TESCO PERSONAL FINANCE GROUP PLC

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 29 FEBRUARY 2024

Company Number SC173198

TESCO PERSONAL FINANCE GROUP PLC

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DIRECTORS AND ADVISERS

Directors:	Jacqueline Ferguson	Independent Non-Executive Chair
	Elizabeth Buckley	Independent Non-Executive Director
	Julie Currie	Independent Non-Executive Director
	Robert Endersby	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
	Deborah Walker	Chief Risk Officer

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The Directors present their Strategic Report for the year ended 29 February 2024.

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 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.tescoplc.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 Group has adopted Tesco's values and purpose, which is to serve its customers, communities and planet a little better every day. The Board sets the Group's strategy 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 currently 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). However, as set out below, the Group announced during the year the proposed sale of its Banking business, primarily comprising its Credits Cards, Personal Loans and Savings portfolios.

The Company is a public limited company incorporated and registered in Scotland and limited by shares. The Company owns the entire issued share capital of TPF, which is currently engaged in the provision of banking and general insurance services. However, as set out below, the Group announced during the year the proposed sale of its Banking business, primarily comprising its Credit Cards, Personal Loans and Savings portfolios. 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.

Developments During the Year

Sale of the Group's Banking business to Barclays Bank UK plc

Sale information

On 9 February 2024, the Group announced an agreement on the terms of a proposed sale of the Group's Banking business, comprising all Personal Loans, Credit Cards and Savings portfolios, together with certain other associated assets and liabilities, including the Group's securitisation special purpose vehicle (collectively referred to throughout these Financial Statements as the Banking business or disposal group), to Barclays Bank UK plc (Barclays) for £600m. All other existing activities of the Group, including Insurance, ATMs, Travel Money and Gift Cards will remain within the Group.

The sale, which is currently expected to complete within 12 months of the reporting date, is subject to Court approval of a Part VII transfer under the Financial Services and Markets Act 2000 (Part VII transfer), regulatory approval by the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) and non-objection by the Competition and Markets Authority.

Linked to this, Tesco announced a strategic partnership with Barclays, initially for a 10-year period. The partnership approach between Tesco and Barclays is key as Tesco continues to see value in providing financial services to its customers to help them manage their money a little better every day. It is recognised that the potential to grow the savings and lending books could be better realised through Tesco partnering with an organisation that has banking as its core focus.

Classification, measurement and presentation

In accordance with the requirements of International Financial Reporting Standard (IFRS) 5 'Non-current assets held for sale and discontinued operations' (IFRS 5), the Group has classified its Banking business as a discontinued operation with effect from 7 February 2024, being the date on which the transaction was approved in principle.

Amounts recognised in the Consolidated Income Statement in respect of the Group's Banking business are presented as a single line item after profit after tax from continuing operations. In line with the requirements of IFRS 5, the prior year has been restated to present this on a consistent basis with the current year.

Developments During the Year (continued)

Sale of the Group's Banking business to Barclays Bank UK plc (continued)

Assets and liabilities of the disposal group representing the Banking business are presented separately in the current year Company and Consolidated Statements of Financial Position, with no requirement to restate prior years. There has been no change in the Group's business model under IFRS 9 'Financial instruments' (IFRS 9) in respect of its Banking business.

Under IFRS 5, the assets and liabilities of the disposal group have been measured at fair value less costs to sell (FVLCS) of £571.4m at 29 February 2024, resulting in the recognition of a fair value measurement loss after tax of £405.6m in respect of the proposed sale of the Group's Banking business. The Group also expects to incur additional costs of £35m relating to separation and restructuring post-disposal. As these relate to future costs of operating the remaining business post-sale, no provision for these costs has been recognised at 29 February 2024. Further information in respect of the Group's discontinued operations is set out on page 8 and in notes 1, 2, 5 and 20.

Effect on the Group's business

Once complete, the proposed sale of the Group's Banking business will change the nature of the Group's business and therefore its risk profile. Management remains responsible for the effective running of the regulated Banking business and its associated risks until completion and risk management disclosures throughout these Financial Statements therefore continue to relate to the Group's entire business unless otherwise stated.

The non-financial reporting effects of the sale are expected to include:

- Changes to the Group's risk profile and principal risks: credit risk is primarily associated with the Banking business being sold and, to a much lesser extent, the Group's portfolios of investment securities. Linked to the proposed sale of its Banking business, the Group expects to sell its portfolio of investment securities held at amortised cost (refer to note 26) and utilise the proceeds to repay its borrowings under the Bank of England's (BoE) Term Funding Scheme with Incentives for Small and Medium-Sized Entities (TFSME) (refer to note 33), additional tier 1 (AT1) issuance (refer to note 42), debt securities (refer to note 35) and subordinated loans (refer to note 40). The nature and relative significance of the Group's exposure to operational risk will also be reassessed.
- Changes to the Group's regulatory requirements: once the sale is complete, TPF will apply to the PRA to remove its Banking permissions. Until this completes, the Group will remain subject to current regulatory requirements, albeit without any regulated Banking activities within the Group. TU will remain subject to Solvency II (SII) rules.
- Ongoing equity requirement: the ongoing level of equity required in the Group is currently being assessed by Management. Post-completion, TPF and TPFG will undertake share capital reductions and, once the ongoing level of required equity has been determined, any surplus capital will be repaid to Tesco.
- Risk management and governance processes: the Group's governance structure will be updated as necessary to provide oversight and challenge to the safe and effective implementation of the separation of its Banking business, as required by the terms of the sale. Thereafter, the Group's governance structure will be aligned to the nature of, and risks associated with, the retained business.

Effect on the Group's Capital

The accounting impacts of the proposed sale of the Group's Banking business, as described in this Annual Report and Financial Statements, as well as the inclusion in the Group's capital position at 29 February 2024 of foreseeable charges in relation to the disposal, together with the payment of a special interim dividend in the first half of the year of £250.0m (2023: £nil), has resulted in a decrease in available capital resources.

Capital ratios remain above regulatory requirements with a common equity tier 1 ratio of 11.1% and a total capital ratio of 15.8% at 29 February 2024. Ratios are forecast to remain above the regulatory minimum requirements throughout the period until completion of the proposed sale of the Group's Banking business.

Developments During the Year (continued)

Excluding the impact of the measurement of the Group's Banking business at FVLCS and recognition of foreseeable charges included within the Group's year end capital position in relation to the disposal, the capital ratios calculations show that the underlying ratios remain approximately in line with the ratios reported at 31 August 2023.

Further information on the Group's capital ratios is set out on page 11 and in note 51.

Economic environment

Excluding the impact of the measurement of the Group's Banking business at FVLCS, the Group as a whole continued to trade profitably during the year ended 29 February 2024. While the economic outlook remains uncertain as cost of living and geopolitical pressures continue, improved business and consumer confidence, along with easing inflation, are forecast to result in muted economic growth initially, with more robust growth forecast in 2025. With inflation now trending down towards the BoE's target of 2.0%, the base rate of interest is predicted to have peaked at 5.25%, with reductions now anticipated in 2024. In addition, unemployment remains low and, there has been a return to positive growth in annual inflation-adjusted real wages.

Notwithstanding the impacts of the economic environment and the proposed sale of the Group's Banking business on the Group, its capital and liquidity ratios, which are set out on page 11, 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 impacts of the economic environment and the proposed sale of its Banking business on the Group's going concern status. The relevant disclosures are set out on pages 50 to 51.

Implementation of IFRS 17

The Group adopted IFRS 17 'Insurance Contracts' with effect from 1 March 2023. This was adopted fully retrospectively and prior year comparatives have been restated.

The adoption of IFRS 17 resulted in a decrease in the Group's total assets of £264.1m, a decrease in the Group's total liabilities of £258.8m and a net reduction in equity of £5.3m at 1 March 2023.

Further details of the transitional impact of the adoption of IFRS 17 are set out at note 2.

Customer redress

During the year, the Group identified instances where the requirements for the provision of certain administrative post-contractual documentation to customers with Consumer Credit Act (CCA)-regulated products have not been fully met. It is the Group's intention to redress customers in order to reflect the operation of the CCA in respect of the customers' liability. A provision of £27.5m has been recognised at 29 February 2024 in relation to the cost of refunding previously recognised interest and fees, along with the associated costs of the redress programme. Given the historic nature of the matter identified, opening retained earnings at 1 March 2022 have been restated in respect of the recognition of this provision. The prior year Consolidated Income Statement has also been restated to reflect the impact of this provision on the Group's results for the year ended 28 February 2023.

Although, in accordance with the terms of the sale agreement with Barclays, the provision is not included within the liabilities of the disposal group, the Consolidated Income Statement impact of this provision has been reflected through the current and prior year results of discontinued operations as this is where the original income has been recognised. Costs of the redress programme have also been included within the results of discontinued operations.

Further information in respect of this provision is set out at notes 2 and 36 to the Financial Statements.

Changes to the Group's capital structure

Following a review of the Group's capital structure, on 31 August 2023 TPFG reduced its share capital by cancellation of £15.0m of its ordinary shares and a £135.0m partial cancellation of its share premium account following confirmation by the Court of Session in Edinburgh.

Linked to this, on 31 August 2023 TPFG issued £150.0m of 11.5 per cent fixed rate reset AT1 securities to Tesco which form part of the Group's total equity, resulting in the Group's total equity and total issued capital remaining unchanged following completion of these capital transactions. TPF issued the equivalent to TPFG. Further information in respect of these capital changes is set out at notes 41 and 42.

Developments During the Year (continued)

Special interim dividend

A special interim dividend of £250.0m (2023: £nil) was paid to the Company by TPF on 14 July 2023, with the Company then paying a special interim dividend of £250.0m to Tesco on 23 August 2023. Further information in respect of the special interim dividend is set out at note 19.

Regulatory Developments

Consumer Duty

Consumer Duty is a new regulatory requirement published by the FCA which came into effect on 31 July 2023. It introduced a new principle, which applies in place of the Treating Customers Fairly principle, that a firm must act to deliver good outcomes for retail customers. This requires the Group to:

- assess its products and services to ensure these deliver fair value and adequate support to customers;
- monitor and report to the Board on customer outcomes, including taking action to improve outcomes where necessary; and
- give customers the information they need at the right time, presented in a way that they can understand.

In preparation for Consumer Duty coming into effect, the Group carried out a review across the four Consumer Duty outcomes and, as a result, implemented a series of enhancements across its range of products, customer journeys and processes. To embed the consideration of customer outcomes going forward, the Group designed and developed a new 'Good Outcomes' framework, building on its existing conduct risk framework. The revised framework has an enhanced suite of Customer Outcomes Management information, which is regularly monitored, and a set of consistent consumer understanding principles which are used to check that customer communications are clear, fair and easy to understand. Additional requirements relating to closed book products and Board reporting come into effect in July 2024 and activity is ongoing to fully embed the new requirements across the Group in line with regulatory deadlines.

Bank of England Levy

In February 2023, the BoE confirmed that it was implementing a new BoE levy to replace the Cash Ratio Deposit scheme. The Bank of England Levy (Amount of Levy Payable) Regulations 2024 were laid in Parliament on 22 January 2024 and were approved by the House of Commons and the House of Lords on 20 February 2024 and 27 February 2024, respectively. The new levy came into force on 1 March 2024 and the full value of Cash Ratio Deposits were returned to firms on 5 March 2024. The levy will be invoiced annually by the BoE and the BoE will confirm its Anticipated Levy Requirement during the coming months.

Capital Requirements Regulation

The PRA has confirmed that the final implementation of the Basel III Framework will be on 1 July 2025. The PRA has published a number of Policy Statements covering the Strong and Simple Framework Liquidity and Disclosure Requirements, enhancing proportionality rules for Remuneration, and Part 1 of the Implementation of Basel 3.1 standards. Final Policy Statements relating to Basel 3.1 for Credit Risk and Disclosure requirements as well as Small Domestic Deposit Takers is expected later in 2024.

The Group continues to work closely with the industry and regulators to understand the impact of these reforms on the Group. Once the proposed sale of the Group's Banking business is complete, the Group will apply to the PRA to remove its Banking permissions.

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.

Regulatory Developments (continued)

Countercyclical Capital Buffer (CCyB) (continued)

The Financial Policy Committee (FPC) of the BoE is responsible for setting the UK CCyB i.e. the rate that applies to relevant exposures of UK banks, building societies and large investment firms incorporated in the UK. The FPC must give 12 months' notice of any rate increase.

The UK CCyB increased from 1% to 2% on 5 July 2023, in line with the FPC decision at its meeting in July 2022. Following its meeting in March 2024, the FPC is maintaining the UK CCyB rate at its neutral setting of 2%. The FPC will continue to monitor developments closely and stands ready to vary the UK CCyB rate, in either direction, in line with the evolution of economic and financial conditions, underlying vulnerabilities and the overall risk environment. The Group remains subject to the UK CCyB rate until its Banking permissions are removed by the PRA following completion of the proposed sale of the Group's Banking business.

Financial Review

Income Statement

- Profit before tax from continuing operations is £58.4m (2023: £21.2m[1,2,3]).
- Underlying profit before tax from continuing operations, which excludes items which are not reflective of ongoing trading performance, is £62.0m (2023: £26.3m[1,2]). A reconciliation of statutory to underlying profit for the current and prior year is set out at note 5.
- (Loss) after tax from discontinued operations of £341.4m (2023: profit of £84.4[2]), predominantly reflects the loss after tax on measurement of the disposal group to FVLCS of £405.6m (2023: £nil).
- **Profit before tax from continuing operations**

  The key drivers of the profit before tax from continuing operations are:

  - net interest income of £12.2m (2023: net interest expense of £3.7m[1,2,3]), predominantly reflecting a change in funding mix, with interest expense relating to the Group's securitisation debt securities issued during the year being included within the results of discontinued operations;
  - a 19.2% increase in net fees and commissions income to £202.1m (2023: £169.5m[2,3]), reflecting higher insurance volumes and an increase in Travel Money and Gift Card fee income;
  - a 10.4% decrease in insurance service result to £11.2m (2023: £12.5m[1]). Motor and Home premiums increased as a result of policy growth, increased rates and higher instalment income. This was offset by higher claims costs, mainly due to growth in volumes, larger fire claims, continued accidental damage inflation and a series of weather events. In addition, an increase in directly attributable costs relating to insurance contracts within the scope of IFRS 17, largely driven by higher aggregator costs due to higher new business sales and higher claims handling costs, was offset by a reduction in the acquired claims charge relating to claims liabilities which existed when the Group acquired TU on 4 May 2021, as this book unwinds. Further explanation of the required accounting in respect of these acquired claims is set out at note 1;
  - a 29.2% increase in net expenses from reinsurance contracts held to £48.2m (2023: £37.3m[1]), largely driven by an increase in reinsurance premiums, offset by a reduction in expected recoveries for incurred claims;
  - other income of £3.3m (2023: other expenses of £4.7m[2]) representing, in the current year, dividend income from TU's holding in a property fund of £0.8m and a gain of £5.1m on the termination of a swap related to an economic hedge of the Group's AT1 issuance which is no longer required following announcement of the proposed sale of the Group's Banking business. In the prior year, there was a net loss of £2.7m on the partial redemption of minimum requirements for own funds and eligible liabilities (MREL) debt in issue, offset by dividend income from TU's holding in a property fund of £0.6m;
  - an 11.0% increase in operating expenses to £165.2m (2023: £148.8m[1,2,3]), primarily reflecting higher ATM funding costs, which are interest-rate driven. Growth in other costs was limited to 2.0%, despite inflationary pressures. Within this, staff costs increased as the result of business volume-led increases in operational resources and inflation-driven pay awards, offset by savings across several cost categories.

[1] The prior year has been restated following the retrospective adoption of IFRS 17 in the current year. Refer to note 2 for further details.

[2] The prior year has been restated following the classification of the Group's Banking business as a discontinued operation. Refer to notes 2 and 20 for further details.

[3] The prior year has been restated following the recognition by the Group of a provision in respect of identified instances where the requirements for the provision of certain administrative post-contractual documentation to customers with CCA-regulated products have not been fully met. Refer to notes 2 and 36 for further details.

Financial Review (continued)

- **Income tax charge on profit from continuing operations**

Income tax on the Group's profit for the year from continuing operations is a charge of £15.5m (2023: £6.2m[1,2,3]). The tax charge for the year is primarily driven by the 25.0% corporation tax rate applying for the full year. As the Group has recognised an overall loss for the year, reflecting the loss on measurement of its Banking business at FVLCS, it is not subject to the banking surcharge, which applies to profits in excess of £100.0m. The prior year charge was primarily driven by profits being subject to the 19.0% corporation tax rate, together with the banking surcharge on taxable profits over £25.0m of 8.0%, resulting in a combined corporation tax rate of 27.0%.

- **(Loss)/profit after tax from discontinued operations**

The loss after tax from discontinued operations in the current year of £341.1m (2023: profit after tax of £84.4m) predominantly reflects the loss after tax of £405.6m recognised on measurement of the disposal group at FVLCS. Excluding this loss, the profit before tax from discontinued operations decreased by 13.3% to £89.5m (2023: £103.2m[2]).

The key drivers of the profit before tax from discontinued operations are:

- a 0.2% increase in net interest income to £412.1m (2023: £411.0m[2]), reflecting growth in interest-bearing Credit Card balances and an increase in Personal Loans interest, offset by higher Savings interest expense, reflecting the higher interest rate environment, and the interest expense relating to the Group's securitisation debt securities issued during the year, representing a change in funding mix between continuing and discontinued operations;
- a 2.9% increase in net fees and commissions income to £79.0m (2023: £76.7m[2]), reflecting higher interchange income and balance transfer fees;
- net losses of £3.9m (2023: gains of £2.1m) on other financial instruments at fair value through profit or loss (FVPL), 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;
- a 2.0% increase in operating expenses to £333.0m (2023: £326.6m[2]), primarily reflecting higher Customer Services costs driven by higher business volumes, offset by a reduction in depreciation and amortisation charges following the classification of the Group's Banking business as held for sale with effect from 31 January 2024, at which point depreciation and amortisation relating to property, plant and equipment and intangibles included within the disposal group ceased to be charged, in line with the requirements of IFRS 5; and
- a 7.8% increase in expected credit losses (ECLs) to £64.7m (2023: £60.0m[2]), reflecting growth in the portfolio and the level of risk progressively returning to pre-pandemic levels, offset by improvement in the economic outlook. Despite stability in the performance of the underlying portfolio, the increased risk from a high interest rate environment and pressures on household budgets at 29 February 2024 creates uncertainty in relation to future ECL projections and the current model outputs. As a result, post-model adjustments (PMAs) in respect of economic uncertainty continue to be applied to the Group's modelled ECL provision. Further information in respect of these adjustments and the impact of the current economic outlook on ECLs is set out at note 43. Overall provision levels have reduced in the year to £432.8m (2023: £459.7m[1]) and coverage has reduced to 5.3% (2023: 6.1%[1]).
- The total Income tax credit on the Group's loss before tax from discontinued operations of £90.0m (2023: charge of £18.8m[2]) is primarily driven by the measurement of the Group's Banking business at FVLCS under IFRS 5.

Further information in respect of the results of discontinued operations is set out at note 20.

Other comprehensive income/(expense) from continuing operations

- the net increase in debt securities at fair value through other comprehensive income of £12.4m (2023: reduction of £31.1m) reflects fair value movements in TU's portfolio of fixed rate bonds. The increase in the current year reflects the reversal of unrealised losses as bonds held move closer to maturity. In the prior year, continued rises in the UK BoE base rate and increases to future interest rate projections at 28 February 2023 resulted in the fair value of these bonds falling further below 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; and

Financial Review (continued)

- the net movement in insurance contracts of £(2.8)m reflects the impact of the yield curve used for discounting reducing during the year as a result of predicted falls in market rates of interest over the next financial year. In the prior year, the net movement of £14.6m[1] reflected the impact of continued rises in market rates of interest in the year on the value of reinsurance contracts held and insurance contracts issued.

Balance Sheet

- cash and balances with central banks increased by 1.9% to £470.0m (2023: £461.1m). 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 decreased to £nil (2023: £7.0bn[1]) following the Group's decision to sell its Banking business. These balances, totalling £7.7bn at 29 February 2024, are now included within assets of the disposal group as set out at note 20.
- net derivative financial instruments of £20.2m (2023: £104.5m) reflect a fall in derivative valuations due to a decrease in interest rate swap rates beyond two years and the transfer of net derivative financial instruments totalling £37.9m to assets and liabilities of the disposal group.
- insurance contract liabilities increased by 5.1% to £525.9m (2023: £500.6m[1]) largely due to premium growth giving rise to a higher liability for remaining coverage (LRC), offset by an increase in insurance premium debtors. Reinsurance contract assets decreased by 7.6% to £124.9m (2023: £135.2m[1]), reflecting a decrease in reinsurance recoveries coupled with a decrease in profit commission due to a reduction in expected loss ratios.
- the reductions in intangible assets and property, plant and equipment predominantly reflect the transfer of assets of the Banking business of £82.0m and £13.9m respectively to the disposal group. These amounts were subsequently fully written off as part of the process of allocating the loss arising on measurement of the disposal group at FVLCS under IFRS 5.
- customer deposits have decreased to £nil (2023: £5.8bn) following the Group's decision to sell its Banking business. These balances, totalling £6.4bn at 29 February 2024, are now included within liabilities of the disposal group as set out at note 20.
- the reduction in provisions for liabilities and charges to £38.5m (2023 £53.1m[3]) reflects the transfer to the disposal group of the excess ECL provision of £16.4m, as well as other provisions totalling £2.7m, previously included within this balance, offset by an increase of £4.6m relating to the Group's CCA-related customer redress provision.
- at 29 February 2024, the Group had entered into repurchase agreement transactions of £nil (2023: £73.9m) and accessed £900.0m (2023: £900.0m) under the BoE's TFSME. Borrowings under the TFSME will be repaid post-completion of the proposed sale of the Group's Banking business.

[1] The prior year has been restated following the retrospective adoption of IFRS 17 in the current year. Refer to note 2 for further details.

[2] The prior year has been restated following the classification of the Group's Banking business as a discontinued operation. Refer to notes 2 and 20 for further details.

[3] The prior year has been restated following the recognition by the Group of a provision in respect of identified instances where the requirements for the provision of certain administrative post-contractual documentation to customers with CCA-regulated products have not been fully met. Refer to notes 2 and 36 for further details.

Key Performance Indicators

The Directors consider the following to be key performance indicators (KPIs) for the Consolidated Income Statement. The Group continues to monitor the following ratios in respect of its entire business during the period prior to completion of the proposed sale of its Banking business. The methodology applied in calculating the Group's KPIs is set out in the Glossary of Terms:

	2024	2023 Restated[1,2,3]
Net interest margin	4.5%	4.7%[1,2]
Underlying net interest margin	4.5%	4.7%
Cost:income ratio	70.1%	72.0%[1,2,3]
Adjusted cost:income ratio	68.3%	70.5%
Insurance revenue (refer note 8)	£513.8m	£457.5m[1]
Loans and advances to customers loss allowance coverage ratio	5.3%	6.1%[1]

Cost:income ratio calculation

	2024			2023 Restated[1,2,3]		
	Continuing operations	**Discontinued operations**	**Total**	Continuing operations	Discontinued operations	Total
Total Group						
Total income (£m)[4]	223.2	487.2	710.4	170.5	489.8	660.3
Operating expenses (£m)[5]	(165.2)	(333.0)	(498.2)	(148.8)	(326.6)	(475.4)
Cost:income ratio			70.1%			72.0%
Adjustments:						
Total income (£m)[6]	0.3	3.9	4.2	(0.2)	(2.1)	(2.3)
Operating expenses (£m)[7]	3.3	6.5	9.8	5.3	6.0	11.3
Adjusted total Group:						
Total income (£m)	223.5	491.1	714.6	170.3	487.7	658.0
Operating expenses (£m)	(161.9)	(326.5)	(488.4)	(143.5)	(320.6)	(464.1)
Adjusted cost:income ratio			68.3%			70.5%

[1] The prior year has been restated following the retrospective adoption of IFRS 17 in the current year. Refer to note 2 for further details.
[2] The prior year has been restated following the classification of the Group's Banking business as a discontinued operation. Refer to notes 2 and 20 for further details.
[3] The prior year has been restated following the recognition by the Group of a provision in respect of identified instances where the requirements for the provision of certain administrative post-contractual documentation to customers with CCA-regulated products have not been fully met. Refer to notes 2 and 36 for further details.
[4] Total income from continuing operations is shown in the income statement, refer to note 20 for total income from discontinued operations.
[5] Operating expenses from continuing operations is shown in the income statement, refer to note 20 for operating expenses from discontinued operations.
[6] Adjustments comprise ineffectiveness on accounting hedges and fair value movements on derivatives used for economic hedging. The mark to market adjustments on those derivatives not designated in an accounting hedge are removed from underlying profit as the fair value gains and losses will reverse over time to match the profit or loss on the hedged item.
[7] Adjustments comprise restructuring costs related to the proposed sale of the Group's Banking business in the current year and, in the prior year, expenses related to the Group's Agile transformation programme.

Capital and Liquidity Ratios

The Directors consider the following ratios, which the Group continues to monitor in respect of its entire business during the period prior to completion of the proposed sale of its Banking business, to be KPIs for capital and liquidity reporting:

	2024	2023 Restated[1,2]
Common equity tier 1 ratio	11.1%	22.7%[2]
Total capital ratio	15.8%	25.4%[2]
Capital coverage of TU's solvency capital requirement (SCR) (unaudited)	171.0%	159.0%
Net stable funding ratio (NSFR)	127.8%	128.6%
Loan to deposit ratio	119.1%	120.9%[1]

The Group's total capital ratio remains in excess of internal and regulatory requirements at 15.8% (2023: 25.4%[2]) on a transitional basis. On an end-point basis, the Group's total capital ratio is 15.7% (2023: 24.5%[2]), which is also in excess of internal and regulatory requirements. The decrease in the total capital ratio is driven by the accounting impacts of the proposed sale of the Group's Banking business and the payment of a £250.0m special interim dividend in the year. Refer to note 51 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 29 February 2024; and capital coverage of TU's SCR of £140.7m (unaudited) at 29 February 2024 was 171.0% (unaudited) (2023: coverage of TU's SCR of £122.8m was 159.0%).

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, TPFG undertook an initial £250.0m issuance of MREL-compliant debt in July 2019.

On 9 December 2021, the BoE confirmed a change in TPFG'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 total capital requirement (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, TPFG redeemed £105.3m of outstanding MREL-compliant debt, with the remaining £144.7m still in issue at 29 February 2024.

TPFG expects to redeem its MREL-compliant debt of £144.7m on the call date in July 2024. TPFG has given the required notice in respect of this call to the holders of its MREL compliant debt. Related to this, TPF will repay a matching amount of fixed rate subordinated debt of £144.7m to TPFG.

At 29 February 2024 the NSFR, a measure of the Group's liquidity position, was in excess of internal and regulatory requirements at 127.8% (2023: 128.6%). The decrease in the NSFR is mainly driven by retail balances, primarily an increase in loans and advances to customers balances, increasing required stable funding. Available stable funding also increased due to higher customer deposits and external securitisation issuance, however this was offset by a decrease in equity due to the accounting impacts of the proposed sale of the Group's banking business recognised during the year.

Pending completion of the proposed sale of its Banking business, the Group maintains a liquid asset portfolio of cash and high-quality liquid assets of £2.5bn (2023: £2.3bn).

[1] The prior year has been restated following the retrospective adoption of IFRS 17 in the current year. Refer to note 2 for further details.

[2] The prior year has been restated following the recognition by the Group of a provision in respect of identified instances where the requirements for the provision of certain administrative post-contractual documentation to customers with CCA-regulated products have not been fully met. Refer to notes 2 and 36 for further details.

Risk Management

The proposed sale of the Group's Banking business, as described on pages 2 to 4, will change the nature of the Group's business and therefore its risk profile. However, Management remains responsible for the effective running of the regulated Banking business and its associated risks until completion and this section therefore considers risk management for the Group's entire business unless otherwise stated.

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 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 (LTP), 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, the Group's risk management framework (RMF) has been updated, creating an integrated and increasingly data-led approach to managing risk. Further information on the Group's RMF 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 Chief Executive Officer (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 Chief Risk Officer (CRO) performs a strategic risk management role and is responsible for managing and enhancing the RMF. The CRO is independent from any commercial function, reporting directly to the 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 principal risks and uncertainties faced by the Group, along with information on how these are managed within the RMF, is set out below. 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 Board Risk Committee (BRC) oversees a Strategic and Horizon Risks process which focuses on emerging risks.

Principal risks and uncertainties

(a) Principal risk - 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.

Excluding the impact of the measurement of the Group's Banking business at FVLCS, as set out in the Consolidated Income Statement in respect of continuing operations and note 20 in respect of discontinued operations, the Group continued to trade profitably during the year although inflation has continued to impact the cost of living and economic uncertainty continues.

Management believe that the nature of the Group's business model means that the credit risks arising 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 reliant on 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 Environmental, Social and Governance (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.

(a) Principal risk - Credit risk (continued)

Macro-economic environment

Excluding the impact of the measurement of the Group's Banking business at FVLCS, the Group continued to trade profitability during the year ended 29 February 2024. While the economic outlook remains uncertain as cost of living and geopolitical pressures continue, improved business and consumer confidence, along with easing inflation, are forecast to produce minimal growth in 2024, with more robust growth forecast in 2025. With inflation now trending down towards the BoE's 2.0% target, the base rate of interest is expected to have peaked at 5.25%, with reductions now anticipated in 2024. In addition, wholesale gas prices have significantly reduced from their peak level observed in 2022. Although the Energy Price Cap increased slightly in January 2024, a significant reduction is expected during the remainder of 2024, decreasing the impact on households. Unemployment remains low and, there has been a return to positive growth in annual inflation-adjusted real wages.

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 determine which customers are likely to be more or less impacted by the effects of economic uncertainty arising from cost of living pressure. 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 46.

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

(b) Principal risk - 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. Following the announcement of the proposed sale of the Group's Banking business, Management's focus will be on ensuring operational continuity throughout the period to completion.

Key controls and mitigating factors

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

Business units and functions regularly assess operational risks through a prescribed Risk and Control Self-Assessment (RCSA) process.

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 material changes to internal or external reporting environments.

Oversight and challenge of the Group's operational risk profile is provided by governance bodies, including the Executive Risk Committee (ERC) and BRC.

Third-party service providers

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

The Procurement and Supplier Management Policy Frameworks are embedded within the RMF and enable the Group to meet its regulatory requirements, understand and manage supplier and service risk effectively, and take a consistent approach to supplier relationships.

Financial crime and fraud

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.

(b) Principal risk - Operational risk (continued)

Financial crime and fraud (continued)

The Group has a suite of policies that provide clear standards for the management of financial crime risks. The Group has dedicated Financial Crime teams operating in the First and Second Lines 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.

People

People risks are integral to the Group's RMF. This ensures appropriate visibility and management of risks associated with organisational capacity and capability, including resource attraction, retention, performance, talent and succession planning.

Technology

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 failure of planned change, failures in the supply chain, shadow IT risks or security events.

The Group manages technology and technology risk in accordance with the Group's RMF and has aligned key processes and controls with recognised industry standards such as the Information Technology Infrastructure Library. Regular reporting on technology services and technology risk are provided to the Group's Executive Committee (ExCo), ERC, BRC and the Board.

During the year, the Group completed the exit of its legacy data centres, moving IT service hosting from these centres to cloud providers. This has significantly improved the resilience, agility and flexibility of the Group's IT infrastructure, reducing related risks. Additionally, work is continuing to ensure the Group's compliance with Operational Resilience regulations due to come into force in March 2025.

A number of technology systems will transfer to Barclays as part of the proposed sale of the Group's Banking business. The associated risks will be managed by implementing and maintaining Transitional Service Agreements (TSAs) between the Group and Barclays for these services.

Information and Cyber-security risk

The Group's approach to managing these risks is embedded in its RMF. 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.

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 tests the Board's readiness to handle critical cyber-security events, simulating major incidents to ensure that the Board has confidence to act decisively and safely. 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 ongoing improvements to capability.

(b) Principal risk - Operational risk (continued)

Information and Cyber-security risk (continued)

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. Alongside its crime and cyber-crime insurance policies, the Group also maintains a full cyber- response capability.

(c) Principal risk - Funding and liquidity risk

The risk that the Group is not able to meet its obligations as they fall due and the risk that the Group does not have sufficiently stable and diverse sources of funding.

Key controls and mitigating factors

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 157. 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.

The proposed sale of the Group's Banking business is not expected to have a material impact on the Group's liquidity and funding positions in the period to completion, with the liquidity position forecast to remain in excess of internal and regulatory requirements.

Further information in respect of the Group's assessment of liquidity risk is set out on pages 156 to 160.

(d) Principal risk - 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.

Key controls and mitigating factors

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.

The Group assesses interest rate risk in the banking book by measuring the value risk to equity capital and future earnings' sensitivity under specific interest rate scenarios and foreign exchange risk by measuring its net open currency position.

The Group has established a Risk Appetite for market risk arising from its core business of providing retail banking products. Proprietary risk-taking is not permitted. The market risk appetite statement includes specific limits on market risk measures and is implemented via a Board approved Market Risk Policy.

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.

(e) Principal risk - 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.

Key controls and mitigating factors

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 a RMF 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. This is supported by a quarterly RCSA process undertaken by the Business Areas, with oversight from the Risk function. A robust governance framework is in place to ensure appropriate Senior Management and Board oversight and scrutiny of insurance risk. Further information in respect of insurance risk is set out at note 46.

(f) Principal risk - 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 organisation, or individuals within the organisation, leads to customer detriment, or have an adverse effect on market stability or effective competition.

Key controls and mitigating factors

The Group seeks to comply with rules and regulations. If regulatory events and breaches occur, the Group will take appropriate rectifying action on a timely basis. The Group seeks to deliver good outcomes and mitigate the risk of foreseeable harm. If good outcomes are not delivered, the Group will take appropriate rectifying action on a timely basis.

A Good Outcomes Framework, which provides the practical measures to comply with the FCA's Consumer Duty, is operated by the Outcomes and Vulnerable Customers Team. This aims to ensure good customer outcomes are achieved across products and services, price and value, customer understanding and customer support. This process includes assessment of both new products and changes to products and services through periodic reviews and regular monitoring of Customer Outcomes' management information. If poor outcomes or harm occur, this will be identified and addressed. The Risk function provides robust oversight of Customer Outcomes and the ExCo and Board review and challenge delivery of good outcomes for customers.

Regulatory changes

The volume and pace of regulatory change remain high, with specific focus on Consumer Duty (including Vulnerable Customers), Fraud, Payments and Operational Resilience. The Group actively engages in relevant industry consultation and closely monitors potential changes to regulatory requirements.

(g) Principal risk - Capital risk

The risk related to the Group's ability to meet regulatory capital requirements, minimum standards for capital replenishment following an extreme event, and internal investment return minimums.

Key controls and mitigating factors

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

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

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.

(g) Principal risk - Capital risk (continued)

Prudential regulation

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.

Further information on the Group's capital ratios is set out on page 11 and in note 51.

Management of capital prior to completion of the sale of the Group's Banking business

The group will continue to monitor its capital ratios and the headroom over minimum capital requirements and regulatory buffers, with ongoing management of capital governed through the ALCo, BRC and the Board.

Emerging risk - Climate change

Overview

The Group's Climate Change programme is overseen by the ExCo, with the Senior Management Function (SMF) accountability for managing climate change risk being held by the CRO. 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 continues to work closely with Tesco to ensure that its and Tesco's approach to tackling climate change are aligned.

Governance

Progress updates are provided to the ExCo on a quarterly basis.

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 reliant on collateral which may be more likely to be impacted by climate change. In addition, the Group is exclusively consumer focused in its lending and has processes in place to ensure liquidity holdings meet defined ESG criteria.

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 has exposures 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 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 and the cost of reinsurance covers. Finally, there may be 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.

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.

Areas of focus for risk management over the next year are maintaining climate-related Management information and ensuring business areas have fully embedded climate change into their risk identification and control processes.

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 and investments; physical risk via impacts on the Group's customers and colleagues; and reputational risk.

As part of the RMF, the identification and assessment of climate change risk are embedded within the relevant business areas as a business-as-usual process.

Metrics and targets

The Group's scope 1 and 2 carbon footprints are disclosed below. The Group has identified the number of tonnes of carbon dioxide equivalent (tCO_2e) 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*

	29 February 2024	28 February 2023[4]
tCO_2e emissions (Market-based)[1]		
- Scope 1[2]	1,002	936
- Scope 2[1,3]	–	–
Carbon Intensity Factor		
tCO_2e emissions per FTE	0.28	0.28

Emissions have increased during the year as more colleagues have chosen to work from the Group's offices through hybrid working arrangements. 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.

Risk Management Framework

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 3 Disclosure Statements of TPFG for the year ended 29 February 2024. These disclosures will be published in the Financial Information section of the Group's corporate website in due course.

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 RMF. The RMF creates an integrated approach to managing risk and extends to all principal risks (the Level 1 Risk Taxonomy). The RMF 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 RMF 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 29 February 2024. The Group's governance structure will be updated as necessary to provide oversight and challenge on the safe and effective implementation of the separation of the Banking business, as required by the terms of the sale.

The Board

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

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 continues to be 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 his objectivity, independent judgement and challenge in a manner aligned with that of an independent non-executive director. Simon remains independent of Management and continues to hold other directorships outside of the Group, further supporting his independence. Given the recent agreement of the proposed sale of the Group's Banking business to Barclays and the changing nature of the Group's business, the Board considers that it is important for Simon to remain on the Board to support completion of the sale and the establishment and embedding of the remaining business.

Robert Endersby's tenure on the Board exceeded nine years in December 2023. Under Provision 10 of the 2018 Code, the Board has the opportunity to explain why Robert is still considered to be independent. Robert continues to be a valued member of the Board, with extensive banking and risk management experience and, whilst he has been on the Board since 2014, the Board considers that he continues to exercise his objectivity, independent judgement and challenge in a manner aligned with that of an independent non-executive director. Robert remains independent of Management and continues to hold another non-executive director role outside of the Group, further supporting his independence. Given the recent agreement of the proposed sale of the Group's banking business to Barclays and the changing nature of the Group's business, the Board considers that it is important for Robert to remain on the Board to support the completion of the sale and the establishment and embedding of the remaining business.

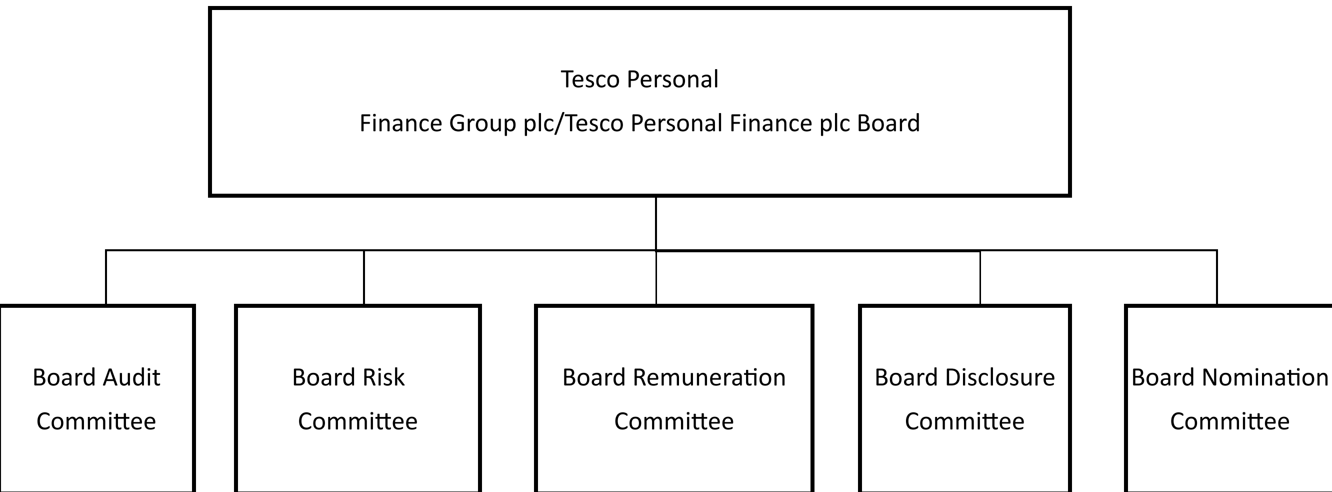
The Board is the key governance body and is responsible for overall strategy, performance of the business and ensuring appropriate and effective risk management, in line with the approved Risk Appetite.

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

The Board (continued)



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. This Policy sets out the approach to diversity on the Board and sits alongside the Group's Equal Opportunities and Diversity Policy, which sets out the Group's wider commitment to building an increasingly diverse business where all colleagues are given equal opportunities through recruitment as well as learning and development opportunities and actively championing and supporting its colleague networks and training on the importance of inclusion.

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.

In addition, the Equal Opportunities and Diversity 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 women's representation target. 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 improving women's 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's most recent Women in Finance submission saw women's representation increase at Board level, from 41.0% to 45.0%, and at ExCo level from 40.0% to 50.0%. The Group has achieved its stretch target of 40.0% of women in leadership (ExCo, director of, head of department) positions ahead of the 2025 targets deadline.

The Group has a target to increase ethnicity representation to 10% in the Group's leadership team by 2025. The Group has made progress towards its target to increase ethnicity representation amongst its leadership team, reaching 6.0% ethnicity representation by 29 February 2024 (2023: 5.0%).

These targets and measures align with industry norms, enabling the Group to continue to address diversity within its leadership team population and take a holistic approach to addressing diversity throughout the organisation.

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 Director of People and the Organisation Effectiveness Team. He is also accountable for progress towards the Women in Finance targets.

The Board (continued)

Gender Diversity at Board Level (continued)

The Group is a Disability Confident Employer committed to further improving the support and experiences of its colleagues with disabilities, with the aspiration of achieving Disability Confident Leader status by the end of 2025.

The Group has established a calendar of 'moments that matter' for colleagues and the community the Group serves. This engages colleagues in conversations about diverse cultures, religious festivals, inclusion campaigns and historical events, allowing a platform for open discussion, awareness, and education and enabling a culture of Inclusion by embracing diverse thoughts and perspectives.

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 and Inclusion (tescoplc.com)

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 meetings[1]:

	Board	Board Risk Committee	Board Audit Committee	Board Remuneration Committee	Board Disclosure Committee	Board Nomination Committee
Jacqueline Ferguson	8/8	3/3	–	5/5	–	2/2
Elizabeth Buckley	8/8	3/3	–	5/5	–	2/2
Julie Currie	8/8	3/3	6/6	–	–	2/2
Robert Endersby	7/8	3/3	6/6	5/5	–	2/2
Prasanna Gopalakrishnan	8/8	3/3	–	–	–	2/2
Richard Henderson	8/8	–	–	–	4/4	–
Simon Machell	8/8	3/3	6/6	5/5	–	2/2
Gerard Mallon	8/8	–	–	–	3/4	–
Adrian Morris	7/8	2/3	–	–	–	2/2
Tikendra Patel	8/8	3/3	4/6	–	–	2/2
Amanda Rendle[2]	3/3	1/1	–	2/2	–	1/1
Deborah Walker	6/8	–	–	–	3/4	–

[1] Attendance recorded is of Committee members only and does not reflect Directors' attendance as observers.
[2] Amanda Rendle resigned from the Board on 31 May 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 2023 and presented to the Board. The evaluation was conducted in accordance with the Financial Reporting Council's (FRC) guidance on board effectiveness. A comprehensive question set was produced based on feedback from the previous year and taking into account actions which had been addressed. Each Board Member completed the survey and a report was issued to discuss at the Board meeting held in November 2023. The Board determined that the performance of the Board, its Committees and Directors continued to be effective.

The Board (continued)

Board Evaluation (continued)

The evaluation highlighted a continued 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 composition of each one was considered and determined to be appropriate. 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 confirmed the key focus for the Board was to oversee completion of the proposed sale of the Group's Banking business, including operational continuity throughout.

Sub-committees

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

Board Audit Committee (BAC)

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

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.

Each year, the BAC assesses its own effectiveness and performance. Every three years this is facilitated externally. An internally facilitated review was carried out in 2023 and confirmed that the BAC continues to be effective in carrying out its role and responsibilities.

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 and Tikendra Patel.

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.

Each year, the BRC assesses its own effectiveness and performance. Every three years this is facilitated externally. An internally facilitated review was carried out in 2023 and confirmed that the BRC continues to be effective in carrying out its role and responsibilities.

The Board (continued)

Board Remuneration Committee (RemCo)

The RemCo comprises Elizabeth Buckley (Chair), 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, regulation and guidelines. Each year, the RemCo assesses its own effectiveness and performance. Every three years this is facilitated externally. An internally facilitated review was carried out in 2023 and confirmed that the RemCo continues to be effective in carrying out its role and responsibilities.

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 (Chair), Elizabeth Buckley, Julie Currie, Robert Endersby, Prasanna Gopalakrishnan, Simon Machell, Adrian Morris and Tikendra Patel.

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 20 to 21.

Each year, the NomCo assesses its own effectiveness and performance. Every three years this is facilitated externally. An internally facilitated review was carried out in 2023 and confirmed that the NomCo continues to be effective. However, there were some minor improvements required, particularly in relation to Executive succession planning.

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, LTP, 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.

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 LTP 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 RMF 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 RMF and policies. The role of the Business Areas is to adhere to the Group's RMF, 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 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.

Three Lines of Defence (continued)

Risk Function (Second Line) (continued)

The role of the Risk function is to own, develop, communicate, implement and provide advice on the Group's RMF 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 RMF 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 submission 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 Board approved policy for each of the principal risks faced by the Group, unless otherwise agreed by the CRO. Each Board approved policy 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, supporting the implementation of policies, ensuring 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 with policies through the issues management process.

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 and systems and the 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.

Integrated Risk Processes

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

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

The Group is also required to submit ILAAP reports which provide a view of how the Group approaches liquidity and funding risk management, including the management and control processes which support effective management of these risks within the Group, to the PRA.

Viability Statement

Assessing the Group's Longer-Term Prospects and Viability

The proposed sale of the Group's Banking business to Barclays is expected to complete during the going concern horizon, which is a period of 12 months from the date of approval of the Financial Statements, at which point the Group's current regulatory capital and liquidity requirements are expected to significantly reduce, albeit some Banking permissions may remain in place. The longer-term assessment is based on the ability of the Group's Insurance business to meet its ongoing SII capital and liquidity requirements, which are designed to ensure the Group's long-term viability.

The Group's governance structure has been updated to include a new Separation Programme Executive Committee. The Board has oversight of the separation programme and will receive appropriate reporting on progress to enable discussion and challenge. Active co-ordination with Tesco will continue to operate through the Tesco Executive Steering Committee.

As a pre-requisite for the Part VII transfer and regulatory approvals, TSAs will be executed with Barclays to cover critical shared services to minimise the risk of disruption for Banking, Insurance and Money Services customers until they are replaced with versions suitable for each business. Dedicated project teams have been set up within the Group and Barclays to plan for and address these challenges beyond completion.

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 LTP 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.

Assessing the Group's Longer-Term Prospects and Viability (continued)

Current Position

The Group's current regulatory capital position reflects the impact on the Group's capital of the proposed sale of its Banking business and is therefore both firm-specific and time-bound. If the proposed sale of the Group's Banking business does not proceed, the foreseeable loss position reverses and capital resources in the form of retained earnings return to their former level, with a commensurate increase in the Group's capital adequacy ratios.

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's liquidity position is described in note 46 and its capital position is set out at note 51.

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 cost of living pressures.

The Group's principal risks and policies and processes for managing those risks are set out on pages 12 to 17.

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 46;
- 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, which are approved by the Group's ALCo, would result in an increase in total ECLs of approximately £170m above those recognised at 29 February 2024. While such a severe scenario is considered very remote, it would result in the Group utilising its CCB (should the FPC not reduce or remove the current 2.0% CCyB requirement, currently approximately £145m). Under this scenario, given a key recovery action, being the sale of the Group's Banking business, is currently in course, Management would not anticipate further recovery actions being deployed given that the Group's capital requirement will materially reduce at completion. The Group's capital position at 29 February 2024 is set out at note 51;

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 (TLR) and encompassing the 30-day Liquidity Coverage Ratio and an additional Pillar 2 element for intraday liquidity risk. In addition to the PRA-defined TLR, 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 (2023: £200.0m) committed structured repurchase facility, access to BoE 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, including the impact of the TSAs with Barclays set out above;
- The resilience of the Group's IT systems, including the impact of the TSAs with Barclays set out above;
- 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 vehicle.

The Board also considered the results of stress testing which is performed as an integral part of both TU's annual own risk self-assessment and funding and liquidity projections, 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 12 to 17.

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 acknowledges that not every decision it makes will necessarily result in a positive outcome for all of the Group's stakeholders. 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 does, however, aim to make sure that its decisions are consistent.

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. Directors are supported in the discharge of their duties by provision of induction materials and ongoing training. Agendas for Board and Board Committee meetings are structured to provide sufficient time for consideration and discussion of key matters and ad hoc meetings are scheduled where necessary.

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 34 to 36. Examples of how the Directors have oversight of stakeholder matters and had regard for these matters when making decisions are included throughout this Annual Report, together with details of the strategic decisions and actions set out below, which are supportive of this s172 Statement.

The following decisions taken by the Board during the year ended 29 February 2024 are considered to be principal decisions and strategically important to the Group:

- Sale of the Group's Banking business to Barclays Bank UK plc;
- Changes to the Group's capital structure; and
- Payment of a special interim dividend to Tesco, the Group's sole shareholder.

Sale of the Group's Banking business to Barclays Bank UK plc

During the year ended 29 February 2024, the most significant strategic decision by the Board was the announcement of an agreement on the terms of a proposed sale of the Group's Banking business to Barclays. Linked to this, Tesco announced a strategic partnership with Barclays, initially for a 10-year period.

S172 Statement by the Directors (continued)

Sale of the Group's Banking business to Barclays Bank UK plc (continued)

In taking decisions, the Directors were acutely aware of their duties under s172. Review and assessment of the proposed transaction included consideration of the likely long-term consequences, colleague interests, relationships with customers and good customer outcomes, suppliers and regulators, maintaining a reputation for high standards of business and the wishes of the sole shareholder. To support the decision-making process, the Board received comprehensive papers and regular updates from Management and external advisers. Information provided to the Board included guidance relating to the requirements of s172. A refresher Directors' duties session was facilitated by external legal advisers to ensure that Board Members were comfortable with their duties and the approach to discharging them. Additional Board meetings were held to facilitate review and consider information and to provide sufficient opportunity for Directors to discuss, ask questions and challenge throughout the sale process.

It was important to the Board to ensure that the successful offer achieved the outcomes desired by the shareholder. Representatives of Tesco attended Board meetings and were invited to contribute the shareholder's perspective. The partnership approach between Tesco and Barclays was key as Tesco continues to see value in providing financial services to its customers to help them manage their money a little better every day. It was recognised that the potential to grow the savings and lending books could be better realised by partnership with an organisation that has banking as its core focus. The strategic alignment and potential for the Insurance and Money Services businesses to grow within the Tesco family was identified as part of the decision.

From the outset, stakeholder impacts and stakeholder engagement formed an integral part of the decision-making process. In addition to the shareholder, primary stakeholders were identified as customers, colleagues, suppliers and regulators.

Customer risk mitigation was fundamental and it was a key consideration that the buyer was credible and capable of maintaining the existing customer proposition. With customer impact and outcomes in mind, certainty and speed of execution were taken into account as part of the strategic assessment and the sale scope was designed to reduce complexity and minimise timelines. There was also significant attention given to ensuring that a clear approach was put in place for communications to customers to avoid confusion or uncertainty.

The Board was very sensitive to the potential impact on colleagues throughout the decision-making process and agreed to minimise any negative impact by having timely and proactive communication delivered through a mix of channels and guided by Tesco values. The transfer of colleagues whose roles primarily relate to the Banking business and the potential future opportunities for career development and progress was of particular interest to the Board. The minimisation of job losses, with impacted employees transferring to Barclays under the Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE Regulations), was considered as an important factor. The Board had oversight of the internal communications plan and reviewed the draft announcement to colleagues. Care and attention were given by the Board to sharing as much detail with colleagues as possible.

The impact on suppliers was considered. The Board was reassured that communications to suppliers were prepared centrally and delivered by individual supplier managers as part of the announcement approach.

Early engagement with the regulators was essential and the output of key discussions with both the FCA and the PRA were shared with the Board.

The Board approved Barclays as the preferred bidder and that the proposal from Barclays was in the best interests of the Company and its shareholder on 26 January 2024. The transaction was approved subject to a committee of the Board approving the final form of the transaction documents. The transaction was approved in principle on 7 February 2024, at which point the Banking business became classified as held for sale under IFRS 5, and Gerard Mallon was authorised to approve the remaining terms and execute the documents on behalf of the Board. The agreement was entered into on 9 February 2024.

The Board continues to oversee the Executive-led separation programme and, as such, the Group's governance structure, approved by the Board, has been updated to include a new Separation Programme Executive Committee. The Board has oversight of the separation programme and receives appropriate reporting which is discussed and challenged. Active co-ordination with the shareholder remains via the Tesco PLC Executive Steering Committee for the transaction. Further information on the impact of this strategic decision on the Group's stakeholders is set out on pages 34 to 36.

S172 Statement by the Directors (continued)

Changes to the Group's capital structure

In December 2021, the Board provided its initial support to progress with a proposal to exchange £150.0m of CET1 capital for AT1 capital for reasons including capital efficiency and the provision of an incremental return to the shareholder. A Board decision was taken in December 2022 to approve the implementation phase of these capital changes. As part of the review the Board considered the engagement which had taken place with the shareholder, including providing an outline of the proposal at the Tesco BAC and subsequent discussions with the Tesco Chief Financial Officer. Formal shareholder approval was required for the capital structure change and obtained by way of General Meetings held on 4 May 2023. The share capital reductions were approved by the PRA on 20 July 2023 and confirmed by Order of the Court of Session on 29 August 2023.

Payment of a special interim dividend to Tesco, the Group's sole shareholder

The Board approved a special interim dividend payment on 6 June 2023, following which notice was provided to the PRA. This included a dividend payment of £250.0m by TPF to the Company, followed by an equivalent special interim dividend payment from the Company to its shareholder, Tesco. The Board reviewed the Group's regulatory capital requirements and the desire for capital efficiency. The interests of the shareholder were the key driver in the decision.

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

Fiona Burden

Company Secretary

8 April 2024

The Directors present their Annual Report, together with the Company and Consolidated Financial Statements and Independent Auditor's Report, for the year ended 29 February 2024.

Compliance with the UK Corporate Governance Code

The Companies (Miscellaneous Reporting) Regulations 2018 require companies meeting certain threshold requirements to explain the corporate governance arrangements applied by the company. The UK Corporate Governance Code 2018 (2018 Code) is applicable to companies with a premium listing. The Company, despite not being premium listed, has voluntarily chosen to apply the 2018 Code because of its status as a public limited company and because it is regulated. The Group applied the main principles and complied with the relevant provisions set out in the 2018 Code throughout the year. Monitoring compliance with the UK Corporate Governance Code is the responsibility of the Board.

Information demonstrating how the 2018 Code has been applied can be found throughout the Directors' Report and the Strategic Report. Provision 41 has been acknowledged by providing a brief description of the work of the Group's RemCo but without explicit details of all aspects. The Company is not required to provide a full Remuneration Report within the Annual Report as it does not have any listed equity.

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.

The 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. During the year the FRC engaged in a consultation which resulted in the publication of a new UK Corporate Governance Code 2024 (2024 Code). The 2024 Code is applicable for financial years beginning on or after 1 January 2025, other than Provision 29, which applies to financial years beginning on or after 1 January 2026. The Group will continue to strive to maintain high standards of corporate governance. Work is ongoing to assess the impact of the 2024 Code and compliance against the 2024 Code will be reported in the Group's Annual Report for the year ended 28 February 2026.

Business Review and Future Developments

The Group's business review and future developments are set out in the Strategic Report on pages 2 to 11.

Risk Management

The Group's risk management disclosures are set out in the Strategic Report on pages 12 to 17.

Financial Instruments

The Group's policies for hedging each major type of transaction are discussed in notes 1 and 25 to the Financial Statements.

Capital Structure

The Group's capital structure is discussed in notes 41 and 42 to the Financial Statements.

Events after the Reporting Date

Details of events occurring after the reporting date are discussed in note 56 to the Financial Statements.

Going Concern

The Directors consider that the Group and the Company have adequate resources to remain in operation for the foreseeable future and have therefore continued to adopt the going concern basis in preparing the Financial Statements. The UK Corporate Governance Code requires the Directors to assess and report on the prospects of the Group over a longer period. This longer-term viability assessment and related Viability Statement are set out on pages 26 to 28. Details of the Group's consideration of its ability to continue as a going concern is set out in note 1 to the Financial Statements.

Dividends

An interim dividend of £54.4m in respect of ordinary share capital was paid to Tesco on 23 February 2023. There was no such interim dividend in the current year. A special interim dividend of £250.0m (2023: £nil) was paid to Tesco on 23 August 2023. No final dividend is proposed in respect of the year ended 29 February 2024 (2023: no final dividend).

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 2023 to date the following changes have taken place:

	Resigned
Amanda Rendle	31 May 2023

Jacqueline Ferguson was appointed as Chair with effect from 6 June 2023, having been appointed as Interim Chair with effect from 23 January 2023. Robert Endersby was appointed to the role of Senior Independent Non-Executive Director in June 2023, having been appointed as Interim Senior Independent Non-Executive Director in January 2023.

Risk Management and Internal Controls

The Board and its committees are responsible for ensuring the effective implementation and ongoing monitoring of the RMF.

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 RMF 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 RMF and internal controls. Assessment of the effectiveness of the RMF 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. Regular progress updates on RMF implementation have been provided to the BRC and ERC and both Committees have confirmed that they are comfortable with the status of the RMF implementation subject to a post-implementation review being carried out by KPMG in early 2024. This review is currently in progress and findings will be reported to the ERC in April 2024 and BRC in May 2024. The Board considers that the Group has in place an adequate RMF and internal controls.

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 TPFG. 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 12 to 17.

Information provided to 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.

Engaging with stakeholders

The proposed sale of the Group's Banking business, as described on pages 2 to 4. will change the nature of the Group's business and some of its stakeholders. However, Management remains responsible for the effective running of the regulated Banking business until completion. Accordingly, this section considers stakeholder engagement for the Group's entire business unless otherwise stated.

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 29 February 2024 are set out on pages 29 to 31.

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 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 29 February 2024 was 57 (2023: 51), 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.

Linked to the announcement of the proposed sale of the Group's Banking business to Barclays, Tesco announced a strategic partnership with Barclays, initially for a 10-year period.

The partnership will allow Tesco to offer its customers Tesco-branded banking products and services in addition to exploring other opportunities to offer value to Tesco's and Barclays' customers. As part of the agreement between Tesco and Barclays, Tesco customers will continue to be able to access the benefits of Clubcard (such as Clubcard points or Clubcard Prices) on their Insurance and Money Services products held with the Group.

By working with Barclays, one of the UK’s leading banks, Tesco can bring customers new and innovative propositions, which will continue to benefit from Tesco Clubcard’s unique insight and digital capabilities.

There was no immediate impact of this announcement on the Group's customers. The sale process is expected to complete in the second half of 2024. Prior to completion, the Group will write directly to customers with a Banking product with all relevant information regarding the proposed sale of the Group's Banking business, which will be completed via a Part VII transfer. All other existing activities of the Group, including Insurance, ATMs, Travel Money and Gift Cards will remain within the Group.

After the Group has written to customers, it will then provide additional support both online and over the phone. The Group will create a hub on its website (www.tescobank.com) which will contain additional information, and a dedicated telephone line will be provided for any customer queries related to the sale.

Engaging with stakeholders (continued)

Our 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, which the Group considers to be the most effective mechanism to measure colleague engagement and is aligned to the approach taken by Tesco. All Group colleagues receive the survey and there is an 80% completion rate benchmark. The EVM results provide Management with detailed insight into which areas of the business are thriving and those where more attention is needed. The most recent EVM survey results reported that understanding of the Tesco purpose is strong and positive colleague perceptions towards having opportunities to learn and feel that they can be themselves without fear of judgement at work.

The Board and Senior Management are responsible for ensuring that EVM action plans exist in their respective business areas. The People Director will continue to report EVM results to the Board to allow the Group's leadership team to review and discuss colleague feedback in order help shape business plans.

The Group is committed to promoting a diverse and inclusive workplace, reflective of the communities it serves. It has an Equal Opportunities and Diversity Policy, which sets out the Group's commitment to building an increasingly diverse business in support of its culture aspirations. This Policy aims to ensure that colleagues are given equal opportunities throughout their careers and that the Group has a fair process to attract, develop and retain talent. In addition, the Group has specific plans in place to ensure that Board representation has a mix of gender, tenure, age, ethnicity and other distinctions between Directors. These approaches aim to ensure that all colleagues are afforded equal opportunities regardless of protected characteristics or background, creating a diverse and inclusive workplace which reflects the customers the Group serves.

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.

Supporting colleagues to be their best so they can play their part in delivering the Tesco purpose is a key priority for the Group. 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. During the year, the Group introduced the Virtual GP service, enhancing its Employee Assistance Programme. In addition, 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.

Following the announcement of the proposed sale of the Group's Banking business to Barclays, a dedicated People Workstream is focused on supporting the Group's colleagues throughout the transition period and delivering what is required for a successful transaction.

Colleagues mainly supporting Banking operations within the Group (Credit Cards, Personal Loans and Savings products), will transfer to Barclays. Colleagues who mainly support the Group's Insurance and Money Services businesses are not part of the transaction and will remain within the Group.

Engaging with stakeholders (continued)

Our Colleagues (continued)

The Group has robust plans in place to engage colleagues at each stage of the separation journey and this started with a series of co-ordinated announcements to all colleagues to give them more detail about the separation, including confirmation that impacted employees will transfer to Barclays under TUPE Regulations.

The Group's People Team is working closely with Barclays, its union partners (USDAW and Unite) and elected employee representatives to support collective consultation, through which colleagues will be able to ask questions and have their views heard.

In conjunction with Barclays, the Group will share regular updates with colleagues on the consultation discussions and provide communications to ensure all colleagues receive the right information at the right time on all aspects of the separation process.

Our Suppliers

The Group engages with around 600 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 29 February 2024 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 alignment and 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 will engage with its suppliers during the regulatory approval process relating to the proposed sale of the Group's Banking business to ensure a smooth transition on completion of the proposed sale.

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: Accounts and Disclosures (tescoplc.com)

There have been no material changes to the Group's Modern Slavery statement since this was approved in August 2023.

Our Shareholder

The Group uses its relationship with Tesco, the Group's sole 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 such as the annual business plan and LTP are referred to Tesco for concurrence, as necessary. The Group also acknowledges its responsibility to share certain information with Tesco. One of the ways it does this is via the Group's CEO, Gerard Mallon, who is a member of the Tesco Executive Committee. The ultimate shareholder's interests at Board level are represented by an appointed Non-Executive Director, being Adrian Morris, Tesco's General Counsel.

Our Community

The Group is committed to making a positive impact in the communities it serves.

During the year, colleagues supported the Group's charity partners, being Maggie's and The Trussell Trust, through a variety of Group-wide and local fund-raising challenges, as well as volunteering at local foodbanks. Colleagues also continue to donate food to collection points across their office locations.

The Tesco 20% top-up scheme was opened to the Group's colleagues during the year to allow them to apply for a 20% increase to any charitable funds raised.

The festive season was a particularly busy period for community activity, with 160 colleagues participating in Tesco's Feet on the Floor campaign, supporting winter food collections and Tesco stores nationwide.

The Group also gives colleagues and customers the opportunity to make charitable donations through ATM donations.

Board 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 four Independent Non-Executive Directors.

Julie Currie is an Independent Non-Executive Director and Chair of the BAC. Julie is an ex-CFO and Chartered Accountant, qualified with Ernst and Young, with 27 years' experience in the UK regulated financial services sector across Retail, Corporate and Investment Banking, Capital Markets and Asset Management. Julie also currently sits on the Board of State Street Global Advisors Limited and Space Solar Holdings Limited, a UK renewable energy technology company. Prior Non-Executive roles include six years as Board Director and Chair of the Audit Committee for Scotiabank Europe plc and four years on the Board of the UK Government Department for International Trade, where she established and chaired the Audit and Risk Committee in the lead up to the UK leaving the EU. She has also had Non-Executive roles in the social equity investment and property sectors.

As an Executive, Julie held senior roles in the financial services and social sectors, including 17 years at Lloyds Banking Group. These included Chief Operating Officer for the Turnaround Division of Lloyds Banking Group, which managed £80bn of underperforming loans that arose during the Financial Crisis, Director of Integration to lead the merger of Lloyds TSB and HBOS's Private Equity related businesses; and Director of Acquisition Finance where she spent nine years in the Bank of Scotland's European Leveraged Finance business. Julie completed her Executive career in 2017 as the Chief Financial and Operating Officer for the Lloyds Bank Foundation for England and Wales, the largest corporate foundation in the UK. Julie joined the TPFG/TPF Board in February 2021.

Robert Endersby is the Senior Independent Non-Executive Director and Chair of the BRC. Robert has spent over 40 years working in the financial services sector. Until late 2014, Robert was Chief Risk Officer and member of the Executive Board of Danske Bank, Denmark's largest financial enterprise, where he was also a member of the board of directors of the group's main UK and Finnish subsidiaries. Between 2016 and 2019, Robert was an Independent Non-Executive Director and chair of the board risk committees of Credit Suisse International and Credit Suisse Securities (Europe) Limited. Robert is also currently an Independent Non-Executive Director and chair of the board risk committee of Redwood Bank Limited. Previously, Robert has 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 TPFG/TPF Board in December 2014. He was appointed as the Interim Senior Independent Non-Executive Director in January 2023 and Senior Independent Non-Executive Director in June 2023. Information in respect of Robert's continued tenure on the Board is set out on page 19.

Simon Machell is an Independent Non-Executive Director. He 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. Simon spent 19 years with Aviva and his roles there included Chief Executive of the RAC, having served as Chief Executive of the general insurance business in the UK and latterly running the insurance businesses in 14 markets across Eastern Europe and Asia. He was a member of Aviva's executive committee for six years and sat on numerous boards throughout the group. Simon was Chair of the Motor Insurers Bureau from 2001 to 2007. He holds an Economics degree from Durham University and is Fellow of the Institute of Chartered Accountants in England and Wales. Simon is also a visiting professor in insurance at the Southwest University of Finance and Economics in Chengdu, China. He chairs the Board of TU, is a Director of Suncorp Group in Australia and is a Non-Executive Director of Prudential Assurance Company Singapore and Pacific Life Reinsurance. Simon joined the TPFG/TPF Board in 2013. Information in respect of Simon's continued tenure on the Board is set out on page 19.

Audit Committee (BAC) (continued)

BAC composition, skills and experience (continued)

Tikendra Patel is an Independent Non-Executive Director. He is the Chief Executive Officer of Blue Motor Finance, a private equity owned technology and analytics-driven motor finance provider that was rated the Financial Times' Fastest Growing Company in Europe in 2019. He has substantial experience in retail having worked in four Kingfisher Group businesses for more than ten years. He has spent the last 20 years leading financial services businesses in Barclays, Experian (where he led all of its UK businesses) and, prior to Blue Motor Finance for PRA Group, where he led a European business operating in 15 markets. He has an MA in Mathematics from The Queen's College, Oxford, is a qualified accountant and has benefitted from attending Harvard Business School's Programme for Management Development. Tikendra joined the TPFG/TPF Board in December 2021 and the BAC in March 2023.

BAC meeting attendance

The Chair, Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, Internal Audit Director, Financial Control Director 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, re-prioritisation of the programme of Third Line assurance and the related findings, the annual report from the Money Laundering Reporting Officer, oversight of TU, the internal and external fraud control environment and updates on regulatory reporting requirements. The BAC was also focused on understanding and challenging the impact of the proposed sale of the Group's Banking business on the year end accounting position and ongoing control environment and discussed this at a number of private meetings scheduled during the course of the year ended 29 February 2024. The BAC also received updates on the CCA-related redress matter identified during the year and recognition of the related provision, including the impact of this provision on restated opening retained earnings at 1 March 2022 and the restated results of the Group for the year ended 28 February 2023.

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 29 February 2024, the BAC considered the following matters:

The methods used to account for significant transactions

The BAC reviewed and supported proposals from Management on the key accounting and disclosure impacts relating to the proposed sale of the Group's Banking business and its wider impact on the Financial Statements and the Group's capital position; the Group's adoption of IFRS 17 with effect from 1 March 2023; and the accounting for changes to the Group's capital structure, which completed in August 2023.

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 2025, 12 months subsequent to signing the Annual Report and Financial Statements for the year ended 29 February 2024. 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 cost of living pressure and the impact of the proposed sale of the Group's Banking business. 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 32 and 50 to 51.

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

Audit Committee (BAC) (continued)

BAC responsibilities (continued)

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 29 February 2024 are:

- *Disposal of the Group's Banking business (refer to note 20)*

The BAC received reports from Management on the key judgements made in accounting for and presenting the results of the discontinued operation in the current and prior year Consolidated Income Statements and assets and liabilities of the disposal group in the Company and Consolidated Statements of Financial Position at 29 February 2024. These covered assessment of when the assets and liabilities of the disposal group became held for sale under IFRS 5, assessment of the business model in respect of the IFRS 9 assets within the disposal group, valuation of the assets and liabilities of the disposal group and recognition of the loss arising on measurement of the disposal group at FVLCS under IFRS 5.

The BAC reviewed the key estimates and judgements made by Management in accounting for and disclosing the results, balances and measurement loss relating to the disposal group and concluded that the assumptions and judgements applied by Management were appropriate.

- *Expected credit loss provision (ECL) (refer to note 46)*

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.

- *Insurance contract liabilities (refer to note 39)*

The Group holds an investment in TU, an authorised insurance company.

TU's results are sensitive to changes in the insurance contract liabilities it recognises in respect of insurance policies written, net of reinsurance contract assets. Consequently, material increases in these reserves could have an impact on the carrying value of the reinsurance contract assets and insurance contract liabilities balances in the Consolidated Statement of Financial Position. In addition, 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 LRC using the general measurement model for measurement of insurance contracts rather than the simplified premium allocation approach.

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

The BAC is satisfied that the carrying value of insurance contract liabilities is appropriate.

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.

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.

Audit Committee (BAC) (continued)

Performance and Effectiveness of Internal Audit (continued)

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 2023/24 being positive.

Performance and Effectiveness of External Audit

An externally facilitated review is carried out to assess the effectiveness of the External Auditor and in 2023 was carried out by Lintstock. The review was arranged and overseen by Tesco, with Management and the Chair of TPFG's BAC asked to participate. The review comprised 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 assessment was carried out during January and February 2023, after which the final report was issued to the Tesco BAC. TPFG's BAC was provided with a copy of the report for review and discussion at its meeting in June 2023. The BAC Chair also facilitated a more targeted assessment of the External Auditor using the output of the survey provided by Lintstock. This allowed for further discussion and assessment of the effectiveness and independence of the External Auditor at Group level. The assessment for 2024 is in progress, with the report due to be issued and discussed at TPFG's BAC in June 2024, along with a more targeted assessment of the external auditor, facilitated by the BAC Chair, using the output of the survey provided by Lintstock. This will allow further discussion and assessment of the External Auditor at TPFG level and help to support the overall assessment and identification of any specific areas for further improvement.

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 15 to the Financial Statements.

External Audit Partner

The External Audit partner for the year to 29 February 2024 was Matt Perkins, who assumed the role in 2023. 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.

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, including IFRS 17 requirements. As Chair, Julie Currie also regularly participates in externally run technical, regulatory and market related updates. Training is also provided on an ongoing basis to meet the specific needs of individual committee members.

Performance and Effectiveness of the BAC (continued)

The review of the effectiveness of the BAC was conducted internally in 2023 using a comprehensive set of questions. Responses to the questions were collated and a report produced for discussion at the BAC meeting held in November 2023. It was concluded that the BAC continued to be effective.

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 200.

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;
- 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 loss 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.

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

Fiona Burden
Company Secretary
8 April 2024

TESCO PERSONAL FINANCE GROUP PLC
CONSOLIDATED INCOME STATEMENT
For the Year Ended 29 February 2024

	Note	2024 £m	2023 £m Restated[1,2,3]
Continuing operations			
Interest and similar income	6	87.0	36.3
Interest expense and similar charges	6	(74.8)	(40.0)
Net interest income/(expense)		**12.2**	**(3.7)**
Fees and commissions income	7	203.8	169.7
Fees and commissions expense	7	(1.7)	(0.2)
Net fees and commissions income		**202.1**	**169.5**
Insurance revenue	8	513.8	457.5
Insurance service expenses	9	(454.4)	(407.7)
Net expenses from reinsurance contracts held	10	(48.2)	(37.3)
Insurance service result		**11.2**	**12.5**
Net loss on investment securities at FVPL	11	(2.3)	(2.9)
Net gain on investments securities at FVOCI	12	–	0.1
Net (loss)/gain on other financial instruments at FVPL	13	(0.3)	0.2
Other income/(expenses)	14	5.9	(2.1)
Net other income/(expenses)		**3.3**	**(4.7)**
Insurance finance expenses from insurance contracts issued		(6.8)	(4.7)
Insurance finance income from reinsurance contracts held		1.2	1.6
Net insurance finance result		**(5.6)**	**(3.1)**
Total income		**223.2**	**170.5**
Administrative expenses	15	(153.2)	(135.4)
Depreciation and amortisation		(12.0)	(13.4)
Operating expenses		**(165.2)**	**(148.8)**
Expected credit loss credit/(charge) on financial assets	16	0.4	(0.5)
Profit before tax		**58.4**	**21.2**
Analysed as:			
Underlying profit before tax	5	62.0	26.3
Non-underlying items	5	(3.6)	(5.1)
		58.4	21.2
Income tax charge	18	(15.5)	(6.2)
Profit for the year from continuing operations		42.9	15.0
Discontinued operations			
(Loss)/profit after tax from discontinued operations	20	(341.1)	84.4
(Loss)/profit for the year attributable to owners of the parent		**(298.2)**	**99.4**

[1] The prior year has been restated following the retrospective adoption of IFRS 17 in the current year. Refer to note 2 for further details.

[2] The prior year has been restated following the classification of the Group's Banking business as a discontinued operation. Refer to notes 2 and 20 for further details.

[3] The prior year has been restated following the recognition by the Group of a provision in respect of identified instances where the requirements for the provision of certain administrative post-contractual documentation to customers with Consumer Credit Act (CCA)-regulated products have not been fully met. Refer to notes 2 and 36 for further details.

TESCO PERSONAL FINANCE GROUP PLC
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the Year Ended 29 February 2024

	Note	2024 £m	2023 £m Restated[1,2,3]
(Loss)/profit for the year		**(298.2)**	**99.4**
Items that may be reclassified subsequently to the Income Statement			
Debt securities at FVOCI			
Fair value movements	18	16.2	(41.9)
Taxation	18	(3.8)	10.9
Net gains transferred to the income statement on disposal		–	(0.1)
		12.4	(31.1)
Cash flow hedges			
Fair value movements	18	(0.1)	(0.2)
Taxation	18	–	0.1
		(0.1)	(0.1)
Insurance contracts			
Insurance finance (expenses)/income from insurance contracts issued	18	(4.6)	39.9
Insurance finance income/(expenses) from reinsurance contracts held	18	0.9	(20.5)
Taxation		0.9	(4.8)
		(2.8)	14.6
Other comprehensive income/(expense) for the year, net of tax		**9.5**	**(16.6)**
Total comprehensive (expense)/income for the year		**(288.7)**	**82.8**
Total comprehensive (expense)/income attributable to owners of the parent arising from:			
Continuing operations		**52.4**	**(1.6)**
Discontinued operations		**(341.1)**	**84.4**

[1] The prior year has been restated following the retrospective adoption of IFRS 17 in the current year. Refer to note 2 for further details.

[2] The prior year has been restated following the classification of the Group's Banking business as a discontinued operation. Refer to notes 2 and 20 for further details.

[3] The prior year has been restated following the recognition by the Group of a provision in respect of identified instances where the requirements for the provision of certain administrative post-contractual documentation to customers with CCA-regulated products have not been fully met. Refer to notes 2 and 36 for further details.

There are no items of other comprehensive income which will not be reclassified subsequently to the Income Statement (2023: no items).

TESCO PERSONAL FINANCE GROUP PLC
CONSOLIDATED AND COMPANY STATEMENTS OF FINANCIAL POSITION
For the Year Ended 29 February 2024

Company number SC173198

		Group			Company	
		2024	2023	2022	**2024**	2023
	Note	**£m**	£m	£m	**£m**	£m
			Restated[1,2]	Restated[1,2]		
Cash and balances with central banks	21	470.0	461.1	780.6	9.8	8.1
Loans and advances to banks	22	27.5	26.7	50.3	–	–
Loans and advances to customers	23	–	6,977.7	6,392.2	–	–
Loans and advances to subsidiaries	24	–	–	–	380.6	379.3
Derivative financial instruments	25	28.9	121.4	45.3	–	–
Investment securities	26	1,532.7	1,467.8	1,466.9	–	–
Reinsurance contract assets	38	124.9	135.2	170.6	–	–
Prepayments and accrued income	27	30.3	46.5	41.3	–	–
Other assets	28	149.3	103.4	176.5	–	–
Current income tax asset		17.0	11.7	4.8	–	–
Investment in group undertaking	29	–	–	–	1,219.9	1,219.9
Deferred income tax asset	30	63.6	58.8	67.8	–	–
Intangible assets	31	50.5	142.6	148.6	–	–
Property, plant and equipment	32	63.7	82.7	79.8	–	–
Assets of the disposal group	20	7,698.6	–	–	–	–
Total assets		**10,257.0**	**9,635.6**	**9,424.7**	**1,610.3**	**1,607.3**
Liabilities						
Deposits from banks	33	908.1	979.7	1,052.3	–	–
Deposits from customers	34	–	5,769.6	5,325.9	–	–
Debt securities in issue	35	143.2	137.5	244.0	145.3	145.3
Derivative financial instruments	25	8.7	16.9	27.2	–	–
Provisions for liabilities and charges	36	38.5	53.1	56.3	–	–
Accruals and deferred income	37	38.8	85.1	93.9	–	–
Current income tax liability		–	–	–	0.4	–
Other liabilities	38	104.5	195.7	163.6	–	–
Insurance contract liabilities	39	525.9	500.6	588.1	–	–
Subordinated liabilities and notes	40	237.5	236.9	235.6	237.5	236.9
Liabilities of the disposal group	20	7,127.2	–	–	–	–
Total liabilities		**9,132.4**	**7,975.1**	**7,786.9**	**383.2**	**382.2**
Equity and reserves attributable to owners of parent						
Share capital	41	107.0	122.0	122.0	107.0	122.0
Share premium account	41	963.2	1,098.2	1,098.2	963.2	1,098.2
Other equity instruments	42	149.6	–	–	150.0	–
Retained earnings		(100.3)	447.9	402.9	6.9	4.9
Other reserves	43	5.1	(7.6)	14.7	–	–
Total equity		**1,124.6**	**1,660.5**	**1,637.8**	**1,227.1**	**1,225.1**
Total liabilities and equity		**10,257.0**	**9,635.6**	**9,424.7**	**1,610.3**	**1,607.3**

[1] The prior year has been restated following the retrospective adoption of IFRS 17 in the current year. Refer to note 2 for further details.

[2] The prior year has been restated following the recognition by the Group of a provision in respect of identified instances where the requirements for the provision of certain administrative post-contractual documentation to customers with CCA-regulated products have not been fully met. Refer to notes 2 and 36 for further details.

Profit for the year of £252.0m (2023: profit of £53.1m[2,3]) is attributable to the Company.

The Consolidated and Company Financial Statements on pages 42 to 189 were approved by the Board of Directors and authorised for issue on 8 April 2024 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 29 February 2024

	Note	Share capital £m	Share premium £m	Other equity instruments £m	Retained earnings £m Restated[1,2]	FV reserve £m	Cash flow hedge reserve £m	Insurance finance reserve £m Restated[1]	Share based payment reserve £m	Total equity £m Restated[1,2]
Balance at 28 February 2023 (reported)		**122.0**	**1,098.2**	**–**	**488.7**	**(43.9)**	**0.1**	**–**	**20.4**	**1,635.5**
Restatements - cumulative adjustment from:										
-IFRS 17[1]	2	-	-	-	(21.0)	-	-	15.8	-	(5.2)
-Customer redress[2]	2	-	-	-	(19.8)	-	-	-	-	(19.8)
Balance at 1 March 2023 (restated)		**122.0**	**1,098.2**	**–**	**447.9**	**(43.9)**	**0.1**	**15.8**	**20.4**	**1,660.5**
Comprehensive income										
Loss for the year		–	–	–	(298.2)	–	–	–	–	(298.2)
Net fair value movement on investment securities held at FVOCI	18	–	–	–	–	12.4	–	–	–	12.4
Net movement on cash flow hedges	18	–	–	–	–	–	(0.1)	–	–	(0.1)
Net insurance finance expenses from insurance contracts issued	18	–	–	–	–	–	–	(3.5)	–	(3.5)
Net insurance finance income from reinsurance contracts held	18	–	–	–	–	–	–	0.7	–	0.7
Total comprehensive expense		**—**	**—**	**—**	**(298.2)**	**12.4**	**(0.1)**	**(2.8)**	**—**	**(288.7)**
Transactions with owners										
Share capital reduction	41	(15.0)	–	–	–	–	–	–	–	(15.0)
Share premium reduction	41	–	(135.0)	–	135.0	–	–	–	–	–
Capital distribution	41	–	–	–	(135.0)	–	–	–	–	(135.0)
Issuance of other equity instruments	42	–	–	149.6	–	–	–	–	–	149.6
Dividends to ordinary shareholder	19	–	–	–	(250.0)	–	–	–	–	(250.0)
Share based payments	54	–	–	–	–	–	–	–	3.2	3.2
Total transactions with owners		**(15.0)**	**(135.0)**	**149.6**	**(250.0)**	**—**	**—**	**—**	**3.2**	**(247.2)**
Balance at 29 February 2024		**107.0**	**963.2**	**149.6**	**(100.3)**	**(31.5)**	**–**	**13.0**	**23.6**	**1,124.6**

[1] The prior year has been restated following the retrospective adoption of IFRS 17 in the current year. Refer to note 2 for further details.

[2] The prior year has been restated following the recognition by the Group of a provision in respect of identified instances where the requirements for the provision of certain administrative post-contractual documentation to customers with CCA-regulated products have not been fully met. Refer to notes 2 and 36 for further details.

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

For the Year Ended 28 February 2023

	Note	Share capital £m	Share premium £m	Other equity instruments £m	Retained earnings £m Restated[1,2]	FV reserve £m	Cash flow hedge reserve £m	Insurance finance reserve £m Restated[1]	Share based payment reserve £m	Total equity £m Restated[1,2]
Balance at 28 February 2022 (reported)		**122.0**	**1,098.2**	**–**	**431.7**	**(12.8)**	**0.2**	**–**	**26.1**	**1,665.4**
Restatements										
-IFRS 17[1]	2				(12.5)			1.2		(11.3)
-Customer redress[2]	2				(16.3)					(16.3)
Balance at 1 March 2022 (restated)		**122.0**	**1,098.2**	**–**	**402.9**	**(12.8)**	**0.2**	**1.2**	**26.1**	**1,637.8**
Comprehensive income										
Profit for the year		–	–	–	99.4	–	–	–	–	99.4
Net fair value movement on investment securities held at FVOCI	18	–	–	–	–	(31.1)	–	–	–	(31.1)
Net movement on cash flow hedges	18	–	–	–	–	–	(0.1)	–	–	(0.1)
Net insurance finance income from insurance contracts issued	18	–	–	–	–	–	–	30.0	–	30.0
Net insurance finance expenses from reinsurance contracts held	18	–	–	–	–	–	–	(15.4)	–	(15.4)
Total comprehensive income		**–**	**–**	**–**	**99.4**	**(31.1)**	**(0.1)**	**14.6**	**–**	**82.8**
Transactions with owners										
Dividends to ordinary shareholders	19	–	–	–	(54.4)	–	–	–	–	(54.4)
Share based payments	54	–	–	–	–	–	–	–	(5.7)	(5.7)
Total transactions with owners		**–**	**–**	**–**	**(54.4)**	**–**	**–**	**–**	**(5.7)**	**(60.1)**
Balance at 28 February 2023		**122.0**	**1,098.2**	**–**	**447.9**	**(43.9)**	**0.1**	**15.8**	**20.4**	**1,660.5**

[1] The prior year has been restated following the retrospective adoption of IFRS 17 in the current year. Refer to note 2 for further details.

[2] The prior year has been restated following the recognition by the Group of a provision in respect of identified instances where the requirements for the provision of certain administrative post-contractual documentation to customers with CCA-regulated products have not been fully met. Refer to notes 2 and 36 for further details.

For the Year Ended 29 February 2024

	Note	Share capital £m	Share premium £m	Other equity instruments £m	Retained earnings £m	Total equity £m
Balance at 1 March 2023		**122.0**	**1,098.2**	**–**	**4.9**	**1,225.1**
Comprehensive income						
Profit for the year		—	—	—	252.0	252.0
Total comprehensive expense		**—**	**—**	**—**	**252.0**	**252.0**
Transactions with owners						
Share capital reduction	41	(15.0)	—	—	—	(15.0)
Share premium reduction	41	—	(135.0)	—	135.0	–
Capital distribution	41	—	—	—	(135.0)	(135.0)
Issuance of other equity instruments	42	—	—	150.0	—	150.0
Dividends to ordinary shareholders	19	—	—	—	(250.0)	(250.0)
Total transactions with owners		**(15.0)**	**(135.0)**	**150.0**	**(250.0)**	**(250.0)**
Balance at 29 February 2024		**107.0**	**963.2**	**150.0**	**6.9**	**1,227.1**

For the Year Ended 28 February 2023

	Note	Share capital £m	Share premium £m	Other equity instruments £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
Total comprehensive income		**–**	**–**	**–**	**53.1**	**53.1**
Transactions with owners						
Dividends to ordinary shareholders	19	–	–	–	(54.4)	(54.4)
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
CONSOLIDATED AND COMPANY CASH FLOW STATEMENTS
For the Year Ended 29 February 2024

	Note	Group 2024 £m	Group 2023 £m Restated[2,3,4]	Company 2024 £m	Company 2023 £m
Operating Activities					
Profit before tax from continuing operations		58.4	21.2	252.4	53.1
(Loss)/profit before tax from discontinued operations		(431.1)	103.2	–	–
Total (loss)/profit before tax		**(372.7)**	**124.4**	**252.4**	**53.1**
Adjusted for:					
Non-cash items included in operating profit before taxation and other adjustments	49	693.4	137.6	19.1	17.4
Changes in operating assets and liabilities	49	(141.7)	(258.1)	(0.5)	(0.9)
Income taxes paid		(8.8)	(17.2)	–	–
Cash flows generated from/(used in) operating activities		**170.2**	**(13.3)**	**271.0**	**69.6**
Investing Activities					
Purchase of intangible assets and property, plant and equipment		(37.8)	(53.6)	–	–
Purchase of debt investment securities	46	(385.2)	(322.9)	–	–
Maturity and sale of debt investment securities	46	347.2	228.6	–	–
Redemption of loan to subsidiary		–	–	–	101.1
Investment in subsidiary		–	(5.0)	–	–
Cash flows (used in)/generated from investing activities		**(75.8)**	**(152.9)**	**–**	**101.1**
Financing Activities					
Dividends paid to ordinary shareholder	19	(250.0)	(54.4)	(250.0)	(54.4)
Costs paid on issue of other equity instruments		(0.4)	–	–	–
Proceeds from issue of debt securities		550.0	–	–	–
Redemption of debt securities in issue		–	(101.1)	–	(101.1)
Interest paid on debt securities in issue		(24.1)	(8.0)	(5.1)	(8.0)
Interest on, and settlement of, derivatives held to hedge subordinated liabilities		(6.2)	(2.6)	–	–
Interest paid on subordinated liabilities and notes		(14.2)	(6.9)	(14.2)	(6.9)
Principal repayments on lease liabilities		(4.1)	(3.0)	–	–
Interest paid on lease liabilities		(1.5)	(2.7)	–	–
Cash flows generated from/(used in) financing activities		**249.5**	**(178.7)**	**(269.3)**	**(170.4)**
Net increase/(decrease) in cash and cash equivalents		**343.9**	**(344.9)**	**1.7**	**0.3**
Cash and cash equivalents[1] at beginning of year		444.4	789.3	8.1	7.8
Cash and cash equivalents[1] at end of year	48	**788.3**	**444.4**	**9.8**	**8.1**

[1] Cash and cash equivalents of the Group comprise cash and balances with central banks, excluding certain reserve deposits of £55.1m (2023: £43.4m) which do not have a maturity of less than three months, and loans and advances to banks of £27.5m (2023: £26.7m).

[2] The prior year has been restated following the retrospective adoption of IFRS 17 in the current year. Refer to note 2 for further details.

[3] The prior year has been restated following the classification of the Group's Banking business as a discontinued operation. Refer to notes 2 and 20 for further details.

[4] The prior year has been restated following the recognition by the Group of a provision in respect of identified instances where the requirements for the provision of certain administrative post-contractual documentation to customers with CCA-regulated products have not been fully met. Refer to notes 2 and 36 for further details.

1. Accounting Policies

Basis of Preparation

The Financial Statements have been prepared in accordance with UK-adopted International Accounting Standards (IASs) in conformity with the requirements of the Companies Act 2006.

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 note 29. 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 and the assets and liabilities related to the proposed sale of the Group's Banking business, which are carried at fair value less costs to sell (FVLCS) under International Financial Reporting Standard (IFRS) 5 'Non-current Assets Held for Sale and Discontinued Operations' (IFRS 5) (refer notes 2 and 20).

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 notes 2 and 55.

Going concern

The Directors have made an assessment of going concern and consider that it is appropriate to adopt the going concern basis of accounting in preparing the Company and Consolidated Financial Statements.

The assessment took 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 cost of living pressures, for the Group's capital and funding position.

As a pre-requisite for the Part VII transfer and regulatory approvals, Transitional Service Agreements (TSAs) will be executed with Barclays to cover critical shared services to minimise the risk of disruption for Banking, Insurance and Money Services customers until they are replaced with versions suitable for each business. Dedicated project teams have been set up within the Group and Barclays to plan for and address these challenges beyond completion.

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 46;
- 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)

Going concern (continued)

- The sufficiency of the Group's capital base. The worst case macro-economic scenarios, which are approved by the Group's Asset and Liability Management Committee (ALCo), would result in an increase in total ECLs of approximately £170m above those recognised at 29 February 2024. While such a severe scenario is considered very remote, it would result in the Group utilising its capital conservation buffer (should the FPC not reduce or remove the current 2.0% countercyclical capital buffer requirement, currently approximately £145m). Under this scenario, given a key recovery action, being the sale of the Group's Banking business, is currently in course, Management would not anticipate further recovery actions being deployed given that the Group's capital requirement will materially reduce at completion. The Group's current regulatory capital position reflects the impact on the Group's capital of the proposed sale of its Banking business and is therefore both firm-specific and time-bound. If the proposed sale of the Group's Banking business does not proceed, the foreseeable loss position reverses and capital resources in the form of retained earnings return to their former level, with a commensurate increase in the Group's capital adequacy ratios. The Group's capital position at 29 February 2024 is set out at note 51;
- 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 Prudential Regulation Authority (PRA) liquidity standards defined as Total Liquidity Requirements (TLR) and encompassing the 30-day Liquidity Coverage Ratio and an additional Pillar 2 element for intraday liquidity risk. In addition to the PRA-defined TLR, 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 (2023: £200.0m) committed structured repurchase facility, access to Bank of England (BoE) 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, including the impact of the TSAs with Barclays;
- The resilience of the Group's IT systems, including the impact of the TSAs with Barclays;
- 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 Company's and Group's assets as set out in the Statement of Financial Position; and
- The structural protections of the Group's securitisation vehicle.

The Board also considered the results of stress testing which is performed as an integral part of both TU's annual own risk self-assessment and funding and liquidity projections, with the Group having sufficient capital and liquidity to fund the balance sheet in each scenario.

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.

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.

(b) Revenue recognition

Net interest income recognition

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

The EIR method is a method of calculating the amortised cost of a financial asset or financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the expected life of the 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.

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 is always determinable.

1. Accounting Policies (continued)

(b) Revenue recognition (continued)

Net fees and commissions income recognition (continued)

Insurance commission income is generated from the sale of white label insurance products underwritten by third-party providers. This commission income is based on commission rates which are independent of the profitability of underlying insurance policies and is recognised on a net basis as such policies are sold, in line with the satisfaction of performance obligations to customers.

In addition, the Group 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.

The Group also recognises commission income from policy renewals at the point these 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.

Insurance service result

The Group disaggregates the total insurance service result recognised in the Consolidated Income Statement into insurance revenue, insurance service expenses and net income or expenses from reinsurance contracts held.

The insurance revenue recognised is the amount of expected premium receipts allocated to the period. The Group allocates the expected premium receipts to each period of insurance contract services on the basis of the passage of time for all insurance contracts issued after the acquisition of Tesco Underwriting Limited (TU) in May 2021.

The insurance revenue recognised for insurance contracts acquired as part of the acquisition of TU in May 2021 comprises:

- Claims costs incurred in the period measured at the amounts expected at the beginning of the period;
- Changes in the risk adjustment for non-financial risk; and
- The amount of the contractual service margin (CSM) recognised for services provided in the period.

Insurance service expenses include total claims cost for the period, as well as all directly attributable insurance expenses for policies accounted for under the premium allocation approach (PAA). There are no acquisition costs for acquired claims.

Insurance acquisition cash flows are allocated to insurance service expenses on the basis of the passage of time.

The Group separately presents income or expenses from reinsurance contracts held from the expenses or income from insurance contracts issued.

The Group presents the income or expenses from a group of reinsurance contracts held as a single amount.

1. Accounting Policies (continued)

(b) Revenue recognition (continued)

Insurance finance income and expenses

Insurance finance income or expenses comprise the change in the carrying amount of the group of insurance contracts arising from:

- The effect of the time value of money and changes in the time value of money; and
- The effect of financial risk and changes in financial risk.

The Group disaggregates insurance finance income or expenses on insurance contracts issued between the Consolidated Income Statement and Consolidated Statement of Other Comprehensive Income. The impact of changes in market interest rates on the carrying amount of the insurance assets and liabilities are reflected in the Consolidated Statement of Other Comprehensive Income in order to minimise accounting mismatches between the accounting for financial assets and insurance assets and liabilities. The Group's financial assets backing both the Motor and Home insurance portfolios are predominantly measured at fair value through other comprehensive income (FVOCI).

The amount of insurance finance income or expenses recognised in the Consolidated Income Statement is calculated using the discount rate curve determined at the date of the incurred claim.

Dividend income recognition

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

(c) 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.

1. Accounting Policies (continued)

(d) 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.

(e) 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.

(f) 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.

1. Accounting Policies (continued)

(f) Financial instruments (continued)

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.

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 46 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(g).

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.

1. Accounting Policies (continued)

(f) Financial instruments (continued)

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.

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.

(g) 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 Consolidated Income Statement or Consolidated Statement of Other Comprehensive Income, as appropriate, in the same accounting period. Through this matching process, the volatility in the Consolidated Income Statement or Consolidated Statement of Comprehensive Income is either reduced or eliminated. The Group has implemented IFRS 9 'Financial Instruments' (IFRS 9) 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' (IAS 39) for its portfolio hedge accounting of interest rate risk in respect of its Personal Loans and Savings products 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 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.

1. Accounting Policies (continued)

(g) Derivative financial instruments and hedge accounting (continued)

Fair value hedges (continued)

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.

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.

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.

(h) 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.

(i) Insurance contract liabilities and reinsurance contract 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.

Separating components from insurance and reinsurance contracts

The Group assesses its insurance products to determine whether they contain distinct components which must be accounted for separately.

The Group's quota share (QS) reinsurance contract held contains a profit commission arrangement. Under this arrangement, there is a minimum guaranteed amount that the Group will always receive irrespective of the insured event occurring. The economic effect of the minimum guaranteed amounts received is equivalent to paying a lower premium, and therefore those amounts represent a non-investment component and are deducted from the allocation of reinsurance premiums and from the amounts recovered respectively.

Level of aggregation

The level of aggregation for the Group is determined firstly by dividing the business written into portfolios. Portfolios comprise groups of contracts with similar risks which are managed together.

In determining the level of aggregation, the Group identifies a contract as the smallest 'unit', i.e. the lowest common denominator. For aggregation purposes, no group shall contain contracts issued more than one year apart.

1. Accounting Policies (continued)

(i) Insurance contract liabilities and reinsurance contract assets (continued)

Level of aggregation (continued)

The Group's portfolios are further divided by underwriting year and profitability for recognition and measurement purposes. Hence, within each year of issue, portfolios of contracts are divided into three groups as follows:

- A group of contracts that are onerous at initial recognition;
- A group of contracts that, at initial recognition, have no significant possibility of becoming onerous subsequently; and
- A group of the remaining contracts in the portfolio.

The profitability of groups of contracts is assessed by actuarial valuation models. The Group assumes that no contracts in the portfolio are onerous at initial recognition unless facts and circumstances indicate otherwise. For contracts which are not onerous, the Group assesses, at initial recognition, that there is no significant possibility of becoming onerous subsequently by assessing the likelihood of changes in applicable facts and circumstances. The Group considers facts and circumstances to identify whether a group of contracts is onerous based on:

- Pricing information;
- Results of similar contracts it has recognised; and
- Environmental factors, for example, a change in market experience or regulations.

The Group divides portfolios of reinsurance contracts held applying the same principles set out above, except that the references to onerous contracts refer to contracts on which there is a net gain on initial recognition. For some groups of reinsurance contracts held, a group can comprise a single contract.

Recognition

The Group recognises groups of insurance contracts it issues from the earliest of the following:

- The beginning of the coverage period of the group of insurance contracts;
- The date when the first payment from a policyholder in the group of insurance contracts is due or when the first payment is received if there is no due date; and
- For a group of onerous contracts, if facts and circumstances indicate that the group of contracts is onerous.

The Group recognises a group of reinsurance contracts held which it has entered into from the earlier of the following:

- The beginning of the coverage period of the group of reinsurance contracts held. However, the Group delays the recognition of a group of reinsurance contracts held which provide proportionate coverage until the date any underlying insurance contract is initially recognised, if that date is later than the beginning of the coverage period of the group of reinsurance contracts held; and
- The date the Group recognises an onerous group of underlying insurance contracts if the Group entered into the related reinsurance contract held in the group of reinsurance contracts held at or before that date.

The Group adds new contracts to the group of contracts in the reporting period in which that contract meets one of the criteria set out above.

Contract boundary

The Group includes in the measurement of a group of insurance contracts all of the future cash flows within the boundary of each contract in the group. Cash flows are within the boundary of an insurance contract if they arise from substantive rights and obligations that exist during the reporting period in which the Group can compel the policyholder to pay the premiums, or in which the Group has a substantive obligation to provide the policyholder with insurance contract services.

1. Accounting Policies (continued)

(i) Insurance contract liabilities and reinsurance contract assets (continued)

Contract boundary (continued)

A substantive obligation to provide insurance contract services ends when:

- The Group has the practical ability to reassess the risks of the particular policyholder and, as a result, can set a price or level of benefits that fully reflects those risks; or
- Both of the following criteria are satisfied:
  - The Group has the practical ability to reassess the risks of the portfolio of insurance contracts that contain the contract and, as a result, can set a price or level of benefits that fully reflects the risk of that portfolio; and
  - The pricing of the premiums up to the date when the risks are reassessed does not take into account risks that relate to periods after the reassessment date.

A liability or asset relating to expected premiums or claims outside the boundary of the insurance contract is not recognised as such amounts relate to future insurance contracts.

Insurance contracts issued - initial measurement

The Group applies the PAA to all insurance contracts issued since the full acquisition of TU in May 2021.

The PAA is applicable for all insurance contracts issued since the full acquisition of TU as the coverage period of each contract in the group is one year or less.

For a group of contracts that is not onerous at initial recognition, the Group measures the liability for remaining coverage (LRC) as:

- The premiums, if any, received at initial recognition;
- Minus any insurance acquisition cash flows at that date; and
- Plus or minus any amount arising from the derecognition at that date of the asset recognised for insurance acquisition cash flows.

For all insurance contracts accounted for under the PAA, there is no allowance for the time value of money as the premiums are due within one year of the coverage period.

The Group applies the general measurement model (GMM) to all issued insurance contracts acquired on the full acquisition of TU in May 2021. The Group is required to account for the acquired claims liability as at that date as part of the LRC and is not eligible to use the PAA approach to measure this claims liability as the period of remaining coverage (which is the discovery of the ultimate cost of acquired claims) is greater than one year.

The acquired claims liability for the Group is measured at initial recognition as the probability-weighted average of discounted cash flows plus a risk adjustment for non-financial risk, plus any CSM if the fulfilment cash flows result in a net inflow. If the fulfilment cash flows result in a net outflow, an onerous loss is recognised in the Consolidated Income Statement.

The risk adjustment for non-financial risk is applied to the present value of the estimated future cash flows, and reflects the compensation that the Group requires for bearing uncertainty in respect of the amount and timing of the cash flows from non-financial risk as the Group fulfils insurance contracts.

The CSM represents the unearned profit in the contracts relating to services that will be provided under the contracts in the future.

1. Accounting Policies (continued)

(i) Insurance contract liabilities and reinsurance contract assets (continued)

Insurance contracts issued - initial measurement (continued)

At initial recognition, the Group measures the CSM at an amount that, unless a group of insurance contracts is onerous, results in no gains recognised in the Consolidated Income Statement arising from:

- The expected fulfilment cash flows of the group of insurance contracts; and
- Any cash flows that have already arisen on the group of insurance contracts as of that date.

Where facts and circumstances indicate that contracts are onerous at initial recognition, the Group performs additional analysis to determine if a net outflow is expected from the contract. Such onerous contracts are separately grouped from other contracts and the Group recognises a loss in the Consolidated Income Statement for the net outflow, resulting in the carrying amount of the liability for the group of contracts being equal to the fulfilment cash flows, with no CSM recognised on the balance sheet. A loss component (LC) is established by the Group for the LRC for such onerous groups of contracts, depicting the losses recognised.

Reinsurance contracts held – initial measurement

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 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.

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.

The Group applies the PAA to all reinsurance contracts that it holds, except for reinsurance contracts held prior to the full acquisition of TU in May 2021. The PAA is applicable for all reinsurance contracts purchased after the full acquisition of TU as the contracts either qualify automatically for PAA having a coverage period of one year or less or there is no material difference in the measurement of these reinsurance contracts held between the PAA and the GMM.

For reinsurance contracts held in relation to acquired claims, the CSM represents a deferred gain or loss that the Group will recognise as a reinsurance expense as it receives insurance contract services from the reinsurer in the future and is calculated as the sum of:

- the initial recognition of the fulfilment cash flows; and
- cash flows arising from the group of contracts at that date;

Where the Group recognises a loss on initial recognition of an onerous group of underlying insurance contracts or when further onerous underlying insurance contracts are added to a group of insurance contracts, the Group establishes a loss-recovery component of the asset for remaining coverage (ARC) for a group of reinsurance contracts held, depicting the recovery of losses.

The Group calculates the loss-recovery component by multiplying the loss recognised on the underlying insurance contracts and the percentage of claims on the underlying insurance contracts the Group expects to recover from the group of reinsurance contracts held. The Group uses a systematic and rational method to determine the portion of losses recognised on the group of insurance contracts to insurance contracts covered by the group of reinsurance contracts held where some contracts in the underlying group are not covered by the group of reinsurance contracts held.

The loss-recovery component adjusts the carrying amount of the ARC.

For the QS reinsurance ceded, the balance of net amounts payable to or from the reinsurer, net of the associated QS profit commission, is maintained in accordance with contractual terms for each underwriting year. A commutation is performed for the purposes of settling the profit commission and outstanding payable balances four years after the commencement of the QS reinsurance contracts held.

1. Accounting Policies (continued)

(i) Insurance contract liabilities and reinsurance contract assets (continued)

Insurance contracts – subsequent measurement

The Group measures the carrying amount of the LRC measured under the PAA at the end of each reporting period as the LRC at the beginning of the period:

- Plus premiums received in the period;
- Minus insurance acquisition cash flows;
- Plus any amounts relating to the amortisation of the insurance acquisition cash flows recognised as an expense in the reporting period for the group of insurance contracts;
- Minus the amount recognised as insurance revenue for the services provided in the period.

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 and presented as part of the LRC. Such deferred acquisition costs are amortised over the period of insurance contract services on the basis of the passage of time.

The carrying amount of the LRC measured under the GMM at the end of each reporting period is updated to reflect the current estimates of the amounts, timing and uncertainty of future cash flows, as well as discount rates and other financial variables.

The following changes in fulfilment cash flows are considered to be related to future service and adjust the CSM of the group of insurance contracts:

- Changes in the estimate of the present value of expected future cash flows in the LRC related to non-financial variables, measured at the 'locked in' discount rates applicable when the contracts in the group were initially recognised. All financial variables are locked in at initial recognition; and
- Changes in the risk adjustment for non-financial risk relating to future service.

The following adjustments do not relate to future service and thus do not adjust the CSM:

- Changes in fulfilment cash flows for the effect of the time value of money and the effect of financial risk and changes thereof; and
- Experience adjustments relating to insurance service expenses (excluding insurance acquisition cash flows).

At the end of the reporting period, the carrying amount of the CSM for the acquired claims liability is the carrying amount at the beginning of the period adjusted for:

- Interest accreted on the carrying amount of the CSM measured at the discount rates determined at initial recognition;
- The changes in fulfilment cash flows related to future service, except:
  - – Increases in fulfilment cash flows that exceed the carrying amount of the CSM, giving rise to a loss that results in the group of contracts becoming onerous or more onerous; and
  - – Decreases in fulfilment cash flows that reverse a previously recognised loss on a group of onerous contracts: and
- The amount recognised as insurance revenue because of the transfer of insurance contract services in the period, determined by the allocation of the CSM remaining at the end of the reporting period over the current and remaining coverage period.

The CSM is released to the Consolidated Income Statement in each period during which the insurance contract services are provided. The amount of CSM released is determined by the allocation of the CSM remaining at the end of the reporting period over the current and remaining expected coverage period of the group of insurance contracts. The expected coverage period for the Group is the remaining period over which the acquired claims are expected to be settled.

1. Accounting Policies (continued)

(i) Insurance contract liabilities and reinsurance contract assets (continued)

Insurance contracts – subsequent measurement (continued)

Where, during the coverage period, facts and circumstances indicate that a group of insurance contracts is onerous, the Group recognises a loss in the Consolidated Income Statement for the net outflow, resulting in the carrying amount of the liability for the group of insurance contracts being equal to the fulfilment cash flows. A LC is established by the Group for the LRC for such onerous groups, depicting the losses recognised.

The Group estimates the LIC as the current value of fulfilment cash flows related to incurred claims and other incurred insurance expenses, plus an explicit adjustment for non-financial risk (the risk adjustment). The fulfilment cash flows incorporate, in an unbiased way, all reasonable and supportable information available without undue cost or effort about the amount, timing and uncertainty of those future cash flows. They reflect current estimates from the perspective of the Group.

Future cash flows are assessed by reviewing individual claims data and making an allowance for claims incurred but not reported (IBNR), adjusted for the effect on the claims incurred of both internal and external foreseeable events, such as changes in claims handling procedures, inflation, judicial trends, substantively enacted legislative changes and past experience and trends.

The estimates of future cash flows are adjusted using current discount rates to reflect the time value of money and the financial risks related to those cash flows, to the extent not included in the estimates of cash flows. The discount rates reflect the characteristics of the cash flows arising from the groups of insurance contracts, including timing and liquidity of cash flows. Estimates of the present value of future cash flows reflect current expectations as at the end of the reporting period and are adjusted for events which have occurred since actuarial valuation.

Reinsurance contracts held – subsequent measurement

The subsequent measurement of reinsurance contracts held follows the same principles as those for insurance contracts issued and has been adapted to reflect the specific features of reinsurance held.

Where the Group has established a loss-recovery component, the Group subsequently reduces the loss-recovery component to zero in line with reductions in the onerous group of underlying insurance contracts in order to reflect that the loss-recovery component shall not exceed the portion of the carrying amount of the loss-recovery component of the onerous group of underlying insurance contracts that the entity expects to recover from the group of reinsurance contracts held.

Insurance acquisition cash flows

Insurance acquisition cash flows arise from the costs of selling, underwriting and starting a group of insurance contracts (issued or expected to be issued) that are directly attributable to the portfolio of insurance contracts to which the group of insurance contracts belongs.

The Group uses a systematic and rational method to allocate insurance acquisition cash flows that are directly attributable to a group of insurance contracts to that group of insurance contracts.

Insurance and reinsurance contracts – modification and derecognition

The Group derecognises insurance and reinsurance contracts when the rights and obligations relating to the contract are extinguished (i.e. discharged, cancelled or expired).

When a modification is not treated as a derecognition, the Group recognises amounts paid or received for the modification with the contract as an adjustment to the relevant LRC or ARC.

(j) 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

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 unless related to insurance contracts within the scope of IFRS 17 'Insurance Contracts' (IFRS 17), in which case such amounts are included in insurance service expenses in the Consolidated Income Statement.

(k) 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(m) 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. The related amortisation charge is included in insurance service expenses in the Consolidated Income Statement.

1. Accounting Policies (continued)

(k) Intangible assets (continued)

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. Amortisation charges are included in administrative expenses in the Consolidated Income Statement unless related to insurance contracts within the scope of IFRS 17, in which case such amounts are included in insurance service expenses in the Consolidated Income Statement.

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.

(l) 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.

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.

1. Accounting Policies (continued)

(m) 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 FVLCS 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.

(n) 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.

(o) 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.

(p) 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.

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.

(q) Dividends paid

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

1. Accounting Policies (continued)

(r) 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.

(s) 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.

(t) 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.

(u) 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 205 to 211.

(v) Non-current assets (or disposal groups) held for sale and discontinued operations

Under IFRS 5, the Group classifies non-current assets (or disposal groups) as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable, with the asset (or disposal group) available for immediate sale in its present condition, subject only to terms that are usual and customary for sales of such assets (or disposal groups).

Non-current assets (or disposal groups) classified as held for sale are measured under IFRS 5 at the lower of their carrying amount and FVLCS, with the exception of assets which are not within the scope of the measurement requirements of IFRS 5. These balances are initially measured in line with their respective accounting policies, for example financial assets, which continue to be measured in accordance with IFRS 9, and subsequently remeasured as part of the overall disposal group, in accordance with the requirements of IFRS 5.

If the carrying amount of the non-current asset (or disposal group) is greater than the FVLCS, an impairment loss for any initial or subsequent write down of the asset (or disposal group) to FVLCS is recognised. This is first of all allocated to any goodwill attributable to the disposal group, and then to the non-current assets of the disposal group within the measurement scope of IFRS 5 pro rata on the basis of the carrying amount of each asset in the disposal group. Thereafter, any remaining impairment loss is recognised against the remaining assets of the disposal group.

Balances in respect of non-current assets (or disposal groups) held for sale are presented separately in the Consolidated Statement of Financial Position for the current year, with no requirement to restate prior years. Non-current assets within a disposal group are not depreciated or amortised from the point of classification as held for sale.

1. Accounting Policies (continued)

(v) Non-current assets (or disposal groups) held for sale and discontinued operations (continued)

The net results of discontinued operations are presented separately in the Consolidated Income Statement where an entity or component of an entity of the Group has been disposed of or is classified as held for sale and:

(a) Represents a separate major line of business or geographical area of operations; or

(b) Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations.

A component of an entity of the Group comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the Group's operations and cash flows. If an entity or a component of an entity of the Group is classified as a discontinued operation, prior years in the Consolidated Income Statement and Consolidated Statement of Comprehensive Income are restated to present these on a consistent basis with the current year presentation of discontinued operations.

2. Restatement of Prior Years

Transition to IFRS 17

IFRS 17 became effective with relevant UK endorsement by the UK Endorsement Board for accounting periods beginning on or after 1 January 2023. IFRS 17 is a replacement for IFRS 4 'Insurance Contracts'. The Group adopted IFRS 17 on 1 March 2023.

IFRS 17 requires insurance liabilities to be measured at a current fulfilment value and includes an optional simplified PAA 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 services for the Group's Motor and Home insurance products.

Under IFRS 17, insurance contract liabilities include both a LIC and a LRC. The LIC, which represents outstanding claims and IBNR claims and other incurred insurance expenses, is measured as the probability-weighted average of discounted cash flows plus a risk adjustment for the uncertainty of the cash flows.

The LRC is the obligation for insured events related to the unexpired portion of the coverage period. TU applies the PAA to all material insurance and reinsurance contract groups, resulting in the LRC being equal to the previous 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 LRC using the GMM for measurement of insurance contracts rather than the simplified PAA. The acquired claims liability for the Group is measured as the probability-weighted average of discounted cash flows plus a risk adjustment for the uncertainty of the cash flows, plus any CSM or LC.

Contracts have been 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 has taken the option to disaggregate part of the movement in LIC from changes in discount rates and present this in the Statement of Comprehensive Income. LRCs are not discounted, other than those which relate to acquired claims, whereas all LICs are discounted.

Changes to presentation and disclosure

In the Consolidated Statement of Financial Position, the Group now presents separately:

- Portfolios of insurance contracts issued that are liabilities as 'Insurance contract liabilities'. These liabilities are net of insurance acquisition cash flows, insurance premium debtors (which were previously presented in loans and advances to customers) and salvage and subrogation recoveries.
- Portfolios of reinsurance contracts held that are assets as 'Reinsurance contract assets'. These assets include all reinsurance receivables and reinsurers' share of insurance acquisition cash flows and are net of reinsurance funds withheld and reinsurance payables.

These portfolios are those established at initial recognition in accordance with the requirements of IFRS 17.

In the Consolidated Income Statement the following new lines are presented:

- 'Insurance revenue' which replaces 'Insurance premium income';
- 'Insurance service expenses' which replaces 'Insurance claims incurred' and also includes acquisition and directly attributable insurance administration expenses;
- 'Net expenses from reinsurance contracts held' which includes reinsurers share of both premiums and claim recoveries; and
- 'Net insurance finance result' which includes the net impact of the unwind of the discount on insurance liabilities.

2. Restatement of Prior Years (continued)

Transition to IFRS 17 (continued)

Transition

On transition date, being 1 March 2022, the Group:

- Has identified, recognised and measured each group of insurance contracts as if IFRS 17 had always applied;
- Derecognised any existing balances that would not have existed had IFRS 17 always applied; and
- Recognised any resulting net difference in equity.

In accordance with the transitional provisions of IFRS 17, the new standard has been applied fully retrospectively and comparatives for the 2023 financial year have been restated.

Customer redress

During the year, the Group recognised a provision of £27.5m in respect of identified instances where the requirements for the provision of certain administrative post-contractual documentation to customers with CCA-regulated products have not been fully met. It is the Group's intention to redress customers in order to reflect the operation of the CCA in respect of the customers' liability. Given the historic nature of the matter identified, opening retained earnings at 1 March 2022 have been restated in respect of the recognition of this provision. The prior year Consolidated Income Statement has also been restated in relation to the impact of this provision on the Group's results for the year ended 28 February 2023. Further information in respect of this provision is set out at note 36 to the Financial Statements.

Discontinued operations

On 9 February 2024, the Group announced an agreement on the terms of a proposed sale of the Group's Banking business, comprising all Personal Loans, Credit Cards and Savings portfolios, together with certain other associated assets and liabilities, including the Group's securitisation special purpose vehicle (collectively referred to throughout these Financial Statements as the Banking business or disposal group), to Barclays Bank UK plc (Barclays) for £600m. The Group has classified transactions in the Consolidated Income Statement relating to these products and the associated assets and liabilities as discontinued operations. Refer to note 20 for further details.

As required under IFRS 5, the prior year Consolidated Income Statement has been restated in line with the current year presentation of these products and the associated assets and liabilities.

Assets and liabilities of the disposal group are presented separately in the current year Consolidated Statement of Financial Position, with no requirement to restate prior years.

2. Restatement of Prior Years (continued)

Impact of restatements

The impact of these changes on the relevant Financial Statement lines is as follows:

Group At 1 March 2022	As previously reported £m	IFRS 17 reclassifications £m	IFRS 17 remeasurement £m	Customer redress £m	Discontinued operations £m	Restated £m
Statement of Financial Position						
Assets						
Loans and advances to customers	6,490.3	(99.8)	1.7	-	-	6,392.2
Reinsurance contract assets	245.1	(107.0)	32.5	-	-	170.6
Prepayments and accrued income	43.2	(1.9)	-	-	-	41.3
Other assets	219.7	(43.2)	-	-	-	176.5
Current income tax asset	2.5	-	-	2.3	-	4.8
Deferred income tax asset	64.2	-	3.6		-	67.8
		(251.9)	37.8	2.3		
Liabilities						
Provisions for liabilities and charges	37.6	-	-	18.7	-	56.3
Accruals and deferred income	119.6	(23.9)	(1.8)	-	-	93.9
Other liabilities	164.1	(0.4)	-	(0.1)	-	163.6
Insurance funds withheld	114.8	(114.8)	-	-	-	–
Insurance contract liabilities	650.0	(112.8)	50.9	-	-	588.1
		251.9	(49.1)	(18.6)	-	
Net assets impact		-	(11.3)	(16.3)	-	
Equity						
Retained earnings	431.7	-	(12.5)	(16.3)	-	402.9
Other reserves	13.5	-	1.2	-	-	14.7
		-	(11.3)	(16.3)	-	

2. Restatement of Prior Years (continued)

Impact of restatements (continued)

Group At 28 February 2023	As previously reported £m	IFRS 17 reclassifications £m	IFRS 17 remeasurement £m	Customer redress £m	Discontinued operations £m	Restated £m
Statement of Financial Position						
Assets						
Loans and advances to customers	7,081.3	(104.8)	1.2	-	-	6,977.7
Reinsurance contract assets	216.9	(107.4)	25.7	-	-	135.2
Prepayments and accrued income	48.4	(1.9)	-	-	-	46.5
Other assets	181.7	(78.3)	-	-	-	103.4
Current income tax asset	8.6	-	-	3.1	-	11.7
Deferred income tax asset	57.5	-	1.3	-	-	58.8
		(292.3)	28.2	3.1		
Liabilities						
Provisions for liabilities and charges	30.2	-	-	22.9	-	53.1
Accruals and deferred income	112.1	(24.0)	(3.0)	-	-	85.1
Other liabilities	199.9	(4.2)	-	-	-	195.7
Insurance funds withheld	123.5	(123.5)	-	-	-	–
Insurance contract liabilities	604.9	(140.7)	36.4	-	-	500.6
		(292.3)	33.5	(22.9)	-	
Net assets impact		-	(5.3)	(19.8)		
Equity						
Retained earnings	488.7	-	(21.0)	(19.8)	-	447.9
Other reserves	(23.4)	-	15.8	-	-	(7.6)
		-	(5.3)	(19.8)	-	

2. Restatement of Prior Years (continued)

Impact of restatements (continued)

Group At 28 February 2023	As previously reported	IFRS 17 reclassifications	IFRS 17 remeasurement	Customer redress	Discontinued operations	Restated
	£m	£m	£m	£m	£m	£m
Income Statement						
Interest and similar income	539.7	(20.5)	-	(1.8)	(481.1)	36.3
Interest expense and similar charges	(108.5)	-	-	(1.6)	70.1	(40.0)
Fee and commissions income	276.0	-	-	(0.2)	(106.1)	169.7
Fee and commissions expense	(29.5)	-	-	-	29.3	(0.2)
Insurance premium income	308.6	(308.6)	-	-	-	-
Insurance premium income ceded to reinsurers	(139.3)	139.3	-	-	-	-
Insurance revenue	-	329.1	128.4		-	457.5
Insurance service expenses	-	(258.4)	(149.3)	-	-	(407.7)
Net expenses from reinsurance contracts held	-	(49.3)	12.0	-	-	(37.3)
Net gain on other financial instruments at FVPL	2.3	-	-	-	(2.1)	0.2
Insurance finance expenses from insurance contracts issued	-	-	(4.7)	-	-	(4.7)
Insurance finance income from reinsurance contracts held	-	-	1.6	-	-	1.6
Insurance claims incurred	(174.6)	174.6	-	-	-	-
Insurance claims ceded to reinsurers	90.0	(90.0)	-	-	-	-
Total income		**(83.7)**	**(12.0)**	**(3.6)**	**(489.9)**	
Administrative expenses	(504.9)	78.4	-	(0.6)	291.7	(135.4)
Depreciation and amortisation	(53.7)	5.3	-	-	35.0	(13.4)
Expected credit loss charge on financial assets	(61.4)	-	0.9	-	60.0	(0.5)
Total expenses		**83.7**	**0.9**	**(0.6)**	**386.7**	
Income tax charge	(28.3)	-	2.5	0.8	18.8	(6.2)
Profit after tax impact		**-**	**(8.6)**	**(3.4)**	**(84.4)**	

2. Restatement of Prior Years (continued)

Impact of restatements (continued)

Group At 28 February 2023	As previously reported £m	IFRS 17 reclassifications £m	IFRS 17 remeasurement £m	Customer redress £m	Discontinued operations £m	Restated £m
Statement of Comprehensive Income						
Insurance finance income from insurance contracts issued	–	-	39.9	-	-	39.9
Insurance finance expenses from reinsurance contracts held	–	-	(20.5)	-	-	(20.5)
Taxation	–	-	(4.8)	-	-	(4.8)
Net impact		**-**	**14.6**	**-**	**-**	
Cash Flow Statement						
Profit before tax	139.6	-	(11.0)	(4.2)	-	124.4
Non-cash items included in operating profit before taxation and other adjustments	139.5	-	(6.1)	4.2	-	137.6
Changes in operating assets and liabilities	(275.2)	-	17.1	-	-	(258.1)
Net impact		**-**	**-**	**-**	**-**	

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 International Accounting Standards Board's Framework for the Preparation and Presentation of Financial Statements.

In the course of preparing the Financial Statements, judgement has been applied in Management's assessment of whether the IFRS 5 criteria are met in respect of the proposed sale of the Group's Banking business. No other judgements have been made in the process of applying the Group's accounting policies that have had a significant effect on the amounts recognised in the Financial Statements, other than those using estimations. 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.

Critical judgement

Non-current assets (or disposal groups) held for sale

Management judgement is required in determining whether the IFRS 5 held for sale criteria are met, including whether a sale is highly probable and expected to complete within one year of classification. In assessing whether the held for sale criteria were met at 29 February 2024 in respect of the proposed sale of the Group's Banking business, Management have considered the likelihood of successfully securing the required regulatory approvals. Management have also made an assessment of the enforceability of the sale agreement and the ability of the counterparty to undertake necessary pre-completion preparatory work, comply with conditions precedent, and otherwise be able to comply with contractual undertakings to achieve completion within the expected timescale. Management will continue to assess these judgements to ensure that the held for sale classification in respect of the Group's Banking business remains appropriate in future accounting periods. Further information in respect of the proposed sale of the Group's Banking business is set out at note 20.

Key sources of estimation uncertainty

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 46.

Insurance contract liabilities

The Group establishes reserves for fulfilment cash flows in respect of the anticipated losses 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. Additionally and separately, reinsurance recovery reserves are established in relation to these unsettled claims. 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 IBNR losses as of the Statement of Financial Position date.

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

Case reserves for reported losses are 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 initially 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 initially assessed on an undiscounted basis. They are estimated based on historical data using various actuarial techniques and statistical modelling methodologies and calculated separately for each line of business underwritten and take into account trends in settlement costs in arriving at the final estimates. Gross to net ratios are applied to the gross provisions, allowing for the reinsurance contracts in place at the appropriate period and historical development of the reinsurance recoveries.

Technical provisions on a discounted basis are set up in respect of claims of all duration. The expected cash flows arising from known and potential claims are calculated at a gross level and a related calculation is carried out to consider expected reinsurance cash flows. The future related cash flows are discounted using a yield curve as described below. This yield curve is used to derive discounted claims provisions and discounted reinsurance provisions.

Discount rates

Insurance contract liabilities are calculated by discounting expected future cash flows using a yield curve based on a replicating portfolio and utilising a top-down approach. The replicating portfolio is adjusted for credit risk and allows for the duration of the Group's liabilities. The GBP curve used is aligned with the currency of the Group's liabilities.

The spot discount rates applied for discounting of future cash flows for both Motor and Home are listed below:

	1 year	3 years	5 years	10 years	Mean 11-100 years
	%	%	%	%	%
February 2024	4.94	4.75	4.59	4.42	4.29
February 2023	4.44	4.65	4.47	4.18	4.15

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 (BI) claims, material scenarios lie in a range between £15m above and £15m below the chosen actuarial best estimate (ABE). Those associated with larger BI 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 -0.25%. The impact of a +/-2% recovery rate on accidental damage can be in a range of +/- £10m. Volatility in the average claim size for BI capped claims could result in a difference of +/- £10m. Uncertainty in the outstanding claims provisions arises from the settlement of BI claims given the time to settlement and reliance on case estimation which may be based on relatively limited information. At this time there is heightened risk from claims inflation and supply chain issues which may have been impacted by the economic environment. These uncertainties create pressure in relation to late reported claims and also increases in average claims size. Scenarios relating to the impact of inflation and claims lifecycle were considered as part of the reserving process.

Risk adjustment for non-financial risk

The risk adjustment for non-financial risk is the compensation that the Group requires for bearing the uncertainty about the amount and timing of the cash flows of groups of insurance contracts. The risk adjustment reflects an amount that an insurer would rationally pay to remove the uncertainty that future cash flows will exceed the expected value amount.

The Solvency II (SII) risk margin considers premium risk, counterparty default risk, operational risk and reserve risk, however under IFRS 17 only reserve risk is required to be considered within the risk adjustment for non-financial risk for the LIC under the PAA.

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

Diversification benefits are reflected by using the reserve risk distribution from the SII model as this allows for the distribution of all best-estimate cash flows. The reserve risk distribution from the SII capital model is provided both gross and net of reinsurance and these are applied respectively under IFRS 17 to gross and net of reinsurance best-estimate cash flows.

The Group has estimated the risk adjustment using a confidence level (probability of sufficiency) approach at the 77.5th percentile. That is, the Group has assessed its indifference to uncertainty for all product lines (as an indication of the compensation that it requires for bearing non-financial risk) as being equivalent to the 77.5th percentile confidence level less the mean of an estimated probability-weighted distribution of the future cash flows (the ABE). The Group has estimated the probability-weighted distribution of the future cash flows, and the additional amount above the expected present value of future cash flows required to meet the target percentiles and applied this as a percentage to the ABE. This uplift will be assessed annually. 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. The Banking and Insurance segments include directly attributable operational costs and an allocation of certain central expenses. Overhead costs not allocated to the Banking and Insurance segments are presented in Central Costs.

These operating segments have not changed following the announcement of the proposed sale of the Group's Banking business. The Group remains responsible for the performance of the business as a whole until the sale completes, and discontinued operations are presented separately as a reconciling item to the results of continuing operations.

Results for the Insurance segment and Central Costs have been restated for the effect of the initial application of IFRS 17. During the year ended 29 February 2024, the methodology for allocating overhead costs to the Banking and Insurance segments was updated. Comparative information has not been updated for the overhead cost allocation change as revised allocations have not been prepared for internal reporting purposes and the overall effect is estimated to not be material.

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

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

2024 **Group**	**Banking** **£m**	**Insurance** **£m**	**Central Costs** **£m**	***Less:*** **Discontinued operations** **£m**	**Continuing operations** **£m**
Interest and similar income	694.8	19.0	-	(626.8)	87.0
Interest expense and similar charges	(286.3)	(3.2)	-	214.7	(74.8)
Net interest income	**408.5**	**15.8**	**-**	**(412.1)**	**12.2**
Fees and commissions income	246.9	65.5	-	(108.6)	203.8
Fees and commissions expense	(29.8)	(1.5)	-	29.6	(1.7)
Net fees and commissions income	**217.1**	**64.0**	**-**	**(79.0)**	**202.1**
Insurance service result	-	11.2	-	-	11.2
Net other income	1.3	(1.9)	-	3.9	3.3
Net insurance finance result	-	(5.6)	-	-	(5.6)
Total income	**626.9**	**83.5**	**-**	**(487.2)**	**223.2**
Administrative expenses	(207.5)	(17.3)	(232.4)	304.0	(153.2)
Depreciation and amortisation	(4.6)	-	(36.4)	29.0	(12.0)
Operating expenses	**(212.1)**	**(17.3)**	**(268.8)**	**333.0**	**(165.2)**
Expected credit loss charge on financial assets	(64.6)	0.3	-	64.7	0.4
(Loss)/profit before tax from discontinued operations	-	-	(520.6)	521.0	-
Profit before tax	**350.2**	**66.5**	**(789.4)**	**431.1**	**58.4**
Capital expenditure	**(7.6)**	**(6.5)**	**(15.6)**	**-**	**(29.7)**

4. Segmental Reporting (continued)

2023 RESTATED[1,2,3] **Group**	**Banking** **£m**	**Insurance** **£m**	**Central Costs** **£m**	***Less:*** **Discontinued operations** **£m**	**Continuing operations** **£m**
Interest and similar income	507.8	9.6	-	(481.1)	36.3
Interest expense and similar charges	(109.6)	(0.5)	-	70.1	(40.0)
Net interest income	**398.2**	**9.1**	**-**	**(411.0)**	**(3.7)**
Fees and commissions income	236.2	39.6	-	(106.0)	169.7
Fees and commissions expense	(29.5)	-	-	29.3	(0.2)
Net fees and commissions income	**206.6**	**39.6**	**-**	**(76.7)**	**169.5**
Insurance service result	-	12.5	-	-	12.5
Net other income	0.6	(3.2)	-	(2.1)	(4.7)
Net insurance finance result	-	(3.1)	-	-	(3.1)
Total income	**605.4**	**54.9**	**-**	**(489.8)**	**170.5**
Administrative expenses	(137.5)	(14.3)	(275.2)	291.6	(135.4)
Depreciation and amortisation	(4.8)	-	(43.6)	35.0	(13.4)
Operating expenses	**(142.3)**	**(14.3)**	**(318.8)**	**326.6**	**148.8**
Expected credit loss charge on financial assets	(60.0)	(0.5)	-	60.0	(0.5)
(Loss)/profit before tax from discontinued operations	-	-	-	-	-
Profit before tax	**403.1**	**40.1**	**(318.8)**	**(103.2)**	**21.2**
Capital expenditure	**(12.6)**	**(4.7)**	**(34.2)**	**-**	**(51.5)**

[1] The prior year has been restated following the retrospective adoption of IFRS 17 in the current year. Refer to note 2 for further details.

[2] The prior year has been restated following the classification of the Group's Banking business as a discontinued operation. Refer to notes 2 and 20 for further details.

[3] The prior year has been restated following the recognition by the Group of a provision in respect of identified instances where the requirements for the provision of certain administrative post-contractual documentation to customers with CCA-regulated products have not been fully met. Refer to notes 2 and 36 for further details.

5. Underlying Profit

The Group's financial performance is presented in the Consolidated Income Statement on page 42. 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 29 February 2024				
Net interest income	12.2	–	–	12.2
Net other income	211.0	0.3	–	211.3
Total income	**223.2**	**0.3**	**–**	**223.5**
Total operating expenses	(165.2)	–	3.3	(161.9)
Expected credit loss credit on financial assets	0.4	–	–	0.4
Profit before tax	**58.4**	**0.3**	**3.3**	**62.0**

	Statutory basis £m Restated[3,4,5]	Financial instruments[1,4] £m	Restructuring activity[2,4] £m	Underlying basis £m Restated[3,4,5]
Year ended 28 February 2023				
Net interest income	(3.7)	–	–	(3.7)
Net other income	174.2	(0.2)	–	174.0
Total income	**170.5**	**(0.2)**	**–**	**170.3**
Total operating expenses	(148.8)	–	5.3	(143.5)
Expected credit loss charge on financial assets	(0.5)	–	–	(0.5)
Profit before tax	**21.2**	**(0.2)**	**5.3**	**26.3**

[1] Comprising losses on financial instruments at FVPL of £(0.3)m (2023: gains of £0.2m) presented within total income on page 42. 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, in the current year, a restructuring charge of £3.3m related to the proposed sale of the Group's Banking business and, in the prior year, a charge of £5.3m related to the Group's Agile transformation programme, presented within administrative expenses on page 42. These charges in respect of business restructuring are not considered part of the Group's underlying trading performance.

[3] The prior year has been restated following the retrospective adoption of IFRS 17 in the current year. Refer to note 2 for further details.

[4] The prior year has been restated following the classification of the Group's Banking business as a discontinued operation. Refer to notes 2 and 20 for further details.

[5] The prior year has been restated following the recognition by the Group of a provision in respect of identified instances where the requirements for the provision of certain administrative post-contractual documentation to customers with CCA-regulated products have not been fully met. Refer to notes 2 and 36 for further details.

6. Net Interest Income

Continuing operations	2024 £m	2023 £m Restated[1,2,3]
Interest and similar income		
On financial assets measured at amortised cost		
Loans and advances to banks	1.0	0.4
Cash and balances with central banks	29.1	9.6
Investment securities	33.5	20.0
Other assets	1.5	0.5
	65.1	**30.5**
On financial assets measured at fair value		
Investment securities - FVOCI	16.5	8.6
Derivative financial instruments - FVPL - net interest income / (expense)	5.4	(2.8)
	21.9	**5.8**
Total interest and similar income	**87.0**	**36.3**
Interest expense and similar charges		
On financial liabilities measured at amortised cost		
Deposits from banks	(50.0)	(21.7)
Debt securities in issue	(7.9)	(8.0)
Lease liabilities	(0.2)	(0.3)
Subordinated liabilities and notes	(12.2)	(8.3)
Other liabilities	(4.5)	(1.7)
Total interest expense and similar charges	**(74.8)**	**(40.0)**
Net interest income	**12.2**	**(3.7)**

[1] The prior year has been restated following the retrospective adoption of IFRS 17 in the current year. Refer to note 2 for further details.

[2] The prior year has been restated following the classification of the Group's Banking business as a discontinued operation. Refer to notes 2 and 20 for further details.

[3] The prior year has been restated following the recognition by the Group of a provision in respect of identified instances where the requirements for the provision of certain administrative post-contractual documentation to customers with CCA-regulated products have not been fully met. Refer to notes 2 and 36 for further details.

Linked to the proposed sale of its Banking business, the Group expects to sell its portfolio of investment securities currently held at amortised cost, close out the related derivatives and use the proceeds, along with the required level of additional cash, to settle its liabilities relating to deposits from banks and remaining subordinated liabilities and notes. The Group expects to redeem its debt securities in issue of £144.7m (refer to note 35) related to the minimum requirements for own funds and eligible liabilities (MREL) issuance on the call date in July 2024. The Company has given the required notice in respect of this call to the holders of its MREL compliant debt.

7. Net Fees and Commissions Income

Continuing operations	2024 £m	2023 £m Restated[1,2]
Fees and commissions income		
Banking revenue from contracts with customers	80.3	82.7
Insurance revenue from contracts with customers	65.3	39.6
Other revenue from contracts with customers	58.2	47.4
Total fees and commissions income	**203.8**	**169.7**
Fees and commissions expense		
Banking expense	(1.7)	(0.2)
Total fees and commissions expense	**(1.7)**	**(0.2)**
Net fees and commissions income	**202.1**	**169.5**

[1] The prior year has been restated following the classification of the Group's Banking business as a discontinued operation. Refer to notes 2 and 20 for further details.

[2] The prior year has been restated following the recognition by the Group of a provision in respect of identified instances where the requirements for the provision of certain administrative post-contractual documentation to customers with CCA-regulated products have not been fully met. Refer to notes 2 and 36 for further details.

8. Insurance Revenue

Continuing operations	2024 £m	2023 £m Restated[1]
Contracts not measured under the PAA		
Amounts relating to changes in the LRC		
Expected incurred claims and other insurance service expenses	44.1	92.8
Change in risk adjustment for non-financial risk for risk expired	1.9	4.6
CSM recognised for services provided	18.8	31.7
Total contracts not measured under the PAA	**64.8**	**129.1**
Contracts measured under the PAA	449.0	328.4
Total insurance revenue	**513.8**	**457.5**

[1] The prior year has been restated following the retrospective adoption of IFRS 17 in the current year. Refer to note 2 for further details.

9. Insurance Service Expenses

Continuing operations	2024 £m	2023 £m Restated[1]
Incurred claims and other directly attributable expenses	506.1	490.8
Insurance acquisition cash flows	(4.2)	(0.2)
Losses on onerous acquired claims and reversals of those losses	1.2	2.3
Changes to fulfilment cash flows relating to incurred claims	(48.7)	(85.2)
Total insurance service expenses	**454.4**	**407.7**

[1] The prior year has been restated following the retrospective adoption of IFRS 17 in the current year. Refer to note 2 for further details.

10. Net Expenses from Reinsurance Contracts Held

Continuing operations	2024 £m	2023 £m Restated[1]
Allocation of reinsurance premiums paid		
Contracts not measured under the PAA		
Amounts relating to changes in the asset for remaining coverage		
Expected amount recoverable for claims and other insurance service expenses incurred in the period	9.4	17.3
Change in risk adjustment for non-financial risk for risk expired	0.4	0.8
CSM recognised for services provided	1.2	18.5
Contracts not measured under the PAA	**11.0**	**36.6**
Contracts measured under the PAA	182.6	139.0
Total allocation of reinsurance premiums paid	**193.6**	**175.6**
Amounts recoverable from reinsurance contracts		
Contracts not measured under the PAA		
Amounts recoverable for incurred claims and other incurred insurance service expenses	(1.9)	(25.1)
Recoveries of losses on onerous acquired claims and reversal of those losses	(0.3)	(0.5)
Contracts not measured under the PAA	**(2.2)**	**(25.6)**
Contracts measured under the PAA	(143.2)	(112.7)
Total amounts recoverable from reinsurance contracts	**(145.4)**	**(138.3)**
Net expenses from reinsurance contracts held	**48.2**	**37.3**

[1] The prior year has been restated following the retrospective adoption of IFRS 17 in the current year. Refer to note 2 for further details.

11. Net Loss on Investment Securities at FVPL

Continuing operations	2024 £m	2023 £m
Fair value loss arising on TU's holding in a property fund	(2.5)	(3.9)
Fair value gain arising on holding in VISA Inc. shares	0.2	1.0
Net loss on investment securities at FVPL	**(2.3)**	**(2.9)**

12. Net Gain on Investment Securities at FVOCI

Continuing operations	2024 £m	2023 £m
Net gain on disposal of investment securities at FVOCI	–	0.1
Net gain on investment securities at FVOCI	**–**	**0.1**

13. Net (Loss)/Gain on Other Financial Instruments at FVPL

	2024	2023
Continuing operations	**£m**	**£m[1]**
Foreign exchange (loss)/gain on financial assets	(0.1)	0.3
Fair value hedge ineffectiveness (refer note 25)	–	(0.1)
Cash flow hedge ineffectiveness and discontinued cash flow hedges (refer note 25)	(0.2)	–
Net (loss) / gain on financial instruments at FVPL	**(0.3)**	**0.2**

[1] The prior year has been restated following the classification of the Group's Banking business as a discontinued operation. Refer to notes 2 and 20 for further details.

14. Other Income/(Expenses)

	2024	2023
Continuing operations	**£m**	**£m**
Dividend income from investment securities at FVPL	0.8	0.6
Net loss on redemption of debt securities in issue	–	(2.7)
Gain on termination of derivative financial instrument	5.1	-
Other income/(expenses)	**5.9**	**(2.1)**

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.

Also included within other income is a gain of £5.1m on the termination of a swap related to an economic hedge of the Group's additional tier 1 (AT1) issuance which is no longer required following announcement of the proposed sale of the Group's Banking business. There was no such transaction in the prior year.

The net loss on redemption of debt securities in issue in the prior relates to the partial redemption of the Company's MREL compliant debt. There was no such redemption in the current year.

15. Administrative Expenses

	2024	2023
		£m
Continuing operations	**£m**	Restated[1,2,3]
Staff costs		
Wages and salaries	30.6	24.9
Social security costs	2.9	3.5
Other pension costs	1.9	2.1
Share based payments	2.6	1.1
Other costs including temporary staff	15.2	17.1
Total staff costs	**53.2**	**48.7**
Non-staff costs		
Premises and equipment	46.2	42.6
Marketing	8.2	8.3
Outsourcing, professional fees and other expenses	45.6	35.8
Total non-staff costs	**100.0**	**86.7**
Total administrative expenses	**153.2**	**135.4**

[1] The prior year has been restated following the retrospective adoption of IFRS 17 in the current year. Refer to note 2 for further details.

[2] The prior year has been restated following the classification of the Group's Banking business as a discontinued operation. Refer to notes 2 and 20 for further details.

[3] The prior year has been restated following the recognition by the Group of a provision in respect of identified instances where the requirements for the provision of certain administrative post-contractual documentation to customers with CCA-regulated products have not been fully met. Refer to notes 2 and 36 for further details.

15. Administrative Expenses (continued)

Total auditor's remuneration in relation to continuing and discontinued operations

	2024 £'000	2023 £'000
Audit services		
Audit of the Company and Consolidated Financial Statements	65	65
Audit of the Company's subsidiaries	1,886	1,485
Total audit services	**1,951**	**1,550**
Non-audit services		
Audit related assurance services	188	540
Other non-audit services not covered above	65	12
Total non-audit services	**253**	**552**
Total auditor's remuneration	**2,204**	**2,102**

The average total monthly number of persons (including Executive Directors) employed by the Group split by employee function during the year and relating to the Group's entire business, was:

	2024 Number	2023 Number
Head office and administration	1,519	1,648
Operations	1,663	1,604
TU	411	347
Total average employees	**3,593**	**3,599**

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

Continuing operations	2024 £m	2023 £m Restated[1,2]
Expected credit loss credit on investment securities at amortised cost	(0.1)	–
Expected credit loss (credit)/charge on investment securities at FVOCI	(0.3)	0.5
Total expected credit loss (credit)/charge on financial assets	**(0.4)**	**0.5**

[1] The prior year has been restated following the retrospective adoption of IFRS 17 in the current year. Refer to note 2 for further details.
[2] The prior year has been restated following the classification of the Group's Banking business as a discontinued operation. Refer to notes 2 and 20 for further details.

Refer to note 46 for further detail on factors impacting expected credit loss charges.

17. Directors' Emoluments

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

	2024 £m	2023 £m
Aggregate emoluments	5.3	3.3
Aggregate amounts receivable under long-term incentive schemes[1]	1.9	1.9
Share based payments	0.8	0.6
Total Directors' emoluments	**8.0**	5.8

	2024 Number	2023 Number
Number of Directors to whom retirement benefits are accruing under 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 £3.6m (2023: £2.6m), including aggregate amounts due under long-term incentive schemes[1]. During the year the highest paid Director did not exercise any share options (2023: nil).

At 29 February 2024 the accrued pension and lump sum under a defined benefit scheme for the highest paid Director was £nil (2023: £nil).

During the year to 29 February 2024 one Director (2023: one Director) 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.

18. Income Tax

Income tax charge

	2024	2023
	£m	£m
Continuing operations		Restated[1, 2,3]
Current tax charge/(credit) for the year	2.7	(13.8)
Adjustments in respect of prior years	(3.8)	(3.5)
Total current tax charge for the year	**(1.1)**	**(17.3)**
Deferred tax charge for the year	13.0	21.8
Tax rate change	–	0.2
Adjustments in respect of prior years	3.6	1.5
Total deferred tax charge for the year	**16.6**	**23.5**
Total income tax charge	**15.5**	**6.2**

[1] The prior year has been restated following the retrospective adoption of IFRS 17 in the current year. Refer to note 2 for further details.

[2] The prior year has been restated following the classification of the Group's Banking business as a discontinued operation. Refer to notes 2 and 20 for further details.

[3] The prior year has been restated following the recognition by the Group of a provision in respect of identified instances where the requirements for the provision of certain administrative post-contractual documentation to customers with CCA-regulated products have not been fully met. Refer to notes 2 and 36 for further details.

The Group's blended corporation tax rate is 24.5% (2023: 19.0%). In addition, a blended banking surcharge of 3.4% (2023: 8.0%) is applied to the Group's banking profits above £93.8m (2023: £25.0m).

In the March 2021 Budget Statement, the Chancellor announced that the standard rate of corporation tax in the UK would increase from 19.0% to 25.0% 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 8.0% to 3.0% 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 is 28.0% (previously 27.0% on banking profits over £25.0m).

In the current year, the tax charge assessed was higher (2023: higher) than that calculated using the overall blended corporation tax rate for the Group.

18. Income Tax (continued)

The differences are explained below:

	2024 £m	2023 £m Restated[1,2,3]
Profit before taxation	58.4	21.2
Profit on ordinary activities multiplied by blended rate in the UK of 24.5% (2023: 19.0%)	14.3	4.0
Factors affecting charge for the year:		
Difference between local and group tax rate	0.3	6.1
Expenses not deductible for tax purposes	1.0	0.5
Adjustment in respect of prior years - current tax	(3.8)	(3.5)
Adjustment in respect of prior years - deferred tax	3.6	1.5
Share based payments	0.3	(0.5)
Other tax adjustments	(0.2)	(2.1)
Tax rate change	–	0.2
Total income tax charge	**15.5**	**6.2**

[1] The prior year has been restated following the retrospective adoption of IFRS 17 in the current year. Refer to note 2 for further details.

[2] The prior year has been restated following the classification of the Group's Banking business as a discontinued operation. Refer to notes 2 and 20 for further details.

[3] The prior year has been restated following the recognition by the Group of a provision in respect of identified instances where the requirements for the provision of certain administrative post-contractual documentation to customers with CCA-regulated products have not been fully met. Refer to notes 2 and 36 for further details.

Income tax relating to components of other comprehensive income

Continuing operations	**Before tax amount £m**	**Tax credit £m**	**Net of tax amount £m**
2024			
Items that may be reclassified to the income statement			
Net gains on debt securities at FVOCI	16.2	(3.8)	12.4
Net losses on cash flow hedges	(0.1)	–	(0.1)
Net losses on insurance finance reserve	(3.7)	0.9	(2.8)
Total income tax relating to components of other comprehensive income	**12.4**	**(2.9)**	**9.5**

Continuing operations	Before tax amount £m Restated[1]	Tax credit/(charge) £m Restated[1]	Net of tax amount £m Restated[1]
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)
Net gains on insurance finance reserve	19.4	(4.8)	14.6
Total income tax relating to components of other comprehensive income	(22.8)	6.2	(16.6)

[1] The prior year has been restated following the retrospective adoption of IFRS 17 in the current year. Refer to note 2 for further details.

18. Income Tax (continued)

Deferred tax charged directly to the Statement of Changes in Equity

Continuing operations	**Before tax amount £m**	**Tax credit £m**	**Net of tax amount £m**
2024			
Net gains on share based payments reserve	2.7	0.5	3.2
	2.7	**0.5**	**3.2**

Continuing operations	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)

19. Distributions to Equity Holders

Continuing operations	**2024 £m**	2023 £m
Special interim dividend paid	250.0	–
Ordinary dividend paid	–	54.4
	250.0	54.4

On 14 July 2023, a special interim dividend of £250.0m (£0.2049 per ordinary share) was paid. There was no such special dividend in the prior year.

In the prior year, an interim dividend of £54.4m (£0.0446 per ordinary share) was paid on 23 February 2023. There was no such interim dividend in the current year.

20. Assets and Liabilities of the Disposal Group and Discontinued Operations

Assets and liabilities of the disposal group

The following table presents a breakdown of the assets and liabilities of the disposal group:

	Group 2024 £m
Assets of the disposal group	
Cash and balances with central banks	345.9
Loans and advances to customers	7,668.7
Derivative financial instruments (refer note 25)	54.1
Prepayments and accrued income	25.9
Other assets	21.8
Excess loss on remeasurement of the disposal group[1]	(417.8)
Assets of the disposal group	**7,698.6**
Liabilities of the disposal group	
Deposits from customers	6,439.8
Debt securities in issue	549.0
Derivative financial instruments (refer note 25)	16.2
Provisions for liabilities and charges	19.1
Accruals and deferred income	57.7
Other liabilities	45.4
Liabilities of the disposal group	**7,127.2**

[1] Upon classification as held for sale, the Group recognised a loss of £520.6m before tax on remeasuring the disposal group to FVLCS. £95.9m of the loss was allocated to assets of the disposal group within the measurement scope of IFRS 5, comprising intangibles of £82.0m (refer note 31) and property, plant and equipment of £13.9m (refer note 32), which were fully written off. The excess loss remaining, which has been reduced by costs already incurred during the year of £6.9m, was then recognised as a reduction in the total assets of the disposal group, which primarily comprise loans and advances to customers measured under IFRS 9.

Sale of the Group's Banking business

Sale information

On 9 February 2024, the Group announced an agreement on the terms of a proposed sale of the Group's Banking business, comprising all Personal Loans, Credit Cards and Savings portfolios, together with certain other associated assets and liabilities, including the Group's securitisation special purpose vehicle (collectively referred to throughout these Financial Statements as the Banking business or disposal group), to Barclays for £600m. All other existing activities of the Group, including Insurance, ATMs, Travel Money and Gift Cards will remain within the Group.

The sale, which is currently expected to complete within 12 months of the reporting date, is subject to Court approval of a Part VII transfer under the Financial Services and Markets Act 2000, regulatory approval by the PRA and FCA and non-objection by the Competition and Markets Authority.

Classification, measurement and presentation

In accordance with the requirements of IFRS 5, the Group has classified its Banking business as a discontinued operation with effect from 7 February 2024, being the date on which the transaction was approved in principle.

20. Assets and Liabilities of the Disposal Group and Discontinued Operations (continued)

Amounts recognised in the Consolidated Income Statement in respect of the Group’s Banking business are presented as a single line item after profit after tax from continuing operations. The prior year has been restated to present this on a consistent basis with the current year.

Assets and liabilities of the disposal group representing the Banking business are presented separately in the current year Consolidated Statement of Financial Position, with no requirement to restate prior years. There has been no change in the Group's business model under IFRS 9 in respect of its Banking business, which is being sold on an open book basis.

Under IFRS 5, the assets and liabilities of the disposal group have been measured at FVLCS of £571.4m at 29 February 2024, resulting in the recognition of a fair value measurement loss after tax of £405.6m, which is included in the loss after tax from discontinued operations in the Consolidated Income Statement. The Group also expects to incur additional costs of £35m relating to separation and restructuring post-disposal. As these relate to future costs of operating the remaining business post-sale, no provision has been recognised for these costs at 29 February 2024. Further information in respect of the Group's discontinued operations is set out on in notes 1, 2 and 5.

Loans and advances to customers

Contractual lending commitments and ECL provision

At 29 February 2024, the Group had contractual lending commitments of £12,849.5m in respect of loans and advances to customers, which represent undrawn Credit Card limits. An additional ECL provision of £16.4m was also recognised at 29 February 2024. This represents the excess of total ECLs for both drawn and undrawn balances over the gross carrying balances.

Fair value hedge adjustments

Net loans and advances to customers include a reduction of £33.4m for fair value hedge adjustments on fixed rate Personal Loans. These adjustments are largely offset by derivatives included within the disposal group, which are used to manage interest rate risk and are designated as fair value hedges of loans and advances to customers.

Deposits from customers

Fair value hedge adjustments

Deposits from customers include a reduction of £0.5m for fair value hedge adjustments on fixed rate Savings products. These adjustments are largely offset by derivatives included within the disposal group, which are used to manage interest rate risk and are designated as fair value hedges of deposits from customers.

Debt securities in issue

Interest payable on these loans is based on sterling overnight index average (SONIA) plus a margin of 80 to 92 basis points (2023: no notes in issue).

Provisions for liabilities and charges

This balance comprises:

- £16.4m relating to the amount of ECL allowance recognised under IFRS 9 which exceeds the gross carrying amount of the financial asset as set out under "contractual lending commitments" above;
- a dilapidations provision of £2.4m related to the anticipated costs of restoring leased assets to their original condition;
- a warranty provision of £0.3m 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.

20. Assets and Liabilities of the Disposal Group and Discontinued Operations (continued)

Risk management

The Group has continued to measure financial assets within the disposal group under IFRS 9 as they are outside the scope of the measurement requirements of IFRS 5. Loans and advances to customers and customer deposits are measured at amortised cost. Derivative financial assets and liabilities are measured at fair value as level 2 instruments. The entire disposal group is carried at level 3 FVLCS. Further information in respect of the Group's approach to the management of risk relating to the assets and liabilities of the disposal group is set out at note 46.

Discontinued operations - income statement

The tables below show the results of discontinued operations of the Group's Banking business which are included in the Consolidated Financial Statements for the year.

	2024 £m	2023 £m Restated[1]
Net interest income	412.1	411.0
Net fees and commissions income	79.0	76.7
Other income	(3.9)	2.1
Total income	487.2	489.8
Total operating expenses	(333.0)	(326.6)
Expected credit loss on financial assets[2]	(64.7)	(60.0)
Profit before tax	89.5	103.2
Income tax charge	(25.0)	(18.8)
Profit after tax from discontinued operations before loss on sale	64.5	**84.4**
Expected loss on sale	(520.6)	–
Tax credit on expected loss on sale	115.0	–
Expected loss on sale after tax	(405.6)	–
Loss after tax from discontinued operations	**(341.1)**	**84.4**

[1] The prior year has been restated following the classification of the Group's Banking business as a discontinued operation. Refer to note 2 for further details.

[1] Included within the expected credit loss on loans and advances to customers is a credit of £2.9m received through the sale of non-performing debt to third parties.

Customer redress provision

The results of discontinued operations for each year also include the impact of the customer redress provision recognised by the Group during the year in respect of identified instances where the requirements for the provision of certain administrative post-contractual documentation to customers with CCA-regulated products have not been fully met. Although, in accordance with the terms of the sale agreement with Barclays, the provision is not included within the liabilities of the disposal group, the income statement impact of this provision has been reflected through the current and prior year results of discontinued operations as this is where the original income has been recognised. Costs of the redress programme have also been included within the results of discontinued operations. Further information in respect of this provision is set out at notes 2 and 36 to the Financial Statements.

20. Assets and Liabilities of the Disposal Group and Discontinued Operations (continued)

Discontinued operations - statement of cash flows

	Group	
	2024	2023
	£m	£m Restated[1]
Net cash flows from operating activities	174.5	(27.0)
Net cash flows from investing activities	(21.7)	(27.4)
Net cash flows from financing activities	527.2	(3.8)
Net cash flows from discontinued operations	680.0	(58.2)

[1] The prior year has been restated following the classification of the Group's Banking business as a discontinued operation. Refer to note 2 for further details.

21. Cash and Balances with Central Banks

	Group		Company	
	2024	2023	2024	2023
	£m	£m	£m	£m
Cash at bank	66.8	109.8	3.7	2.0
Cash deposits held with TPF	-	-	6.1	6.1
Balances held with the BoE other than mandatory reserve deposits	348.1	307.9	–	–
Included in cash and cash equivalents (refer note 48)	**414.9**	**417.7**	**9.8**	**8.1**
Mandatory reserves deposits held with the BoE	55.1	43.4	–	–
Total cash and balances with central banks	**470.0**	**461.1**	**9.8**	**8.1**

Mandatory reserve deposits held with the BoE of £55.1m (2023: £43.4m) 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. Other balances are subject to variable interest rates based on the BoE base rate or SONIA.

22. Loans and Advances to Banks

Group	2024	2023
	£m	£m
Liquidity funds	21.8	20.8
Custodian funds	5.7	5.9
Total loans and advances to banks	**27.5**	**26.7**

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.

23. Loans and Advances to Customers

Loans and advances to customers were classified as held for sale in the year and are presented within assets of the disposal group (refer to note 20).

Group	2023 £m Restated[1]
Unsecured lending	7,512.0
Fair value hedge adjustments	(74.6)
Gross loans and advances to customers	**7,437.4**
Less: ECL allowance (refer note 46)[2]	(459.7)
Net loans and advances to customers	**6,977.7**
Current	3,948.8
Non-current	3,028.9

[1] The prior year has been restated following the retrospective adoption of IFRS 17 in the current year. Refer to note 2 for further details.
[2] Included within the prior year expected credit loss on loans and advances to customers is a credit of £2.5m received through the sale of non-performing debt to third parties.

Contractual lending commitments and ECL provision

In the prior year, the Group had contractual lending commitments of £12,212.2m in relation to loans and advances to customers, which represent undrawn Credit Card limits. An additional ECL provision of £13.1m was also recognised in the prior year. This represents the excess of total ECLs for both drawn and undrawn balances over the gross carrying balances as above. Refer to note 46 for further details.

Fair value hedge adjustments

In the prior year, fair value hedge adjustments amounting to a liability of £74.6m were in respect of fixed rate Personal Loans. These adjustments were largely offset by derivatives, which were used to manage interest rate risk and are designated as fair value hedges of loans and advances to customers.

24. Loans and Advances to Subsidiary Companies

Company	**2024**	2023
	£m	£m
Fixed rate subordinated loan	145.2	145.2
Floating rate subordinated loans	191.9	191.5
Undated floating rate notes	45.5	45.4
	382.6	382.1
Less: ECL allowance (See note 46)	**(2.0)**	(2.8)
Net loans and advances to subsidiary companies	**380.6**	379.3
Current	**145.6**	2.4
Non-current	**235.0**	376.9

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

Interest receivable on the £144.7m notional (2023: £144.7m notional) fixed rate subordinated loan is 3.5%.

Interest receivable on the floating rate subordinated loans and notes is based on three-month SONIA plus a margin of 67 to 227 basis points (2023: three-month SONIA plus a margin of 67 to 227 basis points).

25. 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. Balances in respect of both continuing business and assets and liabilities of the disposal group are presented in a single note, with balances of the disposal group included as required under the disclosure requirements of IFRS 5.

Group	**2024**					
	Notional amount		**Assets**		**Liabilities**	
	Derivative financial instruments £m	**Disposal group (note 20) £m**	**Derivative financial instruments £m**	**Disposal group (note 20) £m**	**Derivative financial instruments £m**	**Disposal group (note 20) £m**
Derivatives in hedge accounting relationships						
Fair value hedges						
Interest rate swaps	541.5	4,897.9	28.9	49.8	(8.5)	(15.6)
Cash flow hedges						
Forward foreign exchange contracts	7.7	–	–	–	–	–
Total derivatives in hedge accounting relationships	**549.2**	**4,897.9**	**28.9**	**49.8**	**(8.5)**	**(15.6)**
Derivatives not in hedge accounting relationships						
Interest rate swaps	–	314.8	–	4.3	–	(0.6)
Forward foreign exchange contracts	7.5	–	–	–	(0.2)	–
Total derivatives not in hedge accounting relationships	**7.5**	**314.8**	**–**	**4.3**	**(0.2)**	**(0.6)**
Total	**556.7**	**5,212.7**	**28.9**	**54.1**	**(8.7)**	**(16.2)**

25. Derivative Financial Instruments (continued)

Group	2023		
	Notional amount £m	Assets £m	Liabilities £m
Derivatives in hedge accounting relationships			
Fair value hedges			
Interest rate swaps	3,666.6	120.4	(16.7)
Cash flow hedges			
Forward foreign exchange contracts	10.5	0.2	(0.1)
Total derivatives in hedge accounting relationships	**3,677.1**	**120.6**	**(16.8)**
Derivatives not in hedge accounting relationships			
Interest rate swaps	41.9	0.8	(0.1)
Forward foreign exchange contracts	0.2	–	–
Total derivatives not in hedge accounting relationships	**42.1**	**0.8**	**(0.1)**
Total	**3,719.2**	**121.4**	**(16.9)**

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

Group	**2024**			
	Assets Derivative financial instruments £m	**Liabilities Derivative financial instruments £m**	**Assets Disposal group (note 20) £m**	**Liabilities Disposal group (note 20) £m**
Current	0.2	(3.6)	13.3	(3.3)
Non-current	28.7	(5.1)	40.8	(12.9)

Group	2023	
	Assets £m	Liabilities £m
Current	15.1	(0.8)
Non-current	106.3	(16.1)

25. Derivative Financial Instruments (continued)

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.

- **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 8 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.

25. Derivative Financial Instruments (continued)

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**			
Derivatives						
2024	**Up to one month £m**	**One to three months £m**	**Three months to one year £m**	**One year to five years £m**	**More than five years £m**	**Total**
Fair value hedges of financial assets						
Interest rate						
Interest rate swaps						
- Notional amount	–	–	5.0	326.3	65.5	396.8
- Average fixed interest rate	–	–	(0.14)%	(2.90)%	(2.62)%	
Fair value hedges of financial liabilities						
Interest rate						
Interest rate swaps						
- Notional amount	–	–	144.7	–	–	144.7
- Average fixed interest rate	–	–	4.53%	–	–	
Cash flow hedges						
Foreign currency						
Forward foreign exchange contracts						
- Notional amount	1.1	1.1	5.5	–	–	7.7
- Average exchange rate	1.22	1.27	1.26	–	–	

Group			**Maturity**			
Assets and liabilities of the disposal group						
2024	**Up to one month £m**	**One to three months £m**	**Three months to one year £m**	**One year to five years £m**	**More than five years £m**	**Total**
Fair value hedges of financial assets						
Interest rate						
Interest rate swaps						
- Notional amount	141.5	145.2	1,101.3	1,921.6	45.7	3,355.3
- Average fixed interest rate	(0.21)%	(0.72)%	(0.56)%	(1.27)%	(1.05)%	
Fair value hedges of financial liabilities						
Interest rate						
Interest rate swaps						
- Notional amount	105.0	65.0	1,137.1	235.5	–	1,542.6
- Average fixed interest rate	0.26%	0.23%	(0.01)%	0.09%	–	

25. Derivative Financial Instruments (continued)

Group	Maturity					
2023	Up to one month £m	One to three months £m	Three months to one year £m	One year to five years £m	More than five years £m	Total
Fair value hedges of financial assets						
Interest rate						
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						
Interest rate						
Interest rate swaps						
- Notional amount	–	–	340.0	499.7	–	839.7
- Average fixed interest rate	–	–	(0.11)%	0.14%	–	
Cash flow hedges						
Foreign currency						
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	–	

25. Derivative Financial Instruments (continued)

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

Group		**Carrying amount**		
2024	**Notional**	**Assets**	**Liabilities**	**Changes in fair value used for calculating hedge ineffectiveness**
	£m	**£m**	**£m**	**£m**
Derivatives				
Fair value hedges				
Interest rate				
Interest rate swaps	541.5	28.9	(8.5)	29.4
Cash flow hedges				
Foreign currency				
Forward foreign exchange contracts	7.7	–	–	(0.7)
Total	**549.2**	**28.9**	**(8.5)**	**28.7**

Group		**Carrying amount**		
2024	**Notional**	**Assets**	**Liabilities**	**Changes in fair value used for calculating hedge ineffectiveness**
	£m	**£m**	**£m**	**£m**
Assets and liabilities of the disposal group				
Fair value hedges				
Interest rate				
Interest rate swaps	4,897.9	49.7	(15.6)	43.3
Total	**4,897.9**	**49.7**	**(15.6)**	**43.3**

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

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

25. Derivative Financial Instruments (continued)

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

Group	**Carrying amount of the hedged item**		**Accumulated amounts of fair value adjustments on the hedged item**		**Changes in value for calculating ineffectiveness**
2024	**Assets**	**Liabilities**	**Assets**	**Liabilities**	
	£m	**£m**	**£m**	**£m**	**£m**
Derivatives					
Fair value hedges					
Interest rate					
- Fixed rate investment securities[2]	376.5	–	(32.1)	–	11.6
- Fixed rate subordinated liabilities[4]	–	(142.9)	–	2.2	(5.4)
Total fair value hedges	**376.5**	**(142.9)**	**(32.1)**	**2.2**	**6.2**

Group	**Carrying amount of the hedged item**		**Accumulated amounts of fair value adjustments on the hedged item**		**Changes in value for calculating ineffectiveness**
2024	**Assets**	**Liabilities**	**Assets**	**Liabilities**	
	£m	**£m**	**£m**	**£m**	**£m**
Disposal group					
Fair value hedges					
Interest rate					
- Fixed rate Personal Loans[1]	3,355.3	–	(33.4)	–	41.2
- Fixed rate Savings[3]	–	(1,542.6)	–	0.5	(1.0)
Total fair value hedges	**3,355.3**	**(1,542.6)**	**(33.4)**	**0.5**	**40.2**

Group	Carrying amount of the hedged item		Accumulated amounts of fair value adjustments on the hedged item		Changes in value for calculating ineffectiveness
2023	Assets	Liabilities	Assets	Liabilities	
	£m	£m	£m	£m	£m
Fair value hedges					
Interest rate					
- 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]	–	(137.4)	–	7.6	1.9
Total fair value hedges	2,798.9	(832.4)	(118.3)	9.1	(73.4)

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 £nil (2023: £nil).

[1] Included within Statement of Financial Position line item Assets of the disposal group (2023: 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 Liabilities of the disposal group (2023: Deposits from customers).
[4] Included within Statement of Financial Position line item Subordinated liabilities.

25. Derivative Financial Instruments (continued)

Group	Cash flow hedge reserve	
	Change in value of hedged item used for calculating hedge ineffectiveness	Continuing hedges
	£m	£m
2024		
Cash flow hedges		
Foreign currency		
- Accounts payable[1]	(0.1)	–
Total cash flow hedges	**(0.1)**	**–**
2023		
Cash flow hedges		
Foreign currency		
- Accounts payable[1]	(0.2)	0.1
Total cash flow hedges	**(0.2)**	**0.1**

[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.

25. Derivative Financial Instruments (continued)

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**	
	Continuing operations	**Discontinued operations**
2024	**£m**	**£m**
Fair value hedges		
Interest rate		
- Interest rate swaps	–	1.8
Total fair values hedges	**–**	**1.8**

Group	Hedge ineffectiveness recognised in profit or loss	
	Continuing operations	Discontinued operations
2023	£m	£m
Fair value hedges		
Interest rate		
- Interest rate swaps	0.1	0.4
Total fair values hedges	0.1	0.4

Hedge ineffectiveness is included in the Income Statement line Net gain/(loss) on other financial instruments at FVPL in respect of continuing operations and profit after tax from discontinued operations in respect of discontinued operations.

Group **2024**	**Line item in Income Statement that includes reclassification**	**Cumulative hedging gains/ (losses) recognised in other comprehensive income**	**Hedge ineffectiveness recognised in profit or loss**	**Cumulative amount reclassified from cash flow hedge reserve to profit or loss**
		£m	**£m**	**£m**
Cash flow hedges				
Interest rate/foreign currency				
- Forward foreign exchange contracts	Administrative Expenses	0.4	–	(0.4)
Total cash flow hedges		**0.4**	**–**	**(0.4)**

Group 2023	Line item in Income Statement that includes reclassification	Cumulative hedging gains/ (losses) recognised in other comprehensive income	Hedge ineffectiveness recognised in profit or loss	Cumulative amount reclassified from cash flow hedge reserve to profit or loss
		£m	£m	£m
Cash flow hedges				
Interest rate/foreign currency				
- Forward foreign exchange contracts	Administrative Expenses	(1.0)	–	1.1
Total cash flow hedges		(1.0)	–	1.1

25. Derivative Financial Instruments (continued)

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

Group	2024 £m	2023 £m
Hedging gains and losses recognised in other comprehensive income	0.4	(1.0)
Amount reclassified to profit or loss from cash flow hedge reserve to profit or loss	(0.4)	1.1
Tax	–	–
Cash flow hedge reserve	**–**	**0.1**

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	
	2024	2023
Group	£m	£m
Balance at beginning of year	**0.1**	0.2
Cashflow hedge - foreign exchange risk		
- Effective portion of changes in fair value	0.3	(1.3)
- Amount reclassified to profit or loss (hedged item affected profit or loss)	(0.2)	1.1
- Amount reclassified to profit or loss (discontinued hedges)	(0.2)	–
- Tax	–	0.1
Balance at end of year	**–**	0.1

26. Investment Securities

Group	2024 £m	2023 £m
Investment securities measured at FVPL	17.8	20.1
Investment securities measured at FVOCI	681.6	564.8
Investment securities measured at amortised cost	833.3	882.9
Total investment securities	**1,532.7**	**1,467.8**
Current	199.7	345.9
Non-Current	1,333.0	1,121.9

Investment securities measured at FVPL

Group	2024 £m	2023 £m
VISA Inc. preferred stock	1.1	0.9
Property fund	16.7	19.2
Total investment securities measured at FVPL	**17.8**	**20.1**

The Group's investment in VISA Inc. preferred 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 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.

26. Investment Securities (continued)

Investment securities measured at FVOCI - debt

Group

	2024 £m	2023 £m
Government-backed investment securities	67.3	56.0
Supranational investment securities	50.9	31.0
Corporate bonds	554.9	469.2
Other investment securities	8.5	8.6
Total investment securities measured at FVOCI - debt	**681.6**	**564.8**

All of the above balances in the current and prior year comprise fixed-interest investment securities.

Investment securities measured at amortised cost

Group	2024 £m	2023 £m
Government-backed investment securities	45.0	86.0
Gilts	35.1	34.8
Supranational investment securities	333.7	393.0
Financial Institution investment securities	419.6	369.4
Gross investment securities measured at amortised cost	**833.4**	**883.2**
Less: allowance for ECL (refer note 46)	(0.2)	(0.3)
Net investment securities measured at amortised cost	**833.2**	**882.9**

Included in investment securities at amortised cost at 29 February 2024 are fixed-interest investment securities totalling £376.6m (2023: £406.3m), and variable-interest investment securities totalling £456.7m (2023: £476.6m). Linked to the proposed sale of its Banking business, with the exception of TPF's investment in subordinated debt issued by TU of £42.8m, the Group will realise its portfolio of investment securities held at amortised cost in order to repay borrowings which will no longer be required after the sale.

27. Prepayments and Accrued Income

Group	2024 £m	2023 £m Restated[1]
Prepayments	5.8	12.8
Accrued income	24.5	33.7
Total prepayments and accrued income	**30.3**	**46.5**

[1] The prior year has been restated following the retrospective adoption of IFRS 17 in the current year. Refer to note 2 for further details.

All of the above balances are classified as current at the year-end (2023: all current).

28. Other Assets

Group	2024 £m	2023 £m Restated[1]
Insurance commissions receivable	14.9	13.0
Contract asset - insurance renewal income	19.7	13.5
Accounts receivable and sundry debtors	41.5	73.0
Amounts due from Tesco Group subsidiaries	73.2	3.9
Total other assets	**149.3**	**103.4**

[1] The prior year has been restated following the retrospective adoption of IFRS 17 in the current year. Refer to note 2 for further details.

All of the above balances are classified as current at the year-end (2023: all current).

Contract asset - insurance renewal income

Of the opening balance, £17.5m (2023: £16.3m) has been reclassified in the year as commissions receivable 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 insurance renewal commission income of £23.7m (2023: £7.4m), 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.

29. 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
			2024	2023	
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 (2023: £1,219.9m), all of which is non-current (2023: non-current). During the year the Company's investment in TPF was reduced by the cancellation of £15.0m of TPF's ordinary shares and a £135.0m partial cancellation of its share premium account. TPF then issued £150.0m of 11.5% fixed rate reset AT1 securities to the Company. As a result, the Company's total investment in TPF at 29 February 2024 is unchanged. Further information in respect of the AT1 issuance is set out at note 42.

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
			2024	2023	
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.

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 29 February 2024 within these Consolidated Financial Statements.

The securitisation structured entities are included within the Banking business disposal group.

30. Deferred Income Tax Asset

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

Group	Accelerated capital allowances £m	Financial instruments £m	Share based payments £m	Other £m	Total £m
At 1 March 2022	22.9	41.6	3.1	0.2	67.8
Recognised in the Income Statement:					
- for the current year	(16.9)	(4.3)	(0.5)	–	(21.7)
- for prior years	(2.0)	0.5	–	–	(1.5)
Recognised in other comprehensive income	–	6.2	(0.6)	–	5.6
Change in tax rate	0.3	(0.4)	0.1	(0.2)	(0.2)
Discontinued operations	9.6	–	(0.8)	–	8.8
At 28 February 2023	**13.9**	**43.6**	**1.3**	**–**	**71.7**
Recognised in the Income Statement:					
- for the current year	(12.8)	(0.5)	0.2	0.1	(13.0)
- for prior years	(3.6)	–	–	–	(3.6)
Recognised in other comprehensive income	–	(2.9)	0.2	–	(2.7)
Discontinued operations	27.1	(3.4)	0.2	0.2	24.1
At 29 February 2024	**24.6**	**36.8**	**1.9**	**0.3**	**76.5**

	2024 £m	2023 £m
Deferred income tax asset recovery:		
- Within one year	55.6	50.2
- After more than one year	22.5	22.3
Total deferred income tax asset	**78.1**	**72.5**
Deferred tax liability payable:		
- Within one year	(4.6)	(5.8)
- After more than one year	(9.9)	(7.9)
Total deferred income tax liability	**(14.5)**	**(13.7)**
Net deferred income tax asset	**63.6**	**58.8**

31. Intangible Assets

During the year, the Group transferred assets totalling £265.2m, along with associated amortisation of £183.2m, amounting to a net transfer of £82.0m, to assets of the disposal group following the announcement of the proposed sale of its Banking business (refer note 20).

Work-in-progress relates primarily to the internal development of IT software assets. Intangible asset balances are non-current (2023: non-current). Goodwill relates to the Group's investment in TU. This goodwill is supported by the expected future cash flows for the combined insurance business.

Group	**Work-in-Progress**	**Goodwill**	**Computer Software**	**Total**
	£m	**£m**	**£m**	**£m**
Cost				
At 1 March 2023	36.6	20.0	797.2	853.8
Additions	19.0	–	5.9	24.9
Reclassification	(43.1)	–	42.0	(1.1)
Transfer to disposal group	(8.3)	–	(256.9)	(265.2)
Disposals	(1.0)	–	(30.3)	(31.3)
At 29 February 2024	**3.2**	**20.0**	**557.9**	**581.1**
Accumulated amortisation				
At 1 March 2023	–	–	(711.2)	(711.2)
Charge for the year	–	–	(33.3)	(33.3)
Reclassification	–	–	0.6	0.6
Transfer to disposal group	–	–	183.2	183.2
Disposals	–	–	30.1	30.1
At 29 February 2024	**–**	**–**	**(530.6)**	**(530.6)**
Net carrying value				
At 29 February 2024	**3.2**	**20.0**	**27.3**	**50.5**

Group	Work-in-Progress	Goodwill	Computer Software	Total
	£m	£m	£m	£m
Cost				
At 1 March 2022	27.5	20.0	770.5	818.0
Additions	31.9	–	4.6	36.5
Reclassifications	(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

31. Intangible Assets (continued)

Goodwill impairment testing

Goodwill is tested annually for impairment or more frequently where there are indicators of impairment. Goodwill recognised in respect of the Group's investment in 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 gross domestic product (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:

	2024	2023
	%	**%**
Pre-tax discount rate	9.9	10.3
Post-tax discount rate	7.8	7.9
Long-term growth rate	1.8	1.7

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.

32. Property, Plant and Equipment

During the year, the Group transferred assets totalling £47.5m, along with associated depreciation of £33.6m, amounting to a net transfer of £13.9m, to assets of the disposal group following the announcement of the proposed sale of its Banking business (refer note 20).

Work-in-progress at 29 February 2024 relates predominantly to the development of IT assets. Property, plant and equipment balances are non-current (2023: non-current).

Group	Work-in-Progress	Plant and Equipment	Fixtures and Fittings	Computer Hardware	Freehold Buildings	Leasehold Improvements	Right of Use Assets	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Cost								
At 1 March 2023	9.4	2.5	18.5	106.2	32.4	20.6	30.9	220.5
Additions	1.4	–	0.9	4.3	–	1.1	–	7.7
Reclassifications	(1.8)	–	–	2.9	–	–	–	1.1
Transfer to disposal group	–	–	(0.8)	(9.5)	–	(10.3)	(26.9)	(47.5)
Disposals	–	–	(0.9)	(26.9)	–	–	–	(27.8)
At 29 February 2024	**9.0**	**2.5**	**17.7**	**77.0**	**32.4**	**11.4**	**4.0**	**154.0**
Accumulated depreciation								
At 1 March 2023	–	(2.5)	(14.8)	(74.7)	(8.9)	(16.5)	(20.4)	(137.8)
Charge for the year	–	–	(1.7)	(6.8)	(0.7)	(2.3)	(1.6)	(13.1)
Reclassifications	–	–	–	(0.6)	–	–	–	(0.6)
Transfer to disposal group	–	–	0.3	5.8	–	8.5	19.0	33.6
Disposals	–	–	0.7	26.9	–	–	–	27.6
At 29 February 2024	**–**	**(2.5)**	**(15.5)**	**(49.4)**	**(9.6)**	**(10.3)**	**(3.0)**	**(90.3)**
Net carrying value								
At 29 February 2024	**9.0**	**–**	**2.2**	**27.6**	**22.8**	**1.1**	**1.0**	**63.7**

32. Property, Plant and Equipment (continued)

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
Reclassifications	(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								
At 28 February 2023	**9.4**	**–**	**3.7**	**31.5**	**23.5**	**4.1**	**10.5**	**82.7**

33. Deposits from Banks

Group	2024 £m	2023 £m
BoE TSFME funding	908.1	905.8
Securities sold under agreements to repurchase	–	73.9
Total deposits from banks	**908.1**	979.7
Current	108.1	79.7
Non-current	800.0	900.0

The Group expects to repay funding drawn under the BoE's Term Funding Scheme with Incentives for Small and Medium Sized Entities (TFSME) after the completion of the sale of its Banking business.

34. Deposits from Customers

Deposits from customers were classified as held for sale in the year and are presented within liabilities of the disposal group (refer to note 20).

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

Fair value hedge adjustments

In the prior year, fair value hedge adjustments amounting to £(1.5)m were 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.

35. Debt Securities in Issue

Group	**Interest rate**	**Par value £m**	**Term (years)**	**Maturity date**	**2024 £m**	2023 £m
MREL[1]	3.50%	144.7	5	2024	143.2	137.5
Total debt securities in issue					**143.2**	137.5
Current					**143.2**	0.5
Non-current					**–**	137.0
Company						
MREL[1]	3.50%	144.7	5	2024	145.3	145.3
Total debt securities in issue					145.3	145.3
Current					145.3	0.5
Non-current					–	144.8

[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 29 February 2024. The Company expects to redeem the remaining MREL-compliant debt on the call date in July 2024 and has given the required notice in respect of this call to the holders of its MREL compliant-debt.

36. Provisions for Liabilities and Charges

Group 2024	Customer Redress £m Restated[1]	Restructuring £m	Expected Credit Loss £m	Other[1] £m	Total £m
At beginning of year	33.2	1.1	13.1	5.7	53.1
Provided during the year	4.6	–	–	1.4	6.0
Utilised during the year	(1.8)	(1.0)	–	(0.1)	(2.9)
Transfer from loans and advances ECL allowance	-	-	3.3	-	3.3
Transfer to disposal group	–	–	(16.4)	(2.7)	(19.1)
Released during the year	–	(0.1)	–	(1.8)	(1.9)
At end of year	**36.0**	**–**	**–**	**2.5**	**38.5**

[1] The prior year has been restated following the recognition by the Group of a provision in respect of identified instances where the requirements for the provision of certain administrative post-contractual documentation to customers with CCA-regulated products have not been fully met. Refer to notes 2 and 36 for further details.

Customer redress provisions

The customer redress provision of £36.0m (2023: £33.2m[1]) comprises the following:

Payment protection insurance (PPI) provision

A provision of £8.5m (2023: £10.3m) relates to potential settlement of customer complaints arising from historic sales of PPI. The FCA's general claims deadline passed on 29 August 2019, albeit legal claims continued 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.

CCA provision

During the course of the year, the Group instigated a review following identification of an historic operational issue which had resulted in instances where the requirements of the CCA in relation to the provision of certain administrative post-contractual documentation had not been fully complied with. As a result, the Group has determined that it is appropriate to redress certain customers affected by these breaches. The requirements of the CCA in respect to this issue are not straightforward and extensive analysis has been undertaken of the relevant issue to identify where customers have been affected and to determine if the Group should take further action. The FCA has been advised of the Group’s approach to determining the proposed customer redress.

A provision of £27.5m has been recognised at 29 February 2024 (2023: £22.9m[2]) in relation to the cost of refunding previously recognised interest and fees, along with the associated costs of the redress programme. Given the historic nature of the matter identified, opening retained earnings at 1 March 2022 have been restated in respect of the recognition of this provision. The prior year Consolidated Income Statement has also been restated to reflect the impact of this provision on the Group's results for the year ended 28 February 2023.

36. Provisions for Liabilities and Charges (continued)

In arriving at the provision required, the Group considered the legal and regulatory position with respect to these matters and has sought external advice which it took into account when it made its judgement. The provision represents Management's best estimate at the reporting date of the cost of providing redress to those Credit Card customers impacted by this issue. The balance is classified as current at the reporting date and, in making the estimate, Management has exercised judgement as to both the timescale for implementing the redress campaign and the final scope of any amounts payable.

While the Group has identified the customers it will proactively redress, there remains a degree of uncertainty with regard to the ultimate cost of providing redress to those customers. However, Management do not consider there to be a significant risk of a material adjustment to the carrying amount of the CCA provision within the next financial year. Accordingly, no sensitivity analysis is provided.

Expected credit loss provision

The ECL provision represented the amount of ECL allowance recognised under IFRS 9 which exceeds the gross carrying amount of the financial asset as set out at note 46. In the current year, this is presented within liabilities of the disposal group (refer to note 20).

Other provisions

Other provisions relate to dilapidations provisions in respect of 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 2032.

A dilapidations provision of £2.4m and warranty provision of £0.3m in respect of debt sales previously included within other provisions were transferred to liabilities of the disposal group during the year (refer note 20).

37. Accruals and Deferred Income

Group	**2024** **£m**	2023 £m Restated[1]
Amounts accrued to Tesco Group subsidiaries	7.5	15.1
Other accruals	30.4	65.3
Deferred income	0.9	4.7
Total accruals and deferred income	**38.8**	**85.1**

[1] The prior year has been restated following the retrospective adoption of IFRS 17 in the current year. Refer to note 2 for further details.

All of the above balances are classified as current at the year-end (2023: all current).

38. Other Liabilities

Group	2024 £m	2023 £m Restated[1]
Accounts payable and sundry creditors	73.9	146.7
Insurance creditor	0.9	0.9
Taxation and social security payable	18.5	12.6
Contract liabilities - insurance refunds	1.0	0.8
Lease liabilities (refer note 45)	2.3	23.8
Amounts owed to Tesco Group subsidiaries	7.9	10.9
Total other liabilities	**104.5**	**195.7**

[1] The prior year has been restated following the retrospective adoption of IFRS 17 in the current year. Refer to note 2 for further details.

All of the above balances are classified as current at the year-end (2023: all current), with the exception of £0.9m (2023: £19.7m) of the lease liabilities which are due after more than one year.

Contract liabilities – insurance refunds

Revenue recognised in the year under IFRS 15 'Revenue from Contracts with Customers' in respect of the opening contract liability balance was £0.2m (2023: £0.2m).

39. Reinsurance Contract Assets and Insurance Contract Liabilities

Group	2024		2023	
	Insurance contracts issued £m	Reinsurance contracts held £m	Insurance contracts issued £m Restated[1]	Reinsurance contracts held £m Restated[1]
Total	(525.9)	124.9	(500.6)	135.2

The breakdown of portfolios and groups of insurance contracts issued and reinsurance contracts held is set out in the table below:

Group	2024		2023	
	Insurance contracts issued £m	Reinsurance contracts held £m	Insurance contracts issued £m Restated[1]	Reinsurance contracts held £m Restated[1]
Liabilities for remaining coverage	(260.0)	(178.1)	(273.7)	(106.6)
(Liabilities)/assets for incurred claims	(265.9)	303.0	(226.9)	241.8
Total	**(525.9)**	**124.9**	**(500.6)**	**135.2**
Contracts measured under PAA	(364.1)	62.0	(290.0)	62.7
Contracts not measured under PAA	(161.8)	62.9	(210.6)	72.5
Total	**(525.9)**	**124.9**	**(500.6)**	**135.2**

[1] The prior year has been restated following the retrospective adoption of IFRS 17 in the current year. Refer to note 2 for further details.

In line with the requirements of IFRS 17, insurance contracts have been grouped into Motor and Home portfolios. At 29 February 2024 the balance of Motor insurance contracts issued was £447.1m (2023: £435.7m) and reinsurance contracts held was £114.1m (2023: £126.1m). The liability for Home insurance contracts issued was £78.8m at 29 February 2024 (Feb 2023: £64.9m) and reinsurance contracts held was £10.8m (2023: £9.1m). On this basis of the relative size of the Motor portfolio, the below disclosures are provided in aggregate across both portfolios.

39. Reinsurance Contract Assets and Insurance Contract Liabilities (continued)

39.1 Insurance contracts issued

The following table provides a reconciliation of the movements in the total insurance contract liabilities in the year:

Group	**Liabilities for remaining coverage**		**Liabilities for incurred claims**		**Total**
Insurance contract liabilities[1]	**Excluding loss component £m**	**Loss component £m**	**Estimates of the present value of future cash flows £m**	**Risk adjustment £m**	**£m**
At 1 March 2023	**271.4**	**2.3**	**208.8**	**18.1**	**500.6**
Insurance service result					
Insurance revenue	(513.8)	–	–	–	(513.8)
Insurance service expenses:					
Incurred claims and other directly attributable expenses	36.1	(1.0)	473.1	(2.1)	506.1
Insurance acquisition cash flows	(4.2)	–	–	–	(4.2)
Losses on onerous acquired claims and reversals of those losses	–	1.2	–	–	1.2
Changes to fulfilment cash flows relating to incurred claims	–	–	(48.7)	–	(48.7)
	(481.9)	**0.2**	**424.4**	**(2.1)**	**(59.4)**
Insurance finance expense/(income)					
Insurance finance expense recognised in the Income Statement	1.3	–	5.5	–	6.8
Insurance finance expense/(income) recognised in other comprehensive income	8.1	–	(3.5)	–	4.6
	9.4	**–**	**2.0**	**–**	**11.4**
Insurance cash flows					
Premiums received for insurance contracts issued	554.5	–	–	–	554.5
Incurred claims and other expenses paid	(20.5)	–	(385.3)	–	(405.8)
Insurance acquisition cash flows	(75.4)	–	–	–	(75.4)
	458.6	**–**	**(385.3)**	**–**	**73.3**
At 29 February 2024	**257.5**	**2.5**	**249.9**	**16.0**	**525.9**

[1] Incurred claims and related cashflows presented within LRC relate to the settlement of the acquired claims. The time difference between settlement of the development of the claim and payment is not significant to present within LIC.

39. Reinsurance Contract Assets and Insurance Contract Liabilities (continued)

Group	Liabilities for remaining coverage		Liabilities for incurred claims		Total
Insurance contract liabilities[1]	Excluding loss component £m Restated[2]	Loss component £m Restated[2]	Estimates of the present value of future cash flows £m Restated[2]	Risk adjustment £m Restated[2]	£m Restated[2]
At 1 March 2022	**414.1**	**–**	**148.6**	**25.4**	**588.1**
Insurance service result					
Insurance revenue	(457.5)	–	–	–	(457.5)
Insurance service expenses:					
Incurred claims and other directly attributable expenses	82.5	–	415.6	(7.3)	490.8
Insurance acquisition cash flows	(0.2)	–	–	–	(0.2)
Losses on onerous acquired claims and reversals of those losses	–	2.3	–	–	2.3
Changes to fulfilment cash flows relating to incurred claims	–	–	(85.2)	–	(85.2)
	(375.2)	**2.3**	**330.4**	**(7.3)**	**(49.8)**
Insurance finance expense/(income)					
Insurance finance expense recognised in the Income Statement	1.4	–	3.3	–	4.7
Insurance finance income recognised in other comprehensive income	(14.3)	–	(25.6)	–	(39.9)
	(12.9)	**–**	**(22.3)**	**–**	**(35.2)**
Insurance cash flows					
Premiums received for insurance contracts issued	335.7	–	–	–	335.7
Incurred claims and other expenses paid	(77.3)	–	(247.9)	–	(325.2)
Insurance acquisition cash flows	(13.0)	–	–	–	(13.0)
	245.4	**–**	**(247.9)**	**–**	**(2.5)**
At 28 February 2023	**271.4**	**2.3**	**208.8**	**18.1**	**500.6**

[1] Incurred claims and related cashflows presented within LRC relate to the settlement of the acquired claims. The time difference between settlement of the development of the claim and payment is not significant to present within LIC.

[2] The prior year has been restated following the retrospective adoption of IFRS 17 in the current year. Refer to note 2 for further details.

39. Reinsurance Contract Assets and Insurance Contract Liabilities (continued)

The following table provides a reconciliation of the movements in the insurance contract liabilities for contracts not measured under the PAA in the year, analysed by components:

Group

Insurance contract liabilities not measured under the PAA	Estimates of the present value of future cash flows £m	Risk adjustment for non-financial risk £m	CSM £m	Total £m
At 1 March 2023	**137.5**	**6.9**	**66.2**	**210.6**
Insurance service result				
Changes that relate to current service				
CSM recognised for services provided	–	–	(18.8)	(18.8)
Change in risk-adjustment for non-financial risk for risk expired	–	(1.9)	–	(1.9)
Changes to fulfilment cash flows relating to incurred claims	(12.7)	–	–	(12.7)
Changes that relate to future service				
Changes in estimates that adjust the CSM	(23.9)	(0.4)	24.3	–
Changes in estimates that result in losses and reversals of losses on onerous acquired claims	–	–	1.2	1.2
	(36.6)	**(2.3)**	**6.7**	**(32.2)**
Insurance finance expense				
Insurance finance expense recognised in the Income Statement	1.1	–	0.2	1.3
Insurance finance expense recognised in other comprehensive income	8.1	–	–	8.1
	9.2	**–**	**0.2**	**9.4**
Insurance cash flows				
Incurred claims and other expenses paid	(26.0)	–	–	(26.0)
	(26.0)	**–**	**–**	**(26.0)**
At 29 February 2024	**84.1**	**4.6**	**73.1**	**161.8**

39. Reinsurance Contract Assets and Insurance Contract Liabilities (continued)

Group

Insurance contract liabilities not measured under the PAA	Estimates of the present value of future cash flows £m Restated[1]	Risk adjustment for non-financial risk £m Restated[1]	CSM £m Restated[1]	Total £m Restated[1]
At 1 March 2022	309.4	15.5	25.3	350.2
Insurance service result				
Changes that relate to current service				
CSM recognised for services provided	–	–	(31.7)	(31.7)
Change in risk-adjustment for non-financial risk for risk expired	–	(4.6)	–	(4.6)
Changes to fulfilment cash flows relating to incurred claims	(15.5)	–	–	(15.5)
Changes that relate to future service				
Changes in estimates that adjust the CSM	(66.2)	(4.0)	70.2	–
Changes in estimates that result in losses and reversals of losses on onerous acquired claims	–	–	2.3	2.3
	(81.7)	(8.6)	40.8	(49.5)
Insurance finance expense/(income)				
Insurance finance expense recognised in the Income Statement	1.3	–	0.1	1.4
Insurance finance income recognised in other comprehensive income	(14.2)	–	–	(14.2)
	(12.9)	–	0.1	(12.8)
Insurance cash flows				
Incurred claims and other expenses paid	(77.3)	–	–	(77.3)
	(77.3)	–	–	(77.3)
At 28 February 2023	137.5	6.9	66.2	210.6

[1] The prior year has been restated following the retrospective adoption of IFRS 17 in the current year. Refer to note 2 for further details.

39. Reinsurance Contract Assets and Insurance Contract Liabilities (continued)

39.2 Reinsurance contracts held

The following table provides a reconciliation of the movements in the total reinsurance contract assets in the year:

Group	Assets for remaining coverage		Assets for incurred claims		Total
Reinsurance contract assets	**Excluding loss-recovery component £m**	**Loss-recovery component £m**	**Estimates of the present value of future cash flows £m**	**Risk adjustment £m**	**£m**
At 1 March 2023	**(107.1)**	**0.5**	**235.2**	**6.6**	**135.2**
Net expenses from reinsurance contracts held					
Allocation of reinsurance premiums paid	(193.6)	–	–	–	(193.6)
Amounts recoverable from reinsurance contracts:					
Amounts recoverable for incurred claims and other incurred insurance service expenses	21.5	–	130.4	(1.3)	150.6
Recoveries of losses on onerous acquired claims and reversal of those losses	–	0.3	–	–	0.3
Changes to amounts recoverable for incurred claims	–	–	(5.5)	–	(5.5)
	(172.1)	**0.3**	**124.9**	**(1.3)**	**(48.2)**
Reinsurance finance income					
Reinsurance finance income recognised in the Income Statement	0.4	–	0.8	–	1.2
Reinsurance finance income recognised in other comprehensive income	0.6	–	0.3	–	0.9
	1.0	**–**	**1.1**	**–**	**2.1**
Reinsurance cash flows					
Premiums paid for reinsurance contracts held	42.3	–	–	–	42.3
Amounts received from reinsurers relating to incurred claims	(1.9)	–	(4.6)	–	(6.5)
	40.4	**–**	**(4.6)**	**–**	**35.8**
Other movements	58.9	–	(58.9)	–	–
At 29 February 2024	**(178.9)**	**0.8**	**297.7**	**5.3**	**124.9**

39. Reinsurance Contract Assets and Insurance Contract Liabilities (continued)

Group	Assets for remaining coverage		Assets for incurred claims		Total
Reinsurance contract assets	Excluding loss-recovery component £m Restated[1]	Loss-recovery component £m Restated[1]	Estimates of the present value of future cash flows £m Restated[1]	Risk adjustment £m Restated[1]	£m Restated[1]
At 1 March 2022	(23.4)	–	183.0	11.0	170.6
Net expenses from reinsurance contracts held					
Allocation of reinsurance premiums paid	(175.6)	–	–	–	(175.6)
Amounts recoverable from reinsurance contracts:					
Amounts recoverable for incurred claims and other incurred insurance service expenses	49.6	–	73.8	(4.4)	119.0
Recoveries of losses on onerous acquired claims and reversal of those losses	–	0.5	–	–	0.5
Changes to amounts recoverable for incurred claims	–	–	18.8	–	18.8
	(126.0)	0.5	92.6	(4.4)	(37.3)
Reinsurance finance income/(expense)					
Reinsurance finance income recognised in the Income Statement	0.5	–	1.1	–	1.6
Reinsurance finance expense recognised in other comprehensive income	(2.7)	–	(17.8)	–	(20.5)
	(2.2)	–	(16.7)	–	(18.9)
Reinsurance cash flows					
Premiums paid for reinsurance contracts held	45.5	–	0.5	–	46.0
Amounts received from reinsurers relating to incurred claims	(25.1)	–	(0.1)	–	(25.2)
	20.4	–	0.4	–	20.8
Other movements	24.1	–	(24.1)	–	–
At 28 February 2023	(107.1)	0.5	235.2	6.6	135.2

[1] The prior year has been restated following the retrospective adoption of IFRS 17 in the current year. Refer to note 2 for further details.

39. Reinsurance Contract Assets and Insurance Contract Liabilities (continued)

The following table provides a reconciliation of the movements in the reinsurance contract assets for contracts not measured under the PAA in the year, analysed by components:

Group **Reinsurance contract assets not measured under the PAA**	**Estimates of the present value of future cash flows** **£m**	**Risk adjustment for non-financial risk** **£m**	**CSM** **£m**	**Total** **£m**
At 1 March 2023	**39.0**	**1.7**	**31.8**	**72.5**
Net expenses from reinsurance contracts held				
Changes that relate to current service				
CSM recognised for the period	–	–	(1.2)	(1.2)
Change in risk-adjustment for non-financial risk for risk expired	–	(0.4)	–	(0.4)
Changes to incurred claims component	(7.5)	–	–	(7.5)
Changes that relate to future service				
Changes in estimates that adjust the CSM	5.3	1.4	(6.7)	–
Changes in estimates that result in losses and reversals of losses on onerous acquired claims	–	–	0.3	0.3
	(2.2)	**1.0**	**(7.6)**	**(8.8)**
Reinsurance finance income				
Reinsurance finance income recognised in the Income Statement	0.3	–	0.1	0.4
Reinsurance finance income recognised in other comprehensive income	0.7	–	–	0.7
	1.0	**–**	**0.1**	**1.1**
Reinsurance cash flows				
Amounts received from reinsurers relating to incurred claims	(1.9)	–	–	(1.9)
	(1.9)	**–**	**–**	**(1.9)**
At 29 February 2024	**35.9**	**2.7**	**24.3**	**62.9**

39. Reinsurance Contract Assets and Insurance Contract Liabilities (continued)

Group

Reinsurance contract assets not measured under the PAA	Estimates of the present value of future cash flows £m Restated[1]	Risk adjustment for non-financial risk £m Restated[1]	CSM £m Restated[1]	Total £m Restated[1]
At 1 March 2022	89.1	3.9	17.7	110.7
Net expenses from reinsurance contracts held				
Changes that relate to current service				
CSM recognised for the period	–	–	(18.5)	(18.5)
Change in risk-adjustment for non-financial risk for risk expired	–	(0.8)	–	(0.8)
Changes to incurred claims component	7.8	–	–	7.8
Changes that relate to future service				
Changes in estimates that adjust the CSM	(30.7)	(1.4)	32.1	–
Changes in estimates that result in losses and reversals of losses on onerous acquired claims	–	–	0.5	0.5
	(22.9)	**(2.2)**	**14.1**	**(11.0)**
Reinsurance finance income/(expense)				
Reinsurance finance income recognised in the Income Statement	0.4	–	–	0.4
Reinsurance finance expense recognised in other comprehensive income	(2.7)	–	–	(2.7)
	(2.3)	**–**	**–**	**(2.3)**
Reinsurance cash flows				
Amounts received from reinsurers relating to incurred claims	(24.9)	–	–	(24.9)
	(24.9)	**–**	**–**	**(24.9)**
At 28 February 2023	**39.0**	**1.7**	**31.8**	**72.5**

[1] The prior year has been restated following the retrospective adoption of IFRS 17 in the current year. Refer to note 2 for further details.

39. Reinsurance Contract Assets and Insurance Contract Liabilities (continued)

39.3 Analysis of CSM

The following tables show an analysis of the expected recognition in the Consolidated Income Statement of the CSM remaining at the end of the reporting period.

	2024			2023		
	Insurance contracts issued £m	Reinsurance contracts held £m	Total £m	Insurance contracts issued £m Restated[1]	Reinsurance contracts held £m Restated[1]	Total £m Restated[1]
Less than 1 year	(19.6)	4.5	(15.1)	(16.7)	7.2	(9.5)
1 to 2 years	(13.9)	3.7	(10.2)	(13.4)	4.5	(8.9)
2 to 3 years	(9.1)	3.1	(6.0)	(9.4)	3.8	(5.6)
3 to 4 years	(5.8)	3.2	(2.6)	(6.1)	3.1	(3.0)
4 to 5 years	(4.1)	2.7	(1.4)	(3.9)	3.3	(0.6)
More than 5 years	(20.6)	7.1	(13.5)	(16.7)	9.9	(6.8)
Total	**(73.1)**	**24.3**	**(48.8)**	**(66.2)**	**31.8**	**(34.4)**

[1] The prior year has been restated following the retrospective adoption of IFRS 17 in the current year. Refer to note 2 for further details.

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.

39. Reinsurance Contract Assets and Insurance Contract Liabilities (continued)

Process used to determine the assumptions (continued)

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.

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 as part of the LIC 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%.

39. Reinsurance Contract Assets and Insurance Contract Liabilities (continued)

Analysis of claims development – gross of reinsurance

	Accident year ending February			
	2022	**2023**	**2024**	**Total**
	£m	**£m**	**£m**	**£m**
Estimate of gross undiscounted ultimate claim costs				
At end of the financial year	212.0	280.1	369.8	
One financial year later	201.4	286.6		
Two financial years later	182.1			
Current estimate of cumulative claims	**182.1**	**286.6**	**369.8**	**838.5**
Cumulative payments to date	(147.3)	(212.6)	(197.1)	(557.0)
Gross undiscounted liabilities for incurred claims	**34.8**	**74.0**	**172.7**	**281.5**
Value of risk adjustment				11.4
Effect of discounting				(33.9)
Gross claims liabilities				**259.0**
Ancillary claims and expense liabilities				6.9
Total gross liabilities for incurred claims				**265.9**

Analysis of claims development – net of reinsurance

	Accident year ending February			
	2022	**2023**	**2024**	**Total**
	£m	**£m**	**£m**	**£m**
Estimate of net undiscounted ultimate claim costs				
At end of the financial year	141.2	180.1	220.6	
One financial year later	125.9	163.5		
Two financial years later	114.5			
Current estimate of cumulative claims	**114.5**	**163.5**	**220.6**	**498.6**
Cumulative net payments to date assuming recoveries received	(91.7)	(132.3)	(108.8)	(332.8)
Net undiscounted liabilities for incurred claims	**22.8**	**31.2**	**111.8**	**165.8**
Value of risk adjustment				8.7
Effect of discounting				(13.2)
Net claims liabilities				**161.3**
Quota share funds withheld (recoveries receivable)				(202.9)
Ancillary claims and expense liabilities				4.5
Total net assets for incurred claims				**(37.1)**

40. Subordinated Liabilities and Notes

Group and Company	2024 £m	2023 £m
Amortised cost:		
Floating rate subordinated loans	192.0	191.5
Undated floating rate notes	45.5	45.4
Total subordinated liabilities and notes	**237.5**	**236.9**
Current	2.5	1.9
Non-current	235.0	235.0

Subordinated liabilities and notes comprise loan capital issued to Tesco:

- Floating rate subordinated loans - notional £190.0m (2023: £190.0m): These loans mature in 2030, and have an early repayment option date of 31 March 2025. Interest payable on these loans is based on three-month SONIA plus a margin of 67 to 182 basis points (2023: three-month SONIA plus a margin of 67 to 182 basis points).
- Undated floating rate notes - notional £45.0m (2023: £45.0m) of undated notes with no fixed maturity date. Interest payable on these loans is based on three-month SONIA plus a margin of 127 to 227 basis points (2023: three-month SONIA plus a margin of 127 to 227 basis points).

The Group expects to repay the floating rate subordinated loans and the undated floating rate notes after the proposed sale of its Banking business completes.

41. Share Capital and Share Premium Account

Group and Company	2024 Number	2024 £m	2023 Number	2023 £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	991,089,500	99.1	991,090,000	99.1
B Ordinary shares of 10p each	79,089,499	7.9	229,089,000	22.9
C Ordinary shares of 10p each	1	–	1	–
	1,070,179,000	107.0	1,220,179,001	122.0

	2024 £m	2023 £m
Share premium reserve	963.2	1,098.2
	963.2	1,098.2

Following a review of the Group's capital structure, on 31 August 2023 TPFG reduced its share capital by cancellation of £15.0m of its ordinary shares and a £135.0m partial cancellation of its share premium account following confirmation by the Court of Session in Edinburgh. The purpose of the transaction was to reduce the Group's common equity tier 1 (CET 1) capital by £150.0m, allowing its CET 1 metrics to be more comparable to peers in the UK. TPF undertook an equivalent transaction on the same date.

Linked to this, on 31 August 2023 TPFG issued £150.0m of 11.5% fixed rate reset AT1 securities to Tesco , which form part of the Group's total equity, resulting in the Group's total equity and total issued capital remaining unchanged following completion of these capital transactions. TPF issued the equivalent to TPFG.

Further information in respect of the AT1 issuance is set out at note 42.

42. Other equity instruments

Group	Group		**Company**	
	29 February 2024 £m	28 February 2023 £m	**29 February 2024 £m**	**28 February 2023 £m**
Other equity instruments	150.0	–	150.0	–
Capitalised issuance costs	(0.4)	–	–	–
Other equity instruments	**149.6**	**–**	**150.0**	**–**

Linked to the share capital reduction and partial share premium account cancellation set out at note 41, on 31 August 2023 TPFG issued £150.0m of 11.5% fixed rate AT1 securities to Tesco which form part of the Group's total equity. TPF issued the equivalent to TPFG.

The principal terms of the AT1 securities, which have no fixed maturity or redemption date, are described below:

- The securities rank behind the claims against TPFG of (a) unsubordinated creditors; (b) claims which are, or are expressed to be, subordinated to the claims of unsubordinated creditors of TPFG but not further or otherwise; or (c) claims that are of those whose claims are, or are expressed to be, junior to the claims of other creditors of TPFG, whether subordinated or unsubordinated, other than those whose claims rank, or are expressed to rank, pari passu with, or junior to, the claims of Tesco (as sole investor in AT1 securities issued by TPFG) in a winding up occurring prior to a write-down event being triggered;
- The securities bear a fixed rate of interest until the first reset date. After the first reset date or any reset date thereafter, in the event that they are not redeemed, the AT1 securities will bear interest at rates fixed periodically in advance for five-year periods based on market rates;
- Interest on the securities will be due and payable only at the sole discretion of TPFG and TPFG may at any time elect to cancel any interest payment (or any part thereof) which would otherwise be payable on any interest payment date. There are also certain restrictions on the payment of interest as specified in the terms;
- The securities are undated and are repayable, at the option of TPFG, in whole at the first call date or period, or on any fifth anniversary after the first call date or period. In addition, the AT1 securities are repayable, at the option of TPFG, in whole for certain regulatory or tax reasons. Any repayments require the prior consent of the PRA; and
- The securities will be fully written down should the CET 1 ratio of TPFG fall below 7.0%.

The Group expects to settle the AT1 securities post-completion of the sale of its Banking business and once the required approval from the PRA has been received.

43. Other Reserves

Group	**2024** **£m**	2023 £m Restated[1]
Fair value reserve	(31.5)	(43.9)
Cash flow hedge reserve	–	0.1
Share based payment reserve	23.6	20.4
Insurance finance reserve	13.0	15.8
Total reserves	**5.1**	**(7.6)**

[1] The prior year has been restated following the retrospective adoption of IFRS 17 in the current year. Refer to note 2 for further details.

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.

Insurance finance reserve

The impact of changes in market interest rates on the carrying amount of reinsurance contract assets and insurance contract liabilities are included in the insurance finance reserve.

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 2024 Financial Statements.

45. 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 - Continuing Operations

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

Continuing operations	2024	2023
Group	**£m**	£m
Depreciation charge on right-of-use assets[1]	0.3	0.4
Interest expense on lease liabilities[2]	0.2	0.3
Total	**0.5**	0.7

Consolidated Statement of Financial Position Amounts Relating to Leases

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

Group	2024	2023
	£m	**£m**
Right-of-use assets[3]		
Office buildings	1.0	1.3
Total right-of-use assets	1.0	1.3
Lease liabilities[4]		
Current	1.4	1.5
Non-current	0.9	2.3
Total lease liabilities	**2.3**	**3.8**

Consolidated Cash Flow Statement amounts relating to leases

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

Continuing and discontinued operations	2024	2023
Group	**£m**	£m
Interest paid on lease liabilities	1.5	2.7
Principal payments on lease liabilities	4.1	3.0
Total cash outflow for lease liabilities	**5.6**	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 for the Company and Group, total £27.0m (2023: £65.3m).

[1] Included in Depreciation and amortisation in the Consolidated Income Statement (refer to note 32).
[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 32).
[4] Included in Other liabilities in the Consolidated Statement of Financial Position (refer to note 38).

46. Risk Management

The proposed sale of the Group's Banking business, as described on pages 2 to 4, will change the nature of the Group's business and therefore its risk profile. However, Management remains responsible for the effective running of the regulated Banking business and its associated risks until completion. Accordingly, this note considers risk management for the Group's entire business unless otherwise stated.

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

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 13 to 18 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 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.

46. 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 29 February 2024, the Group had an undrawn £200.0m (2023: £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 are designed to prevent wholesale credit losses outside of Risk Appetite. Proprietary risk taking is not permitted. Exposure to wholesale credit risk is controlled based on a hierarchy of limits where financial institution, corporate, sovereign, central bank and multilateral development bank exposures at an aggregate level are capped by credit rating and country 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 29 February 2024, no additional credit risk mitigation was deemed necessary.

46. 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 (which, in respect of loans and advances to customers are included in assets of the disposal group at 29 February 2024) and FVOCI and its exposure arising from loan commitments in relation to Credit Card products (included in assets of the disposal group at 29 February 2024). The Group has not recognised an ECL allowance for cash, loans and advances to banks, and other financial assets balances at 29 February 2024 due to the short-term nature of these balances, the frequency of origination and settlement of balances and collateral held.

ECLs (which, in respect of loans and advances to customers are included in assets of the disposal group at 29 February 2024) 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.

46. 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 (2023: seven 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.

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.

46. Risk Management (continued)

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 29 February 2024, 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 Group's Base scenario projects an improving economic outlook despite inflationary pressures and the effects of persisting high interest rates on household budgets. As inflation has fallen somewhat faster than expected, there has been a small improvement in business and consumer confidence.

  The Base scenario projects no further increases in the BoE base rate as inflation trends downwards towards the BoE's 2.0% target, forecast to be achieved in the middle of 2024. This scenario sees a tentative loosening in monetary policy emerging from Q2 2024. Pay growth has slowed down but will remain high relative to recent years. This will continue to suppress the economy and labour market for much of 2024, where an unemployment rate peak of 4.6% is expected (a decrease from the 5.7% included in the Group's prior year Base scenario).

  High inflation and interest rates, coupled with income tax band freezes, will continue to put pressure on household budgets, dampening growth prospects for 2024. The prospect of interest rate cuts, as inflation has fallen, has improved consumer and business optimism and a more robust return to growth is forecast to emerge in 2025.

- The Upside scenario assumes falling wholesale gas prices as the result of a more optimistic assumption of a diminishing conflict in Ukraine, a calming of tensions in the Middle East and shipping through the Red Sea returning to normal. The scenario expects wheat and grain exports to flow more freely and, coupled with maintenance of the recent improvements in global supply chains, the scenario expects inflation to hit the BoE's 2.0% target by Q2 2024. As the base rate falls from March 2024, business confidence responds positively, underpinning stronger growth in business investment than in the Base scenario. As more jobs are filled and labour market mismatches diminish, the peak in the unemployment rate is contained at 4.2% and eases thereafter. The milder outlook for inflation means that real disposable incomes grow in line with the pre-pandemic rate and lockdown accrued savings are more readily spent. This underpins growth in the economy, with moderate increases in GDP through 2024 and 2025.

- The Downside 1 scenario projects that geopolitical tensions intensify, causing disruption to oil and gas supplies as well as other commodities such as wheat and grain. Conflicts in the Middle East and the Red Sea crisis continue, resulting in additional disruption to global supply chains. In this scenario, inflation increases as input costs are passed on to consumers. Wage cost pressures and depreciation of Sterling against tradeable currencies contribute to an uplift in inflation. This in turn causes the BoE to further increase the base rate, reaching a peak of 7.1% in Q4 2024. Cut-backs in the labour market see the unemployment rate increase to 6.0% towards the end of 2024, with the unemployment rate predicted to remain above the Base case projection indefinitely. Decreasing consumer confidence and rising mortgage costs underpin a decline in house prices and GDP contracts from Q1 2024 to Q2 2025 before stabilising in 2026 as inflation eases back towards the BoE's 2.0% target.

- The Downside 2 scenario is similar in nature to the Downside 1 scenario, however, in this scenario inflation remains higher for longer and Sterling depreciates more markedly against the Dollar, necessitating an additional degree of monetary policy tightening from the BoE. The base rate rises to 8.7% in early 2025 and the unemployment rate peaks at 7.9% in late 2024, staying above 7.0% until the second half of 2027. Real household disposable incomes fall and there is a decline in house prices. GDP does not return to pre-pandemic levels until late 2027.

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.

The economic scenarios received by the Group use inflationary forecasts as a primary input to derive the forecasts for GDP, Unemployment and Base Rate. The key difference between each of the four scenarios relates to how quickly inflation falls back towards target, with global oil prices being a key contributing factor.

46. 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:

2024

Scenario	Weighting	Sensitivity (100% weighted)[1]	Economic measure	2024	2025	2026	2027	2028
		£m		%	%	%	%	%
Base	40%	(19.6)	Bank of England base rate[2]	5.1	4.3	3.9	3.7	3.5
			Gross domestic product[3]	0.7	1.4	1.7	1.8	1.7
			Unemployment rate	4.5	4.6	4.4	4.2	4.1
			Unemployment rate peak in year	4.6	4.6	4.5	4.3	4.1
Upside	30%	(42.3)	Bank of England base rate[2]	4.4	3.3	3.2	3.3	3.1
			Gross domestic product[3]	2.5	2.0	1.7	1.8	1.7
			Unemployment rate	4.2	4.1	4.0	3.9	3.8
			Unemployment rate peak in year	4.2	4.1	4.0	3.9	3.8
Downside 1	25%	55.5	Bank of England base rate[2]	6.6	6.6	5.4	4.4	3.9
			Gross domestic product[3]	(1.4)	0.3	1.7	1.8	1.7
			Unemployment rate	5.6	5.9	5.6	5.3	5.0
			Unemployment rate peak in year	6.0	6.0	5.8	5.4	5.1
Downside 2	5%	169.5	Bank of England base rate[2]	7.6	8.6	7.7	6.7	5.3
			Gross domestic product[3]	(3.2)	(1.3)	1.4	1.8	1.7
			Unemployment rate	7.0	7.8	7.5	7.1	6.5
			Unemployment rate peak in year	7.9	7.9	7.7	7.2	6.7
Weighted scenarios			Bank of England base rate[2]	5.4	4.8	4.2	3.9	3.6
			Gross domestic product[3]	0.5	1.1	1.7	1.8	1.7
			Unemployment rate	4.8	4.9	4.7	4.5	4.4
			Unemployment rate peak in year	5.0	5.0	4.8	4.6	4.4

[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.

46. Risk Management (continued)

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.

46. 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.

46. Risk Management (continued)

Sensitivity analysis (continued)

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 29 February 2024:

		Impact on loss allowance					
		Assets of the disposal group			Loans and advances to customers		
		2024			2023		
		Credit Cards	**Other Personal Lending**	**Total**	Credit Cards	Other Personal Lending	Total
		£m	**£m**	**£m**	£m	£m Restated[1]	£m Restated[1]
Closing ECL allowance[2]		**311.8**	**121.0**	**432.8**	346.7	113.0	459.7
Macro-economic (100% weighted)	Upside	(32.2)	(10.1)	(42.3)	(44.7)	(13.9)	(58.6)
	Base	(14.5)	(5.2)	(19.7)	(9.1)	(1.9)	(11.0)
	Downside 1	42.3	13.2	55.5	46.7	18.0	64.7
	Downside 2	129.3	40.2	169.5	112.3	48.3	160.6
PD	Increase of 10% (2023: 10%)	24.4	6.1	30.5	25.3	7.2	32.5
	Decrease of 10% (2023: 10%)	(22.8)	(6.3)	(29.1)	(23.9)	(7.1)	(31.0)
LGD	Increase of 2.5%	7.1	2.8	9.9	7.0	2.5	9.5
	Decrease of 2.5%	(7.2)	(2.8)	(10.0)	(7.1)	(2.5)	(9.6)
Staging - change in threshold	Increase of 20%	(7.8)	(0.2)	(8.0)	(7.7)	(1.1)	(8.8)
	Decrease of 20%	12.5	0.3	12.8	11.5	1.3	12.8
Expected lifetime (revolving credit facilities)	Increase of 1 year	3.9	–	3.9	3.4	-	3.4
	Decrease of 1 year	(4.9)	–	(4.9)	(5.4)	-	(5.4)

[1] The prior year has been restated following the retrospective adoption of IFRS 17 in the current year. Refer to note 2 for further details.
[2] The economic scenarios utilised in the prior year period were more severe which led to the sensitivity analysis yielding higher impacts. This is particularly prevalent with regards to lifetime PDs, which are also used in the staging assessment. As PDs were higher, more accounts triggered the staging criteria and therefore the impact was greater.

46. Risk Management (continued)

Management Overlays

The economic forecasts received by the Group during the period suggest ongoing uncertainty in the wider macro-economic environment remains, mainly as a result of inflationary pressures, which are impacting interest rates and exacerbating the cost of living. The economic environment experienced during the pandemic, coupled with the unprecedented nature of government support measures, has broken the historically observed relationship between unemployment and default, on which the Group's models are based.

As a result, Management has recognised PMAs of £28.4m at 29 February 2024 in respect of economic uncertainty to address these prevailing downside risks and ensure that potential impacts of future stress are adequately provided for. The PMAs employed at 29 February 2024 are as follows:

- **Customer Uncertainty - £19.8m (February 2023: £22.0m)**: The current cost of living challenges makes a segment of the Group's customers more vulnerable to rises in inflation and a deterioration in their ability to repay unsecured lending balances. Management's approach includes calculating income and expenditure estimations and specifically identifies customers with a negative current monthly net free income. 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 to 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 £12.0m. As the economic outlook deteriorated, some of these customers were transferred to Stage 2 during the period 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 - £8.6m (February 2023: £68.0m)**: This PMA addresses the underestimation risk caused by uncertainty in respect of recent performance data recognised through the pandemic. In the prior year, this PMA also included model limitations in PD models which have since been implemented through model recalibration. Comparing historical trends to the most recent projected Credit Cards EAD curves have identified some gaps in this estimation and Management believe the Group's current 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. In arriving at this PMA, Management have taken account of the refinement during the period in estimates relating to the level of risk in the Group's Personal Loans book.

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.

46. 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				Stage 3	Total
2024		**Not past due**	**<30 days past due**	**>30 days past due**	**Total**		
Group	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Gross Exposure[1]							
Assets of the disposal group	6,687.3	1,140.5	43.9	30.2	1,214.6	233.0	8,134.9
- Credit cards	*3,271.5*	*757.9*	*22.4*	*16.5*	*796.8*	*155.2*	*4,223.5*
- Other personal lending	*3,415.8*	*382.6*	*21.5*	*13.7*	*417.8*	*77.8*	*3,911.4*
Investment securities at FVOCI	681.6	–	–	–	–	–	681.6
Investment securities at amortised cost	833.5	–	–	–	–	–	833.5
Loan commitments - Loans and advances to customers[2]	12,257.3	573.8	7.6	1.2	582.6	9.6	12,849.5
Total gross exposure	**20,459.7**	**1,714.3**	**51.5**	**31.4**	**1,797.2**	**242.6**	**22,499.5**
Loss allowance[1]							
Assets of the disposal group[2]	70.0	189.3	18.4	16.5	224.2	138.6	432.8
- Credit cards	*40.7*	*155.5*	*10.5*	*8.7*	*174.7*	*96.4*	*311.8*
- Other personal lending	*29.3*	*33.8*	*7.9*	*7.8*	*49.5*	*42.2*	*121.0*
Investment securities at FVOCI[3]	1.0	–	–	–	–	–	1.0
Investment securities at amortised cost	0.2	–	–	–	–	–	0.2
Total loss allowance	**71.2**	**189.3**	**18.4**	**16.5**	**224.2**	**138.6**	**434.0**
Net Exposure							
Assets of the disposal group	6,617.3	951.2	25.5	13.7	990.4	94.4	7,702.1
Investment securities at FVOCI	680.6	–	–	–	–	–	680.6
Investment securities at amortised cost	833.3	–	–	–	–	–	833.3
Total net exposure	**8,131.2**	**951.2**	**25.5**	**13.7**	**990.4**	**94.4**	**9,216.0**
Coverage							
Assets of the disposal group	1.0%	16.6%	41.9%	54.6%	18.5%	59.5%	5.3%

[1] On a Company basis, loans and advances to subsidiary companies of £382.6m are considered to be low risk and stage 1. The related loss allowance of £2.0m 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 notes 20 and 36..

[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.

46. Risk Management (continued)

2023	Stage 1	Stage 2				Stage 3	Total
		Not past due	<30 days past due	>30 days past due	Total		
Group	£m	£m	£m	£m	£m	£m	£m
	Restated[1]		Restated[4]	Restated[4]	Restated[4]		Restated[4]
Gross Exposure							
Loans and advances to customers	5,687.2	1,559.4	39.6	23.4	1,622.4	202.4	7,512.0
- Credit cards	*3,112.6*	*820.2*	*21.3*	*13.4*	*854.9*	*133.1*	*4,100.6*
- Other personal lending[1]	*2,574.6*	*739.2*	*18.3*	*10.0*	*767.5*	*69.3*	*3,411.4*
Investment securities at FVOCI	564.8	-	-	-	-	-	564.8
Investment securities at amortised cost	883.2	-	-	-	-	-	883.2
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	**18,643.3**	**2,248.9**	**45.6**	**24.3**	**2,318.8**	**210.1**	**21,172.2**
Loss allowance							
Loans and advances to customers[2]	56.6	258.3	18.7	13.7	290.7	112.4	459.7
- Credit cards	*35.8*	*212.9*	*10.7*	*7.9*	*231.5*	*79.4*	*346.7*
- Other personal lending[1]	*20.8*	*45.4*	*8.0*	*5.8*	*59.2*	*33.0*	*113.0*
Investment securities at FVOCI[3]	1.3	-	-	-	-	-	1.3
Investment securities at amortised cost	0.3	-	-	-	-	-	0.3
Total loss allowance	**58.2**	**258.3**	**18.7**	**13.7**	**290.7**	**112.4**	**461.3**
Net exposure							
Loans and advances to customers	5,630.6	1,301.1	20.9	9.7	1,331.7	90.0	7,052.3
Investment securities at FVOCI	563.5	-	-	-	-	-	563.5
Investment securities at amortised cost	882.9	-	-	-	-	-	882.9
Total net exposure	**7,077.0**	**1,301.1**	**20.9**	**9.7**	**1,331.7**	**90.0**	**8,498.7**
Coverage							
Loans and advances to customers	1.0%	16.6%	47.2%	58.5%	17.9%	55.5%	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 36.

[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.

[4] The prior year has been restated following the retrospective adoption of IFRS 17 in the current year. Refer to note 2 for further details.

46. Risk Management (continued)

The table below shows a breakdown of Stage 2 assets:

Group	**Maximum exposure to credit risk**	
	Assets of the disposal group	
	Gross Loans and Advances	**Total ECL**
	£m	**£m**
2024		
Currently > 30 days past due	30.2	16.5
Total currently >30 days past due	**30.2**	**16.5**
Quantitative triggers	568.0	142.5
Qualitative triggers	616.4	65.3
Total currently <30 days past due	**1,184.4**	**207.8**
Total Stage 2 at 29 February 2024	**1,214.6**	**224.3**

Group	Maximum exposure to credit risk	
	Net loans and advances	
	Gross Loans and Advances	Total ECL
	£m	£m
	Restated[1]	Restated[2]
2023		
Currently > 30 days past due	23.4	13.7
Total currently >30 days past due	23.4	13.7
Quantitative triggers	1,111.4	226.7
Qualitative triggers	487.6	50.3
Total currently <30 days past due	1,599.0	277.0
Total Stage 2 at 28 February 2023	1,622.4	290.7

[1]The prior year has been restated following the retrospective adoption of IFRS 17 in the current year. Refer to note 2 for further details.

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 included within assets of the disposal group at 29 February 2024 for which an ECL allowance is recognised. In the prior year, these balances were included within loans and advances to customers.

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%

46. Risk Management (continued)

IFRS 9 staging classification in the tables below is based on a combination of quantitative and qualitative factors, including forward-looking elements, to determine a significant increase in credit risk since origination of the financial asset. This contrasts with credit quality, which is based solely on PD. As such, there is no direct relationship between staging and credit quality.

Group[1,]	2024									
	Stage 1			Stage 2			Stage 3			Total
	Credit Cards £m	Other Personal Lending £m[12]	Total £m	Credit Cards £m	Other Personal Lending £m[1]	Total £m	Credit Cards £m	Other Personal Lending £m	Total £m	£m
Assets of the disposal group										
High quality	3,031.8	3,180.5	6,212.3	219.9	168.7	388.6	–	–	–	6,600.9
Satisfactory quality	233.5	231.0	464.5	407.4	162.7	570.1	–	–	–	1,034.6
Low quality and below standard	6.2	4.4	10.6	169.5	86.4	255.9	–	–	–	266.5
Credit impaired	–	–	–	–	–	–	155.2	77.7	232.9	232.9
Total	**3,271.5**	**3,415.9**	**6,687.4**	**796.8**	**417.8**	**1,214.6**	**155.2**	**77.7**	**232.9**	**8,134.9**
Loan Commitments										
High quality	12,107.8	–	12,107.8	415.8	–	415.8	–	–	–	12,523.6
Satisfactory quality	147.2	–	147.2	143.1	–	143.1	–	–	–	290.3
Low quality and below standard	2.2	–	2.2	23.7	–	23.7	–	–	–	25.9
Credit impaired	–	–	–	–	–	–	9.6	–	9.6	9.6
Total	**12,257.2**	**–**	**12,257.2**	**582.6**	**–**	**582.6**	**9.6**	**–**	**9.6**	**12,849.4**
Total exposure	**15,528.7**	**3,415.9**	**18,944.6**	**1,379.4**	**417.8**	**1,797.2**	**164.8**	**77.7**	**242.5**	**20,984.3**

[1] On a Company basis, loans and advances to subsidiary companies of £382.6m are considered to be low risk, high quality and stage 1.

46. Risk Management (continued)

Group[1, 2]	2023									
	Stage 1			Stage 2			Stage 3			Total
	Credit Cards £m	Other Personal Lending £m Restated[1]	Total £m Restated[1]	Credit Cards £m	Other Personal Lending £m Restated[1]	Total £m Restated[1]	Credit Cards £m	Other Personal Lending £m	Total £m	£m Restated[1]
Loans and advances to customers										
High quality	2,965.5	2,527.3	5,492.8	252.8	489.5	742.3	-	-	-	6,235.1
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	27.9	270.6	-	-	-	278.8
Credit impaired	-	-	-	-	-	-	133.1	69.3	202.4	202.4
Total	**3,112.6**	**2,574.6**	**5,687.2**	**854.9**	**767.5**	**1,622.4**	**133.1**	**69.3**	**202.4**	**7,512.0**
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 tandard	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**	**2,574.6**	**17,195.3**	**1,551.3**	**767.5**	**2,318.8**	**140.8**	**69.3**	**210.1**	**19,724.2**

[1] The prior year has been restated following the retrospective adoption of IFRS 17 in the current year. Refer to note 2 for further details.

[2] On a Company basis, loans and advances to subsidiary companies of £382.1m are considered to be low risk, high quality and stage 1.

46. Risk Management (continued)

Counterparty credit rating

Group	Long-term Rating	2024 £m	2023 £m
Investment securities at amortised cost	AAA to BBB	833.3	882.9
Investment securities at FVOCI	AAA to BBB	681.6	564.8
Total		**1,514.9**	**1,447.7**

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 internal capital adequacy assessment process (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	2024 £m	2023 £m Restated[1]
UK	22,251.5	20,476.6
Europe (excluding UK)	423.3	537.1
Other	473.5	359.9
Total	**23,148.3**	**21,373.6**

[1] The prior year has been restated following the retrospective adoption of IFRS 17 in the current year. Refer to note 2 for further details.

46. Risk Management (continued)

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	2024 £m	2023 £m Restated[1]
Financial institutions	1,428.9	1,441.7
Government	795.2	483.4
Individuals	20,531.5	19,201.5
Wholesale and retail trade	392.7	247.0
Total	**23,148.3**	**21,373.6**

[1] The prior year has been restated following the retrospective adoption of IFRS 17 in the current year. Refer to note 2 for further details.

46. 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:

2024	Stage 1	Stage 2	Stage 3	Total
Group[1]	**£m**	**£m**	**£m**	**£m**
Assets of the disposal group				
At 1 March 2023	56.6	290.6	112.5	459.7
Transfers[2, 4]				
Transfers from stage 1 to stage 2	(7.1)	7.1	–	–
Transfers from stage 2 to stage 1	104.4	(104.4)	–	–
Transfers to stage 3	(1.1)	(41.7)	42.8	–
Transfers from stage 3	0.9	1.5	(2.4)	–
Income statement charge - discontinued operations				
Net remeasurement[3] following transfer of stage[4]	(74.7)	21.6	57.8	4.7
New financial assets originated[5]	35.3	37.6	11.2	84.1
Financial assets derecognised during year	(6.0)	(13.8)	(3.2)	(23.0)
Changes in risk parameters and other movements[6]	(36.1)	27.0	25.1	16.0
Other movements				
Write-offs and asset disposals[7]	(0.1)	–	(105.2)	(105.3)
Transfer to provisions for liabilities and charges[8]	(2.1)	(1.3)	–	(3.4)
ECL allowance at 29 February 2024	**70.0**	**224.2**	**138.6**	**432.8**
Investment securities at FVOCI - loss allowance				
At 1 March 2023	1.3	–	–	1.3
Income statement charge - continuing operations				
New financial assets purchased	0.4	–	–	0.4
Changes in risk parameters and other movements	(0.7)	–	–	(0.7)
ECL allowance at 29 February 2024	**1.0**	**–**	**–**	**1.0**
Investment securities at amortised cost - loss allowance				
At 1 March 2023	0.3	–	–	0.3
Income statement charge - continuing operations	–	–	–	–
Changes in risk parameters and other movements[6]	(0.1)	–	–	(0.1)
ECL allowance at 29 February 2024	**0.2**	**–**	**–**	**0.2**
Reconciliation to income statement				
Net expected credit loss charge	(81.9)	72.4	90.9	81.4
Recoveries of amount written off previously	–	–	(17.1)	(17.1)
Total income statement credit	**(81.9)**	**72.4**	**73.8**	**64.3**
Comprising:				
- Continuing operations	(0.4)	–	–	(0.4)
- Discontinued operations	(81.5)	72.4	73.8	64.7

[1] On a Company basis, the movements in loss allowance for the year ended 29 February 2024 of £0.8m 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 release in stages 1 and 2 ECL of £67.6m 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 (1, 2 or 3) at 29 February 2024.
[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 to provisions for liabilities and charges - The movement in loss allowance which exceeds the gross carrying amount of the financial asset.

46. Risk Management (continued)

2023	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m
Group[1]	Restated[2]	Restated[2]	Restated[2]	Restated[2]
Loans and advances to customers				
At 1 March 2022	94.0	265.8	127.4	487.2
Transfers[3,5]				
Transfers from stage 1 to stage 2	(19.4)	19.4	-	-
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 - discontinued operations				
Net remeasurement[4] following transfer of stage[5]	(8.4)	27.1	54.7	73.4
New financial assets originated[6]	23.7	63.2	6.8	93.7
Financial assets derecognised during year	(5.6)	(4.9)	(3.4)	(13.9)
Changes in risk parameters and other movements[7]	(47.6)	(41.2)	10.7	(78.1)
Other movements				
Write-offs and asset disposals[8]	-	-	(105.5)	(105.5)
Transfer from provisions for liabilities and charges[9]	2.1	0.8	-	2.9
ECL allowance at 28 February 2023	**56.6**	**290.7**	**112.4**	**459.7**
Investment securities at FVOCI - loss allowance				
At 1 March 2022	0.8	-	-	0.8
Income statement charge - continuing operations				
New financial assets purchased	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	0.3	-	-	0.3
Income statement charge - continuing operations	-	-	-	-
ECL allowance at 28 February 2023	**0.3**	**-**	**-**	**0.3**
Reconciliation to income statement				
Net expected credit loss charge	(37.4)	44.2	68.8	75.6
Recoveries of amounts written off previously	-	-	(15.1)	(15.1)
Total income statement charge	**(37.4)**	**44.2**	**53.7**	**60.5**
- Continuing operations	0.5	-	-	0.5
- Discontinued operations	(37.9)	44.2	53.7	60.0

[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] The prior year has been restated following the retrospective adoption of IFRS 17 in the current year. Refer to note 2 for further details.
[3] Transfers - The opening loss allowance on financial assets which transferred stage during the year.
[4] Net remeasurement - The increase/(decrease) in the opening loss allowance as a result of a stage transfer.
[5] Includes a credit in stages 1 and 2 ECL of £116.3m due to a change in the macro-economic scenarios assumptions.
[6] New financial assets originated or purchased - The loss allowance on new financial assets originated or purchased during the year, representing their stage (1, 2 or 3) at 28 February 2023.
[7] 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.
[8] 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.
[9] Transfer from provisions for liabilities and charges - The movement in loss allowance which exceeds the gross carrying amount of the financial asset.

46. 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:

2024	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Group[1]	**£m**	**£m**	**£m**	**£m**
Assets of the disposal group				
Gross carrying amount				
At 1 March 2023	5,687.2	1,622.4	202.4	7,512.0
Transfers[2]				
Transfers from stage 1 to stage 2	(413.4)	413.4	–	–
Transfers from stage 2 to stage 1	720.8	(720.8)	–	–
Transfers to stage 3	(46.2)	(113.7)	160.0	0.1
Transfers from stage 3	1.7	3.0	(4.7)	–
Other movements				
New financial assets originated[3]	2,260.1	222.8	15.7	2,498.6
Net decrease in lending[4]	(1,533.8)	(215.0)	(11.8)	(1,760.6)
Write-offs and asset disposals[5]	(2.4)	(0.2)	(123.3)	(125.9)
Changes in interest accrual and other movements	13.2	2.7	(5.3)	10.6
At 29 February 2024	**6,687.2**	**1,214.6**	**233.0**	**8,134.8**
Investment securities at FVOCI				
Gross carrying amount				
At 1 March 2023	564.8	–	–	564.8
New financial assets purchased	145.6	–	–	145.6
Financial assets derecognised during the year	(45.4)	–	–	(45.4)
Other movements	16.6	–	–	16.6
At 29 February 2024	**681.6**	**–**	**–**	**681.6**
Investment securities at amortised cost				
Gross carrying amount				
At 1 March 2023	883.2	–	–	883.2
New financial assets purchased[3]	239.7	–	–	239.7
Financial assets derecognised during the year	(301.8)	–	–	(301.8)
Other movements	12.4	–	–	12.4
At 29 February 2024	**833.5**	**–**	**–**	**833.5**

[1] On a Company basis, loans and advances to subsidiary companies of £382.6m 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 29 February 2024.
[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.

46. Risk Management (continued)

2023	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m
Group[1]	Restated[2]	Restated[2]	Restated[2]	Restated[2]
Loans and advances to customers				
Gross carrying amount				
At 1 March 2022	5,873.7	835.1	200.9	6,909.7
Transfers[3]				
Transfers from stage 1 to stage 2	(1,120.0)	1,120.0	-	-
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[4]	1,864.9	325.9	8.8	2,199.6
Net decrease in lending[5]	(1,170.0)	(299.0)	(19.6)	(1,488.6)
Write-offs and asset disposals[6]	(2.8)	(0.2)	(118.1)	(121.1)
Changes in interest accrual and other movements	(1.7)	0.9	13.2	12.4
At 28 February 2023	**5,687.2**	**1,622.4**	**202.4**	**7,512.0**
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)
Other movements	(54.6)	-	-	(54.6)
At 28 February 2023	**564.8**	**-**	**-**	**564.8**
Investment securities at amortised cost				
Gross carrying amount				
At 1 March 2022	857.7	-	-	857.7
New financial assets purchased[4]	135.8	-	-	135.8
Financial assets derecognised during the year	(74.2)	-	-	(74.2)
Other movements	(36.1)	-	-	(36.1)
At 28 February 2023	**833.2**	**-**	**-**	**833.2**

[1] On a Company basis, loans and advances to subsidiary companies of £382.1m are considered to be low risk and stage 1.
[2] The prior year has been restated following the retrospective adoption of IFRS 17 in the current year. Refer to note 2 for further details.
[3] Transfers - The opening gross carrying amount of financial assets held which transferred stage as at year-end.
[4] 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.
[5] 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.
[6] 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.

46. 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 29 February 2024 was £99.1m (2023: £115.3m). 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.

	Gross loans and advances subject to forbearance programmes - Disposal group	Gross loans and advances subject to forbearance programmes	Forbearance programmes as a proportion of total loans and advances by category - Disposal group	Forbearance programmes as a proportion of total loans and advances by category	Proportion of forbearance programmes covered by impairment provision	
Group	**2024**	2023	**2024**	2023	**2024**	2023
	£m	£m	**%**	%	**%**	%
Credit Cards	123.1	101.9	2.9	2.5	53.3	49.2
Loans	39.7	29.6	1.0	0.9	44.3	31.3

46. 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 Risk Management Framework (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 RMF;
- working with relevant business areas to make sure that Risk Management responsibilities across the Business Areas are understood and that those responsibilities are executed as defined in the RMF;
- 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 RMF which defines the minimum requirements for the management of risk including the Policy Framework. A Board-approved policy is required for each of the principal risks unless otherwise agreed by the CRO.

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). Under the RCSA process, risks are 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 compliments 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.

46. Risk Management (continued)

Controls and risk mitigants

Liquidity and funding risk is assessed through the internal liquidity adequacy assessment process (ILAAP) on at least an annual basis. The ILAAP process involves detailed consideration of the following:

- identification of sources of liquidity risk;
- quantification of those risks through stress testing;
- consideration of management processes and controls to 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 considers 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 ALCo on a regular basis to provide evidence that sufficient liquidity is held to meet financial obligations in a stress.

46. 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 part of these retail deposits are repayable on demand on a contractual basis. The Group continuously monitors retail deposit activity so that it can reasonably predict expected maturity flows. 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		**2024**	**2023**
	Note	**£m**	**£m**
On balance sheet			
Deposits from banks		908.1	979.7
Deposits from customers		–	5,769.6
Subordinated liabilities and notes		237.5	236.9
Debt securities in issue		143.2	137.5
Liabilities of the disposal group:			
- Deposits from customers	20	6,439.8	-
- Debt securities in issue	20	549.0	-
Total on balance sheet funding		**8,277.6**	**7,123.7**

46. 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.

Group	Within 1 year £m	Between 1 and 2 years £m	Between 2 and 3 years £m	Between 3 and 4 years £m	Between 4 and 5 years £m	Beyond 5 years £m	Total £m
2024							
Deposits from banks	150.8	820.2	–	–	–	–	971.0
Debt securities in issue	149.8	–	–	–	–	–	149.8
Other liabilities:							
-Lease liabilities	1.5	0.1	0.1	0.1	0.1	0.5	2.4
- Other liabilities excluding lease liabilities	103.1	–	–	–	–	–	103.1
Subordinated liabilities	16.4	196.3	3.0	2.8	2.7	85.0	306.2
Liabilities of the disposal group	5,788.3	480.8	681.2	128.3	130.0	2.0	7,210.6
Total financial liabilities	**6,209.9**	**1,497.4**	**684.3**	**131.2**	**132.8**	**87.5**	**8,743.1**
2023[1]							
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	159.6	-	-	-	-	-	159.6
Subordinated liabilities	7.4	7.3	192.9	1.5	1.5	67.2	277.8
Total financial liabilities	4,895.0	1,236.0	1,171.4	34.5	124.7	74.2	7,535.9

[1] The prior year has been restated following the retrospective adoption of IFRS 17 in the current year. Refer to note 2 for further details.

46. Risk Management (continued)

Company	**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**
Financial liabilities:	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
2024							
Debt securities in issue	149.8	–	–	–	–	–	149.8
Subordinated liabilities	16.4	196.3	3.0	2.8	2.7	85.0	306.2
Total financial liabilities	**166.2**	**196.3**	**3.0**	**2.8**	**2.7**	**85.0**	**456.0**
2023							
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

The table below shows information about the estimated timing of undiscounted cash flows in relation to insurance claims liabilities, net of salvage and subrogation recoveries. The estimated phasing is based on current estimates and the actual timing of future settlement cash flows may differ from that disclosed below.

Group

	2024	2023
	£m	£m
Payment period:		Restated[1]
Within 1 year	120.8	125.4
Between 1 and 2 years	67.3	70.8
Between 2 and 3 years	54.2	55.9
Between 3 and 4 years	34.1	37.3
Between 4 and 5 years	22.1	22.4
Beyond 5 years	56.1	59.6
Total	**354.6**	371.4

[1]The prior year has been restated following the retrospective adoption of IFRS 17 in the current year. Refer to note 2 for further details.

46. 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 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 **2024**	**Encumbered** **£m**	**Unencumbered** **£m**	**Total** **£m**
Encumbered asset summary			
Investment securities - FVOCI	–	681.6	681.6
Investment securities - FVPL	–	17.8	17.8
Investment securities - amortised cost	–	833.3	833.3
Assets of the disposal group	2,035.8	6,080.6	8,116.4
Cash and balances with central banks	55.1	414.9	470.0
Other assets	31.8	117.5	149.3
	2,122.7	**8,145.7**	**10,268.4**
Encumbered assets of the disposal group			
Securitisation - Delamare Master Trust	714.0		
Personal Loans	1,528.5		
	2,242.5		
Encumbered cash and balances with central banks			
Cash ratio deposit	25.1		
Reserves Collateralisation Account	30.0		
	55.1		
Encumbered other assets			
Initial margin held at Clearing Houses	31.8		
	31.8		

46. Risk Management (continued)

Group	Encumbered	Unencumbered	Total
		£m	£m
2023	£m	Restated[1]	Restated[1]
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	5,447.6	6,977.7
Cash and balances with central banks	43.4	417.7	461.1
Other assets	30.6	72.8	103.4
	1,691.0	**7,501.0**	**9,010.0**
Encumbered investment securities - amortised cost			
Debt securities at amortised cost	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		

[1] The prior year has been restated following the retrospective adoption of IFRS 17 in the current year. Refer to note 2 for further details.

- **Loans and advances assigned for use as collateral in securitisation transactions**

At 29 February 2024, £3,129.8m (2023: £2,880.8m) 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 £714.0m (2023: £1,136.5m).

At 29 February 2024, Delamare Cards MTN Issuer plc had £2,240.0m (2023: £1,840.0m) notes in issue in relation to securitisation transactions.

At 29 February 2024, none (2023: £1,550.0m) of the class A retained Credit Card-backed notes are held within their single collateral pool.

- **Loans and advances prepositioned with the BoE**

Group	**2024**	2023
	£m	£m
Credit Card-backed notes[1]	–	1,550.0
Unsecured Personal Loans	2,371.1	1,606.8
Total assets prepositioned as collateral with the BoE	**2,371.1**	3,156.8
Collateralised TFSME drawings	900.0	900.0
Total	**900.0**	900.0

[1] Issued by Delamare Cards MTN Issuer plc.

46. Risk Management (continued)

Undrawn Committed Facilities

The Group has the following undrawn committed facilities available to it:

Group	2024 £m	2023 £m
Expiring in less than one year	200.0	–
Expiring between one and two years	–	200.0
Total	**200.0**	200.0

The undrawn committed facility is a £200.0m (2023: £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 Group's earnings or economic value.

The Group assesses interest rate risk in the banking book (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.

46. 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.

The Treasury function measures and assesses the Group's earnings and valuation sensitivities to movements in interest rates against Board approved risk appetites monthly. These results are presented to TCo, ALCo, ERC, BRC and the Board. The interest rate shock scenarios modelled 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 (ΔEVE): 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. The measure is based on conditional cash flow modelling and is modelled on a run-off basis.

Changes to Net Interest Income (ΔNII): 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.

	ΔEVE		**ΔNII**	
Group	**2024**	2023	**2024**	2023
	£m	£m	**£m**	£m
		Restated		
Parallel shock up	(9.1)	(34.1)	(4.6)	(4.5)
Parallel shock down	(9.2)	(4.9)	(9.9)	(11.6)
Steepener shock	0.5	(3.3)	n/a	n/a
Flattener shock	(4.7)	(12.4)	n/a	n/a
Short rates shock up	(7.2)	(21.5)	n/a	n/a
Short rates shock down	(1.7)	10.4	n/a	n/a
Maximum	**(9.2)**	**(34.1)**	**(9.9)**	**(11.6)**
Tier 1 capital	**947.6**	1,603.5	**n/a**	**n/a**
Maximum/Tier 1 Capital	**1.0%**	**2.1%**	**n/a**	**n/a**

- **Foreign exchange risk**

Foreign exchange risk is the current or prospective risk to both earnings and economic value arising from movements in foreign 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.

46. 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 29 February 2024 was £9.2m (2023: £2.6m), representing the Group's net assets (2023: 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 RMF 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.

46. 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 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 (BI) 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 BI claims.

46. Risk Management (continued)

The liability for incurred claims is sensitive to the key assumptions in the table below. It has not been possible to quantify the sensitivity of certain assumptions such as legislative changes or uncertainty in the estimation process.

The following sensitivity analysis shows the impact on gross and net liabilities, profit before tax and equity for reasonably possible movements in key assumptions with all other assumptions (refer note 3) held constant. The correlation of assumptions will have a significant effect in determining the ultimate impacts, but to demonstrate the impact due to changes in each assumption, assumptions have been changed on an individual basis. It should be noted that movements in these assumptions are non-linear. The method used for deriving sensitivity information and significant assumptions did not change from the prior year.

The tables below show the sensitivity of changes in the following risk variables on profit before tax and equity:

2024	**Effect of scenario on:**			
	Profit before tax		**Equity**	
Scenario	**Before reinsurance £m**	**Net of reinsurance £m**	**Before reinsurance £m**	**Net of reinsurance £m**
Reserves increase by 5%	18.3	14.8	13.7	11.1
Reserves decrease by 5%	(18.3)	(14.8)	(13.7)	(11.1)
Yield curve +100bp	(3.0)	(1.9)	(8.7)	(5.0)
Yield curve -100bp	3.4	1.9	10.5	5.8
Home insurance: £30m weather event (all claims within 96hrs)	30.0	13.5	22.5	10.1
Motor insurance - large BI claims:				
Inflation: +200bp for 2024 and +175bp for 2025	4.2	3.6	3.1	2.7
Extra lump sum claims of £20m, £10m and £5m on 2022 underwriting year	35.0	10.7	26.3	8.1
Reinsurance recovery rate +8% 2018 – 2022	-	(11.8)	-	(8.9)
Reinsurance recovery rate -8% 2018 – 2022	-	11.8	-	8.9

- **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.

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.

46. Risk Management (continued)

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**	
	2024	2023	**2024**	2023	**2024**	2023
Group	**£m**	£m	**£m**	£m	**£m**	£m
Government-backed investment securities	67.3	56.0	(6.7)	(5.6)	60.6	50.4
Supranational investment securities	50.9	31.0	(5.1)	(3.1)	45.8	27.9
Corporate bonds	554.9	469.2	(55.5)	(46.9)	499.4	422.3
Other investment securities	8.5	8.6	(0.9)	(0.9)	7.6	7.7
Investment securities - FVPL	17.8	20.1	(1.8)	(2.0)	16.0	18.1
	699.4	**584.9**	**(70.0)**	**(58.5)**	**629.4**	**526.4**

46. 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 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 29 February 2024. 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:

Accounts and Disclosures (tescoplc.com)

These show that TU's capital position is resilient to a range of possible scenarios. TU also maintains a capital contingency plan supported by the Company. TU's unaudited available capital has remained above its SCR requirement during the period to 29 February 2024; and capital coverage of TU's SCR of £140.7m (unaudited) at the end of February 2024 was 171.0% (unaudited) (2023: capital coverage of TU's SCR of £122.8m (unaudited) was 159.0% (unaudited)). TU has met all relevant capital requirements throughout the year.

The Group owns 100% (2023: 100%) of TU's ordinary share capital of £129.7m (2023: £129.7m) and provides 100% (2023: 100%) of its subordinated debt of £42.3m (2023: £42.3m).

47. 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.

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.

	2024				2023			
Group[1]	**Amortised cost £m**	**FVPL £m**	**FVOCI £m**	**TOTAL £m**	Amortised cost £m Restated[1]	FVPL £m	FVOCI £m	TOTAL £m Restated[2]
Financial assets								
Cash and balances with central banks[3]	435.4	34.6	–	470.0	429.0	32.1	-	461.1
Loans and advances to banks	27.5	–	–	27.5	26.7	-	-	26.7
Loans and advances to customers	–	–	–	–	6,977.7	-	-	6,977.7
Derivative financial instruments	–	28.9	–	28.9	-	121.4	-	121.4
Investment securities	833.3	17.8	681.6	1,532.7	882.9	20.1	564.8	1,467.8
Other assets	149.3	–	–	149.3	103.4	-	-	103.4
Total financial assets	**1,445.5**	**81.3**	**681.6**	**2,208.4**	**8,419.7**	**173.6**	**564.8**	**9,158.1**
Financial liabilities								
Deposits from banks	908.1	–	–	908.1	979.7	-	-	979.7
Deposits from customers	–	–	–	–	5,769.6	-	-	5,769.6
Debt securities in issue	143.2	–	–	–	137.5	-	-	137.5
Derivative financial instruments	–	8.7	–	8.7	-	16.9	-	16.9
Other liabilities	104.5	–	–	104.5	195.7	-	-	195.7
Subordinated liabilities	237.5	–	–	237.5	236.9	-	-	236.9
Total financial liabilities	**1,393.3**	**8.7**	**–**	**1,258.8**	**7,319.4**	**16.9**	**-**	**7,336.3**

[1]On a Company basis, cash and balances with central banks is £9.8m (2023: £8.1m) and loans and advances to subsidiary companies is £380.6m (2023: £379.3m), both of which are held at amortised cost.
[2]The prior year has been restated following the retrospective adoption of IFRS 17 in the current year. Refer to note 2 for further details.
[3] Cash balances relating to the Group's Travel Money offering are carried at fair value under IFRS 9.

47. Financial Instruments (continued)

Offsetting

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

Group		**Related amounts not offset**		
2024	**Gross and net amounts presented in Statement of Financial Position**	**Financial instruments**	**Collateral (received) /pledged**	**Net amounts**
	£m	**£m**	**£m**	**£m**
Financial assets				
Derivative financial instruments	28.9	(8.7)	(20.2)	–
Total financial assets	**28.9**	**(8.7)**	**(20.2)**	**–**
Financial liabilities				
Derivative financial instruments	(8.7)	8.7	–	–
Total financial liabilities	**(8.7)**	**8.7**	**–**	**–**

Group		Related amounts not offset		
2023	Gross and net amounts presented in Statement of Financial Position	Financial instruments	Collateral (received) /pledged	Net amounts
	£m	£m	£m	£m
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	-

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.

47. 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]	2024		2023	
	Carrying value £m	Fair Value £m	Carrying value £m Restated[3]	Fair value £m Restated[3]
Financial assets				
Loans and advances to customers	–	–	6,977.7	6,954.8
Investment securities - amortised cost	833.3	833.4	882.9	884.5
	833.3	**833.4**	**7,860.6**	**7,839.3**
Financial liabilities				
Deposits from customers	–	–	5,769.3	5,640.1
Debt securities in issue	143.2	143.4	137.5	135.3
Subordinated liabilities	237.5	213.9	236.9	183.8
	380.7	**357.3**	**6,144.1**	**5,959.3**

[1] On a Company basis, loans and advances to subsidiary companies have a carrying value of £380.6m (2023: £379.3m), with a fair value of £354.9m (2023: £317.5m). 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.

[3] The prior year has been restated following the retrospective adoption of IFRS 17 in the current year. Refer to note 2 for further details.

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.

47. 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 2024	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets carried at fair value				
Cash in hand[2]	–	34.6	–	34.6
Investment securities - FVOCI	681.6	–	–	681.6
Investment securities - FVPL	–	–	17.8	17.8
Derivative financial instruments:				
- Interest rate swaps	–	28.9	–	28.9
Financial assets carried at amortised cost				
Investment securities – amortised cost	833.4	–	–	833.4
Total	**1,515.0**	**63.5**	**17.8**	**1,596.3**
Financial liabilities carried at fair value				
Derivative financial instruments:				
- Interest rate swaps	–	8.5	–	8.5
- Forward foreign currency contracts	–	0.2	–	0.2
Financial liabilities carried at amortised cost				
Debt securities in issue	143.4	–	–	–
Subordinated liabilities	–	213.9	–	213.9
Total	**–**	**222.6**	**–**	**222.6**

[1] On a Company basis, loans and advances to subsidiary companies of £354.9m 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.[2] Cash balances relating to the Group's Travel Money offering are carried at fair value under IFRS 9.

47. Financial Instruments (continued)

Group[1]	Level 1	Level 2	Level 3	Total
			£m	£m
2023	£m	£m	Restated[2]	Restated[1]
Financial assets carried at fair value				
Cash in hand[3]	-	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	-	-	6,954.8	6,954.8
Investment securities – amortised cost	884.5	-	-	884.5
Total	**1,449.3**	**153.5**	**6,974.9**	**8,577.7**
Financial liabilities carried at fair value				
Derivative financial instruments:				
- Interest rate swaps	-	16.8	-	16.8
- Forward foreign currency contacts	-	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**	**200.8**	**5,640.1**	**5,976.2**

[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] The prior year has been restated following the retrospective adoption of IFRS 17 in the current year. Refer to note 2 for further details.

[3] Cash balances relating to the Group's Travel Money offering are carried at fair value under IFRS 9.

47. 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.

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.

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. In the prior year, the estimated fair value of loans and advances represented the discounted amount of estimated future cash flows expected to be received. Expected cash flows were discounted at current market rates to determine fair value. In the current year, these balances are included within the disposal group relating to the sale of the Group's Banking business, which is measured in total at FVLCS.

In the prior year, the estimated fair value of deposits from customers represented the discounted amount of estimated future cash flows expected to be paid. Expected cash flows were discounted at current market rates to determine fair value. In the current year, these balances are included within the disposal group relating to the sale of the Group's Banking business, which is measured in total at FVLCS.

The estimated fair value of financial assets classified as FVPL relating to the Group's holding in VISA Inc. is described in note 26. 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 2024.

Transfers

There were no transfers between Levels 1 and Level 2 in the year to 29 February 2024 (2023: no transfers).

The were no transfers between Level 2 and Level 3 in the year to 29 February 2024 (2023: transfers totalling £19.2m) and no transfers from Level 3 to Level 2 (2023: transfers totalling £1.9m).

48. Cash and cash equivalents

	Group		Company	
	2024	2023	**2024**	2023
	£m	£m	**£m**	£m
Cash and balances with central banks (refer note 21)	414.9	417.7	9.8	8.1
Loans and advances to banks (refer note 22)	27.5	26.7	–	–
Assets of the disposal group	345.9	–	–	–
Total cash and cash equivalents	**788.3**	444.4	**9.8**	8.1

49. Cash Flows from Operating Activities

	Note	Group 2024 £m	Group 2023 £m Restated[1]	Company 2024 £m	Company 2023 £m
Non-cash and other items included in profit before tax					
Non-cash items:					
Expected credit loss charge/(credit) - discontinued operations	20, 46	64.7	60.0	–	–
Expected credit loss charge/(credit) - continuing operations	16, 46	(0.4)	0.5	(0.8)	1.0
Depreciation and amortisation		46.3	53.6	–	–
Impairment of non-current assets		96.1	–	–	–
Loss on assets held for sale		424.9	–	–	–
Loss on disposal of investment securities		–	(0.1)	–	–
Loss on disposal of non-current assets		1.3	0.9	–	–
Loss on redemption of debt securities		–	2.8	–	0.4
Deferred acquisition costs		1.0	(9.1)	–	–
Net insurance finance result		5.5	3.1	–	–
Provisions for liabilities and charges	36	4.1	10.9	–	–
Equity-settled share based payments		2.6	(5.1)	–	–
Fair value movements		(0.4)	4.9	–	–
Interest on debt securities in issue		25.0	7.9	5.2	7.9
Interest on assets hedging subordinated liabilities and notes		6.4	(2.6)	–	–
Interest on subordinated liabilities		14.7	8.1	14.7	8.1
Interest on lease liabilities		1.6	1.8	–	–
Total		**693.4**	**137.6**	**19.1**	**17.4**
Changes in operating assets and liabilities					
Net movement in mandatory balances with central banks		(11.6)	(1.8)	–	–
Net movement in loans and advances to customers		(711.1)	(692.7)	–	–
Net movement in reinsurance contract assets		2.2	16.5	–	–
Net movement in prepayments and accrued income		(9.7)	(5.2)	–	–
Net movement in other assets		3.2	73.1	–	–
Net movement in deposits from banks		(71.6)	(72.6)	–	–
Net movement in deposits from customers		669.1	445.2	–	–
Net movement in accruals and deferred income		9.3	(6.2)	(0.5)	(0.9)
Provisions utilised	36	(2.9)	(11.1)	–	–
Net movement in other liabilities		(41.8)	40.0	–	–
Net movement in insurance contract liabilities		23.2	(43.3)	–	–
Total		**(141.7)**	**(258.1)**	**(0.5)**	**(0.9)**

[1] The prior year has been restated following the retrospective adoption of IFRS 17 in the current year. Refer to note 2 for further details.

50. Reconciliation of Liabilities Relating to Financing Activities

Group	At 1 March 2023 £m	Financing Cash flows £m	Non-cash movements: Fair value change £m	Non-cash movements: Accrued Interest £m	Non-cash movements: Other £m	At 29 February 2024 £m
Debt securities in issue	(137.0)	(550.0)	(5.3)	(0.1)	1.6	(690.8)
Subordinated liabilities and notes	(235.0)	–	–	–	–	(235.0)
Interest payable:						
- Continuing operations	(2.4)	19.2	–	(19.8)	–	(3.0)
- Discontinued operations	–	19.0	–	(19.8)	–	(0.8)
Assets held to hedge fixed rate bonds	(8.5)	(6.2)	11.5	(0.2)	–	(3.4)
Lease liabilities:						
- Continuing operations	(3.9)	1.8	–	(0.2)	–	(2.3)
- Discontinued operations	(19.9)	3.8	–	(1.4)	–	(17.5)
Total liabilities from financing activities	**(406.7)**	**(512.4)**	**6.2**	**(41.5)**	**1.6**	**(952.8)**
Comprising:						
- Continuing operations	(386.8)	(535.2)	6.2	(20.3)	1.6	(934.5)
- Discontinued operations	(19.9)	22.8	–	(21.2)	–	(18.3)
Total financing activities	**(406.7)**	**(512.4)**	**6.2**	**(41.5)**	**1.6**	**(952.8)**

Group	At 1 March 2022 £m	Financing Cash flows £m	Non-cash movements: Fair value change £m	Non-cash movements: Accrued Interest £m	Non-cash movements: Other £m	At 28 February 2023 £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	(6.5)	2.6	(4.3)	(0.5)	–	(8.7)
Lease liabilities	(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)

50. Reconciliation of Liabilities Relating to Financing Activities (continued)

			Non-cash movements			
Company	**At 1 March 2023 £m**	**Financing Cash flows £m**	**Fair value change £m**	**Accrued Interest £m**	**Other £m**	**At 29 February 2024 £m**
Debt securities in issue	(144.7)	–	–	(0.1)	–	(144.8)
Subordinated liabilities and notes	(235.0)	–	–	–	–	(235.0)
Interest payable	(2.5)	19.2	–	(19.8)	–	(3.1)
Total liabilities from financing activities	**(382.2)**	**19.2**	**–**	**(19.9)**	**–**	**(382.9)**

			Non-cash movements			
Company	At 1 March 2022 £m	Financing Cash flows £m	Fair value change £m	Accrued Interest £m	Other £m	At 28 February 2023 £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)

51. 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 the 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, the 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. The original 'Day 1' IFRS 9 transitional relief ended on 1 March 2023 and the remaining transitional adjustment included in this note is due to the additional Covid-19 measures, which will be in place until 1 March 2025.

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 2024 £m	End Point 2024 £m	Transitional 2023 £m Restated[1]
Common equity tier 1			
Shareholders' equity (accounting capital) on a regulatory basis	963.8	963.8	1,663.7
Regulatory adjustments			
Unrealised (gains)/losses on cash flow hedge reserve	–	–	(0.1)
Adjustment to own credit/additional value adjustments	–	–	(0.1)
Foreseeable charges	(36.2)	(36.2)	-
Intangible assets	(19.4)	(19.4)	(108.8)
Material holdings in financial sector entities	(106.6)	(106.6)	(26.6)
Deferred tax assets arising from temporary differences	(7.2)	(7.2)	-
IFRS 9 transitional add back	4.9	–	75.7
Insufficient coverage for non-performing exposures	–	–	(0.4)
Common equity tier 1 capital	**799.3**	**794.4**	**1,603.4**
Additional tier 1 capital			
Other equity instruments	149.6	149.6	-
Total tier 1 capital	**948.9**	**944.0**	**1,603.4**
Tier 2 capital			
Undated subordinated notes	45.0	45.0	45.0
Dated subordinated notes net of regulatory amortisation	190.0	190.0	190.0
Regulatory adjustment - material holdings in financial sector entities	(42.0)	(42.0)	(42.0)
Total tier 2 capital	**193.0**	**193.0**	**193.0**
Total capital	**1,141.9**	**1,137.0**	**1,796.4**
Total risk-weighted assets (unaudited)	7,229.1	7,225.4	7,059.4
Capital ratios (unaudited):			
Common equity tier 1 ratio	11.1%	11.0%	22.7%
Tier 1 ratio	13.1%	13.1%	22.7%
Total capital ratio	15.8%	15.7%	25.4%

[1] The prior year has been restated following the recognition by the Group of a provision in respect of identified instances where the requirements for the provision of certain administrative post-contractual documentation to customers with CCA-regulated products have not been fully met. Refer to notes 2 and 36 for further details.

51. 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 TPFG as at 29 February 2024 is 9.8% (2023: 9.8%) of risk-weighted assets plus £68.0m (2023: £68.0m) as a static add-on for pension obligation risk.

The table below reconciles shareholders' equity of the Group to shareholders' equity of the Company on a regulatory basis:

	2024 £m	2023 £m Restated[1,2]
Tesco Personal Finance Group plc shareholders' equity	1,124.6	1,660.5
Subsidiaries' retained earnings	(29.3)	(25.0)
Subsidiary's other reserves	18.1	28.2
Tesco Personal Finance Group plc (Company) shareholders' equity on a regulatory basis	**1,113.4**	**1,663.7**

[1] The prior year has been restated following the retrospective adoption of IFRS 17 in the current year. Refer to note 2 for further details.
[2] The prior year has been restated following the recognition by the Group of a provision in respect of identified instances where the requirements for the provision of certain administrative post-contractual documentation to customers with CCA-regulated products have not been fully met. Refer to notes 2 and 36 for further details.

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 29 February 2024 are laid out in accordance with the requirements of the Disclosure (CRR) Part of the PRA Rulebook.

51. 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 2024 £m	End point 2024 £m	Transitional 2023 £m Restated[1,2]
Total balance sheet exposures	10,257.0	10,257.0	9,635.6
Adjustments for entities which are consolidated for accounting purposes but outside scope of regulatory consolidation	(534.1)	(534.1)	(483.0)
Adjustment for exemption of exposures to central bank	(633.4)	(633.4)	(307.8)
Removal of accounting value of derivatives and SFTs	(82.9)	(82.9)	(121.4)
Exposure value for derivatives and SFTs	17.3	17.3	31.1
Off balance sheet: unconditionally cancellable (10%)	1,285.0	1,285.0	1,221.2
Regulatory adjustment – intangible assets	(19.4)	(19.4)	(108.8)
Regulatory adjustment – other, including IFRS 9	(130.8)	(135.7)	38.0
Total	**10,158.7**	**10,153.8**	**9,904.9**
Tier 1 capital	**948.9**	**944.0**	**1,603.4**
Leverage ratio	9.3%	9.3%	16.2%

[1] The prior year has been restated following the retrospective adoption of IFRS 17 in the current year. Refer to note 2 for further details.
[2] The prior year has been restated following the recognition by the Group of a provision in respect of identified instances where the requirements for the provision of certain administrative post-contractual documentation to customers with CCA-regulated products have not been fully met. Refer to notes 2 and 36 for further details.

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.

Credit Risk

In December 2017 the Basel Committee on Banking Supervision (BCBS) finalised Basel III reforms for credit risk, including revisions to the calculation of risk-weighted assets and enhancements to the risk-sensitivity of the SAs to credit risk, constraining the use of internal model approaches by placing limits on certain inputs and replacing the existing Basel II output floors with a risk-sensitive floor based on the Committee's Basel III standardised approaches. On 21 March 2022 the PRA confirmed its intention that these changes will become effective on 1 July 2025.

Operational risk

In December 2017, the BCBS finalised Basel III reforms for operational risk by replacing all existing approaches in the Basel II framework with a single risk-sensitive SA to be used by all banks. The new SA increases the sensitivity by combining a refined measure of gross income with the bank's internal historical losses. On 21 March 2022 the PRA confirmed its intention that these changes will become effective on 1 January 2025.

51. Capital Resources (continued)

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 Standardised Approach (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. Although the Group does not meet the LREQ definitions, as a regulated firm, the PRA has stated that it still expects the Group to maintain a minimum leverage ratio of 3.25%.

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.

Following a change in the Company's resolution strategy confirmed by the BoE, 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 in November 2022, £144.7m of the MREL-compliant debt issued by the Company in July 2019 remains in issue.

52. 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	**2024**	2023
	£m	£m
Deposits from customers[1]		
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. Balances at 29 February 2024 are included within liabilities of the disposal group. Prior year balances were included within deposits from customers.

52. Related Party Transactions (continued)

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 17.

Group	2024	2023
	£m	£m
Short-term employee benefits	5.3	3.3
Other long-term benefits[1]	1.9	1.9
Share based payments	0.8	0.6
Total emoluments	**8.0**	**5.8**

[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.

Trading transactions

Group	2024	2024	2023	2023
	Tesco PLC	Tesco subsidiaries	Tesco PLC	Tesco subsidiaries
	£m	£m	£m	£m
Interest received and other income	–	5.1	-	2.0
Interest paid	(14.7)	(20.8)	(8.1)	0.2
Provision of services	–	(64.2)	-	(50.7)

Company	2024	2024	2023	2023
	Tesco PLC	Tesco subsidiaries	Tesco PLC	Tesco subsidiaries
	£m	£m	£m	£m
Interest received and other income	–	21.5	-	16.1
Dividend income	–	250.0	-	54.4
Interest paid	(14.7)	–	(8.1)	-
Provision of services	–	0.8	-	(1.0)

Balances owing to/from related parties are identified in notes 28, 29, 37, 38, 40, 41 and 42.

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.

53. 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 46.

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 29 February 2024 the Group had capital commitments related to property, plant and equipment and intangibles of £0.5m (2023: £2.7m). 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.

54. Share Based Payments

The total Group charge for the year, comprising continuing and discontinued operations, recognised in respect of share based payments is £9.2m (2023: £4.0m), which is made up of share option schemes and share bonus payments. Of this amount, £8.1m (2023: £3.5m) will be equity-settled and £1.1m (2023: £0.5m) cash-settled representing employee tax and National Insurance contributions.

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.

54. 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	WAEP (pence)
2024		
Outstanding at 1 March 2023	**3,894,298**	**201.16**
Granted	1,343,046	220.00
Forfeited	(488,261)	207.13
Exercised	(548,986)	207.35
Outstanding at 29 February 2024	**4,200,097**	**205.68**
Exercisable at 29 February 2024	**1,232**	**219.00**
Exercise price range (pence)		**219.00**
Weighted average remaining contractual life (years)		**0.00**
2023		
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

Share options were exercised on regularly throughout the financial year. The average Tesco share price during the year ended 29 February 2024 was 270.43p (2023: 254.05p).

54. Share Based Payments (continued)

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

Group	2024 Savings - related share options schemes	2023 Savings - related share options schemes
Expected dividend yield (%)	4.48% to 4.61%	4.96% - 5.43%
Expected volatility (%)	19.35% to 21.42%	22.25% - 22.53%
Risk free interest rate (%)	3.59% to 3.74%	3.54% - 3.59%
Expected life of option (years)	3 or 5	3 or 5
Weighted average fair value (WAFV) of options granted (pence)	66.75	46.82
Probability of forfeiture (%)	6% to 12%	7.00% - 9.00%
Share price (pence)	290.50	202.35
WAEP (pence)	220.00	182.00

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:

	2024 Shares (number)	2024 WAFV (pence)	2023 Shares (number)	2023 WAFV (pence)
Group Bonus Plan	1,163,987	270.68	1,028,816	266.80
Performance Share Plan	2,043,883	256.70	2,495,698	253.60

55. Adoption of New and Amended International Financial Reporting Standards

Standards, amendments and interpretations issued which became effective in the current year

The impact on the Group of adoption of IFRS 17 during the year ended 29 February 2024 is set out at note 2.

During the year the Group did not adopt any other 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

There are no standards, amendments and interpretations issues and effective on or after 1 January 2024 which are expected to have an impact on the Group.

56. 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 29 February 2024 and of the Group's loss for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with United Kingdom adopted International Accounting Standards (IASs) 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 56.

The financial reporting framework that has been applied in the preparation of the group Financial Statements is applicable law, United Kingdom adopted IASs 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 IASs 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

The key audit matters that we identified in the current year were in relation to

- expected credit loss (ECL) provisions;
- valuation of insurance liability for incurred claims and reinsurance assets in Tesco Underwriting Limited (TU); and
- sale of the Group's Banking business.

Within this report, key audit matters are identified as follows:

Newly identified

Similar level of risk

Materiality

The materiality applied for the Group Financial Statements was £10.11m, which was determined on the basis of 0.9% of net assets.

Scoping

Our audit scoping provides full scope audit coverage of 100% of revenue, profit before tax and net assets.

Significant changes in our approach

We have noted the following changes in our current year approach to the identified key audit matters:

- We have removed the post-model adjustments (PMA) element from the ECL key audit matter following the material decrease in PMAs compared to the prior year and the fact that the remaining PMAs are not materially sensitive to changes in key assumptions.
- The previous key audit matter linked to the valuation of insurance contract liabilities and reinsurance assets within TU has been refined following the adoption of IFRS 17 'Insurance Contracts' (IFRS 17) in the current period. The updated key audit matter relates to the measurement of the gross liability for incurred claims and in particular, the measurement of the liability for large bodily injury (BI) claims relating to motor insurance policies.
- There is a new key audit matter identified in relation to the accounting and disclosure presentation implications associated with the proposed sale of the Group’s banking businesses in the current year, comprising of its Personal Loans, Credit Cards, and Savings portfolios.

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 including the impact of the sale of the Group’s Banking business on the going concern of the Group and parent Company;
- 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 such as the cost of living pressures and the sale of the Group’s Banking business;
- 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.

4. Conclusions relating to going concern (continued)

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.

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. Key audit matters (continued)

5.1 Expected credit loss provisions

Key audit matter description	As disclosed in note 46 (Financial Risk Management), the Group held an ECL provision of £432.8m in respect of loans and advances to customers at 29 February 2024 (2023: £459.7m). In the current year, the ECL provision and associated loans and advances to customers balances are classified within assets of the disposal group in the Statement of Financial Position following the announcement of the proposed sale of the Group's Banking business. The ECL charged to the Income Statement classified under discontinued operations was £64.7m in the year to 29 February 2024 (2023: £60.0m). The decrease in the ECL provision during the year is primarily due to an improved macro-economic outlook and reduction in post-model adjustments (PMAs), partially offset by growth in the lending portfolio in the current year. Loan impairment remains one of the most significant judgements made by Management. We consider the most significant area of judgement within the Group's collective provisioning methodologies, and therefore the key audit matter within loan impairment, to relate to the macro-economic scenarios and the related probability-weighting of each scenario that are incorporated into the calculation of the provision. ECL provisions are calculated on a forward-looking basis under IFRS 9 'Financial Instruments' (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 of the scenarios that are incorporated into the ECL model. Other judgements include the determination of the expected lifetime, the definition of a significant increase in credit risk, the determination of probability of default, the assessment of the effect of cost of living and cost of borrowing on borrowers' affordability, the identification of loss events, the determination of loss given default and the determination of whether PMAs are required to address risks that may not be captured in the core ECL models. Given the 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 as these judgments are subject to the risk of Management bias. Management's associated accounting policies are detailed in notes 1. Detail about the judgements made in applying accounting policies and critical accounting estimates are set out in note 3. The Audit Committee's discussion of this key audit matter is set out on page 39.

5. Key audit matters (continued)

5.1 Expected credit loss provisions (continued)

How the scope of our audit responded to the key audit matter	We have obtained an understanding of relevant controls linked to ECL provisions, including those linked to the review and approval of macro-economic scenarios, model governance forums, model monitoring, validation and calibration (including the determination of PMAs), the flow of data from the Group's information systems into the ECL model and the flow of the output of the model to the general ledger. Our audit work to address the key audit matter included the procedures noted below: - 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 the relative probability weighting applied to each scenario against independent economic outlooks, external analysts and market data, to assess their reasonableness. As part of this, we also considered the forecasts in light of any contradictory information. - 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. - We also evaluated whether there was appropriate disclosure regarding the macro-economic scenarios selected by Management, their probability weighting and the related sensitivities. Our wider audit procedures over ECL included: - With input from internal credit risk modelling specialists, assessing Management's methodology against the requirements of IFRS 9, including the appropriateness of any model calibrations that took place during the year. This also included assessing whether the effect of the cost of living and cost of borrowing on borrowers' affordability had been appropriately considered in the modelling of ECLs and challenging both the completeness and accuracy of PMAs recorded in the current year; - Challenging the triggers used to identify significant increase in credit risk to assess whether they have been consistently applied and based on reasonable information indicative of a significant increased risk of default since initial recognition; - Challenging the key assumptions used by Management to estimate the expected life of both credit cards and unsecured personal loans using historical observed data; - Testing the mechanical accuracy of the ECL models; - Testing the accuracy and completeness of both the data used by Management to support the material judgements and the underlying system data which feeds the impairment models; and - Assessing the completeness and accuracy of ECL related disclosures with reference to the applicable standards, including assessing whether the disclosure of significant judgements and areas of estimation uncertainty surrounding measurement of expected credit losses were reasonable.
Key observations	Based on our audit procedures we are satisfied that Management's provision is reasonably stated and is supported by a methodology that is consistently applied and compliant with IFRS 9. We consider the sensitivity disclosures provided in note 46 (Financial Risk Management) to the Financial Statements to be appropriate.

5. Key audit matters (continued)

5.2 Valuation of insurance liability for incurred claims and reinsurance assets within TU

Key audit matter description	IFRS 17 became effective from 1 January 2023, replacing IFRS 4 'Insurance Contracts'. The new standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts which are different to those required under IFRS 4. Our key audit matter presented here is consistent to prior year as this remains unchanged by IFRS 17. The Group's gross insurance liability for incurred claims (LIC) total £265.9m as at 29 February 2024 (2023: £226.9m). Estimating the undiscounted actuarial best estimate (ABE) LIC is inherently subjective and requires the use of complex modelling techniques and the consistent application of judgment and estimation using appropriate methodologies and assumptions. Within the LIC, large BI claims relating to motor insurance policies represent the most significant area of Management judgement. Our key audit matter is focused on the most material assumptions used in calculating the undiscounted ABE liability for large BI claims. Management uses underwriting and claims systems to maintain data used in the reserving models. Given the impact of the significant judgements taken by Management in the measurement of the undiscounted ABE liability for large BI claims, we also consider there is an inherent risk of fraud as these judgements are subject to the risk of Management bias. 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. It is also discussed in the Audit Committee's report on page 39.
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 undiscounted ABE liability and tested that these controls were operating effectively. Our actuarial specialists have performed the following procedures: • Calculated an independent projection of the undiscounted ABE for large BI claims using Management's data and our internally determined assumptions; and • Assessed the reasonableness of any differences noted between our independent projection and Management's results with reference to our determined reasonable range. In addition, we tested the underlying data including the paid and incurred claims development data.
Key observations	Based on our audit procedures above, we concluded that the LIC and reinsurance assets are within our reasonable range and are reasonably stated.

5. Key audit matters (continued)

5.3 Sale of the Group's Banking business

Key audit matter description	As set out in note 20 (Assets and Liabilities of the Disposal Group and Discontinued Operations), the Group reached agreement on the terms of a proposed sale of its Banking business, comprising its Personal Loans, Credit Cards and Savings portfolios, together with certain associated assets and liabilities, for consideration of £600m. The disposal, which is subject to court approval of a Part VII transfer under the Financial Services and Markets Act 2000, regulatory approval by the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA), and non-objection by the Competition amd Markets Authority, is currently expected to complete within 12 months of the reporting date. The Banking business assets and liabilities of £571.4m have been classified as held for sale and the results of the Banking business are presented as a discontinued operation in the Consolidated Income Statement, for which the comparatives have been restated on a consistent basis. Upon classification as held for sale, the Group recognised a loss of £520.6m on remeasuring the disposal group at fair value less costs to sell (FVLCS). £95.9m of the loss was allocated to the assets of the disposal group that are within the scope of the measurement requirements of IFRS 5 'Non-Current Assets Held for Sale and Discontinued Operations', which were fully written off. The excess loss remaining was then recognised as a reduction in the assets of the disposal group, which primarily comprises loans and advances to customers measured under IFRS 9. We have identified the disposal of the Group's Banking business as a key audit matter because of the significant judgements and estimates related to: - the timing of the held for sale criteria being met; - the perimeter of the assets and liabilities included within the disposal group; - the calculation of the loss on disposal, including the remeasurement of the Banking business' net assets to the lower of carrying value or FVLCS and the allocation of the loss to assets within the disposal group; and - the presentation of discontinued operations, including the split of indirect costs between the Banking business and the remaining Insurance and Money Services business. Management’s associated accounting policies are detailed in Note 1. Detail about the judgements made in applying accounting policies and critical accounting estimates is set out at note 3. The Audit Committee’s discussion of this key audit matter is set out on page 39.

5. Key audit matters (continued)

5.3 Sale of the Group's Banking business (continued)

How the scope of our audit responded to the key audit matter	We obtained an understanding of relevant controls linked to the proposed sale of the Banking business, including Management's review and approval of the key accounting judgments linked to the proposed transaction. Our audit work to address the key audit matter included the procedures noted below. - With support from internal technical accounting specialists, we evaluated Management's accounting conclusions in respect of the relevant accounting standards for the disposal, including: - the timing of held for sale criteria being met; - the presentation of the Group's Banking business as a discontinued operation; and - the allocation of the loss to assets within the disposal group and the treatment of the excess loss. - We recalculated the loss on remeasuring the disposal group to FVLCS and the excess loss allocated to the disposal group; - We tested the accuracy and completeness of the perimeter of the disposal of the Banking business and the split of indirect costs between the Banking business and the remaining Insurance and Money Services business; - We evaluated the appropriateness of disclosures made in the Financial Statements, including the current year presentation of the assets and liabilities being sold as held for sale and the presentation of the Banking business as a discontinued operation within the Consolidated Income Statement; and - We tested the related restatement of the prior year Income Statement comparatives.
Key observations	Based on our audit procedures, we are satisfied that the Group's accounting conclusions, the calculation of the loss on remeasuring the disposal group to FVLCS and the allocation of this is appropriate and in accordance with IFRSs. We also consider the disclosures, including the presentation of discontinued operations in respect of the disposal of the Banking business in note 20, to be appropriate.

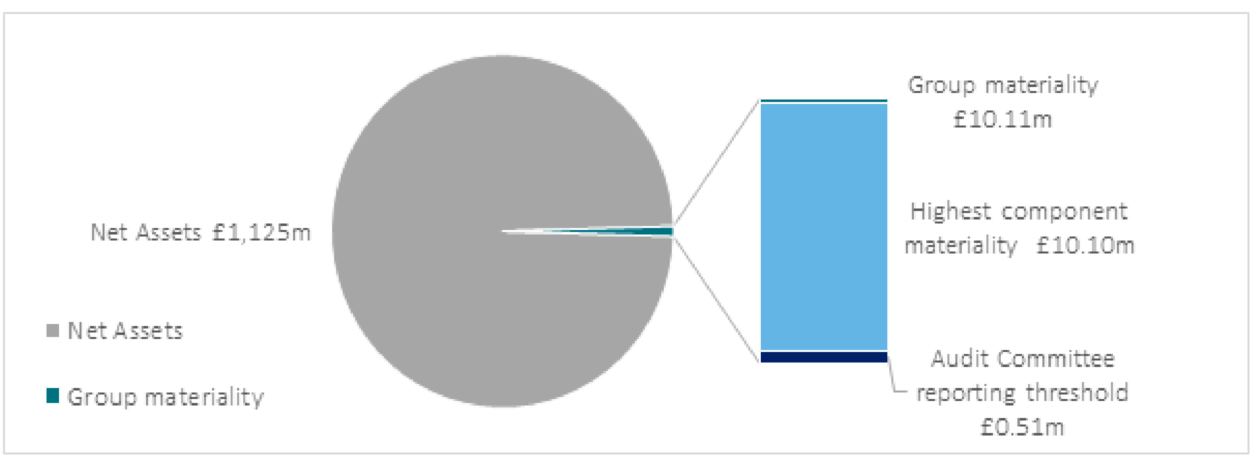
6. Our application of materiality

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 (2023: £10.11m)	£10.10m (2023: £7.35m)
Basis for determining materiality	Materiality has been determined as 0.9% of net assets (2023: 0.6% of net assets).	Parent Company materiality has been determined as 0.9% of net assets (2023: 0.6% of net assets), which is capped at 99.9% of Group materiality in line with the prior year.
Rationale for the benchmark applied	Although the Group's net asset position has reduced in the current year (primarily due to the loss recognised in relation to the proposed sale of the Banking business), we concluded that our determined materiality should be consistent with prior year. This is because the scale of the underlying business has not changed significantly and related assets and liabilities continue to be recognised in the Statement of Financial Position.	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 2024 audit (2023: 70%). Parent Company performance materiality was set at 70% of Parent Company materiality for the 2024 audit (2023: 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 (2023: £0.50m), 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 of, 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 Group. We assessed whether the risks identified by Management are complete and consistent with our understanding and risk assessment of the Group 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.

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 recognised significant actuarial assumptions and judgements relating to large BI claims. The materiality level applied by the component auditor of TU was £3.5m (2023: £3.5m).

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, credit risk, accounting 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; valuation of insurance liability for incurred claims and reinsurance assets within TU; and the proposed sale of the Group's Banking business. 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. Extent to which the audit was considered capable of detecting irregularities including fraud (continued)

11.1 Identifying and assessing potential risks related to irregularities (continued)

Valuation of insurance LIC and reinsurance assets within TU

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 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 PRA and FCA.

11.2 Audit response to risks identified

As a result of performing the above, we identified ECL 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 page 38;
- 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 26 to 28;
- the Directors' statement on fair, balanced and understandable set out on page 41;
- the Board's confirmation that it has carried out a robust assessment of the emerging and principal risks, set out on page 12;
- the section of the Annual Report that describes the review of effectiveness of risk management and internal control systems set out on page 33; and
- the section describing the work of the BAC set out on pages 37 to 41.

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 29 February 2024.

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
8 April 2024

ABE	Actuarial best estimate
ADC	Adverse development cover
ALCo	Asset and Liability Management Committee
APM	Alternative Performance Measure
ARC	Asset for remaining coverage
AT1	Additional tier 1
BAC	Board Audit Committee
Barclays	Barclays Bank UK plc
BCBS	Basel Committee on Banking Supervision
BoE	Bank of England
BI	Bodily injury
BRC	Board Risk Committee
CCA	Consumer Credit Act
CCB	Capital conservation buffer
CCyB	Countercyclical capital buffer
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CGU	Cash-generating unit
CRD	Capital Requirements Directive
CRO	Chief Risk Officer
CRR	Capital Requirements Regulation
CSM	Contractual service margin
DisCo	Disclosure Committee
EAD	Exposure at default
EBA	European Banking Authority
ECLs	Expected credit losses
EIR	Effective interest rate
ERC	Executive Risk Committee
ESG	Environmental, Social and Governance
EU	European Union
EVM	Every Voice Matters
ExCo	Executive Committee
FCA	Financial Conduct Authority
FPC	Financial Policy Committee
FRC	Financial Reporting Council
FVLCS	Fair value less costs to sell
FVOCI	Fair value through other comprehensive income
FVPL	Fair value through profit or loss
GDP	Gross domestic product
GMM	General measurement model
HMRC	HM Revenue and Customs
IAS	International Accounting Standard
IAS 19	IAS 19 'Employee Benefits'
IAS 39	IAS 39 ‘Financial Instruments: Recognition and Measurement’
IASB	International Accounting Standards Board
IBNR	Incurred but not reported
ICAAP	Internal capital adequacy assessment process
IFRS	International Financial Reporting Standard
IFRS 5	IFRS 5 'Non-Current Assets Held for Sale and Discontinued Operations'
IFRS 9	IFRS 9 ‘Financial Instruments’
IFRS 17	IFRS 17 'Insurance Contracts'
ILAAP	Internal liquidity adequacy assessment process
IRRBB	Interest rate risk in the Banking Book
ISAs (UK)	International Standards on Auditing (UK)
ISDA	International Swaps Derivatives Association
KPI	Key performance indicator
LC	Loss component
LGD	Loss given default
LRC	Liability for remaining coverage
LTP	Long-term plan
MREL	Minimum requirements for own funds and eligible liabilities
MRT	Material Risk Taker
NomCo	Nomination Committee
NSFR	Net stable funding ratio
ORSA	Operational risk scenario analysis
Part VII transfer	Part VII transfer under the Financial Services and Markets Act 2000
PAA	Premium allocation approach
PD	Probability of default
PIM	Partial internal model
PMA	Post-model adjustment
PPI	Payment protection insurance
PRA	Prudential Regulation Authority
QS	Quota share
RAM	Risk Appetite measure
RemCo	Remuneration Committee
RCSA	Risk and control self-assessment
RMF	Risk Management Framework
SA	Standardised approach
SCR	Solvency capital requirement
SFTs	Securities financing transactions
SII	Solvency II
SMF	Senior Management Function
SONIA	Sterling Overnight Index Average
TCo	Treasury Committee
tCO_2e	Tonnes of carbon dioxide equivalent
TCR	Total capital requirement
Tesco	Tesco PLC
TFSME	Term Funding Scheme with incentives for small and medium sized entities
TLR	Total liquidity requirements
TPF	Tesco Personal Finance plc
TPFG	Tesco Personal Finance Group plc
TSA	Transitional Service Agreement
TSL	Tesco Stores Limited
TU	Tesco Underwriting Limited
TUPE	Transfer of Undertakings (Protection of Employment) Regulations 2006
UK	United Kingdom
VIU	Value-in-use
WAEP	Weighted average exercise price
WAFV	Weighted average fair value
2018 Code	UK Corporate Governance Code 2018
2024 Code	UK Corporate Governance Code 2024

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.
Additional tier 1 capital	Capital instruments which are not common equity but are eligible for inclusion in this tier of capital.
Adjusted cost:income ratio	An APM calculated by dividing adjusted total operating expenses by adjusted total income.
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 percentage rate	The yearly interest generated by a sum that is charged to borrowers or paid to investors.
Anticipated Levy Requirement	For each year, the BoE will estimate the amount it needs to recover through the Bank of England Levy to meet its policy costs. It will add any shortfall from the previous year and deduct any surplus. This is the anticipated levy requirement. The BoE will require institutions to submit data about their eligible liabilities and will usually take an average of the data provided between 1 October to 31 December in the previous year to calculate an institution's eligible liabilities.
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

Bank of England Levy	Replaced the cash ratio deposit scheme on 1 March 2024 as a means of funding the costs of the BoE's monetary policy and financial stability operations.
Bank of England Levy (Amount of Levy Payable) Regulations 2024	Regulations implemented effective 1 March 2024 under the FInancial Services and Markets Act 2023 which made provision for the replacement of the cash ratio deposit scheme with the Bank of England Levy.
Banking business	The Group's Personal Loans, Credit Cards and Savings portfolios, together with certain other associated assets and liabilities, including the Group's securitisation special purpose vehicle, subject to a business transfer agreement entered into with Barclays Bank UK plc on 9 February 2024.
Basel II	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	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	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 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.

C (continued)

Capital Requirements Directive	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	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 related to the Group's ability to meet regulatory capital requirements, minimum standards for capital replenishment following an extreme event, and internal investment return minimums.
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.
Cash ratio deposit scheme	Scheme used to fund the Bank of England’s monetary policy and financial stability functions. Under the scheme, banks and building societies with eligible liabilities of more than £600 million were required to place a proportion of their deposit base with the Bank of England on a non-interest bearing basis. The Bank of England invested these funds in interest bearing assets (mainly gilts) and the income generated was used to meet the costs of its monetary policy and financial stability functions. Replaced by the Bank of England Levy from 1 March 2024.
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	Calculated by dividing common equity 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.
Competition and Markets Authority	The principal competition regulator in the United Kingdom. It is a non-ministerial government department, responsible for strengthening business competition and preventing and reducing anti-competitive activities. It investigates mergers that have the potential to lead to a substantial lessening of competition. If a merger is likely to reduce competition substantially, the Competition and Market Authority can block it or impose remedies to address those concerns
Concentration risk	The risk of losses arising as a result of concentrations of exposures to a specific counterparty, economic sector, segment or geographical region.
Conduct risk	The risk that the conduct, acts or omissions of the organisation, or individuals within the organisation, leads to customer detriment, or has an adverse effect on market stability or effective competition.
Consumer Credit Act 1974	Established a system for the protection of consumers, administered by the Director General of Fair Trading, of licensing and other control of traders concerned with the provision of credit, or the supply of goods on hire or hire-purchase, and their transactions, and for related matters.
Consumer Duty	Rules introduced by the FCA effective 31 July 2023, setting standards of consumer protection across financial services, requiring firms to put their customers' needs first.
Cost:income ratio	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.
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 Regulation Authority (PRA) policy statement PS7/13, with some elements subject to transitional phase-in.

C (continued)

Credit risk	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.
D	
Derivatives	Financial instruments whose value is based on the performance of one or more underlying assets.
Disposal group	see "Banking business" above.
E	
Excess of loss	Contractual arrangements whereby the Group transfers part or all of the insurance risk accepted to another insurer on an excess of loss basis (reinsurance for claims over an agreed value).
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.
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.
Financial Services and Markets Act 2000	Together with related secondary legislation, sets out the activities and entities that fall within the scope of UK financial services regulation. These activities are regulated and supervised by the FCA and PRA.
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 and liquidity risk	The risk that the Group is not able to meet its obligations as they fall due and the risk that the Group does not have sufficiently stable and diverse sources of funding.
G	
General measurement model	The model used to measure a group of insurance contracts issued, or reinsurance contracts held, under IFRS 17.
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.
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.

I (continued)

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.
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.
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%.
Minimum requirements for own funds and eligible liabilities	A requirement for minimum loss-absorbing capacity institutions must hold.
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.

N (continued)

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	
Part VII transfer	Part VII - Control of Business Transfers of the Financial Services and Markets Act 2000 provides a court-approved mechanism for the transfer between entities via court order rather than by requiring individual contract novations. The sale of the Group's Banking Business is a banking business transfer scheme under Part VII.
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 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.
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.
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.
Post-model adjustment	PMAs reflect the use of Management judgment to address perceived limitations in models or data.
Premium allocation approach	An optional simplified form of measuring an eligible group of insurance contracts issued or reinsurance contracts held under IFRS 17.
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-authorised 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.

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 risk	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.
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.
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	
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.
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.
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.
Shadow IT	Shadow IT refers to IT systems used by the business but not managed by the Group's Technology function.
Solvency capital requirement	A statutory amount that the Group needs to hold over and above its best estimate for claims under the Solvency II regulations. It is calibrated to a 1:200 year adverse scenario.
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.
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.
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.
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.

T (continued)

Tonnes of carbon dioxide equivalent	The amount of carbon dioxide emitted by one metric ton of another greenhouse gas.
Total capital ratio	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).
Transfer of Undertakings (Protection of Employment) Regulations 2006	Provide rights to employees when their employment changes when a business is transferrred to a new owner.
Transition risks	Risks arising from the transition to a low-carbon economy.
TU's minimum capital requirement	The minimum capital requirement under the Solvency II regime for TU to write business.

U

UK Corporate Governance Code	Principles for good corporate governance applicable to companies with a premium listing on the London Stock Exchange regardless of where they are incorporated. The 2024 Code will apply to financial years beginning on or after 1 January 2025, other than provision 29 which will apply to financial years beginning on or after 1 January 2026, replacing the current 2018 Code.
UK Leverage Framework regime	Applies to firms with retail deposit levels equal to or greater than £50 billion on an individual or consolidated basis.
Underlying net interest margin	An APM calculated by dividing net interest income from continuing and discontinued operations by average interest bearing assets.
Underwriting risk	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.

W

Wholesale credit risk	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.