

Tesco Personal Finance Group Limited

Group Solvency and Financial Condition Report (SFCR)

For the Period Ended 28 February 2025

Tesco Personal Finance Group Limited
Company Registration Number: SC173198

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SUMMARY

Introduction

The Tesco Personal Finance Group (TPFG or 'the Group') Group Solvency and Financial Condition report has been prepared in compliance of the PRA's Solvency II regulatory requirements. It contains a range of regulatory disclosures that support the information presented in the Quantitative Reporting Templates (QRTs) shown in Appendix 2.

TPFG is a holding company for the Tesco Insurance and Money Services business. Tesco Personal Finance Limited (TPF) operates as an insurance intermediary and money services business and Tesco Underwriting Limited (TU) provides the insurance underwriting service for the Group's motor and home insurance products. As TPFG owns TU, it is considered an insurance holding company under Solvency II regulations. Consequently, TPFG is required to produce a group level SFCR. This report represents the first SFCR prepared and submitted by TPFG. TU has prepared a solo SFCR in line with the PRA requirements. This report can be found at: <https://corporate.tescoinsurance.com/financial-information/accounts-and-disclosures>.

All amounts in this report, unless otherwise stated, are presented in pounds sterling, rounded to the nearest £'000. Rounding differences of +/- one unit can occur.

Unless otherwise stated, the information included in this report is unaudited.

A. Business and Performance

During the year, Tesco undertook a legal entity restructure with TPFG becoming a SII insurance holding company, owning 100% of the shareholding in TU and TPF. Prior to this TPF sold its Banking business to Barclays Bank UK PLC.

The chart below shows the Group structure.



As at 28 February 2025 TPFGs capital position was:

- SII Available Own funds (after foreseeable dividend) - £746.8m
- SII Eligible Own funds (after foreseeable dividend) - £742.0m
- Consolidated solvency capital requirement - £263.4m
- Solvency ratio – 281.7%

B. System of Governance

The role of the TPFG Board (the Board) is to provide oversight of the Group's business and exercise control over the business ensuring the direction and performance of the business is aligned to shareholder objectives and is managed competently and prudently in accordance with legislative and regulatory requirements. The Board delegates authority to certain Board committees in order that they may monitor and oversee specific aspects of the business on behalf of the Board. The Board committees are accountable to the Board, and responsibility rests with the Board.

The TPFG Board has delegated authority and responsibility for key activities to designated Senior Managers in accordance with the requirements of the Senior Managers and Certification Regime ("SM&CR"). The allocation of significant responsibilities is documented and maintained within the TU and TPF Management Responsibilities Map.

The Group operates a Three Lines governance model to provide reasonable assurance that the Company is run in a proper way. The Group's management and colleagues have the primary responsibility for owning and managing risks (First Line). Oversight of the effective operation of the internal control framework is supported by the Risk and Compliance functions (Second Line). Internal Audit provide independent verification and challenge of the adequacy and effectiveness of the internal risk and control framework (Third Line).

The goal of the Group's approach to risk management is to ensure that all significant risks are understood and effectively managed through a well-designed risk management framework.

C. Risk Profile

The Group defines risk as the potential for deviation from anticipated outcomes that may have an impact on its solvency, earnings, liquidity, customers and/or reputation and therefore its business objectives and/or future opportunities. The Group's risks stem from its exposure to both external and internal risk factors in conducting its business activities.

The most significant risks that the Group is exposed to are: Insurance risk, Financial Risk, Operational Risk and Other Material Risk. The monitoring of these risks as assessed by the business (First Line) is facilitated by the quarterly TU Control Risk Self-Assessment (CRSA) and TPF Risk Control Self-Assessment (RCSA) with the business assessing the effective operation of the control environment and highlighting any changes in the risk profile of the business. Controls are designed to keep risks within appetite, with a formal risk acceptance process managed through quarterly review by the Executive Risk Committee (ERC) and subsequently by the Board Risk Committee (BRC).

The annual strategic planning and ORSA process enables the Group's Board, ExCo and Senior Management to identify, assess, control, monitor, manage and report the risks that it faces (or may face) and to determine the funds the Group needs to ensure that its overall solvency needs are always met.

D. Valuation for Solvency Purposes

The valuation of assets and liabilities for Solvency II purposes is the same as IFRS except for:

- Deferred acquisition costs (DAC), other intangibles and prepayments are excluded from the SII balance sheet.
- Deferred tax is adjusted to reflect the tax impact of the valuation adjustments.
- Premium provisions (IFRS: liabilities and assets for remaining coverage) are discounted cash flows for SII balance sheet valuation purposes.
- Risk Margin, different methodology for SII vs IFRS Risk Adjustment.
- Discounting, different methodology for SII vs IFRS.

Key valuation adjustments are shown in the table between IFRS and SII balance sheet illustrated below:

28 February 2025

| | £'000 |
|---|----------------|
| Consolidated Shareholders Equity | 1,106,252 |
| Total Valuation differences | 5,253 |
| Removal of DACs | (7,875) |
| Derecognition of intangible assets | (44,706) |
| Derecognition of prepayments | (6,561) |
| Net best estimate of discounted liabilities | 66,146 |
| Tax impact on valuation differences | (1,751) |
| Foreseeable dividend | (364,750) |
| Solvency II Consolidated Group Own Funds | 746,755 |

E. Capital Management

TPFG operates a capital contingency plan which gives the business guidance on actions / considerations at different SII capital coverage levels.

As at 28 February 2025 TPFG had SII available own funds or £746.8m and eligible own funds of £742.0m, after foreseeable dividends of £364.8m. TPFG SCR under Standard Formula is £263.4m. This resulted in capital coverage of 281.7%.

Directors' Statement

Approval by the Board of Directors

Year ended 28 February 2025

We certify:

- (a) That the Group Solvency and Financial Condition Report ("SFCR") has been prepared in all material respects in accordance with the PRA Rules and Solvency II Regulations, and
- (b) We are satisfied that:
 - (i) throughout the financial year in question, the Group has complied in all material respects with the requirements of the PRA Rules and the Solvency II Regulations as applicable, and
 - (ii) it is reasonable to believe that the Group has continued so to comply subsequently and will continue so to comply in future.

By Order of the Board:



Gillian Cass
Chief Financial Officer

8 July 2025

Auditor's Statement

Report of the external independent auditor to the Directors of Tesco Personal Finance Group Limited ('the Company') pursuant to Rule 4.1 (2) of the External Audit Part of the PRA Rulebook applicable to Solvency II firms

Report on the Audit of the relevant elements of the Group Solvency and Financial Condition Report ('SFCR')

Opinion

Except as stated below, we have audited the following documents prepared by the Company as at 28 February 2025:

The 'Valuation for solvency purposes' and 'Capital Management' sections of the Group SFCR of the Company as at 28 February 2025, ('the Narrative Disclosures subject to audit'); and

Group templates IR.02.01.02, IR.22.01.22, IR.23.01.04, IR.25.04.22, IR.32.01.22 ('the Group Templates subject to audit').

The Narrative Disclosures subject to audit and the Group Templates subject to audit are collectively referred to as the 'relevant elements of the Group SFCR'.

We are not required to audit, nor have we audited, and as a consequence do not express an opinion on the Other Information which comprises:

- the 'Executive Summary', 'Business and performance', 'System of governance' and 'Risk profile' elements of the Group SFCR; and
- Group templates IR.05.03.02, IR.05.04.02.

To the extent the information subject to audit in the relevant elements of the Group SFCR includes amounts that are totals, sub-totals or calculations derived from the Other Information, we have relied without verification on the Other Information.

In our opinion, the information subject to audit in the relevant elements of the Group SFCR of the Company as at 28 February 2025 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rulebook for Solvency II firms, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)), including ISA (UK) 800 and ISA (UK) 805, and applicable law. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the relevant elements of the Group Solvency and Financial Condition Report* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the Group SFCR in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – Basis of Accounting

We draw attention to the 'Valuation for solvency purposes' and 'Capital Management' sections of the Group SFCR, which describe the basis of accounting. The Group SFCR is prepared in compliance with the financial reporting provisions of the PRA Rulebook for Solvency II firms, and therefore in accordance with a special purpose financial reporting framework. The Group SFCR is required to be published, and intended users include but are not limited to the PRA. As a result, the Group SFCR may not be suitable for another purpose. Our opinion is not modified in respect of these matters.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the SFCR is appropriate.

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- obtaining an understanding of relevant controls around management's going concern assessment;
- assessing the company's compliance with regulation, including capital requirements;
- reviewing the Own Risk and Solvency Assessment ("ORSA") to support our understanding of the risks faced by the company; and

- inspecting correspondence between the company and its regulators, Financial Conduct Authority (“FCA”) and Prudential Regulation Authority (“PRA”), as well as reviewing relevant Board and Committee minutes to identify any potential areas of legislative or regulatory non-compliance that could impact upon going concern.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Other Information

The Directors are responsible for the Other Information.

Our opinion on the relevant elements of the Group SFCR does not cover the Other Information and we do not express an audit opinion or any form of assurance conclusion thereon.

Our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the relevant elements of the Group SFCR, or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the relevant elements of the Group SFCR themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Directors for the Group Solvency and Financial Condition Report

The Directors are responsible for the preparation of the SFCR in accordance with the financial reporting provisions of the PRA Rulebook for Solvency II firms which have been modified by the modifications, and supplemented by the approvals and determinations made by the PRA under section 138A of FSMA and the PRA Rulebook for Solvency II firms

The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of a Group SFCR that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the relevant elements of the Group Solvency and Financial Condition Report

It is our responsibility to form an independent opinion as to whether the relevant elements of the Group SFCR are prepared, in all material respects, with financial reporting provisions of the PRA Rulebook for Solvency II firms which have been modified by the modifications, and supplemented by the approvals and determinations made by the PRA under section 138A of FSMA and the PRA Rulebook for Solvency II firms.

Our objectives are to obtain reasonable assurance about whether the relevant elements of the Group SFCR are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decision making or the judgement of the users taken on the basis of the Group SFCR.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at <https://www.frc.org.uk/auditorsresponsibilities>. The same responsibilities apply to the audit of the Group SFCR.

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management, internal audit and Audit Committee about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory frameworks that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the SFCR. These included Solvency II, as implemented in the UK, and tax legislation; and
- do not have a direct effect on the SFCR but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty. These included Companies Act 2006 and related Company Law, and FCA regulations.

We discussed among the audit engagement team including relevant internal specialists such as tax, valuations, pensions, IT and industry specialists regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud in the following areas, and our procedures performed to address them are described below:

We considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: insurance contract liability for bodily injury claims and related reinsurance assets.

We obtained an understanding of relevant controls in the process of estimating the undiscounted BEL and, in conjunction with our actuarial specialists, we performed the following substantive procedures:

- Calculated an independent reasonable range of the undiscounted gross and net BEL for BI claims using management's data and our independently determined assumptions;
- Assessed the reasonableness of any differences noted between our independent projection and Management's result with reference to our determined reasonable range;
- Obtained and inspected the key reports from management, and assessed and challenged methodologies and key assumptions;
- Assessed management's roll forward of results from the pre-period-end full reserving review to the period-end;
- Assessed and challenged the adjustments made to the IFRS BEL used to derive the Solvency II BEL; and
- Assessed whether the starting point of the SII technical provisions was on a best estimate basis by comparing against audited IFRS 17 BEL

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing SFCR disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management, internal audit and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance, and reviewing correspondence with the PRA and FCA, meeting with the PRA, reviewing internal audit reports, and reviewing correspondence with HMRC.

Report on Other Legal and Regulatory Requirements

Sectoral Information

In our opinion, in accordance with Rule 4.2 of the External Audit Part of the PRA Rulebook for Solvency II firms, the sectoral information has been properly compiled in accordance with the PRA rules and UK law relating to that undertaking from information provided by members of the group and the relevant insurance group undertaking.

Other Information

In accordance with Rule 4.1 (3) of the External Audit Part of the PRA Rulebook for Solvency II firms we are also required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of Tesco Personal Finance Group Limited statutory financial statements. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in relation to this matter.

Use of our Report

This report is made solely to the Directors of Tesco Personal Finance Group Limited in accordance with Rule 4.1 (2) of the External Audit Part of the PRA Rulebook for Solvency II firms. We acknowledge that our report will be provided to the PRA for the use of the PRA solely for the purposes set down by statute and the PRA's rules. Our audit work has been undertaken so that we might state to the insurer's Directors those matters we are required to state to them in an auditor's report on the relevant elements of the Group SFCR and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the PRA, for our audit work, for this report or for the opinions we have formed.



Tom Noble, FCA
For and on behalf of Deloitte LLP
Bristol, UK
8 July 2025

A

**BUSINESS and
PERFORMANCE (unaudited)**

A.1 Business

A.1.1 General Information

This document covers the operations of the Tesco Personal Finance Group of Companies ('the Group') which includes the following entities:

- Tesco Personal Finance Group Limited ('TPFG')
- Tesco Underwriting Limited ('TU').
- Tesco Personal Finance Limited ('TPF').

TPF and TPFG are registered in Scotland and their registered address is 2 South Gyle Crescent, Edinburgh, EH12 9FQ.

TU is registered in England and Wales and its registered address is The Omnibus Building, Lesbourne Road, Reigate, Surrey, United Kingdom, RH2 7LD.

The Group's auditors are Deloitte LLP, 1 New Street Square, London, EC4A 3HQ.

TPFG is a holding company for the Tesco Insurance and Money Services business. TPF operates as an insurance intermediary and money services business and TU provides the insurance underwriting service for the Group's motor and home insurance products. Prior to 1 November 2024 TPF also operated as a regulated bank providing financial services and products to personal customers in the UK. The banking business was sold to Barclays Bank UK PLC on 1 November 2024 and the banking licence revoked at the same time. TPFG became a Solvency II Insurance Holding Company subject to Group Solvency requirements.

A.1.2 Group Structure and ownership

TPFG is an Insurance Holding Company. Both TU and TPF are wholly owned subsidiaries of TPFG.

TPFG is wholly owned by Tesco Plc.

TU is authorised by the PRA and regulated by the FCA and the PRA. TPF is authorised and regulated by the FCA.

Contact details of the PRA and FCA are:

The PRA
Bank of England
Threadneedle Street
London
EC2R 8AH

The FCA
12 Endeavour Square
London
E20 1JN

A.1.3 Description of our material lines of business and material geographical areas where we write business

TPFG as a solo entity does not write any insurance business but is the holding company for TU and TPF. TPF operates as an insurance intermediary selling motor, home, pet and travel insurance products underwritten by both TU and third party providers. TPF also operates a money services business providing automated teller machines, gift cards and travel money services.

TU underwrites motor and home insurance policies for TPF customers and provides these customers with a claims management service.

All insurance and money services products are sold to personal customers in the United Kingdom.

A.1.4 Challenges facing insurers

Technology, artificial intelligence, digitisation, regulation, capital, climate change, reinsurance costs, inflationary and supply chain pressures and a highly competitive market remain the largest challenges facing insurers.

Consumer behaviours are also changing. Given the ongoing economic pressures, customers are more price sensitive and seeking greater control and expect enhanced customer service. As a part of that evolution, they expect a greater degree of customisation and personalisation. To meet this need, the Group is investing in data analytics to enable it to support pricing and customer experience.

Customers are at the centre of the Group's business. The management team has a focus on treating customers fairly and takes a flexible approach to meet the needs of a diverse customer base including specific consideration of the needs of vulnerable customers which continues to be a key area of focus for the Board.

A.2 Underwriting Performance

A.2.1 Non-life Insurance

The overall role of the Group is to offer motor, home, pet and travel insurance products that have a strong emphasis on value, helpful benefits and rewarding loyalty, whilst driving financial returns for its shareholder by maintaining strong underwriting, risk and financial controls.

A.2.2 Results position

The IFRS results of the business are set out in the table below. The income and expenses relating to its banking operations which was sold on 1 November 2024 have been grouped and disclosed as 'Profit before tax from discontinued operations'.

| Total £'000 | 28-Feb-25 |
|--|----------------|
| Insurance revenue | 725,290 |
| Insurance service expense | (598,256) |
| Net expense from reinsurance contracts held | (62,316) |
| Insurance service result | 64,719 |
| Net insurance finance result | (8,792) |
| Net investment income | 69,165 |
| Net income from other continuing activities | 199,861 |
| Total income from continuing activities | 324,952 |

| | |
|---|----------------|
| Administrative expenses | (187,741) |
| Depreciation and amortisation | (11,995) |
| Profit before tax from continuing operations | 125,216 |
| Profit before tax from discontinued operations | 35,375 |
| Profit for the year before tax | 160,592 |
| Income tax expense | (38,756) |
| Profit for the year after tax | 121,836 |

An analysis of the individual lines of business (Motor and Home) can be found below and in QRTs IR.05.04.02 (Non-Life) and IR.05.03.02 (Life) in the Appendix, summarised below:

| Total £'000 | Motor vehicle liability insurance | Motor vehicle other motor insurance | Fire and other damage to property insurance | Annuities stemming from non-life insurance contracts | Total |
|---|---|---|--|--|----------------|
| Gross Written Premium | 493,999 | 116,782 | 115,664 | | 726,444 |
| Reinsurers Share | (287,988) | 0 | (11,761) | | (299,749) |
| Net Written Premium | 206,010 | 116,782 | 103,903 | | 426,696 |
| Gross Earned Premium | 443,675 | 104,978 | 100,865 | | 649,518 |
| Reinsurers Share | (261,486) | 0 | (11,565) | | (273,050) |
| Net Earned Premium | 182,190 | 104,978 | 89,301 | | 376,468 |
| Net (undiscounted) claims incurred | 238,397 | 134,578 | 70,944 | 11 | 443,930 |
| Net (discounted) claims incurred | | | | | 251,456 |

The SII position is as follows:

| | |
|-------------------------|----------------|
| Total £'000 | 28-Feb-25 |
| Eligible Capital | 741,960 |
| SCR | 263,393 |
| Solvency % | 282% |

The Group had foreseeable dividends of £364.8m at 28 February 2025.

A.3 Investment Performance

A.3.1 Information about the investment performance

The Group's investment portfolio was valued at £870.3m, of which £869.8m is owned by TU. £14.6m relates to a investment in a property fund. The main reason for the property fund losses is due to rising interest rates affecting capital market pricing, however this also contributed to the overall increase of investment income.

A.3.2 Investment performance by asset class

| £'000 | 28-Feb-25 |
|--------------------------------|---------------|
| Supranational/Agency Bonds | 18,465 |
| Corporate Bonds | 22,905 |
| Investment - FVPL | (1,164) |
| Bank Deposits | 28,959 |
| Total investment income | 69,165 |

For the year ended 28 February 2025 investment income for continuing operations, including realised gains, was £69.2m. The bond portfolio quality remains strong with the overall average "A+" rating.

A.3.3 Gains and losses recognised directly in equity

| £'000 | 28-Feb-25 |
|--|---------------|
| Net Unrealised Gains/(Losses) movement during the period | 12,644 |
| Total | 12,644 |

As at 28 February 2025 the market value of the Group's bond portfolio is lower than the booked value and therefore in an overall unrealised loss position, however, the volume of losses has decreased by £12.6m during the year as interest rates stabilised and inflation outlook improved.

A.4 Performance of other activities

Net income from other continuing operations of £199.9m includes predominantly fee and commission income from the money services business and sale of third party insurance pet and travel insurance products.

A.5 Any other information

The Group sold its banking operations on 1 November 2024 to Barclays Bank UK PLC. Income and expenses from its banking operations have been disclosed as discontinued operations. Profit before tax from discontinued operations includes a trading profit of £100.2m from the banking operations prior to sale, offset by a loss on sale of £64.8m.

B

SYSTEM OF GOVERNANCE (unaudited)

B.1 General Information on the system of governance

B.1.1 Overall governance framework

The Board has approved a governance framework which is based upon the high-level principles and best practice contained within the Prudential Regulation Authority (PRA) Rulebook, the Financial Conduct Authority (FCA) Handbook, and certain applicable aspects of the UK Corporate Governance Code.

The Governance Framework is a combination of structures, rules, practices and procedures which help to ensure that the Group is organised and controlled in a way that supports achievement of purpose, including compliance with legal and regulatory matters. The Governance Framework supports accountability, fairness, transparency and responsibility. There are several elements which together form the Governance Framework, and these include the ownership structure, governance structure, the Board and its subcommittees (and their respective terms of reference), the Executive Committee, various Executive subcommittees and delegated authorities.

In addition to the Governance Framework, Senior Management responsibilities are outlined within specific job descriptions and both the TU and TPF Management Responsibilities Map (where applicable), as well as through policies, procedures and processes which record accountabilities. Compliance with these standards and requirements helps to ensure that TPFG meets not only the expectations of its shareholder but also other key stakeholders in the business such as customers, employees, business partners and regulators.

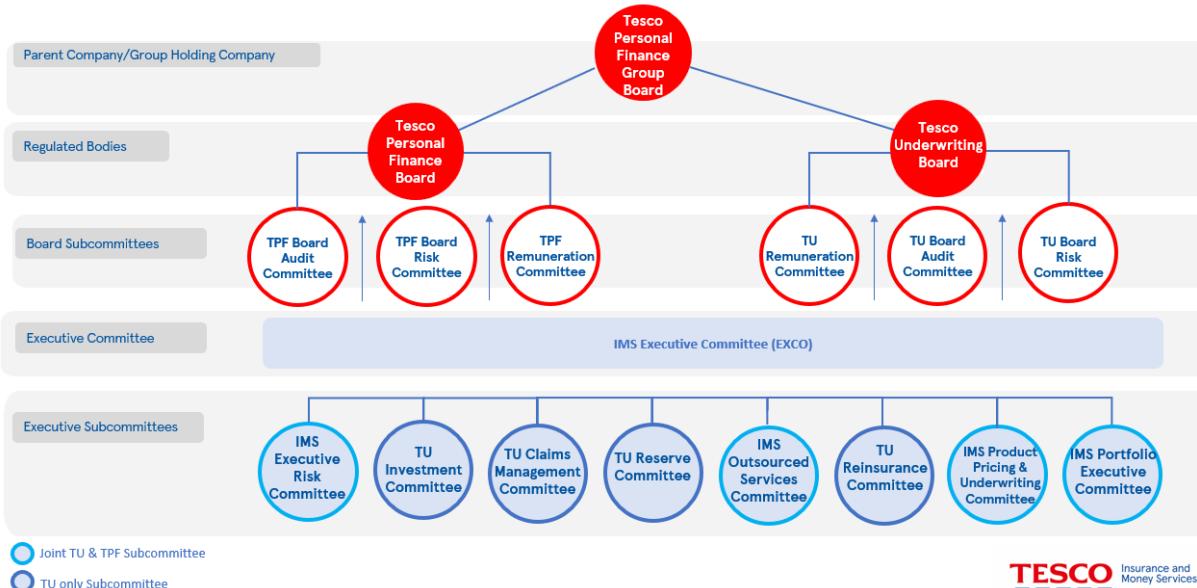
Good corporate governance means that TPFG maintains the flexibility to adapt its structure to altered circumstances, new legislation and other significant events. As a result of the banking operations sale, the governance framework has been redesigned.

The Board will as required, review the components of the Governance Framework and make such changes as it deemed appropriate.

TU and TPF are sister entities which are 100% owned subsidiaries by TPFG. TU and TPF both have their own Board and Committee structure reporting into a TPFG Board Committee.

The key components of the Governance Framework are summarised below.

TESCO INSURANCE AND MONEY SERVICES ('IMS') GOVERNANCE STRUCTURE



Board of Directors

The role of the Board is to provide oversight of the Group's business and exercise control over the business ensuring the direction and performance of the business is aligned to shareholder objectives and is managed competently and prudently in accordance with legislative and regulatory requirements. Board Reserved Matters are defined in the Board Terms of Reference.

Board Committees (TPFG, TPF and TU)

Each Board Committee has its own Terms of Reference which is reviewed at least annually and approved by the Board.

The Board Audit Committee (TPF and TU)

The role of the Board Audit Committees includes monitoring the integrity of the financial statements, reviewing and approving relevant policies, as well as reviewing the internal control systems and effectiveness of systems and controls.

The Board Risk Committee (TPF and TU)

The role of the Board Risk Committees is to support the Board in fulfilling its responsibilities for oversight of the adequacy and effectiveness of risk governance and its capital allocation and models and in particular the risk profile relative to the risk appetite determined by the Board.

The Board Remuneration Committee (TPF and TU)

The Board Remuneration Committee's role is to support the Board in all matters relating to the remuneration of the TU and TPF executive directors and relevant senior managers covered under SM&CR framework. Its primary role is to consider and make recommendations for approval by the Board on any material decision relating to the remuneration, benefits, employment terms and/or pension scheme arrangements of the Solvency II identified population including the TU and TPF Chief Executive Officer and members of the relevant Executive Committees.

Senior Management and Executive Committees

The Governance Framework also includes several Executive level committees which support Senior Managers with their responsibilities. Senior Managers are required to demonstrate they are accountable and responsible in delivering effective governance, including taking responsibility and being accountable for the decisions they make, and exercising rigorous oversight of the business areas they lead. In exercising this role, Senior Management are responsible for complying with the legal and regulatory framework applicable to the business.

Executive Committee

The Executive Committee's role is to support the Chief Executive Officer by providing oversight and challenge in the efficient and effective delivery of the strategic plan and overall direction of the TPFG Group.

Investment Committee

The Investment Committee supports the Chief Financial Officer by considering and monitoring external investment managers and advisers, investment strategies, investment guidelines, limits and standards, control processes and compliance with investment mandates.

Reinsurance Committee

The role of the Reinsurance Committee is to support the Chief Executive Officer, Chief Financial Officer and Finance Director by overseeing the implementation of the TU reinsurance strategy, identifying reinsurance needs in the context of the overall business strategy, detailing reinsurance requirements, reviewing the appointment of placing brokers, negotiating policy terms and monitoring treaty placement.

Claims Management Committee

The Claims Management Committee supports the Claims Director by providing oversight and challenge in the efficient and effective delivery of the Claims strategic plan and overall direction of the TU Claims function.

Executive Risk Committee

The Executive Risk Committee support the Chief Risk Officer in managing and discharging their responsibilities. This includes oversight and challenge in connection with the Risk Management Framework, risk monitoring and assessment, consideration of matters identified by Internal Audit and review of Board level reporting.

Outsourced Services Committee

The Outsourced Services Committee supports the Claims Director by providing oversight and challenge in the efficient and effective delivery of outsourced services in line with the Outsourcing and Third Party Supply Policy and Outsourcing and Supply Chain Management Framework.

Product, Pricing and Underwriting Committee

The Product, Pricing and Underwriting Committee enables the Chief Executive Officer and Chief Underwriting Officer to provide oversight and challenge across insurance products and pricing for the Company.

Reserve Committee

The Reserve Committee supports the Chief Financial Officer and Chief Actuary by reviewing and overseeing the quarterly reserving process, making reserving recommendations, monitors compliance with the TU Reserving Policy and considers a best-estimate view of reserves.

Portfolio Executive Committee

The purpose of the Committee is to support the Chief Executive by providing oversight and challenge in the safe and effective prioritisation, management and implementation of the Insurance Money Services Change Portfolio. The 'Portfolio' refers to both 'Grow the business' and 'iTSA Exit Migration Plan' change items.

Delegation of Authorities

The Delegation of Authorities Schedule ('DoA') forms part of the Governance Framework. The DoA enables effective and efficient decisions that incur financial cost or gain to TPFG to be made by the appropriate person(s). It works on the principle of cascading authority down from the Board to the Chief Executive Officer, then to Senior Manager Function holders and other Senior Managers. Senior Managers are accountable for all decisions in their areas of responsibility and can delegate only to those colleagues who are Certified (under the Senior Managers and Certification Regime) or where the colleague has appropriate expertise and experience. Senior Managers remain accountable for the decisions made, and the actions taken, within their areas of responsibility.

Shareholder Relations

Shareholder Reserved Matters have been agreed between TPFG and TU, and TPFG and TPF, for example strategic investment decisions and critical people decisions. These are the matters which require agreement (which is referred to as concurrence) from TPFG. TPFG as parent company needs to account for the interests of both TU and TPF as separate legal entities. If a disagreement were to arise there are agreed escalation routes which are designed to help facilitate appropriate outcomes.

B.1.2 Material transactions during the reporting period

On 1 November 2024 Tesco sold its Banking business, owned by TPF, to Barclays Bank UK PLC. Following the sale, Tesco undertook a legal entity restructure with TPFG as the SII insurance holding company. On 19 February 2025 TU became a 100% owned subsidiary of TPFG, which is 100% owned by Tesco. TPF was already wholly owned by TPFG.

B.1.3 Material changes in systems of governance over the reporting period

As a result of the sale of Group's banking operations, the governance framework has been reviewed and updated to reflect the changes in the legal entity structure and those changes are reflected under section B.1.1 above.

B.2 Fit and proper requirements

B.2.1 Policies and processes to ensure colleagues comply to fit and proper requirements

In accordance with the requirements of SM&CR, the responsibilities for running TPF and TU are allocated across each senior manager and set out within individual Statements of Responsibilities. This allocation includes the Prescribed Responsibilities designated by the PRA and FCA, with each Prescribed Responsibility being allocated to a SMF role holder who is the senior manager wholly accountable for it. The allocation of key responsibilities, including the Prescribed Responsibilities, is shown within the relevant Management Responsibilities Maps.

The Board needs to collectively hold the qualifications, knowledge and experience necessary to run a company of TPFG's size and complexity.

The obligation to be fit and proper continues for as long as the individual remains a Director, a Senior Manager, a certification function or a key function holder (KFH) and failure to remain fit and proper to perform their controlled function can result in the PRA/FCA prohibiting that individual from performing that function. TPFG has put in place policies and procedures that provide evidence of fitness and propriety, including a recruitment and appointment process for Directors, Senior Managers, certification

functions and KFHs, a regular cycle of appraisals and performance reviews, and up to date training records, in addition to an annual self-certification exercise.

Supporting documentation is collated prior to appointment, and in conjunction with the recruitment and appointment processes, which provides information on the individual's skills and experience and includes, but is not limited to:

- Detail of their personal characteristics (including being of good repute and integrity);
- Their level of competence, knowledge and experience;
- Their qualifications;
- Confirmation that they have undergone or are undergoing all training; and
- Financial soundness.

Details of TPF's and TU's senior manager functions and KFHs notified to and approved by the PRA and/or the FCA under SM&CR are shown in B2.2.

B.2.2 List of people responsible for key functions as at 28 February 2025

| Core Function | Role Holder | SMR/KFH | Reporting Lines |
|--------------------------------------|---|----------------------|---|
| Board Chair | E Buckley (INED) | SMF9 | N/A |
| Audit Committee Chair | C Ramsay (INED) | SMF11 SMF14 | N/A |
| Board Risk Committee Chair | M Cronin (INED) | SMF10 | N/A |
| Remuneration Committee Chair | E Buckley (INED) | SMF12 | N/A |
| CEO leadership | C Bundell (TU & TPF Interim CEO) | SMF1 | E Buckley (Board Chair) (SMF9) |
| Finance | G Cass (TU & TPF CFO) | SMF2 | C Bundell (TU & TPF Interim CEO) (SMF1) |
| Underwriting | L Matras (TU CUO) | SMF23 | C Bundell (TU & TPF Interim CEO) (SMF1) |
| Risk Management and Compliance | S Wright (TU & TPF CRO) | SMF4 SMF16 KFH | C Bundell (TU & TPF Interim CEO) (SMF1) M Cronin (INED) (SMF10) |
| Actuarial | R Dowsett (TU Chief Actuary) | SMF20 KFH | G Cass (TU CFO) (SMF2) |
| Internal Audit | R Aitken (TU & TPF Head of Audit) | SMF5 KFH | Overseen by Audit Committee Chair and C Bundell (TU & TPF Interim CEO) (SMF1) |
| Claims | D Thompson (TU & TPF Claims Director) | SMF24 | C Bundell (TU & TPF Interim CEO) (SMF1) |
| People | M Brady (TU & TPF Head of People) | SMF18 | C Bundell (TU & TPF Interim CEO) (SMF1) |
| Customer | A Cross (TPF Chief Customer Officer) | SMF 24 | C Bundell (TU & TPF Interim CEO) (SMF1) |
| Future Partnerships & Money Services | B Mahsoub (TPF Future Partnerships & Money Services Director) | SMF 18 | C Bundell (TU & TPF Interim CEO) (SMF1) |

B.2.3 Remuneration entitlements over the reporting period

Principles of remuneration policy

TPFG does not have any direct employees. All operational activities are carried out by TU and TPF, which employ staff to perform the necessary functions to support Group operations. The Group has established governance and procedures relating to remuneration entitlements. It has established a Remuneration Policy, oversight of which is provided by the Remuneration Committee of Independent Non-Executive Directors, who consider and ensure the framework and arrangements that govern the remuneration of the Executive and Senior Management are appropriate, transparent and are aligned to the Group's long term business strategy, risk appetite and values, and that the remuneration structure meets statutory, regulatory and shareholder requirements.

Details of Directors' Emoluments that are applicable to the Group have been included within the notes to the TU and TPF Financial Statements of the Company for the year ended 28 February 2025 (TU - note 6 Directors' Emoluments; TPF - note 33 Related Parties). There is one Non-Executive Director from Tesco Group who is a member of the TPFG Board but is not a member of the TU and TPF Boards.

The Remuneration Policy describes the following objectives:

- Attract the people needed to grow the business.
- Promote effective risk management and good customer outcomes.
- Motivate and incentivise colleagues to deliver business goals together.
- Recognise colleagues by acknowledging individual contribution and performance.
- Align colleagues to create shareholder value and support the achievement of the business strategy.
- Retain by fostering loyalty so that colleagues want to stay with us.
- Ensure investment in reward is affordable, competitive, simple, fair, consistent and sustainable.
- Colleagues are rewarded based on their role, responsibilities and performance regardless of gender, ethnicity, age, sexual orientation or any other characteristic.

The approach is to provide a combination of fixed and variable pay, consistent with UK market practices. Employees are eligible to participate in the Annual Bonus Plan and awards are linked to overall business performance and individual performance. The Plan includes an element of deferral for the most senior colleagues (WL4+). All employees in the UK are eligible to join a Defined Contribution Pension Scheme.

Specific Features of remuneration structure

The following features of the remuneration strategy contribute to ensuring remuneration of staff supplying services to the Group is aligned with Group's business strategy, risk profile, objectives, risk management practises and long-term interests:

- Fixed Pay:
 - This represents a sufficient proportion of the remuneration package, so no individual is dependent on variable pay.
 - No element of the Group's staff's fixed pay is dependent on sales targets and/or volumes.
 - Salary decisions reflect the need to balance remaining competitive enough to attract and retain talent and managing costs effectively.
 - All roles are benchmarked annually against similar roles in the Financial Services industry including insurers. This benchmarking data, together with knowledge of local markets, competitors and recruitment challenges is used to manage Job Family pay ranges ensuring the salaries paid are fair, competitive and affordable.
- Performance Targets:
 - All Group staff's priorities and objectives should be aligned to the delivery of the Group's strategic business objectives.
 - Feedback and progress against the priorities is reviewed regularly to enable effective end-of-year reviews.
 - To achieve a particular rating, every employee's performance is measured both on what they deliver and how they do it as outlined in the performance management Framework.
- Annual Bonus Plan:
 - The Annual Bonus Plan guide describes the rules that will apply to all eligible colleagues.
 - The Plan rules are discretionary and apply for performance for the period ending 28 February 2025. Bonus payments are payable with salaries in May 2025.
 - There are multiple measures which are included within the calculation of the bonus pot which is agreed for distribution across colleagues based on their end of year rating and individual performance.
 - Bonus payment is discretionary and is subject to achievement of business and individual performance targets.
 - On target and maximum bonus opportunity is linked to Work Level.
 - A portion of the Annual Bonus for the most senior colleagues (WL4+) is deferred in shares for up to 2 years.
- Performance Share Scheme – the most senior colleagues in the Group (WL4+) are eligible to participate in the Tesco Performance Share Plan. The Plan awards shares up to a % of the employee's salary which vest in 3 years at a level dependent on the performance measures set by Tesco Group. Specific conditions are in the plan rules relating to how the shares are managed if someone leaves the Group for any reason.
- Supplementary Pension or Early Retirement Schemes – there are no supplementary pension or early retirement schemes for members of the Board or other key function holders.

As part of the Company's commitment to diversity and inclusion it has completed gender pay reporting in line with statutory requirements and has signed the HM Treasury's Women in Finance Charter.

B.3 Risk management system including the own risk and solvency assessment

B.3.1 Risk management overview

As a financial services group, TPFG faces a number of risks that, whether internal or external, may affect its operations, its earnings, the value of its investments or the sale of certain products and services. The fundamental principle underlying the Risk Strategy of the Group is to deliver good customer outcomes and to support the growth of insurance sales to Tesco customers and grow market share across all money services products (gift cards, travel money and ATM's).

This chapter outlines how risks are managed through the Group's Risk Framework, Risk Taxonomy and Risk Appetite. It also contains an overview of the Group's Risk Management organisation and governance.

In Section C (Risk Profile) the Group's main risk exposures and the specific risk management frameworks applicable to them will be presented with regard to Insurance risks, Financial risks, Operational risks and Other Material Risks.

The embedding of the Risk Strategy takes place in the quarterly Control Risk Self-Assessment (CRSA) and Risk Control Self-Assessment (RCSA) process, articulated around the annual Strategic Planning and ORSA (Own Risk and Solvency Assessment) process. Risks are identified, assessed, monitored and reported at entity level through TU and TPF, with escalation to the Executive Risk Committee and respective TU and TPF Boards.

TU had previously chosen to adopt a Partial Internal Model (PIM), with Insurance Risk (TU's most material risk) being modelled using an Internal Model (IM), and all other risk types being modelled using the Standard Formula (SF). Following the sale of Group's banking operations to Barclays Bank UK PLC on 1 November 2024, TPFG became an Insurance Holding Company and TU is now a regulated entity subsidiary of TPFG. The Group calculates and reports Solvency Capital Requirement (SCR) based on the Standard Formula (SF).

B.3.2 Risk management framework

The Group defines risk as the deviation from anticipated outcomes that may have an impact on the value of assets, capital, earnings, customer or reputation of the Group, its business objectives, or future opportunities. The Group risk therefore stems from its exposure to both external and internal risk factors in conducting its business activities. The Group only seeks to take on risks for which:

- It has a good understanding of (i.e. is within current expertise and available information);
- Can be adequately managed at both the individual and overall portfolio level;
- Are affordable (i.e. within the group risk appetite); and
- Have an acceptable risk-reward trade-off.

The aim of the Group's Risk Framework is to support the business in ensuring that all significant risks are understood and effectively managed, and where they cannot be, they are appropriately escalated. The objective of such a framework is to add value to the business as well as ensure adequate systems and controls operate by:

- Ensuring that risks which affect the achievement of objectives are identified, assessed, monitored, managed, and reported.
- Defining Risk measures and risk tolerance limits to ensure that the risk profile is kept within these parameters when seeking to meet the Company's strategy and objectives.
- Supporting the decision-making process by ensuring that consistent, reliable, and timely risk information is available and understood by decision makers.
- Creating a risk aware culture in which each staff member carries out their duty to be aware of the risks to their business, to manage them adequately, and to report them transparently.
- Promoting the risk aware culture so that all colleagues are encouraged to report risks which are identified during the operation of their duties.

- Ensuring that we promote a program of independent risk assessment, conducted by 2nd line and 3rd line.

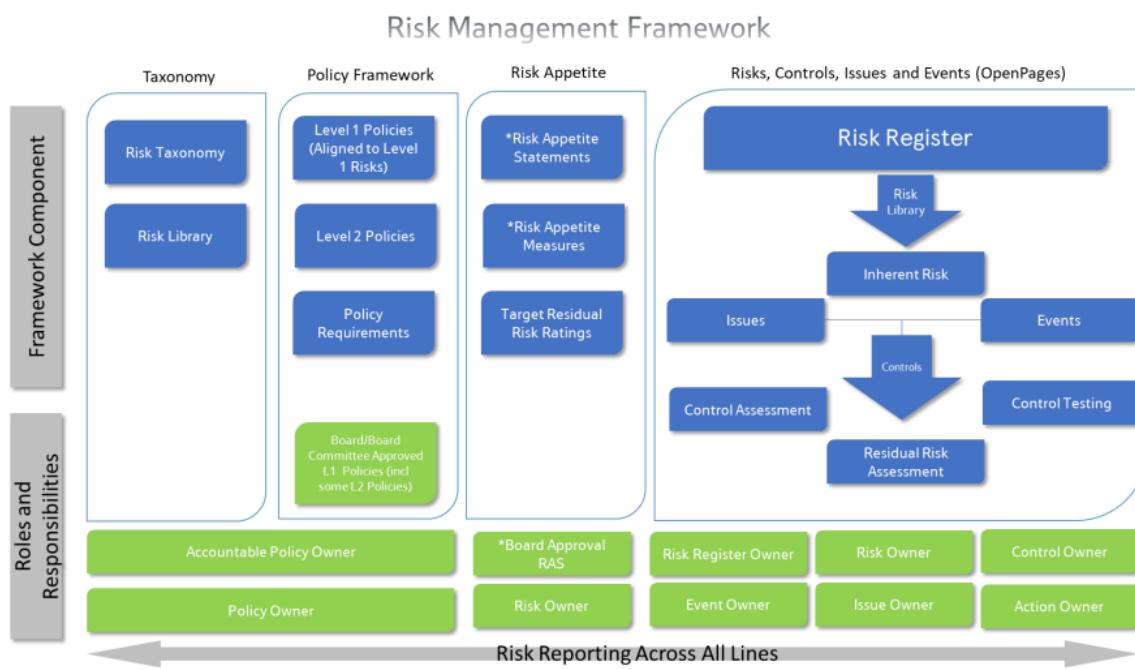
To reach this objective the Group has a risk management framework in place designed to systematically and comprehensively identify risks to the Company's objectives, assess their impacts and implement integrated mitigation strategies to safeguard the objectives. Risk management is a process, carried out by the Board of Directors, management and other personnel. It is applied during the strategy setting process as well as in the everyday management of the Company and is designed to identify potential events that may impact the Group, manage risks to be within its stated risk appetite and to provide reasonable assurance regarding the achievement of the Group's objectives.

To ensure that the risk management processes are embedded within the business, the risk management process incorporates:

- A formal structure of Committees ensuring coverage of material risks;
- Risk policies containing defined appetites and tolerance limits for all risk categories;
- Regular management information; and
- A three lines risk governance model.

As part of its risk management framework, the Group also has a forward-looking Own Risk and Solvency Assessment (ORSA) process that takes into account its risk profile, approved risk tolerance limits and business strategy.

At the Group, risk management is based on a set of guiding principles, which are captured by the risk management framework (see illustration below from the Risk Framework for more detail). The Group seeks to ensure that all significant risks are continuously identified, assessed, managed and monitored in accordance with the guidelines and standards, and intended (implicitly) to guide all business conduct within the Group.



Risk Taxonomy

The Risk Taxonomy is a classification of the risks faced by the business. It is designed to ensure a consistent and comprehensive approach to risk identification, assessment, monitoring and response by highlighting and categorising all identified risks within the Company.

The Risk Taxonomy is linked to the overall policy framework and is divided into four broad categories: Operational Risk, Insurance Risk, Financial Risk and Other Material Risks. These categories are broadly aligned with Solvency II risk categories to facilitate our internal and external reporting.

Identified risks, categorised in accordance with the risk taxonomy, are assessed and reported using a standard likelihood and impact table which provides an overview of the overall level of concern that each risk represents (i.e. their materiality). The risks are qualitatively assessed in relation to the objectives with which they are associated.

The taxonomy should not be considered as exhaustive but as a framework within which we consider the risks the Group faces. It is the responsibility of business and risk management to ensure that all risks material to the business are identified.

Following the sale of banking operations to Barclays Bank UK PLC in November 2024 the Group has chosen to model all risk types using the Standard Formula for the purposes of assessing required capital.

The Board approves the TPFG ORSA Report which sets out the risk categories and capital allocations based on the Standard Formula. This includes relevant Group considerations.

Section C (Risk Profile) explains the Group's various risk exposures in more detail.

Risk Appetite

The Group's Risk Appetite is defined as the level of risk which the Board is prepared to accept in order to support the achievement of the Group's Strategy and Objectives, which means it is able to operate effectively in both normal and stressed conditions through targeting an appropriate balance between risk and reward.

The purpose of the Risk Appetite framework is to ensure that:

- Exposure to a number of key risks taken by the Group remains within known, acceptable and controlled targets, limits and activities;
- Risk appetite criteria are clearly defined so that actual exposures and activities can be compared to those agreed at Board level, allowing monitoring and positive confirmation that risks are controlled, and the Board is able and willing to accept the exposures; and
- Risk limits and triggers are linked to the actual risk taking capacity of the Group in a transparent and straightforward way.

Risk appetites are managed at the Group through the development and completion of Key Risk measures against each Managed Risk, with defined Limits and Triggers; these are updated and monitored every quarter as part of the CRSA and RCSA process to ensure that the Group records against appetite across the entire risk framework.

The Primary Risk Appetite measures form a sub-set of the wider Group Key Risk Indicator measures and have been identified due to their regulatory nature and/or because they are of key interest to the Board. These are reviewed and approved annually by the Board and are reported quarterly to the BRC, are aligned to the Risk Taxonomy, covering the following categories:

- Insurance Risk
- Financial Risk
- Operational Risk
- Other Material Risk

B.3.3 Risk management organisation and governance

The Governance Framework is described at B.1.1 above.

B.3.4 Risk management processes

In this section the risk management process is described on an aggregated level. In Chapter C the identification, assessment, management and monitoring of the individual sub risks are detailed.

Risk Monitoring and Reporting

The CRSA and RCSA are the quarterly formal assessment and confirmation of the on-going effectiveness of Group systems and controls which ultimately feeds into the year-end financial statements.

Departmental responsibilities:

- Review and where appropriate update the departmental Risk Register;
- Ensure that each recorded risk includes relevant and up-to-date causes, consequences, impact/likelihood scores and appropriate controls and actions;
- Emerging Risk Register items need to be captured as applicable

- Ensuring that all new Risk Incidents and Events have been promptly identified, with owners, estimated monetary loss and action plans in place;
- Review existing Risk Incidents and Events by monitoring in-force action plans;
- Any policies that are due for review in the period have been updated in line with the review schedule;
 - Adequate evidence that each policy has been fully complied with;
 - Where policy breaches have occurred, what action has been taken; and
 - A summary of the departmental view of the effectiveness of their risk management.
- Ensuring that all accepted risks (those items which are outside the Group's agreed appetite) have been updated and reported appropriately;
- All data governance documents are up to date;
- All data protection controls operate effectively with appropriate action plans in place as applicable;
- All data protection impact assessments have been completed where required, and any risks identified have been adequately mitigated;
- All actual or alleged data protection breaches were reported in a timely manner; and
- Adherence to all relevant Business Unit risk policies.

Risk Team responsibilities:

- Provide the business with advice and support on the CRSA and RCSA process, risk management framework and good practice in identifying, assessing, managing, monitoring and governance of risks and incidents;
- Facilitate the reporting and peer challenge to CRSA and RCSA at the ERC;
Complete themed reviews and assurance activity following a risk-based process.

B.3.5 How we fulfil our obligation to invest all our assets in accordance with the prudent person principle

The Group's investment framework clearly sets out the need to act prudently within investment guidelines. This means for investments assessing the safety of capital as well as the income to be derived. The overall investment guidelines for the Group are that the investment portfolio is high quality 'A' rated corporate bonds with an overarching 'hold to maturity' strategy guide.

All assets shall be invested in such a manner as to ensure the security, quality, liquidity and profitability of the portfolio as a whole. Assets held to cover the technical provisions shall also be invested in a manner appropriate to the nature and duration of the insurance and reinsurance liabilities. Monitoring of liability durations is maintained to ensure that appropriate asset and liability matching is achieved.

Assets shall be properly diversified in such a way as to avoid excessive reliance on any particular asset, issuer, trading sector or group of undertakings.

B.3.6 How we verify the appropriateness of external credit assessments from external credit assessment institutions

If the Group is investing in credit, there is always a credit analysis being carried out by a professional asset manager who has the necessary credit analysis capacity, as confirmed by a due diligence process. The Group does not rely solely or mechanically on external credit assessments, and where necessary takes steps to verify the appropriateness of external credit assessments as part of their risk management. Where multiple credit ratings are available the second-best rating is used. Note that ratings used refer to the rating of the issue. Ratings provided by external asset managers may be used where no other rating is available.

B.3.7 Own Risk and Solvency Assessment (ORSA)

Overview

The ORSA process enables the Group to identify, assess, control, monitor, manage and report the risks that it faces (or may face) and to determine the funds the Group needs to ensure that its overall solvency needs are always met.

The annual ORSA report provides the Board, ExCo and Senior Management with detailed information and opinion on the risks the business faces, together with solvency requirements now and in the future. It supports Board members in the discharge of several of their responsibilities under the Board's Terms of Reference and ensures decision-making is focused on risk and capital requirements at every level.

The ORSA process demonstrates that TPFG can afford its business plan with its projected capital resources accounting for the impact of a number of severe but plausible stressed scenarios. This conclusion is based on the following:

- Capital forecasts over the Long-Term Plan (LTP) plan period from 2025/26-2027/28 indicate that existing capital projections are sufficient to support delivery of this plan. Selected Stress and Scenario tests covering all key risks have been applied to the LTP figures. These show that following management actions (e.g. suspending future dividends) the Solvency Ratio remains above the Regulatory SCR level for all tests undertaken.
- Should circumstances arise in which capital becomes insufficient to support its business plan, action would be taken through the Capital Contingency plan (as part of the Capital Risk Policy) which has been agreed with the Board.

Forward looking nature of the assessment

The ORSA assessment of overall solvency needs is forward-looking and covers a medium-term or long-term perspective as appropriate. For TPFG, this means by default the Long-Term Planning (LTP) period of 3 years and longer when the risks associated to the strategy could be material over a longer horizon. This is documented in the ORSA report.

Requirements for Stress Testing

The strategy assessed in the ORSA is subjected to a sufficiently wide range of stress tests including reverse stress tests and scenario analyses in order to provide an adequate basis for the assessment of overall solvency needs. The justification of stress testing programs can be found in the ORSA Report, with an overview of the results and conclusions shown in Section C.6 in this report – these show that following management actions, the Group remains solvent relative to SCR under each of the stress tests performed at its minimum level over the projection period.

A key output of the ORSA process is the ORSA report, this is typically produced annually to summarise the key findings from the ORSA process. Based on this report, the Board will decide whether the risk profile, the approved risk appetite framework and the overall solvency needs (and the link between them) are still appropriate. If this cannot be confirmed, the Board may (amongst other possibilities) decide to:

- Change the Own funds (amount or composition) as described in the Capital Risk Policy;
- Change the capital allocation as described in the Capital Risk Policy;
- Change the risk profile - this can be done by transferring, mitigating risks, or by modifying the strategy (e.g. terminate or reduce the risky activity) and is described in specific risk management policies as well as in the Risk Appetite Policy;
- Adjust the Group's strategy; and
- Resolve other identified deficiencies.

Alignment with other reports & communication to supervisors

The information contained in ORSA reports is consistent with the information found in other reports provided to the Executive Risk Committee (ERC), Executive Committee (ExCo), Board Risk Committee (BRC), Board Audit Committee (BAC) and Board as well as to Supervisors.

Report and Frequency

The Group performs an annual ORSA linking it to its strategic LTP exercise. This frequency takes into account the Group's risk profile and the volatility of its overall solvency needs relative to its capital position. It must be justified within each ORSA report.

Non-Regular ORSA triggers are also in place to make-sure that own risk solvency assessments are performed if the situation warrants it outside the above regular ORSA process. The Chief Risk Officer will make a qualitative assessment based on the following non-exhaustive list:

- A significant change in the risk profile;
- A significant change in the composition of Own funds;
- An acquisition (or divestment) that significantly changes business, risk or solvency profile;
- A significant change to the strategy, affecting budget assumptions in material ways;
- A significant change in the external business environment;
- A significant change in the liability portfolio;

- A significant deviation from the Risk Appetite indicators; and
- A (significant) change in regulation.

The non-regular ORSA must explain the expected changes in the risk profile and/or financial situation, the impact on the overall solvency needs and the link to the available Own funds and SCR.

Roles and Responsibilities

The Board is the owner of the ORSA and is responsible for reviewing and approving the assessments and scope, challenging its results and concluding on the outcome. The ExCo, together with the Board steer the preparation of the Group's ORSA, namely how its assessments have to be performed, defining their scope, challenging their results, concluding on them and ensuring that instructions and follow-up actions are given and effectively implemented.

Operationally, they are assisted to do so by the Risk, Finance and Actuarial Functions.

Additional Monitoring

To verify and assess the level of ORSA follow-up and on the field embedding, TU requires the reporting of ORSA actions and statuses, and follow-up actions listed in the previous ORSA. Once the ORSA is validated by the Board it is sent to the PRA.

B.4 Internal control function

B.4.1 Internal control system

The Group creates value through the acceptance and management of risks that can be properly managed within an appropriate risk framework. Internal controls are in place across all processes to mitigate risks.

Internal control should strengthen the operating environment of the Group, thereby increasing its capability to deal with events and detect possible process failures. Internal controls support the achievement of the Group's strategy by providing one of the methods to mitigate risk. The Group ensures there is a clear segregation of duties between business functions to prevent conflicts of interest.

There are also clear escalation and reporting procedures in place, supported by the Group's risk governance processes. Breaches of risk appetite, limits and/or tolerances, along with the actions to address the issue, are referred to the relevant governance committee and if necessary, the Executive/Board Risk Committee. While risk management is the responsibility of the Group's management body, the undertaking is required under Solvency II to designate at least one member of the management body to oversee the risk management system, this being the CRO.

The CRO is responsible for escalating the issue for appropriate oversight, and challenging whether action is inappropriate, insufficient, or ineffective.

The system sets the standards for the Group's application of an internal controls framework and defines the procedures to assess the efficiency and effectiveness of the framework, and utilises the following principles:

1. Control owners are responsible for executing controls assigned to them

Control procedures are embedded within the Group's business processes. Key controls in place are assigned to an owner. Control owners understand the objective of the control, exercise the control with agreed frequency and ensure appropriateness of the control.

The responsibility of the owner is to ensure that these controls are appropriate and that they have been properly carried out and sufficiently documented.

2. Internal controls need to be adequate and effective

Control owners assess controls assigned to them, for adequacy and effectiveness against a defined testing schedule. For interdependent controls within a process, each control owner understands control linkages and dependencies to ensure end to end process control. An appropriate segregation of duties and responsibilities should be in place, both at the individual level and between functions.

3. TPFG ensures that incentives are managed by internal controls

The Group Risk assesses incentives to identify the potential for inappropriate behaviour. Based on this identification, incentives are removed and, if not possible, reduced through the implementation of internal controls.

4. Proportionality of controls

Controlling all risk is not possible. Internal controls therefore focus on material risks to the Group. The frequency of the control activity is appropriate for the nature, size and complexity of the process.

5. Internal controls are documented

Internal controls are designed, approved and documented by the control owner against all key risks in business unit risk registers. To provide assurance to management that the internal control framework in place is adequate and effective, reviews and assessments are performed and documented. Traceability of controls is essential to provide assurance to management and external stakeholders.

6. Outsourcing must be subject to at least equivalent levels of controls

Three Lines Model

The Group relies on external service providers for carrying out various sets of activities. Reliance on external providers does not remove the Group's responsibility towards shareholders, policyholders, personnel or other stakeholders. The Group has appropriate controls in place and maintains adequate oversight to fulfil these responsibilities.

Three Lines Model

| 1 st Line of Defence - Business Units: | 2 nd Line of Defence - Risk and Compliance: | 3 rd Line of Defence - Internal Audit: |
|--|--|---|
| <ul style="list-style-type: none">Identifying and managing risks in their area of operationsOngoing assessment and monitoring of risksImplementation of effective controls to mitigate risksControl Testing of key controls and testing of others by exceptionComplying with Policy in procedure and practiceEnsuring risk aware culture & environment, with trained & capable staffProviding advice to the business to support risk best practice | <ul style="list-style-type: none">Developing and maintaining risk appetite for Board approvalEstablishing a policy framework which supports the risk appetiteCreating risk frameworks and providing tools which help risk owners deliver on their responsibilitiesAggregating and reporting risks at an enterprise levelPromoting good risk management practices throughout the organisationIndependent oversight and challenge of the enterprise risk profileIndependent oversight and challenge of the key business decisionsProvision of support and technical risk adviceConduct assurance reviews for key risk themesRisk and Compliance has a reporting line into BRC | <ul style="list-style-type: none">Help the Board and Executive Management protect the assets, reputation, and sustainability of the organisation by:<ul style="list-style-type: none">assessing whether significant risks are identified and appropriately reported by management and the Risk function to the Board and Executive Managementassessing whether they are adequately controlled; andchallenging Executive Management on the effectiveness of governance, risk management and internal controlsInternal audit has a reporting line into BAC |

Operational independence prevents the management body from undue influence on key functions in the exercise of their responsibilities. The management body is ultimately responsible for deciding on how to react to the results, concerns and recommendations presented by the key functions. For example, it could resolve not to act or act differently from suggestions on the findings of a key function. However, it may not exert influence to suppress or tone down key function results in order that there is no discrepancy between the findings of key functions and the management body's actions.

Each function shall be able to communicate on its own initiative with any staff member and must have the necessary authority, resources, expertise and unrestricted access to all relevant information necessary to carry out its responsibilities.

B.4.2 Key procedures in our internal control system

The sections below describe the content requirements for the control assessment:

- Control environment;
- Risk assessment;
- Control activities;
- Information and communication; and
- Monitoring.

All five control components are assessed per business function detailing the key processes, risks, controls and actions. During the assessment, the key risks, controls and actions are the most important elements considered. These components are scored according to a predefined scoring table and aggregated into the Risk Register – this is built based on every organisational unit and the processes, risks and controls.

Finally, the actions to be taken to set-up controls and/or improve existing ones are identified and followed up on throughout the year. Time constraints are defined depending on the rating of the risk.

The internal control framework is based on the self-assessment performed by the respective control owners.

Internal Audit performs an independent assessment of the adequacy of the internal control framework as well as of the control environment within the business functions.

Control Environment

The control environment sets the tone of an organisation, influencing the control consciousness of its people. The core of any business is its people (their individual attributes including integrity, ethical values and competence) and the environment in which they operate.

Internal controls are key to prevent operational and other risks before they crystallise into losses, customer detriment or adverse reputational impact by ensuring risks are taken within defined limits.

There is a clear understanding of controls, and objectives which require good understanding of the risks. A balance is sought between the risks faced and the cost of mitigating these risks. The Group's employees have a clear view on their responsibilities throughout the business processes. A good understanding of their role and of the importance of the controls contributes to the embedding of a risk culture. Management ensures that the appropriate skill set, and competences are developed to support this objective (e.g. training).

All functions in the Group have appropriate training to ensure staff are familiar with their control processes. The training ensures staff are aware of controls in place and the rationale for the controls.

Periodically the Group engages with 3rd party advisors for guidance on best practice for control environment for insurers. Any recommendations on best practice are incorporated as appropriate.

Risk Assessment

All risks to which the Group is exposed are assessed. The purpose of this component is to identify the key risks faced when carrying out the business activities related to a process/function.

Control Activities

Control activities are defined by the policies and procedures that help ensure that management directives are carried out, and that necessary actions are taken to address risks in the achievement of the entity's objectives.

Control activities occur throughout the organisation, at all levels and in all functions. They include a range of activities as diverse as approvals, authorisations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties.

Information & Communication

Pertinent information must be identified, captured and communicated in a form and timeframe that enable people to carry out their responsibilities.

Information systems produce reports, containing operational, financial and compliance-related information, that make it possible to run and control the business. They deal not only with internally generated data, but also information about the external events, activities and conditions necessary to inform business decision-making and external reporting.

Monitoring

Internal control systems are monitored and assured. This is accomplished through ongoing monitoring activities, separate evaluations or a combination of the two. Ongoing monitoring occurs in the course of operations. It includes regular management and supervisory activities, and other action personnel take in the performance of their duties. The scope and frequency of separate evaluations will depend primarily on an assessment of risks and the effectiveness of ongoing monitoring procedures.

Internal control deficiencies are reported upstream, with serious matters reported to top management and the Board.

All key (residual) risks identified during the quarterly interactions with key process owners (first lines) are captured in the Key Risk Reporting Process. The most material elements of this Key Risk Report are then considered for inclusion in the Financial Statements signed off by the Interim CEO, CFO and Finance Director.

B.4.3 Approach to the Compliance function

The Compliance function is an independent function providing reasonable assurance that the Group and its employees comply with the laws, regulations, internal rules and ethical standards that are relevant to the integrity, and hence to the reputation, of the Group.

Compliance Mission

The Compliance function is a key player in the establishment of a compliance culture within the Group, and has the following areas of responsibility:

- Ensuring the implementation and execution of the compliance function within the Group as defined by the regulatory authorities;
- Ensuring regular updating of policies in response to legal and regulatory changes;
- Ensuring the translation of the regulatory framework and rules into specific policies and instructions;
- Ensuring monitoring of compliance with these policies and instructions, taking the necessary measures (training, information, sanctions) to reduce potential compliance risks;
- Ensuring adequate reporting both to internal and external stakeholders; and
- Ensuring efficient functioning of the Compliance function throughout the Group.

Compliance Organisation

Compliance is a permanent, independent second line control function.

The suite of Compliance Policies describes the Compliance risks, Objectives and scope of the Compliance function (as an independent second line control function, and the risk-based approach), Strategy and Plans, the structure of Compliance reporting, relationship with regulators, working with other control functions. The key objectives of the Compliance function are to provide reasonable assurance that the Group and its employees comply with the relevant laws, regulations, internal rules and ethical standards.

The Compliance function has responsibility for implementing the Regulatory and Conduct Risk Policy and plans in accordance with the regulatory risks that impact the Group.

The Compliance function provides a quarterly 3+3+6 plan reflecting the compliance strategy and the regulatory risks of the business. The Compliance plan is considered by the Executive Risk Committee and approved by the Board Risk Committee.

A quarterly update of progress against the plan and highlights of Legal and Regulatory Updates are discussed in the Executive Risk Committee and in the Board Risk Committee.

B.5 Internal audit function

B.5.1 Role and Scope of Internal Audit

The Internal Audit function is responsible for providing independent, objective assurance to the TPFG, TPF and TU Boards (the Group) and Senior Management on the adequacy of the design and operational effectiveness of internal controls and the system of risk management. The work of Internal Audit covers the whole of the TPFG Group including TPF and TU. The Internal Audit function has an independent reporting line to both the TU and TPF Chair of the Board Audit Committees and is resourced by individuals with relevant experience and professional qualifications. In addition, Internal Audit resources are supplemented across a range of audits by external support to provide additional subject matter expertise when required.

Internal Audit operates within the International Professional Practices Framework (IPPF) established by the Institute of Internal Auditors (IIA) and in accordance with the Internal Audit Code of Practice issued by the IIA.

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

The role of the Internal Audit function is defined within an Internal Audit Charter, which forms part of the Governance Framework and is subject to annual review and approval by both the TU and TPF Audit Committees.

B.5.2 The Audit Plan

Internal Audit propose a six monthly 3+3+6 audit plan to both the TU and TPF Board Audit Committees based on its understanding of the significant potential risks to which the organisation could be exposed. The Head of Audit makes regular reports to both the TU and TPF Audit Committees on progress against this plan.

B.6 Actuarial function

The Actuarial function (TU and TPFG) has specific technical expertise and experience in relation to technical provisions and capital. The skills and experience of the actuarial function provide a different perspective from the underwriting or reinsurance teams' perspectives. The Actuarial function is aligned with the other control functions. Effective cooperation between these governance functions is fostered in order to avoid overlaps and omissions in roles and responsibilities.

The Actuarial function is critical to the assessment of the Group's technical provisions and solvency capital requirements with oversight by the risk function. The key role of the Actuarial Function in the context of SII is to issue Actuarial Function opinions (hereafter the Opinions) and to formulate recommendations for improvement on:

- The reliability and adequacy of **technical provisions** in Solvency II by assessing methodologies, models, data quality and assumptions, and the consistent calculation of technical provision calculations;
- The appropriateness of **underwriting** practices when offering insurance products through assessment of the profitability of the portfolio, product pricing (risk/return) and acceptation rules, and benchmarking these to the applicable underwriting policy; and
- The appropriateness of the **reinsurance** arrangements by assessing the adequacy of the reinsurance policy and the alignment of the reinsurance arrangements with the applicable reinsurance policy.

Actuarial Function Report timing

The Actuarial Function Report is provided yearly to the Board.

Recommendations and their follow-up

When weaknesses are reported, recommendations to mitigate the risks need to be added. All recommendations need to receive a "level of concern" score (HML), an action owner and a realistic target date. The level of concern reflects the potential impact of the identified risk.

Periodically TPFG will engage with 3rd party advisors for guidance on best practice for control environments for insurers. Any recommendations on best practice will be incorporated as appropriate.

The Actuarial Function will assure timely follow-up of the open recommendations and report on these. The recommendations and their characteristics will be approved by relevant senior management committees, or, as appropriate, the Audit Committees.

B.7 Outsourcing

The TPFG Group will only enter into an outsourced arrangement where there is an agreed sound business rationale for doing so and with a provider that is competent (i.e. has the required operational and technical capability, resources and quality standards), is financially sound and has good relevant knowledge and experience of the service it is required to supply.

Outsourcing occurs when the Group appoints a third party to provide a core business activity, process, service, goods or facilities which would otherwise be undertaken by the Group itself.

Any decision to outsource activities remains the responsibility of management, based upon the agreed strategy. Decisions and core management responsibilities concerning strategy or risk management will not be outsourced.

Oversight of outsourcing is undertaken by a specialist team with management governance through the Claims Director and Outsourced Services Committee. The Outsourcing and Third Party Supplier Policy and Outsourcing and Supply Chain Management Framework sets out the requirements for any activities which are outsourced and applies wherever the Group appoints a third party (either independent or intra group) for the supply of services which are integral to its main business activities.

With the sale of the banking business to Barclays Bank UK PLC, a number of important operations are outsourced via a reversed transitional agreement for up to two years. These services include:

- Technology infrastructure and applications support and maintenance;
- Colleague services; and
- Health, safety and facilities.

The Outsourcing team provide assurance and oversight on all outsourced or contracted services, ensuring strong relationship management is in place and appropriate measures of supplier performance are adhered to in line with contractual obligations. These are monitored via the Outsourced Services Committee and the Board.

The business remains responsible for all activities that are outsourced and requires that robust governance arrangements are in place in relation to the selection, management and oversight of all outsourced arrangements. A strong level of governance is applied to services outsourced to third parties.

TPFG ensures that outsourcing of critical or important operational functions or activities will not:

- Unduly increase operational risk; or
- Breach applicable legal or regulatory requirements; or
- Materially impair the quality of the system of governance or the ability of its regulators to monitor TPFG's compliance with its obligations; or undermine continuous and satisfactory service to policyholders.

Oversight arrangements include satisfactory due diligence, robust contractual documentation, allocated business responsibility for oversight of the relationship and performance, supported by appropriate Compliance and Internal Audit monitoring. This information is brought together at the Outsourced Services Committee and Board and reviewed in order to ensure appropriate control is being maintained. Areas monitored include key suppliers, owner of the relationship within TPFG, the term, notice and the contract value.

B.8 Any other information

There is no other material information to disclose.

C

RISK PROFILE (unaudited)

Introduction

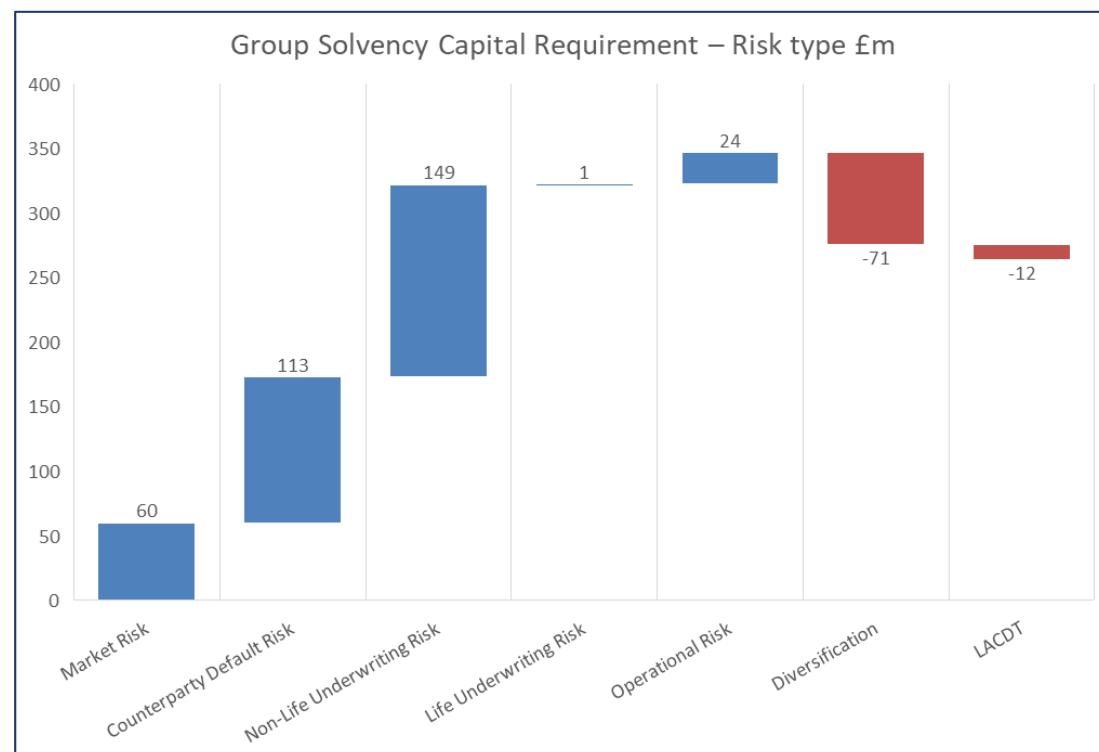
The Group's primary activity, the acceptance of risk of loss from individuals taking out personal insurance policies as well as partnership arrangements for the distribution of money services products, exposes it to a number of risks which may adversely affect the Group's ability to meet its business objectives.

The Group is exposed to a wide range of risks, which are categorised in the Risk Taxonomy, and which ensures that a consistent and comprehensive approach to risk identification, assessment, monitoring, and response is in place.

The diagram below shows the Risk Taxonomy:

| Total Risk | | | |
|---------------------------------------|------------------|------------------------|---------------------------|
| Operational Risk | Insurance Risk | Financial Risk | Other Material Risk |
| Financial Crime Risk | Premium Risk | Market Risk | Strategic Risk |
| Business Transformation & Change Risk | Catastrophe Risk | Credit Risk | Legal & Regulatory Risk |
| Technology Risk | Reserve Risk | Capital Risk | Economic Environment Risk |
| Operational Resilience Risk | Expense Risk | Financial Control Risk | Group Risk |
| People Risk | Reinsurer Risk | | Change Mgmt Risk |
| Information and Cyber Risk | | | Climate Change Risk |
| Supplier Mgmt Risk | | | Data Governance Risk |
| Conduct Risk | | | Product Risk |
| | | | Governance Risk |
| | | | Business Risk |
| | | | Reputational Risk |
| | | | Claims Mgmt Risk |

The graphs below show the SCR by material risk type for the total Group SCR of £263m:



C.1 Insurance risk

Risk description

The risk of loss or of adverse change in the value of insurance liabilities, due to changes to the underlying assumptions on which pricing and claims estimations have been made.

This is the predominant risk to which the Group is exposed to – and is comprised of the following sub-risks:

- **Premium Risk** – the risk that, in the coming year, claims severity or frequency differs from expectation.
- **Reserve Risk** - the risk that the cost of settling prior period claims costs differ from expectation.
- **Expense Risk** - the risk of losses arising from the value of expenses required to settle insurance liabilities, resulting from changes in the level, trend, or volatility of the expenses incurred in servicing insurance or reinsurance contracts.
- **Catastrophe Risk** – the risk of loss, or of adverse change in the value of insurance liabilities, resulting from significant uncertainty of pricing and provisioning assumptions related to extreme or exceptional events and their unpredictable timing.
- **Reinsurance Risk** - This refers to the risk that a Reinsurer on one of our programs is unable to meet its liabilities when they fall due.

Risk mitigation

The Group's Insurance Risk is driven by TU's Underwriting risk, with a small adjustment for risk free discounting instead of volatility adjustment for TPFG. TU manages insurance risks through a combination of its Pricing and Underwriting policy, Reserving policy and Reinsurance policy. The Group's objective for underwriting risk is to manage the risks in line with the strategic plan and deliver the required return on capital and ensure that its plans are aligned to the strategies and business plans.

Premium Risk

The Group recognises the risk associated with underwriting poor-quality business in terms of the potential impact on profitability and solvency and indirectly on the prices we are able to offer to other risks.

The Group's strategy has been to ensure that it charges the right premium for the underwritten and it focuses on maintaining pricing discipline, including difficult market conditions. It also monitors claims closely to identify any that may be exaggerated or fraudulent. In recent years, the insurance market in general has experienced an increase in the frequency and value of third-party injury claims, and in the value of third-party property damage claims, arising mainly in the private car market.

The Group routinely monitors market trends and macroeconomic and political developments closely, adjusting the prices of its products accordingly, to meet its long-term plan.

Some of the macro-economic and industry trends the Group are exposed to includes:

- Highly uncertain external environment with risk of significant world events (e.g., other war zones).
- As of mid-2025, the macroeconomic outlook for inflation and energy in the UK presents a cautiously improving picture for the Group. Headline inflation has continued to ease towards the Bank of England's 2% target driven by stabilising food and good's prices, although services inflation remains challenging due to persistent wage pressures. Energy prices, after the volatility seen in 2022 - 2023, have largely normalised, supported by improved supply resilience and a mild winter, though geopolitical risks still pose upside threats.
- For insurers in general, this moderating inflationary environment help contain claims inflation and operating costs, while more stable energy prices reduce volatility in motor and home claims. However, continued vigilance is required, as core inflation and global energy market uncertainty could still impact claims severity and investment performance
- Key challenges for the insurance sector include regulatory compliance changes, cybersecurity threats, technology changes, climate change & other environmental factors, talent shortage and financial risks.
- Challenging global economic and political outlook on CPI and earnings Inflation and knock-on implications for claim costs (damage and liability) and expenses through higher staff and procurement costs.

Reserve Risk

The nature of the business makes it very difficult to predict with certainty the likely outcome of any particular claim and the ultimate cost of notified claims. Each notified claim is assessed on a separate, case by case basis with due regard to the claim circumstances and historical evidence of the size of similar claims. Case estimates are reviewed regularly and are updated as and when new information arises. The provisions are based on information currently available. However, the ultimate liabilities may vary as a result of subsequent developments. The impact of many of the items affecting the ultimate costs of the loss is difficult to estimate.

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

Such reasons include:

- Changes in processes that affect the development / recording of claims paid and incurred (such as changes in claim reserving procedures and/or the introduction of a new claims system).
- Economic, legal, political and social trends (resulting in, for example, a difference in expected levels of inflation) e.g. Legal Aid, Sentencing and Punishment of Offenders Act 2012 (LASPO) the changes in the Ogden discount rate for valuation of large bodily injury losses (February 2017 and July 2019 and December 2024) and the impact of Covid-19 (2020).
- Changes in mix of business.
- Random fluctuations, including the impact of large losses.

IBNR provisions are initially estimated at a gross level and a related calculation is carried out to estimate the size of reinsurance recoveries. The Group is covered by a variety of excess of loss reinsurance programmes, including quota share reinsurance. The methods used by the Group take account of historic data, specific details for individual large claims and details of the reinsurance programmes, to assess the expected size of reinsurance recoveries in a range of alternative scenarios.

Recoveries through salvage and subrogation are estimated and recorded as an asset separately based on a combination of suitable benchmark assumptions and the observed development to date.

Expense Risk

Expense risk refers to the financial risk relating to variations in expenses incurred when servicing insurance contracts. This is managed through regular meetings between Finance and cost centre owners across the business, ensuring that costs are monitored against budgeted spend and any accruals held are still appropriate.

Catastrophe Risk

Catastrophe risk represents the potential for significant losses arising from extreme weather events such as floods and windstorms, specifically the Home book. The exposure to catastrophe losses are mitigated through a comprehensive reinsurance program designed to limit potential losses from high-impact scenarios.

Reinsurance Risk

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

The Group reinsures a portion of the risks it underwrites in order to control its exposures to losses and protect capital resources. The Group buys primarily excess of loss (i.e. non-proportional) reinsurance treaties to reduce its net exposure to agreed levels for each line of business in accordance with the Group's risk appetite.

The risk is that the reinsurance contracts fail to perform as planned and do not reduce the gross cost of claims in terms of the limits purchased, either by risks not being appropriately covered or by there being gaps in the programme. The reinsurance programme is subject to considerable scenario planning, including by the Group's brokers, and is approved by the TU Reinsurance Committee and the Board. The failure of a reinsurer to pay a valid claim is categorised as Counterparty Default risk.

Measures used to assess risk

The management of Non-life risk at the Group includes, amongst other things, risk acceptance rules, claims management guidance on claim assessment, reinsurance taking activity and management.

The key Underwriting risks faced by the Group are reviewed quarterly by the Executive Risk Committee and subsequently the Board Risk Committee. Premium, Reserve, Reinsurance and Expense risk are all explicitly modelled within the Risk Profile and are captured by specific risks on the Group's Risk Registers under the CRSA and RCSA processes.

Risks are managed through a combination of policies, processes and reports. The key policies are as follows:

- Product Policy;
- Reinsurance Policy;
- Reserving Policy;
- Pricing and Underwriting Policy
- Fraud Policy

Section C.6 includes further detail on the ORSA Stress & Scenario tests related to Insurance Risks. (Weather events, Under-reserving, Under-pricing), Market Risks, Legislative change and Non-placement of Reinsurance scenarios.

Risk concentration

Insurance risk concentration at the Group is concentrated around the TU motor and home segments, which together represent all of the underwritten premium and technical provisions.

The Group's insurance portfolio exposes it to a potential accumulation of different risks in the event of difficult economic conditions or more challenging points in the underwriting cycle. A key aspect of the insurance risk faced by the Group is the degree of concentration of insurance risk, which may exist where a particular event or series of events could impact significantly upon the Group's liabilities. Such concentrations may arise from a single insurance contract or through a small number of related contracts and relate to circumstances where significant liabilities could arise.

Concentrations of risk can arise from high-severity, low frequency events, such as natural and other disasters and in situations where underwriting is biased towards a particular group, such as a particular geographical concentration. Material geographical concentrations of risk can exist in property portfolios such that natural perils of windstorm and floods may give rise to a large number of material damage and business interruption claims. The Group models its exposure to this risk to estimate its probable maximum loss and purchases reinsurance to significantly reduce its exposure to such events.

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

Material changes over the reporting period

There have been no material changes.

C.2 Financial risk

Financial risk means the risk of loss or of adverse change in the capital and financing structure adopted by the Group. It includes the following sub-categories:

- Market Risk
- Credit Risk
- Capital Risk
- Financial Control Risk

C2.1 Market risk

Market risk means the risk of economic loss resulting, directly or indirectly, from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments. This is the third most significant risk to which the Group is exposed to – and is comprised of the following sub-risks:

- **Liquidity Risk** – is the risk that expected and unexpected cash demands of policyholders, and other contract holders cannot be met without suffering losses or without endangering the business franchise due to constraints on liquidating assets. These constraints may be structural or due to market disruption.
The liquidity risk also covers the risk that any assumed liquidity premium, used to valuing illiquid liabilities, does not materialise.
- **Concentration Risk** - this covers exposure to concentration risk arising from all types of market risk including interest rate, equity, spread, property, and liquidity risks. Like counterparty concentration risk covered under Counter Party risk, it can arise due to high exposure to single companies or an aggregate of exposures to a number of positively correlated companies for example within one sector or region.
- **Investment Default Risk** – this risk includes the Risk of actual default, rather than spread changes alone. This risk may be covered by the Spread risk category but is included for completeness and to ensure companies consider if and how the impact of actual defaults may differ from spread changes.
- **Currency Risk** – this risk arises from changes in the level or volatility of relevant currency exchange rates when there is a mismatch between the relevant currency of the assets and liabilities. Note that the Group mostly invests in sterling denominated assets but could be exposed to immaterial direct exchange rate risk e.g. through claims arising abroad or indirect currency exchange risk. Additionally, there is some currency risk exposure from Travel Money held as physical cash in Tesco store vaults.
- **Property Risk** – this risk arises as a result of sensitivity of assets, liabilities and financial investments to the level or volatility of market prices of property or their yield.

Risk mitigation

Management of Market Risk is built around these key elements:

- Setting risk constraints (related to Risk Appetite and other risk controls).
- Carrying out strategic asset mix studies to determine the optimum investment strategy and limits taking into account the risk constraints.
- Taking action to avoid actual exposure exceeding the limits.
- Taking action in response to developments in economies and markets – i.e. adjusting the investment strategy and limits if needed.
- Investments are made with judgement and care. This means for investments; consideration is given to the probable safety of capital as well as the probable income to be derived. See Section B3.5 for more detail on the prudent person principle.
- Governance – The Group has a clear definition of duties in the end-to-end investment process.
- A clear segregation is made between setting the strategy, executing the strategy and day-to-day operations and control.

Measures used to assess risk

Liquidity risk is explicitly modelled within the Group's Risk Profile and is captured by specific risks on the Group's Risk Registers under the CRSA and RCSA processes. Risks are managed through a combination of policies, processes and reports - the key policy is the Market Risk Policy.

Section C.6 includes further detail on the ORSA Stress & Scenario tests related to Market Risk which include Economic Downturn, Interest Rate shock and Credit Spread scenarios.

Risk concentration

Diversification is an essential element to minimise concentration risk and therefore concentration limits are identified, approved and strictly followed. This implies not only boundaries but also early warning limits so that action can be taken in a timely fashion to avoid breaching the concentration limits. These are clearly specified in the Market Risk Policy and monitored in the TU Investment Committee.

C2.2 Credit risk

Credit risk, also referred to as counterparty default risk, reflects possible losses due to unexpected default of counterparties and debtors. CPD risk constitutes the second largest risk within the Group, due to policyholder premium debtors and intercompany loans within the Group. The risk is comprised of the following sub-risks:

- **Reinsurer Risk** - This refers to the risk that a Reinsurer on one of our programmes is unable to meet its liabilities when they fall due.
- **Policyholder Risk** - This refers to the risk that customers default on premiums due.
- **Intercompany loans** – Intercompany loans with Tesco Group. The principle of which was paid in support of the dividend payment.

Risk mitigation

Reinsurance contracts – All reinsurance contracts within the Group are placed through TU. With respect to reinsurance contracts, absolute exposure limits are reviewed per contract and reinsurer. Deterioration of the credit standing of a reinsurer can be the trigger for taking action, for example requiring additional guarantees or decrease in reinsurance share.

In accordance with the Solvency II requirements, for counterparty default a distinction is made between two types of exposure: type 1 and type 2 exposures:

- Type 1 exposure covers exposures which are less diversifiable and where the counterparty is likely to be rated by a credit rating agency.
- Type 2 exposure represents counterparties that are likely to be unrated but that can usually be diversified.

Receivables from intermediaries - Outstanding amounts due from intermediaries that are above a materiality threshold are monitored on a quarterly basis. Special escalation mechanisms are put in place in case of late payments.

Cash at banks and custody - for the main business bank accounts (with HSBC), no specific limits are in place. The Group operates four Liquidity funds in which there is typically up to £25m of cash. This holding is diversified across the funds with each AAA rated fund manager spreading the risk across multiple underlying funds.

C2.3 Capital risk

Capital risk refers to the risk that the Group may not hold sufficient capital to meet its obligations as they fall due, particularly under stressed or adverse condition. The Group operates a capital management process that optimises capital in the context of balancing risk and return, whilst maintaining economic and regulatory capital in accordance with risk appetite objectives.

Risk mitigation

To ensure that the Group manages its Capital effectively to meets its strategic needs and those of its Regulators and Shareholder, the Group considers the following area:

- Target Capital is to be set based on the outputs from the SII Standard Formula
- TU has set out a process for assessing the action required when its SII available capital position varies from its target capital position. These actions are set out in the Capital Contingency Plan
- The Group will review with the Board the potential to pay a dividend or make a Capital Reduction or debt repayment when the Available Capital exceeds Target Capital.
- The Group's future capital requirements are considered as part of the annual planning and ORSA process and are considered on an SII basis.

C2.4 Financial control risk

Financial Control Risk includes:

- **Financial misreporting** - Owing to insufficient systems/access to systems, business process, regulatory/accounting standards changes, colleague error there is a risk of delayed financial reporting or misreporting. This might result in regulatory censure and reputational damage.
- **Payment mismanagement** - Owing to insufficient systems, business process, accounting standards, or colleague error there is a risk of delayed/missed payment (e.g. 3rd party, Regulator, Tax). This might result in financial impact, regulatory censure, and reputational damage.
- **The risk of ineffective Budget and Forecasting** - Owing to ineffective Budget and Forecasting, errors, inconsistencies, and high deviations of actuals versus forecast might arise. This might impact the Group's ability to meet budgets and longer-term plans.

Measures used to assess risk

The key Credit risks faced by the Group are reviewed quarterly by the Executive Risk Committee and subsequently the Board Risk Committee. Credit risk is explicitly modelled within the Group's Risk Profile and is captured by specific risks on the Risk Registers and under the CRSA and RCSA processes.

Risks are managed through a combination of policies, processes and reports - the key policy is the Counterparty Default Risk Policy. Counterparty default risks and limits relating to investments operation are monitored and reported monthly to the Investment Committee.

Section C.6 includes further detail on the ORSA Stress & Scenario tests related to Credit Risk which include Reinsurer default scenarios.

Risk concentration

The most significant counterparty exposure within the group relates to intragroup transactions and from contractual arrangements with third parties where payments and commissions are owed to the Group for short periods of time. The Group assesses on a monthly basis the expected credit loss associated with retail lending activities.

Reinsurance counterparty exposure is a smaller element within the Group and monitored quarterly through the TU Reinsurance committee.

Material changes over the reporting period

There have been no material changes.

C.3 Operational risk

Risk description

Operational risk means the risk of loss arising from inadequate or failed internal processes, personnel or systems, or from external events. This is the third most significant risk to which the Group is exposed to – and includes the following principal sub-risks:

- Financial Crime Risk – this includes the risk of losses arising due to acts of a type intended to defraud, misappropriate property or circumvent regulations, the law or company policy, which involves at least one internal party. This also includes risk of losses arising due to acts of a type intended to defraud, misappropriate property or circumvent the law, by a third party without the assistance of an internal party.

- Business Transformation and Change Risk - this risk refers to losses arising from:
 - Failed transaction processing or process management, including the inability to deliver and execute according to budget and/or strategic plan due to shortage of staff or supplies.
 - Losses arising from the intended misuse of IT applications, through e.g. misappropriation of access; and
 - Losses arising from disruption of infrastructure or system failures. Note that losses due to not having suitable IT strategy are covered under strategic risks.
- Technology Risk – this risk refers to losses arising from the operation of the IT processes and / or controls
 - Inappropriate IT infrastructure or assets resulting in a loss of integrity, confidentiality or availability.
- Operational Resilience Risk - this risk refers to losses arising from:
 - The lack of, or inadequate business continuity plans;
 - The inappropriate or inadequate implementation of business continuity plans;
 - Losses arising from loss or damage to assets (physical or people) from natural disaster or other events.
- People Risk – this is the risk of losses arising from :
 - Lack of people skills and or / resources;
 - Inappropriate behaviour by senior management;
 - Unexpected absence of key personnel; and
 - Ill health, accident or injury to people.
- Information and Cyber Security Risk – Information and cyber security risk is losses arising from the:
 - the threat to the Group's confidentiality, availability, and integrity of their information assets;
 - This includes protection from actions by malicious and non-malicious insiders and outsiders, impacting the organisation's ability to provide technology and data dependent services, resulting in service failures, customer complaints, reputational damage, and operational losses.
- Third Party and Supplier Management Risk – this is the risk of loss arising from the reliance on or, failure of an outsourcer to:
 - Exercise control over major processes, key operations, functions and knowledge that are critical to the Group's business;
 - Failure of the outsourcer to comply with the Group's risk policies; and
 - Failure of the outsourcer to deliver their contractual agreements.
 - It also includes the risk of needing to bring back in-house the key operations and not having the capacity to do so.
- Conduct Risk - s the risk of losses from unfair outcomes to customers arising from:
 - Failure to deal with customers fairly and treat them with respect, including handling of complaints
 - Failing to design our products and services to meet the needs of customers
 - Failure of products and/or services performing as expected
 - Inadequately keeping customer data safe.

Risk mitigation

The operational risk management framework aims at identifying, assessing, managing, monitoring and reporting on operational risks. These Group-wide processes are:

- Loss data collection;
- Internal control assessment; and
- Key risk identification and assessment process.

Through its Risk Taxonomy, the Group has classified its potential sources of operational risks and aims to keep these operational risks at appropriate levels by maintaining sound and well-controlled environments in light of the characteristics of its business, the markets and the regulatory environments in which it operates. While these control measures mitigate operational risks, they can never completely eliminate them.

Measures used to assess risk

The key Operational risks faced by the Group are reviewed quarterly by the Executive Risk Committee and subsequently the TU and TPF Board Risk Committees. Operational risk is explicitly modelled within the Group's Risk Profile and is captured by specific risks on the Risk Registers and under the CRSA and RCSA processes. Risks are managed through a combination of policies, processes and reports.

The TPFG ORSA contains further detail on the methodology to calculate the "economic cost" of Operational Risk, in order to determine whether the standard formula-based capital charge allocation for operational risk provides an adequate reflection of the Operational Risk profile. Scenarios are chosen to cover all Operational Risk sub-risks within the Risk Taxonomy and each scenario is assessed against the Standard Formula SCR for Operational Risk - the results show that there are no scenarios that indicate that a higher level of capital might be required and therefore the scenarios support the use of Standard Formula for TPFG.

Risk concentration

Concentration of operational risk is limited within the Group.

Material changes over the reporting period

There have been no material changes.

C.4 Other material risks

This section covers the external and internal factors that can impact the Group's ability to meet its current business plan as well as how it positions itself to achieve ongoing growth and value creation.

This includes changes in the external environment including regulatory, economic environmental changes, as well as changes in the competitive landscape or the way people (customers or staff) behave. It can also be due to poor internal decision making and management or due to loss of reputation and franchise value.

We highlight below other general material risk categories which should be considered and provide some of the specific drivers within each category:

- **Strategic Risk** – The risk that the organisation's strategy is inadequate or unviable and fails to achieve commercial objectives in prevailing and future market conditions.
- **Legal & Regulatory Risk** - This is the risk that changes to regulations would threaten the current business model, changes to regulations about allowable product features, Underwriting practices, Legislative changes may affect the volume or quality of new sales or the profitability of in force business: e.g. Ogden Rate changes, Changes to the tax environment, which may eliminate the market for some products, and reduce the profit margins on other products.
- **Economic Environment Risk** - Environmental risks cover a range of changes to the external environment not already covered by the categories above including, technology shifts such as the rise of the internet and the impact this can have on customer buying behaviour and the need to develop appropriate IT strategies, other emerging risks such as potential claims from nanotechnology or changing weather patterns; and contagion risks – an extreme form of concentration risk which arises when usually unrelated risk factors can affect each other and become highly correlated - linked to the greater levels of connectivity across the world and therefore our markets and risk types.
- **Group Risks** - Group risks cover various risks associated with the Group's Parent Company and intercompany arrangements including, change in their strategy, significant reputational damage to the Parent Company and failure of the Parent Company.
- **Change Management Risk** - Change Management Risk is the risk arising from change projects that fail to deliver on objectives, do not deliver on time or budget, or have an unacceptable 'knock-on' impact on business-as-usual activity.
- **Climate Change Risk** - Climate Change Risk can arise from:
 - Physical risks: the risks which arise from weather-related events, such as floods and storms.
 - Transition risks: the financial risks which could arise for the Group from the transition to a lower-carbon economy.
 - Liability risks: risks that could arise for the Group from parties who have suffered loss and damage from climate change and then seek to recover losses from others who they believe may have been responsible.
- **Data Governance** - The risk that any data used within the Group is of poor quality, leading to inappropriate outcomes. This includes data received from external parties, saved and transformed within our own systems and utilised for decision making. Use of Automated Intelligence, Machine Learning and Automated Decision making.
- **Product Risk** – This risk includes:
 - Product design inadequately addresses customer needs.
 - Delivery of products and services to customers inadequately supports their needs.
 - Product terms and benefits are not met.

- Product pricing is uncommercial or unfair.
- Product sales and sign-up journeys do not support good customer outcomes.
- **Governance Risk** – Ineffective management of risk. Owing to inadequacies in the design or implementation of risk management framework and a three lines of defence model, there is a risk that risk and control gaps are not identified, assessed, managed, monitored, and reported effectively. This might result in financial loss and reputational damage or deterioration of customer service.
- **Business Risk** – Includes:
 - Adverse impacts of macroeconomic downturn.
 - Inability to respond effectively to the competitive environment.
 - Failure to maintain an effective strategic planning approach.
 - Impacts of material deterioration in the geo-political environment.
 - Negative impacts of being part of Tesco Group.
- **Reputational Risk** – Includes, failures in brand management and communication cause damage to reputation and failing to protect the brand from external threat
- **Claims Management Risk** - Claims management risk is defined as “the risk that claims are reserved, handled or paid inappropriately”.

Risk Mitigation

As part of the CRSA and RCSA processes, the Group maintains a Strategic Risk register - which is owned by the CEO and reviewed on a quarterly basis with the CRO, CFO and Finance Director. This covers the risks that don't sit within any of the other departmental Risk Registers.

As mentioned in the Section C introduction, the Group SCR does not explicitly cover Other Material Risks – to justify this we looked at the risks within the Group's Risk registers and ensured that there is sufficient allowance within other modelled risk types (due to overlap between the definitions).

C.5 Any Other Information

Stress and Scenario Testing

A well designed and executed Stress and Scenario Test (SST) programme is part of the Group's Contingency Planning. The ongoing Solvency of the Group is key, but the analysis also focuses on other applicable Risk Appetite measures. Where a Risk Appetite limit is breached management need to consider options available to recover and specify timescales and relevant owners for each action. The following process was adopted in developing the Stress and Scenario Tests:

- Risk Management liaised with relevant SMEs from across the business to review the SSTs using input from internal and external sources to assess whether there are gaps in coverage.
- The following Stress & Scenarios Tests (SSTs) have been amended:
 - S4 (PPO Severity Shock), S7 (Ogden Discount Rate Change), S8 (Sudden rise in UK Interest Rates), S11 (Financial Combined Scenario) - to reflect that inflation has returned to near target levels and other external shocks would drive the scenarios.
 - S6 (Non-Renewal of ADC and Quota Share Reinsurance) – to reflect that the ADC cover was not renewed in 2025 following the move to Standard Formula.
- One SST was removed S9 (Flattening of Yield Curve) – the impact of a macro-economic shock leading to a reduction in TU's bond portfolio valuation already covered in S12 (PRA Economic Downturn Scenario) and S14 (PRA Combined Scenario). To aid comparison with previous reporting the remaining SSTs have not been renumbered.
- The proposed SSTs were presented to the BRC in November 2024.

Stress and Scenario Tests:

The following sections summarise the various tests undertaken; the tests have been selected to ensure appropriate coverage of the key risks underlying the business plan projections. The tables below show a description of the test, the rationale for the test and an assessed return period:

Insurance Risk Stress and Scenario Tests:

| # | Test Name (Return Period) | Description | Rationale |
|----|---|--|--|
| S1 | Motor Market Soft (1-in-5 Year) | The Group's market competitiveness worsens more than anticipated leading to a reduction in Policies in Force of 20% vs. Long Term Plan over 2025/26-2027/28. | To assess the impact of lower profitability from writing lower than expected volumes. |
| S2 | Motor Market Hard (1-in-5 Year) | The Group's market competitiveness improves more than anticipated leading to a growth in Policies in Force of 20% vs. Long Term Plan over 2025/26-2027/28. | To assess the new business capital strain from writing higher than expected volumes. |
| S3 | Multiple Weather Events (1-in-100 Year) | A number of events occurring recurrently over 2025/26-2027/28 (2 in 2025/26; 3 in 2026/27; and 4 in 2027/28) as a result of increasingly aggravating climate change. Each event's cost is at the reinsurance retention, so no recoveries are made. | TU's Catastrophe reinsurance covers up to a 1-in-200 return period. Analysis of the calculation shows that multiple smaller events drive the Natural Catastrophe SCR figure. |
| S4 | PPO Severity shock (1-in-30 Year) | Assume all TU PPO claimants have unimpaired life expectancy and reserves increase to reflect. A shortage of care workers leads to an increase of 5% in the ASHE index (care cost inflation) for 2025/26. A knock-on impact is that this element of the premium is too low and hence the 2025/26 Loss Ratio is 3% higher than Plan. | A key assumption in the calculation of the Claims Reserves and Risk Premiums. |
| S5 | Adverse Large Loss experience (1-in-30 Year) | 2024/25 Year-end Bodily Injury (BI) large loss reserves are insufficient by 20% (Claims Handler Estimates are incorrect leading to adverse run-off). The knock-on impact is that the BI Large loss component of the risk premium is too low and hence the 2025/26 Written Loss Ratio is 5% higher than Plan. | A key assumption in the calculation of the Claims Reserves and Risk Premiums. |
| S6 | Non-Renewal of Quota Share Reinsurance (1-in-10 Year) | Significant reserve deterioration leads to an increase in the Quota Share costs and TU makes the decision not to renew the cover on 1/1/2026. | Non-renewal of the reinsurance cover would lead to a significant increase in the SCR figure. |
| S7 | Ogden Discount Rate change (1-in-30 Year) | A significant shortage of key workers leads to an increased outlook for care cost inflation and external pressure for an early review of Ogden Discount Rate, which leads to it being reduced to -2% in July 2025. | A key driver of the cost of Bodily Injury Claims – the change would impact all open claims. |

Financial Risk Stress and Scenario Tests:

| # | Test Name (Return Period) | Description | Rationale |
|------------|---|---|--|
| S8 | Sudden rise in UK Interest Rates (1-in-20 Year) | Significant increases to UK Interest rates to counter an unexpected spike in the high inflation caused by tensions between China and Taiwan significantly disrupting supply chains, rising to 8% in 2025/26, before falling to 6% in 2026/27, 4% in 2027/28 and then returning to current forward rates. | Rising yields would lead to a reduction in TU's bond portfolio valuation. |
| S10 | Widening of Credit Spreads (1-in-100 Year) | The impact of the spread widening following the Lehman Collapse in September 2008. | Widening spreads would lead to a reduction in TU's bond portfolio valuation. |
| S11 | Financial Combined Scenario: Downgrade & Default of Investments and Reinsurer default. (1-in-50 Year) | <p>A significant economic downturn leads to all BBB-rated corporate bonds being downgraded by 1 whole credit grade notch, and the default of TU's largest corporate bond holding with a 50% loss.</p> <p>This leads to financial difficulties for a number of TU's lowest rated Motor Reinsurance counterparties (below AA rated excluding Lloyd's of London) and TU is forced to write-off 50% of the Motor Reinsurance Recoveries due from these.</p> | <p>Reflecting the significant impact of a downturn of the macro-economic environment.</p> <p>Profit impact from Reinsurance Asset write-off and corporate bond default, and Solvency impact of increased Spread Risk following downgrades.</p> |
| S12 | Deterioration in the economic environment (1-in-100 Year) | <p>A parallel downward shift in risk free interest rates of 100 bps; a widening in corporate bond spreads dependent on their current credit rating (e.g. 150 bps for AAA rated assets); and a fall in other asset values (including equities down 30%, commercial property down 40% and residential property down 30%).</p> <p>(Based on 2019 PRA General Insurance Stress Test 1).</p> | Consistent with results reported to the PRA as part of the 2019 General Insurance Stress Test Scenario submission. |

Combined Risk Stress and Scenario Tests:

| # | Test Name (Return Period) | Description | Rationale |
|-----|--|--|---|
| S13 | Non-Life Combined Scenario: PPO 'Frequency' increase, Reinsurer default and Reduction in UK Motor Reinsurance capacity (1-in-100 Year) | <p>New legislation means that all open Large Motor claims over £1m will settle as PPOs.</p> <p>This in conjunction with other significant recent worldwide Natural Catastrophe events causes Swiss Re (TU's largest Reinsurance Counterparty) experience financial issues and TU is forced to write-off 50% of the Motor Reinsurance Recoveries due.</p> <p>A number of Reinsurers stop providing cover for the UK Motor market due to fears over spiralling numbers of PPO claims – TU is only able/willing to pay for 50% of the £5m xs. £5m XOL layer to be placed in 2025/26 and 75% in 2026/27 before returning to 100% in 2027/28.</p> | <p>PPO settlement propensity rate is a key assumption in the calculation of the Claims Reserves.</p> <p>Non-renewal of the reinsurance covers would lead to an increase in the SCR figure.</p> |
| S14 | Natural Catastrophe shock and deterioration in the economic environment (1-in-500 Year) | <p>A large UK windstorm and a large UK flood leading to some £22 billion of losses in aggregate to the UK insurance sector in conjunction with a deterioration in the economic environment (as per S12)</p> <p>(Based on 2019 PRA General Insurance Stress Test 5)</p> | Consistent with results reported to the PRA as part of the 2019 General Insurance Stress Test Scenario submission. |
| S15 | Liability shock (1-in-50 Year) | <p>A deterioration in Technical Provisions due to claims cost inflation being higher than allowed for in the reserving basis (7% above that already allowed for 5 years – 2025/26-2029/30)</p> <p>(Based on the 2022 PRA Dear Chief Actuary Letter – Inflation Scenario 2)</p> | Consistent with the PRA Inflation Scenario referenced in the 2022 Dear Chief Actuary letter. |
| S16 | Climate Change Scenario (1-in-100 Year) | <p>A climate change scenario across physical, transition and liability risks that are material to risk profile of Tesco underwriting.</p> <p>(Based on 2019 PRA Stress Test - Climate Change Scenario B)</p> | <p>Consistent with results reported to the PRA as part of the 2019 General Insurance Stress Test Scenario submission.</p> <p>To support TU's alignment with the PRA Biennial Exploratory Scenario (BES) 2021 regulatory requirements.</p> |

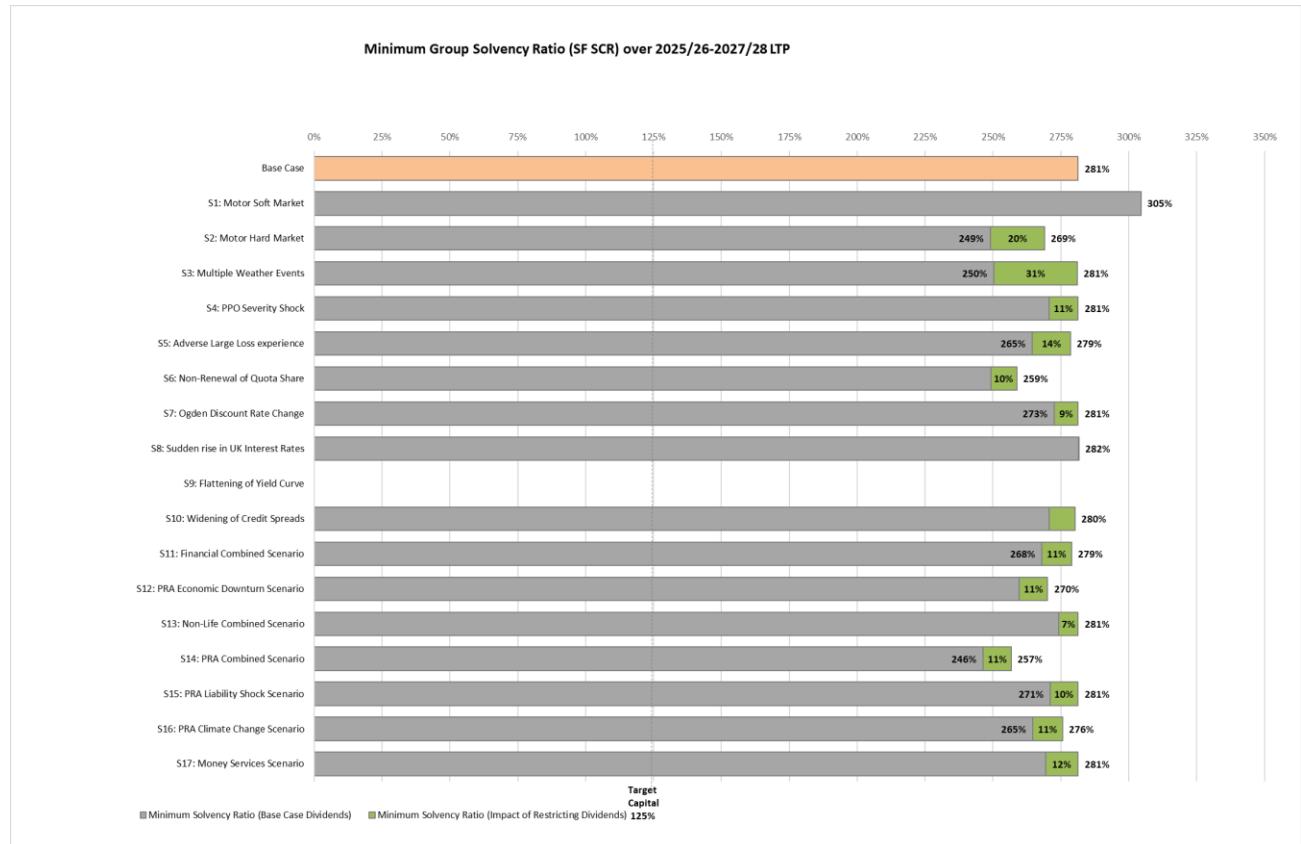
Financial Resilience Risk Appetite:

TPFG Solvency Measure

The Base Case Minimum Solvency Ratio of 281% is based on the Group Long Term Plan figures which were approved at the December 2024 Board.

The graphs below show the impact of the SSTs on the Group's and TU's Solvency Ratio (relative to SF SCR):

- The grey bars represent the minimum Solvency Ratio over the LTP projection period (2025/26-2027/28) assuming no additional management actions are initiated.
- The green bars show the impact on the minimum Solvency Ratio over the LTP projection period through the suspension of dividends (this assumes the 2025 dividend has been paid so the management actions only apply to the 2026 and 2027 dividends).



The results before management actions (grey bars) show that TPFG remains solvent (relative to regulatory SF SCR) under each of the stress tests performed.

Based on current projections TPFG Group has significant capital headroom and the results of the SSTs undertaken show that the Group's Solvency Ratio remains significantly above the Target Capital level (125% SF SCR) for all tests. Following the most severe Test, S14 (PRA Combined Scenario) the Solvency Ratio reaches a minimum level over the projection period of 246%.

The Group has not identified any material restrictions to the fungibility and transferability of Group Own Funds.

This is consistent with the results from the 2024/25 TPFG ORSA.

Financial Risk of Climate Change

Climate change is a long-term risk and the Group's key priorities reflect a proportionate balance between meeting regulatory expectations for UK GI firms (evidence of realistic targets and action plans) and 'Greenwashing' risk (over-promising and under-delivering). Key actions taken include:

- Investment guidelines – agreed rule-based ESG exclusion criteria and metrics.
- Climate Change Risk Appetite Statement (aligned with Tesco plc).
- Key Risk Indicator measures covering: Investment Portfolio ESG rating/carbon emissions, Pricing & Underwriting exposure, Claims sustainable repairs, Considerations in supplier decisioning and Reputational risk.

The SSTs undertaken confirm that for Group Physical Risks are the most significant (noting that these are mitigated by the reinsurance programme) and Transition Risks are less so (due to the investment portfolio being a diversified mix of high-grade corporate bonds).

D

VALUATION FOR SOLVENCY PURPOSE

This chapter should be read in conjunction with the Solvency II balance sheet (SII BS) as reported in the Quantitative Reporting Template IR.02.01.02

Introduction

This section provides the value separately for each material class of assets, technical provisions and other liabilities; and a description of the bases, methods and main assumptions used for their valuation for solvency purposes. It also provides a quantitative and qualitative explanation of any material differences.

The following valuation adjustments have been made to the IFRS Balance Sheet in arriving at the SII Balance Sheet;

- Deferred acquisition costs and other intangibles are excluded from the SII balance sheet as there is no fair value for these items;
- Deferred tax is adjusted to reflect the tax impact of the valuation adjustments; and
- Premium provisions (IFRS: assets and liabilities for remaining coverage) are discounted cash flows for SII balance sheet valuation purposes.
- Risk Margin, different methodology for SII vs IFRS Risk Adjustment.
- Discounting, different methodology for SII vs IFRS.

Fair value is the amount for which an asset could be exchanged, a liability settled or a granted equity instrument exchanged between knowledgeable, willing parties in an arm's length transaction.

Reclassifications have been made to align IFRS to SII presentation, presented as 'SII Reclassifications'.

TPFG is exempt by section 400 of the Companies Act 2006 from preparing and publishing consolidated financial statements as its parent company, Tesco PLC, publish consolidated group financial statements in the UK. The balance sheet discussed on the sections below has been consolidated into the Tesco PLC group financial statements.

D.1 Assets

D.1.1 Valuation of assets

The Group held the following assets:

Assets at 28 February 2025 £'000

| | IFRS Accounts | SII FV Adjustments | SII Reclassifications | SII SII Balance Sheet |
|--|------------------|-----------------------|--------------------------|--------------------------|
| Other intangible assets | 44,706 | (44,706) | | 0 |
| Deferred tax assets | 46,055 | (1,751) | | 44,304 |
| Property, plant & equipment held for own use | 63,139 | | | 63,139 |
| Investments - Bonds | 855,167 | | | 855,167 |
| Investments - Property Funds | 15,146 | | | 15,146 |
| Reinsurance recoverables | 124,079 | (77,879) | 198,523 | 244,724 |
| Insurance & intermediaries receivables | 0 | | 8,709 | 8,709 |
| Reinsurance Receivable | 0 | | 19,617 | 19,617 |
| Cash and cash equivalents | 223,815 | | | 223,815 |
| Other Assets | 492,767 | (3,511) | (1,292) | 487,964 |
| Total assets | 1,864,874 | (127,847) | 225,557 | 1,962,584 |

The section below summarises for each material class of asset the basis, methods and main assumptions used for the valuation of assets. For the data, we refer to the Quantitative Reporting Template (IR.02.01.02) in the Appendix.

Deferred acquisition costs (DAC) (Revalued for SII)

Under IFRS DAC is amortised over the period in which the related premiums are earned. DAC is not recognised under SII.

Intangible assets (Revalued for SII)

Intangible assets consist of computer software and development. Under IFRS they are valued at net book value. Under SII they are valued at nil unless they can be sold separately, and a valuation can be derived from a quoted market price.

The Group value all Intangible Assets at nil.

Property, plant and equipment (PPE) held for own use (Revalued for SII)

Under IFRS PPE is stated at cost less accumulated depreciation and impairment losses, which is approximated to be its market value. Under SII they are valued on the same basis.

Deferred tax assets

The valuation adjustment on the SII Balance Sheet is based on the difference between the value of the underlying assets and liabilities in the SII Balance Sheet and the IFRS balance sheet. The measurement principles of IAS 12 are applied in valuing deferred tax assets.

Investments Bonds

Corporate bonds are valued at fair value under both IFRS and SII.

Investments – Property

Investments in property (held not for own use) are measured using fair value. Monthly valuations are received from the investment management company and fluctuations in fair value are charged to the profit and loss account.

Reinsurance recoverables

The balance represents the sum of reinsurance premium provision and reinsurance claim provision discounted under IFRS and SII.

Insurance & intermediaries receivables

The balance represents premiums receivable from the intermediary and customers and are valued at cost value under both IFRS and SII because of the short-term nature of the receivables.

Reinsurance Receivables

These are short-term and valued at cost under both IFRS and SII.

Cash and cash equivalents

Cash and cash equivalents have a term of less than three months. Their face value is taken to approximate fair value under both IFRS and SII.

Other assets

This is a short-term asset and valued at cost under both IFRS and SII.

D.2 Technical provisions

D.2.1 Technical provisions by line of business

Technical Provisions at 28 February 2025 £'000

The table below shows the technical provisions of the Group by line of business.

| | Motor vehicle liability insurance | Other motor insurance | Home | Amounts not yet due from policyholders | Total non-life obligation | Annuities stemming from non-life insurance contracts | Total technical provisions |
|------------------------------------|-----------------------------------|-----------------------|---------|--|---------------------------|--|----------------------------|
| Premium Provisions | 145,298 | 67,379 | 39,024 | (233,148) | 18,554 | | 18,554 |
| Claims Provisions | 350,492 | (22,756) | 65,847 | | 393,583 | 27,650 | 421,233 |
| Total best estimate - gross | 495,791 | 44,623 | 104,872 | (233,148) | 412,137 | 27,650 | 439,787 |
| Risk margin | 9,758 | 581 | 4,302 | | 14,641 | 3,810 | 18,451 |
| Total gross technical provisions | 505,549 | 45,204 | 109,173 | (233,148) | 426,778 | 31,459 | 458,237 |
| Total recoverable from reinsurance | 191,594 | 31,134 | 5,037 | | 227,765 | 16,959 | 244,724 |
| Net technical provisions | 313,955 | 14,070 | 104,136 | (233,148) | 199,013 | 14,500 | 213,513 |

D.2.2 General comments on valuation of technical provisions

The value of technical provisions under Solvency II is equal to the sum of the best estimate of the liabilities and the risk margin. To calculate the best estimate of the liabilities, the probability-weighted average of the expected present value of all future cash flows based on the risk-free yield curve (with volatility adjuster for PPOs) is used. The risk margin, which is aimed at ensuring there is sufficient capital to run-off the business, is assessed on the basis of the capital costs of the non-hedgeable risks included in the best estimate.

The time horizon used in the calculation of the best estimate is the full lifetime of the existing insurance liabilities on the date of valuation. The determination of the lifetime of the insurance portfolio is based on contract boundaries and realistic assumptions about when the existing liabilities will be discharged, cancelled or expired. The boundary of the contract is defined by the technical specifications as:

- (a) Where the insurance undertaking has a unilateral right to terminate the contract, a unilateral right to reject the premiums payable under the contract or an unlimited ability to amend the premiums or the benefits payable under the contract at some point in the future, any obligations which relate to insurance or reinsurance cover which would have been provided by the insurance or reinsurance undertaking after that date do not belong to the existing contract;

- (b) Where the undertaking's unilateral right to terminate the contract or to unilaterally reject the premiums or its unlimited ability to amend the premiums or the benefits relates only to a part of the contract, the same principle as defined above are applied to this part; and
- (c) All other obligations relating to the terms and conditions of the contract belong to the contract.

Discounting cash-flows is performed for all relevant cash-in and cash-out flows, e.g. premiums, claims payments. As a simplification, cash-flows are expected to emerge at mid-year. Discounting is performed in line with the PRA policy statement 24/20: UK insurance firms are required to use technical information published by the PRA to calculate the technical provisions required by Solvency II. Discounting is performed based on the interest curves for liabilities where the insurers are permitted to use a volatility adjustment (VA).

TPFG's business is managed in a more granular way than at SII Lines of Business level, so the assumptions are also set at a more granular level.

All expenses to be incurred in servicing insurance and reinsurance obligations are taken into account. They include direct operating expenses, overhead expenses as well as allocated central head-office expenses. Expenses associated with reinsurance contracts are included in the gross calculation of the best estimate.

The allowance for inflation is consistent with the economic assumptions made. Inflation rates are justifiable relative to external sources of information such as Consumer or Retail Price Indices.

D.2.3 Non-life technical provisions

Non-life provisions consist of:

- Claims provision: cash flow projections relate to claim events having occurred before or at the valuation date – whether the claims arising from these events have been reported or not (i.e. all incurred but not settled claims).
- Premium provision: the cash flows relate to claims and expenses occurring in the future related to policies in force according to contract boundaries defined below.

Granularity

The best estimate of claims provision and premium provision are calculated separately with a split between gross cash flows and reinsurance related cash flows. The minimum level of segmentation is at homogeneous risk group level with a minimum level being the Solvency II Lines of Business.

Cash flow projection for claims provision

The Claims provision includes:

Inward cash-flows

- Recoverables for salvage and subrogation; and
- Recoverables from reinsurance contracts and special purpose vehicles (for calculation of net best estimate).

Outward cash-flows

- Claims payments payable to policyholders or beneficiaries;
- Expenses incurred in servicing insurance obligations; and
- Reinstatement premiums.

The Premium provision includes:

Inward cash-flows

- Premiums to be written until the term of the contract (future premiums);
- Recoverables for salvage and subrogation; and
- Recoverables from reinsurance contracts.

Outward cash-flows

- Claims payments payable to policyholders or beneficiaries from claims occurred since the valuation date until the term of the contract;
- Commissions to be paid since the valuation date until the term of the contract;
- Reinsurance premium or reinstatement premiums;
- Expenses incurred in servicing insurance obligations;
- Expenses necessary to handle claims until settlement;
- Expenses necessary to administer contracts during the valuation period;
- Acquisition expenses (other than commissions); and
- Investment expenses necessary to administer the assets representing the liabilities related to contracts during the valuation period;

Claims payments

Claims are split into five categories:

- Attritional claims (claims with a cost under a predefined threshold).
- Large claims (claims with a cost above a predefined threshold excluding catastrophe claims). Claims settled as lump sum payments.
- Large claims settled as Periodic Payment Orders (PPOs).
- Claims arising from natural catastrophe events.
- Claims arising from binary events (restricted to events with very low frequency-high severity which could be one large claim or an accumulation of attritional claims).

The main reason for isolating large (lump sum and PPO claims) and catastrophe claims from others is that, in many cases, large claims require a dedicated valuation technique. In addition, non-proportional reinsurance applies only to those claims. PPO claims need to be separately identified for the purpose of QRT reporting. As a consequence, isolating large and catastrophe losses from other losses warrants an appropriate calculation of best estimate values and of the uncertainty around it, both on a gross and net basis.

Methods to value attritional claims are aggregate methods where claims are grouped per accident period and where payments are grouped by accounting period to form a claims triangle. For large losses various methods are available including specific individual large loss methods. Large losses, including PPO claims are modelled using a combination of aggregate methods and individual large loss projection methods in order to compute the reinsurance recoveries.

Tail Factor

In many loss reserve analyses, especially those involving long-tail branches (losses that do not proceed to final settlement until several years beyond the policy year), the observed historical loss development information may end before all the claims are expected to be settled and before the final costs are known. Assessments, based on the available triangle data, may lead to consider a *tail factor* that estimates the development beyond the last stage of known historical developments.

Reinsurance Recoveries

Recoverables from reinsurance contracts are recognised and valued according to the valuation principles for non-life premium and claims provisions and are shown separately on the asset side of the Balance Sheet (as “recoverables from reinsurance contracts”). The time value of money is taken into account in the calculation of reinsurance recoveries.

TUs reinsurance programme comprises: Motor and Home Excess of Loss programmes and a 45% Motor Quota Share treaty for each underwriting years 2022 to 2025.

Expenses related to the internal processes for reinsurance (such as administration or management) are allowed for in the expenses forming part of the gross best estimate.

Expenses

Expenses assumptions are based on experience over the last year or some other recent period. In this respect the past one-off expenses may be more or less adjusted. Expenses are calculated on a going concern basis and also on a run-off basis for comparison purposes.

Commissions

Future commission assumptions are only considered for the part of the premium provisions related to premiums not already written. These commission assumptions are generally expressed as a percentage of written premiums.

Acquisition Expenses

Future acquisition costs are valued regarding cash-flows related to premium provisions and considered differently depending on whether the premium has already been written or not. For the part of provision constituted by premium already written, no acquisition cost is projected since all expenses are considered as having been paid at the drawing up of the contract.

For renewals, acquisition costs are reduced with the part of the cost related to the drawing up of the contract.

Administration and Operating costs

Expenses connected with ongoing administration of in-force policies and operational businesses (including reinsurance costs) are first allocated to premium provisions.

Claims Expenses

Claim management expenses which are related to claims that have occurred before the valuation date are considered for the cash-flows related to claims provisions.

Expenses related to claims that will occur in the period covered by the in-force premiums are considered regarding cash-flows related to premium provisions.

Events Not in Data (ENIDs) – Natural Catastrophe events

The definition of “ENIDs” is restricted to those events with very low frequency-high severity (which could be one large claim or an accumulation of attritional claims) and is not otherwise considered in the best estimate as absent from historical observation or is considered as an outlier in the valuation methods applicable to attritional or large claims. TPFG makes a distinction between the claims arising from natural catastrophe events classified as Natural Catastrophe claims and others, called Events Not In Data (ENIDs).

Typical Natural Catastrophe events are Earthquakes, Floods, Windstorms, Tsunamis, etc. Typical ENIDs include latent claims e.g. asbestos, legislative changes e.g. Ogden table changes.

ENIDs must be explicitly considered in premium provisions and claims provisions, in a consistent way. Natural catastrophe events must be explicitly considered in premium provisions. Not all lines of business will be affected to the same extent by ENID and natural catastrophe events. Longer tailed classes of business are more affected by ENIDs. The approach and methods used to calculate the allowance for catastrophe and ENIDs are simplified methods using benchmarking and expert judgment.

Inflation

Inflation is considered when projecting future cash-flows. The cash-flows that are potentially impacted by inflation are:

- Claims costs;
- A 45% Motor Quota Share treaty for underwriting years 2022 to 2025;
- Expenses: the biggest part of expenses are salaries that will evolve over time; and
 - Inflation that applies to claims is called “claims inflation”.

The assumptions used for valuation are consistent with other uses of Claim inflation.

Contract boundaries

Contract boundaries (including unincorporated business) impact both IFRS and Solvency II in terms of the Premium Provision.

"Unincorporated business" is defined as those contracts where a legal obligation exists but the coverage period has not started yet and also multi-year contracts.

Options and guarantees/Policyholder behaviour

This is not relevant as the Group does not include options and/or guarantees in its non-life book of business.

Management action

The Group does not currently consider any management action as policies currently written for non-life products do not include any (discretionary) participating features.

Expert Judgment

Typical areas in non-life where expert judgment is applied are:

- Tail factors as they affect the whole claims portfolio contained in a triangle: it is usually a highly material item;
- Loss ratios affect single years, where the most uncertain parameters for the most recent years typically have the biggest impact. The loss ratio of the current year essentially determines the premium provision and is thus highly material;
- The potential impact of events not seen in historic data;
- Continuing impact of the current inflationary environment;
- Impact of legislative changes;
- Allowance for ENIDs.

D.2.4 The level of uncertainty in the amount of technical provisions

Due to the uncertainty of future events, any modelling of future cash flows (implicitly or explicitly contained in the valuation methodology) will necessarily be imperfect, leading to a certain degree of inaccuracy and imprecision in the measurement (or model error). A yearly model assessment is performed in order to review any potential modelling feature that is missing in the model and that might be significant to the determination of the Best Estimate.

Such an assessment of the model error may be carried out by expert judgement or by more sophisticated approaches, for example:

- Sensitivity analysis in the framework of the applied model: this means varying the parameters and/or the data thereby observing the range where a best estimate might be located;
- Comparison with the results of other methods: applying different methods gives insights into potential model errors. These methods would not necessarily need to be more complex;
- Descriptive statistics: in some cases the applied model allows the derivation of descriptive statistics on the estimation error contained in the estimation. Such information may assist in quantitatively describing the sources of uncertainty;
- Back-testing: comparing the results of the estimation against experience may help to identify systemic deviations which are due to deficiencies in the modelling; and
- Quantitative assessment scenario as benchmark.

D.2.5 Impact of the reduction of the volatility adjustment to zero

Within the Solvency II regulations it is permissible (with approval) to use a volatility adjustment, which increases the rate used to discount cashflows in the valuation of assets and liabilities. The principle of having a volatility adjustment is that a 'buy and hold' investor who is not impacted by the volatility of assets caused by market fluctuations, is able to use a more appropriate discount rate, reflecting assets held. TU has approval to use a volatility adjustment within Solvency II reporting. Excluding the

use of the volatility adjustment at 28 February 2025, SII eligible own funds would have reduced by £0.8m to £790.9m, leading to a capital coverage of 300%.

D.2.6 Material changes in the relevant assumptions made in the calculation of technical provisions compared to previous reporting period

Given the current inflationary environment, it has still been necessary to apply expert judgement on the development of claims, but the assumption that historic development is a reliable guide for the future is now more valid because the historic inflation has made its way in the claim development triangles.

Further, a deep-dive into the BI (both capped and XS) perils was carried out for the 2024 Q3 reserve review. This was part of a programme of off-cycle activity with its purpose being to re-engineer the approaches to reserving for BI claims to be in line with updated and standard market practices. Results were presented separately to a subset of the TU Reserve Committee on 23 October and then again at the 2024 Q3 TU Reserve Committee.

D.2.7 Material differences between the basis, methods and assumptions used for technical provisions in the Solvency II Balance Sheet compared to IFRS

A difference in methodology exists between SII reserving and IFRS reserving. The technical reserves included in the SII Balance Sheet are subject to the valuation requirements in the PRA handbook. These valuation principles are not the same as those required by International Financial Reporting Standards. The underlying approach towards quantifying reserves under IFRS is disclosed in the 2024/25 annual accounts of TU, page 38 Accounting Estimates.

One of the key difference is the valuation of the premiums provisions - the portion of premium included in liability for remaining coverage on an IFRS basis is replaced with the best estimate of claims and expenses arising from incepted but unearned and legally bound unwritten business. Another difference is the treatment of acquired claims in IFRS17, whereas this is not relevant for SII.

D.2.8 Matching Adjustment

TPFG does not apply a matching adjustment to the technical provisions.

D.2.9 Transitional risk-free interest rate term structure

TPFG does not apply a transitional risk-free interest rate term structure.

D.2.10 Transitional deduction

TPFG does not apply a transitional deduction to the technical provisions.

D.3 Other liabilities

The Group had the following liabilities (including Technical Provisions discussed in D2 above):

Liabilities at 28 February 2025 £'000

| | IFRS Accounts | SII FV Adjustments | SII Reclassifications | SII Balance Sheet |
|-------------------------------------|------------------|--------------------------|--------------------------|-------------------------|
| Technical provisions | 652,688 | (139,956) | (54,494) | 458,237 |
| Deposits from reinsurers | 0 | | 218,140 | 218,140 |
| Insurance & intermediaries payables | 0 | | 4,917 | 4,917 |
| Payables (trade, not insurance) | 15,028 | | 16,244 | 31,271 |
| Any other liabilities | 90,907 | 6,857 | 40,751 | 138,514 |
| Total liabilities | 758,622 | (133,100) | 225,557 | 851,079 |

D.3.1 Valuation of other liabilities

The key estimates and judgements applied are set out below. For more detail in IFRS accounting, refer to the accounting policies disclosed within the respective 2024/25 Annual Reports of TU and TPF.

The table below summarises per material class of liabilities the material differences between the valuation for Solvency II purposes and the IFRS valuation. For the data, please refer to the Quantitative Reporting Template IR.02.01.02 in the Appendix.

Deferred Tax Liability

Provision made on all timing differences including revaluation gains on investments and is calculated at the expected tax rate.

Deposits from reinsurers

Valued at amortised cost in both IFRS and SII, deposits from reinsurers includes quota share funds withheld from reinsurers.

Insurance & intermediaries payables

Valued at amortised cost in both IFRS and SII. Differences between amortised cost and fair value are immaterial because of the short-term nature of the payables.

Reinsurance payables

Valued at amortised cost in both IFRS and SII. Differences between amortised cost and fair value are immaterial because of the short-term nature of the payables.

Payables (trade, not insurance)

Valued at amortised cost in both IFRS and SII. Differences between amortised cost and fair value are immaterial because of the short-term nature of the payables. Such payables include IPT on premium and current tax liabilities.

Any other liabilities, not elsewhere shown

Valued at amortised cost in both IFRS and SII. Differences between amortised cost and fair value are immaterial because of the short-term nature of the payables. A lease liability is also measured at the lease commencement date at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Group's incremental borrowing rate.

D.4 Alternative methods for valuation

No alternative methods of valuation have been applied.

D.5 Any other information

There is no other information to disclose.

E

CAPITAL MANAGEMENT

E.1 Own Funds

E.1.1 Available Capital

TPFG's available capital is primarily Basic Own Funds at 28 February 2025. The basic own funds represent SII assets of £1,962.6m less SII liabilities of £851.1m. TPFG's available own funds, after a foreseeable dividend of £364.8m, is £746.8m.

| | 2025 |
|----------------------|----------------|
| Assets | 1,962,584 |
| Liabilities | (851,079) |
| Foreseeable dividend | (364,750) |
| Own funds | 746,755 |

The group's own funds have been calculated using the accounting consolidation method.

E.1.2 Objectives, policies and processes for managing own funds

The multi-year planning process which is reviewed and approved annually considers the implications of business performance on the capital of the Group over the following 3 years.

The main goal of capital management is to protect policyholders, whilst optimising capital structure, composition and allocation of capital, funding profitable growth and protect viability and profitability and fund dividends to its Shareholder.

TPFG applies a capital management policy which sets rules and ensures discipline on:

- Capital Planning: the capital level the TPFG Board wants to hold, which is a function of:
 - Legal and regulatory requirements, and anticipated changes;
 - Growth ambitions, and future capital commitments; and
 - Security buffers to ensure we meet obligations according to our Risk Appetite Policy.
- Capital Allocation: capital use that the Group foresees, which is a function of:
 - Optimisation of risk reward; and
 - Measured performance.
- Dividends (and future capital raising).

Capital management policies and processes are included in the risk management system, ORSA process and internal control environment as disclosed in Section B Governance.

E.1.3 Information about the structure, amount and quality of basic own funds

The position at 28 February 2025 is:

| | £'000 | % Tier 1 | % Own funds |
|------------------------|-----------------------|----------|-------------|
| Tier 1 (unrestricted) | 702,451 | 100% | 94% |
| Tier 3 | 44,304 | | 6% |
| Total Own funds | <u>746,755</u> | | 100% |

At the period end of 28 February 2025;

- 94% of the Own funds are of the highest Tier 1 quality and able to fully absorb losses.
- 6% of the Own Funds is a Deferred Tax Asset.
- Own funds at year-end 28 February 2025 do not contain ancillary Own Funds.

E.1.4 Eligible amount of group Own Funds to cover the consolidated group Solvency Capital Requirement (SCR) and the minimum consolidated group Solvency Capital Requirement (MSCR) classified by tiers

28 February 2025

| £'000 | Total | Tier 1 | Tier 2 | Tier 3 |
|---|---------|---------|--------|--------|
| Total available own funds to meet the consolidated Group SCR | 746,755 | 702,451 | 0 | 44,304 |
| Total eligible own funds to meet the consolidated Group SCR | 741,960 | 702,451 | 0 | 39,509 |
| Total eligible own funds to meet the minimum consolidated Group SCR | 702,451 | 702,451 | 0 | 0 |
| Consolidated Group SCR | 263,393 | | | |
| Minimum consolidated Group SCR | 72,803 | | | |

The eligible amount of group own funds to meet the consolidated group SCR and minimum consolidated group SCR is assessed as follows:

- At least 50% of the group SCR, which amounts to £131.7m, should be covered by Tier 1 capital. 95% of TPFG's capital is Tier 1.
- No more than 15% of the group SCR is allowed as Tier 3 capital, therefore it is reduced from £44.3m to £39.5m.
- At least 80% of the minimum consolidated group SCR, which amounts to £58.2m, should be covered by Tier 1 capital.

Deferred Tax Asset/(Liability)

As at 28 February 2025, the IFRS deferred tax asset for the consolidated group of £46.1m comprising of:-

28 February 2025

| | £'000 |
|---|---------|
| Insurance Finance Reserve through OCI | (4,042) |
| Unrealised loss on assets held as AFS through OCI | 7,461 |
| Other temporary differences | 42,635 |
| Deferred tax asset | 46,055 |
| | |

The deferred tax recognised through Other Comprehensive Income (OCI) during the year relates to discounting movements on insurance reserves and unrealised movements on financial investments. The movement in insurance finance reserve for year ended 28 February 2025 was (£4.0m) and unrealised losses on investments were £7.5m.

Transitioning from an IFRS Balance Sheet to a SII Balance Sheet, net assets increased by £7.0m. The deferred tax asset adjustment based on this adjustment is £1.8m calculated at 25%. It is probable that future taxable profit will be available against which the deferred tax asset can be utilised.

28 February 2025

| | £'000 |
|------------------------------------|----------|
| Change in net technical provisions | 30,307 |
| All Other Movements | (23,304) |
| Total SII adjustments | 7,004 |
| | |
| Deferred tax at 25% | (1,751) |
| Add IFRS Deferred tax asset | 46,055 |
| SII deferred tax asset | 44,304 |
| | |

E.1.5 Quantitative and qualitative explanation of any material differences between equity as shown in the Group's IFRS Balance Sheet and the available own funds as calculated for solvency purposes

Differences between equity in the IFRS group consolidated Balance Sheet and the excess of assets over liabilities as calculated for Solvency II purposes (Own Funds) are explained in detail in Section D and mainly stem from the following sources:

- Valuation differences due to assets and liabilities not recorded at fair value under IFRS;
- Liabilities arising from insurance and investment contracts recognised at market-consistent values; and
- De-recognition of intangible assets under Solvency II.

The reconciliation from IFRS equity to Solvency II Own Funds is as follows:

28 February 2025

| | £'000 |
|----------------------------------|-----------|
| Consolidated Shareholders Equity | 1,106,252 |
| Total Valuation differences | 5,253 |

| | |
|---|----------------|
| Removal of DACs | (7,875) |
| Derecognition of intangible assets | (44,706) |
| Derecognition of prepayments | (6,561) |
| Net best estimate of discounted liabilities | 66,146 |
| Tax impact on valuation differences | (1,751) |
| Foreseeable dividend | (364,750) |
| Solvency II Consolidated Group Own Funds | 746,755 |

The foreseeable dividend was in respect of return of remaining proceeds of the sale of the banking business to Barclays Bank UK PLC and was executed on 7 May 2025.

No items have been deducted from own funds, and there are no restrictions in relation to the availability and transferability of own funds.

See section D for further detail on the adjustments made between IFRS and Solvency II.

E.2 Solvency Capital Requirement (SCR) and Minimum Capital Requirement (MCR)

E.2.1 Quantitative information on the SCR

The undertakings included in the scope of the group SCR are:

- Tesco Personal Finance Group Ltd
- Tesco Underwriting Ltd
- Tesco Personal Finance Ltd



The group SCR for TPFG is calculated using the standard formula. The group SCR includes all risks arising from TU due to 100% ownership of TU. The table below shows the group and solo SCR and MCR:

28 February 2025

| £'000 | SCR | MCR |
|------------------------------|---------|--------|
| Tesco Personal Finance Group | 263,393 | 72,797 |
| Tesco Underwriting | 188,814 | 72,797 |

The composition of the consolidated SCR is summarised in the table below. The SCR is split by risk modules determined by the Standard Formula. The table analyses the risk components of the SCR for each entity in the group and the consolidated group. The increase from TU to TPFG is primarily due to counterparty default risk arising from intragroup receivables with Tesco PLC.

28 February 2025

| £'000 | TU | TPF | TPFG consolidated |
|---|----------|----------|-------------------|
| Market Risk | 55,116 | 5,303 | 60,419 |
| Counterparty Default Risk | 10,955 | 101,787 | 112,742 |
| Non-Life Underwriting Risk | 148,510 | 203 | 148,713 |
| Life Underwriting Risk | 418 | 0 | 418 |
| Diversification between above mentioned risks | (38,227) | (32,713) | (70,940) |
| Non-Diversifiable Risks | 24,067 | | 24,067 |
| Loss-Absorption through Deferred Taxes | (12,025) | | (12,025) |
| | 188,814 | 74,580 | 263,394 |

The TU and TPFG MCR as at 28 February 2025 is £72.8m, calculated using the outputs from the SCR, premiums and technical provisions.

The group SCR includes a reduction of £12.0m in respect of the loss absorbing capacity of deferred taxes. This is calculated taking into account a prudent view of the expected pretax profit of TU only over the next 12 months, multiplied by the average tax rate over the coming 12 months.

The Group has not applied simplifications or undertaking specific parameters in calculating the SCR.

No capital add-on has been imposed by the PRA.

E.3 Differences between the Standard Formula and internal model used

Both TU as a solo entity and TPFG as a consolidated group apply the Standard Formula method in the calculation of SCR.

E.4 Non-compliance with the SCR and MCR

There is no non-compliance with either the SCR or MCR.

E.5 Any other information

E.5.1 Capital contingency plan

TPFG maintains a robust capital management framework that includes contingency planning. This ensures that the Group can respond effectively to adverse events and maintain regulatory capital adequacy.

The Group's regulated subsidiary, TU, operates a Capital Contingency Plan that provides structured guidance on actions to be taken at various Solvency II coverage levels. This plan is aligned with TPFG's group-wide risk appetite and capital management strategy.

E.5.2 Other information regarding capital management

For the period ending 28 February 2025 TPFG had consolidated available own funds of £746.8m and eligible own funds of £742.0m (after foreseeable dividends). The consolidated SCR was £263.4m resulting in capital coverage of 281.7%.

Appendix

ANNUAL QUANTITATIVE REPORTING TEMPLATES (QRTS)

IR.02.01.02

Balance sheet

| | Solvency II value |
|--|------------------------------|
| Assets | |
| Intangible assets | |
| Deferred tax assets | 44,304 |
| Pension benefit surplus | |
| Property, plant & equipment held for own use | 63,139 |
| Investments (other than assets held for index-linked and unit-linked contracts) | 870,313 |
| <i>Property (other than for own use)</i> | 0 |
| <i>Holdings in related undertakings, including participations</i> | 0 |
| <i>Equities</i> | 0 |
| <i>Equities - listed</i> | |
| <i>Equities - unlisted</i> | |
| <i>Bonds</i> | 855,167 |
| <i>Government Bonds</i> | 103,084 |
| <i>Corporate Bonds</i> | 743,613 |
| <i>Structured notes</i> | 0 |
| <i>Collateralised securities</i> | 8,470 |
| <i>Collective Investments Undertakings</i> | 15,146 |
| <i>Derivatives</i> | |
| <i>Deposits other than cash equivalents</i> | 0 |
| <i>Other investments</i> | 0 |
| Assets held for index-linked and unit-linked contracts | |
| Loans and mortgages | 0 |
| <i>Loans on policies</i> | 0 |
| <i>Loans and mortgages to individuals</i> | |
| <i>Other loans and mortgages</i> | |
| Reinsurance recoverables from: | 244,724 |
| <i>Non-life and health similar to non-life</i> | 227,765 |
| <i>Life and health similar to life, excluding index-linked and unit-linked</i> | 16,959 |
| <i>Life index-linked and unit-linked</i> | |
| Deposits to cedants | 0 |
| Insurance and intermediaries receivables | 8,709 |
| Reinsurance receivables | 19,617 |
| Receivables (trade, not insurance) | 487,964 |
| Own shares (held directly) | |
| Amounts due in respect of own fund items or initial fund called up but not yet paid in | 0 |
| Cash and cash equivalents | 223,815 |
| Any other assets, not elsewhere shown | |
| Total assets | 1,962,584 |

| | Solvency II value |
|--|----------------------|
| Liabilities | |
| Technical provisions - total | 458,237 |
| <i>Technical provisions - non-life</i> | 426,778 |
| <i>Technical provisions - life</i> | 31,459 |
| Best estimate - total | 439,787 |
| <i>Best estimate - non-life</i> | 412,137 |
| <i>Best estimate - life</i> | 27,650 |
| Risk margin - total | 18,451 |
| <i>Risk margin - non-life</i> | 14,641 |
| <i>Risk margin - life</i> | 3,810 |
| Transitional (TMTP) - life | |
| Contingent liabilities | |
| Provisions other than technical provisions | |
| Pension benefit obligations | |
| Deposits from reinsurers | 218,140 |
| Deferred tax liabilities | |
| Derivatives | |
| Debts owed to credit institutions | |
| Financial liabilities other than debts owed to credit institutions | |
| Insurance & intermediaries payables | 4,917 |
| Reinsurance payables | |
| Payables (trade, not insurance) | 31,271 |
| Subordinated liabilities | 0 |
| <i>Subordinated liabilities not in Basic Own Funds</i> | |
| <i>Subordinated liabilities in Basic Own Funds</i> | 0 |
| Any other liabilities, not elsewhere shown | 138,514 |
| Total liabilities | 851,079 |
| Excess of assets over liabilities | 1,111,505 |

IR.05.03.02

Life income and expenditure

| | Non-life annuities | Total life and health |
|--|-----------------------|--------------------------|
|--|-----------------------|--------------------------|

Premiums written

Gross direct business

| | | |
|--------------------------|---|---|
| | | 0 |
| | | 0 |
| Gross | 0 | 0 |
| <i>Reinsurers' share</i> | | 0 |
| Net | 0 | 0 |

Claims incurred

Gross direct business

| | | |
|--------------------------|-----|-----|
| | 390 | 390 |
| | | 0 |
| Gross | 390 | 390 |
| <i>Reinsurers' share</i> | 379 | 379 |
| Net | 11 | 11 |

Expenses incurred

Gross direct business

| | | |
|--------------------------|---|---|
| | | 0 |
| | | 0 |
| Gross | 0 | 0 |
| <i>Reinsurers' share</i> | | 0 |
| Net | 0 | 0 |

Other expenses

| |
|--|
| |
| |

Transfers and dividends

Dividends paid

| |
|--|
| |
| |

| All business (including annuities stemming from accepted non-life insurance and reinsurance contracts) | All non-life business (ie excluding annuities stemming from accepted insurance and reinsurance contracts) | | | | Annuities stemming from non-life insurance contracts | | |
|--|---|--|--|--|--|--|--|
| | | Motor vehicle liability insurance - personal lines | Motor vehicle other motor insurance - personal lines | Fire and other damage to property insurance - personal lines | | | |
| Income | | | | | | | |
| Premiums written | | | | | | | |
| Gross written premiums | | 726,444 | 493,999 | 116,782 | 115,664 | | |
| Gross written premiums - insurance (direct) | | 726,444 | 493,999 | 116,782 | 115,664 | | |
| Gross written premiums - accepted reinsurance | | | | | | | |
| Net written premiums | | 426,696 | 206,010 | 116,782 | 103,903 | | |
| Premiums earned and provision for unearned | | | | | | | |
| Gross earned premiums | | 649,518 | 443,675 | 104,978 | 100,865 | | |
| Net earned premiums | | 376,468 | 182,190 | 104,978 | 89,301 | | |
| Expenditure | | | | | | | |
| Claims incurred | | | | | | | |
| Gross (undiscounted) claims incurred | | 455,727 | 248,705 | 134,578 | 72,444 | | |
| Gross (undiscounted) direct business | | | | | | | |
| Gross (undiscounted) reinsurance accepted | | | | | | | |
| Net (undiscounted) claims incurred | | 443,919 | 238,397 | 134,578 | 70,944 | | |
| Net (discounted) claims incurred | | 251,456 | 251,446 | | 11 | | |
| Analysis of expenses incurred | | | | | | | |
| Technical expenses incurred net of reinsurance ceded | | 47,751 | | | | | |
| Acquisition costs, commissions, claims management costs | | -808 | -808 | -106 | 5,934 | | |
| | | | | | -6,636 | | |
| Other expenditure | | | | | | | |
| Other expenses | | 501,260 | | | | | |
| Total expenditure | | 800,468 | | | | | |

IR.22.01.22

Impact of long term guarantees measures and transitionals

| | Amount with Long Term Guarantee measures and transitionals | Impact of transitional on technical provisions | Impact of transitional on interest rate | Impact of volatility adjustment set to zero | Impact of matching adjustment set to zero |
|---|--|---|---|--|--|
| Technical provisions | 458,237 | 0 | 0 | 794 | 0 |
| Basic own funds | 746,755 | 0 | 0 | -794 | 0 |
| Eligible own funds to meet Solvency Capital Requirement | 741,960 | 0 | 0 | -794 | 0 |
| Solvency Capital Requirement | 263,393 | 0 | 0 | 0 | 0 |

Basic own funds before deduction for participations in other financial sector

Ordinary share capital (gross of own shares)

Non-available called but not paid in ordinary share capital at group level

Share premium account related to ordinary share capital

Reconciliation reserve

Subordinated liabilities

Non-available subordinated liabilities at group level

An amount equal to the value of net deferred tax assets

The amount equal to the value of net deferred tax assets not available at the group level

Total basic own funds after deductions

Total available own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A)

Total available own funds to meet the minimum consolidated group SCR

Total eligible own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A)

Total eligible own funds to meet the minimum consolidated group SCR (group)

Consolidated group SCR

Minimum consolidated Group SCR

Ratio of Eligible own funds to the consolidated Group SCR (excluding other financial sectors and the undertakings included via D&A)

Ratio of Eligible own funds to Minimum Consolidated Group SCR

Total eligible own funds to meet the group SCR (including own funds from other financial sector and from the undertakings included via D&A)

SCR for entities included with D&A method

Group SCR

Ratio of Eligible own funds to group SCR including other financial sectors and the undertakings included via D&A

Reconciliation reserve

Excess of assets over liabilities

Own shares (held directly and indirectly)

Forseeable dividends, distributions and charges

Deductions for participations in financial and credit institutions

Other basic own fund items

Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds

Other non available own funds

Reconciliation reserve

| Total | Tier 1 unrestricted | Tier 1 restricted | Tier 2 | Tier 3 |
|-------|---------------------|-------------------|--------|--------|
|-------|---------------------|-------------------|--------|--------|

| | | | | |
|---------|---------|---|--------|---|
| 35,018 | 35,018 | | 0 | |
| 0 | | | | |
| 315,161 | 315,161 | | 0 | |
| 352,272 | 352,272 | | | |
| 0 | | 0 | 0 | 0 |
| 0 | | | | |
| 44,304 | | | 44,304 | |
| 0 | | | | |

| | | | | |
|---------|---------|---|---|--------|
| 746,755 | 702,451 | 0 | 0 | 44,304 |
|---------|---------|---|---|--------|

| | | | | |
|---------|---------|---|---|--------|
| 746,755 | 702,451 | 0 | 0 | 44,304 |
| 702,451 | 702,451 | 0 | 0 | |
| 741,960 | 702,451 | 0 | 0 | 39,509 |
| 702,451 | 702,451 | 0 | 0 | |
| 263,393 | | | | |

| | | | | |
|---------|---------|---|---|--------|
| 72,803 | | | | |
| 964.86% | | | | |
| 741,960 | 702,451 | 0 | 0 | 39,509 |
| 0 | | | | |
| 263,393 | | | | |
| 281.69% | | | | |

| | | | | |
|-----------|--|--|--|--|
| 1,111,505 | | | | |
| 364,750 | | | | |
| 394,483 | | | | |
| 0 | | | | |
| 352,272 | | | | |

Solvency Capital Requirement**Net of loss absorbing capacity of technical provisions****Market risk**

| | |
|------------------------------------|---------------|
| Interest rate risk | 37,597 |
| Equity risk | 198 |
| Property risk | 10,753 |
| Spread risk | 37,948 |
| Concentration risk | 0 |
| Currency risk | 5,326 |
| Other market risk | |
| Diversification within market risk | -31,403 |
| Total Market risk | 60,419 |

Counterparty default risk

| | |
|--|----------------|
| Type 1 exposures | 16,207 |
| Type 2 exposures | 100,076 |
| Other counterparty risk | |
| Diversification within counterparty default risk | -3,541 |
| Total Counterparty default risk | 112,741 |

Life underwriting risk

| | |
|---|------------|
| Mortality risk | 0 |
| Longevity risk | 397 |
| Disability-Morbidity risk | 0 |
| Life-expense risk | 0 |
| Revision risk | 66 |
| Lapse risk | 0 |
| Life catastrophe risk | 0 |
| Other life underwriting risk | |
| Diversification within life underwriting risk | -45 |
| Total Life underwriting risk | 418 |

Non-life underwriting risk

| | |
|---|----------------|
| Non-life premium and reserve risk (ex catastrophe risk) | 129,387 |
| Non-life catastrophe risk | 47,768 |
| Lapse risk | 1,603 |
| Other non-life underwriting risk | |
| Diversification within non-life underwriting risk | -30,045 |
| Total Non-life underwriting risk | 148,713 |

Operational and other risks

| | |
|--|---------------|
| Operational risk | 24,067 |
| Other risks | |
| Total Operational and other risks | 24,067 |

Total before all diversification

| | |
|---|----------------|
| Total before diversification between risk modules | 411,391 |
| Diversification between risk modules | 346,358 |
| Total after diversification | -70,940 |
| | 275,418 |

Loss absorbing capacity of technical provisions

| | |
|--|----------------|
| Loss absorbing capacity of deferred tax | -12,025 |
| Other adjustments | |
| Solvency capital requirement including undisclosed capital add-on | 263,393 |
| Disclosed capital add-on - excluding residual model limitation | |
| Disclosed capital add-on - residual model limitation | |
| Solvency capital requirement including capital add-on | 263,393 |

Overall SCR

| | |
|---|----------------|
| Solvency capital requirement (consolidation method) | 263,393 |
| SCR for undertakings included via D and A | |
| SCR for sub-groups included via D and A | |
| Solvency capital requirement | 263,393 |

Undertakings in the scope of the group

| Country | Identification code and type of code of the undertaking | Legal Name of the undertaking | Type of undertaking | Legal form | Category (mutual/ non mutual) | Supervisory Authority |
|---------|---|--------------------------------|--|---------------------------|-------------------------------|-----------------------|
| GB | LEI/213800J17G8WI3MJ5660 | TESCO PERSONAL FINANCE LIMITED | Ancillary services undertaking as defined in the Glossary part of the PRA Rulebook | Company Limited by Shares | Non-mutual | FCA |
| GB | LEI/21380051YUPNMTZ37W15 | TESCO UNDERWRITING LIMITED | Non-life insurance undertaking | Company Limited by Shares | Non-mutual | PRA |

Undertakings in the scope of the group

| Country | Identification code and type of code of the undertaking | Legal Name of the undertaking | Type of undertaking | Criteria of influence | | | | |
|---------|---|--------------------------------|--|-----------------------|---|-----------------|--------------------|--|
| | | | | % capital share | % used for the establishment of consolidated accounts | % voting rights | Level of influence | Proportional share used for group solvency calculation |
| GB | LEI/213800J17G8WI3MJ5660 | TESCO PERSONAL FINANCE LIMITED | Ancillary services undertaking as defined in the Glossary part of the PRA Rulebook | 100.00% | 100.00% | 100.00% | Dominant | 100.00% |
| GB | LEI/21380051YUPNMTZ37W15 | TESCO UNDERWRITING LIMITED | Non-life insurance undertaking | 100.00% | 100.00% | 100.00% | Dominant | 100.00% |

Undertakings in the scope of the group

| Country | Identification code and type of code of the undertaking | Legal Name of the undertaking | Type of undertaking | YES/NO | Inclusion in the scope of Group supervision | Group solvency calculation |
|---------|---|--------------------------------|--|-----------------------|---|--|
| | | | | | | Method used and under method 1, treatment of the undertaking |
| GB | LEI/213800J17G8WI3MJ5660 | TESCO PERSONAL FINANCE LIMITED | Ancillary services undertaking as defined in the Glossary part of the PRA Rulebook | Included in the scope | Method 1: Full consolidation | |
| GB | LEI/21380051YUPNMTZ37W15 | TESCO UNDERWRITING LIMITED | Non-life insurance undertaking | Included in the scope | Method 1: Full consolidation | |