TESCO PERSONAL FINANCE PLC

INTERIM FINANCIAL REPORT

FOR THE SIX MONTHS ENDED 31 AUGUST 2022

COMPANY NUMBER SC173199

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This Interim Financial Report comprises the Interim Management Report and the Interim Condensed Consolidated Financial Statements and accompanying notes. In the Interim Financial Report, unless specified otherwise, the 'Company' means Tesco Personal Finance plc (TPF) and the 'Group' means the Company and its subsidiaries included in the Interim Condensed Consolidated Financial Statements. The Group operates using the trading name of Tesco Bank.

TPF is a wholly owned subsidiary of Tesco Personal Finance Group plc (TPFG), the share capital of which is wholly owned by Tesco PLC (Tesco). A reconciliation of the results contained within these Interim Condensed Consolidated Financial Statements to the Tesco Bank results presented in the Tesco Interim Results 2022/23 can be found on the Tesco internet page: https://www.tescoplc.com/tesco-bank/interimbrokerpackaug22/

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 underpinning any such forward-looking information. The Group cautions users of these Interim Condensed Consolidated 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 6 to 7 of this Interim Management Report.

Business Model

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

The Group provides financial services and products to personal customers in the United Kingdom (UK). The Company is incorporated and registered in Scotland. The Company owns 100% of Tesco Underwriting Limited (TU), an authorised insurance company which provides the insurance underwriting service for a number of the Group's general insurance products. TU has been accounted for as a subsidiary of the Group since it was fully acquired on 4 May 2021. Prior to this date, the Group owned 49.9% of TU, which was accounted for as a joint venture.

Strategic Review

Economic Environment

The Group continued to trade profitably during the period ended 31 August 2022. However, the economic outlook remains uncertain, as pressure on household budgets continues to build as a result of high levels of inflation, which undermines the recovery from the Covid-19 pandemic. In particular, the Group is monitoring the impact on its customers of the rising cost of living, with inflation expected to continue to rise and further increases anticipated in the Bank of England (BoE) base rate. Rising interest rates and the increase in the Ofgem price cap are expected to put further pressure on already stretched household budgets, reducing household disposable incomes and causing household spending to deteriorate. Firms are also expected to be affected by rising prices, resulting in increased levels of unemployment.

On 23 September 2022, the UK Government announced its Growth Plan 2022, setting out the Government's approach to creating economic growth. This was preceded earlier in September 2022 by confirmation of the Energy Price Guarantee, which limits the price energy suppliers can charge customers and is aimed at reducing the burden of rising energy prices on consumers and businesses as well as curbing UK inflation by 4 to 5 percentage points. The BoE also raised the base rate of interest by 50 basis points to 2.25% in September 2022. Whilst the Government did not publish economic scenario information alongside its Growth Plan 2022 which would show the potential future impact of these measures, including their impact on the timing and extent of future interest rate increases, Management considers that the sensitivities set out on page 27 cover a suitably broad range of potential outcomes as at 31 August 2022.

Economic environment (continued)

The ECL charge for the current period of £38.9m (2021: £21.4m) reflects higher new business volumes and an increased charge in respect of the deteriorating macro-economic outlook, driven by the expected economic impact of current energy price volatility. The Group continues to observe low levels of arrears and defaults in the portfolio despite the deteriorating economic backdrop.

The economic scenarios received in the period suggest that the downside risks associated with the Covid-19 pandemic have largely receded and, as a result, a large element of the judgemental overlays previously in place has been released. There remains ongoing uncertainty in the wider macro-economic environment, mainly as a result of geopolitical tensions which are impacting global energy markets and food prices, driving up the rate of inflation and exacerbating the cost of living crisis. In light of ongoing uncertainty following an observed weakening in the economic environment during the period to 31 August 2022, a number of post-model adjustments (PMAs) have been applied to the Group's modelled ECL provision.

Further information in respect of these adjustments, along with the impact of the current economic outlook on ECLs, is set out at note 12. Overall provision levels have fallen in the period to £471.9m (February 2022: £488.8m) and coverage has fallen to 6.4% (February 2022: 7.0%).

Notwithstanding the impact of the economic environment on the Group, its capital and liquidity ratios, which are set out on pages 5 to 6, remain above regulatory requirements over the periods used by Management to monitor these ratios.

The Board has also considered in depth the impact of the economic environment on the Group's going concern status. The relevant disclosures are set out on pages 7 to 8 and 14 to 15.

Group Agile transformation programme

As the Group continues to seek ways in which to serve its customers, communities and planet a little better every day, the Group is changing its ways of working to put customers at the heart of everything it does. The recent cost of living challenges have highlighted that it is more critical than ever for the Group to be able to adapt quickly to changing external market forces whenever its customers need it to. The Group has therefore started its journey to implement an Agile operating model, helping it to deliver value in small but regular increments and allowing the Group to help its customers more quickly, investing where it matters most to the Group's customers and colleagues.

As part of the Group's journey towards implementing an Agile operating model, it has considered the skills and capabilities it will need across its business to be successful in the future and where those roles should sit within the Group. This work has identified that a number of new roles will be needed, some roles will need to change and other roles will no longer be required in its future Agile model. In September 2022, the Group announced to colleagues its proposed operating model, which is subject to confirmation through the normal consultation process. As a result, whilst a number of new roles will be created across the Group, providing a number a redeployment opportunities for the Group's colleagues, a number of the Group's colleagues are at risk of redundancy at the end of the consultation process, which is expected to be completed in November 2022.

Acquisition of Tesco Underwriting Limited

On 4 May 2021 the Company acquired the remaining 50.1% ordinary share capital of TU from its joint venture partner, Ageas (UK) Limited. Total cash consideration of £89.7m was paid in the period ended 31 August 2021, with an additional deferred payment of £5.0m paid in May 2022.

Headlines

Income Statement

- Profit before tax is £68.9m (August 2021: £79.1m).
- Underlying profit before tax, which excludes items which are not reflective of ongoing trading performance, is £71.9m (August 2021: £80.1m). A reconciliation of statutory to underlying profit for the current and prior periods is set out at note 3.

Profit before tax

The key drivers of the profit before tax are:

- a 0.9% decrease in net interest income to £213.7m (August 2021: £215.6m) reflecting a slight decline in interest-bearing balances despite an overall increase in customer lending during the period. Net interest margin has decreased to 4.9% (August 2021: 5.1%) as the Group has grown its Credit Card portfolio over the period through new account acquisition, with the majority of newly acquired Credit Card accounts offering an initial interest-free promotional period which reduces the overall net interest margin;
- a 41.4% increase in net fees and commissions income to £128.5m (August 2021: £90.9m). Credit Card fees reflect higher retail spend, up 21% year on year, leading to an increase in interchange fees, and also reflect an increase in money and balance transfer fees. ATM income has increased as the result of increased customer activity while Travel Money and foreign exchange fee income have increased as the travel sector opened up;
- net insurance premium income of £84.9m (4 May 2021 to 31 August 2021: £52.5m) relating to Home and Motor Insurance policies underwritten by TU. The prior period pre-acquisition equivalents are recorded through the share of profit of joint venture line;
- a gain on investment securities at fair value through profit and loss (FVPL) of £2.0m (August 2021: £1.5m). This includes a fair value gain of £1.0m (August 2021: £1.0m) relating to TU's holding in a property fund. Also included is a gain of £1.0m (August 2021: £0.5m) relating to the Group's holding in VISA Inc. shares;
- a gain on other financial instruments at FVPL of £2.1m (August 2021: loss of £1.0m) reflecting hedge ineffectiveness arising from hedge accounting and fair value movements on derivatives in economic hedges that do not meet the criteria for hedge accounting;
- other income of £0.1m, representing dividend income from TU's holding in a property fund. In the prior period other income of £9.6m represented the consolidated remeasurement gain recognised by the Group in respect of its existing equity interest in TU immediately before the Company's acquisition of TU of £4.6m, and a consolidated gain of £5.0m representing the Group's share of TU's available-for-sale reserve immediately prior to acquisition;
- net insurance claims of £42.7m (4 May 2021 to 31 August 2021: £27.4m) relating to Home and Motor Insurance policies underwritten by TU. The prior period pre-acquisition equivalents are recorded through the share of profit of joint venture line;
- a 15.2% increase in operating expenses to £280.9m (August 2021: £243.8m). Operating expenses have increased following the acquisition of TU and also reflect a volume driven increase in aggregator and marketing spend relating to increased new business activity;
- an 81.8% increase in charges for ECLs on financial assets to £38.9m (August 2021: £21.4m). The charge for the current period reflects higher new business volumes and an increased charge in respect of the deteriorating macro-economic outlook, driven by the expected economic impact of current energy price volatility. Over the period, overlays have been reduced as the risks associated with the Covid-19 pandemic have receded (based on the economic scenarios received) and the underlying models capture the prevailing risk more effectively. The Group continues to observe low levels of arrears and defaults in the portfolio despite the deteriorating economic backdrop, which has resulted in provision coverage reducing over the period. However, there remains ongoing uncertainty in the wider macro-economic environment, mainly as a result of geopolitical tensions which are impacting global energy markets and food prices, driving up the rate of inflation, and exacerbating the cost of living crisis. In light of ongoing uncertainty following an observed weakening in the economic environment during the period ended 31 August 2022, Management has applied a number of PMAs to the Group's modelled ECL provision. Further information in respect of these adjustments, along with the impact of the current economic outlook on ECLs, is set out at note 12; and
- a 100.0% decrease in the Group's share of profit from its joint venture, TU, to £nil (August 2021: £2.6m). This reflects the change in control of TU which took place on 4 May 2021, at which point TU became a wholly owned subsidiary of the Group, with its results being fully consolidated from that date.

Income tax charge on profit

Income tax on the Group's profit for the period is a charge of £15.8m (August 2021 £7.6m). The tax charge for the period is primarily driven by the 25% corporation tax rate applying for the full year and the impact on the Group's deferred tax assets from the substantive enactment of a reduction in the banking surcharge from 8% to 3%. The prior period charge was significantly reduced by the impact of the increase in the corporation tax rate from 19% to 25%, which resulted in an increase of £9.7m in the Group's deferred tax assets as set out at note 9.

Other Comprehensive Income

The net movement on debt securities at FVOCI of £(27.4m) (August 2021: £3.6m) reflects fair value movements in TU's portfolio of fixed rate bonds. Significant rises in the base rate of interest over the period ended 31 August 2022 have resulted in the fair value of these bonds being less than their amortised cost. The amortised cost of these bonds is expected to be realised at maturity, when fair value adjustments in respect of interest rate movements recognised over the life of the bonds unwind.

Balance Sheet

- Cash and balances with central banks decreased by 33.6% to £517.1m (February 2022: £778.9m) reflecting growth in loans and advances to customers.
- Loans and advances to customers have increased by 5.4% to £6.8bn (February 2022: £6.5bn) due mainly to higher Credit Card balances as a result of both increased retail spending and growth in newly acquired accounts.
- Net derivative financial instruments of £95.5m (February 2022: £18.1m) reflect movements in interest rate swap rates which have increased the value of derivatives used as part of the Group's hedging strategies.
- Insurance contract provisions decreased by 7.9% to £598.6m (February 2022: £650.0m) and reinsurance assets decreased by 5.6% to £231.4m (February 2022: 245.1m) due to a number of large bodily injury claims being concluded and paid in the period to 31 August 2022 in conjunction with releases of prior year reserves following a reserving review.
- Customer deposits, which continue to be the Group's main source of funding, have increased by 3.7% to £5.5bn (February 2022: £5.3bn) as the Group has continued to grow its savings balances to reflect growth in its lending book.
- Insurance funds withheld have increased by 1.9% to £117.0m (February 2022: £114.8m) as a result of the increase in premiums ceded on the 2022 quota share contract over the period to 31 August 2022, partly offset by an increase in incurred losses over the same period.
- At the period end, the Group had accessed £900.0m (February 2022: £900.0m) of funds from the Bank of England's (BoE) Term Funding Scheme with Incentives for Small and Medium Sized Entities.
- The balance sheet remains well positioned to support future lending growth from both a liquidity and capital standpoint, with the ratios comfortably above the regulatory minimum and internal risk appetite levels. At 31 August 2022, the total capital ratio was 25.4% (February 2022: 27.1%) and net stable funding ratio (NSFR) was 127.2% (February 2022: 132.3%). The drivers of movements in the total capital ratio and NSFR are discussed in the Capital and Liquidity Ratios section of this Interim Management Report.

Regulatory Developments

Onshoring of European Union (EU) Regulations After Brexit

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

Regulatory Developments (continued)

Capital Requirements Regulation

On 14 October 2021, the Prudential Regulation Authority (PRA) published final Rulebook instruments for the implementation of Basel standards in the UK, thereby replacing the relevant parts of the EU Capital Requirements Regulation (CRR) that had been revoked by HM Treasury. The onshored rules took effect on 1 January 2022.

The European Commission subsequently published a comprehensive review package of EU banking rules, also in January 2022, which indicated its intention to delay implementation of the Basel 3.1 package from 1 January 2023 to 1 January 2025. The PRA has announced a proposal to align with these timeframes and intends to publish a consultation paper in the fourth quarter of 2022.

Countercyclical Capital Buffer (CCyB)

The Financial Policy Committee (FPC) of the BoE is responsible for setting the UK CCyB, being the rate that applies to relevant exposures of UK banks, building societies and large investment firms incorporated in the UK. The rate is currently set at 0%. However, following its meeting in July 2022, the FPC confirmed that the rate will increase to 1.0% with effect from 13 December 2022 and then further from 1% to 2%, effective from 5 July 2023.

Climate Change

The Group has a target to be net zero from its own operations by 2035 and has continued to progress plans to reduce its environmental impact. These plans are overseen by a Steering Group, with Senior Executive attendance from across the Group, which meets quarterly to review progress. The Group will be making fuller disclosures, aligned with the Task Force on Climate-Related Financial Disclosures principles, in its year-end Financial Statements at 28 February 2023.

Key Performance Indicators

The Directors consider the following to be Key Performance Indicators (KPIs) for the Interim Condensed Consolidated Income Statement and are quoted in respect of the Group's operations. The methodology applied in calculating the Group's KPIs is set out in the Glossary of Terms:

	31 August 2022	31 August 2021
Net interest margin	4.9%	5.1%
Underlying cost:income ratio	71.3%	71.1%
Cost: income ratio	72.3%	71.3%
Gross insurance premiums written	£154.0m	£99.7m
Loans and advances to customers loss allowance coverage ratio	6.4%	8.3%

Capital and Liquidity Ratios

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

	31 August 2022	28 February 2022	31 August 2021
Common equity tier 1 ratio	22.6%	24.3%	23.9%
Total capital ratio	25.4%	27.1%	26.6%
Capital coverage of TU's solvency capital requirement (SCR)	149.1%	149.1%	157.3%
MREL ratio	29.0%	30.8%	30.2%
Net stable funding ratio	127.2%	132.3%	118.5%
Loan to deposit ratio	123.7%	121.7%	126.8%

TPF's total capital ratio remains above regulatory requirements at 25.4% (February 2022: 27.1%) on a transitional basis. On an end-point basis, TPF's total capital ratio is 24.3% (February 2022: 25.3%), which is also above regulatory requirements. The reduction in the total capital ratio is driven by lower common equity tier 1 (CET 1) capital from the phased reduction in the IFRS 9 'Financial Instruments' benefit, coupled with an increase in risk-weighted assets due to higher lending in the Credit Card book. Refer to note 14 for full details of the impact of these amendments on the Group.

Capital coverage of TU's SCR of £121.1m at the end of February 2022 was 149.1%. TU's available capital has remained above its SCR requirement during the period to 31 August 2022.

Key Performance Indicators (continued)

An interim MREL ratio requirement of 18% of risk-weighted assets was set from 1 January 2020 to 31 December 2022.

However, following a change in TPFG's resolution strategy confirmed by the BoE, TPFG no longer has a requirement to issue MREL-compliant debt since its MREL requirement is equal to the TCR. The MREL-compliant debt issued by TPFG in July 2019 remains in issue.

The NSFR, a measure of the Group's liquidity position, is within appetite at 127.2% as at 31 August 2022 (February 2022: 132.3%). The reduction in the NSFR mainly reflects lower deposits from banks following the maturity of a repurchase agreement in the current period.

The Group maintains a liquid asset portfolio of high quality securities of £2.0bn (February 2022: £2.3bn).

Principal risks and uncertainties

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, capital plan and stress testing. The Risk Appetite is formally reviewed by the Board on at least an annual basis. Tesco also reviews and approves certain aspects of the Financial Risk Appetite.

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, a risk management framework (RMF) has been embedded across the Group, creating an integrated approach to managing risk. The RMF brings together governance, Risk Appetite, the Three Lines of Risk Management model, the Policy Framework and risk management tools to support the business in managing risk as part of day-to-day activity, and is underpinned by governance, controls, processes, systems and policies within the First Line business areas and those of the Second Line Risk Management Function (RMFu).

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, reports directly to the Chief Executive Officer and can only be removed from position with the approval of the Board.

Principal risks and uncertainties (continued)

The principal risks and uncertainties faced by the Group remain unchanged from the Annual Report and Financial Statements as at 28 February 2022 (pages 10 to 16). See below for further details.

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.
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.
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.
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.
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.
Regulatory and Conduct risk	Regulatory risk is the risk of poor customer outcomes, reputational damage, liability, loss or regulatory censure arising from failure to comply with the requirements of the financial services regulators or industry codes of best practice. Conduct risk is the risk that the conduct, acts or omissions of the Group, or individuals within the Group, leads to customer detriment, or has an adverse effect on market stability or effective competition.
Capital risk	The risk that the Group has insufficient capital resources to support its plan and meet minimum capital requirements and buffers under both anticipated and stressed conditions.

Going Concern

The Directors have made an assessment of going concern, which 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 the rising cost of living, exacerbated by the ongoing conflict in Ukraine, for the Group's capital and funding position.

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 12;
- The sufficiency of the Group's capital base. The worst case macro-economic scenarios received from third-party providers were significantly less severe than those used in the Internal Capital Adequacy Assessment Process (ICAAP) reverse stress test. The Group reviewed its stress testing scenarios to ensure it has sufficient capital to trade through a plausible range of economic outcomes. The Group's capital position at 31 August 2022 is set out at note 14;

Going Concern (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 to ensure it has sufficient liquidity to trade through a range of plausible economic outcomes. In addition to the Group's portfolio of liquid assets, it has an undrawn £200.0m committed structured repurchase facility;
- The operational resilience of the Group's critical functions including call centres, mobile and online channels and the Group's ability to provide continuity of service to its customers throughout a prolonged stress;
- The resilience of the Group's IT systems;
- A detailed assessment of the Group's supplier base, considering any single points of failure and focussing on suppliers experiencing financial stress. This included consideration of contingency plans should suppliers be deemed at risk;
- The regulatory and legal environment and any potential conduct risks which could arise;
- Any potential valuation concerns in respect of the Group's assets as set out in the Interim Condensed Consolidated Statement of Financial Position; and
- The structural protections of the Group's securitisation vehicles.

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

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

TESCO PERSONAL FINANCE PLC
INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)
FOR THE SIX MONTHS ENDED 31 AUGUST 2022

	Note	6 months ended 31 August 2022 £m	6 months ended 31 August 2021 £m
Interest and similar income	4	250.6	246.2
Interest expense and similar charges	4	(36.9)	(30.6)
Net interest income		**213.7**	**215.6**
Fees and commissions income	5	143.7	108.3
Fees and commissions expense	5	(15.2)	(17.4)
Net fees and commissions income		**128.5**	**90.9**
Insurance premium income	6	153.8	94.4
Insurance premium income ceded to reinsurers	6	(68.9)	(41.9)
Net insurance premium income		**84.9**	**52.5**
Net gain on investment securities at FVPL		2.0	1.5
Net gain/(loss) on other financial instruments at FVPL		2.1	(1.0)
Net gain on investment securities at FVOCI		0.1	–
Other income		0.1	9.6
Net other income		**4.3**	**10.1**
Total income		**431.4**	**369.1**
Insurance claims incurred	7	(76.0)	(61.2)
Insurance claims ceded to reinsurers	7	33.3	33.8
Net insurance claims		**(42.7)**	**(27.4)**
Total income, net of insurance claims		**388.7**	**341.7**
Administrative expenses		(253.5)	(213.9)
Depreciation and amortisation		(27.4)	(29.9)
Operating expenses		**(280.9)**	**(243.8)**
Expected credit loss on financial assets	8	(38.9)	(21.4)
Operating profit		**68.9**	**76.5**
Share of profit of joint venture		–	2.6
Profit before tax		**68.9**	**79.1**
Analysed as:			
Underlying profit before tax	3	71.9	80.1
Non-underlying items	3	(3.0)	(1.0)
		68.9	79.1
Income tax charge	9	(15.8)	(7.6)
Profit for the period attributable to owners of the parent		**53.1**	**71.5**

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

FOR THE SIX MONTHS ENDED 31 AUGUST 2022

	Note	6 months ended 31 August 2022 £m	6 months ended 31 August 2021 £m
Profit for the period		53.1	71.5
Items that may be reclassified subsequently to the income statement			
Debt securities at FVOCI			
Fair value movements		(37.1)	3.8
Net gains transferred to the income statement on disposal		(0.1)	–
Taxation		9.8	(0.2)
		(27.4)	3.6
Cash flow hedges			
Fair value movements		0.7	0.8
Taxation		(0.2)	(0.2)
		0.5	0.6
Share of other comprehensive expense of joint venture		–	(0.6)
Transfer of share of other comprehensive income of joint venture to the Income Statement on change of control		–	(5.0)
		–	(5.6)
Other comprehensive expense for the period, net of tax		**(26.9)**	**(1.4)**
Total comprehensive income for the period		**26.2**	**70.1**

There are no items of other comprehensive income which will not be reclassified subsequently to the income statement (August 2021: no items).

TESCO PERSONAL FINANCE PLC
INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)
AS AT 31 AUGUST 2022

	Note	**31 August 2022**	28 February 2022 (audited)	31 August 2021
		£m	£m	£m
Assets				
Cash and balances with central banks		517.1	778.9	555.4
Loans and advances to banks		45.6	50.3	51.4
Loans and advances to customers	11	6,842.1	6,490.3	6,403.9
Derivative financial instruments	11	118.2	45.3	5.6
Investment securities		1,428.1	1,466.9	1,557.6
Reinsurance assets		231.4	245.1	256.8
Prepayments and accrued income		59.0	43.2	51.6
Current income tax asset		3.1	2.5	24.9
Other assets		155.8	219.7	217.0
Deferred income tax asset		67.3	64.2	69.0
Intangible assets		144.7	148.6	159.9
Property, plant and equipment		79.3	79.8	77.2
Total assets		**9,691.7**	**9,634.8**	**9,430.3**
Liabilities				
Deposits from banks		943.3	1,052.3	1,125.0
Deposits from customers		5,531.8	5,332.0	5,048.6
Derivative financial instruments		22.7	27.2	36.4
Provisions for liabilities and charges		38.2	37.6	49.3
Accruals and deferred income		100.6	119.6	93.5
Other liabilities		185.7	164.1	152.2
Insurance funds withheld		117.0	114.8	106.4
Insurance contract provisions		598.6	650.0	654.7
Subordinated liabilities and notes		471.8	480.0	485.8
Total liabilities		**8,009.7**	**7,977.6**	**7,751.9**
Equity and reserves attributable to owners of parent				
Share capital		122.0	122.0	122.0
Share premium account		1,097.9	1,097.9	1,097.9
Retained earnings		476.9	423.8	430.8
Other reserves		(14.8)	13.5	27.7
Total equity		**1,682.0**	**1,657.2**	**1,678.4**
Total liabilities and equity		**9,691.7**	**9,634.8**	**9,430.3**

TESCO PERSONAL FINANCE PLC
INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
FOR THE SIX MONTHS ENDED 31 AUGUST 2022

	Share capital £m	Share premium £m	Retained earnings[1] £m	FV/AFS reserve[1] £m	Cash flow hedge reserve £m	Share based payment reserve £m	Total equity £m
Balance at 1 March 2022	**122.0**	**1,097.9**	**423.8**	**(12.8)**	**0.2**	**26.1**	**1,657.2**
Comprehensive income							
Profit for the period	–	–	53.1	–	–	–	53.1
Net fair value movement on investment securities held at FVOCI	–	–	–	(27.4)	–	–	(27.4)
Net movement on cash flow hedges	–	–	–	–	0.5	–	0.5
Total comprehensive income	**–**	**–**	**53.1**	**(27.4)**	**0.5**	**–**	**26.2**
Transactions with owners							
Share based payments	–	–	–	–	–	(1.4)	(1.4)
Total transactions with owners	**–**	**–**	**–**	**–**	**–**	**(1.4)**	**(1.4)**
Balance at 31 August 2022	**122.0**	**1,097.9**	**476.9**	**(40.2)**	**0.7**	**24.7**	**1,682.0**
Balance at 1 March 2021	**122.0**	**1,097.9**	**355.6**	**9.3**	**(0.6)**	**21.9**	**1,606.1**
Comprehensive income							
Profit for the period	–	–	71.5	–	–	–	71.5
Net fair value movement on equity investment securities held at FVOCI	–	–	–	3.6	–	–	3.6
Net movement on cash flow hedges	–	–	–	–	0.6	–	0.6
Share of other comprehensive expense of joint venture	–	–	–	(0.6)	–	–	(0.6)
Transfer of share of other comprehensive income of joint venture to the Income Statement on change of control	–	–	–	(5.0)	–	–	(5.0)
Transfer of net gains to retained earnings on reclassification during the period of investment securities held at FVOCI to FVPL[1]	–	–	3.7	(3.7)	–	–	–
Total comprehensive income	**–**	**–**	**75.2**	**(5.7)**	**0.6**	**–**	**70.1**
Transactions with owners							
Share based payments	–	–	–	–	–	2.2	2.2
Total transactions with owners	**–**	**–**	**–**	**–**	**–**	**2.2**	**2.2**
Balance at 31 August 2021	**122.0**	**1,097.9**	**430.8**	**3.6**	**–**	**24.1**	**1,678.4**

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

INTERIM CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

FOR THE SIX MONTHS ENDED 31 AUGUST 2022

	Note	6 months ended 31 August 2022 £m	6 months ended 31 August 2021 £m
Operating Activities			
Profit before tax		68.9	79.1
Adjusted for:			
Non-cash items included in operating profit before taxation and other adjustments		70.5	47.1
Changes in operating assets and liabilities		(326.7)	(258.0)
Income taxes paid		(9.8)	(1.0)
Cash flows used in operating activities		**(197.1)**	**(132.8)**
Investing Activities			
Purchase of intangible assets and property, plant and equipment		(26.4)	(19.9)
Purchase of debt investment securities		(178.4)	(43.7)
Maturity and sale of debt investment securities		148.0	51.0
Investment in subsidiary		(5.0)	(89.7)
Cash and cash equivalents acquired on investment in subsidiary		–	42.3
Purchase of subordinated debt issued by subsidiary		–	(21.2)
Dividends received from TU		–	10.0
Cash flows used in investing activities		**(61.8)**	**(71.2)**
Financing Activities			
Interest received/(paid) on assets held to hedge subordinated liabilities and notes		0.3	(0.6)
Interest paid on subordinated liabilities and notes		(6.7)	(6.2)
Principal repayments on lease liabilities		(1.3)	(1.0)
Interest paid on lease liabilities		(1.7)	(1.8)
Cash flows used in financing activities		**(9.4)**	**(9.6)**
Net decrease in cash and cash equivalents		**(268.3)**	**(213.6)**
Cash and cash equivalents[1] at beginning of period		**787.6**	**777.9**
Cash and cash equivalents[1] at end of period		**519.3**	**564.3**

[1] Cash and cash equivalents comprise cash and balances with central banks, excluding certain reserve deposits of £43.4m which do not have a maturity of less than three months (August 2021: £42.5m), and loans and advances to banks of £45.6m (August 2021: £51.4m).

1. Accounting Policies

The Interim Condensed Consolidated Financial Statements for the six months ended 31 August 2022 were approved by the Board of Directors on 3 October 2022.

Basis of Preparation

The Interim Condensed Consolidated Financial Statements have been prepared in accordance with International Accounting Standard (IAS) 34 'Interim Financial Reporting'.

Unless otherwise stated, the accounting policies applied, and the judgements, estimates and assumptions made in applying those policies, are consistent with those described in the Consolidated Financial Statements of the Group for the year ended 28 February 2022. The Interim Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements of the Group for the year ended 28 February 2022, which have been prepared in accordance with IASs in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards (IFRSs) and interpretations issued by the IFRS Interpretations Committee of the International Accounting Standards Board and those parts of the Companies Act 2006 applicable to Companies reporting under IFRSs.

These Interim Condensed Consolidated Financial Statements have been reviewed, not audited, and do not constitute Statutory Financial Statements as defined in section 434 of the Companies Act 2006. The Consolidated Financial Statements for the year ended 28 February 2022 were approved by the Board of Directors on 11 April 2022 and have been filed with the Registrar of Companies. The report of the auditors on those Financial Statements was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 498 of the Companies Act 2006.

Onshoring of European Union (EU) Regulations After Brexit

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

Going concern

The Directors have made an assessment of going concern, which 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 the rising cost of living, exacerbated by the ongoing conflict in Ukraine, for the Group’s capital and funding position. 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 12;
- The sufficiency of the Group’s capital base. The worst case macro-economic scenarios received from third-party providers were significantly less severe than those used in the ICAAP reverse stress test. The Group reviewed its stress testing scenarios to ensure it has sufficient capital to trade through a range of plausible economic outcomes. The Group's capital position at 31 August 2022 is set out at note 14;
- 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 to ensure it has sufficient liquidity to trade through a range of plausible economic outcomes. In addition to the Group's portfolio of liquid assets, it has an undrawn £200.0m committed structured repurchase facility;
- The operational resilience of the Group’s critical functions including call centres, mobile and online channels and the Group’s ability to provide continuity of service to its customers throughout a prolonged stress;
- The resilience of the Group’s IT systems;

1. Accounting Policies (continued)

Going concern (continued)

- 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 Interim Condensed Consolidated Statement of Financial Position; and
- The structural protections of the Group's securitisation vehicles.

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

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

Adoption of new and amended IFRSs

During the period to 31 August 2022, the Group did not adopt any new accounting standards or amendments to standards which had any impact on the Group.

Details of new accounting standards and amendments to standards which will impact the Group in future reporting periods are included in the Consolidated Financial Statements of the Group for the year ended 28 February 2022.

IFRS 17 'Insurance Contracts'

IFRS 17 was endorsed for adoption by the UK Endorsement Board in May 2022 and will be implemented by the Group with effect from 1 March 2023.

Industry interpretation and practice in respect of the standard are still developing. The Group continues to assess the expected impact of IFRS 17 and work continues to progress according to the project plan. IFRS 17 is most relevant to the Group's subsidiary, TU, which provides the insurance underwriting service for the Group's Motor and Home insurance products. The Group is undertaking a parallel run to conclude on the full impact on the financial statements at adoption. The Group expects to apply the optional simplified premium allocation approach to all material insurance and reinsurance contracts issued subsequent to the acquisition of TU, as permitted by IFRS 17.

The Group intends to disclose the financial impact in the Consolidated Financial Statements for the year ended 28 February 2023.

2. Acquisition of Tesco Underwriting Limited

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

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

3. Underlying Profit

The Group's financial performance is presented in the Interim Condensed Consolidated Income Statement on page 9. A summary of the Group's financial performance in respect of its 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
6 months ended 31 August 2022				
Net interest income	213.7	–	–	213.7
Other income, net of insurance claims	175.0	(2.1)	–	172.9
Total income, net of insurance claims	**388.7**	**(2.1)**	–	**386.6**
Total operating expenses	(280.9)	–	5.1	(275.8)
Expected credit loss on financial assets	(38.9)	–	–	(38.9)
Operating profit	**68.9**	**(2.1)**	**5.1**	**71.9**
Profit before tax	**68.9**	**(2.1)**	**5.1**	**71.9**

	Statutory basis £m	Financial instruments[1] £m	Restructuring activity[2] £m	Underlying basis £m
6 months ended 31 August 2021				
Net interest income	215.6	–	–	215.6
Other income, net of insurance claims	126.1	1.0	–	127.1
Total income, net of insurance claims	**341.7**	**1.0**	**–**	**342.7**
Total operating expenses	(243.8)	–	–	(243.8)
Expected credit loss on financial assets	(21.4)	–	–	(21.4)
Operating profit	**76.5**	**1.0**	**–**	**77.5**
Share of profit of joint venture	2.6	–	–	2.6
Profit before tax	**79.1**	**1.0**	**–**	**80.1**

[1] Comprising:

- Gains on other financial instruments at FVPL of £2.1m (August 2021: losses of £1.0m) presented within total income on page 9. Fair value movements on other financial instruments at FVPL reflect hedge ineffectiveness arising from hedge accounting and fair value movements on derivatives in economic hedges that do not meet the criteria for hedge accounting. Where these derivatives are held to maturity, fair value movements represent timing differences that will reverse over the life of the derivatives. Therefore, excluding these movements from underlying profit more accurately represents the underlying performance of the Group. Where derivatives are terminated prior to maturity, this may give rise to fair value movements that do not reverse.

[2] Comprising:

- A restructuring charge of £5.1m (August 2021: £nil) related to the Group's Agile transformation programme, presented within administrative expenses on page 9. The current year charge in respect of business restructuring is not considered part of the Group's underlying trading performance.

4. Net Interest Income

	6 months ended 31 August 2022 £m	6 months ended 31 August 2021 £m
Interest and similar income		
On financial assets measured at amortised cost		
Loans and advances to customers	235.1	241.3
Loans and advances to banks	0.1	–
Cash and balances with central banks	2.7	0.2
Investment securities	8.0	2.5
	245.9	244.0
On financial assets measured at fair value		
Investment securities - FVPL	–	0.2
Investment securities - FVOCI	3.4	2.0
Derivative financial instruments - FVPL	1.3	–
	4.7	2.2
Total interest and similar income	**250.6**	**246.2**
Interest expense and similar charges		
On financial liabilities measured at amortised cost		
Deposits from customers	(21.6)	(15.0)
Deposits from banks	(6.9)	(1.0)
Lease liabilities	(1.0)	(1.1)
Subordinated liabilities and notes	(7.4)	(6.3)
	(36.9)	(23.4)
On financial liabilities measured at fair value		
Derivative financial liabilities - FVPL	–	(7.2)
	–	(7.2)
Total interest and similar charges	**(36.9)**	**(30.6)**
Net interest income	**213.7**	**215.6**

5. Net Fees and Commissions Income

	6 months ended 31 August 2022 £m	6 months ended 31 August 2021 £m
Fees and commissions income		
Banking revenue from contracts with customers	107.7	84.5
Insurance revenue from contracts with customers	21.3	21.2
Other revenue from contracts with customers	14.7	2.6
Total fees and commissions income	**143.7**	**108.3**
Fees and commissions expense		
Banking expense	(15.2)	(17.4)
Total fees and commissions expense	**(15.2)**	**(17.4)**
Net fees and commissions income	**128.5**	**90.9**

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

6. Net insurance premium income

	6 months to 31 August 2022 £m	6 months to 31 August 2021 £m
Gross premium written	154.0	99.7
Change in the gross provision for unearned premium	(0.2)	(5.3)
Insurance premium income	**153.8**	**94.4**
Written premium ceded to reinsurers	(70.9)	(42.7)
Reinsurers share of change in the provision for unearned premium	2.0	0.8
Insurance premium income ceded to reinsurers	**(68.9)**	**(41.9)**
Net insurance premium income	**84.9**	**52.5**

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

7. Net insurance claims

	6 months to 31 August 2022 £m	6 months to 31 August 2021 £m
Current period claims paid	70.1	34.5
Change in prior year claims provision	(45.0)	(14.0)
Additional liabilities arising during the period	50.9	40.7
Insurance claims incurred	**76.0**	**61.2**
Reinsurers share of claims and benefits incurred	(33.3)	(33.8)
Insurance claims ceded to reinsurers	**(33.3)**	**(33.8)**
Net insurance claims	**42.7**	**27.4**

The above net insurance claims for the prior period represent the claims expense incurred by TU following acquisition by the Group on 4 May 2021.

8. Expected Credit Loss Charge on Financial Assets

	6 months ended 31 August 2022 £m	6 months ended 31 August 2021 £m
Expected credit loss charge on loans and advances to customers[1]	38.7	21.1
Expected credit loss charge on investment securities at FVOCI	0.2	0.9
Expected credit loss credit on investment securities at amortised cost	–	(0.6)
Total expected credit loss charge on financial assets	**38.9**	**21.4**

Refer to note 12 for further detail on factors impacting expected credit loss charges.

[1] Included within the expected credit loss on loans and advances to customers is an amount of £nil (August 2021: £4.8m) received through the sale of debt to third-parties.

9. Income Tax

The tax charge in the Interim Condensed Consolidated Income Statement is based on Management's best estimate of the full year effective tax rate based on expected full year profits to 28 February 2023.

The Group's blended corporation tax rate is 19.0% (August 2021: 19.0%). In addition, a banking surcharge of 8.0% (August 2021: 8.0%) is applied to the Group's banking profits above £25.0m.

In the March 2021 Budget Statement, the Chancellor announced that the standard rate of corporation tax in the UK would increase from 19% to 25% from 1 April 2023. This increase in the corporation tax rate resulted in the Group's deferred tax asset increasing by £9.7m during the prior period (to 31 August 2021). Subsequently, in the October 2021 Budget Statement, it was announced that, with effect from 1 April 2023, the banking surcharge would reduce from 8% to 3% and that it would be chargeable on banking profits above £100.0m. This rate change was substantively enacted in February 2022 and the 3% rate is therefore the banking surcharge rate applied in calculating the deferred tax balances reflected in these Interim Condensed Consolidated Financial Statements. As this rate change was not substantively enacted at 31 August 2021, there was no impact of this rate change in the prior period.

Subsequently, in September 2022, the UK Government announced its Growth Plan 2022, setting out the Government's approach to creating economic growth. As part of this, the Government announced the cancellation of the corporation tax increase to 25% and the banking surcharge decrease to 3%. As a result, from 1 April 2023, the Group's combined rate of corporation tax on banking profits over £100.0m will remain at 27%. As this cancellation was not substantively enacted at 31 August 2022, there has been no impact on the calculation of the deferred tax balances reflected in these Interim Condensed Consolidated Financial Statements. The effect of a 1% reduction in the future rate of deferred tax on the Group's deferred tax balances is not material.

Income tax on the Group's profit was a charge of £15.8m (August 2021: charge of £7.6m). The prior period charge was significantly reduced by the impact of the increase in the corporation tax rate from 19% to 25%, which resulted in an increase of £9.7m in the Group's deferred tax assets as outlined above.

10. Capital Expenditure and Commitments

In the six months ended 31 August 2022 there were additions to property, plant and equipment and intangible assets of £22.9m (August 2021: £19.9m). Commitments for capital expenditure contracted for but not provided at 31 August 2022 were £2.7m (February 2022: £1.7m) on property, plant and equipment and £1.7m (February 2022: £1.3m) on intangible assets. The Group's Management are confident that future net revenues and funding will be sufficient to cover these commitments.

11. Loans and Advances to Customers

	31 August 2022 £m	28 February 2022 £m	31 August 2021 £m
Unsecured lending	7,394.4	7,009.5	6,981.6
Total unsecured lending	**7,394.4**	**7,009.5**	**6,981.6**
Fair value hedge adjustment	(80.4)	(30.4)	1.7
Gross loans and advances to customers	**7,314.0**	**6,979.1**	**6,983.3**
Less: ECL allowance (Refer to note 12)	(471.9)	(488.8)	(579.4)
Net loans and advances to customers	**6,842.1**	**6,490.3**	**6,403.9**

Contractual lending commitments and ECL provision

At 31 August 2022, the Group had contractual lending commitments of £12,234.6m (February 2022: £12,363.0m) which represent undrawn Credit Card limits. An additional ECL provision of £19.6m was also recognised at 31 August 2022 (February 2022: £16.2m). This represents the excess of total ECLs for both drawn and undrawn balances over the gross carrying balances as above. Refer to note 12 for further details.

Fair value hedge adjustments

Fair value hedge adjustments amounting to a liability of £80.4m (February 2022: liability of £30.4m) are in respect of fixed rate Personal Loans. These adjustments are largely offset by derivatives, which are used to manage interest rate risk and are designated as fair value hedges within loans and advances to customers.

Effective interest rate (EIR)

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

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

An increase of the pay rates assumption by 10% will reduce the asset value by £2.6m and a corresponding reduction of the pay rates assumption will increase the asset value by £3.1m.

12. Credit risk management

Full details of the Group's risk management are included in the Group's Consolidated Financial Statements for the year ended 28 February 2022. Updates on key areas of credit risk management and ECL measurement are included below.

- **Credit risk: ECL measurement**

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.

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

- Where the customer makes a declaration of significant financial difficulty and is placed on a temporary interest free repayment plan or permanent reduction in annual percentage rate;
- Where the customer or third-party agency communicates that it is probable that the customer will enter bankruptcy or another form of financial re-structure, e.g. insolvency or repossession;
- Where the account has been transferred to recoveries and the relationship is terminated;
- When 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.

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

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 31 August 2021, the Group used four economic scenarios, which projected different shapes of recovery from the Covid-19 pandemic. These scenarios included a Base scenario, an Upside scenario and two different Downside scenarios. These scenarios were assigned weightings of 40%, 30%, 25% and 5% respectively:

- The Base scenario anticipated a return to pre-pandemic Gross Domestic Product (GDP) level by Q4 2021 driven by strong consumer spending following easing of restrictions.
- The Upside scenario expected a stronger response to the easing of restrictions, with consumers utilising savings built up during lockdown. Unemployment was expected to peak in Q2 2021 at 6.7%.
- The Downside 1 scenario assumed a slower recovery, with transmission of the Delta variant resulting in a tiered system of restrictions remaining until Q1 2022. Unemployment was expected to peak in Q1 2022 at 8.4%.
- The Downside 2 scenario assumed further mutations of the Covid-19 virus, with vaccines proving ineffective against new variants, resulting in further national lockdowns across Q4 2021. Unemployment was expected to peak in Q1 2022 at 10.2%.

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

12. Credit risk management (continued)

Past due and impaired definitions (continued)

At 28 February 2022, the Group continued to use four economic scenarios. These scenarios included a Base scenario, an Upside scenario and two different Downside scenarios. These scenarios were assigned weightings of 40%, 30%, 25% and 5% respectively.

- The Base scenario incorporated benefits from the vaccination programme and lifting of restrictions, contributing to an increase in consumer confidence. GDP was expected to return to pre-pandemic levels by Q3 2022.
- The Upside scenario built on the assumptions in the Base scenario but assumed a quicker rate of growth with a return to pre-pandemic levels of GDP by Q1 2022. Accumulated savings from lockdown periods would be utilised, driving a recovery in consumer spending. Unemployment in the Upside scenario was expected to peak at 4.0% in Q1 2022.
- The Downside 1 scenario projected an increase in new Covid-19 cases and hospitalisations, which would lead to a reintroduction of tiered restrictions across the early part of the year. This would put additional pressure on struggling businesses, leading to unemployment peaking at 6.2% in Q2 2022.
- The Downside 2 scenario projected that the increase in new Covid-19 cases and hospitalisations would be sufficient enough to result in a full national lockdown being introduced that would last up to 2 months. The severity of these measures would result in a larger decline in GDP than the Downside 1 scenario (1.9% reduction across Q1 2022), and an unemployment peak of 8% in Q2 2022.

At 31 August 2022, the Group continued to use four economic scenarios. These scenarios included a Base scenario, an Upside scenario and two different Downside scenarios. These scenarios were assigned weightings of 40%, 30%, 25% and 5% respectively.

- The Base scenario assumes a 55% increase in the Ofgem price cap which leads to inflation peaking at 11.5% in Q4 2022, before easing back to the Bank of England's (BoE) 2% target in 2025. Interest rates peak at 3% in 2023 with the UK entering a technical recession (two consecutive quarters of GDP decline) in late 2022. This is discussed in more detail below.
- The Upside scenario assumes an inflation peak of 10.4% as impacts to global energy markets are less severe than initially feared. The Ofgem price cap increase is contained at 40%. The milder outlook for inflation and robust nominal pay growth results in a positive reaction from consumers and savings accrued during lockdown periods in the pandemic are more readily spent. This underpins growth in the second half of 2022 resulting in GDP rising above pre-pandemic levels by Q4 2022.
- The Downside 1 scenario projects that following the recent BoE publication pointing towards a tougher stance on inflation, that there will be further increases in the Bank rate than the Base scenario assumes, rising to 4% in the middle of 2023. Geopolitical pressures exacerbate price rises in global energy markets with the Ofgem price cap expected to rise by 65%, placing additional pressure on consumers' disposable income. Inflation peaks at 12.6% in Q4 2022.
- The Downside 2 scenario is similar in nature to the Downside 1 scenario, however, in this scenario inflation peaks higher and lasts longer, necessitating an additional degree of rate tightening from the BoE. The Bank rate rises to 5% in 2023 and inflation peaks at 14.1% in Q4 2022. Additional geopolitical tensions have a further negative impact on global energy markets, with the Ofgem price cap expected to rise by at least 70% in October 2022.

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.

12. Credit risk management (continued)

The volatility in energy prices during August 2022 led the Group to reassess whether the deterioration in the economic outlook and the significant future economic uncertainty was fully captured in its scenarios. The increase in the Ofgem price cap, announced at the end of August 2022, was significantly higher than what had been assumed in the above scenarios. The peak in the Consumer Prices Index (CPI) is now expected to be around 12.7% (compared to around 11.6% assumed in the above scenarios) and the rate is also expected to stay higher for a longer period leading to a recession which lasts into 2023. A PMA of £52.6m was held at 31 August 2022 on the assumption that GDP contracts by 0.3% in 2022 and 2023 and unemployment reaches a weighted peak of 6.4% in 2024. Refer to page 28 for further details.

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 the severity of the peak of CPI, of which a key contributing factor is the increase in the Ofgem price cap to be applied in October 2022.

Base Scenario

The Group's Base scenario projects an uncertain economic outlook, as pressure on household budgets continues to build as a result of high levels of inflation, which undermines the recovery from the Covid-19 pandemic.

The Base scenario projects an increase in the BoE base rate to 3.0% by Q1 2023 in an attempt to curb rising rates of inflation, which is not expected to return to the BoE's 2.0% target until 2025. Rising interest rates are expected to have an impact on real household disposable incomes, which are projected to decline by around 2.0% this calendar year. This sees household spending deteriorate and a technical recession (two consecutive periods of declining GDP) follow in late 2022.

Firms are also expected to be affected by rising prices and this leads to an increase in levels of unemployment. This is now expected to peak at 5.1% in Q2 2024, an increase from the 4.7% peak in the Group's prior scenarios.

The volatility in energy prices during August 2022 led the Group to reassess whether the deterioration in the economic outlook and significant future economic uncertainty was fully captured in its scenarios. The increase in the Ofgem price cap, announced at the end of August 2022, is significantly higher than what was assumed in the above scenarios. The weighted peak in the Consumer Price Index (CPI) from the revised weightings is now expected to be around 12.7% (compared to around 11.6% assumed in the above scenarios) and the rate is also expected to stay higher for a longer period. As a result, the Group now assumes unemployment and base rate to be higher than anticipated and for a recession to continue beyond 2022. A PMA of £52.6m was held at 31 August 2022 in respect of this issue.

UK Government Growth Plan 2022 and Increase in the BoE Base Rate of Interest

On 23 September 2022, the UK Government announced its Growth Plan 2022, setting out the Government's approach to creating economic growth. This was preceded earlier in September 2022 by confirmation of the Energy Price Guarantee, which limits the price energy suppliers can charge customers and is aimed at reducing the burden of rising energy prices on consumers and businesses as well as curbing UK inflation by 4 to 5 percentage points. The BoE also raised the base rate of interest by 50 basis points to 2.25% in September 2022. Whilst the Government did not publish economic scenario information alongside its Growth Plan 2022 which would show the potential future impact of these measures, including their impact on the timing and extent of future interest rate increases, Management considers that the sensitivities set out on page 27 cover a suitably broad range of potential outcomes as at 31 August 2022.

12. Credit risk management (continued)

The tables below show the key macro-economic variables in each scenario at each reporting date, across a five calendar year period. The 2022 variables represent a full calendar year forecast containing six months of actual figures.

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

As at 31 August 2022

Scenario	Weighting	Sensitivity (100% weighted)[3]	Economic measure	2022	2023	2024	2025	2026
		£m		%	%	%	%	%
Base	40%	(8.5)	Bank of England base rate[1]	1.4	2.9	2.6	2.5	2.5
			Gross domestic product[2]	0.6	0.7	1.5	1.6	1.6
			Unemployment rate[1]	4.0	4.8	5.1	5.0	4.9
			Unemployment rate peak in year	4.4	5.0	5.1	5.1	5.0
Upside	30%	(47.3)	Bank of England base rate[1]	1.2	2.4	2.2	2.1	2.1
			Gross domestic product[2]	1.7	1.4	1.5	1.6	1.6
			Unemployment rate[1]	3.9	4.2	4.2	4.1	4.0
			Unemployment rate peak in year	4.1	4.2	4.2	4.1	4.0
Downside 1	25%	45.1	Bank of England base rate[1]	1.6	3.9	3.6	3.1	2.9
			Gross domestic product[2]	(0.2)	(0.3)	1.4	1.6	1.6
			Unemployment rate[1]	4.2	5.6	6.2	6.2	5.9
			Unemployment rate peak in year	4.7	6.1	6.3	6.2	6.0
Downside 2	5%	139.0	Bank of England base rate[1]	1.8	5.0	4.9	4.3	3.6
			Gross domestic product[2]	(1.3)	(1.3)	1.3	1.6	1.6
			Unemployment rate[1]	4.5	7.1	8.1	8.1	7.6
			Unemployment rate peak in year	5.5	7.8	8.2	8.2	7.9
Weighted scenarios			Bank of England base rate[1]	1.4	3.1	2.8	2.6	2.5
			Gross domestic product[2]	0.7	0.6	1.5	1.6	1.6
			Unemployment rate[1]	4.1	5.0	5.3	5.2	5.0
			Unemployment rate peak in year	4.4	5.2	5.3	5.2	5.1

[1] Simple average
[2] Annual growth rates
[3] Represents the impact on ECL provision if 100% weighting applied to each macro-economic scenario.

12. Credit risk management (continued)

As at 28 February 2022

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

[1] Simple average
[2] Annual growth rates
[3] Represents the impact on ECL provision if 100% weighting applied to each macro-economic scenario.

12. Credit risk management (continued)

As at 31 August 2021

Scenario	Weighting	Sensitivity (100% weighted)[3]	Economic measure	2021	2022	2023	2024	2025
		£m		%	%	%	%	%
Base	40%	(7.8)	Bank of England base rate[1]	0.1	0.2	0.5	0.6	0.8
			Gross domestic product[2]	8.6	2.6	1.7	1.3	1.6
			Unemployment rate[1]	6.3	5.7	4.8	4.3	4.1
			Unemployment rate peak in year	6.9	6.3	5.0	4.5	4.1
Upside	30%	(28.0)	Bank of England base rate[1]	0.1	0.4	0.7	0.9	1.0
			Gross domestic product[2]	12.0	2.1	1.5	1.3	1.6
			Unemployment rate[1]	5.8	4.5	4.1	4.1	4.0
			Unemployment rate peak in year	6.7	4.9	4.2	4.1	4.1
Downside 1	25%	31.3	Bank of England base rate[1]	0.1	0.1	0.2	0.3	0.4
			Gross domestic product[2]	5.6	3.5	1.8	1.3	1.6
			Unemployment rate[1]	7.0	7.9	6.5	5.3	4.4
			Unemployment rate peak in year	8.3	8.4	7.1	5.8	4.7
Downside 2	5%	78.9	Bank of England base rate[1]	0.1	(0.1)	(0.1)	0.1	0.2
			Gross domestic product[2]	3.4	3.1	2.0	1.3	1.6
			Unemployment rate[1]	7.7	10.1	9.3	7.9	6.2
			Unemployment rate peak in year	10.0	10.2	9.7	8.6	6.9
Weighted scenarios			Bank of England base rate[1]	0.1	0.2	0.5	0.6	0.7
			Gross domestic product[2]	8.6	2.7	1.7	1.3	1.6
			Unemployment rate[1]	6.4	6.1	5.3	4.7	4.3
			Unemployment rate peak in year	7.1	6.6	5.5	4.9	4.4

[1] Simple average
[2] Annual growth rates
[3] Represents the impact on ECL provision if 100% weighting applied to each macro-economic scenario.

12. Credit 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 loss given default (LGD), staging, probability of default (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;
- PD threshold (staging); and
- Expected lifetime of revolving credit facilities.

For further details on each of these assumptions refer to the Consolidated Financial Statements of the Group for the year ended 28 February 2022.

Set out below are changes in the ECL allowance that would arise from reasonably possible changes in these assumptions from those used in the Group's calculations at 31 August 2022:

		Impact on the loss allowance		
		31 August 2022 £m	28 February 2022 £m	31 August 2021 £m
Closing ECL allowance		**471.9**	488.8	579.4
Macro economic (100% weighting)	Upside[1]	(47.3)	(27.3)	(28.0)
	Base[1]	(8.5)	(12.8)	(7.8)
	Downside 1[1]	45.1	31.1	31.3
	Downside 2[1]	139.0	110.4	78.9
PD	Increase of 2.5%	9.0	5.8	7.3
	Decrease of 2.5%	(9.0)	(5.6)	(7.1)
LGD	Increase of 2.5%	8.7	7.2	8.9
	Decrease of 2.5%	(8.7)	(7.2)	(8.9)
Staging - change in threshold	Increase of 20%	(17.3)	(8.6)	(9.2)
	Decrease of 20%	18.6	12.7	12.4
Expected lifetime (revolving credit facilities)	Increase of 1 year	18.1	10.9	10.9
	Decrease of 1 year	(18.6)	(9.6)	(9.7)

[1] The economic scenarios utilised in the period are more severe which leads 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 are higher, more accounts hit the staging criteria and therefore the impact is greater.

12. Credit risk management (continued)

Management Overlays

The economic forecasts received by the Group during the period suggest that downside risks associated with the Covid-19 pandemic have largely receded. There remains ongoing uncertainty in the wider macro-economic environment, mainly as a result of geopolitical tensions, which are impacting global energy markets and food prices, driving up the rate of inflation and exacerbating the cost of living crisis. The economic environment experienced over the past two years, 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 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 31 August 2022 are as follow:

- The impact of the cost of living crisis on the Group's ECLs has, in the majority of cases, been captured by the economic scenarios. However, Management has assessed that there remains a residual portfolio of customers where the risk of default as a result of the increased cost of living has not been fully captured by the Group's ECL model. For these customers, Management has concluded that a significant increase in credit risk has occurred. These customers were identified based on their total level of unsecured debt (£10k or more) and their consumer indebtedness index provided by the external credit reference bureau. A PMA of £44.8m (February 2022: £74.7m) is held after moving these customers into Stage 2. Expanding the affected population to include customers who are five points lower on the consumer indebtedness index would increase the overlay by £27.2m.
- The volatility in energy prices during August 2022 led the Group to reassess whether the deterioration in the economic outlook and significant future economic uncertainty was fully captured through its scenarios. The increase in the Ofgem price cap, announced at the end of August 2022, is significantly higher than what has been assumed in the scenarios disclosed on page 22. The peak in the CPI from the revised weightings is now expected to be around 12.7% (compared to around 11.6% assumed in the core scenarios) and the rate is also expected to stay higher for a longer period. As a result, the Group now assumes unemployment and base rate to be higher than anticipated and for a recession to continue beyond 2022. A PMA of £52.6m was held at 31 August 2022 (February 2022: £nil) in respect of this issue. Refer to sensitivity analysis on page 27 for further details.
- Management has assessed that the beneficial impact of lower consumer spending through the Covid-19 pandemic, which has resulted in an improvement in credit scores, as well as other inputs to ECL such as lower exposure at default (EADs) on the Credit Cards portfolio, will have suppressed ECLs. A PMA of £46.1m (February 2022: £112.6m) is held in this respect, calculated from pre-Covid-19 pandemic coverage rates and based upon credit limits. This has reduced in the year as portfolio utilisation has moved back towards pre-Covid-19 pandemic levels. An increase or decrease of 10% on the adjustment for lower drawn balances would increase or decrease this overlay by £13.2m. This PMA reflects Management's belief that the level of risk prior to the emergence of Covid-19 is more reflective of future ECLs.

Changes from Prior Year:

- A PMA of £19.5m was held at 28 February 2022 as Management assessed that the emergence of customer defaults would be more aligned with that experienced through the 2008/2009 global financial crisis. The Group has determined that the risk is now captured in the underlying model and that this PMA is no longer required at 31 August 2022.
- A PMA of £6.3m was held at 28 February 2022 as Management assessed the impact of the outbreak of the conflict in Ukraine. This impact is now incorporated within its economic scenarios and, as such, this PMA is no longer required.

12. Credit 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 Interim Condensed Consolidated Statement of Financial Position. For loan commitments, the amounts in the table represent the amounts for which the Group is contractually committed.

As at 31 August 2022	Stage 1	Stage 2				Stage 3	Total
		Not past due	<30 days past due	>30 days past due	Total		
	£m	£m	£m	£m	£m	£m	£m
Gross Exposure							
Loans and advances to customers	6,326.2	833.3	29.7	17.5	880.5	187.7	7,394.4
Investment securities at FVOCI	533.5	–	–	–	–	–	533.5
Investment securities at amortised cost	869.8	–	–	–	–	–	869.8
Loan commitments - Loans and advances to customers[1]	12,016.1	206.6	4.2	0.6	211.4	7.1	12,234.6
Total gross exposure	19,745.6	1,039.9	33.9	18.1	1,091.9	194.8	21,032.3
Loss allowance							
Loans and advances to customers[1]	55.5	282.1	12.4	10.4	304.9	111.5	471.9
Investment securities at FVOCI[2]	1.0	–	–	–	–	–	1.0
Investment securities at amortised cost	0.2	–	–	–	–	–	0.2
Total loss allowance	56.7	282.1	12.4	10.4	304.9	111.5	473.1
Net exposure							
Loans and advances to customers	6,270.7	551.2	17.3	7.1	575.6	76.2	6,922.5
Investment securities at FVOCI	532.5	–	–	–	–	–	532.5
Investment securities at amortised cost	869.6	–	–	–	–	–	869.6
Total net exposure	**7,672.8**	**551.2**	**17.3**	**7.1**	**575.6**	**76.2**	**8,324.6**
Coverage							
Loans and advances to customers	0.9%	33.9%	41.8%	59.4%	34.6%	59.5%	6.4%

[1] The loss allowance in respect of loan commitments 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.

[2] 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.

12. Credit risk management (continued)

Maximum exposure to credit risk (continued)

	Stage 1	Stage 2				Stage 3	Total
		Not past due	<30 days past due	>30 days past due	Total		
As at February 2022							
Group and Company	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Gross Exposure							
Loans and advances to customers	5,973.1	797.1	22.5	15.9	835.5	200.9	7,009.5
Investment securities at FVOCI	584.7	–	–	–	–	–	584.7
Investment securities at amortised cost	857.6	–	–	–	–	–	857.6
Loan commitments - Loans and advances to customers[1]	12,028.9	325.1	2.4	0.6	328.1	6.0	12,363.0
Total gross exposure	**19,444.3**	**1,122.2**	**24.9**	**16.5**	**1,163.6**	**206.9**	**20,814.8**
Loss allowance							
Loans and advances to customers[1]	95.2	247.3	9.4	9.5	266.2	127.4	488.8
Investment securities at FVOCI[2]	0.8	–	–	–	–	–	0.8
Investment securities at amortised cost	0.2	–	–	–	–	–	0.2
Total loss allowance	**96.2**	**247.3**	**9.4**	**9.5**	**266.2**	**127.4**	**489.8**
Net Exposure							
Loans and advances to customers	5,877.9	549.8	13.1	6.4	569.3	73.5	6,520.7
Investment securities at FVOCI	583.9	–	–	–	–	–	583.9
Investment securities at amortised cost	857.4	–	–	–	–	–	857.4
Total net exposure	**7,319.2**	**549.8**	**13.1**	**6.4**	**569.3**	**73.5**	**7,962.0**
Coverage							
Loans and advances to customers	1.6%	31.0%	41.8%	59.7%	31.9%	63.4%	7.0%

[1] The loss allowance in respect of loan commitments is included within the total loss allowance for loans and advances to customers and assets of the disposal group as above to the extent that it is below the gross carrying amount of loans and advances to customers or assets of the disposal group. Where the loss allowance exceeds the gross carrying amount, any excess is included within provisions.

[2] 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.

12. Credit risk management (continued)

Maximum exposure to credit risk (continued)

As at 31 August 2021	Stage 1	Stage 2				Stage 3	Total
		Not past due	<30 days past due	>30 days past due	Total		
	£m	£m	£m	£m	£m	£m	£m
Gross Exposure							
Loans and advances to customers	5,955.4	777.0	21.4	19.8	818.2	208.0	6,981.6
Investment securities at FVOCI	603.6	–	–	–	–	–	603.6
Investment securities at amortised cost[1]	928.9	–	–	–	–	–	928.9
Loan commitments - Loans and advances to customers[1]	12,196.3	302.7	1.8	0.5	305.0	5.0	12,506.3
Total gross exposure	19,684.2	1,079.7	23.2	20.3	1,123.2	213.0	21,020.4
Loss allowance							
Loans and advances to customers[1]	132.4	300.8	8.6	11.8	321.2	125.8	579.4
Investment securities at FVOCI[2]	0.9	–	–	–	–	–	0.9
Investment securities at amortised cost	0.1	–	–	–	–	–	0.1
Total loss allowance	133.4	300.8	8.6	11.8	321.2	125.8	580.4
Net exposure							
Loans and advances to customers	5,823.0	476.2	12.8	8.0	497.0	82.2	6,402.2
Investment securities at FVOCI	602.7	–	–	–	–	–	602.7
Investment securities at amortised cost	928.8	–	–	–	–	–	928.8
Total net exposure	**7,354.5**	**476.2**	**12.8**	**8.0**	**497.0**	**82.2**	**7,933.7**
Coverage							
Loans and advances to customers	2.2%	38.7%	40.2%	59.6%	39.3%	60.5%	8.3%

[1] The loss allowance in respect of loan commitments is included within the total loss allowance for loans and advances to customers and assets of the disposal group as above to the extent that it is below the gross carrying amount of loans and advances to customers or assets of the disposal group. Where the loss allowance exceeds the gross carrying amount, any excess is included within provisions.

[2] 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.

12. Credit risk management (continued)

Maximum exposure to credit risk (continued)

The table below shows a breakdown of Stage 2 loans and advances to customers.

	Maximum exposure to credit risk	
	Gross Loans and Advances £m	Total ECL £m
At 31 August 2022		
Currently > 30 days past due	17.5	10.4
Total currently > 30 days past due	**17.5**	**10.4**
Quantitative triggers	623.5	243.3
Qualitative triggers	239.5	51.2
Total currently < 30 days past due	863.0	294.5
Total Stage 2 at 31 August 2022	**880.5**	**304.9**

	Maximum exposure to credit risk	
	Gross Loans and Advances £m	Total ECL £m
At 28 February 2022		
Currently > 30 days past due	15.9	9.5
Total currently > 30 days past due	**15.9**	**9.5**
Quantitative triggers	520.4	171.2
Qualitative triggers	299.2	85.5
Total currently < 30 days past due	**819.6**	**256.7**
Total Stage 2 at 28 February 2022	**835.5**	**266.2**

	Maximum exposure to credit risk	
	Gross Loans and Advances £m	Total ECL £m
At 31 August 2021		
Currently > 30 days past due	19.8	11.8
Total currently > 30 days past due	**19.8**	**11.8**
Quantitative triggers	764.0	292.9
Qualitative triggers	34.4	16.5
Total currently < 30 days past due	**798.4**	**309.4**
Total Stage 2 at 31 August 2021	**818.2**	**321.2**

12. Credit 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 period:

6 months to 31 August 2022	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Loans and advances to customers - loss allowance				
At 1 March 2022	95.2	266.2	127.4	488.8
Transfers[1,3]				
Transfers from stage 1 to stage 2	(10.7)	10.7	–	–
Transfers from stage 2 to stage 1	32.0	(32.0)	–	–
Transfers to stage 3	(1.4)	(15.1)	16.5	–
Transfers from stage 3	0.7	1.5	(2.2)	–
Income statement charge				
Net remeasurement[2] following transfer of stage[3]	(6.5)	17.2	24.2	34.9
New financial assets originated[4]	19.4	10.2	0.6	30.2
Financial assets derecognised during the period	(2.9)	(2.8)	(2.3)	(8.0)
Changes in risk parameters and other movements[3,5]	(72.2)	55.1	3.3	(13.8)
Other movements				
Write-offs and asset disposals[6]	–	(0.8)	(56.0)	(56.8)
Transfer from/(to) provisions for liabilities and charges[7]	1.9	(5.3)	–	(3.4)
ECL allowance at 31 August 2022	**55.5**	**304.9**	**111.5**	**471.9**
Investment securities at FVOCI - loss allowance				
At 1 March 2022	0.8	–	–	0.8
Income statement charge				
New financial assets purchased	0.1	–	–	0.1
Changes in risk parameters and other movements	0.1	–	–	0.1
ECL allowance at 31 August 2022	**1.0**	**–**	**–**	**1.0**
Investment securities at amortised cost - loss allowance				
ECL allowance at 1 March 2022 and 31 August 2022	**0.2**	**–**	**–**	**0.2**
Reconciliation to income statement				
Net expected credit loss charge	(62.0)	79.7	25.8	43.5
Recoveries and write-offs	–	–	(4.6)	(4.6)
Total income statement charge	**(62.0)**	**79.7**	**21.2**	**38.9**

[1] Transfers - The opening loss allowance on financial assets which transferred stage during the period.
[2] Net remeasurement - The increase/(decrease) in the opening loss allowance as a result of a stage transfer.
[3] Includes a charge in stages 1 and 2 of £62.1m due to a change in macro-economic assumptions.
[4] New financial assets originated or purchased - The loss allowance on new financial assets originated or purchased during the period, representing their stage at 31 August 2022.
[5] Changes in risk parameters and other movements - The change in loss allowance due to changes in macro-economic scenarios, PD, LGD and exposure at default (EAD) changes during the period.
[6] Write-offs and asset disposals - The release of the loss allowance following the write off and/or disposal of a financial asset during the period.
[7] Transfer from/(to) provisions for liabilities and charges - The movement in loss allowance which exceeds the gross carrying amount of the financial asset.

12. Credit risk management (continued)

Credit risk: Loss allowance (continued)

Loss allowance reconciliation (continued)

6 months to 31 August 2021	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Loans and advances to customers - loss allowance				
At 1 March 2021	132.3	339.3	153.0	624.6
Transfers[1,3]				
Transfers from stage 1 to stage 2	(5.1)	5.1	–	–
Transfers from stage 2 to stage 1	17.1	(17.1)	–	–
Transfers to stage 3	(3.5)	(28.5)	32.0	–
Transfers from stage 3	0.9	2.8	(3.7)	–
Income statement charge				
Net remeasurement[2] following transfer of stage[3]	(12.0)	1.3	26.8	16.1
New financial assets originated[4]	14.8	1.8	0.5	17.1
Financial assets derecognised during the period	(6.8)	(7.7)	(2.4)	(16.9)
Changes in risk parameters and other movements[3,5]	(7.3)	22.6	12.1	27.4
Other movements				
Write-offs and asset disposals[6]	–	(1.0)	(92.5)	(93.5)
Transfer from provisions for liabilities and charges[7]	2.0	2.6	–	4.6
ECL allowance at 31 August 2021	**132.4**	**321.2**	**125.8**	**579.4**
Investment securities at FVOCI - loss allowance				
At 1 March 2021	–	–	–	–
Income statement charge				
Acquisition of TU	1.0			1.0
Changes in risk parameters and other movements	(0.1)	–	–	(0.1)
ECL allowance at 31 August 2021	**0.9**	**–**	**–**	**0.9**
Investment securities at amortised cost - loss allowance				
At 1 March 2021	0.8	–	–	0.8
Income statement charge				
Changes in risk parameters and other movements	(0.6)	–	–	(0.6)
Other movements				
TU sub debt[8]	(0.1)	–	–	(0.1)
ECL allowance at 31 August 2021	**0.1**	**–**	**–**	**0.1**
Reconciliation to income statement				
Net expected credit loss charge	(11.0)	18.0	37.0	44.0
Recoveries and write-offs	–	–	(22.6)	(22.6)
Total income statement charge	**(11.0)**	**18.0**	**14.4**	**21.4**

[1] Transfers - The opening loss allowance on financial assets which transferred stage during the period.
[2] Net remeasurement - The increase/(decrease) in the opening loss allowance as a result of a stage transfer.
[3] Includes a charge in stages 1 and 2 of £57.1m due to a change in macro-economic assumptions.
[4] New financial assets originated or purchased - The loss allowance on new financial assets originated or purchased during the period, representing their stage at 31 August 2021.
[5] Changes in risk parameters and other movements - The change in loss allowance due to changes in macro-economic scenarios, PD, LGD and exposure at default (EAD) changes during the period.
[6] Write-offs and asset disposals - The release of the loss allowance following the write off and/or disposal of a financial asset during the period.
[7] Transfer from provisions for liabilities and charges - The movement in loss allowance which exceeds the gross carrying amount of the financial asset.
[8] The Group investment in subordinated debt issued by TU is now fully eliminated in the Interim Condensed Consolidated Statement of Financial Position following the acquisition of TU on 4 May 2021.

12. Credit risk management (continued)

Credit risk: Loss allowance (continued)

The following table provides a reconciliation of movements in the gross carrying amounts of financial instruments to help explain their significance to the changes in the loss allowance during the period as set out in the above table:

6 months to 31 August 2022	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Loans and advances to customers				
Gross carrying amount				
At 1 March 2022	5,973.1	835.5	200.9	7,009.5
Transfers[1]				
Transfers from stage 1 to stage 2	(350.3)	350.3	–	–
Transfers from stage 2 to stage 1	305.1	(305.1)	–	–
Transfers to stage 3	(20.1)	(43.5)	63.6	–
Transfers from stage 3	1.5	3.3	(4.8)	–
Other movements				
New financial assets originated[2]	1,151.4	70.6	0.8	1,222.8
Net decrease in lending[3]	(729.7)	(29.4)	(12.9)	(772.0)
Write-offs and asset disposals[4]	(2.9)	(0.9)	(62.2)	(66.0)
Changes in interest accrual and other movements	(1.9)	(0.3)	2.3	0.1
Gross balances at 31 August 2022	**6,326.2**	**880.5**	**187.7**	**7,394.4**
Investment securities at FVOCI				
Gross carrying amount				
At 1 March 2022	584.7	–	–	584.7
New financial assets purchased	88.6	–	–	88.6
Financial assets derecognised during the period	(101.5)	–	–	(101.5)
Other movements	(38.3)	–	–	(38.3)
Gross balances at 31 August 2022	**533.5**	**–**	**–**	**533.5**
Investment securities at amortised cost				
Gross carrying amount				
At 1 March 2022	857.6	–	–	857.6
New financial assets purchased	89.8	–	–	89.8
Financial assets derecognised during the period	(46.3)	–	–	(46.3)
Other movements	(31.3)	–	–	(31.3)
Gross balances at 31 August 2022	**869.8**	**–**	**–**	**869.8**

[1] Transfers - The opening gross carrying amount of financial assets held which transferred stage as at period end.

[2] New financial assets originated or purchased - The gross carrying amount of financial assets originated or purchased during the period, representing their stage as at 31 August 2022.

[3] 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.

[4] Write-offs and asset disposals -The write-off of the gross carrying amount when a financial asset is deemed uncollectible and/or has been disposed of.

12. Credit risk management (continued)

Credit risk: Loss allowance (continued)

6 months to 31 August 2021	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Loans and advances to customers				
Gross carrying amount				
At 1 March 2021	5,748.5	1,030.0	241.6	7,020.1
Transfers[1]				
Transfers from stage 1 to stage 2	(51.3)	51.3	–	–
Transfers from stage 2 to stage 1	61.2	(61.2)	–	–
Transfers to stage 3	(28.2)	(59.4)	87.6	–
Transfers from stage 3	2.4	5.1	(7.5)	–
Other movements				
New financial assets originated[2]	850.3	6.8	1.7	858.8
Net decrease in lending[3]	(627.4)	(151.6)	(16.3)	(795.3)
Write-offs and asset disposals[4]	–	(1.0)	(95.9)	(96.9)
Changes in interest accrual and other movements	(0.1)	(1.8)	(3.2)	(5.1)
Gross balances at 31 August 2021	**5,955.4**	**818.2**	**208.0**	**6,981.6**
Investment securities at FVOCI				
Gross carrying amount				
At 1 March 2021	5.1	–	–	5.1
Acquisition of TU	616.1	–	–	616.1
New financial assets purchased	11.4	–	–	11.4
Financial assets derecognised during the period	(23.3)	–	–	(23.3)
Reclassification to FVPL during the period[5]	(5.1)	–	–	(5.1)
Other movements	(0.6)	–	–	(0.6)
Gross balances at 31 August 2021	**603.6**	**–**	**–**	**603.6**
Investment securities at amortised cost				
Gross carrying amount				
At 1 March 2021	949.2	–	–	949.2
New financial assets purchased	32.3	–	–	32.3
Financial assets derecognised during the period	(27.6)	–	–	(27.6)
Other movements	(3.9)	–	–	(3.9)
TU sub debt[6]	(21.1)			(21.1)
Gross balances at 31 August 2021	**928.9**	**–**	**–**	**928.9**

[1] Transfers - The opening gross carrying amount of financial assets held which transferred stage as at period end.

[2] New financial assets originated or purchased - The gross carrying amount of financial assets originated or purchased during the period, representing their stage as at 31 August 2021.

[3] 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.

[4] Write-offs and asset disposals -The write-off of the gross carrying amount when a financial asset is deemed uncollectible and/or has been disposed of.

[5] During the period, following a review of industry practice and the requirements of IFRS 9, the Group reclassified its investment in preferred stock issued by VISA Inc. from FVOCI to FVPL.

[6] The Group investment in subordinated debt issued by TU is now fully eliminated in the Interim Condensed Consolidated Statement of Financial Position following the acquisition of TU on 4 May 2021.

13. Fair Values

Except as detailed in the following table, the Directors consider that the carrying value amounts of financial assets and financial liabilities recorded in the Interim Condensed Consolidated Statement of Financial Position are approximately equal to their fair values[1].

	31 August 2022		28 February 2022		31 August 2021	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Financial assets:						
Loans and advances to customers	6,842.1	6,893.5	6,490.3	6,565.5	6,403.9	6,558.8
Investment securities - amortised cost	869.6	874.3	857.4	867.4	928.8	933.9
	7,711.7	**7,767.8**	**7,347.7**	**7,432.9**	**7,332.7**	**7,492.7**
Financial liabilities:						
Deposits from customers	5,531.8	5,438.1	5,332.0	5,302.2	5,048.6	5,051.4
Subordinated liabilities and notes	471.8	399.2	480.0	445.9	485.8	473.6
	6,003.6	**5,837.3**	**5,812.0**	**5,748.1**	**5,534.4**	**5,525.0**

The only financial assets and financial liabilities which are carried at fair value in the Interim Condensed Consolidated Statement of Financial Position at period 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 period end are described below.

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.

[1] Fair value disclosures are not required for lease liabilities.

13. Fair Values (continued)

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.

As at 31 August 2022	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets carried at fair value				
Cash in hand[1]	–	56.5	–	56.5
Investment securities - FVOCI	533.5	–	–	533.5
Investment securities - FVPL	–	24.1	0.9	25.0
Derivative financial instruments:				
- Interest rate swaps	–	117.1	–	117.1
- Forward foreign currency contracts	–	1.1	–	1.1
Financial assets carried at amortised cost				
Loans and advances to customers	–	–	6,893.5	6,893.5
Investment securities – amortised cost	874.3	–	–	874.3
Total	**1,407.8**	**198.8**	**6,894.4**	**8,501.0**
Financial liabilities carried at fair value				
Derivative financial instruments:				
- Interest rate swaps	–	22.7	–	22.7
Financial liabilities carried at amortised cost				
Deposits from customers	–	–	5,438.1	5,438.1
Subordinated liabilities	–	399.2	–	399.2
Total	**–**	**421.9**	**5,438.1**	**5,860.0**

As at 28 February 2022	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets carried at fair value				
Cash in hand[1]	–	26.3	–	26.3
Investment securities - FVOCI	584.7	–	–	584.7
Investment securities - FVPL	–	23.0	1.8	24.8
Derivative financial instruments:				
- Interest rate swaps	–	45.0	–	45.0
- Forward foreign currency contracts	–	0.3	–	0.3
Financial assets carried at amortised cost				
Loans and advances to customers	–	–	6,565.5	6,565.5
Investment securities – amortised cost	867.4	–	–	867.4
Total	**1,452.1**	**94.6**	**6,567.3**	**8,114.0**
Financial liabilities carried at fair value				
Derivative financial instruments:				
- Interest rate swaps	–	27.2	–	27.2
Financial liabilities carried at amortised cost				
Deposits from customers	–	–	5,302.2	5,302.2
Subordinated liabilities	–	445.9	–	445.9
Total	**–**	**473.1**	**5,302.2**	**5,775.3**

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

13. Fair Values (continued)

As at 31 August 2021	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets carried at fair value				
Cash in hand[1]	–	25.5	–	25.5
Investment securities - FVOCI	603.6	–	–	603.6
Investment securities - FVPL	–	23.3	1.9	25.2
Derivative financial instruments:				
- Interest rate swaps	–	5.6	–	5.6
Financial assets carried at amortised cost				
Loans and advances to customers	–	–	6,558.8	6,558.8
Investment securities – amortised cost	933.9	–	–	933.9
Total	**1,537.5**	**54.4**	**6.560.7**	**8,152.6**
Financial liabilities carried at fair value				
Derivative financial instruments:				
- Interest rate swaps	–	36.2	–	36.2
- Forward foreign currency contracts	–	0.2	–	0.2
Financial liabilities carried at amortised cost				
Deposits from customers	–	–	5,051.4	5,051.4
Subordinated liabilities	–	473.6	–	473.6
Total	**–**	**510.0**	**5,051.4**	**5,561.4**

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

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.

Financial assets classified as FVPL comprise TU's holding in a property fund and, in the prior year, part of the Group's holding in VISA Inc. The estimated fair value of TU's holding in a property fund is derived from market prices. The holding in VISA Inc. was calculated based on the Group's holding of class A common stock, VISA Inc.'s share price and the GBP:USD exchange rate.

13. Fair Values (continued)

Level 3

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

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

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

The Group's holding in VISA Inc. preferred stock may be convertible into Class A Common Stock of VISA Inc. at certain future dates. There was one conversion in the period ended 31 August 2022. 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.

Transfers

There were no transfers between Level 1 and Level 2 during the period (February 2022: no transfers).

The Group transferred investment securities totalling £1.9m from Level 3 to Level 2 during the period (February 2022: no transfers).

14. Capital Resources

IFRS 9 'Financial Instruments' 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 Capital Requirements Regulations (CRR). These arrangements allow the IFRS 9 impact on capital to be phased in over a period of five years. On 27 June 2020, due to the Covid-19 pandemic, CRR was further amended to accelerate specific measures and implement a new IFRS 9 transitional relief calculation which applies additional relief to increases in ECL provisions arising as a result of the Covid-19 pandemic. As a result, the IFRS 9 transitional arrangements have been extended by two years and a new modified calculation has been introduced.

14. Capital Resources (continued)

The following tables analyse the regulatory capital resources of the Company applicable as at the period end on a 'transitional' and 'end point' position for the current period as related to the IFRS 9 transitional period:

	Transitional 31 August 2022 £m	End Point 31 August 2022 £m	Transitional 28 February 2022 £m	Transitional 31 August 2021 £m
Common equity tier 1				
Shareholders' equity (accounting capital)	1,694.6	1,694.6	1,660.4	1,665.9
Regulatory adjustments				
Unrealised gains on cash flow hedge reserve	(0.7)	(0.7)	(0.2)	–
Adjustment to own credit/Additional value adjustments	(0.1)	(0.1)	–	–
Foreseeable dividends	(54.4)	(54.4)	–	(50.0)
Intangible assets	(109.3)	(109.3)	(111.9)	(121.6)
Material holdings in financial sector entities	(25.6)	(25.6)	(29.2)	(34.6)
IFRS 9 transitional add back	85.8	–	140.3	213.8
Common equity tier 1 capital	**1,590.3**	**1,504.5**	**1,659.4**	**1,673.5**
Tier 2 capital (instruments and provisions)				
Undated subordinated notes	45.0	45.0	45.0	45.0
Dated subordinated notes net of regulatory amortisation	190.0	190.0	190.0	190.0
Tier 2 capital (instruments and provisions) before regulatory adjustments	**235.0**	**235.0**	**235.0**	**235.0**
Regulatory adjustments				
Material holdings in financial sector entities	(41.9)	(41.9)	(42.2)	(42.2)
Total regulatory adjustments to tier 2 capital (instruments and provisions)	**(41.9)**	**(41.9)**	**(42.2)**	**(42.2)**
Total tier 2 capital (instruments and provisions)	**193.1**	**193.1**	**192.8**	**192.8**
Total capital	**1,783.4**	**1,697.6**	**1,852.2**	**1,866.3**
Total risk-weighted assets (unaudited)	7,022.2	6,981.8	6,828.5	7,004.0
Common equity tier 1 ratio (unaudited)	22.6%	21.5%	24.3%	23.9%
Tier 1 ratio (unaudited)	22.6%	21.5%	24.3%	23.9%
Total capital ratio (unaudited)	25.4%	24.3%	27.1%	26.6%

14. 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 31 August 2022 is 9.80% plus £68m as a static add-on for pension obligation risk.

In line with guidance issued by the European Banking Authority, the Group has included a foreseeable dividend, based on historic actual pay-out levels, within its capital resources disclosure. No final decision has yet been taken on whether to pay a dividend for the year ending 28 February 2023.

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

	31 August 2022 £m	28 February 2022 £m	31 August 2021 £m
Tesco Personal Finance plc (Group) shareholders' equity	1,682.0	1,657.2	1,678.4
Subsidiaries' retained earnings	(27.6)	(9.6)	(8.9)
Subsidiary's fair value reserve	40.2	12.8	(3.6)
Tesco Personal Finance plc (Company) shareholders' equity	**1,694.6**	**1,660.4**	**1,665.9**

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

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

The Group has met all relevant capital requirements throughout the period.

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 period ended 31 August 2022 are laid out in accordance with the requirements of the PRA Rulebook: CRR Firms: Leverage Instrument 2021.

14. Capital Resources (continued)

The Group has published the leverage ratio on a Capital Requirements Directive IV (CRD IV) basis using the existing exposure approach:

Exposures for leverage ratio (unaudited)	Transitional 31 August 2022 £m	End Point 31 August 2022 £m	Transitional 28 February 2022 £m	Transitional 31 August 2021 £m
Total balance sheet exposures	9,691.7	9,691.7	9,634.8	9,430.3
Adjustments for entities which are consolidated for accounting purposes but outside scope of regulatory consolidation	(730.0)	(730.0)	(774.5)	(790.6)
Adjustment for exemption of exposures to central bank	(364.2)	(364.2)	(639.9)	–
Removal of accounting value of derivatives and Securities Financing Transactions (SFTs)	(118.2)	(118.2)	(45.3)	(5.6)
Exposure value for derivatives and SFTs	31.6	31.6	37.6	4.1
Off balance sheet: unconditionally cancellable (10%)	1,223.5	1,223.5	1,236.3	1,250.6
Off balance sheet: other (20%)	–	–	–	–
Regulatory adjustment – intangible assets	(109.3)	(109.3)	(111.9)	(121.6)
Regulatory adjustment – other, including IFRS 9	42.1	(43.7)	114.9	148.2
Total	**9,667.2**	**9,581.4**	**9,452.0**	**9,915.4**
Common equity tier 1	**1,590.3**	**1,504.5**	**1,659.4**	**1,673.5**
Leverage ratio	**16.4%**	**15.7%**	**17.6%**	**16.9%**

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 Asset and Liability Management Committee.

14. Capital Resources (continued)

Pillar 2 capital methodologies

The PRA updated its Pillar 2 capital methodologies in July 2016 following the publication of prudential requirements for implementation of ring-fencing and issued a policy statement in October 2017 refining the Pillar 2A framework.

These proposals are aimed at promoting the safety and soundness of PRA-regulated firms, to facilitate a more effective banking sector and to make the PRA's Pillar 2A capital assessment more proportionate by addressing some of the concerns over the differences between 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.

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 January 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.

Leverage

At present the Group is not subject to the minimum Tier 1 leverage ratio requirement of 3.25% as it is currently exempt from the UK Leverage Framework Regime, which only applies to LREQ firms with retail deposit levels equal to or greater than £50 billion. However, although the PRA has confirmed that the minimum 3.25% ratio will be an LREQ requirement, as a smaller domestic deposit taker, the regulator has stated it still expects the Group to maintain a minimum leverage ratio of 3.25%. The Group will not be subject to regulatory sanctions if it fails to do so.

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

Following a change in TPFG's resolution strategy confirmed by the BoE, TPFG no longer has a requirement to issue MREL-compliant debt since the MREL requirement is equal to the TCR. The MREL-compliant debt issued by TPFG in July 2019 remains in issue.

At 31 August 2022, the MREL ratio was 29.0% (February 2022: 30.8%).

15. Related Party Transactions

The Group's related party transactions during the interim period were entered into in the normal course of business. Transactions for this period are not significant to an understanding of the Group's financial position or performance and are similar in nature to those for the year ended 28 February 2022.

16. 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.

RESPONSIBILITY STATEMENT

The Directors listed below confirm that to the best of their knowledge:

- these Interim Condensed Consolidated Financial Statements have been prepared in accordance with IAS 34, 'Interim Financial Reporting'.

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

The Directors of Tesco Personal Finance plc as at the date of this announcement are as set out below.

By order of the Board,

Richard Henderson
Director
3 October 2022

Directors:	Sir John Kingman	Non-Executive Chairman
	Elizabeth Buckley	Independent Non-Executive Director
	Julie Currie	Independent Non-Executive Director
	Robert Endersby	Independent Non-Executive Director
	Jacqueline Ferguson	Senior Independent Non-Executive Director
	Richard Henderson	Chief Financial Officer
	Simon Machell	Independent Non-Executive Director
	Gerard Mallon	Chief Executive Officer
	Adrian Morris	Non-Executive Director
	Tikendra Patel	Independent Non-Executive Director
	Amanda Rendle	Independent Non-Executive Director
	Deborah Walker	Chief Risk Officer
Company Secretary:	Fiona Burden	

Conclusion

We have been engaged by Tesco Personal Finance plc ("the Company") to review the Interim Condensed Consolidated Financial Statements in the Interim Financial Report for the six months 31 August 2022 which comprise the Interim Condensed Consolidated Income Statement, the Interim Condensed Consolidated Statement of Comprehensive Income, the Interim Condensed Consolidated Statement of Financial Position, the Interim Condensed Consolidated Statement of Changes in Equity, the Interim Condensed Consolidated Statement of Cash Flows and related notes 1 to 16.

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated set of financial statements in the half-yearly financial report for the six months ended 31 August 2022 are not prepared, in all material respects, in accordance with United Kingdom adopted International Accounting Standard 34.

Basis for conclusion

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

As disclosed in note 1, the annual Financial Statements of the Company are prepared in accordance with United Kingdom adopted international accounting standards. The condensed set of financial statements included in this half-yearly financial report have been prepared in accordance with United Kingdom adopted IAS 34, "Interim Financial Reporting".

Conclusion relating to going concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for Conclusion section of this report, nothing has come to our attention to suggest that the directors have inappropriately adopted the going concern basis of accounting or that the directors have identified material uncertainties relating to going concern that are not appropriately disclosed.

This conclusion is based on the review procedures performed in accordance with ISRE (UK) 2410; however future events or conditions may cause the entity to cease to continue as a going concern.

Responsibilities of the directors

The directors are responsible for preparing the Interim Financial Report in accordance with International Accounting Standard 34.

In preparing the Interim Financial Report, the directors are responsible for assessing the 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 company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the review of the financial information

In reviewing the Interim Financial Report, we are responsible for expressing to the Company a conclusion on the condensed set of financial statements in the Interim Financial Report. Our Conclusion, including our Conclusion Relating to Going Concern, is based on procedures that are less extensive than audit procedures, as described in the Basis for Conclusion paragraph of this report.

Use of our report

This report is made solely to the Company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Financial Reporting Council. Our work has been undertaken so that we might state to the Company those matters we are required to state to it in an independent review 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, for our review work, for this report, or for the conclusions we have formed.

Deloitte LLP

Statutory Auditor

Birmingham, United Kingdom

3 October 2022

ABBREVIATIONS

AFS	Available-for-sale
Ageas	Ageas (UK) Limited
ATM	Automated teller machine
BCBS	Basel Committee on Banking Supervision
BoE	Bank of England
CCyB	Countercyclical capital buffer
CPI	Consumer Prices Index
CRD	Capital Requirements Directive
CRO	Chief Risk Officer
CRR	Capital Requirements Regulation
EAD	Exposure at default
ECLs	Expected credit losses
EIR	Effective interest rate
EU	European Union
FPC	Financial Policy Committee
FVOCI	Fair value through other comprehensive income
FVPL	Fair value through profit or loss
GBP	Great British Pound
GDP	Gross domestic product
IAS	International Accounting Standard
IAS 34	IAS 34 'Interim Financial Reporting'
IASB	International Accounting Standards Board
ICAAP	Internal capital adequacy assessment process
IFRS	International Financial Reporting Standard
IFRS 9	IFRS 9 ‘Financial Instruments’
IFRS 17	IFRS 17 'Insurance Contracts'
ISRE	International Standard on Review Engagements
KPI	Key performance indicator
LFR	Leverage Framework Regime
LGD	Loss given default
LREQ	Leverage ratio - capital requirements and buffers
MREL	Minimum requirements for own funds and eligible liabilities
NSFR	Net stable funding ratio
Ofgem	Office of Gas and Electricity Markets
PD	Probability of default
PMA	Post-model adjustment
PRA	Prudential Regulation Authority
RMF	Risk management framework
RMFu	Risk management function
SA	Standardised approach
SCR	Solvency Capital Requirement
SFTs	Securities financing transactions
TCR	Total capital requirement
TPF	Tesco Personal Finance plc
TPFG	Tesco Personal Finance Group plc
TU	Tesco Underwriting Limited
UK	United Kingdom
USD	United States Dollar

A

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 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.

B

Basel II	The capital adequacy framework issued by the BCBS (June 2006) in the form of the 'International Convergence of Capital Measurement and Capital Standards'.
Basel III	The capital reforms and introduction of a global liquidity standard proposed by the BCBS.
Brexit	The process by which the United Kingdom left the EU.

C

Capital requirements directive	A legislative package relating to capital adequacy, issued by the European Commission and adopted by EU member states.
Capital requirements regulation	The Capital Requirements Regulation (EU) No. 575/2013 is an EU law that aims to decrease the likelihood that banks become insolvent, reflecting Basel III rules on capital measurement and capital standards.
Capital resources	Eligible capital held in order to satisfy capital requirements.
Capital risk	The risk that the Group holds regulatory capital which is of insufficient quality and quantity to enable it to absorb losses.
Common equity tier 1 capital	The highest form of regulatory capital under CRD IV, comprising common shares issued, related share premium, retained earnings and other reserves less regulatory adjustments.
Common equity tier 1 ratio	The common equity tier 1 ratio is calculated by dividing total tier 1 capital at the end of the reporting period by total risk-weighted assets and is calculated in line with the CRR.
Company	Tesco Personal Finance plc.
Consumer Prices Index	One of the consumer price indices used as the domestic measure of inflation in the UK. The CPI is published by the Office for National Statistics and measures the average change from month to month in the prices of goods and services purchased by most households in the UK.
Cost:income ratio	The cost:income ratio is calculated by dividing operating expenses by total income.
Countercyclical capital buffer	The countercyclical capital buffer is a time varying capital requirement which applies to banks and investment firms. It aims to promote a sustainable provision of credit to the economy by making the banking system more resilient and less pro-cyclical.
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. CRD IV implements the Basel III proposals in addition to new proposals on sanctions for non-compliance with regulatory rules, corporate governance and remuneration. The rules have been implemented in the UK via PRA policy statement PS7/13, with some elements subject to transitional phase-in.
Credit risk	Credit risk is the risk that a borrower will default on a debt or obligation by failing to make contractually obligated payments, or that the Group will incur losses due to any other counterparty failing to meet their financial obligations.

D

Derivatives	Financial instruments whose value is based on the performance of one or more underlying assets.

E

Expected credit loss	The probability-weighted estimate of credit losses over the expected life of a financial instrument.
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.

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 FCA 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 Financial Policy Committee 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.
Funding risk	The risk that the Group does not have sufficiently stable and diverse sources of funding.

G

Gross domestic product	The total value of goods produced and services provided in a country during one year.
Gross insurance premiums written	Premiums paid by policyholders for their insurance, inclusive of commission and insurance premium tax over a given period.
Group	The Company and its subsidiaries.

I

Impairment losses	The reduction in value that arises following an impairment review of an asset outwith the scope of IFRS 9 which has determined that the asset's value is lower than its carrying value.
Insurance risk	The risks accepted through the provision of insurance products in return for a premium. These risks may or may not occur as expected and the amount and timing of these risks are uncertain and determined by events outside of the Group's control.
Interest rate risk	The risk arising from the different repricing characteristics of the Group's non-trading assets and liabilities.
Internal capital adequacy assessment process	The Group's own assessment, based on Basel II requirements, of the level of capital needed in respect of its regulatory capital requirements (for credit, market and operational risks) and for other risks including stress events.
Internal liquidity adequacy assessment process	An ongoing exercise as part of the PRA's regulatory framework to ensure that the Group maintains adequate liquid assets to survive a defined stress scenario for a sufficient period as defined by Risk Appetite.

L

Leverage ratio	Tier 1 capital divided by total exposure.
Liquidity risk	The risk that the Group is not able to meet its obligations as they fall due. This includes the risk that a given security cannot be traded quickly enough in the market to prevent a loss if a credit rating falls.
Loan: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.

M

Market risk	The risk that the value of earnings or capital is altered through the movement of market rates. This includes interest rates foreign exchange rates, credit spreads and equities.
Minimum requirements for own funds and eligible liabilities	A requirement for minimum loss-absorbing capacity institutions must hold.
MREL ratio	A requirement for minimum loss-absorbing capacity institutions must hold.

N

Net interest margin	Net interest margin is calculated by dividing annualised net interest income, less annualised lease interest expense, by average interest-bearing assets.
Net stable funding ratio	The net stable funding ratio is calculated under the CRD IV methodology.

O

Ofgem	Great Britain's independent energy regulator.
Operational risk	The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

P

Past due	Accounts 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.
Pillar 1	The first Pillar of the Basel II framework sets out the minimum regulatory capital requirements for credit, market and operational risks.
Pillar 2	The second Pillar of the Basel II framework, known as the Supervisory Review Process, sets out the review process for a bank's capital adequacy; the process under which supervisors evaluate how well banks are assessing their risks and the actions taken as a result of these assessments.
Pillar 2A	Pillar 2A addresses risks to an individual firm which either are not captured, or not fully captured, under the Pillar 1 capital requirements applicable to all banks.
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.

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 framework and 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 rules established by the PRA.
Regulatory risk	The risk of reputational damage, liability or material loss from failure to comply with the requirements of the financial services regulators or related codes of best practice applicable to the business area within which the Group operates.
Risk Appetite	The level and types of risk that the Group is willing to assume to achieve its strategic objectives.
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 standardised and IRB approach rules.

S

Securitisation	A securitisation is defined as a transaction where the payments are dependent upon the performance of a single exposure or pool of exposures, where the subordination of tranches determines the distribution of losses during the life of the transaction.
Securities Financing Transactions	The act of lending, or borrowing, a stock, derivative, or other security to or from an investor or firm.
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.
Standardised Approach	In relation to credit risk, the method for calculating credit risk capital requirements using risk-weightings that are prescribed by the regulator. SA's 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.

S (continued)

Subordinated liabilities	Liabilities which, in the event of insolvency or liquidation of the issuer, are subordinated to the claims of depositors and other creditors of the issuer.

T

Tier 1 capital	A component of regulatory capital, comprising common equity tier 1 capital and other tier 1 capital. Other tier 1 capital includes qualifying capital instruments such as non-cumulative perpetual preference shares and other tier 1 capital securities.
Tier 2 capital	A component of regulatory capital, comprising qualifying subordinated loan capital and related non-controlling interests.
Total capital ratio	The total capital ratio is calculated by dividing total regulatory capital by total risk-weighted assets.
Total capital requirements	The minimum regulatory capital that must be held in accordance with Pillar 1 requirements for credit, market and operational risk.

U

UK Leverage Framework Regime	The UK Leverage Framework Regime currently applies to firms with retail deposits equal to or greater than £50 billion on an individual or consolidated basis.
Underlying cost:income ratio	The underlying cost:income ratio is calculated by dividing underlying operating expenses by total underlying income.