TESCO PERSONAL FINANCE PLC

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 28 FEBRUARY 2021

Company Number SC173199

TESCO PERSONAL FINANCE PLC
CONTENTS

DIRECTORS AND ADVISERS

Directors:	Sir John Kingman	Non-Executive Chairman
	Julie Currie	Independent Non-Executive Director
	Robert Endersby	Independent Non-Executive Director
	Jacqueline Ferguson	Independent Non-Executive Director
	Richard Henderson	Chief Risk Officer
	Declan Hourican	Chief Financial Officer
	Simon Machell	Independent Non-Executive Director
	Gerard Mallon	Chief Executive
	Amanda Rendle	Independent Non-Executive Director
	Alan Stewart	Non-Executive Director
	James Willens	Senior Independent Non-Executive Director

Company Secretary: Michael Mustard

Registered Office:
2 South Gyle Crescent
Edinburgh
EH12 9FQ

Independent Auditor:
Deloitte LLP
1 City Square
Leeds
LS1 2AL

Bankers:
The Royal Bank of Scotland plc
36 St Andrew Square
Edinburgh
EH2 2YB

HSBC Bank plc
8 Canada Square
London
E14 5HQ

Bank of New York Mellon, London Branch
1 Canada Square
London
E14 5AL

Elavon Financial Services DAC UK
5th Floor
125 Old Broad Street
London
EC2N 1AR

The Directors present their Strategic Report for the year ended 28 February 2021.

The Annual Report and Financial Statements comprises the Strategic Report, the Directors' Report and the Company and Consolidated Financial Statements and accompanying notes. In the Annual Report and Financial Statements, unless specified otherwise, the 'Company' means Tesco Personal Finance plc (TPF) and the 'Group' means the Company and its subsidiaries and joint venture included in the Consolidated Financial Statements. The Group operates using the trading name of Tesco Bank.

TPF is a wholly owned subsidiary of Tesco Personal Finance Group plc (TPFG), the share capital of which is wholly owned by Tesco PLC (Tesco). A reconciliation of the results contained within this Strategic Report to the Tesco Bank results presented in the Tesco preliminary results 2020/21 can be found on the Tesco internet page https://www.tescoplc.com/tesco-bank/brokerpack-2021.

Business Model

The core objective of the Board is to create and deliver the long-term sustainable success of the Group, generating value for the Group's shareholder and contributing to wider society. The Board sets the Group's purpose, strategy and values and is accountable to the Group's shareholder for ensuring that the Group is appropriately managed and achieves its objectives in a way that is supported by the right culture and behaviours.

The Group provides financial services and products to personal customers in the United Kingdom (UK). The Company is incorporated and registered in Scotland. The Company owns 49.9% of Tesco Underwriting Limited (TU), an authorised insurance company. TU is accounted for as a joint venture of the Group.

Covid-19

During the year, significant economic and social disruption has arisen from the Covid-19 pandemic. The Group's priority throughout the year has been helping customers and colleagues through the many challenges created by the Covid-19 pandemic. The Group invoked crisis management plans as it sought to serve and support its customers while maintaining the safety and well-being of colleagues but has since transitioned new working practices to business-as-usual, with ongoing, stable operational performance.

The crisis management response included a focus on operational resilience. The actions taken included enhancing home working capability for colleagues and self-serve capability for customers. Close monitoring remains in place to ensure that the Group's critical functions continue to be resilient. The Group continues to engage with suppliers to ensure that service levels can continue to be maintained throughout a prolonged Covid-19 pandemic. Regulators have been consistently updated with progress through regular and ad-hoc management information and relationship meetings.

The Group reviewed its stress testing scenarios to ensure it has sufficient capital and liquidity to trade through a plausible range of economic outcomes.

The Board has received frequent operational, financial and colleague updates from the Executive team throughout the crisis and provided challenge and support. There has also been a focus on both conduct and prudential impacts and close tracking of all government and regulator correspondence to gauge the potential impact on the Group, now and in the future.

The Group is providing support to those customers who have advised the Group that they are experiencing financial difficulty as a result of the Covid-19 pandemic. During the year, the Group granted temporary payment holidays of £762.0m to 139,673 Credit Card and Personal Loan customers who have advised the Group that they are experiencing financial difficulty as a result of the Covid-19 pandemic. These were for an initial period of up to three months and have in some cases been extended by a further three months. Of the payment holidays granted at 28 February 2021, 126,012 have ended, with 85.8% of customers returning to normal payment schedules.

Covid-19 (continued)

The following table shows the outstanding balances at 28 February 2021 of all accounts where a payment holiday was granted during the year, including their IFRS 9 'Financial Instruments' staging and the percentage of the overall lending portfolio these balances represent:

Gross balances at 28 February 2021	Volume	Stage 1	Stage 2	Stage 3	% Gross balance
		£m	£m	£m	
Total	13,661	62.7	40.6	1.3	1.5%

Since 28 February 2021, the Group has granted further payment holidays of £13.2m to 1,656 Credit Card and Personal Loan customers.

As a result of the Covid-19 pandemic, customer lending balances have reduced due to lower overall consumer spending and new business volumes in the year. Refer to page 4 for further details of the impact of the Covid-19 pandemic on the Group's income for the year.

There has also been a significant impact on expected credit losses (ECLs) for potential bad debts in the year, with the Group recognising a charge for the year of £359.5m (2020: £178.6m).

The extension of government support measures such as furlough has been unprecedented and this, coupled with the granting of payment holidays by the Group, has broken the historically observed relationship between unemployment and default. Although projected levels of unemployment remain high, the Group is yet to see significant defaults emerge in its lending portfolio and, as such, Management has applied Covid-19 specific adjustments to the Group's modelled ECL provision to capture the estimated impact of the stress within the Group's ECL provision. Further information in respect of these adjustments is set out at note 37.

The impact of the Covid-19 pandemic on income and ECLs has resulted in a loss for the Group in the year ended 28 February 2021. Notwithstanding this, the Group’s capital and liquidity ratios, which are set out on page 8, are expected to remain above regulatory requirements over the periods used by Management to monitor these ratios. The impact of the current economic outlook on ECLs is set out at note 37.

The Board considered in depth the impact of the Covid-19 pandemic on the Group's going concern status. The relevant disclosures are set out on pages 24 to 25 and 29 to 30.

In response to the Covid-19 pandemic and lockdown conditions, the Group introduced a number of benefits to help Tesco customers manage their money a little better every day. These include an increase in the contactless limit from £30 to £45; the removal of insurance policy change fees, providing customers with flexibility to make changes to their policies; the suspension of overdraft interest on arranged overdrawn Personal Current Account balances up to £500 from April until 31 October 2020; and utilising Tesco gift cards to provide school lunches across the UK. Additionally, the Group launched e-gift cards during the year, which allowed friends or relatives to assist vulnerable customers with their shopping.

Acquisition of Tesco Underwriting Limited

During the year, the Group reached an agreement with Ageas (UK) Limited (Ageas UK) to acquire its stake in the Group's joint venture, TU, which will become a 100%-owned subsidiary of the Group. The deal is expected to complete in May 2021, following regulatory approval received in March 2021.

The acquisition is in line with the Group's strategy of focusing on propositions which better meet the needs of Tesco shoppers. The investment will significantly enhance the Group's insurance capability and enable the Group to create an insurance business that is uniquely positioned to help Tesco shoppers manage their money a little better every day.

The Group, TU and Ageas UK are working closely together to ensure a smooth transition as the Group works towards the formal change of ownership.

Sale of the Group's Mortgage Business

The Group completed the sale of the majority of its Mortgage business on 27 September 2019 for a cash consideration of £3,694.6m. As is customary in such a transaction, the Group continued to recognise a small element of the Mortgage business, representing new advances to existing Mortgage customers, until migration of all Mortgage accounts to the purchaser, which took place on 30 March 2020. The Group received additional cash consideration of £53.8m in respect of these accounts. In accordance with the requirements of International Financial Reporting Standard (IFRS) 5 'Non-current assets held for sale and discontinued operations', the Group has classified its Mortgage business as a discontinued operation in the current and prior year Consolidated Income Statement.

Further information on the Group's discontinued operations is set out at note 14.

Headlines

Income Statement

- Loss before tax from continuing operations is £154.8m (2020: profit of £79.2m).
- Underlying loss before tax from continuing operations, which excludes items which are not reflective of ongoing trading performance, is £152.2m (2020: profit of £227.8m). A reconciliation of statutory to underlying (loss)/profit for the current and prior year is set out at note 4.
- Profit after tax from discontinued operations is £0.2m (2020: £56.7m).
- **Loss before tax from continuing operations**

  The key drivers of the loss before tax from continuing operations are:

  - a 12.3% decrease in net interest income to £453.7m (2020: £517.4m), reflecting lower interest earnings on the reduced customer lending balances. Net interest margin has increased to 5.2% (2020: 4.4%), predominantly reflecting an improved Credit Card margin and lower funding costs following the sale of the Group’s Mortgage business. In the prior year, interest expense of £37.5m in respect of the Group's cost of funding the Mortgage business continued to be presented within net interest income of continuing operations. Since this cost could not be directly attributed to liabilities of the Group entered into specifically to fund the Group's Mortgage business, as required by IFRS 5, it was not possible to present this cost within statutory profit for the year after tax from discontinued operations for the prior year. There was no such charge in the current year;
  - a 43.1% decrease in net fees and commission income to £176.1m (2020: £309.7m). Fee and commission income has reduced significantly in the year due to reduced activity as a result of the Covid-19 pandemic. Credit Card fees have been impacted by a large reduction in Credit Card transactions by customers during the lockdown period. Income from the Group's Travel Money service has fallen as this is currently only available online, reflecting the unprecedented fall in demand for Travel Money. ATM income has also decreased as a result of significantly reduced volumes. Insurance income has fallen due to a reduction in premiums in a highly competitive market;
  - a loss on financial instruments at FVPL of £2.6m (2020: £4.0m);
  - a loss on disposal of investment securities of £nil (2020: £0.2m);
  - a decrease of 23.7% in operating expenses to £438.7m (2020: £575.3m). This includes, in the prior year, an additional payment protection insurance charge of £45.0m and restructuring charges of £65.8m, comprising accelerated amortisation of £55.0m and other restructuring costs of £10.3m. There were no such charges in the current year. Operating expenses also reflect an overall reduction in activity due to the Covid-19 pandemic;

- **Loss before tax from continuing operations (continued)**
  - a 101.3% increase in charges for ECLs on financial assets to £359.5m (2020: £178.6m). Although projected levels of unemployment remain high, the Group is yet to see significant defaults emerge in its lending portfolio and, as such, Management has applied Covid-19 specific adjustments to the Group's modelled ECL provision to capture the estimated impact of the stress within the Group's ECL provision. Further information in respect of these adjustments is set out at note 37. The bad debt:asset ratio in respect of continuing operations increased to 4.6% (2020: 1.6%); and
  - a 58.8% increase in the Group's share of profit from its joint venture, TU, to £16.2m (2020: £10.2m). This includes, in the prior year, a credit of £3.7m, representing the Group's share of credits recognised by TU during the prior year relating to the impact on TU's insurance reserves of a change to the Ogden tables, which are used to calculate future losses in personal injury and fatal accident cases. There was no such credit in the current year. The increase in profit is predominantly driven by a reduction in motor insurance claims as a result of the Covid-19 pandemic.

- **Income tax credit on loss from continuing operations**

Income tax on the Group's loss from continuing operations for the year is a credit of £51.1m (2020: charge of £32.4m). This predominantly reflects the impact of the Covid-19 pandemic on the Group's results for the year and the expected relief of the loss for the year against prior year profits.

- **Profit after tax from discontinued operations**

The reduction in profit after tax from discontinued operations to £0.2m (2020: £56.7m) predominantly reflects the impact of the sale of the Group's Mortgage business, the majority of which completed in September 2019. The key components are net interest income of £nil (2020: £41.3m), other income of £(0.6)m (2020: £(6.6)m), a reduction in operating expenses to a credit of £0.4m (2020: expense of £17.0m), a post-tax gain on sale of £0.4m (2020: £43.0m) and a reduction in tax to a credit of £nil (2020: charge of £5.1m). As the remaining Mortgage business was migrated to the purchaser on 30 March 2020, the current year profit after tax from discontinued operations reflects only one month of trading and the sale of the remaining element of the Mortgage business which continued to be recognised at 29 February 2020.

Balance Sheet

- Loans and advances to customers have decreased by 24.2% to £6.4bn (2020: £8.5bn). Credit Card balances have reduced by 29.1% due to lower overall consumer spend in the year, while Personal Loans have reduced by 20.1%, reflecting lower new business volumes during the year.
- Customer deposits, which continue to be the Group's main source of funding, have decreased by 25.5% to £5.7bn (2020: £7.7bn) as the Group has continued to reduce its Savings balances in response to the reduced activity in loans and advances to customers as a result of the Covid-19 pandemic and the reduction in funding requirements following the sale of the Mortgage business. At the year end, the Group had accessed £500.0m of funds from the Bank of England's (BoE) Term Funding Scheme (TFS) (2020: £500.0m) and £100.0m (2020: £nil) under the BoE's TFS with incentives for Small and Medium Sized Entities.
- The balance sheet remains well positioned to support future lending growth from both a liquidity and capital standpoint. At 28 February 2021, the total capital ratio was 28.2% (2020: 23.1%) and the net stable funding ratio (NSFR) was 127.4% (2020: 129.1%).

Regulatory Developments

The Group continues to monitor and prepare for a number of regulatory changes taking effect over the next few years.

Onshoring of European Union (EU) Regulations After Brexit

Following the UK's withdrawal from the EU and the ending of the transition period, any reference to EU regulations and directives (including technical standards) should be read as a reference to the UK's version of such regulation or directive, as onshored into UK law under the European Union (Withdrawal) Act 2018, as amended.

Open Banking

Open Banking, which is supported by a secure technology standard, is designed to give customers more control over their financial data and money. Customers can more easily compare accounts from different providers, understand features, service quality and pricing, and select which offers best value. Using Open Banking, the Group's customers can choose to connect their Credit Cards, Instant Access Savings Accounts, Internet Saver accounts or Personal Current Accounts to third-party providers (TPPs), which provide a range of different Apps and websites offering new ways for customers to manage money and make payments.

During the year, the Group enabled Credit Card customers to more easily manage and pay their balances, launching a 'Pay by Bank' facility, which is a market leading Open Banking feature. This facility enables Mobile and Online Credit Card customers to make payments directly from their personal current account via electronic payment devices. In doing so, the Group became the first UK bank to introduce this functionality.

Capital Requirements Regulation

Amendments to the Capital Requirements Regulation (CRR) and Capital Requirements Directive (CRD) were published in the Official Journal of the European Union on 7 June 2019, including amendments due in June 2021. However, in a joint statement, published on 16 November 2020, HM Treasury, the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) confirmed an implementation date of 1 January 2022 for those Basel III reforms which make up the UK equivalent to the outstanding elements of the EU's second CRR. The Group of Central Bank Governors and Heads of Supervision announced in March 2020 that the implementation of the Basel III standards would be delayed by one year to 1 January 2023.

Minimum Requirements for Own Funds and Eligible Liabilities

The Group became subject to the minimum requirements for own funds and eligible liabilities (MREL) on an interim basis from 1 January 2020, with full implementation applicable from 1 January 2023. The interim target remains at 18% of risk-weighted assets until 31 December 2022. The requirements are factored into the Group's funding and capital plans. TPFG undertook an initial £250.0m issuance of MREL-compliant debt in July 2019 in support of the interim requirements and subsequently invested the proceeds in the Company via an intercompany subordinated loan. Further issuances may be required to support end-state requirements. Refer to page 8 for details of the Group's compliance with MREL requirements as at 28 February 2021.

Upon full implementation, MREL targets will be set on a bank-specific basis and calculated as the sum of two components: a loss absorption amount, being the amount needed to absorb losses up to and in resolution; and a recapitalisation amount, which reflects the capital that a firm would be likely to need post-resolution.

Countercyclical Capital Buffer

The Financial Policy Committee of the BoE is responsible for setting the UK countercyclical capital buffer (CCyB), being the rate that applies to UK exposures of banks, building societies and large investment firms incorporated in the UK. In response to the economic shock from the Covid-19 pandemic, the Financial Policy Committee reduced the UK CCyB from 1.0% to 0.0% on 11 March 2020, to support further the ability of banks to supply the credit needed to bridge a potentially challenging period. Following its meeting in December 2020, the Financial Policy Committee confirmed that it expects the 0% rate to remain until at least Q4 of 2021. Due to the usual 12 month implementation lag, any subsequent increase in the CCyB requirement is not expected to take effect until Q4 2022 at the earliest.

Regulatory Developments (continued)

Climate Change

The Group has identified climate change as a risk on which there is growing focus. During the year, the PRA issued a Supervisory Statement which set out its expectations in relation to how banks should manage the financial risks of climate change.

The Group has defined its strategy and approach for managing climate change risk, which was reviewed and approved by the Board in September 2020. This strategy commits the Group to have net zero carbon emissions from its own operations by 2035, with a series of carbon reduction targets currently under development. The strategy also sets out the Group's approach to dealing with the physical and transition risks associated with climate change as well as the opportunities that climate change may present. Management continues to engage regularly with Tesco to ensure that the Group remains aligned in its approach to managing climate change risk and that best practices are shared between these businesses.

The Group has designated the Chief Risk Officer (CRO) as the Senior Management Function holder responsible for embedding climate change risk into the Group's Risk Management Framework (RMF). As part of the plan to tackle climate change, a Climate Change Steering Group has been established, with Senior Executive attendance from across the Group. Steering Group members have ownership and oversight of the work being undertaken to address climate change. The Board Risk Committee (BRC) and Board review the plan and progress on at least an annual basis.

The identification and management of climate-related risks follow the Group's established risk management process. A number of enhancements have been made to the Bank's risk management framework over the past 12 months to support the effective management of climate change risk, including amendments to the new product approval and change processes.

The Group has also analysed two climate-related scenarios considering the potential impacts to the Group's customers and business arising from both a transition and physical risk scenario over the period to 2030. The scenarios have not identified any material threats to the Group's current business model arising from climate change. Further climate-related scenario analysis is planned for the upcoming financial year.

The Group has engaged with an environmental consultancy to perform an assessment of its carbon footprint arising from its operations. This assessment will be used to set targets, which will be subject to Board approval, for reducing the Group's environmental impact in order to achieve its strategy of being net zero from its own operations by 2035. The Group is working towards disclosure, by 28 February 2022, of its carbon footprint and relevant environmental targets, in line with the Science Based Targets initiative and Task Force on Climate-related Financial Disclosures principles.

IBOR Reform

The Group has transitioned the majority of its London Interbank Offered Rate (LIBOR) exposures to Sterling Overnight Index Average (SONIA). The only remaining LIBOR exposure relates to the Group's investment in subordinated debt issued by TU, which the Group expects to transition to SONIA by 31 December 2021.

Key Performance Indicators

The Directors consider the following to be Key Performance Indicators for the Consolidated Income Statement:

	2021	2020
Underlying net interest margin	5.2%	4.1%
Net interest margin	5.2%	4.4%
Underlying cost:income ratio	69.7%	53.7%
Cost:income ratio	69.9%	69.9%
Bad debt:asset ratio	4.6%	1.6%

Capital and Liquidity Ratios

The Directors consider the following to be Key Performance Indicators for capital and liquidity reporting:

	2021	2020
Common equity tier 1 ratio	25.1%	20.6%
Total capital ratio	28.2%	23.1%
MREL ratio	31.9%	26.1%
Net stable funding ratio	127.4%	129.1%
Underlying loan to deposit ratio	111.3%	110.1%
Loan to deposit ratio	111.3%	109.5%

The Group's total capital ratio remains above internal targets and regulatory requirements at 28.2% (2020: 23.1%) and leaves the Group well placed to support future growth.

On 1 March 2018, IFRS 9 came into force and a transitional period was introduced, allowing the Company (being the regulated entity) to phase in the IFRS 9 impact on capital over a period of 5 years. On 27 June 2020, the CRR was further amended to accelerate specific CRR2 measures and implement a new IFRS 9 transitional relief calculation which applies additional relief to increases in ECL provisions arising as a result of the Covid-19 pandemic. The Group's total capital ratio remains above regulatory requirements at 28.2% (2020: 23.1%) on a transitional basis. On an end-point basis, the Group's total capital ratio is 24.8% (2020: 21.5%), which is also above regulatory requirements. Refer to note 41 for full details of the impact of these amendments on the Group.

An interim MREL ratio requirement of 18% of risk-weighted assets has been set from 1 January 2020 to 31 December 2022. At 28 February 2021 the ratio was 31.9% (2020: 26.1%).

The NSFR, a measure of the Group's liquidity position, is within appetite at 127.4% as at 28 February 2021 (2020: 129.1%). The Group maintains a liquid asset portfolio of high quality securities of £1.7bn (2020: £2.5bn).

Risk Management

Risk Management Approach

The Board of Directors has overall responsibility for determining the Group's strategy and related Risk Appetite. The Board's Risk Appetite comprises a suite of Risk Appetite statements, underpinned by corresponding measures with agreed triggers and limits. The Risk Appetite framework defines the type and amount of risk that the Group is prepared to accept to achieve its objectives and forms a key link between the day-to-day risk management of the business, its strategic objectives, long-term plan, capital plan and stress testing. The Risk Appetite is formally reviewed by the Board on at least an annual basis.

The Board is also responsible for overall corporate governance, which includes overseeing an effective system of risk management and that the level of capital and liquidity held is adequate and consistent with the risk profile of the business. To support this, a RMF has been embedded across the Group, creating an integrated approach to managing risk. The RMF brings together governance, Risk Appetite, the three lines of defence, the Policy Framework and risk management tools to support the business in managing risk as part of day-to-day activity, and is underpinned by governance, controls, processes, systems and policies within the first line business areas and those of the second line Risk Management Function (RMFu). Further information on the Group's RMF is set out on pages 17 to 24.

The CRO performs a strategic risk management role and is responsible for managing and enhancing the RMF. The CRO is independent from any commercial function, reports directly to the Chief Executive Officer (CEO) and can only be removed from his position with the approval of the Board.

The Group is exposed to a variety of risks through its day-to-day operations. The Board undertakes a robust review of principal risks and areas of emerging risks at least annually. The following table sets out the principal risks and uncertainties and how they are managed within the RMF. These risks do not comprise all of the risks associated with the business and are not set out in priority order. Additional risks not presently known to Management, or currently deemed to be less material, may also have an adverse effect on the business. All business areas and functions in the Group are required to maintain and actively manage a risk register. In addition, the BRC oversees a Strategic and Horizon Risks process which focuses on emerging risks.

Principal risks and uncertainties

Covid-19

During the current financial year the Covid-19 pandemic has caused significant economic and social disruption. The Group has been impacted by higher ECLs arising from the economic downturn and lower revenues as a result of lower consumer spending and borrowing. The Group's future performance is sensitive to the speed of the economic recovery.

Key controls and mitigating factors

The principal risk categories impacted by the Covid-19 pandemic were credit and operational risk. Further information on the impact on the Group of the Covid-19 pandemic in respect to these risks and the Group's response are set out under the relevant sections below.

Regulators have been consistently updated with progress through regular and ad-hoc management information and relationship meetings.

The Board has received frequent operational, financial and colleague updates from the Executive team throughout the crisis and provided challenge and support. There has also been a focus on both conduct and prudential impacts and close tracking of all government and regulator correspondence to gauge the potential impact on the Group, now and in the future.

Credit risk

The risk that a borrower will default on a debt or obligation by failing to make contractually obligated payments, or that the Group will incur losses due to any other counterparty failing to meet their financial obligations.

All lending is subject to underwriting processes and the performance of all exposures is monitored closely. Regular management reports are submitted to the Board and appropriate Committees.

The macro-economic outlook deteriorated significantly due to the Covid-19 pandemic. This resulted in a significant increase in credit risk provisions to account for the future rise in expected defaults and the potential for reduced recoverability relating to customers in arrears. Planning for the timing of these defaults through the Covid-19 pandemic stress has proven difficult due to the various customer, regulatory and Government support measures that are in place. These measures have reduced the overall impact of the stress but have meant that, although projected levels of unemployment remain high, the Group is yet to see significant defaults emerge in its lending portfolio.

The Group has improved its IFRS 9 models that are used to evaluate the impact of various macro-economic scenarios and has regularly benchmarked its macro-economic outlook against other external forecasts to ensure its ECL provisions remain at appropriate levels.

Prior to the start of the Covid-19 pandemic, the Group already had a suite of early warning indicators in place, together with playbooks for a range of economic scenarios. These playbooks were deployed in response to the Covid-19 pandemic recession, resulting in a range of actions to tighten credit underwriting criteria. The Group's risk appetite framework was also enhanced to limit exposure to certain higher risk segments.

Credit risk (continued)

The performance of the credit portfolios is actively monitored and, during the Covid-19 pandemic stress, this has included evaluating the credit quality of customers accessing payment holiday support and their subsequent performance at the end of the payment holiday period. Analysis was also undertaken to understand which customers will be more or less impacted by the Covid-19 pandemic. These activities help ensure that the Group's underwriting controls remain appropriate for the latest macro-economic outlook. Management has applied specific adjustments to the Group's modelled ECL provision to capture the estimated impact of the stress within the Group's ECL provision. Further information in respect of these adjustments is set out at note 37.

The Group reviewed its stress testing scenarios to ensure it has sufficient capital and liquidity to trade through a plausible range of economic outcomes.

Operational risk

The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

The Group aims to manage operational risks within defined Risk Appetite limits.

Business units and functions assess operational risks on an ongoing basis via a prescribed Risk and Control Self Assessment (RCSA) process and operational risk scenario analysis.

The RCSA process is reviewed and updated on a timely basis by first line business areas to reflect the risk and control environment and any changes arising from changes in products, processes and systems.

The outputs are reported to relevant governance bodies, including the BRC. This is supplemented further by an event management process and regular reporting of the operational risk profile to the Executive Risk Committee (ERC) which provides oversight of the Group's operational risk profile

The Group's priority throughout the year has been helping customers and colleagues through the many challenges created by the Covid-19 pandemic. The Covid-19 pandemic posed a number of operational risks to the Group, including a high proportion of colleagues changing to work from home at short notice and for extended periods; the need to implement social distancing measures across the Group's premises for colleagues unable to work from home; introducing new operational processes quickly such as those related to customer payment holidays; the potential for the Group's suppliers to be impacted by the Covid-19 pandemic; and increased operational volumes such as those related to refunds associated with holiday cancellations.

Operational risk (continued)

The Group invoked crisis management plans as it sought to serve and support its customers throughout the early stages of the Covid-19 pandemic while maintaining the safety and well-being of colleagues but has since transitioned new working practices to business-as-usual, with ongoing, stable operational performance. The crisis management response included a focus on operational resilience. The actions taken included enhancing home working capability for colleagues and self-serve capability for customers. Close monitoring remains in place to ensure that the Group's critical functions continue to be resilient.

A significant number of services and processes are provided by third-party service providers and a key operational risk is the failure of an outsourced service provider.

The Procurement and Supplier Management Framework provides an appropriate and consistent approach to procurement and the management of suppliers to ensure the Group is able to effectively engage, manage and terminate supplier relationships.

The Framework supports the relevant Group policies applicable to procurement and supplier management and enables the Group to meet its regulatory requirements, understand and manage supplier and service risk effectively, and take a consistent approach to supplier relationships.

Increased market demand for specialist personnel could result in increased costs of recruitment and retention or reduced organisational effectiveness if a sufficient number of skilled staff cannot be employed or retained.

The Executive Committee (ExCo) oversees key aspects of people risk, including talent management, performance management, retention and succession planning.

Financial crime and fraud are significant drivers of operational risk and the external threat continues to be a high priority area of risk management across the Financial Services industry.

The Group has a suite of policies that provide clear standards for the management of financial crime risks. The Group has a dedicated Financial Crime team and continually monitors emerging risks and threats and engages with industry experts to identify and manage the risks. Regular updates are provided to Executive and Board level committees.

The financial services industry remains under significant threat from cyber-attacks. This includes various organised groups targeting institutions through phishing, malware, denial of service and other sophisticated methods.

The Group manages cyber security risks through its Information Security team. The Group continually monitors emerging risks and threats. Regular reporting is provided to the ERC and the BRC.

Operational risk (continued)

As primarily a digital bank, technology is a key element in providing services to the Group's customers in a consistent and secure manner. Causes of technology outages across the industry include failed change, third-party failures or security events.

The Group manages technology and technology risk through its Information Technology team and has aligned key processes and controls with industry recognised standards such as the Information Technology Infrastructure Library and those set out by the National Institute of Standards and Technology. Regular reporting on technology services and technology risk are provided to the Group's ExCo, ERC, BRC and the Board.

Liquidity and funding risk

Liquidity risk is the risk that the Group is not able to meet its obligations as they fall due. This includes the risk that a given security cannot be traded quickly enough in the market to prevent a loss if a credit rating falls.

Funding risk is the risk that the Group does not have sufficiently stable and diverse sources of funding.

Liquidity risk is governed through the Asset and Liability Management Committee (ALCo), BRC and the Board. The Group maintains a liquidity position in excess of internal and regulatory requirements. The Treasury function ensures all liquidity and funding measures are managed within policy and Risk Appetite on a daily basis. The key liquidity and funding measures monitored on a daily basis are set out on page 122. The Group measures and manages liquidity adequacy in line with these metrics and maintains a liquidity and funding profile to enable it to meet its financial obligations under normal and stressed market conditions. The Group monitors and reports on the composition of its funding base against defined thresholds to avoid funding source and maturity concentration risks.

Liquidity and funding risk is assessed through the internal liquidity adequacy assessment process (ILAAP) on at least an annual basis. Stress testing of current and forecast financial positions is conducted to inform the Group of required liquidity resources. Reverse stress testing is conducted to inform the Group of the circumstances that would result in liquidity resources being exhausted. Liquidity stress tests are presented to the ALCo on a regular basis to provide evidence that sufficient liquidity is held to meet financial obligations in a stress.

The Group is predominantly funded by its retail deposit base, which reduces reliance on wholesale funding and, in particular, results in minimal short-term wholesale funding.

Market risk

The risk that movements in market prices (such as interest rates, foreign exchange rates and the market value of financial instruments) lead to a reduction in either the Group's earnings or capital.

Control of market risk is governed by the ALCo and Treasury Committee (TCo). These bodies provide oversight of the Group's market risk position at a detailed level, providing regular reports and recommendations to the BRC and the Board.

Market and Liquidity Risk, as part of the RMFu, also review and challenge policies and procedures relating to market risk and provide oversight for the Balance Sheet Management and Transaction Management teams within the Treasury function.

Insurance risk

The risks accepted through the provision of insurance products in return for a premium. These risks may or may not occur as expected and the amount and timing of these risks are uncertain and determined by events outside of the Group's control.

The Group's aim is to actively manage insurance risk exposure, with particular focus on those risks that impact profit volatility. The Group has no direct underwriting risk. However, the Group is exposed to underwriting risk through its joint venture, TU. TU is a separately regulated entity and is capitalised accordingly.

TU operates a risk management framework designed to identify and manage risks to which it is exposed. This includes the use of reinsurance to limit risk exposure above certain levels and the engagement of external independent actuaries to provide assurance over the valuation of insurance liabilities.

Risk Appetite and a suite of risk policies are in place to manage risk in TU.

Regulatory risk

The risk of reputational damage, liability or material loss from failure to comply with the requirements of the financial services regulators or related codes of best practice applicable to the business areas within which the Group operates.

The Group's Risk Appetite is to comply with the relevant rules, regulations and data protection legislation. As part of the Group's Policy Framework, a dedicated Compliance team is responsible for the Compliance and Conduct Risk Policy which is approved by the Board, as well as for monitoring, challenge and oversight of regulatory risk and compliance across the business. Where breaches occur, the Group will take appropriate rectifying action. The Group seeks to deliver fair outcomes for customers.

The risk of business conduct leading to poor outcomes can arise as a result of an over-aggressive sales strategy, poor management of sales processes, credit assessments and processes or failure to comply with other regulatory requirements.

Business areas manage conduct risk and use a range of management information to monitor the fair treatment of customers. A framework of product-led conduct management information has been developed and is reviewed by Senior Management in the business lines. Customer outcomes are also assessed as part of the development and design of new products and through annual product reviews of existing products. The ERC and the Board review and challenge delivery of fair outcomes for customers.

Regulatory risk (continued)

The risk that regulatory changes such as Open Banking, the Second Payment Services Directive (PSD2) and the General Data Protection Regulation will have an impact on how customers manage both their money and data over the longer term, with the potential for such regulatory changes to fundamentally alter the nature of competition in UK retail banking and have an impact on the Group's activities. These changes also create opportunities for traditional competitors as well as non-banking firms, particularly digitally focused technology companies who have the ability to move at pace.

The volume and pace of regulatory change remain high. The Group actively engages in relevant industry consultation and closely monitors potential changes to regulatory requirements to allow it to address possible opportunities while recognising potential competitive risks. The Group has unique opportunities arising from these changes to create additional benefits for customers due to its position within the wider Tesco group.

Capital risk

The risk that the Group holds regulatory capital which is of insufficient quality and quantity to enable it to absorb losses.

The Group undertakes close monitoring of capital ratios to ensure it complies with current regulatory capital requirements and is well positioned to meet any anticipated future requirement. Management of capital is governed through the ALCo, BRC and the Board.

The Group undertakes an Internal Capital Adequacy Assessment Process (ICAAP). Material risks to the Group are reviewed through stress testing to support an internal assessment of the level of capital that the Group should maintain.

Where capital is not considered to be an appropriate mitigant for a particular risk, alternative management actions are identified.

The stress testing scenarios and final ICAAP results are presented to the BRC for challenge and to the Board for approval. The ICAAP is submitted to the regulator on a regular basis and forms the basis of the total capital requirement (TCR) given to the Group.

The prudential regulation of banks continues to develop, with a number of topics currently under consultation in both the EU and the UK. The impact of future changes to capital and funding regulation may have an impact on the Group's activities.

The Group actively engages in relevant industry consultation and closely monitors potential changes to regulatory requirements.

Brexit

The Brexit transition period ended on 31 December 2020, with the UK agreeing a trade deal with the European Union. In preparation for Brexit, the Group actively considered the potential risks associated with the UK's exit from the EU and their impact on both the UK financial services market and the Group itself. The Group also continues to monitor related developments to the UK's exit from the EU, including the possibility of a second Scottish independence vote.

The most significant potential impact arises in respect of credit risk relating to the performance of the Group's portfolio of loans and advances to customers. Their performance and the associated ECLs required will be influenced by the macro-economic outcomes of Brexit. Assessment of the ECL allowance under IFRS 9 has considered a range of macro-economic scenarios.

In addition, the Group's ILAAP and ICAAP are designed to ensure that the Group has sufficient capital resources to allow it to cope with a severe economic stress and maintain sufficient liquidity above required limits throughout the going concern forecast period.

The Group also established a Brexit working group with the remit to ensure operational readiness, focussing on the impacts relating to customers, colleagues and suppliers. The working group undertook a significant amount of planning and assessment work, readying solutions for known impacts and potential trade deal scenarios. As a UK retail bank, the impacts were assessed as being limited and as a result of the trade deal being reached, heightened operational readiness activities were stood down and returned to business-as-usual activity.

The following pages provide a more granular overview of the operational control processes and risk mitigants adopted by the Group.

A fuller description of these risks and controls can also be found in the Pillar III Disclosure Statements of TPFG for the year ended 28 February 2021. These disclosures will be published in the Financial Information section of the Group's corporate website in due course.

Risk Management Framework (RMF)

The Group has a formal structure for reporting, monitoring and managing risks. This comprises, at its highest level, the Group's Risk Appetite, approved by the Board, which is supported by the RMF.

The key components of the RMF are as follows:

Governance Structure

The Group has established a governance structure which is appropriate for the business in terms of its level of complexity and risk profile. This structure is reviewed periodically so that it remains suitable to support the business. The governance structure set out in these disclosures describes the structure that was in place as at 28 February 2021.

The Board

Chair	Executive Directors	Non-Executive Directors
Sir John Kingman	Richard Henderson	Julie Currie
	Declan Hourican	Robert Endersby
	Gerard Mallon	Jacqueline Ferguson
		Simon Machell
		Amanda Rendle
		Alan Stewart
		James Willens

On 17 April 2020, Graham Pimlott retired from his position as the Independent Non-Executive Chair. James Willens was appointed to the role on an interim basis, assuming responsibility for the role during the period until Sir John Kingman was permanently appointed to the position on 7 July 2020. James Willens re-assumed his role as Senior Independent Non-Executive Director on 7 July 2020. During the year, James McConville resigned from his role on the Board and was replaced by Julie Currie, who was also appointed as Chair of the Board Audit Committee (BAC).

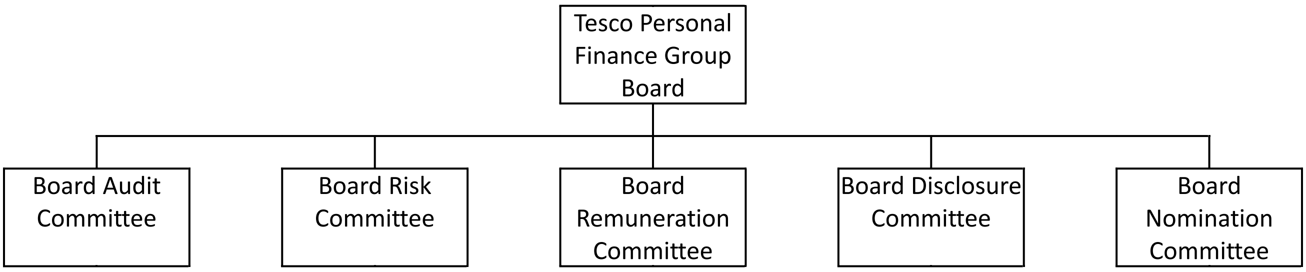
The Board is the key governance body and is responsible for overall strategy, performance of the business and ensuring appropriate and effective risk management, in line with the approved Risk Appetite.

The Board approves the Group's business plans, budget, long-term plan, ICAAP, ILAAP and any material changes to product lines in line with the approved Risk Appetite. The Board also monitors the Group's risk profile and capital adequacy position. The Group employs hedging and mitigation techniques defined within the Group's policies to ensure risks are managed within Risk Appetite.

The Board (continued)

The Board has delegated responsibility for the day-to-day running of the business to the Chief Executive who has in turn established the ExCo to assist in the management of the business and to deliver the strategy in an effective and controlled way. The Board has established Board committees and the executive has established Senior Management committees to:

- oversee the RMF;
- identify the key risks facing the Group; and
- assess the effectiveness of the risk management actions.



The Board has overall responsibility for the management of the business and acts as the main decision-making forum. It sets the Risk Appetite and strategic aims for the business, in some circumstances subject to shareholder approval, within a control framework which is designed to enable risk to be assessed and managed. The Board satisfies itself that financial controls and systems of risk management are appropriate through the reporting provided to it and provides feedback where necessary to ensure that reporting remains fit for purpose.

Gender Diversity at Board Level

The Group has a formal, Board approved Policy on Diversity and Inclusion and is fully committed to creating an inclusive culture where everyone is made to feel truly welcome regardless of age; disability; gender; gender reassignment; marital and civil partnership status; pregnancy and maternity; race; religion or belief, or absence of religion or belief; sexual orientation or trade union affiliation. The overall objective of the Policy is to ensure that there is a fair process to attract, develop and retain talent and ensure that all colleagues are afforded equal opportunities regardless of protected characteristics or background, creating a diverse and inclusive workplace that reflects the customers the Group serves.

The Group is a Women in Finance Charter signatory, supporting the progression of women into senior roles in the financial services sector, championing the benefits of greater diversity within businesses through setting a variety of targets regarding female representation. Signatories are required to publicly report on progress to deliver against these internal targets in support of the accountability and transparency needed to drive change. The Group is focused on building a sustainable talent pipeline to ensure that it continues to develop diverse talent throughout all levels of the organisation. Details of the Group's targets and progress can be found at https://bank.tescoplc.com/.

In February 2021, the Group provided an update on progress against gender pay gap targets that showed it had not met its objectives for the year. Whilst the Group is ahead of the financial services industry average, it remains short of the UK-wide average. The Group remains committed to improving the gender balance across the business.

The Group appointed an Executive Sponsor for Inclusion who is also accountable for progress towards the Women in Finance Charter targets. Gerry Mallon leads the Inclusion agenda for the Group and chairs the Inclusion Network, which consists of Sponsors and Chairs of colleague networks, the Director of Colleague Experience and the Inclusion Team.

Further information on the role of the Group's Nomination Committee (NomCo) in reviewing the diversity of the Board, and the Group's Senior Management, is set out on page 21.

The Board (continued)

Board and Committee Attendance

The Board and its Committees held regular meetings throughout the year, excluding meetings held to consider matters of a time-sensitive or ad-hoc nature. Directors are expected to attend all Board and relevant Committee meetings. The table below shows the attendance at the scheduled Board and Committee meetings[1]:

	Board	Board Risk Committee	Board Audit Committee	Board Remuneration Committee	Board Disclosure Committee	Board Nomination Committee
Sir John Kingman	21/21	6/6	–	7/7	–	6/6
Richard Henderson	21/21	–	–	–	4/4	–
Declan Hourican	21/21	–	–	–	4/4	–
Gerard Mallon	21/21	–	–	–	–	–
Julie Currie[2]	–	–	1/1	–	–	–
Robert Endersby[3]	21/21	6/6	9/9	7/7	4/4	2/2
Jacqueline Ferguson[4]	17/21	5/6	9/9	–	–	1/2
Simon Machell	21/21	–	9/9	–	–	6/6
James McConville[5]	19/21	5/5	8/8	–	4/4	2/2
Amanda Rendle	20/21	6/6	–	7/7	–	6/6
Alan Stewart[6]	19/21	5/6	–	–	–	2/2
James Willens	21/21	6/6	–	7/7	4/4	6/6
Graham Pimlott[7]	6/6	1/1	–	3/3	2/2	1/1

[1] Attendance recorded is of Committee members only and does not reflect Directors' attendance as observers.
[2] Julie Currie was appointed to the Board on 1 February 2021.
[3] Robert Endersby was appointed to the Nomination Committee on 1 December 2020.
[4] Jacqueline Ferguson was appointed to the Nomination Committee on 1 December 2020.
[5] James McConville was appointed to the Nomination Committee on 1 December 2020 and resigned from the Board on 1 February 2021.
[6] Alan Stewart was appointed to the Nomination Committee on 1 December 2020.
[7] Graham Pimlott resigned from the Board on 17 April 2020.

The Board (continued)

Board Evaluation

In accordance with the requirements of the Corporate Governance code, the Board carries out a review of the effectiveness of its performance and that of its Committees and Directors every year and the evaluation is facilitated externally every third year.

An externally facilitated review was carried out and presented in 2018/19, with facilitation provided by Boardroom Dialogue. The review concluded that the performance of the Board, its Committees and each of the Directors continues to be effective. No conflicts of interest exist between Boardroom Dialogue and any members of the Board.

The evaluation highlighted a number of strengths, including a breadth of skills across the Board, a clear focus on strategy and an effective definition of roles across various Committees.

Whilst no fundamental changes were proposed in the evaluation, it also highlighted a number of opportunities for improvement, including changes to the number of Board meetings and further progress to be made on gender and ethnic diversity.

In 2020/21, an internal Board evaluation has been carried out in order to assess the Board's and Directors' collective progress against the Group's objectives. The evaluation was carried out in accordance with the FRC guidance on board effectiveness. Interviews were held with each Board member, members of the Group's Executive Committee and a selection of senior management. The conclusion of the evaluation was that the Board remains effective, with some minor areas to support continuous improvement. These improvements included identifying opportunities to support more colleague engagement, additional Board training sessions and further consideration of a longer term view on certain Board topics.

Sub-committees

In order to support effective governance and management of the wide range of responsibilities, the Board has established the following five sub-committees:

- Board Audit Committee (BAC)

The BAC comprises Julie Currie (Chair), Robert Endersby, Jacqueline Ferguson and Simon Machell.

The role of the BAC is to review the Financial Statements; review accounting policies and practices for compliance with relevant standards; examine the arrangements made by Management regarding compliance with regulations and standards; review the scope and results of the annual external audit; oversee the process for selecting the external auditor and make recommendations to the Board in relation to the appointment, re-appointment and removal of the external auditor; consider the effectiveness of the external auditor and their independence; review reports covering anti-money laundering and compliance, in particular the Money Laundering Reporting Officer annual report and Risk Assurance Report; maintain a professional relationship with the external auditor; oversee the Internal Audit (IA) function and review the IA programme; work closely with the BRC to avoid as far as possible any overlap or gap in the overall risk and assurance activities of the two committees; carry out such investigations or reviews as shall be referred to it by the Board; review the Group's plans for business continuity; approve the annual plan of Risk Assurance activity within the Group; receive and review reports, findings and recommendations from Risk; review and consider the adequacy of any follow up action, and any relevant investigation work, carried out by or on behalf of Risk; review and monitor Management's response to findings and recommendations following investigations carried out by Risk; and review the findings of external assurance reports provided by outsourced providers.

Further detail on the BAC is included within the BAC section of the Directors' Report.

- Board Risk Committee (BRC)

The BRC comprises Robert Endersby (Chair), Jacqueline Ferguson, Sir John Kingman, Amanda Rendle, Alan Stewart and James Willens.

The role of the BRC is to oversee that a culture is appropriately embedded which recognises risk and encourages all colleagues to be alert to the wider impact on the whole organisation of their actions and decisions; take a forward-looking view of possible economic trends and risks, informed by analysis of appropriate information, and consider their potential impact on the business; consider, and recommend to the Board the Group's Risk Appetite and seek to ensure that overall business strategy is informed by and remains aligned with it; and review and challenge all major risks, controls, actions and events in the business, alerting the Board to any areas of concern.

The Board (continued)

- Board Remuneration Committee (RemCo)

The RemCo comprises Amanda Rendle (Chair), Robert Endersby, Sir John Kingman, Simon Machell and James Willens.

The role of the RemCo is to monitor compliance with regulatory requirements relating to remuneration, specifically the approval and identification of Material Risk Takers (MRTs) and overseeing the establishment and implementation of a Remuneration Policy for all colleagues within the Group (including specific arrangements for MRTs). The RemCo also provides performance and risk assessment in the determination of pay outcomes including the oversight of pay outcomes for MRT colleagues. The RemCo seeks to ensure that the levels and structure of remuneration are designed to attract, retain, and motivate the talent needed to run the business in a way which is consistent with the Risk Appetite and ongoing sustainability of the business and is compliant with all applicable legislation, regulation and guidelines.

- Board Disclosure Committee (DisCo)

The DisCo comprises James Willens (Chair), Julie Currie, Robert Endersby, Richard Henderson and Declan Hourican.

The DisCo reviews, on behalf of the Board, formal company documents which are either destined for publication or which, due to their size or complexity, are better reviewed in detail in a smaller group, to ensure the Group's compliance with relevant statutory and regulatory obligations.

- Board Nomination Committee (NomCo)

The NomCo comprises Sir John Kingman (Chair), Julie Currie, Robert Endersby, Jacqueline Ferguson, Simon Machell, Amanda Rendle, Alan Stewart and James Willens.

The NomCo has responsibility for reviewing the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board and making recommendations with regard to any changes required, including the nomination of candidates to fill Board vacancies as and when they arise; considering succession planning for Directors and other senior executives, taking into account the challenges and opportunities facing the Group, and the skills and expertise needed in the future; and keeping under review the leadership needs of the organisation, both executive and non-executive, with a view to safeguarding the continued ability of the organisation to compete effectively in the marketplace by keeping up-to-date and fully informed about strategic issues and commercial changes affecting the Group and the market in which it operates.

Additionally, the NomCo is responsible for the evaluation of Board members' performance and appointment of new Board members. The NomCo establishes the requirements and profile of the candidate required and then engages with third-party recruitment firms to find the appropriate individual. During the year, Korn Ferry Hay Group and Carlyle Associates were engaged to support recruitment to the Board. No conflict of interest exists between these firms and any members of the Board.

The Group is committed to promoting a diverse and inclusive workplace, which is reflected in the work of the NomCo. The Group’s Diversity and Gender Balance Policy is discussed in further detail on page 18.

Executive Committee (ExCo)

The Group’s Board has delegated the day-to-day running of the business to the CEO. The CEO has established the ExCo to support delivery against the strategy in an effective and controlled way and to set out a framework of reporting to the Board that is sufficient to enable the Board to fulfil its responsibilities. The ExCo supports the CEO, who has responsibility for the executive management of the business, by reviewing, challenging and overseeing the performance of the business and critical developing matters in the areas of responsibility of each member. Each ExCo member is accountable to the CEO and to the Board for managing performance in line with the Group’s Risk Appetite, long-term plan, strategy and annual budget. To support this, the ExCo receives and considers customer matters, where these are deemed material to the Group; provides review and challenge that delivers good customer outcomes across the business activities the Group undertakes; oversees and monitors trade and financial performance; reviews the ongoing material operations of the Group; reviews the overall management and monitoring of risk; reviews colleague experience, performance, development and succession planning of Senior Management; considers the colleague experience agenda; and reviews the organisational design of the Group.

Executive Committee (ExCo) (continued)

In addition, in order to support its own decision-making, the ExCo has established four sub-committees which report directly to it. The ExCo receives and considers regular reports from each sub-committee on delegated matters and receives the minutes from those sub-committees to monitor key activities.

- Asset and Liability Management Committee (ALCo)

The ALCo has been established to support the Chief Financial Officer by providing oversight and challenge in relation to the optimisation of the Group’s balance sheet structure, within Board approved Risk Appetite for liquidity, capital and market risk. This includes defining strategic balance sheet structural objectives for liquidity, funding and capital which align with the Board's stated Risk Appetite, the regulatory obligations of the Group and the commercial and business objectives set out in the Long Term Plan as approved by the Board; recommending to the BRC any changes to the amount or composition of the Group’s capital base; providing oversight of the Group's continuous compliance with all internal and regulatory limits relating to liquidity, capital and market risk; and undertaking periodic reviews of Treasury policies and key regulatory documents for approval by the Board. The ALCo minutes are circulated to the ExCo, with any material matters being escalated, as appropriate.

The ALCo has one sub-committee: the Treasury Committee.

- Executive Risk Committee (ERC)

The ERC has been established to support the CRO by providing oversight and challenge in relation to the effective implementation of the RMF across the Group's business. This includes overseeing that the Three Lines of Defence model is operating effectively; the appropriateness of, and adherence to, the Risk Appetite; providing oversight of material risks facing the Group; and assessing whether appropriate arrangements are in place to manage and mitigate those risks effectively. In addition, the ERC supports the monitoring of the status of regulatory compliance; considers the impact of regulatory initiatives and upstream regulatory risk on the current and future state of compliance; and provides oversight and challenge on conduct risks and customer outcomes. The ERC reviews key policies and provides agreement for onward submission to the Board for final approval. The ERC minutes are circulated to the ExCo, with any material matters being escalated, as appropriate.

The ERC has six sub-committees: Operational Risk Committee; Executive Credit Committee; Models and Ratings Systems Oversight Committee; Financial Crime Committee; the Compliance and Conduct Risk Committee; and the Third Party Governance Committee.

- Investment Review Committee (IRC)

The IRC has been established to support the Chief Executive Officer by providing oversight and challenge of the effective delivery of the Group's change portfolio. This includes the planning, objectives and strategy of the change portfolio in relation to customer outcomes, business and financial performance, operational matters, risk management and resourcing. The IRC minutes are circulated to the ExCo, with any material matters being escalated, as appropriate.

- Operating Executive Committee (OEC)

The OEC has been established to support the Chief Customer Officer, Chief Operating Officer, Colleague Experience Director and the Insurance Director, providing oversight and challenge in relation to the effective running of the Banking and Insurance businesses by supporting and enabling an end-to-end operating model across the Group. This includes reviewing customer-related activities (including customer outcomes); trade performance (including pricing plans and customer impact of pricing decisions); operational matters; change initiatives; risk management; and certain colleague related matters. The OEC minutes are circulated to the ExCo, with any material matters being escalated, as appropriate.

Three Lines of Defence

The Three Lines of Defence model is a widely recognised, best practice approach to ensuring that the risks within a financial institution are appropriately managed and are subject to effective oversight and challenge. Clearly defined roles and responsibilities help to drive effective risk management.

- First Line of Defence

Senior Management within each business area is responsible for managing the risks that arise from the activities in which it is engaged in accordance with the Group's RMF and policies. The role of the first line of defence is to adhere to the Group's RMF, policies, standards and processes; identify, assess, own and manage risks that arise from the activities in which it is engaged; design, implement, own, check and operate management controls; identify and manage risk events, including the delivery of remedial actions and performance of root cause analysis; operate within Risk Appetite and any and all related limits which the second line establish; comply with risk reporting standards established by the second line; perform risk aggregation, analysis and reporting within their business line; maintain appropriate awareness of external and future risk to support effective management; and ensure compliance with all relevant regulation and codes.

- Second Line of Defence

The RMFu operates under the leadership of the CRO. Risk teams reporting to the CRO are the second line of defence and are resourced by people with expertise in each of the principal risks faced by the Group. This enables appropriate analysis, challenge, understanding, oversight and assurance of each of the principal risks.

The role of the second line of defence is to own, develop, communicate and provide advice on the Group's RMF and policies; provide risk-based oversight and assurance of the first line's implementation of, and adherence to, the RMF and policies; provide risk-based oversight and assurance of first line risk management and control, including challenging the completeness of risk identification and assessment, which can take a variety of forms including active involvement in committees and meetings, analysis of Management information and data and providing an independent perspective on topics of significant interest; own the Risk Appetite framework on behalf of the Board and oversee implementation of Risk Appetite in the first line of defence; design and deliver standards for risk reporting and escalation; perform Group-wide risk aggregation and analysis; and deliver and co-ordinate specific regulatory returns.

- Third Line of Defence

This comprises the IA function, which is responsible for providing independent assurance to the Board and Senior Management on the adequacy of the design and operational effectiveness of internal control systems and measures across the business. The IA function has an independent reporting line to the Chair of the BAC and is resourced by individuals with relevant experience and professional qualifications. In addition, IA resources are supplemented across a range of audits by external support to provide additional subject matter expertise when required.

Independent assessment is provided through the execution of an agreed plan of audits, through attendance at relevant governance committees and through stakeholder management meetings.

The primary role of IA is to provide independent assurance on the effectiveness of governance, risk management and control across the first and second lines. The IA function achieves this through its core responsibilities, which include proposing an annual audit plan based on its assessment (after discussion with Management) of the significant potential risks to which the organisation could be exposed; carrying out audits of functions and processes in accordance with the annual audit plan and any additional special investigations requested by Management, the Board, the BAC or the regulators; assessing the adequacy and effectiveness of the controls in the functions and processes audited, and issuing recommendations where improvement is required based on the results of work carried out; verifying compliance with those recommendations; reporting to the BAC in relation to internal audit matters; and providing input to the Tesco IA department's reporting to the Tesco Audit Committee.

Three Lines of Defence (continued)

Group Policies

The Group has a framework of key policies in place which are approved at Board and Executive level committees. Each policy is owned by a specific individual who is responsible for developing and maintaining the policy, including gaining approval for the policy at the requisite level; communicating the policy, ensuring it is embedded so that those affected by it have sufficient information/understanding to comply; undertaking suitable assurance work to monitor compliance across the business; and reviewing non-compliance/policy waiver requests and agreeing suitable actions.

Each policy must be reviewed on at least a bi-annual basis, or earlier if there is a trigger for policy review such as a regulatory change, to ensure its continued effectiveness and applicability in line with changing risks. The RMFu provides tracking and oversight of the Policy Framework and is responsible for undertaking assurance and providing reports to the Board on its effectiveness.

- Stress Testing

Stress testing is the process by which the Group's business plans are regularly subjected to severe but plausible scenarios to assess the potential impact on the business, including projected capital and liquidity positions. The scenarios adopted are subject to a rigorous selection process and include hypothetical operational failures, macro-economic stress events and customer behaviour impacts. The results, along with proposed actions, are reported to the ALCo, BRC and the Board. These are captured in both the ILAAP and the ICAAP.

- Monitoring and Reporting

The Group monitors and tracks current exposures against limits defined in the agreed Risk Appetite and by the regulators. Exceptions are reported on a monthly basis to the ALCo and ERC and to each meeting of the BRC. Adherence to these limits is independently monitored, measured and reported using a suite of key indicators defined by each risk team responsible for managing the major specific risk categories faced by the Group. Decisions made at subordinate risk committees and forums are reported to senior committees as appropriate.

Viability Statement

- Assessing the Group's Longer-Term Prospects and Viability

The Directors have based their assessment of viability on the Group's current strategic plan, which is updated and approved annually by the Board and sets out how the Group will achieve its purpose of 'helping Tesco customers manage their money a little better every day'.

To be a viable business, there should be a high level of confidence that both solvency and liquidity risks can be managed effectively, meaning that the Group must successfully fund its balance sheet and hold adequate capital and liquidity over the entire period covered by its Viability Statement.

The Group's Viability Statement is considered over a three-year period, as this horizon most appropriately reflects the environment in which the Group operates.

- Current Position

The Group is subject to regulatory requirements in respect of the amount of capital it holds and the quality of that capital. The capital the Group is required to hold comprises a TCR of which at least 75% must be held as common equity tier 1, a capital conservation buffer (CCB) and a CCyB. The CCB and CCyB are designed to ensure the Group meets its TCR at all points in the economic cycle. A bank may utilise its CCB in times of stress and the BoE's Financial Policy Committee may reduce the CCyB buffer to zero.

The TCR is the key capital requirement for the Group and it is the Group's intention to maintain a surplus over its TCR for the foreseeable future. Based upon the latest Capital Plan, the Group is projected to have capital headroom over the assessment period.

The Group's liquidity position is described in note 37 and its capital position is set out at note 41.

Viability Statement (continued)

- Longer-term Prospects

The following factors are considered both in the formulation of the Group's Strategic Plan, and in the longer-term assessment of the Group's prospects:

- The principal risks and uncertainties faced by the Group, as well as emerging risks as they are identified, and how these can be addressed;
- The prevailing economic climate and global economy, competitor activity, market dynamics and changing customer behaviours; and
- The potential short and longer-term economic impact of Brexit and the Covid-19 pandemic.

The Group's principal risks and policies and processes for managing those risks are set out on pages 10 to 16.

Assessing the Group's Viability

The viability of the Group has been assessed, taking into account the Group's current financial position, including external funding in place over the assessment period, and after modelling the impact of certain scenarios arising from the principal risks which have the greatest potential impact on viability in that period. Certain scenarios, considered severe but plausible, have been modelled which encompass these identified risks. Stress testing has been performed for each principal risk.

An additional key assessment was the Group's viability through the Covid-19 pandemic. As part of this assessment the Board considered:

- The impact on the Group's profits as income and charges for ECLs continue to be affected by the Covid-19 pandemic. As part of this, the Board considered the latest macro-economic scenarios which were received from the Group's third-party supplier. These are discussed in note 37;
- The sufficiency of the Group's capital base throughout the Covid-19 pandemic. The revised macro-economic scenarios received were significantly less severe than those used in the ICAAP reverse stress test. The Group reviewed its stress testing scenarios to ensure it has sufficient capital and liquidity to trade through a plausible range of economic outcomes;
- The adequacy of the Group's liquidity as the Group supports customers through a period of financial stress;
- The operational resilience of the Group's critical functions including call centres, mobile and online channels and the Group's ability to provide continuity of service to its customers throughout a prolonged stress;
- The resilience of the Group's IT systems;
- A detailed assessment of the Group's supplier base, considering any single points of failure and focussing on suppliers experiencing financial stress. This included consideration of contingency plans should suppliers be deemed at risk;
- The regulatory and legal environment and any potential conduct risks which could arise;
- Any potential valuation concerns in respect of the Group's assets as set out in the Company and Consolidated Statements of Financial Position;
- The impact of the pandemic on TU, the Group's joint venture insurance company; and
- The structural protections of the Group's securitisation vehicles.

The Board also considered the results of stress testing which is performed as an integral part of both the ICAAP and ILAAP, with the Group having sufficient capital and liquidity to fund the balance sheet in each scenario.

Viability Statement

Based on these scenarios, the Directors have a reasonable expectation that the Group will continue in operation and meet its liabilities as they fall due over the three-year period considered.

S172 Statement by the Directors

S172 Companies Act 2006 requires a director of a company to act in the way he or she considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole. In doing so, s172 requires a director to have regard, amongst other matters, to the:

- likely consequences of any decisions in the long-term;
- interests of the company's employees;
- need to foster the company's business relationships with suppliers, customers and others;
- impact of the company's operations on the community and environment;
- desirability of the company maintaining a reputation for high standards of business conduct; and
- need to act fairly between members of the company.

In discharging its s172 duties, the Board has regard to the factors set out above. The Board also has regard to other factors which it considers relevant to the decisions it makes. The Board acknowledges that not every decision it makes will necessarily result in a positive outcome for all of the Group's stakeholders. By considering the Group's purpose, vision and values together with its strategic priorities and having a process in place for decision-making, the Board does, however, aim to make sure that its decisions are consistent.

The Board delegates authority for the day-to-day running of the business to the CEO and, through him, to Senior Management to set, approve and oversee execution of the Group's strategy and related policies. The Board reviews matters relating to financial and operational performance; business strategy; key risks; stakeholder-related matters; compliance; and legal and regulatory matters, over the course of the financial year. This is supported through the consideration of reports and presentations provided at Board meetings and reviewing aspects of the Group's strategy at least twice a year.

Engaging with the Group's stakeholders is key to the way the Group runs its business and is an important consideration for the Directors when making relevant decisions. Details of how the Directors engage with colleagues and have regard to the need to foster relationships with suppliers, customers and other key stakeholders can be found in the Directors' Report on pages 30 to 32.

The Board has made some key strategic decisions during the year ended 28 February 2021 where due consideration was given to the Group's key stakeholders, including:

Covid-19 pandemic response

During the year, significant economic and social disruption has arisen from the Covid-19 pandemic. The Group's priority throughout the year has been helping customers and colleagues through the many challenges created by the Covid-19 pandemic. The Group invoked crisis management plans as it sought to serve and support its customers throughout the early stages of the pandemic while maintaining the safety and well-being of colleagues but has since transitioned new working practices to business-as-usual, with ongoing, stable operational performance. The crisis management response included a focus on operational resilience. The actions taken included enhancing home working capability for colleagues and self-serve capability for customers. Close monitoring remains in place to ensure that the Group's critical functions continue to be resilient.

Regulators have been consistently updated with progress through regular and ad-hoc management information and relationship meetings.

The Group reviewed its stress testing scenarios to ensure it has sufficient capital and liquidity to trade through a plausible range of economic outcomes.

The Board has received frequent operational, financial and colleague updates from the Executive team throughout the crisis and provided challenge and support. There has also been a focus on both conduct and prudential impacts and close tracking of all government and regulator correspondence to gauge the potential impact on the Group, now and in the future.

Covid-19 pandemic response (continued)

The Group maintained full alignment with the industry approach to offering customers payment holidays for Credit Cards and Loans, and interest-free overdrafts (up to the industry's £500 limit) for Personal Current Accounts. As the impact of the Covid-19 pandemic grew, and furlough was extended, the period for which customers were able to take payment holidays was increased from three to six months, with 31 July 2021 being the last date for an extension to complete. Customer research has also helped identify the best solutions for those customers in financial difficulties. New forbearance treatments were launched in response to this work, combined with the payment holidays and fee amendments, which have helped prevent over 100,000 customers from going into arrears.

The Board continually seeks to strike the right balance between tightening credit criteria as a result of the recession and uncertain economic outlook and supporting customers and lending responsibly.

FCA guidance set out measures the FCA expected firms to follow to support customers with insurance and premium finance products and this resulted in the Group providing enhanced communications to customers, proactively contacting customers where financial distress was indicated, allowing customers to defer payments without any missed payments being reported as arrears and giving due consideration to alternative repayment options. The Group therefore implemented a range of options including reduced payments, rescheduling the repayment term, waiving fees and amending repayment dates. These changes were made to better support customers where their circumstances were impacted.

The Covid-19 pandemic had, and is having, a significant impact on many of the Group's customers, particularly the elderly and vulnerable. In collaboration with the Group's partners, customers were provided with the ability to access cash safely at stores through implementing social distancing and hourly cleaning of the ATMs. In May 2020, the Tesco volunteer e-gift card was launched, allowing customers to stay at home while volunteers shopped on their behalf using the gift card to pay securely. Other actions included increasing the contactless payment limit (from £30 to £45) and introducing a cash delivery service for the Group's Personal Current Account customers.

The Covid-19 pandemic drove a nationwide shift towards digital adoption and, consequentially, the decision was taken to accelerate investment in the Group's digital transformation strategy, delivering a two-year plan in one year. This included the launch of the new Group website, significantly improving the design and navigation of the website, thereby improving accessibility and the customer experience. 'Pay by Bank', a market leading Open Banking feature, which allows Mobile and Online Credit Card customers to make payments directly from a personal current account via electronic payment devices. In doing so, TPF became the first UK bank to introduce this functionality. The Group's digital adoption has also increased, not only improving the customer experience, but also reducing the cost to the business to serve customers. IT resilience continues to be a key consideration for the Group as part of all business-as-usual activities and project implementation.

The Group's response to the Covid-19 pandemic included some key decisions taken to consider colleagues. The Government's furlough scheme was not utilised. A decision was taken to award a bonus to those frontline colleagues who were required to be in the office to serve customers. This bonus mirrored that awarded to Tesco Stores' frontline colleagues. This recognised the key role that these colleagues played, working tirelessly to help and serve customers at such a challenging time. The Group now has the technical capabilities in place to support 60% of its frontline colleagues and all office function colleagues working from home. The sudden shift to remote working surfaced a need to support colleagues in setting up an effective workspace at home, and therefore a home working allowance was paid to colleagues. Whilst the Group follows the government guidance to ensure colleagues can work from home, there remains an opportunity for certain colleagues to work from the office if this suits their individual preference and supports their wellbeing. The Group's three offices have remained open throughout the Covid-19 pandemic, albeit at different occupancy levels, with work being undertaken to evaluate how the offices may function in the future. This work has included seeking feedback from colleagues and the introduction of some pilot work to help support the decisions that will require to be made, shifting the focus from full office building occupancy to hubs that can be used to support a collaborative approach to working.

The Group's colleague leadership and capability programmes were refocused on leading and managing teams in remote environments. Health and wellbeing initiatives, borne out of feedback and colleague sentiment from continuous listening throughout the year, were developed and delivered. This included supporting colleagues with a Tesco gift card at Christmas. In addition, several minor changes to policies, to support colleague wellbeing, were made during the year, recognising the impact on colleagues' work life balance.

Optimising the Group's Insurance business

Following a strategic review, the Board recognised the continued importance of insurance to Tesco shoppers. The opportunity to increase profitability and better serve Tesco customers through enhanced product offerings and an optimised operating model was identified. End-to-end control of the Group's insurance offering, from sales and service to claims, was identified as the optimal model to allow the Group to become a market-leading insurer and to achieve its strategic objectives for insurance. As a result, in October 2020 the Group announced its intention to acquire Ageas (UK)'s 50.1% share of TU, giving the Group full control, in a deal due to complete in May 2021, following regulatory approval received in March 2021.

In January 2021, the Group also announced its intention to exit the panel for Home and Motor insurance, leaving TU as the sole underwriter for these products. Work is progressing to ensure engagement with, and consideration of, the colleagues and suppliers involved in delivering the Group's insurance offering. Simultaneously, the Group is investing in its insurance propositions to broaden its offering through new products and changes to its existing products to ensure that these continue to meet the needs of Tesco customers. The cumulative effect of these changes will allow customers to benefit from a streamlined insurance purchase and renewal journey and experience a service and claims proposition aligned with the Tesco brand values.

Colleagues in TU will transition across to the Group following completion of the acquisition with harmonised terms and conditions to maintain alignment of colleagues across the Group. Consultation with impacted colleagues has been undertaken.

The benefits for the Group include an improved insurance proposition that deepens Tesco's relationship with its existing shoppers. It is also a proposition that can attract customers to Tesco and introduce them to other Group banking products. This will generate a stable income from a business that can grow quickly and be relatively predictable as well as generating healthy profitability and supporting the delivery of good customer outcomes. Implementation of fair pricing remedies, together with the opportunities available through alignment with Tesco's strong brand, customer franchise and loyalty, will help the Group to deliver on its strategic ambitions for insurance.

The Group engaged with the FCA and PRA on the proposed changes at an early stage and active dialogue has continued as these have progressed.

The Strategic Report was approved by the Board of Directors and signed by order of the Board.

Michael Mustard

Company Secretary

12 April 2021

The Directors present their Annual Report, together with the Company and Consolidated Financial Statements and Independent Auditor's Report, for the year ended 28 February 2021.

Compliance with the UK Corporate Governance Code

The Group applied the main principles and complied with the relevant provisions set out in the UK Corporate Governance Code 2018 (2018 Code) throughout the year under review, with the exception of provision 41. Provision 41 relates to disclosures in respect of the Remuneration Committee and how it conducts its business in line with the 2018 Code. The Group has not included a full Remuneration Report within the Annual Report as it does not have listed equity and, as such, is not required to comply with this provision.

Information demonstrating how the main principles and relevant provisions of the 2018 Code have been applied can be found throughout the Directors’ Report and the Strategic Report.

The primary responsibility of the Board in complying with the 2018 Code is to provide effective leadership to ensure that it promotes the long-term success of the Group for the benefit of its members as a whole.

Monitoring compliance with the 2018 Code is the responsibility of the Board.

The Financial Reporting Council (FRC) is responsible for the publication and periodic review of the UK Corporate Governance Code and this can be found on the FRC website http://www.frc.org.uk.

Business Review and Future Developments

The Group's business review and future developments are set out in the Strategic Report on pages 2 to 8.

Risk Management

The Group's risk management disclosures are set out in the Strategic Report on pages 9 to 16.

Financial Instruments

The Group's policies for hedging each major type of transaction are discussed in notes 1 and 17 to the Financial Statements.

Capital Structure

The Group's capital structure is discussed in note 41 to the Financial Statements.

Events after the Reporting Date

Details of events occurring after the reporting date are discussed in note 46 to the Financial Statements.

Going Concern

The Directors have made an assessment of going concern, taking into account both current performance and the Group’s outlook, which considered the impact of the Covid-19 pandemic, and including consideration of projections incorporating the impact of the Covid-19 pandemic for the Group’s capital and funding position.

Going Concern (continued)

As part of this assessment the Board considered:

- The impact on the Group's profits as income and charges for ECLs continue to be affected by the Covid-19 pandemic. As part of this, the Board considered the latest macro-economic scenarios which were received from the Group's third-party supplier. These are discussed in note 37;
- The sufficiency of the Group's capital base throughout the Covid-19 pandemic. The revised macro-economic scenarios received were significantly less severe than those used in the ICAAP reverse stress test. The Group reviewed its stress testing scenarios to ensure it has sufficient capital and liquidity to trade through a plausible range of economic outcomes;
- The adequacy of the Group's liquidity as the Group supports customers through a period of financial stress;
- The operational resilience of the Group's critical functions including call centres, mobile and online channels and the Group's ability to provide continuity of service to its customers throughout a prolonged stress;
- The resilience of the Group's IT systems;
- A detailed assessment of the Group's supplier base, considering any single points of failure and focussing on suppliers experiencing financial stress. This included consideration of contingency plans should suppliers be deemed at risk;
- The regulatory and legal environment and any potential conduct risks which could arise;
- Any potential valuation concerns in respect of the Group's assets as set out in the Company and Consolidated Statements of Financial Position;
- The impact of the Covid-19 pandemic on TU, the Group's joint venture insurance company; and
- The structural protections of the Group's securitisation vehicles.

The Board also considered the results of stress testing which is performed as an integral part of both the ICAAP and ILAAP, with the Group having sufficient capital and liquidity to fund the balance sheet in each scenario.

As a result of this assessment, the Directors consider that it is appropriate to adopt the going concern basis of accounting in preparing the Company and Consolidated Financial Statements.

Engaging with stakeholders

The Group has a number of key stakeholder groups with whom it actively engages. Listening to, understanding and engaging with these stakeholder groups is an important role for the Board in setting strategy and decision-making. The Group recognises its obligations and requirements to be a well-controlled financial services business, compliant with regulation and delivering good customer outcomes. The Regulators are consulted and kept closely informed in relation to key decisions made by the Board, as appropriate.

Details of some of the key strategic decisions made during the year ended 28 February 2021 can be found in the Strategic Report on pages 26 to 28.

- Our Customers

The Group is here to help Tesco shoppers manage their money a little better every day. Developing customer-centric insights is key to how the Group designs new services and improves existing services for Customers, bringing the best of Tesco to help shoppers with their money needs.

The Group has typically interacted with customers in a variety of ways, including face-to-face, in stores, through surveys and remotely via telephone and online, all with the common goal to deepen the Group's understanding of its customers, learn from them and understand their financial needs. The Covid-19 pandemic has meant that the Group has had to amend the ways in which it interacts with customers. Face-to-face interactions have temporarily stopped but that has not prevented the Group from connecting with customers on a regular basis. The Group has quickly changed the way in which it interacts with its customers by using a series of digital tools to ensure customers can provide timely and relevant feedback.

Our Customers (Continued)

The Group continues to invest and look at ways to connect Tesco shoppers to the right banking and insurance products for their needs. Investment continues in technology, data, design and personalised marketing. This connection ensures the Group develops its relationship with its customers to serve more of their money needs, gaining trust and loyalty in return.

Consideration of the Group's vulnerable customers is important and, working with the Money Advice Trust, the Group's Vulnerable Customers programme aims to identify vulnerable customers and enhance support for them. Support is given to colleagues to identify and record customers with vulnerabilities and to equip them to have more personalised and consistent support conversations with vulnerable customers, focusing on those who are impacted by life events, addictions or ill health.

- Our Colleagues

The Group has over 3,700 colleagues and is committed to promoting a diverse and inclusive workplace, reflective of the communities in which it does business. It approaches diversity in the broadest sense, recognising that successful businesses flourish through embracing diversity into their business strategy and developing talent at every level in the organisation.

The Group's selection, training, development and promotion policies are designed to provide equality of opportunity for all colleagues, regardless of age; disability; gender; gender reassignment; marital and civil partnership status; pregnancy and maternity; race; religion or belief, or absence of religion or belief; sexual orientation or trade union affiliation. Decisions are based on merit.

The Group works with colleagues, including those with disabilities, to adapt work practices where necessary in order to help them work effectively within the business.

The Group is committed to developing the skills and knowledge and supporting the wellbeing of its colleagues in order to help achieve its objectives and create a great place to work. It ensures that the Tesco Values are reflected within its employment policies and practices to encourage engagement, enabling colleagues to be their best and able to contribute to the delivery of the Group's core purpose.

The Group's Code of Business Conduct, which defines the standards and behaviours expected of colleagues, supports its core values. The Code of Business Conduct is supported by Group policies and mandatory training which includes anti-bribery and corruption, competition law, data protection and whistleblowing. Colleagues are required to complete mandatory training to reinforce the importance of these standards. For new colleagues, there is a requirement to complete the suite of mandatory training within 30 days of joining the Group. Refresher training is required on an annual basis. The Board and Senior Management are responsible for ensuring that their activities reflect the culture they wish to instil in the Group's colleagues and other stakeholders and drive the right behaviours. They have a responsibility to ensure that the Group's colleagues do the right things in the right way by setting the tone from the top and leading by example.

Working closely with Tesco, the Group is committed to actively supporting its colleagues to live healthier lives and make healthier choices around their physical and emotional wellbeing. Through its health and wellness strategy, the Group aims to help colleagues be at their best both at work and at home. The Group's colleagues have the support of a diverse community of Mental Health First Aiders, who play a key role at the point of colleague need and help signpost the most suitable or relevant services for ongoing support. Through the Group's Employee Assistance Programme, Workplace Options, colleagues also have access to online content, webinars and over the phone support. This is an independent and unlimited 24/7 telephone support line should colleagues be feeling anxious, concerned or in need of some extra support or guidance.

There are processes in place for understanding and responding to colleagues' needs through surveys and regular performance and development reviews. Business developments are communicated frequently to keep colleagues well informed about the progress of the Group. Ongoing training programmes also seek to ensure that colleagues understand the Group's objectives and the regulatory environment in which it operates.

- Our Colleagues (continued)

The Colleague Contribution Panel (CCP) is a panel of elected colleagues from all across the Tesco group who meet with a Non-Executive Director (NED) from Tesco twice a year to discuss experiences of working at Tesco and give the NED an opportunity to inform the activities of the Group's Board and its Committees. This will enable the Tesco Board to hear views of colleagues from across the business. The Group's Colleague Experience Director provides feedback from the CCP to the Group's Executive Management team and works directly with the Tesco Board to respond to CCP outputs relevant to the Group. A CCP meeting was held in November 2020, with outputs shared with the Tesco Executive team and the Tesco Board in February 2021. There were no specific actions for the Group to address following this meeting. In addition, the Board has designated Amanda Rendle as the non-executive director to support some colleague engagement activity across the Group.

The Board is responsible for reviewing the annual report on whistleblowing, in compliance with the Whistleblowing Policy. The Group's independent and confidential whistleblowing service provides colleagues with the ability to raise any concerns regarding misconduct and breach of the Code for Business Conduct.

Colleagues are encouraged to become involved in the financial performance of the wider Tesco Group through a variety of schemes, principally the Tesco savings related share option scheme (Save As You Earn).

- Our Suppliers

The Group engages with around 900 active suppliers, who play an important role in the operation of the Group's business to enable the delivery of an effective and efficient business model. During the year ended 28 February 2021 several material contracts were presented to the Board for approval, covering both new relationships and contract renewals. In approving these contracts, the Board considered the strategic value of the relationships as well as looking at the customer impacts, risk exposure, legal and compliance considerations and financial implications. The Group has a framework in place which provides a consistent and proportionate approach to procurement and the management of suppliers to ensure that it can effectively engage, manage and terminate, where appropriate, supplier relationships. To support regulatory reporting requirements, the Group expects its suppliers to monitor their own supply chain and be able to provide the Board with appropriate evidence and assurance of compliance, as required.

- Our Shareholder

As the Group's only shareholder, the Board relies on its relationship with Tesco and the differentiating factors of having rich customer data, a strong brand and a Clubcard loyalty programme to better serve customers. The Group has a strong relationship with Tesco, with regular updates and meetings taking place in relation to performance and strategy. The Group's CEO, Gerry Mallon, is a member of the Tesco Executive Committee.

- Our Community

Despite many of the Group's colleagues working from home during the year, teams have remained committed to supporting the Group's local charity partners. Charitable support has been impacted by lockdown but, through a variety of virtual fundraising challenges, colleagues have raised over £23k for local charitable causes.

Dividends

An interim dividend of £15.0m (2020: £50.0m) in respect of ordinary share capital was paid to TPFG on 29 January 2021.

Treating Customers Fairly

Treating Customers Fairly is central to the FCA's principles for businesses and remains central to the Tesco Values which sit at the heart of the business. These Values are designed to ensure that customer outcomes match their understanding and expectations.

Directors

The present Directors and Company Secretary, who have served throughout the year and up to the date of signing the Financial Statements, except where noted below, are listed on page 1.

Since 1 March 2020 to date the following changes have taken place:

	Appointed	Resigned
Julie Currie	1 February 2021	
James McConville		1 February 2021
Graham Pimlott		17 April 2020

- **Audit Committee (BAC)**

Introduction from the BAC Chair

The Group operates in a demanding environment, particularly with regard to economic, reputational, political and regulatory factors. The role of the BAC is critical in reviewing the effectiveness of the Group's internal control framework and assurance processes and in assessing and acting upon findings from both external and internal audit. The BAC keeps the current internal control framework and assurance processes under review to ensure that they adapt to the changing environment and remain appropriate for the Group.

BAC composition, skills and experience

The BAC acts independently of Management. This ensures that the interests of shareholders are properly protected in relation to financial reporting and internal control.

As detailed in the section of the Strategic Report on the Board, the BAC comprises four Independent Non-Executive Directors.

Julie Currie is a Chartered Accountant and has over 25 years experience in the financial services sector, the majority of which was spent at Lloyds Banking Group. This experience enables her to fulfil the role as BAC Chair.

Julie's previous appointments included Chief Operating Officer for the Turnaround Division of Lloyds Banking Group and Chief Financial and Operating Officer for the Lloyds Bank Foundation for England and Wales, the largest corporate foundation in the UK. Julie holds a Non-Executive role with Scotiabank Europe, where she has chaired the Audit Committee since 2018.

Robert Endersby has spent over 35 years working in the financial services sector, both within the UK and internationally and is an Associate of the London Institute of Banking and Finance.

Robert's previous key appointments included Chief Risk Officer and member of the Executive Board of Danske Bank, Denmark's largest financial enterprise. Robert was also an independent non-executive director and chair of the board risk committees of Credit Suisse International and Credit Suisse Securities (Europe) Limited.

Previously, Robert has also held senior risk management positions in Barclays, The Royal Bank of Scotland and ING Group and has a broad international experience of the sector including assignments based in Denmark, the Netherlands and France.

Jacqueline Ferguson is an experienced Chief Executive from the technology industry. Jacqueline is the former Chief Executive of Hewlett Packard Enterprise Services UK, Ireland, Middle East, Mediterranean and Africa and has extensive global experience including living and working in Silicon Valley, California for 3 years with Hewlett Packard. Prior to Hewlett Packard Jacqueline worked for Electronic Data Systems and KPMG.

Jacqueline is also a Non-Executive Director of Wood PLC and Croda PLC, a Trustee of Engineering UK and a member of the Scottish First Minister's Advisory Board for Women and Girls, aimed at tackling Gender Inequality. Jacqueline chaired the public services strategy board for the Confederation of Business and Industry and was a member of the Tech Partnership, the industry body aimed at UK technology skills.

Simon Machell has worked in financial services for over 30 years and has deep experience in both general and life insurance in the UK, Europe and Asia. The majority of Simon's experience was gained from a range of roles with Aviva, including Chief Executive of the RAC, Chief Executive of the general insurance business in the UK and running the insurance businesses in 14 markets across Eastern Europe and Asia. Simon holds Non-Executive roles with Pacific Life Re, Prudential Corporation (Asia), Suncorp Group and TU.

BAC composition, skills and experience (continued)

The Chair, Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, Internal Audit Director, Director of Financial Control and Tesco Internal Audit Director attend Committee meetings. The external auditor also attends.

BAC responsibilities

The key responsibilities of the BAC are set out in the Strategic Report on page 20.

During the year, the BAC received reports from a number of business areas including Finance in relation to financial reporting and Risk in relation to regulatory compliance, fraud, bribery and corruption and integrated assurance. The BAC also considered a variety of matters including the internal financial control framework, data leakage prevention, supplier assurance and business continuity arrangements.

Financial Statements and related financial reporting

In relation to the Financial Statements, the BAC reviewed and recommended approval of the half-yearly results and annual Financial Statements and provided oversight of the statutory audit process.

During the year ended 28 February 2021, the BAC considered the following matters:

- The methods used to account for significant transactions

The BAC reviewed and supported proposals from Management on the accounting for the redemption of debt securities in issue in relation to securitisation transactions and retail bonds.

- Going concern assessment

The BAC considered Management's approach to, and the conclusions of, the assessment of the Group's ability to continue as a going concern.

The going concern assessment period covers the period to April 2022, 12 months subsequent to signing the Annual Report and Financial Statements for the year ended 28 February 2021. The assessment considered the current capital position of the Group and liquidity requirements covering the going concern assessment period, including consideration of the impact of the Covid-19 pandemic. These were then subject to stress testing based on various scenarios, including scenarios incorporating the impact of the Covid-19 pandemic. The detailed considerations taken by the Board in arriving at its going concern assessment are set out on pages 24 to 25 and 29 to 30.

The BAC recommended that the Board supported the conclusion that it remained appropriate to adopt the going concern basis in preparing the Financial Statements.

- Review of Financial Statements

The BAC considered Management's approach to, and governance arrangements over, the preparation of the half-yearly results and annual Financial Statements and recommended to the Board that these should be approved.

BAC responsibilities (continued)

- Appropriate critical accounting estimates and judgements

The BAC reviewed the nature, basis for and the appropriateness of, the estimates and judgements proposed by Management in the Financial Statements.

The key estimates and judgements reflected in the Group's Financial Statements for the year ended 28 February 2021 are:

  - Expected credit loss provision (ECL) (Refer to note 37)

  The BAC received regular reports from Management on provisioning, which assessed the adequacy of provisioning based on a number of factors. These included levels of arrears, collateral, past loss experience, defaults based on portfolio trends, and expected loss rates.

  The BAC concluded that an appropriate governance framework existed to monitor provision adequacy and that the assumptions and judgements applied by Management were appropriate.

  - Provision for customer redress (Refer to note 29)

  The Group has a provision for potential customer redress in relation to PPI.

  The BAC reviewed the key assumptions made in arriving at each element of the provision, with particular focus given to claims settled and the average amount of redress per claim.

  The BAC is satisfied that the provisions and related disclosures in the Financial Statements in respect of PPI and other customer redress provisions are appropriate.

  - Effective interest rate (Refer to note 2)

  IFRS 9 requires the Group to measure the interest earned on its Credit Cards portfolio by applying the effective interest rate methodology.

  The BAC received regular reports from Management summarising its approach, with particular focus given to reviewing the expected attrition rate of balances drawn, including the pay rates assumption used by Management.

  The BAC is satisfied that the carrying value of the assets and the associated income recognition is appropriate.

  - Investment in joint venture (Refer to note 22)

  The Group holds an investment in a joint venture, TU, an authorised insurance company, and recognises the carrying value of its investment and the Group's share of TU's results using the equity method of accounting.

  TU's results are sensitive to changes in the insurance reserves it recognises in respect of insurance policies written, net of reinsurance. Consequently, material increases in these reserves could have an impact on the carrying value of the investment in the Company and Consolidated Statements of Financial Position.

  The BAC reviewed the key judgements and estimates made by TU in determining the level of reserves held at the reporting date.

  The BAC is satisfied that the carrying amount of the Group's investment in TU is appropriate.

- IT controls

The Group utilises a range of information systems to support its ongoing operations and financial reporting.

During the year, the BAC received a number of reports on the Group's information systems, including the effectiveness of access rights to certain operating systems and applications used in the financial reporting process.

While improvements to access controls have been made, it remains an area of ongoing focus and the BAC will receive further reports on the effectiveness of access controls during the next financial year.

Performance and Effectiveness of IA

The IA function supports the BAC in providing an independent assessment of the adequacy and effectiveness of internal controls and the system of risk management. The function has the necessary resources and access to information to enable it to fulfil its mandate, and is equipped to perform in accordance with the Institute of Internal Auditors' International Standards of the Professional Practice of Internal Auditing.

It is essential for the BAC to be able to have an honest and open relationship with both its external and internal auditors. This relationship is developed and maintained through private meetings with both Deloitte and the IA Director.

In compliance with the above standards, the BAC assessed the effectiveness of the IA function with the results of the annual assessment for 2020/21 being positive.

Performance and Effectiveness of the BAC

The BAC assesses the need for training on an ongoing basis and the annual agenda provides time for technical updates, which are provided by both internal and external experts. During the year, the BAC received specific training on accounting and reporting developments. Training is also provided on an ongoing basis to meet the specific needs of individual committee members.

The effectiveness of the BAC was reviewed as part of the wider Board effectiveness review which included interviews with all BAC members. It was concluded that the BAC continued to be effective.

Risk Management and Internal Controls

The Board and its committees are responsible for ensuring the effective implementation and ongoing monitoring of the RMF. A detailed overview of the responsibilities of the ERC is set out on page 22.

Key controls are recorded within an internal database and regular controls testing takes place to ensure they remain effective. Additionally, the ERC regularly reviews the RMF to ensure it remains relevant and appropriate to the risk profile of the Group.

No material deficiencies in internal controls have been identified in the year.

Non-audit Fees

Deloitte contributes an independent perspective, arising from its work, on certain aspects of the Group's internal financial control systems, and reports to the BAC. The independence of the external auditor in relation to the Group is considered annually by the BAC.

The Group has a Non-audit Services Policy for work carried out by its external auditor. This is split into two categories as follows:

1. Work for which BAC approval is specifically required – transaction work and corporate tax services, and certain advisory services; and
2. Work from which the external auditor is prohibited.

The BAC concluded that it was in the best interests of the Group for the external auditor to provide a limited number of non-audit services during the year due to their experience, expertise and knowledge of the Group's operations. Auditor objectivity and independence was considered for each engagement and the BAC was satisfied that audit independence was not, at any point, compromised.

Deloitte follows its own ethical guidelines and continually reviews its audit team to ensure its independence is not compromised. The fees paid to the external auditor in the year are disclosed in note 9 to the Financial Statements.

Directors' Indemnities

In terms of Section 236 of the Companies Act 2006, all Executive and Non-Executive Directors have been issued a Qualifying Third-Party Indemnity Provision by TPFG. All Qualifying Third-Party Indemnities were in force at the date of approval of the Financial Statements and shall remain in force without any limit in time. This will not be affected by the expiration or termination of a Director's appointment, however it may arise.

Cautionary Statement Regarding Forward-looking Information

Where this document contains forward-looking statements, these are made by the Directors in good faith based on the information available to them at the time of their approval of this report. These statements should be treated with caution due to the inherent risks and uncertainties underlying any such forward-looking information. The Group cautions users of these Financial Statements that a number of factors, including matters referred to in this document, could cause actual results to differ materially from those contained in any forward-looking statement. Such factors include, but are not limited to, those discussed under 'Principal risks and uncertainties' on pages 10 to 16.

Statement of Directors' Responsibilities

The following should be read in conjunction with the responsibilities of the independent auditor set out in their report on page 169.

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare such financial statements for each financial year. Under that law the Directors have prepared the Group and Company Financial Statements in accordance with International Accounting Standards (IASs) in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

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 the Group and the Company and of the profit or loss of the Group for that year. In preparing these Financial Statements, the Directors are required to:

- properly select and apply accounting policies;
- 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 IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's and Company's financial position and financial performance; and
- make an assessment of the Group's and Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and 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 Group and 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 Group's website. Legislation in the UK governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

Each of the Directors, whose names are listed on page 1 of the Annual Report and Financial Statements, confirms that to the best of their knowledge:

- the Financial Statements, which have been prepared in accordance with IASs in conformity with the requirements of the Companies Act 2006 and IFRSs as issued by the IASB, give a true and fair view of the assets, liabilities, financial position and loss of the Group;
- the Strategic Report contained in the Annual Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces; and
- the Annual Report and Financial Statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for the Company's shareholder to assess the Group's and Company's position, performance, business model and strategy.

Disclosure in Respect of the Independent Auditor

So far as each Director is aware at the date of approving this report, there is no relevant audit information, being information needed by the auditor in connection with preparing this report, of which the auditor is unaware. All of the Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

External Audit Partner

The external audit partner for the year to 28 February 2021 was Peter Birch who has assumed the role for the first time in the current year. The audit tender process is conducted by Tesco on behalf of the entire Tesco group.

Approved by the Board of Directors and signed by order of the Board.

Michael Mustard
Company Secretary

12 April 2021

TESCO PERSONAL FINANCE PLC
CONSOLIDATED INCOME STATEMENT
For the Year Ended 28 February 2021

	Note	2021 £m	2020 £m
Continuing operations			
Interest and similar income	5	562.4	698.4
Interest expense and similar charges	5	(108.7)	(181.0)
Net interest income		**453.7**	**517.4**
Fees and commissions income	6	208.8	341.0
Fees and commissions expense	6	(32.7)	(31.3)
Net fees and commissions income		**176.1**	**309.7**
Net loss on financial instruments at fair value through profit or loss (FVPL)	7	(2.6)	(4.0)
Net loss on investment securities	8	–	(0.2)
Net other income		**(2.6)**	**(4.2)**
Total income		**627.2**	**822.9**
Administrative expenses	9	(382.0)	(398.4)
Depreciation and amortisation	24, 25	(56.7)	(131.9)
Provision for customer redress	29	–	(45.0)
Operating expenses		**(438.7)**	**(575.3)**
Expected credit loss on financial assets	10	(359.5)	(178.6)
Operating (loss)/profit		**(171.0)**	**69.0**
Share of profit of joint venture	22	16.2	10.2
(Loss)/profit before tax		**(154.8)**	**79.2**
Analysed as:			
Underlying (loss)/profit before tax		(152.2)	227.8
Non-underlying items		(2.6)	(148.6)
		(154.8)	79.2
Income tax credit/(charge)	12	51.1	(32.4)
(Loss)/profit for the year from continuing operations		**(103.7)**	**46.8**
Discontinued operations			
Profit after tax from discontinued operations	14	0.2	56.7
(Loss)/profit for the year attributable to owners of the parent		**(103.5)**	**103.5**

TESCO PERSONAL FINANCE PLC
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the Year Ended 28 February 2021

	Note	2021 £m	2020 £m
(Loss)/profit for the year		**(103.5)**	103.5
Items that may be reclassified subsequently to the Income Statement			
Debt securities at fair value through other comprehensive income (FVOCI)[1]			
Fair value movements	12	(3.2)	2.3
Net losses transferred to the Income Statement on disposal	12	–	0.2
Expected credit loss transferred to the Income Statement		–	0.4
Taxation	12	0.8	(0.7)
		(2.4)	2.2
Cash flow hedges			
Fair value movements	12	(0.5)	1.0
Taxation	12	0.2	(0.3)
		(0.3)	0.7
Currency basis reserve			
Foreign currency movements	12	0.1	0.2
		0.1	0.2
Share of other comprehensive (expense)/income of joint venture	22	(1.9)	5.0
		(1.9)	5.0
Items that will not be reclassified subsequently to the Income Statement			
Equity securities at FVOCI			
Fair value movements	12	1.9	0.7
Taxation	12	(0.6)	(0.2)
		1.3	0.5
Other comprehensive (expense)/income for the year, net of tax		**(3.2)**	8.6
Total comprehensive (expense)/income for the year		**(106.7)**	112.1
Total comprehensive (expense)/income for the year attributable to owners of the parent			
Continuing operations		**(106.9)**	55.4
Discontinued operations		**0.2**	56.7

[1] On 1 March 2020 the Group's portfolio of debt investment securities held at FVOCI was reclassified to amortised cost following a change in business model.

TESCO PERSONAL FINANCE PLC
CONSOLIDATED AND COMPANY STATEMENTS OF FINANCIAL POSITION
For the Year Ended 28 February 2021

Company number SC173199

		Group		Company	
		2021	2020	**2021**	2020
	Note	**£m**	£m	**£m**	£m
Cash and balances with central banks	15	802.6	1,393.9	746.4	1,333.3
Loans and advances to customers	16	6,402.2	8,451.3	6,402.2	8,451.3
Derivative financial instruments	17	6.1	5.7	6.1	4.2
Investment securities	18	953.5	1,081.6	953.5	1,081.6
Prepayments and accrued income	19	41.6	55.6	41.6	55.6
Other assets	20	211.2	243.3	267.1	290.8
Current income tax asset		36.1	–	36.1	–
Deferred income tax asset	23	67.3	69.4	67.3	69.4
Investment in joint venture	22	92.8	86.0	60.6	60.6
Intangible assets	24	130.9	138.2	130.9	138.2
Property, plant and equipment	25	77.5	73.4	77.5	73.4
Assets of the disposal group	14	–	45.1	–	45.1
Total assets		**8,821.8**	**11,643.5**	**8,789.3**	**11,603.5**
Liabilities					
Deposits from banks	26	600.0	500.0	600.0	500.0
Deposits from customers	27	5,751.2	7,718.0	5,751.2	7,718.0
Debt securities in issue	28	–	774.1	–	201.8
Derivative financial instruments	17	47.5	50.7	47.5	50.7
Provisions for liabilities and charges	29	60.1	58.7	60.1	58.7
Accruals and deferred income	30	86.1	100.1	86.1	100.1
Current income tax liability		–	26.3	–	26.3
Other liabilities	31	184.2	199.0	184.1	756.4
Subordinated liabilities and notes	32	486.6	485.6	486.6	485.6
Total liabilities		**7,215.7**	**9,912.5**	**7,215.6**	**9,897.6**
Equity and reserves attributable to owners of parent					
Share capital	33	122.0	122.0	122.0	122.0
Share premium account	33	1,097.9	1,097.9	1,097.9	1,097.9
Retained earnings		355.6	474.1	328.8	456.1
Other reserves	34	30.6	37.0	25.0	29.9
Total equity		**1,606.1**	**1,731.0**	**1,573.7**	**1,705.9**
Total liabilities and equity		**8,821.8**	**11,643.5**	**8,789.3**	**11,603.5**

Loss for the year of £112.3m (2020: profit of £93.0m) is attributable to the Company.

The Consolidated and Company Financial Statements on pages 40 to 45 were approved by the Board of Directors and authorised for issue on 12 April 2021 and were signed on its behalf by:

Declan Hourican

Director

TESCO PERSONAL FINANCE PLC
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the Year Ended 28 February 2021

	Note	Share capital £m	Share premium £m	Retained earnings £m	FV/AFS reserve[1] £m	Cash flow hedge reserve £m	Currency Basis Reserve £m	Share based payment reserve £m	Total equity £m
Balance at 1 March 2020		**122.0**	**1,097.9**	**474.1**	**12.3**	**(0.3)**	**(0.1)**	**25.1**	**1,731.0**
Comprehensive income									
Loss for the year		–	–	(103.5)	–	–	–	–	(103.5)
Net fair value movement on investment securities at FVOCI	12	–	–	–	(1.1)	–	–	–	(1.1)
Net movement on cash flow hedges	12	–	–	–	–	(0.3)	0.1	–	(0.2)
Share of other comprehensive expense of joint venture	22	–	–	–	(1.9)	–	–	–	(1.9)
Total comprehensive income		**–**	**–**	**(103.5)**	**(3.0)**	**(0.3)**	**0.1**	**–**	**(106.7)**
Transactions with owners									
Dividends to ordinary shareholders	13	–	–	(15.0)	–	–	–	–	(15.0)
Share based payments	44	–	–	–	–	–	–	(3.2)	(3.2)
Total transactions with owners		**–**	**–**	**(15.0)**	**–**	**–**	**–**	**(3.2)**	**(18.2)**
Balance at 28 February 2021		**122.0**	**1,097.9**	**355.6**	**9.3**	**(0.6)**	**–**	**21.9**	**1,606.1**

	Note	Share capital £m	Share premium £m	Retained earnings £m	FV/AFS reserve[1] £m	Cash flow hedge reserve £m	Currency basis reserve	Share based payment reserve £m	Total equity £m
Balance at 1 March 2019		**122.0**	**1,097.9**	**420.6**	**4.6**	**(1.0)**	**(0.3)**	**24.1**	**1,667.9**
Comprehensive income									
Profit for the year		–	–	103.5	–	–	–	–	103.5
Net fair value movement on investment securities at FVOCI	12	–	–	–	2.7	–	–	–	2.7
Net movements on cash flow hedges	12	–	–	–		0.7	0.2	–	0.9
Share of other comprehensive income of joint venture	22	–	–	–	5.0	–	–	–	5.0
Total comprehensive income		**–**	**–**	**103.5**	**7.7**	**0.7**	**0.2**	**–**	**112.1**
Transactions with owners									
Dividends to ordinary shareholders	13	–	–	(50.0)	–	–	–	–	(50.0)
Share based payments	44	–	–	–	–	–	–	1.0	1.0
Total transactions with owners		**–**	**–**	**(50.0)**	**–**	**–**	**–**	**1.0**	**(49.0)**
Balance at 29 February 2020		**122.0**	**1,097.9**	**474.1**	**12.3**	**(0.3)**	**(0.1)**	**25.1**	**1,731.0**

[1] Available-for-sale (AFS)

TESCO PERSONAL FINANCE PLC
COMPANY STATEMENT OF CHANGES IN EQUITY
For the Year Ended 28 February 2021

	Note	Share capital £m	Share premium £m	Retained earnings £m	FV/AFS reserve[1] £m	Cash flow hedge reserve £m	Share based payment reserve £m	Total equity £m
Balance at 1 March 2020		**122.0**	**1,097.9**	**456.1**	**4.8**	**–**	**25.1**	**1,705.9**
Comprehensive income								
Loss for the year		–	–	(112.3)	–	–	–	(112.3)
Net fair value movement on investment securities at FVOCI		–	–	–	(1.1)	–	–	(1.1)
Net movement on cash flow hedges		–	–	–	–	(0.6)	–	(0.6)
Total comprehensive income		**–**	**–**	**(112.3)**	**(1.1)**	**(0.6)**	**–**	**(114.0)**
Transactions with owners								
Dividends to ordinary shareholders	13	–	–	(15.0)	–	–	–	(15.0)
Share based payments	44	–	–	–	–	–	(3.2)	(3.2)
Total transactions with owners		**–**	**–**	**(15.0)**	**–**	**–**	**(3.2)**	**(18.2)**
Balance at 28 February 2021		**122.0**	**1,097.9**	**328.8**	**3.7**	**(0.6)**	**21.9**	**1,573.7**

	Note	Share capital £m	Share premium £m	Retained earnings £m	FV/AFS reserve[1] £m	Cash flow hedge reserve £m	Share based payment reserve £m	Total equity £m
Balance at 1 March 2019		**122.0**	**1,097.9**	**413.1**	**2.1**	**(0.5)**	**24.1**	**1,658.7**
Comprehensive income								
Profit for the year		–	–	93.0	–	–	–	93.0
Net fair value movement on investment securities at FVOCI		–	–	–	2.7	–	–	2.7
Net movements on cash flow hedges		–	–	–	–	0.5	–	0.5
Total comprehensive income		**–**	**–**	**93.0**	**2.7**	**0.5**	**–**	**96.2**
Transactions with owners								
Dividends to ordinary shareholders	13	–	–	(50.0)	–	–	–	(50.0)
Share based payments	44	–	–	–	–	–	1.0	1.0
Total transactions with owners		**–**	**–**	**(50.0)**	**–**	**–**	**1.0**	**(49.0)**
Balance at 29 February 2020		**122.0**	**1,097.9**	**456.1**	**4.8**	**–**	**25.1**	**1,705.9**

[1] Available-for-sale (AFS)

CONSOLIDATED AND COMPANY CASH FLOW STATEMENTS

For the Year Ended 28 February 2021

		Group		Company	
		2021	2020	**2021**	2020
	Note	**£m**	£m	**£m**	£m
Operating activities					
(Loss)/profit before tax from continuing operations		(154.8)	79.2	(163.6)	68.7
Profit before tax from discontinued operations		0.4	77.7	0.4	77.7
Total (loss)/profit before tax		**(154.4)**	**156.9**	**(163.2)**	**146.4**
Adjusted for:					
Non-cash items included in operating profit before taxation and other adjustments	39	438.4	351.2	441.6	350.8
Changes in operating assets and liabilities	39	(101.8)	161.2	(668.0)	74.6
Income taxes paid		(9.1)	(68.3)	(9.1)	(68.3)
Cash flows generated from/(used in) operating activities		**173.1**	**601.0**	**(398.7)**	**503.5**
Investing Activities					
Purchase of intangible assets and property, plant and equipment		(59.2)	(44.7)	(59.2)	(44.7)
Purchase of debt investment securities	37	(84.4)	(778.6)	(84.4)	(778.6)
Sale of debt investment securities		201.8	774.3	201.8	774.3
Redemption of subordinated debt issued by joint venture	37	–	7.8	–	7.8
Dividends received from joint venture	22	7.5	–	7.5	–
Capital distribution received from joint venture	22	–	15.6	–	15.6
Cash flows generated from/(used in) investing activities		**65.7**	**(25.6)**	**65.7**	**(25.6)**
Financing Activities					
Principal repayments on debt securities in issue	28	(772.2)	(410.0)	(200.0)	(60.0)
Dividends paid to ordinary shareholders	13	(15.0)	(50.0)	(15.0)	(50.0)
Interest paid on debt securities in issue		(14.0)	(19.9)	(10.0)	(10.8)
Interest paid on assets held to hedge debt securities in issue		(3.9)	(13.0)	(3.9)	(13.0)
Proceeds from issue of subordinated liabilities	32	–	250.0	–	250.0
Interest paid on subordinated liabilities and notes		(12.6)	(9.4)	(12.6)	(9.4)
Principal repayments on lease liabilities	35	(1.9)	(1.8)	(1.9)	(1.8)
Interest paid on lease liabilities	35	(3.6)	(2.4)	(3.6)	(2.4)
Cash flows (used in)/generated from financing activities		**(823.2)**	**(256.5)**	**(247.0)**	**102.6**
Net (decrease)/increase in cash and cash equivalents		(584.4)	318.9	(580.0)	580.5
Cash and cash equivalents[1] at beginning of year		1,362.3	1,043.4	1,301.7	721.2
Cash and cash equivalents[1] at end of year	15	**777.9**	**1,362.3**	**721.7**	**1,301.7**

[1] Cash and cash equivalents comprise cash and balances with central banks, excluding mandatory reserve deposits of £24.7m (2020: £31.6m) (refer to note 15).

1. Accounting Policies

Basis of Preparation

The Financial Statements have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards (IFRSs) and interpretations issued by the International Financial Reporting Interpretations Committee of the International Accounting Standards Board (IASB) and those parts of the Companies Act 2006 applicable to Companies reporting under IFRSs.

In these Financial Statements the 'Company' means Tesco Personal Finance plc and the 'Group' means the Company and its subsidiaries and joint venture. Details of these subsidiaries and joint venture are provided in notes 21 and 22. These Consolidated Financial Statements comprise the Financial Statements of the Group. The Company has elected to take the exemption under section 408 of the Companies Act 2006 not to present the Income Statement and Statement of Comprehensive Income of the Company.

The Company and Consolidated Financial Statements have been prepared under the historical cost convention as modified by the revaluation of derivative financial instruments, equity investment securities and assets of the disposal group held at fair value.

The Company and Consolidated Financial Statements are presented in Sterling, which is the functional currency of the Group. The figures shown in the Financial Statements are rounded to the nearest £0.1 million unless otherwise stated.

Onshoring of European Union (EU) Regulations After Brexit

Following the UK's withdrawal from the EU and the ending of the transition period, any reference to EU regulations and directives (including technical standards) should be read as a reference to the UK's version of such regulation or directive, as onshored into UK law under the European Union (Withdrawal) Act 2018, as amended.

Going concern

The Directors have made an assessment of going concern, taking into account both current performance and the Group's outlook, which considered the impact of the Covid-19 pandemic, and including consideration of projections incorporating the impact of the Covid-19 pandemic for the Group's capital and funding position. As part of this assessment the Board considered:

- The impact on the Group's profits as income and charges for expected credit losses (ECLs) continue to be affected by the Covid-19 pandemic. As part of this, the Board considered the latest macro-economic scenarios which were received from the Group's third-party supplier. These are discussed in note 37;
- The sufficiency of the Group's capital base throughout the Covid-19 pandemic The revised macro-economic scenarios received were significantly less severe than those used in the ICAAP reverse stress test. The Group reviewed its stress testing scenarios to ensure it has sufficient capital and liquidity to trade through a plausible range of economic outcomes;
- The adequacy of the Group's liquidity as the Group supports customers through a period of financial stress;
- The operational resilience of the Group's critical functions including call centres, mobile and online channels and the Group's ability to provide continuity of service to its customers throughout a prolonged stress;
- The resilience of the Group's IT systems;
- A detailed assessment of the Group's supplier base, considering any single points of failure and focussing on suppliers experiencing financial stress. This included consideration of contingency plans should suppliers be deemed at risk;

1. Accounting Policies (continued)

Going Concern (continued)

- The regulatory and legal environment and any potential conduct risks which could arise;
- Any potential valuation concerns in respect of the Group's assets as set out in the Consolidated Statement of Financial Position;
- The impact of the Covid-19 pandemic on Tesco Underwriting Limited (TU), the Group's joint venture insurance company; and
- The structural protections of the Group's securitisation vehicles.

The Board also considered the results of stress testing which is performed as an integral part of both the Individual Capital Adequacy Assessment Process (ICAAP) and Individual Liquidity Adequacy Assessment Process (ILAAP), with the Group having sufficient capital and liquidity to fund the balance sheet in each scenario.

As a result of this assessment, the Directors consider that it is appropriate to adopt the going concern basis of accounting in preparing the Consolidated Financial Statements.

Change in classification

On 1 March 2020, the Group's portfolio of debt investment securities measured at fair value through other comprehensive income (FVOCI) was reclassified to amortised cost, measured using the effective interest rate (EIR) method less allowance for ECLs. This was following a change in business model resulting from the sale of the Group's Mortgage business which increased Management's expectation that these debt investments would be held for the collection of contractual cash flows only. In the prior year, gains and losses arising from changes in fair value were recognised directly in other comprehensive income, except for impairment gains or losses, interest income and foreign exchange gains and losses, which were recognised in the Consolidated Income Statement.

Principal accounting policies

A summary of the Group's accounting policies is set out below. These policies have been consistently applied to all of the years presented, unless otherwise stated.

(a) Basis of consolidation

The Consolidated Financial Statements of the Group comprise the Financial Statements of the Company and all consolidated subsidiaries, including certain securitisation structured entities, and the Group's share of its interest in a joint venture, as at 28 February 2021.

Investment in Group undertakings

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity 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 Consolidated Financial Statements from the date that control commences until the date that control ceases. The Company's investments in its subsidiaries are stated at cost less any impairment.

Intragroup balances, and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the Consolidated Financial Statements.

Securitisation structured entities

The Group enters into securitisation transactions in which it assigns Credit Card receivables to a securitisation structured entity which supports the issuance of securities backed by the cash flows from the securitised Credit Card receivables. Although none of the equity of the securitisation structured entities is owned by the Company, the nature of these entities means that the Group has the rights to variable returns from its involvement with these securitisation structured entities and has the ability to affect those returns through its power over them. As such, they are effectively controlled by the Group and are consolidated on a line by line basis in the Consolidated Financial Statements.

1. Accounting Policies (continued)

Investment in joint venture

A joint arrangement is an arrangement over which the Group has joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. A joint venture is a joint arrangement whereby the Group has rights to a share of the net assets of the joint arrangement.

The Group's share of the results of a joint venture is included in the Consolidated Income Statement using the equity method of accounting. The Group's investment in a joint venture is carried in the Consolidated Statement of Financial Position at cost plus post-acquisition changes in the Group's share of the net assets of the entity, less any impairment.

If the Group's share of losses in a joint venture equals or exceeds its investment in the joint venture, the Group does not recognise further losses, unless it has incurred obligations to do so or made payments on behalf of the joint venture.

The Company's investment in a joint venture is stated at cost less any impairment.

(b) Revenue recognition

Net interest income recognition

Interest income and expense for all financial instruments measured at amortised cost are recognised using the effective interest rate (EIR) method.

The EIR method is a method of calculating the amortised cost of a financial asset or financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the expected life of the financial asset or financial liability. The EIR is the rate that exactly discounts estimated future cash flows to the instrument's initial carrying amount.

Calculation of the EIR takes into account fees receivable that are an integral part of the instrument's yield, premiums or discounts on acquisition or issue, early redemption fees and transaction costs. All contractual and behavioural terms of a financial instrument are considered when estimating future cash flows.

Interest income is calculated on the gross carrying amount of a financial asset unless the financial asset is impaired, in which case interest income is calculated on the net carrying amount, after allowance for ECLs.

Net fees and commissions income recognition

The Group generates fees from banking services, primarily Credit Card interchange fees. Fees in respect of banking services are recognised in line with the satisfaction of performance obligations. This can be either at a point in time or over time, in line with the provision of the service to the customer.

The majority of banking services are performed at a point in time and payment is due from a customer at the time a transaction takes place. For services performed over time, payment is generally due monthly in line with the satisfaction of performance obligations.

The costs of providing these banking services are incurred as the services are rendered. The price is usually fixed and always determinable.

The Group also generates commission from the sale and service of Motor and Home insurance policies underwritten by TU or, in a minority of cases, by a third-party underwriter. This is based on commission rates which are independent of the profitability of underlying insurance policies. Similar commission income is also generated from the sale of white label insurance products underwritten by other third-party providers. This commission income is recognised on a net basis as such policies are sold, in line with the satisfaction of performance obligations to customers.

1. Accounting Policies (continued)

In the case of certain commission income on insurance policies managed and underwritten by a third-party, the Group recognises commission income from policy renewals as such policies are sold. This is when the Group has satisfied all of its performance obligations in relation to the policy sold and it is considered highly probable that a significant reversal in the amount of revenue recognised will not occur in future periods. This calculation takes into account both estimates of future renewal volumes and renewal commission rates. A contract asset is recognised in relation to this revenue. This is unwound over the remainder of the contract with the customer, the customer in this case being the third-party insurance provider.

The end policyholders have the right to cancel an insurance policy at any time. Therefore, a contract liability is recognised for the amount of any expected refunds due and the revenue recognised in relation to these sales is reduced accordingly. This contract refund liability is estimated using prior experience of customer refunds. The appropriateness of the assumptions used in this calculation is reassessed at each reporting date.

Customer loyalty programmes

The Group participates in the customer loyalty programme operated by Tesco Stores Limited (TSL). The programme operates by allowing customers to accumulate Clubcard points on purchases for future redemption against a range of Tesco products and those of selected partners. Revenue in respect of these points is recognised at the time of the customer transaction as the Group has no obligation to customers in respect of Clubcard points once the points are allocated to a customer account. The revenue is recognised net of the cost of providing Clubcard points to customers, which is recharged by TSL to the Group.

Dividend income

Dividends are recognised in the Consolidated Income Statement when the entity's right to receive payment is established.

(c) Taxation

The tax charge or credit included in the Consolidated Income Statement consists of current and deferred tax. Tax is recognised in the Consolidated Income Statement except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case it is recognised in other comprehensive income or equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted by the reporting date.

Deferred tax is provided using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Company and Consolidated Financial Statements. Deferred tax is calculated at the tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be realised.

Deferred tax assets and liabilities are offset against each other when there is a legally enforceable right to set-off current tax assets against current tax liabilities and it is Management's intention to settle these on a net basis.

1. Accounting Policies (continued)

(d) Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the date of the transaction.

Monetary items denominated in foreign currency are translated at the closing rate as at the reporting date.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Consolidated Income Statement, except when deferred in equity as gains or losses from qualifying cash flow hedging instruments. All foreign exchange gains and losses recognised in the Consolidated Income Statement are presented net in the Consolidated Income Statement within the corresponding item. Foreign exchange gains and losses on other comprehensive income items are presented in other comprehensive income within the corresponding item.

In the case of changes in the fair value of monetary assets denominated in foreign currency classified at FVOCI, a distinction is made between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to the changes in the amortised cost are recognised in the Consolidated Income Statement, and other changes in the carrying amount, except impairment, are recognised in equity.

(e) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and demand deposits with banks together with short-term highly liquid investments with short-term maturities.

(f) Financial instruments

The Group classifies a financial instrument as a financial asset, financial liability or an equity instrument in accordance with the substance of the contractual arrangement. An instrument is classified as a liability if it creates a contractual obligation to deliver cash or another financial asset, or to exchange financial assets or financial liabilities on potentially unfavourable terms. An instrument is classified as equity if it evidences a residual interest in the assets of the Group after the deduction of liabilities.

Financial assets

Classification and measurement

The Group classifies its financial assets in the following categories:

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

Management determines the classification of the Group's financial assets at initial recognition. Purchases and sales of financial assets are recognised on the trade date – the date on which the Group commits to purchase or sell the asset.

All financial assets are measured at initial recognition at fair value, plus transaction costs for those classified as FVOCI and amortised cost. Transaction costs on financial assets classified as FVPL are recognised in the Consolidated Income Statement at the time of initial recognition.

Classification and subsequent measurement of financial assets depend on:

- The Group’s business model for managing the financial asset; and
- The cash flow characteristics of the financial asset.

The business model reflects how the Group manages its financial assets in order to generate cash flows and is determined by whether the Group’s objective is solely to collect contractual cash flows from the assets or to collect both contractual cash flows and cash flows arising from the sale of assets. If neither of these models applies, the financial assets are classified as FVPL.

1. Accounting Policies (continued)

In determining the business model, the Group considers past experience in collecting cash flows, how the performance of these financial assets is evaluated and reported to Management and how risks are assessed.

Where the business model is to hold financial assets to collect contractual cash flows or to collect contractual cash flows and sell the assets, the Group assesses whether the financial asset's cash flows represent solely payments of principal and interest (the SPPI test). When making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement.

Financial assets at amortised cost

Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest, and that are not designated as FVPL, are classified and subsequently measured at amortised cost. The carrying value of these financial assets is adjusted by any ECL allowance recognised and measured as described below.

Financial assets at FVOCI

Financial assets that are held for collection of contractual cash flows and for selling the assets, where those cash flows represent solely payments of principal and interest, and that are not designated as FVPL, are classified and subsequently measured at FVOCI. In the prior year, the Group held investments in debt securities which were classified as FVOCI. Movements in the carrying amount of debt securities classified as FVOCI were taken through other comprehensive income, except the recognition of impairment gains or losses, interest revenue using the EIR method and foreign exchange gains and losses, which were recognised through the Consolidated Income Statement. In the current year, debt securities are held at amortised cost.

The Group also holds an investment in equity securities which has been irrevocably designated by Management as FVOCI at original recognition. Movements in the carrying amount of these equity securities are taken through other comprehensive income and are not subsequently reclassified to the Consolidated Income Statement, including on disposal. Expected credit losses on these securities are not recognised separately from other changes in fair value.

For financial assets at FVOCI which were in fair value hedge relationships, the element of the fair value movement which related to the hedged risk was recycled to the Consolidated Income Statement.

Financial assets at FVPL

Financial assets that do not meet the criteria for recognition at amortised cost or at FVOCI are measured at FVPL.

Impairment

The Group assesses on a forward-looking basis the ECLs associated with its financial assets carried at amortised cost and FVOCI, and with the exposure arising from loan commitments. The Group recognises a loss allowance for such losses at each reporting date. The measurement of ECLs reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Refer to note 37 for further details on the calculation of the allowance for ECLs.

Financial liabilities

Classification and measurement

All of the financial liabilities held by the Group, other than derivative financial liabilities, are classified and measured at amortised cost using the EIR method, after initial recognition at fair value. Fair value is calculated as the issue proceeds, net of premiums, discounts and transaction costs incurred. For financial liabilities in fair value hedge relationships, the carrying value is adjusted by the hedged item (the fair value of the underlying hedged risk) through the Consolidated Income Statement.

Derivative financial liabilities are classified and measured at FVPL. Further information on the classification and measurement of derivative financial instruments is set out at policy 1(g).

1. Accounting Policies (continued)

Derecognition

Financial assets are derecognised when the contractual rights to receive cash flows have expired or where substantially all of the risks and rewards of ownership have been transferred and the transfer qualifies for derecognition. Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

Collateral furnished by the Group under standard repurchase agreements is not derecognised because the Group retains substantially all the risks and rewards of ownership on the basis of the predetermined repurchase price, therefore the criteria for derecognition are not met. Credit Card receivables assigned by the Group to a securitisation structured entity do not qualify for derecognition as the Group retains substantially all the risks and rewards of ownership of the securitised Credit Card receivables.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the Company and Consolidated Statements of Financial Position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise an asset and settle a liability simultaneously.

Loan commitments

All loan commitments provided by the Group are as part of contracts that include both a loan and an undrawn commitment. As the Group cannot separately identify the ECLs on the undrawn commitment component from those on the loan component, the ECLs on the undrawn commitment are recognised together with the loss allowance for the loan. Any excess of the ECLs over the gross carrying amount of the loan is recognised as a separate provision within provisions for liabilities and charges.

(g) Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments for the purpose of providing an economic hedge to its exposures to interest rate and foreign exchange risks as they arise from operating, financing and investing activities. The Group does not hold or issue derivative financial instruments for trading purposes. Derivative financial instruments are initially recognised at fair value on the contract date and are remeasured at fair value at subsequent reporting dates.

Hedge accounting

The Group designates certain hedging instruments as either fair value hedges or cash flow hedges, where it is efficient to do so and the relevant criteria are met. The Group has implemented IFRS 9 'Financial Instruments' hedge accounting requirements in respect of its fair value hedges of the Group’s investment securities and its cash flow hedges. As permitted under IFRS 9, the Group has elected to continue to apply the existing hedge accounting requirements of International Accounting Standard (IAS) 39 'Financial instruments: Recognition and measurement' for its portfolio hedge accounting until the new macro hedge accounting standard is implemented.

The Group applies hedge accounting as follows:

- Hedge relationships are classified as fair value hedges where the derivative financial instruments hedge the change in the fair value of fixed rate financial assets or financial liabilities due to movements in interest rates.
- Hedge relationships are classified as cash flow hedges where the derivative financial instruments hedge the foreign currency risk on certain foreign currency invoices. Hedge relationships were also classified as cash flow hedges where the derivative financial instruments hedged interest rate risk and foreign currency risk on US Dollar notes issued by one of the Group's securitisation entities which were redeemed during the year.

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 has been, and will be, highly effective on an ongoing basis.

1. Accounting Policies (continued)

Fair value hedges

Changes in the fair value of derivative financial instruments that are designated as fair value hedges are recognised in the Consolidated Income Statement. The hedged item is also adjusted for changes in fair value attributable to the hedged risk, with the corresponding adjustment made in the Consolidated Income Statement.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item is amortised to the Consolidated Income Statement over the remaining period to maturity.

Cash flow hedges

Changes in the fair value of the derivative financial instruments that are designated as hedges of future cash flows are recognised directly in other comprehensive income and accumulated in the cash flow hedge reserve and the ineffective portion is recognised immediately in the Consolidated Income Statement. Amounts recognised in other comprehensive income are recycled to the Consolidated Income Statement when equivalent amounts of the hedged item are recognised in the Consolidated Income Statement. Any costs of hedging, such as the change in fair value related to currency basis adjustment, is separately accumulated in the currency basis reserve.

When the hedging instrument expires or is sold, terminated or exercised, hedge accounting is discontinued. Any cumulative gain or loss existing in the cash flow hedge reserve and/or currency basis reserve at that time remains until the forecast transaction occurs or the original hedged item affects the Consolidated Income Statement. At that point, the cumulative gain or loss is also recognised in the Consolidated Income Statement. If a forecast hedged transaction is no longer expected to occur, the cumulative gain or loss in the cash flow hedge reserve or currency basis reserve is reclassified to the Consolidated Income Statement.

(h) Derivative financial instruments not in hedge accounting relationships

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the Consolidated Income Statement as they arise.

(i) Impairment of non-financial assets

Non-financial assets are reviewed for impairment when there are indications that the carrying value may not be recoverable. In the event that an asset's carrying amount is determined to be greater than its recoverable amount, an impairment loss is recognised immediately in the Consolidated Income Statement and the carrying value of the asset is written down by the amount of the loss. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets for which an impairment loss has been recognised are reviewed for possible reversal of the impairment at each reporting date.

1. Accounting Policies (continued)

(j) Property, plant and equipment

Items of property, plant and equipment are stated at historical cost less accumulated depreciation and any impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent expenditure is included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group. All other repairs and maintenance costs are charged to the Consolidated Income Statement in the period in which they are incurred.

Depreciation is charged to the Consolidated Income Statement on a straight-line basis so as to allocate the costs less residual values over the lower of the useful life of the related asset and, for leasehold improvements, the expected lease term. Depreciation commences on the date that the assets are brought into use. Work-in-progress assets are not depreciated until they are brought into use and transferred to the appropriate category of property, plant and equipment.

Estimated useful lives are:

- Plant and equipment 2 to 8 years
- Fixtures and fittings 4 to 10 years
- Computer hardware 3 to 10 years
- Freehold buildings 40 years
- Leasehold improvements 15 to 20 years
- Right-of-use assets 15 to 20 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in administrative expenses in the Consolidated Income Statement.

(k) Intangible assets

Acquired intangible assets

Intangible assets that are acquired by the Group are stated at historical cost less accumulated amortisation and any impairment losses. Amortisation is charged to the Consolidated Income Statement on a straight-line basis over the estimated useful lives. The Group's intangible assets are computer software, for which the estimated useful lives are 3 to 10 years.

Internally generated intangible assets - research and development expenditure

Research costs are expensed in the Consolidated Income Statement as incurred.

Development expenditure incurred on an individual project is capitalised only if all of the following criteria are demonstrated:

- an asset is created that can be identified (such as software);
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

Following the initial recognition of development expenditure, the cost is amortised over the estimated useful life of the asset created. Amortisation commences on the date that the asset is brought into use. Work-in-progress assets are not amortised until they are brought into use and transferred to the appropriate category of intangible assets.

1. Accounting Policies (continued)

(l) Leases

The Group has entered into leases for office buildings.

Leases are recognised as a right-of-use asset and corresponding lease liability at the date on which the leased asset becomes available for use by the Group.

Right-of-use assets are included within property, plant and equipment in the Company and Consolidated Statements of Financial Position.

Right-of-use assets are measured at cost, which comprises:

- the amount of the initial lease liability;
- any lease payments made at or before the commencement date;
- any initial direct costs; and
- restoration costs.

Right-of-use assets are depreciated over the lease term on a straight-line basis.

Lease liabilities are initially calculated as the net present value of expected lease payments, less any lease incentives receivable. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the Group's incremental borrowing rate.

Following initial recognition, lease payments are allocated between the outstanding lease liability and interest expense. The interest expense is charged to the Consolidated Income Statement over the lease period through interest expense and similar charges so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

(m) Employee benefits

The Group accounts for pension costs on a contributions basis in line with the requirements of IAS 19 'Employee Benefits'. The Group made contributions in the year to a funded defined benefit scheme and a funded defined contribution scheme. Both of these schemes are operated by TSL.

IAS 19 requires that, where there is no policy or agreement for sharing the cost of a defined benefit scheme across the subsidiaries, the Sponsoring employer recognises the net defined benefit cost of a defined benefit scheme. The Sponsoring employer of the funded defined benefit scheme is TSL and the principal pension plan is the Tesco PLC (Tesco) pension scheme. TSL has recognised the appropriate net liability of the Tesco pension scheme in accordance with IAS 19.

(n) Share based payments

Employees of the Group receive part of their remuneration in the form of share based payment transactions, whereby employees render services in exchange for Tesco shares or rights over shares (equity-settled transactions) or in exchange for entitlements to cash based payments based on the value of the shares (cash-settled transactions).

The fair value of employee share option plans is calculated at the grant date using the Black-Scholes model. The resulting cost is recognised in the Consolidated Income Statement over the vesting period. The value of the charge is adjusted to reflect expected and actual levels of vesting.

The grant by Tesco of options over its equity instruments to the employees of the Group is treated as a capital contribution in equity. The social security contribution payable in connection with the grant of the share options is considered an integral part of the grant itself, and the charge is treated as a cash-settled transaction.

1. Accounting Policies (continued)

(o) Provisions for liabilities and charges and contingent liabilities

A provision is recognised where there is a present legal or constructive obligation as a result of a past event; it is more likely than not that an outflow of economic resources will be required to settle the obligation; and the amount can be reliably estimated.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation.

A contingent liability is a possible obligation which is dependent on the outcome of uncertain future events not wholly within the control of the Group, or a present obligation where an outflow of economic resources is not likely or the amount cannot be reliably measured.

Contingent liabilities are not recognised in the Company or Consolidated Statements of Financial Position but are disclosed in the notes to the Financial Statements unless the possibility of an outflow of economic resources is remote.

(p) Dividends paid

Dividends are recognised in equity in the period they are approved by the Group's Board.

(q) Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Group has determined the Board of Directors as its chief operating decision-maker.

(r) Sale and repurchase agreements

Investment securities sold subject to a commitment to repurchase them at a predetermined price are retained on the Company and Consolidated Statements of Financial Position when substantially all of the risk and rewards of ownership remain with the Group. The counterparty liability is included in deposits from banks. Conversely, securities purchased under agreements to resell (reverse repos), where the Group does not acquire substantially all of the risks and rewards of ownership, are recorded as loans and advances from banks.

(s) Encumbered assets

The Group's methodology used to identify encumbered assets is aligned to definitions used in calculating the Group's Pillar 3 encumbrance disclosures.

(t) Non-current assets of the disposal group and discontinued operations

Under IFRS 5 'Non-current assets held for sale and discontinued operations' the Group classifies non-current assets or liabilities (or disposal groups) as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable, with the asset available for immediate sale in its present condition.

Non-current assets (or disposal groups) classified as held for sale are measured under IFRS 5 at the lower of their carrying amount and fair value less costs to sell, with the exception of deferred tax balances and financial assets falling within the scope of IFRS 9. These balances are initially measured in line with their respective accounting policies and subsequently remeasured as part of the overall disposal group, in accordance with the requirements of IFRS 5.

Balances in respect of disposal groups held for sale are presented separately in the Company and Consolidated Statements of Financial Position for the current year, with no requirement to restate the prior year.

The net results of discontinued operations are presented separately in the Consolidated Income Statement where an entity or component of an entity of the Group has been disposed of or is classified as held for sale and:

(a) Represents a separate major line of business or geographical area of operations; or

(b) Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations.

1. Accounting Policies (continued)

A component of an entity of the Group comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the Group´s operations and cash flows. If an entity or a component of an entity of the Group is classified as a discontinued operation, prior years in the Consolidated Income Statement are restated to present these on a consistent basis with the current year presentation of discontinued operations.

(u) Alternative Performance Measures (APMs)

In the reporting of financial information, the Directors have adopted various APMs. These measures are not defined by IFRSs and therefore may not be directly comparable with other companies' APMs, including those in the Group's industry. APMs should be considered in addition to, and are not intended to be a substitute for, or superior to, IFRS measurements.

The Directors believe that these APMs assist in providing additional useful information on the underlying trends, performance and position of the Group. APMs are also used to enhance the comparability of information between reporting periods by adjusting for items which are not reflective of the Group's underlying results or trading performance and which affect IFRS measures, to aid users in understanding the Group's performance.

Details of the Group's APMs are set out at note 4 and in the glossary of terms on pages 175 to 180.

2. Critical Accounting Estimates and Judgements in Applying Accounting Policies

In the course of preparing the Financial Statements, no judgements have been made in the process of applying the Group's accounting policies, other than those using estimations (which are presented separately below), that have had a significant effect on the amounts recognised in the Financial Statements.

The reported results of the Group are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its Financial Statements. The Group's principal accounting policies are set out in note 1. UK company law and IFRSs require the Directors, in preparing the Group's Financial Statements, to select suitable accounting policies, apply them consistently and make judgements and estimates that are reasonable and prudent. Where accounting standards are not specific and Management has to choose a policy, IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', requires Management to adopt policies that will result in relevant and reliable information in the light of the requirements and guidance in IFRSs dealing with similar and related issues and the IASB Framework for the Preparation and Presentation of Financial Statements.

The judgements and estimates involved in the Group's accounting policies that are considered to be the most important to the portrayal of its financial condition are discussed below. The use of estimates, assumptions or models that differ from those adopted by the Group would affect its reported results.

Impairment of financial assets

The measurement of ECLs for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour, such as the likelihood of customers defaulting and the resulting losses. Further explanation of the inputs, assumptions and estimation techniques used at the reporting date in measuring ECLs, as well as the key sensitivities of ECLs to change in these elements, are set out at note 37.

Effective interest rate (EIR)

IFRS 9 requires the Group to measure the interest earned on its Credit Card portfolio by applying the EIR methodology. The main area of estimation uncertainty in measuring the EIR on the Group's Credit Card portfolio is the expected attrition of the balances drawn at the reporting date.

Management uses a pay rates assumption to determine the expected repayment profile of the balances drawn as at the reporting date to the expected remaining term (capped at a maximum of 5 years from origination).

An increase of the pay rates assumption by 10% will reduce the asset value by £4.2m and a corresponding reduction of the pay rates assumption will increase the asset value by £4.8m.

Provision for customer redress

The Group has a provision for potential customer redress in relation to payment protection insurance (PPI). For further details, including the key assumptions made in arriving at each element of this provision and a sensitivity analysis of key assumptions in the PPI model, refer to note 29.

3. Segmental Reporting

Following the redemption of the Group's remaining debt securities in issue during the year, the Group is no longer required to provide segmental information. Consequently, the information disclosed in this note relates only to the year ended 29 February 2020.

Following the measurement approach of IFRS 8, 'Operating segments', the Group's operating segments are reported in accordance with the internal reporting provided to the Board of Directors, which is responsible for allocating resources to the operating segments and assessing their performance.

The Group's two operating segments are as follows:

- Banking - incorporating Credit Cards, Personal Loans, Savings, Personal Current Accounts, ATMs and Travel Money; and
- Insurance - incorporating Motor, Home and Pet Insurance

There are no transactions between operating segments.

Segmental assets and liabilities comprise operating assets and liabilities, being the majority of the Consolidated Statement of Financial Position, but exclude unallocated reconciling items such as taxation.

Segmental results of continuing operations and a reconciliation of segmental results of continuing operations to the total results of continuing operations for the year ended 29 February 2020 are presented below.

Continuing operations Group 2020	**Banking**	**Insurance**	**Central Costs**	**Total Management reporting**	**Consolidation and other adjustments**	**Total Consolidated**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Interest and similar income	673.0	25.4	–	698.4	–	698.4
Interest expense and similar charges	(181.0)	–	–	(181.0)	–	(181.0)
Net interest income	**492.0**	**25.4**	–	**517.4**	–	**517.4**
Fees and commissions income	265.6	75.4	–	341.0	–	341.0
Fees and commissions expense	(31.3)	–	–	(31.3)	–	(31.3)
Net fees and commissions income	**234.3**	**75.4**	**–**	**309.7**	**–**	**309.7**
Net loss on financial instruments at FVPL	(4.0)	–	–	(4.0)	–	(4.0)
Net loss on investment securities	(0.2)	–	–	(0.2)	–	(0.2)
Net other income	**(4.2)**	–	–	**(4.2)**	–	**(4.2)**
Total income	**722.1**	**100.8**	**–**	**822.9**	**–**	**822.9**
Administrative expenses[1]	(165.3)	(24.4)	(208.7)	(398.4)	–	(398.4)
Depreciation and amortisation	–	–	(131.9)	(131.9)	–	(131.9)
Provision for customer redress	(45.0)	–	–	(45.0)	–	(45.0)
Operating expenses	**(210.3)**	**(24.4)**	**(340.6)**	**(575.3)**	–	**(575.3)**
Expected credit loss on financial assets	(175.9)	(2.7)	–	(178.6)	–	(178.6)
Operating profit/(loss)	**335.9**	**73.7**	**(340.6)**	**69.0**	–	**69.0**
Share of profit of joint venture	–	10.2	–	10.2	–	10.2
Profit/(loss) before tax from continuing operations	**335.9**	**83.9**	**(340.6)**	**79.2**	–	**79.2**
Total assets[2,3]	**11,410.5**	**163.6**	–	**11,574.1**	**69.4**	**11,643.5**
Total liabilities	**9,866.0**	**20.2**	–	**9,886.2**	**26.3**	**9,912.5**

[1] The Banking and Insurance segments include only directly attributable administrative costs such as marketing and operational costs. Central overhead costs, which reflect the overhead of operating both the Insurance and Banking businesses, are not allocated against an operating segment for internal reporting purposes.

[2] The investment of £86.0m in TU, a joint venture company accounted for using the equity method, is shown within the total assets of the Insurance segment.

[3] Assets and liabilities of the disposal group in respect of the Group's Mortgage business are included within the Banking segment.

4. Underlying (Loss)/Profit

The Group's financial performance is presented in the Consolidated Income Statement on page 40. A summary of the Group's financial performance in respect of its continuing operations on an underlying basis, excluding items which are not reflective of ongoing trading performance, is presented below.

	Statutory basis £m	Restructuring activity[1] £m	Customer redress[2] £m	Ogden rate changes[3] £m	Financial instruments[4] £m	Underlying basis £m
Continuing operations						
Year ended 28 February 2021						
Net interest income	453.7	–	–	–	–	453.7
Other income	173.5	–	–	–	2.6	176.1
Total income	**627.2**	**–**	**–**	**–**	**2.6**	**629.8**
Total operating expenses	(438.7)	–	–	–	–	(438.7)
Expected credit loss on financial assets	(359.5)	–	–	–	–	(359.5)
Operating loss	**(171.0)**	**–**	**–**	**–**	**2.6**	**(168.4)**
Share of profit of joint venture	16.2	–	–	–	–	16.2
Loss before tax	**(154.8)**	**–**	**–**	**–**	**2.6**	**(152.2)**

	Statutory basis £m	Restructuring activity[1] £m	Customer redress[2] £m	Ogden rate changes[3] £m	Financial instruments[4] £m	Underlying basis £m
Year ended 29 February 2020						
Net interest income	517.4	37.5	–	–	–	554.9
Other income	305.5	–	–	–	4.0	309.5
Total income	**822.9**	**37.5**	**–**	**–**	**4.0**	**864.4**
Total operating expenses	(575.3)	65.8	45.0	–	–	(464.5)
Expected credit loss on financial assets	(178.6)	–	–	–	–	(178.6)
Operating profit	**69.0**	**103.3**	**45.0**	**–**	**4.0**	**221.3**
Share of profit of joint venture	10.2	–	–	(3.7)	–	6.5
Profit before tax	**79.2**	**103.3**	**45.0**	**(3.7)**	**4.0**	**227.8**

[1] Comprising:

- in the prior year, interest expense of £37.5m in respect of the discontinued operations' cost of funding, presented within net interest income on page 40. Since this cost could not be directly attributed to liabilities of the Group entered into specifically to fund the Group's Mortgage business, as required by IFRS 5, it was not possible to present this cost within statutory profit for the year after tax from discontinued operations for the prior year. These costs were in respect of business restructuring and are considered part of the Mortgage business' results on a managed basis. There was no such charge in the current year; and
- in the prior year, a restructuring charge of £65.8m in respect of costs related to the Group's strategic review, presented within administrative expenses on page 40. These charges were in respect of business restructuring and are not considered part of the Group's underlying results. There was no such charge in the current year.

[2] Comprising:

- in the prior year, a payment protection insurance (PPI) provision charge of £45.0m presented within operating expenses on page 40. These costs relate to historic sales of PPI and are not reflective of the Group's underlying trading performance. There was no such charge in the current year.

[3] Comprising:

- in the prior year, a credit of £3.7m representing the Group's share of credits recognised by TU relating to the impact on TU's insurance reserves of a change in the Ogden tables, presented within share of profit of joint venture on page 40. The Ogden tables were last changed in March 2017, when the discount rate was changed from 2.5% to -0.75%, resulting in the Group recognising a charge of £22.8m for the year ended 28 February 2017 in respect of this rate change, which was excluded from underlying profit at that date. The credit recognised in the prior year reflects the change to the current discount rate of -0.25%. This rate change was implemented following Government consultation and is not reflective of the ongoing underlying performance of TU. There was no such credit in the current year.

[4] Comprising:

- Losses on financial instruments at FVPL of £2.6m (2020: £4.0m) presented within total income on page 40. Fair value movements on financial instruments reflect hedge ineffectiveness arising from hedge accounting and fair value movements on derivatives in economic hedges that do not meet the criteria for hedge accounting. Where these derivatives are held to maturity, fair value movements represent timing differences that will reverse over the life of the derivatives. Therefore, excluding these movements from underlying profit more accurately represents the underlying performance of the Group. Where derivatives are terminated prior to maturity, this may give rise to fair value movements that do not reverse.

5. Net Interest Income

	2021 £m	2020 £m
Continuing operations		
Interest and similar income		
On financial assets measured at amortised cost		
Loans and advances to customers	543.3	668.5
Cash and balances with central banks	1.5	9.5
Investment securities[1]	14.3	1.0
	559.1	**679.0**
On financial assets measured at fair value		
Investment securities[1]	–	12.2
Derivative financial instruments - FVPL	3.3	7.2
	3.3	**19.4**
Total interest and similar income	**562.4**	**698.4**
Interest expense and similar charges		
On financial liabilities measured at amortised cost		
Deposits from customers	(64.7)	(128.6)
Deposits from banks	(1.2)	(12.4)
Debt securities in issue	(11.1)	(23.4)
Lease liabilities	(2.3)	(2.5)
Subordinated liabilities and notes	(12.3)	(10.5)
	(91.6)	**(177.4)**
On financial liabilities measured at fair value		
Derivative financial liabilities - FVPL	(17.1)	(3.6)
	(17.1)	**(3.6)**
Total interest expense and similar charges	**(108.7)**	**(181.0)**
Net interest income	**453.7**	**517.4**

[1] On 1 March 2020 the Group's portfolio of debt investment securities measured at FVOCI was reclassified to amortised cost following a change in business model.

6. Net Fees and Commissions Income

	2021 £m	2020 £m
Continuing operations		
Fees and commissions income		
Banking revenue from contracts with customers	155.2	240.6
Insurance revenue from contracts with customers	52.4	75.4
Other revenue from contracts with customers	1.2	25.0
Total fees and commissions income	**208.8**	**341.0**
Fees and commissions expense		
Banking expense	(32.7)	(31.3)
Total fees and commissions expense	**(32.7)**	**(31.3)**
Net fees and commissions income	**176.1**	**309.7**

With the exception of other revenue from contracts with customers, all of the above fees and commissions relate to financial assets and financial liabilities measured at amortised cost. These figures exclude amounts incorporated in determining the EIR on such financial assets and financial liabilities.

7. Net Loss on Financial Instruments at FVPL

	2021 £m	2020 £m
Continuing operations		
Foreign exchange loss on financial assets	(0.2)	–
Net gain/(loss) arising on derivatives not designated as hedging instruments	0.3	(1.2)
Fair value hedge ineffectiveness (refer note 17)	(2.6)	(3.1)
Cash flow hedge ineffectiveness (refer note 17)	(0.1)	0.3
Net loss on financial instruments at FVPL	**(2.6)**	**(4.0)**

8. Net Loss on Investment Securities

	2021 £m	2020 £m
Continuing operations		
Net loss on disposal of investment securities at FVOCI	–	(0.2)
Net loss on investment securities	**–**	**(0.2)**

9. Administrative Expenses

	2021 £m	2020 £m
Continuing operations		
Staff costs		
Wages and salaries	114.9	103.8
Social security costs	10.8	9.7
Other pension costs	6.6	5.9
Share based payments	3.1	7.9
Other costs including temporary staff	41.3	44.1
Total staff costs	**176.7**	**171.4**
Non-staff costs		
Premises and equipment	75.2	72.5
Marketing	35.1	39.8
Auditor's remuneration (refer below)	0.8	0.9
Outsourcing and professional fees	63.6	66.9
Other administrative expenses	30.6	36.6
Restructuring costs[1]	–	10.3
Total non-staff costs	**205.3**	**227.0**
Total administrative expenses	**382.0**	**398.4**

[1] In the prior year, the Group recognised organisational restructuring charges within administrative expenses amounting to £10.3m related to a strategic review of the Group's operations. There was no such charge in the current year.

	2021 £'000	2020 £'000
Audit services		
Audit of the Company and Consolidated Financial Statements	698	719[2]
Audit of the Company's subsidiaries	55	49
Total audit services	**753**	**768**
Non-audit services		
Audit related assurance services	47	45
Other non-audit services not covered above	46	58
Total non-audit services	**93**	**103**
Total auditor's remuneration	**846**	**871**

The average monthly number of persons (including Executive Directors) employed by the Group split by employee function during the year, was:

	2021 Number	2020 Number
Continuing operations		
Head office and administration	1,487	1,361
Operations	2,215	2,226
Total average employees	**3,702**	**3,587**

[2] The audit fee for the year ended 29 February 2020 has been restated to present this inclusive of £70,000 of additional fees relating to the audit of the impact on the Group of the Covid-19 pandemic which were billed in the current year.

10. Expected Credit Loss on Financial Assets

	2021 £m	2020 £m
Continuing operations		
Expected credit loss on loans and advances to customers[1]	359.7	177.9
Expected credit loss on investment securities at amortised cost[2]	(0.2)	–
Expected credit loss on investment securities at FVOCI[2]	–	0.7
Total expected credit loss on financial assets	**359.5**	**178.6**

[1] Included within the expected credit loss on loans and advances to customers is a credit of £0.5m (2020: credit of £30.5m) received through the sale of non-performing debt to third parties.
[2] On 1 March 2020 the Group's portfolio of debt investment securities measured at FVOCI was reclassified to amortised cost following a change in business model.

11. Directors' Emoluments

The remuneration of the Directors paid by the Group during the year was as follows:

	2021 £m	2020 £m
Continuing operations		
Aggregate emoluments	2.6	4.1
Aggregate amounts receivable under long-term incentive schemes	2.1	2.9
Loss of office	-	0.5
Share based payments	-	0.5
Total Directors' emoluments	**4.7**	**8.0**

	2021 Number	2020 Number
Continuing operations		
Number of Directors to whom retirement benefits are accruing under defined benefit or defined contribution schemes	3	3
Number of Directors in respect of whose qualifying services shares were received or receivable under long-term incentive schemes	3	4

The total emoluments of the highest paid Director were £1.9m (2020: £2.1m). During the year the highest paid Director did not exercise any share options (2020: £nil).

At 28 February 2021 the accrued pension and lump sum under a defined benefit scheme for the highest paid Director was £nil (2020: £nil).

During the year to 28 February 2021 two Directors (2020: three Directors) left the Company.

12. Income Tax

Income tax (credit)/charge

	2021 £m	2020 £m
Continuing operations		
Current tax (credit)/charge for the year	(51.3)	46.3
Adjustments in respect of prior years	(1.7)	(4.6)
Total current tax (credit)/charge for the year	**(53.0)**	**41.7**
Deferred tax charge/(credit) for the year	6.2	(15.8)
Tax rate change	(5.5)	1.8
Adjustments in respect of prior years	1.2	4.7
Total deferred tax charge/(credit) for the year	**1.9**	**(9.3)**
Total income tax (credit)/charge	**(51.1)**	**32.4**

The standard rate of corporation tax in the UK was changed from 20% to 19% with effect from 1 April 2017. The March 2016 Budget Statement included an announcement that the standard rate of corporation tax in the UK would be further reduced to 17% from 1 April 2020. Subsequently, at the March 2020 Budget Statement, the Chancellor announced that this reduction to 17% would no longer take place, with the standard rate of corporation tax instead being maintained at 19%. The cancellation of the rate reduction resulted in the Group's deferred tax asset increasing by £5.5m during the year.

The Group's blended corporation tax rate is 19.0% (2020: 19.0%). In addition, a banking surcharge of 8.0% (2020: 8.0%) is applied to the Group's results.

In the current year, the tax credit assessed was higher than that calculated using the overall blended corporation tax rate for the Group. The tax charge assessed for the prior year was higher than the overall blended corporation tax rate for the Group. The differences are explained below:

	2021 £m	2020 £m
Continuing operations		
(Loss)/profit before taxation from continuing operations	(154.8)	79.2
(Loss)/profit on ordinary activities multiplied by blended rate in the UK of 19.0% (2020: 19.0%)	(29.4)	15.1
Factors affecting (credit)/charge for the year:		
Difference between local and group tax rate	(13.1)	3.5
Expenses not deductible for tax purposes[1]	0.7	13.7
Adjustment in respect of prior years - current tax	(1.7)	(4.6)
Adjustment in respect of prior years - deferred tax	1.2	4.7
Share based payments	(0.2)	0.3
Other tax adjustments	–	(0.2)
Tax rate change	(5.5)	1.8
Share of profit of joint venture	(3.1)	(1.9)
Total income tax (credit)/charge from continuing operations	**(51.1)**	**32.4**

[1] The majority of the adjustment in the prior year relates to the tax impact of the non-deductibility of an additional PPI provision of £45.0m recognised in the prior year. There was no such charge in the current year.

12. Income Tax (continued)

In the March 2021 Budget Statement, the Chancellor announced that the standard rate of corporation tax in the UK will increase from 19% to 25% from 1 April 2023.

However, at the reporting date, the 19% rate continued to be the substantively enacted rate and is therefore the standard rate of corporation tax applied in calculating the deferred taxation balances reflected in these Financial Statements.

It was also announced that the level of banking surcharge may be reduced from 1 April 2023, although the extent of any such reduction is not expected to be known until late 2021 or early 2022. Further information in respect of the impact of the Group of this increase in tax rate and potential reduction in the level of banking surcharge are set out at note 46.

Income tax relating to components of other comprehensive income

Continuing operations	Before tax amount £m	Tax credit/(charge) £m	Net of tax amount £m
2021			
Items that may be reclassified to the income statement			
Net losses on debt securities at FVOCI	(3.2)	0.8	(2.4)
Net losses on cash flow hedges	(0.5)	0.2	(0.3)
Net gains on currency interest rate swaps	0.1	–	0.1
Items that will not be reclassified to the income statement			
Net gains on equity securities designated at FVOCI	1.9	(0.6)	1.3
Total income tax relating to components of other comprehensive income	**(1.7)**	**0.4**	**(1.3)**

Continuing operations	Before tax amount £m	Tax charge £m	Net of tax amount £m
2020			
Items that may be reclassified to the income statement			
Net gains on debt securities at FVOCI[1]	2.9	(0.7)	2.2
Net gains on cash flow hedges	0.9	(0.2)	0.7
Net gains on cross currency interest rate swaps	0.2	–	0.2
Items that will not be reclassified to the income statement			
Net gains on equity securities designated at FVOCI	0.7	(0.2)	0.5
Total income tax relating to components of other comprehensive income	**4.7**	**(1.1)**	**3.6**

[1] On 1 March 2020 the Group's portfolio of debt investment securities measured at FVOCI was reclassified to amortised cost following a change in business model.

12. Income Tax (continued)

Deferred tax charged directly to the Statement of Changes in Equity

Continuing operations	Before tax amount £m	Tax charge £m	Net of tax amount £m
2021			
Net losses on share based payments reserve	(2.5)	(0.7)	(3.2)
	(2.5)	**(0.7)**	**(3.2)**

Continuing operations	Before tax amount	Tax charge	Net of tax amount
2020	**£m**	**£m**	**£m**
Net gains on share based payments reserve	1.4	(0.4)	1.0
	1.4	**(0.4)**	**1.0**

13. Distributions to Equity Holders

	2021 £m	2020 £m
Continuing operations		
Ordinary dividend paid	15.0	50.0
	15.0	**50.0**

On 29 January 2021, an interim dividend of £15.0m (£0.0123 per ordinary share) was paid. In the prior year, an interim dividend of £50.0m (£0.0410 per ordinary share) was paid on 24 February 2020.

14. Assets of the Disposal Group and Discontinued Operations

Assets of the disposal group

	2021	2020
Group and Company	**£m**	**£m**
Assets of the disposal group		
Secured Mortgage lending - gross	–	44.7
Less: allowance for impairment	–	–
Secured Mortgage lending - net	–	44.7
Other assets	–	0.4
Assets of the disposal group	**–**	**45.1**

During the prior year, secured Mortgage lending balances were reclassified from loans and advances to customers set out at note 16 to assets of the disposal group following the Group's decision to sell its Mortgage business. Cash in transit balances in relation to Mortgages were also reclassified from other assets to assets of the disposal group as these balances related to amounts to be applied to Mortgage accounts and therefore formed part of the Mortgage business being sold. The remaining secured Mortgage lending balances included in the above table at 29 February 2020 related to a small element of the Mortgage business, representing new advances to existing Mortgage customers, which continued to be recognised by the Group until the completion of the migration of all Mortgage accounts to the purchaser, which took place on 30 March 2020.

At 29 February 2020, the Group had contractual lending commitments of £17.3m in respect of the assets of the disposal group. There were no such contractual lending commitments at 28 February 2021.

14. Assets of the Disposal Group and Discontinued Operations (continued)

Discontinued operations - income statement

The table below shows the results of discontinued operations in relation to the Group's Mortgage business which are included in the Consolidated Financial Statements for the year.

	Statutory basis £m	Funding costs[1] £m	Managed basis £m
Year ended 28 February 2021			
Other income	(0.6)	–	(0.6)
Total income	(0.6)	–	(0.6)
Total operating expenses	0.4	–	0.4
Expected credit loss on financial assets	–	–	–
Loss before tax	(0.2)	–	(0.2)
Income tax credit	–	–	–
Loss after tax of discontinued operations	**(0.2)**	–	**(0.2)**
Gain on sale of discontinued operations after tax (see below)	0.4	–	0.4
Profit after tax for the year attributable to owners of the parent arising from discontinued operations	**0.2**	–	**0.2**

	Statutory basis £m	Funding costs[1] £m	Managed basis £m
Year ended 29 February 2020			
Net interest income	41.3	(37.5)	3.8
Net fees and commissions income	1.2	–	1.2
Other income	(6.6)	–	(6.6)
Total income	35.9	(37.5)	(1.6)
Total operating expenses	(17.0)	–	(17.0)
Expected credit loss on financial assets	(0.1)	–	(0.1)
Profit/(loss) before tax	18.8	(37.5)	(18.7)
Income tax (charge)/credit	(5.1)	10.1	5.0
Profit/(loss) after tax from discontinued operations	**13.7**	**(27.4)**	**(13.7)**
Gain on sale of discontinued operations after tax (see below)	43.0	–	43.0
Profit/(loss) after tax for the year attributable to owners of the parent arising from discontinued operations	**56.7**	**(27.4)**	**29.3**

[1] Comprising:

- in the prior year, interest expense of £37.5m in respect of the discontinued operations' cost of funding, presented within net interest income on page 40. Since this cost could not be directly attributed to liabilities of the Group entered into specifically to fund the Group's Mortgage business, as required by IFRS 5, it was not possible to present this cost within statutory profit for the year after tax from discontinued operations for the prior year. These costs were in respect of business restructuring and are considered part of the Mortgage business' results on a managed basis. There was no such charge in the current year.

14. Assets of the Disposal Group and Discontinued Operations (continued)

Discontinued operations - details of the sale of Mortgage business

	2021 £m	2020 £m
Total cash consideration received	53.8	3,694.6
Carrying amount of net assets sold	(53.2)	(3,635.7)
Gain on sale before income tax	**0.6**	**58.9**
Income tax charge on gain	(0.2)	(15.9)
Gain on sale after income tax	**0.4**	**43.0**
Comprising:		
Fair value gain following change in business model	–	16.7
Gain on disposal	0.4	26.3
Gain on sale after income tax	**0.4**	**43.0**

Discontinued operations - statement of cash flows

Group and Company Statement of Cash Flows	2021 £m	2020 £m
Net cash flows from operating activities	44.8	3,764.9
Net cash flows from investing activities	–	–
Net cash flows from financing activities	–	–
Net cash flows from discontinued operations	**44.8**	**3,764.9**

15. Cash and Balances with Central Banks

	Group		Company	
	2021 £m	2020 £m	2021 £m	2020 £m
Cash at bank	104.9	128.2	48.7	67.6
Balances held with the Bank of England (BoE) other than mandatory reserve deposits	673.0	1,234.1	673.0	1,234.1
Included in cash and cash equivalents	**777.9**	**1,362.3**	**721.7**	**1,301.7**
Mandatory reserves deposits held with the BoE	24.7	31.6	24.7	31.6
Total cash and balances with central banks	**802.6**	**1,393.9**	**746.4**	**1,333.3**

Mandatory reserve deposits held with the BoE of £24.7m (2020: £31.6m) are not included within cash and cash equivalents for the purposes of the cash flow statement as these do not have short-term maturities. These balances are not available in the Group's day-to-day operations and are non-interest bearing. Other balances are subject to variable interest rates based on the BoE base rate.

16. Loans and Advances to Customers

Group and Company	2021	2020
	£m	£m
Unsecured lending	7,020.1	8,930.0
Total secured and unsecured lending	**7,020.1**	**8,930.0**
Fair value hedge adjustment	6.7	9.7
Gross loans and advances to customers	**7,026.8**	**8,939.7**
Less: ECL allowance (refer to note 37)	**(624.6)**	**(488.4)**
Net loans and advances to customers	**6,402.2**	**8,451.3**
Current	3,093.3	4,280.5
Non-current	3,308.9	4,170.8

Contractual lending commitments and ECL provision

At 28 February 2021, the Group had contractual lending commitments of £12,668.0m (2020: £11,872.0m). An additional ECL provision of £28.3m was also recognised at 28 February 2021 (2020: £7.7m). This represents the excess of total ECLs for both drawn and undrawn balances over the gross carrying balances as above. Refer to note 29 for further details.

Fair value hedge adjustments

Fair value hedge adjustments amounting to £6.7m (2020: £9.7m) are in respect of fixed rate Loans. These adjustments are largely offset by derivatives, which are used to manage interest rate risk and are designated as fair value hedges within loans and advances to customers.

17. Derivative Financial Instruments

Strategy in using derivative financial instruments

The objective when using a derivative financial instrument is to ensure that the risk to reward profile of a transaction is optimised, allowing the Group to manage its exposure to interest rate and foreign exchange rate risk. The intention is to only use derivatives to create economically effective hedges. There are specific requirements stipulated under IFRS 9/IAS 39 which must be met for a derivative to qualify for hedge accounting. As a result, not all derivatives can be designated as being in an accounting hedge relationship, either because natural accounting offsets are expected or because obtaining hedge accounting would be especially onerous.

For those derivatives where hedge accounting is applied, gains and losses are offset by hedge adjustments in the Consolidated Income Statement. For those derivatives held for economic hedging purposes which cannot be designated as being in an accounting hedge relationship, the gains and losses are recognised in the Consolidated Income Statement. In the Company and Consolidated Statements of Financial Position there is no distinction between derivatives where hedge accounting is applied and derivatives which cannot be designated as being in an accounting hedge relationship.

The following table analyses derivatives held for risk management purposes by type of instrument and splits derivatives between those classified in hedge accounting relationships and those not in hedge accounting relationships.

Group[1]		**2021**			**2020**	
	Notional amount £m	**Assets £m**	**Liabilities £m**	Notional amount £m	Assets £m	Liabilities £m
Derivatives in hedge accounting relationships						
Derivatives designated as fair value hedges						
Interest rate swaps	3,227.1	5.8	(46.4)	3,004.3	4.2	(50.6)
Derivatives designated as cash flow hedges						
Forward foreign exchange contracts	10.0	–	(0.8)	9.6	–	–
Cross currency interest rate swaps	–	–	–	272.2	1.5	–
Total derivatives in hedge accounting relationships	**3,237.1**	**5.8**	**(47.2)**	**3,286.1**	**5.7**	**(50.6)**
Derivatives not in hedge accounting relationships						
Interest rate derivatives						
Interest rate swaps	114.2	0.2	(0.1)	48.1	–	(0.1)
Currency derivatives						
Forward foreign exchange contracts	4.3	0.1	(0.2)	–	–	–
Total derivatives not in hedge accounting relationships	**118.5**	**0.3**	**(0.3)**	**48.1**	**–**	**(0.1)**
Total	**3,355.6**	**6.1**	**(47.5)**	**3,334.2**	**5.7**	**(50.7)**

[1] On a Company basis, cross currency interest rate swaps with a notional amount of £272.2m and a carrying value of £1.5m at 29 February 2020 are excluded. There were no such cross currency interest rate swaps at 28 February 2021.

17. Derivative Financial Instruments (continued)

Derivatives, whether designated in hedge accounting relationships or not, are regarded as current where they are expected to mature within one year. All other derivatives are regarded as non-current.

Group[1]	2021		2020	
	Assets	Liabilities	Assets	Liabilities
	£m	£m	£m	£m
Current	0.2	(4.0)	4.2	(0.1)
Non-current	5.9	(43.5)	1.5	(50.6)

[1] On a Company basis, cross currency interest rate swaps are excluded. The carrying value of these assets of £1.5m was current at 29 February 2020. There were no such cross currency interest rate swaps at 28 February 2021.

Hedge accounting

The following disclosures relate to derivatives in hedge accounting relationships only. The Group applies hedge accounting in the following hedging strategies:

- **Fair value hedges of interest rate risk**

The Group's risk management objective of creating economically effective hedges is achieved by the use of interest rate contracts to swap fixed rate exposures back to a benchmark floating rate where no existing offset is available. This includes the hedging of fixed rate investment securities and issuances of fixed rate debt, which protects the Group against the fair value volatility of these financial assets and financial liabilities due to movements in interest rates. Each swap is defined as hedging one or more fixed rate assets or liabilities. The Group applies IFRS 9 hedge accounting in respect of these hedging instruments.

Sources of hedge ineffectiveness relate to differences in timing and repricing between execution of the hedging instrument and hedged item.

- **Portfolio fair value hedges of interest rate risk**

The Group's risk management objective of creating economically effective hedges is achieved by the use of interest rate contracts to swap fixed rate exposures back to a benchmark floating rate where no existing offset is available. This includes the hedging of portfolios of fixed rate Loans and Savings products, which protects the Group against the fair value volatility of these financial assets and financial liabilities due to movements in interest rates. The Group applies IAS 39 portfolio hedge accounting in respect of these hedging instruments.

Sources of hedge ineffectiveness include, but are not limited to, differences in timing and repricing between execution of the hedging instrument and hedged item, differences between actual and expected prepayment rates of the underlying hedged item and repricing differences between the portfolio of hedged items and the associated hedging instruments.

- **Cash flow hedges of debt securities issued**

The Group held inflation and interest rate swaps as cash flow hedges to mitigate the variability in cash flows associated with an inflation-linked debt security issued by the Group. The cash flows occurred over the term to maturity in December 2019. The Group applied IFRS 9 hedge accounting in respect of these hedging instruments.

Sources of hedge ineffectiveness primarily related to differences in timing and repricing between execution of the hedging instrument and hedged item.

The Group also held cross currency interest rate swaps as cash flow hedges to mitigate the variability in cash flows associated with the foreign currency debt securities issued. The cash flows occurred over the term to maturity in November 2020. The Group applied IFRS 9 hedge accounting in respect of these hedging instruments.

Sources of hedge ineffectiveness primarily related to differences in timing and repricing between execution of the hedging instrument and hedged item.

17. Derivative Financial Instruments (continued)

- **Cash flow hedges of expected foreign currency payments**

The Group holds forward foreign currency contracts as cash flow hedges to mitigate the variability in cash flows associated with expected (and highly probable) foreign currency payments. The payments, associated cash flows and the forward contracts are expected to occur and mature over the following 15 months. The Group applies IFRS 9 hedge accounting in respect of these hedging instruments.

Sources of hedge ineffectiveness relate to differences between expected and actual cash flows.

Uncertainty arising from IBOR reform

During the year to 28 February 2021 the Group transitioned the majority of its exposures from the London Interbank Offered Rate (LIBOR) to the Sterling Overnight Index Average (SONIA). At 28 February 2021, the Group had a remaining LIBOR interest rate exposure of £21.1m relating to its investment in subordinated notes issued by TU, which the Group expects to transition to SONIA by 31 December 2021.

At 29 February 2020, the Group had remaining hedging exposures to LIBOR impacted by the reform of £519.0m designated in fair value hedge accounting relationships and £272.2m designated in a cash flow hedge relationship.

None of the remaining LIBOR interest rate exposure at 28 February 2021 is in a hedge relationship.

Maturity of Derivatives in Hedge Accounting Relationships

The following tables set out the maturity profile and average interest rate of the hedging instruments used in the Group's hedging strategies:

Group and Company			**Maturity**			
2021	**Up to one month £m**	**One to three months £m**	**Three months to one year £m**	**One year to five years £m**	**More than five years £m**	**Total**
Fair value hedges						
Interest rate						
Interest rate swaps						
- Notional amount	–	83.0	1,302.0	1,690.5	151.6	3,227.1
- Average interest rate	–	1.01%	0.28%	1.22%	1.67%	–
Cash flow hedges						
Foreign currency						
Forward foreign exchange contracts						
- Notional amount	0.6	2.2	7.2	–	–	10.0
- Average exchange rate	1.29	1.25	1.30	–	–	–

17. Derivative Financial Instruments (continued)

Group[1]			Maturity			
2020	**Up to one month £m**	**One to three months £m**	**Three months to one year £m**	**One year to five years £m**	**More than five years £m**	**Total**
Fair value hedges						
Interest rate						
Interest rate swaps						
- Notional amount	10.0	292.6	650.0	1,845.0	206.7	3,004.3
- Average interest rate	0.63%	0.71%	1.92%	0.75%	3.30%	–
Cash flow hedges						
Foreign currency						
Forward foreign exchange contracts						
- Notional amount	–	1.4	7.3	0.9	–	9.6
- Average exchange rate	–	1.28	1.29	1.29	–	–
Interest rate/Foreign currency						
Cross currency interest rate swaps (GBP:USD)						
- Notional amount (£m)	–	–	–	272.2	–	272.2
- Average exchange rate	–	–	–	1.29	–	–
- Average interest rate: pay leg	–	–	–	LIBOR + 0.84%	–	–
- Average interest rate: receive leg	–	–	–	USD LIBOR + 0.7%	–	–

[1] On a Company basis, cross currency interest rate swaps with a notional amount of £272.2m are excluded.

17. Derivative Financial Instruments (continued)

The following tables set out details of the hedging instruments used in the Group's hedging strategies:

Group and Company		**Carrying amount**		
2021	**Notional**	**Assets**	**Liabilities**	**Changes in fair value used for calculating hedge ineffectiveness**
	£m	**£m**	**£m**	**£m**
Fair value hedges				
Interest rate				
Interest rate swaps	3,227.1	5.8	(46.4)	7.2
Cash flow hedges				
Foreign currency				
Forward foreign exchange contracts	10.0	–	(0.8)	(0.8)
Total	**3,237.1**	**5.8**	**(47.2)**	**6.4**

Group[1]		**Carrying amount**		
2020	**Notional**	**Assets**	**Liabilities**	**Changes in fair value used for calculating hedge ineffectiveness**
	£m	**£m**	**£m**	**£m**
Fair value hedges				
Interest rate				
Interest rate swaps	3,004.3	4.2	(50.6)	(47.2)
Cash flow hedges				
Foreign currency				
Forward foreign exchange contracts	9.6	–	–	0.2
Interest rate/foreign currency				
Cross currency interest rate swaps (GBP:USD)	272.2	1.5	–	10.6
Total	**3,286.1**	**5.7**	**(50.6)**	**(36.4)**

[1] On a Company basis, cross currency interest rate swaps are excluded. Notional swap values are £3,013.9m, the carrying amount of assets is £4.2m and changes in fair value used for calculating hedge ineffectiveness amount to £(47.0m).

All of the above amounts are included within the Statement of Financial Position line item Derivative financial instruments.

17. Derivative Financial Instruments (continued)

The following tables set out details of the hedged exposures covered by the Group's hedging strategies:

Group and Company	**Carrying amount**		**Accumulated amounts of fair value adjustments on the hedged item**		**Changes in value for calculating ineffectiveness**
2021	**Assets**	**Liabilities**	**Assets**	**Liabilities**	
	£m	**£m**	**£m**	**£m**	**£m**
Fair value hedges					
Interest rate					
- Fixed rate Loans[1]	3,652.9	–	6.7	–	(3.0)
- Fixed rate investment securities[2]	500.4	–	10.4	–	8.1
- Fixed rate Savings[3]	–	(1,865.7)	–	(0.4)	0.3
- Fixed rate retail bond[4]	–	–	–	–	2.0
- Fixed rate subordinated liabilities[5]	–	(251.6)	–	(2.8)	(0.6)
Total fair value hedges	**4,153.3**	**(2,117.3)**	**17.1**	**(3.2)**	**6.8**

Group and Company	Carrying amount		Accumulated amounts of fair value adjustments on the hedged item		Changes in value for calculating ineffectiveness
2020	Assets	Liabilities	Assets	Liabilities	
	£m	£m	£m	£m	£m
Fair value hedges					
Interest rate					
- Fixed rate Loans[1]	4,416.4	–	9.7	–	12.4
- Fixed rate investment securities[2]	649.5	–	2.3	–	7.4
- Fixed rate Savings[3]	–	(3,003.1)	–	(0.7)	(0.8)
- Fixed rate retail bond[4]	–	(201.8)	–	(2.0)	1.3
- Fixed rate subordinated liabilities[5]	–	(250.6)	–	(2.1)	(2.1)
Total fair value hedges	5,065.9	(3,455.5)	12.0	(4.8)	18.2

The accumulated amount of fair value hedge adjustments remaining in the Statement of Financial Position for hedged items that have ceased to be adjusted for hedging gains and losses is an asset of £2.4m (2020: £5.5m asset).

[1] Included within Statement of Financial Position line item Loans and advances to customers.
[2] Included within Statement of Financial Position line item Investment securities.
[3] Included within Statement of Financial Position line item Deposits from customers.
[4] Included within Statement of Financial Position line item Debt securities in issue.
[5] Included within Statement of Financial Position line item Subordinated liabilities.

17. Derivative Financial Instruments (continued)

Group and Company

2021	Change in value of hedged item used for calculating hedge ineffectiveness £m	Cash flow hedge reserve: Continuing hedges £m
Cash flow hedges		
Foreign currency		
- Accounts payable[1]	(0.8)	(0.8)
Interest rate/foreign currency		
- Securitisation bond[2]	(1.5)	–
Total cash flow hedges	**(2.3)**	**(0.8)**

Group[3]

2020	Change in value of hedged item used for calculating hedge ineffectiveness £m	Cash flow hedge reserve: Continuing hedges £m
Cash flow hedges		
Interest rate		
- RPI bond[2]	(12.7)	–
Foreign currency		
- Accounts payable[1]	0.2	–
Interest rate/foreign currency		
- Securitisation bond[2]	10.2	(0.3)
Total cash flow hedges	**(2.3)**	**(0.3)**

There are no amounts remaining in the cash flow hedge reserve for which hedge accounting is no longer applied.

[1] Included within Statement of Financial Position line item Other liabilities.
[2] Included within Statement of Financial Position line item Debt securities in issue.
[3] The securitisation bond is excluded on a Company basis. Amounts used for calculating hedge ineffectiveness are £(12.5m) and the cash flow hedge reserve is £nil.

17. Derivative Financial Instruments (continued)

The following tables set out information regarding the effectiveness of the hedging relationships designated by the Group, as well as the impacts on profit or loss and other comprehensive income:

Group **2021**	**Hedge ineffectiveness recognised in profit or loss** **£m**
Fair value hedges	
Interest rate	
- Interest rate swaps	(2.6)
Total fair values hedges	**(2.6)**

Group **2020**	**Hedge ineffectiveness recognised in profit or loss** **£m**
Fair value hedges	
Interest rate	
- Interest rate swaps	(3.1)
Total fair values hedges	**(3.1)**

Hedge ineffectiveness is included in the Income Statement line Net gain/(loss) on financial instruments at FVPL.

Group[1] **2021**	**Cumulative hedging gains and (losses) recognised in other comprehensive income** **£m**	**Hedge ineffectiveness recognised in profit or loss** **£m**	**Cumulative amount reclassified from cash flow hedge reserve to profit or loss** **£m**
Cash flow hedges			
Interest rate/foreign currency			
- Forward foreign exchange contracts	(0.8)	–	–
- Cross currency interest rate swaps (GBP:USD)	–	(0.1)	–
Total cash flow hedges	**(0.8)**	**(0.1)**	**–**

[1] On a Company basis, cross currency interest rate swaps are excluded. Hedging gains and (losses) recognised in other comprehensive income are £(0.8)m, hedge ineffectiveness recognised in profit or loss is £nil and amounts reclassified to profit or loss are £nil.

17. Derivative Financial Instruments (continued)

Group[1] 2020	Cumulative hedging gains and (losses) recognised in other comprehensive income £m	Hedge ineffectiveness recognised in profit or loss £m	Cumulative amount reclassified from cash flow hedge reserve to profit or loss £m
Cash flow hedges			
Interest rate/foreign currency			
- Cross currency interest rate swaps (GBP:USD)	(0.5)	0.3	–
Total cash flow hedges	**(0.5)**	**0.3**	–

[1] On a Company basis, cross currency interest rate swaps are excluded. Hedging gains recognised in other comprehensive income are £nil, hedge ineffectiveness recognised in profit or loss is £nil and amounts reclassified to profit or loss are £nil.

Hedge ineffectiveness is included in the income statement line Net gain/(loss) on financial instruments at FVPL.

The following table sets out further details of the cumulative cash flow hedge reserve:

Group	2021 £m	2020 £m
Hedging gains and losses recognised in other comprehensive income	(0.8)	(10.3)
Amount reclassified from cash flow hedge reserve to profit or loss	–	10.0
Tax	0.2	–
Cash flow hedge reserve	**(0.6)**	**(0.3)**

Company	2021 £m	2020 £m
Hedging gains and losses recognised in other comprehensive income	(0.8)	–
Tax	0.2	–
Cash flow hedge reserve	**(0.6)**	**–**

17. Derivative Financial Instruments (continued)

The following table presents a reconciliation by risk category of the cash flow hedge reserve and an analysis of other comprehensive income in relation to hedge accounting:

	Cash flow hedge reserve	
	2021	2020
Group	**£m**	£m
Balance at beginning of year	**(0.3)**	**(1.0)**
Interest rate swaps		
- Effective portion of changes in fair value	–	(12.5)
- Amount reclassified to profit or loss in the year	–	12.9
- Tax	–	(0.2)
Cashflow hedge - foreign exchange risk		
- Effective portion of changes in fair value	(0.8)	0.3
Cross currency interest rate swaps		
- Effective portion of changes in fair value	(1.4)	10.2
- Amount reclassified to profit or loss in the year	1.9	(10.0)
Balance at end of year	**(0.6)**	**(0.3)**

	Cash flow hedge reserve	
	2021	2020
Company	**£m**	
Balance at beginning of year	**–**	**(0.5)**
Interest rate swaps		
- Effective portion of changes in fair value	–	(12.5)
- Amount reclassified to profit or loss in the year	–	12.9
- Tax	0.2	(0.2)
Cashflow hedge - foreign exchange risk		
- Effective portion of changes in fair value	(0.8)	0.3
Balance at end of year	**(0.6)**	**–**

18. Investment Securities

Group and Company	2021	2020
	£m	£m
Investment securities measured at FVOCI - debt[1]	–	1,057.4
Investment securities designated at FVOCI - equity	5.1	3.2
Investment securities measured at amortised cost	948.4	21.0
Total investment securities	**953.5**	**1,081.6**

Debt investment securities measured at FVOCI[1]

Group and Company	2021	2020
	£m	£m
Government backed investment securities	–	315.9
Gilts	–	40.7
Supranational investment securities	–	393.9
Other investment securities	–	306.9
Total debt securities measured at FVOCI	**–**	**1,057.4**

On 1 March 2020, the Group's portfolio of debt investment securities measured at FVOCI was reclassified to amortised cost following a change in business model. A £3.2m cumulative loss relating to these assets, previously recognised in other comprehensive income, was adjusted against the carrying value of the assets. A fair value gain of £4.9m would have been recognised in other comprehensive income in the current year had the financial assets not been reclassified.

Included in investment securities at 29 February 2020 were fixed-interest investment securities totalling £651.8m, and variable-interest investment securities amounting to £405.6m.

Equity investment securities designated at FVOCI

The Group has elected to designate equity instruments held in VISA Inc. at FVOCI as permitted by IFRS 9.

During the year, a proportion of these shares converted to ordinary shares, resulting in an unrealised gain of £1.7m which was recognised in the fair value reserve. The remaining stock may be convertible into Class A Common Stock of VISA Inc. at certain future dates, the earliest point at which is June 2021. Conversion is contingent upon future events, principally related to the outcome of interchange litigation against VISA Europe Limited. As such, the valuation of £5.1m (2020: £3.2m) reflects both an illiquidity discount and the risk of a reduction in the conversion rate to VISA Inc. common stock. The reduction in the conversion rate is the most significant unobservable input to the valuation.

[1] On 1 March 2020 the Group's portfolio of debt investment securities measured at FVOCI was reclassified to amortised cost following a change in business model.

18. Investment Securities (continued)

Investment securities measured at amortised cost

Group and Company	2021 £m	2020 £m
Government backed investment securities	126.9	–
Gilts	39.2	–
Supranational investment securities	438.4	–
Other investment securities	323.6	–
Investment in subordinated debt issued by TU	21.1	21.1
Gross investment securities measured at amortised cost	**949.2**	**21.1**
Less: allowance for ECLs (refer note 37)	(0.8)	(0.1)
Net investment securities measured at amortised cost	**948.4**	**21.0**

On 1 March 2020, the Group's portfolio of debt investment securities measured at FVOCI was reclassified to amortised cost following a change in business model.

Included in investment securities at 28 February 2021 were fixed-interest investment securities totalling £502.5m, and variable-interest investment securities amounting to £424.8m.

The investment in subordinated notes issued by TU relates to subordinated notes with a gross carrying value of £21.1m (2020: £21.1m). Interest receivable on these notes is based on a rate of three month LIBOR plus a spread ranging from 350-450 basis points (2020: LIBOR plus a spread ranging from 350-450 basis points).

19. Prepayments and Accrued Income

Group and Company	2021 £m	2020 £m
Prepayments	14.0	11.1
Accrued income	27.6	44.5
Total prepayments and accrued income	**41.6**	**55.6**

All amounts are classified as current at the year end.

20. Other Assets

	Group		Company	
	2021	2020	**2021**	2020
	£m	£m	**£m**	£m
Amount due from insurance commissions receivable	13.2	13.8	13.2	13.8
Contract asset - insurance renewal income	30.4	37.6	30.4	37.6
Accounts receivable and sundry debtors	166.9	191.4	165.6	191.4
Amounts due from Tesco Group subsidiaries	0.7	0.5	0.7	0.5
Amounts due from Tesco Personal Finance Group plc (TPFG) and its subsidiaries	–	–	57.2	47.5
Total other assets	**211.2**	**243.3**	**267.1**	**290.8**

All amounts are classified as current at the year end, with the exception of £22.4m (2020: £32.3m) of the contract asset, which is expected to be received after more than one year.

Contract asset - insurance renewal income

Of the prior year contract asset balance, £14.6m has been reclassified in the year as commissions receivable (2020: £10.4m has been reclassified in the prior year relating to the contract asset balance at 28 February 2019) as insurance policies have been renewed and commission due to the Group has become payable. The remainder of the movement in the balance relates to accelerated income of £7.4m (2020: £19.9m) in respect of certain insurance renewal commission income where the Group has satisfied all of its performance obligations in relation to the policies sold and it is considered highly probable that a significant reversal in the amount of revenue recognised will not occur in future periods.

21. Investment in Group Undertakings

The following companies are accounted for as subsidiaries of the Group. These are securitisation structured entities established in connection with the Group's Credit Card securitisation transactions. Although none of the equity of the securitisation structured entities is owned by the Company, the nature of these entities means that the Group has the rights to variable returns from its involvement with these securitisation structured entities and has the ability to affect those returns through its power over them. As such they are effectively controlled by the Group. The Company does not hold any investments in Group undertakings.

Name of company	Nature of business	Place of incorporation	Registered address
Delamare Cards Holdco Limited	Securitisation entity	UK	6th Floor, 125 London Wall, London, England, EC2Y 5AS
Delamare Cards MTN Issuer plc	Securitisation entity	UK	6th Floor, 125 London Wall, London, England, EC2Y 5AS
Delamare Cards Receivables Trustee Limited	Securitisation entity	UK	6th Floor, 125 London Wall, London, England, EC2Y 5AS
Delamare Cards Funding 1 Limited	Securitisation entity	UK	6th Floor, 125 London Wall, London, England, EC2Y 5AS
Delamare Cards Funding 2 Limited	Securitisation entity	UK	6th Floor, 125 London Wall, London, England, EC2Y 5AS

All of the above companies have a financial year end of 31 December. The management accounts of these entities are used to consolidate the results to 28 February 2021 within these Consolidated Financial Statements.

22. Investment in Joint Venture

The following table shows the aggregate movement in the Group's investment in its joint venture in the year:

Group	2021	2020
	£m	£m
At beginning of year	86.0	86.4
Dividends received	(7.5)	–
Capital distribution received	–	(15.6)
Share of profit of joint venture	16.2	10.2
Share of other comprehensive (expense)/income of joint venture	(1.9)	5.0
At end of year	**92.8**	**86.0**

Details of the Group's joint venture

				Ownership interest	
Name of company	**Registered address**	**Nature of business**	**Place of Incorporation**	**2021**	**2020**
Tesco Underwriting Limited	Ageas House, Hampshire Corporate Park, Templars Way, Eastleigh, Hampshire, SO53 3YA	Insurance	England	49.9% of Ordinary Share Capital	49.9% of Ordinary Share Capital

TU is an authorised insurance company which provides the insurance underwriting service for a number of the Group's general insurance products. TU is a private company and there is no quoted market price available for its shares.

The Group uses the equity method of accounting for its investment in TU, which has a financial year end of 31 December. The accounting year end date for TU differs from that of the Group as it is in line with the other joint venture partner. The management accounts of TU are used to consolidate the results to 28 February 2021 within these Consolidated Financial Statements.

TU has taken advantage of the optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4 'Insurance contracts' (the 'deferral approach'). This will remove the impact of potential temporary volatility in reported results for TU until the date of adoption of the new insurance standard IFRS 17 'Insurance contracts' on 1 January 2023.

The Group has similarly elected to take a temporary exemption available from the requirements of IAS 28 'Investments in associates and joint ventures' regarding the use of uniform accounting policies in equity accounting for a joint venture. This exemption allows the Group to equity account for the results of TU without any adjustments to reflect the impact of IFRS 9 within these Consolidated Financial Statements. The additional disclosures required as a result of taking this temporary exemption are included within the following sections.

Following completion of the Group's acquisition of TU, which is expected to take place in May 2021, following regulatory approval received in March 2021, this exemption will no longer be available to the Group and IFRS 9 will be applied to TU's in-scope balances in the Group's consolidated results.

22. Investment in Joint Venture (continued)

Summarised financial information for the joint venture

This information reflects the amounts presented in the management accounts of the joint venture (and not the Group's share of those amounts):

	2021 £m	2020 £m
Non-current assets	771.4	799.3
Current assets	219.7	152.7
Current liabilities	(674.0)	(693.1)
Non-current liabilities	(136.9)	(92.3)
Net assets	**180.2**	**166.6**
Cash and cash equivalents	73.9	49.4
Current financial liabilities (excluding trade and other payables and provisions)	(18.5)	(17.8)
Non-current financial liabilities (excluding trade and other payables and provisions)	(136.9)	(92.3)

	2021 £m	2020 £m
Income Statement		
Revenue	187.4	253.6
Expenses including claims costs	(155.0)	(233.1)
Profit for the year	**32.4**	**20.5**
Other comprehensive (expense)/income	(3.8)	10.1
Total comprehensive income	**28.6**	**30.6**
The above profit includes the following:		
Depreciation and amortisation	(1.7)	(2.1)
Interest income	12.2	13.1
Interest expense	(1.8)	(2.0)
Income tax charge	(6.9)	(6.9)

22. Investment in Joint Venture (continued)

Reconciliation of the summarised financial position

A reconciliation of the summarised financial information presented to the carrying amount of the investment in joint venture is as follows:

Group	2021 £m	2020 £m
Net assets of the joint venture	180.2	166.6
Group share at 49.9%	90.0	83.2
Capitalised legal costs included in investment carrying value	2.8	2.8
Carrying value of investment in joint venture at end of year	**92.8**	**86.0**

Fair value disclosures

The following table provides information on the fair value of TU's financial assets at 28 February 2021:

2021	Fair value £m	Change in fair value during year £m
Financial assets that give rise to solely payments of principal and interest	677.7	4.0
Other financial assets	18.4	(1.1)
	696.1	**2.9**

2020	Fair value £m	Change in fair value during year £m
Financial assets that give rise to solely payments of principal and interest	674.2	(67.2)
Other financial assets	19.0	0.8
	693.2	(66.4)

Credit risk disclosures

The following table provides information regarding the credit risk exposures of TU at 28 February 2021 by classifying financial assets according to the credit ratings of counterparties:

2021	AAA £m	AA £m	A £m	BBB £m	Other £m	Total £m
Investments	81.1	129.5	270.3	122.9	18.4	**622.2**
Cash and cash equivalents	25.4	48.5	–	–	–	**73.9**
Insurance and other receivables	1.5	1.1	3.8	2.4	13.8	**22.6**
	108.0	**179.1**	**274.1**	**125.3**	**32.2**	**718.7**

2020	AAA £m	AA £m	A £m	BBB £m	Other £m	Total £m
Investments	112.0	131.1	257.8	124.0	19.0	**643.9**
Cash and cash equivalents	25.3	24.0	–	–	–	**49.3**
Insurance and other receivables	1.5	1.2	3.4	3.1	10.8	**20.0**
	138.8	**156.3**	**261.2**	**127.1**	**29.8**	**713.2**

Other information

The Group has no contingent liabilities or commitments in respect of the joint venture. The investment in the joint venture is classified as non-current.

22. Investment in Joint Venture (continued)

Company

The Company carries the investment in the joint venture at cost. The following table presents the aggregate movement in the Company's investment in the joint venture in the year:

Company	**2021**	2020
	£m	£m
At beginning of year	60.6	76.2
Capital distribution received	–	(15.6)
At end of year	**60.6**	**60.6**

23. Deferred Income Tax Asset/(Liability)

The net deferred income tax asset/(liability) can be analysed as follows:

2021 **Group and Company**	**Accelerated capital allowances £m**	**Financial instruments**	**Share based payments**	**Other £m**	**Total £m**
At beginning of year	23.0	43.1	3.2	0.1	69.4
Credited/(charged) to the Consolidated Income Statement in the current year	0.2	(6.0)	(0.4)	–	(6.2)
(Charged)/credited to the Consolidated Income Statement for prior years	(1.3)	–	–	0.1	(1.2)
Credited/(charged) to equity	–	0.5	(0.7)	–	(0.2)
Change in tax rate	1.8	3.5	0.2	–	5.5
At end of year	**23.7**	**41.1**	**2.3**	**0.2**	**67.3**

Deferred tax asset to be recovered within one year	57.6
Deferred tax asset to be recovered after more than one year	11.1
Total deferred income tax asset	**68.7**
Deferred tax liability to be recovered within one year	(0.5)
Deferred tax liability to be recovered after more than one year	(0.9)
Total deferred income tax liability	**(1.4)**
Deferred tax assets (net)	**67.3**

2020 **Group and Company**	**Accelerated capital allowances £m**	**Financial instruments**	**Share based payments**	**Other £m**	**Total £m**
At beginning of year	3.4	50.6	3.3	2.0	59.3
Credited/(charged) to the Consolidated Income Statement in the current year	21.5	(5.9)	0.3	(0.1)	15.8
Charged to the Consolidated Income Statement for prior years	(2.5)	(0.4)	–	(1.8)	(4.7)
Charged to equity	–	(1.0)	(0.4)	–	(1.4)
Change in tax rate	(1.6)	(0.2)	–	–	(1.8)
Discontinued operations	2.2	–	–	–	2.2
At end of year	**23.0**	**43.1**	**3.2**	**0.1**	**69.4**

Deferred tax asset to be recovered within one year	60.8
Deferred tax asset to be recovered after more than one year	10.2
Total deferred income tax asset	**71.0**
Deferred tax liability to be recovered within one year	(1.6)
Total deferred income tax liability	**(1.6)**
Deferred tax assets (net)	**69.4**

24. Intangible Assets

Group and Company	Work-in-Progress	Computer Software	Total
	£m	£m	£m
Cost			
At 1 March 2020	27.8	722.4	750.2
Additions	33.5	6.8	40.3
Transfers	(16.3)	16.1	(0.2)
Disposals	(0.6)	(27.7)	(28.3)
At 28 February 2021	**44.4**	**717.6**	**762.0**
Accumulated amortisation			
At 1 March 2020	–	(612.0)	(612.0)
Charge for the year	–	(45.8)	(45.8)
Disposals	–	26.7	26.7
At 28 February 2021	**–**	**(631.1)**	**(631.1)**
Net carrying value			
At 28 February 2021	**44.4**	**86.5**	**130.9**
Cost			
At 1 March 2019	24.6	685.4	710.0
Additions	41.0	2.9	43.9
Transfers	(37.8)	37.8	–
Disposals	–	(3.7)	(3.7)
At 29 February 2020	**27.8**	**722.4**	**750.2**
Accumulated amortisation			
At 1 March 2019	–	(485.8)	(485.8)
Charge for the year	–	(129.9)	(129.9)
Disposals	–	3.7	3.7
At 29 February 2020	**–**	**(612.0)**	**(612.0)**
Net carrying value			
At 29 February 2020	**27.8**	**110.4**	**138.2**

Work-in-progress relates primarily to the internal development of IT software assets. Intangible asset balances are non-current.

24. Intangible Assets (continued)

In the prior year, the Group reassessed the useful life of certain of its intangible fixed assets, reducing the expected life to end by 29 February 2020. This reduction in useful life reflected the impact of the sale of the majority of the Group's Mortgage business in September 2019 and closure of the Group's Personal Current Account offering to new customers in January 2020. The impact of this change was to increase the amortisation charge by £55.5m to fully amortise these intangible fixed assets by 29 February 2020.

The amortisation and impairment charge is analysed as follows:

	2021	2020
	£m	£m
Continuing operations	45.8	120.9
Discontinued operations	–	9.0
Total amortisation charge	**45.8**	**129.9**

25. Property, Plant and Equipment

Group and Company	Work-in-Progress £m	Plant and Equipment £m	Fixtures and Fittings £m	Computer Hardware £m	Freehold Buildings £m	Leasehold Improvements £m	Right of Use Assets £m	Total £m
Cost								
At 1 March 2020	9.1	3.0	19.4	124.6	32.4	20.2	29.4	238.1
Additions	12.3	–	1.1	1.5	–	–	–	14.9
Transfers	(3.0)	–	1.2	2.0	–	–	–	0.2
Disposals	–	–	–	(1.8)	–	–	–	(1.8)
At 28 February 2021	**18.4**	**3.0**	**21.7**	**126.3**	**32.4**	**20.2**	**29.4**	**251.4**
Accumulated depreciation								
At 1 March 2020	–	(3.0)	(13.9)	(112.3)	(7.3)	(12.5)	(15.7)	(164.7)
Charge for the year	–	–	(2.0)	(5.3)	(0.8)	(1.3)	(1.5)	(10.9)
Disposals	–	–	–	1.7	–	–	–	1.7
At 28 February 2021	**–**	**(3.0)**	**(15.9)**	**(115.9)**	**(8.1)**	**(13.8)**	**(17.2)**	**(173.9)**
Net carrying value								
At 28 February 2021	**18.4**	**–**	**5.8**	**10.4**	**24.3**	**6.4**	**12.2**	**77.5**
Cost								
At 1 March 2019	4.1	3.0	18.2	123.5	32.3	20.0	29.4	230.5
Additions	5.4	–	1.2	0.7	0.1	0.2	–	7.6
Transfers	(0.4)	–	–	0.4	–	–	–	–
At 29 February 2020	**9.1**	**3.0**	**19.4**	**124.6**	**32.4**	**20.2**	**29.4**	**238.1**
Accumulated depreciation								
At 1 March 2019	–	(3.0)	(12.2)	(106.6)	(6.5)	(11.2)	(14.2)	(153.7)
Charge for the year	–	–	(1.7)	(5.7)	(0.8)	(1.3)	(1.5)	(11.0)
At 29 February 2020	**–**	**(3.0)**	**(13.9)**	**(112.3)**	**(7.3)**	**(12.5)**	**(15.7)**	**(164.7)**
Net carrying value								
At 29 February 2020	**9.1**	**–**	**5.5**	**12.3**	**25.1**	**7.7**	**13.7**	**73.4**

Work-in-progress at 28 February 2021 relates predominantly to the development of IT assets. Property, plant and equipment balances are non-current.

26. Deposits from Banks

Group and Company	2021 £m	2020 £m
Deposits from banks	600.0	500.0
	600.0	**500.0**
Current	500.0	–
Non-current	100.0	500.0

Deposits from banks include balances of £500.0m (2020: £500.0m) drawn under the BoE's Term Funding Scheme (TFS) and £100.0m (2020: £nil) drawn under the BoE's TFS with incentives for Small and Medium Sized Entities (TFSME).

27. Deposits from Customers

Group and Company	2021 £m	2020 £m
Deposits from TPFG companies	13.1	11.1
Retail deposits	5,737.7	7,706.2
Fair value hedge adjustment	0.4	0.7
	5,751.2	**7,718.0**
Current	4,834.2	6,388.2
Non-current	917.0	1,329.8

Fair value hedge adjustments

Fair value hedge adjustments amounting to £0.4m (2020: 0.7m) are in respect of fixed rate Savings products. These adjustments are largely offset by derivatives, which are used to manage interest rate risk and are designated as fair value hedges within deposits from customers.

28. Debt Securities in Issue

Group	Interest rate	Par value £m	Term (years)	Maturity date	2021 £m	2020 £m
Fixed rate retail bond[1]	5.0%	200.0	8.5	2020	–	201.8
Floating rate AAA bond (A1)[2]	1M GBP LIBOR + 0.53%	300.0	5	2022	–	299.2
Floating rate AAA Bond (A1)[3]	1M USD LIBOR + 0.836%	272.2	2	2025	–	273.1
Total debt securities in issue					**–**	**774.1**
Company						
Fixed rate retail bond[1]	5.0%	200.0	8.5	2020	–	201.8
Total debt securities in issue					**–**	**201.8**

[1] This bond was issued on 21 May 2012 and redeemed on its scheduled redemption date in November 2020.
[2] This Bond was issued on 7 November 2017 and redeemed on its scheduled redemption date in October 2020.
[3] This Bond was issued on 27 November 2018 and redeemed on its scheduled redemption date in November 2020.

All Floating Rate Bonds were issued by Delamare Cards MTN Issuer plc and were listed on the Irish Stock Exchange. The retail bond was listed on the London Stock Exchange. All balances were classified as current at the prior year end.

29. Provisions for Liabilities and Charges

Group and Company 2021	Customer Redress Provision £m	Restructuring Provision £m	Expected Credit Loss Provision £m	Other Provisions £m	Total £m
At beginning of year	41.6	1.2	7.7	8.2	58.7
Provided during the year	0.5	–	–	3.6	4.1
Utilised during the year	(19.2)	(0.4)	–	(2.7)	(22.3)
Transfer from loans and advances ECL allowance	–	–	20.6	–	20.6
Released during the year	(0.5)	–	–	(0.5)	(1.0)
At end of year	**22.4**	**0.8**	**28.3**	**8.6**	**60.1**

Customer redress provision - Payment protection insurance (PPI)

Of the total customer redress provision balance at 28 February 2021, £22.4m (2020: £41.1m) has been provided for customer redress in respect of potential customer complaints arising from historic sales of PPI.

In March 2017, the FCA issued a Policy Statement (PS17/3, 'Payment protection insurance complaints: feedback on CP16/20 and final rules and guidance') which confirmed a deadline for PPI claims of August 2019, supported by an FCA led communications campaign.

The Policy Statement also set out rules and guidance on the handling of PPI claims in light of the Supreme Court's decision in Plevin v Paragon Personal Finance Limited (Plevin), confirming that both up-front commission arrangements and profit share arrangements should also be considered in the calculation of total commission for Plevin claims.

The general claims deadline passed on 29 August 2019, albeit legal claims continue to be received. In response to the high level of claims received by the Group during the prior year in advance of the PPI complaint deadline, the Group increased its PPI provision by £45.0m during the year ended 29 February 2020 to reflect an updated assessment of the claim rate and average redress.

Although a significant degree of uncertainty remains with regard to the ultimate cost of settling PPI claims, the provision balance represents Management's best estimate at the reporting date of that cost and is based on historical uphold rates, average redress and the associated administrative expenses. The PPI provision and the impact of regulatory changes will continue to be monitored as Management finalises its assessment of the significant level of claims received in advance of the claims deadline, ongoing legal claims and levels of redress thereon.

29. Provisions for Liabilities and Charges (continued)

Customer redress provision - Payment protection insurance (continued)

The table below details, for each key assumption, actual data to 28 February 2021 and a sensitivity assessment demonstrating the impact on the provision of a variation in the key assumptions. The key sensitivity in relation to PPI claims received is the conversion rate into an upheld complaint.

			Sensitivity	
Assumption	**Cumulative actual**	**Outstanding claims**	**Change in assumption**	**Consequential change in provision**
				£m
Valid general PPI claims settled	168,488	3,900	+/- 100 successful claims	0.2
Average redress per valid general PPI claim	£1,780	£1,659	+/- £100	0.4
Valid legal PPI claims settled	187	2,746	+/- 100 successful claims	0.2
Average redress per valid legal PPI claim	£2,173	£2,173	+/- £100	0.3

Customer redress provision - Consumer credit act (CCA)

In the prior year, the Group held a provision of £0.5m in respect of customer redress relating to instances where certain requirements of the CCA for post-contract documentation were not fully complied with. The redress programme was concluded during the year ended 28 February 2021.

Restructuring provision

The restructuring provision is in respect of costs related to the Group's strategic review.

Expected credit loss provision

The ECL provision represents the amount of ECL allowance recognised under IFRS 9 which exceeds the gross carrying amount of the financial asset as set out at note 37.

Other provisions

Other provisions predominantly reflect:

- a dilapidations provision related to the anticipated costs of restoring leased assets to their original condition. Management expects that the provision will be utilised at the end of the lease terms, the longest of which is due to end in 2029;
- a warranty provision in respect of debt sales. This represents post-determination date customer receipts payable to debt purchasers and provision for any accounts which may need to be bought back under the terms of the debt sale agreements. This balance is classified as current at the year end; and
- a provision in respect of the potential cost of refunding fees to customers. This balance is classified as current at the year end.

30. Accruals and Deferred Income

Group and Company	**2021**	**2020**
	£m	**£m**
Amounts accrued to Tesco Group subsidiaries	18.0	11.8
Amounts accrued to TPFG	0.5	1.2
Other accruals	52.6	74.3
Deferred income	15.0	12.8
Total accruals and deferred income	**86.1**	**100.1**

All amounts are classified as current at the year end.

31. Other Liabilities

	Group		Company	
	2021	2020	**2021**	2020
	£m	£m	**£m**	£m
Accounts payable and sundry creditors	122.6	134.2	122.8	134.2
Insurance creditor	14.6	13.2	14.6	13.2
Taxation and social security payable	2.7	5.7	2.7	5.7
Contract liabilities - insurance refunds	1.5	2.0	1.5	2.0
Lease liabilities (refer note 35)	29.6	32.8	29.6	32.8
Amounts owed to Tesco Group subsidiaries	12.0	10.7	12.0	10.7
Amounts due to TPFG subsidiaries	1.2	0.4	0.9	557.8
Total other liabilities	**184.2**	199.0	**184.1**	756.4

All amounts are classified as current at the year end, with the exception of £26.1m (2020: £29.6m) of the lease liabilities which are due after more than one year.

Contract liabilities – insurance refunds

Revenue recognised in the year in respect of the opening contract liability balance was £0.2m (2020: £0.2m).

32. Subordinated Liabilities and Notes

Group and Company	**2021**	2020
	£m	£m
Amortised cost:		
Fixed rate subordinated loan	251.6	250.6
Floating rate subordinated loans	190.0	190.0
Undated floating rate notes	45.0	45.0
Total subordinated liabilities and notes	**486.6**	485.6

Subordinated liabilities and notes comprise loan capital issued to TPFG. This includes £250.0m notional (2020: £250.0m) of subordinated loans maturing in 2025, £190.0m (2020: £190.0m) of subordinated loans maturing in 2030 and £45.0m (2020: £45.0m) of undated notes with no fixed maturity date. All balances are classified as non-current at the year end.

TPFG undertook an initial issuance of MREL-compliant debt[1] of £250.0m in July 2019 and subsequently invested the proceeds in the Company via an intercompany subordinated loan maturing in 2025.

Interest payable on the fixed rate intercompany subordinated loan is 3.5%. Interest payable on the floating rate subordinated loans and notes is based on three month SONIA plus a margin of 67 to 227 basis points (2020: three month SONIA plus a margin of 67 to 227 basis points).

[1] The Group is subject to the minimum requirements for own funds and eligible liabilities (MREL) on an interim basis from 1 January 2020, with full implementation applicable from 1 January 2023. The requirements are factored into the Group's funding and capital plans.

33. Share Capital and Share Premium Account

Group and Company	2021 Number	2021 £m	2020 Number	2020 £m
Authorised				
Ordinary shares of 10p each	Unlimited		Unlimited	
Allotted, called up and fully paid				
Ordinary shares of 10p each	1,219,900,000	122.0	1,219,900,000	122.0
	1,219,900,000	122.0	1,219,900,000	122.0

	2021 £m	2020 £m
Share premium reserve	1,097.9	1,097.9
	1,097.9	1,097.9

34. Other Reserves

Group

	2021 £m	2020 £m
AFS - share of joint venture	5.6	7.5
Fair value reserve	3.7	4.8
Total AFS/FV reserves	**9.3**	**12.3**
Cash flow hedge reserve	(0.6)	(0.3)
Currency basis reserve	–	(0.1)
Share based payment reserve	21.9	25.1
Total reserves	**30.6**	**37.0**

Company

	2021 £m	2020 £m
Fair value reserve	3.7	4.8
Cash flow hedge reserve	(0.6)	–
Share based payment reserve	21.9	25.1
Total reserves	**25.0**	**29.9**

AFS reserve

The consolidated AFS reserve includes the Group's share of the AFS reserve of its joint venture, TU. As described in note 22, TU has taken an exemption to defer the adoption of IFRS 9 until the financial year beginning on 1 January 2023.

Fair value reserve

The cumulative net change in the fair value of equity investment securities measured at FVOCI is included in the fair value reserve, less the impairment allowance recognised in the Consolidated Income Statement.

On 1 March 2020 the Group's portfolio of debt investment securities held at FVOCI was reclassified to amortised cost following a change in business model. This resulted in the full amount previously recognised in the fair value reserve in respect of these debt securities being reclassified against the amortised cost carrying amount of these assets. The remaining balance in the fair value reserve relates to the Group's equity investment securities which continue to be held at FVOCI.

Cash flow hedge reserve

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are included in the cash flow hedge reserve. The gain or loss relating to the ineffective portion is recognised immediately in the Consolidated Income Statement.

Currency basis reserve

Cash flow hedge accounting allows all fair value movements on the hedging instrument (the derivative) to be charged or credited to the cash flow hedge reserve in respect of the designated risk. The non-designated portion of the hedging instrument, being the element related to the foreign currency basis, is recognised separately in the currency basis reserve.

Share based payment reserve

The fair value of Tesco equity-settled share options granted to employees of the Group is included in the share based payment reserve.

35. Leases

Leasing activities

The Group has entered into leases for office buildings. These lease contracts contain a wide range of terms and conditions, including extension options. These options are exercisable only by the Group and not by the respective Lessor.

Consolidated Income Statement Amounts Relating to Leases

The Consolidated Income Statement includes the following amounts relating to releases:

	2021 £m	2020 £m
Group and Company		
Depreciation charge on right-of-use assets[1]	1.5	1.5
Interest expense on lease liabilities[2]	2.3	2.5
Total	**3.8**	**4.0**

Company and Consolidated Statements of Financial Position Amounts Relating to Leases

The Company and Consolidated Statements of Financial Position include the following amounts relating to leases:

	2021 £m	2020 £m
Group and Company		
Right-of-use assets[3]		
Office buildings	12.2	13.7
Total right-of-use assets	**12.2**	**13.7**
Lease liabilities[4]		
Current	3.5	3.2
Non-current	26.1	29.6
Total lease liabilities	**29.6**	**32.8**

Company and Consolidated Cash Flow Statements amounts relating to leases

The Company and Consolidated Cash Flow Statements include the following amounts relating to leases:

	2021 £m	2020 £m
Group and Company		
Interest paid on lease liabilities	3.6	2.4
Principal payments on lease liabilities	1.9	1.8
Total cash outflow for lease liabilities	**5.5**	**4.2**

Possible future cash outflows not included in lease liability

Potential future lease payments (undiscounted) in relation to extension options not included in the reasonably certain lease term, and hence not included in lease liabilities, total £64.4m (2020: £64.4m).

[1] Included in total depreciation and amortisation charge in the Consolidated Income Statement (refer to note 9).
[2] Included in Net interest income in the Consolidated Income Statement (refer to note 5).
[3] Included in Property, plant and equipment in the Company and Consolidated Statements of Financial Position (refer to note 25).
[4] Included in Other liabilities in the Company and Consolidated Statements of Financial Position (refer to note 31).

36. Employee Benefit Liability

Defined benefit plans

The Group made contributions in the year to a closed funded defined benefit scheme operated by TSL. The principal pension plan is the Tesco pension scheme, a funded defined benefit pension scheme in the UK, the assets of which are held as a segregated fund and administered by the Trustee. TSL has recognised the appropriate net liability of the Tesco pension scheme in accordance with IAS 19.

Following the sale by Tesco of its operations in Thailand and Malaysia, Tesco has contributed £2.5bn to the Tesco pension scheme to eliminate the current funding deficit and significantly reduce the prospect of having to make further pension deficit contributions in the future.

Defined contribution plans

A defined contribution scheme operated by TSL is open to all Group employees in the UK.

Detailed disclosures, in line with the requirements of IAS 19, are included in the Tesco PLC 2021 Financial Statements.

37. Risk Management

There are no differences in the manner in which risks are managed and measured between the Group and the Company. Therefore, the explanations of the management, the control responsibilities and the measurement of risk described in this section are those for the Group. The amounts included in this note are those for the Group unless otherwise stated.

Through its normal operations, the Group is exposed to a number of risks, the most significant of which are credit risk, operational risk, liquidity and funding risk, market risk, insurance risk, residual price risk and legal and regulatory compliance risk. The key risk management processes and tools are described in detail on pages 17 to 24 within the Strategic Report.

(a) Credit Risk

- **Types of credit risk**

Retail credit risk

Retail credit risk is the risk that a borrower, who is a personal customer, will default on a debt or obligation by failing to make contractually obligated payments. The Group is following FCA guidance, recently updated due to the Covid-19 pandemic, in relation to those Credit Card customers defined as being in Persistent Debt.

Controls and risk mitigants

To minimise the potential for the Group to be exposed to levels of bad debt that are outside Risk Appetite, processes, systems and limits have been established that cover the end-to-end retail credit risk customer life cycle, the key components of which are outlined below:

Credit scoring: The quality of new lending is controlled using appropriate credit scoring and associated rules. Judgemental analysis is used for more complex cases.

Affordability: The Group aims to be a responsible lender and accordingly employs affordability models, including minimum free income thresholds based on customers' income and outgoings, to confirm that they have the ability to repay the advances they are seeking.

Credit policies and guides: A suite of retail credit risk policies and supporting guides are maintained by the Credit Risk function. These policies define the minimum requirements for the management of credit activities across the credit life cycle. The guides also comprise specific product and customer related thresholds that in turn seek to ensure that the Group is operating within agreed retail credit Risk Appetite parameters.

37. Risk Management (continued)

Controls and risk mitigants (continued)

Monitoring and reporting: Management information is produced covering all lending portfolios which is tailored to meet the requirements of different audiences within the overall governance framework. Risk Appetite Measures (RAMs) with supporting limits and tolerances allow the Group to track performance against Risk Appetite and identify any emerging trends that could act as an early warning that performance could move outside approved Risk Appetite thresholds, thereby allowing mitigating actions to be taken to address such trends.

Wholesale credit risk

Wholesale credit risk is the risk that the counterparty to a transaction will default before the final settlement of the transaction cash flows. Such transactions relate to contracts for derivative financial instruments, securities financing transactions and long-dated settlement transactions.

The Group does not operate in the mainstream commercial or corporate lending market. However, the Group is exposed to wholesale credit risk primarily through Treasury activities, as a result of cash management, liquidity and market risk management, with the inherent risk that these counterparties could fail to meet their obligations.

Controls and risk mitigants

Daily monitoring of exposures is undertaken, with oversight from the Market and Liquidity Risk (MLR) team. Monthly reporting of RAMs is provided to the Executive Risk Committee (ERC). Escalation processes are in place for the reporting of any breached limits directly to the ERC.

The RAM limits are set out in the Wholesale Credit Risk Policy which is approved by the Financial and Credit Risk Director as Policy owner. The limits contained in the Policy are approved by the ERC or Board as appropriate. The Treasury Director is responsible for ensuring that Treasury complies with counterparty credit risk limits. The MLR team reports to the Financial and Credit Risk Director, providing independent oversight that these limits are adhered to.

The Group's approach to investing funds focuses on counterparties with strong capacity to meet financial commitments and requires approved counterparties to have investment grade ratings. Counterparty types include financial institutions, sovereigns and supranationals, with approved instrument types including cash, certificates of deposit, bonds, treasury bills, gilts, repurchase agreements and interest rate and foreign exchange derivatives. Ratings issued by external credit assessment institutions are taken into account as part of the process to set limits.

Wholesale Credit Risk Limits restrict the amounts that can be invested based on counterparty credit-worthiness by country, instrument type and remaining tenor. As part of the credit assessment process for wholesale credit risk exposures, the Group uses the external credit ratings issued by Fitch (as the nominated external credit assessment institution) to help determine the appropriate risk-weighting to apply under the Standardised Approach (SA) to credit risk exposures. The Wholesale Credit Risk Policy is set by the Board and any new counterparty limits, Policy exceptions or overrides must follow agreed delegated authorities that require as a minimum explicit sign-off by the Chief Financial Officer and Chief Risk Officer (CRO).

The Wholesale Credit Risk Policy also provides that credit risk mitigation techniques are applied to reduce wholesale credit risk exposures. International Swaps Derivatives Association (ISDA) master agreements are in place with all derivative counterparties, Global Master Repurchase Agreements are in place for all repurchase counterparties and ISDA Credit Support Annexes have been executed with all of the Group's derivative counterparties. The Group uses central counterparties in order to clear specified derivative transactions (predominantly interest rate swaps) thereby mitigating counterparty risk. Positions are continuously marked-to-market and margin in the form of collateral is exchanged on at least a daily basis. As at 28 February 2021, no additional credit risk mitigation was deemed necessary.

37. Risk Management (continued)

- **Credit risk: ECL measurement**

The Group assesses, on a forward-looking basis, the ECLs associated with its financial assets carried at amortised cost and FVOCI, and with the exposure arising from loan commitments. The Group has not recognised an ECL allowance for cash or other financial assets balances at 28 February 2021 due to the short-term nature of these balances, the frequency of origination and settlement of balances and taking account of collateral held.

ECLs are calculated in line with the requirements of IFRS 9 using the three stage model for impairment:

Stage 1 Financial asset is not credit impaired and has not had a significant increase in credit risk since initial recognition

Stage 2 Financial asset is not credit impaired but has had a significant increase in credit risk since initial recognition

Stage 3 Financial asset is credit impaired

The measurement of ECLs is dependent on the classification stage of the financial asset. For financial assets in Stage 1, loss allowances are calculated based on ECLs arising from default events that are possible within 12 months from the reporting date. For financial assets in Stages 2 and 3, loss allowances are calculated based on lifetime ECLs.

The measurement of ECLs for financial assets measured at amortised cost or FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour. A number of significant judgements are also required in applying the accounting requirements for measuring ECLs.

The sections below provide further explanations of the factors taken into account in the measurement of ECLs.

Significant increase in credit risk

At each reporting date, the change in credit risk of the financial asset is observed using a set of quantitative and qualitative criteria, together with a backstop based on arrears status.

Quantitative criteria:

For each financial asset, the Group compares the lifetime probability of default (PD) at the reporting date with the lifetime PD that was expected at the reporting date at initial recognition (PD thresholds). The Group has established PD thresholds for each type of product which vary depending on initial term and term remaining.

Qualitative criteria:

A number of qualitative criteria are in place such as:

- Forbearance offered to customers in financial difficulty;
- Risk-based pricing post-origination;
- Credit indebtedness;
- Credit limit decrease; and
- Pre-delinquency information.

Backstop

As a backstop, the Group considers that if an account's contractual payments are more than 30 days past due then a significant increase in credit risk has taken place.

The Group has used the low credit risk exemption in respect of its portfolio of investment securities in both the current and prior year.

Definition of default

An account is deemed to have defaulted when the Group considers that a customer is in significant financial difficulty and that the customer meets certain quantitative and qualitative criteria regarding their ability to make contractual payments when due.

37. Risk Management (continued)

This includes instances where:

- the customer makes a declaration of significant financial difficulty;
- the customer or third-party agency communicates that it is probable that the customer will enter bankruptcy or another form of financial restructuring such as insolvency or repossession;
- the account has been transferred to recoveries and the relationship is terminated;
- an account's contractual payments are more than 90 days past due; or
- where the customer is deceased.

An account is considered to no longer be in default when it no longer meets any of the default criteria and has remained up-to-date on its contractual payments for a period of at least three months.

Inputs, assumptions and techniques used for estimating impairment

The ECL is determined by multiplying together the PD, exposure at default (EAD) and loss given default (LGD) for the relevant time period and for each collective segment and by discounting back to the balance sheet date. Each of these inputs is explained further below.

Probability of default: Represents the likelihood a customer will default over the relevant period, being either 12 months or the expected lifetime.

Exposure at default: Represents the expected amount due from the customer at the point of default. The Group derives the EAD from the current exposure to the counterparty and future changes to that exposure to the point of default.

Loss given default: Represents the Group’s expectation of the extent of the loss if there is a default. The LGD assumes that once an account has defaulted, the portion of the defaulted balance will be recovered over a maximum period of 60 months from the point of default. LGD models take into account, when relevant, the valuation of collateral, collection strategies and receipts from debt sales.

These inputs are adjusted to reflect forward-looking information as described below.

Expected lifetime

The expected lifetime of a financial asset is generally the contractual term. In the case of Loans, the expected lifetime is the behavioural life. In the case of revolving products, the Group measures credit losses over the period that it will be exposed to credit risk. This is estimated using historic customer data. The current expected lifetime of the Group's Credit Card portfolio is 6 years.

Incorporation of forward-looking information

The ECL calculation and the measurement of significant deterioration in credit risk both incorporate forward-looking information using a range of macro-economic scenarios. The key economic variables are based on historical patterns observed over a range of economic cycles.

The Group has engaged a third-party supplier to provide relevant economic data for this purpose which, prior to incorporation into the ECL calculation, is subject to internal review and challenge with reference to other publicly available market data and benchmarks.

At 29 February 2020, the Group used five economic scenarios. These included a Base scenario, an Upside scenario and three Downside scenarios. Downside 1 was an unfavourable European Union (EU) trade deal, Downside 2 was a more severe recession and in addition, to reflect the increased risk at that date of an adverse economic impact from the Covid-19 pandemic, a fifth scenario which used Downside 2 as a proxy was introduced. The scenarios were assigned weightings of 40%, 20%, 30%, 5% and 5% respectively.

37. Risk Management (continued)

At 28 February 2021, the Group commissioned four scenarios from its third-party provider, all of which were based on an economic outlook that sought to take account of the potential ramifications of the current COVID-19 pandemic. These scenarios include a Base scenario, an Upside scenario and two different Downside scenarios. These scenarios have been assigned weightings of 40%, 30%, 25% and 5% respectively. As the economic outlook remains uncertain, the Group's scenarios are based on the success of the Covid-19 vaccine roll out against emerging strains of the virus and, as the restrictions are lifted, the speed at which consumer and business confidence will support the recovery in GDP and the labour market:

- The Base scenario anticipates GDP in Q4 2021 will be 3.7% lower than Q4 2019 and it takes until Q3 2023 to recover the loss of output. Unemployment is expected to peak in Q3 2021 at 8.0%.
- The Upside scenario involves a sharper economic recovery with the loss of output due to the Covid-19 pandemic fully recovered by Q4 2021. Unemployment is expected to peak in Q2 2021 at 6.7%.
- Downside 1 scenario assumes a longer delay, with GDP not expected to recover from its pre-Covid-19 pandemic level until Q3 2024. Unemployment is expected to peak in Q4 2021 at 9.6%.
- Downside 2 scenario assumes an even longer recovery, with pre-Covid-19 pandemic output only recovered by Q3 2025. Unemployment is expected to peak in Q4 2021 at 10.8%.

These scenarios are also reviewed to ensure an unbiased estimate of ECL by ensuring the credit loss distribution under a larger number of scenarios is adequately captured using these four scenarios and their respective weightings.

37. Risk Management (continued)

The table below shows the key macro-economic variables in each scenario, averaged over a five-year period.

The economic scenarios used include the following ranges of key indicators:

2021

Scenario	Weighting	Sensitivity (100% weighted)[3]	Economic measure	2021	2022	2023	2024	2025
		£m		%	%	%	%	%
Base	40%	(1.1)	Bank of England base rate[1]	0.1	0.1	0.1	0.1	0.2
			Gross domestic product[2]	4.7	3.2	1.8	1.6	1.6
			Unemployment rate	7.7	6.4	4.9	4.3	4.1
			Unemployment rate peak in year	8.0	7.2	5.3	4.5	4.1
Upside	30%	(65.8)	Bank of England base rate[1]	0.1	0.1	0.1	0.2	0.4
			Gross domestic product[2]	9.5	2.6	1.6	1.8	1.8
			Unemployment rate	6.4	4.7	4.2	4.1	4.0
			Unemployment rate peak in year	6.7	5.2	4.2	4.1	4.1
Downside 1	25%	56.8	Bank of England base rate[1]	–	–	0.1	0.1	0.1
			Gross domestic product[2]	2.0	3.5	1.9	1.8	1.8
			Unemployment rate	8.6	8.6	6.8	5.3	4.4
			Unemployment rate peak in year	9.6	9.3	7.5	5.8	4.7
Downside 2	5%	116.8	Bank of England base rate[1]	–	(0.1)	0.1	0.1	0.1
			Gross domestic product[2]	(1.0)	4.4	2.2	1.8	1.8
			Unemployment rate	9.4	10.4	9.3	7.8	6.2
			Unemployment rate peak in year	10.8	10.7	9.7	8.4	6.8
Weighted scenarios			Bank of England base rate[1]	0.1	0.1	0.1	0.1	0.3
			Gross domestic product	5.2	3.2	1.8	1.7	1.7
			Unemployment rate	7.6	6.6	5.4	4.7	4.3
			Unemployment rate peak in year	8.2	7.3	5.7	4.9	4.4

[1] Simple average.
[2] Annual growth rates.
[3] Represents the impact on ECL provision if 100% weighting applied to each macro-economic scenario.

37. Risk Management (continued)

2020

Scenario	Weighting	Sensitivity (100% weighted)[3]	Economic measure	2020	2021	2022	2023	2024
		£m		%	%	%	%	%
Base	40%	(27.7)	Bank of England base rate[1]	0.5	0.5	0.6	0.7	0.7
			Gross domestic product[2]	1.3	1.7	1.8	1.8	1.8
			Unemployment rate	3.9	3.9	3.9	3.8	3.8
			Unemployment rate peak in year	4.0	4.0	3.9	3.8	3.8
Upside	20%	(41.1)	Bank of England base rate[1]	0.2	0.2	0.2	0.3	0.3
			Gross domestic product[2]	1.7	2.1	2.2	2.2	2.2
			Unemployment rate	3.9	3.9	3.8	3.8	3.8
			Unemployment rate peak in year	4.0	3.9	3.8	3.8	3.8
Downside 1	30%	39.6	Bank of England base rate[1]	0.5	0.6	1.4	2.2	2.3
			Gross domestic product[2]	1.3	0.5	1.0	1.1	1.2
			Unemployment rate	4.0	4.5	5.8	5.9	5.8
			Unemployment rate peak in year	4.1	4.9	6.0	6.0	5.8
Downside 2	5%	102.9	Bank of England base rate[1]	0.5	1.5	2.9	3.0	3.0
			Gross domestic product[2]	(0.5)	(0.9)	1.7	1.7	1.7
			Unemployment rate	4.0	5.5	6.9	6.8	6.5
			Unemployment rate peak in year	4.2	6.4	7.0	6.9	6.7
Covid-19	5%	102.9	Bank of England base rate[1]	0.5	1.5	2.9	3.0	3.0
			Gross domestic product[2]	(0.5)	(0.9)	1.7	1.7	1.7
			Unemployment rate	4.0	5.5	6.9	6.8	6.5
			Unemployment rate peak in year	4.2	6.4	7.0	6.9	6.7
Weighted scenarios			Bank of England base rate[1]	0.4	0.6	1.0	1.3	1.3
			Gross domestic product	1.2	1.2	1.6	1.6	1.7
			Unemployment rate	4.0	4.3	4.7	4.7	4.7
			Unemployment rate peak in year	4.0	4.5	4.8	4.8	4.7

[1] Simple average.
[2] Annual growth rates.
[3] Represents the impact on ECL provision if 100% weighting applied to each macro-economic scenario.

37. Risk Management (continued)

Sensitivity analysis

As the calculation of ECLs is complex and involves use of judgement, sensitivity analysis has been performed to illustrate the impact on ECLs of any changes to the main components of the calculation. The effect of applying a 100% weighting to each of the macro-economic scenarios, as well as the impact on ECLs as a result of changes in LGD, staging, PD and expected lifetime, have been assessed.

Most of the sensitivities have been calculated as single-factor sensitivities and any impact on ECL reflects the sensitivity of the estimate to each key component in isolation. However, the PD and macro-economic sensitivities also include a rebasing of the staging allocation and thresholds. The impact of these is therefore incorporated within the impact disclosed for these sensitivities.

The most significant assumptions affecting the ECL calculation are as follows:

- PD;
- LGD;
- Macro-economic scenarios;
- PD threshold (staging); and
- Expected lifetime of revolving credit facilities.

Changes in the ECL allowance that would arise from reasonably possible changes in these assumptions over the next 12 months from those used in the Group's calculations at 28 February 2021 are set out in the table below.

		Impact on loss allowance	
		2021	**2020**
		£m	**£m**
Closing ECL allowance		**624.6**	**488.4**
Macro-economic (100% weighted)	Upside	(65.8)	(41.1)
	Base	(1.1)	(27.7)
	Downside 1	56.8	39.6
	Downside 2	116.8	102.9
PD	Increase of 2.5%	7.5	11.1
	Decrease of 2.5%	(7.5)	(10.9)
LGD	Increase of 2.5%	10.3	12.1
	Decrease of 2.5%	(10.4)	(12.3)
Staging - change in threshold	Increase of 20%	(7.4)	(17.3)
	Decrease of 20%	10.6	21.4
Expected lifetime (revolving credit facilities)	Increase of 1 year	9.3	2.1
	Decrease of 1 year	(8.7)	(2.1)

37. Risk Management (continued)

Management Overlays

The Covid-19 pandemic has had a significant impact on the global economy and there remains a large degree of uncertainty around the scale and stress of the peak of the economic downturn and the speed and shape of any subsequent recovery. The extension of government support measures such as furlough has been unprecedented and this, coupled with the granting of payment holidays by the Group, has broken the historically observed relationship between unemployment and default.

Although projected levels of unemployment remain high, the Group is yet to see significant defaults emerge in its lending portfolio and, as such, Covid-19 specific adjustments to the Group's modelled ECL provision to capture the estimated impact of the stress within the Group's ECL provision have been recognised as follows:

- Management has assessed that the beneficial impact of lower consumer spending through the Covid-19 pandemic, which has resulted in an improvement in credit scores, as well as other inputs to ECL such as lower EADs on the credit cards portfolio, will have suppressed ECLs. A post-model adjustment (PMA) of £129.5m is held in this respect, calculated from pre-Covid-19 pandemic coverage rates and based upon credit limits but reduced in line with the reduction in portfolio utilisation observed during the year. An increase or decrease of 10% on the adjustment for lower drawn balances would increase or decrease this overlay by £11m. This PMA reflects Management's belief that the level of risk prior to the emergence of Covid-19 is more reflective of future ECLs.
- Management has assessed that the impact of government support measures such as furlough and the various temporary customer support measures the Group has put in place has suppressed arrears and defaults during the year. Management has judged this to be temporary in nature and a PMA of £63.6m is held to recognise the expected emergence of defaults once support measures are removed. The maximum suppressed defaults have been estimated at £82.2m.
- A review of arrears emergence from those customers who sought an extension to their initial payment holiday has suggested there has been an increase in credit risk in respect of these customers and, as such, these accounts have been moved to Stage 2 with a PMA of £21.1m held to reflect the estimated increase in ECLs for these customers.

37. Risk Management (continued)

Grouping of instruments for losses measured on a collective basis

For ECL provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared credit risk characteristics that include instrument type and credit risk gradings. The groupings are subject to regular review to ensure that these remain appropriate.

- **Credit risk: Credit risk exposure**

Maximum exposure to credit risk

The table below represents the Group's maximum exposure to credit risk, by IFRS 9 stages at the reporting date, in respect of financial assets held.

For financial assets, the balances are based on gross carrying amounts as reported in the Company and Consolidated Statements of Financial Position. For loan commitments, the amounts in the table represent the amounts for which the Group is contractually committed.

	Stage 1	Stage 2				Stage 3	Total
2021		**Not past due**	**<30 days past due**	**>30 days past due**	**Total**		
Group and Company	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Gross Exposure							
Loans and advances to customers	5,748.5	980.5	24.9	24.6	1,030.0	241.6	7,020.1
Investment securities at FVOCI[1]	5.1	–	–	–	–	–	5.1
Investment securities at amortised cost	949.2	–	–	–	–	–	949.2
Loan commitments - Loans and advances to customers[2]	12,378.9	282.9	2.3	0.3	285.5	3.6	12,668.0
Total gross exposure	**19,081.7**	**1,263.4**	**27.2**	**24.9**	**1,315.5**	**245.2**	**20,642.4**
Loss allowance							
Loans and advances to customers[2]	132.3	312.5	11.1	15.7	339.3	153.0	624.6
Investment securities at FVOCI	–	–	–	–	–	–	–
Investment securities at amortised cost	0.8	–	–	–	–	–	0.8
Total loss allowance	**133.1**	**312.5**	**11.1**	**15.7**	**339.3**	**153.0**	**625.4**
Net Exposure							
Loans and advances to customers	5,616.2	668.0	13.8	8.9	690.7	88.6	6,395.5
Investment securities at FVOCI	5.1	–	–	–	–	–	5.1
Investment securities at amortised cost	948.4	–	–	–	–	–	948.4
Total net exposure	**6,569.7**	**668.0**	**13.8**	**8.9**	**690.7**	**88.6**	**7,349.0**
Coverage							
Loans and advances to customers	2.3%	31.9%	44.6%	63.8%	32.9%	63.3%	8.9%

[1] On 1 March 2020 the Group's portfolio of debt investment securities measured at FVOCI was reclassified to amortised cost following a change in business model.

[2] The loss allowance in respect of loan commitments is included within the total loss allowance for loans and advances to customers as above to the extent that it is below the gross carrying amount of loans and advances to customers. Where the loss allowance exceeds the gross carrying amount, any excess is included within provisions as set out at note 29.

37. Risk Management (continued)

2020	Stage 1	Stage 2				Stage 3	Total
		Not past due	<30 days past due	>30 days past due	Total		
Group and Company	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Gross Exposure							
Loans and advances to customers	7,687.9	869.4	51.8	32.1	953.3	288.8	8,930.0
Investment securities at FVOCI	1,060.6	–	–	–	–	–	1,060.6
Investment securities at amortised cost	21.1	–	–	–	–	–	21.1
Loan commitments - Loans and advances to customers[1]	11,754.7	116.3	–	–	116.3	1.0	11,872.0
Total gross exposure	**20,524.3**	**985.7**	**51.8**	**32.1**	**1,069.6**	**289.8**	**21,883.7**
Loss allowance							
Loans and advances to customers[1]	84.1	177.5	21.5	19.6	218.6	185.7	488.4
Investment securities at FVOCI[2]	0.9	–	–	–	–	–	0.9
Investment securities at amortised cost	0.1	–	–	–	–	–	0.1
Total loss allowance	**85.1**	**177.5**	**21.5**	**19.6**	**218.6**	**185.7**	**489.4**
Net exposure							
Loans and advances to customers	7,603.8	691.9	30.3	12.5	734.7	103.1	8,441.6
Investment securities at FVOCI	1,059.7	–	–	–	–	–	1,059.7
Investment securities at amortised cost	21.0	–	–	–	–	–	21.0
Total net exposure	**8,684.5**	**691.9**	**30.3**	**12.5**	**734.7**	**103.1**	**9,522.3**
Coverage							
Loans and advances to customers	1.1%	20.4%	41.5%	61.1%	22.9%	64.3%	5.5%

[1] The loss allowance in respect of loan commitments is included within the total loss allowance for loans and advances to customers as above to the extent that it is below the gross carrying amount of loans and advances to customers. Where the loss allowance exceeds the gross carrying amount, any excess is included within provisions as set out at note 29.

[2] The loss allowance for investment securities at FVOCI is not recognised in the carrying amount of investment securities as the carrying amount is their fair value.

37. Risk Management (continued)

The table below provides details of financial assets held at FVPL which are not subject to impairment.

Group and Company	Maximum exposure to credit risk 2021 £m	2020 £m
Derivative financial assets	6.1	5.7
Assets of the disposal group	–	45.1
Cash and balances with central banks	13.2	26.3
Total	**19.3**	**77.1**

Credit quality of loans and advances to customers

The table below provides details of the credit quality of loans and advances to customers and loan commitments for which an ECL allowance is recognised.

The Group defines four classifications of credit quality for all credit exposures; High, Satisfactory, Low and Below Standard. Credit exposures are segmented according to the IFRS 9 12 month PD, with credit impaired reflecting a PD of 100%. The classifications are the same for the current and prior year.

	IFRS 9 12 Month PD (%)
High quality	<=3.02%
Satisfactory quality	>3.03% - 11.10%
Low quality and below standard	=> 11.11%
Credit impaired	100%

Group and Company	2021 Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Loans and advances to customers				
High quality	5,312.9	443.4	–	5,756.3
Satisfactory quality	392.3	389.4	–	781.7
Low quality and below standard	43.3	197.2	–	240.5
Credit impaired	–	–	241.6	241.6
Total	**5,748.5**	**1,030.0**	**241.6**	**7,020.1**
Loan Commitments				
High quality	12,263.1	198.5	–	12,461.6
Satisfactory quality	90.1	65.7	–	155.8
Low quality and below standard	25.7	21.3	–	47.0
Credit impaired	–	–	3.6	3.6
Total	**12,378.9**	**285.5**	**3.6**	**12,668.0**
Total exposure	**18,127.4**	**1,315.5**	**245.2**	**19,688.1**

37. Risk Management (continued)

Credit quality of loans and advances to customers (continued)

Group and Company	2020			
	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m
Loans and advances to customers				
High quality	6,608.9	37.4	–	6,646.3
Satisfactory quality	1,036.9	485.4	–	1,522.3
Low quality and below standard	42.1	430.5	–	472.6
Credit impaired	–	–	288.8	288.8
Total	**7,687.9**	**953.3**	**288.8**	**8,930.0**
Loan Commitments				
High quality	11,544.2	1.9	–	11,546.1
Satisfactory quality	206.3	86.0	–	292.3
Low quality and below standard	4.2	28.4	–	32.6
Credit impaired	–	–	1.0	1.0
Total	**11,754.7**	**116.3**	**1.0**	**11,872.0**
Total exposure	**19,442.6**	**1,069.6**	**289.8**	**20,802.0**

Counterparty credit rating

	Long-term Rating	2021 £m	2020 £m
Investment securities at amortised cost	AAA to BBB	927.3	–
Investment securities at FVOCI	AAA to BBB	5.1	1,060.6
		932.4	1,060.6

Concentration risk

Concentration risk is the risk of losses arising as a result of concentrations of exposures to a specific counterparty, economic sector, segment or geographical region.

The Group could become exposed to this risk were it to become concentrated in certain geographic areas or product profiles e.g. a disproportionate level of high value unsecured Personal Loans. Such concentrations could produce unacceptable bad debts in some adverse but plausible situations.

Controls and risk mitigants

The Group mitigates these potential concentration risks by establishing appropriate limits and trigger thresholds that are regularly monitored and reported to the appropriate Senior Management team and risk committees. An assessment of credit concentration is also undertaken as part of the ICAAP. The Group does not consider itself to be overly concentrated, other than its geographic concentration as a UK business.

Concentration profiles

The following tables provide concentration profiles in terms of the geographic distribution of the Group's exposures and analysis of material asset class by industry type.

37. Risk Management (continued)

Geographical distribution profile

The Group is primarily focused on providing financial services and products to UK personal customers.

The table below provides the geographical distribution of the Group's total credit risk exposures. For on balance sheet assets, the balances set out below are based on net carrying amounts as reported in the Consolidated Statement of Financial Position.

	2021	2020
Group	**£m**	**£m**
UK	20,428.4	22,532.4
Europe (excluding UK)	149.1	303.3
Other	466.2	274.6
Total	**21,043.7**	**23,110.3**

Industry type profile

The table below represents the distribution of exposures by industry type. The Group is primarily focused on providing financial services and products to personal customers in the UK, although it also has exposure to wholesale counterparties as detailed below. For on balance sheet assets, the balances set out below are based on net carrying amounts as reported in the Consolidated Statement of Financial Position.

	2021	2020
Group	**£m**	**£m**
Financial institutions	1,110.4	1,168.8
Government	840.8	1,540.7
Individuals	19,083.1	20,397.7
Wholesale and retail trade	9.4	3.1
Total	**21,043.7**	**23,110.3**

- **Credit risk: Collateral held**

During the year the Group pledged collateral in respect of repurchase liabilities.

37. Risk Management (continued)

- **Credit risk: Loss allowance**

The following table provides a reconciliation of the movements in the loss allowance in the year:

2021	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Group and Company	**£m**	**£m**	**£m**	**£m**
Loans and advances to customers				
At 1 March 2020	84.1	218.6	185.7	488.4
Transfers[1,3]				
Transfers from stage 1 to stage 2	(20.0)	20.0	–	–
Transfers from stage 2 to stage 1	8.5	(8.5)	–	–
Transfers to stage 3	(2.4)	(42.1)	44.5	–
Transfers from stage 3	1.6	2.0	(3.6)	–
Income statement charge				
Net remeasurement[2] following transfer of stage[3]	(5.9)	34.9	71.6	100.6
New financial assets originated[4]	25.4	4.7	1.7	31.8
Financial assets derecognised during year	(7.2)	(9.3)	(3.1)	(19.6)
Changes in risk parameters and other movements[5]	56.5	133.6	83.5	273.6
Other movements				
Write-offs and asset disposals[6]	–	(2.3)	(227.3)	(229.6)
Transfer to provisions for liabilities and charges[7]	(8.3)	(12.3)	–	(20.6)
ECL allowance at 28 February 2021	**132.3**	**339.3**	**153.0**	**624.6**
Investment securities at FVOCI				
At 1 March 2020	0.9	–	–	0.9
Other movements				
Transfer to investment securities at amortised cost[8]	(0.9)	–	–	(0.9)
ECL allowance at 28 February 2021	**–**	**–**	**–**	**–**
Investment securities at amortised cost				
At 1 March 2020	0.1	–	–	0.1
Income statement charge				
New financial assets originated[4]	0.1	–	–	0.1
Financial assets derecognised during the year	(0.1)	–	–	(0.1)
Changes in risk parameters and other movements[5]	(0.2)	–	–	(0.2)
Other movements				
Transfer from investment securities at FVOCI	0.9	–	–	0.9
ECL allowance at 28 February 2021	**0.8**	**–**	**–**	**0.8**
Reconciliation to income statement				
Net expected credit loss charge	68.6	163.9	153.7	386.2
Recoveries and write-offs	–	–	(26.7)	(26.7)
Total income statement charge	**68.6**	**163.9**	**127.0**	**359.5**

[1] Transfers - The opening loss allowance on financial assets which transferred stage during the year.
[2] Net remeasurement - The increase/(decrease) in the opening loss allowance as a result of a stage transfer.
[3] Includes a charge in stages 1 and 2 ECL of £194.1m due to a change in the macro-economic scenarios assumptions.
[4] New financial assets originated or purchased - The loss allowance on new financial assets originated or purchased during the year, representing their stage at 28 February 2021.
[5] Changes in risk parameters and other movements - The change in loss allowance due to changes in macro-economic scenarios, PD, LGD and EAD during the year.
[6] Write-offs and asset disposals - The release of the loss allowance following the write-off and/or disposal of a financial asset during the year.
[7] Transfer from provisions for liabilities and charges - The movement in loss allowance which exceeds the gross carrying amount of the financial asset.
[8] On 1 March 2020 the Group's portfolio of debt investment securities measured at FVOCI was reclassified to amortised cost following a change in business model.

37. Risk Management (continued)

2020 Group and Company	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Loans and advances to customers				
At 1 March 2019	84.6	228.6	172.0	485.2
Transfers[1]				
Transfers from stage 1 to stage 2	(10.5)	10.5	–	–
Transfers from stage 2 to stage 1	63.5	(63.5)	–	–
Transfers to stage 3	(3.1)	(49.9)	53.0	–
Transfers from stage 3	1.9	2.2	(4.1)	–
Income statement charge				
Net remeasurement[2] following transfer of stage[3]	(37.9)	23.3	92.7	78.1
New financial assets originated[4]	27.0	20.8	10.2	58.0
Financial assets derecognised during year	(8.7)	(12.1)	(3.4)	(24.2)
Changes in risk parameters and other movements[5]	(31.6)	63.2	59.9	91.5
Other movements				
Write-offs and asset disposals[6]	–	(3.3)	(194.5)	(197.8)
Transfer from provisions for liabilities and charges[7]	0.4	0.4	–	0.8
Reclassification of assets of the disposal group[8]	(1.5)	(1.6)	(0.1)	(3.2)
ECL allowance at 29 February 2020	**84.1**	**218.6**	**185.7**	**488.4**
Investment securities at FVOCI				
At 1 March 2019	0.2	–	–	0.2
Income statement charge				
New financial assets purchased[4]	0.4	–	–	0.4
Financial assets derecognised during the year	(0.7)	–	–	(0.7)
Changes in risk parameters and other movements[5]	1.0	–	–	1.0
ECL allowance at 29 February 2020	**0.9**	**–**	**–**	**0.9**
Investment securities at amortised cost				
At 1 March 2019	0.1	–	–	0.1
Income statement release				
Changes in risk parameters and other movements[5]	–	–	–	–
ECL allowance at 29 February 2020	**0.1**	**–**	**–**	**0.1**
Reconciliation to income statement				
Net expected credit loss (release)/charge	(50.5)	95.2	159.4	204.1
Recoveries and write-offs	–	–	(25.4)	(25.4)
Total income statement (release)/charge	**(50.5)**	**95.2**	**134.0**	**178.7**
Comprising:				
- In respect of continuing operations	(50.0)	94.6	134.0	178.6
- In respect of discontinued operations	(0.5)	0.6	–	0.1
Total income statement (release)/charge	**(50.5)**	**95.2**	**134.0**	**178.7**

[1] Transfers - The opening loss allowance on financial assets which transferred stage during the year.
[2] Net remeasurement - The increase/(decrease) in the opening loss allowance as a result of a stage transfer.
[3] Includes a release in stages 1 and 2 ECL of £8.0m due to a change in the macro-economic scenarios assumptions.
[4] New financial assets originated or purchased - The loss allowance on new financial assets originated or purchased during the year, representing their stage at 29 February 2020.
[5] Changes in risk parameters and other movements - The change in loss allowance due to changes in macro-economic scenarios, PD, LGD and EAD during the year.
[6] Write-offs and asset disposals - The release of the loss allowance following the write-off and/or disposal of a financial asset during the year.
[7] Transfer from provisions for liabilities and charges - The movement in loss allowance which exceeds the gross carrying amount of the financial asset.
[8] During the prior year, the Group classified its Mortgage Business as a disposal group.

37. Risk Management (continued)

The following table provides a reconciliation of the movements in the gross carrying amounts of financial instruments to help explain their significance to the changes in the loss allowance during the year as set out in the above table:

2021	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Group and Company	**£m**	**£m**	**£m**	**£m**
Loans and advances to customers				
Gross carrying amount				
At 1 March 2020	7,687.9	953.3	288.8	8,930.0
Transfers[1]				
Transfers from stage 1 to stage 2	(555.6)	555.6	–	–
Transfers from stage 2 to stage 1	46.3	(46.3)	–	–
Transfers to stage 3	(90.0)	(122.3)	212.3	–
Transfers from stage 3	3.8	5.0	(8.8)	–
Other movements				
New financial assets originated[2]	1,212.0	16.9	2.4	1,231.3
Net decrease in lending[3]	(2,540.5)	(328.8)	(22.5)	(2,891.8)
Write-offs and asset disposals[4]	–	(2.3)	(237.6)	(239.9)
Changes in interest accrual and other movements	(15.4)	(1.1)	7.0	(9.5)
At 28 February 2021	**5,748.5**	**1,030.0**	**241.6**	**7,020.1**
Investment securities at FVOCI				
Gross carrying amount				
At 1 March 2020	1,060.6	–	–	1,060.6
Transfer to investment securities at amortised cost[5]	(1,057.4)	–	–	(1,057.4)
Other movements	1.9	–	–	1.9
At 28 February 2021	**5.1**	**–**	**–**	**5.1**
Investment securities at amortised cost				
Gross carrying amount				
At 1 March 2020	21.1	–	–	21.1
Transfer from investment securities at FVOCI[5]	1,057.4	–	–	1,057.4
New financial assets originated[2]	84.4	–	–	84.4
Financial assets derecognised during the year	(201.8)	–	–	(201.8)
Other movements	(11.9)	–	–	(11.9)
At 28 February 2021	**949.2**	**–**	**–**	**949.2**

[1] Transfers - The opening gross carrying amount of financial assets held which transferred stage as at year end.

[2] New financial assets originated or purchased - The gross carrying amount of financial assets originated or purchased during the year, representing their stage as at 28 February 2021.

[3] Net decrease in lending - The changes in gross carrying amount of financial assets after taking account of additional borrowing and/or payments received from customers.

[4] Write-offs and asset disposals - The write-off of the gross carrying amount when a financial asset is deemed uncollectible and/or has been disposed of.

[5] On 1 March 2020 the Group's portfolio of debt investment securities measured at FVOCI was reclassified to amortised cost following a change in business model.

37. Risk Management (continued)

2020	Stage 1	Stage 2	Stage 3	Total
Group and Company	**£m**	**£m**	**£m**	**£m**
Loans and advances to customers				
Gross carrying amount				
At 1 March 2019	11,463.6	1,179.1	270.9	12,913.6
Transfers[1]				
Transfers from stage 1 to stage 2	(523.3)	523.3	–	–
Transfers from stage 2 to stage 1	431.3	(431.3)	–	–
Transfers to stage 3	(110.2)	(154.8)	265.0	–
Transfers from stage 3	4.6	5.0	(9.6)	–
Other movements				
New financial assets originated[2]	2,611.0	106.9	13.9	2,731.8
Net decrease in lending[3]	(2,652.9)	(146.9)	(11.4)	(2,811.2)
Write-offs and asset disposals[4]	–	(3.3)	(242.4)	(245.7)
Changes in interest accrual and other movements	(0.8)	(0.6)	3.4	2.0
Reclassification of assets of the disposal group[5]	(3,535.3)	(124.1)	(1.1)	(3,660.5)
At 29 February 2020	**7,688.0**	**953.3**	**288.7**	**8,930.0**
Investment securities at FVOCI				
Gross carrying amount				
At 1 March 2019	1,042.7	–	–	1,042.7
New financial assets purchased	778.6	–	–	778.6
Financial assets derecognised during the year	(774.5)	–	–	(774.5)
Other movements	13.8	–	–	13.8
At 29 February 2020	**1,060.6**	**–**	**–**	**1,060.6**
Investment securities at amortised cost				
Gross carrying amount				
At 1 March 2019	28.9	–	–	28.9
Financial assets derecognised during the year	(7.8)	–	–	(7.8)
At 29 February 2020	**21.1**	**–**	**–**	**21.1**

[1] Transfers - The opening gross carrying amount of financial assets held which transferred stage as at year end.
[2] New financial assets originated or purchased - The gross carrying amount of financial assets originated or purchased during the year, representing their stage as at 29 February 2020.
[3] Net decrease in lending - The changes in gross carrying amount of financial assets after taking account of additional borrowing and/or payments received from customers.
[4] Write-offs and asset disposals - The write-off of the gross carrying amount when a financial asset is deemed uncollectible and/or has been disposed of.
[5] In the prior year, the Group classified its Mortgage Business as a disposal group.

37. Risk Management (continued)

- **Credit risk: Write off policy**

When a loan is deemed uncollectable it is written off against the related provision after all of the necessary procedures have been completed and the amount of the loss has been determined.

The Group may write off loans that are still subject to enforcement activity. The outstanding contractual amount of such assets written off during the year ended 28 February 2021 was £154.1m (2020: £140.0m). Expected recoveries from written off financial assets subject to enforcement activity are recognised in the Company and Consolidated Statements of Financial Position.

- **Credit risk: 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 adopted the definition of forbearance as published in Regulation EU 2015/227. The Group reports all accounts meeting this definition, providing for them appropriately.

Controls and risk mitigants

The Group has well defined forbearance policies and processes. A number of forbearance options are made available to customers by the Group. These routinely, but not exclusively, include the following:

- 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.
- 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, in accordance with the European Banking Authority (EBA) definition.

	Gross loans and advances subject to forbearance programmes		Forbearance programmes as a proportion of total loans and advances by category		Proportion of forbearance programmes covered by impairment provision	
Group and Company	**2021**	2020	**2021**	2020	**2021**	2020
	£m	£m	**%**	%	**%**	%
Credit Cards UK	118.8	107.6	3.7	2.5	50.2	49.7
Credit Cards commercial	0.1	0.1	4.9	4.7	96.0	94.1
Loans	48.0	48.9	1.3	1.1	56.0	41.1

37. Risk Management (continued)

(b) Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The Group is subject to the SA method to calculate Pillar 1 operational risk capital, as outlined in the Capital Requirements Regulation (CRR).

Financial crime and fraud are significant drivers of operational risk and the external threat continues to grow across the Financial Services industry. The industry remains under significant threat from cyber attacks. This includes various organised groups targeting institutions through phishing, malware, denial of service and other sophisticated methods. The Group has an appropriate risk framework and continually monitors emerging risks and threats.

Controls and risk mitigants

The Group's risks are assessed utilising a risk management framework methodology which is aligned to the Three Lines of Defence model.

The CRO and the Head of Operational Risk, together with a dedicated Operational Risk team, are responsible for:

- developing and maintaining the operational risk framework;
- working with relevant business areas to make sure that first line responsibilities are understood and that those responsibilities should be executed within the framework;
- supporting relevant business areas to embed policies and frameworks and instil a positive risk management culture; and
- independently monitoring, assessing and reporting on operational risk profiles and losses.

The Operational Risk function maintains policies defining the minimum requirements for the management of operational risk and financial crime.

Business units and functions assess their operational risks on an ongoing basis via a prescribed Risk and Control Self-Assessment (RCSA) process and Operational Risk Scenario Analysis (ORSA). The RCSA analysis is reviewed and updated on a timely basis by first line business areas to reflect changes to the risk and control environment arising from changes in products, processes and systems. The RCSA outputs are reported to relevant governance bodies. This is supplemented further by an event management process and regular reporting of the Operational Risk profile to the ERC. The ORSA builds on RCSA and event management to identify the forward-looking risk profile and the results are used to inform the Board's decision on any additional requirement for operational risk capital under Pillar II.

The ERC provides oversight of the Group's operational risk profile and provides regular reports and recommendations to the Board Risk Committee (BRC) and the Board.

(c) Liquidity and funding risk

Liquidity risk is the risk that the Group is not able to meet its obligations as they fall due. This includes the risk that a given security cannot be traded quickly enough in the market to prevent a loss if a credit rating falls. Funding risk is the risk that the Group does not have sufficiently stable and diverse sources of funding.

The Group operates within a Liquidity Risk Management Framework (LRMF) to ensure that sufficient funds are available at all times to meet demands from depositors; to fund agreed advances; to meet other commitments as they fall due; and to ensure the Board's Risk Appetite is met.

37. Risk Management (continued)

Controls and risk mitigants

Liquidity and funding risk is assessed through the ILAAP on at least an annual basis. The ILAAP process involves detailed internal consideration of the following:

- identification of sources of liquidity risk;
- quantification of those risks through stress testing;
- consideration of management processes and controls to manage the risk;
- assessment of the type and quality of liquid asset holdings to mitigate the risk; and
- consideration of the levels of contingent funding required to mitigate the risk.

The Group sets formal limits within the LRMF to maintain liquidity risk exposures within the liquidity Risk Appetite set by the Board. The key liquidity and funding measures monitored on a daily basis are:

- the internal liquidity requirement;
- the individual liquidity guidance;
- the net stable funding ratio;
- the loan to deposit ratio;
- the encumbrance ratio;
- the wholesale funding ratio;
- the annual wholesale refinancing amount; and
- the unencumbered assets to retail liabilities ratio.

The Group measures and manages liquidity adequacy in line with the above metrics and maintains a liquidity and funding profile to enable it to meet its financial obligations under normal and stressed market conditions.

The Group monitors and reports on the composition of its funding base against defined thresholds to avoid funding source and maturity concentration risks.

The Group prepares both short-term and long-term forecasts to assess liquidity requirements and takes into account factors such as Credit Card payment cycles, expected utilisation of undrawn credit limits, investment maturities, customer deposit patterns, and wholesale funding (including TFS and TFSME) maturities. These reports support daily liquidity management and are reviewed daily by Senior Management, along with early warning indicators.

Stress testing of current and forecast financial positions is conducted to inform the Group of required liquidity resources. Reverse stress testing is conducted to inform the Group of the circumstances that would result in liquidity resources being exhausted. Liquidity stress tests are presented to the Treasury Committee (TCo) and Asset and Liability Management Committee (ALCo) on a regular basis to provide evidence that sufficient liquidity is held to meet financial obligations in a stress.

37. Risk Management (continued)

The Treasury Director is responsible for formulating, and obtaining Board approval for, an annual funding plan as part of the overall business planning process. The Group is predominantly funded by its retail deposit base which reduces reliance on wholesale funding and, in particular, results in minimal short-term wholesale funding.

A significant part of these retail deposits are repayable on demand on a contractual basis. The Group continuously monitors retail deposit activity so that it can reasonably predict expected maturity flows. These instruments form a stable funding base for the Group’s operations because of the broad customer base and the historical behaviours exhibited.

The table below shows the Group's primary funding sources:

	2021	2020
Group and Company	**£m**	**£m**
On balance sheet		
Deposits from banks	600.0	500.0
Deposits from customers	5,751.2	7,718.0
Subordinated liabilities and notes	486.6	485.6
Debt securities in issue	–	774.1
Total on balance sheet funding	**6,837.8**	**9,477.7**

37. Risk Management (continued)

The tables below show cash flows payable up to a period of 20 years on an undiscounted basis. These differ from the Statement of Financial Position values due to the effects of discounting on certain Statement of Financial Position items and due to the inclusion of contractual future interest flows.

Derivatives designated in a hedging relationship are included according to their contractual maturity.

Group 2021 On balance sheet	Within 1 year £m	Between 1 and 2 years £m	Between 2 and 3 years £m	Between 3 and 4 years £m	Between 4 and 5 years £m	Beyond 5 years £m	Total £m
Financial assets:							
Cash and balances at central banks	802.6	–	–	–	–	–	802.6
Loans and advances to customers	4,643.7	1,099.4	807.7	483.8	224.5	168.8	7,427.9
Investment securities							
- FVOCI	5.8	–	–	–	–	–	5.8
- Amortised cost	310.9	281.1	377.2	76.4	139.5	161.4	1,346.5
Other assets	211.2	–	–	–	–	–	211.2
Total financial assets	**5,974.2**	**1,380.5**	**1,184.9**	**560.2**	**364.0**	**330.2**	**9,794.0**
Financial liabilities:							
Deposits from banks	500.5	0.2	100.1	–	–	–	600.8
Deposits from customers	4,897.4	488.4	253.0	113.6	24.0	0.2	5,776.6
Derivatives settled on a net basis							
- Derivatives in economic but not accounting hedges	0.9	–	–	–	–	–	0.9
- Derivatives in accounting hedge relationships	14.8	10.6	6.5	4.0	4.4	2.6	42.9
Other liabilities							
- Lease liabilities	3.5	3.8	4.1	3.9	2.8	11.6	29.7
- Other liabilities excluding lease liabilities	154.6	–	–	–	–	–	154.6
Subordinated liabilities	13.4	13.8	13.5	259.4	5.2	262.3	567.6
Total financial liabilities	**5,585.1**	**516.8**	**377.2**	**380.9**	**36.4**	**276.7**	**7,173.1**
Off balance sheet							
Contractual lending commitments	12,668.0	–	–	–	–	–	12,668.0
Total off balance sheet	**12,668.0**	**–**	**–**	**–**	**–**	**–**	**12,668.0**

37. Risk Management (continued)

Company 2021 On balance sheet	Within 1 year £m	Between 1 and 2 years £m	Between 2 and 3 years £m	Between 3 and 4 years £m	Between 4 and 5 years £m	Beyond 5 years £m	Total £m
Financial assets:							
Cash and balances at central banks	746.4	–	–	–	–	–	746.4
Loans and advances to customers	4,643.7	1,099.4	807.7	483.8	224.5	168.8	7,427.9
Investment securities							
- FVOCI	5.8	–	–	–	–	–	5.8
- Amortised cost	310.9	281.1	377.2	76.4	139.5	161.4	1,346.5
Other assets	267.1	–	–	–	–	–	267.1
Total financial assets	**5,973.9**	**1,380.5**	**1,184.9**	**560.2**	**364.0**	**330.2**	**9,793.7**
Financial liabilities:							
Deposits from banks	500.5	0.2	100.1	–	–	–	600.8
Deposits from customers	4,897.4	488.4	253.0	113.6	24.0	0.2	5,776.6
Derivatives settled on a net basis							
- Derivatives in economic but not accounting hedges	0.9	–	–	–	–	–	0.9
- Derivatives in accounting hedge relationships	14.8	10.6	6.5	4.0	4.4	2.6	42.9
Other liabilities							
- Lease liabilities	3.5	3.8	4.1	3.9	2.8	11.6	29.7
- Other liabilities excluding lease liabilities	154.5	–	–	–	–	–	154.5
Subordinated liabilities	13.4	13.8	13.5	259.4	5.2	262.3	567.6
Total financial liabilities	**5,585.0**	**516.8**	**377.2**	**380.9**	**36.4**	**276.7**	**7,173.0**
Off balance sheet							
Contractual lending commitments	12,668.0	–	–	–	–	–	12,668.0
Total off balance sheet	**12,668.0**	**–**	**–**	**–**	**–**	**–**	**12,668.0**

37. Risk Management (continued)

Group 2020 On balance sheet	Within 1 year £m	Between 1 and 2 years £m	Between 2 and 3 years £m	Between 3 and 4 years £m	Between 4 and 5 years £m	Beyond 5 years £m	Total £m
Financial assets:							
Cash and balances at central banks	1,394.5	–	–	–	–	–	1,394.5
Loans and advances to customers	5,911.3	1,253.4	992.9	678.3	355.8	280.9	9,472.6
Investment securities							
- FVOCI	217.0	187.7	86.3	308.4	77.9	201.3	1,078.6
- Amortised cost	0.9	0.9	1.0	0.9	1.0	27.1	31.8
Other assets	205.7	–	–	–	–	–	205.7
Assets of the disposal group	45.1	–	–	–	–	–	45.1
Total financial assets	**7,774.5**	**1,442.0**	**1,080.2**	**987.6**	**434.7**	**509.3**	**12,228.3**
Financial liabilities:							
Deposits from banks	2.7	1.4	501.1	–	–	–	505.2
Deposits from customers	6,437.2	797.1	232.8	186.9	115.1	0.4	7,769.5
Debt securities in issue	786.3	–	–	–	–	–	786.3
Derivatives settled on a net basis							
- Derivatives in accounting hedge relationships	6.7	11.2	9.1	7.1	5.3	9.1	48.5
Derivatives settled on a gross basis							
- outflows	(276.3)	–	–	–	–	–	(276.3)
- inflows	274.9	–	–	–	–	–	274.9
Other liabilities							
- Lease liabilities	5.5	5.5	5.5	5.5	5.5	16.8	44.3
- Other liabilities excluding lease liabilities	164.2	–	–	–	–	–	164.2
Subordinated liabilities	13.5	13.4	13.8	13.5	259.4	267.5	581.1
Total financial liabilities	**7,414.7**	**828.6**	**762.3**	**213.0**	**385.3**	**293.8**	**9,897.7**
Off balance sheet							
Contractual lending commitments	11,872.0	–	–	–	–	–	11,872.0
Total off balance sheet	**11,872.0**	–	–	–	–	–	**11,872.0**

37. Risk Management (continued)

Company 2020 On balance sheet	Within 1 year £m	Between 1 and 2 years £m	Between 2 and 3 years £m	Between 3 and 4 years £m	Between 4 and 5 years £m	Beyond 5 years £m	Total £m
Financial assets:							
Cash and balances at central banks	1,335.4	–	–	–	–	–	1,335.4
Loans and advances to customers	5,911.3	1,253.4	992.9	678.3	355.8	280.9	9,472.6
Investment securities							
- FVOCI	217.0	187.7	86.3	308.4	77.9	201.3	1,078.6
- Amortised cost	0.9	0.9	1.0	0.9	1.0	27.1	31.8
Other assets	253.2	–	–	–	–	–	253.2
Assets of the disposal group	45.1	–	–	–	–	–	45.1
Total financial assets	**7,762.9**	**1,442.0**	**1,080.2**	**987.6**	**434.7**	**509.3**	**12,216.7**
Financial liabilities:							
Deposits from banks	2.7	1.4	501.1	–	–	–	505.2
Deposits from customers	6,437.2	797.1	232.8	186.9	115.1	0.4	7,769.5
Debt securities in issue	210.0	–	–	–	–	–	210.0
Derivatives settled on a net basis							
- Derivatives in accounting hedge relationships	6.7	11.2	9.1	7.1	5.3	9.1	48.5
Other liabilities							
- lease liabilities	5.5	5.5	5.5	5.5	5.5	16.8	44.3
- Other liabilities excluding lease liabilities	740.5	573.4	–	–	–	–	1,313.9
Subordinated liabilities	13.5	13.4	13.8	13.5	259.4	267.5	581.1
Total financial liabilities	**7,416.1**	**1,402.0**	**762.3**	**213.0**	**385.3**	**293.8**	**10,472.5**
Off balance sheet							
Contractual lending commitments	11,872.0	–	–	–	–	–	11,872.0
Total off balance sheet	**11,872.0**	–	–	–	–	–	**11,872.0**

37. Risk Management (continued)

The table below summarises the Group's assets which are available to support future funding and collateral needs and shows the extent to which these assets are currently pledged for this purpose.

The Group has adopted the definition of encumbered and unencumbered in the EBA's final guidelines on disclosure of June 2014. Asset encumbrance represents a claim to an asset by another party usually in the form of a security interest such as a pledge. Encumbrance reduces the assets available in the event of default by a bank and therefore the recovery rate of its depositors and other unsecured bank creditors.

Group **2021**	**Encumbered** **£m**	**Unencumbered** **£m**	**Total** **£m**
Encumbered asset summary			
Investment securities - FVOCI	–	5.1	5.1
Investment securities - amortised cost	61.2	887.2	948.4
Loans and advances to customers	862.4	5,539.8	6,402.2
Other assets	83.1	128.1	211.2
	1,006.7	**6,560.2**	**7,566.9**
Encumbered investment securities - amortised cost			
Debt securities at amortised cost[1]	61.2		
	61.2		
Encumbered loans and advances to customers			
Personal Loans	862.4		
	862.4		
Encumbered other assets			
Cash ratio deposit	24.7		
Initial margin held at Clearing Houses	15.7		
Variation margin held at Clearing Houses	41.8		
Collateral held at counterparties	0.9		
	83.1		

[1] On 1 March 2020 the Group's portfolio of debt investment securities measured at FVOCI was reclassified to amortised cost following a change in business model.

37. Risk Management (continued)

Group 2020	Encumbered £m	Unencumbered £m	Total £m
Encumbered asset summary			
Investment securities - FVOCI	62.0	998.6	1,060.6
Loans and advances to customers	1,492.9	6,958.4	8,451.3
Other assets	96.8	146.5	243.3
	1,651.7	**8,103.5**	**9,755.2**

Encumbered investment securities - FVOCI	
Debt securities at FVOCI	62.0
	62.0
Encumbered loans and advances to customers	
Securitisation – Delamare Master Trust	788.9
Personal Loans	704.0
	1,492.9
Encumbered other assets	
Cash ratio deposit	31.6
Initial margin held at Clearing Houses	20.0
Variation margin held at Clearing Houses	45.1
Collateral held at counterparties	0.1
	96.8

37. Risk Management (continued)

- **Loans and advances assigned for use as collateral in securitisation transactions**

At 28 February 2021, £2,959.5m (2020: £3,462.7m) of the Credit Card portfolio had its beneficial interest assigned to a securitisation special purpose entity, Delamare Cards Receivables Trustee Limited, for use as collateral in securitisation transactions. The total encumbered portion of this portfolio is £nil (2020: £788.9m).

At 28 February 2021, Delamare Cards MTN Issuer plc had £1,840.0m (2020: £2,012.2m) notes in issue in relation to securitisation transactions, of which £nil (2020: £572.2m) related to the par value of externally issued notes (refer to note 28). At 28 February 2021 the Group owned £1,840.0m (2020: £1,440.0m) of class A and class D Credit Card backed notes issued by Delamare Cards MTN Issuer plc.

All of the £1,550.0m (2020: £1,150.0m) class A retained Credit Card backed notes are held within their single collateral pool.

- **Loans and advances prepositioned with the BoE**

Group and Company	**2021**	**2020**
	£m	**£m**
Credit Card backed notes[1]	1,550.0	1,150.0
Unsecured personal Loans	2,243.2	2,484.2
Total assets prepositioned as collateral with the BoE	**3,793.2**	**3,634.2**
Collateralised TFS drawings	500.0	500.0
Collateralised TFSME drawings	100.0	–
Total	**600.0**	**500.0**

[1] Issued by Delamare Cards MTN Issuer plc.

Undrawn Committed Facilities

The Group has the following undrawn committed facilities:

	2021	**2020**
Group and Company	**£m**	**£m**
Expiring in less than one year	–	–
Expiring between one and two years	–	200.0
Expiring in more than two years	200.0	–
Total	**200.0**	**200.0**

The undrawn committed facilities includes a £200.0m (2020: £200.0m) committed repurchase facility. All facilities incur commitment fees at market rates and would provide funding at floating rates. There were no withdrawals from the facilities during the year.

37. Risk Management (continued)

(d) Market risk

Market risk is the risk that movements in market prices (such as interest rates, foreign exchange rates and the market value of financial instruments) lead to a reduction in either the Bank's earnings or capital.

Market risk arises in the following ways in the Group:

- Interest rate risk is the risk to earnings and economic value from movements in interest rates, hereafter referred to as Interest Rate Risk in the Banking Book (IRRBB);
- Credit spread risk is the risk to the value of treasury assets driven by changes in the market perception about the price of credit risk, liquidity premium and other components not explained by IRRBB; hereafter referred to as Credit Spread Risk in the Banking Book (CSRBB);
- Foreign exchange risk arises from non-domestic currency investments, non-domestic currency loans, deposits, income and other non-domestic currency contracts;
- Interest rate risk associated with TU's investment portfolio; and
- Pension obligation risk.

Control and risk mitigants

With the exception of portfolio management in respect of TU, which is undertaken by the TU Investment Committee, with oversight and challenge provided by the Group's Finance function, control of market risk exposure is managed by the ALCo and the TCo. These bodies provide oversight of the Group's market risk position at a detailed level, providing regular reports and recommendations to the BRC and the Board.

37. Risk Management (continued)

- **Interest rate risk in the Banking Book**

IRRBB is the risk of value changes to both earnings and capital arising from timing differences in the re-pricing of the Group's balance sheet and unexpected changes to the level and/or shape of the yield curve.

The Group offers lending and savings products with varying interest rate features and maturities which create re-pricing mismatches and therefore potential interest rate risk exposures. The Group is therefore exposed to interest rate risk through its dealings with retail banking products as well as through its limited wholesale market activities.

IRRBB is the main market risk that could affect the Group's net interest income.

Control and risk mitigants

The Group has established limits for its Risk Appetite in this area and stress tests are performed using sensitivity to fluctuations in underlying interest rates in order to monitor this risk.

The Group has established a specific Risk Appetite for IRRBB which is implemented via the Market Risk Policy, a range of specific risk limits and market risk controls. The Treasury function is responsible for regular stress testing of risk positions against multiple interest rate scenarios to determine the sensitivity of earnings and capital valuations to ensure compliance with Board Risk Appetite and limits.

IRRBB management information is produced by the Balance Sheet Management team and is reviewed by the ALCo at each of its monthly meetings. IRRBB primarily arises from the retail lending portfolios and retail deposits. The Balance Sheet Management team is responsible for ensuring hedging strategies are implemented as required to ensure that the Group remains within its stated Risk Appetite and limits.

The main hedging instruments used are interest rate swaps and the residual exposure against the two Board Risk Appetite metrics is reported monthly to the ALCo and Board.

Capital at Risk (CaR): The CaR approach assesses the sensitivity of the Group's capital to movements in interest rates. The scenarios considered include both parallel and non-parallel movements of the yield curve and have been designed to assess impacts across a suitable range of severe but plausible movements in interest rates. The CaR measure is an aggregate measure of three separate risk components, each being a distinct form of interest rate risk - repricing risk (including basis risk), pipeline risk and prepayment risk. A fourth risk, CSRBB, has been added to the CaR measure in preparation for the EBA guidelines on the management of interest rate risk arising from non-trading book activities.

The table below shows the Group's CaR. At 28 February 2021 the Group was exposed to net residual risk via an upward rate scenario (2020: downward rate scenario).

Group and Company Capital at Risk Sensitivity	2021 Upward rate scenario £m	2020 Downward rate scenario £m
Repricing risk	(13.6)	(21.3)
Pipeline risk	(0.2)	(0.1)
Prepayment risk	(6.7)	(0.7)
CSRBB	–	(8.6)
Total	**(20.5)**	**(30.7)**

Annual Earnings at Risk Sensitivity: This measures the sensitivity of the Group's earnings to movements in interest rates over the next 12 months based on expected cash flows. The Group assesses the impact of a +/- 0.25%, 0.50%, 0.75%, 1% shock in rates versus the base case scenario (2020: +/- 0.25%, 0.50%, 0.75%, 1%). The most adverse scenario is measured against Risk Appetite. At 28 February 2021, the most adverse scenario was a downward rate shock, with an impact of 1.71% (29 February 2020: (1.17%) with an upward rate shock). Any adverse effects of the current macro-economic environment on IRRBB metrics will be mitigated with hedging to limit the Group's exposure to movements in interest rates and to ensure compliance with Board Risk Appetite and limits.

37. Risk Management (continued)

(e) Foreign exchange risk

Foreign exchange risk is the risk that the value of transactions in currencies other than Sterling is altered by the movement of exchange rates.

The Group's Risk Appetite permits investment in non-sterling denominated bonds and the Group may raise funding from the wholesale markets in currencies other than sterling. Foreign exchange exposure arises if these are not hedged. Foreign exchange exposure may also arise through the Group's 'Click and Collect' Travel Money provision and invoices received which are denominated in foreign currencies.

Control and risk mitigants

Substantially all non-domestic currency exposure is hedged to reduce exposure to a minimum level, within Board-approved limits. The residual exposure is not material and, as such, no sensitivity analysis is disclosed.

The Group's maximum exposure to foreign exchange risk at 28 February 2021 was £6.7m (2020: £(274.8)m), representing the Group's net assets (2020: net liabilities) denominated in foreign currencies.

(f) TU investment portfolio

The TU insurance portfolio assets are invested with a number of counterparties. These investments are predominantly comprised of government securities, corporate bonds and short-term cash investments.

The main risks relate to changes in:

- interest rates affecting fair values as a proportion of the bonds are fixed rate in nature; and
- credit quality, as the range of assets held are issued by a variety of institutions with different credit characteristics.

Controls and risk mitigants

Portfolio management is undertaken by the TU investment committee. The Group's Finance function provides oversight and challenge.

(g) Pension obligation risk

Pension obligation risk is the risk to a company caused by its contractual or other liabilities to or with respect to a pension scheme (whether established for its employees or those of a related company or otherwise). The Group is a participating employer in the Tesco Pension Scheme (operated by TSL) and is exposed to pension risk through its obligation to the scheme. TSL has recognised the appropriate net liability of the Tesco pension scheme in accordance with IAS 19 (refer to note 36).

Controls and risk mitigants

The Group undertakes an assessment of the impact of its share of the pension scheme under a stress as part of its annual ICAAP.

(h) Insurance risk

The Group is exposed to insurance risk through its 49.9% ownership of TU, an authorised insurance company.

The Group defines insurance risk as the risks accepted through the provision of insurance products in return for a premium. These risks may or may not occur as expected and the amount and timing of these risks are uncertain and determined by events outside of the Group's control (e.g. flood or vehicular accident). The Group's aim is to actively manage insurance risk exposure, with particular focus on those risks that impact profit volatility.

Insurance risk is typically categorised in the following way:

- Underwriting risk – Related to the selection and pricing (or quantification) of the risk currently being transferred from customers to an insurer; and
- Reserving risk – Related to valuation and management of financial resources sufficient to pay claims for the risk already transferred from customers to an insurer.

37. Risk Management (continued)

Controls and risk mitigants

The Group's oversight of TU is primarily provided by its representation on the TU Board. TU operates a separate risk framework with dedicated risk and compliance teams and a suite of TU risk policies to ensure that the TU insurance portfolio is operating within agreed Risk Appetite.

(i) Residual price risk

Residual price risk is the risk that the fair value of a financial instrument and its associated hedge will fluctuate because of changes in market prices, for reasons other than interest rate or credit risk.

At the prior year end the Group had debt and equity investment securities which were held at fair value in the Company and Consolidated Statements of Financial Position. On 1 March 2020 the Group's portfolio of debt investment securities held at FVOCI was reclassified to amortised cost following a change in business model. Equity investment securities continue to be held at fair value as set out at note 18.

Controls and risk mitigants

The Group has established appropriate hedging strategies to mitigate interest rate and foreign exchange risks. Residual price risk remains.

The table below demonstrates the Group’s exposure to residual price risk at the year end. Included in the table is the expected impact of a 10% shock in market prices on the Group’s FVOCI investment securities. The figures shown are prior to hedging activities which mitigate the interest rate and foreign exchange risks.

	Fair value		Impact of 10% shock		Value after 10% shock	
	2021	2020	2021	2020	2021	2020
Group and Company	£m	£m	£m	£m	£m	£m
Government-backed investment securities	–	315.9	–	(31.6)	–	284.3
Gilts	–	40.7	–	(4.1)	–	36.6
Supranational investment securities	–	393.9	–	(39.4)	–	354.5
Other investment securities	–	306.9	–	(30.7)	–	276.2
Equity securities	5.1	3.2	(0.5)	(0.3)	4.6	2.9
	5.1	**1,060.6**	**(0.5)**	**(106.1)**	**4.6**	**954.5**

(j) Legal and regulatory compliance

Regulatory risk is the risk of reputational damage, liability or material loss from failure to comply with the requirements of the financial services regulators or related codes of best practice applicable to the business areas within which the Group operates. The risk of business conduct leading to poor outcomes can arise as a result of an over-aggressive sales strategy; poor management of sales processes, credit assessments and credit processes; or failure to comply with other regulatory requirements. The Group’s Risk Appetite is to comply with the relevant rules, regulations and data protection legislation. Where breaches occur, the Group will take appropriate rectifying action. The Group seeks to deliver fair outcomes for customers.

Controls and risk mitigants

As part of the Group’s Policy Framework, a dedicated Compliance Advisory (CA) team is responsible for the Compliance Policy which is approved by the Group’s Board, as well as for monitoring, challenge and oversight of regulatory risk and compliance across the Group’s business. Guidance and advice to enable the business to operate in a compliant manner is provided by the CA team and the Legal team.

The CA team is also responsible for the detailed regulatory policies which underpin the Compliance Policy. These are further supported by Operational and Product Guides that provide relevant practical guidance to business and operational areas to enable them to comply with the regulatory policies.

The Group has also established the Regulatory Change Forum which is responsible for the oversight of communications from all external regulators and monitoring regulatory change, including impact analysis and action tracking.

37. Risk Management (continued)

The Group's Legal function has responsibility for commercial legal work, regulatory legal compliance, litigation/dispute resolution matters, advising on competition law and supporting the Group's Treasury activity. The Legal team also comprises the Company Secretarial function which, in addition to its role supporting the Board and maintaining statutory books, ensures the Company complies with all applicable governance codes.

Business areas manage conduct risk and use a range of management information to monitor the fair treatment of customers. A framework of product-led conduct management information has been developed and is reviewed by Senior Management in the business lines. Customer outcomes are also assessed as part of the development and design of new products and through annual product reviews of existing products. The ERC and the Board review and challenge delivery of fair outcomes for customers.

38. Financial Instruments

Classification of financial assets and liabilities

The following tables analyse the financial assets and financial liabilities in accordance with the categories of financial instruments in IFRS 9.

Group 2021	Amortised cost £m	Designated as at FVPL £m	FVOCI - equity instruments £m	Total £m
Financial assets				
Cash and balances with central banks	789.4	13.2	–	802.6
Loans and advances to customers	6,402.2	–	–	6,402.2
Derivative financial instruments	–	6.1	–	6.1
Investment securities[1]:				
- FVOCI	–	–	5.1	5.1
- Amortised cost	948.4	–	–	948.4
Other assets	211.2	–	–	211.2
Total financial assets	**8,351.2**	**19.3**	**5.1**	**8,375.6**
Financial liabilities				
Deposits from banks	600.0	–	–	600.0
Deposits from customers	5,751.2	–	–	5,751.2
Derivative financial instruments	–	47.5	–	47.5
Other liabilities	184.2	–	–	184.2
Subordinated liabilities	486.6	–	–	486.6
Total financial liabilities	**7,022.0**	**47.5**	**–**	**7,069.5**

[1] On 1 March 2020 the Group's portfolio of debt investment securities measured at FVOCI was reclassified to amortised cost following a change in business model.

All derivative financial instruments are held for economic hedging purposes, although not all derivatives are designated as hedging instruments under the terms of IFRS 9.

38. Financial Instruments (continued)

Company **2021**	**Amortised cost** **£m**	**Designated as at FVPL** **£m**	**FVOCI - equity instruments** **£m**	**Total** **£m**
Financial assets				
Cash and balances with central banks	733.2	13.2	–	746.4
Loans and advances to customers	6,402.2	–	–	6,402.2
Derivative financial instruments	–	6.1	–	6.1
Investment securities[1]:				
- FVOCI	–	–	5.1	5.1
- Amortised cost	948.4	–	–	948.4
Other assets	267.1	–	–	267.1
Total financial assets	**8,350.9**	**19.3**	**5.1**	**8,375.3**
Financial liabilities				
Deposits from banks	600.0	–	–	600.0
Deposits from customers	5,751.2	–	–	5,751.2
Derivative financial instruments	–	47.5	–	47.5
Other liabilities	184.1	–	–	184.1
Subordinated liabilities	486.6	–	–	486.6
Total financial liabilities	**7,021.9**	**47.5**	**–**	**7,069.4**

[1] On 1 March 2020 the Group's portfolio of debt investment securities measured at FVOCI was reclassified to amortised cost following a change in business model.

38. Financial Instruments (continued)

Group 2020	Amortised cost £m	Designated as at FVPL £m	FVOCI - debt instruments £m	FVOCI - equity instruments £m	Total £m
Financial assets					
Cash and balances with central banks	1,367.6	26.3	–	–	1,393.9
Loans and advances to customers	8,451.3	–	–	–	8,451.3
Derivative financial instruments	–	5.7	–	–	5.7
Investment securities:					
- FVOCI	–	–	1,057.4	3.2	1,060.6
- Amortised cost	21.0	–	–	–	21.0
Other assets	243.3	–	–	–	243.3
Assets of the disposal group	–	45.1	–	–	45.1
Total financial assets	**10,083.2**	**77.1**	**1,057.4**	**3.2**	**11,220.9**
Financial liabilities					
Deposits from banks	500.0	–	–	–	500.0
Deposits from customers	7,718.0	–	–	–	7,718.0
Debt securities in issue	774.1	–	–	–	774.1
Derivative financial instruments	–	50.7	–	–	50.7
Other liabilities	199.0	–	–	–	199.0
Subordinated liabilities	485.6	–	–	–	485.6
Total financial liabilities	**9,676.7**	**50.7**	**–**	**–**	**9,727.4**

38. Financial Instruments (continued)

Company 2020	Amortised cost £m	Designated as at FVPL £m	FVOCI - debt instrument £m	FVOCI - equity instrument £m	Total £m
Financial assets					
Cash and balances with central banks	1,307.0	26.3	–	–	1,333.3
Loans and advances to customers	8,451.3	–	–	–	8,451.3
Derivative financial instruments	–	4.2	–	–	4.2
Investment securities:					
- FVOCI	–	–	1,057.4	3.2	1,060.6
- Amortised cost	21.0	–	–	–	21.0
Other assets	290.8	–	–	–	290.8
Assets of the disposal group	–	45.1	–	–	45.1
Total financial assets	**10,070.1**	**75.6**	**1,057.4**	**3.2**	**11,206.3**
Financial liabilities					
Deposits from banks	500.0	–	–	–	500.0
Deposits from customers	7,718.0	–	–	–	7,718.0
Debt securities in issue	201.8	–	–	–	201.8
Derivative financial instruments	–	50.7	–	–	50.7
Other liabilities	756.4	–	–	–	756.4
Subordinated liabilities	485.6	–	–	–	485.6
Total financial liabilities	**9,661.8**	**50.7**	–	**–**	**9,712.5**

38. Financial Instruments (continued)

Offsetting

The following tables show those financial assets and liabilities subject to offsetting, enforceable master netting arrangements and similar agreements.

Group and Company

2021	**Gross and net amounts presented in Statement of Financial Position**	**Related amounts not offset**		
		Financial instruments	**Collateral pledged**	**Net amounts**
	£m	**£m**	**£m**	**£m**
Financial assets				
Derivative financial instruments	6.1	(6.1)	–	–
Total financial assets	**6.1**	**(6.1)**	**–**	**–**
Financial liabilities				
Derivative financial instruments	(47.5)	6.1	42.7	1.3
Total financial liabilities	**(47.5)**	**6.1**	**42.7**	**1.3**

Group

2020	**Gross and net amounts presented in Statement of Financial Position**	**Related amounts not offset**		
		Financial instruments	**Collateral pledged**	**Net amounts**
	£m	**£m**	**£m**	**£m**
Financial assets				
Derivative financial instruments	5.7	(4.3)	–	1.4
Total financial assets	**5.7**	**(4.3)**	**–**	**1.4**
Financial liabilities				
Derivative financial instruments	(50.7)	4.3	45.2	(1.2)
Total financial liabilities	**(50.7)**	**4.3**	**45.2**	**(1.2)**

38. Financial Instruments (continued)

Company

2020	Gross and net amounts presented in Statement of Financial Position	Related amounts not offset		
		Financial instruments	Collateral pledged	Net amounts
	£m	£m	£m	£m
Financial assets				
Derivative financial instruments	4.2	(4.3)	–	(0.1)
Total financial assets	**4.2**	**(4.3)**	–	**(0.1)**
Financial liabilities				
Derivative financial instruments	(50.7)	4.3	45.2	(1.2)
Total financial liabilities	**(50.7)**	**4.3**	**45.2**	**(1.2)**

For the financial assets and financial liabilities subject to enforceable master netting arrangements above, each agreement between the Group and the counterparty allows for net settlement of the relevant financial assets and financial liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and financial liabilities will be settled on a gross basis. However, each party to the master netting agreement or similar agreement will have the option to settle all such amounts on a net basis in the event of default of the other party.

Fair values of financial assets and financial liabilities

Except as detailed in the following table, the Directors consider that the carrying value amounts of financial assets and financial liabilities recorded on the Statement of Financial Position are approximately equal to their fair values.

Group[1]	2021		2020	
	Carrying value	Fair Value	Carrying value	Fair value
	£m	£m	£m	£m
Financial assets				
Loans and advances to customers	6,402.2	6,617.6	8,451.3	8,626.9
Investment securities - amortised cost[2]	948.4	959.1	21.0	27.6
	7,350.6	**7,576.7**	**8,472.3**	**8,654.5**
Financial liabilities				
Deposits from customers	5,751.2	5,757.5	7,718.0	7,721.8
Debt securities in issue	–	–	774.1	778.0
Subordinated liabilities	486.6	458.3	485.6	449.5
	6,237.8	**6,215.8**	**8,977.7**	**8,949.3**

[1] Fair value disclosures are not required for lease liabilities.

[2] On 1 March 2020 the Group's portfolio of debt investment securities measured at FVOCI was reclassified to amortised cost following a change in business model

38. Financial Instruments (continued)

Company[1]	2021		2020	
	Carrying value	Fair Value	Carrying value	Fair value
	£m	£m	£m	£m
Financial assets				
Loans and advances to customers	6,402.2	6,617.6	8,451.3	8,626.9
Investment securities - amortised cost[2]	948.4	959.1	21.0	27.6
	7,350.6	**7,576.7**	**8,472.3**	**8,654.5**
Financial liabilities				
Deposits from customers	5,751.2	5,757.5	7,718.0	7,721.8
Debt securities in issue	–	–	201.8	204.9
Subordinated liabilities	486.6	458.3	485.6	449.5
	6,237.8	**6,215.8**	**8,405.4**	**8,376.2**

[1] Fair value disclosures are not required for lease liabilities.
[2] On 1 March 2020 the Group's portfolio of debt investment securities measured at FVOCI was reclassified to amortised cost following a change in business model.

The only financial assets and financial liabilities which are carried at fair value in the Company and Consolidated Statements of Financial Position at year end are cash balances relating to the Group's Travel Money offering, FVOCI equity investment securities and derivative financial instruments. At the prior year end the Group also held debt securities at FVOCI. These were reclassified to amortised cost on 1 March 2020 following a change in business model. The valuation techniques and inputs used to derive fair values at the year end are described below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Where an active market is considered to exist, fair values are based on quoted prices. For instruments which do not have active markets, fair value is calculated using present value models, which take individual cash flows together with assumptions based on market conditions and credit spreads, and are consistent with accepted economic methodologies for pricing financial instruments.

In each case the fair value is calculated by discounting future cash flows using benchmark, observable market interest rates.

38. Financial Instruments (continued)

The table below categorises all financial instruments held at fair value (recurring measurement) and the fair value of financial instruments held at amortised cost according to the method used to establish the fair value disclosed.

Group and Company 2021	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Financial assets carried at fair value				
Cash and balances with central banks	–	13.2	–	13.2
Investment securities - FVOCI[1]	–	3.4	1.7	5.1
Derivative financial instruments:				
- Interest rate swaps	–	6.0	–	6.0
- Forward foreign currency contracts	–	0.1	–	0.1
Financial assets carried at amortised cost				
Loans and advances to customers	–	–	6,617.6	6,617.6
Investment securities – amortised cost[1]	932.3	26.8	–	959.1
Total	**932.3**	**49.5**	**6,619.3**	**7,601.1**
Financial liabilities carried at fair value				
Derivative financial instruments:				
- Interest rate swaps	–	46.5	–	46.5
- Forward foreign currency contracts		1.0		1.0
Financial liabilities carried at amortised cost				
Deposits from customers	–	–	5,757.5	5,757.5
Subordinated liabilities	–	458.3	–	458.3
Total	**–**	**505.8**	**5,757.5**	**6,263.3**

[1] On 1 March 2020 the Group's portfolio of debt investment securities measured at FVOCI was reclassified to amortised cost following a change in business model.

38. Financial Instruments (continued)

Group 2020	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets carried at fair value				
Cash and balances with central banks	–	26.3	–	26.3
Investment securities - FVOCI	1,057.4	–	3.2	1,060.6
Derivative financial instruments:				
- Interest rate swaps	–	5.7	–	5.7
- Forward foreign currency contracts	–	–	–	–
Assets of the disposal group	–	–	45.1	45.1
Financial assets carried at amortised cost				
Loans and advances to customers	–	–	8,626.9	8,626.9
Investment securities – amortised cost	–	27.6	–	27.6
Total	**1,057.4**	**59.6**	**8,675.2**	**9,792.2**
Financial liabilities carried at fair value				
Derivative financial instruments:				
- Interest rate swaps	–	50.7	–	50.7
Financial liabilities carried at amortised cost				
Deposits from customers	–	–	7,721.8	7,721.8
Debt securities in issue	778.0	–	–	778.0
Subordinated liabilities	–	449.5	–	449.5
Total	**778.0**	**500.2**	**7,721.8**	**9,000.0**

38. Financial Instruments (continued)

Company 2020	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets carried at fair value				
Cash and balances with central banks	–	26.3	–	26.3
Investment securities - FVOCI	1,057.4	–	3.2	1,060.6
Derivative financial instruments:				
- Interest rate swaps	–	4.2	–	4.2
Assets of the disposal group	–	–	45.1	45.1
Financial assets carried at amortised cost				
Loans and advances to customers	–	–	8,626.9	8,626.9
Investment securities – amortised cost	–	27.6	–	27.6
Total	**1,057.4**	**58.1**	**8,675.2**	**9,790.7**
Financial liabilities carried at fair value				
Derivative financial instruments:				
- Interest rate swaps	–	50.7	–	50.7
Financial liabilities carried at amortised cost				
Deposits from customers	–	–	7,721.8	7,721.8
Debt securities in issue	204.9	–	–	204.9
Subordinated liabilities	–	449.5	–	449.5
Total	**204.9**	**500.2**	**7,721.8**	**8,426.9**

There are three levels to the hierarchy as follows:

Level 1

Fair values of debt investment securities classified as amortised cost are based on quoted prices.

Level 2

Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (for example, as prices) or indirectly (for example, derived from prices).

Fair values of cash balances relating to the Group's Travel Money offering are considered to equate to their carrying value as they are short-term in nature.

Derivative financial instruments which are categorised as Level 2 are those which either:

- Have future cash flows which are on known dates and for which the cash flow amounts are known or calculable by reference to observable interest and foreign exchange rates; or
- Have future cash flows which are not pre-defined, but for which the fair value of the instrument has very low sensitivity to changes in estimate of future cash flows.

In each case the fair value is calculated by discounting future cash flows using benchmark, observable market interest rates.

Fair values of investment in subordinated debt classified as amortised cost are calculated using discounted cash flows applying market rates.

The estimated fair value of subordinated liabilities is calculated using a discounted cash flow model based on a current yield curve appropriate for the remaining term to maturity.

38. Financial Instruments (continued)

Level 3

Inputs for the asset or liability are not based on observable market data (unobservable inputs).

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

At the prior year end the fair value of assets of the disposal group was based on the contract price agreed in respect of the sale of the Group's Mortgage business.

The estimated fair value of deposits from customers represents the discounted amount of estimated future cash flows expected to be paid. Expected cash flows are discounted at current market rates to determine fair value.

The estimated fair value of financial assets classified as FVOCI, being the Group's interest in VISA Inc., is described in note 18.

Transfers

There were no transfers between Levels 1 and Level 2 in the year to 28 February 2021 (2020: no transfers).

There were no transfers between Level 2 and Level 3 in the year to 28 February 2021 (2020: no transfers).

39. Cash Flows from Operating Activities

	Group		Company	
	2021	2020	**2021**	2020
	£m	£m	**£m**	£m
Non cash and other items included in operating profit before taxation				
Expected credit loss on loans and advances (refer notes 10 & 37)	359.7	178.0	359.7	178.0
Expected credit loss on investment securities at amortised cost	(0.2)	–	(0.2)	–
Depreciation and amortisation (refer notes 24 & 25)	56.7	140.9	56.7	140.9
Loss on disposal of investment securities (refer note 8)	–	0.2	–	0.2
Loss on disposal of non-current assets (refer notes 24 & 25)	1.7	–	1.7	–
Gain on disposal of assets of the disposal group (refer note 14)	(0.4)	(43.0)	(0.4)	(43.0)
Provisions for liabilities and charges (refer note 29)	3.1	50.5	3.1	50.5
Share of profit of joint venture (refer note 22)	(16.2)	(10.2)	–	–
Dividend from joint venture	–	–	(7.5)	–
Equity settled share based payments (refer note 12)	(2.5)	1.4	(2.5)	1.4
Interest paid on debt securities in issue	11.1	23.4	7.4	10.8
Interest paid on assets held to hedge debt securities in issue	3.3	9.5	3.3	13.1
Interest on subordinated liabilities	12.3	10.5	12.3	10.5
Interest on lease liabilities (refer note 35)	2.3	2.5	2.3	2.5
Research and development tax claim	(0.5)	(0.3)	(0.5)	(0.3)
Fair value movements	8.0	(12.2)	6.2	(13.8)
Total	**438.4**	**351.2**	**441.6**	**350.8**

	Group		Company	
	2021	2020	**2021**	2020
	£m	£m	**£m**	£m
Changes in operating assets and liabilities				
Net movement in mandatory balances with central banks	6.9	(2.9)	6.9	(2.9)
Net movement in loans and advances to banks	–	324.2	–	324.2
Net movement in loans and advances to customers	1,707.0	3,808.0	1,707.0	3,808.0
Net movement in prepayments and accrued income	14.0	(6.1)	14.0	(6.1)
Net movement in other assets	32.1	(7.1)	23.7	(7.0)
Net movement in assets of the disposal group	44.9	4.4	44.9	4.4
Net movement in deposits from banks	100.0	(1,163.2)	100.0	(1,163.2)
Net movement in deposits from customers	(1,966.5)	(2,761.4)	(1,966.5)	(2,761.4)
Net movement in accruals and deferred income	(6.2)	(3.6)	(6.5)	(3.6)
Provisions utilised	(22.3)	(46.0)	(22.3)	(46.0)
Net movement in other liabilities	(11.7)	14.9	(569.2)	(71.8)
Total	**(101.8)**	**161.2**	**(668.0)**	**74.6**

40. Reconciliation of Liabilities Relating to Financing Activities

Group	**At 1 March 2020 £m**	**Financing Cash flows £m**	**Non-cash movements: Fair value change £m**	**Non-cash movements: Accrued Interest £m**	**Non-cash movements: Other £m**	**At 28 February 2021 £m**
Debt securities in issue	(774.1)	772.2	3.8	–	(1.9)	–
Subordinated liabilities and notes	(485.6)	–	(0.6)	–	(0.4)	(486.6)
Interest payable	(4.7)	26.6	–	(23.2)	–	(1.3)
Assets held to hedge fixed rate bonds[1]	4.1	3.9	(5.4)	(0.6)	–	2.0
Lease liabilities[2]	(32.8)	5.5	–	(2.3)	–	(29.6)
Total liabilities from financing activities	**(1,293.1)**	**808.2**	**(2.2)**	**(26.1)**	**(2.3)**	**(515.5)**

Company	**At 1 March 2020 £m**	**Financing Cash flows £m**	**Non-cash movements: Fair value change £m**	**Non-cash movements: Accrued Interest £m**	**Non-cash movements: Other £m**	**At 28 February 2021 £m**
Debt securities in issue	(201.8)	200.0	1.9	–	(0.1)	–
Subordinated liabilities and notes	(485.6)	–	(0.6)	–	(0.4)	(486.6)
Interest payable	(4.4)	22.6	–	(19.5)	–	(1.3)
Assets held to hedge fixed rate bonds[1]	4.1	3.9	(5.4)	(0.6)	–	2.0
Lease liabilities[2]	(32.8)	5.5	–	(2.3)	–	(29.6)
Total liabilities from financing activities	**(720.5)**	**232.0**	**(4.1)**	**(22.4)**	**(0.5)**	**(515.5)**

Group	**At 1 March 2019 £m**	**Financing Cash flows £m**	**Non-cash movements: Fair value change £m**	**Non-cash movements: Accrued Interest £m**	**Non-cash movements: Other £m**	**At 29 February 2020 £m**
Debt securities in issue	(1,185.5)	410.0	3.6	–	(2.2)	(774.1)
Subordinated liabilities and notes	(235.0)	(250.0)	(2.1)	–	1.5	(485.6)
Interest payable	(4.0)	29.3	–	(30.0)	–	(4.7)
Assets held to hedge fixed rate bonds[1]	16.4	13.0	(25.5)	0.2	–	4.1
Lease liabilities[2]	(34.5)	4.2	–	(2.5)	–	(32.8)
Total liabilities from financing activities	**(1,442.6)**	**206.5**	**(24.0)**	**(32.3)**	**(0.7)**	**(1,293.1)**

Company	**At 1 March 2019 £m**	**Financing Cash flows £m**	**Non-cash movements: Fair value change £m**	**Non-cash movements: Accrued Interest £m**	**Non-cash movements: Other £m**	**At 29 February 2020 £m**
Debt securities in issue	(275.2)	60.0	13.6	–	(0.2)	(201.8)
Subordinated liabilities and notes	(235.0)	(250.0)	(2.1)	–	1.5	(485.6)
Interest payable	(3.6)	20.2	–	(21.0)	–	(4.4)
Assets held to hedge fixed rate bonds[1]	16.4	13.0	(25.5)	0.2	–	4.1
Lease liabilites[2]	(34.5)	4.2	–	(2.5)	–	(32.8)
Total liabilities from financing activities	**(531.9)**	**(152.6)**	**(14.0)**	**(23.3)**	**1.3**	**(720.5)**

[1] Assets held to hedge fixed rate bonds and securitisation bonds are included within derivative financial instruments in the Company and Consolidated Statements of Financial Position on page 42.

[2] Lease liabilities are included within total other liabilities in the Company and Consolidated Statements of Financial Position on page 42.

41. Capital Resources

IFRS 9 'Financial Instruments' became effective for annual periods beginning on or after 1 January 2018 and is reflected in the Group disclosures. The Group has elected to use the transitional arrangements available under Article 473a of the Capital Requirements Regulations (CRR). These arrangements allow the IFRS 9 impact on capital to be phased in over a period of 5 years. On 27 June 2020, the CRR was further amended to accelerate specific CRR2 measures and implement a new IFRS 9 transitional relief calculation which applies additional relief to increases in ECL provisions arising as a result of the Covid-19 pandemic. As a result, the IFRS 9 transitional arrangements have been extended by two years and a new modified calculation has been introduced. Full relief will be applied to increases in stage 1 and stage 2 provisions from 1 January 2020 throughout 2020 and 2021, reducing to 75% in 2022, 50% in 2023 and 25% in 2024, with no relief applied from 2025. The phasing out of transitional relief on the 'day 1' impact of IFRS 9 as well as increases in stage 1 and stage 2 provisions between 1 March 2018 and 31 December 2019 under the modified calculation remain unchanged and continue to be subject to 70% transitional relief throughout 2020, 50% relief for 2021 and 25% for 2022, with no relief applied from 2023.

The following tables analyse the regulatory capital resources of the Company applicable as at the year end on a 'transitional' and 'end point' position for the current year as related to the IFRS 9 transitional period:

	Transitional 2021 £m	End Point 2021 £m	Transitional 2020 £m
Common equity tier 1			
Shareholders' equity (accounting capital)	1,573.7	1,573.7	1,705.9
Regulatory adjustments			
Unrealised losses on cash flow hedge reserve	0.6	0.6	–
Adjustment to own credit/additional value adjustments	–	–	(1.1)
Intangible assets	(130.9)	(130.9)	(138.2)
IFRS 9 transitional add back	262.9	–	141.6
Common equity tier 1 capital	**1,706.3**	**1,443.4**	**1,708.2**
Tier 2 capital (instruments and provisions)			
Undated subordinated notes	45.0	45.0	45.0
Dated subordinated notes net of regulatory amortisation	190.0	190.0	190.0
Tier 2 capital (instruments and provisions) before regulatory adjustments	235.0	235.0	235.0
Regulatory adjustments			
Material holdings in financial sector entities	(21.1)	(21.1)	(21.0)
Total regulatory adjustments to tier 2 capital (instruments and provisions)	(21.1)	(21.1)	(21.0)
Total tier 2 capital (instruments and provisions)	**213.9**	**213.9**	**214.0**
Total capital	**1,920.2**	**1,657.3**	**1,922.2**
Total risk-weighted assets (unaudited)	6,802.8	6,672.9	8,309.9
Common equity tier 1 ratio (unaudited)	25.1%	21.6%	20.6%
Tier 1 ratio (unaudited)	25.1%	21.6%	20.6%
Total capital ratio (unaudited)	28.2%	24.8%	23.1%

Total capital requirement (TCR) refers to the amount and quality of capital the Company must maintain to comply with the CRR Pillar 1 and 2A capital requirements. The TCR for TPFG as at 28 February 2021 is 11.59% plus £52m as a static add-on for pension obligation risk.

41. Capital Resources (continued)

The table below reconciles shareholders' equity of the Group to shareholders' equity of the Company:

	2021 £m	2020 £m
Tesco Personal Finance plc (Group) shareholders' equity	1,606.1	1,731.0
Share of joint venture's retained earnings	(26.6)	(17.9)
Subsidiaries' retained earnings	(0.2)	0.3
Share of joint venture's AFS reserve	(5.6)	(7.5)
Tesco Personal Finance plc (Company) shareholders' equity	**1,573.7**	**1,705.9**

It is the Group's policy to maintain a strong capital base, to expand it as appropriate and to utilise it efficiently throughout its activities to optimise the return to shareholders while maintaining a prudent relationship between the capital base and the underlying risks of the business. In carrying out this policy, the Group has regard to the supervisory requirements of the Prudential Regulatory Authority (PRA).

The Group is required to submit ICAAP reports to the PRA which set out future business plans, the impact on capital availability, capital requirements and the risk to capital adequacy under stress scenarios.

The Group also maintains a Recovery Plan that provides the framework and a series of recovery options which could be deployed in a severe stress event impacting capital or liquidity positions. The Recovery Plan is reviewed and approved by the Board on at least an annual basis.

The Group has met all relevant capital requirements throughout the year.

Leverage ratio (unaudited)

The Basel III reforms include the introduction of a capital leverage measure as defined as the ratio of tier 1 capital to total exposure. This is intended to reinforce the risk-based capital requirements with a simple, non-risk based 'backstop' measure.

The Group has published the leverage ratio on a Capital Requirements Directive IV basis using the existing exposure approach:

Exposures for leverage ratio (unaudited)	Transitional 2021 £m	End point 2021 £m	Transitional 2020
Total balance sheet exposures	8,821.8	8,821.8	11,643.5
Adjustments for entities which are consolidated for accounting purposes but outside scope of regulatory consolidation	(32.6)	(32.6)	(25.4)
Removal of accounting value of derivatives and SFTs	(6.1)	(6.1)	(5.7)
Exposure value for derivatives and SFTs	4.4	4.4	9.3
Off balance sheet: unconditionally cancellable (10%)	1,266.8	1,266.8	1,187.2
Off balance sheet: other (20%)	–	–	–
Regulatory adjustment – intangible assets	(130.9)	(130.9)	(138.2)
Regulatory adjustment – other, including IFRS 9	212.9	(50.0)	89.2
Total	**10,136.3**	**9,873.4**	**12,759.9**
Common equity tier 1	**1,706.3**	**1,443.4**	**1,708.2**
Leverage ratio	16.8%	14.6%	13.4%

41. Capital Resources (continued)

Capital Management

The Group operates an integrated risk management process to identify, quantify and manage risk in the Group. The quantification of risk includes the use of both stress and scenario testing. Where capital is considered to be an appropriate mitigant for a given risk, this is identified and reflected in the Group's internal capital assessment. The capital resources of the Group are regularly monitored against the higher of this internal assessment and regulatory requirements. Capital adequacy and performance against the Group's capital plan is monitored daily, with monthly reporting provided to the Board, ALCo and TCo.

Pillar 2 capital methodologies

The PRA updated its Pillar 2 capital methodologies in July 2016 following the publication of prudential requirements for implementation of ring-fencing and issued a policy statement in October 2017 refining the Pillar 2A framework.

These proposals are aimed at promoting the safety and soundness of PRA-regulated firms, to facilitate a more effective banking sector and to make the PRA's Pillar 2A capital assessment more proportionate by addressing some of the concerns over the differences between SA and internal ratings-based risk weights. This will continue to be managed as part of the Group's ICAAP in line with the PRA policy statement issued in October 2017. The PRA general safety and soundness objectives in relation to continuity of core services in the UK and ring-fencing of banking activities where core deposits are in excess of £25bn came into effect from 1 January 2019. The Group has not exceeded this threshold and was not therefore automatically required to ring-fence the Group's core activities by the 2019 implementation date.

Credit Risk

In December 2017 the Basel Committee on Banking Supervision (BCBS) finalised Basel III reforms for credit risk, including revisions to the calculation of risk-weighted assets and enhancements to the risk-sensitivity of the SAs to credit risk, constraining the use of internal model approaches by placing limits on certain inputs and replacing the existing Basel II output floors with a risk-sensitive floor based on the Committee's Basel III standardised approaches. The final Basel III reforms will be implemented in January 2023.

Operational risk

In December 2017, the BCBS finalised Basel III reforms for operational risk by replacing all existing approaches in the Basel II framework with a single risk-sensitive SA to be used by all banks. The new SA increases the sensitivity by combining a refined measure of gross income with the bank's internal historical losses. The final Basel III reforms will be implemented in January 2023.

Leverage

At present the Group has no minimum UK leverage requirement as it is currently exempt from the UK Leverage Framework Regime (LFR), which only applies to institutions with retail deposits of £50 billion or more. In December 2017, the BCBS finalised Basel III reforms for the leverage ratio. The final Basel III reforms will be implemented in January 2023.

The Group is subject to reporting and disclosure requirements under the CRR and is not currently subject to temporary modifications of the UK LFR.

41. Capital Resources (continued)

The European Commission's minimum requirements for own funds and eligible liabilities (MREL)

Upon full implementation, MREL targets will be set on a bank-specific basis and calculated as the sum of two components: a loss absorption amount, being the amount needed to absorb losses up to and in resolution; and a recapitalisation amount, which reflects the capital that a firm would be likely to need post-resolution.

The Group became subject to MREL on an interim basis from 1 January 2020, with full implementation applicable from 1 January 2023. The interim target remains at 18% of risk-weighted assets until 31 December 2022. The requirements are factored into the Group's funding and capital plans. TPFG undertook an initial £250.0m issuance of MREL-compliant debt in July 2019 in support of the interim requirements and subsequently invested the proceeds in the Company via an intercompany subordinated loan. Further issuances may be required to support end-state requirements.

At 28 February 2021, the MREL ratio was 31.9% (2020: 26.1%).

42. Related Party Transactions

During the year the Group had the following transactions with related parties:

Transactions involving Directors and other key connected persons

For the purposes of IAS 24, 'Related Party Disclosures', the Group's key Management personnel comprises Directors of the Group. The captions in the Group's primary Financial Statements include the following amounts attributable, in aggregate, to key connected persons of both the Group and Tesco, the Company's ultimate parent undertaking.

Group and Company	**2021**	2020
	£m	£m
Loans and advances to customers[1]		
At the beginning of the year	–	0.3
Loan repayments during the year	–	(0.1)
Loans outstanding at the end of the year	**–**	**0.2**
Interest income earned	–	–
Deposits from customers[1]		
Deposits at the beginning of the year	0.1	0.2
Deposits received during the year	–	1.2
Deposits repaid during the year	(0.1)	(0.5)
Deposits at the end of the year	**–**	**0.9**
Interest expense on deposits	–	–

In line with the requirements of IFRS 9, an ECL allowance amounting to 0.0% of the loans outstanding was recognised at 29 February 2020. There was no such allowance at 28 February 2021.

[1] The opening and closing balances reported are in respect of related parties of the Group during and at the reporting date in each year.

42. Related Party Transactions (continued)

Remuneration of key Management personnel

The amount of remuneration incurred by the Group in relation to the Directors is set out below in aggregate. Further information about the remuneration of Directors is provided in note 11.

Group and Company	**2021**	2020
		£m
Short-term employee benefits	2.6	4.1
Termination benefits	–	0.5
Other long-term benefits	2.1	2.9
Share based payments	–	0.5
Total emoluments	**4.7**	**8.0**

Trading transactions

Group	**2021 Tesco PLC**	**2021 Tesco subsidiaries**	**2021 Tesco Underwriting Limited**	2020 Tesco PLC	2020 Tesco subsidiaries	2020 Tesco Underwriting Limited
	£m	**£m**	**£m**	£m	£m	£m
Interest received and other income	–	3.8	28.2	–	20.8	32.6
Dividend income	–	–	7.5	–	–	15.6
Interest paid	–	(12.3)	–	–	(10.5)	–
Provision of services	–	(47.6)	3.0	–	(76.6)	3.7

Company	**2021 Tesco PLC**	**2021 Tesco subsidiaries**	**2021 Tesco Underwriting Limited**	2020 Tesco PLC	2020 Tesco subsidiaries	2020 Tesco Underwriting Limited
	£m	**£m**	**£m**	£m	£m	£m
Interest received and other income	–	3.8	28.2	–	20.8	32.6
Dividend income	–	–	7.5	–	–	15.6
Interest paid	–	(18.0)	–	–	(21.7)	–
Provision of services	–	(47.6)	3.0	–	(76.6)	3.7

Balances owing to/from related parties are identified in notes 20, 22, 30, 31, 32, 33 and 34.

For the year ended 28 February 2021 the Group and Company generated 44% (2020: 45%) of its insurance commission from the sale and service of Motor and Home insurance policies underwritten by TU, a joint venture company and therefore a related party. Customer premiums on such sales are collected directly by the Group and the net premium is remitted to TU. Investment transactions with TU are identified in note 22.

Ultimate parent undertaking

The Company's ultimate parent undertaking and controlling party is Tesco PLC which is incorporated in England. The Financial Statements for Tesco PLC can be obtained from its registered office at Tesco House, Shire Park, Kestrel Way, Welwyn Garden City, AL7 1GA.

Immediate parent undertaking

The Company's immediate parent company is Tesco Personal Finance Group plc which is incorporated in Scotland. Financial Statements for Tesco Personal Finance Group plc can be obtained from its registered office at 2 South Gyle Crescent, Edinburgh, EH12 9FQ. The smallest group into which the Company is consolidated is Tesco Personal Finance Group plc and the largest group is Tesco PLC.

43. Contingent Liabilities and Commitments

Contingent liabilities

Contingent liabilities are possible obligations arising from past events, whose existence will be confirmed only by uncertain future events, or present obligations arising from past events that are not recognised because either it is not probable that an outflow of economic benefits will be required or the amount of the obligation cannot be reliably estimated.

Contingent liabilities are not recognised but information about them is disclosed unless the possibility of any outflow of economic benefits is remote. There are a number of contingent liabilities that arise in the normal course of business which, if realised, are not expected to result in a material liability to the Group.

Lending commitments

Under an undrawn Credit Card commitment, the Group agrees to make funds available to a customer in the future. Undrawn Credit Card commitments may be unconditionally cancelled or may continue, providing all facility conditions are satisfied or waived.

Under a Personal Current Account overdraft commitment, the Group agrees to make funds available to a customer in the future. Personal Current Account overdraft commitments are usually for a specified term and may be unconditionally cancelled or may continue, providing all facility conditions are satisfied or waived.

Further detail on undrawn lending commitments is included in the liquidity and funding risk disclosure in note 37.

The contractual amounts do not represent the amounts at risk at the reporting date but the amounts that would be at risk should the available facilities be fully drawn upon.

Capital commitments

At 28 February 2021 the Group and Company had capital commitments related to property, plant and equipment of £0.5m (2020: £1.2m) and intangible assets of £2.1m (2020: £5.7m). This is in respect of IT software development and IT hardware. The Group's Management is confident that future net revenues and funding will be sufficient to cover these commitments.

44. Share Based Payments

The Group charge for the year recognised in respect of share based payments is £3.1m (2020: £7.9m), which is made up of share option schemes and share bonus payments. Of this amount, £3.1m (2020: £7.0m) will be equity-settled and £nil (2020: £0.9m) cash-settled.

Share option schemes

The Group had three share option schemes in operation during the year, all of which are equity-settled schemes using Tesco shares:

- The Savings-related Share Option Scheme (1981) permits the grant to colleagues of options in respect of ordinary shares linked to a building society/bank save-as-you-earn contract for a term of three or five years with contributions from colleagues of an amount between £5 and £500 per four-weekly period. Options are capable of being exercised at the end of the three or five-year period at a subscription price of not less than 80% of the average of the middle-market quotations of an ordinary share over the three dealing days immediately preceding the offer date.
- The Group Bonus Plan permitted the grant of options in respect of ordinary shares to selected senior executives as a proportion of annual bonus following the completion of a required service period and is dependent on the achievement of corporate performance and individual targets. Options are normally exercisable between three and 10 years from the date of grant for nil consideration. No further options will be granted under this scheme.
- The Performance Share Plan (2011) permits the grant of options in respect of ordinary shares to selected executives. Options are normally exercisable between the vesting date(s) set at grant and ten years from the date of grant for £nil consideration. The exercise of options will normally be conditional upon the achievement of specified performance targets over a three-year period and/or continuous employment.

44. Share Based Payments (continued)

The following table reconciles the total number of share options outstanding under each share option scheme and the weighted average exercise price (WAEP):

	Savings-related share option scheme Options	Savings-related share option scheme WAEP (pence)	Approved share option scheme Options	Approved share option scheme WAEP (pence)	Unapproved share options scheme Options	Unapproved share options scheme WAEP (pence)
Outstanding at 1 March 2020	**3,453,607**	**182.00**	**—**	**—**	**—**	**—**
Granted	1,423,533	198.00	—	—	—	—
Forfeited	(244,248)	201.05	—	—	—	—
Exercised	(773,252)	152.75	—	—	—	—
Outstanding at 28 February 2021	**3,859,640**	**192.89**	**—**	**—**	**—**	**—**
Exercisable at 28 February 2021	**55,142**	**152.33**	**—**	**—**	**—**	**—**
Exercise price range (pence)	**—**	**152.33**	**—**	**—**	**—**	**—**
Weighted average remaining contractual life (years)	**—**	**0.40**	**—**	**—**	**—**	**—**

	Savings-related share option scheme Options	Savings-related share option scheme WAEP (pence)	Approved share option scheme Options	Approved share option scheme WAEP (pence)	Unapproved share options scheme Options	Unapproved share options scheme WAEP (pence)
Outstanding at 1 March 2019	3,583,962	172.10	87,911	338.40	82,647	338.40
Granted	845,599	219.00	—	—	—	—
Forfeited	(489,563)	185.80	(87,911)	338.40	(82,647)	338.40
Exercised	(486,391)	166.81	—	—	—	—
Outstanding at 29 February 2020	3,453,607	182.39	—	—	—	—
Exercisable at 29 February 2020	43,559	190.00	—	—	—	—
Exercise price range (pence)	—	190.00	—	—	—	—
Weighted average remaining contractual life (years)	—	0.42	—	—	—	—

Share options were exercised on a regular basis throughout the financial year. The average Tesco share price during the year ended 28 February 2021 was 227.07p (2020: 237.69p).

44. Share Based Payments (continued)

The fair value of savings related share options schemes are estimated at the date of grant using the Black-Scholes option pricing model. The following table gives the assumptions applied to the options granted in the respective periods shown. No assumption has been made to incorporate the effects of expected early exercise.

Group	2021 Savings - related share options schemes	2020 Savings - related share options schemes
Expected dividend yield (%)	4.9% - 5.1%	3.7% - 4.3%
Expected volatility (%)	23% - 26%	23% - 28%
Risk free interest rate (%)	0.2% - 0.3%	0.81% -0.83%
Expected life of option (years)	3 or 5	3 or 5
Weighted average fair value (WAFV) of options granted (pence)	27.13	35.68 to 43.57
Probability of forfeiture (%)	6% - 10%	7% - 10%
Share price (pence)	217.80	243.00
WAEP (pence)	198.00	219.00

Volatility is a measure of the amount by which a price is expected to fluctuate in the period. The measure of volatility used in Tesco's option pricing models is the annualised standard deviation of the continuously compounded rates of return on the share over a period of time. In estimating the future volatility of Tesco's share price, the Tesco Board considers the historical volatility of the share price over the most recent period that is generally commensurate with the expected term of the option, taking into account the remaining contractual life of the option.

Share Bonus Schemes

Selected executives participate in the Group Bonus Plan, a performance-related bonus scheme. The amount paid to colleagues is based on a percentage of salary and is paid partly in cash and partly in shares. Bonuses are awarded to selected executives who have completed a required service period and depend on the achievement of corporate and individual performance targets.

Selected executives participate in the Performance Share Plan (2011). Awards made under this plan will normally vest on the vesting date(s) set on the date of the award for nil consideration. Vesting will normally be conditional on the achievement of specified performance targets over a three-year performance period and/or continuous employment.

The fair value of shares awarded under these schemes is their market value on the date of the award. Expected dividends are not incorporated into the fair value.

The number of Tesco shares and WAFV of share bonuses awarded during the year were:

	2021 Shares (number)	2021 WAFV (pence)	2020 Shares (number)	2020 WAFV (pence)
Group Bonus Plan	1,103,685	246.70	1,207,697	237.80
Performance Share Plan	2,401,609	222.02	3,408,234	237.47

45. Adoption of New and Amended International Financial Reporting Standards

Standards, amendments and interpretations issued which became effective in the current year

During the year the Group did not adopt any new accounting standards or amendments to standards which became effective in the current year which had any impact on the Group.

Early adoption of new standards

During the year the Group has early adopted the following amendments to standards:

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 'IBOR reform – Phase 2'

These amendments add to the phase 1 amendments issued in 2019 and address the effects on the financial statements when changes are made to contractual cash flows and hedging relationships as a result of the reform. They permit entities to continue to apply the hedge accounting requirements in IAS 39 and IFRS 9 to all hedging relationships directly affected by interest rate benchmark reform.

Additional disclosures required from these amendments on the impact of IBOR reform are included in note 17.

Standards, amendments and interpretations issued but not yet effective

Standards, amendments and interpretations issued and effective on or after 1 January 2021 that are expected to have an impact on the Group are as follows:

IFRS 17 'Insurance contracts'

IFRS 17 is effective for annual periods beginning on or after 1 January 2023, subject to endorsement. Early adoption is permitted provided IFRS 9 and IFRS 15 are also applied.

IFRS 17 is a replacement for IFRS 4. IFRS 17 requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts.

IFRS 17 is relevant to the Group's joint venture, TU, which provides the insurance underwriting service for a number of the Group's general insurance products. The full impact on the Group is currently being assessed.

46. Events After the Reporting Date

Change in Corporation Tax Rate

In the March 2021 Budget Statement, the Chancellor announced that the standard rate of corporation tax in the UK will increase from 19% to 25% from 1 April 2023. This increase in the corporation tax rate would result in the Group's deferred tax asset increasing by £15m.

However, at the reporting date, the 19% rate continued to be the substantively enacted rate and is therefore the standard rate of corporation tax applied in calculating the deferred taxation balances reflected in these Financial Statements.

It was also announced that the level of banking surcharge may be reduced from 1 April 2023, although the extent of any such reduction is not expected to be known until late 2021 or early 2022. For every 1% decrease in the level of banking surcharge, the Group's deferred tax asset would reduce by £2.5m.

Tesco Underwriting

During the year, the Group reached an agreement with Ageas (UK) Limited to acquire its stake in TU, which will become a 100%-owned subsidiary of the Group. The deal is expected to complete in May 2021, following regulatory approval received in March 2021.

TU paid TPF a dividend of £10.0m on 31 March 2021. The consolidated carrying value of the Group's investment in TU reduced by an equivalent amount. There was no impact on the Company's carrying value of its investment in TU as a result of this dividend.

Payment Holidays

Since 28 February 2021, the Group has granted further payment holidays of £13.2m to 1,656 Credit Card and Personal Loan customers.

1. Opinion

In our opinion:

- the Financial Statements of Tesco Personal Finance plc (the parent Company) and its subsidiaries (the Group) give a true and fair view of the state of the Group's and of the parent Company's affairs as at 28 February 2021 and of the Group's loss for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with International Accounting Standards (IASs) in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the Financial Statements which comprise:

- the Consolidated Income Statement;
- the Consolidated Statement of Comprehensive Income;
- the Consolidated and Company Statements of Financial Position;
- the Consolidated and Company Statements of Changes in Equity;
- the Consolidated and Company Cash Flow Statements; and
- the related notes 1 to 46.

The financial reporting framework that has been applied in their preparation is applicable law and IASs in conformity with the requirements of the Companies Act 2006 and IFRSs as issued by the IASB. The financial reporting framework that has been applied in the preparation of the parent Company Financial Statements is applicable law and IASs in conformity with the requirements of the Companies Act 2006.

2 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 the parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the United Kingdom (UK), including the Financial Reporting Council's (FRC's) Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent Company.

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

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • expected credit loss (ECL) provisions; • the valuation of the payment protection insurance (PPI) provision; • insurance reserving in Tesco Underwriting Limited (TU); and • recognition of revenue. Within this report, key audit matters are identified as follows: Newly identified Increased level of risk Similar level of risk Decreased level of risk
Materiality	The materiality that we used for the Group Financial Statements was £9m, which represents 0.6% of net assets.
Scoping	Our audit scoping provides full scope audit coverage of 100% of revenue, loss before tax and net assets. There is one component, TU, which is a joint venture with Ageas (UK) Limited (Ageas (UK)), and is audited by another audit firm.
Significant changes in our approach	In the prior year, in response to the rapid spread of Covid-19, we identified a new key audit matter relating to the parent Company's and Group's ability to continue to adopt the going concern basis over a period of at least twelve months from the date of approval of the Financial Statements, and over the disclosure of post balance sheet events. As at the date of approval of the current period Financial Statements, the level of uncertainty relating to the Covid-19 pandemic has diminished and as such we no longer consider this to be a key audit matter. In the current year materiality has been determined using a net assets benchmark balance. In 2020 materiality was based on 5% of profit before tax, we revised our benchmark in the period due to the Group being loss making for the year.

4. Conclusions relating to going concern

In auditing the Financial Statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the Financial Statements is appropriate.

Our evaluation of the Directors' assessment of the Group's and Company's ability to continue to adopt the going concern basis of accounting included:

- Obtaining an understanding of the relevant controls around Management's going concern assessment;
- Assessing Management's considerations regarding whether they consider it appropriate to adopt the going concern basis of accounting;
- Assessing the Group's and parent Company's compliance with regulation including capital and liquidity requirements;
- Assessing the assumptions, such as cash flows, capital and liquidity, used in the forecasts prepared by Management;
- Assessing historical accuracy of forecasts prepared by Management;
- Involving prudential risk specialists in assessing the information supporting the liquidity and capital forecasts; and
- Assessing the appropriateness of the going concern disclosures.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and parent Company's ability to continue as a going concern for a period of at least twelve months from the date of the approval of the Financial Statements.

In relation to the reporting on how the Group has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the Directors' statement in the Financial Statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1 Expected credit loss provisions

Key audit matter description

As disclosed in note 10 (Expected Credit Loss on Financial Assets) and note 16 (Loans and Advances to Customers), the Group held an ECL provision of £624.6m at 28 February 2021 (29 February 2020: £488.4m). The ECL on loans and advances to customers was £359.7m in the year to 28 February 2021 (29 February 2020: £177.9m). The increase in provision compared to the prior year is primarily due to the deterioration in the macro-economic outlook.

Loan impairment remains one of the most significant judgements made by Management, particularly in light of the continued uncertain economic outlook in the UK as a result of the Covid-19 pandemic and the United Kingdom's withdrawal from the European Union.

We consider the most significant areas of judgement within the Group's collective provisioning methodologies, and therefore the key audit matters within loan impairment, to be:

- Macro-economic scenarios – ECL provisions are required to be calculated on a forward-looking basis under IFRS 9. Management apply significant judgement in determining the forecast macro-economic scenarios and the probability-weighting of each scenario that are incorporated into the ECL model. Management also applied a number of methodology refinements in the current period to optimise model performance during this period of economic stress.
- Post-model adjustments (PMAs) – Management has included a number of PMAs to capture the potential downside risks and model limitations arising as a result of the continued macro-economic uncertainty. This includes PMAs to address the uncertainty associated with the future behaviour of customers who have been granted payment holidays and the impact of government support schemes on arrears and behavioural scores.

Other material judgements include the determination of the expected life of exposures, the definition of a significant increase in credit risk, the determination of probability of default and exposure at default, the identification of loss events and the determination of loss given default.

Given the material impact of the significant judgements taken by Management in the measurement of the ECL provision, we also consider there is an inherent risk of fraud through manipulation of this balance.

Management's associated accounting policies are detailed in note 1 with detail about the judgements in applying accounting policies and critical accounting estimates in note 2.

5.1 Loan impairment provisions (continued)

How the scope of our audit responded to the key audit matter	Our audit procedures included obtaining an understanding of relevant controls which relate to the determination of ECL provisions. We have obtained an understanding of, and assessed the relevant controls, including model governance forums, model monitoring and calibrations including the determination of PMAs, the review and approval of macro-economic scenarios, the flow of data from the Group's information systems into the model, and the flow of the output of the model to the general ledger. Our audit work to address the key audit matter included the procedures noted below. *Macro-economic scenarios and related model refinements* With support from internal economic modelling specialists, we challenged the macro-economic scenario forecasts that were incorporated into the ECL model, including Management's selection of the relevant macro-economic variables. We assessed Management's forecasts and their probability against external sources to assess their reasonableness, considering the forecasts in light of any contradictory information. We also assessed the competence, capabilities and objectivity of Management's expert, who supplies the macro-economic forecasts to Management and considered whether the methodology adopted by the expert was reasonable. With regards to the related model refinements, with support from internal credit risk modelling experts, we assessed the changes against the requirements of IFRS 9, tested the completeness and accuracy of the data which support Management's conclusions regarding the appropriateness of the changes and tested that the methodology changes had been appropriately reflected in the models through review of the underlying computer code. We also evaluated whether there was adequate disclosure regarding the macro-economic scenarios selected by Management, their probability-weighting, and the related sensitivities. *Post-model adjustments (PMAs)* With support from internal credit risk specialists, we challenged the appropriateness of each significant PMA recorded by Management as well as the completeness of PMAs with reference to our observations in the broader market and understanding of the risk profile of the portfolio. We evaluated the accuracy of the calculation of the PMAs, which included an assessment of the completeness and accuracy of the underlying data used by Management in their calculation. We also evaluated whether there was adequate disclosure regarding the significant PMAs including how they were determined and the range of possible outcomes.
Key observations	Based on our audit procedures above, we concluded that Management's ECL provision is reasonably stated, and is supported by a methodology that is consistently applied and compliant with IFRS 9.

5.2 The valuation of the payment protection insurance (PPI) provision

Key audit matter description	The high level of public and regulatory scrutiny of banks continues, as does the magnitude of legal and regulatory claims. The most significant conduct issue relates to Payment Protection Insurance (PPI) for which a provision of £22.4m was recorded as at 28 February 2021 (29 February 2020: £41.1m). Given the material impact of the significant judgements taken by Management in the measurement of the provision, we considered that there was an inherent risk of fraud through manipulation of this balance. We have specifically focussed our testing to the material judgements around forecast average redress of claims remaining to be paid out. We also consider the anticipated impact of any litigation claims received or expected to be received, this includes the forecast volumes and forecast average redress. Further details are included within the critical accounting estimates and judgements in note 2 and note 29 to the Financial Statements.
How the scope of our audit responded to the key audit matter	We have obtained an understanding of, and assessed, the relevant controls relating to the valuation of the PPI provision, specifically the internal review and challenge of Management's valuation assumptions. We challenged the adequacy of the provision recognised by assessing the key assumptions used in the model, such as those relating to forecast average redress, by comparing the assumptions to available peer data, referring to the guidance published by the Financial Conduct Authority (FCA), assessing historical redress experience as well as Management's past forecasting accuracy. In order to assess the methodology around calculating the provision for litigation claims, we inquired with internal legal counsel and reviewed the results of PPI litigation cases to date. We also tested the arithmetical accuracy of the PPI model. We also tested the completeness and accuracy of the underlying data that supports Management's assumptions and the current year utilisation of the provision and assessed the appropriateness of disclosures.
Key observations	Based on the procedures performed, we concur with Management that the provision as at 28 February 2021 of £22.4m represents a reasonable best estimate of the probable economic outflow.

5.3 Insurance reserving in Tesco Underwriting Limited (TU)

Key audit matter description	The Group is indirectly affected by the risks in insurance reserving through its 49.9% investment in the TU joint venture with Ageas UK. The Group accounts for its investment in TU as a joint venture and therefore recognises a share of TU's profit/loss in its Consolidated Income Statement, with a corresponding movement in the value of the investment in the Consolidated Statement of Financial Position, which has a carrying value of £92.8m as at 28 February 2021 (29 February 2020: £86.0m). TU's results are sensitive to changes in the insurance reserves it recognises in respect of insurance policies written, net of reinsurance. Consequently, material increases in these reserves could have an impact on the carrying value of the investment in the Consolidated Statement of Financial Position. Given the material impact of the significant judgements taken by Management in the measurement of TU's reserves, we considered there was an inherent risk of fraud through manipulation of this balance. Management's associated accounting policies are detailed on page 48.
How the scope of our audit responded to the key audit matter	We have obtained an understanding of, and assessed, the relevant controls within the process to determine insurance contract liabilities. Meetings were held with senior Management involved in the reserving process to discuss the reserving methodology, changes in assumptions from the previous year-end, and questions arising from the review of internal and external reserving reports. With support from actuarial specialists we challenged the actuarial assumptions used and performed projections on selected classes of business. Classes selected included Motor BI Capped and Motor third-party property damage. For these classes of business, the projected claims liabilities were compared to those projected by Management and any significant differences were investigated. For the remaining classes of business, the methodology and assumptions selected by Management were evaluated.
Key observations	Based on the procedures performed we concluded that the valuation of TU's insurance contract reserves are reasonably stated.

5.4 Recognition of revenue

Key audit matter description	In accordance with IFRS 9, the revenue streams from financial products that are considered 'integral to the yield' must be recognised using the effective interest rate method (EIR) over the behavioural life of the financial products. The judgements taken in estimating the cash flows which drive the expected lives used in the calculation of the EIR can be sensitive to change, and could significantly impact the income recognised in any financial period, particularly in relation to introductory rate offers and similar structures. Accordingly, we have identified the judgement on expected lives of Credit Cards, specifically the repayment assumptions, to be the key audit matter over revenue recognition. In this respect, the most significant model relates to the Credit Card portfolio, which supports an EIR asset of £28.9m at 28 February 2021 (£42.3m at 29 February 2020). Given the material impact of the significant judgements taken by Management in calculating the EIR asset, we consider that there is an inherent risk of fraud through manipulation of this balance. Management's associated accounting policies are detailed on page 48 with detail about the judgements in applying accounting policies and critical accounting estimates, including sensitivities to the pay rates assumptions, in note 2.
How the scope of our audit responded to the key audit matter	We have obtained an understanding of, and assessed, relevant controls that the Group has established in relation to recognition of revenue using EIR. We reviewed the underlying code used to calculate the repayment rate assumptions that drive the expected lives used in the model to ensure that it is consistent with the methodology adopted by Management in order to assess the expected lives. The methodology was also reviewed to ensure that it is in compliance with the requirements of IFRS 9. We then assessed Management's assessment of whether any overlays were required to historic payment rates to reflect regulatory headwinds and macro-economic factors. We performed substantive testing over the completeness and accuracy of the underlying data inputs into the model that is used to support the repayment rate assumptions and we reviewed the arithmetic accuracy of the EIR model.
Key observations	Based on the work performed, we consider Management's assumptions reasonable and supportable in the Credit Cards' revenue recognition model, including those relating to the repayment rates assumptions of Credit Cards. We are satisfied that Management's methodology and model is appropriate and that it supports the EIR asset.

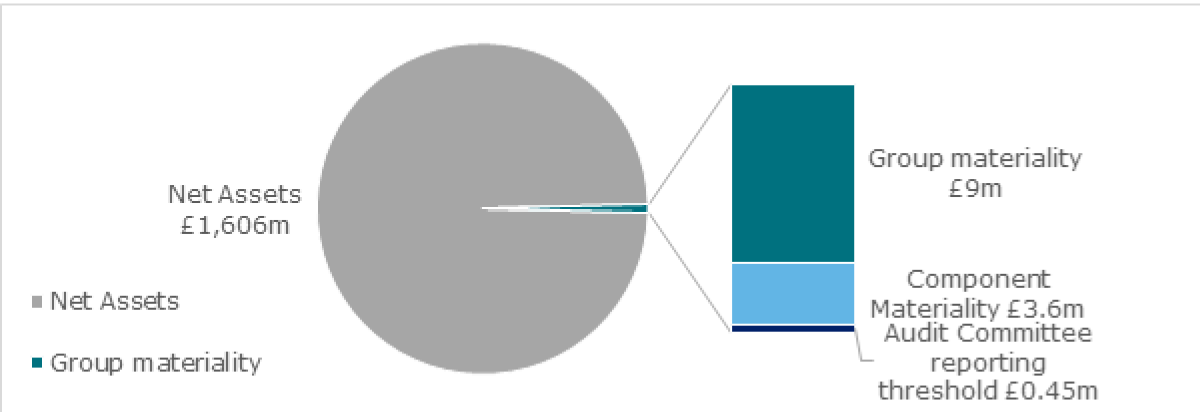
6. Our application of materiality

6.1 Materiality

We define materiality as the magnitude of misstatement in the Financial Statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the Financial Statements as a whole as follows:

	Group Financial Statements	**Parent Company Financial Statements**
Group materiality	£9.0m (2020: £11.0m)	£8.9m (2020: £10.9m)
Basis for determining materiality	Materiality has been determined as 0.6% of net assets (2020: 5% of underlying profit before tax).	Parent Company materiality has been determined as 0.6% of net assets (2020: 5% of underlying profit before tax), which is capped at 99% of Group materiality.
Rationale for the benchmark applied	We believe that the use of net assets is appropriate given the overall capital base is a key focus area for the stakeholders and regulators. Therefore, net assets has been considered the most appropriate base on which to determine materiality in the current year due to the loss in the year.	We believe that the use of net assets is appropriate given the overall capital base is a key focus area for the stakeholders and regulators. Therefore, net assets has been considered the most appropriate base on which to determine materiality in the current year due to the loss in the year.



6.2 Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the Financial Statements as a whole. Group performance materiality was set at 70% of Group materiality for the 2021 audit (2020: 70%). In determining performance materiality, we considered the following factors:

- The impact of Covid-19 on the control environment;
- The quality of the control environment and that we were able to rely on controls for a number of business cycles; and
- The low number of corrected and uncorrected misstatements identified in previous audits.

6.3 Error reporting threshold

We agreed with the Board Audit Committee (BAC) that we would report to the Committee all audit differences in excess of £0.45m (2020: £0.5m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the BAC on disclosure matters that we identified when assessing the overall presentation of the Financial Statements.

7. An overview of the scope of our audit

7.1 Identification and scoping of components

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. Audit work to respond to the risks of material misstatement was performed by the Group engagement team. Our audit scoping provides full scope audit coverage of 100% of the Group's revenue, loss before tax and net assets.

7.2 Our consideration of the control environment

We obtained an understanding and tested the relevant controls on the following areas: Credit Cards, Savings, Loans, Insurance and the common operations processes (products, payments and reconciliations).

We involved our IT specialists in the testing of the IT systems surrounding the above core banking products.

7.3 Working with other auditors

Work on TU, the Group's joint venture with Ageas (UK), was performed by component auditors. The timing of our engagement with the component auditors was planned to enable us to be involved during the planning and risk assessment process in addition to the execution of detailed audit procedures. We attended key meetings with TU Management and the component auditor, visited the component auditor, and reviewed the audit files of the component auditor to understand the audit approach adopted, with specific focus over the claims reserves recognised. We also had a dedicated senior member of the audit team focussed on overseeing the role of the component auditors. The materiality level applied by the component auditor of TU was £3.6m (2020: £4.4m).

8. Other information

The other information comprises the information included in the Annual Report, other than the Financial Statements and our auditor's report thereon. The Directors are responsible for the other information contained within the Annual Report.

Our opinion on the Financial Statements does not cover the other information and, except to the extent otherwise explicitly stated in our 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 this other information, we are required to report that fact.

We have nothing to report in this regard.

9. Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, 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's and the 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.

10. 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.

A further description of our responsibilities for the audit of the Financial Statements is located on the FRC's website at: http://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

11. Extent to which 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 material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1 Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for Directors' remuneration, bonus levels and performance targets;
- results of our enquiries of Management, Internal Audit and the BAC about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and involving relevant internal specialists, including tax, IT, and industry specialists regarding how and where fraud might occur in the Financial Statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: ECL provisions, the valuation of the PPI provision, insurance reserving in TU and recognition of revenue. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the Financial Statements. The key laws and regulations we considered in this context included the UK Companies Act, UK Pensions Act and the HM Revenue and Customs (HMRC) Tax Legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the Financial Statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty. These included the requirements of the United Kingdom's Prudential Regulation Authority (PRA) and FCA.

11.2 Audit response to risks identified

As a result of performing the above, we identified ECL provisions, the valuation of the PPI provision, insurance reserving in TU and recognition of revenue as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the Financial Statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the Financial Statements;
- enquiring of Management, the BAC, in-house and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing Internal Audit reports and reviewing correspondence with HMRC, the PRA and the FCA; and
- in addressing the risk of fraud through Management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. Opinions and 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 the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and the parent Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' Report.

13. Corporate Governance Statement

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- the Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on pages 29 and 30;
- the Directors' explanation as to its assessment of the Group's prospects, the period this assessment covers and why the period is appropriate set out on pages 29 to 30;
- the Directors' statement on fair, balanced and understandable set out on page 38;
- the Board's confirmation that it has carried out a robust assessment of the emerging and principal risks, set out on page 29;
- the section of the Annual Report that describes the review of effectiveness of risk management and internal control systems set out on pages 17 to 24; and
- the section describing the work of the BAC set out on pages 33 to 35.

14. Matters on which we are required to report by exception

14.1 Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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.

We have nothing to report in respect of these matters.

14.2 Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made.

We have nothing to report in respect of these matters.

15. Other matters

15.1 Auditor tenure

Following the recommendation of the BAC, we were appointed by the Board of Directors on 30 June 2015 to audit the Financial Statements for the year ending 29 February 2016 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is six years, covering the years ending 29 February 2016 to 28 February 2021.

15.2 Consistency of the audit report with the additional report to the BAC

Our audit opinion is consistent with the additional report to the BAC we are required to provide in accordance with ISAs (UK).

16. Use of our report

This report is made solely to the Company's member, 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 member 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 member as a body, for our audit work, for this report, or for the opinions we have formed.

Peter Birch ACA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Leeds, United Kingdom
12 April 2021

ABBREVIATIONS

AFS Available-for-sale
AGEAS UK AGEAS (UK) Limited
ALCo Asset and Liability Management Committee
APM Alternative Performance Measure
BAC Board Audit Committee
BCBS Basel Committee on Banking Supervision
BoE Bank of England
BRC Board Risk Committee
CA Compliance Advisory
CaR Capital at risk
CCA Consumer Credit Act
CCB Capital conservation buffer
CCP Colleague Contribution Panel
CCyB Countercyclical capital buffer
CEO Chief executive officer
CRD Capital Requirements Directive
CRO Chief Risk Officer
CRR Capital Requirements Regulation
CSRBB Credit spread risk in the Banking Book
DisCo Disclosure Committee
EAD Exposure at default
EBA European Banking Authority
ECLs Expected credit losses
EEA European Economic Area
EIR Effective interest rate
ERC Executive Risk Committee
ES Ethical Standard
EU European Union
ExCo Executive Committee
FCA Financial Conduct Authority
FRC Financial Reporting Council
FVOCI Fair value through other comprehensive income
FVPL Fair value through profit or loss
HMRC HM Revenue and Customs
IA Internal Audit
IAS International Accounting Standard
IAS 19 IAS 19 'Employee Benefits'
IAS 39 IAS 39 ‘Financial instruments: Recognition and measurement’
IASB International Accounting Standards Board
ICAAP Internal capital adequacy assessment process
IFRS International Financial Reporting Standard
IFRS 4 IFRS 4 'Insurance contracts'
IFRS 5 IFRS 5 'Non-current assets held for sale and discontinued operations'
IFRS 9 IFRS 9 ‘Financial instruments’
IFRS 15 IFRS 15 **‘**Revenue from contracts with customers’
IFRS 16 IFRS 16 'Leases'
IFRS 17 IFRS 17 'Insurance contracts'
ILAAP Internal liquidity adequacy assessment process
IRC Investment Review Committee
IRRBB Interest rate risk in the Banking Book
ISAs (UK) International Standards on Auditing (UK)
ISDA International Swaps Derivatives Association
LFR Leverage Framework Regime
LGD Loss given default
LIBOR London Interbank Offered Rate
LRMF Liquidity Risk Management Framework
MLR Market and Liquidity Risk
MREL Minimum requirements for own funds and eligible liabilities
MRT Material Risk Taker
NomCo Nomination Committee
NED Non-Executive Director
NSFR Net stable funding ratio
OEC Operating Executive Committee
ORSA Operational risk scenario analysis
PCA Personal Current Account
PD Probability of default
Plevin Plevin v Paragon Personal Finance Limited
PMA Post-model adjustment
PPI Payment protection insurance
PRA Prudential Regulation Authority
PSD2 Second Payment Services Directive
RAM Risk Appetite measure
RemCo Remuneration Committee
RCSA Risk and control self-assessment
RMF Risk management framework
RMFu Risk Management Function
SA Standardised approach
SFTs Securities financing transactions
SONIA Sterling Overnight Index Average
TCo Treasury Committee
TCR Total capital requirement
Tesco Tesco PLC
TFS Term Funding Scheme
TFSME TFS for small and medium sized entities
TPF Tesco Personal Finance plc
TPFG Tesco Personal Finance Group plc
TPP Third-party provider
TSL Tesco Stores Limited
TU Tesco Underwriting Limited
UK United Kingdom
WAEP Weighted average exercise price
WAFV Weighted average fair value
2018 Code UK Corporate Governance Code 2018

A

Alternative performance measure	In the reporting of financial information, the Directors have adopted various Alternative performance measures (APMs). These measures are not defined by IFRSs and therefore may not be directly comparable with other companies' APMs, including those in the Group's industry. APMs should be considered in addition to, and are not intended to be a substitute for, or superior to, IFRS measurements.
Amortised cost	The amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the EIR method of any difference between the initial amount and the maturity amount and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectability.
Annual earnings at risk	Changes in interest rates affect the Bank's earnings by altering interest rate-sensitive income and expenses. Excessive interest income sensitivity can pose a threat to the Bank's current capital base and/or future earnings. The Annual Earnings at Risk model measures the sensitivity of the Bank's earnings to movements in interest rates over the next 12 months based on expected cashflows. The Bank assesses the impact of a +/- 0.25%, 0.50%, 0.75%, 1% shock in rates versus the base case scenario (2018: +1.0%; -0.75%). The most adverse scenario is measured against Risk Appetite.
Annual wholesale refinancing amount	The annual wholesale refinancing amount is the value of funds requiring to be refinanced in a rolling 12 month period end.
Asset encumbrance	A claim to an asset by another party. Encumbrance usually impacts the transferability of the asset and can restrict its free use until the encumbrance is removed.

B

Basel II	Basel II is a set of international banking regulations put forth by the Basel Committee on Bank Supervision, which levelled the international regulation field with uniform rules and guidelines. Basel II expanded rules for minimum capital requirements established under Basel I and provided the framework for regulatory review, as well as set disclosure requirements for assessment of capital adequacy of banks.
Basel III	Basel III is an international regulatory accord that introduced a set of reforms designed to improve the regulation, supervision and risk management within the banking sector.
Bad debt:asset ratio	The bad debt:asset ratio is calculated by dividing the impairment loss by the average balance of loans and advances to customers.
Basis risk	Basis risk is the financial risk that offsetting investments in a hedging strategy will not experience price changes in entirely opposite directions from each other.
Black-Scholes model	A financial model used to price options.
Brexit	The process by which the United Kingdom (UK) left the European Union (EU).

C

Capital at risk	Capital at risk is an economic-value measure and assesses sensitivity to a reduction in the Group's capital to movements in interest rates. When interest rates change, the present value and timing of future cash flows change. This changes the underlying value of a bank's assets, liabilities and off-balance sheet items and its economic value which in turn poses a threat to the capital base.
Capital conservation buffer	A capital buffer designed to ensure that banks are able to build up capital buffers outside of periods of stress which can then be drawn upon as losses are incurred.
Capital Requirements Directive	The Capital Requirements Directive IV (CRD IV) is an EU legislative package that contains prudential rules for banks, building societies and investment firms. Most of the rules in the legislation have applied since 1 January 2014.
Capital Requirements Regulation	The Capital Requirements Regulation (EU) No. 575/2013 (CRR) is an EU law that aims to decrease the likelihood that banks become insolvent, reflecting Basel III rules on capital measurement and capital standards.
Capital resources	Eligible capital held in order to satisfy capital requirements.
Capital risk	The risk that the Group holds regulatory capital which is of insufficient quality and quantity to enable it to absorb losses.

C (continued)

Common equity tier 1 capital	The highest form of regulatory capital under CRR, comprising common shares issued, related share premium, retained earnings and other reserves less regulatory adjustments
Common equity tier 1 ratio	The common equity tier 1 ratio is calculated by dividing total tier 1 capital at the end of the year by total risk-weighted assets and is calculated in line with the CRR.
Company	Tesco Personal Finance plc.
Concentration risk	The risk of losses arising as a result of concentrations of exposures to a specific counterparty, economic sector, segment or geographical region.
Cost:income ratio	The cost:income ratio is calculated by dividing operating expenses by total income.
Countercyclical capital buffer	A capital buffer which aims to ensure that capital requirements take account of the macro-economic financial environment in which banks operate. This aims to provide the banking sector with additional capital to protect it from potential future losses. In times of adverse financial or economic circumstances, when losses tend to deplete capital and banks are likely to restrict the supply of credit, the countercyclical capital buffer should be released to help avoid a credit crunch.
Covid-19	An infectious disease, caused by a newly discovered coronavirus.
CRD IV	Legislation published in June 2013 (in force from 1 January 2014) by the European Commission, comprising the CRD and CRR and together forming the CRD IV package. Implements the Basel III proposals in addition to new proposals on sanctions for non-compliance with regulatory rules, corporate governance and remuneration. The rules have been implemented in the UK via Prudential Regulatory Authority (PRA) policy statement PS7/13, with some elements subject to transitional phase-in.
Credit risk	Credit risk is the risk that a borrower will default on a debt or obligation by failing to make contractually obligated payments, or that the Group will incur losses due to any other counterparty failing to meet their financial obligations.
Credit risk mitigation	Techniques (such as collateral agreements) used to reduce the credit risk associated with an exposure.
Credit spread risk	The risk of adverse effects resulting from a change in credit spreads, arising from a bank's non-trading assets and liabilities.

D

Derivatives	Financial instruments whose value is based on the performance of one or more underlying assets.

E

Encumbrance ratio	The encumbrance ratio is calculated as (total encumbered assets + total collateral received which has been re-used for financing transactions) divided by (total assets + total collateral received which is available for encumbrance).
Equity method	A method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets. The investor's profit or loss includes its share of the investee's profit or loss and the investor's other comprehensive income includes its share of the investee's other comprehensive income.
Exposure	A claim, contingent claim or position which carries a risk of financial loss.
Exposure at default or exposure value	The amount expected to be outstanding after any credit risk mitigation, if and when the counterparty defaults. Exposure at default reflects both drawn down balances as well as an allowance for undrawn commitments and contingent exposures.
External Credit Assessment Institutions	These include external credit rating agencies such as Standard & Poor’s, Moody’s and Fitch.

F

Fair value	The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
Financial Conduct Authority	The statutory body responsible for conduct of business regulation and supervision of UK authorised firms from 1 April 2013. The Financial Conduct Authority also has responsibility for the prudential regulation of firms that do not fall within the PRA’s scope.
Forbearance	A temporary postponement or alteration of contractual repayment terms in response to a counterparty’s financial difficulties

F (continued)

Foreign exchange risk	The risk that the value of transactions in currencies other than Sterling is altered by the movement of exchange rates.
Funding risk	The risk that the Group does not have sufficiently stable and diverse sources of funding.
G	
General Data Protection Regulation	The General Data Protection Regulation 2016/679 is a regulation in EU law on data protection and privacy for all individuals within the EU and the European Economic Area (EEA). It also addresses the export of personal data outside the EU and EEA areas.
Group	The Company and its subsidiaries and joint venture.
I	
Impairment charge and impairment provisions	Provisions held on the balance sheet as a result of the raising of an impairment charge against profit for the incurred loss inherent in the lending book. Impairment provisions may be individual or collective.
Impairment losses	The reduction in value that arises following an impairment review of an asset which has determined that the asset's value is lower than its carrying value. For impaired financial assets measured at amortised cost, impairment losses are the difference between the carrying value and the present value of estimated future cash flows, discounted at the asset's original effective interest rate.
Insurance risk	The risks accepted through the provision of insurance products in return for a premium. These risks may or may not occur as expected and the amount and timing of these risks are uncertain and determined by events outside of the Group's control.
Interest rate risk	The risk arising from the different repricing characteristics of the Group's non-trading assets and liabilities.
Internal capital adequacy assessment process	The Group's own assessment of the level of capital needed in respect of its regulatory capital requirements (for credit, market and operational risks) and for other risks including stress events.
Internal liquidity adequacy assessment process	An ongoing exercise as part of the PRA's regulatory framework to ensure that the Group maintains adequate liquid assets to survive a defined stress scenario for a sufficient period as defined by Risk Appetite.
Internal liquidity requirement	In place to ensure that the Group maintains adequate liquid assets to survive a defined stress scenario for a sufficient period as defined by Risk Appetite.
International Swaps and Derivatives Association master agreement	A standardised contract developed by the International Swaps and Derivatives Association which is used as an umbrella contract for bilateral derivative contracts.
L	
Leverage ratio	Tier 1 capital divided by total exposure.
Liquidity coverage ratio	Liquidity buffer divided by net liquidity outflows over a 30 day calendar day stress period.
Liquidity risk	Liquidity risk is the risk that the Group is not able to meet its obligations as they fall due. This includes the risk that a given security cannot be traded quickly enough in the market to prevent a loss if a credit rating falls.
Loan to deposit ratio	The loan to deposit ratio is calculated by dividing loans and advances to customers by deposits from customers.
Loss given default	Represents the Group's expectation of the extent of the loss if there is a default. The loss given default (LGD) assumes that once an account has defaulted, the portion of the defaulted balance will be recovered over a maximum period of 60 months from the point of default. LGD models take into account, when relevant, the valuation of collateral, collection strategies and receipts from debt sales.
M	
Mark-to-market approach	The method used to calculate exposure values for Counterparty Credit risk. The method adjusts daily to account for profits and losses in the value of related assets and liabilities.

M (Continued)

Market risk	The risk that movements in market prices (such as interest rates, foreign exchange rates and the market value of financial instruments) lead to a reduction in either the Bank's earnings or capital.
Minimum capital requirement	The minimum regulatory capital that must be held in accordance with Pillar 1 requirements for credit, market and operational risk. This is currently 8%.
Minimum requirements for own funds and eligible liabilities	A requirement for minimum loss-absorbing capacity institutions must hold.
MREL ratio	The MREL ratio is calculated by dividing total capital plus MREL debt by risk-weighted assets.

N

Net interest margin	Net interest margin is calculated by dividing net interest income from continuing operations by average interest bearing assets, excluding assets held for sale.
Net stable funding ratio	The net stable funding ratio is calculated under the CRD IV methodology.

O

Ogden tables	Tables which are used to calculate the cost of any claim that involves compensation for loss of future benefits. The tables provide an estimate of the return to be expected from the investment of a lump sum damages award.
Operational risk	The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

P

Past due loans	Loans are past due when a counterparty has failed to make a payment in line with their contractual obligations.
PD threshold	The maximum lifetime probability of default (PD) for each financial asset that was expected at the reporting date at initial recognition before a significant increase in credit risk is deemed to have occurred.
Pension obligation risk	The risk to the Group caused by contractual or other liabilities to or with respect to a pension scheme.
Pillar 1	The first pillar of the Basel II framework sets out the minimum regulatory capital requirements (8%) for credit, market and operational risks.
Pillar 2	The second Pillar of the Basel II framework, known as the Supervisory Review Process, sets out the review process for a bank's capital adequacy; the process under which supervisors evaluate how well banks are assessing their risks and the actions taken as a result of these assessments.
Pillar 2A	Pillar 2A addresses risks to an individual firm which are either not captured, or not fully captured, under the Pillar 1 capital requirements applicable to all banks.
Pillar 3	The third pillar of the Basel II framework aims to encourage market discipline by setting out disclosure requirements for banks on their capital, risk exposures and risk assessment processes. These disclosures are aimed at improving the information made available to the market.
Pipeline risk	The lender's risk that, between the time a lock commitment is given to the borrower and the time the loan is closed, interest rates will rise and the lender will take a loss on selling the loan.
Post-model adjustment	Post-model adjustments reflect the use of Management judgment to address perceived limitations in models or data.
Prepayment risk	Prepayment risk is the risk associated with the early unscheduled return of principal on a fixed-income security.
Probability of default	Represents the likelihood a customer will default over the relevant period, being either 12 months or the expected lifetime.
Prudential Regulation Authority	The statutory body responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms in the UK.
Second Payment Services Directive	The Second Payment Services Directive (PSD2) is an EU Directive that regulates payment services and payment service providers throughout the European Union and European Economic Area. PSD2 updates and replaces the Payment Services Directive 2008.

R

Recovery plan	The framework and recovery options which could be deployed in a severe stress event impacting capital or liquidity positions.
Regulatory capital	The capital that a bank holds, determined in accordance with the relevant regulation arising from Basel III.
Regulatory risk	The risk of reputational damage, liability or material loss from failure to comply with the requirements of the financial services regulators or related codes of best practice applicable to the business areas within which the Group operates.
Repricing risk	Repricing risk is the risk of changes in interest rate charged (earned) at the time a financial contract's rate is reset. It emerges if interest rates are settled on liabilities for periods which differ from those on offsetting assets.
Residual price risk	The risk that the fair value of a financial instrument and its associated hedge will fluctuate because of changes in market prices, for reasons other than interest rate or credit risk.
Retail credit risk	Retail credit risk is the risk that a borrower, who is a personal customer, will default on a debt or obligation by failing to make contractually obligated payments.
Risk Appetite	The level and types of risk that the Group is willing to assume to achieve its strategic objectives.
Risk Appetite Measures	Measures designed to monitor the Group's exposure to certain risks to ensure that exposure stays within approved Risk Appetite.
Risk-weighted assets	Calculated by assigning a degree of risk expressed as a percentage (risk-weight) to an exposure value in accordance with the applicable Standardised Approach (SA) rules.

S

Securitisation	A securitisation is defined as a transaction where the payments are dependent upon the performance of a single exposure or pool of exposures, where the subordination of tranches determines the distribution of losses during the life of the transaction.
Securities financing transactions	The act of lending, or borrowing, a stock, derivative, or other security to or from an investor or firm. For the Group, this represents market repo transactions and does not represent securities financing for clients.
Stress testing	The term used to describe techniques where plausible events are considered as vulnerabilities to ascertain how this will impact the capital resources which are required to be held by the Group.
Securitisation structured entity	A corporation, trust, or other non-bank entity, established for the purpose of carrying on securitisation activities. Structured entities are designed to isolate their obligations from those of the originator and the holder of the beneficial interests in the securitisation.
Standardised approach	In relation to credit risk, the method for calculating credit risk capital requirements using risk-weightings that are prescribed by the regulator. SAs following prescribed methodologies also exist for calculating market and operational risk capital requirements.
Subordinated liabilities	Liabilities which, in the event of insolvency or liquidation of the issuer, are subordinated to the claims of depositors and other creditors of the issuer.

T

Temporary payment holiday	Temporary deferral of contractual repayments due from customers in respect of lending balances.
Tier 1 capital	A component of regulatory capital, comprising common equity tier 1 capital and other tier 1 capital. Other tier 1 capital includes qualifying capital instruments such as non-cumulative perpetual preference shares and other tier 1 capital securities.
Tier 2 capital	A component of regulatory capital, comprising qualifying subordinated loan capital and related non-controlling interests.
Total capital ratio	The total capital ratio is calculated by dividing total regulatory capital by total risk-weighted assets.
Total capital requirement	The amount and quality of capital the Bank must maintain to comply with the CRR Pillar 1 and the 2A capital requirements.

U

UK Leverage Framework regime	The UK leverage ratio framework currently applies to firms with retail deposits equal to or greater than £50 billion on an individual or consolidated basis

U (continued)

Underlying cost:income ratio	The underlying cost:income ratio, which is an APM, is calculated by dividing underlying operating expenses by total underlying income.
Underlying loan:deposit ratio	The underlying loan to deposit ratio, which is an APM, is calculated by dividing loans and advances to customers, including assets of the disposal group, by deposits from customers.
Underlying net interest margin	Underlying net interest margin, which is an APM, is calculated by dividing net interest income from continuing and discontinued operations by average interest bearing assets.
Unencumbered assets to retail liabilities ratio	The minimum unencumbered assets to retail liabilities ratio is the surplus of unencumbered assets relative to the total amount of retail liabilities.

W

Wholesale credit risk	Wholesale credit risk is the risk that the counterparty to a transaction will default before the final settlement of the transaction cash flows. Such transactions relate to contracts for derivative financial instruments, securities financing transactions and long dated settlement transactions.
Wholesale funding ratio	The wholesale funding ratio is calculated by dividing total wholesale funding by total funding.