TESCO PERSONAL FINANCE PLC

INTERIM FINANCIAL REPORT

FOR THE SIX MONTHS ENDED 31 AUGUST 2023

COMPANY NUMBER SC173199

CONTENTS

TESCO PERSONAL FINANCE PLC
INTERIM MANAGEMENT REPORT

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

TPF is a wholly owned subsidiary of Tesco Personal Finance Group plc (TPFG), the share capital of which is wholly owned by Tesco PLC (Tesco). A reconciliation of the results contained within these Interim Condensed Consolidated Financial Statements to the Tesco Bank results presented in the Tesco Interim Results 2023/24 can be found on the Tesco internet page: https://www.tescoplc.com/tesco-bank/interimbrokerpackaug23

Cautionary Statement Regarding Forward-Looking Information

Where this document contains forward-looking statements, these are made by the Directors in good faith based on the information available to them at the time of their approval of this report. These statements should be treated with caution due to the inherent risks and uncertainties underpinning any such forward-looking information. The Group cautions users of these Interim Condensed Consolidated Financial Statements that a number of factors, including matters referred to in this document, could cause actual results to differ materially from those contained in any forward-looking statement. Such factors include, but are not limited to, those discussed under 'Principal risks and uncertainties' on pages 6 to 7 of this Interim Management Report.

Business Model

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

The Group provides financial services and products, primarily Credit Cards, Personal Loans, Savings accounts, Insurance and Money Services products, to personal customers in the United Kingdom (UK). The Company is incorporated and registered in Scotland. The Company owns 100% of Tesco Underwriting Limited (TU), an authorised insurance company which provides the insurance underwriting service for a number of the Group's general insurance products.

Strategic Review

Economic Environment

The Group continued to trade profitably during the period ended 31 August 2023. While the economic outlook remains uncertain as the cost of living crisis continues, improved business confidence and easing inflation are forecast to result in modest economic growth. Fiscal restraint is expected to reduce the pressure to tighten monetary policy further and the Bank of England (BoE) base rate is expected to rise only marginally over the remainder of 2023 as inflation progressively reduces over the course of the year. In addition, while still higher than pre-pandemic levels, energy prices have significantly reduced from their peak level observed in June 2022.

The expected credit loss (ECL) charge for the current period of £32.7m (August 2022: £38.4m[1]) reflects the refinement of Management estimates relating to the level of risk in the Group's Personal Loans book, offset by growth in the portfolio and the level of risk progressively returning to pre-pandemic levels, albeit arrears and defaults in the portfolio remain below this level.

Despite stability in the performance of the underlying portfolio, the increased risk from a high interest rate environment and cost of living crisis at 31 August 2023 creates uncertainty in relation to future ECL projections and the current model outputs. As a result, post-model adjustments (PMAs) in respect of economic uncertainty continue to be applied to the Group's modelled ECL provision.

Further information in respect of these adjustments and the impact of the current economic outlook on ECLs is set out at note 18. Overall provision levels have reduced in the period to £452.3m (February 2023: £459.7m[1]) and coverage has reduced to 5.7% (February 2023: 6.1%[1]).

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

Economic Environment (continued)

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

The Board has also considered in depth the impact of the economic environment on the Group's going concern status. The relevant disclosures are set out on pages 8 and 15 to 16.

Implementation of IFRS 17

The Group adopted International Financial Reporting Standard (IFRS) 17 'Insurance Contracts' with effect from 1 March 2023. This was adopted fully retrospectively and prior period comparatives have been restated. As a result of these restatements, impacted balances at 28 February 2023 presented in this interim report are unaudited.

The adoption of IFRS 17 resulted in a decrease in the Group's total assets of £258.6m, a decrease in the Group's total liabilities of £253.2m and a net reduction in equity of £5.4m at 1 March 2023.

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

Changes to the Group's capital structure

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

Linked to this, on 31 August 2023 TPF issued £150.0m of 11.5 per cent fixed rate reset additional tier 1 (AT1) securities to TPFG which form part of the Group's total equity, resulting in the Group's total equity and total issued capital remaining unchanged following completion of these capital changes. TPFG ultimately issued the equivalent to Tesco. Further information in respect of these capital changes is set out at notes 16 and 17.

Special interim dividend

A special interim dividend of £250.0m (2022: £nil) was paid to TPFG on 14 July 2023, with TPFG then paying a special interim dividend of £250.0m to Tesco on 23 August 2023. Further information in respect of the special interim dividend is set out at note 11.

Headlines

Income Statement

- Profit before tax is £57.0m (August 2022: £51.8m[1]).
- Underlying profit before tax, which excludes items which are not reflective of ongoing trading performance, is £56.8m (August 2022: £54.8m[1]). A reconciliation of statutory to underlying profit for the current and prior periods is set out at note 3.

Profit before tax

The key drivers of the profit before tax are:

- a 6.5% increase in net interest income to £216.9m (August 2022: £203.6m[1]) driven by an increase in customer lending and higher interest-bearing Credit Card balances, offset by an increase in customer deposits required to fund lending growth. The overall net interest margin remained flat at 4.7% (August 2022: 4.7%[1]);
- a 0.5% decrease in net fees and commissions income to £127.8m (August 2022: £128.5m). Travel Money and Gift Card fee income both increased slightly but were offset by an increase in Credit Card transactional fees payable;

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

Profit before tax (continued)

- a 12.6% increase in insurance service result to a charge of £10.7m (August 2022: charge of £9.5m[1]). Motor and Home premiums increased as a result of policy growth and price increases across the insurance market. This was offset by higher claims volumes, mainly as the result of continued accidental damage inflation and larger fire claims. In addition, an increase in directly attributable costs relating to insurance contracts within the scope of IFRS 17, largely driven by higher aggregator costs due to higher new business sales, was offset by a reduction in the acquired claims charge relating to claims liabilities which existed when the Group acquired Tesco Underwriting Limited (TU) on 4 May 2021, as this book unwinds. Further explanation of the required accounting in respect of these acquired claims is set out at note 2;
- a 16.8% decrease in net expenses from reinsurance contracts held to £26.7m (August 2022: £32.1m), largely driven by improved Motor excess of loss recoveries;
- a 3.2% increase in operating expenses to £241.9m (August 2022: £234.4m[1]). Operating expenses have increased due to higher ATM funding costs and the impact of inflation on non-staff costs, offset by lower employee related and other costs in respect of the Group's Agile transformation programme (refer to note 3), lower depreciation and a reduction in printing and postage costs as the drive to a more digital approach has continued; and
- a 14.8% decrease in charges for ECLs on financial assets to £32.7m (August 2022: £38.4m[1]). The reduction in the charge for the current period largely reflects the refinement of Management estimates relating to the level of risk in the Group's Personal Loans book, offset by growth in the portfolio and the level of risk progressively returning to pre-pandemic levels. Arrears and defaults in the portfolio remain below these levels, resulting in provisions coverage reducing over the period. However, the increased risks from a high interest rate environment and cost of living crisis at 31 August 2023 create uncertainty in relation to future loss projections and the current model outputs. As a result, PMAs in respect of economic uncertainty continue to be applied to the Group's modelled ECL provision. Further information in respect of these adjustments, along with the impact of the current economic outlook on ECLs, is set out at note 18.

Income tax charge on profit

Income tax on the Group's profit for the period is a charge of £14.6m (August 2022: £11.6m). The tax charge for the period is primarily driven by the 25% corporation tax rate applying for the full year. The prior period charge was primarily driven by the impact on the Group's deferred tax assets of the substantive enactment of a reduction in the banking surcharge from 8% to 3%.

Other Comprehensive Income

- the net reduction in debt securities at fair value through other comprehensive income of £3.9m (August 2022: £27.4m) reflects fair value movements in TU's portfolio of fixed rate bonds. Continued rises in the UK BoE base rate and increases to future interest rate projections over the period ended 31 August 2023 have resulted in the fair value of these bonds falling further below their amortised cost. The amortised cost of these bonds is expected to be realised at maturity, when fair value adjustments recognised over the life of the bonds unwind; and
- the net movement in insurance contracts of £1.5m (August 2022: £13.7m[1]) reflects the impact of continued rises in market rates of interest in the period on the value of reinsurance contracts held and insurance contracts issued.

Balance Sheet

- cash and balances with central banks increased by 59.1% to £730.4m (February 2023: £459.1m), predominantly reflecting a £300.0m (February 2023: £nil) increase in debt securities in issue and the net impact of movements in savings and lending balances. The Group maintains a liquidity position in excess of internal and regulatory requirements and maintains a liquidity and funding profile to enable it to meet its financial obligations under normal and stressed market conditions.
- loans and advances to customers have increased by 6.4% to £7.4bn (February 2023: £7.0bn[1]) due mainly to higher Credit Card balances as a result of increased retail spending and reduced payment rates, while competitive pricing on Personal Loans resulted in increased lending. In addition, early prepayment behaviour from Personal Loans customers has now returned to pre-pandemic levels.

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

Balance Sheet (continued)

- net derivative financial instruments of £107.6m (February 2023: £104.5m) reflect movements in interest rate swap rates due to rising interest rates, which have increased the net value of derivatives used as part of the Group's hedging strategies.
- following the resumption of the securitisation markets after the pandemic, the Group issued debt securities of £300.0m (February 2023: £nil) during the period through an external securitisation issuance undertaken by Delamare Cards MTN Issuer plc as part of the Group's liquidity and funding strategy.
- insurance contract liabilities increased by 1.9% to £498.0m (February 2023: £488.9m[1]) largely due to premium growth giving rise to a higher liability for remaining coverage, offset by an increase in insurance premium debtors. Reinsurance contract assets decreased by 18.9% to £109.7m (February 2023: £135.2m[1]), reflecting an increase in reinsurance recoveries offset by an increase in reinsurance payables and quota share reinsurance premiums within the funds withheld account.
- customer deposits, which continue to be the Group's main source of funding, have increased by 9.9% to £6.3bn (February 2023: £5.8bn) as the Group has continued to grow its Savings balances to reflect growth in its lending book.
- at the period end, the Group had entered into repurchase agreement transactions of £75.0m (February 2023: £nil) and accessed £900.0m (February 2023: £900.0m) of funds from the BoE's Term Funding Scheme with Incentives for Small and Medium Sized Entities.
- the balance sheet remains well positioned to support future lending growth from both a liquidity and capital standpoint, with the ratios managed in excess of internal and regulatory requirements. At 31 August 2023, the total capital ratio was 20.2% (February 2023: 25.6%) and net stable funding ratio (NSFR) was 128.7% (February 2023: 128.8%). The drivers of movements in the total capital ratio and NSFR are discussed in the Capital and Liquidity Ratios section of this Interim Management Report.

Regulatory Developments

Onshoring of European Union (EU) Regulations After Brexit

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

Consumer Duty

Consumer Duty is a new regulatory requirement published by the Financial Conduct Authority which came into effect on 31 July 2023, the overarching principle of which is that a firm must act to deliver good outcomes for retail customers. This requires the Group to:

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

In preparation for Consumer Duty coming into effect, the Group carried out a review of customer support processes and customer documentation and journeys to improve customer outcomes. To embed the consideration of customer outcomes going forward, the Group has designed and developed a new 'Good Outcomes' framework, building on its existing conduct risk framework. The revised framework has an enhanced suite of Customer Outcomes Management information, which will be regularly monitored, and a set of consistent consumer understanding principles which are used to check that customer communications are clear, fair and easy to understand. Activity is ongoing to fully embed the new requirements across the Group in line with regulatory deadlines.

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

Regulatory Developments (continued)

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

Countercyclical Capital Buffer (CCyB)

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

In the UK, the Financial Policy Committee (FPC) of the BoE is responsible for setting the CCyB. On 12 July 2023, the FPC published its latest Financial Stability Report, which confirmed that the rate is being maintained at 2%.

Climate Change

The Group's Climate Change programme is led by the Chief Risk Officer (CRO), who holds the Senior Management Function accountability for climate change risk. The Group is committed to reducing its environmental impact, as well as assessing and managing the risks arising from climate change. The Group's ambition is to achieve its target of carbon neutral in its own operations by 2035 and net zero across the Group's whole footprint by 2050. The Group's aims are aligned with Tesco and the Group continues to work closely with Tesco to ensure that its and Tesco's approach to tackling climate change are consistent.

Based on climate scenario analysis, the Group believes that its business is able to withstand potential climate scenarios. The Group will continue to evolve its approach to scenario analysis to incorporate developing market practice in this area. The Group's own operations already use 100% green electricity and work is ongoing to reduce the impact of the Group's offices on the environment.

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

Key Performance Indicators

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

	31 August 2023	31 August 2022 Restated[1]
Net interest margin	4.7%	4.7%[1]
Underlying cost:income ratio	73.0%	71.1%[1]
Cost: income ratio	73.0%	72.2%[1]
Gross written premiums	£197.0m	£163.9m[1]
Loans and advances to customers loss allowance coverage ratio	5.7%	6.4%[1]

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

Capital and Liquidity Ratios

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

	31 August 2023	28 February 2023 (unaudited) Restated[1]	31 August 2022 Restated[1]
Common equity tier 1 ratio	**15.5%**	22.9%	22.6%
Total capital ratio	**20.2%**	25.6%	25.4%
Capital coverage of TU's solvency capital requirement (SCR)	**159.0%**	159.0%	149.1%
Minimum requirement for own funds and eligible liabilities (MREL) ratio	**22.2%**	27.7%	29.0%
Net stable funding ratio	**128.7%**	128.8%	127.2%
Loan to deposit ratio	**116.9%**	120.8%[1]	122.0%[1]

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

TPF's total capital ratio remains in excess of internal and regulatory requirements at 20.2% (February 2023: 25.6%) on a transitional basis. On an end-point basis, TPF's total capital ratio is 20.0% (February 2023: 24.7%), which is also in excess of internal and regulatory requirements. The decrease in the total capital ratio is driven by lower tier 1 capital resulting from payment of a £250.0m special interim dividend and the phased reduction in the IFRS 9 'Financial Instruments' benefit (refer to note 20), coupled with an increase in risk-weighted assets due to higher lending in the Credit Card book, in line with the Group's strategy. Refer to note 20 for full details of the impact of these amendments on the Group.

Capital coverage of TU's SCR of £122.8m (unaudited) at the end of February 2023 was 159.0% (unaudited). TU's unaudited available capital has remained above its SCR during the period to 31 August 2023.

An interim MREL ratio requirement of 18.0% of risk-weighted assets was set from 1 January 2020 to 31 December 2022. On 9 December 2021, the BoE confirmed a change in TPFG's preferred resolution strategy from partial-transfer to a modified form of insolvency, effective from 1 January 2022. As set out in its MREL Statement of Policy, the BoE does not expect to set an MREL in excess of the total capital requirement (TCR) for firms with a modified form of insolvency as the preferred resolution strategy. Accordingly, TPFG no longer has a requirement to issue MREL-compliant debt since its MREL requirement is equal to the TCR. Following a tender process undertaken by TPFG in November 2022, £144.7m of the MREL-compliant debt issued by TPFG in July 2019 remains in issue**.** At 31 August 2023 the MREL ratio was 22.2% (unaudited) (February 2023: 27.7% (unaudited)).

At 31 August 2023 the NSFR, a measure of the Company's liquidity position, was in excess of internal and regulatory requirements at 128.7% (February 2023: 128.8%). The NSFR has remained static, with an increase in available funding from customer deposits being offset by an increase in required funding resulting from higher customer loans and advances balances.

The Group maintains a liquid asset portfolio of high-quality securities of £2.2bn (February 2023: £2.0bn).

Principal risks and uncertainties

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

Principal risks and uncertainties (continued)

The Board is also responsible for overall corporate governance, which includes overseeing an effective system of risk management and that the level of capital and liquidity held is adequate and consistent with the risk profile of the business. To support this, the Group's Risk Management Framework (RMF) has been updated, creating an integrated and even more data-led approach to managing risk. The RMF is an integrated approach to managing risk and brings together Risk Governance, Risk Appetite, the Three Lines of Defence model, the Policy Framework and risk management tools to support the business in managing risk as part of day-to-day activity, underpinned by governance, controls, processes, systems and policies.

The CRO performs a strategic risk management role and is accountable for the design, maintenance of, and monitoring of compliance with, the RMF. The CRO is independent from any commercial function, reports directly to the Chief Executive Officer and can only be removed from position with the approval of the Board.

The principal risks and uncertainties faced by the Group remain unchanged from the Annual Report and Financial Statements as at 28 February 2023 (pages 11 to 18). See below for further details.

Credit risk	The risk that a borrower will default on a debt or obligation by failing to make contractually obligated payments, or that the Group will incur losses due to any other counterparty failing to meet their financial obligations.
Operational risk	The risk of a potential error, loss, harm or failure caused by ineffective or inadequately defined processes, system failures, improper conduct, human error or from external events.
Funding and Liquidity risk	The risk that the Group is not able to meet its obligations as they fall due and the risk that the Group does not have sufficiently stable and diverse sources of funding.
Market risk	The risk that economic factors beyond the Group's control, such as exposure to market movements, including inflation, interest rates and currency fluctuations, will have a negative impact on the Group's financial results, adversely impacting its ability to achieve its strategic objectives, attract investors and remain viable.
Insurance risk	The risks accepted through the provision of insurance products in return for a premium. These risks may or may not occur as expected and the amount and timing of these risks are uncertain and determined by events outside of the Group’s control.
Regulatory risk	The risk that the Group does not meet its regulatory obligations, impacting the Group's licence to operate and its brand, trust and reputation, resulting in political interventions, fines, negative publicity and, in some cases, mandated restrictions on its ability to operate in the market.
Conduct Risk	The risk that any action by the Group or its employees fails to comply with policy and regulatory requirements, leading to unfair customer outcomes, customer detriment, or an adverse impact on market stability and effective competition.
Capital risk	The risk related to the Group's ability to meet regulatory capital requirements, minimum standards for capital replenishment following an extreme event, and internal investment return minimums.

Going Concern

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

In addition, the Board considered:

- The impact on the Group's profits as income and charges for ECLs continue to be affected by the current economic environment. As part of this, the Board considered the latest macro-economic scenarios which were received from the Group's third-party supplier. These are discussed in note 18;
- The sufficiency of the Group's capital base. The worst case macro-economic scenarios received from third-party providers were significantly less severe than those used in the Internal Capital Adequacy Assessment Process (ICAAP) reverse stress test. The Group reviewed its stress testing scenarios to ensure it has sufficient capital to trade through a plausible range of economic outcomes. The Group's capital position at 31 August 2023 is set out at note 20;
- The adequacy of the Group's liquidity as the Group supports its customers through a period of economic uncertainty. The Group reviewed its stress testing scenarios, which incorporate an assessment of the level of depositor diversification and the consequences of both market-wide and idiosyncratic stress scenarios. The Group operates in full compliance with Prudential Regulation Authority (PRA) liquidity standards defined as Total Liquidity Requirements and encompassing the 30-day Liquidity Coverage Ratio and an additional Pillar 2 element for intraday liquidity risk. In addition to the PRA-defined Total Liquidity Requirement, the Group has also defined an internal liquidity requirement which covers a 90-day horizon and operates to comply with whichever risk measure generates the higher liquidity requirement. In all cases the Group operates to ensure it has sufficient liquidity to trade through a range of plausible economic outcomes. In addition to the Group's portfolio of liquid assets, it has an undrawn £200.0m (February 2023: £200.0m) committed structured repurchase facility, access to BoE market funding operations, open market repurchase lines with counterparty banks and unencumbered collateral to enable access to these contingent lines of funding;
- The operational resilience of the Group's critical functions including call centres, mobile and online channels and the Group's ability to provide continuity of service to its customers throughout a prolonged stress;
- The resilience of the Group's IT systems;
- A detailed assessment of the Group's supplier base, considering any single points of failure and focussing on suppliers experiencing financial stress. This included consideration of contingency plans should suppliers be deemed at risk;
- The regulatory and legal environment and any potential conduct risks which could arise;
- Any potential valuation concerns in respect of the Group's assets as set out in the Interim Condensed Consolidated Statement of Financial Position; and
- The structural protections of the Group's securitisation vehicles.

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

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

TESCO PERSONAL FINANCE PLC
INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)
FOR THE SIX MONTHS ENDED 31 AUGUST 2023

	Note	6 months ended 31 August 2023 £m	6 months ended 31 August 2022 £m Restated[1]
Interest and similar income	4	335.9	240.5
Interest expense and similar charges	4	(119.0)	(36.9)
Net interest income		**216.9**	**203.6**
Fees and commissions income	5	145.8	143.7
Fees and commissions expense	5	(18.0)	(15.2)
Net fees and commissions income		**127.8**	**128.5**
Insurance revenue	6	222.5	226.7
Insurance service expenses	7	(206.5)	(204.1)
Net expenses from reinsurance contracts held	8	(26.7)	(32.1)
Insurance service result		**(10.7)**	**(9.5)**
Net gain on investment securities at fair value through profit or loss (FVPL)		0.5	2.0
Net gain on other financial instruments at FVPL		0.2	2.1
Net gain on investment securities at fair value through other comprehensive income (FVOCI)		–	0.1
Other income		0.4	0.1
Net other income		**1.1**	**4.3**
Insurance finance expenses from insurance contracts issued		(4.6)	(3.1)
Insurance finance income from reinsurance contracts held		1.1	0.8
Net insurance finance result		**(3.5)**	**(2.3)**
Total income		**331.6**	**324.6**
Administrative expenses		(221.7)	(209.6)
Depreciation and amortisation		(20.2)	(24.8)
Operating expenses		**(241.9)**	**(234.4)**
Expected credit loss charge on financial assets	9	(32.7)	(38.4)
Profit before tax		**57.0**	**51.8**
Analysed as:			
Underlying profit before tax	3	56.8	54.8
Non-underlying items	3	0.2	(3.0)
		57.0	51.8
Income tax charge	10	(14.6)	(11.6)
Profit for the period attributable to owners of the parent		**42.4**	**40.2**

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

TESCO PERSONAL FINANCE PLC
INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
FOR THE SIX MONTHS ENDED 31 AUGUST 2023

	Note	**6 months ended 31 August 2023 £m**	6 months ended 31 August 2022 £m Restated[1]
Profit for the period		42.4	40.2
Items that may be reclassified subsequently to the income statement			
Debt securities at FVOCI			
Fair value movements		(4.9)	(37.1)
Net gains transferred to the income statement on disposal		–	(0.1)
Expected credit loss transferred to the income statement		(0.1)	–
Taxation		1.1	9.8
		(3.9)	(27.4)
Cash flow hedges			
Fair value movements		(0.4)	0.7
Taxation		0.1	(0.2)
		(0.3)	0.5
Insurance contracts			
Insurance finance income from insurance contracts issued		3.7	35.0
Insurance finance expenses from reinsurance contracts held		(1.6)	(16.8)
Taxation		(0.6)	(4.5)
		1.5	13.7
Other comprehensive expense for the period, net of tax		**(2.7)**	**(13.2)**
Total comprehensive income for the period		**39.7**	**27.0**

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

There are no items of other comprehensive income which will not be reclassified subsequently to the income statement (August 2022: no items).

TESCO PERSONAL FINANCE PLC
INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)
AS AT 31 AUGUST 2023

	Note	**31 August 2023** £m	28 February 2023 (unaudited) £m Restated[1]	31 August 2022 £m Restated[1]
Assets				
Cash and balances with central banks		730.4	459.1	517.1
Loans and advances to banks		25.7	26.7	45.6
Loans and advances to customers	13	7,421.7	6,977.7	6,749.6
Derivative financial instruments		127.9	121.4	118.2
Investment securities		1,458.1	1,467.8	1,428.1
Reinsurance contract assets	15	109.7	135.2	142.2
Prepayments and accrued income		60.4	48.4	59.0
Current income tax asset		8.4	8.6	3.1
Other assets		91.5	107.0	104.8
Deferred income tax asset		52.6	58.8	70.6
Intangible assets		138.0	142.6	144.7
Property, plant and equipment		79.5	82.7	79.3
Total assets		**10,303.9**	**9,636.0**	**9,462.3**
Liabilities				
Deposits from banks		983.3	979.7	943.3
Deposits from customers		6,347.6	5,775.7	5,531.8
Debt securities in issue	14	299.1	–	–
Derivative financial instruments		20.3	16.9	22.7
Provisions for liabilities and charges		28.8	30.2	38.2
Accruals and deferred income		79.6	102.2	92.7
Other liabilities		209.1	195.9	183.5
Insurance contract liabilities	15	498.0	488.9	506.8
Subordinated liabilities and notes		376.5	374.3	471.8
Total liabilities		**8,842.3**	**7,963.8**	**7,790.8**
Equity and reserves attributable to owners of parent				
Share capital	16	107.0	122.0	122.0
Share premium account	16	962.9	1,097.9	1,097.9
Other equity instruments	17	149.5	–	–
Retained earnings		252.3	459.9	451.5
Other reserves		(10.1)	(7.6)	0.1
Total equity		**1,461.6**	**1,672.2**	**1,671.5**
Total liabilities and equity		**10,303.9**	**9,636.0**	**9,462.3**

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

TESCO PERSONAL FINANCE PLC
INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
FOR THE SIX MONTHS ENDED 31 AUGUST 2023

	Note	Share capital £m	Share premium £m	Other equity instruments £m	Retained earnings £m Restated[1]	FV reserve £m	Cash flow hedge reserve £m	Insurance finance reserve £m Restated[1]	Share based payment reserve £m	Total equity £m Restated[1]
Balance at 1 March 2023		**122.0**	**1,097.9**	**–**	**459.9**	**(43.9)**	**0.1**	**15.8**	**20.4**	**1,672.2**
Comprehensive income										
Profit for the period		–	–	–	42.4	–	–	–	–	42.4
Net fair value movement on investment securities held at FVOCI		–	–	–	–	(3.9)	–	–	–	(3.9)
Net movement on cash flow hedges		–	–	–	–	–	(0.3)	–	–	(0.3)
Net insurance finance income from insurance contracts issued		–	–	–	–	–	–	2.8	–	2.8
Net insurance finance expenses from reinsurance contracts held		–	–	–	–	–	–	(1.3)	–	(1.3)
Total comprehensive income		**–**	**–**	**–**	**42.4**	**(3.9)**	**(0.3)**	**1.5**	**–**	**39.7**
Transactions with owners										
Share capital reduction	16	(15.0)	–	–	–	–	–	–	–	(15.0)
Share premium reduction	16	–	(135.0)	–	135.0	–	–	–	–	–
Capital distribution		–	–	–	(135.0)	–	–	–	–	(135.0)
Issuance of other equity instruments	17	–	–	149.5	–	–	–	–	–	149.5
Dividends to ordinary shareholder	11	–	–	–	(250.0)	–	–	–	–	(250.0)
Share based payments		–	–	–	–	–	–	–	0.2	0.2
Total transactions with owners		**(15.0)**	**(135.0)**	**149.5**	**(250.0)**	**–**	**–**	**–**	**0.2**	**(250.3)**
Balance at 31 August 2023		**107.0**	**962.9**	**149.5**	**252.3**	**(47.8)**	**(0.2)**	**17.3**	**20.6**	**1,461.6**

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

TESCO PERSONAL FINANCE PLC
INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
FOR THE SIX MONTHS ENDED 31 AUGUST 2023

(Unaudited)	Share capital £m	Share premium £m	Other equity instruments £m	Retained earnings £m Restated[1]	FV reserve £m	Cash flow hedge reserve £m	Insurance finance reserve £m Restated[1]	Share based payment reserve £m	Total equity £m Restated[1]
Balance at 1 March 2022	122.0	1,097.9	-	411.3	(12.8)	0.2	1.2	26.1	1,645.9
Comprehensive income									
Profit for the period	-	-	-	40.2	-	-	-	-	40.2
Net fair value movement on investment securities held at FVOCI	-	-	-	-	(27.4)	-	-	-	(27.4)
Net movement on cash flow hedges	-	-	-	-	-	0.5	-	-	0.5
Net insurance finance income from insurance contracts issued	-	-	-	-	-	-	26.3	-	26.3
Net insurance finance expenses from reinsurance contracts held	-	-	-	-	-	-	(12.6)	-	(12.6)
Total comprehensive income	-	-	-	40.2	(27.4)	0.5	13.7	-	27.0
Transactions with owners									
Share based payments	-	-	-	-	-	-	-	(1.4)	(1.4)
Total transactions with owners	-	-	-	-	-	-	-	(1.4)	(1.4)
Balance at 31 August 2022	122.0	1,097.9	-	451.5	(40.2)	0.7	14.9	24.7	1,671.5

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

INTERIM CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

FOR THE SIX MONTHS ENDED 31 AUGUST 2023

	Note	6 months ended 31 August 2023 £m	6 months ended 31 August 2022 £m Restated[2]
Operating Activities			
Profit before tax		57.0	51.8
Adjusted for:			
Non-cash items included in operating profit before taxation and other adjustments		73.6	64.2
Changes in operating assets and liabilities		137.2	(303.3)
Income taxes paid		(7.4)	(9.8)
Cash flows generated from/(used in) operating activities		**260.4**	**(197.1)**
Investing Activities			
Purchase of intangible assets and property, plant and equipment		(19.5)	(26.4)
Purchase of debt investment securities		(82.1)	(178.4)
Maturity and sale of debt investment securities		81.0	148.0
Investment in subsidiary		–	(5.0)
Cash flows used in investing activities		**(20.6)**	**(61.8)**
Financing Activities			
Interest paid on debt securities		(5.1)	–
Proceeds from issue of debt securities	14	300.0	–
Costs paid on issuance of other equity instruments	17	(0.5)	–
Dividends paid to ordinary shareholder	11	(250.0)	–
Interest (paid)/received on assets held to hedge subordinated liabilities and notes		(2.7)	0.3
Interest paid on subordinated liabilities and notes		(8.9)	(6.7)
Principal repayments on lease liabilities		(2.0)	(1.3)
Interest paid on lease liabilities		(0.8)	(1.7)
Cash flows generated from/(used in) financing activities		**30.0**	**(9.4)**
Net increase/(decrease) in cash and cash equivalents		**269.8**	**(268.3)**
Cash and cash equivalents[1] at beginning of period		**442.3**	**787.6**
Cash and cash equivalents[1] at end of period		**712.1**	**519.3**

[1] Cash and cash equivalents comprise cash and balances with central banks, excluding certain reserve deposits of £44.0m which do not have a maturity of less than three months (August 2022: £43.4m), and loans and advances to banks of £25.7m (August 2022: £45.6m).

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

1. Accounting Policies

The Interim Condensed Consolidated Financial Statements for the six months ended 31 August 2023 were approved by the Board of Directors on 2 October 2023.

Basis of Preparation

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

Unless otherwise stated, the accounting policies applied, and the judgements, estimates and assumptions made in applying those policies, are consistent with those described in the Consolidated Financial Statements of the Group for the year ended 28 February 2023. The Interim Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements of the Group for the year ended 28 February 2023, which have been prepared in accordance with IASs in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards (IFRSs) and interpretations issued by the IFRS Interpretations Committee of the International Accounting Standards Board and those parts of the Companies Act 2006 applicable to Companies reporting under IFRSs.

These Interim Condensed Consolidated Financial Statements have been reviewed, not audited, and do not constitute Statutory Financial Statements as defined in section 434 of the Companies Act 2006. The Consolidated Financial Statements for the year ended 28 February 2023 were approved by the Board of Directors on 11 April 2023 and have been filed with the Registrar of Companies. The report of the auditors on those Financial Statements was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 498 of the Companies Act 2006.

Onshoring of European Union (EU) Regulations After Brexit

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

Going concern

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

In addition, the Board considered:

- The impact on the Group's profits as income and charges for ECLs continue to be affected by the current economic environment. As part of this, the Board considered the latest macro-economic scenarios which were received from the Group’s third-party supplier. These are discussed in note 18;
- The sufficiency of the Group’s capital base. The worst case macro-economic scenarios received from third-party providers were significantly less severe than those used in the Internal Capital Adequacy Assessment Process (ICAAP) reverse stress test. The Group reviewed its stress testing scenarios to ensure it has sufficient capital to trade through a plausible range of economic outcomes. The Group's capital position at 31 August 2023 is set out at note 20;

1. Accounting Policies (continued)

Going concern (continued)

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

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

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

Adoption of new and amended IFRSs

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

IFRS 17 requires insurance liabilities to be measured at a current fulfilment value and includes an optional simplified premium allocation approach (PAA) which is permitted for contracts with a coverage period of one year or less.

IFRS 17 is most relevant to the Group's subsidiary, Tesco Underwriting Limited (TU), which provides the insurance underwriting service for a number of the Group's general insurance products.

Under IFRS 17, insurance contract liabilities include both a liability for incurred claims (LIC) and a liability for remaining coverage (LRC). The LIC, which represents outstanding claims and incurred but not reported claims and other incurred insurance expenses, is measured as the weighted average of discounted cash flows plus a risk adjustment for the uncertainty of the cash flows.

1. Accounting Policies (continued)

Adoption of new and amended IFRSs (continued)

The LRC is the obligation for insured events related to the unexpired portion of the coverage period. TU applies the PAA to all material insurance and reinsurance contract groups, resulting in the LRC being equal to the previous unearned premium reserve less deferred acquisition costs. As the Group is required to assess the impact of IFRS 17 by reference to contract inception on 4 May 2021, being the date from which TU became a wholly owned subsidiary of the Group, rather than the original contract inception date, the Group is required to account for the acquired claims liability as at that date as part of the LRC using the general model (GM) for measurement of insurance contracts rather than the simplified PAA. The acquired claims liability for the Group is measured as the weighted average of discounted cash flows plus a risk adjustment for the uncertainty of the cash flows, plus any contractual service margin (CSM) or loss component (LC).

Contracts have been grouped into Motor and Home portfolios. In addition, within these portfolios, IFRS 17 requires grouping by 'onerous', 'no significant possibility of becoming onerous' or 'other'. The Group has grouped all its business as 'other' at the opening balance sheet date.

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

The Group has applied the requirements of IFRS 17 fully retrospectively, including the restatement of prior period comparatives.

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

There are no other new or amended IFRSs which became effective in the period which had an impact on the Group.

2. Transition to IFRS 17

a) Changes to Accounting Policies

Insurance contract liabilities and reinsurance contract assets

Classification of insurance contracts

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

Separating components from insurance and reinsurance contracts

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

The Group's quota share reinsurance contract held contains a profit commission arrangement. Under this arrangement, there is a minimum guaranteed amount that the Group will always receive irrespective of the insured event happening. The economic benefit of the minimum guaranteed amounts has been assessed ultimately to reduce the premium paid, and therefore is a non-distinct investment component which is removed from commissions and deducted from reinsurance premiums.

Level of aggregation

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

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

2. Transition to IFRS 17 (continued)

a) Changes to Accounting Policies (continued)

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

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

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

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

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

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

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

Recognition

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

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

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

2. Transition to IFRS 17 (continued)

a) Changes to Accounting Policies (continued)

Contract boundary

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

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

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

Insurance contracts issued - initial measurement

The Group applies the PAA to all insurance contracts that it issues, except for insurance contracts issued prior to the full acquisition of TU in May 2021.

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

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

- The premiums, if any, received at initial recognition;
- Minus any insurance acquisition cash flows at that date;
- Plus or minus any amount arising from the derecognition at that date of the asset recognised for insurance acquisition cash flows; and
- Any other asset or liability previously recognised for cash flows related to the group of contracts that the Group pays or receives before the group of insurance contracts is recognised.

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

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

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

2. Transition to IFRS 17 (continued)

a) Changes to Accounting Policies (continued)

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

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

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

- The expected fulfilment cash flows of the group of insurance contracts;
- The amount of any derecognised asset for insurance acquisition cash flows allocated to the group of insurance contracts;
- Any other asset or liability previously recognised for cash flows related to the group of insurance contracts; and
- Any cash flows that have already arisen on the group of insurance contracts as of that date.

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

Reinsurance contracts held – initial measurement

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

Only contracts that give rise to a significant transfer of insurance risk are accounted for as reinsurance contracts.

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

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

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

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

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

2. Transition to IFRS 17 (continued)

a) Changes to Accounting Policies (continued)

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

The loss-recovery component adjusts the carrying amount of the asset for remaining coverage.

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

Insurance contracts – subsequent measurement

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

- Plus premiums received in the period;
- Minus insurance acquisition cash flows;
- Plus any amounts relating to the amortisation of the insurance acquisition cash flows recognised as an expense in the reporting period for the group of insurance contracts;
- Plus any adjustment to the financing component, where applicable;
- Minus the amount recognised as insurance revenue for the services provided in the period;
- Minus any investment component paid or transferred to the LIC.

Commission payable to agents and other acquisition costs, which are incurred for acquiring new and renewal insurance business that is primarily related to the production of that business, are deferred and presented as part of the LRC. Such deferred acquisition costs are amortised over the period of insurance contract services on the basis of the passage of time.

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

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

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

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

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

2. Transition to IFRS 17 (continued)

a) Changes to Accounting Policies (continued)

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

- Interest accreted on the carrying amount of the CSM measured at the discount rates determined at initial recognition; and
- The changes in fulfilment cash flows related to future service, except:

  – Increases in fulfilment cash flows that exceed the carrying amount of the CSM, giving rise to a loss that results in the group of contracts becoming onerous or more onerous; and

  – Decreases in fulfilment cash flows that reverse a previously recognised loss on a group of onerous contracts
- The amount recognised as insurance revenue because of the transfer of insurance contract services in the period, determined by the allocation of the CSM remaining at the end of the reporting period over the current and remaining coverage period.

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

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

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

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

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

Reinsurance contracts held – subsequent measurement

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

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

2. Transition to IFRS 17 (continued)

a) Changes to Accounting Policies (continued)

Insurance acquisition cash flows

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

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

Insurance and reinsurance contracts – modification and derecognition

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

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

Insurance Service Result

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

Insurance revenue

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

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

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

Insurance service expenses

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

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

Net income or expenses from reinsurance contracts held

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

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

Insurance finance income and expenses

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

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

2. Transition to IFRS 17 (continued)

a) Changes to Accounting Policies (continued)

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

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

b) Changes arising from the adoption of IFRS 17

Changes to presentation and disclosure

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

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

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

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

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

Transition

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

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

c) Critical estimates and judgements

The adoption of IFRS 17 has resulted in a change to the significant accounting estimates with a significant risk of a material change to the carrying value of assets and liabilities within the next year compared to those disclosed for outstanding insurance claims and provisions in the Group's Financial Statements for the year ended 28 February 2023 as follows:

Insurance contract liabilities

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

2. Transition to IFRS 17 (continued)

c) Critical estimates and judgements (continued)

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

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

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

Discount rates

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

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

	1 year	3 years	5 years	10 years	Mean 11-100 years
	%	%	%	%	%
August 2023	5.57	5.46	5.14	4.84	4.66
August 2022	3.39	4.04	3.89	3.49	3.49

Scenarios, such as the Ogden discount rate changing or incorrect claims handlers' initial assessments in relation to expenses and interest rates, are assessed for the material components of the Group’s reserves. For motor damage and smaller bodily injury claims, material scenarios lie in a range between £15m above and £15m below the chosen actuarial best estimate (ABE). Those associated with larger bodily injury claims are in a range between £30m above and £30m below the chosen ABE. This assumes an Ogden discount rate for valuing larger claims of -0.25%. The impact of a +/-2% recovery rate on accidental damage can be in a range of +/- £10m. Volatility in the average claim size for bodily injury capped claims could result in a difference of +/- £10m. Uncertainty in the outstanding claims provisions arises from the settlement of bodily injury claims given the time to settlement and reliance on case estimation which may be based on relatively limited information. At this time there is heightened risk from claims inflation and supply chain issues which may have been impacted from either Brexit or the economic environment. These uncertainties create pressure in relation to late reported claims and also increases in average claims size. Scenarios relating to the impact of inflation and claims lifecycle were considered as part of the reserving process.

Risk adjustment for non-financial risk

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

2. Transition to IFRS 17 (continued)

c) Critical estimates and judgements (continued)

The Group has estimated the risk adjustment using a confidence level (probability of sufficiency) approach at the 77.5th percentile. That is, the Group has assessed its indifference to uncertainty for all product lines (as an indication of the compensation that it requires for bearing non-financial risk) as being equivalent to the 77.5th percentile confidence level less the mean of an estimated probability distribution of the future cash flows (the ABE). The Group has estimated the probability distribution of the future cash flows, and the additional amount above the expected present value of future cash flows required to meet the target percentiles and applied this as a percentage to the ABE. This uplift will be assessed annually.

d) Restatements

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

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

At 1 March 2022	As previously reported £m	IFRS 17 reclassifications £m	IFRS 17 remeasurement £m	Restated £m
Statement of Financial Position				
Assets				
Loans and advances to customers	6,490.3	(99.8)	1.7	6,392.2
Reinsurance contract assets	245.1	(107.0)	32.5	170.6
Other assets	219.7	(41.5)	-	178.2
Deferred income tax asset	64.2	-	3.6	67.8
		(248.3)	37.8	
Liabilities				
Accruals and deferred income	119.6	(6.3)	(1.8)	111.5
Other liabilities	164.1	(0.3)	-	163.8
Insurance funds withheld	114.8	(114.8)	-	–
Insurance contract liabilities	650.0	(126.9)	50.9	574.0
		(248.3)	49.1	
Equity				
Retained earnings	423.8	-	(12.5)	411.3
Other reserves	13.5	-	1.2	14.7
		-	(11.3)	

2. Transition to IFRS 17 (continued)

d) Restatements (continued)

At 31 August 2022	As previously reported £m	IFRS 17 reclassifications £m	IFRS 17 remeasurement £m	Restated £m
Statement of Financial Position				
Assets				
Loans and advances to customers	6,842.1	(93.9)	1.4	6,749.6
Reinsurance contract assets	231.4	(109.2)	20.0	142.2
Other assets	155.8	(51.0)	-	104.8
Deferred income tax asset	67.3	-	3.3	70.6
		(254.1)	24.7	
Liabilities				
Accruals and deferred income	100.6	(6.0)	(1.9)	92.7
Other liabilities	185.7	(2.2)	-	183.5
Insurance funds withheld	117.0	(117.0)	-	–
Insurance contract liabilities	598.6	(128.9)	37.1	506.8
		(254.1)	35.2	
Equity				
Retained earnings	476.9	-	(25.4)	451.5
Other reserves	(14.8)	-	14.9	0.1
		-	(10.5)	
Income Statement				
Interest and similar income	250.6	(10.1)	-	240.5
Insurance premium income	153.8	(153.8)	-	–
Insurance premium income ceded to reinsurers	(68.9)	68.9	-	–
Insurance revenue	–	163.9	62.8	226.7
Insurance service expenses	–	(122.6)	(81.5)	(204.1)
Net expenses from reinsurance contracts held	–	(35.6)	3.5	(32.1)
Insurance finance expenses from insurance contracts issued	–	-	(3.1)	(3.1)
Insurance finance income from reinsurance contracts held	–	-	0.8	0.8
Insurance claims incurred	(76.0)	76.0	-	–
Insurance claims ceded to reinsurers	33.3	(33.3)	-	–
Administrative expenses	(253.5)	43.9	-	(209.6)
Depreciation and amortisation	(27.4)	2.6	-	(24.8)
Expected credit loss charge on financial assets	(38.9)	-	0.5	(38.4)
Income tax charge	(15.8)	-	4.2	(11.6)
Statement of Comprehensive Income				
Insurance finance expenses from insurance contracts issued	–	-	35.0	35.0
Insurance finance income from reinsurance contracts held	–	-	(16.8)	(16.8)
Taxation	–	-	(4.5)	(4.5)
Cash Flow Statement				
Non-cash items included in operating profit before taxation and other adjustments	70.5	-	(6.3)	64.2
Changes in operating assets and liabilities	(326.7)	-	23.4	(303.3)

2. Transition to IFRS 17 (continued)

d) Restatements (continued)

At 28 February 2023	As previously reported £m	IFRS 17 reclassifications £m	IFRS 17 remeasurement £m	Restated £m
Statement of Financial Position				
Assets				
Loans and advances to customers	7,081.3	(104.8)	1.2	6,977.7
Reinsurance contract assets	216.9	(107.4)	25.7	135.2
Other assets	181.6	(74.6)	-	107.0
Deferred income tax asset	57.5	-	1.3	58.8
		(286.8)	28.2	
Liabilities				
Accruals and deferred income	112.0	(7.0)	(2.8)	102.2
Other liabilities	199.8	(3.9)	-	195.9
Insurance funds withheld	123.5	(123.5)	-	–
Insurance contract liabilities	604.9	(152.4)	36.4	488.9
		(286.8)	33.6	
Equity				
Retained earnings	481.1	-	(21.2)	459.9
Other reserves	(23.4)	-	15.8	(7.6)
		-	(5.4)	

3. Underlying Profit

The Group's financial performance is presented in the Interim Condensed Consolidated Income Statement on page 9. A summary of the Group's financial performance in respect of its operations on an underlying basis, excluding items which are not reflective of ongoing trading performance, is presented below.

	Statutory basis £m	**Financial instruments[1] £m**	**Restructuring activity[2] £m**	**Underlying basis £m**
6 months ended 31 August 2023				
Net interest income	216.9	–	–	216.9
Net other income	114.7	(0.2)	–	114.5
Total income	**331.6**	**(0.2)**	–	**331.4**
Total operating expenses	(241.9)	–	–	(241.9)
Expected credit loss charge on financial assets	(32.7)	–	–	(32.7)
Operating profit	**57.0**	**(0.2)**	**–**	**56.8**
Profit before tax	**57.0**	**(0.2)**	**–**	**56.8**

	Statutory basis £m Restated[3]	Financial instruments[1] £m	Restructuring activity[2] £m	Underlying basis £m Restated[3]
6 months ended 31 August 2022				
Net interest income	203.6	–	–	203.6
Net other income	121.0	(2.1)	–	118.9
Total income	324.6	(2.1)	–	322.5
Total operating expenses	(234.4)	–	5.1	(229.3)
Expected credit loss charge on financial assets	(38.4)	–	–	(38.4)
Operating profit	51.8	(2.1)	5.1	54.8
Profit before tax	51.8	(2.1)	5.1	54.8

[1] Comprising:

- Gains on other financial instruments at FVPL of £0.2m (August 2022: gains of £2.1m) presented within total income on page 9. Fair value movements on other financial instruments at FVPL reflect hedge ineffectiveness arising from hedge accounting and fair value movements on derivatives in economic hedges that do not meet the criteria for hedge accounting. Where these derivatives are held to maturity, fair value movements represent timing differences that will reverse over the life of the derivatives. Therefore, excluding these movements from underlying profit more accurately represents the underlying performance of the Group. Where derivatives are terminated prior to maturity, this may give rise to fair value movements that do not reverse.

[2] Comprising:

- A restructuring charge of £nil (August 2022: £5.1m) related to the Group's Agile transformation programme, presented within administrative expenses on page 9. The prior period charge in respect of business restructuring is not considered part of the Group's underlying trading performance. There was no such charge in the current period.

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

4. Net Interest Income

	6 months ended 31 August 2023 £m	6 months ended 31 August 2022 £m Restated[1]
Interest and similar income		
On financial assets measured at amortised cost		
Loans and advances to customers	272.9	225.0
Loans and advances to banks	0.5	0.1
Cash and balances with central banks	12.4	2.7
Investment securities	15.7	8.0
	301.5	235.8
On financial assets measured at fair value		
Investment securities - FVOCI	7.1	3.4
Derivative financial instruments - FVPL	27.3	1.3
	34.4	4.7
Total interest and similar income	**335.9**	**240.5**
Interest expense and similar charges		
On financial liabilities measured at amortised cost		
Deposits from customers	(80.6)	(21.6)
Deposits from banks	(22.7)	(6.9)
Debt securities in issue	(5.3)	–
Lease liabilities	(0.8)	(1.0)
Subordinated liabilities and notes	(9.6)	(7.4)
	(119.0)	(36.9)
Total interest expense and similar charges	**(119.0)**	**(36.9)**
Net interest income	**216.9**	**203.6**

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

5. Net Fees and Commissions Income

	6 months ended 31 August 2023 £m	6 months ended 31 August 2022 £m
Fees and commissions income		
Banking revenue from contracts with customers	107.7	107.7
Insurance revenue from contracts with customers	22.4	21.3
Other revenue from contracts with customers	15.7	14.7
Total fees and commissions income	**145.8**	**143.7**
Fees and commissions expense		
Banking expense	(18.0)	(15.2)
Total fees and commissions expense	**(18.0)**	**(15.2)**
Net fees and commissions income	**127.8**	128.5

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

6. Insurance Revenue

	6 months ended 31 August 2023 £m	6 months ended 31 August 2022 £m Restated[1]
Contracts not measured under the PAA		
Amounts relating to changes in the LRC		
Expected incurred claims and other insurance service expenses	17.5	46.8
Change in risk adjustment for non-financial risk for risk expired	0.9	2.3
CSM recognised for services provided	7.1	13.7
Total contracts not measured under the PAA	**25.5**	**62.8**
Contracts measured under the PAA	197.0	163.9
Total insurance revenue	**222.5**	226.7

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

7. Insurance Service Expenses

	6 months ended 31 August 2023 £m	6 months ended 31 August 2022 £m Restated[1]
Incurred claims and other directly attributable expenses	(242.1)	(243.3)
Insurance acquisition cash flows	6.3	(4.0)
Losses on onerous acquired claims and reversals of those losses	1.6	(1.3)
Changes to fulfilment cash flows relating to incurred claims	27.7	44.5
Total insurance service expenses	**(206.5)**	**(204.1)**

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

8. Net Expenses from Reinsurance Contracts Held

	6 months ended 31 August 2023 £m	6 months ended 31 August 2022 £m Restated[1]
Allocation of reinsurance premiums paid		
Contracts not measured under the PAA		
Amounts relating to changes in the asset for remaining coverage		
Expected amount recoverable for claims and other insurance service expenses incurred in the period	(4.2)	(8.7)
Change in risk adjustment for non-financial risk for risk expired	(0.2)	(0.4)
CSM recognised for services provided	(0.2)	(2.8)
Contracts not measured under the PAA	**(4.6)**	**(11.9)**
Contracts measured under the PAA	(80.5)	(62.2)
Total allocation of reinsurance premiums paid	**(85.1)**	**(74.1)**
Amounts recoverable from reinsurance contracts		
Contracts not measured under the PAA		
Amounts recoverable for incurred claims and other incurred insurance service expenses	0.2	6.9
Recoveries of losses on onerous acquired claims and reversal of those losses	(0.5)	0.3
Contracts not measured under the PAA	**(0.3)**	**7.2**
Contracts measured under the PAA	58.7	34.8
Total amounts recoverable from reinsurance contracts	**58.4**	**42.0**
Net expenses from reinsurance contracts held	**(26.7)**	**(32.1)**

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

9. Expected Credit Loss Charge on Financial Assets

	6 months ended 31 August 2023 £m	6 months ended 31 August 2022 £m Restated[2]
Expected credit loss charge on loans and advances to customers[1]	32.9	38.2
Expected credit loss charge on investment securities at FVOCI	(0.1)	0.2
Expected credit loss charge on investment securities at amortised cost	(0.1)	–
Total expected credit loss charge on financial assets	**32.7**	38.4

[1] Included within the expected credit loss (ECL charge on loans and advances to customers is an amount of £2.8m (August 2022: £nil) received through the sale of debt to third-parties.

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

Refer to note 18 for further detail on factors impacting ECL charges.

10. Income Tax

The tax charge in the Interim Condensed Consolidated Income Statement is based on Management's best estimate of the full year effective tax rate based on expected full year profits to 29 February 2024.

The Group's blended corporation tax rate is 24.5% (August 2022: 19.0%). In addition, a blended banking surcharge of 3.4% (August 2022: 8.0%) is applied to the Group's banking profits above £100.0m (August 2022: £25.0m).

In the March 2021 Budget Statement, the Chancellor announced that the standard rate of corporation tax in the UK would increase from 19% to 25% from 1 April 2023. Subsequently, in the October 2021 Budget Statement, it was announced that, with effect from 1 April 2023, the banking surcharge would reduce from 8% to 3% and that it would be chargeable on banking profits above £100.0m. Therefore, from 1 April 2023, the combined rate of tax on banking profits over £100.0m was 28.0% (previously 27.0% on banking profits over £25.0m).

Income tax on the Group's profit for the period is a charge of £14.6m (August 2022: charge of £11.6m[1]).

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

11. Distributions to Equity Holders

	31 August 2023 £m	31 August 2022 £m
Special interim dividend paid	**250.0**	–

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

12. Capital Expenditure and Commitments

In the six months ended 31 August 2023 there were additions to property, plant and equipment and intangible assets of £15.1m (August 2022: £22.9m). Commitments for capital expenditure contracted for but not provided at 31 August 2023 were £1.3m (February 2023: £6.0k) on property, plant and equipment and £1.3m (February 2023: £2.7m) on intangible assets. The Group's Management is confident that future net revenues and funding will be sufficient to cover these commitments.

13. Loans and Advances to Customers

	31 August 2023 £m	28 February 2023 (unaudited) £m Restated[1]	31 August 2022 £m Restated[1]
Unsecured lending	7,951.6	7,512.0	7,300.6
Total unsecured lending	**7,951.6**	7,512.0	7,300.6
Fair value hedge adjustment	(77.6)	(74.6)	(80.4)
Gross loans and advances to customers	**7,874.0**	7,437.4	7,220.2
Less: ECL allowance (Refer to note 18)	(452.3)	(459.7)	(470.6)
Net loans and advances to customers	**7,421.7**	6,977.7	6,749.6

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

Contractual lending commitments and ECL provision

At 31 August 2023, the Group had contractual lending commitments of £12,493.3m (February 2023: £12,212.2m) which represent undrawn Credit Card limits. An additional ECL provision of £14.8m was also recognised at 31 August 2023 (February 2023: £13.3m). This represents the excess of total ECLs for both drawn and undrawn balances over the gross carrying balances as above. Refer to note 18 for further details.

Fair value hedge adjustments

Fair value hedge adjustments amounting to a liability of £77.6m (February 2023: liability of £74.6m) are in respect of fixed rate Personal Loans. These adjustments are largely offset by derivatives, which are used to manage interest rate risk and are designated as fair value hedges within loans and advances to customers.

Effective interest rate (EIR)

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

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

An increase of the pay rates assumption by 10% will reduce the asset value by £3.5m and a corresponding reduction of the pay rates assumption will increase the asset value by £4.1m.

14. Debt Securities in Issue

	Interest rate	Par value £m	Term (years)	Maturity date	31 August 2023 £m	28 February 2023 £m	31 August 2022 £m
Floating rate AAA bond (A1) 2023[1]	SONIA + 0.8%	300.0	8	2031	**299.1**	–	–

[1] This Bond was issued on 28 April 2023. The scheduled redemption date of this Bond is April 2026.

The Floating Rate Bonds were issued by Delamare Cards MTN Issuer plc and are listed on the London Stock Exchange.

15. Reinsurance Contract Assets and Insurance Contract Liabilities

	31 August 2023		28 February 2023		31 August 2022	
	Insurance contracts issued	Reinsurance contracts held	Insurance contracts issued (unaudited) Restated[1]	Reinsurance contracts held (unaudited) Restated[1]	Insurance contracts issued Restated[1]	Reinsurance contracts held Restated[1]
	£m	£m	£m	£m	£m	£m
Total	**(498.0)**	**109.7**	(488.9)	135.2	(506.8)	142.2

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

	31 August 2023		28 February 2023		31 August 2022	
	Insurance contracts issued	Reinsurance contracts held	Insurance contracts issued (unaudited) Restated[1]	Reinsurance contracts held (unaudited) Restated[1]	Insurance contracts issued Restated[1]	Reinsurance contracts held Restated[1]
	£m	£m	£m	£m	£m	£m
Liabilities for remaining coverage	(260.2)	(190.2)	(264.1)	(106.5)	(320.7)	(73.4)
(Liabilities)/assets for incurred claims	(237.8)	299.9	(224.8)	241.7	(186.1)	215.6
	(498.0)	**109.7**	**(488.9)**	**135.2**	**(506.8)**	**142.2**
Contracts measured under PAA	(311.9)	42.6	(278.3)	62.8	(237.5)	47.1
Contracts not measured under PAA	(186.1)	67.1	(210.6)	72.4	(269.3)	95.1
	(498.0)	**109.7**	**(488.9)**	**135.2**	**(506.8)**	**142.2**

Measurement components of reinsurance contract assets and insurance contract liabilities are set out in the table below. The estimates of the present value of future cash flows are adjusted for events since the actuarial valuation:

	Estimates of the present value of future cash flows £m Restated[1]	Risk adjustment for non-financial risk £m Restated[1]	CSM £m Restated[1]	Total £m Restated[1]
31 August 2023				
Insurance contract liabilities	(401.1)	(16.5)	(80.4)	(498.0)
Reinsurance contract assets	74.4	6.1	29.2	109.7
	(326.7)	**(10.4)**	**(51.2)**	**(388.3)**
28 February 2023 (unaudited)				
Insurance contract liabilities[1]	(404.6)	(18.1)	(66.2)	(488.9)
Reinsurance contract assets[1]	96.8	6.6	31.8	135.2
	(307.8)	(11.5)	(34.4)	(353.7)
31 August 2022				
Insurance contract liabilities[1]	(427.7)	(19.6)	(59.5)	(506.8)
Reinsurance contract assets[1]	106.3	7.7	28.2	142.2
	(321.4)	(11.9)	(31.3)	(364.6)

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

16. Share Capital and Share Premium Account

	31 August 2023	31 August 2023	28 February 2023	28 February 2023	31 August 2022	31 August 2022
	Number	£m	Number	£m	Number	£m
Authorised						
Ordinary shares on 10p each	Unlimited		Unlimited		Unlimited	
Allotted, called up and fully paid						
Ordinary shares of 10p each	**1,069,900,000**	**107.0**	1,219,900,000	122.0	1,219,900,000	122.0

	31 August 2023	28 February 2023	31 August 2022
	£m	£m	£m
Share premium reserve	**962.9**	1,097.9	1,097.9

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

Linked to this, on 31 August 2023 TPF issued £150.0m of 11.5% fixed rate reset additional tier 1 (AT1) securities to TPFG, which form part of the Group's total equity, resulting in the Group's total equity and total issued capital remaining unchanged following completion of these capital transactions. TPFG ultimately issued the equivalent to Tesco.

Further information in respect of the AT1 issuance is set out at note 17.

17. Other equity instruments

	31 August 2023	28 February 2023	31 August 2022
	£m	£m	£m
Other equity instruments	150.0	–	–
Capitalised issuance costs	(0.5)	–	–
Other equity instruments	**149.5**	**–**	**–**

Linked to the share capital reduction and partial share premium account cancellation set out at note 16, on 31 August 2023 TPF issued £150.0m of 11.5% fixed rate AT1 securities to TPFG which form part of the Group's total equity. TPFG ultimately issued the equivalent to Tesco.

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

- The securities rank behind the claims against TPF of (a) unsubordinated creditors; (b) claims which are, or are expressed to be, subordinated to the claims of unsubordinated creditors of TPF but not further or otherwise; or (c) claims that are of those whose claims are, or are expressed to be, junior to the claims of other creditors of TPF, whether subordinated or unsubordinated, other than those whose claims rank, or are expressed to rank, pari passu with, or junior to, the claims of TPFG (as sole investor in AT1 securities issued by TPF) in a winding up occurring prior to a write-down event being triggered;

17. Other equity instruments (continued)

- The securities bear a fixed rate of interest until the first reset date. After the first reset date or any reset date thereafter, in the event that they are not redeemed, the AT1 securities will bear interest at rates fixed periodically in advance for five-year periods based on market rates;
- Interest on the securities will be due and payable only at the sole discretion of TPF and TPF may at any time elect to cancel any interest payment (or any part thereof) which would otherwise be payable on any interest payment date. There are also certain restrictions on the payment of interest as specified in the terms;
- The securities are undated and are repayable, at the option of TPF, in whole at the first call date or period, or on any fifth anniversary after the first call date or period. In addition, the AT1 securities are repayable, at the option of TPF, in whole for certain regulatory or tax reasons. Any repayments require the prior consent of the PRA; and
- The securities will be fully written down should the CET 1 ratio of TPF fall below 7.0%.

18. Credit risk management

Full details of the Group's risk management are included in the Group's Consolidated Financial Statements for the year ended 28 February 2023. Updates on key areas of credit risk management and ECL measurement are included below.

- **Credit risk: ECL measurement**

Incorporation of forward-looking information

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

Past due and impaired definitions

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

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

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

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

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

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

- The Base scenario assumed a 55% increase in the Office of Gas and Electricity Markets (Ofgem) price cap which led to inflation peaking at 11.5% in Q4 2022, before easing back to the Bank of England's (BoE) 2% target in 2025. Interest rates were expected to peak at 3% in 2023 with the UK entering a technical recession (two consecutive quarters of gross domestic product (GDP) decline) in late 2022.
- The Upside scenario assumed an inflation peak of 10.4% as impacts to global energy markets were less severe than initially feared. The Ofgem price cap increase was expected to be contained at 40%. The milder outlook for inflation and robust nominal pay growth was expected to result in a positive reaction from consumers and savings accrued during lockdown periods in the pandemic would be more readily spent. This underpinned growth in the second half of 2022 resulting in GDP rising above pre-pandemic levels by Q4 2022.
- The Downside 1 scenario projected that following a BoE publication pointing towards a tougher stance on inflation, there would be further increases in the Bank rate than the Base scenario assumed, rising to 4% in the middle of 2023. Geopolitical pressure was expected to exacerbate price rises in global energy markets with the Ofgem price cap expected to rise by 65%, placing additional pressure on consumers' disposable income. Inflation was expected to peak at 12.6% in Q4 2022.

18. Credit risk management (continued)

Past due and impaired definitions (continued)

- The Downside 2 scenario was similar in nature to the Downside 1 scenario, however, in this scenario inflation was expected to peak higher and last longer, necessitating an additional degree of rate tightening from the BoE. The Bank rate would rise to 5% in 2023 and inflation would peak at 14.1% in Q4 2022. Additional geopolitical tensions would have a further negative impact on global energy markets, with the Ofgem price cap expected to rise by at least 70% in October 2022.

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

- The Base scenario assumed a continued conflict in Ukraine and the resulting effects on worldwide energy flows and inflation. A recession in the first half of 2023 was assumed and GDP was not expected to return to pre-pandemic levels until Q2 2025.
- The Upside scenario assumed that the Ukraine conflict diminished and sanctions were gradually lifted, thus dissipating global supply chain disruption as goods and energy flowed more freely. Unemployment was expected to peak at 4.4% in 2024 and average consumer prices index (CPI) inflation of 5.8% was expected for 2023.
- The Downside 1 scenario built on the assumptions in the Base scenario but assumed Western sanctions on Russia built and intensified, leading to disruption in supplies of oil, gas and other commodities such as wheat and grain. Energy prices would rise as the gas supply to Europe was cut off and inflation was expected to remain higher for longer than in the Base scenario. As company balance sheets deteriorated, cut-backs were expected to see the unemployment rate peak at 7.3% in 2025.
- The Downside 2 scenario assumed that gas and oil were cut off to Europe causing a spike in energy prices, CPI remaining higher for longer and depreciation of Sterling against the Dollar further embedding high inflation. Profitability of UK businesses would be impeded and business investment would stall. Unemployment was expected to peak at 9.6% in 2025 and remain over 8.0% until 2028 under this scenario.

18. Credit risk management (continued)

Past due and impaired definitions (continued)

At 31 August 2023, the Group continued to use four economic scenarios. These scenarios included a Base scenario, an Upside scenario and two different Downside scenarios. These scenarios were assigned weightings of 40%, 30%, 25% and 5% respectively.

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

  The Base scenario projects an increase in the BoE base rate to 5.75% by Q1 2024 in order to reduce inflation back to the BoE's 2.0% target. This scenario assumes that inflation has peaked, with an average inflation rate of 7.5% across 2023 and inflation dipping below 3.0% around Q2 2024. An expected decline in real household incomes and the impact of higher mortgage costs on household budgets as customers gradually roll off of fixed rate deals sees consumer spending broadly stall in 2023. Although pay growth has accelerated, this continues to be outstripped by inflation, putting more pressure on household budgets.

  While the economic outlook remains uncertain as the cost of living crisis continues, improved business confidence and easing inflation are forecast to result in modest economic growth. As inflation eases in 2024, growth strengthens but remains below the pre-pandemic trajectory.

  Firms are also expected to be affected by rising prices and this leads to an increase in levels of unemployment. This is now expected to peak at 4.4% in Q4 2024, a decrease from the 5.7% peak in the Group's prior Base scenarios.

- The Upside scenario assumes falling wholesale gas prices as the result of a more optimistic assumption of a diminishing conflict in Ukraine. The scenario expects wheat and grain exports to flow more freely and, coupled with improvements in global supply chains, the scenario expects inflation to hit the BoE's 2.0% target by Q2 2024. As the base rate falls from late 2023, business confidence responds positively, showing a more pronounced recovery in business investment than in the Base scenario. As more jobs are filled, the peak in the unemployment rate is contained at 4.0%. The milder outlook for inflation means a modest expansion in real disposable incomes and savings accrued during lockdown periods in the pandemic are more readily spent. This underpins growth in the economy, with GDP rising above pre-pandemic levels by Q4 2023.

- The Downside 1 scenario projects that geopolitical tensions intensify, causing disruption to oil and gas supplies as well as other commodities such as wheat and grain. Uncertainty regarding the conflict in Ukraine underpins a rise in energy prices as wholesale price increases are passed on to customers. Wage cost pressures and depreciation of Sterling against tradeable currencies contribute to an uplift in inflation. This in turn causes the BoE to further increase the base rate, reaching a peak of 7.0% at the end of 2023. GDP contracts from Q3 2023 to Q3 2024 and does not return to pre-pandemic levels until 2026.

- The Downside 2 scenario is similar in nature to the Downside 1 scenario, however, in this scenario inflation remains higher for longer and Sterling depreciates more markedly against the Dollar, necessitating an additional degree of base rate tightening from the BoE. The base rate rises to 8.5% in 2023 and the unemployment rate peaks at 7.4% in late 2024, staying above 7.0% until the second half of 2026. GDP does not return to pre-pandemic levels until early 2028.

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

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

18. Credit risk management (continued)

Past due and impaired definitions (continued)

The tables below show the key macro-economic variables in each scenario at each reporting date, across a five calendar year period. The 2023 variables represent a full calendar year forecast containing six months of actual figures.

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

As at 31 August 2023

Scenario	Weighting	Sensitivity (100% weighted)[3]	Economic measure	2023	2024	2025	2026	2027
		£m		%	%	%	%	%
Base	40%	(10.9)	Bank of England base rate[1]	4.8	5.7	4.9	4.2	3.9
			Gross domestic product[2]	0.2	1.1	1.4	1.5	1.6
			Unemployment rate[1]	4.0	4.3	4.3	4.2	4.2
			Unemployment rate peak in year	4.2	4.4	4.3	4.3	4.2
Upside	30%	(37.1)	Bank of England base rate[1]	4.5	4.3	3.6	3.4	3.4
			Gross domestic product[2]	1.1	2.2	1.8	1.5	1.6
			Unemployment rate[1]	4.0	4.0	3.9	3.9	3.9
			Unemployment rate peak in year	4.0	4.0	3.9	3.9	3.9
Downside 1	25%	40.2	Bank of England base rate[1]	5.1	7.0	6.6	5.7	4.9
			Gross domestic product[2]	(0.5)	(0.8)	1.2	1.5	1.6
			Unemployment rate[1]	4.2	5.4	5.5	5.3	5.0
			Unemployment rate peak in year	4.7	5.6	5.6	5.4	5.1
Downside 2	5%	109.5	Bank of England base rate[1]	5.3	8.4	8.3	7.5	6.6
			Gross domestic product[2]	(0.9)	(2.3)	0.4	1.5	1.6
			Unemployment rate[1]	4.6	7.1	7.3	6.9	6.4
			Unemployment rate peak in year	5.7	7.4	7.4	7.1	6.6
Weighted scenarios			Bank of England base rate[1]	4.8	5.7	5.1	4.5	4.1
			Gross domestic product[2]	0.2	0.8	1.4	1.5	1.6
			Unemployment rate[1]	4.1	4.6	4.7	4.5	4.4
			Unemployment rate peak in year	4.3	4.7	4.7	4.6	4.4

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

18. Credit risk management (continued)

Past due and impaired definitions (continued)

As at 28 February 2023

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

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

18. Credit risk management (continued)

Past due and impaired definitions (continued)

As at 31 August 2022

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

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

Sensitivity analysis

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

Most of the sensitivities have been calculated as single-factor sensitivities and any impact on ECL reflects the sensitivity of the estimate to each key component in isolation. However, the PD and macro-economic sensitivities also include a rebasing of the IFRS 9 staging allocation and thresholds. The impact of these is therefore incorporated within the impact disclosed for these sensitivities.

18. Credit risk management (continued)

Sensitivity analysis (continued)

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

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

For further details on each of these assumptions refer to the Consolidated Financial Statements of the Group for the year ended 28 February 2023.

Set out below are changes in the ECL allowance that would arise from reasonably possible changes in these assumptions from those used in the Group's calculations at 31 August 2023:

	Impact on the loss allowance								
	31 August 2023			28 February 2023 (unaudited)			31 August 2022		
	Credit Cards £m	Other Personal Lending £m	Total £m	Credit Cards £m	Other Personal Lending £m Restated[2]	Total £m Restated[2]	Credit Cards £m	Other Personal Lending £m Restated[2]	Total £m Restated[2]
Closing ECL allowance	**345.4**	**106.9**	**452.3**	333.7	126.0	459.7	340.1	130.5	470.6
Macro economic (100% weighting)									
Upside[1]	(29.4)	(7.7)	(37.1)	(44.7)	(13.9)	(58.6)	(38.1)	(9.2)	(47.3)
Base[1]	(6.6)	(4.3)	(10.9)	(9.1)	(1.9)	(11.0)	(6.7)	(1.8)	(8.5)
Downside 1[1]	35.0	5.2	40.2	46.7	18.0	64.7	36.1	9.0	45.1
Downside 2[1]	88.5	21.0	109.5	112.3	48.3	160.6	109.3	29.7	139.0
PD									
Increase of 10% (2022: 2.5%)	26.8	6.6	33.4	25.3	7.2	32.5	7.4	1.6	9.0
Decrease of 10% (2022: 2.5%)	(25.3)	(6.6)	(31.9)	(23.9)	(7.1)	(31.0)	(7.4)	(1.6)	(9.0)
LGD									
Increase of 2.5%	7.0	2.7	9.7	7.0	2.5	9.5	6.2	2.5	8.7
Decrease of 2.5%	(7.5)	(2.6)	(10.1)	(7.1)	(2.5)	(9.6)	(6.2)	(2.5)	(8.7)
Staging - change in threshold									
Increase of 20%	(7.9)	(0.4)	(8.3)	(7.7)	(1.1)	(8.8)	(16.3)	(1.0)	(17.3)
Decrease of 20%	11.9	0.7	12.6	11.5	1.3	12.8	17.3	1.3	18.6
Expected lifetime (revolving credit facilities)									
Increase of 1 year	3.9	–	3.9	3.4	-	3.4	18.1	-	18.1
Decrease of 1 year	(6.2)	–	(6.2)	(5.4)	-	(5.4)	(18.6)	-	(18.6)

[1] The economic scenarios utilised in the period are more severe which leads to the sensitivity analysis yielding higher impacts. This is particularly prevalent with regards to lifetime PDs, which are also used in the staging assessment. As PDs are higher, more accounts hit the staging criteria and therefore the impact is greater.

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

18. Credit risk management (continued)

Management Overlays

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

As a result, Management has recognised post-model adjustments (PMAs) in respect of economic uncertainty to address these prevailing downside risks and ensure that potential impacts of future stress are adequately provided for. The PMAs employed at 31 August 2023 are as follow:

- **Customer Uncertainty - £20.0m (February 2023: £22.0m)**: The current cost of living crisis makes a segment of the Group's customers more vulnerable to rises in inflation and a deterioration in their ability to repay unsecured lending balances. Management's approach includes calculating income and expenditure estimations and specifically identifies customers with a negative current monthly net free income. This information is derived from both internal and external sources and is then complemented with internal affordability metrics which are aligned to the Group's credit policy and used in lending decisions. Once identified, these accounts are moved to Stage 2 and the associated lifetime loss is included in the ECL estimates. Sensitivity analysis shows that including customers with a monthly net free income up to £200 would increase ECLs by £13.0m. As the economic outlook deteriorated, some of these customers were transferred to Stage 2 during the period through the Group's quantitative triggers as set out in this note, resulting in a reduction in the level of PMA held.
- **Model Underestimation and Uncertainty - £56.0m (February 2023: £68.0m)**: This PMA addresses the underestimation risk caused by uncertainty in respect of recent performance data and model limitations (PD and exposure at default (EAD)) recognised through the last three years of unexpected low credit loss performance. This is specifically evident when the accuracy of lifetime loss calculations of up to seven years is calculated. Comparing historical trends to the most recent projected lifetime PD and EAD curves has identified some gaps in this estimation and Management believes the Group's current lifetime loss trends are too low and not wholly representative of current risk. For each of the segments identified in the gap analysis, and taking into consideration recent strategy decisions and other changes, lifetime loss trends have been reshaped and are now more in line with longer-term actual lifetime credit loss trends. The PD and EAD outputs from this PMA are already captured within the sensitivity outputs on page 44. For clarity, a further 10% relative increase in the Group's lifetime PD estimates equates to a £33.4m increase in ECLs. In arriving at this PMA, Management has taken account of the refinement during the period in estimates relating to the level of risk in the Group's Personal Loans book.

18. Credit risk management (continued)

Credit risk: credit risk exposure

Maximum exposure to credit risk

The table below represents the Group's maximum exposure to credit risk, by IFRS 9 stages at the reporting date, in respect of financial assets held.

For financial assets, the balances are based on gross carrying amounts as reported in the Interim Condensed Consolidated Statement of Financial Position. For loan commitments, the amounts in the table represent the amounts for which the Group is contractually committed.

As at 31 August 2023	**Stage 1**	**Stage 2**				**Stage 3**	**Total**
		Not past due	**<30 days past due**	**>30 days past due**	**Total**		
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Gross Exposure							
Loans and advances to customers	6,486.9	1,198.8	37.8	27.0	1,263.6	201.1	7,951.6
- Credit cards	*3,298.6*	*798.9*	*18.7*	*13.9*	*831.5*	*136.6*	*4,266.7*
- Other personal lending	*3,188.3*	*399.9*	*19.1*	*13.1*	*432.1*	*64.5*	*3,684.9*
Investment securities at FVOCI	615.8	–	–	–	–	–	615.8
Investment securities at amortised cost	821.8	–	–	–	–	–	821.8
Loan commitments - Loans and advances to customers[1]	11,875.0	585.4	13.7	10.2	609.3	9.0	12,493.3
Total gross exposure	19,799.5	1,784.2	51.5	37.2	1,872.9	210.1	21,882.5
Loss allowance							
Loans and advances to customers[1]	69.0	225.3	18.2	16.4	259.9	123.4	452.3
- Credit cards	*36.6*	*202.7*	*9.6*	*8.1*	*220.4*	*88.4*	*345.4*
- Other personal lending	*32.4*	*22.6*	*8.6*	*8.3*	*39.5*	*35.0*	*106.9*
Investment securities at FVOCI[2]	1.2	–	–	–	–	–	1.2
Investment securities at amortised cost	0.2	–	–	–	–	–	0.2
Total loss allowance	70.4	225.3	18.2	16.4	259.9	123.4	453.7
Net exposure							
Loans and advances to customers	6,417.9	973.5	19.6	10.6	1,003.7	77.7	7,499.3
Investment securities at FVOCI	614.6	–	–	–	–	–	614.6
Investment securities at amortised cost	821.6	–	–	–	–	–	821.6
Total net exposure	**7,854.1**	**973.5**	**19.6**	**10.6**	**1,003.7**	**77.7**	**8,935.5**
Coverage							
Loans and advances to customers	1.1%	18.8%	48.1%	60.7%	20.6%	61.4%	5.7%

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

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

18. Credit risk management (continued)

Maximum exposure to credit risk (continued)

As at February 2023 (unaudited)	Stage 1	Stage 2				Stage 3	Total
		Not past due	<30 days past due	>30 days past due	Total		
	£m	£m	£m	£m	£m	£m	£m
	Restated[3]		Restated[3]	Restated[3]	Restated[3]		Restated[3]
Gross Exposure							
Loans and advances to customers	5,687.2	1,559.4	39.6	23.4	1,622.4	202.4	7,512.0
- Credit cards	*3,112.6*	*820.2*	*21.3*	*13.4*	*854.9*	*133.1*	*4,100.6*
- Other personal lending	*2,574.6*	*739.2*	*18.3*	*10.0*	*767.5*	*69.3*	*3,411.4*
Investment securities at FVOCI	564.8	–	–	–	–	–	564.8
Investment securities at amortised cost	883.1	–	–	–	–	–	883.1
Loan commitments - Loans and advances to customers[1]	11,508.1	689.5	6.0	0.9	696.4	7.7	12,212.2
Total gross exposure	**18,643.2**	**2,248.9**	**45.6**	**24.3**	**2,318.8**	**210.1**	**21,172.1**
Loss allowance							
Loans and advances to customers[1]	56.6	258.3	18.7	13.7	290.7	112.4	459.7
- Credit cards	*30.3*	*206.0*	*10.4*	*7.6*	*224.0*	*79.4*	*333.7*
- Other personal lending	*26.3*	*52.3*	*8.3*	*6.1*	*66.7*	*33.0*	*126.0*
Investment securities at FVOCI[2]	1.3	–	–	–	–	–	1.3
Investment securities at amortised cost	0.2	–	–	–	–	–	0.2
Total loss allowance	**58.1**	**258.3**	**18.7**	**13.7**	**290.7**	**112.4**	**461.2**
Net Exposure							
Loans and advances to customers	5,630.6	1,301.1	20.9	9.7	1,331.7	90.0	7,052.3
Investment securities at FVOCI	563.5	–	–	–	–	–	563.5
Investment securities at amortised cost	882.9	–	–	–	–	–	882.9
Total net exposure	**7,077.0**	**1,301.1**	**20.9**	**9.7**	**1,331.7**	**90.0**	**8,498.7**
Coverage							
Loans and advances to customers	1.0%	16.6%	47.2%	58.5%	17.9%	55.5%	6.1%

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

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

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

18. Credit risk management (continued)

Maximum exposure to credit risk (continued)

As at 31 August 2022	Stage 1	Stage 2				Stage 3	Total
		Not past due	<30 days past due	>30 days past due	Total		
	£m Restated[3]	£m	£m Restated[3]	£m Restated[3]	£m Restated[3]	£m	£m Restated[3]
Gross Exposure							
Loans and advances to customers	6,232.7	833.3	29.5	17.4	880.2	187.7	7,300.6
- Credit cards	*3,242.3*	*552.5*	*15.2*	*9.9*	*577.6*	*120.0*	*3,939.9*
- Other personal lending	*2,990.4*	*280.8*	*14.3*	*7.5*	*302.6*	*67.7*	*3,360.7*
Investment securities at FVOCI	533.5	–	–	–	–	–	533.5
Investment securities at amortised cost[1]	869.8	–	–	–	–	–	869.8
Loan commitments - Loans and advances to customers[1]	12,016.1	206.6	4.2	0.6	211.4	7.1	12,234.6
Total gross exposure	19,652.1	1,039.9	33.7	18.0	1,091.6	194.8	20,938.5
Loss allowance							
Loans and advances to customers[1]	54.5	282.1	12.1	10.4	304.6	111.5	470.6
- Credit cards	*27.5*	*230.0*	*6.2*	*5.0*	*241.2*	*71.4*	*340.1*
- Other personal lending	*27.0*	*52.1*	*5.9*	*5.4*	*63.4*	*40.1*	*130.5*
Investment securities at FVOCI[2]	1.0	–	–	–	–	–	1.0
Investment securities at amortised cost	0.2	–	–	–	–	–	0.2
Total loss allowance	55.7	282.1	12.1	10.4	304.6	111.5	471.8
Net exposure							
Loans and advances to customers	6,178.2	551.2	17.4	7.0	575.6	76.2	6,830.0
Investment securities at FVOCI	532.5	–	–	–	–	–	532.5
Investment securities at amortised cost	869.6	–	–	–	–	–	869.6
Total net exposure	**7,580.3**	**551.2**	**17.4**	**7.0**	**575.6**	**76.2**	**8,232.1**
Coverage							
Loans and advances to customers	0.9%	33.9%	41.0%	59.8%	34.6%	59.5%	6.4%

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

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

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

18. Credit risk management (continued)

Maximum exposure to credit risk (continued)

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

	Maximum exposure to credit risk	
	Gross Loans and Advances £m	**Total ECL £m**
At 31 August 2023		
Currently > 30 days past due	27.0	16.4
Total currently > 30 days past due	**27.0**	**16.4**
Quantitative triggers	703.1	186.7
Qualitative triggers	533.5	56.8
Total currently < 30 days past due	**1,236.6**	**243.5**
Total Stage 2 at 31 August 2023	**1,263.6**	**259.9**

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

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

	Maximum exposure to credit risk	
	Gross Loans and Advances £m Restated[1]	Total ECL £m Restated[1]
At 31 August 2022		
Currently > 30 days past due	17.4	10.4
Total currently > 30 days past due	17.4	10.4
Quantitative triggers	623.3	243.0
Qualitative triggers	239.5	51.2
Total currently < 30 days past due	862.8	294.2
Total Stage 2 at 31 August 2022	880.2	304.6

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

18. Credit risk management (continued)

Credit risk: Loss allowance

Loss allowance reconciliation

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

6 months to 31 August 2023	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Loans and advances to customers - loss allowance				
At 1 March 2023	56.6	290.7	112.4	459.7
Transfers[1,3]				
Transfers from stage 1 to stage 2	(7.4)	7.4	–	–
Transfers from stage 2 to stage 1	84.5	(84.5)	–	–
Transfers to stage 3	(0.4)	(27.9)	28.3	–
Transfers from stage 3	0.5	1.5	(2.0)	–
Income statement charge				
Net remeasurement[2] following transfer of stage[3]	(61.0)	22.3	24.2	(14.5)
New financial assets originated[4]	18.5	14.3	1.2	34.0
Financial assets derecognised during the period	(2.7)	(6.8)	(2.1)	(11.6)
Changes in risk parameters and other movements[3,5]	(19.7)	44.9	14.2	39.4
Other movements				
Write-offs and asset disposals[6]	–	–	(52.8)	(52.8)
Transfer from/(to) provisions for liabilities and charges[7]	0.1	(2.0)	–	(1.9)
ECL allowance at 31 August 2023	**69.0**	**259.9**	**123.4**	**452.3**
Investment securities at FVOCI - loss allowance				
At 1 March 2023	1.3	–	–	1.3
Income statement charge				
New financial assets purchased	0.3	–	–	0.3
Financial assets derecognised during the period	(0.1)	–	–	(0.1)
Changes in risk parameters and other movements	(0.3)	–	–	(0.3)
ECL allowance at 31 August 2023	**1.2**	**–**	**–**	**1.2**
Investment securities at amortised cost - loss allowance				
At 1 March 2023	0.3	–	–	0.3
Income statement charge				
Changes in risk parameters and other movements	(0.1)	–	–	(0.1)
ECL allowance at 31 August 2023	**0.2**	**–**	**–**	**0.2**
Reconciliation to income statement				
Net expected credit loss charge	(65.1)	74.7	37.5	47.1
Recoveries and write-offs	–	–	(14.4)	(14.4)
Total income statement charge	**(65.1)**	**74.7**	**23.1**	**32.7**

[1] Transfers - The opening loss allowance on financial assets which transferred stage during the period.
[2] Net remeasurement - The increase/(decrease) in the opening loss allowance as a result of a stage transfer.
[3] Includes a release in stages 1 and 2 of £28.4m due to refinement of Management estimates of the level of risk in the Group's Personal Loans portfolio in respect of defaults expected to emerge as a result of the economic outlook.
[4] New financial assets originated or purchased - The loss allowance on new financial assets originated or purchased during the period, representing their stage at 31 August 2023.
[5] Changes in risk parameters and other movements - The change in loss allowance due to changes in macro-economic scenarios, PD, LGD and EAD changes during the period.
[6] Write-offs and asset disposals - The release of the loss allowance following the write off and/or disposal of a financial asset during the period.
[7] Transfer from/(to) provisions for liabilities and charges - The movement in loss allowance which exceeds the gross carrying amount of the financial asset.

18. Credit risk management (continued)

Credit risk: Loss allowance (continued)

Loss allowance reconciliation (continued)

6 months to 31 August 2022	Stage 1 £m Restated[8]	Stage 2 £m Restated[8]	Stage 3 £m	Total £m Restated[8]
Loans and advances to customers - loss allowance				
At 1 March 2022	94.0	265.8	127.4	487.2
Transfers[1,3]				
Transfers from stage 1 to stage 2	(9.9)	9.9	–	–
Transfers from stage 2 to stage 1	32.0	(32.0)	–	–
Transfers to stage 3	(1.4)	(15.0)	16.4	–
Transfers from stage 3	0.7	1.5	(2.2)	–
Income statement charge				
Net remeasurement[2] following transfer of stage[3]	(6.5)	17.2	24.2	34.9
New financial assets originated[4]	18.8	10.2	0.6	29.6
Financial assets derecognised during the period	(2.9)	(2.8)	(2.3)	(8.0)
Changes in risk parameters and other movements[3,5]	(72.2)	55.1	3.3	(13.8)
Other movements				
Write-offs and asset disposals[6]	–	–	(55.9)	(55.9)
Transfer from/(to) provisions for liabilities and charges[7]	1.9	(5.3)	–	(3.4)
ECL allowance at 31 August 2022	**54.5**	**304.6**	**111.5**	**470.6**
Investment securities at FVOCI - loss allowance				
At 1 March 2022	0.8	–	–	0.8
Income statement charge				
New financial assets purchased	0.1			0.1
Changes in risk parameters and other movements	0.1	–	–	0.1
ECL allowance at 31 August 2022	**1.0**	**–**	**–**	**1.0**
Investment securities at amortised cost - loss allowance				
ECL allowance at 1 March 2022 and 31 August 2022	**0.2**	**–**	**–**	**0.2**
Reconciliation to income statement				
Net expected credit loss charge	(62.6)	79.7	25.8	42.9
Recoveries and write-offs	–	–	(4.5)	(4.5)
Total income statement charge	**(62.6)**	**79.7**	**21.3**	**38.4**

[1] Transfers - The opening loss allowance on financial assets which transferred stage during the period.

[2] Net remeasurement - The increase/(decrease) in the opening loss allowance as a result of a stage transfer.

[3] Includes a charge in stages 1 and 2 of £62.1m 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 period, representing their stage at 31 August 2022.

[5] Changes in risk parameters and other movements - The change in loss allowance due to changes in macro-economic scenarios, PD, LGD and EAD changes during the period.

[6] Write-offs and asset disposals - The release of the loss allowance following the write off and/or disposal of a financial asset during the period.

[7] Transfer from provisions for liabilities and charges - The movement in loss allowance which exceeds the gross carrying amount of the financial asset.

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

18. Credit risk management (continued)

Credit risk: Loss allowance (continued)

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

6 months to 31 August 2023	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Loans and advances to customers				
Gross carrying amount				
At 1 March 2023	5,687.2	1,622.4	202.4	7,512.0
Transfers[1]				
Transfers from stage 1 to stage 2	(402.8)	402.8	–	–
Transfers from stage 2 to stage 1	653.0	(653.0)	–	–
Transfers to stage 3	(17.1)	(67.2)	84.3	–
Transfers from stage 3	1.2	3.1	(4.3)	–
Other movements				
New financial assets originated[2]	1,297.1	85.0	1.9	1,384.0
Net decrease in lending[3]	(737.3)	(130.7)	(10.1)	(878.1)
Write-offs and asset disposals[4]	(1.2)	(0.1)	(61.6)	(62.9)
Changes in interest accrual and other movements	6.8	1.3	(11.5)	(3.4)
Gross balances at 31 August 2023	**6,486.9**	**1,263.6**	**201.1**	**7,951.6**
Investment securities at FVOCI				
Gross carrying amount				
At 1 March 2023	564.8	–	–	564.8
New financial assets purchased	68.6	–	–	68.6
Financial assets derecognised during the period	(11.0)	–	–	(11.0)
Other movements	(6.6)	–	–	(6.6)
Gross balances at 31 August 2023	**615.8**	**–**	**–**	**615.8**
Investment securities at amortised cost				
Gross carrying amount				
At 1 March 2023	883.1	–	–	883.1
New financial assets purchased	13.5	–	–	13.5
Financial assets derecognised during the period	(70.3)	–	–	(70.3)
Other movements	(4.5)	–	–	(4.5)
Gross balances at 31 August 2023	**821.8**	**–**	**–**	**821.8**

[1] Transfers - The opening gross carrying amount of financial assets held which transferred stage as at period end.
[2] New financial assets originated or purchased - The gross carrying amount of financial assets originated or purchased during the period, representing their stage as at 31 August 2023.
[3] Net decrease in lending - The changes in gross carrying amount of financial assets after taking account of additional borrowing and/or payments received from customers.
[4] Write-offs and asset disposals -The write-off of the gross carrying amount when a financial asset is deemed uncollectible and/or has been disposed of.

18. Credit risk management (continued)

Credit risk: Loss allowance (continued)

6 months to 31 August 2022	Stage 1 £m Restated[5]	Stage 2 £m Restated[5]	Stage 3 £m	Total £m Restated[5]
Loans and advances to customers				
Gross carrying amount				
At 1 March 2022	5,873.8	835.1	200.9	6,909.8
Transfers[1]				
Transfers from stage 1 to stage 2	(349.6)	349.6	–	–
Transfers from stage 2 to stage 1	305.1	(305.1)	–	–
Transfers to stage 3	(20.1)	(43.5)	63.6	–
Transfers from stage 3	1.6	3.2	(4.8)	–
Other movements				
New financial assets originated[2]	1,061.2	70.6	0.8	1,132.6
Net decrease in lending[3]	(634.5)	(29.4)	(12.9)	(676.8)
Write-offs and asset disposals[4]	(2.9)	–	(62.2)	(65.1)
Changes in interest accrual and other movements	(1.9)	(0.3)	2.3	0.1
Gross balances at 31 August 2022	**6,232.7**	**880.2**	**187.7**	**7,300.6**
Investment securities at FVOCI				
Gross carrying amount				
At 1 March 2022	584.7	–	–	584.7
New financial assets purchased	88.6	–	–	88.6
Financial assets derecognised during the period	(101.5)	–	–	(101.5)
Other movements	(38.3)	–	–	(38.3)
Gross balances at 31 August 2022	**533.5**	**–**	**–**	**533.5**
Investment securities at amortised cost				
Gross carrying amount				
At 1 March 2022	857.6	–	–	857.6
New financial assets purchased	89.8	–	–	89.8
Financial assets derecognised during the period	(46.3)	–	–	(46.3)
Other movements	(31.3)	–	–	(31.3)
Gross balances at 31 August 2022	**869.8**	**–**	**–**	**869.8**

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

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

[3] Net decrease in lending - The changes in gross carrying amount of financial assets after taking account of additional borrowing and/or payments received from customers.

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

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

19. Fair Values

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

	31 August 2023		28 February 2023 (unaudited)		31 August 2022	
	Carrying value £m	Fair value £m	Carrying value £m Restated[2]	Fair value £m Restated[2]	Carrying value £m Restated[2]	Fair value £m Restated[2]
Financial assets:						
Loans and advances to customers	7,421.7	7,385.5	6,977.7	6,954.8	6,749.6	6,801.0
Investment securities - amortised cost	821.6	823.8	882.9	884.5	869.6	874.3
	8,243.3	**8,209.3**	**7,860.6**	**7,839.3**	**7,619.2**	**7,675.3**
Financial liabilities:						
Deposits from customers	6,347.6	6,211.5	5,775.7	5,646.2	5,531.8	5,438.1
Debt securities in issue	299.1	300.6	–	–	–	–
Subordinated liabilities and notes	376.5	337.9	374.3	317.5	471.8	399.2
	7,023.2	**6,850.0**	**6,150.0**	**5,963.7**	**6,003.6**	**5,837.3**

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

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

The only financial assets and financial liabilities which are carried at fair value in the Interim Condensed Consolidated Statement of Financial Position at period end are cash balances relating to the Group's Travel Money offering, FVPL and FVOCI investment securities and derivative financial instruments. The valuation techniques and inputs used to derive fair values at the period end are described below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Where an active market is considered to exist, fair values are based on quoted prices. For instruments which do not have active markets, fair value is calculated using present value models, which take individual cash flows together with assumptions based on market conditions and credit spreads and are consistent with accepted economic methodologies for pricing financial instruments.

In each case the fair value is calculated by discounting future cash flows using benchmark, observable market interest rates.

19. Fair Values (continued)

The table below categorises all financial instruments held at fair value (recurring measurement) and the fair value of financial instruments held at amortised cost according to the method used to establish the fair value disclosed.

As at 31 August 2023	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets carried at fair value				
Cash in hand[1]	–	55.1	–	55.1
Investment securities - FVOCI	615.8	–	–	615.8
Investment securities - FVPL	–	19.6	1.0	20.6
Derivative financial instruments:				
- Interest rate swaps	–	127.9	–	127.9
Financial assets carried at amortised cost				
Loans and advances to customers	–	–	7,385.5	7,385.5
Investment securities – amortised cost	823.8	–	–	823.8
Total	**1,439.6**	**202.6**	**7,386.5**	**9,028.7**
Financial liabilities carried at fair value				
Derivative financial instruments:				
- Interest rate swaps	–	20.0	–	20.0
- Forward foreign currency contracts	–	0.3	–	0.3
Financial liabilities carried at amortised cost				
Deposits from customers	–	–	6,211.5	6,211.5
Debt securities in issue	300.6	–	–	300.6
Subordinated liabilities	–	337.9	–	337.9
Total	**300.6**	**358.2**	**6,211.5**	**6,870.3**

As at 28 February 2023 (unaudited)	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets carried at fair value			Restated[2]	Restated[2]
Cash in hand[1]	–	32.1	–	32.1
Investment securities - FVOCI	564.8	–	–	564.8
Investment securities - FVPL	–	–	20.1	20.1
Derivative financial instruments:				
- Interest rate swaps	–	121.2	–	121.2
- Forward foreign currency contracts	–	0.2	–	0.2
Financial assets carried at amortised cost				
Loans and advances to customers	–	–	6,954.8	6,954.8
Investment securities – amortised cost	884.5	–	–	884.5
Total	1,449.3	153.5	6,974.9	8,577.7
Financial liabilities carried at fair value				
Derivative financial instruments:				
- Interest rate swaps	–	16.8	–	16.8
- Forward foreign currency contracts	–	0.1	–	0.1
Financial liabilities carried at amortised cost				
Deposits from customers	–	–	5,646.2	5,646.2
Subordinated liabilities	–	317.5	–	317.5
Total	–	334.4	5,646.2	5,980.6

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

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

19. Fair Values (continued)

	Level 1	Level 2	Level 3	Total
As at 31 August 2022	£m	£m	£m	£m
Financial assets carried at fair value			Restated[2]	Restated[2]
Cash in hand[1]	–	56.5	–	56.5
Investment securities - FVOCI	533.5	–	–	533.5
Investment securities - FVPL	–	24.1	0.9	25.0
Derivative financial instruments:				
- Interest rate swaps	–	117.1	–	117.1
- Forward foreign currency contracts	–	1.1	–	1.1
Financial assets carried at amortised cost				
Loans and advances to customers	–	–	6,801.0	6,801.0
Investment securities – amortised cost	874.3	–	–	874.3
Total	**1,407.8**	**198.8**	**6,801.9**	**8,408.5**
Financial liabilities carried at fair value				
Derivative financial instruments:				
- Interest rate swaps	–	22.7	–	22.7
Financial liabilities carried at amortised cost				
Deposits from customers	–	–	5,438.1	5,438.1
Subordinated liabilities	–	399.2	–	399.2
Total	**–**	**421.9**	**5,438.1**	**5,860.0**

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

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

There are three levels to the hierarchy as follows:

Level 1

Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2

Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (for example, as prices) or indirectly (for example, derived from prices).

Fair values of cash balances relating to the Group's Travel Money offering are considered to equate to their carrying value as they are short-term in nature.

Derivative financial instruments which are categorised as Level 2 are those which either:

- Have future cash flows which are on known dates and for which the cash flow amounts are known or calculable by reference to observable interest and foreign exchange rates; or
- Have future cash flows which are not pre-defined, but for which the fair value of the instrument has very low sensitivity to changes in estimate of future cash flows.

In each case the fair value is calculated by discounting future cash flows using benchmark, observable market interest rates.

The estimated fair value of subordinated liabilities is calculated using a discounted cash flow model based on a current yield curve appropriate for the remaining term to maturity.

Financial assets classified as FVPL comprise the Group's holding in a property fund, the estimated fair value of which is derived from market prices.

19. Fair Values (continued)

Level 3

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

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

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

Financial assets classified at FVPL comprise the Group's holding in VISA Inc. and its holding in a property fund. The Group's holding in VISA Inc. preferred stock may be convertible into Class A Common Stock of VISA Inc. at certain future dates. There were no conversions during the period (August 2022: one conversion). Conversion is contingent upon future events, principally related to the outcome of interchange litigation against VISA Europe Limited. As such, the valuation reflects both an illiquidity discount and the risk of a reduction in the conversion rate to VISA Inc. Common Stock. The reduction in the conversion rate is the most significant unobservable input to the valuation. The estimated fair value of the Group's holding in a property fund reflects an illiquidity discount relating to the suspension at 28 February 2023 of transfers from the fund. This restriction was no longer in place as at 31 August 2023.

Transfers

There were no transfers between Level 1 and Level 2 during the period (February 2023: no transfers).

The Group transferred investment securities totalling £19.6m from Level 3 to Level 2 during the period (February 2023: transferred investment securities totalling £19.2m from Level 2 to Level 3 and investment securities totalling £1.9m from Level 3 to Level 2).

20. Capital Resources

IFRS 9 'Financial Instruments' became effective for annual periods beginning on or after 1 January 2018 and is reflected in the Group disclosures. The Group has elected to use the transitional arrangements available under Article 473a of the Capital Requirements Regulation (CRR). These arrangements allow the IFRS 9 impact on capital to be phased in over a period of five years. On 27 June 2020, due to the Covid-19 pandemic, the CRR was further amended to accelerate specific measures and implement a new IFRS 9 transitional relief calculation which applies additional relief to increases in ECL provisions arising as a result of the Covid-19 pandemic. As a result, the IFRS 9 transitional arrangements have been extended by two years and a new modified calculation has been introduced. The original 'Day 1' IFRS 9 transitional relief ended on 1 March 2023 and the remaining transitional adjustment included in this note is due to the additional Covid-19 measures, which will be in place until 1 March 2025.

20. Capital Resources (continued)

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

	Transitional 31 August 2023 £m	**End Point 31 August 2023 £m**	Transitional 28 February 2023 £m	Transitional 31 August 2022 £m
Common equity tier 1				
Shareholder's equity (accounting capital) on a regulatory basis	1,321.6	1,321.6	1,675.6	1,694.6
Regulatory adjustments				
Unrealised (losses)/gains on cash flow hedge reserve	0.2	0.2	(0.1)	(0.7)
Adjustment to own credit/Additional value adjustments	(0.1)	(0.1)	(0.1)	(0.1)
Foreseeable dividends	(39.2)	(39.2)	–	(54.4)
Intangible assets	(105.8)	(105.8)	(108.8)	(109.3)
Material holdings in financial sector entities	(66.4)	(66.4)	(27.4)	(25.6)
IFRS 9 transitional add back	16.5	–	75.7	85.8
Insufficient coverage for non-performing exposures	(0.6)	(0.6)	(0.4)	–
Common equity tier 1 capital	**1,126.2**	**1,109.7**	1,614.5	1,590.3
Additional tier 1 capital				
Other equity instruments	149.5	149.5	–	–
Total tier 1 capital	**1,275.7**	**1,259.2**	1,614.5	1,590.3
Tier 2 capital (instruments and provisions)				
Undated subordinated notes	45.0	45.0	45.0	45.0
Dated subordinated notes net of regulatory amortisation	190.0	190.0	190.0	190.0
Tier 2 capital (instruments and provisions) before regulatory adjustments	**235.0**	**235.0**	235.0	235.0
Regulatory adjustments				
Material holdings in financial sector entities	(41.9)	(41.9)	(42.0)	(41.9)
Total regulatory adjustments to tier 2 capital (instruments and provisions)	**(41.9)**	**(41.9)**	**(42.0)**	**(41.9)**
Total tier 2 capital (instruments and provisions)	**193.1**	**193.1**	193.0	193.1
Total capital	**1,468.8**	**1,452.3**	1,807.5	1,783.4
Total risk-weighted assets (unaudited)	7,264.2	7,252.3	7,057.1	7,022.2
Common equity tier 1 ratio (unaudited)	15.5%	15.3%	22.9%	22.6%
Tier 1 ratio (unaudited)	17.6%	17.4%	22.9%	22.6%
Total capital ratio (unaudited)	20.2%	20.0%	25.6%	25.4%

20. Capital Resources (continued)

Total capital requirement (TCR) refers to the amount and quality of capital the Company must maintain to comply with the CRR Pillar 1 and 2A capital requirements. The TCR for TPFG as at 31 August 2023 is 9.80% of risk-weighted assets plus £68m as a static add-on for pension obligation risk.

In line with guidance issued by the European Banking Authority, the Group has included a foreseeable dividend, based on historic actual pay-out levels, within its capital resources disclosure. No final decision has yet been taken on whether to pay a further dividend for the year ending 29 February 2024.

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

	31 August 2023	28 February 2023 (unaudited)	31 August 2022
	£m	£m Restated[1]	£m Restated[1]
Tesco Personal Finance plc (Group) shareholder's equity	1,461.6	1,672.2	1,671.5
Subsidiaries' retained earnings	(20.7)	(24.8)	(2.2)
Subsidiary's other reserves	30.2	28.2	25.3
Additional tier 1 capital	(149.5)	-	-
Tesco Personal Finance plc (Company) shareholder's equity on a regulatory basis	**1,321.6**	1,675.6	1,694.6

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

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

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

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

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

Leverage ratio (unaudited)

The Leverage Ratio was introduced under the Basel III reforms as a simple, transparent, non-risk-based ratio intended to restrict the build-up of leverage in the banking sector to avoid distressed de-leveraging processes that can damage the broader financial system and the economy.

The Leverage Ratio is defined as the ratio of Tier 1 capital to the total Leverage Ratio exposures excluding claims on central banks and applies an equal weighting to all assets regardless of their risk.

The following Leverage Ratio disclosures for the period ended 31 August 2023 are laid out in accordance with the requirements of the Disclosure (CRR) Part of the PRA Rulebook.

20. Capital Resources (continued)

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

Exposures for leverage ratio (unaudited)	**Transitional 31 August 2023 £m**	**End Point 31 August 2023 £m**	Transitional 28 February 2023 £m Restated[1]	Transitional 31 August 2022 £m Restated[1]
Total balance sheet exposures	10,303.9	10,303.9	9,636.0	9,462.3
Adjustments for entities which are consolidated for accounting purposes but outside scope of regulatory consolidation	(500.3)	(500.3)	(488.5)	(500.6)
Adjustment for exemption of exposures to central bank	(533.0)	(533.0)	(307.9)	(364.2)
Removal of accounting value of derivatives and Securities Financing Transactions (SFTs)	(127.9)	(127.9)	(121.4)	(118.2)
Exposure value for derivatives and SFTs	36.0	36.0	31.1	31.6
Off balance sheet: unconditionally cancellable (10%)	1,249.3	1,249.3	1,221.2	1,223.5
Off balance sheet: other (20%)	–	–	–	–
Regulatory adjustment – intangible assets	(105.8)	(105.8)	(108.8)	(109.3)
Regulatory adjustment – other, including IFRS 9	(64.9)	(81.5)	37.2	42.1
Total	**10,257.3**	**10,240.7**	9,898.9	9,667.2
Tier 1 capital	**1,275.7**	**1,259.2**	1,614.5	1,590.3
Leverage ratio	**12.4%**	**12.3%**	16.3%	16.5%

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

Capital Management

The Group operates an integrated risk management process to identify, quantify and manage risk in the Group. The quantification of risk includes the use of both stress and scenario testing. Where capital is considered to be an appropriate mitigant for a given risk, this is identified and reflected in the Group's ICAAP. The capital resources of the Group are regularly monitored against the higher of this internal assessment and regulatory requirements. Capital adequacy and performance against the Group's capital plan are monitored closely, with monthly reporting provided to the Board and Asset and Liability Management Committee.

20. Capital Resources (continued)

Pillar 2 capital methodologies

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

These proposals are aimed at promoting the safety and soundness of PRA-regulated firms, to facilitate a more effective banking sector and to make the PRA’s Pillar 2A capital assessment more proportionate by addressing some of the concerns over the differences between Standardised Approach (SA) and internal ratings-based risk weights. This will continue to be managed as part of the Group's ICAAP in line with the PRA policy statement issued in October 2017. The PRA general safety and soundness objectives in relation to continuity of core services in the UK and ring-fencing of banking activities where core deposits are in excess of £25bn came into effect from 1 January 2019. The Group has not exceeded this threshold and was not therefore automatically required to ring-fence the Group's core activities by the 2019 implementation date.

Credit Risk

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

Operational risk

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

Leverage

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

The European Commission's minimum requirements for own funds and eligible liabilities (MREL)

On 1 January 2020, the Group became subject to MREL, with an interim requirement of 18.0% of risk-weighted assets until 31 December 2022. In order to meet this requirement, TPFG undertook an initial £250.0m issuance of MREL-compliant debt in July 2019.

Following a change in TPFG's resolution strategy confirmed by the BoE, TPFG no longer has a requirement to issue MREL-compliant debt since the MREL requirement is equal to the TCR. Following a tender process in November 2022, £144.7m of the MREL-compliant debt issued by TPFG in July 2019 remains in issue.

At 31 August 2023, the MREL ratio was 22.2% (unaudited) (February 2023: 27.7% unaudited).

21. Related Party Transactions

The Group's related party transactions during the interim period were entered into in the normal course of business. Transactions for this period are not significant to an understanding of the Group's financial position or performance and are similar in nature to those for the year ended 28 February 2023.

22. Contingent Liabilities

Contingent liabilities are possible obligations arising from past events, whose existence will be confirmed only by uncertain future events, or present obligations arising from past events that are not recognised because either it is not probable that an outflow of economic benefits will be required or the amount of the obligation cannot be reliably estimated.

Contingent liabilities are not recognised but information about them is disclosed unless the possibility of any outflow of economic benefits is remote. There are a number of contingent liabilities that arise in the normal course of business which, if realised, are not expected to result in a material liability to the Group.

RESPONSIBILITY STATEMENT

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

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

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

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

By order of the Board,

Richard Henderson
Director
2 October 2023

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

Conclusion

We have been engaged by Tesco Personal Finance plc (“the Company”) to review the Interim Condensed Consolidated Financial Statements in the Interim Financial Report for the six months ended 31 August 2023 which comprise the Interim Condensed Consolidated Income Statement, the Interim Condensed Consolidated Statement of Comprehensive Income, the Interim Condensed Consolidated Statement of Financial Position, the Interim Condensed Consolidated Statement of Changes in Equity, the Interim Condensed Consolidated Statement of Cash Flows and related notes 1 to 22.

Based on our review, nothing has come to our attention that causes us to believe that the Interim Condensed Consolidated set of Financial Statements in the Interim Financial Report for the six months ended 31 August 2023 are not prepared, in all material respects, in accordance with United Kingdom adopted International Accounting Standard (IAS) 34.

Basis for conclusion

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

As disclosed in note 1, the annual Financial Statements of the Company are prepared in accordance with United Kingdom adopted IASs. The condensed set of Financial Statements included in this Interim Financial Report have been prepared in accordance with United Kingdom adopted IAS 34, "Interim Financial Reporting".

Conclusion relating to going concern

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

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

Responsibilities of the directors

The directors are responsible for preparing the Interim Financial Report in accordance with IAS 34.

In preparing the Interim Financial Report, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the review of the financial information

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

Use of our report

This report is made solely to the Company in accordance with ISRE (UK and Ireland) 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the FRC. Our work has been undertaken so that we might state to the Company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our review work, for this report, or for the conclusions we have formed.

Deloitte LLP

Statutory Auditor

Birmingham, United Kingdom

2 October 2023

ABBREVIATIONS

ABE	Actuarial best estimate
AT1	Additional tier 1
BCBS	Basel Committee on Banking Supervision
BoE	Bank of England
CCyB	Countercyclical capital buffer
CET 1	Common equity tier 1
CPI	Consumer prices index
CRD	Capital Requirements Directive
CRO	Chief Risk Officer
CRR	Capital Requirements Regulation
CSM	Contractual service margin
EAD	Exposure at default
ECLs	Expected credit losses
EIR	Effective interest rate
EU	European Union
FPC	Financial Policy Committee
FVOCI	Fair value through other comprehensive income
FVPL	Fair value through profit or loss
GDP	Gross domestic product
GM	General model
IAS	International Accounting Standard
IAS 34	IAS 34 'Interim Financial Reporting'
IBNR	Incurred but not reported
ICAAP	Internal capital adequacy assessment process
IFRS	International Financial Reporting Standard
IFRS 9	IFRS 9 ‘Financial Instruments’
IFRS 17	IFRS 17 'Insurance Contracts'
ISRE	International Standard on Review Engagements
KPI	Key performance indicator
LC	Loss component
LIC	Liability for incurred claims
LGD	Loss given default
LRC	Liability for remaining coverage
MREL	Minimum requirements for own funds and eligible liabilities
NSFR	Net stable funding ratio
Ofgem	Office of Gas and Electricity Markets
PAA	Premium allocation approach
PD	Probability of default
PMA	Post-model adjustment
PRA	Prudential Regulation Authority
RMF	Risk management framework
SA	Standardised approach
SCR	Solvency Capital Requirement
SFTs	Securities financing transactions
TCR	Total capital requirement
Tesco	
PLC	Tesco
TPF	Tesco Personal Finance plc
TPFG	Tesco Personal Finance Group plc
TU	Tesco Underwriting Limited
UK	United Kingdom

A

Actuarial best estimate	An estimate of ultimate claims or claims reserve that is intended to be neither too high, nor too low, taking into account known information.
Additional tier 1 capital	Capital instruments which are not common equity but are eligible for inclusion in this tier of capital.
Adverse development cover	Reinsurance cover that will pay the reinsured if claims develop adversely over a certain limit.
Alternative performance measure	In the reporting of financial information, the Directors have adopted various APMs. These measures are not defined by IFRSs and therefore may not be directly comparable with other companies' APMs, including those in the Group's industry. APMs should be considered in addition to, and are not intended to be a substitute for, or superior to, IFRS measurements.
Amortised cost	The amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the EIR method of any difference between the initial amount and the maturity amount and minus any reduction (directly through the use of an allowance account) for impairment or uncollectability.
Annual percentage rate	The yearly interest generated by a sum that is charged to borrowers or paid to investors.

B

Basel II	Basel II is a set of international banking regulations put forth by the Basel Committee on Bank Supervision, which levelled the international regulation field with uniform rules and guidelines. Basel II expanded rules for minimum capital requirements established under Basel I and provided the framework for regulatory review, as well as set disclosure requirements for the assessment of capital adequacy of banks.
Basel III	Basel III is an international regulatory accord that introduced a set of reforms designed to improve regulation, supervision and risk management within the banking sector.

C

Capital requirements directive	CRD IV is an EU legislative package that contains prudential rules for banks, building societies and investment firms as onshored to the UK post-Brexit and amended by applicable Statutory Instruments.
Capital requirements regulation	The CRR is an EU law which was onshored to the UK post-Brexit and amended by relevant Statutory Instruments. The CRR aims to decrease the likelihood that banks become insolvent, reflecting Basel III rules on capital measurement and capital standards.
Capital resources	Eligible capital held in order to satisfy capital requirements.
Capital risk	The risk related to the Group's ability to meet regulatory capital requirements, minimum standards for capital replenishment following an extreme event, and internal investment return minimums.
Common equity tier 1 capital	The highest form of regulatory capital under Basel III that comprises shares issued and related share premium, retained earnings and other reserves net of regulatory adjustments.
Common equity tier 1 ratio	The common equity tier 1 ratio is calculated by dividing total tier 1 capital at the end of the reporting period by total risk-weighted assets and is calculated in line with the CRR.
Company	Tesco Personal Finance plc.
Conduct risk	The risk that any action by the Group or its employees fails to comply with policy and regulatory requirements, leading to unfair customer outcomes, customer detriment, or an adverse impact on market stability and effective competition.
Consumer Duty	Consumer Duty is a new regulatory requirement published by the Financial Conduct Authority which came into effect on 31 July 2023, the overarching principle of which is that a firm must act to deliver good outcomes for retail customers.
Consumer Prices Index	One of the consumer price indices used as the domestic measure of inflation in the UK. The CPI is published by the Office for National Statistics and measures the average change from month to month in the prices of goods and services purchased by most households in the UK.
Cost:income ratio	The cost:income ratio is calculated by dividing operating expenses by total income.
Countercyclical capital buffer	A capital buffer, determined by the regulator, which aims to ensure that the banking sector capital requirements take account of the macro-economic financial environment in which banks operate. Its primary objective is to set a buffer of capital to achieve the broader macro-prudential goal of protecting the banking sector from periods of excess aggregate credit growth that have often been associated with the build-up of system-wide risk. The buffer can be drawn down to absorb losses during stressed periods.

C (continued)

CRD IV	Legislation published in June 2013 (in force from 1 January 2014) by the European Commission, comprising the CRD and CRR and together forming the CRD IV package. Implements the Basel III proposals in addition to new proposals on sanctions for non-compliance with regulatory rules, corporate governance and remuneration. The rules have been implemented in the UK via PRA policy statement PS7/13, with some elements subject to transitional phase-in.
Credit risk	Credit risk is the risk that a borrower will default on a debt or obligation by failing to make contractually obligated payments, or that the Group will incur losses due to any other counterparty failing to meet their financial obligations.

D

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

E

Excess of loss	Contractual arrangements whereby the Group transfers part or all of the insurance risk accepted to another insurer on an excess of loss basis (reinsurance for claims over an agreed value).
Expected credit loss	The weighted average of credit losses with the respective risks of a default occurring as the weights.
Exposure	A claim, contingent claim or position which carries a risk of financial loss.
Exposure at default or exposure value	The amount expected to be outstanding after any credit risk mitigation, if and when the counterparty defaults. EAD reflects both drawn down balances as well as an allowance for undrawn commitments and contingent exposures.

F

Fair value	The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
Financial Conduct Authority	The statutory body responsible for conduct of business regulation and supervision of UK authorised firms from 1 April 2013. The FCA also has responsibility for the prudential regulation of firms that do not fall within the PRA's scope.
Financial instrument	A contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.
Financial Policy Committee	The BoE's Financial Policy Committee identifies, monitors and takes action to remove or reduce systemic risks with a view to protecting and enhancing the resilience of the UK financial system.
Funding and Liquidity risk	The risk that the Group is not able to meet its obligations as they fall due and the risk that the Group does not have sufficiently stable and diverse sources of funding.

G

General model	The model used to measure a group of insurance contracts issued, or reinsurance contracts held, under IFRS 17.
Gross domestic product	The total value of goods produced and services provided in a country during one year.
Gross insurance premiums written	Premiums paid by policyholders for their insurance, inclusive of commission and insurance premium tax over a given period.
Group	The Company and its subsidiaries.

I

Impairment losses	The reduction in value that arises following an impairment review of an asset outwith the scope of IFRS 9 which has determined that the asset's value is lower than its' carrying value.
Insurance risk	The risks accepted through the provision of insurance products in return for a premium. These risks may or may not occur as expected and the amount and timing of these risks are uncertain and determined by events outside of the Group's control.
Internal capital adequacy assessment process	The Group's own assessment of the level of capital needed in respect of its regulatory capital requirements (for credit, market and operational risks) and for other risks including stress events.

I (continued)

Internal liquidity adequacy assessment process	The Group's own assessment of the level of liquidity needed in respect of its regulatory requirements to ensure that the Group maintains adequate liquid assets to survive a defined stress scenario for a sufficient period as defined by Risk Appetite.

L

Leverage ratio	The ratio of tier 1 capital to the total leverage ratio exposures, excluding claims on central banks and applying an equal weighting to all assets regardless of their risk.
Loan to deposit ratio	The loan to deposit ratio is calculated by dividing loans and advances to customers by deposits from customers.
Loans and advances to customers loss allowance coverage ratio	The loans and advances to customers loss allowance coverage ratio is calculated by dividing the ECL provision in respect of loans and advances to customers by the gross carrying amount of loans and advances to customers.
Loss given default	Represents the Group's expectation of the extent of the loss if there is a default. The LGD assumes that once an account has defaulted, the portion of the defaulted balance will be recovered over a maximum period of 60 months from the point of default. LGD models take into account, when relevant, the valuation of collateral, collection strategies and receipts from debt sales.

M

Market risk	The risk that economic factors beyond the Group's control, such as exposure to market movements, including inflation, interest rates and currency fluctuations, will have a negative impact on the Group's financial results, adversely impacting its ability to achieve its strategic objectives, attract investors and remain viable.
Minimum requirements for own funds and eligible liabilities	A requirement for minimum loss-absorbing capacity institutions must hold.
MREL ratio	The MREL ratio is calculated by dividing total capital plus MREL debt by risk-weighted assets.

N

Net interest margin	Net interest margin is calculated by dividing net interest income from continuing operations by average interest-bearing assets, excluding assets held for sale.
Net stable funding ratio	The net stable funding ratio is calculated under the CRD IV methodology.
Net zero	The balance achieved when the amount of carbon added to the atmosphere is no more than the amount removed.

O

Ofgem	Great Britain's independent energy regulator.
Operational risk	The risk of a potential error, loss, harm or failure caused by ineffective or inadequately defined processes, system failures, improper conduct, human error or from external events.

P

Past due	Loans are past due when a counterparty has failed to make a payment in line with their contractual obligations.
PD threshold	The maximum lifetime PD for each financial asset that was expected at the reporting date at initial recognition before a significant increase in credit risk is deemed to have occurred.
Pillar 1	The first Pillar of the Basel II framework sets out the minimum regulatory capital requirements (8%) for credit, market and operational risks.
Pillar 2	The second Pillar of the Basel II framework, known as the Supervisory Review Process, sets out the review process for a bank’s capital adequacy; the process under which supervisors evaluate how well banks are assessing their risks and the actions taken as a result of these assessments.
Pillar 2A	Pillar 2A addresses risks to an individual firm which either are not captured, or not fully captured, under the Pillar 1 capital requirements applicable to all banks.
Post-model adjustments	PMAs reflect the use of Management judgment to address perceived limitations in models or data.

P (continued)

Premium allocation approach	An optional simplified form of measuring an eligible group of insurance contracts issued or reinsurance contracts held under IFRS 17.
Probability of default	Represents the likelihood a customer will default over the relevant period, being either 12 months or the expected lifetime.
Prudential Regulation Authority	The statutory body responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms in the UK.

Q

Quota share	A type of reinsurance where the insured shares a portion (quota) of its premium and risk with one or more reinsurers

R

Recovery plan	The recovery options which could be deployed in a severe stress event impacting capital or liquidity positions.
Regulatory capital	The capital that a bank holds, determined in accordance with relevant regulation arising from the CRR.
Regulatory risk	The risk that the Group does not meet it regulatory obligations, impacting the Group's licence to operate and its brand, trust and reputation, resulting in political interventions, fines, negative publicity and, in some cases, mandated restrictions on its ability to operate in the market.
Risk Appetite	The level and types of risk that the Group is willing to assume to achieve its strategic objectives.
Risk-weighted assets	Calculated by assigning a degree of risk expressed as a percentage (risk-weight) to an exposure value in accordance with the applicable SA rules.

S

Securitisation	A securitisation is defined as a transaction where the payments are dependent upon the performance of a single exposure or pool of exposures, where the subordination of tranches determines the distribution of losses during the life of the transaction.
Securities Financing Transactions	The act of lending, or borrowing, a stock, derivative, or other security to or from an investor or firm. For the Group, this represents market repo transactions and does not represent securities financing for clients.
Solvency capital requirement	A statutory amount that the Group needs to hold over and above its best estimate for claims under the Solvency II regulations. It is calibrated to a 1:200 year adverse scenario.
Solvency II	Solvency II sets out regulatory requirements for insurance firms and groups, covering financial resources, governance and accountability, risk assessment and management, supervision, reporting and public disclosure.
Standardised Approach	In relation to credit risk, the method for calculating credit risk capital requirements using risk-weightings that are prescribed by the regulator. SAs following prescribed methodologies also exist for calculating market and operational risk capital requirements.
Stress testing	The term used to describe techniques where plausible events are considered as vulnerabilities to ascertain how this will impact the capital resources which are required to be held by the Group.
Subordinated liabilities	Liabilities which, in the event of insolvency or liquidation of the issuer, are subordinated to the claims of depositors and other creditors of the issuer.

T

Term Funding Scheme for Small and Medium Sized Entities	A funding scheme provided by the BoE which provides participating banks and building societies with funding at interest rates close to the BoE's base rate.
Tier 1 capital	A component of regulatory capital defined by the CRR, comprising common equity tier 1 capital and additional tier 1 capital. Additional tier 1 capital includes qualifying capital instruments such as non-cumulative perpetual preference shares and additional tier 1 capital securities.
Tier 2 capital	A component of regulatory capital, comprising qualifying subordinated loan capital and related non-controlling interests.
Top down approach	Under a top down approach the discount rate is based on a yield curve that reflects the current market rates of return of a reference portfolio of assets adjusted to eliminate any factors that are not relevant to the insurance contracts.

T (continued)

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 Group must maintain to comply with the CRR Pillar 1 and the 2A capital requirements.
Total liquidity requirement	Financial institutions are required to hold at all times liquid assets, the total value of which equals, or is greater than, the net liquidity outflows which might be experienced under stressed conditions over a short period of time (30 days).
TU's minimum capital requirement	Under the Solvency II regime, the minimum capital requirement for TU to write business.

U

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