TESCO PERSONAL FINANCE GROUP PLC

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 28 FEBRUARY 2022

Company Number SC173198

TESCO PERSONAL FINANCE GROUP PLC
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	Julie Currie	Independent Non-Executive Director
	Robert Endersby	Independent Non-Executive Director
	Jacqueline Ferguson	Senior Independent Non-Executive Director
	Richard Henderson	Chief Financial Officer
	Simon Machell	Independent Non-Executive Director
	Gerard Mallon	Chief Executive Officer
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The Directors present their Strategic Report for the year ended 28 February 2022.

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 Group plc (TPFG) and the 'Group' means the Company and its subsidiaries (in the prior year, the Company and its subsidiaries and joint venture) included in the Consolidated Financial Statements. Tesco Personal Finance plc (TPF) operates using the trading name of Tesco Bank.

TPFG is a wholly owned subsidiary of Tesco PLC (Tesco). Tesco results can be found on the Tesco internet page https://www.tescoplc.com.

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 the entire issued share capital of TPF, which is engaged in the provision of banking and general insurance services. Previously, the Group owned 49.9% of Tesco Underwriting Limited (TU), an authorised insurance company, which was accounted for as a joint venture of the Group. On 4 May 2021 TPF purchased the remaining 50.1% share capital of TU from Ageas (UK) Limited (Ageas), its joint venture partner. TU is now accounted for as a subsidiary of the Group.

Economic environment

The Group returned to profitability during the year ended 28 February 2022 but continued to be impacted by ongoing economic uncertainty. Customer and colleague practices developed through the Covid-19 pandemic have transitioned to a business-as-usual environment, enabling the Group to focus on supporting its customers through continued uncertainty.

The Covid-19 pandemic created significant economic and social disruption, and the Group's macro-economic forecasts had projected a large drop in gross domestic product (GDP) and a corresponding sharp rise in unemployment. This led to an increase in expected credit losses (ECLs) in the prior year. However, due to the extension of unprecedented government support measures such as furlough, coupled with the granting of payment holidays and other customer support measures by the industry and the Group, the impact on unemployment was not as severe as had been anticipated.

As a result, there has been a significant reduction in ECLs for potential defaults in the year, with the Group recognising a credit for the year of £29.9m (2021: charge of £359.5m). The credit for the current year reflects the impact on the Group's ECL provision of the improving economic outlook, offset by increased post-model adjustments (PMAs) and increased ECLs in respect of new business written.

Despite a general improvement in the wider macro-economic environment, there still remains ongoing economic uncertainty, and, as such, Management has applied a number of PMAs to the Group's modelled ECL provision. In particular, the Group is monitoring the impact on its customers of the rising cost of living, with inflation expected to continue to rise and increases in National Insurance expected to put significant strain on households over the next financial year, a situation exacerbated by the ongoing conflict in Ukraine. The Group continues to prioritise helping customers and colleagues through the many challenges created by the prevailing economic environment. Further information in respect of these adjustments, along with the impact of the current economic outlook on ECLs, is set out at note 45.

The Group has reviewed its stress testing scenarios to ensure it has sufficient capital and liquidity to trade through a plausible range of economic outcomes. In addition, the Board has received frequent operational, financial and colleague updates from the Executive team throughout the year 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 of the economic environment, now and in the future.

Economic environment (continued)

Notwithstanding the impact of the economic environment on the Group, its capital and liquidity ratios, which are set out on page 9, remain above regulatory requirements over the periods used by Management to monitor these ratios. The Board has also considered in depth the impact of the economic environment on the Group's going concern status. The relevant disclosures are set out on pages 23 to 24 and 28 to 29.

Acquisition of Tesco Underwriting Limited

On 4 May 2021 the Group acquired the remaining 50.1% ordinary share capital of its joint venture entity, TU, from its joint venture partner, Ageas, following regulatory approval received in March 2021. TU is an authorised insurance company which provides the insurance underwriting service for a number of the Group's general insurance products.

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

The transaction has been accounted for as an acquisition of a business in accordance with International Financial Reporting Standard (IFRS) 3 'Business Combinations'. Total cash consideration of £89.7m has been paid to date, with an additional deferred payment of £5.0m due to be paid on expiry of the exit period, subject to the fulfilment of Ageas' obligations in relation to the migration and transition of the TU business to the Group. Payment is expected to be made in May 2022.

In line with the requirements of IFRS 3, the existing equity interest in TU held by the Group immediately before the acquisition date was remeasured to a fair value of £89.4m in the Consolidated Statement of Financial Position. This resulted in a consolidated remeasurement gain for the Group of £4.6m, which is included in other income in the Consolidated Income Statement. In line with the requirements of IFRS 3, the Group also recognised a consolidated gain of £5.0m, representing the Group's share of TU's available-for-sale (AFS) reserve immediately prior to acquisition, which is also included in other income in the Consolidated Income Statement.

In addition to the purchase of the ordinary share capital of TU, the Group also acquired the holding of £21.2m in TU subordinated debt from Ageas on the same date. Further information in respect of the impact on the Group of the acquisition of TU is set out at note 2.

Following the acquisition of TU, the Group has brought in-house the writing of those Home and Motor Insurance policies which were previously underwritten through its broker panel, furthering the Group's objective to build a world class insurance proposition.

Closure of Personal Current Accounts

The Group closed its Personal Current Account (PCA) product to its existing customers with effect from 30 November 2021, enabling it to focus on new propositions that are specifically designed to meet the everyday needs of Tesco customers. The Group wrote to customers explaining their options and provided support to customers using their PCA as their primary current account during the process of switching or closing their accounts, paying particular attention to supporting vulnerable customers and those in need of financial assistance. For customers who had been using their PCA as a savings product, the Group provided information on its tailored savings products for customers to consider as an alternative to their PCA. Further information on the closure of the Group's PCA product is set out on page 25 to 26.

Outsourcing of Collections and Recoveries Capability

During the year, the Group announced its decision to outsource its collections and recoveries capability to a third-party provider which specialises in providing support for customers in financial difficulty. This change enables the Group to deliver the necessary support and flexibility which its customers will need in the future through a modernised service offering, underpinned by new technologies. The Group consulted with colleagues in its Financial Assist team who were transferred to the third-party provider as a result of outsourcing these activities and supported them throughout the transition process. The transfer of the Group's Financial Assist team to the third-party provider was completed in November 2021. Further information on the outsourcing of support to customers in financial difficulties is set out on page 26.

Launch of Clubcard Pay+

During the year the Group launched Tesco Clubcard Pay+, a new payment and money management offering designed to help Tesco customers pay, save and collect Clubcard points. The product allows customers to add their shopping money to their Clubcard Pay+ account using the Group's secure mobile banking app and to see all of their grocery spending in one place. When customers spend using their Clubcard Pay+ debit card, the amount may be rounded up to the nearest pound and the change saved in their Round Up Savings Account. Further information on Clubcard Pay+ is set out on page 27.

Headlines

The current year financial information presented throughout this section is not directly comparable with the prior year following the Group's acquisition of TU during the year.

Income Statement

- Profit before tax from continuing operations is £188.5m (2021: loss of £154.9m).
- Underlying profit before tax from continuing operations, which excludes items which are not reflective of ongoing trading performance, is £186.4m (2021: loss of £152.4m). A reconciliation of statutory to underlying profit/(loss) for the current and prior year is set out at note 5.
- Profit after tax from discontinued operations is £nil (2021: £0.2m).
- **Profit before tax from continuing operations**

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

  - a 6.2% decrease in net interest income to £425.4m (2021: £453.5m). Despite customer lending having increased slightly since the prior year end, average lending was down on the prior year given the steady reduction in balances observed over the year ended 28 February 2021. Also included is an amount of £3.4m (2021: £nil) due to a revision during the year of the estimation of interest earned on the Group's Personal Loans portfolio using the effective interest rate methodology (refer to note 1 for further details). Net interest margin has increased to 5.0% (2021: 4.7%[1]), reflecting lower funding costs as the Group has continued to reduce its Savings balances to reflect its lending book profile and accessed cheaper funding through the Bank of England's (BoE) Term Funding Scheme for Small and Medium Sized Entities (TFSME};
  - a 7.6% increase in net fees and commission income to £189.4m (2021: £176.1m). Credit Card fees and ATM income have increased as the result of increased customer activity as the economy recovers. Offsetting this, there was a reduction in insurance commission income earned by the Group, reflecting the acquisition of TU during the year. Commission previously recognised by the Group on sale of a TU policy is now eliminated on consolidation;
  - net insurance premium income of £133.7m (2021: £nil) relating to Home and Motor Insurance policies underwritten by TU. The prior year and pre-acquisition equivalents are recorded through the share of profit of joint venture line;
  - a gain on investment securities at fair value through profit and loss (FVPL) of £4.9m (2021: £nil). This includes a fair value gain of £4.4m (2021: £nil) relating to TU's holding in a property fund which is now consolidated following the acquisition of TU on 4 May 2021. Also included is a gain of £0.5m (2021: £nil) following the reclassification during the year of the Group's holding in VISA Inc. shares from fair value through other comprehensive income (FVOCI) to FVPL (refer to note 1 for further details);
  - a gain on other financial instruments at FVPL of £2.1m (2021: loss of £2.6m);
  - other income of £10.4m (2021: £nil), predominantly representing the consolidated remeasurement gain recognised by the Group in respect of its existing equity interest in TU immediately before the Group's acquisition of TU of £4.6m, and a consolidated gain of £5.0m representing the Group's share of TU's AFS reserve immediately prior to acquisition. There was no such other income in the prior year. Refer to notes 2 and 12 for further details;
  - net insurance claims of £88.3m, (2021: £nil) relating to Home and Motor Insurance policies underwritten by TU. The prior year and pre-acquisition equivalents are recorded through the share of profit of joint venture line;

[1] The prior year net interest margin has been restated from 5.2% to 4.7% following the inclusion of average interest-bearing balances of £892.0m in respect of investment securities at amortised cost which were previously excluded in calculating the prior year net interest margin.

- **Profit before tax from continuing operations (continued)**
  - an 18.8% increase in operating expenses to £521.3m (2021: £438.7m). Operating expenses have increased following the acquisition of TU and also reflect increased change activity, higher depreciation and increased bonus costs following the Group's return to profitability;
  - a credit in respect of ECLs on financial assets for the year of £29.9m (2021: charge of £359.5m). The credit for the year reflects the impact on the Group's ECL provision of the improving economic outlook, historically low defaults and improved recoveries. Despite a lack of default emergence following the end of government support measures on 30 September 2021, there remain a number of downside risks, specifically in respect of cost of living increases, which could impact the Group's ECL provision. Management has applied a number of PMAs to the Group's modelled ECL provision. Further information in respect of these adjustments, along with the impact of the current economic outlook on ECLs, is set out at note 45; and
  - an 84.0% decrease in the Group's share of profit from its joint venture, TU, to £2.6m (2021: £16.2m). This reflects the change in control of TU which took place on 4 May 2021, at which point TU became a wholly owned subsidiary of the Group, with its results being fully consolidated from that date.
- **Income tax (charge)/credit on profit/(loss) from continuing operations**

Income tax on the Group's profit from continuing operations for the year is a charge of £44.2m (2021: credit of £51.2m). The tax charge for the year is predominantly driven by the Group's return to profit, together with an increase in the corporation tax rate from 19% to 25% with effect from 1 April 2023 and its impact on the Group's deferred tax assets as set out at note 29. The prior year credit was driven predominantly by increased ECL charges due to the Covid-19 pandemic.

- **Profit after tax from discontinued operations**

Profit after tax from discontinued operations in the prior year was £0.2m, relating to completion of the sale of the Group's Mortgage business, the majority of which took place in the year ended 29 February 2020. There were no such discontinued operations in the current year.

Balance Sheet

- Loans and advances to customers have increased slightly to £6.5bn (2021: £6.4bn) as new business activity and consumer spending have increased over the prior year.
- Reinsurance assets of £245.1m, insurance funds withheld of £114.8m and insurance contract provisions of £650.0m have been recognised in the Consolidated Statement of Financial Position following TPF's acquisition of TU on 4 May 2021. Further information in respect of these balances is set out at notes 38 and 39. There were no such balances in the prior year.
- Customer deposits, which continue to be the Group's main source of funding, have decreased by 7.2% to £5.3bn (2021: £5.7bn) as the Group has continued to manage its Savings balances to reflect its lending book profile and accessed funding through the BoE's TFSME. At 28 February 2022, the Group had accessed £900.0m (2021: £100.0m) under the BoE's TFSME. At the prior year end, the Group had accessed £500.0m of funds from the BoE's Term Funding Scheme (TFS), all of which was repaid by 28 February 2022.
- The balance sheet remains well positioned to support future lending growth from both a liquidity and capital standpoint. At 28 February 2022, the total capital ratio was 27.2% (2021: 28.5%[1]) and the net stable funding ratio (NSFR) was 132.4% (2021: 127.6%).

[1] This ratio has been restated following restatement of the Company's opening capital position at 1 March 2020. This was in respect of a £7.0m dividend received from TU prior to 1 March 2020, which was recognised as a deduction from the carrying value of the investment in TPF's Statement of Financial Position rather than through TPF's retained earnings, which comprise part of the Company's capital position. Refer to note 50 for further details.

Regulatory Developments

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.

Regulatory Developments (continued)

Capital Requirements Regulation

On 14 October 2021, the Prudential Regulation Authority (PRA) published final Rulebook instruments for implementation of Basel standards in the UK, thereby replacing the relevant parts of the EU Capital Requirements Regulation (CRR) that had been revoked by HM Treasury. The onshored rules took effect on 1 January 2022.

Minimum Requirements for Own Funds and Eligible Liabilities (MREL)

On 1 January 2020, the Group became subject to MREL, with an interim requirement of 18% of risk-weighted assets until 31 December 2022. In order to meet this requirement, the Company undertook an initial £250.0m issuance of MREL-compliant debt in July 2019.

From 1 January 2022, following a change in the Company's resolution strategy confirmed by the BoE in December 2021, the Company no longer has a requirement to issue MREL-compliant debt since the MREL requirement is equal to the total capital requirement (TCR). The MREL-compliant debt issued by the Company in July 2019 remains in issue.

Countercyclical Capital Buffer (CCyB)

The Financial Policy Committee (FPC) of the BoE is responsible for setting the UK CCyB, being the rate that applies to relevant exposures of UK banks, building societies and large investment firms incorporated in the UK. The rate is currently set at 0%. However, following its meeting in December 2021, the FPC confirmed that the rate will increase to 1.0% with effect from 13 December 2022.

Climate Change

- Overview

The Group's Climate Change programme is led by the Chief Risk Officer (CRO), who holds the Senior Management Function (SMF) accountability for climate change risk. The Group's climate strategy has been updated during the year to reflect the role that the Group can play in assisting its colleagues and customers in reducing their carbon footprints. The Group is committed to understanding and reducing its environmental impact, as well as assessing and managing the risks arising from climate change. The Group's ambition is to achieve its target of net zero carbon emissions from its own operations by 2035 and will seek to provide support to its colleagues and customers in reducing their carbon footprints.

The Group continues to work closely with Tesco to ensure that its approach to tackling climate change is aligned with Tesco's approach.

- Governance

The Climate Change programme is overseen by an executive-level Steering Group. Steering Group members have both ownership and oversight of the work being undertaken to address climate change.

Two climate change-specific papers have been reviewed by the Board Risk Committee (BRC) during the financial year. Furthermore, a Board training session on climate change was delivered by a third-party in June 2021.

- Strategy

The Group's climate change strategy was refreshed during the year as detailed in the overview section of this update.

The nature of the Group's business model means that Management believes the direct risks from climate change are lower than for many other lenders. This is due to the short duration of the Group's lending and insurance activities and the fact that lending is not supported by collateral which is more likely to be impacted by climate change. In addition, the Group is exclusively consumer focussed in its lending and has processes in place to ensure liquidity holdings meet defined Environmental, Social and Governance (ESG) criteria.

Regulatory Developments (continued)

Climate Change (continued)

A number of areas have been identified where there is exposure, however these typically represent an indirect or low risk to the Group. Areas identified include the following:

- Exposure to customers who work for industries whose business models may be impacted through transition and, as a result, could face lower income or the loss of their job;
- Physical impacts of weather events on the ability of the Group's colleagues to work in the office, although this has been significantly mitigated through the move to post-Covid-19 working practices;
- Changes to the way the Group's customers shop and behave, such as reducing travel, which may impact the Group's Travel Money services;
- The likelihood of an increased severity and frequency of weather events, impacting Home insurance claims received by the Group;
- Transitional impacts on the motor insurance market, for example through the move to electric cars, which may impact the Group's Motor insurance business.

The Group's scenario analysis has looked at two scenarios, one to model transition risk over a 10-year horizon and the other to consider physical risk.

The transition risk scenario considered potential macro-economic effects arising from the introduction of a carbon tax and the changing shape of employment as some sectors are heavily impacted by the transition to net zero. The impact on credit losses from this scenario was not considered significant enough to warrant further management action at this stage.

The financial impacts from physical risks considered the potential increase in the number of Credit Card and Personal Loan customers who may in the future find themselves residing in higher flood risk regions as a result of climate change. This showed that the Group’s customer base has a flood risk profile similar to the national average and is not over concentrated in any areas of high flood risk. Both these scenarios were reviewed by the Executive Risk Committee (ERC), BRC and Board and included in the Group’s Internal Capital Adequacy Assessment Process (ICAAP).

Climate scenario analysis is a significant area of focus for the Group and Management will be performing longer and more granular scenario analysis in the upcoming year. This will include a 2°C or lower scenario (a scenario seen as the accepted limitation of temperature growth to avoid significant and potentially catastrophic changes to the planet).

The Group's own operations already use 100% green electricity. Work has been performed during the year with a third-party to identify ways to reduce energy consumption in the Group's offices. The Group's facilities workstream is implementing a plan for its sites to be net zero by 2035.

The Group has made a carbon footprinting platform, Pawprint, available to all its colleagues to help them to reduce their personal carbon footprints. Further colleague initiatives are planned for the upcoming year.

- Risk Management

Climate change has been identified as a cross-cutting risk, with operational risk, credit risk and regulatory risk being most impacted. The areas that have been enhanced to ensure climate risk is explicitly considered and managed are detailed below:

- Operational risk (Change, Response and Continuity, Supplier and Customer)
- Credit risk (retail and wholesale)
- Business risk

Identification and assessment of climate change risk has been driven by the Climate Change programme. The above changes are part of the efforts to ensure that identification, assessment and management of climate change risk are embedded within the relevant business areas as a business-as-usual process.

Climate change reporting is incorporated in the CRO report that is reviewed quarterly at ERC and BRC.

Regulatory Developments (continued)

Climate Change (continued)

Areas of focus for risk management over the next year are building climate change into the Group's Risk Appetite, developing further insightful management information and ensuring business areas have fully embedded climate change into their risk identification and controls processes.

- Metrics and targets

The Group's scope 1 and 2 carbon footprints are disclosed below. The Group has identified number of tonnes of carbon dioxide equivalent (tCO_2e) emissions per full-time equivalent colleague as the most appropriate intensity factor for its business due to the majority of carbon emissions produced being closely linked with the number of colleagues employed.

Work is ongoing to reduce the impact of the Group's offices on the environment and the Group will provide updates as this work progresses. This work is, and will be, heavily shaped by the Group's return to office strategy which, given the ongoing uncertainties surrounding the Covid-19 pandemic, is not yet finalised. Further development of the Group's management information on climate change is planned in the year ahead.

- Emissions data

	28 February 2022[4]	28 February 2021
tCO_2e emissions (Market-based)[1]		
- Scope 1[2]	980	1,315
- Scope 2[3]	–	–
Carbon Intensity Factor		
tCO_2e emissions per FTE	0.30	0.39

The Group continues to develop its approach towards the measurement of its scope 3 emissions. Initial analysis has indicated that the Group's most significant controllable areas of scope 3 impacts are purchased goods and services, business travel, employee commuting and office waste. Work is ongoing to reduce the Group's impact in all of these areas and further disclosures will be provided as market practice develops in these areas.

[1] Market-based method of calculation reflects the emissions from the electricity that the Group is purchasing and includes its purchase of electricity backed by Renewable Energy Guarantees of Origin or Renewable Energy Certificates.
[2] Scope 1 emissions are from natural gas used at the Group's offices.
[3] Scope 2 emissions are from electricity purchased for use at the Group's offices.
Emissions for both are calculated via industry-standard conversion factors as published by the UK government.
[4] Emissions are for the Group's Newcastle, Glasgow and Edinburgh offices only. TU's Reigate office will be included from next year onwards.

IBOR Reform

The Group transitioned its only remaining London Inter Bank Offered Rate exposure, relating to TPF's holding in subordinated debt issued by TU totalling £42.3m, to Sterling Overnight Index Average in October 2021.

Key Performance Indicators

The Directors consider the following to be Key Performance Indicators (KPIs) for the Consolidated Income Statement and are quoted in respect of the Group's continuing operations. The methodology applied in calculating the Group's KPIs is set out in the Glossary of Terms:

	2022	2021
Net interest margin	5.0%	4.7%[1]
Underlying cost:income ratio	77.2%	69.7%
Cost:income ratio	77.0%	70.0%
Gross insurance premiums written	£254.0m	n/a
Loans and advances to customers loss allowance coverage ratio	7.0%	8.9%

[1] The prior year net interest margin has been restated from 5.2% to 4.7% following the inclusion of average interest-bearing balances of £892.0m in respect of investment securities at amortised cost which were previously excluded in calculating the prior year net interest margin.

Capital and Liquidity Ratios

The Directors consider the following to be KPIs for capital and liquidity reporting:

	2022	**2021**
Common equity tier 1 ratio	24.4%	25.3%[1]
Total capital ratio	27.2%	28.5%[1]
Capital coverage of TU's solvency capital requirement (SCR) (unaudited)	151.0%	n/a
MREL ratio	30.9%	32.1%
Net stable funding ratio	132.4%	127.6%
Loan to deposit ratio	121.9%	111.6%

The Group continues to phase in the IFRS 9 'Financial Instruments' impact on capital over a period of five years. On 27 June 2020, due to the Covid-19 pandemic, 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. The Group's total capital ratio remains above regulatory requirements at 27.2% (2021: 28.5%[1]) on a transitional basis. On an end-point basis, the Group's total capital ratio is 25.4% (2021: 25.1%[1]), which is also above regulatory requirements. Refer to note 50 for full details of the impact of these amendments on the Group.

TU's unaudited available capital has remained above its SCR requirement during the period to 28 February 2022; and capital coverage of TU's SCR of £121.1m (unaudited) at the end of February 2022 was 151.0% (unaudited).

An interim MREL ratio requirement of 18% of risk-weighted assets was set from 1 January 2020 to 31 December 2022. However, as of 1 January 2022, the Company no longer has a requirement to issue MREL-compliant debt since, following a change in the Company's resolution strategy confirmed by the BoE, the Company's MREL requirement is equal to the TCR. The MREL-compliant debt issued by the Company in July 2019 remains in issue.

The NSFR, a measure of the Group's liquidity position, is within appetite at 132.4% as at 28 February 2022 (2021: 127.6%). The Group maintains a liquid asset portfolio of high quality securities of £2.3bn (2021: £1.7bn).

[1] These ratios have been restated following restatement of the Company's opening capital position at 1 March 2020. This was in respect of a £7.0m dividend received from TU prior to 1 March 2020, which was recognised as a deduction from the carrying value of the investment in TPF's Statement of Financial Position rather than through TPF's retained earnings, which comprise part of the Company's capital position. Refer to note 50 for further details.

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. Tesco also reviews and approves certain aspects of the Financial Risk Appetite.

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 risk management framework (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 Risk Management model, 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 16 to 22.

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 position with the approval of the Board.

Risk Management Approach (continued)

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	Key controls and mitigating factors
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. During the current financial year, the Group continued to be impacted by ongoing economic uncertainty. In particular, the Group is monitoring the impact on its customers of the rising cost of living, with inflation expected to continue to rise and increases in National Insurance expected to put significant strain on households over the next financial year, a situation exacerbated by the ongoing conflict in Ukraine. Although the Group returned to profitability during the year as the economy recovers, the Group continues to recognise higher provisions for ECLs than pre-Covid-19 pandemic levels. The Group's future performance is sensitive to the speed of the economic recovery. The nature of the Group's business model means that Management believes the direct risks from climate change are lower than for many other lenders. This is due to the short duration of the Group's lending and insurance activities and the fact that lending is not supported by collateral which is more likely to be impacted by climate change. In addition, the Group is exclusively consumer focussed in its lending and has processes in place to ensure investments meet defined ESG criteria.	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. **Despite the improvement in the wider macro-economic environment, there are a number of prevailing headwinds in place at 28 February 2022. Inflation and rises in National Insurance are expected to put significant strain on households over the next financial year. The Group has also assessed the projected impact on its business and results, at 28 February 2022, of the ongoing conflict in Ukraine, the impact of which could result in more sustained levels of unemployment, slightly lower forecast GDP, and place a further strain on household incomes through an increased rate of inflation.** The Group regularly benchmarks 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 continue to be employed, with changes to underwriting criteria being made based on the Group's assessment of the current and forecast macro-economic environment. The Group's risk appetite framework was also enhanced to limit exposure to certain higher risk segments. The performance of credit portfolios is actively monitored, and this monitoring activity has been extended throughout a prolonged period of economic uncertainty to understand which customers are likely to be more or less impacted by the effects of economic uncertainty arising from the rising cost of living, exacerbated by the ongoing conflict in Ukraine. These activities help ensure that the Group’s underwriting controls remain appropriate for the latest macro-economic outlook. Management has applied specific management 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 45.

Credit risk (continued)

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

A number of areas have been identified where the Group has exposure to climate change, however these typically represent an indirect or low risk to the Group.

The Group could have exposure to customers who work for industries whose business models may be impacted through transition and, as a result, could face lower income or the loss of their job. Physical impacts of weather events may affect the ability of the Group's colleagues to work in the office, although this has been significantly mitigated through the move to post-Covid-19 working practices. Changes to the way the Group's customers shop and behave, such as reducing travel, may impact the Group's Travel Money services. The likelihood of an increased severity and frequency of weather events may impact Home insurance claims received by the Group. Finally, there may be transitional impacts on the motor insurance market, for example through the move to electric cars, impacting the Group's Motor insurance business.

Areas of focus for risk management over the next year are building climate change into the Group's Risk Appetite, developing further insightful management information and ensuring business areas have fully embedded climate change into their risk identification and controls processes.

Operational risk

The risk of a potential error, loss, harm, or failure caused by ineffective or inadequately defined processes, system failures, improper conduct, human error 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 the First Line of Risk Management 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 ERC which provides oversight of the Group’s operational risk profile.

Operational risk (continued)

The Group's continued priority throughout the year has been helping customers and colleagues through the many challenges created by the current economic environment. The Group continues to face a number of operational risks including a high proportion of colleagues working from home for extended periods; the need to implement social distancing measures across the Group's premises for colleagues unable to work from home; and the ongoing potential for the Group's suppliers to be impacted by disruption to the global supply chain and labour market.

The Group has served and supported its customers, including the provision of payment holidays and additional support for vulnerable customers, while maintaining the safety and well-being of colleagues, and has transitioned new working practices to business-as-usual. The actions taken included enhancing homeworking capability and testing different ways of working for colleagues. 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.

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.

Operational risk (continued)

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.

As a primarily 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, shadow IT risks 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.

The Group has identified shadow IT, relating to IT systems used by the business but not managed by the Group’s Chief Information Officer (CIO) function, as an area of focus. A programme is underway to identify all shadow IT across the Group and transfer management of such systems to the CIO function.

Liquidity and funding risk

Liquidity risk is the risk that the Group is not able to meet its obligations as they fall due. It also covers 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 129. 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 (continued)

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 and foreign exchange rates) lead to a reduction in either the Group's earnings or economic value.

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 of 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 is exposed to underwriting risk through TU. TU is a separately regulated entity and is capitalised accordingly.

TU operates a RMF 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. Further information in respect of insurance risk is set out at note 45.

Regulatory and conduct risk

Regulatory risk is the risk of poor customer outcomes, reputational damage, liability, loss or regulatory censure arising from failure to comply with the requirements of the financial services regulators or industry codes of best practice. Conduct risk is the risk that the conduct, acts or omissions of the Group, or individuals within the Group, leads to customer detriment, or has an adverse effect on market stability or effective competition.

The Group has no appetite for failing to comply with rules and regulations. As part of the Group's Policy Framework, Second Line of Risk Management 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. If regulatory events and breaches occur, the Group will take appropriate rectifying action on a timely basis. The Group seeks to deliver fair outcomes for customers. 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 of the economic environment, now and in the future.

Regulatory and conduct risk (continued)

The risk of business conduct leading to poor outcomes can arise as a result of misselling, inadequate creditworthiness and affordability assessments, 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 Risk function provides robust oversight of customer outcomes and the ERC and the Board review and challenge delivery of fair outcomes for customers.

The risk that regulatory changes such as General Insurance Pricing Practices, Open Banking and Consumer Duty 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 financial services 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 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 has insufficient capital resources to support its plan and meet minimum capital requirements and buffers under both anticipated and stressed conditions.

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 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 TCR given to the Group.

Capital risk (continued)

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.

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 2022. These disclosures will be published in the Financial Information section of the Group's corporate website in due course.

Risk Management Framework

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 RMF is embedded across the Group, creating an integrated approach to managing risk. The RMF brings together governance, Risk Appetite, the Three Lines of Risk Management model, the Policy Framework and risk management tools to support the business in managing risk as part of day-to-day activity.

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 2022.

The Board

Chair	**Executive Directors**	**Non-Executive Directors**
Sir John Kingman	Richard Henderson	Elizabeth Buckley
	Gerard Mallon	Julie Currie
	Deborah Walker	Robert Endersby
		Jacqueline Ferguson
		Simon Machell
		Adrian Morris
		Tikendra Patel
		Amanda Rendle

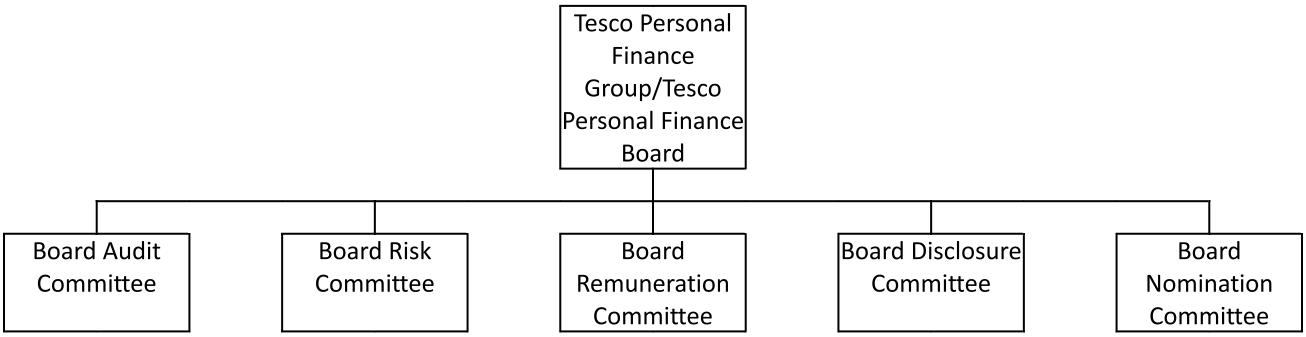
James Willens resigned from his role as Senior Independent Non-Executive Director on 28 September 2021, at which point Jacqueline Ferguson assumed the role of Senior Independent Non-Executive Director.

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 and any material new product lines in line with the approved Risk Appetite and monitors the Group's risk management profile and capital adequacy position.

The 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 Board has established Board committees and the executive has established Senior Management committees to:

- challenge and oversee the RMF;
- identify the key risks facing the Group; and
- assess the effectiveness of 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 strategic aims and objectives for the business, in some circumstances subject to shareholder agreement, 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 Board Diversity and Inclusion Policy which was reviewed by the Nomination Committee (NomCo) during the year prior to being approved by the Board. The Group is fully committed to creating an inclusive culture with a mix of skills, knowledge, experience, geographical expertise and educational and professional backgrounds. In addition, the Board aims to have a mix of gender, tenure, age, ethnicity and other distinctions between Directors.

In addition, the Equal Opportunities Policy and supporting guidance aim 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 and 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. In the last year the Group made positive progress in improving female representation and is focused on building a sustainable talent pipeline to ensure that it continues to develop diverse talent throughout all levels of the organisation. The Group has met its female ExCo membership target ahead of time, reaching 44% representation against its target of 33% by 2022. The Group has also exceeded its target of 33% female board members by the end of 2022 by reaching 42% representation. The Group recognises that it has significant progress to make against its Director target, which has been impacted by the acquisition of TU. As a result, the timeline and scope for this target has been revised to include Senior Management representation of 33% by 2024. These changes align with industry norms, enabling the Group to continue to address diversity within its senior leadership populations and take a holistic approach to addressing diversity throughout the organisation. In addition, the Group is developing new Diversity targets specifically for Gender and Ethnicity and, once in place, will review progress against these on a quarterly basis.

Gerry Mallon is Executive Sponsor for Inclusion and, as such, 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. He is also accountable for progress towards the Women in Finance Charter targets.

Gender Diversity at Board Level (continued)

Further information on the role of the Group's NomCo in reviewing the diversity of the Board and the Group's Senior Management is set out on page 20. Further information on the Group's approach to diversity and inclusion, including details of the Group's targets and progress, can be found at the following link:
https://bank.tescoplc.com/sustainability/diversity-inclusion/gender/

Board and Committee Attendance

The Board and its Committees held regular meetings throughout the year. 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	13/13	6/6	–	7/7	–	8/8
Elizabeth Buckley[2]	2/2	1/1	–	–	–	1/1
Julie Currie	12/13	5/6	7/7	–	1/2	7/8
Robert Endersby	13/13	6/6	7/7	7/7	2/2	8/8
Jacqueline Ferguson	12/13	6/6	7/7	–	–	7/8
Richard Henderson	13/13	–	–	–	5/5	–
Declan Hourican[3]	3/4	–	–	–	2/2	–
Simon Machell	13/13	3/3	7/7	7/7	–	8/8
Gerard Mallon	13/13	–	–	–	3/3	–
Adrian Morris[4]	10/11	4/5	–	–	–	5/6
Tikendra Patel[5]	1/1	1/1	–	–	–	0/0
Amanda Rendle	13/13	5/6	–	7/7	–	8/8
Alan Stewart[6]	2/2	1/1	–	–	–	1/2
Deborah Walker[7]	1/1	—	—	—	3/3	—
James Willens[8]	7/7	4/4	—	4/4	1/2	4/4

[1] Attendance recorded is of Committee members only and does not reflect Directors' attendance as observers.
[2] Elizabeth Buckley was appointed to the Board on 9 December 2021.
[3] Declan Hourican resigned from the Board on 29 June 2021.
[4] Adrian Morris was appointed to the Board on 30 April 2021.
[5] Tikendra Patel was appointed to the Board on 30 December 2021.
[6] Alan Stewart resigned from the Board on 30 April 2021.
[7] Deborah Walker was appointed to the Board on 18 January 2022.
[8] James Willens resigned from the Board on 28 September 2021.

Board Evaluation

In accordance with the requirements of the UK Corporate Governance Code 2018 (2018 Code), the Board carries out a review of the effectiveness of its performance and that of its Committees and Directors every year. The evaluation is facilitated externally every third year.

An externally facilitated review was carried out by Lintstock Limited (Lintstock) and presented to the Board in 2021. 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 Lintstock and any members of the Board.

The evaluation highlighted a strong Board with the relevant level of expertise and positive working relationships. The Board Committees were seen to provide effective support and reported well to the Board. Whilst no fundamental changes were proposed in the evaluation, it also highlighted a number of opportunities for improvement, including the Board continuing to increase its focus on customer-centric products and services and having more opportunities to meet colleagues across the Group and Tesco.

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, 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; review the Internal Audit programme; oversee the Internal Audit function; 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 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), Elizabeth Buckley, Julie Currie, Jacqueline Ferguson, Sir John Kingman, Simon Machell, Adrian Morris, Tikendra Patel and Amanda Rendle.

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.

- Board Remuneration Committee (RemCo)

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

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 Richard Henderson (Chair), Fiona Burden, Gerard Mallon and Deborah Walker.

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), Elizabeth Buckley, Julie Currie, Robert Endersby, Jacqueline Ferguson, Simon Machell, Adrian Morris, Tikendra Patel and Amanda Rendle.

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. The Colleague Experience Director and the CEO provide an update to the Board on ExCo succession planning and any gaps annually. From a governance perspective, NomCo provides approval for any hire into ExCo and RemCo provides approval in respect of reward.

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 executive search firms to find the appropriate individual. During the year, Sapphire Partners and Saxton Bampfylde 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 executive search partners the Group worked with during the year were able to demonstrate credentials in supporting the recruitment of diverse hires at Board level, and were selected on that basis. The Group's Diversity and Inclusion Policy is discussed in further detail on pages 17 and 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.

In order to support their own decision-making, the senior Executives have established four sub-committees which report directly to ExCo to support them in challenge and oversight of the RMF; identification of the key risks facing the Group; and assessing the effectiveness of risk management actions.

- Operating Executive Committee (OEC)

The OEC has been established to support the Chief Customer Officer, Chief Operating Officer, Chief Insurance Officer and Colleague Experience 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.

- Investment Review Committee (IRC)

The IRC has been established to support the CEO 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.

- 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 matter being escalated, as appropriate.

- 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 Risk Management 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.

Three Lines of Risk Management

The Three Lines of Risk Management 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 Risk Management

Senior Management within each business area is responsible for managing the risks that arise from the activities in which the business area is engaged in accordance with the Group's RMF and policies. The role of the First Line of Risk Management 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 the respective business area is engaged; identify, design, implement, own, check and operate management controls; identify, manage and monitor risk events, including the delivery of remedial actions and performance of root cause analysis; translate Risk Appetite into clear, precise articulation of acceptable risks and operate within Risk Appetite and any related limits which the Second Line of Risk Management establishes; provide input to reporting on the risk environment in line with risk reporting standards established by the Second Line of Risk Management; 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 Risk Management

The RMFu operates under the leadership of the CRO. Risk teams reporting to the CRO are the Second Line of Risk Management 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 Risk Management is to own, develop, communicate, implement and provide advice on the Group's RMF and policies; provide subject matter expertise in the management of specific types of risk and regulation, including supporting in the identification and management of risk events and associated remediation activity; provide risk-based oversight of the First Line of Risk Management's implementation of, and adherence to, the RMF and policies; provide risk-based oversight 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 and propose the Risk Appetite to the Board and oversee implementation of Risk Appetite in the First Line of Risk Management; design and deliver standards for consistent risk reporting, risk governance and escalation; perform Group-wide risk aggregation and analysis; provide proactive insight and direction on industry, governing body and regulatory developments that will help improve the management of risk in the Group; and deliver and co-ordinate specific regulatory returns.

- Third Line of Risk Management

This comprises the Internal Audit 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 Internal Audit 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, Internal Audit resources are supplemented across a range of audits by external support to provide additional subject matter expertise when required.

The primary role of Internal Audit is to provide independent assurance on the effectiveness of governance, risk management and control across the First and Second Lines of Risk Management.

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

Policies

The Group has a Policy Framework in place which requires Level 1 policies to be approved by the Board and Level 2 policies by the relevant SMF owner. 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 training/information/understanding to comply; undertaking suitable oversight 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 biennial 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.

- Risk Identification and Assessment

RCSA is the process used to identify, assess, manage, monitor and report risks and controls across the Group. The process sets out principles which should be consistently applied to the identification of risk. New and emerging risks and the recommended responses to them are reported by business units and the RMFu to relevant governance bodies. The risk assessment process is the means by which the Group understands and estimates the effect of risk on the business, processes, systems and controls that mitigate those risks to an acceptable level. These assessments are reported to the Board on a regular basis.

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. Key discussion points from subordinate risk committees and Management fora are reported to Senior Management and committees as appropriate.

- Event Management

An Event is an occurrence caused by an internal or external failure which could impact the Group’s finances, customers, compliance with regulations, brand and reputation, or resilience of operations. The Event Management process provides the tools and techniques to identify, assess and manage events through to closure.

- 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, ERC, BRC and the Board. These are captured in both the ILAAP and the ICAAP.

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 'serving its customers, communities and planet 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.

In accordance with Provision 31 of the 2018 Code, the Board is required to confirm that it believes that the Group will be able to continue in operation and meet its liabilities, taking into account its current position and the principal risks it faces, over a specified time horizon.

In assessing the Group's future prospects, the Board considers a period of three years to be appropriate as this is within the five-year period over which the Group's long-term plan is prepared and internal stress testing of the profit, capital and funding forecasts are carried out. However, levels of uncertainty increase in the outer years of the planning period and therefore the shorter period is considered more suitable for the Viability Statement. The time period will be subject to annual Board review.

- 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 FPC 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 45 and its capital position is set out at note 50.

- 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 the rising cost of living, exacerbated by the ongoing conflict in Ukraine.

The Group's principal risks and policies and processes for managing those risks are set out on pages 10 to 15.

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.

Viability Statement (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 current economic environment. 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 45;
- The sufficiency of the Group's capital base. The worst case 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 to trade through a plausible range of economic outcomes. The Group's capital position at 28 February 2022 is set out at note 50;
- The adequacy of the Group's liquidity as the Group supports customers through a period of economic uncertainty. The Group reviewed its stress testing scenarios to ensure it has sufficient liquidity to trade through a range of plausible economic outcomes. In addition to the Group's portfolio of liquid assets, it has an undrawn £200.0m committed structured repurchase facility;
- 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; and
- The structural protections of the Group's securitisation vehicles.

Further information on the Group's principal risks is set out on pages 10 to 15.

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.

S172 Statement by the Directors (continued)

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 29 to 31.

The Board has made some key strategic decisions during the year ended 28 February 2022 where due consideration was given to the Group's key stakeholders, including:

Closure of Personal Current Accounts

In March 2021, the Group took the decision to close its PCA product to all of its existing PCA customers with effect from November 2021. This decision followed the withdrawal of the PCA product from sale in December 2019. As a result of the decision to withdraw from the PCA market, the Group will focus on new propositions that are specifically designed to meet the everyday needs of Tesco customers. When making the decision to close the existing PCA product, the Board considered a number of factors, including the behaviours of the Group's customers and the fact that it was a loss-making product. The Group estimated that only around 11% of PCAs were being used by customers as their primary current account, with most accounts having limited activity or being used for other purposes, such as a way to save money. The Group's focus was on helping customers throughout the process, including informing them of the alternative options available to them. Options included moving their account to a new current account provider, and/or moving to a suitable Tesco Bank savings, Clubcard Pay+ or credit card product. The Board believes that the closure of the existing PCA product was in the best interests of the Group in the longer-term.

The Group was committed to providing support to customers during the process of closing or switching their accounts. Clear communications were discussed and reviewed extensively before being issued to customers. Over 775,000 written communications were sent to 213,000 PCA customers between 26 July 2021 and 30 November 2021. Particular consideration was given to the Group's more vulnerable customers and those in need of financial assistance. During the closure notice period, 48,729 accounts were closed by customers, with 82% of these being completed via the Current Account Switch Service. Switch requests exceeded expectations, leading to some delays during August 2021, however, action was taken to manage this activity, including additional resource being allocated to support customers and keep them fully informed. Post-closure communications were also sent, including Final Closure Statements, five-year transaction history access details and specific communications to those customers currently in financial difficulties. In addition, there were a number of outbound telephone calls made to particular sets of customers who had failed to take action following the written communications. Feedback from customers confirmed that they were aware of the closure and were comfortable with what they were required to do or, where appropriate, happy to receive a refund by cheque. Support continues to be available for customers where required, including those 790 customers who were in arranged overdrafts at the point of closure. Ongoing monitoring of all activity associated with the closure continues to be carried out, particularly in relation to customer service and outcomes. Customer complaints were monitored as a key source of customer feedback and used as a way to improve communications and engage with customers. Total complaints received throughout the closure programme equated to less than 0.5% of PCA customers. The Group's colleagues were provided with the necessary training to be able to support the Group's customers and ensure customers were treated fairly.

S172 Statement by the Directors (continued)

Given the nature and complexity of the closure, it was delivered as a project with dedicated resource and funding allocated. The appropriate governance and risk management was applied to support a well-controlled project, with senior stakeholders involved at all stages. Risks were identified and reviewed during the project. A risk register was maintained and managed, with escalation to senior stakeholders if required. Regular meetings took place between all impacted business areas and reporting to senior stakeholders allowed the necessary visibility of any impacts on the Group's customers and colleagues.

The regulators were kept informed throughout the project on a regular basis.

Outsourcing of Collections and Recoveries Capability

In August 2021, the Group announced its decision to outsource its collections and recoveries capability to a third-party provider. The decision followed a strategic review carried out in late 2020. The Board made the decision to outsource to Arrow Global Group (AGG), a specialist service provider for the management of customers in financial difficulties. This arrangement allows the Group to deliver a higher level of service to customers through a modernised service offering, underpinned by new technologies, processes and consumer channels and fully aligns to the Tesco strategy. A robust process was carried out to identify the right third-party to work with the Group, and AGG was appointed given its specialism in this area, customer service, customer focus, proven expertise, technology platforms and for the cultural alignment between the two organisations. The fair treatment of customers was a key criterion during the supplier selection process and subsequently during the more detailed due diligence conducted prior to contract sign off. Assurance was carried out by the Group, including a review of AGG's conduct risk, customer outcome and quality assurance framework, a review of outcome testing results and a review of a sample of customer journeys to examine all interactions with customers during financial difficulties. The assurance confirmed and evidenced that AGG operated to an extremely high standard in treating customers fairly and ensuring good customer outcomes.

Aligned with the Group's strategy, the Board also considered the impact on the business in relation to managing default levels and associated ECL charges which supported the decision to outsource the Group's collections and recoveries capabilities. As a result of the improved capabilities afforded by AGG, the Group will benefit through expected reduction in arrears, defaults levels and improved recovery post-default.

The transition of service to AGG concluded in November 2021 and the partnership resulted in 236 colleague roles transferring, under the Transfer of Undertakings (Protection of Employment) (TUPE) regulations, to AGG. This was subject to a collective consultation process with a recognised trade union. Under the agreement between the Group and AGG, all colleagues transferred under TUPE are protected from redundancy for a period of at least two years. The Group engaged colleagues as early as was possible and listened to feedback. Colleagues were supported through the formal consultation and given access to AGG management to ask questions and talk through any concerns. The Group provided colleagues with support to help manage them through the change.

The Group had previously conducted a comprehensive assessment of customer needs in financial difficulty. This assessment, which was supported by an external agency, involved walking customers through their real-life journey. The Group also engaged with colleagues who had experienced financial difficulties and customer focus groups were used to better understand customer needs and desired experiences when faced with financial difficulties. This insight supported the decision to outsource the collections and recoveries capabilities.

AGG has successfully assumed full servicing responsibilities using the Group's systems and processes with no customers impacted during the transition. The service transformation will be delivered in two further phases, including the migration of the Personal Loans and Credit Cards books to AGG's systems and processes, expected to take place during 2022. The benefits that will come from the service transformation include an enhanced proposition that significantly improves the Group's ability to support customers in financial difficulties and provides customers with the ability to self-serve through a new digital proposition.

The Board continues to be updated on the progress of the service transformation, with risk management being a key focus. The escalation of any risks, issues or concerns are communicated to the Board in a timely manner via senior management. The Group has engaged with the regulators on the outsourcing arrangement and continues to have active dialogue with the regulators as the transition and transformation progresses.

S172 Statement by the Directors (continued)

Launch of Tesco Clubcard Pay+

During the year the Group launched Tesco Clubcard Pay+, a new payment and money management offering designed to help Tesco customers pay, save and collect Clubcard points. The product allows customers to add their shopping money to their Clubcard Pay+ account using the Group's secure mobile banking app and to see all of their grocery spending in one place. A decision was made to launch the Tesco Clubcard Pay+ product in phases, ensuring that sufficient time was taken to engage with customers, colleagues and Tesco to get feedback to inform the product features, align to the Tesco strategy and to allow time to test the systems that would underpin its operation and service.

The Group initially launched Tesco Clubcard Pay+ to Tesco customers for a six-month test and learn period to allow the proposition and marketing approach to be refined. This was followed by updates and enhancements to the product in September 2021 before the nationwide launch in January 2022. Following the initial launch in March 2021 a rigorous insight framework was implemented, including a six week 'customer panel' involving multiple participants across the different categories of Tesco customers. An enormous amount of insight was gathered and analysed, and a variety of product and proposition development techniques were used throughout the process based on continuous customer feedback. From this engagement the Group identified the key drivers of why customers would want to take out the product, why they would continue to use the product and what features they wanted from the product. From the combination of qualitative and quantitative insight, improvements were made to the customer experience following its initial launch. These improvements included refinements to the application journey and clarity to help customers understand how to use the product, as well as some new savings features. Whilst the product development framework was being rolled out colleagues received training which also provided opportunities for colleagues to provide feedback, collaborate and engage with each other, creating an effective product community. Risk management was also a key focus.

Risks were identified, with controls and actions put in place to address them. Reporting and escalation of these were tightly managed. The Board is kept up-to-date with the performance of the product, with any significant customer or colleague issues being escalated via Senior Management and there is continuous engagement with Tesco. There has also been regular dialogue with, and updates provided to, the regulator.

Since the nationwide launch in January 2022 over 60,000 accounts have been opened by Tesco customers, with more than £42m having been spent in 1.9m transactions using Tesco Clubcard Pay+. Customer behaviours continue to be monitored and will help inform further improvements to the product.

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

Fiona Burden

Company Secretary

11 April 2022

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 2022.

Compliance with the UK Corporate Governance Code

The Group applied the main principles and complied with the relevant provisions set out in the 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 9.

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 23 to the Financial Statements.

Capital Structure

The Group's capital structure is discussed in note 50 to the Financial Statements.

Events after the Reporting Date

Details of events occurring after the reporting date are discussed in note 55 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 current economic environment, and including consideration of projections incorporating the impact of the rising cost of living, exacerbated by the ongoing conflict in Ukraine, 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 ECLs continue to be affected by the current economic environment. 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 42;
- The sufficiency of the Group's capital base. The worst case 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 to trade through a plausible range of economic outcomes. The Group's capital position at 28 February 2022 is set out at note 50;
- The adequacy of the Group's liquidity as the Group supports customers through a period of economic uncertainty. The Group reviewed its stress testing scenarios to ensure it has sufficient liquidity to trade through a range of plausible economic outcomes. In addition to the Group's portfolio of liquid assets, it has an undrawn £200.0m committed structured repurchase facility;

Going Concern (continued)

- 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; 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 2022 can be found in the Strategic Report on pages 25 to 27.

- Our Customers

The Group's purpose is to serve its customers, communities and planet 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 customers 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 meant that the Group 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 and the Group has implemented a series of digital tools to ensure customers can provide timely and relevant feedback.

The Group continues to invest and look at ways to connect Tesco customers 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 continued to focus on the way in which it communicates and engages with its more than 3,800 colleagues in order to keep colleagues feeling connected to each other, the Group's strategy and its purpose and values as the Group has transitioned its working practices in response to the Covid-19 pandemic.

- Our Colleagues (continued)

Business developments were communicated frequently to keep colleagues informed about the progress of the Group. In addition, monthly interactive sessions, designed specifically for the Group's Extended Leadership team, were also held to support and equip them with information to lead their teams as the Group transitioned new working practices necessitated by the Covid-19 pandemic to business-as-usual. The Group has tracked colleague sentiment and performance against its key performance objectives through its continuous listening programme, including a series of pulse surveys, its annual Every Voice Matters (EVM) survey and the Financial Services Culture Board survey. The most recent EVM survey results reported that the majority of colleagues consider that the Group is a great place to work, that their health and wellbeing is supported, and that they feel they can be themselves without fear of judgement. The Leadership team will continue to review and discuss colleague feedback to shape future plans. The Group also continued to share Covid-19-related government guidance with all colleagues and ensured that this guidance was reflected within its policies.

The Group 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’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 to ensure that colleagues understand the Group’s objectives and the regulatory environment in which it operates. 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. 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.

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. 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.

The Colleague Contribution Panel (CCP) is a panel of elected colleagues from all across the Tesco group who meet with a Non-Executive Director from Tesco twice a year to discuss experiences of working at Tesco. TPFG's Colleague Experience Director provides feedback from the CCP to TPFG's Executive Management team. A CCP meeting was held in November 2021, with outputs shared with the Tesco Executive team and the Tesco Board in March 2022. The topics raised by the panel ranged from innovation to technology and training. There were no specific actions for TPFG to address following this meeting.

- Our Colleagues (continued)

In addition, the Board has designated Amanda Rendle as the non-executive director to support colleague engagement activity across the Group. Amanda has experience in this area through other non-executive roles and also has a personal interest in colleague engagement. Based on these factors, the Board nominated her to engage with colleagues directly to further support the Group in obtaining colleague feedback.

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 750 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 2022 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. In addition to meetings and dialogue with suppliers in accordance with the framework, methods used to encourage feedback and engagement include participation in the Tesco Supplier Viewpoint Survey and an annual supplier conference. 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.

The Group recognises its responsibilities to respect the human rights of its customers, colleagues, suppliers and the communities it serves and does not tolerate slavery, human trafficking, forced labour, child labour or child exploitation. The Group's Modern Slavery statement is available on its website at the following link: https://bank.tescoplc.com/financial-information/accounts-and-disclosures/. There have been no material changes to the Group's Modern Slavery statement since this was approved in August 2021.

- Our Shareholder

The Board uses its relationship with Tesco, the Group's only shareholder, to provide access to 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 and Adrian Morris, Tesco's General Counsel, is a Non-Executive Director of the Group's Board.

- 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 government measures put in place to limit the spread of Covid-19 but colleagues have continued to raise funds for local charitable causes through a variety of virtual fund-raising challenges.

Dividends

An interim dividend of £87.0m (2021: £13.0m) in respect of ordinary share capital was paid to Tesco on 18 February 2022.

Treating Customers Fairly

Treating Customers Fairly is central to the Financial Conduct Authority'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 at the date of signing this Annual Report and Financial Statements are listed on page 1. Details of changes in Directors and the Company Secretary during the year and up to the date of signing the Financial Statements are set out below.

Since 1 March 2021 to date the following changes have taken place:

	Appointed	Resigned
Elizabeth Buckley	9 December 2021	
Fiona Burden (Company Secretary)	1 February 2022	
Declan Hourican		29 June 2021
Adrian Morris	30 April 2021	
Michael Mustard (Company Secretary)		31 January 2022
Tikendra Patel	30 December 2021	
Alan Stewart		30 April 2021
Deborah Walker	18 January 2022	
James Willens		28 September 2021

- **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 include Chief Operating Officer for the turnaround division of Lloyds Banking Group and Chief Financial and Operating Officer for the Lloyds bank foundation, the largest corporate foundation in England and Wales. Julie also spent nine years in Bank of Scotland's European Leveraged Finance business. Julie holds a Non-Executive role with Scotiabank Europe, where she has chaired the Audit Committee since 2018. She was also the chair of the Audit and Risk Committee for the Department for International Trade from 2016 to 2020.

Julie joined the TPFG/TPF Board in February 2021 and is Chair of the BAC.

Robert Endersby has spent almost 40 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 include 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. Robert is also currently an independent Non-Executive director and chair of the board risk committee of Redwood Bank 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.

Robert joined the TPFG/TPF Board in December 2014 and currently Chairs the BRC.

BAC composition, skills and experience (continued)

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.

Jacqueline joined the TPFG/TPF Board in 2018.

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. He was chairman of the Motor Insurers' Bureau for six years. Simon holds Non-Executive roles with Pacific Life Re, Prudential Corporation (Asia), Suncorp Group and TU.

Simon joined the TPFG/TPF Board in 2013.

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 19.

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 and integrated assurance. The BAC also considered a variety of matters including the internal financial control framework, consolidation and oversight of TU, system access control, the external fraud control environment and business continuity arrangements, whilst preparing for Audit Market Reform and the introduction of UK SOx.

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 2022, 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 Group's acquisition of TU.

- 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 2023, 12 months subsequent to signing the Annual Report and Financial Statements for the year ended 28 February 2022. 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 economic uncertainty arising from the rising cost of living, exacerbated by the ongoing conflict in Ukraine. These were then subject to stress testing based on various scenarios, including scenarios incorporating the impact of the current economic environment. The detailed considerations taken by the Board in arriving at its going concern assessment are set out on pages 23 to 24 and 28 to 29.

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.

Financial Statements and related financial reporting (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 2022 are:

- Expected credit loss provision (ECL) (Refer to note 45)

  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, past loss experience, defaults based on portfolio trends, expected loss rates and PMAs.

  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 35)

  The Group has a provision for potential customer redress in relation to payment protection insurance (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.

- Outstanding insurance claims and provisions (Refer to note 39)

  The Group holds an investment in TU, an authorised insurance company, which became a wholly owned subsidiary of the Group on 4 May 2021.

  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 reinsurance assets, insurance funds withheld and insurance contract provisions balances in the Consolidated Statement 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 value of insurance claims and provisions is appropriate.

Performance and Effectiveness of Internal Audit

The Internal Audit 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 Internal Audit Director.

In compliance with the above standards, the BAC assessed the effectiveness of the Internal Audit function, with the results of the annual assessment for 2021/22 being positive.

Performance and Effectiveness of External Audit

An externally facilitated review is carried out to assess the effectiveness of the External Auditor. This review is arranged and overseen by Tesco, with Executive management and the Chair of TPFG's BAC asked to participate. The review comprises a comprehensive set of questions including the scope of the work of the External Auditor, the quality of reporting, the relationship with Management, the level of expertise and experience of the External Auditor and their overall performance. The process of the assessment is generally carried out during January and February in each year, after which the final report is issued to the Tesco BAC. TPFG's BAC is also provided with a copy of the report for review and discussion.

Performance and Effectiveness of External Audit (continued)

In 2021, Lintstock carried out the assessment of the effectiveness of the External Auditor. A report was issued to TPFG's BAC in July 2021, with an effective assessment. The assessment for 2022 is in progress, with the report due to be issued and discussed at TPFG's BAC in July 2022. In addition to the Tesco report, TPFG's BAC Chair will also facilitate a more targeted assessment of the External Auditor using the output of the survey provided by Lintstock. This will allow further discussion and assessment of the External Auditor at TPFG level and help to support the overall assessment and identification of any specific areas for further improvement.

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, carried out by Lintstock. This included interviews with all BAC members and 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 21.

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.

The Board of Directors is ultimately responsible for reviewing the effectiveness of the Group’s RMF and internal controls. Assessment of the effectiveness of the RMF is undertaken by the BRC on behalf of the Board, while assessment of the effectiveness of internal controls is undertaken by the BAC on behalf of the Board, with any issues escalated to the Board, as appropriate. No material deficiencies in internal controls have been identified in the year and the Board therefore considers that the Group has in place an adequate RMF and internal controls.

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 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 the FRC's Ethical Standard and 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 14 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 TPF and 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 174.

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 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 profit 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 independent auditor in connection with preparing this report, of which the independent 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 independent auditor is aware of that information.

External Audit Partner

The External Audit partner for the year to 28 February 2022 was Peter Birch who has fulfilled the role since the prior year. Deloitte were appointed as External Auditor on 30 June 2015. 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.

Fiona Burden
Company Secretary

11 April 2022

TESCO PERSONAL FINANCE GROUP PLC
CONSOLIDATED INCOME STATEMENT
For the Year Ended 28 February 2022

	Note	2022 £m	2021 £m
Continuing operations			
Interest and similar income	6	487.5	562.4
Interest expense and similar charges	6	(62.1)	(108.9)
Net interest income		**425.4**	**453.5**
Fees and commissions income	7	226.9	208.8
Fees and commissions expense	7	(37.5)	(32.7)
Net fees and commissions income		**189.4**	**176.1**
Insurance premium income	8	239.2	–
Insurance premium income ceded to reinsurers	8	(105.5)	–
Net insurance premium income		**133.7**	**–**
Net gain on investment securities at fair value through profit or loss (FVPL)	10	4.9	–
Net loss on investment securities at fair value through other comprehensive income (FVOCI)	11	(0.3)	–
Net gain/(loss) on other financial instruments at FVPL	10	2.1	(2.5)
Other income	12	10.4	–
Net other income		**17.1**	**(2.5)**
Total income		**765.6**	**627.1**
Insurance claims incurred	13	(150.2)	–
Insurance claims ceded to reinsurers	13	61.9	–
Net insurance claims		**(88.3)**	**–**
Total income, net of insurance claims		**677.3**	**627.1**
Administrative expenses	14	(456.1)	(382.0)
Depreciation and amortisation	35	(65.2)	(56.7)
Operating expenses		**(521.3)**	**(438.7)**
Expected credit loss credit/(charge) on financial assets	15	29.9	(359.5)
Operating profit/(loss)		**185.9**	**(171.1)**
Share of profit of joint venture	28	2.6	16.2
Profit/(loss) before tax		**188.5**	**(154.9)**
Analysed as:			
Underlying profit/(loss) before tax		186.4	(152.4)
Non-underlying items		2.1	(2.5)
		188.5	(154.9)
Income tax (charge)/credit	17	(44.2)	51.2
Profit/(loss) for the year from continuing operations		**144.3**	**(103.7)**
Discontinued operations			
Profit after tax from discontinued operations		–	0.2
Profit/(loss) for the year attributable to owners of the parent		**144.3**	**(103.5)**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the Year Ended 28 February 2022

	Note	2022 £m	2021 £m
Profit/(loss) for the year		**144.3**	**(103.5)**
Items that may be reclassified subsequently to the Income Statement			
Debt securities at FVOCI			
Fair value movements	17	(18.5)	(3.2)
Taxation	17	5.3	0.8
Net losses transferred to the income statement on disposal		0.3	–
Expected credit loss transferred to the income statement		0.1	–
		(12.8)	(2.4)
Cash flow hedges			
Fair value movements	17	1.1	(0.5)
Taxation	17	(0.3)	0.2
		0.8	(0.3)
Currency basis reserve			
Foreign currency movements	17	–	0.1
		–	0.1
Share of other comprehensive (expense) of joint venture		(0.6)	(1.9)
Transfer of share of other comprehensive income of joint venture to the Income Statement on change of control	28	(5.0)	–
		(5.6)	(1.9)
Items that will not be reclassified subsequently to the Income Statement			
Equity securities at FVOCI			
Fair value movements	17	–	1.9
Taxation	17	–	(0.6)
		–	1.3
Other comprehensive expense for the year, net of tax		**(17.6)**	**(3.2)**
Total comprehensive income/(expense) for the year		**126.7**	**(106.7)**
Total comprehensive income/(expense) for the year attributable to owners of the parent			
Continuing operations		**126.7**	**(106.9)**
Discontinued operations		**–**	**0.2**

Company number SC173198

		Group		Company	
		2022	2021	**2022**	2021
	Note	**£m**	£m	**£m**	£m
Cash and balances with central banks	19	780.6	804.2	7.8	14.8
Loans and advances to banks	20	50.3	–	–	–
Loans and advances to customers	21	6,490.3	6,402.2	–	–
Loans and advances to subsidiary companies	22	–	–	484.7	483.5
Derivative financial instruments	23	45.3	6.1	–	–
Investment securities	24	1,466.9	953.5	–	–
Reinsurance assets	39	245.1	–	–	–
Prepayments and accrued income	25	43.2	41.6	–	1.3
Other assets	26	219.7	211.2	–	–
Current income tax asset		2.5	36.1	–	–
Investment in group undertaking	27	–	–	1,219.9	1,219.9
Deferred income tax asset	29	64.2	67.3	–	–
Investment in joint venture	28	–	92.8	–	–
Intangible assets	30	148.6	130.9	–	–
Property, plant and equipment	31	79.8	77.5	–	–
Total assets		**9,636.5**	**8,823.4**	**1,712.4**	**1,719.5**
Liabilities					
Deposits from banks	32	1,052.3	600.0	–	–
Deposits from customers	33	5,325.9	5,738.0	–	–
Debt securities in issue	34	244.0	251.0	250.4	249.4
Derivative financial instruments	23	27.2	47.5	–	–
Provisions for liabilities and charges	35	37.6	60.1	–	–
Accruals and deferred income	36	119.6	86.1	–	1.3
Other liabilities	37	164.1	184.2	–	–
Insurance funds withheld	38	114.8	–	–	–
Insurance contract provisions	39	650.0	–	–	–
Subordinated liabilities and notes	40	235.6	235.0	235.6	235.0
Total liabilities		**7,971.1**	**7,201.9**	**486.0**	**485.7**
Equity and reserves attributable to owners of parent					
Share capital	41	122.0	122.0	122.0	122.0
Share premium account	41	1,098.2	1,098.2	1,098.2	1,098.2
Retained earnings		431.7	370.7	6.2	13.6
Other reserves	42	13.5	30.6	–	–
Total equity		**1,665.4**	**1,621.5**	**1,226.4**	**1,233.8**
Total liabilities and equity		**9,636.5**	**8,823.4**	**1,712.4**	**1,719.5**

Profit for the year of £79.6m (2021: £15.2m) is attributable to the Company.

The Consolidated and Company Financial Statements on pages 38 to 44 were approved by the Board of Directors and authorised for issue on 11 April 2022 and were signed on its behalf by:

Richard Henderson

Director

TESCO PERSONAL FINANCE GROUP PLC
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the Year Ended 28 February 2022

	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 2021		**122.0**	**1,098.2**	**370.7**	**9.3**	**(0.6)**	**21.9**	**1,621.5**
Comprehensive income								
Profit for the year		–	–	144.3	–	–	–	144.3
Net fair value movement on investment securities at FVOCI	17	–	–	–	(12.8)	–	–	(12.8)
Net movement on cash flow hedges	17	–	–	–	–	0.8	–	0.8
Share of other comprehensive expense of joint venture	28	–	–	–	(0.6)	–	–	(0.6)
Transfer of share of other comprehensive income of joint venture to the Income Statement on change of control		–	–	–	(5.0)	–	–	(5.0)
Transfer of net gains to retained earnings on reclassification during the year of investment securities held at FVOCI to FVPL[2] (refer note 24)		–	–	3.7	(3.7)	–	–	–
Total comprehensive income		**–**	**–**	**148.0**	**(22.1)**	**0.8**	**–**	**126.7**
Transactions with owners								
Dividends to ordinary shareholders	18	–	–	(87.0)	–	–	–	(87.0)
Share based payments	53	–	–	–	–	–	4.2	4.2
Total transactions with owners		**–**	**–**	**(87.0)**	**–**	**–**	**4.2**	**(82.8)**
Balance at 28 February 2022		**122.0**	**1,098.2**	**431.7**	**(12.8)**	**0.2**	**26.1**	**1,665.4**

[1] Available-for-sale (AFS).

[2]The Group has a holding in preferred stock issued by VISA Inc. which was designated at FVOCI in previous years. Following a review of industry practice and the requirements of IFRS 9, this holding has been reclassified to FVPL with effect from 1 March 2021. As this amount is not material, no prior year restatement has been recognised in respect of this reclassification.

	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 2020		**122.0**	**1,098.2**	**487.2**	**12.3**	**(0.3)**	**(0.1)**	**25.1**	**1,744.4**
Comprehensive income									
Loss for the year		–	–	(103.5)	–	–	–	–	(103.5)
Net fair value movement on investment securities at FVOCI	17	–	–	–	(1.1)	–	–	–	(1.1)
Net movements on cash flow hedges	17	–	–	–		(0.3)	0.1	–	(0.2)
Share of other comprehensive expense of joint venture	28	–	–	–	(1.9)	–	–	–	(1.9)
Total comprehensive income		**–**	**–**	**(103.5)**	**(3.0)**	**(0.3)**	**0.1**	**–**	**(106.7)**
Transactions with owners									
Dividends to ordinary shareholders	18	–	–	(13.0)	–	–	–	–	(13.0)
Share based payments	53	–	–	–	–	–	–	(3.2)	(3.2)
Total transactions with owners		**–**	**–**	**(13.0)**	**–**	**–**	**–**	**(3.2)**	**(16.2)**
Balance at 28 February 2021		**122.0**	**1,098.2**	**370.7**	**9.3**	**(0.6)**	**–**	**21.9**	**1,621.5**

[1] Available-for-sale (AFS).

TESCO PERSONAL FINANCE GROUP PLC
COMPANY STATEMENT OF CHANGES IN EQUITY
For the Year Ended 28 February 2022

	Note	Share capital £m	Share premium £m	Retained earnings £m	Total equity £m
Balance at 1 March 2021		**122.0**	**1,098.2**	**13.6**	**1,233.8**
Comprehensive income					
Profit for the year		–	–	79.6	79.6
Total comprehensive income		**–**	**–**	**79.6**	**79.6**
Transactions with owners					
Dividends to ordinary shareholders	18	–	–	(87.0)	(87.0)
Total transactions with owners		**–**	**–**	**(87.0)**	**(87.0)**
Balance at 28 February 2022		**122.0**	**1,098.2**	**6.2**	**1,226.4**

	Note	Share capital £m	Share premium £m	Retained earnings £m	Total equity £m
Balance at 1 March 2020		**122.0**	**1,098.2**	**11.4**	**1,231.6**
Comprehensive income					
Profit for the year		–	–	15.2	15.2
Total comprehensive income		**–**	**–**	**15.2**	**15.2**
Transactions with owners					
Dividends to ordinary shareholders	18	–	–	(13.0)	(13.0)
Total transactions with owners		**–**	**–**	**(13.0)**	**(13.0)**
Balance at 28 February 2021		**122.0**	**1,098.2**	**13.6**	**1,233.8**

TESCO PERSONAL FINANCE GROUP PLC
CONSOLIDATED AND COMPANY CASH FLOW STATEMENTS
For the Year Ended 28 February 2022

		Group		Company	
		2022	2021	**2022**	2021
	Note	**£m**	£m	**£m**	£m
Operating Activities					
Profit/(loss) before tax from continuing operations		188.5	(154.9)	79.6	15.2
Profit before tax from discontinued operations		–	0.4	–	–
Total profit/(loss) before tax		**188.5**	**(154.5)**	**79.6**	**15.2**
Adjusted for:					
Non-cash items included in operating profit before taxation and other adjustments	48	30.1	438.5	12.7	12.2
Changes in operating assets and liabilities	48	(45.7)	(103.7)	(0.1)	0.3
Income taxes paid		(3.4)	(9.1)	–	–
Cash flows generated from operating activities		**169.5**	171.2	**92.2**	27.7
Investing Activities					
Purchase of intangible assets and property, plant and equipment		(47.4)	(59.2)	–	–
Purchase of debt investment securities	45	(219.9)	(84.4)	–	–
Sale of debt investment securities		272.2	201.8	–	–
Investment in subsidiary		(89.7)	–	–	–
Cash and cash equivalents acquired on investment in subsidiary		42.3	–	–	–
Purchase of subordinated debt issued by subsidiary		(21.2)		–	–
Dividends received from TU	28	10.0	7.5	–	–
Cash flows (used in)/generated from investing activities		**(53.7)**	65.7	**–**	–
Financing Activities					
Dividends paid to ordinary shareholders	18	(87.0)	(13.0)	(87.0)	(13.0)
Interest paid on debt securities in issue		(8.8)	(23.0)	(8.8)	(8.8)
Interest paid on assets held to hedge debt securities in issue		(1.1)	(3.9)	–	–
Interest paid on subordinated liabilities and notes		(3.4)	(3.8)	(3.4)	(3.8)
Principal repayments on lease liabilities	43	(2.2)	(1.9)	–	–
Interest paid on lease liabilities	43	(3.5)	(3.6)	–	–
Cash flows used in financing activities		**(106.0)**	(821.4)	**(99.2)**	(25.6)
Net increase/(decrease) in cash and cash equivalents		9.8	(584.5)	(7.0)	2.1
Cash and cash equivalents[1] at beginning of year		779.5	1,364.0	14.8	12.7
Cash and cash equivalents[1] at end of year	47	**789.3**	779.5	**7.8**	14.8

[1] Cash and cash equivalents comprise cash and balances with central banks, excluding encumbered cash balances of £41.6m (2021: £24.7m) which do not have a maturity of less than three months, and loans and advances to banks of £50.3m (2021: £nil). On a Company basis there are no encumbered balances or loans and advances to banks.

1. Accounting Policies

Basis of Preparation

The Financial Statements have been prepared in accordance with International Accounting Standards (IASs) 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 Group plc and the 'Group' means the Company and its subsidiaries (in the prior year, the Company and its subsidiaries and joint venture). Details of these subsidiaries and joint venture are provided in notes 27 and 28. 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, except for certain financial instruments which are measured 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.

New and amended accounting standards adopted by the Group in the year are detailed in note 54.

The Group has a holding in preferred stock issued by VISA Inc. which was designated at FVOCI in previous years. Following a review of industry practice and the requirements of IFRS 9 'Financial Instruments' (IFRS 9), this holding has been reclassified to fair value through profit or loss (FVPL) with effect from 1 March 2021. As a result, £5.1m (£3.7m net of deferred tax) in respect of the opening fair value reserve at 1 March 2020 was released from the fair value reserve in the year and recognised directly in retained earnings in the Consolidated Statement of Changes in Equity. As this amount is not material, no prior year restatement has been recognised in respect of this reclassification.

In addition, a revision has been made during the year to the estimation of interest earned on the Group's Personal Loans portfolio using the effective interest rate (EIR) methodology. This has resulted in the recognition of additional interest income in the year of £3.4m, with a corresponding increase in the related Personal Loans asset. As this amount is not material, no prior year restatement has been recognised in respect of this revision.

Impact of restatement of TU dividend

The following balances at 28 February 2021 have been restated following restatement of the Company's opening capital position at 1 March 2020. This was in respect of a £7.0m dividend received from TU prior to 1 March 2020 which was recognised as a deduction from the carrying value of the investment in TPF's Statement of Financial Position rather than through TPF's retained earnings, which comprise part of the Company's capital position. Refer to note 50 for further details.

Group	As previously reported	Dividend restatement	Restated
	£m	£m	£m
At 28 February 2021			
Capital resources			
Shareholders' equity (accounting capital)	1,589.1	7.0	1,596.1
Common equity tier 1 capital	1,721.7	7.0	1,728.7
Total capital	1,935.6	7.0	1,942.6
Share of joint venture's retained earnings	(26.6)	7.0	(19.6)
Common equity tier 1 ratio	25.3%		25.3%
Tier 1 ratio	25.3%		25.3%
Total capital ratio - transitional	28.4%		28.5%
Total capital ratio - end-point	25.1%		25.1%
Leverage ratio - transitional	17.0%		17.0%

1. Accounting Policies (continued)

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 current economic environment, and including consideration of projections incorporating the impact of the rising cost of living, exacerbated by the ongoing conflict in Ukraine, 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 current economic environment. 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 45;
- The sufficiency of the Group's capital base. The worst case macro-economic scenarios received were significantly less severe than those used in the individual capital adequacy assessment process (ICAAP) reverse stress test. The Group reviewed its stress testing scenarios to ensure it has sufficient capital to trade through a range of plausible economic outcomes. The Group's capital position at 28 February 2022 is set out at note 50;
- The adequacy of the Group's liquidity as the Group supports customers through a period of economic uncertainty. The Group reviewed its stress testing scenarios to ensure it has sufficient liquidity to trade through a range of plausible economic outcomes. In addition to the Group's portfolio of liquid assets, it has an undrawn £200.0m committed structured repurchase facility;
- 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 Consolidated Statement of Financial Position; 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 internal 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.

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. Several new accounting policies have been adopted by the Group following the acquisition of TU on 4 May 2021 (refer policies 1(b), 1(j) and 1(n)) and some existing policies have been updated (refer policies 1(a), 1(c) and 1(l)).

1. Accounting Policies (continued)

(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.

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, except in the case of a subsidiary acquired via a step acquisition where the original investment is revalued to fair value at the date on which the Company obtains control.

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.

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.

On 4 May 2021 the Group purchased the remaining 50.1% share capital of TU from Ageas (UK) Limited (Ageas), its joint venture partner. At this point TU became a wholly owned subsidiary of the Group. Prior to this date the Group's share of the results of the joint venture was included in the Consolidated Income Statement using the equity method of accounting. The Group's investment in its joint venture was 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 its joint venture equalled or exceeded its investment in the joint venture, the Group did not recognise further losses, unless it had incurred obligations to do so or made payments on behalf of the joint venture.

(b) Business combinations

The Group accounts for all business combinations where the acquisition meets the definition of a business by applying the acquisition method of accounting.

On acquisition, the assets (including intangible assets), liabilities and contingent liabilities of an acquired entity are measured at their fair values.

On acquisition, the purchase consideration is measured as the fair value of assets transferred. The excess of the purchase consideration over the fair value of the identifiable net assets acquired is recorded as goodwill. If the purchase consideration is less than the fair value of the identifiable net assets acquired the difference is recognised directly in the Consolidated Income Statement. All acquisition-related costs are expensed.

When the Group obtains control of a joint venture, the Group's previously held interest in the acquired entity is remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognised in the Consolidated Income Statement.

1. Accounting Policies (continued)

(c) Revenue recognition

Net interest income recognition

Interest income and expense for all financial instruments measured at amortised cost are recognised using the 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.

Prior to the acquisition of TU on 4 May 2021, the Group generated commission from the sale and service of Motor and Home Insurance policies underwritten by TU. Following the acquisition, these amounts represent intercompany transactions which are fully eliminated in the Consolidated Income Statement. The Group also generated commission from the sale and service of Motor and Home Insurance policies underwritten by a third-party underwriter until August 2021 when the Group brought in-house the writing of Home and Motor Insurance policies which were previously underwritten through its broker panel. This commission income was based on commission rates which were 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.

The Group also generates fee income from the referral of insurance customers to third-parties for car hire and legal services. This income is recognised at the time a referral is made in line with the satisfaction of the performance obligation for the Group.

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.

1. Accounting Policies (continued)

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. 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.

Net insurance premium income recognition

Gross written premiums comprise the premiums on contracts entered into during the year, irrespective of whether they relate in whole or in part to a later accounting period. Premiums exclude taxes and levies based on premiums. An estimate is made at the Statement of Financial Position date to recognise retrospective adjustments to premiums. The earned portion of premiums written is recognised as revenue. Premiums are earned from the date of attachment of risk, over the indemnity period, based on the pattern of risks underwritten. Outward reinsurance premiums are recognised as a deduction from net insurance revenue in accordance with the contractual arrangements with reinsurers.

Net insurance claims

Claims incurred consist of claims paid during the financial year, together with the movement in the provision for outstanding claims. Claims are recognised net of benefits reimbursed in accordance with the contractual arrangements with reinsurers.

Dividend income recognition

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

(d) 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.

(e) 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.

1. Accounting Policies (continued)

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.

(f) 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.

(g) 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.

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.

1. Accounting Policies (continued)

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.

Movements in the carrying amount of debt securities classified as FVOCI are 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 are recognised through 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 45 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 through the Consolidated Income Statement for value movements due to the underlying hedged risk.

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(h).

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.

1. Accounting Policies (continued)

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.

(h) 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. This attempts to match any gains or losses on the fair value of the hedged item attributable to the risk being hedged (e.g. Personal Loans or Savings portfolio) with the losses or gains on the fair value of the hedging instrument (e.g. interest rate swap) so that they are recognised in the Income Statement or Statement of Other Comprehensive Income, as appropriate, in the same accounting period. Through this matching process, the volatility in the income statement is either reduced or eliminated. The Group has implemented IFRS 9 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 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 interest rate risk and foreign currency risk on US Dollar notes issued by one of the Group's securitisation entities or the foreign currency risk on certain foreign currency invoices.

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.

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.

1. Accounting Policies (continued)

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.

(i) 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.

(j) Insurance contracts and reinsurance assets

Classification of insurance contracts

Contracts under which the Group accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder or other beneficiary are classified as insurance contracts. These contracts remain insurance contracts until all rights and obligations are extinguished or expire. Insurance contracts may also transfer some financial risk.

Reinsurance

The Group cedes reinsurance in the normal course of business for the purpose of limiting its net loss potential through the diversification of its risks. Reinsurance ceded includes quota share (QS), excess of loss and adverse development cover (ADC) contracts. Reinsurance arrangements do not relieve the Group from its direct obligations to its policyholders.

Only contracts that give rise to a significant transfer of insurance risk are accounted for as reinsurance contracts. Amounts recoverable under such contracts are recognised in the same year as the related claim. Contracts that do not transfer significant insurance risk (i.e. financial reinsurance) are accounted for as financial instruments.

Reinsurance assets include balances due from reinsurance companies for reinsurance claims. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsured policy.

Amounts recoverable under reinsurance contracts are assessed for impairment at each year-end date. Such assets are deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Group may not recover all amounts due and that the event has a reliable measurable impact on the amounts that the Group will receive from the reinsurer.

For the QS reinsurance ceded, amounts payable for funds withheld, net of the associated QS profit commission, are maintained in accordance with contract terms for each underwriting year. A commutation is performed for the purposes of settling the profit commission and funds withheld balance within the terms of the contract, four years after commencement. For further details on funds withheld see note 38.

Provision for outstanding claims

The provision for outstanding claims represents the Group's estimate of the ultimate cost of settling all claims incurred but unpaid at the reporting date whether reported or not, and related internal and external claims handling expenses. Claims outstanding are assessed by reviewing individual claims data and making an allowance for claims incurred but not yet reported, adjusted for the effect of both internal and external foreseeable events, such as changes in claims handling procedures, inflation, judicial trends, enacted or substantively enacted legislative changes and past experience and trends. Reinsurance and other recoveries are assessed in a manner similar to the claims outstanding and presented separately as assets.

1. Accounting Policies (continued)

Unexpired risk provision

If required, a provision is made for unexpired risks arising from business where the expected value of claims and expenses attributable to the unexpired periods of policies in force at the reporting date exceeds the unearned premiums provision in relation to such policies. The provision for unexpired risks is calculated separately by reference to classes of business which are managed together, after taking into account the relevant investment return.

Unearned premium provision

The provision for unearned premiums comprises the proportion of gross premiums written which is estimated to be earned in the following or subsequent financial years, calculated separately for each insurance contract using the daily pro rata method, adjusted if necessary to reflect any variation in the incidence of risk during the period covered by the contract.

Deferred acquisition costs

Commission payable to agents and other acquisition costs, which are incurred for acquiring new and renewal insurance business that is primarily related to the production of that business, are deferred. Any balances not considered recoverable are written-off.

Such deferred acquisition costs are finite and are amortised by reference to the basis on which the related premiums are earned, which is over a period of one year.

(k) 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 useful life of the related asset and, for leasehold improvements and right-of-use assets, 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 3 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.

(l) Intangible assets

Goodwill

Goodwill arising on consolidation represents the excess of the purchase consideration transferred over the fair value of the Group's share of the net assets and contingent liabilities of the acquired subsidiary at the date of acquisition. If the consideration is less than the fair value of the Group's share of the net assets, liabilities and contingent liabilities of the acquired entity (i.e. a bargain purchase), the difference is credited to the Consolidated Income Statement in the period of acquisition.

1. Accounting Policies (continued)

At the acquisition date of a subsidiary, goodwill acquired is recognised as an asset and is allocated to each of the cash-generating units (CGUs) or groups of CGUs expected to benefit from the business combination's synergies and to the lowest level at which Management monitors the goodwill.

Goodwill is not subject to amortisation and is tested for impairment on an annual basis. Refer to accounting policy 1(n) for further details.

Other intangible assets acquired in a business combination

As part of the acquisition of TU on 4 May 2021, the Group has recognised separately identified intangible assets in relation to internally-generated computer software. These are being amortised over a period of five years.

Purchased intangible assets

Intangible assets that are acquired by the Group, excluding those acquired as part of a business combination, 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.

Cloud software licence agreements

Licence agreements to use cloud software are treated as service contracts and expensed in the Consolidated Income Statement, unless the Group has both a contractual right to take possession of the software at any time without significant penalty, and the ability to run the software independently of the host vendor. In such cases the licence agreement is capitalised as computer software.

(m) 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 Consolidated Statement 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.

1. Accounting Policies (continued)

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.

(n) Impairment of non-financial assets

Goodwill is tested annually for impairment. Other 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 (VIU). For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Non-financial assets for which an impairment loss has been recognised are reviewed for possible reversal of the impairment at each reporting date. Impairment losses on goodwill are not reversed.

(o) Employee benefits

The Group accounts for pension costs on a contributions basis in line with the requirements of IAS 19 'Employee Benefits' (IAS 19). 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.

(p) 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.

(q) 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, other than those recognised as part of a business combination, 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.

(r) Dividends paid

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

1. Accounting Policies (continued)

(s) 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.

(t) Sale and repurchase agreements

Investment securities sold subject to a commitment to repurchase them at a predetermined price are retained on the Consolidated Statement 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.

(u) 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.

(v) 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 5 and in the glossary of terms on pages 180 to 186.

2. Acquisition of Tesco Underwriting Limited

On 4 May 2021 the Group acquired the remaining 50.1% ordinary share capital of its joint venture entity, TU, from its joint venture partner, Ageas. TU is an authorised insurance company which provides the insurance underwriting service for a number of the Group’s general insurance products.

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

The transaction has been accounted for as an acquisition of a business in accordance with IFRS 3 ‘Business Combinations’ (IFRS 3). Total cash consideration of £89.7m has been paid to date, with an additional deferred payment of £5.0m due to be paid on expiry of the exit period, subject to the fulfilment of Ageas' obligations in relation to the migration and transition of the TU business to the Group. Payment is expected to be made in May 2022.

In line with the requirements of IFRS 3, the existing equity interest in TU held by the Group immediately before the acquisition date was remeasured to a fair value of £89.4m in the Consolidated Statement of Financial Position. This resulted in a consolidated remeasurement gain for the Group of £4.6m which is included in other income in the Consolidated Income Statement. In line with the requirements of IFRS 3, the Group also recognised a consolidated gain of £5.0m, representing the Group's share of TU's available-for-sale (AFS) reserve immediately prior to acquisition, which is also included in other income in the Consolidated Income Statement.

In addition to the purchase of the ordinary share capital of TU, the Group also acquired the holding in TU subordinated debt from Ageas on the same date at an amount of £21.2m.

2. Acquisition of Tesco Underwriting Limited (continued)

The table below shows the total cost of obtaining control of TU in the year:

	Cost £m
Cash consideration paid	89.7
Contingent consideration	5.0
Effective settlement of pre-existing balances with TU	11.8
Deemed consideration	**106.5**
Fair value of Group's initial 49.9% investment	89.4
Total cost	**195.9**

The table below sets out the fair values of the identifiable assets and liabilities acquired:

	Fair Value £m
Assets	
Cash and balances with central banks	8.8
Loans and advances to banks	33.5
Investment securities	634.8
Reinsurance assets	246.7
Prepayments and accrued income	2.7
Other assets	23.7
Intangible assets	18.0
Property, plant and equipment	0.8
Total assets	**969.0**
Liabilities	
Accruals and deferred income	15.0
Current income tax liability	0.4
Other liabilities	4.0
Deferred income tax liability	2.0
Insurance funds withheld	100.2
Insurance contract provisions	650.3
Subordinated liabilities	21.2
Total liabilities	**793.1**
Net assets	**175.9**
Fair value of net assets acquired	175.9
Goodwill arising on acquisition	20.0
Total cost	**195.9**

The goodwill arising on the acquisition is primarily attributable to synergies which are expected to be realised from the acquisition and having full control over the Group's end-to-end insurance business. None of the goodwill is expected to be deductible for tax purposes. Acquired intangible assets comprise internally generated computer software of £18.0m, which is amortised over a period of five years. Refer to note 30 for further details.

The fair value of acquired insurance and other receivables is £26.4m, included within prepayments and accrued income and other assets in the above table. This includes salvage and subrogation recoveries of £16.0m and receivables arising from reinsurance contracts of £7.6m. The fair value is equal to the gross contractual amount due for these receivables and the best estimate of the amounts not expected to be collected at the acquisition date was £nil.

2. Acquisition of Tesco Underwriting Limited (continued)

Since the acquisition date the amount of insurance premium income contributed to the Group's Consolidated Income Statement from the acquired TU business was £239.2m, and insurance premium income ceded to reinsurers was £105.5m. Profit before tax contributed to the Group's Consolidated Income Statement from the acquired TU business was £13.9m. These amounts include the impact of consolidation adjustments, primarily £1.2m of amortisation expense on the acquired intangible assets, and the effect of the elimination of intercompany transactions. If the acquisition had occurred on 1 March 2021, the Group's insurance premium income for the year would have increased by £51.1m to £290.3m, the insurance premium income ceded to reinsurers would have increased by £22.5m to £128.0m, and the profit before tax would have increased by £3.6m to £192.1m[1].

Acquisition-related costs of £7.2m have been incurred by the Group in relation to the acquisition, of which £0.7m (2021: £2.9m) has been included in administrative expenses in the Consolidated Income Statement. Total prior year acquisition-related costs amounted to £2.9m, with the balance of acquisition-related costs of £3.6m being recognised prior to 1 March 2020.

[1] These amounts include TU income and profits net of intercompany amounts and consolidation adjustments, and also exclude the equity accounted share of TU profit of £2.6m that was recognised during the year until the date of acquisition.

3. 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 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.

ECLs on 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, of which macro-economic assumptions and post-model adjustments (PMAs) are the critical estimates, as well as the key sensitivities of ECLs to change in these elements, are set out at note 45.

3. Critical Accounting Estimates and Judgements in Applying Accounting Policies (continued)

Outstanding insurance claims and provisions

The Group establishes reserves in respect of the anticipated amounts of claims incurred in respect of business it has underwritten. These reserves reflect the expected ultimate cost of settling claims occurring prior to the Statement of Financial Position date, but remaining unsettled at that time. Such reserves are established separately for each line of business underwritten by the Group and fall into two categories – reserves for reported losses and reserves for losses incurred but not reported (IBNR) as of the Statement of Financial Position date.

Case reserves for reported losses are estimates prepared by claim handlers established on a case-by-case basis and are based largely on past experience of settlements managed within the Group, as well as market experience on similar claims. The case reserves are set on an undiscounted basis and reflect the anticipated cost of final settlement, taking into account inflation and other factors which might influence the final outcome. Such reserves are reviewed on a regular basis to take account of changing circumstances, such as enacted or substantively enacted changes in the law and changes in costs relating to settlement.

Technical provisions for losses IBNR as of the Statement of Financial Position date are mostly established on an undiscounted basis. They are estimated based on historical data using a variety of assumptions and making use of various actuarial techniques and statistical modelling methodologies, calculated separately for each line of business underwritten, and take into account trends in settlement costs in arriving at the final estimates.

Technical provisions on a discounted basis are set up in respect of Periodic Payment Orders (PPOs) only. The expected cashflows arising from known and potential PPO claims are assessed using a variety of assumptions and making use of various actuarial techniques and are calculated at a gross level and a related calculation is carried out to consider expected reinsurance cashflows. The future PPO-related cashflows are discounted using a long-term expected investment return to derive discounted claims provisions and discounted reinsurance provisions.

Scenarios, such as the Ogden discount rate changing or incorrect claims handlers' initial assessments in relation to expenses and interest rates, are assessed for the material components of the Group's reserves. For motor damage and smaller bodily injury claims, material scenarios lie in a range between £10m above and £10m below the chosen actuarial best estimate (ABE). Those associated with larger bodily injury claims are in a range between £30m above and £30m below the chosen ABE. This assumes an Ogden discount rate for valuing larger claims of minus 0.25%.

For further details refer to note 39.

4. Segmental Reporting

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, ATMs and Travel Money; and
- Insurance - incorporating Motor, Home, Pet and Travel Insurance

There are no transactions between operating segments.

Segmental assets and liabilities are not regularly reported to the Board of Directors and are therefore not disclosed in this note.

Segmental results of continuing operations and a reconciliation of segmental results of continuing operations to the total results of continuing operations are presented below.

4. Segmental Reporting (continued)

Continuing operations Group 2022	Banking	Insurance	Central Costs	Total Management reporting	Consolidation and other adjustments	Total Consolidated
	£m	£m	£m	£m	£m	£m
Interest and similar income	460.9	26.6	–	487.5	–	487.5
Interest expense and similar charges	(62.1)	–	–	(62.1)	–	(62.1)
Net interest income	**398.8**	**26.6**	–	**425.4**	–	**425.4**
Fees and commissions income	174.6	52.3	–	226.9	–	226.9
Fees and commissions expense	(37.5)	–	–	(37.5)	–	(37.5)
Net fees and commissions income	**137.1**	**52.3**	**–**	**189.4**	**–**	**189.4**
Insurance premium income	–	239.2	–	239.2	–	239.2
Insurance premium income ceded to reinsurers	–	(105.5)	–	(105.5)	–	(105.5)
Net insurance premium income	**–**	**133.7**	**–**	**133.7**	**–**	**133.7**
Net gain on investment securities at fair value through profit or loss (FVPL)	0.5	4.4	–	4.9	–	4.9
Net loss on investment securities at fair value through other comprehensive income (FVOCI)	–	(0.3)	–	(0.3)	–	(0.3)
Net gain on financial instruments at FVPL	2.1	–	–	2.1	–	2.1
Other income	0.1	10.3	–	10.4	–	10.4
Net other income	**2.7**	**14.4**	**–**	**17.1**	**–**	**17.1**
Total income	**538.6**	**227.0**	**–**	**765.6**	**–**	**765.6**
Insurance claims incurred	–	(150.2)	–	(150.2)	–	(150.2)
Insurance claims ceded to reinsurers	–	61.9	–	61.9	–	61.9
Net insurance claims	**–**	**(88.3)**	**–**	**(88.3)**	**–**	**(88.3)**
Total income, net of insurance claims	**538.6**	**138.7**	**–**	**677.3**	**–**	**677.3**
Administrative expenses[1]	(125.1)	(61.6)	(269.4)	(456.1)	–	(456.1)
Depreciation and amortisation	(10.4)	(4.2)	(50.6)	(65.2)	–	(65.2)
Operating expenses	**(135.5)**	**(65.8)**	**(320.0)**	**(521.3)**	–	**(521.3)**
Expected credit loss credit/(charge) on financial assets	30.7	(0.8)	–	29.9	–	29.9
Operating profit	**433.8**	**72.1**	**(320.0)**	**185.9**	–	**185.9**
Share of profit of joint venture	–	2.6	–	2.6	–	2.6
Profit before tax from continuing operations	**433.8**	**74.7**	**(320.0)**	**188.5**	–	**188.5**
Capex per reportable segment in year	**(16.0)**	**(6.3)**	**(27.1)**	**(49.4)**	**–**	**(49.4)**

[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.

4. Segmental Reporting (continued)

Continuing operations Group 2021	Banking	Insurance	Central Costs	Total Management reporting	Consolidation and other adjustments	Total Consolidated
	£m	£m	£m	£m	£m	£m
Interest and similar income	538.4	24.0	–	562.4	–	562.4
Interest expense and similar charges	(108.9)	–	–	(108.9)	–	(108.9)
Net interest income	**429.5**	**24.0**	–	**453.5**	–	**453.5**
Fees and commissions income	156.4	52.4	–	208.8	–	208.8
Fees and commissions expense	(32.7)	–	–	(32.7)	–	(32.7)
Net fees and commissions income	**123.7**	**52.4**	**–**	**176.1**	**–**	**176.1**
Net loss on financial instruments at FVPL	(2.5)	–	–	(2.5)	–	(2.5)
Net other income	**(2.5)**	–	–	**(2.5)**	–	**(2.5)**
Total income	**550.7**	**76.4**	**–**	**627.1**	**–**	**627.1**
Administrative expenses[1]	(53.2)	(31.2)	(297.6)	(382.0)	–	(382.0)
Depreciation and amortisation	–	–	(56.7)	(56.7)	–	(56.7)
Operating expenses	**(53.2)**	**(31.2)**	**(354.3)**	**(438.7)**	–	**(438.7)**
Expected credit loss on financial assets	(357.2)	(2.3)	–	(359.5)	–	(359.5)
Operating profit/(loss)	**140.3**	**42.9**	**(354.3)**	**(171.1)**	–	**(171.1)**
Share of profit of joint venture	–	16.2	–	16.2	–	16.2
Profit/(loss) before tax from continuing operations	**140.3**	**59.1**	**(354.3)**	**(154.9)**	–	**(154.9)**
Capex per reportable segment in year	**(11.3)**	**(0.1)**	**(42.9)**	**(54.3)**	**–**	**(54.3)**

[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.

5. Underlying Profit/(Loss)

The Group's financial performance is presented in the Consolidated Income Statement on page 38. 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	Financial instruments[1] £m	Underlying basis £m
Continuing operations			
Year ended 28 February 2022			
Net interest income	425.4	–	425.4
Net other income, net of insurance claims	251.9	(2.1)	249.8
Total income, net of insurance claims	**677.3**	**(2.1)**	**675.2**
Total operating expenses	(521.3)	–	(521.3)
Expected credit loss credit on financial assets	29.9		29.9
Operating profit	**185.9**	**(2.1)**	**183.8**
Share of profit of joint venture	2.6		2.6
Profit before tax	**188.5**	**(2.1)**	**186.4**

	Statutory basis £m	Financial instruments[1] £m	Underlying basis £m
Year ended 28 February 2021			
Net interest income	453.5	–	453.5
Net other income	173.6	2.5	176.1
Total income	**627.1**	**2.5**	**629.6**
Total operating expenses	(438.7)	–	(438.7)
Expected credit loss charge on financial assets	(359.5)	–	(359.5)
Operating loss	**(171.1)**	**2.5**	**(168.6)**
Share of profit of joint venture	16.2	–	16.2
Loss before tax	**(154.9)**	**2.5**	**(152.4)**

[1] Comprising:

- Gains on financial instruments at FVPL of £2.1m (2021: losses of £2.5m) presented within total income on page 38. 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.

6. Net Interest Income

	2022 £m	2021 £m
Continuing operations		
Interest and similar income		
On financial assets measured at amortised cost		
Loans and advances to customers	469.3	543.3
Cash and balances with central banks	1.0	1.5
Investment securities	12.7	14.3
	483.0	**559.1**
On financial assets measured at fair value		
Investment securities - FVOCI	4.5	n/a
Derivative financial assets - FVPL	–	3.3
	4.5	**3.3**
Total interest and similar income	**487.5**	**562.4**
Interest expense and similar charges		
On financial liabilities measured at amortised cost		
Deposits from customers	(29.6)	(64.7)
Deposits from banks	(3.7)	(1.2)
Debt securities in issue	(8.8)	(20.1)
Lease liabilities	(2.1)	(2.3)
Subordinated liabilities and notes	(3.9)	(3.5)
	(48.1)	**(91.8)**
On financial liabilities measured at fair value		
Derivative financial liabilities - FVPL	(14.0)	(17.1)
	(14.0)	**(17.1)**
Total interest expense and similar charges	**(62.1)**	**(108.9)**
Net interest income	**425.4**	**453.5**

7. Net Fees and Commissions Income

	2022 £m	2021 £m
Continuing operations		
Fees and commissions income		
Banking revenue from contracts with customers	179.6	155.2
Insurance revenue from contracts with customers	35.2	52.4
Other revenue from contracts with customers	12.1	1.2
Total fees and commissions income	**226.9**	**208.8**
Fees and commissions expense		
Banking expense	(37.5)	(32.7)
Total fees and commissions expense	**(37.5)**	**(32.7)**
Net fees and commissions income	**189.4**	**176.1**

With the exception of insurance and 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.

8. Net Insurance Premium Income

	2022 £m	2021 £m
Continuing operations		
Gross premium written	254.0	n/a
Change in the gross provision for unearned premium	(14.8)	n/a
Insurance premium income	**239.2**	**n/a**
Written premium ceded to reinsurers	(110.3)	n/a
Reinsurers share of change in the provision for unearned premium	4.8	n/a
Insurance premium income ceded to reinsurers	**(105.5)**	**n/a**
Net insurance premium income	**133.7**	**n/a**

The above net insurance premium income represents income recognised in the Consolidated Income Statement following acquisition of TU by the Group on 4 May 2021.

9. Net Gain on Investment Securities at FVPL

	2022 £m	2021 £m
Continuing operations		
Fair value gain arising on investment securities at FVPL	4.9	–
Net gain on investment securities at FVPL	**4.9**	**–**

The above gains represent gains on TU's holding in a property fund recognised following the acquisition of TU by the Group on 4 May 2021, and gains on the Group's holding in VISA Inc. preferred stock following the reclassification of this holding from FVOCI to FVPL with effect from 1 March 2021. Refer to note 1 for further information in respect of this reclassification.

10. Net Gain/(Loss) on Other Financial Instruments at FVPL

	2022 £m	2021 £m
Continuing operations		
Foreign exchange loss on financial assets	(0.1)	(0.2)
Net gain arising on derivatives not designated as hedging instruments	3.9	0.3
Fair value hedge ineffectiveness (refer note 23)	(1.8)	(2.5)
Cash flow hedge ineffectiveness (refer note 23)	0.1	(0.1)
Net gain/(loss) on financial instruments at FVPL	**2.1**	**(2.5)**

11. Net Loss on Investment Securities at FVOCI

	2022 £m	2021 £m
Continuing operations		
Net loss on disposal of investment securities at FVOCI	(0.3)	n/a
Net loss on investment securities at FVOCI	**(0.3)**	**n/a**

The above losses on investment securities at FVOCI are recognised following the acquisition of TU by the Group on 4 May 2021.

12. Other Income

	2022 £m	2021 £m
Continuing operations		
Dividend income from investment securities at FVPL	0.8	–
Gain on remeasurement of equity interest in TU at acquisition	4.6	n/a
Gain on Group's share of TU's AFS reserve	5.0	n/a
Other income	**10.4**	**–**

Dividend income from investment securities at FVPL comprises dividends received from the Group's holding in preferred stock issued by VISA Inc, and dividends received on TU's holding in a property fund following acquisition of TU by the Group on 4 May 2021.

Refer note 2 for further details on the gains recognised in relation to the Group's acquisition of TU during the year.

13. Net Insurance Claims

	2022 £m	2021 £m
Continuing operations		
Current year claims paid	(103.9)	n/a
Change in prior year claims provision	52.0	n/a
Additional liabilities arising during the year	(98.3)	n/a
Insurance claims incurred	**(150.2)**	**n/a**
Reinsurers share of claims and benefits incurred	61.9	n/a
Insurance claims ceded to reinsurers	**61.9**	**n/a**
Net insurance claims	**(88.3)**	**n/a**

The above net insurance claims represents the claims expense incurred and reinsurance recoveries received by TU following acquisition by the Group on 4 May 2021.

14. Administrative Expenses

	2022 £m	2021 £m
Continuing operations		
Staff costs		
Wages and salaries	125.9	114.9
Social security costs	12.6	10.8
Other pension costs	8.0	6.6
Share based payments	7.9	3.1
Other costs including temporary staff	55.9	41.3
Total staff costs	**210.3**	**176.7**
Non-staff costs		
Premises and equipment	67.9	75.2
Marketing	40.6	35.1
Auditor's remuneration (refer below)	1.6	0.9
Outsourcing and professional fees	107.4	63.6
Other administrative expenses	28.3	30.5
Total non-staff costs	**245.8**	**205.3**
Total administrative expenses	**456.1**	**382.0**

	2022 £'000	2021 £'000
Audit services		
Audit of the Company and Consolidated Financial Statements	65	55
Audit of the Company's subsidiaries	1,401	753
Total audit services	**1,466**	**808**
Non-audit services		
Audit related assurance services	116	47
Other non-audit services not covered above	65	46
Total non-audit services	**181**	**93**
Total auditor's remuneration	**1,647**	**901**

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

	2022 Number	2021 Number
Continuing operations		
Head office and administration	1,593	1,487
Operations	1,905	2,215
TU	325	–
Total average employees	**3,822**	**3,702**

15. Expected Credit Loss (Credit)/Charge on Financial Assets

	2022 £m	2021 £m
Continuing operations		
Expected credit loss (credit)/charge on loans and advances to customers[1]	(30.2)	359.7
Expected credit loss credit on investment securities at amortised cost	(0.5)	(0.2)
Expected credit loss charge on investment securities at FVOCI	0.8	–
Total expected credit loss (credit)/charge on financial assets	**(29.9)**	**359.5**

[1] Included within the expected credit loss on loans and advances to customers is a credit of £6.3m (2021: credit of £5.0m) received through the sale of non-performing debt to third parties.

Refer to note 45 for further detail on factors impacting expected credit loss charges.

16. Directors' Emoluments

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

	2022 £m	2021 £m
Continuing operations		
Aggregate emoluments	3.2	2.6
Aggregate amounts receivable under long-term incentive schemes[1]	1.7	2.1
Share based payments	0.5	-
Total Directors' emoluments	5.4	**4.7**

	2022 Number	2021 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	3
Number of Directors who exercised share options	1	-

The total emoluments of the highest paid Director were £2.6m (2021: £1.9m), including aggregate amounts due under long-term incentive schemes[1]. During the year the highest paid Director did not exercise any share options (2021: £nil).

At 28 February 2022 the accrued pension and lump sum under a defined benefit scheme for the highest paid Director was £nil (2021: £nil).

During the year to 28 February 2022 three Directors (2021: two Directors) left the Company.

[1] Aggregate amounts receivable under long-term incentive schemes represent the maximum amounts awarded in the year. Actual amounts payable under long-term incentive schemes may vary depending on the level of performance achieved against specific measures.

17. Income Tax

Income tax charge/(credit)

	2022 £m	2021 £m
Continuing operations		
Current tax charge/(credit) for the year	37.4	(51.4)
Adjustments in respect of prior years	(0.1)	(1.7)
Total current tax charge/(credit) for the year	**37.3**	**(53.1)**
Deferred tax charge for the year	8.5	6.2
Tax rate change	(1.8)	(5.5)
Adjustments in respect of prior years	0.2	1.2
Total deferred tax charge for the year	**6.9**	**1.9**
Total income tax charge/(credit)	**44.2**	**(51.2)**

The Group's blended corporation tax rate is 19.0% (2021 19.0%). In addition, a banking surcharge of 8.0% (2021: 8.0%) is applied to the banking entities within the Group.

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 prior year.

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.

Subsequently, in the October 2021 Budget Statement, it was announced that, with effect from 1 April 2023, the banking surcharge will reduce from 8% to 3% and that it will be chargeable on banking profits above £100.0m (previously £25.0m). This rate change was substantively enacted in February 2022 and the 3% rate is therefore the banking surcharge rate applied in calculating the deferred tax balances reflected in these Financial Statements.

Therefore, from 1 April 2023, the combined rate of tax on banking profits over £100.0m will be 28% (previously 27%).

The impact on the Group of this change in the combined rate is to increase the Group's deferred tax asset by £1.8m.

In the current year, the tax charge assessed was higher (2021: tax credit was higher) than that calculated using the overall blended corporation tax rate for the Group.

17. Income Tax (continued)

The differences are explained below:

	2022 £m	2021 £m
Continuing operations		
Profit/(Loss) before taxation from continuing operations	188.5	(154.9)
Profit/(Loss) on ordinary activities multiplied by blended rate in the UK of 19.0% (2021: 19.0%)	35.8	(29.5)
Factors affecting charge/(credit) for the year:		
Difference between local and group tax rate	10.7	(13.1)
Non-taxable income	(1.8)	–
Expenses not deductible for tax purposes	1.2	0.7
Adjustment in respect of prior years - current tax	(0.1)	(1.7)
Adjustment in respect of prior years - deferred tax	0.2	1.2
Share based payments	0.5	(0.2)
Tax rate change	(1.8)	(5.5)
Share of profit of joint venture	(0.5)	(3.1)
Total income tax charge/(credit) from continuing operations	**44.2**	**(51.2)**

Income tax relating to components of other comprehensive income

Continuing operations	**Before tax amount £m**	**Tax credit/(charge) £m**	**Net of tax amount £m**
2022			
Items that may be reclassified to the income statement			
Net losses on debt securities at FVOCI	(18.1)	5.3	(12.8)
Net gains on cash flow hedges	1.1	(0.3)	0.8
Total income tax relating to components of other comprehensive income	**(17.0)**	**5.0**	**(12.0)**

Continuing operations	**Before tax amount £m**	**Tax 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)**

17. Income Tax (continued)

Deferred tax charged directly to the Statement of Changes in Equity

Continuing operations	Before tax amount £m	Tax credit £m	Net of tax amount £m
2022			
Net gains on share based payments reserve	3.5	0.7	4.2
	3.5	**0.7**	**4.2**

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

18. Distributions to Equity Holders

	2022 £m	2021 £m
Continuing operations		
Ordinary dividend paid	87.0	13.0
	87.0	**13.0**

On 18 February 2022, an interim dividend of £87.0m (£0.0713 per ordinary share) was paid. In the prior year, an interim dividend of £13.0m (£0.0107 per ordinary share) was paid on 24 February 2021.

19. Cash and Balances with Central Banks

	Group		Company	
	2022 £m	2021 £m	**2022 £m**	2021 £m
Cash at bank	99.1	106.5	1.7	1.7
Cash deposits held with TPF	–	–	6.1	13.1
Balances held with the Bank of England (BoE) other than mandatory reserve deposits	639.9	673.0	–	–
Included in cash and cash equivalents (refer note 47)	**739.0**	**779.5**	**7.8**	**14.8**
Mandatory reserves deposits held with the BoE	41.6	24.7	–	–
Total cash and balances with central banks	**780.6**	**804.2**	**7.8**	**14.8**

Mandatory reserve deposits held with the BoE of £41.6m (2021: £24.7m) 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.

20. Loans and Advances to Banks

Following the acquisition of TU on 4 May 2021, TU short term liquidity and custodian funds are now included in the Consolidated Statement of Financial Position.

Group	2022	2021
	£m	£m
Liquidity funds	25.4	n/a
Custodian funds	24.9	n/a
Total loans and advances to banks	**50.3**	**n/a**

All of the above balances are classified as current at the year-end.

These represent cash and cash equivalents for the purposes of the cash flow statement.

21. Loans and Advances to Customers

Group	2022	2021
	£m	£m
Unsecured lending	7,009.5	7,020.1
Total unsecured lending	**7,009.5**	**7,020.1**
Fair value hedge adjustment	(30.4)	6.7
Gross loans and advances to customers	**6,979.1**	**7,026.8**
Less: ECL allowance (refer to note 45)	**(488.8)**	**(624.6)**
Net loans and advances to customers	**6,490.3**	**6,402.2**
Current	3,349.2	3,093.3
Non-current	3,141.1	3,308.9

Contractual lending commitments and ECL provision

At 28 February 2022, the Group had contractual lending commitments of £12,363.0m (2021: £12,668.0m). An additional ECL provision of £16.2m was also recognised at 28 February 2022 (2021: £28.3m). This represents the excess of total ECLs for both drawn and undrawn balances over the gross carrying balances as above. Refer to note 35 for further details.

Fair value hedge adjustments

Fair value hedge adjustments amounting to a liability of £30.4m (2021: asset of £6.7m) are in respect of fixed rate Personal Loans. These adjustments are largely offset by derivatives, which are used to manage interest rate risk and are designated as fair value hedges of loans and advances to customers.

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 five years from origination).

An increase of the pay rates assumption by 10% will reduce the asset value by £2.7m and a corresponding reduction of the pay rates assumption will increase the asset value by £3.3m.

22. Loans and Advances to Subsidiary Companies

Company	2022 £m	2021 £m
Fixed rate subordinated loan	250.9	249.8
Floating rate subordinated loans	190.5	190.0
Undated floating rate notes	45.1	45.0
	486.5	484.8
Less: ECL allowance (See note 38)	(1.8)	(1.3)
Net loans and advances to subsidiary companies	**484.7**	**483.5**
Current	–	–
Non-current	484.7	483.5

The investments are in subordinated loans and notes issued by TPF. Interest receivable on the £250.0m notional (2021: £250.0m notional) fixed rate subordinated loan is 3.5%.

Interest receivable on the floating rate subordinated loans and notes is based on three-month SONIA plus a margin of 67 to 227 basis points (2021: three-month SONIA plus a margin of 67 to 227 basis points).

23. 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 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 fair value hedge accounting is applied, gains and losses in the Consolidated Income Statement are offset by movements in the hedged item. Where cash flow hedge accounting is applied, the effective portion of the derivative fair value movement is recorded in OCI. For those derivatives held for economic hedging purposes which cannot be designated in an accounting hedge relationship, the gains and losses are recognised in the Consolidated Income Statement. In the Consolidated Statement of Financial Position there is no distinction between derivatives where hedge accounting is applied and derivatives which cannot be designated in an accounting hedge relationship.

23. Derivative Financial Instruments (continued)

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	2022			2021		
	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	2,834.5	43.9	(27.2)	3,227.1	5.8	(46.4)
Derivatives designated as cash flow hedges						
Forward foreign exchange contracts	7.7	0.3	–	10.0	–	(0.8)
Total derivatives in hedge accounting relationships	**2,842.2**	**44.2**	**(27.2)**	**3,237.1**	**5.8**	**(47.2)**
Derivatives not in hedge accounting relationships						
Interest rate derivatives						
Interest rate swaps	141.3	1.1	–	114.2	0.2	(0.1)
Currency derivatives						
Forward foreign exchange contracts	0.2	–	–	4.3	0.1	(0.2)
Total derivatives not in hedge accounting relationships	**141.5**	**1.1**	**–**	**118.5**	**0.3**	**(0.3)**
Total	**2,983.7**	**45.3**	**(27.2)**	**3,355.6**	**6.1**	**(47.5)**

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	2022		2021	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Current	3.3	(0.9)	0.2	(4.0)
Non-current	42.0	(26.3)	5.9	(43.5)

23. Derivative Financial Instruments (continued)

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 Personal 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 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.

- **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 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

The Group transitioned its remaining London Interbank Offered Rate interest rate exposure of £42.3m, relating to TPF's holding in subordinated notes issued by TU, to Sterling Overnight Index Average (SONIA) in October 2021.

23. Derivative Financial Instruments (continued)

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			**Maturity**			
2022	**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 of financial assets						
Interest rate						
Interest rate swaps						
- Notional amount	46.5	77.0	673.5	1,580.8	151.7	2,529.5
- Average interest rate	0.37%	(0.06%)	(0.02%)	0.36%	0.50%	—
Fair value hedges of financial liabilities						
Interest rate						
Interest rate swaps						
- Notional amount	–	30.0	25.0	250.0	–	305.0
- Average interest rate	—	0.11%	0.01%	(0.01%)	—	—
Cash flow hedges						
Foreign currency						
Forward foreign exchange contracts						
- Notional amount	–	1.1	5.9	0.7	–	7.7
- Average exchange rate	—	1.41	1.39	1.33	—	—

23. Derivative Financial Instruments (continued)

Group

	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 of financial assets						
Interest rate						
Interest rate swaps						
- Notional amount	–	83.0	747.0	1,355.5	151.6	2,337.1
- Average interest rate	–	1.01%	0.26%	0.70%	1.67%	–
Fair value hedges of financial liabilities						
Interest rate						
Interest rate swaps						
- Notional amount	–	–	555.0	335.0	–	890.0
- Average interest rate	–	–	0.02%	0.52%	–	–
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	–	–	–

23. Derivative Financial Instruments (continued)

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

Group		**Carrying amount**		
2022	**Notional**	**Assets**	**Liabilities**	**Changes in fair value used for calculating hedge ineffectiveness**
	£m	**£m**	**£m**	**£m**
Fair value hedges				
Interest rate				
Interest rate swaps	2,834.5	43.9	(27.2)	52.3
Cash flow hedges				
Foreign currency				
Forward foreign exchange contracts	7.7	0.3	–	1.4
Total	**2,842.2**	**44.2**	**(27.2)**	**53.7**

Group		**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**

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

23. Derivative Financial Instruments (continued)

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

Group	**Carrying amount**		**Accumulated amounts of fair value adjustments on the hedged item**		**Changes in value for calculating ineffectiveness**
2022	**Assets**	**Liabilities**	**Assets**	**Liabilities**	
	£m	**£m**	**£m**	**£m**	**£m**
Fair value hedges					
Interest rate					
- Fixed rate Personal Loans[1]	3,383.8	–	(30.4)	–	(37.1)
- Fixed rate investment securities[2]	503.7	–	(11.2)	–	(21.5)
- Fixed rate Savings[3]	–	(1,481.4)	–	0.1	0.4
- Fixed rate subordinated liabilities[4]	–	(244.0)	–	5.5	8.3
Total fair value hedges	**3,887.5**	**(1,725.4)**	**(41.6)**	**5.6**	**(49.9)**

Group	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 Personal 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 bonds[5]	–	(251.0)	–	(2.8)	1.5
Total fair value hedges	4,153.3	(2,116.7)	17.1	(3.2)	6.9

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 £nil (2021: £2.4m 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 Subordinated liabilities.
[5] Included within Statement of Financial Position line item Debt securities in issue.

23. Derivative Financial Instruments (continued)

Group		**Cash flow hedge reserve**
2022	**Change in value of hedged item used for calculating hedge ineffectiveness**	**Continuing hedges**
	£m	**£m**
Cash flow hedges		
Foreign currency		
- Accounts payable[1]	1.1	0.2
Total cash flow hedges	**1.1**	**0.2**

Group		**Cash flow hedge reserve**
2021	**Change in value of hedged item used for calculating hedge ineffectiveness**	**Continuing hedges**
	£m	**£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)**

[1] Included within Statement of Financial Position line item Other liabilities.
[2] Included within Statement of Financial Position line item Debt securities in issue.

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

23. 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 2022	Hedge ineffectiveness recognised in profit or loss £m
Fair value hedges	
Interest rate	
- Interest rate swaps	(1.8)
Total fair values hedges	**(1.8)**

Group 2021	Hedge ineffectiveness recognised in profit or loss £m
Fair value hedges	
Interest rate	
- Interest rate swaps	(2.5)
Total fair values hedges	**(2.5)**

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

Group 2022	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	0.2	0.1	–
Total cash flow hedges	**0.2**	**0.1**	**–**

23. Derivative Financial Instruments (continued)

Group 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)**	–

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

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

Group	2022 £m	2021 £m
Hedging gains and losses recognised in other comprehensive income	0.3	(0.8)
Amount reclassified from cash flow hedge reserve to profit or loss	–	–
Tax	(0.1)	0.2
Cash flow hedge reserve	**0.2**	**(0.6)**

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	
Group	2022 £m	2021 £m
Balance at beginning of year	**(0.6)**	**(0.3)**
Cashflow hedge - foreign exchange risk		
- Effective portion of changes in fair value	1.1	(0.8)
- Tax	(0.3)	–
Cross currency interest rate swaps		
- Effective portion of changes in fair value	–	(1.4)
- Amount reclassified to profit or loss in the year	–	1.9
Balance at end of year	**0.2**	**(0.6)**

24. Investment Securities

Group	2022	2021
	£m	£m
Investment securities measured at FVPL	24.8	n/a
Investment securities measured at FVOCI - debt	584.7	n/a
Investment securities designated at FVOCI - equity	–	5.1
Investment securities measured at amortised cost	857.4	948.4
Total investment securities	**1,466.9**	**953.5**

Investment securities measured at FVPL

Group	2022	2021
	£m	£m
VISA Inc. preferred stock	1.8	n/a
Property fund	23.0	n/a
Total investment securities measured at FVPL	**24.8**	**n/a**

The Group has a holding in preferred stock issued by VISA Inc. which was designated at FVOCI in previous years. Following a review of industry practice and the requirements of IFRS 9, this holding has been reclassified to FVPL with effect from 1 March 2021. As this amount is not material, no prior year restatement has been recognised in respect of this reclassification.

During the year ended 28 February 2021, a proportion of these shares became eligible for conversion to ordinary shares, resulting in an unrealised gain of £1.7m which was recognised in the fair value reserve at 28 February 2021. Following the change in classification with effect from 1 March 2021, the opening unrealised gain in respect of the Group's total holding in VISA Inc. preferred stock, amounting to £5.1m (£3.7m net of deferred tax), was transferred from the fair value reserve to retained earnings within the Consolidated Statement of Changes in Equity. Gains and losses from 1 March 2021 are recognised through the Consolidated Income Statement. The Group disposed of the converted shares during the year, realising a gain of £37k.

The remaining stock may be convertible into Class A Common Stock of VISA Inc. at certain future dates, the latest point of which will be June 2028. Conversion is contingent upon future events principally related to the outcome of interchange litigation against VISA Europe Limited. As such, the valuation of £1.8m (2021: £5.1m) 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.

Following the acquisition of TU on 4 May 2021, TU's holding in a property fund held at FVPL is now included in the Consolidated Statement of Financial Position.

Investment securities measured at FVOCI - debt

Group	2022	2021
	£m	£m
Government backed investment securities	34.6	n/a
Supranational investment securities	31.6	n/a
Corporate bonds	516.9	n/a
Other investment securities	1.6	n/a
Total investment securities measured at FVOCI - debt	**584.7**	**n/a**

Following the acquisition of TU on 4 May 2021, TU debt investment securities held at FVOCI are now included in the Consolidated Statement of Financial Position. All of these are fixed-interest investment securities.

24. Investment Securities (continued)

Investment securities measured at amortised cost

Group	2022 £m	2021 £m
Government backed investment securities	103.1	126.9
Gilts	68.1	39.2
Supranational investment securities	420.3	438.4
Other investment securities	266.1	323.6
Investment in subordinated debt issued by TU	–	21.1
Gross investment securities measured at amortised cost	**857.6**	**949.2**
Less: allowance for ECL (refer note 45)	(0.2)	(0.8)
Net investment securities measured at amortised cost	**857.4**	**948.4**

Included in investment securities at amortised cost at 28 February 2022 were fixed-interest investment securities totalling £518.2m (2021: £502.5m), and variable-interest investment securities amounting to £339.2m (2021: £424.8m).

The holding in subordinated debt issued by TU with a gross carrying value of £21.1m at February 2021 is now fully eliminated on consolidation in the Consolidated Statement of Financial Position following the acquisition of TU on 4 May 2021.

25. Prepayments and Accrued Income

	Group		Company	
	2022 £m	2021 £m	2022 £m	2021 £m
Prepayments	16.3	14.0	–	–
Accrued income	26.9	27.6	–	–
Amounts accrued from TPF	–	–	–	1.3
Total prepayments and accrued income	**43.2**	**41.6**	**–**	**1.3**

All of the above balances are classified as current at the year-end (2021: all current).

26. Other Assets

Group	2022	2021
	£m	£m
Amount due from insurance commissions receivable	11.8	13.2
Contract asset - insurance renewal income	22.4	30.4
Accounts receivable and sundry debtors	145.2	166.9
Amounts due from Tesco Group subsidiaries	4.3	0.7
Salvage and subrogation recoveries	22.1	–
Deferred acquisition costs	13.9	–
Total other assets	**219.7**	**211.2**

All of the above balances are classified as current at the year-end, (2021: all current) with the exception of £12.3m (2021: £22.4m) of the contract asset recognised under IFRS 15 'Revenue from Contracts with Customers', which is expected to be received after more than one year.

Contract asset - insurance renewal income

Of the prior year IFRS 15 contract asset balance, £14.1m has been reclassified in the year as commissions receivable (2021: £10.4m has been reclassified in the prior year relating to the contract asset balance at 28 February 2020) 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 £6.1m (2021: £7.4m) 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.

Deferred acquisition costs

Following the acquisition of TU during the year, certain insurance acquisition costs are deferred. An analysis of the movements in the deferred acquisition costs in the year is as follows:

	2022
	£m
At beginning of year	–
Acquisition costs incurred in period	21.3
Amortisation charged to income	(7.4)
At end of year	**13.9**

27. Investment in Group Undertaking

The Company's investment in a group undertaking in the year was as follows:

Name of company	Nature of business	Place of incorporation	Ownership interest 2022	Ownership interest 2021	Registered address
Tesco Personal Finance plc	Banking and general insurance services	UK	100%	100%	2 South Gyle Crescent, Edinburgh, EH12 9FQ

The Company's Investment in a group undertaking amounts to £1,219.9m (2021: £1,219.9m), all of which is non-current (2021: all non-current).

The Group also has the following investment in a group undertaking owned indirectly by Tesco Personal Finance plc:

Name of company	Nature of business	Place of incorporation	Ownership interest 2022	Ownership interest 2021	Registered address
Tesco Underwriting Limited	Insurance	UK	100%	n/a	London Court, 39 London Road, Reigate, Surrey, RH2 9AQ

TU is an authorised insurance company which provides the insurance underwriting service for a number of the Group's general insurance products. Prior to 4 May 2021 TU was owned 49.9% by the Group and accounted for as a joint venture, using the equity method of accounting. On this date the Group acquired the remaining 50.1% of ordinary share capital from its joint venture partner. Refer to note 2 for full details of the acquisition.

The following companies are also 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 Group, 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.

Name of company	Nature of business	Place of incorporation	Registered address
Delamare Cards Holdco Limited	Securitisation entity	UK	6th Floor, 125 London Wall, London, EC2Y 5AS
Delamare Cards MTN Issuer plc	Securitisation entity	UK	6th Floor, 125 London Wall, London, EC2Y 5AS
Delamare Cards Receivables Trustee Limited	Securitisation entity	UK	6th Floor, 125 London Wall, London, EC2Y 5AS
Delamare Cards Funding 1 Limited	Securitisation entity	UK	6th Floor, 125 London Wall, London, EC2Y 5AS
Delamare Cards Funding 2 Limited	Securitisation entity	UK	6th Floor, 125 London Wall, London, 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 2022 within these Consolidated Financial Statements.

28. Investment in Joint Venture

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

Group	2022	2021
	£m	£m
At beginning of year	92.8	86.0
Dividends received	(10.0)	(7.5)
Share of profit of joint venture	2.6	16.2
Share of other comprehensive expense of joint venture	(0.6)	(1.9)
Remeasurement of investment in joint venture (refer note 12)	4.6	–
Reclassification of investment to investment in group undertakings	(89.4)	–
At end of year	**–**	**92.8**

Details of the Group's joint venture

Name of company	Registered address	Nature of business	Place of incorporation	Ownership interest 2022	Ownership interest 2021
Tesco Underwriting Limited	London Court, 39 London Road, Reigate, Surrey, RH2 9AQ	Insurance	UK	n/a	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. Prior to 4 May 2021 the Group owned 49.9% of TU and the Group accounted for TU as a joint venture, using the equity method of accounting. On 4 May 2021 the Group acquired the remaining 50.1% of TU's ordinary share capital from its joint venture partner. Refer to note 2 for full details of the acquisition.

The Group used the equity method of accounting for its investment in TU until it became a wholly owned subsidiary on 4 May 2021. TU had a financial year end of 31 December. The accounting year end date for TU differed from that of the Group as it was in line with the previous joint venture partner. The management accounts of TU were used to consolidate the results to 28 February 2021 within these Consolidated Financial Statements. During the year TU changed its year end to 28 February to align to the rest of the Group, following the acquisition of the remaining 50.1% from its joint venture partner.

TU is a private company and there is no quoted market price available for its shares.

Until the Group acquired the remaining share capital of TU on 4 May 2021 the Group had 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 allowed 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 for the prior year-end are included within the following sections.

28. 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
Non-current assets	771.4
Current assets	219.7
Current liabilities	(674.0)
Non-current liabilities	(136.9)
Net assets	**180.2**
Cash and cash equivalents	73.9
Current financial liabilities (excluding trade and other payables and provisions)	(18.5)
Non-current financial liabilities (excluding trade and other payables and provisions)	(136.9)

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

28. 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
Net assets of the joint venture	180.2
Group share at 49.9%	90.0
Capitalised legal costs included in investment carrying value	2.8
Carrying value of investment in joint venture at end of year	**92.8**

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**

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**

Other information

The Group had no contingent liabilities or commitments in respect of the joint venture at 28 February 2021. The investment in the joint venture was classified as non-current at 28 February 2021.

29. Deferred Income Tax Asset

The net deferred income tax asset can be analysed as follows:

2022 **Group**	**Accelerated capital allowances £m**	**Financial instruments**	**Share based payments**	**Other £m**	**Total £m**
At beginning of year	23.7	41.1	2.3	0.2	67.3
Acquisition of TU	0.1	(2.1)	–	–	(2.0)
(Charged)/credited to the Consolidated Income Statement in the current year	(1.8)	(7.2)	0.6	(0.1)	(8.5)
Credited/(charged) to the Consolidated Income Statement for prior years	0.2	–	(0.5)	0.1	(0.2)
Credited to equity	–	5.1	0.7	–	5.8
Change in tax rate	0.7	1.1	–	–	1.8
At end of year	**22.9**	**38.0**	**3.1**	**0.2**	**64.2**

Deferred tax asset to be recovered within one year	54.2
Deferred tax asset to be recovered after more than one year	14.7
Total deferred income tax asset	**68.9**
Deferred tax liability to be recovered within one year	(1.6)
Deferred tax liability to be recovered after more than one year	(3.1)
Total deferred income tax liability	**(4.7)**
Deferred tax assets (net)	**64.2**

2021 **Group**	**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**

30. Intangible Assets

Group	Work-in-Progress	Goodwill	Computer Software	Total
	£m	£m	£m	£m
Cost				
At 1 March 2021	44.4	–	717.6	762.0
Acquisition of TU	–	20.0	18.0	38.0
Additions	26.1	–	6.9	33.0
Transfers	(42.8)	–	42.8	–
Disposals	(0.2)	–	(14.8)	(15.0)
At 28 February 2022	**27.5**	**20.0**	**770.5**	**818.0**
Accumulated amortisation				
At 1 March 2021	–	–	(631.1)	(631.1)
Charge for the year	–	–	(52.6)	(52.6)
Disposals	–	–	14.3	14.3
At 28 February 2022	**–**	**–**	**(669.4)**	**(669.4)**
Net carrying value				
At 28 February 2022	**27.5**	**20.0**	**101.1**	**148.6**
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**

Work-in-progress at 28 February 2022 relates primarily to the internal development of IT software assets. Intangible asset balances are non-current (2021: non-current).

Goodwill

The acquisition of TU on 4 May 2021 resulted in the recognition of goodwill of £20.0m. Refer to note 2 for further details. This goodwill is supported by the expected increase in cash flows for the combined insurance business.

Impairment methodology

Goodwill is tested annually for impairment or more frequently where there are indicators of impairment. Goodwill recognised on the acquisition of TU is allocated to the insurance segment of the Group, which is treated as a separate CGU for impairment testing.

The recoverable amount of the CGU is determined based on VIU calculations. Head office and central costs are allocated to the insurance CGU based on its consumption of the Group's supported services on a cost-plus margin basis.

30. Intangible Assets (continued)

Estimates for VIU calculations include discount rates, long-term growth rates and expected changes to future cash flows, including insurance volumes and pricing. Estimates are based on past experience and expectations of future changes in the market, including the prevailing economic climate and global economy, competitor activity, market dynamics and changing customer behaviours.

Cash flow projections are based on the Group's three-year internal forecasts, the results of which are reviewed by the Board. The forecasts are extrapolated to five years based on Management's expectations, and beyond five years based on estimated long-term average growth rates. Long-term growth rates for the Group are based on inflation and GDP growth forecasts by recognised bodies.

Management estimate discount rates using pre-tax rates that reflect the market assessment as at the Statement of Financial Position date of the time value of money. The pre-tax discount rates are derived from the Group's post-tax weighted average cost of capital, as adjusted for the specific risks relating to each geographical region. Risk-free rates are based on government bond rates in each geographical region and equity risk premia are based on forecasts by recognised bodies.

Key assumptions and sensitivity

For VIU calculations, the key assumptions to which the recoverable amount is most sensitive are discount rates, long-term growth rates and forecast cash flows. The rates for the insurance CGU to which goodwill has been allocated are as follows:

	2022
	%
Pre-tax discount rate	8.0
Post-tax discount rate	6.3
Long-term growth rate	1.6

The Group has carried out sensitivity analysis on the reasonably possible changes in these key assumptions in the impairment test for the insurance CGU. Neither a reasonably possible one percentage point increase in discount rates, a one percentage point decrease in long-term growth rates nor a five percentage point decrease in annual cash flows would indicate impairment in the insurance CGU to which goodwill has been allocated.

Computer Software

As part of the acquisition of TU on 4 May 2021, the Group has recognised separately identified intangible assets within computer software. These represent the fair value of the insurance software acquired.

31. Property, Plant and Equipment

Group	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 2021	18.4	3.0	21.7	126.3	32.4	20.2	29.4	251.4
Additions	8.2	–	0.4	5.2	–	–	0.6	14.4
Acquisition of TU	–	–	–	0.4	–	–	0.4	0.8
Transfers	(14.3)	–	0.4	13.9	–	–	–	–
Disposals	–	(0.5)	(4.9)	(30.6)	–	–	–	(36.0)
At 28 February 2022	**12.3**	**2.5**	**17.6**	**115.2**	**32.4**	**20.2**	**30.4**	**230.6**
Accumulated depreciation								
At 1 March 2021	–	(3.0)	(15.9)	(115.9)	(8.1)	(13.8)	(17.2)	(173.9)
Charge for the year	–	–	(1.9)	(6.6)	(0.9)	(1.4)	(1.8)	(12.6)
Disposals	–	0.5	4.9	30.3	–	–	–	35.7
At 28 February 2022	**–**	**(2.5)**	**(12.9)**	**(92.2)**	**(9.0)**	**(15.2)**	**(19.0)**	**(150.8)**
Net carrying value								
At 28 February 2021	**12.3**	**–**	**4.7**	**23.0**	**23.4**	**5.0**	**11.4**	**79.8**
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**

Work-in-progress at 28 February 2022 relates predominantly to the development of IT assets. Property, plant and equipment balances are non-current (2021: non-current).

32. Deposits from Banks

Group	2022 £m	2021 £m
Deposits from banks	1,052.3	600.0
	1,052.3	**600.0**
Current	152.3	500.0
Non-current	900.0	100.0

Deposits from banks include balances of £nil (2021: £500.0m) drawn under the BoE's Term Funding Scheme (TFS) and £902.0m (2021: £100.0m) drawn under the BoE's TFS with incentives for Small and Medium Sized Entities (TFSME). Also included are balances of £150.3m (2021: £nil) which have been sold under sale and repurchase agreements.

33. Deposits from Customers

Group	2022 £m	2021 £m
Retail deposits	5,326.0	5,737.6
Fair value hedge adjustment	(0.1)	0.4
	5,325.9	**5,738.0**
Current	4,576.4	4,821.0
Non-current	749.5	917.0

Fair value hedge adjustments

Fair value hedge adjustments amounting to £(0.1)m (2021: £0.4m) 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 of deposits from customers.

34. Debt Securities in Issue

Group	Interest rate	Par value £m	Term (years)	Maturity date	2022 £m	2021 £m
MREL[1]	3.50%	250.0	6	2025	244.0	251.0
Total debt securities in issue					**244.0**	**251.0**
Company						
MREL	3.50%	250.0	6	2025	250.4	249.4
Total debt securities in issue					**250.4**	**249.4**

[1] This bond was issued on 26 July 2019. The scheduled redemption date is July 2024.

On 1 January 2020, the Group became subject to the minimum requirements for own funds and eligible liabilities (MREL), with an interim requirement of 18% of risk-weighted assets until 31 December 2022. In order to meet this requirement, the Company undertook an initial £250.0m issuance of MREL-compliant debt in July 2019. Following a review during the year by the BoE of the Company's resolution strategy, the Company no longer has a requirement to issue MREL-compliant debt since the MREL requirement is equal to the total capital requirement (TCR). The MREL-compliant debt issued by the Company in July 2019 remains in issue. All of the above balances are classified as non-current at year end, with the exception of accrued interest of £0.8m, which is classified as current (2021: all non-current).

35. Provisions for Liabilities and Charges

Group 2022	Customer Redress Provision £m	Restructuring Provision £m	Expected Credit Loss Provision £m	Other Provisions £m	Total £m
At beginning of year	22.4	0.8	28.3	8.6	60.1
Acquisition of TU	–	–	–	0.1	0.1
Provided during the year	–	–	–	3.7	3.7
Utilised during the year	(8.1)	(0.8)	–	(3.4)	(12.3)
Transfer to loans and advances ECL allowance	–	–	(12.1)	–	(12.1)
Released during the year	–	–	–	(1.9)	(1.9)
At end of year	**14.3**	**–**	**16.2**	**7.1**	**37.6**

Customer redress provision - Payment protection insurance (PPI)

The customer redress provision of £14.3m at 28 February 2022 (2021: £22.4m) relates to potential customer complaints arising from historic sales of PPI. The Financial Conduct Authority's (FCA) general claims deadline passed on 29 August 2019, albeit legal claims continue to be received. 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 finalise their assessment of existing claims, ongoing legal claims and levels of redress thereon. The timing of utilisation of the remaining provision is dependent on the timing of settlement of the remaining claims. This remains inherently uncertain given their legal nature. Management does not consider there to be a significant risk of a material adjustment to the carrying amount of the PPI provision within the next financial year. Accordingly, no sensitivity analysis is provided.

Restructuring provision

The restructuring provision was in respect of costs related to the Group's strategic review, which was concluded during the year.

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 45.

Other provisions

Other provisions predominantly reflect:

- a dilapidations provision related to the anticipated costs of restoring leased assets to their original condition. Management expect 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.

36. Accruals and Deferred Income

	Group		Company	
	2022	2021	**2022**	2021
	£m	£m	**£m**	£m
Amounts accrued to Tesco Group subsidiaries	12.2	18.0	–	–
Amounts accrued to Tesco PLC	–	0.5	–	0.5
Other accruals	91.7	52.6	–	0.8
Deferred income	15.7	15.0	–	–
Total accruals and deferred income	**119.6**	**86.1**	**–**	**1.3**

All of the above balances are classified as current at the year-end (2021: all current).

37. Other Liabilities

	2022	2021
Group	**£m**	£m
Accounts payable and sundry creditors	118.4	122.6
Insurance creditor	0.8	14.6
Taxation and social security payable	7.9	2.7
Contract liabilities - insurance refunds	1.1	1.5
Lease liabilities (refer note 43)	26.8	29.6
Amounts owed to Tesco Group subsidiaries	9.1	13.2
Total other liabilities	**164.1**	**184.2**

All of the above balances are classified as current at the year-end (2021: all current) with the exception of £22.8m (2021: £26.1m) of the lease liabilities which are due after more than one year.

Contract liabilities – insurance refunds

Revenue recognised in the year under IFRS 15 in respect of the opening contract liability balance was £0.0m (2021: £0.2m).

38. Insurance Funds Withheld

Following the acquisition of TU on 4 May 2021, insurance funds withheld are now included in the Consolidated Statement of Financial Position.

	2022
	£m
Insurance funds withheld	114.8
Total insurance funds withheld	**114.8**

TU has put in place a QS contract as part of its overall reinsurance protection strategy. A funds withheld account is maintained which represents the balance due to reinsurers in accordance with the terms of this reinsurance agreement. The balance is the net of premiums payable, commission receivable, claims recoveries receivable and profit commission receivable or payable, with the reinsurance margin paid over eight quarterly instalments. The funds withheld account is made up of QS funds withheld of £122.5m and a profit commission of (£7.7m) (which is part of the contract but is a separate payable). The contract will be commuted after four years from inception.

The balance of insurance funds withheld acquired as part of the acquisition of TU on 4 May 2021 was £100.2m. The movement in the balance since this date to 28 February 2022, in accordance with the terms of the reinsurance agreement, is £14.6m.

All of the above balances are classified as non-current at the year-end.

39. Insurance Contracts Provisions and Reinsurance Assets

Following the acquisition of TU on 4 May 2021, insurance contracts provisions and reinsurance assets are now included in the Consolidated Statement of Financial Position.

The following tables show the breakdown of the Group's insurance contract provisions and reinsurance assets at 28 February 2022:

Group		28 February 2022	
	Gross	**Reinsurance**	**Net**
	£m	**£m**	**£m**
Unearned premiums	155.8	(64.1)	91.7
Claims	494.2	(181.0)	313.2
Total insurance contract provisions	**650.0**	**(245.1)**	**404.9**

		28 February 2022	
	Gross	**Reinsurance**	**Net**
	£m	**£m**	**£m**
Current	623.3	(60.9)	562.4
Non-current	26.7	(184.2)	(157.5)

Recoveries are not included above. For details see movement in outstanding claims analysis below.

Gross insurance contract provisions, unlike reinsurance assets, are classified as current or non-current based on contractual rights to defer settlement for at least 12 months after the reporting date in accordance with IAS 1 'Presentation of Financial Statements', rather than expected timing of settlement. Analysis presented on a behavioural basis is set out on page 134.

39. Insurance Contracts Provisions and Reinsurance Assets (continued)

Analysis of movement in insurance provisions

	28 February 2022		
	Gross £m	Reinsurance £m	Net £m
Balance at 1 March 2021	–	–	–
Acquisition of TU	650.3	(246.7)	403.6
Claims (paid)/recovered from insurers	(171.3)	65.8	(105.5)
Movement in claims outstanding	156.2	(59.3)	96.9
Change in provisions from unearned premiums	14.8	(4.9)	9.9
At 28 February 2022	**650.0**	**(245.1)**	**404.9**

Analysis of movement in provision for gross unearned premium

	28 February 2022 £m
Balance at 1 March 2021	–
Acquisition of TU	141.0
Premium written during the year	254.0
Less: premiums earned during the year	(239.2)
At 28 February 2022	**155.8**

Analysis of movement in outstanding claims

Gross outstanding claims	28 February 2022 £m
Balance at 1 March 2021	–
Acquisition of TU	509.3
Current year claims	213.4
Change in prior year claims	(57.1)
Current year claims paid	(103.9)
Prior year claims paid	(67.4)
At 28 February 2022	**494.3**

Salvage and subrogation recoveries	28 February 2022 £m
Balance at 1 March 2021	–
Acquisition of TU	16.0
Current year claims	20.5
Change in prior year claims	(14.4)
At 28 February 2022	**22.1**

Gross outstanding claims, net of recoveries	28 February 2022 £m
Balance at 1 March 2021	–
Acquisition of TU	493.3
Current year claims	192.9
Change in prior year claims	(42.8)
Current year claims paid	(103.9)
Prior year claims paid	(67.4)
At 28 February 2022	**472.1**

39. Insurance Contracts Provisions and Reinsurance Assets (continued)

Process used to determine the assumptions

The sources of data used as inputs for the assumptions behind insurance provisions are internal, using detailed studies that are carried out at least annually. The assumptions are checked to ensure that they are consistent with observable market prices or other published information. There is more emphasis on current trends, and where in more recent periods there is insufficient information to make a reliable best estimate of claims development, suitable benchmark assumptions are used.

The nature of the business makes it very difficult to predict with certainty the likely outcome of any particular claim and the ultimate cost of notified claims. Each notified claim is assessed on a case-by-case basis with due regard to the claim circumstances and historical evidence of the size of similar claims. Case estimates are reviewed regularly and are updated as and when new information arises. The provisions are based on information currently available. However, the ultimate liabilities may vary as a result of subsequent developments. The impact of many of the items affecting the ultimate costs of the loss is difficult to estimate. The degree of complexity involved will also differ by book of business due to differences in the underlying insurance contract, claim complexity, the volume of claims and the individual severity of claims, determining the occurrence date of a claim, and reporting lags.

The cost of outstanding claims and the IBNR provisions are estimated using various statistical methods. Such methods extrapolate the development of paid and incurred claims, average cost per claim and ultimate claim numbers for each accident period based upon observed development of earlier periods, with reference to suitable benchmarks.

The key methods are:

- Development factor methods, which use historical data to estimate the paid and incurred to date as proportions of the ultimate claim cost;
- Individual claim assessment methods, which use claim-specific details for large individual claims to estimate the ultimate claim cost; and
- Benchmarking methods, which use the experience of comparable, more mature classes, or market data to estimate the cost of claims.

The actual method or blend of methods used varies by accident period being considered and the class of business and observed historical claims development.

To the extent that these methods use historical claims development information, they assume that the historical claims development pattern will occur again in the future. There are reasons why this may not be the case, which, insofar as they can be identified, have been allowed for by modifying the methods. Such reasons include:

- Changes in processes that affect the development and/or recording of claims paid and incurred (such as changes in claim reserving procedures and/or the introduction of a new claims system);
- Economic, legal, political and social trends (resulting in, for example, a difference in expected levels of inflation);
- Changes in mix of business; and
- Random fluctuations, including the impact of large losses.

IBNR provisions are initially estimated at a gross level and a separate calculation is carried out to estimate the size of reinsurance recoveries. The Group is covered by a variety of excess of loss reinsurance programmes. The methods used by the Group take account of historical data, specific details for individual large claims and details of the reinsurance programme, to assess the expected size of reinsurance recoveries.

39. Insurance Contracts Provisions and Reinsurance Assets (continued)

Process used to determine the assumptions (continued)

The Group considers that the liability for claims reported in the Consolidated Statement of Financial Position is adequate. However, it recognises that the process of estimation is based upon certain variables and assumptions, which could differ when claims arise.

Recoveries through salvage and subrogation are estimated and recorded separately within other assets based on a combination of suitable benchmark assumptions and the observed development to date.

Ogden rate

The personal injury discount rate (Ogden rate) is set by the Ministry of Justice and is used by the courts to calculate lump sum personal injury payments. Reserves are assessed at the current rate of -0.25%.

Analysis of claims development – gross of reinsurance and net of salvage and subrogation recoveries

	Accident year[1]											
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Estimate of gross ultimate claim costs												
At end of accident year	529.8	390.6	349.3	327.1	370.7	304.3	317.4	282.2	219.7	224.1	48.1	–
One year later	534.4	388.4	352.7	343.2	372.1	298.8	296.7	288.1	209.0	–	–	–
Two years later	522.5	372.6	379.1	343.1	335.0	269.3	267.9	270.9	–	–	–	–
Three years later	517.3	382.8	352.9	322.7	324.5	258.3	270.7	–	–	–	–	–
Four years later	526.8	362.5	359.7	311.5	322.9	252.8	–	–	–	–	–	–
Five years later	517.7	360.3	346.9	304.9	308.6	–	–	–	–	–	–	–
Six years later	520.3	360.8	349.9	305.4	–	–	–	–	–	–	–	–
Seven years later	518.9	360.3	343.3	–	–	–	–	–	–	–	–	–
Eight years later	526.8	360.1	–	–	–	–	–	–	–	–	–	–
Nine years later	527.7	–	–	–	–	–	–	–	–	–	–	–
Current estimate of cumulative claims	527.7	360.1	343.3	305.4	308.6	252.8	270.7	270.9	209.0	224.1	48.1	3,120.7
Cumulative payments to date	(504.5)	(348.2)	(327.4)	(295.9)	(286.7)	(240.7)	(223.6)	(188.1)	(125.0)	(113.5)	(8.7)	(2,662.3)
Claims outstanding prior to 2012 accident year	–	–	–	–	–	–	–	–	–	–	–	5.9
Current gross claims provision	**23.2**	**11.9**	**15.9**	**9.5**	**21.9**	**12.1**	**47.1**	**82.8**	**84.0**	**110.6**	**39.4**	**464.3**
Provision for claims handling costs	–	–	–	–	–	–	–	–	–	–	–	4.8
Fair value adjustment to claims outstanding provisions as a result of TU acquisition	–	–	–	–	–	–	–	–	–	–	–	3.0
Total gross claims outstanding provisions	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**		**472.1**

[1] The information in the above claims development table covers the period from which the earliest material claim arose in TU for which there is still uncertainty about the amount and timing of the claims payments and therefore reflects claims development in respect of claims arising prior to the acquisition of TU on 4 May 2021.

39. Insurance Contracts Provisions and Reinsurance Assets (continued)

Analysis of claims development – net of reinsurance and net of salvage and subrogation recoveries

	Accident year[1]											
	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	2019 £m	2020 £m	2021 £m	2022 £m	Total £m
Estimate of net ultimate claim costs												
At end of accident year	515.5	378.8	336.0	319.5	310.5	276.0	259.0	235.7	143.9	127.0	37.2	–
One year later	521.9	380.3	338.2	327.2	319.2	269.7	259.3	254.7	124.9	–	–	–
Two years later	512.4	367.9	348.9	330.7	302.0	252.0	233.4	243.6	–	–	–	–
Three years later	506.6	371.5	342.6	314.8	291.7	241.5	246.7	–	–	–	–	–
Four years later	505.4	358.9	339.1	305.8	292.5	239.4	–	–	–	–	–	–
Five years later	500.3	355.2	338.0	300.7	286.6	–	–	–	–	–	–	–
Six years later	503.6	356.2	339.9	300.9	–	–	–	–	–	–	–	–
Seven years later	500.3	355.1	333.7	–	–	–	–	–	–	–	–	–
Eight years later	506.5	354.2	–	–	–	–	–	–	–	–	–	–
Nine years later	505.6	–	–	–	–	–	–	–	–	–	–	–
Current estimate of cumulative claims	505.6	354.2	333.7	300.9	286.6	239.4	246.7	243.6	124.9	127.0	37.2	2,799.8
Cumulative payments to date	(498.1)	(347.2)	(323.1)	(292.2)	(275.9)	(231.9)	(210.9)	(184.8)	(87.2)	(66.7)	(2.9)	(2,520.9)
Claims outstanding prior to 2012 accident year	–	–	–	–	–	–	–	–	–	–	–	4.1
Current net claims provision	**7.5**	**7.0**	**10.6**	**8.7**	**10.7**	**7.5**	**35.8**	**58.8**	**37.7**	**60.3**	**34.3**	**283.1**
Provision for claims handling costs	–	–	–	–	–	–	–	–	–	–	–	4.8
Fair value adjustment to claims outstanding provisions as a result of TU acquisition	–	–	–	–	–	–	–	–	–	–	–	3.0
Total net claims outstanding provisions	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**290.9**

[1] The information in the above claims development table covers the period from which the earliest material claim arose in TU for which there is still uncertainty about the amount and timing of the claims payments and therefore reflects claims development in respect of claims arising prior to the acquisition of TU on 4 May 2021.

40. Subordinated Liabilities and Notes

Group and Company	2022 £m	2021 £m
Amortised cost:		
Floating rate subordinated loans	190.5	190.0
Undated floating rate notes	45.1	45.0
Total subordinated liabilities and notes	**235.6**	**235.0**

Subordinated liabilities and notes comprise loan capital issued to Tesco. This includes £190.0m notional (2021: £190.0m) of subordinated loans maturing in 2030 and £45.0m notional (2021: £45.0m) of undated notes with no fixed maturity date. All of the above balances are classified as non-current at the year-end (2021: all non-current) with the exception of accrued interest of £0.6m which is classified as current.

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 (2021: three-month SONIA plus a margin of 67 to 227 basis points).

41. Share Capital and Share Premium Account

Group and Company	2022 Number	2022 £m	2021 Number	2021 £m
Authorised				
A Ordinary shares of 10p each	Unlimited		Unlimited	
B Ordinary shares of 10p each	Unlimited		Unlimited	
C Ordinary shares of 10p each	1		1	
Allotted, called up and fully paid				
A Ordinary shares of 10p each	991,090,000	99.1	991,090,000	99.1
B Ordinary shares of 10p each	229,089,000	22.9	229,089,000	22.9
C Ordinary shares of 10p each	1	–		–
	1,220,179,001	122.0	1,220,179,001	122.0

	2022 £m	2021 £m
Share premium reserve	1,098.2	1,098.2
	1,098.2	1,098.2

42. Other Reserves

Group

	2022 £m	2021 £m
AFS - share of joint venture	–	5.6
Fair value reserve	(12.8)	3.7
Total AFS/FV reserves	**(12.8)**	**9.3**
Cash flow hedge reserve	0.2	(0.6)
Share based payment reserve	26.1	21.9
Total reserves	**13.5**	**30.6**

AFS reserve

The consolidated AFS reserve included the Group's share of the AFS reserve of its joint venture, TU, until TU was fully acquired on 4 May 2021. Immediately prior to the acquisition the Group recognised a consolidated gain of £5.0m in respect of this share of the TU AFS reserve in the Consolidated Income Statement.

Fair value reserve

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

The balance in the fair value reserve at 28 February 2022 relates to debt investment securities recognised through the acquisition of TU during the year.

The Group has a holding in preferred stock issued by VISA Inc. which was designated at FVOCI in previous years. Following a review of industry practice and the requirements of IFRS 9, this holding has been reclassified to FVPL with effect from 1 March 2021. As a result, £5.1m (£3.7m net of deferred tax) in respect of the opening fair value reserve at 1 March 2020 was released from the fair value reserve in the year and recognised directly in retained earnings in the Consolidated Statement of Changes in Equity. As this amount is not material, no prior year restatement has been recognised in respect of this reclassification.

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.

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.

43. 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. The Group has also entered into a contract to sublease space in one of these office buildings to a third-party supplier.

Consolidated Income Statement Amounts Relating to Leases

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

Group	2022 £m	2021 £m
Sub-lease income	–	n/a
Depreciation charge on right-of-use assets[1]	1.8	1.5
Interest expense on lease liabilities[2]	2.1	2.3
Total	**3.9**	**3.8**

Consolidated Statement of Financial Position Amounts Relating to Leases

The Consolidated Statement of Financial Position includes the following amounts relating to leases:

Group	2022 £m	2021 £m
Right-of-use assets[3]		
Office buildings	11.4	12.2
Total right-of-use assets	**11.4**	**12.2**
Lease liabilities[4]		
Current	4.0	3.5
Non-current	22.8	26.1
Total lease liabilities	**26.8**	**29.6**

Consolidated Cash Flow Statement amounts relating to leases

The Consolidated Cash Flow Statement includes the following amounts relating to leases:

Group	2022 £m	2021 £m
Interest paid on lease liabilities	3.5	3.6
Principal payments on lease liabilities	2.2	1.9
Total cash outflow for lease liabilities	**5.7**	**5.5**

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 £65.3m (2021: £64.4m).

[1] Included in Depreciation and amortisation in the Consolidated Income Statement (refer to note 14).
[2] Included in Net interest income in the Consolidated Income Statement (refer to note 6).
[3] Included in Property, plant and equipment in the Consolidated Statement of Financial Position (refer to note 31).
[4] Included in Other liabilities in the Consolidated Statement of Financial Position (refer to note 37).

44. 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.

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 2022 Financial Statements.

45. Risk Management

Unless otherwise stated, 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 unless otherwise stated. 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, legal and regulatory compliance risk and insurance capital risk. The key risk management processes and tools are described in detail on pages 16 to 22 within the Strategic Report.

(a) Credit Risk

Credit risk within the Group arises principally from retail lending activities but also from placement of surplus funds with other banks, holdings in transferable securities and interest rate and foreign exchange derivatives. In addition, credit risk arises from contractual arrangements with third-parties where payments and commissions are owed to the Group for short periods of time. Credit risk may also materialise when an adverse change in an entity's credit rating causes a fall in the fair value of the Group's holding of that entity's financial instrument.

- **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, 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 default 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.

45. Risk Management (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's cash flows. Such transactions relate to contracts for derivative financial instruments, securities financing transactions (SFTs) and long-dated settlement transactions. As at 28 February 2022, the Group had an undrawn £200.0m committed structured repurchase facility and has no 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 Second Line of Risk Management. 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 Board. The limits contained in the Policy are approved by the Board. The Treasury Director is responsible for ensuring that the Treasury function complies with counterparty credit risk limits.

The Group's approach to holding liquidity investments 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 multilateral development banks, 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 delegated authorities agreed by the Board 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 credit 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 2022, no additional credit risk mitigation was deemed necessary.

45. 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 its exposure arising from loan commitments. The Group has not recognised an ECL allowance for cash, loans and advances to banks, and other financial assets balances at 28 February 2022 due to the short-term nature of these balances, the frequency of origination and settlement of balances and 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.

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.

45. Risk Management (continued)

This includes instances where:

- the customer makes a declaration of significant financial difficulty and is placed on a temporary interest-free repayment plan or permanent reduction in annual percentage rate;
- 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;
- the customer is more than 90 days past due (the equivalent of four payments down) for Personal Loans and Credit Cards; 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 Personal 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 historical customer data. The current expected lifetime of the Group's Credit Card portfolio is six 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.

Past due and impaired definitions

The Group considers exposures to be past due where a customer does not make the minimum contractual monthly payment of principal, interest or fee. For Personal Current Accounts (PCA), past due status arises when the account is in excess of its contractual overdraft limit. Accounts remain as past due but not impaired until the point where a loss trigger has occurred.

The definition of default set out above aligns to both statutory and regulatory reporting and complies with the requirements of each. The Group has no past-due exposures of more than 90 days that are not considered to be impaired.

45. Risk Management (continued)

The Group has engaged a third-party supplier to provide relevant economic data 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 28 February 2022, the Group continued to use four economic scenarios. These scenarios included a Base scenario, an Upside scenario and two different downside scenarios. These scenarios were assigned weightings of 40%, 30%, 25% and 5% respectively.

- The Base scenario incorporates benefits from the vaccine programme and lifting of restrictions, which contribute to an increase in consumer confidence. GDP is expected to return to pre-pandemic levels by Q3 2022. This is discussed in more detail below.
- The Upside scenario builds on the assumptions in the Base scenario but assumes a quicker rate of growth with a return to pre-pandemic levels of GDP by Q1 2022. Accumulated savings from lockdown periods will be utilised, driving a recovery in consumer spending. Unemployment in the Upside scenario is expected to peak at 4.0% in Q1 2022.
- The Downside 1 scenario projects an increase in new Covid-19 cases and hospitalisations, which lead to a reintroduction of tiered restrictions across the early part of the year. This puts additional pressure on struggling businesses, leading to unemployment peaking at 6.2% in Q2 2022.
- The Downside 2 scenario projects that the increase in new Covid-19 cases and hospitalisations is sufficient enough to result in a full national lockdown being introduced that lasts up to 2 months. The severity of these measures results in a larger decline in GDP than the Downside 1 scenario (1.9% reduction across Q1 2022), and an unemployment peak of 8.0% in Q2 2022.

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

Base Scenario

The Group's Base scenario projects a recovery throughout 2022, returning to pre-pandemic levels in Q3 2022. The Base scenario applied by the Group at 31 August 2021 projected a return to pre-pandemic levels by Q4 2021. The Base scenario expects unemployment to peak at 4.7% in Q2 2022.

Pay growth across 2022 is expected to be eroded by high rates of inflation, with further pressure on household incomes through rising energy costs and rises in National Insurance. This drives a continued slowdown in consumer spending. Above-target inflation prompted the BoE to increase the UK bank rate to 0.25% in December 2021. The Base scenario assumes further slow and steady rises in interest rates next year.

The Base scenario employed at 28 February 2022 is more optimistic than the one in place at 31 August 2021, mainly due to a significant reduction in projected levels of unemployment, following low levels of redundancies at the end of the furlough scheme. The weighted peak of unemployment now stands at 5.0% compared to a rate of 7.1% at 31 August 2021.

Despite the improvement in the wider macro-economic environment, the pressures on household incomes referred to above are expected to put significant strain on households over the next financial year. The Group held a PMA of £74.7m in respect of this issue at 28 February 2022.

The Group has also assessed the projected impact on its business and results, at 28 February 2022, of the ongoing conflict in Ukraine and has sourced an additional scenario at that date to understand the projected impact of the conflict on the UK economy. The scenario shows a more sustained level of unemployment which does not recover as quickly as the Group's Base assumption, slightly lower forecast GDP, and a further strain on household incomes through an increased rate of inflation. The scenario assumes the conflict ends by June 2022. The impact of this issue has been held as a PMA of £6.3m at 28 February 2022.

45. Risk Management (continued)

The tables below show 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:

2022

Scenario	Weighting	Sensitivity (100% weighted)[1]	Economic measure	2022	2023	2024	2025	2026
		£m		%	%	%	%	%
Base	40%	(12.8)	Bank of England base rate[2]	0.7	1.2	1.2	1.0	0.8
			Gross domestic product[3]	2.4	2.1	1.3	1.6	1.6
			Unemployment rate	4.5	4.1	4.0	3.9	3.9
			Unemployment rate peak in year	4.7	4.2	4.0	3.9	3.9
Upside	30%	(27.3)	Bank of England base rate[2]	1.1	1.5	1.5	1.2	1.0
			Gross domestic product[3]	4.5	2.1	1.3	1.6	1.6
			Unemployment rate	4.0	3.9	3.9	3.9	3.9
			Unemployment rate peak in year	4.0	3.9	3.9	3.9	3.9
Downside 1	25%	31.1	Bank of England base rate[2]	0.3	0.9	0.8	0.7	0.6
			Gross domestic product[3]	0.9	2.1	1.3	1.6	1.6
			Unemployment rate	5.9	5.5	4.8	4.3	4.1
			Unemployment rate peak in year	6.2	5.8	5.0	4.4	4.1
Downside 2	5%	110.4	Bank of England base rate[2]	0.2	0.5	0.6	0.5	0.4
			Gross domestic product[3]	(0.8)	2.0	1.3	1.6	1.6
			Unemployment rate	7.5	7.5	6.5	5.5	4.7
			Unemployment rate peak in year	8.0	7.8	7.0	5.8	4.9
Weighted scenarios			Bank of England base rate[1]	0.7	1.2	1.1	1.0	0.8
			Gross domestic product	2.5	2.1	1.3	1.6	1.6
			Unemployment rate	4.8	4.6	4.3	4.1	4.0
			Unemployment rate peak in year	5.0	4.7	4.4	4.1	4.0

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

45. Risk Management (continued)

2021

Scenario	Weighting	Sensitivity (100% weighted)[1]	Economic measure	2021	2022	2023	2024	2025
		£m		%	%	%	%	%
Base	40%	(1.1)	Bank of England base rate[2]	0.1	0.1	0.1	0.1	0.2
			Gross domestic product[3]	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[2]	0.1	0.1	0.1	0.2	0.4
			Gross domestic product[3]	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[2]	–	–	0.1	0.1	0.1
			Gross domestic product[3]	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[2]	–	(0.1)	0.1	0.1	0.1
			Gross domestic product[3]	(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[2]	0.1	0.1	0.1	0.1	0.3
			Gross domestic product[3]	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] Represents the impact on ECL provision if 100% weighting applied to each macro-economic scenario.
[2] Simple average.
[3] Annual growth rates.

45. 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 and their relative weightings;
- PD threshold (staging); and
- Expected lifetime of revolving credit facilities.

Set out below are changes in the ECL allowance that would arise from reasonably possible changes in these assumptions over those used in the Group's calculations at 28 February 2022:

		Impact on loss allowance	
		2022	2021
		£m	£m
Closing ECL allowance		**488.8**	**624.6**
Macro-economic (100% weighted)	Upside	(27.3)	(65.8)
	Base	(12.8)	(1.1)
	Downside 1	31.1	56.8
	Downside 2	110.4	116.8
PD	Increase of 2.5%	5.8	7.5
	Decrease of 2.5%	(5.6)	(7.5)
LGD	Increase of 2.5%	7.2	10.3
	Decrease of 2.5%	(7.2)	(10.4)
Staging - change in threshold	Increase of 20%	(8.6)	(7.4)
	Decrease of 20%	12.7	10.6
Expected lifetime (revolving credit facilities)	Increase of 1 year	10.9	9.3
	Decrease of 1 year	(9.6)	(8.7)

45. Risk Management (continued)

Management Overlays

Throughout the Covid-19 pandemic, the macroeconomic forecasts employed by the Group projected lasting impacts to levels of unemployment and customers experiencing significant financial difficulty as a result. The unprecedented levels of government support and concessions offered by the Group have led to a low level of customer defaults observed to 28 February 2022. While there has been significant recovery observed in the wider economy, the degree of uncertainty remains high.

As a result, Management has recognised PMAs in respect of economic uncertainty to address these prevailing downside risks. The PMAs employed at 28 February 2022 are 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 ECLs such as lower EADs on the Credit Cards portfolio, will have suppressed ECLs. A PMA of £112.6m (2021: £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 £12.6m. 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 emergence of customer defaults will be more aligned with the most recent economic downturn experienced through the 2008/2009 global financial crisis. A PMA of £19.5m is held in respect of this uncertainty. Extending the emergence of defaults by 6 months increases the overlay by £4.2m, while reducing it by 6 months decreases the overlay by £6.3m.
- Management has assessed that the current cost of living crisis makes a portion of the Group's customers more vulnerable to rises in inflation and a deterioration in their ability to repay unsecured lending balances. These customers were identified based on their total level of unsecured debt (£10k or more) and their consumer indebtedness index provided by the external credit reference bureau. A PMA of £74.7m is held after moving these customers into Stage 2. Expanding the affected population to include customers who are five points lower on the consumer indebtedness index would increase the overlay by £41.2m.
- Management has assessed the projected impact on its business and results, at 28 February 2022, of the ongoing conflict in Ukraine and has sourced an additional scenario at that date to understand the projected impact of the conflict on the UK economy. The scenario shows a more sustained level of unemployment which does not recover as quickly as the Group's Base assumption, slightly lower forecast GDP, and a further strain on household incomes through an increased rate of inflation. The scenario assumes the conflict ends by June 2022. A PMA of £6.3m is held at 28 February 2022 in respect of this ongoing issue.

In the prior year, the Group held the following PMAs in addition to those outlined above:

- A PMA of £21.1m was held at 28 February 2021 in respect of customers who had taken an extension to their initial payment holiday as they were deemed to be exhibiting a higher level of credit risk. Due to the time that has elapsed since the end of their payment holiday extension, this risk is deemed not to be prevalent at 28 February 2022 and, as such, the PMA is no longer required.
- A PMA of £63.6m was held at 28 February 2021 as Management assessed that the impact of customer support measures was suppressing arrears and defaults. With the ending of these measures, Management has assessed that this PMA is not required at 28 February 2022.

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.

45. Risk Management (continued)

- **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 Statement of Financial Position. For loan commitments, the amounts in the table represent the amounts for which the Group is contractually committed. For all financial assets at FVPL and reinsurance assets, the maximum exposure to credit risk is their carrying amount.

	Stage 1	Stage 2				Stage 3	Total
		Not past due	<30 days past due	>30 days past due	Total		
2022							
Group[1]	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Gross Exposure							
Loans and advances to customers	5,973.1	797.1	22.5	15.9	835.5	200.9	7,009.5
Investment securities at FVOCI	584.7	–	–	–	–	–	584.7
Investment securities at amortised cost	857.6	–	–	–	–	–	857.6
Loan commitments - Loans and advances to customers[2]	12,028.9	325.1	2.4	0.6	328.1	6.0	12,363.0
Total gross exposure	**19,444.3**	**1,122.2**	**24.9**	**16.5**	**1,163.6**	**206.9**	**20,814.8**
Loss allowance							
Loans and advances to customers[2]	95.2	247.3	9.4	9.5	266.2	127.4	488.8
Investment securities at FVOCI[3]	0.8	–	–	–	–	–	0.8
Investment securities at amortised cost	0.2	–	–	–	–	–	0.2
Total loss allowance	**96.2**	**247.3**	**9.4**	**9.5**	**266.2**	**127.4**	**489.8**
Net Exposure							
Loans and advances to customers	5,877.9	549.8	13.1	6.4	569.3	73.5	6,520.7
Investment securities at FVOCI	583.9	–	–	–	–	–	583.9
Investment securities at amortised cost	857.4	–	–	–	–	–	857.4
Total net exposure	**7,319.2**	**549.8**	**13.1**	**6.4**	**569.3**	**73.5**	**7,962.0**
Coverage							
Loans and advances to customers	1.6%	31.0%	41.8%	59.7%	31.9%	63.4%	7.0%

[1] On a Company basis, loans and advances to subsidiary companies of £486.5m are considered to be low risk and stage 1. The related loss allowance of £1.8m is also considered to be stage 1.

[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 35.

[3] 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.

45. Risk Management (continued)

2021	Stage 1	Stage 2				Stage 3	Total
		Not past due	<30 days past due	>30 days past due	Total		
Group[1]	**£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	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 a Company basis, loans and advances to subsidiary companies of £484.8m are considered to be low risk and stage 1. The related loss allowance of £1.3m is also considered to be stage 1.

[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 35.

45. Risk Management (continued)

The table below shows a breakdown of Stage 2 loans and advances to customers.

Group	**Maximum exposure to credit risk**	
	Gross Loans and Advances	**Total ECL**
	£m	**£m**
2022		
Currently > 30 days past due	15.9	9.5
Currently < 30 days past due	819.6	256.7
- PD threshold	520.4	171.2
- Business rules only	299.2	85.5
Total Stage 2 at 28 February 2022	**835.5**	**266.2**

Group	**Maximum exposure to credit risk**	
	Gross Loans and Advances	**Total ECL**
	£m	**£m**
2021		
Currently > 30 days past due	24.6	15.7
Currently < 30 days past due	1,005.4	323.6
- PD threshold	921.4	291.6
- Business rules only	84.0	32.0
Total Stage 2 at 28 February 2021	**1,030.0**	**339.3**

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 quality and below standard, and Credit impaired. 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.

45. Risk Management (continued)

	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[1]	2022			
	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m
Loans and advances to customers				
High quality	5,666.4	299.8	–	5,966.2
Satisfactory quality	287.3	390.4	–	677.7
Low quality and below standard	19.4	145.3	–	164.7
Credit impaired	–	–	200.9	200.9
Total	**5,973.1**	**835.5**	**200.9**	**7,009.5**
Loan Commitments				
High quality	11,924.1	246.0	–	12,170.1
Satisfactory quality	98.3	71.1	–	169.4
Low quality and below standard	6.5	11.0	–	17.5
Credit impaired	–	–	6.0	6.0
Total	**12,028.9**	**328.1**	**6.0**	**12,363.0**
Total exposure	**18,002.0**	**1,163.6**	**206.9**	**19,372.5**

[1] On a Company basis, loans and advances to subsidiary companies of £486.5m are considered to be low risk, high quality and stage 1.

45. Risk Management (continued)

Credit quality of loans and advances to customers (continued)

Group[1]	2021			
	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£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**

[1] On a Company basis, loans and advances to subsidiary companies of £484.8m are considered to be low risk, high quality and stage 1.

Counterparty credit rating

Group		**2022**	2021
	Long-term Rating	**£m**	£m
Investment securities at amortised cost	AAA to BBB	857.4	927.3
Investment securities at FVOCI[1]	AAA to BBB	584.7	5.1
Insurance and other receivables	AAA to BBB	8.2	–
		1,450.3	932.4

[1] The Group has a holding in preferred stock issued by VISA Inc. which was designated at FVOCI in previous years. Following a review of industry practice and the requirements of IFRS 9, this holding has been reclassified to FVPL with effect from 1 March 2021. As a result, £5.1m (£3.7m net of deferred tax) in respect of the opening fair value reserve at 1 March 2020 was released from the fair value reserve in the year and recognised directly in retained earnings in the Consolidated Statement of Changes in Equity. As this amount is not material, no prior year restatement has been recognised in respect of this reclassification.

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 levels of default 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.

45. 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.

	2022	2021
Group	**£m**	**£m**
UK	20,462.6	20,430.1
Europe (excluding UK)	330.3	149.1
Other	623.2	466.2
Total	**21,416.1**	**21,045.4**

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.

	2022	2021
Group	**£m**	**£m**
Financial institutions	1,473.9	1,112.1
Government	785.4	840.8
Individuals	18,866.9	19,083.1
Wholesale and retail trade	289.9	9.4
Total	**21,416.1**	**21,045.4**

45. Risk Management (continued)

- **Credit risk: Loss allowance**

Loss allowance reconciliation

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

2022 **Group**[1]	**Stage 1** **£m**	**Stage 2** **£m**	**Stage 3** **£m**	**Total** **£m**
Loans and advances to customers				
At 1 March 2021	132.3	339.3	153.0	624.6
Transfers[2, 4]				
Transfers from stage 1 to stage 2	(18.7)	18.7	–	–
Transfers from stage 2 to stage 1	44.6	(44.6)	–	–
Transfers to stage 3	(5.4)	(37.4)	42.8	–
Transfers from stage 3	1.5	3.1	(4.6)	–
Income statement charge				
Net remeasurement[3] following transfer of stage[4]	(34.0)	11.8	58.3	36.1
New financial assets originated[5]	21.3	8.9	3.5	33.7
Financial assets derecognised during year	(15.3)	(15.6)	(3.6)	(34.5)
Changes in risk parameters and other movements[6]	(35.8)	(23.3)	10.3	(48.8)
Other movements				
Write-offs and asset disposals[7]	(0.3)	(1.8)	(132.3)	(134.4)
Transfer from provisions for liabilities and charges[8]	5.0	7.1	–	12.1
ECL allowance at 28 February 2022	**95.2**	**266.2**	**127.4**	**488.8**
Investment securities at FVOCI				
At 1 March 2021	–	–	–	–
Income statement charge				
New financial assets originated	1.1	–	–	1.1
Financial assets derecognised during year	(0.1)	–	–	(0.1)
Change in risk parameters and other movements	(0.2)	–	–	(0.2)
ECL allowance at 28 February 2022	**0.8**	**–**	**–**	**0.8**
Investment securities at amortised cost				
At 1 March 2021	0.8	–	–	0.8
Income statement charge				
Changes in risk parameters and other movements[6]	0.1	–	–	0.1
Changes in models	(0.6)	–	–	(0.6)
Other movements				
TU sub debt[9]	(0.1)	–	–	(0.1)
ECL allowance at 28 February 2022	**0.2**	**–**	**–**	**0.2**
Reconciliation to income statement				
Net expected credit loss charge	(63.5)	(18.2)	68.5	(13.2)
Recoveries and write-offs	–	–	(16.7)	(16.7)
Total income statement charge	**(63.5)**	**(18.2)**	**51.8**	**(29.9)**

[1] On a Company basis, the movements in loss allowance for the year ended 28 February 2022 of £0.5m relating to loans and advance to subsidiary companies arise entirely due to changes in risk parameters and is considered to be stage 1.
[2] Transfers - The opening loss allowance on financial assets which transferred stage during the year.
[3] Net remeasurement - The increase/(decrease) in the opening loss allowance as a result of a stage transfer.
[4] Includes a credit in stages 1 and 2 ECL of £199.8m due to a change in the macro-economic scenarios assumptions.
[5] 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 2022.
[6] 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.
[7] 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.
[8] Transfer from provisions for liabilities and charges - The movement in loss allowance which exceeds the gross carrying amount of the financial asset.
[9] The Group's holding in subordinated debt issued by TU is now fully eliminated in the Consolidated Statement of Financial Position following the acquisition of TU on 4 May 2021.

45. Risk Management (continued)

2021 Group[1]	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Loans and advances to customers				
At 1 March 2020	84.1	218.6	185.7	488.4
Transfers[2,4]				
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[3] following transfer of stage[4]	(5.9)	34.9	71.6	100.6
New financial assets originated[5]	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[6]	56.5	133.6	83.5	273.6
Other movements				
Write-offs and asset disposals[7]	–	(2.3)	(227.3)	(229.6)
Transfer from provisions for liabilities and charges[8]	(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[9]	(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[5]	0.1	–	–	0.1
Financial assets derecognised during the year	(0.1)	–	–	(0.1)
Changes in risk parameters and other movements[6]	(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] On a Company basis, the movements in loss allowance for the year ended 28 February 2021 of £0.3m relating to loans and advances to subsidiary companies arise entirely due to changes in risks parameters and is considered to be stage 1.
[2] Transfers - The opening loss allowance on financial assets which transferred stage during the year.
[3] Net remeasurement - The increase/(decrease) in the opening loss allowance as a result of a stage transfer.
[4] Includes a charge in stages 1 and 2 ECL of £194.1m due to a change in the macro-economic scenarios assumptions.
[5] 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.
[6] 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.
[7] 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.
[8] Transfer from provisions for liabilities and charges - The movement in loss allowance which exceeds the gross carrying amount of the financial asset.
[9] 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.

45. 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:

2022	Stage 1	Stage 2	Stage 3	Total
Group[1]	**£m**	**£m**	**£m**	**£m**
Loans and advances to customers				
Gross carrying amount				
At 1 March 2021	5,748.5	1,030.0	241.6	7,020.1
Transfers[2]				
Transfers from stage 1 to stage 2	(325.7)	325.7	–	–
Transfers from stage 2 to stage 1	294.7	(294.7)	–	–
Transfers to stage 3	(57.5)	(91.2)	148.7	–
Transfers from stage 3	3.1	6.0	(9.1)	–
Other movements				
New financial assets originated[3]	1,757.6	83.1	4.6	1,845.3
Net decrease in lending[4]	(1,442.9)	(219.2)	(24.5)	(1,686.6)
Write-offs and asset disposals[5]	(0.1)	(1.9)	(155.5)	(157.5)
Changes in interest accrual and other movements	(4.6)	(2.3)	(4.9)	(11.8)
At 28 February 2022	**5,973.1**	**835.5**	**200.9**	**7,009.5**
Investment securities at FVOCI				
Gross carrying amount				
At 1 March 2021	5.1	–	–	5.1
Acquisition of TU	616.1	–	–	616.1
New financial assets purchased	89.9	–	–	89.9
Financial assets derecognised during the year	(91.4)	–	–	(91.4)
Reclassification to FVPL during the year[6]	(5.1)	–	–	(5.1)
Other movements	(29.9)	–	–	(29.9)
At 28 February 2022	**584.7**	**–**	**–**	**584.7**
Investment securities at amortised cost				
Gross carrying amount				
At 1 March 2021	949.2	–	–	949.2
New financial assets purchased[3]	130.0	–	–	130.0
Financial assets derecognised during the year	(177.0)	–	–	(177.0)
Other movements	(23.5)	–	–	(23.5)
TU sub debt[7]	(21.1)	–	–	(21.1)
At 28 February 2022	**857.6**	**–**	**–**	**857.6**

[1] On a Company basis, loans and advances to subsidiary companies of £486.5m are considered to be low risk and stage 1.
[2] Transfers - The opening gross carrying amount of financial assets held which transferred stage as at year end.
[3] 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 2022.
[4] 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.
[5] Write-offs and asset disposals - The write-off of the gross carrying amount when a financial asset is deemed uncollectable and/or has been disposed of.
[6] During the year, following a review of industry practice and the requirements of IFRS 9, the Group reclassified its holding in preferred stock issued by VISA Inc. from FVOCI to FVPL.
[7] The Group's holding in subordinated debt issued by TU is now fully eliminated in the Consolidated Statement of Financial Position following the acquisition of TU on 4 May 2021.

45. Risk Management (continued)

2021	Stage 1	Stage 2	Stage 3	Total
Group[1]	**£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[2]				
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[3]	1,212.0	16.9	2.4	1,231.3
Net decrease in lending[4]	(2,540.5)	(328.8)	(22.5)	(2,891.8)
Write-offs and asset disposals[5]	–	(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[6]	(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[6]	1,057.4	–	–	1,057.4
New financial assets originated[3]	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] On a Company basis, loans and advances to subsidiary companies of £484.8m are considered to be low risk and stage 1.
[2] Transfers - The opening gross carrying amount of financial assets held which transferred stage as at year end.
[3] 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.
[4] 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.
[5] 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.
[6] 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.

45. 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. A loan is deemed uncollectable when the Group believes there is no realistic prospect of future recoveries as a result of the customer's insolvency or the account being sold through a debt sale.

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 2022 was £110.2m (2021: £154.1m). Expected recoveries from written off financial assets subject to enforcement activity are recognised in the Consolidated Statement 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 distress 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	**2022**	2021	**2022**	2021	**2022**	2021
	£m	£m	**%**	%	**%**	%
Credit Cards	106.4	118.9	3.1	3.7	51.2	50.2
Loans	39.4	48.0	1.2	1.3	46.7	56.0

45. Risk Management (continued)

(b) Operational risk

Operational risk is the risk of a potential error, loss, harm or failure caused by ineffective or inadequately defined processes, system failures, improper conduct, human error 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 (RMF) methodology which is aligned to the Three Lines of Risk Management 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 Policy;
- working with relevant business areas to make sure that First Line of Risk Management responsibilities are understood and that those responsibilities should be executed as defined within the Risk Management Framework;
- supporting relevant business areas to embed policies and controls, instilling a positive risk management culture; and
- independently monitoring, assessing and reporting on operational risk profiles and losses.

Second Line of Risk Management 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 process is reviewed and updated on a timely basis by the First Line of Risk Management 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, including the BRC. This is supplemented further by an event management process and regular reporting of the Operational Risk profile to the ERC, which provides oversight of the Group's operational risk profile. The ORSA builds on the RCSA process and event management process 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. It also covers 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 and Funding Control Framework designed to ensure that sufficient funds are available at all times to meet demands from depositors; to fund agreed advances; to meet other commitments as and when they fall due; and to ensure the Board's Risk Appetite is adhered to.

45. 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 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 required to mitigate the risk; and
- consideration of the levels of contingent funding required to mitigate the risk.

The Group sets formal limits within the Liquidity and Funding Risk Management Policy to maintain liquidity risk exposures within the liquidity and funding Risk Appetite set by the Board. The key liquidity and funding measures monitored on a daily basis are:

- the internal liquidity requirement;
- the total liquidity requirement;
- the net stable funding ratio;
- the wholesale funding ratio;
- minimum eligible collateral floor;
- the asset encumbrance ratio; and
- the unencumbered assets to retail liabilities ratio.

The Group measures and manages liquidity 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 TFSME) maturities. These reports support daily liquidity management and are reviewed on a daily basis 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.

45. 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:

Group	2022 £m	2021 £m
On balance sheet		
Deposits from banks	1,052.3	600.0
Deposits from customers	5,325.9	5,738.0
Subordinated liabilities and notes	235.6	235.0
Debt securities in issue	244.0	251.0
Total on balance sheet funding	**6,857.8**	**6,824.0**

45. 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 2022 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	780.9	–	–	–	–	–	780.9
Loans and advances to banks	50.3	–	–	–	–	–	50.3
Loans and advances to customers	4,825.5	976.7	677.9	410.7	204.2	116.6	7,211.6
Derivatives settled on a net basis							
- Derivatives in accounting hedge relationships	3.8	9.4	3.9	(0.5)	0.5	0.1	17.2
Investment securities							
- FVOCI	151.3	65.0	89.1	63.0	48.9	214.6	631.9
- FVPL	1.8	–	–	–	–	23.0	24.8
- Amortised cost	247.3	430.1	126.9	116.2	98.5	92.5	1,111.5
Other assets	219.7		–	–	–	–	219.7
Total financial assets	**6,280.6**	**1,481.2**	**897.8**	**589.4**	**352.1**	**446.8**	**10,047.9**
Financial liabilities:							
Deposits from banks	162.9	17.3	115.0	805.0	–	–	1,100.2
Deposits from customers	4,677.4	443.8	160.2	23.7	25.0	–	5,330.1
Debt securities in issue	8.8	8.8	254.4	–	–	–	272.0
Other liabilities							
- Lease liabilities	5.8	5.6	5.2	3.8	3.8	9.6	33.8
- Other liabilities excluding lease liabilities	130.3	–	–	–	–	–	130.3
Subordinated liabilities	5.8	7.5	7.3	192.9	1.5	52.5	267.5
Total financial liabilities	**4,991.0**	**483.0**	**542.1**	**1,025.4**	**30.3**	**62.1**	**7,133.9**
Off balance sheet							
Contractual lending commitments	12,363.0	–	–	–	–	–	12,363.0
Total off balance sheet	**12,363.0**	**–**	**–**	**–**	**–**	**–**	**12,363.0**

45. Risk Management (continued)

Company 2022 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	7.8	–	–	–	–	–	7.8
Other assets	–	–	–	–	–	–	–
Loans and advances to subsidiary companies	16.0	16.2	261.7	192.9	1.5	52.5	540.8
Total financial assets	**23.8**	**16.2**	**261.7**	**192.9**	**1.5**	**52.5**	**548.6**
Financial liabilities:							
Debt securities in issue	8.8	8.8	254.4	–	–	–	272.0
Other liabilities	–	–	–	–	–	–	–
Subordinated liabilities	5.8	7.5	7.3	192.9	1.5	52.5	267.5
Total financial liabilities	**14.6**	**16.3**	**261.7**	**192.9**	**1.5**	**52.5**	**539.5**

45. Risk Management (continued)

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	804.3	–	–	–	–	–	804.3
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	**5,975.9**	**1,380.5**	**1,184.9**	**560.2**	**364.0**	**330.2**	**9,795.7**
Financial liabilities:							
Deposits from banks	500.5	0.2	100.1	–	–	–	600.8
Deposits from customers	4,884.4	488.4	253.0	113.6	24.0	0.2	5,763.6
Debt securities in issue	8.8	8.8	8.8	254.4	–	–	280.8
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	4.6	5.0	4.7	5.1	5.2	262.3	286.9
Total financial liabilities	**5,572.1**	**516.8**	**377.2**	**381.0**	**36.4**	**276.7**	**7,160.2**
Off balance sheet							
Contractual lending commitments	12,668.0	–	–	–	–	–	12,668.0
Total off balance sheet	**12,668.0**	–	–	–	–	–	**12,668.0**

45. 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	14.8	–	–	–	–	–	14.8
Other assets	1.3	–	–	–	–	–	1.3
Loans and advances to subsidiary companies	13.4	13.8	13.5	259.5	5.2	262.3	567.7
Total financial assets	**29.5**	**13.8**	**13.5**	**259.5**	**5.2**	**262.3**	**583.8**
Financial liabilities:							
Debt securities in issue	8.8	8.8	8.8	254.4	–	–	280.8
Other liabilities	1.3	–	–	–	–	–	1.3
Subordinated liabilities	4.6	5.0	4.7	5.1	5.2	262.3	286.9
Total financial liabilities	**14.7**	**13.8**	**13.5**	**259.5**	**5.2**	**262.3**	**569.0**

The table below shows information about the estimated timing of cash flows in relation to insurance claims liabilities at 28 February 2022. The estimated phasing is based on current estimates and the actual timing of future settlement cash flows may differ from that disclosed below. These cash flows arise for the Group following the acquisition of TU on 4 May 2021 therefore there are no prior year comparatives.

Group	2022 Gross £m	2022 Salvage and subrogation recoveries £m	2022 Net £m	2022 %
Payment period:				
0-1 year	95.7	(12.7)	83.0	17.6
2-5 years	203.3	(9.2)	194.1	41.1
5 years and above	195.3	(0.3)	195.0	41.3
Total	**494.3**	**(22.2)**	**472.1**	**100.0**

The majority of balances in the above table are undiscounted as the claims are expected to settle in less than four years. For long-term personal injury claims, the personal injury discount rate (Ogden rate) is used.

45. Risk Management (continued)

Encumbrance

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 encumbrance in accordance with the Prudential Regulation Authority's (PRA's) Rulebook. 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 and therefore the recovery rate of its depositors and other unsecured bank creditors.

Group 2022	Encumbered £m	Unencumbered £m	Total £m
Encumbered asset summary			
Investment securities - FVOCI	–	584.7	584.7
Investment securities - amortised cost	–	857.4	857.4
Investment securities - FVPL	–	24.8	24.8
Loans and advances to customers	1,796.9	4,693.4	6,490.3
Other assets	21.9	197.8	219.7
Cash and balances with central banks	41.6	739.0	780.6
	1,860.4	**7,097.1**	**8,957.5**
Encumbered loans and advances to customers			
Securitisation - Delamare Master Trust	1,170.9		
Personal Loans	626.0		
	1,796.9		
Encumbered cash and balances with central banks			
Cash ratio deposit	21.6		
Reserves Collateralisation Account	20.0		
	41.6		
Encumbered other assets			
Initial margin held at Clearing Houses	21.9		
	21.9		

45. Risk Management (continued)

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

- **Loans and advances assigned for use as collateral in securitisation transactions**

At 28 February 2022, £2,966.8m (2021: £2,959.5m) of the Credit Cards 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 £1,170.9m(2021: £nil).

At 28 February 2022, Delamare Cards MTN Issuer plc had £1,840.0m (2021: £1,840.0m) notes in issue in relation to securitisation transactions.

At 28 February 2022, £1,380.0m (2021: £1,550.0m) of the class A retained Credit Card backed notes are held within their single collateral pool.

- **Loans and advances prepositioned with the BoE**

Group	2022 £m	2021 £m
Credit Card backed notes[1]	1,380.0	1,550.0
Unsecured personal Loans	2,063.5	2,243.2
Total assets prepositioned as collateral with the BoE	**3,443.5**	**3,793.2**
Collateralised TFS drawings	–	500.0
Collateralised TFSME drawings	900.0	100.0
Total	**900.0**	**600.0**

[1] Issued by Delamare Cards MTN Issuer plc.

45. Risk Management (continued)

Undrawn Committed Facilities

The Group has the following undrawn committed facilities:

	2022	2021
Group	**£m**	**£m**
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 (2021: £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.

(d) Market risk

The Group defines Market Risk as the risk that movements in market prices (such as interest rates and foreign exchange rates) lead to a reduction in either the Bank's earnings or economic value.

The Group assesses Interest Rate Risk in the Banking Book (IRRBB) by measuring:

(a) the value risk to equity capital; and

(b) future earnings sensitivity under specific interest rate scenarios.

The Group assesses its exposure to foreign exchange risk by measuring its net open currency position.

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.

The Board approved market risk policy provides direction to all staff with responsibility for managing market risk and defines the approach the Group must apply to measure, monitor, and control market risk. The Group's market Risk Appetite statement is documented within this policy which includes specific limits on market risk measures.

The Treasury Function implements and operates systems and standards for measuring Market Risk including a comprehensive reporting suite for the BRC and the ALCo including timely updates in response to changing market conditions. The Treasury Function ensures compliance with the Board's market risk appetite statement by implementing hedging strategies such as the use of derivatives to hedge any residual risks.

Second Line of Risk Management independently validates measurement systems and models used to assess the Group's market risk exposures; and provides oversight and challenge on market risk reporting, management strategies and other related matters.

Per the Senior Managers Regime and via the ALCo, the Chief Financial Officer (CFO) is responsible for understanding and assessing the performance of the Treasury Function in monitoring and controlling market risk within Board approved limits. The purpose of the Group's ALCo is to support the CFO by providing oversight and challenge in relation to principal Treasury risks including market risk; the ALCo has representation from various First Line of Risk Management functions including Treasury, Finance and Commercial plus Second and Third Line of Risk Management representatives.

45. Risk Management (continued)

- **Interest rate risk in the Banking Book**

IRRBB is the current or prospective risk to both earnings and economic value arising from movements in interest rates. The main sub-types of IRRBB include gap risk (or repricing risk), basis risk and customer optionality risk.

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 and, therefore, potential interest rate risk exposures.

IRRBB is the main market risk that could affect the Group's net interest income.

Control and risk mitigants

The main hedging instruments used to hedge IRRBB exposures are interest rate swaps. Any residual exposures are then assessed against Board approved limits under various interest rate scenarios which consider changes in the slope and/or shape of the yield curve, and changes in the relationship between different rate indexes.

On a monthly basis the Treasury function measures and reports the Group's Capital at Risk (CaR) and Annual Earnings at Risk (AEaR) results to the TCo, ALCo, ERC and the Board.

The Group measures and controls its IRRBB exposures by assessing both its earnings and valuation sensitivities to movements in interest rates against Board approved risk appetites. The interest rate shock 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.

In addition to the Group's internal IRRBB measures, the Group monitors its EVE/NII sensitivities which are described and disclosed below:

Changes to Economic Value of Equity (ΔEVE): measures the market value risk where equity is excluded from the cash flows and is measured by subtracting the net present value of total liabilities from the net present value of total assets.

Changes to Net Interest Income (ΔNII): measures changes in future interest income over a rolling 12-month period, which includes expected cash flows (such as commercial margins and other spread components) arising from all interest rate-sensitive assets, liabilities and off-balance sheet items in the banking book. It is computed assuming a constant balance sheet, where maturing or repricing cash flows are replaced by new cash flows with identical features.

	ΔEVE		**ΔNII**	
Group and Company	**2022**	2021	**2022**	2021
	£m	£m	**£m**	£m
Parallel shock up	(29.5)	(56.5)	9.9	3.2
Parallel shock down	(10.4)	(1.3)	(25.9)	(14.1)
Steepener shock	(0.1)	(3.4)	n/a	n/a
Flattener shock	(11.1)	(25.3)	n/a	n/a
Short rates shock up	(18.6)	(40.8)	n/a	n/a
Short rates shock down	0.2	1.0	n/a	n/a
Maximum	**(29.5)**	**(56.5)**	**(25.9)**	**(14.1)**
Tier 1 capital	**1,668.4**	**1,728.7**	**n/a**	**n/a**
Maximum/Tier 1 Capital	**1.8%**	**3.3%**	**n/a**	**n/a**

45. 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 2022 was £3.8m (2021: £6.7m), representing the Group's net assets (2021: net assets) denominated in foreign currencies.

(f) Pension obligation risk

Pension obligation risk is the risk relating to a firm's contractual or other liabilities relating 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 obligation 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 note 44).

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.

(g) Insurance risk

The Group is exposed to insurance risk through its wholly owned subsidiary, 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).

TU operates a separate RMF 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.

- **Types of insurance risk**

Underwriting risk

Underwriting risk is the risk that future claims experience on business written is materially different from the results expected based on the assumptions made at the point of underwriting policies, resulting in current year losses.

Contracts are typically issued on an annual basis, meaning that the Group's liability usually extends for a 12-month period, after which the Group is entitled to decline to renew or can revise renewal terms by amending the premium or other policy terms and conditions such as the excess.

Controls and risk mitigants

Products are priced based on the Group's knowledge using past exposures, historical losses (plus an appropriate allowance for IBNR losses) and external data sources, with the appropriate adjustments to reflect anticipated future market conditions and expenses.

The Group reinsures a portion of the risks it underwrites in order to control its exposure to losses and protect capital resources. The Group buys primarily excess of loss (non-proportional) reinsurance treaties to reduce its net exposure to agreed levels for each line of business in accordance with the Group's Risk Appetite. The Group has also purchased ADC against the risk of low frequency high impact scenarios. The Group is also party to a QS reinsurance treaty in which the Group and the reinsurer share premiums and losses at an agreed percentage.

45. Risk Management (continued)

Claims reserving risk

Reserving and the ultimate cost of claims risk occurs where the Group's estimates of its insurance liabilities prove to be insufficient through inaccurate forecasting, adverse random variation and additional expenses.

The methods used to estimate the insurance liabilities in respect of outstanding claims and provisions are detailed in note 39.

Controls and risk mitigants

The aim of the reserving policy of the Group is to provide estimates of insurance liabilities that are accurate and reliable across each line of business and are consistent over the time period required to settle all the claims.

The Group's reserving position is reviewed at the TU Reserving Committee and is presented to the TU Board. In addition, an annual independent reserve review is undertaken.

Claims management risk

Claims management risk may arise in the event of inaccurate or incomplete case reserving or settlement, poor customer service, claims fraud, ineffective or inefficient claim processes or excessive costs of handling claims.

Controls and risk mitigants

The Group's approach to claims management focuses upon creating a successful balance between satisfying the needs of the customer against control of the overall cost of the provision of the service that meets those needs in agreement with its service provider. Customers include both the insured as well as others that believe the insured has breached a duty of care.

Reinsurance risk

Reinsurance is placed to reduce the Group's exposure to specific risks, events and accumulations. The risk is that the reinsurance contracts fail to perform as planned and do not reduce the gross cost of claims in terms of the limits purchased, either by risks not being appropriately covered, reinsurance defaults or by there not being gaps in the programme.

Controls and risk mitigants

The reinsurance programme is subject to considerable scenario planning, including by the TU brokers, and is approved by the TU Reinsurance Committee and the TU Board. All reinsurers in the reinsurance programme have a minimum credit rating of A.

- **Sensitivity of insurance risk**

A well-designed and executed Stress and Scenario Testing programme is part of TU's contingency planning, consistent with previous years.
Insurance stresses tested will consider:

- **TU's market competitiveness** - to assess the impact of lower profitability from writing lower than expected volumes or the capital strain from writing higher than expected volumes;
- **Multiple weather events** - to model events as a result of increasing aggravating climate changes and the impact on TU's catastrophe reinsurance covers;
- **Large bodily injury claims** - to assess the impact of insufficient loss reserves;
- **Reinsurance contracts** - to assess the benefits versus the costs of TU's QS reinsurance contract and ADC contact; and
- **Ogden discount rate** - to assess the impact of a reduction in the Ogden rate that is used in discounting large bodily injury claims.

45. Risk Management (continued)

- **Concentration of insurance risk**

Concentration of insurance risk may exist where a particular event or series of events could impact significantly upon the Group's liabilities. Such concentrations may arise from a single insurance contract or through a small number of related contracts.

Concentrations of risk can arise in both high-severity, low frequency events, such as natural and other disasters and in situations where underwriting is biased towards a particular group, such as a particular geographical concentration or demographic trend. Material geographical concentrations or risk can exist in property portfolios such that natural perils of windstorm and floods may give rise to a large number of material damage and business interruption claims.

High-severity, low frequency concentrations

The timing and frequency of high severity events are, by their nature, uncertain. They represent a material risk as the occurrence of such an event would have a significant adverse impact on TU's cash flows and profitability.

TU manages these risks by making appropriate allowance within the price calculated by underwriters and by purchasing a reinsurance programme that limits the impact of these events. TU uses non-proportional reinsurance treaties to manage retention levels and the limits of protection.

Geographic and demographic concentrations

Material geographical concentrations or risk exist in property portfolios such that natural perils of windstorm and floods may give rise to a large number of material damage and business interruption claims. TU only writes policies in the UK and Channel Islands. TU models its exposure to this risk to estimate its probable maximum loss and purchases reinsurance to significantly reduce its exposure to such events.

Economic conditions

TU's insurance portfolio exposes it to a potential accumulation of different risks in the event of difficult economic conditions or more challenging points in the underwriting cycle. TU's strategy has been to ensure that it charges the right premium for the business underwritten and it focuses on maintaining prices in such difficult market conditions. It also monitors claims closely to identify any that may be exaggerated or fraudulent.

Total aggregate exposure

TU identifies the total aggregate exposure that it is prepared to accept in relation to concentrations of risk. It monitors these exposures on a regular basis by reviewing reports which show the key aggregations to which TU is exposed. TU uses a number of modelling tools to monitor aggregation and to simulate catastrophe losses in order to measure the effectiveness of the reinsurance programmes, and to quantify the net exposure to which TU is exposed. Additional stress and scenario tests are run using these models during the year.

Third-party injury claims and credit hire

In recent years, the insurance market in general has experienced an increase in the frequency and value of third-party injury claims, arising mainly in the motor market.

These increases have been driven by an increased propensity for the population to be litigious and the extensive activities of companies actively persuading potential victims to instigate claims. In addition, the growth in credit hire has also had a significant impact. TU is aware of this trend and monitors its development closely, adjusting the prices of its products accordingly.

(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. The Group has equity investment securities which are held at fair value in the Consolidated Statement of Financial Position and debt investment securities which are held at fair value in the Consolidated Statement of Financial Position.

45. Risk Management (continued)

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 and FVPL investment securities.

	Fair value		Impact of 10% shock		Value after 10% shock	
	2022	2021	**2022**	2021	**2022**	2021
Group	**£m**	£m	**£m**	£m	**£m**	£m
Government-backed investment securities	34.6	–	(3.5)	–	31.1	–
Supranational investment securities	31.6	–	(3.2)	–	28.4	–
Corporate bonds	516.9	–	(51.7)	–	465.2	–
Other investment securities	1.6	–	(0.2)	–	1.4	–
Equity securities - FVPL	24.8	–	(2.5)	–	22.3	–
Equity securities - FVOCI	–	5.1	–	(0.5)	–	4.6
	609.5	5.1	**(61.1)**	(0.5)	**548.4**	4.6

(i) Legal and regulatory compliance

Regulatory risk is the risk of poor customer outcomes, reputational damage, liability, loss or regulatory censure arising from failure to comply with the requirements of the financial services regulators or related codes of best practice. 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, the Second Line of Risk Management is responsible for the Compliance and Conduct Risk 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 Second Line of Risk Management and the Legal team.

Second Line of Risk Management is also responsible for the detailed regulatory policies which underpin the Compliance and Conduct Risk Policy. These are further supported by practical guidance documents supplied 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.

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 Secretariat 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.

45. Risk Management (continued)

(j) Insurance Capital

Insurance capital management is the collection of processes and activities undertaken by TU to provide sufficient capital to enable TU to meet its liabilities and ultimately ensure it remains a going concern, particularly in the case of losses arising from adverse events. Insurance capital management includes the assessment of capital required to support TU's plans and objectives, the structure of its shareholders' funds, arrangements to secure capital and the ongoing monitoring of capital against business requirements, as well as the assessments required by the PRA under the Solvency II (SII) regime, including the minimum capital requirement (TU's minimum capital requirement) and solvency capital requirement (SCR), assessed using TU's approved SII partial internal model (PIM), which was approved by the PRA in 2020. There have been no significant changes to the PIM during the period to 28 February 2022. TU models a range of stress and scenario tests that are published in its annual Solvency and Financial Condition Report, which will be published in due course and will be available at the following link:

www.tescounderwriting.com/publications-and-reports/. These show that TU's capital position is resilient to a range of possible scenarios. TU also maintains a capital contingency plan supported by its shareholder, TPF. TU's unaudited available capital has remained above its SCR requirement during the period to 28 February 2022; and capital coverage of TU's SCR of £121.1m (unaudited) at the end of February 2022 was 151.0% (unaudited).

Following its purchase of Ageas' 50.1% shareholding in May 2021, the Group owns 100% of the TU's share capital (£129.7m) and provides 100% of its subordinated debt of £42.3m.

46. 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[1] 2022	Amortised cost £m	FVPL - Designated at initial recognition £m	FVOCI - Debt instruments £m	Total £m
Financial assets				
Cash and balances with central banks	754.3	26.3	–	780.6
Loans and advances to banks	50.3	–	–	50.3
Loans and advances to customers	6,490.3	–	–	6,490.3
Derivative financial instruments	–	45.3	–	45.3
Investment securities[2]:				
- FVPL	–	24.8	–	24.8
- FVOCI	–	–	584.7	584.7
- Amortised cost	857.4	–	–	857.4
Other assets	219.7	–	–	219.7
Total financial assets	**8,372.0**	**96.4**	**584.7**	**9,053.1**
Financial liabilities				
Deposits from banks	1,052.3	–	–	1,052.3
Deposits from customers	5,325.9	–	–	5,325.9
Debt securities in issue	244.0	–	–	244.0
Derivative financial instruments	–	27.2	–	27.2
Other liabilities	164.1	–	–	164.1
Subordinated liabilities	235.6	–	–	235.6
Total financial liabilities	**7,021.9**	**27.2**	**–**	**7,049.1**

[1] On a Company basis, cash and balances with central banks is £7.8m and loans and advances to subsidiary companies is £484.7m, both of which are held at amortised cost.

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.

46. Financial Instruments (continued)

Group[1] 2021	Amortised cost £m	Designated as at FVPL £m	FVOCI - equity instruments £m	Total £m
Financial assets				
Cash and balances with central banks	791.1	13.2	–	804.3
Loans and advances to customers	6,402.2	–	–	6,402.2
Derivative financial instruments	–	6.1	–	6.1
Investment securities:				
- FVOCI	–	–	5.1	5.1
- Amortised cost	948.4	–	–	948.4
Other assets	211.2	–	–	211.2
Total financial assets	**8,352.9**	**19.3**	**5.1**	**8,377.3**
Financial liabilities				
Deposits from banks	600.0	–	–	600.0
Deposits from customers	5,738.0	–	–	5,738.0
Debt securities in issue	251.0	–	–	251.0
Derivative financial instruments	–	47.5	–	47.5
Other liabilities	184.2	–	–	184.2
Subordinated liabilities	235.0	–	–	235.0
Total financial liabilities	**7,008.2**	**47.5**	**–**	**7,055.7**

[1] On a Company basis, cash and balances with central banks is £14.8m and loans and advances to subsidiary companies is £483.5m, both of which are held at amortised cost.

46. Financial Instruments (continued)

Offsetting

The following tables show those financial assets and liabilities subject to offsetting, enforceable master netting arrangements and similar agreements.

Group		**Related amounts not offset**		
2022	**Gross and net amounts presented in Statement of Financial Position**	**Financial instruments**	**Collateral (received) /pledged**	**Net amounts**
	£m	**£m**	**£m**	**£m**
Financial assets				
Derivative financial instruments	45.3	(27.2)	(18.1)	–
Total financial assets	**45.3**	**(27.2)**	**(18.1)**	**–**
Financial liabilities				
Derivative financial instruments	(27.2)	27.2	–	–
Repurchases, securities lending and similar agreements	(150.3)	–	150.3	–
Total financial liabilities	**(177.5)**	**27.2**	**150.3**	**–**

Group		Related amounts not offset		
2021	Gross and net amounts presented in Statement of Financial Position	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**

In the above tables, the net amount presented for financial assets and financial liabilities is restricted to £nil where the total of the related amounts not offset exceeds the amount of the financial assets or financial liabilities.

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.

46. Financial Instruments (continued)

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[1,2]	2022		2021	
	Carrying value	Fair Value	Carrying value	Fair value
	£m	£m	£m	£m
Financial assets				
Loans and advances to customers	6,490.3	6,565.5	6,402.2	6,617.6
Investment securities - amortised cost	857.4	867.4	948.4	959.1
	7,347.7	**7,432.9**	**7,350.6**	**7,576.7**
Financial liabilities				
Deposits from customers	5,325.9	5,296.1	5,738.0	5,744.4
Debt securities in issue	244.0	252.4	251.0	263.7
Subordinated liabilities	235.6	214.2	235.0	215.9
	5,805.5	**5,762.7**	**6,224.0**	**6,224.0**

[1] On a Company basis, loans and advances to subsidiary companies have a carrying value of £484.7m (2021: £483.5m), with a fair value of £445.9m (2021: £458.3m). On a Company basis, subordinated liabilities and debt securities in issue have the same carrying value and fair value as set out in the Group table above.
[2] Fair value disclosures are not required for lease liabilities.

The only financial assets and financial liabilities which are carried at fair value in the Consolidated Statement of Financial Position at year-end are cash balances relating to the Group's Travel Money offering, FVPL and FVOCI investment securities and derivative financial instruments. 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.

46. 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[1]	**Level 1**	**Level 2**	**Level 3**	**Total**
2022	**£m**	**£m**	**£m**	**£m**
Financial assets carried at fair value				
Cash in hand[2]	–	26.3	–	26.3
Investment securities - FVOCI	584.7	–	–	584.7
Investment securities - FVPL		23.0	1.8	24.8
Derivative financial instruments:				
- Interest rate swaps	–	45.0	–	45.0
- Forward foreign currency contracts	–	0.3	–	0.3
Financial assets carried at amortised cost				
Loans and advances to customers	–	–	6,565.5	6,565.5
Investment securities – amortised cost	867.4	–	–	867.4
Total	**1,452.1**	**94.6**	**6,567.3**	**8,114.0**
Financial liabilities carried at fair value				
Derivative financial instruments:				
- Interest rate swaps	–	27.2	–	27.2
Financial liabilities carried at amortised cost				
Deposits from customers	–	–	5,296.1	5,296.1
Debt securities in issue	252.4	–	–	252.4
Subordinated liabilities	–	214.2	–	214.2
Total	**252.4**	**241.4**	**5,296.1**	**5,789.9**

[1] On a Company basis, loans and advances to subsidiary companies of £445.9m are categorised as level 2. On a Company basis, subordinated liabilities and debt securities in issue have the same fair value and categorisation as set out in the Group table above.
[2] Cash balances relating to the Group's Travel Money offering are carried at fair value under IFRS 9.

46. Financial Instruments (continued)

Group[1] 2021	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets carried at fair value				
Cash and balances with central banks[2]	–	13.2	–	13.2
Investment securities - FVOCI[3]	–	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	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	–	–	5,744.4	5,744.4
Debt securities in issue	263.7	–	–	263.7
Subordinated liabilities	–	215.9	–	215.9
Total	**263.7**	**263.4**	**5,744.4**	**6,271.5**

[1] On a Company basis, loans and advances to subsidiary companies of £458.3m are categorised as level 2. On a Company basis, subordinated liabilities and debt securities in issue have the same fair value and categorisation as set out in the Group table above.

[2] Cash balances relating to the Group's Travel Money offering are carried at fair value under IFRS 9.

[3] The Group has a holding in preferred stock issued by VISA Inc. which was designated at FVOCI in previous years. Following a review of industry practice and the requirements of IFRS 9, this holding has been reclassified to FVPL with effect from 1 March 2021. As a result, £5.1m (£3.7m net of deferred tax) in respect of the opening fair value reserve at 1 March 2020 was released from the fair value reserve in the year and recognised directly in retained earnings in the Company and Consolidated Statements of Changes in Equity. As this amount is not material, no prior year restatement has been recognised in respect of this reclassification.

46. Financial Instruments (continued)

There are three levels to the hierarchy as follows:

Level 1

Quoted prices (unadjusted) in active markets for identical assets or liabilities.

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 quoted prices, where available, or by 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.

Financial assets classified as FVPL comprise the Group's holding in VISA Inc, and TU's holding in a property fund. The estimated fair value of the Group's holding in VISA Inc. is described in note 24. The estimated fair value of TU's holding in a property fund is derived from market prices.

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.

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 FVPL, being the Group's holding in VISA Inc., is described in note 24.

Transfers

There were no transfers between Levels 1 and Level 2 in the year to 28 February 2022 (2021: no transfers).

There were no transfers between Level 2 and Level 3 in the year to 28 February 2022. During the year ended 28 February 2021 the Group transferred investment securities totalling £1.7m from Level 3 to Level 2.

47. Cash and cash equivalents

	Group		Company	
	2022	2021	**2022**	2021
	£m	£m	**£m**	£m
Cash and balances with central banks (refer note 19)	739.0	779.5	7.8	14.8
Loans and advances to banks (refer note 20)	50.3	–	–	–
Total cash and cash equivalents	**789.3**	**779.5**	**7.8**	**14.8**

48. Cash Flows from Operating Activities

	Group		Company	
	2022	2021	**2022**	2021
	£m	£m	**£m**	£m
Non cash and other items included in operating profit before taxation				
Expected credit loss (credit)/charge on loans and advances (refer notes 15 & 45)	(30.2)	359.7	0.3	(0.3)
Expected credit loss credit on investment securities at amortised cost (refer note 15)	(0.5)	(0.2)	–	–
Expected credit loss charge on investment securities at FVOCI (refer note 15)	0.8	–	–	
Depreciation and amortisation (refer notes 30 & 31)	65.2	56.7	–	–
Loss on disposal of investment securities	0.3	–	–	–
Loss on disposal of non-current assets	1.0	1.7	–	–
Gain on disposal of assets of the disposal group	–	(0.4)	–	–
Deferred acquisition costs	(13.9)	–	–	
Provisions for liabilities and charges (refer note 35)	1.8	3.1	–	–
Share of profit of joint venture	(2.6)	(16.2)	–	–
Gain on share of pre-acquisition reserves of joint venture	(5.0)	–	–	
Fair value gain on investment in joint venture	(4.6)	–	–	
Equity-settled share based payments	3.5	(2.5)	–	–
Interest paid on debt securities in issue	9.3	20.1	8.9	9.0
Interest paid on assets held to hedge debt securities in issue	1.0	3.3	–	–
Interest on subordinated liabilities	3.5	3.5	3.5	3.5
Interest on lease liabilities (refer note 43)	2.1	2.3	–	–
Research and development tax claim	(0.9)	(0.5)	–	–
Fair value movements	(0.7)	7.9	–	–
Total	**30.1**	**438.5**	**12.7**	**12.2**

	Group		Company	
	2022	2021	**2022**	2021
	£m	£m	**£m**	£m
Changes in operating assets and liabilities				
Net movement in mandatory balances with central banks	(17.0)	6.9	–	–
Net movement in loans and advances to banks	–	–	–	–
Net movement in loans and advances to customers	(106.9)	1,707.0	–	–
Net movement in reinsurance assets	1.7	–	–	–
Net movement in prepayments and accrued income	1.0	14.0	(0.1)	0.3
Net movement in other assets	34.3	32.1	–	–
Net movement in assets of the disposal group	–	44.9	–	–
Net movement in deposits from banks	452.3	100.0	–	–
Net movement in deposits from customers	(411.7)	(1,968.4)	–	–
Net movement in accruals and deferred income	20.0	(6.2)	–	–
Provisions utilised	(12.3)	(22.3)	–	–
Net movement in other liabilities	(21.4)	(11.7)	–	–
Net movement in insurance funds withheld	14.6	n/a	–	n/a
Net movement in insurance contract provisions	(0.3)	n/a	–	n/a
Total	**(45.7)**	**(103.7)**	**(0.1)**	**0.3**

49. Reconciliation of Liabilities Relating to Financing Activities

Group	At 1 March 2021	Financing Cash flows	Non-cash movements Fair value change	Accrued Interest	Other	At 28 February 2022
	£m	£m	£m	£m	£m	£m
Debt securities in issue	(251.0)	–	8.3	(0.2)	(0.3)	(243.2)
Subordinated liabilities and notes	(235.0)	–	–	–	–	(235.0)
Interest payable	(1.3)	12.2	–	(12.3)	–	(1.4)
Assets held to hedge fixed rate bonds[1]	2.0	1.1	(9.5)	(0.1)	–	(6.5)
Lease liabilities[2]	(29.6)	5.7	–	(2.1)	(0.8)	(26.8)
Total liabilities from financing activities	**(514.9)**	**19.0**	**(1.2)**	**(14.7)**	**(1.1)**	**(512.9)**

Company	At 1 March 2021	Financing Cash flows	Non-cash movements Fair value change	Accrued Interest	Other	At 28 February 2022
	£m	£m	£m	£m	£m	£m
Debt securities in issue	(249.4)	–	–	(0.2)	–	(249.6)
Subordinated liabilities and notes	(235.0)	–	–	–	–	(235.0)
Interest payable	(1.3)	12.2	–	(12.3)	–	(1.4)
Total liabilities from financing activities	**(485.7)**	**12.2**	**–**	**(12.5)**	**–**	**(486.0)**

Group	At 1 March 2020	Financing Cash flows	Non-cash movements Fair value change	Accrued Interest	Other	At 28 February 2021
	£m	£m	£m	£m	£m	£m
Debt securities in issue	(1,024.0)	772.2	3.2	(0.2)	(2.2)	(251.0)
Subordinated liabilities and notes	(235.0)	–	–	–	–	(235.0)
Interest payable	(4.7)	26.8	–	(23.2)	–	(1.1)
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	**(1,292.4)**	**808.4**	**(2.2)**	**(26.3)**	**(2.2)**	**(514.7)**

Company	At 1 March 2020	Financing Cash flows	Non-cash movements Fair value change	Accrued Interest	Other	At 28 February 2021
	£m	£m	£m	£m	£m	£m
Debt securities in issue	(249.2)	–	–	(0.2)	–	(249.4)
Subordinated liabilities and notes	(235.0)	–	–	–	–	(235.0)
Interest payable	(1.6)	12.6	–	(12.3)	–	(1.3)
Total liabilities from financing activities	**(485.8)**	**12.6**	**–**	**(12.5)**	**–**	**(485.7)**

[1] Assets held to hedge fixed rate bonds and securitisation bonds are included within derivative financial instruments in the Consolidated Statement of Financial Position on page 40.
[2] Lease liabilities are included within total other liabilities in the Consolidated Statement of Financial Position on page 40.

50. Capital Resources

IFRS 9 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 CRR. These arrangements allow the IFRS 9 impact on capital to be phased in over a period of five years. On 27 June 2020, due to the Covid-19 pandemic, CRR was further amended to accelerate specific 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.

The following tables analyse the regulatory capital resources of the Group 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 2022 £m	End Point 2022 £m	Transitional 2021[1] £m
Common equity tier 1			
Shareholders' equity (accounting capital)	1,668.6	1,668.6	1,596.1[1]
Regulatory adjustments			
Unrealised gains on cash flow hedge reserve	(0.2)	(0.2)	0.6
Intangible assets	(111.9)	(111.9)	(130.9)
Material holdings in financial sector entities	(28.4)	(28.4)	–
IFRS 9 transitional add back	140.3	–	262.9
Common equity tier 1 capital	**1,668.4**	**1,528.1**	**1,728.7[1]**
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	(42.2)	(42.2)	(21.1)
Total regulatory adjustments to tier 2 capital (instruments and provisions)	(42.2)	(42.2)	(21.1)
Total tier 2 capital (instruments and provisions)	**192.8**	**192.8**	**213.9**
Total capital	**1,861.2**	**1,720.9**	**1,942.6[1]**
Total risk-weighted assets (unaudited)	6,832.0	6,772.7	6,822.4
Common equity tier 1 ratio (unaudited)	24.4%	22.6%	25.3%[1]
Tier 1 ratio (unaudited)	24.4%	22.6%	25.3%[1]
Total capital ratio (unaudited)	27.2%	25.4%	28.5%[1]

[1] The above balances and ratios have been restated following restatement of the Company's opening capital position at 1 March 2020. This was in respect of a £7.0m dividend received from TU prior to 1 March 2020, which was recognised as a deduction from the carrying value of the investment in TPF's Statement of Financial Position rather than through TPF's retained earnings, which comprise part of the Company's capital position. Refer to note 1 for further details.

50. Capital Resources (continued)

As a result of the acquisition of Ageas's 50.1% share of TU and in accordance with the CRR, the Company has made the required deductions from Tier 1 and Tier 2 capital and risk-weighted the remaining value of the investment at 250%.

Total capital requirement (TCR) refers to the amount and quality of capital the Group must maintain to comply with the CRR Pillar 1 and 2A capital requirements. The TCR for TPFG as at 28 February 2022 is 11.59% of risk-weighted assets plus £52m as a static add-on for pension obligation risk.

The table below reconciles shareholders' equity of the Group to shareholders' equity of the Company for regulatory purposes:

	2022 £m	2021 £m
Tesco Personal Finance Group plc (Group) shareholders' equity	1,665.4	1,621.5
Share of joint venture's retained earnings[1]	–	(19.6)[2]
Subsidiaries' retained earnings[1]	(9.6)	(0.2)
Share of joint venture's AFS reserve[1]	–	(5.6)
Subsidiary's fair value reserve[1]	12.8	–
Tesco Personal Finance Group plc shareholders' equity for regulatory purposes	**1,668.6**	**1,596.1[2]**

[1] Following the acquisition of 50.1% of TU on 4 May 2021 it is now a wholly owned subsidiary of the Group. Prior to this TU was a joint venture of the Group.

[2] The above balances at 28 February 2021 have been restated following restatement of the Company's opening capital position at 1 March 2020. This was in respect of a £7.0m dividend received from TU prior to 1 March 2020, which was recognised as a deduction from the carrying value of the investment in TPF's Statement of Financial Position rather than through TPF's retained earnings, which comprise part of the Company's capital position. Refer to note 1 for further details.

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 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 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.

50. Capital Resources (continued)

Leverage ratio (unaudited)

The Leverage Ratio was introduced under the Basel III reforms as a simple, transparent, non-risk-based ratio intended to restrict the build-up of leverage in the banking sector to avoid distressed de-leveraging processes that can damage the broader financial system and the economy.

The Leverage Ratio is defined as the ratio of Tier 1 capital to the total Leverage Ratio exposures excluding claims on central banks and applies an equal weighting to all assets regardless of their risk.

The following Leverage Ratio disclosures for the year ended 28 February 2022 are laid out in accordance with the requirements of the PRA Rulebook: CRR Firms: Leverage Instrument 2021.

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 2022 £m**	**End point 2022 £m**	**Transitional 2021**
Total balance sheet exposures	9,636.5	9,636.5	8,823.4
Adjustments for entities which are consolidated for accounting purposes but outside scope of regulatory consolidation	(774.4)	(774.4)	(25.6)
Adjustment for exemption of exposures to central bank	(639.9)	(639.9)	–
Removal of accounting value of derivatives and SFTs	(45.3)	(45.3)	(6.1)
Exposure value for derivatives and SFTs	37.6	37.6	4.4
Off balance sheet: unconditionally cancellable (10%)	1,236.3	1,236.3	1,266.8
Off balance sheet: other (20%)	–	–	–
Regulatory adjustment – intangible assets	(111.9)	(111.9)	(130.9)
Regulatory adjustment – other, including IFRS 9	115.6	(24.7)	212.9
Total	**9,454.5**	**9,314.2**	**10,144.9**
Common equity tier 1	**1,668.4**	**1,528.1**	**1,728.7**[1]
Leverage ratio	17.6%	16.4%	17.0%[1]

[1] The above balance and ratio have been restated following restatement of the Company's opening capital position at 1 March 2020. This was in respect of a £7.0m dividend received from TU prior to 1 March 2020, which was recognised as a deduction from the carrying value of the investment in TPF's Statement of Financial Position rather than through TPF's retained earnings, which comprise part of the Company's capital position. Refer to note 1 for further details.

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 are monitored closely, with monthly reporting provided to the Board and ALCo.

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.

50. Capital Resources (continued)

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. On 21 March 2022 the PRA confirmed its intention that these changes will become effective on 1 January 2025.

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. On 21 March 2022 the PRA confirmed its intention that these changes will become effective on 1 January 2025.

Leverage

At present the Group is not subject to the minimum Tier 1 leverage ratio requirement of 3.25% as it is currently exempt from the UK Leverage Framework Regime, which only applies to LREQ firms with retail deposit levels equal to or greater than £50 billion. However, although the PRA has confirmed that the minimum 3.25% ratio will be an LREQ requirement, as a smaller domestic deposit taker, the regulator has stated it still expects the Group to maintain a minimum leverage ratio of 3.25%. The Group will not be subject to regulatory sanctions if it fails to do so.

The European Commission's minimum requirements for own funds and eligible liabilities (MREL)

On 1 January 2020, the Group became subject to MREL, with an interim requirement of 18% of risk-weighted assets until 31 December 2022. In order to meet this requirement, the Company undertook an initial £250.0m issuance of MREL-compliant debt in July 2019.

From 1 January 2022, following a change in the Company's resolution strategy confirmed by the BoE in December 2021, the Company no longer has a requirement to issue MREL-compliant debt since the MREL requirement is equal to the TCR. The MREL-compliant debt issued by the Company in July 2019 remains in issue.

At 28 February 2022, the MREL ratio was 30.9% (2021: 32.1%).

51. 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	**2022**	2021
	£m	£m
Deposits from customers[1]		
Deposits at the beginning of the year	0.1	0.1
Deposits repaid during the year	–	(0.1)
Deposits at the end of the year	**0.1**	–
Interest expense on deposits	–	–

[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.

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 16.

Group	**2022**	2021
		£m
Short-term employee benefits	3.2	2.6
Other long-term benefits[1]	1.7	2.1
Share based payments	0.5	–
Total emoluments	**5.4**	**4.7**

[1] Other long-term benefits, being aggregate amounts receivable under long-term incentive schemes, represent the maximum amounts awarded in the year. Actual amounts payable under long-term incentive schemes may vary depending on the level of performance achieved against specific measures.

51. Related Party Transactions (continued)

Trading transactions

Group	2022 Tesco PLC £m	2022 Tesco subsidiaries £m	2022 Tesco Underwriting - JV £m	2021 Tesco PLC £m	2021 Tesco subsidiaries £m	2021 Tesco Underwriting - JV £m
Interest received and other income	–	3.2	7.3	–	3.8	28.2
Dividend income	–	–	–	–	–	7.5
Interest paid	(3.5)	–	–	(3.5)	–	–
Provision of services	–	(45.9)	1.1	–	(47.6)	3.0

Company	2022 Tesco PLC £m	2022 Tesco subsidiaries £m	2022 Tesco Underwriting - JV £m	2021 Tesco PLC £m	2021 Tesco subsidiaries £m	2021 Tesco Underwriting - JV £m
Interest received and other income	–	12.3	–	–	12.3	–
Dividend income	–	80.0	–	–	15.0	–
Interest paid	(3.5)	–	–	(3.5)	–	–
Provision of services	–	0.1	–	–	–	–

Balances owing to/from related parties are identified in notes 26, 28, 36, 37, 40, 41 and 42.

Prior to 4 May 2021 TU was a joint venture of the Group. Trading transactions with TU as a joint venture are shown separately in the table above. From 4 May 2021 TU became a subsidiary of the Group. Transactions with TU are eliminated in the Group disclosures from this date.

Investment transactions with TU are identified in note 28.

Ultimate parent undertaking

The Company's 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.

52. 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 PCA overdraft commitment, the Group agreed to make funds available to a customer in the future. PCA overdraft commitments were usually for a specified term and could be unconditionally cancelled or could continue, providing all facility conditions are satisfied or waived. The Group closed its PCA offering on 30 November 2021.

Further detail on undrawn lending commitments is included in the liquidity and funding risk disclosure in note 45.

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 2022 the Group had capital commitments related to property, plant and equipment of £1.7m (2021: £0.5m) and intangible assets of £1.3m (2021: £2.1m). 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.

53. Share Based Payments

The Group charge for the year recognised in respect of share based payments is £7.9m (2021: £3.1m), which is made up of share option schemes and share bonus payments. Of this amount, £6.8m (2021: £3.1m) will be equity-settled and £1.1m (2021: £nil) cash-settled representing employee tax and National Insurance contributions.

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 (2021) 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.
- Colleagues participate in the Annual Bonus Plan and Deferred 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, at the discretion of RemCo and Board, to colleagues 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), the Long-Term Incentive Plan (2015) and the Long-Term Incentive Plan (2021). Awards made under these plans 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.

53. 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 2021	**3,859,640**	**192.89**	**—**	**—**	**—**	**—**
Granted	1,146,690	242.00	—	—	—	—
Forfeited	(353,867)	206.14	—	—	—	—
Exercised	(744,562)	169.39	—	—	—	—
Outstanding at 28 February 2022	**3,907,901**	**210.58**	**—**	**—**	**—**	**—**
Exercisable at 28 February 2022	**26,835**	**190.00**	**—**	**—**	**—**	**—**
Exercise price range (pence)	**—**	**190.00**	**—**	**—**	**—**	**—**
Weighted average remaining contractual life (years)	**—**	**0.42**	**—**	**—**	**—**	**—**

	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	—	—	—	—

Share options were exercised on a regular basis throughout the financial year. The average Tesco share price during the year ended 28 February 2022 was 254.05p (2021: 227.07p).

53. 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	2022 Savings - related share options schemes	2021 Savings - related share options schemes
Expected dividend yield (%)	4.1% - 4.2%	4.9% - 5.1%
Expected volatility (%)	21.8% - 21.9%	23% - 26%
Risk free interest rate (%)	1.38% - 1.39%	0.2% -0.3%
Expected life of option (years)	3 or 5	3 or 5
Weighted average fair value (WAFV) of options granted (pence)	38.47	27.13
Probability of forfeiture (%)	7.4% - 9.5%	6% - 10%
Share price (pence)	268.5	217.80
WAEP (pence)	242.00	198.00

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

Colleagues participate in the Annual Bonus Plan and Deferred 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, at the discretion of RemCo and Board, to colleagues 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), the Long-Term Incentive Plan (2015) and the Long-Term Incentive Plan (2021). Awards made under these plans 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:

	2022 Shares (number)	2022 WAFV (pence)	2021 Shares (number)	2021 WAFV (pence)
Group Bonus Plan	0	0.00	1,103,685	246.70
Performance Share Plan	2,318,344	227.76	2,401,609	222.02

54. Adoption of New and Amended International Financial Reporting Standards

Standards, amendments and interpretations issued which became effective in the current year

There were no new accounting standards or amendments to standards which became effective with relevant endorsement for annual periods beginning on or after 1 January 2021, that had any impact on the Group in the year.

Early adoption of new standards

During the year the Group did not early adopt any new accounting standards or amendments to standards.

Standards, amendments and interpretations issued but not yet effective

Standards, amendments and interpretations issued and effective on or after 1 January 2022 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 in the UK. Early adoption is permitted provided IFRS 9 and IFRS 15 are also applied.

IFRS 17, which is a replacement for IFRS 4 'Insurance Contracts', 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 includes an optional simplified premium allocation approach which is permitted for short-duration contracts.

IFRS 17 is relevant to the Group's subsidiary, TU, which provides the insurance underwriting service for a number of the Group's general insurance products. TU has established an IFRS 17 project team and work is well progressed on the design and build of the systems that will enable reporting under IFRS 17 from 1 March 2023. TU expects to be able to apply the simplified premium allocation approach to all material insurance and reinsurance contract groups. TU intends to perform a parallel run during the next financial year to conclude on the full impact on the financial statements at adoption.

The Group's assessment of the impact of IFRS 17 and measurement of any required changes will be undertaken by reference to contract inception on 4 May 2021, being the date from which TU became a wholly owned subsidiary of the Group. This may differ from the assessment and measurement undertaken by TU in its own financial statements, which will reference the original contract inception date.

Amendments to IAS 1 'Accounting Policies'

These amendments are effective for annual periods beginning on or after 1 January 2023, subject to endorsement in the UK. They require the disclosure of material accounting policy information rather than significant accounting policies. These amendments may result in some minor changes to future disclosure of accounting policies in the annual financial statements of the Group. The full impact on the Group is still being assessed.

55. Events After the Reporting Date

There were no events after the reporting date which have required either adjustment or disclosure in these Financial Statements.

1. Opinion

In our opinion:

- the Financial Statements of Tesco Personal Finance Group 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 2022 and of the Group's profit for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with United Kingdom adopted International Accounting Standards (IASs) and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB);
- the parent Company Financial Statements have been properly prepared in accordance with United Kingdom adopted IASs and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the Financial Statements which comprise:

- the Consolidated Income Statement;
- the Consolidated Statement of Comprehensive Income;
- the Consolidated and Parent Company Statements of Financial Position;
- the Consolidated and Parent Company Statements of Changes in Equity;
- the Consolidated and Parent Company Cash Flow Statements;
- the Accounting Policies; and
- the related notes 1 to 55.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom adopted IASs 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 listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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; • valuation of insurance contract liabilities and reinsurance assets 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 £9.23m, which represents 0.6% of net assets.
Scoping	Our audit scoping provides full scope audit coverage of 100% of revenue, profit before tax and net assets. There is one component, TU, which was previously a joint venture and has been 100% acquired by the Group in the year. This has been audited by a Deloitte UK component audit team.
Significant changes in our approach	In the prior year, we identified the valuation of the provision for payment protection insurance (PPI) redress as a key audit matter. Following the timebar deadline for complaints in August 2019, the provision, and inherent judgment in the provision has continued to diminish and as such we no longer consider this to be a key audit matter. In the period the Group acquired the remaining shares in the joint venture TU which is fully consolidated into the Group Financial Statements for the current year. As a result we have refined the significant risk identified within the TU component to reflect the change from insurance reserving in TU to the valuation of insurance contract liabilities and reinsurance assets in TU.

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 15 (Expected Credit Loss on Financial Assets) and note 21 (Loans and Advances to Customers), the Group held an ECL provision of £488.8m at 28 February 2022 (28 February 2021: £624.6m), resulting in a current year credit to the Consolidated Income Statement of £30.2m (28 February 2021: £359.7m charge). The decrease in provision compared to the prior year is primarily due to the improvements in the macro-economic outlook, partially offset by additional post-model adjustments ('PMAs') to account for the risks associated with prevailing headwinds in the economy. Despite the improvement in the macro-economic outlook in the current year, loan impairment remains one of the most significant judgments made by Management. 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. • Post-model adjustments – 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 account for artificial improvements in customers' behavioural scores over the course of the pandemic, the potential impact of the emerging cost of living crisis on the Group's customers, the ongoing conflict in Ukraine and to align future default emergence to previous economic downturns. 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 judgments made in applying accounting policies and critical accounting estimates in note 3.

5.1 Expected credit loss provisions (continued)

How the scope of our audit responded to the key audit matter	Our audit work to address the key audit matter included the procedures noted below. 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. *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. 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 Valuation of insurance contract liabilities and reinsurance assets within TU

Key audit matter description	In the 28 February 2021 Financial Statements, TU was a joint venture with a carrying value in the Consolidated Statement of Financial Position of £92.8m. Following acquisition of the remaining shares in TU during the year, insurance contract provisions of £650.0m and reinsurance assets of £245.1m are now included in the Group's Financial Statements. Under IFRS 4 Insurance Contracts, provisions are required to be recognised for expected ultimate losses on claims occurring prior to the period end. Estimating these provisions is inherently subjective and requires the use of complex models and the application of judgment and estimation. Within gross insurance contract provisions, bodily injury (BI) claims relating to motor insurance policies represent the most significant area of management judgment and materiality to the company's financial position. In addition, TU's Management commission an external actuary to provide an independent concurring review on methodology and the basis for assumptions they have calculated. Our key audit matter is focused upon the selection of frequency and severity assumptions, or pricing benchmarks, for large BI claims, as these claims have a higher level of uncertainty in relation to the development of ultimate losses compared to property damage claims. The associated reinsurance assets are also subject to uncertainty given the lack of historical experience and the materiality of the estimation. Management utilise best estimate views provided by claims handlers, which typically include a level of prudence that unwinds as the claims progress. The level of prudence or redundancy within the booked provisions reflects the uncertainty in assessing long tail claims of this class, and also limitations in historical data. Associated reinsurance recoveries are estimated separately, using a deterministic model which applies the relevant reinsurance programmes to each claim. Management's associated accounting policies are detailed in note 1, with detail about the judgments made in applying accounting policies and critical accounting estimates in note 3.
How the scope of our audit responded to the key audit matter	We obtained and understanding of and assessed relevant controls relating to the assessment of large BI claims and reinsurance recoveries. Utilising actuarial specialists on our engagement team, we obtained and inspected the reserving reports from management, and their external expert actuary. We assessed and challenged the methodologies and key assumptions applied by Management and we assessed where Management's judgments and estimates differed from those applied by the external actuary. We determined whether any differences in view between Management and their external actuary were supportable and reasonable. We assessed the objectivity and competence of management's external actuary. We re-produced the reserving model results utilising our in-house software and management's stated methodology and assumptions, and performed benchmarking of management's assumptions against available industry data and the changes in risk profile over the period. We tested management's roll forward of results from the pre year end full reserving review to the period end and substantively tested the completeness and accuracy of the underlying data.
Key observations	Based on the procedures performed we concluded that the valuation of TU's insurance contract liabilities and reinsurance assets are reasonably stated and in line with the requirements of IFRS 4.

5.3 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 £15.0m at 28 February 2022 (£28.9m at 28 February 2021). 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 21.
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 assessed 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 challenged 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, in line with IFRS 9 requirements and that it supports the EIR asset.

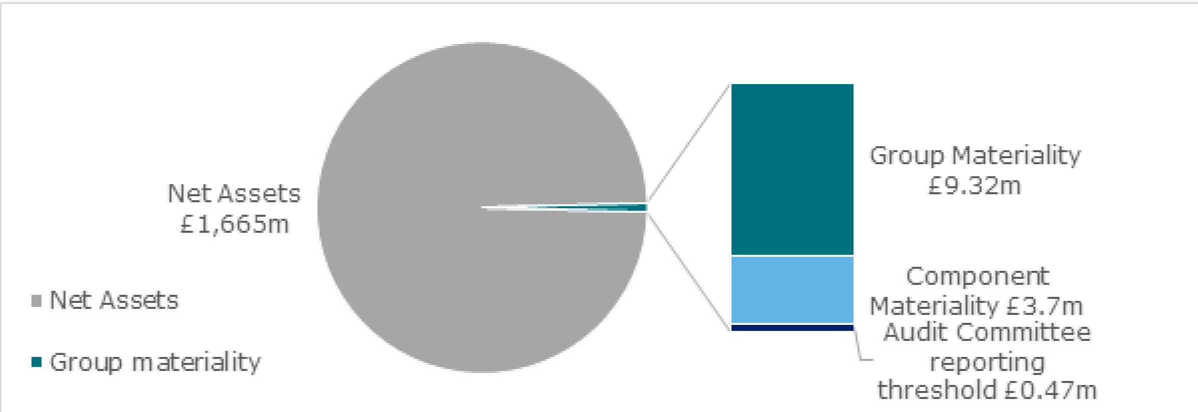
6. Our application of materiality

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	£9.32m (2021: £9.0m)	£6.86m (2021: £8.9m)
Basis for determining materiality	Materiality has been determined as 0.6% of net assets (2021: 0.6% of net assets).	Parent Company materiality has been determined as 0.6% of net assets (2021: 0.6% of net assets).
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.	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.



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 2022 audit (2021: 70%). In determining performance materiality, we considered the following factors:

- 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 £0.46m (2021: £0.45m), 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 planned to rely on controls in our audit of the following areas: Credit Cards, Savings, Loans, Insurance and the common operations processes (products, payments and reconciliations). In doing so we obtained an understanding and tested the relevant controls. The Group is reliant upon the effectiveness of a number of IT applications and controls to ensure that financial transactions are processed and recorded completely and accurately and we involved our IT specialists to obtain an understanding of general IT controls across the systems relevant to the areas listed.

With the exception of the insurance cycle, we relied upon the controls tested as planned.

In relation to insurance premiums we identified control deficiencies over the related IT system, and supporting reconciliation controls performed by management. Although management rectified these deficiencies by the period end, we were unable to rely on controls during the period. As a result of these findings, we reconsidered our risk assessment in relation to gross premiums written, conducted additional substantive procedures including increased sample testing of individual policies, and focused testing upon management's reconciliation of premiums.

Similar control deficiencies were identified over the system used to record claims, which prevented us from taking a controls reliance approach in the period over the claims and reserving cycles. We adopted a fully substantive approach in our audit testing.

7.3 Working with other auditors

Work on TU, the Group's insurance underwriting subsidiary, 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, 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 focused on overseeing the role of the component auditors. The materiality level applied by the component auditor of TU was £3.7m (2021: £3.6m).

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, actuarial specialists, credit risk specialists 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, valuation of insurance contract liabilities and reinsurance assets 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 Financial Conduct Authority (FCA).

11.2 Audit response to risks identified

As a result of performing the above, we identified ECL provisions, valuation of insurance contract liabilities and reinsurance assets 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

The Listing Rules require us to review the Directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified for our review.

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 28 and 29;
- 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 28 to 29;
- the Directors' statement on fair, balanced and understandable set out on page 36;
- the Board's confirmation that it has carried out a robust assessment of the emerging and principal risks, set out on page 28;
- the section of the Annual Report that describes the review of effectiveness of risk management and internal control systems set out on pages 16 to 23; 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 seven years, covering the years ending 29 February 2016 to 28 February 2022.

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
11 April 2022

ABBREVIATIONS

ABE	Actuarial best estimate
ADC	Adverse development cover
AEaR	Annual earnings at risk
AFS	Available-for-sale
AGEAS	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
CCB	Capital conservation buffer
CCP	Colleague Contribution Panel
CCyB	Countercyclical capital buffer
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CGU	Cash-generating unit
CII	Consumer indebtedness index
CIO	Chief Information Officer
CRD	Capital Requirements Directive
CRO	Chief Risk Officer
CRR	Capital Requirements Regulation
DisCo	Disclosure Committee
EAD	Exposure at default
EBA	European Banking Authority
ECLs	Expected credit losses
EIR	Effective interest rate
ERC	Executive Risk Committee
ESG	Environmental, Social and Governance
EU	European Union
EVM	Every Voice Matters
ExCo	Executive Committee
FCA	Financial Conduct Authority
FPC	Financial Policy Committee
FRC	Financial Reporting Council
FVOCI	Fair value through other comprehensive income
FVPL	Fair value through profit or loss
HMRC	HM Revenue and Customs
IAS	International Accounting Standard
IAS 19	IAS 19 'Employee Benefits'
IAS 39	IAS 39 'Financial instruments: Recognition and Measurement'
IASB	International Accounting Standards Board
IBNR	Incurred but not reported
ICAAP	Internal capital adequacy assessment process
IFRS	International Financial Reporting Standard
IFRS 3	IFRS 3 'Business Combinations'
IFRS 9	IFRS 9 'Financial Instruments'
IFRS 15	IFRS 15 'Revenue from Contracts with Customers'
IFRS 17	IFRS 17 'Insurance contracts'
IILAAP	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
IT	Information technology
LGD	Loss given default
MLR	Market and Liquidity Risk
MREL	Minimum requirements for own funds and eligible liabilities
MRT	Material Risk Taker
NI	National Insurance
NomCo	Nomination Committee
NSFR	Net stable funding ratio
OEC	Operating Executive Committee
ORSA	Operational risk scenario analysis
PCA	Personal Current Account
PD	Probability of default
PIM	Partial internal model
PMA	Post-model adjustment
PPI	Payment protection insurance
PPO	Periodic payment order
PRA	Prudential Regulation Authority
PSD2	Second Payment Services Directive
QS	Quota share
RAM	Risk Appetite measure
RemCo	Remuneration Committee
RCSA	Risk and control self-assessment
RMF	Risk management framework
RMFu	Risk Management Function
SA	Standardised approach
SCR	Solvency capital requirement
SFTs	Securities financing transactions
SII	Solvency II
SMF	Senior Management Function
SONIA	Sterling Overnight Index Average
TCo	Treasury Committee
tCO_2e	Tonnes of carbon dioxide equivalent
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
TSL	Tesco Stores Limited
TU	Tesco Underwriting Limited
TUPE	Transfer of Undertakings (Protection of Employment) regulations
UK	United Kingdom
VIU	Value-in-use
WAEP	Weighted average exercise price
WAFV	Weighted average fair value
2018 Code	UK Corporate Governance Code 2018

A

Actuarial best estimate	An estimate of ultimate claims or claims reserve that is intended to be neither too high, nor too low, taking into account known information.
Adverse development cover	Reinsurance cover that will pay the reinsured if claims develop adversely over a certain limit.
Alternative performance measure	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.
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 Group's earnings by altering interest rate-sensitive income and expenses. Excessive interest income sensitivity can pose a threat to the Group's current capital base and/or future earnings. The Annual Earnings at Risk model measures the impact on earnings of +/- 0.25%, 0.50%, 0.75%, 1% parallel interest rate shocks against the base case. The most adverse scenario is measured against Risk Appetite.
Annual percentage rate	The yearly interest generated by a sum that is charged to borrowers or paid to investors.
Asset encumbrance	An asset shall be treated as encumbered if it has been pledged or if it is subject to any form of arrangement to secure, collateralise or credit enhance any transaction from which it cannot be freely withdrawn.
Asset encumbrance ratio	The asset 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).
Audit Market Reform	The creation of a new audit profession overseen by a new regulator, which will aim to drive up quality and standards in the market and increase choice for businesses, while breaking up the dominance of the so-called “Big Four” firms.

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.
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 general buffer of risk-weighted assets designed to provide for losses in the event of stress, which can then be drawn upon as losses are incurred.
Capital Requirements Directive	CRD IV is an EU legislative package that contains prudential rules for banks, building societies and investment firms as onshored to the UK post-Brexit and amended by applicable Statutory Instruments.

C (continued)

Capital Requirements Regulation	The CRR is an EU law which was onshored to the UK post-Brexit and amended by relevant Statutory Instruments. The CRR 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 has insufficient capital resources to support its plan and meet minimum capital requirements and buffers under both anticipated and stressed conditions.
Cash-generating unit	The smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.
Claims reserve	A provision held to cover the settlement of claims, including claims that may not yet have been notified.
Common equity tier 1 capital	The highest form of regulatory capital under Basel III that comprises shares issued and related share premium, retained earnings and other reserves net of 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 Group 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.
Consumer indebtedness index	The CII provides an assessment of those customers that have high levels of indebtedness and may experience delinquency as a result. The CII is a score in the range of 1 to 99, where scores over 40 highlight customers that should be carefully managed.
Cost:income ratio	The cost:income ratio is calculated by dividing operating expenses by total income.
Countercyclical capital buffer	A capital buffer, determined by the regulator, which aims to ensure that banking sector capital requirements take account of the macro-economic financial environment in which banks operate. Its primary objective is to set a buffer of capital to achieve the broader macro-prudential goal of protecting the banking sector from periods of excess aggregate credit growth that have often been associated with the build-up of system-wide risk. The buffer can be drawn down to absorb losses during stressed periods.
Covid-19	An infectious disease, caused by a novel 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.
Cross-cutting risk	A risk that falls between or across a number of principal risks, rather than being a standalone principal risk.

D

Derivatives	Financial instruments whose value is based on the performance of one or more underlying assets.

E

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.
Event	An Event is an occurrence caused by an internal or external failure which could impact the Group's finances; customers; compliance with regulations; brand and reputation; or resilience of operations.
Expected credit losses	The weighted average of credit losses with the respective risks of a default occurring as the weights.

E (continued)

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. EAD 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.
Financial instrument	A contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.
Financial Policy Committee	The BoE's FPC identifies, monitors and takes action to remove or reduce systemic risks with a view to protecting and enhancing the resilience of the UK financial system.
Forbearance	A temporary postponement or alteration of contractual repayment terms in response to a counterparty's financial difficulties.
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

Gross domestic product	The total value of goods produced and services provided in a country during one year.
Gross insurance premiums written	Premiums paid by policyholders for their insurance, inclusive of commission and insurance premium tax over a given period.
Group	The Company and its subsidiaries and, in the prior year, its joint venture.

I

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.
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.
Intensity factor	The emission rate of a given pollutant relative to the intensity of a specific activity.
Interest rate risk	The risk arising from the different repricing characteristics of the Group's non-trading assets and liabilities.
Interest rate risk in the banking book	IRRBB is the current or prospective risk to both earnings and economic value arising from movements in interest rates. The main sub-types of IRRBB include gap risk (or repricing risk), basis risk and customer optionality risk.
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	The Group's own assessment of the level of liquidity needed in respect of its regulatory requirements 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 ISDA which is used as an umbrella contract for bilateral derivative contracts.

L

Leverage ratio	The ratio of tier 1 capital to the total leverage ratio exposures, excluding claims on central banks and applying an equal weighting to all assets regardless of their risk.
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.
Loans and advances to customers loss allowance coverage ratio	The loans and advances to customers loss allowance coverage ratio is calculated by dividing the ECL provision in respect of loans and advances to customers by the gross carrying amount of loans and advances to customers.
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.

M

Market-based	A method of calculating a company's emissions which reflects the emissions from electricity purchased by a company, including its purchase of electricity backed by Renewable Energy Guarantees of Origin or Renewable Energy Certificates.
Market risk	The risk that movements in market prices (such as interest rates and foreign exchange rates) lead to a reduction in either the Group's earnings or economic value.
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

National insurance	NI is a fundamental component of the welfare state in the UK. It acts as a form of social security, since payment of NI contributions establishes entitlement to certain state benefits for workers and their families.
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.
Net zero	The balance achieved when the amount of carbon added to the atmosphere is no more than the amount removed.

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 a potential error, loss, harm or failure caused by ineffective or inadequately defined processes, system failures, improper conduct, human error or from external events.

P

Partial internal model	Partial internal models can be used to model the capital requirements for operational risk or for the loss-absorbing capacity of technical provisions.

P (continued)

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 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.
Periodic payment order	Large bodily injury claims that are settled by means of periodic payments, approved in a court of law and typically pay for the cost of care and lost earnings.
Persistent debt	Persistent debt is a term used by the FCA. It describes any account where the person is paying more in interest, fees and charges than towards paying back what they have borrowed.
Physical risks	Risks arising from changes in weather and climate, impacting physical assets and people.
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.
Policies in force	The number of live policies in the Group's insurance portfolio for which the Group is obliged to provide cover.
Post-model adjustment	PMAs reflect the use of Management judgment to address perceived limitations in models or data.
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.
PRA Rulebook	The PRA Rulebook contains provisions made by the PRA that apply to PRA-authorised firms. This includes the inclusion over additional rules required after revocation from the CRR by HM Treasury.
Second Payment Services Directive	The Second Payment Services Directive (PSD2) is an EU Directive that regulates payment services and payment service providers throughout the EU and European Economic Area. PSD2 updates and replaces the Payment Services Directive 2008.

Q

Quota share	A type of reinsurance where the insured shares a portion (quota) of its premium and risk with one or more reinsurers.

R

Recovery plan	The 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 the CRR.
Regulatory and conduct risk	Regulatory risk is the risk of poor customer outcomes, reputational damage, liability, loss or regulatory censure arising from failure to comply with the requirements of the financial services regulators or industry codes of best practice. Conduct risk is the risk that the conduct, acts or omissions of the organisation, or individuals within the Group, leads to customer detriment, or has an adverse effect on market stability or effective competition.
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.

R (continued)

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 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.
Shadow IT	Shadow IT refers to IT systems deployed by departments other than a company's central IT department.
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 a defined purpose, including for 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.
Solvency II	Solvency II sets out regulatory requirements for insurance firms and groups, covering financial resources, governance and accountability, risk assessment and management, supervision, reporting and public disclosure.
Standardised approach	In relation to credit risk, the method for calculating credit risk capital requirements using risk-weightings that are prescribed by regulation. 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

Term funding schemes	Funding schemes provided by the BoE which provide participating banks and building societies with funding at interest rates close to the BoE's base rate. The Group has utilised both the original TFS and the more recent TFSME.
The 2°C or lower scenario	The 2 degree scenario is seen as the accepted limitation of temperature growth to avoid significant and potentially catastrophic changes to the planet. The 2 degree target was reached in the Paris Agreement in 2015.
Tier 1 capital	A component of regulatory capital defined by the CRR, comprising common equity tier 1 capital and additional tier 1 capital. Additional tier 1 capital includes qualifying capital instruments such as non-cumulative perpetual preference shares and additional tier 1 capital securities.
Tier 2 capital	A component of regulatory capital, comprising qualifying subordinated loan capital and related non-controlling interests.
Tonnes of carbon dioxide equivalent	Tonnes of carbon dioxide equivalent refers to the amount of carbon dioxide emitted by one metric ton of another greenhouse gas.
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.
Total liquidity requirement	Financial institutions are required to hold at all times liquid assets, the total value of which equals, or is greater than, the net liquidity outflows which might be experienced under stressed conditions over a short period of time (30 days).
Transition risks	Risks arising from the transition to a low-carbon economy.
TU's minimum capital requirement	Under the Solvency II regime, the minimum capital requirement for TU to write business.

T (continued)

TUPE	The UK's implementation of the EU Transfer of Undertakings Directive. It is an important part of UK labour law, protecting employees whose business is being transferred to another business.

U

UK Leverage Framework regime	The UK leverage ratio framework currently applies to firms with retail deposit levels equal to or greater than £50 billion on an individual or consolidated basis.
UK SOx	UK SOx is the unofficial name given to the new UK corporate governance regime.
Underlying cost:income ratio	The underlying cost:income ratio, which is an APM, is calculated by dividing underlying operating expenses by total underlying income.
Underwriting risk	Underwriting risk is the risk that future claims experience on business written is materially different from the results expected based on the assumptions made at the point of underwriting policies, resulting in current year losses.
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.

V

Value-in-use	The present value of the future cash flows expected to be derived from an asset or cash-generating unit.

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's 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.