TESCO PERSONAL FINANCE PLC

INTERIM FINANCIAL REPORT

FOR THE SIX MONTHS ENDED 31 AUGUST 2019

COMPANY NUMBER SC173199

TESCO PERSONAL FINANCE PLC

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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 and the 'Group' means the Company and its subsidiaries and joint venture included in the Interim Condensed Consolidated Financial Statements. The Group operates using the trading name of Tesco Bank.

Tesco Personal Finance Plc is a wholly owned subsidiary of Tesco Personal Finance Group PLC (TPFG), the share capital of which is wholly owned by Tesco PLC. A reconciliation of the results contained within these Interim Condensed Consolidated Financial Statements to the Tesco Bank results presented in the Tesco PLC Interim Results 2019/20 can be found on the Tesco PLC internet page: https://www.tescoplc.com/media/755131/brokerpack_2019.pdf.

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 and 7 of this Interim Management Report.

Business Model

The Group provides financial services and products to personal customers in the United Kingdom (UK). The Company is incorporated and registered in Scotland. The Company owns 49.9% of Tesco Underwriting Limited (TU), an authorised insurance company. TU is accounted for as a joint venture of the Group.

Strategic Review

Following a strategic review of its activities, the Group announced in May 2019 that it had ceased new Mortgage lending and was actively exploring options to sell its existing Mortgage business, including the complete transfer of related balances and ongoing administration of relevant accounts. The Group, which has offered Mortgages since 2012, has served over 23,000 customers, with total net lending balances of £3,689.1m at 31 August 2019.

In recent years, challenging market conditions have limited profitable growth opportunities. The Group's focus is on how it can best serve Tesco customers and align its resources effectively to their needs while ensuring that its offering remains sustainable in the long-term. To that end, the Group made the strategic decision to focus on serving a broader range of customers in more specific areas, resulting in the move away from the Group's Mortgage offering. In exploring a sale of its Mortgage business, the Group's priority was to complete a commercially acceptable transaction with a purchaser who will continue to serve the Group's customers well.

In accordance with the requirements of International Financial Reporting Standard (IFRS) 5 'Non-current assets held for sale and discontinued operations', the Group has classified its Mortgage business as a discontinued operation at 31 August 2019.

Amounts recognised in the Condensed Consolidated Income Statement in respect of the Mortgage business are presented as a single line item after profit after tax from continuing operations. The prior period has been restated to present this on a consistent basis with the current period. Assets and liabilities of the disposal group representing the Mortgage business are presented separately in the current period Interim Condensed Consolidated Statement of Financial Position, with no requirement to restate prior periods.

Following the Group's decision to sell its Mortgage business, with effect from 1 September 2019 the Group's business model under IFRS 9 'Financial Instruments' in respect of its Mortgage business changed from being solely to collect contractual cash flows from the Mortgage business to being to collect cash flows arising from the sale of the Mortgage business. As a result, the Group has accounted for its Mortgage business at fair value through profit or loss (FVPL) from that date. The Mortgage business was previously accounted for at amortised cost. The Group recognised a fair value measurement gain after tax of £16.7m at 1 September 2019 following this change in business model.

Strategic Review (Continued)

The Group completed the sale of the majority of its Mortgage business to Halifax, which is part of Lloyds Banking Group, on 27 September 2019 for cash consideration of £3,694.6m. After settling transaction and other costs associated directly with the sale amounting to £3.8m, the Group's after-tax gain on sale was £21.4m. Immediately following derecognition of the majority of the Group's Mortgage business, the Group entered into a series of receive-fixed interest rates swaps to economically neutralise the effect of its existing pay-fixed interest rate swaps used to hedge the interest rate risk inherent in the Mortgage business. The inception value of these swaps was an after-tax gain of £5.0m.

As is customary in such a transaction, the Group will continue to recognise a small element of the Mortgage business, representing new advances to existing Mortgage customers, until migration of all Mortgage accounts to the purchaser, currently expected to take place in February 2020, is completed. The final gain on sale will be confirmed once migration is completed.

Further information on the Group's discontinued operations is set out at notes 2, 4, 10 and 22.

Impact of Adoption of New Accounting Standards

The Group adopted IFRS 16 'Leases' with effect from 1 March 2019. This was adopted fully retrospectively and prior periods have been restated.

The adoption of IFRS 16 resulted in the recognition of right-of-use assets with a net book value of £16.7m at 1 March 2018. The net impact on lease liabilities, after the release of a previously held operating lease accrual, was to increase lease liabilities by £22.8m. The overall impact on equity, net of a deferred tax asset of £1.6m, was a decrease of £4.5m at 1 March 2018.

Further details of the transitional impact of the adoption of IFRS 16 are set out at note 2.

Headlines

Income Statement

- Profit before tax from continuing operations is 71.2% lower at £16.8m (August 2018: £58.4m)[1,2].
- Underlying profit before tax from continuing operations, which excludes items which are not reflective of ongoing trading performance, is 8.0% lower at £98.5m (August 2018: £107.1m)[1,2]. A reconciliation of statutory to underlying profit for the current and prior periods is set out at note 4.
- Profit after tax from discontinued operations has decreased by 1.7% to £17.4m (August 2018: £17.7m).
- **Profit before tax from continuing operations**

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

- a 4.1% increase in net interest income to £240.1m (August 2018: £230.7m)[1,2], reflecting higher interest earnings on the back of lending growth. Net interest margin has remained broadly similar at 4.2% (August 2018: 4.3%)[1,2];
- a 0.1% increase in fee and commission income to £169.8m (August 2018: £169.7m)[2]. This includes a credit to insurance income of £10.7m relating to commission recognised by the Group in line with IFRS 15 'Revenue from contracts with customers' in respect of future renewals of certain insurance policies managed and underwritten by a third party. This is the point in time at which the Group has satisfied all of its performance obligations in relation to the policies sold and it is considered highly probable that a significant reversal in the amount of revenue recognised will not occur in future periods. This has been offset by continued pressure on insurance retention rates due to a highly competitive environment, leading to a reduction in insurance commission income, and a reduction in ATM income as a result of the downward trend in ATM transactions being seen across the market as customers move towards contactless and other card payments;
- a loss on financial instruments at FVPL of £3.2m (August 2018: loss of £0.7m)[2];

[1] The prior period has been restated following the retrospective adoption of IFRS 16 in the current period. Refer to note 2 for further details.
[2] The prior period has been restated following the classification of the Mortgage business as a discontinued operation. Refer to notes 2 and 10 for further details.

Income Statement (continued)

- a gain on disposal of investment securities of £0.1m (August 2018: gain of £8.4m);
- a 7.7% increase in operating expenses to £283.8m (August 2018: £263.6m)[1,2]. This includes an additional payment protection insurance (PPI) charge of £45.0m (August 2018: £7.0m) recognised during the period, further detail on the drivers of which is set out in note 14, and a restructuring charge of £8.2m relating to the Group's strategic review (August 2018: credit of £1.6m relating to the early exit from the Group's offices in central Edinburgh). The prior period also includes a charge of £16.4m in respect of a regulatory provision relating to the November 2016 fraud incident. There was no such charge in the current period. Cost control remains a key focus of the Group and is reflected in the £11.2m decrease in underlying costs to £230.6m (August 2018: £241.8m) set out at note 4.
- a 25.7% increase in impairment charges to £113.4m (August 2018: £90.2m). This is mainly driven by an increase in the Group's expected credit loss (ECL) allowance as a result of the change in the regulatory landscape within the Credit Cards market (Persistent Debt remediation programme which started in September 2018) as well as the implementation of a number of credit initiatives in recent years. The bad debt:asset ratio (BDAR) in respect of continuing operations increased to 2.6% (August 2018: 2.2%)[2] ; and
- a 75.6% increase in the Group's share of profit from its joint venture, TU to £7.2m (August 2018: £4.1m). This includes a credit of £3.7m (August 2018: £nil), representing the Group's share of credits recognised by TU during the period relating to the impact on TU's insurance reserves of a change to the Ogden tables, which are used to calculate future losses in personal injury and fatal accident cases.

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

Income tax on the Group's profit from continuing operations for the period is a charge of £15.5m (August 2018: £19.8m)[1,2]. The Group's current year effective tax rate is higher than the statutory rate principally due to the non-deductibility of the additional PPI charge recognised during the period.

- **Profit after tax from discontinued operations**

The decrease in profit after tax from discontinued operations predominantly reflects an increase in net interest income to £41.3m (August 2018: £35.4m), offset by an increase in losses on financial instruments held at FVPL to £6.6m (August 2018: £2.8m) and an accelerated amortisation charge of £3.1m (August 2018: £nil) recognised during the period.

Following the classification during the period of the Group's Mortgage business as a discontinued operation, the Group has reassessed the useful life of certain of its intangible fixed assets, reducing the expected life to a maximum of one year. As this represents a change in accounting estimate, no prior period adjustment is required.

In arriving at the profit after tax from discontinued operations for the current and prior period, it has not been possible under IFRS 5 to allocate any of the Group's cost of funding the Mortgage business to discontinued operations as the related liabilities were not entered into specifically to fund the Group's Mortgage business. After including the Group's notional cost of funding of £29.0m (August 2018: £26.2m) in respect of the Mortgage business, the loss after tax from discontinued operations was £3.8m (August 2018: £1.4m).

Balance Sheet

- Loans and advances to customers have decreased by 30.1% to £8.7bn (February 2019: £12.4bn). This reflects classification during the period of the Group's £3.7bn (February 2019: £3.8bn) Mortgage business as a disposal group. Reflecting the impact of this classification on the prior period, loans and advances to customers have remained broadly flat at £8.7bn (February 2019: £8.7bn). Credit Card balances have reduced by 1.2%, while Personal Loans have grown by 3.0%.

[1] The prior period has been restated following the retrospective adoption of IFRS 16 in the current period. Refer to note 2 for further details.

[2] The prior period has been restated following the classification of the Mortgage business as a discontinued operation. Refer to notes 2 and 10 for further details.

Balance Sheet (continued)

- Customer deposits, which continue to be the Group's main source of funding, have decreased by 5.4% to £9.9bn (February 2019: £10.5bn) as the Group began to reduce its Savings balances in response to the planned sale of its Mortgage business. Deposits from banks at 31 August 2019 totalled £1,998.1m (February 2019: £1,663.2m). At the period end, the Group had entered into repurchase transactions of £659.1m (February 2019: £324.2m) and accessed £1,339.0m of funds from the Bank of England's (BoE) Term Funding Scheme (TFS) (February 2019: £1,339.0m). The lower cost of funding provided by the TFS is reflected in competitive offers for the Group's borrowing customers.
- The balance sheet remains well positioned to support future lending growth from both a liquidity and capital standpoint. At 31 August 2019, the total capital ratio was 18.4% (February 2019: 18.3%)[1] and net stable funding ratio (NSFR) was 121.4% (February 2019: 123.1%)[1]. The decrease in the NSFR over the period reflects decreased available funding of £0.6bn as the Group began to reduce its Savings balances in response to the planned sale of its Mortgage business.

Strategic Priorities

The vision of Tesco Bank is to ‘help Tesco shoppers manage their money a little better every day’. In order to further the Group's pursuit of this vision, the Group continues to seek opportunities to make it easier for Tesco customers to bank and insure with the Group through targeted investment in technology and data, making life simpler for both customers and colleagues and driving efficiency gains that can be reinvested in the customer offer. The Group's strategy is to bring the best of Tesco to financial services, offering customers great value across the range of products and earning customer trust through the Group’s actions.

The Group now has 323 Travel Money bureaux across the UK, as well as offering online services including click and collect and delivery.

The Bank’s mobile banking App has been upgraded to allow customers to buy Travel Money via the App, underlining the Bank’s commitment to make it easy for customers to manage their money.

The Group’s commitment to offering attractive products and good service for customers has been rewarded with recognition as 'Best Card Provider (Standard Rate)' and 'Best Card Provider (Balance Transfer Rate)' at the 2019 Moneyfacts Awards.

During the period, colleagues raised over £54,000 for the Group’s charity partners and volunteered over 1,000 hours to their local communities. In May 2019, the Group marked its second 'Tesco Bank Turns Pink' event, showing the Group's commitment and support to Cancer Research UK's Race for Life.

Regulatory Developments

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

The Second Payment Services Directive (PSD2), the first phase of which took effect from 13 January 2018, together with Open Banking, allows customers to choose to share data from their banking products with third party providers (TPPs) and bring together all of their financial relationships and data in one place, potentially leading to a fundamental change in how customers manage both their money and data over the longer term. The aim of these changes is to promote competition and enhance customer choice. They provide potential opportunities for the Group to attract new customers, as well as potentially increasing competition from traditional banking businesses and new providers of financial services, including technology companies. The Group continues to monitor and review the opportunities and risks associated with the introduction of PSD2, including the need to ensure that there is appropriate control and ownership of sensitive and confidential customer data as the use of TPPs becomes more widespread.

The second phase of PSD2 was launched during the period. Open Banking, which is supported by a secure technology standard, is a change for the whole UK banking sector and is designed to give customers more control over their financial data and money. Customers will also be able to more easily compare accounts from different providers, understand features, service quality and pricing, and be able to select which offers best value. Using Open Banking, the Group's customers can choose to connect their Personal Current Accounts, Credit Cards, Instant Access Savings Accounts or Internet Saver accounts to TPPs. TPPs will provide a range of different Apps and websites offering new ways for customers to manage money and make payments.

[1] The prior period has been restated following the retrospective adoption of IFRS 16 in the current period. Refer to note 2 for further details.

Regulatory Developments (continued)

Amendments to the Capital Requirements Regulation (CRR) and Capital Requirements Directive (CRD) were published in the Official Journal of the European Union (EU) on 7 June 2019. The majority of the CRR amendments will apply from 28 June 2021 and the CRD amendments from 28 December 2020. The impact of these amendments continues to be assessed. Uncertainty remains around the implementation and impact of further regulatory developments arising from the finalisation of Basel III, which will be subject to EU and UK implementation.

In addition, the Group will be subject to the minimum requirements for own funds and eligible liabilities (MREL) on an interim basis from 1 January 2020, with full implementation applicable from 1 January 2022. The requirements are factored into the Group's funding and capital plans. TPFG undertook an initial £250.0m issuance of MREL-compliant debt in July 2019 in support of these requirements and subsequently invested the proceeds in the Company via an intercompany subordinated loan.

Business Review

During the period, Personal Loan balances grew by 3.0% while Credit Card balances reduced by 1.2%. Mortgage balances fell by 2.1% in the period to £3,689.1m (February 2019: £3,767.4m) following the Group's decision to cease new Mortgage lending.

Customer deposits of £9,914.5m (February 2019: £10,478.6m) continue to be the Group's primary source of funding. The Group’s customer deposits reduced by 5.4% in the period as the Group began to reduce its Savings balances in response to the planned sale of its Mortgage business.

During the period, the Group maintained its funding from the BoE's TFS at £1,339.0m (February 2019: £1,339.0m).

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

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

Key Performance Indicators

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

	31 August 2019	31 August 2018 Restated[1,2]
Underlying net interest margin[1,2]	4.5%	4.8%
Net interest margin[1,2]	4.2%	4.3%
Underlying cost:income ratio[1,2]	52.5%	55.6%
Cost:income ratio[1,2]	69.8%	64.6%
Bad debt:asset ratio[2]	2.6%	2.2%

[1] The prior period has been restated following the retrospective adoption of IFRS 16 in the current period. Refer to note 2 for further details.
[2] The prior period has been restated following the classification of the Mortgage business as a discontinued operation. Refer to notes 2 and 10 for further details.

Capital and Liquidity Ratios

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

	31 August 2019	28 February 2019 Restated[1]	31 August 2018 Restated[1]
Common equity tier 1 ratio[1]	16.2%	16.2%	16.0%
Total capital ratio[1]	18.4%	18.3%	18.1%
Net stable funding ratio[1]	121.4%	123.1%	117.4%
Underlying loan to deposit ratio	123.2%	n/a	n/a
Loan to deposit ratio	87.6%	118.6%	120.6%

The Group's total capital ratio remains above internal targets and regulatory requirements at 18.4% (February 2019: 18.3%)[1] and leaves the Group well placed to support future growth.

On 1 March 2018, IFRS 9 came into force and a transitional period was introduced, allowing the Company (being the regulated entity) to phase in the IFRS 9 impact on capital over a period of 5 years.

Under the transitional provisions, the impact as at 31 August 2019 on common equity tier 1 is £12.7m (February 2019: £7.8m). Common equity tier 1 is expected to reduce from inception to end point by approximately 164 basis points (unaudited). The Group's common equity tier 1 capital is disclosed in note 18.

The NSFR, a measure of the Group’s liquidity position, is within appetite at 121.4% as at 31 August 2019 (February 2019: 123.1%)[1]. The Group maintains a liquid asset portfolio of high quality securities of £1.8bn (February 2019: £2.1bn).

[1] The prior period has been restated following the retrospective adoption of IFRS 16 in the current period. Refer to note 2 for further details.

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.

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.

Principal risks and uncertainties (continued)

To support this, a Risk Management Framework (RMF) has been embedded across the Group, creating an integrated approach to managing risk. The RMF brings together governance, Risk Appetite, the three lines of defence, the Policy Framework and risk management tools to support the business in managing risk as part of day-to-day activity, and is underpinned by governance, controls, processes, systems and policies within the first line business areas and those of the second line Risk Management Function.

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

The principal risks and uncertainties faced by the Group remain unchanged from those set out in the Group's Annual Report and Financial Statements for the year ended 28 February 2019 (pages 8 to 12).

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 potential error, loss, harm or failure caused by ineffective or inadequately defined processes, system failure, improper conduct, human error, fraud or from external events.
Liquidity and Funding risk	Liquidity risk is the risk that the Group is not able to meet its obligations as they fall due. This includes the risk that a given security cannot be traded quickly enough in the market to prevent a loss if a credit rating falls. Funding risk is the risk that the Group does not have sufficiently stable and diverse sources of funding.
Market risk	The risk that the value of earnings or capital is altered through the movement of market rates. This includes interest rates, foreign exchange rates, credit spreads and equities.
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 of reputational damage, liability or material loss from failure to comply with the requirements of the financial services regulators or related codes of best practice applicable to the business areas within which the Group operates.
Capital risk	The risk that the Group holds regulatory capital which is of insufficient quality and quantity to enable it to absorb losses.
Brexit	On 29 March 2017 the UK triggered Article 50, formally beginning the process to leave the EU. The process of exiting the EU continues to contribute to political and economic uncertainty in the UK and Europe. The Group will continue to monitor the wider economic environment, particularly to assess the impact on credit risk to the Group. The largest impact on the Group relates to the economic impact on the Group’s ECL provision, sensitivities in respect of which are set out at note 16.
LIBOR rate replacement	On 27 July 2017 the Financial Conduct Authority announced that the London Interbank Offered Rate (LIBOR) would be phased out and replaced with an alternative reference rate by the end of 2021.

TESCO PERSONAL FINANCE PLC
INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)
FOR THE SIX MONTHS ENDED 31 AUGUST 2019

	Note	6 months ended 31 August 2019 £m	6 months ended 31 August 2018 £m Restated[1,2]
Continuing operations			
Interest and similar income	5	346.0	318.8
Interest expense and similar charges	5	(105.9)	(88.1)
Net interest income		**240.1**	**230.7**
Fees and commissions income	6	185.2	186.5
Fees and commissions expense	6	(15.4)	(16.8)
Net fees and commissions income		**169.8**	**169.7**
Net loss on financial instruments at fair value through profit or loss (FVPL)		(3.2)	(0.7)
Net gain on investment securities		0.1	8.4
Net other income		**(3.1)**	**7.7**
Total income		**406.8**	**408.1**
Administrative expenses		(201.2)	(197.5)
Depreciation and amortisation		(37.6)	(42.7)
Provision for customer redress	14	(45.0)	(7.0)
Regulatory charge		–	(16.4)
Operating expenses		**(283.8)**	**(263.6)**
Impairment loss on financial assets	7	(113.4)	(90.2)
Operating profit		**9.6**	**54.3**
Share of profit of joint venture		7.2	4.1
Profit before tax		**16.8**	**58.4**
Analysed as:			
Underlying profit before tax	4	98.5	107.1
Non-underlying items	4	(81.7)	(48.7)
		16.8	58.4
Income tax charge	8	(15.5)	(19.8)
Profit for the period from continuing operations		**1.3**	**38.6**
Discontinued operations			
Profit for the period after tax from discontinued operations	10	17.4	17.7
Profit for the period attributable to owners of the parent		**18.7**	**56.3**

[1] The prior period has been restated following the retrospective adoption of IFRS 16 in the current period. Refer to note 2 for further details.
[2] The prior period has been restated following the classification of the Mortgage business as a discontinued operation. Refer to notes 2 and 10 for further details.

TESCO PERSONAL FINANCE PLC
INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
FOR THE SIX MONTHS ENDED 31 AUGUST 2019

	6 months ended 31 August 2019 £m	6 months ended 31 August 2018 £m Restated[1]
Profit for the period	18.7	56.3
Items that may be reclassified subsequently to the income statement		
Debt securities at fair value through other comprehensive income (FVOCI)		
Fair value movements	0.4	0.5
Net gains transferred to the income statement on disposal	(0.1)	(8.4)
Expected credit loss (ECL) allowance transferred to the income statement	–	0.4
Taxation	(0.1)	2.0
	0.2	(5.5)
Cash flow hedges		
Fair value movements	1.1	0.3
Taxation	(0.1)	(0.1)
	1.0	0.2
Currency basis reserve		
Foreign currency movements	(0.2)	–
	(0.2)	–
Share of other comprehensive income/(expense) of joint venture	5.6	(0.1)
	5.6	(0.1)
Items that will not be reclassified subsequently to the income statement		
Equity securities at FVOCI		
Fair value movements	0.8	0.5
Taxation	(0.2)	(0.1)
	0.6	0.4
Other comprehensive income/(expense) for the period, net of tax	**7.2**	**(5.0)**
Total comprehensive income for the period	**25.9**	**51.3**
Total comprehensive income attributable to owners of the parent arising from:		
Continuing operations	8.5	33.6
Discontinued operations	17.4	17.7

[1] The prior period has been restated following the retrospective adoption of IFRS 16 in the current period. Refer to note 2 for further details.

TESCO PERSONAL FINANCE PLC

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

AS AT 31 AUGUST 2019

	Note	31 August 2019 £m	28 February 2019 £m Restated[1]	31 August 2018 £m Restated[1,2]
Assets				
Cash and balances with central banks		723.2	1,072.1	1,232.9
Loans and advances to banks		459.1	324.2	249.2
Loans and advances to customers	11	8,688.7	12,425.7	12,152.2
Derivative financial instruments		40.0	31.3	38.0
Investment securities		1,060.0	1,071.5	715.4
Prepayments and accrued income		64.2	49.4	62.0
Other assets		274.7	236.6	225.4
Investment in joint venture	12	83.5	86.4	83.7
Deferred income tax asset		60.6	59.3	57.4
Intangible assets		205.0	224.2	244.6
Property, plant and equipment		72.6	76.8	79.6
Assets of the disposal group	10	3,690.1	–	–
Total assets		**15,421.7**	**15,657.5**	**15,140.4**
Liabilities				
Deposits from banks		1,998.1	1,663.2	1,813.2
Deposits from customers		9,914.5	10,478.6	10,073.2
Debt securities in issue	13	861.1	1,185.5	922.6
Derivative financial instruments		63.0	60.2	48.6
Provisions for liabilities and charges	14	81.6	55.0	77.9
Accruals and deferred income		88.8	95.3	84.2
Current income tax liability		22.6	31.1	30.9
Other liabilities		206.6	185.7	201.6
Subordinated liabilities and notes	15	486.2	235.0	235.0
Liabilities of the disposal group	10	4.2	–	–
Total liabilities		**13,726.7**	**13,989.6**	**13,487.2**
Equity and reserves attributable to owners of parent				
Share capital		122.0	122.0	122.0
Share premium account		1,097.9	1,097.9	1,097.9
Retained earnings		439.3	420.6	394.0
Other reserves		35.8	27.4	39.3
Total equity		**1,695.0**	**1,667.9**	**1,653.2**
Total liabilities and equity		**15,421.7**	**15,657.5**	**15,140.4**

[1] The prior period has been restated following the retrospective adoption of IFRS 16 in the current period. Refer to note 2 for further details.

[2] The prior period has been restated following a change in presentation of the amount of the ECL allowance recognised under IFRS 9 which exceeds the gross carrying amount of the financial asset as set out at note 11. 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 2019

	Share capital £m	Share premium £m	Retained earnings £m Restated[1]	FV/AFS reserve £m	Cash flow hedge reserve £m	Currency basis reserve £m	Share based payment reserve £m	Total equity £m Restated[1]
Balance at 1 March 2019	**122.0**	**1,097.9**	**420.6**	**4.6**	**(1.0)**	**(0.3)**	**24.1**	**1,667.9**
Comprehensive income								
Profit for the period	–	–	18.7	–	–	–	–	18.7
Net fair value movement on investment securities held at FVOCI	–	–	–	0.8	–	–	–	0.8
Net movement on cash flow hedges	–	–	–	–	1.0	(0.2)	–	0.8
Share of other comprehensive income of joint venture	–	–	–	5.6	–	–	–	5.6
Total comprehensive income	**–**	**–**	**18.7**	**6.4**	**1.0**	**(0.2)**	**–**	**25.9**
Transactions with owners								
Dividends to ordinary shareholders	–	–	–	–	–	–	–	–
Share based payments	–	–	–	–	–	–	1.2	1.2
Total transactions with owners	**–**	**–**	**–**	**–**	**–**	**–**	**1.2**	**1.2**
Balance at 31 August 2019	**122.0**	**1,097.9**	**439.3**	**11.0**	**–**	**(0.5)**	**25.3**	**1,695.0**
Balance at 1 March 2018	**122.0**	**1,097.9**	**503.7**	**13.0**	**(0.3)**	**–**	**31.5**	**1,767.8**
Impact of initial application of IFRS 9	–	–	(166.0)	(0.5)	–	–	–	(166.5)
Balance at 1 March 2018 after adopting IFRS 9	**122.0**	**1,097.9**	**337.7**	**12.5**	**(0.3)**	**–**	**31.5**	**1,601.3**
Comprehensive income								
Profit for the period	–	–	56.3	–	–	–	–	56.3
Net fair value movement on investment securities held at FVOCI	–	–	–	(5.1)	–	–	–	(5.1)
Net movement on cash flow hedges	–	–	–	–	0.2	–	–	0.2
Share of other comprehensive expense of joint venture	–	–	–	(0.1)	–	–	–	(0.1)
Total comprehensive income	**–**	**–**	**56.3**	**(5.2)**	**0.2**	**–**	**–**	**51.3**
Transactions with owners								
Share based payments	–	–	–	–	–	–	0.6	0.6
Total transactions with owners	**–**	**–**	**–**	**–**	**–**	**–**	**0.6**	**0.6**
Balance at 31 August 2018	**122.0**	**1,097.9**	**394.0**	**7.3**	**(0.1)**	**–**	**32.1**	**1,653.2**

[1] The prior period has been restated following the retrospective adoption of IFRS 16 in the current period. Refer to note 2 for further details.

TESCO PERSONAL FINANCE PLC
INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)
FOR THE SIX MONTHS ENDED 31 AUGUST 2019

	Note	6 months ended 31 August 2019 £m	6 months ended 31 August 2018 Restated[1] £m
Operating Activities			
Profit before tax from continuing operations		16.8	58.4[2]
Profit before tax from discontinued operations	10	23.9	24.3
Total profit before tax		**40.7**	**82.7**
Adjusted for:			
Non-cash items included in operating profit before taxation and other adjustments		179.0	130.1
Changes in operating assets and liabilities		(447.1)	(70.5)
Income taxes paid		(31.9)	(35.1)
Cash flows (used in)/generated from operating activities		**(259.3)**	**107.2**
Investing Activities			
Purchase of intangible assets and property, plant and equipment		(19.0)	(14.8)
Purchase of investment securities classified as FVOCI		(81.0)	(318.4)
Sale of investment securities classified as FVOCI		95.4	553.7
Dividends received from joint venture		–	10.3
Redemption of subordinated debt issued by joint venture		7.8	5.2
Repayment of joint venture share capital		15.6	–
Cash flows generated from investing activities		**18.8**	**236.0**
Financing Activities			
Proceeds from issue of subordinated liabilities		250.0	–
Principal repayments on debt securities in issue	13	(350.0)	(425.0)
Interest paid on debt securities in issue		(10.5)	(12.8)
Interest received on assets held to hedge debt securities in issue		4.1	1.8
Interest paid on subordinated liabilities and notes		(2.5)	(2.4)
Principal repayments on lease liabilities		(0.9)	(0.8)
Interest paid on lease liabilities		(1.0)	(1.1)
Cash flows used in financing activities		**(110.8)**	**(440.3)**
Net decrease in cash and cash equivalents		**(351.3)**	**(97.1)**
Cash and cash equivalents[3] at beginning of period		**1,043.4**	**1,303.5**
Cash and cash equivalents[3] at end of period		**692.1**	**1,206.4**

[1] The prior period has been restated following the retrospective adoption of IFRS 16 in the current period. Refer to note 2 for further details.
[2] The prior period has been restated following the classification of the Mortgage business as a discontinued operation. Refer to notes 2 and 10 for further details.
[3] Cash and cash equivalents comprise cash and balances with central banks, excluding mandatory reserve deposits of £31.1m (August 2018: £26.5m).

The Interim Condensed Consolidated Financial Statements for the six months ended 31 August 2019 were approved by the Board of Directors on 30 September 2019.

1. Basis of Preparation

The Interim Condensed Consolidated Financial Statements have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority (FCA) and with International Accounting Standard (IAS) 34 'Interim Financial Reporting' as endorsed by the European Union (EU).

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 2019. 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 2019, which have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) of the International Accounting Standards Board (IASB) as endorsed by the EU.

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 2019 were approved by the Board of Directors on 8 April 2019 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.

Going concern

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

Adoption of new and amended IFRS

There are a number of new accounting standards and amendments to standards which will impact the Group in future reporting periods. Further details of these are included in the Consolidated Financial Statements of the Group for the year ended 28 February 2019.

During the period to 31 August 2019, the Group has adopted the following new accounting standards which became effective with relevant EU endorsement for annual periods beginning on or after 1 January 2019:

IFRS 16 'Leases'

IFRS 16 is a replacement for International Accounting Standards (IAS) 17 'Leases'. IFRS 16 removes the distinction between finance and operating leases and instead provides a single lessee accounting model. The Group, as a lessee, has recognised lease liabilities and corresponding right-of-use assets for all applicable leases.

The recognition pattern for the Group's leases in the Interim Condensed Consolidated Income Statement has changed from the previous pattern for operating leases, with interest on the liabilities and depreciation expense on the right-of-use assets now recognised separately.

In the Interim Condensed Consolidated Statement of Cash Flows, lease payments are categorised within financing activities rather than operating activities.

1. Basis of Preparation (continued)

IFRS 16 does not significantly change the accounting for leases by lessors.

The Group adopted IFRS 16 on 1 March 2019. As a result, the Group has recognised right-of-use assets in its Interim Condensed Consolidated Statement of Financial Position at the adoption date in respect of property assets previously accounted for as operating leases. A corresponding lease liability has also been recognised, representing the future payments to be made under these leases, discounted at the Group's incremental borrowing rate at lease inception. The Group does not have any short-term leases or leases of low value assets for which it may elect not to apply the above requirements under IFRS 16.

The Group has applied the requirements of IFRS 16 fully retrospectively, including the restatement of prior period comparatives.

Further details of the impact of adoption of IFRS 16 are included in note 2.

New accounting policies

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

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

Non-current assets (or disposal groups) classified as held for sale are measured under IFRS 5 at the lower of their carrying amount and fair value less costs to sell, with the exception of deferred tax balances and financial assets falling within the scope of IFRS 9. These balances are initially measured in line with their respective accounting policies and subsequently remeasured as part of the overall disposal group, in accordance with the requirements of IFRS 5.

Balances in respect of disposal groups held for sale are presented separately in the Interim Condensed Consolidated Statement of Financial Position for the current period, with no requirement to restate prior periods.

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

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

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

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

Leases

The Group has entered into leases for office buildings.

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

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

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

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

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

1. Basis of Preparation (continued)

Lease liabilities are initially calculated as the net present value of expected lease payments, less any lease incentives receivable. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or if not, at the Group's incremental borrowing rate.

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

2. Restatement of Prior Periods

Leases

The Group has recognised right-of-use assets in its Interim Condensed Consolidated Statement of Financial Position at the adoption date in respect of property assets previously accounted for as operating leases. A corresponding lease liability has also been recognised, representing the future payments to be made under these leases, discounted at the Group's incremental borrowing rate at lease inception. The lease liability replaces a previous operating lease accrual held under IAS 17. A related deferred tax asset was also recognised at the adoption date.

In accordance with the transitional provisions of IFRS 16, the new rules have been applied fully retrospectively and comparatives for prior periods have been restated.

Discontinued operations

Following the Group's announcement during the period of its decision to sell its Mortgage business, the Group has classified transactions in the Interim Condensed Consolidated Income Statement relating to its Mortgage business as discontinued operations. Refer to note 10 for further details.

The prior period Interim Condensed Consolidated Income Statement has been restated in line with the current period presentation of the Mortgage business.

In arriving at the profit after tax from discontinued operations for the current and prior periods, it has not been possible under IFRS 5 to allocate any of the Group's cost of funding the Mortgage business to discontinued operations as the related liabilities were not entered into specifically to fund the Group's Mortgage business. Refer to notes 4 and 10 for further details.

Assets and liabilities of the disposal group representing the Mortgage business are presented separately in the current period Interim Condensed Consolidated Statement of Financial Position, with no requirement to restate prior periods.

Change in presentation of ECL provision

During the second half of the financial year to 28 February 2019, the Group reclassified the amount of ECL allowance recognised under IFRS 9 which exceeds the gross carrying amount of the financial asset from loans and advances to customers to provisions for liabilities and charges. This presentation was reflected in the Group's year end Financial Statements at 28 February 2019. Balances at 31 August 2018 within the Interim Condensed Consolidated Statement of Financial Position have been restated to present these consistently with the approach taken at 28 February 2019.

2. Restatement of Prior Periods (continued)

Impact of restatements

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

	As previously reported	IFRS 16 adjustments	Discontinued operations	Provision for ECL	Restated
	£m	£m	£m	£m	£m
At 1 March 2018[1]					
Statement of Financial Position					
Property, plant and equipment	68.0	16.7	–	–	84.7
Deferred income tax asset	57.0	1.6	–	–	58.6
Accruals and deferred income	(109.0)	12.8	–	–	(96.2)
Other liabilities	(147.7)	(35.6)	–	–	(183.3)
Retained earnings	(342.2)	4.5	–	–	(337.7)
At 31 August 2018					
Statement of Financial Position					
Loans and advances to customers	12,144.4	–	–	7.8	12,152.2
Property, plant and equipment	63.7	15.9	–	–	79.6
Deferred income tax asset	55.8	1.6	–	–	57.4
Provisions for liabilities and charges	(70.1)	–	–	(7.8)	(77.9)
Accruals and deferred income	(96.9)	12.7	–	–	(84.2)
Other liabilities	(166.6)	(35.0)	–	–	(201.6)
Retained earnings	(398.8)	4.8	–	–	(394.0)
Income Statement					
Interest and similar income	354.2	–	(35.4)	–	318.8
Interest expense and similar charges	(86.8)	(1.3)	–	–	(88.1)
Fees and commissions income	187.6	–	(1.1)	–	186.5
Net loss on financial instruments at FVPL	(3.5)	–	2.8		(0.7)
Administrative expenses	(207.2)	1.8	7.9	–	(197.5)
Depreciation and amortisation	(43.4)	(0.8)	1.5	–	(42.7)
Impairment loss on financial assets	90.2	–	–	–	90.2
Income tax charge	(26.4)	–	6.6	–	(19.8)
Statement of Cash Flows					
Non-cash items included in operating profit before taxation and other adjustments	128.0	2.1	–	–	130.1
Changes in operating assets and liabilities	(70.6)	0.1	–	–	(70.5)
Principal repayments on lease liabilities	–	(0.8)	–	–	(0.8)
Interest paid on lease liabilities	–	(1.1)	–	–	(1.1)

[1] These balances as previously reported include the impact of transition to IFRS 9 and IFRS 15 on 1 March 2018.

2. Restatement of Prior Periods (continued)

Impact of restatements (continued)

	As previously reported	IFRS 16 adjustments	Discontinued operations	Provision for ECL	Restated
	£m	£m	£m	£m	£m
At 28 February 2019					
Statement of Financial Position					
Property, plant and equipment	61.6	15.2	–	–	76.8
Deferred income tax asset	57.6	1.7	–	–	59.3
Accruals and deferred income	(108.0)	12.7	–	–	(95.3)
Other liabilities	(151.2)	(34.5)	–	–	(185.7)
Retained earnings	(425.5)	4.9	–	–	(420.6)

3. Segmental Reporting

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

As the result of restructuring undertaken during the period, in line with the definition of a reportable segment under IFRS 8, the Group's reportable segments at 31 August 2019 have increased from one to two, being Banking and Insurance. This reflects changes made to the reporting of business results to the Board of Directors, as chief operating decision maker. Prior period disclosures in this note have been restated accordingly.

The Group's two operating segments are as follows:

- Banking - incorporating Credit Cards, Personal Loans, Savings, Personal Current Accounts, ATMs and Money Services; and
- Insurance - incorporating Motor, Home and Pet Insurance

There are no transactions between the operating segments. There are no significant seasonal fluctuations that affect the Group's results.

Segmental assets and liabilities comprise operating assets and liabilities, being the majority of the Interim Condensed Consolidated Statement of Financial Position, but exclude unallocated reconciling items such as taxation.

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

	Banking	Insurance	Central costs	Total management reporting	Total consolidated
Continuing operations	£m	£m	£m	£m	£m
6 months ended August 2019					
Total income	347.0	59.8	–	406.8	406.8
Profit before tax from continuing operations[1]	35.3	55.0	(73.5)	16.8	16.8
6 months ended 31 August 2018[2,3]					
Total income	348.2	59.9	–	408.1	408.1
Profit before tax from continuing operations[1]	85.9	54.0	(81.5)	58.4	58.4

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

[2] The prior period has been restated following the classification during the period of the Group's Mortgage business as a discontinued operation. Refer to notes 2 and 10 for further details.

[3] The prior period has been restated following the retrospective adoption of IFRS 16 in the current period. Refer to note 2 for further details.

3. Segmental Reporting (continued)

	Banking	Insurance	Central costs	Total management reporting	Total consolidated
31 August 2019	**£m**	**£m**	**£m**	**£m**	**£m**
Total assets[1,2]	15,283.3	138.4	–	15,421.7	15,421.7
Total liabilities	13,704.9	21.8	–	13,726.7	13,726.7
28 February 2019[3]					
Total assets[1]	15,488.0	169.5	–	15,657.5	15,657.5
Total liabilities	13,969.0	20.6	–	13,989.6	13,989.6
31 August 2018[3,4]					
Total assets[1]	14,976.7	163.7	–	15,140.4	15,140.4
Total liabilities	13,465.7	21.5	–	13,487.2	13,487.2

[1] The investment of £83.5m (February 2019: £86.4m, August 2018: £83.7m) in Tesco Underwriting Limited (TU), a joint venture company accounted for using the equity method, is shown within the total assets of the insurance segment.

[2] Assets and liabilities of the disposal group in respect of the Group's Mortgage business are included within the banking segment.

[3] The prior period has been restated following the retrospective adoption of IFRS 16 in the current period. Refer to note 2 for further details.

[4] The prior period has been restated following a change in presentation of the amount of the ECL allowance recognised under IFRS 9 which exceeds the gross carrying amount of the financial asset as set out at note 11. Refer to note 1 for further details.

4. Underlying Profit

The Group's financial performance is presented in the Interim Condensed Consolidated Income Statement on page 8. A summary of the Group's financial performance in respect of its continuing operations on an underlying basis, excluding items which are not reflective of ongoing trading performance, is presented below.

	Statutory basis £m	Restructuring activity[1] £m	Customer redress[2] £m	Regulatory provision[3] £m	Ogden rate changes[4] £m	Financial instruments[5] £m	Underlying basis £m
6 months ended 31 August 2019							
Net interest income	240.1	29.0	–	–	–	–	269.1
Other income	166.7	–	–	–	–	3.2	169.9
Total income	**406.8**	**29.0**	**–**	**–**	**–**	**3.2**	**439.0**
Total operating expenses	(283.8)	8.2	45.0	–	–	–	(230.6)
Impairment	(113.4)	–	–	–	–	–	(113.4)
Operating profit	**9.6**	**37.2**	**45.0**	**–**	**–**	**3.2**	**95.0**
Share of profit of joint venture	7.2	–	–	–	(3.7)	–	3.5
Profit before tax	**16.8**	**37.2**	**45.0**	**–**	**(3.7)**	**3.2**	**98.5**

	Statutory basis £m Restated[6,7]	Restructuring activity[1] £m	Customer redress[2] £m	Regulatory provision[3] £m	Ogden rate changes[4] £m	Financial instruments[5] £m	Underlying basis £m Restated[6,7]
6 months ended 31 August 2018							
Net interest income	230.7	26.2	–	–	–	–	256.9
Other income	177.4	–	–	–	–	0.7	178.1
Total income	**408.1**	**26.2**	**–**	**–**	**–**	**0.7**	**435.0**
Total operating expenses	(263.6)	(1.6)	7.0	16.4	–	–	(241.8)
Impairment	(90.2)	–	–	–	–	–	(90.2)
Operating profit	**54.3**	**24.6**	**7.0**	**16.4**	**–**	**0.7**	**103.0**
Share of profit of joint venture	4.1	–	–	–	–	–	4.1
Profit before tax	**58.4**	**24.6**	**7.0**	**16.4**	**–**	**0.7**	**107.1**

[1] Comprising:

- interest expense of £29.0m (August 2018: £26.2m)7 in respect of the Group's cost of funding its Mortgage business, presented within net interest income on page 8. As this cost cannot be directly attributed to liabilities of the Group entered into specifically to fund the Group's Mortgage business, as required by IFRS 5, it has not been possible to present this cost within profit after tax from discontinued operations for the current or prior period. These costs are in respect of business restructuring and not considered part of the Group's underlying results, reflecting actions taken by Management to reduce the Group's deposits from customers in response to the Group's reduced funding requirement post-sale of its Mortgage business; and
- a restructuring charge of £8.2m in respect of costs related to the Group's strategic review (August 2018: credit of £1.6m reflecting a reduction in dilapidations and onerous lease provisions), presented within administrative expenses on page 8. The current period charge and prior period credit are in respect of business restructuring and not considered part of the Group's underlying results.

[2] Comprising:

- payment protection insurance (PPI) provision charge of £45.0m (August 2018: £7.0m) presented within operating expenses on page 8. These costs relate to historic sales of PPI and are not reflective of the Group's underlying trading performance.

[3] Comprising:

- in the prior period, a charge of £16.4m in respect of the November 2016 fraud incident, presented within operating expenses on page 8. This charge relates to the financial penalty imposed by the Financial Conduct Authority in relation to this incident and is not reflective of the Group's underlying trading performance. There was no such charge in the current period.

[4] Comprising:

- a credit of £3.7m (August 2018: £nil) representing the Group's share of credits recognised by TU relating to the impact on TU's insurance reserves of a change in the Ogden tables, presented within share of profit of joint venture on page 8. The Ogden tables were last changed in March 2017, when the discount rate was changed from 2.5% to -0.75%, resulting in the Group recognising a charge of £22.8m for the year ended 28 February 2017 in respect of this rate change, which was excluded from underlying profit at that date. The credit recognised in the current period reflects the change to the current discount rate of -0.25%. This rate change was implemented following Government consultation and is not reflective of the ongoing underlying performance of TU.

[5] Comprising:

- Losses on financial instruments at FVPL of £3.2m (August 2018: losses of £0.7m)[7] presented within total income on page 8. Fair value movements on financial instruments reflect hedge ineffectiveness arising from hedge accounting and fair value movements on derivatives in economic hedges that do not meet the criteria for hedge accounting. Where these derivatives are held to maturity, fair value movements represent timing differences that will reverse over the life of the derivatives. Therefore, excluding these movements from underlying profit more accurately represents the underlying performance of the Group. Where derivatives are terminated prior to maturity, this may give rise to fair value movements that do not reverse.

[6] The prior period has been restated following the retrospective adoption of IFRS 16 in the current period. Refer to note 2 for further details.

[7] The prior period has been restated following the classification of the Mortgage business as a discontinued operation. Refer to notes 2 and 10 for further details.

5. Net Interest Income

	6 months ended 31 August 2019 £m	6 months ended 31 August 2018 £m Restated[1,2]
Continuing operations		
Interest and similar income		
On financial assets measured at amortised cost		
Loans and advances to customers	332.5	309.8
Cash and balances with central banks	3.8	3.9
Investment securities	0.5	0.7
	336.8	314.4
On financial assets measured at fair value		
Investment securities	9.2	2.6
Derivative financial instruments - FVPL	–	1.8
	9.2	4.4
Total interest and similar income	**346.0**	**318.8**
Interest expense and similar charges		
On financial liabilities measured at amortised cost		
Deposits from customers	(75.1)	(67.0)
Deposits from banks	(8.0)	(4.7)
Debt securities in issue	(11.6)	(12.8)
Lease liabilities	(1.3)	(1.3)
Subordinated liabilities and notes	(2.6)	(2.3)
Total interest expense and similar charges	**(98.6)**	**(88.1)**
On financial liabilities measured at fair value		
Derivative financial liabilities - FVPL	(7.3)	–
	(7.3)	**–**
Total interest and similar expense	**(105.9)**	**(88.1)**
Net interest income	**240.1**	**230.7**

[1] The prior period has been restated following the retrospective adoption of IFRS 16 in the current period. Refer to note 2 for further details.

[2] The prior period has been restated following the classification of the Mortgage business as a discontinued operation. Refer to notes 2, 4 and 10 for further details.

6. Net Fees and Commissions Income

	6 months ended 31 August 2019 £m	6 months ended 31 August 2018 £m Restated[1]
Continuing operations		
Fees and commissions income		
Banking revenue from contracts with customers	122.0	125.7
Insurance revenue from contracts with customers	46.5	45.6
Other revenue from contracts with customers	16.7	15.2
Total fees and commissions income	**185.2**	**186.5**
Fees and commissions expense		
Banking expense	(15.4)	(16.8)
Total fees and commissions expense	**(15.4)**	**(16.8)**
Net fees and commissions income	**169.8**	**169.7**

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.

[1] The prior period has been restated following the classification of the Mortgage business as a discontinued operation. Refer to notes 2 and 10 for further details.

7. Impairment Loss on Financial Assets

	6 months ended 31 August 2019 £m	6 months ended 31 August 2018 Restated[1] £m
Continuing operations		
Impairment loss on loans and advances to customers[2]	113.8	89.8
Impairment loss on investment securities at FVOCI	(0.4)	0.4
Total impairment loss on financial assets	**113.4**	**90.2**

[1] The prior period has been restated following the classification of the Mortgage business as a discontinued operation. Refer to notes 2 and 10 for further details.

[2] Included within the impairment loss on loans and advances to customers is an amount of £0.8m (August 2018: £4.4m) received through the sale of debt to third parties.

8. 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 2020.

Income tax on the Group's profit from continuing operations for the period is a charge of £15.5m (August 2018: £19.8m) and on the Group's discontinued operations is a charge of £6.5m (August 2018: £6.6m). The Group's current effective tax rate is higher than the statutory rate principally due to the non-deductibility of the additional PPI charge recognised in the period.

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

9. Capital Expenditure and Commitments

In the six months ended 31 August 2019 there were additions to property, plant and equipment and intangible assets of £18.7m (August 2018: £12.7m). Commitments for capital expenditure contracted for but not provided at 31 August 2019 were £nil (February 2019: £nil) on property, plant and equipment and £4.0m (February 2019: £0.8m) on intangible assets. In the 6 months ended 31 August 2019 there were disposals of intangible assets amounting to £3.7m (August 2018: £0.1m). At 31 August 2019, TU has a commitment of £nil (February 2019: £1.2m) to subscribe to the Tritax Property Income Fund Unit Trust as part of its investment portfolio.

The Group's Management are confident that future net revenues and funding will be sufficient to cover these commitments.

10. Assets/Liabilities of the Disposal Group and Discontinued Operations

Assets/Liabilities of the disposal group

	31 August 2019 £m
Assets and liabilities of the disposal group	
Secured Mortgage lending - gross	3,660.1
Fair value hedge adjustment	32.2
Less: Allowance for impairment	(3.2)
Secured Mortgage lending - net	3,689.1
Other assets	1.0
Assets of the disposal group	**3,690.1**
Other liabilities	(4.2)
Liabilities of the disposal group	**(4.2)**

During the period to 31 August 2019, secured Mortgage lending balances have been reclassified from loans and advances to customers set out at note 11 to assets of the disposal group following the Group's decision to sell its Mortgage business. Cash in transit balances in relation to Mortgages have also been reclassified from other assets and other liabilities to assets and liabilities of the disposal group respectively as these balances relate to amounts which will be applied to Mortgage accounts and therefore form part of the Mortgage business being sold. The Group agreed the sale of its Mortgage business on 3 September 2019 and completed the sale of the majority of its Mortgage business on 27 September 2019. Further information in respect of this disposal is set out at note 22.

At 31 August 2019, the Group had contractual lending commitments of £53.9m in respect of the assets of the disposal group.

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

Discontinued operations - income statement

The table below shows the results of discontinued operations in relation to the Group's Mortgage business which are included in the Interim Condensed Consolidated Income Statement and Interim Condensed Consolidated Statement of Cash Flows for the period to 31 August 2019.

	Statutory basis £m	Funding costs[1] £m	Managed basis £m
6 months ended 31 August 2019			
Net interest income	41.3	(29.0)	12.3
Net fees and commissions income	1.0	–	1.0
Other income	(6.6)	–	(6.6)
Total income	35.7	(29.0)	6.7
Total operating expenses	(11.8)	–	(11.8)
Impairment loss on financial assets	–	–	–
Profit/(loss) before tax	23.9	(29.0)	(5.1)
Income tax (charge)/credit	(6.5)	7.8	1.3
Profit after tax for the period attributable to owners of the parent arising from discontinued operations	**17.4**	**(21.2)**	**(3.8)**

	Statutory basis £m	Funding costs[1] £m	Managed basis £m
6 months ended 31 August 2018			
Net interest income	35.4	(26.2)	9.2
Net fees and commissions income	1.1	–	1.1
Other income	(2.8)	–	(2.8)
Total income	33.7	(26.2)	7.5
Total operating expenses	(9.4)	–	(9.4)
Impairment loss on financial assets	–	–	–
Profit/(loss) before tax	24.3	(26.2)	(1.9)
Income tax (charge)/credit	(6.6)	7.1	0.5
Profit after tax for the period attributable to owners of the parent arising from discontinued operations	**17.7**	**(19.1)**	**(1.4)**

[1] Comprising:

- interest expense of £29.0m (August 2018: £26.2m) in respect of the discontinued operations' cost of funding, presented within net interest income on page 8. As this cost cannot be directly attributed to liabilities of the Group entered into specifically to fund the Group's Mortgage business, as required by IFRS 5, it has not been possible to present this cost within statutory profit for the period after tax from discontinued operations for the current or prior period. These costs are in respect of business restructuring and are considered part of the Mortgage business' results on a managed basis. These costs are expected to reduce, reflecting actions taken by Management to reduce the Group's deposits from customers in response to the Group's reduced funding requirement post-sale of the Mortgage business.

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

Discontinued operations - statement of cash flows

Statement of Cash Flows	6 months ended 31 August 2019 £m	6 months ended 31 August 2018 £m
Net cash flows from operating activities	111.0	(482.9)
Net cash flows from investing activities	–	–
Net cash flows from financing activities	–	–
Net cash flows from discontinued operations	**111.0**	**(482.9)**

11. Loans and Advances to Customers

	31 August 2019 £m	28 February 2019 £m	31 August 2018 £m Restated[1]
Secured Mortgage lending	–	3,767.4	3,515.9
Unsecured lending	9,190.8	9,146.2	9,112.7
Total secured and unsecured lending	**9,190.8**	**12,913.6**	**12,628.6**
Fair value hedge adjustment	9.3	(2.7)	(11.5)
Gross loans and advances to customers	**9,200.1**	**12,910.9**	**12,617.1**
Less: allowance for impairment (Refer to note 16)	(511.4)	(485.2)	(464.9)
Net loans and advances to customers	**8,688.7**	**12,425.7**	**12,152.2**

[1] The prior period has been restated following a change in the presentation of the amount of the ECL allowance recognised under IFRS 9 which exceeds the gross carrying amount of the financial asset. Refer to note 1 for further details.

Contractual lending commitments and ECL provision

At 31 August 2019, the Group had contractual lending commitments of £11,820.5m (February 2019: £12,226.2m). An additional ECL provision of £8.6m was also recognised at 31 August 2019 (February 2019: £8.5m). This represents the excess of total ECLs for both drawn and undrawn balances over the gross carrying balances as above. Refer to note 14 for further details.

Secured Mortgage lending

During the period to 31 August 2019, the secured Mortgage lending balances and related fair value hedge adjustments have been reclassified from loans and advances to customers to assets of the disposal group. Refer to note 10 for further details.

Fair value hedge adjustments

Fair value hedge adjustments amounting to £9.3m are in respect of fixed rate Loans. The balances at 28 February 2019 and 31 August 2018 also included fixed rate Mortgages. These adjustments are largely offset by derivatives, which are used to manage interest rate risk and are designated as fair value hedges within loans and advances to customers.

12. Investment in Joint Venture

During the period ended 31 August 2019 the Group's joint venture, TU, completed a share capital reduction of £15.6m. Following the share capital reduction, TU distributed capital of £31.3m. The Group has recognised its share of this distribution, being £15.6m, through a reduction in the carrying value of its investment in TU. The Group's investment in subordinated debt issued by TU has decreased by £7.8m, reflecting the Group's share of loan capital repaid in the period.

13. Debt Securities in Issue

	Interest rate	Par value £m	Term (years)	Maturity date	31 August 2019 £m	28 February 2019 £m	31 August 2018 £m
RPI bond[1]	1.0%	73.2	8	2019	73.2	72.3	71.0
Fixed rate retail bond[2]	5.0%	200.0	8.5	2020	202.9	202.9	203.4
Floating rate AAA bond (A2)[3]	1M LIBOR + 0.65%	350.0	7	2021	–	349.9	349.8
Floating rate AAA bond (A1)[4]	1M LIBOR + 0.53%	300.0	5	2022	299.0	298.7	298.4
Floating rate AAA bond (A1)[5]	1M USD LIBOR + 0.84%	272.2	7	2020	286.0	261.7	–
					861.1	**1,185.5**	**922.6**

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

[1] This bond was issued on 16 December 2011.

[2] This bond was issued on 21 May 2012.

[3] This Bond was issued on 6 June 2014. This bond was redeemed on its scheduled redemption date in May 2019.

[4] This Bond was issued on 7 November 2017. The scheduled redemption date of this Bond is October 2020.

[5] This bond was issued on 27 November 2018. The scheduled redemption date of this bond is November 2020.

14. Provisions for Liabilities and Charges

	Customer redress provision	Restructuring provision	Expected credit loss provision	Other provisions	Total
	£m	£m	£m	£m	£m
6 months to 31 August 2019					
At beginning of period	34.7	–	8.5	11.8	55.0
Provided during the period	45.0	5.2	–	1.2	51.4
Utilised during the period	(18.5)	(4.3)	–	(1.3)	(24.1)
Transfer from loans and advances ECL allowance	–	–	0.1	–	0.1
Released during the period	–	–	–	(0.8)	(0.8)
At end of period	**61.2**	**0.9**	**8.6**	**10.9**	**81.6**

Customer redress provision - Payment protection insurance

Of the total customer redress provision balance at 31 August 2019, £60.7m (February 2019: £34.2m) has been provided for customer redress in respect of potential customer claims arising from historic sales of PPI.

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

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

The claims deadline passed on 29 August 2019. In response to the high level of claims received by the Group during the period in advance of the PPI complaint deadline, the Group increased its PPI provision by £45.0m during the half-year ended 31 August 2019 to reflect an updated assessment of the claim rate and average redress.

Although a significant degree of uncertainty remains with regard to the ultimate cost of settling PPI claims, the provision balance represents Management's best estimate at the reporting date of that cost and is based on historical uphold rates, average redress and the associated administrative expenses. The PPI provision and the impact of regulatory changes will continue to be monitored as Management complete their assessment of the significant level of claims received in advance of the claims deadline and levels of redress. Management expect to utilise the provision over the remainder of the year ended 29 February 2020.

14. Provisions for Liabilities and Charges (continued)

Customer redress provision - Payment protection insurance (continued)

The table below details for each key assumption, actual data to 31 August 2019 and a sensitivity assessment demonstrating the impact on the provision of a variation in the key assumptions. The key sensitivity in relation to PPI claims received is the conversion rate into an upheld complaint.

			Sensitivity	
Assumption	**Cumulative actual**	**Outstanding claims**	**Change in assumption**	**Consequential change in provision**
				£m
Valid claims	155,723	35,308	+/- 2,000 successful claims	+/- 3.3
Average redress per valid claim	£1,726	£1,665	+/- £100	+/- 3.5

Customer redress provision - Consumer credit act (CCA)

The Group holds a provision of £0.5m (February 2019: £0.5m) in respect of customer redress relating to instances where certain requirements of the CCA for post-contract documentation were not fully complied with.

In arriving at the provision required, the Group has considered the legal and regulatory position with respect to these matters and has sought legal advice which it took into account when making its judgement. The provision represents Management's best estimate at the reporting date of the cost of concluding the redress programme for Loan and Credit Card customers, and in making the estimate Management have exercised judgement as to both the timescale for completing the redress campaign and the final scope of any amounts payable. Management expect to utilise the provision over the remainder of the year ended 29 February 2020.

Restructuring provision

The restructuring provision is in respect of costs related to the Group's strategic review. Management expect to utilise the provision over the remainder of the year ended 29 February 2020.

Expected Credit Loss provision

The ECL provision represents the amount of ECL allowance recognised under IFRS 9 which exceeds the gross carrying amount of the financial asset as set out at note 11.

Other provisions

Other provisions predominantly reflect:

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

15. Subordinated Liabilities and Notes

	31 August 2019	28 February 2019	31 August 2018
	£m	£m	£m
Fixed rate subordinated loans maturing 2025	251.2	–	–
Floating rate subordinated loans maturing 2030	190.0	190.0	190.0
Undated floating rate notes	45.0	45.0	45.0
Total subordinated liabilities and notes	**486.2**	**235.0**	**235.0**

Subordinated liabilities and notes comprise loan capital issued to Tesco Personal Finance Group PLC (TPFG). This includes £190.0m (February 2019: £190.0m) of subordinated loans maturing in 2030, £45.0m (February 2019: £45.0m) of undated notes with no fixed maturity date and £250.0m notional (February 2019: £nil) of subordinated loans maturing in 2025.

TPFG undertook an initial issuance of MREL-compliant debt[1] in July 2019 and subsequently invested the proceeds in the Company via an intercompany subordinated loan.

Interest payable on the fixed rate intercompany subordinated loan is 3.5%. Interest payable on the floating rate subordinated liabilities and notes is based on three month LIBOR plus a spread ranging from 60 to 220 basis points (February 2019: three month LIBOR plus a spread ranging from 60 to 220 basis points).

[1] The Group will be subject to the minimum requirements for own funds and eligible liabilities (MREL) on an interim basis from 1 January 2020, with full implementation applicable from 1 January 2022. The requirements are factored into the Group's funding and capital plans.

16. 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 2019. 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.

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

The economic scenarios used at 31 August 2019 include the following ranges of key indicators:

		2019	2020	2021-23
Bank of England (BoE) base rate[1]	Base	0.55%	0.46%	0.56%
	Upside	0.43%	0.20%	0.19%
	Downside	0.95%	2.13%	2.29%
Unemployment rate[1]	Base	3.83%	3.88%	3.77%
	Upside	3.79%	3.83%	3.71%
	Downside	4.39%	5.17%	6.24%
House price index[2]	Base	2.93%	3.36%	4.02%
	Upside	4.26%	4.66%	5.77%
	Downside	-2.08%	-4.14%	2.51%
Gross domestic product[2]	Base	1.31%	1.67%	1.82%
	Upside	1.69%	2.04%	2.23%
	Downside	0.85%	0.24%	1.53%

[1] Simple average
[2] Annual growth rates

16. Credit risk management (continued)

Sensitivity analysis

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

- Probability of default (PD);
- Loss given default (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 for the Group for the year ended 28 February 2019.

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 2019:

		Impact on the loss allowance
		£m
PD	Increase of 2.5%	9.6
	Decrease of 2.5%	(9.4)
LGD	Increase of 2.5%	12.4
	Decrease of 2.5%	(12.6)
Macro-economic scenarios (100% weighted)	Upside scenario	(42.8)
	Base scenario	(33.1)
	Downside scenario	79.4
Staging	Increase of 20%	(13.3)
	Decrease of 20%	19.9
Expected lifetime	Increase of 1 year	2.5
	Decrease of 1 year	(2.5)

16. 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 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 2019	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	£m	**£m**	**£m**	**£m**
Gross Exposure				
Loans and advances to customers	7,977.3	906.2	307.3	9,190.8
Investment securities at FVOCI	1,039.0	–	–	1,039.0
Investment securities at amortised cost	21.1	–	–	21.1
Assets of the disposal group[1]	3,534.9	124.1	1.1	3,660.1
Loan commitments - Loans and advances to customers[2]	11,713.9	105.4	1.2	11,820.5
Loan commitments - Assets of the disposal group[1]	53.9	–	–	53.9
Total gross exposure	**24,340.1**	**1,135.7**	**309.6**	**25,785.4**
Loss allowance				
Loans and advances to customers[2]	100.0	215.5	195.9	511.4
Investment securities at FVOCI[3]	(0.2)	–	–	(0.2)
Investment securities at amortised cost	0.1	–	–	0.1
Assets of the disposal group[1]	1.5	1.6	0.1	3.2
Total loss allowance	**101.4**	**217.1**	**196.0**	**514.5**

As at 28 February 2019	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	£m	**£m**	**£m**	**£m**
Gross Exposure				
Loans and advances to customers	11,463.6	1,179.1	270.9	12,913.6
Investment securities at FVOCI	1,042.7	–	–	1,042.7
Investment securities at amortised cost	28.9	–	–	28.9
Loan commitments[2]	12,115.1	109.6	1.5	12,226.2
Total gross exposure	**24,650.3**	**1,288.7**	**272.4**	**26,211.4**
Loss allowance				
Loans and advances to customers	84.6	228.7	171.9	485.2
Investment securities at FVOCI[3]	0.2	–	–	0.2
Investment securities at amortised cost	0.1	–	–	0.1
Total loss allowance	**84.9**	**228.7**	**171.9**	**485.5**

[1] During the period to 31 August 2019, secured Mortgage lending balances have been reclassified from loans and advances to customers to assets of the disposal group. These continue to be measured at amortised cost per the requirements of IFRS 9.

[2] 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 as set out at note 14.

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

16. Credit risk management (continued)

As at 31 August 2018	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m
Gross Exposure				
Loans and advances to customers	11,318.3	1,068.0	242.3	12,628.6
Investment securities at FVOCI	686.7	–	–	686.7
Investment securities at amortised cost	28.9	–	–	28.9
Loan commitments[1]	12,186.9	154.2	1.5	12,342.6
Total gross exposure	**24,220.8**	**1,222.2**	**243.8**	**25,686.8**
Loss allowance				
Loans and advances to customers	88.1	215.8	161.0	464.9
Investment securities at FVOCI[2]	(0.1)	–	–	(0.1)
Investment securities at amortised cost	0.2	–	–	0.2
Total loss allowance	**88.2**	**215.8**	**161.0**	**465.0**

[1] The loss allowance in respect of loan commitments is included within the total loss allowance for loans and advances to customers as above to the extent that it is below the gross carrying amount of loans and advances to customers. Where the loss allowance exceeds the gross carrying amount, any excess is included within provisions as set out at note 14.

[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.

16. 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 2019	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Loans and advances to customers				
At 1 March 2019	84.6	228.7	171.9	485.2
Transfers[1,3]				
Transfers from stage 1 to stage 2	(9.9)	9.9	–	–
Transfers from stage 2 to stage 1	58.3	(58.3)	–	–
Transfers to stage 3	(1.6)	(37.6)	39.2	–
Transfers from stage 3	1.2	2.2	(3.4)	–
Income statement charge				
Net remeasurement[2] following transfer of stage[3]	(34.7)	20.8	49.5	35.6
New financial assets originated[4]	15.9	6.4	1.1	23.4
Changes in risk parameters and other movements[3,5]	(12.7)	47.0	18.7	53.0
Other movements				
Write-offs and asset disposals[6]	–	(1.7)	(81.0)	(82.7)
Transfer from provisions for liabilities and charges[7]	0.4	(0.3)	–	0.1
At 31 August 2019	**101.5**	**217.1**	**196.0**	**514.6**
Comprising:				
Loans and advances to customers	100.0	215.5	195.9	511.4
Assets of the disposal group[8]	1.5	1.6	0.1	3.2
Total loss allowance at 31 August 2019	**101.5**	**217.1**	**196.0**	**514.6**
Investment securities at FVOCI				
At 1 March 2019	0.2	–	–	0.2
Income statement charge				
New financial assets purchased[4]	–	–	–	–
Financial assets derecognised during the period	–	–	–	–
Changes in risk parameters and other movements[5]	(0.4)	–	–	(0.4)
At 31 August 2019	**(0.2)**	**–**	**–**	**(0.2)**
Investment securities at amortised cost				
At 1 March 2019 and 31 August 2019	**0.1**	**–**	**–**	**0.1**
Reconciliation to income statement				
Net expected credit loss (release)/charge	(31.9)	74.2	69.3	111.6
Recoveries and write-offs	–	–	1.8	1.8
Total income statement (release)/charge	**(31.9)**	**74.2**	**71.1**	**113.4**
Comprising:				
- In respect of continuing operations	(30.7)	73.0	71.1	113.4
- In respect of discontinuing operations	(1.2)	1.2	–	–
Total income statement (release)/charge	**(31.9)**	**74.2**	**71.1**	**113.4**

[1] Transfers - The opening loss allowance on financial assets in respect of continuing operations 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 £6.6m due to a change in macro-economic assumptions.
[4] New financial assets originated or purchased - The loss allowance on new financial assets originated or purchased during the period, representing their stage at 31 August 2019.
[5] Changes in risk parameters and other movements - The change in loss allowance due to changes in macro-economic scenarios, PD, LGD and exposure at default 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] During the period to 31 August 2019, the Group classified its Mortgage business as a disposal group. Refer to notes 2 and 10 for further details.

16. Credit risk management (continued)

6 months to 31 August 2018	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Loans and advances to customers				
At 1 March 2018[8,9]	94.9	210.9	151.1	456.9
Transfers[1,3]				
Transfers from stage 1 to stage 2	(10.7)	10.7	–	–
Transfers from stage 2 to stage 1	36.9	(36.9)	–	–
Transfers to stage 3	(1.2)	(29.5)	30.7	–
Transfers from stage 3	0.9	1.4	(2.3)	–
Income statement charge				
Net remeasurement[2] following transfer of stage [3]	(19.8)	19.0	41.3	40.5
New financial assets originated[4]	19.4	7.5	1.0	27.9
Changes in risk parameters and other movements[3,5]	(32.7)	35.0	22.0	24.3
Other movements				
Write-offs and asset disposals[6]	(2.2)	(1.2)	(82.8)	(86.2)
Transfer from provisions for liabilities and charges[7]	2.6	(1.1)	–	1.5
At 31 August 2018	**88.1**	**215.8**	**161.0**	**464.9**
Investment securities at FVOCI				
At 1 March 2018	(0.5)	–	–	(0.5)
Income statement charge				
New financial assets purchased[4]	0.1	–	–	0.1
Financial assets derecognised during the period	0.3	–	–	0.3
Changes in risk parameters and other movements[5]	–	–	–	–
At 31 August 2018	**(0.1)**	**–**	**–**	**(0.1)**
Investment securities at amortised cost				
At 1 March 2018 and 31 August 2018	0.2	–	–	0.2
Reconciliation to income statement				
Net expected credit loss (release)/charge	(32.7)	61.5	64.3	93.1
Recoveries and write-offs	–	–	(2.9)	(2.9)
Total income statement (release)/charge	**(32.7)**	**61.5**	**61.4**	**90.2**
Comprising:				
- In respect of continuing operations	(32.4)	61.2	61.4	90.2
- In respect of discontinuing operations	(0.3)	0.3	–	–
Total income statement (release)/charge	**(32.7)**	**61.5**	**61.4**	**90.2**

[1] Transfers - The opening loss allowance on financial assets in respect of continuing operations 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 £11.3m due to a change in macro-economic assumptions.
[4] New financial assets originated or purchased - The loss allowance on new financial assets originated or purchased during the period, representing their stage at 31 August 2019.
[5] Changes in risk parameters and other movements - The change in loss allowance due to changes in macro-economic scenarios, PD, LGD and exposure at default 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] This balance includes the impact of transition to IFRS 9 on 1 March 2018.
[9] The prior period has been restated following a change in presentation of the amount of the ECL allowance recognised under IFRS 9 which exceeds the gross carrying amount of the financial asset as set out at note 11. Refer to note 2 for further details.

16. Credit risk management (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 2019	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Loans and advances to customers				
At 1 March 2019	11,463.6	1,179.1	270.9	12,913.6
Transfers[1]				
Transfers from stage 1 to stage 2	(434.0)	434.0	–	–
Transfers from stage 2 to stage 1	435.3	(435.3)	–	–
Transfers to stage 3	(48.4)	(101.2)	149.6	–
Transfers from stage 3	3.2	5.4	(8.6)	–
Other movements				
New financial assets originated[2]	1,597.1	31.0	1.7	1,629.8
Net decrease in lending[3]	(1,507.2)	(81.5)	(2.7)	(1,591.4)
Write-offs and asset disposals[4]	(0.3)	(1.8)	(106.9)	(109.0)
Changes in interest accrual and other movements	2.9	0.6	4.4	7.9
Gross balances at 31 August 2019	**11,512.2**	**1,030.3**	**308.4**	**12,850.9**
Comprising:				
Loans and advances to customers	7,977.3	906.2	307.3	9,190.8
Assets of the disposal group	3,534.9	124.1	1.1	3,660.1
Gross balances at 31 August 2019	**11,512.2**	**1,030.3**	**308.4**	**12,850.9**
Investment securities at FVOCI				
At 1 March 2019	1,042.7	–	–	1,042.7
New financial assets purchased	81.0	–	–	81.0
Financial assets derecognised during the period	(95.3)	–	–	(95.3)
Other movements	10.6	–	–	10.6
At 31 August 2019	**1,039.0**	**–**	**–**	**1,039.0**
Investment securities at amortised cost				
At 1 March 2019	28.9	–	–	28.9
Financial assets derecognised during the period	(7.8)	–	–	(7.8)
At 31 August 2019	**21.1**	**–**	**–**	**21.1**

[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 2019.
[3] Net decrease in lending - The changes in gross carrying amount of financial assets after taking account of additional borrowing and/or payments received from customers.
[4] Write-offs and asset disposals -The write-off of the gross carrying amount when a financial asset is deemed uncollectible and/or has been disposed of.
[5] During the period to 31 August 2019, the Group classified its Mortgage business as a disposal group. Refer to notes 2 and 10 for further details.

16. Credit risk management (continued)

6 months to 31 August 2018	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Loans and advances to customers				
At 1 March 2018	10,619.1	932.2	230.4	11,781.7
Transfers[1]				
Transfers from stage 1 to stage 2	(515.3)	515.3	–	–
Transfers from stage 2 to stage 1	338.4	(338.4)	–	–
Transfers to stage 3	(43.9)	(83.0)	126.9	–
Transfers from stage 3	2.9	4.1	(7.0)	–
Other movements				
New financial assets originated[2]	2,214.2	45.2	1.5	2,260.9
Net decrease in lending[3]	(1,265.7)	(5.5)	(21.7)	(1,292.9)
Write-offs and asset disposals[4]	(33.5)	(2.8)	(89.6)	(125.9)
Changes in interest accrual and other movements	2.1	0.9	1.8	4.8
At 31 August 2018	**11,318.3**	**1,068.0**	**242.3**	**12,628.6**
Investment securities at FVOCI				
At 1 March 2018	925.4	–	–	925.4
New financial assets purchased	318.4	–	–	318.4
Financial assets derecognised during the period	(545.3)	–	–	(545.3)
Other movements	(11.8)	–	–	(11.8)
At 31 August 2018	**686.7**	**–**	**–**	**686.7**
Investment securities at amortised cost				
At 1 March 2018	34.1	–	–	34.1
Financial assets derecognised during the period	(5.2)	–	–	(5.2)
At 31 August 2018	**28.9**	**–**	**–**	**28.9**

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

[2] New financial assets originated or purchased - The gross carrying amount of financial assets originated or purchased during the period, representing their stage as at 31 August 2019.

[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.

17. Fair Values

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

	31 August 2019		28 February 2019		31 August 2018	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m	Carrying value £m Restated[2]	Fair value £m
Financial assets:						
Loans and advances to customers	8,688.7	8,856.3	12,425.7	12,607.3	12,152.2	12,301.4
Investment securities - amortised cost	21.0	26.0	28.8	28.2	28.7	32.4
Assets of the disposal group[3]	3,689.1	3,712.1	–	–	–	–
	12,398.8	**12,594.4**	**12,454.5**	**12,635.5**	**12,180.9**	**12,333.8**
Financial liabilities:						
Deposits from customers	9,914.5	9,917.6	10,478.6	10,440.5	10,073.2	10,052.6
Debt securities in issue	861.1	863.5	1,185.5	1,189.5	922.6	929.9
Subordinated liabilities	486.2	471.3	235.0	182.2	235.0	191.3
	11,261.8	**11,252.4**	**11,899.1**	**11,812.2**	**11,230.8**	**11,173.8**

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, FVOCI investment securities and derivative financial instruments. The valuation techniques and inputs used to derive fair values at the period end are described below.

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

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

[1] Fair value disclosures are not required for lease liabilities.
[2] The prior period has been restated following a change in the presentation of the ECL allowance provision. Refer note 1 for further details.
[3] During the period to 31 August 2019, secured Mortgage lending balances have been reclassified from loans and advances to customers to assets of the disposal group. These continue to be measured at amortised cost in line with the requirements of IFRS 9.

17. 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 2019	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets carried at fair value				
Cash and balances with central banks[1]	–	42.0	–	42.0
Investment securities - FVOCI	1,035.6	–	3.4	1,039.0
Derivative financial instruments:				
- Interest rate swaps	–	24.8	–	24.8
- Forward foreign currency contracts	–	0.3	–	0.3
- Cross currency swaps	—	14.9	—	14.9
Financial assets carried at amortised cost				
Loans and advances to customers	–	–	8,856.3	8,856.3
Investment securities – amortised cost	–	26.0	–	26.0
Assets of the disposal group	—	—	3,712.1	3,712.1
Total	**1,035.6**	**108.0**	**12,571.8**	**13,715.4**
Financial liabilities carried at fair value				
Derivative financial instruments:				
- Interest rate swaps	–	63.0	–	63.0
Financial liabilities carried at amortised cost				
Deposits from customers	–	–	9,917.6	9,917.6
Debt securities in issue	863.5	–	–	863.5
Subordinated liabilities	–	471.3	–	471.3
Total	**863.5**	**534.3**	**9,917.6**	**11,315.4**

As at 28 February 2019	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets carried at fair value				
Cash and balances with central banks[1]	–	30.5	–	30.5
Investment Securities - FVOCI	1,040.2	–	2.5	1,042.7
Derivative financial instruments:				
- Interest rate swaps	–	31.3	–	31.3
Financial assets carried at amortised cost				
Loans and advances to customers	–	–	12,607.3	12,607.3
Investment securities – loans and receivables	–	28.2	–	28.2
Total	**1,040.2**	**90.0**	**12,609.8**	**13,740.0**
Financial liabilities carried at fair value				
Derivative financial instruments:				
- Interest rate swaps	–	50.9	–	50.9
- Forward foreign currency contracts	–	0.2	–	0.2
- Cross currency interest rate swaps	–	9.1	–	9.1
Financial liabilities carried at amortised cost				
Deposits from customers	–	–	10,440.5	10,440.5
Debt securities in issue	1,189.5	–	–	1,189.5
Subordinated liabilities	–	182.2	–	182.2
Total	**1,189.5**	**242.4**	**10,440.5**	**11,872.4**

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

17. Fair Values (continued)

As at 31 August 2018	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets carried at fair value				
Cash and balances with central banks[1]	–	47.7	–	47.7
Investment Securities - FVOCI	684.1	–	2.6	686.7
Derivative financial instruments:				
- Interest rate swaps	–	37.9	–	37.9
- Forward foreign currency contracts	–	0.1	–	0.1
Financial assets carried at amortised cost				
Loans and advances to customers	–	–	12,301.4	12,301.4
Investment securities – amortised cost	–	32.4	–	32.4
Total	**684.1**	**118.1**	**12,304.0**	**13,106.2**
Financial liabilities carried at fair value				
Derivative financial instruments:				
- Interest rate swaps	–	48.6	–	48.6
Financial liabilities carried at amortised cost				
Deposits from customers	–	–	10,052.6	10,052.6
Debt securities in issue	929.9	–	–	929.9
Subordinated liabilities and notes	–	191.3	–	191.3
Total	**929.9**	**239.9**	**10,052.6**	**11,222.4**

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 currency exchange rates; or
- Have future cash flows which are not pre-defined, but for which the fair value of the instrument has very low sensitivity to changes in estimate of future cash flows.

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

FVOCI investment securities which are categorised as Level 2 are those where no active market exists or where there are quoted prices available for similar instruments in active markets.

Fair values of investment securities classified as amortised cost/loans and receivables are based on quoted prices, where available, or by using discounted cash flows applying market rates.

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

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

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

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

The estimated fair value of financial assets classified as FVOCI, being the Group's interest in VISA Inc. preferred stock, is reflected in the table on page 38. The preferred stock may be convertible into Class A Common Stock of VISA Inc. at certain future dates, the earliest point being June 2020. Conversion is contingent upon future events, principally related to the outcome of interchange litigation against VISA Europe Limited. As such, the valuation reflects both an illiquidity discount and the risk of a reduction in the conversion rate to VISA Inc. common Stock. The reduction in the conversion rate is the most significant unobservable input to the valuation.

Transfers

There were no transfers between Level 1 and Level 2 during the period (February 2019: no transfers).

There were no transfers between Level 2 and Level 3 during the period (February 2019: no transfers).

18. Capital Resources

On 1 March 2018, IFRS 9 came into force and a transitional period was introduced, allowing the Company (being the regulated entity) to phase in the IFRS 9 impact on capital over a period of 5 years.

Under the transitional provisions, the impact as at 31 August 2019 on common equity tier 1 is £12.7m (February 2019: £7.8m). Common equity tier 1 is expected to reduce from inception to end point by approximately 164 basis points (unaudited).

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 6 months to 31 August 2019 £m	End Point 6 months to 31 August 2019 £m	Transitional 6 months to 28 February 2019 £m Restated[1]	Transitional 6 months to 31 August 2018 £m Restated[1]
Movement in common equity tier 1 capital:				
At the beginning of the period	1,598.2	1,433.8	1,497.8	1,497.8
Impact of initial application of IFRS 9	–	–	(166.3)	(166.0)
Profit attributable to shareholders	11.3	11.3	135.1	52.0
Gains and losses on liabilities arising from own credit	–	–	(0.1)	0.3
Other reserves	2.0	2.0	(14.6)	(4.9)
Ordinary dividends	(23.0)	(23.0)	(60.0)	(23.3)
IFRS 9 transitional add back	(12.7)	–	164.4	158.2
Movement in intangible assets	19.2	19.2	46.9	26.5
Movement in material holdings	–	–	–	–
Deferred tax liabilities related to intangible assets	–	–	(5.0)	(2.7)
At the end of the period	**1,595.0**	**1,443.3**	**1,598.2**	**1,537.9**

[1] The prior period has been restated following the retrospective adoption of IFRS 16 in the current period. Refer to note 2 for further details.

18. Capital Resources (continued)

	Transitional 31 August 2019 £m	End Point 31 August 2019 £m	Transitional 28 February 2019 £m Restated[1]	Transitional 31 August 2018 £m Restated[1]
Common equity tier 1				
Shareholders' equity (accounting capital)	1,672.7	1,672.7	1,658.7	1,645.6
Regulatory adjustments				
Unrealised gains on cash flow hedge reserve	–	–	0.5	0.1
Adjustment to own credit/Additional value adjustments	(1.4)	(1.4)	(1.2)	(0.7)
Foreseeable dividends	(23.0)	(23.0)	–	(23.3)
Intangible assets	(205.0)	(205.0)	(224.2)	(244.6)
Deferred tax liabilities related to intangible assets	–	–	–	2.6
IFRS 9 transitional add back	151.7	–	164.4	158.2
Common equity tier 1 capital	**1,595.0**	**1,443.3**	**1,598.2**	**1,537.9**
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
Credit risk adjustment	–	–	–	–
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	(21.0)	(21.0)	(28.8)	(28.7)
Total regulatory adjustments to tier 2 capital (instruments and provisions)	**(21.0)**	**(21.0)**	**(28.8)**	**(28.7)**
Total tier 2 capital (instruments and provisions)	**214.0**	**214.0**	**206.2**	**206.3**
Total capital	**1,809.0**	**1,657.3**	**1,804.4**	**1,744.2**
Total risk-weighted assets (unaudited)	9,820.8	9,777.6	9,856.8	9,637.1
Common equity tier 1 ratio (unaudited)	16.2%	14.8%	16.2%	16.0%
Tier 1 ratio (unaudited)	16.2%	14.8%	16.2%	16.0%
Total capital ratio (unaudited)	18.4%	16.9%	18.3%	18.1%

Total capital requirements (TCR) refers to the amount and quality of capital the Bank must maintain to comply with the Capital Requirements Regulation (CRR) Pillar 1 and the 2A capital requirements. The TCR for the Company as at 31 August 2019 is 11.74% plus £52.0m as a static add-on for pension obligation risk.

[1] The prior period has been restated following the retrospective adoption of IFRS 16 in the current period. Refer to note 2 for further details.

18. Capital Resources (continued)

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

	31 August 2019 £m	28 February 2019 £m Restated[1]	31 August 2018 £m Restated[1]
Tesco Personal Finance Plc (Group) shareholders' equity	1,695.0	1,667.9	1,653.2
Share of joint venture's retained earnings	(14.8)	(7.7)	(3.9)
Subsidiaries' retained earnings	0.6	1.0	(0.1)
Share of joint venture's AFS reserve	(8.1)	(2.5)	(3.6)
Tesco Personal Finance Plc (Company) shareholders' equity	**1,672.7**	**1,658.7**	**1,645.6**

[1] The prior period has been restated following the retrospective adoption of IFRS 16 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 shareholders while maintaining a prudent relationship between the capital base and the underlying risks of the business. In carrying out this policy, the Group has regard to the supervisory requirements of the Prudential Regulatory Authority (PRA).

The Group is required to submit Internal Capital Adequacy Assessment Process (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 Basel III reforms include the introduction of a capital leverage measure, defined as the ratio of tier 1 capital to total exposure. This is intended to reinforce the risk-based capital requirements with a simple, non-risk based 'backstop' measure.

18. Capital Resources (continued)

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

Exposures for leverage ratio (unaudited)	Transitional 31 August 2019 £m	End Point 31 August 2019 £m	Transitional 28 February 2019 £m Restated[1]	Transitional 31 August 2018 £m Restated[1]
Total balance sheet exposures	15,421.7	15,421.7	15,657.5	15,140.4
Adjustments for entities which are consolidated for accounting purposes but outside scope of regulatory consolidation	(23.0)	(23.0)	(10.2)	(7.5)
Removal of accounting value of derivatives and Securities Financing Transactions (SFTs)	(499.1)	(499.1)	(355.5)	(287.2)
Exposure value for derivatives and SFTs	90.3	90.3	45.5	41.0
Off balance sheet: unconditionally cancellable (10%)	1,182.1	1,182.1	1,208.6	1,204.6
Off balance sheet: other (20%)	10.7	10.7	28.3	59.3
Regulatory adjustment – intangible assets	(205.0)	(205.0)	(224.2)	(244.6)
Regulatory adjustment – other, including IFRS 9	91.0	(60.7)	124.5	129.0
Total	**16,068.7**	**15,917.0**	**16,474.5**	**16,035.0**
Common equity tier 1	**1,595.0**	**1,443.3**	**1,598.2**	**1,537.9**
Leverage ratio	**9.9%**	**9.1%**	**9.7%**	**9.6%**

[1] The prior period has been restated following the retrospective adoption of IFRS 16 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 internal capital assessment. The capital resources of the Group are regularly monitored against the higher of this internal assessment and regulatory requirements. Capital adequacy and performance against the Group's capital plan is monitored daily, with monthly reporting provided to the Board, Asset and Liability Committee and Capital Management Forum.

Pillar 2 capital methodologies

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

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

18. Capital Resources (continued)

Credit Risk

In December 2017 the Basel Committee on Banking Supervision (BCBS) finalised Basel III reforms for credit risk, including revisions to the calculation of risk-weighted assets and enhancements to the risk-sensitivity of the standardised approaches to credit risk, constraining the use of internal model approaches by placing limits on certain inputs and replacing the existing Basel II output floors with a risk-sensitive floor based on the Committee's Basel III standardised approaches. The final Basel III reforms will be implemented in January 2022.

Operational risk

In December 2017, the BCBS finalised Basel III reforms for operational risk by replacing all existing approaches in the Basel II framework with a single risk-sensitive SA to be used by all banks. The new SA increases the sensitivity by combining a refined measure of gross income with the bank's internal historical losses. The final Basel III reforms will be implemented in January 2022.

Leverage

At present the Group has no minimum UK leverage requirement as it is currently exempt from the UK Leverage Framework Regime (LFR), which only applies to institutions with retail deposits over £50 billion. In December 2017, the BCBS finalised Basel III reforms for the leverage ratio. The final Basel III reforms will be implemented in January 2022. In June 2019, the EU published updates to the CRR which will result in a minimum leverage requirement of 3% from June 2021.

The Group is subject to reporting and disclosure requirements under the CRR and is not currently subject to temporary modifications of the UK LFR.

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

MREL requires banks to maintain at all times a sufficient aggregate amount of own funds and eligible liabilities (that may be bailed-in if required). MREL will, on full implementation, be set on a firm-specific basis and calculated as the sum of two components: a loss absorption amount, being the amount needed to absorb losses up to and in resolution; and a recapitalisation amount which reflects the capital that a firm is likely to need post resolution.

MREL is expected to be set annually over the transitional period until 1 January 2022. Prior to 31 December 2019, MREL will be equal to an institution’s minimum regulatory capital requirements. From 1 January 2020 until 31 December 2021 an interim requirement will be set, with full compliance applicable on 1 January 2022. The issuance by TPFG of £250.0m of senior debt in July 2019 provided further funding to the Group and reflects the Group's progression towards meeting the BoE’s MREL by 1 January 2022.

19. 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 2019.

20. 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.

21. Ultimate Parent Undertaking

The Group's ultimate parent undertaking and controlling party is Tesco PLC which is incorporated in England.

22. Events After the Reporting Period

Following the Group's decision to sell its Mortgage business, with effect from 1 September 2019 the Group's business model under IFRS 9 in respect of its Mortgage business changed from being solely to collect contractual cash flows from the Mortgage business to being to collect cash flows arising from the sale of the Mortgage business. As a result, the Group has accounted for its Mortgage business at FVPL from that date. The Mortgage business was previously accounted for at amortised cost. The Group recognised a fair value measurement gain after tax of £16.7m at 1 September 2019 following this change in business model.

The Group completed the sale of the majority of its Mortgage business to Halifax, which is part of Lloyds Banking Group, on 27 September 2019 for cash consideration of £3,694.6m. The majority of the Mortgage business was derecognised at this point. After settling transaction and other costs associated directly with the sale amounting to £3.8m, the Group's after-tax gain on sale was £21.4m. Immediately following derecognition of the majority of the Group's Mortgage business, the Group entered into a series of receive-fixed interest rates swaps to economically neutralise the effect of its existing pay-fixed interest rate swaps used to hedge the interest rate risk inherent in the Mortgage business. The inception value of these swaps was an after-tax gain of £5.0m.

As is customary in such a transaction, the Group will continue to recognise a small element of the Mortgage business, representing new advances to existing Mortgage customers, until migration of all Mortgage accounts to the purchaser is completed. Migration is currently expected to take place in February 2020. The final gain on sale will be confirmed once migration is completed.

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', as endorsed by the European Union; and
- the Interim Condensed Consolidated Financial Statements and Interim Management Report contained herein include a fair review of the information required by DTR 4.2.7R, namely an indication of important events that have occurred during the first six months and their impact on the Interim Condensed Consolidated Financial Statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year.

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,

Declan Hourican
Director
30 September 2019

Directors:	Graham Pimlott	Non-Executive Chairman
	John Castagno*	Independent Non-Executive Director
	Robert Endersby	Independent Non-Executive Director
	Jacqueline Ferguson	Independent Non-Executive Director
	Richard Henderson	Chief Risk Officer
	Declan Hourican	Chief Financial Officer
	Simon Machell	Independent Non-Executive Director
	Gerard Mallon	Chief Executive
	James McConville	Independent Non-Executive Director
	Amanda Rendle	Independent Non-Executive Director
	Alan Stewart	Non-Executive Director
	James Willens	Senior Independent Non-Executive Director
Company Secretary:	Michael Mustard	

* Resigned on 30 September 2019.

INDEPENDENT REVIEW REPORT TO TESCO PERSONAL FINANCE PLC

We have been engaged by Tesco Personal Finance Plc ("the Company") to review the Interim Condensed Consolidated Financial Statements in the Interim Financial Report for the six months 31 August 2019 which comprises 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. We have read the other information contained in the Interim Financial Report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the Interim Condensed Consolidated Financial Statements.

This report is made solely to the Company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. 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.

Directors' responsibilities

The Interim Financial Report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the Interim Financial Report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1, the Annual Financial Statements of the Company are prepared in accordance with IFRS as adopted by the European Union. The Interim Condensed Consolidated Financial Statements included in this Interim Financial Report have been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting' as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the Interim Condensed Consolidated Financial Statements in the Interim Financial Report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board 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.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the Interim Condensed Consolidated Financial Statements in the Interim Financial Report for the six months ended 31 August 2019 are not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority

Deloitte LLP

Statutory Auditor

Edinburgh, United Kingdom

30 September 2019

ABBREVIATONS

AFS	Available-for-sale
BCBS	Basel Committee on Banking Supervision
BDAR	Bad debt:asset ratio
BoE	Bank of England
CCA	Consumer Credit Act
CRD	Capital Requirements Directive
CRO	Chief Risk Officer
CRR	Capital Requirements Regulation
EAD	Exposure at default
ECL	Expected credit losses
EIR	Effective interest rate
EU	European Union
FCA	Financial Conduct Authority
FVOCI	Fair value through other comprehensive income
FVPL	Fair value through profit or loss
IAS	International Accounting Standard
IAS 17	IAS 17 'Leases'
IAS 34	IAS 34 'Interim Financial Reporting'
IASB	International Accounting Standards Board
ICAAP	Internal capital adequacy assessment process
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standard
IFRS 5	IFRS 5 'Non-current assets held for sale and discontinued operations
IFRS 9	IFRS 9 ‘Financial Instruments’
IFRS 15	IFRS 15 ‘Revenue from Contracts with Customers’
IFRS 16	IFRS 16 'Leases'
KPI	Key performance indicator
LGD	Loss given default
LIBOR	London Inter Bank Offered Rate
LFR	Leverage Framework Regime
MREL	Minimum requirements for own funds and eligible liabilities
NSFR	Net stable funding ratio
OCI	Other comprehensive income
PD	Probability of default
Plevin	Plevin v Paragon Personal Finance Limited
PPI	Payment protection insurance
PRA	Prudential Regulation Authority
PSD2	Second Payment Services Directive
RMF	Risk management framework
RPI	Retail Price Index
SA	Standardised approach
SFTs	Securities financing transactions
TCR	Total capital requirement
TFS	Term Funding Scheme
TPFG	Tesco Personal Finance Group PLC
TPP	Third party provider
TU	Tesco Underwriting Limited
UK	United Kingdom

A

Amortised cost	The amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the EIR method of any difference between the initial amount and the maturity amount and minus any reduction (directly through the use of an allowance account) for impairment or uncollectability.

B

Basel II	The capital adequacy framework issued by the BCBS (June 2006) in the form of the 'International Convergence of Capital Measurement and Capital Standards'.
Basel III	The capital reforms and introduction of a global liquidity standard proposed by the BCBS.
Bad debt:asset ratio	The bad debt:asset ratio is calculated by dividing the impairment loss by the average balance of loans and advances to customers, excluding any interest-bearing assets held within a disposal group.
Brexit	The process by which the UK will leave the EU.

C

Capital requirements directive	A legislative package relating to capital adequacy, issued by the European Commission and adopted by EU member states.
Capital requirements regulation	The Capital Requirements Regulation (EU) No. 575/2013 is an EU law that aims to decrease the likelihood that banks become insolvent, reflecting Basel III rules on capital measurement and capital standards.
Capital resources	Eligible capital held in order to satisfy capital requirements.
Capital risk	The risk that the Group holds regulatory capital which is of insufficient quality and quantity to enable it to absorb losses.
Common equity tier 1 capital	The highest form of regulatory capital under CRD IV, comprising common shares issued, related share premium, retained earnings and other reserves less regulatory adjustments.
Common equity tier 1 ratio	The common equity tier 1 ratio is calculated by dividing total tier 1 capital at the end of the reporting period by total risk weighted assets and is calculated in line with the CRR.
Company	Tesco Personal Finance Plc.
Cost:income ratio	The cost:income ratio is calculated by dividing operating expenses by total income.
CRD IV	Legislation published in June 2013 (in force from 1 January 2014) by the European Commission, comprising the CRD and CRR and together forming the CRD IV package. CRD IV implements the Basel III proposals in addition to new proposals on sanctions for non-compliance with regulatory rules, corporate governance and remuneration. The rules have been implemented in the UK via PRA policy statement PS7/13, with some elements subject to transitional phase-in.
Credit risk	Credit risk is the risk that a borrower will default on a debt or obligation by failing to make contractually obligated payments, or that the Group will incur losses due to any other counterparty failing to meet their financial obligations.

D

Derivatives	Financial instruments whose value is based on the performance of one or more underlying assets.
Discontinued operations	The operations and cash flows of a major component of a business, the carrying amount in respect of which is to be recovered principally through a sale transaction, when the sale is considered highly probable at the reporting date.
Disposal group	Under IFRS 5, a group of assets or liabilities, the carrying amount in respect of which is to be recovered principally through a sale transaction, when the sale is considered highly probable at the reporting date, with the asset available for immediate sale in its present condition.

E

Exposure	A claim, contingent claim or position which carries a risk of financial loss.

E (continued)

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.
Foreign exchange risk	The risk that the value of transactions in currencies other than Sterling is altered by the movement of exchange rates.
Funding risk	The risk that the Group does not have sufficiently stable and diverse sources of funding.

G

General Data Protection Regulation	The General Data Protection Regulation 2016/679 is a regulation in EU law on data protection and privacy for all individuals within the EU and the EEA. It also addresses the export of personal data outside the EU and EEA areas.
Group	The Company and its subsidiaries and joint venture.

I

Impairment charge and impairment provisions	Provisions held on the balance sheet as a result of the raising of an impairment charge against profit for the incurred loss inherent in the lending book. Impairment provisions may be individual or collective.
Impairment losses	The reduction in value that arises following an impairment review of an asset which has determined that the asset's value is lower than its carrying value. For impaired financial assets measured at amortised cost, impairment losses are the difference between the carrying value and the present value of estimated future cash flows, discounted at the asset's original effective interest rate.
Insurance risk	The risks accepted through the provision of insurance products in return for a premium. These risks may or may not occur as expected and the amount and timing of these risks are uncertain and determined by events outside of the Group's control.
Interest rate risk	The risk arising from the different repricing characteristics of the Group's non-trading assets and liabilities.
Internal capital adequacy assessment process	The Group's own assessment, based on Basel II requirements, of the level of capital needed in respect of its regulatory capital requirements (for credit, market and operational risks) and for other risks including stress events.

L

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

M

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

N

Net interest margin	Net interest margin is calculated by dividing net interest income by average interest bearing assets, excluding any interest bearing assets held within a disposal group.
Net stable funding ratio	The net stable funding ratio is calculated under the CRD IV methodology.

O

Ogden tables	Tables which are used to calculate the cost of any claim that involves compensation for loss of future benefits. The tables provide an estimate of the return to be expected from the investment of a lump sum damages award.
Open Banking	A Government initiative to improve competition in the UK by opening up information that banks hold about their services and customers.
Operational risk	The risk of potential error, loss, harm or failure caused by ineffective or inadequately defined processes, system failure, improper conduct, human error, fraud or from external events.

P

Past due	Accounts are past due when a counterparty has failed to make a payment in line with their contractual obligations.
PD threshold	The maximum lifetime PD for each financial asset that was expected at the reporting date at initial recognition before a significant increase in credit risk is deemed to have occurred.
Pension risk	The risk to the Group caused by contractual or other liabilities to or with respect to a pension scheme.
Pillar 1	The first Pillar of the Basel II framework sets out the minimum regulatory capital requirements for credit, market and operational risks.
Pillar 2	The second Pillar of the Basel II framework, known as the Supervisory Review Process, sets out the review process for a bank's capital adequacy; the process under which supervisors evaluate how well banks are assessing their risks and the actions taken as a result of these assessments.
Pillar 2A	Pillar 2A addresses risks to an individual firm which either are not captured, or not fully captured, under the Pillar 1 capital requirements applicable to all banks.
Probability of default	Represents the likelihood a customer will default over the relevant period, being either 12 months or the expected lifetime.
Prudential Regulatory Authority	The statutory body responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms in the UK.
Second Payment Services Directive	PSD2 is an EU Directive which regulates payment services and payment service providers throughout the European Union and European Economic Area. PSD2 updates and replaces the Payment Services Directive 2008.

R

Recovery plan	The framework and recovery options which could be deployed in a severe stress event impacting capital or liquidity positions.
Regulatory capital	The capital that a bank holds, determined in accordance with rules established by the PRA.
Regulatory risk	The risk of reputational damage, liability or material loss from failure to comply with the requirements of the financial services regulators or related codes of best practice applicable to the business area within which the Group operates.
Risk Appetite	The level and types of risk that the Group is willing to assume to achieve its strategic objectives.
Risk-weighted assets	Calculated by assigning a degree of risk expressed as a percentage (risk-weight) to an exposure value in accordance with the applicable standardised and IRB approach rules.

S

Securitisation	A securitisation is defined as a transaction where the payments are dependent upon the performance of a single exposure or pool of exposures, where the subordination of tranches determines the distribution of losses during the life of the transaction.
Securities Financing Transactions	The act of lending, or borrowing, a stock, derivative, or other security to or from an investor or firm.

S (continued)

Stress testing	The term used to describe techniques where plausible events are considered as vulnerabilities to ascertain how this will impact the capital resources which are required to be held by the Group.
Securitisation structured entity	A corporation, trust, or other non-bank entity, established for the purpose of carrying on securitisation activities. Structured entities are designed to isolate their obligations from those of the originator and the holder of the beneficial interests in the securitisation.
Standardised Approach	In relation to credit risk, the method for calculating credit risk capital requirements using risk-weightings that are prescribed by the regulator. SA's following prescribed methodologies also exist for calculating market and operational risk capital requirements.
Subordinated liabilities	Liabilities which, in the event of insolvency or liquidation of the issuer, are subordinated to the claims of depositors and other creditors of the issuer.

T

Tesco Pay+	Tesco Pay+ is the Group's mobile payment service, which offers Tesco's shoppers the ability to pay and collect Clubcard points with one simple and convenient scan of their phone.
Tier 1 capital	A component of regulatory capital, comprising common equity tier 1 capital and other tier 1 capital. Other tier 1 capital includes qualifying capital instruments such as non-cumulative perpetual preference shares and other tier 1 capital securities.
Tier 2 capital	A component of regulatory capital, comprising qualifying subordinated loan capital and related non-controlling interests.
Total capital ratio	The total capital ratio is calculated by dividing total regulatory capital by total risk-weighted assets.
Total capital requirements	The minimum regulatory capital that must be held in accordance with Pillar 1 requirements for credit, market and operational risk.

U

UK Leverage Framework Regime	The UK LFR currently applies to firms with retail deposits equal to or greater than £50 billion on an individual or consolidated basis.
Underlying cost:income ratio	The underlying cost:income ratio is calculated by dividing underlying operating expenses by total underlying income.
Underlying loan to deposit ratio	The underlying loan to deposit ratio is calculated by dividing loans and advances to customers, excluding secured lending classified as assets of the disposal group, by deposits from customers, adjusted to reflect those deposits estimated to be funding the Mortgage business at the balance sheet date.
Underlying net interest margin	The underlying net interest margin is calculated by dividing underlying net interest income by average interest bearing assets, excluding any interest-bearing assets held within a disposal group.