TESCO PERSONAL FINANCE PLC

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 28 FEBRUARY 2019

Company Number SC173199

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DIRECTORS AND ADVISERS

Directors:	Graham Pimlott	Independent Non-Executive Chairman
	Karl Bedlow	Chief Customer Officer
	John Castagno	Independent Non-Executive Director
	Robert Endersby	Independent Non-Executive Director
	Jacqueline Ferguson	Independent Non-Executive Director
	Richard Henderson	Chief Risk Officer
	Declan Hourican	Chief Financial Officer
	Simon Machell	Independent Non-Executive Director
	Gerard Mallon	Chief Executive
	James McConville	Independent Non-Executive Director
	David McCreadie	Managing Director
	Amanda Rendle	Independent Non-Executive Director
	Alan Stewart	Non-Executive Director
	James Willens	Senior Independent Non-Executive Director

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The Directors present their Strategic Report for the year ended 28 February 2019.

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

Tesco Personal Finance plc is a wholly owned subsidiary of Tesco Personal Finance Group PLC (TPFG), the share capital of which is wholly owned by Tesco PLC (Tesco). A reconciliation of the results contained within this Strategic Report to the Tesco Bank results presented in the Tesco preliminary results 2018/19 can be found on the Tesco internet page https://www.tescoplc.com/media/754302/broker-pack-2019.pdf.

Business Model

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 49.9% of Tesco Underwriting Limited (TU), an authorised insurance company. TU is accounted for as a joint venture of the Group.

Headlines

Impact of Adoption of New Accounting Standards

The Group adopted both International Financial Reporting Standard (IFRS) 9 'Financial instruments' and IFRS 15 'Revenue from contracts with customers' with effect from 1 March 2018.

IFRS 9 has been applied retrospectively at 1 March 2018 by adjusting the opening balance sheet at that date, with no requirement to restate comparative periods. IFRS 15 has been applied fully retrospectively and prior period comparatives have been restated.

The adoption of IFRS 9 resulted in a decrease in the Group's and Company's total financial assets of £214.2m. In addition, a provision of £9.3m was recognised in respect of expected credit loss allowances in excess of the carrying amount of the related financial assets. Net of a deferred income tax asset of £57.0m in respect of these transitional adjustments, the overall impact on equity was therefore a reduction in equity of £166.5m at 1 March 2018.

The adoption of IFRS 15 resulted in the earlier recognition of certain insurance renewal commission income, amounting to £18.5m at 1 March 2017, as well as the reclassification of the provision for insurance refunds of £4.2m from provisions for liabilities and charges to other liabilities. A related increase of £5.0m in the deferred income tax liability was also recognised at 1 March 2017.

Further details of the transitional impact of the adoption of IFRS 9 and IFRS 15 are set out at note 2.

Income Statement

- Profit before tax is 0.1% lower at £198.9m (2018: £199.1m)[1]. The key drivers of the decrease in profit before tax are:
    - an 11.3% increase in net interest income to £548.9m (2018: £493.1m), reflecting higher interest earnings on the back of lending growth. Net interest margin has decreased slightly to 3.8% (2018: 3.9%), reflecting the impact of growth in the lower margin Mortgage book as a percentage of the group's overall lending portfolio;
    - a 5.3% reduction in fee and commission income to £333.2m (2018: £351.8m)[1]. This predominantly reflects continued pressure on insurance retention rates due to a highly competitive environment, leading to a reduction in insurance commission income, and a reduction in ATM income as a result of the downward trend in ATM transactions being seen across the market as customers move towards contactless and other forms of payment. Partially offsetting this, the Group has recognised accelerated income, net of the unwind of accelerated income recognised in prior years, of £13.2m in respect of certain insurance renewal commission income where the Group has satisfied all of its performance obligations in relation to the policies sold and it is considered highly probable that a significant reversal in the amount of revenue recognised will not occur in future periods. This calculation takes into account both estimates of future renewal volumes and renewal commission rates;

[1] The prior year restatement relates to the adoption of IFRS 15 in the current year. Refer to note 2 for further details.

Income Statement (continued)

- ○ a loss on financial instruments at fair value through profit or loss (FVPL) of £4.2m (2018: gain of £11.0m);
- ○ a gain on disposal of investment securities of £8.4m (2018: £0.1m);
- ○ an increase of 0.3% in operating expenses to £531.2m (2018: £529.5m). This includes a charge of £16.4m (2018: £nil) relating to the November 2016 fraud incident following receipt from the Financial Conduct Authority (FCA) of a final warning notice; and a payment protection insurance (PPI) charge of £16.0m (2018: £35.0m) recognised during the year. The PPI charge recognised during the prior year was partially offset by a provision release in the prior year of £1.5m from the Group's Consumer Credit Act (CCA) customer redress provision and a credit of £9.7m received in the prior year following the conclusion of negotiations with a third party in respect of previously recognised customer redress. Also included is a restructuring credit of £1.6m (2018: £1.2m) relating to the early exit from the Group's offices in central Edinburgh; and
- ○ a 19.4% increase in impairment charges to £164.1m (2018: £137.4m)[2]. This reflects balance growth, the implementation of a number of credit initiatives in recent years, which have been targeted at supporting the borrowing needs of Tesco customers in a profitable and controlled manner, and current year impairment charges now being calculated on an expected credit loss basis under IFRS 9. The bad debt:asset ratio (BDAR) increased to 1.4% (2018: 1.3%)[3].

- Underlying profit before tax, which excludes items not reflective of ongoing trading performance, is 10.4% higher at £233.9m (2018: £211.9m)[1]. A reconciliation of statutory to underlying profit for the current and prior period is set out on pages 5 and 6.
- Income tax on the Group's profit for the year is a charge of £55.6m (2018: £60.6m)[1]. The Group's current year effective tax rate is higher than the statutory rate principally due to the non-deductibility of both the PPI charge of £16.0m recognised during the year and the regulatory charge of £16.4m.

Balance Sheet

- Loans and advances to customers have increased by 7.8% to £12.4bn (2018: £11.5bn). Mortgage balances reached £3.8bn (2018: £3.0bn) as the Mortgage product range continued to expand via the intermediary broker channel. The Group has also seen growth in both Credit Cards and Personal Loan balances of 3.0% and 6.7% respectively.
- Customer deposits have increased by 13.3% to £10.5bn (2018: £9.2bn). This continues to be the main source of the Group's funding. Deposits from banks at 28 February 2019 totalled £1,663.2m (2018: £1,539.0m). At the year end, the Group had entered into repurchase transactions of £324.2m (2018: £200.0m) and accessed £1,339.0m of funds from the Bank of England's (BoE) Term Funding Scheme (TFS) (2018: £1,339.0m). The lower cost of funding provided by the TFS is reflected in competitive offers for the Group's borrowing customers.
- The balance sheet remains strong and well positioned to support future lending growth from both a liquidity and capital stand point. At 28 February 2019, the total capital ratio was 18.4% (2018: 19.4%)[1] and net stable funding ratio (NSFR) was 123.4% (2018: 118.1%)[1]. The increase in the NSFR over the year reflects the relative movements in the Group's available and required funding, with additional customer deposits resulting in increased available funding of £1.2bn, offset by a £0.9bn increase in the Group's required funding, arising from the growth in customer lending referred to above.

[1] The prior year restatement relates to the adoption of IFRS 15 in the current year. Refer to note 2 for further details.

[2] The impairment charge for the year ended 28 February 2019 reflects impairment charges on an expected loss basis in accordance with IFRS 9. The comparative figure reflects impairment charges on an incurred loss basis, as previously reported under International Accounting Standard (IAS) 39 'Financial instruments: Recognition and measurement'.

[3] The BDAR for the year ended 28 February 2019 reflects impairment charges on an expected loss basis in accordance with IFRS 9. The comparative figure reflects impairment charges on an incurred loss basis, as previously reported under IAS 39.

Strategic Priorities

The vision of Tesco Bank is to 'be the bank for people who shop at Tesco'. In order to further the Group's pursuit of this ambition, the Group continues to seek opportunities to make it easier for Tesco customers to bank and insure with the Group through targeted investment in technology and data, making life simpler for both customers and colleagues and driving efficiency that can be reinvested in the customer offer. The Group's strategy is to bring the best of Tesco to financial services, offering customers great value across the range of products and earning customer trust through the Group's actions. Use of the Group's mobile banking App continues to expand, and the App has now been downloaded by more than 1.2 million users. Changes to the App in April 2018 simplified the registration journey, enhancing the customer experience by allowing customers to register for the App without having to set up online banking security beforehand.

In May 2018, the Group launched a new online banking experience to improve how the Group's customers view their banking products, making it easier to see what matters most, at first glance. The Group's Personal Current Account customers can now see a balance beside each of their transactions, helping customers to better manage their money. In February 2019 the Group announced new features, including the ability for customers to use Siri as a convenient way to check their account balances.

The Group's Tesco Pay+ service continues to grow, offering Tesco shoppers the ability to pay and collect Clubcard points with one simple and convenient scan of their phone.

The Group continues to deliver value to its Mortgage customers and improve the customer experience. In the year, the Group launched a new Broker Product Switch Portal, which allows the Group's panel of Mortgage intermediaries to select new remortgage deals on behalf of existing customers.

The Group now has 323 Travel Money bureaux across the UK, and provided customers with over £1 billion in currency in the 12 months to 28 February 2019.

The Group's commitment to offering attractive products and good service for customers has been rewarded with recognition as 'Best Card Provider (Standard Rate)' and 'Best Variable Rate Mortgage Provider' at the 2018 Moneyfacts Awards, 'Best Direct Lender' at the What Mortgage Awards 2018, and 'Best Online Pet Insurance Provider' and 'Best Direct Car Insurance Provider' at the Your Money Awards 2018. Additionally, the Bank's customer complaints service won 'Best Service Design in the Private Sector' at the Global Service Design Awards.

During the year, colleagues raised over £81,000 for the Group's charity partners and volunteered over 3,700 hours to the local communities. In April 2018, the Group marked its first 'Tesco Bank Turns Pink' event, showing the Group's commitment and support to Cancer Research UK's Race for Life.

In August 2018, Gerry Mallon joined the Group as Chief Executive.

Regulatory Developments

The Group continues to monitor and prepare for a number of regulatory changes taking effect over the next few years.

Three major components of regulatory reform relating to data regulation came into force during 2018. These are Open Banking, the second Payment Services Directive (PSD2) and the General Data Protection Regulation (GDPR), all of which are focused on innovation, competition and consumer protection.

PSD2, together with Open Banking, allows customers to choose to share data from their banking products with third party providers (TPPs) and bring together some or all of their financial relationships and data in one place, potentially leading to a fundamental change in how customers manage both their money and data over the longer term. The aim of these changes is to promote competition and increase customer choice. They provide potential opportunities for the Group to attract new customers, as well as potentially increasing competition from traditional banking businesses and new providers of financial services, including technology companies. The Group continues to monitor and review the risks associated with the introduction of PSD2, including the need to ensure that there is appropriate control and ownership of sensitive and confidential customer data as the use of TPPs becomes more widespread.

GDPR came into effect on 25 May 2018, providing new and enhanced rights for individuals in respect of their personal information. The Group undertook a business-wide review of data protection policies and processes ahead of the GDPR compliance date and appointed a Data Protection Officer to oversee compliance.

Uncertainty remains around the implementation and impact of some regulatory developments including the finalisation of Basel III, which will be subject to European Union (EU) and UK implementation. In addition, the Group will be subject to the minimum requirements for own funds and eligible liabilities (MREL) on an interim basis from 1 January 2020, with full implementation applicable from 1 January 2022. The Group is working towards implementation of these requirements and has reflected them in its funding plan.

Business Review

During the year, the business continued to deliver growth across its primary products (Credit Cards, Personal Loans, Mortgages, Personal Current Accounts and Savings).

Mortgage balances grew by 25.1% in the period, reaching £3,753.2m (2018: £3,000.7m), while Credit Card balances increased by 3.0% and Personal Loans by 6.7%.

Customer deposits of £10,478.6m (2018: £9,248.0m) continue to be the Group's primary source of funding. The Group's customer deposits grew by 13.3% in the year.

During the year, the Group maintained its funding from the BoE's TFS at £1,339.0m (2018: £1,339.0m) in order to support future lending growth.

Money Services products have performed well overall as the Group continues to enhance the product range and expand the customer base. A reduction in ATM transaction volumes, due to the declining use of cash as customers move towards contactless and other forms of payment, was partially offset by growth in other products, including Travel Money.

A significant and ongoing investment has been made in Motor insurance pricing in the period, across both new business and renewal policies, in response to competition, supporting the Group's commitment to offering value to Tesco customers. This has driven improved Motor insurance retention rates year-on-year, although the total number of in-force policies has fallen, reflecting the impact of competition on Motor insurance premiums.

During the year, the Group made the decision to exit the Travel insurance market, withdrawing the product from 31 January 2019.

Financial Performance

The Group's financial performance is presented in the Consolidated Income Statement on page 26. A summary of the Group's financial performance on an underlying basis, excluding items which are not reflective of ongoing trading performance, is presented below.

	Statutory basis £m	Restructuring Costs[1] £m	Customer redress[2] £m	Regulatory Charge[3] £m	Financial instruments[4] £m	Underlying basis £m
Year ended 28 February 2019						
Net interest income	548.9	–	–	–	–	548.9
Other income	337.4	–	–	–	4.2	341.6
Total income	**886.3**	**–**	**–**	**–**	**4.2**	**890.5**
Total operating expenses	(531.2)	(1.6)	16.0	16.4	–	(500.4)
Impairment	(164.1)	–	–	–	–	(164.1)
Operating profit	**191.0**	**(1.6)**	**16.0**	**16.4**	**4.2**	**226.0**
Share of profit of joint venture	7.9	–	–	–	–	7.9
Profit before tax	**198.9**	**(1.6)**	**16.0**	**16.4**	**4.2**	**233.9**

	Statutory basis Restated[5]	Restructuring costs[1]	Customer redress[2]	Regulatory Provision[3]	Financial instruments[4]	Underlying basis Restated[5]
	£m	£m	£m	£m	£m	£m
Year ended 28 February 2018						
Net interest income	493.1	–	–	–	–	493.1
Other income	362.9	–	–	–	(11.0)	351.9
Total income	**856.0**	–	–	–	**(11.0)**	**845.0**
Total operating expenses	(529.5)	(0.9)	23.8	–	–	(506.6)
Impairment	(137.4)	0.9	–	–	–	(136.5)
Operating profit	**189.1**	–	**23.8**	**–**	**(11.0)**	**201.9**
Share of profit of joint venture	10.0	–	–	–	–	10.0
Profit before tax	**199.1**	–	**23.8**	**–**	**(11.0)**	**211.9**

[1] Comprising:

- depreciation and amortisation charge of £nil (2018: charge of £0.3m) presented within depreciation and amortisation on page 26;
- a restructuring credit of £1.6m (2018: credit of £1.2m), reflecting a reduction in dilapidations and onerous lease provisions, presented within administrative expenses on page 26; and
- impairment on loans and advances to customers following agreement to sell the Irish Credit Card book, of £nil (2018: £0.9m) presented within impairment on loans and advances to customers on page 26.

These charges and credits are in relation to business restructuring and not considered part of the Group's underlying results.

[2] Comprising:

- a PPI charge of £16.0m (2018: £35.0m) recognised during the year. The PPI charge recognised during the prior year was partially offset by a provision release in the prior year of £1.5m from the Group's CCA customer redress provision and a credit of £9.7m received in the prior year following the conclusion of negotiations with a third party in respect of previously recognised customer redress. There was no such provision release or credit in the current year. All of these charges and credits are presented within operating expenses on page 26. These charges and credits are historical in nature and not reflective of the Group's underlying trading performance.

[3] Comprising:

- a charge of £16.4m (2018: £nil) in respect of the November 2016 fraud incident, presented within operating expenses on page 26. This charge relates to the financial penalty imposed by the FCA in relation to this incident and is not reflective of the Group's underlying trading performance.

[4] Comprising:

- Losses on financial instruments at FVPL of £4.2m (2018: gains of £11.0m) presented within total income on page 26. Fair value movements on financial instruments reflect hedge ineffectiveness arising from hedge accounting and fair value movements on derivatives in economic hedges that do not meet the criteria for hedge accounting. Where these derivatives are held to maturity, fair value movements represent timing differences that will reverse over the life of the derivatives. Therefore, excluding these movements from underlying profit more accurately represents the underlying performance of the Group. Where derivatives are terminated prior to maturity, this may give rise to fair value movements that do not reverse.

[5] The prior period has been restated following the retrospective adoption of IFRS 15 in the period. Refer to note 2 for further details.

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

	2019	2018 Restated[1]
Net interest margin	**3.8%**	3.9%
Underlying cost:income ratio [1]	**56.2%**	60.0%
Cost:income ratio [1]	**59.9%**	61.9%
Bad debt:asset ratio	**1.4%**	1.3%

[1] The prior year has been restated following the retrospective adoption of IFRS 15 in the current year. Refer to note 2 for further details.

Capital and Liquidity Ratios

The Directors consider the following to be Key Performance Indicators for capital and liquidity reporting:

	2019	2018 Restated[1]
Common equity tier 1 ratio	**16.3%**	16.2%
Total capital ratio	**18.4%**	19.4%
Net stable funding ratio	**123.4%**	118.1%
Loan to deposit ratio	**118.6%**	124.6%

[1] The prior year has been restated following the retrospective adoption of IFRS 15 in the current year. Refer to note 2 for further details.

The Group's total capital ratio remains above internal targets and regulatory requirements at 18.4% (2018: 19.4%)[1] and leaves the Group well placed to support future growth.

The increase in impairment provisions as a result of the adoption of IFRS 9 reduced the Group's common equity tier 1 capital ratio by 161 basis points (£164.4m) (unaudited) on an end point basis. The adoption of the regulatory capital transition arrangements allows the Group to spread the expected increase in provision over a 5 year period from 1 March 2018. The impact of IFRS 9 at 28 February 2019 under the transitional provisions was to reduce common equity tier 1 capital by £1.9m. The Group's common equity tier 1 capital is disclosed in note 40.

The NSFR, a measure of the Group's liquidity position, is within appetite at 123.4% (2018: 118.1%). The Group maintains a liquid asset portfolio of high quality securities of £2.1bn (2018: £2.2bn).

[1] The prior period has been restated following the retrospective adoption of IFRS 15 in the current period. Refer to note 2 for further details.

Risk Management

Risk Management Approach

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

The Board is also responsible for overall corporate governance, which includes overseeing an effective system of risk management and that the level of capital and liquidity held is adequate and consistent with the risk profile of the business. To support this, 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 defence, 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 his position with the approval of the Board.

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

Principal risks and uncertainties	Key controls and mitigating factors
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.	All lending is subject to underwriting processes and the performance of all exposures is monitored closely. Regular management reports are submitted to the Board and appropriate Committees.
Operational risk	
The risk of potential error, loss, harm or failure caused by ineffective or inadequately defined processes, system failure, improper conduct, human error, fraud or from external events.	The Group aims to manage operational risks within defined Risk Appetite limits. An Operational Risk Framework comprising Event management, Risk and Control Self-Assessment (RCSA) and Operational Risk Scenario Analysis processes is in place. Regular reporting is provided to the Executive Risk Committee (ERC) and remedial actions taken as required. The Group's ERC provides oversight of the Group's operational risk profile. **A significant number of services and processes are provided by third party service providers and a key operational risk is the failure of an outsourced service provider.** The Procurement and Supplier Management policy provides consistent standards for supplier sourcing and selection. The Supplier Management Framework enables the monitoring of the performance of third-party outsourced service providers and suppliers against agreed service level agreements, the management of those relationships and the improvement of service or termination of contract where appropriate. **Increased market demand for specialist personnel could result in increased costs of recruitment and retention or reduced organisational effectiveness if a sufficient number of skilled staff cannot be employed or retained.** The Executive Committee (ExCo) oversees key aspects of people risk, including talent management, performance management, retention and succession planning.

Operational risk (continued)

Financial crime and fraud are significant drivers of operational risk and the external threat continues to grow across the Financial Services industry.

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

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

The Group manages cyber security risks through its Information Security team. The Group continually monitors emerging risks and threats. Regular reporting is provided to the Information Security Committee (ISC), ERC and Board Risk Committee (BRC).

Liquidity and Funding risk

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

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

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

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

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

Market risk

The risk that the value of earnings or capital is altered through the movement of market rates. This includes interest rates, foreign exchange rates, credit spreads and equities.

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

Insurance risk

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

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

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

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

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 areas within which the Group operates.

The Group's risk appetite is to comply with the relevant rules, regulations and data protection legislation. As part of the Group's Policy Framework, the Compliance Director is responsible for the Compliance policy which is approved by the Board, as well as for monitoring, challenging and providing oversight of regulatory risk and compliance across the business.

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

Business areas manage conduct risk and use a range of management information to monitor the fair treatment of customers. A framework of product-led conduct management information has been developed and is reviewed by Senior Management in the business lines. Customer outcomes are also assessed as part of the development and design of new products and through annual product reviews of existing products. The ERC and the Board review and challenge delivery of fair outcomes for customers.

The risk that regulatory changes such as Open Banking, PSD2 and GDPR will have an impact on how customers manage both their money and data over the longer term, with the potential for such regulatory changes to fundamentally alter the nature of competition in UK retail banking and have an impact on the Group's activities. These changes also create opportunities for traditional competitors as well as non-banking firms, particularly digitally focused technology companies who have the ability to move at pace.

Regulatory risk (continued)

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

Capital risk

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

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

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

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

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

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

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

Brexit

On 29 March 2017, the UK triggered Article 50, formally beginning the process to leave the EU. The process of exiting the EU continues to contribute to political and economic uncertainty in the UK and Europe.

Following the EU referendum result, the political and economic outlook for the UK remains uncertain. There is significant uncertainty over the timing and form of the UK's exit from the EU, resulting in continued uncertainty across the UK banking sector. The Group has actively considered the potential risks associated with the UK's exit from the EU and their impact on both the UK financial services market and the Group itself.

The most significant impact arises in respect of credit risk relating to the performance of the Group's portfolio of loans and advances to customers. The Group is monitoring trends in customer behaviour to ensure it is alert to any significant changes in customer demand as a result of any Brexit-related activities. The Group also continues to closely monitor the macro-economic position. Assessment of the required loss allowance under IFRS 9 has taken into account a range of macro-economic scenarios, one of which reflects a no-deal

Brexit (continued)

Brexit.

In addition, the Group's internal liquidity and capital adequacy assessments are designed to ensure that the Group is expected to have sufficient capital resources to allow it to cope with a severe economic stress and maintain sufficient liquidity above required limits throughout the going concern forecast period.

The Bank has also undertaken a series of activities to prepare for Brexit. As a UK retail bank, the Group does not anticipate any significant operational disruption as a result of Brexit. However, the Group has taken steps to confirm that suppliers based in both the EU and UK do not foresee any disruption to service (including any issues with the transfer of data to the Group) post-Brexit.

The Group will continue to monitor the wider economic environment, particularly to assess the impact on credit risk to the Group. The Group also continues to monitor related developments to the UK's exit from the EU, including the possibility of a second Scottish independence vote.

LIBOR rate replacement

On 27 July 2017 the FCA announced that the London Interbank Offered Rate (LIBOR) would be phased out and replaced with an alternative reference rate by the end of 2021. The replacement reference rate has not yet been announced.

The Group has considered and identified the risks associated with moving to the Sterling Overnight Index Average (SONIA) as the reference rate and has developed a plan to mitigate these risks, which is being implemented in accordance with the Group's governance framework. The Group also continues to monitor industry developments.

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

A fuller description of these risks and controls can also be found in the Pillar 3 Disclosure Statements of TPFG for the year ended 28 February 2019. These disclosures will be published in the Financial Information section of the Tesco Bank corporate website in due course.

https://corporate.tescobank.com/48/accounts-and-disclosures

Risk Management Framework (RMF)

The Group has a formal structure for reporting, monitoring and managing risks. This comprises, at its highest level, the Group's Risk Appetite, approved by the Board, which is supported by the RMF.

The scope of the RMF extends to all principal risks faced by the Group and is underpinned by governance, controls, processes, systems and policies within the first line business areas and those of the second line RMFu.

The key components of the RMF are as follows:

Risk Governance Structure

The Group has established a governance structure which is appropriate for the business in terms of its level of complexity and risk profile. This structure is reviewed periodically so that it remains suitable to support the business.

The risk governance structure set out in these disclosures describes the structure that was in place for the year to 28 February 2019.

The Board

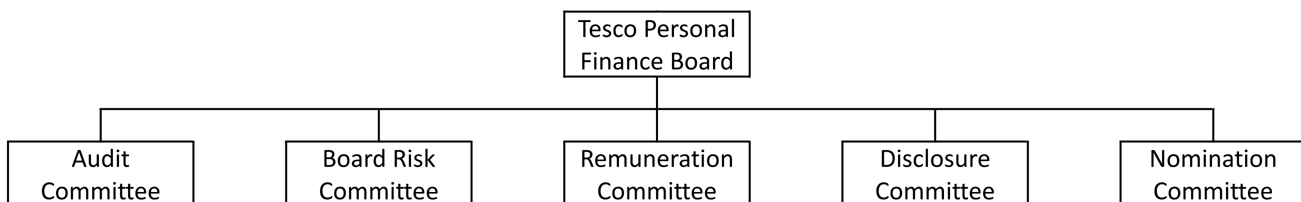
Chairman	Executive Directors	Non-Executive Directors
Graham Pimlott	Karl Bedlow	John Castagno
	Richard Henderson	Robert Endersby
	Declan Hourican	Jacqueline Ferguson
	Gerard Mallon	Simon Machell
	David McCreadie	James McConville
		Amanda Rendle
		Alan Stewart
		James Willens

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

The Board approves the Group's business plans, budget, long-term plan, ICAAP, ILAAP and any material new product lines in line with the approved Risk Appetite. The Board also monitors the Group's risk profile and capital adequacy position. The Group employs hedging and mitigation techniques defined within the Group's policies to ensure risks are managed within Risk Appetite.

The Board has delegated responsibility for the day-to-day running of the business to the Chief Executive who has in turn established the ExCo to assist in the management of the business and to deliver the strategy in an effective and controlled way. The Board has established Board committees and the executive has established Senior Management committees to:

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



The Board has overall responsibility for the management of the business and acts as the main decision making forum. It sets the Risk Appetite and strategic aims for the business, in some circumstances subject to shareholder approval, within a control framework which is designed to enable risk to be assessed and managed. The Board satisfies itself that financial controls and systems of risk management are strong through the reporting provided to it and provides feedback where necessary to ensure that reporting remains fit for purpose.

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

- Audit Committee (AC)

The AC comprises James McConville (chairman), Robert Endersby, Simon Machell and Jacqueline Ferguson

The key responsibilities of the AC are to review the Financial Statements; review the accounting policies and practices for compliance with relevant standards; examine the arrangements made by Management regarding compliance with requirements and standards under the regulatory system; review the scope and results of the annual external audit; oversee the process for selecting the external auditor and make recommendations to the Board in relation to the appointment, re-appointment and removal of the external auditor; consider the effectiveness of the external auditor and their independence; review reports covering anti-money laundering and compliance, in particular the Money Laundering Reporting Officer annual report and Risk Assurance Report; maintain a professional relationship with the external auditor; oversee the Internal Audit (IA) function and review the IA programme; work closely with the BRC to avoid, as much as possible, any overlap or gap in the overall risk and assurance activities of the two committees; carry out such investigations or reviews as shall be referred to it by the Board; review the Group's plans for business continuity; approve the annual plan of Risk Assurance activity within the Group; receive and review reports, findings and recommendations from Risk; review and consider the adequacy of any follow up action, and any relevant investigation work, carried out by or on behalf of Risk; review and monitor Management's response to findings and recommendations following investigations carried out by Risk; and review the findings of external assurance reports provided by outsourced providers.

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

- Board Risk Committee (BRC)

The BRC comprises Robert Endersby (chairman), John Castagno, James McConville, Graham Pimlott, Amanda Rendle, Alan Stewart, James Willens and Jacqueline Ferguson.

The role of the BRC is to oversee that a culture is appropriately embedded which recognises risk and encourages all employees to be alert to the wider impact on the whole organisation of their actions and decisions; take a forward-looking view of possible economic trends and risks, informed by analysis of appropriate information, and consider their potential impact on the business; consider, and recommend to the Board, the Group's Risk Appetite and seek to ensure that overall business strategy is informed by and remains aligned with it; and review and challenge all major risks, controls, actions and events in the business, alerting the Board to any areas of concern.

- Remuneration Committee (RC)

The RC comprises James Willens (chairman), Robert Endersby, Graham Pimlott and Amanda Rendle.

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

- Disclosure Committee (DC)

The DC comprises Graham Pimlott (chairman), Robert Endersby, Richard Henderson, Declan Hourican, James McConville and James Willens.

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

- Nomination Committee (NC)

The NC comprises Graham Pimlott (chairman), Simon Machell, James Willens and Amanda Rendle.

The NC has responsibility for reviewing the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board and making recommendations with regard to any changes required, including the nomination of candidates to fill Board vacancies as and when they arise; considering succession planning for directors and other senior executives, taking into account the challenges and opportunities facing the Group, and the skills and expertise needed in the future; and keeping under review the leadership needs of the organisation, both executive and non-executive, with a view to safeguarding the continued ability of the organisation to compete effectively in the marketplace by keeping up-to-date and fully informed about strategic issues and commercial changes affecting the Group and the market in which it operates.

Executive Committee (ExCo)

The Group's Board has delegated the day-to-day running of the business to the Chief Executive. The Chief Executive has established the ExCo to assist in the management of the business and to deliver against strategy in an effective and controlled way. The ExCo provides general executive management of the business. Each ExCo member is accountable to the Chief Executive and to the Board for managing performance in line with the Group's Risk Appetite, long-term plan, strategy and annual budget.

The principal roles and responsibilities of the ExCo include providing general executive management of the Group and monitoring performance, including financial performance, in accordance with the approved strategic plan and Risk Appetite as approved by the Board; overseeing risks and controls across the business; promoting a culture of fairness and actively promoting and encouraging the Values; striving for the successful execution of strategy; setting out a framework of reporting to the Board that is sufficient to enable the Board to fulfil its responsibilities; developing strategic plans, budgets and all other matters to be referred to the Board, with regard to the interests of its shareholder, employees, customers and other stakeholders, prior to submission to the Board for approval; authorising certain levels of spend; reviewing, challenging and providing direction relating to the delivery of fair outcomes for customers through regular updates on conduct risk; determining whether to launch the Group's Recovery Plan in the event of a breach of a recovery trigger and managing the crisis thereafter; and overseeing Procurement and Supplier Management, with particular focus on ensuring that the key risks associated with outsourcing and third party supplier management are assessed and mitigated.

In addition, in order to consider high level matters which require cross-functional oversight and engagement, the ExCo has established six sub-committees which report directly to it. The sub-committees have delegated authority to take decisions within strict parameters and financial authorities as detailed within their respective Terms of Reference. The ExCo receives and considers regular reports from each sub-committee on delegated matters and receives the minutes from those sub-committees to monitor key activities and decisions taken under delegation.

- Commercial Executive Committee (CEC)

The principal role of the CEC is to oversee performance and matters arising across the Commercial business through review of credit risk approvals, receipt of risk, risk event and IA reporting; oversee top risks - ensuring that existing and emerging risks and issues are controlled appropriately and referred to the relevant Board, ExCo or sub-committee when needed; identify risks to good customer outcomes, providing challenge and recommending further action to resolve and track those actions to completion; and escalate material conduct or Treating Customers Fairly risks to the ExCo.

The CEC has four sub-committees: Commercial and Credit Risk Committee; Transactional Banking Management Committee; Savings, Loans and Mortgages Management Committee and the Insurance Management Committee.

- Asset and Liability Management Committee (ALCo)

The principal role of the ALCo is to optimise the Group's balance sheet within Board approved Risk Appetite and relevant regulation; identify, manage and control the Group's balance sheet risks, defining strategic balance sheet structural objectives which align with Risk Appetite, the regulatory obligations of the Group and the commercial and business objectives approved by the Board; recommend to the Board any required changes to the amount or composition of the Group's capital base; monitor continuous compliance with all internal and regulatory limits relating to Liquidity, Capital and Market Risks; and periodically review and recommend for approval to the Board the Treasury principal risk policies and key regulatory documents.

The ALCo has three sub-committees: the Liquidity Management Forum; MRF and Capital Management Forum.

- Executive Risk Committee (ERC)

The principal role of the ERC is to provide oversight and challenge on all aspects of the Group's RMF to oversee that the three lines of defence model is operating effectively; monitor the appropriateness of and adherence to Risk Appetite and make recommendations to the BRC on any changes; provide oversight of the Policy Framework and the consideration and challenge of policy waivers and exceptions; consider the impact of regulatory initiatives on the current and future state of compliance by the Group; and oversee operational resilience and procurement and supplier management, with particular focus on ensuring that the key risks associated with outsourcing and third party supplier management are assessed.

The ERC has nine sub-committees: Operational Resilience Committee; Supplier Management Group; Information Security Committee; Prudential Risk Forum; Risk Transformation Committee; Conduct Oversight and Risk Committee; Executive Credit Committee; Financial Crime Committee; and the Regulatory Change Forum.

- Customer Division Executive Committee (CDEC)

The role of CDEC is to approve key decisions and provide oversight and challenge of performance and matters arising across the Customer division of the business, supporting the effective management of risk and control of all top risks and material events facing the division; provide oversight and challenge to support efficient and effective business and financial performance across the Customer division; and approve activities in relation to change and project-related work and consider and challenge customer outcomes as appropriate.

The CDEC has four sub-committees: Customer Security Committee; Service Risk Committee; Data Steering Group and the Customer Division Management Committee.

- Insurance Executive Committee (IEC)

The role of the IEC is to support the Chief Customer Officer in creating and executing a business plan that will deliver the agreed insurance strategy within Risk Appetite. IEC approves key decisions within its delegated authority and receives appropriate management information to allow it to oversee performance, risk, conduct and customer matters.

- Model Rating System and Oversight Committee (MRSOC)

The MRSOC exists to approve all high materiality models prior to their implementation and provide oversight of those models in operation, with reference to their compliance with regulation, operational effectiveness, governance and risk requirements.

Three Lines of Defence

The Group has adopted the 'three lines of defence' model of governance, which is a widely recognised, best practice approach to ensuring that the risks within a financial institution are appropriately managed and are subject to effective oversight and challenge. The model has clearly defined roles and responsibilities which help to drive effective risk management.

- First line of defence

Senior Management within each business area is responsible for managing the risks that arise from the activities in which it is engaged in accordance with the Group's RMF and policies. The role of the first line of defence is to implement the Group's RMF and policies; identify, assess, own and manage risks that arise from the activities in which it is engaged; design, implement, operate and test management controls; identify and manage risk events, including the delivery of remedial actions and performance of root cause analysis; operate within Risk Appetite and any and all related limits which the second line establish; comply with risk reporting standards established by the second line; and perform risk aggregation, analysis and reporting within their business line.

- Second line of defence

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

The role of the second line of defence is to own, develop, communicate and provide advice on the Group's RMF and policies; provide risk-based oversight and assurance of the first line's implementation of the RMF and policies; provide risk-based oversight and assurance of first line risk management and control, including challenging the completeness of risk identification and assessment, which can take a variety of forms including active involvement in committees and meetings and review and challenge of Management information; own the Risk Appetite framework on behalf of the Board; design and deliver standards for risk reporting escalation; and perform Group-wide risk aggregation and analysis.

- Third line of defence

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

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

The primary role of IA is to provide independent assurance on the effectiveness of governance, risk management and control across the first and second lines. The IA function achieves this through its core responsibilities, which include proposing an annual audit plan based on its assessment (after discussion with Management) of the significant potential risks to which the organisation could be exposed; carrying out audits of functions and processes in accordance with the annual audit plan and any additional special investigations requested by Management, the Board, the AC or the regulators; assessing the adequacy and effectiveness of the controls in the functions and processes audited, and issuing recommendations where improvement is required based on the results of work carried out; verifying compliance with those recommendations; reporting to the AC in relation to internal audit matters; and providing input to the Tesco IA department's reporting to the Tesco AC.

Group Policies

The Group has a framework of key policies in place which are approved at Board and Executive level committees. Each policy is owned by a specific individual who is responsible for developing and maintaining the policy, including gaining approval for the policy at the requisite level; communicating the policy, ensuring it is embedded so that those affected by it have sufficient information/understanding to comply; undertaking suitable assurance work to monitor compliance across the business; and reviewing non-compliance/policy waiver requests and agreeing suitable actions.

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

- Stress Testing

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

- Monitoring and Reporting

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

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

Michael Mustard

Company Secretary

8 April 2019

The Directors present their Annual Report, together with the Company and Consolidated Financial Statements and Independent Auditor's Report, for the year ended 28 February 2019.

Business review and future developments

The Group's business review and future developments are set out in the Strategic Report on page 5.

Risk management

The Group's risk management disclosures are set out in the Strategic Report on pages 7 to 18.

Financial instruments

The Group's policies for hedging each major type of transaction are discussed in notes 1 and 17 to the Financial Statements.

Capital structure

The Group's capital structure is discussed in notes 33 and 40 to the Financial Statements.

Events after the reporting date

Details of events occurring after the reporting date are discussed in note 45 to the Financial Statements.

Going concern

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

Dividends

An interim dividend of £60.0m (2018: £50.0m) in respect of ordinary share capital was paid to TPFG on 21 February 2019.

Treating Customers Fairly

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

Directors

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

Since 1 March 2018 to date the following changes have taken place:

	Appointed	Resigned
Jacqueline Ferguson	26 April 2018	
Gerard Mallon	13 August 2018	
Iain Clink		24 August 2018

- **Audit Committee (AC)**

Introduction from the AC Chairman

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

AC composition, skills and experience

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

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

James McConville is a Chartered Accountant and has significant financial and banking experience gained from over 30 years in the financial services sector, thus enabling him to fulfil the role as AC Chair.

James is currently Group Finance Director at Phoenix Group Holdings PLC, with responsibility for Finance, Treasury and Investor Relations. Previous appointments include Chief Financial Officer of Northern Rock plc and a variety of senior finance and strategy related roles for Lloyds Banking Group plc, including Finance Director of the Scottish Widows Group.

Robert Endersby has spent over 30 years working in the financial services sector, both within the United Kingdom and internationally and is an Associate of the London Institute of Banking and Finance.

Robert's previous key appointments included Chief Risk Officer and member of the Executive Board of Danske Bank A/S, Vice Chairman of Danske Bank Oyj and senior risk management positions in Barclays, The Royal Bank of Scotland and ING Group. Robert currently holds Non-Executive positions with Credit Suisse International and Credit Suisse Securities (Europe) Limited.

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

Jacqueline Ferguson is an experienced Chief Executive from the technology industry. Jacqueline is the former Chief Executive of Hewlett Packard Enterprise Services UK, Ireland, Middle East Mediterranean and Africa and has extensive global experience including living and working in Silicon Valley, California for 3 years with Hewlett Packard. Prior to Hewlett Packard Jacqueline worked for Electronic Data Systems and KPMG.

Jacqueline is also a Non-Executive Director of Wood PLC and Croda PLC and a Trustee of Engineering UK and member of the Scottish First Minister's Advisory Board for Women and Girls, aimed at tackling Gender Inequality. Jacqueline chaired the public services strategy board for the Confederation of Business and Industry and was a member of the Tech Partnership, the industry body aimed at UK technology skills.

The Chairman, Chief Executive, Chief Financial Officer, Chief Risk Officer, Internal Audit Director, Director of Financial Control and Tesco Internal Audit Director attend committee meetings. The external auditor also attends.

AC responsibilities

The key responsibilities of the AC are set out in the Strategic Report on page 14.

During the year, the AC received reports from a number of business areas including Finance in relation to financial reporting and Risk in relation to regulatory compliance, fraud, bribery and corruption and integrated assurance. The AC also considered a variety of matters including the internal financial control framework, data leakage prevention, supplier assurance and business continuity arrangements.

Financial Statements and related financial reporting

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

During the year ended 28 February 2019, the AC considered the following matters:

- Consistency and appropriateness of, and any changes to, significant accounting policies

The AC considered and accepted Management's review of the Group's accounting policies. In particular, the AC has received reports from Management on the Group's transition to IFRS 9 and IFRS 15, both of which came into force for annual periods beginning on or after 1 January 2018.

The AC has also received reports from Management on the Group’s readiness to comply with IFRS 16 ‘Leases’, which will come into force for annual periods beginning on or after 1 January 2019.

- The methods used to account for significant transactions

The AC reviewed and supported proposals from Management on the accounting for the issuance and redemption of notes in relation to securitisation transactions.

- Going concern assessment

The AC considered Management's approach to, and the conclusions of, the assessment of the Group's ability to continue as a going concern. This included Management’s assessment of the impact of a no-deal Brexit on the Bank. The AC supported the conclusion that it remained appropriate to adopt the going concern basis in preparing the Financial Statements.

- Review of Financial Statements

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

- Appropriate critical accounting estimates and judgements

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

The key estimates and judgements reflected in the Group's Financial Statements for the year ended 28 February 2019 are:

  - Loan impairment provision (Refer to note 16)

  At 28 February 2019, the Group's loan impairment provision was £485.2m.

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

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

- Effective interest rate (EIR) (Refer to note 3)

IAS 39/IFRS 9 require the Group to measure the interest earned on its Credit Cards portfolio by applying the EIR methodology.

The AC received regular reports from Management summarising its approach, with particular focus given to reviewing the expected attrition rate of balances drawn, including the pay rates assumption used by Management.

The AC is satisfied that the carrying value of the assets and the associated income recognition is appropriate.

- Provision for customer redress (Refer to note 29)

The Group has a provision for potential customer redress in relation to PPI.

The AC reviewed the key assumptions made in arriving at each element of the provision, with particular focus given to claims settled and the average amount of redress per claim.

The AC is satisfied that the provisions and related disclosures in the Financial Statements in respect of PPI and other customer redress provisions are appropriate.

- Investment in joint venture (Refer to note 22)

The Group holds an investment in a joint venture, TU, an authorised insurance company, and recognises the carrying value of its investment and the Group's share of TU's results using the equity method of accounting.

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

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

The AC is satisfied that the carrying amount of the Group's investment in TU is appropriate.

- IT controls

The Group utilises a range of information systems to support its ongoing operations and financial reporting.

During the year, the AC received a number of reports on the Group's information systems, including the effectiveness of access rights to certain operating systems and applications used in the financial reporting process.

Improvements to access controls have been implemented and the AC will receive further reports on the effectiveness of access controls during the next financial year.

Performance and effectiveness of IA

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

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

In compliance with the above standards, the AC assessed the effectiveness of the IA function with the results of the 2018 assessment being positive.

Performance and effectiveness of AC

The AC assesses the need for training on an ongoing basis and the annual agenda provides time for technical updates, which are provided by both internal and external experts. During the year, the AC received specific training on accounting and reporting developments, with the key focus being on IFRS 9. Training is also provided on an ongoing basis to meet the specific needs of individual committee members.

The effectiveness of the AC was reviewed as part of the wider Board effectiveness review which included interviews with all AC members. It was concluded that the AC continued to be effective.

Non-audit fees

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

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

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

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

Deloitte follows its own ethical guidelines and continually reviews its audit team to ensure its independence is not compromised. The fees paid to the external auditor in the year are disclosed in note 9 to the Financial Statements.

- **Directors' Indemnities**

In terms of Section 236 of the Companies Act 2006, all Executive and Non-Executive Directors have been issued a Qualifying Third Party Indemnity Provision by TPFG. All Qualifying Third Party Indemnities were in force at the date of approval of the Financial Statements.

There was also a Qualifying Third Party Indemnity Provision issued by TPFG in force during the year for Iain Clink until the date of his resignation.

- **Our People**

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

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

During the prior year, the Group became a signatory to The Women in Finance Charter, which is a pledge for gender balance across financial services and represents a commitment from HM Treasury and signatory firms to work together to build a more balanced and fair industry. The Charter commits signatory firms to supporting the progression of women into senior roles in the financial services sector; recognises the diversity of the sector and that firms will have

different starting points, meaning that each firm will set its own targets; and requires firms to publicly report on progress to deliver against these internal targets in support of the accountability and transparency needed to drive change. Further information on the Bank's progress against its gender diversity targets can be found at https://corporate.tescobank.com/.

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

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

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

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

- **Cautionary statement regarding forward-looking information**

Where this document contains forward-looking statements, these are made by the Directors in good faith based on the information available to them at the time of their approval of this report. These statements should be treated with caution due to the inherent risks and uncertainties underlying any such forward-looking information. The Group cautions users of these Financial Statements that a number of factors, including matters referred to in this document, could cause actual results to differ materially from those contained in any forward-looking statement. Such factors include, but are not limited to, those discussed under ‘Principal risks and uncertainties’ on pages 8 to 12.

- **Statement of Directors’ Responsibilities**

The following should be read in conjunction with the responsibilities of the independent auditor set out in their report on page 148.

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

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

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's and Company's financial position and financial performance; and
- make an assessment of the Group's and Company's ability to continue as a going concern.

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

the prevention and detection of fraud and other irregularities.

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

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

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

- **Disclosure in respect of the Independent Auditor**

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

- **External Audit Partner**

The external audit partner for the year to 28 February 2019 was Stephen Williams ACA who has fulfilled this role since Deloitte LLP's appointment as external auditor on 30 June 2015.

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

Michael Mustard
Company Secretary

8 April 2019

TESCO PERSONAL FINANCE PLC
CONSOLIDATED INCOME STATEMENT
For the Year Ended 28 February 2019

	Note	2019 £m	2018 £m Restated[1]
Interest and similar income	5	728.6	640.3
Interest expense and similar charges	5	(179.7)	(147.2)
Net interest income		**548.9**	**493.1**
Fees and commissions income	6	365.8	383.4
Fees and commissions expense	6	(32.6)	(31.6)
Net fees and commissions income		**333.2**	**351.8**
Net (loss)/gain on financial instruments at FVPL	7	(4.2)	11.0
Net gain on investment securities	8	8.4	0.1
Net other income		**4.2**	**11.1**
Total income		**886.3**	**856.0**
Administrative expenses	9	(415.6)	(422.7)
Depreciation and amortisation	24, 25	(83.2)	(83.0)
Provision for customer redress	29	(16.0)	(23.8)
Regulatory charge	29	(16.4)	–
Operating expenses		**(531.2)**	**(529.5)**
Impairment loss on financial assets	10	(164.1)	(137.4)
Operating profit		**191.0**	**189.1**
Share of profit of joint venture	22	7.9	10.0
Profit before tax		**198.9**	**199.1**
Income tax charge	12	(55.6)	(60.6)
Profit for the year attributable to owners of the parent		**143.3**	**138.5**

[1] The prior period has been restated following the retrospective adoption of International Financial Reporting Standard (IFRS) 15 'Revenue from contracts with customers' in the current period (refer to note 2 for further details) and a reclassification between interest and similar income and interest expense and similar charges (refer to note 1 for further details).

TESCO PERSONAL FINANCE PLC
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the Year Ended 28 February 2019

	Note	2019 £m	2018 £m Restated[1]
Profit for the year		**143.3**	138.5
Items that may be reclassified subsequently to the income statement			
Available-for-sale (AFS) investment securities			
Net gains on AFS investment securities	12	n/a	1.8
Taxation	12	n/a	(0.3)
		n/a	1.5
Debt securities at fair value through other comprehensive income (FVOCI)			
Net losses on debt securities at FVOCI	12	(1.7)	n/a
Net gains on debt securities reclassified to the income statement on disposal	12	(8.4)	n/a
Unwind of expected credit loss (ECL) allowance on disposals		0.4	n/a
Taxation	12	2.6	n/a
		(7.1)	n/a
Cash flow hedges			
Net losses arising on cash flow hedges	12	(0.8)	0.4
Taxation	12	0.1	(0.1)
		(0.7)	0.3
Currency basis reserve			
Net foreign currency losses arising on cross currency interest rate swaps	12	(0.3)	–
		(0.3)	–
Share of other comprehensive expense of joint venture	22	(1.2)	(6.5)
		(1.2)	(6.5)
Items that will not be reclassified to the income statement			
Equity securities at FVOCI			
Net gains on equity securities designated at FVOCI	12	0.5	n/a
Taxation	12	(0.1)	n/a
		0.4	n/a
Other comprehensive expense for the year, net of tax		(8.9)	(4.7)
Total comprehensive income for the year attributable to owners of the parent		**134.4**	133.8

[1]The prior year restatement relates to the adoption of IFRS 15 in the current year. Refer to note 2 for further details.

TESCO PERSONAL FINANCE PLC

CONSOLIDATED AND COMPANY STATEMENTS OF FINANCIAL POSITION

For the Year Ended 28 February 2019

Company number SC173199

		Group		Company	
		2019	2018	2019	2018
	Note	£m	£m	£m	£m
Assets			Restated[1]		Restated[1]
Cash and balances with central banks	14	1,072.1	1,318.6	749.9	997.3
Loans and advances to banks	15	324.2	–	324.2	–
Loans and advances to customers	16	12,425.7	11,522.4	12,425.7	11,522.4
Derivative financial instruments	17	31.3	46.1	31.3	46.1
Investment securities	18	1,071.5	959.5	1,071.5	959.5
Prepayments and accrued income	19	49.4	49.3	49.4	49.3
Other assets	20	236.6	280.6	284.2	327.1
Deferred income tax asset	23	57.6	–	57.6	–
Investment in joint venture	22	86.4	90.0	76.2	86.5
Intangible assets	24	224.2	271.1	224.2	271.1
Property, plant and equipment	25	61.6	68.0	61.6	68.0
Total assets		**15,640.6**	**14,605.6**	**15,355.8**	**14,327.3**
Liabilities					
Deposits from banks	26	1,663.2	1,539.0	1,663.2	1,539.0
Deposits from customers	27	10,478.6	9,248.0	10,478.6	9,248.0
Debt securities in issue	28	1,185.5	1,347.6	275.2	399.9
Derivative financial instruments	17	60.2	88.4	51.1	88.4
Provisions for liabilities and charges	29	55.0	76.0	55.0	76.0
Accruals and deferred income	30	108.0	109.0	108.0	109.0
Current income tax liability		31.1	34.9	31.1	34.9
Other liabilities	31	151.2	147.7	795.0	820.5
Deferred income tax liability	23	–	7.7	–	7.7
Subordinated liabilities and notes	32	235.0	235.0	235.0	235.0
Total liabilities		**13,967.8**	**12,833.3**	**13,692.2**	**12,558.4**
Equity and reserves attributable to owners of parent					
Share capital	33	122.0	122.0	122.0	122.0
Share premium account	33	1,097.9	1,097.9	1,097.9	1,097.9
Retained earnings		425.5	508.2	418.0	508.5
Other reserves	34	27.4	44.2	25.7	40.5
Total equity		**1,672.8**	**1,772.3**	**1,663.6**	**1,768.9**
Total liabilities and equity		**15,640.6**	**14,605.6**	**15,355.8**	**14,327.3**

Profit for the year of £135.5m (2018: £127.6m)[1] is attributable to the Company.

The Consolidated and Company Financial Statements on pages 26 to 139 were approved by the Board of Directors and authorised for issue on 8 April 2019 and were signed on its behalf by:

Declan Hourican

Director

[1] The prior year restatement relates to the adoption of IFRS 15 in the current year. Refer to note 2 for further details.

TESCO PERSONAL FINANCE PLC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Year Ended 28 February 2019

	Note	Share capital £m	Share premium £m	Retained earnings £m Restated[1]	FV/AFS reserve £m	Cash flow hedge reserve £m	Currency Basis Reserve £m	Share based payment reserve £m	Total equity £m Restated[1]
Balance at 1 March 2018		**122.0**	**1,097.9**	**508.2**	**13.0**	**(0.3)**	**–**	**31.5**	**1,772.3**
Impact of initial application of IFRS 9 'Financial instruments'		–	–	(166.0)	(0.5)	–	–	–	(166.5)
Balance at 1 March 2018 after adopting IFRS 9		**122.0**	**1,097.9**	**342.2**	**12.5**	**(0.3)**	**–**	**31.5**	**1,605.8**
Comprehensive income									
Profit for the year		–	–	143.3	–	–	–	–	143.3
Net fair value movement on investment securities at FVOCI	12	–	–	–	(6.7)	–	–	–	(6.7)
Net movement on cash flow hedges	12	–	–	–	–	(0.7)	(0.3)	–	(1.0)
Share of other comprehensive expense of joint venture	22	–	–	–	(1.2)	–	–	–	(1.2)
Total comprehensive income		**–**	**–**	**143.3**	**(7.9)**	**(0.7)**	**(0.3)**	**–**	**134.4**
Transactions with owners									
Dividends to ordinary shareholders	13	–	–	(60.0)	–	–	–	–	(60.0)
Share based payments	34	–	–	–	–	–	–	(7.4)	(7.4)
Total transactions with owners		**–**	**–**	**(60.0)**	**–**	**–**	**–**	**(7.4)**	**(67.4)**
Balance at 28 February 2019		**122.0**	**1,097.9**	**425.5**	**4.6**	**(1.0)**	**(0.3)**	**24.1**	**1,672.8**

[1] The prior year restatement relates to the adoption of IFRS 15 in the current year. Refer to note 2 for further details.

TESCO PERSONAL FINANCE PLC
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the Year Ended 28 February 2019

	Note	Share capital £m	Share premium £m	Retained earnings £m Restated[1]	AFS reserve £m	Cash flow hedge reserve £m	Share based payment reserve £m	Total equity £m Restated[1]
Balance at 1 March 2017		122.0	1,097.9	419.7	18.0	(0.6)	27.0	1,684.0
Comprehensive income								
Profit for the year		–	–	138.5	–	–	–	138.5
Net gains on AFS investment securities	12	–	–	–	1.5	–	–	1.5
Net gains on cash flow hedges	12	–	–	–		0.3	–	0.3
Share of other comprehensive expense of joint venture	22	–	–	–	(6.5)	–	–	(6.5)
Total comprehensive income		**–**	**–**	**138.5**	**(5.0)**	**0.3**	–	**133.8**
Transactions with owners								
Dividends to ordinary shareholders	13	–	–	(50.0)	–	–	–	(50.0)
Share based payments	34	–	–	–	–	–	4.5	4.5
Total transactions with owners		**–**	**–**	**(50.0)**	–	–	**4.5**	**(45.5)**
Balance at 28 February 2018		**122.0**	**1,097.9**	**508.2**	**13.0**	**(0.3)**	**31.5**	**1,772.3**

[1] The prior year restatement relates to the adoption of IFRS 15 in the current year. Refer to note 2 for further details.

TESCO PERSONAL FINANCE PLC

COMPANY STATEMENT OF CHANGES IN EQUITY

For the Year Ended 28 February 2019

	Note	Share capital £m	Share premium £m	Retained earnings £m Restated[1]	FV/AFS reserve £m	Cash flow hedge reserve £m	Share based payment reserve £m	Total equity £m Restated [1]
Balance at 1 March 2018		**122.0**	**1,097.9**	**508.5**	**9.3**	**(0.3)**	**31.5**	**1,768.9**
Impact of initial application of IFRS 9 'Financial instruments'		–	–	(166.0)	(0.5)	–	–	(166.5)
Balance at 1 March 2018 after adopting IFRS 9		**122.0**	**1,097.9**	**342.5**	**8.8**	**(0.3)**	**31.5**	**1,602.4**
Comprehensive income								
Profit for the year		–	–	135.5	–	–	–	135.5
Net fair value movement on investment securities at FVOCI	12	–	–	–	(6.7)	–	–	(6.7)
Net movement on cash flow hedges	12	–	–	–	–	(0.2)	–	(0.2)
Total comprehensive income		**–**	**–**	**135.5**	**(6.7)**	**(0.2)**	**–**	**128.6**
Transactions with owners								
Dividends to ordinary shareholders	13	–	–	(60.0)	–	–	–	(60.0)
Share based payments	34	–	–	–	–	–	(7.4)	(7.4)
Total transactions with owners		**–**	**–**	**(60.0)**	**–**	**–**	**(7.4)**	**(67.4)**
Balance at 28 February 2019		**122.0**	**1,097.9**	**418.0**	**2.1**	**(0.5)**	**24.1**	**1,663.6**

[1] The prior year restatement relates to the adoption of IFRS 15 in the current year. Refer to note 2 for further details

TESCO PERSONAL FINANCE PLC
COMPANY STATEMENT OF CHANGES IN EQUITY
For the Year Ended 28 February 2019

	Note	Share capital £m	Share premium £m	Retained earnings £m Restated[1]	AFS reserve £m	Cash flow hedge reserve £m	Share based payment reserve £m	Total equity £m Restated[1]
Balance at 1 March 2017		122.0	1,097.9	430.9	7.8	(0.6)	27.0	1,685.0
Comprehensive income								
Profit for the year		–	–	127.6	–	–	–	127.6
Net gains on AFS investment securities	12	–	–	–	1.5	–	–	1.5
Net gains on cash flow hedges	12	–	–	–	–	0.3	–	0.3
Total comprehensive income		**–**	**–**	**127.6**	**1.5**	**0.3**	–	**129.4**
Transactions with owners								
Dividends to ordinary shareholders	13	–	–	(50.0)	–	–	–	(50.0)
Share based payments	34	–	–	–	–	–	4.5	4.5
Total transactions with owners		**–**	**–**	**(50.0)**	–	–	**4.5**	**(45.5)**
Balance at 28 February 2018		**122.0**	**1,097.9**	**508.5**	**9.3**	**(0.3)**	**31.5**	**1,768.9**

[1] The prior year restatement relates to the adoption of IFRS 15 in the current year. Refer to note 2 for further details.

TESCO PERSONAL FINANCE PLC
CONSOLIDATED AND COMPANY CASH FLOW STATEMENTS
For the Year Ended 28 February 2019

	Note	Group		Company	
		2019	2018	**2019**	2018
	Note	**£m**	£m	**£m**	£m
Operating Activities			Restated[1]		Restated[1]
Profit before tax		198.9	199.1	191.1	188.2
Adjusted for:					
Non-cash items included in operating profit before taxation and other adjustments	38	266.9	284.7	274.7	287.9
Changes in operating assets and liabilities	38	(277.7)	63.2	(307.9)	0.6
Income taxes paid		(68.2)	(44.5)	(68.2)	(44.5)
Cash flows generated from operating activities		**119.9**	**502.5**	**89.7**	**432.2**
Investing Activities					
Purchase and disposal of intangible assets and property, plant and equipment		(30.2)	(53.5)	(30.2)	(53.5)
Purchase of investment securities classified as FVOCI/AFS		(713.0)	(179.1)	(713.0)	(179.1)
Sale of investment securities classified as FVOCI/AFS		590.5	185.4	590.5	185.4
Redemption of subordinated debt issued by joint venture	36	5.2	–	5.2	–
Investment in joint venture	22	–	(15.5)	–	(15.5)
Dividends received from joint venture	22	10.3	–	10.3	–
Cash flows (used in) investing activities		**(137.2)**	**(62.7)**	**(137.2)**	**(62.7)**
Financing Activities					
Net proceeds received in association with issuance of debt securities	28	270.7	300.0	–	–
Principal repayments on debt securities in issue	28	(425.0)	(150.0)	(125.0)	–
Dividends paid to ordinary shareholders	13	(60.0)	(50.0)	(60.0)	(50.0)
Interest paid on debt securities in issue		(23.4)	(24.6)	(23.4)	(17.2)
Interest (paid)/received on assets held to hedge debt securities in issue		(0.4)	3.6	(0.4)	3.6
Interest paid on subordinated liabilities and notes		(4.7)	(3.9)	(4.7)	(3.9)
Cash flows (used in)/generated from financing activities		**(242.8)**	**75.1**	**(213.5)**	**(67.5)**
Net (decrease)/increase in cash and cash equivalents		(260.1)	514.9	(261.0)	302.0
Cash and cash equivalents[2] at beginning of year		1,303.5	788.6	982.2	680.2
Cash and cash equivalents[2] at end of year	14	**1,043.4**	**1,303.5**	**721.2**	**982.2**

[1]The prior year restatement relates to the adoption of IFRS 15 in the current year. Refer to note 2 for further details.

[2]Cash and cash equivalents comprise cash and balances with central banks, excluding mandatory reserve deposits of £28.7m (2018: £15.1m) (refer to note 14).

1. Accounting Policies

Basis of Preparation

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

In these Financial Statements the 'Company' means Tesco Personal Finance Plc and the 'Group' means the Company and its subsidiaries and joint venture. Details of these subsidiaries and joint venture are provided in notes 21 and 22. These Consolidated Financial Statements comprise the Financial Statements of the Group. The Company has elected to take the exemption under section 408 of the Companies Act 2006 not to present the Income Statement and Statement of Comprehensive Income of the Company.

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

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

New and amended accounting standards adopted by the Group in the year are detailed in notes 2 and 44.

Going concern

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

Change in Presentation

During the year, the group reclassified interest expense and similar charges relating to derivative financial instruments to interest and similar income. This reclassification more appropriately reflects within the Consolidated Income Statement the net impact of hedging activity on the interest income or expense of the hedged item. Prior period comparatives have been restated to align to the current period approach. The impact on the Consolidated Income Statement is as follows:

Line Item	**Total as previously stated**	**Adjusted**	**Restated Total**
	£m	**£m**	**£m**
Interest and similar income	673.2	(32.9)	640.3
Interest expense and similar charges	(180.1)	32.9	(147.2)
	493.1	–	493.1

1. Accounting Policies (continued)

Principal accounting policies

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

(a) Basis of consolidation

The Consolidated Financial Statements of the Group comprise the Financial Statements of the Company and all consolidated subsidiaries, including certain securitisation structured entities, and the Group's share of its interest in a joint venture, as at 28 February 2019.

Investment in Group undertakings

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

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

Securitisation structured entities

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

Investment in joint venture

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

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

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

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

1. Accounting Policies (continued)

(b) Revenue recognition

Net interest income recognition

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

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

Interest income is calculated on the gross carrying amount of a financial asset unless the financial asset is impaired, in which case interest income is calculated on the amortised cost.

Net fees and commissions income recognition

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

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

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

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

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

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

1. Accounting Policies (continued)

Customer loyalty programmes

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

Dividend income

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

(c) Taxation

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

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

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

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

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

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

(d) Foreign currency translation

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

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

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

1. Accounting Policies (continued)

In the case of changes in the fair value of monetary assets denominated in foreign currency classified as AFS (before 1 March 2018) or at FVOCI (from 1 March 2018), a distinction is made between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to the changes in the amortised cost are recognised in the Consolidated Income Statement, and other changes in the carrying amount, except impairment, are recognised in equity.

(e) Cash and cash equivalents

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

(f) Financial instruments - Policy applicable from 1 March 2018

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

Financial assets

Classification and measurement

The Group classifies its financial assets in the following categories:

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

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

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

Classification and subsequent measurement of financial assets depend on:

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

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

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

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

1. Accounting Policies (continued)

Financial assets at amortised cost

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

Financial assets at FVOCI

Financial assets that are held for collection of contractual cash flows and for selling the assets, where those cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are classified and subsequently measured at FVOCI. The Group holds investments in debt securities which are classified as FVOCI. Movements in the carrying amount of debt securities classified at FVOCI are taken through other comprehensive income, except the recognition of impairment gains or losses, interest revenue using the EIR method and foreign exchange gains and losses, which are recognised through the Consolidated Income Statement.

The Group also holds an investment in equity securities which has been irrevocably designated by Management at FVOCI at original recognition. Movements in the carrying amount of these equity securities are taken through other comprehensive income and are not subsequently reclassified to the Consolidated Income Statement, including on disposal. Impairment losses on these securities are not recognised separately from other changes in fair value.

For financial assets at FVOCI which are in fair value hedge relationships, the element of the fair value movement which relates to the hedged risk is recycled to the Consolidated Income Statement.

Financial assets at FVPL

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

Impairment

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

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

Refer to note 36 for further details on the calculation of the allowance for ECLs.

Financial liabilities

Classification and measurement

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

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

Derecognition

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

1. Accounting Policies (continued)

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

Offsetting of financial instruments

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

Loan commitments

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

Financial instruments - Policy applicable prior to 1 March 2018

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

Financial assets

The Group classified its financial assets in the following categories: at FVPL, loans and receivables, and AFS. Management determined the classification of its financial assets at initial recognition. Purchases and sales of financial assets were recognised on the trade date – the date on which the Group committed to purchase or sell the asset.

Financial assets at FVPL included financial assets held for trading and those designated at FVPL at inception. Financial assets held at FVPL were recognised at fair value, with any gains or losses included in the Consolidated Income Statement in the period in which they arose. Transaction costs were expensed at the time of initial recognition. Derivative financial assets were classified as held for trading unless they were accounted for as an effective hedging instrument, but were not separately categorised in the Statement of Financial Position.

Loans and receivables were non-derivative financial assets with fixed or determinable payments that were not quoted in an active market. Subsequent to initial recognition at fair value plus transaction costs, these assets were carried at amortised cost using the EIR method and adjusted for any impairment losses or adjustments made as part of fair value hedging arrangements.

AFS financial assets were non-derivative financial assets that were either designated in this category or not classified in any of the other categories. Subsequent to initial recognition at fair value plus transaction costs, these financial assets were recorded at fair value, with the movements in fair value recognised in other comprehensive income until the financial asset was derecognised or impaired, at which time the cumulative gain or loss previously recognised in other comprehensive income was recognised in the Consolidated Income Statement. For AFS financial assets in fair value hedge relationships, the element of the fair value movement which related to the hedged risk was recycled to the Consolidated Income Statement.

1. Accounting Policies (continued)

Financial liabilities

All of the financial liabilities held by the Group, other than derivative financial liabilities, were measured at amortised cost using the EIR method, after initial recognition at fair value. Fair value was calculated as the issue proceeds, net of premiums, discounts and transaction costs incurred. The Group did not hold any financial liabilities classified as held for trading. For financial liabilities in fair value hedge relationships, the carrying value was adjusted by the hedged item (the fair value of the underlying hedged risk) through the Consolidated Income Statement.

Derecognition of financial assets and financial liabilities

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

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

Offsetting of financial instruments

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

Impairment of financial assets

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

Financial assets carried at amortised cost

If there was objective evidence that an impairment loss on a financial asset or group of financial assets classified as loans and receivables had been incurred, the Group measured the amount of the loss as the difference between the carrying amount of the financial asset or group of financial assets and the present value of estimated future cash flows from the financial asset or group of financial assets discounted at the EIR of the instrument(s) at initial recognition. Impairment losses were assessed individually for financial assets that were individually significant and collectively for financial assets that were not individually significant. In making the collective assessment of impairment, financial assets were grouped into portfolios on the basis of similar risk characteristics. Future cash flows from these portfolios were estimated on the basis of the estimated cash recoveries and historical loss experience for financial assets with similar credit risk characteristics.

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

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

1. Accounting Policies (continued)

Financial assets classified as AFS

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

(g) Derivative financial instruments and hedge accounting

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

Hedge accounting

The Group designates certain hedging instruments as either fair value hedges or cash flow hedges, where it is efficient to do so and the relevant criteria are met. From 1 March 2018, the Group has implemented IFRS 9 hedge accounting requirements in respect of its fair value hedges of the Group's investment securities and its cash flow hedges. As permitted under IFRS 9, the Group has elected to continue to apply the existing hedge accounting requirements of International Accounting Standard (IAS) 39 'Financial instruments: Recognition and measurement' for its portfolio hedge accounting until the new macro hedge accounting standard is implemented.

The Group applies hedge accounting as follows:

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

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

Fair value hedges

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

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

1. Accounting Policies (continued)

Cash flow hedges

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

When the hedging instrument expires or is sold, terminated or exercised, hedge accounting is discontinued. Any cumulative gain or loss existing in equity at that time remains until the forecast transaction occurs or the original hedged item affects the Consolidated Income Statement. At that point, the cumulative gain or loss is also recognised in the Consolidated Income Statement.

(h) Derivative financial instruments not in hedge accounting relationships

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

(i) Impairment of non-financial assets

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

(j) Property, plant and equipment

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

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

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

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

1. Accounting Policies (continued)

(k) Intangible assets

Acquired intangible assets

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

Internally generated intangible assets - research and development expenditure

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

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

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

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

(l) Leases

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

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

The Group has entered into operating leases for office buildings.

(m) Employee benefits

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

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

(n) Share based payments

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

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

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

1. Accounting Policies (continued)

(o) Provisions for liabilities and charges and contingent liabilities

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

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

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

Contingent liabilities are not recognised in the Company or Consolidated Statement of Financial Position but are disclosed in the notes to the Financial Statements unless the possibility of an outflow of economic resources is remote.

(p) Dividends paid

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

(q) Segmental reporting

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

(r) Sale and repurchase agreements

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

(s) Encumbered assets

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

2. Transition to IFRS 9 and IFRS 15

On 1 March 2018 the Group adopted both IFRS 9 and IFRS 15. Full transition disclosures are set out below. Further details of the new accounting policies applied are set out in note 1.

(a) IFRS 9 'Financial instruments'

IFRS 9 is a replacement for IAS 39, excluding the part of IAS 39 related to macro hedge accounting. Macro hedge accounting requirements are out of the scope of IFRS 9 and instead the IASB is developing a separate model. Entities are therefore permitted to continue accounting for macro hedge portfolios in line with IAS 39. In line with Tesco policy, the Group has adopted IFRS 9 in respect of its micro hedge accounting from 1 March 2018. The Group continues to apply the existing hedge accounting requirements of IAS 39 for its portfolio hedge accounting until the new macro hedge accounting standard is implemented.

The classification and measurement and impairment requirements of IFRS 9 have been applied retrospectively at 1 March 2018 by adjusting the opening balance sheet, with no requirement to restate comparative periods. Hedge accounting relationships within the scope of IFRS 9 have transitioned prospectively.

Classification and measurement of financial instruments

The measurement category and the carrying amount of financial assets and liabilities in accordance with IAS 39 and IFRS 9 at 1 March 2018 are as follows:

Group	**IAS 39 Classification and measurement category**	**Carrying amount £m**	**IFRS 9 Classification and measurement category**	**Carrying amount £m**
Financial assets:				
Cash and balances with central banks	Loans and receivables (amortised cost)	1,318.6	Amortised cost	1,296.7
			FVPL [(a)]	21.9
Loans and advances to customers	Loans and receivables (amortised cost)	11,522.4	Amortised cost	11,308.4
Derivative financial instruments	Derivatives held for hedging	46.1	FVPL	46.1
Investment securities:				
AFS	AFS	925.4	FVOCI - mandatory [(b)]	923.4
			FVOCI - designated [(c)]	2.0
Loans and receivables	Loans and receivables (amortised cost)	34.1	Amortised cost	33.9
Other assets	Loans and receivables (amortised cost)	280.6	Amortised cost	280.6
Total financial assets		**14,127.2**		**13,913.0**
Financial liabilities				
Deposits from banks	Amortised cost	1,539.0	Amortised cost	1,539.0
Deposits from customers	Amortised cost	9,248.0	Amortised cost	9,248.0
Debt securities in issue	Amortised cost	1,347.6	Amortised cost	1,347.6
Derivative financial instruments	Derivatives held for hedging	88.4	FVPL	88.4
Other liabilities	Amortised cost	147.7	Amortised cost	147.7
Subordinated liabilities	Amortised cost	235.0	Amortised cost	235.0
Total financial liabilities		**12,605.7**		**12,605.7**

2. Transition to IFRS 9 and IFRS 15 (continued)

Company	IAS 39 Classification and measurement category	Carrying Amount £m	IFRS 9 Classification and measurement category	Carrying amount £m
Financial assets:				
Cash and balances with central banks	Loans and receivables (amortised cost)	997.3	Amortised cost	975.4
			FVPL [a]	21.9
Loans and advances to customers	Loans and receivables (amortised cost)	11,522.4	Amortised cost	11,308.4
Derivative financial instruments	Derivatives held for hedging	46.1	FVPL	46.1
Investment securities:				
AFS	AFS	925.4	FVOCI [b]	923.4
			FVOCI [c]	2.0
Loans and receivables	Loans and receivables (amortised cost)	34.1	Amortised cost	33.9
Other assets	Loans and receivables (amortised cost)	327.1	Amortised cost	327.1
Total financial assets		**13,852.4**		**13,638.2**
Financial liabilities				
Deposits from banks	Amortised cost	1,539.0	Amortised cost	1,539.0
Deposits from customers	Amortised cost	9,248.0	Amortised cost	9,248.0
Debt securities in issue	Amortised cost	399.9	Amortised cost	399.9
Derivative financial instruments	Derivatives held for hedging	88.4	FVPL	88.4
Other Liabilities	Amortised cost	820.5	Amortised cost	820.5
Subordinated liabilities	Amortised cost	235.0	Amortised cost	235.0
Total financial liabilities		**12,330.8**		**12,330.8**

The following explains how applying the new classification requirements of IFRS 9 led to changes in classification of certain financial assets held by the Group as shown in the tables above.

(a) Reclassification of cash balances from amortised cost to FVPL

Cash balances relating to the Group's Travel Money offering have been reclassified at FVPL under IFRS 9 as these are held to earn fee and commission income and not solely to collect payments of principal and interest.

(b) Mandatory reclassification of debt investment securities from AFS to FVOCI

Debt instruments previously classified as AFS under IAS 39 have been reclassified to the FVOCI category under IFRS 9 as the IAS 39 category has been removed. There has been no change in the measurement basis as a result of this reclassification.

(c) Designation of equity investment securities from AFS to FVOCI

The Group has elected to designate equity instruments held in VISA Inc. at FVOCI as permitted by IFRS 9. These securities were previously classified as AFS. There has been no change in the measurement basis as a result of this reclassification. The changes in fair value of these securities will no longer be reclassified to the Consolidated Income Statement on disposal.

2. Transition to IFRS 9 and IFRS 15 (continued)

Reconciliation of Statement of Financial Position balances from IAS 39 to IFRS 9

The following table reconciles the carrying amount of financial assets from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on 1 March 2018. There were no changes to the classification and measurement of financial liabilities.

	IAS 39 carrying amount 28 February 2018	Reclassification	Remeasurement	IFRS 9 carrying amount 1 March 2018
Group	**£m**	**£m**	**£m**	**£m**
Financial Assets				
Amortised cost				
Cash and balances with central banks				
Opening balance under IAS 39	1,318.6			
Reclassification to FVPL		(21.9)		
Closing balance under IFRS 9				1,296.7
Loans and advances to customers				
Opening balance under IAS 39	11,522.4			
Remeasurement: ECL allowance			(228.1)	
Remeasurement: Recoverable asset balance			4.8	
Transfer to provisions for liabilities and charges[1]			9.3	
Closing balance under IFRS 9				11,308.4
Investment securities - amortised cost				
Opening balance under IAS 39	34.1			
Remeasurement: ECL allowance			(0.2)	
Closing balance under IFRS 9				33.9
Other assets				
Opening balance under IAS 39 and closing balance under IFRS 9	280.6			280.6
Total financial assets measured at amortised cost	**13,155.7**	**(21.9)**	**(214.2)**	**12,919.6**
FVPL				
Derivative financial instruments				
Opening balance under IAS 39 and closing balance under IFRS 9	46.1			46.1
Cash and balances with central banks				
Opening balance under IAS 39	–			
Reclassification from amortised cost		21.9		
Closing balance under IFRS 9				21.9
Total financial assets measured at FVPL	**46.1**	**21.9**	**–**	**68.0**

[1] Credit loss provision in excess of gross carrying amount of financial assets transferred to provisions for liabilities and charges (refer note 29).

2. Transition to IFRS 9 and IFRS 15 (continued)

Reconciliation of Statement of Financial Position balances from IAS 39 to IFRS 9 (continued)

	IAS 39 carrying amount 28 February 2018 £m	Reclassification £m	Remeasurement £m	IFRS 9 carrying amount 1 March 2018 £m
FVOCI				
Investment securities - AFS	925.4			
Opening balance under IAS 39				
Reclassification to FVOCI (debt)		(923.4)		
Reclassification to FVOCI (equity)		(2.0)		
Closing balance under IFRS 9				–
Investment securities - FVOCI				
Opening balance under IAS 39	–			
Reclassification to FVOCI from AFS (debt)		923.4		
Reclassification to FVOCI from AFS (equity)		2.0		
Closing balance under IFRS 9				925.4
Total financial assets measured at FVOCI	**925.4**	**–**	**–**	**925.4**
Total financial assets	**14,127.2**	**–**	**(214.2)**	**13,913.0**

Company	IAS 39 carrying amount 28 February 2018 £m	Reclassification £m	Remeasurement £m	IFRS 9 carrying amount 1 March 2018 £m
Financial Assets				
Amortised cost				
Cash and balances with central banks				
Opening balance under IAS 39	997.3			
Reclassification to FVPL		(21.9)		
Closing balance under IFRS 9				975.4
Loans and advances to customers				
Opening balance under IAS 39	11,522.4			
Remeasurement: ECL allowance			(228.1)	
Remeasurement: Recoverable asset balance			4.8	
Transfer to provisions for liabilities and charges[1]			9.3	
Closing balance under IFRS 9				11,308.4
Investment securities - amortised cost				
Opening balance under IAS 39	34.1			
Remeasurement: ECL allowance			(0.2)	
Closing balance under IFRS 9				33.9
Other assets				
Opening balance under IAS 39 and closing balance under IFRS 9	327.1			327.1
Total financial assets measured at amortised cost	**12,880.9**	**(21.9)**	**(214.2)**	**12,644.8**

[1] Credit loss provision in excess of gross carrying amount of financial assets transferred to provisions for liabilities and charges (refer note 29).

2. Transition to IFRS 9 and IFRS 15 (continued)

	IAS 39 carrying amount 28 February 2018	Reclassification	Remeasurement	IFRS 9 carrying amount 1 March 2018
FVPL	**£m**	**£m**	**£m**	**£m**
Derivative financial instruments				
Opening balance under IAS 39 and closing balance under IFRS 9	46.1			46.1
Cash and balances with central banks				
Opening balance under IAS 39	–			
Reclassification from amortised cost		21.9		
Closing balance under IFRS 9				21.9
Total financial assets measured at FVPL	**46.1**	**21.9**	–	**68.0**
FVOCI				
Investment securities - AFS	925.4			
Opening balance under IAS 39				
Reclassification to FVOCI (debt)		(923.4)		
Reclassification to FVOCI (equity)		(2.0)		
Closing balance under IFRS 9				–
Investment securities - FVOCI				
Opening balance under IAS 39	–			
Reclassification to FVOCI from AFS (debt)		923.4		
Reclassification to FVOCI from AFS (equity)		2.0		
Closing balance under IFRS 9				925.4
Total financial assets measured at FVOCI	**925.4**	**–**	**–**	**925.4**
Total financial assets	**13,852.4**	**–**	**(214.2)**	**13,638.2**

The Group and Company recognised a deferred tax asset of £57.0m on 1 March 2018 in relation to the transitional measurement adjustments set out in the above tables. This asset relates to both the additional ECL allowance recognised within loans and advances to customers of £214.2m and ECLs in excess of the gross carrying amount of the related financial assets, amounting to £9.3m, recognised within provisions for liabilities and charges (refer note 29).

2. Transition to IFRS 9 and IFRS 15 (continued)

Reconciliation of impairment allowance balance from IAS 39 to IFRS 9

The following table reconciles the prior period's closing impairment allowance measured in accordance with the IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected loss model at 1 March 2018:

Group and Company	28 February 2018 Loan loss allowance under IAS 39 £m	Reclassification £m	Remeasurement £m	1 March 2018 Loan loss allowance under IFRS 9 £m
Measurement category				
Loans and receivables (IAS 39)/Financial assets at amortised cost (IFRS 9)				
Loans and advances to customers[1]	238.1	–	218.8	456.9
Investment securities	–	–	0.2	0.2
Total	**238.1**	**–**	**219.0**	**457.1**
AFS financial assets (IAS 39)/Financial assets at FVOCI (IFRS 9)				
Investment securities[2]	–	–	(0.5)	(0.5)
Total	**–**	**–**	**(0.5)**	**(0.5)**

[1] Credit loss provision in excess of gross carrying amount of financial assets transferred to provisions for liabilities and charges (refer note 29).

[2] The above loss allowance is not recognised in the carrying amount of investment securities as the carrying amount is their fair value.

2. Transition to IFRS 9 and IFRS 15 (continued)

The following table reconciles in further detail the prior period's closing impairment allowance for loans and advances to customers in accordance with IAS 39 to the IFRS 9 allowance at 1 March 2018:

Group and Company	**£m**
IAS 39 loss allowance at 28 February 2018	238.1
12 month ECL	72.7
Lifetime ECL	100.6
Undrawn balances	8.6
Macro-economic scenarios	39.2
Transfer to provisions for liabilities and charges	(9.3)
Other changes	7.0
IFRS 9 loss allowance at 1 March 2018	**456.9**

(b) IFRS 15 'Revenue from contracts with customers'

IFRS 15 introduces a performance-based approach to revenue recognition and is applicable to all contracts with customers, with certain exceptions. The Group's interest income and fee income integral to financial instruments fall outside the scope of IFRS 15 and are accounted for in line with the other applicable standards, predominantly IFRS 9 from 1 March 2018 (refer above). All other fees and commissions income falls within the scope of IFRS 15.

In accordance with the transitional provisions in IFRS 15, the new rules have been applied retrospectively and comparatives for the 2018 financial year have been restated.

There are two changes for the Group as a result of the adoption of IFRS 15.

(i) Accounting for insurance renewal commission income

Prior to the adoption of IFRS 15, the Group recognised all insurance commission income on policy renewals at the time of the renewal. Under IFRS 15, the Group recognises commission income as policies are sold for a minority of insurance policies managed and underwritten by a third party. This is the point in time at which the Group has satisfied all of its performance obligations in relation to the policies sold and it is considered highly probable that a significant reversal in the amount of revenue recognised will not occur in future periods. A contract asset has been recognised in relation to this revenue and is included within other assets.

(ii) Presentation of insurance refund liability

Contract liabilities in relation to expected refunds to insurance customers were previously presented as current provisions for liabilities and charges. These are now included within other liabilities to reflect the terminology and requirements of IFRS 15.

2. Transition to IFRS 9 and IFRS 15 (continued)

The impact of these changes on the relevant financial statements lines is as follows:

Group	**As previously reported**	**IFRS 15 adjustments**	**Restated**
At 1 March 2017	**£m**	**£m**	**£m**
Statement of Financial Position			
Other assets	299.1	18.5	317.6
Provision for liabilities and charges	(83.5)	4.2	(79.3)
Other liabilities	(148.3)	(4.2)	(152.5)
Deferred income tax liability	(13.7)	(5.0)	(18.7)
Retained earnings	(406.2)	(13.5)	(419.7)
At 28 February 2018			
Statement of Financial Position			
Other assets	265.7	14.9	280.6
Provisions for liabilities and charges	(79.4)	3.4	(76.0)
Other liabilities	(144.3)	(3.4)	(147.7)
Deferred income tax liability	(3.7)	(4.0)	(7.7)
Retained earnings	(497.3)	(10.9)	(508.2)
Income Statement			
Fee and commission charge	387.0	(3.6)	383.4
Income tax charge	(61.6)	1.0	(60.6)
Statement of Cash Flows			
Non-cash items included in operating profit before taxation and other adjustments	297.4	(12.7)	284.7
Changes in operating assets and liabilities	46.9	16.3	63.2

Company	**As previously reported**	**IFRS 15 adjustments**	**Restated**
At 1 March 2017	**£m**	**£m**	**£m**
Statement of Financial Position			
Other assets	387.2	18.5	405.7
Provision for liabilities and charges	(83.5)	4.2	(79.3)
Other liabilities	(925.3)	(4.2)	(929.5)
Deferred income tax liability	(13.7)	(5.0)	(18.7)
Retained earnings	(417.4)	(13.5)	(430.9)
At 28 February 2018			
Statement of Financial Position			
Other assets	312.2	14.9	327.1
Provisions for liabilities and charges	(79.4)	3.4	(76.0)
Other liabilities	(817.1)	(3.4)	(820.5)
Deferred income tax liability	(3.7)	(4.0)	(7.7)
Retained earnings	(497.6)	(10.9)	(508.5)
Statement of Cash Flows			
Non-cash items included in operating profit before taxation and other adjustments	300.6	(12.7)	287.9
Changes in operating assets and liabilities	(15.7)	16.3	0.6

IFRS 15 also specifies a comprehensive set of disclosure requirements regarding the nature, extent and timing, as well as any uncertainty, of revenue and corresponding cash flows with customers. These applicable disclosures are included throughout these financial statements, primarily in note 1.

3. Critical Accounting Estimates and Judgements in Applying Accounting Policies

In the course of preparing the Financial Statements, no judgements have been made in the process of applying the Group's accounting policies, other than those using estimations (which are presented separately below), that have had a significant effect on the amounts recognised in the Financial Statements.

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

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

Impairment of financial assets (applicable from 1 March 2018)

The measurement of ECLs for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour, such as the likelihood of customers defaulting and the resulting losses. Further explanation of the inputs, assumptions and estimation techniques used in measuring ECLs, as well as the key sensitivities of ECLs to change in these elements, are set out at note 36.

Effective interest rate (EIR)

IFRS 9 requires the Group to measure the interest earned on its Credit Cards 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 5 years from origination).

An increase of the pay rates assumption by 10% will reduce the asset value by £5.3m and a corresponding reduction of the pay rates assumption will increase the asset value by £6.2m.

Provision for customer redress

The Group has a provision for potential customer redress in relation to payment protection insurance (PPI). For further details, including the key assumptions made in arriving at each element of this provision and a sensitivity analysis of key assumptions in the PPI model, refer to note 29.

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

Investment in joint venture

The Group holds an investment in a joint venture, TU, an authorised insurance company, and recognises the carrying value of its investment and the Group's share of TU's results using the equity method of accounting (see notes 1 and 22 for further details).

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

The impact of any increase in reserves is determined by TU's ability to amend its pricing to reflect the increased costs of providing cover under the policies written.

A key element of the reserving calculation is the application of the Ogden tables, which are used to calculate the cost of any claim that involves compensation for loss of future benefits. The tables provide an estimate of the return to be expected from the investment of a lump sum damages award.

A decrease in the Ogden rate for 2019 from -0.75% to -1.0% would decrease the carrying value of the Group's investment in TU by £1.2m. An increase in the Ogden rate for 2019 from -0.75% to +1.0% would increase the carrying value of the Group's investment in TU by £10.0m.

4. Segmental Reporting

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

The Group has one operating segment covering all of the Group's activities, the results of which are set out in the Consolidated Income Statement and Group and Company Statements of Financial Position. The Group is primarily focused on providing financial services and products to personal customers in the UK therefore no geographic analysis is presented.

5. Net Interest Income

	2019 £m	2018 £m Restated[1]
Interest and similar income		
On financial assets measured at amortised cost		
Loans and advances to customers	710.8	628.0
Cash and balances with central banks	7.5	2.8
Investment securities	1.3	1.4
	719.6	**632.2**
On financial assets measured at fair value		
Investment securities	7.2	5.1
Derivative financial instruments	1.8	3.0
	9.0	**8.1**
Total interest and similar income	**728.6**	**640.3**
Interest expense and similar charges		
On financial liabilities measured at amortised cost		
Deposits from customers	(139.6)	(114.1)
Deposits from banks	(11.7)	(4.1)
Debt securities in issue	(23.5)	(25.0)
Subordinated liabilities and notes	(4.9)	(4.0)
	(179.7)	**(147.2)**
Total interest expense and similar charges	**(179.7)**	**(147.2)**
Net interest income	**548.9**	**493.1**

[1]The prior year restatement relates to the reclassification of amounts from interest expense to interest income. Refer to note 1 for further details.

6. Net Fees and Commissions Income

	2019 £m	2018 £m Restated[1]
Fees and commissions income		
Banking revenue from contracts with customers	243.8	252.2
Insurance revenue from contracts with customers	98.6	109.6
Other revenue from contracts with customers	23.4	21.6
Total fees and commissions income	**365.8**	**383.4**
Fees and commissions expense		
Banking expense	(32.6)	(31.6)
Total fees and commissions expense	**(32.6)**	**(31.6)**
Net fees and commissions income	**333.2**	**351.8**

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

[1] The prior period has been restated following the retrospective adoption of IFRS 15 in the current period. Refer to note 2 for further details.

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

	2019 £m	2018 £m
Foreign exchange (loss)/gain on financial assets	(0.2)	1.9
Net (loss)/gain arising on derivatives not designated as hedging instruments	(4.1)	8.0
Fair value hedge ineffectiveness (refer note 17)	0.4	1.1
Cash flow hedge ineffectiveness (refer note 17)	(0.3)	–
Net (loss)/gain on financial instruments at FVPL	**(4.2)**	**11.0**

8. Net Gain on Investment Securities

	2019 £m	2018 £m
Net gain on disposal of AFS investment securities	n/a	0.1
Net gain on disposal of investment securities at FVOCI	8.4	n/a
Net gain on investment securities	**8.4**	**0.1**

9. Administrative Expenses

	2019 £m	2018 £m
Staff costs		
Wages and salaries	111.2	114.2
Social security costs	11.0	11.8
Other pension costs	5.3	5.4
Share based payments	4.4	9.2
Other costs including temporary staff	38.9	33.6
Total staff costs	**170.8**	**174.2**
Non-staff costs		
Premises and equipment	76.8	74.8
Operating leases	3.6	3.6
Marketing	49.3	63.8
Auditor's remuneration (refer below)	0.7	0.8
Outsourcing and professional fees	61.1	62.1
Other administrative expenses	54.9	44.6
Restructuring costs[1]	(1.6)	(1.2)
Total non-staff costs	**244.8**	**248.5**
Total administrative expenses	**415.6**	**422.7**

[1]During the year, the Group recognised organisational restructuring credits within administrative expenses amounting to £(1.6)m (2018: £(1.2m)) related to property operating lease exit costs.

	2019 £'000	2018 £'000
Audit services		
Audit of the Company and Consolidated Financial Statements	592	668
Audit of the Company's subsidiaries	41	34
Total audit services	**633**	**702**
Non-audit services		
Audit related assurance services	88	83
Other non-audit services not covered above	26	52
Total non-audit services	**114**	**135**
Total auditor's remuneration	**747**	**837**

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

	2019 Number	2018 Number
Head office and administration	1,340	1,323
Operations	2,344	2,625
Total average employees	**3,684**	**3,948**

10. Impairment Loss on Financial Assets

	2019 £m	2018 £m
Impairment loss on loans and advances to customers[1]	163.5	137.4
Impairment loss on investment securities at FVOCI	0.7	n/a
Reversal of impairment loss on investment securities at amortised cost	(0.1)	n/a
Total impairment loss on financial assets	**164.1**	**137.4**

[1]Included within the impairment loss on loans and advances to customers is an amount of £32.7m (2018: £34.6m) received through the sale of non-performing debt to third parties.

11. Directors' Emoluments

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

	2019 £m	2018 £m
Aggregate emoluments	4.5	5.9
Aggregate amounts receivable under long-term incentive schemes	3.0	2.6
Loss of office	-	0.3
Share based payments	0.8	0.9
Total Directors' emoluments	**8.3**	**9.7**

	2019 Number	2018 Number
Number of Directors to whom retirement benefits are accruing under defined benefit or defined contribution schemes	3	3
Number of Directors in respect of whose qualifying services shares were received or receivable under long-term incentive schemes	6	5
Number of Directors who exercised share options in the year	–	–

The total emoluments of the highest paid Director were £1.6m (2018: £2.3m). During the year the highest paid Director did not exercise any share options (2018: £nil).

At 28 February 2019 the accrued pension and lump sum under a defined benefit scheme for the highest paid Director was £nil (2018: £nil).

During the year to 28 February 2019 one Director (2018: two Directors) left the company. During the prior year, one Director was paid a sum of £0.3m upon leaving, in line with contractual terms and conditions. There were no such payments in the current year.

12. Income Tax

Income tax charge

	2019 £m	2018 £m Restated[1]
Current tax charge for the year	65.1	70.4
Adjustments in respect of prior years	(0.8)	0.8
Total current tax charge for the year	**64.3**	**71.2**
Deferred tax credit for the year	(9.3)	(9.7)
Tax rate change	0.8	0.6
Adjustments in respect of prior years	(0.2)	(1.5)
Total deferred tax credit for the year	**(8.7)**	**(10.6)**
Total income tax charge	**55.6**	**60.6**

The standard rate of corporation tax in the UK was changed from 20% to 19% with effect from 1 April 2017. This gives a blended corporation tax rate for the Group for the full year of 19.0% (2018: 19.1%). In addition, a banking surcharge of 8% is applied to the Group's results.

The tax assessed for the full year is higher (2018: higher) than that calculated using the overall blended corporation tax rate for the Group. The differences are explained below:

	2019 £m	2018 £m Restated[1]
Profit before taxation	198.9	199.1
Profit on ordinary activities multiplied by blended rate in the UK of 19.0% (2018: 19.1%)	37.8	38.0
Factors affecting charge for the year:		
Impact of banking surcharge	13.3	13.2
Expenses not deductible for tax purposes[2]	9.0	10.0
Adjustment in respect of prior years - current tax	(0.8)	0.8
Adjustment in respect of prior years - deferred tax	(0.2)	(1.5)
Share based payments	(2.9)	1.5
Other tax adjustments	0.1	–
Tax rate change	0.8	0.6
Share of profit of joint venture	(1.5)	(2.0)
Total income tax charge	**55.6**	**60.6**

[1]The prior year restatement relates to the adoption of IFRS 15 in the current year. Refer to note 2 for further details.

[2]The majority of the adjustment relates to the tax impact of the non-deductibility of an additional PPI provision of £16.0m recognised in the year (2018: £35.0m) and a regulatory charge of £16.4m (2018: £nil).

12. Income Tax (continued)

The March 2016 Budget Statement included an announcement that the standard rate of corporation tax in the UK would be reduced to 17% from 1 April 2020. This rate reduction was enacted during the year ended 28 February 2017 and is therefore incorporated in these Financial Statements. The rate change is expected to reduce the Group's effective tax rate in the medium term.

Income tax relating to components of other comprehensive income

2019	Before tax amount £m	Tax (charge)/credit £m	Net of tax amount £m
Items that may be reclassified to the income statement			
Net losses on debt securities at FVOCI	(1.7)	0.4	(1.3)
Net gains on debt securities reclassified to the income statement on disposal	(8.0)	2.2	(5.8)
Net losses on cash flow hedges	(0.8)	0.1	(0.7)
Net losses on cross currency interest rate swaps	(0.3)	–	(0.3)
Items that will not be reclassified to the income statement			
Net gains on equity securities designated at FVOCI	0.5	(0.1)	0.4
Total income tax relating to components of other comprehensive income	**(10.3)**	**2.6**	**(7.7)**

2018	Before tax amount £m	Tax charge £m	Net of tax amount £m
Items that may be reclassified to the income statement			
Unrealised net gains on AFS investment securities	1.8	(0.3)	1.5
Net gains on cash flow hedges reclassified to the income statement	0.4	(0.1)	0.3
Total items that may be reclassified to the income statement	**2.2**	**(0.4)**	**1.8**

Deferred tax charged directly to the Statement of Changes in Equity

2019	Before tax amount £m	Tax charge £m	Net of tax amount £m
Net losses on share based payments reserve	(4.8)	(2.6)	(7.4)
	(4.8)	**(2.6)**	**(7.4)**

2018	Before tax amount £m	Tax credit £m	Net of tax amount £m
Net gains on share based payments reserve	3.6	0.9	4.5
	3.6	0.9	4.5

13. Distributions to Equity Holders

	2019	2018
	£m	£m
Ordinary dividend paid	60.0	50.0
	60.0	**50.0**

On 21 February 2019 an interim dividend of £60.0m (£0.0492 per ordinary share) was paid. In the prior year, an interim dividend of £50.0m (£0.0410 per ordinary share) was paid on 22 February 2018.

14. Cash and Balances with Central Banks

	Group		Company	
	2019	2018	2019	2018
	£m	£m	£m	£m
Cash at bank	374.1	376.9	51.9	55.6
Balances held with the Bank of England (BoE) other than mandatory reserve deposits	669.3	926.6	669.3	926.6
Included in cash and cash equivalents	**1,043.4**	**1,303.5**	**721.2**	**982.2**
Mandatory reserves deposits held with the BoE	28.7	15.1	28.7	15.1
Total cash and balances with central banks	**1,072.1**	**1,318.6**	**749.9**	**997.3**

Mandatory reserve deposits held with the BoE of £28.7m (2018: £15.1m) are not included within cash and cash equivalents for the purposes of the cash flow statement as these do not have short-term maturities. These balances are not available in the Group's day-to-day operations and are non-interest bearing. Other balances are subject to variable interest rates based on the BoE base rate.

15. Loans and Advances to Banks

Group and Company	2019	2018
	£m	£m
Loans and advances to banks	324.2	–
	324.2	–

All of the above balances are current.

Loans and advances to banks include balances of £324.2m (2018: £nil) which have been purchased under sale and repurchase agreements.

16. Loans and Advances to Customers

Group and Company	**2019**	**2018**
	£m	**£m**
Secured Mortgage lending	3,767.4	3,010.2
Unsecured lending	9,146.2	8,766.7
Total secured and unsecured lending	**12,913.6**	**11,776.9**
Fair value hedge adjustment	(2.7)	(16.4)
Gross loans and advances to customers	**12,910.9**	**11,760.5**
Less: allowance for impairment (refer to note 36)	**(485.2)**	**(238.1)**
Net loans and advances to customers	**12,425.7**	**11,522.4**
Current	4,557.5	4,636.6
Non-current	7,868.2	6,885.8

At 28 February 2019, the Group had contractual lending commitments of £12,226.2m (2018: £12,225.0m). An additional ECL provision of £8.5m was also recognised at 28 February 2019 (2018: £nil). This represents the excess of total ECLs for both drawn and undrawn balances over the gross carrying balances as above. Refer to note 29 for further details.

Fair value hedge adjustments

Fair value hedge adjustments amounting to £(2.7)m (2018: £(16.4)m) are in respect of fixed rate Loans and Mortgages. These adjustments are largely offset by derivatives, which are used to manage interest rate risk and are designated as fair value hedges within loans and advances to customers.

17. Derivative Financial Instruments

Strategy in using derivative financial instruments

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

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

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

Group	**2019**		2018	
	Assets £m	**Liabilities £m**	Assets £m	Liabilities £m
Derivatives in hedge accounting relationships				
Derivatives designated as fair value hedges				
Interest rate swaps	17.8	(49.5)	30.5	(86.8)
Derivatives designated as cash flow hedges				
Interest rate swaps	–	(0.3)	–	(0.7)
RPI basis swaps	12.5	–	11.5	–
Forward foreign exchange contracts	–	(0.2)	0.1	–
Cross currency interest rate swaps	–	(9.1)	–	–
Total derivatives in hedge accounting relationships	**30.3**	**(59.1)**	**42.1**	**(87.5)**
Derivatives not in hedge accounting relationships				
Interest rate derivatives				
Interest rate swaps	1.0	(1.1)	3.9	(0.8)
Currency derivatives				
Forward foreign exchange contracts	–	–	0.1	(0.1)
Total derivatives not in hedge accounting relationships	**1.0**	**(1.1)**	**4.0**	**(0.9)**
Total	**31.3**	**(60.2)**	**46.1**	**(88.4)**

17. Derivative Financial Instruments (continued)

Company	**2019**		2018	
	Assets	**Liabilities**	Assets	Liabilities
	£m	**£m**	£m	£m
Derivatives in hedge accounting relationships				
Derivatives designated as fair value hedges				
Interest rate swaps	17.8	(49.5)	30.5	(86.8)
Derivatives designated as cash flow hedges				
Interest rate swaps	–	(0.3)	–	(0.7)
RPI basis swaps	12.5	–	11.5	–
Forward foreign exchange contracts	–	(0.2)	0.1	–
Total derivatives in hedge accounting relationships	**30.3**	**(50.0)**	**42.1**	**(87.5)**
Derivatives not in hedge accounting relationships				
Interest rate derivatives				
Interest rate swaps	1.0	(1.1)	3.9	(0.8)
Currency derivatives				
Forward foreign exchange contracts	–	–	0.1	(0.1)
Total derivatives not in hedge accounting relationships	**1.0**	**(1.1)**	**4.0**	**(0.9)**
Total	**31.3**	**(51.1)**	**46.1**	**(88.4)**

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

Group	**2019**		2018	
	Assets	**Liabilities**	Assets	Liabilities
	£m	**£m**	£m	£m
Current	13.8	(2.8)	1.5	(3.1)
Non-current	17.5	(57.4)	44.6	(85.3)

Company	**2019**		2018	
	Assets	**Liabilities**	Assets	Liabilities
	£m	**£m**	£m	£m
Current	13.8	(2.8)	1.5	(3.1)
Non-current	17.5	(48.3)	44.6	(85.3)

17. Derivative Financial Instruments (continued)

Hedge accounting

The Group applies hedge accounting in the following hedging strategies:

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

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

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

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

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

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

- **Cash flow hedges of debt securities issued**

The Group holds inflation and interest rate swaps as cash flow hedges to mitigate the variability in cash flows associated with an inflation-linked debt security issued by the Bank. The cash flows are expected to occur over the term to maturity in December 2019. The Group applies IFRS 9 hedge accounting in respect of these hedging instruments.

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

The Group also holds cross currency interest rate swaps as cash flow hedges to mitigate the variability in cash flows associated with the foreign currency notes in issue. The cash flows are expected to occur over the term to maturity in 2020. The Group applies IFRS 9 hedge accounting in respect of these hedging instruments.

Sources of hedge ineffectiveness are primarily due to differences in timing and repricing between execution of the hedging instrument and hedge item.

- **Cash flow hedges of expected foreign currency payments**

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

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

17. Derivative Financial Instruments (continued)

The following tables set out the maturity profile and average interest rate of the hedging instruments used in the Group's hedging strategies[1]:

Group[2]			**Maturity**		
2019	**Up to one month £m**	**One to three months £m**	**Three months to one year £m**	**One year to five years £m**	**More than five years £m**
Fair value hedges					
Interest rate					
Interest rate swaps					
- Nominal amount	70.2	122.3	1,191.3	4,285.7	159.7
- Average interest rate	1.16%	0.92%	1.03%	1.21%	4.12%
Cash flow hedges					
Interest rate					
RPI basis swaps					
- Nominal amount	–	–	60.0	–	–
- Average interest rate	–	–	LIBOR + 2.17% / 1.00% + UKRPI	–	–
Interest rate swaps					
- Nominal amount	–	–	60.0	–	–
- Average interest rate	–	–	1.57%	–	–
Foreign currency					
Forward foreign exchange contracts					
- Nominal amount	0.6	1.7	5.9	–	–
- Average exchange rate	1.30	1.30	1.31	–	–
Interest rate/Foreign currency					
Cross currency interest rate swaps (GBP:USD)					
- Nominal amount (£m)	–	–	–	272.2	–
- Average exchange rate	–	–	–	1.29	–
- Average interest rate: pay leg	–	–	–	LIBOR + 0.84%	–
- Average interest rate: receive leg	–	–	–	USD LIBOR + 0.70%	–

[1]Disclosures relate to derivatives in hedge accounting relationships only.

[2]On a Company basis, cross currency interest rate swaps with a nominal amount of £272.2m are excluded.

17. Derivative Financial Instruments (continued)

The following tables set out details of the hedging instruments used in the Group's hedging strategies[1]:

Group[2]		**Carrying amount**			
2019	**Notional**	**Assets**	**Liabilities**	**Balance sheet line item**	**Changes in fair value used for calculating hedge ineffectiveness**
	£m	**£m**	**£m**		**£m**
Fair value hedges					
Interest rate					
Interest rate swaps	5,829.2	17.8	(49.5)	Derivative financial instruments	(10.4)
Cash flow hedges					
Interest rate					
RPI basis swaps	60.0	12.5	–	Derivative financial instruments	1.1
Interest rate swaps	60.0	–	(0.3)	Derivative financial instruments	0.4
Foreign currency					
Forward foreign exchange contracts	8.2	–	(0.2)	Derivative financial instruments	(0.1)
Interest rate/foreign currency					
Cross currency interest rate swaps (GBP:USD)	272.2	–	(9.1)	Derivative financial instruments	8.6
Total	**6,229.6**	**30.3**	**(59.1)**		**(0.4)**

[1] Disclosures relate to derivatives in hedge accounting relationships only.

[2] On a Company basis, cross currency interest rate swaps are excluded. Notional swap values are £5,957.4m, the carrying amount of liabilities is £(50.0)m and changes in fair value used for calculating hedge ineffectiveness amount to £(9.0)m.

17. Derivative Financial Instruments (continued)

The following tables set out details of the hedged exposures covered by the Group's hedging strategies[1]:

Group and Company 2019	Carrying amount Assets	Carrying amount Liabilities	Accumulated amounts of fair value adjustments on the hedged item Assets	Accumulated amounts of fair value adjustments on the hedged item Liabilities	Balance sheet line item
	£m	£m	£m	£m	
Fair value hedges					
Interest rate					
- Fixed rate Loans and Mortgages	7,973.8	–	(2.7)	–	Loans and advances to customers
- Fixed rate Savings	–	(3,691.2)	–	0.2	Deposits from customers
- Fixed rate investment securities	472.8	–	(5.1)	–	Investment securities
- Fixed rate retail bond	–	(202.9)	–	(3.2)	Debt securities in issue
Total fair value hedges	**8,446.6**	**(3,894.1)**	**(7.8)**	**(3.0)**	

2019	Changes in value for calculating hedge ineffectiveness	Accumulated amount of fair value hedge adjustments remaining in the Statement of Financial Position for any hedged items that have ceased to be adjusted for hedging gains and losses
	£m	£m
Interest rate		
- Fixed rate loans and mortgages	13.7	0.2
- Fixed rate savings	(0.8)	–
- Fixed rate investment securities	(3.2)	0.2
- Fixed rate retail bond	1.1	0.5
Total fair value hedges	**10.8**	**0.9**

[1]Disclosures relate to derivatives in hedge accounting relationships only.

17. Derivative Financial Instruments (continued)

The following tables set out information regarding the effectiveness of the hedging relationships designated by the Group, as well as the impacts on profit or loss and other comprehensive income[1]:

Group	**Hedge ineffectiveness recognised in profit or loss**	**Line item in income statement that includes hedge ineffectiveness**
2019	**£m**	
Fair value hedges		
Interest rate		
- Interest rate swaps	0.4	Net gain/(loss) on financial instruments at FVPL
Total fair values hedges	**0.4**	

[1]Disclosures relate to derivatives in hedge accounting relationships only.

Group[2]			**Cash flow hedge reserve**
2019	**Balance sheet line item**	**Change in value of hedged item used for calculating hedge ineffectiveness**	**Continued hedges**
		£m	**£m**
Cash flow hedges			
Interest rate			
- RPI bond	Debt securities in issue	(1.4)	(0.4)
Foreign currency			
- Accounts payable	Other liabilities	(0.3)	(0.1)
Interest rate/foreign currency			
- Securitisation bond	Debt securities in issue	(8.6)	(0.5)
Total cash flow hedges		**(10.3)**	**(1.0)**

[1]Disclosures relate to derivatives in hedge accounting relationships only.

[2] On a Company basis, the securitisation bond is excluded. Amounts used for calculating hedge ineffectiveness are £(1.7)m and the cash flow hedge reserve is £(0.5)m.

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

17. Derivative Financial Instruments (continued)

Group[2] **2019**	**Cumulative hedging gains and (losses) recognised in other comprehensive income £m**	**Hedge ineffectiveness recognised in profit or loss £m**	**Line item in income statement that includes hedge ineffectiveness**	**Cumulative amount reclassified from cash flow hedge reserve to profit or loss £m**	**Line item in profit or loss that includes reclassification**
Cash flow hedges					
Interest rate					
- RPI basis and interest rate swaps	12.5	–	Net gain/(loss) on financial instruments at FVPL	(12.9)	Interest expense and similar charges
Foreign currency					
- Forward foreign exchange contracts	(0.2)	–	Net gain/(loss) on financial instruments at FVPL	–	
Interest rate/foreign currency					
- Cross currency interest rate swaps (GBP:USD)	(8.6)	(0.3)	Net gain/(loss) on financial instruments at FVPL	8.1	Net gain/(loss) on financial instruments at FVPL
Total cash flow hedges	**3.7**	**(0.3)**		**(4.8)**	

[1]Disclosures relate to derivatives in hedge accounting relationships only.

[2]On a Company basis, cross currency interest rate swaps are excluded. Hedging gains and (losses) recognised in other comprehensive income are £12.3m, hedge ineffectiveness recognised in profit or loss is £nil and amounts reclassified to profit or loss are £(12.9m).

Group	**£m**
Hedging gains and losses recognised in other comprehensive income	3.7
Amount reclassified from cash flow hedge reserve to profit or loss	(4.8)
Tax	0.1
Cash flow hedge reserve	**(1.0)**

Company	**£m**
Hedging gains and losses recognised in other comprehensive income	12.3
Amount reclassified from cash flow hedge reserve to profit or loss	(12.9)
Tax	0.1
Cash flow hedge reserve	**(0.5)**

17. Derivative Financial Instruments (continued)

The following table presents a reconciliation by risk category of the cash flow hedge reserve and an analysis of other comprehensive income in relation to hedge accounting[1]:

Group	Cash flow hedge reserve £m
Balance at 1 March 2018	(0.3)
Interest rate swaps	
- Effective portion of changes in fair value	1.4
- Amount reclassified to profit or loss in the year	(1.4)
- Tax	0.1
Cashflow hedge - foreign exchange risk	
- Effective portion of changes in fair value	(0.3)
Cross currency interest rate swaps	
- Effective portion of changes in fair value	(8.6)
- Amount reclassified to profit or loss in the year	8.1
Balance at 28 February 2019	**(1.0)**

Company	Cash flow hedge reserve £m
Balance at 1 March 2018	(0.3)
Interest rate swaps	
- Effective portion of changes in fair value	1.4
- Amount reclassified to profit or loss in the year	(1.4)
- Tax	0.1
Cashflow hedge - foreign exchange risk	
- Effective portion of changes in fair value	(0.3)
Balance at 28 February 2019	**(0.5)**

[1]Disclosures relate to derivatives in hedge accounting relationships only.

Comparative information under IAS 39

Fair value hedge

The analysis below details the ineffectiveness in the fair value hedge relationships included in the Consolidated Income Statement[1]:

	2018 £m
Fair value gains on interest rate swaps in designated fair value hedges	67.0
Losses on fair value hedge adjustments	(65.9)
Net gains in Consolidated Income Statement (refer to note 7)	**1.1**

[1]Disclosures relate to derivatives in hedge accounting relationships only.

17. Derivative Financial Instruments (continued)

Cash flow hedge

Ineffectiveness recognised in the Consolidated Income Statement in respect of cash flow hedges for the 12 months to 28 February 2018 was £nil. Amounts are recycled from the cash flow hedge reserve when the underlying hedge item affects the Consolidated Income Statement. Therefore as the carrying value of the asset or liability is adjusted in respect of movements in the hedged risk, recycled amounts directly offset this adjustment within net interest income. Recycled amounts for the 12 months to 28 February 2018 were £1.4m.

18. Investment Securities

Group and Company	2019 £m	2018 £m
Investment securities measured at FVOCI - debt	1,040.2	n/a
Investment securities designated at FVOCI - equity	2.5	n/a
Investment securities measured at amortised cost	28.8	n/a
AFS investment securities	n/a	925.4
Loans and receivables	n/a	34.1
Total investment securities	**1,071.5**	**959.5**

Debt investment securities measured at FVOCI

Group and Company	2019 £m
Government backed investment securities	185.5
Gilts	55.1
Supranational investment securities	406.1
Other investment securities	393.5
Total debt securities measured at FVOCI	**1,040.2**

Included in investment securities are fixed-interest investment securities totalling £472.8m (2018: £801.5m presented within the AFS investment securities table on page 74), and variable-interest investment securities amounting to £567.4m (2018: £121.9m presented within the AFS investment securities table on page 74).

Equity investment securities designated at FVOCI

The Group has elected to designate equity instruments held in VISA Inc. at FVOCI as permitted by IFRS 9. These securities were previously classified as AFS. There has been no change in the measurement basis as a result of this reclassification and these instruments continue to be held at fair value.

The preferred stock may be convertible into Class A Common Stock of VISA Inc. at certain future dates, the earliest point being June 2020. Conversion is contingent upon future events, principally related to the outcome of interchange litigation against VISA Europe Limited. As such, the valuation of £2.5m (2018: £2.0m presented within the AFS investment securities table on page 74) 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.

18. Investment Securities (continued)

Investment securities measured at amortised cost

	2019
	£m
Investment in subordinated debt issued by TU	28.9
Gross investment securities measured at amortised cost	28.9
Less: allowance for impairment (refer note 36)	(0.1)
Net investment securities measured at amortised cost	**28.8**

The investment in subordinated notes issued by TU relates to subordinated notes with a gross carrying value of £28.9m (2018: £34.1m), classified as loans and receivables in the prior year. Interest receivable on these notes is based on a rate of three month London Interbank Offered Rate (LIBOR) plus a spread ranging from 350 - 450 basis points.

AFS investment securities

Group and Company	**2018**
	£m
Government backed investment securities	101.1
Gilts	581.5
Supranational investment securities	85.1
Other investment securities	155.7
Equity securities	2.0
Total AFS investment securities	**925.4**

Loans and receivables

This balance represents the investment in subordinated debt issued by TU of £34.1m which was classified as loans and receivables under IAS 39. Interest receivable on these notes in the year to 28 February 2018 was based on a rate of three month LIBOR plus a spread ranging from 350 - 450 basis points. No impairment charges were recognised in respect of this investment under IAS 39.

19. Prepayments and Accrued Income

Group and Company	2019 £m	2018 £m
Prepayments	10.8	10.2
Accrued income	38.6	39.1
Total prepayments and accrued income	**49.4**	**49.3**

All amounts are classified as current at the year end.

20. Other Assets

	Group		Company	
	2019 £m	2018 £m Restated[1]	2019 £m	2018 £m Restated[1]
Amount due from insurance commissions receivable	16.6	19.6	16.6	19.6
Contract asset - insurance renewal income	28.1	14.9	28.1	14.9
Accounts receivable and sundry debtors	191.5	236.6	191.5	236.6
Amounts due from Tesco Group subsidiaries	0.4	9.5	0.4	9.5
Amounts due from Tesco Personal Finance Group PLC (TPFG) and its subsidiaries	–	–	47.6	46.5
Total other assets	**236.6**	**280.6**	**284.2**	**327.1**

All amounts are classified as current at the year end, with the exception of £17.7m (2018: £5.6m) of the contract asset, which is expected to be received after more than one year.

Contract asset - insurance renewal income

Of the prior year contract asset balance, £9.3m has been reclassified in the year as commissions receivable (2018 restated: £3.6m has been reclassified in the prior year relating to the contract asset balance at 28 February 2017) as insurance policies have been renewed and commission due to the Group has become payable. In addition, an amount of £5.6m was unwound on renewal of the contract to which the insurance renewal income relates. Following contract renewal in respect of certain insurance policies, the remainder of the movement in the balance relates to accelerated income of £28.1m in respect of certain insurance renewal commission income where the Group has satisfied all of its performance obligations in relation to the policies sold and it is considered highly probable that a significant reversal in the amount of revenue recognised will not occur in future periods.

[1] The prior year restatement relates to the adoption of IFRS 15 in the current year. Refer to note 2 for further details.

21. Investment in Group Undertakings

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

Name of company	Nature of business	Place of incorporation	Registered address
Delamare Cards Holdco Limited	Securitisation entity	UK	Asticus Building, 2nd floor, 21 Palmer Street, London, SW1H 0AD
Delamare Cards MTN Issuer plc	Securitisation entity	UK	Asticus Building, 2nd floor, 21 Palmer Street, London, SW1H 0AD
Delamare Cards Receivables Trustee Limited	Securitisation entity	UK	Asticus Building, 2nd floor, 21 Palmer Street, London, SW1H 0AD
Delamare Cards Funding 1 Limited	Securitisation entity	UK	Asticus Building, 2nd floor, 21 Palmer Street, London, SW1H 0AD
Delamare Cards Funding 2 Limited	Securitisation entity	UK	Asticus Building, 2nd floor, 21 Palmer Street, London, SW1H 0AD

All of the above companies have a financial year end of 31 December. The management accounts of these entities are used to consolidate the results to 28 February 2019 within these Consolidated Financial Statements.

22. Investment in Joint Venture

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

Group	**2019**	2018
	£m	**£m**
At beginning of year	90.0	71.0
Acquisition of ordinary share capital	–	15.5
Dividends received	(10.3)	–
Share of profit of joint venture	7.9	10.0
Share of other comprehensive expense of joint venture	(1.2)	(6.5)
At end of year	**86.4**	**90.0**

Details of the Group's joint venture

				Ownership interest	
Name of company	**Registered address**	**Nature of business**	**Place of Incorporation**	**2019**	**2018**
Tesco Underwriting Limited	Ageas House, Hampshire Corporate Park, Templars Way, Eastleigh, Hampshire, SO53 3YA	Insurance	England	49.9% of Ordinary Share Capital	49.9% of Ordinary Share Capital

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

The Group uses the equity method of accounting for its investment in TU, which has a financial year end of 31 December. The accounting year end date for TU differs from that of the Group as it is in line with the other joint venture partner. The management accounts of TU are used to consolidate the results to 28 February 2019 within these Consolidated Financial Statements.

TU has taken advantage of the optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4 'Insurance Contracts' (the ‘deferral approach’). This will remove the impact of potential temporary volatility in reported results for TU until the date of adoption of the new insurance standard IFRS 17 'Insurance Contracts' on 1 January 2021.

The Group has similarly elected to take a temporary exemption available from the requirements of IAS 28 'Investments in Associates and Joint Ventures' regarding the use of uniform accounting policies in equity accounting for a joint venture. This exemption allows the Group to equity account for the results of TU without any adjustments to reflect the impact of IFRS 9 within these Consolidated Financial Statements. The additional disclosures required as a result of taking this temporary exemption are included within the following sections.

22. Investment in Joint Venture (continued)

Summarised financial information for the joint venture

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

Group	**2019**	**2018**
	£m	**£m**
Non-current assets	768.2	876.7
Current assets	198.4	157.5
Current liabilities	(741.1)	(791.1)
Non-current liabilities	(58.0)	(68.3)
Net assets	**167.5**	**174.8**
Cash and cash equivalents	**72.9**	**63.3**
Current financial liabilities (excluding trade and other payables and provisions)	**(15.0)**	**(10.7)**
Non-current financial liabilities (excluding trade and other payables and provisions)	**(58.0)**	**(68.3)**

	2019	**2018**
	£m	**£m**
Income Statement		
Revenue	297.7	366.6
Expenses including claims costs	(281.9)	(346.6)
Profit for the year	**15.8**	**20.0**
Other comprehensive expense	(2.5)	(13.0)
Total comprehensive income	**13.3**	**7.0**
The above profit includes the following:		
Depreciation and amortisation	(2.5)	(2.9)
Interest income	13.5	13.9
Interest expense	(2.7)	(2.8)
Income tax charge	(4.2)	(1.6)

22. Investment in Joint Venture (continued)

Reconciliation of the summarised financial position

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

Group	2019 £m	2018 £m
Net assets of the joint venture	167.5	174.8
Group share at 49.9%	83.6	87.2
Capitalised legal costs included in investment carrying value	2.8	2.8
Carrying value of investment in joint venture at end of year	**86.4**	**90.0**

Fair value disclosures

The following table provides information on the fair value of TU's financial assets at 28 February 2019:

2019	Fair value £m	Change in fair value during year £m
Financial assets that give rise to solely payments of principal and interest	741.4	(72.7)
Other financial assets	18.2	18.2
	759.6	**(54.5)**

Credit risk disclosures

The following table provides information regarding the credit risk exposures of TU at 28 February 2019 by classifying financial assets according to the credit ratings of counterparties:

2019	AAA £m	AA £m	A £m	BBB £m	Other £m	Total £m
Investments	123.8	132.9	276.2	135.5	18.2	686.6
Cash and cash equivalents	25.1	47.8	–	–	–	72.9
Insurance and other receivables	1.1	1.2	3.7	3.6	13.7	23.3
	150.0	**181.9**	**279.9**	**139.1**	**31.9**	**782.8**

Other information

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

Company

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

Company	2019 £m	2018 £m
At beginning of year	86.5	71.0
Dividends received	(10.3)	–
Acquisition of ordinary share capital	–	15.5
At end of year	**76.2**	**86.5**

23. Deferred Income Tax Asset/(Liability)

The deferred income tax liability can be analysed as follows:

2019 **Group and Company**	**Accelerated capital allowances £m**	**Other £m**	**Total £m**
At beginning of year (restated)[1]	(7.0)	(0.7)	(7.7)
Credited to the Consolidated Income Statement in the current year	9.6	(0.3)	9.3
Credited to the Consolidated Income Statement for prior years	(0.2)	0.4	0.2
Credited to equity	–	56.6	56.6
Change in tax rate	(0.7)	(0.1)	(0.8)
At end of year	**1.7**	**55.9**	**57.6**
Deferred tax asset to be recovered within one year			8.0
Deferred tax asset to be recovered after more than one year			50.3
Total deferred income tax asset			58.3
Deferred tax liability to be recovered within one year			–
Deferred tax liability to be recovered after more than one year			(0.7)
Total deferred income tax liability			(0.7)
Deferred tax assets (net)			**57.6**

2018 **Group and Company**	**Accelerated capital allowances £m**	**Other £m**	**Total (restated)[1] £m**
At beginning of year	(15.0)	(3.7)	(18.7)
Credited to the Consolidated Income Statement in the current year	8.5	1.2	9.7
Credited to the Consolidated Income Statement for prior years	0.4	1.1	1.5
Credited to equity	–	0.4	0.4
Change in tax rate	(0.6)	–	(0.6)
At end of year	**(6.7)**	**(1.0)**	**(7.7)**
Deferred tax asset to be recovered within one year			4.3
Deferred tax asset to be recovered after more than one year			2.2
Total deferred income tax asset			**6.5**
Deferred tax liability to be recovered within one year			(6.0)
Deferred tax liability to be recovered after more than one year			(8.2)
Total deferred income tax liability			**(14.2)**
Deferred tax liabilities (net)			**(7.7)**

[1] The prior year restatement relates to the adoption of IFRS 15 in the current year. Refer to note 2 for further details.

24. Intangible Assets

Group and Company	Work-in-Progress	Computer Software	Total
	£m	£m	£m
Cost			
At 1 March 2018	27.5	656.7	684.2
Additions	24.8	2.6	27.4
Transfers	(27.1)	27.1	–
Disposals	(0.6)	(1.0)	(1.6)
At 28 February 2019	**24.6**	**685.4**	**710.0**
Accumulated amortisation			
At 1 March 2018	–	(413.1)	(413.1)
Charge for the year	–	(73.5)	(73.5)
Disposals	–	0.8	0.8
At 28 February 2019	**–**	**(485.8)**	**(485.8)**
Net carrying value			
At 28 February 2019	**24.6**	**199.6**	**224.2**
Cost			
At 1 March 2017	34.3	608.3	642.6
Additions	37.3	5.5	42.8
Transfers	(43.8)	43.4	(0.4)
Disposals	(0.3)	(0.5)	(0.8)
At 28 February 2018	**27.5**	**656.7**	**684.2**
Accumulated amortisation			
At 1 March 2017	–	(342.6)	(342.6)
Charge for the year	–	(70.7)	(70.7)
Disposals		0.2	0.2
At 28 February 2018	**–**	**(413.1)**	**(413.1)**
Net carrying value			
At 28 February 2018	**27.5**	**243.6**	**271.1**

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

25. Property, Plant and Equipment

Group and Company	Work-in-Progress £m	Plant and Equipment £m	Fixtures and Fittings £m	Computer Hardware £m	Freehold Buildings £m	Leasehold Improvements £m	Total £m
Cost							
At 1 March 2018	2.8	3.0	16.8	124.7	32.3	24.8	204.4
Additions	2.0	–	1.4	0.5	–	–	3.9
Transfers	(0.1)	–	–	0.1	–	–	–
Disposals	(0.6)	–	–	(1.8)	–	(4.8)	(7.2)
At 28 February 2019	**4.1**	**3.0**	**18.2**	**123.5**	**32.3**	**20.0**	**201.1**
Accumulated depreciation							
At 1 March 2018	–	(3.0)	(11.0)	(102.0)	(5.7)	(14.7)	(136.4)
Charge for the year	–	–	(1.2)	(6.4)	(0.8)	(1.3)	(9.7)
Disposals	–	–	–	1.8	–	4.8	6.6
At 28 February 2019	**–**	**(3.0)**	**(12.2)**	**(106.6)**	**(6.5)**	**(11.2)**	**(139.5)**
Net carrying value							
At 28 February 2019	**4.1**	**–**	**6.0**	**16.9**	**25.8**	**8.8**	**61.6**
Cost							
At 1 March 2017	5.5	3.0	14.5	128.9	28.2	24.5	204.6
Additions	3.1	–	1.6	1.7	0.4	0.3	7.1
Transfers	(5.8)	–	0.7	1.6	3.9	–	0.4
Disposals	–	–	–	(7.5)	(0.2)	–	(7.7)
At 28 February 2018	**2.8**	**3.0**	**16.8**	**124.7**	**32.3**	**24.8**	**204.4**
Accumulated depreciation							
At 1 March 2017	–	(3.0)	(9.0)	(101.3)	(4.9)	(13.1)	(131.3)
Charge for the year	–	–	(2.0)	(7.9)	(0.8)	(1.6)	(12.3)
Disposals	–	–	–	7.2	–	–	7.2
At 28 February 2018	**–**	**(3.0)**	**(11.0)**	**(102.0)**	**(5.7)**	**(14.7)**	**(136.4)**
Net carrying value							
At 28 February 2018	**2.8**	**–**	**5.8**	**22.7**	**26.6**	**10.1**	**68.0**

Work-in-progress at 28 February 2019 relates predominantly to the development of IT assets. Property, plant and equipment balances are non-current.

26. Deposits from Banks

Group and Company	**2019**	**2018**
	£m	**£m**
Deposits from banks	1,663.2	1,539.0
	1,663.2	**1,539.0**
Current	324.2	200.0
Non-current	1,339.0	1,339.0

Deposits from banks include balances of £324.2m (2018: £200.0m) which have been sold under sale and repurchase agreements and balances of £1,339.0m (2018: £1,339.0m) drawn under the BoE's Term Funding Scheme (TFS).

27. Deposits from Customers

Group and Company	**2019**	**2018**
	£m	**£m**
Deposits from TPFG companies	13.4	3.4
Retail deposits	10,465.4	9,245.6
Fair value hedge adjustment	(0.2)	(1.0)
	10,478.6	**9,248.0**
Current	8,522.1	7,614.6
Non-current	1,956.5	1,633.4

Fair value hedge adjustments

Fair value hedge adjustments amounting to £(0.2)m (2018: (£1.0)m) are in respect of fixed rate Savings products. These adjustments are largely offset by derivatives, which are used to manage interest rate risk and are designated as fair value hedges within deposits from customers.

28. Debt Securities in Issue

Group	Interest rate	Par value £m	Term (years)	Maturity date	2019 £m	2018 £m
Fixed rate retail bond[1]	5.2%	125.0	7.5	2018	–	126.1
RPI bond[2]	1.0%	72.3	8	2019	72.3	69.9
Fixed rate retail bond[3]	5.0%	200.0	8.5	2020	202.9	203.9
Floating rate AAA bond (A2)[4]	1M LIBOR + 0.65%	350.0	7	2021	349.9	349.6
Floating rate AAA bond (A1)[5]	1M LIBOR + 0.65%	300.0	5	2020	–	299.9
Floating rate AAA bond (A1)[6]	1M LIBOR + 0.53%	300.0	5	2022	298.7	298.2
Floating rate AAA Bond (A1)[7]	1M USD LIBOR + 0.70%	272.2	7	2020	261.7	–
Total debt securities in issue					**1,185.5**	**1,347.6**
Company						
Fixed rate retail bond – issued 24 February 2011[1]	5.2%	125.0	7.5	2018	–	126.1
RPI bond – issued 16 December 2011[2]	1.0%	72.3	8	2019	72.3	69.9
Fixed rate retail bond – issued 21 May 2012[3]	5.0%	200.0	8.5	2020	202.9	203.9
Total debt securities in issue					**275.2**	**399.9**

[1]This bond was issued on 24 February 2011 and was redeemed on its maturity date in August 2019.
[2]This bond was issued on 16 December 2011.
[3]This bond was issued on 21 May 2012.
[4]This Bond was issued on 6 June 2014. The scheduled redemption date of this Bond is May 2019.
[5]This Bond was issued on 13 May 2015 and redeemed on its scheduled redemption date in April 2018.
[6]This Bond was issued on 7 November 2017. The scheduled redemption date of this Bond is October 2020.
[7]This Bond was issued on 27 November 2018. The scheduled redemption date of this Bond is November 2020.

All Floating Rate Bonds were issued by Delamare Cards MTN Issuer plc and are listed on the Irish Stock Exchange. All retail bonds are listed on the London Stock Exchange. All balances are classified as non-current at the year end with the exception of £350.0m of the floating rate AAA bond, which is expected to be redeemed on its scheduled redemption date in May 2019 and the RPI bond issued in December 2011 (£72.3m), which is expected to be redeemed on its scheduled redemption date in December 2019.

In the prior year, all balances were classified as non-current at the year end with the exception of £300.0m of the floating rate AAA bond, which was redeemed on its scheduled redemption date in April 2018 and the fixed rate retail bond issued in February 2011 (£125.0m), which was redeemed on its scheduled redemption date in August 2018.

29. Provisions for Liabilities and Charges

Group and Company 2019	Customer Redress Provision £m	Regulatory Provision £m	Restructuring Provision £m	Expected Credit Loss Provision £m	Other Provisions £m	Total £m
At beginning of year (restated)[1]	67.7	–	1.1	–	7.2	76.0
Impact of initial application of IFRS 9	–	–	–	9.3	–	9.3
Balance at beginning of year after adopting IFRS 9	**67.7**	**–**	**1.1**	**9.3**	**7.2**	**85.3**
Provided during the year	16.0	16.4	–	–	10.5	42.9
Utilised during the year	(49.0)	(16.4)	(1.1)	–	(4.7)	(71.2)
Transfer to loans and advances ECL allowance	–	–	–	(0.8)	–	(0.8)
Released during the year	–	–	–	–	(1.2)	(1.2)
At end of year	**34.7**	**–**	**–**	**8.5**	**11.8**	**55.0**

Customer redress provision - Payment protection insurance (PPI)

Of the total customer redress provision balance at 28 February 2019, £34.2m (2018: £66.8m) has been provided for customer redress in respect of potential customer complaints arising from historic sales of PPI.

In March 2017, the Financial Conduct Authority (FCA) issued a Policy Statement (PS17/3, 'Payment protection insurance complaints: feedback on CP16/20 and final rules and guidance') which confirmed a deadline for PPI claims of August 2019, supported by an FCA led communications campaign.

The policy statement also set out rules and guidance on the handling of PPI claims in light of the Supreme Court's decision in Plevin v Paragon Personal Finance Limited (Plevin), confirming that both up-front commission arrangements and profit share arrangements should also be considered in the calculation of total commission for Plevin claims.

The Group increased its PPI provision by £16.0m (2018: £35.0m) during the year to reflect an updated assessment of the current claim rate and average redress.

Although a significant degree of uncertainty remains with regard to the ultimate cost of settling PPI claims, in particular the volume of complaints arising from customers ahead of the FCA confirmed time bar date of August 2019 and bankruptcy claims, the provision balance represents Management's best estimate at the reporting date of that cost. The PPI provision and the impact of regulatory changes will continue to be monitored as trends in claims volumes and levels of redress develop.

The table below details for each key assumption, actual data to 28 February 2019, forecast assumptions used in assessing the PPI provision adequacy and a sensitivity assessment demonstrating the impact on the provision of a variation in the future experience.

			Sensitivity	
Assumption	Cumulative actual	Future expected	Change in assumption	Consequential change in provision £m
Valid claims settled	146,351	17,108	+/- 5,000 complaints	+/- 8.2
Average redress per valid claim	£1,730	£1,642	+/- £100	+/- 1.7

[1] The prior year restatement relates to the adoption of IFRS 15 in the current year. Refer to note 2 for further details.

29. Provisions for Liabilities and Charges (continued)

Customer redress provision - Consumer credit act (CCA)

The Group holds a provision of £0.5m (2018: £0.9m) in respect of customer redress relating to instances where certain requirements of the CCA for post-contract documentation were not fully complied with.

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

Insurance provision

The insurance provision previously disclosed within this note has been reclassified to other liabilities on adoption of IFRS 15. Refer to note 2 for further details.

Regulatory provision

In November 2016, Tesco Bank's debit cards were the subject of an online fraudulent attack. The Group undertook immediate remedial action and an independent review of the issue and worked closely with the authorities and regulators on this incident. On 1 October 2018, the FCA issued a warning notice to the Group in relation to the incident and the Group accepted this and agreed to a settlement payment of £16.4m. The regulatory provision recognised during the year in respect of this settlement was fully utilised during the year ended 28 February 2019.

Restructuring provision

The restructuring provision relates to restructuring costs. The restructuring provision was reduced to £nil during the period following finalisation of the Group's early exit from its premises in Central Edinburgh.

Expected credit loss (ECL) provision

The ECL provision represents the amount of ECL allowance recognised under IFRS 9 which exceeds the gross carrying amount of the financial asset as set out at note 16.

Other provisions

Other provisions predominantly reflect:

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

30. Accruals and Deferred Income

Group and Company	**2019**	**2018**
	£m	**£m**
Amounts accrued to Tesco Group subsidiaries	11.7	11.6
Amounts accrued to TPFG	0.8	0.7
Other accruals	86.9	87.5
Deferred income	8.6	9.2
Total accruals and deferred income	**108.0**	**109.0**

All amounts are classified as current at the year end.

31. Other Liabilities

	Group		Company	
	2019	2018	**2019**	2018
	£m	£m	**£m**	£m
		Restated[1]		Restated[1]
Accounts payable and sundry creditors	118.0	117.9	118.0	117.9
Insurance creditor	12.8	10.8	12.8	10.8
Taxation and social security payable	6.3	6.8	6.3	6.8
Contract liabilities - insurance refunds[1]	2.0	3.4	2.0	3.4
Amounts owed to Tesco Group subsidiaries	11.2	8.0	11.2	8.0
Amounts due to TPFG subsidiaries	0.9	0.8	644.7	673.6
Total other liabilities	**151.2**	**147.7**	**795.0**	**820.5**

[1] The prior year restatement relates to the adoption of IFRS 15 in the current year. Refer to note 2 for further details.

All amounts are classified as current at the year end.

Contract liabilities – insurance refunds

The contract liability for insurance refunds has been reclassified from provisions for liabilities and charges on adoption of IFRS 15. Revenue recognised in the period in respect of the opening contract liability balance was £0.1m (2018 restated: £0.1m).

32. Subordinated Liabilities and Notes

Group and Company	**2019**	2018
	£m	£m
Floating rate subordinated loans maturing 2030	190.0	190.0
Undated floating rate notes	45.0	45.0
Total subordinated liabilities and notes	**235.0**	**235.0**

Subordinated liabilities and notes comprise loan capital issued to TPFG. This includes £190.0m (2018: £190.0m) of subordinated loans maturing in 2030 and £45.0m (2018: £45.0m) of undated notes with no fixed maturity date. All balances are classified as non-current at the year end.

Interest payable on the subordinated liabilities and notes is based on three month LIBOR plus a spread ranging from 60 to 220 basis points (2018: three month LIBOR plus a spread ranging from 60 to 220 basis points).

33. Share Capital and Share Premium Account

Group and Company	**2019**	**2019**	2018	2018
	Number	**£m**	Number	£m
Authorised				
Ordinary shares of 10p each	Unlimited		Unlimited	
Allotted, called up and fully paid				
Ordinary shares of 10p each	1,219,900,000	122.0	1,219,900,000	122.0
	1,219,900,000	122.0	1,219,900,000	122.0

	2019	2018
	£m	£m
Share premium reserve	1,097.9	1,097.9
	1,097.9	1,097.9

34. Other Reserves

Group

	2019	2018
	£m	£m
AFS - company	n/a	9.3
AFS - share of joint venture	2.5	3.7
Fair value reserve	2.1	n/a
Total AFS/FV reserves	**4.6**	**13.0**
Cash flow hedge reserve	(1.0)	(0.3)
Currency basis reserve	(0.3)	–
Share based payment reserve	24.1	31.5
Total reserves	**27.4**	**44.2**

Company

	2019	2018
	£m	£m
AFS reserve	n/a	9.3
Fair value reserve	2.1	n/a
Cash flow hedge reserve	(0.5)	(0.3)
Share based payment reserve	24.1	31.5
Total reserves	**25.7**	**40.5**

AFS reserve

Before 1 March 2018, the AFS reserve included the cumulative fair value movements on AFS financial assets. These were transferred to the fair value reserve on transition to IFRS 9.

The consolidated AFS reserve also includes the Group's share of the AFS reserve of its joint venture, TU. As described in note 22, TU has taken an exemption to defer the adoption of IFRS 9 until the financial year beginning on 1 January 2021.

Fair value reserve

From 1 March 2018, the cumulative net change in the fair value of investment securities measured at FVOCI is included in the fair value reserve, less the impairment allowance recognised in the Consolidated Income Statement.

Cash flow hedge reserve

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

Currency basis reserve

Cash flow hedge accounting allows all fair value movements on the hedging instrument (the derivative) to be charged or credited to the cash flow hedge reserve in respect of the designated risk. The non-designated portion of the hedging instrument, being the element related to the foreign currency basis, is recognised separately in the currency basis reserve.

Share based payment reserve

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

35. Employee Benefit Liability

Defined benefit plans

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

Defined contribution plans

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

Detailed disclosures, in line with the requirements of IAS 19, are included in the Tesco 2019 Financial Statements.

36. Risk Management

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

Through its normal operations, the Group is exposed to a number of risks, the most significant of which are credit risk, operational risk, liquidity and funding risk, market risk, insurance risk, residual price risk and legal and regulatory compliance risk. The key risk management processes and tools are described in detail on pages 7 to 18 within the Strategic Report.

(a) Credit Risk

- **Types of credit risk**

Retail credit risk

Retail credit risk is the risk that a borrower, who is a personal customer, will default on a debt or obligation by failing to make contractually obligated payments. Regular management reports are submitted to the Board and appropriate Committees.

Controls and risk mitigants

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

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

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

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

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

36. Risk Management (continued)

Controls and risk mitigants (continued)

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

Wholesale credit risk

Wholesale credit risk is the risk that the counterparty to a transaction will default before the final settlement of the transaction's cash flows. Such transactions relate to contracts for derivative financial instruments, securities financing transactions (SFTs) and long-dated settlement transactions.

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

Controls and risk mitigants

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

The RAM limits are set out in the Wholesale Credit Risk policy which is approved by the ERC. The limits contained in the policy are approved by the ERC or Board as appropriate. The Treasury Director is responsible for ensuring that Treasury complies with counterparty credit risk limits. The MLR team reports to the Financial and Credit Risk Director, providing independent oversight that these limits are adhered to.

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

The Wholesale Credit Risk Limit framework sets limits on the amounts that can be invested based on counterparty credit-worthiness by country, instrument type and remaining tenor. As part of the credit assessment process for wholesale credit risk exposures, the Group uses the external credit ratings issued by Fitch (as the nominated external credit assessment institution) to help determine the appropriate risk-weighting to apply under the Standardised Approach (SA) to credit risk exposures. The Group has a Wholesale Credit Risk Forum where current ratings and exposures are discussed on a monthly basis by colleagues from Treasury and the MLR team. Counterparty credit reviews and proposals for new limits are also discussed at the Wholesale Credit Risk Forum as well as current market events and their possible impact on the Group. The limit framework is set by the Board and any exceptions or overrides to the policy must follow agreed delegated authorities that require, as a minimum, explicit sign-off by the Chief Financial Officer and Chief Risk Officer (CRO).

The Wholesale Credit Risk policy also provides that credit risk mitigation techniques are applied to reduce wholesale credit risk exposures. International Swaps Derivatives Association (ISDA) master agreements are in place with all derivative counterparties, Global Master Repurchase Agreements are in place for all repurchase counterparties and ISDA Credit Support Annexes have been executed with all of the Group’s derivative counterparties. The Group uses central counterparties in order to clear specified derivative transactions (predominantly interest rate swaps) thereby mitigating counterparty risk. Positions are continuously marked-to-market and margin in the form of collateral is exchanged on at least a daily basis. As at 28 February 2019, no additional credit risk mitigation was deemed necessary.

36. Risk Management (continued)

- **Credit risk: ECL measurement**

Approach from 1 March 2018

The Group assesses, on a forward-looking basis, the ECLs associated with its financial assets carried at amortised cost and FVOCI, and with the exposure arising from loan commitments. The Group has not recognised an ECL allowance for cash or other financial assets balances at 28 February 2019 due to the short-term nature of these balances, the frequency of origination and settlement of balances and taking account of collateral held.

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

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

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

Stage 3 Financial asset is credit impaired

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

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

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

Significant increase in credit risk

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

Quantitative criteria:

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

Qualitative criteria:

A number of qualitative criteria are in place such as:

- Forbearance offered to customers in financial difficulty;
- Risk-based pricing post-origination;
- Credit indebtedness;
- Credit limit decrease; and
- Pre-delinquency information.

Backstop

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

The Group has used the low credit risk exemption in respect of its portfolio of investment securities in the year ended 28 February 2019.

Definition of default

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

36. Risk Management (continued)

This includes instances where:

- the customer makes a declaration of significant financial difficulty;
- the customer or third party agency communicates that it is probable that the customer will enter bankruptcy or another form of financial restructure such as insolvency or repossession;
- the account has been transferred to recoveries and the relationship is terminated;
- an account's contractual payments are more than 90 days past due; or
- where the customer is deceased.

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

Inputs, assumptions and techniques used for estimating impairment

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

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

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

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

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

Expected lifetime

The expected lifetime of a financial asset is the contractual term. In the case of revolving products, the Group measures credit losses over the period that it will be exposed to credit risk. This is estimated using historic customer data. The current expected lifetime of the Group's credit card portfolio is 7 years.

Incorporation of forward-looking information

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

The Group has engaged a third party supplier to provide relevant economic data for this purpose 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. From this data, a base case scenario has been developed, together with two additional scenarios, each of which have been assigned a relative probability. The base case represents an estimate of the most-likely outcome whilst the other scenarios represent more optimistic (upside) and more pessimistic (downside) outcomes. The downside scenario represents, at the reporting date, the Group's view of the economy if the UK exits the EU without both a withdrawal agreement and framework for a future relationship with the EU. These have been assigned weightings of 40%, 25% and 35% respectively which is considered to be appropriate for the calculation of unbiased ECLs.

36. Risk Management (continued)

The economic scenarios used at 28 February 2019 include the following ranges of key indicators:

		2019	2020	2021-23
BoE base rate[1]	Base	0.80%	0.91%	1.06%
	Upside	0.73%	0.69%	0.70%
	Downside	1.20%	2.31%	2.25%
Unemployment rate[1]	Base	4.11%	4.18%	4.08%
	Upside	4.03%	4.13%	4.03%
	Downside	4.55%	5.36%	6.33%
House price index[2]	Base	3.70%	3.31%	3.98%
	Upside	5.04%	4.63%	5.72%
	Downside	-0.90%	-3.37%	2.92%
Gross domestic product[2]	Base	1.25%	1.58%	1.78%
	Upside	1.62%	1.96%	2.18%
	Downside	-0.17%	0.15%	1.62%

[1] Simple average

[2] Annual growth rates

36. Risk Management (continued)

Sensitivity analysis

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

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 28 February 2019:

		Impact on loss allowance (£m)
PD	Increase of 2.5%	9.4
	Decrease of 2.5%	(9.4)
LGD	Increase of 2.5%	12.0
	Decrease of 2.5%	(12.2)
Macro-economic scenarios (100% weighted)	Upside scenario	(32.9)
	Base scenario	(20.9)
	Downside scenario	67.1
Staging	Increase of 20%	(14.3)
	Decrease of 20%	10.4
Expected lifetime	Increase of 1 year	3.1
	Decrease of 1 year	(3.0)

Grouping of instruments for losses measured on a collective basis

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

Approach prior to 1 March 2018

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

The Group's loan impairment provisions were established on a portfolio basis using a statistical methodology taking into account the level of arrears, collateral, past loss experience and defaults based on portfolio trends. The most significant factors in establishing these provisions were the expected loss rates. These portfolios included Mortgages, Credit Card receivables, Personal Loans and Personal Current Accounts. The future credit quality of these portfolios was subject to estimation uncertainties that could have caused actual credit losses to differ materially from reported loan impairment provisions.

36. Risk Management (continued)

The key assumptions used in the statistical models were the PD; the expected cash recoveries included in the LGD; and the loss emergence period. These key assumptions were monitored throughout the year to ensure the impairment provision took into account the most recent trends observed in each portfolio.

Individual impairment losses on secured Mortgages were estimated using an individual valuation of the underlying asset. Although the portfolio was growing, sensitivity to movement in the House Price Index remained relatively low.

- **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 Consolidated Statement of Financial Position. For loan commitments, the amounts in the table represent the amounts for which the Group is contractually committed.

	2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Group and Company	**£m**	**£m**	**£m**	**£m**
Gross Exposure				
Loans and advances to customers	11,463.6	1,179.1	270.9	12,913.6
Investment securities at FVOCI	1,042.7	–	–	1,042.7
Investment securities at amortised cost	28.9	–	–	28.9
Loan commitments[1]	12,115.1	109.6	1.5	12,226.2
Total gross exposure	**24,650.3**	**1,288.7**	**272.4**	**26,211.4**
Loss allowance				
Loans and advances to customers	84.6	228.7	171.9	485.2
Investment securities at FVOCI[2]	0.2	–	–	0.2
Investment securities at amortised cost	0.1	–	–	0.1
Total loss allowance	**84.9**	**228.7**	**171.9**	**485.5**

[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 as set out at note 29.

[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.

36. Risk Management (continued)

The table below provides details of the credit quality of financial assets held at FVPL which are not subject to impairment.

Group and Company	Maximum exposure to credit risk
	£m
Derivative financial assets	31.3
Cash and balances with central banks	30.5
Total	**61.8**

Credit quality of loans and advances to customers

The table below provides details of the credit quality of loans and advances to customers and loan commitments for which an ECL allowance is recognised.

The Group defines four classifications of credit quality for all credit exposures; High, Satisfactory, Low and below standard, and Credit impaired. Credit exposures are segmented according to IFRS 9 12 month PD, with credit impaired reflecting a PD of 100%.

	IFRS 9 12 Month PD (%)
High quality	<=3.02%
Satisfactory quality	>3.03% - 11.10%
Low quality and below standard	=> 11.11%

Group and Company	2019			
	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m
Loans and advances to customers				
High quality	10,537.8	201.6	–	10,739.4
Satisfactory quality	893.8	563.1	–	1,456.9
Low quality and below standard	32.0	414.4	–	446.4
Credit impaired	–	–	270.9	270.9
Total	**11,463.6**	**1,179.1**	**270.9**	**12,913.6**
Loan Commitments				
High quality	11,938.1	3.4	–	11,941.5
Satisfactory quality	173.9	78.1	–	252.0
Low quality and below standard	3.1	28.1	–	31.2
Credit impaired	–	–	1.5	1.5
Total	**12,115.1**	**109.6**	**1.5**	**12,226.2**
Total exposure	**23,578.7**	**1,288.7**	**272.4**	**25,139.8**

Concentration risk

Concentration risk is the risk of losses arising as a result of concentrations of exposures to a specific counterparty, economic sector, segment or geographical region.

The Group is potentially exposed to this risk were it to become concentrated in certain geographic areas or product profiles e.g. a disproportionate level of high loan-to-value (LTV) Mortgages. Such concentrations could produce unacceptable bad debts in some adverse but plausible situations.

36. Risk Management (continued)

Controls and risk mitigants

The Group mitigates these potential concentration risks by establishing appropriate limits and trigger thresholds that are regularly monitored and reported to the appropriate Senior Management team and risk committees. The Group does not consider itself to be overly concentrated.

Concentration profiles

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

Mortgage portfolio - LTV distribution profile

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

The table below provides the LTV distribution profile for the Group's Mortgage portfolio by weighted average balance. The overall average LTV for the portfolio is 53.7% (2018: 50.5%) which is well within agreed Risk Appetite parameters.

	2019	**2018**
	£m	**£m**
Less than 50%	1,062.8	927.8
50% to 60%	495.0	561.6
60% to 70%	479.1	436.8
70% to 80%	741.2	478.4
80% to 90%	688.5	418.8
90% to 100%	281.0	176.4
Greater than 100%	5.6	0.9
Total[1]	**3,753.2**	**3,000.7**

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

Geographical distribution profile

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

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

	2019	**2018**
	£m	**£m**
UK	26,790.7	26,262.4
Europe (excluding UK)	333.2	205.1
Other	264.0	44.8
Total	**27,387.9**	**26,512.3**

36. Risk Management (continued)

Industry type profile

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

	2019 £m	2018 £m
Financial institutions	1,750.7	983.3
Government	958.9	1,524.2
Individuals	24,661.6	23,955.0
Wholesale and retail trade	16.7	49.8
Total	**27,387.9**	**26,512.3**

- **Credit risk: Collateral held**

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

Controls and risk mitigants

To mitigate this risk, all Mortgages are secured by a first charge over the property being purchased or re-mortgaged, to safeguard the Group's assets in the event of default by a customer. No second charges are permitted. Valuation of the property is assessed as part of the application process by a RICS (the Royal Institute of Chartered Surveyors) certified valuer from the Group's approved panel of valuers for a new Mortgage and when a customer decides to re-mortgage or request additional borrowing with the Group and the LTV is 70% or greater. Where the LTV for new re-mortgage customers is less than 70% and additional criteria are met, valuation of the property is undertaken by an automated valuation model, as are all valuations for existing re-mortgage customers, provided additional criteria are met.

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

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

	2019 £m	2018 £m
Exposure[1]	3,753.2	3,000.7
Collateral	6,984.0	5,940.1
Cover	186.1%	198.0%

[1] The Mortgage balance above represents the credit risk inherent in the Mortgage products and excludes accrued interest and fair value adjustments.

During the year there was no change in the Group's collateral policies.

During the year the Group received financial instruments as collateral for reverse repurchase agreements. In addition, the Group pledged collateral in respect of repurchase liabilities.

36. Risk Management (continued)

- **Credit risk: Loss allowance**

The following table provides a reconciliation of the movements in the loss allowance in the year:

Group and Company	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Loans and advances to customers				
At 1 March 2018	94.9	210.9	151.1	456.9
Transfers[1,3]				
Transfers from stage 1 to stage 2	(11.1)	11.1	–	–
Transfers from stage 2 to stage 1	46.3	(46.3)	–	–
Transfers to stage 3	(2.9)	(41.0)	43.9	–
Transfers from stage 3	1.5	1.5	(3.0)	–
Income statement charge				
Net remeasurement[2] following transfer of stage[3]	(25.5)	18.8	89.7	83.0
New financial assets originated[4]	27.6	35.6	11.4	74.6
Changes in risk parameters and other movements[3,5]	(45.7)	40.3	36.2	30.8
Other movements				
Write-offs and asset disposals[6]	(2.3)	(1.2)	(157.4)	(160.9)
Transfer from provisions for liabilities and charges[7]	1.8	(1.0)	–	0.8
At 28 February 2019	84.6	228.7	171.9	485.2
Investment securities at FVOCI				
At 1 March 2018	(0.5)	–	–	(0.5)
Income statement charge				
New financial assets purchased[4]	0.1	–	–	0.1
Financial assets derecognised during the period	0.4	–	–	0.4
Changes in risk parameters and other movements[5]	0.2	–	–	0.2
At 28 February 2019	0.2	–	–	0.2
Investment securities at amortised cost				
At 1 March 2018	0.2	–	–	0.2
Income statement release				
Changes in risk parameters and other movements[5]	(0.1)	–	–	(0.1)
At 28 February 2019	0.1	–	–	0.1
Reconciliation to income statement				
Net expected credit loss (release)/charge	(43.0)	94.7	137.3	189.0
Recoveries and write offs	–	–	(24.9)	(24.9)
Total income statement (release)/charge	(43.0)	94.7	112.4	164.1

[1]Transfers - The opening loss allowance on financial assets which transferred stage during the year.
[2]Net remeasurement - The increase/(decrease) in the opening loss allowance as a result of a stage transfer.
[3]Includes a release in stages 1 and 2 ECL of £21.0m due to a change in the macro-economic scenarios assumptions.
[4]New financial assets originated or purchased - The loss allowance on new financial assets originated or purchased during the year, representing their stage at 28 February 2019.
[5]Changes in risk parameters and other movements - The change in loss allowance due to changes in macro-economic scenarios, PD, LGD and EAD during the year.
[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 year.
[7]Transfer from provisions for liabilities and charges - The movement in loss allowance which exceeds the gross carrying amount of the financial asset.

36. Risk Management (continued)

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

2019	Stage 1	Stage 2	Stage 3	Total
Group and Company	**£m**	**£m**	**£m**	**£m**
Loans and advances to customers				
Gross carrying amount				
At 1 March 2018[1]	10,619.1	932.2	230.4	11,781.7
Transfers[2]				
Transfers from stage 1 to stage 2	(592.6)	592.6	–	–
Transfers from stage 2 to stage 1	411.5	(411.5)	–	–
Transfers to stage 3	(113.1)	(131.7)	244.8	–
Transfers from stage 3	4.7	4.0	(8.7)	–
New financial assets originated[3]	3,704.4	237.8	17.2	3,959.4
Net decrease in lending[4]	(2,545.4)	(39.4)	(2.7)	(2,587.5)
Write-offs and asset disposals[5]	(33.6)	(5.1)	(211.7)	(250.4)
Changes in interest accrual and other movements	8.6	0.2	1.6	10.4
At 28 February 2019	**11,463.6**	**1,179.1**	**270.9**	**12,913.6**
Investment securities at FVOCI				
Gross carrying amount				
At 1 March 2018	925.4	–	–	925.4
New financial assets purchased	713.0	–	–	713.0
Financial assets derecognised during the period	(582.1)	–	–	(582.1)
Other movements	(13.6)	–	–	(13.6)
At 28 February 2019	**1,042.7**	**–**	**–**	**1,042.7**
Investment securities at amortised cost				
Gross carrying amount				
At 1 March 2018	34.1	–	–	34.1
Financial assets derecognised during the period	(5.2)	–	–	(5.2)
At 28 February 2019	**28.9**	**–**	**–**	**28.9**

[1]The gross carrying amount as at 1 March 2018 includes the remeasurement of the recoverable asset balance of £4.8m on transition to IFRS 9. Refer to note 2 for further details.
[2]Transfers - The opening gross carrying amount of financial assets held which transferred stage as at year end.
[3]New financial assets originated or purchased - The gross carrying amount of financial assets originated or purchased during the year, representing their stage as at 28 February 2019.
[4]Net increase/(decrease) in lending - The changes in gross carrying amount of financial assets after taking account of additional borrowing and/or payments received from customers.
[5]Write-offs and asset disposals - The write-off of the gross carrying amount when a financial asset is deemed uncollectible and/or has been disposed of.

36. Risk Management (continued)

- **Credit risk: Write off policy**

When a loan is deemed uncollectable it is written off against the related provision after all of the necessary procedures have been completed and the amount of the loss has been determined.

The Group may write off loans that are still subject to enforcement activity. The outstanding contractual amount of such assets written off during the year ended 28 February 2019 was £100.5m (2018: £95.4m). Expected recoveries from written off financial assets subject to enforcement activity are recognised in the Statement of Financial Position.

- **Credit risk: Forbearance**

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

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

Controls and risk mitigants

The Group has well defined forbearance policies and processes. A number of forbearance options are made available to customers by the Group. These routinely, but not exclusively, include the following:

- Arrangements to repay arrears over a period of time, by making payments above the contractual amount, that ensure the loan is repaid within the original repayment term.
- Short-term concessions, where the borrower is allowed to make reduced repayments (or in exceptional circumstances, no repayments) on a temporary basis to assist with short-term financial hardship.
- For secured products, it may also be acceptable to allow the customer to clear the arrears over an extended period of time, provided the payments remain affordable.

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

	Gross loans and advances subject to forbearance programmes		Forbearance programmes as a proportion of total loans and advances by category		Proportion of forbearance programmes covered by impairment provision	
	2019	2018	**2019**	2018	**2019**	2018
	£m	£m	**%**	%	**%**	%
Credit Cards UK	92.8	69.6	2.0	1.5	53.3	51.4
Credit Cards Europe	–	0.9	–	2.7	–	40.9
Credit Cards commercial	0.1	0.1	4.8	4.7	90.8	95.0
Loans	48.4	42.4	1.1	1.0	48.0	56.5
Mortgages	6.0	5.9	0.2	0.2	1.2	0.2

36. Risk Management (continued)

- **Credit risk: Additional disclosures for the prior year under IAS 39**

As set out at note 2, amended disclosures in line with IFRS 9 requirements have been applied to the current period only. The comparative period note disclosures repeat those disclosures made in the prior year. Below are the areas of disclosure in relation to the prior year which have been replaced in the current year by amended IFRS 9 disclosures as above.

Asset quality

Ineffective management and controls over the emerging asset quality of the Group's lending portfolios could expose the Group to unacceptable levels of bad debt.

Controls and risk mitigants

Asset quality is maintained through credit and affordability assessments at asset origination, combined with regular monitoring and reporting of asset quality to the appropriate Senior Management team and risk committees.

The table below presents an analysis of credit exposure by impairment status across the different exposure classes. The table predominantly relates to Banking assets; the retail instalment lending applies to credit agreements in the Insurance business. The balances set out below are based on gross loans and advances, excluding fair value hedge adjustments, as provided in note 16.

2018	Retail unsecured lending £m	Retail mortgage lending £m	Retail instalment lending £m	Total £m
Past due and impaired				
Less than 90 days past due	44.1	0.2	–	44.3
90–179 days past due	59.3	–	–	59.3
180 days plus past due	109.5	0.1	–	109.6
Past due but not impaired				
0–29 days past due	54.7	0.7	0.5	55.9
30–59 days past due	19.8	–	–	19.8
60–89 days past due	12.5	–	–	12.5
Neither past due nor impaired				
Low risk [1]	8,010.0	2,983.1	129.4	11,122.5
High risk [2]	326.9	26.1	–	353.0
	8,636.8	**3,010.2**	**129.9**	**11,776.9**

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

36. Risk Management (continued)

Gross loans and advances to customers of £17.2m were subject to active forbearance arrangements and were considered to be not impaired on the basis that the Group did not anticipate that the future expected cash flows of the gross loans and advances would be impacted. Of this total, £5.0m was included in 'neither past due nor impaired' and £12.2m in 'past due but not impaired'.

(b) Operational risk

Operational risk is the risk of potential error, loss, harm, or failure caused by ineffective or inadequately defined processes, system failures, improper conduct, human error, fraud or from external events. The Group is subject to the SA method to calculate Pillar 1 operational risk capital, as outlined in the Capital Requirements Regulation (CRR).

Financial crime and fraud are significant drivers of operational risk and the external threat continues to grow across the Financial Services industry. The industry remains under significant threat from cyber attacks. This includes various organised groups targeting institutions through phishing, malware, denial of service and other sophisticated methods. The Group has an appropriate risk framework and continually monitors emerging risks and threats.

Controls and risk mitigants

The Bank's risks are assessed utilising a risk management framework methodology which is aligned to the three lines of defence model.

The CRO and the Operational Risk Director, together with a dedicated Operational Risk team, are responsible for:

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

The Operational Risk function maintains policies defining the minimum requirements for the management of Operational Risk and Financial Crime.

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

The ERC provides oversight of the Group's operational risk profile and provides regular reports and recommendations to the Board Risk Committee (BRC).

(c) Liquidity and funding risk

Liquidity risk is the risk that the Group is not able to meet its obligations as they fall due. This includes the risk that a given security cannot be traded quickly enough in the market to prevent a loss if a credit rating falls. Funding risk is the risk that the Group does not have sufficiently stable and diverse sources of funding.

The Group operates within a Liquidity Risk Management Framework (LRMF) to ensure that sufficient funds are available at all times to meet demands from depositors; to fund agreed advances; to meet other commitments as they fall due; and to ensure the Board's Risk Appetite is met.

36. Risk Management (continued)

Controls and risk mitigants

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

- identification of sources of liquidity risk;
- quantification of those risks through stress testing;
- consideration of management processes and controls to minimise the risk;
- assessment of the type and quality of liquid asset holdings to mitigate the risk; and
- consideration of the levels of contingent funding required to mitigate the risk.

The Group sets formal limits within the LRMF to maintain liquidity risk exposures within the liquidity Risk Appetite set by the Board. The key liquidity and funding measures monitored on a regular basis are:

- the internal liquidity requirement;
- the liquidity coverage ratio;
- the net stable funding ratio;
- the loan to deposit ratio;
- the encumbrance ratio;
- the wholesale funding ratio;
- the annual wholesale refinancing amount; and
- the unencumbered assets to retail liabilities ratio.

The Group measures and manages liquidity adequacy in line with the above metrics and maintains a liquidity and funding profile to enable it to meet its financial obligations under normal, and stressed, market conditions.

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

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

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

36. Risk Management (continued)

The Treasury Director is responsible for formulating, and obtaining Board approval for, an annual funding plan as part of the overall business planning process. The Group is predominantly funded by its retail deposit base which reduces reliance on wholesale funding and, in particular, results in minimal short-term wholesale funding.

A significant part of these retail deposits are repayable on demand on a contractual basis. The Group continuously monitors retail deposit activity so that it can reasonably predict expected maturity flows. These instruments form a stable funding base for the Group's operations because of the broad customer base and the historical behaviours exhibited.

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

	2019	2018
	£m	£m
On balance sheet		
Deposits from banks	1,663.2	1,539.0
Deposits from customers	10,478.6	9,248.0
Subordinated liabilities and notes	235.0	235.0
Debt securities in issue	1,185.5	1,347.6
Total on balance sheet funding	**13,562.3**	**12,369.6**

36. Risk Management (continued)

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

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

Group 2019 On balance sheet	Within 1 year £m	Between 1 and 2 years £m	Between 2 and 3 years £m	Between 3 and 4 years £m	Between 4 and 5 years £m	Beyond 5 years £m	Total £m
Financial assets:							
Cash and balances at central banks	1,072.4	–	–	–	–	–	1,072.4
Loans and advances to banks	324.2	–	–	–	–	–	324.2
Loans and advances to customers	6,361.3	1,429.4	1,191.5	919.6	628.3	3,893.2	14,423.3
Investment securities							
- FVOCI	96.6	60.9	279.2	167.5	382.0	111.6	1,097.8
- Loans and receivables	1.4	1.4	1.4	1.5	1.5	53.8	61.0
Other assets	208.5	–	–	–	–	–	208.5
Total financial assets	**8,064.4**	**1,491.7**	**1,472.1**	**1,088.6**	**1,011.8**	**4,058.6**	**17,187.2**
Financial liabilities:							
Deposits from banks	337.1	409.7	945.0	–	–	–	1,691.8
Deposits from customers	8,582.4	1,348.3	335.6	107.8	185.7	0.5	10,560.3
Debt securities in issue	448.8	783.4	–	–	–	–	1,232.2
Derivatives settled on a net basis							
- Derivatives in economic but not accounting hedges	0.1	–	–	–	–	–	0.1
- Derivatives in accounting hedge relationships	(2.7)	3.2	2.3	2.9	3.9	10.9	20.5
Derivatives settled on a gross basis							
- outflows	4.5	276.0	–	–	–	–	280.5
- inflows	(8.5)	(270.0)	–	–	–	–	(278.5)
Other liabilities	149.2	–	–	–	–	–	149.2
Subordinated liabilities	5.2	5.7	6.1	6.3	6.5	295.0	324.8
Total financial liabilities	**9,516.1**	**2,556.3**	**1,289.0**	**117.0**	**196.1**	**306.4**	**13,980.9**
Off balance sheet							
Contractual lending commitments	12,226.2	–	–	–	–	–	12,226.2
Total off balance sheet	**12,226.2**	**–**	**–**	**–**	**–**	**–**	**12,226.2**

36. Risk Management (continued)

Company 2019 On balance sheet	Within 1 year £m	Between 1 and 2 years £m	Between 2 and 3 years £m	Between 3 and 4 years £m	Between 4 and 5 years £m	Beyond 5 years £m	Total £m
Financial assets:							
Cash and balances at central banks	750.2	–	–	–	–	–	750.2
Loans and advances to banks	324.2	–	–	–	–	–	324.2
Loans and advances to customers	6,361.3	1,429.4	1,191.5	919.6	628.3	3,893.2	14,423.3
Investment securities							
- FVOCI	96.6	60.9	279.2	167.5	382.0	111.6	1,097.8
- Loans and receivables	1.4	1.4	1.4	1.5	1.5	53.8	61.0
Other assets	256.1	–	–	–	–	–	256.1
Total financial assets	**7,789.8**	**1,491.7**	**1,472.1**	**1,088.6**	**1,011.8**	**4,058.6**	**16,912.6**
Financial liabilities:							
Deposits from banks	337.1	409.7	945.0	–	–	–	1,691.8
Deposits from customers	8,582.4	1,348.3	335.6	107.8	185.7	0.5	10,560.3
Debt securities in issue	85.1	210.0	–	–	–	–	295.1
Derivatives settled on a net basis							
- Derivatives in economic but not accounting hedges	0.1	–	–	–	–	–	0.1
- Derivatives in accounting hedge relationships	(2.7)	3.2	2.3	2.9	3.9	10.9	20.5
Derivatives settled on a gross basis							
- outflows	4.5	–	–	–	–	–	4.5
- inflows	(8.5)	–	–	–	–	–	(8.5)
Other liabilities	262.1	573.4	–	–	–	–	835.5
Subordinated liabilities	5.2	5.7	6.1	6.3	6.5	295.0	324.8
Total financial liabilities	**9,265.3**	**2,550.3**	**1,289.0**	**117.0**	**196.1**	**306.4**	**13,724.1**
Off balance sheet							
Contractual lending commitments	12,226.2	–	–	–	–	–	12,226.2
Total off balance sheet	**12,226.2**	**–**	**–**	**–**	**–**	**–**	**12,226.2**

36. Risk Management (continued)

Group 2018 On balance sheet	Within 1 year £m	Between 1 and 2 years £m	Between 2 and 3 years £m	Between 3 and 4 years £m	Between 4 and 5 years £m	Beyond 5 years £m	Total £m
Financial assets:							
Cash and balances at central banks	1,318.8	–	–	–	–	–	1,318.8
Loans and advances to customers	6,614.4	1,395.6	929.8	598.3	385.0	3,036.1	12,959.2
Investment securities							
- AFS	90.9	97.0	49.7	114.7	138.9	496.7	987.9
- Loans and receivables	1.5	1.7	1.7	1.8	1.8	62.1	70.6
Other assets	265.7	–	–	–	–	–	265.7
Total financial assets	**8,291.3**	**1,494.3**	**981.2**	**714.8**	**525.7**	**3,594.9**	**15,602.2**
Financial liabilities:							
Deposits from banks	208.7	12.0	412.1	946.8	–	–	1,579.6
Deposits from customers	7,658.3	873.5	500.4	178.6	105.4	0.1	9,316.3
Debt securities in issue	448.3	441.4	513.7	–	–	–	1,403.4
Derivatives settled on a net basis							
- Derivatives in economic but not accounting hedges	(0.6)	–	–	–	–	–	(0.6)
- Derivatives in accounting hedge relationships	22.3	(8.2)	1.3	3.4	3.9	22.6	45.3
Other liabilities	144.3	–	–	–	–	–	144.3
Subordinated liabilities	4.9	5.9	6.4	7.6	12.7	293.9	331.4
Total financial liabilities	**8,486.2**	**1,324.6**	**1,433.9**	**1,136.4**	**122.0**	**316.6**	**12,819.7**
Off balance sheet							
Contractual lending commitments	12,400.0	–	–	–	–	–	12,400.0
Total off balance sheet	**12,400.0**	–	–	–	–	–	**12,400.0**

36. Risk Management (continued)

Company 2018 On balance sheet	Within 1 year £m	Between 1 and 2 years £m	Between 2 and 3 years £m	Between 3 and 4 years £m	Between 4 and 5 years £m	Beyond 5 years £m	Total £m
Financial assets:							
Cash and balances at central banks	997.5	–	–	–	–	–	997.5
Loans and advances to customers	6,614.4	1,395.6	929.8	598.3	385.0	3,036.1	12,959.2
Investment securities							
- AFS	90.9	97.0	49.7	114.7	138.9	496.7	987.9
- Loans and receivables	1.5	1.7	1.7	1.8	1.8	62.1	70.6
Other assets	312.2	–	–	–	–	–	312.2
Total financial assets	**8,016.5**	**1,494.3**	**981.2**	**714.8**	**525.7**	**3,594.9**	**15,327.4**
Financial liabilities:							
Deposits from banks	208.7	12.0	412.1	946.8	–	–	1,579.6
Deposits from customers	7,658.3	873.5	500.4	178.6	105.4	0.1	9,316.3
Debt securities in issue	139.0	84.9	210.0	–	–	–	433.9
Derivatives settled on a net basis							
- Derivatives in economic but not accounting hedges	(0.6)	–	–	–	–	–	(0.6)
- Derivatives in accounting hedge relationships	22.3	(8.2)	1.3	3.4	3.9	22.6	45.3
Other liabilities	252.9	356.5	303.7	–	–	–	913.1
Subordinated liabilities	4.9	5.9	6.4	7.6	12.7	293.9	331.4
Total financial liabilities	**8,285.5**	**1,324.6**	**1,433.9**	**1,136.4**	**122.0**	**316.6**	**12,619.0**
Off balance sheet							
Contractual lending commitments	12,400.0	–	–	–	–	–	12,400.0
Total off balance sheet	**12,400.0**	–	–	–	–	–	**12,400.0**

36. Risk Management (continued)

The table below summarises the Group's assets which are available to support future funding and collateral needs and shows the extent to which these assets are currently pledged for this purpose.

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

Group 2019	Encumbered £m	Unencumbered £m	Total £m
Encumbered asset summary			
Investment securities - FVOCI	59.7	983.0	1,042.7
Loans and advances to customers	3,730.0	8,695.7	12,425.7
Other assets	82.7	153.9	236.6
	3,872.4	**9,832.6**	**13,705.0**
Encumbered investment securities - FVOCI			
Debt securities at FVOCI	**59.7**		
Encumbered loans and advances to customers			
Securitisation – Delamare Master Trust	2,269.1		
Personal loans	667.2		
Mortgages	793.7		
	3,730.0		
Encumbered other assets			
Initial margin held at Clearing Houses	46.8		
Variation margin held at Clearing Houses	32.4		
Collateral held at counterparties	3.5		
	82.7		

Group 2018	Encumbered £m	Unencumbered £m	Total £m Restated[1]
Encumbered asset summary			
Loans and advances to customers	3,654.0	7,868.4	11,522.4
Other assets	111.1	169.5	280.6
	3,765.1	**8,037.9**	**11,803.0**
Encumbered loans and advances to customers			
Securitisation – Delamare Master Trust	1,628.7		
Personal loans	989.6		
Mortgages	1,035.7		
	3,654.0		
Encumbered other assets			
Initial margin held at Clearing Houses	56.5		
Variation margin held at Clearing Houses	54.0		
Collateral held at counterparties	0.6		
	111.1		

[1] The prior year restatement relates to the adoption of IFRS 15 in the current year. Refer to note 2 for further details.

36. Risk Management (continued)

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

At 28 February 2019, £3,182.2m (2018: £3,490.5m) of the Credit Card portfolio had its beneficial interest assigned to a securitisation structured entity, Delamare Cards Receivables Trustee Limited, for use as collateral in securitisation transactions. The total encumbered portion of this portfolio is £2,269.1m (2018: £1,628.7m).

At 28 February 2019, Delamare Cards MTN Issuer plc had £2,362.2m (2018: £2,362.2m) notes in issue in relation to securitisation transactions, of which £922.2m (2018: £950.0m) related to the par value of externally issued notes (refer to note 28). At 28 February 2019 the Group owned £1,440.0m (2018: £1,412.2m) of class A and class D Credit Card backed notes issued by Delamare Cards MTN Issuer plc.

Of the total £1,150.0m (2018: £1,150.0m) class A retained Credit Card backed notes, £450.0m (2018: £300.0m) is held in a distinct pool for the purposes of collateralising the TFS drawings. All other prepositioned assets with the BoE are held within their single collateral pool.

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

Group and Company	**2019**	**2018**
	£m	**£m**
Credit Card backed notes[1]	786.0	1,150.0
Mortgages	793.7	1,035.7
Unsecured personal loans	2,365.1	2,438.0
Total assets prepositioned as collateral with the BoE	**3,944.8**	**4,623.7**
Collateralised TFS Drawings	**1,339.0**	1,339.0

[1]Issued by Delamare Cards MTN Issuer plc

(d) Market risk

Market risk is 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. The Group has no trading book exposures.

Market risk arises in the following ways in the Group:

- Interest rate risk in the Group's retail portfolios, certain income streams and in its funding activities arises from the different repricing characteristics of non-trading assets and liabilities, hereafter referred to as Interest Rate Risk in the Banking Book (IRRBB);
- Foreign exchange exposures that arise from foreign currency investments, foreign currency loans, deposits, income and other foreign currency contracts;
- Interest rate risk associated with TU's investment portfolio; and
- Pension obligation risk.

Control and risk mitigants

Control of market risk exposure is managed by ALCo and the Market Risk Forum. These bodies provide oversight of the Group's market risk position at a detailed level, providing regular reports and recommendations to the BRC.

36. Risk Management (continued)

- **Interest rate risk in the Banking Book**

IRRBB is the risk of value changes to both earnings and capital arising from timing differences in the re-pricing of the Group's balance sheet and unexpected changes to the level and/or shape of the yield curve.

The Group offers lending and savings products with varying interest rate features and maturities which create re-pricing mismatches and therefore potential interest rate risk exposures. The Group is therefore exposed to interest rate risk through its dealings with retail banking products as well as through its limited wholesale market activities.

IRRBB is the main market risk that could affect the Group's net interest income.

Control and risk mitigants

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

The Group has established a specific Risk Appetite for IRRBB which is implemented via the Market Risk Policy, a range of specific risk limits and a Market Risk control framework. The Treasury function is responsible for regular stress testing of risk positions against multiple interest rate scenarios to determine the sensitivity of earnings and capital valuations to ensure compliance with Board Risk Appetite and limits.

IRRBB management information is produced by the Asset and Liability Management (ALM) team and is reviewed by ALCo at each of its monthly meetings. IRRBB primarily arises from the retail lending portfolios (including the Mortgage pipeline) and retail deposits. The ALM team is responsible for ensuring hedging strategies are implemented as required to ensure that the Group remains within its stated Risk Appetite and limits.

The main hedging instruments used are interest rate swaps and the residual exposure against the two Board Risk Appetite metrics is reported monthly to the ALCo and Board.

Capital at Risk (CaR): The CaR approach assesses the value sensitivity of the Bank's capital to movements in interest rates. The scenarios considered include both parallel and non-parallel movements of the yield curve and have been designed to assess impacts across a suitable range of severe but plausible movements in interest rates. The CaR measure is an aggregate measure of three separate risk components, each being a distinct form of interest rate risk - Repricing Risk (including Basis Risk), Pipeline Risk and Prepayment Risk. A fourth risk component, Credit Spread Risk in the Banking Book (CSRBB), has been added to the CaR measure in preparation for the EBA guidelines on the management of interest rate risk arising from non-trading book activities.

The table below shows the Group's CaR. At 28 February 2019 the Group was exposed to net residual risk via a downward rate scenario (2018: upward rate scenario).

	2019 Downward rate scenario	2018 Upward rate scenario
Capital at Risk Sensitivity	**£m**	**£m**
Repricing risk	(9.8)	12.1
Pipeline risk	(0.2)	(4.3)
Prepayment risk	0.4	(22.2)
CSRBB	(9.3)	–
Total	**(18.9)**	**(14.4)**

Annual Earnings at Risk (AEaR) Sensitivity: This measures the sensitivity of the Bank's earnings to movements in interest rates over the next 12 months based on expected cash flows. This approach has replaced the Net Interest Income sensitivity disclosed in prior years and provides a more granular analysis of product interest rate sensitivity. The Bank assesses the impact of a +/- 0.25%, 0.50%, 0.75%, 1% shock in rates versus the base case scenario (2018: +1.0%; -0.75%). The most adverse scenario is measured against Risk Appetite. At 28 February 2019, the most adverse scenario was a downward rate shock, with an impact of (1.10%).

36. Risk Management (continued)

(e) Foreign exchange risk

Foreign exchange risk is the risk that the value of transactions in currencies other than Sterling is altered by the movement of exchange rates.

The Group's Risk Appetite permits investment in non-GBP denominated bonds and the Group may raise funding from the wholesale markets in currencies other than GBP. Foreign exchange exposure arises if these are not hedged. Foreign exchange exposure may also arise through the Group's 'Click and Collect' Travel Money provision and invoices received which are denominated in foreign currencies.

Control and risk mitigants

Substantially all foreign currency exposure is hedged to reduce exposure to a minimum level, within Board-approved limits. The residual exposure is not material and, as such, no sensitivity analysis is disclosed.

The Group's maximum exposure to foreign exchange risk at 28 February 2019 was £(241.0)m (2018: £45.5m), representing the Group's net assets denominated in foreign currencies.

(f) TU investment portfolio

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

The main risks relate to changes in:

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

Controls and risk mitigants

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

(g) Pension obligation risk

Pension obligation risk is the risk to a company caused by its contractual or other liabilities to or with respect to a pension scheme (whether established for its employees or those of a related company or otherwise). The Group is a participating employer in the Tesco Pension Scheme. TSL has recognised the appropriate net liability of the Tesco pension scheme in accordance with IAS 19 (refer to note 35).

Controls and risk mitigants

The Group undertakes an assessment of the impact of its share of the pension scheme under a stress as part of its annual Internal Capital Adequacy Assessment Process (ICAAP).

(h) Insurance risk

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

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

Insurance risk is typically categorised in the following way:

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

36. Risk Management (continued)

Controls and risk mitigants

The Group's oversight of TU is primarily provided by its representation on the TU Board. TU operates a separate risk framework with dedicated risk and compliance teams and a suite of TU risk policies to ensure that the TU insurance portfolio is operating within agreed Risk Appetite. Performance of the portfolio is monitored and reported to the ERC on a monthly basis against specific key performance indicator thresholds and limits.

(i) Residual price risk

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

Controls and risk mitigants

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

The table below demonstrates the Group's exposure to residual price risk at the year end. Included in the table is the expected impact of a 10% shock in market prices on the Group's FVOCI investment securities. The figures shown are prior to hedging activities which mitigate the interest rate and foreign exchange risks.

	Fair value		Impact of 10% shock		Value after 10% shock	
	2019	2018	**2019**	2018	**2019**	2018
	£m	£m	**£m**	£m	**£m**	£m
Government-backed investment securities	185.5	101.1	(18.6)	(10.1)	166.9	91.0
Gilts	55.1	581.5	(5.5)	(58.2)	49.6	523.3
Supranational investment securities	406.1	85.1	(40.6)	(8.5)	365.5	76.6
Other investment securities	393.5	155.7	(39.4)	(15.6)	354.1	140.1
Equity securities	2.5	2.0	(0.3)	(0.2)	2.2	1.8
	1,042.7	**925.4**	**(104.4)**	**(92.6)**	**938.3**	**832.8**

(j) Legal and regulatory compliance

Regulatory risk is 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 areas within which the Group operates. The risk of business conduct leading to poor outcomes can arise as a result of an over-aggressive sales strategy; poor management of sales processes, credit assessments and credit processes; or failure to comply with other regulatory requirements. The Group's risk appetite is to comply with the relevant rules, regulations and data protection legislation. Where breaches occur, the Group will take appropriate rectifying action. The Group seeks to deliver fair outcomes for customers.

Controls and risk mitigants

As part of the Group's Policy Framework, a dedicated Compliance Advisory (CA) team is responsible for the Compliance policy which is approved by the Group's Board, as well as for monitoring, challenge and oversight of regulatory risk and compliance across the Group's business. Guidance and advice to enable the business to operate in a compliant manner is provided by the CA team and the Legal team.

The CA team is also responsible for the detailed regulatory policies which underpin the Compliance policy. These are further supported by Operational and Product Guides that provide relevant practical guidance to business and operational areas to enable them to comply with the regulatory policies.

The Group has also established the Prudential Regulatory Forum which is responsible for the oversight of Prudential Regulation Authority (PRA) communications including information requests; upstream regulatory change including impact analysis, action tracking and regulatory responses; Prudential regulatory compliance and reporting; and Prudential regulatory deliverables compliance with Prudential regulation.

36. Risk Management (continued)

In addition, the Regulatory Change Forum is responsible for the oversight of communications from all external regulators (excluding the PRA), including information requests and Consultations papers; and upstream regulatory change including impact analysis, action tracking and regulatory responses.

The Group's Legal function has responsibility for commercial legal work, regulatory legal compliance, litigation/dispute resolution matters, advising on competition law and supporting the Group's Treasury activity. The Legal team also comprises the Company Secretarial function which, in addition to its role supporting the Board and maintaining statutory books, ensures the Company complies with all applicable governance codes.

Business areas manage conduct risk and use a range of management information to monitor the fair treatment of customers. A framework of product-led conduct management information has been developed and is reviewed by Senior Management in the business lines. Customer outcomes are also assessed as part of the development and design of new products and through annual product reviews of existing products. The ERC and the Board review and challenge delivery of fair outcomes for customers.

37. Financial Instruments

Classification of financial assets and liabilities

The following tables analyse the financial assets and financial liabilities in accordance with the categories of financial instruments in IFRS 9.

Group 2019	Amortised cost £m	Designated as at FVPL[1] £m	FVOCI - debt instruments £m	FVOCI - equity instruments £m	Total £m
Financial assets					
Cash and balances with central banks	1,041.6	30.5	–	–	1,072.1
Loans and advances to banks	324.2	–	–	–	324.2
Loans and advances to customers	12,425.7	–	–	–	12,425.7
Derivative financial instruments	–	31.3	–	–	31.3
Investment securities:					
- FVOCI	–	–	1,040.2	2.5	1,042.7
- Amortised cost	28.7	–	–	–	28.7
Other assets	236.6	–	–	–	236.6
Total financial assets	**14,056.8**	**61.8**	**1,040.2**	**2.5**	**15,161.3**
Financial liabilities					
Deposits from banks	1,663.2	–	–	–	1,663.2
Deposits from customers	10,478.6	–	–	–	10,478.6
Debt securities in issue	1,185.5	–	–	–	1,185.5
Derivative financial instruments	–	60.2	–	–	60.2
Other liabilities	151.2	–	–	–	151.2
Subordinated liabilities	235.0	–	–	–	235.0
Total financial liabilities	**13,713.5**	**60.2**	**–**	**–**	**13,773.7**

All derivative financial instruments are held for economic hedging purposes, although not all derivatives are designated as hedging instruments under the terms of IFRS 9.

[1] All of the Group's financial assets and financial liabilities designated at FVPL were designated as such on the later of 1 March 2018 or origination.

37. Financial Instruments (continued)

Company 2019	Amortised cost £m	Designated as at FVPL[1] £m	FVOCI - debt instrument £m	FVOCI - equity instruments £m	Total £m
Financial assets					
Cash and balances with central banks	719.4	30.5	–	–	749.9
Loans and advances to banks	324.2	–	–	–	324.2
Loans and advances to customers	12,425.7	–	–	–	12,425.7
Derivative financial instruments	–	31.3	–	–	31.3
Investment securities:					
- FVOCI	–	–	1,040.2	2.5	1,042.7
- Amortised cost	28.7	–	–	–	28.7
Other assets	284.2	–	–	–	284.2
Total financial assets	**13,782.2**	**61.8**	**1,040.2**	**2.5**	**14,886.7**
Financial liabilities					
Deposits from banks	1,663.2	–	–	–	1,663.2
Deposits from customers	10,478.6	–	–	–	10,478.6
Debt securities in issue	275.2	–	–	–	275.2
Derivative financial instruments	–	51.1	–	–	51.1
Other liabilities	795.0	–	–	–	795.0
Subordinated liabilities	235.0	–	–	–	235.0
Total financial liabilities	**13,447.0**	**51.1**	**–**	**–**	**13,498.1**

[1] All of the Group's financial assets and financial liabilities designated at FVPL were designated as such on the later of 1 March 2018 or origination

37. Financial Instruments (continued)

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

Group 2018	Loans and receivables £m	Other (amortised cost) £m	Derivatives held for hedging £m	AFS £m	Total £m Restated[1]
Financial assets					
Cash and balances with central banks	1,318.6	–	–	–	1,318.6
Loans and advances to customers	11,522.4	–	–	–	11,522.4
Derivative financial instruments	–	–	46.1	–	46.1
Investment securities:					
- AFS	–	–	–	925.4	925.4
- Loans and receivables	34.1	–	–	–	34.1
Other assets	280.6	–	–	–	280.6
Total financial assets	**13,155.7**	**–**	**46.1**	**925.4**	**14,127.2**
Financial liabilities					
Deposits from banks	–	1,539.0	–	–	1,539.0
Deposits from customers	–	9,248.0	–	–	9,248.0
Debt securities in issue	–	1,347.6	–	–	1,347.6
Derivative financial instruments	–	–	88.4	–	88.4
Other liabilities	–	147.7	–	–	147.7
Subordinated liabilities	–	235.0	–	–	235.0
Total financial liabilities	**–**	**12,517.3**	**88.4**	**–**	**12,605.7**

[1] The prior year restatement relates to the adoption of IFRS 15 in the current year. Refer to note 2 for further details.

37. Financial Instruments (continued)

Company 2018	Loans and receivables £m	Other (amortised cost) £m	Derivatives held for hedging £m	AFS £m	Total £m Restated[1]
Financial assets					
Cash and balances with central banks	997.3	–	–	–	997.3
Loans and advances to customers	11,522.4	–	–	–	11,522.4
Derivative financial instruments	–	–	46.1	–	46.1
Investment securities:					
- AFS	–	–	–	925.4	925.4
- Loans and receivables	34.1	–	–	–	34.1
Other assets	327.1	–	–	–	327.1
Total financial assets	**12,880.9**	**–**	**46.1**	**925.4**	**13,852.4**
Financial liabilities					
Deposits from banks	–	1,539.0	–	–	1,539.0
Deposits from customers	–	9,248.0	–	–	9,248.0
Debt securities in issue	–	399.9	–	–	399.9
Derivative financial instruments	–	–	88.4	–	88.4
Other liabilities	–	820.5	–	–	820.5
Subordinated liabilities	–	235.0	–	–	235.0
Total financial liabilities	**–**	**12,242.4**	**88.4**	**–**	**12,330.8**

[1] The prior year restatement relates to the adoption of IFRS 15 in the current year. Refer to note 2 for further details

37. Financial Instruments (continued)

Offsetting

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

Group 2019	Gross and net amounts presented in Statement of Financial Position	Related amounts not offset		
		Financial instruments	Collateral pledged	Net amounts
	£m	£m	£m	£m
Financial assets				
Derivative financial instruments	31.3	(22.0)	(12.5)	(3.2)
Reverse repurchase agreements	324.2	(324.2)	3.0	3.0
Total financial assets	**355.5**	**(346.2)**	**(9.5)**	**(0.2)**
Financial liabilities				
Derivative financial instruments	(60.2)	22.0	32.9	(5.3)
Repurchases, securities lending and similar agreements[1]	(324.2)	324.2	–	–
Total financial liabilities	**(384.4)**	**346.2**	**32.9**	**(5.3)**

Company 2019	Gross and net amounts presented in Statement of Financial Position	Related amounts not offset		
		Financial instruments	Collateral pledged	Net amounts
	£m	£m	£m	£m
Financial assets				
Derivative financial instruments	31.3	(22.0)	(12.5)	(3.2)
Reverse repurchase agreements	324.2	(324.2)	3.0	3.0
Total financial assets	**355.5**	**(346.2)**	**(9.5)**	**(0.2)**
Financial liabilities				
Derivative financial instruments	(51.1)	22.0	32.9	3.8
Repurchases, securities lending and similar agreements[1]	(324.2)	324.2	–	–
Total financial liabilities	**(375.3)**	**346.2**	**32.9**	**3.8**

Group and Company 2018	Gross and net amounts presented in Statement of Financial Position	Related amounts not offset		
		Financial instruments	Collateral pledged	Net amounts
	£m	£m	£m	£m
Financial assets				
Derivative financial instruments	46.1	(37.5)	(17.5)	(8.9)
Total financial assets	**46.1**	**(37.5)**	**(17.5)**	**(8.9)**
Financial liabilities				
Derivative financial instruments	(88.4)	37.5	54.6	3.7
Repurchases, securities lending and similar agreements[1]	(200.0)	380.0	–	180.0
Total financial liabilities	**(288.4)**	**417.5**	**54.6**	**183.7**

[1]Repurchases, securities lending and similar agreements are included within the Deposits from Banks balance of £1,663.2m (2018: £1,539.0m) in the Company and Consolidated Statement of Financial Position.

37. Financial Instruments (continued)

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

Fair values of financial assets and financial liabilities

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

Group	2019		2018	
	Carrying value	Fair Value	Carrying value	Fair value
	£m	£m	£m	£m
Financial assets				
Loans and advances to customers	12,425.7	12,607.3	11,522.4	11,658.8
Investment securities - amortised cost	28.8	28.2	34.1	34.7
	12,454.5	**12,635.5**	**11,556.5**	**11,693.5**
Financial liabilities				
Deposits from customers	10,478.6	10,440.5	9,248.0	9,226.9
Debt securities in issue	1,185.5	1,189.5	1,347.6	1,354.9
Subordinated liabilities	235.0	182.2	235.0	182.9
	11,899.1	**11,812.2**	**10,830.6**	**10,764.7**

Company	2019		2018	
	Carrying value	Fair Value	Carrying value	Fair value
	£m	£m	£m	£m
Financial assets				
Loans and advances to customers	12,425.7	12,607.3	11,522.4	11,658.8
Investment securities - amortised cost	28.8	28.2	34.1	34.7
	12,454.5	**12,635.5**	**11,556.5**	**11,693.5**
Financial liabilities				
Deposits from customers	10,478.6	10,440.5	9,248.0	9,226.9
Debt securities in issue	275.2	277.8	399.9	404.9
Subordinated liabilities	235.0	182.2	235.0	182.9
	10,988.8	**10,900.5**	**9,882.9**	**9,814.7**

The only financial assets and financial liabilities which are carried at fair value in the Statement of Financial Position at year end are cash balances relating to the Group's Travel Money offering, FVOCI investment securities and derivative financial instruments. The valuation techniques and inputs used to derive fair values at the year end are described below.

37. Financial Instruments (continued)

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

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

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

Group	**Level 1**	**Level 2**	**Level 3**	**Total**
2019	**£m**	**£m**	**£m**	**£m**
Financial assets carried at fair value				
Cash and balances with central banks[1]	–	30.5	–	30.5
Investment securities - FVOCI	1,040.2	–	2.5	1,042.7
Derivative financial instruments:				
- Interest rate swaps	–	31.3	–	31.3
- Forward foreign currency contracts	–	–	–	–
Financial assets carried at amortised cost				
Loans and advances to customers	–	–	12,607.3	12,607.3
Investment securities – amortised cost	–	28.2	–	28.2
Total	**1,040.2**	**90.0**	**12,609.8**	**13,740.0**
Financial liabilities carried at fair value				
Derivative financial instruments:				
- Interest rate swaps	–	50.9	–	50.9
- Forward foreign currency contracts	–	0.2	–	0.2
- Cross currency interest rate swaps	–	9.1	–	9.1
Financial liabilities carried at amortised cost				
Deposits from customers	–	–	10,440.5	10,440.5
Debt securities in issue	1,189.5	–	–	1,189.5
Subordinated liabilities	–	182.2	–	182.2
Total	**1,189.5**	**242.4**	**10,440.5**	**11,872.4**

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

37. Financial Instruments (continued)

Company **2019**	**Level 1** **£m**	**Level 2** **£m**	**Level 3** **£m**	**Total** **£m**
Financial assets carried at fair value				
Cash and balances with central banks[1]	–	30.5	–	30.5
Investment securities - FVOCI	1,040.2	–	2.5	1,042.7
Derivative financial instruments:				
- Interest rate swaps	–	31.3	–	31.3
- Forward foreign currency contracts	–	–	–	–
Financial assets carried at amortised cost				
Loans and advances to customers	–	–	12,607.3	12,607.3
Investment securities – amortised cost	–	28.2	–	28.2
Total	**1,040.2**	**90.0**	**12,609.8**	**13,740.0**
Financial liabilities carried at fair value				
Derivative financial instruments:				
- Interest rate swaps	–	50.9	–	50.9
- Forward foreign currency contracts	–	0.2	–	0.2
Financial liabilities carried at amortised cost				
Deposits from customers	–	–	10,440.5	10,440.5
Debt securities in issue	277.8	–	–	277.8
Subordinated liabilities	–	182.2	–	182.2
Total	**277.8**	**233.3**	**10,440.5**	**10,951.6**

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

37. Financial Instruments (continued)

Group 2018	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets carried at fair value				
Financial assets classified as AFS	923.4	–	2.0	925.4
Derivative financial instruments:				
- Interest rate swaps	–	45.9	–	45.9
- Forward foreign currency contracts	–	0.2	–	0.2
Financial assets carried at amortised cost				
Loans and advances to customers	–	–	11,658.8	11,658.8
Investment securities – loans and receivables	–	34.7	–	34.7
Total	**923.4**	**80.8**	**11,660.8**	**12,665.0**
Financial liabilities carried at fair value				
Derivative financial instruments:				
- Interest rate swaps	–	88.3	–	88.3
- Forward foreign currency contracts	–	0.1	–	0.1
Financial liabilities carried at amortised cost				
Deposits from customers	–	–	9,226.9	9,226.9
Debt securities in issue	1,354.9	–	–	1,354.9
Subordinated liabilities	–	182.9	–	182.9
Total	**1,354.9**	**271.3**	**9,226.9**	**10,853.1**

37. Financial Instruments (continued)

Company 2018	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets carried at fair value				
Financial assets classified as AFS	923.4	–	2.0	925.4
Derivative financial instruments:				
- Interest rate swaps	–	45.9	–	45.9
- Forward foreign currency contracts	–	0.2	–	0.2
Financial assets carried at amortised cost				
Loans and advances to customers	–	–	11,658.8	11,658.8
Investment securities – loans and receivables	–	34.7	–	34.7
Total	**923.4**	**80.8**	**11,660.8**	**12,665.0**
Financial liabilities carried at fair value				
Derivative financial instruments:				
- Interest rate swaps	–	88.3	–	88.3
- Forward foreign currency contracts	–	0.1	–	0.1
Financial liabilities carried at amortised cost				
Deposits from customers	–	–	9,226.9	9,226.9
Debt securities in issue	404.9	–	–	404.9
Subordinated liabilities	–	182.9	–	182.9
Total	**404.9**	**271.3**	**9,226.9**	**9,903.1**

There are three levels to the hierarchy as follows:

Level 1

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

Level 2

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

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.

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

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

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

37. Financial Instruments (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 estimated fair value of financial assets classified as FVOCI/AFS, being the Group's interest in VISA Inc., is described in note 18.

Transfers

There were no transfers between Levels 1 and Level 2 in the year to 28 February 2019 (2018: no transfers).

There were no transfers between Level 2 and Level 3 in the year to 28 February 2019 (2018: no transfers).

38. Cash Flows from Operating Activities

	Group		Company	
	2019	2018	**2019**	2018
	£m	£m	**£m**	£m
Non cash and other items included in operating profit before taxation		Restated[1]		Restated[1]
Impairment loss on loans and advances (refer note 10)	163.5	137.4	163.5	137.4
Reversal of impairment loss on investment securities (refer note 10)	(0.1)	–	(0.1)	–
Depreciation and amortisation (refer notes 24 & 25)	83.2	83.0	83.2	83.0
Gain on disposal of investment securities (refer note 8)	(8.4)	(0.1)	(8.4)	(0.1)
Disposal of non-current assets (refer notes 24 & 25)	1.4	1.1	1.4	1.1
Provision for liabilities and charges (refer note 29)	41.7	37.0	41.7	37.0
Share of profit of joint venture (refer note 22)	(7.9)	(10.0)	–	–
Equity settled share based payments (refer note 12)	(4.8)	3.6	(4.8)	3.6
Interest paid on debt securities in issue	23.4	24.7	23.4	17.2
Interest received on assets held to hedge debt securities in issue	0.4	(3.6)	0.4	(3.6)
Interest on subordinated liabilities (refer note 5)	4.9	4.0	4.9	4.0
Fair value movements	(30.4)	7.6	(30.5)	8.3
Total	**266.9**	284.7	**274.7**	287.9
Changes in operating assets and liabilities				
Net movement in mandatory balances with central banks	(13.6)	(0.8)	(13.6)	(0.8)
Net movement in loans and advances to banks	(324.2)	–	(324.2)	–
Net movement in loans and advances to customers	(1,268.0)	(1,738.5)	(1,268.0)	(1,738.5)
Net movement in prepayments and accrued income	(0.1)	(7.1)	(0.1)	(7.1)
Net movement in other assets	44.0	37.0	42.9	78.6
Net movement in deposits from banks	124.2	1,039.2	124.2	1,039.2
Net movement in deposits from customers	1,229.7	781.2	1,229.7	781.2
Net movement in accruals and deferred income	(2.2)	(2.4)	(2.2)	(2.4)
Provisions utilised	(71.2)	(40.6)	(71.2)	(40.6)
Net movement in other liabilities	3.7	(4.8)	(25.4)	(109.0)
Total	**(277.7)**	63.2	**(307.9)**	0.6

[1] The prior year restatement relates to the adoption of IFRS 15 in the current year. Refer to note 2 for further details.

39. Reconciliation of Liabilities Arising from Financing Activities

Group	At 1 March 2018	Financing Cash flows	Non-cash movements: Fair value change	Non-cash movements: Accrued Interest	Non-cash movements: Other	At 28 February 2019
	£m	£m	£m	£m	£m	£m
Debt securities in issue	(1,347.6)	154.1	2.4	(2.3)	7.9	(1,185.5)
Subordinated liabilities and notes	(235.0)	–	–	–	–	(235.0)
Interest payable	(3.9)	28.2	–	(28.3)	–	(4.0)
Assets held to hedge fixed rate bonds[1]	17.9	(0.8)	(0.7)	–	–	16.4
Total liabilities from financing activities	**(1,568.6)**	**181.5**	**1.7**	**(30.6)**	**7.9**	**(1,408.1)**

Company	At 1 March 2018	Financing Cash flows	Non-cash movements: Fair value change	Non-cash movements: Accrued Interest	Non-cash movements: Other	At 28 February 2019
	£m	£m	£m	£m	£m	£m
Debt securities in issue	(399.9)	124.9	2.4	(2.3)	(0.3)	(275.2)
Subordinated liabilities and notes	(235.0)	–	–	–	–	(235.0)
Interest payable	(3.6)	18.7	–	(18.7)	–	(3.6)
Assets held to hedge fixed rate bonds[1]	17.9	(0.8)	(0.7)	–	–	16.4
Total liabilities from financing activities	**(620.6)**	**142.8**	**1.7**	**(21.0)**	**(0.3)**	**(497.4)**

Group	At 1 March 2017	Financing Cash flows	Non-cash movements: Fair value change	Non-cash movements: Accrued Interest	Non-cash movements: Other	At 28 February 2018
	£m	£m	£m	£m	£m	£m
Debt securities in issue	(1,204.3)	(150.0)	9.1	(2.6)	0.2	(1,347.6)
Subordinated liabilities and notes	(235.0)	-	-	-	-	(235.0)
Interest payable	(3.7)	28.5	-	(28.7)	-	(3.9)
Assets held to hedge fixed rate bonds[1]	23.8	(3.6)	(5.9)	3.6	-	17.9
Total liabilities from financing activities	**(1,419.2)**	**(125.1)**	**3.2**	**(27.7)**	**0.2**	**(1,568.6)**

Company	At 1 March 2017	Financing Cash flows	Non-cash movements: Fair value change	Non-cash movements: Accrued Interest	Non-cash movements: Other	At 28 February 2018
	£m	£m	£m	£m	£m	£m
Debt securities in issue	(406.0)	-	9.1	(2.6)	(0.4)	(399.9)
Subordinated liabilities and notes	(235.0)	-	-	-	-	(235.0)
Interest payable	(3.5)	21.1	-	(21.1)	-	(3.5)
Assets held to hedge fixed rate bonds[1]	23.8	(3.6)	(5.9)	3.6	-	17.9
Total liabilities from financing activities	**(620.7)**	**17.5**	**3.2**	**(20.1)**	**(0.4)**	**(620.5)**

[1]Assets held to hedge fixed rate bonds and securitisation bonds are included within derivative financial instruments in the Statement of Financial Position on page 28.

40. Capital Resources

On 27 June 2013 the final Capital Requirements Directive IV (CRD IV) rules were published in the Official Journal of the EU. Following the publication of the CRD IV rules, the PRA issued a policy statement on 19 December 2013 detailing how the rules will be enacted within the UK with corresponding time frames for implementation. The transitioning period came to an end in December 2017 and is reflected in prior period comparatives. On the introduction of IFRS 9 a further transitional period was introduced, allowing the Company (being the regulated entity) to phase in the IFRS 9 impact on capital over a period of five years.

The group implemented IFRS 9 from 1 March 2018. Under the transitional provisions, the impact as at 28 February 2019 on common equity tier 1 is £1.9m. Common equity tier 1 is expected to reduce by approximately 161 basis points (£164.4m) (unaudited) on an end point basis, reflecting the full impact of adoption of IFRS 9.

The following tables analyse the regulatory capital resources of the Company applicable as at the year end on a 'transitional' and 'end point' position:

	Transitional 2019 IFRS 9 £m	End Point 2019 IFRS 9 £m	2018 IAS 39 £m Restated[1]
Movement in common equity tier 1 capital:			
At the beginning of the year	1,502.3	1,502.3	1,394.6
Impact of initial application of IFRS 9	(166.3)	(166.3)	–
Balance at beginning of the year after adopting IFRS 9	**1,336.0**	**1,336.0**	**1,394.6**
Profit attributable to shareholders	135.5	135.5	127.6
Gains and losses on liabilities arising from own credit	(0.1)	(0.1)	0.1
Other reserves	(14.6)	(14.6)	6.0
Ordinary dividends	(60.0)	(60.0)	(50.0)
IFRS 9 transitional add back	164.4	–	–
Movement in intangible assets	46.9	46.9	28.9
Movement in material holdings	–	–	3.4
Deferred tax liabilities related to intangible assets	(5.0)	(5.0)	(8.3)
At the end of the year	**1,603.1**	**1,438.7**	**1,502.3**

[1] The prior year has been restated following the retrospective adoption of IFRS 15 in the current year. Refer to note 2 for further details.

40. Capital Resources (continued)

	Transitional 2019 IFRS 9 £m	End Point 2019 IFRS 9 £m	2018 IAS 39 £m Restated[1]
Common equity tier 1			
Shareholders' equity (accounting capital)	1,663.6	1,663.6	1,768.9
Regulatory adjustments			
Unrealised losses on cash flow hedge reserve	0.5	0.5	0.3
Adjustment to own credit/additional value adjustments	(1.2)	(1.2)	(1.1)
Intangible assets	(224.2)	(224.2)	(271.1)
Deferred tax liabilities related to intangible assets	–	–	5.3
IFRS 9 transitional add back	164.4	–	–
Common equity tier 1 capital	**1,603.1**	**1,438.7**	**1,502.3**
Tier 2 capital (instruments and provisions)			
Undated subordinated notes	45.0	45.0	45.0
Dated subordinated notes net of regulatory amortisation	190.0	190.0	190.0
Credit risk adjustment	–	–	99.1
Tier 2 capital (instruments and provisions) before regulatory adjustments	235.0	235.0	334.1
Regulatory adjustments			
Material holdings in financial sector entities	(28.8)	(28.8)	(34.1)
Total regulatory adjustments to tier 2 capital (instruments and provisions)	(28.8)	(28.8)	(34.1)
Total tier 2 capital (instruments and provisions)	**206.2**	**206.2**	**300.0**
Total capital	**1,809.3**	**1,644.9**	**1,802.3**
Total risk-weighted assets (unaudited)	9,837.3	9,794.0	9,280.6
Common equity tier 1 ratio (unaudited)	16.3%	14.7%	16.2%
Tier 1 ratio (unaudited)	16.3%	14.7%	16.2%
Total capital ratio (unaudited)	18.4%	16.8%	19.4%

Total capital requirement (TCR) refers to the amount and quality of capital the Bank must maintain to comply with the CRR Pillar 1 and 2A capital requirements. The TCR for TPFG as at 28 February 2019 is 11.74% plus £52.0m as a static add-on for pension obligation risk.

[1] The prior year has been restated following the retrospective adoption of IFRS 15 in the current year. Refer to note 2 for further details.

40. Capital Resources (continued)

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

	2019 £m	2018 £m Restated[1]
Tesco Personal Finance Plc (Group) shareholders' equity	1,672.8	1,772.3
Share of joint venture's retained earnings	(7.7)	0.2
Subsidiaries' retained earnings	1.0	0.1
Share of joint venture's AFS reserve	(2.5)	(3.7)
Tesco Personal Finance Plc (Company) shareholders' equity	**1,663.6**	**1,768.9**

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 which set out future business plans, the impact on capital availability, capital requirements and the risks to capital adequacy under stress scenarios, to the PRA.

The Group 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 year.

Leverage ratio (unaudited)

The Basel III reforms include the introduction of a capital leverage measure as defined as the ratio of tier 1 capital to total exposure. This is intended to reinforce the risk-based capital requirements with a simple, non-risk based 'backstop' measure.

The Group has published the leverage ratio on a CRD IV basis using the existing exposure approach:

Exposures for leverage ratio (unaudited) 2019	**Transitional £m**	**End point £m**
Total balance sheet exposures	15,640.6	15,640.6
Adjustments for entities which are consolidated for accounting purposes but outside scope of regulatory consolidation	(10.2)	(10.2)
Removal of accounting value of derivatives and SFTs	(355.5)	(355.5)
Exposure value for derivatives and SFTs	45.5	45.5
Off balance sheet: unconditionally cancellable (10%)	1,208.6	1,208.6
Off balance sheet: other (20%)	28.3	28.3
Regulatory adjustment – intangible assets	(224.2)	(224.2)
Regulatory adjustment – other, including IFRS 9	124.5	(39.9)
Total	**16,457.6**	**16,293.2**
Common equity tier 1	**1,603.1**	**1,438.7**
Leverage ratio	9.7%	8.8%

40. Capital Resources (continued)

Capital Management

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

Pillar 2 capital methodologies

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

These proposals are aimed at promoting the safety and soundness of PRA-regulated firms, to facilitate a more effective banking sector and to make the PRA's Pillar 2A capital assessment more proportionate by addressing some of the concerns over the differences between SA and internal ratings-based risk-weights. This will continue to be managed as part of the Bank'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 Bank activities where core deposits are in excess of £25bn came into effect from 1 January 2019. The Group has not exceeded this threshold and has not therefore automatically been 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 standardised approaches 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. The final Basel III reforms will be implemented from January 2022.

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. The final Basel III reforms will be implemented in January 2022.

Leverage

At present the Group has no minimum UK leverage requirement as it is currently exempt from the UK Leverage Framework regime, which only applies to institutions with retail deposits of £50 billion or more. In December 2017, the BCBS finalised Basel III reforms for leverage ratio. The final Basel III reforms will be implemented in January 2022.

The initial assessment indicates that these reforms are not expected to have a significant impact on the Group's leverage ratio.

The Group is subject to reporting and disclosure requirements under the CRR and is not currently subject to temporary modifications of the UK leverage ratio framework.

40. Capital Resources (continued)

The European Commission's minimum requirements for own funds and eligible liabilities (MREL)

MREL requires banks to maintain at all times a sufficient aggregate amount of own funds and eligible liabilities (that may be bailed-in if required). MREL will, on full implementation, be set on a firm-specific basis and calculated as the sum of two components: a loss absorption amount, being the amount needed to absorb losses up to and in resolution; and a recapitalisation amount, which reflects the capital that a firm is likely to need post-resolution.

MREL is expected to be set annually over the transitional period until 1 January 2022. Prior to 31 December 2019, MREL will be equal to an institution's minimum regulatory capital requirements. An interim MREL requirement of 18% of risk-weighted assets from 1 January 2020 until 31 December 2021 has been set. The Group is working towards implementation of these requirements and has reflected them in its funding plan.

41. Related Party Transactions

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

Transactions involving Directors and other key connected persons

For the purposes of IAS 24, 'Related Party Disclosures', the Group's key Management personnel comprise Directors of the Group. The captions in the Group's primary Financial Statements include the following amounts attributable, in aggregate, to key connected persons of both the Group and Tesco, the Company's ultimate parent undertaking.

Group and Company	**2019**	2018
	£m	£m
Loans and advances to customers[1]		
At the beginning of the year	0.6	0.4
Loans issued during the year	0.6	–
Loan repayments during the year	(0.6)	(0.1)
Loans outstanding at the end of the year	**0.6**	**0.3**
Interest income earned	–	–
Deposits from customers[1]		
Deposits at the beginning of the year	0.2	0.8
Deposits received during the year	0.6	0.6
Deposits repaid during the year	(0.7)	(0.7)
Deposits at the end of the year	**0.1**	**0.7**
Interest expense on deposits	–	–

Following the adoption of IFRS 9 during the current year, ECLs amounting to 0.3% of the loans outstanding at the end of the year have been recognised (2018: £nil under IAS 39 methodology).

[1] The opening and closing balances reported are in respect of related parties of the Group at the reporting date in each year.

41. Related Party Transactions (continued)

Remuneration of key Management personnel

The amount of remuneration incurred by the Group in relation to the Directors is set out below in aggregate. Further information about the remuneration of Directors is provided in note 11.

Group and Company	**2019**	2018
	£m	£m
Short-term employee benefits	4.5	5.9
Termination benefits	–	0.3
Post-employment benefits	–	–
Other long-term benefits	3.0	2.6
Share based payments	0.8	0.9
Total emoluments	**8.3**	**9.7**

Trading transactions

Group	**2019 Tesco**	**2019 Tesco subsidiaries**	**2019 Tesco Underwriting Limited**	2018 Tesco	2018 Tesco subsidiaries	2018 Tesco Underwriting Limited
	£m	**£m**	**£m**	£m	£m	£m
Interest received and other income	–	20.9	47.1	–	24.3	71.2
Dividend income	–	–	10.3	–	–	–
Interest paid	–	(4.9)	–	–	(4.0)	–
Provision of services	–	(82.0)	(0.7)	–	(83.4)	(0.4)

Company	**2019 Tesco**	**2019 Tesco subsidiaries**	**2019 Tesco Underwriting Limited**	2018 Tesco	2018 Tesco subsidiaries	2018 Tesco Underwriting Limited
	£m	**£m**	**£m**	£m	£m	£m
Interest received and other income	–	20.9	47.1	–	24.3	71.2
Dividend income	–	–	10.3	–	–	–
Interest paid	–	(15.9)	–	–	(14.0)	–
Provision of services	–	(82.0)	(0.7)	–	(83.4)	(0.4)

Balances owing to/from related parties are identified in notes 18, 20, 27, 28, 30, 31, and 32.

For the year ended 28 February 2019 the Group and Company generated 52% (2018: 58%) of its insurance commission from the sale and service of Motor and Home insurance policies underwritten by TU, a joint venture company and therefore a related party. Customer premiums on such sales are collected directly by the Group and the net premium is remitted to TU. Investment transactions with TU are identified in note 22.

Ultimate parent undertaking

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

Immediate parent undertaking

The Company's immediate parent company is Tesco Personal Finance Group PLC which is incorporated in Scotland. Financial Statements for Tesco Personal Finance Group PLC can be obtained from its registered office at 2 South Gyle Crescent, Edinburgh, EH12 9FQ. The smallest group into which the Company is consolidated is Tesco Personal Finance Group PLC and the largest group is Tesco PLC.

42. Contingent Liabilities and Commitments

Contingent liabilities

Contingent liabilities are possible obligations arising from past events, whose existence will be confirmed only by uncertain future events, or present obligations arising from past events that are not recognised because either it is not probable that an outflow of economic benefits will be required or the amount of the obligation cannot be reliably estimated.

Contingent liabilities are not recognised but information about them is disclosed unless the possibility of any outflow of economic benefits is remote. There are a number of contingent liabilities that arise in the normal course of business which, if realised, are not expected to result in a material liability to the Group.

Lending commitments

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

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

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

Further detail on undrawn lending commitments is included in the liquidity and funding risk disclosure in note 36.

The contractual amounts do not represent the amounts at risk at the reporting date but the amounts that would be at risk should the available facilities be fully drawn upon.

Capital commitments

At 28 February 2019 the Group and Company had capital commitments related to property, plant and equipment of £nil (2018: £nil) and intangible assets of £0.8m (2018: £1.1m). This is in respect of IT software development and IT hardware. In addition, TU has a commitment of £1.2m (2018: £nil) to subscribe to the Tritax Property Income Fund Unit Trust as part of its investment portfolio. The Group's Management is confident that future net revenues and funding will be sufficient to cover this commitment.

Operating lease commitments

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

Group and Company	**2019**	**2018**
	£m	**£m**
No later than one year	4.2	4.9
Later than one year and no later than five years	22.1	20.8
Later than five years	21.9	27.4
	48.2	**53.1**

43. Share Based Payments

The Group charge for the year recognised in respect of share based payments is £4.5m (2018: £10.7m), which is made up of share option schemes and share bonus payments. Of this amount, £3.8m (2018: £7.8m) will be equity-settled and £0.7m (2018: £2.9m) cash-settled.

Share option schemes

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

- The Savings-related Share Option Scheme (1981) permits the grant to colleagues of options in respect of ordinary shares linked to a building society/bank save-as-you-earn contract for a term of three or five years with contributions from colleagues of an amount between £5 and £500 per four-weekly period. Options are capable of being exercised at the end of the three or five-year period at a subscription price of not less than 80% of the average of the middle-market quotations of an ordinary share over the three dealing days immediately preceding the offer date.
- The Discretionary Share Option Plan (2004) permitted the grant of approved, unapproved and international options in respect of ordinary shares to selected executives. Options are normally exercisable between three and ten years from the date of grant at a price not less than the middle-market quotation or average middle-market quotations of an ordinary share for the dealing day or three dealing days preceding the date of grant. The vesting of options will normally be conditional upon the achievement of a specified performance target related to the annual percentage growth in earnings per share over a three-year period. There were no discounted options granted under this scheme.
- The Performance Share Plan (2011) permits the grant of options in respect of ordinary shares to selected executives. Options are normally exercisable between the vesting date(s) set at grant and ten years from the date of grant for nil consideration. The exercise of options will normally be conditional upon the achievement of specified performance targets over a three-year period and/or continuous employment.

43. Share Based Payments (continued)

The following table reconciles the total number of share options outstanding under each share option scheme and the weighted average exercise price (WAEP):

	Savings-related share option scheme Options	Savings-related share option scheme WAEP (pence)	Approved share option scheme Options	Approved share option scheme WAEP (pence)	Unapproved share options scheme Options	Unapproved share options scheme WAEP (pence)
Outstanding at 28 February 2018	**4,058,091**	**160.43**	**94,936**	**344.96**	**122,460**	**367.20**
Granted	1,219,261	188.00	–	–	–	–
Forfeited	(328,524)	177.46	(7,025)	427.00	(39,813)	427.00
Exercised	(1,365,136)	150.31	–	–	–	–
Outstanding at 28 February 2019	**3,583,692**	**172.10**	**87,911**	**338.40**	**82,647**	**338.40**
Exercisable at 28 February 2019	**124,802**	**179.37**	**87,911**	**338.40**	**82,647**	**338.40**
Exercise price range (pence)	**–**	**179.37**	**–**	**338.40**	**–**	**338.40**
Weighted average remaining contractual life (years)	**–**	**0.42**	**–**	**0.68**	**–**	**0.18**
Outstanding at 28 February 2017	**3,522,224**	**162.20**	**183,586**	**341.79**	**221,617**	**354.32**
Granted	1,184,513	168.00	–	–	–	–
Forfeited	(573,424)	188.26	(88,650)	338.40	(99,157)	338.40
Exercised	(75,222)	150.09	–	–	–	–
Outstanding at 28 February 2018	**4,058,091**	**160.43**	**94,936**	**344.96**	**122,460**	**367.20**
Exercisable at 28 February 2018	**19,559**	**282.00**	**94,936**	**344.96**	**122,460**	**367.20**
Exercise price range (pence)	**–**	**282.00**	**–**	**338.40 to 427.00**	**–**	**338.40 to 427.00**
Weighted average remaining contractual life (years)	–	**0.43**	–	**1.58**	–	**0.88**

Share options were exercised on a regular basis throughout the financial year. The average Tesco share price during the year ended 28 February 2019 was 228.55p (2018: 187.90p).

43. Share Based Payments (continued)

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

Group	2019 Savings - related share options schemes	2018 Savings - related share options schemes
Expected dividend yield (%)	3.3 - 4.2%	2.2% - 3.6%
Expected volatility (%)	29%	29 - 32%
Risk free interest rate (%)	0.78 - 1.10%	0.9 - 1.0%
Expected life of option (years)	3 or 5	3 or 5
Weighted average fair value (WAFV) of options granted (pence)	41.58 to 42.24	42.42
Probability of forfeiture (%)	7 - 11%	10 - 11%
Share price (pence)	212.40	187.00
WAEP (pence)	188.00	168.00

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

Share Bonus Schemes

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

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

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

The number of Tesco shares and WAFV of share bonuses awarded during the year were:

	2019 Shares (number)	2019 WAFV (pence)	2018 Shares (number)	2018 WAFV (pence)
Group Bonus Plan	1,547,112	241.80	1,305,466	180.35
Performance Share Plan	2,746,888	256.49	2,494,746	181.12

44. Adoption of New and Amended International Financial Reporting Standards

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

The impact on the Group adoption of IFRS 9 and IFRS 15 during the year to 28 February 2019 is included in note 2. During the year the Group has adopted the following new amendments to standards which became effective with relevant EU endorsement for annual periods beginning on or after 1 January 2018:

Amendments to IFRS 15 'Clarifications to IFRS 15, 'Revenue from contracts with customers''

These amendments clarify how the principles of IFRS 15 should be applied in determining recognition of contract revenue and provide transitional relief on modified and completed contracts for entities implementing the standard.

The impact of these amendments is included in the details on the full adoption of IFRS 15 in note 2.

Amendments to IFRS 4 'Applying IFRS 9, 'Financial Instruments', with IFRS 4, 'Insurance Contracts''

These amendments permit insurance entities to adopt certain transitional arrangements to address the temporary accounting consequences of the different effective dates of IFRS 9 and IFRS 17. These amendments have impacted the Group's share of results from its joint venture, TU. As permitted by these amendments, TU has deferred the adoption of IFRS 9 until 2021. Additional disclosures for TU required as a result of this are included in note 22.

Amendments to IAS 28 'Measuring an associate or joint venture at fair value'

These amendments are part of the Annual Improvements 2014-2016 process and are effective for annual periods beginning on or after 1 January 2018. They clarify that the option for a venture capital organisation and other similar entities to measure investments in associates and joint ventures at fair value through profit and loss is available separately for each associate or joint venture, and that election should be made at initial recognition. There has been no impact on the Group of the adoption of these amendments.

Amendments to IFRS 2 'Classification and measurement of share-based payment transactions'

These amendments are effective for annual periods beginning on or after 1 January 2018. They clarify how to account for certain types of share based payment transactions. There has been no impact on the Group of the adoption of these amendments.

IFRIC 22 'Foreign currency transactions and advance consideration'

This IFRIC clarifies the accounting for advance consideration in a transaction that is denominated in a foreign currency. There has been no impact on the Group of the adoption of this IFRIC.

Standards, amendments and interpretations issued but not yet effective

IFRS 16 'Leases'

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted provided IFRS 15 is applied on or before the same date. The mandatory application date for IFRS 16 for the Group is 1 March 2019. The Group will apply the requirements of IFRS 16 fully retrospectively, therefore including the restatement of prior year comparatives in the Financial Statements for the year ended 29 February 2020.

IFRS 16 is a replacement for IAS 17 'Leases'. IFRS 16 removes the distinction between finance and operating leases and instead provides a single lessee accounting model. The Group, as a lessee, will be required to recognise lease liabilities and corresponding right-of-use assets for all applicable leases. At commencement of a lease the lease liability equals the present value of future lease payments, and the right-of-use asset equals the lease liability, adjusted for payments already made, lease incentives, and initial direct costs. The new standard also provides the option not to recognise 'short-term' leases and leases of 'low-value' assets. Where this exemption is taken, such leases will continue to be expensed to the income statement over the term of the lease.

The income statement recognition pattern for the Group's leases will differ from the current pattern for operating leases, with interest on the liabilities and depreciation expense on the right-of-use assets recognised separately. In the cash flow statement, lease payments will be categorised within financing activities rather than operating activities.

IFRS 16 does not significantly change the accounting for leases by lessors.

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

On adoption, the Group expects to recognise right-of-use assets with a net book value of £15m on its balance sheet in respect of property assets currently accounted for as operating leases. A corresponding lease liability will also be recognised which represents the future payments to be made under these leases, discounted at the Group's incremental borrowing rate at lease inception. The net impact on lease liabilities after the release of the current operating lease accrual balance under IAS 17 is expected to be £22m. The overall impact on equity, net of deferred tax, is expected to be £5m. The most significant judgement included in the IFRS 16 lease calculations is the selection of an appropriate discount rate.

Amendments to IAS 28 'Long-term interests in associates and joint ventures'

These amendments are effective for annual periods beginning on or after 1 January 2019, subject to endorsement. They clarify that long-term interests in an associate or joint venture to which the equity method is not applied should be accounted for using IFRS 9. These amendments are not expected to impact the Group.

Amendments to IFRS 9 'Prepayment features with negative compensation'

These amendments are effective for annual periods beginning on or after 1 January 2019. They allow companies to measure particular prepayable financial assets with so-called negative compensation at amortised cost or at fair value through other comprehensive income if a specified condition is met, instead of at fair value through profit or loss. These amendments are not expected to impact the Group.

Amendments to IAS 23 'Borrowing costs eligible for capitalisation'

These amendments are effective for annual periods beginning on or after 1 January 2019, subject to endorsement. They clarify that if a specific borrowing remains outstanding after the related qualifying asset is ready for intended use or sale, it becomes part of general borrowings. These amendments are not expected to impact the Group.

Amendments to IAS 12 'Income tax consequences of payments on financial instruments classified as equity'

These amendments are effective for annual periods beginning on or after 1 January 2019, subject to endorsement. They clarify that the income tax consequences of dividends on financial instruments classified as equity should be recognised according to where the past transactions or events that generated distributable profits were recognised. These amendments are not expected to impact the Group.

Amendments to IFRS 3 and IFRS 11 'Measurement of previously held interest in obtaining control over a joint operation'

These amendments are effective for annual periods beginning on or after 1 January 2019, subject to endorsement. The amendments to IFRS 3 clarify that obtaining control of a business that is a joint operation is a business combination achieved in stages. The acquirer should remeasure its previously held interest in the joint operation at fair value at of the acquisition date.

The amendments to IFRS 11 clarify that the party obtaining joint control of a business that is a joint operation should not remeasure its previously held interest in the joint operation.

These amendments are not expected to impact the Group.

Amendments to IAS 19 'Plan amendment, curtailment or settlement'

These amendments are effective for annual periods beginning on or after 1 January 2019, subject to endorsement. When a plan event (i.e. a plan amendment, curtailment or settlement) occurs, IAS 19 requires a company to update its assumptions and remeasure its net defined benefit liability or asset. These amendments clarify that after a plan event companies should use these updated assumptions to measure current service cost and net interest for the remainder of the reporting period. These amendments are not expected to impact the Group.

IFRIC 23 'Uncertainty over income tax treatments'

This IFRIC is effective for annual periods beginning on or after 1 January 2019. It clarifies how the recognition and measurement requirements of IAS 12 'Income taxes' are applied where there is uncertainty over income tax treatments. These amendments are not expected to impact the Group.

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

Amendments to IFRS 3 'Definition of a business'

These amendments are effective for annual periods beginning on or after 1 January 2020, subject to endorsement. They amend the definition of a business to emphasise that the output of a business is to provide goods and services to customers, and add clarity to help differentiate between a business and an asset (or group of assets). These amendments are not expected to impact the Group.

Amendments to IAS 1 and IAS 8 'Definition of materiality'

These amendments are effective for annual periods beginning on or after 1 January 2020, subject to endorsement. They clarify the definition of materiality, ensure this is consistent across all standards, and add additional guidance and explanations. These amendments are not expected to impact the Group.

IFRS 17 'Insurance contracts'

IFRS 17 is effective for annual periods beginning on or after 1 January 2021, subject to endorsement, however the IASB is currently considering a deferral of this effective date by one year. Early adoption is permitted provided IFRS 9 and IFRS 15 are also applied.

IFRS 17 is a replacement for IFRS 4. IFRS 17 requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts.

IFRS 17 is relevant to the Group's joint venture, TU, which provides the insurance underwriting service for a number of the Group's general insurance products. The full impact on the Group is still being assessed.

Early adoption of new standards

The Group did not early adopt any new or amended standards in the year ended 28 February 2019.

45. Events After the Reporting Date

TU completed a share capital reduction of £16.0m and also repaid loan capital of £15.7m in March 2019. Following the share capital reduction, TU distributed capital of £31.3m. The Group has recognised its share of this distribution, being £15.6m, through a reduction in the carrying value of its investment in TU. The Group's investment in subordinated debt issued by TU has decreased by £7.8m, reflecting the Group's share of loan capital repaid.

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

Report on the audit of the Financial Statements

Opinion

In our opinion:

- the Financial Statements of Tesco Personal Finance Plc (the 'parent Company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the parent Company's affairs as at 28 February 2019 and of the Group's profit for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU);
- the parent Company Financial Statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and

We have audited the Financial Statements of Tesco Personal Finance plc (the 'parent Company') and its subsidiaries (the 'Group') which comprise:

- the Consolidated Income Statement;
- the Consolidated Statement of Comprehensive Income;
- the Consolidated and Company Statements of Financial Position;
- the Consolidated and Company Statements of Changes in Equity;
- the Consolidated and Company Cash Flow Statements; and
- the related Notes 1 to 45 of the Financial Statements.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the EU and, as regards the parent Company Financial Statements, as applied in accordance with the provisions of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the Financial Statements section of our report.

We are independent of the Group and the parent Company in accordance with the ethical requirements that are relevant to our audit of the Financial Statements in the United Kingdom (UK), including the Financial Reporting Council's (FRC) Ethical Standard (ES) as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's ES were not provided to the Group or the parent Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • loan impairment provisions; • the valuation of the payment protection insurance ("PPI") provision; • insurance reserving in Tesco Underwriting Limited (TU); • recognition of revenue;
Materiality	The materiality that we used for the group financial statements was £11.1m, which represents 5% of underlying profit before tax.
Scoping	Our audit scoping provides full scope audit coverage of 100% of revenue, profit before tax and net assets. There is one component, TU, which is a joint venture with Ageas, and is audited by another audit firm.
Significant changes in our approach	The payment fraud incident and IT control environment are no longer considered key audit matters. Refer to the 'Key audit matters' section below for the rationale. There are no other significant changes in our approach except for these key audit matters.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the Directors' use of the going concern basis of accounting in preparation of the Financial Statements is not appropriate; or

- the Directors have not disclosed in the Financial Statements any identified material uncertainties that may cast significant doubt about the Group's or the parent Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the Financial Statements are authorised for issue.

We have nothing to report in respect of these matters.

We considered as part of our risk assessment the nature of the Group, its business model and related risks including, where relevant, the impact of Brexit, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the Directors' assessment of the Group's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the Directors' plans for future actions in relation to their going concern assessment.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We identified the November 2016 payment fraud incident as a key audit matter in the prior year. In October 2018, the Financial Conduct Authority (FCA) issued the Group with a warning notice in relation to the incident and the Group agreed to a settlement payment of £16.4m. Given the uncertainty concerning the outcome of the regulatory investigation has now been resolved, we no longer consider it to be a key audit matter.

We also identified the IT control environment as a key audit matter in the prior year. During the course of our testing in the prior reporting period we identified several weaknesses in the control environment in relation to specific individuals' access rights to certain applications and infrastructure used in the financial reporting process. In the current period, the group has continuously improved controls in these areas and, as a result, we no longer

consider it to be a key audit matter.

Loan impairment provisions

Key audit matter description	
	The Group has implemented IFRS 9 'Financial instruments', which is effective from 1 March 2018. This is a new and complex accounting standard which has required considerable judgement and interpretation in its implementation. As disclosed in note 10 (Impairment Loss on Financial Assets) and note 16 (Loans and Advances to Customers), the Group held a loan impairment provision of £485.2m at 28 February 2019 (28 February 2018: £238.1m). Loan impairment is considered a key audit matter as it involves significant judgements taken by Management, particularly in light of the evolving economic environment in the UK and the methodology change from an 'incurred loss' model to an 'expected loss' model in the year following the mandatory adoption of IFRS 9. We have considered the most significant areas of judgement within the Group's collective provisioning methodologies to be: • The definition of significant increase in credit risk for Credit Cards – the definition of what constitutes a significant increase in credit risk which would trigger a requirement to provide for lifetime rather than 12 month expected credit losses (ECLs) is a key area of judgement. In particular, Management has developed and improved a new significant increase in credit risk definition for Credit Cards. • Expected life for Credit Cards – for exposures which have demonstrated a significant increase in credit risk, ECLs are recognised over the expected life of the exposure. The estimation of the expected life of a Credit Card is subject to significant Management judgement given it is a revolving facility. • Macro-economic scenarios – ECLs are required to be calculated on a forward-looking basis under IFRS 9. In determining both the economic scenarios, as well as the probability-weighting of each scenario to be incorporated into the ECL model, significant judgement is applied by Management. Other material judgements include the exposure at default for Credit Cards, the determination of probability of default, the determination of loss given default, the identification of loss events and the appropriateness and completeness of Management overlays. Given the material impact of the significant judgements taken by Management in the measurement of the provision, we consider there is an inherent risk of fraud through manipulation of this balance. Management's associated accounting policies are detailed on pages 38 to 41 with detail about the judgements in applying accounting policies and critical accounting estimates on page 54.

How the scope of our audit responded to the key audit matter	Our audit procedures included evaluating the design and implementation of relevant key controls around the impairment review processes and the determination of the judgements within the model. Key controls we evaluated included model governance forums, model monitoring and calibrations, the review and approval of macro-economic scenarios, the flow of data from the Bank's information systems into the model, and the flow of the output from the model to the general ledger. Our audit work to address the risks noted within the loan impairment process included the procedures noted below. **Assessment of the ECL model** ● We challenged the quantitative and qualitative triggers used to identify significant increases in credit risk to ensure they were consistently applied and based on reasonable information indicative of a significant increased risk of default since initial recognition; ● We assessed and challenged the key assumptions used by Management to estimate the expected life of Credit Cards using historical observed data combined with industry benchmarks and input from internal credit risk specialists; ● We assessed Management's methodology against the requirements of IFRS 9 with input from our internal credit risk modelling specialists and we tested the application of that methodology within the impairment models; and ● We challenged the appropriateness and completeness of Management overlays, critically assessing and independently recalculating those which were included. **Use of economic modelling experts** ● With support from internal economic modelling experts, we challenged the macro-economic scenario forecasts that were incorporated into the ECL model. Management's forecasts and their probability-weighting were benchmarked against external sources to assess their reasonableness, considering the forecasts in light of any contradictory information; and ● We challenged how Management had assessed the impact of Brexit within the ECL model to make sure that it was adequately considered in the measurement of ECLs. **Data testing** ● We substantively tested the data provided by Management that supported each material judgement for completeness and accuracy; and ● We substantively tested the underlying system data which feeds the model for completeness and accuracy. **Disclosures testing** ● We assessed whether the disclosure of significant judgements and areas of estimation uncertainty gave sufficient transparency over the uncertainty surrounding measurement of ECLs; and ● We tested the completeness and accuracy of the related credit risk disclosures and sensitivities with reference to the applicable standards.
Key observations	Based on our audit procedures above, we concluded that Management's provision is reasonably stated, and is supported by a methodology that is consistently applied and compliant with IFRS 9.

The valuation of the payment protection insurance (PPI) provision

Key audit matter description	As disclosed in note 29 (Provisions for Liabilities and Charges) the Group held a provision of £34.2m at 28 February 2019 (28 February 2018: £66.8m) for PPI. The high level of public and regulatory scrutiny of banks continues, as does the magnitude of legal and regulatory claims. The most significant conduct issue relates to PPI. Management’s judgements in assessing the valuation of the PPI provision is a key audit matter, particularly the judgement required to assess the current provision levels against the most recent claims experience and regulatory guidance, which confirms a deadline for PPI claims as at August 2019. Given the material impact of the significant judgements taken by Management in the measurement of the provision, we considered that there was an inherent risk of fraud through manipulation of this balance. In considering the FCA’s consultation papers and policy statements, the Group has modelled a time-bar ending in August 2019, with consideration given to the impact of future FCA communication campaigns on claim volumes as well as the inclusion of claims assessed under the Plevin guidelines, as explained in note 29.
How the scope of our audit responded to the key audit matter	We have evaluated the design and implementation of relevant key controls relating to the valuation of the PPI provision, specifically the internal review and challenge of Management’s valuation assumptions. As well as testing the arithmetical accuracy of the PPI model, we challenged the adequacy of the provision recognised by critically assessing the key assumptions used in the model, such as those relating to claims volumes and average redress, by comparing the assumptions to available peer data, referring to the guidance published by the FCA, assessing historical redress experience as well as Management’s past forecasting accuracy. We also tested the completeness and accuracy of the underlying data that supports Management’s assumptions and the current year utilisation of the provision.
Key observations	Based on the procedures performed, we concur with Management that the provision as at 28 February 2019 of £34.2m represents a reasonable best estimate of the probable economic outflow.

Insurance reserving in Tesco Underwriting (TU)

Key audit matter description	The Group is indirectly affected by the risks in insurance reserving through its 49.9% investment in the TU joint venture with Ageas. The Group accounts for its investment in TU as a joint venture and therefore recognises a share of TU’s profit/loss in its Consolidated Income Statement, with a corresponding movement in the value of the investment on the balance sheet, which has a carrying value of £86.4m as at 28 February 2019 (28 February 2018: £90.0m). TU’s results are sensitive to changes in the insurance reserves it recognises in respect of insurance policies written, net of reinsurance. Consequently, material increases in these reserves could have an impact on the carrying value of the investment in the Consolidated Statement of Financial Position. Given the material impact of the significant judgements taken by Management in the measurement of TU’s reserves, we considered that there was an inherent risk of fraud through manipulation of this balance. Management’s associated accounting policies are detailed on page 35 with detail about the judgements in applying accounting policies and critical accounting estimates on page 55.

How the scope of our audit responded to the key audit matter	The design and implementation of relevant key controls within the process to determine insurance contract liabilities were evaluated. Meetings were held with Senior Management involved in the reserving process to discuss the reserving methodology, changes in assumptions from the previous year-end, and questions arising from the review of internal and external reserving reports. With support from actuarial specialists we challenged the actuarial assumptions used and performed reprojections on selected classes of business. Classes selected included Motor BI Capped and Motor third party property damage. The projected claims liabilities were compared to those projected by Management and any significant differences were investigated. For the remaining classes of business, methodology and assumptions selected by Management were evaluated.
Key observations	We concluded that the assumptions that are used in determining the insurance reserves are within a reasonable range.

Recognition of revenue

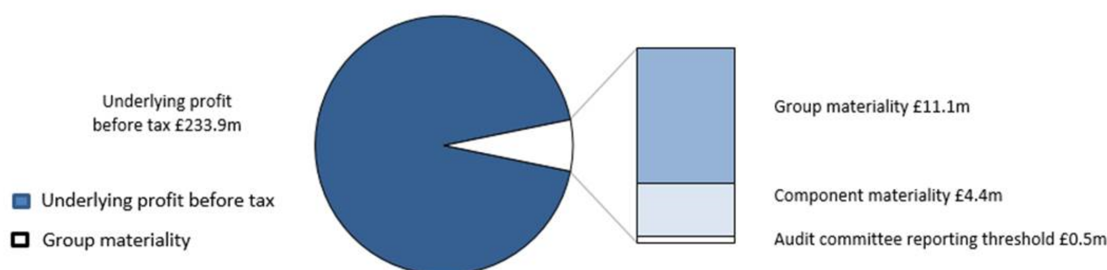
Key audit matter description	In accordance with IFRS 9, the revenue streams from financial products that are considered 'integral to the yield' must be recognised using the effective interest rate method (EIR) over the behavioural life of the financial products. The judgements taken in estimating the cash flows which drive the expected lives used in the calculation of the EIR can be sensitive to change, and could significantly impact the income recognised in any financial period, particularly in relation to introductory rate offers and similar structures. Accordingly, we have identified the judgement on expected lives of Credit Cards, specifically the repayment assumptions, to be the key audit matter over revenue recognition. Given the material impact of the significant judgements taken by Management in calculating the EIR asset, we are required to consider whether there is an inherent risk of fraud through manipulation of this balance. Management's associated accounting policies are detailed on pages 36 and 37 with detail about the judgements in applying accounting policies and critical accounting estimates, including sensitivities to the pay rates assumptions on page 54.
How the scope of our audit responded to the key audit matter	We obtained a detailed understanding and evaluated the design and implementation of controls that the group has established in relation to recognition of revenue using EIR. In order to assess the expected lives we reviewed the underlying code used to calculate the repayment rate assumptions that drive the expected lives uses in the model to ensure that it is consistent with the methodology adopted by Management. The methodology was also reviewed to ensure that it is in compliance with the requirements of IFRS 9. We then assessed whether any overlays were required to historic payment rates to reflect regulatory headwinds and macro-economic factors. Substantive testing over the completeness and accuracy of the underlying data inputs into the model that is used to support the repayment rate assumptions and we reviewed the arithmetic accuracy of the EIR model.
Key observations	From the work performed, we concur with Management's assumptions used in the Credit Cards' revenue recognition model, including those relating to the behavioural lives of Credit Cards. We are satisfied that Management's methodology and model is appropriate and that it supports the EIR asset.

Our application of materiality

We define materiality as the magnitude of misstatement in the Financial Statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the Financial Statements as a whole as follows:

	Group Financial Statements	Parent Company Financial Statements
Group materiality	£11.1m (2018: £10.6m)	£11.0m (2018: £10.5m)
Basis for determining materiality	Materiality has been determined as 5% of underlying profit before tax.	Parent Company materiality represents less than 1% of total assets, which is capped at 99% of Group materiality.
Rationale for the benchmark applied	In our professional judgement, we believe that the use of profit before tax is appropriate as the purpose of the Bank is to generate a return to Tesco PLC through the generation of profits. The materiality selected represents 0.7% of the Group's net assets.	In our professional judgement, we believe that the use of profit before tax is appropriate as the purpose of the Bank is to generate a return to Tesco PLC through the generation of profits. The materiality selected represents 0.7% of the Company's net assets.



We agreed with the Audit Committee (AC) that we would report to the AC all audit differences in excess of £0.5m (2018: £0.5m) for the Group and parent Company, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the AC on disclosure matters that we identified when assessing the overall presentation of the Financial Statements.

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. Audit work to respond to the risks of material misstatement was performed by the audit engagement team. Our audit scoping provides full scope audit coverage of 100% of the Group's revenue, profit before tax and net assets.

Work on TU, the Group's joint venture with Ageas, was performed by component auditors. The timing of our audit engagement with the component auditors was planned to enable us to be involved during the planning and risk assessment process in addition to the execution of audit procedures. We attended key meetings with TU Management and the component auditor, visited the component auditor, and reviewed the audit files of the component auditor to understand the audit approach adopted, with specific focus over the claims reserves recognised. We also had a dedicated senior member of the audit team focussed on overseeing the role of the component auditors. The materiality level applied by the component auditor of TU was £4.4m (2018: £5.2m).

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the Financial Statements and our auditor's report thereon.

Our opinion on the Financial Statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the Financial Statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, the Directors are responsible for assessing the Group's and the parent Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

A further description of our responsibilities for the audit of the Financial Statements is located on the FRC's website at: http://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities including fraud

We identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- enquiring of Management, Internal Audit and the Audit Committee, including obtaining and reviewing supporting documentation, concerning the Group's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- discussing among the engagement team and involving relevant internal specialists, including tax, IT, insurance and industry specialists regarding how and where fraud might occur in the Financial Statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in the following areas: loan impairment provisions, the valuation of the PPI provision, insurance reserving in TU and recognition of revenue; and
- obtaining an understanding of the legal and regulatory frameworks that the Group operates in, focusing on those laws and regulations that had a direct effect on the Financial Statements or that had a fundamental effect on the operations of the Group. The key laws and regulations we considered in this context included the regulations, conditions and requirements of the Prudential Regulation Authority (PRA) and the FCA, the Companies Act 2006 and the HM Revenue and Customs (HMRC) Tax Legislation.

Audit response to risks identified

As a result of performing the above, we identified loan impairment provisions, the valuation of the PPI provision, insurance reserving in TU and recognition of revenue as key audit matters. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the Financial Statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of Management, the AC and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC, the PRA and the FCA; and
- in addressing the risk of fraud through Management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and of the parent Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' Report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or

- the parent Company Financial Statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Director's remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made.

We have nothing to report in respect of these matters.

Other matters

Auditor tenure

Following the recommendation of the AC, we were appointed by the Board of Directors on 30 June 2015 to audit the Financial Statements for the year ending 29 February 2016 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is four years, covering the years ending 29 February 2016 to 28 February 2019.

Consistency of the audit report with the additional report to the AC

Our audit opinion is consistent with the additional report to the AC we are required to provide in accordance with ISAs (UK).

Use of our report

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

Stephen Williams ACA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
Edinburgh, United Kingdom
8 April 2019

ABBREVIATIONS

AC	Audit Committee
AEaR	Annual earnings at risk
AFS	Available-for-sale
ALCo	Asset and Liability Management Committee
ALM	Asset and Liability Management
BCBS	Basel Committee on Banking Supervision
BDAR	Bad debt:asset ratio
BoE	Bank of England
BRC	Board Risk Committee
CA	Compliance Advisory
CaR	Capital at risk
CCA	Consumer Credit Act
CDEC	Customer Division Executive Committee
CEC	Commercial Executive Committee
CRD	Capital Requirements Directive
CRO	Chief Risk Officer
CRR	Capital Requirements Regulation
CSRBB	Credit spread risk in the Banking Book
DC	Disclosure Committee
EAD	Exposure at default
EBA	European Banking Authority
ECLs	Expected credit losses
EEA	European Economic Area
EIR	Effective interest rate
ERC	Executive Risk Committee
ES	Ethical Standard
EU	European Union
ExCo	Executive Committee
FCA	Financial Conduct Authority
FVOCI	Fair value through other comprehensive income
FVPL	Fair value through profit or loss
GDPR	General Data Protection Regulation
IA	Internal Audit
IAS	International Accounting Standard
IAS 17	IAS 17 'Leases'
IAS 19	IAS 19 'Employee Benefits'
IAS 39	IAS 39 'Financial instruments: Recognition and measurement'
IASB	International Accounting Standards Board
ICAAP	Internal capital adequacy assessment process
IEC	Insurance Executive Committee
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standard
IFRS 4	IFRS 4 'Insurance contracts'
IFRS 9	IFRS 9 'Financial instruments'
IFRS 15	IFRS 15 'Revenue from contracts with customers'
IFRS 16	IFRS 16 'Leases'
IFRS 17	IFRS 17 'Insurance contracts'
ILAAP	Internal liquidity adequacy assessment process
IRRBB	Interest rate risk in the Banking Book
ISAs (UK)	International Standards on Auditing (UK)
ISC	Information Security Committee
ISDA	International Swaps Derivatives Association
LGD	Loss given default
LIBOR	London Interbank Offered Rate
LRMF	Liquidity Risk Management Framework
LTV	Loan-to-value
MLR	Market and Liquidity Risk
MREL	Minimum requirements for own funds and eligible liabilities
MRF	Market Risk Forum
MRSOC	Model Rating System and Oversight Committee
MRT	Material Risk Taker
NC	Nomination Committee
NSFR	Net stable funding ratio
ORSA	Operational risk scenario analysis
PD	Probability of default
Plevin	Plevin v Paragon Personal Finance Limited
PPI	Payment protection insurance
PRA	Prudential Regulation Authority
PSD2	Second Payment Services Directive
RAM	Risk appetite measure
RC	Remuneration Committee
RCSA	Risk and control self-assessment
RICS	Royal Institute of Chartered Surveyors
RMF	Risk management framework
RMFu	Risk Management Function
SA	Standardised approach
SFTs	Securities financing transactions
SONIA	Sterling Overnight Index Average
TCR	Total capital requirement
Tesco	Tesco PLC
TFS	Term Funding Scheme
TPFG	Tesco Personal Finance Group PLC
TPP	Third party provider
TSL	Tesco Stores Limited
TU	Tesco Underwriting Limited
UK	United Kingdom
WAEP	Weighted average exercise price
WAFV	Weighted average fair value

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 or through the use of an allowance account) for impairment or uncollectibility.
Annual earnings at risk	Changes in interest rates affect the Bank's earnings by altering interest rate-sensitive income and expenses. Excessive interest income sensitivity can pose a threat to the Bank's current capital base and/or future earnings. The AEaR model measures the sensitivity of the Bank's earnings to movements in interest rates over the next 12 months based on expected cashflows. The Bank assesses the impact of a +/- 0.25%, 0.50%, 0.75%, 1% shock in rates versus the base case scenario (2018: +1.0%; -0.75%). The most adverse scenario is measured against Risk Appetite.
Annual wholesale refinancing amount	The annual wholesale funding amount is the value of funds requiring to be refinanced in a rolling 12 month period end.
Asset encumbrance	A claim to an asset by another party usually in the form of a security interest such as a pledge. Encumbrance reduces the assets available in the event of default by a bank and therefore, the recovery rate of its depositors and other unsecured bank creditors.

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.
Bad debt:asset ratio	The bad debt:asset ratio is calculated by dividing the impairment loss by the average balance of loans and advances to customers.
Basis risk	Basis risk is the financial risk that offsetting investments in a hedging strategy will not experience price changes in entirely opposite directions from each other.
Black-Scholes model	A financial model used to price options.
Brexit	The process by which the UK will leave 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 year by total risk-weighted assets and is calculated in line with the CRR.
Company	Tesco Personal Finance Plc
Concentration risk	The risk of losses arising as a result of concentrations of exposures to a specific counterparty, economic sector, segment or geographical region.
Cost:income ratio	The cost:income ratio is calculated by dividing operating expenses by total underlying income.
CRD IV	Legislation published in June 2013 (in force from 1 January 2014) by the European Commission, comprising the CRD and CRR and together forming the CRD IV package. Implements the Basel III proposals in addition to new proposals on sanctions for non-compliance with regulatory rules, corporate governance and remuneration. The rules have been implemented in the UK via PRA policy statement PS7/13, with some elements subject to transitional phase-in.

Credit risk	Credit risk is the risk that a borrower will default on a debt or obligation by failing to make contractually obligated payments, or that the Group will incur losses due to any other counterparty failing to meet their financial obligations.
Credit risk mitigation	Techniques used to reduce the credit risk associated with an exposure.
Credit spread risk	The risk of adverse effects resulting from a change in credit spreads, arising from a bank's non-trading assets and liabilities.

D

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

E

Encumbrance ratio	The encumbrance ratio is calculated as (total encumbered assets + total collateral received which has been re-used for financing transactions) divided by (total assets + total collateral received which is available for encumbrance).
Equity method	A method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets. The investor's profit or loss includes its share of the investee's profit or loss and the investor's other comprehensive income includes its share of the investee's other comprehensive income.
Exposure	A claim, contingent claim or position which carries a risk of financial loss.
Exposure at default or exposure value	The amount expected to be outstanding after any credit risk mitigation, if and when the counterparty defaults. EAD reflects both drawn down balances as well as an allowance for undrawn commitments and contingent exposures.
External Credit Assessment Institutions	These include external credit rating agencies such as Standard & Poor’s, Moody’s and Fitch.

F

Fair value	The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
Financial Conduct Authority	The statutory body responsible for conduct of business regulation and supervision of UK authorised firms from 1 April 2013. The FCA also has responsibility for the prudential regulation of firms that do not fall within the PRA’s scope.
Forbearance	Relief granted by a lender to assist customers in financial difficulty, through arrangements which temporarily allow the customer to pay an amount other than the contractual amounts due.
Foreign exchange risk	The risk that the value of transactions in currencies other than Sterling is altered by the movement of exchange rates.
Funding risk	The risk that the Group does not have sufficiently stable and diverse sources of funding.

G

General Data Protection Regulation	The General Data Protection Regulation 2016/679 is a regulation in EU law on data protection and privacy for all individuals within the EU and the EEA. It also addresses the export of personal data outside the EU and EEA areas.
Group	The Company and its subsidiaries and joint venture.

I

Impairment charge and impairment provisions	Provisions held on the balance sheet as a result of the raising of an impairment charge against profit for the incurred loss inherent in the lending book. Impairment provisions may be individual or collective.

Impairment losses	The reduction in value that arises following an impairment review of an asset which has determined that the asset's value is lower than its carrying value. For impaired financial assets measured at amortised cost, impairment losses are the difference between the carrying value and the present value of estimated future cash flows, discounted at the asset's original effective interest rate.
Insurance risk	The risks accepted through the provision of insurance products in return for a premium. 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 liquidity requirement	In place to ensure that the Group maintains adequate liquid assets to survive a defined stress scenario for a sufficient period as defined by Risk Appetite.
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.
International Swaps and Derivatives Association master agreement	A standardised contract developed by the ISDA which is used as an umbrella contract for bilateral derivative contracts.

L

Leverage ratio	Tier 1 capital divided by total exposure.
Liquidity coverage ratio	Liquidity buffer divided by net liquidity outflows over a 30 day calendar day stress period.
Liquidity risk	Liquidity risk is the risk that the Group is not able to meet its obligations as they fall due. This includes the risk that a given security cannot be traded quickly enough in the market to prevent a loss if a credit rating falls.
Loan to deposit ratio	The loan to deposit ratio is calculated by dividing loans and advances to customers by deposits from customers.
Loss given default	Represents the Group's expectation of the extent of the loss if there is a default. The LGD assumes that once an account has defaulted, the portion of the defaulted balance will be recovered over a maximum period of 60 months from the point of default. LGD models take into account, when relevant, the valuation of collateral, collection strategies and receipts from contracted debt sales.

M

Mark-to-market approach	One of three methods available to calculate exposure values for counterparty credit risk. The method adjusts daily to account for profits and losses in the value of related assets and liabilities.
Market risk	The risk that the value of earnings or capital is altered through the movement of market rates. This includes interest rates, foreign exchange rates, credit spreads and equities.
Minimum capital requirement	The minimum regulatory capital that must be held in accordance with Pillar 1 requirements for credit, market and operational risk.
Minimum requirements for own funds and eligible liabilities	A requirement for minimum loss-absorbing capacity institutions must hold.

N

Net interest margin	Net interest margin is calculated by dividing net interest income by average interest bearing assets.
Net stable funding ratio	The net stable funding ratio is calculated under the CRD IV methodology.

O

Ogden tables	Tables which are used to calculate the cost of any claim that involves compensation for loss of future benefits. The tables provide an estimate of the return to be expected from the investment of a lump sum damages award.
Operational risk	The risk of potential error, loss, harm or failure caused by ineffective or inadequately defined processes, system failure, improper conduct, human error, fraud or from external events.

P

Past due loans	Loans are past due when a counterparty has failed to make a payment in line with their contractual obligations.
PD threshold	The maximum lifetime PD for each financial asset that was expected at the reporting date at initial recognition before a significant increase in credit risk is deemed to have occurred.
Pension obligation risk	The risk to the Group caused by contractual or other liabilities to or with respect to a pension scheme.
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 are either not captured, or not fully captured, under the Pillar 1 capital requirements applicable to all banks.
Pillar 3	The third pillar of the Basel II framework aims to encourage market discipline by setting out disclosure requirements for banks on their capital, risk exposures and risk assessment processes. These disclosures are aimed at improving the information made available to the market.
Pipeline risk	The lender's risk that, between the time a lock commitment is given to the borrower and the time the loan is closed, interest rates will rise and the lender will take a loss on selling the loan.
Prepayment risk	Prepayment risk is the risk associated with the early unscheduled return of principal on a fixed-income security.
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.
Second Payment Services Directive	PSD2 is an EU Directive regulates payment services and payment service providers throughout the European Union and European Economic Area. PSD2 updates and replaces the Payment Services Directive 2008.

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 areas within which the Group operates.
Repricing risk	Repricing risk is the risk of changes in interest rate charged (earned) at the time a financial contract's rate is reset. It emerges if interest rates are settled on liabilities for periods which differ from those on offsetting assets.
Residual price risk	The risk that the fair value of a financial instrument and its associated hedge will fluctuate because of changes in market prices, for reasons other than interest rate or credit risk.
Retail credit risk	Retail credit risk is the risk that a borrower, who is a personal customer, will default on a debt or obligation by failing to make contractually obligated payments.
Risk Appetite	The level and types of risk that the Group is willing to assume to achieve its strategic objectives.
Risk Appetite Measures	Measures designed to monitor the Group's exposure to certain risks to ensure that exposure stays within approved Risk Appetite.
Risk-weighted assets	Calculated by assigning a degree of risk expressed as a percentage (risk-weight) to an exposure value in accordance with the applicable standardised and internal ratings-based 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.
Stress testing	The term used to describe techniques where plausible events are considered as vulnerabilities to ascertain how this will impact the capital resources which are required to be held by the Group.
Securitisation structured entity	A corporation, trust, or other non-bank entity, established for the purpose of carrying on securitisation activities. Structured entities are designed to isolate their obligations from those of the originator and the holder of the beneficial interests in the securitisation.
Standardised approach	In relation to credit risk, the method for calculating credit risk capital requirements using risk-weightings that are prescribed by the regulator. SAs following prescribed methodologies also exist for calculating market and operational risk capital requirements.
Subordinated liabilities	Liabilities which, in the event of insolvency or liquidation of the issuer, are subordinated to the claims of depositors and other creditors of the issuer.

T

Tesco Pay+	Tesco Pay+ is the Group's mobile payment service, which offers Tesco's shoppers the ability to pay and collect Clubcard points with one simple and convenient scan of their phone.
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 requirement	The amount and quality of capital the Bank must maintain to comply with the CRR Pillar 1 and the 2A capital requirements.

U

UK Leverage Framework regime	The UK leverage ratio framework 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.
Unencumbered assets to retail liabilities ratio	The minimum unencumbered assets to retail liabilities ratio is the surplus of unencumbered assets relative to the total amount of retail liabilities.

W

Wholesale credit risk	The risk that the counterparty to a transaction will default before the final settlement of the transaction’s cash flows. Such transactions relate to contracts for derivative financial instruments, securities financing transactions and long-dated settlement transactions.
Wholesale funding ratio	The wholesale funding ratio is calculated by dividing total wholesale funding by total funding.