



Sainsbury's Bank

Debt Investor Call
2nd May 2018



Kevin O'Byrne

Chief Financial Officer
Sainsbury's plc

Sainsbury's Group

Bank is a major component and a strategic priority



①

Further enhance our **differentiated food proposition**

②

Grow **General Merchandise and Clothing** and **deliver synergies**

③

Diversify and grow **Sainsbury's Bank**

④

Continue **cost savings** and **maintain balance sheet strength**

In a challenging Retail environment, the Bank helps:



1.

Attract and retain loyal Sainsbury's and Argos shoppers in the group



2.

Provide capability, systems and products to help our customers live well for less



3.

Differentiate income and boost Group sales and profits

Group financial highlights

J Sainsbury plc Full Year Unaudited Results 17/18

- UPBT £589m – a return to growth
 - H2 UPBT up 11%, with improved food margin trend
- Cost savings and Argos acquisition synergies ahead of plan
- Sainsbury's Bank profits up 11%
- Strong cash generation
 - Free cash flow £432m, up £113m year on year
- Lease adjusted net debt to EBITDAR down to 3.2x vs 3.7x a year ago
 - Net debt down £113m
- Comfortable with FY 18/19 UPBT consensus¹

¹ 2018/19 UPBT consensus estimate of £629m, as published on 5 March 2018 on www.j-sainsbury.co.uk/investors/analyst-consensus



Peter Griffiths

Chief Executive
Sainsbury's Bank

Target outcomes

Diversified income streams, structural advantages, scale potential

	Aim	Target
Fee income	▶ Low risk, low capital intensity business which is great for our customers	Maintaining strong contribution
Efficiency	▲ Leverage modern platform to build scale and improve operational efficiency	Long term cost:income target c.50% from current 70%
Customer numbers	▲ Sainsbury's customers are lower risk and acquisition costs are low. AFS drives Argos sales and generates financial income	Targeting Sainsbury's customers through data, digital and propositions Higher AFS penetration of Argos sales
Asset mix	▲▲ Adding secured lending lowers overall risk levels	c.60% secured lending long term vs current 5%
Volatility	▼ Strategy yields lower earnings volatility in stress	Lower volatility

Investing and delivering our infrastructure

Loans platform live and cards on track

Delivered

- Flexible core platform
- Savings and ATMs
- Insurance platform
- New loans platform
- Mortgage offer
- New website
- Contact Centre



Cards



Bank and Argos to share the same cards operating platform by Summer 2018

- Investment in new systems more complex and expensive than anticipated
- Modern scalable platforms give greater flexibility and responsiveness

Good Bank progress

Diversification and growth

Mortgages

- 3k applications since Apr 17 launch
- £278m lending to date
- Average loan size £230k and average LTV 55%
- Currently 8 broker partners with distribution network widening, building scale

Savings

- New accounts up 41%
- 21% growth in total balances
- 32% growth in ISA and Fixed Term deposits

Unsecured lending

- 11% growth in new accounts year on year
- New loans platform successfully launched
- Annual spend per active Argos storecard <£500

Fee income

- Travel money transactions up 26%
- ATM estate grew by over 5%
 - 36 new ATMs in high footfall Argos stores
- Car and Home new insurance polices up 42% and 39%
 - Following move to multi-panel provider

Nectar opportunity

Taking loyalty to the next level

Nectar acquisition

- Acquired all Nectar businesses
- Full independent operation of loyalty programme

Benefits

- Reward customer loyalty
- Support our strategy of knowing our customers better than anyone else

The role of Nectar

30% cheaper
cost to acquire new Bank customers

75% of Bank customers

80% of insurance customers
linked to a Nectar card

Customers are around
50% less likely
to default



Argos Financial Services

Growth opportunity

Strategy

- Drive higher ticket sales through provision of credit products to Argos shoppers
- Deliver finance and retail margin and commission income from 3rd party provided products
- Stable base of loyal customers, typically funding big ticket purchases
- Investment in infrastructure, people and systems
 - Building capabilities to realise contribution growth

2017/18 performance

6%
increase in new accounts

10%
penetration growth



Argos card launched in Sainsbury's
November 2017

iPhone sales
1 in 3 sold within Argos bought on the Argos Card

David Samper

Interim Chief Financial Officer
Sainsbury's Bank



Profit increase primarily driven by consolidation of Argos Financial Services

£m	2017/18 ¹	2016/17 ²	Change
Total income ³	451	347	▲ 30%
Underlying operating profit	69	62	▲ 11%
Cost/income ratio	70%	72%	▼ 200bps
Active customers - Bank	1.92m	1.77m	▲ 8%
Active customers - Argos FS	1.95m	1.84m	▲ 6%
Net interest margin ⁴	4.9%	4.4%	▲ 50 bps
Bad debt as a percentage of lending ⁵	1.3%	0.8%	▲ 50 bps
CET 1 ratio ⁶	14.1%	13.3%	▲ 80bps
Total capital ratio ⁷	17.1%	13.3%	▲ 380bps

Excluding AFS

▼ 30 bps

▲ 30 bps

1 12 months to 28 February 2018, including full year Argos Financial Services trading

2 12 months to 28 February 2017, including 6 month period of post acquisition Argos Financial Services trading

3 Net interest, net commission and other operating income

4 Net interest receivable / average interest-earning assets

5 Bad debt expense / average net lending

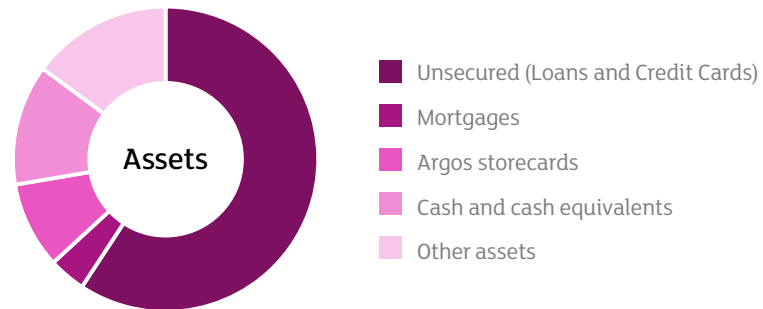
6 Common equity tier 1 capital / risk-weighted assets

7 Total capital / risk-weighted assets

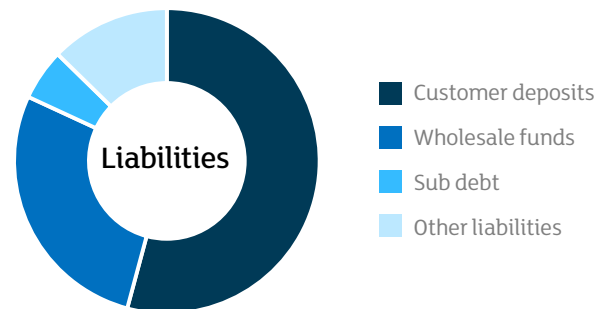
Bad debt and credit quality

- BDAR on unsecured remains low compared to industry with:
 - arrears performance consistently better than benchmarks
 - lending concentrated in lower risk and family segments
- Historically bank has managed portfolio with NIM 3-4x BDAR
- Bank will continue to focus on areas of value across unsecured lending
- Portfolio losses becomes less volatile over time as the proportion of mortgages increases

- Total assets at Feb-18 of c£8bn
- Growth across all lending products
- Mortgages performing well with £0.3bn lending to date



- Strong deposit growth with balances up 21% to £5bn
- Wholesale funds at £1.5bn driven by utilisation of the BoE Term Funding Scheme (£950m as at Feb 18)

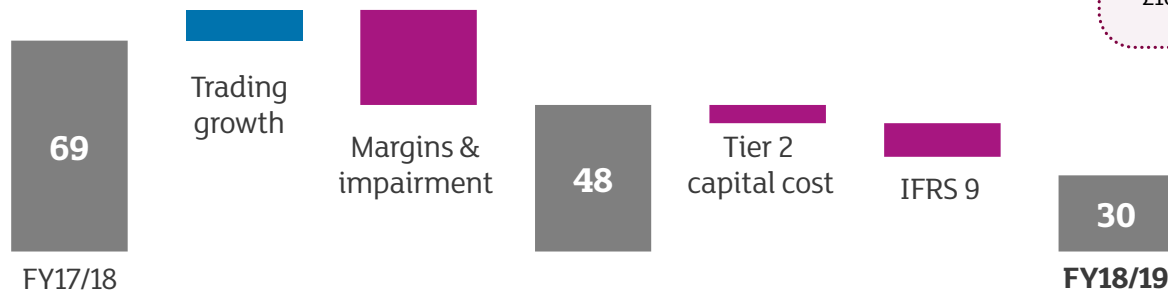


FY 18/19 Guidance

We remain confident in the Bank's potential to generate growth and healthy returns in the medium term.

In the short term we expect underlying profit to fall to c.£30m, driven by:

- Competitive conditions and a cautious approach impacting margins in unsecured lending
- Higher provisions assumed for bad debt as interest rates rise
- Interest costs of Tier 2 capital raised in November 17 (£9m per year, £6m year on year)
- Additional £11m impairment as a result of IFRS9 adoption



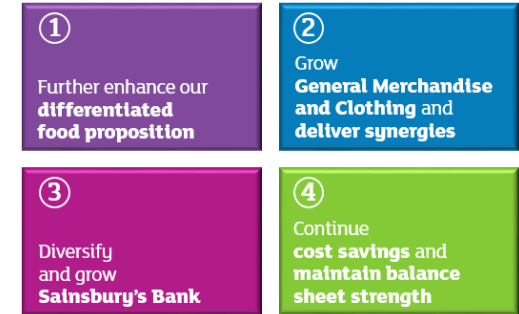
2018/19 FY Guidance

- Expect underlying profit of around £30m in 2018/19
- Capital injections into the Bank are expected to be £110m in 2018/19. This is to cover card and loan platforms, regulatory capital and growth in loan, card, and mortgage balances
- Capital injections into the Bank from 2019/20 onwards to average £100m per year

Focused on Sainsbury's customers

Poised for growth

- Strategy unchanged
- Bank a pillar of Group strategy
- Reducing balance sheet risk and building scale with strong start in mortgages
- Selective growth in unsecured to retain high quality portfolio
- Strong focus on successful commission businesses
- Exciting Argos Financial Services opportunities for Bank and Group
- Close to completion of New Bank Programme
- Commencing efficiency programme to further improve return on capital



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