amount due	4,155	398	207	4,760
Impairment				
Impairment on gross balance	46	50	139	235
Undrawn commitments impairment	10	4	1	15
Total impairment	56	54	140	250
Average 12 month PDs (stage 1 balances only)				2.0%
Average lifetime PDs (stage 2 balances only)				39.2%
Average LGD				56.1%
Coverage	1.3%	13.6%	67.6%	5.3%

¹Includes £3m (2023: £4m) of loans that would have been past due had their terms not been renegotiated.

33. Risk management (continued)

	The Group			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
28 February 2023				
Impaired				
Less than 3 months, but impaired ¹	-	-	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%

¹Includes £4m (2023: £5m) of loans that would have been past due had their terms not been renegotiated.

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

¹Includes £2m (2023: £2m) of loans that would have been past due had their terms not been renegotiated.

33. Risk management (continued)

	The Bank			
	Stage 1	Stage 2	Stage 3	Total
28 February 2023	£m	£m	£m	£m
Impaired				
Less than 3 months, but impaired ¹	-	-	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%

¹Includes £2m (2023: £3m) of loans that would have been past due had their terms not been renegotiated.

Group unsecured coverage has slightly increased from 5.2% to 5.3% year-on-year, driven by minor changes in mix of the portfolios.

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.

33. Risk management (continued)*Credit quality*

IFRS 9	Probability %
12 month probability of default	(no change from 2023)
High quality	<=3.02%
Satisfactory quality	>3.03%; < 11.10%
Low quality	>= 11.11%
Credit impaired	100%

	The Group			
	Stage 1	Stage 2	Stage 3	Total
29 February 2024	£m	£m	£m	£m
High quality	3,388	81	-	3,469
Satisfactory quality	704	186	-	890
Low quality	63	131	-	194
Credit impaired	-	-	207	207
Total gross amount due	4,155	398	207	4,760

	The Group			
	Stage 1	Stage 2	Stage 3	Total
28 February 2023	£m	£m	£m	£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 Bank			
	Stage 1	Stage 2	Stage 3	Total
29 February 2024	£m	£m	£m	£m
High quality	2,870	81	-	2,951
Satisfactory quality	471	174	-	645
Low quality	14	74	-	88
Credit impaired	-	-	139	139
Total gross amount due	3,355	329	139	3,823

	The Bank			
	Stage 1	Stage 2	Stage 3	Total
28 February 2023	£m	£m	£m	£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

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		The Bank	
	2024	2023	2024	2023
	Maximum exposure to credit risk	Maximum exposure to credit risk	Maximum exposure to credit risk	Maximum exposure to credit risk
	£m	£m	£m	£m
Loan Commitments	7,697	8,685	5,078	5,873
Of which credit impaired	38	50	19	22
Financial assets measured at amortised cost – Retail lending	4,760	5,577	3,823	4,684
Of which credit impaired	207	210	139	128
Total	12,457	14,262	8,901	10,557
Of which credit impaired	245	260	158	150

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.

The Group						
	2024			2023		
	Gross loans and advances subject to forbearance	Forbearance as a total of loans and advances	Forbearance covered by impairment provision	Gross loans and advances subject to forbearance	Forbearance as a total of loans and advances	Forbearance covered by impairment provision
	£m	%	%	£m	%	%
Unsecured	53	1.1	67.2	61	1.2	69.1

The Bank						
	2024			2023		
	Gross loans and advances subject to forbearance	Forbearance as a total of loans and advances	Forbearance covered by impairment provision	Gross loans and advances subject to forbearance	Forbearance as a total of loans and advances	Forbearance covered by impairment provision
	£m	%	%	£m	%	%
Unsecured	38	1.0	65.9	35	0.9	67.1

33. Risk management (continued)*Climate-related credit risk*

Our assessment of climate-related credit risk is outlined in the emerging risks section on page 31. 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 29 February 2024 was £nil (2023: £nil). The tables below present an analysis of the credit quality of cash and cash equivalents and the treasury assets portfolio by market value.

The Group				
	Cash and balances with central banks	UK government securities	Other investment securities	Total
At 29 February 2024	£m	£m	£m	£m
Aaa to A3	-	-	770	770
ATM cash and balances with central banks	1,051	-	-	1,051
Other demand deposits	61	-	-	61
	1,112	-	770	1,882

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

The Group				
	Cash and balances with central banks	UK government securities	Other investment securities	Total
At 28 February 2023	£m	£m	£m	£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			Total £m
	Cash and balances with central banks £m	UK government securities £m	Other investment securities £m	
At 28 February 2023				
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

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

External Rating Grades	The Group and Bank			
	2024		2023	
	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	770	770	741	741
	770	770	741	741

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		
	Gross assets / (liabilities) recognised	Amounts offset	Net amounts recognised in the balance sheet	Financial instruments	Collateral pledged / (received)	Net amounts
At 29 February 2024	£m	£m	£m	£m	£m	£m
Derivative financial instruments – assets	62	-	62	-	(10)	52
Derivative financial instruments – liabilities	(56)	-	(56)	-	56	-
	6	-	6	-	46	52

33. Risk management (continued)

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

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

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

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 29 February 2024, the Group had posted cash collateral of £10m (2023: £49m) and received cash collateral of £66m (2023: £52m) against its derivative positions, and posted £16m of initial margin in the form of cash (2023: £21m of initial margin collateralised by encumbered Gilts).

33. Risk management (continued)

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 (which is incorporated in the Recovery Plan). Asset encumbrance ratios and key risk indicators for wholesale funding are also regularly monitored and reported to ALCo.

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.

33. Risk management (continued)*Residual contractual maturity analysis*

	The Group					Total £m
	Less than 1 month £m	1 to 3 months £m	3 to 12 months £m	1 to 5 years £m	Over 5 years £m	
At 29 February 2024						
Assets						
<i>Non-derivative assets</i>						
Cash and balances at central banks	1,112	-	-	-	-	1,112
Loans and Advances to customers	1,937	566	911	1,743	47	5,204
Loans and Advances to other banks	-	-	-	-	-	-
Investment securities	5	16	49	809	-	879
Other Assets	235	16	46	41	-	338
Long term interest receivable	-	-	-	-	-	-
	3,289	598	1,006	2,593	47	7,533
Net derivative asset cash flows	22	6	57	115	2	202
Total cash inflows	3,311	604	1,063	2,708	49	7,735
Liabilities						
<i>Non-derivative liabilities</i>						
Customer accounts	3,367	252	600	194	-	4,413
Other deposits	733	220	626	44	-	1,623
Other liabilities	115	1	4	6	-	126
Subordinated Debt	6	-	6	164	-	176
	4,221	473	1,236	408	-	6,338
Net derivative liability cash flows	8	11	52	114	-	185
Unrecognised loan commitments	6	-	-	-	-	6
Total cash outflows	4,235	484	1,288	522	-	6,529
Net liquidity	(924)	120	(225)	2,186	49	1,206

33. Risk management (continued)

	The Group					
	Less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
At 28 February 2023	£m	£m	£m	£m	£m	£m
Assets						
<i>Non-derivative assets</i>						
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						
<i>Non-derivative liabilities</i>						
Customer accounts	3,978	208	365	386	-	4,937
Other deposits	94	137	318	738	-	1,287
Other liabilities	191	-	1	1	-	193
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

33. Risk management (continued)

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

33. Risk management (continued)

	The Bank					Total £m
	Less than 1 month £m	1 to 3 months £m	3 to 12 months £m	1 to 5 years £m	Over 5 years £m	
At 28 February 2023						
Assets						
<i>Non-derivative assets</i>						
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
Liabilities						
<i>Non-derivative liabilities</i>						
Customer accounts	3,978	208	365	386	-	4,937
Other deposits	94	137	318	738	-	1,287
Other liabilities	145	-	(1)	(1)	-	143
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

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		Total £m
	Encumbered £m	Unencumbered £m	
At 29 February 2024			
Loans and advances to customers	1,444	3,074	4,518
Debt securities	25	745	770
Other assets	76	340	416
Cash, balances with central banks and loans and advances to banks	14	1,098	1,112
	1,559	5,257	6,816

	The Group		Total £m
	Encumbered £m	Unencumbered £m	
At 28 February 2023			
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 Bank		
	Encumbered	Unencumbered	Total
At 29 February 2024	£m	£m	£m
Loans and advances to customers	1,444	2,271	3,715
Debt securities	25	745	770
Other assets	76	1,107	1,183
Cash, balances with central banks and loans and advances to banks	14	1,064	1,078
	1,559	5,187	6,746

	The Bank		
	Encumbered	Unencumbered	Total
At 28 February 2023	£m	£m	£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 Group	
	Carrying value of encumbered assets	Matching liabilities, contingent liabilities or securities lent
At 29 February 2024	£m	£m
Loans and advances to customers	1,444	602
Debt securities	25	5
Other assets	76	-
Cash, balances with central banks and loans and advances to banks	14	-
	1,559	607

	The Group	
	Carrying value of encumbered assets	Matching liabilities, contingent liabilities or securities lent
At 28 February 2023	£m	£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 Bank		
	Carrying value of encumbered assets	Matching liabilities, contingent liabilities or securities lent
	£m	£m
At 29 February 2024		
Loans and advances to customers	1,444	602
Debt securities	25	5
Other assets	76	41
Cash, balances with central banks and loans and advances to banks	14	-
	1,559	648

The Bank		
	Carrying value of encumbered assets	Matching liabilities, contingent liabilities or securities lent
	£m	£m
At 28 February 2023		
Loans and advances to customers	1,116	760
Debt securities	-	-
Other assets	64	6
Cash, balances with central banks and loans and advances to banks	15	-
	1,195	766

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 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 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 IRRBB include:

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

33. Risk management (continued)*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 19.

Risk Appetite Measures

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

- *Capital at Risk*: an aggregate measure based on assessing each of the IRRBB risks and allocating a capital charge against each risk driver using a series of plausible but severe interest rate stresses. This includes parallel and non-parallel movements of the yield curve. Where applicable a customer behavioural repayment profile is applied.
- *Annual Earnings at Risk*: measures the sensitivity of the Bank's earnings over the next 12 months, in response to adverse movements in interest rates.
- *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 the Financial Risk team in 2nd line.

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

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

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

	The Group		The Bank	
	2024	2023	2024	2023
	£m	£m	£m	£m
+/- 100 basis points	1/2	1/(1)	1/2	0/0

The above analysis assumes that interest rates would floor at 0% and would not result in negative rates becoming applicable. The methodology used in calculation of earnings at risk was changed to show a dynamic view of the balance sheet as opposed to a static balance sheet assumption applied in the 2023 financial statements. Comparatives have been represented accordingly.

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.

Regulatory capital is calculated under the Capital Requirements Regulations and Capital Requirements Directive (collectively known as CRD IV). In 2020, an alternative transitional model was introduced to relieve Covid-19 related ECL increases within regulatory capital over a period of five years. As a result, the Bank calculates the capital resources on a transitional basis in addition to the full impact at the balance sheet date as shown below.

34. Capital resources (unaudited) (continued)

	Transitional 2024 IFRS9 £m	Full impact 2024 IFRS9 £m	Transitional 2023 IFRS9 £m	Full impact 2023 IFRS9 £m
The regulatory consolidated group				
Common Equity Tier 1 (CET 1) capital:				
Ordinary share capital	701	701	701	701
Allowable reserves	48	48	165	165
CET 1 capital pre Regulatory adjustments	749	749	866	866
Regulatory adjustments:				
Intangible assets	-	-	(165)	(165)
Additional value adjustment	(1)	(1)	(1)	(1)
Non-performing exposures insufficient coverage	-	-	(1)	(1)
Transitional adjustment	1	-	23	-
Total Regulatory adjustments to CET 1 Capital	-	(1)	(144)	(167)
Tier 1 Capital	749	748	722	699
Loan notes (listed)	100	100	113	113
Tier 2 Capital	100	100	113	113
Total capital	849	848	835	812

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

	Transitional 2024 IFRS9 £m	Full impact 2024 IFRS9 £m	Transitional 2023 IFRS9 £m	Full impact 2023 IFRS9 £m
The regulatory consolidated group				
At 1 March	722	699	685	647
Verified profit / (losses)	(117)	(117)	38	38
Foreseeable dividend	-	-	-	-
Transitional adjustments	(22)	-	(15)	-
Other reserve movements	-	-	1	1
Movement in additional value adjustments	-	-	(1)	(1)
Movement in non-performing exposures insufficient coverage	1	1	(1)	(1)
Movement in intangible assets	165	165	15	15
As at 29/28 February	749	748	722	699

Reconciliation of statutory reserves to regulatory reserves

	2024 £m	2023 £m
The regulatory consolidated group		
Total shareholders' funds	749	866
Foreseeable dividend	-	-
Total shareholders' funds of subsidiary undertakings and consolidation adjustments	-	-
Regulatory adjustments	-	(144)
CET 1 capital	749	722

34. Capital resources (unaudited) (continued)*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 29 February 2024 on the UK basis which allows central bank assets to be excluded from the leverage exposures. The Bank's leverage ratio of 11.3% (2023: 9.6%) exceeds the minimum Basel leverage ratio of 3%.

	Transitional	Full impact	Transitional	Full impact
	2024	2024	2023	2023
	IFRS9	IFRS9	IFRS9	IFRS9
The regulatory consolidated group	£m	£m	£m	£m
Components of the leverage ratio				
Total assets as per published financial statements	6,816	6,816	7,209	7,209
Movement on consolidation of subsidiary undertakings	(6)	(6)	(6)	(6)
Exposure value for derivatives and securities financing transactions	30	30	32	32
Off balance sheet exposures: unconditionally cancellable (10%)	769	769	867	867
Off balance sheet: other (100%)	1	1	2	2
Other adjustments	(78)	(78)	(243)	(266)
Transitional adjustment	1	-	-	-
Central bank claims	(886)	(886)	(331)	(331)
	6,647	6,646	7,530	7,507
Tier 1 capital	749	748	722	699
Leverage ratio	11.3%	11.3%	9.6%	9.3%

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.

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.

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

	The Group			
	Level 1	Level 2	Level 3	Total
At 29 February 2024	£m	£m	£m	£m
Derivatives designated as fair value hedging instruments	-	62	-	62
Derivatives not in fair value hedging relationships	-	-	-	-
Investment Securities	768	2	-	770
Total assets	768	64	-	832
Derivatives designated as fair value hedging instruments	-	56	-	56
Total liabilities	-	56	-	56

	The Group			
	Level 1	Level 2	Level 3	Total
At 28 February 2023	£m	£m	£m	£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

35. Fair value of financial instruments (continued)

	The Bank			
	Level 1	Level 2	Level 3	Total
At 29 February 2024	£m	£m	£m	£m
Derivatives designated as fair value hedging instruments	-	15	-	15
Derivatives not in fair value hedging relationships	-	-	-	-
Investment Securities	768	2	-	770
Total assets	768	17	-	785
Derivatives designated as fair value hedging instruments	-	56	-	56
Total liabilities	-	56	-	56
	The Bank			
	Level 1	Level 2	Level 3	Total
At 28 February 2023	£m	£m	£m	£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 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 29 February 2024 or 28 February 2023.

35. Fair value of financial instruments (continued)

The Group	2024		2023	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Assets:				
Loans and advances to customers	4,518	4,381	5,293	5,240
Cash and balances at central banks	1,112	1,112	546	546
Loans and advances to other banks	-	-	100	100
Investment Securities	-	-	50	50
Liabilities:				
Customer accounts	4,165	4,172	4,735	4,739
Other deposits	1,557	1,561	1,212	1,214
Subordinated debt	122	136	122	131

The Bank	2024		2023	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Assets:				
Loans and advances to customers	3,715	3,534	4,555	4,433
Cash and balances at central banks	1,078	1,078	499	499
Loans and advances to other banks	-	-	100	100
Investment Securities	-	-	50	50
Liabilities:				
Customer accounts	4,165	4,172	4,735	4,739
Other deposits	1,557	1,561	1,212	1,214
Subordinated debt	122	136	122	131

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

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 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
At 29 February 2024								
Loans and advances to customers	-	4,381	-	4,381	-	3,534	-	3,534
Cash and balances at central banks	-	1,112	-	1,112	-	1,078	-	1,078
Total assets	-	5,493	-	5,493	-	4,612	-	4,612
Customer accounts	-	4,172	-	4,172	-	4,172	-	4,172
Other deposits	-	1,561	-	1,561	-	1,561	-	1,561
Subordinated debt	136	-	-	136	136	-	-	136
Total liabilities	136	5,733	-	5,869	136	5,733	-	5,869

35. Fair value of financial instruments (continued)

	The Group				The Bank			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
At 28 February 2023								
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 estimated fair value of loans and advances represents the discounted amount of estimated future cash flows to be received. Cash flows are discounted at current market rates to determine fair value. The market rates used in discounting ensure a required level of return to market participants taking into account factors such as interest rate risk, credit risk and prepayment risk and therefore it is appropriate to discount contractual cash inflows by these amounts.

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.about.sainsburys.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). 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.

The value of the charge is adjusted in the income statement over the remainder of the vesting period to reflect expected and actual levels of options vesting, with the corresponding adjustments made in equity and accruals.

Income statement

The Group recognised £6m (2023: £5m) of employee costs (note 7) related to share-based payment transactions made during the financial year. Of these, £nil (2023: £nil) were cash-settled.

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

37. Share-based payments (continued)**a. Savings Related Share Option Scheme (Sharesave)**

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

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

	2024 Number of options million	2024 Weighted average exercise price pence	2023 Number of options million	2023 Weighted average exercise price pence
Outstanding at end of year	1.6	188	1.5	176.2
Exercisable at end of year	-	-	0.2	164.9
Exercisable price range		161 to 260		161 to 260

	2024	2023
Weighted average share price at date of exercise	267	259
Weighted average remaining contractual life	2.3 years	2.8 years

Options granted during the year were valued using the Black-Scholes option-pricing model. No performance conditions were included in the fair value calculations.

	2024	2023
Share price at grant date	300p	226p
Exercise price	213p	167p
Expected volatility	25.2%	28.9%
Option life	3.2 years	3.2 years
Expected dividend yield	4.9%	5.6%
Risk-free interest rate	5.3%	3.0%
Fair value per option	66p	57p

The expected volatility is based on the standard deviation of the Group's share price for the period immediately prior to the date of grant of award, over the period identical to the vesting period of the award, adjusted for management's view of future volatility of the share price.

b. Long-Term Incentive Plan

Under the Long-Term Incentive Plan, shares in J Sainsbury plc are conditionally awarded to the senior leaders 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. From 2021 onwards, schemes vest and participants are able to exercise after 3 years. Options granted will expire five years from the grant date.

Dividends will accrue on the shares that vest in the form of additional shares, except for certain colleagues who are unable to receive dividend equivalents due to financial services regulations. For awards granted in and before the year ended 4 March 2023, a core share award was granted which could grow by up to four times, dependent on the level of performance. For awards granted in the year to 2 March 2024, the maximum share award is allocated, and the award will vest between 0 per cent and 100 per cent based on performance against targets. Awards are structured as nil cost awards.

37. Share-based payments (continued)

	2024	2023
	Million	Million
Outstanding at end of year	3.1	1.9

	2024	2023
Weighted average share price at date of exercise	281 pence	233 pence
Weighted average remaining contractual life	3.1 years	0.4 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.

c. Nil-cost Share Award

The nil price share option schemes include Deferred Share Awards, Bonus Share Awards and other Conditional Awards.

The last awards made under the Deferred Share Award plan were made in 2021. All options outstanding in 2023 were released to participants in 2024.

Senior Leaders receive a percentage of their bonus award in shares. Before 2021, bonus awards had a three-year deferral period. However, awards granted from 2021 now have a deferral period of two years, except for certain colleagues who are subject to a deferral period due to financial services regulations.

Other conditional awards relate to the retention and recruitment of Senior Leaders as part of the wider reward strategy. Awards vest, typically between one and three years, subject to participants remaining in employment at the vesting date.

Dividends accrue on these shares and vest in the form of additional shares released at the end of the deferral period.

	2024	2023
	Million	Million
Outstanding at end of year	2.2	1.9

	2024	2023
Weighted average share price at date of exercise	261 pence	230 pence
Weighted average remaining contractual life	1.7 years	1.3 years

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.

	2024	2023
The Group	£m	£m

Transactions during the year

Deposits by J Sainsbury plc:

Interest payable by the Group	2	2
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Balances at end of year

Deposits by J Sainsbury plc:

Balance at the reporting date	-	-
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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.

	2024	2023
The Group	£m	£m
Transactions during the year		
<i>Services provided by Sainsbury's Supermarkets Limited:</i>		
Management services	24	11
<i>Services provided to Sainsbury's Supermarkets Limited:</i>		
Management services	-	-
Balances at end of year		
<i>Payables:</i>		
Management services	(3)	(9)
<i>Receivables:</i>		
Tax losses surrendered	22	-
Net intercompany (payable)/receivable	19	(9)

Included within management services provided by Sainsbury's Supermarkets Limited are amounts recharged to the Group for Nectar points.

Argos Limited

As described in note 23, 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 of 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.e

	2024	2023
The Group	£m	£m
Transactions during the year		
Fees receivable by the Group in respect of services provided	31	1
Balances at end of year		
<i>Payables</i>	(11)	(22)
<i>Receivables</i>	47	6
Net intercompany receivable / (payable)	36	(16)

b) Transactions with key management personnel

The key management personnel of the Group comprise members of the Sainsbury's Bank Board and the Executive Committees of all Group companies, who held office during the year. The key management personnel compensation is as follows:

	2024	2023
The Group	£m	£m
Short term employee benefits	6.0	4.4
Pension contributions	0.1	-
Termination benefits	-	1.3
Share-based payments	2.9	1.5
	9.0	7.2

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 (2023: £nil).

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.

	Number of key management personnel	Directors £000	Other £000
The Group			
Credit cards and term loans			
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
Resignations during 2023/24	-	-	-
Appointments/ New accounts during 2023/24	1	-	23
Amounts advanced during the year	-	17	81
Interest Charged	-	-	1
Amounts repaid during the year	(1)	(17)	(85)
At 29 February 2024	5	2	24

Based on the Companies Act definition of Loans to Directors, total lending outstanding at 29 February 2024 was £nil (2023: £nil).

	Number of key management personnel	Directors £000	Other £000
The Group			
Savings and deposit accounts			
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
Resignations during 2023/24	(2)	-	(25)
Appointments/ New accounts during 2023/24	-	-	-
Amounts deposited during the year	-	-	-
Interest paid	-	-	-
Amounts withdrawn during the year	-	-	-
At 29 February 2024	-	-	-

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 Group. 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 Group 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 Group’s underlying performance	A reconciliation of underlying profit before tax is provided in Note 9 of the financial statements			
Financial services group contribution	Underlying contribution 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		Ref	2024	2023
		Interest income £m	IS Rec	493	394
		Interest expense £m	IS Rec	(193)	(74)
		Underlying Net Interest Income £m		300	320
		Monthly average interest earning assets £m*		6,444	6,271
		Underlying NIM		4.7%	5.1%
		* Monthly average interest earning assets is not presented in the financial statements. The average balance at Feb-24 is £6,444m (2023: £6,271m) made up of; - Average loans & advances to customers £4,970m (2023: £5,178m) - Average treasury assets £1,474m (2023: £1,094m)			
Bad debt asset ratio (BDAR)	Impairment losses as a percentage of the average net balance of loans and advances to customers		Ref	2024	2023
		Impairment losses £m	IS Rec	102	107
		Monthly average customer lending £m*		4,970	5,178
		BDAR		2.1%	2.1%
		*Monthly average customer lending is not presented in the financial statements.			

Alternative performance measures

APM	Definition/Purpose	Reconciliation			
Cost: income Ratio	Underlying operating expenses as a percentage of total income		Ref	2024	2023
		Operating expenses £m	IS Rec	466	298
		Non-underlying items £m	Note 9	(169)	(6)
		Underlying FS expenses £m		297	292
		Total FS Income £m*	IS Rec	445	456
		Cost: Income ratio		67%	64%
Return on capital employed	Underlying profit after tax divided by average equity		Ref	2024	2023
		Underlying FS uPBT before tax £m	IS Rec	47	58
		Notional tax charge £m		(12)	(11)
		Underlying FS profit after tax £m		35	47
		Monthly average equity £m*		852	854
		Return on tangible equity		4.1%	5.5%
*Monthly average equity is not presented in the financial statements.					

In the above table, IS Rec refers to the income statement reconciliation presented below. This highlights expected differences between the statutory view and the above alternative performance measures driven from discontinued operation.

Reconciliation management view to statutory view

The APMs above and financial review utilise management view rather than statutory view. A reconciliation has been provided to reconcile the summary income statement on page 27 to the consolidated statutory income statement on page 54.

Summary income statement

	Management view	Discontinued operations	Non-underlying items	Statutory adjustments	Statutory view
2024	£m	£m	£m	£m	£m
Net interest income	300	(12)	(21)	1	268
Net fees and commissions income	-	-	-	133	133
Other operating income	145	(1)	42	(152)	34
Income	445	(13)	21	(18)	435
Expenses	(297)	2	(203)	(1)	(499)
Profit on financial instruments	1	-	-	-	1
Profit / (loss) before impairments	149	(11)	(182)	(19)	(63)
Impairment losses on financial assets	(102)	-	-	-	(102)
FS group contribution¹	47	(11)	(182)	(19)	(165)
Less amounts recognised in Argos	(19)	-	-	19	-
Profit / (loss) before taxation	28	(11)	(182)	-	(165)
Less: items excluded from underlying results	(189)	7	182	-	-
Statutory (loss) / profit before taxation	(161)	(4)	-	-	(165)
Taxation		1	-	38	39
Statutory (loss) / profit after tax from continuing operations		(3)	-	38	(126)

¹Underlying FS group contribution represents our profit before net royalties paid to Argos

Alternative performance measures

Summary income statement

2023	Management view	Discontinued operations	Non-underlying items	Statutory adjustments	Statutory view
	£m	£m	£m	£m	£m
Net interest income	320	(18)	-	-	302
Net fees and commissions income	-	-	-	98	98
Other operating income	136	(1)	-	(107)	28
Income	456	(19)	-	(9)	428
Expenses	(292)	1	(5)	-	(296)
Profit on financial instruments	1	-	-	-	1
Profit / (loss) before impairments	165	(18)	(5)	(9)	133
Impairment losses on financial assets	(107)	(2)	-	-	(109)
FS group contribution¹	58	(20)	(5)	(9)	24
Less amounts recognised in Argos	(9)	-	-	9	-
Profit / (loss) before taxation	49	(20)	(5)	-	24
Less: items excluded from underlying results	(5)	-	5	-	-
Statutory (loss) / profit before taxation	44	(20)	-	-	24
Taxation		4	-	(11)	(7)
Statutory (loss) / profit after tax from continuing operations		(16)	-	(11)	17

¹Underlying FS group contribution represents our profit before net royalties paid to Argos

Reconciliation discontinued operations

The discontinued operations presented in Note 14 shows the statutory profit and loss after tax from discontinued operations and management views of the loss before tax inclusive of funding costs and overheads. Funding costs are determined via the Bank's transfer pricing model used for internal reporting. Overheads are allocated on a consistent basis to the impairment calculations outlined in note 21.

	2024	2023
	£m	£m
Profit after tax from discontinued operations	3	16
Less: Internal Funding Costs	(8)	(10)
Less: Overheads	(5)	(11)
Loss before tax of mortgages business inclusive of funding costs and overheads	(3)	(5)

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.

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.

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.

tCO₂e – tonnes of CO₂ equivalent