TESCO PERSONAL FINANCE PLC

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 29 FEBRUARY 2016

Company Number SC173199

CONTENTS

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The Directors present their Strategic Report for the year ended 29 February 2016.

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

Tesco Personal Finance plc is a wholly owned subsidiary of Tesco Personal Finance Group Limited, the share capital of which is wholly owned by Tesco PLC. A reconciliation of the results contained within this Strategic Report to the Tesco Bank results presented in the Tesco PLC preliminary results 2015/16 can be found on the Tesco PLC internet page http://www.tescoplc.com/media/876804/rns.pdf.

Cautionary statement regarding forward-looking information

Where this document contains forward-looking statements, these are made by the Directors in good faith based on the information available to them at the time of their approval of this report. These statements should be treated with caution due to the inherent risks and uncertainties underlying any such forward-looking information. The Group cautions users of these Financial Statements that a number of factors, including matters referred to in this document, could cause actual results to differ materially from those contained in any forward-looking statement. Such factors include, but are not limited to, those discussed under 'Principal risks and uncertainties' on pages 7 to 10 of this Annual Report.

Business Model

The Group is primarily focused on providing financial services and products to personal customers in the UK and the Republic of Ireland. The Company owns 49.9% of Tesco Underwriting Limited (TU), an authorised insurance company. TU is accounted for as a joint venture of the Group.

Headlines

- The Group serves 7.6m accounts (2015: 7.4m).
- Profit before tax is 11.7% higher at £187.9m (2015: £168.2m).
- Underlying Profit before Tax[1] is 11.2% lower at £197.0m (2015: £221.9m).
- Total underlying income has increased by 1.5% to £780.7m (2015: £769.0m) despite the phased introduction of caps on interchange income.
- Impairment charges have increased by 28.7% to £67.8m (2015: £52.7m). Credit quality remains good and the increase largely reflects growth in lending activity in recent years together with a slight increase in the bad debt:asset ratio to 0.8% from 0.7% a year earlier.
- An overall increase in customer lending since February 2015 of 10.6% to £8.5bn (2015: £7.7bn) has been underpinned by double digit growth in Mortgages and Personal Loans.
- Customer deposits have increased by 7.0% to £7.4bn (2015: £6.9bn) and continue to be the main source of the Group's funding.
- The Group successfully completed a Credit Card securitisation of £300.0m in May 2015 (refer to note 25). This has supported continued growth in customer lending.
- The balance sheet remains well positioned to support future lending growth from both a liquidity and capital stand point. At 29 February 2016, the risk asset ratio was 20.0% (2015: 18.8%) and net stable funding ratio was 131.8% (2015: 135.6%).

[1] Excluding restructure costs of £1.0m (2015: £8.1m), customer redress of £nil (2015: £27.0m) and losses on financial instruments, movements on derivatives and hedge accounting of £8.1m (2015: £18.6m).

Strategic Priorities

The ambition of Tesco Bank is to be the 'Bank for people who shop at Tesco'. The Group's strategy focuses on: Ease of doing business; Value delivered to the customer; and Trust as the foundation of its customer relationships.

The Group continued to broaden its product range in the year, to serve more of the banking and insurance needs of Tesco customers. The introduction of a 95% LTV Mortgage product and an expanded range of loan sizes further widens the options available to customers.

Changes to the services offered have made it easier for customers to bank and insure with the Group. The launch of 'Apple Pay' means mobile payments are now more convenient with a Tesco Bank Credit Card, and the launch of ‘Balance Peek’ on the mobile app makes it quicker and easier for customers to check their account balances.

The Group continues to deliver value to its customers: No Personal Current Account customers will be charged a fee on credit account balances. Tesco 'Drive + Reward', a new free driving app, rewards safe drivers with a discount on their Motor Insurance.

Tesco Bank became the first UK Bank to show foregone interest on its customers’ monthly statements. This allows customers to clearly see if they could have earned more interest by transferring deposits from their Personal Current Account to an Instant Access Savings Account with the Group.

The Group’s commitment to offering attractive products and good service for customers has been rewarded with recognition as 'Best Overall Personal Finance Provider' and the 'Best Direct Mortgage Provider' at the 2015 Moneynet Awards and 'Best Overall Direct Insurance Provider' at the YourMoney Awards.

During the year, colleagues raised over £121,000 for the Group’s charity partners and volunteered over 6,600 hours to their local communities.

Strategic and Regulatory Developments

The Group continues to develop its suite of products and services to best meet the needs of Tesco customers. A number of improvements for customers are planned over the coming year, including the introduction of Mortgage products sold through intermediaries.

The Group also closely monitors regulatory developments to ensure the implications of regulatory changes are fully considered. In 2015 the European Banking Authority (EBA), the Prudential Regulation Authority (PRA) and the Bank of England issued consultations on a number of topics that may impact the Group's capital and funding requirements. This included proposed changes to standardised risk weightings and the implementation of the European Commission's minimum requirements for own funds and eligible liabilities (MREL). The Group is actively engaged in the consultation process and is expecting the impact of these changes to be clarified during 2016.

Business Review

Banking

During the year, the Banking business has delivered 4.6% growth in customer numbers across the primary Banking products (Credit Cards, Personal Loans, Mortgages, Personal Current Accounts and Savings). This growth has been delivered within an extremely competitive trading environment and total customer accounts now stand at 5.7m (2015: 5.4m), of which 3.5m (2015: 3.4m) are actively[1] in use by the Group's customers.

As anticipated, Credit Card interchange income fell in the year as a result of MasterCard's agreement with the Competition and Markets Authority on interchange rates. The cap on Credit Card interchange rate received by the Group was implemented progressively, reducing initially to 0.8% in April 2015, with further reductions resulting in a final level of 0.3% in December 2015 when the interchange regulation came in to force in the UK. As a result, the full adverse impact on results of the interchange rate reduction will arise in the year ended 28 February 2017.

[1] An account whereby a debit or credit transaction has been completed in the previous month.

The Group minimised the impact on its customers by maintaining the number of Clubcard points its customers earn in Tesco stores, and by continuing to offer Clubcard points on spend outside Tesco stores, albeit at a reduced level. While the Group is disappointed that the industry changes have resulted in the need to reduce the rewards earned by customers, it remains confident that the Tesco Bank Credit Card continues to offer customers excellent value.

Retail sales on Credit Cards have averaged £1.3bn each month, 1% higher than in the previous year, with sales growth also seen in Money Services, particularly Travel Money and Gift Cards (19% and 13%). Mortgage balances reached £1,669.7m (2015: £1,196.8m), an increase of 39.5%, while Credit Card balances increased by 0.7% and Personal Loans by 12.0%. The Group's Personal Current Account product also continued to grow steadily.

Customer lending is primarily funded by customer deposits of £7,398.5m (2015: £6,914.8m). The funding base also benefits from an additional £300.0m of securities issued in the year backed by Credit Card assets.

Insurance

Income generated by the insurance business is 6.4% lower than in the previous year, reflecting continued competitive pressure, particularly in the Motor Insurance market. Motor policies decreased in the year, offset by an increase in Home insurance policies. The Group expanded the Pet offering with the launch of a new Premium product and added price comparison websites as a sales channel for the first time.

The Group's share of profit from TU has reduced in the year. TU's year-on-year profit was impacted by Home claims resulting from the storms and flooding experienced across the UK in December 2015.

Financial Performance

Statutory information is set out in the Consolidated Financial Statements. To present a more meaningful view of business performance, the Group's results are also presented in this Strategic Report on an underlying basis, excluding restructure costs, customer redress provisions and losses on financial instruments, movements on derivatives and hedge accounting.

The Group’s financial performance is presented in the Consolidated Income Statement on page 20. A summary of the Group's financial performance on an underlying basis is presented below.

	2016 £m	2015 £m	% Change
Net interest income	404.8	378.6	6.9
Underlying non interest income	375.9	390.4	(3.7)
Total underlying income	**780.7**	**769.0**	**1.5**
Underlying operating expenses	(513.3)	(499.7)	(2.7)
Impairment on loans and advances to customers	(67.8)	(52.7)	(28.7)
Share of (loss)/profit of joint venture	(2.6)	5.3	(149.1)
Underlying profit before tax	**197.0**	**221.9**	**(11.2)**
Restructure costs[1]	(1.0)	(8.1)	87.7
Customer redress provision[1]	–	(27.0)	–
Losses on financial instruments, movements on derivatives and hedge accounting[1]	(8.1)	(18.6)	56.5
Profit before tax	**187.9**	**168.2**	**11.7**

[1] Restructure costs of £1.0m (2015: £8.1m) are presented within operating expenses, and customer redress of £nil (2015: £27.0m) and losses on financial instruments, movements on derivatives and hedge accounting of £8.1m (2015: £18.6m) within total income on page 20.

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

	2016	2015
Net interest margin [1]	**4.2%**	4.2%
Underlying cost:income ratio [2]	**65.7%**	65.0%
Cost:income ratio [3]	**66.6%**	70.2%
Bad debt:asset ratio (BDAR) [4]	**0.8%**	0.7%

[1] Net interest margin is calculated by dividing net interest income by average interest bearing assets.
[2] The underlying cost:income ratio is calculated by dividing underlying operating expenses by total underlying income.
[3] The cost:income ratio is calculated by dividing operating expenses by total income (including non trading items).
[4] The bad debt:asset ratio is calculated by dividing the impairment loss by the average balance of loans and advances to customers.

Profit before tax is 11.7% higher at £187.9m (2015: £168.2m).

Net interest income has increased by 6.9% to £404.8m (2015: £378.6m) due to the growth in customer lending of 10.6% to £8.5bn (2015: £7.7bn).

Net interest margin has remained in line with February 2015 at 4.2% (2015: 4.2%) with an improved Credit Card margin offsetting the margin impact of a higher share of secured lending.

Underlying non-interest income has decreased by 3.7% to £375.9m (2015: £390.4m), impacted by the phased introduction of caps on interchange income during the year.

Underlying operating expenses have increased by 2.7% to £513.3m (2015: £499.7m), partly due to the timing of recognition of Financial Services Compensation Scheme (FSCS) levy costs and also impacted by higher share based payment and pension charges.

Impairment charges on loans and advances have increased by 28.7% to £67.8m (2015: £52.7m). Credit quality remains good with the higher charge reflecting loan growth in recent years and a marginally higher BDAR. The Group's BDAR has increased to 0.8% (2015: 0.7%). The BDAR in the year benefitted from gains on the sale of non-performing debt of £19.7m (2015: £4.5m), with the prior year BDAR having benefitted from the improved valuation of cash recoveries.

The Group's Consolidated Statement of Financial Position is presented on page 22. Selected extracts are presented below:

	2016 £m	2015 £m	% change
Loans and advances to customers	**8,545.7**	7,725.3	**10.6**
Total assets	**10,998.6**	10,059.7	**9.3**
Deposits from customers	**7,398.5**	6,914.8	**7.0**
Deposits from banks	**82.0**	106.5	**(23.0)**
Net assets	**1,565.8**	1,470.6	**6.5**

Loans and advances to customers have increased 10.6% to £8,545.7m (2015: £7,725.3m). Mortgage balances reached £1,669.7m (2015: £1,196.8m) and the Group has seen growth in both Credit Cards and Personal Loans balances.

Deposits from customers have increased 7.0% to £7,398.5m (2015: £6,914.8m) in the year.

Deposits from banks have decreased 23% to £82.0m (2015: £106.5m) due to a decrease in repurchase transactions at 29 February 2016 compared to the prior year end.

The balance sheet remains well positioned to support future lending growth from both a liquidity and capital standpoint. The Directors consider the following to be Key Performance Indicators for capital and liquidity reporting:

Capital and Liquidity Ratios

	2016	2015
Tier 1 capital ratio [1]	**16.6%**	15.2%
Risk asset ratio [2]	**20.0%**	18.8%
Net stable funding ratio [3]	**131.8%**	135.6%
Loan to deposit ratio [4]	**115.5%**	111.7%

[1] The tier 1 capital ratio is calculated by dividing total tier 1 capital at the end of the year by total risk weighted assets and is calculated in line with the Capital Requirements Regulation (CRR).

[2] The risk asset ratio is calculated by dividing total regulatory capital by total risk weighted assets.

[3] As of December 2015, the Board Risk Committee (refer to page 12) has monitored the Group's compliance with Net Stable Funding ratio (NSFR) requirements under the Capital Requirements Directive IV (CRD IV) methodology. The NSFR at 29 February 2016, and comparative NSFR at 28 February 2015, are calculated under the CRD IV methodology. The NSFR is calculated by dividing available stable funding (including all funding sources, each weighted by a standardised stability factor) by required stable funding (including all assets and off-balance sheet commitments, each weighted by a standardised illiquidity factor).

[4] The loan to deposit ratio is calculated by dividing loans and advances to customers by deposits from customers.

The Group's risk asset ratio remains above internal targets and regulatory requirements at 20.0% (2015: 18.8%) and leaves the Group well placed to support future growth.

The net stable funding ratio, a measure of the Group's liquidity position, remains strong at 131.8% (2015: 135.6%). The Group maintains a liquid asset portfolio of high quality securities of £1.6bn (2015: £1.5bn).

Risk Management

Risk Management Approach

The Board of Directors has overall responsibility for determining the Group's strategy and related Risk Appetite. The Board's Risk Appetite comprises a suite of financial and reputational Risk Appetite statements, underpinned by corresponding measures with agreed triggers and limits. The Risk Appetite is formally reviewed by the Board on an annual basis.

The Board is also responsible for overall corporate governance which includes overseeing a robust and effective system of risk management and that the level of capital and liquidity held is adequate and consistent with the risk profile of the business. To support this, an Enterprise Wide Risk Management Framework (EWRMF) has been embedded across the Group and is underpinned by governance, controls, processes, systems and policies.

The Group is exposed to a variety of risks through its day to day operations. The following table sets out the principal risks and uncertainties and how they are managed within the EWRMF.

Principal risks and uncertainties	Key controls and mitigating factors
Credit risk The risk that a borrower or counterparty fails to repay the interest or capital on a loan or other financial instrument.	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.
Operational risk The risk of loss resulting from ineffective or inadequately designed internal processes, system failure, improper conduct, human error or from external events including the threat of sophisticated Financial Crime activity. Of note is the industry-wide focus on IT security and cyber-crime.	The Group's aim is to minimise all operational risks and reputational impacts, and to actively manage the Group's operational resilience. An Operational Risk Framework comprising Event and Loss management, Risk and Control Self Assessment (RCSA) and Operational Risk Scenario Analysis processes is in place. This also includes prescribed frameworks for Financial Crime and Information Security. The RCSA process is used by the business to identify, assess, quantify, monitor and report its operational risks and management's effectiveness in mitigating them. Regular reporting is provided to the Risk Management Committee (RMC) and remedial actions taken as required. Major operational change initiatives are subject to a robust project management framework. Oversight is provided through a dedicated governance structure of senior committees.

Operational risk (continued)

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

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

The Procurement and Supplier Management policy provides consistent and robust standards for supplier sourcing and selection. The Supplier Management Framework enables the monitoring of the performance of third-party outsourced service providers and suppliers against agreed service level agreements, the management of those relationships and the improvement of supply or termination of contract where appropriate.

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

The People Matters Group (PMG) oversees key aspects of people risk, including: talent management, performance management, retention, and succession planning.

Liquidity and Funding risk

Liquidity risk is the risk that the Group has insufficient liquidity resources to meet its obligations as they fall due or can access these only at excessive cost.

Liquidity risk is governed through the Liquidity Management Forum, Asset and Liability Management Committee (ALCo), Board Risk Committee (BRC) and the Board. A robust liquidity position is maintained in excess of internal and regulatory requirements. The Treasury function ensures all liquidity and funding measures are managed within policy and appetite on a daily basis.

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

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

Market risk

The risk that the value of the Group's assets, liabilities, income or costs might vary due to changes in the value of financial market prices; this includes interest rates, foreign exchange rates, credit spreads and equities.

Control of market risk is managed by the ALCo and the Market Risk Forum (MRF). These bodies provide oversight of the Group's market risk position at a detailed level and provide regular reports and recommendations to Board Committees. The Group has no trading book.

Insurance risk

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

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

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

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

Legal and regulatory compliance risk

The risk of consequences arising as a result of non-compliance with laws and regulatory requirements as defined by external regulators.

The Group's aim is to meet all legal and regulatory requirements by maintaining an effective risk management framework. The Group has a dedicated Regulatory Risk team and Regulatory Legal team to support business areas in identifying and managing regulatory risks.

Conduct risk

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

Conduct risk is monitored by the relevant business area and second line Risk Management function. Business areas manage Conduct risk within the design of new products and use a range of management information to monitor the fair treatment of existing customers and to assess the fairness of existing products. The Conduct Committee and the Board review and challenge delivery of fair outcomes for customers.

Capital risk

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

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

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

Capital risk (continued)

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

The stress testing scenarios and final ICAAP results are presented to the Executive Committee, BRC, and Board for challenge and approval. The ICAAP is submitted to the regulator on a regular basis and forms the basis of the Individual Capital Guidance given to the Group.

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

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

European Union Referendum

The European Union Referendum Act 2015 requires the UK to hold a referendum on the UK's membership of the European Union (EU) by the end of 2017. The referendum has been scheduled for 23 June 2016. The potential for a UK exit from the EU contributes to sustained political and economic uncertainty in both the UK and Europe.

A decision to leave the EU could have a significant impact on financial institutions in the UK. The extent of the impact would, however, largely depend on the nature of the arrangements that might be put in place between the UK and the rest of the EU, as well as the extent to which the UK might continue to apply law that is based on EU financial services legislation. The Group is progressing work to assess the potential implications and how the Group could respond.

The following pages provide a more detailed description of the major sources of risk that could potentially impact adversely on the Group's aims in meeting its strategic and business objectives and a more granular overview of the operational control processes and risk mitigants adopted by the Group.

A fuller description of these risks and controls can also be found in the Pillar 3 Disclosure Statements of Tesco Personal Finance Group Limited for the year ended 29 February 2016. These disclosures will be published in the Financial Information section of the Tesco Bank corporate website in due course.

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

Enterprise Wide Risk Management Framework (EWRMF)

The scope of the EWRMF extends to all major risk categories faced by the Group and is underpinned by governance, controls, processes, systems and policies within the second-line risk function and those of the first-line business areas. The key components of the EWRMF are as follows:

Risk Governance Structure

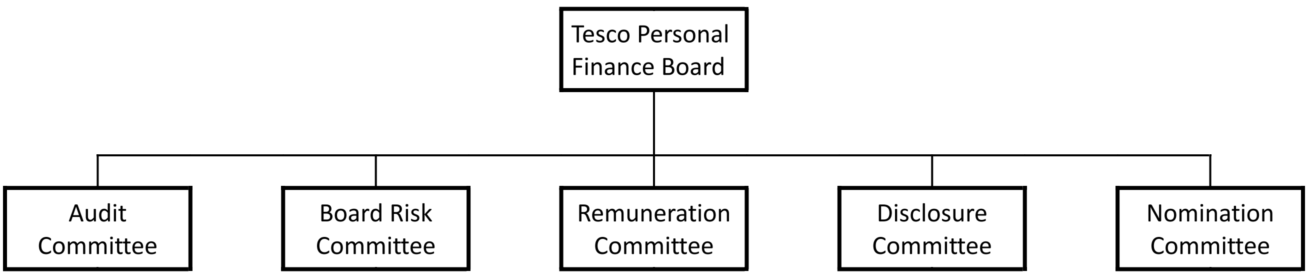
The Group has established a governance structure which is appropriate for the business in terms of its level of complexity and risk profile. This structure is continually reviewed so that it remains suitable to support the business. The risk governance structure set out in these disclosures describes the structure that was in place for the year to 29 February 2016.

The Board

The Board is the key governance body and is responsible for overall strategy, performance of the business and ensuring appropriate and effective risk management. It has delegated responsibility for the day to day running of the business to the Chief Executive. The Chief Executive has established the Executive Committee (ExCo) to assist in the management of the business and to deliver against the strategy in an effective and controlled way.

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

- Oversee the EWRMF;
- Identify the key risks facing the Group; and
- Assess the effectiveness of the risk management actions.



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

- Audit Committee

The role of the Audit Committee includes: reviewing and recommending to the Board for approval the Financial Statements; monitoring accounting policies and practices for compliance with relevant standards; reviewing the scope and results of the annual external audit; maintaining a professional relationship with the external auditor; examining arrangements in place to enable management to comply with requirements and standards under the regulatory system; overseeing the internal audit function and the internal audit programme; and reviewing the findings of external assurance reports provided by outsourced providers.

Further detail on the Audit Committee is included within the Audit Committee section of the Directors’ Report.

- Board Risk Committee (BRC)

The role of the BRC includes the oversight and challenge of the Group's Risk Appetite and the recommendation to the Board of any changes to Risk Appetite, the assessment of any future risks, the review and challenge, where appropriate, of the outputs from the ALCo and the RMC and ensuring that a supportive risk culture is appropriately embedded in the business.

- Remuneration Committee

The role of the Remuneration Committee is: to determine and approve remuneration arrangements for all identified (Code) staff within the Group as defined within the Financial Conduct Authority (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.

- Disclosure Committee

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

- 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; and identifying and nominating for the approval of the Board, candidates to fill board vacancies as and when they arise.

Executive Committee (ExCo)

The Group's Board has delegated 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 the strategy in an effective and controlled way. The ExCo provides general executive management of the business and facilitates cross-functional communication and liaison. Each ExCo member is accountable to the Chief Executive and to the Board for managing performance in line with the Group's long-term plan, strategy, annual budget and Risk Appetite. In order to support the ExCo, the following six sub-committees have been established.

- Conduct Committee (CoCo)

The principal role of the CoCo is to provide review and challenge relating to the management of conduct risks and customer fairness within the business and its cultural practices. The CoCo provides review and challenge that good customer outcomes are the foundation of the business activities Tesco Bank undertakes.

- Asset and Liability Management Committee (ALCo)

The principal role of the ALCo is to optimise the Group's balance sheet structure, within boundaries and Risk Appetite set by the Board and regulation, and to identify, manage and control the Group's balance sheet risks in the execution of its chosen business strategy. The ALCo has three sub-committees: the Liquidity Management Forum; Market Risk Forum; and the Capital Management Forum.

- Risk Management Committee (RMC)

The principal role of the RMC is to ensure that there is effective management and control of all key risks and issues facing the Group.

Seven sub-committees: the Financial Crime, Operational and Regulatory Risk Committee (FORRC); the Credit Risk Management Committee; the Wholesale Credit Risk Forum; the Operational Resilience Steering Committee; Supplier Management Group; the Banking Price Models Committee; and Policy Framework Committee support the RMC in discharging its duties.

- People Matters Group (PMG)

The principal role of the PMG is to lead the People Agenda to ensure it meets the needs of Customers and Employees.

- Insurance Executive Committee (IEC)

The principal role of the IEC is to monitor the performance of the Group's Insurance business against strategy and goals. The Insurance Management Committee helps the IEC to discharge its responsibilities.

- Banking Executive Committee (BEC)

The principal role of the BEC is to monitor the performance of the Group's Banking business against strategy and goals.

Three Lines of Defence

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 is responsible for establishing an effective control framework within their area of operation, for identifying and controlling all risks so that they are operating within the organisational Risk Appetite, for ensuring that they are fully compliant with Group policies and, where appropriate, for operating within defined thresholds. They also devise, manage and report against appropriate 'key risk indicators', ensuring that management information and assurance processes 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 (RMFu) is responsible for proposing to the Board appropriate objectives and measures to define the Group's Risk Appetite and for devising the suite of policies necessary to control the business, including the overarching framework, and for independent monitoring of the risk profile, providing oversight, challenge and additional assurance where required. The RMFu uses expertise and provides frameworks, tools and techniques to assist management in meeting its responsibilities, as well as acting as a central coordinator to identify enterprise wide risks and make recommendations to address them.

- Third line of defence

This comprises the Internal Audit function that is responsible for providing independent assurance to the Board and senior management on the adequacy of design and operational effectiveness of internal control systems.

Group Policies

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. 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 an annual basis to ensure its continued effectiveness and applicability in line with changing risks.

- Risk Management Function (RMFu)

The independent RMFu operates under the leadership of the Chief Risk Officer (CRO), who is a member of the Board. Risk teams reporting to the CRO are the second line of defence, and are resourced by people with risk expertise in each of the principal risks faced by the Group. This allows them to provide appropriate analysis, challenge, understanding and oversight of each of the principal risks.

- Stress Testing

Stress testing is the process by which the Group's business plans are regularly subjected to severe adverse impact scenarios to assess the potential impact on the business, including projected capital and liquidity positions. The results of stress testing, along with proposed actions, are reported to the RMC, ALCo and BRC. These are captured in both the Individual Liquidity Adequacy Assessment Process (ILAAP) and the Internal Capital Adequacy Assessment Process (ICAAP).

- Monitoring and Reporting

The RMFu has responsibility for integrated risk reporting across the Group. The RMFu monitors and aggregates risk exposures to ensure that risk coverage is considered holistically so that risks and issues have clear ownership and do not fall between functions.

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

- Risk Appetite Framework

The Group has established a robust Risk Appetite Framework. The Group maintains a Risk Appetite 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 planning and stress testing. The Group's Risk Appetite is translated into specific risk measures that are tracked, monitored and reported to the appropriate Risk Committees. The Risk Appetite is formally reviewed and approved by the Board on an annual basis.

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

Michael Mustard

Company Secretary

11 April 2016

DIRECTORS' REPORT

The Directors present their Annual Report, together with the Consolidated Financial Statements and Independent Auditor's Report, for the year ended 29 February 2016.

Business review and future developments

The Group's business review and future developments are set out in the Strategic Report on pages 2 to 7.

Risk management

The Group's risk management disclosures are set out in the Strategic Report on pages 7 to 14.

Financial instruments

The Group's policies for hedging each major type of transaction are discussed in note 14.

Going Concern

The Directors have made an assessment of going concern, taking into account both current performance and the Group's outlook, including consideration of projections for the Group's capital and funding position. As a result of this assessment the Directors consider that it is appropriate to adopt the going concern basis of accounting in preparing these Consolidated Financial Statements.

Dividends

A final dividend of £50.0m (2015: £50.0m) in respect of ordinary share capital was paid to Tesco Personal Finance Group Limited in February 2016.

Treating Customers Fairly

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

Directors

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

Since 1 March 2015 to date the following changes have taken place:

	Appointed	Resigned
Karl Bedlow	29 January 2016	
Feike Brouwers	5 August 2015	
David McCreadie	9 December 2015	
Gareth Bullock		9 December 2015

Audit Committee

Introduction from the Committee Chairman

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

Audit Committee responsibilities

The key responsibilities of the 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 internal control systems, including those relating to management's responsibility for the appropriateness and effectiveness of systems and controls;
- Review the internal audit programme and oversee the internal audit function;
- Consider the effectiveness of the external auditor and their independence;
- Provide an interface between management and the external auditor;
- Work closely with the BRC 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;
- Approve the annual plan of Risk Assurance activity within Tesco Bank;
- Receive and review reports, findings and recommendations from Risk;
- Review and consider the adequacy of any follow up action, and any relevant investigation work, carried out by or on behalf of Risk; and
- Review and monitor management's response to findings and recommendations following investigations carried out by Risk.

During the year, the Committee received reports from a number of business areas including Finance in relation to financial reporting and Risk in relation to regulatory compliance, fraud, bribery and corruption and integrated assurance. The Committee also considered a variety of matters including the internal financial control framework and operational resilience.

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

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

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

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

In compliance with the above standards, the Audit Committee assessed the effectiveness of the Internal Audit function with the results of the 2015 assessment being positive.

The Committee carried out a review of its own effectiveness during the year through the Committee Chairman conducting interviews with key stakeholders and the use of a questionnaire. The Committee concluded that it continued to be effective.

Appointment of the Group's new auditor

As part of the process of Tesco PLC appointing Deloitte LLP as auditor, on 30 June 2015 the Directors approved the appointment of Deloitte LLP as the Group's new auditor. The incumbent auditor, PricewaterhouseCoopers LLP (PwC), resigned on 30 June 2015 and submitted a 'Statement of no circumstances' letter to the Board which was noted. The relevant filings have been made by both PwC and the Company to the Registrar of Companies and the Financial Reporting Council.

Non-audit fees

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

The Group has a non-audit services policy for work carried out by its external auditor. This is split into three categories as explained below:

1. Pre-approved for the external auditor – audit-related in nature;
2. Work for which Audit Committee approval is specifically required – transaction work and corporate tax services, and certain advisory services; and
3. Work from which the external auditor is prohibited.

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

Deloitte follows its own ethical guidelines and continually reviews its audit team to ensure its independence is not compromised. The fees paid to the external auditors in the year are disclosed in note 7 to the Financial Statements.

Directors' Indemnities

In terms of Section 236 of the Companies Act 2006, all Non-Executive Directors have been issued a Qualifying Third Party Indemnity Provision by Tesco Personal Finance Group Limited. All qualifying third party indemnities were in force at the date of approval of the Financial Statements.

There was also a Qualifying Third Party Indemnity Provision issued by Tesco Personal Finance Group Limited in force during the year for Gareth Bullock until the date of his resignation.

Our People

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

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

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

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

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

Colleagues are encouraged to become involved in the financial performance of the wider Tesco PLC Group through a variety of schemes, principally the Tesco employee profit-sharing scheme (Shares in Success), the savings related share option scheme (Save As You Earn) and the partnership share plan (Buy As You Earn).

Statement of Directors' Responsibilities

The following should be read in conjunction with the responsibilities of the independent auditor set out in their report on page 110.

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and Company Financial Statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU). Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that year. In preparing these Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the EU have been followed, subject to any material departures being disclosed and explained in the Financial Statements; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the Financial Statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Group's website. Legislation in the United Kingdom governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

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

- the consolidated Financial Statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Strategic Report contained in the Annual Report includes a fair review of the development and performance of the business and the position of Group, together with a description of the principal risks and uncertainties that it faces.

Disclosure in respect of the Independent Auditor

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

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

Michael Mustard
Company Secretary

11 April 2016

CONSOLIDATED INCOME STATEMENT

For the Year Ended 29 February 2016

	Note	2016 £m	2015 £m
Interest and similar income	4	574.8	534.7
Interest expense and similar charges	4	(170.0)	(156.1)
Net interest income		**404.8**	**378.6**
Fees and commissions income	5	406.1	419.6
Fees and commissions expense	5	(30.8)	(29.4)
Provision for customer redress	26	–	(27.0)
Net fees and commissions income		**375.3**	**363.2**
Losses on financial instruments, movements on derivatives and hedge accounting	6	(8.1)	(18.6)
Realised gain on investment securities		0.6	0.2
Net other income		**(7.5)**	**(18.4)**
Total income		**772.6**	**723.4**
Administrative expenses	7	(428.3)	(427.3)
Depreciation and amortisation	21,22	(86.0)	(80.5)
Operating expenses		**(514.3)**	**(507.8)**
Impairment on loans and advances to customers	8	(67.8)	(52.7)
Operating profit		**190.5**	**162.9**
Share of (loss)/profit of joint venture	19	(2.6)	5.3
Profit before tax		**187.9**	**168.2**
Income tax expense	10	(2.2)	(39.0)
Profit for the year attributable to owners of the parent		**185.7**	**129.2**

Profit for the year of £189.7m (2015: £131.3m) is attributable to the Company.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the Year Ended 29 February 2016

	Note	2016 £m	2015 £m
Profit for the year		**185.7**	**129.2**
Items that may be reclassified subsequently to the income statement			
Unrealised net (losses)/gains on available-for-sale investment securities before tax	10	(2.8)	2.8
Net losses arising on cash flow hedges before tax	10	(3.0)	(1.3)
Tax relating to items that may be reclassified subsequently to the income statement	10	1.2	(0.3)
Share of other comprehensive (expense)/income of joint venture	19	(1.0)	4.5
Total items that may be reclassified subsequently to the income statement		**(5.6)**	**5.7**
Total comprehensive income for the year attributable to owners of the parent		**180.1**	**134.9**

CONSOLIDATED AND COMPANY STATEMENTS OF FINANCIAL POSITION

For the Year Ended 29 February 2016

Company number SC173199

		Group		Company	
		2016	2015	**2016**	2015
	Note	**£m**	£m	**£m**	£m
Assets					
Cash and balances with central banks	12	564.9	626.3	506.6	563.9
Loans and advances to customers	13	8,545.7	7,725.3	8,545.7	7,725.3
Derivative financial instruments	14	29.3	31.7	29.3	31.7
Investment securities:					
- Available-for-sale	15	983.6	827.3	983.6	827.3
- Loans and receivables	15	34.1	34.1	34.1	34.1
Prepayments and accrued income	16	43.1	41.0	43.1	41.0
Current income tax asset		1.7	4.5	1.7	4.5
Other assets	17	277.3	200.8	315.5	251.5
Investment in joint venture	19	76.1	79.7	71.0	71.0
Intangible assets	21	363.9	402.6	363.9	402.6
Property, plant and equipment	22	78.9	86.4	78.9	86.4
Total assets		**10,998.6**	**10,059.7**	**10,973.4**	**10,039.3**
Liabilities					
Deposits from banks	23	82.0	106.5	82.0	106.5
Deposits from customers	24	7,398.5	6,914.8	7,398.5	6,914.8
Debt securities in issue	25	1,206.6	898.0	408.9	399.9
Derivative financial instruments	14	150.5	86.9	150.5	86.9
Provisions for liabilities and charges	26	58.2	90.1	58.2	90.1
Accruals and deferred income	27	128.2	120.0	128.2	120.0
Other liabilities	28	142.8	143.0	919.0	629.4
Deferred income tax liability	20	31.0	39.8	31.0	39.8
Subordinated liabilities and notes	29	235.0	190.0	235.0	190.0
Total liabilities		**9,432.8**	**8,589.1**	**9,411.3**	**8,577.4**
Equity and reserves attributable to owners of parent					
Share capital	30	122.0	122.0	122.0	122.0
Share premium account	30	1,097.9	1,097.9	1,097.9	1,097.9
Retained earnings		318.8	183.1	314.8	175.1
Other reserves	31	27.1	22.6	27.4	21.9
Subordinated notes	29	–	45.0	–	45.0
Total equity		**1,565.8**	**1,470.6**	**1,562.1**	**1,461.9**
Total liabilities and equity		**10,998.6**	**10,059.7**	**10,973.4**	**10,039.3**

The Consolidated and Company Financial Statements on pages 20 to 109 were approved by the Board of Directors and authorised for issue on 11 April 2016 and were signed on its behalf by:

Peter Bole
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Year Ended 29 February 2016

	Note	Share capital £m	Share premium £m	Retained earnings £m	Subordinated notes £m	Other reserves £m	Total equity £m
Balance at 1 March 2015		122.0	1,097.9	183.1	45.0	22.6	1,470.6
Comprehensive income/(expense)							
Profit for the year		–	–	185.7	–	–	185.7
Net losses on available-for-sale investment securities	10	–	–	–	–	(2.3)	(2.3)
Net losses on cash flow hedges	10	–	–	–	–	(2.3)	(2.3)
Share of other comprehensive expense of joint venture	19	–	–	–	–	(1.0)	(1.0)
Total comprehensive income		**–**	**–**	**185.7**	**–**	**(5.6)**	**180.1**
Transactions with owners							
Dividends to ordinary shareholders	11	–	–	(50.0)	–	–	(50.0)
Dividend to holders of other equity	11	–	–	–	–	–	–
Reclassification of subordinated notes to liabilities	29	–	–	–	(45.0)	–	(45.0)
Share based payments	31	–	–	–	–	10.1	10.1
Total transactions with owners		**–**	**–**	**(50.0)**	**(45.0)**	**10.1**	**(84.9)**
Balance at 29 February 2016		**122.0**	**1,097.9**	**318.8**	**–**	**27.1**	**1,565.8**
Balance at 1 March 2014		122.0	1,097.9	105.1	45.0	11.4	1,381.4
Comprehensive income/(expense)							
Profit for the year		–	–	129.2	–	–	129.2
Net gains on available-for-sale investment securities	10	–	–	–	–	2.2	2.2
Net losses on cash flow hedges	10	–	–	–	–	(1.0)	(1.0)
Share of other comprehensive income of joint venture	19					4.5	4.5
Total comprehensive income		**–**	**–**	**129.2**	**–**	**5.7**	**134.9**
Transactions with owners							
Dividends to ordinary shareholders	11	–	–	(50.0)	–	–	(50.0)
Dividend to holders of other equity	11	–	–	(1.2)	–	–	(1.2)
Share based payments	31	–	–	–	–	5.5	5.5
Total transactions with owners		**–**	**–**	**(51.2)**	**–**	**5.5**	**(45.7)**
Balance at 28 February 2015		**122.0**	**1,097.9**	**183.1**	**45.0**	**22.6**	**1,470.6**

TESCO PERSONAL FINANCE PLC
COMPANY STATEMENT OF CHANGES IN EQUITY
For the Year Ended 29 February 2016

	Note	Share capital £m	Share premium £m	Retained earnings £m	Subordinated notes £m	Other reserves £m	Total equity £m
Balance at 1 March 2015		122.0	1,097.9	175.1	45.0	21.9	1,461.9
Comprehensive income/(expense)							
Profit for the year		–	–	189.7	–	–	189.7
Net losses on available-for-sale investment securities	10	–	–	–	–	(2.3)	(2.3)
Net losses on cash flow hedges	10	–	–	–	–	(2.3)	(2.3)
Total comprehensive income		**–**	**–**	**189.7**	**–**	**(4.6)**	**185.1**
Transactions with owners							
Dividends to ordinary shareholders	11	–	–	(50.0)	–	–	(50.0)
Dividend to holders of other equity	11	–	–	–	–	–	–
Reclassification of subordinated notes to liabilities	29	–	–	–	(45.0)	–	(45.0)
Share based payments	31	–	–	–	–	10.1	10.1
Total transactions with owners		**–**	**–**	**(50.0)**	**(45.0)**	**10.1**	**(84.9)**
Balance at 29 February 2016		**122.0**	**1,097.9**	**314.8**	**–**	**27.4**	**1,562.1**
Balance at 1 March 2014		122.0	1,097.9	95.0	45.0	15.2	1,375.1
Comprehensive income/(expense)							
Profit for the year		–	–	131.3	–	–	131.3
Net gains on available-for-sale investment securities	10	–	–	–	–	2.2	2.2
Net losses on cash flow hedges	10	–	–	–	–	(1.0)	(1.0)
Total comprehensive income		**–**	**–**	**131.3**	**–**	**1.2**	**132.5**
Transactions with owners							
Dividends to ordinary shareholders	11	–	–	(50.0)	–	–	(50.0)
Dividend to holders of other equity	11	–	–	(1.2)	–	–	(1.2)
Share based payments	31	–	–	–	–	5.5	5.5
Total transactions with owners		**–**	**–**	**(51.2)**	**–**	**5.5**	**(45.7)**
Balance at 28 February 2015		**122.0**	**1,097.9**	**175.1**	**45.0**	**21.9**	**1,461.9**

CONSOLIDATED AND COMPANY CASH FLOW STATEMENTS

For the Year Ended 29 February 2016

		Group		Company	
		2016	2015	**2016**	2015
	Note	**£m**	£m	**£m**	£m
Operating Activities					
Profit before tax		**187.9**	168.2	**191.8**	170.3
Adjusted for:					
Non-cash items included in operating profit before taxation	37	192.4	200.3	188.7	198.4
Changes in operating assets and liabilities	37	(518.5)	(782.3)	(514.6)	(775.1)
Income taxes paid		(7.0)	(22.5)	(7.0)	(22.5)
Cash flows used in operating activities		**(145.2)**	**(436.3)**	**(141.1)**	**(428.9)**
Investing Activities					
Purchase and disposal of intangible assets and property, plant and equipment		(39.8)	(74.1)	(39.8)	(74.1)
Purchase of available-for-sale investment securities		(332.2)	(207.7)	(332.2)	(207.7)
Sale of available-for-sale investment securities		211.7	250.9	211.7	250.9
Dividends received from joint venture	19	–	7.4	–	7.4
Deposit with parent		–	145.0	–	145.0
Cash flows (used in)/generated from investing activities		**(160.3)**	**121.5**	**(160.3)**	**121.5**
Financing Activities					
Net proceeds received in association with issuance of debt securities		298.5	498.0	298.5	484.4
Dividends paid to ordinary shareholders	11	(50.0)	(50.0)	(50.0)	(50.0)
Dividends paid to holders of other equity	11	–	(1.2)	–	(1.2)
Interest paid on subordinated liabilities and notes		(4.5)	(3.3)	(4.5)	(3.3)
Cash flows generated from financing activities		**244.0**	**443.5**	**244.0**	**429.9**
Net (decrease)/increase in cash and cash equivalents		(61.5)	128.7	(57.4)	122.5
Cash and cash equivalents at beginning of year		613.3	484.6	550.9	428.4
Cash and cash equivalents at end of year	36	**551.8**	**613.3**	**493.5**	**550.9**

1. Accounting Policies

Basis of preparation

These Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) of the International Accounting Standards Board (IASB) as endorsed by the European Union (EU), and those parts of the Companies Act 2006 applicable to companies reporting under IFRSs.

In these Financial Statements the 'Company' means Tesco Personal Finance plc and the 'Group' means the Company and its subsidiaries and joint venture. Details of these subsidiaries and joint venture are provided in notes 18 and 19. These Consolidated Financial Statements comprise the Financial Statements of the Group. The Company has elected to take the exemption under section 408 of the Companies Act 2006 not to present the Income Statement and Statement of Comprehensive Income of the Company.

The Consolidated Financial Statements have been prepared under the historical cost convention as modified by the revaluation of derivative financial instruments and available-for-sale investment securities held at fair value.

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

New and amended accounting standards adopted by the Group in the year are detailed in note 42.

Going concern

The Directors have completed an assessment of the Group's going concern status, taking into account both current and projected performance, including projections for the Group's capital and funding position and having regard to the Group's risk profile. As a result of this assessment, the Directors consider the Group to be in a satisfactory financial position and have a reasonable expectation that the Group has adequate resources to continue in business for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis in preparing the Financial Statements.

Principal accounting policies

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

Basis of consolidation

The Consolidated Financial Statements of the Group comprise the Financial Statements of the Company and all consolidated subsidiaries, including certain securitisation structured entities, and the Group's share of its interests in a joint venture, as at 29 February 2016.

Investment in Group undertakings

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The results of subsidiaries are included in the Consolidated Financial Statements from the date that control commences until the date that control ceases. The Company's investments in its subsidiaries are stated at cost less any impairment.

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

1. Accounting Policies (continued)

Securitisation structured entities

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

Investment in joint venture

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

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

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

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

Revenue recognition

Net interest income recognition

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

The EIR method is a method of calculating the amortised cost of a financial asset or financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the expected life of the asset or liability. The EIR is the rate that exactly discounts estimated future cash flows to the instrument's initial carrying amount. Calculation of the EIR takes into account fees receivable that are an integral part of the instrument's yield, premiums or discounts on acquisition or issue, early redemption fees and transaction costs. All contractual and behavioural terms of a financial instrument are considered when estimating future cash flows.

Net fees and commissions income recognition

Fees in respect of services (primarily Credit Card interchange fees) are recognised on an accruals basis when the service to the customer has been provided. The arrangements are generally contractual and the cost of providing the service is incurred as the service is rendered. The price is usually fixed and always determinable.

The Group generates commission from the sale and service of Motor and Home insurance policies underwritten by Tesco Underwriting Limited (TU), or in a minority of cases by a third party underwriter. This is based on commission rates which are independent of the profitability of underlying insurance policies. Similar commission income is also generated from the sale of white label insurance products underwritten by other third party providers. This commission income is recognised as such policies are sold.

1. Accounting Policies (continued)

Customer loyalty programmes

The Group participates in the customer loyalty programme operated by Tesco Stores Limited. The programme operates by allowing customers to accumulate Clubcard points on purchases for future redemption against a range of Tesco products. The cost of providing Clubcard points to customers is recharged by Tesco Stores Limited to the Group and is treated as a deduction from net fees and commissions income in the Financial Statements of the Group in the period the costs are incurred.

The Group has no obligation to customers in respect of Clubcard points once the obligation with Tesco Stores Limited is settled.

Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the Consolidated Income Statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in deferred income as deferred government grants and are credited to the Consolidated Income Statement on a straight-line basis over the expected lives of the related assets.

Where a government grant relates to both costs and expenditure on property, plant and equipment it may be appropriate to allocate part of the grant on one basis and part on another.

Dividend income

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

Taxation

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

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

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

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

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

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

1. Accounting Policies (continued)

Foreign currency translation

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

Monetary items denominated in foreign currency are translated at the closing rate as at the reporting date. Non-monetary items measured at historical cost denominated in a foreign currency are translated at the exchange rate as at the date of initial recognition; non-monetary items in a foreign currency that are measured at fair value are translated using the closing rate as at the reporting date.

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

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

Cash and cash equivalents

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

Financial instruments

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

Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss (FVTPL), loans and receivables, and available-for-sale. Management determines the classification of its financial assets at initial recognition. Purchases and sales of financial assets are recognised on the trade date – the date on which the Group commits to purchase or sell the asset.

Financial assets at FVTPL include financial assets held for trading and those designated at FVTPL at inception. Financial assets held at FVTPL are recognised at fair value with any gains or losses included in the Consolidated Income Statement in the period in which they arise. Transaction costs are expensed at the time of initial recognition. Derivative financial assets are classified as held for trading unless they are accounted for as an effective hedging instrument but are not separately categorised in the Statement of Financial Position. The Group does not currently hold any financial assets designated at FVTPL at inception.

1. Accounting Policies (continued)

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition at fair value plus transaction costs, these assets are carried at amortised cost using the EIR method, less any impairment losses.

Available-for-sale financial assets are non-derivative assets that are either designated in this category or not classified in any of the other categories. Subsequent to initial recognition at fair value plus transaction costs, these assets are recorded at fair value with the movements in fair value recognised in other comprehensive income until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in other comprehensive income is recognised in the Income Statement.

Financial liabilities

All of the financial liabilities held by the Group, other than derivative liabilities, are measured at amortised cost using the EIR method, after initial recognition at fair value. Fair value is calculated as the issue proceeds, net of premiums, discounts and transaction costs incurred. The Group does not hold any financial liabilities classified as held for trading.

Derecognition of financial assets and financial liabilities

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

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

Offsetting of financial instruments

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

Impairment of financial assets

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or portfolio of financial assets is impaired and an impairment loss incurred if there is objective evidence that an event or events since initial recognition of the asset have adversely affected the amount or timing of future cash flows expected from the asset.

Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on a financial asset or group of financial assets classified as loans and receivables has been incurred, the Group measures the amount of the loss as the difference between the carrying amount of the asset or group of assets and the present value of estimated future cash flows from the asset or group of assets discounted at the EIR of the instrument(s) at initial recognition. Impairment losses are assessed individually for financial assets that are individually significant and collectively for assets that are not individually significant. In making the collective assessment of impairment, financial assets are grouped into portfolios on the basis of similar risk characteristics. Future cash flows from these portfolios are estimated on the basis of the contractual cash flows and historical loss experience for assets with similar credit risk characteristics. Historical loss experience is adjusted, on the basis of currently observable data, to reflect the effects of current conditions that did not affect the historical period.

1. Accounting Policies (continued)

Impairment losses are recognised in the Consolidated Income Statement and the carrying amount of the financial asset or group of financial assets is reduced by establishing an allowance for impairment losses. If in a subsequent year the amount of the impairment loss reduces and the reduction can be related objectively to an event after the impairment was recognised, the previously recognised loss is reversed by adjusting the allowance.

When a loan is deemed uncollectable it is written off against the related provision for loan impairment after all of the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off received from customers or other third parties are recognised directly in the Consolidated Income Statement as a reduction in the loan impairment charge for the year.

Financial assets classified as available-for-sale

In the case of debt instruments classified as available-for-sale, the recognition of an impairment loss occurs if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event), and that have an impact on the estimated future cash flows of the financial asset that can be reliably measured. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the Consolidated Income Statement – is removed from equity and recognised in the Consolidated Income Statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases, and the increase can be objectively related to an event occurring after the impairment loss was reported in the Consolidated Income Statement, the impairment loss is reversed through the Consolidated Income Statement.

Derivative financial instruments and hedge accounting

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

Hedge accounting

The Group designates certain hedging instruments as either fair value hedges or cash flow hedges, where it is efficient to do so and the IAS 39, 'Financial Instruments: Recognition and measurement', criteria are met. The Group applies hedge accounting as follows:

Hedge relationships are classified as fair value hedges where the derivative financial instruments hedge the change in the fair value of fixed rate financial assets or financial liabilities due to movements in interest rates.

Hedge relationships are classified as cash flow hedges where the derivative financial instruments hedge the inflation risk on an index linked issued bond.

To qualify for hedge accounting, the Group documents, at the inception of the hedge: the hedging risk management strategy; the relationship between the hedging instrument and the hedged item or transaction; and the nature of the risks being hedged. The Group also documents the assessment of the effectiveness of the hedging relationship, to show that the hedge has been and will be highly effective on an ongoing basis.

1. Accounting Policies (continued)

Fair value hedges

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

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

Cash flow hedges

Changes in the fair value of the derivative financial instruments that are designated as hedges of future cash flows are recognised directly in other comprehensive income and the ineffective portion is recognised immediately in the Consolidated Income Statement. Amounts recognised in other comprehensive income are recycled to the Consolidated Income Statement when equivalent amounts of the hedged item are recognised in profit or loss.

When the hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time is recognised immediately in the Consolidated Income Statement.

Derivative financial instruments not in hedge accounting relationships

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

Impairment of non-financial assets

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

1. Accounting Policies (continued)

Property, plant and equipment

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

Depreciation is charged to the Consolidated Income Statement on a straight-line basis so as to allocate the costs less residual values over the estimated useful lives of the related assets. Depreciation commences on the date that the assets are brought into use. Work in progress assets are not depreciated until they are brought into use and transferred to the appropriate category of property, plant and equipment. Estimated useful lives are:

- Plant and equipment 2 to 8 years
- Fixtures and fittings 4 to 14 years
- Computer hardware 3 to 10 years
- Freehold buildings 40 years
- Leasehold improvements 15 to 20 years

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

Intangible assets

Acquired intangible assets

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

Internally generated intangible assets - research and development expenditure

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

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

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

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

1. Accounting Policies (continued)

Leases

If a lease agreement, in which the Group is a lessee, does not transfer the risks and rewards of ownership of the asset, the lease is recorded as an operating lease.

Operating lease payments are charged to the Consolidated Income Statement on a straight line basis over the period of the lease. Where an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor as compensation is charged to the Consolidated Income Statement in the period in which the termination takes place.

The Group has entered into a number of operating leases for office buildings.

Employee benefits

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

IAS 19 requires that, where there is no policy or agreement for sharing the cost of a defined benefit scheme across the subsidiaries, the Sponsoring employer recognises the net defined benefit cost of a defined benefit scheme. The Sponsoring employer of the funded defined benefit scheme is Tesco PLC and the principal pension plan is the Tesco PLC pension scheme.

Share based payments

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

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

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

Provision for liabilities and charges and contingent liabilities

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

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

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

Contingent liabilities are not recognised in the Consolidated Income Statement but are disclosed unless the possibility of an outflow of resources is remote.

1. Accounting Policies (continued)

Dividends paid

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

Segment reporting

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

In accordance with IFRS 8, 'Operating Segments', the Group has two operating segments, being Banking and Insurance. Income and expenses directly associated with each segment are included in determining business segment performance.

Sale and repurchase agreements

Investment securities sold subject to a commitment to repurchase them at a predetermined price are retained on the Consolidated and Company Statements of Financial Position when substantially all of the risk and rewards of ownership remain with the Group. The counterparty liability is included in deposits from banks.

2. Critical Accounting Estimates and Judgements in Applying Accounting Policies

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

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

Loan impairment provisions

The Group's loan impairment provisions are established to recognise incurred impairment losses in its portfolio of customer loans classified as loans and receivables and carried at amortised cost. A loan is impaired when there is objective evidence that events since the loan was granted have affected expected cash flows from the loan. The impairment loss is the difference between the carrying value of the loan and the present value of estimated future cash flows at the loan's original EIR.

The Group's loan impairment provisions are established on a portfolio basis using a Present Value methodology taking into account the level of arrears, security, past loss experience and defaults based on portfolio trends. The most significant factors in establishing these provisions are the expected loss rates and the expected average lives. These portfolios include Mortgages, Credit Card receivables, Personal Loans and Personal Current Accounts. The future credit quality of these portfolios is subject to uncertainties that could cause actual credit losses to differ materially from reported loan impairment provisions. These uncertainties include the economic environment, notably interest rates and their effect on customer spending, unemployment levels, payment behaviour and bankruptcy trends. As such, significant judgement is applied when determining the level of provisioning. If the probabilities of default used in the impairment calculation were to improve by 10%, for example the probabilities of default reducing from 10% to 9%, the impairment provision on loans and advances would decrease by £4.2m. Alternatively, if probabilities of default were to deteriorate by 10%, the impairment provision on loans and advances would increase by £4.2m. Additionally if recovery rates improve from those presently used within the provisioning models by 10%, for example the recovery rates increasing from 10% to 11%, the impairment provision on defaulted loans and advances would decrease by £5.0m. Alternatively, if recovery rates deteriorate by 10%, the impairment provision on defaulted loans and advances would increase by £5.0m.

The impairment loss on loans and advances is disclosed in further detail in note 8.

Effective interest rate (EIR)

In calculating the EIR of a financial instrument, the Group takes into account all amounts that are integral to the yield. In the case of loans and advances to customers, judgement is applied in estimating future cash flows. Judgement is also required in estimating the expected average lives of customer debt balances. A change in the estimate of any of the key variables in this calculation could have the potential to significantly impact income recognised in the Consolidated Income Statement.

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

Provision for customer redress

The Group has a provision for potential customer redress in relation to Payment Protection Insurance, Credit Card Protection and Consumer Credit Act requirements. Refer to note 26 for further details.

Payment protection insurance (PPI)

The Group handles claims and customer redress in accordance with provisions of the regulatory policy statement PS 10/12.

In November 2015 the Financial Conduct Authority (FCA) issued a Consultation Paper (CP15/39 'rules and guidance in payment protection insurance complaints'). This paper proposes:

- a deadline, to be confirmed, in 2018, by which customers would need to make PPI complaints; and
- new rules and guidance on the handling of PPI complaints in light of the Supreme Court's decision in Plevin v Paragon Personal Finance Limited ('Plevin')

The Group increased its PPI provision by £10.0m during the year to reflect:

- its updated assessment of the current claim rate;
- the impact on current claim volumes of the proposed deadline;
- the impact of new rules proposed in the FCA paper regarding Plevin; and
- the Group's contribution towards the FCA communications campaign relating to the time bar and Plevin.

The final FCA rules, and the implications of the Plevin decision, remain uncertain. Although a significant degree of uncertainty also remains with regard to the ultimate cost of settling PPI complaints, in particular the volume of complaints arising from customers ahead of any deadline to be confirmed by the FCA, the provision balance represents management's best estimate at the reporting date of that cost.

The carrying amount of the PPI provision at 29 February 2016 is £34.6m (2015: £38.0m). The PPI provision will continue to be monitored as the FCA proposals are confirmed and trends in complaint volumes develop.

Credit Card protection

The Group holds a provision of £4.6m (2015: £16.8m) in respect of customer redress relating to the historic sale of certain cardholder protection products to Credit Card customers.

The level of provision held, which was reduced during the year by £6.5m, is based on management's best estimate at the reporting date, relating to the number and value of cases for which compensation may be paid under an industry-wide scheme of arrangement that closed on 18 March 2016. Management's assumption in assessing provision adequacy is that a small number of ex gratia settlements will continue throughout the next financial year.

Consumer Credit Act (CCA)

The Group holds a provision of £11.9m (2015: £31.0m) in respect of customer redress relating to instances where certain requirements of the CCA for post contract documentation were not fully complied with.

In arriving at the provision required, which was reduced during the year by £3.5m, the Group has considered the legal and regulatory position with respect to these matters and has sought legal advice which it took into account when making its judgement. The provision represents management's best estimate at the reporting date of the cost of concluding the redress programme for Loan and Credit Card customers, and in making the estimate management have exercised judgement as to both the timescale for completing the redress campaign and the final scope of any amounts payable.

3. Segmental Reporting

Following the measurement approach of IFRS 8, operating segments are reported in accordance with the internal reporting provided to the Chief Executive and the Board of Directors, who are responsible for allocating resources to the reporting segments and assessing their performance.

The Group has two operating segments:

- Banking - incorporating Credit Cards, Personal Loans, Mortgages, Savings, Personal Current Accounts, ATMs and Money Services; and
- Insurance - incorporating Motor, Home, Pet, Travel and other insurance products.

There were no changes in the reported operating segments during the period. Although the Group serves customers in the Republic of Ireland, this is incorporated within the UK geographic sector for the purpose of internal reporting. All operating segments used by the Group meet the definition of a reportable segment under IFRS 8. There are no transactions between the operating segments. There are no significant seasonal fluctuations that affect the Group's results.

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

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

Group 2016	**Banking £m**	**Insurance £m**	**Central Costs £m**	**Total management reporting £m**	**Consolidation and other adjustments £m**	**Total consolidated £m**
Interest and similar income	541.7	33.1	–	574.8	–	574.8
Interest expense and similar charges	(170.0)	–	–	(170.0)	–	(170.0)
Fees and commissions income	283.5	122.6	–	406.1	–	406.1
Fees and commissions expense	(30.8)	–	–	(30.8)	–	(30.8)
Losses on financial instruments, movements on derivatives and hedge accounting	(8.1)	–	–	(8.1)	–	(8.1)
Realised gain on investment securities	0.6	–	–	0.6	–	0.6
Administrative expenses*	(198.2)	(58.8)	(171.3)	(428.3)	–	(428.3)
Depreciation and amortisation	–	–	(86.0)	(86.0)	–	(86.0)
Impairment	(64.2)	(3.6)	–	(67.8)	–	(67.8)
Share of loss of joint venture	–	(2.6)	–	(2.6)	–	(2.6)
Profit/(loss) before tax	**354.5**	**90.7**	**(257.3)**	**187.9**	**–**	**187.9**
Total assets**	**10,719.8**	**277.1**	**–**	**10,996.9**	**1.7**	**10,998.6**
Total liabilities	**9,423.0**	**(21.2)**	**–**	**9,401.8**	**31.0**	**9,432.8**

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

** The investment of £76.1m in Tesco Underwriting, a joint venture company accounted for using the equity method, is shown within the total assets of the Insurance segment.

3. Segmental Reporting (continued)

Group 2015	**Banking £m**	**Insurance £m**	**Central Costs £m**	**Total management reporting £m**	**Consolidation and other adjustments £m**	**Total consolidated £m**
Interest and similar income	499.5	35.2	–	534.7	–	534.7
Interest expense and similar charges	(156.1)	–	–	(156.1)	–	(156.1)
Fees and commissions income	288.4	131.2	–	419.6	–	419.6
Fees and commissions expense	(29.4)	–	–	(29.4)	–	(29.4)
Provision for customer redress	(27.0)	–	–	(27.0)	–	(27.0)
Losses on financial instruments, movements on derivatives and hedge accounting	(18.6)	–	–	(18.6)	–	(18.6)
Realised gain on investment securities	0.2	–	–	0.2	–	0.2
Administrative expenses*	(193.9)	(66.0)	(167.4)	(427.3)	–	(427.3)
Depreciation and amortisation	–	–	(80.5)	(80.5)	–	(80.5)
Impairment	(48.4)	(4.3)	–	(52.7)	–	(52.7)
Share of profit of joint venture	–	5.3	–	5.3	–	5.3
Profit/(loss) before tax	**314.7**	**101.4**	**(247.9)**	**168.2**	**–**	**168.2**
Total assets**	**9,766.9**	**288.3**	**–**	**10,055.2**	**4.5**	**10,059.7**
Total liabilities	**8,521.9**	**27.4**	**–**	**8,549.3**	**39.8**	**8,589.1**

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

** The investment of £79.7m in Tesco Underwriting, a joint venture company accounted for using the equity method, is shown within the total assets of the Insurance segment.

4. Net Interest Income

	2016 £m	2015 £m
Interest and similar income		
Loans and advances to customers	552.9	511.9
Loans and advances to banks	3.0	3.2
Interest on investment securities	18.9	19.6
	574.8	**534.7**
Interest expense and similar charges		
Deposits from customers	(103.0)	(102.8)
Deposits from banks	(5.7)	(9.3)
Debt securities in issue	(32.3)	(17.6)
Interest rate swap expenses	(24.5)	(23.0)
Subordinated liabilities and notes	(4.5)	(3.4)
	(170.0)	**(156.1)**

5. Net Fees and Commissions Income

	2016 £m	2015 £m
Fees and commissions income		
Banking income	268.4	278.3
Insurance income	124.5	131.2
Other income	13.2	10.1
	406.1	**419.6**
Fees and commissions expense		
Banking expense	**(30.8)**	**(29.4)**

6. Losses on Financial Instruments, Movements on Derivatives and Hedge Accounting

	2016 £m	2015 £m
Foreign exchange gain/(loss) on financial assets	9.4	(9.1)
Net losses arising on derivatives not designated as hedging instruments under IAS 39	(15.1)	(4.5)
Fair value hedge ineffectiveness	(2.4)	(5.0)
	(8.1)	**(18.6)**

7. Administrative Expenses

	2016 £m	2015 £m
Staff costs		
Wages and salaries	108.7	111.7
Social security costs	10.0	9.4
Other pension costs	7.5	3.9
Share based payments	12.1	6.3
Other costs including temporary staff	35.4	28.7
	173.7	**160.0**
Non staff costs		
Premises and equipment	76.2	86.0
Operating leases	4.9	4.9
Marketing	63.0	69.7
Auditor's remuneration (refer below)	0.6	0.7
Outsourcing and professional fees	65.7	64.5
Other administrative expenses	44.2	41.5
	254.6	**267.3**
	428.3	**427.3**

During the year the Group obtained the following services from the incumbent auditor, Deloitte (2015: services were provided by PwC). Details of Deloitte's appointment as the Group's new auditor is included in the Directors' Report.

	2016 £'000	2015 £'000
Audit services		
Audit of the Company and Consolidated Financial Statements	437	472
Audit of the Company's subsidiaries	32	38
	469	**510**
Non audit services		
Audit related assurance services	12	73
Taxation advisory services	76	-
Services related to corporate finance transactions not covered above	–	80
Other non audit services not covered above	86	46
	174	**199**
Total auditor's remuneration	**643**	**709**

7. Administrative Expenses (continued)

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

	2016 Number	2015 Number
Head office and administration	933	1,001
Operations	2,698	2,870
	3,631	**3,871**

8. Impairment on Loans and Advances to Customers

	2016 £m	2015 £m
Loans and advances to customers		
Increase in impairment allowance, net of recoveries* (refer note 13)	64.2	48.4
Insurance premiums written off during the year as uncollectable	3.6	4.3
	67.8	**52.7**

*recoveries include £19.7m received through the sale of non-performing debt to third parties (2015: £4.5m).

9. Directors' Emoluments

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

	2016 £m	2015 £m
Aggregate emoluments	5.2	3.7
Aggregate amounts receivable under long-term incentive schemes	–	–
Loss of office	–	–
Share based payments	1.5	0.7
Total emoluments	**6.7**	**4.4**

	2016 £m	2015 £m
Number of Directors to whom retirement benefits are accruing under defined benefit schemes	–	1
Number of Directors in respect of whose qualifying services shares were received or receivable under long term incentive schemes	–	–
Number of Directors who exercised share options in the year	–	–

The total emoluments of the highest paid Director were £2.2m (2015: £1.7m). During the year the highest paid Director did not exercise any share options (2015: £nil).

At 29 February 2016 the accrued pension and lump sum under a defined benefit scheme for the highest paid Director was £nil (2015: £nil).

During the year to 29 February 2016 one Director (2015: two Directors) left the company. No sum was paid to the Director upon leaving.

10. Income Tax

Income tax expense

		2016	2015
		£m	£m
Current tax charge for the year		52.1	40.8
Adjustments in respect of prior years		(41.8)	(22.6)
Total current tax charge for the year		**10.3**	**18.2**
Deferred tax credit for the year	20	(5.4)	(0.7)
Tax rate change	20	7.3	-
Adjustments in respect of prior years	20	(10.0)	21.5
Total deferred tax (credit)/charge for the year		**(8.1)**	**20.8**
Income tax expense		**2.2**	**39.0**

The standard rate of corporation tax in the UK was changed from 21% to 20% with effect from 1 April 2015. A banking surcharge of 8% was introduced with effect from 1 January 2016. This gives an overall blended Corporation Tax rate for the Group for the full year of 21.4% (2015: 21.2%).

The tax assessed for the full year is lower (2015: higher) than that calculated using the overall blended Corporation Tax rate for the Group. The differences are explained below:

	2016	2015
	£m	£m
Profit before taxation	187.9	168.2
Profit on ordinary activities multiplied by blended rate in the UK of 21.4% (2015: 21.2%)	40.2	35.7
Factors affecting charge for the year:		
Expenses not deductible for tax purposes	3.1	2.8
Adjustment in respect of prior years - current tax*	(41.8)	(22.6)
Adjustment in respect of prior years - deferred tax	(10.0)	21.5
Share based payments	2.4	3.0
Other tax adjustments	0.5	(0.3)
Tax rate change	7.3	-
Share of loss/(profit) of joint venture	0.5	(1.1)
Income tax expense	**2.2**	**39.0**

*The 2016 adjustment in respect of prior years arises largely as a result of group relief being made available to the Company from the Tesco PLC tax group, reducing the tax charge in respect of 2015 by £35.4m. (2015: arises largely as a result of amendments to capital allowances claims).

In July 2015 the Summer Budget Statement included an announcement that the standard rate of corporation tax would be reduced to 19% from 1 April 2017, and further reduced to 18% from 1 April 2020. These rate reductions were enacted by the reporting date and are therefore incorporated in these Financial Statements. The March 2016 Budget Statement included an announcement that the standard rate of corporation tax in the UK would be further reduced to 17% from 1 April 2020. This rate reduction was not enacted by the reporting date and is therefore not incorporated in these Financial Statements.

10. Income Tax (continued)

Income tax relating to components of other comprehensive income

2016	Before tax amount £m	Tax expense £m	Net of tax amount £m
Net losses on available-for-sale investment securities	(2.8)	0.5	(2.3)
Net losses on cash flow hedges	(3.0)	0.7	(2.3)
	(5.8)	**1.2**	**(4.6)**

2015	Before tax amount £m	Tax expense £m	Net of tax amount £m
Net gains on available-for-sale investment securities	2.8	(0.6)	2.2
Net losses on cash flow hedges	(1.3)	0.3	(1.0)
	1.5	**(0.3)**	**1.2**

11. Distributions to Equity Holders

	2016 £m	2015 £m
Ordinary dividend paid	50.0	50.0
Interest payable on subordinated notes	–	1.2
	50.0	**51.2**

On 23 February 2016 a final dividend of £50.0m (£0.0410 per ordinary share) was paid. In the prior year, a final dividend of £50.0m (£0.0410 per ordinary share) was paid on 27 February 2015.

12. Cash and Balances with Central Banks

	Group		Company	
	2016	2015	**2016**	2015
	£m	£m	**£m**	£m
Cash at bank	115.3	116.5	57.0	54.1
Balances held with the Bank of England other than mandatory reserve deposits	436.5	496.8	436.5	496.8
Included in cash and cash equivalents (note 36)	**551.8**	**613.3**	**493.5**	**550.9**
Mandatory reserves deposits held with the Bank of England	13.1	13.0	13.1	13.0
	564.9	**626.3**	**506.6**	**563.9**

Mandatory reserve deposits are not available in the Group's day to day operations and are non interest bearing. Other balances are subject to variable interest rates based on the Bank of England base rates.

13. Loans and Advances to Customers

Group and Company	**2016**	**2015**
	£m	**£m**
Secured Mortgage lending	1,671.8	1,198.3
Unsecured lending	6,997.5	6,651.9
Fair value hedge adjustment	30.3	14.6
Gross loans and advances to customers	**8,699.6**	**7,864.8**
Less: allowance for impairment	**(153.9)**	**(139.5)**
Net loans and advances to customers	**8,545.7**	**7,725.3**
Current	3,820.9	3,817.2
Non-current	4,724.8	3,908.1

Loans and advances assigned for use as collateral in securitisation transactions.

At 29 February 2016, £2,629.5m (2015: £3,011.3m) of the Credit Card portfolio had its beneficial interest assigned to a securitisation structured entity, Delamare Cards Receivables Trustee Limited, for use as collateral in securitisation transactions.

At 29 February 2016, Delamare Cards MTN Issuer plc had £1,800.0m (2015: £2,000.0m) notes in issue in relation to securitisation transactions, of which £800.0m (2015: £500.0m) related to externally issued notes (refer to note 25). At 29 February 2016 the Group owned £1,000.0m (2015: £1,500.0m) of Credit Card backed notes issued by Delamare Cards MTN Issuer plc.

Loans and advances prepositioned with Bank of England

Group and Company	**2016**	**2015**
	£m	**£m**
Credit Card backed notes*	778.8	–
Unsecured Personal Loans	1,248.4	2,647.2
Total assets prepositioned with Bank of England	**2,027.2**	**2,647.2**

*issued by Delamare Cards MTN Issuer plc

13. Loans and Advances to Customers (continued)

Loans and advances pledged with Bank of England to collateralise Funding for Lending Scheme (FLS) drawings.

Group and Company	2016 £m	2015 £m
Credit Card backed notes*	–	1,290.0
Secured Mortgage lending	577.4	–
Total assets pledged as collateral with Bank of England	**577.4**	**1,290.0**
Collateralised FLS Drawings	**389.0**	**789.0**

*issued by Delamare Cards MTN Issuer plc

Fair value hedge adjustments

Fair value hedge adjustments amounting to £30.3m (2015: £14.6m) are in respect of fixed rate Loans and Mortgages. These adjustments are largely offset by derivatives, which are used to manage interest rate risk and are designated as fair value hedges within loans and advances to customers.

Allowance for impairment

The following table shows the movement in the provision for impairment on loans and advances to customers:

Group and Company	2016 £m	2015 £m
At beginning of year	139.5	156.9
Amounts written off	(47.3)	(63.2)
Increase in allowance, net of recoveries*, charged to the income statement (refer to note 8)	64.2	48.4
Foreign currency translation	0.2	(0.1)
Unwind of discount	(2.7)	(2.5)
At end of year	**153.9**	**139.5**

*recoveries include £19.7m received through the sale of non-performing debt to third parties (2015: £4.5m).

14. Derivative Financial Instruments

Strategy in using derivative financial instruments

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

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

Fair value hedge

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

Included in the Consolidated Income Statement is £33.0m of fair value losses on interest rate swaps in designated fair value hedges (2015: losses of £25.3m), offset by gains on fair value hedge adjustments on hedged items of £30.6m (2015: gains of £20.3m). The net loss of £2.4m (2015: loss of £5.0m) represents ineffectiveness in the fair value hedge relationships.

Cash flow hedge

The Group held five interest rate swaps (2015: eighteen) as cash flow hedges. The Group holds these hedges to mitigate the variability in cash flows associated with debt securities in issue and, for the period until June 2015, to mitigate the interest rate risk on the pipeline balance of Mortgage products.

Ineffectiveness recognised in the Consolidated Income Statement in respect of cash flow hedges for the 12 months to 29 February 2016 was £nil (2015: £nil).

There were no transactions for which cash flow hedge accounting had to be ceased in the current or prior year as a result of the cash flows from the pipeline Mortgage products not occurring.

14. Derivative Financial Instruments (continued)

Derivatives not in a hedge relationship

All derivative financial instruments are held for economic hedging purposes, although not all derivatives are designated as hedging instruments under the terms of IAS 39. The Group has the following derivative contracts in economic hedge relationships but not in accounting hedge relationships.

- Forward foreign exchange contracts to hedge the exchange rate risk of the initial funding of the Euro Credit Card business and eventual repayments by customers.
- Cross currency swaps to hedge the exchange rate risk inherent in the investment securities denominated in foreign currencies.
- Interest rate swaps that were not previously held in hedge accounting relationships and are viewed as trading derivatives under IAS 39.

The analysis below splits derivatives between those classified in hedge accounting relationships and those not in hedge accounting relationships.

Group and Company 2016	**Notional £m**	**Asset fair value £m**	**Liability fair value £m**
Derivatives in hedge accounting relationships			
Derivatives designated as fair value hedges			
Interest rate swaps	3,495.7	12.9	(129.1)
Derivatives designated as cash flow hedges			
Interest rate swaps	60.0	–	(1.9)
RPI basis swaps	60.0	7.4	–
	3,615.7	**20.3**	**(131.0)**

Group and Company 2016	**Notional £m**	**Asset fair value £m**	**Liability fair value £m**
Derivatives not in hedge accounting relationships			
Interest rate derivatives			
Interest rate swaps	2,303.7	5.1	(13.8)
Currency derivatives			
Forward foreign exchange contracts	32.7	–	(1.2)
Cross currency swaps	64.3	3.9	(4.5)
	2,400.7	**9.0**	**(19.5)**
	6,016.4	**29.3**	**(150.5)**

14. Derivative Financial Instruments (continued)

Group and Company 2015	Notional £m	Asset fair value £m	Liability fair value £m
Derivatives in hedge accounting relationships			
Derivatives designated as fair value hedges			
Interest rate swaps	2,958.7	7.9	(79.6)
Derivatives designated as cash flow hedges			
Interest rate swaps	147.8	0.4	(0.3)
RPI basis swaps	60.0	5.6	–
	3,166.5	**13.9**	**(79.9)**

Group and Company 2015	Notional £m	Asset fair value £m	Liability fair value £m
Derivatives not in hedge accounting relationships			
Interest rate derivatives			
Interest rate swaps	3,621.6	6.2	(6.4)
Currency derivatives			
Forward foreign exchange contracts	31.5	1.8	–
Cross currency swaps	79.6	9.8	(0.6)
	3,732.7	**17.8**	**(7.0)**
	6,899.2	**31.7**	**(86.9)**

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

	Assets 2016 £m	Assets 2015 £m	**Liabilities 2016 £m**	Liabilities 2015 £m
Current	-	5.2	(7.3)	(4.9)
Non-current	29.3	26.5	(143.2)	(82.0)
	29.3	**31.7**	**(150.5)**	**(86.9)**

The analysis below details the ineffectiveness in the fair value hedge relationships included in the Consolidated Income Statement:

	2016 £m	2015 £m
Fair value losses on interest rate swaps in designated fair value hedges	(33.0)	(25.3)
Fair value hedge adjustments on hedged items	30.6	20.3
Net losses in Consolidated Income Statement	**(2.4)**	**(5.0)**

15. Investment Securities

Group and Company	2016 £m	2015 £m
Available-for-sale		
Government-backed investment securities	88.6	93.8
Gilts	629.6	492.9
Supranational investments securities	184.2	202.7
Other investment securities	77.7	37.9
Equity securities	3.5	–
	983.6	**827.3**
Loans and receivables		
Loan to Tesco Underwriting Limited	34.1	34.1
	34.1	**34.1**
Current	90.6	145.0
Non-current	927.1	716.4

There were no impairment charges within the year (2015: £nil).

Available-for-sale

Included in investment securities are fixed-interest investment securities totalling £907.1m (2015: £756.4m) and variable-interest investment securities amounting to £73.0m (2015: £70.9m).

The equity security above relates to the fair value of the Group's interest in Visa Europe of £3.5m, which has been assessed against the expected cash consideration to be received from the proposed sale to Visa Inc. The proposed sale is expected to complete during the second calendar quarter of 2016. The Group will also receive preferred stock as part of this transaction, which may be convertible into class A Common Stock of Visa Inc at certain future dates. Conversion is contingent on future events, principally related to the outcome of interchange litigation against Visa. Due to the inherent uncertainty relating to the outcome of this litigation, no value has been attributed to the preferred stock in these Consolidated Financial Statements.

Loans and receivables

The loan to Tesco Underwriting Limited comprises a LIBOR +3.5% subordinated loan of £34.1m (2015: £34.1m). No impairment charges were recognised on the loan (2015: £nil).

Assets pledged as collateral

Available-for-sale investment securities with a market value of £33.1m (2015: £43.3m) are pledged as collateral under repurchase agreements with other banks. All collateral agreements mature within 12 months.

16. Prepayments and Accrued Income

Group and Company	2016	2015
	£m	£m
Prepayments	6.4	8.8
Accrued income	36.7	32.2
	43.1	**41.0**

All amounts are classified as current at the year end.

17. Other Assets

	Group		Company	
	2016	2015	**2016**	2015
	£m	£m	**£m**	£m
Amount due from insurance premiums and commissions receivable	19.8	19.9	19.8	19.9
Accounts receivable and sundry receivables	245.8	172.0	259.9	172.0
Amounts due from Tesco Group subsidiaries	11.4	8.6	11.4	8.6
Amounts due from Tesco Personal Finance Group Ltd and its subsidiaries	0.3	0.3	24.4	51.0
	277.3	**200.8**	**315.5**	**251.5**

All amounts are classified as current at the year end.

18. Investment in Group Undertakings

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

Name of company	Nature of business	Place of incorporation
Delamare Cards Holdco Limited	Securitisation entity	UK
Delamare Cards MTN Issuer plc	Securitisation entity	UK
Delamare Cards Receivables Trustee Limited	Securitisation entity	UK
Delamare Cards Funding 1 Limited	Securitisation entity	UK
Delamare Cards Funding 2 Limited	Securitisation entity	UK

All of the above companies have a financial year end of 31 December. The management accounts of these entities are used to consolidate the results to 29 February 2016 within these Consolidated Financial Statements.

19. Investment in Joint Venture

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

Group	2016 £m	2015 £m
At beginning of year	79.7	77.3
Share of (loss)/profit of joint venture	(2.6)	5.3
Dividends received	–	(7.4)
Share of available-for-sale reserve of joint venture *	(1.0)	4.5
At end of year	**76.1**	**79.7**

*The Group's share of the movement in the available-for-sale reserve represents the recognised portion of other comprehensive (expense)/income of the joint venture.

Details of the Group's joint venture

			Ownership interest	
Name of company	**Nature of business**	**Place of Incorporation**	**2016**	**2015**
Tesco Underwriting Limited	Insurance	England	49.9%	49.9%

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

The Group uses the equity method of accounting for its investment in TU, which has a financial year end of 31 December. The accounting year end date for TU differs from that of the Group as it is in line with the other joint venture partner. The management accounts of TU are used to consolidate the results to 29 February 2016 within these Consolidated Financial Statements.

Summarised financial information for the joint venture

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

Group	2016 £m	2015 £m
Non-current assets	751.2	726.5
Current assets	153.8	176.3
Current liabilities	(689.8)	(404.8)
Non-current liabilities	(68.3)	(344.0)
Net assets	**146.9**	**154.0**
Cash and cash equivalents	**67.4**	**93.9**
Current financial liabilities (excluding trade and other payables and provisions)	**(14.8)**	**(9.9)**
Non-current financial liabilities (excluding trade and other payables and provisions)	**(68.3)**	**(68.3)**

19. Investment in Joint Venture (continued)

	2016 £m	2015 £m
Income Statement		
Revenue	387.5	420.0
Expenses including claims costs	(392.6)	(409.4)
(Loss)/profit for the year	**(5.1)**	**10.6**
Other comprehensive (expenses)/income	(2.0)	14.0
Total comprehensive (expenses)/income	**(7.1)**	**24.6**

The above (loss)/profit includes the following:

	2016 £m	2015 £m
Depreciation and amortisation	(3.5)	(3.6)
Interest income	13.1	13.5
Interest expense	(2.9)	(2.9)
Income tax credit/(charge)	2.3	(2.1)

Reconciliation of the summarised financial position

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

Group	**2016 £m**	2015 £m
Net assets of the joint venture	146.9	154.0
Group share at 49.9%	73.3	76.9
Capitalised legal costs included in investment carrying value	2.8	2.8
Carrying value of investment in joint venture at end of year	**76.1**	**79.7**

Other information

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

Company

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

Company	**2016 £m**	2015 £m
At beginning and end of year	**71.0**	**71.0**

20. Deferred Income Tax Liability

The deferred tax liability can be analysed as follows:

2016 **Group and Company**	**Accelerated capital allowances £m**	**Other £m**	**Total £m**
At beginning of year	(45.1)	5.3	(39.8)
Credited/(charged) to the Consolidated Income Statement in the current year	6.4	(1.0)	5.4
Credited/(charged) to the Consolidated Income Statement for prior years	13.4	(3.4)	10.0
Credited to equity	–	0.7	0.7
Change in tax rate	(7.6)	0.3	(7.3)
At end of year	**(32.9)**	**1.9**	**(31.0)**
Deferred tax asset to be recovered within one year			1.4
			1.4
Deferred tax liability to be recovered within one year			(11.8)
Deferred tax liability to be recovered after more than one year			(20.6)
			(32.4)
Deferred tax liabilities (net)			**(31.0)**

2015 **Group and Company**	**Accelerated capital allowances £m**	**Other £m**	**Total £m**
At beginning of year	(36.0)	16.7	(19.3)
Credited/(charged) to the Consolidated Income Statement in the current year	3.3	(2.6)	0.7
Credited/(charged) to the Consolidated Income Statement for prior years	(12.4)	(9.1)	(21.5)
Credited to equity	–	0.3	0.3
At end of year	**(45.1)**	**5.3**	**(39.8)**
Deferred tax asset to be recovered within one year			6.9
			6.9
Deferred tax liability to be recovered within one year			(14.0)
Deferred tax liability to be recovered after more than one year			(32.7)
			(46.7)
Deferred tax liabilities (net)			**(39.8)**

21. Intangible Assets

Group and Company	Work in Progress £m	Computer software £m	Total £m
Cost			
At 1 March 2015	28.2	566.4	594.6
Additions	29.2	5.0	34.2
Transfers	(34.0)	33.3	(0.7)
Disposals	(1.7)	(0.1)	(1.8)
At 29 February 2016	**21.7**	**604.6**	**626.3**
Accumulated amortisation			
At 1 March 2015	–	(192.0)	(192.0)
Charge for the year	–	(70.4)	(70.4)
At 29 February 2016	**–**	**(262.4)**	**(262.4)**
Net carrying value			
At 29 February 2016	**21.7**	**342.2**	**363.9**
Cost			
At 1 March 2014	124.1	439.5	563.6
Additions	35.8	9.3	45.1
Transfers	(130.5)	130.6	0.1
Impairments	–	(8.4)	(8.4)
Disposals	(1.2)	(4.6)	(5.8)
At 28 February 2015	**28.2**	**566.4**	**594.6**
Accumulated amortisation			
At 1 March 2014	–	(135.9)	(135.9)
Charge for the year	–	(62.9)	(62.9)
Impairments	–	4.8	4.8
Disposals	–	2.0	2.0
At 28 February 2015	**–**	**(192.0)**	**(192.0)**
Net carrying value			
At 28 February 2015	**28.2**	**374.4**	**402.6**

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

22. Property, Plant and Equipment

Group and Company	Work in Progress	Plant and Equipment	Fixtures and Fittings	Computer Hardware	Freehold Buildings	Leasehold Improvement	Total
Cost	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
At 1 March 2015	4.3	3.0	13.0	126.6	28.2	19.9	195.0
Additions	1.8	–	1.4	1.8	–	2.8	7.8
Transfers	(1.6)	–	0.1	2.2	–	–	0.7
Disposals	(0.1)	–	(0.3)	(0.8)	–	–	(1.2)
At 29 February 2016	**4.4**	**3.0**	**14.2**	**129.8**	**28.2**	**22.7**	**202.3**
Accumulated Depreciation							
At 1 March 2015	–	(3.0)	(6.6)	(90.4)	(2.4)	(6.2)	(108.6)
Charge for the year	–	–	(2.0)	(10.5)	(0.7)	(2.4)	(15.6)
Disposals	–	–	–	0.8	–	–	0.8
At 29 February 2016	**–**	**(3.0)**	**(8.6)**	**(100.1)**	**(3.1)**	**(8.6)**	**(123.4)**
Net carrying value							
At 29 February 2016	**4.4**	**–**	**5.6**	**29.7**	**25.1**	**14.1**	**78.9**
At 1 March 2014	1.0	3.0	15.6	120.4	28.1	19.8	187.9
Additions	3.3	–	1.2	9.5	0.1	0.1	14.2
Transfers	–	–	–	(0.1)	–	–	(0.1)
Impairments	–	–	–	(0.5)	–	–	(0.5)
Disposals	–	–	(3.8)	(2.7)	–	–	(6.5)
At 28 February 2015	**4.3**	**3.0**	**13.0**	**126.6**	**28.2**	**19.9**	**195.0**
Accumulated Depreciation							
At 1 March 2014	–	(2.9)	(5.7)	(79.9)	(1.7)	(4.9)	(95.1)
Charge for the year	–	(0.1)	(2.5)	(13.0)	(0.7)	(1.3)	(17.6)
Impairments	–	–	–	0.5	–	–	0.5
Disposals	–	–	1.6	2.0	–	–	3.6
At 28 February 2015	**–**	**(3.0)**	**(6.6)**	**(90.4)**	**(2.4)**	**(6.2)**	**(108.6)**
Net carrying value							
At 28 February 2015	**4.3**	**–**	**6.4**	**36.2**	**25.8**	**13.7**	**86.4**

Work in progress at 29 February 2016 relates to predominantly to the development of IT assets. Property, plant and equipment balances are non-current.

23. Deposits from Banks

Group and Company	2016 £m	2015 £m
Deposits from banks	**82.0**	106.5

Deposits from banks include balances of £82.0m (2015: £97.4m) which have been sold under sale and repurchase agreements. All amounts are classified as current at the year end.

24. Deposits from Customers

Group and Company	2016 £m	2015 £m
Deposits from Tesco Personal Finance Group companies	1.2	1.2
Retail deposits	7,397.3	6,913.6
	7,398.5	**6,914.8**
Current	5,825.8	5,914.7
Non-current	1,572.7	1,000.1

25. Debt Securities in Issue

	Interest rate	Par value £m	Term (years)	Maturity date	2016 £m	2015 £m
Group						
Fixed rate retail bond – issued 24 February 2011	5.2%	125.0	7.5	2018	132.3	135.4
RPI bond – issued 16 December 2011	1.0%	65.7	8	2019	65.7	59.7
Fixed rate retail bond – issued 21 May 2012	5.0%	200.0	8.5	2020	210.9	204.8
Floating rate AAA bond (A1) [1]	1M LIBOR + 0.45%	150.0	5	2019	149.6	149.5
Floating rate AAA bond (A2) [2]	1M LIBOR + 0.65%	350.0	7	2021	348.9	348.6
Floating rate AAA bond (A1) [3]	1M LIBOR + 0.65%	300.0	5	2020	299.2	–
					1,206.6	**898.0**
Company						
Fixed rate retail bond – issued 24 February 2011	5.2%	125.0	7.5	2018	132.3	135.4
RPI bond – issued 16 December 2011	1.0%	65.7	8	2019	65.7	59.7
Fixed rate retail bond – issued 21 May 2012	5.0%	200.0	8.5	2020	210.9	204.8
					408.9	**399.9**

All Floating Rate Bonds were issued by Delamare Cards MTN Issuer plc and are listed on the Irish Stock Exchange. All retail bonds are listed on the London Stock Exchange. All balances are classified as non-current at the year end.

[1] This Bond was issued on 6 June 2014. The scheduled redemption date of this Bond is 2017.

[2] This Bond was issued on 6 June 2014. The scheduled redemption date of this Bond is 2019.

[3] This Bond was issued on 13 May 2015. The scheduled redemption date of this Bond is 2018.

26. Provisions for Liabilities and Charges

Group and Company **2016**	**Customer Redress Provision £m**	**Insurance Provisions £m**	**Dilapidations Provision**	**Total £m**
At beginning of year	85.8	4.3	–	90.1
Charged to Consolidated Income Statement	–	–	2.8	2.8
Utilised during the year	(34.7)	–	–	(34.7)
At end of year	**51.1**	**4.3**	**2.8**	**58.2**

Customer redress provision - Payment protection insurance

Of the total customer redress provision balance at 29 February 2016, £34.6m (2015: £38.0m) has been provided for customer redress in respect of potential customer complaints arising from historic sales of Payment Protection Insurance (PPI).

In November 2015 the FCA issued a Consultation Paper (CP15/39, 'rules and guidance in payment protection insurance complaints'). This paper proposes:

- a deadline, to be confirmed, in 2018, by which customers would need to make PPI complaints; and
- new rules and guidance on the handling of PPI complaints in light of the Supreme Court's decision in Plevin v Paragon Personal Finance Ltd ('Plevin')

The Group increased its PPI provision by £10.0m during the year to reflect:

- its updated assessment of the current claim rate;
- the impact on current claim volumes of the proposed deadline;
- the impact of new rules proposed in the FCA paper regarding Plevin; and
- the Group's contribution towards the FCA communications campaign relating to the time bar and Plevin.

The final FCA rules, and the implications of the Plevin decision, remain uncertain.

Although a significant degree of uncertainty also remains with regard to the ultimate cost of settling PPI complaints, in particular the volume of complaints arising from customers ahead of any deadline to be confirmed by the FCA, the provision balance represents management's best estimate at the reporting date of that cost.

The PPI provision will continue to be monitored as the FCA proposals are confirmed and trends in complaint volumes develop.

This balance provides redress capacity at current run rates (average of last 3 months) for a total of 28 months.

The table below details for each key assumption, actual data to 29 February 2016, forecast assumptions used in assessing the PPI provision adequacy and a sensitivity assessment demonstrating the impact on the provision of a variation in the future experience.

			Sensitivity	
Assumption	**Cumulative actual**	**Future expected**	**Change in assumption**	**Consequential change in provision £m**
Customer initiated complaints settled	96,263	11,203	+/- 1,000 complaints	+/- 1.6
Average redress per valid claim	£1,853	£1,623	+/- £100	+/- 1.1

26. Provisions for Liabilities and Charges (continued)

Customer redress provision - Credit Card protection

The Group holds a provision of £4.6m (2015: £16.8m) in respect of customer redress relating to the historic sale of certain cardholder protection products to Credit Card customers.

The level of provision held, which was reduced during the year by £6.5m, is based on management's best estimate at the reporting date, relating to the number and value of cases for which compensation may be paid under an industry-wide scheme of arrangement that closed on 18 March 2016. Management's assumption in assessing provision adequacy is that a small number of ex gratia settlements will continue throughout the next financial year.

The table below details, for each key assumption, actual data to 29 February 2016, forecast assumptions used in assessing the scheme of arrangement provision adequacy and a sensitivity assessment demonstrating the impact on the provision of a variation in the future experience.

			Sensitivity	
Assumption	**Cumulative actual**	**Future expected**	**Change in assumption**	**Consequential change in provision £m**
Customer initiated complaints settled	31,587	3,998	+/- 500 complaints	+/- 0.1
Average redress per valid claim	£180	£224	+/- £20	+/- 0.1

Customer redress provision - Consumer credit act

The Group holds a provision of £11.9m (2015: £31.0m) in respect of customer redress relating to instances where certain requirements of the CCA for post contract documentation were not fully complied with.

In arriving at the provision required, which was reduced during the year by £3.5m, the Group has considered the legal and regulatory position with respect to these matters and has sought legal advice which it took into account when making its judgement. The provision represents management's best estimate at the reporting date of the cost of concluding the redress programme for Loan and Credit Card customers, and in making the estimate management have exercised judgement as to both the timescale for completing the redress campaign and the final scope of any amounts payable.

Other provisions

The insurance provision relates to insurance policy cancellation by customers. This balance is classified as current at the year-end.

The dilapidations provision relates to costs of returning properties leased by the Group to their unaltered condition at the end of the lease terms. The provision is classified as non-current due to the remaining term of the property leases.

27. Accruals and Deferred Income

Group and Company	2016 £m	2015 £m
Amounts accrued to Tesco Group subsidiaries	8.0	10.1
Amounts accrued to Tesco Personal Finance Group Limited	0.7	0.7
Other accruals	107.8	98.3
Deferred income	11.7	10.9
	128.2	**120.0**

All amounts are classified as current at the year end.

28. Other Liabilities

	Group		Company	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Accounts payable and sundry payables	117.5	112.7	117.7	114.7
Amounts owed to Tesco Group subsidiaries	10.9	8.4	10.9	8.4
Insurance payables	8.1	13.8	8.1	13.8
Taxation and social security	6.3	8.1	6.3	8.1
Amounts due to Tesco Personal Finance Group Limited subsidiaries	–	-	776.0	484.4
	142.8	**143.0**	**919.0**	**629.4**

All amounts are classified as current at the year end.

29. Subordinated Liabilities and Notes

Group and Company	2016 £m	2015 £m
Floating rate subordinated loans maturing 2030	190.0	190.0
Undated floating rate notes	45.0	-
	235.0	**190.0**

Subordinated liabilities and notes comprise loan capital issued to Tesco Personal Finance Group Limited. This includes £190.0m (2015: £190.0m) of subordinated loans maturing in 2030 and £45.0m (2015: £nil) of undated notes with no fixed maturity date. All balances are classified as non-current at the year end. In previous years the dated loans were classified as a liability and the undated notes were classified as equity in the Statement of Financial Position.

On 9 January 2014, the Group re-documented both the dated and undated loan notes to ensure full compliance with Capital Requirements Directive IV (CRD IV) regulations. A review in the year of the revised loan agreements concluded that the undated notes are more appropriately classified as a liability under the requirements of IAS 32, 'Financial Instruments: Presentation', rather than equity. As a result the total balance of £45.0m has been reclassified from equity to liabilities in the year. Interest payments on the loan notes have also been classified as interest payable in the current year (refer to note 4). Interest payable on the subordinated notes is based on three month LIBOR plus a spread ranging from 120 to 220 basis points (2015: Three month LIBOR plus a spread ranging from 120 to 220 basis points). Prior year balances have not been restated in accordance with IAS 8 as the impact on the Statement of Financial Position and Consolidated Income Statement is not material. Both the dated and undated amounts are included in the Group's qualifying subordinated debt for regulatory capital reporting at 29 February 2016 (refer to note 38) which is consistent with the treatment at 28 February 2015.

30. Share Capital and Share Premium Account

Group and Company	**2016 Number**	**2016 £m**	2015 Number	2015 £m
Authorised				
Ordinary shares of 10p each	Unlimited		Unlimited	
Allotted, called up and fully paid				
Ordinary shares of 10p each	1,219,900,000	122.0	1,219,900,000	122.0

The following table shows the aggregate movement in share capital and share premium in the year.

Group and Company	**Share capital 2016 £m**	Share capital 2015 £m	**Share premium account 2016 £m**	Share premium account 2015 £m
At beginning and end of year	**122.0**	122.0	**1,097.9**	1,097.9

31. Other Reserves

	Group 2016 £m	Group 2015 £m	**Company 2016 £m**	Company 2015 £m
Cash flow hedge reserve	(1.6)	0.7	(1.6)	0.7
Available-for-sale reserve	5.4	8.7	5.7	8.0
Share based payment reserve	23.3	13.2	23.3	13.2
	27.1	22.6	**27.4**	21.9

Cash flow hedge reserve

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

Available-for-sale reserve

Available-for-sale financial assets are initially recognised at fair value and measured subsequently at fair value with gains and losses being recognised in the Statement of Other Comprehensive Income (except for impairment losses and foreign exchange gains and losses which are immediately recognised in the Consolidated Income Statement) until the financial asset is derecognised.

The consolidated available-for-sale reserve also includes the Group's share of the available-for-sale reserve of its joint venture, Tesco Underwriting Limited.

Share based payment reserve

The fair value of Tesco PLC equity-settled share options granted to employees of the Group is included in the share based payment reserve. Deferred tax in relation to movements on this reserve was £nil (2015: £nil).

32. Subordinated Notes

Group and Company	2016 £m	2015 £m
Undated floating rate notes	-	45.0

On 9 January 2014, the Group re-documented both the dated and undated loan notes to ensure full compliance with CRD IV regulations. A review in the year of the revised loan agreements concluded that the undated notes are more appropriately classified as a liability under the requirements of IAS 32 rather than equity. As a result the total balance of £45.0m has been reclassified from equity to liabilities in the year. Interest payments on the loan notes have also been classified as interest payable in the year (refer to note 4).

Prior year balances have not been restated in accordance with IAS 8 as the impact on the Statement of Financial Position and Income Statement is not material. Both the dated and undated amounts are included in the Group's qualifying subordinated debt for regulatory capital reporting at 29 February 2016 (refer to note 38) which is consistent with the treatment at 28 February 2015.

33. Employee Benefit Liability

The Group made contributions in the year to a funded defined benefit scheme and a funded defined contribution scheme. Both of these schemes are operated by Tesco PLC (Sponsoring Employer).

Defined benefit plans

The Group made contributions in the year to a funded defined benefit scheme, of which the Sponsoring Employer is Tesco PLC. The principal pension plan is the Tesco PLC pension scheme, a funded defined benefit pension scheme in the UK, the assets of which are held as a segregated fund and administered by the Trustee. The Career Average section of that Scheme ('Pension Builder') was closed to new members and future accrual on 21 November 2015. As a result of the closure, all active members of the Scheme became deferred members. Tesco PLC has recognised the appropriate net liability of the Tesco PLC pension scheme in accordance with IAS 19 'Employee Benefits'.

Defined contribution plans

A new defined contribution scheme was opened on 22 November 2015 and is open to all Group employees in the UK. As part of Tesco PLC's consultation process leading up to the closure, it was agreed that all members of the defined benefit scheme who remained employed in January 2016 would receive a one-off payment into the new defined contribution scheme equivalent to one week's salary (capped at £500 per member).

Detailed disclosures, in line with the requirements of IAS 19, are included in the Tesco PLC 2016 annual report.

34. Risk Management

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

Through its normal operations, the Group is exposed to a number of risks, the most significant of which are credit risk, operational risk, liquidity and funding risk, market risk, insurance risk, residual price risk and legal and regulatory risk. The key risk management processes and tools are described in detail on pages 7 to 14, within the Strategic Report.

Credit Risk

Types of credit risk

- **Retail credit risk**

Retail credit risk is the risk that a borrower or counterparty fails to pay the interest or to repay the capital on borrowing. All lending is carefully underwritten and the performance of all loans is monitored closely. Regular management reports are submitted to the Board and appropriate Committees.

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 a customer's income and outgoings, to confirm that they have the ability to repay the advances they are seeking.

Valuations: Independent property valuations are undertaken at Mortgage inception. The Group's Mortgage assets are revalued quarterly using a regional house price valuation index model.

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

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. Key Risk Indicators (KRIs) 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.

34. Risk Management (continued)

- **Wholesale credit risk**

The Group does not operate in the mainstream commercial or corporate lending market. However the Group is exposed to Wholesale Credit Risk within its liquid asset portfolio with the inherent risk that these counterparties could fail to meet their obligation.

Controls and risk mitigants

Control framework: To mitigate this risk a framework has been established that comprises defined country, counterparty, instrument types and maturity profiles. The Group's defined Risk Appetite specifies the minimum investment grade ratings counterparties require. The framework also sets limits on the amounts that can be lent based on counterparty creditworthiness, instrument type and remaining tenor.

Monitoring and reporting: Exposures are monitored daily with monthly reporting against Key Performance Indicator (KPI) thresholds and limits to the Risk Management Committee (RMC).

Credit risk exposures

The table below relates to credit risk exposures of both on and off balance sheet assets. This represents a worst case scenario of credit risk exposure at the year end. For on balance sheet assets, the balances set out below are based on net carrying amounts as reported in the Statement of Financial Position.

	2016	**2015**
Credit risk exposures relating to on balance sheet items	**£m**	**£m**
Cash and balances with central banks*	564.9	626.3
Loans and advances to customers	8,545.7	7,725.3
Derivative financial instruments	29.3	31.7
Investment securities:		
- Available-for-sale	983.6	827.3
- Loans and receivables	34.1	34.1
Other assets*	277.3	200.8
Total credit risk exposures relating to on balance sheet items	**10,434.9**	**9,445.5**
Credit risk exposures relating to off balance sheet items		
Personal Current Account overdraft commitments	3.0	1.3
Mortgage commitments	90.5	67.9
Credit Card commitments	11,767.7	11,420.7
Other commitments	5.6	5.6
FLS	389.0	789.0
Total credit risk exposures relating to off balance sheet items	**12,255.8**	**12,284.5**
Total credit risk exposures	**22,690.7**	**21,730.0**

* On a Company basis, cash and balances with central banks is £506.6m (2015: £563.9m) and other assets is £315.5m (2015: £251.5m).

As shown above, 81.9% of the total maximum exposure to on balance sheet assets for the Group is derived from loans and advances to customers (2015: 81.8%) and 9.4% represents investments in financial assets classified as available-for-sale (2015: 8.8%).

34. Risk Management (continued)

- **Credit risk: Collateral**

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

Controls and risk mitigants

To mitigate this risk all Mortgages are secured by a first charge over the property being purchased or remortgaged, to safeguard the Group's proceeds in the event of a forced property sale situation. Valuation of the property is assessed as part of the application process by a RICS (the Royal Institute of Chartered Surveyors) certified valuer from the Group's approved panel of valuers.

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

The table below details the value of property collateral held against the Group's Mortgage portfolio.

Collateral held against Mortgage portfolio	2016	2015
	£m	£m
Exposure*	1,669.7	1,196.8
Collateral	3,289.7	2,340.9
Cover	197.0%	195.6%

* The Mortgage balances above represent the credit risk inherent in the Mortgage products and excludes accrued interest and fair value adjustments.

- **Credit risk: Concentration risk**

The Group is potentially exposed to this risk by becoming concentrated in certain geographic areas or product profiles e.g. a disproportionate level of high Loan to Value (LTV) 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 Risk Appetite limits and trigger thresholds that are regularly monitored and reported to the appropriate senior management team and risk committees.

Concentration profiles

The following tables provide concentration profiles in terms of the geographic distribution of the Group's exposures by: material asset class; the LTV profile for the Mortgage portfolio; and analysis of material asset class by industry type.

34. Risk Management (continued)

- **Credit risk: Mortgage portfolio - LTV distribution profile**

Loans are originated on an income verified basis over a range of fixed and tracker products. All loans are repaid on a capital and interest basis, where the loan is repaid over the agreed term of the loan.

The table below provides the LTV distribution profile for the Group's Mortgage portfolio by weighted average balance. The overall average LTV for the portfolio is 50.8% (2015: 51.1%) which is well within agreed Risk Appetite parameters.

	2016 £m	2015 £m
Less than 50%	494.7	372.5
50% to 60%	266.9	222.3
60% to 70%	371.2	225.8
70% to 80%	327.2	270.7
80% to 90%	152.9	104.7
90% to 100%	54.7	0.8
Greater than 100%	2.1	–
Total*	**1,669.7**	**1,196.8**

* The Mortgage balance above represents the credit risk inherent in the Mortgage products and excludes accrued interest or fair value adjustments.

- **Credit risk: Asset class geographical distribution profile**

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

The Group also issues 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. However, exposure in the Republic of Ireland is limited.

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

	2016 £m	2015 £m
United Kingdom	22,342.7	21,381.4
Europe (excluding United Kingdom)	302.5	292.5
Other	45.5	56.1
Total	**22,690.7**	**21,730.0**

34. Risk Management (continued)

- **Credit risk: Analysis by industry type**

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

	2016 £m	2015 £m
Financial institutions	670.7	608.1
Government	1,580.8	1,867.2
Individuals	20,411.7	19,231.4
Wholesale and retail trade	27.5	23.3
Total	**22,690.7**	**21,730.0**

- **Credit risk: Asset quality**

Ineffective management and controls over the emerging asset quality of the Group's lending portfolios could expose the Group to unacceptable 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 profiles are regularly monitored and reported to the appropriate senior management team and risk committees.

The table below presents an analysis of credit exposure by impairment status across the different exposure classes. The table predominantly relates to Banking assets; the retail instalment lending applies to credit agreements in the Insurance business. The balances set out below are based on gross loans and advances as provided in note 13.

34. Risk Management (continued)

Credit quality of gross loans and advances 2016	**Retail unsecured lending £m**	**Retail mortgage lending £m**	**Retail instalment lending £m**	**Total £m**
Past due and impaired				
Less than 90 days past due	30.4	–	–	30.4
90–179 days past due	41.0	–	–	41.0
180 days plus past due	81.7	–	–	81.7
Past due but not impaired				
0–29 days past due	38.6	0.8	1.1	40.5
30–59 days past due	12.1	–	0.1	12.2
60–89 days past due	8.7	–	–	8.7
Over 90 days past due	–	–	0.3	0.3
Neither past due nor impaired				
Low risk *	6,570.0	1,672.9	145.6	8,388.5
High risk **	86.3	10.0	–	96.3
	6,868.8	**1,683.7**	**147.1**	**8,699.6**

Credit quality of gross loans and advances 2015	**Retail unsecured lending £m**	**Retail mortgage lending £m**	**Retail instalment lending £m**	**Total £m**
Past due and impaired				
Less than 90 days past due	38.8	–	–	38.8
90–179 days past due	35.4	–	–	35.4
180 days plus past due	70.1	–	–	70.1
Past due but not impaired				
0–29 days past due	33.7	1.8	0.2	35.7
30–59 days past due	9.3	–	0.1	9.4
60–89 days past due	6.0	–	–	6.0
Over 90 days past due	–	–	0.3	0.3
Neither past due nor impaired				
Low risk *	6,237.9	1,194.8	153.9	7,586.6
High risk **	76.3	6.2	–	82.5
	6,507.5	**1,202.8**	**154.5**	**7,864.8**

***** Low risk is defined as an asset with a probability of default of less than 10%.
****** High risk is defined as an asset with a probability of default of 10% or more.

All other financial assets are deemed to be at low risk of default.

34. Risk Management (continued)

- **Credit risk: Forbearance**

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.

Controls and risk mitigants

The Group has well defined forbearance policies and processes. Forbearance is relief granted by a lender to assist customers in financial difficulty, through arrangements which temporarily allow the customer to pay an amount other than the contractual amounts due. These temporary arrangements may be initiated by the customer or the Group where financial distress would prevent repayment within the original terms and conditions of the contract. The main aim of forbearance is to support the customers in returning to a position where they are able to meet their contractual obligations.

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

- Arrangements to repay arrears over a period of time, by making payments above the contractual amount, that ensure the loan is repaid within the original repayment term.
- Short term concessions, where the borrower is allowed to make reduced repayments (or in exceptional circumstances, no repayments) on a temporary basis to assist with short term financial hardship.

The Group has adopted the definition of forbearance in the European Banking Authority (EBA)'s final draft Implementing Technical Standards (ITS) of July 2014. The Group reports all accounts meeting this definition, providing for them appropriately.

The table below details the values of secured and unsecured advances that are subject to forbearance programmes, in accordance with the EBA definition.

	Gross Loans and Advances subject to Forbearance Programmes		Forbearance programmes as a proportion of total Loans and Advances by category		Proportion of Forbearance Programmes covered by impairment provision	
	2016 £m	2015 £m	2016 %	2015 %	2016 %	2015 %
Credit Cards UK	63.1	56.1	1.7	1.6	58.8	60.4
Credit Cards Euro	0.9	1.0	2.8	3.3	31.1	41.4
Credit Cards commercial	0.1	0.1	3.9	3.5	79.6	87.7
Loans	30.3	29.4	1.0	1.0	58.6	62.7
Mortgages	2.3	1.3	0.1	0.1	–	–

34. Risk Management (continued)

Operational risk

Operational Risk is the potential error, loss, harm or failure caused by ineffective or inadequately defined processes, system failure, improper conduct, human error or from external events. The Group aims to effectively manage operational risks within defined Risk Appetite limits. The Group is subject to the Standardised Approach (TSA) method to calculate Pillar I Operational Risk capital, as outlined in Capital Requirement Regulations (CRR) published on 27 June 2013 in the Official Journal of the European Union.

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 Director of Operational Risk and Financial Crime, together with a dedicated Operational Risk team, are responsible for:

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

The Operational Risk function maintains a suite of policies defining the minimum requirements for the management of Operational Risk, Financial Crime and Information Security.

Business units and functions assess their operational risks on an ongoing basis via a prescribed Risk Control Self Assessment (RCSA) process and Operational Risk Scenario Analysis (ORSA). The RCSA analysis is reviewed and updated to reflect changes to the risk and control environment arising from changes in products, processes and systems. The RCSA outputs are reported to relevant governance bodies. This is supplemented further by an Event Management process and monthly reporting of the Operational Risk profile to the RMC. The ORSA builds on RCSA and Event Management to identify the forward looking risk profile and the results are used to inform the Board's decision on any additional requirement for Operational Risk Capital under Pillar II.

The Fraud Operational and Regulatory Risk Committee provides oversight of the Group's operational risk profile and provides regular reports and recommendations to the appropriate governance bodies.

Liquidity and funding risk

Liquidity risk is the risk that the Group has insufficient liquidity resources to meet its obligations as they fall due or can access these only at excessive cost. 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 (LRMP) 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.

34. Risk Management (continued)

Controls and risk mitigants

Liquidity and funding risk is assessed through the Individual Liquidity Adequacy Assessment Process (ILAAP) on at least an annual basis. The ILAAP process involves detailed consideration of the following:

- identification of sources of liquidity risk;
- quantification of those risks through stress testing;
- consideration of management processes and controls to 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 sets formal limits within the LRMP to maintain liquidity risk exposures within the Liquidity Risk Appetite set by the Board. The key liquidity measures monitored on a daily basis are; the Internal Liquidity Requirement; Liquidity Coverage Ratio; the Net Stable Funding Ratio; the loan to deposit ratio; asset encumbrance; and the wholesale funding ratio.

The Group measures and manages liquidity adequacy in line with the above metrics on a regular basis and maintains a conservative liquidity and funding profile to confirm that it is able to meet its financial obligations under normal, and stressed, market conditions.

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

The Group prepares both short term and long term forecasts to assess liquidity requirements and takes into account factors such as Credit Card payment cycles, investment maturities, customer deposit patterns, and wholesale funding (including FLS) maturities. These reports support daily liquidity management and are reviewed daily by senior management along with early warning indicators.

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

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.

Expected maturity dates do not differ significantly from the contract dates, except for floating rate bonds where the expected redemption date has been provided in note 25 and deposits from customers which are all retail in nature. These 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, with historical trends showing that these deposits tend to be very stable, with actual maturities being significantly longer than the contracted maturity.

During the year the Group accessed the Bank of England's FLS to support strong lending growth in a cost effective manner.

34. Risk Management (continued)

The table below shows the Group's primary funding sources.

Primary funding sources	2016 £m	2015 £m
On balance sheet		
Deposits from banks	82.0	106.5
Deposits from customers	7,398.5	6,914.8
Subordinated liabilities	235.0	190.0
Debt securities in issue	1,206.6	898.0
Subordinated notes	–	45.0
Total on balance sheet funding	**8,922.1**	**8,154.3**
Off balance sheet		
Treasury bills drawn under FLS (net of repurchase agreements)*	338.0	738.9
Total off balance sheet funding	**338.0**	**738.9**

*FLS drawdowns of £389.0m (2015: £789.0m) are shown net of Treasury bills used as collateral in repurchase agreements of £51.0m (2015: £50.1m).

34. Risk Management (continued)

The tables below show cash flows payable up to a period of 20 years on an undiscounted basis. These differ from the Statement of Financial Position values due to the effects of discounting on certain Statement of Financial Position items and due to the inclusion of contractual future interest flows.

Derivatives designated in a hedging relationship are included according to their contractual maturity

Liquidity and funding risk on financial assets and liabilities

Group 2016	**Within 1 year £m**	**Between 1 and 2 years £m**	**Between 2 and 3 years £m**	**Between 3 and 4 years £m**	**Between 4 and 5 years £m**	**Beyond 5 years £m**	**Total £m**
Financial assets:							
Cash and balances at central banks	565.0	–	–	–	–	–	565.0
Loans and advances to customers	4,908.0	986.3	791.8	583.4	388.5	1,965.5	9,623.5
Investment securities							
- Available-for-sale	94.8	154.5	102.4	68.6	16.9	610.5	1,047.7
- Loans and receivables	1.5	1.5	1.5	1.5	1.6	61.9	69.5
Other assets	277.3	–	–	–	–	–	277.3
Total financial assets	**5,846.6**	**1,142.3**	**895.7**	**653.5**	**407.0**	**2,637.9**	**11,583.0**
Financial liabilities:							
Deposits from banks	82.2	–	–	–	–	–	82.2
Deposits from customers	5,891.2	945.7	329.4	201.3	135.2	0.6	7,503.4
Debt securities in issue	–	150.0	425.0	421.9	200.0	–	1,196.9
Derivatives settled on a net basis							
- Derivatives in economic but not accounting hedges	7.6	2.3	0.5	–	–	–	10.4
- Derivatives in accounting hedge relationships	28.3	24.3	18.1	1.8	8.4	29.3	110.2
Derivatives settled on a gross basis							
- Outflows	0.3	74.1	–	–	–	–	74.4
- Inflows	(0.6)	(63.3)	–	–	–	–	(63.9)
Interest payment on borrowings	30.6	29.2	23.2	16.2	14.5	19.1	132.8
Other liabilities	142.8	–	–	–	–	–	142.8
Subordinated liabilities	–	–	–	–	–	235.0	235.0
Total financial liabilities	**6,182.4**	**1,162.3**	**796.2**	**641.2**	**358.1**	**284.0**	**9,424.2**

34. Risk Management (continued)

Liquidity and funding risk on financial assets and liabilities

Group 2015	Within 1 year £m	Between 1 and 2 years £m	Between 2 and 3 years £m	Between 3 and 4 years £m	Between 4 and 5 years £m	Beyond 5 years £m	Total £m
Financial assets:							
Cash and balances at central banks	626.5	–	–	–	–	–	626.5
Loans and advances to customers	4,715.8	884.9	717.4	511.7	330.0	1,523.0	8,682.8
Investment securities							
- Available-for-sale	131.6	118.0	100.6	66.2	53.8	407.9	878.1
- Loans and receivables	1.5	1.6	1.8	1.8	1.9	65.1	73.7
Other assets	200.8	–	–	–	–	–	200.8
Total financial assets	**5,676.2**	**1,004.5**	**819.8**	**579.7**	**385.7**	**1,996.0**	**10,461.9**
Financial liabilities:							
Deposits from banks	107.1	–	–	–	–	–	107.1
Deposits from customers	5,933.6	579.0	133.9	148.7	175.9	0.2	6,971.3
Debt securities in issue	–	–	150.0	125.0	410.0	200.0	885.0
Derivatives settled on a net basis							
- Derivatives in economic but not accounting hedges	0.5	0.9	(2.2)	(1.2)	(0.1)	(0.1)	(2.2)
- Derivatives in accounting hedge relationships	26.6	16.3	8.9	7.2	(7.6)	16.1	67.5
Derivatives settled on a gross basis							
- Outflows	21.9	0.4	57.9	–	–	–	80.2
- Inflows	(25.7)	(0.9)	(63.4)	–	–	–	(90.0)
Interest payment on borrowings	26.1	28.4	30.8	28.9	23.7	39.0	176.9
Other liabilities	143.0	–	–	–	–	–	143.0
Subordinated liabilities	–	–	–	–	–	190.0	190.0
Total financial liabilities	**6,233.1**	**624.1**	**315.9**	**308.6**	**601.9**	**445.2**	**8,528.8**

34. Risk Management (continued)

Liquidity and funding risk on financial assets and liabilities

Company 2016	**Within 1 year £m**	**Between 1 and 2 years £m**	**Between 2 and 3 years £m**	**Between 3 and 4 years £m**	**Between 4 and 5 years £m**	**Beyond 5 years £m**	**Total £m**
Financial assets:							
Cash and balances at central banks	506.7	–	–	–	–	–	506.7
Loans and advances to customers	4,908.0	986.3	791.8	583.4	388.5	1,965.5	9,623.5
Investment securities							
- Available-for-sale	94.8	154.5	102.4	68.6	16.9	610.5	1,047.7
- Loans and receivables	1.5	1.5	1.5	1.5	1.6	61.9	69.5
Other assets	291.5	–	–	–	–	–	291.5
Total financial assets	**5,802.5**	**1,142.3**	**895.7**	**653.5**	**407.0**	**2,637.9**	**11,538.9**
Financial liabilities:							
Deposits from banks	82.2	–	–	–	–	–	82.2
Deposits from customers	5,891.2	945.7	329.4	201.3	135.2	0.6	7,503.4
Debt securities in issue	–	–	125.0	71.9	200.0	–	396.9
Derivatives settled on a net basis							
- Derivatives in economic but not accounting hedges	7.6	2.3	0.5	–	–	–	10.4
- Derivatives in accounting hedge relationships	28.3	24.3	18.1	1.8	8.4	29.3	110.2
Derivatives settled on a gross basis							
- Outflows	0.3	74.1	–	–	–	–	74.4
- Inflows	(0.6)	(63.3)	–	–	–	–	(63.9)
Interest payment on borrowings	30.6	29.2	23.2	16.2	14.5	19.1	132.8
Other liabilities	143.1	150.0	300.0	350.0	–	–	943.1
Subordinated liabilities	–	–	–	–	–	235.0	235.0
Total financial liabilities	**6,182.7**	**1,162.3**	**796.2**	**641.2**	**358.1**	**284.0**	**9,424.5**

34. Risk Management (continued)

Liquidity and funding risk on financial assets and liabilities

Company 2015	Within 1 year £m	Between 1 and 2 years £m	Between 2 and 3 years £m	Between 3 and 4 years £m	Between 4 and 5 years £m	Beyond 5 years £m	Total £m
Financial assets:							
Cash and balances at central banks	564.1	–	–	–	–	–	564.1
Loans and advances to customers	4,715.8	884.9	717.4	511.7	330.0	1,523.0	8,682.8
Investment securities							
- Available-for-sale	131.6	118.0	100.6	66.2	53.8	407.9	878.1
- Loans and receivables	1.5	1.6	1.8	1.8	1.9	65.1	73.7
Other assets	251.5	–	–	–	–	–	251.5
Total financial assets	**5,664.5**	**1,004.5**	**819.8**	**579.7**	**385.7**	**1,996.0**	**10,450.2**
Financial liabilities:							
Deposits from banks	107.1	–	–	–	–	–	107.1
Deposits from customers	5,933.6	579.0	133.9	148.7	175.9	0.2	6,971.3
Debt securities in issue	–	–	–	125.0	60.0	200.0	385.0
Derivatives settled on a net basis							
- Derivatives in economic but not accounting hedges	0.5	0.9	(2.2)	(1.2)	(0.1)	(0.1)	(2.2)
- Derivatives in accounting hedge relationships	26.6	16.3	8.9	7.2	(7.6)	16.1	67.5
Derivatives settled on a gross basis							
- Outflows	21.9	0.4	57.9	–	–	–	80.2
- Inflows	(25.7)	(0.9)	(63.4)	–	–	–	(90.0)
Interest payment on borrowings	20.4	28.4	30.8	28.9	23.7	39.0	171.2
Other liabilities	150.6	–	150.0	–	350.0	–	650.6
Subordinated liabilities	–	–	–	–	–	190.0	190.0
Total financial liabilities	**6,235.0**	**624.1**	**315.9**	**308.6**	**601.9**	**445.2**	**8,530.7**

34. Risk Management (continued)

The table below summarises the total assets that are capable of supporting future funding and collateral needs and shows the extent to which these assets are currently pledged for this purpose.

The Group has adopted the definition of encumbered and unencumbered in the EBA's final guidelines on disclosure of June 2014. Asset encumbrance represents a claim to an asset by another party usually in the form of a security interest such as a pledge. Encumbrance reduces the assets available in the event of default by a bank and therefore, the recovery rate of its depositors and other unsecured bank creditors.

Group 2016	**Encumbered £m**	**Unencumbered £m**	**Total £m**
Encumbered asset summary			
Cash and balances with central banks*	–	564.9	564.9
Investment securities – available-for-sale	33.1	950.5	983.6
Loans and advances to customers	2,618.0	5,927.7	8,545.7
	2,651.1	**7,443.1**	**10,094.2**
Encumbered investment securities – available-for-sale			
Repurchase transaction collateral**	**33.1**		
Encumbered loans and advances to customers			
Securitisation – Delamare Master Trust	2,040.6		
Personal loans	577.4		
	2,618.0		

* On a Company basis, cash and balances with central banks is £506.6m (2015: £563.9m), of which £nil (2015: £nil) is encumbered and £506.6m (2015: £563.9m) is unencumbered.
** Market value of securities posted as collateral.

Group 2015	**Encumbered £m**	**Unencumbered £m**	**Total £m**
Encumbered asset summary			
Cash and balances with central banks*	–	626.3	626.3
Investment securities – available-for-sale	43.3	784.0	827.3
Loans and advances to customers	2,274.5	5,450.8	7,725.3
	2,317.8	**6,861.1**	**9,178.9**
Encumbered investment securities – available-for-sale			
Repurchase transaction collateral**	**43.3**		
Encumbered loans and advances to customers			
Securitisation – Delamare Master Trust	2,274.5		
	2,274.5		

34. Risk Management (continued)

Market risk

Market risk is defined as the risk that the value of the Group's assets, liabilities, income or costs might vary due to changes in the value of financial market prices. This includes interest rates, foreign exchange rates, credit spreads and equities. The 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.

Control and risk mitigants

Control of market risk exposure is managed by ALCo 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 Board Committees.

Interest rate risk in the banking book

The Group offers lending and savings products with varying interest rate features and maturities which create potential interest rate exposures. IRRBB is the main market risk that could affect the Group's net interest income and arises where there is potential for changes in benchmark interest rates, which results in a movement in the Banking Book net interest income.

Interest rate risk is the risk to earnings and capital arising from timing differences on the re-pricing of the Group's loans and deposits and unexpected changes to the slope and shape of the yield curve. The Group is exposed to interest rate risk through its dealings with retail customers as well as through lending to and borrowing from the wholesale market.

34. Risk Management (continued)

Control and risk mitigants

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

IRRBB management information is monitored by the Asset and Liability Management (ALM) team and regularly reviewed by ALCo. IRRBB primarily arises from the consumer lending portfolios (including the Mortgage pipeline) and retail deposits. Hedging strategies are implemented as required to ensure that the Group remains within its stated Risk Appetite.

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

Capital at Risk (CaR): The CaR approach assesses the sensitivity (value change) of a reduction in 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 components, each being a distinct form of interest rate risk (Repricing Risk, Basis Risk, Pipeline Risk and Prepayment Risk). This approach has replaced Economic Value of Equity (EVE) measurement and reporting in the period.

	2016	2015
Capital at Risk Sensitivity (Down ramp scenario)	**£m**	£m
Repricing risk	(4.4)	(4.4)
Basis risk	(3.9)	(4.4)
Pipeline risk	0.1	-
Prepayment risk	-	(1.2)
Total	**(8.2)**	(10.0)

Net Interest Income (NII) Sensitivity: This measures the effect of a +1.0%; -0.5% parallel interest rate shock on the next 12 months NII, based on the re-pricing gaps in the existing portfolio.

	2016	2015
NII Sensitivity	**(0.48)%**	(0.09)%

The sensitivity analyses presented represent, 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.

Foreign exchange risk

The Group invests in non-GBP denominated bonds and may raise funding from the wholesale markets in currencies other than GBP. 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 and through invoices received which are denominated in foreign currencies.

Control 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.

34. Risk Management (continued)

The table below summarises the Group's exposure to foreign currency exchange rate risk as at 29 February 2016. Included in the table are the Group's financial instruments at carrying amounts, categorised by currency.

Maximum exposure to foreign exchange risk

2016	EUR £m	USD £m	GBP £m	Other £m	Total £m
Financial assets					
Cash and balances with central banks*	5.5	2.7	553.8	2.9	564.9
Loans and advances to customers	32.1	–	8,513.6	–	8,545.7
Derivative financial instruments	–	–	29.3	–	29.3
Investment securities:					
- Available-for-sale	20.0	39.9	914.5	9.2	983.6
- Loans and receivables	–	–	34.1	–	34.1
Other assets*	1.0	–	276.3	–	277.3
Total financial assets	**58.6**	**42.6**	**10,321.6**	**12.1**	**10,434.9**
Financial liabilities					
Deposits from banks	–	–	82.0	–	82.0
Deposits from customers	–	–	7,398.5	–	7,398.5
Debt securities in issue	–	–	1,206.6	–	1,206.6
Derivative financial instruments	–	–	150.5	–	150.5
Other liabilities	(0.1)	–	142.5	0.4	142.8
Subordinated liabilities	–	–	235.0	–	235.0
Total financial liabilities	**(0.1)**	**–**	**9,215.1**	**0.4**	**9,215.4**

*On a Company basis, cash and balances with central banks is £506.6m (2015: £563.9m), and other assets is £315.5m (2015: £251.5m).

34. Risk Management (continued)

Maximum exposure to foreign exchange risk

2015	EUR £m	USD £m	GBP £m	Other £m	Total £m
Financial assets					
Cash and balances with central banks*	6.7	2.0	615.3	2.3	626.3
Loans and advances to customers	31.0	–	7,694.3	–	7,725.3
Derivative financial instruments	–	–	31.7	–	31.7
Investment securities:					
- Available-for-sale	37.4	36.0	745.9	8.0	827.3
- Loans and receivables	–	–	34.1	–	34.1
Other assets*	0.2	–	200.6	–	200.8
Total financial assets	**75.3**	**38.0**	**9,321.9**	**10.3**	**9,445.5**
Financial liabilities					
Deposits from banks	–	–	106.5	–	106.5
Deposits from customers	–	–	6,914.8	–	6,914.8
Debt securities in issue	–	–	898.0	–	898.0
Derivative financial instruments	–	–	86.9	–	86.9
Other liabilities	(0.2)	–	143.2	–	143.0
Subordinated liabilities	–	–	190.0	–	190.0
Total financial liabilities	**(0.2)**	**–**	**8,339.4**	**–**	**8,339.2**

34. Risk Management (continued)

Tesco Underwriting Limited investment portfolio

The TU insurance portfolio assets are invested with a number of counterparties. These investments are predominantly comprised of government securities, corporate bonds and short term cash investments.

The main risks relate to changes in:

- interest rates affecting fair value arising as a proportion of the bonds are fixed rate in nature; and
- credit quality, as the range of assets held are issued by a variety of institutions with different credit characteristics.

Controls and risk mitigants

Portfolio management is undertaken by the TU investment committee. The Group's Risk function provides oversight and challenge.

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. Tesco PLC has recognised the appropriate net liability of the Tesco PLC pension scheme in accordance with IAS 19, 'Employee Benefits' (refer to note 33).

Insurance risk

The Group defines insurance risk as the risk accepted through insurance products in return for a premium. These risks may or may not occur and the amount and timing of these risks are uncertain and determined by events outside of the Group's control (e.g. flood or vehicular accident). The Group's aim is to actively manage insurance risk exposure with particular focus on those risks that impact profit volatility.

Insurance risk is typically categorised in the following way:

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

The Group is exposed to insurance risk through its 49.9% ownership of TU, an authorised insurance company.

Controls and risk mitigants

The Insurance Risk team is responsible for monitoring the potential for financial volatility arising from insurance risk exposures and consistency with the Group's Risk Appetite. The team provides subject matter expertise in the monitoring of TU. TU operates a separate risk framework with dedicated risk and compliance teams and a suite of TU risk policies to ensure that the TU insurance portfolio is operating within agreed Risk Appetite. Performance of the portfolio is monitored and reported to the RMC on a monthly basis against specific KPI thresholds and limits.

Residual price risk

Residual price risk is the risk that the fair value of a financial instrument and its associated hedge will fluctuate because of changes in market prices, for reasons other than interest rate or credit risk. The Group has available-for-sale investment securities that are held at fair value in the Statement of Financial Position.

34. Risk Management (continued)

Controls and risk mitigants

The Group has established appropriate hedging strategies to mitigate the interest rate and foreign exchange risks. Residual price risk remains.

The table below demonstrates the Group's exposure to residual price risk at the year end. Included in the table is the expected impact of a 10% shock in market prices on the Group's available-for-sale investment securities. It also shows the mark to market risk relating to the Group's treasury assets available-for-sale. The figures shown are prior to hedging activities which mitigate the interest rate and foreign exchange risks.

Impact of 10 % shock in market prices	**Fair value**		**Impact of 10% shock**		**Value after 10% shock**	
	2016	2015	**2016**	2015	**2016**	2015
	£m	£m	**£m**	£m	**£m**	£m
Available-for-sale:						
Government-backed investment securities	88.6	93.8	(8.9)	(9.4)	79.7	84.4
Gilts	629.7	492.9	(63.0)	(49.3)	566.7	443.6
Supranational investment securities	184.1	202.7	(18.4)	(20.3)	165.7	182.4
Other investment securities	77.7	37.9	(7.8)	(3.8)	69.9	34.1
Equity securities	3.5	–	(0.4)	–	3.1	–
	983.6	827.3	**(98.5)**	(82.8)	**885.1**	744.5

Legal and regulatory compliance risk

Legal and regulatory compliance risk is the risk of consequences arising as a result of non-compliance with the laws and regulations as defined by external regulators. The Group's aim is to always avoid material breaches of laws and requirements. Where legal or regulatory requirements are not met, effective remediation plans will be put in place.

Controls and risk mitigants

As part of the Group's Policy Framework, a dedicated Regulatory Advice and Compliance team is responsible for the Compliance Policy which is approved by the Group's Board, as well as 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 Regulatory Advice and Compliance and Regulatory Legal teams.

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

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 Conduct Committee and the Board review and challenge delivery of fair outcomes for customers and are provided with oversight of the management information. The Group has established organisational capacity to deal with ongoing reactive customer complaints and to action the root cause of them. Customer research and insight supports the understanding of customer outcomes.

35. Financial Instruments

Classification of financial assets and liabilities

The following tables analyse the financial assets and financial liabilities in accordance with the categories of financial instruments in IAS 39.

Group 2016	Loans and receivables £m	Other (amortised cost) £m	Derivatives held for hedging £m	Available-for-sale £m	Total £m
Financial assets					
Cash and balances with central banks	564.9	–	–	–	564.9
Loans and advances to customers	8,545.7	–	–	–	8,545.7
Derivative financial instruments	–	–	29.3	–	29.3
Investment securities:					
- Available-for-sale	–	–	–	983.6	983.6
- Loans and receivables	34.1	–	–	–	34.1
Other assets	277.3	–	–	–	277.3
Total financial assets	**9,422.0**	**–**	**29.3**	**983.6**	**10,434.9**
Financial liabilities					
Deposits from banks	–	82.0	–	–	82.0
Deposits from customers	–	7,398.5	–	–	7,398.5
Debt securities in issue	–	1,206.6	–	–	1,206.6
Derivative financial instruments	–	–	150.5	–	150.5
Other liabilities	–	142.8	–	–	142.8
Subordinated liabilities	–	235.0	–	–	235.0
Total financial liabilities	**–**	**9,064.9**	**150.5**	**–**	**9,215.4**

All derivative financial instruments are held for economic hedging purposes, although not all derivatives are designated as hedging instruments under the terms of IAS 39.

35. Financial Instruments (continued)

Group 2015	Loans and receivables £m	Other (amortised cost) £m	Derivatives held for hedging £m	Available-for-sale £m	Total £m
Financial assets					
Cash and balances with central banks	626.3	–	–	–	626.3
Loans and advances to customers	7,725.3	–	–	–	7,725.3
Derivative financial instruments	–	–	31.7	–	31.7
Investment securities:					
- Available-for-sale	–	–	–	827.3	827.3
- Loans and receivables	34.1	–	–	–	34.1
Other assets	200.8	–	–	–	200.8
Total financial assets	**8,586.5**	**–**	**31.7**	**827.3**	**9,445.5**
Financial liabilities					
Deposits from banks	–	106.5	–	–	106.5
Deposits from customers	–	6,914.8	–	–	6,914.8
Debt securities in issue	–	898.0	–	–	898.0
Derivative financial instruments	–	–	86.9	–	86.9
Other liabilities	–	143.0	–	–	143.0
Subordinated liabilities	–	190.0	–	–	190.0
Total financial liabilities	**–**	**8,252.3**	**86.9**	**–**	**8,339.2**

35. Financial Instruments (continued)

Company 2016	**Loans and receivables £m**	**Other (amortised cost) £m**	**Derivatives held for hedging £m**	**Available-for-sale £m**	**Total £m**
Financial assets					
Cash and balances with central banks	506.6	–	–	–	506.6
Loans and advances to customers	8,545.7	–	–	–	8,545.7
Derivative financial instruments	–	–	29.3	–	29.3
Investment securities:					
- Available-for-sale	–	–	–	983.6	983.6
- Loans and receivables	34.1	–	–	–	34.1
Other assets	315.5	–	–	–	315.5
Total financial assets	**9,401.9**	**–**	**29.3**	**983.6**	**10,414.8**
Financial liabilities					
Deposits from banks	–	82.0	–	–	82.0
Deposits from customers	–	7,398.5	–	–	7,398.5
Debt securities in issue	–	408.9	–	–	408.9
Derivative financial instruments	–	–	150.5	–	150.5
Other liabilities	–	919.0	–	–	919.0
Subordinated liabilities	–	235.0	–	–	235.0
Total financial liabilities	**–**	**9,043.4**	**150.5**	**–**	**9,193.9**

Company 2015	**Loans and receivables £m**	**Other (amortised cost) £m**	**Derivatives held for hedging £m**	**Available-for-sale £m**	**Total £m**
Financial assets					
Cash and balances with central banks	563.9	–	–	–	563.9
Loans and advances to customers	7,725.3	–	–	–	7,725.3
Derivative financial instruments	–	–	31.7	–	31.7
Investment securities:					
- Available-for-sale	–	–	–	827.3	827.3
- Loans and receivables	34.1	–	–	–	34.1
Other assets	251.5	–	–	–	251.5
Total financial assets	**8,574.8**	**–**	**31.7**	**827.3**	**9,433.8**
Financial liabilities					
Deposits from banks	–	106.5	–	–	106.5
Deposits from customers	–	6,914.8	–	–	6,914.8
Debt securities in issue	–	399.9	–	–	399.9
Derivative financial instruments	–	–	86.9	–	86.9
Other liabilities	–	629.4	–	–	629.4
Subordinated liabilities	–	190.0	–	–	190.0
Total financial liabilities	**–**	**8,240.6**	**86.9**	**–**	**8,327.5**

35. Financial Instruments (continued)

Offsetting

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

Group and Company 2016	Gross and net amounts presented in statement of financial position £m	Related amounts not offset: Financial instruments £m	Related amounts not offset: Collateral pledged £m	Net amounts £m
Financial assets				
Derivative financial instruments	29.3	(20.6)	(3.8)	4.9
Total financial assets	**29.3**	**(20.6)**	**(3.8)**	**4.9**
Financial liabilities				
Derivative financial instruments	(150.5)	20.6	120.5	(9.4)
Repurchases, securities lending and similar agreements*	(82.0)	83.1	(1.1)	–
Total financial liabilities	**(232.5)**	**103.7**	**119.4**	**(9.4)**

Group and Company 2015	Gross and net amounts presented in statement of financial position £m	Related amounts not offset: Financial instruments £m	Related amounts not offset: Collateral pledged £m	Net amounts £m
Financial assets				
Derivative financial instruments	31.7	(29.5)	(2.4)	(0.2)
Total Financial assets	**31.7**	**(29.5)**	**(2.4)**	**(0.2)**
Financial liabilities				
Derivative financial instruments	(86.9)	29.5	61.0	3.6
Repurchases, securities lending and similar agreements*	(97.4)	103.3	0.3	6.2
Total Financial liabilities	**(184.3)**	**132.8**	**61.3**	**9.8**

* Repurchases, securities lending and similar agreements are included within the Deposits from Banks balance of £82.0m (2015: £106.5m) in the Statement of Financial Position

For the financial assets and financial liabilities subject to enforceable master netting arrangements above, each agreement between the Group and the counterparty allows for net settlement of the relevant financial assets and financial liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and financial liabilities will be settled on a gross basis, however each party to the master netting agreement or similar agreement will have the option to settle all such amounts on a net basis in the event of default of the other party.

35. Financial Instruments (continued)

Fair values of financial assets and financial liabilities

Except as detailed in the following table, the Directors consider that the carrying value amounts of financial assets and financial liabilities recorded on the Statement of Financial Position are approximately equal to their fair values.

Group	**2016**		**2015**	
	Carrying value £m	**Fair Value £m**	**Carrying value £m**	**Fair value £m**
Financial assets				
Loans and advances to customers	8,545.7	8,825.3	7,725.3	7,777.1
Investment securities - loans and receivables	34.1	43.3	34.1	35.0
	8,579.8	**8,868.6**	**7,759.4**	**7,812.1**
Financial liabilities				
Deposits from customers	7,398.5	7,406.5	6,914.8	6,873.4
Debt securities in issue	1,206.6	1,186.3	898.0	903.8
Subordinated liabilities	235.0	204.7	190.0	157.1
	8,840.1	**8,797.5**	**8,002.8**	**7,934.3**

Company	**2016**		**2015**	
	Carrying value £m	**Fair Value £m**	**Carrying value £m**	**Fair value £m**
Financial assets				
Loans and advances to customers	8,545.7	8,825.3	7,725.3	7,777.1
Investment securities - loans and receivables	34.1	43.3	34.1	35.0
	8,579.8	**8,868.6**	**7,759.4**	**7,812.1**
Financial liabilities				
Deposits from customers	7,398.5	7,406.5	6,914.8	6,873.4
Debt securities in issue	408.9	391.8	399.9	403.7
Subordinated liabilities	235.0	204.7	190.0	157.1
	8,042.4	**8,003.0**	**7,504.7**	**7,434.2**

The only financial assets and financial liabilities which are carried at fair value in the Statement of Financial Position are available-for-sale investment securities and derivative financial instruments. The valuation techniques and inputs used to derive fair values at the year end are described below.

35. Financial Instruments (continued)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Where an active market is considered to exist, fair values are based on quoted prices. For instruments which do not have active markets, fair value is calculated using present value models, which take individual cash flows together with assumptions based on market conditions and credit spreads, and are consistent with accepted economic methodologies for pricing financial instruments.

In each case the fair value is calculated by discounting future cash flows using benchmark, observable market interest rates.

The table below categorises all financial instruments held at fair value (recurring measurement) and the fair value of financial instruments held at amortised cost according to the method used to establish the fair value disclosed.

Group 2016	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Financial assets carried at fair value				
Financial assets classified as available-for-sale	980.1	–	3.5	983.6
Derivative financial instruments:				
- Interest rate swaps	–	25.4	–	25.4
- Cross currency swaps	–	3.9	–	3.9
Financial assets carried at amortised cost				
Loans and advances to customers	–	–	8,825.3	8,825.3
Investment securities – loans and receivables	–	43.3	–	43.3
Total	**980.1**	**72.6**	**8,828.8**	**9,881.5**
Financial liabilities carried at fair value				
Derivative financial instruments:				
- Interest rate swaps	–	144.8	–	144.8
- Forward foreign currency contracts	–	1.2	–	1.2
- Cross currency swaps	–	4.5	–	4.5
Financial liabilities carried at amortised cost				
Deposits from customers	–	–	7,406.5	7,406.5
Debt securities in issue	1,186.3	–	–	1,186.3
Subordinated liabilities	–	204.7	–	204.7
Total	**1,186.3**	**355.2**	**7,406.5**	**8,948.0**

35. Financial Instruments (continued)

Company 2016	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets carried at fair value				
Financial assets classified as available-for-sale	980.1	–	3.5	983.6
Derivative financial instruments:				
- Interest rate swaps	–	25.4	–	25.4
- Cross currency swaps	–	3.9	–	3.9
Financial assets carried at amortised cost				
Loans and advances to customers	–	–	8,825.3	8,825.3
Investment securities – loans and receivables	–	43.3	–	43.3
Total	**980.1**	**72.6**	**8,828.8**	**9,881.5**
Financial liabilities carried at fair value				
Derivative financial instruments:				
- Interest rate swaps	–	144.8	–	144.8
- Forward foreign currency contracts	–	1.2	–	1.2
- Cross currency swaps	–	4.5	–	4.5
Financial liabilities carried at amortised cost				
Deposits from customers	–	–	7,406.5	7,406.5
Debt securities in issue	391.8	–	–	391.8
Subordinated liabilities	–	204.7	–	204.7
Total	**391.8**	**355.2**	**7,406.5**	**8,153.5**

Group 2015	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets carried at fair value				
Financial assets classified as available-for-sale	827.3	–	–	827.3
Derivative financial instruments:				
- Interest rate swaps	–	20.2	–	20.2
- Forward foreign currency contracts	–	1.8	–	1.8
- Cross currency swaps	–	9.7	–	9.7
Financial assets carried at amortised cost				
Loans and advances to customers	–	–	7,777.1	7,777.1
Investment securities – loans and receivables	–	35.0	–	35.0
Total	**827.3**	**66.7**	**7,777.1**	**8,671.1**
Financial liabilities carried at fair value				
Derivative financial instruments:				
- Interest rate swaps	–	86.4	–	86.4
- Cross currency swaps	–	0.5	–	0.5
Financial liabilities carried at amortised cost				
Deposits from customers	–	–	6,873.4	6,873.4
Debt securities in issue	903.8	–	–	903.8
Subordinated liabilities		157.1		157.1
Total	**903.8**	**244.0**	**6,873.4**	**8,021.2**

35. Financial Instruments (continued)

Company 2015	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets carried at fair value				
Financial assets classified as available-for-sale	827.3	–	–	827.3
Derivative financial instruments:				
- Interest rate swaps	–	20.2	–	20.2
- Forward foreign currency contracts	–	1.8	–	1.8
- Cross currency swaps	–	9.7	–	9.7
Financial assets carried at amortised cost				
Loans and advances to customers	–	–	7,777.1	7,777.1
Investment securities – loans and receivables	–	35.0	–	35.0
Total	**827.3**	**66.7**	**7,777.1**	**8,671.1**
Financial liabilities carried at fair value				
Derivative financial instruments:				
- Interest rate swaps	–	86.4	–	86.4
- Cross currency swaps	–	0.5	–	0.5
Financial liabilities carried at amortised cost				
Deposits from customers	–	–	6,873.4	6,873.4
Debt securities in issue	403.7	–	–	403.7
Subordinated liabilities	–	157.1	–	157.1
Total	**403.7**	**244.0**	**6,873.4**	**7,521.1**

There are three levels to the hierarchy as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (for example, as prices) or indirectly (for example, derived from prices).

Derivative financial instruments which are categorised as Level 2 are those which either:

- Have future cash flows which are on known dates and for which the cash flow amounts are known or calculable by reference to observable interest and foreign exchange rates; or

- Have future cash flows which are not pre-defined, but for which the fair value of the instrument has very low sensitivity to changes in estimate of future cash flows.

In each case the fair value is calculated by discounting future cash flows using benchmark, observable market interest rates.

Available-for-sale investment securities which are categorised as Level 2 are those where no active market exists or where there are quoted prices available for similar instruments in active markets.

Fair values of investment securities classified as loans and receivables are based on quoted prices, where available, or by using discounted cash flows applying market rates.

The estimated fair value of subordinated liabilities is calculated using a discounted cash flow model based on a current yield curve appropriate for the remaining term to maturity.

35. Financial Instruments (continued)

Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Loans and advances to customers are net of charges for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

The estimated fair value of deposits from customers represents the discounted amount of estimated future cash flows expected to be paid. Expected cash flows are discounted at current market rates to determine fair value.

The estimated fair value of financial assets classified as available-for-sale, being the Group's interest in Visa Europe, is described in Note 15.

There were no transfers between Levels 1 and Level 2 in the year to 29 February 2016 (2015: no transfers).

There were no transfers between Level 2 and Level 3 in the year to 29 February 2016.

During the second half of the year to 28 February 2015, loans and advances to customers and deposits from customers were transferred from Level 2 to Level 3 following review by management of the fair value methodology applied to these balances, which are designated at amortised cost in the Statement of Financial Position. Transfers are deemed to have occurred on the date of the event or change in circumstances that caused the transfer. The fair value of these balances now includes adjustments for the Group's expectation of future credit losses.

36. Cash and Cash Equivalents

For the purposes of the Cash Flow Statement, cash and cash equivalents comprise the following balances with short term maturities from the date of acquisition:

	Group		Company	
	2016	2015	**2016**	2015
	£m	£m	**£m**	£m
Cash and balances with central banks* (refer to note 12)	**551.8**	613.3	**493.5**	550.9

* Mandatory reserve deposits held with the Bank of England of £13.1m (2015: £13.0m) are not included within cash and cash equivalents for the purposes of the cash flow statement as these do not have short term maturities.

37. Cash Outflow From Operating Activities

	Group		Company	
	2016	2015	**2016**	2015
	£m	£m	**£m**	£m
Loan impairment charges (refer note 8)	64.2	48.4	64.2	48.4
Depreciation and amortisation (refer notes 21 & 22)	86.0	80.5	86.0	80.5
Gain on disposal of investment securities	(0.6)	(0.2)	(0.6)	(0.2)
Intangible asset impairment (refer note 21)	–	3.6	–	3.6
Disposal of non-current assets (refer notes 21 & 22)	–	6.7	–	6.7
Provision for liabilities and charges (refer note 26)	2.8	27.1	2.8	27.1
Impairment loss on insurance premiums (refer note 8)	3.6	4.3	3.6	4.3
Share of loss/(profit) of joint venture (refer note 19)	2.6	(5.3)	–	–
Dividend received from joint venture (refer note 19)	–	–	–	(7.4)
Equity settled share based payments (refer note 31)	10.1	5.5	10.1	5.5
Interest on subordinated liabilities (refer note 4)	4.5	3.4	4.5	3.4
Fair value movements	19.2	26.3	18.1	26.5
Non cash items included in operating profit before taxation	**192.4**	200.3	**188.7**	198.4
Net movement in mandatory balances with central banks	(0.1)	(3.6)	(0.1)	(3.6)
Net movement in loans and advances to customers	(872.3)	(845.6)	(872.3)	(845.6)
Net movement in prepayments and accrued income	(2.1)	(13.9)	(2.1)	(13.9)
Net movement in other assets	(76.5)	(60.8)	(64.0)	(53.4)
Net movement in deposits from banks	(24.5)	(673.3)	(24.5)	(673.3)
Net movement in deposits from customers	483.7	832.4	483.7	832.4
Net movement in accruals and deferred income	8.2	7.4	8.2	7.4
Provisions utilised	(34.7)	(42.5)	(34.7)	(42.5)
Net movement in other liabilities	(0.2)	17.6	(8.8)	17.4
Changes in operating assets and liabilities	**(518.5)**	(782.3)	**(514.6)**	(775.1)

38. Capital Resources

On 27 June 2013 the final CRD IV rules were published in the Official Journal of the European Union. Following the publication of the CRD IV rules, the Prudential Regulatory Authority (PRA) issued a policy statement on 19 December 2013 detailing how the rules will be enacted within the UK with corresponding time frames for implementation. The CRD IV rules are currently being phased in. The following tables analyse the regulatory capital resources of the Company (being the regulated entity) applicable as at the year end and also the 'end point' position, once all of the rules contained within CRD IV have come into force:

	Transitional 2016 £m	Transitional 2015 £m
Movement in common equity tier 1 capital:		
At the beginning of the year	1,041.1	913.6
Profit attributable to shareholders	189.7	131.3
Gains and losses on liabilities arising from own credit	(1.9)	(0.1)
Other reserves	7.8	13.5
Ordinary dividends	(50.0)	(50.0)
Dividends to holders of other equity	–	(1.2)
Movement in intangible assets	38.7	25.1
Movement in material holdings	3.4	3.3
Deferred tax liabilities related to intangible assets	(11.2)	5.6
At the end of the year	**1,217.6**	**1,041.1**

38. Capital Resources (continued)

	End Point 2016 £m	Transitional 2016 £m	Transitional 2015 £m
Common equity tier 1			
Shareholders' equity (accounting capital)	1,562.1	1,562.1	1,461.9
Regulatory adjustments			
Subordinated notes not qualifying as tier 1	–	–	(45.0)
Unrealised (losses)/gains on cash flow hedge reserve	1.6	1.6	(0.7)
Adjustment to own credit/Additional Value Adjustments	(1.9)	(1.9)	-
Intangible assets	(363.9)	(363.9)	(402.6)
Deferred tax liabilities related to intangible assets	26.5	26.5	37.7
Material holdings in financial sector entities	–	(6.8)	(10.2)
Core tier 1 capital	**1,224.4**	**1,217.6**	**1,041.1**
Tier 2 capital (instruments and provisions)			
Undated subordinated notes	45.0	45.0	45.0
Dated subordinated notes net of regulatory amortisation	190.0	190.0	190.0
Collectively assessed impairment provisions	44.6	44.6	36.1
Tier 2 capital (instruments and provisions) before regulatory adjustments	**279.6**	**279.6**	**271.1**
Regulatory adjustments			
Material holdings in financial sector entities	(34.1)	(27.3)	(23.9)
Total regulatory adjustments to tier 2 capital (instruments and provisions)	**(34.1)**	**(27.3)**	**(23.9)**
Total tier 2 capital (instruments and provisions)	**245.5**	**252.3**	**247.2**
Total capital	**1,469.9**	**1,469.9**	**1,288.3**
Total risk weighted assets (unaudited)	7,345.9	7,345.9	6,844.2
Common equity tier 1 ratio (unaudited)	16.7%	16.6%	15.2%
Tier 1 ratio (unaudited)	16.7%	16.6%	15.2%
Total capital ratio (unaudited)	20.0%	20.0%	18.8%

38. Capital Resources (continued)

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

	2016 £m	2015 £m
Tesco Personal Finance plc (Group) shareholders' equity	1,565.8	1,470.6
Share of joint venture's retained earnings	(5.2)	(8.0)
Subsidiaries' retained earnings	1.2	–
Share of joint venture's available-for-sale reserve	0.3	(0.7)
Tesco Personal Finance plc (Company) shareholders' equity	**1,562.1**	**1,461.9**

It is the Group's policy to maintain a strong capital base, to expand it as appropriate and to utilise it efficiently throughout its activities to optimise the return to shareholders while maintaining a prudent relationship between the capital base and the underlying risks of the business. In carrying out this policy, the Group has regard to the supervisory requirements of the PRA.

Leverage ratio (unaudited)

The Basel III reforms include the introduction of a capital leverage measure as defined as the ratio of tier 1 capital to total exposure. This is intended to reinforce the risk based capital requirements with a simple, non-risk based 'backstop' measure. The Basel Committee has proposed that final adjustments to the definition and calibration of the leverage ratio be carried out in 2017, with a view to migrating to a Pillar 1 treatment in 2018. In January 2015 the European Commission revised the CRD IV leverage rules to closely align to the Basel III Leverage Framework.

In the interim, the Group has published the estimated leverage ratio on a fully transitional CRD IV basis.

Exposures for leverage ratio (unaudited) 2016	**End point £m**	**Transitional £m**
Total balance sheet exposures	10,973.4	10,973.4
Removal of accounting value of derivatives and Securities Financing Transactions (SFTs)	(27.8)	(27.8)
Exposure value for derivatives and SFTs	57.9	57.9
Off balance sheet: unconditionally cancellable (10%)	1,177.7	1,177.7
Off balance sheet: other (20%)	18.1	18.1
Regulatory adjustment – intangible assets	(363.9)	(363.9)
Regulatory adjustment – other	–	(6.8)
Total	**11,835.4**	**11,828.6**
Common equity tier 1	**1,224.4**	**1,217.6**
Leverage ratio	10.3%	10.3%

The Company's estimated end point leverage ratio is 10.3%. The Basel Committee's minimum ratio of 3.0% is proposed to become a Pillar 1 requirement by 1 January 2018.

38. Capital Resources (continued)

Capital Management

The Group operates an integrated risk management process to identify, quantify and manage risk in the Group. The quantification of risk includes the use of both stress and scenario testing. Where capital is considered to be an appropriate mitigant for a given risk, this is identified and reflected in the Group's internal capital assessment. The capital resources of the Group are regularly monitored against the higher of this internal assessment and regulatory requirements. Capital adequacy and performance against Capital plan is monitored daily by Treasury, with monthly reporting provided to the Board, ALCo and CMF.

During the year capital regulations have continued to evolve with, in particular, the finalisation of UK leverage ratio requirements, a revised Pillar 2 framework and clarification of the UK regulatory capital buffer framework. Final revisions to the market risk framework following the Basel Committee's Fundamental Review of the Trading Book, and the Bank of England's consultation paper on UK Implementation and setting of the European Commission's minimum requirements for own funds and eligible liabilities (MREL) have recently been published.

In parallel, the PRA separately published a consultation paper on the interaction between MREL and capital buffers and how it would treat a breach in MREL requirements. Loss absorption under the proposals will comprise Pillar 1 and Pillar 2A and institutions may not be able to double-count Core Tier 1 (CET1) capital towards MREL and risk weighted capital and leverage buffers.

MREL

MREL requires banks to maintain at all times a sufficient aggregate amount of own funds and eligible liabilities (that may be bailed-in if required). The approach to implementation of these requirements in the UK is currently under consultation and as a result, the precise level of MREL the Group will be required to hold remains uncertain. MREL will be set on a firm-specific basis and calculated as the sum of two components: a loss absorption amount, being the amount needed to absorb losses up to and in resolution, and a recapitalisation amount which reflects the capital that a firm is likely to need post resolution.

The Bank of England is expected to provide Tesco Bank with a prospective MREL in 2016. MREL will be set annually over the transitional period to the MREL application date of 2020. Tesco Bank is planning to comply with its transitional MREL and the whole firm bail-in requirements by financial year 2019/20.

39. Related Party Transactions

During the year the Group had the following transactions with related parties:

Transactions involving Directors and other key connected persons

For the purposes of IAS 24, 'Related Party Disclosures', key management personnel comprise Directors of the Group. The captions in the Group's primary Financial Statements include the following amounts attributable, in aggregate, to key connected persons.

Group and Company	**2016**	2015
	£m	£m
Loans and advances to customers		
At the beginning of the year	0.6	0.1
Loans issued during the year	–	0.1
Loan repayments during the year	(0.2)	(0.1)
Loans outstanding at the end of the year	**0.4**	**0.1**
Interest income earned	–	–
Deposits from customers		
Deposits at the beginning of the year	1.1	1.0
Deposits received during the year	–	0.9
Deposits repaid during the year	–	–
Deposits at the end of the year	**1.1**	**1.9**
Interest expense on deposits	–	–

No provisions have been recognised in respect of loans and advances to related parties (2015: £nil).

Remuneration of key management personnel

The amount of remuneration incurred by the Group in relation to the Directors is set out below in aggregate. Further information about the remuneration of Directors is provided in note 9.

Group and Company	**2016**	2015
	£m	£m
Short-term employee benefits	5.2	3.7
Termination benefits	–	–
Post employment benefits	–	–
Other long term benefits	–	–
Share based payments	1.5	0.7
Total emoluments	**6.7**	**4.4**

39. Related Party Transactions (continued)

Trading transactions

Group	**2016 Tesco PLC**	**2016 Tesco PLC subsidiaries**	**2016 Tesco Underwriting Limited**	2015 Tesco PLC	2015 Tesco PLC subsidiaries	2015 Tesco Underwriting Limited
	£m	**£m**	**£m**	£m	£m	£m
Interest received and other income	–	43.6	1.5	0.1	9.6	1.5
Dividend received	–	–	–	–	–	7.4
Interest paid	–	(4.5)	–	–	(3.4)	–
Provision of services	(0.7)	(115.2)	(2.6)	–	(132.5)	(0.1)
Deposit with parent	–	–	–	(145.0)	–	–

Company	**2016 Tesco PLC**	**2016 Tesco PLC subsidiaries**	**2016 Tesco Underwriting Limited**	2015 Tesco PLC	2015 Tesco PLC subsidiaries	2015 Tesco Underwriting Limited
	£m	**£m**	**£m**	£m	£m	£m
Interest received and other income	–	43.6	1.5	0.1	9.6	1.5
Dividend received	–	–	–	–	–	7.4
Interest paid	–	(14.0)	–	–	(8.1)	–
Provision of services	(0.7)	(115.2)	(2.6)	–	(132.5)	(0.1)
Deposit with parent	–	–	–	(145.0)	–	–

Balances owing to/from related parties are identified in notes 15, 17, 24, 25, 27, 28, and 29.

For the year ended 29 February 2016 the Group and Company generated 60% (2015: 60%) of its insurance commission from the sale and service of Motor and Home insurance policies underwritten by TU, a joint venture company and therefore a related party. Customer premiums on such sales are collected directly by the Group and the net premium is remitted to TU. Investment transactions with TU are identified in note 19.

Ultimate parent undertaking

The Company's ultimate parent undertaking and controlling party is Tesco PLC which is incorporated in England. The Financial Statements for Tesco PLC can be obtained from its registered office at Tesco House, Shire Park, Kestrel Way, Welwyn Garden City, AL7 1GA.

Immediate parent undertaking

The Company's immediate parent company is Tesco Personal Finance Group Limited which is incorporated in Scotland. Financial Statements for Tesco Personal Finance Group Limited can be obtained from its registered office at Interpoint Building, 22 Haymarket Yards, Edinburgh, EH12 5BH. The smallest group into which the Company is consolidated is Tesco Personal Finance Group Limited and the largest group is Tesco PLC.

40. Contingent Liabilities and Commitments

The Financial Services Compensation Scheme (FSCS)

The FSCS is the UK statutory fund of last resort for customers of authorised financial services firms and pays compensation if a firm is unable or likely to be unable to pay claims against it. The FSCS meets its obligations by raising management expense levies and compensation levies which will be capped based on limits advised by the PRA and FCA. These include amounts to cover the interest on its borrowings and compensation levies on the industry. The FSCS has borrowed from HM Treasury to fund compensation costs associated with institutions that failed in 2008 and will receive receipts from asset sales, surplus cash flow and other recoveries from these institutions in the future. Any shortfall is being recovered by raising compensation levies on all deposit-taking participants over a three year period, which commenced in August 2013.

Each deposit-taking institution contributes in proportion to its share of total protected deposits on 31 December of the year preceding the scheme year, which runs from 1 April to 31 March. The adoption of IFRIC 21 'Levies' in the prior year has clarified that the obligating event which gives rise to the liability is the start of the FSCS scheme year rather than the 31 December balance date.

As at 29 February 2016 the Group has accrued £2.4m (2015: £2.3m) in respect of its current obligation to meet expenses levies, based on indicative costs published by the FSCS. The ultimate levy to the industry cannot currently be estimated reliably as it is dependent on various uncertain factors including participation in the market at 31 December, the level of protected deposits, the population of deposit-taking participants and potential recoveries of assets by the FSCS.

Lending commitments

The amounts shown below are intended to provide an indication of the volume of business transacted and not of the underlying credit or other risks.

Group and Company	**2016**	**2015**
	£m	**£m**
Undrawn formal standby facilities, credit lines and other commitments to lend:		
Less than one year		
- Mortgage commitments	90.5	67.9
- Credit Card commitments	11,767.7	11,420.7
- Personal Current Account overdraft commitments	3.0	1.3
- Other commitments	5.6	5.6
Total commitments	**11,866.8**	**11,495.5**

40. Contingent Liabilities and Commitments (continued)

Mortgage offers made are legally binding commitments made by the Group to provide secured funding to customers. Undrawn Mortgage commitments relate to formal offers made to customers during the application process whereby the customer has successfully passed eligibility and affordability checks but has not yet received the funds.

Under an undrawn Credit Card commitment the Group agrees to make funds available to a customer in the future. Undrawn Credit Card commitments, which are usually for a specified term, may be unconditionally cancelled or may persist, providing all facility conditions are satisfied or waived.

Under a Personal Current Account or Clubcard Plus overdraft commitment the Group agrees to make funds available to a customer in the future. Personal Current Account overdraft commitments are usually for a specified term, may be unconditionally cancelled or may persist, providing all facility conditions are satisfied or waived.

Capital commitments

At 29 February 2016 the Group and Company had capital commitments related to property, plant and equipment of £0.6m (2015: £0.3m) and intangible assets of £0.3m (2015: £0.4m). This is in respect of IT software development and IT hardware. The Group's management is confident that future net revenues and funding will be sufficient to cover this commitment.

Operating lease commitments

The future minimum lease payments under non-cancellable operating leases are as follows:

Group and Company	**2016 £m**	**2015 £m**
No later than one year	5.2	5.2
Later than one year and no later than five years	23.2	21.3
Later than five years	42.1	49.8
	70.5	**76.3**

41. Share Based Payments

The Group charge for the year recognised in respect of share based payments is £12.1m (2015: £6.6m), which is made up of share option schemes and share bonus payments. Of this amount £10.7m (2015: £6.0m) will be equity-settled and £1.4m (2015: £0.6m) cash-settled.

The Group had three share option schemes in operation during the year, all of which are equity-settled schemes using Tesco PLC shares:

- The Discretionary Share Option Plan (2004) was adopted on 5 July 2004. This scheme permitted the grant of approved, unapproved and international options in respect of ordinary shares to selected executives. Options are normally exercisable between three and ten years from the date of grant at a price not less than the middle-market quotation or average middle-market quotations of an ordinary share for the dealing day or three dealing days preceding the date of grant. The exercise of options will normally be conditional upon the achievement of a specified performance target related to the annual percentage growth in earnings per share over a three-year period. There were no discounted options granted under this scheme.

- The Savings-related Share Option Scheme (1981) permits the grant to colleagues of options in respect of ordinary shares linked to a building society/bank save-as-you-earn contract for a term of three or five years with contributions from colleagues of an amount between £5 and £500 per four-weekly period. Options are capable of being exercised at the end of the three or five-year period at a subscription price of not less than 80% of the average of the middle-market quotations of an ordinary share over the three dealing days immediately preceding the offer date.

- The Performance Share Plan (2011) was adopted on 1 July 2011 and amended on 4 July 2011. This scheme permits the grant of options in respect of ordinary shares to selected executives. Options are normally exercisable between the vesting date(s) set at grant and 10 years from the date of grant for nil consideration. The exercise of options will normally be conditional upon the achievement of specified performance targets over a three-year period and/or continuous employment.

41. Share Based Payments (continued)

The following table reconciles the number of share options outstanding and the weighted average exercise price (WAEP):

	Savings-related share option scheme Options	Savings-related share option scheme WAEP (pence)	Approved share option scheme Options	Approved share option scheme WAEP (pence)	Unapproved share options scheme Options	Unapproved share options scheme WAEP (pence)
Outstanding at 28 February 2015	**3,317,686**	**171.27**	**245,641**	**340.93**	**281,109**	**350.95**
Granted	1,082,533	151.00	–	–	–	–
Forfeited	(802,850)	196.26	(35,460)	338.40	(43,683)	338.40
Exercised	(12,613)	150.00	–	–	–	–
Outstanding at 29 February 2016	**3,584,756**	**159.63**	**210,181**	**341.36**	**237,426**	**353.26**
Exercisable at 29 February 2016	**49,961**	**297.58**	**210,181**	**341.36**	**237,426**	**353.26**
Exercise price range (pence)	**–**	**282.00 to 386.00**	**–**	**338.40 to 427.00**	**–**	**338.40 to 427.00**
Weighted average remaining contractual life (years)	**–**	**0.42**	**–**	**3.64**	**–**	**3.03**
Outstanding at 28 February 2014	909,125	320.51	298,831	340.48	347,608	348.55
Granted	2,945,989	150.00	–	–	–	–
Forfeited	(537,163)	307.11	(53,190)	338.40	(66,499)	338.40
Exercised	(265)	282.00	–	–	–	–
Outstanding at 28 February 2015	3,317,686	171.27	245,641	340.93	281,109	350.95
Exercisable at 28 February 2015	73,720	355.15	245,641	340.93	281,109	350.95
Exercise price range (pence)	-	328.00 to 364.00	-	338.40 to 427.00	-	338.40 to 427.00
Weighted average remaining contractual life (years)	–	0.42	–	4.65	–	4.06

41. Share Based Payments (continued)

Share options were exercised on a regular basis throughout the financial year. The average Tesco PLC share price during the year ended 29 February 2016 was 196.55p (2015: 244.08p).

The fair value of share options is estimated at the date of grant using the Black-Scholes option pricing model. The following table gives the assumptions applied to the options granted in the respective periods shown. No assumption has been made to incorporate the effects of expected early exercise.

Group	2016 Savings - related share options schemes	2015 Savings - related share options schemes
Expected Dividend Yield (%)	1.3%	2.4%
Expected Volatility (%)	25 - 26%	22 - 24%
Risk free interest rate (%)	0.9 - 1.3%	0.9 - 1.3%
Expected life of option (years)	3 or 5	3 or 5
Weighted average fair value of options granted (pence)	52.58	43.72
Probability of forfeiture (%)	9 - 11%	14 - 16%
Share price (pence)	188.50	187.00
Weighted average exercise price (pence)	151.00	150.00

Volatility is a measure of the amount by which a price is expected to fluctuate in the period. The measure of volatility used in Tesco PLC's option pricing models is the annualised standard deviation of the continuously compounded rates of return on the share over a period of time. In estimating the future volatility of Tesco PLC's share price, the Tesco PLC Board considers the historical volatility of the share price over the most recent period that is generally commensurate with the expected term of the option, taking into account the remaining contractual life of the option.

Share Bonus Schemes

Eligible UK colleagues are able to participate in Shares In Success, an all-employee profit-sharing scheme. Each year shares may be awarded to colleagues as a percentage of earnings, up to a statutory maximum of £3,600 per annum in 2015/16.

Selected executives participate in the Group Bonus Plan, a performance-related bonus scheme. The amount paid to colleagues is based on a percentage of salary and is paid partly in cash and partly in shares. Bonuses are awarded to selected executives who have completed a required service period and depend on the achievement of corporate targets.

Selected executives participate in the Performance Share Plan (2011). Awards made under this plan will normally vest on the vesting date(s) set on the date of the award for nil consideration. Vesting will normally be conditional on the achievement of specified performance targets over a three-year performance period and/or continuous employment.

41. Share Based Payments (continued)

The fair value of shares awarded under these schemes is their market value on the date of the award. Expected dividends are not incorporated into the fair value.

The number of Tesco PLC shares and weighted average fair value (WAFV) of share bonuses awarded during the year were:

	2016 Shares number	2016 WAFV (pence)	2015 Shares number	2015 WAFV (pence)
Shares in Success	510,353	221.79	459,973	307.15
Group Bonus Plan	2,082,359	215.65	1,335,719	285.50
Performance Share Plan	3,138,823	216.35	977,670	282.57

42. Adoption of New and Amended International Financial Reporting Standards

During the year to 29 February 2016, the Group has adopted the following new accounting standards and amendments to standards which became effective with relevant EU endorsement for annual periods beginning on or after 1 January 2015:

- Amendment to IAS 19 'Employee benefits: Employee contributions'

This amendment is effective for annual periods beginning on or after 1 July 2014, however is endorsed for application by the EU from 1 February 2015. It provides additional guidance on the accounting for contributions from employees or third parties set out in the formal terms of a defined benefit plan. There has been no impact on the Group of the adoption of this amendment.

- Annual Improvements

The Annual Improvements process covers minor amendments to IFRS that the IASB consider non-urgent but necessary. The Annual Improvements 2010-2012 and 2011-2013 process resulted in several minor changes to standards which are effective for annual periods beginning on or after 1 July 2014, however these are endorsed for application by the EU from 1 February 2015. There has been no impact on the Group of the adoption of these amendments.

Standards and interpretations issued but not yet effective

- Annual Improvements

The Annual Improvements 2012-2014 process resulted in several minor changes to standards which are effective for annual periods beginning on or after 1 January 2016. These amendments are not expected to impact the Group.

- Amendment to IFRS 11 'Joint arrangements: Acquisition of an interest in a joint operation'

This amendment is effective for annual periods beginning on or after 1 January 2016. It provides new guidance on how to account for the acquisition of an interest in a joint venture. The impact of this amendment on the Group is dependent on any future acquisitions.

- Amendments to IAS 16 and IAS 38 'Property, Plant and Equipment and Intangible Assets: Clarification of acceptable methods of depreciation and amortisation'

These amendments are effective for annual periods beginning on or after 1 January 2016. They clarify that the use of revenue based methods to calculate depreciation and amortisation of assets is not appropriate. These amendments are not expected to impact the Group.

- Amendment to IAS 27 'Equity method in Separate financial statements'

This amendment is effective for annual periods beginning on or after 1 January 2016. It allows entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. This amendment is not expected to impact the Group.

- Amendments to IFRS 10, IFRS 12 and IAS 28 'Investment Entities: Applying the Consolidation Exception'

These amendments are effective for annual periods beginning on or after 1 January 2016, subject to EU endorsement. They clarify the accounting for interests in investment entities and application of the consolidation exemption. These amendments are not expected to impact the Group.

- Amendments to IFRS 10, and IAS 28 'Consolidated financial statements and associates and joint ventures: Sale or contribution of assets'

These amendments will be effective from a date to be determined by the IASB. They address an inconsistency in current requirements in dealing with the sale or contribution of assets between an investor and its associate or joint venture. These amendments are not expected to have any impact based on the current Group structure.

42. Adoption of New and Amended International Financial Reporting Standards (continued)

- Amendment to IAS 1 'Presentation of financial statements: Disclosure initiative'

This amendment is effective for annual periods beginning on or after 1 January 2016. It clarifies some of the requirements for disclosure within the financial statements. This amendment is not expected to impact the Group.

- Amendment to IAS 12 'Income taxes: Recognition of deferred tax assets for unrealised losses'

This amendment is effective for annual periods beginning on or after 1 January 2017, subject to EU endorsement. It clarifies the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value. This amendment is not expected to impact the Group.

- Amendments to IAS 7 'Statement of cash flows: Disclosure initiative'

These amendments are effective for annual periods beginning on or after 1 January 2017, subject to EU endorsement. They extend the disclosures required by IAS 7 about an entity's liquidity and aim to improve disclosures about an entity's debt. These amendments are expected to result in additional disclosures on movements in liabilities arising from financing activities for the Group for the year ended 28 February 2018 onwards.

- IFRS 15, 'Revenue from contracts with customers'

IFRS 15 is effective for annual periods beginning on or after 1 January 2018, subject to endorsement by the EU. IFRS 15 is a replacement for IAS 18 'Revenue' and introduces a five step approach to revenue recognition. The full impact of this new standard on the Group is still being assessed.

- IFRS 16, 'Leases'

IFRS 16 is effective for annual periods beginning on or after 1 January 2019, subject to endorsement by the EU. IFRS 16 provides a single lessee accounting model, requiring lessees to recognise right of use assets and lease liabilities for all applicable leases. The full impact of this new standard on the Group is still being assessed.

- IFRS 9, 'Financial instruments'

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, subject to endorsement by the EU. It is a replacement for IAS 39 'Financial Instruments: Recognition and Measurement'.

The principle features of IFRS 9 are as follows:

Classification and measurement of financial assets and liabilities:

IFRS 9 will require the Group's financial assets to be classified as either held at amortised cost, fair value through other comprehensive income, or fair value through profit or loss, dependent on the business model and cash flow characteristics of the financial asset.

The Group continues to evaluate the overall effect, but expects that the measurement basis of the majority of the Group's financial assets and financial liabilities will be unchanged on application of IFRS 9.

Recognition of impairment:

IFRS 9 requires the Group to recognise expected credit losses (ECL) at all times, and to update the amount of expected credit losses recognised at each reporting date to reflect changes in the credit risk of financial instruments. The ECL is measured under a three stage approach:

Upon origination of an asset, a loss allowance is established that is equal to the 12-month ECL, being the portion of life-time expected losses resulting from default events that are possible within the next 12 months. Financial assets where 12-month ECL is recognised are considered to be 'stage 1'.

42. Adoption of New and Amended International Financial Reporting Standards (continued)

Where a significant increase in credit risk since initial recognition is identified, a loss allowance equal to the lifetime ECL is established. This is considered to be 'stage 2'.

Where there is objective evidence that leads to an asset being considered credit impaired, a loss allowance equal to the lifetime ECL continues to be recognised and interest revenue is calculated by applying the effective interest rate to the amortised cost (net of provision) rather than the gross carrying amount. This is considered to be 'stage 3'.

The assessment of credit risk and the estimation of ECL are required to be unbiased and probability-weighted: determined by evaluating at the reporting date for each financial asset a range of possible outcomes using reasonable and supportable information about past events, current conditions and forecasts of future events and economic conditions. The estimation of ECL also takes into account the time value of money.

The inclusion of loss allowances that incorporate an expectation of future drawings will tend to result in an increase in overall impairment balances when compared with the existing basis of measurement under IAS 39. The requirement to incorporate forward looking information increases the level of judgement as to how changes in these factors will affect ECL and is also likely to result in impairment charges being more volatile when compared to the current IAS 39 impairment model. The Group's governance processes and controls are being developed to integrate the revised ECL requirements into the Group's risk management and financial reporting processes.

Hedge accounting:
The IFRS 9 hedge accounting requirements are designed to allow hedge accounting to be more closely aligned with financial risk management. The Group is actively considering its implementation approach.

The Group does not plan to early adopt any of the requirements of IFRS 9.

Early adoption of new standards

The Group did not early adopt any new or amended standards in the year ended 29 February 2016.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TESCO PERSONAL FINANCE PLC

We have audited the Financial Statements of Tesco Personal Finance plc for the year ended 29 February 2016, which comprise the Consolidated Income Statement for the year ended 29 February 2016; the Consolidated Statement of Comprehensive Income for the year ended 29 February 2016; the Consolidated and Company Statements of Financial Position as at 29 February 2016; the Consolidated and Company Statements of Changes in Equity for the year ended 29 February 2016; the Consolidated and Company Cash Flow Statements for the year ended 29 February 2016; and the related notes 1 to 42. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Company Financial Statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the Financial Statements sufficient to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the Financial Statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited Financial Statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on Financial Statements

In our opinion:

- the Financial Statements give a true and fair view of the state of the Group's and of the Company's affairs as at 29 February 2016 and of the Group's profit for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Company Financial Statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group Financial Statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company Financial Statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Stephen Williams ACA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Edinburgh, United Kingdom
11 April 2016