TESCO PERSONAL FINANCE GROUP PLC

PILLAR 3 DISCLOSURES

FOR THE YEAR ENDED 28 FEBRUARY 2021

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Notes:

Row numbers in the above tables relate to the European Banking Authority (EBA) prescribed references within the standardised templates; where rows contain a nil value, these have been excluded for the purposes of these disclosures.

Introduction and Basel Framework

This document presents the Pillar 3 disclosures on capital and risk management of the regulated group (the Group) for the year ended 28 February 2021. The Group comprises Tesco Personal Finance Group plc and Tesco Personal Finance plc, but excludes the joint venture engaged in insurance underwriting (Tesco Underwriting Ltd) and the Special Purpose Entities (SPEs) supporting the Group's securitisation transactions. The Group and its scope of consolidation are illustrated on Page 8 to Page 13.

Regulatory Framework for Disclosures

The Basel framework is structured around three pillars which govern minimum capital requirements, outline the supervisory review framework and promote market discipline through disclosure requirements.

- Pillar 1 sets out the minimum capital requirement that firms are required to meet for Credit, Market and Operational Risk.
- The Pillar 2 supervisory review process requires firms and supervisors to form a view on whether a firm should hold additional capital against risks not taken into account or not fully covered in Pillar 1 (e.g. interest rate risk in the banking book and pension risk); and factors external to the firm (e.g. economic cycle effects). To comply, institutions are required to develop adequate arrangements, strategies, processes and mechanisms, to maintain sound management and coverage of their risks, including maintenance of the prescribed capital.
- Pillar 3 aims to complement the capital requirement and supervisory review process by encouraging market discipline through developing a set of disclosure requirements that allow market participants to assess the scope of application, risk exposures, risk assessment process and capital adequacy of firms. The Pillar 3 disclosures contained within this document have two principal purposes:

  a. to meet the regulatory disclosure requirements under Part Eight of the Capital Requirements Regulation (CRR), supplemented by any specific additional requirements of the European Union (EU) and the Prudential Regulatory Authority (PRA); and

  b. to provide transparency and further useful information on the capital and risk profile of the Group.

Introduction and Basel Framework (continued)

Business Developments

Covid-19

During the year, the Covid-19 pandemic has caused significant economic and social disruption. The Group's priority throughout the year has been helping customers and colleagues through the many challenges created by the Covid-19 pandemic. The Group invoked crisis management plans as it sought to serve and support its customers while maintaining the safety and well-being of colleagues but has since transitioned new working practices to business as usual, with ongoing, stable, operational performance.

The crisis management response included a focus on operational resilience. The actions taken included enhancing home working capability for colleagues and self-serve capability for customers. Close monitoring remains in place to ensure that the Group's critical functions continue to be resilient. The Group continues to engage with suppliers to ensure that service levels can continue to be maintained throughout a prolonged Covid-19 pandemic. Regulators have been consistently updated with progress through regular and ad-hoc management information and relationship meetings.

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

The principal risk categories impacted by the Covid-19 pandemic were Credit and Operational Risk. Further information on the impact relating to these risks and the Group's response are set out within the Credit and Operational Risk sections of this document starting on pages 36 and 69.

The Board has received frequent operational, financial and colleague updates from the Executive team throughout the crisis and provided challenge and support. There has also been a focus on both conduct and prudential impacts and close tracking of all government and regulator correspondence to gauge the potential impact on the Group, now and in the future.

The Group is providing support to those customers who have advised us that they are experiencing financial difficulty as a result of the Covid-19 pandemic. During the year, the Group granted temporary payment holidays of £762.0m to 139,673 Credit Card and Personal Loan customers who have advised the Group that they are experiencing financial difficulty as a result of the Covid-19 pandemic. These were for an initial period of up to three months and have in some cases been extended by a further three months. Of the payment holidays granted at 28 February 2021, 126,012 have ended, with 85.8% of customers returning to normal payment schedules.

The following table shows the outstanding balances at 28 February 2021 of all accounts where a payment holiday was granted during the year, including their IFRS 9 'Financial Instruments' staging and the percentage of the overall lending portfolio these balances represent:

	February 2021				
Gross balances	Volume	Stage 1 £m	Stage 2 £m	Stage 3 £m	% Gross balance
Total	13,661	62.7	40.6	1.3	1.5%

Since 28 February 2021, the Group has granted further payment holidays of £13.2m to 1,656 Credit Card and Personal Loan customers.

The Group has been impacted by higher expected credit losses (ECLs) arising from the economic downturn and lower revenues as a result of lower consumer spending and borrowing. The Group has recognised a charge for the year of £359.5m (2020: £178.6m). The Group's future performance is sensitive to the speed of the economic recovery.

The extension of government support measures such as furlough has been unprecedented and this, coupled with the granting of payment holidays by the Group, has broken the historically observed relationship between unemployment

Introduction and Basel Framework (continued)

and default. Although projected levels of unemployment remain high, the Group is yet to see significant defaults emerge in its lending portfolio and, as such, management has applied Covid-19 specific adjustments to the Group’s modelled ECL provision to capture the estimated impact of the stress within the Group's ECL provision.

The impact of the Covid-19 pandemic on income and ECLs has resulted in a loss for the Group in the year ended 28 February 2021. Notwithstanding this, the Group’s capital and liquidity ratios are expected to remain above regulatory requirements over the periods used by management to monitor these ratios.

Acquisition of Tesco Underwriting Limited

During the year, the Group reached an agreement with Ageas (UK) Limited to acquire its stake in the Group's joint venture, Tesco Underwriting Limited (TU), which will become a 100% owned subsidiary of the Group. The deal is expected to complete in May 2021, following regulatory approval received in March 2021. In the coming years, the impact of this acquisition in these disclosures will be limited to the value of the exposure to TU arising from the increase in investment value and any capital support provided to the subsidiary. TU is subject to separate capital requirements under Solvency II regulations and will continue to make its own required disclosures.

The acquisition is in line with the Group's strategy of focusing on propositions which better meet the needs of Tesco shoppers. The investment will significantly enhance the Group's insurance capability and enable the Group to create an insurance business that is uniquely positioned to help Tesco shoppers manage their money a little better every day.

The Group, TU and Ageas are working closely together to ensure a smooth transition as the Group works towards the formal change of ownership.

Sale of the Mortgage business

The Group completed the sale of the Mortgage business in September 2019 for a cash consideration of £3,694.6m.

As is customary in such a transaction, the Group continued 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 was completed. Legal completion took place on 30 March 2020. Due to specific contractual arrangements in place with the purchaser, the new advances to existing customers did not meet the requirements to be treated as Mortgage lending under the CRR. The resultant exposure, which is visible in the prior year comparatives only, was treated as an exposure to Institutions and risk weighted accordingly.

Regulatory Developments

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

Regulation changes

Amendments to the CRR and Capital Requirements Directive (CRD) were published in the Official Journal of the European Union on 7 June 2019, including amendments due in June 2021. However, in a joint statement, published on 16 November 2020, Her Majesty's Treasury, the PRA and the Financial Conduct Authority (FCA) confirmed a date of 1 January 2022 for implementing those Basel III reforms which make up the UK equivalent to the outstanding elements of the EU’s 2nd CRR. The Group of Central Bank Governors and Heads of Supervision (GHOS), announced in March 2020 that the implementation of the Basel 3.1 standards would be delayed by one year to 1 January 2023. Throughout this document, the original and amended regulation (CRR and CRR2) and directive (CRD IV and CRD V) are collectively referred to as CRR and CRD.

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

Open Banking

Open Banking, which is supported by a secure technology standard, is designed to give customers more control over

Introduction and Basel Framework (continued)

their financial data and money. Customers can more easily compare accounts from different providers, understand features, service quality and pricing, and 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 third-party providers (TPPs) which provide a range of different Apps and websites offering new ways for customers to manage money and make payments.

During the year, the Group enabled Credit Card customers to more easily manage and pay their balances, launching a 'Pay by Bank' facility, which is a market leading Open Banking feature. This facility enables mobile and online credit card customers to make payments directly from their personal current account via electronic payment devices. In doing so the Group became the first UK Bank to introduce this functionality.

Minimum Requirements for Own Funds and Eligible Liabilities

The Group became subject to the minimum requirements for own funds and eligible liabilities (MREL) on an interim basis from 1 January 2020, with full implementation from 1 January 2023. The interim target remains at 18% of risk weighted assets until 31 December 2022. The requirements are factored into the Group's funding and capital plans. Tesco Personal Finance Group plc undertook an initial £250.0m issuance of MREL compliant debt in July 2019 in support of the interim requirements and subsequently invested the proceeds in the Company via an intercompany subordinated loan. Further issuances may be required to support end-state requirements.

Upon full implementation, MREL targets will be set on a bank 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 would be likely to need post resolution.

At 28 February 2021 the MREL ratio was 32.1% (2020: 26.3%).

Brexit

The Brexit transition period ended on 31 December 2020, with the UK agreeing a trade deal with the European Union. In preparation for Brexit, the Group actively considered the potential risks associated with the UK's exit from the EU and their impact on both the UK financial services market and the Group itself. The Group also continues to monitor related developments to the UK's exit from the EU, including the possibility of a second Scottish independence vote.

The most significant potential impact of Brexit arises in respect of credit risk relating to the performance of the Group's portfolio of loans and advances to customers. Their performance and the associated Expected Credit Loss (ECL) provisions required will be influenced by the macro-economic outcomes of Brexit. Assessment of the ECL allowance under IFRS 9 has considered a range of macro-economic scenarios.

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

The Group also established a Brexit working group with the remit to ensure operational readiness, focussing on the impacts relating to Customers, Colleagues and Suppliers. The working group undertook a significant amount of planning and assessment work, readying solutions for known impacts and potential trade deal scenarios. As a UK Retail Bank, the impacts were assessed as being limited and as a result of the trade deal being reached, heightened operational readiness activities were stood down and returned to business as usual activity. Some residual activities require ongoing work to resolve. It is expected that this work will be concluded within the first half of 2021.

Climate Change

The Group has identified Climate Change as a risk on which there is growing focus. Further information as to how the Group is addressing the challenge of Climate Change is contained in the Annual Report and Financial Statements.

https://bank.tescoplc.com/financial-information/accounts-and-disclosures

Introduction and Basel Framework (continued)

IBOR Reform

The Group has transitioned the majority of its London Interbank Offered Rate (LIBOR) exposures to Sterling Overnight Index Average (SONIA). The only remaining LIBOR exposure relates to the Group's investment in subordinated debt issued by TU, which the Group expects to transition to SONIA by 31 December 2021.

Disclosure Policy

The Group has a formal, Board approved policy which details its approach to complying fully with the Pillar 3 disclosure requirements as laid out in Part Eight of the CRR (and any updates as appropriate).

Frequency of Disclosure

In accordance with that policy, the Group has assessed itself against the need to publish Pillar 3 disclosures more frequently than annually and has concluded that annual disclosures are sufficient for the following reasons:

- The Group does not operate in complex or diverse markets; and
- The Group does not meet the criteria requiring special assessment of the need to publish Pillar 3 disclosures more frequently than annually as outlined in the European Banking Authority (EBA) guidelines.

The frequency of disclosure will be reviewed at least annually against the criteria outlined in both the CRR and the guidelines issued by the EBA. A review of the frequency of disclosure will also be triggered should there be a material change in approach used for the calculation of capital, from an increase in business scale or from changes to regulatory requirements.

The Group has voluntarily adopted a number of disclosures which are required to be reported on a more frequent than annual basis by G-SIIs and O-SIIs. The Group has concluded, in line with the above parameters and on the basis of its voluntary adoption of these disclosures, that annual disclosure is appropriate.

Verification and Medium

In line with the revised Pillar 3 disclosure requirements published by the EBA, the Group's Pillar 3 policy requires that "information required to be disclosed by Part Eight of the CRR is subject (at a minimum) to the same level of internal review and internal control processes as the other information provided by institutions for their financial reporting".

These Pillar 3 disclosures have been verified and approved through internal governance, including review by the Disclosure Committee and approval by the Board. The disclosures are not subject to independent audit except where they are the same as those audited disclosures prepared under accounting requirements and disclosed in the Annual Report and Financial Statements of both Tesco Personal Finance Group plc and Tesco Personal Finance plc (the Company).

Certain disclosure information required can be found in the Annual Report and Financial Statements of both Tesco Personal Finance Group plc and the Company. References to these disclosures are clearly signposted throughout this document and can be found on the Tesco Bank corporate website at:

https://bank.tescoplc.com/financial-information/accounts-and-disclosures

Each of the Directors, whose names are listed in Appendix 2, confirms that to the best of their knowledge that the disclosures provided according to Part Eight of the CRR have been prepared in accordance with the internal control processes agreed upon at the management body level.

Approved by the Tesco Personal Finance Group plc Board and signed by their order.

Declan Hourican

Chief Financial Officer

12 April 2021

Sir John Kingman

Independent Non-Executive Chair

12 April 2021

Disclosure Policy (continued)

Use of Disclosure Waivers

The CRR allows institutions to omit one or more of the required disclosures if information provided by such disclosures is not regarded as material or if it would be regarded as proprietary or confidential (with the exception of disclosures relating to Own Funds, Remuneration and Diversity). The Group has not made use of any waivers.

Scope of Consolidation and Linkages between Financial Statements and Regulatory Exposures

Scope of Consolidation

The Company, trading as Tesco Bank, provides a range of financial services and products, primarily to personal customers under the Tesco Bank brand, through Tesco stores, telephony and on-line channels.

Products and services currently offered by the Company include unsecured Personal Loans, Savings accounts, Credit Cards, Travel Money, international payments, ATMs and general insurance products. The Group has ceased offering Personal Current Accounts to new customers.

The table below outlines the differences between the statutory and regulatory scope of consolidation for all relevant entities.

EU LI3: Outline of the differences in the scope of consolidation (entity by entity)

	a	b	c	d	e	f
		Method of regulatory consolidation				
Name of the entity	Method of Accounting Consolidation	Full Consolidation	Proportional Consolidation	Neither consolidated nor deducted	Deducted	Description of entity
Tesco Personal Finance Group plc	Full Consolidation	X				Holding Company
Tesco Personal Finance plc	Full Consolidation	X				Banking Services
Tesco Underwriting Ltd	Equity				X	Joint Venture with Insurance entity
Delamare Funding 1 Limited	Full Consolidation			X		Special Purpose Entity
Delamare Funding 2 Limited	Full Consolidation			X		Special Purpose Entity
Delamare Cards HoldCo Limited	Full Consolidation			X		Special Purpose Entity
Delamare Cards MTN Issuer plc	Full Consolidation			X		Special Purpose Entity
Delamare Cards Receivables Trustee Limited	Full Consolidation			X		Special Purpose Entity

Note: Tesco Underwriting Ltd is excluded from the regulatory scope of consolidation and is classified as 'deducted'. The Group's SPEs are fully consolidated for accounting purposes. Significant Risk Transfer (SRT) has not been achieved and so the Group retains all underlying positions on its balance sheet and risk weights accordingly.

Comparability

The differences outlined above between the statutory and regulatory scope prevent direct comparison between the Annual Report and Financial Statements of Tesco Personal Finance Group plc and the Group's Pillar 3 disclosures in a number of areas.

To aid users, a statutory and regulatory scope balance sheet together with a reconciliation showing all items affecting regulatory own funds is detailed in table EU CC2 (Page 10). Table EU LI1 (Page 11) shows the mapping of the regulatory scope balance sheet across different risk frameworks.

Pillar 3 exposure values are derived from statutory balance sheet values, net of provisions where appropriate, together with undrawn credit facilities which are assigned credit conversion factors based on prescribed regulatory values. The Group applies the credit conversion factors to its credit card exposures at 0%. As at 28 February 2021, the Group has circa £12.7bn of undrawn credit lines to customers all of which relate to undrawn credit card facilities. However, the Group considers that the likely exposure, which is impacted by factors such as customer behaviour and the regular assessment of the creditworthiness of customers, is significantly less than the total unused commitments.

The Group is required under the CRR to make certain adjustments to Own Funds, the most material being in relation to intangible assets, dated Tier 2 capital instruments and the application of transitional arrangements in relation to IFRS 9. During the year, as a response to the Covid-19 pandemic, the EU accelerated some of the beneficial elements of CRR 2 which had originally been scheduled to come into force in June 2021.

Scope of Consolidation and Linkages between Financial Statements and Regulatory Exposures (continued)

This included the beneficial prudential treatment of software assets in December 2020, prior to the end of the Brexit transition period, allowing institutions to risk weight certain software assets rather than fully deducting them from CET1. The PRA issued a statement during December 2020 and a subsequent consultation paper in February 2021 which includes a proposal to reverse the EU changes to software asset deduction rules. The PRA have recommended that firms do not base funding or distribution plans on any capital increase resulting from the EU changes. In light of this and the PRA's strong steer on the likely outcome of the consultation, the Group has elected to use the provisions within Recital 6 of the EU Regulation (EU) 2020/2176 which states that 'the standardised prudential treatment should not prevent an institution from continuing to fully deduct its software assets from Common Equity Tier 1 items'. The Group has therefore continued to fully deduct software assets from CET1. The reported capital ratios include no temporary uplift arising from the change to regulation.

Scope of Consolidation and Linkages between Financial Statements and Regulatory Exposures (continued)

EU CC2: Reported balance sheet under the regulatory scope of consolidation with mapping of balance sheet items used to calculate regulatory own funds

	CRR: Own Funds disclosure	February 2021 Accounting balance sheet (per financial statements) £m	February 2021 Other adjustments (1) £m	February 2021 Regulatory Scope £m	February 2020 Accounting balance sheet (per financial statements) £m	February 2020 Other adjustments (1) £m	February 2020 Regulatory Scope £m
Assets							
Cash and balances with central banks		804.2	(56.2)	748.0	1,395.6	–	1,395.6
Loans and advances to banks		–	–	–	–	44.7	44.7
Loans and advances to customers		6,402.2	(28.1)	6,374.1	8,451.3	(7.7)	8,443.6
Derivative financial instruments		6.1	–	6.1	5.7	–	5.7
Investment securities:							
- FVOCI - Debt		–	–	–	1,057.4	–	1,057.4
- FVOCI - Equity		5.1	–	5.1	3.2	–	3.2
- Amortised cost		927.3		927.3	–	–	–
- Loans and receivables		21.1	–	21.1	21.0	–	21.0
of which: loan to Tesco Underwriting Ltd deducted from Tier 2 CRR (2)	*a*	–	–	*21.1*	–	–	*21.0*
Prepayments and accrued interest		41.6	–	41.6	55.6	–	55.6
Other assets		211.2	55.8	267.0	243.3	0.4	243.7
Current income tax asset		36.1	15.1	51.2	–	–	–
Deferred tax asset		67.3	1.4	68.7	69.4	1.6	71.0
Investment in associate		92.8	(32.2)	60.6	86.0	(25.4)	60.6
of which: significant investment in TU below threshold (2)	*b*	–	–	*60.6*	–	–	*60.6*
Intangible assets		130.9	–	130.9	138.2	–	138.2
of which; other intangibles (2)	*c*	–	–	*130.9*	–	–	*138.2*
Property, plant and equipment		77.5	–	77.5	73.4	–	73.4
Assets of the disposal group		–	–	–	45.1	(45.1)	–
Total Assets		8,823.4	(44.2)	8,779.2	11,645.2	(31.5)	11,613.7
Liabilities							
Deposits from banks		600.0	–	600.0	500.0	–	500.0
Deposits from customers		5,738.0	–	5,738.0	7,707.0	–	7,707.0
Debt securities in issue		251.0	–	251.0	1,024.0	–	1,024.0
Derivative financial instruments		47.5	–	47.5	50.7	–	50.7
Provisions for liabilities and charges		60.1	(28.1)	32.0	58.7	(7.7)	51.0
Accruals and deferred income		86.1	–	86.1	100.1	–	100.1
Current income tax liability		–	15.1	15.1	26.3	–	26.3
Other liabilities		184.2	(0.2)	184.0	199.0	–	199.0
Deferred income tax liability		–	1.4	1.4	–	1.6	1.6
Subordinated liabilities and notes		235.0	–	235.0	235.0	–	235.0
of which: allowable for Tier 2 (2)	*d*	–	–	*235.0*	–	–	*235.0*
Total Liabilities		7,201.9	(11.8)	7,190.1	9,900.8	(6.1)	9,894.7
Equity and reserves attributable to owners of parent							
Share Capital		122.0	–	122.0	122.0	–	122.0
of which: amount eligible for CET 1 (2)	*e*	–	–	*122.0*	–	–	*122.0*
Share premium		1,098.2	–	1,098.2	1,098.2	–	1,098.2
of which: amount eligible for CET 1 (2)	*f*	–	–	*1,098.2*	–	–	*1,098.2*
Retained Earnings		370.7	(26.7)	344.0	487.2	(17.9)	469.3
of which: prior year retained profits (2)		–	–	*469.3*	–	–	*426.3*
of which: current year profit less dividend paid (2)		–	–	*(125.3)*	–	–	*43.0*
Other Reserves	*g*	30.6	(5.7)	24.9	37.0	(7.5)	29.5
of which: cash flow hedge reserve (2)	*h*	–	–	*0.6*	–	–	*0.3*
Total Equity		1,621.5	(32.4)	1,589.1	1,744.4	(25.4)	1,719.0
Total liabilities and equity		8,823.4	(44.2)	8,779.2	11,645.2	(31.5)	11,613.7

Notes:

(1) Insurance undertakings and SPE's are not consolidated within the Group's Pillar 3 disclosures, therefore adjustments are required to the assets and liabilities relating to Tesco Underwriting Ltd to remove the impact of equity accounting and SPE balances. Other adjustments are made to the accounting balance sheet to provide transparency of figures used in the regulatory calculation.

(2) Italicised values represent subsets of values directly above them, and also show the splits between Tier 1 and Tier 2 Capital detailed in the CRR Own Funds table (page 24).

Scope of Consolidation and Linkages between Financial Statements and Regulatory Exposures (continued)

EU LI1: Mapping of financial statement categories with regulatory risk categories

	February 2021						
	Carrying values as reported in published Financial Statements	Carrying values under Scope of Regulatory Consolidation	Carrying value of items subject to Credit Risk Framework	Carrying value of items subject to Counterparty Credit Risk Framework	Carrying value of items subject to Securitisation Framework	Carrying value of items subject to Market Risk Framework	Carrying value of items not subject to Capital Requirements or Deduction from Capital
	a	b	c	d	e	f	g
	£m	£m	£m	£m	£m	£m	£m
Assets							
Cash and balances with central banks	804.2	748.0	748.0	–	–	–	–
Loans and advances to banks	–	–	–	–	–	–	–
Loans and advances to customers	6,402.2	6,374.1	6,374.1	–	–	–	–
Derivative financial instruments	6.1	6.1	–	6.1	–	–	–
Investment Securities:							
- FVOCI - Debt	–	–	–	–	–	–	–
- FVOCI - Equity	5.1	5.1	5.1	–	–	–	–
- Amortised cost	927.3	927.3	927.3	–	–	–	–
- Loans and receivables	21.1	21.1	–	–	–	–	21.1
Prepayments and accrued income	41.6	41.6	41.6	–	–	–	–
Other assets	211.2	267.0	267.0	–	–	–	–
Current income tax asset	36.1	51.2	51.2	–	–	–	–
Deferred tax asset	67.3	68.7	68.7	–	–	–	–
Investment in associate	92.8	60.6	60.6	–	–	–	–
Intangible assets	130.9	130.9	–	–	–	–	130.9
Property, plant and equipment	77.5	77.5	77.5	–	–	–	–
Assets of the disposal group	–	–	–	–	–	–	–
Total assets	**8,823.4**	**8,779.2**	**8,621.1**	**6.1**	**–**	**–**	**152.0**
Liabilities							
Deposits from banks	600.0	600.0	–	–	–	–	–
Deposits from customers	5,738.0	5,738.0	–	–	–	–	–
Debt securities in issue	251.0	251.0	–	–	–	–	–
Derivative financial instruments	47.5	47.5	–	6.1	–	–	–
Provision for liabilities and charges	60.1	32.0	–	–	–	–	–
Accruals and deferred income	86.1	86.1	–	–	–	–	–
Current income tax liability	–	15.1	–	–	–	–	–
Other liabilities	184.2	184.0	41.3	–	–	–	–
Deferred income tax liability	–	1.4	–	–	–	–	–
Subordinated liabilities and notes	235.0	235.0	–	–	–	–	–
Total Liabilities	**7,201.9**	**7,190.1**	**41.3**	**6.1**	**–**	**–**	**–**

Scope of Consolidation and Linkages between Financial Statements and Regulatory Exposures (continued)

EU LI1: Mapping of financial statement categories with regulatory risk categories

	February 2020						
	Carrying values as reported in published Financial Statements	Carrying values under Scope of Regulatory Consolidation	Carrying value of items subject to Credit Risk Framework	Carrying value of items subject to Counterparty Credit Risk Framework	Carrying value of items subject to Securitisation Framework	Carrying value of items subject to Market Risk Framework	Carrying value of items not subject to Capital Requirements or Deduction from Capital
	a	b	c	d	e	f	g
	£m	£m	£m	£m	£m	£m	£m
Assets							
Cash and balances with central banks	1,395.6	1,395.6	1,395.6	–	–	–	–
Loans and advances to banks	–	44.7	44.7	–	–	–	–
Loans and advances to customers	8,451.3	8,443.6	8,443.6	–	–	–	–
Derivative financial instruments	5.7	5.7	–	5.7	–	–	–
Investment Securities:							
- FVOCI - Debt	1,057.4	1,057.4	1,057.4	–	–	–	–
- FVOCI - Equity	3.2	3.2	3.2	–	–	–	–
- Loans and receivables	21.0	21.0	–	–	–	–	21.0
Prepayments and accrued income	55.6	55.6	55.6	–	–	–	–
Current income tax asset	–	–	–	–	–	–	–
Other assets	243.3	243.7	243.7	–	–	–	–
Deferred tax asset	69.4	71.0	71.0	–	–	–	–
Investment in associate	86.0	60.6	60.6	–	–	–	–
Intangible assets	138.2	138.2	–	–	–	–	138.2
Property, plant and equipment	73.4	73.4	73.4	–	–	–	–
Assets of the disposal group	45.1	–	–	–	–	–	–
Total assets	**11,645.2**	**11,613.7**	**11,448.8**	**5.7**	**–**	**–**	**159.2**
Liabilities							
Deposits from banks	500.0	500.0	–	–	–	–	–
Deposits from customers	7,707.0	7,707.0	–	–	–	–	–
Debt securities in issue	1,024.0	1,024.0	–	–	–	–	–
Derivative financial instruments	50.7	50.7	–	5.7	–	–	–
Provision for liabilities and charges	58.7	51.0	–	–	–	–	–
Accruals and deferred income	100.1	100.1	–	–	–	–	–
Current income tax liability	26.3	26.3	–	–	–	–	–
Other liabilities	199.0	199.0	46.5	–	–	–	–
Deferred income tax liability	–	1.6	–	–	–	–	–
Subordinated liabilities and notes	235.0	235.0	–	–	–	–	–
Total Liabilities	**9,900.8**	**9,894.7**	**46.5**	**5.7**	**–**	**–**	**–**

Scope of Consolidation and Linkages between Financial Statements and Regulatory Exposures (continued)

Restrictions on the Transfer of Own Funds

There are restrictions on the ability of the Company to make distributions of cash or other assets to Tesco Personal Finance Group plc for the following reasons:

- Regulatory capital requirements: As a regulated entity, the Company is subject to requirements to maintain minimum levels of capital, hence restricting the ability to make distributions of cash or other assets to Tesco Personal Finance Group plc; and

- Assets pledged as collateral: These assets are not available for transfer by the Company to Tesco Personal Finance Group plc.

Risk Management

The Group has a formal structure for reporting, monitoring and managing risks. This comprises, at its highest level, the Group's Risk Appetite, approved by the Board, which is supported by the Risk Management Framework. The Risk Management Framework is embedded across the Group, creating an integrated approach to managing risk. The Risk Management Framework brings together Governance, Risk Appetite, the Three Lines of Defence model, the Policy Framework and risk management tools to support the business in managing risk as part of day-to-day activity.

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

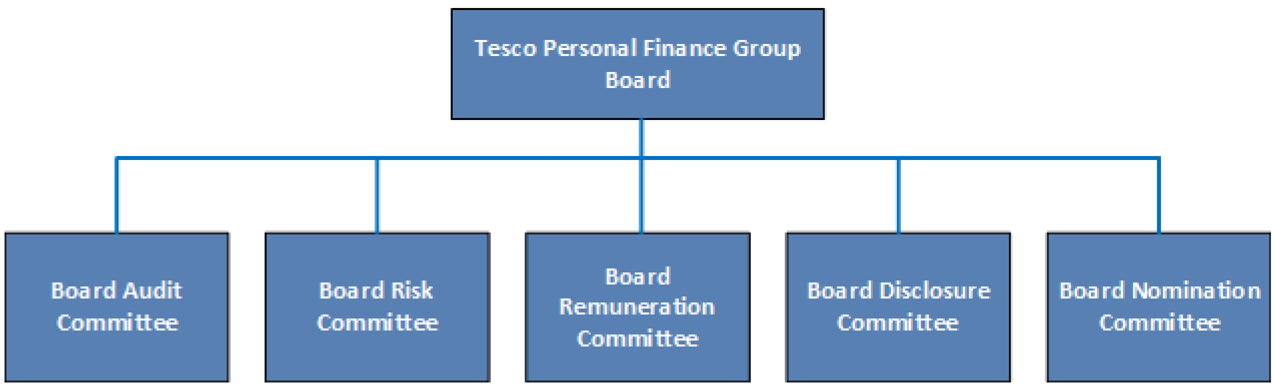
The Group is committed to embedding a strong risk culture throughout the business where everyone understands the risks they personally manage and is empowered and qualified to be accountable for them. This approach is strengthened by the Senior Managers and Certification Regime (SMCR), introduced by the FCA in March 2016. The aim of the SMCR is to make relevant individuals accountable for their conduct and competence. The Group embraces a culture where each business area is encouraged to take risk–based decisions, whilst knowing when to escalate or seek advice. The Group also seeks to promote a culture where there is no reluctance to escalate bad news or emerging risks.

Governance Structure

The Group has established a governance structure which is appropriate for the business in terms of its level of complexity and risk profile. This structure is reviewed periodically so that it remains suitable to support the business. The governance structure set out in these disclosures describes the structure that was in place as at 28 February 2021.

The Board

The Board has overall responsibility for the management of the business and acts as the main decision-making forum. It sets the Risk Appetite and strategic aims for the business, in some circumstances subject to shareholder approval, within a control framework which is designed to enable risk to be assessed and managed. The Board satisfies itself that financial controls and systems of risk management are appropriate through the reporting provided to it and provides feedback where necessary to make sure that reporting remains fit for purpose. The Board met 21 times during the year ended 28 February 2021. In order to support effective governance and management of the wide range of responsibilities, the Board has established the following five standing committees:



Risk Management (continued)

Board Audit Committee

The role of the Board Audit Committee is to review the Financial Statements, accounting policies and practices for compliance with relevant standards. The Committee examines the arrangements made by management regarding compliance with regulations and standards and reviews the internal control systems for the appropriateness and effectiveness of systems and controls. The Committee also reviews the internal audit programme, oversees the Internal Audit function and considers both the appointment of the external auditors and their independence. The Committee works closely with the Board Risk Committee (BRC) to avoid as far as possible any overlap or gap in the overall risk and assurance activities of the two committees and carries out such investigations or reviews referred to it by the Board. The Audit Committee met 9 times during the year ended 28 February 2021.

Board Risk Committee

The role of the Board Risk Committee is to oversee that a culture is appropriately embedded which recognises risk and encourages all colleagues to be alert to the wider impact on the whole organisation of their actions and decisions. The Committee takes a forward-looking view of possible economic trends and risks, informed by analysis of appropriate information, and considers their potential impact on the business. The Committee considers, and recommends to the Board, the Group's Risk Appetite and seeks to ensure that overall business strategy is informed by and remains aligned with it. The Committee reviews and challenges all major risks, controls, actions and events in the business, alerting the Board to any areas of concern. The BRC met 6 times during the year ended 28 February 2021.

Board Remuneration Committee

The role of the Board Remuneration Committee is to monitor compliance with regulatory requirements relating to remuneration, specifically the approval and identification of Material Risk Takers (MRTs) and overseeing the establishment and implementation of a remuneration policy for all colleagues within the Group (including specific arrangements for MRTs). The Committee also provides performance and risk assessment in the determination of pay outcomes including the oversight of pay outcomes for MRT colleagues. The Committee seeks to ensure that the levels and structure of remuneration are designed to attract, retain, and motivate the talent needed to run the business in a way which is consistent with the Risk Appetite and ongoing sustainability of the business and is compliant with all applicable legislation, regulation and guidelines. The Remuneration Committee met 7 times during the year ended 28 February 2021.

Board Disclosure Committee

The Disclosure Committee reviews, on behalf of the Board, formal company documents which are either destined for publication or which, due to their size or complexity, are better reviewed in detail in a smaller group to ensure the Group's compliance with relevant statutory and regulatory obligations. The Disclosure Committee met 4 times during the year ended 28 February 2021.

Board Nomination Committee

The Nomination Committee has responsibility for reviewing the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board and making recommendations with regard to any changes required, including the nomination of candidates to fill Board vacancies as and when they arise. The Committee considers succession planning for Directors and other senior executives, taking into account the challenges and opportunities facing the Group, and the skills and expertise needed in the future. The Committee keeps under review the leadership needs of the organisation, both executive and non-executive, with a view to safeguarding the continued ability of the organisation to compete effectively in the marketplace. The Committee is kept up to date and fully informed about strategic issues and commercial changes affecting the Group and the market in which it operates. The Nomination Committee met 6 times during the year ended 28 February 2021.

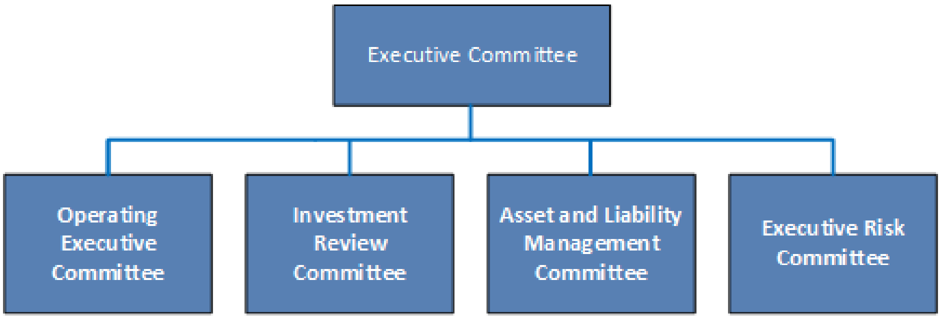
Risk Management (continued)

The Executive Committee (ExCo)

The Group's Board has delegated the day to day running of the business to the Chief Executive Officer. The Chief Executive Officer has established the ExCo to support the delivery against the strategy in an effective and controlled way and to set out a framework of reporting to the Board that is sufficient to enable the Board to fulfil its responsibilities. The ExCo supports the Chief Executive Officer, who has the responsibility for the executive management of the business, by reviewing, challenging and overseeing the performance of the business and critical developing matters in the areas of responsibility of each member. Each ExCo member is accountable to the Chief Executive Officer and to the Board for managing performance in line with the Group's Risk Appetite, long term plan, strategy and annual budget.

In order to support their own decision making, the senior Executives have established the following four sub-committees which report to the ExCo to support them in:

- Challenge and oversight of the Risk Management Framework;
- Identification of the key risks facing the Group; and
- Assessing the effectiveness of risk management actions.



Operating Executive Committee

The Operating Executive Committee has been established to support the Chief Customer Officer, Chief Operating Officer, Colleague Experience Director and the Insurance Director, providing oversight and challenge in relation to the effective running of the Banking and Insurance businesses by supporting and enabling an end to end operating model across the Group. This includes reviewing customer related activities (including customer outcomes), trade performance (including pricing plans and customer impact of pricing decisions), operational matters, change initiatives, risk management and certain colleague related matters. The minutes are circulated to the ExCo, with any material matters being escalated, as appropriate.

Investment Review Committee

The Investment Review Committee has been established to support the Chief Executive Officer by providing oversight and challenge of the effective delivery of the Group's change portfolio. This includes the planning, objectives and strategy of the change portfolio in relation to customer outcomes, business and financial performance, operational matters, risk management and resourcing. The minutes are circulated to the ExCo, with any material matters being escalated, as appropriate

Asset and Liability Management Committee

The Asset and Liability Management Committee has been established to support the Chief Financial Officer by providing oversight and challenge in relation to the optimisation of the Group's balance sheet structure, within Board approved risk appetite for Liquidity, Capital and Market Risk. This includes:

Risk Management (continued)

- Defining strategic balance sheet structural objectives for liquidity, funding and capital which align with:
  - the Board's stated risk appetite;
  - the regulatory obligations of the Group; and
  - the commercial and business objectives set out in the Long-Term Plan as approved by the Board.
- Recommending to the Board Risk Committee any changes to the amount or composition of the Tesco Bank's capital base;
- Providing oversight of the continuous compliance with all internal and regulatory limits relating to Liquidity, Capital and Market Risk; and
- Periodic reviews of Treasury policies and key regulatory documents for approval by the Board.

The Asset and Liability Management Committee minutes are circulated to the ExCo and Board Risk Committee, with any material matters being escalated, as appropriate.

Executive Risk Committee

The Executive Risk Committee has been established to support the Chief Risk Officer by providing oversight and challenge in relation to the effective implementation of the Risk Framework across the Group's business. This includes overseeing that the Three Lines of Defence model is operating effectively, the appropriateness of, and adherence to, the Risk Appetite, providing oversight of material risks facing the Group and assessing whether appropriate arrangements are in place to manage and mitigate those risks effectively. In addition, the Committee supports the monitoring of the status of regulatory compliance, considers the impact of regulatory initiatives and upstream regulatory risk on the current and future state of compliance whilst also providing oversight and challenge on Conduct risks and Customer Outcomes. The Committee reviews key policies and provides agreement for onward submission to the Board for final approval. The minutes are circulated to the ExCo, with any material matters being escalated, as appropriate. The Committee met 13 times during the year ended 28 February 2021.

Risk Appetite

The Group has a defined Risk Appetite which states the type and amount of risk that the Group is prepared to accept to achieve its strategic objectives and forms a key link between the day to day risk management of the business, its objectives, long term plan, capital plan and stress testing. The Risk Appetite consists of the following broad elements:

- Risk Appetite Statements; and
- Risk Appetite Measures

The Risk Appetite is formally reviewed by the Board on at least an annual basis. The Tesco PLC Board also review and approve the Financial Risk Appetite. The Board approves the Group's business plans, budget, long term plan, internal capital adequacy assessment process, individual liquidity adequacy assessment process and any material new product lines in line with the approved Risk Appetite. The Board also monitors the Group's risk profile and capital adequacy position. The Group employs hedging and mitigation techniques defined within the Group's policies, to ensure risks are managed within Risk Appetite and is able to monitor this via approved Risk Appetite Measures (Appendix 5).

Three Lines of Defence

The Three Lines of Defence model is a widely recognised, best practice approach to ensuring that the risks within a financial institution are appropriately managed and are subject to effective oversight and challenge. Clearly defined roles and responsibilities help to drive effective risk management:

Risk Management (continued)

First Line of Defence

Senior management within each business area is responsible for managing the risks that arise from the activities in which the business area is engaged in accordance with the Group's Risk Management Framework and policies. The role of the First Line of Defence is to:

- Adhere to the Group's Risk Management Framework, policies, standards and processes;
- Identify, assess, own, manage and monitor risks that arise from the activities in which the respective business area is engaged;
- Identify, design, implement, own, check and operate management controls;
- Identify, manage and monitor risk events, including the delivery of remedial actions and performance of root cause analysis;
- Translate Risk Appetite into clear, precise articulation of acceptable risks and operate within Risk Appetite and any related limits which the Second Line establish;
- Provide input to reporting on the risk environment in line with risk reporting standards established by the Second Line;
- Perform risk aggregation, analysis and reporting within their business line;
- Maintain appropriate awareness of external and future risk to support effective risk management; and
- Ensure compliance with all relevant regulations and codes.

Second Line of Defence

The Risk Management function operates under the leadership of the Chief Risk Officer. Risk teams reporting to the Chief Risk Officer are the Second Line of Defence and are resourced by people with expertise in each of the principal risks faced by the Group. This enables appropriate analysis, challenge, understanding, oversight and assurance of each of the principal risks. The role of the Second Line is to:

- Own, develop, communicate, implement and provide advice on the Group's Risk Management Framework and policies;
- Provide SME expertise in the management of specific types of risk and regulation, including supporting in the identification and management of risk events and associated remediation activity;
- Provide risk-based oversight and assurance of the First Line's implementation of and adherence to the Risk Management Framework and policies;
- Provide risk-based oversight and assurance of First Line risk management and control, including challenging the completeness of risk identification and assessment. Oversight can take a variety of forms, including active involvement in committees and meetings, analysis of MI and data, and providing an independent perspective on topics of significant interest;
- Own and set the Risk Appetite on behalf of the Board and oversee implementation of Risk Appetite in the First Line of Defence;
- Design and deliver standards for consistent risk reporting, risk governance and escalation;
- Perform Group-wide risk aggregation and analysis;
- Provide proactive insight and direction on industry, governing body and regulatory developments that will help

Risk Management (continued)

improve the management of risk in the Group; and

- Deliver and co-ordinate specific regulatory returns.

Third Line of Defence

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

The primary role of Internal Audit is to provide independent assurance on the effectiveness of governance, risk management and control across the First and Second Lines.

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

Policy Frameworks and supporting risk management tools

The scope of the Risk Management Framework extends to all principal risks faced by the Group and is underpinned by governance, controls, processes, systems and policies within the First Line business areas and those of the Second Line Risk Management function. The key components used to manage, control and monitor those principal risks effectively are outlined in this document within the relevant risk sections.

i) Policies

The Group has a policy framework in place which requires Level 1 policies to be approved by the Board and Level 2 policies by the Senior Management Function. Each policy is owned by a specific individual who is responsible for:

- Developing and maintaining the policy, including gaining approval for the policy at the requisite level;
- Communicating the policy, ensuring it is embedded so that those affected by it have sufficient training/information/understanding to comply;
- Undertaking suitable oversight to monitor compliance across the business; and
- Reviewing non-compliance/policy waiver requests and agreeing suitable actions.

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

ii) Risk Identification & Assessment

Risk and Control Self-Assessment is the process used to identify, assess, manage, monitor and report risks and controls across the Group.

The process sets out principles which should be consistently applied in the identification of risk. New and emerging risks and the recommended responses to them are reported by business units and the Risk Management function to relevant governance bodies.

The risk assessment process is the means by which the Group understands and estimates the effect of risk on the business, processes, systems and controls that mitigate those risks to an acceptable level. These assessments are reported to the Board on a regular basis.

Risk Management (continued)

The Group monitors and tracks current exposures against limits defined in the agreed Risk Appetite and by the regulators. Exceptions are reported on a monthly basis to the ALCO, ERC, and to each meeting of the BRC. Adherence to these limits is independently monitored, measured and reported using a suite of key indicators. Key discussion points from subordinate risk committees and management fora are reported to senior management and committees as appropriate.

iii) Event Management

An Event is an occurrence caused by an internal or external failure which could impact the Group's finances, customers, compliance with regulations, brand and reputation, or resilience of operations. The Event management process provides the tools and techniques to identify, assess and manage events through to closure.

iv) Stress Testing

Stress testing is the process by which the Group's business plans are subjected to severe but plausible scenarios to assess the potential impact on the business, including projected capital and liquidity positions. The scenarios adopted are subject to a rigorous selection process and analysis which includes hypothetical operational failures, macroeconomic stress events and customer behaviour impacts. The results from the scenario analysis and stress testing, along with proposed actions, are reported to ALCO, ERC, BRC and the Board. These are captured in both the internal liquidity adequacy assessment process and the internal capital adequacy assessment process.

v) Integrated Risk Processes

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

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

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

Capital

Capital Management

The Board has ultimate responsibility for capital management and capital allocation. Day to day responsibility for capital planning and other aspects of capital management are delegated to the Treasury Director. Stress testing and preparation of the internal capital adequacy assessment process is the responsibility of the Chief Risk Officer, supported by the Risk Management function.

The Group's capital was calculated for prudential regulatory reporting purposes for the year ended 28 February 2021 using the Basel III framework of the Basel Committee on Banking Supervision (BCBS), as implemented by the European Union in the CRR and CRD and by the PRA Rulebook for the UK banking industry.

IFRS 9 Financial Instruments became effective for annual periods beginning on or after 1 January 2018 and is reflected in the Group disclosures. The Group has elected to use the transitional arrangements available under Article 473a of the CRR. These arrangements allow the IFRS 9 impact on capital to be phased in over a period of 5 years. On 27 June 2020, due to the Covid-19 pandemic, the CRR was further amended to accelerate specific measures and implement a new IFRS 9 transitional relief calculation which applies additional relief to increases in ECL provisions arising as a result of the Covid-19 pandemic. As a result, the IFRS 9 transitional arrangements have been extended by two years and a new modified calculation has been introduced. Full relief will be applied to increases in stage 1 and stage 2 provisions from 1 January 2020 throughout 2020 and 2021, reducing to 75% in 2022, 50% in 2023 and 25% in 2024, with no relief applied from 2025. The phasing out of transitional relief on the 'day 1' impact of IFRS 9 as well as increases in stage 1 and stage 2 provisions between 1 March 2018 and 31 December 2019 under the modified calculation remain unchanged and continue to be subject to 70% transitional relief throughout 2020, 50% for 2021 and 25% for 2022, with no relief applied from 2023. As such, the values reported throughout this document are on a transitional basis with the fully loaded impact being shown in table IFRS 9-FL at Appendix 3.

The Group undertakes annual internal capital adequacy assessment, capital planning and long-term planning processes, which are all approved by the Board. The Group's capital plan and management actions seek to ensure that there is an adequate capital base to support the business and its strategic objectives. Regulatory capital headroom, capital adequacy and performance against capital plan are monitored closely with monthly reporting provided to the Board and the ALCO.

The internal capital adequacy assessment process considers all of the known risks faced by the Group, the probability of these risks occurring and how these are mitigated to derive the amount of Pillar 2 capital that is deemed appropriate to hold to absorb losses in a normal environment and in a stress scenario.

The PRA in its capacity as supervisor of the UK banking industry sets targets for, and monitors, the capital adequacy of the Group. Capital adequacy returns are submitted on a quarterly basis to the regulator. During the year to 28 February 2021, the Group and Company complied with all capital requirements.

Total Capital Requirement (TCR)

The regulatory minimum amount of total capital, under Pillar 1 of the regulatory framework, is determined as 8.0% of aggregate risk-weighted assets and the Pillar 1 capital requirements referenced in this document are calculated using this regulatory minimum amount.

At least 4.5% of risk-weighted assets are required to be covered by Common Equity Tier 1 (CET1) capital and at least 6% of risk-weighted assets are required to be covered by Tier 1 capital. These minimum Pillar 1 requirements are supplemented by additional minimum requirements under Pillar 2A of the regulatory framework. The aggregate of Pillar 1 and 2A requirements is referred to as the Group's Total Capital Requirement (TCR). The TCR for the Group as at 28 February 2021 is 11.59% of risk-weighted assets plus £52m as a static add-on for pension risk. The PRA requires firms to meet Pillar 2A with at least 56.25% CET1 capital, no more than 43.75% Additional Tier 1 (AT1) capital and no

Capital (continued)

more than 25% Tier 2 capital. The group has no AT1 capital resources so it must meet the full Tier 1 capital requirement with CET1.

The Group has adopted the Standardised Approach for calculating Pillar 1 minimum capital requirements for Credit Risk, Market Risk and Operational Risk as detailed below. This approach uses standard industry-wide risk weightings, prescribed by the regulator, based on a detailed classification of asset types. It allows banks to use external credit ratings to inform the risk weightings for rated counterparties. Other counterparties are grouped into categories with set risk weightings applied to each.

Capital requirement for Credit Risk (Page 36): 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. Principal sources of exposures for the Group include loans and advances to individuals, debt securities and undrawn commitments.

Capital requirement for Counterparty Credit Risk (CCR) (Page 60): CCR is the risk that the counterparty to a transaction will default before the final settlement of the transaction's cash flows. Such transactions relate to contracts for derivative financial instruments, securities financing transactions and long-dated settlement transactions.

The Group uses the CCR Mark to Market method to measure the exposure value calculated as market value plus an add-on for potential future exposure (PFE), prior to being risk weighted under the Standardised Approach, which takes account of the external credit rating of the counterparty and residual maturity of the exposure.

The Counterparty Credit Risk framework also includes a Credit Valuation Adjustment (CVA) for the fair value of Counterparty Credit Risk for derivative transactions. It represents the capital charge for potential Mark to Market losses due to the credit quality deterioration of a counterparty that does not necessarily end with a default. The Group calculates Counterparty Credit Risk for CVA on derivative transactions, with the exception of those that are centrally cleared with a qualifying central counterparty, using the Standardised Approach.

Capital requirement for Equity (Page 59): all equity exposures are calculated under the Standardised Approach.

Capital requirement for Securitisation and Covered Bond Exposures (Page 62): A separate framework exists for the calculation of risk weighted assets relating to securitisation exposures. The Group has entered into securitisation transactions in which it assigns credit card receivables to a Special Purpose Entity (Delamare Cards Receivables Trustee Ltd). The securitisation does not meet the criteria for Significant Risk Transfer, and accordingly the assets securitised are shown as assets of the Group as part of retail credit risk exposures.

Capital requirement for Operational Risk (Page 69): Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The Group calculates Pillar 1 operational risk capital using the Standardised Approach. The standardised calculation is derived from a percentage of income, averaged over the last three years.

Capital requirement for Market Risk (Page 66): Market Risk is defined as the risk that movements in market prices (such as interest rates, foreign exchange rates and the market value of financial instruments) lead to a reduction in either the Bank’s earnings or capital. The Group has a small amount of foreign exchange risk which is de minimis under Article 351 of the CRR.

Pillar 2 - other principal risks

Pillar 2 covers other principal risks and any associated capital requirements. The other principal risks include: Regulatory risk, the impact of the Covid-19 pandemic, the political and economic uncertainty following the Brexit result and investment risk relating to Pension Obligations. These risks are discussed from Page 72 onwards.

Capital (continued)

Own Funds

The following tables present the Group's Own Funds as at 28 February 2021.

Own Funds for the Company, being the main subsidiary, is disclosed in Appendix 4, as required by the CRR.

The following table presents the Group's key metrics at a consolidated level with further detail provided for capital in CRR: Own Funds disclosure template on Page 24 and Leverage Ratio on Page 30. Further information relating to Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) is provided on Page 33. End point disclosures are included in Appendix 3.

BCBS KM1: Key metrics (at consolidated group level)

		February 2021	February 2020
	Available Capital (£m)		
1	Common Equity Tier 1 (CET 1)	1,721.7	1,721.6
2	Tier 1	1,721.7	1,721.6
3	Total Capital	1,935.6	1,935.6
	Risk-weighted assets (£m)		
4	Total risk-weighted assets (RWA)	6,805.0	8,310.1
	Risk-based capital ratio as a percentage of RWA		
5	Common Equity Tier 1 ratio (%)	25.3%	20.7%
6	Tier 1 ratio (%)	25.3%	20.7%
7	Total capital ratio (%)	28.4%	23.3%
	Additional CET 1 buffers requirements as a percentage of RWA		
8	Capital conservation buffer requirement (%)	2.5%	2.5%
9	Countercyclical buffer requirement (%)	0.0%	1.0%
11	Total of bank CET1 specific buffer requirements	2.5%	3.5%
12	CET1 available after meeting the banks minimum capital requirements buffers	19.3%	14.7%
	Basel III Leverage Ratio		
13	Total Basel III Leverage Ratio exposure method (£m)	10,138.0	12,761.6
14	Basel III Leverage Ratio (%)	17.0%	13.5%
	Liquidity Coverage Ratio		
17	LCR ratio (%)	258.5%	266.2%
	Net Stable Funding Ratio		
20	NSFR ratio (%)	127.7%	129.3%

Capital (continued)

The following table provides a breakdown of the constituent elements of the Group's Capital.

CRR: Own funds disclosure template

	Common Equity Tier 1 Capital: Instruments and Reserves	Notes	EU CC2	February 2021 £m	February 2020 £m
1	Capital instruments and the related share premium accounts			1,220.2	1,220.2
	of which: ordinary share capital		*e,f*	1,220.2	1,220.2
2	Retained earnings	*i*		732.2	567.9
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)		*g*	24.9	29.5
5a	Independently reviewed interim profits net of any foreseeable charge or dividend			(125.3)	43.0
6	Common Equity Tier 1 capital before regulatory adjustments	*i*		1,852.0	1,860.6
	Common Equity Tier 1 capital: regulatory adjustments				
7	Additional value adjustments			–	(1.1)
8	Intangible assets (net of related tax liability)		*c*	(130.9)	(138.2)
11	Fair value reserves related to gains or losses on cash flow hedges		*h*	0.6	0.3
28	Total regulatory adjustments to Common Equity Tier 1	*ii*		(130.3)	(139.0)
29	Common Equity Tier 1 capital			1,721.7	1,721.6
45	Tier 1 capital (Tier1 + Common Equity Tier 1 + Additional Tier 1)			1,721.7	1,721.6
	Tier 2 capital: instruments and provisions				
46	Capital instruments and the related share premium accounts		*d*	235.0	235.0
51	Tier 2 capital before regulatory adjustments	*iii*		235.0	235.0
	Tier 2 capital: regulatory adjustments				
55	Direct and indirect holdings by the institution of the Tier 2 instruments and the subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions)		*a*	(21.1)	(21.0)
57	Total regulatory adjustments to Tier 2 capital	*iv*		(21.1)	(21.0)
58	Tier 2 capital			213.9	214.0
59	Total capital (Total Capital = Tier 1 + Tier 2)			1,935.6	1,935.6
60	Total Risk Weighted Assets			6,805.0	8,310.1
	Capital ratios and buffers				
61	Common Equity Tier 1 (as a % of risk exposure amount)			25.3%	20.7%
62	Tier 1 (as a % of risk exposure amount)			25.3%	20.7%
63	Total capital (as a % of risk exposure amount)			28.4%	23.3%
64	Institution specific buffer requirements (Common Equity Tier 1 requirement in accordance with Article 92(1) a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (Global or Other systemically important buffer) expressed as a % of risk exposure amount)			7.0%	8.0%
65	of which: capital conservation buffer requirement			2.5%	2.5%
66	of which: countercyclical buffer requirement			0.0%	1.0%
68	Common Equity Tier 1 available to meet buffers (as a % of risk exposure amount)			19.3%	14.7%
	Amounts below the thresholds for deduction (before risk weighting)				
73	Direct and indirect holdings of the Common Equity Tier 1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)		*b*	60.6	60.6

Capital (continued)

Notes for CRR: Own Funds disclosure:

i) Common Equity Tier 1 Capital

Tier 1 capital is a component of regulatory capital defined by the CRR, comprising Common Equity Tier 1 capital and Additional Tier 1 capital.

Common Equity Tier 1 capital is the highest form of regulatory capital under Basel III that comprises shares issued and related share premium, retained earnings and other reserves net of regulatory adjustments.

Retained earnings includes an adjustment of £262.9m (2020: £141.6m) relating to the application of transitional arrangements regarding IFRS 9 which allows the impact on capital to be phased in over an extended period.

The Group's Tier 1 capital is wholly comprised of Common Equity Tier 1.

ii) Regulatory Adjustments from Tier 1 Capital

The Additional Value Adjustment represents the Prudential Valuation Adjustment required by the CRR which the Group calculates using the Simplified Approach.

The Intangible Assets deduction relates to computer software and development costs in relation to the Group's operational platforms. During the year, as a response to the Covid-19 pandemic, the EU accelerated some of the beneficial elements of CRR 2 which had originally been scheduled to come into force in June 2021. This included the beneficial prudential treatment of software assets in December 2020, prior to the end of the Brexit transition period, allowing institutions to risk weight certain software assets rather than fully deducting them from CET1. The PRA issued a statement during December 2020 and a subsequent consultation paper in February 2021 which includes a proposal to reverse the EU changes to software asset deduction rules. The PRA have recommended that firms do not base any funding or distribution plans on any capital increase resulting from the EU changes. In light of this and the PRA's strong steer on the likely outcome of the consultation, the Group has elected to use the provisions within Recital 6 of the EU Regulation (EU) 2020/2176 which states that 'the standardised prudential treatment should not prevent an institution from continuing to fully deduct its software assets from Common Equity Tier 1 items'. The Group has therefore continued to fully deduct software assets from CET1. The reported capital ratios include no temporary uplift arising from the change to regulation.

The Fair Value reserves adjustment in relation to gains or losses on Cash Flow Hedges represents those gains or losses made which are not yet realised.

iii) Tier 2 Capital

Tier 2 capital is a component of regulatory capital comprising qualifying subordinated loan capital.

All dated and undated subordinated debt held is issued by the Company to Tesco Personal Finance Group plc which, in turn, has issued similar debt to Tesco PLC.

The undated and dated subordinated debt instruments comply with current CRD requirements. The undated floating rate notes have no fixed maturity date and may not be repaid except under certain conditions such as the winding up of the Company and/or Tesco Personal Finance Group plc. The dated floating rate subordinated loans are repayable, in whole or in part, at the option of the issuer, prior to maturity, on conditions governing the debt obligation. The earliest option call date is 31 March 2025 (contractual maturity 31 March 2030), but the debt may be repaid on any date if a regulatory or legislative change occurs that would result in the instrument no longer being eligible as Tier 2 capital.

Redemption can be in whole, or in part, at par value plus accrued interest. Interest payable is based on 3-month SONIA plus margin of 67 to 227 basis points.

Capital (continued)

iv) Regulatory Adjustments to Tier 2 Capital

The significant investments deduction represents the Company subordinated loan investment in Tesco Underwriting Ltd.

v) Capital Instruments - Main features

CRR Article 437 requires disclosure of the key features of the Group's capital instruments (Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments). The full disclosures are shown in Appendix 7 and include for each instrument:

- the governing law of the instruments;
- the instrument type, issue dates, nominal amounts, accounting classification and call option dates; and
- write-down features and sub-ordination for each instrument.

Capital Requirements

The following table shows the overall Pillar 1 minimum capital requirements and risk weighted assets for the Group under the Standardised Approach. The Company, being the main subsidiary is also disclosed in Appendix 4.

EU OV1: Overview of RWAs and minimum capital requirements

		February 2021 Risk weighted assets £m	February 2020 Risk weighted assets £m	February 2021 Minimum capital requirements £m
1	**Credit Risk (excluding CCR)**	**5,456.3**	**6,847.8**	**436.5**
2	Of which Standardised Approach (SA)	5,456.3	6,847.8	436.5
6	**Counterparty Credit Risk**	**0.1**	**3.0**	**–**
7	Of which Mark to Market	0.1	2.2	–
12	Of which CVA	–	0.8	–
23	**Operational Risk**	**1,197.2**	**1,307.9**	**95.8**
25	Of which Standardised Approach (SA)	1,197.2	1,307.9	95.8
27	**Amounts below thresholds for deduction (subject to 250% risk weight)**	**151.4**	**151.4**	**12.1**
29	**Total**	**6,805.0**	**8,310.1**	**544.4**

Notes for EU OV1:

Pillar 1 capital does not include foreign exchange exposure as this is de minimis under the CRR and includes Credit Valuation Adjustment risk which is required in line with CRR.

There is no capital requirement for Settlement Risk as the Group had no unsettled exposure at year end. Settlement Risk is the risk that a counterparty fails to deliver a security or its value in cash in accordance with contractual agreements after the other counterparty has already delivered a security or cash value in accordance with the same agreement.

Countercyclical Capital Buffer

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

The countercyclical capital buffer is calculated as the weighted average of the buffers in effect in the jurisdictions to which banks have a credit exposure.

The Financial Policy Committee of the Bank of England is responsible for setting the UK countercyclical capital buffer rate i.e. the rate that applies to relevant exposures of UK banks, building societies and large investment firms

Capital (continued)

incorporated in the UK. The UK countercyclical capital buffer rate (CCyB) is currently set at 0.0% (2020: 1.0%) following the decision on 11th March 2020 by the Financial Policy Committee to reduce the UK CCyB to 0% with immediate effect in response to the financial stability risks associated with the economic disruption resulting from the Covid-19 pandemic. Following its meeting in December 2020, the Financial Policy Committee confirmed that it expects the 0% rate to remain until at least Q4 of 2021. Due to the 12-month implementation lag, any subsequent increase is not expected to take effect until Q4 2022 at the earliest.

The countercyclical capital buffer consists entirely of Common Equity Tier 1 capital and, if the minimum buffer requirements are breached, capital distribution constraints will be imposed on the Group.

Capital (continued)

The Group's Countercyclical Capital Buffer Disclosure

The Group's relevant non-UK exposures as at 28 February 2021 equate to 0.06% of total relevant exposures. In line with the Regulatory Technical Standard, the Group has chosen to simplify the identification of exposures to non-UK entities and allocate them to the place of the institution (UK) on the basis that the Group's relevant non-UK exposures are less than 2% of the aggregate of credit, trading and securitisation exposures. The countercyclical buffer rates of other jurisdictions therefore have no impact on the Group's capital requirement. The following tables disclose information relevant for the calculation of the countercyclical capital buffer as at 28 February 2021 in accordance with Regulation (EU) 1152/2014.

CCyB1: Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer

Level of Application: Consolidated

February 2021

		General credit exposures		**Trading book exposures**		**Securitisation exposure**		**Own funds requirements**					
		Exposure value for Standardised Approach **010** **£m**	Exposure value for internal ratings basis **020** **£m**	Sum of long and short positions of trading book **030** **£m**	Value of trading book exposures for internal models **040** **£m**	Exposure value for Standardised Approach **050** **£m**	Exposure value for internal ratings basis **060** **£m**	Of which: General credit exposures **070** **£m**	of which: Trading book exposures **080** **£m**	of which: Securitisation exposures **090** **£m**	TOTAL **100** **£m**	Own funds requirements weights **110**	Countercyclical capital buffer rate **120**
010	**Breakdown by country:**												
	UK	7,427.4	–	–	–	–	–	441.3	–	–	441.3	1.0	0.0%
020	**Total**	**7,427.4**	**–**	**–**	**–**	**–**	**–**	**441.3**	**–**	**–**	**441.3**	**1.0**	

February 2020

		General credit exposures		**Trading book exposures**		**Securitisation exposure**		**Own funds requirements**					
		Exposure value for Standardised Approach **010** **£m**	Exposure value for internal ratings basis **020** **£m**	Sum of long and short positions of trading book **030** **£m**	Value of trading book exposures for internal models **040** **£m**	Exposure value for Standardised Approach **050** **£m**	Exposure value for internal ratings basis **060** **£m**	Of which: General credit exposures **070** **£m**	of which: Trading book exposures **080** **£m**	of which: Securitisation exposures **090** **£m**	TOTAL **100** **£m**	Own funds requirements weights **110**	Countercyclical capital buffer rate **120**
010	**Breakdown by country:**												
	UK	9,295.6	–	–	–	–	–	551.0	–	–	551.0	1.0	1.0%
020	**Total**	**9,295.6**	**–**	**–**	**–**	**–**	**–**	**551.0**	**–**	**–**	**551.0**	**1.0**	

CCyB2: Amount of institution specific countercyclical capital buffer

		February 2021 **010**	**February 2020** **010**
010	Total risk exposure amount (£m)	6,805.0	8,310.1
020	Institution specific countercyclical capital buffer rate	0.0%	1.0%
030	Institution specific countercyclical capital buffer requirement (£m)	–	83.1

Capital (continued)

Capital Conservation Buffer

The capital conservation buffer is a general buffer of risk-weighted assets designed to provide for losses in the event of stress, this is maintained at 2.5%.

Constraints on capital buffers

Both the countercyclical buffer and capital conservation buffer may be subject to constraints under certain conditions. The constraints which may be imposed relate only to capital distributions and limits on certain remuneration. The Group is not subject to any constraints.

Leverage Ratio

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

It is defined as the ratio of Tier 1 capital to the total Leverage Ratio exposures and applies an equal weighting to all assets regardless of their risk.

At present the Group has no minimum UK leverage requirement as it is currently exempt from the UK Leverage Framework Regime, which only applies to institutions with retail deposit levels of £50 billion or more.

Description of the processes used to manage the risk of excessive leverage:

The Leverage Ratio is embedded as part of the Group’s capital planning process and is considered in line with Common Equity Tier 1 capital and risk-based asset ratios as part of the long-term plan. The Treasury Committee monitors the performance of the Leverage Ratio to the long-term plan on a monthly basis. Management actions are recommended to the ALCO to prevent the Group from being excessively leveraged and to seek to ensure that capital ratios remain in excess of minimum capital requirements in normal circumstances and in periods of stress.

Description of the factors that had an impact on the Leverage Ratio during the period to which the disclosed Leverage Ratio refers:

The Group's Leverage Ratio has increased to 17.0% as at 28 February 2021 (2020: 13.5%), driven by the reduction in Retail asset balances.

The Group's Leverage Ratio Disclosure

The following Leverage Ratio disclosures for the year ended 28 February 2021 are laid out in accordance with the requirements of Regulation (EU) 2016/200.

The Leverage Ratio disclosures of the Company are reported within Appendix 4.

EU LRSum: Summary reconciliation of accounting assets and Leverage Ratio exposures

		February 2021 Applicable Amounts £m	February 2020 Applicable Amounts £m
1	Total assets as per published financial statements	8,823.4	11,645.2
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	(32.6)	(25.4)
4	Adjustments for derivative financial instruments	(1.7)	3.6
5	Adjustments for securities financing transactions "SFTs"	–	–
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	1,266.8	1,187.2
7	Other adjustments	82.1	(49.0)
8	**Total Leverage Ratio exposure**	**10,138.0**	**12,761.6**

Leverage Ratio (continued)

EU LRCom: Leverage Ratio common disclosure

		February 2021 CRR Leverage Ratio exposures £m	February 2020 CRR Leverage Ratio exposures £m
On-balance sheet exposures (excluding derivatives and securities financing transactions "SFT"s)			
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	8,784.7	11,614.2
2	Asset amounts deducted in determining Tier 1 capital	123.4	(2.6)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	**8,908.1**	**11,611.6**
Derivative exposures			
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	–	1.5
5	Add-on amounts for PFE associated with *all* derivatives transactions (Mark to Market method)	4.4	7.8
7	Deductions of receivables assets for cash variation margin provided in derivatives transactions	(41.3)	(46.5)
11	**Total Derivative exposure (sum of lines 4 to 10)**	**(36.9)**	**(37.2)**
Securities financing transaction exposures			
14	Counterparty Credit Risk exposure for SFT assets	–	–
16	**Total securities financing transaction exposures (sum of lines 12 to 15a)**	**–**	**–**
Other off-balance sheet exposures			
17	Other off-balance sheet exposures at gross notional amount	12,668.0	11,872.1
18	Adjustments for conversion to credit equivalent amounts	(11,401.2)	(10,684.9)
19	**Other off-balance sheet exposures (sum of lines 17 to 18)**	**1,266.8**	**1,187.2**
Capital and total exposures			
20	**Tier 1 capital**	**1,721.7**	**1,721.6**
21	**Total Leverage Ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	**10,138.0**	**12,761.6**
Leverage Ratio			
22	**Leverage Ratio**	**17.0%**	**13.5%**

EU LRSpl: Leverage Ratio: Split-up of on-balance sheet exposures (excluding derivatives, securities financing transactions and exempted exposures)

		February 2021 CRR Leverage Ratio exposures £m	February 2020 CRR Leverage Ratio exposures £m
EU-1	Total on-balance sheet exposures (excluding derivatives, securities financing transactions and exempted exposures), of which:	8,784.7	11,614.2
EU-3	Banking book exposures, of which:	8,784.7	11,614.2
EU-4	Covered bonds	298.9	286.7
EU-5	Exposures treated as sovereigns	1,379.4	2,067.7
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	6.5	–
EU-7	Institutions	148.3	275.4
EU-9	Retail exposures	6,329.4	8,360.3
EU-10	Corporate	30.8	35.8
EU-11	Exposures in default	89.9	100.9
EU-12	Other exposures (e.g. equity, securitisation, and other non-credit obligation assets)	501.5	487.4

Liquidity and Funding Risk

Liquidity and Funding Risk Management

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

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

The Treasury Director reports directly to the Chief Financial Officer and together they are responsible for managing the allocation and maintenance of the Group's capital, funding and liquidity. This includes the ownership of the Liquidity and Funding Risk Management policy (LFRMP) which sets the parameters and processes within which liquidity and funding are managed within the stated Risk Appetite.

Risk Appetite Statement

The Board's Risk Appetite is to maintain an adequate liquidity profile under normal and stressed conditions and a balance sheet structure that limits reliance on potentially unstable sources of funding. This is supported by a range of metrics, limits and triggers that are continuously monitored and regularly reported to the Board.

Risk Appetite Measures

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

- the internal liquidity requirement;
- the individual liquidity guidance;
- the net stable funding ratio;
- the wholesale funding ratio;
- the 12-month wholesale maturity concentration limit;
- the asset encumbrance ratio;
- the loan to deposit ratio; and
- unencumbered assets to retail liabilities ratio.

The Group measures and manages liquidity in line with the above metrics and maintains a funding and liquidity profile to enable it to meet its financial obligations under normal, and stressed, market conditions. The internal liquidity requirement seeks to ensure that the Group maintains adequate liquid assets to survive a defined stress scenario for a sufficient period as defined by Risk Appetite. The individual liquidity guidance requires the Group to maintain a portfolio of high-quality liquid assets sufficient to meet Pillar 1 and Pillar 2 liquidity requirements during periods of market dislocation and stress over a 30-day period.

Liquidity and Funding Risk (continued)

Controls and risk mitigants

Liquidity & Funding Risk is assessed through the internal liquidity adequacy assessment process on at least an annual basis. This process involves detailed consideration of the following:

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

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

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

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

The Treasury Director is responsible for formulating and obtaining Board approval for an annual funding plan as part of the overall business planning process. The Group is predominantly funded by its retail deposit base which reduces reliance on wholesale funding and results in minimal short-term wholesale funding. A significant part of these retail deposits are repayable on demand on a contractual basis. The Group continuously monitors retail deposit activity so that it can reasonably predict expected maturity flows. These instruments form a stable funding base for the Group's operations because of the broad customer base and the behaviours exhibited.

Liquidity Risk Metrics - Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR)

The Group's LCR is 258.5% (2020: 266.2%). The Group's NSFR is 127.7% (2020: 129.3%).

The LCR has decreased by 7.7% during the year. Customer lending and customer deposits have reduced broadly in line with each other and in combination with an ongoing liquidity surplus from the 2019 Mortgage business sale, allowed the Group to repay maturing wholesale funding.

The NSFR has decreased by 1.6%, as a result of lower overall consumer spending and new business volumes in the year driven by the Covid-19 pandemic. This has been offset by a planned decrease in retail savings and no requirement to replace maturing wholesale funding.

Neither ratios were materially affected by the Group's decision to offer payment holidays and fee-free access to funds for customers suffering financial hardship as a result of the Covid-19 pandemic.

The Group's liquidity comprises extremely high and high-quality sterling liquid assets with retail deposits remaining the main funding source. The Group has minimal currency mismatch in LCR and low risk of potential collateral calls since most derivatives are centrally cleared and are covered by initial and variation margin.

The following table shows a breakdown of the cash outflows and inflows, as well as available high-quality liquid assets (HQLA), as measured and defined according to the LCR standard.

Liquidity and Funding Risk (continued)

LIQ1: Liquidity Coverage Ratio

		2021									
		Total unweighted value (average) £m					Total weighted value (average) £m				
		At 31 March 2020	At 30 June 2020	At 30 Sep 2020	At 31 Dec 2020	At 28 Feb 2021	At 31 March 2020	At 30 June 2020	At 30 Sep 2020	At 31 Dec 2020	At 28 Feb 2021
High-Quality Liquid Assets											
1	Total high-quality liquid assets (HQLA)						2,595.2	2,721.1	2,403.4	2,001.4	1,880.9
Cash Outflows											
2	**Retail deposits and deposits from small business customers, of which:**	5,872.3	5,325.3	4,834.0	4,542.8	4,390.0	660.8	580.7	502.6	446.2	413.8
3	Stable deposits	2,553.4	2,531.8	2,567.7	2,645.1	2,702.9	127.7	126.6	128.4	132.3	135.1
4	Less stable deposits	3,277.5	2,749.1	2,219.7	1,855.4	1,648.6	491.8	409.6	327.6	271.6	240.2
5	**Unsecured wholesale funding:**	5.4	5.8	5.9	17.9	19.2	5.4	5.8	5.9	17.9	19.2
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	–	–	–	–	–	–	–	–	–	–
7	Non-operational deposits (all counterparties)	–	–	–	–	1.3	–	–	–	–	1.3
8	Unsecured debt	5.4	5.8	5.9	17.9	17.9	5.4	5.8	5.9	17.9	17.9
9	**Secured wholesale funding**						36.8	31.3	16.7	–	–
10	**Additional requirements**	23.7	23.6	24.8	24.7	24.7	23.7	23.6	24.8	24.7	24.7
11	Outflows related to derivative exposures and other	23.7	23.6	24.8	24.7	24.7	23.7	23.6	24.8	24.7	24.7
12	Outflows related to loss of funding on debt products	–	–	–	–	–	–	–	–	–	–
13	Credit and liquidity facilities	–	–	–	–	–	–	–	–	–	–
14	**Other contractual funding obligations**	35.5	32.6	34.3	35.5	30.0	4.3	4.3	4.2	4.2	–
15	**Other contingent funding obligations**	11,892.9	12,013.1	12,134.1	12,290.9	12,431.7	500.8	427.1	376.2	345.1	335.0
16	**TOTAL CASH OUTFLOWS**						**1,231.8**	**1,072.8**	**930.4**	**838.1**	**792.7**
Cash Inflows											
17	**Secured lending (e.g. reverse repos)**	–	–	–	–	–	–	–	–	–	–
18	**Inflows from fully performing exposures**	217.5	206.9	195.6	188.4	190.5	108.8	103.5	97.9	94.2	95.3
19	Other cash flows	0.3	0.4	0.8	0.8	0.8	0.3	0.4	0.8	0.8	0.8
EU-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)						–	–	–	–	–
EU-19b	(Excess inflows from a related specialised credit institution)						–	–	–	–	–
20	**TOTAL CASH INFLOWS**	217.8	207.3	196.4	189.2	191.3	109.1	103.9	98.7	95.0	96.1
EU-20a	***Fully exempt flows***	–	–	–	–	–	–	–	–	–	–
EU-20b	***Inflows subject to 90% cap***	–	–	–	–	–	–	–	–	–	–
EU-20c	***Inflows subject to 75% cap***	217.8	207.3	196.4	189.2	191.3	109.1	103.9	98.7	95.0	96.1
							Total adjusted value				
21	**Liquidity buffer**						2,595.2	2,721.1	2,403.4	2,001.4	1,880.9
22	**Total net cash outflows**						1,122.7	968.9	831.7	743.1	696.6
23	**Liquidity Coverage Ratio (%)**						238.7%	287.2%	289.8%	268.6%	268.9%

Liquidity and Funding Risk (continued)

		2020									
		Total unweighted value (average) £m					Total weighted value (average) £m				
		At 31 March 2019	At 30 June 2019	At 30 Sep 2019	At 31 Dec 2019	At 29 Feb 2020	At 31 March 2019	At 30 June 2019	At 30 Sep 2019	At 31 Dec 2019	At 29 Feb 2020
High-Quality Liquid Assets											
1	Total high-quality liquid assets (HQLA)						1,934.7	1,966.2	2,266.2	2,521.0	2,569.7
	Cash Outflows										
2	**Retail deposits and deposits from small business customers, of which:**	6,876.3	6,923.1	6,783.6	6,387.7	6,048.4	813.3	812.8	791.4	733.8	685.4
3	Stable deposits	2,454.2	2,547.0	2,575.2	2,586.5	2,569.9	122.7	127.3	128.8	129.3	128.5
4	Less stable deposits	4,384.1	4,340.8	4,173.2	3,763.5	3,438.6	652.7	650.2	627.4	566.7	517.0
5	**Unsecured wholesale funding:**	10.7	10.7	–	5.4	5.4	10.7	10.7	–	5.4	5.4
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	–	–	–	–	–	–	–	–	–	–
7	Non-operational deposits (all counterparties)	–	–	–	–	–	–	–	–	–	–
8	Unsecured debt	10.7	10.7	–	5.4	5.4	10.7	10.7	–	5.4	5.4
9	**Secured wholesale funding**						3.1	5.4	20.1	36.8	36.8
10	**Additional requirements**	48.3	42.1	36.0	29.8	25.6	48.3	42.1	36.0	29.8	25.6
11	Outflows related to derivative exposures and other	48.3	42.1	36.0	29.8	25.6	48.3	42.1	36.0	29.8	25.6
12	Outflows related to loss of funding on debt products	–	–	–	–	–	–	–	–	–	–
13	Credit and liquidity facilities	–	–	–	–	–	–	–	–	–	–
14	**Other contractual funding obligations**	40.2	38.9	34.8	36.3	35.9	4.3	4.3	4.4	4.4	4.3
15	**Other contingent funding obligations**	12,290.4	12,228.2	12,102.4	11,960.5	11,909.6	686.1	666.6	622.2	566.2	525.0
16	**TOTAL CASH OUTFLOWS**						**1,565.8**	**1,541.9**	**1,474.1**	**1,376.4**	**1,282.5**
	Cash Inflows										
17	**Secured lending (e.g. reverse repos)**	–	–	–	–	–	–	–	–	–	–
18	**Inflows from fully performing exposures**	187.5	213.1	230.9	229.6	221.3	93.8	106.6	115.5	114.8	110.6
19	Other cash flows	0.1	0.2	0.2	0.3	0.3	0.1	0.2	0.2	0.3	0.3
EU-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)						–	–	–	–	–
EU-19b	(Excess inflows from a related specialised credit institution)						–	–	–	–	–
20	**TOTAL CASH INFLOWS**	187.6	213.3	231.1	229.9	221.6	93.9	106.8	115.7	115.1	110.9
EU-20a	***Fully exempt flows***	–	–	–	–	–	–	–	–	–	–
EU-20b	***Inflows subject to 90% cap***	–	–	–	–	–	–	–	–	–	–
EU-20c	***Inflows subject to 75% cap***	187.6	213.3	231.1	229.9	221.6	93.9	106.8	115.7	115.1	110.9
							Total adjusted value				
21	**Liquidity buffer**						1,934.7	1,966.2	2,266.2	2,521.0	2,569.7
22	**Total net cash outflows**						1,471.9	1,435.1	1,358.4	1,261.3	1,171.6
23	**Liquidity Coverage Ratio (%)**						131.8%	137.6%	169.8%	206.0%	226.5%

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. The Group's aim in relation to Credit Risk is to lend responsibly, ensuring that the Credit Risk profile remains within agreed parameters as articulated in the Risk Appetite.

All lending is subject to underwriting processes and the performance of all exposures is monitored closely. Regular management reports are submitted to the Board and appropriate Committees.

Credit Risk within the Group arises principally from retail lending activities but also from placement of surplus funds with other banks, investments in transferable securities and interest rate and foreign exchange derivatives. In addition, Credit Risk arises from contractual arrangements with third parties where payments and commissions are owed to the Group for short periods of time. Credit Risk may also materialise when an adverse change in an entity's credit rating causes a fall in the fair value of the Group's holding of that entity's financial instrument.

The development, management, execution and monitoring of Credit Risk management strategy is performed within the First Line of Defence. This work is underpinned by credit policy and oversight frameworks which are owned by the Second Line of Defence.

The Chief Risk Officer together with the Financial & Credit Risk Director, are responsible for:

- developing Credit Risk policies, tools and frameworks deployed across the business;
- providing oversight of Credit Risk activities undertaken by the first line; and
- monitoring credit performance.

The Group maintains a suite of policies defining the minimum requirements for the management of credit activities, including the Credit Risk policy, Wholesale Credit Risk policy, Model Risk policy, Collections and Recoveries policy, and Provisioning policy. All Credit Risk policies are subject to at least a biennial review, or earlier if there is a trigger for policy review such as a regulatory change with the Level 1 Credit Risk policy being approved by the Board.

Credit Risk policies are supported by a range of processes and procedures that cover the activities undertaken throughout the credit life cycle. Management information is produced for different audiences within the governance framework to allow monitoring of policy compliance. The Risk Appetite Measures are of significant importance, with supporting limits and tolerances that allow the Group to track performance. Trends are also identified that could act as an early warning that performance may move outside Risk Appetite in the future.

Retail Credit Risk

Retail Credit Risk is the risk that a borrower, who is a personal customer, will default on a debt or obligation by failing to make contractually obligated payments. The Group is following FCA guidance, recently updated due to the Covid-19 pandemic, in relation to those Credit Card customers defined as being in Persistent Debt.

Risk Appetite Statement

The Group has set a Risk Appetite based on bad debt to asset ratio and profit volatility triggers and limits.

Credit Risk (continued)

Risk Appetite Measures

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

- Bad debt impact in a stress scenario as a % of Profit before Tax (Profit Volatility);
- Product Level Default rate guardrails;
- Product Level Minimum Net Present Value/Internal Rate of Return;
- Bad Debt to Asset Ratio; and
- Higher risk concentrations and demographics

Controls and risk mitigants

To minimise the potential for the Group to be exposed to levels of bad debt that are outside Risk Appetite, processes, systems and limits have been established that cover the end to end Retail Credit Risk customer life cycle, the key components of which are outlined below:

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

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

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

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

Covid-19 impact and responses

The macro-economic outlook deteriorated significantly due to the Covid-19 pandemic. This resulted in a significant increase in credit risk provisions to account for the future rise in expected defaults and the potential for reduced recoverability relating to customers in arrears. Planning for the timing of these defaults through the Covid-19 pandemic stress has proven difficult due to the various customer, regulatory and Government support measures that are in place. These measures have reduced the overall impact of the stress but have meant that, although projected levels of unemployment remain high, the Group is yet to see significant defaults emerge in its lending portfolio.

The Group has improved its IFRS 9 models that are used to evaluate the impact of various macro-economic scenarios and has regularly benchmarked its macro-economic outlook against other external forecasts to ensure its ECL provisions remain at appropriate levels.

Prior to the start of the Covid-19 pandemic, the Group already had a suite of early warning indicators in place, together

Credit Risk (continued)

with playbooks for a range of economic scenarios. These playbooks were deployed in response to the Covid-19 pandemic recession, resulting in a range of actions to tighten credit underwriting criteria. The Group's risk appetite framework was also enhanced to limit exposure to certain higher risk segments.

The performance of the credit portfolios is actively monitored and, during the Covid-19 pandemic stress, this has included evaluating the credit quality of customers accessing payment holiday support and their subsequent performance at the end of the payment holiday period. Analysis was also undertaken to understand which customers will be more or less impacted by the Covid-19 pandemic. These activities help ensure that the Group's underwriting controls remain appropriate for the latest macroeconomic outlook. Management has applied specific adjustments to the Group's modelled ECL provision to capture the estimated impact of the stress within the Group's ECL provision.

Wholesale Credit Risk

Wholesale Credit Risk is the risk that a counterparty to a transaction will default before the final settlement of the transaction cash flows. Such transactions relate to contracts for derivative financial instruments, securities financing transactions and long-dated settlement transactions. The Group does not operate in the mainstream commercial or corporate lending market. However, the Group is exposed to Wholesale Credit Risk primarily through Treasury activities, as a result of cash management, liquidity, and market risk management, with the inherent risk that these counterparties could fail to meet their obligations.

Risk Appetite Statement

The Group has a wholesale credit risk appetite commensurate with only those activities required to support the retail business. This includes maintaining adequate liquidity, facilitating debt and capital issuance, market risk management and non-treasury supplier relationships.

Risk Appetite Measures

Risk appetite is conservative, with total regulatory capital allocated to mitigate potential wholesale credit loss in an ICAAP level stress.

Controls and risk mitigants

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

The Risk Appetite Measure limits are set out in the Wholesale Credit Risk Policy which is approved by the Board. The limits contained in the Policy are approved by the Board. The Treasury Director is responsible for ensuring that the Treasury function complies with Counterparty Credit Risk (CCR) limits. The Market and Liquidity Risk team, reports to the Financial & Credit Risk Director, providing independent oversight that these limits are adhered to.

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

The Wholesale Credit Risk limit framework is designed to prevent wholesale credit losses outside of Risk Appetite. Exposure to Wholesale Credit Risk is controlled based on a hierarchy of limits where financial institution, corporate, sovereign, central bank and multilateral development bank exposures at an aggregate level are capped by credit rating and country limits.

Wholesale Credit Risk Limits restrict the amounts that can be invested based on counterparty creditworthiness by country, instrument type and remaining tenor. As part of the credit assessment process for wholesale credit risk

Credit Risk (continued)

exposures, the Group uses the external credit ratings issued by Fitch (as the nominated external credit assessment institution) to help determine the appropriate risk weighting to apply under the Standardised Approach to credit risk exposures. The Wholesale Credit Risk Policy is set by the Board and any new counterparty limits, policy exceptions or overrides must follow delegated authorities agreed by the Board.

The Wholesale Credit Risk Policy also details that credit risk mitigation techniques are applied to reduce wholesale credit risk exposures. International Swaps and Derivatives Association (ISDA) master agreements are in place with all derivative counterparties, Global Master Repurchase Agreements are in place for all repurchase counterparties and ISDA Credit Support Annexes have been executed with all of the Group's derivative counterparties. The Group uses central counterparties (CCP's) in order to clear specified derivative transactions (predominantly interest rate swaps) thereby mitigating Counterparty Credit Risk. Positions are continuously marked to market and margin in the form of collateral is exchanged on at least a daily basis. As at 28 February 2021, no additional credit risk mitigation was deemed necessary.

Concentration risk

Concentration risk is the risk of losses arising as a result of concentrations of exposures to a specific counterparty, economic sector, segment or geographical region. The Group could become exposed to this risk were it to become concentrated in certain geographic areas or product profiles e.g. a disproportionate level of high value unsecured personal loans. Such concentrations could result in increased levels of bad debts in some adverse but plausible situations.

Controls and risk mitigants

The Group mitigates these potential concentration risks by establishing appropriate limits and trigger thresholds that are regularly monitored and reported to the appropriate senior management team and risk committees. An assessment of credit concentration is also undertaken as part of the internal capital adequacy assessment process. The Group does not consider itself to be overly concentrated, other than its geographic concentration as a UK business.

Wrong Way Risk

Wrong Way Risk is defined, by the ISDA, as the risk that occurs when exposure to a counterparty is adversely correlated with the credit quality of that counterparty. In short it arises when default risk and credit exposure increase together.

The Group's Wholesale Credit Risk policy prohibits a repurchase counterparty and the issuer of the collateral from being the same, or related, entities. This does not apply to UK Government or related entity exposures. Other than this, the Group has no exposure to Wrong Way Risk.

Third Party Credit Exposures

The Group has a number of contracts with third parties that involve the receipt of fees or commissions. Third party credit exposure arises through the risk that these payments may not be received. The requirements for management of these exposures are detailed in the Wholesale Credit Risk policy with limits in place to manage these exposures. Exposures and limit breaches are reported to the ERC, BRC and the Board.

Credit Risk (continued)

Credit Risk under the Standardised Approach

This table provides information on the main sources of differences (other than those due to different scopes of consolidation, which are shown in Template EU LI1) between the financial statements' carrying value amounts and the exposure amounts used for regulatory purposes. The main difference arises due to the regulatory credit conversion factors applied to off balance sheet exposures.

EU LI2: Main sources of differences between regulatory exposure amounts and carrying values in financial statements

		February 2021				
				Items subject to		
		Total	Credit Risk Framework	Counterparty Credit Risk Framework	Securitisation Framework	Market Risk Framework
		a	b	c	d	e
		£m	£m	£m	£m	£m
1	Assets carrying value under the scope of regulatory consolidation (as per template EU LI1)	8,627.2	8,621.1	6.1	–	–
2	Liabilities carrying value under the scope of regulatory consolidation (as per EU LI1)	47.4	41.3	6.1	–	–
3	Total net amount under the scope of regulatory consolidation	8,579.8	8,579.8	–	–	–
4	Off balance sheet amounts	12,668.0	–	–	–	–
5	Net potential future exposures	4.4	–	4.4	–	–
6	Differences due to different netting rules, other than those already included in row 2	–	–	–	–	–
7	Differences due to consideration of provisions	–	–	–	–	–
8	Differences due to prudential filters	266.0	266.0	–	–	–
10	**Exposure amounts considered for regulatory purposes**	**21,518.2**	**8,845.8**	**4.4**	**–**	**–**

		February 2020				
				Items subject to		
		Total	Credit Risk Framework	Counterparty Credit Risk Framework	Securitisation Framework	Market Risk Framework
		a	b	c	d	e
		£m	£m	£m	£m	£m
1	Assets carrying value under the scope of regulatory consolidation (as per template EU LI1)	11,454.5	11,448.8	5.7	–	–
2	Liabilities carrying value under the scope of regulatory consolidation (as per EU LI1)	52.2	46.5	5.7	–	–
3	Total net amount under the scope of regulatory consolidation	11,402.3	11,402.3	–	–	–
4	Off balance sheet amounts	11,872.1	–	–	–	–
5	Net potential future exposures	7.8	–	7.8	–	–
6	Differences due to different netting rules, other than those already included in row 2	1.5	–	1.5	–	–
7	Differences due to consideration of provisions	–	–	–	–	–
8	Differences due to prudential filters	141.6	141.6	–	–	–
10	**Exposure amounts considered for regulatory purposes**	**23,425.3**	**11,543.9**	**9.3**	**–**	**–**

Note: The 'Total' per column a in the above tables, include off-balance-sheet exposures prior to the use of a credit conversion factor. The subsequent columns, b to e, include the off-balance-sheet amounts subject to the regulatory framework, after the application of the relevant credit conversion factors.

Credit Risk (continued)

Analysis of Credit Risk Exposures

This section of the disclosures set out the details of the Group's credit risk exposures by exposure class, geographical location, industry or counterparty and residual maturity.

Analysis by Exposure Class

The following table shows the credit risk exposure at the end of the financial year, together with average credit risk exposure for the financial year.

This table includes amounts where the customer has a contractual right to draw down further balances, prior to using regulatory credit conversion factors and credit risk mitigation. The exposure is shown and reported net of appropriate impairment provisions.

EU CRB-B: Total and average net amounts of exposures

		Net value at the end of the period	**Average net exposures over the period**	**Risk weighted Assets**	**Assets minimum capital requirements**
	Exposure class	**February 2021 £m**	**February 2021 £m**	**February 2021 £m**	**February 2021 £m**
15	**Total IRB Approach**	–	–	–	–
16	Central governments or central banks	815.6	1,181.3	72.4	5.8
17	Regional governments or local authorities	6.5	24.1	1.3	0.1
18	Public sector entities	54.2	54.3	–	–
19	Multilateral development banks	435.1	398.1	–	–
21	Institutions	107.0	268.3	17.6	1.4
22	Corporates	30.8	30.5	28.8	2.3
23	*of which: SMEs*	*3.5*	*2.3*	*3.5*	*0.3*
24	Retail	19,263.7	19,635.1	4,946.9	395.7
26	Secured by mortgages on immovable property	–	–	–	–
27	*of which: SMEs*	–	–	–	–
28	Exposures in default	152.2	160.1	152.2	12.2
30	Covered bonds	298.9	283.4	29.9	2.4
33	Equity exposures	60.6	58.7	151.4	12.1
34	Other exposures	289.2	317.3	207.2	16.6
35	**Total Standardised Approach**	**21,513.8**	**22,411.2**	**5,607.7**	**448.6**
36	**Total**	**21,513.8**	**22,411.2**	**5,607.7**	**448.6**

		Net value at the end of the period	**Average net exposures over the period**	**Risk weighted Assets**	**Assets minimum capital requirements**
	Exposure class	**February 2020 £m**	**February 2020 £m**	**February 2020 £m**	**February 2020 £m**
15	**Total IRB Approach**	–	–		
16	Central governments or central banks	1,560.1	1,355.1	57.0	4.6
18	Public sector entities	65.5	65.5	–	–
17	Regional governments or local authorities	–	–	–	–
19	Multilateral development banks	393.8	427.1	–	–
21	Institutions	228.9	450.2	54.7	4.4
22	Corporates	35.8	40.6	31.6	2.5
23	*of which: SMEs*	*2.6*	*4.8*	*2.6*	*0.2*
24	Retail	20,367.6	20,514.8	6,371.3	509.7
26	Secured by mortgages on immovable property	–	1,870.3	–	–
27	*of which: SMEs*	–	–	–	–
28	Exposures in default	155.5	172.3	155.5	12.4
30	Covered bonds	286.7	337.4	28.7	2.3
33	Equity exposures	60.6	60.6	151.4	12.1
34	Other exposures	261.5	262.9	149.0	11.9
35	**Total Standardised Approach**	**23,416.0**	**25,556.8**	**6,999.2**	**559.9**
36	**Total**	**23,416.0**	**25,556.8**	**6,999.2**	**559.9**

Credit Risk (continued)

Analysis by Geographical Location

The Group's retail lending is primarily focused on providing Credit Cards, Personal Loans and Personal Current Account overdrafts to UK personal customers. The following table provides the geographic distribution of the Group's credit risk exposure.

EU CRB-C: Geographical breakdown of exposures

		February 2021 Net Value of Exposures			
	Exposure class	UK £m	Europe (ex. UK) £m	Other geographical areas £m	Total £m
6	**Total IRB Approach**	–	–	–	–
7	Central governments or central banks	775.2	14.4	26.0	815.6
8	Regional governments or local authorities	6.5	–	–	6.5
9	Public sector entities	–	54.2	–	54.2
10	Multilateral development banks	–	–	435.1	435.1
12	Institutions	66.8	40.2	–	107.0
13	Corporates	23.0	5.8	2.0	30.8
14	Retail	19,263.7	–	–	19,263.7
16	Exposures in default	152.2	–	–	152.2
18	Covered bonds	298.9	–	–	298.9
21	Equity exposures	60.6	–	–	60.6
22	Other exposures	284.1	–	5.1	289.2
23	**Total Standardised Approach**	**20,931.0**	**114.6**	**468.2**	**21,513.8**
24	**Total**	**20,931.0**	**114.6**	**468.2**	**21,513.8**

		February 2020 Net Value of Exposures			
	Exposure class	UK £m	Europe (ex. UK) £m	Other geographical areas £m	Total £m
6	**Total IRB Approach**	–	–	–	–
7	Central governments or central banks	1,534.0	–	26.1	1,560.1
8	Regional governments or local authorities	–	–	–	–
9	Public sector entities	–	65.5	–	65.5
10	Multilateral development banks	–	–	393.8	393.8
12	Institutions	142.4	86.5	–	228.9
13	Corporates	30.7	2.2	2.9	35.8
14	Retail	20,367.6	–	–	20,367.6
16	Exposures in default	155.5	–	–	155.5
18	Covered bonds	286.7	–	–	286.7
21	Equity exposures	60.6	–	–	60.6
22	Other exposures	258.3	–	3.2	261.5
23	**Total Standardised Approach**	**22,835.8**	**154.2**	**426.0**	**23,416.0**
24	**Total**	**22,835.8**	**154.2**	**426.0**	**23,416.0**

Credit Risk (continued)

Analysis by Industry or Counterparty Type

The distribution of credit risk exposure by counterparty type is provided in the following table. The Group is primarily focused on providing financial services and products to personal customers in the UK, although it also has exposure to wholesale counterparties.

EU CRB-D: Concentration of exposures by industry or counterparty types

		February 2021 Net Value of Exposures				
		Financial Sector	Government	Individuals	Other	Total
		a	b	c	d	e
	Exposure class	£m	£m	£m	£m	£m
6	**Total IRB Approach**	–	–	–	–	–
7	Central governments or central banks	–	815.6	–	–	815.6
8	Regional governments or local authorities	–	–	–	6.5	6.5
9	Public sector entities	–	54.2	–	–	54.2
10	Multilateral development banks	435.1	–	–	–	435.1
12	Institutions	107.0	–	–	–	107.0
13	Corporates	8.9	–	–	21.9	30.8
14	Retail	–	–	19,263.7	–	19,263.7
16	Exposures in default	–	–	152.2	–	152.2
18	Covered bonds	298.9	–	–	–	298.9
21	Equity exposures	60.6	–	–	–	60.6
22	Other exposures	5.1	–	–	284.1	289.2
23	**Total Standardised Approach**	**915.6**	**869.8**	**19,415.9**	**312.5**	**21,513.8**
24	**Total**	**915.6**	**869.8**	**19,415.9**	**312.5**	**21,513.8**

		February 2020 Net Value of Exposures				
		Financial Sector	Government	Individuals	Other	Total
		a	b	c	d	e
	Exposure class	£m	£m	£m	£m	£m
6	**Total IRB Approach**	–	–	–	–	–
7	Central governments or central banks	–	1,560.1	–	–	1,560.1
8	Regional governments or local authorities	–	–	–	–	–
9	Public sector entities	–	65.5	–	–	65.5
10	Multilateral development banks	393.8	–	–	–	393.8
12	Institutions	228.9	–	–	–	228.9
13	Corporates	7.0	–	–	28.8	35.8
14	Retail	–	–	20,367.6	–	20,367.6
16	Exposures in default	–	–	155.5	–	155.5
18	Covered bonds	286.7	–	–	–	286.7
21	Equity exposures	60.6	–	–	–	60.6
22	Other exposures	3.2	–	–	258.3	261.5
23	**Total Standardised Approach**	**980.2**	**1,625.6**	**20,523.1**	**287.1**	**23,416.0**
24	**Total**	**980.2**	**1,625.6**	**20,523.1**	**287.1**	**23,416.0**

Credit Risk (continued)

Analysis by Maturity

The following table provides a maturity analysis of on balance sheet credit exposures on a residual contractual maturity basis.

EU CRB-E: Maturity of exposures

		February 2021 Net Value of Exposures					
		On Demand	<= 1 year	>1 year; <=5 years	>5 years	No stated maturity	Total
		a	b	c	d	e	f
	Exposure class	£m	£m	£m	£m	£m	£m
6	**Total IRB Approach**	–	–	–	–	–	–
7	Central governments or central banks	673.0	18.4	58.2	12.3	53.7	815.6
8	Regional governments or local authorities	–	6.5	–	–	–	6.5
9	Public sector entities	–	18.2	36.0	–	–	54.2
10	Multilateral development banks	–	40.1	296.2	98.8	–	435.1
12	Institutions	62.5	34.4	10.1	–	–	107.0
13	Corporates	0.3	27.1	3.4	–	–	30.8
14	Retail	1.7	3,195.5	2,802.7	595.8	–	6,595.7
16	Exposures in default	0.3	97.4	44.5	10.0	–	152.2
18	Covered bonds	–	68.5	176.2	54.2	–	298.9
21	Equity exposures	–	–	–	–	60.6	60.6
22	Other exposures	88.9	8.4	79.2	5.1	107.6	289.2
23	**Total Standardised Approach**	**826.7**	**3,514.5**	**3,506.5**	**776.2**	**221.9**	**8,845.8**
24	**Total**	**826.7**	**3,514.5**	**3,506.5**	**776.2**	**221.9**	**8,845.8**

		February 2020 Net Value of Exposures					
		On Demand	<= 1 year	>1 year; <=5 years	>5 years	No stated maturity	Total
		a	b	c	d	e	f
	Exposure class	£m	£m	£m	£m	£m	£m
6	**Total IRB Approach**	–	–	–	–	–	–
7	Central governments or central banks	1,234.6	192.7	63.8	14.6	54.4	1,560.1
8	Regional governments or local authorities	–	–	–	–	–	–
9	Public sector entities	–	10.1	55.4	–	–	65.5
10	Multilateral development banks	–	–	259.2	134.6	–	393.8
12	Institutions	135.8	62.7	30.4	–	–	228.9
13	Corporates	0.3	29.7	5.8	–	–	35.8
14	Retail	2.6	4,324.9	3,238.7	929.3	–	8,495.5
16	Exposures in default	0.6	91.8	48.8	14.3	–	155.5
18	Covered bonds	–	8.7	201.1	76.9	–	286.7
21	Equity exposures	–	–	–	–	60.6	60.6
22	Other exposures	110.9	7.4	32.3	3.2	107.7	261.5
23	**Total Standardised Approach**	**1,484.8**	**4,728.0**	**3,935.5**	**1,172.9**	**222.7**	**11,543.9**
24	**Total**	**1,484.8**	**4,728.0**	**3,935.5**	**1,172.9**	**222.7**	**11,543.9**

Credit Risk (continued)

Credit Risk: Asset Quality

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

Controls and risk mitigants

The Group's asset quality is reflected through the level of its impairment by lending type. Asset quality is maintained through credit and affordability assessments at asset origination combined with regular monitoring and reporting of asset quality to the appropriate senior management team and risk committees.

Past Due, Impaired Assets and Provisions

Past Due and Impaired Definitions

The Group considers exposures to be past due where a customer does not make the minimum contractual monthly payment of principal, interest or fee. For Personal Current Accounts, past due status can also arise when the account is in excess of its contractual overdraft limit. Accounts remain as past due but not impaired until the point where a loss trigger has occurred.

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

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

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

During the year, in managing Credit Risk provisioning and impairment the Group complied with International Financial Reporting Standards, specifically IFRS 9, Financial Instruments. A loan is impaired when there is objective evidence that events since the loan was granted have affected the amount or timing of expected cash flows from the loan. The impairment loss is the difference between the carrying value of the loan and the present value of estimated future cash flows discounted at the loan's original effective interest rate.

Provisioning models

The Group applies an Expected Credit Losses (ECL) model which segments provisions into 3 stages as defined by IFRS 9. Stage 1 and Stage 2 are held against the portfolio which is not credit impaired at the reporting date. Stage 3 provisions are held against the credit impaired portfolio based upon the above definition.

Expected Credit Loss provisions are calculated at an account level taking into account the relative change in Credit Risk since origination, the level of arrears, security, past loss experience and probability of defaulting based on portfolio trends. The five key areas of judgement in calculating these provisions are:

- probability of default (PD);
- the Group's judgement around a Significant Increase in Credit Risk (SICR) since origination;
- loss given default (LGD);
- the choice of macro-economic scenarios and their relative weighting; and
- the expected lifetime of revolving facilities.

Credit Risk (continued)

Forbearance

The main aim of forbearance is to support customers in returning to a position where they are able to meet their contractual obligations and reduce the risk of default.

Forbearance is relief granted by a lender through arrangements which temporarily allow the customer to pay an amount other than the contractual amounts due. These temporary arrangements may be initiated by the customer or the Group where financial distress would prevent repayment within the original terms and conditions of the contract.

The Group has adopted the definition of forbearance as published in Regulation EU 2015/227. The Group reports all accounts meeting this definition, providing for them appropriately.

The value of secured and unsecured loans and advances that are subject to forbearance programmes is disclosed in the Annual Report & Financial Statements of both Tesco Personal Finance Group plc and Tesco Personal Finance plc: https://bank.tescoplc.com/financial-information/accounts-and-disclosures

Controls and risk mitigants

The Group has well defined forbearance policies and processes.

A number of forbearance options are made available to customers by the Group. These routinely, but not exclusively, include the following:

- Arrangements to repay arrears over a period of time, by making payments above the contractual amount, that seek to ensure the loan is repaid within the original repayment term.
- Short term concessions, where the borrower can make reduced repayments (or in exceptional circumstances, no repayments) on a temporary basis to assist with short term financial hardship.

Credit Risk (continued)

Credit Quality Analysis

The following table provides a comprehensive picture of the credit quality of an institution's on and off balance sheet exposures.

EU CR1-A: Credit quality of exposures by exposure class and instrument

February 2021

		Gross Carrying values of						
	Exposure class	Defaulted exposures a £m	Non-defaulted exposures b £m	Specific credit risk adjustments c £m	General credit risk adjustments d £m	Accumulated write offs e £m	Credit risk adjustment charges of the period f £m	Net carrying value (a+b-c-d) g £m
15	**Total IRB Approach**	–	–	–	–	–	–	–
16	Central governments or central banks	–	815.6	–	–	–	–	815.6
17	Regional government or local authorities	–	6.5	–	–	–	–	6.5
18	Public sector entities	–	54.2	–	–	–	–	54.2
19	Multilateral development banks	–	435.1	–	–	–	–	435.1
21	Institutions	–	107.0	–	–	–	–	107.0
22	Corporates	–	30.8	–	–	–	–	30.8
23	*of which: SMEs Corporates*	–	*3.5*	–	–	–	–	*3.5*
24	Retail	–	19,469.5	205.8	–	2.3	222.5	19,263.7
28	Exposures in default	242.3	–	90.1	–	227.4	157.2	152.2
30	Covered bonds	–	298.9	–	–	–	–	298.9
33	Equity exposures	–	60.6	–	–	–	–	60.6
34	Other exposures	–	289.2	–	–	–	–	289.2
35	**Total Standardised Approach**	**242.3**	**21,567.4**	**295.9**	**–**	**229.7**	**379.7**	**21,513.8**
36	**Total**	**242.3**	**21,567.4**	**295.9**	**–**	**229.7**	**379.7**	**21,513.8**
37	*of which: Loans*	242.3	6,801.6	295.9	–	229.7	379.7	6,748.0
38	*of which: Debt Securities*	–	927.3	–	–	–	–	927.3
39	*of which: Off Balance Sheet Exposures*	–	12,668.0	–	–	–	–	12,668.0

February 2020

		Gross Carrying values of						
	Exposure class	Defaulted exposures a £m	Non-defaulted exposures b £m	Specific credit risk adjustments c £m	General credit risk adjustments d £m	Accumulated write offs e £m	Credit risk adjustment charges of the period f £m	Net carrying value (a+b-c-d) g £m
15	**Total IRB Approach**	–	–	–	–	–	–	–
16	Central governments or central banks	–	1,560.1	–	–	–	–	1,560.1
17	Regional governments or local authorities	–	–	–	–	–	–	–
18	Public sector entities	–	65.5	–	–	–	–	65.5
19	Multilateral development banks	–	393.8	–	–	–	–	393.8
21	Institutions	–	228.9	–	–	–	–	228.9
22	Corporates	–	35.8	–	–	–	–	35.8
23	*of which: SMEs Corporates*	–	*2.6*	–	–	–	–	*2.6*
24	Retail	–	20,542.7	175.1	–	3.3	23.4	20,367.6
28	Exposures in default	286.6	–	131.1	–	194.7	165.3	155.5
30	Covered bonds	–	286.7	–	–	–	–	286.7
33	Equity exposures	–	60.6	–	–	–	–	60.6
34	Other exposures	–	261.5	–	–	–	–	261.5
35	**Total Standardised Approach**	**286.6**	**23,435.6**	**306.2**	**–**	**198.0**	**188.7**	**23,416.0**
36	**Total**	**286.6**	**23,435.6**	**306.2**	**–**	**198.0**	**188.7**	**23,416.0**
37	*of which: Loans*	286.6	8,670.6	306.2	–	198.0	188.7	8,651.0
38	*of which: Debt Securities*	–	1,057.3	–	–	–	–	1,057.3
39	*of which: Off Balance Sheet Exposures*	–	11,872.1	–	–	–	–	11,872.1

Credit Risk (continued)

EU CR1-B: Credit quality of exposures by industry or counterparty types

The Group provides financial services and products to personal customers in the UK, although it also has exposure to wholesale counterparties.

February 2021

Exposure class	Gross Carrying values of Defaulted Exposures a £m	Gross Carrying values of Non-Defaulted Exposures b £m	Specific credit risk adjustments c £m	General credit risk adjustments d £m	Accumulated write offs e £m	Credit risk adjustment charges of the period f £m	Net carrying value (a+b-c-d) g £m
Financial Sector	–	915.6	–	–	–	–	915.6
Government	–	869.8	–	–	–	–	869.8
Individuals	242.3	19,469.5	295.9	–	229.7	379.7	19,415.9
Other	–	312.5	–	–	–	–	312.5
Total	**242.3**	**21,567.4**	**295.9**	**–**	**229.7**	**379.7**	**21,513.8**

February 2020

Exposure class	Gross Carrying values of Defaulted exposures a £m	Gross Carrying values of Non-defaulted exposures b £m	Specific credit risk adjustments c £m	General credit risk adjustments d £m	Accumulated write offs e £m	Credit risk adjustment charges of the period f £m	Net carrying value (a+b-c-d) g £m
Financial Sector	–	1,045.7	–	–	–	–	1,045.7
Government	–	1,560.1	–	–	–	–	1,560.1
Individuals	286.6	20,540.5	306.2	–	198.0	188.7	20,520.9
Other	–	289.3	–	–	–	–	289.3
Total	**286.6**	**23,435.6**	**306.2**	**–**	**198.0**	**188.7**	**23,416.0**

EU CR1-C: Credit quality of exposures by geography

The Group's lending is primarily UK based, providing products to UK personal customers.

February 2021

Exposure class	Gross Carrying values of Defaulted exposures a £m	Gross Carrying values of Non-defaulted exposures b £m	Specific credit risk adjustments c £m	General credit risk adjustments d £m	Accumulated write offs e £m	Credit risk adjustment charges of the period f £m	Net carrying value (a+b-c-d) g £m
UK	242.3	20,984.6	295.9	–	229.7	379.7	20,931.0
Europe (ex UK)	–	114.6	–	–	–	–	114.6
Other geographical areas	–	468.2	–	–	–	–	468.2
Total	**242.3**	**21,567.4**	**295.9**	**–**	**229.7**	**379.7**	**21,513.8**

February 2020

Exposure class	Gross Carrying values of Defaulted exposures a £m	Gross Carrying values of Non-defaulted exposures b £m	Specific credit risk adjustments c £m	General credit risk adjustments d £m	Accumulated write offs e £m	Credit risk adjustment charges of the period f £m	Net carrying value (a+b-c-d) g £m
UK	286.6	22,855.4	306.2	–	198.0	188.7	22,835.8
Europe (ex UK)	–	154.2	–	–	–	–	154.2
Other geographical areas	–	426.0	–	–	–	–	426.0
Total	**286.6**	**23,435.6**	**306.2**	**–**	**198.0**	**188.7**	**23,416.0**

Credit Risk (continued)

Template 1: Credit quality of forborne exposures

The following table provides an overview of the quality of forborne exposures.

		February 2021							
		Gross carrying amount of forborne exposures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions			
		Performing forborne	Non-Performing forborne	Of which: defaulted	Of which: impaired	On performing forborne exposures	On non-performing forborne exposures	Collateral received and financial guarantees received on forborne exposures	Of which: collateral and financial guarantees received on non-performing exposures with forbearance measures
		a	b	c	d	e	f	g	h
		£m	£m	£m	£m	£m	£m	£m	£m
1	Loans and advances	48.4	118.5	113.7	113.7	20.1	66.5	–	–
2	*Central banks*	–	–	–	–	–	–	–	–
3	*General government*	–	–	–	–	–	–	–	–
4	*Credit institutions*	–	–	–	–	–	–	–	–
5	*Other financial corporations*	–	–	–	–	–	–	–	–
6	*Non-financial corporations*	–	–	–	–	–	–	–	–
7	*Households*	48.4	118.5	113.7	113.7	20.1	66.5	–	–
8	Debt securities	–	–	–	–	–	–	–	–
9	Loan commitments given	–	–	–	–	–	–	–	–
10	**Total**	**48.4**	**118.5**	**113.7**	**113.7**	**20.1**	**66.5**	**–**	**–**

Credit Risk (continued)

		February 2020							
		Gross carrying amount of forborne exposures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions			
		Performing forborne	Non-Performing forborne	Of which: defaulted	Of which: impaired	On performing forborne exposures	On non-performing forborne exposures	Collateral received and financial guarantees received on forborne exposures	Of which: collateral and financial guarantees received on non-performing exposures with forbearance measures
		a	b	c	d	e	f	g	h
		£m	£m	£m	£m	£m	£m	£m	£m
1	Loans and advances	47.7	108.8	104.0	104.0	11.3	62.3	–	–
2	*Central banks*	–	–	–	–	–	–	–	–
3	*General government*	–	–	–	–	–	–	–	–
4	*Credit institutions*	–	–	–	–	–	–	–	–
5	*Other financial corporations*	–	–	–	–	–	–	–	–
6	*Non-financial corporations*	–	–	–	–	–	–	–	–
7	*Households*	47.7	108.8	104.0	104.0	11.3	62.3	–	–
8	Debt securities	–	–	–	–	–	–	–	–
9	Loan commitments given	–	–	–	–	–	–	–	–
10	**Total**	**47.7**	**108.8**	**104.0**	**104.0**	**11.3**	**62.3**	**–**	**–**

Credit Risk (continued)

Template 3: Credit quality of performing and non-performing exposures by past due days

The following table provides an overview of the quality of non-performing exposures.

		February 2021 Gross carrying amount/nominal amount											
		Performing exposures			Non-performing exposures								
		Performing exposures	Of which: Not past due or past due ≤ 30 days	Of which: Past due > 30 days ≤ 90 days	Non-performing exposures	Unlikely to pay that are not past due or are past due ≤ 90 days	Of which: Past due > 90 days ≤ 180 days	Of which: Past due > 180 days ≤ 1 year	Of which: Past due > 1 year ≤ 2 years	Of which: Past due > 2 years ≤ 5 years	Of which: Past due > 5 years ≤ 7 years	Of which: Past due > 7 years	Of which: Defaulted
		a	b	c	d	e	f	g	h	i	j	k	l
		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
1	Loans and advances	7,822.7	7,800.6	22.1	250.4	76.1	60.5	68.3	30.8	14.6	0.1	–	241.6
2	*Central banks*	697.7	697.7	–	–	–	–	–	–	–	–	–	–
3	*General government*	6.3	6.3	–	–	–	–	–	–	–	–	–	–
4	*Credit institutions*	143.6	143.6	–	–	–	–	–	–	–	–	–	–
5	*Other financial corporations*	177.7	177.7	–	–	–	–	–	–	–	–	–	–
6	*Non-financial corporations*	13.0	12.8	0.2	–	–	–	–	–	–	–	–	–
7	*Of which SMEs*	–	–	–	–	–	–	–	–	–	–	–	–
8	*Households*	6,784.4	6,762.5	21.9	250.4	76.1	60.5	68.3	30.8	14.6	0.1	–	241.6
9	Debt securities	928.0	928.0	–	–	–	–	–	–	–	–	–	–
10	*Central banks*	–	–	–	–	–	–	–	–	–	–	–	–
11	*General government*	145.9	145.9	–	–	–	–	–	–	–	–	–	–
12	*Credit institutions*	741.7	741.7	–	–	–	–	–	–	–	–	–	–
13	*Other financial corporations*	40.4	40.4	–	–	–	–	–	–	–	–	–	–
14	*Non-financial corporations*	–	–	–	–	–	–	–	–	–	–	–	–
15	Off-balance-sheet exposures	12,664.2	–	–	3.8	–	–	–	–	–	–	–	3.8
16	*Central banks*	–			–								–
17	*General government*	–			–								–
18	*Credit institutions*	–			–								–
19	*Other financial corporations*	–			–								–
20	*Non-financial corporations*	–			–								–
21	*Households*	12,664.2			3.8								3.8
22	**Total**	**21,414.9**	**8,728.6**	**22.1**	**254.2**	**76.1**	**60.5**	**68.3**	**30.8**	**14.6**	**0.1**	**–**	**245.4**

Credit Risk (continued)

		February 2020 Gross carrying amount/nominal amount											
		Performing exposures			Non-performing exposures								
		Performing exposures	Of which: Not past due or past due ≤ 30 days	Of which: Past due > 30 days ≤ 90 days	Non-performing exposures	Unlikely to pay that are not past due or are past due ≤ 90 days	Of which: Past due > 90 days ≤ 180 days	Of which: Past due > 180 days ≤ 1 year	Of which: Past due > 1 year ≤ 2 years	Of which: Past due > 2 years ≤ 5 years	Of which: Past due > 5 years ≤ 7 years	Of which: Past due > 7 years	Of which: Defaulted
		a	b	c	d	e	f	g	h	i	j	k	l
		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
1	Loans and advances	10,407.8	10,379.8	28.0	295.9	83.1	75.1	100.9	28.6	8.1	0.1	–	288.8
2	*Central banks*	1,266.2	1,266.2	–	–	–	–	–	–	–	–	–	–
3	*General government*	–	–	–	–	–	–	–	–	–	–	–	–
4	*Credit institutions*	273.5	273.5	–	–	–	–	–	–	–	–	–	–
5	*Other financial corporations*	194.8	194.7	0.1	–	–	–	–	–	–	–	–	–
6	*Non-financial corporations*	23.3	23.3	–	1.2	–	–	0.2	0.1	0.9	–	–	1.2
7	*Of which SMEs*	*0.7*	*0.7*	–	*1.2*	–	–	*0.2*	*0.1*	*0.9*	–	–	*1.2*
8	*Households*	8,650.0	8,622.1	27.9	294.7	83.1	75.1	100.7	28.5	7.2	0.1	–	287.6
9	Debt securities	1,057.3	1,057.3	–	–	–	–	–	–	–	–	–	–
10	*Central banks*	–	–	–	–	–	–	–	–	–	–	–	–
11	*General government*	244.8	244.8	–	–	–	–	–	–	–	–	–	–
12	*Credit institutions*	758.0	758.0	–	–	–	–	–	–	–	–	–	–
13	*Other financial corporations*	54.5	54.5	–	–	–	–	–	–	–	–	–	–
14	*Non-financial corporations*	–	–	–	–	–	–	–	–	–	–	–	–
15	Off-balance-sheet exposures	11,877.5	–	–	1.5	–	–	–	–	–	–	–	1.5
16	*Central banks*	–			–								–
17	*General government*	–			–								–
18	*Credit institutions*	–			–								–
19	*Other financial corporations*	–			–								–
20	*Non-financial corporations*	6.9			–								–
21	*Households*	11,870.6			1.5								1.5
22	**Total**	**23,342.6**	**11,437.1**	**28.0**	**297.4**	**83.1**	**75.1**	**100.9**	**28.6**	**8.1**	**0.1**	**–**	**290.3**

Credit Risk (continued)

Template 4: Performing and non-performing exposures and related provisions

The following table provides an overview of the quality of non-performing exposures and related impairments, provisions and valuation adjustments by portfolio and exposure class.

		February 2021													
		Gross Carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Collateral and financial guarantees received on:	
		Performing exposures			Non-performing exposures			Performing exposures - accumulated impairment and provisions			Non-performing exposures - accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions			Performing exposures	Non-performing exposures
		Total	Of which: Stage 1	Of which: Stage 2	Total	Of which: Stage 2	Of which: Stage 3	Total	Of which: Stage 1	Of which: Stage 2	Total	Of which: Stage 2	Of which: Stage 3		
		a	b	c	d	e	f	g	h	i	j	k	l	n	o
		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
1	Loans and advances	7,822.7	6,799.3	1,023.4	250.4	4.1	246.3	494.8	144.8	350.0	158.0	2.6	155.4	–	–
2	*Central banks*	697.7	697.7	–	–	–	–	–	–	–	–	–	–	–	–
3	*General government*	6.3	6.3	–	–	–	–	–	–	–	–	–	–	–	–
4	*Credit institutions*	143.6	143.6	–	–	–	–	–	–	–	–	–	–	–	–
5	*Other financial corporations*	177.7	177.7	–	–	–	–	0.1	0.1	–	–	–	–	–	–
6	*Non-financial corporations*	13.0	13.0	–	–	–	–	–	–	–	–	–	–	–	–
7	*Of which SMEs*	–	–	–	–	–	–	–	–	–	–	–	–	–	–
8	*Households*	6,784.4	5,761.0	1,023.4	250.4	4.1	246.3	494.7	144.7	350.0	158.0	2.6	155.4	–	–
9	Debt securities	928.0	928.0	–	–	–	–	0.7	0.7	–	–	–	–	–	–
10	*Central banks*	–	–	–	–	–	–	–	–	–	–	–	–	–	–
11	*General governments*	145.9	145.9	–	–	–	–	–	–	–	–	–	–	–	–
12	*Credit institutions*	741.7	741.7	–	–	–	–	0.7	0.7	–	–	–	–	–	–
13	*Other financial corporations*	40.4	40.4	–	–	–	–	–	–	–	–	–	–	–	–
14	*Non-financial corporations*	–	–	–	–	–	–	–	–	–	–	–	–	–	–
15	Off-balance-sheet exposures	12,664.2	12,378.8	285.4	3.8	–	3.8	–	–	–	–	–	–	–	–
16	*Central banks*	–	–	–	–	–	–	–	–	–	–	–	–	–	–
17	*General government*	–	–	–	–	–	–	–	–	–	–	–	–	–	–
18	*Credit institutions*	–	–	–	–	–	–	–	–	–	–	–	–	–	–
19	*Other financial corporations*	–	–	–	–	–	–	–	–	–	–	–	–	–	–
20	*Non-financial corporations*	–	–	–	–	–	–	–	–	–	–	–	–	–	–
21	*Households*	12,664.2	12,378.8	285.4	3.8	–	3.8	–	–	–	–	–	–	–	–
22	**Total**	**21,414.9**	**20,106.1**	**1,308.8**	**254.2**	**4.1**	**250.1**	**495.5**	**145.5**	**350.0**	**158.0**	**2.6**	**155.4**	**–**	**–**

Credit Risk (continued)

		February 2020													
		Gross Carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Collateral and financial guarantees received on:	
		Performing exposures			Non-performing exposures			Performing exposures - accumulated impairment and provisions			Non-performing exposures - accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions			Performing exposures	Non-performing exposures
		Total	Of which: Stage 1	Of which: Stage 2	Total	Of which: Stage 2	Of which: Stage 3	Total	Of which: Stage 1	Of which: Stage 2	Total	Of which: Stage 2	Of which: Stage 3		
		a	b	c	d	e	f	g	h	i	j	k	l	n	o
		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
1	Loans and advances	10,407.8	9,463.3	944.5	295.9	7.1	288.8	305.6	88.5	217.1	190.4	–	190.4	–	–
2	*Central banks*	1,266.2	1,266.2	–	–	–	–	–	–	–	–	–	–	–	–
3	*General government*	–	–	–	–	–	–	–	–	–	–	–	–	–	–
4	*Credit institutions*	273.5	273.5	–	–	–	–	–	–	–	–	–	–	–	–
5	*Other financial corporations*	194.8	194.8	–	–	–	–	–	–	–	–	–	–	–	–
6	*Non-financial corporations*	23.3	23.3	–	1.2	–	1.2	–	–	–	1.2	–	1.2	–	–
7	*Of which SMEs*	*0.7*	*0.7*	–	*1.2*	–	*1.2*	–	–	–	*1.2*	–	*1.2*	–	–
8	*Households*	8,650.0	7,705.5	944.5	294.7	7.1	287.6	305.6	88.5	217.1	189.2	–	189.2	–	–
9	Debt securities	1,057.3	1,057.3	–	–	–	–	–	–	–	–	–	–	–	–
10	*Central banks*	–	–	–	–	–	–	–	–	–	–	–	–	–	–
11	*General governments*	244.8	244.8	–	–	–	–	–	–	–	–	–	–	–	–
12	*Credit institutions*	758.0	758.0	–	–	–	–	–	–	–	–	–	–	–	–
13	*Other financial corporations*	54.5	54.5	–	–	–	–	–	–	–	–	–	–	–	–
14	*Non-financial corporations*	–	–	–	–	–	–	–	–	–	–	–	–	–	–
15	Off-balance-sheet exposures	11,877.5	11,761.3	116.2	1.5	–	1.5	–	–	–	–	–	–	–	–
16	*Central banks*	–	–	–	–	–	–	–	–	–	–	–	–	–	–
17	*General government*	–	–	–	–	–	–	–	–	–	–	–	–	–	–
18	*Credit institutions*	–	–	–	–	–	–	–	–	–	–	–	–	–	–
19	*Other financial corporations*	–	–	–	–	–	–	–	–	–	–	–	–	–	–
20	*Non-financial corporations*	6.9	6.9	–	–	–	–	–	–	–	–	–	–	–	–
21	*Households*	11,870.6	11,754.4	116.2	1.5	–	1.5	–	–	–	–	–	–	–	–
22	**Total**	**23,342.6**	**22,281.9**	**1,060.7**	**297.4**	**7.1**	**290.3**	**305.6**	**88.5**	**217.1**	**190.4**	**–**	**190.4**	**–**	**–**

Credit Risk (continued)

EU CR2-A: Changes in stock of general and specific credit risk adjustments

The following table shows the reconciliation of changes in provisions for loans and advances.

		February 2021		February 2020	
		Accumulated specific credit risk adjustment	Accumulated general credit risk adjustment	Accumulated specific credit risk adjustment	Accumulated general credit risk adjustment
		a	b	a	b
		£m	£m	£m	£m
1	**Opening balance**	306.2	–	275.3	–
2	Increases due to amounts set aside for estimated loan losses during the period	379.7	–	188.7	–
3	Decreases due to amounts reversed for estimated loan losses during the period	–	–	–	–
4	Decreases due to amounts taken against accumulated credit risk adjustments	(229.7)	–	(198.0)	–
5	Transfers between credit risk adjustments	–	–	–	–
6	Impact of exchange rate differences	–	–	–	–
7	Business combinations, including acquisitions and disposals of subsidiaries	–	–	–	–
8	Other	(160.3)	–	40.2	–
9	**Closing balance**	**295.9**	**–**	**306.2**	**–**
10	Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	–	–	–	–
11	Credit risk adjustments directly recorded to the statement of profit or loss	–	–	–	–

Further information and non-credit risk adjustments are disclosed in the Annual Report & Financial Statements of both Tesco Personal Finance Group plc and Tesco Personal Finance plc: https://bank.tescoplc.com/financial-information/accounts-and-disclosures

EU CR2-B: Changes in the stock of defaulted and impaired loans and debt securities

The following table discloses the changes in stock of defaulted loans and debt securities.

		February 2021	February 2020
		Gross carrying value defaulted exposures	Gross carrying value defaulted exposures
		a	a
		£m	£m
1	**Opening balance**	286.6	277.3
2	Loans and debt securities that have defaulted or impaired since the last reporting period	214.5	278.9
3	Returned to non-defaulted status	(8.8)	(9.5)
4	Amounts written off	(237.6)	(245.0)
5	Other charges	(12.4)	(15.1)
6	**Closing balance**	**242.3**	286.6

Credit Risk: Mitigation

Management of Credit Risk Mitigation

The Group utilises credit risk mitigation in the form of explicit government guarantees provided against some specific debt security investments.

Credit Risk (continued)

EU CR3: Credit risk mitigation techniques - overview

The following table discloses the extent of the use of CRM techniques.

		February 2021				
		a	b	c	d	e
		Exposures unsecured: carrying amount	Exposures to be secured	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
		£m	£m	£m	£m	£m
1	Loans	7,043.9	–	–	–	–
2	Debt Securities	873.1	54.2	–	54.2	–
3	**Total Exposures**	**7,917.0**	**54.2**	**–**	**54.2**	**–**
4	Of which defaulted	242.3	–	–	–	–

		February 2020				
		a	b	c	d	e
		Exposures unsecured: carrying amount	Exposures to be secured	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
		£m	£m	£m	£m	£m
1	Loans	8,957.2	–	–	–	–
2	Debt Securities	991.8	65.5	–	65.5	–
3	**Total Exposures**	**9,949.0**	**65.5**	**–**	**65.5**	**–**
4	Of which defaulted	286.6	–	–	–	–

EU CR4: Standardised Approach - credit risk exposure and credit risk mitigation effects

The following table illustrates the effect of all CRM techniques applied in accordance with Part Three, Title II, Chapter 4 of the CRR.

		February 2021					
		Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs and RWA density	
		On balance sheet amount	Off balance sheet amount	On balance sheet amount	Off balance sheet amount	RWAs	RWA density
		a	b	c	d	e	f
		£m	£m	£m	£m	£m	
	Exposure Class						
1	Central governments or central banks	815.6	–	869.8	–	72.4	8.3%
2	Regional governments or local authorities	6.5	–	6.5	–	1.3	20.0%
3	Public sector entities	54.2	–	–	–	–	0.0%
4	Multilateral development banks	435.1	–	435.1	–	–	0.0%
6	Institutions	107.0	–	107.0	–	17.6	16.4%
7	Corporates	30.8	–	30.8	–	28.8	93.5%
8	Retail	6,595.7	12,668.0	6,595.7	–	4,946.9	75.0%
10	Exposures in default	152.2	–	152.2	–	152.2	100.0%
12	Covered bonds	298.9	–	298.9	–	29.9	10.0%
15	Equity exposures	60.6	–	60.6	–	151.4	250.0%
16	Other exposures	289.2	–	289.2	–	207.2	71.6%
17	**Total**	**8,845.8**	**12,668.0**	**8,845.8**	**–**	**5,607.7**	**63.4%**

Credit Risk (continued)

		February 2020					
		Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs and RWA density	
		On balance sheet amount	Off balance sheet amount	On balance sheet amount	Off balance sheet amount	RWAs	RWA density
		a	b	c	d	e	f
		£m	£m	£m	£m	£m	
	Exposure Class						
1	Central governments or central banks	1,560.1	–	1,625.6	–	57.0	3.5%
2	Regional governments or local authorities	–	–	–	–	–	0.0%
3	Public sector entities	65.5	–	–	–	–	0.0%
4	Multilateral development banks	393.8	–	393.8	–	–	0.0%
6	Institutions	228.9	–	228.9	–	54.7	23.9%
7	Corporates	35.8	–	35.8	–	31.6	88.1%
8	Retail	8,495.5	11,872.1	8,495.5	–	6,371.3	75.0%
10	Exposures in default	155.5	–	155.5	–	155.5	100.0%
12	Covered bonds	286.7	–	286.7	–	28.7	10.0%
15	Equity exposures	60.6	–	60.6	–	151.4	250.0%
16	Other exposures	261.5	–	261.5	–	149.0	57.0%
17	**Total**	**11,543.9**	**11,872.1**	**11,543.9**	**–**	**6,999.2**	**60.6%**

Note: In accordance with CRR, Public Sector Entities that are the subject of an explicit guarantee from the Central Government or Central Bank are treated as exposures to the central government, regional government or local authority in whose jurisdiction they are established.

Analysis of Credit Risk Mitigation

Use of External Credit Assessment Institutions' Ratings

The Group complies with the credit quality assessment scale with the appropriate issue or issuer rating used to determine the risk weightings applied under the Standardised Approach to Credit Risk.

The exposure amounts and the external credit ratings issued by Fitch have been included for corporates, institutions and covered bonds as required by the CRR. For completeness the ratings of central governments and banks have also been included, in line with the defined risk weightings set out in the CRR. The following table provides additional information on the use of external credit ratings.

EU CRD: Institution's use of external credit ratings under the Standardised Approach for credit risk

The following table provides additional information on the use of external credit ratings.

	February 2021							
Fitch	Credit Quality Step 1 AAA to AA-	Credit Quality Step 2 A+ to A-	Credit Quality Step 3 BBB+ to BB-	Credit Quality Step 4 BB+ to BB-	Credit Quality Step 5 B+ to B-	Credit Quality Step 6 CCC+ and below	Unrated or Defined Risk Weight in CRR	Total
Exposure Class	£m	£m	£m	£m	£m	£m	£m	£m
Total IRB Approach	–	–	–	–	–	–	–	–
Central governments or central banks	–	–	–	–	–	–	815.6	815.6
Regional governments or local authorities	–	–	–	–	–	–	6.5	6.5
Public sector entities	–	–	–	–	–	–	54.2	54.2
Multilateral development banks	–	–	–	–	–	–	435.1	435.1
Institutions	80.2	6.8	–	–	–	–	20.0	107.0
Corporates	–	1.9	7.6	–	–	–	21.3	30.8
Retail	–	–	–	–	–	–	19,263.7	19,263.7
Exposures in default	–	–	–	–	–	–	152.2	152.2
Covered bonds	298.9	–	–	–	–	–	–	298.9
Equity exposures	–	–	–	–	–	–	60.6	60.6
Other exposures	–	–	–	–	–	–	289.2	289.2
Total Standardised Approach	**379.1**	**8.7**	**7.6**	**–**	**–**	**–**	**21,118.4**	**21,513.8**
Total	**379.1**	**8.7**	**7.6**	**–**	**–**	**–**	**21,118.4**	**21,513.8**

Credit Risk (continued)

Fitch Exposure Class	Credit Quality Step 1 AAA to AA- £m	Credit Quality Step 2 A+ to A- £m	Credit Quality Step 3 BBB+ to BB- £m	Credit Quality Step 4 BB+ to BB- £m	Credit Quality Step 5 B+ to B- £m	Credit Quality Step 6 CCC+ and below £m	Unrated or Defined Risk Weight in CRR £m	Total £m
				February 2020				
Total IRB Approach	–	–	–	–	–	–	–	–
Central governments or central banks	–	–	–	–	–	–	1,560.1	1,560.1
Regional governments or local authorities	–	–	–	–	–	–	–	–
Public sector entities	–	–	–	–	–	–	65.5	65.5
Multilateral development banks	–	–	–	–	–	–	393.8	393.8
Institutions	91.2	117.5	–	–	–	–	20.2	228.9
Corporates	–	3.4	19.7	–	–	–	12.7	35.8
Retail	–	–	–	–	–	–	20,367.6	20,367.6
Exposures in default	–	–	–	–	–	–	155.5	155.5
Covered bonds	286.7	–	–	–	–	–	–	286.7
Equity exposures	–	–	–	–	–	–	60.6	60.6
Other exposures	–	–	–	–	–	–	261.5	261.5
Total Standardised Approach	**377.9**	**120.9**	**19.7**	–	–	–	**22,897.5**	**23,416.0**
Total	**377.9**	**120.9**	**19.7**	–	–	–	**22,897.5**	**23,416.0**

EU CR5: Standardised Approach - breakdown of exposures under the Standardised Approach by asset class and risk weight

The following table provides additional information on exposures split by asset class and risk weight.

February 2021

	Exposure Class	Risk Weight 0% £m	2% £m	10% £m	20% £m	35% £m	50% £m	75% £m	100% £m	250% £m	Deducted £m	Total £m	Of which: unrated £m
1	Central governments or central banks	840.8	–	–	–	–	–	–	–	29.0	–	**869.8**	869.8
2	Regional government or local authorities	–	–	–	6.5	–	–	–	–	–	–	**6.5**	6.5
3	Public sector entities	–	–	–	–	–	–	–	–	–	–	–	–
4	Multilateral development banks	435.1	–	–	–	–	–	–	–	–	–	**435.1**	435.1
6	Institutions	–	21.2	–	85.8	–	–	–	–	–	–	**107.0**	–
7	Corporates	–	–	–	–	–	1.9	–	28.9	–	–	**30.8**	21.3
8	Retail	–	–	–	–	–	–	6,595.7	–	–	–	**6,595.7**	6,595.7
10	Exposures in default	–	–	–	–	–	–	–	152.2	–	–	**152.2**	152.2
12	Covered bonds	–	–	298.9	–	–	–	–	–	–	–	**298.9**	–
15	Equity exposures	–	–	–	–	–	–	–	–	60.6	–	**60.6**	60.6
16	Other exposures	10.9	–	–	88.9	–	–	–	189.4	–	152.0	**441.2**	289.2
17	**Total**	**1,286.8**	**21.2**	**298.9**	**181.2**	–	**1.9**	**6,595.7**	**370.5**	**89.6**	**152.0**	**8,997.8**	**8,430.4**

February 2020

	Exposure Class	Risk Weight 0% £m	2% £m	10% £m	20% £m	35% £m	50% £m	75% £m	100% £m	250% £m	Deducted £m	Total £m	Of which: unrated £m
1	Central governments or central banks	1,602.8	–	–	–	–	–	–	–	22.8	–	**1,625.6**	1,625.6
2	Regional governments or local authorities	–	–	–	–	–	–	–	–	–	–	–	–
3	Public sector entities	–	–	–	–	–	–	–	–	–	–	–	–
4	Multilateral development banks	393.8	–	–	–	–	–	–	–	–	–	**393.8**	393.8
6	Institutions	–	24.8	–	159.4	–	44.7	–	–	–	–	**228.9**	–
7	Corporates	–	–	–	–	–	3.4	–	32.4	–	–	**35.8**	12.7
8	Retail	–	–	–	–	–	–	8,495.5	–	–	–	**8,495.5**	8,495.5
10	Exposures in default	–	–	–	–	–	–	–	155.5	–	–	**155.5**	155.5
12	Covered bonds	–	–	286.7	–	–	–	–	–	–	–	**286.7**	–
15	Equity exposures	–	–	–	–	–	–	–	–	60.6	–	**60.6**	60.6
16	Other exposures	23.8	–	–	110.9	–	–	–	126.8	–	159.2	**420.7**	261.5
17	**Total**	**2,020.4**	**24.8**	**286.7**	**270.3**	–	**48.1**	**8,495.5**	**314.7**	**83.4**	**159.2**	**11,703.1**	**11,005.2**

Credit Risk (continued)

Non Trading Book Exposures in Equities

The Group's non trading exposure in equities relates to its investment in Tesco Underwriting Ltd (TU). TU underwrites Home and Motor insurance contracts under the Tesco Bank brand. TU is a joint venture which is equity accounted in the Annual Report and Financial Statements of both Tesco Personal Finance Group plc and the Company and is outside of the scope of regulatory consolidation. This equity position in the non-trading book is held as a strategic shareholding.

The investment in TU is valued at cost less any provision for impairment. At 28 February 2021 this investment was valued at £60.6m (2020: £60.6m).

In the early stages of the Covid-19 pandemic, volatility across global markets impacted the TU investment portfolio. Taking into account market conditions at the time, TU agreed with the Group and its other joint venture partner to cancel a dividend payment of £15m which had been expected to be paid in April 2020. Following stabilisation of the markets during the year, a dividend was subsequently paid in November 2020.

Counterparty Credit Risk (CCR)

Counterparty Credit Risk Management

CCR is the risk that the counterparty to a transaction will default before the final settlement of the transaction's cash flows. Such transactions relate to contracts for derivative financial instruments, securities financing transactions and long-dated settlement transactions. As at 28 February 2021, the Group has an undrawn £200.0m committed structured repurchase facility and has no long-dated settlement transactions.

Controls and risk mitigants

All derivative transactions are governed by industry standard ISDA Master Agreements, supplemented by ISDA Credit Support Annexes for a number of counterparties. Information relating to policies used in the management of Wholesale Credit Risk and Wrong Way Risk, is provided on Page 36 to Page 39.

Policies are in place which allow the use of credit risk mitigation to reduce Counterparty Credit Risk. As at 28 February 2021 no use has been made of collateral other than under industry standard ISDA agreements, ISDA Credit Support Annexes used in relation to derivative transactions and Global Master Repurchase Agreements used in relation to repurchase transactions.

The Group in its ordinary course of business uses over the counter derivatives and forward foreign exchange transactions to hedge interest rate and foreign exchange risk.

Counterparty Credit Risk under the Mark to Market Approach

The CCR Mark to Market method is used to measure the exposure value calculated as market value plus an add-on for PFE, prior to being risk weighted under the Standardised Approach. The Group recognises the effects of netting as risk reducing in accordance with the CRR allowing the Group to calculate its derivative exposure as the positive net replacement cost plus a reduced potential future exposure (PFE).

As at 28 February 2021, the Group had a public credit rating of BBB-. The Group is not required to post additional collateral in the event of a downgrade in credit rating. The Group has no exposure to credit derivative transactions.

EU CCR5-A: Impact of netting and collateral held on exposure values

The following table provides a breakdown of all types of collateral posted or received to support or reduce the Counterparty Credit Risk exposures related to derivative or SFT transactions.

				February 2021		
		Gross positive fair value or net carrying amount	Netting Benefits	Netted current credit exposure	Collateral Held	Net Credit Exposure
		a	**b**	**c**	**d**	**e**
		£m	**£m**	**£m**	**£m**	**£m**
1	Derivatives	6.1	6.1	–	–	–
4	**Total**	**6.1**	**6.1**	**–**	**–**	**–**

				February 2020		
		Gross positive fair value or net carrying amount	Netting Benefits	Netted current credit exposure	Collateral Held	Net Credit Exposure
		a	**b**	**c**	**d**	**e**
		£m	**£m**	**£m**	**£m**	**£m**
1	Derivatives	5.7	4.2	1.5	–	1.5
4	**Total**	**5.7**	**4.2**	**1.5**	**–**	**1.5**

Counterparty Credit Risk (CCR) (continued)

EU CCR2: Credit Valuation Adjustment (CVA) capital charge

The following table provides the CVA regulatory calculations with a breakdown by approach

		February 2021		February 2020	
		Exposure Value	RWAs	Exposure Value	RWAs
		a	b	a	b
		£m	£m	£m	£m
1	Total portfolios subject to the Advanced method	–	–	–	–
2	(i) VaR component (including the 3x multiplier)		–		–
3	(ii) Stressed VaR component (including the 3x multiplier)		–		–
4	All portfolios subject to the Standardised Method	–	–	0.8	0.8
EU4	Based on the Original Exposure Measure	–	–	–	–
5	**Total subject to the CVA capital charge**	**–**	**–**	**0.8**	**0.8**

EU CCR3: Standardised Approach - CCR exposures by regulatory portfolio and risk

The following table provides a breakdown of Counterparty Credit Risk exposures calculated by portfolio and by risk weight.

		February 2021					February 2020				
		Risk Weight			Total	Of which: unrated	Risk Weight			Total	Of which: unrated
		2%	20%	50%			2%	20%	50%		
	Exposure class	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
1	Central governments or central banks	–	–	–	–	–	–	–	–	–	–
2	Regional governments or local authorities	–	–	–	–	–	–	–	–	–	–
3	Public sector entities	–	–	–	–	–	–	–	–	–	–
4	Multilateral development banks	–	–	–	–	–	–	–	–	–	–
5	International organisations	–	–	–	–	–	–	–	–	–	–
6	Institutions	4.4	–	–	4.4	–	5.0	0.2	4.2	9.4	–
7	Corporates	–	–	–	–	–	–	–	–	–	–
8	Retail	–	–	–	–	–	–	–	–	–	–
9	Institutions and corporates with a short-term credit assessment	–	–	–	–	–	–	–	–	–	–
10	Other items	–	–	–	–	–	–	–	–	–	–
11	**Total**	**4.4**	**–**	**–**	**4.4**	**–**	**5.0**	**0.2**	**4.2**	**9.4**	**–**

Securitisation and Covered Bond Exposures

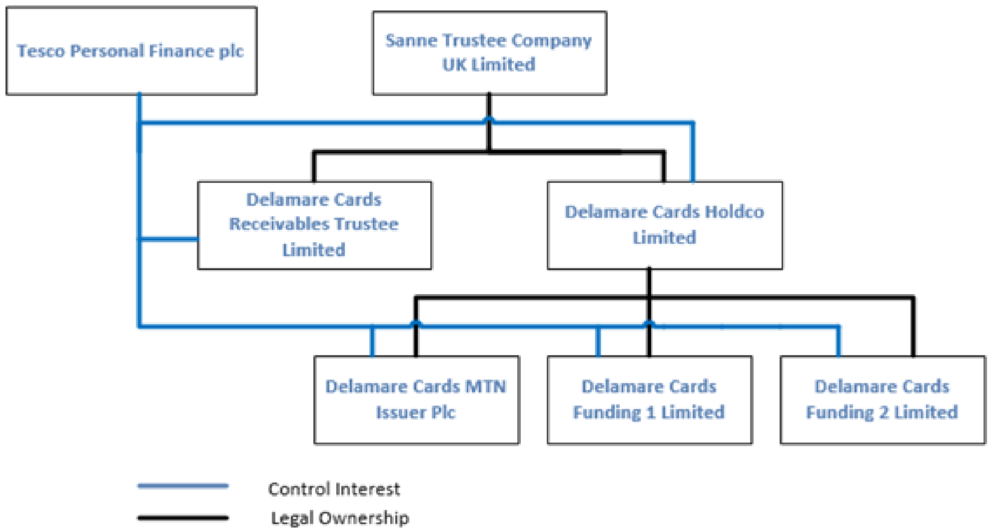
A securitisation is defined as a transaction where the payments are dependent upon the performance of a single exposure or pool of exposures, where the subordination of tranches determines the distribution of losses during the life of the transaction.

The principle objective within all the Group's securitisation activity is funding diversification on the basis that securitisation provides access to secured term funding from a wide range of investors in different geographical areas.

The Group has undertaken a number of securitisation transactions, having assigned a portion of its credit card receivables to a Special Purpose Entity (Delamare Cards Receivables Trustee Ltd). These receivables support the Group's issuance of credit card asset backed securities as their respective revenue and principal cash flows are transferred to the Special Purpose Entity facilitating both expense and securities payments. Although none of the equity of the securitisation Special Purpose Entity is owned by the Group, the nature of these entities, which are in substance controlled by the Group, mean that it retains substantially all of the risks and rewards of ownership of the securitised credit card receivables. The accounting policies in relation to the Group's securitisation activity are disclosed within the Annual Report and Financial Statements of both Tesco Personal Finance plc and Tesco Personal Finance Group plc: https://bank.tescoplc.com/financial-information/accounts-and-disclosures

Both the underlying assets and the securitisation bonds are held at amortised cost. For accounting purposes, the securitisation Special Purpose Entity is consolidated within the Group as the substance of the relationship and retention of risk and rewards indicates control is retained.

The following diagram details the securitisation Special Purpose Entities:



The Group operates within the securitisation markets and covered bond markets as an investor, purchasing only ABS backed by Group assets (own name securities) and covered bonds for the purposes of diversifying its wholesale assets as part of managing its overall liquid asset buffer.

The Group does not hold any re-securitisation positions and is not active in synthetic securitisation. The Group does not act as a sponsor to any securitisations and it does not provide liquidity facilities to either its originated asset backed securities or any third parties involved in securitisation activity.

Securitisation and Covered Bond Exposures (continued)

As at 28 February 2021, Delamare Cards MTN Issuer plc had £1,840.0m (2020: £2,012.2m) notes in issue in relation to securitisation transactions, of which £1,550.0m are rated AAA by S&P Global Ratings Europe Limited and Fitch Ratings Limited. Additionally, the AAA rated notes in issue (£1,550.0m) have been notified to the FCA as being compliant with the "Simple, Transparent and Standardised" (STS) criteria set out in the Securitisation (Amendment) (EU Exit) Regulations 2019 (as so amended, and together with the EU Securitisation Regulation (EU) 2017/2402). No externally held notes remain following the repayment of the 2018-1 Class A1 Note series in November 2020 (2020: £572.2m). At the year end the Group had pledged £2,959.5m (2020: £3,462.7m) of credit card assets in Delamare Special Purpose Entities. The beneficial interest of these assets has been assigned to Delamare Cards Receivables Trustee Limited.

The following table presents the retained securitisation exposures for the Group.

SEC1: Securitisation exposures in the banking book

		February 2021			February 2020		
		Bank acts as originator			Bank acts as originator		
		Traditional	Synthetic	Sub-total	Traditional	Synthetic	Sub-total
		a	b	c	a	b	c
		£m	£m	£m	£m	£m	£m
1	Retail (Total)	1,840.0	–	1,840.0	1,440.0	–	1,440.0
	Of which						
3	credit card	1,840.0	–	1,840.0	1,440.0	–	1,440.0

The Group invests in covered bond securities where preferential capital treatment is permitted. Bonds acquired are held as Investment Securities on the balance sheet. At 28 February 2021, the Group's exposure to covered bonds amounted to £298.9m (2020: £286.7m).

Risks Inherent in Securitised and Covered Bond Assets

The Group is exposed to limited risk as it purchases only own name ABS, however one of the inherent risks when purchasing Class A securities is the loss of eligibility of these securities for Central Bank pre-positioning or market repo. This can be mitigated by the Group via established monitoring and remedial processes that apply to both the securitisation and the wider funding plan.

The Group's credit card securitisation programme itself is flexible in terms of structure and enhancement and can respond to stresses experienced by the underlying assets. The Group regularly assesses securitisation asset performance and models its cash flows to take account of Liquidity Risk, Currency Risk, Operational Risk, market prices / yields and any Counterparty Credit Risk.

The risks inherent in covered bonds relate primarily to the financial strength of the issuer and to the underlying assets used as collateral for the bonds. A credit assessment of the issuer's financial strength is undertaken at point of purchase together with a due diligence assessment of the bond structure and underlying assets on at least a quarterly basis. The due diligence includes a review of areas such as arrears levels and collateral arrangements. An annual review of the issuer's financial strength is also undertaken.

Approach to Calculating Risk Weighted Exposure Amounts

The Group adopts the Standardised Approach in relation to all types of securitisation and covered bond exposures. For covered bond investments, risk weighted exposure amounts are calculated using the credit quality steps prescribed in the CRR. Significant Risk Transfer in relation to the Group's securitisation is not achieved and so the underlying credit card assets remain on balance sheet and are classified as Retail exposures and risk weighted accordingly.

Encumbered and Unencumbered Assets

Asset encumbrance represents a claim to an asset by another party in the form of a security interest such as a pledge. Encumbrance reduces the assets available and therefore, the recovery rate of its depositors and other unsecured bank creditors.

The Group has adopted the definition of encumbrance in accordance with Delegated Regulation (EU) 2017/2295.

The Group's Asset Encumbrance Disclosure

The Group maintains limits for total encumbrance and product encumbrance for Credit Cards and Personal Loans as part of the risk appetite process. Pledging assets as part of secured funding and repo markets activity give rise to encumbrance.

The Group’s total encumbrance ratio is 11% as at 28 February 2021 (2020: 14%). The asset encumbrance ratio is calculated as (total encumbered assets + total collateral received which has been re-used for refinancing transactions) divided by (total assets + total collateral received which is available for encumbrance).

Asset values reported in the tables are medians of the quarterly values over the year ended 28 February 2021.

EU Template A: Assets

		February 2021							
		Carrying amount of encumbered assets		**Fair value of encumbered assets**		**Carrying amount of unencumbered assets**		**Fair value of unencumbered assets**	
			of which notionally eligible EHQLA and HQLA		of which notionally eligible EHQLA and HQLA		of which notionally eligible EHQLA and HQLA		of which notionally eligible EHQLA and HQLA
		£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
		010	**030**	**040**	**050**	**060**	**080**	**090**	**100**
010	**Assets of the reporting institution**	**1,320.4**	**61.2**			**8,381.6**	**1,682.5**		
030	Equity Instruments	–	–	–	–	3.6	–	3.6	–
040	Debt securities	61.2	61.2	62.2	–	772.4	772.4	792.5	792.5
120	Other assets	1,259.1	–			7,606.6	868.8		

		February 2020							
		Carrying amount of encumbered assets		**Fair value of encumbered assets**		**Carrying amount of unencumbered assets**		**Fair value of unencumbered assets**	
			of which notionally eligible EHQLA and HQLA		of which notionally eligible EHQLA and HQLA		of which notionally eligible EHQLA and HQLA		of which notionally eligible EHQLA and HQLA
		£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
		010	**030**	**040**	**050**	**060**	**080**	**090**	**100**
010	**Assets of the reporting institution**	**2,833.4**	**60.5**			**11,097.7**	**1,989.4**		
030	Equity Instruments	–	–	–	–	3.2	–	3.2	–
040	Debt securities	60.5	60.5	60.5	60.5	1,005.1	1,005.1	1,005.1	1,005.1
120	Other assets	2,773.1	–			9,796.7	984.3		

Encumbered and Unencumbered Assets

EU Template B: Collateral received

		February 2021				February 2020			
		Fair value of encumbered collateral received or own debt securities issued		Unencumbered Fair value of collateral received or own debt securities issued available for encumbrance		Fair value of encumbered collateral received or own debt securities issued		Unencumbered Fair value of collateral received or own debt securities issued available for encumbrance	
			of which notionally eligible EHQLA and HQLA		of which notionally eligible EHQLA and HQLA		of which notionally eligible EHQLA and HQLA		of which notionally eligible EHQLA and HQLA
		£m	£m	£m	£m	£m	£m	£m	£m
		010	020	030	040	010	020	030	040
130	Collateral received	–	–	–	–	243.6	230.2	–	–
140	Loans on demand	–	–	–	–	–	–	–	–
150	Equity instruments	–	–	–	–	–	–	–	–
160	Debt securities	–	–	–	–	–	–	–	–
170	of which: covered bonds	–	–	–	–	–	–	–	–
180	of which: asset-backed securities	–	–	–	–	–	–	–	–
190	of which: issued by general government	–	–	–	–	–	–	–	–
200	of which: issued by financial corporations	–	–	–	–	–	–	–	–
210	of which: issued by non-financial corporations	–	–	–	–	–	–	–	–
220	Loans and advances other than loans on demand	–	–	–	–	243.6	230.2	–	–
230	Other collateral received	–	–	–	–	–	–	–	–
240	Own debt securities issued other than own covered bonds or asset-backed securities	–	–	–	–	–	–	–	–
241	Own covered bonds and asset-backed securities issued and not yet pledged	–	–	1,550.0	–	–	–	718.0	–
250	**Total assets, collateral received and own debt securities issued**	**1,320.4**	**61.2**	**–**	**–**	**3,079.1**	**291.2**	**–**	**–**

EU Template C: Encumbered assets/collateral received and associated liabilities

		February 2021		February 2020	
		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
		£m	£m	£m	£m
		010	030	010	030
010	Carrying amount of selected financial liabilities	890.7	1,231.0	2,136.6	3,049.2

Market Risk

Market Risk is defined as the risk that movements in market prices (such as interest rates, foreign exchange rates and the market value of financial instruments) lead to a reduction in either the Bank's earnings or capital. The Bank has no trading book exposures. Market Risk arises in the following ways in the Group:

- Interest rate risk is the risk to earnings and economic value from movements in interest rates, hereafter referred to as Interest Rate Risk in the Banking Book (IRRBB);
- Credit spread risk is the risk to the value of treasury assets driven by changes in the market perception about the price of Credit Risk, liquidity premium and other components not explained by IRRBB; hereafter referred to as Credit Spread Risk in the Banking Book (CSRBB); and
- Foreign exchange risk arises from non-domestic currency investments, non-domestic currency loans, deposits, income and other non-domestic currency contracts, hereafter referred to as Foreign Exchange (FX) risk.

Risk Appetite Statement

The Group has an appetite for Market Risk arising from its core business of providing retail banking products. Proprietary risk taking is not permitted. For the assessment of interest rate risk, the Group must evenly spread Net Free Reserves (NFR) and Non-Maturity Retail Portfolios (NMRP) over a 5-year term.

Risk Appetite Measures

The Group monitors its exposure to Market Risk through the following Risk Appetite Measures:

- Capital at Risk – this measure assesses the value sensitivity of the Group's capital to movements in interest rates. The scenarios considered include both parallel and non-parallel movements of the yield curve and have been designed to assess impacts across a suitable range of severe but plausible movements in interest rates. Capital at Risk measures interest rate risk including Repricing Risk (including Basis Risk), Pipeline Risk, Prepayment Risk and Credit Spread Risk in the Banking Book (CSRBB);
- Annual Earnings at Risk - this measures the sensitivity of the Group's earnings to movements in interest rates over the next 12 months based on expected cashflows. The Group assesses the impact of a +/- 0.25%, 0.50%, 0.75%, 1% shock in rates versus the base case scenario; and
- Net open currency position.

Controls and risk mitigants

Control of Market Risk is governed by the Asset and Liability Management Committee and the Treasury Committee. These bodies provide oversight of the Group's Market Risk position at a detailed level, providing regular reports and recommendations to the Board Risk Committee.

Market and Liquidity Risk, as part of the Risk Management function, also review and challenge policies and procedures relating to Market Risk and provide oversight for the Balance Sheet Management and Transaction Management teams within the Treasury function.

Interest Rate Risk in the Banking Book (IRRBB)

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

The Group offers lending and savings products with varying interest rate features and maturities which create re-pricing mismatches and therefore potential interest rate risk exposures. The Group is therefore exposed to interest rate risk through its retail banking products as well as through its limited wholesale market activities. IRRBB is the main Market Risk that could affect the Group's net interest income.

Market Risk (continued)

Controls and risk mitigants

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

IRRBB management information is produced by the Balance Sheet Management team and is reviewed by the ALCO at each of its monthly meetings. IRRBB primarily arises from the retail lending portfolios and retail deposits. The Balance Sheet Management team is responsible for implementing hedging strategies as required to manage within the Group's stated Risk Appetite and limits.

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

Capital at Risk (CaR)

The CaR approach assesses the sensitivity of the Group’s capital to movements in interest rates. The scenarios considered include both parallel and non-parallel movements of the yield curve and have been designed to assess impacts across a suitable range of severe but plausible movements in interest rates. The CaR measure is an aggregate measure of four separate risk components, each being a distinct form of interest rate risk (Re-pricing risk, (including Basis risk), Pipeline risk, Prepayment risk and Credit spread risk in the banking book (CSRBB)).

The table below shows the Group’s CaR. The upward rate scenario presents the most adverse exposure, decreasing to £20.5m compared to £30.7m as at 29 February 2020.

CaR: Capital at Risk

Capital at Risk Sensitivity	**February 2021** Upward Rate scenario **£m**	**February 2020** Downward Rate scenario **£m**
Repricing risk	(13.6)	(21.3)
Pipeline risk	(0.2)	(0.1)
Prepayment risk	(6.7)	(0.7)
CSRBB	–	(8.6)
Total	**(20.5)**	**(30.7)**

Note: The outcome disclosed above represent the most adverse outcome amongst six severe but plausible interest rate stress scenarios.

Annual Earnings at Risk

This measures the sensitivity of the Group’s earnings to movements in interest rates over the next 12 months based on expected cashflows. The Group assesses the impact of a +/- 0.25%, 0.50%, 0.75%, 1% shock in rates versus the base case scenario.

AEaR: Annual Earnings at Risk

	February 2021 **Downward rate shock**	**February 2020** **Upward rate shock**
Annual Earnings at Risk	-1.71%	-1.17%

Note: The scenario disclosed above represents the most adverse outcome amongst 10 interest rate stress scenarios, 2 of which are basis risk scenarios.

Foreign Exchange Risk

Foreign exchange risk is the risk that the value of transactions in currencies other than sterling are adversely affected by the movement of exchange rates.

The Group’s Risk Appetite permits investment in non-sterling denominated bonds and the Group may also raise funding

Market Risk (continued)

from the wholesale markets in currencies other than sterling. Foreign exchange exposure arises if these exposures are not hedged. Foreign exchange exposure may also arise through its 'Click & Collect' Travel Money provision and through invoices received which are denominated in foreign currencies.

The Group held Asset Backed Floating Rate Notes in US dollars which were fully repaid during the year. At the time of the issuance, the value of the notes was effectively hedged through an FX swap arrangement.

Controls and risk mitigants

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

Market Risk Capital Requirements under the Standardised Approach

The Group calculates its capital requirements for Market Risk in line with the requirements of CRR. In making this calculation, the Group assesses its capital requirement against three specific areas:

- Position Risk;
- FX Risk; and
- Commodities Risk.

The Group has no requirement to hold capital for either Position Risk or Commodities Risk since it is not exposed to either of these risks. In relation to FX Risk, there is no capital requirement since the Group does not exceed the de minimis trigger which would then require Own Funds to be held.

Operational Risk

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The Group is subject to the Standardised Approach to calculate Pillar 1 operational risk capital, as outlined in the CRR.

Risk Appetite Statement

The Group's Risk Appetite is to:

- Maintain an effective control environment and limit risk events that cause material customer detriment and/or financial loss;
- Accept only a low number of material events, assurance and audit findings; and
- Accept operational losses (excluding fraud) of no more than 1.6% of income.

Risk Appetite Measures

- Operational losses (Non-Fraud);
- Material events (12-month average);
- Number of open and overdue assurance issues raised by the Second and Third Line of Defence;
- Supplier performance, service and risk rating for Segment A and B suppliers;
- Infrastructure resilience including single points of failure;
- Service availability;
- Information Security policy coverage and compliance;
- Business continuity plans, business impact assessments and Work Area Recovery testing in place;
- Risk and control self-assessment overall control effectiveness.

Controls and risk mitigants

The Group's risks are assessed utilising a Risk Management Framework which is aligned to the three lines of defence model. The Chief Risk Officer and the Head of Operational Risk, together with a dedicated Operational Risk team, are responsible for:

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

Operational Risk (continued)

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

Business units and functions assess operational risks on an ongoing basis via a prescribed Risk and Control Self-Assessment process and operational risk scenario analysis. The Risk and Control Self-Assessment process is reviewed and updated on a timely basis by first line business areas to reflect the risk and control environment and any changes arising from changes in products, processes and systems. The outputs are reported to relevant governance bodies, including the Board Risk Committee. This is supplemented further by an event management process and regular reporting of the operational risk profile to the Executive Risk Committee which provides oversight of the Group's Operational Risk profile.

The operational risk scenario analysis builds on the Risk and Control Self-Assessment process and event management process to identify the forward looking risk profile and the results are used to inform the Board's decision on any additional requirement for operational risk capital under Pillar 2.

Covid-19 impact and responses

The Group's priority throughout the year has been helping customers and colleagues through the many challenges created by the Covid-19 pandemic. The Covid-19 pandemic posed a number of operational risks to the Group, including a high proportion of colleagues changing to work from home at short notice and for extended periods; the need to implement social distancing measures across the Group's premises for colleagues unable to work from home; introducing new operational processes quickly such as those related to customer payment holidays; the potential for the Group's suppliers to be impacted by the Covid-19 pandemic; and increased operational volumes such as those related to refunds associated with holiday cancellations.

The Group invoked crisis management plans as it sought to serve and support its customers throughout the early stages of the Covid-19 pandemic while maintaining the safety and well-being of colleagues but has since transitioned new working practices to business as usual, with ongoing, stable operational performance. The crisis management response included a focus on operational resilience. The actions taken included enhancing home working capability for colleagues and self-serve capability for customers. Close monitoring remains in place to ensure that the Group's critical functions continue to be resilient.

Financial Crime & Fraud

Financial Crime and fraud are significant drivers of Operational Risk and the external threat continues to be a high priority area of risk management across the Financial Services industry.

Controls and risk mitigants

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

Technology Risk

As primarily a digital bank, technology is a key element in providing services to our customers in a consistent and secure manner. Causes of technology outages across the industry include failed change, 3rd party failures or security events.

Controls and risk mitigants

The Group manages technology and technology risk through its Information Technology team and has aligned key processes and controls with industry recognised standards such as ITIL (Information Technology Infrastructure Library) and NIST (National Institute of Standards and Technology). Regular reporting on technology services and technology risk

Operational Risk (continued)

are provided to the Group's Executive Committee, Executive Risk Committee, Board Risk Committee and the Board.

Cyber Crime

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

Controls and risk mitigants

The Group manages cyber security risks through its Information Security team. The Group continually monitors emerging risks and threats. Regular reporting is provided to the Executive Risk Committee and Board Risk Committee.

Other Principal Risks

In addition to the risks identified above, there are a number of other risks to which the Group is exposed as detailed below, and where appropriate, Pillar 2 capital is held to support these risks.

Regulatory Risk

Regulatory risk is the risk of reputational damage, liability or material loss arising from failure to comply with the requirements of the financial services regulators or related codes of best practice applicable to the business areas within which the Group operates. The risk of business conduct leading to poor outcomes can arise as a result of an over aggressive sales strategy, poor management of sales processes, credit assessments and processes or failure to comply with other regulatory requirements.

Risk Appetite Statement

The Group seeks to comply with relevant rules, regulations and data protection legislation. If regulatory breaches occur, the Group will take appropriate rectifying action on a timely basis. The Group seeks to deliver fair outcomes for customers and will accept only a minimal number of events with a material regulatory impact.

Risk Appetite Measures

- Status of regulatory change programmes;
- Customer or Regulatory events with a material rating;
- Personal data breaches;
- Overall rating in Data Protection Officer's Data Protection Assessment; and
- Conduct outcomes.

Controls and mitigants

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

The Compliance team is also responsible for the detailed regulatory policies which underpin the Compliance Policy (e.g. Data Protection and Regulatory Contact). These are further supported by practical guidance documents supplied to business and operational areas, enabling them to comply with the regulatory policies.

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

The Group has a Regulatory Change Forum which is responsible for:

- Reviewing and assessing the impact of future regulatory and industry items impacting the Group;
- Providing visibility of the Group regulatory program to enable business areas to plan and budget for change;
- Providing support to business areas for effective delivery of mandatory change;
- Tracking Group responses to information requests/consultation responses;
- Considering the current and future state of compliance by the Group; and
- Escalation of material risks to relevant committee or fora.

Other Principal Risks (continued)

Business areas manage conduct risk and use a range of management information to monitor the fair treatment of customers. A framework of product-led conduct management information has been developed and is reviewed by senior management in the business lines.

Customer outcomes are assessed as part of the development and design of new products and through annual reviews of existing products. The ERC and the Board review and challenge delivery of fair outcomes for customers and are provided with management information, including the provision of a six monthly Conduct Risk Assessment completed by the Compliance team and management information which monitors the level of complaints referred to the Regulator and Financial Ombudsman Service.

Brexit

The Brexit transition period ended on 31 December 2020, with the UK agreeing a trade deal with the EU. In preparation for Brexit, the Group actively considered the potential risks associated with the UK's exit from the EU and their impact on both the UK financial services market and the Group itself. The Group also continues to monitor related developments to the UK's exit from the EU, including the possibility of a second Scottish independence vote.

The most significant potential impact arises in respect of credit risk relating to the performance of the Group's portfolio of loans and advances to customers. Their performance and the associated Expected Credit Loss (ECL) provisions required will be influenced by the macro-economic outcomes of Brexit.

Controls and mitigants

Assessment of the (ECL) allowance under IFRS 9 has considered a range of macro-economic scenarios. In addition, the Group's internal liquidity and capital adequacy assessments are designed to ensure that the Group has sufficient capital and liquidity resources to allow it to cope with a severe economic stress and maintain sufficient liquidity above required limits throughout the going concern forecast period.

Pension obligation risk

Pension risk is the risk to a company caused by its contractual or other liabilities to or with respect to a pension scheme (whether established for its employees or those of a related company or otherwise). The Group is a participating employer in the Tesco PLC Pension Scheme (operated by Tesco Stores Limited) and is exposed to pension risk through its obligation to the scheme. Tesco PLC has recognised the appropriate net liability of the Tesco PLC pension scheme in its statutory accounts.

Controls and mitigants

The Group undertakes an assessment of the impact of its share of the pension scheme under a stress as part of its annual internal capital adequacy assessment process.

Residual price risk

Residual price risk is the risk that the fair value of a financial instrument and its associated hedge will fluctuate because of changes in market prices, for reasons other than interest rate or credit risk. At the prior year end the Group had debt and equity investment securities which were held at fair value in the Statements of Financial Position. On 1 March 2020 the Group's portfolio of debt investment securities held at fair value was reclassified to amortised cost. Equity investment securities continue to be held at fair value.

Controls and mitigants

The Group has established appropriate hedging strategies to mitigate the interest rate and foreign exchange risks however residual price risk remains. Further information relating to the Group's exposure to residual price risk at the year end can be found in the Annual Report and Financial Statements.

https://bank.tescoplc.com/financial-information/accounts-and-disclosures

Remuneration

Approach to Remuneration

The Group's Remuneration policy is designed to comply with the remuneration rules set out by the PRA and the FCA.

The Group structures its approach to reward based on that used across the wider Tesco Group, maintaining consistency where appropriate, but tailored to fit the financial services industry in line with both industry specific commercial need and external regulatory requirements.

The Group externally benchmarks its reward framework annually to confirm it is aligned to the market and is adequate to recruit and retain qualified and experienced staff. Reward is structured to incentivise people to meet business goals, whilst ensuring actual awards are based on business and individual performance, promoting an environment of sound risk management.

The Group has identified Material Risk Takers (MRTs) using criteria in the Commission Delegated Regulation (EU) 604/2014 to identify categories of staff whose professional activities have a material impact on a company's risk profile.

The list of MRTs is provided to the Remuneration Committee at each meeting.

Remuneration Committee

The Group has established a Remuneration Committee to oversee the Remuneration policy and decisions on reward for all MRTs.

The Remuneration policy is reviewed on a regular basis and agreed by the Committee prior to Board approval. No significant changes were made to the policy during the year.

The Remuneration Committee seeks to ensure that the levels and structures of remuneration are designed to attract, retain and motivate management talent needed to run the business in a way which is consistent with the Risk Appetite and on-going sustainability of the business and to be compliant with the applicable legislation and regulation.

The Remuneration Committee is appointed by the Board and during the year, consisted of a Non-Executive Director as Chair of the Committee, the Chair of the Group and three other non-Executive Directors. Additionally, the Committee Chair provides an annual update to the Remuneration Committee of Tesco PLC.

Members of the Remuneration Committee are members of either, or both of, the Group's Audit and Board Risk Committees, which ensures that they are regularly updated on key risk and control issues relating to the Group.

The Remuneration Committee is supported by the Colleague Experience Director of the Group and a representative from the Tesco PLC Group Reward team. In addition, the Group's Chief Executive Officer attends meetings at the request of the Committee.

Where appropriate, the Committee also draws on external consultants to provide advice and guidance. During the year, the Committee received independent external advice from PricewaterhouseCoopers, including an independent review of the Remuneration Policy.

Remuneration (continued)

Link between pay and performance

The Remuneration Policy requires the following when determining individual remuneration arrangements to enforce the link between pay and performance:

- A combination of financial and non-financial performance measures including risk management objectives of Tesco PLC and the Group is used, ensuring that decisions are not taken for short-term financial gain to the detriment of other aspects of the business.
- An appropriate combination of fixed and variable pay, benchmarked annually, ensuring the Group's fixed-variable ratios on remuneration are controlled and do not encourage inappropriate risk-taking behaviour.
- The basis of assessment for the short-term bonus is adjusted for colleagues in control functions, so greater emphasis is placed on control objectives.
- Annual incentives reflect both individual performance and business performance. Business performance determines the bonus pool. Senior people also have an element of their annual incentive based on Tesco Group performance which forms part of the bonus pool.
- Maximum award levels are determined as percentages of salary, which are pre-set for the Group, based on work level. Rewards are established within this framework, and therefore there is no opportunity for an individual to benefit from increased rewards outside of this core structure.

Where underperformance is identified it is managed through the performance management process and may result in reduced or zero awards.

Design characteristics of the remuneration system

The Group delivers its reward via a combination of fixed pay, variable pay and other benefits. All identified MRTs, employed by the Group, participate in the variable reward schemes.

Long term incentive pay is based on the outcome of Tesco PLC measures including earnings per share and free cash flow.

A share-based element to the variable reward supports long-term commitment, with all identified MRTs subject to levels of deferral. Shares awarded are those of Tesco PLC. Variable pay deferral levels are set at the time of award and in line with regulatory requirements, with at least 50% of variable pay being paid in shares.

All incentive awards include provisions for performance and risk adjustments, including the application of malus and claw-back, which are at the discretion of the Remuneration Committee. The following non-exhaustive list outlines the circumstances in which malus and/or clawback measures can be triggered:

- where business performance has been materially misstated;
- where a participant has contributed to serious reputational damage to the Group and or the wider Tesco Group; or
- failure to comply with the Code of Business Conduct through individual behaviour which has led to serious misconduct, fraud or misstatement.

A Risk Adjustment Framework is in place to support discussions on potential adjustments to reward and a Risk Adjustment Forum is established to review reporting against the Risk Adjustment Framework and provide input to the Remuneration Committee in relation to risk events and other matters which may affect variable awards.

Remuneration (continued)

Recruitment policy for the selection of members of the management body

The Nomination Committee annually reviews the structure, size and composition of the Board, by evaluating the balance of skills, knowledge, experience and diversity currently in place, and makes recommendations to the Board regarding any changes.

In addition, the Remuneration Committee ensures that during the recruitment process, the remuneration package approach for all MRTs (including those in relation to members of the management body) aligns to Tesco PLC with differences arising only if driven by the need for regulatory compliance or if market practice for certain specialist employee skill sets is so different from Tesco PLC policy as to create significant challenges to industry competitiveness.

Following internal processes and governance, the Remuneration Committee is required to approve the remuneration package for new and existing MRTs. To enable recruitment, the Remuneration Committee may be asked to approve buyouts of awards such as annual bonus awards from previous employers. Where such an award is made, it is awarded on an exceptional basis and remains subject to appropriate retention, deferral, performance and recovery terms.

Information on the skills and experience of the Board is set out in the biographies on the Tesco Bank corporate website (refer to link contained in Appendix 2). This appendix also details the number of directorships held by members of the Board.

Board Diversity Policy

The Group has a Board Diversity & Inclusion Policy which has been reviewed by the Nomination Committee during the year prior to it being approved by the Board. The Group is fully committed to creating an inclusive culture with a mix of skills, knowledge, experience, geographical expertise, educational and professional backgrounds. In addition, the Board aims to have a mix of gender, tenure, age, ethnicity and other distinctions between Directors.

In addition, the Equal Opportunities Policy and supporting guidance aim to ensure that there is a fair process to attract, develop and retain talent and ensure that all colleagues are afforded equal opportunities regardless of protected characteristics or background, creating a diverse and inclusive workplace that reflects the customers that the Group serves.

The Group is a Women in Finance signatory, supporting the progression of women into senior roles in the financial services sector, championing the benefits of greater diversity within business through setting a variety of targets regarding female representation. Signatories are required to publicly report on progress to deliver against these internal targets in support of the accountability and transparency needed to drive change. In the last year, the Group made positive progress in improving female representation and is focussed on building a sustainable talent pipeline to ensure that it continues to develop diverse talent throughout all levels of the organisation. However, despite the positive progress made, it should be noted that the two targets set for 2020 have not been met (33% female Executive Committee members and 33% female Board members). Revised target deadlines have been set for membership of the Board and Executive Committees which are aligned with the existing Senior Manager target deadlines, to be achieved by the end of 2022. This allows the Group to continue to address diversity within its senior leadership populations and take a holistic approach to addressing diversity throughout the organisation. Details of the Group's targets and progress can be found at: https://bank.tescoplc.com/sustainability/diversity-inclusion/gender/

In August 2020, the Group appointed Gerry Mallon as Executive Sponsor for Inclusion who is also accountable for progress towards the Women in Finance targets. Gerry Mallon leads the Inclusion agenda for the Group and chairs the Inclusion Network, which consists of Sponsors and Chairs of colleague networks, the Director of Colleague Experience and the Inclusion team.

	Target	February 2021	February 2020
Female Senior Managers * (by end of 2022)	33.3%	16.0%	19.2%
Female Executive Committee Members (by end of 2022)	33.3%	28.6%	22.2%
Female Board Members (by end of 2022)	33.3%	27.3%	16.7%

* Female Senior Managers refers to the Director and Executive Committee population.

Remuneration (continued)

Remuneration for MRTs

Under the CRR, the Group is required to make certain aggregate quantitative disclosures regarding the remuneration of MRTs. The following tables represent the Group's disclosure for the year ended 28 February 2021.

Remuneration awarded during the financial year - Analysis of remuneration by fixed and variable elements

	February 2021		
	Senior Management	Other Material Risk Takers	Total
Number of identified material risk takers	**16**	**37**	**53**
Fixed reward (£m) (1)	3.6	7.1	10.7
Variable reward (£m) (2)	4.0	2.0	6.0
Total remuneration (£m)	**7.6**	**9.1**	**16.7**

	February 2020		
	Senior Management	Other Material Risk Takers	Total
Number of identified material risk takers	**17**	**44**	**61**
Fixed reward (£m) (1)	3.7	7.4	11.1
Variable reward (£m) (2)	5.5	6.6	12.1
Total remuneration (£m)	**9.2**	**14.0**	**23.2**

Remuneration awarded during the financial year - Amounts and forms of variable remuneration

	February 2021		
	Senior Management	Other Material Risk Takers	Total
Cash (£m)	0.4	0.2	0.6
Shares (£m)	3.6	1.8	5.4
Total variable remuneration (£m)	**4.0**	**2.0**	**6.0**

	February 2020		
	Senior Management	Other Material Risk Takers	Total
Cash (£m)	1.7	3.4	5.1
Shares (£m)	3.8	3.2	7.0
Total variable remuneration (£m)	**5.5**	**6.6**	**12.1**

Notes:

(1) Values noted include; base salary (or fees in the case of non-executive directors), benefits in kind and any other benefits earned in the year.

(2) Where payable other than in cash, the variable remuneration has been valued for the purposes of this table using the fair value of shares.

Special payments - Sign on and severance payments during the financial year

	February 2021
Sign on payment made during year (£m)	–
Number of beneficiaries	1
Severance payments made during year (£m)	0.6
Number of beneficiaries	2

	February 2020
Sign on payment made during year (£m)	0.3
Number of beneficiaries	3
Severance payments made during year (£m)	1.7
Number of beneficiaries	9

Remuneration (continued)

Deferred remuneration

	February 2021		
	Senior Management	Other Material Risk Takers	Total
Vested (£m)	–	–	–
Unvested (£m)	3.6	1.8	5.4
Total (£m)	**3.6**	**1.8**	**5.4**

	February 2020		
	Senior Management	Other Material Risk Takers	Total
Vested (£m)	–	–	–
Unvested (£m)	3.8	2.9	6.7
Total (£m)	**3.8**	**2.9**	**6.7**

Analysis of high earners by band

Remuneration Band (Euros)	**February 2021 Number of Material Risk Takers**
2.5 million - 3.0 million	–
2 million - 2.5 million	1
1.5 million - 2.0 million	–
1 million - 1.5 million	4

Remuneration Band (Euros)	**February 2020 Number of Material Risk Takers**
2.5 million - 3.0 million	1
2 million - 2.5 million	–
1.5 million - 2 million	2
1 million - 1.5 million	2

Glossary of Terms

	Definition
A	
Asset encumbrance	A claim against an asset by another party. Encumbrance usually impacts the transferability of the asset and can restrict its free use until the encumbrance is removed.
B	
Basel II	Basel II is a set of international banking regulations put forth by the Basel Committee on Bank Supervision, which levelled the international regulation field with uniform rules and guidelines. Basel II expanded rules for minimum capital requirements established under Basel I and provided the framework for regulatory review, as well as set disclosure requirements for assessment of capital adequacy of banks.
Basel III	Basel III is an international regulatory accord that introduced a set of reforms designed to improve the regulation, supervision and risk management within the banking sector.
C	
Capital conservation buffer	A capital buffer designed to ensure that banks are able to build up capital buffers outside of periods of stress which can then be drawn upon as losses are incurred.
Capital Requirements Directive (CRD)	The Capital Requirements Directive is an EU legislative package that contains prudential rules for banks, building societies and investment firms. Most of the rules in the legislation have applied since 1 January 2014.
Capital Requirements Regulation (CRR)	The Capital Requirements Regulation 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.
Central counterparties	Central counterparties (CCPs) are used in order to clear specified derivative transactions (predominantly interest rate swaps) thereby mitigating counterparty risk within the financial system. Positions are continuously marked and margin in the form of collateral is exchanged on at least a daily basis.
Common Equity Tier 1 capital (CET1)	The highest form of regulatory capital under CRR, comprising common shares issued, related share premium, retained earnings and other reserves less regulatory adjustments.
Countercyclical capital buffer (CCyB)	A capital buffer, determined by the regulator, which aims to ensure that capital requirements take account of the macro-economic financial environment in which banks operate. This aims to provide the banking sector with additional capital to protect it from potential future losses. In times of adverse financial or economic circumstances, when losses tend to deplete capital and banks are likely to restrict the supply of credit, the CCyB can be released by the regulator to help avoid a credit crunch.
Counterparty Credit Risk	The risk that a counterparty to a transaction will default before the final settlement of the transaction's cash flows.
Covid-19	An infectious disease caused by a newly discovered Coronavirus.
Credit quality step	A step in the CRR credit quality assessment scale which is based on the credit ratings applied by external credit assessment institutions. The scale is used to assign risk weightings to exposures under the Standardised Approach.
Credit conversion factor	The CCF converts an off balance sheet exposure to its credit exposure equivalent which is then risk weighted. Off balance sheet exposures have a probability of becoming a credit exposure and shifting onto the balance sheet. The CCF is an estimate of this probability. The expected value of the credit exposure is derived by multiplying the CCF with the value of the off balance sheet exposure.
Credit Risk	Credit Risk is the risk that a borrower will default on a debt or obligation by failing to make contractually obligated payments, or that the Group will incur losses due to any other counterparty failing to meet their financial obligations.
Credit risk mitigation	Techniques (such as collateral agreements) used to reduce the Credit Risk associated with an exposure.
Credit Valuation Adjustments	Adjustments to the fair value of derivative assets to reflect the credit worthiness of the counterparty.
D	
Derivatives	Financial instruments whose value is based on the performance of one or more underlying assets.

Glossary of Terms (continued)

E	
Exposure	A claim, contingent claim or position which carries a risk of financial loss.
External credit assessment institutions	These include external credit rating agencies such as Standard & Poor's, Moody's and Fitch.
F	
Fair value	The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
Forbearance	Forbearance is a temporary postponement or alteration of contractual repayment terms in response to a counterparty's financial difficulties.
Funding Risk	The risk that the institution does not have sufficiently stable and diverse sources of funding.
G	
Global Systemically Important Institution (G-SII)	A financial institution whose distress or disorderly failure, because of its size, complexity and systemic interconnectedness, would cause significant disruption to the wider financial system and economic activity.
I	
Impaired exposures	Exposures where it is not expected that all contractual cash flows will be collected or will be collected when they are due.
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.
Interest Rate Risk in the Banking Book (IRRBB)	IRRBB is the risk of value changes to both earnings and capital arising from timing differences in the re-pricing of the Group's assets and liabilities and unexpected changes to the level and/or shape of the yield curve.
Internal Capital Adequacy Assessment Process (ICAAP)	The institution's own assessment of the level of capital needed in respect of its regulatory capital requirements (for Credit, Market and Operational Risks) and for other risks including stress events.
Internal Liquidity Adequacy Assessment Process (ILAAP)	An ongoing exercise as part of the PRA's regulatory framework to ensure that the Group maintains adequate liquid assets to survive a defined stress scenario for a sufficient period as defined by Risk Appetite.
International Swaps and Derivatives Association (ISDA) master agreement	A standardised contract developed by the ISDA which is used as an umbrella contract for bilateral derivative contracts.
L	
Leverage Ratio	Tier 1 capital divided by the exposure measure.
Liquidity Risk	Liquidity Risk is the risk that the institution has insufficient cash resources to meet its obligations as they fall due or can only do so at excessive cost.
M	
Mark to Market approach	The method used to calculate exposure values for Counterparty Credit Risk. The method adjusts daily to account for profits and losses in the value of related assets and liabilities.
Market risk	Market Risk is defined as the risk that movements in market prices (such as interest rates, foreign exchange rates and the market value of financial instruments) lead to a reduction in either the Bank's earnings or capital.

Glossary of Terms (continued)

Minimum capital requirement	The minimum regulatory capital that must be held in accordance with Pillar 1 requirements for Credit, Market and Operational Risk. This is currently 8%.
MREL ratio	The MREL ratio is calculated by dividing total capital plus MREL debt by risk-weighted assets.
O	
Operational Risk	Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.
Other Systemically Important Institution (O-SII)	Institutions that, due to their systemic importance, are more likely to create risks to financial stability. These institutions may bring negative externalities into the system and contribute to market distortions.
Over the counter derivatives	Derivatives for which the terms and conditions can be freely negotiated by the counterparties involved, unlike exchange traded derivatives which have standardised terms.
P	
Pillar 1	The first pillar of the Basel II framework sets out the minimum regulatory capital requirements (8%) for Credit, Market and Operational Risks.
Pillar 2	The second pillar of the Basel II framework, known as the Supervisory Review Process, sets out the review process for a bank's capital adequacy; the process under which supervisors evaluate how well banks are assessing their risks and the actions taken as a result of these assessments.
Pillar 2A	Pillar 2A addresses risks to an individual firm which are either not captured, or not fully captured under the Pillar 1 capital requirements applicable to all banks.
Pillar 3	The third pillar of the Basel II framework aims to encourage market discipline by setting out disclosure requirements for banks on their capital, risk exposures and risk assessment processes. These disclosures are aimed at improving the information made available to the market.
Potential Future Exposure (PFE)	The maximum expected credit exposure over a specified period of time (e.g. at a given quartile) calculated at some level of confidence.
Prudential Regulatory Authority (PRA)	Responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms in the UK.
R	
Regulatory capital	The capital that a bank holds, determined in accordance with the relevant regulation arising from the CRR.
Residual maturity	The length of time remaining from present date until the maturity of the exposure.
Retail Credit Risk	Retail Credit Risk is the risk that a borrower who is a personal customer will default on a debt or obligation by failing to make contractually obligated payments.
Risk appetite	The level and types of risk that a firm is willing to assume to achieve its strategic objectives.
Risk Appetite Measures	Measures designed to monitor exposure to certain risks to ensure that exposure stays within approved Risk Appetite (see Appendix 5).
Risk Weighted Assets (RWAs)	Calculated by assigning a degree of risk expressed as a percentage (risk weight) to an exposure value in accordance with the applicable Standardised 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 (SFTs)	The act of lending or borrowing a stock, derivative, or other security to or from an investor or firm. For the Group this represents market repo transactions and does not represent securities financing for clients.
Segment A & B suppliers	Suppliers supporting critical functions and / or high value contracts.
Settlement Risk	Settlement Risk is the risk that a counterparty fails to deliver a security or its value in cash in accordance with contractual agreements after the other counterparty has already delivered a security or cash value in accordance with the same agreement.
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.

Glossary of Terms (continued)

Special Purpose Entity	A corporation, trust, or other non-bank entity, established for a defined purpose, including for carrying on securitisation activities. Special Purpose Entities are designed to isolate its 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 regulation. Standardised Approaches, 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	
Temporary Payment Holidays	Temporary deferral of contractual repayments due from customers in respect of lending balances.
Term funding schemes	Funding schemes provided by the Bank of England which provide participating banks and building societies with funding at interest rates close to Bank Rate. The Group has specifically utilised both the original Term Funding Scheme (TFS) and the more recent Term Funding Scheme with additional incentives for SMEs (TFSME).
Tier 1 capital	A component of regulatory capital, comprising Common Equity Tier 1 capital and Additional Tier 1 capital. Additional Tier 1 capital includes qualifying capital instruments such as non-cumulative perpetual preference shares and Additional Tier 1 capital securities.
Tier 2 capital	A component of regulatory capital, comprising qualifying subordinated loan capital and related non-controlling interests.
W	
Wholesale Credit Risk	The risk that a non-retail counterparty to a transaction will default before the final settlement of the transaction cash flows.
Wrong Way Risk	The risk that arises from the correlation between a counterparty exposure and the credit quality of the counterparty. The risk that the probability of default increases with exposure.

Appendix 1: Board Risk Statement and Declaration

The Group's strategy is aligned with that of Tesco PLC: To serve Britain's customers a little better every day. The Group's role in delivering that strategy is 'to help Tesco customers manage their money a little better every day'. The Group operates with a strong customer centric focus providing simple, transparent products which aim to deliver value for customers. The Group's strategy is pursued within a defined Risk Appetite which comprises a set of Risk Appetite Statements aligned to each of the principal risks to which the business is exposed and which are underpinned by corresponding Risk Appetite Measures with agreed triggers and limits.

The Group is exposed to the following principal risk categories:

- Capital Risk;
- Liquidity and Funding Risk;
- Credit Risk;
- Market Risk;
- Operational Risk; and
- Regulatory Risk.

Risk Appetite Measures are used by the Group to support the overarching objective to manage risk within prescribed limits. Risk Appetite Measures are integrated into decision making, monitoring and reporting processes, with early warning trigger levels set to drive any required corrective action before overall tolerance levels are reached. The Group's Risk Appetite and Measures are discussed throughout the document with the principle measures disclosed in tables EU OV1 and BCBS KM1.

The impact of the Covid-19 pandemic on the Group, most materially in relation to Credit and Operational Risk, is detailed throughout these disclosures.

The Group's transactions with related parties are disclosed in the Annual Report and Financial Statements which are published on the corporate website at:

https://bank.tescoplc.com/financial-information/accounts-and-disclosures

The Board of Directors is ultimately responsible for reviewing the effectiveness of the Group's Risk Management Framework and systems of financial and internal controls. These are designed to manage rather than eliminate the risks of not achieving business objectives, and, as such, offer reasonable but not absolute assurance against fraud, material misstatement and loss.

The Board considers that the Group has in place adequate systems and controls and Liquidity Risk management arrangements with regard to the Group's profile and strategy and an appropriate array of assurance mechanisms to manage risk within appetite.

Appendix 2: Analysis of the Number of Directorships held by Members of the Board

The following breakdown shows the number of directorships held by members of the Group as at 28 February 2021:

Name	Position within Tesco Personal Finance Group plc	Changes in the year	Executive	Non-Executive
Sir John Kingman	Independent Non-Executive Chair	Appointed to Chair 07/07/20	0	2
Julie Currie	Independent Non-Executive Director	Appointed 01/02/21	0	2
Robert Endersby	Independent Non-Executive Director		0	1
Jacqueline Ferguson	Independent Non-Executive Director		0	3
Richard Henderson	Chief Risk Officer		1	0
Declan Hourican	Chief Financial Officer		1	0
Simon Machell	Independent Non-Executive Director		0	4
Gerard Mallon	Chief Executive Officer		1	0
Amanda Rendle	Independent Non-Executive Director		0	3
Alan Stewart	Non-Executive Director		1	2
James Willens	Senior Independent Non-Executive Director		0	1

Multiple directorships within the same group are treated as a single role, in line with CRD rules.

Information on their skills and experience is set out in their biographies on the Tesco Bank corporate website:

https://bank.tescoplc.com/about-us/board-and-exec/board/

On 17th April 2020, Graham Pimlott retired from his position as the Independent Non-Executive Chair. James Willens was appointed to the role on an interim basis, assuming responsibility for the role during the period until Sir John Kingman was permanently appointed to the position on 7th July 2020. James Willens re-assumed his role as Senior Independent Non-Executive Director on 7th July 2020.

James McConville resigned from his role on the Board on 1st February 2021 and was replaced by Julie Currie who was also appointed as Chair of the Board Audit Committee.

Appendix 3: IFRS 9-FL: Comparison of institutions' own funds and capital and Leverage Ratios with and without the application of transitional arrangements for IFRS 9 or analogous ECLs

		February 2021 £m	February 2020 £m
	Available capital (amounts)		
1	Common Equity Tier 1 (CET1) capital	1,721.7	1,721.6
2	Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	1,458.8	1,580.0
3	Tier 1 capital	1,721.7	1,721.6
4	Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	1,458.8	1,580.0
5	Total capital	1,935.6	1,935.6
6	Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	1,672.7	1,794.0
	Risk-weighted assets (amounts)		
7	Total risk-weighted assets	6,805.0	8,310.1
8	Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	6,675.1	8,274.8
	Capital ratios		
9	Common Equity Tier 1 (as a percentage of risk exposure amount)	25.3%	20.7%
10	Common Equity Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	21.9%	19.1%
11	Tier 1 (as a percentage of risk exposure amount)	25.3%	20.7%
12	Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	21.9%	19.1%
13	Total capital (as a percentage of risk exposure amount)	28.4%	23.3%
14	Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	25.1%	21.7%
	Leverage Ratio		
15	Leverage Ratio total exposure measure	10,138.0	12,761.6
16	Leverage Ratio	17.0%	13.5%
17	Leverage Ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	14.8%	12.5%

IFRS 9 Financial Instruments became effective for annual periods beginning on or after 1 January 2018 and is reflected in the Group disclosures. The Group has elected to use the transitional arrangements available under Article 473a of the CRR. These arrangements allow the IFRS 9 impact on capital to be phased in over a period of 5 years. On 27 June 2020, due to the Covid-19 pandemic, the CRR was further amended to accelerate specific measures and implement a new IFRS 9 transitional relief calculation. The IFRS 9 transitional arrangements have been extended by two years and a new modified calculation has been introduced. The Group has taken advantage of the additional transitional period made available but has not taken advantage of the temporary treatment of unrealised gains and losses under Article 468.

Appendix 4: Tesco Personal Finance plc Capital Resources, Capital Requirements and Leverage Ratio

In accordance with Article 13 of the CRR, this Appendix sets out the reduced Pillar 3 disclosures of Tesco Personal Finance plc (the Company), the significant subsidiary of the Group.

CRR: Own funds disclosure template

	Common Equity Tier 1 Capital: Instruments and Reserves	**February 2021 £m**	**February 2020 £m**
1	Capital instruments and the related share premium accounts	**1,219.9**	**1,219.9**
	of which: ordinary share capital	1,219.9	*1,219.9*
2	Retained earnings	719.0	554.6
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	24.9	30.0
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	(127.2)	43.0
6	Common Equity Tier 1 capital before regulatory adjustments	**1,836.6**	**1,847.5**
	Common Equity Tier 1 capital: regulatory adjustments		
7	Additional value adjustments (negative amount)	–	(1.1)
8	Intangible assets (net of related tax liability) (negative amount)	(130.9)	(138.2)
11	Fair value reserves related to gains or losses on cash flow hedges	0.6	–
28	Total regulatory adjustments to Common Equity Tier 1	**(130.3)**	**(139.3)**
29	Common Equity Tier 1 capital	**1,706.3**	**1,708.2**
45	Tier 1 capital (Tier1 + Common Equity Tier 1 + Additional Tier 1)	**1,706.3**	**1,708.2**
	Tier 2 capital: instruments and provisions		
46	Capital instruments and the related share premium accounts	235.0	235.0
50	Credit risk adjustments	–	–
51	Tier 2 capital before regulatory adjustments	**235.0**	**235.0**
	Tier 2 capital: regulatory adjustments		
55	Direct and indirect holdings by the institution of the Tier 2 instruments and the subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	(21.1)	(21.0)
57	Total regulatory adjustments to Tier 2 capital	**(21.1)**	**(21.0)**
58	Tier 2 capital	**213.9**	**214.0**
59	Total capital (Total Capital = Tier 1 + Tier 2)	**1,920.2**	**1,922.2**
60	Total Risk Weighted Assets	**6,802.8**	**8,343.0**
	Capital ratios and buffers		
61	Common Equity Tier1 (as a % of risk exposure amount)	**25.1%**	**20.5%**
62	Tier 1 (as a % of risk exposure amount)	**25.1%**	**20.5%**
63	Total capital (as a % of risk exposure amount)	**28.2%**	**23.0%**
64	Institution specific buffer requirements (Common Equity Tier 1 requirement in accordance with Article 92(1) a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (Global or Other systemically important buffer) expressed as a % of risk exposure amount)	7.0%	8.0%
65	of which: capital conversation buffer requirement	2.5%	2.5%
66	of which: countercyclical buffer requirement	0.0%	1.0%
68	Common Equity Tier 1 available to meet buffers (as a % of risk exposure amount)	19.1%	14.5%
	Amounts below the thresholds for deduction (before risk weighting)		
73	Direct and indirect holdings of the Common Equity Tier 1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	60.6	60.6

Appendix 4: Tesco Personal Finance plc Capital Resources, Capital Requirements and Leverage Ratio (continued)

EU OV1: Overview of RWAs and minimum capital requirements

		February 2021 Risk weighted assets £m	February 2020 Risk weighted assets £m	February 2021 Minimum capital requirements £m
1	**Credit Risk (excluding CRR)**	**5,456.0**	**6,880.7**	**436.5**
2	Of which Standardised Approach (SA)	5,456.0	6,880.7	436.5
6	**Counterparty Credit Risk**	**0.1**	**3.0**	**–**
7	Of which Mark to Market	0.1	2.2	–
9	Of which Standardised Approach (SA)	–	–	–
12	Of which CVA	–	0.8	–
23	**Operational Risk**	**1,195.3**	**1,307.9**	**95.6**
25	Of which Standardised Approach (SA)	1,195.3	1,307.9	95.6
27	**Amounts below thresholds for deduction (subject to 250% risk weight)**	**151.4**	**151.4**	**12.1**
29	**Total**	**6,802.8**	**8,343.0**	**544.2**

Leverage Ratio

EU LRSum: Summary reconciliation of accounting assets and Leverage Ratio exposures

		February 2021 Applicable Amounts £m	February 2020 Applicable Amounts £m
1	Total assets as per published financial statements	8,789.2	11,603.5
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	–	–
4	Adjustments for derivative financial instruments	(1.7)	0.9
5	Adjustments for securities financing transactions "SFTs"	–	–
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	1,266.8	1,187.2
7	Other adjustments	82.1	(49.0)
8	**Total Leverage Ratio exposure**	**10,136.4**	**12,742.6**

Appendix 4: Tesco Personal Finance plc Capital Resources, Capital Requirements and Leverage Ratio (continued)

EU LRCom: Leverage Ratio common disclosure

		February 2021 CRR Leverage Ratio exposures £m	February 2020 CRR Leverage Ratio exposures £m
On-balance sheet exposures (excluding derivatives and securities financing transactions "SFT"s)			
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	8,783.2	11,599.4
2	Asset amounts deducted in determining Tier 1 capital	123.3	(2.6)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	**8,906.5**	**11,596.8**
Derivative exposures			
5	Add-on amounts for PFE associated with *all* derivatives transactions (Mark to Market method)	4.4	5.1
7	Deductions of receivables assets for cash variation margin provided in derivatives transactions	(41.3)	(46.5)
11	**Total Derivative exposure (sum of lines 4 to 10**	**(36.9)**	**(41.4)**
Securities financing transaction exposures			
14	Counterparty Credit Risk exposure for SFT assets	–	–
16	**Total securities financing transaction exposures (sum of lines 12 to 15a)**	**–**	**–**
Other off-balance sheet exposures			
17	Other off-balance sheet exposures at gross notional amount	12,668.0	11,872.1
18	Adjustments for conversion to credit equivalent amounts	(11,401.2)	(10,684.9)
19	**Other off-balance sheet exposures (sum of lines 17 to 18)**	**1,266.8**	**1,187.2**
Capital and total exposures			
20	**Tier 1 capital**	**1,706.4**	**1,708.2**
21	**Total Leverage Ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	**10,136.4**	**12,742.6**
Leverage Ratio			
22	**Leverage Ratio**	**16.8%**	**13.4%**

EU LRSpl: Leverage Ratio: Split-up of on-balance sheet exposures (excluding derivatives, securities financing transactions and exempted exposures)

		February 2021 CRR Leverage Ratio exposures £m	February 2020 CRR Leverage Ratio exposures £m
EU-1	Total on-balance sheet exposures (excluding derivatives, securities financing transactions and exempted exposures), of which:	8,783.2	11,599.4
EU-3	Banking book exposures, of which:	8,783.2	11,599.4
EU-4	Covered bonds	298.9	286.7
EU-5	Exposures treated as sovereigns	1,379.4	2,067.7
EU-7	Institutions	146.6	238.5
EU-9	Retail exposures	6,329.4	8,360.3
EU-10	Corporate	30.8	35.8
EU-11	Exposures in default	89.9	100.9
EU-12	Other exposures (e.g. equity, securitisation, and other non-credit obligation assets)	501.7	509.5

Appendix 5: Risk Appetite Measures

Measures designed to monitor exposure to certain risks to ensure that exposure stays within approved Risk Appetite:

Risk Appetite Measure	**Calculation / Explanation**
12-Month Wholesale Maturity Concentration Limit	Value of wholesale funds maturing in a rolling 12-month period.
Annual Earnings at Risk (AEaR)	Changes in interest rates affect the Group's earnings by altering interest rate-sensitive income and expenses. Excessive interest income sensitivity can pose a threat to the Group's current capital base. The AEaR model measures the impact on earnings of +/- 0.25%, 0.50%, 0.75%, 1% parallel interest rate shocks against the base case. The most adverse scenario is measured against Risk Appetite.
Asset Encumbrance Ratio	Encumbered Assets / Total Assets
Bad Debt to Asset Ratio	The impairment charge over the last 12 months as a proportion of the average balance for Credit Cards and Personal Loans, compared to expectations from increased losses set relative to the latest budget.
Bad debt impact in a stress scenario as a % of Profit Before Tax (Profit Volatility)	Monitors the total, secured and unsecured proportion of base case profit that can be consumed by credit losses in a severe but plausible stress.
Business Continuity Plans, business impact assessments and Work Area Recovery testing in place	Business Continuity plans tested successfully / invoked during incident. Volume of Work Area Recovery testing that has failed to deliver against agreed success criteria.
Capital at Risk (CaR)	Capital at Risk is an economic-value measure and assesses sensitivity to a reduction in the Group's capital to movements in interest rates. When interest rates change, the present value and timing of future cash flows change. This changes the underlying value of a bank's assets, liabilities and off-balance sheet items and its economic value which in turn poses a threat to the capital base.
Conduct outcomes	Level of amber or red customer outcomes.
Customer or Regulatory events with a material rating	Number of open customer or regulatory events with a material impact rating.
Higher risk concentrations and demographics	We recognise that some demographic and product level segments exhibit higher risk behaviours. As a result of this we have concentration limits in place to control exposure to these segments both on a single and in some cases on a combination basis.
Infrastructure Resilience	Number of material 'Single Points of Failure' risks at the end of the reporting month. Volume of testing undertaken which remains in a failed position at the end of a reporting quarter. Percentage of critical services in place and proved at the end of the reporting month.
Internal Liquidity Requirement (ILR)	The ILR is the Group's own assessment of liquidity requirements based on surviving a defined stress scenario for a 90-day period.
Individual Liquidity Guidance (ILG)	Encompasses the regulatory Liquidity Coverage Ratio (LCR) and any Pillar 2 add-on prescribed by the PRA.
Information Security policy coverage and compliance	Assessment of our people, process and technology to give us confidence in our compliance and coverage

Appendix 5: Risk Appetite Measures (continued)

Risk Appetite Measure	Calculation / Explanation
Loan to Deposit Ratio	Loans and Advances to Customers/Deposits from Customers.
Material events	12-month average.
Net open currency position	Limits the risk of adverse movements in foreign exchange rates.
Net Stable Funding Ratio (NSFR)	Available Stable Funding / Required Funding
Number of open and overdue assurance issues raised by the Second and Third Line of Defence	Number of open and overdue material themed assurance findings identified through the risk assurance and Internal Audit plans as at the end of the reporting month.
Operational losses (Non-Fraud)	Total non-fraud losses as a % of income (12-month average)
Overall rating in Data Protection Officer's Data Protection Assessment	Overall rating, based on quantitative and subjective measures assessing 10 data protection compliance statements.
Personal data breaches	Level of medium materiality data protection events.
Product Level Default rate guardrails	Default rate guardrails are in place to ensure observed default rates do not rise to a level which could jeopardise the profitability of each monthly cohort in a stress. Provided the 12m default rates do not breach the limit the cohort should not deliver negative contributions if a stress occurs. Six and nine month guardrails are in place to provide early indication of possible threats.
Product Level Minimum Net Present Value / Internal Rate of Return	Monitors the profitability of new business to ensure the Group writes business which is Net Present Value positive
Regulatory Capital	Headroom above regulatory capital requirements (Total Capital Requirement plus Regulatory Buffers) on a verified profits only basis to allow early action to address potential shortfalls.
Risk and Control Self-Assessment overall control effectiveness	Percentage of Risks with control effectiveness rated as Red compared to all Risks identified through the RCSA process as at the end of the reporting month.
Service Availability	Percentage availability of critical services.
Status of regulatory change programmes	Number of regulatory change programmes with red status.
Supplier performance, service and risk rating for Segment A & B suppliers	Number of Segment A & B Suppliers with Amber and Red residual risk ratings.
Unencumbered Assets to Retail Liabilities Ratio	Surplus of unencumbered assets relative to the total amount of retail liabilities.
Wholesale Funding Ratio	Total Wholesale Funding / Total Funding

Appendix 6: CRR Mapping

The following table shows how the Group have complied with the disclosure requirements of Part Eight of the CRR.

CRR reference	High level summary	Tesco Personal Finance Group plc Pillar 3 Disclosures, For the year ended 28 February 2021. Compliance Reference:
Scope of disclosure requirements		
431 (1)	Requirement to publish Pillar 3 disclosures	Tesco Personal Finance Group plc Pillar 3 Disclosures For the Year Ended 28 February 2021
431 (2)	Firms with permission to use specific Operational Risk methodologies must disclose Operational Risk information associated with those methodologies	Not applicable: The Group does not use the IRB, Advanced Measurement Approaches or Internal Market Risk Models to assess Operational Risk
431 (3)	Institutions are required to have a formal policy setting out its approach to Pillar 3 disclosures, specifically in relation to: - Appropriateness of disclosures in conveying the risk profile of the business; - Approach to verification; - Frequency of publication	Page 6 - Disclosure Policy Page 6 - Frequency of Disclosure Page 6 - Verification and Medium
431 (4)	Institutions shall, if requested explain their rating decisions to SMEs and other corporate applicants for loans, providing an explanation in writing when asked	The Group's main lending exposure is in the personal Retail market. There is some small exposure to SME business which relates to non-core lending activity The Group is required to provide an explanation of rating decisions to SMEs upon request
Non material, proprietary or confidential information		
432 (1)	The Group may choose to omit one or more of the disclosure requirements set out in Part Eight of the CRR so long as the omission is not material and does not relate to: - Diversity - Own Funds - Remuneration Should the Group choose to use this waiver, it must disclose that it has done so, the reasons for the decision not to disclose and instead provide more general information in respect of the disclosure requirement. It must assess the decision on a regular basis at least once a year; and assess the need for both qualitative & quantitative disclosure	Page 7 - Use of Disclosure Waivers
432 (2)	The Group may also choose not disclose information on the grounds that it is proprietary or confidential if certain conditions are met	Page 7 - Use of Disclosure Waivers
432 (3)	If the Group decide to omit a disclosure, the Pillar 3 document should report the fact that the specific items of information are not disclosed, the reason for non-disclosure, and publish more general information about the subject matter of the disclosure requirement	Not applicable - the Group has not made use of any Disclosure Waivers
432 (4)	Use of 431 (1), (2) or (3) is without prejudice to scope of liability for failure to disclose material information	Not applicable - the Group has disclosed all material information
Frequency of disclosure		
433	Institutions shall publish the disclosures required by Part Eight of the CRR at least on an annual basis Annual disclosures shall be published in conjunction with the date of publication of the financial statements Institutions shall assess the need to publish some or all disclosures more frequently than annually in the light of the relevant characteristics of their business	Page 6 - Frequency of Disclosure Tesco Bank publishes disclosures in conjunction with the TPFG plc Annual Report & Financial Statements. Page 6 - Frequency of Disclosure

Appendix 6: CRR Mapping (continued)

Means of disclosures		
434 (1)	Institutions may determine the appropriate medium, location and means of verification to comply effectively with the disclosure requirements	Page 6- Verification and Medium The Group's disclosures are published on the Tesco Bank corporate website
434 (2)	Equivalent disclosures made by institutions under accounting, listing or other requirements may be deemed to constitute compliance with Part Eight of the CRR. If disclosures are included in the financial statements, institutions shall unambiguously indicate in the financial statements where they can be found	Page 6 - Verification and Medium Signposting to the Annual Report and Financial statements included throughout Pillar 3 document as necessary
Risk management objectives and policies		
435 (1)	Disclose information on:	
435 (1) (a)	the strategies and processes to manage risks	Page 14 - Risk Management Page 17- Three lines of Defence Page 19- Policy Frameworks and supporting risk management tools
435 (1) (b)	the structure and organisation of the risk management function	Page 14 - Risk Management Page 17- Three lines of Defence Page 19- Policy Frameworks and supporting risk management tools
435 (1) (c)	Risk reporting and measurement systems	Page 14 - Risk Management Page 17- Three lines of Defence Page 19- Policy Frameworks and supporting risk management tools
435 (1) (d)	the policies for hedging and mitigating risk, and the strategies and processes for monitoring the continuing effectiveness of hedges and mitigants	Page 14 - Risk Management Page 17- Three lines of Defence Page 19- Policy Frameworks and supporting risk management tools Throughout document under 'Controls and risk mitigants'
435 (1) (e)	a declaration approved by the management body on the adequacy of risk management arrangements of the institution	Appendix 1 - Board Risk Statement and Declaration
435 (1) (f)	a concise risk statement approved by the management body	Appendix 1 - Board Risk Statement and Declaration
435 (2)	Disclose information on:	
435 (2) (a)	the number of directorships held by members of the management body	Appendix 2 - Analysis of the Number of Directorships held by Members of the Board
435 (2) (b)	the recruitment policy for the selection of members of the management body and their actual knowledge, skills and expertise	Page 74 - Remuneration Board biographies link contained in Appendix 2 - Analysis of the Number of Directorships held by Members of the Board
435 (2) (c)	the policy on diversity with regard to selection of members of the management body, its objectives and any relevant targets set out in that policy, and the extent to which these objectives and targets have been achieved	Page 74 - Remuneration
435 (2) (d)	whether or not the institution has set up a separate risk committee and the number of times the risk committee has met	Page 14 - Governance Structure
435 (2) (e)	the description of the information flow on risk to the management body	Risk Appetite Measures described throughout the document Page 14 details Board feedback re information provided to ensure that reporting remains fit for purpose

Appendix 6: CRR Mapping (continued)

Scope of Application		
436	Disclose the following information:	
436 (a)	the name of the institution	Document front cover Page 1 Introduction and Basel Framework
436 (b)	an outline of the differences in the basis of consolidation for accounting and prudential purposes, with a brief description of the entities therein, explaining whether they are: (i) fully consolidated; (ii) proportionally consolidated; (iii) deducted from own funds; (iv) neither consolidated nor deducted;	Page 8 - Scope of Consolidation and Linkages between Financial Statements and Regulatory Exposures Page 8 - Comparability
436 (c)	Impediments to transfer of own funds between subsidiaries	Page 13 - Restrictions on the Transfer of Own Funds
436 (d)	Capital shortfalls in any subsidiaries outside of the scope of consolidation	Not applicable - the Group does not have any capital shortfalls in subsidiaries outside of the scope of consolidation.
436 (e)	Whether the institution has made use of the articles on derogations from: - Prudential requirements - Liquidity requirements for individual subsidiaries or entities	Not applicable - the Group has not made use of the articles on derogation from prudential requirements or liquidity requirements for individual subsidiaries or entities.
Own funds		
437 (1)	Disclose the following information regarding own funds:	
437 (1) (a)	a full reconciliation of CET1 items, AT1 items, Tier 2 items and filters and deductions applied pursuant to own funds of the institution and the balance sheet in the audited financial statements of the institution	Page 10 - Scope of Consolidation and Linkages between Financial Statements and Regulatory Exposures Table EU-CC2: Reported balance sheet under the regulatory scope of consolidation with mapping of balance sheet items used to calculate regulatory own funds
437 (1) (b)	a description of the main features of the Common Equity Tier 1 and Additional Tier 1 instruments and Tier 2 instruments issued by the institution	Appendix 7: EU CCA: Capital Instrument Key Features
437 (1) (c)	the full terms and conditions of all Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments	Appendix 7: EU CCA: Capital Instrument Key Features
437 (1) (d)	disclosure of the nature and amounts of the prudential filters and deductions made against own funds and items not deducted	Page 24- Own Funds Table CRR: Own funds disclosure template
437 (1) (e)	a description of all restrictions applied to the calculation of own funds in accordance with this Regulation and the instruments, prudential filters and deductions to which those restrictions apply	Page 24- Own Funds Table CRR: Own funds disclosure template
437 (1) (f)	an explanation where institutions disclose capital ratios calculated using elements of own funds determined on a basis other than that laid down by the CRR	Not applicable - the Group has not calculated any ratios using elements of own funds determined on a basis other than that laid down by the CRR.
437 (2)	EBA shall develop draft implementing technical standards to specify uniform templates for disclosure	Not applicable - EBA responsibility
Capital requirements		
438	Disclose the following information:	
438 (a)	a summary of the institution's approach to assessing the adequacy of its internal capital to support current and future activities	Page 21 - Capital Management
438 (b)	upon demand from the relevant competent authority, the result of the institution's internal capital adequacy assessment process	The Group will provide the results of the internal capital adequacy assessment process upon demand.
438 (c)	Capital requirements for each credit risk exposure class under the Standardised Approach	Page 26 - Capital Requirements Table EU CRB-B: Total and average net amounts of credit risk exposures

Appendix 6: CRR Mapping (continued)

438 (d)	Capital requirements for each credit risk exposure class under the IRB approach	Not applicable - the Group does not use the IRB approach
438 (e)	Capital requirements for Market Risk or Settlement Risk	Page 21 - Capital Management Page 26 - Capital Requirements Page 66 - Market Risk
438 (f)	Capital requirements for Operational Risk	Page 21 - Capital Management Page 26 - Capital Requirements Table EU-OV1: Overview of RWAs and minimum capital requirements Page 69 - Operational Risk
438 (end note)	requirement to disclose specialised lending exposures and equity exposures in the banking book falling under the simple risk weight approach	Page 59 - Non Trading Book Exposures in Equities
Exposure to Counterparty Credit Risk (CCR)		
439	Disclose the following information:	
439 (a)	a discussion of the methodology used to assign internal capital and credit limits for CCR exposures	Page 60 - Counterparty Credit Risk (CCR)
439 (b)	discussion of policies for securing collateral and establishing credit reserves	Page 60 - Counterparty Credit Risk (CCR)
439 (c)	discussion of policies with respect to Wrong-Way risk exposures	Page 39 - Wrong Way Risk
439 (d)	a discussion of the impact of the amount of collateral the institution would have to provide given a downgrade in its credit rating	Page 60 - Counterparty Credit Risk under the Mark to Market Approach
439 (e)	derivation of net derivative credit exposures	Page 60 - Counterparty Credit Risk under the Mark to Market Approach
439 (f)	exposure values for Mark to Market, original exposure, standardised and internal model methods	Page 60 - Counterparty Credit Risk under the Mark to Market Approach
439 (g)	notional value of credit derivative hedges, and the distribution of current credit exposure by types of credit exposure	Not applicable - the Group has no exposure to credit derivatives
439 (h)	notional amounts of credit derivative transactions	Not applicable - the Group has no exposure to credit derivatives
439 (i)	the estimate of α if the institution has received the permission of the competent authorities to estimate.	Not applicable - the Group does not use the Internal Model Method
Capital buffers		
440 (1)	Disclose the following information:	
440 (1) (a)	geographical distribution of its credit exposures relevant for the calculation of its countercyclical capital buffer	Page 28 - The Group's Countercyclical Capital Buffer Disclosure Table CCyB1: Geographical Distribution of Credit Exposures Relevant for the Calculation of the Countercyclical Capital Buffer
440 (1) (b)	the amount of its institution specific countercyclical capital buffer	Page 28 - The Group's Countercyclical Capital Buffer Disclosure Table CCyB2: Amount of institution specific countercyclical capital buffer
Indicators of global systemic importance		
441 (1)	disclosures of the indicators of global systemic importance	Not applicable - the Group is not a Globally Systemic Important Institution
Credit risk adjustments		
442	Disclose the following information:	
442 (a)	the definitions for accounting purposes of “past due” and	Page 45 - Past Due, Impaired Assets and Provisions

Appendix 6: CRR Mapping (continued)

	"impaired"	
442 (b)	a description of the approaches and methods adopted for determining specific and general credit risk adjustments	Page 45 - Past Due, Impaired Assets and Provisions
442 (c)	the total amount of exposures after accounting offsets and without taking into account the effects of credit risk mitigation, and the average amount of the exposures over the period broken down by different types of exposure classes	Page 41 - Analysis of Credit Risk Exposures Table EU CRB-B: Total and average net amount of exposures
442 (d)	the geographic distribution of the exposures, broken down in significant areas by material exposure classes, and further detailed if appropriate	Page 42 - Analysis of Credit Risk Exposures Table EU CRB-C: Geographical breakdown of exposures
442 (e)	the distribution of the exposures by industry or counterparty type, broken down by exposure classes, including specifying exposure to SMEs, and further detailed if appropriate	Page 43 - Analysis of Credit Risk Exposures Table EU CRB-D: Concentration of exposures by industry or counterparty types
442 (f)	the residual maturity breakdown of all the exposures, broken down by exposure classes, and further detailed if appropriate	Page 44 - Analysis of Credit Risk Exposures Table EU CRB-E: Maturity of exposures
442 (g)	breakdown of impaired, past due, specific and general credit risk adjustments and impairment charges for the period	Page 47 - Credit Quality Analysis Table EU CR1-A: Credit quality of exposures by exposure class and instrument
442 (h)	breakdown of impaired, past due, specific and general credit risk adjustments and impairment charges for the period, broken down by geographical area	Page 48 - Credit Quality Analysis Table EU CR1-C: Credit quality of exposures by geography
442 (i)	reconciliation of changes in the specific and general credit risk adjustments for impaired exposures including a description of the type of specific and general credit risk adjustments	Page 47 - Credit Quality Analysis Page 45 - Past Due, Impaired Assets and Provisions Table EU CR1-A: Credit quality of exposures by exposure class and instrument Table EU CR1-B: Credit quality of exposures by industry or counterparty types
442 (end note)	Specific credit risk adjustments and recoveries recorded directly to the income statement shall be disclosed separately	All specific credit risk adjustments are recorded to the income statement
Encumbered and Unencumbered assets		
443	Disclosures on unencumbered assets	Page 64 - Encumbered and Unencumbered Assets
Use of ECAIs		
444	Disclose the following information:	
444 (a)	the names of the nominated ECAIs and ECAs and the reasons for any changes	Page 57- Analysis of credit risk mitigation
444 (b)	the exposure classes for which each ECAI or ECA is used	Page 57- Analysis of credit risk mitigation Table EU CRD: Institution's use of external credit ratings under the Standardised Approach for Credit Risk
444 (c)	an explanation of the process used to translate external ratings into credit quality steps	Page 57- Analysis of credit risk mitigation
444 (d)	mapping of external rating to credit quality steps	Page 57- Analysis of credit risk mitigation Table EU CRD: Institution's use of external credit ratings under the Standardised Approach for Credit Risk
444 (e)	exposure value pre and post credit risk mitigation by credit quality step	Page 57- Analysis of credit risk mitigation Table EU CRD: Institution's use of external credit ratings under the Standardised Approach for Credit Risk Table EU CR4: Standardised Approach - credit risk exposure and credit risk mitigation effects

Appendix 6: CRR Mapping (continued)

Market Risk		
445	disclosure of Position Risk, large exposures exceeding limits, FX Settlement and Commodities Risk	Page 67 - Foreign Exchange Risk Page 68 - Market Risk Capital Requirements under the Standardised Approach
Operational Risk		
446	disclose the approaches for the assessment of own funds requirements for Operational Risk	Page 21 - Capital Management (Pillar 1 - application within the Group)
Exposures in equities not included in the trading book		
447	Disclose the following information:	
447 (a)	differentiation between exposures based on their objectives and an overview of the accounting techniques and valuation methodologies used	Page 59 - Non Trading Book Exposures in Equities
447 (b)	the balance sheet value, the fair value and, for those exchange-traded, a comparison to the market price where it is materially different from the fair value	Page 59 - Non Trading Book Exposures in Equities
447 (c)	the types, nature and amounts of exchange-traded exposures, private equity exposures in sufficiently diversified portfolios, and other exposures	Page 59 - Non Trading Book Exposures in Equities
447 (d)	the cumulative realised gains or losses arising from sales and liquidations in the period	Not applicable - the Group has not made any sales or liquidations in the period
447 (e)	the total unrealised gains or losses, the total latent revaluation gains or losses, and any of these amounts included in Common Equity Tier 1 capital	Page 59 - Non Trading Book Exposures in Equities
Exposure to interest rate risk on positions not included in the trading book		
448	Disclose the following information:	
448 (a)	the nature of the interest rate risk and the key assumptions (including assumptions regarding loan prepayments and behaviour of non-maturity deposits), and frequency of measurement of the interest rate risk	Page 66 - Interest Rate Risk in the Banking Book (IRRBB)
448 (b)	the variation in earnings, economic value or other relevant measure used by the management for upward and downward rate shocks according to management's method for measuring the interest rate risk, broken down by currency	Page 66 - Interest Rate Risk in the Banking Book (IRRBB)
Exposure to securitisation positions		
449	Disclose the following information:	
449 (a)	objectives in relation to securitisation activity	Page 62 - Securitisation and Covered Bond Exposures
449 (b)	the nature of other risks including Liquidity Risk inherent in securitised assets	Page 63 - Risks Inherent in Securitised and Covered Bond Assets
449 (c)	the type of risks in terms of seniority of underlying securitisation positions and in terms of assets underlying those latter securitisation positions assumed and retained with resecuritisation activity	Page 63 - Risks Inherent in Securitised and Covered Bond Assets
449 (d)	the different roles played by the institution in the securitisation process	Page 63 - Risks Inherent in Securitised and Covered Bond Assets
449 (e)	an indication of the extent of the institution's involvement in each of the roles referred to in point (d)	Page 63 - Risks Inherent in Securitised and Covered Bond Assets
449 (f)	a description of the processes in place to monitor changes in the Credit and Market Risk of securitisation exposures including, how the behaviour of the underlying assets impacts securitisation exposures and a description of how those processes differ for re-securitisation exposures	Page 63 - Risks Inherent in Securitised and Covered Bond Assets
449 (g)	a description of the institution's policy governing the use of hedging and unfunded protection to mitigate the risks of retained securitisation and re-securitisation exposures, including identification of material hedge counterparties by relevant type of risk exposure	Not applicable - the denomination and managed nature of the retained own named securities require no hedging activity.
449 (h)	the approaches to calculating risk-weighted exposure amounts that the institution follows for its securitisation activities including the types of securitisation exposures to which each approach applies	Page 63 - Approach to Calculating Risk Weighted Exposure Amounts
449 (i)	the types of SSPE that the institution, as sponsor, uses to securitise third-party exposures	Not applicable - the Group does not securitise third party exposures
449 (j)	a summary of the institution's accounting policies for securitisation activities	Page 62 - Securitisation and Covered Bond Exposures

Appendix 6: CRR Mapping (continued)

449 (k)	the names of the ECAIs used for securitisations and the types of exposure for which each agency is used	Page 62 - Securitisation and Covered Bond Exposures
449 (l)	Full description of Internal Assessment Approach	Not applicable - the Group does not use the Internal Assessment Approach
449 (m)	an explanation of significant changes to any of the quantitative disclosures since the last reporting period	Not applicable - there are no significant changes to the quantitative exposures since the last reporting period
449 (n)	separately for the trading and the non-trading book, the following information broken down by exposure type:	
449 (n) (i)	amount of outstanding exposures securitised	Page 62 - Securitisation and Covered Bond Exposures
449 (n) (ii)	aggregate amount of on-balance sheet securitisation positions retained or purchased and off-balance sheet securitisation exposures	Page 62 - Securitisation and Covered Bond Exposures
449 (n) (iii)	amount of assets awaiting securitisation	Not applicable due to the structure of the securitisation programme in use
449 (n) (iv)	the early amortisation treatment, the aggregate drawn exposures, the aggregate capital requirements incurred by the institution	Not applicable
449 (n) (v)	the amount of securitisation positions that are deducted from own funds or risk-weighted at 1,250 %	Page 63 - Approach to Calculating Risk Weighted Exposure Amounts
449 (n) (vi)	a summary of the securitisation activity of the current period, including the amount of exposures securitised and recognised gain or loss on sale	Page 62 - Securitisation and Covered Bond Exposures
449 (o)	separately for the trading and the non-trading book, the following information:	
449 (o) (i)	retained and purchased positions and associated capital requirements, broken down by risk weight bands	Page 62 - Securitisation and Covered Bond Exposures Page 63 - Approach to Calculating Risk Weighted Exposure Amounts
449 (o) (ii)	retained and purchased re-securitisation positions before and after hedging and insurance, exposure to financial guarantors broken down by guarantor credit worthiness	Not applicable - the Group does not hold re-securitisation positions
449 (p)	impaired/past due assets securitised and the losses recognised by the institution during the current period, both broken down by exposure type	Page 63 - Approach to Calculating Risk Weighted Exposure Amounts
449 (q)	exposure and capital requirements for trading book securitisations	Not applicable - the Group has no Trading Book
449 (r)	Whether the institution has provided non-contractual financial support to securitisation vehicles	Not applicable - the Group has not provided non-contractual financial support to securitisation vehicles
Remuneration policy		
450 (1)	Disclose the following information regarding the remuneration policy and practices of the institution for those categories of staff whose professional activities have a material impact on its risk profile:	
450 (1) (a)	information concerning the process used for determining the remuneration policy, as well as the number of meetings held by the main body overseeing remuneration during the financial year, the external consultant whose services have been used for the determination of the remuneration policy	Page 74 - Remuneration Page 14 Remuneration Committee - No of meetings of Remuneration Committee
450 (1) (b)	information on link between pay and performance	Page 74 - Remuneration
450 (1) (c)	the most important design characteristics of the remuneration system, including information on the criteria used for performance measurement and risk adjustment, deferral policy and vesting criteria	Page 74 - Remuneration
450 (1) (d)	the ratios between fixed and variable remuneration	Page 74 - Remuneration Table: Remuneration Awarded during the Financial Year
450 (1) (e)	information on the performance criteria on which the entitlement to shares, options or variable components of remuneration is based	Page 74 - Remuneration
450 (1) (f)	the main parameters and rationale for any variable component scheme and any other non-cash benefits	Page 74 - Remuneration Table: Special Payments - Sign on and Severance payments during the Financial Year

Appendix 6: CRR Mapping (continued)

450 (1) (g)	aggregate quantitative information on remuneration, broken down by business area	Not applicable - the Group operates as one business area
450 (1) (h)	aggregate quantitative information on remuneration, broken down by senior management and members of staff whose actions have a material impact on the risk profile of the institution, indicating the following:	
450 (1) (h) (i)	the amounts of remuneration for the financial year, split into fixed and variable remuneration, and the number of beneficiaries	Page 74 - Remuneration Table: Remuneration Awarded during the Financial Year - Analysis of remuneration by fixed and variable elements
450 (1) (h) (ii)	the amounts and forms of variable remuneration, split into cash, shares, share-linked instruments and other types	Page 74 - Remuneration Table: Remuneration Awarded during the Financial Year - Analysis of remuneration by fixed and variable elements
450 (1) (h) (iii)	the amounts of outstanding deferred remuneration, split into vested and unvested portions	Page 74 - Remuneration Table: Deferred Remuneration
450 (1) (h) (iv)	the amounts of deferred remuneration awarded during the financial year, paid out and reduced through performance adjustments	Page 74 - Remuneration Table: Deferred Remuneration
450 (1) (h) (v)	new sign-on and severance payments made during the financial year, and the number of beneficiaries of such payments	Page 74 - Remuneration Table: Special Payments - Sign on and Severance payments during the Financial Year
450 (1) (h) (vi)	the amounts of severance payments awarded during the financial year, number of beneficiaries and highest such award to a single person	Page 74 - Remuneration Table: Special Payments - Sign on and Severance payments during the Financial Year
450 (1) (i)	the number of individuals being remunerated EUR 1 million or more per financial year, for remuneration between EUR 1 million and EUR 5 million broken down into pay bands of EUR 500 000 and for remuneration of EUR 5 million and above broken down into pay bands of EUR 1 million	Page 74 - Remuneration Table: Analysis of High Earners by Band
450 (1) (j)	upon demand from the Member State or competent authority, the total remuneration for each member of the management body or senior management	The Group has not received a demand from the Member state or competent authority to disclose such information but would supply such information to the competent authority upon request
450 (2)	For institutions that are significant in terms of their size, internal organisation and the nature, scope and the complexity of their activities, the quantitative information referred to in this Article shall also be made available to the public at the level of members of the management body of the institution	The Group discloses all required information publicly
Leverage		
451 (1)	Disclose the following information:	
451 (1) (a), (b), and (c)	Leverage Ratio and breakdown of total exposure measure including reconciliation to financial statements and derecognised fiduciary items	Page 30 - Leverage Ratio
451 (1) (d) and (e)	Description of the processes used to manage the risk of excessive leverage and factors that impacted the Leverage Ratio during the year	Page 30 - Leverage Ratio
Use of the IRB Approach to Credit Risk		
452	Institutions calculating the risk-weighted exposure amounts under the IRB Approach shall disclose information	Not applicable - the Group does not use the IRB approach
Use of credit risk mitigation techniques		
453	Disclose the following information:	
453 (a)	the policies and processes for, and an indication of the extent to which the entity makes use of, on- and off-balance sheet netting	Page 60 - Counterparty Credit Risk under the Mark to Market Approach

Appendix 6: CRR Mapping (continued)

453 (b)	the policies and processes for collateral valuation and management	Page 38 -Wholesale Credit Risk Page 55- Management of credit risk mitigation
453 (c)	a description of the main types of collateral taken by the institution	Page 38 -Wholesale Credit Risk Page 55- Management of credit risk mitigation
453 (d)	the main types of guarantor and credit derivative counterparty and their creditworthiness	Not applicable - the Group has no exposure to credit derivatives
453 (e)	information about Market or Credit Risk concentrations within the credit mitigation taken	Not applicable - the Group has no Market or Credit Risk concentrations within the credit mitigation taken
453 (f)	for exposures under either the Standardised or Foundation IRB Approach, disclose the exposure value covered by eligible collateral	Page 55- Management of credit risk mitigation Table EU CRD: Institution's use of external credit ratings under the Standardised Approach for Credit Risk Table EU CR4: Standardised Approach - credit risk exposure and credit risk mitigation effects
453 (g)	exposures covered by guarantees or credit derivatives	Note to table EU CR4: Standardised Approach - credit risk exposure and credit risk mitigation effects
Use of the Advanced Measurement Approaches to Operational Risk		
454	description of the use of insurance or other risk transfer mechanisms to mitigate Operational Risk	Not applicable, the Group does not use Advanced Measurement Approaches to Operational Risk
Use of Internal Market Risk Models		
455	disclosures relating to the use of Internal Market Risk Models	Not applicable, the Group does not use Internal Market Risk Models

Appendix 7: EU CCA: Capital Instrument Key Features

		Common Equity Tier 1	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2
1	Issuer	Tesco Personal Finance Group plc	Tesco Personal Finance Group plc	Tesco Personal Finance Group plc	Tesco Personal Finance Group plc	Tesco Personal Finance Group plc	Tesco Personal Finance Group plc	Tesco Personal Finance Group plc	Tesco Personal Finance Group plc	Tesco Personal Finance Group plc
2	Unique identifier (e.g., CUSIP, ISIN or Bloomberg identifier for private placement)	Private Placement	Private Placement	Private Placement	Private Placement	Private Placement	Private Placement	Private Placement	Private Placement	Private Placement
3	Governing law(s) of the instrument	Scottish Law	English Law	English Law	English Law	English Law	English Law	English Law	English Law	English Law
4	Transitional CRR Rules	Common Equity Tier 1	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2
5	Post-transitional CRR Rules	Common Equity Tier 1	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2
6	Eligible at Solo /(sub-) consolidated/ solo & (sub-) consolidated	Solo and Consolidated	Solo and Consolidated	Solo and Consolidated	Solo and Consolidated	Solo and Consolidated	Solo and Consolidated	Solo and Consolidated	Solo and Consolidated	Solo and Consolidated
7	Instrument type (types to be specified by each jurisdiction)	Common Equity	Dated Floating Rate Subordinated Notes	Undated Floating Rate Subordinated Notes	Dated Floating Rate Subordinated Notes	Undated Floating Rate Subordinated Notes	Undated Floating Rate Subordinated Notes	Dated Floating Rate Subordinated Notes	Dated Floating Rate Subordinated Notes	Dated Floating Rate Subordinated Notes
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	£1220.2m comprising nominal and premium	£20m	£9m	£10m	£16m	£20m	£35m	£95m	£30m
9	Nominal amount of instrument	0.10	£20m	£9m	£10m	£16m	£20m	£35m	£95m	£30m
9a	Issue price	1.00	£20m	£9m	£10m	£16m	£20m	£35m	£95m	£30m
9b	Redemption price	n/a	£20m	£9m	£10m	£16m	£20m	£35m	£95m	£30m
10	Accounting classification	Shareholders equity	Liability - amortised cost	Liability - amortised cost	Liability - amortised cost	Liability - amortised cost	Liability - amortised cost	Liability - amortised cost	Liability - amortised cost	Liability - amortised cost
11	Original date of issuance	Various	10 Apr 2002	10 Apr 2002	19 Sep 2002	19 Sep 2002	10 Dec 2002	28 Apr 2003	31 Dec 2007	25 Feb 2010
12	Perpetual or dated	Perpetual	Dated	Perpetual	Dated	Perpetual	Perpetual	Dated	Dated	Dated
13	Original maturity date	No maturity	29 March 2030	No maturity	29 March 2030	No maturity	No maturity	29 March 2030	29 March 2030	29 March 2030
14	Issuer call subject to prior supervisory approval	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Appendix 7: EU CCA: Capital Instrument Key Features (continued)

		Common Equity Tier 1	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2
15	Option call date, contingent call dates and redemption amount	n/a	Earliest option call date 31 March 2025, may repay on any date if a Regulatory Event or Tax Event occurs, redemption can be in whole or in part at par value plus accrued interest	Earliest option call date 31 March 2025, may repay on any date if a Regulatory Event or Tax Event occurs, redemption can be in whole or in part at par value plus accrued interest	Earliest option call date 31 March 2025, may repay on any date if a Regulatory Event or Tax Event occurs, redemption can be in whole or in part at par value plus accrued interest	Earliest option call date 31 March 2025, may repay on any date if a Regulatory Event or Tax Event occurs, redemption can be in whole or in part at par value plus accrued interest	Earliest option call date 31 March 2025, may repay on any date if a Regulatory Event or Tax Event occurs, redemption can be in whole or in part at par value plus accrued interest	Earliest option call date 31 March 2025, may repay on any date if a Regulatory Event or Tax Event occurs, redemption can be in whole or in part at par value plus accrued interest	Earliest option call date 31 March 2025, may repay on any date if a Regulatory Event or Tax Event occurs, redemption can be in whole or in part at par value plus accrued interest	Earliest option call date 31 March 2025, may repay on any date if a Regulatory Event or Tax Event occurs, redemption can be in whole or in part at par value plus accrued interest
16	Subsequent call dates, if applicable	n/a	each quarter thereafter until maturity	each quarter thereafter until maturity	each quarter thereafter until maturity	each quarter thereafter until maturity	each quarter thereafter until maturity	each quarter thereafter until maturity	each quarter thereafter until maturity	each quarter thereafter until maturity
17	Fixed or floating dividend/coupon	Floating	Floating	Floating	Floating	Floating	Floating	Floating	Floating	Floating
18	Coupon rate and any related index	n/a	3month SONIA plus 0.67 per cent per annum	3month SONIA plus 1.27 per cent per annum	3month SONIA plus 0.67 per cent per annum	3month SONIA plus 2.27 per cent per annum	3month SONIA plus 2.27 per cent per annum	3month SONIA plus 1.67 per cent per annum	3month SONIA plus 1.07 per cent per annum	3month SONIA plus 1.82 per cent per annum
19	Existence of a dividend stopper	No	No	No	No	No	No	No	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
21	Existence of step-up or other incentive to redeem	No	No	No	No	No	No	No	No	No
22	Non-cumulative or cumulative	Non-cumulative	Cumulative	Cumulative	Cumulative	Cumulative	Cumulative	Cumulative	Cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
25	If convertible, fully or partially	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
26	If convertible, conversion rate	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
27	If convertible, mandatory or optional conversion	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Appendix 7: EU CCA: Capital Instrument Key Features (continued)

		Common Equity Tier 1	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2
28	If convertible, specify instrument type convertible into	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
29	If convertible, specify issuer of instrument it converts into	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
30	Write-down features	No	No	No	No	No	No	No	No	No
31	If write-down, write-down trigger(s)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
32	If write-down, full or partial	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
33	If write-down, permanent or temporary	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
34	If temporary write-down, description of write-up mechanism	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	All subordinated Notes - Columns 3-10	All liabilities except the subordinated liabilities	All liabilities except the subordinated liabilities	All liabilities except the subordinated liabilities	All liabilities except the subordinated liabilities	All liabilities except the subordinated liabilities	All liabilities except the subordinated liabilities	All liabilities except the subordinated liabilities	All liabilities except the subordinated liabilities
36	Non-compliant transitional features	No	No	No	No	No	No	No	No	No
37	If yes, specify non-compliant features	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

*Please note MREL issuance is currently excluded from this table as this is not classified as a Capital Instrument