

TESCO PERSONAL FINANCE GROUP PLC

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 28 FEBRUARY 2023

Company Number SC173198

TESCO PERSONAL FINANCE GROUP PLC
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TESCO PERSONAL FINANCE GROUP PLC
DIRECTORS AND ADVISERS

Directors:	Jacqueline Ferguson	Interim Independent Non-Executive Chair
	Elizabeth Buckley	Independent Non-Executive Director
	Julie Currie	Independent Non-Executive Director
	Robert Endersby	Interim Senior Independent Non-Executive Director
	Prasanna Gopalakrishnan	Independent Non-Executive Director
	Richard Henderson	Chief Financial Officer
	Simon Machell	Independent Non-Executive Director
	Gerard Mallon	Chief Executive Officer
	Adrian Morris	Non-Executive Director
	Tikendra Patel	Independent Non-Executive Director
	Amanda Rendle	Independent Non-Executive Director
	Deborah Walker	Chief Risk Officer

Company Secretary: Fiona Burden

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TESCO PERSONAL FINANCE GROUP PLC STRATEGIC REPORT

The Directors present their Strategic Report for the year ended 28 February 2023.

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

TPFG is a wholly owned subsidiary of Tesco PLC (Tesco). Tesco results can be found on the Tesco internet page <https://www.tescopl.com>.

Business Model

The core objective of the Board is to create and deliver the long-term sustainable success of the Group, generating value for the Group's shareholder and contributing to wider society. The Board sets the Group's purpose, which is to serve its customers, communities and planet a little better every day. It also sets the Group's strategy and values and is accountable to the Group's shareholder for ensuring that the Group is appropriately managed and achieves its objectives in a way that is supported by the right culture and behaviours.

The Group provides financial services and products, primarily Credit Cards, Personal Loans, Savings accounts, Insurance and Money Services products, to personal customers in the United Kingdom (UK). The Company is incorporated and registered in Scotland. The Company owns the entire issued share capital of TPF, which is engaged in the provision of banking and general insurance services and TPF owns the entire issued share capital of Tesco Underwriting Limited (TU), an authorised insurance company which provides the insurance underwriting service for a number of the Group's general insurance products. TU has been accounted for as a subsidiary of the Group since it was fully acquired on 4 May 2021. Prior to this date, the Group owned 49.9% of TU, which was accounted for as a joint venture.

Economic environment

The Group continued to trade profitably during the year ended 28 February 2023. While the economic outlook remains uncertain as the cost of living crisis continues, the risk of a recession in 2023 is now considered to be reduced and new budget announcements aimed at supporting business investment, as well as proposals to address structural issues in the jobs market, are expected to have a positive impact on GDP in the coming years. Fiscal restraint is expected to reduce the pressure to tighten monetary policy further and the Bank of England (BoE) base rate is expected to rise only marginally in 2023 as inflation progressively reduces over the course of the year. In addition, wholesale gas prices have significantly reduced from their peak level observed in 2022 and the Energy Price Guarantee (EPG), which limits the price energy suppliers can charge customers, remains in place for domestic consumers until June 2023, continuing to offer a degree of protection to domestic consumers from the burden of rising energy prices.

The expected credit loss (ECL) charge for the year of £61.4m (2022: credit of £29.9m) reflects growth in the portfolio and the level of risk progressively returning to pre-Covid-19 pandemic levels, albeit arrears and defaults in the portfolio remain below this level. The prior year credit reflects significant provision releases made in the prior year as the risks associated with the Covid-19 pandemic receded. Further detail in respect of the release in the current year of prior year PMAs related to the Covid-19 pandemic is set out at note 45.

Despite stability in the performance of the underlying portfolio, the increased risk from a high inflationary environment and cost of living crisis at 28 February 2023 creates uncertainty in relation to future loss projections and the current model outputs. As a result, post-model adjustments (PMAs) in respect of economic uncertainty have been applied to the Group's modelled ECL provision.

Further information in respect of these adjustments, along with the impact of the current economic outlook on ECLs, is set out at note 45. Overall provision levels have fallen in the year to £460.9m (2022: £488.8m) and coverage has fallen to 6.1% (2022: 7.0%) as PMAs related to the Covid-19 pandemic have unwound.

Notwithstanding the impact of the economic environment on the Group, its capital and liquidity ratios, which are set out on page 9, remain in excess of internal and regulatory requirements over the periods used by Management to monitor these ratios. The Board has also considered in depth the impact of the economic environment on the Group's going concern status. The relevant disclosures are set out on pages 30 to 31.

Group Agile transformation programme

As the Group continues to seek ways in which to serve its customers, communities and planet a little better every day, the Group is changing its ways of working, operating model and culture to better serve its customers' needs. The recent cost of living challenges have highlighted that it is more critical than ever for the Group to be able to adapt quickly to changing external market forces whenever its customers need it to. During the year ended 28 February 2023, the Group began its transformation to an Agile operating model. Maturing the operating model and ways of working will be a multi-year focus, helping the Group to deliver value in small but regular increments and allowing the Group to help its customers more quickly, investing where it matters most to the Group's customers and colleagues.

To support the new Agile organisation, changes were required in a number of skill areas and consequently, also in roles. New opportunities were created for colleagues. However, as a result, some roles were made redundant. Consultation took place with colleagues and union partners, with commitment to ensure those colleagues impacted were treated fairly and provided with the necessary support. Further information on the Group's Agile transformation programme is set out on page 28 and in note 5.

Insurance transformation programme

The Board recognises the continued importance of insurance to Tesco customers and the need to support sustainable insurance policy growth. The adoption of the new Agile operating model will support both a faster pace of change and a more efficient organisational design in respect of the Group's insurance business and the end-to-end control of the Group's insurance offering affords the Group the opportunity to become a market leading insurer. To support this aspiration, the Insurance Transformation Programme (ITP) was established during the year. The ITP is a series of technology and propositional deliverables designed to improve outcomes for customers, colleagues and Tesco. Further information on the ITP is set out on page 28 to 29.

Dividend pay-out ratio

In recent years, the Group has paid a shareholder dividend of £50m, which equates to around 30-35% of profits. This covered a period of increased product development in both Mortgages and Personal Current Accounts, which the Group has now exited, enabling it to focus on new propositions that are specifically designed to meet the everyday needs of Tesco customers.

During the year, the Board agreed that, as a result of the Group's strong capital position, the pay-out ratio should be increased to 50% of profits, aligning the Group's target pay-out ratio with that of Tesco in future years. This approach is expected to deliver sustainable dividend growth, whilst also balancing the need to maintain a strong capital position with capital efficiency and the Board will continue to re-appraise the Group's capital position on an ongoing basis. Further information in respect of the dividend pay-out ratio is set out on page 29.

Acquisition of Tesco Underwriting Limited

On 4 May 2021 the Group acquired the remaining 50.1% ordinary share capital of TU from its joint venture partner, Ageas (UK) Limited (Ageas). Total cash consideration of £89.7m was paid in the prior year, with an additional deferred payment of £5.0m paid in May 2022.

The current year financial information presented throughout these Financial Statements is not directly comparable with the prior year following the Group's acquisition of TU, with a full year of TU's results being included in the current year compared to 10 months in the prior year.

Headlines

Income Statement

- Profit before tax is £139.6m (2022: £188.5m).
- Underlying profit before tax, which excludes items which are not reflective of ongoing trading performance, is £148.6m (2022: £186.4m). A reconciliation of statutory to underlying profit for the current and prior year is set out at note 5.

- **Profit before tax**

The key drivers of the profit before tax are:

- a 1.4% increase in net interest income to £431.2m (2022: £425.4m) reflecting an increase in interest-bearing balances on Credit Cards compared to the prior year, offsetting lower average balances on Loans as the market in this area continues to be constrained. Despite an overall increase in customer lending during the year, net interest margin has decreased slightly to 4.9% (2022: 5.0%) as the Group has grown its Credit Card portfolio over the year through new account acquisition, with the majority of newly acquired Credit Card accounts offering an initial interest-free promotional period, which reduces the overall net interest margin;
- a 30.1% increase in net fees and commissions income to £246.5m (2022: £189.4m). Credit Card fees reflect higher retail spend, up 16.0% year-on-year, leading to an increase in interchange fees, and also reflect an increase in money and balance transfer fees. ATM income has increased as the result of increased customer activity and Gift Card income has increased by 11.0% as demand for Gift Cards has grown year-on-year. Travel Money and foreign exchange fee income have continued to grow in the year, reflecting ongoing growth in demand for foreign travel;
- a 26.6% increase in net insurance premium income to £169.3m (4 May 2021 to 28 February 2022: £133.7m) relating to an increase in the number of Home and Motor Insurance policies underwritten by TU;
- a loss on investment securities at fair value through profit and loss (FVPL) of £2.9m (2022: gain of £4.9m). This includes a fair value loss of £3.9m (2022: gain of £4.4m) relating to TU's holding in a property fund. Also included is a gain of £1.0m (2022: gain of £0.5m) relating to the Group's holding in VISA Inc. shares;
- a gain on other financial instruments at FVPL of £2.3m (2022: gain of £2.1m), reflecting hedge ineffectiveness arising from hedge accounting and fair value movements on derivatives in economic hedges that do not meet the criteria for hedge accounting;
- other expenses of £2.2m (2022: other income of £10.4m), representing a net loss of £2.8m on the partial redemption during the year of minimum requirements for own funds and eligible liabilities (MREL) debt in issue and dividend income from TU's holding in a property fund of £0.6m. In the prior year, other income of £10.4m predominantly represented the consolidated remeasurement gain recognised by the Group in respect of its existing equity interest in TU immediately before the Group's acquisition of TU of £4.6m, and a consolidated gain of £5.0m representing the Group's share of TU's available-for-sale reserve immediately prior to acquisition;
- a 4.2% decrease in net insurance claims to £84.6m, (4 May 2021 to 28 February 2022: £88.3m) due mainly to the net impact of a reserving review;
- a 7.2% increase in operating expenses to £558.7m (2022: £521.3m). Operating expenses have increased due to higher employee related costs, a volume driven increase in eligibility check costs and aggregator and marketing spend relating to increased new business activity, costs related to its Agile transformation programme (refer to note 5), growth in outsourcing costs, and a full year of TU costs compared to 10 months in the prior year due to the date of acquisition in May 2021;

- **Profit before tax (continued)**

- a 205.4% increase in charges for ECLs on financial assets to £61.4m (2022: credit of £29.9m). The prior year credit reflects significant provision releases made in the prior year as the risks associated with the Covid-19 pandemic receded. The charge for the current year reflects growth in the portfolio and the level of risk progressively returning to pre-Covid-19 pandemic levels, albeit arrears and defaults in the portfolio remain below this level, resulting in lower credit loss emergence and provision coverage reducing over the year. Overlays have been reduced as PMAs related to the Covid-19 pandemic have now been unwound. Despite stability in the performance of the underlying portfolio, the increased risks from a high inflationary environment and cost of living crisis at 28 February 2023 create uncertainty in relation to future loss projections and the current model outputs. As a result, PMAs in respect of economic uncertainty have been applied to the Group's modelled ECL provision. Further information in respect of these adjustments, along with the impact of the current economic outlook on ECLs, is set out at note 45; and
- a 100.0% decrease in the Group's share of profit from its joint venture, TU, to £nil (2022: £2.6m). This reflects the change in control of TU which took place on 4 May 2021, at which point TU became a wholly owned subsidiary of the Group, with its results being fully consolidated from that date.

- **Income tax charge on profit**

Income tax on the Group's profit for the year is a charge of £28.2m (2022: £44.2m). The tax charge for the year is primarily driven by profits being subject to the 19% corporation tax rate, together with the banking surcharge on taxable profits over £25m, at a combined tax rate of 27%. The prior year charge was impacted by the increase in the corporation tax rate from 19% to 25% with effect from 1 April 2023 and its impact on the Group's deferred tax assets, as set out at note 17.

Other Comprehensive Income

The net reduction in debt securities at FVOCI of £31.1m (2022: £12.8m) reflects fair value movements in TU's portfolio of fixed rate bonds. Significant rises in the base rate of interest over the year have resulted in the fair value of these bonds being less than their amortised cost. The amortised cost of these bonds is expected to be realised at maturity, when fair value adjustments in respect of interest rate movements recognised over the life of the bonds unwind.

Balance Sheet

- Cash and balances with central banks decreased by 40.9% to £461.1m (2022: £780.6m). The Group maintains a liquidity position in excess of internal and regulatory requirements and maintains a liquidity and funding profile to enable it to meet its financial obligations under normal and stressed market conditions.
- Loans and advances to customers have increased by 9.1% to £7.1bn (2022: £6.5bn) due mainly to higher Credit Card balances as a result of both increased retail spending and growth in newly acquired accounts. Loans balances remain constrained in the rising interest rate environment.
- Net derivative financial instruments of £104.5m (2022: £18.1m) reflect movements in interest rate swap rates due to rising interest rates, which have increased the value of derivatives used as part of the Group's hedging strategies.
- Insurance contract provisions decreased by 4.6% to £619.9m (2022: £650.0m) and reinsurance assets decreased by 5.4% to £231.9m (2022: £245.1m), reflecting uncertainty reversals from prior years along with releases in respect of claims reaching the statute of limitations.
- Customer deposits, which continue to be the Group's main source of funding, have increased by 8.3% to £5.8bn (2022: £5.3bn) as the Group has continued to grow its Savings balances to reflect growth in its lending book.
- Insurance funds withheld have increased by 7.6% to £123.5m (2022: £114.8m) as a result of the increase in premiums ceded on the 2022 quota share contract, partly offset by an increase in incurred losses over the same period.
- At 28 February 2023, the Group had accessed £900.0m (2022: £900.0m) under the BoE's Term Funding Scheme for small and medium sized entities (TFSME).

Balance Sheet (continued)

- The balance sheet remains well positioned to support future lending growth from both a liquidity and capital standpoint, with the ratios managed in excess of internal and regulatory requirements. At 28 February 2023, the total capital ratio was 25.7% (2022: 27.2%) and the net stable funding ratio (NSFR) was 128.9% (2022: 132.4%). The drivers of movements in the total capital ratio and NSFR are discussed in the Capital and Liquidity Ratios section of this Annual Report.

Regulatory Developments

Onshoring of European Union (EU) Regulations After Brexit

Following the UK's withdrawal from the EU and the ending of the transition period, any reference to EU regulations and directives (including technical standards) should be read as a reference to the UK's version of such regulation or directive, as onshored into UK law under the European Union (Withdrawal) Act 2018, as amended.

Capital Requirements Regulation

The Group of Central Bank Governors and Heads of Supervision (GHOS) announced in March 2020 that the implementation of the Basel 3.1 standards would be delayed by one year to 1 January 2023. The Prudential Regulation Authority (PRA) is currently consulting on the implementation of the Basel 3.1 standards (CP16/22), which are expected to become effective on 1 January 2025. The impact of these amendments will continue to be assessed along with CP5/22 - 'The Strong and Simple Framework – a definition of a Simple Regime firm', CP4/23 - 'The Strong and Simple Framework: Liquidity and Disclosure requirements for Simpler-regime Firms' and subsequent Strong and Simple Framework Phase 2 consultation papers which will focus on capital-related prudential measures.

On 9 December 2022, the Chancellor of the Exchequer set out a substantial package of reforms – the Edinburgh Reforms – to drive growth and competitiveness in the financial services sector. The impacts of these reforms on the Group will be assessed when detailed proposals are published.

Countercyclical Capital Buffer (CCyB)

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

In the UK, the Financial Policy Committee (FPC) of the BoE is responsible for setting the CCyB. The rate increased from 0% to 1% on 13 December 2022 in line with the FPC decision at its meeting in December 2021. Following its meeting in July 2022, the FPC confirmed that the rate will increase to 2% with effect from 5 July 2023. The FPC confirmed the intention to maintain the rate at this level at its meeting in March 2023.

Climate Change

Overview

The Group's Climate Change programme is led by the Chief Risk Officer (CRO), who holds the Senior Management Function (SMF) accountability for climate change risk. The Group is committed to understanding and reducing its environmental impact, as well as assessing and managing the risks arising from climate change. The Group's ambition is to achieve its target of carbon neutral in its own operations by 2035 and net zero across the Group's whole footprint by 2050. The Group will seek to support its colleagues in reducing their carbon footprints in order to help achieve that ambition.

The Group continues to work closely with Tesco to ensure that its approach to tackling climate change is aligned with Tesco's approach.

- **Governance**

The Climate Change programme is overseen by a Steering Group which has senior representation from across the Group. Steering Group members have both ownership and oversight of the work being undertaken to address climate change across the Group.

During the year, the Board approved a risk appetite statement on climate change. The Steering Group is continuing to build appropriate Management information to support this risk appetite.

- **Strategy**

Management believe that the nature of the Group's business model results in the direct risks from climate change being lower than for many other lenders. This is due to the short duration of the Group's lending and insurance activities and the fact that lending is not supported by collateral which may be more likely to be impacted by climate change. In addition, the Group is exclusively consumer focussed in its lending and has processes in place to ensure liquidity holdings meet defined Environmental, Social and Governance (ESG) criteria.

A number of areas have been identified where there is exposure, however these typically represent an indirect or low risk to the Group. Areas identified include the following:

- Exposure to customers who work for industries whose business models may be impacted through the transition to a greener economy and, as a result, could face lower income or the loss of their job;
- Physical impacts of weather events on the ability of the Group's colleagues to work in the office, although this has been significantly mitigated through the move to hybrid working practices;
- Changes to the way the Group's customers shop and behave, such as reducing travel, which may impact the Group's Travel Money services;
- The likelihood of an increased severity and frequency of weather events, impacting Home insurance claims received by the Group;
- Transitional impacts on the motor insurance market, for example through the move to electric cars, which may impact the Group's Motor insurance business.

The Group has undertaken scenario analysis focused on transitional risk to consider potential impacts to its lending.

The scenario considers potential macro-economic effects arising as a result of a disruptive transition to a lower carbon economy. The indicative impacts on ECLs from this scenario are not considered significant enough to warrant further Management action at this stage.

Analysis of the Group's lending activity does not indicate any areas of significant concentration in locations subject to higher physical flood risks. Given these findings, and that the Group does not believe there to be a direct link between credit impairment and physical risks, the Group is therefore not taking any further action in relation to its lending decisions at this stage.

Climate scenario analysis is a significant area of focus for the Group and Management will be performing longer and more granular scenario analysis as they work through and understand fully the potential impacts of climate change.

The Group's own operations already use 100% green electricity and work is ongoing to reduce the impact of the Group's offices on the environment.

The Group has formed a One Planet colleague engagement group, aligned with Tesco, to ensure environmental best practice is shared between the Group and Tesco and that the Group's colleagues are informed of, and engaged with, environmentally friendly initiatives across the Tesco Group.

TESCO PERSONAL FINANCE GROUP PLC
STRATEGIC REPORT (continued)

- **Risk Management**

Climate change forms part of the ESG risk which is a Level 1 risk in the Group's risk taxonomy, though the areas that it impacts cut across the Group. The primary risks identified are transition risk via lending, physical risk via impacts on the Group's customers and colleagues and reputational risk.

Identification and assessment of climate change risk has been driven by the Climate Change programme. The above changes are part of the efforts to ensure that identification, assessment and management of climate change risk are embedded within the relevant business areas as a business-as-usual process.

Climate change reporting is incorporated in the CRO report that is reviewed quarterly at the Group's Executive Risk Committee (ERC) and BRC.

Areas of focus for risk management over the next year are in respect of refining Management information and ensuring that ESG risk is embedded via the Enterprise-Wide Risk Management Framework (EWRMF).

- **Metrics and targets**

The Group's scope 1 and 2 carbon footprints are disclosed below. The Group has identified number of tonnes of carbon dioxide equivalent (tCO₂e) emissions per full-time equivalent colleague as the most appropriate intensity factor for its business due to the majority of emissions produced from the Group's own operations being closely linked with the number of colleagues employed.

- **Emissions data**

	28 February 2023	28 February 2022⁴
tCO ₂ e emissions (Market-based) ¹		
- Scope 1 ²	936	980
- Scope 2 ³	–	–
Carbon Intensity Factor		
tCO ₂ e emissions per FTE	0.28	0.30

The Group continues to develop its approach towards the measurement of its scope 3 emissions. Analysis has indicated that the Group's most significant controllable areas of scope 3 impacts are purchased goods and services, business travel, employee commuting and office waste. Work is ongoing to reduce the Group's impact in all of these areas and further disclosures in this respect will be provided as market practice develops.

¹ Market-based method of calculation reflects the emissions from the electricity that the Group is purchasing and includes its purchase of electricity backed by Renewable Energy Guarantees of Origin or Renewable Energy Certificates.

² Scope 1 emissions are from natural gas used at the Group's offices.

³ Scope 2 emissions are from electricity purchased for use at the Group's offices.

Emissions for both are calculated via industry-standard conversion factors as published by the UK government.

⁴ Emissions are for the Group's Newcastle, Glasgow and Edinburgh offices only.

TESCO PERSONAL FINANCE GROUP PLC
STRATEGIC REPORT (continued)

Key Performance Indicators

The Directors consider the following to be key performance indicators (KPIs) for the Consolidated Income Statement and are quoted in respect of the Group's continuing operations. The methodology applied in calculating the Group's KPIs is set out in the Glossary of Terms:

	2023	2022
Net interest margin	4.9%	5.0%
Underlying cost:income ratio	72.3%	77.2%
Cost:income ratio	73.5%	77.0%
Gross insurance premiums written	£326.6m	£254.0m
Loans and advances to customers loss allowance coverage ratio	6.1%	7.0%

Capital and Liquidity Ratios

The Directors consider the following to be KPIs for capital and liquidity reporting:

	2023	2022
Common equity tier 1 ratio	23.0%	24.4%
Total capital ratio	25.7%	27.2%
Capital coverage of TU's solvency capital requirement (SCR) (unaudited)	159.0%	151.0%
MREL ratio (unaudited)	27.8%	30.9%
Net stable funding ratio	128.9%	132.4%
Loan to deposit ratio	122.7%	121.9%

The Group's total capital ratio remains in excess of internal and regulatory requirements at 25.7% (2022: 27.2%) on a transitional basis. On an end-point basis, the Group's total capital ratio is 24.8% (2022: 25.4%), which is also in excess of internal and regulatory requirements. The reduction in the total capital ratio is driven by lower common equity tier 1 capital from the phased reduction in the IFRS 9 'Financial Instruments' benefit, coupled with an increase in risk-weighted assets due to higher lending in the Credit Card book, in line with the Group's strategy. Refer to note 50 for full details of the impact of these amendments on the Group.

TU's unaudited available capital has remained above its SCR during the year ended 28 February 2023; and capital coverage of TU's SCR of £122.8m (unaudited) at the end of February 2023 was 159.0% (unaudited) (2022: coverage of TU's SCR of £121.1m was 151.0%) for 2022.

An interim MREL ratio requirement of 18% of risk-weighted assets was set from 1 January 2020 to 31 December 2022. On 9 December 2021, the BoE confirmed a change in TPF's preferred resolution strategy from partial-transfer to a modified form of insolvency, effective from 1 January 2022. As set out in its MREL Statement of Policy, the BoE does not expect to set an MREL in excess of the TCR for firms with a modified form of insolvency as the preferred resolution strategy. Accordingly, as part of a tender process undertaken in November 2022, TPF redeemed £105.3m of outstanding MREL-compliant debt, with the remaining £144.7m still in issue at 28 February 2023. At 28 February 2023 the MREL ratio was 27.8% (unaudited) (2022: 30.9% unaudited).

At 28 February 2023, the NSFR, a measure of the Group's liquidity position, is in excess of internal and regulatory requirements at 128.9% as at 28 February 2023 (2022: 132.4%). The decrease in the NSFR is driven by retail balances, primarily an increase in loans and advances to customers, increasing required stable funding. This has been partially offset by increased available stable funding from customer deposits. The Group maintains a liquid asset portfolio of cash and high quality liquid assets (HQLA) of £2.1bn (2022: £2.3bn).

Risk Management

Risk Management Approach

The Board of Directors has overall responsibility for determining the Group's strategy and related Risk Appetite. The Board's Risk Appetite comprises a suite of Risk Appetite statements, underpinned by corresponding measures with agreed triggers and limits. The Risk Appetite Framework, which continues to evolve, defines the type and amount of risk that the Group is prepared to accept to achieve its objectives and forms a key link between the day-to-day risk management of the business, its strategic objectives, long-term plan, capital plan and stress testing. The Risk Appetite is formally reviewed by the Board on at least an annual basis.

The Board is also responsible for overall corporate governance, which includes overseeing an effective system of risk management and that the level of capital and liquidity held is adequate and consistent with the risk profile of the business. To support this, an EWRMF has been embedded across the Group, creating an integrated approach to managing risk. Further information on the Group's EWRMF is set out on pages 18 to 25.

The Group has a strong relationship with Tesco, with regular updates and meetings taking place with relevant senior management and the Board Members in relation to performance and strategy. Tesco also reviews and approves certain aspects of the Financial Risk Appetite. Shareholder reserved matters have been agreed and significant matters are referred to Tesco for concurrence, as necessary. The Group's CEO, Gerard Mallon, is a member of the Tesco Executive Committee and Adrian Morris, Tesco's General Counsel, is a Non-Executive Director of the Group's Board.

The CRO performs a strategic risk management role and is responsible for managing and enhancing the EWRMF. The CRO is independent from any commercial function, reporting directly to the Chief Executive Officer (CEO) and can only be removed from position with the approval of the Board.

The Group is exposed to a variety of risks through its day-to-day operations. The Board undertakes a robust review of principal risks and areas of emerging risks at least annually. The following table sets out the principal risks and uncertainties and how they are managed within the EWRMF. These risks do not comprise all of the risks associated with the business and are not set out in priority order. Additional risks not presently known to Management, or currently deemed to be less material, may also have an adverse effect on the business. All business areas and functions in the Group are required to maintain and actively manage a risk register. In addition, the BRC oversees a Strategic and Horizon Risks process which focuses on emerging risks.

Principal risks and uncertainties

Credit risk

The risk that a borrower will default on a debt or obligation by failing to make contractually obligated payments, or that the Group will incur losses due to any other counterparty failing to meet their financial obligations.

Although the Group continued to trade profitably during the year, the cost of living crisis continues.

The nature of the Group's business model means that Management believe the credit risks from climate change are lower than for many other lenders. This is due to the short duration of the Group's lending and insurance activities and the fact that lending is not supported by collateral which is more likely to be impacted by climate change. The Group is exclusively consumer focussed in its lending and has processes in place to ensure investments meet defined ESG criteria.

Key controls and mitigating factors

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

The Group continued to trade profitability during the year ended 28 February 2023. While the economic outlook remains uncertain as the cost of living crisis continues, the risk of a recession in 2023 is now considered to be reduced and new budget announcements aimed at supporting business investment, as well as proposals to address structural issues in the jobs market, are expected to have a positive impact on GDP in the coming years. Fiscal restraint is expected to reduce the pressure to tighten monetary policy further and the BoE base rate is expected to rise only marginally in 2023 as inflation progressively reduces over the course of the year. In addition, wholesale gas prices have significantly reduced from their peak level observed in 2022 and the EPG, which limits the price energy suppliers can charge customers, remains in place for domestic consumers until June 2023, continuing to offer a degree of protection to domestic consumers from the burden of rising energy prices.

The Group regularly benchmarks its macro-economic outlook against other external forecasts to ensure its ECL provisions remain at appropriate levels.

The Group has a suite of early warning indicators in place, together with playbooks for a range of economic scenarios. These playbooks continue to be employed, with changes to underwriting criteria being made based on the Group's assessment of the current and forecast macro-economic environment. The Group's risk appetite framework also limits exposure to certain higher risk segments.

The performance of credit portfolios is actively monitored, and this monitoring activity has been extended throughout a prolonged period of economic uncertainty to understand which customers are likely to be more or less impacted by the effects of economic uncertainty arising from the cost of living crisis. These activities help ensure that the Group's underwriting controls remain appropriate for the latest macro-economic outlook. Management estimation has been applied to the Group's modelled ECL provision to capture the estimated impact of the stress within the Group's ECL provision. Further information in respect of this estimate is set out at note 45.

The Group reviewed its stress testing scenarios to ensure it has sufficient capital and liquidity to trade through a plausible range of economic outcomes.

Credit risk (continued)

A number of areas have been identified where the Group has exposure to climate change, however these typically represent an indirect or low risk to the Group.

The Group could have exposure to customers who work for industries whose business models may be impacted through transition and, as a result, could face lower income or the loss of their job. Physical impacts of weather events may affect the ability of the Group's colleagues to work in the office, although this has been significantly mitigated through the move to hybrid working practices. Changes to the way the Group's customers shop and behave, such as reducing travel, may impact the Group's Travel Money services. The likelihood of an increased severity and frequency of weather events may impact Home insurance claims received by the Group. Finally, there may be transitional impacts on the motor insurance market, for example through the move to electric cars, impacting the Group's Motor insurance business.

Areas of focus for risk management over the next year are building climate change into the Group's Risk Appetite, developing further insightful Management information and ensuring business areas have fully embedded climate change into their risk identification and controls processes.

Operational risk

The risk of a potential error, loss, harm, or failure caused by ineffective or inadequately defined processes, system failures, improper conduct, human error or from external events.

The Group aims to manage operational risks within defined Risk Appetite limits.

Business units and functions assess operational risks on an ongoing basis via a prescribed Risk and Control Self Assessment (RCSA) process and operational risk scenario analysis.

The RCSA is reviewed and updated on a timely basis by the business units and functions to reflect the risk and control environment and any changes arising from changes in products, processes and systems.

The outputs are reported to relevant governance bodies, including the BRC. This is supplemented further by an event management process and regular reporting of the operational risk profile to the ERC, which provides oversight of the Group's operational risk profile.

The Group's continued priority throughout the year has been helping customers and colleagues through the many challenges created by the current economic environment. The Group continues to face a number of operational risks, including the ongoing potential for the Group's suppliers to be impacted by disruption to the global supply chain and labour market.

The Group has served and supported its customers, including support for vulnerable customers, while maintaining the safety and well-being of colleagues. Close monitoring remains in place to ensure that the Group's critical functions continue to be resilient.

Operational risk (continued)

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

The Procurement and Supplier Management Framework provides an appropriate and consistent approach to procurement and the management of suppliers to ensure the Group is able to effectively engage, manage and terminate supplier relationships.

The Framework supports the relevant Group policies applicable to procurement and supplier management and enables the Group to meet its regulatory requirements, understand and manage supplier and service risk effectively, and take a consistent approach to supplier relationships.

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

The Executive Committee (ExCo) oversees key aspects of people risk, including talent management, performance management, retention and succession planning.

Financial crime and fraud are significant drivers of operational risk and the external threat continues to be a high priority area of risk management across the Financial Services industry.

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

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

The Group manages cyber security risks through its Information Security team. The Group continually monitors emerging risks and threats.

The ERC and BRC oversee management of these risks and receive regular updates on cyber security readiness and the threats the Group faces, as well as improvement activities to ensure the Group provides stable, secure digital platforms to meet its strategic objectives.

The Group regularly exercises the Board's readiness to handle critical cyber events, simulating major incidents to ensure that the Board is prepared to act decisively in a cyber security event.

The Group has a cyber security strategy. Investment in security improvements remains an area of ongoing focus, with yearly funding allocated to support.

Operational risk (continued)

Technology is a key element in providing services to the Group's customers in a consistent and secure manner. Causes of technology outages across the industry include failed change, third-party failures, shadow IT risks or security events.

The Group manages technology and technology risk through its Technology function and has aligned key processes and controls with industry recognised standards such as the Information Technology Infrastructure Library and those set out by the National Institute of Standards and Technology. Regular reporting on technology services and technology risk are provided to the Group's ExCo, ERC, BRC and the Board.

The Group has identified shadow IT, defined as IT systems used by the business but not managed by the Group's Technology function, as an area of focus. Activity to identify shadow IT and to bring the most material systems under the central control disciplines of the Technology function has progressed significantly, improving the residual risk position.

In addition, investment to migrate data centres and to upgrade or replace aged systems, is progressing well and will continue throughout 2023. This is providing a more resilient and modern IT platform that can be leveraged to enable value to be delivered.

The Group understands that managing information, technology, and cyber security risks is a critical part of operating a digital business. Its reliance on digital capabilities to meet the needs of its customers, stakeholders and investors means that now, more than ever, it needs to demonstrate robust, credible management of these risks. Specifically, the Group recognises the need to identify, prioritise and manage the risks associated with accidental or malicious activity that could affect the confidentiality, integrity or availability of its systems and data.

The Group's approach to managing these risks is embedded in its EWRMF. This framework ensures accountability and responsibility, supports sound decision-making and provides a mechanism to assess, prioritise, manage and report improvement activities. Within the framework, the Group's information and cyber security risks, and the controls used to manage them, are aligned to globally recognised frameworks (including ISO 27000 and the National Institute of Standards and Technology's Cyber Security Framework). The ERC and BRC oversee management of these risks and receive regular updates on cyber security readiness and the threats the Group faces, as well as improvement activities to ensure it provides stable, secure digital platforms to meet its strategic objectives. The Group is committed to maintaining a high standard of expertise in this area.

Operational risk (continued)

It continues to recruit experienced and qualified subject matter experts across technology and security disciplines to safely deliver value to its customers, stakeholders, and investors.

The Group understands the need for a strong security culture, where colleagues make good security decisions that protect customers and the Group. All employees and contractors with access to systems must complete an annual training course which sets out the expected security behaviours. Additional mandatory training is provided to colleagues with line manager responsibilities. Senior leaders are supported through spotlight sessions that are held at the ERC and BRC and the Group regularly exercises the Board's readiness to handle critical cyber events, simulating major incidents to ensure that the Board has confidence to act decisively and safely if the worst happens. The Group is committed to keeping colleagues safe at work and at home. To supplement mandatory training, the Group regularly shares relevant and timely security information with colleagues and holds open awareness sessions which focus on current and emerging threats.

The Group has a cyber security strategy. Investment in security improvements remains an area of ongoing focus, with yearly funding allocated to support.

The Group understands the potential impact that a digital security event may have on its operations. Specifically, it tracks a number of key digital threats to its organisation and orientates and tests many of its defences against these threats. It constantly monitors Threat Actors and their tactics, techniques and procedures to understand how these would impact its operations. The Group tracks likely impacts across its different environments to ensure risks are understood and articulated. It also conducts regular tabletop exercises with its incident teams to ensure that a digital security event would be recognised and the correct steps to contain and mitigate it taken. To counter ransomware attacks, the Group runs modern anti-malware end-point detection and response controls and a Security Operations Centre/Security Information and Event Management process to detect and respond to attacks which could lead to a ransomware infection. All of its systems are fully backed up, including full offline backups which could be restored to a working state if required. Alongside its crime and cyber-crime insurance policies, the Group also maintains a full cyber response capability.

Liquidity and funding risk

Liquidity risk is the risk that the Group is not able to meet its obligations as they fall due. It also covers the risk that a given security cannot be traded quickly enough in the market to prevent a loss if a credit rating falls.

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

Liquidity risk is governed through the Asset and Liability Management Committee (ALCo), BRC and the Board. The Group maintains a liquidity position in excess of internal and regulatory requirements. The Treasury function ensures all liquidity and funding measures are managed within policy and Risk Appetite on a daily basis. The key liquidity and funding measures monitored on a daily basis are set out on page 126. The Group measures and manages liquidity adequacy in line with these metrics and maintains a liquidity and funding profile to enable it to meet its financial obligations under normal and stressed market conditions. The Group monitors and reports on the composition of its funding base against defined thresholds to avoid funding source and maturity concentration risks.

Liquidity and funding risk is assessed through the internal liquidity adequacy assessment process (ILAAP) on at least an annual basis. Stress testing of current and forecast financial positions is conducted to inform the Group of required liquidity resources. Reverse stress testing is conducted to inform the Group of the circumstances that would result in liquidity resources being exhausted. Liquidity stress tests are presented to the Treasury Committee (TCo) and ALCo on a regular basis to provide evidence that sufficient liquidity is held to meet financial obligations in a stress.

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

Further information in respect of the Group's assessment of liquidity risk is set out on pages 126 to 136.

Market risk

The risk that movements in market prices (such as interest rates and foreign exchange rates) lead to a reduction in either the Group's earnings or economic value.

Control of market risk is governed by the ALCo and TCo. These bodies provide oversight of the Group's market risk position at a detailed level, providing regular reports and recommendations to the BRC and the Board.

Financial and Treasury Risk Oversight, as part of the Risk function, also review and challenge policies and procedures relating to market risk and provide oversight of the Balance Sheet Management and Liquidity and Markets teams within the Treasury function.

The Group has monitored the impact of market events in March 2023 on investment securities held and is satisfied that it does not have any material exposure. Further information in respect of the Group's assessment is set out on pages 30 to 31.

Insurance risk

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

The Group's aim is to actively manage insurance risk exposure, with particular focus on those risks which impact profit volatility. The Group is exposed to underwriting risk through TU, a separately regulated entity which is capitalised accordingly.

TU operates an EWRMF designed to identify and manage risks to which it is exposed. This includes the use of reinsurance to limit risk exposure above certain levels and provide capital efficiency.

A Risk Appetite framework and a suite of risk policies are in place to manage risk in TU. Further information in respect of insurance risk is set out at note 45.

Regulatory and conduct risk

Regulatory risk is the risk of poor customer outcomes, reputational damage, liability, loss or regulatory censure arising from failure to comply with the requirements of regulators or industry codes of best practice. Conduct risk is the risk that the conduct, acts or omissions of the Group, or individuals within the Group, leads to customer detriment, or has an adverse effect on market stability or effective competition.

The Group has no appetite for failing to comply with rules and regulations. As part of the Group's Policy Framework, the Risk function is responsible for the Compliance and Conduct Risk Policy, which is approved by the Board, as well as for monitoring, challenge and oversight of regulatory risk and compliance across the business. If regulatory events and breaches occur, the Group will take appropriate rectifying action on a timely basis. The Group seeks to deliver good outcomes for customers. There has also been a focus on both conduct and prudential impacts and close tracking of all government and regulator correspondence to gauge the potential impact on the Group of the economic environment, now and in the future.

The risk of business conduct leading to poor outcomes can arise as a result of misselling, inadequate creditworthiness and affordability assessments, or failure to comply with other regulatory requirements.

Business areas manage conduct risk and use a range of management information to monitor customer outcomes. A suite 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 Risk function provides robust oversight of customer outcomes and the ERC and the Board review and challenge delivery of good outcomes for customers.

The risk that regulatory changes such as General Insurance Pricing Practices, Open Banking and Consumer Duty will have an impact on how customers manage both their money and data over the longer term, with the potential for such regulatory changes to fundamentally alter the nature of competition in UK financial services and have an impact on the Group's activities. These changes also create opportunities for traditional competitors as well as non-banking firms, particularly digitally focused technology companies which have the ability to move at pace.

Regulatory and conduct risk (continued)

The volume and pace of regulatory change remain high. The Group actively engages in relevant industry consultation and closely monitors potential changes to regulatory requirements to allow it to address possible opportunities, while recognising potential competitive risks. The Group has opportunities arising from these changes to create additional benefits for customers due to its position within Tesco.

Capital risk

The risk that the Group has insufficient capital resources to support its plan and meet minimum capital requirements and buffers under both anticipated and stressed conditions.

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

The Group undertakes an ICAAP. Material risks to the Group are reviewed through stress testing to support an internal assessment of the level of capital that the Group should maintain.

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

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

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

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

The following pages provide a more granular overview of the operational control processes and risk mitigants adopted by the Group.

A fuller description of these risks and controls can also be found in the Pillar III Disclosure Statements of TPFG for the year ended 28 February 2023. These disclosures will be published in the Financial Information section of the Group's corporate website in due course.

Enterprise-Wide Risk Management Framework

The Group has a formal structure for reporting, monitoring and managing risks. This comprises, at its highest level, the Group's Risk Appetite, approved by the Board, which is supported by the EWRMF. The EWRMF, which continues to evolve, is embedded across the Group, creating an integrated approach to managing risk. The EWRMF brings together Governance, Risk Appetite, the Three Lines of Defence model, the Policy Framework and risk management tools to support the business in managing risk as part of day-to-day activity.

The key components of the EWRMF are as follows:

Governance Structure

The Group has established a governance structure which is appropriate for the business in terms of its level of complexity and risk profile. This structure is reviewed periodically so that it remains suitable to support the business. The governance structure set out in these disclosures describes the structure that was in place as at 28 February 2023.

The Board

Chair	Executive Directors	Non-Executive Directors
Jacqueline Ferguson (Interim)	Richard Henderson Gerard Mallon Deborah Walker	Elizabeth Buckley Julie Currie Robert Endersby Prasanna Gopalakrishnan Simon Machell Adrian Morris Tikendra Patel Amanda Rendle

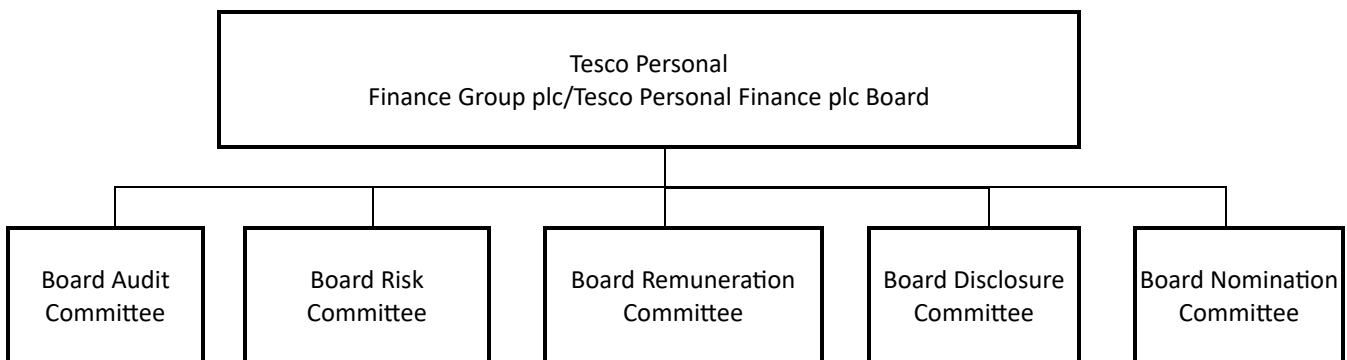
Simon Machell's tenure on the Board exceeded nine years in November 2022. Under Provision 10 of the UK Corporate Governance Code 2018 (2018 Code), the Board has the opportunity to explain why Simon is still considered to be independent. Simon is a valued member of the Board, with extensive insurance experience and, whilst he has been on the Board since 2013, the Board considers that he continues to exercise objective and independent judgement. Simon remains independent of Management and continues to hold other directorships outside of the Group, further supporting his independence.

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

The Board approves the Group's business plans, budget and any material new product lines in line with the approved Risk Appetite and monitors the Group's risk management profile and capital adequacy position.

The Board has delegated the day-to-day running of the business to the CEO. The CEO has established the ExCo to support delivery against the strategy in an effective and controlled way and to set out a framework of reporting to the Board that is sufficient to enable the Board to fulfil its responsibilities. The Board has established Board committees and the executive has established Senior Management committees to:

- challenge and oversee the EWRMF;
- identify the key risks facing the Group; and
- assess the effectiveness of risk management actions.



The Board has overall responsibility for the management of the business and acts as the main decision-making forum. It sets the Risk Appetite and strategic aims for the business, in some circumstances subject to shareholder agreement, 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 appropriate through the reporting provided to it and provides feedback where necessary to ensure that reporting remains fit for purpose.

Gender Diversity at Board Level

The Group has a Board Diversity and Inclusion Policy which was reviewed by the Nomination Committee (NomCo) during the year prior to being approved by the Board. The Group is fully committed to creating an inclusive culture with a mix of skills, knowledge, experience, geographical expertise and educational and professional backgrounds. In addition, the Board aims to have a mix of gender, tenure, age, ethnicity and other distinctions between Directors.

Gender Diversity at Board Level (continued)

In addition, the Equal Opportunities Policy and supporting guidance aim to ensure that there is a fair process to attract, develop and retain talent and ensure that all colleagues are afforded equal opportunities regardless of protected characteristics or background, creating a diverse and inclusive workplace that reflects the customers the Group serves. The Group is a Women in Finance Charter signatory, supporting the progression of women into senior roles in the financial services sector and championing the benefits of greater diversity within businesses through setting a variety of targets regarding female representation. Signatories are required to publicly report on progress to deliver against these internal targets in support of the accountability and transparency needed to drive change. In the last year the Group made positive progress in increasing female representation and is focused on building a sustainable talent pipeline to ensure that it continues to develop diverse talent throughout all levels of the organisation.

The Group has met its female ExCo membership target ahead of time, reaching 50% representation against its target of 33% by the end of 2022 (2022: 33% representation). The Group has also exceeded its target of 33% female Board members by the end of 2022 by reaching 50% representation (2022: 41% representation).

The Group recognises that, in order to achieve further progress on Gender Diversity across the organisation, it needs to build a pipeline of talent and has therefore reviewed and reset its Women in Finance Charter targets to achieve 35% Gender Diversity and 10% Ethnic Diversity in the Group's leadership team, being ExCo members, Directors and Heads of Department, by the end of 2025. The target for female representation has been achieved early, with 38.2% representation achieved by 28 February 2023. The Group has now set a stretch target of 40% Gender Diversity in this population, which aligns with industry norms, enabling the Group to continue to address diversity within its leadership team and take a holistic approach to addressing diversity throughout the organisation.

The Group has made progress towards its target to increase ethnically diverse representation among its leadership team, reaching 5% Ethnic Diversity by 28 February 2023.

Gerard Mallon is Executive Sponsor for Inclusion and, as such, leads the Inclusion agenda for the Group and chairs the Inclusion Network, which consists of Sponsors and Chairs of colleague networks, the People Director and the Diversity, Equity and Inclusion Team. He is also accountable for progress towards the Women in Finance Charter targets.

Further information on the role of the Group's NomCo in reviewing the diversity of the Board and the Group's Senior Management is set out on page 23. Further information on the Group's approach to diversity and inclusion, including details of the Group's targets and progress, can be found at the following link: [Diversity-Inclusion](#)

TESCO PERSONAL FINANCE GROUP PLC
STRATEGIC REPORT (continued)

Board and Committee Attendance

The Board and its Committees held regular meetings throughout the year. Directors are expected to attend all Board and relevant Committee meetings. The table below shows the attendance at the scheduled Board and Committee meetings¹:

		Board Risk	Board Audit	Board	Board	Board
	Board	Committee	Committee	Remuneration	Disclosure	Nomination
				Committee	Committee	Committee
Sir John Kingman ²	10/10	4/5	–	5/5	–	3/3
Jacqueline Ferguson	11/11	6/6	5/5	–	–	6/6
Elizabeth Buckley	11/11	6/6	–	2/2	–	6/6
Julie Currie	11/11	6/6	6/6	–	–	6/6
Robert Endersby	11/11	6/6	6/6	5/5	–	6/6
Prasanna Gopalakrishnan ³	1/1	1/1	–	–	–	2/2
Richard Henderson	11/11	–	–	–	4/4	–
Simon Machell	11/11	6/6	6/6	5/5	–	6/6
Gerard Mallon	11/11	–	–	–	3/4	–
Adrian Morris	11/11	5/6	–	–	–	5/6
Tikendra Patel	10/11	6/6	–	–	–	6/6
Amanda Rendle	11/11	6/6	–	5/5	–	6/6
Deborah Walker	10/11	–	–	–	4/4	–

¹ Attendance recorded is of Committee members only and does not reflect Directors' attendance as observers.

² Sir John Kingman resigned from the Board on 22 January 2023.

³ Prasanna Gopalakrishnan was appointed to the Board on 10 January 2023.

Board Evaluation

In accordance with the provisions of the 2018 Code, the Board carries out a review of the effectiveness of its performance and that of its Committees and Directors every year. The evaluation is facilitated externally every third year and in 2021 was carried out by Lintstock Limited. An internally facilitated review was carried out in 2022 and presented to the Board. The review concluded that the performance of the Board, its committees and Directors continued to be effective.

The evaluation highlighted a positive Board culture, with the relevant level of expertise and positive working relationships. The Board Committees were also seen to provide effective support and reported well to the Board. The relationship with Tesco was also considered to be good and the oversight of TU was thought to be effective. Whilst no fundamental changes were proposed in the evaluation, it highlighted some opportunities for improvement, including the Board continuing to increase its focus on aligning with Tesco in relation to its customers and in respect of Board succession planning.

Sub-committees

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

TESCO PERSONAL FINANCE GROUP PLC STRATEGIC REPORT (continued)

- **Board Audit Committee (BAC)**

The BAC comprises Julie Currie (Chair), Robert Endersby and Simon Machell.

The role of the BAC is to review the Financial Statements, accounting policies and practices for compliance with relevant standards; examine the arrangements made by Management regarding compliance with regulations and standards; review the internal control systems for the appropriateness and effectiveness of systems and controls; review the scope and results of the annual external audit; oversee the process for selecting the External Auditor and make recommendations to the Board in relation to the appointment, re-appointment and removal of the External Auditor; consider the effectiveness of the External Auditor and their independence; review reports covering anti-money laundering and compliance, in particular the Money Laundering Reporting Officer annual report; maintain a professional relationship with the External Auditor; review the Internal Audit programme; oversee the Internal Audit function; work closely with the BRC to avoid as far as possible any overlap or gap in the overall risk and assurance activities of the two committees; carry out such investigations or reviews referred to it by the Board; receive and review an annual Risk assessment of the Group's internal control environment; and receive and review any unsatisfactory reports, findings and recommendations issued by Risk; and review the findings of external assurance reports provided by outsourced providers.

Further detail on the BAC is included within the BAC section of the Directors' Report.

- **Board Risk Committee (BRC)**

The BRC comprises Robert Endersby (Chair), Elizabeth Buckley, Julie Currie, Jacqueline Ferguson, Prasanna Gopalakrishnan, Simon Machell, Adrian Morris, Tikendra Patel and Amanda Rendle.

The role of the BRC is to take a forward-looking view of possible economic trends and risks, informed by analysis of appropriate information, and consider their potential impact on the business; consider, and recommend to the Board, the Group's Risk Appetite and seek to ensure that overall business strategy is informed by and remains aligned with it; review the Group's plans for business continuity; and review and challenge all major risks, controls, actions and events in the business, alerting the Board to any areas of concern.

- **Board Remuneration Committee (RemCo)**

The RemCo comprises Amanda Rendle (Chair), Elizabeth Buckley, Robert Endersby, Jacqueline Ferguson and Simon Machell.

The role of the RemCo is to monitor compliance with regulatory requirements relating to remuneration, specifically the approval and identification of Material Risk Takers (MRTs) and overseeing the establishment and implementation of a Remuneration Policy for all colleagues within the Group (including specific arrangements for MRTs). The RemCo also provides performance and risk assessment in the determination of pay outcomes, including the oversight of pay outcomes for MRT colleagues. The RemCo seeks to ensure that the levels and structure of remuneration are designed to attract, retain and motivate the talent needed to run the business in a way which is consistent with the Risk Appetite and ongoing sustainability of the business and is compliant with the applicable legislation and regulation.

- **Board Disclosure Committee (DisCo)**

The DisCo comprises Richard Henderson (Chair), Fiona Burden, Gerard Mallon and Deborah Walker.

The DisCo reviews, on behalf of the Board, formal company documents which are either destined for publication or which, due to their size or complexity, are better reviewed in detail in a smaller group, to ensure the Group's compliance with relevant statutory and regulatory obligations.

- **Board Nomination Committee (NomCo)**

The NomCo comprises Jacqueline Ferguson (Interim Chair), Elizabeth Buckley, Julie Currie, Robert Endersby, Prasanna Gopalakrishnan, Simon Machell, Adrian Morris, Tikendra Patel and Amanda Rendle.

The NomCo annually reviews the structure, size and composition of the Board by evaluating the balance of skills, knowledge, experience and diversity currently in place and makes recommendations with regard to any changes required, including the nomination of candidates to fill Board vacancies as and when they arise; considering succession planning for Directors and other senior executives, taking into account the challenges and opportunities facing the Group, and the skills and expertise needed in the future; and keeping under review the leadership needs of the organisation, both executive and non-executive, with a view to safeguarding the continued ability of the organisation to compete effectively in the marketplace by keeping up-to-date and fully informed about strategic issues and commercial changes affecting the Group and the market in which it operates. The People Director and the CEO provide an update to the NomCo on ExCo succession planning and any gaps annually. From a governance perspective, NomCo is advised of any hire into ExCo and RemCo provides approval in respect of reward.

Additionally, the NomCo is responsible for the evaluation of Board members' performance and appointment of new Board members. The NomCo establishes the requirements and profile of the candidate required and then engages with third-party executive search firms to find the appropriate individual. During the year, Sapphire Partners and Saxton Bampfylde were engaged to support recruitment to the Board. No conflict of interest exists between these firms and any members of the Board.

The Group is committed to promoting a diverse and inclusive workplace, which is reflected in the work of the NomCo. The executive search partners the Group worked with during the year were able to demonstrate credentials in supporting the recruitment of diverse hires at Board level, and were selected on that basis. The Group's Board Diversity and Inclusion Policy is discussed in further detail on pages 19 to 20.

Executive Committee (ExCo)

The Group's Board has delegated the day-to-day running of the business to the CEO. The CEO has established the ExCo to support delivery against the strategy in an effective and controlled way and to set out a framework of reporting to the Board that is sufficient to enable the Board to fulfil its responsibilities. The ExCo supports the CEO, who has responsibility for the executive management of the business, by reviewing, challenging and overseeing the performance of the business and critical developing matters in the areas of responsibility of each member. Each ExCo member is accountable to the CEO and to the Board for managing performance in line with the Group's Risk Appetite, long-term plan, strategy and annual budget.

In order to support their own decision-making, the senior Executives have established two sub-committees which report directly to ExCo to support them in challenge and oversight of the EWRMF; identification of the key risks facing the Group; and assessing the effectiveness of risk management actions.

Asset and Liability Management Committee (ALCo)

The ALCo has been established to support the Chief Financial Officer by providing oversight and challenge in relation to the optimisation of the Group's balance sheet structure, within Board approved Risk Appetite for liquidity, capital and market risk. This includes defining strategic balance sheet structural objectives for liquidity, funding and capital which align with the Board's stated Risk Appetite, the regulatory obligations of the Group and the commercial and business objectives set out in the Long-Term Plan as approved by the Board; recommending to the BRC, or to the Board directly as required, any changes to the amount or composition of the Group's capital base; providing oversight of the Group's continuous compliance with all internal and regulatory limits relating to liquidity, capital and market risk; and undertaking periodic reviews of Treasury policies and key regulatory documents for approval by the Board.

Executive Risk Committee (ERC)

The ERC has been established to support the CRO by providing oversight and challenge in relation to the effective implementation of the EWRMF across the Group's business. This includes overseeing that the Three Lines of Defence model is operating effectively; the appropriateness of, and adherence to, the Risk Appetite; providing oversight of material risks facing the Group; and assessing whether appropriate arrangements are in place to manage and mitigate those risks effectively. In addition, the ERC supports the monitoring of the status of regulatory compliance; considers the impact of regulatory initiatives and upstream regulatory risk on the current and future state of compliance; and provides oversight and challenge on conduct risks and customer outcomes. The ERC reviews key policies and provides agreement for onward submission to the Board (or Board Committee) for final approval.

Three Lines of Defence

The model is a widely recognised, best practice approach to ensuring that the risks within a financial institution are appropriately managed and are subject to effective oversight and challenge. Clearly defined roles and responsibilities help to drive effective risk management.

- **Business Areas (First Line)**

Senior Management within each business area are responsible for managing the risks that arise from the activities in which the business area is engaged in accordance with the Group's EWRMF and policies. The role of the Business Areas is to adhere to the Group's EWRMF, policies, standards and processes; identify, assess, own manage and monitor risks that arise from the activities in which the respective business area is engaged; identify, design, implement, own, check and operate management controls; identify, manage and monitor risk events, including the delivery of remedial actions and performance of root cause analysis; translate Board Risk Appetite into clear, precise articulation of acceptable risks and operate within Risk Appetite; provide input to reporting on the risk environment in line with risk reporting standards established by the Risk function; perform risk aggregation, analysis and reporting within their business line; maintain appropriate awareness of external and future risk to support effective management; and ensure compliance with all relevant regulation and codes.

- **Risk Function (Second Line)**

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

The role of the Risk function is to own, develop, communicate, implement and provide advice on the Group's EWRMF and policies; provide subject matter expertise in the management of specific types of risk and regulation, including supporting in the identification and management of risk events and associated remediation activity; provide risk-based oversight of the Business Areas' implementation of, and adherence to, the EWRMF and policies; provide risk-based oversight of Business Areas' risk management and control, including challenging the completeness of risk identification and assessment, which can take a variety of forms including active involvement in committees and meetings, analysis of management information and data and providing an independent perspective on topics of significant interest; maintain and co-ordinate the Risk Appetite to the Board and oversee its implementation across the business; design and deliver standards for consistent risk reporting, risk governance and escalation; perform Group-wide risk aggregation and analysis; provide proactive insight and direction on industry, governing body and regulatory developments that will help improve the management of risk in the Group; and deliver and co-ordinate specific regulatory returns.

- **Internal Audit (Third Line)**

This comprises the Internal Audit function, which is responsible for providing independent assurance to the Board and Senior Management on the adequacy of the design and operational effectiveness of governance, risk management and internal control systems and measures across the First and Second Lines. The Internal Audit function has an independent reporting line to the Chair of the BAC and is resourced by individuals with relevant experience and professional qualifications. In addition, Internal Audit resources are supplemented across a range of audits by external support to provide additional subject matter expertise when required.

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

Policies

The Group has a Policy Framework in place which requires a Level 1 policy for each Level 1 Risk Taxonomy category, unless otherwise agreed by the CRO. Each Level 1 policy is approved by a Board Committee and is owned by a specific individual who is responsible for developing and maintaining the policy, including gaining approval for the policy at the requisite level; communicating the policy, ensuring it is embedded so that those affected by it have sufficient training, information and understanding to comply; undertaking suitable oversight to monitor compliance across the business; and reviewing non-compliance and/or policy waiver requests and agreeing suitable actions.

Each policy must be reviewed on at least a biennial basis, or earlier if there is a trigger for policy review such as a regulatory change, to ensure its continued effectiveness and applicability in line with changing risks. The Risk function provides tracking and oversight of the Policy Framework and is responsible for providing reports to the Board on its effectiveness.

- **Risk Identification and Assessment**

RCSA is the process used to identify, assess, manage, monitor and report risks and controls across the Group. The process sets out principles which should be consistently applied to the identification of risk. New and emerging risks and the recommended responses to them are reported by Business Areas and the Risk function to relevant governance bodies. The risk assessment process is the means by which the Group understands and estimates the effect of risk on the business, processes, systems and controls that mitigate those risks to an acceptable level. These assessments are reported to the Board on a proportionality basis.

The Group monitors and tracks current exposures against limits defined in the agreed Risk Appetite and by the regulators. Exceptions are reported on a monthly basis to the ALCo, ERC and to each meeting of the BRC. Adherence to these limits is independently monitored, measured and reported using a suite of key indicators. Key discussion points from subordinate risk committees and Management fora are reported to Senior Management and committees as appropriate.

- **Event Management**

An Event is an occurrence caused by an internal or external failure which could impact the Group's finances, customers, compliance with regulations, brand and reputation, or resilience of operations. The Event Management process provides the tools and techniques to identify, assess and manage events through to closure.

- **Stress Testing**

Stress testing is the process by which the Group's business plans are regularly subjected to severe but plausible scenarios to assess the potential impact on the business, including projected capital and liquidity positions. The scenarios adopted are subject to a rigorous selection process and include hypothetical operational failures, macro-economic stress events and customer behaviour impacts. The results, along with proposed actions, are reported to the ALCo, ERC, BRC and the Board. These are captured in both the ILAAP and the ICAAP.

Viability Statement

- **Assessing the Group's Longer-Term Prospects and Viability**

The Directors have based their assessment of viability on the Group's current strategic plan, which is updated and approved annually by the Board and sets out how the Group will achieve its purpose of 'serving its customers, communities and planet a little better every day'.

To be a viable business, there should be a high level of confidence that both solvency and liquidity risks can be managed effectively, meaning that the Group must successfully fund its balance sheet and hold adequate capital and liquidity over the entire period covered by its Viability Statement.

In accordance with Provision 31 of the 2018 Code, the Board is required to confirm that it believes that the Group will be able to continue in operation and meet its liabilities, taking into account its current position and the principal risks it faces, over a specified time horizon.

In assessing the Group's future prospects, the Board considers a period of three years to be appropriate as this is within the five-year period over which the Group's long-term plan is prepared and internal stress testing of the profit, capital and funding forecasts are carried out. However, levels of uncertainty increase in the outer years of the planning period and therefore the shorter period is considered more suitable for the Viability Statement. The time period will be subject to annual Board review.

- **Current Position**

The Group is subject to regulatory requirements in respect of the amount of capital it holds and the quality of that capital. The capital the Group is required to hold comprises a TCR of which at least 75% must be held as Tier 1, a capital conservation buffer (CCB) and a CCyB. The CCB and CCyB are designed to ensure the Group meets its TCR at all points in the economic cycle. A bank may utilise its CCB in times of stress and the BoE's FPC may reduce the CCyB buffer to zero.

The TCR is the key capital requirement for the Group and it is the Group's intention to maintain a surplus over its TCR for the foreseeable future. Based upon the latest Capital Plan, the Group is projected to have capital headroom over the assessment period.

The Group has monitored the impact of market events in March 2023 on investment securities held in its HQLA portfolio and is satisfied that it does not have any material exposure. The HQLA portfolio maintained by the Group contains £1.2bn of tier 1 (UK Sovereign, Supranational, sovereign agency and covered bond) assets. Any fixed rate interest rate risk on these assets is fully hedged using interest rate swaps to produce a floating rate return, which moves in line with BoE and market rate changes. The Group's management of interest rate risk in its banking book (IRRBB) is embedded in the Group's EWRMF. Additional information in respect of how the Group manages IRRBB is set out in note 45. In addition, the Group maintains a liquidity position in excess of internal and regulatory requirements and maintains a liquidity and funding profile to enable it to meet its financial obligations under normal and stressed market conditions. Having considered the nature and root cause of these events, the Directors have concluded that contagion risk for the Group is low.

The Group's liquidity position is described in note 45 and its capital position is set out at note 50.

- **Longer-term Prospects**

The following factors are considered both in the formulation of the Group's Strategic Plan, and in the longer-term assessment of the Group's prospects:

- The principal risks and uncertainties faced by the Group, as well as emerging risks as they are identified, and how these can be addressed;
- The prevailing economic climate and global economy, competitor activity, market dynamics and changing customer behaviours; and
- The potential short and longer-term economic impact of the cost of living crisis.

The Group's principal risks and policies and processes for managing those risks are set out on pages 11 to 18.

Assessing the Group's Viability

The viability of the Group has been assessed, taking into account the Group's current financial position, including external funding in place over the assessment period, and after modelling the impact of certain scenarios arising from the principal risks which have the greatest potential impact on viability in that period. Certain scenarios, considered severe but plausible, have been modelled which encompass these identified risks. Stress testing has been performed for each principal risk.

As part of this assessment the Board considered:

- The impact on the Group's profits as income and charges for ECLs continue to be affected by the current economic environment. As part of this, the Board considered the latest macro-economic scenarios which were received from the Group's third-party supplier. These are discussed in note 45;
- The impact on the Group's profits of changes in the insurance reserves it recognises in respect of insurance policies written, net of reinsurance. As part of this, the Board reviewed the key judgements and estimates made by the Group in determining the level of reserves held at the reporting date. Such reserves are reviewed on a regular basis to take account of changing circumstances, such as enacted or substantively enacted changes in the law and changes in costs relating to settlement. These are discussed in note 39;
- The sufficiency of the Group's capital base. The worst case macro-economic scenarios received from third-party providers were significantly less severe than those used in the ICAAP reverse stress test. The Group reviewed its stress testing scenarios to ensure it has sufficient capital to trade through a plausible range of economic outcomes. The Group's capital position at 28 February 2023 is set out at note 50;

Assessing the Group's Viability (continued)

- The adequacy of the Group's liquidity as the Group supports customers through a period of economic uncertainty. The Group reviewed its stress testing scenarios, which incorporate an assessment of the level of depositor diversification and the consequences of both market-wide and idiosyncratic stress scenarios. The Group operates in full compliance with PRA liquidity standards defined as Total Liquidity Requirements and encompassing the 30 day Liquidity Coverage Ratio and an additional Pillar 2 element for intraday liquidity risk. In addition to the PRA defined total capital requirements, the Group has also defined an internal liquidity requirement which covers a 90 day horizon and operates to comply with whichever risk measure generates the higher liquidity requirement. In all cases the Group operates to ensure it has sufficient liquidity to trade through a range of plausible economic outcomes. In addition to the Group's portfolio of liquid assets, it has an undrawn £200.0m committed structured repurchase facility, access to Bank of England market funding operations, open market repurchase lines with counterparty banks and unencumbered collateral to enable access to these contingent lines of funding;
- The operational resilience of the Group's critical functions including call centres, mobile and online channels and the Group's ability to provide continuity of service to its customers throughout a prolonged stress;
- The resilience of the Group's IT systems;
- A detailed assessment of the Group's supplier base, considering any single points of failure and focussing on suppliers experiencing financial stress. This included consideration of contingency plans should suppliers be deemed at risk;
- The regulatory and legal environment and any potential conduct risks which could arise;
- Any potential valuation concerns in respect of the Group's assets as set out in the Company and Consolidated Statements of Financial Position; and
- The structural protections of the Group's securitisation vehicles.

The Board also considered the results of stress testing which is performed as an integral part of both the ICAAP and ILAAP, with the Group having sufficient capital and liquidity to fund the balance sheet in each scenario.

Further information on the Group's principal risks is set out on pages 11 to 18.

Viability Statement

Based on these scenarios, the Directors have a reasonable expectation that the Group will continue in operation and meet its liabilities as they fall due over the three-year period considered.

S172 Statement by the Directors

S172 Companies Act 2006 requires a director of a company to act in the way he or she considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole. In doing so, s172 requires a director to have regard, amongst other matters, to the:

- likely consequences of any decisions in the long-term;
- interests of the company's employees;
- need to foster the company's business relationships with suppliers, customers and others;
- impact of the company's operations on the community and environment;
- desirability of the company maintaining a reputation for high standards of business conduct; and
- need to act fairly between members of the company.

In discharging its s172 duties, the Board has regard to the factors set out above. The Board also has regard to other factors which it considers relevant to the decisions it makes. The Board aims to provide a balanced approach to its decisions, taking into consideration the Group's key stakeholder requirements. By considering the Group's purpose, vision and values together with its strategic priorities and having a process in place for decision-making, the Board looks to make sure that its decisions are consistent.

S172 Statement by the Directors (continued)

The Board delegates authority for the day-to-day running of the business to the CEO and, through him, to Senior Management to set, approve and oversee execution of the Group's strategy and related policies. The Board reviews matters relating to financial and operational performance; business strategy; key risks; stakeholder-related matters; compliance; and legal and regulatory matters, over the course of the financial year. This is supported through the consideration of reports and presentations provided at Board meetings and reviewing aspects of the Group's strategy at least twice a year.

Engaging with the Group's stakeholders is key to the way the Group runs its business and is an important consideration for the Directors when making relevant decisions. Details of how the Directors engage with colleagues and have regard to the need to foster relationships with suppliers, customers and other key stakeholders can be found in the Directors' Report on pages 31 to 34.

The Board has made some key strategic decisions during the year ended 28 February 2023 where due consideration was given to the Group's key stakeholders, including:

Transforming the business through Agile ways of working

During the Covid-19 pandemic, the Group helped customers to manage their money when they needed it most. The Covid-19 pandemic, however, led to changes in consumer trends at a speed never experienced before, and consequently, a strategic review was initiated which identified the need to evolve the Group's ways of working, operating model and culture to better serve its customers' needs. The goal was to design and implement a customer-focused, end-to-end operating model which increased the speed at which value could be created for customers at the same time as better empowering colleagues and reducing costs.

During the year ended 28 February 2023, the transformation to an Agile organisation commenced. This involved designing a new operating model and trialling new ways of working with a group of colleagues, before starting to scale this across the organisation. It was important to understand how this new way of working could be implemented and provide an opportunity for colleagues to provide feedback. Engagement with colleagues and Tesco was continuous. Methods of communication with colleagues varied, providing platforms for effective interaction and continuous feedback. Management and the Board recognised the importance of involving colleagues in this transition, making sure the rationale for the change, which will ultimately result in the faster delivery for customers, was clear.

To support the new Agile organisation, changes were required in a number of skill areas and consequently, also in roles. New opportunities were created for colleagues. However, as a result, some roles were made redundant. Consultation took place with colleagues and union partners, with commitment to ensure those colleagues impacted were treated fairly and provided with the necessary support.

Maturing the operating model and ways of working will be a multi-year focus and work continues to take place to embed this across the business. This investment will ultimately result in the Group being able to meet the needs of customers better and faster through more empowered colleagues.

Appropriate governance and risk management were applied at all stages of this transformation, with risks identified and managed appropriately. The Board was kept updated on a regular basis and robustly challenged and supported the transition.

Continuing to optimise the Group's Insurance business

The Board recognises the continued importance of insurance to Tesco customers and the need to support sustainable insurance policy growth. The adoption of the new Agile operating model will support both a faster pace of change and a more efficient organisational design. The end-to-end control of the Group's insurance offering, following the acquisition of Ageas' 50.1% share of TU in May 2021, affords the Group the opportunity to become a market leading insurer. To support this aspiration, the Insurance Transformation Programme (ITP) was established.

Continuing to optimise the Group's Insurance business (continued)

The ITP is a series of technology and propositional deliverables designed to improve outcomes for customers, colleagues and Tesco. The Board has continued oversight of the ITP progress and supports the approach that all of the propositional work is built based on customer feedback. During the year the ITP delivered (i) a new rating engine for motor pricing which enables the Group to create appropriate prices and deliver cutting edge solutions to customers; (ii) across the Home insurance book, the first phase of an initiative to enable customers with an existing Motor insurance policy to receive an even faster and more convenient opportunity to receive a quote; and (iii) further capability to capture customer interactions, enabling the Group to better understand the reasons why a customer is making contact, reward customers and provide a way for them to easily update the Group on their marketing preferences. Having this insight and information enables the Group to predict and propose actions and offers to customers which meet their needs. The Group's colleagues play a pivotal role in driving forward this initiative and continued feedback and engagement with customers helps to iterate and refine the deliverables of the ITP.

Increased dividend pay-out ratio for the Group's parent company and sole shareholder

In recent years, the Group has paid a shareholder dividend of £50m, which equates to around 30-35% of profits. This covered a period of increased product development in both Mortgages and Personal Current Accounts, which the Group has now exited, enabling it to focus on new propositions that are specifically designed to meet the everyday needs of Tesco customers.

For the year ended 28 February 2023, the Board agreed that, as a result of the Group's strong capital position, the pay-out ratio should be increased to 50% of profits. The Group has a well-balanced and effective relationship with Tesco and, following engagement with Tesco and Management, the Board also decided that it would be appropriate to align the Group's target dividend pay-out ratio with that of Tesco in future years. The dividend pay-out ratio is based on the post-tax profits of TPF company only¹. The Board will continue to re-appraise the capital position of the Group on an ongoing basis to determine whether the pay-out ratio is appropriate for the Group's circumstances. Aligning the Group's pay-out ratio to Tesco is expected to deliver sustainable dividend growth, whilst also balancing the need to maintain a strong capital position with capital efficiency.

¹ The dividend pay-out ratio is applied to the planned post tax profits of TPF company only. This is because TPF's capital requirements are set on a regulatory consolidated basis and therefore exclude TU (which operates under a separate regulatory capital framework). Accordingly, the retained earnings of TU are not available for TPF to distribute. TU must pay a dividend to TPF in order for this to be up-streamed to Tesco. The basis of the dividend pay-out ratio will continue to be closely monitored in future.

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

Fiona Burden

Company Secretary

11 April 2023

TESCO PERSONAL FINANCE GROUP PLC DIRECTORS' REPORT

The Directors present their Annual Report, together with the Company and Consolidated Financial Statements and Independent Auditor's Report, for the year ended 28 February 2023.

Compliance with the UK Corporate Governance Code

The Group applied the main principles and complied with the relevant provisions set out in the 2018 Code throughout the year under review, with the exception of Provision 41, which relates to disclosures in respect of the Remuneration Committee and how it conducts its business in line with the 2018 Code. The Group has not included a full Remuneration Report within the Annual Report as it does not have listed equity and, as such, is not required to comply with this provision.

Information demonstrating how the main principles and relevant provisions of the 2018 Code have been applied can be found throughout the Directors' Report and the Strategic Report.

The primary responsibility of the Board in complying with the 2018 Code is to provide effective leadership to ensure that it promotes the long-term success of the Group for the benefit of its members as a whole.

Monitoring compliance with the 2018 Code is the responsibility of the Board.

The Financial Reporting Council (FRC) is responsible for the publication and periodic review of the UK Corporate Governance Code and this can be found on the FRC website <https://www.frc.org.uk>.

Business Review and Future Developments

The Group's business review and future developments are set out in the Strategic Report on pages 2 to 9.

Risk Management

The Group's risk management disclosures are set out in the Strategic Report on pages 10 to 25.

Financial Instruments

The Group's policies for hedging each major type of transaction are discussed in notes 1 and 23 to the Financial Statements.

Capital Structure

The Group's capital structure is discussed in note 50 to the Financial Statements.

Events after the Reporting Date

Details of events occurring after the reporting date are discussed in note 55 to the Financial Statements.

Going Concern

The Directors have made an assessment of going concern, taking into account both current performance and the Group's outlook, including consideration of the impact of the current economic environment, and projections incorporating the impact of the cost of living crisis, for the Group's capital and funding position.

The Group has monitored the impact of market events in March 2023 on investment securities held in its HQLA portfolio and is satisfied that it does not have any material exposure. The HQLA portfolio maintained by the Group contains £1.2bn of Tier 1 (UK Sovereign, Supranational, sovereign agency and covered bond) assets. Any fixed rate interest rate risk on these assets is fully hedged using interest rate swaps to produce a floating rate return which moves in line with Bank of England and market rate changes. The Group's management of interest rate risk in its banking book is embedded in the Group's EWRMF. Additional information in respect of how the Group manages IRRBB is set out in note 45. The Group also maintains a liquidity position in excess of internal and regulatory requirements and maintains a liquidity and funding profile to enable it to meet its financial obligations under normal and stressed market conditions. Having considered the nature and root cause of these events, the Directors have concluded that contagion risk for the Group is low.

In addition, the Board considered:

- The impact on the Group's profits as income and charges for ECLs continue to be affected by the current economic environment. As part of this, the Board considered the latest macro-economic scenarios which were received from the Group's third-party supplier. These are discussed in note 45;

Going Concern (continued)

- The impact on the Group's profits of changes in the insurance reserves it recognises in respect of insurance policies written, net of reinsurance. As part of this, the Board reviewed the key judgements and estimates made by the Group in determining the level of reserves held at the reporting date. Such reserves are reviewed on a regular basis to take account of changing circumstances, such as enacted or substantively enacted changes in the law and changes in costs relating to settlement. These are discussed in note 39:
- The sufficiency of the Group's capital base. The worst case macro-economic scenarios received from third-party providers were significantly less severe than those used in the ICAAP reverse stress test. The Group reviewed its stress testing scenarios to ensure it has sufficient capital to trade through a plausible range of economic outcomes. The Group's capital position at 28 February 2023 is set out at note 50;
- The adequacy of the Group's liquidity as the Group supports customers through a period of economic uncertainty. The Group reviewed its stress testing scenarios, which incorporate an assessment of the level of depositor diversification and the consequences of both market-wide and idiosyncratic stress scenarios. The Group operates in full compliance with PRA liquidity standards defined as Total Liquidity Requirements and encompassing the 30 day Liquidity Coverage Ratio and an additional Pillar 2 element for intraday liquidity risk. In addition to the PRA defined total capital requirements, the Group has also defined an internal liquidity requirement which covers a 90 day horizon and operates to comply with whichever risk measure generates the higher liquidity requirement. In all cases the Group operates to ensure it has sufficient liquidity to trade through a range of plausible economic outcomes. In addition to the Group's portfolio of liquid assets, it has an undrawn £200.0m committed structured repurchase facility, access to Bank of England market funding operations, open market repurchase lines with counterparty banks and unencumbered collateral to enable access to these contingent lines of funding;
- The operational resilience of the Group's critical functions including call centres, mobile and online channels and the Group's ability to provide continuity of service to its customers throughout a prolonged stress;
- The resilience of the Group's IT systems;
- A detailed assessment of the Group's supplier base, considering any single points of failure and focussing on suppliers experiencing financial stress. This included consideration of contingency plans should suppliers be deemed at risk;
- The regulatory and legal environment and any potential conduct risks which could arise;
- Any potential valuation concerns in respect of the Group's assets as set out in the Company and Consolidated Statements of Financial Position; and
- The structural protections of the Group's securitisation vehicles.

The Board also considered the results of stress testing which is performed as an integral part of both the ICAAP and ILAAP, with the Group having sufficient capital and liquidity to fund the balance sheet in each scenario.

As a result of this assessment, the Directors consider that it is appropriate to adopt the going concern basis of accounting in preparing the Company and Consolidated Financial Statements.

Engaging with stakeholders

The Group actively engages with a number of key stakeholder groups. Listening to, understanding and engaging with these stakeholder groups is an important role for the Board in setting strategy and decision-making. The Group recognises its obligations and requirements to be a well-controlled financial services business, compliant with regulation and delivering good customer outcomes. The Regulators are consulted and kept closely informed in relation to key decisions made by the Board, as appropriate.

Details of some of the key strategic decisions made during the year ended 28 February 2023 can be found in the Strategic Report on pages 28 to 29.

- **Our Customers**

The Group's purpose is to serve its customers, communities and planet a little better every day. Developing customer-centric insights is key to how the Group designs and improves new services and products for customers, bringing the best of Tesco to help customers with their money needs.

The Group has typically interacted with customers in a variety of ways, including face-to-face, in stores, through surveys and remotely via online and telephone, all with the common goal to deepen the Group's understanding of its customers, learn from them and understand their financial needs.

The Group continues to invest and look at ways to connect Tesco customers to the right banking and insurance products for their needs. Investment continues in technology, data, design and personalised marketing. This connection ensures the Group develops its relationship with its customers to serve more of their money needs, adding more value to customers and gaining trust and loyalty in return. The Group's Transactional Net Promoter Score at 28 February 2023 was 51 (2022: 48), a record high.

Consideration of the Group's vulnerable customers is important. Support is given to colleagues to identify and record customers with vulnerabilities and to equip them to have more personalised and consistent conversations with vulnerable customers.

- **Our Colleagues**

The Group has continued to have a focused approach to internal communications to engage with its 3,500 colleagues and drive strong business performance. Through its existing insight, the Group understands that its colleagues are looking for effective, empathic, and purposeful communications. Its approach to communication and engagement helps colleagues feel proud to be part of the Tesco community, connected to the Group's purpose and strategy, trusted and safe to share their views and that it is easy to collaborate with others, all of which the Group recognises is key to achieving its Great Place to Work aspirations and ultimately meet its long-term strategic goals.

The Group has transitioned its working practices in response to restrictions lifting following the Covid-19 pandemic. Following two years of the Group's colleagues working primarily from home, the Group moved forward with a new blended way of working. Colleagues are asked to be present in the office for the moments that matter instead of a set number of days. This approach keeps flexibility at the heart of ways of working to ensure colleagues have a balanced working life between home and the office and recognises that homeworking isn't suitable for everyone, or every role. As part of implementing blended working, changes were made to office spaces so that colleagues can come together and work in spaces that are appropriate for the work they are doing.

The Group has also responded to changes in consumer trends that were accelerated by the Covid-19 pandemic by transforming ways of working through its Agile transformation programme. Agile working allows the Group to respond to rapidly evolving customer needs and market dynamics more quickly and aims to address colleague feedback about ways of working, volume of work and prioritisation, building a culture that creates a positive working experience for colleagues. To become a more agile organisation the Group has evolved its operating model and has communicated with colleagues to help them understand how agile working is an opportunity for the Group to future proof ways of working to be a little better every day for customers and colleagues.

The Group has tracked colleague sentiment and performance against its key performance objectives through its continuous listening programme, including a mid-year pulse survey and its annual Every Voice Matters (EVM) survey. The most recent EVM survey results reported that most colleagues consider that the Group is a great place to work, that their health and wellbeing is supported, and that they feel they can be themselves without fear of judgement. The Leadership team will continue to review and discuss colleague feedback to shape plans for the future.

- **Our Colleagues (continued)**

The Group is committed to promoting a diverse and inclusive workplace, reflective of the communities it serves. It approaches diversity in the broadest sense, recognising that successful businesses flourish through embracing diversity into their business strategy and developing talent at every level in the organisation. The Group's selection, training, development, and promotion policies are designed to provide equality of opportunity for all colleagues, regardless of age; disability; gender; gender reassignment; marital and civil partnership status; pregnancy and maternity; race; religion or belief, or absence of religion or belief; sexual orientation or trade union affiliation. Decisions are based on merit. The Group works with colleagues, including those with disabilities, to adapt work practices where necessary to help them work effectively within the business.

The Group's Code of Business Conduct, which defines the standards and behaviours expected of colleagues, supports its core values. The Code of Business Conduct is supported by Group policies and mandatory training which includes anti-bribery and corruption, competition law, data protection and whistleblowing. Colleagues are required to complete mandatory training to reinforce the importance of these standards. For new colleagues, there is a requirement to complete the suite of mandatory training within 30 days of joining the Group. Refresher training is required on an annual basis to ensure that colleagues understand the Group's objectives and the regulatory environment in which it operates. The Board and Senior Management are responsible for ensuring that their activities reflect the culture they wish to instil in the Group's colleagues and other stakeholders and drive the right behaviours. They have a responsibility to ensure that the Group's colleagues do the right things in the right way by setting the tone from the top and leading by example. The Board is responsible for reviewing the annual report on whistleblowing, in compliance with the Whistleblowing Policy. The Group's independent and confidential whistleblowing service provides colleagues with the ability to raise any concerns regarding misconduct and breach of the Code of Business Conduct.

Working closely with Tesco, the Group is committed to actively supporting its colleagues to live healthier lives and make healthier choices around their physical, financial, and emotional wellbeing, with campaigns delivered that are supporting colleagues in these three areas through the cost of living crisis. The Group's colleagues have the support of a diverse community of Be Well champions, who play a key role at the point of colleague need and help signpost the most suitable or relevant services for ongoing support. Through the Group's Employee Assistance Programme, colleagues also have access to online content, webinars and over the phone support. This is an independent and unlimited 24/7 telephone support line.

Colleagues are encouraged to become involved in the financial performance of Tesco through a variety of schemes, principally the Tesco savings related share option scheme (Save As You Earn). They are also supported through communication and engagement activities to help them be advocates of the products and services available across Tesco, including discounts through a Colleague Clubcard and access to the Vault, a colleague savings portal.

- **Our Suppliers**

The Group engages with around 500 active suppliers, who play an important role in the operation of the Group's business to enable the delivery of an effective and efficient business model. During the year ended 28 February 2023 material contracts were presented to the Board for approval, covering both new relationships and contract renewals. In approving these contracts, the Board considered the strategic value of the relationships as well as looking at the customer impacts, risk exposure, legal and compliance considerations and financial implications. The Group has a framework in place which provides a consistent and proportionate approach to procurement and the management of suppliers to ensure that it can effectively engage, manage and terminate, where appropriate, supplier relationships. In addition to meetings and dialogue with suppliers in accordance with the framework, the Group participates in the Tesco Supplier Viewpoint Survey to encourage further feedback and engagement. To support regulatory reporting requirements, the Group expects its suppliers to monitor their own supply chain and be able to provide the Board with appropriate evidence and assurance of compliance, as required.

The Group recognises its responsibilities to respect the human rights of its customers, colleagues, suppliers and the communities it serves and does not tolerate slavery, human trafficking, forced labour, child labour or child exploitation. The Group's Modern Slavery statement is available on its website at the following link: [Tesco Bank Modern Slavery Statement](#). There have been no material changes to the Group's Modern Slavery statement since this was approved in August 2022.

- **Our Shareholder**

The Group uses its relationship with Tesco, the Group's only shareholder, to provide access to rich customer data, a strong brand and a Clubcard loyalty programme to better serve customers. The Group has a strong relationship with Tesco, with regular updates and meetings taking place with relevant senior management and the Board Members in relation to performance and strategy. Shareholder reserved matters have been agreed and significant matters are referred to Tesco for concurrence, as necessary. The Group's CEO, Gerard Mallon, is a member of the Tesco Executive Committee and Adrian Morris, Tesco's General Counsel, is a Non-Executive Director of the Group's Board.

- **Our Community**

In 2022 the Group launched two new charity partnerships voted for by colleagues, being Maggie's, which aims to help anyone who has been affected by cancer by providing support, information and practical advice, and The Trussell Trust, which works to end the need for food banks in the UK. Colleagues have worked to raise donations for the Group's charity partners and local charitable causes through a variety of fund-raising challenges.

During the festive season colleagues also participated in food collection volunteering events in partnership with The Trussell Trust.

Over and above the launch of its new charity partnerships, the Group gives colleagues and customers the opportunity to make charitable donations through ATM donations and the Group has also donated 500 Chrome Books to charities and community groups which were nominated by colleagues.

Dividends

An interim dividend of £54.4m (2022: £87.0m) in respect of ordinary share capital was paid to Tesco on 23 February 2023. No final dividend is proposed in respect of the year ended 28 February 2023.

Treating Customers Fairly

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

Directors

The present Directors and Company Secretary at the date of signing this Annual Report and Financial Statements are listed on page 1. Details of changes in Directors during the year and up to the date of signing the Financial Statements are set out below.

Since 1 March 2022 to date the following changes have taken place:

	Appointed	Resigned
Prasanna Gopalakrishnan	10 January 2023	-
Sir John Kingman	-	22 January 2023

Sir John Kingman stepped down from the Board on 22 January 2023 and, with effect from 23 January 2023, Jacqueline Ferguson was appointed as Interim Chair. Jacqueline was the Senior Independent Non-Executive Director from September 2021 and was replaced in this role on an interim basis by Robert Endersby.

- **Audit Committee (BAC)**

Introduction from the BAC Chair

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

BAC composition, skills and experience

The BAC acts independently of Management. This ensures that the interests of shareholders are properly protected in relation to financial reporting and internal control.

As detailed in the section of the Strategic Report on the Board, the BAC comprises three Independent Non-Executive Directors.

Julie Currie is a Chartered Accountant and has over 25 years' experience in the financial services sector, the majority of which was spent at Lloyds Banking Group. This experience enables her to fulfil the role as BAC Chair.

Julie's previous appointments include Chief Operating Officer for the turnaround division of Lloyds Banking Group and Chief Financial and Operating Officer for the Lloyds Bank Foundation, the largest corporate foundation in England and Wales. Julie also spent nine years in Bank of Scotland's European Leveraged Finance business. Julie holds a Non-Executive role with Scotiabank Europe, where she has chaired the Audit Committee since 2018. She also holds a Non-Executive role with State Street Global Advisors Limited. She was the chair of the audit and risk committee for the Department for International Trade from 2016 to 2020.

Julie joined the TPF/TPFG Board in February 2021 and is Chair of the BAC.

Robert Endersby has spent over 40 years working in the financial services sector, both within the UK and internationally and is an Associate of the London Institute of Banking and Finance. He is currently an independent Non-Executive director and chair of the board risk committee of Redwood Bank Limited.

Robert's previous key appointments include Chief Risk Officer and member of the Executive Board of Danske Bank, Denmark's largest financial enterprise. Robert was also an independent Non-Executive director and chair of the board risk committees of Credit Suisse International and Credit Suisse Securities (Europe) Limited. Previously, Robert has also held senior risk management positions in Barclays, The Royal Bank of Scotland and ING Group and has a broad international experience of the sector including assignments based in Denmark, the Netherlands and France.

Robert joined the TPF/TPFG Board in December 2014. He Chairs the BRC and was appointed to the role of Interim Senior Independent Non-Executive Director in January 2023.

Simon Machell has worked in financial services for over 30 years and has deep experience in both general and life insurance in the UK, Europe and Asia. The majority of Simon's experience was gained from a range of roles with Aviva, including Chief Executive of the RAC, Chief Executive of the general insurance business in the UK and running the insurance businesses in 14 markets across Eastern Europe and Asia. He was chairman of the Motor Insurers' Bureau for six years. Simon holds Non-Executive roles with Pacific Life Re, Prudential Assurance Company Singapore, Suncorp Group and TU.

Simon joined the TPF/TPFG Board in 2013. Information in respect of Simon's continued tenure on the Board is set out on page 19.

BAC meeting attendance

The Chair, Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, Internal Audit Director, Director of Financial Control and Tesco Internal Audit Director attend Committee meetings. The External Auditor also attends.

BAC responsibilities

The key responsibilities of the BAC are set out in the Strategic Report on page 22.

During the year, the BAC received reports from a number of business areas including Finance in relation to financial reporting and Risk in relation to oversight work. The BAC also considered a variety of matters including the internal financial control framework, oversight of TU, the internal and external fraud control environment and updates on regulatory reporting requirements.

Financial Statements and related financial reporting

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

During the year ended 28 February 2023, the BAC considered the following matters:

- **The methods used to account for significant transactions**

The BAC reviewed and supported proposals from Management on the accounting for the Group's MREL tender.

- **Going concern assessment**

The BAC considered Management's approach to, and the conclusions of, the assessment of the Group's ability to continue as a going concern.

The going concern assessment period covers the period to April 2024, 12 months subsequent to signing the Annual Report and Financial Statements for the year ended 28 February 2023. The assessment considered the current capital position of the Group and liquidity requirements covering the going concern assessment period, including consideration of the impact of economic uncertainty arising from the cost of living crisis. These were then subject to stress testing based on various scenarios, including scenarios incorporating the impact of the current economic environment. The detailed considerations taken by the Board in arriving at its going concern assessment are set out on pages 25 to 27 and 30 to 31.

The BAC recommended that the Board supported the conclusion that it remained appropriate to adopt the going concern basis in preparing the Financial Statements.

- **Review of Financial Statements**

The BAC considered Management's approach to, and governance arrangements over, the preparation of the half-yearly results and annual Financial Statements and recommended to the Board that these should be approved.

Appropriate critical accounting estimates and judgements

The BAC reviewed the nature, basis for and the appropriateness of, the estimates and judgements proposed by Management in the Financial Statements.

The key estimates and judgements reflected in the Group's Financial Statements for the year ended 28 February 2023 are:

- **Expected credit loss provision (ECL) (Refer to note 45)**

The BAC received regular reports from Management on provisioning, which assessed the adequacy of provisioning based on a number of factors. These included levels of arrears, past loss experience, defaults based on portfolio trends, expected loss rates and PMAs.

The BAC concluded that an appropriate governance framework existed to monitor provision adequacy and that the assumptions and judgements applied by Management were appropriate.

- **Outstanding insurance claims and provisions (Refer to note 39)**

The Group holds an investment in TU, an authorised insurance company, which became a wholly owned subsidiary of the Group on 4 May 2021.

TU's results are sensitive to changes in the insurance reserves it recognises in respect of insurance policies written, net of reinsurance. Consequently, material increases in these reserves could have an impact on the carrying value of the reinsurance assets, insurance funds withheld and insurance contract provisions balances in the Consolidated Statement of Financial Position.

BAC responsibilities (continued)

The BAC reviewed the key judgements and estimates made by TU in determining the level of reserves held at the reporting date.

The BAC is satisfied that the carrying value of insurance claims and provisions is appropriate.

Performance and Effectiveness of Internal Audit

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

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

In compliance with the above standards, the BAC assessed the effectiveness of the Internal Audit function, with the results of the annual assessment for 2022/23 being positive.

Performance and Effectiveness of External Audit

An externally facilitated review is carried out to assess the effectiveness of the External Auditor. This review is arranged and overseen by Tesco, with Executive management and the Chair of TPFPG's BAC asked to participate. The review comprises a comprehensive set of questions including the scope of the work of the External Auditor, the quality of reporting, the relationship with Management, the level of expertise and experience of the External Auditor and their overall performance. The process of the assessment is generally carried out during January and February in each year, after which the final report is issued to the Tesco BAC. TPFPG's BAC is also provided with a copy of the report for review and discussion.

In 2022, Lintstock carried out the assessment of the effectiveness of the External Auditor. A report was issued to TPFPG's BAC in July 2022, with an effective assessment. The assessment for 2023 is in progress, with the report due to be issued and discussed at TPFPG's BAC in June 2023. In addition to the Tesco report, TPFPG's BAC Chair will also facilitate a more targeted assessment of the External Auditor using the output of the survey provided by Lintstock. This will allow further discussion and assessment of the External Auditor at TPFPG level and help to support the overall assessment and identification of any specific areas for further improvement.

Performance and Effectiveness of the BAC

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

The effectiveness of the BAC was reviewed as part of the wider Board evaluation, carried out internally in 2022. This included interviews with all BAC members and it was concluded that the BAC continued to be effective.

Risk Management and Internal Controls

The Board and its committees are responsible for ensuring the effective implementation and ongoing monitoring of the EWRMF. A detailed overview of the responsibilities of the ERC is set out on page 24.

Key controls are recorded within an internal database and regular controls testing takes place to ensure they remain effective. Additionally, the ERC regularly reviews the EWRMF to ensure it remains relevant and appropriate to the risk profile of the Group.

The Board of Directors is ultimately responsible for reviewing the effectiveness of the Group's EWRMF and internal controls. Assessment of the effectiveness of the EWRMF is undertaken by the BRC annually on behalf of the Board, while assessment of the effectiveness of internal controls is undertaken by the BAC annually on behalf of the Board, with any issues escalated to the Board, as appropriate. The Board considers that the Group has in place an adequate EWRMF and internal controls.

Non-audit Fees

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

The Group has a Non-audit Services Policy for work carried out by its External Auditor. This is split into two categories as follows:

1. Work for which BAC approval is specifically required – transaction work and certain advisory services; and
2. Work from which the External Auditor is prohibited.

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

Deloitte follows the FRC's Ethical Standard and its own ethical guidelines and continually reviews its audit team to ensure its independence is not compromised. The fees paid to the External Auditor in the year are disclosed in note 14 to the Financial Statements.

Directors' Indemnities

In terms of Section 236 of the Companies Act 2006, all Executive and Non-Executive Directors have been issued a Qualifying Third-Party Indemnity Provision by TPF and TPF Group. All Qualifying Third-Party Indemnities were in force at the date of approval of the Financial Statements and shall remain in force without any limit in time. This will not be affected by the expiration or termination of a Director's appointment, however it may arise.

Cautionary Statement Regarding Forward-looking Information

Where this document contains forward-looking statements, these are made by the Directors in good faith based on the information available to them at the time of their approval of this report. These statements should be treated with caution due to the inherent risks and uncertainties underlying any such forward-looking information. The Group cautions users of these Financial Statements that a number of factors, including matters referred to in this document, could cause actual results to differ materially from those contained in any forward-looking statement. Such factors include, but are not limited to, those discussed under 'Principal risks and uncertainties' on pages 11 to 18.

Statement of Directors' Responsibilities

The following should be read in conjunction with the responsibilities of the independent auditor set out in their report on page 170.

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

Company law requires the Directors to prepare such financial statements for each financial year. Under that law the Directors have prepared the Group and Company Financial Statements in accordance with International Accounting Standards (IASs) in conformity with the requirements of the Companies Act 2006 and IFRSs as issued by the International Accounting Standards Board (IASB).

Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that year. In preparing these Financial Statements, the Directors are required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;

Statement of Directors' Responsibilities (continued)

- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's and Company's financial position and financial performance; and
- make an assessment of the Group's and Company's ability to continue as a going concern.

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

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

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

- the Financial Statements, which have been prepared in accordance with IASs in conformity with the requirements of the Companies Act 2006 and IFRSs as issued by the IASB, give a true and fair view of the assets, liabilities, financial position and profit of the Group;
- the Strategic Report contained in the Annual Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces; and
- the Annual Report and Financial Statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for the Company's shareholder to assess the Group's and Company's position, performance, business model and strategy.

Disclosure in Respect of the Independent Auditor

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

External Audit Partner

The External Audit partner for the year to 28 February 2023 was Matt Perkins, who assumed the role for the first time in the current year. Deloitte were appointed as External Auditor on 30 June 2015. The audit tender process is conducted by Tesco on behalf of the entire Tesco group.

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

Fiona Burden
Company Secretary

11 April 2023

TESCO PERSONAL FINANCE GROUP PLC
CONSOLIDATED INCOME STATEMENT
For the Year Ended 28 February 2023

		2023	2022
	Note	£m	£m
Interest and similar income	6	537.9	487.5
Interest expense and similar charges	6	(106.7)	(62.1)
Net interest income		431.2	425.4
Fees and commissions income	7	276.0	226.9
Fees and commissions expense	7	(29.5)	(37.5)
Net fees and commissions income		246.5	189.4
Insurance premium income	8	308.6	239.2
Insurance premium income ceded to reinsurers	8	(139.3)	(105.5)
Net insurance premium income		169.3	133.7
Net (loss)/gain on investment securities at FVPL	9	(2.9)	4.9
Net gain/(loss) on investments securities at FVOCI	10	0.1	(0.3)
Net gain on other financial instruments at FVPL	11	2.3	2.1
Other (expenses)/income	12	(2.2)	10.4
Net other (expenses)/income		(2.7)	17.1
Total income		844.3	765.6
Insurance claims incurred	13	(174.6)	(150.2)
Insurance claims ceded to reinsurers	13	90.0	61.9
Net insurance claims		(84.6)	(88.3)
Total income, net of insurance claims		759.7	677.3
Administrative expenses	14	(505.2)	(456.1)
Depreciation and amortisation	30, 31	(53.5)	(65.2)
Operating expenses		(558.7)	(521.3)
Expected credit loss (charge)/credit financial assets	15	(61.4)	29.9
Operating profit		139.6	185.9
Share of profit of joint venture	28	–	2.6
Profit before tax		139.6	188.5
Analysed as:			
Underlying profit before tax	5	148.6	186.4
Non-underlying items	5	(9.0)	2.1
		139.6	188.5
Income tax charge	17	(28.2)	(44.2)
Profit for the year attributable to owners of the parent		111.4	144.3

TESCO PERSONAL FINANCE GROUP PLC
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the Year Ended 28 February 2023

	Note	2023 £m	2022 £m
Profit for the year		111.4	144.3
Items that may be reclassified subsequently to the Income Statement			
Debt securities at FVOCI			
Fair value movements	17	(41.9)	(18.5)
Taxation	17	10.9	5.3
Net (gains)/losses transferred to the income statement on disposal		(0.1)	0.3
Expected credit loss transferred to the income statement		–	0.1
		<u>(31.1)</u>	<u>(12.8)</u>
Cash flow hedges			
Fair value movements	17	(0.2)	1.1
Taxation	17	0.1	(0.3)
		<u>(0.1)</u>	<u>0.8</u>
Share of other comprehensive expense of joint venture		n/a	(0.6)
Transfer of share of other comprehensive income of joint venture to the Income Statement on change of control	28	n/a	(5.0)
		<u>n/a</u>	<u>(5.6)</u>
Other comprehensive expense for the year, net of tax		<u>(31.2)</u>	<u>(17.6)</u>
Total comprehensive income for the year		<u>80.2</u>	<u>126.7</u>

TESCO PERSONAL FINANCE GROUP PLC
CONSOLIDATED AND COMPANY STATEMENTS OF FINANCIAL POSITION
For the Year Ended 28 February 2023

Company number SC173198

	Note	Group		Company	
		2023 £m	2022 £m	2023 £m	2022 £m
Cash and balances with central banks	19	461.1	780.6	8.1	7.8
Loans and advances to banks	20	26.7	50.3	–	–
Loans and advances to customers	21	7,081.3	6,490.3	–	–
Loans and advances to subsidiary companies	22	–	–	379.3	484.7
Derivative financial instruments	23	121.4	45.3	–	–
Investment securities	24	1,467.8	1,466.9	–	–
Reinsurance assets	39	216.9	245.1	–	–
Prepayments and accrued income	25	48.4	43.2	–	–
Other assets	26	181.7	219.7	–	–
Current income tax asset		8.6	2.5	–	–
Investment in group undertaking	27	–	–	1,219.9	1,219.9
Deferred income tax asset	29	57.5	64.2	–	–
Investment in joint venture	28	–	–	–	–
Intangible assets	30	142.6	148.6	–	–
Property, plant and equipment	31	82.7	79.8	–	–
Total assets		9,896.7	9,636.5	1,607.3	1,712.4
Liabilities					
Deposits from banks	32	979.7	1,052.3	–	–
Deposits from customers	33	5,769.6	5,325.9	–	–
Debt securities in issue	34	137.5	244.0	145.3	250.4
Derivative financial instruments	23	16.9	27.2	–	–
Provisions for liabilities and charges	35	30.2	37.6	–	–
Accruals and deferred income	36	112.1	119.6	–	–
Other liabilities	37	199.9	164.1	–	–
Insurance funds withheld	38	123.5	114.8	–	–
Insurance contract provisions	39	604.9	650.0	–	–
Subordinated liabilities and notes	40	236.9	235.6	236.9	235.6
Total liabilities		8,211.2	7,971.1	382.2	486.0
Equity and reserves attributable to owners of parent					
Share capital	41	122.0	122.0	122.0	122.0
Share premium account	41	1,098.2	1,098.2	1,098.2	1,098.2
Retained earnings		488.7	431.7	4.9	6.2
Other reserves	42	(23.4)	13.5	–	–
Total equity		1,685.5	1,665.4	1,225.1	1,226.4
Total liabilities and equity		9,896.7	9,636.5	1,607.3	1,712.4

Profit for the year of £53.1 (2022: £79.6m) is attributable to the Company.

The Consolidated and Company Financial Statements on pages 40 to 47 were approved by the Board of Directors and authorised for issue on 11 April 2023 and were signed on its behalf by:

Richard Henderson

Director

TESCO PERSONAL FINANCE GROUP PLC
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Year Ended 28 February 2023

		Share capital £m	Share premium £m	Retained earnings £m	FV reserve £m	Cash flow hedge reserve £m	Share based payment reserve £m	Total equity £m
	Note							
Balance at 1 March 2022		122.0	1,098.2	431.7	(12.8)	0.2	26.1	1,665.4
Comprehensive income								
Profit for the year		–	–	111.4	–	–	–	111.4
Net fair value movement on investment securities at FVOCI	17	–	–	–	(31.1)	–	–	(31.1)
Net movement on cash flow hedges	17	–	–	–	–	(0.1)	–	(0.1)
Total comprehensive income		–	–	111.4	(31.1)	(0.1)	–	80.2
Transactions with owners								
Dividends to ordinary shareholders	18	–	–	(54.4)	–	–	–	(54.4)
Share based payments	53	–	–	–	–	–	(5.7)	(5.7)
Total transactions with owners		–	–	(54.4)	–	–	(5.7)	(60.1)
Balance at 28 February 2023		122.0	1,098.2	488.7	(43.9)	0.1	20.4	1,685.5

TESCO PERSONAL FINANCE GROUP PLC
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

For the Year Ended 28 February 2022

		Share capital £m	Share premium £m	Retained earnings ¹ £m	FV reserve £m	Cash flow hedge reserve £m	Share based payment reserve £m	Total equity £m
	Note							
Balance at 1 March 2021		122.0	1,098.2	370.7	9.3	(0.6)	21.9	1,621.5
Comprehensive income								
Profit for the year		–	–	144.3	–	–	–	144.3
Net fair value movement on investment securities at FVOCI	17	–	–	–	(12.8)	–	–	(12.8)
Net movements on cash flow hedges	17	–	–	–	–	0.8	–	0.8
Share of other comprehensive expense of joint venture	28	–	–	–	(0.6)	–	–	(0.6)
Transfer of share of other comprehensive income of joint venture to the Income Statement on change of control		–	–	–	(5.0)	–	–	(5.0)
Transfer of net gains to retained earnings on reclassification during the period of investment securities held at FVOCI to FVPL		–	–	3.7	(3.7)	–	–	–
Total comprehensive income		–	–	148.0	(22.1)	0.8	–	126.7
Transactions with owners								
Dividends to ordinary shareholders	18	–	–	(87.0)	–	–	–	(87.0)
Share based payments	53	–	–	–	–	–	4.2	4.2
Total transactions with owners		–	–	(87.0)	–	–	4.2	(82.8)
Balance at 28 February 2022		122.0	1,098.2	431.7	(12.8)	0.2	26.1	1,665.4

¹The Group has a holding in preferred stock issued by VISA Inc. which was designated at FVOCI prior to 1 March 2021. Following a review of industry practice and the requirements of IFRS 9, this investment was reclassified in the prior year to FVPL with effect from 1 March 2021. As this amount is not material, opening reserves at 1 March 2021 were not restated in respect of this reclassification.

TESCO PERSONAL FINANCE GROUP PLC
COMPANY STATEMENT OF CHANGES IN EQUITY

For the Year Ended 28 February 2023

	Note	Share capital £m	Share premium £m	Retained earnings £m	Total equity £m
Balance at 1 March 2022		122.0	1,098.2	6.2	1,226.4
Comprehensive income					
Profit for the year		–	–	53.1	53.1
Net movement on cash flow hedges	17	–	–	–	–
Total comprehensive income		–	–	53.1	53.1
Transactions with owners					
Dividends to ordinary shareholders	18	–	–	(54.4)	(54.4)
Share based payments	53	–	–	–	–
Total transactions with owners		–	–	(54.4)	(54.4)
Balance at 28 February 2023		122.0	1,098.2	4.9	1,225.1

TESCO PERSONAL FINANCE GROUP PLC
COMPANY STATEMENT OF CHANGES IN EQUITY (continued)

For the Year Ended 28 February 2022

	Note	Share capital £m	Share premium £m	Retained earnings ¹ £m	Total equity £m
Balance at 1 March 2021		122.0	1,098.2	13.6	1,233.8
Comprehensive income					
Profit for the year		–	–	79.6	79.6
Net movements on cash flow hedges	17	–	–	–	–
Transfer of net gains to retained earnings on reclassification during the period of investment securities held at FVOCI to FVPL ¹		–	–	–	–
Total comprehensive income		–	–	79.6	79.6
Transactions with owners					
Dividends to ordinary shareholders	18	–	–	(87.0)	(87.0)
Share based payments	53	–	–	–	–
Total transactions with owners		–	–	(87.0)	(87.0)
Balance at 28 February 2022		122.0	1,098.2	6.2	1,226.4

¹ The Group has a holding in preferred stock issued by VISA Inc. which was designated at FVOCI prior to 1 March 2021. Following a review of industry practice and the requirements of IFRS 9, this investment was reclassified in the prior year to FVPL with effect from 1 March 2021. As this amount is not material, opening reserves at 1 March 2021 were not restated in respect of this reclassification.

TESCO PERSONAL FINANCE GROUP PLC
CONSOLIDATED AND COMPANY CASH FLOW STATEMENTS
For the Year Ended 28 February 2023

	Note	Group		Company	
		2023 £m	2022 £m	2023 £m	2022 £m
Operating Activities					
Profit before tax¹		139.6	188.5	53.1	79.6
Adjusted for:					
Non-cash items included in operating profit before taxation and other adjustments	48	139.5	30.1	17.4	12.7
Changes in operating assets and liabilities	48	(275.2)	(45.7)	(0.9)	(0.1)
Income taxes paid		(17.2)	(3.4)	–	–
Cash flows generated (used in)/generated from operating activities		(13.3)	169.5	69.6	92.2
Investing Activities					
Purchase of intangible assets and property, plant and equipment		(53.6)	(47.4)	–	–
Purchase of debt investment securities	45	(322.9)	(219.9)	–	–
Sale of investment securities		228.6	272.2	–	–
Redemption of loan to subsidiary		–	–	101.1	–
Investment in subsidiary		(5.0)	(89.7)	–	–
Cash and cash equivalents acquired on investment in subsidiary		–	42.3	–	–
Purchase of subordinated debt issued by subsidiary		–	(21.2)	–	–
Dividends received from TU	28	–	10.0	–	–
Cash flows used in investing activities		(152.9)	(53.7)	101.1	–
Financing Activities					
Dividends paid to ordinary shareholders	18	(54.4)	(87.0)	(54.4)	(87.0)
Redemption of debt securities in issue		(101.1)	–	(101.1)	–
Interest paid on debt securities in issue		(8.0)	(8.8)	(8.0)	(8.8)
Interest received and settlement of assets held to hedge subordinated liabilities		(2.6)	(1.1)	–	–
Interest paid on subordinated liabilities and notes		(6.9)	(3.4)	(6.9)	(3.4)
Principal repayments on lease liabilities	43	(3.0)	(2.2)	–	–
Interest paid on lease liabilities	43	(2.7)	(3.5)	–	–
Cash flows used in financing activities		(178.7)	(106.0)	(170.4)	(99.2)
Net (decrease)/increase in cash and cash equivalents		(344.9)	9.8	0.3	(7.0)
Cash and cash equivalents² at beginning of year		789.3	779.5	7.8	14.8
Cash and cash equivalents² at end of year	47	444.4	789.3	8.1	7.8

¹ On a Company basis, profit before tax includes a dividend of £54.4m (2022: £80.0m) received from TPF during the year.

² Cash and cash equivalents comprise cash and balances with central banks, excluding certain reserve deposits of £43.4m (2022: £41.6m) which do not have a maturity of less than three months, and loans and advances to banks of £26.7m (2022: £50.3m).

1. Accounting Policies

Basis of Preparation

The Financial Statements have been prepared in accordance with International Accounting Standards (IASs) in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards (IFRSs) and interpretations issued by the International Financial Reporting Interpretations Committee of the International Accounting Standards Board (IASB) and those parts of the Companies Act 2006 applicable to Companies reporting under IFRSs.

In these Financial Statements the 'Company' means Tesco Personal Finance Group plc and the 'Group' means the Company and its subsidiaries. Details of these subsidiaries are provided in notes 27 and 28. These Consolidated Financial Statements comprise the Financial Statements of the Group. The Company has elected to take the exemption under section 408 of the Companies Act 2006 not to present the Income Statement and Statement of Comprehensive Income of the Company.

The Company and Consolidated Financial Statements have been prepared under the historical cost convention, except for certain financial instruments which are measured at fair value.

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

New and amended accounting standards adopted by the Group in the year are detailed in note 54.

Onshoring of European Union (EU) Regulations After Brexit

Following the UK's withdrawal from the EU and the ending of the transition period, any reference to EU regulations and directives (including technical standards) should be read as a reference to the UK's version of such regulation or directive, as onshored into UK law under the European Union (Withdrawal) Act 2018, as amended.

Going concern

The Directors have made an assessment of going concern, taking into account both current performance and the Group's outlook, which considered the impact of the current economic environment, and including consideration of projections incorporating the impact of the cost of living crisis, for the Group's capital and funding position.

The Group has monitored the impact of market events in March 2023 on investment securities held in its high quality liquid asset (HQLA) portfolio and is satisfied that it does not have any material exposure. The HQLA portfolio maintained by the Group contains £1.2bn of tier 1 (UK Sovereign, Supranational, sovereign agency and covered bond) assets. Any fixed rate interest rate risk on these assets is fully hedged using interest rate swaps to produce a floating rate return, which moves in line with Bank of England (BoE) and market rate changes. The Group's management of interest rate risk in its banking book (IRRBB) is embedded in the Group's Enterprise-Wide Risk Management Framework (EWRMF). Additional information in respect of how the Group manages IRRBB is set out in note 45. In addition, the Group maintains a liquidity position in excess of internal and regulatory requirements and maintains a liquidity and funding profile to enable it to meet its financial obligations under normal and stressed market conditions. Having considered the nature and root cause of these events, the Directors have concluded that contagion risk for the Group is low.

In addition, the Board considered:

- The impact on the Group's profits as income and charges for expected credit losses (ECLs) continue to be affected by the current economic environment. As part of this, the Board considered the latest macro-economic scenarios which were received from the Group's third-party supplier. These are discussed in note 45;
- The impact on the Group's profits of changes in the insurance reserves it recognises in respect of insurance policies written, net of reinsurance. As part of this, the Board reviewed the key judgements and estimates made by the Group in determining the level of reserves held at the reporting date. Such reserves are reviewed on a regular basis to take account of changing circumstances, such as enacted or substantively enacted changes in the law and changes in costs relating to settlement. These are discussed in note 39;

1. Accounting Policies (continued)

- The sufficiency of the Group's capital base. The worst case macro-economic scenarios received from third-party providers were significantly less severe than those used in the individual capital adequacy assessment process (ICAAP) reverse stress test. The Group reviewed its stress testing scenarios to ensure it has sufficient capital to trade through a range of plausible economic outcomes. The Group's capital position at 28 February 2023 is set out at note 50;
- The adequacy of the Group's liquidity as the Group supports customers through a period of economic uncertainty. The Group reviewed its stress testing scenarios, which incorporate an assessment of the level of depositor diversification and the consequences of both market-wide and idiosyncratic stress scenarios. The Group operates in full compliance with PRA liquidity standards defined as Total Liquidity Requirements and encompassing the 30 day Liquidity Coverage Ratio and an additional Pillar 2 element for intraday liquidity risk. In addition to the PRA defined total capital requirements, the Group has also defined an internal liquidity requirement which covers a 90 day horizon and operates to comply with whichever risk measure generates the higher liquidity requirement. In all cases the Group operates to ensure it has sufficient liquidity to trade through a range of plausible economic outcomes. In addition to the Group's portfolio of liquid assets, it has an undrawn £200.0m committed structured repurchase facility, access to Bank of England market funding operations, open market repurchase lines with counterparty banks and unencumbered collateral to enable access to these contingent lines of funding;
- The operational resilience of the Group's critical functions including call centres, mobile and online channels and the Group's ability to provide continuity of service to its customers throughout a prolonged stress;
- The resilience of the Group's IT systems;
- A detailed assessment of the Group's supplier base, considering any single points of failure and focussing on suppliers experiencing financial stress. This included consideration of contingency plans should suppliers be deemed at risk;
- The regulatory and legal environment and any potential conduct risks which could arise;
- Any potential valuation concerns in respect of the Group's assets as set out in the Consolidated Statement of Financial Position; and
- The structural protections of the Group's securitisation vehicles.

The Board also considered the results of stress testing which is performed as an integral part of both the ICAAP and internal liquidity adequacy assessment process (ILAAP), with the Group having sufficient capital and liquidity to fund the balance sheet in each scenario.

As a result of this assessment, the Directors consider that it is appropriate to adopt the going concern basis of accounting in preparing the Consolidated Financial Statements.

Principal accounting policies

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

(a) Basis of consolidation

The Consolidated Financial Statements of the Group comprise the Financial Statements of the Company and all consolidated subsidiaries, including certain securitisation structured entities.

Investment in Group undertakings

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The results of subsidiaries are included in the Consolidated Financial Statements from the date that control commences until the date that control ceases. The Company's investments in its subsidiaries are stated at cost less any impairment, except in the case of a subsidiary acquired via a step acquisition, where the original investment is revalued to fair value at the date on which the Group obtains control.

1. Accounting Policies (continued)

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

Securitisation structured entities

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

Investment in joint venture

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

On 4 May 2021 the Group purchased the remaining 50.1% share capital of TU from Ageas (UK) Limited (Ageas), its joint venture partner. At this point TU became a wholly owned subsidiary of the Group. Prior to this date, the Group's share of the results of the joint venture was included in the Consolidated Income Statement using the equity method of accounting. The Group's investment in its joint venture was carried in the Consolidated Statement of Financial Position at cost plus post-acquisition changes in the Group's share of the net assets of the entity, less any impairment.

If the Group's share of losses in its joint venture equalled or exceeded its investment in the joint venture, the Group did not recognise further losses, unless it had incurred obligations to do so or made payments on behalf of the joint venture.

(b) Business combinations

The Group accounts for all business combinations where the acquisition meets the definition of a business by applying the acquisition method of accounting.

On acquisition, the assets (including intangible assets), liabilities and contingent liabilities of an acquired entity are measured at their fair values.

On acquisition, the purchase consideration is measured as the fair value of assets transferred. The excess of the purchase consideration over the fair value of the identifiable net assets acquired is recorded as goodwill. If the purchase consideration is less than the fair value of the identifiable net assets acquired the difference is recognised directly in the Consolidated Income Statement. All acquisition-related costs are expensed.

When the Group obtains control of a joint venture, the Group's previously held interest in the acquired entity is remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognised in the Consolidated Income Statement.

(c) Revenue recognition

Net interest income recognition

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

The EIR method is a method of calculating the amortised cost of a financial asset or financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the expected life of the financial asset or financial liability. The EIR is the rate that exactly discounts estimated future cash flows to the instrument's initial carrying amount.

Calculation of the EIR takes into account fees receivable that are an integral part of the instrument's yield, premiums or discounts on acquisition or issue, early redemption fees and transaction costs. All contractual and behavioural terms of a financial instrument are considered when estimating future cash flows.

1. Accounting Policies (continued)

Interest income is calculated on the gross carrying amount of a financial asset unless the financial asset is impaired, in which case interest income is calculated on the net carrying amount, after allowance for ECLs.

Net fees and commissions income recognition

The Group generates fees from banking services, primarily Credit Card interchange fees. Fees in respect of banking services are recognised in line with the satisfaction of performance obligations. This can be either at a point in time or over time, in line with the provision of the service to the customer.

The majority of banking services are performed at a point in time and payment is due from a customer at the time a transaction takes place. For services performed over time, payment is generally due monthly in line with the satisfaction of performance obligations.

The costs of providing these banking services are incurred as the services are rendered. The price is usually fixed and always determinable.

Prior to the acquisition of TU on 4 May 2021, the Group generated commission from the sale and service of Motor and Home Insurance policies underwritten by TU. Following the acquisition, these amounts represent intercompany transactions which are fully eliminated in the Consolidated Income Statement. The Group also generated commission from the sale and service of Motor and Home Insurance policies underwritten by a third-party underwriter until August 2021, when the Group brought in-house the writing of Home and Motor Insurance policies which were previously underwritten through its broker panel. This commission income was based on commission rates which were independent of the profitability of underlying insurance policies. Similar commission income is also generated from the sale of white label insurance products underwritten by other third-party providers. This commission income is recognised on a net basis as such policies are sold, in line with the satisfaction of performance obligations to customers.

The Group also generates fee income from the referral of insurance customers to third-parties for car hire and legal services. This income is recognised at the time a referral is made in line with the satisfaction of the performance obligation for the Group.

In the case of certain commission income on insurance policies managed and underwritten by a third-party, the Group recognises commission income from policy renewals as such policies are sold. This is when the Group has satisfied all of its performance obligations in relation to the policy sold and it is considered highly probable that a significant reversal in the amount of revenue recognised will not occur in future periods. This calculation takes into account both estimates of future renewal volumes and renewal commission rates. A contract asset is recognised in relation to this revenue. This is unwound over the remainder of the contract with the customer, the customer in this case being the third-party insurance provider.

The end policyholders have the right to cancel an insurance policy at any time. Therefore, a contract liability is recognised for the amount of any expected refunds due and the revenue recognised in relation to these sales is reduced accordingly. This contract refund liability is estimated using prior experience of customer refunds. The appropriateness of the assumptions used in this calculation is reassessed at each reporting date.

Customer loyalty programmes

The Group participates in the customer loyalty programme operated by Tesco Stores Limited (TSL). The programme operates by allowing customers to accumulate Clubcard points on purchases for future redemption against a range of Tesco products. Revenue in respect of these points is recognised at the time of the customer transaction as the Group has no obligation to customers in respect of Clubcard points once the points are allocated to a customer account. The revenue is recognised net of the cost of providing Clubcard points to customers, which is recharged by TSL to the Group.

1. Accounting Policies (continued)

Net insurance premium income recognition

Gross written premiums comprise the premiums on contracts entered into during the year, irrespective of whether they relate in whole or in part to a later accounting period. Premiums exclude taxes and levies based on premiums. The earned portion of premiums written is recognised as revenue. Premiums are earned from the date of attachment of risk, over the indemnity period, based on the pattern of risks underwritten. Outward reinsurance premiums are recognised as a deduction from net insurance revenue in accordance with the contractual arrangements with reinsurers.

Net insurance claims

Claims incurred consist of claims paid during the financial year, together with the movement in the provision for outstanding claims. Claims are recognised net of benefits reimbursed in accordance with the contractual arrangements with reinsurers.

Dividend income recognition

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

(d) Taxation

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

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

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

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised. Assumptions used in determining future taxable profits are consistent with other internal financial forecasts.

The Group assesses their recoverability over a reasonably foreseeable timeframe, being typically a minimum of 5 years, considering the future expected profit profile and any potential legislative restrictions on use. This is in line with other internal financial forecasts.

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

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

(e) Foreign currency translation

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

Monetary items denominated in foreign currency are translated at the closing rate as at the reporting date.

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

1. Accounting Policies (continued)

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

(f) Cash and cash equivalents

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

(g) Financial instruments

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

Financial assets

Classification and measurement

The Group classifies its financial assets in the following categories:

- Fair value through profit or loss (FVPL);
- Fair value through other comprehensive income (FVOCI); and
- Amortised cost.

Management determines the classification of the Group's financial assets at initial recognition. Purchases and sales of financial assets are recognised on the trade date – the date on which the Group commits to purchase or sell the asset.

All financial assets are measured at initial recognition at fair value, plus transaction costs for those classified as FVOCI and amortised cost. Transaction costs on financial assets classified as FVPL are recognised in the Consolidated Income Statement at the time of initial recognition.

Classification and subsequent measurement of financial assets depend on:

- The Group's business model for managing the financial asset; and
- The cash flow characteristics of the financial asset.

The business model reflects how the Group manages its financial assets in order to generate cash flows and is determined by whether the Group's objective is solely to collect contractual cash flows from the assets or to collect both contractual cash flows and cash flows arising from the sale of assets. If neither of these models applies, the financial assets are classified as FVPL.

In determining the business model, the Group considers past experience in collecting cash flows, how the performance of these financial assets is evaluated and reported to Management and how risks are assessed.

Where the business model is to hold financial assets to collect contractual cash flows or to collect contractual cash flows and sell the assets, the Group assesses whether the financial asset's cash flows represent solely payments of principal and interest (the SPPI test). When making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement.

Financial assets at amortised cost

Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest, and that are not designated as FVPL, are classified and subsequently measured at amortised cost. The carrying value of these financial assets is adjusted by any ECL allowance recognised and measured as described below.

1. Accounting Policies (continued)

Financial assets at FVOCI

Financial assets that are held for collection of contractual cash flows and for selling the assets, where those cash flows represent solely payments of principal and interest, and that are not designated as FVPL, are classified and subsequently measured at FVOCI.

Movements in the carrying amount of debt securities classified as FVOCI are taken through other comprehensive income, except the recognition of impairment gains or losses, interest revenue using the EIR method and foreign exchange gains and losses, which are recognised through the Consolidated Income Statement.

Financial assets at FVPL

Financial assets that do not meet the criteria for recognition at amortised cost or at FVOCI are measured at FVPL.

Impairment

The Group assesses on a forward-looking basis the ECLs associated with its financial assets carried at amortised cost and FVOCI, and with the exposure arising from loan commitments in relation to Credit Card products. The Group recognises a loss allowance for such losses at each reporting date. The measurement of ECLs reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Refer to note 45 for further details on the calculation of the allowance for ECLs.

Financial liabilities

Classification and measurement

All of the financial liabilities held by the Group, other than derivative financial liabilities, are classified and measured at amortised cost using the EIR method, after initial recognition at fair value. Fair value is calculated as the issue proceeds, net of premiums, discounts and transaction costs incurred. For financial liabilities in fair value hedge relationships, the carrying value is adjusted through the Consolidated Income Statement for value movements due to the underlying hedged risk.

Derivative financial liabilities are classified and measured at FVPL. Further information on the classification and measurement of derivative financial instruments is set out at policy 1(h).

Derecognition

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

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

Offsetting of financial instruments

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

1. Accounting Policies (continued)

Loan commitments

All loan commitments in relation to Credit Card products provided by the Group are as part of contracts that include both a loan and an undrawn commitment. As the Group cannot separately identify the ECLs on the undrawn commitment component from those on the loan component, the ECLs on the undrawn commitment are recognised together with the loss allowance for the loan. Any excess of the ECLs over the gross carrying amount of the loan is recognised as a separate provision within provisions for liabilities and charges.

(h) Derivative financial instruments and hedge accounting

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

Hedge accounting

The Group designates certain hedging instruments as either fair value hedges or cash flow hedges, where it is efficient to do so and the relevant criteria are met. This attempts to match any gains or losses on the fair value of the hedged item attributable to the risk being hedged (e.g. Personal Loans or Savings portfolio) with the losses or gains on the fair value of the hedging instrument (e.g. interest rate swap) so that they are recognised in the Income Statement or Statement of Other Comprehensive Income, as appropriate, in the same accounting period. Through this matching process, the volatility in the income statement is either reduced or eliminated. The Group has implemented IFRS 9 'Financial Instruments' hedge accounting requirements in respect of its fair value hedges of the Group's investment securities and its cash flow hedges. As permitted under IFRS 9, the Group has elected to continue to apply the existing hedge accounting requirements of IAS 39 'Financial Instruments: Recognition and Measurement' for its portfolio hedge accounting until the new macro hedge accounting standard is implemented.

The Group applies hedge accounting as follows:

- Hedge relationships are classified as fair value hedges where the derivative financial instruments hedge the change in the fair value of fixed rate financial assets or financial liabilities due to movements in interest rates.
- Hedge relationships are classified as cash flow hedges where the derivative financial instruments hedge the interest rate risk and foreign currency risk on US Dollar notes issued by one of the Group's securitisation entities or the foreign currency risk on certain foreign currency invoices.

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

Fair value hedges

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

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item is amortised to the Consolidated Income Statement over the remaining period to maturity. When the hedging instrument expires or is sold, terminated or exercised, hedge accounting is discontinued. At that point, the cumulative gain or loss is also recognised in the Consolidated Income Statement.

1. Accounting Policies (continued)

Cash flow hedges

Changes in the fair value of the derivative financial instruments that are designated as hedges of future cash flows are recognised directly in other comprehensive income and accumulated in the cash flow hedge reserve and the ineffective portion is recognised immediately in the Consolidated Income Statement. Amounts recognised in other comprehensive income are recycled to the Consolidated Income Statement when equivalent amounts of the hedged item are recognised in the Consolidated Income Statement. Any costs of hedging, such as the change in fair value related to currency basis adjustment, is separately accumulated in the currency basis reserve.

When the hedging instrument expires or is sold, terminated or exercised, hedge accounting is discontinued. Any cumulative gain or loss existing in the cash flow hedge reserve and/or currency basis reserve at that time remains until the forecast transaction occurs or the original hedged item affects the Consolidated Income Statement. At that point, the cumulative gain or loss is also recognised in the Consolidated Income Statement. If a forecast hedged transaction is no longer expected to occur, the cumulative gain or loss in the cash flow hedge reserve or currency basis reserve is reclassified to the Consolidated Income Statement.

(i) Derivative financial instruments not in hedge accounting relationships

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

(j) Insurance contracts and reinsurance assets

Classification of insurance contracts

Contracts under which the Group accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder or other beneficiary are classified as insurance contracts. These contracts remain insurance contracts until all rights and obligations are extinguished or expire. Insurance contracts may also transfer some financial risk.

Reinsurance

The Group cedes reinsurance in the normal course of business for the purpose of limiting its net loss potential through the diversification of its risks. Reinsurance ceded includes quota share (QS), excess of loss and adverse development cover (ADC) contracts. Reinsurance arrangements do not relieve the Group from its direct obligations to its policyholders.

Only contracts that give rise to a significant transfer of insurance risk are accounted for as reinsurance contracts. Amounts recoverable under such contracts are recognised in the same year as the related claim. Contracts that do not transfer significant insurance risk (i.e. financial reinsurance) are accounted for as financial instruments. The Group does not have financial reinsurance.

Reinsurance assets include balances due from reinsurance companies for reinsurance claims. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsured policy.

Amounts recoverable under reinsurance contracts are assessed for impairment at each year-end date. Such assets are deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Group may not recover all amounts due and that the event has a reliable measurable impact on the amounts that the Group will receive from the reinsurer.

For the QS reinsurance ceded, amounts payable for funds withheld, net of the associated QS profit commission, are maintained in accordance with contract terms for each underwriting year. A commutation is performed for the purposes of settling the profit commission and funds withheld balance within the terms of the contract, four years after commencement. For further details on funds withheld see note 39.

1. Accounting Policies (continued)

Provision for outstanding claims

The provision for outstanding claims represents the Group's estimate of the ultimate cost of settling all claims incurred but unpaid at the reporting date whether reported or not, and related internal and external claims handling expenses. Claims outstanding are assessed by reviewing individual claims data and making an allowance for claims incurred but not yet reported, adjusted for the effect of both internal and external foreseeable events, such as changes in claims handling procedures, inflation, judicial trends, enacted or substantively enacted legislative changes and past experience and trends. Reinsurance and other recoveries are assessed in a manner similar to the claims outstanding and presented separately as assets.

Unexpired risk provision

If required, a provision is made for unexpired risks arising from business where the expected value of claims and expenses attributable to the unexpired periods of policies in force at the reporting date exceeds the unearned premiums provision in relation to such policies, after the deduction of any deferred acquisition costs. The provision for unexpired risks is calculated separately by reference to classes of business which are managed together, after taking into account the relevant investment return.

Unearned premium provision

The provision for unearned premiums comprises the proportion of gross premiums written which is estimated to be earned in the following or subsequent financial years, calculated separately for each insurance contract using the daily pro rata method, adjusted if necessary to reflect any variation in the incidence of risk during the period covered by the contract.

Deferred acquisition costs

Commission payable to agents and other acquisition costs, which are incurred for acquiring new and renewal insurance business that is primarily related to the production of that business, are deferred. Any balances not considered recoverable are written-off.

Such deferred acquisition costs are finite and are amortised by reference to the basis on which the related premiums are earned, which is over a period of one year.

(k) Property, plant and equipment

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

Depreciation is charged to the Consolidated Income Statement on a straight-line basis so as to allocate the costs less residual values over the useful life of the related asset and, for leasehold improvements and right-of-use assets, the expected lease term. Depreciation commences on the date that the assets are brought into use. Work-in-progress assets are not depreciated until they are brought into use and transferred to the appropriate category of property, plant and equipment.

Estimated useful lives are:

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

1. Accounting Policies (continued)

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

(l) Intangible assets

Goodwill

Goodwill arising on consolidation represents the excess of the purchase consideration transferred over the fair value of the Group's share of the net assets and contingent liabilities of the acquired subsidiary at the date of acquisition. If the consideration is less than the fair value of the Group's share of the net assets, liabilities and contingent liabilities of the acquired entity (i.e. a bargain purchase), the difference is credited to the Consolidated Income Statement in the period of acquisition.

At the acquisition date of a subsidiary, goodwill acquired is recognised as an asset and is allocated to each of the cash-generating units (CGUs) or groups of CGUs expected to benefit from the business combination's synergies and to the lowest level at which Management monitors the goodwill.

Goodwill is not subject to amortisation and is tested for impairment on an annual basis. Refer to accounting policy 1(n) for further details.

Other intangible assets acquired in a business combination

As part of the acquisition of TU on 4 May 2021, the Group recognised separately identified intangible assets in relation to internally-generated computer software. These are being amortised over a period of five years.

Purchased intangible assets

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

Internally generated intangible assets - research and development expenditure

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

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

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

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

Cloud software licence agreements

Licence agreements to use cloud software are treated as service contracts and expensed in the Consolidated Income Statement, unless the Group has both a contractual right to take possession of the software at any time without significant penalty, and the ability to run the software independently of the host vendor. In such cases the licence agreement is capitalised as computer software.

(m) Leases

The Group has entered into leases for office buildings.

Leases are recognised as a right-of-use asset and corresponding lease liability at the date on which the leased asset becomes available for use by the Group.

Right-of-use assets are included within property, plant and equipment in the Consolidated Statement of Financial Position.

1. Accounting Policies (continued)

Right-of-use assets are measured at cost, which comprises:

- the amount of the initial lease liability;
- any lease payments made at or before the commencement date;
- any initial direct costs; and
- restoration costs.

Right-of-use assets are depreciated over the lease term on a straight-line basis.

Lease liabilities are initially calculated as the net present value of expected lease payments, less any lease incentives receivable. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the Group's incremental borrowing rate.

Following initial recognition, lease payments are allocated between the outstanding lease liability and interest expense. The interest expense is charged to the Consolidated Income Statement over the lease period through interest expense and similar charges so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

(n) Impairment of non-financial assets

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

(o) Employee benefits

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

IAS 19 requires that, where there is no policy or agreement for sharing the cost of a defined benefit scheme across the subsidiaries, the Sponsoring employer recognises the net defined benefit cost of a defined benefit scheme. The Sponsoring employer of the funded defined benefit scheme is TSL and the principal pension plan is the Tesco PLC (Tesco) pension scheme. TSL has recognised the appropriate net liability of the Tesco pension scheme in accordance with IAS 19.

(p) Share based payments

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

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

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

(q) Provisions for liabilities and charges and contingent liabilities

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

1. Accounting Policies (continued)

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

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

Contingent liabilities, other than those recognised as part of a business combination, are not recognised in the Company or Consolidated Statements of Financial Position but are disclosed in the notes to the Financial Statements unless the possibility of an outflow of economic resources is remote.

(r) Dividends paid

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

(s) Segmental reporting

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

(t) Sale and repurchase agreements

Investment securities sold subject to a commitment to repurchase them at a predetermined price are retained on the Consolidated Statement of Financial Position when substantially all of the risk and rewards of ownership remain with the Group. The counterparty liability is included in deposits from banks. Conversely, securities purchased under agreements to resell (reverse repos), where the Group does not acquire substantially all of the risks and rewards of ownership, are recorded as loans and advances from banks.

(u) Encumbered assets

The Group's methodology used to identify encumbered assets is aligned to definitions used in calculating the Group's Pillar 3 encumbrance disclosures.

(v) Alternative Performance Measures (APMs)

In the reporting of financial information, the Directors have adopted various APMs. These measures are not defined by IFRSs and therefore may not be directly comparable with other companies' APMs, including those in the Group's industry. APMs should be considered in addition to, and are not intended to be a substitute for, or superior to, IFRS measurements.

The Directors believe that these APMs assist in providing additional useful information on the underlying trends, performance and position of the Group. APMs are also used to enhance the comparability of information between reporting periods by adjusting for items which are not reflective of the Group's underlying results or trading performance and which affect IFRS measures, to aid users in understanding the Group's performance.

Details of the Group's APMs are set out at note 5 and in the glossary of terms on pages 175 to 183.

2. Acquisition of Tesco Underwriting Limited

On 4 May 2021 the Group acquired the remaining 50.1% ordinary share capital of its joint venture entity, TU, from its joint venture partner, Ageas. Refer to the Consolidated Financial Statements of the Group for the year ended 28 February 2022 for full acquisition disclosures in line with the requirements of IFRS 3 'Business Combinations'.

A deferred payment of £5.0m was paid to Ageas on 4 May 2022. This contingent consideration was recognised as a liability in the prior year as part of the accounting for the acquisition of TU. Therefore, the settlement of this outstanding balance in the period has had no impact on other amounts previously recognised at acquisition, including goodwill.

3. Critical Accounting Estimates and Judgements in Applying Accounting Policies

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

In the course of preparing the Financial Statements, no judgements have been made in the process of applying the Group's accounting policies, other than those using estimations (which are presented separately below), that have had a significant effect on the amounts recognised in the Financial Statements. The significant accounting estimates with a significant risk of a material change to the carrying value of assets within the next year are discussed below. The use of estimates, assumptions or models that differ from those adopted by the Group would affect its reported results.

ECLs on financial assets

The measurement of ECLs for financial assets measured both at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour, such as the likelihood of customers defaulting and the resulting losses. Further explanation of the inputs, assumptions and estimation techniques used at the reporting date in measuring ECLs, of which macro-economic assumptions and post-model adjustments (PMAs) are the critical estimates, as well as the key sensitivities of ECLs to change in these elements, are set out at note 45.

Outstanding insurance claims and provisions

The Group establishes reserves in respect of the anticipated amounts of claims incurred in respect of business it has underwritten. These reserves reflect the expected ultimate cost of settling claims occurring prior to the Statement of Financial Position date, but remaining unsettled at that time. Such reserves are established separately for each line of business underwritten by the Group and fall into two categories – reserves for reported losses and reserves for losses incurred but not reported (IBNR) as of the Statement of Financial Position date.

Case reserves for reported losses are estimates prepared by claim handlers established on a case-by-case basis and are based largely on past experience of settlements managed within the Group, as well as market experience on similar claims. The case reserves are set on an undiscounted basis and reflect the anticipated cost of final settlement, taking into account inflation and other factors which might influence the final outcome. Such reserves are reviewed on a regular basis to take account of changing circumstances, such as enacted or substantively enacted changes in the law and changes in costs relating to settlement.

Technical provisions for losses IBNR as of the Statement of Financial Position date are mostly established on an undiscounted basis. They are estimated based on historical data using a variety of assumptions and making use of various actuarial techniques and statistical modelling methodologies, calculated separately for each line of business underwritten, and take into account trends in settlement costs in arriving at the final estimates.

Technical provisions on a discounted basis are set up in respect of Periodic Payment Orders (PPOs) only. The expected cashflows arising from known and potential PPO claims are assessed using a variety of assumptions and making use of various actuarial techniques and are calculated at a gross level and a related calculation is carried out to consider expected reinsurance cashflows. The future PPO-related cashflows are discounted using a long-term expected investment return to derive discounted claims provisions and discounted reinsurance provisions.

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

In the UK, lump sum payments for bodily injury claims are estimated using the Ogden discount rate applied to a projected stream of payments. Scenarios, such as the Ogden discount rate changing or incorrect claims handlers' initial assessments in relation to expenses and interest rates, are assessed for the material components of the Group's reserves. For motor damage and smaller bodily injury claims, material scenarios lie in a range between £10m above and £10m below the chosen actuarial best estimate (ABE). Those associated with larger bodily injury claims are in a range between £30m above and £30m below the chosen ABE. This assumes an Ogden discount rate for valuing larger claims of minus 0.25%.

For further details refer to note 39.

4. Segmental Reporting

Following the measurement approach of IFRS 8, 'Operating Segments', the Group's operating segments are reported in accordance with the internal reporting provided to the Board of Directors, which is responsible for allocating resources to the operating segments and assessing their performance.

The Group's two operating segments are as follows:

- Banking - incorporating Credit Cards, Personal Loans, Savings, ATMs and Travel Money; and
- Insurance - incorporating Motor, Home, Pet and Travel Insurance.

There are no transactions between operating segments.

Segmental assets and liabilities are not regularly reported to the Board of Directors and are therefore not disclosed in this note.

TESCO PERSONAL FINANCE GROUP PLC
NOTES TO THE FINANCIAL STATEMENTS (continued)

4. Segmental Reporting (continued)

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

	Banking	Insurance	Central Costs	Total Management reporting	Consolidation and other adjustments	Total Consolidated
2023 Group	£m	£m	£m	£m	£m	£m
Interest and similar income	507.7	30.2	–	537.9	–	537.9
Interest expense and similar charges	(106.2)	(0.5)	–	(106.7)	–	(106.7)
Net interest income	401.5	29.7	–	431.2	–	431.2
Fees and commissions income	236.4	39.6	–	276.0	–	276.0
Fees and commissions expense	(29.5)	–	–	(29.5)	–	(29.5)
Net fees and commissions income	206.9	39.6	–	246.5	–	246.5
Insurance premium income	–	308.6	–	308.6	–	308.6
Insurance premium income ceded to reinsurers	–	(139.3)	–	(139.3)	–	(139.3)
Net insurance premium income	–	169.3	–	169.3	–	169.3
Net gain/(loss) on investment securities at FVPL	1.0	(3.9)	–	(2.9)	–	(2.9)
Net gain on investment securities at FVOCI	–	0.1	–	0.1	–	0.1
Net gain on financial instruments at FVPL	2.3	–	–	2.3	–	2.3
Other (expenses)/income	(2.8)	0.6	–	(2.2)	–	(2.2)
Net other income	0.5	(3.2)	–	(2.7)	–	(2.7)
Total income	608.9	235.4	–	844.3	–	844.3
Insurance claims incurred	–	(174.6)	–	(174.6)	–	(174.6)
Insurance claims ceded to reinsurers	–	90.0	–	90.0	–	90.0
Net insurance claims	–	(84.6)	–	(84.6)	–	(84.6)
Total income, net of insurance claims	608.9	150.8	–	759.7	–	759.7
Administrative expenses ¹	(137.0)	(77.7)	(290.5)	(505.2)	–	(505.2)
Depreciation and amortisation	(4.6)	(5.3)	(43.6)	(53.5)	–	(53.5)
Operating expenses	(141.6)	(83.0)	(334.1)	(558.7)	–	(558.7)
Expected credit loss charge on financial assets	(60.0)	(1.4)	–	(61.4)	–	(61.4)
Profit before tax	407.3	66.4	(334.1)	139.6	–	139.6
Capex per reportable segment in year	(12.6)	(4.7)	(34.2)	(51.5)	–	(51.5)

¹ The Banking and Insurance segments include only directly attributable administrative costs such as marketing and operational costs. Central overhead costs, which reflect the overhead of operating both the Insurance and Banking businesses, are not allocated against an operating segments for internal reporting purposes.

TESCO PERSONAL FINANCE GROUP PLC
NOTES TO THE FINANCIAL STATEMENTS (continued)

4. Segmental Reporting (continued)

			Central	Total	Consolidation	
2022	Banking	Insurance	Costs	Management	and other	Total
Group	£m	£m	£m	reporting	adjustments	Consolidated
Cost				£m	£m	£m
Interest and similar income	460.9	26.6	–	487.5	–	487.5
Interest expense and similar charges	(62.1)	–	–	(62.1)	–	(62.1)
Net interest income	398.8	26.6	–	425.4	–	425.4
Fees and commissions income	174.6	52.3	–	226.9	–	226.9
Fees and commissions expense	(37.5)	–	–	(37.5)	–	(37.5)
Net fees and commissions income	137.1	52.3	–	189.4	–	189.4
Insurance premium income	–	239.2	–	239.2	–	239.2
Insurance premium income ceded to reinsurers	–	(105.5)	–	(105.5)	–	(105.5)
Net insurance premium income	–	133.7	–	133.7	–	133.7
Net gain on investment securities at FVPL	0.5	4.4	–	4.9	–	4.9
Net loss on investment securities at FVOCI	–	(0.3)	–	(0.3)	–	(0.3)
Net gain on financial instruments at FVPL	2.1	–	–	2.1	–	2.1
Other income	0.1	10.3	–	10.4	–	10.4
Net other income	2.7	14.4	–	17.1	–	17.1
Total income	538.6	227.0	–	765.6	–	765.6
Insurance claims incurred	–	(150.2)	–	(150.2)	–	(150.2)
Insurance claims ceded to reinsurers	–	61.9	–	61.9	–	61.9
Net insurance claims	–	(88.3)	–	(88.3)	–	(88.3)
Total income, net of insurance claims	538.6	138.7	–	677.3	–	677.3
Administrative expenses ¹	(125.1)	(61.6)	(269.4)	(456.1)	–	(456.1)
Depreciation and amortisation	(10.4)	(4.2)	(50.6)	(65.2)	–	(65.2)
Operating expenses	(135.5)	(65.8)	(320.0)	(521.3)	–	(521.3)
Expected credit loss credit/(charge) on financial assets	30.7	(0.8)	–	29.9	–	29.9
Operating profit	433.8	72.1	(320.0)	185.9	–	185.9
Share of profit of joint venture	–	2.6	–	2.6	–	2.6
Profit before tax	433.8	74.7	(320.0)	188.5	–	188.5
Capex per reportable segment in year	(16.0)	(6.3)	(27.1)	(49.4)	–	(49.4)

¹ The Banking and Insurance segments include only directly attributable administrative costs such as marketing and operational costs. Central overhead costs, which reflect the overhead of operating both the Insurance and Banking businesses, are not allocated against an operating segments for internal reporting purposes.

5. Underlying Profit

The Group's financial performance is presented in the Consolidated Income Statement on page 40. A summary of the Group's financial performance in respect of its continuing operations on an underlying basis, excluding items which are not reflective of ongoing trading performance, is presented below.

	Statutory basis £m	Financial instruments ¹ £m	Restructuring activity ² £m	Underlying basis £m
Year ended 28 February 2023				
Net interest income	431.2	–	–	431.2
Net other income, net of insurance claims	328.5	(2.3)	–	326.2
Total income, net of insurance claims	759.7	(2.3)	–	757.4
Total operating expenses	(558.7)	–	11.3	(547.4)
Expected credit loss charge on financial assets	(61.4)	–	–	(61.4)
Profit before tax	139.6	(2.3)	11.3	148.6
Cost:income ratio	73.5%			72.3%

	Statutory basis £m	Financial instruments ¹ £m	Restructuring activity ² £m	Underlying basis £m
Year ended 28 February 2022				
Net interest income	425.4	–	–	425.4
Net other income	251.9	(2.1)	–	249.8
Total income, net of insurance claims	677.3	(2.1)	–	675.2
Total operating expenses	(521.3)	–	–	(521.3)
Expected credit loss credit on financial assets	29.9	–	–	29.9
Operating profit	185.9	(2.1)	–	183.8
Share of profit of joint venture	2.6	–	–	2.6
Profit before tax	188.5	(2.1)	–	186.4
Cost:income ratio	77.0%			77.2%

¹ Comprising:

- Gains on financial instruments at FVPL of £2.3m (2022: gains of £2.1m) presented within total income on page 40. Fair value movements on financial instruments reflect hedge ineffectiveness arising from hedge accounting and fair value movements on derivatives in economic hedges that do not meet the criteria for hedge accounting. Where these derivatives are held to maturity, fair value movements represent timing differences that will reverse over the life of the derivatives. Therefore, excluding these movements from underlying profit more accurately represents the underlying performance of the Group. Where derivatives are terminated prior to maturity, this may give rise to fair value movements that do not reverse.

² Comprising:

- A restructuring charge of £11.3m (2022: £nil) related to the Group's Agile transformation programme, presented within administrative expenses on page 40. The current year charge in respect of business restructuring is not considered part of the Group's underlying trading performance.

6. Net Interest Income

	2023 £m	2022 £m
Interest and similar income		
On financial assets measured at amortised cost		
Loans and advances to customers	480.1	469.3
Loans and advances to banks	0.4	–
Cash and balances with central banks	10.2	1.0
Investment securities	20.0	12.7
	510.7	483.0
On financial assets measured at fair value		
Investment securities - FVOCI	8.6	4.5
Derivative financial assets - FVPL	18.6	–
	27.2	4.5
Total interest and similar income	537.9	487.5
Interest expense and similar charges		
On financial liabilities measured at amortised cost		
Deposits from customers	(67.3)	(29.6)
Deposits from banks	(21.7)	(3.7)
Debt securities in issue	(7.8)	(8.8)
Lease liabilities	(1.8)	(2.1)
Subordinated liabilities and notes	(8.1)	(3.9)
	(106.7)	(48.1)
On financial liabilities measured at fair value		
Derivative financial liabilities - FVPL	–	(14.0)
	–	(14.0)
Total interest expense and similar charges	(106.7)	(62.1)
Net interest income	431.2	425.4

7. Net Fees and Commissions Income

	2023	2022
	£m	£m
Fees and commissions income		
Banking revenue from contracts with customers	217.4	179.6
Insurance revenue from contracts with customers	35.3	35.2
Other revenue from contracts with customers	23.3	12.1
Total fees and commissions income	276.0	226.9
Fees and commissions expense		
Banking expense	(29.5)	(37.5)
Total fees and commissions expense	(29.5)	(37.5)
Net fees and commissions income	246.5	189.4

With the exception of other revenue from contracts with customers, all of the above fees and commissions relate to financial assets and financial liabilities measured at amortised cost. These figures exclude amounts incorporated in determining the EIR on such financial assets and financial liabilities.

8. Net Insurance Premium Income

	2023	2022
	£m	£m
Gross premium written	326.6	254.0
Change in the gross provision for unearned premium	(18.0)	(14.8)
Insurance premium income	308.6	239.2
Written premium ceded to reinsurers	(148.0)	(110.3)
Reinsurers share of change in the provision for unearned premium	8.7	4.8
Insurance premium income ceded to reinsurers	(139.3)	(105.5)
Net insurance premium income	169.3	133.7

The above net insurance premium income for the prior year represents income recognised in the Consolidated Income Statement following acquisition of TU by the Group on 4 May 2021.

9. Net (Loss)/Gain on Investment Securities at FVPL

	2023	2022
	£m	£m
Fair value (loss)/gain arising on TU's holding in a property fund	(3.9)	4.4
Fair value gain arising on holding in VISA Inc. shares	1.0	0.5
Net (loss)/gain on investment securities at FVPL	(2.9)	4.9

The above loss represents losses on TU's holding in a property fund recognised following the acquisition of TU by the Group on 4 May 2021, and gains on the Group's holding in VISA Inc. preferred stock.

10. Net Gain/(Loss) on Investment Securities at FVOCI

	2023	2022
	£m	£m
Net gain/(loss) on disposal of investment securities at FVOCI	0.1	(0.3)
Net gain/(loss) on investment securities at FVOCI	0.1	(0.3)

11. Net Gain on Other Financial Instruments at FVPL

	2023	2022
	£m	£m
Foreign exchange gain/(loss) on financial assets	0.4	(0.1)
Net gain arising on derivatives not designated as hedging instruments	1.6	3.9
Fair value hedge ineffectiveness (refer note 23)	0.3	(1.8)
Cash flow hedge ineffectiveness (refer note 23)	–	0.1
Net gain on financial instruments at FVPL	2.3	2.1

12. Other (Expenses)/Income

	2023	2022
	£m	£m
Dividend income from investment securities at FVPL	0.6	0.8
Net loss on redemption of debt securities in issue	(2.8)	–
Gain on remeasurement of equity interest in TU at acquisition	–	4.6
Gain on Group's share of TU's AFS reserve	–	5.0
Other income	(2.2)	10.4

The net loss on redemption of debt securities in issue relates to the partial redemption during the year of minimum requirements for own funds and eligible liabilities (MREL) debt issued by the Company.

Dividend income from investment securities at FVPL comprises dividends received from the Group's holding in preferred stock issued by VISA Inc, and dividends received on TU's holding in a property fund following acquisition of TU by the Group on 4 May 2021.

13. Net Insurance Claims

	2023	2022
	£m	£m
Current year claims paid	(139.9)	(103.9)
Change in prior year claims provision	100.2	52.0
Additional liabilities arising during the year	(134.9)	(98.3)
Insurance claims incurred	(174.6)	(150.2)
Reinsurers share of claims and benefits incurred	90.0	61.9
Insurance claims ceded to reinsurers	90.0	61.9
Net insurance claims	(84.6)	(88.3)

The above net insurance claims for the prior year represents the claims expense incurred and reinsurance recoveries received by TU following acquisition by the Group on 4 May 2021.

14. Administrative Expenses

	2023	2022
	£m	£m
Staff costs		
Wages and salaries	133.8	125.9
Social security costs	14.6	12.6
Other pension costs	8.3	8.0
Share based payments	4.0	7.9
Other costs including temporary staff	66.4	55.9
Total staff costs	227.1	210.3
Non-staff costs		
Premises and equipment	77.5	67.9
Marketing	48.4	40.6
Auditor's remuneration (refer below)	2.1	1.6
Outsourcing and professional fees	116.7	107.4
Other administrative expenses	33.4	28.3
Total non-staff costs	278.1	245.8
Total administrative expenses	505.2	456.1
	2023	2022
	£'000	£'000
Audit services		
Audit of the Company and Consolidated Financial Statements	65	65
Audit of the Company's subsidiaries	1,485	1,401
Total audit services	1,550	1,466
Non-audit services		
Audit related assurance services	540	116
Other non-audit services not covered above	12	65
Total non-audit services	552	181
Total auditor's remuneration	2,102	1,647
The average monthly number of persons (including Executive Directors) employed by the Group split by employee function during the year, was:		
	2023	2022
	Number	Number
Head office and administration	1,648	1,593
Operations	1,604	1,905
TU	347	325
Total average employees	3,599	3,823

15. Expected Credit Loss Charge/(Credit) on Financial Assets

	2023	2022
	£m	£m
Expected credit loss charge/(credit) on loans and advances to customers ¹	60.9	(30.2)
Expected credit loss charge/(credit) on investment securities at amortised cost	–	(0.5)
Expected credit loss charge on investment securities at FVOCI	0.5	0.8
Total expected credit loss charge/(credit) on financial assets	61.4	(29.9)

¹ Included within the expected credit loss on loans and advances to customers is a credit of £2.5m (2022: credit of £6.3m) received through the sale of non-performing debt to third parties.

Refer to note 45 further detail on factors impacting expected credit loss charges.

16. Directors' Emoluments

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

	2023	2022
	£m	£m
Aggregate emoluments	3.3	3.2
Aggregate amounts receivable under long-term incentive schemes ¹	1.9	1.7
Share based payments	0.6	0.5
Total Directors' emoluments	5.8	5.4

	2023	2022
	Number	Number
Number of Directors to whom retirement benefits are accruing under defined benefit or defined contribution schemes	3	3
Number of Directors in respect of whose qualifying services shares were received or receivable under long-term incentive schemes	3	3
Number of Directors who exercised share options	1	1

The total emoluments of the highest paid Director were £2.6m (2022: £2.6m), including aggregate amounts due under long-term incentive schemes¹. During the year the highest paid Director did not exercise any share options (2022: nil).

At 28 February 2023 the accrued pension and lump sum under a defined benefit scheme for the highest paid Director was £nil (2022: £nil).

During the year to 28 February 2023 one Director (2022: three Directors) left the Company.

¹ Aggregate amounts receivable under long-term incentive schemes represent the maximum amounts awarded in the year. Actual amounts payable under long-term incentive schemes may vary depending on the level of performance achieved against specific measures.

17. Income Tax

Income tax charge

	2023	2022
	£m	£m
Current tax charge for the year	14.6	37.4
Adjustments in respect of prior years	(3.5)	(0.1)
Total current tax charge for the year	11.1	37.3
Deferred tax charge for the year	15.4	8.5
Tax rate change	0.2	(1.8)
Adjustments in respect of prior years	1.5	0.2
Total deferred tax charge for the year	17.1	6.9
Total income tax charge	28.2	44.2

The Group's blended corporation tax rate is 19.0% (2022: 19.0%). In addition, a banking surcharge of 8.0% (2022: 8.0%) is applied to the Group's banking profits above £25.0m.

In the March 2021 Budget Statement, the Chancellor announced that the standard rate of corporation tax in the UK would increase from 19% to 25% from 1 April 2023. Subsequently, in the October 2021 Budget Statement, it was announced that, with effect from 1 April 2023, the banking surcharge would reduce from 8% to 3% and that it would be chargeable on banking profits above £100.0m.

Therefore, from 1 April 2023, the combined rate of tax on banking profits over £100.0m will be 28% (previously 27% on banking profits over £25.0m).

The impact on the Group of this change in the combined rate was to increase the Group's deferred tax asset by £1.8m in the prior year.

In the current year, the tax charge assessed was higher (2022: higher) than that calculated using the overall blended corporation tax rate for the Group.

17. Income Tax (continued)

The differences are explained below:

	2023	2022
	£m	£m
Profit before taxation	139.6	188.5
Profit on ordinary activities multiplied by blended rate in the UK of 19.0% (2022: 19.0%)	26.5	35.8
Factors affecting charge for the year:		
Difference between local and group tax rate	6.0	10.7
Non-taxable income	–	(1.8)
Expenses not deductible for tax purposes	0.6	1.2
Adjustment in respect of prior years - current tax	(3.5)	(0.1)
Adjustment in respect of prior years - deferred tax	1.5	0.2
Share based payments	(1.3)	0.5
Other tax adjustments	(1.8)	–
Tax rate change	0.2	(1.8)
Share of profit of joint venture	–	(0.5)
Total income tax charge	28.2	44.2

Income tax relating to components of other comprehensive income

	Before tax amount £m	Tax credit £m	Net of tax amount £m
2023			
Items that may be reclassified to the income statement			
Net losses on debt securities at FVOCI	(42.0)	10.9	(31.1)
Net losses on cash flow hedges	(0.2)	0.1	(0.1)
Total income tax relating to components of other comprehensive income	(42.2)	11.0	(31.2)
	Before tax amount £m	Tax credit/(charge) £m	Net of tax amount £m
2022			
Items that may be reclassified to the income statement			
Net losses on debt securities at FVOCI	(18.1)	5.3	(12.8)
Net gains on cash flow hedges	1.1	(0.3)	0.8
Total income tax relating to components of other comprehensive income	(17.0)	5.0	(12.0)

17. Income Tax (continued)

Deferred tax charged directly to the Statement of Changes in Equity

	Before tax amount £m	Tax charge £m	Net of tax amount £m
2023			
Net losses on share based payments reserve	(5.1)	(0.6)	(5.7)
	(5.1)	(0.6)	(5.7)
	Before tax amount £m	Tax credit £m	Net of tax amount £m
2022			
Net gains on share based payments reserve	3.5	0.7	4.2
	3.5	0.7	4.2

18. Distributions to Equity Holders

	2023 £m	2022 £m
Ordinary dividend paid	54.4	87.0
	54.4	87.0

On 23 February 2023, an interim dividend of £54.4m (£0.0446 per ordinary share) was paid. In the prior year, an interim dividend of £87.0m (£0.0713 per ordinary share) was paid on 18 February 2022.

19. Cash and Balances with Central Banks

	Group		Company	
	2023 £m	2022 £m	2023 £m	2022 £m
Cash at bank	109.8	99.1	2.0	1.7
Cash deposits held with TPF	–	–	6.1	6.1
Balances held with the BoE other than mandatory reserve deposits	307.9	639.9	–	–
Included in cash and cash equivalents (refer note 47)	417.7	739.0	8.1	7.8
Mandatory reserves deposits held with the BoE	43.4	41.6	–	–
Total cash and balances with central banks	461.1	780.6	8.1	7.8

Mandatory reserve deposits held with the BoE of £43.4m (2022: £41.6m) are not included within cash and cash equivalents for the purposes of the cash flow statement as these do not have short-term maturities. These balances are not available in the Group's day-to-day operations and are non-interest bearing. Other balances are subject to variable interest rates based on the BoE base rate.

20. Loans and Advances to Banks

Group	2023	2022
	£m	£m
Liquidity funds	20.8	25.4
Custodian funds	5.9	24.9
Total loans and advances to banks	26.7	50.3

All of the above balances are classified as current at the year-end.

These represent cash and cash equivalents for the purposes of the cash flow statement.

21. Loans and Advances to Customers

Group	2023	2022
	£m	£m
Unsecured lending	7,616.8	7,009.5
Total unsecured lending	7,616.8	7,009.5
Fair value hedge adjustment	(74.6)	(30.4)
Gross loans and advances to customers	7,542.2	6,979.1
Less: ECL allowance (refer note 45)	(460.9)	(488.8)
Net loans and advances to customers	7,081.3	6,490.3

Current	4,052.4	3,349.2
Non-current	3,028.9	3,141.1

Contractual lending commitments and ECL provision

At 28 February 2023, the Group had contractual lending commitments of £12,212.2m (2022: £12,363.0m) which represent undrawn Credit Card limits. An additional ECL provision of £13.3m was also recognised at 28 February 2023 (2022: £16.2m). This represents the excess of total ECLs for both drawn and undrawn balances over the gross carrying balances as above. Refer to note 35 for further details.

Fair value hedge adjustments

Fair value hedge adjustments amounting to a liability of £74.6m (2022: liability of £30.4m) are in respect of fixed rate Personal Loans. These adjustments are largely offset by derivatives, which are used to manage interest rate risk and are designated as fair value hedges of loans and advances to customers.

Effective interest rate (EIR)

IFRS 9 requires the Group to measure the interest earned on its Credit Card portfolio by applying the EIR methodology. The main area of estimation uncertainty in measuring the EIR on the Group's Credit Card portfolio is the expected attrition of the balances drawn at the reporting date.

Management uses a pay rates assumption to determine the expected repayment profile of the balances drawn as at the reporting date to the expected remaining term (capped at a maximum of five years from origination).

An increase of the pay rates assumption by 10% will reduce the asset value by £2.5m and a corresponding reduction of the pay rates assumption will increase the asset value by £3.1m.

22. Loans and Advances to Subsidiary Companies

Company	2023 £m	2022 £m
Fixed rate subordinated loan	145.2	250.9
Floating rate subordinated loans	191.5	190.5
Undated floating rate notes	45.4	45.1
	382.1	486.5
Less: ECL allowance (See note 45)	(2.8)	(1.8)
Net loans and advances to subsidiary companies	379.3	484.7
Current	2.4	1.5
Non-current	376.9	483.2

The investments are in subordinated loans and notes issued by TPF.

Interest receivable on the £144.7m notional (2022: £250.0m notional) fixed rate subordinated loan is 3.5%. The reduction in this balance reflects a partial redemption by the Company during the year of its issued MREL debt and an equivalent reduction in the related fixed rate subordinated loan issued by TPF to the Company.

Interest receivable on the floating rate subordinated loans and notes is based on three-month sterling overnight index average (SONIA) plus a margin of 67 to 227 basis points (2022: three-month SONIA plus a margin of 67 to 227 basis points).

23. Derivative Financial Instruments

Strategy in using derivative financial instruments

The objective when using a derivative financial instrument is to ensure that the risk to reward profile of a transaction is optimised, allowing the Group to manage its exposure to interest rate and foreign exchange rate risk. The intention is to only use derivatives to create economically effective hedges. There are specific requirements stipulated under IFRS 9/IAS 39 which must be met for a derivative to qualify for hedge accounting. As a result, not all derivatives can be designated in an accounting hedge relationship, either because natural accounting offsets are expected or because obtaining hedge accounting would be especially onerous.

For those derivatives where fair value hedge accounting is applied, gains and losses in the Consolidated Income Statement are offset by movements in the hedged item. Where cash flow hedge accounting is applied, the effective portion of the derivative fair value movement is recorded in OCI. For those derivatives held for economic hedging purposes which cannot be designated in an accounting hedge relationship, the gains and losses are recognised in the Consolidated Income Statement. In the Consolidated Statement of Financial Position there is no distinction between derivatives where hedge accounting is applied and derivatives which cannot be designated in an accounting hedge relationship.

The following table analyses derivatives held for risk management purposes by type of instrument and splits derivatives between those classified in hedge accounting relationships and those not in hedge accounting relationships.

Group	2023			2022		
	Notional amount £m	Assets £m	Liabilities £m	Notional amount £m	Assets £m	Liabilities £m
Derivatives in hedge accounting relationships						
<i>Derivatives designated as fair value hedges</i>						
Interest rate swaps	3,666.6	120.4	(16.7)	2,834.5	43.9	(27.2)
<i>Derivatives designated as cash flow hedges</i>						
Forward foreign exchange contracts	10.5	0.2	(0.1)	7.7	0.3	–
Total derivatives in hedge accounting relationships	3,677.1	120.6	(16.8)	2,842.2	44.2	(27.2)
Derivatives not in hedge accounting relationships						
<i>Interest rate derivatives</i>						
Interest rate swaps	41.9	0.8	(0.1)	141.3	1.1	–
<i>Currency derivatives</i>						
Forward foreign exchange contracts	0.2	–	–	0.2	–	–
Total derivatives not in hedge accounting relationships	42.1	0.8	(0.1)	141.5	1.1	–
Total	3,719.2	121.4	(16.9)	2,983.7	45.3	(27.2)

23. Derivative Financial Instruments (continued)

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

Group	2023		2022	
	Assets	Liabilities	Assets	Liabilities
	£m	£m	£m	£m
Current	15.1	(0.8)	3.3	(0.9)
Non-current	106.3	(16.1)	42.0	(26.3)

Hedge accounting

The following disclosures relate to derivatives in hedge accounting relationships only. The Group applies hedge accounting in the following hedging strategies:

- **Fair value hedges of interest rate risk**

The Group's risk management objective of creating economically effective hedges is achieved by the use of interest rate contracts to swap fixed rate exposures back to a benchmark floating rate where no existing offset is available. This includes the hedging of fixed rate investment securities and issuances of fixed rate debt, which protects the Group against the fair value volatility of these financial assets and financial liabilities due to movements in interest rates. Each swap is defined as hedging one or more fixed rate assets or liabilities. The Group applies IFRS 9 hedge accounting in respect of these hedging instruments.

Sources of hedge ineffectiveness relate to differences in timing and repricing between execution of the hedging instrument and hedged item.

- **Portfolio fair value hedges of interest rate risk**

The Group's risk management objective of creating economically effective hedges is achieved by the use of interest rate contracts to swap fixed rate exposures back to a benchmark floating rate where no existing offset is available. This includes the hedging of portfolios of fixed rate Personal Loans and Savings products, which protects the Group against the fair value volatility of these financial assets and financial liabilities due to movements in interest rates. The Group applies IAS 39 portfolio hedge accounting in respect of these hedging instruments.

Sources of hedge ineffectiveness include, but are not limited to, differences in timing and repricing between execution of the hedging instrument and hedged item, differences between actual and expected prepayment rates of the underlying hedged item and repricing differences between the portfolio of hedged items and the associated hedging instruments.

23. Derivative Financial Instruments (continued)

• Cash flow hedges of expected foreign currency payments

The Group holds forward foreign currency contracts as cash flow hedges to mitigate the variability in cash flows associated with highly probable foreign currency payments. The payments, associated cash flows and the forward contracts are expected to occur and mature over the following 15 months. The Group applies IFRS 9 hedge accounting in respect of these hedging instruments.

Sources of hedge ineffectiveness relate to differences between expected and actual cash flows.

Maturity of Derivatives in Hedge Accounting Relationships

The following tables set out the maturity profile and average interest rate of the hedging instruments used in the Group's hedging strategies:

Group	Maturity					Total
	Up to one month	One to three months	Three months to one year	One year to five years	More than five years	
2023	£m	£m	£m	£m	£m	
Fair value hedges of financial assets						
<i>Interest rate</i>						
Interest rate swaps						
- Notional amount	78.0	79.0	804.0	1,762.9	103.0	2,826.9
- Average fixed interest rate	(3.52)%	(3.60)%	(1.54)%	(1.32)%	(2.26)%	–
Fair value hedges of financial liabilities						
<i>Interest rate</i>						
Interest rate swaps						
- Notional amount	–	–	340.0	499.7	–	839.7
- Average fixed interest rate	–	–	(0.11)%	0.14%	–	–
Cash flow hedges						
<i>Foreign currency</i>						
Forward foreign exchange contracts						
- Notional amount	0.7	0.8	7.5	1.5	–	10.5
- Average exchange rate	1.33	1.24	1.22	1.19	–	–

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23. Derivative Financial Instruments (continued)

Group	Maturity					Total
	Up to one month	One to three months	Three months to one year	One year to five years	More than five years	
2022	£m	£m	£m	£m	£m	
Fair value hedges of financial assets						
<i>Interest rate</i>						
Interest rate swaps						
- Notional amount	46.5	77.0	673.5	1,580.8	151.7	2,529.5
- Average fixed interest rate	0.37%	(0.06%)	(0.02%)	0.36%	0.50%	-
Fair value hedges of financial liabilities						
<i>Interest rate</i>						
Interest rate swaps						
- Notional amount	-	30.0	25.0	250.0	-	305.0
- Average fixed interest rate	-	0.11%	0.01%	(0.01%)	-	-
Cash flow hedges						
<i>Foreign currency</i>						
Forward foreign exchange contracts						
- Notional amount	-	1.1	5.9	0.7	-	7.7
- Average exchange rate	-	1.41	1.39	1.33	-	-

23. Derivative Financial Instruments (continued)

The following tables set out details of the hedging instruments used in the Group's hedging strategies:

Group	Carrying amount			Changes in fair value used for calculating hedge ineffectiveness £m
	Notional £m	Assets £m	Liabilities £m	
2023				
Fair value hedges				
<i>Interest rate</i>				
Interest rate swaps	3,666.6	120.4	(16.7)	72.6
Cash flow hedges				
<i>Foreign currency</i>				
Forward foreign exchange contracts	10.5	0.2	(0.1)	(0.7)
Total	3,677.1	120.6	(16.8)	71.9

Group and Company	Carrying amount			Changes in fair value used for calculating hedge ineffectiveness £m
	Notional £m	Assets £m	Liabilities £m	
2022				
Fair value hedges				
<i>Interest rate</i>				
Interest rate swaps	2,834.5	43.9	(27.2)	52.3
Cash flow hedges				
<i>Foreign currency</i>				
Forward foreign exchange contracts	7.7	0.3	–	1.4
Total	2,842.2	44.2	(27.2)	53.7

All of the above amounts are included within the Statement of Financial Position line item Derivative financial instruments.

23. Derivative Financial Instruments (continued)

The following tables set out details of the hedged exposures covered by the Group's hedging strategies:

Group 2023	Carrying amount of the hedged item		Accumulated amounts of fair value adjustments on the hedged item		Changes in value for calculating ineffectiveness £m
	Assets	Liabilities	Assets	Liabilities	
	£m	£m	£m	£m	
Fair value hedges					
<i>Interest rate</i>					
- Fixed rate Personal Loans ¹	2,392.6	–	(74.6)	–	(44.2)
- Fixed rate investment securities ²	406.3	–	(43.7)	–	(32.5)
- Fixed rate Savings ³	–	(695.0)	–	1.5	1.4
- Fixed rate subordinated liabilities ⁴	–	(137.5)	–	7.6	1.9
Total fair value hedges	2,798.9	(832.5)	(118.3)	9.1	(73.4)

Group 2022	Carrying amount of the hedged item		Accumulated amounts of fair value adjustments on the hedged item		Changes in value for calculating ineffectiveness £m
	Assets	Liabilities	Assets	Liabilities	
	£m	£m	£m	£m	
Fair value hedges					
<i>Interest rate</i>					
- Fixed rate Personal Loans ¹	2,020.7	–	(30.4)	–	(37.1)
- Fixed rate investment securities ²	503.7	–	(11.2)	–	(21.5)
- Fixed rate Savings ³	–	(55.0)	–	0.1	0.4
- Fixed rate subordinated liabilities ⁴	–	(244.4)	–	5.5	8.3
Total fair value hedges	2,524.4	(299.4)	(41.6)	5.6	(49.9)

The accumulated amount of fair value hedge adjustments remaining in the Statement of Financial Position for hedged items that have ceased to be adjusted for hedging gains and losses is an asset of £2.4m (2022: £nil).

¹ Included within Statement of Financial Position line item Loans and advances to customers.

² Included within Statement of Financial Position line item Investment securities.

³ Included within Statement of Financial Position line item Deposits from customers.

⁴ Included within Statement of Financial Position line item Subordinated liabilities.

23. Derivative Financial Instruments (continued)

Group	Cash flow hedge reserve	
	Change in value of hedged item used for calculating hedge ineffectiveness	Continuing hedges
2023	£m	£m
Cash flow hedges		
<i>Foreign currency</i>		
- Accounts payable ¹	(0.2)	0.1
Total cash flow hedges	(0.2)	0.1

Group ¹	Cash flow hedge reserve	
	Change in value of hedged item used for calculating hedge ineffectiveness	Continuing hedges
2022	£m	£m
Cash flow hedges		
<i>Foreign currency</i>		
- Accounts payable ¹	1.1	0.2
Total cash flow hedges	1.1	0.2

¹ Included within Statement of Financial Position line item Other liabilities.

There are no amounts remaining in the cash flow hedge reserve for which hedge accounting is no longer applied.

The following tables set out information regarding the effectiveness of the hedging relationships designated by the Group, as well as the impacts on profit or loss and other comprehensive income:

Group	Hedge ineffectiveness recognised in
	profit or loss
2023	£m
Fair value hedges	
<i>Interest rate</i>	
- Interest rate swaps	0.3
Total fair values hedges	0.3

Group and Company	Hedge ineffectiveness recognised in
	profit or loss
2022	£m
Fair value hedges	
<i>Interest rate</i>	
- Interest rate swaps	(1.8)
Total fair values hedges	(1.8)

23. Derivative Financial Instruments (continued)

Hedge ineffectiveness is included in the Income Statement line Net gain/(loss) on other financial instruments at FVPL.

Group	Line item in Income Statement that includes reclassification	Cumulative hedging gains/ (losses) recognised in other comprehensive income £m	Hedge ineffectiveness recognised in profit or loss £m	Cumulative amount reclassified from cash flow hedge reserve to profit or loss £m	
2023					
Cash flow hedges					
<i>Interest rate/foreign currency</i>					
	- Forward foreign exchange contracts	Administrative Expenses	(1.1)	-	1.1
	Total cash flow hedges		(1.1)	-	1.1

Group	Line item in Income Statement that includes reclassification	Cumulative hedging gains/ (losses) recognised in other comprehensive income £m	Hedge ineffectiveness recognised in profit or loss £m	Cumulative amount reclassified from cash flow hedge reserve to profit or loss £m	
2022					
Cash flow hedges					
<i>Interest rate/foreign currency</i>					
	- Forward foreign exchange contracts	Administrative Expenses	0.2	0.1	-
	Total cash flow hedges		0.2	0.1	-

Hedge ineffectiveness is included in the income statement line Net gain/(loss) on other financial instruments at FVPL.

The following table sets out further details of the cumulative cash flow hedge reserve:

Group	2023 £m	2022 £m
Hedging gains and losses recognised in other comprehensive income	(1.0)	0.3
Amount reclassified from cash flow hedge reserve to profit or loss	1.1	-
Tax	-	(0.1)
Cash flow hedge reserve	0.1	0.2

23. Derivative Financial Instruments (continued)

The following table presents a reconciliation by risk category of the cash flow hedge reserve and an analysis of other comprehensive income in relation to hedge accounting:

	Cash flow hedge reserve	
	2023	2022
Group	£m	£m
Balance at beginning of year	0.2	(0.6)
Cashflow hedge - foreign exchange risk		
- Effective portion of changes in fair value	(1.3)	1.1
- Amount reclassified to profit or loss in the year	1.1	-
- Tax	0.1	(0.3)
Balance at end of year	0.1	0.2

24. Investment Securities

Group	2023	2022
	£m	£m
Investment securities measured at FVPL	20.1	24.8
Investment securities measured at FVOCI	564.8	584.7
Investment securities measured at amortised cost	882.9	857.4
Total investment securities	1,467.8	1,466.9

Current	345.9	257.1
Non-Current	1,121.9	1,209.8

Investment securities measured at FVPL

Group	2023	2022
	£m	£m
VISA Inc. preferred stock	0.9	1.8
Property fund	19.2	23.0
Total investment securities measured at FVPL	20.1	24.8

During the year ended 28 February 2023, a proportion of the Group's holding in VISA Inc. preferred stock became eligible for conversion to ordinary shares. The Group disposed of the converted shares during the year, realising a gain of £1.0m.

The remaining stock may be convertible into Class A Common Stock of VISA Inc. at certain future dates, the latest point of which will be June 2028. Conversion is contingent upon future events principally related to the outcome of interchange litigation against VISA Europe Limited. As such, the valuation of £0.9m (2022: £1.8m) reflects both an illiquidity discount and the risk of a reduction in the conversion rate to VISA Inc. common stock. The reduction in the conversion rate is the most significant unobservable input to the valuation.

24. Investment Securities (continued)

Investment securities measured at FVOCI - debt

Group

	2023	2022
	£m	£m
Government-backed investment securities	56.0	34.6
Supranational investment securities	31.0	31.6
Corporate bonds	469.2	516.9
Other investment securities	8.6	1.6
Total investment securities measured at FVOCI - debt	564.8	584.7

Included in investment securities are fixed-interest investment securities totalling £564.8m (2022: £584.7m).

Investment securities measured at amortised cost

Group

	2023	2022
	£m	£m
Government-backed investment securities	86.0	103.1
Gilts	34.8	68.1
Supranational investment securities	393.0	420.3
Financial Institution investment securities	369.3	266.1
Gross investment securities measured at amortised cost	883.1	857.6

Less: allowance for ECL (refer note 45)	(0.2)	(0.2)
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Net investment securities measured at amortised cost

882.9	857.4
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Included in investment securities at amortised cost at 28 February 2023 were fixed-interest investment securities totalling £406.3m (2022: £518.2m), and variable-interest investment securities amounting to £476.6m (2022: £339.2m).

25. Prepayments and Accrued Income

Group

	2023	2022
	£m	£m
Prepayments	14.7	16.3
Accrued income	33.7	26.9
Total prepayments and accrued income	48.4	43.2

All of the above balances are classified as current at the year-end (2022: all current).

26. Other Assets

Group	2023	2022
	£m	£m
Amount due from insurance commissions receivable	13.0	11.8
Contract asset - insurance renewal income	13.5	22.4
Accounts receivable and sundry debtors	92.8	145.2
Amounts due from Tesco Group subsidiaries	3.9	4.3
Salvage and subrogation recoveries	43.7	22.1
Deferred acquisition costs	14.8	13.9
Total other assets	181.7	219.7

All of the above balances are classified as current at the year-end (2022: all current, with the exception of £12.3m of the contract asset recognised under IFRS 15 'Revenue from Contracts with Customers', which was expected to be received after more than one year).

Contract asset - insurance renewal income

Of the prior year IFRS 15 contract asset balance, £16.3m has been reclassified in the year as commissions receivable (2022: £14.1m has been reclassified in the prior year relating to the contract asset balance at 28 February 2021) as insurance policies have been renewed and commission due to the Group has become payable. The remainder of the movement in the balance relates to accelerated income of £7.4m (2022: £6.1m) in respect of certain insurance renewal commission income where the Group has satisfied all of its performance obligations in relation to the policies sold and it is considered highly probable that a significant reversal in the amount of revenue recognised will not occur in future periods.

Deferred acquisition costs

An analysis of the movements in insurance deferred acquisition costs in the year is as follows:

	2023	2022
	£m	£m
At beginning of year	13.9	–
Acquisition costs incurred in period	2.5	21.3
Amortisation charged to operating expenses	(1.6)	(7.4)
At end of year	14.8	13.9

27. Investment in Group Undertaking

The Company's investment in a group undertaking at the year end was as follows:

Name of company	Nature of business	Place of incorporation	Ownership interest		Registered address
			2023	2022	
Tesco Personal Finance plc	Banking and general insurance services	UK	100%	100%	2 South Gyle Crescent, Edinburgh, EH12 9FQ

The Company's investment in a group undertaking amounts to £1,219.9m (2022: £1,219.9m), all of which is non-current (2022: all non-current).

The Group also has the following investment in a group undertaking owned indirectly by Tesco Personal Finance plc:

Name of company	Nature of business	Place of incorporation	Ownership interest		Registered address
			2023	2022	
Tesco Underwriting Limited	Insurance	UK	100%	100%	The Omnibus Building, Lesbourne Road, Reigate, Surrey, RH2 7LD

TU is an authorised insurance company which provides the insurance underwriting service for a number of the Group's general insurance products. Prior to 4 May 2021 TU was owned 49.9% by the Group and accounted for as a joint venture, using the equity method of accounting. On this date the Group acquired the remaining 50.1% of ordinary share capital from its joint venture partner.

The following companies are also accounted for as subsidiaries of the Group. These are securitisation structured entities established in connection with the Group's Credit Card securitisation transactions. Although none of the equity of the securitisation structured entities is owned by the Group, the nature of these entities means that the Group has the rights to variable returns from its involvement with these securitisation structured entities and has the ability to affect those returns through its power over them. As such they are effectively controlled by the Group.

Name of company	Nature of business	Place of incorporation	Registered address
Delamare Cards Holdco Limited	Securitisation entity	UK	6th Floor, 125 London Wall, London, EC2Y 5AS
Delamare Cards MTN Issuer plc	Securitisation entity	UK	6th Floor, 125 London Wall, London, EC2Y 5AS
Delamare Cards Receivables Trustee Limited	Securitisation entity	UK	6th Floor, 125 London Wall, London, EC2Y 5AS
Delamare Cards Funding 1 Limited	Securitisation entity	UK	6th Floor, 125 London Wall, London, EC2Y 5AS
Delamare Cards Funding 2 Limited	Securitisation entity	UK	6th Floor, 125 London Wall, London, EC2Y 5AS

All of the above companies have a financial year end of 31 December. The management accounts of these entities are used to consolidate the results to 28 February 2023 within these Consolidated Financial Statements.

28. Investment in Joint Venture

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

Group	2022
	£m
At beginning of year	92.8
Dividends received	(10.0)
Share of profit of joint venture	2.6
Share of other comprehensive expense of joint venture	(0.6)
Remeasurement of investment in joint venture (refer note 12)	4.6
Reclassification of investment to investment in group undertaking	(89.4)
At end of year	–

Details of the Group's joint venture

TU is an authorised insurance company which provides the insurance underwriting service for a number of the Group's general insurance products. Prior to 4 May 2021 the Group owned 49.9% of TU and the Group accounted for TU as a joint venture, using the equity method of accounting. On 4 May 2021 the Group acquired the remaining 50.1% of TU's ordinary share capital from its joint venture partner.

The Group used the equity method of accounting for its investment in TU until it became a wholly owned subsidiary on 4 May 2021. TU had a financial year end of 31 December. The accounting year end date for TU differed from that of the Group as it was in line with the previous joint venture partner. The management accounts of TU were used to consolidate TU's results within these Consolidated Financial Statements at the start of the prior year. During the prior year TU changed its year end to 28 February to align to the rest of the Group, following the acquisition of the remaining 50.1% from its joint venture partner.

TU is a private company and there is no quoted market price available for its shares.

Until the Group acquired the remaining share capital of TU on 4 May 2021 the Group had elected to take a temporary exemption available from the requirements of IAS 28 'Investments in associates and joint ventures' regarding the use of uniform accounting policies in equity accounting for a joint venture. This exemption allowed the Group to equity account for the results of TU without any adjustments to reflect the impact of IFRS 9 within these Consolidated Financial Statements.

TESCO PERSONAL FINANCE GROUP PLC
NOTES TO THE FINANCIAL STATEMENTS (continued)

29. Deferred Income Tax Asset

The net deferred income tax asset can be analysed as follows:

2023 Group	Accelerated capital allowances £m	Financial instruments £m	Share based payments £m	Other £m	Total £m
At beginning of year	22.9	38.0	3.1	0.2	64.2
(Charged) to the Consolidated Income Statement in the current year	(7.3)	(6.8)	(1.3)	–	(15.4)
(Charged)/credited to the Consolidated Income Statement for prior years	(2.0)	0.5	–	–	(1.5)
Credited/(charged) to equity	–	11.0	(0.6)	–	10.4
Change in tax rate	0.3	(0.4)	0.1	(0.2)	(0.2)
At end of year	13.9	42.3	1.3	–	57.5
Deferred tax asset to be recovered within one year					50.5
Deferred tax asset to be recovered after more than one year					12.2
Total deferred income tax asset					62.7
Deferred tax liability to be recovered within one year					(1.0)
Deferred tax liability to be recovered after more than one year					(4.2)
Total deferred income tax liability					(5.2)
Deferred tax assets (net)					57.5

TESCO PERSONAL FINANCE GROUP PLC
NOTES TO THE FINANCIAL STATEMENTS (continued)

29. Deferred Income Tax Asset (continued)

2022	Accelerated capital allowances	Financial instruments	Share based payments	Other	Total
Group	£m	£m	£m	£m	£m
At beginning of year	23.7	41.1	2.3	0.2	67.3
Acquisition of TU (Charged)/credited to the Consolidated Income Statement in the current year	0.1	(2.1)	–	–	(2.0)
Credited/(charged) to the Consolidated Income Statement for prior years	(1.8)	(7.2)	0.6	(0.1)	(8.5)
Charged to equity	0.2	–	(0.5)	0.1	(0.2)
Change in tax rate	–	5.1	0.7	–	5.8
	0.7	1.1	–	–	1.8
At end of year	22.9	38.0	3.1	0.2	64.2
Deferred tax asset to be recovered within one year					54.2
Deferred tax asset to be recovered after more than one year					14.7
Total deferred income tax asset					68.9
Deferred tax liability to be recovered within one year					(1.6)
Deferred tax liability to be recovered after more than one year					(3.1)
Total deferred income tax liability					(4.7)
Deferred tax assets (net)					64.2

30. Intangible Assets

Group	Work-in-Progress £m	Goodwill £m	Computer Software £m	Total £m
Cost				
At 1 March 2022	27.5	20.0	770.5	818.0
Additions	31.9	–	4.6	36.5
Transfers	(22.1)	–	22.1	–
Disposals	(0.7)	–	–	(0.7)
At 28 February 2023	36.6	20.0	797.2	853.8
Accumulated amortisation				
At 1 March 2022	–	–	(669.4)	(669.4)
Charge for the year	–	–	(41.8)	(41.8)
Disposals	–	–	–	–
At 28 February 2023	–	–	(711.2)	(711.2)
Net carrying value				
At 28 February 2023	36.6	20.0	86.0	142.6

Group	Work-in-Progress £m	Goodwill £m	Computer Software £m	Total £m
Cost				
At 1 March 2021	44.4	–	717.6	762.0
Acquisition of TU	–	20.0	18.0	38.0
Additions	26.1	–	6.9	33.0
Transfers	(42.8)	–	42.8	–
Disposals	(0.2)	–	(14.8)	(15.0)
At 28 February 2022	27.5	20.0	770.5	818.0
Accumulated amortisation				
At 1 March 2021	–	–	(631.1)	(631.1)
Charge for the year	–	–	(52.6)	(52.6)
Disposals	–	–	14.3	14.3
At 28 February 2022	–	–	(669.4)	(669.4)
Net carrying value				
At 28 February 2022	27.5	20.0	101.1	148.6

Work-in-progress at 28 February 2023 relates primarily to the internal development of IT software assets. Intangible asset balances are non-current (2022: non-current).

Goodwill

The acquisition of TU on 4 May 2021 resulted in the recognition of goodwill of £20.0m. This goodwill is supported by the expected increase in cash flows for the combined insurance business.

30. Intangible Assets (continued)

Impairment methodology

Goodwill is tested annually for impairment or more frequently where there are indicators of impairment. Goodwill recognised on the acquisition of TU is allocated to the insurance segment of the Group, which is treated as a separate CGU for impairment testing.

The recoverable amount of the CGU is determined based on VIU calculations. Head office and central costs are allocated to the insurance CGU based on its consumption of the Group's supported services on a cost-plus margin basis. Estimates for VIU calculations include discount rates, long-term growth rates and expected changes to future cash flows, including insurance volumes and pricing. Estimates are based on past experience and expectations of future changes in the market, including the prevailing economic climate and global economy, competitor activity, market dynamics and changing customer behaviours.

Cash flow projections are based on the Group's three-year internal forecasts, the results of which are reviewed by the Board. The forecasts are extrapolated to five years based on Management's expectations, and beyond five years based on estimated long-term average growth rates. Long-term growth rates for the Group are based on inflation and GDP growth forecasts by recognised bodies.

Management estimate discount rates using pre-tax rates that reflect the market assessment as at the Statement of Financial Position date of the time value of money. The pre-tax discount rates are derived from the Group's post-tax weighted average cost of capital. Risk-free rates are based on government bond rates and equity risk premia are based on forecasts by recognised bodies.

Key assumptions and sensitivity

For VIU calculations, the key assumptions to which the recoverable amount is most sensitive are discount rates, long-term growth rates and forecast cash flows. The rates for the insurance CGU to which goodwill has been allocated are as follows:

	2023	2022
	%	%
Pre-tax discount rate	10.3	8.0
Post-tax discount rate	7.9	6.3
Long-term growth rate	1.7	1.6

The Group has carried out sensitivity analysis on the reasonably possible changes in these key assumptions in the impairment test for the insurance CGU. Neither a reasonably possible one percentage point increase in discount rates, a one percentage point decrease in long-term growth rates nor a five percentage point decrease in annual cash flows would indicate impairment in the insurance CGU to which goodwill has been allocated.

Computer Software

As part of the acquisition of TU on 4 May 2021, the Group recognised separately identified intangible assets within computer software. These represent the fair value of the insurance software acquired.

31. Property, Plant and Equipment

Group	Work- in- Progress £m	Plant and Equipment £m	Fixtures and Fittings £m	Computer Hardware £m	Freehold Buildings £m	Leasehold Improvements £m	Right of Use Assets £m	Total £m
Cost								
At 1 March 2022	12.3	2.5	17.6	115.2	32.4	20.2	30.4	230.6
Additions	3.7	–	1.1	9.2	–	–	0.9	14.9
Transfers	(6.6)	–	–	6.2	–	0.4	–	–
Disposals	–	–	(0.2)	(24.4)	–	–	(0.4)	(25.0)
At 28 February 2023	9.4	2.5	18.5	106.2	32.4	20.6	30.9	220.5
Accumulated depreciation								
At 1 March 2022	–	(2.5)	(12.9)	(92.2)	(9.0)	(15.2)	(19.0)	(150.8)
Charge for the year	–	–	(1.9)	(6.8)	0.1	(1.3)	(1.8)	(11.7)
Disposals	–	–	–	24.3	–	–	0.4	24.7
At 28 February 2023	–	(2.5)	(14.8)	(74.7)	(8.9)	(16.5)	(20.4)	(137.8)
Net carrying value	9.4	–	3.7	31.5	23.5	4.1	10.5	82.7

Group	Work- in- Progress £m	Plant and Equipment £m	Fixtures and Fittings £m	Computer Hardware £m	Freehold Buildings £m	Leasehold Improvements £m	Right of Use Assets £m	Total £m
Cost								
At 1 March 2021	18.4	3.0	21.7	126.3	32.4	20.2	29.4	251.4
Additions	8.2	–	0.4	5.2	–	–	0.6	14.4
Acquisition of TU	–	–	–	0.4	–	–	0.4	0.8
Transfers	(14.3)	–	0.4	13.9	–	–	–	–
Disposals	–	(0.5)	(4.9)	(30.6)	–	–	–	(36.0)
At 28 February 2022	12.3	2.5	17.6	115.2	32.4	20.2	30.4	230.6
Accumulated depreciation								
At 1 March 2021	–	(3.0)	(15.9)	(115.9)	(8.1)	(13.8)	(17.2)	(173.9)
Charge for the year	–	–	(1.9)	(6.6)	(0.9)	(1.4)	(1.8)	(12.6)
Disposals	–	0.5	4.9	30.3	–	–	–	35.7
At 28 February 2022	–	(2.5)	(12.9)	(92.2)	(9.0)	(15.2)	(19.0)	(150.8)
Net carrying value	12.3	–	4.7	23.0	23.4	5.0	11.4	79.8

Work-in-progress at 28 February 2023 relates predominantly to the development of IT assets. Property, plant and equipment balances are non-current (2022: non-current).

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NOTES TO THE FINANCIAL STATEMENTS (continued)

32. Deposits from Banks

Group	2023	2022
	£m	£m
Deposits from banks	979.7	1,052.3
	979.7	1,052.3
Current	79.7	152.3
Non-current	900.0	900.0

Deposits from banks include balances of £905.8m (2022: £902.0m) drawn under the BoE's Term Funding Scheme with incentives for Small and Medium Sized Entities (TFSME). Also included are balances of £73.9m (2022: £150.3m) which have been sold under sale and repurchase agreements.

33. Deposits from Customers

Group	2023	2022
	£m	£m
Retail deposits	5,771.1	5,326.0
Fair value hedge adjustment	(1.5)	(0.1)
	5,769.6	5,325.9
Current	4,404.9	4,576.4
Non-current	1,364.7	749.5

Fair value hedge adjustments

Fair value hedge adjustments amounting to £(1.5)m (2022: £(0.1)m) are in respect of fixed rate Savings products. These adjustments are largely offset by derivatives, which are used to manage interest rate risk and are designated as fair value hedges of deposits from customers.

34. Debt Securities in Issue

Group	Interest rate	Par value £m	Term (years)	Maturity date	2023 £m	2022 £m
MREL ¹	3.50%	144.7	6	2025	137.5	244.0
Total debt securities in issue					137.5	244.0
Company						
MREL ¹	3.50%	144.7	6	2025	145.3	250.4
Total debt securities in issue					145.3	250.4

¹ This bond was issued on 26 July 2019. The scheduled redemption date is July 2024.

On 1 January 2020, the Group became subject to MREL requirements, with an interim requirement of 18% of risk-weighted assets until 31 December 2022. In order to meet this requirement, the Company undertook an initial £250.0m issuance of MREL-compliant debt in July 2019.

On 9 December 2021, the BoE confirmed a change in the Company's preferred resolution strategy from partial-transfer to a modified form of insolvency, effective from 1 January 2022. As set out in its MREL Statement of Policy, the BoE does not expect to set an MREL in excess of the TCR for firms with a modified form of insolvency as the preferred resolution strategy. Accordingly, as part of a tender process undertaken in November 2022, the Company redeemed £105.3m notional of outstanding MREL-compliant debt, with the remaining £144.7m notional still in issue at 28 February 2023. All of the above balances are classified as non-current at year end (2022: all non-current), with the exception of accrued interest of £0.5m (2022: £0.9m), which is classified as current.

35. Provisions for Liabilities and Charges

Group	Customer			Other Provisions ¹	Total
	Redress Provision	Restructuring Provision	Expected Credit Loss Provision		
2023	£m	£m	£m	£m	£m
At beginning of year	14.3	–	16.2	7.1	37.6
Provided during the year	–	7.8	–	0.2	8.0
Utilised during the year	(4.0)	(6.7)	–	(0.2)	(10.9)
Transfer to loans and advances ECL allowance	–	–	(2.9)	–	(2.9)
Released during the year	–	–	–	(1.6)	(1.6)
At end of year	10.3	1.1	13.3	5.5	30.2

Customer redress provision - Payment protection insurance (PPI)

The customer redress provision of £10.3m at 28 February 2023 (2022: £14.3m) relates to potential customer complaints arising from historic sales of PPI. The Financial Conduct Authority's (FCA) general claims deadline passed on 29 August 2019, albeit legal claims continue to be received. Although a significant degree of uncertainty remains with regard to the ultimate cost of settling PPI claims, the provision balance represents Management's best estimate at the reporting date of that cost and is based on historical uphold rates, average redress and the associated administrative expenses. The PPI provision and the impact of regulatory changes will continue to be monitored as Management finalise their assessment of existing claims, ongoing legal claims and levels of redress thereon. The timing of utilisation of the remaining provision is dependent on the timing of settlement of the remaining claims. This remains inherently uncertain given their legal nature. Management do not consider there to be a significant risk of a material adjustment to the carrying amount of the PPI provision within the next financial year. Accordingly, no sensitivity analysis is provided.

Expected credit loss provision

The ECL provision represents the amount of ECL allowance recognised under IFRS 9 which exceeds the gross carrying amount of the financial asset as set out at note 45.

Other provisions

Other provisions predominantly reflect:

- a dilapidations provision related to the anticipated costs of restoring leased assets to their original condition. Management expect that the provision will be utilised at the end of the lease terms, the longest of which is due to end in 2029;
- a warranty provision in respect of debt sales. This represents post-determination date customer receipts payable to debt purchasers and provision for any accounts which may need to be bought back under the terms of the debt sale agreements. This balance is classified as current at the year-end; and
- a provision in respect of the potential cost of refunding fees to customers. This balance is classified as current at the year-end.

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36. Accruals and Deferred Income

Group	2023 £m	2022 £m
Amounts accrued to Tesco Group subsidiaries	15.1	12.2
Other accruals	85.3	91.7
Deferred income	11.7	15.7
Total accruals and deferred income	112.1	119.6

All of the above balances are classified as current at the year-end (2022: all current).

37. Other Liabilities

Group	2023 £m	2022 £m
Accounts payable and sundry creditors	150.8	118.4
Insurance creditor	0.9	0.8
Taxation and social security payable	12.6	7.9
Contract liabilities - insurance refunds	0.9	1.1
Lease liabilities (refer note 43)	23.8	26.8
Amounts owed to Tesco Group subsidiaries	10.9	9.1
Total other liabilities	199.9	164.1

All of the above balances are classified as current at the year-end (2022: all current), with the exception of £19.7m (2022: £22.8m) of the lease liabilities which are due after more than one year.

Contract liabilities – insurance refunds

Revenue recognised in the year under IFRS 15 in respect of the opening contract liability balance was £0.2m (2022: £0.0m).

38. Insurance Funds Withheld

Group	2023 £m	2022 £m
Insurance funds withheld	123.5	114.8
Total insurance funds withheld	123.5	114.8

Current	24.6	9.6
Non-current	98.9	105.2

The Group has put in place a QS contract as part of its overall reinsurance protection strategy. A funds withheld account is maintained which represents the balance due to reinsurers in accordance with the terms of this reinsurance agreement. The balance is the net of premiums payable, commission receivable, claims recoveries receivable and profit commission receivable or payable, with the reinsurance margin paid over eight quarterly instalments. The funds withheld account is made up of QS funds withheld payable of £132.9m (2022: £122.5m) and a profit commission receivable of £9.4m (2022: £7.7m) (which is part of the contract but is a separate payable). The contract will be commuted after four years from inception.

39. Insurance Contracts Provisions and Reinsurance Assets

The following tables show the breakdown of the Group's insurance contract provisions and reinsurance assets at 28 February 2023:

Group	2023			2022		
	Gross £m	Reinsurance £m	Net £m	Gross £m	Reinsurance £m	Net £m
Unearned premiums	173.8	(72.8)	101.0	155.8	(64.1)	91.7
Claims	431.1	(144.1)	287.0	494.2	(181.0)	313.2
Total insurance contract provisions	604.9	(216.9)	388.0	650.0	(245.1)	404.9

	2023			2022		
	Gross £m	Reinsurance £m	Net £m	Gross £m	Reinsurance £m	Net £m
Current	570.3	(71.7)	498.6	623.3	(60.9)	562.4
Non-current	34.6	(145.2)	(110.6)	26.7	(184.2)	(157.5)

Subrogation recoveries are not included above. For details see movement in outstanding claims analysis below.

Gross insurance contract provisions, unlike reinsurance assets, are classified as current or non-current based on contractual rights to defer settlement for at least 12 months after the reporting date in accordance with IAS 1 'Presentation of Financial Statements', rather than expected timing of settlement. Analysis presented on a behavioural basis is set out on page 132.

Analysis of movement in insurance provisions

	2023			2022		
	Gross £m	Reinsurance £m	Net £m	Gross £m	Reinsurance £m	Net £m
Balance at 1 March	650.0	(245.1)	404.9	–	–	–
Acquisition of TU	–	–	–	650.3	(246.7)	403.6
Claims (paid)/recovered from insurers	(259.4)	108.3	(151.1)	(171.3)	65.8	(105.5)
Movement in claims outstanding	196.2	(71.3)	124.9	156.2	(59.3)	96.9
Change in provisions from unearned premiums	18.1	(8.8)	9.3	14.8	(4.9)	9.9
At 28 February	604.9	(216.9)	388.0	650.0	(245.1)	404.9

39. Insurance Contracts Provisions and Reinsurance Assets (continued)

Analysis of movement in provision for gross unearned premium

	2023 £m	2022 £m
Balance at 1 March	155.8	–
Acquisition of TU	–	141.0
Premium written during the year	326.6	254.0
Less: premiums earned during the year	(308.7)	(239.2)
At 28 February	173.7	155.8

Analysis of movement in outstanding claims

	2023 £m	2022 £m
Gross outstanding claims		
Balance at 1 March	494.3	–
Acquisition of TU	–	509.3
Current year claims	309.1	213.4
Change in prior year claims	(112.9)	(57.1)
Current year claims paid	(139.9)	(103.9)
Prior year claims paid	(119.5)	(67.4)
At 28 February	431.1	494.3

	2023 £m	2022 £m
Salvage and subrogation recoveries		
Balance at 1 March	22.1	–
Acquisition of TU	–	16.0
Current year claims	34.3	20.5
Change in prior year claims	(12.7)	(14.4)
At 28 February	43.7	22.1

	2023 £m	2022 £m
Gross outstanding claims, net of recoveries		
Balance at 1 March	472.1	–
Acquisition of TU	–	493.3
Current year claims	274.9	192.9
Change in prior year claims	(100.2)	(42.8)
Current year claims paid	(139.9)	(103.9)
Prior year claims paid	(119.5)	(67.4)
At 28 February	387.4	472.1

39. Insurance Contracts Provisions and Reinsurance Assets (continued)

Process used to determine the assumptions

The sources of data used as inputs for the assumptions behind insurance provisions are internal, using detailed studies that are carried out at least annually. The assumptions are checked to ensure that they are consistent with observable market prices or other published information. There is more emphasis on current trends, and where in more recent periods there is insufficient information to make a reliable best estimate of claims development, suitable benchmark assumptions are used.

The nature of the business makes it very difficult to predict with certainty the likely outcome of any particular claim and the ultimate cost of notified claims. Each notified claim is assessed on a case-by-case basis with due regard to the claim circumstances and historical evidence of the size of similar claims. Case estimates are reviewed regularly and are updated as and when new information arises. The provisions are based on information currently available. However, the ultimate liabilities may vary as a result of subsequent developments. The impact of many of the items affecting the ultimate costs of the loss is difficult to estimate. The degree of complexity involved will also differ by line of business due to differences in the underlying insurance contract, claim complexity, the volume of claims and the individual severity of claims, determining the occurrence date of a claim, and reporting lags.

The cost of outstanding claims and the IBNR provisions are estimated using various statistical methods. Such methods extrapolate the development of paid and incurred claims, average cost per claim and ultimate claim numbers for each accident period based upon observed development of earlier periods, with reference to suitable benchmarks.

The key methods are:

- Development factor methods, which use historical data to estimate the paid and incurred to date as proportions of the ultimate claim cost;
- Individual claim assessment methods, which use claim-specific details for large individual claims to estimate the ultimate claim cost; and
- Benchmarking methods, which use the experience of comparable, more mature classes, or market data to estimate the cost of claims.

The actual method or blend of methods used varies by accident period being considered and the class of business and observed historical claims development.

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

- Changes in processes that affect the development and/or recording of claims paid and incurred (such as changes in claim reserving procedures and/or the introduction of a new claims system);
- Economic, legal, political and social trends (resulting in, for example, a difference in expected levels of inflation);
- Changes in mix of business; and
- Random fluctuations, including the impact of large losses.

IBNR provisions are initially estimated at a gross level and a separate calculation is carried out to estimate the size of reinsurance recoveries. The Group is covered by a variety of excess of loss reinsurance programmes. The methods used by the Group take account of historical data, specific details for individual large claims and details of the reinsurance programme, to assess the expected size of reinsurance recoveries.

39. Insurance Contracts Provisions and Reinsurance Assets (continued)

Process used to determine the assumptions (continued)

The Group considers that the liability for claims reported in the Consolidated Statement of Financial Position is adequate. However, it recognises that the process of estimation is based upon certain variables and assumptions, which could differ when claims arise.

Recoveries through salvage and subrogation are estimated and recorded separately within other assets based on a combination of suitable benchmark assumptions and the observed development to date.

Ogden rate

The personal injury discount rate (Ogden rate) is set by the Ministry of Justice and is used by the courts to calculate lump sum personal injury payments. Reserves are assessed at the current rate of -0.25%.

Analysis of claims development – gross of reinsurance and net of salvage and subrogation recoveries

	Accident year ^{1, 2}											
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Estimate of gross ultimate claim costs												
At end of accident year	390.6	349.3	327.1	370.7	304.3	317.4	282.2	219.7	224.1	47.9	41.0	–
One year later	388.4	352.7	343.2	372.1	298.8	296.7	288.1	209.0	204.4	278.2	–	–
Two years later	372.6	379.1	343.1	335.0	269.3	267.9	270.9	184.1	–	–	–	–
Three years later	382.8	352.9	322.7	324.5	258.3	270.7	234.9	–	–	–	–	–
Four years later	362.5	359.7	311.5	322.9	252.8	259.4	–	–	–	–	–	–
Five years later	360.3	346.9	304.9	308.6	251.3	–	–	–	–	–	–	–
Six years later	360.8	349.9	305.4	303.6	–	–	–	–	–	–	–	–
Seven years later	360.3	343.3	305.6	–	–	–	–	–	–	–	–	–
Eight years later	360.1	345.2	–	–	–	–	–	–	–	–	–	–
Nine years later	358.6	–	–	–	–	–	–	–	–	–	–	–
Current estimate of cumulative claims	358.6	345.2	305.6	303.6	251.3	259.4	234.9	184.1	204.4	278.2	41.0	2,766.2
Cumulative payments to date	(348.5)	(327.6)	(298.9)	(291.2)	(248.0)	(239.2)	(204.0)	(137.4)	(138.5)	(161.8)	(8.7)	(2,403.9)
Claims outstanding prior to 2013 still outstanding	–	–	–	–	–	–	–	–	–	–	–	18.3
Current gross claims provision	10.1	17.6	6.7	12.4	3.3	20.2	30.9	46.7	65.9	116.4	32.3	380.6
Provision for claims handling costs	–	–	–	–	–	–	–	–	–	–	–	4.8
Fair value adjustment to claims outstanding provisions as a result of TU acquisition	–	–	–	–	–	–	–	–	–	–	–	2.0
Total gross claims outstanding provisions	–	–	–	–	–	–	–	–	–	–	–	387.4

¹ The information in the above claims development table covers the period from which the earliest material claim arose in TU for which there is still uncertainty about the amount and timing of the claims payments and therefore reflects claims development in respect of claims arising prior to the acquisition of TU on 4 May 2021.

² TU changed its reporting date from 31 December to 28 February during 2022. However, accident years remained consistent with a calendar year. Consequently, the first development year from 2022 onwards represents only two months of claims development.

39. Insurance Contracts Provisions and Reinsurance Assets (continued)

Analysis of claims development – net of reinsurance and net of salvage and subrogation recoveries

	Accident year ^{1,2}											Total £m
	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	2019 £m	2020 £m	2021 £m	2022 £m	2023 £m	
Estimate of net ultimate claim costs												
At end of accident year	378.8	336.0	319.5	310.5	276.0	259.0	235.7	143.9	127.0	37.2	31.8	–
One year later	380.3	338.2	327.2	319.2	269.7	259.3	254.7	124.9	119.0	170.6	–	–
Two years later	367.9	348.9	330.7	302.0	252.0	233.4	243.6	108.8	–	–	–	–
Three years later	371.5	342.6	314.8	291.7	241.5	246.7	222.2	–	–	–	–	–
Four years later	358.9	339.1	305.8	292.5	239.4	236.0	–	–	–	–	–	–
Five years later	355.2	338.0	300.7	286.6	239.2	–	–	–	–	–	–	–
Six years later	356.2	339.9	300.9	287.5	–	–	–	–	–	–	–	–
Seven years later	355.1	333.7	301.0	–	–	–	–	–	–	–	–	–
Eight years later	354.2	334.9	–	–	–	–	–	–	–	–	–	–
Nine years later	351.1	–	–	–	–	–	–	–	–	–	–	–
Current estimate of cumulative claims	351.1	334.9	301.0	287.5	239.2	236.0	222.2	108.8	119.0	170.6	31.8	2,402.2
Cumulative payments to date	(347.4)	(323.2)	(294.8)	(280.3)	(235.6)	(220.4)	(197.1)	(95.7)	(84.1)	(94.3)	(4.5)	(2,177.4)
Claims outstanding prior to 2012 accident year	–	–	–	–	–	–	–	–	–	–	–	11.6
Current net claims provision	3.7	11.7	6.2	7.2	3.6	15.6	25.1	13.1	34.9	76.3	27.3	236.3
Provision for claims handling costs	–	–	–	–	–	–	–	–	–	–	–	4.8
Fair value adjustment to claims outstanding provisions as a result of TU acquisition	–	–	–	–	–	–	–	–	–	–	–	2.0
Total net claims outstanding provisions	–	–	–	–	–	–	–	–	–	–	–	243.1

¹ The information in the above claims development table covers the period from which the earliest material claim arose in TU for which there is still uncertainty about the amount and timing of the claims payments and therefore reflects claims development in respect of claims arising prior to the acquisition of TU on 4 May 2021.

² TU changed its reporting date from 31 December to 28 February during 2022. However, accident years remained consistent with a calendar year. Consequently, the first development year from 2022 onwards represents only two months of claims development.

40. Subordinated Liabilities and Notes

Group and Company	2023 £m	2022 £m
Amortised cost:		
Floating rate subordinated loans	191.5	190.5
Undated floating rate notes	45.4	45.1
Total subordinated liabilities and notes	236.9	235.6

Subordinated liabilities and notes comprise loan capital issued to Tesco. This includes £190.0m notional (2022: £190.0m) of subordinated loans maturing in 2030 and £45.0m notional (2022: £45.0m) of undated notes with no fixed maturity date. All of the above balances are classified as non-current at the year-end (2022: all non-current) with the exception of accrued interest of £1.9m (2022: £0.6m) which is classified as current.

Interest payable on the floating rate subordinated loans and notes is based on three-month SONIA plus a margin of 67 to 227 basis points (2022: three-month SONIA plus a margin of 67 to 227 basis points).

41. Share Capital and Share Premium Account

Group and Company	2023 Number	2023 £m	2022 Number	2022 £m
Authorised				
A Ordinary shares of 10p each	Unlimited		Unlimited	
B Ordinary shares of 10p each	Unlimited		Unlimited	
C Ordinary shares of 10p each	1		1	
Allotted, called up and fully paid				
A Ordinary shares of 10p each	991,090,000	99.1	991,090,000	99.1
B Ordinary shares of 10p each	229,089,000	22.9	229,089,000	22.9
C Ordinary shares of 10p each	1	–	1	–
	<u>1,220,179,001</u>	<u>122.0</u>	<u>1,220,179,001</u>	<u>122.0</u>
		2023 £m		2022 £m
Share premium reserve		<u>1,098.2</u>		<u>1,098.2</u>
		<u>1,098.2</u>		<u>1,098.2</u>

42. Other Reserves

Group	2023 £m	2022 £m
Fair value reserve	(43.9)	(12.8)
Cash flow hedge reserve	0.1	0.2
Share based payment reserve	20.4	26.1
Total reserves	(23.4)	13.5

[Fair value reserve](#)

The cumulative net change in the fair value of investment securities measured at FVOCI is included in the fair value reserve, less the impairment allowance recognised in the Consolidated Income Statement.

[Cash flow hedge reserve](#)

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

[Share based payment reserve](#)

The fair value of Tesco equity-settled share options granted to employees of the Group is included in the share based payment reserve.

43. Leases

Leasing activities

The Group has entered into leases for office buildings. These lease contracts contain a wide range of terms and conditions, including extension options. These options are exercisable only by the Group and not by the respective Lessor.

Consolidated Income Statement Amounts Relating to Leases

The Consolidated Income Statement includes the following amounts relating to leases:

	2023	2022
Group	£m	£m
Depreciation charge on right-of-use assets ¹	1.8	1.8
Interest expense on lease liabilities ²	1.8	2.1
Total	3.6	3.9

Consolidated Statement of Financial Position Amounts Relating to Leases

The Consolidated Statement of Financial Position includes the following amounts relating to leases:

	2023	2022
Group	£m	£m
Right-of-use assets³		
Office buildings	10.5	11.4
Total right-of-use assets	10.5	11.4
Lease liabilities⁴		
Current	4.1	4.0
Non-current	19.7	22.8
Total lease liabilities	23.8	26.8

Consolidated Cash Flow Statement amounts relating to leases

The Consolidated Cash Flow Statement includes the following amounts relating to leases:

	2023	2022
Group	£m	£m
Interest paid on lease liabilities	2.7	3.5
Principal payments on lease liabilities	3.0	2.2
Total cash outflow for lease liabilities	5.7	5.7

Possible future cash outflows not included in lease liability

Potential future lease payments (undiscounted) in relation to extension options not included in the reasonably certain lease term, and hence not included in lease liabilities, total £65.3m (2022: £65.3m).

¹ Included in Depreciation and amortisation in the Consolidated Income Statement (refer to note 31)

² Included in Net interest income in the Consolidated Income Statement (refer to note 6).

³ Included in Property, plant and equipment in the Consolidated Statement of Financial Position (refer to note 31).

⁴ Included in Other liabilities in the Consolidated Statement of Financial Position (refer to note 37).

44. Employee Benefit Liability

Defined benefit plans

The Group made contributions in the year to a closed funded defined benefit scheme operated by TSL. The principal pension plan is the Tesco pension scheme, a funded defined benefit pension scheme in the UK, the assets of which are held as a segregated fund and administered by the Trustee. TSL has recognised the appropriate net liability of the Tesco pension scheme in accordance with IAS 19.

Defined contribution plans

A defined contribution scheme operated by TSL is open to all Group employees in the UK.

Detailed disclosures, in line with the requirements of IAS 19, are included in the Tesco 2023 Financial Statements.

45. Risk Management

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

Through its normal operations, the Group is exposed to a number of risks, the most significant of which are credit risk, operational risk, liquidity and funding risk, market risk, insurance risk, residual price risk, legal and regulatory compliance risk and insurance capital risk. The key risk management processes and tools are described in detail on pages 10 to 25 within the Strategic Report.

(a) Credit Risk

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

• Types of credit risk

Retail credit risk

Retail credit risk is the risk that a borrower, who is a personal customer, will default on a debt or obligation by failing to make contractually obligated payments. The Group is following FCA guidance, updated due to the Covid-19 pandemic, in relation to those Credit Card customers defined as being in persistent debt.

Controls and risk mitigants

To minimise the potential for the Group to be exposed to levels of default that are outside Risk Appetite, processes, systems and limits have been established that cover the end-to-end retail credit risk customer life cycle, the key components of which are outlined below:

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

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

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

45. Risk Management (continued)

Controls and risk mitigants (continued)

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

Wholesale credit risk

Wholesale credit risk is the risk that the counterparty to a transaction will default before the final settlement of the transaction's cash flows. Such transactions relate to contracts for derivative financial instruments, securities financing transactions (SFTs) and long-dated settlement transactions. As at 28 February 2023, the Group had an undrawn £200.0m (2022: £200.0m) committed structured repurchase facility and has no long-dated settlement transactions.

The Group does not operate in the mainstream commercial or corporate lending market. However, the Group is exposed to wholesale credit risk primarily through treasury activities, as a result of cash management, liquidity and market risk management, with the inherent risk that these counterparties could fail to meet their obligations.

Controls and risk mitigants

Daily monitoring of exposures is undertaken, with oversight from the Risk function. Monthly reporting of RAMs is provided to the Executive Risk Committee (ERC). Escalation processes are in place for the reporting of any breached limits directly to the ERC.

The RAM limits are set out in the Wholesale Credit Risk Policy which is approved by the Board. The limits contained in the Policy are approved by the Board. The Treasury Director is responsible for ensuring that the Treasury function complies with counterparty credit risk limits.

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

Wholesale credit risk limits restrict the amounts that can be invested based on counterparty credit-worthiness by country, instrument type and remaining tenor. As part of the credit assessment process for wholesale credit risk exposures, the Group uses the external credit ratings issued by Fitch (as the nominated external credit assessment institution) to help determine the appropriate risk-weighting to apply under the Standardised Approach (SA) to credit risk exposures. The Wholesale Credit Risk Policy is set by the Board and any new counterparty limits, Policy exceptions or overrides must follow delegated authorities agreed by the Board.

The Wholesale Credit Risk Policy also provides that credit risk mitigation techniques are applied to reduce wholesale credit risk exposures. International Swaps Derivatives Association (ISDA) master agreements are in place with all derivative counterparties, Global Master Repurchase Agreements are in place for all repurchase counterparties and ISDA Credit Support Annexes have been executed with all of the Group's derivative counterparties. The Group uses central counterparties in order to clear specified derivative transactions (predominantly interest rate swaps) thereby mitigating counterparty credit risk. Positions are continuously marked-to-market and margin in the form of collateral is exchanged on at least a daily basis. As at 28 February 2023, no additional credit risk mitigation was deemed necessary.

45. Risk Management (continued)

• **Credit risk: ECL measurement**

The Group assesses, on a forward-looking basis, the ECLs associated with its financial assets carried at amortised cost and FVOCI and its exposure arising from loan commitments in relation to Credit Card products. The Group has not recognised an ECL allowance for cash, loans and advances to banks, and other financial assets balances at 28 February 2023 due to the short-term nature of these balances, the frequency of origination and settlement of balances and collateral held.

ECLs are calculated in line with the requirements of IFRS 9 using the three-stage model for impairment:

Stage 1 Financial asset is not credit impaired and has not had a significant increase in credit risk since initial recognition.

Stage 2 Financial asset is not credit impaired but has had a significant increase in credit risk since initial recognition.

Stage 3 Financial asset is credit impaired.

The measurement of ECLs is dependent on the classification stage of the financial asset. For financial assets in stage 1, loss allowances are calculated based on ECLs arising from default events that are possible within 12 months from the reporting date. For financial assets in stages 2 and 3, loss allowances are calculated based on lifetime ECLs.

The measurement of ECLs for financial assets measured at amortised cost or FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour. A number of significant judgements are also required in applying the accounting requirements for measuring ECLs.

The sections below provide further explanations of the factors taken into account in the measurement of ECLs.

Significant increase in credit risk

At each reporting date, the change in credit risk of the financial asset is observed using a set of quantitative and qualitative criteria, together with a backstop based on arrears status.

Quantitative criteria:

For each financial asset, the Group compares the lifetime probability of default (PD) at the reporting date with the lifetime PD that was expected at the reporting date at initial recognition (PD thresholds). The Group has established PD thresholds for each type of product which vary depending on initial term and term remaining.

Qualitative criteria:

A number of qualitative criteria are in place such as:

- Forbearance offered to customers in financial difficulty;
- Credit indebtedness;
- Credit limit decrease; and
- Pre-delinquency information.

Backstop

As a backstop, the Group considers that if an account's contractual payments are more than 30 days past due then a significant increase in credit risk has taken place.

45. Risk Management (continued)

Definition of default

An account is deemed to have defaulted when the Group considers that a customer is in significant financial difficulty and that the customer meets certain quantitative and qualitative criteria regarding their ability to make contractual payments when due.

This includes instances where:

- the customer makes a declaration of significant financial difficulty and is placed on a temporary interest-free repayment plan or permanent reduction in annual percentage rate;
- the customer or third-party agency communicates that it is probable that the customer will enter bankruptcy or another form of financial restructuring such as insolvency or repossession;
- the account has been transferred to recoveries and the relationship is terminated;
- the customer is more than 90 days past due (the equivalent of four payments down) for Personal Loans and Credit Cards; or
- where the customer is deceased.

An account is considered to no longer be in default when it no longer meets any of the default criteria and has remained up-to-date on its contractual payments for a period of at least three months.

Inputs, assumptions and techniques used for estimating impairment

The ECL is determined by multiplying together the PD, exposure at default (EAD) and loss given default (LGD) for the relevant time period and for each collective segment and by discounting back to the balance sheet date. Each of these inputs is explained further below.

Probability of default: Represents the likelihood a customer will default over the relevant period, being either 12 months or the expected lifetime.

Exposure at default: Represents the expected amount due from the customer at the point of default. The Group derives the EAD from the current exposure to the customer and future changes to that exposure to the point of default.

Loss given default: Represents the Group's expectation of the extent of the loss if there is a default. The LGD assumes that once an account has defaulted, the portion of the defaulted balance will be recovered over a maximum period of 60 months from the point of default. LGD models take into account, when relevant, the valuation of collateral, collection strategies and receipts from debt sales.

These inputs are adjusted to reflect forward-looking information as described below.

Expected lifetime

The expected lifetime of a financial asset is generally the contractual term. In the case of Personal Loans, the expected lifetime is the behavioural life. In the case of revolving products, the Group measures credit losses over the period that it will be exposed to credit risk. This is estimated using historical customer data. The current expected lifetime of the Group's Credit Card portfolio is seven years (2022: six years).

Incorporation of forward-looking information

The ECL calculation and the measurement of significant deterioration in credit risk both incorporate forward-looking information using a range of macro-economic scenarios. The key economic variables are based on historical patterns observed over a range of economic cycles.

Past due and impaired definitions

The Group considers exposures to be past due where a customer does not make the minimum contractual monthly payment of principal, interest or fee. Accounts remain as past due but not impaired until the point where a loss trigger has occurred.

45. Risk Management (continued)

The definition of default set out above aligns to both statutory and regulatory reporting and complies with the requirements of each. The Group has no past-due exposures of more than 90 days that are not considered to be impaired.

The Group has engaged a third-party supplier to provide relevant economic data which, prior to incorporation into the ECL calculation, is subject to internal review and challenge with reference to other publicly available market data and benchmarks.

At 28 February 2023, the Group continued to use four economic scenarios. These scenarios included a Base scenario, an Upside scenario and two different downside scenarios. These scenarios were assigned weightings of 40%, 30%, 25% and 5% respectively.

- The Base scenario assumes a continued conflict in Ukraine and the resulting effects on worldwide energy flows and inflation. A recession in the first half of 2023 is assumed and the GDP is not expected to return to pre-pandemic levels until Q2 2025. This is discussed in more detail below.
- The Upside scenario assumes that the Ukraine conflict diminishes and sanctions are gradually lifted, thus dissipating global supply chain disruption as goods and energy flow more freely. Unemployment is expected to peak at 4.4% in 2024 and average CPI inflation of 5.8% is expected for 2023.
- The Downside 1 scenario builds on the assumptions in the Base scenario but assumes Western sanctions on Russia build and intensify, leading to disruption in supplies of oil, gas and other commodities such as wheat and grain. Energy prices rise as the gas supply to Europe is cut off and inflation remains higher for longer than in the Base scenario. As company balance sheets deteriorate, cut-backs see the unemployment rate peak at 7.3% in 2025.
- The Downside 2 scenario assumes that gas and oil are cut off to Europe causing a spike in energy prices, CPI remains higher for longer and depreciation of Sterling against the Dollar further embeds high inflation. Profitability of UK businesses is impeded and business investment stalls. Unemployment is expected to peak at 9.6% in 2025 and remain over 8% until 2028 under this scenario.

These scenarios are also reviewed to ensure an unbiased estimate of ECLs by ensuring the credit loss distribution under a larger number of scenarios is adequately captured using these scenarios and their respective weightings.

Base Scenario

The Group's Base scenario projects a recession during the first half of 2023 and a return to pre-Covid-19 pandemic levels in Q2 2025. The Base scenario applied by the Group at 31 August 2022 projected a technical recession in late 2022.

Fiscal restraint is expected to reduce the pressure to tighten monetary policy further, though with high inflation, the BoE base rate is still expected to rise and peak at 4.5% in 2023. Household finances remain under pressure and real disposable incomes are projected to decline in 2023, underpinning a contraction in consumer spending.

The Base scenario employed at 28 February 2023 is less optimistic than the one in place at 31 August 2022, with higher unemployment and BoE base rates and lower GDP growth. The current Base scenario expects unemployment to peak at 5.7% by Q4 2024 compared to a peak of 5.1% in Q2 2024 predicted at 31 August 2022.

The pressures of a high inflation environment on household finances and company balance sheets are expected to continue and the Group has applied uncertainty PMA's of £90.0m in respect of this.

45. Risk Management (continued)

The tables below show the key macro-economic variables in each scenario, averaged over a five-year period.

The economic scenarios used include the following ranges of key indicators:

2023

Scenario	Weighting	Sensitivity (100% weighted) ¹	Economic measure	2023	2024	2025	2026	2027
		£m		%	%	%	%	%
Base	40%	(11.0)	Bank of England base rate ²	4.1	4.3	3.7	3.5	3.4
			Gross domestic product ³	(0.6)	1.0	1.4	1.5	1.6
			Unemployment rate	4.3	5.4	5.7	5.5	5.3
			Unemployment rate peak in year	4.7	5.7	5.7	5.6	5.4
Upside	30%	(58.6)	Bank of England base rate ²	3.4	2.9	2.9	2.9	2.9
			Gross domestic product ³	0.9	1.8	1.7	1.5	1.6
			Unemployment rate	3.9	4.3	4.3	4.2	4.1
			Unemployment rate peak in year	4.1	4.4	4.3	4.2	4.2
Downside 1	25%	64.7	Bank of England base rate ²	4.9	5.6	4.8	4.3	4.0
			Gross domestic product ³	(2.2)	(0.1)	1.4	1.5	1.6
			Unemployment rate	5.1	6.7	7.3	7.0	6.4
			Unemployment rate peak in year	5.8	7.2	7.3	7.2	6.6
Downside 2	5%	160.6	Bank of England base rate ²	5.9	7.0	6.0	5.4	4.9
			Gross domestic product ³	(3.6)	(1.4)	1.2	1.5	1.6
			Unemployment rate	6.2	8.8	9.6	9.1	8.3
			Unemployment rate peak in year	7.4	9.5	9.6	9.4	8.6
Weighted scenarios			Bank of England base rate ²	4.2	4.3	3.8	3.6	3.5
			Gross domestic product ³	(0.7)	0.8	1.5	1.5	1.6
			Unemployment rate	4.5	5.6	5.9	5.7	5.4
			Unemployment rate peak in year	4.9	5.9	5.9	5.8	5.5

¹ Represents the impact on ECL provision if 100% weighting applied to each macro-economic scenario.

² Simple average.

³ Annual growth rates. GDP annual growth is calculated by comparing the relative change between the last calendar quarter of each year.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

45. Risk Management (continued)

2022

Scenario	Weighting	Sensitivity (100% weighted) ¹	Economic measure	2022	2023	2024	2025	2026
				%	%	%	%	%
		£m						
Base	40%	(12.8)	Bank of England base rate ²	0.7	1.2	1.2	1.0	0.8
			Gross domestic product ³	2.4	2.1	1.3	1.6	1.6
			Unemployment rate	4.5	4.1	4.0	3.9	3.9
			Unemployment rate peak in year	4.7	4.2	4.0	3.9	3.9
Upside	30%	(27.3)	Bank of England base rate ²	1.1	1.5	1.5	1.2	1.0
			Gross domestic product ³	4.5	2.1	1.3	1.6	1.6
			Unemployment rate	4.0	3.9	3.9	3.9	3.9
			Unemployment rate peak in year	4.0	3.9	3.9	3.9	3.9
Downside 1	25%	31.1	Bank of England base rate ²	0.3	0.9	0.8	0.7	0.6
			Gross domestic product ³	0.9	2.1	1.3	1.6	1.6
			Unemployment rate	5.9	5.5	4.8	4.3	4.1
			Unemployment rate peak in year	6.2	5.8	5.0	4.4	4.1
Downside 2	5%	110.4	Bank of England base rate ²	0.2	0.5	0.6	0.5	0.4
			Gross domestic product ³	(0.8)	2.0	1.3	1.6	1.6
			Unemployment rate	7.5	7.5	6.5	5.5	4.7
			Unemployment rate peak in year	8.0	7.8	7.0	5.8	4.9
Weighted scenarios			Bank of England base rate ²	0.7	1.2	1.1	1.0	0.8
			Gross domestic product ³	2.5	2.1	1.3	1.6	1.6
			Unemployment rate	4.8	4.6	4.3	4.1	4.0
			Unemployment rate peak in year	5.0	4.7	4.4	4.1	4.0

¹ Represents the impact on ECL provision if 100% weighting applied to each macro-economic scenario.

² Simple average.

³ Annual growth rates. GDP annual growth is calculated by comparing the relative change between the last calendar quarter of each year.

45. Risk Management (continued)

Sensitivity analysis

As the calculation of ECLs is complex and involves use of judgement, sensitivity analysis has been performed to illustrate the impact on ECLs of any changes to the main components of the calculation. The effect of applying a 100% weighting to each of the macro-economic scenarios, as well as the impact on ECLs as a result of changes in LGD, staging, PD and expected lifetime, have been assessed.

Most of the sensitivities have been calculated as single-factor sensitivities and any impact on ECL reflects the sensitivity of the estimate to each key component in isolation. However, the PD and macro-economic sensitivities also include a rebasing of the staging allocation and thresholds. The impact of these is therefore incorporated within the impact disclosed for these sensitivities.

The most significant assumptions affecting the ECL calculation are as follows:

- PD;
- LGD;
- Macro-economic scenarios and their relative weightings;
- PD threshold (staging); and
- Expected lifetime of revolving credit facilities.

Set out below are changes in the ECL allowance that would arise from reasonably possible changes in these assumptions over those used in the Group's calculations at 28 February 2023:

		Impact on loss allowance					
		2023			2022		
		£m	£m	£m	£m	£m	£m
		Credit Cards	Other Personal Lending	Total	Credit Cards	Other Personal Lending	Total
Closing ECL allowance		346.8	114.1	460.9	330.4	158.4	488.8
Macro-economic (100% weighted)	Upside	(44.7)	(13.9)	(58.6)	(12.7)	(14.6)	(27.3)
	Base	(9.1)	(1.9)	(11.0)	(6.6)	(6.2)	(12.8)
	Downside 1	46.7	18.0	64.7	13.8	17.3	31.1
	Downside 2	112.3	48.3	160.6	60.2	50.2	110.4
PD	Increase of 10% (2022: 2.5%)	25.3	7.2	32.5	4.5	1.3	5.8
	Decrease of 10% (2022: 2.5%)	(23.9)	(7.1)	(31.0)	(4.3)	(1.3)	(5.6)
LGD	Increase of 2.5%	7.0	2.5	9.5	4.6	2.6	7.2
	Decrease of 2.5%	(7.1)	(2.5)	(9.6)	(4.7)	(2.5)	(7.2)
Staging - change in threshold	Increase of 20%	(7.7)	(1.1)	(8.8)	(8.3)	(0.3)	(8.6)
	Decrease of 20%	11.5	1.3	12.8	12.2	0.5	12.7
Expected lifetime (revolving credit facilities)	Increase of 1 year	3.4	–	3.4	10.9	–	10.9
	Decrease of 1 year	(5.4)	–	(5.4)	(9.6)	–	(9.6)

45. Risk Management (continued)

Management Overlays

While credit loss experience remains low, the increased risk from a high inflationary environment and the cost of living crisis creates uncertainty in respect of future loss projections and the current model outputs.

As a result, Management have recognised PMAs of £90.0m at 28 February 2023 in respect of economic uncertainty to address these prevailing downside risks, which have been captured in two ways:

- **Customer Uncertainty - £22.0m (2022: £75.0m):** The current cost of living crisis makes a portion of customers more vulnerable to rises in inflation and a deterioration in their ability to repay unsecured lending balances. During the year, Management refined their approach by calculating income and expenditure estimations and specifically identifying customers with a current monthly negative net free income (prior year: identified solely on age and income group). This information is derived from both internal and external sources and is then complemented with internal affordability metrics which are aligned to the Group's credit policy and used in lending decisions. Once identified, these accounts are moved into Stage 2 and the associated lifetime loss is included in the ECL estimates. Sensitivity analysis shows that including customers with a monthly net free income up to £200 would increase ECLs by £3.0m. As the economic outlook deteriorated, many of these customers were transferred to Stage 2 during the year through the Group's quantitative triggers as set out in this note, resulting in a reduction in the level of PMA held.
- **Model Underestimation and Uncertainty - £68.0m (2022: £nil):** This PMA addresses the underestimation risk caused by uncertainty in respect of recent performance data and model limitations (PD and EAD) recognised through the last three years of unexpected low credit loss performance. This is specifically evident when the accuracy of lifetime loss calculations of up to seven years is calculated. Comparing historical trends to the most recent projected lifetime PD and EAD curves has identified some gaps in this estimation and Management believe the Group's current lifetime loss trends are too low and not wholly representative of current risk. For each of the segments identified in the gap analysis, and taking into consideration recent strategy decisions and other changes, lifetime loss trends have been reshaped and are now more in line with longer-term actual lifetime credit loss trends. The PD and EAD outputs from this PMA are already captured within the sensitivity outputs on page 113. For clarity, a further 10% relative increase in the Group's lifetime PD estimates equates to a £32.5m increase in ECLs.

In the prior year, the Group held the following PMAs, which have now been fully released or replaced with the above:

- Management had assessed that the beneficial impact of lower consumer spending through the Covid-19 pandemic, which had resulted in an improvement in credit scores, as well as other inputs to ECLs such as lower EADs on the Credit Cards portfolio, would have suppressed ECLs. A PMA of £112.6m was held due to the beneficial impact observed of lower consumer spending through the Covid-19 pandemic, which resulted in improved credit scores. This PMA was released during the year as the impact of the Covid-19 pandemic on credit scores is no longer having a significant impact on the ECLs.
- Management had assessed that the emergence of customer defaults would be more aligned with the economic downturn experienced through the 2008/2009 global financial crisis. A PMA of £19.5m was held in respect of this uncertainty. Management have reviewed the current model outputs and concluded that the emergence of defaults is now aligned to historical patterns.
- Management had assessed the projected impact on its business and results, at 28 February 2022, of the ongoing conflict in Ukraine. Current Scenarios now capture the impacts from the conflict and this PMA has now been incorporated into the underlying models.

Grouping of instruments for losses measured on a collective basis

For ECL provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared credit risk characteristics that include instrument type and credit risk gradings. The groupings are subject to regular review to ensure that these remain appropriate.

45. Risk Management (continued)

• Credit risk: Credit risk exposure

Maximum exposure to credit risk

The table below represents the Group's maximum exposure to credit risk, by IFRS 9 stages at the reporting date, in respect of financial assets held.

For financial assets, the balances are based on gross carrying amounts as reported in the Company and Consolidated Statements of Financial Position. For loan commitments in relation to Credit Card products, the amounts in the table represent the amounts for which the Group is contractually committed. For all financial assets at FVPL and reinsurance assets, the maximum exposure to credit risk is their carrying amount.

	Stage 1	Stage 2			Total	Stage 3	Total
		Not past due	<30 days past due	>30 days past due			
2023							
Group ¹	£m	£m	£m	£m	£m	£m	£m
Gross Exposure							
Loans and advances to customers	5,791.6	1,559.4	39.9	23.5	1,622.8	202.4	7,616.8
- Credit cards	3,112.6	820.2	21.3	13.4	854.9	133.1	4,100.6
- Other personal lending	2,679.0	739.2	18.6	10.1	767.9	69.3	3,516.2
Investment securities at FVOCI	564.8	-	-	-	-	-	564.8
Investment securities at amortised cost	883.1	-	-	-	-	-	883.1
Loan commitments - Loans and advances to customers ²	11,508.1	689.5	6.0	0.9	696.4	7.7	12,212.2
Total gross exposure	18,747.6	2,248.9	45.9	24.4	2,319.2	210.1	21,276.9
Loss allowance							
Loans and advances to customers ²	57.4	258.3	19.1	13.7	291.1	112.4	460.9
- Credit cards	35.8	212.9	10.8	7.9	231.6	79.4	346.8
- Other personal lending	21.6	45.4	8.3	5.8	59.5	33.0	114.1
Investment securities at FVOCI ³	1.3	-	-	-	-	-	1.3
Investment securities at amortised cost	0.2	-	-	-	-	-	0.2
Total loss allowance	58.9	258.3	19.1	13.7	291.1	112.4	462.4
Net Exposure							
Loans and advances to customers	5,734.2	1,301.1	20.8	9.8	1,331.7	90.0	7,155.9
Investment securities at FVOCI	563.5	-	-	-	-	-	563.5
Investment securities at amortised cost	882.9	-	-	-	-	-	882.9
Total net exposure	7,180.6	1,301.1	20.8	9.8	1,331.7	90.0	8,602.3
Coverage							
Loans and advances to customers	1.0%	16.6%	47.9%	58.3%	17.9%	55.6%	6.1%

¹ On a Company basis, loans and advances to subsidiary companies of £382.1m are considered to be low risk and stage 1. The related loss allowance of £2.8m is also considered to be stage 1.

² The loss allowance in respect of loan commitments in relation to Credit Card products is included within the total loss allowance for loans and advances to customers as above to the extent that it is below the gross carrying amount of loans and advances to customers. Where the loss allowance exceeds the gross carrying amount, any excess is included within provisions as set out at note 35.

³ The loss allowance for investment securities at FVOCI is not recognised in the carrying amount of investment securities as the carrying amount is their fair value.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

45. Risk Management (continued)

2022	Stage 1	Stage 2				Stage 3	Total
		Not past due	<30 days past due	>30 days past due	Total		
Group ¹	£m	£m	£m	£m	£m	£m	£m
Gross Exposure							
Loans and advances to customers	5,973.1	797.1	22.5	15.9	835.5	200.9	7,009.5
- Credit cards	2,869.3	498.7	11.2	7.8	517.7	124.5	3,511.5
- Other personal lending	3,103.8	298.4	11.3	8.1	317.8	76.4	3,498.0
Investment securities at FVOCI	584.7	-	-	-	-	-	584.7
Investment securities at amortised cost	857.6	-	-	-	-	-	857.6
Loan commitments - Loans and advances to customers ²	12,028.9	325.1	2.4	0.6	328.1	6.0	12,363.0
Total gross exposure	19,444.3	1,122.2	24.9	16.5	1,163.6	206.9	20,814.8
Loss allowance							
Loans and advances to customers ²	95.2	247.3	9.4	9.5	266.2	127.4	488.8
- Credit cards	62.9	181.6	4.7	4.2	190.5	76.9	330.3
- Other personal lending	32.3	65.7	4.7	5.3	75.7	50.5	158.5
Investment securities at FVOCI ³	0.8	-	-	-	-	-	0.8
Investment securities at amortised cost	0.2	-	-	-	-	-	0.2
Total loss allowance	96.2	247.3	9.4	9.5	266.2	127.4	489.8
Net exposure							
Loans and advances to customers	5,877.9	549.8	13.1	6.4	569.3	73.5	6,520.7
Investment securities at FVOCI	583.9	-	-	-	-	-	583.9
Investment securities at amortised cost	857.4	-	-	-	-	-	857.4
Total net exposure	7,319.2	549.8	13.1	6.4	569.3	73.5	7,962.0
Coverage							
Loans and advances to customers	1.6%	31.0%	41.8%	59.7%	31.9%	63.4%	7.0%

¹ On a Company basis, loans and advances to subsidiary companies of £486.5m are considered to be low risk and stage 1. The related loss allowance of £1.8m is also considered to be stage 1.

² The loss allowance in respect of loan commitments in relation to Credit Card products is included within the total loss allowance for loans and advances to customers as above to the extent that it is below the gross carrying amount of loans and advances to customers. Where the loss allowance exceeds the gross carrying amount, any excess is included within provisions as set out at note 35.

³ The loss allowance for investment securities at FVOCI is not recognised in the carrying amount of investment securities as the carrying amount is their fair value.

45. Risk Management (continued)

The table below shows a breakdown of Stage 2 loans and advances to customers.

Group	Maximum exposure to credit risk	
	Gross Loans and Advances £m	Total ECL £m
2023		
Currently > 30 days past due	23.5	13.7
Total currently >30 days past due	23.5	13.7
Quantitative triggers	1,111.7	227.1
Qualitative triggers	487.6	50.3
Total currently <30 days past due	1,599.3	277.4
Total Stage 2 at 28 February 2023	1,622.8	291.1

Group	Maximum exposure to credit risk	
	Gross Loans and Advances £m	Total ECL £m
2022		
Currently > 30 days past due	15.9	9.5
Total currently >30 days past due	15.9	9.5
Quantitative triggers	520.4	171.2
Qualitative triggers	299.2	85.5
Total currently <30 days past due	819.6	256.7
Total Stage 2 at 28 February 2022	835.5	266.2

Credit quality of loans and advances to customers

The table below provides details of the credit quality of loans and advances to customers and loan commitments in relation to Credit Card products for which an ECL allowance is recognised.

The Group defines four classifications of credit quality for all credit exposures; High, Satisfactory, Low quality and below standard, and Credit impaired. Credit exposures are segmented according to the IFRS 9 12-month PD, with credit impaired reflecting a PD of 100%. The classifications are the same for the current and prior year.

	IFRS 9 12 Month PD (%)
High quality	<=3.02%
Satisfactory quality	>3.03% - 11.10%
Low quality and below standard	=> 11.11%
Credit impaired	100%

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45. Risk Management (continued)

Group ¹	2023									
	Stage 1			Stage 2			Stage 3			Total
	Other			Other			Other			
	Credit Cards £m	Personal Lending £m	Total £m	Credit Cards £m	Personal Lending £m	Total £m	Credit Cards £m	Personal Lending £m	Total £m	£m
Loans and advances to customers										
High quality	2,965.5	2,631.7	5,597.2	252.8	489.5	742.3	–	–	–	6,339.5
Satisfactory quality	139.0	47.2	186.2	359.4	250.1	609.5	–	–	–	795.7
Low quality and below standard	8.1	0.1	8.2	242.7	28.3	271.0	–	–	–	279.2
Credit impaired	–	–	–	–	–	–	133.1	69.3	202.4	202.4
Total	3,112.6	2,679.0	5,791.6	854.9	767.9	1,622.8	133.1	69.3	202.4	7,616.8
Loan Commitments										
High quality	11,418.6	–	11,418.6	517.1	–	517.1	–	–	–	11,935.7
Satisfactory quality	86.7	–	86.7	143.3	–	143.3	–	–	–	230.0
Low quality and below standard	2.8	–	2.8	36.0	–	36.0	–	–	–	38.8
Credit impaired	–	–	–	–	–	–	7.7	–	7.7	7.7
Total	11,508.1	–	11,508.1	696.4	–	696.4	7.7	–	7.7	12,212.2
Total exposure	14,620.7	2,679.0	17,299.7	1,551.3	767.9	2,319.2	140.8	69.3	210.1	19,829.0

Group ¹	2022									
	Stage 1			Stage 2			Stage 3			Total
	Other			Other			Other			
	Credit Cards £m	Personal Lending £m	Total £m	Credit Cards £m	Personal Lending £m	Total £m	Credit Cards £m	Personal Lending £m	Total £m	£m
Loans and advances to customers										
High quality	2,684.0	2,982.4	5,666.4	167.2	132.6	299.8	–	–	–	5,966.2
Satisfactory quality	170.7	116.6	287.3	256.3	134.1	390.4	–	–	–	677.7
Low quality and below standard	14.6	4.8	19.4	94.2	51.1	145.3	–	–	–	164.7
Credit impaired	–	–	–	–	–	–	124.5	76.4	200.9	200.9
Total	2,869.3	3,103.8	5,973.1	517.7	317.8	835.5	124.5	76.4	200.9	7,009.5
Loan Commitments										
High quality	11,924.1	–	11,924.1	246.0	–	246.0	–	–	–	12,170.1
Satisfactory quality	98.3	–	98.3	71.1	–	71.1	–	–	–	169.4
Low quality and below standard	6.5	–	6.5	11.0	–	11.0	–	–	–	17.5
Credit impaired	–	–	–	–	–	–	6.0	–	6.0	6.0
Total	12,028.9	–	12,028.9	328.1	–	328.1	6.0	–	6.0	12,363.0
Total exposure	14,898.2	3,103.8	18,002.0	845.8	317.8	1,163.6	130.5	76.4	206.9	19,372.5

¹ On a Company basis, loans and advances to subsidiary companies of £382.1m (2022: £486.5m) are considered to be low risk, high quality and stage 1.

45. Risk Management (continued)

Counterparty credit rating

Group	Long-term Rating	2023 £m	2022 £m
Investment securities at amortised cost	AAA to BBB	882.9	857.4
Investment securities at FVOCI	AAA to BBB	564.8	584.7
Total		1,447.7	1,442.1

Concentration risk

Concentration risk is the risk of losses arising as a result of concentrations of exposures to a specific counterparty, economic sector, segment or geographical region.

The Group could become exposed to this risk were it to become concentrated in certain geographic areas or product profiles e.g. a disproportionate level of high value unsecured Personal Loans. Such concentrations could produce unacceptable levels of default in some adverse but plausible situations.

Controls and risk mitigants

The Group mitigates these potential concentration risks by establishing appropriate limits and trigger thresholds that are regularly monitored and reported to the appropriate Senior Management team and risk committees. An assessment of credit concentration is also undertaken as part of the ICAAP. The Group does not consider itself to be overly concentrated, other than its geographic concentration as a UK business.

Concentration profiles

The following tables provide concentration profiles in terms of the geographic distribution of the Group's exposures and analysis of material asset class by industry type.

Geographical distribution profile

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

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

Group	2023 £m	2022 £m
UK	20,645.7	20,462.6
Europe (excluding UK)	538.2	330.3
Other	368.3	623.2
Total	21,552.2	21,416.1

Industry type profile

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

Group	2023 £m	2022 £m
Financial institutions	1,470.2	1,473.9
Government	483.4	785.4
Individuals	19,306.9	18,866.9
Wholesale and retail trade	291.7	289.9
Total	21,552.2	21,416.1

45. Risk Management (continued)

• Credit risk: Loss allowance

Loss allowance reconciliation

The following table provides a reconciliation of the movements in the loss allowance in the year:

2023 Group ¹	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Loans and advances to customers				
At 1 March 2022	95.2	266.2	127.4	488.8
Transfers^{2, 4}				
Transfers from stage 1 to stage 2	(21.0)	21.0	–	–
Transfers from stage 2 to stage 1	19.7	(19.7)	–	–
Transfers to stage 3	(2.8)	(21.5)	24.3	–
Transfers from stage 3	0.9	1.7	(2.6)	–
Income statement charge				
Net remeasurement ³ following transfer of stage ⁴	(8.4)	27.1	54.7	73.4
New financial assets originated ⁵	24.9	63.2	6.8	94.9
Financial assets derecognised during year	(5.6)	(4.9)	(3.4)	(13.9)
Changes in risk parameters and other movements ⁶	(47.6)	(41.2)	10.7	(78.1)
Other movements				
Write-offs and asset disposals ⁷	–	(1.6)	(105.5)	(107.1)
Transfer from provisions for liabilities and charges ⁸	2.1	0.8	–	2.9
ECL allowance at 28 February 2023	57.4	291.1	112.4	460.9
Investment securities at FVOCI - loss allowance				
At 1 March 2022	0.8	–	–	0.8
Income statement charge				
New financial assets originated	0.4	–	–	0.4
Changes in risk parameters and other movements	0.1	–	–	0.1
ECL allowance at 28 February 2023	1.3	–	–	1.3
Investment securities at amortised cost - loss allowance				
At 1 March 2022	0.2	–	–	0.2
Income statement charge				
	–	–	–	–
ECL allowance at 28 February 2023	0.2	–	–	0.2
Reconciliation to income statement				
Net expected credit loss charge	(36.2)	44.2	68.8	76.8
Recoveries and write-offs	–	–	(15.4)	(15.4)
Total income statement credit	(36.2)	44.2	53.4	61.4

¹ On a Company basis, the movements in loss allowance for the year ended 28 February 2023 of £1.0m relating to loans and advances to subsidiary companies arise entirely due to changes in risk parameters and is considered to be stage 1.

² Transfers - The opening loss allowance on financial assets which transferred stage during the year.

³ Net remeasurement - The increase/(decrease) in the opening loss allowance as a result of a stage transfer.

⁴ Includes a charge in stages 1 and 2 ECL of £116.3m due to a change in the macro-economic scenarios assumptions.

⁵ New financial assets originated or purchased - The loss allowance on new financial assets originated or purchased during the year, representing their stage at 28 February 2023.

⁶ Changes in risk parameters and other movements - The change in loss allowance due to changes in macro-economic scenarios, PD, LGD and EAD during the year.

⁷ Write-offs and asset disposals - The release of the loss allowance following the write-off and/or disposal of a financial asset during the year.

⁸ Transfer from provisions for liabilities and charges - The movement in loss allowance which exceeds the gross carrying amount of the financial asset.

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45. Risk Management (continued)

2022	Stage 1	Stage 2	Stage 3	Total
Group¹	£m	£m	£m	£m
Loans and advances to customers				
At 1 March 2021	132.3	339.3	153.0	624.6
Transfers^{2,4}				
Transfers from stage 1 to stage 2	(18.7)	18.7	–	–
Transfers from stage 2 to stage 1	44.6	(44.6)	–	–
Transfers to stage 3	(5.4)	(37.4)	42.8	–
Transfers from stage 3	1.5	3.1	(4.6)	–
Income statement charge				
Net remeasurement ² following transfer of stage ⁴	(34.0)	11.8	58.3	36.1
New financial assets originated ⁵	21.3	8.9	3.5	33.7
Financial assets derecognised during year	(15.3)	(15.6)	(3.6)	(34.5)
Changes in risk parameters and other movements ⁶	(35.8)	(23.3)	10.3	(48.8)
Other movements				
Write-offs and asset disposals ⁷	(0.3)	(1.8)	(132.3)	(134.4)
Transfer from provisions for liabilities and charges ⁸	5.0	7.1	–	12.1
ECL allowance at 28 February 2022	95.2	266.2	127.4	488.8
Investment securities at FVOCI - loss allowance				
At 1 March 2021	–	–	–	–
Income statement charge				
New financial assets originated	1.1	–	–	1.1
Financial assets derecognised during year	(0.1)	–	–	(0.1)
Changes in risk parameters and other movements	(0.2)	–	–	(0.2)
ECL allowance at 28 February 2022	0.8	–	–	0.8
Investment securities at amortised cost - loss allowance				
At 1 March 2021	0.8	–	–	0.8
Income statement charge				
Changes in risk parameters and other movements ⁶	0.1	–	–	0.1
Changes in models	(0.6)	–	–	(0.6)
Other movements				
TU sub debt ⁹	(0.1)	–	–	(0.1)
ECL allowance at 28 February 2022	0.2	–	–	0.2
Reconciliation to income statement				
Net expected credit loss charge	(63.5)	(18.2)	68.5	(13.2)
Recoveries and write-offs	–	–	(16.7)	(16.7)
Total income statement charge	(63.5)	(18.2)	51.8	(29.9)

¹ On a Company basis, the movements in loss allowance for the year ended 28 February 2022 of £0.5m relating to loans and advances to subsidiary companies arise entirely due to changes in risk parameters and is considered to be stage 1.

² Transfers - The opening loss allowance on financial assets which transferred stage during the year.

³ Net remeasurement - The increase/(decrease) in the opening loss allowance as a result of a stage transfer.

⁴ Includes a credit in stages 1 and 2 ECL of £199.8m due to a change in the macro-economic scenarios assumptions.

⁵ New financial assets originated or purchased - The loss allowance on new financial assets originated or purchased during the year, representing their stage at 28 February 2022.

⁶ Changes in risk parameters and other movements - The change in loss allowance due to changes in macro-economic scenarios, PD, LGD and EAD during the year.

⁷ Write-offs and asset disposals - The release of the loss allowance following the write-off and/or disposal of a financial asset during the year.

⁸ Transfer from provisions for liabilities and charges - The movement in loss allowance which exceeds the gross carrying amount of the financial asset.

⁹ The Group's holding in subordinated debt issued by TU is now fully eliminated in the Consolidated Statement of Financial Position following the acquisition of TU on 4 May 2021.

45. Risk Management (continued)

The following table provides a reconciliation of the movements in the gross carrying amounts of financial instruments to help explain their significance to the changes in the loss allowance during the year as set out in the above table:

2023 Group ¹	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Loans and advances to customers				
Gross carrying amount				
At 1 March 2022	5,973.1	835.5	200.9	7,009.5
Transfers²				
Transfers from stage 1 to stage 2	(1,121.7)	1,121.7	–	–
Transfers from stage 2 to stage 1	289.2	(289.2)	–	–
Transfers to stage 3	(47.8)	(74.6)	122.4	–
Transfers from stage 3	1.7	3.5	(5.2)	–
Other movements				
New financial assets originated ³	2,058.2	325.9	8.8	2,392.9
Net decrease in lending ⁴	(1,356.6)	(299.0)	(19.6)	(1,675.2)
Write-offs and asset disposals ⁵	(2.8)	(1.9)	(118.1)	(122.8)
Changes in interest accrual and other movements	(1.7)	0.9	13.2	12.4
At 28 February 2023	5,791.6	1,622.8	202.4	7,616.8
Investment securities at FVOCI				
Gross carrying amount				
At 1 March 2022	584.7	–	–	584.7
New financial assets purchased	187.1	–	–	187.1
Financial assets derecognised during the year	(152.4)	–	–	(152.4)
Reclassification to FVPL during the year	(54.6)	–	–	(54.6)
At 28 February 2023	564.8	–	–	564.8
Investment securities at amortised cost				
Gross carrying amount				
At 1 March 2022	857.6	–	–	857.6
New financial assets purchased ³	135.8	–	–	135.8
Financial assets derecognised during the year	(74.2)	–	–	(74.2)
Other movements	(36.1)	–	–	(36.1)
At 28 February 2023	883.1	–	–	883.1

¹ On a Company basis, loans and advances to subsidiary companies of £382.1m are considered to be low risk and stage 1.

² Transfers - The opening gross carrying amount of financial assets held which transferred stage as at year-end.

³ New financial assets originated or purchased - The gross carrying amount of financial assets originated or purchased during the year, representing their stage as at 28 February 2023.

⁴ Net decrease in lending - The changes in gross carrying amount of financial assets after taking account of additional borrowing and/or payments received from customers.

⁵ Write-offs and asset disposals - The write-off of the gross carrying amount when a financial asset is deemed uncollectable and/or has been disposed of.

TESCO PERSONAL FINANCE GROUP PLC
NOTES TO THE FINANCIAL STATEMENTS (continued)

45. Risk Management (continued)

2022	Stage 1	Stage 2	Stage 3	Total
Group¹	£m	£m	£m	£m
Loans and advances to customers				
Gross carrying amount				
At 1 March 2021	5,748.5	1,030.0	241.6	7,020.1
Transfers²				
Transfers from stage 1 to stage 2	(325.7)	325.7	–	–
Transfers from stage 2 to stage 1	294.7	(294.7)	–	–
Transfers to stage 3	(57.5)	(91.2)	148.7	–
Transfers from stage 3	3.1	6.0	(9.1)	–
Other movements				
New financial assets originated ³	1,757.6	83.1	4.6	1,845.3
Net decrease in lending ⁴	(1,442.9)	(219.2)	(24.5)	(1,686.6)
Write-offs and asset disposals ⁵	(0.1)	(1.9)	(155.5)	(157.5)
Changes in interest accrual and other movements	(4.6)	(2.3)	(4.9)	(11.8)
At 28 February 2022	5,973.1	835.5	200.9	7,009.5

Investment securities at FVOCI

Gross carrying amount

At 1 March 2021	5.1	–	–	5.1
Acquisition of TU	616.1	–	–	616.1
New financial assets purchased	89.9	–	–	89.9
Financial assets derecognised during the year	(91.4)	–	–	(91.4)
Reclassification to FVPL during the year ⁶	(5.1)	–	–	(5.1)
Other movements	(29.9)	–	–	(29.9)
At 28 February 2022	584.7	–	–	584.7

Investment securities at amortised cost

Gross carrying amount

At 1 March 2021	949.2	–	–	949.2
New financial assets purchased ³	130.0	–	–	130.0
Financial assets derecognised during the year	(177.0)	–	–	(177.0)
Other movements	(23.5)	–	–	(23.5)
TU sub debt ⁷	(21.1)	–	–	(21.1)
At 28 February 2022	857.6	–	–	857.6

¹ On a Company basis, loans and advances to subsidiary companies of £486.5m are considered to be low risk and stage 1.

² Transfers - The opening gross carrying amount of financial assets held which transferred stage as at year-end.

³ New financial assets originated or purchased - The gross carrying amount of financial assets originated or purchased during the year, representing their stage as at 28 February 2022.

⁴ Net decrease in lending - The changes in gross carrying amount of financial assets after taking account of additional borrowing and/or payments received from customers.

⁵ Write-offs and asset disposals - The write-off of the gross carrying amount when a financial asset is deemed uncollectable and/or has been disposed of.

⁶ During the year, following a review of industry practice and the requirements of IFRS 9, the Group reclassified its holding in preferred stock issued by VISA Inc. from FVOCI to FVPL.

⁷ The Group's holding in subordinated debt issued by TU is now fully eliminated in the Consolidated Statement of Financial Position following the acquisition of TU on 4 May 2021.

45. Risk Management (continued)

• Credit risk: Write off policy

When a loan is deemed uncollectable it is written off against the related provision after all of the necessary procedures have been completed and the amount of the loss has been determined. A loan is deemed uncollectable when the Group believes there is no realistic prospect of future recoveries as a result of the customer's insolvency or the account being sold through a debt sale.

The Group may write off loans that are still subject to enforcement activity. The outstanding contractual amount of such assets written off during the year ended 28 February 2023 was £115.3m (2022: £110.2m). Expected recoveries from written off financial assets subject to enforcement activity are recognised in the Consolidated Statement of Financial Position.

• Credit risk: Forbearance

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

The main aim of forbearance is to support customers in returning to a position where they are able to meet their contractual obligations.

The Group has adopted the definition of forbearance as published in Regulation EU 2015/227. The Group reports all accounts meeting this definition, providing for them appropriately.

Controls and risk mitigants

The Group has well defined forbearance policies and processes. A number of forbearance options are made available to customers by the Group. These routinely, but not exclusively, include the following:

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

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

Group	Gross loans and advances subject to forbearance programmes		Forbearance programmes as a proportion of total loans and advances by category		Proportion of forbearance programmes covered by impairment provision	
	2023 £m	2022 £m	2023 %	2022 %	2023 %	2022 %
Credit Cards	101.9	106.4	2.5	3.1	49.2	51.2
Loans	29.6	39.4	0.9	1.2	31.3	46.7

45. Risk Management (continued)

(b) Operational risk

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

Financial crime and fraud are significant drivers of operational risk and the external threat continues to grow across the Financial Services industry. The industry remains under significant threat from cyber attacks. This includes various organised groups targeting institutions through phishing, malware, denial of service and other sophisticated methods.

The Group has an appropriate risk framework and continually monitors emerging risks and threats.

Controls and risk mitigants

The Group's risks are assessed utilising the RCSA process which is defined as part of the Enterprise-Wide RMF. Accountabilities are aligned to the Three Lines of Defence model.

The CRO and the Risk function are responsible for:

- developing and maintaining the Operational Risk Policy;
- developing and maintaining the EWRMF;
- working with relevant business areas to make sure that Risk Management responsibilities across Business Areas are understood and that those responsibilities are executed as defined in the EWRMF;
- supporting relevant business areas to embed policies and controls, instilling a positive risk management culture; and
- independently monitoring, assessing and reporting on Operational Risk profiles and losses.

The Risk function maintains the EWRMF which defines the minimum requirements for the management of risk including the Policy Framework.

Business units and functions assess their operational risks on an ongoing basis via a prescribed Risk and Control Self-Assessment (RCSA) process and Operational Risk Scenario Analysis (ORSA). The RCSA process is reviewed and updated on a timely basis by the Business Areas to reflect the risk and control environment and any changes arising from changes in products, processes and systems. The RCSA outputs are reported to relevant governance bodies, including the BRC. This is supplemented further by an event management process and regular reporting of the Operational Risk profile to the ERC, which provides oversight of the Group's operational risk profile. The ORSA builds on the RCSA process and event management process to identify the forward-looking risk profile and the results are used to inform the Board's decision on any additional requirement for operational risk capital under Pillar II.

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

(c) Liquidity and funding risk

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

The Group operates within a Liquidity and Funding Control Framework designed 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 adhered to.

45. Risk Management (continued)

Controls and risk mitigants

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

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

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

- the internal liquidity requirement;
- the total liquidity requirement;
- the net stable funding ratio;
- minimum eligible collateral floor;
- the asset encumbrance ratio; and
- the unencumbered assets to retail liabilities ratio.

The Group measures and manages liquidity in line with the above metrics and maintains a liquidity and funding profile to enable it to meet its financial obligations under normal and stressed market conditions.

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

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

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

45. Risk Management (continued)

The Treasury Director is responsible for formulating, and obtaining Board approval for, an annual funding plan as part of the overall business planning process. The Group is predominantly funded by its retail deposit base which reduces reliance on wholesale funding and, in particular, results in minimal short-term wholesale funding.

A significant portion of these retail deposits are repayable on demand on a contractual basis. The Group continuously monitors retail deposit activity so that it can reasonably predict expected maturity flows. Management consider that these instruments form a stable funding base for the Group's operations because of the broad customer base and the historical behaviours exhibited.

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

Group	2023	2022
	£m	£m
On balance sheet		
Deposits from banks	979.7	1,052.3
Deposits from customers	5,769.6	5,325.9
Subordinated liabilities and notes	236.9	235.6
Debt securities in issue	137.5	244.0
Total on balance sheet funding	7,123.7	6,857.8

TESCO PERSONAL FINANCE GROUP PLC
NOTES TO THE FINANCIAL STATEMENTS (continued)

45. Risk Management (continued)

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

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

Group	Within 1	Between 1	Between 2	Between 3	Between 4	Beyond 5	
2023	year	and 2 years	and 3 years	and 4 years	and 5 years	years	Total
On balance sheet	£m	£m	£m	£m	£m	£m	£m
Financial assets:							
Cash and balances at central banks	462.2	–	–	–	–	–	462.2
Loans and advances to banks	26.7	–	–	–	–	–	26.7
Loans and advances to customers	6,233.4	1,601.7	1,127.9	701.5	344.1	258.3	10,266.9
Derivatives settled on a net basis							
- Derivatives in economic but not accounting hedges	0.3	0.3	0.1	–	–	–	0.7
- Derivatives in accounting hedge relationships	51.1	33.3	14.3	7.6	3.3	4.9	114.5
Investment securities							
- FVOCI	62.2	107.6	102.1	99.0	81.2	225.0	677.1
- FVPL	0.9	–	–	–	–	19.2	20.1
- Loans and receivables	331.3	100.1	134.0	189.1	136.8	126.5	1,017.8
- Amortised cost	–	–	–	–	–	–	–
Other assets	181.7	–	–	–	–	–	181.7
Total financial assets	7,349.8	1,843.0	1,378.4	997.2	565.4	633.9	12,767.7
Financial liabilities:							
Deposits from banks	124.3	141.5	814.2	–	–	–	1,080.0
Deposits from customers	4,593.0	934.7	160.3	29.0	119.2	0.6	5,836.8
Debt securities in issue	5.1	147.2	–	–	–	–	152.3
Other liabilities							
- Lease liabilities	5.6	5.3	4.0	4.0	4.0	6.4	29.3
- Other liabilities excluding lease liabilities	170.6	–	–	–	–	–	170.6
Subordinated liabilities	7.4	7.3	192.9	1.5	1.5	67.2	277.8
Total financial liabilities	4,906.0	1,236.0	1,171.4	34.5	124.7	74.2	7,546.8
Off balance sheet							
Contractual lending commitments	12,212.2	–	–	–	–	–	12,212.2
Total off balance sheet	12,212.2	–	–	–	–	–	12,212.2

TESCO PERSONAL FINANCE GROUP PLC
NOTES TO THE FINANCIAL STATEMENTS (continued)

45. Risk Management (continued)

Company	Within 1	Between 1	Between 2	Between 3	Between 4	Beyond 5	Total
2023	year	and 2 years	and 3 years	and 4 years	and 5 years	years	£m
On balance sheet	£m	£m	£m	£m	£m	£m	£m
Financial assets:							
Cash and balances at central banks	8.1	–	–	–	–	–	8.1
Investment securities							
Loans and advances to subsidiary companies	12.5	154.5	192.9	1.5	1.5	67.2	430.1
Total financial assets	20.6	154.5	192.9	1.5	1.5	67.2	438.2
Financial liabilities:							
Debt securities in issue	5.1	147.2	–	–	–	–	152.3
Subordinated liabilities	7.4	7.3	192.9	1.5	1.5	67.2	277.8
Total financial liabilities	12.5	154.5	192.9	1.5	1.5	67.2	430.1

TESCO PERSONAL FINANCE GROUP PLC
NOTES TO THE FINANCIAL STATEMENTS (continued)

45. Risk Management (continued)

Group	Within 1	Between 1	Between 2	Between 3	Between 4	Beyond 5	Total
2022	year	and 2 years	and 3 years	and 4 years	and 5 years	years	£m
On balance sheet	£m	£m	£m	£m	£m	£m	£m
Financial assets:							
Cash and balances at central banks	780.9	–	–	–	–	–	780.9
Loans and advances to banks	50.3	–	–	–	–	–	50.3
Loans and advances to customers	4,825.5	976.7	677.9	410.7	204.2	116.6	7,211.6
Derivatives settled on a net basis							
- Derivatives in accounting hedge relationships	3.8	9.4	3.9	(0.5)	0.5	0.1	17.2
Investment securities	–	–	–	–	–	–	–
- FVOCI	151.3	65.0	89.1	63.0	48.9	214.6	631.9
- FVPL	1.8	–	–	–	–	23.0	24.8
- Amortised cost	247.3	430.1	126.9	116.2	98.5	92.5	1,111.5
Other assets	219.7	–	–	–	–	–	219.7
Total financial assets	6,280.6	1,481.2	897.8	589.4	352.1	446.8	10,047.9
Financial liabilities:							
Deposits from banks	162.9	17.3	115.0	805.0	–	–	1,100.2
Deposits from customers	4,677.4	443.8	160.2	23.7	25.0	–	5,330.1
Debt securities in issue	8.8	8.8	254.4	–	–	–	272.0
Other liabilities							
- Lease liabilities	5.8	5.6	5.2	3.8	3.8	9.6	33.8
- Other liabilities excluding lease liabilities	130.3	–	–	–	–	–	130.3
Subordinated liabilities	5.8	7.5	7.3	192.9	1.5	52.5	267.5
Total financial liabilities	4,991.0	483.0	542.1	1,025.4	30.3	62.1	7,133.9
Off balance sheet							
Contractual lending commitments	12,363.0	–	–	–	–	–	12,363.0
Total off balance sheet	12,363.0	–	–	–	–	–	12,363.0

TESCO PERSONAL FINANCE GROUP PLC
NOTES TO THE FINANCIAL STATEMENTS (continued)

45. Risk Management (continued)

Company 2022	Within 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	Between 4 and 5 years	Beyond 5 years	Total
On balance sheet	£m	£m	£m	£m	£m	£m	£m
Financial assets:							
Cash and balances at central banks	7.8	–	–	–	–	–	7.8
Loans and advances to subsidiary companies	16.0	16.2	261.7	192.9	1.5	52.5	540.8
Total financial assets	23.8	16.2	261.7	192.9	1.5	52.5	548.6
Financial liabilities:							
Debt securities in issue	8.8	8.8	254.4	–	–	–	272.0
Subordinated liabilities	5.8	7.5	7.3	192.9	1.5	52.5	267.5
Total financial liabilities	14.6	16.3	261.7	192.9	1.5	52.5	539.5

45. Risk Management (continued)

The table below shows information about the estimated timing of cash flows in relation to insurance claims liabilities at 28 February 2023. The estimated phasing is based on current estimates and the actual timing of future settlement cash flows may differ from that disclosed below.

Group	2023	2023	2023	2023
	Gross	Salvage and subrogation recoveries	Net	%
	£m	£m	£m	
Payment period:				
0-1 year	126.2	(24.6)	101.6	26.2
2-5 years	179.7	(18.7)	161.0	41.6
5 years and above	125.2	(0.4)	124.8	32.2
Total	431.1	(43.7)	387.4	100.0

Group	2022	2022	2022	2022
	Gross	Salvage and subrogation recoveries	Net	%
	£m	£m	£m	
Payment period:				
0-1 years	95.7	(12.7)	83.0	17.6
2-5 years	203.3	(9.2)	194.1	41.1
5 years and above	195.3	(0.3)	195.0	41.3
Total	494.3	(22.2)	472.1	100.0

45. Risk Management (continued)

Encumbrance

The table below summarises the Group's assets which are available to support future funding and collateral needs and shows the extent to which these assets are currently pledged for this purpose.

The Group has adopted the definition of encumbrance in accordance with the Prudential Regulation Authority's (PRA's) Rulebook. 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 to, and therefore the recovery rate of, its depositors and other unsecured bank creditors.

Group	Encumbered	Unencumbered	Total
2023	£m	£m	£m
Encumbered asset summary			
Investment securities - FVOCI	–	564.8	564.8
Investment securities - FVPL	–	20.1	20.1
Investment securities - amortised cost	86.9	796.0	882.9
Loans and advances to customers	1,530.1	5,551.2	7,081.3
Cash and balances with central banks	43.4	417.7	461.1
Other assets	30.6	151.1	181.7
	1,691.0	7,500.9	9,191.9
Encumbered investment securities - FVOCI			
Debt securities at FVOCI		86.9	
		86.9	
Encumbered loans and advances to customers			
Securitisation - Delamare Master Trust		1,136.5	
Personal Loans		393.6	
		1,530.1	
Encumbered cash and balances with central banks			
Cash ratio deposit		23.4	
Reserves Collateralisation Account		20.0	
		43.4	
Encumbered other assets			
Initial margin held at Clearing Houses		30.6	
		30.6	

45. Risk Management (continued)

Group	Encumbered	Unencumbered	Total
2022	£m	£m	£m
Encumbered asset summary			
Investment securities - FVOCI	–	584.7	584.7
Investment securities - FVPL	–	24.8	24.8
Investment securities - amortised cost	–	857.4	857.4
Loans and advances to customers	1,796.9	4,693.4	6,490.3
Cash and balances with central banks	41.6	739.0	780.6
Other assets	21.9	197.8	219.7
	1,860.4	7,097.1	8,957.5

Encumbered loans and advances to customers

Securitisation - Delamare Master Trust	1,170.9
Personal Loans	626.0
	1,796.9

Encumbered cash and balances with central banks

Cash ratio deposit	21.6
Reserves Collateralisation Account	20.0
	41.6

Encumbered other assets

Initial margin held at Clearing Houses	21.9
	21.9

• **Loans and advances assigned for use as collateral in securitisation transactions**

At 28 February 2023, £2,880.8m (2022: £2,966.8m) of the Credit Cards portfolio had its beneficial interest assigned to a securitisation special purpose entity, Delamare Cards Receivables Trustee Limited, for use as collateral in securitisation transactions. The total encumbered portion of this portfolio is £1,136.5m (2022: £1,170.9m).

At 28 February 2023, Delamare Cards MTN Issuer plc had £1,840.0m (2022: £1,840.0m) notes in issue in relation to securitisation transactions.

At 28 February 2023, £1,550.0m (2022: £1,380.0m) of the class A retained Credit Card-backed notes are held within their single collateral pool.

• **Loans and advances prepositioned with the BoE**

Group	2023	2022
	£m	£m
Credit Card-backed notes ¹	1,550.0	1,380.0
Unsecured personal Loans	1,606.8	2,063.5
Total assets prepositioned as collateral with the BoE	3,156.8	3,443.5
Collateralised TFSME drawings	900.0	900.0
Total	900.0	900.0

¹ Issued by Delamare Cards MTN Issuer plc.

45. Risk Management (continued)

Undrawn Committed Facilities

The Group has the following undrawn committed facilities available to it:

	2023	2022
Group	£m	£m
Expiring in less than one year	–	–
Expiring between one and two years	200.0	200.0
Expiring in more than two years	–	–
Total	200.0	200.0

The undrawn committed facility is a £200.0m (2022: £200.0m) committed repurchase facility. All facilities incur commitment fees at market rates and would provide funding at floating rates. There were no withdrawals from the facilities during the year.

(d) Market risk

The Group defines Market Risk as the risk that movements in market prices (such as interest rates and foreign exchange rates) lead to a reduction in either the Bank's earnings or economic value.

The Group assesses IRRBB by measuring:

- (a) the value risk to equity capital; and
- (b) future earnings sensitivity under specific interest rate scenarios.

The Group assesses its exposure to foreign exchange risk by measuring its net open currency position.

Control and risk mitigants

With the exception of portfolio management in respect of TU, which is undertaken by the TU Investment Committee, with oversight and challenge provided by the Group's Finance function, control of market risk exposure is managed by the ALCo and the TCo. These bodies provide oversight of the Group's market risk position at a detailed level, providing regular reports and recommendations to the BRC and the Board.

The Board approved market risk policy provides direction to all staff with responsibility for managing market risk and defines the approach the Group must apply to measure, monitor, and control market risk. The Group's market Risk Appetite statement is documented within this policy which includes specific limits on market risk measures.

The Treasury function implements and operates systems and standards for measuring Market Risk including a comprehensive reporting suite for the BRC and the ALCo including timely updates in response to changing market conditions. The Treasury function ensures compliance with the Board's market risk appetite statement by implementing hedging strategies such as the use of derivatives to hedge any residual risks.

The Risk function independently validates measurement systems and models used to assess the Group's market risk exposures; and provides oversight and challenge on market risk reporting, management strategies and other related matters.

Under the Senior Managers Regime and via the ALCo, the Chief Financial Officer (CFO) is responsible for understanding and assessing the performance of the Treasury function in monitoring and controlling market risk within Board approved limits. The purpose of the Group's ALCo is to support the CFO by providing oversight and challenge in relation to principal Treasury risks including market risk; the ALCo has representation from various Business Areas including Treasury, Finance and Commercial plus the Risk function and Internal Audit function.

- **Interest rate risk in the Banking Book**

IRRBB is the current or prospective risk to both earnings and economic value arising from movements in interest rates. The main sub-types of IRRBB include gap risk (or repricing risk), basis risk and customer optionality risk.

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

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

45. Risk Management (continued)

Control and risk mitigants

The main hedging instruments used to hedge IRRBB exposures are interest rate swaps. Any residual exposures are then assessed against Board approved limits under various interest rate scenarios which consider changes in the slope and/or shape of the yield curve, and changes in the relationship between different rate indexes.

On a monthly basis the Treasury function measures and reports the Group's Capital at Risk (CaR) and Annual Earnings at Risk (AEaR) results to the TCo, ALCo, ERC, BRC and the Board.

The Group measures and controls its IRRBB exposures by assessing both its earnings and valuation sensitivities to movements in interest rates against Board approved risk appetites. The interest rate shock scenarios include both parallel and non-parallel movements of the yield curve and have been designed to assess impacts across a suitable range of severe but plausible movements in interest rates.

In addition to the Group's internal IRRBB measures, the Group monitors its EVE/NII sensitivities which are described and disclosed below:

Changes to Economic Value of Equity (Δ EVE): measures the market value risk where equity is excluded from the cash flows and is measured by subtracting the net present value of total liabilities from the net present value of total assets. Similar to CaR, the measure is based on conditional cash flow modelling and is modelled on a run-off basis.

Changes to Net Interest Income (Δ NII): measures changes in future interest income over a rolling 12-month period, which includes expected cash flows (such as commercial margins and other spread components) arising from all interest rate-sensitive assets, liabilities and off-balance sheet items in the banking book. It is computed assuming a constant balance sheet, where maturing or repricing cash flows are replaced by new cash flows with identical features.

Group	Δ EVE		Δ NII	
	2023 £m	2022 £m	2023 £m	2022 £m
Parallel shock up	(34.1)	(29.5)	(4.5)	9.9
Parallel shock down	(4.9)	(10.4)	(11.6)	(25.9)
Steeper shock	3.3	(0.1)	n/a	n/a
Flattener shock	(12.4)	(11.1)	n/a	n/a
Short rates shock up	(21.5)	(18.6)	n/a	n/a
Short rates shock down	10.4	0.2	n/a	n/a
Maximum	(34.1)	(29.5)	(11.6)	(25.9)
Tier 1 capital	1,623.2	1,668.4	n/a	n/a
Maximum/Tier 1 Capital	2.1%	1.8%	n/a	n/a

- Foreign exchange risk**

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

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

45. Risk Management (continued)

Control and risk mitigants

Substantially all non-domestic 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.

The Group's maximum exposure to foreign exchange risk at 28 February 2023 was £2.6m (2022: £3.8m), representing the Group's net assets (2022: net assets) denominated in foreign currencies.

(e) Pension obligation risk

Pension obligation risk is the risk relating to a firm's contractual or other liabilities relating 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 Pension Scheme (operated by TSL) and is exposed to pension obligation risk through its obligation to the scheme. TSL has recognised the appropriate net liability of the Tesco pension scheme in accordance with IAS 19 (refer note 44).

Controls and risk mitigants

The Group undertakes an assessment of the impact of its share of the pension scheme under a stress as part of its annual ICAAP.

(f) Insurance risk

The Group is exposed to insurance risk through its wholly owned subsidiary, TU, an authorised insurance company.

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

TU operates a separate EWRMF 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.

- **Types of insurance risk**

Underwriting risk

Underwriting risk is the risk that future claims experience on business written is materially different from the results expected based on the assumptions made at the point of underwriting policies, resulting in current year losses.

Contracts are typically issued on an annual basis, meaning that the Group's liability usually extends for a 12-month period, after which the Group is entitled to decline to renew or can revise renewal terms by amending the premium or other policy terms and conditions such as the excess.

Controls and risk mitigants

Products are priced based on the Group's knowledge using past exposures, historical losses (plus an appropriate allowance for IBNR losses) and external data sources, with the appropriate adjustments to reflect anticipated future market conditions and expenses.

The Group reinsures a portion of the risks it underwrites in order to control its exposure to losses and protect capital resources. The Group buys primarily excess of loss (non-proportional) reinsurance treaties to reduce its net exposure to agreed levels for each line of business in accordance with the Group's Risk Appetite. The Group has also purchased ADC against the risk of low frequency high impact scenarios. The Group is also party to a QS reinsurance treaty in which the Group and the reinsurer share premiums and losses at an agreed percentage.

Claims reserving risk

Reserving and the ultimate cost of claims risk occurs where the Group's estimates of its insurance liabilities prove to be insufficient through inaccurate forecasting, adverse random variation and additional expenses.

The methods used to estimate the insurance liabilities in respect of outstanding claims and provisions are detailed in note 39.

45. Risk Management (continued)

Controls and risk mitigants

The aim of the reserving policy of the Group is to provide estimates of insurance liabilities that are accurate and reliable across each line of business and are consistent over the time period required to settle all the claims.

The Group's reserving position is reviewed at the TU Reserving Committee and is presented to the TU Board. In addition, an independent reserve review is undertaken as appropriate.

Claims management risk

Claims management risk may arise in the event of inaccurate or incomplete case reserving or settlement, poor customer service, claims fraud, ineffective or inefficient claim processes or excessive costs of handling claims.

Controls and risk mitigants

The Group's approach to claims management focuses upon creating a successful balance between satisfying the needs of the customer against control of the overall cost of the provision of the service that meets those needs. Customers include both the insured as well as others that believe the insured has breached a duty of care.

Reinsurance risk

Reinsurance is placed to reduce the Group's exposure to specific risks, events and accumulations. The risk is that the reinsurance contracts fail to perform as planned and do not reduce the gross cost of claims in terms of the limits purchased, either by risks not being appropriately covered, reinsurance defaults or by there not being gaps in the programme.

Controls and risk mitigants

The reinsurance programme is subject to considerable scenario planning, including by the Group's reinsurance brokers, and is approved by the TU Reinsurance Committee and the TU Board. All reinsurers in the reinsurance programme have a minimum credit rating of A.

- **Sensitivity of insurance risk**

A well-designed and executed Stress and Scenario Testing programme is part of the Group's contingency planning, consistent with previous years.

Insurance stresses tested will consider:

- **The Group's market competitiveness** - to assess the impact of lower profitability from writing lower than expected volumes or the capital strain from writing higher than expected volumes;
- **Multiple weather events** - to model events as a result of increasing aggravating climate changes and the impact on TU's catastrophe reinsurance covers;
- **Large bodily injury claims** - to assess the impact of insufficient loss reserves;
- **Reinsurance contracts** - to assess the benefits versus the costs of the Group's QS reinsurance contract and ADC contact; and
- **Ogden discount rate** - to assess the impact of a reduction in the Ogden rate that is used in discounting large bodily injury claims.

- **Concentration of insurance risk**

Concentration of insurance risk may exist where a particular event or series of events could impact significantly upon the Group's liabilities. Such concentrations may arise from a single insurance contract or through a small number of related contracts.

Concentrations of risk can arise in both high-severity, low frequency events, such as natural and other disasters and in situations where underwriting is biased towards a particular group, such as a particular geographical concentration or demographic trend. Material geographical concentrations or risk can exist in property portfolios such that natural perils of windstorm and floods may give rise to a large number of material damage and business interruption claims.

45. Risk Management (continued)

High-severity, low frequency event concentrations

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

The Group manages these risks by making appropriate allowance within the price calculated by underwriters and by purchasing a reinsurance programme that limits the impact of these events. The Group uses non-proportional reinsurance treaties to manage retention levels and the limits of protection.

Geographic and demographic concentrations

Material geographical concentrations of risk exist in property portfolios such that natural perils of windstorm and floods may give rise to a large number of material damage and business interruption claims. The Group only writes policies in the UK. The Group models its exposure to this risk to estimate its probable maximum loss and purchases reinsurance to significantly reduce its exposure to such events.

Economic conditions

The Group's insurance portfolio exposes it to a potential accumulation of different risks in the event of difficult economic conditions or more challenging points in the underwriting cycle. The Group's strategy has been to ensure that it charges the right premium for the business underwritten and it focuses on maintaining prices in such difficult market conditions. It also monitors claims closely to identify any that may be exaggerated or fraudulent.

Total aggregate exposure

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

(g) Residual price risk

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

Controls and risk mitigants

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

The table below demonstrates the Group's exposure to residual price risk at the year-end. Included in the table is the expected impact of a 10% shock in market prices on the Group's FVOCI and FVPL investment securities.

	Fair value		Impact of 10% shock		Value after 10% shock	
	2023	2022	2023	2022	2023	2022
Group	£m	£m	£m	£m	£m	£m
Government-backed investment securities	56.0	34.6	(5.6)	(3.5)	50.4	31.1
Supranational investment securities	31.0	31.6	(3.1)	(3.2)	27.9	28.4
Corporate bonds	469.2	516.9	(46.9)	(51.7)	422.3	465.2
Other investment securities	8.6	1.6	(0.9)	(0.2)	7.7	1.4
Equity securities - FVPL	20.1	24.8	(2.0)	(2.5)	18.1	22.3
	584.9	609.5	(58.5)	(61.1)	526.4	548.4

45. Risk Management (continued)

(h) Legal and regulatory compliance

Regulatory risk is the risk of poor customer outcomes, reputational damage, liability, loss or regulatory censure arising from failure to comply with the requirements of the financial services regulators or related codes of best practice. 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 credit processes; or failure to comply with other regulatory requirements. The Group's Risk Appetite is to comply with the relevant rules, regulations and data protection legislation. Where breaches occur, the Group will take appropriate rectifying action. The Group seeks to deliver fair outcomes for customers.

Controls and risk mitigants

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

The Risk function is responsible for the detailed regulatory policies which underpin the Compliance and Conduct Risk Policy. These are further supported by practical guidance documents supplied to business and operational areas to enable them to comply with the regulatory policies.

The Group has also established the Regulatory Change Forum which is responsible for the oversight of communications from all external regulators and monitoring regulatory change, including impact analysis and action tracking.

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

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 ERC and the Board review and challenge delivery of fair outcomes for customers.

(i) Insurance Capital

Insurance capital management is the collection of processes and activities undertaken by TU to provide sufficient capital to enable TU to meet its liabilities and ultimately ensure it remains a going concern, particularly in the case of losses arising from adverse events. Insurance capital management includes the assessment of capital required to support TU's plans and objectives, the structure of its shareholders' funds, arrangements to secure capital and the ongoing monitoring of capital against business requirements, as well as the assessments required by the PRA under the Solvency II (SII) regime, including the minimum capital requirement (TU's minimum capital requirement) and solvency capital requirement (SCR), assessed using TU's approved SII partial internal model (PIM), which was approved by the PRA in 2020. There have been no significant changes to the PIM during the period to 28 February 2023. TU models a range of stress and scenario tests that are published in its annual Solvency and Financial Condition Report, which will be published in due course and will be available at the following link:

<https://www.tescounderwriting.com/publications-and-reports/>. These show that TU's capital position is resilient to a range of possible scenarios. TU also maintains a capital contingency plan supported by its shareholder, TPF. TU's unaudited available capital has remained above its SCR requirement during the period to 28 February 2023; and capital coverage of TU's SCR of £122.8m (unaudited) at the end of February 2023 was 159.0% (unaudited) (2022: capital coverage of TU's SCR of £121.1m (unaudited) was 151.0% (unaudited)). TU has met all relevant capital requirements throughout the year.

The Group owns 100% of TU's ordinary share capital (£129.7m) and provides 100% of its subordinated debt of £42.3m.

46. Financial Instruments

Classification of financial assets and liabilities

The following tables analyse the financial assets and financial liabilities in accordance with the categories of financial instruments in IFRS 9.

Group	Amortised cost £m	FVPL - Designated at		FVOCI - Debt instruments £m	Total £m
		initial recognition £m			
2023					
Financial assets					
Cash and balances with central banks	429.0	32.1	–	–	461.1
Loans and advances to banks	26.7	–	–	–	26.7
Loans and advances to customers	7,081.3	–	–	–	7,081.3
Derivative financial instruments	–	121.4	–	–	121.4
Investment securities:					
- FVPL	–	20.1	–	–	20.1
- FVOCI	–	–	564.8	–	564.8
- Amortised cost	882.9	–	–	–	882.9
Other assets	181.7	–	–	–	181.7
Total financial assets	8,601.6	173.6	564.8	–	9,340.0
Financial liabilities					
Deposits from banks	979.7	–	–	–	979.7
Deposits from customers	5,769.6	–	–	–	5,769.6
Debt securities in issue	137.5	–	–	–	137.5
Derivative financial instruments	–	16.9	–	–	16.9
Other liabilities	199.9	–	–	–	199.9
Subordinated liabilities	236.9	–	–	–	236.9
Total financial liabilities	7,323.6	16.9	–	–	7,340.5

¹ On a Company basis, cash and balances with central banks is £8.1m and loans and advances to subsidiary companies is £379.3m, both of which are held at amortised cost.

All derivative financial instruments are held for economic hedging purposes, although not all derivatives are designated as hedging instruments under the terms of IFRS 9.

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46. Financial Instruments (continued)

Group ¹ 2022	FVPL - Designated			FVOCI - Debt instruments	Total £m
	Amortised cost £m	at initial recognition £m			
Financial assets					
Cash and balances with central banks	754.3	26.3	–	–	780.6
Loans and advances to banks	50.3	–	–	–	50.3
Loans and advances to customers	6,490.3	–	–	–	6,490.3
Derivative financial instruments	–	45.3	–	–	45.3
Investment securities:					
- FVPL	–	24.8	–	–	24.8
- FVOCI	–	–	584.7	–	584.7
- Amortised cost	857.4	–	–	–	857.4
Other assets	219.7	–	–	–	219.7
Total financial assets	8,372.0	96.4	584.7	–	9,053.1
Financial liabilities					
Deposits from banks	1,052.3	–	–	–	1,052.3
Deposits from customers	5,325.9	–	–	–	5,332.0
Debt securities in issue	244.0	–	–	–	244.0
Derivative financial instruments	–	27.2	–	–	27.2
Other liabilities	164.1	–	–	–	164.1
Subordinated liabilities	235.6	–	–	–	235.6
Total financial liabilities	7,021.9	27.2	–	–	7,049.1

¹ On a Company basis, cash and balances with central banks is £7.8m and loans and advances to subsidiary companies is £484.7m, both of which are held at amortised cost.

46. Financial Instruments (continued)

Offsetting

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

Group	Gross and net amounts presented in Statement of Financial Position	Related amounts not offset		Net amounts
		Financial instruments	Collateral (received) /pledged	
	£m	£m	£m	£m
2023				
Financial assets				
Derivative financial instruments	121.4	(16.9)	(104.5)	–
Total financial assets	121.4	(16.9)	(104.5)	–
Financial liabilities				
Derivative financial instruments	(16.9)	16.9	–	–
Repurchases, securities lending and similar agreements	(73.9)	–	73.9	–
Total financial liabilities	(90.8)	16.9	73.9	–
Group				
2022				
Financial assets				
Derivative financial instruments	45.3	(27.2)	(18.1)	–
Total financial assets	45.3	(27.2)	(18.1)	–
Financial liabilities				
Derivative financial instruments	(27.2)	27.2	–	–
Repurchases, securities lending and similar agreements	(150.3)	–	150.3	–
Total financial liabilities	(177.5)	27.2	150.3	–

In the above tables, the net amount presented for financial assets and financial liabilities is restricted to £nil where the total of the related amounts not offset exceeds the amount of the financial assets or financial liabilities.

46. Financial Instruments (continued)

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

Fair values of financial assets and financial liabilities

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

Group ^{1,2}	2023		2022	
	Carrying		Carrying	
	value	Fair Value	value	Fair value
	£m	£m	£m	£m
Financial assets				
Loans and advances to customers	7,081.3	7,058.4	6,490.3	6,565.5
Investment securities - amortised cost	882.9	884.5	857.4	867.4
	7,964.2	7,942.9	7,347.7	7,432.9
Financial liabilities				
Deposits from customers	5,769.6	5,640.1	5,325.9	5,296.1
Debt securities in issue	137.5	135.3	244.0	252.4
Subordinated liabilities	236.9	183.8	235.6	214.2
	6,144.0	5,959.2	5,805.5	5,762.7

¹ On a Company basis, loans and advances to subsidiary companies have a carrying value of £379.3m (2022: £484.7m), with a fair value of £317.5m (2022: £445.9m). On a Company basis, subordinated liabilities and debt securities in issue have the same carrying value and fair value as set out in the Group table above.

² Fair value disclosures are not required for lease liabilities.

The only financial assets and financial liabilities which are carried at fair value in the Consolidated Statement of Financial Position at year-end are cash balances relating to the Group's Travel Money offering, FVPL and FVOCI investment securities and derivative financial instruments. The valuation techniques and inputs used to derive fair values at the year-end are described below.

46. Financial Instruments (continued)

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

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

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

Group ¹ 2023	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets carried at fair value				
Cash in hand ²	–	32.1	–	32.1
Investment securities - FVOCI	564.8	–	–	564.8
Investment securities - FVPL	–	–	20.1	20.1
Derivative financial instruments:				
- Interest rate swaps	–	121.2	–	121.2
- Forward foreign currency contracts	–	0.2	–	0.2
Financial assets carried at amortised cost				
Loans and advances to customers	–	–	7,058.4	7,058.4
Investment securities – amortised cost	884.5	–	–	884.5
Total	1,449.3	153.5	7,078.5	8,681.3
Financial liabilities carried at fair value				
Derivative financial instruments:				
- Interest rate swaps	–	16.8	–	16.8
- Forward foreign currency contracts	–	0.1	–	0.1
Financial liabilities carried at amortised cost				
Deposits from customers	–	–	5,640.1	5,640.1
Debt securities in issue	135.3	–	–	135.3
Subordinated liabilities	–	183.8	–	183.8
Total	135.3	200.7	5,640.1	5,976.1

¹ On a Company basis, loans and advances to subsidiary companies of £317.5m are categorised as level 2. On a Company basis, subordinated liabilities and debt securities in issue have the same fair value and categorisation as set out in the Group table above.

² Cash balances relating to the Group's Travel Money offering are carried at fair value under IFRS 9.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

46. Financial Instruments (continued)

Group ¹ 2022	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets carried at fair value				
Cash in hand ²	–	26.3	–	26.3
Investment securities - FVOCI	584.7	–	–	584.7
Investment securities - FVPL	–	23.0	1.8	24.8
Derivative financial instruments:				
- Interest rate swaps	–	45.0	–	45.0
- Forward foreign currency contracts	–	0.3	–	0.3
Financial assets carried at amortised cost				
Loans and advances to customers	–	–	6,565.5	6,565.5
Investment securities – amortised cost	867.4	–	–	867.4
Total	1,452.1	94.6	6,567.3	8,114.0
Financial liabilities carried at fair value				
Derivative financial instruments:				
- Interest rate swaps	–	27.2	–	27.2
Financial liabilities carried at amortised cost				
Deposits from customers	–	–	5,296.1	5,296.1
Debt securities in issue	252.4	–	–	252.4
Subordinated liabilities	–	214.2	–	214.2
Total	252.4	241.4	5,296.1	5,789.9

¹On a Company basis, loans and advances to subsidiary companies of £445.9m are categorised as level 2. On a Company basis, subordinated liabilities and debt securities in issue have the same fair value and categorisation as set out in the Group table above.

²Cash balances relating to the Group's Travel Money offering are carried at fair value under IFRS 9.

46. Financial Instruments (continued)

There are three levels to the hierarchy as follows:

Level 1

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

Level 2

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

Fair values of cash balances relating to the Group's Travel Money offering are considered to equate to their carrying value as they are short-term in nature.

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

- Have future cash flows which are on known dates and for which the cash flow amounts are known or calculable by reference to observable interest and foreign exchange rates; or
- Have future cash flows which are not pre-defined, but for which the fair value of the instrument has very low sensitivity to changes in estimate of future cash flows.

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

Fair values of investment in subordinated debt classified as amortised cost are calculated using quoted prices, where available, or by using discounted cash flows applying market rates.

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

Financial assets classified as FVPL comprise the Group's holding in VISA Inc, and TU's holding in a property fund. The estimated fair value of the Group's holding in VISA Inc. is described in note 24. The estimated fair value of the Group's holding in a property fund is derived from market prices.

Level 3

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

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

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

The estimated fair value of financial assets classified as FVPL relating to the Group's holding in VISA Inc. is described in note 24. The estimated fair value of the Group's holding in a property fund is derived from market prices but reflects an illiquidity discount relating to the suspension during the year of transfers from the fund. These restrictions are expected to be lifted by June 2023.

Transfers

There were no transfers between Levels 1 and Level 2 in the year to 28 February 2023 (2022: no transfers).

The Group transferred investment securities totalling £19.2m from Level 2 to Level 3 (2022: no transfers) and investment securities totalling £1.9m from Level 3 to Level 2 (2022: no transfers) during the year.

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47. Cash and cash equivalents

	Group		Company	
	2023	2022	2023	2022
	£m	£m	£m	£m
Cash and balances with central banks (refer note 19)	417.7	739.0	8.1	7.8
Loans and advances to banks (refer note 20)	26.7	50.3	–	–
Total cash and cash equivalents	444.4	789.3	8.1	7.8

48. Cash Flows from Operating Activities

	Group		Company	
	2023	2022	2023	2022
	£m	£m	£m	£m
Non-cash and other items included in operating profit before taxation				
Expected credit loss charge/(credit) on loans and advances (refer notes 15 & 45)	60.9	(30.2)	1.0	0.3
Expected credit loss charge on investment securities at FVOCI (refer note 15)	0.5	0.8	–	–
Expected credit loss credit on investment securities at amortised cost (refer note 15)	–	(0.5)	–	–
Depreciation and amortisation (refer notes 30 & 31)	53.5	65.2	–	–
Loss on disposal of investment securities	(0.1)	0.3	–	–
Loss on disposal of non-current assets	1.0	1.0	–	–
Loss on redemption of debt securities	2.8	–	0.4	–
Deferred acquisition costs	(0.9)	(13.9)	–	–
Provisions for liabilities and charges (refer note 35)	6.4	1.8	–	–
Share of profit of joint venture	–	(2.6)	–	–
Dividend from joint venture	–	–	–	–
Gain on share of pre-acquisition reserves of joint venture	–	(5.0)	–	–
Fair value gain on investment in joint venture	–	(4.6)	–	–
Equity-settled share based payments	(5.1)	3.5	–	–
Interest paid on debt securities in issue	7.9	8.9	7.9	8.9
Interest (received)/paid on assets held to hedge subordinated liabilities and notes	(2.6)	1.0	–	–
Interest on subordinated liabilities	8.2	3.5	8.1	3.5
Interest on lease liabilities (refer note 43)	1.8	2.1	–	–
Research and development tax claim	–	(0.9)	–	–
Fair value movements	5.2	(0.3)	–	–
Total	139.5	30.1	17.4	12.7
Changes in operating assets and liabilities				
Net movement in mandatory balances with central banks	(1.8)	(17.0)	–	–
Net movement in loans and advances to customers	(699.2)	(106.9)	–	–
Net movement in reinsurance assets	28.2	1.7	–	–
Net movement in prepayments and accrued income	(5.2)	1.0	–	(0.1)
Net movement in other assets	38.9	34.3	–	–
Net movement in deposits from banks	(72.6)	452.3	–	–
Net movement in deposits from customers	445.1	(411.7)	–	–
Net movement in accruals and deferred income	(4.9)	20.0	(0.9)	–
Provisions utilised	(10.9)	(12.3)	–	–
Net movement in other liabilities	43.6	(21.4)	–	–
Net movement in insurance funds withheld	8.7	14.6	–	–
Net movement in insurance contract provisions	(45.1)	(0.3)	–	–
Total	(275.2)	(45.7)	(0.9)	(0.1)

49. Reconciliation of Liabilities Relating to Financing Activities

Group	At 1 March 2022	Financing Cash flows	Non-cash movements			At 28 February 2023
			Fair value change	Accrued Interest	Other	
	£m	£m	£m	£m	£m	£m
Debt securities in issue	(243.2)	101.1	1.9	–	3.2	(137.0)
Subordinated liabilities and notes	(235.0)	–	–	–	–	(235.0)
Interest payable	(1.4)	14.9	–	(16.0)	–	(2.5)
Assets held to hedge fixed rate bonds ¹	(6.5)	2.6	(4.3)	(0.5)	–	(8.7)
Lease liabilities ²	(26.8)	5.7	–	(1.8)	(0.9)	(23.8)
Total liabilities from financing activities	(512.9)	124.3	(2.4)	(18.3)	2.3	(407.0)

Company	At 1 March 2022	Financing Cash flows	Non-cash movements			At 28 February 2023
			Fair value change	Accrued Interest	Other	
	£m	£m	£m	£m	£m	£m
Debt securities in issue	(249.6)	101.1	–	–	3.8	(144.7)
Subordinated liabilities and notes	(235.0)	–	–	–	–	(235.0)
Interest payable	(1.4)	14.9	–	(16.0)	–	(2.5)
Total liabilities from financing activities	(486.0)	116.0	–	(16.0)	3.8	(382.2)

Group	At 1 March 2021	Financing Cash flows	Non-cash movements			At 28 February 2022
			Fair value change	Accrued Interest	Other	
	£m	£m	£m	£m	£m	£m
Debt securities in issue	(251.0)	–	8.3	(0.2)	(0.3)	(243.2)
Subordinated liabilities and notes	(235.0)	–	–	–	–	(235.0)
Interest payable	(1.3)	12.2	–	(12.3)	–	(1.4)
Assets held to hedge fixed rate bonds ¹	2.0	1.1	(9.5)	(0.1)	–	(6.5)
Lease liabilities ²	(29.6)	5.7	–	(2.1)	(0.8)	(26.8)
Total liabilities from financing activities	(514.9)	19.0	(1.2)	(14.7)	(1.1)	(512.9)

49. Reconciliation of Liabilities Relating to Financing Activities (continued)

Company	At 1 March 2021	Financing Cash flows	Non-cash movements			At 28 February 2022
			Fair value change	Accrued Interest	Other	
	£m	£m	£m	£m	£m	£m
Debt securities in issue	(249.4)	–	–	(0.2)	–	(249.6)
Subordinated liabilities and notes	(235.0)	–	–	–	–	(235.0)
Interest payable	(1.3)	12.2	–	(12.3)	–	(1.4)
Total liabilities from financing activities	(485.7)	12.2	–	(12.5)	–	(486.0)

¹ Assets held to hedge fixed rate bonds and securitisation bonds are included within derivative financial instruments in the Consolidated Statement of Financial Position on page 42.

² Lease liabilities are included within total other liabilities in the Consolidated Statement of Financial Position on page 42.

50. Capital Resources

IFRS 9 became effective for annual periods beginning on or after 1 January 2018 and is reflected in the Group disclosures. The Group has elected to use the transitional arrangements available under Article 473a of CRR. These arrangements allow the IFRS 9 impact on capital to be phased in over a period of five years. On 27 June 2020, due to the Covid-19 pandemic, CRR was further amended to accelerate specific measures and implement a new IFRS 9 transitional relief calculation which applies additional relief to increases in ECL provisions arising as a result of the Covid-19 pandemic. As a result, the IFRS 9 transitional arrangements have been extended by two years and a new modified calculation has been introduced.

50. Capital Resources (continued)

The following tables analyse the regulatory capital resources of the Company applicable as at the year-end on a 'transitional' and 'end point' position for the current year as related to the IFRS 9 transitional period:

	Transitional 2023 £m	End Point 2023 £m	Transitional 2022 £m
Common equity tier 1			
Shareholders' equity (accounting capital)	1,683.5	1,683.5	1,668.6
Regulatory adjustments			
Unrealised (gains)/losses on cash flow hedge reserve	(0.1)	(0.1)	(0.2)
Adjustment to own credit/additional value adjustments	(0.1)	(0.1)	–
Intangible assets	(108.8)	(108.8)	(111.9)
Material holdings in financial sector entities	(26.6)	(26.6)	(28.4)
IFRS 9 transitional add back	75.7	–	140.3
Insufficient coverage for non-performing exposures	(0.4)	(0.4)	–
Common equity tier 1 capital	1,623.2	1,547.5	1,668.4
Tier 2 capital (instruments and provisions)			
Undated subordinated notes	45.0	45.0	45.0
Dated subordinated notes net of regulatory amortisation	190.0	190.0	190.0
Tier 2 capital (instruments and provisions) before regulatory adjustments	235.0	235.0	235.0
Regulatory adjustments			
Material holdings in financial sector entities	(42.0)	(42.0)	(42.2)
Total regulatory adjustments to tier 2 capital (instruments and provisions)	(42.0)	(42.0)	(42.2)
Total tier 2 capital (instruments and provisions)	193.0	193.0	192.8
Total capital	1,816.2	1,740.5	1,861.2
Total risk-weighted assets (unaudited)	7,059.4	7,025.9	6,832.0
Common equity tier 1 ratio (unaudited)	23.0%	22.0%	24.4%
Tier 1 ratio (unaudited)	23.0%	22.0%	24.4%
Total capital ratio (unaudited)	25.7%	24.8%	27.2%

50. Capital Resources (continued)

Total Capital Requirement (TCR) refers to the amount and quality of capital the Company must maintain to comply with the CRR Pillar 1 and 2A capital requirements. The TCR for TPFPG as at 28 February 2023 is 9.8% (2022: 11.59%) of risk-weighted assets plus £68m (2022: £52m) as a static add-on for pension obligation risk.

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

	2023	2022
	£m	£m
Tesco Personal Finance Group plc (Group) shareholders' equity	1,685.5	1,665.4
Subsidiaries' retained earnings	(45.9)	(9.6)
Subsidiary's fair value reserve	43.9	12.8
Tesco Personal Finance Group plc shareholders' equity for regulatory purposes	1,683.5	1,668.6

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

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

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

The Group has met all relevant capital requirements throughout the year.

Leverage ratio (unaudited)

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 de-leveraging processes that can damage the broader financial system and the economy.

The Leverage Ratio is defined as the ratio of Tier 1 capital to the total Leverage Ratio exposures excluding claims on central banks and applies an equal weighting to all assets regardless of their risk.

The following Leverage Ratio disclosures for the year ended 28 February 2023 are laid out in accordance with the requirements of the Disclosure (CRR) Part of the PRA Rulebook.

50. Capital Resources (continued)

The Group has published the leverage ratio on a Capital Requirements Directive IV basis using the existing exposure approach:

Exposures for leverage ratio (unaudited)	Transitional 2023 £m	End point 2023 £m	Transitional 2022
Total balance sheet exposures	9,896.7	9,896.7	9,636.5
Adjustments for entities which are consolidated for accounting purposes but outside scope of regulatory consolidation	(747.1)	(747.1)	(774.4)
Adjustment for exemption of exposures to central bank	(307.9)	(307.9)	(639.9)
Removal of accounting value of derivatives and SFTs	(121.4)	(121.4)	(45.3)
Exposure value for derivatives and SFTs	31.1	31.1	37.6
Off balance sheet: unconditionally cancellable (10%)	1,221.2	1,221.2	1,236.3
Regulatory adjustment – intangible assets	(108.8)	(108.8)	(111.9)
Regulatory adjustment – other, including IFRS 9	38.0	(37.7)	115.6
Total	9,901.8	9,826.1	9,454.5
Common equity tier 1	1,623.2	1,547.5	1,668.4
Leverage ratio	16.4%	15.7%	17.6%

Capital Management

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

Pillar 2 capital methodologies

The PRA updated its Pillar 2 capital methodologies in July 2016 following the publication of prudential requirements for implementation of ring-fencing and issued a policy statement in October 2017 refining the Pillar 2A framework.

These proposals are aimed at promoting the safety and soundness of PRA-regulated firms, to facilitate a more effective banking sector and to make the PRA's Pillar 2A capital assessment more proportionate by addressing some of the concerns over the differences between SA and internal ratings-based risk weights. This will continue to be managed as part of the Group's ICAAP in line with the PRA policy statement issued in October 2017. The PRA general safety and soundness objectives in relation to continuity of core services in the UK and ring-fencing of banking activities where core deposits are in excess of £25bn came into effect from 1 January 2019. The Group has not exceeded this threshold and was not therefore automatically required to ring-fence the Group's core activities by the 2019 implementation date.

Leverage

At present the Group is not subject to the minimum Tier 1 leverage ratio requirement of 3.25% as it is currently exempt from the UK Leverage Framework Regime, which only applies to LREQ firms with retail deposit levels equal to or greater than £50 billion. However, although the PRA has confirmed that the minimum 3.25% ratio will be an LREQ requirement, as a smaller domestic deposit taker, the regulator has stated it still expects the Group to maintain a minimum leverage ratio of 3.25%.

50. Capital Resources (continued)

The European Commission's minimum requirements for own funds and eligible liabilities (MREL)

On 1 January 2020, the Group became subject to MREL, with an interim requirement of 18% of risk-weighted assets until 31 December 2022. In order to meet this requirement, the Company undertook an initial £250.0m issuance of MREL-compliant debt in July 2019.

From 1 January 2022, following a change in the Company's resolution strategy confirmed by the BoE in December 2021, the Company no longer has a requirement to issue MREL-compliant debt since the MREL requirement is equal to the TCR. Following a tender process completed in November 2022, £144.7m of the MREL-compliant debt issued by the Company in July 2019 remains in issue.

At 28 February 2023, the MREL ratio was 27.8% (unaudited) (2022: 30.9% unaudited).

51. Related Party Transactions

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

Transactions involving Directors and other key connected persons

For the purposes of IAS 24, 'Related Party Disclosures', the Group's key Management personnel comprises Directors of the Group. The captions in the Group's primary Financial Statements include the following amounts attributable, in aggregate, to key connected persons of both the Group and Tesco, the Company's ultimate parent undertaking.

Group	2023 £m	2022 £m
Deposits from customers¹		
Deposits at the beginning of the year	0.1	0.1
Deposits received during the year	–	–
Deposits at the end of the year	0.1	0.1
Interest expense on deposits	–	–

¹ The opening and closing balances reported are in respect of related parties of the Group during and at the reporting date in each year.

Remuneration of key Management personnel

The total Directors' remuneration is set out below in aggregate. Further information about the remuneration of Directors is provided in note 16.

Group	2023	2022 £m
Short-term employee benefits	3.3	3.2
Other long-term benefits ¹	1.9	1.7
Share based payments	0.6	0.5
Total emoluments	5.8	5.4

¹ Other long-term benefits, being aggregate amounts receivable under long-term incentive schemes, represent the maximum amounts awarded in the year. Actual amounts payable under long-term incentive schemes may vary depending on the level of performance achieved against specific measures.

TESCO PERSONAL FINANCE GROUP PLC
NOTES TO THE FINANCIAL STATEMENTS (continued)

51. Related Party Transactions (continued)

Trading transactions

Group	2023	2023	2022	2022	2022
	Tesco PLC	Tesco subsidiaries	Tesco PLC	Tesco subsidiaries	Tesco Underwriting - JV
		£m		£m	£m
Interest received and other income	–	2.0	–	3.2	7.3
Interest paid	(8.1)	0.2	(3.5)	–	–
Provision of services	–	(50.7)	–	(45.9)	(1.1)

Company	2023	2023	2022	2022	2022
	Tesco PLC	Tesco subsidiaries	Tesco PLC	Tesco subsidiaries	Tesco Underwriting - JV
		£m		£m	£m
Interest received and other income	–	16.1	–	12.3	–
Dividend income	–	54.4	–	80.0	–
Interest paid	(8.1)	–	(3.5)	–	–
Provision of services	–	(1.0)	–	0.1	–

Balances owing to/from related parties are identified in notes 26, 27, 36, 37, 40, 41 and 42.

Prior to 4 May 2021 TU was a joint venture of the Group. Trading transactions with TU as a joint venture are shown separately in the table above. From 4 May 2021 TU became a subsidiary of the Group. Trading transactions with TU from this date are shown within the Tesco subsidiaries column in the tables above. Transactions with TU are eliminated in the Group disclosures from this date.

Investment transactions with TU are identified in note 28.

Ultimate parent undertaking

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

52. Contingent Liabilities and Commitments

Contingent liabilities

Contingent liabilities are possible obligations arising from past events, whose existence will be confirmed only by uncertain future events, or present obligations arising from past events that are not recognised because either it is not probable that an outflow of economic benefits will be required or the amount of the obligation cannot be reliably estimated.

Contingent liabilities are not recognised but information about them is disclosed unless the possibility of any outflow of economic benefits is remote. There are a number of contingent liabilities that arise in the normal course of business which, if realised, are not expected to result in a material liability to the Group.

Lending commitments

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

Further detail on undrawn lending commitments is included in the liquidity and funding risk disclosure in note 45.

The contractual amounts do not represent the amounts at risk at the reporting date but the amounts that would be at risk should the available facilities be fully drawn upon.

Capital commitments

At 28 February 2023 the Group had capital commitments related to property, plant and equipment of £6.0k (2022: £1.7m) and intangible assets of £2.7m (2022: £1.3m). This is in respect of IT software development and IT hardware. The Group's Management is confident that future net revenues and funding will be sufficient to cover these commitments.

53. Share Based Payments

The Group charge for the year recognised in respect of share based payments is £4.0m (2022: £7.9m), which is made up of share option schemes and share bonus payments. Of this amount, £3.5m (2022: £6.8m) will be equity-settled and £0.5m (2022: £1.1m) cash-settled representing employee tax and National Insurance contributions.

53. Share Based Payments (continued)

Share option schemes

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

Arrangement	Participants	Term	Vesting requirements
Savings-related option schemes			
The Savings-related Share Option Scheme (2021)	UK colleagues	Three or five years	The options are capable of being exercised at the end of the term at a subscription price of not less than 80% of the average of the middle-market quotations of an Ordinary share over the three dealing days immediately preceding the offer date.
Executive option schemes			
The Performance Share Plan (2011)	Selected senior executives	Normally exercisable between the vesting date(s) set at grant and 10 years from the date of grant for nil consideration. No further options will be granted under this scheme.	Conditional upon the achievement of specified performance targets over a three-year period and/or continuous employment.
The Long Term Incentive Plan (2015)	Selected senior executives	Normally exercisable between the vesting date(s) set at grant and 10 years from the date of grant for nil consideration.	
Long-term incentive plans			
The Performance Share Plan (2011) and the Long Term Incentive Plan (2021)	Selected senior executives and senior managers	Awards made under these plans will normally vest on the vesting date(s) set on the date of the award for nil consideration.	Conditional on the achievement of specified performance targets over a three year performance period and/or continuous employment.
Share bonus schemes			
The Group Bonus Plan and the Deferred Bonus Plan (2019)	Selected senior executives and senior managers	Granted based on a percentage of salary, which is determined by the achievement of corporate and individual performance targets. The bonus awards are paid partly in cash and partly in deferred shares. The fair value of shares awarded under these schemes is their market value on the date of award. Expected dividends are not incorporated into the fair value.	Conditional on completion of continuous employment and achievement of corporate and individual performance targets..

53. Share Based Payments (continued)

The following table reconciles the total number of share options outstanding under each share option scheme and the weighted average exercise price (WAEP):

	Savings- related share option scheme Options	Savings- related share option scheme WAEP (pence)	Approved share option scheme Options	Approved share option scheme WAEP (pence)	Unapproved share options scheme Options	Unapproved share options scheme WAEP (pence)
Outstanding at 1 March 2022	3,907,901	210.58	–	–	–	–
Granted	1,527,445	182.00	–	–	–	–
Forfeited	(800,933)	220.87	–	–	–	–
Exercised	(740,115)	190.05	–	–	–	–
Outstanding at 28 February 2023	3,894,298	201.16	–	–	–	–
Exercisable at 28 February 2023	1,914	188.00	–	–	–	–
Exercise price range (pence)	–	188.00	–	–	–	–
Weighted average remaining contractual life (years)	–	0.00	–	–	–	–
	Savings- related share option scheme Options	Savings- related share option scheme WAEP (pence)	Approved share option scheme Options	Approved share option scheme WAEP (pence)	Unapproved share options scheme Options	Unapproved share options scheme WAEP (pence)
Outstanding at 1 March 2021	3,859,640	192.89	–	–	–	–
Granted	1,146,690	242.00	–	–	–	–
Forfeited	(353,867)	206.14	–	–	–	–
Exercised	(744,562)	169.39	–	–	–	–
Outstanding at 28 February 2022	3,907,901	210.58	–	–	–	–
Exercisable at 28 February 2022	26,835	190.00	–	–	–	–
Exercise price range (pence)	–	190.00	–	–	–	–
Weighted average remaining contractual life (years)	–	0.42	–	–	–	–

53. Share Based Payments (continued)

Share options were exercised on a regular basis throughout the financial year. The average Tesco share price during the year ended 28 February 2023 was 248.40p (2022: 254.05p).

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

Group	2023	2022
	Savings - related share options schemes	Savings - related share options schemes
Expected dividend yield (%)	4.96% - 5.43%	4.10% - 4.17%
Expected volatility (%)	22.25% - 22.53%	21.79% - 21.89%
Risk free interest rate (%)	3.54% - 3.59%	1.38% - 1.39%
Expected life of option (years)	3 or 5	3 or 5
Weighted average fair value (WAFV) of options granted (pence)	46.82	38.47
Probability of forfeiture (%)	7.00% - .009%	7.40% - 9.50%
Share price (pence)	202.35	268.5
WAEP (pence)	182.00	242.00

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

Share Bonus Schemes

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

Selected executives participate in the Performance Share Plan (2011), the Long-Term Incentive Plan (2015) and the Long-Term Incentive Plan (2021). Awards made under these plans will normally vest on the vesting date(s) set on the date of the award for nil consideration. Vesting will normally be conditional on the achievement of specified performance targets over a three-year performance period and/or continuous employment.

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

The number of Tesco shares and WAFV of share bonuses awarded during the year were:

	2023	2023	2022	2022
	Shares (number)	WAFV (pence)	Shares (number)	WAFV (pence)
Group Bonus Plan	1,028,816	266.80	–	–
Performance Share Plan	2,495,698	253.60	2,318,344	227.76

54. Adoption of New and Amended International Financial Reporting Standards

Standards, amendments and interpretations issued which became effective in the current year

During the year the Group did not adopt any new accounting standards or amendments to standards which became effective in the current year which had any impact on the Group.

Early adoption of new standards

During the year the Group did not adopt early adopt any new accounting standards or amendments to standards.

Standards, amendments and interpretations issued but not yet effective

Standards, amendments and interpretations issued and effective on or after 1 January 2023 that are expected to have an impact on the Group are as follows:

IFRS 17 'Insurance Contracts'

IFRS 17 was endorsed for adoption by the UK Endorsement Board in May 2022 and will be implemented by the Group with effect from 1 March 2023.

The standard is a replacement for IFRS 4 'Insurance Contracts'. It requires insurance liabilities to be measured at a current fulfilment value. IFRS 17 includes an optional simplified premium allocation approach which is permitted for contracts with a coverage period of one year or less.

IFRS 17 is most relevant to the Group's subsidiary, TU, which provides the insurance underwriting service for a number of the Group's general insurance products.

Under IFRS 17, insurance contract liabilities will include both a liability for incurred claims and a liability for remaining coverage.

The liability for incurred claims, which represents outstanding claims and incurred but not reported claims, will be measured as the weighted average of discounted cash flows plus a risk adjustment for the uncertainty of the cash flows.

The liability for remaining coverage is the obligation for insured events related to the unexpired portion of the coverage period. TU will apply the premium allocation approach to all material insurance and reinsurance contract groups, resulting in the liability for remaining coverage being equal to the current unearned premium reserve less deferred acquisition costs. As the Group is required to assess the impact of IFRS 17 by reference to contract inception on 4 May 2021, being the date from which TU became a wholly owned subsidiary of the Group, rather than the original contract inception date, the Group is required to account for the acquired claims liability as at that date as part of the liability for remaining coverage using the General Model for measurement of insurance contracts rather than the simplified premium allocation approach. The acquired claims liability for the Group will be measured as the weighted average of discounted cash flows plus a risk adjustment for the uncertainty of the cash flows, plus any contractual service margin or loss component.

Contracts will be grouped into Motor and Home portfolios. In addition, within these portfolios, IFRS 17 requires grouping by 'onerous', 'no significant possibility of becoming onerous' or 'other'. The Group has grouped all its business as 'other' at the opening balance sheet date.

The Group will take the option to disaggregate part of the movement in liability for incurred claims from changes in discount rates and present this in other comprehensive income. Liabilities for remaining coverage will not be discounted, other than those which relate to acquired claims, whereas all liabilities for incurred claims will be discounted.

The Group will fully restate comparative periods on initial application of IFRS 17 for the financial year ending 28 February 2024.

The impact to net equity at 1 March 2022 on application of IFRS 17 has been calculated by Management but is still subject to final governance procedures and has not yet been audited and therefore has not been disclosed in these Financial Statements. The Group continues to work to fully implement IFRS 17 throughout the financial year to 29 February 2024.

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

Future changes in presentation of the statement of consolidated income statement include, but are not limited to:

- 'Insurance revenue' will replace 'Insurance premium income'.
- 'Insurance service expense' will replace 'Insurance claims incurred' and will also include acquisition and directly attributable administration expenses.
- Reinsurance will be separated from gross insurance, and both premiums and claim recoveries will be captured in 'Net expenses from reinsurance contracts held'.
- A new item, 'Net insurance finance result' will capture the net impact of the unwind of the discount on insurance liabilities.

Future changes in presentation of the consolidated statement of financial position include, but are not limited to:

- 'Insurance contract liabilities' will replace 'Insurance contract provisions', and will be net of deferred acquisition costs, insurance premium debtors and salvage and subrogation recoveries.
- 'Reinsurance contract assets' will replace 'Reinsurance assets' and will include all reinsurance receivables and reinsurers share of deferred acquisition costs, and be net of reinsurance funds withheld and reinsurance payables.

55. Events After the Reporting Date

There were no events after the reporting date which have required either adjustment or disclosure in these Financial Statements.

1. Opinion

In our opinion:

- the Financial Statements of Tesco Personal Finance Group plc (the parent Company) and its subsidiaries (the Group) give a true and fair view of the state of the Group's and of the parent Company's affairs as at 28 February 2023 and of the Group's profit for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with United Kingdom adopted International Accounting Standards and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB);
- the parent Company Financial Statements have been properly prepared in accordance with United Kingdom adopted IASs and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the Financial Statements which comprise:

- the Consolidated Income Statement;
- the Consolidated Statement of Comprehensive Income;
- the Consolidated and Parent Company Statements of Financial Position;
- the Consolidated and Parent Company Statements of Changes in Equity;
- the Consolidated and Parent Company Cash Flow Statements;
- the Accounting Policies; and
- the related notes 1 to 55.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law, United Kingdom adopted international accounting standards and IFRSs as issued by the IASB. The financial reporting framework that has been applied in the preparation of the parent Company Financial Statements is applicable law and United Kingdom adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006.





2 Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (FRC's) Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the Group or the parent Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matters	<p>The key audit matters that we identified in the current year were:</p> <ul style="list-style-type: none">• expected credit loss (ECL) provisions; and• valuation of insurance contract liabilities and reinsurance assets in Tesco Underwriting Limited (TU). <p>Within this report, key audit matters are identified as follows:</p> <ul style="list-style-type: none"> Newly identified Increased level of risk Similar level of risk Decreased level of risk
Materiality	<p>The materiality that we used for the Group Financial Statements was £10.11m, which represents 0.6% of net assets.</p>
Scoping	<p>Our audit scoping provides full scope audit coverage of 100% of revenue, profit before tax and net assets.</p>
Significant changes in our approach	<p>In the prior year, we identified a key audit matter related to the recognition of revenue in respect of the revenue streams from financial products that must be recognised using the effective interest rate method (EIR), specifically in relation to the repayment assumptions used to estimate the EIR asset on Credit Cards. Following the year-on-year decline in the EIR asset balance related to Credit Cards and the fact that reasonable possible changes in repayment assumptions do not have a material impact on the asset, we no longer consider revenue recognition to be a key audit matter. There are no other significant changes in our approach in the current year.</p>

4. Conclusions relating to going concern

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

Our evaluation of the Directors' assessment of the Group's and parent Company's ability to continue to adopt the going concern basis of accounting included:

- Obtaining an understanding of the relevant controls around Management's going concern assessment;
- Assessing Management's considerations regarding whether they consider it appropriate to adopt the going concern basis of accounting;
- Assessing the Group's and parent Company's compliance with regulation including capital and liquidity requirements;
- Assessing the assumptions, such as cash flows, capital and liquidity, used in the forecasts prepared by Management, including those used in stress testing scenarios with reference to recent market events;
- Assessing historical accuracy of forecasts prepared by Management;
- Involving prudential risk specialists in assessing the information supporting the liquidity and capital forecasts; and
- Assessing the appropriateness of the going concern disclosures.

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

4. Conclusions relating to going concern (continued)

In relation to the reporting on how the group has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1 Expected credit loss provisions

Key audit matter description As disclosed in note 15 (Expected Credit Loss on Financial Assets) and note 21 (Loans and Advances to Customers), the Group held an ECL provision of £460.9m at 28 February 2023 (28 February 2022: £488.8m). The ECL on loans and advances to customers charged to the income statement was £61.4m in the year to 28 February 2023 (28 February 2022: £29.9m credit). The increase in provision compared to the prior year is primarily due to the impact of the worsening macro-economic outlook in the current year partially offset by a reduction in post-model adjustments (PMAs), including the release of COVID-19 related PMAs.

Loan impairment remains one of the most significant judgements made by Management. We consider the most significant areas of judgement within the Group's collective provisioning methodologies, and therefore the key audit matters within loan impairment, to be:

- Macro-economic scenarios – ECL provisions are required to be calculated on a forward-looking basis under IFRS 9. Management, with the assistance of external economic specialists, apply significant judgement in determining the forecast macro-economic scenarios and the probability-weighting of each scenario that are incorporated into the ECL model.
- Post-model adjustments – Management has included a customer uncertainty PMA of £22.0m (28 February 2022: £75.0m) and model underestimation and uncertainty PMA of £68.0m (28 February 2022: £nil) to capture the potential downside risks and model limitations arising as a result of the continued macro-economic uncertainty and cost of living crisis on the Group's customers.

Other material judgements include the determination of the expected lifetime, the definition of a significant increase in credit risk, the determination of probability of default and exposure at default, the identification of loss events and the determination of loss given default.

Given the material impact of the significant judgements taken by Management in the measurement of the ECL provision, we also consider there is an inherent risk of fraud through manipulation of this balance.

Management's associated accounting policies are detailed in note 1 with detail about the judgments made in applying accounting policies and critical accounting estimates in note 3.

5.1 Expected credit loss provisions (continued)

How the scope of our audit responded to the key audit matter	<p>Our audit work to address the key audit matter included the procedures noted below.</p> <p>We have obtained an understanding of, and assessed the relevant controls, including model governance forums, model monitoring and calibrations including the determination of PMAs, the review and approval of macro-economic scenarios, the flow of data from the Group's information systems into the model, and the flow of the output of the model to the general ledger.</p> <p><i>Macro-economic scenarios and related model refinements</i></p> <p>With support from internal economic modelling specialists, we challenged the macro-economic scenario forecasts that were incorporated into the ECL model, including Management's selection of the relevant macro-economic variables. We assessed Management's forecasts and their probability against external sources to assess their reasonableness, considering the forecasts in light of any contradictory information.</p> <p>We also assessed the competence, capabilities and objectivity of Management's external economic specialist, who supplies the macro-economic forecasts to Management and considered whether the methodology adopted by the expert was reasonable.</p> <p>We also evaluated whether there was appropriate disclosure regarding the macro-economic scenarios selected by Management, their probability-weighting, and the related sensitivities.</p> <p><i>Post-model adjustments (PMAs)</i></p> <p>With support from internal credit risk specialists, we challenged the customer uncertainty and model underestimation risk uncertainty PMAs recorded by Management as well as the completeness of PMAs with reference to our observations in the broader market and understanding of the risk profile of the portfolio.</p> <p>We evaluated the accuracy of the calculation of the PMA, which included an assessment of the completeness and accuracy of the underlying data used by Management in their calculation.</p> <p>We also evaluated whether there was adequate disclosure regarding the significant PMAs including how they were determined and the range of possible outcomes.</p>
Key observations	<p>Based on our audit procedures above, we concluded that Management's ECL provision is reasonably stated, and is supported by a methodology that is consistently applied and compliant with IFRS 9.</p>

5.2 Valuation of insurance contract liabilities and reinsurance assets within Tesco Underwriting Limited (TU) 

Key audit matter description The Group's gross insurance contract provisions total £604.9m as at 28 February 2023 (£650.0m as at 28 February 2022). Under IFRS 4 Insurance Contracts, provisions are required to be recognised for expected ultimate losses on claims occurring prior to the period end. Estimating these provisions is inherently subjective and requires the use of complex models and the consistent application of judgment and estimation using appropriate methodologies and assumptions.

Within gross insurance contract provisions, bodily injury (BI) claims relating to motor insurance policies represent the most significant area of management judgment and materiality to the Group's financial position. Our key audit matter is focused on the key assumptions of the reserves for large BI claims. This includes, frequency, severity and sufficiency of the allowance for excess future inflation and the appropriateness of reinsurance recovery assumptions.

Management uses a range of IT systems to maintain data used in the reserving models, including the primary underwriting and claims systems.

Given the material impact of the significant judgements taken by management in the measurement of the insurance contract liabilities and reinsurance assets, we also consider there is an inherent risk of fraud through manipulation of this balance.

Notes 1 and 3 of the financial statements provide further detail on critical judgements and key sources of estimation uncertainty in relation to this matter.

How the scope of our audit responded to the key audit matter Our audit work to address the key audit matter included the procedures noted below.

We obtained an understanding of relevant controls in the process of estimating the reserves.

With the involvement of our actuarial specialists, we have performed the following procedures:

- Calculated an independent projection of the large BI claims;
- Assessed the reasonableness of any differences noted between our independent projection and management's results;
- Tested the reconciliation of paid and incurred claims development data to the policy administration system and general ledger; and
- Evaluated paid, incurred and outstanding case reserves by checking correspondences and policy documents include in the policyholders' files, where this data was used in reserving.

Key observations Based on our audit procedures above, we concluded that insurance contract liabilities and reinsurance assets within Tesco Underwriting Limited is reasonably stated.

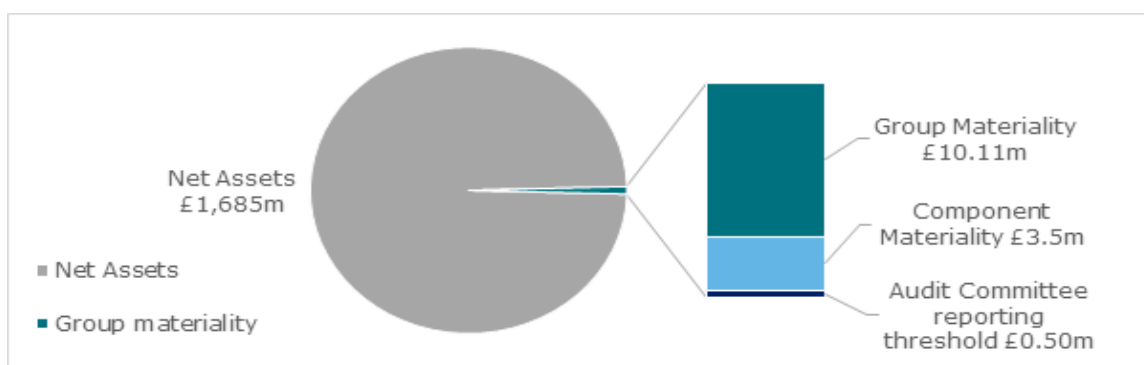
6. Our application of materiality

6.1 Materiality

We define materiality as the magnitude of misstatement in the Financial Statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the Financial Statements as a whole as follows:

	Group Financial Statements	Parent Company Financial Statements
Group materiality	£10.11m (2022: £9.32m)	£7.35m (2022: £6.86m)
Basis for determining materiality	Materiality has been determined as 0.6% of net assets (2022: 0.6% of net assets).	Parent Company materiality has been determined as 0.6% of net assets (2022: 0.6% of net assets).
Rationale for the benchmark applied	We believe that the use of net assets is appropriate given the overall capital base is a key focus area for the stakeholders and regulators.	We believe that the use of net assets is appropriate given the overall capital base is a key focus area for the stakeholders and regulators.



6.2 Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the Financial Statements as a whole. Group performance materiality was set at 70% of Group materiality for the 2023 audit (2022: 70%). In determining performance materiality, we considered the following factors:

- The quality of the control environment and that we were able to rely on controls for a number of business cycles; and
- The low number of corrected and uncorrected misstatements identified in previous audits.

6.3 Error reporting threshold

We agreed with the Board Audit Committee (BAC) that we would report to the Committee all audit differences in excess of £0.50m (2022: £0.46m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the BAC on disclosure matters that we identified when assessing the overall presentation of the Financial Statements.

7. An overview of the scope of our audit

7.1 Identification and scoping of components

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. Audit work to respond to the risks of material misstatement was performed by the Group engagement team. Our audit scoping provides full scope audit coverage of 100% of the Group's revenue, profit before tax and net assets.

7.2 Our consideration of the control environment

We planned to rely on controls in our audit of the following areas: Credit Cards, Savings, Loans, Insurance, common operations processes (products, payments and reconciliations) and all material money services products. In doing so we obtained an understanding and tested the relevant controls. The Group is reliant upon the effectiveness of a number of IT applications and controls to ensure that financial transactions are processed and recorded completely and accurately and we involved our IT specialists to obtain an understanding of general IT controls across the systems relevant to the areas listed.

We relied upon the controls tested as planned.

7.3 Our consideration of climate-related risks

We obtained an understanding of management's process for considering the impact of climate-related risks and controls that are relevant to the entity. We assessed whether the risks identified by management are complete and consistent with our understanding and risk assessment of the entity as part of our own risk assessment procedures.

We have evaluated management's climate-based risk assessment in order to consider the potential impact of climate change on the Group's financial statements. We used this to assess the completeness of the Group's identified risks and to develop audit procedures to respond to these risks, as well as considering climate-related risks throughout our risk assessments on each financial statement account balance.

In considering the disclosures presented as part of the Strategic Report, we have read the disclosures in the Strategic Report to consider whether they are materially consistent with the financial statements and our knowledge obtained in the audit.

7.4 Working with other auditors

Work on TU, the Group's insurance underwriting subsidiary, was performed by component auditors. The timing of our engagement with the component auditors was planned to enable us to be involved during the planning and risk assessment process in addition to the execution of detailed audit procedures. We attended key meetings with TU Management and the component auditor, and reviewed the audit files of the component auditor to understand the audit approach adopted, with specific focus over the claims reserves recognised. The materiality level applied by the component auditor of TU was £3.5m (2022: £3.7m).

8. Other information

The other information comprises the information included in the Annual Report, other than the Financial Statements and our auditor's report thereon. The Directors are responsible for the other information contained within the Annual Report.

Our opinion on the Financial Statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the Financial Statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

9. Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, the Directors are responsible for assessing the Group's and the parent Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

10. Auditor's responsibilities for the audit of the Financial Statements

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

A further description of our responsibilities for the audit of the Financial Statements is located on the FRC's website at: <http://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

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

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

11.1 Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for Directors' remuneration, bonus levels and performance targets;
- results of our enquiries of Management, Internal Audit and the BAC about their own identification and assessment of the risks of irregularities including those that are specific to the Group's sector;
- any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
 - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and involving relevant internal specialists, including tax, IT, actuarial specialists, credit risk specialists and industry specialists regarding how and where fraud might occur in the Financial Statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: ECL provisions and valuation of insurance contract liabilities and reinsurance assets in TU. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

11.1 Identifying and assessing potential risks related to irregularities (continued)

We also obtained an understanding of the legal and regulatory frameworks that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the Financial Statements. The key laws and regulations we considered in this context included the UK Companies Act, UK Pensions Act and the HM Revenue and Customs (HMRC) Tax Legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the Financial Statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty. These included the requirements of the United Kingdom's Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA).

11.2 Audit response to risks identified

As a result of performing the above, we identified expected credit loss provisions and valuation of insurance contract liabilities and reinsurance assets in TU as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

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

- reviewing the Financial Statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the Financial Statements;
- enquiring of Management, the BAC, in-house and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing Internal Audit reports and reviewing correspondence with HMRC, the PRA and the FCA; and
- in addressing the risk of fraud through Management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. Opinions and other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and the parent Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' Report.

13. Corporate Governance Statement

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- the Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on pages 30 and 31;
- the Directors' explanation as to its assessment of the Group's prospects, the period this assessment covers and why the period is appropriate set out on pages 25 to 27;
- the Directors' statement on fair, balanced and understandable set out on pages 38 to 39;
- the Board's confirmation that it has carried out a robust assessment of the emerging and principal risks, set out on page 10;
- the section of the Annual Report that describes the review of effectiveness of risk management and internal control systems set out on pages 11 to 25; and
- the section describing the work of the BAC set out on pages 36 to 37.

14. Matters on which we are required to report by exception

14.1 Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company Financial Statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

14.2 Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made.

We have nothing to report in respect of this matter.

15. Other matters

15.1 Auditor tenure

Following the recommendation of the BAC, we were appointed by the Board of Directors on 30 June 2015 to audit the Financial Statements for the year ending 29 February 2016 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is eight years, covering the years ending 29 February 2016 to 28 February 2023.

15.2 Consistency of the audit report with the additional report to the BAC

Our audit opinion is consistent with the additional report to the BAC we are required to provide in accordance with ISAs (UK).

16. Use of our report

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

Matt Perkins ACA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

Birmingham, United Kingdom

11 April 2023

TESCO PERSONAL FINANCE GROUP PLC
ABBREVIATIONS

ABE	Actuarial best estimate	IAS 39	IAS 39 'Financial Instruments: Recognition and Measurement'	SII	Solvency II
ADC	Adverse development cover			SMF	Senior Management Function
AEaR	Annual earnings at risk			SONIA	Sterling Overnight Index Average
AGEAS	AGEAS (UK) Limited	IASB	International Accounting Standards Board	TCo	Treasury Committee
ALCo	Asset and Liability Management Committee	IBNR	Incurred but not reported	tCO₂e	Tonnes of carbon dioxide equivalent
APM	Alternative Performance Measure	ICAAP	Internal capital adequacy assessment process	TCR	Total capital requirement
BAC	Board Audit Committee	IFRS	International Financial Reporting Standard	Tesco	Tesco PLC
BoE	Bank of England	IFRS 9	IFRS 9 'Financial Instruments'	TFSME	TFS for small and medium sized entities
BI	Bodily injury	IFRS 15	IFRS 15 'Revenue from Contracts with Customers'	TPF	Tesco Personal Finance plc
BRC	Board Risk Committee	IFRS 17	IFRS 17 'Insurance Contracts'	TPFG	Tesco Personal Finance Group plc
CaR	Capital at risk	ILAAP	Internal liquidity adequacy assessment process	TSL	Tesco Stores Limited
CCB	Capital conservation buffer	IRRBB	Interest rate risk in the Banking Book	TU	Tesco Underwriting Limited
CCyB	Countercyclical capital buffer	ISAs (UK)	International Standards on Auditing (UK)	UK	United Kingdom
CEO	Chief Executive Officer	ISDA	International Swaps Derivatives Association	VIU	Value-in-use
CFO	Chief Financial Officer	ITP	Insurance Transformation Programme	WAEP	Weighted average exercise price
CGU	Cash-generating unit	KPI	Key performance indicator	WAFV	Weighted average fair value
CRD	Capital Requirements Directive	LGD	Loss given default	2018	UK Corporate Governance Code 2018
CRO	Chief Risk Officer	MREL	Minimum requirements for own funds and eligible liabilities		
CRR	Capital Requirements Regulation	MRT	Material Risk Taker		
DisCo	Disclosure Committee	NomCo	Nomination Committee		
EAD	Exposure at default	NSFR	Net stable funding ratio		
EBA	European Banking Authority	ORSA	Operational risk scenario analysis		
ECLs	Expected credit losses	PD	Probability of default		
EIR	Effective interest rate	PIM	Partial internal model		
EPG	Energy Price Guarantee	PMA	Post-model adjustment		
ERC	Executive Risk Committee	PPI	Payment protection insurance		
ESG	Environmental, Social and Governance	PPO	Periodic payment order		
EU	European Union	PRA	Prudential Regulation Authority		
EVM	Every Voice Matters	QS	Quota share		
EWRMF	Enterprise-Wide Risk Management Framework	RAM	Risk Appetite measure		
ExCo	Executive Committee	RemCo	Remuneration Committee		
FCA	Financial Conduct Authority	RCSA	Risk and control self-assessment		
FPC	Financial Policy Committee	SA	Standardised approach		
FRC	Financial Reporting Council	SCR	Solvency capital requirement		
FVOCI	Fair value through other comprehensive income	SFTs	Securities financing transactions		
FVPL	Fair value through profit or loss				
HMRC	HM Revenue and Customs				
HQLA	High quality liquid assets				
IAS	International Accounting Standard				
IAS 19	IAS 19 'Employee Benefits'				

A

Actuarial best estimate	An estimate of ultimate claims or claims reserve that is intended to be neither too high, nor too low, taking into account known information.
Adverse development cover	Reinsurance cover that will pay the reinsured if claims develop adversely over a certain limit.
Alternative performance measure	In the reporting of financial information, the Directors have adopted various APMs. These measures are not defined by IFRSs and therefore may not be directly comparable with other companies' APMs, including those in the Group's industry. APMs should be considered in addition to, and are not intended to be a substitute for, or superior to, IFRS measurements.
Amortised cost	The amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the EIR method of any difference between the initial amount and the maturity amount and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectability.
Annual earnings at risk	Changes in interest rates affect the Group's earnings by altering interest rate-sensitive income and expenses. Excessive interest income sensitivity can pose a threat to the Group's current capital base and/or future earnings. The Annual Earnings at Risk model measures the impact on earnings of +/- 0.25%, 0.50%, 0.75%, 1% parallel interest rate shocks against the base case. The most adverse scenario is measured against Risk Appetite.
Annual percentage rate	The yearly interest generated by a sum that is charged to borrowers or paid to investors.
Asset encumbrance	An asset shall be treated as encumbered if it has been pledged or if it is subject to any form of arrangement to secure, collateralise or credit enhance any transaction from which it cannot be freely withdrawn.
Asset encumbrance ratio	The asset encumbrance ratio is calculated as (total encumbered assets + total collateral received which has been re-used for financing transactions) divided by (total assets + total collateral received which is available for encumbrance).

B

Basel II	Basel II is a set of international banking regulations put forth by the Basel Committee on Bank Supervision, which levelled the international regulation field with uniform rules and guidelines. Basel II expanded rules for minimum capital requirements established under Basel I and provided the framework for regulatory review, as well as set disclosure requirements for assessment of capital adequacy of banks.
Basel III	Basel III is an international regulatory accord that introduced a set of reforms designed to improve the regulation, supervision and risk management within the banking sector.
Basis risk	Basis risk is the financial risk that offsetting investments in a hedging strategy will not experience price changes in entirely opposite directions from each other.
Black-Scholes model	A financial model used to price options.
Brexit	The process by which the United Kingdom (UK) left the European Union (EU).

C

Capital at risk	Capital at risk is an economic-value measure and assesses sensitivity to a reduction in the Group's capital to movements in interest rates. When interest rates change, the present value and timing of future cash flows change. This changes the underlying value of a bank's assets, liabilities and off-balance sheet items and its economic value which in turn poses a threat to the capital base.
Capital conservation buffer	A general buffer of risk-weighted assets designed to provide for losses in the event of stress, which can then be drawn upon as losses are incurred.
Capital Requirements Directive	CRD IV is an EU legislative package that contains prudential rules for banks, building societies and investment firms as onshored to the UK post-Brexit and amended by applicable Statutory Instruments.
Capital Requirements Regulation	The CRR is an EU law which was onshored to the UK post-Brexit and amended by relevant Statutory Instruments. The CRR aims to decrease the likelihood that banks become insolvent, reflecting Basel III rules on capital measurement and capital standards.
Capital resources	Eligible capital held in order to satisfy capital requirements.
Capital risk	The risk that the Group has insufficient capital resources to support its plan and meet minimum capital requirements and buffers under both anticipated and stressed conditions.
Cash-generating unit	The smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.
Claims reserve	A provision held to cover the settlement of claims, including claims that may not yet have been notified.
Common equity tier 1 capital	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
Common equity tier 1 ratio	The common equity tier 1 ratio is calculated by dividing total tier 1 capital at the end of the year by total risk-weighted assets and is calculated in line with the CRR.
Company	Tesco Personal Finance plc.
Concentration risk	The risk of losses arising as a result of concentrations of exposures to a specific counterparty, economic sector, segment or geographical region.
Cost:income ratio	The cost:income ratio is calculated by dividing operating expenses by total income.
Countercyclical capital buffer	A capital buffer, determined by the regulator, which aims to ensure that banking sector capital requirements take account of the macro-economic financial environment in which banks operate. Its primary objective is to set a buffer of capital to achieve the broader macro-prudential goal of protecting the banking sector from periods of excess aggregate credit growth that have often been associated with the build-up of system-wide risk. The buffer can be drawn down to absorb losses during stressed periods.
Covid-19	An infectious disease, caused by a novel coronavirus.

C (continued)

CRD IV Legislation published in June 2013 (in force from 1 January 2014) by the European Commission, comprising the CRD and 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 Prudential Regulatory Authority (PRA) policy statement PS7/13, with some elements subject to transitional phase-in.

Credit risk Credit risk is the risk that a borrower will default on a debt or obligation by failing to make contractually obligated payments, or that the Group will incur losses due to any other counterparty failing to meet their financial obligations.

Credit risk mitigation Techniques (such as collateral agreements) used to reduce the credit risk associated with an exposure.

Cross-cutting risk A risk that falls between or across a number of principal risks, rather than being a standalone principal risk.

D

Derivatives Financial instruments whose value is based on the performance of one or more underlying assets.

E

Energy Price Guarantee The EPG protects domestic consumers from increases in energy costs by limiting the amount suppliers can charge per unit of energy used.

Equity method A method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets. The investor's profit or loss includes its share of the investee's profit or loss and the investor's other comprehensive income includes its share of the investee's other comprehensive income.

Event An event is an occurrence caused by an internal or external failure which could impact the Group's finances; customers; compliance with regulations; brand and reputation; or resilience of operations.

Expected credit losses The weighted average of credit losses with the respective risks of a default occurring as the weights.

Exposure A claim, contingent claim or position which carries a risk of financial loss.

Exposure at default or exposure value The amount expected to be outstanding after any credit risk mitigation, if and when the counterparty defaults. EAD reflects both drawn down balances as well as an allowance for undrawn commitments and contingent exposures.

External Credit Assessment Institutions These include external credit rating agencies such as Standard & Poor's, Moody's and Fitch.

TESCO PERSONAL FINANCE GROUP PLC
GLOSSARY OF TERMS (continued)

F

Fair value	The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
Financial Conduct Authority	The statutory body responsible for conduct of business regulation and supervision of UK authorised firms from 1 April 2013. The Financial Conduct Authority also has responsibility for the prudential regulation of firms that do not fall within the PRA's scope.
Financial instrument	A contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.
Financial Policy Committee	The BoE's FPC identifies, monitors and takes action to remove or reduce systemic risks with a view to protecting and enhancing the resilience of the UK financial system.
Forbearance	A temporary postponement or alteration of contractual repayment terms in response to a counterparty's financial difficulties.
Foreign exchange risk	The risk that the value of transactions in currencies other than Sterling is altered by the movement of exchange rates.
Funding risk	The risk that the Group does not have sufficiently stable and diverse sources of funding.

G

Gross domestic product	The total value of goods produced and services provided in a country during one year.
Gross insurance premiums written	Premiums paid by policyholders for their insurance, inclusive of commission and insurance premium tax over a given period.
Group	The Company and its subsidiaries and, in the prior year, its joint venture.
Group of Central Bank Governors and Heads of Supervision	The oversight body of the Basel Committee on Banking Supervision.

I

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.
Insurance risk	The risks accepted through the provision of insurance products in return for a premium. These risks may or may not occur as expected and the amount and timing of these risks are uncertain and determined by events outside of the Group's control.
Intensity factor	The emission rate of a given pollutant relative to the intensity of a specific activity.
Interest rate risk	The risk arising from the different repricing characteristics of the Group's non-trading assets and liabilities.
Interest rate risk in the banking book	IRRBB is the current or prospective risk to both earnings and economic value arising from movements in interest rates. The main sub-types of IRRBB include gap risk (or repricing risk), basis risk and customer optionality risk.

I (continued)

Internal capital adequacy assessment process	The Group's own assessment 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.
Internal liquidity adequacy assessment process	The Group's own assessment of the level of liquidity needed in respect of its regulatory requirements to ensure that the Group maintains adequate liquid assets to survive a defined stress scenario for a sufficient period as defined by Risk Appetite.
Internal liquidity requirement	In place to ensure that the Group maintains adequate liquid assets to survive a defined stress scenario for a sufficient period as defined by Risk Appetite.
International Swaps and Derivatives Association master agreement	A standardised contract developed by the ISDA which is used as an umbrella contract for bilateral derivative contracts.

L

Leverage ratio	The ratio of tier 1 capital to the total leverage ratio exposures, excluding claims on central banks and applying an equal weighting to all assets regardless of their risk.
Liquidity risk	Liquidity risk is the risk that the Group is not able to meet its obligations as they fall due. This includes the risk that a given security cannot be traded quickly enough in the market to prevent a loss if a credit rating falls.
Loan to deposit ratio	The loan to deposit ratio is calculated by dividing loans and advances to customers by deposits from customers.
Loans and advances to customers loss allowance coverage ratio	The loans and advances to customers loss allowance coverage ratio is calculated by dividing the ECL provision in respect of loans and advances to customers by the gross carrying amount of loans and advances to customers.
Loss given default	Represents the Group's expectation of the extent of the loss if there is a default. The LGD assumes that once an account has defaulted, the portion of the defaulted balance will be recovered over a maximum period of 60 months from the point of default. LGD models take into account, when relevant, the valuation of collateral, collection strategies and receipts from debt sales.

M

Market-based	A method of calculating a company's emissions which reflects the emissions from electricity purchased by a company, including its purchase of electricity backed by Renewable Energy Guarantees of Origin or Renewable Energy Certificates.
Market risk	The risk that movements in market prices (such as interest rates and foreign exchange rates) lead to a reduction in either the Group's earnings or economic value.
Minimum capital requirement	The minimum regulatory capital that must be held in accordance with Pillar 1 requirements for credit, market and operational risk. This is currently 8%.

TESCO PERSONAL FINANCE GROUP PLC
GLOSSARY OF TERMS (continued)

M (continued)

Minimum requirements for own funds and eligible liabilities A requirement for minimum loss-absorbing capacity institutions must hold.

MREL ratio The MREL ratio is calculated by dividing total capital plus MREL debt by risk-weighted assets.

N

National insurance NI is a fundamental component of the welfare state in the UK. It acts as a form of social security, since payment of NI contributions establishes entitlement to certain state benefits for workers and their families.

Net interest margin Net interest margin is calculated by dividing net interest income from continuing operations by average interest-bearing assets, excluding assets held for sale.

Net stable funding ratio The net stable funding ratio is calculated under the CRD IV methodology.

Net zero The balance achieved when the amount of carbon added to the atmosphere is no more than the amount removed.

O

Ogden tables Tables which are used to calculate the cost of any claim that involves compensation for loss of future benefits. The tables provide an estimate of the return to be expected from the investment of a lump sum damages award.

Operational risk The risk of a potential error, loss, harm or failure caused by ineffective or inadequately defined processes, system failures, improper conduct, human error or from external events.

P

Partial internal model Partial internal models can be used to model the capital requirements for operational risk or for the loss-absorbing capacity of technical provisions.

Past due loans Loans are past due when a counterparty has failed to make a payment in line with their contractual obligations.

PD threshold The maximum lifetime PD for each financial asset that was expected at the reporting date at initial recognition before a significant increase in credit risk is deemed to have occurred.

Pension obligation risk The risk to the Group caused by contractual or other liabilities to or with respect to a pension scheme.

Periodic payment order Large bodily injury claims that are settled by means of periodic payments, approved in a court of law and typically pay for the cost of care and lost earnings.

Persistent debt Persistent debt is a term used by the FCA. It describes any account where the person is paying more in interest, fees and charges than towards paying back what they have borrowed.

Physical risks Risks arising from changes in weather and climate, impacting physical assets and people.

P (continued)

Pillar 1	The first pillar of the Basel II framework sets out the minimum regulatory capital requirements (8%) 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 2A	Pillar 2A addresses risks to an individual firm which are either not captured, or not fully captured, under the Pillar 1 capital requirements applicable to all banks.
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.
Policies in force	The number of live policies in the Group's insurance portfolio for which the Group is obliged to provide cover.
Post-model adjustment	PMAs reflect the use of Management judgment to address perceived limitations in models or data.
Probability of default	Represents the likelihood a customer will default over the relevant period, being either 12 months or the expected lifetime.
Prudential Regulation Authority	The statutory body responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms in the UK.
PRA Rulebook	The PRA Rulebook contains provisions made by the PRA that apply to PRA-authorized firms. This includes the inclusion over additional rules required after revocation from the CRR by HM Treasury.

Q

Quota share	A type of reinsurance where the insured shares a portion (quota) of its premium and risk with one or more reinsurers.
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R

Recovery plan	The recovery options which could be deployed in a severe stress event impacting capital or liquidity positions.
Regulatory capital	The capital that a bank holds, determined in accordance with the relevant regulation arising from the CRR.
Regulatory and conduct risk	Regulatory risk is the risk of poor customer outcomes, reputational damage, liability, loss or regulatory censure arising from failure to comply with the requirements of the financial services regulators or industry codes of best practice. Conduct risk is the risk that the conduct, acts or omissions of the organisation, or individuals within the Group, leads to customer detriment, or has an adverse effect on market stability or effective competition.
Repricing risk	Repricing risk is the risk of changes in interest rate charged (earned) at the time a financial contract's rate is reset. It emerges if interest rates are settled on liabilities for periods which differ from those on offsetting assets.

TESCO PERSONAL FINANCE GROUP PLC
GLOSSARY OF TERMS (continued)

R (continued)

Residual price risk	The risk that the fair value of a financial instrument and its associated hedge will fluctuate because of changes in market prices, for reasons other than interest rate or credit risk.
Retail credit risk	Retail credit risk is the risk that a borrower, who is a personal customer, will default on a debt or obligation by failing to make contractually obligated payments.
Risk Appetite	The level and types of risk that the Group is willing to assume to achieve its strategic objectives.
Risk Appetite Measures	Measures designed to monitor the Group's exposure to certain risks to ensure that exposure stays within approved Risk Appetite.
Risk-weighted assets	Calculated by assigning a degree of risk expressed as a percentage (risk-weight) to an exposure value in accordance with the applicable SA rules.

S

Securitisation	A securitisation is defined as a transaction where the payments are dependent upon the performance of a single exposure or pool of exposures, where the subordination of tranches determines the distribution of losses during the life of the transaction.
Securities financing transactions	The act of lending, or borrowing, a stock, derivative, or other security to or from an investor or firm. For the Group, this represents market repo transactions and does not represent securities financing for clients.
Shadow IT	Shadow IT refers to IT systems used by the business but not managed by the Group's Technology function.
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 by the Group.
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 their obligations from those of the originator and the holder of the beneficial interests in the securitisation.
Solvency II	Solvency II sets out regulatory requirements for insurance firms and groups, covering financial resources, governance and accountability, risk assessment and management, supervision, reporting and public disclosure.
Standardised approach	In relation to credit risk, the method for calculating credit risk capital requirements using risk-weightings that are prescribed by regulation. SAs 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

Term Funding Scheme for Small and Medium Sized Entities	A funding scheme provided by the BoE which provides participating banks and building societies with funding at interest rates close to the BoE's base rate.
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T (continued)

Tier 1 capital	A component of regulatory capital defined by the CRR, comprising common equity tier 1 capital and additional tier 1 capital. Additional tier 1 capital includes qualifying capital instruments such as non-cumulative perpetual preference shares and additional tier 1 capital securities.
Tier 2 capital	A component of regulatory capital, comprising qualifying subordinated loan capital and related non-controlling interests.
Tonnes of carbon dioxide equivalent	Tonnes of carbon dioxide equivalent refers to the amount of carbon dioxide emitted by one metric ton of another greenhouse gas.
Total capital ratio	The total capital ratio is calculated by dividing total regulatory capital by total risk-weighted assets.
Total capital requirement	The amount and quality of capital the Bank must maintain to comply with the CRR Pillar 1 and the 2A capital requirements.
Total liquidity requirement	Financial institutions are required to hold at all times liquid assets, the total value of which equals, or is greater than, the net liquidity outflows which might be experienced under stressed conditions over a short period of time (30 days).
Transition risks	Risks arising from the transition to a low-carbon economy.
TU's minimum capital requirement	Under the Solvency II regime, the minimum capital requirement for TU to write business.

U

UK Leverage Framework regime	The UK leverage ratio framework currently applies to firms with retail deposit levels equal to or greater than £50 billion on an individual or consolidated basis.
Underlying cost:income ratio	The underlying cost:income ratio, which is an APM, is calculated by dividing underlying operating expenses by total underlying income.
Underwriting risk	Underwriting risk is the risk that future claims experience on business written is materially different from the results expected based on the assumptions made at the point of underwriting policies, resulting in current year losses.
Unencumbered assets to retail liabilities ratio	The minimum unencumbered assets to retail liabilities ratio is the surplus of unencumbered assets relative to the total amount of retail liabilities.

V

Value-in-use	The present value of the future cash flows expected to be derived from an asset or cash-generating unit.
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W

Wholesale credit risk	Wholesale credit risk is the risk that the counterparty to a transaction will default before the final settlement of the transaction's cash flows. Such transactions relate to contracts for derivative financial instruments, securities financing transactions and long-dated settlement transactions.
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