TESCO PERSONAL FINANCE GROUP PLC

PILLAR 3 DISCLOSURES

FOR THE YEAR ENDED 28 FEBRUARY 2019

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Notes:

Row numbers in the above tables relate to the 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 2019. 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). The Group and its scope of consolidation are illustrated on Page 6 to Page 10.

The Group's capital was calculated for prudential regulatory reporting purposes for the year ended 28 February 2019 using the Basel III framework of the Basel Committee on Banking Supervision (BCBS), as implemented by the European Union in the Capital Requirements Regulation (CRR) and Capital Requirements Directive (CRD) commonly known as CRD IV, and by the Prudential Regulatory Authority's (PRA) Rulebook for the UK banking industry.

IFRS 9 Financial Instruments is 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 impact on capital to be phased in over a period of 5 years. 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.

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, capital risk exposures, risk assessment process and capital adequacy of the firm. The Pillar 3 disclosures contained within this document have two principal purposes:

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

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

Introduction and Basel Framework (continued)

Regulatory Developments

The Group has been impacted by a number of regulatory and accounting changes during the year.

The Group adopted International Financial Reporting Standard (IFRS) 9 'Financial Instruments' with effect from 1 March 2018.

The adoption of IFRS 15 'Revenue from Contracts with Customers' resulted in the earlier recognition of certain insurance renewal commission income, amounting to £18.5m at 1 March 2017, as well as the reclassification of the provision for insurance refunds of £4.2m from provisions for liabilities and charges to other liabilities. A related increase of £5.0m in the deferred income tax liability was also recognised at 1 March 2017. IFRS 15 has been fully applied retrospectively and prior period comparatives have been restated.

The accounting impact of both changes is disclosed in the Annual Report & Financial Statements for the year ended 28 February 2019 of both Tesco Personal Finance plc (The Company) and Tesco Personal Finance Group plc. These are published on the Tesco Bank corporate website at:

http://www.corporate.tescobank.com/48/accounts-and-disclosures

The Group continues to monitor and prepare for a number of regulatory changes taking effect over the next few years. Three major components of regulatory reform relating to data regulation came into force during 2018. These are Open Banking, the second Payment Services Directive (PSD2) and the General Data Protection Regulation (GDPR), all of which are focused on innovation, competition and consumer protection.

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

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

Uncertainty remains around the implementation and impact of some regulatory developments, including the finalisation of Basel III, which will be subject to European Union (EU) and UK implementation. In addition, the Group will be subject to the minimum requirements for own funds and eligible liabilities (MREL) on an interim basis from 1 January 2020, with full implementation applicable from 1 January 2022. The Group is working towards implementation of these requirements and has reflected them in its funding plan. MREL requires banks to maintain at all times a sufficient aggregate amount of own funds and eligible liabilities (that may be bailed-in if required). MREL will, on full implementation, be set on a firm-specific basis and calculated as the sum of two components: a loss absorption amount, being the amount needed to absorb losses up to and in resolution; and a recapitalisation amount which reflects the capital that a firm is likely to need post resolution.

MREL is expected to be set annually over the transitional period until 1 January 2022. Prior to 31 December 2019, MREL will be equal to an institution’s minimum regulatory capital requirements. An Interim MREL requirement of 18% of risk-weighted assets from 1 January 2020 until 31 December 2021 has been set.

Following the EU referendum result, the political and economic outlook for the UK remains unclear. The timing and form of the UK's exit from the EU has yet to be clarified, resulting in continued uncertainty across the UK banking

Introduction and Basel Framework (continued)

sector. The Group has actively considered the potential risks associated with the UK's exit from the EU and their impact on both the UK financial services market and the Group itself.

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

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

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

On 27 July 2017 the FCA announced that the London Interbank Offered Rate (LIBOR) would be phased out and replaced with an alternative reference rate by the end of 2021. Further information on the replacement reference rate has not yet been announced. The Group has considered and identified the risks associated with moving to the Sterling Overnight Index Average (SONIA) as the reference rate and has developed a plan to mitigate these risks, which is being implemented in accordance with the Group's governance framework. The Group also continues to monitor industry developments.

The Group has identified Climate Change as an emerging risk on which there is a growing regulatory focus. The PRA has set out its expectations of institutions relating to governance, risk management, scenario analysis and disclosures. The Group is fully engaged with the PRA and industry peers in evolving its understanding of the risks faced as a result of climate change and is committed to embedding the consideration of climate related risk into its risk management framework.

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 and approval by the Disclosure Committee and 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 & Financial Statements of both Tesco Personal Finance Group plc and the Company.

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

http://www.corporate.tescobank.com/48/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

24 April 2019

Graham Pimlott

Independent Non-Executive Chairman

24 April 2019

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. Mortgage products are also sold through intermediaries.

Products currently offered by the Company include unsecured personal loans, secured mortgages, savings accounts, credit cards, personal current accounts, travel money, international payments and general insurance products. The Company only trades in the UK having sold its Irish Card business in 2018.

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 Special Purpose Entities (SPE's) are fully consolidated for accounting purposes. Significant Risk Transfer 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 & 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 7). Table EU LI1 (Page 8) 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 and mortgage exposures at 0% and 20% respectively. As at 28 February 2019, the Group has circa £12.2bn of undrawn credit lines to customers of which £12.0bn relate to committed undrawn credit card facilities and £0.2bn relates to final offer mortgage agreements. 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.

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 2019 Accounting balance sheet (per financial statements) £m's	February 2019 Other adjustments (1) £m's	February 2019 Regulatory Scope £m's	February 2018 Accounting balance sheet (per financial statements) £m's	February 2018 Deconsolidation of Tesco Underwriting Ltd (1) £m's	February 2018 Regulatory Scope £m's
Assets							
Cash and balances with central banks		1,072.1	–	1,072.1	1,318.6	–	1,318.6
Loans and advances to banks		324.2	–	324.2	–	–	–
Loans and advances to customers		12,425.7	(8.5)	12,417.2	11,522.4	–	11,522.4
of which: general provisions (2)	*a*	–	–	–	–	–	*(99.1)*
Derivative financial instruments		31.3	–	31.3	46.1	–	46.1
Investment securities:							
- Available for sale		–	–	–	925.4	–	925.4
- FVOCI - Debt		1,040.2	–	1,040.2	–	–	–
-FVOCI - Equity		2.5	–	2.5	–	–	–
- Loans and receivables		28.8	–	28.8	34.1	–	34.1
of which: loan to Tesco Underwriting Ltd deducted from Tier 2 CRR (2)	*b*	–	–	*28.8*	–	–	*34.1*
Prepayment and accrued interest		49.4	–	49.4	49.3	–	49.3
Current income tax asset		–	–	–	–	–	–
Other assets		236.6	–	236.6	280.6	–	280.6
Deferred tax asset		57.9	0.7	58.6			
Investment in associate		86.4	(10.2)	76.2	90.0	(3.5)	86.5
of which: significant investment in TU below threshold (2)	*c*	–	–	*76.2*	–	–	*86.5*
Intangible assets		224.2	–	224.2	271.1	–	271.1
of which; other intangibles (2)	*d*	–	–	*224.2*	–	–	*271.1*
Property, plant and equipment		61.6	–	61.6	68.0	–	68.0
Total Assets		15,640.9	(18.0)	15,622.9	14,605.6	(3.5)	14,602.1
Liabilities							
Deposits from banks		1,663.2	–	1,663.2	1,539.0	–	1,539.0
Deposits from customers		10,465.2	–	10,465.2	9,244.6	–	9,244.6
Debt securities in issue		1,185.5	–	1,185.5	1,347.6	–	1,347.6
Derivative financial instruments		60.2	–	60.2	88.4	–	88.4
Provisions for liabilities and charges		55.0	(8.5)	46.5	76.0	–	76.0
Accruals and deferred income		108.0	–	108.0	109.0	–	109.0
Current income tax liability		31.1	–	31.1	34.9	–	34.9
Other liabilities		151.2	–	151.2	147.7	–	147.7
Deferred income tax liability		–	0.7	0.7	7.7	–	7.7
of which: deferred tax liability - intangible assets (2)	*e*	–	–	–	–	–	*5.2*
Subordinated liabilities and notes		235.0	–	235.0	235.0	–	235.0
of which: allowable for Tier 2 (2)	*f*	–	–	*235.0*	–	–	*235.0*
Total Liabilities		13,954.4	(7.8)	13,946.6	12,829.9	–	12,829.9
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)	*g*	–	–	*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)	*h*	–	–	*1,098.2*	–	–	*1,098.2*
Retained Earnings		438.9	(7.7)	431.2	511.3	0.2	511.5
of which: prior year retained profits (2)	*i*	–	–	*345.7*	–	–	*427.8*
of which: current year profit less dividend paid (2)	*j*	–	–	*85.5*	–	–	*83.7*
Other Reserves	*k*	27.4	(2.5)	24.9	44.2	(3.7)	40.5
of which: cash flow hedge reserve (2)	*l*	–	–	*1.0*	–	–	*0.3*
Total Equity		1,686.5	(10.2)	1,676.3	1,775.7	(3.5)	1,772.2
Total liabilities and equity		15,640.9	(18.0)	15,622.9	14,605.6	(3.5)	14,602.1

Notes:

(1) Insurance undertakings 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. 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 EU CC1 table (page 21).

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

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

	February 2019 Carrying value of items						
	Carrying Values as Reported in Published Financial Statements	Carrying Values under Scope of Regulatory Consolidation	Subject to Credit Risk Framework	Subject to Counterparty Credit Risk Framework	Subject to Securitisation Framework	Subject to Market Risk Framework	Not Subject to Capital Requirements or Deduction from Capital
	a	b	c	d	e	f	g
	£m's	£m's	£m's	£m's	£m's	£m's	£m's
Assets							
Cash and balances with central banks	1,072.1	1,072.1	1,072.1	–	–	–	–
Loans and advances to banks	324.2	324.2	324.2	–	–	–	–
Loans and advances to customers	12,425.7	12,417.2	12,417.2	–	–	–	–
Derivative financial instruments	31.3	31.3	–	31.3	–	–	–
Investment Securities:							
- Available for Sale	–	–	–	–	–	–	–
- FVOCI - Debt	1,040.2	1,040.2	1,040.2	–	–	–	–
- FVOCI - Equity	2.5	2.5	2.5	–	–	–	–
- Loans and receivables	28.8	28.8	–	–	–	–	28.8
Prepayment and accrued income	49.4	49.4	49.4	–	–	–	–
Current income tax asset	–	–	–	–	–	–	–
Other assets	236.6	236.6	236.6	–	–	–	–
Deferred tax asset	57.9	58.6	58.6	–	–	–	–
Investment in associate	86.4	76.2	76.2	–	–	–	–
Intangible assets	224.2	224.2	–	–	–	–	224.2
Property, plant and equipment	61.6	61.6	61.6	–	–	–	–
Total assets	**15,640.9**	**15,622.9**	**15,338.6**	**31.3**	**–**	**–**	**253.0**
Liabilities							
Deposits from banks	1,663.2	1,663.2	–	–	–	–	–
Deposits from customers	10,465.2	10,465.2	–	–	–	–	–
Debt securities in issue	1,185.5	1,185.5	–	–	–	–	–
Derivative financial instruments	60.2	60.2	–	31.3	–	–	–
Provision for liabilities and charges	55.0	46.5	–	–	–	–	–
Accruals and deferred income	108.0	108.0	–	–	–	–	–
Current income tax liability	31.1	31.1	–	–	–	–	–
Other liabilities	151.2	151.2	32.2	–	–	–	–
Deferred income tax liability	–	0.7	–	–	–	–	–
Subordinated liabilities and notes	235.0	235.0	–	–	–	–	–
Total Liabilities	**13,954.4**	**13,946.6**	**32.2**	**31.3**	**–**	**–**	**–**

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

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

	February 2018						
			Carrying value of items				
	Carrying Values as Reported in Published Financial Statements	Carrying Values under Scope of Regulatory Consolidation	Subject to Credit Risk Framework	Subject to Counterparty Credit Risk Framework	Subject to Securitisation Framework	Subject to Market Risk Framework	Not Subject to Capital Requirements or Deduction from Capital
	a	b	c	d	e	f	g
	£m's	£m's	£m's	£m's	£m's	£m's	£m's
Assets							
Cash and balances with central banks	1,318.6	1,318.6	1,318.6	–	–	–	–
Loans and advances to customers	11,522.4	11,522.4	11,522.4	–	–	–	–
Derivative financial instruments	46.1	46.1	–	46.1	–	–	–
Investment Securities:							
- Available for Sale	925.4	925.4	925.4	–	–	–	–
- Loans and receivables	34.1	34.1	–	–	–	–	34.1
Prepayment and accrued income	49.3	49.3	49.3	–	–	–	–
Current income tax asset	–	–	–	–	–	–	–
Other assets	280.6	280.6	280.6	–	–	–	–
Investment in associate	90.0	86.5	86.5	–	–	–	–
Intangible assets	271.1	271.1	–	–	–	–	271.1
Property, plant and equipment	68.0	68.0	68.0	–	–	–	–
Total assets	**14,605.6**	**14,602.1**	**14,250.8**	**46.1**	**–**	**–**	**305.2**
Liabilities							
Deposits from banks	1,539.0	1,539.0	–	–	–	–	–
Deposits from customers	9,244.6	9,244.6	–	–	–	–	–
Debt securities in issue	1,347.6	1,347.6	–	–	–	–	–
Derivative financial instruments	88.4	88.4	–	46.1	–	–	–
Provision for liabilities and charges	76.0	76.0	–	–	–	–	–
Accruals and deferred income	109.0	109.0	–	–	–	–	–
Current income tax liability	34.9	34.9	–	–	–	–	–
Other liabilities	147.7	147.7	53.8	–	–	–	–
Deferred income tax liability	7.7	7.7	–	–	–	–	–
Subordinated liabilities and notes	235.0	235.0	–	–	–	–	–
Total Liabilities	**12,829.9**	**12,829.9**	**53.8**	**46.1**	**–**	**–**	**–**

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:

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

- 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.

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 has been 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, 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. In the prior year, the Compliance and Conduct Risk Director left the organisation. The Group appointed a replacement director in July 2018.

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 promotes a culture where there is no reluctance to escalate bad news or emerging risks.

Risk Governance Structure

The Group has established a governance structure which is appropriate for the business in terms of its level of complexity and risk profile. This structure is reviewed periodically so that it remains suitable to support the business. The risk governance structure set out in these disclosures describes the structure that was in place for the year to 28 February 2019.

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

The Board has delegated responsibility for the day to day running of the business to the Chief Executive who has in turn established the Executive Committee (ExCo) to assist in the management of the business and to deliver the strategy in an effective and controlled way.

The Board has established Board committees and the Executive has established senior management committees to:

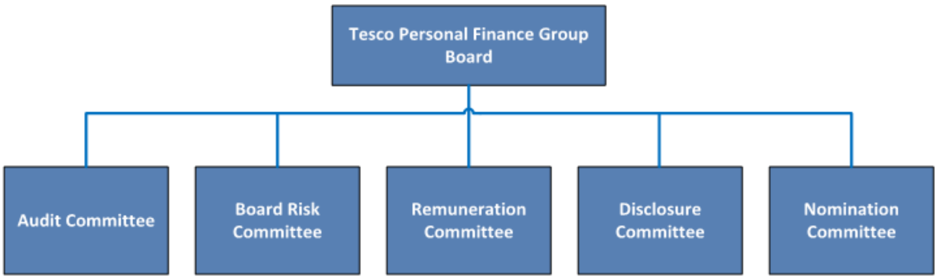
- oversee the Risk Management Framework;
- identify the key risks facing the Group; and
- assess the effectiveness of the risk management actions.

In addition, in order to consider high level matters which, require cross functional oversight and engagement, the ExCo has established a series of sub-committees which report directly to it.

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

Risk Management (continued)



Audit Committee

The role of the 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 6 times during the year ended 28 February 2019.

Board Risk Committee (BRC)

The role of the BRC is to oversee that a culture is appropriately embedded which recognises risk and encourages all employees to be alert to the wider impact on the whole organisation of their actions and decisions. 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 7 times during the year ended 28 February 2019.

Remuneration Committee

The role of the Remuneration Committee is to monitor compliance with regulatory requirements relating to remuneration, specifically the approval and identification of Material Risk Takers (MRT's) and overseeing the establishment and implementation of a remuneration policy for all colleagues within the Group (including specific arrangements for MRT's). 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 management 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 5 times during the year ended 28 February 2019.

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 5 times during the year ended 28 February 2019.

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

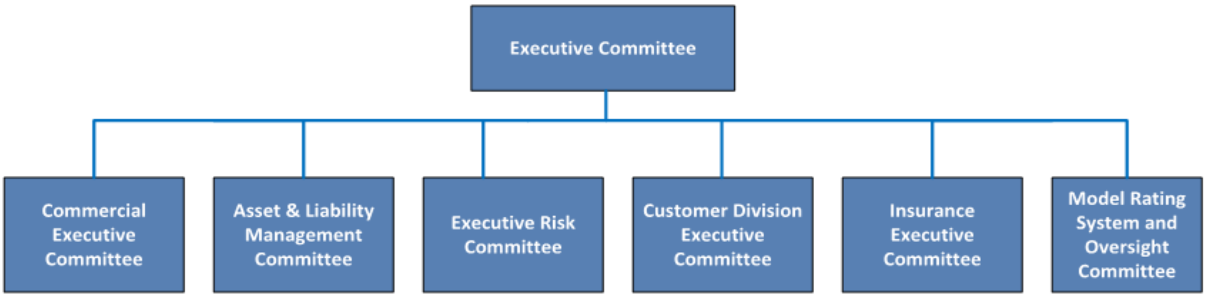
Risk Management (continued)

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 3 times during the year ended 28 February 2019.

The Executive Committee (ExCo)

The Group's Board has delegated the day to day running of the business to the Chief Executive. The Chief Executive has established the ExCo to assist in the management of the business and to deliver against strategy in an effective and controlled way. The ExCo provides general executive management of the business and has oversight of 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 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 the ExCo, the following six sub-committees have been established. The sub-committees have delegated authority to take decisions within strict parameters and financial authorities as detailed within their respective Terms of Reference. The ExCo receives and considers regular reports from each sub-committee on delegated matters and receives the minutes from those committees to monitor key activities and decisions taken under delegation.



The Commercial Executive Committee (CEC)

The CEC is responsible for overseeing performance and matters arising across the Commercial business. The Committee reviews credit risk approvals and receives risk, risk event and Internal Audit reporting allowing it to oversee top risks by making sure that existing and emerging risks and issues are controlled appropriately and referred to the relevant Board, ExCo or sub-committee when needed. The Committee has responsibility to ensure that risks of poor customer outcomes are identified, measured and effectively mitigated across the business, meeting the strategic customer outcomes defined by the Board and escalating material Conduct or Treating Customers Fairly risks to the ExCo.

The Asset & Liability Committee (ALCO)

The ALCO is responsible for optimising the Group's balance sheet within Board approved Risk Appetite and relevant regulation. The Committee identifies, manages and controls the Group's balance sheet risks, defining strategic balance sheet structural objectives which align with Risk Appetite, the regulatory obligations of the Group and the commercial and business objectives approved by the Board. The Committee recommends to the Board any required changes to the amount or composition of the Group's capital base and monitors continuous compliance with all internal and regulatory limits relating to Liquidity, Capital and Market risks. The Committee is also responsible for the periodic review and recommendation for approval to the Board of Treasury principal risk policies and key regulatory documents.

The Executive Risk Committee (ERC)

The ERC is authorised by the ExCo to provide oversight and challenge on all aspects of the Group's Risk Management Framework to oversee that the Three Lines of Defence model is operating effectively. The Committee monitors the appropriateness of and adherence to Risk Appetite and makes recommendations to the BRC on any changes. The Committee has responsibility for the oversight of the Policy Framework and the consideration and challenge of policy waivers and exceptions. The Committee considers the impact of regulatory initiatives on the current and future state of

Risk Management (continued)

compliance by the Group. It also oversees operational resilience and procurement and supplier management, with particular focus on ensuring that the key risks associated with outsourcing and third party supplier management are assessed. The ERC met 12 times during the year ended 28 February 2019.

The Customer Division Executive Committee (CDEC)

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

Insurance Executive Committee (IEC)

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

Model Rating System and Oversight Committee (MRSOC)

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

Risk Appetite

The Group has established a Risk Appetite framework which defines 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 framework 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 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:

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:

- Implement the Group's Risk Management Framework and policies;
- Identify, assess, own and manage risks that arise from the activities in which the respective business area is engaged;

Risk Management (continued)

- Design, implement, operate and test management controls;
- Identify and manage risk events, including the delivery of remedial actions and performance of root cause analysis;
- Operate within Risk Appetite and any and all related limits which the Second Line establish;
- Comply with risk reporting standards established by the Second Line; and
- Perform risk aggregation, analysis and reporting within their business line.

Second Line of Defence

The 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 and oversight of each of the principal risks. The role of the Second Line is to:

- Own, develop, communicate and provide advice on the Group's Risk Management Framework and policies;
- Provide risk based oversight and assurance of the First Line's implementation of 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, and review and challenge of management information;
- Own the Risk Appetite framework on behalf of the Board;
- Design and deliver standards for risk reporting and escalation; and
- Perform Group-wide risk aggregation and analysis.

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 Chairman of the 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 co-source support to provide additional subject matter experts when required.

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

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

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 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 framework of key policies in place which are approved at Board and Executive level committees. Each

Risk Management (continued)

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 assurance work to monitor compliance across the business; and
- Reviewing non-compliance/policy waiver requests and agreeing suitable actions.

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

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. Decisions made at subordinate risk committees and forums are reported up to senior 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 regularly subjected to severe but plausible scenarios to assess the potential impact on the business, including projected capital and liquidity positions. The scenarios adopted are subject to a rigorous selection process and include hypothetical operational failures, macroeconomic stress events and customer behaviour impacts. The results, along with proposed actions, are reported to the ALCO and BRC. These are captured in both the 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.

Risk Management (continued)

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 delegated to the Risk Management function.

The Group undertakes an annual internal capital adequacy assessment process, 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, the ALCO and the Capital Management Forum.

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 2019, the Group and Company fully complied with all capital requirements and operated within the regulatory requirements determined by the regulator.

Pillar 1 - application within the Group

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 which is to be referred to as the Group's Total Capital Requirement (TCR). The TCR for the Group as at 28 February 2019 is 11.74% plus £52m as a static add-on for pension risk.

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 30): 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 49): 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.

Capital (continued)

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.

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 48): all equity exposures are calculated under the Standardised Approach.

Capital requirement for Securitisation and Covered Bond Exposures (Page 51): 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 structured 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 within the Credit Risk section as part of retail credit risk exposures. The securitisation is discussed in more detail on Page 51 to Page 52.

Capital requirement for Operational Risk (Page 57): Operational risk is defined as the risk of a potential error, loss, harm, or failure caused by ineffective or inadequately defined processes, system failures, improper conduct, human error, fraud or from external events. The Group 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 54): Market risk is defined as the risk that the value of earnings or capital is altered through the movement of market rates. This includes movements in interest rates, foreign exchange rates, credit spreads and equities. 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 are: Regulatory Risk, the political and economic uncertainty following the Brexit result, Investment Risk relating to Pension Obligations and LIBOR Rate Replacement. These risks are discussed from Page 59 onwards.

Capital (continued)

Own Funds

The following tables present the Group's Own Funds as at 28 February 2019.

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 21 and Leverage Ratio on Page 26. Further information relating to LCR and NSFR is provided on Page 29. End point disclosures are included in Appendix 3.

BCBS KM1: Key metrics (at consolidated group level)

		February 2019	February 2018
	Available Capital (£m)		
1	Common Equity Tier 1 (CET 1)	1,616.4	1,505.5
2	Tier 1	1,616.4	1,505.5
3	Total Capital	1,822.6	1,805.5
	Risk-weighted assets (£m)		
4	Total risk-weighted assets (RWA)	9,840.6	9,282.5
	Risk-based capital ratio as a percentage of RWA		
5	Common Equity Tier 1 ratio (%)	16.4%	16.2%
6	Tier 1 ratio (%)	16.4%	16.2%
7	Total capital ratio (%)	18.5%	19.5%
	Additional CET 1 buffers requirements as a percentage of RWA		
8	Capital conservation buffer requirement (2.5% from 2019) (%)	2.5%	1.9%
9	Countercyclical buffer requirement (%)	1.0%	0.0%
11	Total of bank CET1 specific buffer requirements	3.5%	1.9%
12	CET1 available after meeting the banks minimum capital requirements buffers	10.4%	10.2%
	Basel III leverage ratio		
13	Total Basel III leverage ratio exposure method (£m)	16,457.9	15,603.5
14	Basel III leverage ratio (%)	9.8%	9.6%
	Liquidity Coverage Ratio		
17	LCR ratio (%)	138.3%	129.9%
	Net Stable Funding Ratio		
20	NSFR ratio (%)	123.5%	118.1%

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 2019 £m's	February 2018 £m's
1	Capital instruments and the related share premium accounts			1,220.2	1,220.2
	of which: ordinary share capital		*g,h*	1,220.2	1,220.2
2	Retained earnings		*i*	510.2	427.8
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)		*k*	24.9	40.5
5a	Independently reviewed interim profits net of any foreseeable charge or dividend		*j*	85.4	83.7
6	Common Equity Tier 1 capital before regulatory adjustments	*i*		1,840.7	1,772.2
	Common Equity Tier 1 capital: regulatory adjustments				
7	Additional value adjustments			(1.1)	(1.1)
8	Intangible assets (net of related tax liability)		*d*	(224.2)	(265.9)
11	Fair value reserves related to gains or losses on cash flow hedges		*l*	1.0	0.3
28	Total regulatory adjustments to Common Equity Tier 1	*ii*		(224.3)	(266.7)
29	Common Equity Tier 1 capital			1,616.4	1,505.5
45	Tier 1 capital (Tier1 + Common Equity Tier 1 + Additional Tier 1)			1,616.4	1,505.5
	Tier 2 capital: instruments and provisions				
46	Capital instruments and the related share premium accounts		*f*	235.0	235.0
50	Credit risk adjustments		*a*	–	99.1
51	Tier 2 capital before regulatory adjustments	*iii*		235.0	334.1
	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)		*b*	(28.8)	(34.1)
57	Total regulatory adjustments to Tier 2 capital	*iv*		(28.8)	(34.1)
58	Tier 2 capital			206.2	300.0
59	Total capital (Total Capital = Tier 1 + Tier 2)			1,822.6	1,805.5
60	Total Risk Weighted Assets			9,840.6	9,282.5
	Capital ratios and buffers				
61	Common equity Tier 1 (as a % of risk exposure amount)			16.4%	16.2%
62	Tier 1 (as a % of risk exposure amount)			16.4%	16.2%
63	Total capital (as a % of risk exposure amount)			18.5%	19.5%
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)			8.0%	6.4%
65	of which: capital conservation buffer requirement			2.5%	1.9%
66	of which: countercyclical buffer requirement			1.0%	0.0%
68	Common Equity Tier 1 available to meet buffers (as a % of risk exposure amount)			10.4%	10.2%
	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)			76.2	86.5
	Applicable caps on the inclusion of provisions in Tier 2				
76	Credit risk adjustments included in Tier 2 in respect of exposures subject to standardised approach (prior to the application of the cap)			–	99.1
77	Cap on inclusion of credit risk adjustments in Tier 2 under standardised approach			–	100.6

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 PRA, 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 £164.4m (2018: Nil). This relates to the application of transitional arrangements regarding IFRS 9 which allows the impact on Capital to be phased in over a period of 5 years.

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.

The Intangible Assets deduction relates to computer software and development costs in relation to the Group's operational platforms.

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 CRD IV 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 options call date is 31 March 2025, 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 LIBOR plus margin of 60 to 220 basis points.

iv) Regulatory Adjustments to Tier 2 Capital

The material holdings deduction represents the Company subordinated loan investment in Tesco Underwriting Ltd.

The credit risk adjustment in the prior year represents the capital add back for general provisions held. This treatment is no longer applied under IFRS 9 where the equivalent stage 1 and 2 provisions are deducted from retail exposure values.

v) Capital Instruments - Key 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

Capital (continued)

- 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 2019 Risk weighted assets £m's	February 2018 Risk weighted assets £m's	February 2019 Minimum Capital Requirements £m's
1	**Credit risk (excluding CRR)**	**8,363.9**	**7,837.9**	**669.1**
2	Of which standardised approach (SA)	8,363.9	7,837.9	669.1
6	**Counterparty Credit Risk**	**8.9**	**6.6**	**0.7**
7	Of which mark to market	2.5	2.7	0.2
12	Of which CVA	6.4	3.9	0.5
23	**Operational Risk**	**1,277.3**	**1,221.7**	**102.2**
25	Of which standardised approach	1,277.3	1,221.7	102.2
27	**Amounts below thresholds for deduction (subject to 250% risk weight)**	**190.5**	**216.3**	**15.2**
29	**Total**	**9,840.6**	**9,282.5**	**787.2**

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.

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. The Group had no unsettled exposure at year end.

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 Basel III 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 UK exposures of banks, building societies and large investment firms incorporated in the UK. The UK countercyclical capital buffer rate (CCyB) is currently set at 1.0% (2018: 0.0%). On 26 February 2019 the Financial Policy Committee, given its assessment of the risk outlook and the resilience of the UK banking system, decided to maintain the UK CCyB rate at 1.0%. This decision was consistent with the Committee's 2015 published strategy that it expected to set a UK CCyB rate in the region of 1.0% in a standard domestic risk environment.

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 non-UK exposures as at 28 February 2019 total 1.84% of total exposures. In line with the EBA’s final 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 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 2019 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 2019

		General credit exposures		Trading book exposures		Securitisation exposure		Own funds requirements					
		Exposure value for standardised approach	Exposure value for internal ratings basis	Sum of long and short positions of trading book	Value of trading book exposures for internal models	Exposure value for standardised approach	Exposure value for internal ratings basis	Of which: General credit exposures	of which: Trading book exposures	of which: Securitisation exposures	TOTAL	Own funds requirements weights	Countercyclical capital buffer rate
		010	**020**	**030**	**040**	**050**	**060**	**070**	**080**	**090**	**100**	**110**	**120**
		£m's	**£m's**	**£m's**	**£m's**	**£m's**	**£m's**	**£m's**	**£m's**	**£m's**	**£m's**		
010	**Breakdown by country:**												
	UK	13,398.8	–	–	–	–	–	675.6	–	–	675.6	1.00	1.0%
020	**Total**	**13,398.8**	**–**	**–**	**–**	**–**	**–**	**675.6**	**–**	**–**	**675.6**	**1.00**	

February 2018

		General credit exposures		Trading book exposures		Securitisation exposure		Own funds requirements					
		Exposure value for standardised approach	Exposure value for internal ratings basis	Sum of long and short positions of trading book	Value of trading book exposures for internal models	Exposure value for standardised approach	Exposure value for internal ratings basis	Of which: General credit exposures	of which: Trading book exposures	of which: Securitisation exposures	TOTAL	Own funds requirements weights	Countercyclical capital buffer rate
		010	**020**	**030**	**040**	**050**	**060**	**070**	**080**	**090**	**100**	**110**	**120**
		£m's	**£m's**	**£m's**	**£m's**	**£m's**	**£m's**	**£m's**	**£m's**	**£m's**	**£m's**		
010	**Breakdown by country:**												
	UK	12,196.8	–	–	–	–	–	637.1	–	–	637.1	1.00	0.0%
020	**Total**	**12,196.8**	**–**	**–**	**–**	**–**	**–**	**637.1**	**–**	**–**	**637.1**	**1.00**	

CCyB2: Amount of institution specific countercyclical capital buffer

		February 2019	February 2018
		010	**010**
010	Total risk exposure amount (£m)	9,840.6	9,282.5
020	Institution specific countercyclical capital buffer rate	1.0%	0.0%
030	Institution specific countercyclical capital buffer requirement (£m)	98.4	–

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.

The capital conservation buffer has been phased in from 1 January 2016 to 1 January 2019, starting at 0.625% from 2016 and increasing each subsequent year by an additional 0.625%, reaching its final level of 2.5% on 1 January 2019.

The Group's Capital Conservation Buffer

Based on the above requirements, the capital conservation buffer applicable to the Group is 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 Capital Management Forum monitors the performance of the leverage ratio to the long term plan on a monthly basis. Management actions are recommended by the Capital Management Forum to the Asset and Liability Management Committee 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 remained stable at 9.8% as at 28 February 2019 (2018: 9.6%).

An increase in leverage exposures as a result of additional lending is offset by an increase in Tier 1 Capital from retained earnings in the year.

The Group's Leverage Ratio Disclosure

The following leverage ratio disclosures for the year ended 28 February 2019 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 2019 Applicable Amounts £m's	February 2018 Applicable Amounts £m's
1	Total assets as per published financial statements	15,640.9	14,605.6
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	(10.2)	(3.5)
4	Adjustments for derivative financial instruments	(19.9)	(33.4)
5	Adjustments for securities financing transactions "SFTs"	(290.1)	–
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	1,236.9	1,260.6
7	Other adjustments	(99.7)	(225.8)
8	**Total leverage ratio exposure**	**16,457.9**	**15,603.5**

Leverage Ratio (continued)

EU LRCom: Leverage ratio common disclosure

		February 2019 CRR leverage ratio exposures £m's	February 2018 CRR leverage ratio exposures £m's
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)	15,275.2	14,655.1
2	Asset amounts deducted in determining Tier 1 capital	(67.6)	(271.1)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	**15,207.6**	**14,384.0**
Derivative exposures			
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	–	–
5	Add-on amounts for PFE associated with *all* derivatives transactions (mark-to-market method)	11.5	12.7
7	Deductions of receivables assets for cash variation margin provided in derivatives transactions	(32.2)	(53.8)
11	**Total Derivative exposure (sum of lines 4 to 10)**	**(20.7)**	**(41.1)**
Securities financing transaction exposures			
14	Counterparty credit risk exposure for SFT assets	34.1	–
16	**Total securities financing transaction exposures (sum of lines 12 to 15a)**	**34.1**	**–**
Other off-balance sheet exposures			
17	Other off-balance sheet exposures at gross notional amount	12,226.3	12,400.0
18	Adjustments for conversion to credit equivalent amounts	(10,989.4)	(11,139.4)
19	**Other off-balance sheet exposures (sum of lines 17 to 18)**	**1,236.9**	**1,260.6**
Capital and total exposures			
20	**Tier 1 capital**	**1,616.4**	**1,505.5**
21	**Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	**16,457.9**	**15,603.5**
Leverage ratio			
22	**Leverage ratio**	**9.8%**	**9.6%**

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

		February 2019 CRR leverage ratio exposures £m's	February 2018 CRR leverage ratio exposures £m's
EU-1	Total on-balance sheet exposures (excluding derivatives, securities financing transactions and exempted exposures), of which:	15,275.2	14,655.1
EU-3	Banking book exposures, of which:	15,275.2	14,655.1
EU-4	Covered bonds	380.2	155.8
EU-5	Exposures treated as sovereigns	1,377.2	1,689.7
EU-7	Institutions	485.1	504.6
EU-8	Secured by mortgages of immovable properties	3,679.5	2,962.7
EU-9	Retail exposures	8,663.6	8,624.6
EU-10	Corporate	34.2	45.7
EU-11	Exposures in default	105.3	80.3
EU-12	Other exposures (e.g. equity, securitisation, and other non-credit obligation assets)	550.1	591.7

Liquidity & Funding Risk

Liquidity 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 Risk Management Framework 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 met.

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, including the ownership of the Liquidity Risk Management policy which sets the parameters within which liquidity is managed and the processes to be followed in doing so are in line with 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 Liquidity Risk Management policy to maintain liquidity risk exposures within the Liquidity Risk Appetite set by the Board. The key funding and liquidity measures monitored on a daily basis are:

- the internal liquidity requirement;
- the liquidity coverage ratio;
- the net stable funding ratio;
- the wholesale funding ratio;
- the annual wholesale re-financing amount;
- the 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 regulatory liquidity coverage ratio requires the Group to maintain a sufficient portfolio of high quality liquid assets to meet liquidity requirements during periods of market dislocation and stress over a 30 day period.

Liquidity & 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 minimise the risk;
- assessment of the type and quality of liquid asset holdings to mitigate the risk; and
- consideration of the levels of contingent funding required to mitigate the risk

The Group 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 Liquidity Management Forum and the Asset and Liability Management Committee 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, in particular, results in minimal short-term wholesale funding. A significant part of these retail deposits are repayable on demand on a contractual basis. The Group continuously monitors retail deposit activity so that it can reasonably predict expected maturity flows. These instruments form a stable funding base for the Group's operations because of the broad customer base and the behaviours exhibited.

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

The Group's LCR is 138.3 % (2018: 129.9%).

The Group's liquidity comprises very 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 as most derivatives are centrally cleared and are covered by initial and variation margin.

The Group's NSFR is 123.5% (2018: 118.1%).

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 seek 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 across the business;
- providing oversight of credit risk activities undertaken by the first line; and
- monitoring credit performance.

The Credit Risk function maintains a suite of policies defining the minimum requirements for the management of credit activities, including the Credit Risk policy and Minimum Standards, Wholesale Credit Risk policy, Model Development & Governance policy, Collections and Recoveries policy, and Provisioning policies. All credit risk policies are subject to at least a bi-annual review, or earlier if there is a trigger for policy review such as a regulatory change. The polices are approved by the Executive Risk Committee, with the Level 1 Credit Risk policy being reviewed by the Board Risk Committee and 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.

Risk Appetite Statement

The Group has a Risk Appetite based on limiting losses in a stress to a % of forecast profit.

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;
- Product Level Default rate guardrails;
- Product Level Minimum Net Present Value/Internal Rate of Return
- Stock secured balances by Mortgage Debt to Value; and
- New business Mortgage Loan to Value.

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 and systems 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 tightly controlled using appropriate credit scoring and associated rules. Judgemental analysis is used for more complex cases.

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

Valuations: Property valuations are assessed as part of the application process by a Royal Institute of Chartered Surveyors certified valuer from the Group's approved panel of valuers for a new Mortgage and when a customer decides to re-mortgage with the Group or request additional borrowing and the loan to value (LTV) is 70% or greater. Where the LTV for new re-mortgage customers is less than 70% and additional criteria are met, valuation of the property is undertaken by an automated valuation model as are all valuations for existing re-mortgage customers, provided the additional criteria are met. The Group revalues its collateral on a quarterly basis using a regional house price valuation index. It is normal practice not to obtain additional third party revaluation of collateral unless further lending is being considered or the property has been repossessed.

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.

Credit Risk (continued)

Wholesale Credit Risk

Wholesale credit risk is the risk that the counterparty to a transaction will default before the final settlement of the transaction's cash flows. Such transactions relate to contracts for derivative financial instruments, securities financing transactions 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 no appetite for material losses as a result of a wholesale counterparty default.

Risk Appetite Measures

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.

Controls and risk mitigants

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

The Risk Appetite Measure limits are set out in the Wholesale Credit Risk policy which is approved by the Board. The Treasury Director is responsible for ensuring that Treasury complies with Counterparty Credit Risk (CCR) limits. The Market & 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 strong 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 and foreign exchange derivatives. Ratings issued by external credit assessment institutions are taken into account as part of the process to set limits.

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

The Wholesale Credit Risk policy also provides 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 risk. Positions are continuously marked to market and margin in the form of collateral

Credit Risk (continued)

is exchanged on at least a daily basis. As at 28 February 2019, 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 is potentially exposed to this risk were it to become concentrated in certain geographic areas or product profiles e.g. a disproportionate level of high loan to value mortgages. Such concentrations could produce unacceptable 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.

Wrong Way Risk

Wrong way risk is defined, by the ISDA, as the risk that occurs when exposure to counterparties 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. The exceptions to this are repurchase agreements transacted with the UK government where UK government debt is provided as collateral. 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 a limits framework in place to manage these exposures. Exposures and limit breaches are reported to the Executive Risk Committee, Board Risk Committee 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 2019				
				Items subject to		
		Total	Credit Risk Framework	Counterparty Credit Risk Framework	Securitisation Framework	Market Risk Framework
		a	b	c	d	e
		£m's	£m's	£m's	£m's	£m's
1	Assets carrying value under the scope of regulatory consolidation (as per template EU LI1)	15,369.9	15,338.6	31.3	–	–
2	Liabilities carrying value under the scope of regulatory consolidation (as per EU LI1)	63.5	32.2	31.3	–	–
3	Total net amount under the scope of regulatory consolidation	15,306.4	15,306.4	–	–	–
4	Off balance sheet amounts	12,260.4	62.6	–	–	–
5	Net potential future exposures	11.5	–	11.5	–	–
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	164.4	164.4	–	–	–
10	**Exposure amounts considered for regulatory purposes**	**27,742.7**	**15,533.4**	**11.5**	**–**	**–**

		February 2018				
				Items subject to		
		Total	Credit Risk Framework	Counterparty Credit Risk Framework	Securitisation Framework	Market Risk Framework
		a	b	c	d	e
		£m's	£m's	£m's	£m's	£m's
1	Assets carrying value under the scope of regulatory consolidation (as per template EU LI1)	14,296.9	14,250.8	46.1	–	–
2	Liabilities carrying value under the scope of regulatory consolidation (as per EU LI1)	99.9	53.8	46.1	–	–
3	Total net amount under the scope of regulatory consolidation	14,197.0	14,197.0	–	–	–
4	Off balance sheet amounts	12,400.0	41.2	–	–	–
5	Net potential future exposures	12.7	–	12.7	–	–
6	Differences due to different netting rules, other than those already included in row 2	–	–	–	–	–
7	Differences due to consideration of provisions	99.1	99.1	–	–	–
8	Differences due to prudential filters	–	–	–	–	–
10	**Exposure amounts considered for regulatory purposes**	**26,708.8**	**14,337.3**	**12.7**	**–**	**–**

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. This approach is in line with the EBA guidance.

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	
	Exposure class	**February 2019 £m's**	**February 2018 £m's**	**February 2019 £m's**	**February 2018 £m's**
15	**Total IRB approach**	–	–	–	–
16	Central governments or central banks	859.1	1,570.8	1,184.4	1,349.9
18	Public sector entities	64.7	34.0	58.3	49.3
19	Multilateral development banks	399.5	85.0	281.7	122.8
21	Institutions	811.2	450.9	519.2	269.4
22	Corporates	34.2	45.7	43.2	38.7
23	*of which: SMEs*	*3.8*	*2.8*	*4.9*	*5.0*
24	Retail	20,906.4	20,818.4	20,880.9	20,303.2
25	*of which: SMEs*	*4.4*	*4.9*	*4.6*	*4.1*
26	Secured by mortgages on immovable property	3,822.1	3,168.9	3,727.7	2,879.5
27	*of which: SMEs*	–	–	–	–
28	Exposures in default	164.3	80.3	139.2	63.1
29	Items associated with particularly high risk	–	–	–	–
30	Covered bonds	380.2	155.8	305.4	137.6
33	Equity exposures	76.2	86.5	76.2	86.5
34	Other exposures	213.3	199.8	207.3	255.9
35	**Total Standardised approach**	**27,731.2**	**26,696.1**	**27,423.5**	**25,555.9**
36	**Total**	**27,731.2**	**26,696.1**	**27,423.5**	**25,555.9**

Credit Risk (continued)

Analysis by Geographical Location

The Group’s retail lending is primarily focused on providing credit cards, personal loans, mortgages and current account overdrafts to UK personal customers. The previous year's comparatives include the Irish Credit Card portfolio which was sold in 2018. The following table provides the geographic distribution of the Group’s credit risk exposure.

EU CRB-C: Geographical breakdown of exposures

		February 2019 Net Value of Exposures			
	Exposure class	UK £m's	Europe (ex. UK) £m's	Other geographical areas £m's	Total £m's
6	**Total IRB approach**	–	–	–	–
7	Central governments or central banks	788.0	–	71.1	859.1
9	Public sector entities	–	64.7	–	64.7
10	Multilateral development banks	–	–	399.5	399.5
12	Institutions	771.2	40.0	–	811.2
13	Corporates	26.6	5.8	1.8	34.2
14	Retail	20,906.4	–	–	20,906.4
15	Secured by mortgages on immovable property	3,822.1	–	–	3,822.1
16	Exposures in default	164.3	–	–	164.3
18	Covered bonds	380.2	–	–	380.2
21	Equity exposures	76.2	–	–	76.2
22	Other exposures	210.8	–	2.5	213.3
23	**Total Standardised approach**	**27,145.8**	**110.5**	**474.9**	**27,731.2**
24	**Total**	**27,145.8**	**110.5**	**474.9**	**27,731.2**

		February 2018 Net Value of Exposures			
	Exposure class	UK £m's	Europe (ex. UK) £m's	Other geographical areas £m's	Total £m's
6	**Total IRB approach**	–	–	–	–
7	Central governments or central banks	1,535.6	–	35.2	1,570.8
9	Public sector entities	–	34.0	–	34.0
10	Multilateral development banks	–	–	85.0	85.0
12	Institutions	430.9	20.0	–	450.9
13	Corporates	39.4	4.4	1.9	45.7
14	Retail	20,743.3	75.1	–	20,818.4
15	Secured by mortgages on immovable property	3,168.9	–	–	3,168.9
16	Exposures in default	80.0	0.3	–	80.3
18	Covered bonds	155.8	–	–	155.8
21	Equity exposures	86.5	–	–	86.5
22	Other exposures	197.8	–	2.0	199.8
23	**Total Standardised approach**	**26,438.2**	**133.8**	**124.1**	**26,696.1**
24	**Total**	**26,438.2**	**133.8**	**124.1**	**26,696.1**

Credit Risk (continued)

Analysis by Industry or Counterparty Type

The distribution of credit risk exposure by counterparty 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 2019 Net Value of Exposures				
	Exposure class	Financial Sector a £m's	Government b £m's	Individuals c £m's	Other d £m's	Total e £m's
6	**Total IRB approach**	–	–	–	–	–
7	Central governments or central banks	–	859.1	–	–	859.1
9	Public sector entities	64.7	–	–	–	64.7
10	Multilateral development banks	399.5	–	–	–	399.5
12	Institutions	811.2	–	–	–	811.2
13	Corporates	10.3	–	–	23.9	34.2
14	Retail	–	–	20,902.0	4.4	20,906.4
15	Secured by mortgages on immovable property	–	–	3,822.1	–	3,822.1
16	Exposures in default	–	–	163.9	0.4	164.3
18	Covered bonds	380.2	–	–	–	380.2
21	Equity exposures	76.2	–	–	–	76.2
22	Other exposures	2.5	–	–	210.8	213.3
23	**Total Standardised approach**	**1,744.6**	**859.1**	**24,888.0**	**239.5**	**27,731.2**
24	**Total**	**1,744.6**	**859.1**	**24,888.0**	**239.5**	**27,731.2**

		February 2018 Net Value of Exposures				
	Exposure class	Financial Sector a £m's	Government b £m's	Individuals c £m's	Other d £m's	Total e £m's
6	**Total IRB approach**	–	–	–	–	–
7	Central governments or central banks	–	1,570.8	–	–	1,570.8
9	Public sector entities	34.0	–	–	–	34.0
10	Multilateral development banks	85.0	–	–	–	85.0
12	Institutions	450.9	–	–	–	450.9
13	Corporates	10.5	–	–	35.2	45.7
14	Retail	–	–	20,813.5	4.9	20,818.4
15	Secured by mortgages on immovable property	–	–	3,168.9	–	3,168.9
16	Exposures in default	–	–	80.3	–	80.3
18	Covered bonds	155.8	–	–	–	155.8
21	Equity exposures	86.5	–	–	–	86.5
22	Other exposures	16.9	–	0	182.9	199.8
23	**Total Standardised approach**	**839.6**	**1,570.8**	**24,062.7**	**223.0**	**26,696.1**
24	**Total**	**839.6**	**1,570.8**	**24,062.7**	**223.0**	**26,696.1**

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 2019					
		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's	£m's	£m's	£m's	£m's	£m's
6	**Total IRB approach**	–	–	–	–	–	–
7	Central governments or central banks	669.6	30.7	111.7	13.7	33.4	859.1
9	Public sector entities	–	–	64.7	–	–	64.7
10	Multilateral development banks	–	25.9	291.0	82.6	–	399.5
12	Institutions	404.3	332.7	40.1	–	–	777.1
13	Corporates	0.3	28.9	5.0	–	–	34.2
14	Retail	2.7	4,562.3	2,988.5	1,268.2	–	8,821.7
15	Secured by mortgages on immovable property	–	–	15.9	3,664.6	–	3,680.5
16	Exposures in default	0.7	149.8	8.2	5.6	–	164.3
18	Covered bonds	–	10.5	294.4	75.3	–	380.2
21	Equity exposures	–	–	–	–	76.2	76.2
22	Other exposures	94.0	19.3	17.8	2.5	79.7	213.3
23	**Total Standardised approach**	**1,171.6**	**5,160.1**	**3,837.3**	**5,112.5**	**189.3**	**15,470.8**
24	**Total**	**1,171.6**	**5,160.1**	**3,837.3**	**5,112.5**	**189.3**	**15,470.8**

		February 2018					
		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's	£m's	£m's	£m's	£m's	£m's
6	**Total IRB approach**	–	–	–	–	–	–
7	Central governments or central banks	926.8	20.8	189.9	418.3	15.0	1,570.8
9	Public sector entities	–	10.2	23.8	–	–	34.0
10	Multilateral development banks	–	–	49.3	35.7	–	85.0
12	Institutions	430.8	0.1	20.0	–	–	450.9
13	Corporates	1.3	41.2	3.2	–	–	45.7
14	Retail	2.4	4,657.4	2,605.9	1,358.9	–	8,624.6
15	Secured by mortgages on immovable property	–	–	–	2,962.7	–	2,962.7
16	Exposures in default	0.6	49.3	26.5	3.9	–	80.3
18	Covered bonds	–	37.6	68.0	50.2	–	155.8
21	Equity exposures	–	–	–	–	86.5	86.5
22	Other exposures	100.2	23.9	5.6	2.0	68.1	199.8
23	**Total Standardised approach**	**1,462.1**	**4,840.5**	**2,992.2**	**4,831.7**	**169.6**	**14,296.1**
24	**Total**	**1,462.1**	**4,840.5**	**2,992.2**	**4,831.7**	**169.6**	**14,296.1**

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;
- 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 loans, credit cards or mortgages; 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 IFRS, specifically International Financial Reporting Standard (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: http://www.corporate.tescobank.com/48/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 is allowed to make reduced repayments (or in exceptional circumstances, no repayments) on a temporary basis to assist with short term financial hardship.
- For secured products, it may also be acceptable to allow the customer to clear the arrears over an extended period of time, provided the payments remain affordable.

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 2019

		Gross Carrying values of						
	Exposure class	Defaulted exposures a £m's	Non-defaulted exposures b £m's	Specific credit risk adjustments c £m's	General credit risk adjustments d £m's	Accumulated write offs e £m's	Credit risk adjustment charges of the period f £m's	Net carrying value (a+b-c-d) g £m's
15	**Total IRB approach**	–	–	–	–	–	–	–
16	Central governments or central banks	–	859.1	–	–	–	–	859.1
18	Public sector entities	–	64.7	–	–	–	–	64.7
19	Multilateral development banks	–	399.5	–	–	–	–	399.5
21	Institutions	–	811.2	–	–	–	–	811.2
22	Corporates	–	34.2	–	–	–	–	34.2
23	*of which: SMEs Corporates*	–	*3.8*	–	–	–	–	*3.8*
24	Retail	–	21,066.7	160.3	–	3.6	51.0	20,906.4
25	*of which: SMEs Retail*	–	*4.4*	–	–	–	–	*4.4*
26	Secured by mortgages on immovable property	–	3,824.1	2.0	–	–	–	3,822.1
27	*of which: SMEs secured by mortgage*	–	–	–	–	–	–	–
28	Exposures in default	277.3	–	113.0	–	106.8	91.7	164.3
30	Covered bonds	–	380.2	–	–	–	–	380.2
33	Equity exposures	–	76.2	–	–	–	–	76.2
34	Other exposures	–	213.3	–	–	–	–	213.3
35	**Total Standardised approach**	**277.3**	**27,729.2**	**275.3**	**–**	**110.4**	**142.7**	**27,731.2**
36	**Total**	**277.3**	**27,729.2**	**275.3**	**–**	**–**	**–**	**27,731.2**
37	*of which: Loans*	277.3	12,633.6	275.3	–	110.4	142.7	12,635.6
38	*of which: Debt Securities*	–	1,040.2	–	–	–	–	1,040.2
39	*of which: Off Balance Sheet Exposures*	–	12,260.4	–	–	–	–	12,260.4

February 2018

		Gross Carrying values of						
	Exposure class	Defaulted exposures a £m's	Non-defaulted exposures b £m's	Specific credit risk adjustments c £m's	General credit risk adjustments d £m's	Accumulated write offs e £m's	Credit risk adjustment charges of the period f £m's	Net carrying value (a+b-c-d) g £m's
15	**Total IRB approach**	–	–	–	–	–	–	–
16	Central governments or central banks	–	1,570.8	–	–	–	–	1,570.8
18	Public sector entities	–	34.0	–	–	–	–	34.0
19	Multilateral development banks	–	85.0	–	–	–	–	85.0
21	Institutions	–	450.9	–	–	–	–	450.9
22	Corporates	–	45.7	–	–	–	–	45.7
23	*of which: SMEs Corporates*	–	*2.8*	–	–	–	–	*2.8*
24	Retail	–	20,818.4	–	–	–	36.0	20,818.4
25	*of which: SMEs Retail*	–	*4.9*	–	–	–	–	*4.9*
26	Secured by mortgages on immovable property	–	3,168.9	–	–	–	–	3,168.9
27	*of which: SMEs secured by mortgage*	–	–	–	–	–	–	–
28	Exposures in default	219.3	–	139.0	–	87.3	98.2	80.3
30	Covered bonds	–	155.8	–	–	–	–	155.8
33	Equity exposures	–	86.5	–	–	–	–	86.5
34	Other exposures	–	199.8	–	–	–	–	199.8
35	**Total Standardised approach**	**219.3**	**26,615.8**	**139.0**	**–**	**87.3**	**134.2**	**26,696.1**
36	**Total**	**219.3**	**26,615.8**	**139.0**	**–**	**87.3**	**134.2**	**26,696.1**
37	*of which: Loans*	219.3	11,541.3	139.0	–	87.3	134.2	11,621.6
38	*of which: Debt Securities*	–	923.4	–	–	–	–	923.4
39	*of which: Off Balance Sheet Exposures*	–	12,400.0	–	–	–	–	12,400.0

Credit Risk (continued)

EUCR1-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. In relation to the 'past-due' book, the only collateral held by the Group relates to the mortgage portfolio where all lending is secured by a first charge over the property.

February 2019

	Gross Carrying values of						
Exposure class	Defaulted Exposures a £m's	Non-Defaulted Exposures b £m's	Specific credit risk adjustments c £m's	General credit risk adjustments d £m's	Accumulated write offs e £m's	Credit risk adjustment charges of the period f £m's	Net carrying value (a+b-c-d) g £m's
Financial Sector	–	1,744.6	–	–	–	–	1,744.6
Government	–	859.1	–	–	–	–	859.1
Individuals	277.3	24,886.0	275.3	–	110.4	142.7	24,888.0
Other	–	239.5	–	–	–	–	239.5
Total	**277.3**	**27,729.2**	**275.3**	**–**	**110.4**	**142.7**	**27,731.2**

February 2018

	Gross Carrying values of						
Exposure class	Defaulted exposures a £m's	Non-defaulted exposures b £m's	Specific credit risk adjustments c £m's	General credit risk adjustments d £m's	Accumulated write offs e £m's	Credit risk adjustment charges of the period f £m's	Net carrying value (a+b-c-d) g £m's
Financial Sector	–	839.6	–	–	–	–	839.6
Government	–	1,570.8	–	–	–	–	1,570.8
Individuals	219.3	23,982.4	139.0	–	87.3	134.2	24,062.7
Other	–	223.0	–	–	–	–	223.0
Total	**219.3**	**26,615.8**	**139.0**	**–**	**87.3**	**134.2**	**26,696.1**

EUCR1-C: Credit quality of exposures by geography

The Group's lending is primarily UK based, providing products to UK personal customers. The prior year comparatives include an exposure for the Irish Credit Card portfolio which was sold in 2018.

February 2019

	Gross Carrying values of						
Exposure class	Defaulted exposures a £m's	Non-defaulted exposures b £m's	Specific credit risk adjustments c £m's	General credit risk adjustments d £m's	Accumulated write offs e £m's	Credit risk adjustment charges of the period f £m's	Net carrying value (a+b-c-d) g £m's
UK	277.3	27,143.8	275.3	–	110.4	142.7	27,145.8
Europe (ex UK)	–	110.5	–	–	–	–	110.5
Other geographical areas	–	474.9	–	–	–	–	474.9
Total	**277.3**	**27,729.2**	**275.3**	**–**	**110.4**	**142.7**	**27,731.2**

February 2018

	Gross Carrying values of						
Exposure class	Defaulted exposures a £m's	Non-defaulted exposures b £m's	Specific credit risk adjustments c £m's	General credit risk adjustments d £m's	Accumulated write offs e £m's	Credit risk adjustment charges of the period f £m's	Net carrying value (a+b-c-d) g £m's
UK	218.4	26,358.0	138.4	–	86.6	132.7	26,438.2
Europe (ex UK)	0.9	133.5	0.6	–	0.7	1.5	133.8
Other geographical areas	–	124.1	–	–	–	–	124.1
Total	**219.3**	**26,615.6**	**139.0**	**–**	**87.3**	**134.2**	**26,696.1**

Credit Risk (continued)

EU CR1-D: Ageing of past due exposures

The following table provides an ageing analysis of accounting on-balance-sheet past-due exposures regardless of their impairment status.

		February 2019 Gross carrying values					
		≤ 30 days	>30 days ≤ 60 days	> 60 days ≤ 90 days	> 90 days ≤ 180 days	> 180 days ≤ 1 year	> 1 year
		a	b	c	d	e	f
		£m's	£m's	£m's	£m's	£m's	£m's
1	Loans	76.5	37.8	34.8	76.0	89.0	35.2
2	Debt Securities	–	–	–	–	–	–
3	**Total Exposures**	**76.5**	**37.8**	**34.8**	**76.0**	**89.0**	**35.2**

		February 2018 Gross carrying values					
		≤ 30 days	>30 days ≤ 60 days	> 60 days ≤ 90 days	> 90 days ≤ 180 days	> 180 days ≤ 1 year	> 1 year
		a	b	c	d	e	f
		£m's	£m's	£m's	£m's	£m's	£m's
1	Loans	64.9	30.2	25.4	61.1	76.5	32.8
2	Debt Securities	–	–	–	–	–	–
3	**Total Exposures**	**64.9**	**30.2**	**25.4**	**61.1**	**76.5**	**32.8**

EU CR1-E: Non-performing and forborne exposures

The following table provides an overview of performing, non-performing and forborne exposures.

	February 2019 Gross carrying values of performing and non-performing exposures						
	Total gross carrying values	Performing		Non-Performing			
		Of which past due > 30 days and <= 90 days	Of which forborne	Total non-performing	Of which defaulted	Of which impaired	Of which forborne
	a	b	c	d	e	f	g
	£m's	£m's	£m's	£m's	£m's	£m's	£m's
Debt Securities	1,040.2	–	–	–	–	–	–
Loans and Advances	12,913.6	32.8	7.2	277.3	277.3	277.3	110.2
Off balance sheet exposures	12,260.4	–	–	–	–	–	–

	February 2019 Accumulated impairment, provisions and negative fair value adjustments				Collateral and financial guarantees	
	Performing		Non-Performing			
	Total impairment on performing exposures	Of which forborne	Total impairment non-performing exposures	Of which forborne	On non-performing exposures	Of which forborne
	h	i	j	k	l	m
	£m's	£m's	£m's	£m's	£m's	£m's
Debt Securities	–	–	–	–	–	–
Loans and Advances	319.4	10.8	174.2	62.0	–	–
Off balance sheet exposures	–	–	–	–	–	–

	February 2018 Gross carrying values of performing and non-performing exposures						
	Total gross carrying values	Performing		Non-Performing			
		Of which past due > 30 days and <= 90 days	Of which forborne	Total non-performing	Of which defaulted	Of which impaired	Of which forborne
	a	b	c	d	e	f	g
	£m's	£m's	£m's	£m's	£m's	£m's	£m's
Debt Securities	923.4	–	–	–	–	–	–
Loans and Advances	11,776.9	27.2	6.1	219.3	219.3	219.3	80.4
Off balance sheet exposures	12,400.0	–	–	–	–	–	–

Credit Risk (continued)

	February 2018					
	Accumulated impairment, provisions and negative fair value adjustments				Collateral and financial guarantees	
	Performing		Non-Performing			
	Total impairment on performing exposures	Of which forborne	Total impairment non-performing exposures	Of which forborne	On non-performing exposures	Of which forborne
	h	i	j	k	l	m
	£m's	£m's	£m's	£m's	£m's	£m's
Debt Securities	–	–	–	–	–	–
Loans and Advances	97.3	7.1	140.8	53.1	–	–
Off balance sheet exposures	–	–	–	–	–	–

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 2019		February 2018	
	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's	£m's	£m's	£m's
Opening balance	254.0	–	130.7	63.1
Increases due to amounts set aside for estimated loan losses during the period	142.7	–	98.2	36.0
Decreases due to amounts taken against accumulated credit risk adjustments	(110.4)	–	(87.3)	–
Transfers between credit risk adjustments	–	–	–	–
Impact of exchange rate differences	–	–	0.1	–
Business combinations, including acquisitions and disposals of subsidiaries	–	–	–	–
Other	(4.0)	–	(2.7)	–
Closing balance	**282.3**	**–**	**139.0**	**99.1**
Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	–	–	19.0	–
Credit risk adjustments directly recorded to the statement of profit or loss	142.7	–	98.2	36.0

Note: The accumulated general credit risk adjustment in the table above for the prior year comparative represents the incurred but not reported provisions reportable under IAS 39. General credit risk adjustments are not applicable under IFRS 9. On a transitional basis, the introduction of IFRS 9 resulted in an increase in specific provisions of £115.0m.

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: http://www.corporate.tescobank.com/48/accounts-and-disclosures.

Credit Risk (continued)

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 2019
		Gross carrying value defaulted exposures
		a
		£m's
1	**Opening balance**	219.3
2	Loans and debt securities that have defaulted or impaired since the last reporting period	262.1
3	Returned to non-defaulted status	(8.7)
4	Amounts written off	(211.7)
5	Other charges	16.3
6	**Closing balance**	**277.3**

Credit Risk: Mitigation

Management of Credit Risk Mitigation

The Group utilises credit risk mitigation in respect of its mortgage lending due to its exposure to potential bad debts arising from the inherent risk that customers may default on their obligations.

Controls and risk mitigants

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

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

EU CR3: Credit risk mitigation techniques - overview

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

		February 2019				
		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's	£m's	£m's	£m's	£m's
1	Loans	9,143.5	3,767.4	3,767.4	–	–
2	Debt Securities	975.5	64.7	–	64.7	–
3	**Total Exposures**	**10,119.0**	**3,832.1**	**3,767.4**	**64.7**	**–**
4	Of which defaulted	276.8	0.5	0.5	–	–

		February 2018				
		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's	£m's	£m's	£m's	£m's
1	Loans	8,797.9	2,962.7	2,962.7	–	–
2	Debt Securities	889.4	34.0	–	34.0	–
3	**Total Exposures**	**889.4**	**2,996.7**	**2,962.7**	**34.0**	**–**
4	Of which defaulted	218.9	0.4	0.4	–	–

Credit Risk (continued)

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 2019					
		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's	£m's	£m's	£m's	£m's	
	Exposure Class						
1	Central governments or central banks	859.1	–	1,248.0	–	11.7	0.9%
3	Public sector entities	64.7	–	–	–	–	0.0%
4	Multilateral development banks	399.5	–	399.5	–	–	0.0%
6	Institutions	777.1	34.1	452.9	34.1	97.4	20.0%
7	Corporates	34.2	–	34.2	–	29.6	86.4%
8	Retail	8,821.8	12,084.6	8,821.8	–	6,615.9	75.0%
9	Secured by mortgages on immovable property	3,680.4	141.7	3,680.4	28.5	1,298.1	35.0%
10	Exposures in default	164.3	–	164.3	–	164.3	100.0%
12	Covered bonds	380.2	–	380.2	–	38.0	10.0%
15	Equity exposures	76.2	–	76.2	–	190.5	250.0%
16	Other exposures	213.3	–	213.3	–	108.9	51.0%
17	**Total**	**15,470.8**	**12,260.4**	**15,470.8**	**62.6**	**8,554.4**	**55.1%**

		February 2018					
		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's	£m's	£m's	£m's	£m's	
	Exposure Class						
1	Central governments or central banks	1,570.8	–	1,604.8	–	–	0.0%
3	Public sector entities	34.0	–	–	–	–	0.0%
4	Multilateral development banks	85.0	–	85.0	–	–	0.0%
6	Institutions	450.9	–	450.9	–	90.3	20.0%
7	Corporates	45.7	–	45.7	–	43.6	95.5%
8	Retail	8,624.6	12,193.8	8,624.6	–	6,468.2	75.0%
9	Secured by mortgages on immovable property	2,962.7	206.2	2,962.7	41.2	1,051.4	35.0%
10	Exposures in default	80.3	–	80.3	–	80.3	100.0%
12	Covered bonds	155.8	–	155.8	–	15.6	10.0%
15	Equity exposures	86.5	–	86.5	–	216.3	250.0%
16	Other exposures	199.8	–	199.8	–	88.5	44.3%
17	**Total**	**14,296.1**	**12,400.0**	**14,296.1**	**41.2**	**8,054.2**	**56.3%**

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.

Credit Risk (continued)

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

	February 2019							
Fitch Exposure Class	Credit Quality Step 1 AAA to AA- £m's	Credit Quality Step 2 A+ to A- £m's	Credit Quality Step 3 BBB+ to BB- £m's	Credit Quality Step 4 BB+ to BB- £m's	Credit Quality Step 5 B+ to B- £m's	Credit Quality Step 6 CCC+ and below £m's	Unrated or Defined Risk Weight in CRR £m's	Total £m's
Total IRB approach	–	–	–	–	–	–	–	–
Central governments or central banks	–	–	–	–	–	–	859.1	859.1
Public sector entities	–	–	–	–	–	–	64.7	64.7
Multilateral development banks	–	–	–	–	–	–	399.5	399.5
Institutions	411.1	380.1	–	–	–	–	20.0	811.2
Corporates	–	2.4	13.0	–	–	–	18.8	34.2
Retail	–	–	–	–	–	–	20,906.4	20,906.4
Secured by mortgages on immovable property	–	–	–	–	–	–	3,822.1	3,822.1
Exposures in default	–	–	–	–	–	–	164.3	164.3
Covered bonds	380.2	–	–	–	–	–	–	380.2
Equity exposures	–	–	–	–	–	–	76.2	76.2
Other exposures	–	–	–	–	–	–	213.3	213.3
Total standardised exposures	**791.3**	**382.5**	**13.0**	**–**	**–**	**–**	**26,544.4**	**27,731.2**
Total	**791.3**	**382.5**	**13.0**	**–**	**–**	**–**	**26,544.4**	**27,731.2**

	February 2018							
Fitch Exposure Class	Credit Quality Step 1 AAA to AA- £m's	Credit Quality Step 2 A+ to A- £m's	Credit Quality Step 3 BBB+ to BB- £m's	Credit Quality Step 4 BB+ to BB- £m's	Credit Quality Step 5 B+ to B- £m's	Credit Quality Step 6 CCC+ and below £m's	Unrated or Defined Risk Weight in CRR £m's	Total £m's
Total IRB approach	–	–	–	–	–	–	–	–
Central governments or central banks	–	–	–	–	–	–	1,570.8	1,570.8
Public sector entities	–	–	–	–	–	–	34.0	34.0
Multilateral development banks	–	–	–	–	–	–	85.0	85.0
Institutions	436.9	5.1	8.9	–	–	–	–	450.9
Corporates	–	2.5	–	21.5	–	–	21.7	45.7
Retail	–	–	–	–	–	–	20,818.4	20,818.4
Secured by mortgages on immovable property	–	–	–	–	–	–	3,168.9	3,168.9
Exposures in default	–	–	–	–	–	–	80.3	80.3
Covered bonds	155.8	–	–	–	–	–	–	155.8
Equity exposures	–	–	–	–	–	–	86.5	86.5
Other exposures	–	–	–	–	–	–	199.8	199.8
Total standardised exposures	**592.7**	**7.6**	**8.9**	**21.5**	**–**	**–**	**26,065.4**	**26,696.1**
Total	**592.7**	**7.6**	**8.9**	**21.5**	**–**	**–**	**26,065.4**	**26,696.1**

Credit Risk (continued)

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 2019

		Risk Weight									Total	Of which: unrated
	Exposure Class	**0% £m's**	**10% £m's**	**20% £m's**	**35% £m's**	**50% £m's**	**75% £m's**	**100% £m's**	**250% £m's**	**Deducted £m's**	**£m's**	**£m's**
1	Central governments or central banks	1,243.3	–	–	–	–	–	–	4.7	–	1,248.0	1,248.0
3	Public sector entities	–	–	–	–	–	–	–	–	–	–	–
4	Multilateral development banks	399.5	–	–	–	–	–	–	–	–	399.5	399.5
6	Institutions	–	–	487.0	–	–	–	–	–	–	487.0	–
7	Corporates	–	–	–	–	2.4	–	31.8	–	–	34.2	18.8
8	Retail	–	–	–	–	–	8,821.8	–	–	–	8,821.8	8,821.8
9	Secured by mortgages on immovable property	–	–	–	3,708.9	–	–	–	–	–	3,708.9	3,708.9
10	Exposures in default	–	–	–	–	–	–	164.3	–	–	164.3	164.3
12	Covered bonds	–	380.2	–	–	–	–	–	–	–	380.2	–
15	Equity exposures	–	–	–	–	–	–	–	76.2	–	76.2	76.2
16	Other exposures	29.3	–	94.0	–	–	–	90.0	–	253.0	466.3	466.3
17	**Total**	**1,672.1**	**380.2**	**581.0**	**3,708.9**	**2.4**	**8,821.8**	**286.1**	**80.9**	**253.0**	**15,786.4**	**14,903.8**

February 2018

		Risk Weight									Total	Of which: unrated
	Exposure Class	**0% £m's**	**10% £m's**	**20% £m's**	**35% £m's**	**50% £m's**	**75% £m's**	**100% £m's**	**250% £m's**	**Deducted £m's**	**£m's**	**£m's**
1	Central governments or central banks	1,604.8	–	–	–	–	–	–	–	–	**1,604.8**	1,604.8
3	Public sector entities	–	–	–	–	–	–	–	–	–	–	–
4	Multilateral development banks	85.0	–	–	–	–	–	–	–	–	**85.0**	85.0
6	Institutions	–	–	450.9	–	–	–	–	–	–	**450.9**	–
7	Corporates	–	–	–	–	2.5	–	43.2	–	–	**45.7**	21.7
8	Retail	–	–	–	–	–	8,624.6	–	–	–	**8,624.6**	8,624.6
9	Secured by mortgages on immovable property	–	–	–	3,003.9	–	–	–	–	–	**3,003.9**	3,003.9
10	Exposures in default	–	–	–	–	–	–	80.3	–	–	**80.3**	80.3
12	Covered bonds	–	155.8	–	–	–	–	–	–	–	**155.8**	–
15	Equity exposures	–	–	–	–	–	–	–	86.5	–	**86.5**	86.5
16	Other exposures	31.1	–	100.2	–	–	–	68.5	–	305.2	**505.0**	505.0
17	**Total**	**1,720.9**	**155.8**	**551.1**	**3,003.9**	**2.5**	**8,624.6**	**192.0**	**86.5**	**305.2**	**14,642.5**	**14,011.8**

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 & 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 2019 this investment was valued at £76.2m (2018: £86.5m).

During the year TU completed a share capital reduction of £20.6m and also repaid loan capital of £10.4m. Following the share capital reduction, TU distributed capital of £20.6m. The Group has recognised its share of this distribution, being £10.3m, through a reduction in the carrying value of its investment in TU. The Group's investment in subordinated debt issued by TU has decreased by £5.2m, reflecting the Group's share of loan capital repaid.

Since the year end, TU has completed a share capital reduction of £16.0m and also repaid loan capital of £15.7m (March 2019). Following the share capital reduction, TU distributed capital of £31.3m. The Group has recognised its share of this distribution, being £15.6m, through a reduction in the carrying value of its investment in TU. The Group's investment in subordinated debt issued by TU has decreased by £7.8m, reflecting the Group's share of loan capital repaid.

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 2019, 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 30 to Page 33

Policies are in place which allow the use of credit risk mitigation to reduce counterparty credit risk. As at 28 February 2019 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).

The table below provides an analysis of the Group's counterparty credit risk exposures.

As at 28 February 2019, 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 2019				
		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's	**£m's**	**£m's**	**£m's**	**£m's**
1	Derivatives	31.3	18.8	12.5	12.5	–
4	**Total**	**31.3**	**18.8**	**12.5**	**12.5**	**–**

		February 2018				
		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's	**£m's**	**£m's**	**£m's**	**£m's**
1	Derivatives	46.1	34.6	11.5	11.5	–
4	**Total**	**46.1**	**34.6**	**11.5**	**11.5**	**–**

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 2019 Exposure Value	February 2019 RWAs	February 2018 Exposure Value	February 2018 RWAs
		a	b	a	b
		£m's	£m's	£m's	£m's
1	Total portfolios subject to the Advanced method	–	–	–	–
2	(i) VaR component (including the 3x mulltiplier)		–		–
3	(ii) Stressed VaR component (including the 3x multiplier)		–		–
4	All portfolios subject to the Standardised Method	6.4	6.4	3.9	3.9
EU4	Based on the Original Exposure Measure	–	–	–	–
5	**Total subject to the CVA capital charge**	**6.4**	**6.4**	**3.9**	**3.9**

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 2019 Risk Weight			February 2019 Total	February 2019 Of which: unrated	February 2018 Risk Weight		February 2018 Total	February 2018 Of which: unrated
		0%	20%	50%			20%	50%		
	Exposure class	£m's	£m's	£m's	£m's	£m's	£m's	£m's	£m's	£m's
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	–	10.9	0.6	11.5	–	12.3	0.4	12.7	–
7	Corporates	–	–	–	–	–	–	–	–	–
8	Retail	–	–	–	–	–	–	–	–	–
9	Institutions and corporates with a short term credit assessment	–	–	–	–	–	–	–	–	–
10	Other items	–	–	–	–	–	–	–	–	–
11	**Total**	**–**	**10.9**	**0.6**	**11.5**	**–**	**12.3**	**0.4**	**12.7**	**–**

Securitisation and Covered Bond Exposures

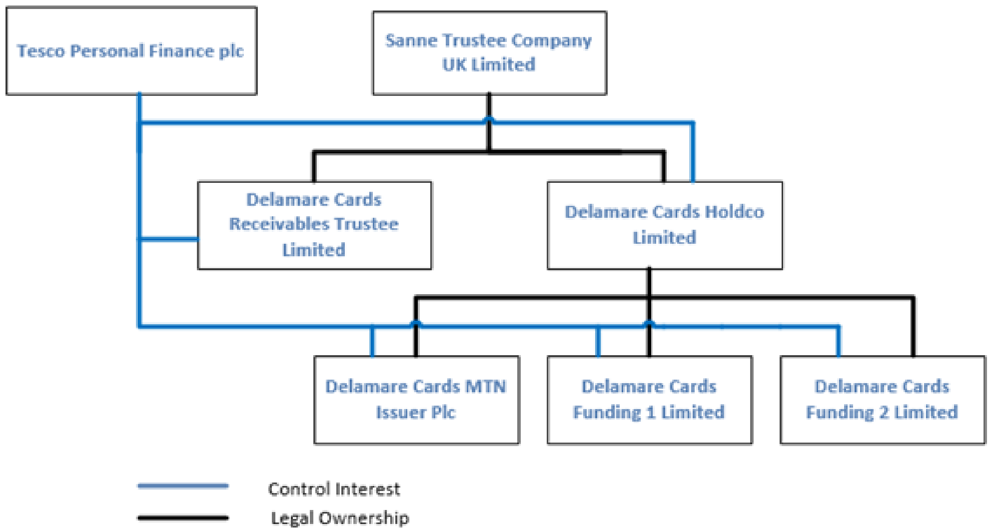
A securitisation is defined as a transaction where the payments are dependent upon the performance of a single exposure or pool of exposures, where the subordination of tranches determines the distribution of losses during the life of the transaction.

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 structured entity (Delamare Cards Receivables Trustees 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 structured entity facilitating both expense and securities payments. Although none of the equity of the securitisation structured 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 & Financial Statements of both Tesco Personal Finance plc and Tesco Personal Finance Group plc: http://www.corporate.tescobank.com/48/accounts-and-disclosures.

Both the underlying assets and the securitisation bonds are held at amortised cost. For accounting purposes, the securitisation structured 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 structured entities:



The Group operates within the securitisation and covered bond markets as an investor, purchasing only securities backed by Group assets (own name securities) and certain 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 originated asset backed securities or any third parties involved in securitisation activity.

Securitisation and Covered Bond Exposures (continued)

As at 28 February 2019, Delamare Cards MTN Issuer plc had £2,362.2m (2018: £2,362.2m) notes in issue in relation to securitisation transactions, of which £1,800.0m are rated AAA by S&P Global Ratings Europe Limited, Fitch Ratings Limited and £272.2m (sterling equivalent) are rated AAA by S&P Global Ratings Europe Limited, Fitch Ratings Limited and Moody's Investors Service Limited. £922.1m (2018: £950.0m) relates to externally held notes. At the year end the Group had pledged £3,182.2m (2018: £3,490.5m) of credit card assets in Delamare structured 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 2019			February 2018		
		Bank acts as originator			Bank acts as originator		
		Traditional	Synthetic	Sub-total	Traditional	Synthetic	Sub-total
		a	b	c	a	b	c
		£m's	£m's	£m's	£m's	£m's	£m's
1	Retail (Total)	1,440.0	–	1,440.0	1,412.2	–	1,412.2
	Of which						
2	residential mortgages	–	–	–	–	–	–
3	credit card	1,440.0	–	1,440.0	1,412.2	–	1,412.2
4	other retail exposures	–	–	–	–	–	–

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 2019, the Group's exposure to covered bonds amounted to £380.2m (2018: £155.8m).

Risks Inherent in Securitised and Covered Bond Assets

The Group is exposed to limited risk as it purchases only own name securities that are reported on balance sheet, 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 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 pre-purchase credit assessment of the issuer's financial strength is undertaken together with a due diligence assessment of the bond structure and underlying assets, including 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 investments, risk weighted exposure amounts are calculated using the credit quality steps prescribed in the CRR for securitisations and covered bond exposures. 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 in the event of default by a bank 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, Personal Loans and Mortgages 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 25% as at 28 February 2019 (2018: 26%). 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 values reported to the regulator via supervisory returns over the year ended 28 February 2019.

Note: Template B (collateral received) is not required for disclosure in accordance with the threshold criteria under Delegated Regulation (EU) 2017/2295.

EU Template A: Assets

		February 2019				February 2018			
		Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
		£m's	£m's	£m's	£m's	£m's	£m's	£m's	£m's
		010	040	060	090	010	040	060	090
010	**Assets of the reporting institution**	**3,881.5**		**11,297.9**		**3,237.2**		**10,196.0**	
030	Equity Instruments	–	–	78.6	78.6	–	–	89.7	89.7
040	Debt securities	29.9	29.9	775.0	775.0	–	–	936.3	936.3
120	Other assets	–		446.3		–		468.6	

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

		February 2019		February 2018	
		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's	£m's	£m's	£m's
		010	030	010	030
010	Carrying amount of selected financial liabilities	2,804.9	4,059.5	2,030.0	3,251.5

Market Risk

Market Risk is defined as the risk that the value of earnings or capital is altered through the movement of market rates. This includes interest rates, foreign exchange rates, credit spreads and equities. The Group has no trading book exposures.

Market Risk arises in the following ways in the Group:

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

Risk Appetite Statement

The Group only has an appetite for Market Risk arising from its core business of providing retail banking products. Propriety risk taking is not permitted.

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 and Prepayment Risk. A fourth risk component, Credit Spread Risk in the Banking Book (CSRBB), has been added to the CaR measure in preparation for the EBA guidelines on the management of interest rate risk arising from non-trading book activities;
- 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 Market Risk Forum. These bodies provide oversight of the Group's market risk position at a detailed level, providing regular reports and recommendations to the Board Risk Committee.

Market & 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 Asset & Liability Management and Transaction Management teams within Treasury.

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

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

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

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

Capital at Risk (CaR)

The CaR approach 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. 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 downward rate scenario presents the most adverse exposure, increasing to £18.9m compared to £14.4m as at 28 February 2018.

CaR: Capital at Risk

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

Note: The scenarios 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. This approach has replaced Net Interest Income Sensitivity used in prior years and provides a more granular analysis of product interest rate sensitivity.

AEaR: Annual Earnings at Risk

	February 2019 Downward rate shock
Annual Earnings at Risk	-1.10%

Note: The scenario disclosed above represents the most adverse outcome amongst 8 interest rate stress scenarios.

Foreign Exchange Risk

Foreign exchange risk is the risk that the value of transactions in currencies other than sterling are altered by the

Market Risk (continued)

movement of exchange rates.

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

During the year, the Group issued Asset Backed Floating Rate Notes in US dollars. At the time of the issuance, the value of the notes were effectively hedged through an FX swap arrangement.

Controls and risk mitigants

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

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 a potential error, loss, harm, or failure caused by ineffective or inadequately defined processes, system failures, improper conduct, human error, fraud or from external events. The Group is subject to the Standardised Approach method to calculate Pillar 1 operational risk capital, as outlined in the CRR.

In November 2016, Tesco Bank's debit cards were the subject of an online fraudulent attack. The Group undertook immediate remedial action and an independent review of the issue, working closely with the authorities and regulators on this incident. On 1 October 2018, the FCA issued a warning notice to the Group in relation to the incident which the Group accepted, agreeing to a settlement payment of £16.4m.

Risk Appetite Statement

The Group’s risk appetite is to:

- Limit operational risk events that cause material losses, customer detriment or reputational damage;
- Maintain effective controls over key processes;
- Control risks arising as a result of engaging third party suppliers to support the delivery of products and services; and
- Maintain a resilient business operation that supports transactional services, with a low tolerance for incidents that cause adverse impact to customers.

Risk Appetite Measures

- Total non-fraud losses as a % of income;
- 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 Tier 1 suppliers;
- Infrastructure Resilience including Single Points of Failure;
- Service Availability;
- Business Continuity Plans, business impact assessments and Work Area Recovery testing in place; and
- Risk and Control Self Assessment overall control effectiveness.

Controls and risk mitigants

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

- developing and maintaining the operational risk framework;
- working with relevant business areas to make sure that first line responsibilities are understood and that those responsibilities are executed within the framework;
- supporting relevant business areas to embed policies, frameworks and to instil 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 changes to the risk and control environment 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.

Financial Crime & Fraud

Financial crime and fraud are significant drivers of operational risk and the external threat continues to grow 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. Regular updates are provided to Executive and Board level committees.

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 Information Security Committee, 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's risk appetite is to comply with relevant rules, regulations and data protection legislation. Where breaches occur, the Group will take appropriate rectifying action. The Group seeks to deliver fair outcomes for customers.

Risk Appetite Measures

- Number of regulatory change programmes with red status;
- Personal data breaches reportable to the Information Commissioners Office; and
- Product Design, Sales and Post Sales Customer Outcomes.

Controls and mitigants

As part of the Group's Policy Framework, a dedicated Compliance team is responsible for the Compliance 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 Operational and Product Guides that provide relevant practical guidance to business and operational areas to enable them to comply with the regulatory policies.

The Group'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 established the Prudential Regulatory Forum which is responsible for the oversight of:

- PRA communications including information requests;
- Upstream regulatory change including impact analysis, action tracking, regulatory responses;
- Prudential regulatory compliance and reporting; and
- Prudential regulatory deliverables in compliance with prudential regulation.

In addition, the Regulatory Change Forum is responsible for the oversight of:

Other Principal Risks (continued)

- Communications from all external regulators (other than the PRA) including information requests and Consultation papers;
- Upstream regulatory change including impact analysis, action tracking, regulatory responses.

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 and is reported to the Conduct Oversight and Risk Committee, whose role is to provide oversight and challenge on the conduct risk management framework and identify the priority conduct related issues impacting the Group. 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 quarterly 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

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

The most significant impact arises in respect of credit risk relating to the performance of the Group’s portfolio of loans and advances to customers.

Controls and mitigants

The Group is monitoring trends in customer behaviour to ensure it is alert to any significant changes in customer demand as a result of any Brexit-related activities. The Group also continues to closely monitor the macro-economic position. Assessment of the required loss allowance under IFRS 9 has taken into account a weighted range of macro-economic scenarios, one of which reflects a no-deal Brexit.

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

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

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.

Other Principal Risks (continued)

LIBOR Rate Replacement

On 27 July 2017 the FCA announced that the London Interbank Offered Rate (LIBOR) would be phased out and replaced with an alternative reference rate by the end of 2021.

Controls and mitigants

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

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 CRD IV and 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 reviewed annually by the Remuneration Committee.

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 approved by the Committee. 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 Chairman of the Committee, the Chairman of the Group and two other non-Executive Directors. Additionally, the Committee Chairman 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 People 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. Senior people also have an element of their annual incentive based on Tesco Group performance.
- 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. The Chief Risk Officer provides a report on the risk profile of the Group and independently inputs into the appropriateness of the remuneration structure annually, ensuring the design complements the stated risk profile and does not encourage excessive risk taking or short termism.

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 performance has been materially misstated;
- where a participant has contributed to serious reputational damage of 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.

During the year a Risk Adjustment Framework has been developed to support discussions on potential adjustments to reward and a Risk Adjustment Committee has been established to review reporting against the Risk Adjustment Framework and provide feedback 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 with regard to any changes.

In addition, the Remuneration Committee ensures that during the recruitment process, the remuneration package approach for all MRT's (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 MRT's. To enable recruitment, the Remuneration Committee may be asked to approve buy-outs 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.

During the year, the role of Chief Executive Officer was undertaken on an interim basis by the Deputy Chief Executive. In August 2018, the role of Chief Executive Officer was filled on a permanent basis.

Board Diversity Policy

The Group has a formal, Board approved policy on Diversity and Inclusion and is fully committed to creating an inclusive culture where everyone is made to feel truly welcome regardless of age; disability; gender; gender reassignment; marital and civil partnership status; pregnancy and maternity; race; religion or belief, or absence of religion or belief; sexual orientation or trade union affiliation. The overall objective of the policy is to ensure that there is a fair process to attract, develop and retain the very best talent whilst ensuring that all colleagues are afforded equal opportunities regardless of protected characteristics or background.

The Group has signed up to the Women in Finance Charter, which is a pledge for gender balance across financial services and represents a commitment from Her Majesty's Treasury and signatory firms to work together to build a more balanced and fair industry. The Charter commits signatory firms to supporting the progression of women into senior roles in the financial services sector; recognises the benefits brought by diversity in the sector and that firms will have different starting points, meaning that each firm will set its own targets; and requires firms to publicly report on progress to deliver against these internal targets in support of the accountability and transparency needed to drive change.

The Group's policy on diversity along with associated targets can be found at:

https://corporate.tescobank.com/193/about-us/diversity-&-inclusion

During the year, the Group appointed an Executive Sponsor for Inclusion who is also accountable for progress towards the Women in Finance Charter targets. The Group also made 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 as shown below.

	Target	February 2019	February 2018
Female Directors	33.3%	6.7%	3.7%
Female Executive Committee Members	33.3%	10.0%	10.0%
Female Board Members	33.3%	14.3%	6.3%

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 2019.

Remuneration Awarded during the Financial Year - Analysis of remuneration by fixed and variable elements

	February 2019		
	Senior Management	Other Material Risk Takers	Total
Number of identified material risk takers	**15**	**42**	**57**
Fixed reward (£m) (1)	3.4	7.4	10.8
Variable reward (£m) (2)	4.9	5.7	10.6
Total remuneration (£m)	**8.3**	**13.1**	**21.4**

	February 2018		
	Senior Management	Other Material Risk Takers	Total
Number of identified material risk takers	**15**	**36**	**51**
Fixed reward (£m) (1)	4.0	6.2	10.2
Variable reward (£m) (2)	5.9	5.6	11.5
Total remuneration (£m)	**9.9**	**11.8**	**21.7**

Remuneration Awarded during the Financial Year - Amounts and forms of variable remuneration

	February 2019		
	Senior Management	Other Material Risk Takers	Total
Cash (£m)	1.1	2.2	3.3
Shares (£m)	3.8	3.5	7.3
Total variable remuneration (£m)	**4.9**	**5.7**	**10.6**

	February 2018		
	Senior Management	Other Material Risk Takers	Total
Cash (£m)	2.3	2.3	4.6
Shares (£m)	3.6	3.3	6.9
Total variable remuneration (£m)	**5.9**	**5.6**	**11.5**

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 2019
Sign on payment made during year (£m)	–
Number of beneficiaries	–
Severance payments made during year (£m)	0.3
Number of beneficiaries	3

	February 2018
Sign on payment made during year (£m)	–
Number of beneficiaries	–
Severance payments made during year (£m)	0.6
Number of beneficiaries	4

Remuneration (continued)

Deferred Remuneration

	February 2019		
	Senior Management	Other Material Risk Takers	Total
Vested (£m)	–	–	–
Unvested (£m)	3.8	3.5	7.3
Total (£m)	**3.8**	**3.5**	**7.3**

	February 2018		
	Senior Management	Other Material Risk Takers	Total
Vested (£m)	–	–	–
Unvested (£m)	3.6	3.3	6.9
Total (£m)	**3.6**	**3.3**	**6.9**

Analysis of High Earners by Band

Remuneration Band (Euros)	**February 2019** **Number of Material Risk Takers**
2.5 million - 3.0 million	–
2 million - 2.5 million	–
1.5 million - 2.0 million	2
1 million - 1.5 million	3

Remuneration Band (Euros)	**February 2018** **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	3

Glossary of Terms

	Definition
A	
Asset encumbrance	A claim against a property by another party. Encumbrance usually impacts the transferability of the property and can restrict its free use until the encumbrance is removed.
B	
Basel II	The capital adequacy framework issued by the BCBS (June 2006) in the form of the 'International Convergence of Capital Measurement and Capital Standards'.
Basel III	The capital reforms and introduction of a global liquidity standard proposed by the BCBS in 2010 and due to be phased in, through CRD IV from 2014 onwards.
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)	Directives relating to capital adequacy, issued by the European Commission and adopted by EU member states. CRD I, II and III were issued in 2006, 2010 and 2011 respectively. CRD IV came into force on 1 January 2014 and implements the Basel III proposals together with transitional arrangements for some of its requirements.
Capital requirements regulation (CRR)	The Capital Requirements Regulation (EU) No. 575/2013 is an EU law that aims to decrease the likelihood that banks go insolvent, reflecting Basel III rules on capital measurement and capital standards.
Capital resources	Eligible capital held in order to satisfy capital requirements.
Central Clearing	Central counterparties (CCP's) 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 (CCB)	A capital buffer 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 as a whole 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 CCB should be released 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.
CRD IV Package	Legislation published in June 2013 (in force from 1 January 2014) by the European Commission, comprising the Capital Requirements Directive (CRD) and Capital Requirements Regulation (CRR) and together forming the CRD IV package. Implements the Basel III proposals in addition to new proposals on sanctions for non-compliance with regulatory rules, corporate governance and remuneration. The rules have been implemented in the UK via PRA policy statement PS7/13 with some elements subject to transitional phase in.
Credit quality step	A step in the European Commission 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	Used to determine the exposure at default (EAD) in relation to credit risk exposure. The credit conversion factor is an estimate of the proportion of undrawn commitments expected to be drawn down at the point of default.
Credit risk	Credit risk is the risk that a borrower will default on a debt or obligation by failing to make contractually obligated payments, or that the Group will incur losses due to any other counterparty failing to meet their financial obligations.
Credit risk mitigation	Techniques used to reduce the credit risk associated with an exposure.

Glossary of Terms (continued)

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.
E	
Exposure	A claim, contingent claim or position which carries a risk of financial loss.
Exposure at default (EAD) or exposure value	The amount expected to be outstanding after any credit risk mitigation, if and when the counterparty defaults. EAD reflects both drawn down balances as well as an allowance for undrawn commitments and contingent exposures.
External Credit Assessment Institutions	These include external credit rating agencies such as Standard & Poor's, Moody's and Fitch.
F	
Fair value	The price that would be received to sell an asset or paid to transfer a liability between market participants.
Forbearance	This takes place when a concession is made on the contractual terms of a loan 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 expected credit loss inherent in the lending book.
Impairment losses	The reduction in value that arises following an impairment review of an asset which has determined that the asset's value is lower than its carrying value. For impaired financial assets measured at amortised cost, impairment losses are the difference between the carrying value and the present value of estimated future cash flows, discounted at the asset's original effective interest rate.
Insurance risk	The risks accepted through the provision of insurance products in return for a premium. That, over time, the combined cost of claims, administration and acquisition of the contract may exceed the aggregate amount of premiums received and the investment income.
Interest Rate Risk (IRR)	The risk arising predominantly from the mismatch between interest rate sensitive assets and liabilities, but also to the investment term of capital and reserves, and the need to minimise income volatility.
Internal Capital Adequacy Assessment Process	The institution's own assessment, based on Basel II requirements, of the level of capital needed in respect of its regulatory capital requirements (for credit, market and operational risks) and for other risks including stress events.
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.

Glossary of Terms (continued)

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 only 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 the value of earnings or capital is altered through the movement of market rates. This includes interest rates, foreign exchange rates, credit spreads and equities.
Minimum capital requirement	The minimum regulatory capital that must be held in accordance with Pillar 1 requirements for credit, market and operational risk. This is currently 8%.
O	
Operational risk	The risk of loss, resulting from ineffective or inadequately designed internal processes, system failure, improper conduct, human error, fraud 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. Whilst maximising private benefits through rational decisions, 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	
Past due loans	Loans are past due when a counterparty has failed to make a payment in line with their contractual obligations.
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 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 calculated at some level of confidence (i.e. at a given quantile).
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 CRR and CRDIV.
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.
Retail loans	Money loaned to individuals rather than institutions. These include both secured and unsecured loans such as Mortgages and Credit Cards.
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 (RWA)	Calculated by assigning a degree of risk expressed as a percentage (risk weight) to an exposure value in accordance with the applicable standardised and Internal Ratings Based (IRB) approach rules.
S	
Securitisation	A transaction or scheme whereby the credit risk associated with an exposure, or pool of exposures, is grouped and where payments to investors is dependent upon the performance of the underlying exposure or pool of exposures.

Glossary of Terms (continued)

Securities Financing Transactions (SFT)	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.
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.
Securitisation Structured Entity	A corporation, trust, or other non-bank entity, established for a defined purpose, including for carrying on securitisation activities. Structured 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 the regulator. 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	
Tier 1 capital	A component of regulatory capital, comprising Common Equity Tier 1 capital and other Tier 1 capital. Other Tier 1 capital includes qualifying capital instruments such as non-cumulative perpetual preference shares and other Tier 1 capital securities.
Tier 2 capital	A component of regulatory capital, comprising qualifying subordinated loan capital and related non-controlling interests.
W	
Wholesale credit risk	The risk that counterparties will default on a debt or obligation by failing to make contractually obligated payments.
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 strategic objective is to be the bank for people who shop at Tesco. The Group operates with a strong customer focus and provides 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 which are aligned to each of the principal risks that the business is exposed to and are underpinned by corresponding Risk Appetite Measures with agreed triggers and limits.

The Group is exposed to the following principal risks:

- Capital risk;
- Funding & Liquidity 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 Group's transactions with related parties are disclosed in the Annual Report & Financial Statements which are published on the corporate website at:

http://www.corporate.tescobank.com/48/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 2019:

Name	Position within Tesco Personal Finance Group Plc	Changes in the year	Executive	Non-Executive
Graham Pimlott	Independent Non-Executive Chairman		0	3
Karl Bedlow	Chief Customer Officer		1	0
John Castagno	Independent Non-Executive Director		0	4
Robert Endersby	Independent Non-Executive Director		0	2
Jacqueline Ferguson	Independent Non-Executive Director	Appointed 26/04/18	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	Appointed 13/08/18	1	1
James McConville	Independent Non-Executive Director		1	1
David McCreadie	Managing Director		1	0
Amanda Rendle	Independent Non-Executive Director		1	1
Alan Stewart	Non-Executive Director		1	2
James Willens	Senior Independent Non-Executive Director		0	2

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

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

http://corporate.tescobank.com/61/about-us/board-and-executive-committee

During the year Iain Clink performed the role of Chief Executive Officer on an interim basis before retiring in August 2018.

Gerard Mallon joined the Group as Chief Executive Officer in August 2018.

Appendix 3: IFRS9-FL: Comparison of institutions' own funds and capital and leverage ratios with and without the application of transitional arrangements for IFRS9 or analogous ECL's

IFRS9 - FL: Comparison of institutions' own funds and capital and leverage ratios with and without the application of transitional arrangements for IFRS9 or analogous ECL's

		February 2019 a £m's
	Available capital (amounts)	
1	Common Equity Tier 1 (CET1) capital	1,616.4
2	Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	1,452.0
3	Tier 1 capital	1,616.4
4	Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	1,452.0
5	Total capital	1,822.6
6	Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	1,658.2
	Risk-weighted assets (amounts)	
7	Total risk-weighted assets	9,840.6
8	Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	9,797.3
	Capital ratios	
9	Common Equity Tier 1 (as a percentage of risk exposure amount)	16.4%
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	14.8%
11	Tier 1 (as a percentage of risk exposure amount)	16.4%
12	Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	14.8%
13	Total capital (as a percentage of risk exposure amount)	18.5%
14	Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	16.9%
	Leverage ratio	
15	Leverage ratio total exposure measure	16,457.9
16	Leverage ratio	9.8%
17	Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	8.9%

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 2019 £m's	February 2018 £m's
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	506.7	427.7
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	25.7	40.5
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	75.7	83.7
6	Common Equity Tier 1 capital before regulatory adjustments	**1,828.0**	**1,768.9**
	Common Equity Tier 1 capital: regulatory adjustments		
7	Additional value adjustments (negative amount)	(1.2)	(1.1)
8	Intangible assets (net of related tax liability) (negative amount)	(224.2)	(265.8)
11	Fair value reserves related to gains or losses on cash flow hedges	0.5	0.3
28	Total regulatory adjustments to Common Equity Tier 1	**(224.9)**	**(266.6)**
29	Common Equity Tier 1 capital	**1,603.1**	**1,502.3**
45	Tier 1 capital (Tier1 + Common Equity Tier 1 + Additional Tier 1)	**1,603.1**	**1,502.3**
	Tier 2 capital: instruments and provisions		
46	Capital instruments and the related share premium accounts	235.0	235.0
50	Credit risk adjustments	–	99.1
51	Tier 2 capital before regulatory adjustments	**235.0**	**334.1**
	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)	(28.8)	(34.1)
57	Total regulatory adjustments to Tier 2 capital	**(28.8)**	**(34.1)**
58	Tier 2 capital	**206.2**	**300.0**
59	Total capital (Total Capital = Tier 1 + Tier 2)	**1,809.3**	**1,802.3**
60	Total Risk Weighted Assets	**9,798.9**	**9,242.0**
	Capital ratios and buffers		
61	Common equity tier1 (as a % of risk exposure amount)	**16.4%**	**16.3%**
62	Tier 1 (as a % of risk exposure amount)	**16.4%**	**16.3%**
63	Total capital (as a % of risk exposure amount)	**18.5%**	**19.5%**
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)	8.0%	6.4%
65	of which: capital conversation buffer requirement	2.5%	1.9%
66	of which: countercyclical buffer requirement	1.0%	0.0%
68	Common equity tier 1 available to meet buffers (as a % of risk exposure amount)	10.4%	10.3%
	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)	76.2	86.5
	Applicable caps on the inclusion of provisions in Tier 2		
76	Credit risk adjustments included in Tier 2 in respect of exposures subject to standardised approach (prior to the application of the cap)	–	99.1
77	Cap on inclusion of credit risk adjustments in Tier 2 under standardised approach	–	100.1

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

EU OV1: Overview of RWAs and Minimum capital requirements

		February 2019 Risk weighted assets £m's	February 2018 Risk weighted assets £m's	February 2019 Minimum Capital Requirements £m's
1	**Credit risk (excluding CRR)**	**8,324.8**	**7,799.3**	**666.0**
2	Of which standardised approach (SA)	8,324.8	7,799.3	666.0
6	**Counterparty Credit Risk**	**8.9**	**6.6**	**0.7**
7	Of which mark to market	2.5	2.7	0.2
9	Of which standardised approach	–		–
12	Of which CVA	6.4	3.9	0.5
23	**Operational Risk**	**1,274.7**	**1,219.8**	**102.0**
25	Of which standardised approach	1,274.7	1,219.8	102.0
27	**Amounts below thresholds for deduction (subject to 250% risk weight)**	**190.5**	**216.3**	**15.2**
29	**Total**	**9,798.9**	**9,242.0**	**783.9**

Leverage Ratio

EU LRSum: Summary reconciliation of accounting assets and leverage ratio exposures

		February 2019 Applicable Amounts £m's	February 2018 Applicable Amounts £m's
1	Total assets as per published financial statements	15,356.0	14,327.3
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	–	0
4	Adjustments for derivative financial instruments	(20.4)	(33.4)
5	Adjustments for securities financing transactions "SFTs"	(290.1)	
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	1,236.9	1,260.6
7	Other adjustments	(99.8)	(225.8)
8	**Total leverage ratio exposure**	**16,182.6**	**15,328.7**

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

EU LRCom: Leverage ratio common disclosure

		February 2019 CRR leverage ratio exposures £m's	February 2018 CRR leverage ratio exposures £m's
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)	15,000.4	14,380.3
2	Asset amounts deducted in determining Tier 1 capital	(67.6)	(271.1)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	14,932.8	14,109.2
Derivative exposures			
5	Add-on amounts for PFE associated with *all* derivatives transactions (mark-to-market method)	10.9	12.7
7	Deductions of receivables assets for cash variation margin provided in derivatives transactions	(32.2)	(53.8)
11	**Total Derivative exposure (sum of lines 4 to 10**	**(21.3)**	**(41.1)**
Securities financing transaction exposures			
14	Counterparty credit risk exposure for SFT assets	34.1	–
16	**Total securities financing transaction exposures (sum of lines 12 to 15a)**	**34.1**	**–**
Other off-balance sheet exposures			
17	Other off-balance sheet exposures at gross notional amount	12,226.3	12,400.0
18	Adjustments for conversion to credit equivalent amounts	(10,989.4)	(11,139.4)
19	**Other off-balance sheet exposures (sum of lines 17 to 18)**	**1,236.9**	**1,260.6**
Capital and total exposures			
20	**Tier 1 capital**	1,603.1	1,502.3
21	**Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	16,182.6	15,328.7
Leverage ratio			
22	**Leverage ratio**	9.9%	9.8%

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

		February 2019 CRR leverage ratio exposures £m's	February 2018 CRR leverage ratio exposures £m's
EU-1	Total on-balance sheet exposures (excluding derivatives, securities financing transactions and exempted exposures), of which:	15,000.4	14,380.3
EU-3	Banking book exposures, of which:	15,000.4	14,380.3
EU-4	Covered bonds	380.2	155.8
EU-5	Exposures treated as sovereigns	1,377.0	1,689.7
EU-7	Institutions	189.5	184.4
EU-8	Secured by mortgages of immovable properties	3,679.5	2,962.7
EU-9	Retail exposures	8,663.6	8,624.6
EU-10	Corporate	34.2	45.7
EU-11	Exposures in default	105.3	80.3
EU-12	Other exposures (e.g. equity, securitisation, and other non-credit obligation assets)	571.0	637.1

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
Annual Earnings at Risk	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 and/or future earnings. The AEaR model measures the effect of +/- 0.25%, 0.50%, 0.75%, 1% shocks in rates versus the base case scenario (2018:+1.0%; -0.75%) parallel interest rate shock on the next 12 months earnings, based on expected cashflows. The most adverse scenario is measured against Risk Appetite.
Annual Wholesale Re-financing amount	Value of Wholesale funds maturing in a rolling 12 month period
Bad debt impact in a stress scenario as a % of Profit Before Tax	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 WAR 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	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
Encumbrance Ratio	Encumbered Assets / Unencumbered Assets
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
Internal Liquidity Requirement	The ILR is the Group's own assessment of liquidity requirements based on surviving on a defined stress scenario for a 90 day period.
Liquidity Coverage Ratio	Liquidity Buffer/Net Liquidity outflows over a 30 calendar day stress period
Loan to Deposit Ratio	Total amount of retail assets divided by retail liabilities
Material events	12 month average
Net open currency position	Limits the risk of adverse movements in foreign exchange rates
Net Stable Funding Ratio	Available Stable Funding / Required Funding
New business Mortgage Loan to Value	Limits the secured new business where the greatest losses would be expected to manifest in the event of a macroeconomic stress
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
Personal data breaches reportable to the Information Commissioners Office	12 month rolling average number of monthly ICO reportable personal data breaches
Product Design, Sales and Post Sales Customer Outcomes	Level of amber or red customer outcomes

Appendix 5: Risk Appetite Measures (continued)

Risk Appetite Measure	Calculation / Explanation
Product Level Default rate guardrails	Monitoring of 12 month observed default rates to ensure they do not rise to a level which could jeopardise the profitability
Product Level Minimum Net Present Value / Internal Rate of Return	Monitors the profitability of new business to ensure the bank writes business which is Net Present Value positive
Regulatory Capital Headroom	Headroom above Regulatory Capital Requirements
Risk and Control Self Assessment overall control effectiveness	Percentage of overall control confidence assessments rated as Red for the risks identified through the Risk and Control Self Assessment process
Service Availability	Percentage of critical IT services operating within agreed service standards
Status of regulatory change programmes	Number of regulatory change programmes with red status
Stock secured balances by Mortgage Debt to Value	Monitors the total secured book balances where the greatest losses would be expected to manifest in the event of a macroeconomic stress
Supplier performance, service and risk rating for Tier 1 suppliers	Number of Tier 1 Suppliers with Amber and Red residual risk ratings
Total non-fraud losses as a percentage of income	Total Fraud Losses as a % of Income (12-month average)
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 2019. 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 2019
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 4 - Disclosure Policy Page 4 - Frequency of Disclosure Page 4 - 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 5 - 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 5 - 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 4 - Frequency of Disclosure Tesco Bank publishes disclosures on same day as publication of the TPFG Ltd Annual Report & Financial Statements and within a few weeks of the main TPF plc disclosures Page 4 - 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 4- 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 4 - 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 11 - Risk Management Page 14- Three lines of Defence Page 15- Policy Frameworks and supporting risk management tools
435 (1) (b)	the structure and organisation of the risk management function	Page 11 - Risk Management Page 14- Three lines of Defence Page 15- Policy Frameworks and supporting risk management tools
435 (1) (c)	Risk reporting and measurement systems	Page 11 - Risk Management Page 14- Three lines of Defence Page 15- 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 11 - Risk Management Page 14- Three lines of Defence Page 15- 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 62 - 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 62 - 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 11 - Risk 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 11 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 6 - Scope of Consolidation and Linkages between Financial Statements and Regulatory Exposures Page 6 - Comparability
436 (c)	Impediments to transfer of own funds between subsidiaries	Page 10 - 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 7 - 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 21- 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 21- 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 18 - 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 ICAAP upon demand.
438 (c)	Capital requirements for each credit risk exposure class under the standardised approach	Page 23 - Capital Requirements Table EU OV1: Overview of RWAs and Minimum capital requirements

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 18 - Capital Management Page 23 - Capital Requirements Page 54 - Market Risk
438 (f)	Capital requirements for operational risk	Page 18 - Capital Management Page 23 - Capital Requirements Table EU-OV1: Overview of RWAs and Minimum Capital Requirements Page 57 - 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 48 - 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 49 - Counterparty Credit Risk (CCR)
439 (b)	discussion of policies for securing collateral and establishing credit reserves	Page 49 - Counterparty Credit Risk (CCR)
439 (c)	discussion of policies with respect to Wrong-Way risk exposures	Page 33 - 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 49 - Counterparty Credit Risk under the Mark to Market Approach
439 (e)	derivation of net derivative credit exposures	Page 49 - 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 49 - 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 24 - The Group's Countercyclical Capital Buffer 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 24 - The Group's Countercyclical Capital Buffer 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 39 - 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 39 - 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 35 - 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 36 - 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 37 - 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 38 - 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 41 - 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 41 - 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 41 - Credit Quality Analysis Page 39 - 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 53 - 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 47- Analysis of Credit Risk Mitigation
444 (b)	the exposure classes for which each ECAI or ECA is used	Page 47- 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 47- Analysis of Credit Risk Mitigation
444 (d)	mapping of external rating to credit quality steps	Page 47- 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 47- 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 55 - Foreign Exchange Risk Page 56 - 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 18 - 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 48 - 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 48 - 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 48 - 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 48 - 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 54 - 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 54 - 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 51 - Securitisation and Covered Bond Exposures
449 (b)	the nature of other risks including liquidity risk inherent in securitised assets	Page 52 - 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 52 - Risks Inherent in Securitised and Covered Bond Assets
449 (d)	the different roles played by the institution in the securitisation process	Page 52 - 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 52 - 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 52 - 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 52 - 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 51 - 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 51 - 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 51 - 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 51 - 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 52 - 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 51 - 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 51 - Securitisation and Covered Bond Exposures Page 52 - 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 52 - 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 62 - Remuneration Page 13 Remuneration Committee - No of meetings of Remuneration Committee
450 (1) (b)	information on link between pay and performance	Page 62 - 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 62 - Remuneration
450 (1) (d)	the ratios between fixed and variable remuneration	Page 62 - 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 62 - Remuneration
450 (1) (f)	the main parameters and rationale for any variable component scheme and any other non-cash benefits	Page 62 - 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 62 - 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 62 - 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 62 - 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 62 - 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 62 - 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 62 - 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 62 - 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 26 - 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 26 - 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 49 - 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 32 -Wholesale Credit Risk Page 45- Management of Credit Risk Mitigation
453 (c)	a description of the main types of collateral taken by the institution	Page 32 -Wholesale Credit Risk Page 45- 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 45- 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	Shareholders equity	Liability - amortised cost	Shareholders equity	Shareholders equity	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 GBP LIBOR plus 0.60 per cent per annum	3month GBP LIBOR plus 1.20 per cent per annum	3month GBP LIBOR plus 0.60 per cent per annum	3month GBP LIBOR plus 2.20 per cent per annum	3month GBP LIBOR plus 2.20 per cent per annum	3month GBP LIBOR plus 1.60 per cent per annum	3month GBP LIBOR plus 1.00 per cent per annum	3month GBP LIBOR plus 1.75 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
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

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
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