TESCO Bank

# Tesco Personal Finance plc

# Basel III Pillar 3 Disclosures
# 28th February 2014

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## Overview

### *1.1. Background*

The European Union Capital Requirements Directive (Basel II) came into force on 1st January 2007. This introduced consistent capital adequacy standards and an associated supervisory framework in the EU based on the Basel II Accord.

On 1st January 2014, Basel III regulations, commonly known as CRD IV revised the definition of capital resources and included additional capital and disclosure requirements.

The Basel framework consists of three “pillars”:

The three pillars are designed to promote market discipline through the disclosure of key information about risk exposures and risk management processes.

**Pillar 1** - sets out the minimum capital requirements firms are required to meet for credit, market and operational risk.

**Pillar 2** - requires firms and supervisors to take a view on whether a firm should hold additional capital against risks considered under Pillar 1 that are not fully captured by the Pillar 1 process (e.g. credit concentration risk); those factors not taken into account by the Pillar 1 process (e.g. interest rate risk in the banking book, business and strategic risk); and factors external to the firm (e.g. business cycle effects).

**Pillar 3** – aims to encourage market discipline by developing a set of disclosure requirements which will allow market participants to assess key pieces of information on a firms capital, risk exposures, risk assessment process and hence the capital adequacy of the firm.

The Directives are enforced in the UK by the Prudential Regulatory Authority (PRA). The Pillar 3 disclosure requirements are contained in Articles 431 – 455 of the Capital Requirements Regulation (CRR).

### *1.2. Disclosure Policy: Basis and Frequency of Disclosure / Location and verification*

This document represents the Pillar 3 disclosures of Tesco Personal Finance plc (‘TPF plc’ or the ‘Company’) for February 2014 on a ‘transitional basis’[1] with Basel II comparative for 2013. The purpose of these disclosures is to give information on the basis of calculating Basel III capital requirements and on the management of risks faced by the Company.

These may differ from similar information in the Annual Report and Financial Statements, prepared in accordance with International Financial Reporting Standards (‘IFRS’) and includes balance sheet reconciliation information showing all items affecting regulatory own funds as disclosed in the audited financial statements as required in point (a) of Article 437(1) of Regulation (EU) No 575/2013.

The main differences for the Company are summarised below:

- Pillar 3 exposure values are derived from Balance Sheet values, net of provisions where appropriate, with off Balance Sheet exposures assigned credit conversion factors based on prescribed regulatory values

- Regulatory reporting rules require that the Company make certain adjustments to own funds; the most material relate to intangible assets and dated Tier 2 capital instruments

The following sets out the Company’s Disclosure Policy as applied to Basel III Pillar 3 Disclosures with Basel II comparatives, including the information to be disclosed, frequency, media, location and verification.

[1] Transitional arrangement are in place between 31 March 14 and 31 December 2017 and institutions shall complete and publish the transitional own funds disclosure template in Annex VI instead of the general own funds disclosure template in Annex IV.

#### *1.2.1.Information to be disclosed*

The Company's policy is to meet all required Pillar 3 disclosure requirements as detailed in the Capital Requirements Regulations (CRR).

#### *1.2.2. Frequency*

The Company's policy is to publish the disclosures required on an annual basis.

The frequency of disclosure will be reviewed should there be a material change in approach used for the calculation of capital, business structure or regulatory requirements.

#### *1.2.3. Medium and location of publication*

The Company's Pillar 3 disclosures are published on the Tesco Bank corporate website:
http://www.corporate.tescobank.com/48/accounts-and-disclosures

#### *1.2.4. Verification*

The Company's Pillar 3 disclosures are subject to internal review and validation prior to being submitted to the Board for approval. This includes approval by Directors and Heads of Risk, the Treasury Director, Head of Product Control and the Financial Controller.

The Company's Pillar 3 disclosures have been reviewed by the Disclosures Committee and have been approved by the Board. In addition, the Remuneration disclosures as detailed in Section 8 of this document have been reviewed by the Remuneration Committee. The disclosures are not subject to audit except where they are the same as those prepared under accounting requirements and disclosed in the Company's Annual Report and Financial Statements.

#### *1.2.5 Non-material, proprietary or confidential information*

This document has been prepared to satisfy the Pillar 3 disclosure requirements set out in the CRR. The Company does not seek any exemption from disclosure on the basis of materiality or on the basis of proprietary or confidential information.

### *1.3. Scope of Application*

The Company, trading as Tesco Bank, provides a range of financial services and products primarily to personal customers through telephony and on-line sales channels, and through a small number of in-store branches.

Products currently offered by the Company include general insurance products, travel money, unsecured personal loans, secured mortgage advances, savings accounts and credit cards. The Company has limited international exposure, namely in Ireland.

Tesco Personal Finance Group Limited ('TPFG' or 'TPF Group') is the holding company for TPF plc. The TPFG Board, which comprises of the same directors as the Board of TPF plc, is the management body of the Company and will be referred to as the Board in these disclosures.Tesco Underwriting Limited ('TU') is 49.9% owned by the Company and 50.1% owned by Ageas (UK) Limited. TU underwrites household and motor insurance and provides claims management for these policies.

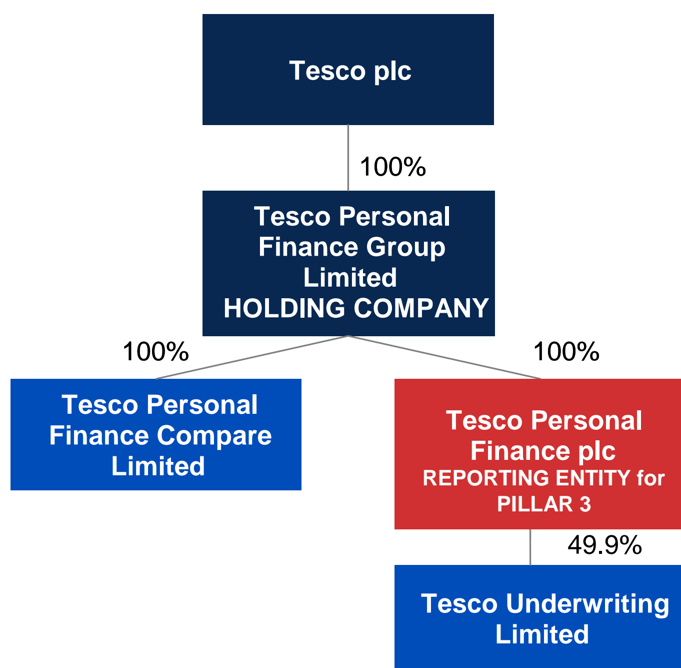
There are no material practical or legal impediments to the prompt transfer of own funds or repayment of liabilities.

#### *1.3.1. Accounting Consolidation*

TPFG operates as a holding company with 100% ownership of the Company and Tesco Compare as illustrated in Figure 1 below. Financial Statements are produced half-yearly and annually for the Company.

TU is treated as an associate and is consolidated using the equity method of accounting.

**Figure 1: TPF Group Limited: Accounting Consolidation Structure**




#### *1.3.2.Prudential Consolidation*

The Company does not form part of a Consolidation Group for Regulatory Reporting purposes and does not make use of the solo consolidation waiver provisions.

## 2 Governance - Board and Committees

### *2.1 The Board*

The Board has overall responsibility for the business. It sets the strategic aims for the business, in line with delegated authority from the shareholder and in some circumstances subject to shareholder approval, within a control framework, which is designed to enable risk to be assessed and managed. The Board satisfies itself that financial controls and systems of risk management are robust. The Board comprises of 4 executive directors, an independent non-executive Chair and as at the reporting date a further 5 non-executive directors.

### *2.2 Board - Recruitment policy*

Recruitment into the Board combines an assessment of both technical capability and competency skills referenced against the Company's leadership framework.

Board recruitment is subject to the approval of the CEO, the Chairman and the senior independent non-executive director. Regulatory approval is co-ordinated through the Chief Risk Officer.

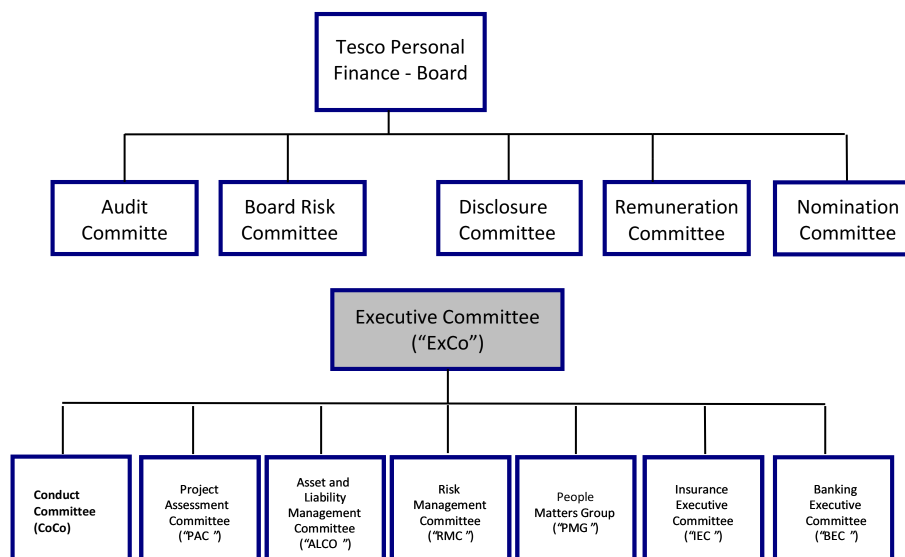
Reference is made to the most recent Board Skills review to establish the specific experience and skills needed to ensure the optimum blend of individual and aggregate capability having regard to the Company's long term strategic plan.

### *2.3 Board - Diversity Policy*

The Company is committed to promoting a diverse and inclusive workplace at all levels, 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 Nomination Committee will be responsible for ensuring there is an appropriate balance of skills and experience across the Board.

### *2.4 Board & Committee Structure*

With the exception of the Nomination Committee, a committee structure as described below operated throughout the year. Risk information flows up to the Board through the various committees via the Executive Committee (EXCo) and also directly from the Audit Committee and Board Risk Committee.




### *2.5 Number of directorships held by members of the Board*

(Figures include Tesco Group Companies. Directorships held within the same group are counted as a single directorship and those in non commercial organisations are not included.)

| Name | Position with Tesco Personal Finance | Directorships – Executive | Directorships – Non Executive |
|---|---|---|---|
| Bernard Higgins | Chief Executive | 1 | 2 |
| Peter Douglas Bole | Chief Financial Officer | 1 | 0 |
| Iain Clink | Deputy Chief Executive | 1 | 0 |
| Ricky David Hunkin | Chief Risk Officer | 1 | 0 |
| Graham Fenwick Pimlott | Non Executive Chairman | 0 | 3 |
| Gareth Richard Bullock | Non Executive | 0 | 4 |
| Paul William Hewitt* | Non Executive | 1 | 6 |
| Simon Christopher John Machell | Non Executive | 0 | 1 |
| Deanna Watson Oppenheimer | Non Executive | 0 | 4 |
| Raymond Francis Pierce | Non Executive | 0 | 4 |

* Mr Hewitt resigned from the Company on 1st May 2014.

### *2.6 Governance Committees*

In order to support effective governance and management of the wide range of responsibilities the Board has established the following five Sub-Committees.

- **(1) Board Risk Committee**

The BRC is comprised of non-executive directors and reports to the Board. The role of the BRC includes the oversight and challenge of the Company's risk appetite and the recommendation to the Board of any changes to risk appetite, the assessment of any future risks, the review and challenge, where appropriate, of the outputs from the Asset and Liability Management Committee (ALCO) and Risk Management Committee (RMC) and to oversee that a supportive risk culture is appropriately embedded in the business. During the year the BRC met 5 times.

- **(2) Audit Committee**

The Audit Committee is comprised of non-executive directors. Its role includes: reviewing and recommending to the Board the approval of the financial statements; monitoring accounting policies and practices for compliance with relevant standards; reviewing the appropriateness and effectiveness of internal control systems; reviewing the scope and results of the annual external audit; maintaining a professional relationship with and recommending the appointment, re-appointment and removal of the external auditors and providing an interface between management and the external auditors; overseeing the internal audit function, the internal audit programme and expressing an opinion on the effectiveness of internal controls. Approving the Internal Audit budget and assessing that it is satisfied that it has appropriate resources.

- **(3) Remuneration Committee**

The Remuneration Committee is comprised of non-executive directors. The role of the Remuneration Committee is: to determine and approve remuneration arrangements for staff within the Company, who come under the Prudential Regulatory Authority's definition of Remuneration Code staff; to approve a remuneration framework for employees of the Company below the leadership level; to ensure that, where appropriate, remuneration is aligned with Tesco PLC Group Reward Policy; to ensure the levels and structure of remuneration are designed to attract, retain, and motivate the management talent needed to run the Company's business in a way which is consistent with the risk appetite and ongoing sustainability of the business; and to be compliant with all applicable legislation, regulation and guidelines in so far as it relates to remuneration.

- **(4) Disclosure Committee**

The Disclosure Committee is responsible for ensuring the Company's compliance with relevant legal and regulatory obligations in relation to the timing, accurate disclosure and announcement of information and the treatment of inside information. The Committee also reviews, on behalf of the Board, certain legal or regulatory disclosures ahead of publication and makes recommendations to the Board as appropriate.

- **(5) Nomination Committee**

A Nomination Committee is being created which will formalise the process for appointments to the Board. It will be comprised of non executive directors and will identify and recommend for approval suitable candidates for appointment to the Board and review and agree the Board diversity policy and targets. At least annually it will assess the structure, size, and composition of the Board, and make recommendations with regards to any changes.

## 2.7 Executive Committee / Sub Committees

The Chief Executive has established the Executive Committee (ExCo) to assist him manage the business and deliver against the strategy, long-term plan, operational plans, the annual budget and the risk appetite in an effective and controlled way. The ExCo is comprised of the Chief Executive, 3 executive directors and 6 other senior directors.

The ExCo provides general executive management of the business and facilitates cross-functional communication and liaison, monitors trade and financial performance on a regular basis, oversees risks and controls across the business, promotes a culture of fairness and encourages the Tesco Values, approves budget, wholesale lending limits, pricing changes and contracts within agreed limits and approves changes within Board approved Risk appetite.

There is a range of Executive sub-committees which report directly to ExCo, the principal ones from a risk perspective being: the Risk Management Committee (RMC), the Asset and Liability Committee (ALCo), the Conduct Committee (CoCo) and Project Assessment Committee (PAC). Their respective roles are detailed hereunder.

- **Risk Management Committee**

The role of RMC is to provide oversight, review and challenge of the material risks both current and future affecting the business whilst ensuring that there is effective management and control of all key risks and issues facing the Company; to monitor whether Risk Appetite is appropriate and adhered to and to make recommendations on any changes; to assess the associated risks of new ventures and other strategic initiatives in line with the new product approval and product development policy and report on them to the ExCo for approval; to consider action to deliver Enterprise Wide Risk management solutions and to direct resource appropriately; to consider the state of compliance and impact of current and future regulatory initiatives; and review and approve key policies. To provide additional support the RMC has established further specialist risk committees:- Credit Risk Management Committee (CRMC), the Wholesale Credit Risk Forum (WCRF) and the Financial Crime, Operational and Regulatory Risk Committee (FORRC).

- **Asset and Liability Management Committee**

The role of the ALCO is to optimise the Company's balance sheet structure and to identify, manage and control the Company's balance sheet risks in the execution of its chosen business strategy and to provide policy and direction to Treasury for managing the Company's balance sheet. The ALCO has also established specialist committees to support it in the execution of its role, the Liquidity Management Forum, the Market Risk Forum and the Liquidity Event Management Committee.

- **Conduct Committee**

The role of the CoCo is to provide review and challenge relating to the management of conduct risks and the delivery of fair outcomes for customers by each business area.

- **Project Assessment Committee**

The role of the PAC is to agree the Company's change portfolio and monitor and challenge ongoing progress against this. PAC agrees critical business decisions which affect the outcome of the Company's change portfolio or the manner in which progress is achieved. It provides assurance to the Company's Executive and Board that the consolidated change portfolio is being effectively managed in line with its budgets and timetables and established processes and governance, including the Project Lifecycle and New Product Approval Framework.

# 3 Risk Management

There is a formal structure for monitoring and managing risks across the Company comprising a Risk Appetite approved by the Board, detailed risk management frameworks (including policies and supporting documentation) and independent governance and oversight of risk.

An Enterprise Wide Risk Management Framework(EWRMF) applies across the Company and is structured around risk culture, strategy, governance and control, risk identification, assessment and escalation, reporting and support processes. As an Executive Director and ExCo member the Chief Risk Officer, who is independent from any commercial function, performs a strategic risk management role and is responsible for establishing and enhancing the EWRMF.

## *3.1 Risk Culture*

The Company is committed to cultivating a consistent risk culture throughout the business where everyone understands the risks they personally manage and are empowered and qualified to take accountability for them. The Company also embraces a culture where the business areas are encouraged to take risk–based decisions, while knowing when to escalate or seek advice. The Company also promotes a culture where there is no fear of escalating bad news or emerging risks through use of the Company's Event Management Process which provides tools and techniques to identify, assess and manage events through to closure, which have an actual or potential negative impact on our customers, colleagues, operational capability, financial position or the reputation of the Company.

During the past 12 months the Company has worked on further enhancing its Risk Management Framework as part of its RISK 123 Programme. RISK 123 is an all encompassing programme, sponsored by the CEO and focusing upon setting the right Risk Management culture and developing capability, accountability and risk ownership across the Company. This programme of initiatives has been successfully rolled out to all executive and management levels across the various business areas to strengthen their awareness and understanding of the Company's regulatory requirements, three lines of defence model, Risk Appetite frameworks, policies, tools and processes.

## *3.2 Approach to Risk Management*

To ensure effective risk management the Company has adopted the "three lines of defence" model of governance with clearly defined roles and responsibilities.

**First line of defence** - line managers are responsible for establishing an effective control framework within their area of operations and identifying and controlling all risks so that they are operating within the organisational risk appetite and are fully compliant with Company policies and where appropriate defined thresholds. They also devise and manage appropriate key risk indicators, management information and assurance processes to ensure their control framework is robust and effective.
During the year a number of training and communication initiatives were delivered to strengthen the awareness amongst First Line managers and staff with particular focus on Regulatory requirements and the Company's key Risk Management processes and tools.

**Second line of defence** - the Risk Management Function is responsible for proposing to the Board appropriate objectives and measures to define the Company's risk appetite and for devising the suite of policies necessary to control the business including the overarching framework and for independently monitoring the risk profile, providing additional assurance where required. Risk will leverage their expertise by providing frameworks, tools and techniques to assist management in meeting their responsibilities, as well as acting as a central coordinator to identify enterprise wide risks and make recommendations to address them.

**Third line of defence** comprises the Internal Audit Function which is responsible for providing assurance to the Board and senior management on the adequacy of design and operational effectiveness of the systems of internal controls.

### *3.3 Enterprise Wide Risk Management Framework Components*

The EWRMF covers all types of risk faced by the Company and is underpinned by governance, controls, processes, systems and policies. The key components which collectively ensure that risks are managed and key control activities conducted are outlined below.

#### *3.3.1 Risk Appetite*

Risk Appetite limits the risks which the business can accept in pursuit of its strategic objectives. Risk Appetite is formally reviewed annually and is monitored on an ongoing basis for adherence. The Company's strategy, business plan and capital and liquidity plans are set with reference to Risk Appetite.

The Board approves the Risk Appetite, which defines the level of risk that the Company is prepared to accept to achieve its strategic objectives and is translated into specific risk measures that are tracked, monitored and reported to the appropriate Risk Committees and Board. The Risk Appetite framework has been designed to create clear links to the strategic long term plan, capital planning, stress testing and the Company's risk management framework. The review and approval process is undertaken at least annually. The Company's Risk Appetite covers three main primary areas, financial risk, reputational risk and operational & people risk.

The Board approves the Company's business plans, budget, Internal Capital Adequacy Assessment Process (ICAAP), Internal Liquidity Adequacy Assessment (ILAA) and any material new product lines. The Board also monitor's the Company's risk profile and capital adequacy position.

The Company employs hedging and mitigation techniques to ensure risks are managed within the defined Risk Appetite. Details of these are contained within the Company's policy documents and further information in relation to strategies and processes for hedging and mitigating risk are discussed in the risk categories.

#### *3.3.2 Policies*

The Company has a framework of key policies in place which are approved at Board and ExCo level committees. Each policy is owned by a Senior Manager who is responsible for maintenance and assurance of the policy. Each policy must be reviewed on at least an annual basis to ensure its continued effectiveness and applicability in line with changing risks. The Risk Management Function provides tracking and oversight of the policy framework and is responsible for undertaking assurance and providing reports to the Board on its effectiveness.

#### *3.3.3 Risk Identification*

The Risk Identification process provides guidance on the sources to investigate and research in order to identify new and emerging risks and sets out consistent principles which should be applied.

#### *3.3.4 Risk Assessment*

The Risk Assessment process is the means through which the Company understands and estimates the effect of risk on the business and the processes, systems and controls that mitigate those risks to an acceptable level.

#### *3.3.5 Risk Management Function (RMF)*

The RMF operates under the leadership of the CRO who reports directly to the Chief Executive and is a member of ExCo and the Board. The Risk teams reporting to the CRO are the second line of defence and have been resourced by people with specific expertise and is structured to provide analysis, challenge, understanding and oversight of each of the principal risks faced by the Company.

#### *3.3.6 Stress Testing*

Stress Testing is the process by which the Company's business plans are subjected to severe stress scenarios in order to assess the impact of those potential stresses on the Company's business including the projected capital and liquidity positions.

#### *3.3.7 Monitoring and Reporting*

The RMF is the focus and centralised location for integrated risk reporting across the Company. The RMF acts as risk integrator to ensure that: risk reporting and communications form a total risk perspective; aggregation and correlation issues are addressed; and risk coverage is viewed holistically so that issues do not fall between other functions.

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

#### *3.3.8 Integrated Risk Processes*

The Company's integrated risk processes include the linking of Risk Appetite to business plans and associated capital and liquidity requirements.

The Company is required to submit to the Prudential Regulation Authority (PRA) periodic ICAAP reports which set out future plans, their impact on capital availability and requirements and the risks to capital adequacy under potential stress scenarios.

The Company is also required to submit to the PRA an ILAA which provides an ongoing assessment and quantification of the Company's liquidity risks, how the Company mitigates those risks and how much current and future liquidity is required based on business plans and under stress scenarios.

### *3.4 Risk Assurance*

Risk assurance is undertaken by way of an integrated risk assurance plan. A quarterly Risk and Control Self Assessment (RCSA) process plays a key role in this. RCSA requires each business area to submit their own assurance assessment to the second line Risk team for oversight, review and challenge. As part of the RCSA process, business areas are required to provide evidence to support their assessment and management of key risks and performance of associated controls. The assurance plan also contains oversight and challenge activity across the second line of defence alongside thematic reviews undertaken by both the Risk Management Function and Audit.

The RMC and the Audit Committee approve the annual Risk Assurance Plan which details business wide assurance review activities undertaken by the Risk Management function.

Additionally the Audit Committee obtain assurance about the internal control and risk management environment through an agreed programme of audits carried out by the Company's Internal Audit function and regular reports from the risk functions. The role and responsibilities of Internal Audit are detailed below.

### *3.5 Internal Audit*

The primary role of Internal Audit is to help the Board and Executive Committee to protect the assets, reputation and sustainability of the organisation by:

- assessing whether all significant risks are identified and appropriately reported by management and the Risk function to the Board and Executive Committee;
- assessing whether they are adequately controlled; and
- challenging Executive Committee on the effectiveness of governance, risk management and internal controls.

The Company's Internal Audit function will achieve this through the following core responsibilities:

- to propose an annual audit plan based on its understanding (after discussion with management) of the significant potential risks to which the organisation could be exposed;
- to carry out audits of functions and processes in accordance with the annual audit plan and any additional special investigations requested by management, the Board, the Audit Committee or the regulators;
- to assess the adequacy and effectiveness of the controls in the functions and processes audited and to issue recommendations for where and why improvement is required (where appropriate) based on the result of work carried out;
- to verify compliance with those recommendations;
- to report to the Audit Committee in relation to Internal Audit matters.

In addition to the above, Internal Audit also provide feedback and challenge on the effectiveness of the Company's control framework through attendance at relevant governance committees and through stakeholder management meetings.

### *3.6 Board Declaration - Adequacy of the Risk Management arrangements*

The Board of Directors is ultimately responsible for the risk management framework of the Company. The risk management framework is the totality of systems, structures, policies, processes and people within the Company that identify, assess, mitigate and monitor all internal and external sources of risk that could have a material impact on the Company's operations.

The Board provides an annual declaration on the adequacy of the Company's risk management arrangements and provides assurances that the risk management systems in place are adequate in relation to the Company's strategy and risk profile. This is provided in Annex 1 of this document.

### *3.7 Risk Statement*

The Company's Risk Statement is provided in Annex II. This is approved by the Board and describes the Risk Appetite and its link to the overall strategy. The Board maintains a Risk Appetite which is regularly monitored with formal reviews of the risk measures in conjunction with the long term planning process. During the year the risk profile of the Company has been maintained within the key financial exposure limits.

# 4 Own Funds

Own Funds (also referred to as capital resources) is the type and level of regulatory capital that must be held to enable the Company to absorb losses. The Company is required to hold own funds in sufficient quantity and quality in accordance with CRD IV which sets out the characteristics and conditions for own funds.

The Board has ultimate responsibility for the Company's capital management and capital allocation. Day to day responsibility for capital planning and other aspects of capital management are delegated to the Treasury Director with stress testing and preparation of the Company's ICAAP falling within the remit of the Chief Risk Officer. The ALCO is the main body responsible for monitoring all aspects of capital planning. The Board is kept informed via a monthly update on the capital plan.

The Finance and Treasury functions are responsible for the financial governance of the Company and manage the risks inherent in the capital management processes through the Company's Risk and Control Self Assessment framework, designed to comply with the statutory, regulatory and disclosure requirements.

The PRA in their capacity as supervisors set targets for, and monitor, the capital adequacy of the Company. Capital adequacy returns are submitted quarterly to the Regulators.

During the 12 month accounting period to 28th February 2014 the Company complied fully with all capital and liquidity requirements and operated well with the regulatory requirements determined by the PRA.

## *4.1 Tier 1 & Tier 2 Regulatory Capital*

The Company's Own Funds are shown in the following table. Information on the composition and main features of the Company's Own Funds are provided in the following sub-sections. February 2013 capital ratios are shown on a Basel II basis while February 2014 capital ratios are shown on a CRR basis:

| Own Funds | February 2014 (£m) | February 2013 (£m) |
|---|---|---|
| **Core Tier 1 Capital** | | |
| Shareholders Equity | 1,375.2 | 1,217.5 |
| Subordinated Notes | (45.0) | (45.0) |
| Unrealised losses on AFS debt securities | (5.9) | (5.8) |
| Unrealised losses on Cash Flow Hedge Reserve | (1.7) | (0.1) |
| | **1,322.6** | **1,166.6** |
| **Regulatory Deductions** | | |
| Intangible Assets | (427.7) | (397.4) |
| Deferred tax liabilities related to intangible assets | 32.2 | - |
| Material Holdings | (13.5) | (63.8) |
| | **(409.0)** | **(461.2)** |
| **Core Tier 1** | **913.6** | **705.4** |
| Undated Subordinated Notes | 45.0 | 45.0 |
| Dated subordinated notes - net of regulatory amortisation | 190.0 | 326.5 |
| Collectively assessed impairment provisions | 32.8 | 25.1 |
| | **267.8** | **396.6** |
| **Regulatory Adjustments** | | |
| Material Holdings | (20.6) | (63.8) |
| | **(20.6)** | **(63.8)** |
| **Total Tier 2** | **247.2** | **332.8** |
| **Own Funds** | **1,160.8** | **1,038.2** |
| **Risk Weighted Assets** | **6,546.8** | **5,353.3** |
| **Core Tier 1 Ratio** | **14.0%** | **13.2%** |
| **Total Capital Ratio** | **17.7%** | **19.4%** |

#### *4.1.1 Core Tier 1 Capital*

The Company's Tier 1 capital is wholly comprised of Core Tier 1 Own Funds. Equity capital comprises share capital, share premium, Profit and loss reserves and other reserves being primarily the share based payment reserve. The following table shows the movement in Core Tier 1 capital over the year.

**Movement in Core Tier 1 Capital**

| Movement in Core Tier 1 Capital | February 2014 (£m) | February 2013 (£m) |
|---|---|---|
| **Core Tier 1 at the beginning of the year** | **705.4** | **744.8** |
| Ordinary Shares issued | 140.0 | 45.0 |
| Profit attributable to Shareholders | 114.8 | 92.5 |
| Other Reserves | 1.2 | (0.7) |
| Ordinary Dividends | (100.0) | (105.0) |
| Movement in intangible assets | (30.3) | (60.5) |
| Movement in material holdings | 11.2 | (10.7) |
| **CRD IV adjustments:** | | |
| Deferred tax liabilities related to intangible assets | 32.2 | - |
| Material Holdings | 39.1 | - |
| Core Tier 1 at the end of the year | **913.6** | **705.4** |

#### *4.1.2 Owns Funds - balance sheet reconciliation & specific items of Own Funds during the transitional period*

A reconciliation of own Funds to audited financial positions in the Annual Report and Financial Statements as described in point (a) of Article 437 (1) of CRR is required which should include all items that are components of or are deducted from regulatory Own Funds. A balance sheet reconciliation as at 28 February 2014 has been disclosed in Annex III. Items that are components of or are deducted from Own Funds are referenced in the table and are also shown in Annex V in line with CRR disclosure requirements.

During the transitional period from 31 March 2014 to 31 December 2017, derogation has been provided such that institutions are required to disclose specific items on own Funds on a transitional basis . Tesco Personal Finance plc disclosure of all specific items of Own Funds and the alignment in accordance with audited financial statements is disclosed in Annex V.

#### *4.1.3 Main features of Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments issued by institutions*

Article 437 of the CRR requires disclosure of the main features of Common Equity Tier 1, additional Tier 1 and Tier 2 instruments. The full list of the required disclosures is shown in Annex IV. These include for each instrument:

- Governing law of the instruments
- Regulatory treatment on a transitional and post transitional basis
- Instrument type, Issue dates, nominal amounts and accounting classification and call option dates
- Coupon/dividends, convertible, write-down features and position in sub-ordination for each instrument.

#### *4.1.4 Hybrid Capital*

The Company does not have any forms of hybrid capital.

#### *4.1.5 Deductions from Tier 1 Own Funds*

Intangible assets relate to Computer Software and “Work in Progress” which relates primarily to the internal development of IT software assets in relation to the development of the operational platform.

The Material Holdings deduction represents the investment in TU comprising both equity and subordinated loans, adjusted by relevant threshold limits introduced as part of CRR from 1 January 2014

#### *4.1.6 Tier 2 Own Funds*

All dated and undated subordinated debt is issued to TPFG. Details of subordinated liabilities are provided in the main features template shown in Annex IV.

#### *4.1.7 Own Funds that provide for an incentive to be redeemed*

The undated floating rate notes have no fixed maturity date and may not be repaid except under certain conditions such as the winding up of the Company. The dated floating rate subordinated loans are repayable, in whole or in part, at the option of the issuer, prior to maturity, on conditions governing the debt obligation. Interest payable is based on 3 month LIBOR plus a range of 60 to 225 basis points.

The undated and dated floating rate notes have been enhanced in the financial year to comply with Basel III Own Funds requirements. The earliest option call date is 31 March 2025, and they may be repaid on any date if a Regulatory Event or Tax Event occurs. Redemption can be in whole or in part and they may be redeemed at par value plus accrued interest.

#### *4.1.8 Innovative Tier 1 Own Funds*

The Company does not have any forms of innovative Tier 1 Own Funds.

#### *4.1.9 Deductions from Tier 2 Own Funds*

The Material Holdings deduction represents the investment in TU comprising both equity and subordinated loans for February 2013 and subordinated loans only for February 2014.

#### *4.1.10 Tier 3 Own Funds*

The Company does not have any Tier 3 Own Funds.

# 5 Compliance with CRR and the overall Pillar 2 Rule

### *5.1 Internal Capital*

The purpose of capital is to provide sufficient resources to absorb the losses that a firm does not expect to make in the normal course of business (unexpected losses). The Company aims to maintain a minimum risk asset ratio which will ensure there is sufficient capital to support the Company during stressed conditions.

The Company has adopted the Standardised Approach to the calculation of Pillar 1 minimum capital requirements for Credit and Operational Risk. The Company does not currently have a Trading Book but does calculate a Market Risk position in respect of foreign currency in the non-trading book.

### *5.2 Approach to assessing adequacy of Internal Capital*

Capital adequacy is monitored daily by Treasury with monthly reporting provided to the Board and to the ALCO. In addition, capital planning forms a key element of the Company's Budgeting and Long Term Plan (LTP) processes. As part of the LTP, the Treasury function prepares a forward looking capital plan which is approved by ALCO and the Board. The capital plan ensures the Company has sufficient Own Funds to support the business and strategic objectives. The first year of the plan is revised for each reforecast and reported monthly to ALCO and the Board

The Company operates a fully integrated ICAAP process throughout the year that rolls into the final ICAAP assessment. The Company also performs monthly key risk assessments supported by periodic stress testing.

The Prudential Regulatory Authority sets Individual Capital Guidance (ICG) for the Company following completion of the ICAAP which is the Company's internal assessment of capital adequacy designed to address the requirements under Pillar 2 of the Basel framework.

The ICAAP process considers all of the risks faced by the Company, the likely impact of them if they were to occur, how these risks can be mitigated and the amount of capital that it is prudent to hold against them both currently and in the future. The Company performs a full ICAAP annually with approval provided by the Board.

The Company aims to operate at all times over and above the required ICG capital buffer and maintains a prudent level of capital for both short and long term requirements.

### *5.3 Pillar 1 Capital Requirements*

The following table shows the overall Pillar 1 minimum capital requirement and risk weighted assets for the Company under the Standardised Approach to Credit and Operational Risk.

#### Pillar 1 Capital Requirements and Risk Weighted

Under Basel III, the Pillar 1 capital requirement includes a Credit Valuation Adjustment (CVA) risk as required in line with Article 375 as shown below. It does not include foreign exchange exposure as this is de-minimis in 2014 applying the CRR minimum threshold.

| Own Funds Capital Requirements 28 February 2014 (£m) | | |
|---|---|---|
| Exposure Class | 8% Own Funds Capital Requirement | Risk Weighted Assets |
| Central Government or Central Banks | - | - |
| Multilateral Development Banks | - | - |
| Institutions | 3.5 | 43.6 |
| Corporates | 13.1 | 163.5 |
| Retail | 372.1 | 4,651.3 |
| Secured by Mortgages on Immovable Property | 20.0 | 249.5 |
| Exposures in Default | 2.7 | 33.5 |
| Covered Bonds | 0.2 | 2.8 |
| Securitisation Positions | - | - |
| Equity Exposures | 14.2 | 177.6 |
| Other Items | 17.8 | 223.9 |
| **Total Own Funds Capital Requirement for Credit and Counterparty Credit Risk** | **443.6** | **5,545.7** |
| **Total own Funds Capital Requirement for Operational Risk** | **77.5** | **968.9** |
| **Total Own Funds Capital Requirement for Credit Valuation Adjustment** | **2.6** | **32.2** |
| **Total Pillar 1 Capital Requirements** | **523.7** | **6,546.8** |

| Minimum Capital Requirements 28 February 2013 (£m) | | |
|---|---|---|
| Exposure Class | 8% Capital Requirement | Risk Weighted Assets |
| Central Government or Central Banks | - | - |
| Multilateral Development Banks | - | - |
| Institutions | 7.7 | 97.0 |
| Corporates | 6.5 | 81.9 |
| Retail | 315.7 | 3,945.9 |
| Secured by Mortgages on Immovable Property | 7.7 | 96.1 |
| Exposures in Default | 4.2 | 52.2 |
| Covered Bonds | 0.3 | 4.2 |
| Securitisation Positions | 0.4 | 4.8 |
| Equity Exposures | - | - |
| Other Items | 14.0 | 174.7 |
| **Total Credit Risk Minimum Capital Requirement under Pillar 1** | **356.5** | **4,456.8** |
| **Total Operational Risk Minimum Capital Requirement under Pillar 1** | **71.5** | **893.2** |
| **Total Market Risk Minimum Capital Requirement under Pillar 1** | **0.3** | **3.3** |
| **Total Pillar 1 Capital Requirements** | **428.3** | **5,353.3** |

### *5.4 Counterparty Credit Risk*

Counterparty Credit Risk (CCR) may be defined as the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows. Such transactions relate to contracts for financial derivative instruments, repurchase agreements and long settlement transactions.

All financial derivative transactions are governed by industry standard International Swaps and Derivatives Association (ISDA) Master Agreements, supplemented by ISDA Credit Support Annexes for a number of counterparties. Information relating to policies used in management of Wholesale Credit Risk, which includes Counterparty Credit Risk, is provided in Section 6.1.2. As at 28th February 2014 the Company has no public credit rating and no exposure to credit derivative transactions.

The Company in its ordinary course of business uses over the counter (OTC) derivatives and forward foreign exchange transactions to hedge exposures, i.e. interest rate and foreign exchange risk. The CCR mark to market method is used to measure exposure value and details of exposures are provided in the following table.

**Measure for exposure value under the CCR Mark to Market Method**

| Counterparty Credit Risk Exposures: CCR Mark to Market Method | February 2014 (£m) | February 2013 (£m) |
|---|---|---|
| Interest-rate contracts | 62.0 | 48.4 |
| Contracts concerning foreign currency rates and gold | 0.8 | 3.0 |
| Contracts concerning equities | - | - |
| Contracts concerning precious metals except gold | - | - |
| Contracts concerning commodities other than precious metals | - | - |
| **Total** | **62.8** | **51.4** |

Regulatory capital calculations do not incorporate netting benefits and there is no use of collateral in calculating net derivatives credit exposure. This is demonstrated in the following table.

**Net Derivative Credit Exposure**

| Net Derivative Credit Exposure | February 2014 (£m) | February 2013 (£m) |
|---|---|---|
| Gross Positive Fair Value of Contracts | 36.6 | 33.5 |
| Less: Netting benefits | - | - |
| Netted current credit exposure | 36.6 | 33.5 |
| Less: Collateral Held | - | - |
| **Net Derivatives Credit Exposure** | **36.6** | **33.5** |

# 6 Principal Risks

The principal risks that the Company is exposed to are as follows:

- Credit Risk
- Market Risk
- Liquidity and Funding Risk
- Operational Risk
- Insurance Risk
- Legal and Regulatory Compliance Risk

Further information on each principal risk is provided in the sections below

## *6.1 Credit Risk and Dilution Risk*

Credit risk is the potential that a borrower or counterparty will fail to meet its obligations in accordance with agreed terms. The Company's aim in relation to credit risk is to seek to lend responsibly, ensuring that the credit risk profile remains within agreed volatility parameters.

Credit risk arises principally from the Company's retail lending activities but also from placement of surplus funds with other banks and money market funds, investments 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 Company 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 Company's investment in that entity's financial instrument.

The CRO and his direct reports, the Director of Credit Risk and the Insurance & Market Risk Director, are responsible for: the development and oversight of the credit risk management framework; developing credit risk policies, tools and frameworks across the business; managing effective credit risk strategies; providing oversight of credit risk activities undertaken by the first line; and credit performance monitoring.

The Credit Risk function maintains a suite of policies defining the minimum requirements for the management of credit activities across the lifecycle. Credit risk policies include Credit Risk Policy and Minimum Standards, Wholesale Credit Risk Policy, Model Development, Collections and Recoveries, and Provisioning. All credit risk policies are subject to annual review by the RMC.

Credit Risk policies are supported by a range of process and procedures manuals that cover the activities undertaken through the credit lifecycle. A suite of management information is produced for different audiences within the governance framework. Crucial within this suite are Key Risk Indicators, with supporting limits and tolerances that allow the Company to track performance against appetite and identify any trends that could act as an early warning that performance may move outside Risk Appetite in the future.

### *6.1.1 Retail Credit Risk*

The Company's retail credit policy is defined though a combination of the credit risk policies and Risk Appetite framework. Through this, standards and limits are defined at all stages of the customer lifecycle, including new account sanctioning, customer management and collections and recoveries activity. Customer credit decisions are managed principally through the deployment of bespoke credit scorecard models and associated rules and an affordability assessment which determines a customer's ability to repay an outstanding credit amount. Judgemental credit decisions are generally used for more complex cases.

A dedicated credit risk management team have the day to day responsibility for managing the credit quality of the lending portfolio. The Company has fully established a credit Risk Appetite, credit policy and the deployment and execution of credit strategies. Responsibility for setting scorecard parameters, and the process for dealing with exceptions, lies with the Director of Credit Risk. Regular reporting to the RMC, ExCo, BRC and the Board provides oversight of this activity and insight to the performance of the portfolio.

### *6.1.2 Wholesale Credit Risk*

The Company does not operate in the mainstream commercial or corporate lending market, however the Company is exposed to Wholesale Credit Risk through depositing or lending surplus funds to a number of counterparties, with the inherent risk that these counterparties could fail to meet their obligations. The Company therefore maintains a limits-based framework for managing exposure to counterparty credit risk. These limits and the framework are set out in the Wholesale Credit Risk Policy which is approved by the RMC. The Treasury Director is responsible for ensuring that Treasury complies with counterparty credit risk limits, with the Market & Liquidity Risk team reporting to the Insurance & Market Risk Director providing independent oversight that these limits are adhered to.

The Company's Risk Appetite focuses on counterparties with strong capacity to meet financial commitments and requires approved counterparties to have investment grade ratings. Counterparty types include financial institutions, sovereigns and supranationals with approved instrument types including cash, certificates of deposit, bonds, treasury bills, gilts and repurchase agreements. Country limits are derived using External Credit Assessment Institutions (ECAI) ratings and economy size. Interest rate and foreign exchange derivatives are also used to hedge exposures.

The framework sets limits on the amounts that can be lent 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 Company uses Fitch, Moody's and Standard & Poor's as ECAIs with one of the approved ECAI's used to determine regulatory capital requirements under the Standardised Approach to Credit Risk. The Company has also set up a Wholesale Credit Risk Forum where current ratings and exposures are discussed on a monthly basis with members of Risk and Treasury attending. Counterparty reviews and proposals for new limits are also discussed at the Forum as well as discussions on current market events and their possible impact on the Company. All material limits are approved via the RMC and any exceptions or overrides to the Company's policy must be explicitly agreed by the RMC.

Daily monitoring of exposures is undertaken by Market & Liquidity Risk with monthly reporting of Key Risk Indicators provided to RMC.

As at 28th February 2014 the Company has not recognised any impairment losses in connection with these financial assets. There is therefore no requirement to establish credit reserves for wholesale credit risk exposures.

The Wholesale Credit Risk Policy provides that credit risk mitigation techniques are applied to reduce credit risk exposure. Industry standard ISDA Master Agreements are in place with all derivative counterparties, Global Master Repurchase Agreements are in place for all repurchase agreements and ISDA Credit Support Annexes (CSA's) have been executed with a number of counterparties with plans in place to have CSA's executed with all derivative counterparties. By 2015 it is expected that the majority of derivative transactions will be conducted with a clearing house which will reduce our Counterparty exposure on swap transactions. Use is also made of Delivery Versus Payment (DVP) arrangements when settling transactions. As at the end of February 2014 no additional credit risk mitigation is deemed required.

### *6.1.3 Wrong Way Risk*

Wrong way risk is defined as the risk that occurs when exposure to counterparty is adversely correlated with the credit quality of that counterparty.

The Company's Wholesale Credit Risk Policy prohibits the repurchase counterparty and the issuer of the collateral being the same, or related, entities. The Company has no exposure to wrong-way risk.

### *6.1.4 Third Party Credit Exposures*

The Company has a number of contracts with third parties that involve the payment of fees or commissions to TPF plc. Credit exposure arises through the risk that these payments may not be made. The requirements for management of these exposures are detailed in the Wholesale Credit Risk Policy with a limits framework in place to manage these exposures. The Wholesale Credit Risk Manager is responsible for reporting these exposures and any limit breaches to RMC.

### *6.1.5 Credit Risk: Analysis by Exposure Class*

The table below shows the credit risk exposure at the financial year end together with average credit risk exposure for the financial year.

This may differ from the amounts disclosed in the balance sheet in the Annual Report and Financial Statements, as it includes amounts where the customer has a contractual right to draw down further balances, converted using regulatory credit conversion factors.

The exposure is shown gross before taking into account the effects of credit risk mitigation but is reported net of appropriate impairment provisions.

**Credit Risk: Analysis by Exposure Class**

| Exposure Class | Exposure Value | | Average Exposure Value | |
|---|---|---|---|---|
| | February 2014 (£m) | February 2013 (£m) | Mar 13 - Feb 14* (£m) | Mar 12 - Feb 13 ** (£m) |
| Central Governments or Central Banks | 936.7 | 1,349.6 | 985.6 | 1,386.7 |
| Multilateral Development Banks | 274.7 | 301.4 | 292.1 | 323.5 |
| Institutions | 169.4 | 229.6 | 214.5 | 174.9 |
| Corporates | 163.5 | 154.6 | 54.1 | 95.5 |
| Retail | 6,202.3 | 5,261.2 | 5,892.0 | 4,896.8 |
| Secured by Mortgages on Immovable Property | 712.9 | 274.5 | 503.8 | 22.9 |
| Exposures in Default | 33.5 | 52.2 | 44.1 | 39.0 |
| Covered Bonds | 14.2 | 21.0 | 17.0 | 27.4 |
| Securitisation Positions | - | 24.1 | - | 26.4 |
| Equity Exposures | 71.0 | - | 11.8 | 149.7 |
| Other Items | 285.1 | 284.0 | 271.5 | 229.3 |
| **Total** | **8,863.3** | **7,952.2** | **8,286.5** | **7,372.1** |

* Indicative average on a CRD IV basis for the period March 13 to February 14
** Basel II comparative

The exposure shown in the table above includes the prevailing market value of the available for sale assets at the relevant reporting date.

Article 112 requires disclosure for additional asset classes. Therse have not been shown in the table above as these are nil as at the reporting period.

### *6.1.6 External Credit Assessment Institutions' Assessments*

The table below shows the credit risk exposure by Credit Quality Step.

Issue credit assessments are used for investments in specific obligations, mainly Asset Backed Securities / Covered Bonds and Government Guaranteed Bonds, where there are adjustments to the issuer's general rating that reflect factors specific to the investment.

Issuer credit assessments are generally used for other forms of lending where the assessment concerns the general capacity and willingness of the counterparty to meet their obligations. Ratings are obtained from market sources with processes in place to assign appropriate ratings to exposures and to monitor rating actions. The Company complies with the credit quality assessment scale with the appropriate issue or issuer rating used to determine the risk weights applied under the Standardised Approach to Credit Risk. Capital is assigned according to CRR requirements as explained in section 5.

## Analysis of Exposures by Credit Quality Step

The ECAI rating and exposure amounts have been included for Corporate, Institutions and Covered bonds as required by the CRR. For completeness the ratings of Central governments and banks have also been included.

| Exposure Values 2014 | Credit Quality Step 1 (£m) | Credit Quality Step 2 (£m) | Credit Quality Step 3 (£m) | Credit Quality Step 4 (£m) | Credit Quality Step 5 (£m) | Credit Quality Step 6 (£m) | Unrated (£m) | Total (£m) |
|---|---|---|---|---|---|---|---|---|
| **Fitch Assessment** | **AAA to AA-** | **A+ to A-** | **BBB+ to BBB-** | **BB+ to BB-** | **B+ to B-** | **CCC+ and below** | | |
| Central Governments or Central Banks | 936.7 | | | | | | | 936.7 |
| Multilateral Development Banks | 274.7 | | | | | | | 274.7 |
| Institutions | 96.0 | 73.4 | | | | | | 169.4 |
| Corporates | | | 149.7 | | | | 13.8 | 163.5 |
| Retail | | | | | | | 6,202.3 | 6,202.3 |
| Secured by Mortgages on Immovable Property | | | | | | | 712.9 | 712.9 |
| Expsoures in Default | | | | | | | 33.5 | 33.5 |
| Covered Bonds | | 14.2 | | | | | | 14.2 |
| Securitisation Positions | - | | | | | | | - |
| Equity Exposures | | | | | | | 71.0 | 71.0 |
| Other Items | | | | | | | 285.1 | 285.1 |
| **Total exposures pre mitigation** | **1,307.4** | **87.6** | **149.7** | **-** | **-** | **-** | **7,318.6** | **8,863.3** |
| **Total exposures post mitigation** | **1,307.4** | **87.6** | **149.7** | **-** | **-** | **-** | **7,318.6** | **8,863.3** |

Article 112 requires disclosure for additional asset classes. These have not been shown in the table above as these are nil as at the reporting period.

| Exposure Values 2013 | Credit Quality Step 1 (£m) | Credit Quality Step 2 (£m) | Credit Quality Step 3 (£m) | Credit Quality Step 4 (£m) | Credit Quality Step 5 (£m) | Credit Quality Step 6 (£m) | Unrated (£m) | Total (£m) |
|---|---|---|---|---|---|---|---|---|
| **Fitch Assessment** | **AAA to AA-** | **A+ to A-** | **BBB+ to BBB-** | **BB+ to BB-** | **B+ to B-** | **CCC+ and below** | | |
| Central Governments or Central Banks | 1,349.6 | | | | | | | 1,349.6 |
| Multilateral Development Banks | 301.4 | | | | | | | 301.4 |
| Institutions | 27.2 | 202.4 | 0.0 | | | | | 229.6 |
| Corporates | 0.0 | 145.3 | 2.8 | | | | 6.5 | 154.6 |
| Retail | | | | | | | 5,261.2 | 5,261.2 |
| Secured by Mortgages on Immovable Property | | | | | | | 274.5 | 274.5 |
| Exposures in Default | | | | | | | 52.2 | 52.2 |
| Covered Bonds | | 21.0 | | | | | | 21.0 |
| Securitisation Positions | 24.1 | | | | | | | 24.1 |
| Equity Exposures | | | | | | | | - |
| Other Items | | | | | | | 284.0 | 284.0 |
| **Total exposures pre mitigation** | **1,702.3** | **368.7** | **2.8** | **-** | **-** | **-** | **5,878.4** | **7,952.2** |
| **Total exposures post mitigation** | **1,702.3** | **368.7** | **2.8** | **-** | **-** | **-** | **5,878.4** | **7,952.2** |

### *6.1.7 Credit Risk: Analysis by Geography*

The table below provides the geographic distribution of the Company's credit risk exposure.

The Company is primarily focussed on providing financial services and products to UK personal customers although there is limited exposure in the Republic of Ireland. The Company sells credit cards into the Republic of Ireland where it is an authorised 'credit institution' under Irish law and is directly regulated by the Irish Financial Regulator in respect of this activity.

**Credit Risk: Analysis by Geography**

| Exposure Class | Geographic Location (28 February 2014) | | | |
|---|---|---|---|---|
| | UK (£m) | Europe (ex. UK) (£m) | Other (£m) | Total (£m) |
| Central Governments or Central Banks | 775.0 | 161.7 | | 936.7 |
| Multilateral Development Banks | 10.6 | 175.4 | 88.7 | 274.7 |
| Institutions | 169.4 | | | 169.4 |
| Corporates | 152.7 | 10.8 | | 163.5 |
| Retail | 6,167.6 | 34.7 | | 6,202.3 |
| Secured by Mortgages on Immovable Property | 712.9 | | | 712.9 |
| Exposures in Default | 33.0 | 0.5 | | 33.5 |
| Covered Bonds | 14.2 | | | 14.2 |
| Securitisation Positions | | | | - |
| Equity Exposures | 71.0 | | | 71.0 |
| Other Items | 285.1 | | | 285.1 |
| **Total** | **8,391.5** | **383.1** | **88.7** | **8,863.3** |

Article 112 requires disclosure for additional asset classes. These have not been included in the table above as there are none.

| Exposure Class | Geographic Location (28 February 2013) | | | |
|---|---|---|---|---|
| | UK (£m) | Europe (ex. UK) (£m) | Other (£m) | Total (£m) |
| Central Governments or Central Banks | 1,198.6 | 151.0 | - | 1,349.6 |
| Multilateral Development Banks | | 196.2 | 105.2 | 301.4 |
| Institutions | 229.6 | | | 229.6 |
| Corporates | 154.5 | 0.1 | | 154.6 |
| Retail | 5,226.3 | 34.9 | | 5,261.2 |
| Secured by Mortgages on Immovable Property | 274.5 | | | 274.5 |
| Exposures in Default | 51.3 | 0.9 | | 52.2 |
| Covered Bonds | 21.0 | | | 21.0 |
| Securitisation Positions | 24.1 | | | 24.1 |
| Equity Exposures | | | | - |
| Other Items | 284.0 | | | 284.0 |
| **Total** | **7,463.9** | **383.1** | **105.2** | **7,952.2** |

### *6.1.8 Credit Risk: Analysis by Industry type*

The distribution of credit risk exposure by industry type is provided in the following table.

The Company is primarily focussed on providing financial services and products to UK personal customers although it also has exposure to wholesale counterparties as detailed in Section 6.1.2 above.

**Credit Risk: Analysis by Industry Type**

| Exposure Class | Industry Type (28 February 2014) Financial Institutions (£m) | Government (£m) | Individuals (£m) | Wholesale and retail trade (£m) | Total (£m) |
|---|---|---|---|---|---|
| Central Governments or Central Banks | | 936.7 | | | 936.7 |
| Multilateral Development Banks | 274.7 | | | | 274.7 |
| Institutions | 169.4 | | | | 169.4 |
| Corporates | | | | 163.5 | 163.5 |
| *of which:SME's* | | | | *1.0* | *1.0* |
| Retail | | | 6,200.2 | 2.1 | 6,202.3 |
| *of which:SME's* | | | | *2.1* | *2.1* |
| Secured by Mortgages on Immovable Property | | | 712.9 | | 712.9 |
| Exposures in Default | | | 33.5 | | 33.5 |
| Covered Bonds | 14.2 | | | | 14.2 |
| Securitisation Positions | | | | | - |
| Equity Exposures | 71.0 | | | | 71.0 |
| **Total** | **529.3** | **936.7** | **6,946.6** | **165.6** | **8,578.2** |

Article 112 requires disclosure for additional asset classes. These are not included in the table above as there are none. Exposures to SME have been separately disclosed.

| Exposure Class | Industry Type (28 February 2013) Financial Institutions (£m) | Government (£m) | Individuals (£m) | Wholesale and retail trade (£m) | Total (£m) |
|---|---|---|---|---|---|
| Central Governments or Central Banks | | 1,349.6 | | | 1,349.6 |
| Multilateral Development Banks | 301.4 | | | | 301.4 |
| Institutions | 229.6 | | | | 229.6 |
| Corporates | | | | 154.6 | 154.6 |
| Retail | | | 5,261.2 | | 5,261.2 |
| Secured by Mortgages on Immovable Property | | | 274.5 | | 274.5 |
| Exposures in Default | | | 52.2 | | 52.2 |
| Covered Bonds | 21.0 | | | | 21.0 |
| Securitisation Positions | 24.1 | | | | 24.1 |
| Equity Exposures | | | | | - |
| **Total** | **576.1** | **1,349.6** | **5,587.9** | **154.6** | **7,668.2** |

### *6.1.9 Credit Risk: Exposure by Residual Maturity*

An analysis of residual maturity of exposures, on a contractual basis, is provided in the following table.

**Credit Risk exposure by residual maturity**

| Exposure Class | Residual Maturity (Contractual) (28 February 2013) | | | | | | |
|---|---|---|---|---|---|---|---|
| | On Demand (£m) | Repayable in 3 months or less (£m) | Repayable between 3 months and 1 year (£m) | Repayable between 1 and 5 years (£m) | Repayable over 5 years (£m) | Undated (£m) | Total (£m) |
| Central Governments or Central Banks | 867.3 | 3.7 | 8.5 | 349.9 | 114.9 | 5.4 | 1,349.6 |
| Multilateral Development Banks | | 0.4 | 52.1 | 206.2 | 42.7 | | 301.4 |
| Institutions | | 58.4 | 120.4 | 10.2 | 40.6 | | 229.6 |
| Corporates | | 154.6 | | | | | 154.6 |
| Retail | 2,776.0 | 250.3 | 586.7 | 1,479.1 | 169.1 | | 5,261.2 |
| Secured by Mortgages on Immovable Property | | 2.0 | 8.1 | 34.0 | 230.3 | | 274.5 |
| Exposures in Default | 29.1 | 3.4 | 8.4 | 11.3 | - | | 52.2 |
| Covered Bonds | | 0.0 | | 21.0 | | | 21.0 |
| Securitisation Positions | | 0.2 | | 23.9 | | | 24.1 |
| Equity Exposures | | | | | | | - |
| Other Items | | | | | | 284.0 | 284.0 |
| **Total** | **3,672.4** | **473.0** | **784.2** | **2,135.6** | **597.6** | **289.4** | **7,952.2** |

### *6.1.10 Credit Risk: Past Due and Impaired Assets*

The Company considers exposures to be past due where a customer does not make their minimum contractual monthly payment. For accounting purposes, an asset is considered to be impaired where there is objective evidence of impairment (for example, bankruptcy, insolvency, repossession or a declaration of financial hardship).For unsecured products this is where a customer is more than 90 days past due in interest or principle items and for the secured portfolio the days past due count is taken to be 180 days.

Details of past due and impaired exposures (gross of provisions), value adjustments and provisions and the net charge for the period, by industry type, together with details of past due and impaired exposures by geography are provided in the following tables.

## Past Due and Impaired Exposures by Industry

| Impaired and Past Due exposures by Industry Type 28 February 2014 | Financial Institutions (£m) | Governments (£m) | Individuals - Unsecured (£m) | Individuals - Secured (£m) | Individuals - Insurance Installment (£m) | Wholesale and retail trade (£m) | Total (£m) |
|---|---|---|---|---|---|---|---|
| **Past Due not Impaired** | | | | | | | |
| 0-29 days | - | - | 37.6 | 0.1 | 0.7 | - | 38.4 |
| 30-59 days | - | - | 9.0 | - | 0.2 | - | 9.2 |
| 60-119 days | - | - | 6.2 | - | 0.2 | - | 6.4 |
| Total | - | - | 52.8 | 0.1 | 1.1 | - | 54.0 |
| **Impaired Exposures** | - | - | 134.4 | - | - | - | 134.4 |
| **Impairment Provisions** | - | - | 156.6 | 0.3 | - | - | 156.9 |
| **Net Impairment Charge** | - | - | 54.8 | 0.2 | - | - | 55.0 |

| Impaired and Past Due exposures by Industry Type 28 February 2013 | Financial Institutions (£m) | Governments (£m) | Individuals - Unsecured (£m) | Individuals - Secured (£m) | Individuals - Insurance Installment (£m) | Wholesale and retail trade (£m) | Total (£m) |
|---|---|---|---|---|---|---|---|
| **Past Due not Impaired** | | | | | | | |
| 0-29 days | - | - | 40.5 | 0.2 | 1.1 | - | 41.8 |
| 30-59 days | - | - | 10.4 | - | 0.3 | - | 10.7 |
| 60-119 days | - | - | 9.0 | - | | - | 9.0 |
| Total | - | - | 59.9 | 0.2 | 1.4 | - | 61.5 |
| **Impaired Exposures** | - | - | 148.2 | - | - | - | 148.2 |
| **Impairment Provisions** | - | - | 172.1 | 0.1 | - | - | 172.2 |
| **Net Impairment Charge** | - | - | 73.1 | 0.1 | - | - | 73.2 |

**Past Due and Impaired Exposures by Geography**

| | Impaired and Past Due exposures by Geography 28 February 2014 | | | |
|---|---|---|---|---|
| | UK (£m) | Europe (ex. UK) (£m) | Other (£m) | Total (£m) |
| **Past Due not Impaired** | | | | |
| 0-29 days | 36.5 | 1.9 | - | 38.4 |
| 30-59 days | 8.7 | 0.5 | - | 9.2 |
| 60-119 days | 6.2 | 0.2 | - | 6.4 |
| Total | 51.4 | 2.6 | - | 54.0 |
| **Impaired Exposures** | 131.7 | 2.7 | - | 134.4 |
| **Impairment Provisions** | 153.8 | 3.1 | - | 156.9 |
| **Net Impairment Charge** | 53.2 | 1.8 | - | 55.0 |

| | Impaired and Past Due exposures by Geography 28 February 2013 | | | |
|---|---|---|---|---|
| | UK (£m) | Europe (ex. UK) (£m) | Other (£m) | Total (£m) |
| **Past Due not Impaired** | | | | |
| 0-29 days | 40.8 | 1.0 | - | 41.8 |
| 30-59 days | 9.6 | 1.1 | - | 10.7 |
| 60-119 days | 7.3 | 1.7 | - | 9.0 |
| Total | 57.7 | 3.8 | - | 61.5 |
| **Impaired Exposures** | 143.8 | 4.4 | - | 148.2 |
| **Impairment Provisions** | 168.8 | 3.4 | - | 172.2 |
| **Net Impairment Charge** | 71.2 | 2.0 | - | 73.2 |

#### *6.1.11 Credit Risk: Value Adjustments and Provisions*

Credit risk provisioning and impairment is the responsibility of the Board. Day to day responsibility for impairment provisions lies with the Chief Financial Officer and the Chief Risk Officer.

In managing credit risk provisioning and impairment the Company applies IFRS, specifically IAS39 which has been supplemented by IFRS 13 Fair value measurement and requires that financial assets are assessed for impairment. Loan impairment provisions are established to recognise incurred impairment losses. A loan is impaired when there is objective evidence that events since the loan was granted have affected the amount or timing of expected cash flows from the loan. The impairment loss is the difference between the carrying value of the loan and the present value of estimated future cash flows at the loan's original effective interest rate.

The Company applies a collective impairment provisioning model that segments provisions into the incurred but not reported (non-defaulted) book and the defaulted (bad) book based upon the approved definition of default operated on the credit card, loan and mortgage portfolios. Incurred but not reported provisions are held where there is objective evidence of impairment on an account (e.g. missed payments) but the account does not yet meet the Company's definition of default. Impairment provisions are established on a portfolio basis taking into account the level of arrears, security, past loss experience and defaults based on portfolio trends. The most significant factors in establishing these provisions are the expected loss rates.

The undernoted table shows the reconciliation of changes in provisions for loans and advances. This table excludes impairment losses of £5.8m (2013: £8.8m) arising on amounts due from the insurance business.

**Analysis of Impairment provisions for loans and advances**

| | 28/02/2014 (£m) | 28/02/2013 (£m) |
|---|---|---|
| At beginning of the year | 172.2 | 184.6 |
| Amounts written off | (66.2) | (82.8) |
| Charge to income statement | 55.0 | 73.2 |
| Foreign currency translation | (0.2) | |
| Unwind of discount | (3.9) | (2.8) |
| At end of year | 156.9 | 172.2 |

Provisions for impaired loans and advances at 28th February 2014 were £124m (2013: £147m).

There are no further value adjustments in relation to credit risk. Non-credit risk value adjustments are disclosed in Note 15 of the Annual Report and Financial Statements.

#### *6.1.12 Credit Risk Mitigation*

Policies are in place which allows the use of credit risk mitigation to reduce Counterparty Credit Risk. As at end February 2014 no use has been made of collateral other than industry standard ISDA agreements, ISDA Credit Support Annexes used in relation to financial derivative transactions and Global Master Repurchase Agreements used in relation to repurchase transactions.

#### *6.1.13 Dilution Risk*

The Company has no exposure to dilution risk.

## 6.2 Non trading book exposures in Equities

The Company's non trading exposure in equities relates to the investment in TU which underwrites Motor and Home insurance contracts under the Tesco Bank brand. TU is an associate of the Company which has a 49.9% equity share. This equity position in the non-trading book is held as a strategic shareholding.

The Company values the investment in TU at cost less any provision for impairment. At 28th February 2014 this investment was valued at £71.0m (2013: £86.0m) and accounted for all non-trading book equities. The carrying value on the balance sheet represents the fair value and there has been no sale or liquidations in the period nor any other unrealised gains or losses relating to TU included in the Company's Core Tier 1 capital.

## 6.3 Market Risk

Market risk is defined as the risk that the value of the Company's income, liabilities, assets or costs might vary due to changes in the value of financial market prices; this includes interest rates, foreign exchange rates, credit spreads and equities. The Company has no Trading Book.

Market risk arises in the following ways in the Company:

- Interest rate risk in the Company's retail portfolios, and in its funding activities arises from the different re-pricing characteristics of non-trading assets and liabilities, hereafter referred to as interest rate risk in the banking book (IRRBB);
- Foreign exchange exposures that arise from foreign currency investments, foreign currency loans, deposits, income and other foreign currency contracts;
- Indirect interest rate and credit spread risk arises in the investment portfolios of TU; and
- Investment risk relating to the Company's pension obligations.

Control of market risk exposure is managed by ALCO. The Company has also established the Market Risk Forum (MRF) where monitoring, review and proposal of pro-active action relating to the Company's market risk positions on a detailed level occur. The MRF discusses papers and proposals for approval the week prior to each ALCO, with membership comprised of senior members of the Treasury and Market & Liquidity Risk (M&LR) teams. In addition, the M&LR team provides review and challenge of policies and procedures relating to market risk across the Company on an ongoing basis. M&LR are responsible for 2nd line oversight of the Asset & Liability Management (ALM) and Transaction Management teams within Treasury.

### *6.3.1 Interest Rate Risk in the Banking Book (IRRBB)*

IRRBB is the main market risk that could affect the Company's net interest income and arises where there is potential for changes in interest rates which result in a movement in the Banking Book net interest income. IRRBB may arise for a number of reasons, for example:

- Repricing Risk – related to the timing differences in the maturity (for fixed rate) and repricing (for floating rate) of the Company's assets, liabilities and off balance sheet positions;
- Yield Curve Risk - risk that earnings from banking book products are adversely affected by movement in the yield curve due to the timing mismatch in the repricing of assets, liabilities and off balance sheet positions;
- Basis Risk - risk arising from the imperfect correlation between changes in interest rate indices, such as between LIBOR and Base rate or between Base rate and Administered rates;
- Customer Optionality – risk that a loss in value arises because the take up of a fixed rate product, e.g. personal fixed rate loans, is different from expectations (pipeline risk) or the repayment behaviour of customers, e.g. mortgages, differs from expectations (prepayment risk), due to, or combined with, a movement in interest rates.

The Company has established limits that describe its Risk Appetite in this area and stress tests are performed using sensitivity to fluctuations in underlying interest rates in order to monitor this risk. High level Risk Appetite and policies are recommended for approval by the ALCO to the Board. The ALCO have delegated responsibility to the ALM team to ensure that the Company's IRRBB risk is maintained within Risk Appetite. The Market Risk Forum and the M&LR team provide the governance and oversight relating to ALM's management of the IRRBB.

IRRBB primarily arises from the consumer lending portfolios and retail deposits. Hedging strategies are implemented as required to ensure that the Company remains within stated Risk Appetite.

The main hedging instruments used are interest rate swaps and the residual exposure is reported to the ALCO monthly using two key risk measures:

- Economic value of equity sensitivity to 200 basis point movements across the yield curve;
- Net interest income sensitivity to an instantaneous +1.0%; -0.5% parallel movement in interest rates.

The different methodologies can be summarised as:

**Economic Value of Equity (EVE)** – the EVE approach focuses on the value of the Company's equity in today's interest rate environment and its sensitivity to changes in interest rates. This is done by scheduling the cash flows of all assets and liabilities and applying a set of discount rates to develop the present values. The present value of equity is derived by calculating the difference between the present value of assets and liabilities (Equity = Assets - Liabilities). The EVE calculation for the Company is subject to sensitivity analysis comprising +200 and -200 basis point movements across the yield curve. This is then expressed as a percentage change from the current present value of equity.

**Net Interest Income (NII) Sensitivity** – As at 28 February 2014, this measured the negative effect of a downward 50bps and an upward 100bps interest rate shock on the next 12 months NII, based on the re-pricing gaps in the existing portfolio. Due to the current low interest rate environment, the downward rate shock has been limited to 50bps. As at the prior year end, the NII sensitivity exposure was to an upward 100bps movement.

| | 2014 | 2013 |
|---|---|---|
| **Measure** | | |
| Economic Value of Equity | (1.16%) | (6.51%) |
| NII Sensitivity | (0.95%) | (0.58%) |

The EVE reduction over the prior year is driven by hedging activity to mitigate the potential impact of interest rate shocks.

The sensitivity analysis presented represents management's assessment of a reasonably possible sensitivity, rather than worst case scenario positions

### *6.3.2 Foreign Exchange Risk*

The Company invests in non-GBP denominated bonds, and may raise funding from the wholesale markets in currencies other than GBP. Foreign exchange (FX) exposure arises if these exposures are not hedged. FX exposure may also arise through the Company's EUR-denominated Irish credit card exposure, through the cash held in tills and in transit from the Travel Money business and through invoices received which are denominated in foreign currencies.

All foreign currency exposure is hedged to reduce exposure to a minimal level within Board approved limits.

The Company's foreign exchange exposure is de minimis per CRR Article 351. There is no Own Funds requirements for foreign exchange risk, settlement risk or commodity risk.

### *6.3.3 Pension Risk*

Pension Risk may be defined as the risk to a company caused by its contractual or other liabilities to or with respect to a pension scheme (whether established for its employees or those of a related company or otherwise).

The Company is a participating employer in the Tesco plc Pension Scheme (the Scheme) which is accounted for on a contributions only basis as described in the Company's Annual Report and Financial Statements.

Tesco plc is the sponsoring employer and has recognised the appropriate net liability of the Scheme. The Company is exposed to pension risk through its obligation to the Scheme.

## 6.4 Liquidity and Funding Risk

Liquidity risk is the risk that the Company has insufficient cash resources to meet its obligations as they fall due or can do so only at excessive cost. Funding risk is the risk that the Company does not have sufficient stable and diverse sources of funding.

Liquidity adequacy is the on-going ability to accommodate liability maturities and withdrawals, fund asset growth, and otherwise meet contractual obligations through unconstrained access to adequate funding resources at reasonable market rates. The Company seeks to maintain a conservative liquidity and funding profile ensuring that it is able to meet its financial obligations under normal and stressed market conditions.

The Board determines and approves the Liquidity Risk Appetite of the Company. It also reviews and approves the Liquidity Risk Management Policy framework (LRMP) and delegates to the CEO and thence, through ExCo and the ALCO, the day to day responsibility for complying with the framework which is in turn delegated to the Treasurer. The LRMP provides a framework to enable the Company to manage liquidity risk in a structured and prudent manner, as approved by the Board.

The Treasurer is responsible for ensuring that all liquidity and funding measures are managed within policy and appetite. Liquidity management information is provided on a regular basis to the Liquidity Management Forum, the ALCO and the Board, with any exceptions highlighted. The Market and Liquidity Risk team provides review and challenge of policies and procedures relating to funding and liquidity risk.

The Treasurer is also responsible for formulating, and obtaining Board approval for, an annual funding plan as part of the overall business planning process. This ensures that the longer term growth plans of the business can be accommodated within and from available sources of funding whilst maintaining the liquidity risk profile of the Company within the Board approved Risk Appetite.

Liquidity and funding risk is assessed through the ILAA process on at least an annual basis. The ILAA process involves detailed consideration of the following steps:

- Identification of sources of risk
- Quantification of those risks through stress testing
- Consideration of management processes and controls to minimize the risk
- Assessment of the type and quality of liquid asset holdings to mitigate risk
- Consideration of the level of contingent funding required to mitigate the risk

The Company sets formal limits within the LRMP to maintain liquidity risk exposures within the Liquidity Risk Appetite set by the Board. The key liquidity measures monitored on a daily basis are the Internal Liquidity Requirement (ILR), Individual Liquidity Guidance (ILG) ratio, the Net Stable Funding Ratio (NSFR), the Loan to Deposit ratio, Asset Encumbrance and Wholesale Funding Ratio. The ILR requires the Company to maintain sufficient liquid assets to survive a defined stress scenario (which the Company defines as a “severe retail run”) for a 3 month period. The regulatory ILG ratio requires the Company to maintain sufficient high quality liquid assets to meet liquidity requirements during periods of market dislocation and stress.

Additionally, the Company monitors and reports on the composition of its funding base against defined thresholds to avoid funding source and maturity concentration risks.

Stress testing of current and forecast financial positions is conducted to inform the Company of required liquidity resources. Reverse stress testing is conducted to inform the Company of the circumstances that would result in liquidity resources being exhausted.

## 6.5 Operational Risk

Operational Risk is the potential error, loss, harm or failure caused by ineffective or inadequately defined processes, system failure, improper conduct, human error or from external events. The Company aims to minimise all operational risks and reputational impacts. The Company is subject to the Standardised Approach (TSA) method to calculate Pillar I Operational Risk capital, as outlined in Capital Requirement Regulations.

The CRO, and his direct report, the Head of Operational Risk, together with a dedicated Operational Risk team are responsible for: developing and maintaining the operational risk framework; working with the business to ensure they understand their first line responsibilities and how they must execute them within the framework; supporting the business with embedding policies, tools and frameworks across the business and instilling a positive risk management culture; and independently monitoring, assessing and reporting on operational risk profiles and losses. The Operational Risk function maintains a suite of policies defining the minimum requirements for the management of Operational Risk, Financial Crime and Information Security.

Business units and functions assess their operational risks on an ongoing basis via prescribed processes for Risk Control Self Assessment (RCSA) as well as an integrated series of workshops such as ICAAP. The RCSA analysis is reviewed and updated to reflect changes to the risk control environment arising from changes in products, processes and systems. This is supplemented further by an Event Management process and monthly reporting of the operational risk profile to the Risk Management Committee. The RCSA, Event Management and workshops assist with identifying the forward looking risk profile and the results are used to inform the Board's decision on the level set for Pillar II capital.

The Financial Crime, Operational and Regulatory Risk Committee (FORRC) provides oversight of the operational risk profile and provides regular reports and recommendations to the appropriate governance bodies.

## 6.6 Insurance Risk

The Company defines insurance risk as the risk accepted through insurance products in return for a premium. These risks may or may not occur and the amount and timing of these risks are uncertain and determined by events outside of our control (e.g. flood or car crash).

Insurance risk is typically categorised in the following way:

- Underwriting risk – Related to the selection and pricing (or quantification) of the risk currently being transferred from customers to an insurer; and
- Reserving risk – Related to valuation and management of financial resources sufficient to pay claims for the risk already transferred from customers to an insurer.

The Company is not directly exposed to any Insurance Risk. The Company is indirectly exposed to insurance risk through its 49.9% ownership of Tesco Underwriting (TU), an authorised insurance company. TU is responsible for its Individual Capital Assessment (ICA) as a subsidiary of Ageas. TU operates a separate risk framework with dedicated risk and compliance teams and a suite of TU risk policies.

In addition to insurance risk TU is exposed to market and credit risk through its investment portfolio. The TU investment portfolio is predominantly comprised of bonds, with the residual amount consisting of short term cash investments.

The main risks in the portfolio relate to changes in: (i) interest rates affecting fair value arising as a proportion of the bonds are fixed rate in nature, (ii) credit quality, as the range of assets held are issued by a variety of institutions with different credit characteristics.

Portfolio management is undertaken by the TU investment committee. The Company's ALM team monitors high-level risk information and the performance of the portfolio and reports this to the ALCO on a monthly basis. Market & Liquidity Risk provides oversight and challenge.

Additional underwriting capacity is provided by a panel of third party providers for Motor and Home customers. In addition, during the course of this year the Company launched a new young driver car insurance product, "Tesco Box Insurance" on a "white label" basis.

The Company also markets Pet, Travel and Life insurance and Payment Protection on a "white label" basis. However, during the course of the year we stopped marketing Health, Dental, Commercial Van and Stand Alone Breakdown for other providers. The Company does not carry the insurance risk associated with these "white labelled" products, which remains with the provider.

## 6.7 Legal and Regulatory Compliance Risk

Legal and Regulatory compliance risk is the risk of consequences arising as a result of non-compliance with the laws and regulations affecting the Company's governance, prudential arrangements, business activities, risk management and its conduct with customers. The Company's aim is to meet all legal and regulatory requirements and minimise any reputational impact by maintaining an effective control framework. Where legal or regulatory requirements are not met effective remediation plans will be put in place.

The CRO, and his direct report, Compliance, Conduct & Regulatory Director, together with a dedicated Regulatory Risk team are responsible for: regulatory risk management policies and processes; ensuring that regulatory risks are identified and managed appropriately; monitoring, challenge and oversight of regulatory risk and compliance across the Company's business. Guidance and advice to enable the business to operate in a compliant manner is provided by the Regulatory Risk and Regulatory Legal teams. Regulatory Risk's scope includes FCA and PRA regulations as well as the Office of the Information Commissioners requirements (for the Data Protection Act) as well as internal regulatory risk management policies.

As part of the Company's Policy Framework approach, Regulatory Risk is responsible for the Compliance Policy which is approved by the Company's Board. The Compliance Policy sets out the scope of the Company's regulatory responsibilities and its approach to managing regulatory risk across the business. Regulatory Risk are also responsible for the detailed regulatory policies that are already in place and that will underpin the Compliance policy (e.g. Data Protection and Regulatory Contact) which are approved through RMC. These will be further supported by Operational Guides that provide relevant practical guidance to business and operational areas to enable them to comply with the regulatory policies which are currently in development.

The Company's Legal function provides advice and support on all aspects of law and associated policies, including Statutory Compliance Policy, Competition Policy, and Bribery and Corruption.

### *6.7.1 Conduct Risk*

Conduct Risk is a risk recognised by the Financial Conduct Authority that the business strategy, operations or conduct of a firm may produce poor outcomes for customers. Conduct Risk within the Company can arise as a result of an over aggressive strategy, or poor management of sales processes, credit assessments and processes or failure to comply with other regulatory requirements and is controlled by the Company's overall risk framework.

Conduct risk is managed within business areas through their own product boards and executive governance committees. There is a subcommittee of the Executive Committee – the Conduct Committee – which provides executive and second line of defence challenge to the conduct risk management within business lines. Product-level conduct risk management information has been developed and, following a roll-out programme, will be reported by each product area through the first line of defence governance meetings and into the Conduct Committee. Summary conduct information is provided to the Board and an annual report is provided by the Conduct Committee to the Board Risk Committee. Work continues to strengthen the separate management and reporting of conduct risk.

# 7 Securitisation and Covered Bonds

### *7.1 Securitisation and Covered Bond Roles, Objectives, Involvement and Accounting Treatment*

The Company acts as an originator of securitisations and also as an investor in Securitisation and Covered bonds.

Securitisation is used to provide secured funding to the Company. The underlying assets are retained at amortised cost on the Company's balance sheet and the inter-company loan relating to the bonds issued are held at amortised cost and held in a hedge relationship where this gives rise to interest rate or foreign exchange risk. For accounting purposes the special purpose entities (SPE) are consolidated in the TPFG Group as the substance of the relationship and retention of risk and rewards indicates control of the SPE is retained.

As at the year end, £2,343.9m (2013: £1,188.4m) of the credit card portfolio of the Company had its beneficial interest assigned to a special purpose entity, Delamare Cards Receivables Trustee Limited, for use as collateral in securitisation transactions. On 26 April 2013 the Company purchased £1,750.0m of credit card backed bonds issued by Delamare Cards MTN Issuer plc. Of this, £1,600.0m has been pledged with the Bank of England and this has collateralised a further £1,096.0m of FLS drawings. There has been no change in key assumptions or inputs in the year, no gains on sales and no significant change to any of the quantitative disclosures.

The Company also operates within the securitisation and covered bond markets as an investor, purchasing high quality securitisation and covered bonds for the purposes of diversifying its wholesale assets as part of managing its overall liquidity assets buffer. As an investor, the Company invests directly in third party asset backed securities and it does not hold any re-securitisation positions. These activities are summarised in the table below.

**Securitisation and Covered Bond Involvement**

| Total Outstanding Securitisation Exposure as at 28 February 2014 | | | | |
|---|---|---|---|---|
| Securitisation Role / Exposure Type | Exposure Value (£m) | Impaired Exposures (£m) | Past Due Exposures (£m) | Securitation Losses recognised in period (£m) |
| Originated Securitisations | | | | |
| Credit Card Receivables (ABS) | - | - | - | - |
| Invested Securitisations | | | | |
| Residential Mortgage Backed Securities (RMBS) | | - | - | - |
| Residential Mortgage Backed Covered Bonds | 14.2 | - | - | - |

| Total Outstanding Securitisation Exposure as at 28 February 2013 | | | | |
|---|---|---|---|---|
| Securitisation Role / Exposure Type | Exposure Value (£m) | Impaired Exposures (£m) | Past Due Exposures (£m) | Securitation Losses recognised in period (£m) |
| Originated Securitisations | | | | |
| Credit Card Receivables (ABS) | - | - | - | - |
| Invested Securitisations | | | | |
| Residential Mortgage Backed Securities (RMBS) | 24.1 | - | - | - |
| Residential Mortgage Backed Covered Bonds | 21.0 | - | - | - |

The Company is not active in synthetic securitisation. The Company does not act as a sponsor to any securitisations and it does not provide liquidity facilities to either originated asset backed securities or any third parties involved in securitisation activity.

### *7.2 Risks inherent in Securitised and Covered Bond Assets*

There are a number of inherent risks in purchasing certain securitised notes including: the performance of the underlying assets; the explicit support of the Issuer and its financial stability; volatility in the market value of securitised notes; and liquidity risk that the SPV issuing the purchased securitisation notes has insufficient income on the underlying assets (and via interest rate or total return swaps) to meet its obligations.

The Company has established monitoring processes for investing in securitisation notes. It conducts reviews of Investor Reports by Issuers and an assessment is made of securitised asset performance (notably including arrears levels), operational risk, cash flow analysis, market prices / yields, legal analysis and counterparty risk at both programme and Issuer levels through quantitative and qualitative analysis.

Interest rate risk arising from fixed rate purchases of securitisation notes is considered and hedged appropriately in line with the Company's interest rate risk policy. As at end of February 2014, the Company has no exposure to securitisation positions as an investor.

The risks inherent in Covered Bonds relate primarily to the financial strength of the issuer and also to the underlying assets used as collateral for the bonds. A pre-purchase assessment of the Issuer's financial strength is undertaken together with an assessment of the bond structure and underlying assets, including areas such as arrears levels and collateral arrangements. An annual review of the Issuer's financial strength is undertaken.

### *7.3 Approach to Calculating Risk Weighted Exposure Amounts*

The Company adopts the Standardised Approach in relation to all types of securitisation and covered bond exposures.

For invested positions the Company calculates risk weighted exposure amounts using the credit quality steps prescribed in CRR for securitisations and Covered Bond exposures. An approved ECAI (usually Fitch) is used for assessment of regulatory capital.

The following table details the Company's invested non-trading book securitisation and covered bond positions, own funds requirements, credit quality steps and risk weight bands.

**Securitisation Capital Resources Requirements**

| Total Outstanding as at 28 February 2014 | | | |
|---|---|---|---|
| Credit Quality Step/Exposure Type | Exposure (£m) | Risk Weight (%) | Capital Resource Requirement (£m) |
| Credit Quality Step 1 | | | |
| Residential Mortgage Backed Securities (RMBS) | | 20% | |
| Credit Quality Step 2 | | | |
| Residential Mortgage Backed Covered Bond | 14.2 | 20% | 2.8 |

| Total Outstanding as at 28 February 2013 | | | |
|---|---|---|---|
| Credit Quality Step/Exposure Type | Exposure (£m) | Risk Weight (%) | Capital Resource Requirement (£m) |
| Credit Quality Step 1 | | | |
| Residential Mortgage Backed Securities (RMBS) | 24.1 | 20% | 4.8 |
| Credit Quality Step 2 | | | |
| Residential Mortgage Backed Covered Bond | 21.0 | 20% | 4.2 |

# 8 Remuneration

## *8.1 Remuneration Governance and Decision Making*

The Company has established a Remuneration Committee to oversee the Remuneration Policy ("the Policy") and decisions on reward for Remuneration Code Staff (Code Staff), as defined in the PRA handbook, as well as colleagues in the key control functions of Risk, Compliance and Audit. The Policy is reviewed on a regular basis by the Committee.

The Remuneration Committee seeks to ensure that the levels and structures of remuneration are designed to attract, retain and motivate management talent needed to run the business in a way which is consistent with the Risk Appetite and on-going sustainability of the business and to be compliant with the applicable legislation and regulation.

The Committee is appointed by the Board and consists of independent non-executive directors of the Company. It met 4 times during 2013/14. Additionally, the Committee Chairman provides an annual update to the Remuneration Committee of Tesco plc.

The Committee is supported by the Personnel Director of the Company and a representative from the Tesco Plc Group Reward team. In addition, the Company's Chief Executive attends meetings at the request of the Committee. The Committee received independent advice from a number of external providers during the year, including PricewaterhouseCoopers and the Hay group.

## *8.2 Aligning Performance and Reward – the link between pay and performance*

The Policy considers the following when determining individual remuneration arrangements to ensure the link between pay and performance:

- A combination of a balanced scorecard (known as the steering wheel) and the financial performance of the Company is used, ensuring that decisions are not taken for short-term financial gain to the detriment of other aspects of the business
- An appropriate combination of fixed and variable pay, benchmarked annually, ensuring the Company's fixed-variable ratios on remuneration are controlled and do not encourage inappropriate risk taking behaviour
- The basis of assessment for the short-term bonus is adjusted for people in control functions, so greater emphasis is placed on the performance of the control function
- Maximum award levels are determined as percentages of salary, which are pre-set for the whole Company based on work level and individual performance rating. Rewards are not increased over and above this calculation, and therefore the opportunity for an individual to benefit from increased rewards outside of this core structure does not exist

Where underperformance is identified it is managed through the Company's performance management process and will result in reduced or zero awards. There is a strong share based element to the variable reward offered to support long-term commitment to sustainable performance, with all Code Staff subject to levels of deferral. All incentive awards include provisions for adjustment for both malus and claw-back at the discretion of the Remuneration Committee.

The aggregate value of remuneration in 2013/14 was £18.02m, broken down as £8.99m to Senior Management and £9.03m to other Code Staff.

The aggregate quantities information on remuneration, broken down by senior management and other Code Staff is described below

The amounts of remuneration for the financial year split into fixed and variable remuneration and the number of beneficiaries is;

| | Senior Mgt [2] | Other Code Staff | Total |
|---|---|---|---|
| Number of beneficiaries | 17 | 31 | 48 |
| | Senior Mgt £m | Other Code Staff £m | Total £m |
| Fixed reward [3] | 5.41 | 6.18 | 11.59 |
| Variable reward [4] | 3.58 | 2.85 | 6.43 |
| Total remuneration | 8.99 | 9.03 | 18.02 |

The amounts and forms of variable remuneration, split into cash, shares, share-linked instruments and other types is;

| | Senior Mgt | Other Code Staff | Total |
|---|---|---|---|
| Cash | 0.84 | 1.01 | 1.85 |
| Compulsory Deferred Shares | 0.84 | 0.99 | 1.83 |
| Performance Share awards | 1.89 | 0.85 | 2.74 |
| Total remuneration | 3.58 | 2.85 | 6.43 |

The amounts of outstanding deferred remuneration, split into vested and unvested portions is;

| | Senior Mgt | Other Code Staff | Total |
|---|---|---|---|
| Vested | 0 | 0 | 0 |
| Unvested | 2.74 | 1.83 | 4.57 |
| Total remuneration | 2.74 | 1.83 | 4.57 |

Of the above deferred remuneration awarded during the financial year, none has paid out and none has been reduced through performance adjustments.

Two beneficiaries received joining awards during the year totalling £0.16m and two beneficiaries received severance payments totalling £0.40m. These payments were in line with their contracts of employment. Of the individuals in receipt of severance payments the highest such award to a single person was £0.21m.

Of the individuals noted above two individuals have remuneration for the financial year of between EUR 1 million and EUR 1.5 million, two have remuneration of between EUR 1.5m and EUR 2m and one individual has remuneration of between EUR 2m and EUR 2.5m.

[2] Senior management is defined as all senior directors operating at Work Level 5, ExCo members, non-executive directors and the Chairman of the Company. Other Code Staff includes directors at Work Level 4 and senior managers at Work Level 3 whose actions have a material impact on the risk profile of the Company).

[3] Includes base salary (and in the case of non-executive directors any fees), benefits in kind and any other cash payments paid in the year.

[4] Where payable other than in cash, the variable remuneration has been valued for the purposes of this table using the following methods: Annual bonus award – The value of any cash payments and / or deferred shares on date of approval of award; Performance share plan – an expected value of 50% of the value of the grant.

## ANNEX I - Declaration

**Board Risk Management Declaration**

The Board is responsible for reviewing the effectiveness of the Company's risk management arrangements and systems of financial and internal control. These are designed to manage rather than eliminate the risks of not achieving business objectives, and – as such- offer reasonable but not absolute assurance against fraud, material misstatement and loss.

The Board considers that it has in place adequate systems and controls with regard to the Company's profile and strategy and an appropriate array of assurance mechanisms, properly resourced and skilled, to avoid or minimise loss.

## ANNEX II – Risk Statement

**Board Approved Risk Statement**

The Company's strategic objective is to be the bank for Tesco customers – rewarding their loyalty and earning their trust. In line with Tesco Group, the Company operates with a strong customer focus and provides simple, transparent products which aim to deliver value for customers. The Company's strategy is pursued within a defined Risk Appetite.

The Board express the Risk Appetite through a number of key Risk Appetite measures which define the level of risk acceptable across three categories:

**Financial: -** credit, market, insurance and liquidity risks;
**Reputational: -** conduct, customer, regulatory and external reputational risk;
**Operational & People: -** the risk associated with the failure of key processes or systems and the risk of not having the right quality and quantity of people to operate those processes and systems.

The suite of risk appetite measures support the overarching objective to manage profit volatility within prescribed limits which are agreed with the parent shareholder annually. The profit volatility limits seek to ensure that the bank remains profitable under severe market or economic stress conditions.

The risk appetite measures are integrated into decision making, monitoring and reporting processes, with early warning trigger levels set to drive any required corrective action before overall tolerance levels are reached.

The following table sets out a number of the key measures used to monitor the Bank's risk profile:

| | **Risk Area** | **Metric** | **Comment** | **Measure at 28/02/2014** |
|---|---|---|---|---|
| **FINANCIAL RISK** | Capital | Risk Asset Ratio | The bank targets a minimum buffer above the regulatory capital guidance threshold and has operated at a significant surplus to this throughout the year. Our long term capital plan, and current ICAAP, show continuation of a surplus above the internally set capital buffer. | RAR 17.7%. |
| | Liquidity | ILG / ILR | Liquidity Risk Appetite (LRA) has been set by the Board at a level which would allow the Bank to survive for 90 days following the start of a Board approved liquidity stress scenario. The stress scenario used is defined as the Internal Liquidity Requirement (ILR) and may be above or below the regulatory defined Individual Liquidity Guidance (ILG) which is set and adjusted periodically by the PRA. The Bank manages its liquidity resources to exceed the higher of ILR or ILG on a continuous basis. The Board LRA requires that a minimum buffer over the prevailing ILG or ILR level is maintained at all times. The bank has held material surplus liquidity over and above the risk appetite level throughout the year. | ILG resources = 117% versus 110% limit. |

| | | | | |
|---|---|---|---|---|
| | Credit Risk | Bad Debt/Asset Ratio | The bank has strong credit management controls and manages each asset class within individual product risk appetites. External benchmarking of Tesco Bank retail lending bad debt levels confirms the risk profile compares favourably to peer banks. | 13/14 BDAR was 1.0% |
| | Market Risk | Economic Value of Equity (EVE)<br><br>NII Sensitivity | The bank does not undertake any form of proprietary trading activity. It utilises a range of simple derivative products for the sole purpose of managing the market risks which arise from the provision of retail banking products to customers. The predominant hedging activity relates to management of interest rate risk using interest rate swaps and management of foreign exchange risk thorough the use of cross currency swaps and spot and forward foreign exchange contracts. The level of residual interest rate risk that is accepted by the Board is expressed through two risk measures with limits set for each – Economic Value of Equity (EVE) which measures the change in the value of equity under a 200bps parallel upward shift in interest rates; and Net Interest Income Sensitivity which measures the change in interest income under two interest rate scenarios (parallel downward shift of 0.50% and an upward shift of 1.0%) | EVE Limit = +/- 7%<br><br>NII limit = +/- 1.5%<br><br>The Company was within both limits at the year end. |
| | | | | |
| **REPUTATIONAL RISK** | A number of appetite measures are monitored which collectively seek to ensure Tesco Bank maintains its reputation amongst various stakeholders. These include our core customers (e.g. customer survey results, complaints data and net promoter scores), regulator (through tracking issue closure and direct feedback) and other external bodies (e.g. rating agencies, through maintaining a private rating). All measures are within appetite at year end. | | | |
| **IT, OPERATIONS AND PEOPLE RISKS** | The bank monitors its IT system security, availability and capacity, operational performance and human resource skill, setting risk appetite limits for each. Business Process controls, operational losses and business continuity metrics are tracked, as are staff survey results and skills gaps, and are used to support a subjective Red, Amber, Green (RAG) rating system, all of which are within risk appetite limit at the year end. | | | |

## Annex III – Balance sheet Reconciliation methodology

Institutions are required to provide information on the reconciliation between balance sheet items used to calculate own funds and regulatory own funds. The table below shows an extract of the Company's Financial Statements and the components that are adjusted for in Own Funds. The ref column links to the table in Annex V.

| Balance Sheet Reconciliation 28 February 2014 | TPF PLC Balance Sheet Extract £k | TPF PLC Balance Sheet Components £k | Ref |
|---|---|---|---|
| **Assets** | | | |
| Loans and Advances to Customers | 6,921,982 | | |
| of which: latent provisions | | 32,837 | a |
| Investment Securities: | | | |
| - Loans and Receivables | 34,098 | | |
| of which: Loan to TU Ltd deducted from Tier 1 Pre-CRR | | 13,639 | b |
| of which: Loan to TU Ltd deducted from Tier 2 Pre-CRR | | 13,639 | c |
| of which: Loan to TU Ltd deducted from Tier 2 CRR | | 6,820 | d |
| Investment in Associate | 71,043 | | |
| of which: Significant Investment in TU below threshold | | 71,043 | e |
| Intangible Assets | 427,708 | | |
| of which: Other Intangibles | | 427,708 | f |
| Total Assets | **9,243,277** | | |
| | | | |
| **Liabilities and Equity** | | | |
| Deferred Income Tax Liability | 19,257 | | |
| of which: Deferred Tax liability - Intangible Assets | | 32,191 | g |
| Of which: Deferred Tax Asset | | 12,934 | h |
| Subordinated Liabilities | 190,000 | | |
| of which: allowable for Tier 2 | | 190,000 | i |
| **Total Liabilities** | **7,868,110** | | |
| **Equity** | | | |
| Shreholders Funds | | | |
| - Called up share capital | 121,990 | | |
| of which: amount eligible for CET1 | | 121,990 | j |
| - Share Premium Account | 1,097,910 | | |
| of which: amount eligible for CET1 | | 1,097,910 | k |
| - Retained Earnings | 95,028 | | |
| of which: prior year retained profits | | 80,245 | l |
| of which: current year profit less dividend paid | | 14,783 | m |
| Other Reserves | 15,239 | | n |
| of which: Other Comprehensive Income - gain on AFS | | 5,823 | o |
| of which: Cash Flow Hedge Reserve | | 1,725 | p |
| Subordinated Notes | 45,000 | | |
| of which: Tier 2 | - | 45,000 | q |
| **Total Equity** | **1,375,167** | | |
| **Total Liabilities and Equity** | **9,243,277** | | |

## Annex IV: Article 3 – Description of main features of CET1, AT1 and Tier 2 instruments

In order to meet the requirements for disclosure of the main features of Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments issued by institutions, as referred to in point (b) and (c) of Article 92(3), Tesco Personal Finance plc disclose the capital instruments main features as outlined below:

**Annex IV - Article 3 Main features of Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments issued**

| | Capital instruments Main Feature Template (1) | 1<br>CET1 | 2<br>AT1 | 3<br>T2 | 4<br>T2 | 5<br>T2 | 6<br>T2 | 7<br>T2 | 8<br>T2 | 9<br>T2 | 10<br>T2 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | Issuer | Tesco Personal Finance Plc | N/a | Tesco Personal Finance Plc | Tesco Personal Finance Plc | Tesco Personal Finance Plc | Tesco Personal Finance Plc | Tesco Personal Finance Plc | Tesco Personal Finance Plc | Tesco Personal Finance Plc | Tesco Personal Finance Plc |
| 2 | Unique identifier (eg, CUSIP, ISIN or Bloomberg identifier for private placement) | Private Placement | N/a | Private Placement | Private Placement | Private Placement | Private Placement | Private Placement | Private Placement | Private Placement | Private Placement |
| 3 | Governing law(s) of the instrument | English Law | N/a | English Law | English Law | English Law | English Law | English Law | English Law | English Law | English Law |
| | *Regulatory Treatment* | | | | | | | | | | |
| 4 | Transitional CRR Rules | CET1 | 0 | T2 | T2 | T2 | T2 | T2 | T2 | T2 | T2 |
| 5 | Post-transitional CRR Rules | CET1 | 0 | T2 | T2 | T2 | T2 | T2 | T2 | T2 | T2 |
| 6 | Eligible at Solo/(sub-)consolidated/solo&(sub-)consolidated | Solo | | Solo | Solo | Solo | Solo | Solo | Solo | Solo | Solo |
| 7 | Instrument type (types to be specified by each jurisdiction) | Common Equity | N/a | Dated Floating Rate Subordinated Notes | Undated Floating rate Subordinated Notes | Dated Floating Rate Subordinated Notes | Undated Floating rate Subordinated Notes | Undated Floating rate Subordinated Notes | Dated Floating Rate Subordinated Notes | Dated Floating Rate Subordinated Notes | Dated Floating Rate Subordinated Notes |
| 8 | Amount recognised in regulatory capital (currency in million, as of most recent reporting date) | £1219.9m comprising nominal and premium | 0 | £20m | £9m | £10m | £16m | £20m | £35m | £95m | £30m |
| 9 | Nominal amount of instrument | £0.10 | 0 | £20m | £9m | £10m | £16m | £20m | £35m | £95m | £30m |
| 9a | Issue price | £1.00 | 0 | £20m | £9m | £10m | £16m | £20m | £35m | £95m | £30m |
| 9b | Redemption price | n/a | 0 | £20m | £9m | £10m | £16m | £20m | £35m | £95m | £30m |
| 10 | Accounting classification | Shareholders equity | N/a | Liability - amortised cost | Shareholders equity | Liability - amortised cost | Shareholders equity | Shareholders equity | Liability - amortised cost | Liability - amortised cost | Liability - amortised cost |
| 11 | Original date of issuance | £10m 12 Aug 1997<br>£10m 21 Nov 1997<br>£20m 2 Jan 1998<br>£20m 1 Apr 1998<br>£25m 30 Sep 1998<br>£6.5m 18 Nov 1998<br>£20m 30 Apr 1999<br>£20m 30 Jun 1999<br>£20m Sep 1999<br>£22.4m 17 Nov 1999<br>£10m 29 Feb 2000<br>£20m 13 Mar 2000<br>£10m 19 Apr 2000<br>£10m 31 May 2000<br>£14m 31 Aug 2000<br>£10m 30 Nov 2001<br>£25m 7 Apr 2009<br>£25m 17 Jun 2009<br>£180m 26 Jan 2010<br>£50m 5 Mar 2010<br>£60m 20 May 2010<br>£39m 4 Aug 2010<br>£39m 6 Sep 2010<br>£40m 27 Sep 2010<br>£25m 15 Nov2010<br>£25m 8 Dec2010<br>£20m 21 Jan 2011<br>£147.5m 25 Feb 2011<br>£50m 10 Mar 2011<br>£61.5m 28 Sep 2011<br>£45m 26 Apr 2012<br>£140m 22 Jul 2013 | N/a | 10 Apr 2002 | 10 Apr 2002 | 19 Sep 2002 | 19 Sep 2002 | 10 Dec 2002 | 28 Apr 2003 | 31 Dec 2007 | 25 Feb 2010 |
| 12 | Perpetual or dated | Perpetual | N/a | Dated | Perpetual | Dated | Perpetual | Perpetual | Dated | Dated | Dated |
| 13 | Original maturity date | No maturity | N/a | 29 March 2030 | No maturity | 29 March 2030 | No Maturity | No Maturity | 29 March 2030 | 29 March 2030 | 29 March 2030 |
| 14 | Issuer call subject to prior supervsiory approval | No | N/a | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| 15 | Option call date, contingent call dates and redemption amount | n/a | N/a | Earliest option call date 31 March 2025, may repay on any date if a Regulatory Event or Tax Event occurs, redemption can be in whole or in part at par value plus accrued interest | Earliest option call date 31 March 2025, may repay on any date if a Regulatory Event or Tax Event occurs, redemption can be in whole or in part at par value plus accrued interest | Earliest option call date 31 March 2025, may repay on any date if a Regulatory Event or Tax Event occurs, redemption can be in whole or in part at par value plus accrued interest | Earliest option call date 31 March 2025, may repay on any date if a Regulatory Event or Tax Event occurs, redemption can be in whole or in part at par value plus accrued interest | Earliest option call date 31 March 2025, may repay on any date if a Regulatory Event or Tax Event occurs, redemption can be in whole or in part at par value plus accrued interest | Earliest option call date 31 March 2025, may repay on any date if a Regulatory Event or Tax Event occurs, redemption can be in whole or in part at par value plus accrued interest | Earliest option call date 31 March 2025, may repay on any date if a Regulatory Event or Tax Event occurs, redemption can be in whole or in part at par value plus accrued interest | Earliest option call date 31 March 2025, may repay on any date if a Regulatory Event or Tax Event occurs, redemption can be in whole or in part at par value plus accrued interest |
| 16 | Subsequent call dates, if applicable | n/a | N/a | each quarter thereafter until maturity | each quarter thereafter until maturity | each quarter thereafter until maturity | each quarter thereafter until maturity | each quarter thereafter until maturity | each quarter thereafter until maturity | each quarter thereafter until maturity | each quarter thereafter until maturity |
| | *Coupons/Dividends* | | | | | | | | | | |
| 17 | Fixed or floating dividend/coupon | Floating | N/a | Floating | Floating | Floating | Floating | Floating | Floating | Floating | Floating |
| 18 | Coupon rate and any related index | n/a | N/a | 3month GBP LIBOR plus 0.60 per cent per annum | 3month GBP LIBOR plus 1.20 per cent per annum | 3month GBP LIBOR plus 0.60 per cent per annum | 3month GBP LIBOR plus 2.20 per cent per annum | 3month GBP LIBOR plus 2.20 per cent per annum | 3month GBP LIBOR plus 1.60 per cent per annum | 3month GBP LIBOR plus 1.00 per cent per annum | 3month GBP LIBOR plus 1.75 per cent per annum |
| 19 | Existence of a dividend stopper | No | N/a | No | No | No | No | No | No | No | No |
| 20a | Fully discretionary, partially discretionary or mandatory (in terms of timing) | Fully discretionary | N/a | Mandatory | Mandatory | Mandatory | Mandatory | Mandatory | Mandatory | Mandatory | Mandatory |
| 20b | Fully discretionary, partially discretionary or mandatory (in terms of amount) | Fully discretionary | N/a | Mandatory | Mandatory | Mandatory | Mandatory | Mandatory | Mandatory | Mandatory | Mandatory |
| 21 | Existence of step-up or other incentive to redeem | No | N/a | No | No | No | No | No | No | No | No |
| 22 | Non-cumulative or cumulative | Non-cumulative | N/a | Cumulative | Cumulative | Cumulative | Cumulative | Cumulative | Cumulative | Cumulative | Cumulative |
| 23 | Convertible or non-convertible | Non-convertible | N/a | Non-convertible | Non-convertible | Non-convertible | Non-convertible | Non-convertible | Non-convertible | Non-convertible | Non-convertible |
| 24 | If convertible, conversion trigger(s) | n/a | N/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a |
| 25 | If convertible, fully or partially | n/a | N/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a |
| 26 | If convertible, conversion rate | n/a | N/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a |
| 27 | If convertible, madatory or optional conversion | n/a | N/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a |
| 28 | If convertible, specify instrument type convertible into | n/a | N/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a |
| 29 | If convertible, specify issuer of instrument it converts into | n/a | N/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a |
| 30 | Write-down features | No | N/a | No | No | No | No | No | No | No | No |
| 31 | If write-down, write-down trigger(s) | n/a | N/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a |
| 32 | If write-down, full or partial | n/a | N/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a |
| 33 | If write-down, permanent or temporary | n/a | N/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a |
| 34 | If temporary write-down, description of write-up mechanism | n/a | N/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a |
| 35 | Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument) | All subordinated Notes - Columns 3-10 | N/a | All liabilities except the subordinated laibilities | All liabilities except the subordinated laibilities | All liabilities except the subordinated laibilities | All liabilities except the subordinated laibilities | All liabilities except the subordinated laibilities | All liabilities except the subordinated laibilities | All liabilities except the subordinated laibilities | All liabilities except the subordinated laibilities |
| 36 | Non-compliant transitional features | No | N/a | No | No | No | No | No | No | No | No |
| 37 | If yes, specify non-compliant features | n/a | N/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a |

## Annex V: Article 5 - Disclosure own funds during the transitional period

In order to meet the requirements for disclosure of the specific items on own funds described in points (d) and (e) of Article 437 (1) of Regulation (EU) No 575/2013, institutions are required to disclose general own funds disclosure. By way of derogation, during the period 31 March 2014 to 31 December 2017, institutions shall disclose transitional own funds. The Company's disclosure of own funds is outlined below:

### Annex V - Disclosure of specific items on own funds during transitional period

| | Common Equity Tier 1 Capital:Instruments and Reserves | (A) Amount at Disclosure Date | (B) CRR Article reference | ( C) Amounts subject to Pre-Regulation (EU) No 575/2013 Treatment or Prescribed Residual Amount of Regulation (EU) No 575/2013 | Reconciliation to Balance Sheet Reference |
|---|---|---|---|---|---|
| 1 | Capital instruments and the related share premium accounts | 1,219,900 | 26(1), 27, 28, 29 EBA List 26(3) | - | |
| | of which: ordinary share capital | 1,219,900 | EBA list 26(3) | - | j+k |
| | of which: instrument type 2 | - | EBA list 26(3) | - | |
| | of which: instrument type 3 | - | EBA list 26(3) | - | |
| 2 | Retained earnings | 80,245 | 26(1) c) | - | l |
| 3 | Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards) | 15,239 | 26(1) | - | n |
| 3a | Funds for general banking risk | - | 26(1) f) | - | |
| 4 | Amount of qualifying items referred to in Article 484(3) and the related share premium accounts subject to phase out from CET1 | - | 486(2) | - | |
| | Public sector capital injections grandfathered until 1/1/18 | - | 483(2) | - | |
| 5 | Minority interests (amount allowed in consolidated CET1) | - | 84, 479, 480 | - | |
| 5a | Independently reviewed interim profits net of any forseeable charge or dividend | 14,783 | 26(2) | - | m |
| **6** | **Common Equity Tier 1 (CET1) capital before regulatory adjustments** | **1,330,167** | | - | |
| **Common Equity Tier 1 (CET1) capital: regulatory adjustments** | | | | | |
| 7 | Additional value adjustments (negative amount) | - | 34, 105 | - | |
| 8 | Intangible assets (net of related tax liability) (negative amount) | - 395,517 | 36(1) b), 37, 472(4) | - | f+g |
| 9 | *Empty set in the EU* | | | | |
| 10 | Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38(3) are met) (negative amount) | - | 36(1) c), 38, 472(5) | - | |
| 11 | Fair value reserves related to gains or losses on cash flow hedges | - 1,725 | 33(a) | - | p |
| 12 | Negative amounts resulting from the calculation of expected loss amounts | - | 36(1) d), 40, 159, 472(6) | - | |
| 13 | Any increase in equity that results from securitised assets (negative amount) | - | 32(1) | - | |
| 14 | Gains or losses on liabilities valued at fair value resulting form changes in own credit standing | - | 33(b) | - | |
| 15 | Defined-benefit pension fund assets (negative amount) | - | 36(1) e), 41, 472(7) | - | |
| 16 | Direct and indirect holdings by an institution of own CET1 instruments (negative amount) | - | 36(1) (f), 42, 472(8) | - | |
| 17 | Holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount) | - | 36(1) g), 44, 472(9) | - | |
| 18 | Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount) | - | 36(1) h), 43, 45, 46, 49(2), 49(3), 79, 472(10) | - | |
| 19 | Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount) | - | 36(1) i), 43, 45, 47, 48(1) b), 49(1) to 3), 79, 470, 472(11) | - | |
| 20 | *Empty set in the EU* | | | | |
| 20a | Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative | - | 36(1) k) | - | |
| 20b | of which: qualifying holdings outside the financial sector (negative amount) | - | 36(1) k) i), 89 to 91 | - | |
| 20c | of which: securitisation positions (negative amount) | - | 36(1) k) ii), 243(1) b), 244(1) b), 258 | - | |
| 20d | of which: free deliveries (negative amount) | - | 36(1) k) iii), 379(3) | - | |
| 21 | Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in 38(3) are met) (negative amount) | - | 36(1) c), 38, 48(1) a), 470, 472(5) | - | |
| 22 | Amount exceeding the 15% threshold (negative amount) | - | 48(1) | - | |
| 23 | of which: direct and indirect holdings of the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities | - | 36(1) i), 48(1) b), 470, 472(11) | - | |
| 24 | *Empty set in the EU* | - | 0 | - | |
| 25 | of which: deferred tax assets arising from temporary differences | - | 36(1) c), 38, 48(1) a), 470, 472(5) | - | |
| 25a | Losses for the current financial year (negative amount) | - | 36(1) a), 472(3) | - | |
| 25b | Forseeable tax charges relating to CET1 items (negative amount) | - | 36(1) l) | - | |
| 26 | Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject tp pre-CRR treatment | - 5,823 | | - | |
| 26a | Regulatory adjustments relating to unrealised gains and losses pursuant to Article 467 and 468 | - 5,823 | | - | |
| | of which: Filter for Unrealised Loss 1 | - | 467 | - | |
| | of which: Filter for Unrealised Loss 2 | - | 467 | - | |
| | of which: Filter for unrealised gains on AFS Debt instruments | - 5,823 | 468 | - | o |
| | of which: Filter for unrealised gain 2 | - | 468 | - | |
| 26b | Amount to be deducted from or added to common equity Tier 1 Capital with regard to additional filters and deductions required pre CRR | - | 481 | - | |
| | of which: | - | 481 | - | |
| 27 | Qulaifying AT1 deductions that exceed the AT1 capital of the institution (negative amount) | - 13,639 | 36(1) j) | - | b |
| **28** | **Total Regulatory adjustments to Common Equity Tier 1 (CET1)** | **- 416,704** | | - | |
| **29** | **Common Equity Tier 1 (CET1) capital** | **913,463** | | - | |
| **Additional Tier 1 (AT1) Capital: instruments** | | | | 0 | |
| 30 | Capital instruments and the related share premium accounts | - | 51, 52 | - | |
| 31 | of which: classified as equity under applicable accounting standards | - | | - | |
| 32 | of which: classified as liabilities under applicable accounting standards | - | | - | |
| 33 | Amount of qualifying items referred to in Article 484(4) and the related share premium accounts subject to phase out from AT1 | - | 486(3) | - | |
| | Public sector capital injections grandfathered until 1 January 2018 | - | 483(3) | - | |
| 34 | Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties | - | 85, 86, 480 | - | |
| 35 | of which: instruments issued by subsidiaries subject to phase out | - | 486(3) | - | |
| **36** | **Additional Tier 1 (AT1) capital before regulatory adjustments** | **-** | | - | |
| **Additional Tier 1 (AT1) Capital: regulatory adjustments** | | | | | |
| 37 | Direct and indirect holdings by an institution of own AT1 instruments (negative amount) | - | 52(1) b), 56 a), 57, 475(2) | - | |
| 38 | Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount) | - | 56 b), 58, 475(3) | - | |
| 39 | Direct and indirect holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount) | - | 56 c), 59, 60, 79, 475(4) | - | |
| 40 | Direct and indirect holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount) | - | 56 d), 59, 79, 475(4) | - | |
| 41 | Regulatory adjustments applied to Additional Tier 1 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts) | - | | - | |
| 41a | Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to Article 472 of Regulation (EU) No 575/2013 | - | 472, 472(3) a), 472(4), 472(6), 472(8) a), 472(9), 472(10) a), 472(11) a) | - | |
| | of which: items to be detailed line by line eg, material net interim losses, intangibles, shortfall of provisions to expected losses etc | - | | - | |
| 41b | Residual amounts deducted form Additional Tier 1 capital with regard to deduction from Tier 2 capital during the transitional period pursuant to Article 475 of Regulation (EU) 575/2013 | - | 477, 477(3), 477(4) a) | - | |
| | of which: items to be detailed line by line eg, reciprocal cross holdings in Tier 2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities etc | - | | - | |
| 41c | Amount to be deducted from or added to Additional Tier 1 capital with regard to additional filters and deductions required pre-CRR | - | 467, 468, 481 | - | |
| | of which: possible filter for unrealised lossses | - | 467 | - | |
| | of which: posible filter for unrealised gains | - | 468 | - | |
| | of which: | - | 481 | - | |
| 42 | Qulaifying T2 deductions that exceed the T2 capital of the institution (negative amount) | - | 56 e) | - | |
| **43** | **Total regulatory adjustments to Additional Tier 1 (AT1) capital** | **-** | | - | |
| **44** | **Additional Tier 1 (AT1) capital** | **-** | | - | |
| **45** | **Tier 1 capital (T1=CET1+AT1)** | **913,463** | | - | |

## Annex V - Disclosure of specific items on own funds during transitional period (cont'd)

| | | | | | |
|---|---|---|---|---|---|
| **Tier 2 (T2) capital: instruments and provisions** | | | | | |
| 46 | Capital instruments and the related share premium accounts | 235,000 | 62, 63 | | - i+q |
| 47 | Amount of qualifying items referred to in Article 484(5) and the related share premium accounts subject to phase out from T2 | - | 486(4) | | - |
| | Public sector capital injections grandfathered until 1 January 2018 | - | 483(4) | | - |
| 48 | Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34), issued by subsidiaries and held by third parties | - | 87, 88, 480 | | - |
| 49 | of which: instruments issued by subsidiaries subject to phase out | - | 486(4) | | - |
| 50 | Credit risk adjustments | 32,837 | 62 c) and d) | | - a |
| **51** | **Tier 2 (T2) capital before regulatory adjustments** | **267,837** | | | - |
| **Tier 2 (T2) capital: regulatory adjustments** | | | | | |
| 52 | Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount) | - | 63 b) i), 66 a), 67, 477(2) | | - |
| 53 | Holdings of T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal holdings with the institution designed to inflate artificially the own funds requirement of the instiution (negative amount) | - | 66 b), 68, 477(3) | | - |
| 54 | Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount) | - | 66 c), 69, 70, 79, 477(4) | | - |
| 54a | of which: new holdings not subject to transitional arrangements | - | | | - |
| 54b | of which: holdings existing before 1 January 2013 and subject to transitional arrangements | - | | | - |
| 55 | Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount) | - 20,459 | 66 d), 69, 79, 477(4) | | c+d, b |
| 56 | Regulatory adjustments applied to Tier 2 in respect of amounts subject to Pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) N0 575/2013 (i.e.CRR residual amounts) | - | | | - |
| 56a | Residual amounts deducted from Tier 2 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to Article 472 of Regulation (EU) 575/2013 | - | 472, 472(3) a), 472(4), 472(6), 472(8) a), 472(9), 472(10) a), 472(11) a) | | - |
| | of which: items to be detailed line by line eg, material net interim losses, intangibles, shortfall of provisions to expected losses etc | - | | | - |
| 56b | Residual amounts deducted from Tier 2 capital with regard to deduction from Additional Tier 1 capital during the transitional period pursuant to Article 475 of Regulation (EU) 575/2013 | - | 475, 475(2) a),475(3), 475(4) a) | | - |
| | of which: items to be detailed line by line eg, reciprocal cross holdings in AT1 instruments, direct holdings of non-significant investments in the capital of other financial sector entities etc | - | | | - |
| 56c | Amount to be deducted from or added to Additional tier 2 capital with regard to additional filters and deductions required pre CRR | - | 467, 468, 481 | | - |
| | of which: possible filter for unrealised lossses | - | 467 | | - |
| | of which: possible filter for unrealised gains | - | 468 | | - |
| | of which: | - | 481 | | - |
| **57** | **Total regulatory adjustments to Tier 2 (T2) capital** | **- 20,459** | | | |
| **58** | **Tier 2 (T2) capital** | **247,378** | | | |
| **59** | **Total capital (TC=T1+T2)** | **1,160,841** | | | |
| **59a** | Risk weighted assets in respect of amounts subjet to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts) | - | | | - |
| | of which: items not dedcuted from CET1 (Regulation (EU) 575/2013 residual amounts) (items to be detailed line by line e.g. deferred tax assets that rely on future profiatbility net of related tax liability, indirect holdings of own CET1 etc) | - | 472, 472(5), 472(8) b), 472(10) b), 472(11) b) | | - |
| | of which: items not deducted from AT1 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line eg, reciprocal cross holdings in T2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities etc) | - | 475, 475(2) b), 475(2) c), 475(4) b) | | - |
| | Items not deducted from T2 items (Regulation (EU) 575/2013 residual amounts) (items to be detailed line by line eg, indirect holdings of own T2 instruments, indirect holdings of non significant investments in the capital of other financial sector entities, indirect holdings of significant investments in the capital of other financial sector entities etc) | - | 477, 477(2) b), 477(2) c), 477(4) b) | | - |
| **60** | **Total Risk Weighted Assets** | 6,546,811 | | | |
| **Capital ratios and buffers** | | | | | |
| **61** | **Common equity tier 1 (as a % of risk exposure amount)** | 13.95% | 92(2) a), 465 | | |
| **62** | **Tier 1 (as a % of risk exposure amount)** | 13.95% | 92(2) b), 465 | | |
| **63** | Total capital (as a % of risk exposure amount) | 17.73% | 92(2) c) | | |
| **64** | Institution specific buffer requirements (CET1 requirement in accordance with Article 92(1) a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (G-SII or O-SII buffer) expressed as a % of risk exposure amount) | 4.00% | CRD 128, 129, 130 | | |
| **65** | of which: capital conservation buffer requirement | | | | |
| **66** | of which: countercyclical buffer requirement | | | | |
| **67** | of which: systemic risk buffer requirement | | | | |
| **67a** | of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer | | CRD 131 | | |
| **68** | Common equity tier 1 available to meet buffers (as a % of isk exposure amount) | 8.45% | CRD 128 | | |
| **69** | [non relevant in EU regulation] | | | | |
| **70** | [non relevant in EU regulation] | | | | |
| **71** | [non relevant in EU regulation] | | | | |
| **Amounts below the thresholds for deduction (before risk weighting)** | | | | | |
| 72 | Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions) | - | 36(1) h), 45, 46, 472(10), 56 c), 59, 60, 475(4), 66 c), 69, 70, 477(4) | | - |
| 73 | Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions) | 71,043 | 36(1) i), 45, 48, 470, 472(11) | | - e |
| 74 | *Empty set in the EU* | - | 0 | | - |
| 75 | Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in 38(3) are met) | 12,934 | 36(1) c), 38, 48, 470, 472(5) | | - h |
| **Applicable caps on the inclusion of provisions in Tier 2** | | | | | |
| 76 | Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap) | 32,837 | 62 | | - a |
| 77 | Cap on inclusion of credit risk adjustments in T2 under standardised approach | 69,321 | 62 | | - |
| 78 | Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap) | - | 62 | | - |
| 79 | Cap for inclusion of credit risk adjustments in T2 under internal ratings based approach | - | 62 | | - |
| **Capital Instruments subject to phase out arrangemnets (between 1 January 2013 and 1 January 2022)** | | | | | |
| 80 | Current cap on CET1 instruments subject to phase out arrangements | - | 484(3), 486(2) and (5) | | - |
| 81 | Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities) | - | 484(3), 486(2) and (5) | | - |
| 82 | Current cap on AT1 instruments subject to phase out arrangements | - | 484(4), 486(3) and (5) | | - |
| 83 | Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities) | - | 484(4), 486(3) and (5) | | - |
| 84 | Current cap on T2 instruments subject to phase out arrangements | - | 484(5), 486(4) and (5) | | - |
| 85 | Amount excluded from T2 due to cap (excess over cap after redemptions and maturities) | - | 484(5), 486(4) and (5) | | - |

- The references in the above disclosure for own funds have also been noted in the Balance sheet reconciliation
- The ratios disclosure in line 64 and 68 are disclosed in line with the PRA derogation under Article 465 (1) of CRR and the PRA Definition of Capital.