Tesco Personal Finance Group Ltd
Pillar 3 Disclosures 28th February 2015

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Appendices

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1. Introduction and Basel Framework

Tesco Personal Finance Group Ltd, its subsidiaries and joint venture, together form a UK based retail financial services organisation (the Group) wholly owned by Tesco plc. This document presents the consolidated Pillar 3 disclosures, together with the comparatives, of the Group for the year ended 28 February 2015. This is a change from prior year, with the 2014 disclosure having been made at Tesco Personal Finance plc level (the Company), following agreement with the Prudential Regulation Authority (PRA). The group and its scope of consolidation is illustrated in section 3.

Pillar 3 disclosure requirements were first issued in 2004 as part of the Basel II framework of the Basel Committee on Banking Supervision (‘Basel Committee’).

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

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

Basel III requirements were formally introduced in Part Eight of the European Union (EU) Capital Requirements Regulation (CRR) No 575/2013 of the European Parliament, which along with Directive 2013/36/EU of the European Parliament (CRD) are known as the Capital Requirements Directive IV (CRD IV). This requires institutions to publicly disclose and formally adopt policy to comply with the disclosure requirements laid down in CRR Articles 431 – 455.

The implementation of CRD IV is subject to transitional arrangements, with the full implementation date being 1 January 2019. As a result, the Group’s capital position is shown by applying the CRD IV transitional arrangements, as implemented in the UK by the PRA, and also by applying the end point CRD IV (the ‘fully loaded’ basis).

The Group’s capital was calculated for regulatory reporting purposes for the year ended 28th February 2015, using the Basel III framework as implemented by the EU in the amended CRD IV, and in the PRA’s Rulebook for the UK banking industry.

1.1 Capital Requirement Framework

The Capital Framework which the Group is required to apply is described below.

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

Pillar 2A / Individual Capital Guidance (ICG) sets out requirements on firms with regard to their internal capital adequacy assessment processes (ICAAPs), internal procedures and control mechanisms. The PRA requires that firms should meet Pillar 2A with at least 56% Common Equity Tier 1 (CET1).

Capital Planning Buffer (CPB) is designed to be available to absorb losses and/or to cover increased capital requirements in adverse circumstances that are outside the firm’s normal and direct control. The CPB is set at a level that enables a firm to meet all relevant capital ratios specified in the supervisory framework at all points in the economic cycle. The CPB will be replaced by the CCB and the PRA buffer from 1 January 2016.

Countercyclical buffer (CCyB) requires firms to build up capital when aggregate growth in credit is judged to be associated with a build up of system-wide risk. The buffer can be drawn down to absorb losses during periods of stress. The Financial Policy Committee (FPC) is responsible for setting the

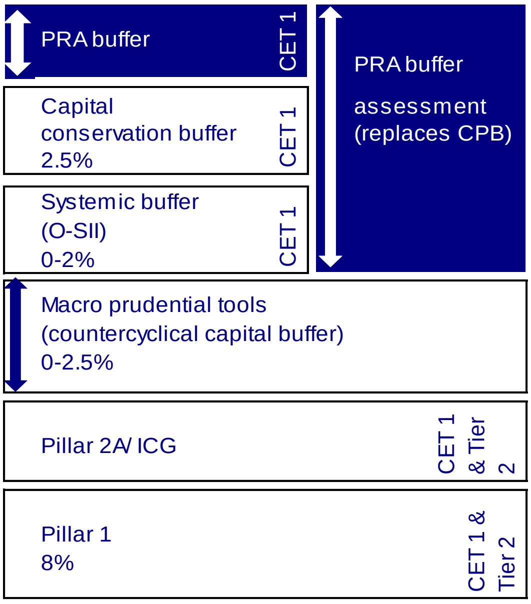
UK CCyB rate that applies to UK exposures of banks incorporated in the UK. Currently, the FPC has announced a UK CCyB rate of 0%.

Capital conservation buffer (CCB). The purpose of this buffer is to enable firms to absorb losses in stressed periods. A capital conservation buffer of 2.5 per cent, comprised of Common Equity Tier 1 capital, is required to be maintained above the regulatory minimum capital requirement. The PRA proposes to introduce this buffer using a phased approach from 1 January 2016, in line with the transition timetable set out in the Capital Requirements Directive (CRD).

PRA buffer. The PRA may impose a firm-specific buffer incremental to Pillar 1, Pillar 2A and the CRD buffers that would replace the Capital Planning Buffer (CPB). The PRA determines the amount required to be maintained by firms using a range of factors, but not limited to, firm-specific stress test results. More information is to be provided by the PRA on the transition to this buffer. In the meantime, firms are required to continue with the current CPB policy.

Systemic buffer. Other systemically important institutions (O-SII) may in the future be required to maintain an O-SII buffer of up to 2 per cent of the total risk exposure. This is to consist of Common Equity Tier 1 capital and phasing is to commence from 2016. Identification of O-SII is based on mandatory quantitative factors (related to size, interconnectedness, relevance for the economy and complexity) as well as supervising judgements of competent authorities. The PRA is expected to identify institutions that it considers to be O-SII by the end of 2015.

The diagram below illustrates the revised capital framework:



Key regulatory developments which are due to be implemented over the next few years, and their impact on the Group have been presented in Appendix 9.

2. Disclosure Policy

The following sets out a summary of the disclosure policy applied to the Pillar 3 Disclosures, including the basis of disclosure, the information to be disclosed, frequency, media, location and verification.

2.1 Basis of Disclosure

This document contains the Pillar 3 disclosures of the Group as at 28 February 2015 on a 'transitional basis'[1], prepared in accordance with the requirements of the Capital Requirements Regulation (CRR) Part 8 (Disclosure by Institutions). The purpose of these disclosures is to give information on the

[1] Transitional arrangements are in place to 31 December 2017 and institutions shall complete and publish the transitional own funds disclosure template in Annex VI of commission implementing regulation (EU) no 1423/2013 instead of the general own funds disclosure template in Annex IV of commission implementing regulation (EU) no 1423/2013. See Appendix 4.

basis of calculation of CRD IV capital requirements and on the management of risks faced by the Group.

2.2 Information and Frequency of Disclosure

The Group does not meet the Global Systemically Important Institution (G-SII) criteria as outlined in the European Banking Authority (EBA) guidelines issued on 23 December 2014 and therefore considers annual Pillar 3 disclosures to be sufficient to meet its obligations. The frequency of disclosure will be reviewed should there be a material change in approach used for the calculation of capital, business structure or regulatory requirements.

2.3 Verification and Medium

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

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

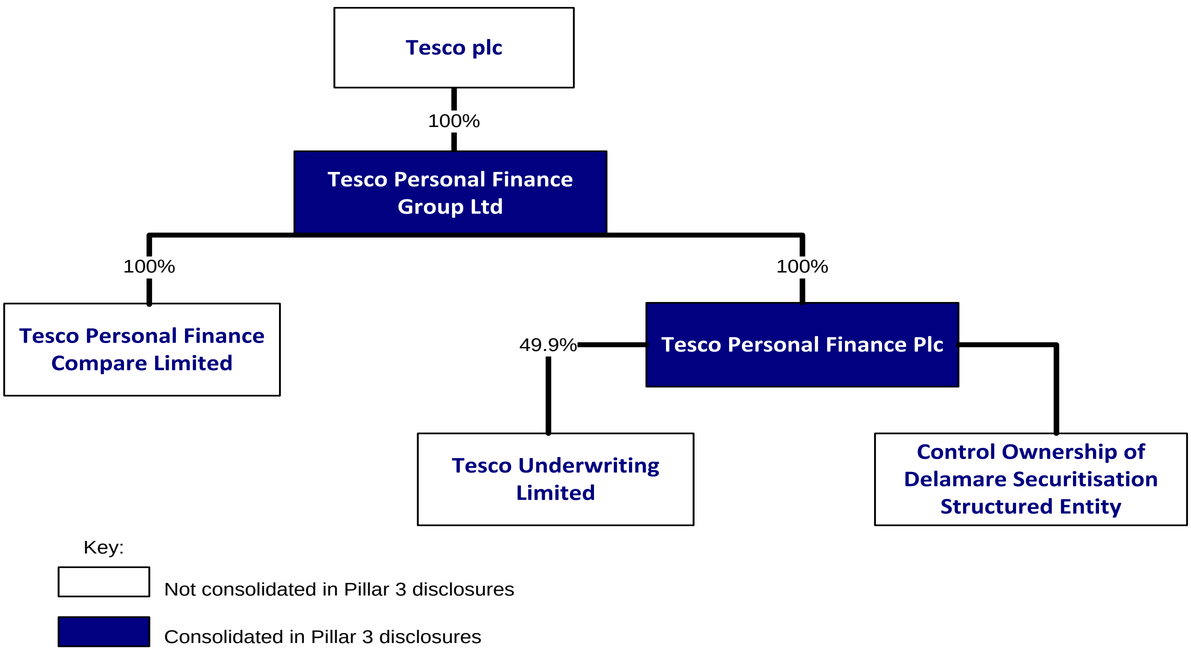
3. Scope of Consolidation

Tesco Personal Finance Group Ltd operates as a holding company with 100% ownership of the Company and Tesco Personal Finance Compare Ltd. Tesco Personal Finance Compare Ltd ceased trading in the year and the subsidiary is currently in the process of being dissolved.

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

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

The basis of consolidation for regulatory reporting purposes differs from the one used for financial accounting. Subsidiaries and associates engaged in Insurance (Tesco Underwriting Ltd) and non-financial activities (Tesco Personal Finance Compare Ltd) are not consolidated within the Group's Pillar 3 disclosures as illustrated in the following diagram:



3.1 Statutory Consolidation

Tesco Personal Finance Group Ltd operates as a holding company with 100% ownership of the Company and Tesco Personal Finance Compare Ltd. The Company holds 49.9% ownership of Tesco Underwriting Ltd (TU). TU underwrites household and motor insurance and provides claims management services for these products. TU is a joint venture company (jointly held with Ageas UK Ltd) which is equity accounted for by the Tesco Personal Finance Group Ltd. The Delamare securitisation structured entities are consolidated in the statutory group.

Consolidated Annual Reports and Financial Statements for both Tesco Personal Finance Group Ltd and the Company are prepared in accordance with International Financial Reporting Standards ('IFRS').

3.2 Regulatory Consolidation

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

The securitisation undertaken via Delamare of credit card receivables does not meet the criteria for significant risk transfer, and accordingly the assets securitised are shown as assets of the Group within section 6, as part of Retail exposures. The securitisation is discussed in more detail in section 8. TU and Tesco Personal Finance Compare Ltd are not consolidated within the Group's Pillar 3 disclosures. There are restrictions on the ability of the Group, to make distributions of cash or other assets to the parent company for the following reasons:

- Assets pledged as collateral: These assets are not available for transfer to the parent company.
- Regulatory capital requirements: As a regulated entity, the Company is subject to requirements to maintain minimum levels of capital, hence restricting the ability to make distributions of cash or other assets to the parent company.

3.3 Comparability

It is important to note that a number of significant differences exist between accounting disclosures published in accordance with the requirements of International Financial Reporting Standards (IFRS) and the Companies Act 1985, and the Pillar 3 disclosures published in accordance with regulatory requirements. These differences prevent direct comparison in a number of areas, as a result of variations in the scope of consolidation and the definition of credit risk exposure.

To aid users, a statutory and regulated scope balance sheet together with a reconciliation showing all items affecting regulatory own funds[2] as required in point (a) of CRR Article 437(1) is detailed in table 1 below. Table 2 shows the reconciliation of the regulated scope balance sheet through to credit risk exposures, with the main differences being;

- Pillar 3 exposure values are derived from Balance Sheet values, net of provisions where appropriate, together with undrawn credit facilities which are assigned credit conversion factors based on prescribed regulatory values.
- The Group is required to make certain adjustments to own funds per the CRR articles, the most material relate to intangible assets and dated Tier 2 capital instruments.

[2] During transitional period to 31 Dec 17, derogation has been provided and institutions are required to disclose specific items on own funds on a transitional basis.

Table 1: Consolidated Regulatory Balance Sheet

		February 2015			February 2014		
	Appendix 4	Accounting Balance sheet (per financial statements)	Deconsolidation of TU and Tesco Personal Finance Compare Ltd [1]	Regulatory Scope	Accounting Balance sheet (per financial statements)	Deconsolidation of TU and Tesco Personal Finance Compare Ltd	Regulatory Scope
		£m	£m	£m	£m	£m	£m
Assets							
Cash and balances with central banks		628.7	(2.4)	626.3	494.0	-	494.0
Loans and Advances to banks		-		-	-		-
Loans and Advances to Customers		7,725.3		7,725.3	6,922.0		6,922.0
of which: latent provisions [2]	*a*			*(36.1)*			*(32.8)*
Derivative Financial Instruments		31.7		31.7	36.6		36.6
Investment Securities:							
Available for sale		827.3		827.3	850.3		850.3
Loans and Receivables		34.1		34.1	34.1		34.1
of which: Loan to TU Ltd deducted from Tier 1 pre-CRR [2]	*b*			*10.2*			*13.5*
of which: Loan to TU Ltd deducted from Tier 2 pre-CRR [2]	*c*			*10.2*			*13.5*
of which: Loan to TU Ltd deducted from Tier 2 CRR [2]	*d*			*13.7*			*7.1*
Prepayments and Accrued Income		41.0		41.0	27.3	(0.2)	27.1
Current Income Tax Asset		4.5		4.5	0.5	-	0.5
Other Assets		200.5	4.0	204.5	284.8	0.2	285.0
Investment in Group Undertakings		-	2.4	2.4	-	3.2	3.2
Investment in Joint Venture/Associate		79.7	(8.7)	71.0	77.3	(6.3)	71.0
of which: Significant Investment in TU below threshold [2]	*e*			*71.0*			*71.0*
Intangible Assets		402.6		402.6	427.7		427.7
of which: Other Intangibles [2]	*f*			*402.6*			*427.7*
Property, Plant and Equipment		86.4		86.4	92.8	-	92.8
Total Assets		**10,061.8**	**(4.7)**	**10,057.1**	**9,247.4**	**(3.1)**	**9,244.3**
Liabilities and Equity							
Deposits from Banks		106.5		106.5	779.8	2.9	782.7
Deposits from Customers		6,913.5		6,913.5	6,078.2		6,078.2
Debt Securities in Issue		898.0		898.0	394.8		394.8
Derivative Financial Instruments		86.9		86.9	41.8		41.8
Provision for Liabilities and Charges		90.1		90.1	105.5		105.5
Accruals and Deferred Income		120.0		120.0	127.1	-	127.1
Current Income Tax Liability		-		-	-	-	-
Other Liabilities		143.0	4.0	147.0	125.5	-	125.5
of which: Debit Valuation Adjustment [2]	*g*			*(0.1)*			
Deferred Income Tax Liability		39.8		39.8	19.3		19.3
of which: Deferred Tax liability - Intangible Assets [2]	*h*			37.8			32.2
of which: Deferred Tax Asset [2]	*i*			-			(12.9)
Subordinated Liabilities		190.0		190.0	190.0		190.0
of which: allowable for Tier 2 [2]	*j*			*190.0*			*190.0*
Total Liabilities		**8,587.8**	**4.0**	**8,591.8**	**7,862.0**	**2.9**	**7,864.9**
Equity							
Shareholders Funds							
Called up share capital		122.0		122.0	122.0		122.0
of which: amount eligible for CET1 [2]	*k*			*122.0*			*122.0*
Share Premium Account		1,098.2		1,098.2	1,098.2		1,098.2
of which: amount eligible for CET1 [2]	*l*			*1,098.2*			*1,098.2*
Retained Earnings		186.2	(7.9)	178.3	108.8	(9.8)	99.0
of which: prior year retained profits [2]	*m*			*98.9*			*61.2*
of which: current year profit less dividend paid [2]	*n*			*79.4*			*37.7*
Other Reserves	o	22.6	(0.8)	21.8	11.4	3.8	15.2
of which: Other Comprehensive Income - gain on AFS [2]							*5.9*
of which: Cash Flow Hedge Reserve [2]	*p*			*0.7*			*1.7*
Subordinated Notes		45.0		45.0	45.0		45.0
of which: Tier 2 [2]	*q*			*45.0*			*45.0*
Total Equity		**1,474.0**	**(8.7)**	**1,465.3**	**1,385.4**	**(6.0)**	**1,379.4**
Total Liabilities and Equity		**10,061.8**	**(4.7)**	**10,057.1**	**9,247.4**	**(3.1)**	**9,244.3**

Notes:

[1] Insurance and non-financial undertakings are not consolidated within the Group's Pillar 3 Disclosures, therefore the assets and liabilities of Tesco Personal Finance Compare Ltd require to be removed from the consolidated accounting balance sheet of Tesco Personal Finance Group Ltd. Adjustments are required to the assets and liabilities relating to TU to remove the impact of Equity Accounting.
[2] Italicised values represent subsets of values directly above them, and also show the splits between Tier 1 and Tier 2 Capital subsequently detailed in Table 2: Capital Resources.

Table 2: Regulatory Balance Sheet to Credit Risk Exposures

February 2015	Regulatory Scope	Assets Deducted from Own Funds [1]	Provisions [2]	Commitments and Contingent Liabilities post Credit Conversion Factors [3]	Total Credit Risk Exposures
	£m	£m	£m	£m	£m
Regulatory Balance Sheet Category					
Cash and balances with central banks	626.3				626.3
Loans and Advances to banks	-				-
Loans and Advances to Customers	7,725.3		36.1		7,761.4
Derivative Financial Instruments	31.7				31.7
Investment Securities:	-				-
Available for sale	827.3				827.3
Loans and Receivables	34.1	(34.1)			-
Prepayments and Accrued Income	41.0				41.0
Current Income Tax Asset	4.5				4.5
Other Assets	204.5				204.5
Investment in Group Undertakings	2.4				2.4
Investment in Joint Venture/Associate	71.0				71.0
Intangible Assets	402.6	(402.6)			-
Property, Plant and Equipment	86.4				86.4
Total Assets	**10,057.1**	**(436.7)**	**36.1**		**9,656.5**
Credit Converted Off Balance Sheet Commitments and Contingent Liabilities				**44.4**	**44.4**
Total	**10,057.1**	**(436.7)**	**36.1**	**44.4**	**9,700.9**

February 2014	Regulatory Scope	Assets Deducted from Own Funds [1]	Provisions [2]	Commitments and Contingent Liabilities post Credit Conversion Factors [3]	Total Credit Risk Exposures
	£m	£m	£m	£m	£m
Regulatory Balance Sheet Category					
Cash and balances with central banks	494.0				494.0
Loans and Advances to banks	-				-
Loans and Advances to Customers	6,922.0		32.8		6,954.8
Derivative Financial Instruments	36.6				36.6
Investment Securities:	-				-
Available for sale	850.3				850.3
Loans and Receivables	34.1	(34.1)			-
Prepayments and Accrued Income	27.1				27.1
Current Income Tax Asset	0.5				0.5
Other Assets	285.0				285.0
Investment in Group Undertakings	3.2				3.2
Investment in Joint Venture/Associate	71.0				71.0
Intangible Assets	427.7	(427.7)			-
Property, Plant and Equipment	92.8				92.8
Total Assets	**9,244.3**	**(461.8)**	**32.8**		**8,815.3**
Credit Converted Off Balance Sheet Commitments and Contingent Liabilities				**51.1**	**51.1**
Total	**9,244.3**	**(461.8)**	**32.8**	**51.1**	**8,866.4**

Notes:

[1] Assets that are ultimately deducted from own funds comprising; material holding in TU and intangible assets (in relation to computer software and work in progress for the development of IT software assets). These are treated as a deduction from capital.
[2] Incurred but not reported (IBNR) provisions are added back in the calculation of Credit Risk Exposures.
[3] Credit risk exposures reflect both drawn down balances, as well as an allowance for undrawn commitments and contingent liabilities that are determined using a credit conversion factor (CCF) to estimate the proportion expected to be drawn down at point of default.

4. Risk Management

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

The Enterprise Wide Risk Management Framework (EWRMF) has been embedded across the business, and extends to all major risk categories affecting it. The EWRMF is underpinned by governance, controls, processes, systems and policies within the first line business areas and those of the second line Risk Management Function (RMFu).

The Chief Risk Officer (CRO) performs a strategic risk management role, and is responsible for managing and enhancing the Enterprise Wide Risk Management Framework. The CRO is independent from any commercial function, and ordinarily reports directly to the Chief Executive Officer (CEO). During the year, an interim CRO was appointed following the resignation of the previous CRO. The interim CRO has reported to the deputy Chief Executive since their appointment, however the reporting line will revert to the CEO once a permanent CRO appointment has been made.

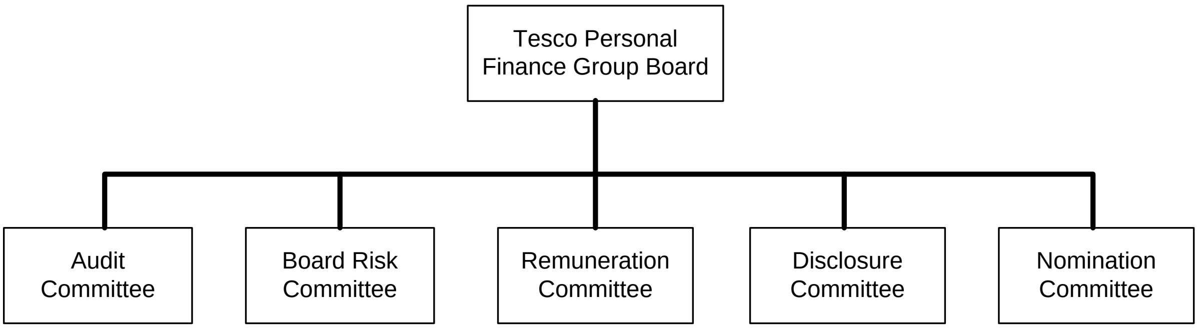
4.1 Risk Governance Structure

The Board is the key governance body and is responsible for the overall strategy, performance of the business and ensuring appropriate and effective risk management. It has delegated responsibility for 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 deliver against the strategy in an effective and controlled way.

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

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

The Board



The Board has overall responsibility for the business. It sets the 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 manage the wide range of responsibilities held, the Board has established the following five sub-committees:

i) 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 auditors;
- Examining arrangements in place to enable management to ensure compliance with requirements and standards under the regulatory system; and
- Overseeing the internal audit function and the internal audit programme.
- To review findings of external assurance reports provided by outsourced providers.

Further detail on the Audit Committee is included within the Directors' Report in the Annual Report and Financial Statements.

ii) Board Risk Committee (BRC)

The role of the BRC includes the oversight and challenge of Risk Appetite and the recommendation to the Board of any changes to Risk Appetite, the assessment of future risks, the review and challenge, where appropriate, of the outputs from the ALCo and the RMC, and to embed an appropriate risk culture throughout the business.

iii) 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 PRA's Remuneration Code;
- To approve a remuneration framework for those employees 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 business in a way which is consistent with the Risk Appetite and ongoing sustainability of the business; and
- To ensure that remuneration policy is compliant with all applicable legislation, regulation and guidelines.

iv) Disclosure Committee

The Disclosure Committee is responsible for ensuring 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.

v) 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 Executive Committee (ExCo) to assist in the management of the business and 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. The relevant ExCo member is responsible to the Chief Executive and to the Board, for managing performance in line with the long-term plan, the strategy, the annual budget and the Risk Appetite.

In order to ensure that high level matters which require cross functional oversight and engagement are dealt with appropriately, the ExCo has established a series of sub-committees as detailed below, which report directly to the ExCo.

i) Conduct Committee (CoCo)

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

ii) Asset and Liability Management Committee (ALCo)

The principal role of the ALCo is to optimise the balance sheet structure within boundaries and Risk Appetite set by the Board and regulation, and to identify, manage and control the balance sheet risks in the execution of its chosen business strategy.

The ALCo has three sub-committees; the Liquidity Management Forum (LMF), Market Risk Forum (MRF) and Capital Management Forum (CMF).

iii) 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.

Six sub-committees (the Financial Crime, Operational and Regulatory Risk Committee (FORRC), the Credit Risk Management Committee (CRMC), the Wholesale Credit Risk Forum (WCRF), the Operational Resilience Steering Committee (ORSC), Supplier Management Group (SMG) and the Banking Price Models Committee (BPMC) support the RMC in discharging its duties.

iv) People Matters Group (PMG)

The principal role of the PMG is to lead the People Agenda and monitor personnel and staffing matters so as to ensure that the Group has the skills and resources to deliver its strategy and goals.

v) Insurance Executive Committee (IEC)

The principal role of the IEC is to lead the day to day management of the Insurance business, approve key management decisions and propositions for development and monitor the performance of the Insurance business against its strategy and goals.

The Insurance Pricing Committee (IPC) helps the IEC to discharge its responsibilities.

vi) Banking Executive Committee (BEC)

The principal role of the BEC is to lead the day to day management of the Banking business, approve key management decisions and propositions for development and monitor the performance of the Banking business against its strategy and goals.

4.2 Risk Culture

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

During the year, the Group has continued to make strategic enhancements to the EWRMF. These changes, driven by the RMFu have been focused on four key areas:

- Roles and responsibilities;
- Policy framework;
- Risk toolkit; and the
- Conduct framework.

These will remain key areas of focus throughout 2015/16 and beyond.

A detailed internal review of the effectiveness of the Risk Management Function was undertaken and presented to the Board in December 2014. The report evaluated progress to date against the delivery of the Target Risk Operating Model, the effectiveness of the internal programmes and established future strategic priorities for the RMFu to ensure the EWRMF continues to develop and remains fit for purpose.

4.3 Approach to Risk Management

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 - line managers are responsible for establishing an effective control framework within their area of operations. They are required to identify and control all risks so that their function is operating within the organisational Risk Appetite and are fully compliant with policies and, where appropriate, defined thresholds. They also devise and manage appropriate key risk indicators (KRIs), management information and assurance processes to ensure their control framework is robust and effective.

Second line of defence - the 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 for independent monitoring of the risk profile and providing additional assurance where required. The RMFu uses their expertise and provide frameworks, tools and techniques to assist management in meeting its responsibilities, as well as acting as a central co-ordinator to identify enterprise wide risks and make recommendations to address them.

Third line of defence – this comprises the Internal Audit Function who are responsible for providing assurance to the Board and senior management on the adequacy of the design and operational effectiveness of the systems of internal controls.

4.4 Enterprise Wide Risk Management Framework Components

The EWRMF covers all types of risks faced by the Group and is underpinned by governance, controls, processes, systems and policies. The key components to manage and control risks effectively are outlined below.

i) Risk Appetite

The Group has established a robust Risk Appetite Framework. Defined Risk Appetite forms a key link between the day to day risk management of the business and strategic risk objectives.

The Board approves the Risk Appetite which defines the type and amount of risk that the Group is prepared to accept to achieve its objectives. Risk Appetite is translated into specific risk measures (as detailed in Appendix 2) that are tracked, monitored and reported to the appropriate Risk Committees and the Board. Risk Appetite covers three primary areas, financial risk, reputational risk, operational and people risk.

The Risk Appetite framework has been designed to create clear links to the strategic long term plan, capital planning, stress testing and the Group’s risk management framework. The Board approves the Group’s business plans, budget, Internal Capital Adequacy Assessment Process (ICAAP), Individual Liquidity Adequacy Assessment (ILAA) and any material new product lines. The Board also monitor’s the Group’s risk profile and capital adequacy position. The review and approval process is undertaken at least annually.

The Group employs hedging and mitigation techniques to ensure risks are managed within the defined Risk Appetite. Details of these are contained within the Group's policy documents.

ii) Policies

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

Iii) Risk Identification

The risk identification process provides guidance on the sources to be investigated and researched in order to identify new and emerging risks and sets out consistent principles which should be applied. New and emergent risks and the recommended response to them are reported by the RMFu to relevant governance bodies.

iv) Risk Assessment

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

v) Risk Management Function

The RMFu operates under the leadership of the CRO. 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 enables appropriate analysis, challenge, understanding and oversight of each of the principal risks.

The RMFu has responsibility for integrated risk reporting. The RMFu provides aggregation and consolidation to ensure that risk coverage is considered holistically and ensures that risks and issues have clear ownership.

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 risk indicators (KRIs) defined by the relevant risk team. Decisions made at subordinate risk committees and forums are reported up to senior committees as appropriate.

vi) 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 RMC, ALCO and to the BRC. These are captured in the Individual Liquidity Adequacy Assessment (ILAA) and in the Internal Capital Adequacy Assessment Process (ICAAP).

vii) Integrated Risk Processes

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

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

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

4.5 Risk Assurance

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

The Audit Committee approves the annual Risk Assurance Plan which details business wide assurance review activities undertaken by the RMFu.

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

Internal Audit

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

- Assessing whether all significant risks are identified and appropriately reported by business management, and the RMFu, to the Board and Executive Committee;
- Assessing whether they are adequately controlled; and
- Challenging the Executive Committee on the effectiveness of governance, risk management and internal controls.

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

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

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

Board Declaration - Adequacy of the Risk Management Arrangements

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

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

Risk Statement

The Group's Risk Statement is provided in Appendix 2. This is approved by the Board and describes the measures which the Board uses to manage the business within its Risk Appetite. The Board maintains a Risk Appetite which is regularly monitored with formal reviews of the risk measures, in conjunction with the long term planning process. During the year the risk profile of the Group has been monitored and maintained against key measures as set out within the Risk Statement.

4.6 Analysis of Directors

The following breakdown shows the number of directorships held by members of the Group:

Name	Position within Tesco Personal Finance Group Ltd	Executive	Non Executive
Bernard Higgins	Chief Executive	1	2
Iain Clink	Deputy Chief Executive	1	0
Peter Bole	Chief Financial Officer	1	0
Graham Pimlott	Non Executive	1	2
Ray Pierce	Non Executive	0	4
Gareth Bullock	Non Executive	0	4
Robert Endersby	Non Executive	0	1
Simon Machell	Non Executive	0	4
James McConville	Non Executive	1	1
Deanna Oppenheimer	Non Executive	0	4

Multiple directorships within the same group are treated as a single role.

5 Capital Management

The Board has ultimate responsibility for capital management and capital allocation. Day to day responsibility for capital planning and other aspects of capital management are delegated to the Treasury Director. Stress testing and preparation of the Internal Capital Adequacy Assessment Process (ICAAP) is delegated to the RMFu.

The Group operates an ICAAP process throughout the year in line with Capital Planning and the long term planning (LTP) process, which are all approved by the Board. The Group's capital plan and management actions seek to ensure that there is an adequate capital base to support the business and strategic objectives. Capital adequacy and performance against capital plan is monitored daily by Treasury with monthly reporting provided to the Board, ALCo and Capital Management Forum (CMF). ALCo is the main body responsible for monitoring all aspects of capital planning and has delegated authority to approve capital injections into subsidiaries of the Group.

The ICAAP process considers all of the known risks faced by the Group, the probability of these risks occurring and how these are mitigated to derive the amount of Pillar 2 capital that is deemed appropriate to hold to absorb losses in a normal environment and in stress. The Group and the Company are forecast to have a surplus above minimum regulatory capital requirements, the new capital buffers and Board Risk Appetite.

The Bank of England Financial Policy Committee (FPC) is empowered to set the counter-cyclical capital buffer as part of its mandate to maintain financial stability in the UK. The FPC set the UK counter-cyclical capital buffer at zero in its quarterly meeting in 2014 and maintained this at zero in the March 2015 meeting. The CCB disclosure by geographical location for the Group is shown in Appendix 6 in line with CRR Article 440 requirements.

The CFO is responsible for the financial governance of the Group and its financial, management, statutory, regulatory and treasury reporting. Risks inherent in these processes and the effectiveness of the controls are assessed and managed in line with the RCSA framework. These are designed to comply with:

- Statutory and regulatory disclosure requirements;
- The Group's policies; and
- First line of defence responsibilities.

The PRA in its capacity as supervisor of the UK banking industry sets targets for, and monitors, the capital adequacy of the Group. Capital adequacy returns are submitted for the Group and the Company quarterly to the regulator. During the 12 month accounting period to 28th February 2015, the Group and Company fully complied with all capital requirements and operated well within the regulatory requirements determined by the supervisor.

5.1 Pillar 1 – application within the Group

Pillar 1 covers the capital resource requirements for credit risk, market risk and operational risk.

The regulatory minimum amount of total capital is determined as 8 per cent of the aggregate risk weighted assets (RWAs) and the Pillar 1 capital requirements referenced in this document are calculated using this regulatory minimum value.

The Group has adopted the Standardised approach for calculating Pillar 1 minimum capital requirements for Credit risk, Operational risk and Credit Valuation Adjustment (CVA) as detailed below. The Standardised approach is used to calculate credit risk capital requirements and uses standard industry-wide risk weights, as prescribed by the regulator, based on a detailed classification of asset types. It requires banks to use external credit ratings to determine the risk weightings for rated counterparties. Other counterparties are grouped into categories with set risk weights applied to these categories.

- Calculation of capital for credit risk (Section 6): Credit risk is the potential that a borrower or counterparty fails to repay the interest or capital on a loan or other financial instrument. Principal sources of exposures include; loans and advances, debt securities, commitments and contingent liabilities.

  The risk weighted assets calculation for credit risk exposures is based on an estimate of the exposures at default (EAD). In determining EAD amounts, credit conversion factors are applied to undrawn commitments.

- Calculation of capital for Counterparty Credit Risk (CCR) (Section 7): CCR is the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows. Such transactions relate to contracts for financial derivative instruments, securities financing transactions and long settlement transactions.

  CCR differs from credit risk in that EAD is calculated and applied to traded exposures. It arises where a counterparty default may lead to losses of an uncertain nature and this uncertainty is factored into the valuation of credit exposure using the mark-to-market (MTM) method calculated as market value plus an add-on for potential future exposure.

  The Group's CCR exposures are first measured under the MTM method, prior to being risk weighted under the Standardised approach.

- Calculation of CVA capital charge**:** CVA is an adjustment to the fair value of derivative assets to reflect the creditworthiness of the counterparty. It represents the capital charge for potential MTM losses due to the credit quality deterioration of a counterparty that does not necessarily end with a default.

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

- Calculation of capital for equity: all equity exposures are treated under the Standardised approach.

- Calculation of capital for securitisation and covered bond exposures (Section 8): A separate regulatory framework exists for the calculation of risk weighted assets.

  The Standardised rating based approach uses external ratings where these are available and considers the 'look through approach' for the calculation of risk weights where certain conditions are met.

- Calculation of capital for operational risk (Section 9): The risk of loss resulting from ineffective or inadequately designed internal processes, system failure, improper conduct, human error or from external events.

  The Standardised approach calculation is derived from a percentage of income, averaged over the last three years.

- Calculation of capital for market risk (Section 10): 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. RWA calculations for market risk assess the losses from price volatility of financial assets and liabilities. The Group uses the Standardised approach to calculate the market risk capital requirements.

- Other principal risks (Section 11) and their impact on regulatory capital requirements have been considered including Liquidity and Funding Risk, Insurance Risk, Legal and Regulatory Compliance Risk, Pension Risk and Conduct Risk.

5.2 Capital Resources

The table below presents the Group's own funds (Capital Resources) as at 28th February 2015. Own funds for the Company, being the main subsidiary are disclosed in Appendix 3. See Appendix 4 for disclosure of own funds on a transitional basis in line with Commission Implementing Regulation EU No 1423/2013.

Table 3: Capital Resources

	Transitional February 2015 £m	End Point February 2015 £m	Transitional February 2014 £m	End Point February 2014 £m
Common equity tier 1 Capital				
Shareholders Equity	1,465.3	1,465.3	1,379.4	1,379.4
Subordinated Notes	(45.0)	(45.0)	(45.0)	(45.0)
	1,420.3	**1,420.3**	**1,334.4**	**1,334.4**
Regulatory adjustments				
Intangible Assets	(402.6)	(402.6)	(427.7)	(427.7)
Deferred tax liabilities related to intangible assets	37.8	37.8	32.2	32.2
Unrealised losses on AFS debt securities	0.0	0.0	(5.9)	0.0
Unrealised losses on Cash Flow Hedge Reserve	(0.7)	(0.7)	(1.7)	(1.7)
Adjustment to own credit standing	(0.1)	(0.1)		
Material Holdings	(10.2)	0.0	(13.5)	0.0
	(375.8)	**(365.6)**	**(416.6)**	**(397.2)**
Total common equity tier 1 capital	**1,044.5**	**1,054.7**	**917.8**	**937.2**
Tier 2				
Undated Subordinated Notes	45.0	45.0	45.0	45.0
Dated Subordinated Notes	190.0	190.0	190.0	190.0
Collectively assessed impairment provisions	36.1	36.1	32.8	32.8
	271.1	**271.1**	**267.8**	**267.8**
Regulatory adjustments				
Material Holdings	(23.9)	(34.1)	(20.6)	(34.1)
	(23.9)	**(34.1)**	**(20.6)**	**(34.1)**
Total Tier 2	**247.2**	**237.0**	**247.2**	**233.7**
Total capital resources	**1,291.7**	**1,291.7**	**1,165.0**	**1,170.9**
Risk Weighted Assets	**6,846.5**	**6,846.5**	**6,550.0**	**6,550.0**
Common equity tier 1 ratio (%)	**15.3%**	**15.4%**	**14.0%**	**14.3%**
Total capital ratio (%)	**18.9%**	**18.9%**	**17.8%**	**17.9%**

Notes:

i) Common Equity Tier 1 (CET1) Capital

Tier 1 capital is a component of regulatory capital defined by the PRA, comprising common equity tier 1 capital and other tier 1 capital.

Common equity tier 1 capital (CET1) is the highest form of regulatory capital under Basel III that comprises shares issued and related share premium, retained earnings and other reserves net of regulatory adjustments.

The Group's Tier 1 capital is wholly comprised of common equity tier 1. The following table shows the movement in Tier 1 capital over the year.

Table 4: Movement in Common Equity Tier 1

	February 2015 £m	February 2014 £m
Common equity tier 1 at the beginning of the year	**917.8**	**705.7**
Ordinary Shares issued	0.0	140.0
Profit attributable to Shareholders	130.5	119.8
Gains and losses on liabilities arising from own credit risk	(0.1)	0.0
Other Reserves	13.5	1.2
Ordinary dividends	(50.0)	(100.0)
Dividends to holders of other equity	(1.2)	(1.1)
Movement in intangible assets	25.1	(30.3)
Movement in material holdings	3.3	11.2
CRD IV adjustments:		
Deferred Tax liabilities related to intangible assets	5.6	32.2
Material holdings	0.0	39.1
Common equity tier 1 at the end of the year	**1,044.5**	**917.8**

CRR Article 437 requires disclosure of the main features of CET1, Additional Tier 1 (AT 1) and Tier 2 instruments. The full disclosures are shown in Appendix 5. These disclosures include for each instrument:

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

ii) Regulatory Deductions from Tier 1 Capital

Intangible assets relate to computer software and "Work in Progress" which relates primarily to the internal development of IT software assets in relation to the development of the operational platform. Material holdings deduction represents the transitional adjustment for the Company's sub-ordinated loan investment in TU.

iii) Tier 2 Capital

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

All dated and undated subordinated debt held is issued by the Company to the Group which, in turn, has issued the same amount to Tesco plc. Details of subordinated liabilities are provided in the main features template shown in Appendix 5.

The undated and dated sub-ordinated debt instruments comply with CRD IV requirements. The undated floating rate notes have no fixed maturity date and may not be repaid except under certain conditions such as the winding up of the Company and/or the Group. The dated floating rate subordinated loans are repayable, in whole or in part, at the option of the issuer, prior to maturity, on conditions governing the debt obligation. The earliest options call date is 31 March 2025, but may repay on any date if a regulatory event or tax event occurs.

Redemption can be in whole, or in part, at par value plus accrued interest. Interest payable is based on 3 month LIBOR plus margin of 60 to 225 basis points.

iv) Regulatory Adjustments to Tier 2 Capital

The material holdings deduction represents the transitional adjustment for the Company subordinated loan investment in TU.

5.3 Capital Requirements

The table below shows the overall Pillar 1[3] minimum capital requirements and risk weighted assets for the Group under the Standardised Approach. The Company, being the main subsidiary is also disclosed in Appendix 3.

Table 5: Capital Requirements

	February 2015		February 2014	
	8% Capital Requirement £m	Risk Weighted Assets £m	8% Capital Requirement £m	Risk Weighted Assets £m
Exposure Class				
Central Government or Central Banks	-	-	2.6	32.3
Multilateral Development Banks	-	-	-	-
Institutions	5.2	64.8	3.5	43.6
Corporates	2.0	25.2	13.1	163.5
Retail	389.7	4,871.0	372.1	4,651.3
Secured by Mortgages on Immovable Property	33.8	422.8	20.0	249.5
Exposures in Default	3.5	44.2	2.7	33.5
Covered Bonds	0.5	6.4	0.2	2.8
Equity Exposures	14.4	179.9	14.5	180.8
Other Items	14.5	180.6	15.2	191.6
Total Credit and Counterparty Credit Risk	**463.6**	**5,794.9**	**443.9**	**5,548.9**
Total Operational Risk	**81.3**	**1,016.5**	**77.5**	**968.9**
Total Credit Valuation Adjustment	**2.8**	**35.1**	**2.6**	**32.2**
Total Pillar 1 Capital Requirements	**547.7**	**6,846.5**	**524.0**	**6,550.0**

5.4 Asset Encumbrance

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 a default by a bank and therefore, the recovery rate of its depositors and other unsecured bank creditors.

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

[3] Pillar 1 capital does not include foreign exchange exposure as this is de-minimis under CRR minimum threshold and includes (CVA) risk which is required in line with Article 381 CRD IV.

The Group's total encumbrance ratio is 20% as at February 2015. The asset encumbrance ratio is calculated as the (total encumbered assets + total collateral received reused) divided by (total assets + total collateral received).

The disclosure requirements for encumbered and unencumbered assets (as at February 2015) based upon the requirements of CRD IV and the related guidelines issued by the EBA in June 2014 are shown in Appendix 8.

5.5 Leverage Ratio

The Leverage Ratio was introduced under the Basel III reforms as a simple, transparent, non-risk based ratio intended to restrict the build-up of leverage in the banking sector to avoid distressed deleveraging processes that can damage the broader financial system and the economy. It is defined as the ratio of Tier 1 capital to total exposures (sum of; on balance sheet exposures, derivative exposures, securities financing transaction exposures and off balances sheet items).

The Leverage Ratio complements, rather than provides an alternative, to the risk-based capital requirements. The leverage exposure applies an equal weighting to all assets regardless of their risk, providing a cross check to the risk based or stress testing approaches on the amount of capital required by the Group. The leverage framework is emerging in the UK, with a preliminary target level set by the Basel Committee that banks should hold a minimum leverage ratio of 3%. In addition, a supplementary counter-cyclical leverage buffer would apply to systemically important firms and major UK banks and building societies, requiring them to hold an additional 35% of this 3% (4.05% in total).

Leverage exposure and management is embedded as part of the Group's capital planning process and considered in line with the Common Equity Tier 1 capital and risk-based assets ratios as part of the LTP. Management actions are taken to ensure the Group is not excessively leveraged and capital ratios remain in excess of minimum capital requirements in normal circumstances and in stress.

The Group ratio demonstrates a low Risk Appetite for excessive leverage at 9.6% as at February 15 (and 9.4% at February 14) on a transitional basis.

Table 6: Leverage Ratio

	February 2015 Transitional £m	February 2015 End Point £m	February 2014 Transitional £m	February 2014 End Point £m
Total assets per published financial statements	**10,057.1**	**10,057.1**	**9,244.3**	**9,244.3**
Removal of accounting value of derivatives and SFT's	(29.2)	(29.2)	(33.6)	(33.6)
On balance Sheet items (excluding derivatives and SFT's)	**10,027.9**	**10,027.9**	**9,210.7**	**9,210.7**
Exposure value for derivatives and SFT's	60.1	60.1	62.8	62.8
Off Balance sheet: low risk items assigned a 0% CCF in the CRR (floored at 10%)	1,142.8	1,142.8	962.6	962.6
Off Balance sheet: medium/low risk items assigned a 20% CCF in the CRR	13.6	13.6	18.2	18.2
Regulatory Adjustments:				
Intangible assets	(402.6)	(402.6)	(427.7)	(427.7)
Material Holdings	(10.2)	0.0	(13.5)	0.0
Total Leverage Ratio Exposures	**10,831.6**	**10,841.8**	**9,813.1**	**9,826.6**
Tier 1 Capital	**1,044.5**	**1,054.7**	**917.8**	**937.1**
Leverage ratio	**9.6%**	**9.7%**	**9.4%**	**9.5%**

6 Credit Risk

Credit risk is the potential that a borrower or counterparty fails to repay the interest or capital on a loan or other financial instrument. The Group's aim in relation to credit risk is to seek to lend responsibly, ensuring that the credit risk profile remains within agreed volatility parameters as articulated in the agreed Risk Appetite.

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

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

The CRO together with the Director of Credit Risk and the Financial Risk Director, are responsible for:

- The development and oversight of the credit risk management framework
- Developing credit risk policies, tools and frameworks across the business
- Managing effective credit risk strategies
- Providing oversight of credit risk activities undertaken by the first line; and
- Monitoring Credit performance

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

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

Retail Credit Risk

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

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

Wholesale Credit Risk

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

Risk Appetite focuses on counterparties with strong capacity to meet financial commitments and requires approved counterparties to have investment grade ratings. Counterparty types include financial institutions, sovereigns and supranationals, with approved instrument types including cash, certificates of deposit, bonds, treasury bills, gilts, repurchase agreements, interest rate and foreign exchange derivatives. Limits are set dependent upon External Credit Assessment Institutions (ECAI) ratings.

The framework sets limits on the amounts that can be lent based on counterparty credit-worthiness by country, instrument type and remaining tenor. As part of the credit assessment process for wholesale credit risk exposures, The Group uses Fitch as its ECAI to determine regulatory capital requirements under the Standardised approach to Credit Risk. The Group has a Wholesale Credit Risk Forum (CRF) where current ratings and exposures are discussed on a monthly basis with members of Risk and Treasury attending. Counterparty reviews and proposals for new limits are also discussed at the CRF as well as current market events and their possible impact on the Group. All material limits are approved via the RMC and any exceptions or overrides to the policy must be explicitly agreed by this committee.

Daily monitoring of exposures is undertaken by Market & Liquidity Risk with monthly reporting of KRIs provided to the RMC. Escalation processes are in place for the reporting of any breached limits directly to the RMC.

As at 28th February 2015 the Group has not experienced any impairment in connection with these financial assets. There is therefore no requirement to establish credit reserves for wholesale credit risk exposures.

The Wholesale Credit Risk Policy also provides that credit risk mitigation techniques are applied to reduce credit risk exposure. All financial derivative transactions are governed by Industry standard, International Swaps and Derivatives Association (ISDA). ISDA master agreements are in place with all derivative counterparties, Global Master Repurchase Agreements are in place for all repurchase counterparties and ISDA Credit Support Annexes (CSAs) have been executed with the majority of counterparties, with plans in place to have CSAs executed with all derivative counterparties. Use is also made of Delivery Versus Payment (DVP) arrangements when settling transactions. As at the end of February 2015, no additional credit risk mitigation was deemed necessary.

Wrong Way Risk

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

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

Third Party Credit Exposures

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

Policies are in place which allow the use of credit risk mitigation to reduce Counterparty Credit Risk. As at the end of February 2015 no use has been made of collateral other than industry standard ISDA agreements, ISDA Credit Support Annexes used in relation to financial derivative transactions and Global Master Repurchase Agreements used in relation to repurchase transactions.

6.1 Analysis of Credit Risk Exposures

This section of the disclosures set out the details of the Group's credit risk exposures by; exposure class (table 7), geographical location (table 8), industrial sector (table 9) and residual maturity (table 10), in line with disclosure requirements laid out in CRR Article 442.

i) Analysis by Exposure Class

The following table shows the credit risk exposure at the end of the financial year, together with average credit risk exposure for the financial year[4,5]

This disclosure differs from the amounts disclosed in the balance sheet in the Consolidated Annual Report and Financial Statements of Tesco Personal Finance Group Ltd, as it also includes amounts where the customer has a contractual right to draw down further balances, converted using regulatory

[4] The exposure shown in the table above includes the prevailing market value of the available for sale (AFS) assets at the relevant reporting date

[5] Article 112 CRD IV requires exposures to be assigned to specific exposure classes. Where an exposure class is nil, the exposure class is not reported in the credit risk tables.

credit conversion factors. The exposure is shown on a guarantor basis and is reported net of appropriate impairment provisions. Appendix 7 maps exposures from obligor to guarantor.

Table 7: Credit Risk Exposure by Exposure Class

	Exposure Value		Average Exposure Value	
	February 2015	February 2014	March 14 - February 15	March 13 - February 14
	£m	£m	£m	£m
Central Governments or Central Banks	1,096.7	949.6	1,129.2	987.0
Multilateral Development Banks	202.7	274.7	247.9	292.1
Institutions	243.5	169.4	225.6	214.5
Corporates	25.5	163.5	27.3	54.1
Retail	6,495.1	6,202.3	6,449.8	5,892.0
Secured by Mortgages on Immovable Property	1,208.1	712.9	1,037.9	503.8
Exposures in Default	44.2	33.5	34.9	44.1
Covered Bonds	37.9	14.2	42.2	17.0
Equity Exposures	73.4	74.2	73.6	12.4
Other Items	273.8	272.1	289.6	270.1
Total	**9,700.9**	**8,866.4**	**9,558.0**	**8,287.1**

ii) Analysis by Geography

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

Table 8: Credit Risk Exposure by Geographical Location

	Geographic Location February 2015			
	UK	Europe (ex. UK)	Other	Total
Exposure class	(£m)	(£m)	(£m)	(£m)
Central Governments or Central Banks	1,015.3	81.4		1,096.7
Multilateral Development Banks		146.6	56.1	202.7
Institutions	243.5			243.5
Corporates	24.1	1.4	-	25.5
Retail	6,465.1	30.0		6,495.1
Secured by Mortgages on Immovable Property	1,208.1			1,208.1
Exposures in Default	43.5	0.7		44.2
Covered Bonds	37.9			37.9
Equity Exposures	73.4			73.4
Other Items	273.8			273.8
Total	**9,384.7**	**260.1**	**56.1**	**9,700.9**

	Geographic Location February 2014			
	UK	Europe (ex. UK)	Other	Total
Exposure Class	£m	£m	£m	£m
Central Governments or Central Banks	787.9	161.7		949.6
Multilateral Development Banks	10.6	175.4	88.7	274.7
Institutions	169.4			169.4
Corporates	152.7	10.8		163.5
Retail	6,167.6	34.7		6,202.3
Secured by Mortgages on Immovable Property	712.9			712.9
Exposures in Default	33.0	0.5		33.5
Covered Bonds	14.2			14.2
Equity Exposures	74.2			74.2
Other Items	272.1			272.1
Total	**8,394.6**	**383.1**	**88.7**	**8,866.4**

iii) Analysis by Industrial Sector

The distribution of credit risk exposure by industry sector is provided in the following table. The Group is primarily focussed on providing financial services and products to UK personal customers although it also has exposure to wholesale counterparties as disclosed above. Other assets are not assigned to Industry type.

Table 9: Credit Risk Exposure by Industrial Sector

	Industry Type February 2015				
Exposure Class	**Financial Institutions £m**	**Government £m**	**Individuals £m**	**Wholesale, retail and other £m**	**Total £m**
Central Governments or Central Banks		1,096.7			1,096.7
Multilateral Development Banks	202.7				202.7
Institutions	243.5				243.5
Corporates				25.5	25.5
of which: SME's				*1.6*	*1.6*
Retail			6,493.2	1.9	6,495.1
of which: SME's				*1.9*	*1.9*
Secured by Mortgages on Immovable Property			1,208.1		1,208.1
Exposures in Default			43.8	0.4	44.2
of which:SME's				*0.4*	*0.4*
Covered Bonds	37.9				37.9
Equity Exposures				73.4	73.4
Total	**484.1**	**1,096.7**	**7,745.1**	**101.2**	**9,427.1**
Other items					**273.8**
Total credit risk exposure					**9,700.9**

	Industry Type February 2014				
Exposure Class	Financial Institutions £m	Government £m	Individuals £m	Wholesale, retail and other £m	Total £m
Central Governments or Central Banks		949.6			949.6
Multilateral Development Banks	274.7				274.7
Institutions	169.4				169.4
Corporates				163.5	163.5
of which: SME's				*1.0*	*1.0*
Retail			6,200.2	2.1	6,202.3
of which: SME's				*2.1*	*2.1*
Secured by Mortgages on Immovable Property			712.9		712.9
Exposures in Default			33.5		33.5
Covered Bonds	14.2				14.2
Equity Exposures				74.2	74.2
Total	**458.3**	**949.6**	**6,946.6**	**239.8**	**8,594.3**
Other items					**272.1**
Total credit risk exposure					**8,866.4**

iv) Analysis by Residual Maturity

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

Table 10: Credit Risk Exposure by Residual Maturity

	Residual Maturity (Contractual) February 2015						
	On Demand	Repayable in 3 months or less	Repayable between 3 months and 1 year	Repayable between 1 and 5 years	Repayable over 5 years	Undated	Total
Exposure Class	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Central Governments or Central Banks	496.8	7.0	0.5	207.7	371.7	13.0	1,096.7
Multilateral Development Banks		0.5	1.8	138.5	61.9		202.7
Institutions		188.6	0.1	39.6	15.2		243.5
Corporates		25.1	0.4				25.5
Retail	3,539.1	306.8	728.4	1,686.5	234.3		6,495.1
Secured by Mortgages on Immovable Property	-	12.0	36.5	206.6	953.0		1,208.1
Exposures in Default	22.0	22.2	-	-	-		44.2
Covered Bonds		0.2	0.6	15.4	21.7		37.9
Equity Exposures						73.4	73.4
Other Items						273.8	273.8
Total	**4,057.9**	**562.4**	**768.3**	**2,294.3**	**1,657.8**	**360.2**	**9,700.9**

	Residual Maturity (Contractual) February 2014						
	On Demand	Repayable in 3 months or less	Repayable between 3 months and 1 year	Repayable between 1 and 5 years	Repayable over 5 years	Undated	Total
Exposure Class	£m	£m	£m	£m	£m	£m	£m
Central Governments or Central Banks	365.2	5.6	72.8	249.7	233.9	22.4	949.6
Multilateral Development Banks		7.5	68.0	158.1	41.1		274.7
Institutions		107.3	1.5	42.6	18.0		169.4
Corporates		163.3	0.2				163.5
Retail	3,420.4	200.3	580.2	1,761.1	240.3		6,202.3
Secured by Mortgages on Immovable Property		7.7	23.4	131.8	550.0		712.9
Exposures in Default	21.5	12.0					33.5
Covered Bonds			14.2				14.2
Equity Exposures						74.2	74.2
Other Items						272.1	272.1
Total	3,807.1	503.7	760.3	2,343.3	1,083.3	368.7	8,866.4

6.2 Use of External Credit Assessment Institutions' Assessments

The table below shows the credit risk exposure by Credit Quality Step (CQS). The Group complies with the credit quality assessment scale with the appropriate issue or issuer rating used to determine the risk weights applied under the Standardised Approach to Credit Risk. The Group uses Fitch ratings in conjunction with internal processes to assign appropriate ratings to exposures.

External Credit Assessment Institutions (ECAI) rating and exposure amounts have been included for corporates, institutions and covered bonds as required by CRR. For completeness the ratings of central governments and banks have also been included although these defined risk weights (DRW) are included in the CRR:

Table 11: Credit Risk Exposure by Credit Quality Step

Exposure Values 2015	Credit Quality Step 1 (£m)	Credit Quality Step 2 (£m)	Credit Quality Step 3 (£m)	Credit Quality Step 4 (£m)	Credit Quality Step 5 (£m)	Credit Quality Step 6 (£m)	Unrated or Defined Risk Weight in CRR (£m)	Total (£m)
Fitch Assessment	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to BB-	B+ to B-	CCC+ and below		
Central Governments or Central Banks							1,096.7	1,096.7
Multilateral Development Banks							202.7	202.7
Institutions	100.3	143.2						243.5
Corporates			21.4				4.1	25.5
Retail							6,495.1	6,495.1
Secured by Mortgages on Immovable Property							1,208.1	1,208.1
Exposures in Default							44.2	44.2
Covered Bonds	12.3	25.6						37.9
Equity Exposures							73.4	73.4
Other Items							273.8	273.8
Total exposures pre mitigation	**112.6**	**168.8**	**21.4**	**-**	**-**	**-**	**9,398.1**	**9,700.9**
Total exposures post mitigation	**112.6**	**168.8**	**21.4**	**-**	**-**	**-**	**9,398.1**	**9,700.9**

Exposure Values 2014	Credit Quality Step 1 (£m)	Credit Quality Step 2 (£m)	Credit Quality Step 3 (£m)	Credit Quality Step 4 (£m)	Credit Quality Step 5 (£m)	Credit Quality Step 6 (£m)	Unrated or Defined Risk Weight in CRR (£m)	Total (£m)
Fitch Assessment	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to BB-	B+ to B-	CCC+ and below		
Central Governments or Central Banks							949.6	949.6
Multilateral Development Banks							274.7	274.7
Institutions	96.0	73.4						169.4
Corporates			149.7				13.8	163.5
Retail							6,202.3	6,202.3
Secured by Mortgages on Immovable Property							712.9	712.9
Exposures in Default							33.5	33.5
Covered Bonds		14.2						14.2
Equity Exposures							74.2	74.2
Other Items							272.1	272.1
Total exposures pre mitigation	96.0	87.6	149.7	-	-	-	8,533.1	8,866.4
Total exposures post mitigation	96.0	87.6	149.7	-	-	-	8,533.1	8,866.4

6.3 Past Due, Impaired Assets and Provisions

The Group employs a collective approach to providing for impaired assets on a cohort basis, reflecting the similar nature of the assets within each product portfolio.

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

The Group considers exposures to be past due where a customer does not make their minimum contractual monthly payment. Accounts remain as past due but not impaired until the point where a default event occurs. A default event occurs where the expected recoverable amount falls below the carrying amount of the loan, or where the customer goes four payments down (defined as greater than 90 days past due).

For accounting purposes, an asset is considered to be impaired where there is objective evidence of impairment (for example, bankruptcy, insolvency, repossession or a declaration of financial hardship). For unsecured products this is where a customer is more than 90 days past due in interest or principle items and for the secured portfolio (mortgages) the days past due count is taken to be 180 days.

In managing credit risk provisioning and impairment the Group applies IFRS, specifically IAS 39, Financial Instruments: Recognition and Measurement, which has been supplemented by IFRS 13, Fair Value Measurement, and requires that financial assets are assessed for impairment. Loan impairment provisions are established to recognise incurred impairment losses. A loan is impaired when there is objective evidence that events since the loan was granted have affected the amount or timing of expected cash flows from the loan. The impairment loss is the difference between the carrying value of the loan and the present value of estimated future cash flows at the loan's original effective interest rate.

Table 12: Impaired and Past Due Exposures Analysed by Geography

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

	February 2015			February 2014		
	UK	Republic of Ireland	Total	UK	Republic of Ireland	Total
	£m	£m	£m	£m	£m	£m
Past due but not impaired						
0-29 days	33.7	1.4	35.2	36.5	1.9	38.4
30-59 days	8.9	0.3	9.2	8.7	0.5	9.2
60-89 days	5.8	0.1	6.0	6.2	0.2	6.4
Total	48.5	1.9	50.3	51.4	2.6	54.0
Impaired Exposures	139.7	2.0	141.6	131.7	2.7	134.4
Impaired Provision	102.1	1.3	103.4	121.4	2.7	124.1
IBNR Provision	35.9	0.2	36.1	32.4	0.4	32.8
Total Provisions	138.0	1.5	139.5	153.8	3.1	156.9
Net Impairment Charge	48.0	0.4	48.4	53.2	1.8	55.0

Table 13: Impaired and Past Due Exposures Analysed by Industry

The Group is primarily focussed on providing financial services and products to UK personal customers although there is an exposure to the UK business sector through the sale of credit cards. The only collateral held by the Group relates to personal mortgages held over residential properties.

	February 2015			February 2014		
	Retail	Secured on Real-Estate Property	Total	Retail	Secured on Real-Estate Property	Total
	£m	£m	£m	£m	£m	£m
Past due but not impaired						
0-29 days	33.4	1.8	35.2	38.3	0.1	38.4
30-59 days	9.2	-	9.2	9.2		9.2
60-89 days	6.0	-	6.0	6.4		6.4
Total	48.5	1.8	50.3	53.9	0.1	54.0
Impaired Exposures	141.6	-	141.6	134.4	-	134.4
Impaired Provision	103.4	-	103.4	124.1		124.1
IBNR Provision	35.5	0.6	36.1	32.5	0.3	32.8
Total Provisions	138.9	0.6	139.5	156.6	0.3	156.9
Net Impairment Charge	48.0	0.4	48.4	54.8	0.2	55.0

Table 14: Analysis of Impairment Provisions for Loans and Advances

The table below shows the reconciliation of changes in provisions for loans and advances. This table excludes impairment losses of £4.6m (2014: £5.8m) arising on amounts due from the insurance business, which are written off directly to the income statement in the period.

	February 2015	February 2014
	£m	£m
At beginning of year	156.9	172.2
Amounts written off	(63.2)	(66.2)
Increase in allowance, net of recoveries, charged to the income statement	48.4	55.0
Foreign currency translation	(0.1)	(0.2)
Unwind of discount	(2.5)	(3.9)
At end of year	139.5	156.9

The provision held above covers both the impaired and IBNR cohorts. Provisions for impaired loans and advances at 28th February 2015 were £104m (2014: £124m). Provisions for not impaired loans and advances at 28th February 2015 were £36m (2014: £33m).

There are no further value adjustments in relation to credit risk. Non-credit risk value adjustments are disclosed in the Group's Annual Report and Financial Statements.

6.4 Credit Risk Mitigation

The Group is exposed to potential bad debts if customers default on higher value credit mortgage advances.

To mitigate this risk all mortgages are secured by a first charge over the property being purchased or remortgaged which ensures the Group receives the proceeds in the event of a forced property sale situation. Valuation of the property is normally assessed by a RICS (the Royal Institute of Chartered Surveyors) certified valuer from an approved panel of valuers.

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

The table below details the value of property collateral held against the Group's mortgage portfolio as at 28 February 2015.

	February 2015	February 2014
	£m	£m
Exposure*	1,196.8	696.0
Collateral	2,598.5	1,388.3
Cover (%)	217%	200%

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

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 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. 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.

During the year the Group has adopted the definition of forbearance in the European Banking Authority (EBA)'s final draft Implementing Technical Standards (ITS) of July 2014. All accounts meeting this definition are reported and provided for appropriately. The main change arising relates to accounts having to remain in a probation period for 24 months even when they return to the good book. This creates a large increase in balances being disclosed as forborne in the current year.

6.5 Non Trading Book Exposures in Equities

The Group's non trading exposure in equities relates to the investment in TU which underwrites Motor and Home insurance contracts under the Tesco Bank brand. TU is a joint venture which is equity accounted in the financial statements. This equity position in the non-trading book is held as a strategic shareholding.

The investment in TU is valued at cost less any provision for impairment. At 28th February 2015 this investment was valued at £71.0m (2014 £71.0m) and was the only holding of non-trading book equities. The carrying value on the balance sheet represents the fair value and there has been no sale or liquidation in the period, nor any other unrealised gains or losses relating to TU included in Common Equity Tier 1 capital.

7 Exposure to Counterparty Credit Risk (CCR)

Counterparty credit risk is the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows. CCR differs from credit risk in that exposure at default is calculated and applies to traded exposures. It arises where a counterparty default may lead to losses of an uncertain nature and this uncertainty is factored into the valuation of the Group's credit exposure using the mark-to-market method plus an add-on for potential future exposure.

Such transactions relate to contracts for financial derivative instruments, securities financing transactions and long settlement transactions. All financial derivative transactions are governed by industry standard ISDA Master Agreements, supplemented by ISDA Credit Support Annexes for a number of counterparties. Information relating to policies used in management of Wholesale Credit Risk, which includes Counterparty Credit Risk and Wrong Way Risk, is provided in Section 6.

The Group in its ordinary course of business uses over the counter (OTC) derivatives and forward foreign exchange transactions to hedge exposures, i.e. interest rate and foreign exchange risk. The CCR mark to market method is used to measure exposure value calculated as: market value plus an add-on for potential future exposure, prior to being risk weighted under the Standardised approach. As at 28th February 2015, the Group's total CCR exposures under the mark to market method amounted to £60.1m, comprising; £54.8m in interest rate contracts and £5.3m in foreign currency contracts (2014 total CCR mark to market exposures £62.8m, comprising: interest rate contracts £62.0m and foreign currency £0.8m).

The Group's CCR capital calculations do not incorporate netting benefits and there is no use of collateral in calculating net derivatives credit exposure. The gross positive fair value of derivative contracts as at 28th February 2015 amounted to £29.2m (£33.6m as at February 2014).

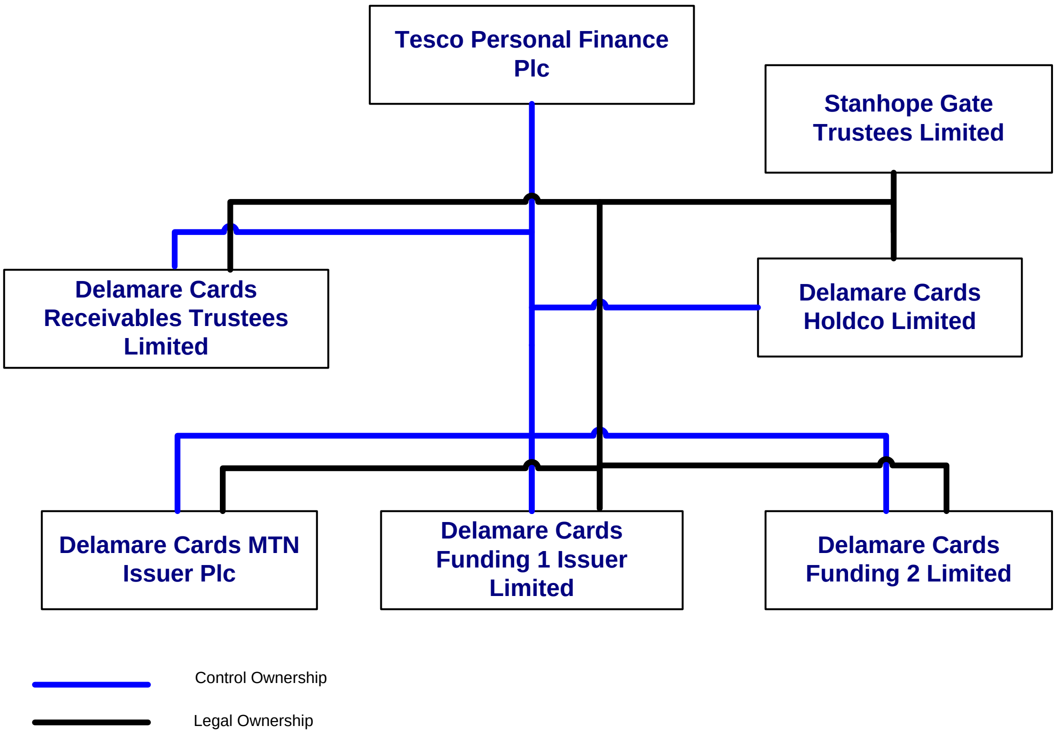
As at 28th February 2015, the Group had no public credit rating and no exposure to credit derivative transactions.

8 Securitisation and Covered Bond Exposures

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

The principle objective of securitisation is to provide funding diversification, giving access to a wide range of investors in different geographical areas.

The Group enters into securitisation transactions in which it assigns credit card receivables to a structured entity (Delamare Cards Receivables Trustees Ltd) which supports the issuance of securities backed by the cash flows from the securitised pool of credit cards. Although none of the equity of the securitisation structured entity is owned by the Group, the nature of these entities, which are in substance controlled by the Group, mean that it retains substantially all of the risks and rewards of ownership of the securitised credit card receivables. The following diagram details the securitisation structured entities:



Securitisation is used to provide secured funding to the Group. The underlying assets are retained at amortised cost on the Balance Sheet and the securitisation bonds issued are held at amortised cost. For accounting purposes, the securitisation structured entity is consolidated in the Group as the substance of the relationship and retention of risk and rewards indicates control is retained. As at 28th February 2015, there were £2bn notes in issue in relation to securitisation transactions (2014: £1.75bn), of which £500m relates to externally held notes. At the year end the Group had pledged £3,011.3m (2014: £2,343.9m) of credit card assets in Delamare structured entities. The beneficial interest of these assets has been assigned to Delamare Cards Receivables Trustee Limited.

The Group operates within the securitisation and covered bond markets as an investor, purchasing certain securitisation and covered bonds for the purposes of diversifying its wholesale assets as part of managing its overall liquidity assets buffer. The Group invests in covered bond securities where preferential capital treatment is permitted, and in AAA rated asset backed securities recognising the due diligence required per CRR Article 406. Bonds acquired are held as Available for Sale (AFS) assets on the balance sheet. The securitisation and covered bond activities are reported below. There has been no impairment or past due exposures relating to securitisation activity during the period.

Table 15: Securitisation Exposure by Product

	Securitisation Exposure Value	
	February 2015 £m	February 2014 £m
Originated Securitisations		
of which: Credit Card Receivables (ABS)		
Holdings of Securitisations	**37.9**	14.2
of which: Residential Mortgage Backed Covered Bonds	*37.9*	*14.2*

Note, the securitisation undertaken via Delamare of credit card receivables is not included in the table above given significant risk has not been transferred. These are reported within Section 6 as part of Retail exposures.

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

8.1 Risks Inherent in Securitised and Covered Bond Assets

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

The Group has established monitoring processes for investing in securitisation notes. It conducts reviews of Investor Reports by issuers and an assessment is made of securitised asset performance (notably including arrears levels), operational risk, cash flow analysis, market prices / yields, legal analysis and counterparty risk at both programme and issuer levels, through quantitative and qualitative analysis. Interest rate risk arising from fixed rate purchases of securitisation notes is hedged in line with its interest rate risk policy.

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

8.2 Approach to Calculating Risk Weighted Exposure Amounts

The Group adopts the Standardised Approach in relation to all types of securitisation and covered bond exposures. For invested positions, the Company calculates risk weighted exposure amounts using the credit quality steps prescribed in CRR for securitisations and covered bond exposures.

9 Operational Risk

Operational risk is the potential loss resulting from ineffective or inadequately designed internal processes, system failure, improper conduct, human error or from external events. The Group aims to minimise all operational risks and reputational impacts. The Group uses the Standardised Approach (TSA) method to calculate Pillar I Operational Risk capital, as outlined in CRR Article 317.

The Group's risks are assessed utilising a risk management framework methodology which is aligned to the Three Lines of defence model.

The CRO 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 ensure that first line responsibilities are understood and those responsibilities should be executed within the framework;

- Supporting relevant business areas to embed policies, frameworks and instilling a positive risk management culture; and
- Independently monitoring, assessing and reporting on operational risk profiles and losses

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

Business units and functions assess their operational risks on an ongoing basis via a prescribed 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 Risk Management committee. 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 Procurement and Supplier Management policy provides consistent and robust standards for supplier sourcing and selection. The Strategic Relationship Management process enables the monitoring of the performance of third-party outsourced service providers and suppliers against service level agreements, the management of those relationships and the improvement of supply or termination of contract where appropriate.

The Fraud 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.

Major operational change initiatives are subject to a robust project management framework. Oversight is provided through a dedicated governance structure of senior committees.

10 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. Risk weighted asset calculations for market risk assesses the losses from extreme movements in the prices of financial assets and liabilities.

Market risk arises in the following ways:

- Interest rate risk in 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 pension obligations.

Control of market risk exposure is managed by ALCo. The Group has also established the Market Risk Forum (MRF) which monitors and reviews its market risk positions at a detailed level.

Market & Liquidity Risk (M&LR) also review and challenge policies and procedures relating to market risk and provide oversight for the Asset & Liability Management (ALM) and Transaction Management teams within Treasury.

10.1 Interest Rate Risk in the Banking Book

The Company 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 net interest income and arises where there is potential for changes in benchmark interest rates (that embed little or no credit risk) 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 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.

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. Non traded interest rate risk 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 MRF and the M&LR team provide the governance and oversight relating to ALM's management of IRRBB.

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

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

- **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.

	February 2015	February 2014
Economic value of equity (EVE)	(3.92%)	(1.16%)
Net interest income (NII) sensitivity	(0.09%)	(0.95%)

The EVE reduction over the prior year is driven by hedging activity to mitigate the potential impact of interest rate shocks. NII sensitivity has reduced year on year as a result of an increase in hedging activity.

10.2 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 (FX) exposure arises if these exposures are not hedged. FX exposure may also arise through Euro-denominated Irish credit card exposure and through invoices received which are denominated in foreign currencies.

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. This is de minimus per CRR Article 351.

11 Other Principal Risks

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

11.1 Liquidity and Funding Risk

Liquidity risk is the risk that the Group has insufficient capital resources to meet its obligations as they fall due or can do so only at excessive cost. Funding risk is the risk that the Group does not have sufficient 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.

Liquidity and funding risk is assessed through Individual Liquidity Adequacy Assessment (ILAA) process on at least an annual basis. ILAA 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 Board approves the ILAA and Liquidity Risk Appetite. It also approves the Liquidity Risk Management Policy Framework (LRMP) and delegates the day to day responsibility for complying with the framework to the CEO through the Executive Committee (ExCo) and the ALCo, which is in turn delegated to the Treasury Director.

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 (ILR), Individual Liquidity Guidance (ILG) ratio, the Net Stable Funding Ratio (NSFR), the loan to deposit ratio, asset encumbrance and wholesale funding ratio.

The Group measures and manages liquidity adequacy in line with the above metrics on a daily basis and maintains a conservative liquidity and funding profile to ensure it is able to meet its financial obligations under normal, and stressed, market conditions. ILR requires the Group to maintain sufficient liquid assets to survive a defined stress scenario for a period of 90 days. The regulatory ILG stress requires the Group to maintain a sufficient portfolio of high quality liquid assets to meet liquidity requirements during periods of market dislocation and stress.

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 covering a rolling twelve month period and takes into account factors such as credit card payment cycles, investment maturities, customer deposit patterns, and Funding for Lending Scheme maturities. These reports support 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 Liquidity Management Forum (LMF) and 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, of which a significant part is repayable on demand on a contractual basis. However historical trends show that these deposits have tended to be very stable, with actual maturities being significantly longer than the contracted maturity. The Group continuously monitors retail deposit activity to ensure that it can reasonably predict expected maturity flows. These instruments form a stable funding base for the Group's operations because of the broad customer base and the historical behaviour exhibited. The predominance of retail funding reduces reliance on wholesale funding and, in particular, results in minimal short-term wholesale funding,

The Group's strategic liability mix emphasises retail funding. To enhance overall funding stability and diversity, it places emphasis on maximising and preserving its customer deposits and other customer-based funding sources.

11.2 Insurance Risk

The Group defines insurance risk as the risk accepted through the provision of insurance products in return for a premium. These risks may or may not occur as expected and the amount and timing of these risks are uncertain and determined by events outside of the Group's control (e.g. flood or vehicular accident). 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 indirectly exposed to insurance risk through its 49.9% ownership of TU, an authorised insurance company.

The insurance risk team is responsible for monitoring the potential for financial volatility arising from insurance risk exposures and consistency with the approved 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. This framework is designed to identify and manage risks to which TU is exposed. This includes the use of re-insurance to limit risk exposure above certain levels, and the engagement of external independent actuaries to provide assurance over the valuation of insurance liabilities. Performance of the portfolio is monitored and reported to the RMC on a monthly basis against specific Key Performance Indicators (KPIs) thresholds and limits. TU is working to implement Solvency II in accordance with regulatory timelines.

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

The main risks in the portfolio relate to changes in:

- 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.

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

Additional underwriting capacity is provided by a panel of third party providers for Motor and Home customers.

The Group sells Pet, Travel and Life insurance and Payment Protection on a “white label” basis and does not carry the insurance risk associated with these “white labelled” products, which remains with the provider.

11.3 Legal and Regulatory Compliance Risk

Legal and Regulatory Compliance Risk is 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 and minimise any reputational impact by maintaining an effective control framework. Where legal or regulatory requirements are not met, effective remediation plans will be put in place.

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

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

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

11.4 Pension Risk

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

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

Tesco plc is the sponsoring employer and has recognised the appropriate net liability of the Scheme. The Group is exposed to Pension Risk through its obligation to the Scheme.

During the period Tesco plc announced plans to close its defined benefit pension scheme. A consultation period commenced on the 20th April 2015 and will run to the 20th July 2015. The Group is fully engaged in this consultation.

11.5 Conduct Risk

It is recognised by the Financial Conduct Authority that the business strategy, operations or conduct of a firm may produce poor outcomes for customers or the market. The risk of business conduct leading to poor outcomes can arise as a result of an over aggressive sales strategy, poor management of sales processes, credit assessments and processes or failure to comply with other regulatory requirements. Conduct risk is monitored by the EWRMF.

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 customer complaints and to deal appropriately with their root causes. Customer research and insight supports the understanding of customer outcomes.

12 Remuneration

The Group has established a Remuneration Committee to oversee the Remuneration Policy ("the Policy") and decisions on reward for all identified (Code) staff as defined in the PRA's Remuneration Code. The Policy is reviewed on a regular basis by the Committee.

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

The Remuneration Committee is appointed by the Board and consists of independent non-executive directors. It met six times during 2014/15. Additionally, the Committee Chairman provides an annual update to the Remuneration Committee of Tesco Plc.

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

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

- A combination of a balanced scorecard (known as the steering wheel) and the financial performance of the Group is used, ensuring that decisions are not taken for short-term financial gain to the detriment of other aspects of the business;
- An appropriate combination of fixed and variable pay, benchmarked annually, ensuring the Group's fixed-variable ratios on remuneration are controlled and do not encourage inappropriate risk taking behaviour;
- The basis of assessment for the short-term bonus is adjusted for people in control functions, so greater emphasis is placed on the performance of the control function;

- Annual incentives reflect both individual performance and business performance. Senior people also have an element of their annual incentive based on Tesco Group performance; and
- Maximum award levels are determined as percentages of salary, which are pre-set for the Group, based on work level and individual performance rating. Rewards are established within this framework, and therefore the opportunity for an individual to benefit from increased rewards outside of this core structure does not exist.

Where underperformance is identified it is managed through the performance management process and may result in reduced or zero awards. A share based element to the variable reward supports long-term commitment, with all identified (Code) staff subject to levels of deferral. Shares awarded are those of Tesco plc. All incentive awards include provisions for adjustment for either malus or claw-back at the discretion of the Remuneration Committee.

The Group is committed to promoting a diverse and inclusive workplace, reflective of the communities in which it does business. The Group's selection, training, development and promotion policies ensure everyone is welcome, and 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. Recruitment and promotion are based on merit.

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

The aggregate value of remuneration for Code Staff in 2014/15 was £15.4m, broken down as £4.4m to Senior Management and £11m to other Code Staff.

The level of remuneration for the financial year, split between fixed and variable remuneration, and the number of beneficiaries is detailed below:

	February 2015		
	Senior Management	Other Code Staff	Total
Number of beneficiaries [1]	13	33	46
	£m	£m	£m
Fixed reward [2]	2.9	7.0	9.9
Variable reward [3]	1.5	4.0	5.5
Total remuneration	**4.4**	**11.0**	**15.4**

Notes:

[1] Senior management is defined as Directors of the Company including executive directors, non-executive directors and the Chairman of the Company. Other identified (Code) staff include other senior managers whose actions have a material impact on the risk profile of the Company.
[2] Values noted include; base salary (or fees in the case of non-executive directors), benefits in kind and any other benefits earned in the year.
[3] Where payable other than in cash, the variable remuneration has been valued for the purposes of this table using the fair value of shares accruing over the financial year.

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

	February 2015		
	Senior Management	Other Code Staff	Total
	£m	£m	£m
Cash	0.8	2.0	2.8
Compulsory Deferred Shares	0.4	2.0	2.4
Performance Share Awards	0.3	0.0	0.3
Total Remuneration	**1.5**	**4.0**	**5.5**

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

	February 2015		
	Senior Management	Other Code Staff	Total
	£m	£m	£m
Vested	0.0	0.0	0.0
Unvested	0.7	2.0	2.7
Total Remuneration	**0.7**	**2.0**	**2.7**

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

Six beneficiaries received severance payments during the year totalling £1.6m. The highest severance payment to a single person was £0.46m. These payments were in line with their contracts of employment. No joining awards were made during the period.

Of the individuals noted above one individual has remuneration for the financial year of between EUR 1 million and EUR 1.5 million and one individual has remuneration of between EUR 2.5m and EUR 3m.

13 Glossary of Terms

Term	Definition
A	
Asset encumbrance	A claim against a property by another party. Encumbrance usually impacts the transferability of the property and can restrict its free use until the encumberance is removed.
B	
Basel II	The capital adequacy framework issued by the Basel Committee on Banking Supervision (June 2006) in the form of the 'International Convergence of Capital Measurement and Capital Standards'.
Basel III	The capital reforms and introduction of a global liquidity standard proposed by the Basel Committee on Banking Supervision in 2010 and due to be phased in, through CRD IV from 2014 onwards.
C	
Capital conservation buffer	A capital buffer designed to ensure that banks are able to build up capital buffers outside of periods of stress which can then be drawn upon as losses are incurred.
Capital requirements directive (CRD)	A legislative package relating to capital adequacy, issued by the European Commission and adopted by EU member states. CRD I, II and III were issued in 2006, 2010 and 2011 respectively. CRD IV was came into force on 1 January 2014 and implements the Basel III proposals together with transitional arrangements for some of its requirements.
Capital resources	Eligible capital held in order to satisfy capital requirements.
Common equity tier 1 capital (CET1)	The highest form of regulatory capital under CRD IV, comprising common shares issued, related share premium, retained earnings and other reserves less regulatory adjustments.
Countercyclical capital buffer (CCB)	A capital buffer which aims to ensure that capital requirements take account of the macro-economic financial environment in which banks operate. This aims to provide the banking sector as a whole with additional capital to protect it from potential future losses. In times of adverse financial or economic circumstances, when losses tend to deplete capital and banks are likely to restrict the supply of credit, the CCB should be released to help avoid a credit crunch.
Counterparty credit risk	The risk that a counterparty to a transaction could default before the final settlement of the transaction's cash flows.
CRD IV	Legislation published in June 2013 (in force from 1 January 2014) by the European Commission, comprising the Capital Requirements Directive (CRD) and Capital Requirements Regulation (CRR) and together forming the CRD IV package. Implements the Basel III proposals in addition to new proposals on sanctions for non compliance with regulatory rules, corporate governance and remuneration. The rules have been implemented in the UK via PRA policy statement PS7/13 with some elements subject to transitional phase in.
Credit quality step	A step in the PRA's credit quality assessment scale which is based on the credit ratings applied by ECAI's. The scale is used to assign risk weights to exposures under the Standardised Approach.
Credit Conversion Factor (CCF)	Used to determine the exposure at default (EAD) in relation to credit risk exposure. The CCF is an estimate of the proportion of undrawn commitments expected to be drawn down at the point of default.
Credit risk	The potential that a borrower or counterparty fails to repay the interest or capital on a loan or other financial instrument.
Credit risk mitigation	Techniques used to reduce the credit risk associated with an exposure.
Credit Valuation Adjustments	Adjustments to the fair value of derivative assets to reflect the credit worthiness of the counterparty.
D	
Derivatives	Financial instruments whose value is based on the performance of one or more underlying assets.

E	
Exposure	A claim, contingent claim or position which carries a risk of financial loss.
Exposure at default (EAD) or exposure value	The amount expected to be outstanding after any credit risk mitigation, if and when the counterparty defaults. EAD reflects both drawn down balances as well as an allowance for undrawn commitments and contingent exposures.
External Credit Assessment Institutions (ECAI)	These include external credit rating agencies such as Standard & Poors, Moody's and Fitch.
F	
Fair value	The price that would be received to sell an asset or paid to transfer a liability between market participants.
Forbearance	This takes place when a concession is made on the contractual terms of a loan in response to a counterparty's financial difficulties.
Funding Risk	The risk that the institution does not have sufficiently stable and diverse sources of funding.
I	
Impaired exposures	Exposures where it is not expected that all contractual cash flows will be collected or will be collected when they are due.
Impairment charge and impairment provisions	Provisions held on the balance sheet as a result of the raising of an impairment charge against profit for the incurred loss inherent in the lending book. Impairment provisions may be individual or collective.
Impairment losses	The reduction in value that arises following an impairment review of an asset which has determined that the asset's value is lower than its carrying value. For impaired financial assets measured at amortised cost, impairment losses are the difference between the carrying value and the present value of estimated future cash flows, discounted at the asset's original effective interest rate.
Insurance risk	The risks accepted through the provision of insurance products in return for a premium. That, over time, the combined cost of claims, administration and acquisition of the contract may exceed the aggregate amount of premiums received and the investment income.
Interest Rate Risk (IRR)	The risk arising predominantly from the mismatch between interest rate sensitive assts and liabilities, but also to the investment term of capital and reserves, and the need to minimise income volatililty.
Internal Capital Adequacy Assessment Process (ICAAP)	The institutions's own assessment, based on Basel II requirements, of the level of capital needed in respect of its regulatory capital requirements (for credit, market and operational risks) and for other risks including stress events.
International Swaps and Derivatives Association (ISDA) master agreement	A Standardised contract developed by the ISDA which is used as an umbrella contract for bilateral derivative contracts.
L	
Leverage ratio	Tier 1 capital divided by the exposure measure.
Liquidity risk	Liquidity risk is the risk that the institution has insufficient cash resources to meet its obligations as they fall due or can only do so only at excessive cost.
M	
Mark-to-Market (MTM) approach	One of three methods available to calculate exposure values for counterparty credit risk. The method adjusts daily to account for profits and losses in the value of related assets and liabilities.
Market risk	The risk that the value of the institution's assets, liabilities, income or costs might vary due to changes in the value of financial market process. This includes interest rates, foreign exchange rates, credit spreads and equities.
Minimum capital requirement	The minimum regulatory capital that must be held in accordance with Pillar 1 requirements for credit, market and operational risk.

O	
Operational risk	The risk of loss, resulting from ineffective or inadequately designed internal processes, system failure, improper conduct, human error or from external events.
Over-the-Counter (OTC) derivatives	Derivatives for which the terms and conditions can be freely negotiated by the counterparties involved, unlike exchange traded derivatives which have Standardised terms.
P	
Past due loans	Loans are past due when a counterparty has failed to make a payment in line with their contractual obligations.
Pillar 1	The first pillar of the Basel II framework sets out the minimum regulatory capital requirements for credit, market and operational risks.
Pillar 2	The second Pillar of the Basel II framework, known as the Supervisory Review Process, sets out the review process for a bank's capital adequacy; the process under which supervisors evaluate how well banks are assessing their risks and the actions taken as a result of these assessments.
Pillar 3	The third pillar of the Basel II framework aims to encourage market discipline by setting out disclosure requirements for banks on their capital, risk exposures and risk assessment processes. These disclosures are aimed at improving the information made available to the market.
Prudential Regulatory Authority (PRA)	Responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms in the UK.
R	
Regulatory capital	The capital that a bank holds, determined in accordance with rules established by the PRA.
Residual maturity	The length of time remaining from present date until the maturity of the exposure.
Retail loans	Money loaned to individuals rather than institutions. These include both secured and unsecured loans such as Mortgages and Credit Cards.
Risk Appetite	The level and types of risk that a firm is willing to assume to achieve its strategic objectives.
Risk Weighted Assets (RWA)	Calculated by assigning a degree of risk expressed as a percentage (risk weight) to an exposure value in accordance with the applicable Standardised and IRB approach rules.
S	
Securitisation	A transaction or scheme whereby the credit risk associated with an exposure, or pool of exposures, is grouped and where payments to investors is dependent upon the performance of the underlying exposure or pool of exposures.
Securities Financing Transactions (SFT)	The act of lending, or borrowing, a stock, derivative, or other security to or from an investor or firm.
Stress testing	The term used to describe techniques where plausible events are considered as vulnerabilities to ascertain how this will impact the capital resources which are required to be held.
Securitisation Structured Entity	A corporation, trust, or other non bank entity, established for a defined purpose, including for carrying on securitisation activities. Structured entities are designed to isolate its obligations from those of the originator and the holder of the beneficial interests in the securitisation.
Standardised approach	In relation to credit risk, the method for calculating credit risk capital requirements using risk weights prescribed by the regulator. Standardised approaches, following prescribed methodologies also exist for calculating market and operational risk capital requirements.
Subordinated liabilities	Liabilities which, in the event of insolvency or liquidation of the issuer, are subordinated to the claims of depositors and other creditors of the issuer.

T	
Tier 1 capital	A component of regulatory capital, comprising CET1 capital and other tier 1 capital. Other tier 1 capital includes qualifying capital instruments such as non cumulative perpetual preference shares and other tier 1 capital securities.
Tier 2 capital	A component of regulatory capital, comprising qualifying subordinated loan capital and related on-controlling interests.
W	
Wrong way risk	The risk that arises from the correlation between a counterparty exposure and the credit quality of the counterparty. The risk that the probability of default increases with exposure.

14 Glossary of Acronyms

Reference	Definition
ALCo	Asset and Liability Management Committee
ALM	Asset and Liability Management
BEC	Banking Executive Committee
BRC	Board Risk Committee
BCBS	Basel Committee on Banking Supervision
CET1	Common Equity Tier 1
CCB	Capital Conservation Buffer
CCR	Counterparty Credit Risk
CCyB	Countercyclical Buffer
CEO	Chief Executive Officer
CMF	Capital Management Forum
CoCo	Conduct Committee
CPB	Capital Planning Buffer
CQS	Credit Quality Step
CRD IV	Capital Requirements Directive IV
CRF	Credit Risk Forum
CRO	Chief Risk Officer
CRR	Capital Requirements Regulation
CSA	Credit Support Annexes
CVA	Credit Valuation Adjustment
DRW	Defined Risk Weights
DVP	Delivery Versus Payment
EAD	Exposures At Default
EBA	European Banking Authority
ECAI	External Credit Assessment Institutions
EVE	Economic Value of Equity
EWRMF	Enterprise Wide Risk Management Framework
ExCo	Executive Committee
FCA	Financial Conduct Authority
FORRC	Fraud Operational and Regulatory Risk Committee
FPC	Financial Policy Committee
FX	Foreign Exchange
G-SII	Global Systemically Important Institutions
IAS	International Accounting Standards
IBNR	Incurred But Not Reported
ICAAP	Internal Capital Adequacy Assessment Processes
ICG	Individual Capital Guidance
IEC	Insurance Executive Committee
IFRS	International Financial Reporting Standards
ILAA	Individual Liquidity Adequacy Assessment
ILG	Individual Liquidity Guidance
ILR	Internal Liquidity Requirement
IRB	Internal Ratings Based
IRRBB	Interest Rate Risk in the Banking Book
ISDA	International Swaps and Derivatives Association
ITS	Implementing Technical Standards
KPIs	Key Performance Indicators
KRIs	Key Risk Indicators
LIBOR	London InterBank Offered Rate
LMF	Liquidity Management Forum
LRA	Liquidity Risk Appetite
LRMP	Liquidity Risk Management Policy Framework
LTP	Long Term Planning
M&LR	Market and Liquidity Risk

MRF	Market Risk Forum
MTM	Mark To Market
NII	Net Interest Income
NSFR	Net Stable Funding Ratio
ORSA	Operational Risk Scenario Analysis
O-SII	Other Systemically Important Institutions
OTC	Over The Counter
PMG	People Matters Group
PRA	Prudential Regulation Authority
QIS	Quantitative Impact Studies
RAG	Red, Amber, Green
RAR	Risk Asset Ratio
RCSA	Risk and Control Self-Assessment
RICS	Royal Institute of Chartered Surveyors
RMC	Risk Management Committee
RMFu	Risk Management Function
RWA	Risk Weighted Assets
TPFG	Tesco Personal Finance Group Ltd
TPF Plc	Tesco Personal Finance Plc
TSA	The Standardised Approach
TU	Tesco Underwriting Ltd

Appendix 1 - Declaration

Board Risk Management Declaration

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

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

Appendix 2 – Risk Statement

Board Approved Risk Statement

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

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

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

A suite of Risk Appetite measures are used by the Group to support the overarching objective to manage profit volatility within prescribed limits which are agreed with the parent shareholder annually. The profit volatility limits seek to ensure that the bank remains profitable under severe market or economic stress conditions. The Group stayed within the limits throughout the year.

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

A comprehensive set of measures are used to monitor the Group's risk profile. The following table provides an overview of a selection of the most significant measures:

	Risk Area	Metric	Comment	Measure at 28/02/2015
FINANCIAL RISK	Capital	Risk Asset Ratio (RAR)	The Group targets a minimum buffer above the regulatory capital guidance threshold and has operated at a significant surplus to this throughout the year. Our long term capital plan, and current ICAAP, show continuation of a surplus above the internally set capital buffer.	RAR 18.9%.
	Liquidity	ILG / ILR	Liquidity Risk Appetite (LRA) has been set by the Board at a level which would allow the Group to survive for 90 days following the start of liquidity stress. To test this the Board approves a stress scenario which it defines as the Internal Liquidity Requirement (ILR) and may be above or below the regulatory defined Individual Liquidity Guidance (ILG) which is set and adjusted periodically by the PRA. The Group manages its liquidity resources to exceed the higher of ILR or ILG on a continuous basis. The Board LRA requires that a minimum buffer over the prevailing ILG or ILR level is maintained at all times. The Group has held material surplus liquidity over and above the risk appetite level throughout the year.	ILG resources = 117% versus 110% limit.

	Credit Risk	Bad Debt/Asset Ratio	The Group has strong credit management controls and manages each asset class within individual product risk appetites. External benchmarking of Tesco Bank retail lending bad debt levels confirms the risk profile compares favourably to peer banks.	14/15 BDAR was 0.66%
	Market Risk	Economic Value of Equity (EVE) NII Sensitivity	The Group does not undertake any form of proprietary trading activity. It utilises a range of simple derivative products for the sole purpose of managing the market risks which arise from the provision of retail banking products to customers. The predominant hedging activity relates to management of interest rate risk using interest rate swaps and management of foreign exchange risk thorough the use of cross currency swaps and spot and forward foreign exchange contracts. The level of residual interest rate risk that is accepted by the Board is expressed through two risk measures with limits set for each – Economic Value of Equity (EVE) which measures the change in the value of equity under a 200bps parallel upward shift in interest rates; and Net Interest Income Sensitivity which measures the change in interest income under two interest rate scenarios (parallel downward shift of 0.50% and an upward shift of 1.0%)	EVE Limit = +/- 7% NII limit = +/- 1.5% The Group was within both limits at the year end.
IT, OPERATIONS AND PEOPLE RISKS	The Group monitors its IT system security, availability and capacity, operational performance and human resource skill, setting Risk Appetite limits for each. Operational losses and business continuity metrics are tracked, as are staff survey results and skills gaps, and are used to support a subjective Red, Amber, Green (RAG) rating system, all of which are within Risk Appetite limit at the year end.			

Appendix 3: Tesco Personal Finance plc Capital Resources and Requirements

In addition to disclosing the Group's capital resources and capital requirements, the following tables detail the capital position of TPF plc (the 'Company'), as a main subsidiary of the Group including; the company's capital resources, Pillar 1 capital requirements and movement in CET1;

Capital Resources:	Transitional February 2015 £m	End Point February 2015 £m	Transitional February 2014 £m	End Point February 2014 £m
Common equity tier 1 Capital				
Shareholders Equity	1,461.9	1,461.9	1,375.2	1,375.2
Subordinated Notes	(45.0)	(45.0)	(45.0)	(45.0)
Unrealised gains on AFS debt securities	0.0	0.0	(5.9)	0.0
Unrealised gains on Cash Flow Hedge Reserve	(0.7)	(0.7)	(1.7)	(1.7)
	1,416.2	**1,416.2**	**1,322.6**	**1,328.5**
Regulatory deductions				
Intangible Assets	(402.6)	(402.6)	(427.7)	(427.7)
Deferred tax liabilities related to intangible assets	37.8	37.8	32.2	32.2
Material Holdings	(10.2)	0.0	(13.5)	0.0
	(375.0)	**(364.8)**	**(409.0)**	**(395.5)**
Total common equity tier 1 capital	**1,041.2**	**1,051.4**	**913.6**	**933.0**
Tier 2				
Undated Subordinated Notes	45.0	45.0	45.0	45.0
Dated Subordinated Notes	190.0	190.0	190.0	190.0
Collectively assessed impairment provisions	36.1	36.1	32.8	32.8
	271.1	**271.1**	**267.8**	**267.8**
Regulatory adjustments				
Material Holdings	(23.9)	(34.1)	(20.6)	(34.1)
	(23.9)	**(34.1)**	**(20.6)**	**(34.1)**
Total Tier 2	**247.2**	**237.0**	**247.2**	**233.7**
Total capital resources	**1,288.4**	**1,288.4**	**1,160.8**	**1,166.7**
Risk Weighted Assets	**6,844.2**	**6,844.2**	**6,546.8**	**6,546.8**
Common equity tier 1 ratio (%)	**15.2%**	**15.4%**	**14.0%**	**14.3%**
Total capital ratio (%)	**18.8%**	**18.8%**	**17.7%**	**17.8%**

Pillar 1 Capital Requirements:	February 2015		February 2014	
Exposure Class	**8% Capital Requirement £m**	**Risk Weighted Assets £m**	8% Capital Requirement £m	Risk Weighted Assets £m
Central Government or Central Banks	-	-	2.6	32.3
Multilateral Development Banks	-	-	-	-
Institutions	5.2	64.8	3.5	43.6
Corporates	2.0	25.2	13.1	163.5
Retail	389.7	4,871.0	372.1	4,651.3
Secured by Mortgages on Immovable Property	33.8	422.8	20.0	249.5
Exposures in Default	3.5	44.2	2.7	33.5
Covered Bonds	0.5	6.4	0.2	2.8
Equity Exposures	14.2	177.6	14.2	177.6
Other Items	14.5	180.6	15.2	191.6
Total Credit and Counterparty Credit Risk	**463.4**	**5,792.6**	**443.6**	**5,545.7**
Total Operational Risk	**81.3**	**1,016.5**	**77.5**	**968.9**
Total Credit Valuation Adjustment	**2.8**	**35.1**	**2.6**	**32.2**
Total Pillar 1 Capital Requirements	**547.5**	**6,844.2**	**523.7**	**6,546.8**

Movement in Common Equity Tier 1:	February 2015 £m	February 2014 £m
Common equity tier 1 at the beginning of the year	**913.6**	**705.4**
Ordinary Shares issued	0.0	140.0
Profit attributable to Shareholders	130.1	114.8
Other Reserves	5.5	1.2
Ordinary dividends	(50.0)	(100.0)
Movement in intangible assets	25.1	(30.3)
Movement in material holdings	0.0	11.2
Derivative Valuation Adjustment	(0.1)	0.0
CRD IV adjustments		
Deferred Tax liabilities related to intangible assets	5.6	32.2
Material holdings	3.4	39.1
Other Comprehensive income no longer deducted	8.0	
Common equity tier 1 at the end of the year	**1,041.2**	**913.6**

Appendix 4: Disclosure of Own Funds During the Transitional Period

In order to meet the requirements for disclosure of the specific items on own funds described in points (d) and (e) of Article 437 (1) of CRR No 575/2013, institutions are required to disclose transitional own funds by way of derogation to 31 December 2017. The following details the Group's disclosure:

	Common Equity Tier 1 Capital: Instruments and Reserves	(A) Amount at Disclosure Date (£m)	(B) CRR Article reference	(C) Amounts subject to Pre-Regulation (EU) No 575/2013 Treatment or Prescribed Residual Amount of Regulation (EU) No 575/2013	Reconciliation to Balance Sheet Reference
1	Capital instruments and the related share premium accounts	1,220.2	26(1), 27, 28, 29 EBA List 26(3)		
	of which: ordinary share capital	1,220.2	EBA list 26(3)		= k&l
	of which: instrument type 2		EBA list 26(3)		
	of which: instrument type 3		EBA list 26(3)		
2	Retained earnings	98.9	26(1) c)		= m
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	21.8	26(1)		= o
3a	Funds for general banking risk	-	26(1) f)		
4	Amount of qualifying items referred to in Article 484(3) and the related share premium accounts subject to phase out from CET1	-	486(2)		
	Public sector capital injections grandfathered until 1/1/18	-	483(2)		
5	Minority interests (amount allowed in consolidated CET1)	-	84, 479, 480		
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	79.4	26(2)		= n
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments per Table 3 Capital Resources**	**1,420.3**			
	Common Equity Tier 1 (CET1) capital: regulatory adjustments				
7	Additional value adjustments (negative amount)	-	34, 105		
8	Intangible assets (net of related tax liability) (negative amount)	- 364.8	36(1) b), 37, 472(4)		= f&h
9	*Empty set in the EU*				
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38(3) are met) (negative amount)	-	36(1) c), 38, 472(5)		
11	Fair value reserves related to gains or losses on cash flow hedges	- 0.7	33(a)		= p
12	Negative amounts resulting from the calculation of expected loss amounts	-	36(1) d), 40, 159, 472(6)		
13	Any increase in equity that results from securitised assets (negative amount)	-	32(1)		
14	Gains or losses on liabilities valued at fair value resulting form changes in own credit standing	- 0.1	33(b)		= g
15	Defined-benefit pension fund assets (negative amount)	-	36(1) e), 41, 472(7)		
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	-	36(1) (f), 42, 472(8)		
17	Holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	36(1) g), 44, 472(9)		
18	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	36(1) h), 43, 45, 46, 49(2), 49(3), 79, 472(10)		
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	36(1) i), 43, 45, 47, 48(1) b), 49(1) to 3), 79, 470, 472(11)		
20	*Empty set in the EU*				
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	-	36(1) k)		
20b	of which: qualifying holdings outside the financial sector (negative amount)	-	36(1) k) i), 89 to 91		
20c	of which: securitisation positions (negative amount)	-	36(1) k) ii), 243(1) b), 244(1) b), 258		
20d	of which: free deliveries (negative amount)	-	36(1) k) iii), 379(3)		
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in 38(3) are met) (negative amount)	-	36(1) c), 38, 48(1) a), 470, 472(5)		
22	Amount exceeding the 15% threshold (negative amount)	-	48(1)		
23	of which: direct and indirect holdings of the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	-	36(1) i), 48(1) b), 470, 472(11)		
24	*Empty set in the EU*				
25	of which: deferred tax assets arising from temporary differences	-	36(1) c), 38, 48(1) a), 470, 472(5)		
25a	Losses for the current financial year (negative amount)	-	36(1) a), 472(3)		
25b	Foreseeable tax charges relating to CET1 items (negative amount)		36(1) l)		
26	Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment	-			
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to Article 467 and 468	-			
	of which: Filter for Unrealised Loss 1		467		
	of which: Filter for Unrealised Loss 2		467		
	of which: Filter for unrealised gains on AFS Debt instruments	-	468		
	of which: Filter for unrealised gain 2		468		
26b	Amount to be deducted from or added to common equity Tier 1 Capital with regard to additional filters and deductions required pre CRR		481		
	of which:		481		
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	- 10.2	36(1) j)		= b
28	**Total Regulatory adjustments to Common Equity Tier 1 (CET1) per Table 3 Capital Resources**	**- 375.8**			
29	**Common Equity Tier 1 (CET1) capital per Table 3 Capital Resources**	**1,044.5**			
	Additional Tier 1 (AT1) Capital: instruments				
30	Capital instruments and the related share premium accounts	-	51, 52		
31	of which: classified as equity under applicable accounting standards				
32	of which: classified as liabilities under applicable accounting standards				
33	Amount of qualifying items referred to in Article 484(4) and the related share premium accounts subject to phase out from AT1	-	486(3)		
	Public sector capital injections grandfathered until 1 January 2018	-	483(3)		
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	-	85, 86, 480		
35	of which: instruments issued by subsidiaries subject to phase out	-	486(3)		
36	Additional Tier 1 (AT1) capital before regulatory adjustments	**-**			

Additional Tier 1 (AT1) Capital: regulatory adjustments					
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	-	52(1) b), 56 a), 57, 475(2)		
38	Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	56 b), 58, 475(3)		
39	Direct and indirect holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	56 c), 59, 60, 79, 475(4)		
40	Direct and indirect holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	56 d), 59, 79, 475(4)		
41	Regulatory adjustments applied to Additional Tier 1 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	-			
41a	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to Article 472 of Regulation (EU) No 575/2013		472, 472(3) a), 472(4), 472(6), 472(8) a), 472(9), 472(10) a), 472(11) a)		
	of which: items to be detailed line by line e.g., material net interim losses, intangibles, shortfall of provisions to expected losses etc				
41b	Residual amounts deducted form Additional Tier 1 capital with regard to deduction from Tier 2 capital during the transitional period pursuant to Article 475 of Regulation (EU) 575/2013	-	477, 477(3), 477(4) a)		
	of which: items to be detailed line by line e.g., reciprocal cross holdings in Tier 2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities etc	-			
41c	Amount to be deducted from or added to Additional Tier 1 capital with regard to additional filters and deductions required pre-CRR		467, 468, 481		
	of which: possible filter for unrealised losses		467		
	of which: possible filter for unrealised gains		468		
	of which:		481		
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	-	56 e)		
43	Total regulatory adjustments to Additional Tier 1 (AT1) capital	-			
44	Additional Tier 1 (AT1) capital	-			
45	**Tier 1 capital (T1=CET1+AT1) per Table 3 Capital Resources**	**1,044.5**			
Tier 2 (T2) capital: instruments and provisions					
46	Capital instruments and the related share premium accounts	235.0	62, 63		= j&q
47	Amount of qualifying items referred to in Article 484(5) and the related share premium accounts subject to phase out from T2	-	486(4)		
	Public sector capital injections grandfathered until 1 January 2018	-	483(4)		
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34), issued by subsidiaries and held by third parties	-	87, 88, 480		
49	of which: instruments issued by subsidiaries subject to phase out	-	486(4)		
50	Credit risk adjustments	36.1	62 c) and d)		= a
51	**Tier 2 (T2) capital before regulatory adjustments per Table 3 Capital Resources**	**271.1**			
Tier 2 (T2) capital: regulatory adjustments					
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	-	63 b) i), 66 a), 67, 477(2)		
53	Holdings of T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal holdings with the institution designed to inflate artificially the own funds requirement of the institution (negative amount)	-	66 b), 68, 477(3)		
54	Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	66 c), 69, 70, 79, 477(4)		
54a	of which: new holdings not subject to transitional arrangements	-			
54b	of which: holdings existing before 1 January 2013 and subject to transitional arrangements	-			
55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	- 23.9	66 d), 69, 79, 477(4)		= c&d
56	Regulatory adjustments applied to Tier 2 in respect of amounts subject to Pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) N0 575/2013 (i.e. residual amounts)	-			
56a	Residual amounts deducted from Tier 2 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to Article 472 of Regulation (EU) 575/2013		472, 472(3) a), 472(4), 472(6), 472(8) a), 472(9), 472(10) a), 472(11) a)		
	of which: items to be detailed line by line e.g., material net interim losses, intangibles, shortfall of provisions to expected losses etc				
56b	Residual amounts deducted from Tier 2 capital with regard to deduction from Additional Tier 1 capital during the transitional period pursuant to Article 475 of Regulation (EU) 575/2013		475, 475(2) a),475(3), 475(4) a)		
	of which: items to be detailed line by line e.g., reciprocal cross holdings in AT1 instruments, direct holdings of non-significant investments in the capital of other financial sector entities etc				
56c	Amount to be deducted from or added to Additional tier 2 capital with regard to additional filters and deductions required pre CRR		467, 468, 481		
	of which: possible filter for unrealised losses		467		
	of which: possible filter for unrealised gains		468		
	of which:		481		
57	**Total regulatory adjustments to Tier 2 (T2) capital per Table 3 Capital Resources**	**- 23.9**			
58	**Tier 2 (T2) capital per Table 3 Capital Resources**	**247.2**			
59	**Total capital (TC=T1+T2) per Table 3 Capital Resources**	**1,291.7**			
59a	Risk weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)				
	of which: items not deducted from CET1 (Regulation (EU) 575/2013 residual amounts) (items to be detailed line by line e.g. deferred tax assets that rely on future profitability net of related tax liability, indirect holdings of own CET1 etc)		472, 472(5), 472(8) b), 472(10) b), 472(11) b)		
	of which: items not deducted from AT1 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line e.g., reciprocal cross holdings in T2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities etc)		475, 475(2) b), 475(2) c), 475(4) b)		
	Items not deducted from T2 items (Regulation (EU) 575/2013 residual amounts) (items to be detailed line by line e.g., indirect holdings of own T2 instruments, indirect holdings of non significant investments in the capital of other financial sector entities, indirect holdings of significant investments in the capital of other financial sector entities etc)		477, 477(2) b), 477(2) c), 477(4) b)		
60	**Total Risk Weighted Assets per Table 3 Capital Resources**	6,846.5			
Capital ratios and buffers					
61	**Common equity tier 1 (as a % of risk exposure amount) per Table 3 Capital Resources**	**15.26%**	**92(2) a), 465**		
62	**Tier 1 (as a % of risk exposure amount)**	**15.26%**	**92(2) b), 465**		
63	**Total capital (as a % of risk exposure amount) per Table 3 Capital Resources**	**18.87%**	**92(2) c)**		
64	Institution specific buffer requirements (CET1 requirement in accordance with Article 92(1) a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (G-SII or O-SII buffer) expressed as a % of risk exposure amount)	4.50%	CRD 128, 129, 130		
65	of which: capital conservation buffer requirement	0.00%			
66	of which: countercyclical buffer requirement	0.00%			
67	of which: systemic risk buffer requirement	0.00%			
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	0.00%	CRD 131		
68	Common equity tier 1 available to meet buffers (as a % of risk exposure amount)	10.76%	CRD 128		
69	[non relevant in EU regulation]				
70	[non relevant in EU regulation]				
71	[non relevant in EU regulation]				

Amounts below the thresholds for deduction (before risk weighting)					
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	-	36(1) h), 45, 46, 472(10), 56 c), 59, 60, 475(4), 66 c), 69, 70, 477(4)		
73	Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	71.0	36(1) i), 45, 48, 470, 472(11)		e
74	*Empty set in the EU*				
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in 38(3) are met)	-	36(1) c), 38, 48, 470, 472(5)		i
Applicable caps on the inclusion of provisions in Tier 2					
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	36.1	62		a
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	72.4	62		
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	-	62		
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings based approach	-	62		
Capital Instruments subject to phase out arrangements (between 1 January 2013 and 1 January 2022)					
80	Current cap on CET1 instruments subject to phase out arrangements	-	484(3), 486(2) and (5)		
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-	484(3), 486(2) and (5)		
82	Current cap on AT1 instruments subject to phase out arrangements	-	484(4), 486(3) and (5)		
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-	484(4), 486(3) and (5)		
84	Current cap on T2 instruments subject to phase out arrangements	-	484(5), 486(4) and (5)		
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-	484(5), 486(4) and (5)		

Appendix 5: Description of Main Features of CET1, AT1 and Tier 2 Instruments

In order to meet the requirements for disclosure of the main features of Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments issued by institutions, as referred to in point (b) and (c) of CRR Article 92(3), The Group's capital instruments main features are outlined below:

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

Appendix 6: Countercyclical Capital buffer – Geographical Disclosure

The table below shows the geographical distribution of the Group's relevant credit exposures and the amount of the institutions specific counter-cyclical capital buffer in line with CRR Article 440.

Relevant Credit Exposures By Country:

	February 2015				
	Relevant Credit Exposure	Risk Weighted Assets	8% Capital Requirement	Own Funds Requirement Weight	Countercyclical Capital Buffer rate
	£m	£m	£m		%
UK*	8,158.0	5,730.2	458.4	1.0	0.0
Total Relevant Credit Exposures	**8,158.0**	**5,730.2**	**458.4**	**1.0**	**0.0**

* In line with EBA/RTS/2013/15 the Group has chosen to simplify the identification of foreign exposures and allocate them to the place of the institution (UK) as these foreign exposures are less than 2% of the aggregate of credit, trading and securitisation exposures.

Amount of Institutional Specific Countercyclical Capital Buffer required to be held:

	February 2015
	£m
Total Risk Exposure Amount	6,846.5
Institution specific countercyclical capital buffer rate (%)	0.0
Institution specific countercyclical capital buffer requirement	**0.0**

Appendix 7: Obligor Exposure Class

Obligor/Guarantor	February 2015 £m	February 2014 £m
Central Governments or Central Banks - Obligor Basis	1,078.0	914.6
Guarantees	*18.7*	*35.0*
Central Governments or Central Banks - Guarantor Basis	**1,096.7**	**949.6**
Public Sector Entities - Obligor Basis	18.7	20.0
Guarantees	*(18.7)*	*(20.0)*
Public Sector Entities - Guarantor Basis	**-**	-
Institutions - Obligor Basis	243.5	184.4
Guarantees	-	*(15.0)*
Institutions - Guarantor Basis	**243.5**	**169.4**
Exposures Obligor Basis	**1,340.2**	1,119.0
Exposures Guarantor Basis	**1,340.2**	1,119.0

Appendix 8: Asset Encumbrance

There are four Asset encumbrance tables. Template B is not required for disclosure as the Group does not have a trading book and is below the fair value of collateral minimum limits. Template A shows encumbered and unencumbered assets carrying and fair value, Template C reports the carrying amount of encumbered assets/collateral received and associated liabilities. Template D shows business commentary of the impact encumbrance has on the business funding model. Month on month volatility is not deemed significant and hence the figures below are shown as spot rather than rolling month averages.

Template A - Assets

Assets of the reporting institution	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Loans on demand	61.0		477.7	
Equity instruments			71.0	71.0
Debt securities	42.6	42.6	784.7	784.7
Other assets			578.5	
Loans and advances other than on demand	2,047.1		5,994.5	

Template C - Encumbered assets/collateral received and associated liabilities

	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
Carrying amount of selected financial liabilities	654.5	2,150.7
of which: Derivatives	57.0	61.0
of which: Deposits	97.5	1,521.0
of which: Debt securities	500.0	568.7
of which: Other sources of encumbrance		

Template D - Information on importance of encumbrance

The Group defines risk appetite for Total encumbrance and Product encumbrance for Credit cards, Personal Loans and Mortgages as part of the Group's ILAA process. Assigning and/or pledging assets as part of the Group secured funding and repo markets give rise to the Group encumbrance.

Appendix 9 – Key Regulatory Developments on a Forward-Looking Basis

The table below includes the key regulatory developments on a forward looking basis, together with the estimated implementation dates expected to impact the Group.

Regulatory subject matter	Regulatory developments	Expected implementation date
Pillar 3 standard templates and internal governance	In January 2015, the Basel Committee on Banking Supervision (BCBS) agreed five guiding Pillar 3 disclosure principles and has mandated extensive use of standard templates and tables, expected to be enforceable by the end of 2016, concurrently with financial reports. The guiding principles require Pillar 3 disclosures to be clear, comprehensive, meaningful to users, consistent over time, comparable across banks and require attestation from the Board or senior officer of the bank that the disclosures have been prepared in accordance with the Board's internal control processes.	End of 2016.
Risk weighted assets (RWAs)	Counterparty credit risk: In March 2014, the BCBS published proposals for its Standardised Approach (SA-CCR) for measuring exposure at default (EAD) for counterparty credit risk exposures, including; over the counter (OTC) derivatives, exchange traded and long settlement transactions.	The new approach to SA-CCR is to come into effect on 1 January 2017.
	Operational risk: In October 2014, the BCBS issued consultation and Quantitative Impact Studies (QIS) to revise the Standardised Approach for measuring operational risk capital.	Implementation date has still to be confirmed.
	Trading book: In December 2014, the BCBS issued further consultation following its fundamental review of the trading capital standards, including market risk. The Committee's goal is to improve trading book capital requirements and it intends to carry out a QIS in early 2015.	Final proposals expected in 2015.
	Securitisation risk: In December 2014, the BCBS published a revised framework for securitisation risk.	Expected from 1 January 2018.
	Credit risk: In December 2014, the BCBS published a consultation paper (CP) on revisions to the Standardised Approach for credit risk and will undertake further consultation and QIS.	The implementation date has yet to be confirmed.
Capital and PRA buffers	Capital conservation buffer (CCB): Designed to ensure that banks build up capital buffers outside periods of stress which can be drawn down as losses are incurred.	2.5% CCB will be phased in from January 2016 to January 2019.
	PRA buffer: As part of CRD IV implementation, the PRA is proposing to introduce a PRA defined buffer to replace the existing Capital Planning Buffer (CPB), which will need to be met with the Group's Common Equity Tier 1 capital (CET1). Where the PRA considers there is an overlap between CRD IV buffers and PRA buffer, the PRA proposes to set the PRA buffer as the excess capital required over and above the CCB and relevant systemic buffers.	The PRA buffer is expected to be phased in from 1 January 2016 to 1 January 2019.
	Global–Systemically Important Institutions (G-SII) /Other Systemically Important Institutions (O-SII): G-SII are large institutions with an overall exposure measure of more than 200 billion Euros. A list of banks that are considered to be G-SII are published on the EBA website and will be required to hold a buffer which will need to be met by CET1 capital. In line with the provisions laid down in the CRD IV, competent authorities can require O-SII to hold an additional buffer of up to 2 percent of CET1.	The Group does not meet the EBAs threshold of G-SII. O-SII guidelines apply from 1 January 2015. Confirmation is expected later in 2015.
Pillar 2 framework	The PRA issued a consultation paper (CP) setting out its proposed changes to the Pillar 2 framework and an approach for assessing those risks not adequately covered, or not covered at all, under Pillar 1 capital requirements, as well as seeking to ensure that firms can continue to meet their minimum capital requirements throughout a stress.	PRA Policy statement expected in July 2015 with implementation expected from 1 January 2016.
Large exposures framework	In April 2014, the BCBS recognises that neither the guidance nor the Core Principles set out how banks should measure and aggregate their exposures. The proposed framework is a useful tool to contribute to strengthening the oversight and regulation in relation to large exposures.	All aspects of the large exposure framework to be implemented by 1 January 2019.