TESCO PERSONAL FINANCE GROUP LTD

PILLAR 3 DISCLOSURES

FOR THE YEAR ENDED 28 FEBRUARY 2018

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1. Introduction and Basel Framework

This document presents the Pillar 3 disclosures on capital and risk management, together with comparatives of the regulated group (the Group) for the year ended 28 February 2018. The Group represents Tesco Personal Finance Group Ltd and Tesco Personal Finance plc, but excludes the joint venture engaged in insurance underwriting (Tesco Underwriting Ltd). The Group and its scope of consolidation are illustrated in Section 3.

The Group's capital was calculated for prudential regulatory reporting purposes for the year ended 28 February 2018 using the Basel III framework of the Basel Committee on Banking Supervision (BCBS), as implemented by the European Union in the amended CRD IV, and in the Prudential Regulatory Authority's (PRA) Rulebook for the UK banking industry.

The implementation of CRD IV was subject to transitional arrangements, with the full implementation date being 1 January 2018 for those arrangements relevant to the Group. As a result, the Group's capital position is now reported in these disclosures on a fully loaded end point basis. In the prior year, disclosures were reported on both the transitional basis and the fully loaded end point basis.

Regulatory Framework for Disclosures

The Basel framework is structured around three pillars that are designed to promote market discipline through the disclosure of key information about risk exposures and risk management processes.

- Pillar 1 sets out the minimum capital requirements that firms are required to meet for credit, market and operational risk.
- The Pillar 2 supervisory review process requires firms and supervisors to take a view on whether a firm should hold additional capital against risks not taken into account or not fully covered in Pillar 1 (e.g. interest rate risk in the banking book and pension risk); and factors external to the firm (e.g. economic cycle effects). To comply, institutions are required to develop adequate arrangements, strategies, processes and mechanisms, to maintain sound management and coverage of their risks, including maintenance of the prescribed capital requirements.
- Pillar 3 aims to complement the capital requirements and supervisory review process by encouraging market discipline through developing a set of disclosure requirements that allow market participants to assess the scope of application, capital risk exposures, risk assessment process and capital adequacy of the firm. The Pillar 3 disclosures contained within this document have two principal purposes:

  a. to meet the regulatory disclosure requirements under Part Eight of the Capital Requirements Regulation (CRR), which along with the Capital Requirements Directive (CRD) is known as CRD IV, supplemented by any specific additional requirements of the European Banking Authority (EBA) and the Prudential Regulatory Authority (PRA), and;
  b. to provide further useful information on the capital and risk profile of the Group.

Regulatory Developments

The Group continues to monitor and prepare for a number of regulatory changes taking effect over the next few years. Uncertainty remains around the implementation and impact of some regulatory developments including the finalisation of Basel III, which will be subject to EU and UK implementation. In addition the Group will be subject to the Minimum Requirements for Own Funds and Eligible Liabilities ("MREL") on an interim basis from 1 Jan 2020 with full implementation applicable from 1 Jan 2022. The requirements are factored into the funding and capital plans of the Group.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018. It is a replacement for IAS 39 'Financial instruments: Recognition and measurement'. The impact of this change is disclosed in the Annual Report & Financial Statements for the year ended 28 February 2018 of both Tesco Personal Finance plc (the Company) and Tesco Personal Finance Group Ltd. These are published on the Tesco Bank corporate website at:

http://www.corporate.tescobank.com/48/accounts-and-disclosures

The General Data Protection Regulation (GDPR), which comes into effect on 25 May 2018, provides new and enhanced rights for individuals in respect of their personal information. The Group is undertaking a business-wide review in order to ensure the clear control and management of customer data and that compliant data retention policies are in place and adhered to in advance of the regulation coming into force.

The Payment Services Directive 2 (PSD2), phase 1 of which took effect from 13 January 2018, together with Open Banking, allows customers to choose to share data from their banking products with Third Party Providers (TPPs) and bring together all of their financial relationships and data in one place, potentially leading to a fundamental change in how customers manage both their money and data over the longer term. The aim of these changes is to promote competition and enhance customer choice, providing potential opportunities for the Group to attract new customers as well as potentially increased competition from traditional banking businesses and new providers of financial services, including technology companies with strong brand reputation. The Group continues to monitor and review the risks associated with the introduction of PSD2, including the need to ensure that there is appropriate control and ownership of sensitive and confidential customer data as the use of TPPs becomes more widespread.

2. Disclosure Policy

The Group has a formal, Board approved policy which details its approach to complying fully with the Pillar 3 disclosure requirements as laid out in Part Eight of the CRR (and any updates as appropriate).

2.1 Frequency of Disclosure

In accordance with that policy, the Group has assessed itself against the need to publish Pillar 3 disclosures more frequently than annually and has concluded that annual disclosures are sufficient for the following reasons:

- The Group does not operate in complex or diverse markets; and
- The Group does not meet the criteria requiring special assessment of the need to publish Pillar 3 disclosures more frequently than annually as outlined in the EBA guidelines.

The frequency of disclosure will be reviewed at least annually against the criteria outlined in both the CRR and the guidelines issued by the EBA. A review of the frequency of disclosure will also be triggered should there be a material change in approach used for the calculation of capital, business structure or regulatory requirements.

The Group has voluntarily adopted a number of disclosures which are required to be reported on a more frequent than annual basis by G-SIIs and O-SIIs. The Group has concluded, in line with the above parameters and on the basis of its voluntary adoption of these disclosures, that annual disclosure is appropriate.

2.2 Verification and Medium

In line with the revised Pillar 3 disclosure requirements published by the EBA, the Group's Pillar 3 policy requires that "information required to be disclosed by Part Eight of the CRR is subject (at a minimum) to the same level of internal review and internal control processes as the other information provided by institutions for their financial reporting".

These Pillar 3 disclosures have been verified and approved through internal governance, including review and approval by the Disclosure Committee and the Board. The disclosures are not subject to independent audit except where they are the same as those audited disclosures prepared under accounting requirements and disclosed in the Annual Report and Financial Statements of both Tesco Personal Finance Group Ltd and the Company.

Certain disclosure information required can be found in the Annual Report and Financial Statements of both Tesco Personal Finance Group Ltd and the Company. References to these documents are clearly made as required throughout these disclosures.

Appendix 5 contains the required written attestation from the management body which confirms that the disclosures provided according to Part Eight of the CRR have been prepared in accordance with the internal control processes agreed upon at the management body level.

The Pillar 3 disclosures are published on the Tesco Bank corporate website at:

http://www.corporate.tescobank.com/48/accounts-and-disclosures

2.3 Use of Disclosure Waivers

The CRR allows institutions to omit one or more of the required disclosures if information provided by such disclosures is not regarded as material or if it would be regarded as proprietary or confidential (with the exception of disclosures relating to Own Funds, Remuneration and Diversity). The Group has not made use of any of the waivers available (in relation to FX risk, there is no capital requirement since the Group does not exceed the de minimis trigger which would then require Own Funds to be held).

3. Scope of Consolidation

The Company, trading as Tesco Bank, provides a range of financial services and products, primarily to personal customers under the Tesco Bank brand, through Tesco stores, telephony and on-line channels.

Products currently offered by the Company include unsecured personal loans, secured mortgages, savings accounts, credit cards, personal current accounts, travel money and general insurance products. The Company primarily trades in the UK but has limited international exposure through its Irish credit card business.

3.1 Statutory Accounting Consolidation

Tesco Personal Finance Group Ltd operates as a holding company with 100% ownership of the Company.

The Company holds 49.9% of Tesco Underwriting Ltd which is a joint venture company (jointly held with Ageas UK Ltd) and is equity accounted in the Annual Report & Financial Statements. Tesco Underwriting Ltd underwrites household and motor insurance and provides claims management services for these products. The Delamare securitisation structured entities are fully consolidated in the statutory group.

Consolidated Annual Reports and Financial Statements for both Tesco Personal Finance Group Ltd and the Company are prepared in accordance with International Financial Reporting Standards (IFRS) and the interpretations of the IFRS Interpretations Committee (IFRIC) as endorsed by the European Union (EU), the Disclosure and Transparency rules of the Financial Conduct Authority (FCA) and those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

3.2 Regulatory Consolidation

The basis of consolidation for regulatory reporting purposes differs from the one used for statutory accounting (and therefore represented in the Annual Report & Financial Statements of Tesco Personal Finance Group Ltd).

The joint venture engaged in Insurance (Tesco Underwriting Ltd) is not consolidated within the Group's Pillar 3 disclosures.

The securitisation undertaken via Delamare Securitisation structured entities does not meet the criteria for significant risk transfer, and accordingly the assets securitised are shown as assets of the Group within Section 9, as part of Retail exposures. The securitisation is discussed in more detail in Section 11.

The Group is regulated and supervised by the PRA and the FCA. The Company does not make use of the solo consolidation waiver provisions.

3.3 Comparability

The differences outlined above between the statutory and regulatory scope prevent direct comparison between the Annual Report & Financial Statements of Tesco Personal Finance Group Ltd and the Group's Pillar 3 disclosures in a number of areas.

To aid users, a statutory and regulatory scope balance sheet together with a reconciliation showing all items affecting regulatory Own Funds is detailed in table EU CC2. Table EU LI1 shows the reconciliation of the regulatory scope balance sheet through to credit risk exposures.

Pillar 3 exposure values are derived from Balance Sheet values, net of provisions where appropriate, together with undrawn credit facilities which are assigned credit conversion factors based on prescribed regulatory values. The Group applies the credit conversion factors to its credit card and mortgage exposures at 0% and 20% respectively. As at 28 February 2018, the Group has circa £12.4bn of undrawn credit exposures to customers of which £12.2bn relate to committed undrawn credit card facilities and £0.2bn relates to final offer mortgage agreements. However, the likely exposure, which is impacted by factors such as customer behaviour and the regular assessment of the creditworthiness of customers, is less than the total unused commitments.

The Group is required under the CRR to make certain adjustments to Own Funds, the most material being in relation to intangible assets and dated Tier 2 capital instruments.

3.4 Restrictions on the Transfer of Own Funds

There are restrictions on the ability of the Company to make distributions of cash or other assets to Tesco Personal Finance Group Ltd for the following reasons:

- Assets pledged as collateral: These assets are not available for transfer by the Company to Tesco Personal Finance Group Ltd; and
- Regulatory capital requirements: As a regulated entity, the Company is subject to requirements to maintain minimum levels of capital, hence restricting the ability to make distributions of cash or other assets to Tesco Personal Finance Group Ltd.

4. Risk Management

The Group has a formal structure for reporting, monitoring and managing risks. This comprises, at its highest level, the Group's Risk Appetite, approved by the Board, which is supported by detailed risk management frameworks (including policies and supporting documentation), independent governance and oversight of risk.

The Risk Management Framework has been embedded across the Group and is underpinned by governance, controls, processes, systems and policies within the first line business areas and those of the second line Risk Management function.

The Chief Risk Officer performs a strategic risk management role and is responsible for managing and enhancing the Risk Management Framework. The Chief Risk Officer is independent from any commercial function, and reports directly to the Chief Executive Officer and can only be removed from their position with the approval of the Board.

In the prior year, the Chief Risk Officer resigned on 23 January 2017, with a replacement being appointed immediately. The appointment of the new Chief Risk Officer, who remains in place, was approved by the regulator on 29 March 2017. The Compliance and Conduct Risk Director left the organisation on 31 January 2018, the Group has commenced the recruitment process to hire a replacement.

4.1 Approach to Risk Management

The Group is committed to embedding a strong risk culture throughout the business where everyone understands the risks they personally manage and is empowered and qualified to be accountable for them. The Group embraces a culture where each business area is encouraged to take risk–based decisions, whilst knowing when to escalate or seek advice. The Group also promotes a culture where there is no reluctance to escalate bad news or emerging risks through use of the Event Management Process. This process provides tools and techniques to identify, assess and manage events through to closure, which have an actual or potential negative impact on customers, colleagues, operational capability, financial position or the reputation of the Group.

In support of this, the Group has adopted the 'three lines of defence' model of governance with clearly defined roles and responsibilities to help drive effective risk management:

First line of defence

Senior management within each business area are responsible for:

- establishing an effective control framework within their area of operation;
- identifying and controlling all risks so that they are operating within the organisational Risk Appetite;
- ensuring that they are fully compliant with Group policies and, where appropriate, operating within defined thresholds; and
- devising, managing and reporting appropriate Risk Appetite Measures, using management information and testing processes to allow assessment of their control framework to manage key risks as they arise in their area of operation.

Second line of defence

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

The Risk Management function is responsible for:

- analysing, challenging, understanding and overseeing each of the principal risks;

- devising the suite of policies necessary to control the business, including the overarching framework for independent monitoring of the risk profile;
- providing oversight and challenge where required; and
- proposing to the Board appropriate objectives and measures to define the Group's Risk Appetite.

The Risk Management function uses expertise and provides frameworks, tools and techniques to assist management in meeting its responsibilities. The Risk Management function has responsibility for aggregated risk reporting across the Group to ensure that risk coverage is considered holistically so that risks and issues have clear ownership and do not fall between functions.

Third line of defence

This comprises the Internal Audit function, which is responsible for providing independent assurance to the Board and senior management on the adequacy of the design and operational effectiveness of internal control systems and measures across the business. The Internal Audit function has an independent reporting line to the Chairman of the Audit Committee and is resourced by individuals with relevant experience and professional qualifications. In addition, Internal Audit resources are supplemented across a range of audits by co-source support to provide additional subject matter experts when required.

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

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

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

The Internal Audit function achieves this through the following core responsibilities:

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

4.2 Risk Management Framework Components

The scope of the Risk Management Framework extends to all principal risks faced by the Group and is underpinned by governance, controls, processes, systems and policies within the first line business areas and those of the second line risk management function. The key components to manage, control and monitor those principal risks effectively are outlined within the relevant risk sections, with the risk governance structure detailed separately in Section 4.4.

i) Policies

The Group has a framework of key policies in place which are approved at Board and Executive level committees. Each policy is owned by a specific individual who is responsible for maintenance and assurance of the policy. Each policy must be reviewed on at least a bi-annual basis, or earlier if there is a trigger for policy review such as a regulatory change, to ensure its continued effectiveness and applicability in line with changing risks.

The Risk Management function provides tracking and oversight of the policy framework and is responsible for undertaking assurance and providing reports to the Board on its effectiveness.

ii) Risk Identification & Assessment

Risk and Control Self Assessment is the process used to identify, assess, manage, monitor and report risks and controls across Tesco Bank.

The process sets out consistent principles which should be applied in the identification of risk. New and emerging risks and the recommended response to them are reported by business units and the Risk Management function to relevant governance bodies.

The risk assessment process is the means by which the Group understands and estimates the effect of risk on the business, processes, systems and controls that mitigate those risks to an acceptable level. These assessments are reported to the Board on a regular basis.

The Group monitors and tracks current exposures against limits defined in the agreed Risk Appetite and by the regulators. Exceptions are reported on a monthly basis to the Asset and Liability Management Committee, Executive Risk Committee, and to each meeting of the Board Risk Committee. Adherence to these limits is independently monitored, measured and reported using a suite of key indicators. Decisions made at subordinate risk committees and forums are reported up to senior committees as appropriate.

iii) Stress Testing

Stress testing is the process by which the Group's business plans are regularly subjected to severe but plausible scenarios to assess the potential impact on the business, including projected capital and liquidity positions. The scenarios adopted are subject to a rigorous selection process and include hypothetical operational failures, macroeconomic stress events and customer behaviour impacts. The results, along with proposed actions, are reported to the Asset and Liability Management Committee and Board Risk Committee. These are captured in both the internal liquidity adequacy assessment process and the internal capital adequacy assessment process.

iv) Integrated Risk Processes

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

The Group is required to submit internal capital adequacy assessment process reports which set out future business plans, the impact on capital availability, capital requirements and the risks to capital adequacy under stress scenarios, to the PRA.

The Group also maintains a Recovery plan that provides the framework and a series of recovery options which could be deployed in a severe stress event impacting capital or liquidity positions. The Recovery Plan is reviewed and approved by the Board on at least an annual basis.

4.3 Risk Appetite

The Group has established a robust Risk Appetite framework which defines the type and amount of risk that the Group is prepared to accept to achieve its objectives and forms a key link between the day to day risk management of the business, its strategic objectives, long term plan, capital plan and stress testing. The framework consists of the following broad elements:

- Risk Appetite Statements; and
- Risk Appetite Measures

The Risk Appetite is formally reviewed by the Board on at least an annual basis. The Board approves the Group's business plans, budget, long term plan, internal capital adequacy assessment process, individual liquidity adequacy assessment process and any material new product lines in line with the approved Risk Appetite. The Board also monitors the Group's risk profile and capital adequacy position. The Group employs hedging and mitigation techniques defined within the Group's policies, to ensure risks are managed within Risk Appetite.

4.4 Risk Governance Structure

The Group has established a governance structure which is appropriate for the business in terms of its level of complexity and risk profile. This structure is reviewed so that it remains suitable to support the business. The risk governance structure set out in these disclosures describes the structure that was in place for the year to 28 February 2018.

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

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

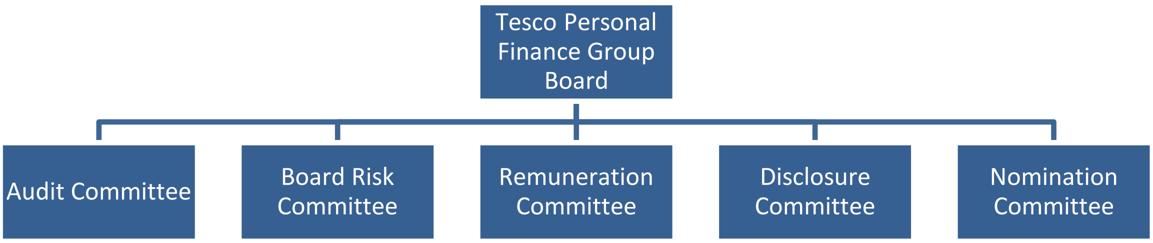
The Board has established Board committees and the Executive has established senior management committees to:

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

In addition, in order to consider high level matters which require cross functional oversight and engagement, the ExCo has established a series of sub-committees which report directly to it.

4.4.1 The Board

The Board has overall responsibility for the business. It sets the Risk Appetite and strategic aims for the business, in some circumstances subject to shareholder approval, within a control framework which is designed to enable risk to be assessed and managed. The Board satisfies itself that financial controls and systems of risk management are robust through the reporting provided to it and provides feedback where necessary to ensure that reporting remains fit for purpose. In order to support effective governance and management of the wide range of responsibilities, the Board has established the following five sub-committees:



Board Committee	Committee Purpose
Audit Committee	The key responsibilities of the Audit Committee are to: ▪ review the Financial Statements; ▪ review the accounting policies and practices for compliance with relevant standards; ▪ examine the arrangements made by management regarding compliance with requirements and standards under the regulatory system; ▪ review the scope and results of the annual external audit; ▪ oversee the process for selecting the external auditor and make recommendations to the Board in relation to the appointment, re-appointment and removal of the external auditor; ▪ consider the effectiveness of the external auditor and their independence; ▪ maintain a professional relationship with the external auditor; ▪ to review reports covering anti money laundering and compliance, in particular the Money Laundering Reporting Officer annual report and Risk Assurance Report; ▪ oversee the internal audit function and review the internal audit programme; ▪ work closely with the Board Risk Committee to avoid, as much as possible, any overlap or gap in the overall risk and assurance activities of the two committees; ▪ carry out such investigations or reviews as shall be referred to it by the Board; ▪ review the Company’s plans for business continuity; ▪ approve the annual plan of Risk Assurance activity within the Company;

	▪ receive and review reports, findings and recommendations from the Risk Management function; ▪ review and consider the adequacy of any follow up action, and any relevant investigation work, carried out by or on behalf of the Risk Management function; ▪ review and monitor management's response to findings and recommendations following investigations carried out by the Risk Management function; and ▪ review the findings of external assurance reports provided by outsourced providers. Further detail on the Audit Committee is included within the Directors' Report in the Annual Report and Financial Statements of both Tesco Personal Finance Group Ltd and the Company. The Audit Committee met 6 times during the year ended 28 February 2018.
Board Risk Committee	The role of the Board Risk Committee includes: • the oversight and challenge of the Group's Risk Appetite and the recommendation to the Board of any changes to Risk Appetite; • provision of oversight and advice to the Board on the current key risk exposures of the Company and future risk strategy; • reviewing and challenging, where appropriate, of the outputs from the Asset and Liability Management Committee and Executive Risk Committee; • overseeing that a risk culture is appropriately embedded in the business which recognises risk and encourages all employees to be alert to the wider impact on the whole organisation of their actions and decisions; • reviewing the design and operation of the Risk Management Framework; and • reviewing the monitoring of conduct and complaints in the business and alerting the Board to any systemic conduct or cultural risks. The Board Risk Committee met 7 times during the year ended 28 February 2018.
Remuneration Committee	The role of the Remuneration Committee is: • to determine and approve remuneration arrangements for all identified Material Risk Takers (MRTs) within the Group as defined by the PRA and FCA's Remuneration Code; • to approve a remuneration framework for employees of the Group below the leadership level; • to align, where appropriate, remuneration in the Group with Tesco PLC Group Reward policy; • to design the levels and structure of remuneration necessary to attract, retain, and motivate the management talent needed to run the Group's business in a way which is consistent with the Risk Appetite and ongoing sustainability of the business; and • to confirm that the remuneration policy in the Group is compliant with all applicable legislation, regulation and guidelines. The Remuneration Committee met 5 times during the year ended 28 February 2018.
Disclosure Committee	The Disclosure Committee is responsible for reviewing formal company documents which are either destined for external publication or, which due to their size or complexity, are better reviewed in detail in a smaller group; ensuring compliance with relevant statutory and regulatory obligations. The Disclosure Committee met 4 times during the year ended 28 February 2018.
Nomination Committee	The role of the Nomination Committee includes: • reviewing the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board and making recommendations to the Board with regard to any changes;

	• reviewing the leadership needs of the organisation, both executive and non-executive, with a view to ensuring the continued ability of the organisation to compete effectively in the marketplace; • formulating plans for succession for both executive and non-executive directors and in particular for the key roles of Independent Non-Executive Chairman and Chief Executive; and • identifying and nominating for the approval of the Board, candidates to fill Board vacancies as and when they arise. The Nomination Committee met 4 times during the year ended 28 February 2018.

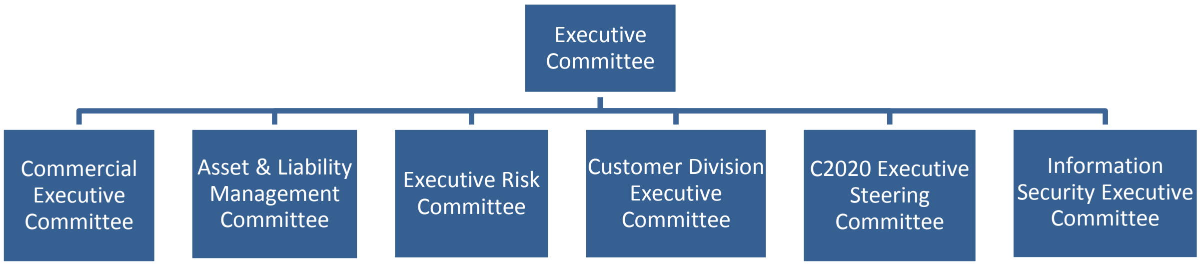
4.4.2 Executive Committee (ExCo)

The Group's Board has delegated the day to day running of the business to the Chief Executive. The Chief Executive has established the ExCo to assist in the management of the business and to deliver against strategy in an effective and controlled way. The ExCo provides general executive management of the business. Each ExCo member is accountable to the Chief Executive and to the Board for managing performance in line with the Group's Risk Appetite, long term plan, strategy and annual budget.

The ExCo has the following principal roles and responsibilities:

- to provide general executive management of the Group and to monitor performance including financial performance, in accordance with the approved strategic plan and Risk Appetite as approved by the Board;
- to oversee risks and controls across the business;
- to promote a culture of fairness and to actively promote and encourage the Group's Values;
- to strive for the successful execution of strategy;
- to set out a framework of reporting to the Board that is sufficient to enable the Board to fulfil its responsibilities;
- to develop strategic plans, budgets and all other matters to be referred to the Board, with regard to the interests of its shareholder, employees, customers and other stakeholders, prior to submission to the Board for approval;
- to authorise certain levels of spend;
- to review, challenge and provide direction relating to the delivery of fair outcomes for customers through regular updates on conduct risk that are challenged and reviewed by the Conduct Oversight & Risk Committee;
- to determine whether to launch the Group's Recovery Plan in the event of a breach of a recovery trigger and to manage the crisis thereafter (with the exception of a liquidity crisis that would be managed by the Liquidity Event Management Committee); and
- to oversee Procurement and Supplier Management, with particular focus on ensuring that the key risks associated with outsourcing and third party supplier management are assessed and mitigated.

In order to support the ExCo, the following six sub-committees have been established:



The ExCo receives the minutes from each sub-committee to monitor key activities and decisions taken under delegation as well as updates as appropriate.

ExCo Sub Committee	Committee Purpose (Summary)
Commercial Executive Committee	The principal role of the Commercial Executive Committee is to oversee performance and matters arising across the Commercial business through: • review of credit risk approvals, receipt of risk, risk event and Internal Audit reporting; • management of top risks - ensuring that existing and emerging risks and issues are controlled appropriately and referred to the relevant Board or Committee when needed; • approval of proposals and business cases and appointing third party suppliers, in line with delegated authorities from the Board; • oversight of the use of budget allocated; • review business financial and trading performance, and monitoring of pricing plans; • review of conduct risks and issues; • annual product reviews; • identification of risks to good customer outcomes, providing challenge and recommending further action to resolve and track those actions to completion; and • escalation of material Conduct or Treating Customers Fairly risks to the ExCo. The Commercial Executive Committee has four sub-committees: Commercial & Credit Risk Committee; Transactional Banking Management Committee; Savings, Loans and Mortgages Management Committee and the Insurance Management Committee.
Asset & Liability Management Committee	The principal role of the Asset & Liability Management Committee is to: • optimise the Group's balance sheet structure, within boundaries and Risk Appetite set by the Board and regulation; • identify, manage and control the Group's balance sheet risks in the execution of its chosen business strategy; • oversee Treasury principal risk management activities – Capital, Funding & Liquidity and Market Risk; • review and approve Treasury principal risk policies and key regulatory documents; and • review and approve Risk Appetite change recommendations relating to Capital, Funding & Liquidity and Market Risk. The Asset & Liability Committee has three sub-committees; the Liquidity Management Forum; Market Risk Forum and Capital Management Forum.
Executive Risk Committee	The principal role of the Executive Risk Committee is to: • oversee all aspects of the Risk Management Framework, and to ensure that the three lines of defence model is operating effectively;

	• monitor the appropriateness of and adherence to Risk Appetite and to make recommendations on any changes to Risk Appetite; • debate and challenge the risks inherent within strategic plans; • consider and challenge policy exceptions and waivers that are in place; • consider action to deliver risk management solutions, and to direct resource appropriately; • consider the impact of regulatory initiatives on the current and future state of compliance by the Group; • review and approve key policies of the Group; • oversee procurement and supplier management, with particular focus on ensuring that the key risks associated with outsourcing and third party supplier management are assessed; • oversee operational resilience; and • provide review and challenge relating to the culture in managing conduct risks and customer fairness within the business. The Executive Risk Committee has nine sub-committees: Operational Resilience Steering Committee; Supplier Management Group; Wholesale Credit Risk Forum; Provisions Forum; Risk 2020 Steering Committee; Security Risk Committee; Conduct Oversight & Risk Committee; Prudential Risk Forum and the CIO Risk Committee. The Executive Risk Committee met 12 times during the year ended 28 February 2018.
Customer Division Executive Committee	The role of the Customer Division Executive Committee is to approve key decisions and provide oversight and challenge of performance and matters arising across the Customer Division of the business, including, but not limited to: • The management of risk, including conduct and the fair treatment of customers, which is owned by the business lines within the first line of defence. The committee provides oversight and challenge to support the effective management of risk and control of all top risks and material events facing the Customer Division. • The management of business and financial performance is owned by the relevant business lines within the Customer Division. The committee provides oversight and challenge to support the efficient and effective performance across the Customer Division. • The committee approves activities in relation to change and project related work and considers and challenges customer outcomes, as appropriate. The Customer Division Executive Committee has four sub-committees: Customer Security Committee; the Service Risk Committee; the Data Steering Group and the Customer Division Management Committee.
C2020 Executive Steering Committee	The ambition of Tesco Bank is to 'be the bank for people who shop at Tesco'. In order to accelerate the Group's pursuit of this ambition, the Group established the Customer 2020 (C2020) programme. The Group aims to achieve its strategy through targeted investment in technology and data to simplify processes, making life simpler for both customers and colleagues and driving efficiency that can be reinvested in the customer offer. The role of the C2020 Executive Steering Committee is to oversee C2020 and steer the delivery of the C2020 strategic plan. The C2020 Executive Steering Committee has one sub-committee: the C2020 Programme Board.
Information Security Executive Committee	The role of the Information Security Executive Committee is to support the Deputy Chief Executive in delivering information security and cybercrime control improvements through executive direction, support and oversight of the programme of work. The Information Security Executive Committee has one sub-committee: the Information Security Forum.

4.5 Risk Statement

The Group's strategic objective is to be the bank for people who shop at Tesco. The Group operates with a strong customer focus and provides simple, transparent products which aim to deliver value for customers. The Group's strategy is pursued within a defined Risk Appetite.

The Board's Risk Appetite comprises a set of Risk Appetite Statements, underpinned by corresponding Risk Appetite Measures with agreed triggers and limits.

The Group is exposed to the following principal risks, for which Risk Appetite is set:

- Capital risk;
- Funding & Liquidity risk;
- Credit risk;
- Market risk;
- Operational risk; and
- Regulatory risk.

A suite of Risk Appetite Measures is used by the Group to support the overarching objective to manage risk within prescribed limits. Risk Appetite Measures are integrated into decision making, monitoring and reporting processes, with early warning trigger levels set to drive any required corrective action before overall tolerance levels are reached.

The Board sets a Risk Appetite which is regularly monitored with formal reviews of the risk measures, in conjunction with the long term plan process. The Group's Risk Appetite and Measures are discussed throughout the document and disclosed in tables OV1 and KM1.

The Group's transactions with related parties are disclosed in the Annual Report & Financial Statements which are published on the corporate website at:

http://www.corporate.tescobank.com/48/accounts-and-disclosures

4.6 Board Declaration - Adequacy of the Risk Management Arrangements

The Board of Directors is ultimately responsible for the Group's Risk Management Framework. The Risk Management Framework is the combination of governance, systems, structures, policies, processes and people within the Group that identify, assess, mitigate and monitor all internal and external sources of risk that could have a material impact on its operations.

The Board provides an annual declaration on the adequacy of the Group's risk management arrangements and provides assurances that the risk management systems in place are adequate and in line with Risk Appetite. This is provided in Appendix 1 of this document.

5 Linkages between Financial Statements and Regulatory Exposures

EU CC2: Reported Balance Sheet under the Regulatory Scope of Consolidation with mapping of balance sheet items used to calculate regulatory Own Funds

		February 2018			February 2017		
	CRR Own Funds Disclosure	Accounting balance sheet (per financial statements) £m	Deconsolidation of Tesco Underwriting Ltd [1] £m	Regulatory scope £m	Accounting balance sheet (per financial statements) £m	Deconsolidation of Tesco Underwriting Ltd [1] £m	Regulatory scope £m
Assets							
Cash and balances with central banks		1,318.6	-	1,318.6	802.9	-	802.9
Loans and advances to customers		11,522.4	-	11,522.4	9,961.2	-	9,961.2
of which: latent provisions [2]	*a*	-	-	*(99.1)*	-	-	*(63.1)*
Derivative financial instruments		46.1	-	46.1	28.7	-	28.7
Investment securities:							
- Available for sale		925.4	-	925.4	966.1	-	966.1
of which: non-significant investment below threshold		-	-	-	-	-	-
- Loans and receivables		34.1	-	34.1	34.1	-	34.1
of which: loan to Tesco Underwriting Ltd deducted from Tier 1 pre-CRR [2]	*b*	-	-	-	-	-	*3.4*
of which: loan to Tesco Underwriting Ltd deducted from Tier 2 pre-CRR [2]	*c*	-	-	-	-	-	*3.4*
of which: loan to Tesco Underwriting Ltd deducted from Tier 2 CRR [2]	*d*	-	-	*34.1*	-	-	*27.3*
Prepayments and accrued income		49.3	-	49.3	42.2	-	42.2
Current income tax asset		-	-	-	-	-	-
Other assets		265.7	-	265.7	299.0	-	299.0
Investment in associate		90.0	(3.5)	86.5	71.0	-	71.0
of which: significant investment in TU below threshold [2]	*e*	-	-	*86.5*	-	-	*71.0*
Intangible assets		271.1	-	271.1	300.0	-	300.0
of which: other intangibles [2]	*f*	-	-	*271.1*	-	-	*300.0*
Property, plant and equipment		68.0	-	68.0	73.3	-	73.3
Total assets		**14,590.7**	**(3.5)**	**14,587.2**	**12,578.5**	-	**12,578.5**
Liabilities							
Deposits from banks		1,539.0	-	1,539.0	499.8	-	499.8
Deposits from customers		9,244.6	-	9,244.6	8,463.2	-	8,463.2
Debt securities in issue		1,347.6	-	1,347.6	1,204.3	-	1,204.3
Derivative financial instruments		88.4	-	88.4	133.3	-	133.3
Provisions for liabilities and charges		79.4	-	79.4	83.5	-	83.5
Accruals and deferred income		109.0	-	109.0	115.1	-	115.1
Current income tax liability		34.9	-	34.9	8.3	-	8.3
Other liabilities		144.3	-	144.3	148.4	-	148.4
of which: debit valuation adjustment [2]	*g*	-	-	-	-	-	-
Deferred income tax liability		3.7	-	3.7	13.7	-	13.7
of which: deferred tax liability - intangible assets [2]	*h*	-	-	*5.2*	-	-	*13.6*
Subordinated liabilities and notes		235.0	-	235.0	235.0	-	235.0
of which: allowable for Tier 2 [2]	*i*	-	-	*235.0*	-	-	*235.0*
Total liabilities		**12,825.9**	-	**12,825.9**	**10,904.6**	-	**10,904.6**
Equity and reserves attributable to owners of parent							
Share capital		122.0	-	122.0	122.0	-	122.0
of which: amount eligible for CET1 [2]	*j*	-	-	*122.0*	-	-	*122.0*
Share premium account		1,098.2	-	1,098.2	1,098.2	-	1,098.2
of which: amount eligible for CET1 [2]	*k*	-	-	*1,098.2*	-	-	*1,098.2*
Retained earnings		500.4	0.2	500.6	409.3	10.2	419.5
of which: prior year retained profits [2]	*l*	-	-	*419.5*	-	-	*316.6*
of which: current year profit less dividend paid [2]	*m*	-	-	*81.1*	-	-	*102.9*
Other reserves	*n*	44.2	(3.7)	40.5	44.4	(10.2)	34.2
of which: cash flow hedge reserve [2]	*o*	-	-	*0.3*	-	-	*0.5*
Subordinated notes		-	-	-	-	-	-
Total equity		**1,764.8**	**(3.5)**	**1,761.3**	**1,673.9**	-	**1,673.9**
Total liabilities and equity		**14,590.7**	**(3.5)**	**14,587.2**	**12,578.5**	-	**12,578.5**

Notes:

[1] Insurance undertakings are not consolidated within the Group's Pillar 3 disclosures, therefore adjustments are required to the assets and liabilities relating to Tesco Underwriting Ltd to remove the impact of equity accounting.

[2] Italicised values represent subsets of values directly above them, and also show the splits between Tier 1 and Tier 2 Capital subsequently detailed in the Capital Resources: (CRR Own Funds Disclosure) table.

EU LI1: Mapping of financial statement categories with regulatory risk categories

February 2018

	Carrying Values as Reported in Published Financial Statements	Carrying Values under Scope of Regulatory Consolidation	Carrying value of items				
			Subject to the Credit Risk Framework	Subject to the Counterparty Credit Risk Framework	Subject to the Securitisation Framework	Subject to the Market Risk Framework	Not Subject to Capital Requirements or Deduction from Capital
	a	b	c	d	e	f	g
	£m	£m	£m	£m	£m	£m	£m
Assets							
Cash and balances with central banks	1,318.6	1,318.6	1,318.6	-	-	-	-
Loans and advances to customers	11,522.4	11,522.4	11,522.4	-	-	-	-
Derivative financial instruments	46.1	46.1	-	46.1	-	-	-
Investment securities:					-	-	-
- Available for sale	925.4	925.4	925.4	-	-	-	-
- Loans and receivables	34.1	34.1	-	-	-	-	34.1
Prepayments and accrued income	49.3	49.3	49.3	-	-	-	-
Current income tax asset	-	-	-	-	-	-	-
Other assets	265.7	265.7	265.7	-	-	-	-
Investment in associate	90.0	86.5	86.5	-	-	-	-
Intangible assets	271.1	271.1	-	-	-	-	271.1
Property, plant and equipment	68.0	68.0	68.0	-	-	-	-
Total assets	**14,590.7**	**14,587.2**	**14,235.9**	**46.1**	**-**	**-**	**305.2**
Liabilities							
Deposits from banks	1,539.0	1,539.0	-	-	-	-	-
Deposits from customers	9,244.6	9,244.6	-	-	-	-	-
Debt securities in issue	1,347.6	1,347.6	-	-	-	-	-
Derivative financial instruments	88.4	88.4	-	46.1	-	-	-
Provisions for liabilities and charges	79.4	79.4	-	-	-	-	-
Accruals and deferred income	109.0	109.0	-	-	-	-	-
Current income tax liability	34.9	34.9	-	-	-	-	-
Other liabilities	144.3	144.3	53.8	-	-	-	-
Deferred income tax liability	3.7	3.7	-	-	-	-	-
Subordinated liabilities and notes	235.0	235.0	-	-	-	-	-
Total liabilities	**12,825.9**	**12,825.9**	**53.8**	**46.1**	**-**	**-**	**-**

February 2017

	Carrying Values as Reported in Published Financial Statements	Carrying Values under Scope of Regulatory Consolidation	Carrying value of items				
			Subject to the Credit Risk Framework	Subject to the Counterparty Credit Risk Framework	Subject to the Securitisation Framework	Subject to the Market Risk Framework	Not Subject to Capital Requirements or Deduction from Capital
	a	b	c	d	e	f	g
	£m	£m	£m	£m	£m	£m	£m
Assets							
Cash and balances with central banks	802.9	802.9	802.9	-	-	-	-
Loans and advances to customers	9,961.2	9,961.2	9,961.2	-	-	-	-
Derivative financial instruments	28.7	28.7	3.7	25.0	-	-	-
Investment securities:					-	-	-
- Available for sale	966.1	966.1	966.1	-	-	-	-
- Loans and receivables	34.1	34.1	-	-	-	-	34.1
Prepayments and accrued income	42.2	42.2	42.2	-	-	-	-
Current income tax asset	-	-	-	-	-	-	-
Other assets	299.0	299.0	299.0	-	-	-	-
Investment in joint venture	71.0	71.0	71.0	-	-	-	-
Intangible assets	300.0	300.0	-	-	-	-	300.0
Property, plant and equipment	73.3	73.3	73.3	-	-	-	-
Total assets	**12,578.5**	**12,578.5**	**12,219.4**	**25.0**	-	-	**334.1**
Liabilities							
Deposits from banks	499.8	499.8	-	-	-	-	-
Deposits from customers	8,463.2	8,463.2	-	-	-	-	-
Debt securities in issue	1,204.3	1,204.3	-	-	-	-	-
Derivative financial instruments	133.3	133.3	-	25.0	-	-	-
Provision for liabilities and charges	83.5	83.5	-	-	-	-	-
Accruals and deferred income	115.1	115.1	-	-	-	-	-
Current income tax liability	8.3	8.3	-	-	-	-	-
Other liabilities	148.4	148.4	115.1	-	-	-	-
Deferred income tax liability	13.7	13.7	-	-	-	-	-
Subordinated liabilities and notes	235.0	235.0	-	-	-	-	-
Total liabilities	**10,904.6**	**10,904.6**	**115.1**	**25.0**	-	-	-

6. Capital

6.1 Capital Management

The Board has ultimate responsibility for capital management and capital allocation. Day to day responsibility for capital planning and other aspects of capital management are delegated to the Treasury Director. Stress testing and preparation of the internal capital adequacy assessment process is delegated to the Risk Management function.

The Group undertakes an annual internal capital adequacy assessment process, capital planning and long term planning processes, which are all approved by the Board. The Group's capital plan and management actions seek to ensure that there is an adequate capital base to support the business and its strategic objectives. Regulatory Capital Headroom, Capital adequacy and performance against capital plan is monitored closely by Treasury with monthly reporting provided to the Board, the Asset and Liability Management Committee and the Capital Management Forum.

The internal capital adequacy assessment process considers all of the known risks faced by the Group, the probability of these risks occurring and how these are mitigated to derive the amount of Pillar 2 capital that is deemed appropriate to hold to absorb losses in a normal environment and in a stress scenario.

The PRA in its capacity as supervisor of the UK banking industry sets targets for, and monitors, the capital adequacy of the Group. Capital adequacy returns are submitted on a quarterly basis to the regulator. During the 12 month accounting period to 28 February 2018, the Group and Company fully complied with all capital requirements and operated within the regulatory requirements determined by the regulator.

Pillar 1 – application within the Group

The regulatory minimum amount of total capital, under Pillar 1 of the regulatory framework, is determined as 8.0% of aggregate risk-weighted assets and the Pillar 1 capital requirements referenced in this document are calculated using this regulatory minimum amount.

At least 4.5% of risk-weighted assets are required to be covered by common equity tier 1 (CET1) capital and at least 6% of risk-weighted assets are required to be covered by Tier 1 capital. These minimum Pillar 1 requirements are supplemented by additional minimum requirements under Pillar 2A of the regulatory framework, the aggregate of which is to be referred to as the Group's Total Capital Requirement (TCR). The TCR for the Group as at February 2018 is 11.87% plus £39m as a static add-on for pension risk.

The Group has adopted the Standardised Approach for calculating Pillar 1 minimum capital requirements for credit risk, market risk and operational risk as detailed below. This approach uses standard industry-wide risk weightings, prescribed by the regulator, based on a detailed classification of asset types. It allows banks to use external credit ratings to inform the risk weightings for rated counterparties. Other counterparties are grouped into categories with set risk weightings applied to each.

Capital requirement for credit risk (Section 9): Credit risk is the risk that a borrower will default on a debt or obligation by failing to make contractually obligated payments, or that the Group will incur losses due to any other counterparty failing to meet their financial obligations. Principal sources of exposures for the Group include; loans and advances, debt securities and undrawn commitments. The risk weighted assets calculation for credit risk exposures is based on a prediction of the exposures at default (EAD). In determining EAD amounts, credit conversion factors are applied to undrawn commitments.

Capital requirement for Counterparty Credit Risk (CCR) (Section 10): CCR is the risk that the counterparty to a transaction will default before the final settlement of the transaction's cash flows. Such transactions relate to contracts for financial derivative instruments, securities financing transactions and long-dated settlement transactions. As at 28 February 2018, the Group has circa £200.0m security financing transactions in the form of repo transactions and has no long-dated settlement transactions.

The Group uses the CCR mark-to-market method to measure the exposure value calculated as: market value plus an add-on for potential future exposure (PFE), prior to being risk weighted under the Standardised Approach.

The Group adopts the Standardised Approach that takes account of the external credit rating of the counterparty, incorporating the effective maturity and EAD from the CCR calculation.

Capital requirement for equity (Section 9.6): all equity exposures are calculated under the Standardised Approach.

Capital requirement for securitisation and covered bond exposures (Section 11): A separate framework exists for the calculation of risk weighted assets relating to securitisation exposures. The Group has entered into securitisation transactions in which it assigns credit card receivables to a structured entity (Delamare Cards Receivables Trustee Ltd). The securitisation does not meet the criteria for a significant risk transfer, and accordingly the assets securitised are shown as assets of the Group within Section 9 as part of Retail Credit Risk exposures. The securitisation is discussed in more detail in Section 11.

Capital requirement for operational risk (Section 14): Operational risk is defined as the risk of a potential error, loss, harm, or failure caused by ineffective or inadequately defined processes, system failures, improper conduct, human error, fraud or from external events. The Group calculates Pillar 1 operational risk capital using the Standardised Approach. The standardised calculation is derived from a percentage of income, averaged over the last three years.

Capital requirement for market risk (Section 13): Market risk is defined as the risk that the value of earnings or capital is altered through the movement of market rates. This includes movements in interest rates, foreign exchange rates, credit spreads and equities. The market risk framework also includes a credit valuation adjustment (CVA) for the fair value of counterparty credit risk for derivative transactions. It represents the capital charge for potential mark-to-market losses due to the credit quality deterioration of a counterparty that does not necessarily end with a default. The Group calculates market risk for CVA on derivative transactions with the exception of those that are centrally cleared with a qualifying central counterparty using the Standardised Approach. The Group has no other Pillar 1 market risk requirement.

Pillar 2 – other principal risks

Pillar 2 covers the other principal risks and any associated capital requirements. The other principal risks are: Regulatory Risk, the political and economic uncertainty following the Brexit result, Investment Risk relating to Pension Obligations and Libor Rate Replacement. These risks are discussed in Section 15.

6.2 Own Funds

The following tables presents the Group's Own Funds as at 28 February 2018.

Own Funds for the Company, being the main subsidiary, is disclosed in Appendix 2, as required by the CRR.

BCBS KM1: Key metrics (at consolidated group level)

		February 2018	February 2017
	Available Capital (£m)		
1	Common Equity Tier 1 (CET1)	1,494.6	1,383.5
2	Tier 1	1,494.6	1,383.5
3	Total Capital	1,794.6	1,650.9
	Risk-weighted assets (£m)		
4	Total risk-weighted assets (RWA)	9,267.6	8,276.3
	Risk-based capital ratios as a percentage of RWA		
5	Common Equity Tier 1 ratio (%)	16.1%	16.7%
6	Tier 1 ratio (%)	16.1%	16.7%
7	Total capital ratio (%)	19.4%	19.9%
	Additional CET1 buffers requirements as a percentage of RWA		
8	Capital conservation buffer requirement (2.5% from 2019) (%)	1.9%	1.3%
9	Countercyclical buffer requirement (%)	0.0%	0.0%
10	Bank GSIB and/or OSIB additional requirements (%)	0.0%	0.0%
11	Total of bank CET1 specific buffer requirements	1.9%	1.3%
12	CET1 available after meeting the banks minimum capital requirements buffers	10.1%	10.7%
	Basel III leverage ratio		
13	Total Basel III leverage ratio exposure measure (£m)	15,588.6	13,444.1
14	Basel III leverage ratio (%)	9.6%	10.3%
	Liquidity Coverage Ratio		
17	LCR ratio (%)	129.9%	147.1%
	Net Stable Funding Ratio		
20	NSFR ratio (%)	118.3%	119.8%

Capital Resources: (CRR Own Funds Disclosure)

	EU CC2	February 2018 £m	February 2017 £m
Common Equity Tier 1 Capital: Instruments and Reserves			
Capital instruments and the related share premium accounts		**1,220.2**	**1,220.2**
of which: ordinary share capital	*j,k*	*1,220.2*	*1,220.2*
Retained earnings	*l*	419.5	316.6
Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	*n*	40.5	34.2
Independently reviewed interim profits net of any foreseeable charge or dividend	*m*	81.1	102.9
Common Equity Tier 1 capital before regulatory adjustments		**1,761.3**	**1,673.9**
Common Equity Tier 1 capital: regulatory adjustments			
Additional value adjustments (negative amount)		(1.1)	(1.1)
Intangible assets (net of related tax liability) (negative amount)	*f,h*	(265.9)	(286.4)
Fair value reserves related to gains or losses on cash flow hedges	*o*	0.3	0.5
Gains or losses on liabilities valued at fair value resulting form changes in own credit standing	*g*	-	-
Qualifying Additional Tier 1 deductions that exceed the Additional Tier 1 capital of the institution (negative amount)	*b*	-	(3.4)
Total regulatory adjustments to Common Equity Tier 1		**(266.7)**	**(290.4)**
Common Equity Tier 1 capital		**1,494.6**	**1,383.5**
Tier 1 capital (Tier 1=Common Equity Tier 1+Additional Tier 1)		**1,494.6**	**1,383.5**
Tier 2 capital: instruments and provisions			
Capital instruments and the related share premium accounts	*i*	235.0	235.0
Credit risk adjustments	*a*	99.1	63.1
Tier 2 capital before regulatory adjustments		**334.1**	**298.1**
Tier 2 capital: regulatory adjustments			
Direct and indirect holdings by the institution of the Tier 2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	*c,d*	(34.1)	(30.7)
Total regulatory adjustments to Tier 2 capital		**(34.1)**	**(30.7)**
Tier 2 capital		**300.0**	**267.4**
Total capital (Total Capital=Tier 1+Tier 2)		**1,794.6**	**1,650.9**
Total Risk Weighted Assets		**9,267.6**	**8,276.3**
Capital ratios and buffers			
Common equity tier 1 (as a % of risk exposure amount)		**16.1%**	**16.7%**
Tier 1 (as a % of risk exposure amount)		**16.1%**	**16.7%**
Total capital (as a % of risk exposure amount)		**19.4%**	**19.9%**
Institution specific buffer requirements (Common Equity Tier 1 requirement in accordance with Article 92(1) a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (Global or Other systemically important buffer) expressed as a % of risk exposure amount)		6.4%	5.8%
of which: capital conservation buffer requirement		1.9%	1.3%
of which: countercyclical buffer requirement		0.0%	0.0%
of which: systemic risk buffer requirement		0.0%	0.0%
of which: Global Systemically Important Institution or Other Systemically Important Institution buffer		0.0%	0.0%
Common equity tier 1 available to meet buffers (as a % of risk exposure amount)		10.1%	10.7%
Amounts below the thresholds for deduction (before risk weighting)			
Direct and indirect holdings of the Common Equity Tier 1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	*e*	86.5	71.0
Applicable caps on the inclusion of provisions in Tier 2			
Credit risk adjustments included in Tier 2 in respect of exposures subject to standardised approach (prior to the application of the cap)	*a*	99.1	63.1
Cap on inclusion of credit risk adjustments in Tier 2 under standardised approach		100.6	88.9

Notes:

i) Common Equity Tier 1 Capital

Tier 1 capital is a component of regulatory capital defined by the PRA, comprising Common Equity Tier 1 capital and Additional Tier 1 capital.

Common Equity Tier 1 capital is the highest form of regulatory capital under Basel III that comprises shares issued and related share premium, retained earnings and other reserves net of regulatory adjustments.

The Group's Tier 1 capital is wholly comprised of Common Equity Tier 1.

CRR Article 437 requires disclosure of the key features of the Group's capital instruments (Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments). The full disclosures are shown in Appendix 3 and include for each instrument:

- the governing law of the instruments;
- the regulatory treatment on a transitional and post transitional basis;

- the instrument type, issue dates, nominal amounts, accounting classification and call option dates; and
- write-down features and sub-ordination for each instrument.

ii) Regulatory Deductions from Tier 1 Capital

The Additional Valuation adjustment represents the Prudential Valuation adjustment required by the CRR.

The intangible assets deduction relates to computer software in relation to the Group's operational platforms.

The Fair Value Reserves adjustment in relation to gains or losses on Cash Flow Hedges represents those gains or losses made which are not yet realised.

The material holdings deduction in the prior year represents the transitional adjustment for the Company's subordinated loan investment in Tesco Underwriting Ltd.

iii) Tier 2 Capital

Tier 2 capital is a component of regulatory capital mainly comprising qualifying subordinated loan capital.

All dated and undated subordinated debt held is issued by Tesco PLC to Tesco Personal Finance Group Ltd which, in turn, has issued similar debt to the Company.

The undated and dated subordinated debt instruments comply with CRD IV requirements. The undated floating rate notes have no fixed maturity date and may not be repaid except under certain conditions such as the winding up of the Company and/or Tesco Personal Finance Group Ltd. The dated floating rate subordinated loans are repayable, in whole or in part, at the option of the issuer, prior to maturity, on conditions governing the debt obligation. The earliest options call date is 31 March 2025, but the debt may be repaid on any date if a regulatory or legislative change occurs that would result in the instrument no longer being eligible as Tier 2 capital.

Redemption can be in whole, or in part, at par value plus accrued interest. Interest payable is based on 3 month LIBOR plus margin of 60 to 220 basis points.

iv) Regulatory Adjustments to Tier 2 Capital

The material holdings deduction in the prior year represents the transitional adjustment for the Company subordinated loan investment in Tesco Underwriting Ltd.

6.3 Capital Requirements

The following table shows the overall Pillar 1 minimum capital requirements and risk weighted assets for the Group under the Standardised Approach. The Company, being the main subsidiary is also disclosed in Appendix 2.

EU OV1: Overview of RWAs and Minimum Capital Requirements

		February 2018		February 2017	
		Risk Weighted Assets £m	Minimum Capital Requirements £m	Risk Weighted Assets £m	Minimum Capital Requirements £m
1	**Credit risk (excluding CRR)**	**7,823.0**	**625.8**	**6,933.3**	**554.7**
2	Of which standardised approach (SA)	7,823.0	625.8	6,933.3	554.7
3	Of which the foundation IRB (FIRB) approach	-	-	-	-
4	Of which the advanced IRB (AIRB) approach	-	-	-	-
5	Of which equity IRB under the simple risk weighted approach or the IMA	-	-	-	-
6	**Counterparty Credit Risk**	**6.6**	**0.5**	**7.9**	**0.6**
7	Of which mark to market	2.7	0.2	1.9	0.2
8	Of which original exposure	-	-	-	-
9	Of which standardised approach	-	-	-	-
10	Of which internal model method (IMM)	-	-	-	-
11	Of which risk exposure amount for contributions to the default fund of a CCP	-	-	-	-
12	Of which CVA	3.9	0.3	6.0	0.5
13	**Settlement risk**	-	-	-	-
14	**Securitisation exposures in banking book (after the cap)**		-	-	-
15	Of which IRB approach		-	-	-
16	Of which IRB supervisory formula approach (SFA)		-	-	-
17	Of which internal assessment approach (IAA)		-	-	-
18	Of which standardised approach		-	-	-
19	**Market Risk**	-	-	-	-
20	Of which standardised approach (SA)	-	-	-	-
21	Of which internal model approaches (IMA)	-	-	-	-
22	**Large exposures**	-	-	-	-
23	**Operational Risk**	**1,221.7**	**97.8**	**1,157.5**	**92.6**
24	Of which basic indicator approach	-	-	-	-
25	Of which standardised approach	1,221.7	97.8	1,157.5	92.6
26	Of which advanced measurement approach	-	-	-	-
27	**Amounts below thresholds for deduction (subject to 250% risk weight)**	**216.3**	**17.3**	**177.6**	**14.2**
28	**Floor adjustment**				
29	**Total**	**9,267.6**	**741.4**	**8,276.3**	**662.1**

Notes:

Pillar 1 capital does not include foreign exchange exposure as this is de-minimis under CRR minimum threshold and includes credit valuation adjustment risk which is required in line with CRR.

Settlement risk is the risk that a counterparty fails to deliver a security or its value in cash in accordance with contractual agreements made after the other counterparty has already delivered a security or cash value in accordance with the same agreement. The Group had no unsettled exposure at year end.

6.4 Capital Buffers

6.4.1 Countercyclical Capital Buffer

The countercyclical capital buffer aims to ensure that banking sector capital requirements take account of the macro-economic environment in which banks operate. Its primary objective is to set a buffer of capital to achieve the broader macro prudential goal of protecting the banking sector from periods of excess aggregate credit growth that have often been associated with the build-up of system-wide risk. The buffer can be drawn down to absorb losses during stressed periods.

The Basel III countercyclical capital buffer is calculated as the weighted average of the buffers in effect in the jurisdictions to which banks have a credit exposure.

The Financial Policy Committee of the Bank of England is responsible for setting the UK countercyclical capital buffer rate i.e. the rate that applies to UK exposures of banks, building societies and large investment firms incorporated in the UK. The UK Countercyclical capital buffer is currently set at 0.0%. The Financial Policy Committee gave notice during the year to 28 February 2018 of its intention to increase the UK countercyclical capital buffer rate. The first increase to 0.5% was announced in June 2017, with this rate becoming binding from June 2018. In addition, it announced in November 2017 that the rate will be further increased to 1.0%, this will become binding in November 2018.

The countercyclical capital buffer consists entirely of Common Equity Tier 1 capital and, if the minimum buffer requirements are breached, capital distribution constraints will be imposed on the Group.

The Group's Countercyclical Capital Buffer Disclosure

The Group's foreign exposures as at 28 February 2018 total 0.28% of total exposures. In line with the EBA's final Regulatory Technical Standard, the Group has chosen to simplify the identification of foreign exposures and allocate them to the place of the institution (UK) on the basis that the Group's foreign exposures are less than 2% of the aggregate of credit, trading and securitisation exposures. The countercyclical buffer rates of other jurisdictions therefore have no impact on the Group's capital requirement.

The following tables disclose information relevant for the calculation of the countercyclical capital buffer as at 28 February 2018 in accordance with Regulation (EU) 2015/1555.

CCyB1: Geographical Distribution of Credit Exposures Relevant for the Calculation of the Countercyclical Capital Buffer

Level of Application: Consolidated

		February 2018					
		General credit exposures		Trading book exposures		Securitisation exposure	
		Exposure value for standardised approach	Exposure value for internal ratings basis	Sum of long and short positions of trading book	Value of trading book exposures for internal models	Exposure value for standardised approach	Exposure value for internal ratings basis
		010	020	030	040	050	060
		£m	£m	£m	£m	£m	£m
010	Breakdown by country:						
	UK	12,181.9	-	-	-	-	-
020	Total	12,181.9	-	-	-	-	-

		February 2017					
		General credit exposures		Trading book exposures		Securitisation exposure	
		Exposure value for standardised approach	Exposure value for internal ratings basis	Sum of long and short positions of trading book	Value of trading book exposures for internal models	Exposure value for standardised approach	Exposure value for internal ratings basis
		010	020	030	040	050	060
		£m	£m	£m	£m	£m	£m
010	Breakdown by country:						
	UK	10,494.4	-	-	-	-	-
020	Total	10,494.4	-	-	-	-	-

		February 2018					
		Own funds requirements					
		of which: General credit exposures	of which: Trading book exposures	of which: Securitisation exposures	Total	Own funds requirements weights	Countercyclical capital buffer rate
		070	080	090	100	110	120
		£m	£m	£m	£m		
010	Breakdown by country:						
	UK	635.9	-	-	635.9	1.00	0.0%
020	Total	635.9	-	-	635.9	1.00	

		February 2017					
		Own funds requirements					
		of which: General credit exposures	of which: Trading book exposures	of which: Securitisation exposures	Total	Own funds requirements weights	Countercyclical capital buffer rate
		070	080	090	100	110	120
		£m	£m	£m	£m		
010	Breakdown by country:						
	UK	565.5	-	-	565.5	1.00	0.0%
020	Total	565.5	-	-	565.5	1.00	

CCyB2: Amount of Institution Specific Countercyclical Capital Buffer

		February 2018	February 2017
		010	010
010	Total risk exposure amount (£m)	9,267.6	8,276.3
020	Institution specific countercyclical capital buffer rate	0.00%	0.00%
030	Institution specific countercyclical capital buffer requirement	-	-

6.4.2 Capital Conservation Buffer

The capital conservation buffer is a general buffer of risk-weighted assets designed to provide for losses in the event of stress.

The capital conservation buffer is being phased in from 1 January 2016 to 1 January 2019, starting at 0.625% from 2016 and increasing each subsequent year by an additional 0.625% to reach its final level of 2.5% by 1 January 2019.

The Group's Capital Conservation Buffer

Based on the above requirements, at 1 January 2018, the capital conservation buffer applicable to the Group is 1.875% (rate applicable to the Group at 28 February 2018).

6.4.3 Constraints on capital buffers

Both the countercyclical buffer and capital conservation buffer may be subject to constraints under certain conditions. The constraints which may be imposed relate only to capital distributions (dividends, share buy backs) and limits on Directors' remuneration. The Group is not subject to any constraints.

7. Leverage Ratio

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

It is defined as the ratio of Tier 1 capital to the total leverage ratio exposures and applies an equal weighting to all assets regardless of their risk.

At present the Group has no minimum UK leverage requirement as it is currently exempt from the UK Leverage Framework Regime, which only applies to institutions with retail deposit levels of £50 billion or more.

The Group ratio of 9.6% as at 28 February 2018 (2017: 10.3%), demonstrates a low appetite for excessive leverage.

Description of the processes used to manage the risk of excessive leverage:

The Leverage ratio is embedded as part of the Group's capital planning process and is considered in line with Common Equity Tier 1 capital and risk-based asset ratios as part of the long term plan. The Capital Management Forum monitors the compliance and performance of the Leverage ratio to the long term plan on a monthly basis. Management actions are recommended by the Capital Management Forum to the Asset and Liability Management Committee to prevent the Group from being excessively leveraged and to seek to ensure that capital ratios remain in excess of minimum capital requirements in normal circumstances and in periods of stress.

Description of the factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers:

The Group's leverage ratio has remained strong at 9.6%. An increase in leverage exposures as a result of additional lending is offset by an increase in Tier 1 Capital from retained earnings in the year.

The Group's Leverage Ratio Disclosure

The following leverage ratio disclosures for the year ended 28 February 2018 are in accordance with the requirements of the EBA's Implementing Technical Standard. Row numbers in the following tables relate to the EBA prescribed references within the standardised templates; where rows contain a nil value these have been excluded for the purpose of these disclosures.

The Leverage ratio disclosures of the Company are reported within Appendix 2.

EU LRSum: Summary Reconciliation of Accounting Assets and Leverage Ratio Exposures

		February 2018 Applicable Amounts £m	February 2017 Applicable Amounts £m
1	Total assets as per published financial statements	14,590.7	12,578.5
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	(3.5)	-
4	Adjustments for derivative financial instruments	(33.4)	(15.9)
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	1,260.6	1,228.8
7	Other adjustments	(225.8)	(347.3)
8	**Total leverage ratio exposure**	**15,588.6**	**13,444.1**

EU LRCom: Leverage Ratio Common Disclosure

		February 2018 CRR leverage ratio exposures £m	February 2017 CRR leverage ratio exposures £m
On-balance sheet exposures (excluding derivatives and securities financing transactions "SFTs")			
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	14,640.2	12,616.5
2	Asset amounts deducted in determining Tier 1 capital	(271.1)	(303.4)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	**14,369.1**	**12,313.1**
Derivative exposures			
5	Add-on amounts for PFE associated with *all* derivatives transactions (mark-to-market method)	12.7	9.1
7	Deductions of receivables assets for cash variation margin provided in derivatives transactions	(53.8)	(106.9)
11	**Total derivative exposures (sum of lines 4 to 10)**	**(41.1)**	**(97.8)**
Other off-balance sheet exposures			
17	Off-balance sheet exposures at gross notional amount	12,400.0	12,132.0
18	Adjustments for conversion to credit equivalent amounts	(11,139.4)	(10,903.2)
19	**Other off-balance sheet exposures (sum of lines 17 to 18)**	**1,260.6**	**1,228.8**
Capital and total exposures			
20	**Tier 1 capital**	**1,494.6**	**1,383.5**
21	**Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	**15,588.6**	**13,444.1**
Leverage ratio			
22	**Leverage ratio**	**9.6%**	**10.3%**

EU LRSpl: Leverage Ratio: Split-Up of On-Balance Sheet Exposures (Excluding Derivatives, Securities Financing Transactions and Exempted Exposures)

		February 2018 CRR leverage ratio exposures £m	February 2017 CRR leverage ratio exposures £m
EU-1	Total on-balance sheet exposures (excluding derivatives, securities financing transactions, and exempted exposures), of which:	**14,640.2**	**12,616.5**
EU-3	Banking book exposures, of which:	14,640.2	12,616.5
EU-4	Covered bonds	155.8	98.4
EU-5	Exposures treated as sovereigns	1,689.7	1,492.5
EU-7	Institutions	504.6	327.0
EU-8	Secured by mortgages of immovable properties	2,962.7	2,129.4
EU-9	Retail exposures	8,624.6	7,809.4
EU-10	Corporate	45.7	46.0
EU-11	Exposures in default	80.3	55.5
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	576.8	658.3

8. Liquidity & Funding Risk

8.1 Liquidity Risk Management

Liquidity risk is the risk that the Group is not able to meet its obligations as they fall due. This includes the risk that a given security cannot be traded quickly enough in the market to prevent a loss if a credit rating falls. Funding risk is the risk that the Group does not have sufficiently stable and diverse sources of funding.

The Group operates within a Liquidity Risk Management Policy Framework to ensure that sufficient funds are available at all times to meet demands from depositors; to fund agreed advances; to meet other commitments as and when they fall due; and to ensure the Board's Risk Appetite is met.

The Treasury Director reports directly to the Chief Financial Officer and together they are responsible for managing the allocation and maintenance of the Group's capital, funding and liquidity, including the ownership of the Liquidity Risk Management Policy which sets the parameters within which Liquidity is managed and the processes to be followed in doing so are in line with the stated Risk Appetite.

Risk Appetite Statement

To maintain an adequate liquidity profile under normal and stressed conditions and a balance sheet structure that limits reliance on potentially unstable sources of funding. This is supported by a range of metrics, limits and triggers that are continuously monitored and regularly reported to the Board.

Risk Appetite Measures

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

- the internal liquidity requirement;
- the liquidity coverage ratio;
- the net stable funding ratio;
- the wholesale funding ratio;
- the annual wholesale re-financing amount;
- the encumbrance ratio;
- the loan to deposit ratio; and
- the minimum unencumbered assets.

The Group measures and manages liquidity adequacy in line with the above metrics and maintains a conservative funding and liquidity profile to enable it to meet its financial obligations under normal, and stressed, market conditions. The internal liquidity requirement seeks to ensure that the Group maintains adequate liquid assets to survive a defined stress scenario for a sufficient period as defined by Risk Appetite. The regulatory liquidity coverage ratio requires the Group to maintain a sufficient portfolio of high quality liquid assets to meet liquidity requirements during periods of market dislocation and stress over a 30 day period.

Controls and risk mitigants

Liquidity & Funding risk is assessed through the internal liquidity adequacy assessment process on at least an annual basis. This process involves detailed consideration of the following:

- identification of sources of liquidity risk;
- quantification of those risks through stress testing;
- consideration of management processes and controls to minimise the risk;
- assessment of the type and quality of liquid asset holdings to mitigate the risk; and
- consideration of the levels of contingent funding required to mitigate the risk.

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

The Group prepares both short term and long term forecasts to assess liquidity requirements and takes into account factors such as credit card payment cycles, expected utilisation of undrawn credit limits, investment maturities, customer deposit patterns, and wholesale funding (including Term Funding Scheme) maturities. These reports support daily liquidity management and are reviewed on a daily basis by senior management along with early warning indicators.

Stress testing of current and forecast financial positions is conducted to inform the Group of required liquidity resources. Reverse stress testing is conducted to inform the Group of the circumstances that would result in liquidity resources being exhausted. Liquidity stress tests are presented to the Liquidity Management Forum and the Asset and Liability Management Committee on a regular basis to provide evidence that sufficient liquidity is held to meet financial obligations in a stress.

The Treasury Director is responsible for formulating, and obtaining Board approval, for an annual funding plan as part of the overall business planning process. The Group is predominantly funded by its retail deposit base which reduces reliance on wholesale funding and, in particular, results in minimal short-term wholesale funding. A significant part of these retail deposits are repayable on demand on a contractual basis. The Group continuously monitors retail deposit activity so that it can reasonably predict expected maturity flows. These instruments form a stable funding base for the Group’s operations because of the broad customer base and the behaviours exhibited.

During the year the Group accessed the Bank of England's (BoE) Term Funding Scheme, repaying borrowing previously drawn under the BoE's Funding for Lending Scheme. The lower cost of funding provided under both schemes continues to be reflected in competitive offers for the Group's borrowing customers.

8.2 Liquidity Risk Metrics - Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR)

Liquidity Coverage Ratio (LCR)

The Group’s LCR ratio is 129.9 % (2017: 147.1%).

The Group's liquidity comprises very high and high quality sterling liquid assets with Retail deposits remaining the main funding source. The Group has minimal currency mismatch in LCR and low risk of potential collateral calls as most derivatives are centrally cleared and are covered by initial and variation margin.

Net Stable Funding Ratio (NSFR)

The Group’s NSFR ratio is 118.3 % (2017: 119.8%).

9 Credit Risk

9.1 Credit Risk Management

Credit risk is the risk that a borrower will default on a debt or obligation by failing to make contractually obligated payments, or that the Group will incur losses due to any other counterparty failing to meet their financial obligations. The Group’s aim in relation to credit risk is to seek to lend responsibly, ensuring that the credit risk profile remains within agreed parameters as articulated in the Risk Appetite.

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

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

The development, management, execution and monitoring of credit risk management strategy is performed within the first line of defence. This work is underpinned by credit policy and oversight frameworks which are owned by the second line of defence.

The Chief Risk Officer together with the Financial & Credit Risk Director, are responsible for:

- developing credit risk policies, tools and frameworks across the business;
- providing oversight of credit risk activities undertaken by the first line; and
- monitoring credit performance.

The Credit Risk function maintains a suite of policies defining the minimum requirements for the management of credit activities, including the Credit Risk policy and Minimum Standards, Wholesale Credit Risk policy, Model Development & Governance policy, Collections and Recoveries policy, and Provisioning policies. All credit risk policies are subject to at least a bi-annual review, or earlier if there is a trigger for policy review such as a regulatory change. The polices are approved by the Executive Risk Committee, with the Level 1 Credit Risk policy being reviewed by the Board Risk Committee and approved by the Board.

Credit risk policies are supported by a range of processes and procedures that cover the activities undertaken throughout the credit life cycle. Management information is produced for different audiences within the governance framework to allow monitoring of policy compliance. The Risk Appetite Measures are of significant importance, with supporting limits and tolerances that allow the Group to track performance. Trends are also identified that could act as an early warning that performance may move outside Risk Appetite in the future.

9.1.1 Retail Credit Risk

Retail credit risk is the risk that a borrower, who is a personal customer, will default on a debt or obligation by failing to make contractually obligated payments. Regular management reports are submitted to the Board and appropriate Committees.

Risk Appetite Statement

The Group has a risk appetite based on limiting losses to a % of forecast profit.

Risk Appetite Measures

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

- Bad debt impact in a stress scenario as a % of PBT;
- Stock secured balances by Mortgage Debt to Value; and
- New business Mortgage Loan to Value.

Controls and risk mitigants

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

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

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

Valuations: Property valuations are assessed as part of the application process by a Royal Institute of Chartered Surveyors certified valuer from the Group's approved panel of valuers for a new Mortgage and when a customer decides to re-mortgage with the Group / request additional borrowing and the loan to value (LTV) is 70% or greater. Where the LTV for new re-mortgage customers is less than 70% and additional criteria are met, valuation of the property is undertaken by an automated valuation model. The Group revalues its collateral on a quarterly basis using a regional house price valuation index. It is normal practice not to obtain additional third party revaluation of collateral unless further lending is being considered or the property has been repossessed.

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

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

9.1.2 Wholesale Credit Risk

Wholesale credit risk is the risk that the counterparty to a transaction will default before the final settlement of the transaction's cash flows. Such transactions relate to contracts for financial derivative instruments, securities financing transactions and long-dated settlement transactions. The Group does not operate in the mainstream commercial or corporate lending market. However, the Group is exposed to wholesale credit risk primarily through Treasury activities, as a result of cash management, liquidity, and market risk management, with the inherent risk that these counterparties could fail to meet their obligations.

Risk Appetite Statement

The Group has no appetite for material losses as a result of a wholesale counterparty default.

Risk Appetite Measures

The wholesale credit risk limit framework is designed to prevent wholesale credit losses outside of risk appetite. Exposure to wholesale credit is controlled based on a hierarchy of limits where financial institution, corporate, sovereign, central bank and multilateral development bank exposures at an aggregate level are capped by country limits.

Controls and risk mitigants

Daily monitoring of exposures is undertaken, with oversight from the Market & Liquidity Risk team. Monthly reporting of Risk Appetite Measures is provided to the Executive Risk Committee. Escalation processes are in place for the reporting of any breached limits directly to the Executive Risk Committee.

The Risk Appetite Measure limits are set out in the Wholesale Credit Risk policy which is approved by the Executive Risk Committee, with the limits contained therein approved by Executive Risk Committee or Board as appropriate. The Treasury Director is responsible for ensuring that Treasury complies with CCR limits. The Market & Liquidity Risk team, reports to the Financial & Credit Risk Director, providing independent oversight that these limits are adhered to.

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

The Wholesale Credit Risk Limit framework sets limits on the amounts that can be invested based on counterparty credit-worthiness by country, instrument type and remaining tenor. As part of the credit assessment process for wholesale credit risk exposures, the Group uses the external credit ratings issued by Fitch (as the nominated external credit assessment institution) to help determine the appropriate risk weighting to apply under the Standardised Approach to credit risk exposures. The Group has a Wholesale Credit Risk Forum where current ratings and exposures are discussed on a monthly basis by colleagues from Treasury and the Market & Liquidity Risk team. Counterparty credit reviews and proposals for new limits are also discussed at the Wholesale Credit Risk Forum as well as current market events and their possible impact on the Group. All material limits are approved by the Chief Financial Officer within parameters set by the Board and any exceptions or overrides to the policy must be explicitly agreed by the Chief Executive Officer and approved by the Board.

The Wholesale Credit Risk policy also provides that credit risk mitigation techniques are applied to reduce wholesale credit risk exposures. International Swaps and Derivatives Association (ISDA) master agreements are in place with all derivative counterparties, Global Master Repurchase Agreements are in place for all repurchase counterparties and ISDA Credit Support Annexes have been executed with all of the Group's derivative counterparties. The Group uses central counterparties (CCP's) in order to clear specified derivative transactions (predominantly interest rate swaps) thereby mitigating counterparty risk. Positions are continuously marked to market and margin in the form of collateral is exchanged on at least a daily basis. As at 28 February 2018, no additional credit risk mitigation was deemed necessary.

9.1.3 Concentration risk

Concentration risk is the risk of losses arising as a result of concentrations of exposures to a specific counterparty, economic sector, segment or geographical region. The Group is potentially exposed to this risk were it to become concentrated in certain geographic areas or product profiles e.g. a disproportionate level of high loan to value mortgages. Such concentrations could produce unacceptable bad debts in some adverse but plausible situations.

Controls and risk mitigants

The Group mitigates these potential concentration risks by establishing appropriate limits and trigger thresholds that are regularly monitored and reported to the appropriate senior management team and risk committees.

9.1.4 Wrong Way Risk

Wrong way risk is defined, by the ISDA, as the risk that occurs when exposure to counterparties is adversely correlated with the credit quality of that counterparty. In short it arises when default risk and credit exposure increase together.

The Group's Wholesale Credit Risk policy prohibits a repurchase counterparty and the issuer of the collateral from being the same, or related, entities. The exceptions to this are repurchase agreements transacted with the UK government where UK government debt is provided as collateral. Other than this, the Group has no exposure to wrong way risk.

9.1.5 Third Party Credit Exposures

The Group has a number of contracts with third parties that involve the receipt of fees or commissions. Third party credit exposure arises through the risk that these payments may not be received. The requirements for management of these exposures are detailed in the Wholesale Credit Risk policy with a limits framework in place to manage these exposures. The Wholesale Credit Risk Manager is responsible for reporting these exposures and any limit breaches to the Executive Risk Committee.

9.2 Credit Risk under the Standardised Approach

EU LI2: Main sources of differences between regulatory exposure amounts and carrying values in financial statements

		February 2018				
			Items subject to			
		Total a £m	Credit Risk Framework b £m	Counterparty Credit Risk Framework c £m	Securitisation Framework d £m	Market Risk Framework e £m
1	Assets carrying value under the scope of regulatory consolidation (as per template EU LI1)	**14,282.0**	14,235.9	46.1	-	-
2	Liabilities carrying value under the scope of regulatory consolidation (as per template EU LI1)	**99.9**	53.8	46.1	-	-
3	Total net amount under the scope of regulatory consolidation	**14,182.1**	14,182.1	-	-	-
4	Off balance sheet amounts	**12,400.0**	41.2	-	-	-
5	Net potential future exposures	**12.7**	-	12.7	-	-
6	Differences due to different netting rules, other than those already included in row 2	**-**	-	-	-	-
7	Differences due to consideration of provisions	**99.1**	99.1	-	-	-
8	Differences due to prudential filters	**-**	-	-	-	-
10	**Exposure amounts considered for regulatory purposes**	**26,693.9**	**14,322.4**	**12.7**	**-**	**-**

		February 2017				
			Items subject to			
		Total a £m	Credit Risk Framework b £m	Counterparty Credit Risk Framework c £m	Securitisation Framework d £m	Market Risk Framework e £m
1	Assets carrying value under the scope of regulatory consolidation (as per template EU LI1)	**12,244.4**	12,219.4	25.0	-	-
2	Liabilities carrying value under the scope of regulatory consolidation (as per template EU LI1)	**140.1**	115.1	25.0	-	-
3	Total net amount under the scope of regulatory consolidation	**12,104.3**	12,104.3	-	-	
4	Off balance sheet amounts	**12,132.0**	31.1	-	-	-
5	Net potential future exposures	**9.1**	-	9.1	-	
6	Differences due to different netting rules, other than those already included in row 2	**-**	-	-	-	-
7	Differences due to consideration of provisions	**63.1**	63.1	-	-	-
8	Differences due to prudential filters	-	-	-	-	-
10	**Exposure amounts considered for regulatory purposes**	**24,308.5**	**12,198.5**	**9.1**	**-**	**-**

Note: The 'Total' per column a in the above tables, include off-balance-sheet exposures prior to the use of a credit conversion factor. The subsequent columns, b to e, include the off-balance-sheet amounts subject to the regulatory framework, after the application of the relevant credit conversion factors. This approach is in line with the EBA guidance.

9.3 Analysis of Credit Risk Exposures

This section of the disclosures set out the details of the Group's credit risk exposures by exposure class geographical location, industry or counterparty and residual maturity.

i) Analysis by Exposure Class

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

This disclosure includes amounts where the customer has a contractual right to draw down further balances, converted using regulatory credit conversion factors. The exposure is shown on a guarantor basis and is reported net of appropriate impairment provisions.

EU CRB-B: Total and average net amount of exposures

		Net value of exposures at the end of the period		Average net exposures over the period	
	Exposure class	February 2018 £m	February 2017 £m	February 2018 £m	February 2017 £m
15	**Total IRB approach**	-	-	-	-
16	Central governments or central banks	1,570.8	1,264.7	1,349.9	1,182.1
17	Regional Governments or Local Authorities	-	-	-	-
18	Public Sector Entities	34.0	51.8	49.3	54.1
19	Multilateral development banks	85.0	176.0	122.8	168.1
20	International Organisations	-	-	-	-
21	Institutions	450.9	211.9	269.4	179.5
22	Corporates	45.7	46.0	38.7	45.3
23	*of which: SMEs*	*2.8*	*3.6*	*5.0*	*6.2*
24	Retail	20,818.4	19,786.1	20,303.2	19,129.8
25	*of which: SMEs*	*4.9*	*4.4*	*4.1*	*4.5*
26	Secured by mortgages on immovable property	3,168.9	2,284.6	2,879.5	2,056.3
27	*of which: SMEs*	-	-	-	-
28	Exposures in default	80.3	55.5	63.1	54.2
29	Items associated with particularly high risk	-	-	-	-
30	Covered bonds	155.8	98.4	137.6	91.0
31	Claims on institutions and corporates with a short term credit assessment	-	-	-	-
32	Collective investments undertakings	-	-	-	-
33	Equity exposures	86.5	71.0	86.5	71.0
34	Other exposures	184.9	253.4	239.2	260.4
35	**Total Standardised approach**	**26,681.2**	**24,299.4**	**25,539.2**	**23,291.8**
36	**Total**	**26,681.2**	**24,299.4**	**25,539.2**	**23,291.8**

ii) Analysis by Geographical Location

The Group's retail lending is primarily focused on providing credit cards, personal loans, mortgages and current account overdrafts to UK personal customers, although there is limited exposure in the Republic of Ireland through the Irish credit card portfolio. The Group has historically issued credit cards in the Republic of Ireland where it is an authorised credit institution under Irish law and is directly regulated by the Irish Financial Regulator in respect of this activity. The following table provides the geographic distribution of the Group's credit risk exposure.

EU CRB-C: Geographical Breakdown of Exposures

		February 2018 Net Value of Exposures			
	Exposure class	UK £m	Europe (ex. UK) £m	Other geographical areas £m	Total £m
6	**Total IRB approach**	**-**	**-**	**-**	**-**
7	Central governments or central banks	1,535.6	-	35.2	**1,570.8**
8	Regional Governments or Local Authorities	-	-	-	**-**
9	Public Sector Entities	-	34.0	-	**34.0**
10	Multilateral development banks	-	-	85.0	**85.0**
11	International organisations	-	-	-	**-**
12	Institutions	430.9	20.0	-	**450.9**
13	Corporates	39.4	4.4	1.9	**45.7**
14	Retail	20,743.3	75.1	-	**20,818.4**
15	Secured by mortgages on immovable property	3,168.9	-	-	**3,168.9**
16	Exposures in default	80.0	0.3	-	**80.3**
17	Items associated with particularly high risk	-	-	-	**-**
18	Covered bonds	155.8	-	-	**155.8**
19	Claims on institutions and corporates with a short term credit assessment	-	-	-	**-**
20	Collective investments undertakings	-	-	-	**-**
21	Equity exposures	86.5	-	-	**86.5**
22	Other exposures	182.9	-	2.0	**184.9**
23	**Total standardised approach**	**26,423.3**	**133.8**	**124.1**	**26,681.2**
24	**Total**	**26,423.3**	**133.8**	**124.1**	**26,681.2**

		February 2017 Net Value of Exposures			
	Exposure class	UK £m	Europe (ex. UK) £m	Other geographical areas £m	Total £m
6	**Total IRB approach**	-	-	-	-
7	Central governments or central banks	1,231.9	17.4	15.4	**1,264.7**
8	Regional Governments or Local Authorities	-	-	-	**-**
9	Public Sector Entities	-	51.8	-	**51.8**
10	Multilateral development banks	-	-	176.0	**176.0**
11	International organisations	-	-	-	**-**
12	Institutions	191.6	20.3	-	**211.9**
13	Corporates	29.9	16.1	-	**46.0**
14	Retail	19,710.7	75.4	-	**19,786.1**
15	Secured by mortgages on immovable property	2,284.6	-	-	**2,284.6**
16	Exposures in default	55.0	0.5	-	**55.5**
17	Items associated with particularly high risk	-	-	-	**-**
18	Covered bonds	98.4	-	-	**98.4**
19	Claims on institutions and corporates with a short term credit assessment	-	-	-	**-**
20	Collective investments undertakings	-	-	-	**-**
21	Equity exposures	71.0	-	-	**71.0**
22	Other exposures	251.7		1.7	**253.4**
23	**Total standardised approach**	**23,924.8**	**181.5**	**193.1**	**24,299.4**
24	**Total**	**23,924.8**	**181.5**	**193.1**	**24,299.4**

iii) Analysis by Industry or Counterparty Type

The distribution of credit risk exposure by counterparty is provided in the following table. The Group is primarily focused on providing financial services and products to personal customers in the UK, although it also has exposure to wholesale counterparties.

EU CRB-D: Concentration of Exposures by Industry or Counterparty Types

February 2018
Net Value of Exposures

		Financial Sector	Government	Individuals	Other	Total
		a	b	c	d	e
	Exposure class	**£m**	**£m**	**£m**	**£m**	**£m**
6	**Total IRB approach**	**-**	**-**	**-**	**-**	**-**
7	Central governments or central banks	-	1,570.8	-	-	1,570.8
8	Regional Governments or Local Authorities	-	-	-	-	-
9	Public Sector Entities	34.0	-	-	-	34.0
10	Multilateral development banks	85.0	-	-	-	85.0
11	International organisations	-	-	-	-	-
12	Institutions	450.9	-	-	-	450.9
13	Corporates	10.5	-	-	35.2	45.7
14	Retail	-	-	20,813.5	4.9	20,818.4
15	Secured by mortgages on immovable property	-	-	3,168.9	-	3,168.9
16	Exposures in default	-	-	80.3	-	80.3
17	Items associated with particularly high risk	-	-	-	-	-
18	Covered bonds	155.8	-	-	-	155.8
19	Claims on institutions and corporates with a short term credit assessment	-	-	-	-	-
20	Collective investments undertakings	-	-	-	-	-
21	Equity exposures	86.5	-	-	-	86.5
22	Other exposures	2.0	-	-	182.9	184.9
23	**Total standardised approach**	**824.7**	**1,570.8**	**24,062.7**	**223.0**	**26,681.2**
24	**Total**	**824.7**	**1,570.8**	**24,062.7**	**223.0**	**26,681.2**

February 2017
Net Value of Exposures

		Financial Sector	Government	Individuals	Other	Total
		a	b	c	d	e
	Exposure Class	**£m**	**£m**	**£m**	**£m**	**£m**
6	**Total IRB approach**	-	-	-	-	-
7	Central governments or central banks	-	1,264.7	-	-	1,264.7
8	Regional Governments or Local Authorities	-	-	-	-	-
9	Public Sector Entities	51.8	-	-	-	51.8
10	Multilateral development banks	176.0	-	-	-	176.0
11	International organisations	-	-	-	-	-
12	Institutions	211.9	-	-	-	211.9
13	Corporates	21.4	-	-	24.6	46.0
14	Retail	-	-	19,781.7	4.4	19,786.1
15	Secured by mortgages on immovable property	-	-	2,284.6	-	2,284.6
16	Exposures in default	-	-	55.5	-	55.5
17	Items associated with particularly high risk	-	-	-	-	-
18	Covered bonds	98.4	-	-	-	98.4
19	Claims on institutions and corporates with a short term credit assessment	-	-	-	-	-
20	Collective investments undertakings	-	-	-	-	-
21	Equity exposures	71.0	-	-		71.0
22	Other exposures	1.7	-	-	251.7	253.4
23	**Total standardised approach**	**632.2**	**1,264.7**	**22,121.8**	**280.7**	**24,299.4**
24	**Total**	**632.2**	**1,264.7**	**22,121.8**	**280.7**	**24,299.4**

iv) Analysis by Maturity

The following table provides a maturity analysis of credit exposures on a residual maturity basis.

EU CRB-E: Maturity of Exposures

	Exposure class	On Demand a £m	< = 1 year b £m	> 1 year; < = 5 years c £m	> 5 years d £m	No stated maturity e £m	Total f £m
	February 2018 Net Exposure Value						
6	**Total IRB approach**	-	-	-	-	-	
7	Central governments or central banks	926.8	20.8	189.9	418.3	15.0	**1,570.8**
8	Regional Governments or Local Authorities	-	-	-	-	-	-
9	Public Sector Entities	-	10.2	23.8	-	-	**34.0**
10	Multilateral development banks	-	-	49.3	35.7	-	**85.0**
11	International organisations	-	-	-	-	-	-
12	Institutions	430.8	0.1	20.0	-	-	**450.9**
13	Corporates	1.3	41.2	3.2	-	-	**45.7**
14	Retail	2.4	4,657.4	2,605.9	1,358.9	-	**8,624.6**
15	Secured by mortgages on immovable property	-	-	-	2,962.7	-	**2,962.7**
16	Exposures in default	0.6	49.3	26.5	3.9	-	**80.3**
17	Items associated with particularly high risk	-	-	-	-	-	-
18	Covered bonds	-	37.6	68.0	50.2	-	**155.8**
19	Claims on institutions and corporates with a short term credit assessment	-	-	-	-	-	-
20	Collective investments undertakings	-	-	-	-	-	-
21	Equity exposures	-	-	-	-	86.5	**86.5**
22	Other exposures	100.2	14.6	-	2.0	68.1	**184.9**
23	**Total standardised approach**	**1,462.1**	**4,831.2**	**2,986.6**	**4,831.7**	**169.6**	**14,281.2**
24	**Total**	**1,462.1**	**4,831.2**	**2,986.6**	**4,831.7**	**169.6**	**14,281.2**

	Exposure class	On Demand a £m	< = 1 year b £m	> 1 year; < = 5 years c £m	> 5 years d £m	No stated maturity e £m	Total f £m
	February 2017 Net Exposure Value						
6	**Total IRB approach**	-	-	-	-	-	-
7	Central governments or central banks	632.5	17.5	111.8	488.6	14.3	1,264.7
8	Regional Governments or Local Authorities	-	-	-	-	-	-
9	Public Sector Entities	-	25.2	26.6	-	-	51.8
10	Multilateral development banks	-	96.1	70.3	9.6	-	176.0
11	International organisations	-	-	-	-	-	-
12	Institutions	140.1	51.6	10.2	10.0	-	211.9
13	Corporates	0.6	43.1	2.3	-	-	46.0
14	Retail	1.5	4,142.2	2,357.3	1,308.4	-	7,809.5
15	Secured by mortgages on immovable property	-	-	7.7	2,121.6	-	2,129.3
16	Exposures in default	0.9	31.6	14.9	8.1	-	55.5
17	Items associated with particularly high risk	-	-	-	-	-	-
18	Covered bonds	-	18.3	67.7	12.4	-	98.4
19	Claims on institutions and corporates with a short term credit assessment	-	-	-	-	-	-
20	Collective investments undertakings	-	-	-	-	-	-
21	Equity exposures	-	-	-	-	71.0	71.0
22	Other exposures	83.0	8.3	-	1.7	160.4	253.4
23	**Total standardised approach**	**858.6**	**4,434.0**	**2,668.8**	**3,960.4**	**245.7**	**12,167.5**
24	**Total**	**858.6**	**4,434.0**	**2,668.8**	**3,960.4**	**245.7**	**12,167.5**

9.4 Credit Risk: Asset Quality

Ineffective management and controls over the emerging asset quality of the Group’s lending portfolios could expose the Group to elevated levels of bad debt.

Controls and risk mitigants

The Group’s asset quality is reflected through the level of its impairment by lending type. Asset quality is maintained through credit and affordability assessments at asset origination combined with regular monitoring and reporting of asset quality to the appropriate senior management team and risk committees.

9.4.1 Past Due, Impaired Assets and Provisions

Past Due and Impaired Definitions

The Group considers exposures to be past due where a customer does not make the minimum contractual monthly payment of principal, interest or fee. For personal current accounts, past due status can also arise when the account is in excess of its contractual overdraft limit. Accounts remain as past due but not impaired until the point where a loss trigger has occurred.

An asset will be initially recognised as impaired in response to the following loss triggers:

- where the customer makes a declaration of significant financial difficulty;
- where the customer is deceased;
- where the customer or third party agency communicates that it is probable that the customer will enter bankruptcy or another form of financial re-structure, e.g. insolvency or repossession;
- where the account has been transferred to recoveries and the relationship is terminated; or
- when the customer is:
    - more than 90 days past due (the equivalent of four payments down) for loans, credit card or mortgages products; and
    - 121 days or more in excess for overdrafts on personal current accounts.

These definitions align to both statutory and regulatory reporting and comply with the requirements of each. The Group has no past-due exposures of more than 90 days that are not considered to be impaired.

During the year, in managing credit risk provisioning and impairment the Group complied with IFRS, specifically International Accounting Standard (IAS) 39, Financial Instruments: Recognition and Measurement. A loan is impaired when there is objective evidence that events since the loan was granted have affected the amount or timing of expected cash flows from the loan. The impairment loss is the difference between the carrying value of the loan and the present value of estimated future cash flows discounted at the loan's original effective interest rate. With effect from 1 March 2018, the Group will adopt IFRS 9 Financial Instruments to recognise and measure impairment as highlighted in Section 1.

Provisioning models

The Group applies a collective impairment provisioning model that segments provisions into the incurred but not reported book and the impaired book based upon the approved definition of default operated on the credit card, loan, mortgage and current account portfolios.

Incurred but not reported provisions are held against unidentified accounts where a loss event has occurred, but has not yet been identified in our data.

Impairment provisions are established on a portfolio basis taking into account the level of arrears, security, past loss experience and defaults based on portfolio trends. The most significant factor in establishing these provisions are the anticipated cash recoveries.

9.4.2 Forbearance

The main aim of forbearance is to support customers in returning to a position where they are able to meet their contractual obligations. The Group could be exposed to unacceptable levels of bad debt and also suffer reputational damage if it did not provide adequate support to customers who are experiencing financial difficulties.

Forbearance is relief granted by a lender to assist customers in financial difficulty, through arrangements which temporarily allow the customer to pay an amount other than the contractual amounts due. These temporary arrangements may be initiated by the customer or the Group where financial distress would prevent repayment within the original terms and conditions of the contract.

The Group has adopted the definition of forbearance as published in the EBA's final Implementing Technical Standards of July 2014. The Group reports all accounts meeting this definition, providing for them appropriately.

The value of secured and unsecured loans and advances that are subject to forbearance programmes is disclosed in the Annual Report & Financial Statements of both Tesco Personal Finance Group Ltd and Tesco Personal Finance plc: http://www.corporate.tescobank.com/48/accounts-and-disclosures.

Controls and risk mitigants

The Group has well defined forbearance policies and processes.

A number of forbearance options are made available to customers by the Group. These routinely, but not exclusively, include the following:

- Arrangements to repay arrears over a period of time, by making payments above the contractual amount, that seek to ensure the loan is repaid within the original repayment term.
- Short term concessions, where the borrower is allowed to make reduced repayments (or in exceptional circumstances, no repayments) on a temporary basis to assist with short term financial hardship.
- For secured products, it may also be acceptable to allow the customer to clear the arrears over an extended period of time, provided the payments remain affordable.

9.4.3 Credit Quality Analysis

EU CR1-A: Credit Quality of Exposures by Exposure Class and Instrument

		February 2018						
		Gross carrying values of						
	Exposure class	Defaulted Exposures a	Non-Defaulted Exposures b	Specific credit risk adjustments c	General credit risk adjustments d	Accumulated write offs e	Credit risk adjustment charges of the period f	Net carrying value (a+b-c-d) g
		£m	£m	£m	£m	£m	£m	£m
15	**Total IRB approach**	-	-	-	-	-	-	-
16	Central governments or central banks	-	1,570.8	-	-	-	-	1,570.8
17	Regional Governments or Local Authorities	-	-	-	-	-	-	-
18	Public Sector Entities	-	34.0	-	-	-	-	34.0
19	Multilateral development banks	-	85.0	-	-	-	-	85.0
20	International Organisations	-	-	-	-	-	-	-
21	Institutions	-	450.9	-	-	-	-	450.9
22	Corporates	-	45.7	-	-	-	-	45.7
23	*of which: SMEs Corporates*	-	*2.8*	-	-	-	-	*2.8*
24	Retail	-	20,818.4	-	-	-	36.0	20,818.4
25	*of which: SMEs Retail*	-	*4.9*	-	-	-	-	*4.9*
26	Secured by mortgages on immovable property	-	3,168.9	-	-	-	-	3,168.9
27	*of which: SMEs secured by mortgage*	-	-	-	-	-	-	-
28	Exposures in default	219.3	-	139.0	-	87.3	98.2	80.3
29	Items associated with particularly high risk	-	-	-	-	-	-	-
30	Covered bonds	-	155.8	-	-	-	-	155.8
31	Claims on institutions and corporates with a short term credit assessment	-	-	-	-	-	-	-
32	Collective investments undertakings	-	-	-	-	-	-	-
33	Equity exposures	-	86.5	-	-	-	-	86.5
34	Other exposures	-	184.9	-	-	-	-	184.9
35	**Total standardised approach**	**219.3**	**26,600.9**	**139.0**	**-**	**87.3**	**134.2**	**26,681.2**
24	**Total**	**219.3**	**26,600.9**	**139.0**	**-**	**87.3**	**134.2**	**26,681.2**
37	*of which: Loans*	219.3	11,541.3	139.0	-	87.3	134.2	11,621.6
38	*of which: Debt Securities*	-	923.4	-	-	-	-	923.4
39	*of which: Off Balance Sheet Exposures*	-	12,400.0	-	-	-	-	12,400.0

	Exposure class	February 2017 Gross carrying values of Defaulted Exposures a £m	Non-Defaulted Exposures b £m	Specific credit risk adjustments c £m	General credit risk adjustments d £m	Accumulated write offs e £m	Credit risk adjustment charges of the period f £m	Net carrying value (a+b-c-d) g £m
15	**Total IRB approach**	-	-	-	-	-	-	-
16	Central governments or central banks	-	1,264.7	-	-	-	-	1,264.7
17	Regional Governments or Local Authorities	-	-	-	-	-	-	-
18	Public Sector Entities	-	51.8	-	-	-	-	51.8
19	Multilateral development banks	-	176.0	-	-	-	-	176.0
20	International Organisations	-	-	-	-	-	-	-
21	Institutions	-	211.9	-	-	-	-	211.9
22	Corporates	-	46.0	-	-	-	-	46.0
23	*of which: SMEs Corporates*	-	*3.6*	-	-	-	-	*3.6*
24	Retail	-	19,786.1	-	-	-	18.5	19,786.1
25	*of which: SMEs Retail*	-	*4.4*	-	-	-	-	*4.4*
26	Secured by mortgages on immovable property	-	2,284.6	-	-	-	-	2,284.6
27	*of which: SMEs secured by mortgage*	-	-	-	-	-	-	-
28	Exposures in default	186.2	-	130.7	-	60.3	84.3	55.5
29	Items associated with particularly high risk	-	-	-	-	-	-	-
30	Covered bonds	-	98.4	-	-	-	-	98.4
31	Claims on institutions and corporates with a short term credit assessment	-	-	-	-	-	-	-
32	Collective investments undertakings	-	-	-	-	-	-	-
33	Equity exposures	-	71.0	-	-	-	-	71.0
34	Other exposures	-	253.4	-	-	-	-	253.4
35	**Total standardised approach**	**186.2**	**24,243.9**	**130.7**	**-**	**60.3**	**102.8**	**24,299.4**
24	**Total**	**186.2**	**24,243.9**	**130.7**	**-**	**60.3**	**102.8**	**24,299.4**
37	*of which: Loans*	186.2	9,968.8	130.7	-	60.3	102.8	10,024.3
38	*of which: Debt Securities*	-	964.4	-	-	-	-	964.4
39	*of which: Off Balance Sheet Exposures*	-	12,132.0	-	-	-	-	12,132.0

EU CR1-B: Credit Quality of Exposures by Industry or Counterparty Types

The Group is primarily focused on providing financial services and products to personal customers in the UK, although it also has exposure to wholesale counterparties. In relation to the 'past-due' book, the only collateral held by the Group relates to the mortgage portfolio where all lending is secured by a first charge over the property.

Exposure class	February 2018 Gross carrying values of Defaulted Exposures a £m	Non- Defaulted Exposures b £m	Specific credit risk adjustments c £m	General credit risk adjustments d £m	Accumulated write offs e £m	Credit risk adjustment charges of the period f £m	Net carrying value (a+b-c-d) g £m
Financial Sector	-	824.7	-	-	-	-	824.7
Government	-	1,570.8	-	-	-	-	1,570.8
Individuals	219.3	23,982.4	139.0	-	87.3	134.2	24,062.7
Other	-	223.0	-	-	-	-	223.0
Total	**219.3**	**26,600.9**	**139.0**	**-**	**87.3**	**134.2**	**26,681.2**

Exposure class	February 2017 Gross carrying values of Defaulted Exposures a £m	Non- Defaulted Exposures b £m	Specific credit risk adjustments c £m	General credit risk adjustments d £m	Accumulated write offs e £m	Credit risk adjustment charges of the period f £m	Net carrying value (a+b-c-d) g £m
Financial Sector	-	632.2	-	-	-	-	632.2
Government	-	1,264.7	-	-	-	-	1,264.7
Individuals	186.2	22,066.3	130.7	-	60.3	102.8	22,121.8
Other	-	280.7	-	-	-	-	280.7
Total	**186.2**	**24,243.9**	**130.7**	-	**60.3**	**102.8**	**24,299.4**

EU CR1-C: Credit Quality of Exposures by Geography

The Group's lending is primarily UK based, providing products to UK personal customers. There is limited exposure in the Republic of Ireland through the issuance of credit cards.

February 2018

Exposure class	Gross carrying values of Defaulted Exposures	Gross carrying values of Non- Defaulted Exposures	Specific credit risk adjustments	General credit risk adjustments	Accumulated write offs	Credit risk adjustment charges of the	Net carrying value (a+b-c-d)
	a	b	c	d	e	f	g
	£m	£m	£m	£m	£m	£m	£m
UK	218.4	26,343.3	138.4	-	86.6	132.7	26,423.3
Europe (ex UK)	0.9	133.5	0.6	-	0.7	1.5	133.8
Other geographical areas	-	124.1	-	-	-	-	124.1
Total	**219.3**	**26,600.9**	**139.0**	**-**	**87.3**	**134.2**	**26,681.2**

February 2017

Exposure class	Gross carrying values of Defaulted Exposures	Gross carrying values of Non- Defaulted Exposures	Specific credit risk adjustments	General credit risk adjustments	Accumulated write offs	Credit risk adjustment charges of the	Net carrying value (a+b-c-d)
	a	b	c	d	e	f	g
	£m	£m	£m	£m	£m	£m	£m
UK	185.0	23,869.8	130.0	-	59.7	100.1	23,924.8
Europe (ex UK)	1.2	181.0	0.7	-	0.6	2.7	181.5
Other geographical areas	-	193.1	-	-	-	-	193.1
Total	**186.2**	**24,243.9**	**130.7**	**-**	**60.3**	**102.8**	**24,299.4**

EU CR1-D: Ageing of Past Due Exposures

February 2018
Gross carrying values

		≤ 30 days	> 30 days ≤ 60 days	> 60 days ≤ 90 days	> 90 days ≤ 180days	> 180 days ≤ 1year	> 1year
		a	b	c	d	e	f
		£m	£m	£m	£m	£m	£m
1	Loans	51.8	18.8	11.5	110.0	76.5	32.8
2	Debt securities	-	-	-	-	-	-
3	**Total exposures**	**51.8**	**18.8**	**11.5**	**110.0**	**76.5**	**32.8**

February 2017
Gross carrying values

	≤ 30 days	> 30 days ≤ 60 days	> 60 days ≤ 90 days	> 90 days ≤ 180days	> 180 days ≤ 1year	> 1year
	a	b	c	d	e	f
	£m	£m	£m	£m	£m	£m
Loans	43.5	14.6	9.3	87.2	65.7	33.3
Debt securities	-	-	-	-	-	-
Total exposures	**43.5**	**14.6**	**9.3**	**87.2**	**65.7**	**33.3**

EU CR1-E: Non-performing and Forborne Exposures

February 2018

	Gross carrying values of performing and non performing exposures						
	Total gross carrying values	Performing		Non Performing			
		Of which past due > 30 days and <= 90 days	Of which forborne	Total non performing	Of which defaulted	Of which impaired	Of which forborne
	a	b	c	d	e	f	g
	£m	£m	£m	£m	£m	£m	£m
Debt Securities	923.4	-	-	-	-	-	-
Loans and advances	11,776.9	82.1	45.2	219.3	219.3	219.3	80.4
Off balance sheet exposures	12,400.0	-	-	-	-	-	-

February 2017

	Gross carrying values of performing and non performing exposures						
	Total gross carrying values	Performing		Non Performing			
		Of which past due > 30 days and <= 90 days	Of which forborne	Total non performing	Of which defaulted	Of which impaired	Of which forborne
	a	b	c	d	e	f	g
	£m	£m	£m	£m	£m	£m	£m
Debt Securities	964.4	-	-	-	-	-	-
Loans and advances	10,155.1	67.4	39.1	186.2	186.2	186.2	89.7
Off balance sheet exposures	12,132.0	-	-	-	-	-	-

February 2018

	Accumulated impairment, provisions and negative fair value adjustments				Collateral and financial guarantees	
	Performing		Non Performing			
	Total impairment on performing exposures	Of which forborne	Total impairment on performing exposures	Of which forborne	On non performing exposures	Of which forborne
	h	i	j	k	l	m
	£m	£m	£m	£m	£m	£m
Debt Securities	-	-	-	-	-	-
Loans and advances	97.3	7.1	140.8	72.6	-	-
Off balance sheet exposures	-	-	-	-	-	-

February 2017

	Accumulated impairment, provisions and negative fair value adjustments				Collateral and financial guarantees	
	Performing		Non Performing			
	Total impairment on performing exposures	Of which forborne	Total impairment on performing exposures	Of which forborne	On non performing exposures	Of which forborne
	h	i	j	k	l	m
	£m	£m	£m	£m	£m	£m
Debt Securities	-	-	-	-	-	-
Loans and advances	61.8	5.0	132.2	61.6	-	-
Off balance sheet exposures	-	-	-	-	-	-

EU CR2-A: Changes in Stock of General and Specific Credit Risk Adjustments

The following table shows the reconciliation of changes in provisions for loans and advances.

	February 2018		February 2017	
	Accumulated specific credit risk adjustment a £m	Accumulated general credit risk adjustment b £m	Accumulated specific credit risk adjustment a £m	Accumulated general credit risk adjustment b £m
Opening balance	130.7	63.1	109.4	44.5
Increases due to amounts set aside for estimated loan losses during the period	98.2	36.0	84.2	18.6
Decreases due to amounts taken against accumulated credit risk adjustments	(87.3)	-	(60.3)	-
Transfers between credit risk adjustments	-	-	-	-
Impact of exchange rate differences	0.1	-	0.1	-
Business combinations, including acquisitions and disposals of subsidiaries	-	-	-	-
Other	(2.7)	-	(2.7)	-
Closing balance	**139.0**	**99.1**	**130.7**	**63.1**
Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	19.0	-	44.8	-
Credit risk adjustments directly recorded to the statement of profit or loss	98.2	36.0	84.2	18.6

Note: The accumulated general credit risk adjustment in the table above represents the incurred but not reported provisions.

The provision held covers both the incurred but not reported and impaired cohorts. Provisions for non-impaired loans and advances at 28 February 2018 were £99.1m (2017: £63.1m). Provisions for impaired loans and advances at 28 February 2018 were £139.0m (2017: £130.7m).

There are no further value adjustments in relation to credit risk. Non-credit risk value adjustments are disclosed in the Annual Report and Financial Statements of both Tesco Personal Finance Group Ltd and Tesco Personal Finance plc: http://www.corporate.tescobank.com/48/accounts-and-disclosures.

9.5 Credit Risk: Mitigation

9.5.1 Management of Credit Risk Mitigation

The Group is exposed to potential bad debts as a result of mortgage lending, with the inherent risk that customers default on their obligations.

Controls and risk mitigants

To mitigate this risk, all mortgages are secured by a first charge over the property being purchased or re-mortgaged, to safeguard the Group’s assets in the event of default by a customer. No second charges are permitted. Valuation of the property is assessed as part of the application process by a Royal Institute of Chartered Surveyors certified valuer from the Group’s approved panel of valuers for a new Mortgage and when a customer decides to re-mortgage with the Group / request additional borrowing and the loan to value (LTV) is 70% or greater. Where the LTV for new re-mortgage customers is less than 70% and additional criteria are met, valuation of the property is undertaken by an automated valuation model as are all valuations for existing re-mortgage customers, provided additional criteria are met.

The Group revalues its collateral on a quarterly basis using a regional house price valuation index. It is normal practice not to obtain additional third party revaluation of collateral unless further lending is being considered or the property has been repossessed.

9.5.2 Analysis of Credit Risk Mitigation

Use of External Credit Assessment Institutions' Assessments

The Group complies with the credit quality assessment scale with the appropriate issue or issuer rating used to determine the risk weightings applied under the Standardised Approach to credit risk.

The exposure amounts and the external credit ratings issued by Fitch have been included for corporates, institutions and covered bonds as required by CRR. For completeness the ratings of central governments and banks have also been included, in line with the defined risk weightings set out in the CRR.

EU CRD: Institution's use of external credit ratings under the standardised approach for credit risk

February 2018

Fitch Exposure class	Credit Quality Step 1 AAA to AA- £m	Credit Quality Step 2 A+ to A- £m	Credit Quality Step 3 BBB+ to BBB- £m	Credit Quality Step 4 BB+ to BB- £m	Credit Quality Step 5 B+ to B- £m	Credit Quality Step 6 CCC+ and below £m	Unrated or Defined Risk Weight in CRR £m	Total £m
Total IRB approach	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Central governments or central banks	-	-	-	-	-	-	1,570.8	**1,570.8**
Regional Governments or Local Authorities	-	-	-	-	-	-	-	**-**
Public Sector Entities	-	-	-	-	-	-	34.0	**34.0**
Multilateral development banks	-	-	-	-	-	-	85.0	**85.0**
International organisations	-	-	-	-	-	-	-	**-**
Institutions	436.9	5.1	8.9	-	-	-	-	**450.9**
Corporates	-	2.5	-	21.5	-	-	21.7	**45.7**
Retail	-	-	-	-	-	-	20,818.4	**20,818.4**
Secured by mortgages on immovable property	-	-	-	-	-	-	3,168.9	**3,168.9**
Exposures in default	-	-	-	-	-	-	80.3	**80.3**
Items associated with particularly high risk	-	-	-	-	-	-	-	**-**
Covered bonds	155.8	-	-	-	-	-	-	**155.8**
Claims on institutions and corporates with a short	-	-	-	-	-	-	-	**-**
Collective investments undertakings	-	-	-	-	-	-	-	**-**
Equity exposures	-	-	-	-	-	-	86.5	**86.5**
Other exposures	-	-	-	-	-	-	184.9	**184.9**
Total standardised approach	**592.7**	**7.6**	**8.9**	**21.5**	**-**	**-**	**26,050.5**	**26,681.2**
Total	**592.7**	**7.6**	**8.9**	**21.5**	**-**	**-**	**26,050.5**	**26,681.2**

February 2017

Fitch Exposure class	Credit Quality Step 1 AAA to AA- £m	Credit Quality Step 2 A+ to A- £m	Credit Quality Step 3 BBB+ to BBB- £m	Credit Quality Step 4 BB+ to BB- £m	Credit Quality Step 5 B+ to B- £m	Credit Quality Step 6 CCC+ and below £m	Unrated or Defined Risk Weight in CRR £m	Total £m
Total IRB approach	-	-	-	-	-	-	-	-
Central governments or central banks	-	-	-	-	-	-	1,264.7	1,264.7
Regional Governments or Local Authorities	-	-	-	-	-	-	-	-
Public Sector Entities	-	-	-	-	-	-	51.8	51.8
Multilateral development banks	-	-	-	-	-	-	176.0	176.0
International organisations	-	-	-	-	-	-	-	-
Institutions	191.0	11.1	9.9	-	-	-	-	211.9
Corporates	-	-	20.5	-	-	-	25.5	46.0
Retail	-	-	-	-	-	-	19,786.1	19,786.1
Secured by mortgages on immovable property	-	-	-	-	-	-	2,284.6	2,284.6
Exposures in default	-	-	-	-	-	-	55.5	55.5
Items associated with particularly high risk	-	-	-	-	-	-	-	-
Covered bonds	25.5	72.9	-	-	-	-	-	98.4
Claims on institutions and corporates with a short term credit assessment	-	-	-	-	-	-	-	-
Collective investments undertakings	-	-	-	-	-	-	-	-
Equity exposures	-	-	-	-	-	-	71.0	71.0
Other items	-	-	-	-	-	-	253.4	253.4
Total standardised approach	**216.5**	**84.0**	**30.4**	**-**	**-**	**-**	**23,968.6**	**24,299.4**
Total	**216.5**	**84.0**	**30.4**	**-**	**-**	**-**	**23,968.6**	**24,299.4**

EU CR4: Standardised Approach - Credit Risk Exposure and Credit Risk Mitigation effects

February 2018

	Exposure class	Exposures before CCF and CRM: On balance sheet amount	Exposures before CCF and CRM: Off balance sheet amount	Exposures post CCF and CRM: On balance sheet amount	Exposures post CCF and CRM: Off balance sheet amount	RWAs and RWA density: RWAs	RWAs and RWA density: RWA density
		a	b	c	d	e	f
		£m	£m	£m	£m	£m	
1	Central governments or central banks	1,570.8	-	1,604.8	-	-	0.0%
2	Regional Governments or Local Authorities	-	-	-	-	-	0.0%
3	Public Sector Entities	34.0	-	-	-	-	0.0%
4	Multilateral development banks	85.0	-	85.0	-	-	0.0%
5	International Organisations	-	-	-	-	-	0.0%
6	Institutions	450.9	-	450.9	-	90.3	20.0%
7	Corporates	45.7	-	45.7	-	43.6	95.5%
8	Retail	8,624.6	12,193.8	8,624.6	-	6,468.2	75.0%
9	Secured by mortgages on immovable property	2,962.7	206.2	2,962.7	41.2	1,051.4	35.0%
10	Exposures in default	80.3	-	80.3	-	80.3	100.0%
11	Exposures associated with particularly high risk	-	-	-	-	-	0.0%
12	Covered bonds	155.8	-	155.8	-	15.6	10.0%
13	Institutions and corporates with a short-term credit assessment	-	-	-	-	-	0.0%
14	Collective investments undertakings	-	-	-	-	-	0.0%
15	Equity exposures	86.5	-	86.5	-	216.3	250.0%
16	Other items	184.9	-	184.9	-	73.6	39.8%
17	**Total**	**14,281.2**	**12,400.0**	**14,281.2**	**41.2**	**8,039.3**	**56.1%**

February 2017

	Exposure class	Exposures before CCF and CRM: On balance sheet amount	Exposures before CCF and CRM: Off balance sheet amount	Exposures post CCF and CRM: On balance sheet amount	Exposures post CCF and CRM: Off balance sheet amount	RWAs and RWA density: RWAs	RWAs and RWA density: RWA density
		a	b	c	d	e	f
		£m	£m	£m	£m	£m	
1	Central governments or central banks	1,264.7	-	1,316.5	-	-	0.0%
2	Regional Governments or Local Authorities	-	-	-	-	-	0.0%
3	Public Sector Entities	51.8	-	-	-	-	0.0%
4	Multilateral development banks	176.0	-	176.0	-	-	0.0%
5	International Organisations	-	-	-	-	-	0.0%
6	Institutions	211.9	-	211.9	-	42.4	20.0%
7	Corporates	46.0	-	46.0	-	45.2	98.3%
8	Retail	7,809.4	11,976.7	7,809.4	-	5,856.8	75.0%
9	Secured by mortgages on immovable property	2,129.3	155.3	2,129.4	31.1	756.2	35.0%
10	Exposures in default	55.5	-	55.5	-	55.5	100%
11	Exposures associated with particularly high risk	-	-	-	-	-	0.0%
12	Covered bonds	98.4	-	98.4	-	17.1	17.4%
13	Institutions and corporates with a short-term credit assessment	-	-	-	-	-	0.0%
14	Collective investments undertakings	-	-	-	-	-	0.0%
15	Equity exposures	71.0	-	71.0	-	177.6	250.1%
16	Other items	253.4	-	253.3	-	160.1	63.2%
17	**Total**	**12,167.4**	**12,132.0**	**12,167.4**	**31.1**	**7,110.9**	**58.3%**

Note: In accordance with CRR, Public Sector Entities that are the subject of an explicit guarantee from the Central Government or Central Bank are treated as exposures to the central government, regional government or local authority in whose jurisdiction they are established where in the opinion of the competent authorities of this jurisdiction there is no difference in risk between such exposures because of the existence of an appropriate guarantee by the central government, regional government or local authority.

EU CR5: Standardised Approach - Breakdown of exposures under the standardised approach by asset class and risk weight

		February 2018										
		Risk Weight									Total	Of which:
		0%	10%	20%	35%	50%	75%	100%	250%	Deducted		unrated
	Exposure class	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
1	Central governments or central banks	1,604.8	-	-	-	-	-	-	-	-	**1,604.8**	1,604.8
2	Regional Governments or Local Authorities	-	-	-	-		-	-	-	-	**-**	-
3	Public Sector Entities	-	-	-	-	-	-	-	-	-	**-**	-
4	Multilateral development banks	85.0	-	-	-	-	-	-	-	-	**85.0**	85.0
5	International Organisations	-	-	-	-		-	-	-	-	**-**	-
6	Institutions	-	-	450.9	-	-	-	-	-	-	**450.9**	-
7	Corporates	-	-	-	-	2.5	-	43.2	-	-	**45.7**	21.7
8	Retail	-	-	-	-	-	8,624.6	-	-	-	**8,624.6**	8,624.6
9	Secured by mortgages on immovable property	-	-	-	3,003.9	-	-	-	-	-	**3,003.9**	3,003.9
10	Exposures in default	-	-	-	-	-	-	80.3	-	-	**80.3**	80.3
11	Exposures associated with particularly high risk	-	-	-	-	-	-	-	-	-	**-**	-
12	Covered bonds	-	155.8	-	-	-	-	-	-	-	**155.8**	-
13	Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	**-**	-
14	Collective investments undertakings	-	-	-	-	-	-	-	-	-	**-**	-
15	Equity exposures	-	-	-	-	-	-	-	86.5	-	**86.5**	86.5
16	Other exposures	31.1	-	100.2	-	-	-	53.6	-	305.2	**490.1**	490.1
17	**Total**	**1,720.9**	**155.8**	**551.1**	**3,003.9**	**2.5**	**8,624.6**	**177.1**	**86.5**	**305.2**	**14,627.6**	**13,996.9**

		February 2017										
		Risk Weight									Total	Of which:
		0%	10%	20%	35%	50%	75%	100%	250%	Deducted		unrated
	Exposure class	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
1	Central governments or central banks	1,316.5	-	-	-	-	-	-	-	-	**1,316.5**	1,316.5
2	Regional Governments or Local Authorities	-	-	-	-	-	-	-	-	-	**-**	-
3	Public Sector Entities	-	-	-	-	-	-	-	-	-	**-**	-
4	Multilateral development banks	176.0	-	-	-	-	-	-	-	-	**176.0**	176.0
5	International Organisations	-	-	-	-	-	-	-	-	-	**-**	-
6	Institutions	-	-	211.9	-	-	-	-	-	-	**211.9**	49.9
7	Corporates	-	-	-	-	-	-	46.0	-	-	**46.0**	20.5
8	Retail	-	-	-	-	-	7,809.4	-	-	-	**7,809.4**	7,809.4
9	Secured by mortgages on immovable property	-	-	-	2,160.5	-	-	-	-	-	**2,160.5**	2,160.4
10	Exposures in default	-	-	-	-	-	-	55.5	-	-	**55.5**	55.5
11	Exposures associated with particularly high risk	-	-	-	-	-	-	-	-	-	**-**	-
12	Covered bonds	-	25.5	72.9	-	-	-	-	-	-	**98.4**	-
13	Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	**-**	-
14	Collective investments undertakings	-	-	-	-	-	-	-	-	-	**-**	-
15	Equity exposures	-	-	-	-	-	-	-	71.0	-	**71.0**	71.0
16	Other items	16.4	-	96.1	-	-	-	140.8	-	334.1	**587.4**	587.4
17	**Total**	**1,508.9**	**25.5**	**380.9**	**2,160.5**	**-**	**7,809.4**	**242.3**	**71.0**	**334.1**	**12,532.6**	**12,246.6**

9.6 Non Trading Book Exposures in Equities

The Group’s non trading exposure in equities relates to the investment in Tesco Underwriting Ltd which is equity accounted for in the Group.

Tesco Underwriting Ltd underwrites home and motor insurance contracts under the Tesco Bank brand. Tesco Underwriting Ltd is a joint venture which is equity accounted in the Annual Report & Financial Statements of both Tesco Personal Finance Group Ltd and the Company and is outside of the scope of regulatory consolidation. This equity position in the non-trading book is held as a strategic shareholding.

The investment in Tesco Underwriting Ltd is valued at cost less any provision for impairment. At 28 February 2018 this investment was valued at £86.5m (2017: £71.0m). In the prior year, the Group's joint venture, TU, recognised additional insurance reserves following a revision to the Ogden tables, which are used to calculate future losses in personal injury and fatal accident claims. As a result of the recognition of these losses, TU required a capital injection in order to maintain the required level of regulatory capital. The Board of the Company approved a further injection of £15.5m to TU in exchange for ordinary shares in TU, increasing the investment in TU by an equivalent amount. The joint venture partner correspondingly approved an increase in its investment in TU’s ordinary share capital.

In March 2018 TU completed a share capital reduction of £20.6m and also repaid loan capital of £10.4m. Following the share capital reduction, TU distributed capital of £20.6m. The Group has recognised its share of this distribution, being £10.3m, through a reduction in the carrying value of its investment in TU. The Group's investment in subordinated debt issued by TU has decreased by £5.2m, reflecting the Group's share of loan capital repaid.

10 Counterparty Credit Risk (CCR)

10.1 Counterparty Credit Risk Management

CCR is the risk that the counterparty to a transaction will default before the final settlement of the transaction's cash flows. Such transactions relate to contracts for financial derivative instruments, securities financing transactions and long-dated settlement transactions. As at 28 February 2018, the Group has £200.0m security financing transactions in the form of repo transactions and has no long-dated settlement transactions.

Controls and risk mitigants

All financial derivative transactions are governed by industry standard ISDA Master Agreements, supplemented by ISDA Credit Support Annexes for a number of counterparties. Information relating to policies used in the management of Wholesale Credit Risk, Counterparty Credit Risk and Wrong Way Risk, is provided in Section 9.

Policies are in place which allow the use of credit risk mitigation to reduce counterparty credit risk. As at 28 February 2018 no use has been made of collateral other than under industry standard ISDA agreements, ISDA Credit Support Annexes used in relation to financial derivative transactions and Global Master Repurchase Agreements used in relation to repurchase transactions.

The Group in its ordinary course of business uses over the counter derivatives and forward foreign exchange transactions to hedge interest rate and foreign exchange risk.

10.2 Counterparty Credit Risk under the Mark to Market Approach

The CCR mark-to-market method is used to measure the exposure value calculated as market value plus an add-on for PFE, prior to being risk weighted under the Standardised Approach.

The Group’s CCR derivative exposures incorporate the netting benefits and the reduced exposure as a result of central clearing. The Group uses the London Clearing House as its central clearing counterparty. The Group calculates its derivative exposure for counterparty credit risk as the net replacement cost plus a reduced PFE. The net replacement cost includes contracts with positive and negative mark-to-market values, net of collateral posted and/or received. The table below provides an analysis of the Group’s counterparty credit risk exposures.

As at 28 February 2018, the Group had no public credit rating and no exposure to credit derivative transactions.

Counterparty Credit Risk Exposures: Mark-To-Market Method

Counterparty Credit Risk Exposures: Mark-To-Market Method

	February 2018 £m	February 2017 £m
Interest-rate contracts	73.3	45.1
Contracts concerning foreign currency rates and gold	0.5	2.2
Contracts concerning equities	-	-
Contracts concerning precious metals except gold	-	-
Contracts concerning commodities other than precious metals	-	-
Total counterparty credit risk exposures	**73.8**	**47.3**

Net derivative credit exposure

	February 2018 £m	February 2017 £m
Gross positive fair value of contracts (excluding add on for potential future exposure)	46.1	25.0
Less: netting benefits	(34.6)	(18.9)
Net current credit exposure	**11.5**	**6.1**
Less: collateral held	(11.5)	(6.1)
Net derivatives credit exposure	**-**	**-**

10.3 Counterparty Credit Risk: Standardised Approach

EU CCR3: Standardised Approach - CCR Exposures by Regulatory Portfolio and Risk

		February 2018				February 2017			
		Risk Weight		Total	Of which:	Risk Weight		Total	Of which:
		20%	50%		unrated	20%	50%		unrated
	Exposure class	£m	£m	£m	£m	£m	£m	£m	£m
1	Central governments or central banks	-	-	-	-	-	-	-	-
2	Regional Governments or Local Authorities	-	-	-	-	-	-	-	-
3	Public Sector Entities	-	-	-	-	-	-	-	-
4	Multilateral development banks	-	-	-	-	-	-	-	-
5	International Organisations	-	-	-	-	-	-	-	-
6	Institutions	12.3	0.4	**12.7**	-	8.7	0.4	**9.1**	-
7	Corporates	-	-	-	-	-	-	-	-
8	Retail	-	-	-	-	-	-	-	-
9	Institutions and corporates with a short term credit assessment	-	-	-	-	-	-	-	-
10	Other items	-	-	-	-	-	-	-	-
11	**Total**	**12.3**	**0.4**	**12.7**	**-**	**8.7**	**0.4**	**9.1**	**-**

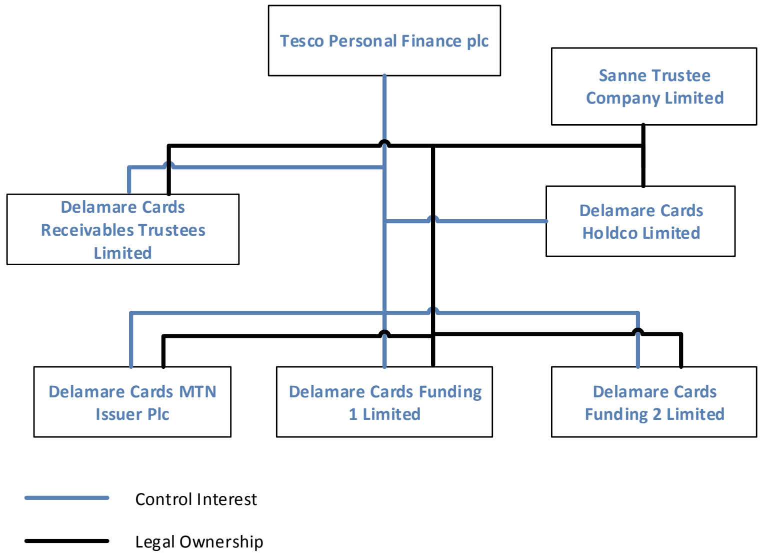
11 Securitisation and Covered Bond Exposures

A securitisation is defined as a transaction where the payments are dependent upon the performance of a single exposure or pool of exposures, where the subordination of tranches determines the distribution of losses during the life of the transaction.

The principle objective within all Tesco Bank securitisation activity is funding diversification on the basis that securitisation provides access to a wide range of investors in different geographical areas.

The Group has undertaken a number of securitisation transactions, having assigned a portion of its credit card receivables to a structured entity (Delamare Cards Receivables Trustees Ltd). These receivables support the Group's issuance of credit card asset backed securities as their respective revenue and principal cash flows are transferred to the structured entity facilitating both expense and securities payments. Although none of the equity of the securitisation structured entity is owned by the Group, the nature of these entities, which are in substance controlled by the Group, mean that it retains substantially all of the risks and rewards of ownership of the securitised credit card receivables. The accounting policies in relation to the Group's securitisation activity are disclosed within the Annual Report & Financial Statements of both Tesco Personal Finance plc and Tesco Personal Finance Group Ltd: http://www.corporate.tescobank.com/48/accounts-and-disclosures.

The following diagram details the securitisation structured entities:



Securitisation is used to provide secured term funding to the Group. The underlying assets are retained at amortised cost on the balance sheet and the securitisation bonds issued are held at amortised cost. For accounting purposes, the securitisation structured entity is consolidated within the Group as the substance of the relationship and retention of risk and rewards indicates control is retained. As at 28 February 2018, Delamare Cards MTN Issuer plc had £2,362.2m (2017: £1,800.0m) notes in issue in relation to securitisation transactions, of which £950.0m are rated AAA by Standard & Poors Financial Services LLC and Fitch Ratings Inc. £950.0m (2017: £800.0m) relates to externally held notes. At the year end the Group had pledged £3,490.5m (2017: £2,529.3m) of credit card assets in Delamare structured entities. The beneficial interest of these assets has been assigned to Delamare Cards Receivables Trustee Limited.

The Group operates within the securitisation and covered bond markets as an investor, purchasing only securities backed by Group assets (own name securities) and certain covered bonds for the purposes of diversifying its wholesale assets as part of managing its overall liquid asset buffer. The Group invests in covered bond securities where preferential capital treatment is permitted. Bonds acquired are held as available for sale assets on the balance sheet. At 28 February 2018, the Group's exposure in covered bonds amounted to £155.8m (2017: £98.4m).

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

11.1 Risks Inherent in Securitised and Covered Bond Assets

The Group is exposed to limited risk as it purchases only own name securities, however one of the inherent risks when purchasing such securities is the loss of eligibility of these securities for Central Bank pre-positioning or market repo. This can be mitigated by the Group via established monitoring and remedial processes that apply to both the securitisation and the wider funding plan.

The Group's credit card securitisation programme itself is flexible in terms of structure and enhancement and can respond to stresses experienced by the underlying assets. The Group regularly assesses securitisation asset performance and models its cash flows to take account of liquidity risk, operational risk, market prices / yields and any counterparty risk.

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

11.2 Approach to Calculating Risk Weighted Exposure Amounts

The Group adopts the Standardised Approach in relation to all types of securitisation and covered bond exposures. For investments, the Company calculates risk weighted exposure amounts using the credit quality steps prescribed in CRR for securitisations and covered bond exposures. Significant Risk Transfer in relation to the Group's securitisation has not occurred and so the underlying credit card assets remain on balance sheet and are classified as Retail exposures and risk weighted accordingly.

12 Encumbered and Unencumbered Assets

Asset encumbrance represents a claim to an asset by another party in the form of a security interest such as a pledge. Encumbrance reduces the assets available in the event of default by a bank and therefore, the recovery rate of its depositors and other unsecured bank creditors.

The Group has adopted the definition of encumbrance in accordance with the EBA's guidelines on disclosure of encumbered and unencumbered assets, issued in June 2014. On 3 March 2017, the EBA submitted to the European Commission draft Regulatory Technical Standards on the disclosure of encumbered and unencumbered assets for approval. The Group continues to disclose on the basis of the June 2014 guidelines as the March 2017 Regulatory Technical Standard has not yet been approved by the European Parliament.

12.1 The Group's Asset Encumbrance Disclosure

The Group maintains limits for total encumbrance and product encumbrance for Credit Cards, Personal Loans and Mortgages as part of the Risk Appetite process. Assigning and/or pledging assets as part of secured funding and repo markets activity give rise to encumbrance.

The Group's total encumbrance ratio is 26% as at 28 February 2018 (2017: 20%). The asset encumbrance ratio is calculated as (total encumbered assets + total collateral received which has been re-used for refinancing transactions) divided by (total assets + total collateral received which is available for encumbrance).

Asset values reported in the tables are medians of the values reported to the regulator via supervisory returns over the year ended 28 February 2018.

Note: Template B (collateral received) is not required for disclosure in accordance with the threshold criteria under PRA supervisory statement SS11/14 (CRD IV: Compliance with the EBA's Guidelines on the disclosure of encumbered and unencumbered assets).

EU Template A: Assets

	February 2018				February 2017			
	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
	£m	£m	£m	£m	£m	£m	£m	£m
	010	040	060	090	010	040	060	090
010 Assets of the reporting institution	**3,237.2**		**10,179.3**		**2,222.9**		**9,627.8**	
030 Equity instruments	-	-	89.7	89.7	-	-	72.6	72.6
040 Debt securities	-	-	936.3	936.3	-	-	943.9	943.9
120 Other assets	-		451.9		-		506.2	

EU Template C: Encumbered assets/collateral received and associated liabilities

	February 2018		February 2017	
	Matching liabilities, contingent liabilities or securities lent (£m)	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered	Matching liabilities, contingent liabilities or securities lent (£m)	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
	010	030	010	030
010 Carrying amount of selected financial liabilities	2,030.0	3,251.5	1,825.2	2,445.1

EU Template D: Information on importance of encumbrance

The Group defines risk appetite for total encumbrance and product encumbrance for credit cards, personal loans and mortgages as part of the Group's internal liquidity adequacy assessment process. Assigning and/or pledging assets as part of the Group secured funding and repo markets give rise to the Group encumbrance.

13 Market Risk

Market risk is defined as the Risk that the value of earnings or capital is altered through the movement of market rates. This includes interest rates, foreign exchange rates, credit spreads and equities. The Group has no trading book exposures.

Market risk arises in the following ways in the Group:

- Interest rate risk in the Group's retail portfolios, certain income streams and in its funding activities arises from the different repricing characteristics of non trading assets and liabilities, hereafter referred to as Interest Rate Risk in the Banking Book (IRRBB);
- Foreign exchange exposures that arise from foreign currency investments, foreign currency loans, deposits, income and other foreign currency contracts; and
- Investment risk relating to the Group's pension obligations.

Risk Appetite Statement

The Group only has an appetite for Market Risk commensurate with its core purpose of providing retail banking services to its customers.

Risk Appetite Measures

The Group monitors its exposure to Market Risk through the following Risk Appetite Measures:

- Capital at Risk – this measure assesses the sensitivity of a reduction in the Group's capital to movements in interest rates. The scenarios considered include both parallel and non-parallel movements of the yield curve and have been designed to assess impacts across a suitable range of severe but plausible movements in interest rates. The capital at risk measure is an aggregate measure of four separate components, each being a distinct form of interest rate risk (Repricing Risk, Basis Risk, Pipeline Risk and Prepayment Risk);
- Net Interest Income Sensitivity - this measures the effect of a +1.0%; -0.75% (2017: +1.0%; -0.75%) parallel interest rate shock on the next 12 months net interest income, based on the re-pricing gaps in the existing portfolio; and
- Net open currency position.

Controls and risk mitigants

Control of market risk is managed by the Asset and Liability Management Committee and the Market Risk Forum. These bodies provide oversight of the Group's market risk position at a detailed level, providing regular reports and recommendations to the Board Risk Committee.

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

13.1 Interest Rate Risk in the Banking Book (IRRBB)

IRRBB is the risk of value changes to both earnings and capital arising from timing differences in the re-pricing of the Group's loans and deposits and unexpected changes to the level and/or shape of the yield curve.

The Company offers lending and savings products with varying interest rate features and maturities which create re-pricing mismatches and therefore potential interest rate risk exposures. The Group is therefore exposed to interest rate risk through its retail banking products as well as through its limited wholesale market activities.

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

Controls and risk mitigants

The Group has established limits for its Risk Appetite in this area and stress tests are performed using sensitivity to fluctuations in underlying interest rates in order to monitor this risk.

The Group has established a specific Risk Appetite for IRRBB which is implemented via a robust Market Risk Policy, a range of specific risk limits and a Market Risk control framework. The Treasury function is responsible for regular stress testing of risk positions against multiple interest rate scenarios to determine the sensitivity of earnings and capital valuations to ensure compliance with Board Risk Appetite and limits.

IRRBB management information is produced by the Asset and Liability Management team and is reviewed by Asset and Liability Management Committee at each of its monthly meetings. IRRBB primarily arises from the Retail lending portfolios (including the mortgage pipeline) and retail deposits. The Asset and Liability Management team is responsible for implementing hedging strategies as required to ensure that the Group remains within its stated Risk Appetite and limits.

The main hedging instruments used are interest rate swaps and the residual exposure against the two Board Risk Appetite metrics is reported monthly to both the Asset and Liability Management Committee and the Board.

Capital at Risk (CaR)

The CaR approach assesses the value sensitivity of the Bank's capital to movements in interest rates. The scenarios considered include both parallel and non-parallel movements of the yield curve and have been designed to assess impacts across a suitable range of severe but plausible movements in interest rates. The CaR measure is an aggregate measure of four separate risk components, each being a distinct form of interest rate risk (Re-pricing Risk, Basis Risk, Pipeline Risk and Prepayment Risk).

The table below shows the Group's CaR. The upward rate scenario continues to present the most adverse exposure, it is however now reduced to £14.4m compared £25.7m as at 28 February 2017. This is due to a combination of the current hedging strategy and the incorporation of the offsetting effect of basis risk into the re-pricing risk result.

Capital at Risk Sensitivity	February 2018 Upward rate scenario £m	February 2017 Upward Rate Scenario £m
Repricing risk	12.1	(6.7)
Basis risk	-	4.5
Pipeline risk	(4.3)	(5.1)
Prepayment risk	(22.2)	(18.4)
Total	**(14.4)**	**(25.7)**

Note: The scenarios disclosed above represent the most adverse outcome amongst 6 severe but plausible interest rate stress scenarios.

Net Interest Income (NII) Sensitivity

This measures the effect of +1.0%; -0.75% (2017: +1.0%; -0.75%) parallel interest rate shock on the next 12 months net interest income, based on the re-pricing gaps in the existing portfolio.

	February 2018		February 2017	
	Upward Rate Shock	Downward Rate Shock	Upward Rate Shock	Downward Rate Shock
Net interest income sensitivity	**(1.03%)**	**0.77%**	(0.07%)	0.05%

The sensitivity analyses presented show, in accordance with the requirements of IFRS 7, 'Financial Instruments: Disclosures', management's assessment of a reasonably possible sensitivity, rather than worst case scenario positions.

13.2 Foreign Exchange Risk

Foreign exchange risk is the risk that the value of transactions in currencies other than Sterling are altered by the movement of exchange rates.

The Group's Risk Appetite permits investment in non-sterling denominated bonds and the Group may raise funding from the wholesale markets in currencies other than sterling. Foreign exchange exposure arises if these exposures are not hedged. Foreign exchange exposure may also arise through the Group's Euro-denominated Irish credit card exposure, through its 'Click & Collect' Travel Money provision and through invoices received which are denominated in foreign currencies.

Controls and risk mitigants

Substantially all foreign currency exposure is hedged to reduce exposure to a minimum level, within Board approved limits. The residual exposure is not material and as such, no sensitivity analysis is disclosed.

13.3 Market Risk Capital Requirements under the Standardised Approach

The Group calculates its capital requirements for Market risk in line with the requirements of CRD IV. In making this calculation, the Group assesses its capital requirement against three specific areas:

- Position Risk;
- FX Risk; and
- Commodities Risk.

The Group has no requirement to hold capital for either Position risk or Commodities risk since it is not exposed to either of these risks. In relation to FX risk, there is no capital requirement since the Group does not exceed the de minimis trigger which would then require Own Funds to be held.

14 Operational Risk

Operational risk is the risk of a potential error, loss, harm, or failure caused by ineffective or inadequately defined processes, system failures, improper conduct, human error, fraud or from external events. The Group is subject to the Standardised Approach method to calculate Pillar 1 operational risk capital, as outlined in the CRR.

In November 2016, Tesco Bank's debit cards were the subject of an online fraudulent attack. The Group undertook immediate remedial action and an independent review of the issue and continues to work closely with the authorities and regulators on this incident. There is a possibility of a financial penalty in relation to this incident, which may or may not be material.

Risk Appetite Statement

The Group's risk appetite is to:

- limit operational risk incidents that cause material losses, customer detriment or reputational damage;
- maintain effective controls over key processes including control risks arising as a result of engaging 3rd party suppliers to support the delivery of products and services; and
- maintain a resilient business and IT operation that supports transactional services for customers, with a low tolerance for incidents that cause adverse impact to customers.

Risk Appetite Measures

- Operational losses as a % of income;
- Number of open and overdue assurance issues raised by the second and third line of defence;
- Risk and Control Self Assessment overall control effectiveness;
- Level and pattern of material regulatory breaches;
- Overall fraud loss as a % of income;

- Infrastructure Resilience & Service Availability;
- Business Continuity plans invoked;
- Volume / Severity of IT Security incidents; and
- Currency of Hardware / Software.

Controls and risk mitigants

The Bank's risks are assessed utilising a Risk Management Framework methodology which is aligned to the three lines of defence model.

The Chief Risk Officer and the Operational Risk & Assurance Director, together with a dedicated Operational Risk team, are responsible for:

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

The Operational Risk function maintains policies defining the minimum requirements for the management of Operational Risk and Financial Crime.

Business units and functions assess operational risks on an ongoing basis via a prescribed Risk and Control Self Assessment process and operational risk scenario analysis. The Risk and Control Self Assessment process is reviewed and updated on a timely basis by first line business areas to reflect changes to the risk and control environment arising from changes in products, processes and systems. The outputs are reported to relevant governance bodies. This is supplemented further by an event management process and regular reporting of the operational risk profile to the Executive Risk Committee.

The operational risk scenario analysis builds on the Risk and Control Self Assessment process and event management process to identify the forward looking risk profile and the results are used to inform the Board's decision on any additional requirement for operational risk capital under Pillar 2.

The Executive Risk Committee provides oversight of the Group's operational risk profile and provides regular reports and recommendations to the Board Risk Committee.

14.1 Financial Crime & Fraud

Financial crime and fraud are significant drivers of operational risk and the external threat continues to grow across the Financial Services industry.

Controls and risk mitigants

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

14.2 Cyber Crime

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

Controls and risk mitigants

The Group manages cyber security risks through its Cyber Intelligence, Information Security and IT Security teams. The Group continually monitors emerging risks and threats. Regular reporting is provided to the Information Security Executive Committee and Executive Risk Committee.

15 Other Principal Risks

In addition to the risks identified above, there are a number of other risks to which the Group is exposed as detailed below, and where appropriate, Pillar 2 capital is held to support these risks.

15.1 Regulatory Risk

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

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

Risk Appetite Statement

The Group has no appetite for breaches of rules and regulations. Where breaches occur, the Group will take appropriate rectifying action. The Group has no appetite for inappropriate or unfair outcomes for customers.

Risk Appetite Measures

- Number of regulatory programmes with red status; and
- Tone of regulatory relationships.

Controls and mitigants

As part of the Group's Policy Framework, a dedicated Compliance Advisory team is responsible for the Compliance policy which is approved by the Group's Board, as well as for monitoring, challenge and oversight of regulatory risk and compliance across the Group's business. Guidance and advice to enable the business to operate in a compliant manner is provided by the Compliance Advisory team and the Legal team.

The Compliance Advisory team is also responsible for the detailed regulatory policies which underpin the Compliance policy (e.g. Data Protection and Regulatory Contact). These are further supported by Operational and Product Guides that provide relevant practical guidance to business and operational areas to enable them to comply with the regulatory policies.

The Group's Legal function has responsibility for commercial legal work, regulatory legal compliance, litigation/dispute resolution matters, advising on competition law and supporting the Group's Treasury activity. The Legal team also comprises the Company Secretarial function which, in addition to its role supporting the Board and maintaining statutory books, ensures the Company complies with all applicable governance codes.

In addition to the above, during the year the Group established the Prudential Regulatory Forum which is responsible for the oversight of:

- PRA communications including information requests;
- Upstream regulatory change including impact analysis, action tracking, regulatory responses;
- Prudential regulatory compliance and reporting; and
- Prudential regulatory deliverables compliance with prudential regulation.

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

15.2 Brexit

On 29 March 2017 the UK triggered Article 50, formally beginning the process to leave the EU. The process of exiting the EU continues to contribute to political and economic uncertainty in the UK and Europe.

Controls and mitigants

Following the EU referendum result, the political and economic outlook for the UK is uncertain. The Group has actively considered the potential risks associated with the UK's exit from the EU and their impact on both the UK financial services market and the Group itself. While the timing and terms of any agreement with the EU remain uncertain, the Group continues to have sufficient capital resources to allow it to cope with a severe economic stress. The Group will continue to monitor the wider economic environment, particularly to assess the impact on credit risk to the Group.

The Group also continues to monitor related developments to the UK's exit from the EU, including the possibility of a second Scottish independence vote.

15.3 Investment risk relating to pension obligations

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

The Group is a participating employer in the Tesco PLC Pension Scheme (operated by Tesco Stores Limited) and is exposed to pension risk through its obligation to the scheme.

Tesco PLC has recognised the appropriate net liability of the Tesco PLC pension scheme.

Controls and mitigants

The Group undertakes an assessment of the impact of its share of the pension scheme under a stress as part of its annual Internal Capital Adequacy Assessment Process.

15.4 Libor Rate Replacement

On 27 July 2017 the Head of the Financial Conduct Authority announced that the London Interbank Offered Rate (LIBOR) would be phased out and replaced with an alternative reference rate by the end of 2021. Further information has not yet been announced, thus creating significant uncertainty.

Controls and mitigants

The Group is actively considering the impact that a change in the reference rate could have on its business and continues to monitor related developments.

16 Remuneration

16.1 Approach to Remuneration

The Group's Remuneration policy is designed to comply with the remuneration rules set out by the PRA and the FCA.

The Group structures its approach to reward based on that used across the wider Tesco Group, maintaining consistency where appropriate, but tailored to fit the financial services industry in line with both industry specific commercial need and external regulatory requirements.

The Group externally benchmarks its reward framework annually to confirm it is aligned to the market and is adequate to recruit and retain qualified and experienced staff. Reward is structured to incentivise people to meet business goals, whilst ensuring actual awards are based on business and individual performance, promoting an environment of sound risk management.

The Group has identified Material Risk Takers (MRTs) using criteria in CRD IV and European Banking Authority (EBA) regulatory technical standards. The EBA sets these standards with respect to qualitative and appropriate quantitative criteria to identify categories of staff whose professional activities have a material impact on a company's risk profile.

The list of MRTs, which was reviewed and extended in 2017, is reviewed annually by the Remuneration Committee.

16.2 Remuneration Committee

The Group has established a Remuneration Committee to oversee the Remuneration policy and decisions on reward for all MRTs.

The Remuneration policy is reviewed on a regular basis and approved by the Committee. No significant changes have been made to the policy since the prior year.

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

The Remuneration Committee is appointed by the Board and during the year, consisted of a Non-Executive Director as Chairman of the Committee, the Chairman of the Company and two other non-Executive Directors. Additionally, the Committee Chairman provides an annual update to the Remuneration Committee of Tesco PLC.

Members of the Remuneration Committee are members of either, or both of, the Group’s Audit and Risk Committees, which ensures that they are regularly updated on key risk and control issues relating to the Group.

The Remuneration Committee is supported by the People Director of the Group and a representative from the Tesco PLC Group Reward team. In addition, the Group’s Chief Executive Officer attends meetings at the request of the Committee.

Where appropriate, the Committee also draws on external consultants to provide advice and guidance. During the year, the Committee received independent external advice from PricewaterhouseCoopers, including an independent review of the Remuneration Policy.

16.3 Link between pay and performance

The Remuneration Policy requires the following when determining individual remuneration arrangements to enforce the link between pay and performance:

- A combination of financial and non-financial performance measures including risk management objectives of Tesco PLC and the Group is used, ensuring that decisions are not taken for short-term financial gain to the detriment of other aspects of the business.
- An appropriate combination of fixed and variable pay, benchmarked annually, ensuring the Group’s fixed-variable ratios on remuneration are controlled and do not encourage inappropriate risk taking behaviour.
- The basis of assessment for the short-term bonus is adjusted for colleagues in control functions, so greater emphasis is placed on control objectives.
- Annual incentives reflect both individual performance and business performance. Senior people also have an element of their annual incentive based on Tesco Group performance.
- Maximum award levels are determined as percentages of salary, which are pre-set for the Group, based on work level. Rewards are established within this framework, and therefore there is no opportunity for an individual to benefit from increased rewards outside of this core structure.

Where underperformance is identified it is managed through the performance management process and may result in reduced or zero awards.

16.4 Design characteristics of the remuneration system

The Group delivers its reward via a combination of fixed pay, variable pay and other benefits. All identified MRTs, employed by the Group, participate in the variable reward schemes. The Chief Risk Officer provides a report on the risk profile of the Bank and independently inputs into the appropriateness of the remuneration structure annually, ensuring the design compliments the stated risk profile and does not encourage excessive risk taking or short termism.

Long term incentive pay is based on the outcome of Tesco PLC measures including; total shareholder return and cash flow.

A share based element to the variable reward supports long-term commitment, with all identified MRTs subject to levels of deferral. Shares awarded are those of Tesco PLC. Variable pay deferral levels are set at the time of award and in line with regulatory requirements, with at least 50% of variable pay being paid in shares.

All incentive awards include provisions for performance and risk adjustments, including the application of malus and claw-back, which are at the discretion of the Remuneration Committee. The following non-exhaustive list outlines the circumstances in which malus and/or clawback measures can be triggered:

- where performance has been materially misstated;
- where a participant has contributed to serious reputational damage of the wider Tesco Group; or
- failure to comply with the Code of Business Conduct through individual behaviour which has led to serious misconduct, fraud or misstatement.

16.5 Recruitment policy for the selection of members of the management body

The Nomination Committee annually reviews the structure, size and composition of the Board, by evaluating the balance of skills, knowledge, experience and diversity currently in place, and makes recommendations to the Board with regard to any changes.

In addition, the Remuneration Committee ensures that during the recruitment process, the remuneration package approach for all MRT's (including those in relation to members of the management body) aligns to Tesco PLC with differences arising only if driven by the need for regulatory compliance or if market practice for certain specialist employee skill sets is so different from Tesco PLC policy as to create significant challenges to industry competitiveness.

Following internal processes and governance, the Remuneration Committee is required to approve the remuneration package for new and existing MRT's. To enable recruitment, the Remuneration Committee may be asked to approve buy-outs of awards such as annual bonus awards from previous employers. Where such an award is made, it is awarded on an exceptional basis and remains subject to appropriate retention, deferral, performance and recovery terms.

Information on the skills and experience of the Board is set out in the biographies on the Tesco Bank corporate website (refer to link contained in Appendix 4). This appendix also details the number of directorships held by members of the Board.

In July 2017, the Chief Executive Officer announced his intention to retire from his position on 28 February 2018. In January 2018, it was announced that a new Chief Executive Officer has been appointed and is expected to join the Group later in 2018. The current Deputy Chief Executive has been appointed to the role of Interim Chief Executive with effect from 1 March 2018.

16.6 Board Diversity Policy

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

During the year, the Group signed up to The Women in Finance Charter, which is a pledge for gender balance across financial services and represents a commitment from HM Treasury and signatory firms to work together to build a more balanced and fair industry. The Charter commits signatory firms to supporting the progression of women into senior roles in the financial services sector; recognises the diversity of the sector and that firms will have different starting points, meaning that each firm will set its own targets; and requires firms to publicly report on progress to deliver against these internal targets in support of the accountability and transparency needed to drive change.

The Group's policy on diversity along with associated targets can be found at:

https://corporate.tescobank.com/193/about-us/diversity-&-inclusion

The Group is in the early stages of progression towards achievement of the targets set out within the policy and has a robust plan in place against which to monitor progress.

16.7 Remuneration for MRTs

Under the CRR, the Group is required to make certain aggregate quantitative disclosures regarding the remuneration of MRTs. The following tables represent the Group's disclosure for the year ended 28 February 2018.

Remuneration Awarded during the Financial Year - Analysis of remuneration by fixed and variable elements

	February 2018		
	Senior Management	**Other Material Risk Takers**	**Total**
Number of identified material risk takers	15	36	**51**
Fixed reward (£m) [1]	4.0	6.2	10.2
Variable reward (£m) [2]	5.9	5.6	11.5
Total remuneration (£m)	**9.9**	**11.8**	**21.7**

	February 2017		
	Senior Management	**Other Material Risk Takers**	**Total**
Number of identified material risk takers	16	25	**41**
Fixed reward (£m) [1]	3.9	5.2	9.1
Variable reward (£m) [2]	5.2	5.9	11.1
Total remuneration (£m)	**9.1**	**11.1**	**20.2**

Remuneration Awarded during the Financial Year - Amounts and forms of variable remuneration

	February 2018		
	Senior Management	**Other Material Risk Takers**	**Total**
	£m	**£m**	**£m**
Cash	2.3	2.3	4.6
Shares	3.6	3.3	6.9
Total variable remuneration	**5.9**	**5.6**	**11.5**

	February 2017		
	Senior Management	**Other Material Risk Takers**	**Total**
	£m	**£m**	**£m**
Cash	1.9	2.5	4.4
Compulsory Deferred Shares	3.3	3.4	6.7
Total variable remuneration	**5.2**	**5.9**	**11.1**

Notes:

[1] Values noted include; base salary (or fees in the case of non-executive directors), benefits in kind and any other benefits earned in the year.

[2] Where payable other than in cash, the variable remuneration has been valued for the purposes of this table using the fair value of shares.

Special Payments - Sign On and Severance payments during the Financial Year

	February 2018
Sign on payments made during year (£m)	-
Number of beneficiaries	-
Severance payments made during year (£m)	0.6
Number of beneficiaries	4

	February 2017
Sign on payments made during year (£m)	-
Number of beneficiaries	-
Severance payments made during year (£m)	1.4
Number of beneficiaries	4

Deferred Remuneration

	February 2018		
	Senior Management £m	Other Material Risk Takers £m	Total £m
Vested	-	-	-
Unvested	3.6	3.3	6.9
Total	**3.6**	**3.3**	**6.9**

	February 2017		
	Senior Management £m	Other Material Risk Takers £m	Total £m
Vested	-	-	-
Unvested	3.3	3.4	6.7
Total	**3.3**	**3.4**	**6.7**

Analysis of High Earners by Band

Remuneration Band (Euros)	February 2018 Number of Material Risk Takers
2.5 million - 3.0 million	1
2 million - 2.5 million	-
1.5 million - 2 million	2
1 million - 1.5 million	3

Remuneration Band (Euros)	February 2017 Number of Material Risk Takers
2.5 million - 3.0 million	-
2 million - 2.5 million	1
1.5 million - 2 million	2
1 million - 1.5 million	3

Appendix 1 - Board Risk Management Declaration

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

The Board considers that the Group has in place adequate systems and controls and liquidity risk management arrangements with regard to the Group's profile and strategy and an appropriate array of assurance mechanisms to manage risk within appetite.

Appendix 2: Tesco Personal Finance plc Capital Resources, Capital Requirements and Leverage Ratio

In accordance with Article 13 of the CRR, this Appendix sets out the reduced Pillar 3 disclosures of Tesco Personal Finance plc (the Company), the significant subsidiary of the Group.

Capital Resources

		Reference to Reported Balance Sheet	February 2018 £m	February 2017 £m
	Common Equity Tier 1 Capital: Instruments and Reserves			
1	Capital instruments and the related share premium accounts		**1,219.9**	**1,219.9**
	of which: ordinary share capital	*j,k*	*1,219.9*	*1,219.9*
2	Retained earnings	*l*	417.4	314.8
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	*n*	40.5	34.2
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	*m*	80.2	102.6
6	Common Equity Tier 1 capital before regulatory adjustments		**1,758.0**	**1,671.5**
	Common Equity Tier 1 capital: regulatory adjustments			
7	Additional value adjustments (negative amount)		(1.1)	(1.1)
8	Intangible assets (net of related tax liability) (negative amount)	*f,h*	(265.8)	(286.4)
11	Fair value reserves related to gains or losses on cash flow hedges	*o*	0.3	0.5
14	Gains or losses on liabilities valued at fair value resulting form changes in own credit standing	*g*	-	-
27	Qualifying Additional Tier 1 deductions that exceed the Additional Tier 1 capital of the institution (negative amount)	*b*	-	(3.4)
28	Total regulatory adjustments to Common Equity Tier 1		**(266.6)**	**(290.4)**
29	Common Equity Tier 1 capital		**1,491.4**	**1,381.1**
45	Tier 1 capital (Tier 1=Common Equity Tier 1+Additional Tier 1)		**1,491.4**	**1,381.1**
	Tier 2 capital: instruments and provisions			
46	Capital instruments and the related share premium accounts	*i*	235.0	235.0
50	Credit risk adjustments	*a*	99.1	63.1
51	Tier 2 capital before regulatory adjustments		**334.1**	**298.1**
	Tier 2 capital: regulatory adjustments			
55	Direct and indirect holdings by the institution of the Tier 2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	*c,d*	(34.1)	(30.7)
57	Total regulatory adjustments to Tier 2 capital		**(34.1)**	**(30.7)**
58	Tier 2 capital		**300.0**	**267.4**
59	Total capital (Total Capital=Tier 1+Tier 2)		**1,791.4**	**1,648.5**
60	Total Risk Weighted Assets		**9,227.1**	**8,255.1**
	Capital ratios and buffers			
61	Common equity tier 1 (as a % of risk exposure amount)		**16.2%**	**16.7%**
62	Tier 1 (as a % of risk exposure amount)		**16.2%**	**16.7%**
63	Total capital (as a % of risk exposure amount)		**19.4%**	**20.0%**
64	Institution specific buffer requirements (Common Equity Tier 1 requirement in accordance with Article 92(1) a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (Global or Other systemically important buffer) expressed as a % of risk exposure amount)		6.4%	5.8%
65	of which: capital conservation buffer requirement		1.9%	1.3%
66	of which: countercyclical buffer requirement		0.0%	0.0%
67	of which: systemic risk buffer requirement		0.0%	0.0%
67a	of which: Global Systemically Important Institution or Other Systemically Important Institution buffer		0.0%	0.0%
68	Common equity tier 1 available to meet buffers (as a % of risk exposure amount)		10.2%	10.7%
	Amounts below the thresholds for deduction (before risk weighting)			
73	Direct and indirect holdings of the Common Equity Tier 1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	*e*	86.5	71.0
	Applicable caps on the inclusion of provisions in Tier 2			
76	Credit risk adjustments included in Tier 2 in respect of exposures subject to standardised approach (prior to the application of the cap)	*a*	99.1	63.1
77	Cap on inclusion of credit risk adjustments in Tier 2 under standardised approach		100.1	103.2

Capital Requirements

		February 2018		February 2017	
		Risk Weighted Assets £m	Minimum Capital Requirements £m	Risk Weighted Assets £m	Minimum Capital Requirements £m
1	**Credit risk (excluding CRR)**	**7,784.4**	**622.8**	6,912.8	553.0
2	Of which standardised approach (SA)	7,784.4	622.8	6,912.8	553.0
3	Of which the foundation IRB (FIRB) approach	-	-	-	-
4	Of which the advanced IRB (AIRB) approach	-	-	-	-
5	Of which equity IRB under the simple risk weighted approach or the IMA	-	-	-	-
6	**Counterparty Credit Risk**	**6.6**	**0.5**	7.9	0.6
7	Of which mark to market	2.7	0.2	1.9	0.1
8	Of which original exposure	-	-	-	-
9	Of which standardised approach	-	-	-	-
10	Of which internal model method (IMM)	-	-	-	-
11	Of which risk exposure amount for contributions to the default fund of a CCP	-	-	-	-
12	Of which CVA	3.9	0.3	6.0	0.5
13	**Settlement risk**	-	-	-	-
14	**Securitisation exposures in banking book (after the cap)**	-	-	-	-
15	Of which IRB approach	-	-	-	-
16	Of which IRB supervisory formula approach (SFA)	-	-	-	-
17	Of which internal assessment approach (IAA)	-	-	-	-
18	Of which standardised approach	-	-	-	-
19	**Market Risk**	-	-	-	-
20	Of which standardised approach (SA)	-	-	-	-
21	Of which internal model approaches (IMA)	-	-	-	-
22	**Large exposures**	-	-	-	-
23	**Operational Risk**	**1,219.8**	**97.6**	1,156.8	92.5
24	Of which basic indicator approach	-	-	-	-
25	Of which standardised approach	1,219.8	97.6	1,156.8	92.5
26	Of which advanced measurement approach	-	-	-	-
27	**Amounts below thresholds for deduction (subject to 250% risk weight)**	**216.3**	**17.3**	177.6	14.2
28	**Floor adjustment**				
29	**Total**	**9,227.1**	**738.2**	8,255.1	660.3

Leverage Ratio

EU LRSum: Summary Reconciliation of Accounting Assets and Leverage Ratio Exposures

		February 2018 Applicable Amounts £m	February 2017 Applicable Amounts £m
1	Total assets as per published financial statements	14,312.4	12,558.3
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	0.0	-
4	Adjustments for derivative financial instruments	(33.4)	(15.9)
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	1,260.6	1,228.8
7	Other adjustments	(225.8)	(347.3)
8	**Total leverage ratio exposure**	**15,313.8**	**13,423.9**

EU LRCom: Leverage Ratio Common Disclosure

		February 2018 CRR leverage ratio exposures £m	February 2017 CRR leverage ratio exposures £m
On-balance sheet exposures (excluding derivatives and securities financing transactions "SFTs")			
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	14,365.4	12,596.3
2	Asset amounts deducted in determining Tier 1 capital	(271.1)	(303.4)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	**14,094.3**	**12,292.9**
Derivative exposures			
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	12.7	9.1
7	Deductions of receivables assets for cash variation margin provided in derivatives transactions	(53.8)	(106.9)
11	**Total derivative exposures (sum of lines 4 to 10)**	**(41.1)**	**(97.8)**
Other off-balance sheet exposures			
17	Off-balance sheet exposures at gross notional amount	12,400.0	12,132.0
18	Adjustments for conversion to credit equivalent amounts	(11,139.4)	(10,903.2)
19	**Other off-balance sheet exposures (sum of lines 17 to 18)**	**1,260.6**	**1,228.8**
Capital and total exposures			
20	**Tier 1 capital**	**1,491.4**	**1,381.1**
21	**Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	**15,313.8**	**13,423.9**
Leverage ratio			
22	**Leverage ratio**	**9.7%**	**10.3%**

EU LRSpl: Leverage Ratio: Split-Up of On-Balance Sheet Exposures

		February 2018	February 2017
		CRR leverage ratio exposures	CRR leverage ratio exposures
		£m	£m
EU-1	Total on-balance sheet exposures (excluding derivatives, securities financing transactions, and exempted exposures), of which:	**14,365.4**	**12,596.3**
EU-3	Banking book exposures, of which:	**14,365.4**	**12,596.3**
EU-4	Covered bonds	155.8	98.4
EU-5	Exposures treated as sovereigns	1,689.7	1,492.5
EU-7	Institutions	184.4	327.0
EU-8	Secured by mortgages of immovable properties	2,962.7	2,129.4
EU-9	Retail exposures	8,624.6	7,809.4
EU-10	Corporate	45.7	46.0
EU-11	Exposures in default	80.3	55.5
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	622.2	638.1

Appendix 3: EU CCA: Capital Instrument Key Features

		Common Equity Tier 1	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2
1	Issuer	Tesco Personal Group Ltd	Tesco Personal Group Ltd	Tesco Personal Group Ltd	Tesco Personal Group Ltd	Tesco Personal Group Ltd	Tesco Personal Group Ltd	Tesco Personal Group Ltd	Tesco Personal Group Ltd	Tesco Personal Group Ltd
2	Unique identifier (e.g., CUSIP, ISIN or Bloomberg identifier for private placement)	Private Placement	Private Placement	Private Placement	Private Placement	Private Placement	Private Placement	Private Placement	Private Placement	Private Placement
3	Governing law(s) of the instrument	Scottish Law	English Law	English Law	English Law	English Law	English Law	English Law	English Law	English Law
4	Transitional CRR Rules	Common Equity Tier 1	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2
5	Post-transitional CRR Rules	Common Equity Tier 1	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2
6	Eligible at Solo /(sub-) consolidated/ solo & (sub-) consolidated	Solo and Consolidated	Solo and Consolidated	Solo and Consolidated	Solo and Consolidated	Solo and Consolidated	Solo and Consolidated	Solo and Consolidated	Solo and Consolidated	Solo and Consolidated
7	Instrument type (types to be specified by each jurisdiction)	Common Equity	Dated Floating Rate Subordinated Notes	Undated Floating rate Subordinated Notes	Dated Floating Rate Subordinated Notes	Undated Floating rate Subordinated Notes	Undated Floating rate Subordinated Notes	Dated Floating Rate Subordinated Notes	Dated Floating Rate Subordinated Notes	Dated Floating Rate Subordinated Notes
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	£1220.2m comprising nominal and premium	£20m	£9m	£10m	£16m	£20m	£35m	£95m	£30m
9	Nominal amount of instrument	£0.10	£20m	£9m	£10m	£16m	£20m	£35m	£95m	£30m
9a	Issue price	£1.00	£20m	£9m	£10m	£16m	£20m	£35m	£95m	£30m
9b	Redemption price	n/a	£20m	£9m	£10m	£16m	£20m	£35m	£95m	£30m
10	Accounting classification	Shareholders equity	Liability - amortised cost	Shareholders equity	Liability - amortised cost	Shareholders equity	Shareholders equity	Liability - amortised cost	Liability - amortised cost	Liability - amortised cost
11	Original date of issuance	£10m 12 Aug 1997 £10m 21 Nov 1997 £20m 2 Jan 1998 £20m 1 Apr 1998 £25m 30 Sep 1998 £6.5m 18 Nov 1998 £20m 30 Apr 1999 £20m 30 Jun 1999 £20m Sep 1999 £22.4m 17 Nov 1999 £10m 29 Feb 2000 £20m 13 Mar 2000 £10m 19 Apr 2000 £10m 31 May 2000 £14m 31 Aug 2000 £10m 30 Nov 2001 £0.3m 20 Aug 2007 £25m 7 Apr 2009 £25m 17 Jun 2009 £180m 26 Jan 2010 £50m 5 Mar 2010 £60m 20 May 2010 £39m 4 Aug 2010 £39m 6 Sep 2010 £40m 27 Sep 2010 £25m 15 Nov2010 £25m 8 Dec2010 £20m 21 Jan 2011 £147.5m 25 Feb 2011 £50m 10 Mar 2011 £61.5m 28 Sep 2011 £45m 26 Apr 2012 £140m 22 Jul 2013	10 Apr 2002	10 Apr 2002	19 Sep 2002	19 Sep 2002	10 Dec 2002	28 Apr 2003	31 Dec 2007	25 Feb 2010
12	Perpetual or dated	Perpetual	Dated	Perpetual	Dated	Perpetual	Perpetual	Dated	Dated	Dated
13	Original maturity date	No maturity	29 March 2030	No maturity	29 March 2030	No Maturity	No Maturity	29 March 2030	29 March 2030	29 March 2030
14	Issuer call subject to prior supervisory approval	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
15	Option call date, contingent call dates and redemption amount	n/a	Earliest option call date 31 March 2025, may repay on any date if a Regulatory Event or Tax Event occurs, redemption can be in whole or in part at par value plus accrued interest	Earliest option call date 31 March 2025, may repay on any date if a Regulatory Event or Tax Event occurs, redemption can be in whole or in part at par value plus accrued interest	Earliest option call date 31 March 2025, may repay on any date if a Regulatory Event or Tax Event occurs, redemption can be in whole or in part at par value plus accrued interest	Earliest option call date 31 March 2025, may repay on any date if a Regulatory Event or Tax Event occurs, redemption can be in whole or in part at par value plus accrued interest	Earliest option call date 31 March 2025, may repay on any date if a Regulatory Event or Tax Event occurs, redemption can be in whole or in part at par value plus accrued interest	Earliest option call date 31 March 2025, may repay on any date if a Regulatory Event or Tax Event occurs, redemption can be in whole or in part at par value plus accrued interest	Earliest option call date 31 March 2025, may repay on any date if a Regulatory Event or Tax Event occurs, redemption can be in whole or in part at par value plus accrued interest	Earliest option call date 31 March 2025, may repay on any date if a Regulatory Event or Tax Event occurs, redemption can be in whole or in part at par value plus accrued interest
16	Subsequent call dates, if applicable	n/a	each quarter thereafter until maturity	each quarter thereafter until maturity	each quarter thereafter until maturity	each quarter thereafter until maturity	each quarter thereafter until maturity	each quarter thereafter until maturity	each quarter thereafter until maturity	each quarter thereafter until maturity

Coupons/Dividends		Common Equity Tier 1	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2
17	Fixed or floating dividend/coupon	Floating	Floating	Floating	Floating	Floating	Floating	Floating	Floating	Floating
18	Coupon rate and any related index	n/a	3month GBP LIBOR plus 0.60 per cent per annum	3month GBP LIBOR plus 1.20 per cent per annum	3month GBP LIBOR plus 0.60 per cent per annum	3month GBP LIBOR plus 2.20 per cent per annum	3month GBP LIBOR plus 2.20 per cent per annum	3month GBP LIBOR plus 1.60 per cent per annum	3month GBP LIBOR plus 1.00 per cent per annum	3month GBP LIBOR plus 1.75 per cent per annum
19	Existence of a dividend stopper	No	No	No	No	No	No	No	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
21	Existence of step-up or other incentive to redeem	No	No	No	No	No	No	No	No	No
22	Non-cumulative or cumulative	Non-cumulative	Cumulative	Cumulative	Cumulative	Cumulative	Cumulative	Cumulative	Cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
25	If convertible, fully or partially	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
26	If convertible, conversion rate	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
27	If convertible, mandatory or optional conversion	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
28	If convertible, specify instrument type convertible into	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
29	If convertible, specify issuer of instrument it converts into	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
30	Write-down features	No	No	No	No	No	No	No	No	No
31	If write-down, write-down trigger(s)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
32	If write-down, full or partial	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
33	If write-down, permanent or temporary	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
34	If temporary write-down, description of write-up mechanism	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to	All subordinated Notes - Columns 3-10	All liabilities except the subordinated laibilities	All liabilities except the subordinated laibilities	All liabilities except the subordinated laibilities	All liabilities except the subordinated laibilities	All liabilities except the subordinated laibilities	All liabilities except the subordinated laibilities	All liabilities except the subordinated laibilities	All liabilities except the subordinated laibilities
36	Non-compliant transitional features	No	No	No	No	No	No	No	No	No
37	If yes, specify non-compliant features	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Appendix 4: Analysis of the Number of Directorships held by Members of the Board

The following breakdown shows the number of directorships held by members of the Group as at 28 February 2018:

Name	Position within Tesco Personal Finance Group Ltd	Changes in the year	Executive	Non-Executive
Graham Pimlott	Independent Non-Executive Chairman		0	3
Karl Bedlow	Chief Customer Officer		1	0
John Castagno	Independent Non-Executive Director		0	4
Iain Clink	Deputy Chief Executive		1	0
Robert Endersby	Independent Non-Executive Director		0	2
Richard Henderson	Chief Risk Officer	Appointed 29/03/17	1	0
Declan Hourican	Chief Financial Officer		1	0
Simon Machell	Independent Non-Executive Director		0	4
James McConville	Independent Non-Executive Director		1	1
David McCreadie	Managing Director		1	0
Amanda Rendle	Independent Non-Executive Director	Appointed 13/12/16	1	2
Alan Stewart	Non-Executive Director		1	2
James Willens	Senior Independent Non-Executive Director	Appointed 12/05/17	1	2

Multiple directorships within the same group are treated as a single role, in line with CRD IV rules.

Information on their skills and experience is set out in their biographies on the Tesco Bank corporate website:

http://corporate.tescobank.com/61/about-us/board-and-executive-committee

In July 2017, Bernard Higgins, the Chief Executive Officer announced his intention to retire from his position on 28 February 2018. In January 2018, it was announced that a new Chief Executive Officer has been appointed and is expected to join the Group later in 2018. The current Deputy Chief Executive has been appointed to the role of Interim Chief Executive with effect from 1 March 2018.

Raymond Pierce, independent non-executive director, resigned from his position on 31 December 2017.

Appendix 5: Written Attestation from Senior Management Body

Each of the Directors, whose names are listed in Appendix 4, confirms that to the best of their knowledge that the disclosures provided according to Part Eight of the CRR have been prepared in accordance with the internal control processes agreed upon at the management body level.

Approved by the TPFG Ltd Disclosure Committee and signed by their order.

Declan Hourican
Chief Financial Officer
26 April 2018

Graham Pimlott
Independent Non-Executive Chairman
26 April 2018

Appendix 6: Risk Appetite Measures

Measures designed to monitor exposure to certain risks to ensure that exposure stays within approved Risk Appetite:

Risk Appetite Measure	**Calculation / Explanation**
Internal Liquidity Requirement	ILR is established by undertaking a range of Liquidity Stress Scenarios
Liquidity Coverage Ratio	LCR is mandated by the EBA and monitors the amount of the Liquid Asset Buffer the Group is retaining
Net Stable Funding Ratio	Available Stable Funding / Required Funding
Wholesale Funding Ratio	Total Wholesale Funding / Total Funding
Annual Wholesale Re-financing amount	Value of funds requiring to be refinanced in a rolling 12 month period
Encumbrance Ratio	Encumbered Assets / Unencumbered Assets
Loan to Deposit Ratio	Total amount of retail assets divided by retail liabilities
Minimum Unencumbered Assets	Surplus of unencumbered assets relative to the total amount of retail liabilities
Regulatory Capital Headroom	Headroom above Regulatory Capital Requirements
Bad debt impact in a stress scenario as a % of PBT	Monitors the total secured book balances where the greatest losses would be expected to manifest in the event of a macroeconomic stress
Stock secured balances by Mortgage Debt to Value	Monitors the total secured book balances where the greatest losses would be expected to manifest in the event of a macroeconomic stress
New business Mortgage Loan to Value	Limits the secured new business where the greatest losses would be expected to manifest in the event of a macroeconomic stress
Capital at Risk	Capital at Risk is an economic-value measure and assesses sensitivity to a reduction in the Bank's capital to movements in interest rates. When interest rates change, the present value and timing of future cash flows change. This changes the underlying value of a bank's assets, liabilities and off-balance sheet items and its economic value which in turn poses a threat to the capital base
Net Interest Income Sensitivity	Changes in interest rates affect the Bank's earnings by altering interest rate-sensitive income and expenses. Excessive interest income sensitivity can pose a threat to the Bank's current capital base and/or future earnings. This ration measures the effect of a +1.0%; -0.75% (2016: +1.0%; -0.5%) parallel interest rate shock on the next 12 months net interest income, based on the re-pricing gaps in the existing portfolio
Net open currency position	Limits the risk of adverse movements in foreign exchange rates
Operational losses as a percentage of income	12 month average financial loss as a % of monthly budget
Number of open and overdue assurance issues raised by the second and third line of defence	Number of open and overdue material themed assurance findings identified through the risk assurance and Internal Audit plans as at the end of the reporting month
Risk and Control Self Assessment overall control effectiveness	Percentage of overall control confidence assessments rated as Amber or Red for the risks identified through the Risk and Control Self Assessment process
Level and pattern of material regulatory breaches	Trend of material regulatory breaches reported by the business

Risk Appetite Measure	Calculation / Explanation
Fraud losses	Overall fraud loss as a % of income
Infrastructure Resilience & Service Availability	Number of material 'Single Points of Failure' risks at the end of the reporting month Percentage of critical services in place and proved at the end of the reporting month Volume of testing undertaken which remains in a failed position at the end of a reporting quarter
Business Continuity	Business Continuity plans tested successfully / invoked during incident Volume of Work Area Recovery testing that has failed to deliver against agreed success criteria
Volume / Severity of IT Security incidents	Monthly RAG rating from IT Security report Number of critical services with a 'Red' performance rating for outage / availability for over 3 months
Currency of Hardware / Software	Volume of hardware / software out of support, with no plan to resolve
Status of regulatory programmes	Number of regulatory programmes with red status
Tone of regulatory relationships	Assessment by CRO and Director of Compliance & Conduct, based on overall view of the output of formal regulatory processes and reviews

Appendix 7: CRR Mapping

The following table shows how the Group have complied with the disclosure requirements of Part Eight of the CRR this year.

CRR reference	High level summary	Tesco Personal Finance Group Ltd, Pillar 3 Disclosures, For the year ended 28 February 2018. Compliance Reference:
Scope of disclosure requirements		
431 (1)	Requirement to publish Pillar 3 disclosures	Tesco Personal Finance Group Ltd Pillar 3 Disclosures For the Year Ended 28 February 2018
431 (2)	Firms with permission to use specific operational risk methodologies must disclose operational risk information associated with those methodologies	Not applicable: The Group does not use the IRB, Advanced Measurement Approaches or Internal Market Risk Models to assess Operational Risk
431 (3)	Institutions are required to have a formal policy setting out its approach to Pillar 3 disclosures, specifically in relation to: - Appropriateness of disclosures in conveying the risk profile of the business; - Approach to verification; - Frequency of publication	Section 2 - Disclosure Policy Section 2.1 - Frequency of Disclosure Section 2.2 - Verification and Medium
431 (4)	Institutions shall, if requested explain their rating decisions to SMEs and other corporate applicants for loans, providing an explanation in writing when asked	The Group's main lending exposure is in the personal Retail market. There is some small exposure to SME business which relates to non-core lending activity The Group is required to provide an explanation of rating decisions to SMEs upon request
Non material, proprietary or confidential information		
432 (1)	The Group may choose to omit one or more of the disclosure requirements set out in Part Eight of the CRR so long as the omission is not material and does not relate to: - Diversity - Own Funds - Remuneration Should the Group choose to use this waiver, it must disclose that it has done so, the reasons for the decision not to disclose and instead provide more general information in respect of the disclosure requirement. It must assess the decision on a regular basis at least once a year; and assess the need for both qualitative & quantitative disclosure	Section 2.3 - Use of Disclosure Waivers
432 (2)	The Group may also choose not disclose information on the grounds that it is proprietary or confidential if certain conditions are met	Section 2.3 - Use of Disclosure Waivers
432 (3)	If the Group decide to omit a disclosure, the Pillar 3 document should report the fact that the specific items of information are not disclosed, the reason for non-disclosure, and publish more general information about the subject matter of the disclosure requirement	Not applicable
432 (4)	Use of 431 (1), (2) or (3) is without prejudice to scope of liability for failure to disclose material information	Not applicable
Frequency of disclosure		
433	Institutions shall publish the disclosures required by Part Eight of the CRR at least on an annual basis Annual disclosures shall be published in conjunction with the date of publication of the financial statements Institutions shall assess the need to publish some or all disclosures more frequently than annually in the light of the relevant characteristics of their business	Section 2.1 - Frequency of Disclosure Tesco Bank publishes disclosures on same day as publication of the TPFG Ltd Annual Report & Financial Statements and within a few weeks of the main TPF plc disclosures Section 2.1 - Frequency of Disclosure
Means of disclosures		
434 (1)	Institutions may determine the appropriate medium, location and means of verification to comply effectively with the disclosure requirements	Section 2.2 - Verification and Medium The Group's disclosures are published on the Tesco Bank corporate website
434 (2)	Equivalent disclosures made by institutions under accounting, listing or other requirements may be deemed to constitute compliance with Part Eight of the CRR. If disclosures are included in the financial statements, institutions shall unambiguously indicate in the financial statements where they can be found	Section 2.2 - Verification and Medium Signposting to the Annual Report and Financial statements included throughout Pillar 3 document as necessary
Risk management objectives and policies		
435 (1)	Disclose information on:	
435 (1) (a)	the strategies and processes to manage risks	Section 4 - Risk Management Section 4.1 - Approach to Risk Management Section 4.2 - Risk Management Framework Components
435 (1) (b)	the structure and organisation of the risk management function	Section 4 - Risk Management Section 4.1 - Approach to Risk Management Section 4.2 - Risk Management Framework Components
435 (1) (c)	Risk reporting and measurement systems	Section 4 - Risk Management Section 4.1 - Approach to Risk Management Section 4.2 - Risk Management Framework Components
435 (1) (d)	the policies for hedging and mitigating risk, and the strategies and processes for monitoring the continuing effectiveness of hedges and mitigants	Section 4 - Risk Management Section 4.1 - Approach to Risk Management Section 4.2 - Risk Management Framework Components Throughout document under 'Controls and risk mitigants'
435 (1) (e)	a declaration approved by the management body on the adequacy of risk management arrangements of the institution	Appendix 1 - Board Risk Management Declaration
435 (1) (f)	a concise risk statement approved by the management body	Section 4.4 - Risk Statement
435 (2)	Disclose information on:	
435 (2) (a)	the number of directorships held by members of the management body	Appendix 4 - Analysis of the Number of Directorships held by Members of the Board
435 (2) (b)	the recruitment policy for the selection of members of the management body and their actual knowledge, skills and expertise	Section 16 - Remuneration Board biographies link contained in Appendix 4 - Analysis of the Number of Directorships held by Members of the Board
435 (2) (c)	the policy on diversity with regard to selection of members of the management body, its objectives and any relevant targets set out in that policy, and the extent to which these objectives and targets have been achieved	Section 16 - Remuneration
435 (2) (d)	whether or not the institution has set up a separate risk committee and the number of times the risk committee has met	Section 4.3 - Risk Governance Structure
435 (2) (e)	the description of the information flow on risk to the management body	Risk Appetite Measures described throughout the document Section 4.3.1 details Board feedback re information provided to ensure that reporting remains fit for purpose
Scope of Application		
436	Disclose the following information:	
436 (a)	the name of the institution	Document front cover Section 1 - 1. Introduction and Basel Framework
436 (b)	an outline of the differences in the basis of consolidation for accounting and prudential purposes, with a brief description of the entities therein, explaining whether they are: (i) fully consolidated; (ii) proportionally consolidated; (iii) deducted from own funds; (iv) neither consolidated nor deducted;	Section 3 - Scope of Consolidation Section 3.1 - Statutory Accounting Consolidation Section 3.2 - Regulatory Consolidation
436 (c)	Impediments to transfer of own funds between subsidiaries	Section 3.4 - Restrictions on the Transfer of Own Funds
436 (d)	Capital shortfalls in any subsidiaries outside of the scope of consolidation	Not applicable
436 (e)	Whether the institution has made use of the articles on derogations from: - Prudential requirements - Liquidity requirements for individual subsidiaries or entities	Not applicable

Own funds		
437 (1)	Disclose the following information regarding own funds:	
437 (1) (a)	a full reconciliation of CET1 items, AT1 items, Tier 2 items and filters and deductions applied pursuant to own funds of the institution and the balance sheet in the audited financial statements of the institution	Section 5 - Linkages between Financial Statements and Regulatory Exposures Table EU-CC2: Reported Balance Sheet under the Regulatory Scope of Consolidation with mapping of balance sheet items used to calculate regulatory own funds
437 (1) (b)	a description of the main features of the Common Equity Tier 1 and Additional Tier 1 instruments and Tier 2 instruments issued by the institution	Appendix 3: EU CCA: Capital Instrument Key Features
437 (1) (c)	the full terms and conditions of all Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments	Appendix 3: EU CCA: Capital Instrument Key Features
437 (1) (d)	disclosure of the nature and amounts of the prudential filters and deductions made against own funds and items not deducted	Section 6.2 - Own Funds Table Capital Resources: (CRR Own Funds Disclosure)
437 (1) (e)	a description of all restrictions applied to the calculation of own funds in accordance with this Regulation and the instruments, prudential filters and deductions to which those restrictions apply	Section 6.2 - Own Funds Table Capital Resources: (CRR Own Funds Disclosure)
437 (1) (f)	an explanation where institutions disclose capital ratios calculated using elements of own funds determined on a basis other than that laid down by the CRR	Not applicable
437 (2)	EBA shall develop draft implementing technical standards to specify uniform templates for disclosure	Not applicable - EBA responsibility
Capital requirements		
438	Disclose the following information:	
438 (a)	a summary of the institution's approach to assessing the adequacy of its internal capital to support current and future activities	Section 6.1 Capital Management
438 (b)	upon demand from the relevant competent authority, the result of the institution's internal capital adequacy assessment process	The Group will provide the results of the ICAAP upon demand.
438 (c)	Capital requirements for each credit risk exposure class under the standardised approach	Section 6.3 - Capital Requirements Table EU OV1: Overview of RWAs and Minimum Capital Requirements
438 (d)	Capital requirements for each credit risk exposure class under the IRB approach	Not applicable
438 (e)	Capital requirements for market risk or settlement risk	Section 6.1 - Capital Management Section 6.3 - Capital Requirements Section 13 - Market Risk
438 (f)	Capital requirements for operational risk	Section - 6.1 Capital Management Section - 6.3 Capital Requirements Table EU-OV1: Overview of RWAs and Minimum Capital Requirements Section 14 - Operational Risk
438 (end note)	requirement to disclose specialised lending exposures and equity exposures in the banking book falling under the simple risk weight approach	Section 9.6 - Non Trading Book Exposures in Equities
Exposure to counterparty credit risk (CCR)		
439	Disclose the following information:	
439 (a)	a discussion of the methodology used to assign internal capital and credit limits for CCR exposures	Section 10 - Counterparty Credit Risk (CCR)
439 (b)	discussion of policies for securing collateral and establishing credit reserves	Section 10.1 - Counterparty Credit Risk Management
439 (c)	discussion of policies with respect to Wrong-Way risk exposures	Section 9.1.4 - Wrong Way Risk
439 (d)	a discussion of the impact of the amount of collateral the institution would have to provide given a downgrade in its credit rating	Not applicable - the Group has no public credit rating
439 (e)	derivation of net derivative credit exposures	Section 10.2 - Counterparty Credit Risk under the Mark to Market Approach Table: Counterparty Credit Risk Exposures: Mark-To-Market Method
439 (f)	exposure values for mark-to-market, original exposure, standardised and internal model methods	Section 10.2 - Counterparty Credit Risk under the Mark to Market Approach Table Counterparty Credit Risk Exposures: Mark-To-Market Method Section 10.3 - Counterparty Credit Risk: Standardised Approach Table EU CCR3: Standardised Approach - CCR Exposures by Regulatory Portfolio and Risk
439 (g)	notional value of credit derivative hedges, and the distribution of current credit exposure by types of credit exposure	Not applicable - the Group has no exposure to credit derivatives
439 (h)	notional amounts of credit derivative transactions	Not applicable - the Group has no exposure to credit derivatives
439 (i)	the estimate of α if the institution has received the permission of the competent authorities to estimate α	Not applicable
Capital buffers		
440 (1)	Disclose the following information:	
440 (1) (a)	geographical distribution of its credit exposures relevant for the calculation of its countercyclical capital buffer	Section 6.4.1 - Countercyclical Capital Buffer Table CCyB1: Geographical Distribution of Credit Exposures Relevant for the Calculation of the Countercyclical Capital Buffer
440 (1) (b)	the amount of its institution specific countercyclical capital buffer	Section 6.4.1 - Countercyclical Capital Buffer Table CCyB2: Amount of Institution Specific Countercyclical Capital Buffer
Indicators of global systemic importance		
441 (1)	disclosures of the indicators of global systemic importance	Not applicable - the Group is not a Globally Systemic Important Institution
Credit risk adjustments		
442	Disclose the following information:	
442 (a)	the definitions for accounting purposes of "past due" and "impaired"	Section 9.4.1 - Past Due, Impaired Assets and Provisions
442 (b)	a description of the approaches and methods adopted for determining specific and general credit risk adjustments	Section 9.4.1 - Past Due, Impaired Assets and Provisions
442 (c)	the total amount of exposures after accounting offsets and without taking into account the effects of credit risk mitigation, and the average amount of the exposures over the period broken down by different types of exposure classes	Section 9.3 - Analysis of Credit Risk Exposures Table EU CRB-B: Total and average net amount of exposures
442 (d)	the geographic distribution of the exposures, broken down in significant areas by material exposure classes, and further detailed if appropriate	Section 9.3 - Analysis of Credit Risk Exposures Table EU CRB-C: Geographical Breakdown of Exposures
442 (e)	the distribution of the exposures by industry or counterparty type, broken down by exposure classes, including specifying exposure to SMEs, and further detailed if appropriate	Section 9.3 - Analysis of Credit Risk Exposures Table EU CRB-D: Concentration of Exposures by Industry or Counterparty Types
442 (f)	the residual maturity breakdown of all the exposures, broken down by exposure classes, and further detailed if appropriate	Section 9.3 - Analysis of Credit Risk Exposures Table EU CRB-E: Maturity of Exposures
442 (g)	breakdown of impaired, past due, specific and general credit risk adjustments and impairment charges for the period	Section 9.4.3 - Credit Quality Analysis Table EU CR1-A: Credit Quality of Exposures by Exposure Class and Instrument
442 (h)	breakdown of impaired, past due, specific and general credit risk adjustments and impairment charges for the period, broken down by geographical area	Section 9.4.3 - Credit Quality Analysis Table EU CR1-C: Credit Quality of Exposures by Geography
442 (i)	reconciliation of changes in the specific and general credit risk adjustments for impaired exposures including a description of the type of specific and general credit risk adjustments	Section 9.4.3 - Credit Quality Analysis Section 9.4.1 - Past Due, Impaired Assets and Provisions Table EU CR1-A: Credit Quality of Exposures by Exposure Class and Instrument Table EU CR1-B: Credit Quality of Exposures by Industry or Counterparty Types
442 (end note)	Specific credit risk adjustments and recoveries recorded directly to the income statement shall be disclosed separately	All specific credit risk adjustments are recorded to the income statement
Encumbered and Unencumbered assets		
443	Disclosures on unecumbered assets	Section 12 - Encumbered and Unencumbered Assets
Use of ECAIs		
444	Disclose the following information:	
444 (a)	the names of the nominated ECAIs and ECAs and the reasons for any changes	Section 9.5.2 - Analysis of Credit Risk Mitigation
444 (b)	the exposure classes for which each ECAI or ECA is used	Section 9.5.2 - Analysis of Credit Risk Mitigation Table EU CRD: Institution's use of external credit ratings under the standardised approach for credit risk
444 (c)	an explanation of the process used to translate external ratings into credit quality steps	Section 9.5.2 - Analysis of Credit Risk Mitigation
444 (d)	mapping of external rating to credit quality steps	Section 9.5.2 - Analysis of Credit Risk Mitigation Table EU CRD: Institution's use of external credit ratings under the standardised approach for credit risk
444 (e)	exposure value pre and post credit risk mitigation by credit quality step	Section 9.5.2 - Analysis of Credit Risk Mitigation Table EU CRD: Institution's use of external credit ratings under the standardised approach for credit risk Table EU CR4: Standardised Approach - Credit Risk Exposure and Credit Risk Mitigation effects

Market Risk		
445	disclosure of position risk, large exposures exceeding limits, FX settlement and commodities risk	Section 13.2 - Foreign Exchange Risk Section 13.3 - Market Risk Capital Requirements under the Standardised Approach
Operational risk		
446	disclose the approaches for the assessment of own funds requirements for operational risk	Section 6.1 - Capital Management (Pillar 1 - application within the Group)
Exposures in equities not included in the trading book		
447	Disclose the following information:	
447 (a)	differentiation between exposures based on their objectives and an overview of the accounting techniques and valuation methodologies used	Section 9.6 - Non Trading Book Exposures in Equities
447 (b)	the balance sheet value, the fair value and, for those exchange-traded, a comparison to the market price where it is materially different from the fair value	Section 9.6 - Non Trading Book Exposures in Equities
447 (c)	the types, nature and amounts of exchange-traded exposures, private equity exposures in sufficiently diversified portfolios, and other exposures	Section 9.6 - Non Trading Book Exposures in Equities
447 (d)	the cumulative realised gains or losses arising from sales and liquidations in the period	Not applicable
447 (e)	the total unrealised gains or losses, the total latent revaluation gains or losses, and any of these amounts included in Common Equity Tier 1 capital	Section 9.6 - Non Trading Book Exposures in Equities
Exposure to interest rate risk on positions not included in the trading book		
448	Disclose the following information:	
448 (a)	the nature of the interest rate risk and the key assumptions (including assumptions regarding loan prepayments and behaviour of non-maturity deposits), and frequency of measurement of the interest rate risk	Section 13.1 - Interest Rate Risk in the Banking Book (IRRBB)
448 (b)	the variation in earnings, economic value or other relevant measure used by the management for upward and downward rate shocks according to management's method for measuring the interest rate risk, broken down by currency	Section 13.1 - Interest Rate Risk in the Banking Book (IRRBB)
Exposure to securitisation positions		
449	Disclose the following information:	
449 (a)	objectives in relation to securitisation activity	Section 11 - Securitisation and Covered Bond Exposures
449 (b)	the nature of other risks including liquidity risk inherent in securitised assets	Section 11.1 - Risks Inherent in Securitised and Covered Bond Assets
449 (c)	the type of risks in terms of seniority of underlying securitisation positions and in terms of assets underlying those latter securitisation positions assumed and retained with resecuritisation activity	Not applicable
449 (d)	the different roles played by the institution in the securitisation process	Section 11.1 - Risks Inherent in Securitised and Covered Bond Assets
449 (e)	an indication of the extent of the institution's involvement in each of the roles referred to in point (d)	Section 11.1 - Risks Inherent in Securitised and Covered Bond Assets
449 (f)	a description of the processes in place to monitor changes in the credit and market risk of securitisation exposures including, how the behaviour of the underlying assets impacts securitisation exposures and a description of how those processes differ for re-securitisation exposures	Not applicable
449 (g)	a description of the institution's policy governing the use of hedging and unfunded protection to mitigate the risks of retained securitisation and re-securitisation exposures, including identification of material hedge counterparties by relevant type of risk exposure	Not applicable
449 (h)	the approaches to calculating risk-weighted exposure amounts that the institution follows for its securitisation activities including the types of securitisation exposures to which each approach applies	Section 11.2 - Approach to Calculating Risk Weighted Exposure Amounts
449 (i)	the types of SSPE that the institution, as sponsor, uses to securitise third-party exposures	Not applicable
449 (j)	a summary of the institution's accounting policies for securitisation activities	Section 11 - Securitisation and Covered Bond Exposures
449 (k)	the names of the ECAIs used for securitisations and the types of exposure for which each agency is used	Section 11 - Securitisation and Covered Bond Exposures
449 (l)	Full description of Internal Assessment Approach	Not applicable
449 (m)	an explanation of significant changes to any of the quantitative disclosures since the last reporting period	Not applicable
449 (n)	separately for the trading and the non-trading book, the following information broken down by exposure type:	
449 (n) (i)	amount of outstanding exposures securitised	Not applicable
449 (n) (ii)	aggregate amount of on-balance sheet securitisation positions retained or purchased and off-balance sheet securitisation exposures	Not applicable
449 (n) (iii)	amount of assets awaiting securitisation	Not applicable
449 (n) (iv)	the early amortisation treatment, the aggregate drawn exposures, the aggregate capital requirements incurred by the institution	Not applicable
449 (n) (v)	the amount of securitisation positions that are deducted from own funds or risk-weighted at 1,250 %	Not applicable
449 (n) (vi)	a summary of the securitisation activity of the current period, including the amount of exposures securitised and recognised gain or loss on sale	Not applicable
449 (o)	separately for the trading and the non-trading book, the following information:	Not applicable
449 (o) (i)	retained and purchased positions and associated capital requirements, broken down by risk weight bands	Not applicable
449 (o) (ii)	retained and purchased re-securitisation positions before and after hedging and insurance, exposure to financial guarantors broken down by guarantor credit worthiness	Not applicable
449 (p)	impaired/past due assets securitised and the losses recognised by the institution during the current period, both broken down by exposure type	Not applicable
449 (q)	exposure and capital requirements for trading book securitisations	Not applicable
449 (r)	Whether the institution has provided non-contractual financial support to securitisation vehicles	Not applicable
Remuneration policy		
450 (1)	Disclose the following information regarding the remuneration policy and practices of the institution for those categories of staff whose professional activities have a material impact on its risk profile:	
450 (1) (a)	information concerning the process used for determining the remuneration policy, as well as the number of meetings held by the main body overseeing remuneration during the financial year, the external consultant whose services have been used for the determination of the remuneration policy	Section 16 - Remuneration No of meetings of Remuneration Committee - Section 4.3.1 - The Board
450 (1) (b)	information on link between pay and performance	Section 16 - Remuneration
450 (1) (c)	the most important design characteristics of the remuneration system, including information on the criteria used for performance measurement and risk adjustment, deferral policy and vesting criteria	Section 16 - Remuneration
450 (1) (d)	the ratios between fixed and variable remuneration	Section 16 - Remuneration Table: Remuneration Awarded during the Financial Year
450 (1) (e)	information on the performance criteria on which the entitlement to shares, options or variable components of remuneration is based	Section 16 - Remuneration
450 (1) (f)	the main parameters and rationale for any variable component scheme and any other non-cash benefits	Section 16 - Remuneration Table: Special Payments
450 (1) (g)	aggregate quantitative information on remuneration, broken down by business area	Not applicable
450 (1) (h)	aggregate quantitative information on remuneration, broken down by senior management and members of staff whose actions have a material impact on the risk profile of the institution, indicating the following:	
450 (1) (h) (i)	the amounts of remuneration for the financial year, split into fixed and variable remuneration, and the number of beneficiaries	Section 16 - Remuneration Table: Remuneration Awarded during the Financial Year
450 (1) (h) (ii)	the amounts and forms of variable remuneration, split into cash, shares, share-linked instruments and other types	Section 16 - Remuneration Table: Remuneration Awarded during the Financial Year
450 (1) (h) (iii)	the amounts of outstanding deferred remuneration, split into vested and unvested portions	Section 16 - Remuneration Table: Deferred Remuneration
450 (1) (h) (iv)	the amounts of deferred remuneration awarded during the financial year, paid out and reduced through performance adjustments	Section 16 - Remuneration Table: Deferred Remuneration
450 (1) (h) (v)	new sign-on and severance payments made during the financial year, and the number of beneficiaries of such payments	Section 16 - Remuneration Table: Special Payments
450 (1) (h) (vi)	the amounts of severance payments awarded during the financial year, number of beneficiaries and highest such award to a single person	Section 16 - Remuneration Table: Special Payments
450 (1) (i)	the number of individuals being remunerated EUR 1 million or more per financial year, for remuneration between EUR 1 million and EUR 5 million broken down into pay bands of EUR 500 000 and for remuneration of EUR 5 million and above broken down into pay bands of EUR 1 million	Section 16 - Remuneration Table: Analysis of High Earners by Band
450 (1) (j)	upon demand from the Member State or competent authority, the total remuneration for each member of the management body or senior management	Not applicable
450 (2)	For institutions that are significant in terms of their size, internal organisation and the nature, scope and the complexity of their activities, the quantitative information referred to in this Article shall also be made available to the public at the level of members of the management body of the institution	Not applicable

Leverage		
451 (1)	Disclose the following information:	
451 (1) (a), (b), and (c)	Leverage ratio and breakdown of total exposure measure including reconciliation to financial statements and derecognised fiduciary items	Section 7 - Leverage Ratio
451 (1) (d) and (e)	Description of the processes used to manage the risk of excessive leverage and factors that impacted the leverage ratio during the year	Section 7 - Leverage Ratio
Use of the IRB Approach to credit risk		
452	Institutions calculating the risk-weighted exposure amounts under the IRB Approach shall disclose information	Not applicable - the Group does not use the IRB approach
Use of credit risk mitigation techniques		
453	Disclose the following information:	
453 (a)	the policies and processes for, and an indication of the extent to which the entity makes use of, on- and off-balance sheet netting	Section 10.2 - Counterparty Credit Risk under the Mark to Market Approach
453 (b)	the policies and processes for collateral valuation and management	9.1.2 Wholesale Credit Risk 9.5.1 Management of Credit Risk Mitigation
453 (c)	a description of the main types of collateral taken by the institution	9.1.2 Wholesale Credit Risk 9.5.1 Management of Credit Risk Mitigation
453 (d)	the main types of guarantor and credit derivative counterparty and their creditworthiness	Not applicable - the Group has no exposure to credit derivatives
453 (e)	information about market or credit risk concentrations within the credit mitigation taken	Not applicable
453 (f)	for exposures under either the standardised or Foundation IRB approach, disclose the exposure value covered by eligible collateral	Section 9.5.2 - Analysis of Credit Risk Mitigation Table EU CRD: Institution's use of external credit ratings under the standardised approach for credit risk Table EU CR4: Standardised Approach - Credit Risk Exposure and Credit Risk Mitigation effects
453 (g)	exposures covered by guarantees or credit derivatives	Note to table EU CR4: Standardised Approach - Credit Risk Exposure and Credit Risk Mitigation effects
Use of the Advanced Measurement Approaches to operational risk		
454	description of the use of insurance or other risk transfer mechanisms to mitigate operational risk	Not applicable, the Group does not use Advanced Measurement Approaches to operational risk
Use of Internal Market Risk Models		
455	disclosures relating to the use of Internal Market Risk Models	Not applicable, the Group does not use Internal Market Risk Models

Glossary of Terms

	Definition
A	
Asset encumbrance	A claim against a property by another party. Encumbrance usually impacts the transferability of the property and can restrict its free use until the encumbrance is removed.
B	
Basel II	The capital adequacy framework issued by the BCBS (June 2006) in the form of the 'International Convergence of Capital Measurement and Capital Standards'.
Basel III	The capital reforms and introduction of a global liquidity standard proposed by the BCBS in 2010 and due to be phased in, through CRD IV from 2014 onwards.
C	
Capital conservation buffer	A capital buffer designed to ensure that banks are able to build up capital buffers outside of periods of stress which can then be drawn upon as losses are incurred.
Capital requirements directive (CRD)	A legislative package relating to capital adequacy, issued by the European Commission and adopted by EU member states. CRD I, II and III were issued in 2006, 2010 and 2011 respectively. CRD IV came into force on 1 January 2014 and implements the Basel III proposals together with transitional arrangements for some of its requirements.
Capital requirements regulation (CRR)	The Capital Requirements Regulation (EU) No. 575/2013 is an EU law that aims to decrease the likelihood that banks go insolvent, reflecting Basel III rules on capital measurement and capital standards.
Capital resources	Eligible capital held in order to satisfy capital requirements.
Central Clearing	Central counterparties (CCP's) are used in order to clear specified derivative transactions (predominantly interest rate swaps) thereby mitigating counterparty risk within the financial system. Positions are continuously marked and margin in the form of collateral is exchanged on at least a daily basis.
Common Equity Tier 1 capital (CET1)	The highest form of regulatory capital under CRD IV, comprising common shares issued, related share premium, retained earnings and other reserves less regulatory adjustments.
Countercyclical capital buffer (CCB)	A capital buffer which aims to ensure that capital requirements take account of the macro-economic financial environment in which banks operate. This aims to provide the banking sector as a whole with additional capital to protect it from potential future losses. In times of adverse financial or economic circumstances, when losses tend to deplete capital and banks are likely to restrict the supply of credit, the CCB should be released to help avoid a credit crunch.
Counterparty credit risk	The risk that a counterparty to a transaction will default before the final settlement of the transaction's cash flows.
CRD IV	Legislation published in June 2013 (in force from 1 January 2014) by the European Commission, comprising the Capital Requirements Directive (CRD) and Capital Requirements Regulation (CRR) and together forming the CRD IV package. Implements the Basel III proposals in addition to new proposals on sanctions for non-compliance with regulatory rules, corporate governance and remuneration. The rules have been implemented in the UK via PRA policy statement PS7/13 with some elements subject to transitional phase in.
Credit quality step	A step in the PRA's credit quality assessment scale which is based on the credit ratings applied by external credit assessment institutions. The scale is used to assign risk weightings to exposures under the Standardised Approach.
Credit Conversion Factor	Used to determine the exposure at default (EAD) in relation to credit risk exposure. The credit conversion factor is an estimate of the proportion of undrawn commitments expected to be drawn down at the point of default.
Credit risk	Credit risk is the risk that a borrower will default on a debt or obligation by failing to make contractually obligated payments, or that the Group will incur losses due to any other counterparty failing to meet their financial obligations.
Credit risk mitigation	Techniques used to reduce the credit risk associated with an exposure.

Credit Valuation Adjustments	Adjustments to the fair value of derivative assets to reflect the credit worthiness of the counterparty.
Customer 2020 (C2020)	Tesco Bank strategic programme, comprising a number of initiatives and expected to provide the framework for business change over several years.
D	
Derivatives	Financial instruments whose value is based on the performance of one or more underlying assets.
E	
Exposure	A claim, contingent claim or position which carries a risk of financial loss.
Exposure at default (EAD) or exposure value	The amount expected to be outstanding after any credit risk mitigation, if and when the counterparty defaults. EAD reflects both drawn down balances as well as an allowance for undrawn commitments and contingent exposures.
External Credit Assessment Institutions	These include external credit rating agencies such as Standard & Poor's, Moody's and Fitch.
F	
Fair value	The price that would be received to sell an asset or paid to transfer a liability between market participants.
Forbearance	This takes place when a concession is made on the contractual terms of a loan in response to a counterparty's financial difficulties.
Funding Risk	The risk that the institution does not have sufficiently stable and diverse sources of funding.
G	
Global Systemically Important Institution (G-SII)	A financial institution whose distress or disorderly failure, because of its size, complexity and systemic interconnectedness, would cause significant disruption to the wider financial system and economic activity.
I	
Impaired exposures	Exposures where it is not expected that all contractual cash flows will be collected or will be collected when they are due.
Impairment charge and impairment provisions	Provisions held on the balance sheet as a result of the raising of an impairment charge against profit for the incurred loss inherent in the lending book. Impairment provisions may be individual or collective.
Impairment losses	The reduction in value that arises following an impairment review of an asset which has determined that the asset's value is lower than its carrying value. For impaired financial assets measured at amortised cost, impairment losses are the difference between the carrying value and the present value of estimated future cash flows, discounted at the asset's original effective interest rate.
Insurance risk	The risks accepted through the provision of insurance products in return for a premium. That, over time, the combined cost of claims, administration and acquisition of the contract may exceed the aggregate amount of premiums received and the investment income.
Interest Rate Risk (IRR)	The risk arising predominantly from the mismatch between interest rate sensitive assets and liabilities, but also to the investment term of capital and reserves, and the need to minimise income volatility.
Internal Capital Adequacy Assessment Process	The institution's own assessment, based on Basel II requirements, of the level of capital needed in respect of its regulatory capital requirements (for credit, market and operational risks) and for other risks including stress events.
International Swaps and Derivatives Association (ISDA) master agreement	A standardised contract developed by the ISDA which is used as an umbrella contract for bilateral derivative contracts.

L	
Leverage ratio	Tier 1 capital divided by the exposure measure.
Liquidity risk	Liquidity risk is the risk that the institution has insufficient cash resources to meet its obligations as they fall due or can only do so only at excessive cost.
M	
Mark-to-Market approach	One of three methods available to calculate exposure values for counterparty credit risk. The method adjusts daily to account for profits and losses in the value of related assets and liabilities.
Market risk	The risk that the value of the institution's assets, liabilities, income or costs might vary due to changes in the value of financial market process. This includes interest rates, foreign exchange rates, credit spreads and equities.
Minimum capital requirement	The minimum regulatory capital that must be held in accordance with Pillar 1 requirements for credit, market and operational risk.
O	
Operational risk	The risk of loss, resulting from ineffective or inadequately designed internal processes, system failure, improper conduct, human error, fraud or from external events.
Other Systemically Important Institution (O-SII)	Institutions that, due to their systemic importance, are more likely to create risks to financial stability. Whilst maximising private benefits through rational decisions, these institutions may bring negative externalities into the system and contribute to market distortions.
Over-the-Counter derivatives	Derivatives for which the terms and conditions can be freely negotiated by the counterparties involved, unlike exchange traded derivatives which have standardised terms.
P	
Past due loans	Loans are past due when a counterparty has failed to make a payment in line with their contractual obligations.
Pillar 1	The first pillar of the Basel II framework sets out the minimum regulatory capital requirements for credit, market and operational risks.
Pillar 2	The second Pillar of the Basel II framework, known as the Supervisory Review Process, sets out the review process for a bank's capital adequacy; the process under which supervisors evaluate how well banks are assessing their risks and the actions taken as a result of these assessments.
Pillar 3	The third pillar of the Basel II framework aims to encourage market discipline by setting out disclosure requirements for banks on their capital, risk exposures and risk assessment processes. These disclosures are aimed at improving the information made available to the market.
Potential Future Exposure (PFE)	The maximum expected credit exposure over a specified period of time calculated at some level of confidence (i.e. at a given quantile).
Prudential Regulatory Authority (PRA)	Responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms in the UK.
R	
Regulatory capital	The capital that a bank holds, determined in accordance with rules established by the PRA.
Residual maturity	The length of time remaining from present date until the maturity of the exposure.
Retail Credit Risk	Retail credit risk is the risk that a borrower who is a personal customer will default on a debt or obligation by failing to make contractually obligated payments.
Retail loans	Money loaned to individuals rather than institutions. These include both secured and unsecured loans such as Mortgages and Credit Cards.
Risk Appetite	The level and types of risk that a firm is willing to assume to achieve its strategic objectives.
Risk Appetite Measures	Measures designed to monitor exposure to certain risks to ensure that exposure stays within approved Risk Appetite (see Appendix 6).
Risk Weighted Assets (RWA)	Calculated by assigning a degree of risk expressed as a percentage (risk weight) to an exposure value in accordance with the applicable standardised and IRB approach rules.
S	
Securitisation	A transaction or scheme whereby the credit risk associated with an exposure, or pool of exposures, is grouped and where payments to investors is dependent upon the performance of the underlying exposure or pool of exposures.
Securities Financing Transactions (SFT)	The act of lending, or borrowing, a stock, derivative, or other security to or from an investor or firm.

Settlement Risk	Settlement risk is the risk that a counterparty fails to deliver a security or its value in cash in accordance with contractual agreements made after the other counterparty has already delivered a security or cash value in accordance with the same agreement.
Stress testing	The term used to describe techniques where plausible events are considered as vulnerabilities to ascertain how this will impact the capital resources which are required to be held.
Securitisation Structured Entity	A corporation, trust, or other non-bank entity, established for a defined purpose, including for carrying on securitisation activities. Structured entities are designed to isolate its obligations from those of the originator and the holder of the beneficial interests in the securitisation.
Standardised Approach	In relation to credit risk, the method for calculating credit risk capital requirements using risk weightings that are prescribed by the regulator. Standardised Approaches, following prescribed methodologies also exist for calculating market and operational risk capital requirements.
Subordinated liabilities	Liabilities which, in the event of insolvency or liquidation of the issuer, are subordinated to the claims of depositors and other creditors of the issuer.
T	
Tier 1 capital	A component of regulatory capital, comprising Common Equity Tier 1 capital and other Tier 1 capital. Other Tier 1 capital includes qualifying capital instruments such as non-cumulative perpetual preference shares and other Tier 1 capital securities.
Tier 2 capital	A component of regulatory capital, comprising qualifying subordinated loan capital and related on-controlling interests.
W	
Wholesale Credit Risk	The risk that counterparties will default on a debt or obligation by failing to make contractually obligated payments.
Wrong way risk	The risk that arises from the correlation between a counterparty exposure and the credit quality of the counterparty. The risk that the probability of default increases with exposure.