

TESCO PERSONAL FINANCE GROUP LTD

PILLAR 3 DISCLOSURES

FOR THE YEAR ENDED 28 FEBRUARY 2017

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1. Introduction and Basel Framework

This document presents the Pillar 3 disclosures on capital and risk management, together with comparatives of the regulated group (the Group) for the year ended 28 February 2017. The Group represents Tesco Personal Finance Group Ltd and Tesco Personal Finance plc, but excludes the joint venture engaged in insurance (Tesco Underwriting Ltd). The subsidiary engaged in non-financial activities (Tesco Personal Finance Compare Ltd) has ceased trading and at the year-end was in the final stages of being liquidated. The Group and its scope of consolidation are illustrated in section 3.

The Group's capital was calculated for prudential regulatory reporting purposes for the year ended 28 February 2017 using the Basel III framework of the Basel Committee on Banking Supervision (BCBS), as implemented by the European Union in the amended CRD IV, and in the Prudential Regulatory Authority's (PRA) Rulebook for the UK banking industry.

The implementation of CRD IV is subject to transitional arrangements, with the full implementation date being 1 January 2019. As a result, the Group's capital position is reported in these disclosures by applying the CRD IV transitional arrangements and also by applying the end point CRD IV (the 'fully loaded' basis). Appendix 7 details the various elements of the regulatory capital requirements that banks or other financial institutions are required to hold under the CRD IV fully loaded basis.

Regulatory Framework for Disclosures

The Basel framework is structured around three pillars that are designed to promote market discipline through the disclosure of key information about risk exposures and risk management processes.

- Pillar 1 sets out the minimum capital requirements that firms are required to meet for credit, market and operational risk.
- The Pillar 2 supervisory review process requires firms and supervisors to take 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 requirements.
- Pillar 3 aims to complement the capital requirements 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:
 - to meet the regulatory disclosure requirements under Part Eight of the Capital Requirements Regulation (CRR), which along with the Capital Requirements Directive (CRD) is known as CRD IV, supplemented by any specific additional requirements of the Prudential Regulatory Authority (PRA), and;
 - to provide further useful information on the capital and risk profile of the Group.

Regulatory Developments

The Group closely monitors regulatory developments to ensure the implications of regulatory changes are fully considered. In December 2016, the European Banking Authority (EBA) published final guidelines on revised Pillar 3 disclosure requirements to ensure the harmonised implementation of the Pillar 3 framework revisions within the European Union. These guidelines were in response to the recommendations proposed by the BCBS in 2015. The EBA guidelines introduce specific guidance and formats for the disclosures through the use of prescribed tables and templates. The guidelines apply from financial year-ends in 2017 to Global and Other Systemically Important Institutions (G-SIIs and O-SIIs), although G-SIIs are encouraged to comply with a subset of those guidelines as soon as 31 December 2016. Whilst the Group does not fall into either of these categories, a review of the revised disclosure requirements will take place in advance of the Group's disclosures for the year ended 28 February 2018.

In 2015 the EBA, the Prudential Regulation Authority and the BoE also issued consultations on a number of topics which may impact the Group's capital and funding requirements. This included proposed changes to standardised risk weightings and the implementation of the European Commission's minimum requirements for own funds and eligible liabilities (MREL). The Group will be subject to interim MREL guidance from 1 January 2020, with the full implementation scheduled for 1 January 2022.

2. Disclosure Policy

The Group has a formal, Board approved policy which details its approach to comply fully with the Pillar 3 disclosure requirements as laid out in Part Eight of the CRR.

2.1 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 guidelines issued by the EBA on 23 December 2014 and adopted on 15 October 2015.

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, business structure or regulatory requirements.

2.2 Verification and Medium

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

The Pillar 3 disclosures are published on the Tesco Bank corporate website:

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

2.3 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 of the waivers available.

3. 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, mainly through telephony and on-line sales channels.

Products currently offered by the Company include unsecured personal loans, secured mortgages, savings accounts, credit cards, personal current accounts, travel money and general insurance products. The Company primarily trades in the UK but has limited international exposure through its Irish credit card business.

3.1 Statutory Accounting Consolidation

Tesco Personal Finance Group Ltd operates as a holding company with 100% ownership of the Company and Tesco Personal Finance Compare Ltd. Tesco Personal Finance Compare Ltd has ceased trading and is in the final stages of being liquidated. Since the year-end, the Group has received confirmation that Tesco Personal Finance Compare Limited has been fully liquidated.

The Company holds 49.9% of Tesco Underwriting Ltd which is a joint venture company (jointly held with Ageas UK Ltd) and is equity accounted in the Annual Report & Financial Statements. Tesco Underwriting Ltd underwrites household and motor insurance and provides claims management services for these products. The Delamare securitisation structured entities are fully consolidated in the statutory group.

Consolidated Annual Reports and Financial Statements for both Tesco Personal Finance Group Ltd and the Company are prepared in accordance with International Financial Reporting Standards (IFRS), the interpretations of the IFRS Interpretations Committee (IFRIC), the Disclosure and Transparency rules of the Financial Conduct Authority (FCA) and those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

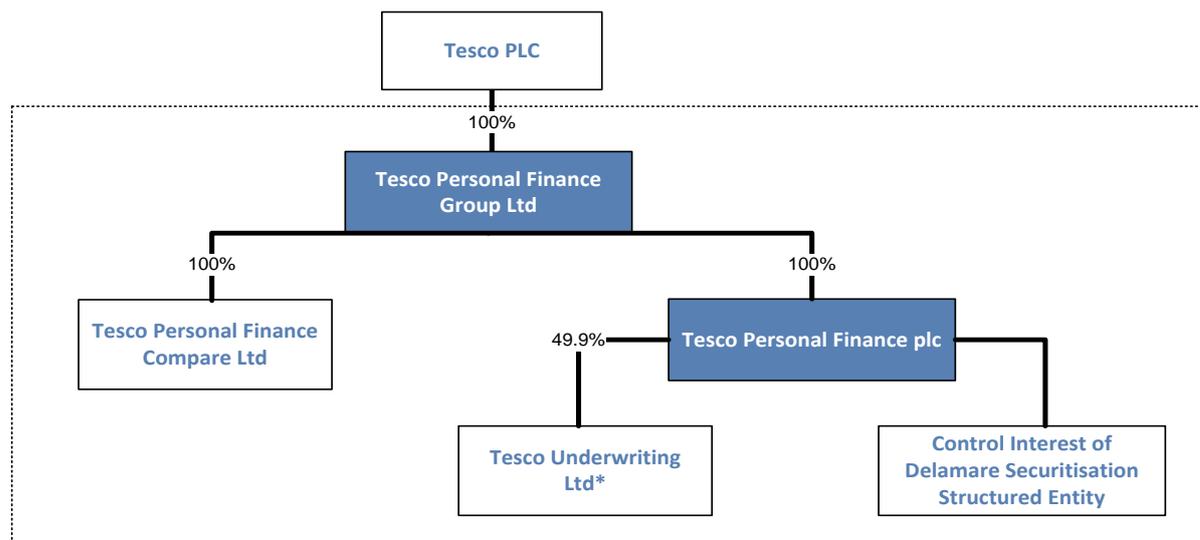
3.2 Regulatory Consolidation

The basis of consolidation for regulatory reporting purposes differs from the one used for statutory accounting (and therefore represented in the Annual Report & Financial Statements of Tesco Personal Finance Group Ltd).

The joint venture engaged in Insurance (Tesco Underwriting Ltd) and Tesco Personal Finance Compare Ltd (previously engaged in non financial activities) are not consolidated within the Group's Pillar 3 disclosures

The securitisation undertaken via Delamare Securitisation structured entities does not meet the criteria for significant risk transfer, and accordingly the assets securitised are shown as assets of the Group within section 6, as part of Retail exposures. The securitisation is discussed in more detail in section 8.

The differences between the regulatory and statutory consolidation are illustrated in the following diagram:



Key:



Not consolidated in Pillar 3 disclosures



Consolidated in Pillar 3 disclosures



Tesco Personal Finance Group Ltd statutory consolidation

*

Tesco Underwriting Ltd is consolidated using the equity method of accounting as permitted under IFRS.

The Group is regulated and supervised by the PRA and the FCA. The Company does not make use of the solo consolidation waiver provisions.

3.3 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 Ltd 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 funds¹ is detailed in Table 1, as required by CRR Article 437(1) point (a). Table 2 shows the reconciliation of the regulatory scope balance sheet through to credit risk exposures, with the main differences being:

- Pillar 3 exposure values are derived from Balance Sheet values, net of provisions where appropriate, together with undrawn credit facilities which are assigned credit conversion factors based on prescribed regulatory values. As at 28 February 2017, the Group has circa £12.1bn of undrawn credit

¹ During transitional period to 31 December 2017, derogation has been provided and institutions are required to disclose specific items on own funds on a transitional basis, refer to Appendix 3 for the Group's disclosure.

facilities of which £11.9bn relate to committed undrawn credit card facilities and £0.2bn relates to final offer mortgage agreements.

- The Group is required under the CRR to make certain adjustments to own funds, the most material being in relation to intangible assets and dated Tier 2 capital instruments.

3.4 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 Ltd for the following reasons:

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

Table 1: Reported Balance Sheet under the Regulatory Scope of Consolidation

	February 2017			February 2016			
	Appendix 3	Accounting Balance sheet (per financial statements)	Deconsolidation of Tesco Underwriting Ltd ¹	Regulatory Scope	Accounting Balance sheet (per financial statements)	Deconsolidation of Tesco Underwriting Ltd ¹	Regulatory Scope
		£m	£m	£m	£m	£m	£m
Assets							
Cash and balances with central banks		802.9	-	802.9	567.3	-	567.3
Loans and advances to customers		9,961.2	-	9,961.2	8,545.7	-	8,545.7
<i>of which: latent provisions ²</i>	<i>a</i>	-	-	(63.1)	-	-	(44.6)
Derivative financial instruments		28.7	-	28.7	29.3	-	29.3
Investment securities:							
- Available for sale		966.1	-	966.1	983.6	-	983.6
<i>of which: non-significant investment below threshold</i>		-	-	-	-	-	3.5
- Loans and receivables		34.1	-	34.1	34.1	-	34.1
<i>of which: loan to Tesco Underwriting Ltd deducted from Tier 1 pre-CRR ²</i>	<i>b</i>	-	-	3.4	-	-	6.8
<i>of which: loan to Tesco Underwriting Ltd deducted from Tier 2 pre-CRR ²</i>	<i>c</i>	-	-	3.4	-	-	6.8
<i>of which: loan to Tesco Underwriting Ltd deducted from Tier 2 CRR ²</i>	<i>d</i>	-	-	27.3	-	-	20.5
Prepayments and accrued income		42.2	-	42.2	43.1	(0.1)	43.0
Current income tax asset		-	-	-	1.7	-	1.7
Other assets		299.0	-	299.0	277.1	0.3	277.4
Investment in joint venture		71.0	-	71.0	76.1	(5.1)	71.0
<i>of which: significant investment in TU below threshold ²</i>	<i>e</i>	-	-	71.0	-	-	71.0
Intangible assets		300.0	-	300.0	363.9	-	363.9
<i>of which: other intangibles ²</i>	<i>f</i>	-	-	300.0	-	-	363.9
Property, plant and equipment		73.3	-	73.3	78.9	-	78.9
Total assets		12,578.5	-	12,578.5	11,000.8	(4.9)	10,995.9
Liabilities							
Deposits from banks		499.8	-	499.8	82.0	-	82.0
Deposits from customers		8,463.2	-	8,463.2	7,397.2	-	7,397.2
Debt securities in issue		1,204.3	-	1,204.3	1,206.6	-	1,206.6
Derivative financial instruments		133.3	-	133.3	150.5	-	150.5
Provision for liabilities and charges		83.5	-	83.5	58.2	-	58.2
Accruals and deferred income		115.1	-	115.1	128.2	-	128.2
Current income tax liability		8.3	-	8.3	-	-	-
Other liabilities		148.4	-	148.0	142.9	0.2	143.1
<i>of which: debit valuation adjustment ²</i>	<i>g</i>	-	-	-	-	-	(0.8)
Deferred income tax liability		13.7	-	13.7	31.0	-	31.0
<i>of which: deferred tax liability - intangible assets ²</i>	<i>h</i>	-	-	13.6	-	-	26.5
Subordinated liabilities and notes		235.0	-	235.0	235.0	-	235.0
<i>of which: allowable for Tier 2 ²</i>	<i>i</i>	-	-	235.0	-	-	235.0
Total liabilities		10,904.6	-	10,904.6	9,431.6	0.2	9,431.8
Equity and reserves attributable to owners of parent							
Share capital		122.0	-	122.0	122.0	-	122.0
<i>of which: amount eligible for CET1 ²</i>	<i>j</i>	-	-	122.0	-	-	122.0
Share premium account		1,098.2	-	1,098.2	1,098.2	-	1,098.2
<i>of which: amount eligible for CET1 ²</i>	<i>k</i>	-	-	1,098.2	-	-	1,098.2
Retained earnings		409.3	10.2	419.5	321.9	(5.3)	316.6
<i>of which: prior year retained profits ²</i>	<i>l</i>	-	-	316.6	-	-	178.3
<i>of which: current year profit less dividend paid ²</i>	<i>m</i>	-	-	102.9	-	-	138.4
Other reserves	<i>n</i>	44.4	(10.2)	34.2	27.1	0.2	27.3
<i>of which: cash flow hedge reserve ²</i>	<i>o</i>	-	-	0.5	-	-	1.6
Subordinated notes		-	-	-	-	-	-
Total equity		1,673.9	-	1,673.9	1,569.2	(5.1)	1,564.1
Total liabilities and equity		12,578.5	-	12,578.5	11,000.8	(4.9)	10,995.9

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. Balances in Tesco Personal Finance Compare Ltd were nil at 28 February 2017.

^[2] Italicised values represent subsets of values directly above them, and also show the splits between Tier 1 and Tier 2 Capital subsequently detailed in Table 3: Capital Resources.

Table 2: Regulatory Balance Sheet to Credit Risk Exposures

Regulatory balance sheet category	February 2017						Total credit risk exposures £m
	Regulatory scope	Assets deducted from own Funds	Provisions	Off Balance Sheet	Counterparty Credit Risk Adjustments	Other adjustments	
	£m	[1] £m	[2] £m	[3] £m	[4] £m	[5] £m	
Cash and balances with central banks	802.9	-	-	-	-	-	802.9
Loans and advances to banks	-	-	-	-	-	-	-
Loans and advances to customers	9,961.2	-	63.1	-	-	-	10,024.3
Derivative financial instruments	28.7	-	-	-	(28.7)	-	-
Investment securities:							
- Available for sale	966.1	-	-	-	-	-	966.1
- Loans and receivables	34.1	(34.1)	-	-	-	-	-
Prepayments and accrued income	42.2	-	-	-	-	-	42.2
Current income tax asset	-	-	-	-	-	-	-
Other assets	299.0	-	-	-	(111.4)	-	187.6
Investment in group undertakings	-	-	-	-	-	-	-
Investment in joint venture	71.0	-	-	-	-	-	71.0
Intangible assets	300.0	(300.0)	-	-	-	-	-
Property, plant and equipment	73.3	-	-	-	-	-	73.3
Total assets	12,578.5	(334.1)	63.1	-	(140.1)	-	12,167.4
Credit converted balances and potential future exposure (PFE)	-	-	-	40.2	-	-	40.2
Total	12,578.5	(334.1)	63.1	40.2	(140.1)	-	12,207.6

Regulatory balance sheet category	February 2016						Total credit risk exposures £m
	Regulatory scope	Assets deducted from own Funds	Provisions	Off Balance Sheet	Counterparty Credit Risk Adjustments	Other adjustments	
	£m	[1] £m	[2] £m	[3] £m	[4] £m	[5] £m	
Cash and balances with central banks	567.3	-	-	-	-	-	567.3
Loans and advances to banks	-	-	-	-	-	20.4	20.4
Loans and advances to customers	8,545.7	-	44.6	-	-	-	8,590.3
Derivative financial instruments	29.3	-	-	-	-	-	29.3
Investment securities:							
- Available for sale	983.6	-	-	-	-	-	983.6
- Loans and receivables	34.1	(34.1)	-	-	-	-	-
Prepayments and accrued income	43.0	-	-	-	-	-	43.0
Current income tax asset	1.7	-	-	-	-	-	1.7
Other assets	277.4	-	-	-	-	-	277.4
Investment in group undertakings	-	-	-	-	-	-	-
Investment in joint venture	71.0	-	-	-	-	-	71.0
Intangible assets	363.9	(363.9)	-	-	-	-	-
Property, plant and equipment	78.9	-	-	-	-	-	78.9
Total assets	10,995.9	(398.0)	44.6	-	-	20.4	10,662.9
Credit converted balances and potential future exposure (PFE)	-	-	-	48.2	-	-	48.2
Total	10,995.9	(398.0)	44.6	48.2	-	20.4	10,711.1

Notes:

^[1] Assets that are ultimately deducted from own funds comprise a material holding in Tesco Underwriting Ltd and intangible assets (relating to computer software in relation to the Group's operational platform). These are treated as a deduction from capital.

^[2] Incurred but not reported provisions are added back in the calculation of credit risk exposures.

^[3] Credit risk exposures reflect both drawn balances, as well as an allowance for undrawn commitments and contingent liabilities that are determined using a credit conversion factor to estimate the proportion expected to be drawn down at point of default.

^[4] The Group has made use of the netting benefits for derivatives in the calculation of counterparty credit risk capital. Exposures relating to derivatives, central counterparties and repurchase transactions are disclosed within Section 7, counterparty credit risk exposures.

^[5] Other adjustments in prior year reflect a late settlement transaction which subsequently settled on 1 March 2016. Note, the risk weighted assets with regards to the settlement risk arising on the transaction was not material and is included within Table 5, as part of the counterparty credit risk comparative.

4. 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 detailed risk management frameworks (including policies and supporting documentation), independent governance and oversight of risk.

The Risk Management Framework has been embedded across 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 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, and reports directly to the Chief Executive Officer.

The Chief Risk Officer resigned on 23 January 2017, with a replacement being appointed immediately. The appointment of the new Chief Risk Officer was approved by the regulator on 29 March 2017.

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. 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 fear of escalating bad news or emerging risks through use of the Event Management Process. This process provides tools and techniques to identify, assess and manage events through to closure, which have an actual or potential negative impact on our customers, colleagues, operational capability, financial position or the reputation of the Group.

4.1 Risk Appetite

The Group has established a robust Risk Appetite framework. The Group maintains a Risk Appetite which defines the type and amount of risk that the Group is prepared to accept to achieve its objectives and forms a key link between the day to day risk management of the business, its strategic objectives, long term plan, capital plan and stress testing. The Risk Appetite is formally reviewed by the Board on 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. 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.

4.2 Risk Statement

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.

The Board's Risk Appetite comprises a suite of financial and reputational Risk Appetite statements, underpinned by corresponding measures with agreed triggers and limits.

The Group is exposed to the following principal risks:

Financial: Capital, funding & liquidity, credit, and market risks.

Reputational: Operational, regulatory and financial crime risks.

A suite of Risk Appetite measures is used by the Group to support the overarching objective to manage profit volatility within prescribed limits. The profit volatility limits seek to ensure that the Group remains profitable under severe but plausible market or economic stress conditions. The Group stayed within the profit volatility limits throughout the year. 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 Board sets a Risk Appetite which is regularly monitored with formal reviews of the risk measures, in conjunction with the long term plan process. The Group's Risk Appetite and measures are discussed throughout the document.

4.3 Board Declaration - Adequacy of the Risk Management Arrangements

The Board of Directors is ultimately responsible for the Group's Risk Management Framework. The Risk Management Framework is the combination of governance, systems, structures, policies, processes and people within the Group that identify, assess, mitigate and monitor all internal and external sources of risk that could have a material impact on its operations.

The Board provides an annual declaration on the adequacy of the Group's risk management arrangements and provides assurances that the risk management systems in place are adequate and in line with Risk Appetite. This is provided in Appendix 1 of this document.

4.4 Approach to Risk Management

The Group has adopted the 'three lines of defence' model of governance with clearly defined roles and responsibilities to help drive effective risk management:

First line of defence

Senior management within each business area are responsible for:

- establishing an effective control framework within their area of operation;
- identifying and controlling all risks so that they are operating within the organisational Risk Appetite;
- ensuring that they are fully compliant with Group policies and, where appropriate, operating within defined thresholds; and
- devising, managing and reporting appropriate key risk indicators, using management information and assurance processes to allow assessment of their control framework to manage key risks as they arise in their area of operation.

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 Risk Management function is responsible for:

- proposing to the Board appropriate objectives and measures to define the Group's Risk Appetite;
- devising the suite of policies necessary to control the business, including the overarching framework for independent monitoring of the risk profile; and
- providing oversight, challenge and additional assurance where required.

The Risk Management function uses expertise and provides frameworks, tools and techniques to assist management in meeting its responsibilities. The Risk Management function has responsibility for aggregated risk reporting across the Group. The Risk Management function monitors and aggregates risk exposures to ensure that risk coverage is considered holistically so that risks and issues have clear ownership and do not fall between functions.

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.

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 help the Board and ExCo to protect the assets, reputation and sustainability of the Group by:

- assessing whether all significant risks are identified and appropriately reported by business management, and the Risk Management function, to the Board and ExCo;
- assessing whether they are adequately controlled; and
- challenging the ExCo on the effectiveness of governance, risk management and internal controls.

The Internal Audit function achieves this through the following core responsibilities:

- to propose an annual audit plan based on its assessment (after discussion with management) of the significant potential risks to which the organisation could be exposed;
- to carry out audits of functions and processes in accordance with the annual audit plan and any additional special investigations requested by management, the Board, the Audit Committee or the regulators;
- to assess the adequacy and effectiveness of the controls in the functions and processes audited, and to issue recommendations for improvement based on the results of work carried out;
- to verify compliance with those recommendations; and
- to report to the Audit Committee in relation to Internal Audit matters.

4.5 Risk Management Framework Components

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 second line risk function and those of the first line business areas. The key components to manage and control risks effectively are outlined below, with the risk governance structure detailed separately in section 4.6.

i) Policies

The Group has a framework of key policies in place which are approved at Board and Executive level committees. Each policy is owned by a specific individual who is responsible for maintenance and assurance of the policy. 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

The risk identification process provides guidance on the sources to be investigated in order to identify new and emerging risks and sets out consistent principles which should be applied. New and emerging risks and the recommended response to them are reported by the Risk Management function to relevant governance bodies.

iii) Risk Assessment

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 Asset and Liability Management Committee, Executive Risk Committee, and to each meeting of the Board Risk Committee. Adherence to these limits is independently monitored, measured and reported using a suite of key indicators defined by each risk team responsible for managing the major specific risk categories faced by the Group. Decisions made at subordinate risk committees and forums are reported up to senior committees as appropriate.

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 results of stress testing, along with proposed actions, are reported to the Asset and Liability Management Committee and Board Risk Committee. These are captured in both the internal liquidity adequacy assessment process and the internal capital adequacy assessment process.

v) Integrated Risk Processes

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

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

The Group also maintains a Recovery and Resolution 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 and Resolution Plan is reviewed and approved by the Board on at least an annual basis.

4.6 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 continually reviewed so that it remains suitable to support the business. During the year, the Group chose to revise its governance structure to more appropriately reflect the needs of the business.

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

The Board 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.

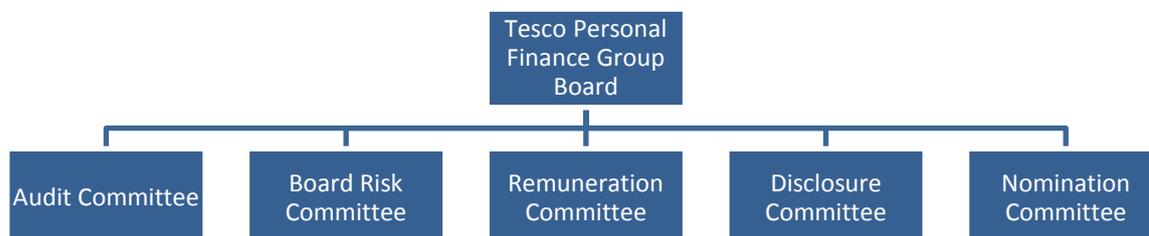
The Board has established Board committees and senior management committees to:

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

In 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.

4.6.1 The Board

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



Board Committee	Committee Purpose
Audit Committee	The key responsibilities of the Audit Committee are to: <ul style="list-style-type: none"> ▪ review the Financial Statements; ▪ review the accounting policies and practices for compliance with relevant standards; ▪ examine the arrangements made by management regarding compliance with requirements and standards under the regulatory system; ▪ review the scope and results of the annual external audit; ▪ oversee the process for selecting the external auditor and make recommendations to the Board in relation to the appointment, re-appointment and removal of the external auditor; ▪ consider the effectiveness of the external auditor and their independence; ▪ to review reports covering anti money laundering and compliance, in particular the Money Laundering Reporting Officer annual report and Risk Assurance Report; ▪ maintain a professional relationship with the external auditor; ▪ oversee the internal audit function and review the internal audit programme;

	<ul style="list-style-type: none"> ▪ work closely with the Board Risk Committee to avoid, as much as possible, any overlap or gap in the overall risk and assurance activities of the two committees; ▪ carry out such investigations or reviews as shall be referred to it by the Board; ▪ review the Company’s plans for business continuity; ▪ approve the annual plan of Risk Assurance activity within the Company; ▪ receive and review reports, findings and recommendations from Risk; ▪ review and consider the adequacy of any follow up action, and any relevant investigation work, carried out by or on behalf of Risk; ▪ review and monitor management's response to findings and recommendations following investigations carried out by Risk; and ▪ review the findings of external assurance reports provided by outsourced providers. <p>Further detail on the Audit Committee is included within the Directors’ Report in the Annual Report and Financial Statements of both the Group and the Company.</p> <p>The Audit Committee met seven times during the year ended 28 February 2017.</p>
Board Risk Committee	<p>The role of the Board Risk Committee includes:</p> <ul style="list-style-type: none"> • the oversight and challenge of the Group’s Risk Appetite and the recommendation to the Board of any changes to Risk Appetite; • provision of oversight and advice to the Board on the current key risk exposures of the Company and future risk strategy; • the review and challenge, where appropriate, of the outputs from the Asset and Liability Management Committee and Executive Risk Committee; • overseeing that a risk culture is appropriately embedded in the business which recognises risk and encourages all employees to be alert to the wider impact on the whole organisation of their actions and decisions; • reviewing the design and operation of the Risk Management Framework; and • reviewing the monitoring of conduct and complaints in the business and alerting the Board to any systemic conduct or cultural risks. <p>The Board Risk Committee met nine times during the year ended 28 February 2017.</p>
Remuneration Committee	<p>The role of the Remuneration Committee is:</p> <ul style="list-style-type: none"> • to determine and approve remuneration arrangements for all identified Material Risk Takers (MRTs) within the Group as defined by the PRA and FCA’s Remuneration Code; • to approve a remuneration framework for employees of the Group below the leadership level; • to align, where appropriate, remuneration in the Group with Tesco PLC Group Reward policy; • to design the levels and structure of remuneration necessary to attract, retain, and motivate the management talent needed to run the Group’s business in a way which is consistent with the Risk Appetite and ongoing sustainability of the business; and • to confirm that the remuneration policy in the Group is compliant with all applicable legislation, regulation and guidelines. <p>The Remuneration Committee met six times during the year ended 28 February 2017.</p>
Disclosure Committee	<p>The Disclosure Committee is responsible for ensuring the Group’s compliance with relevant legal and regulatory obligations in relation to the timing, accurate disclosure and announcement of information. The Committee also reviews, on behalf of the Board, certain legal or regulatory disclosures ahead of publication and makes recommendations to the Board as appropriate.</p> <p>The Disclosure Committee met three times during the year ended 28 February 2017.</p>

<p>Nomination Committee</p>	<p>The role of the Nomination Committee includes:</p> <ul style="list-style-type: none"> • reviewing the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board and making recommendations to the Board with regard to any changes; • reviewing the leadership needs of the organisation, both executive and non-executive, with a view to ensuring the continued ability of the organisation to compete effectively in the marketplace; • formulating plans for succession for both executive and non-executive directors and in particular for the key roles of Chairman and Chief Executive; and • identifying and nominating for the approval of the Board, candidates to fill Board vacancies as and when they arise. <p>The Nomination Committee met four times during the year ended 28 February 2017.</p>
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4.6.2 Executive Committee (ExCo)

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

The ExCo has the following principal roles and responsibilities:

- to provide general executive management of the Group and to monitor performance including financial performance, in accordance with the approved strategic plan and Risk Appetite as approved by the Board;
- to oversee risks and controls across the business;
- to promote a culture of fairness and to actively promote and encourage the Values;
- to strive for the successful execution of strategy;
- to set out a framework of reporting to the Board that is sufficient to enable the Board to fulfil its responsibilities;
- to review strategic plans, budgets and all other matters to be referred to the Board, with regard to the interests of its shareholder, employees, customers and other stakeholders, prior to submission to the Board for approval;
- to authorise certain levels of spend;
- to review, challenge and provide direction relating to the delivery of fair outcomes for customers through regular updates on conduct risk that are challenged and reviewed by the Conduct Committee;
- to determine whether to launch the Group’s Recovery Plan in the event of a breach of a recovery trigger and to manage the crisis thereafter (with the exception of a liquidity crisis that would be managed by the Liquidity Event Management Committee); and
- to oversee Procurement and Supplier Management, with particular focus on ensuring that the key risks associated with outsourcing and third party supplier management are assessed and mitigated.

In order to support the ExCo, the following six sub-committees have been established:



The ExCo receives the minutes from each Sub-Committee to monitor key activities and decisions taken under delegation as well as updates as appropriate.

ExCo Sub Committee	Committee Purpose (Summary)
Commercial Executive Committee	<p>The principal role of the Commercial Executive Committee is to oversee performance and matters arising across the Commercial business through:</p> <ul style="list-style-type: none"> • review of credit risk approvals, receipt of risk, risk event and internal audit reporting; • management of top risks - ensuring that existing and emerging risks and issues are controlled appropriately and referred to the relevant Board or Committee when needed; • approval of proposals and business cases for development and appointing third party suppliers, in line with delegated authorities from the Board; • oversight of the use of budget allocated; • review business financial and trading performance, and monitoring of pricing plans; • review of conduct risks and issues; • annual product reviews; • identification of risks to good customer outcomes, providing challenge and recommending further action to resolve and track those actions to completion; and • escalation of material conduct or Treating Customers Fairly risks to the ExCo. <p>The Commercial Executive Committee has five sub-committees: Commercial Credit Risk Committee; Transactional Banking Management Committee; Savings, Loans and Mortgages Management Committee; Insurance Management Committee and the PayQwiq Governance Committee.</p>
Asset & Liability Management Committee	<p>The principal role of the Asset & Liability Management Committee is to:</p> <ul style="list-style-type: none"> • optimise the Group’s balance sheet structure, within boundaries and Risk Appetite set by the Board and regulation; • identify, manage and control the Group’s balance sheet risks in the execution of its chosen business strategy; • oversee Treasury Principal Risk management activities – Capital, Funding & Liquidity and Market Risk; • review and approve Treasury Principal Risk policies and key regulatory documents i.e. ICAAP and ILAAP; and • review and approve risk appetite change recommendations relating to Capital, Funding & Liquidity and Market Risk. <p>The Asset & Liability Committee has three sub-committees; the Liquidity Management Forum; Market Risk Forum and Capital Management Forum.</p>
Executive Risk Committee	<p>The principal role of the Executive Risk Committee is to:</p> <ul style="list-style-type: none"> • oversee all aspects of the Risk Framework, and to ensure that the three lines of defence model is operating effectively; • monitor the appropriateness of and adherence to Risk Appetite and to make recommendations on any changes to Risk Appetite; • debate and challenge the risks inherent within strategic plans; • consider and challenge policy exceptions and waivers that are in place; • consider action to deliver risk management solutions, and to direct resource appropriately; • consider the impact of regulatory initiatives on the current and future state of compliance by Tesco Bank; • review and approve key policies of Tesco Bank; • oversee Procurement and Supplier Management, with particular focus on ensuring that the key risks associated with outsourcing and third party supplier management are assessed; • oversee operational resilience; and

	<ul style="list-style-type: none"> provide review and challenge relating to the culture in managing conduct risks and customer fairness within the business. <p>The Executive Risk Committee has five sub-committees: Operational Risk Committee; Operational Resilience Steering Committee; Supplier Management Group; Wholesale Credit Risk Forum and the Provisions Forum.</p> <p>The Executive Risk Committee met ten times during the year ended 28 February 2017. Its predecessor, the Risk Management Committee, met once in the year before being disbanded.</p>
Customer Division Executive Committee	<p>The role of the Customer Division Executive Committee is to approve key decisions and provide oversight and challenge of performance and matters arising across the Customer Division of the business, including, but not limited to, the following areas:</p> <ul style="list-style-type: none"> The management of risk, including conduct and the fair treatment of customers, is owned by the business lines within the first line of defence. The committee provides oversight and challenge to support the effective management of risk and control of all top risks and material events facing the Customer Division. The management of business and financial performance is owned by the relevant business lines within the Customer Division. The committee provides oversight and challenge to support the efficient and effective 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. <p>The Customer Division Executive Committee has three sub-committees: Customer Security Committee; the Service Risk Committee and the Marketing Risk Committee.</p>
C2020 Executive Steering Committee	<p>The ambition of Tesco Bank is to 'be the bank for people who shop at Tesco'. In order to accelerate the Group's pursuit of this ambition, during the year the Group established the Customer 2020 (C2020) programme. This programme, comprising a number of initiatives and expected to provide the framework for business change over several years, continues to put the Tesco customer at the heart of the Group's activities. The Group's strategy to make it easier for Tesco customers to bank and insure with the Group is achieved by offering customers great value across all of the products offered by the Group and earning their trust through the Group's actions. The Group aims to achieve this through targeted investment in technology and data to simplify processes, making life simpler for both customers and colleagues and driving efficiency that can be reinvested in the customer offer.</p> <p>The role of the C2020 Executive Steering Committee is to oversee C2020 and steer the delivery of the C2020 strategic plan. The C2020 Executive Steering Committee has one sub-committee: the C2020 Programme Board.</p>
Information Security Committee	<p>The role of the Information Security Committee is to support the Deputy Chief Executive in delivering information security and cybercrime control improvements through executive direction, support and oversight of the programme of work.</p> <p>The Information Security Committee has one sub-committee: the Information Security Forum.</p>

4.7 Risk Assurance

The Audit Committee obtains assurance of the internal control and risk management environment through an agreed programme of audits carried out by the Internal Audit function and risk assurance work carried out by the Risk Management function. The activities of the second and third lines of defence are co-ordinated to pay particular attention to the key risks and issues facing the business.

The plan of Risk Assurance activity is supplemented by a series of quarterly Risk and Control Self Assessments carried out by the first line of defence teams and reported via the second line to the relevant Board and ExCo Committees.

5 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. Capital adequacy and performance against capital plan is monitored on a daily basis by Treasury with monthly reporting provided to the Board, the Asset and Liability Management Committee 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 for the Group and the Company on a quarterly basis to the regulator. During the 12 month accounting period to 28 February 2017, the Group and Company fully complied with all capital requirements and operated within the regulatory requirements determined by the regulator.

5.1 Pillar 1 – application within the Group

Pillar 1 covers the capital resource requirements for credit risk, market risk and operational risk.

The regulatory minimum amount of total capital is determined as 8% of the aggregate risk weighted assets and the Pillar 1 capital requirements referenced in this document are calculated using this regulatory minimum value.

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 requires banks to use external credit ratings to determine the risk weightings for rated counterparties. Other counterparties are grouped into categories with set risk weightings applied to each.

- Calculation of capital for credit risk (Section 6): 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 include; loans and advances, debt securities and commitments.

The risk weighted assets calculation for credit risk exposures is based on an estimate of the exposures at default (EAD). In determining EAD amounts, credit conversion factors are applied to undrawn commitments.

- Calculation of capital for Counterparty Credit Risk (CCR) (Section 7): 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 financial derivative instruments, securities financing transactions and long-dated settlement transactions. As at 28 February 2017, the Group has circa £99.8m security financing transactions in the form of repo transactions and has no long-dated settlement transactions.

The Group uses the CCR mark-to-market method to measure exposure value calculated as: market value plus an add-on for potential future exposure (PFE), prior to being risk weighted under the Standardised Approach.

- Calculation of the Credit Valuation Adjustment capital charge: The credit valuation adjustment amends the fair value of derivative assets to reflect the creditworthiness of the counterparty. 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 adopts the Standardised Approach that takes account of the external credit rating of the counterparty, incorporating the effective maturity and EAD from the CCR calculation.

- Calculation of capital for equity: all equity exposures are calculated under the Standardised Approach.
- Calculation of capital for securitisation and covered bond exposures (Section 8): A separate regulatory 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 a significant risk transfer, and accordingly the assets securitised are shown as assets of the Group within Section 6 as part of Retail Credit Risk exposures. The securitisation is discussed in more detail in Section 8.
- Calculation of capital for operational risk (Section 9): Operational risk is defined as the risk of potential error, loss, harm or failure caused by ineffective or inadequately defined processes, system failure, improper conduct, human error, fraud or from external events.

The Group 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.

- Calculation of capital for market risk (Section 10): Market risk is defined as the risk that the value of earnings or capital is altered through the movement of market rates which includes movements in interest rates, foreign exchange rates, credit spreads and equities. The market risk framework also includes a credit valuation adjustment (CVA) for the fair value of counterparty credit risk for derivative transactions. The Group calculates market risk for CVA on derivative transactions with the exception of those that are centrally cleared with a qualifying central counterparty using the Standardised Approach. The Group has no other Pillar 1 market risk requirement.

5.2 Pillar 2 – other principal risks

Pillar 2 covers the other principal risks and any associated capital requirements. The other principal risks are: Funding & Liquidity Risk, Regulatory Risk, the political and economic uncertainty following the European Union referendum result and Investment Risk relating to Pension Obligations. These risks are discussed in section 11.

5.3 Capital Resources

The following table presents the Group's own funds (Capital Resources) as at 28 February 2017.

Own funds for the Company, being the main subsidiary, is disclosed in Appendix 2 and the disclosure of own funds on a transitional basis is detailed in Appendix 3, as required by the CRR.

Table 3: Capital Resources

	February 2017 End Point £m	February 2017 Transitional £m	February 2016 End Point £m	February 2016 Transitional £m
Common Equity Tier 1 capital				
Share capital	122.0	122.0	122.0	122.0
Share premium account	1,098.2	1,098.2	1,098.2	1,098.2
Retained earnings	419.5	419.5	316.6	316.6
Other reserves	34.2	34.2	27.4	27.4
Shareholders' equity (accounting capital)	1,673.9	1,673.9	1,564.2	1,564.2
Regulatory adjustments				
Intangible assets	(300.0)	(300.0)	(363.9)	(363.9)
Deferred tax liabilities related to intangible assets	13.6	13.6	26.5	26.5
Unrealised losses on cash flow hedge reserve	0.5	0.5	1.6	1.6
Adjustment to own credit / Additional Value Adjustments	(1.1)	(1.1)	(1.9)	(1.9)
Material holdings in financial sector entities	-	(3.4)	-	(6.8)
	(287.0)	(290.4)	(337.7)	(344.5)
Total Common Equity Tier 1 capital	1,386.9	1,383.5	1,226.5	1,219.7
Tier 2 capital (instruments and provisions)				
Undated subordinated notes	45.0	45.0	45.0	45.0
Dated subordinated notes: net of regulatory amortisation	190.0	190.0	190.0	190.0
Credit risk adjustment	63.1	63.1	44.6	44.6
	298.1	298.1	279.6	279.6
Regulatory adjustments				
Material holdings in financial sector entities	(34.1)	(30.7)	(34.1)	(27.3)
	(34.1)	(30.7)	(34.1)	(27.3)
Total Tier 2 capital	264.0	267.4	245.5	252.3
Total capital resources	1,650.9	1,650.9	1,472.0	1,472.0
Risk weighted assets	8,276.3	8,276.3	7,366.4	7,366.4
Common Equity Tier 1 ratio (%)	16.8%	16.7%	16.6%	16.6%
Total capital ratio (%)	19.9%	19.9%	20.0%	20.0%

Notes:**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.

The Group's Tier 1 capital is wholly comprised of Common Equity Tier 1. The following table shows the movement in Tier 1 capital over the year.

Table 4: Movement in Common Equity Tier 1 (Transitional)

	February 2017	February 2016
	£m	£m
Common Equity Tier 1 at the beginning of the year	1,219.7	1,044.5
Profit attributable to Shareholders	152.9	188.4
Gains and losses on liabilities arising from own credit risk	0.8	(1.9)
Other reserves	5.7	7.8
Ordinary dividends	(50.0)	(50.0)
Movement in intangible assets	63.9	38.7
Movement in material holdings in financial sector entities	3.4	3.4
CRD IV adjustments:		
Deferred tax liabilities related to intangible assets	(12.9)	(11.2)
Common Equity Tier 1 at the end of the year	1,383.5	1,219.7

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 4 and include for each instrument:

- the governing law of the instruments;
- the regulatory treatment on a transitional and post transitional basis;
- the instrument type, issue dates, nominal amounts, accounting classification and call option dates; and
- write-down features and sub-ordination for each instrument.

ii) Regulatory Deductions from Tier 1 Capital

The intangible assets deduction relates to computer software in relation to the Group's operational platforms.

The material holdings deduction represents the transitional adjustment for the Company's subordinated loan investment in Tesco Underwriting Ltd.

iii) Tier 2 Capital

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

All dated and undated subordinated debt held is issued by the Company to Tesco Personal Finance Group Ltd which, in turn, has issued similar debt to Tesco PLC. Details of subordinated liabilities are provided in Appendix 4.

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 Ltd. 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 transitional adjustment for the Company subordinated loan investment in Tesco Underwriting Ltd.

5.4 Capital Requirements

The following table shows the overall Pillar 1² 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 2.

Table 5: Capital Requirements

Exposure class	February 2017		February 2016	
	8% Own Funds Capital Requirement	Risk Weighted Assets	8% Own Funds Capital Requirement	Risk Weighted Assets
	£m	£m	£m	£m
Central government or central banks	-	-	-	-
Multilateral development banks	-	-	-	-
Institutions	3.5	44.3	6.0	75.3
Corporates	3.6	45.2	3.4	42.6
Retail	468.6	5,856.8	410.8	5,134.7
Secured by mortgages on immovable property	60.5	756.2	46.9	585.9
Exposures in default	4.4	55.5	3.7	46.6
Covered bonds	1.4	17.1	1.0	13.0
Equity exposures	14.3	179.3	14.5	181.2
Other items	12.7	158.4	13.9	173.8
Total credit and counterparty credit risk	569.0	7,112.8	500.2	6,253.1
Total market risk	-	-	-	-
Total operational risk	92.6	1,157.5	87.6	1,094.8
Total credit valuation adjustment	0.5	6.0	1.5	18.5
Total Pillar 1 capital requirements	662.1	8,276.3	589.3	7,366.4

Notes:

Settlement risk arises where certain transactions are unsettled after their due delivery date and is required to be disclosed separately. The Group had no exposure to settlement risk at year end. In the prior year, the Group had an immaterial exposure to a late settlement transaction on 29 February 2016 which was disclosed within counterparty credit risk, in line with CRD IV.

5.5 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 macroprudential 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 Financial Policy Committee has maintained a UK countercyclical capital buffer rate of 0% during the year to 28 February 2017.

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. Consistent with the capital conservation buffer, the constraints imposed relate only to capital distributions (dividends, share buy backs and limits on Directors' remuneration).

² Pillar 1 capital does not include foreign exchange exposure as this is de-minimis under CRR minimum threshold and includes credit valuation adjustment risk which is required in line with CRR Article 381.

5.5.1 The Group's Countercyclical Capital Buffer Disclosure

The Group's foreign exposures as at 28 February 2017, total 0.43% of total exposures. In line with the EBA's final Regulatory Technical Standard, the Group has chosen to simplify the identification of foreign exposures and allocate them to the place of the institution (UK) on the basis that the Group's foreign exposures are less than 2% of the aggregate of credit, trading and securitisation exposures.

The following tables disclose information relevant for the calculation of the countercyclical capital buffer as at 28 February 2017 in accordance with Regulation (EU) 2015/1555.

Table 6: Geographical Distribution of Credit Exposures Relevant for the Calculation of the Countercyclical Capital Buffer

Level of Application: Consolidated

	February 2017					
	General credit exposures		Trading book exposures		Securitisation exposure	
	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
	010	020	030	040	050	060
	£m	£m	£m	£m	£m	£m
Breakdown by country:						
UK	10,494.4	-	-	-	-	-
Total	10,494.4	-	-	-	-	-

		February 2017						
		Own funds requirements				Total	Own funds requirements weights	Countercyclical capital buffer rate
		of which: General credit exposures	of which: Trading book exposures	of which: Securitisation exposures				
		070	080	090	100	110	120	
		£m	£m	£m	£m			
010 Breakdown by country:								
UK		565.5	-	-	565.5	1.00	0.00%	
020 Total		565.5	-	-	565.5	1.00		

Table 7: Amount of Institution Specific Countercyclical Capital Buffer

		February 2017
		010
010	Total risk exposure amount	£8,276.3m
020	Institution specific countercyclical capital buffer rate	0.00%
030	Institution specific countercyclical capital buffer requirement	-

5.6 Capital Conservation Buffer

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

The capital conservation buffer is being 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% to reach its final level of 2.5% by 1 January 2019.

5.6.1 The Group's Capital Conservation Buffer

Based on the above requirements, at 1 January 2017, the capital conservation buffer applicable to the Group is 1.25% (rate applicable to the Group at 28 February 2017).

5.7 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 deleveraging processes that can damage the broader financial system and the economy.

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

In August 2016 the EBA confirmed that a 3% minimum leverage ratio requirement will be introduced from 1 January 2018. The Group ratio of 10.3% as at 28 February 2017 (2016: 10.3%), demonstrates a low appetite for excessive leverage.

In addition, a supplementary countercyclical leverage buffer would apply to O-SII's and major UK banks and building societies, requiring them to hold an additional 35% of this 3% (4.05% in total). The Group is not expected to be identified by the PRA in their list of O-SII's since its distress or failure would not have a systemic impact on the UK or the EU economy or financial system.

The BCBS intends to make any final adjustments to the definition and calibration of the leverage ratio in the first half of 2017, with a view to migrating to a binding requirement on 1 January 2018.

5.7.1 The Group's Leverage Ratio Disclosure

The following leverage ratio disclosures for the year ended 28 February 2017 are in accordance with the EBA's Implementing Technical Standard. Row numbers in the following tables relate to the EBA prescribed references within the standardised templates; where rows contain a nil value these have been excluded for the purpose of these disclosures.

The Leverage ratio disclosures of the Company are reported within Appendix 2.

Table 8: Summary Reconciliation of Accounting Assets and Leverage Ratio Exposures

	February 2017 Applicable Amounts £m
1 Total assets as per published financial statements	12,578.5
2 Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	0.0
4 Adjustments for derivative financial instruments	(15.9)
6 Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	1,228.8
7 Other adjustments	(347.3)
8 Total leverage ratio exposure	13,444.1

Table 9: Leverage Ratio Common Disclosure

	February 2017 CRR leverage ratio exposures £m
On-balance sheet exposures (excluding derivatives and securities financing transactions "SFTs")	
1 On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	12,616.5
2 Asset amounts deducted in determining Tier 1 capital	(303.4)
3 Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)	12,313.1
Derivative exposures	
5 Add-on amounts for PFE associated with <i>all</i> derivatives transactions (mark-to-market method)	9.1
7 Deductions of receivables assets for cash variation margin provided in derivatives transactions	(106.9)
11 Total derivative exposures (sum of lines 4 to 10)	(97.8)
Other off-balance sheet exposures	
17 Off-balance sheet exposures at gross notional amount	12,132.0
18 Adjustments for conversion to credit equivalent amounts	(10,903.2)
19 Other off-balance sheet exposures (sum of lines 17 to 18)	1,228.8
Capital and total exposures	
20 Tier 1 capital	1,383.7
21 Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)	13,444.1
Leverage ratio	
22 Leverage ratio	10.3%

Table 10: Leverage Ratio: Split-Up of On-Balance Sheet Exposures (Excluding Derivatives, Securities Financing Transactions and Exempted Exposures)

	February 2017 CRR leverage ratio exposures £m
EU-1 Total on-balance sheet exposures (excluding derivatives, securities financing transactions, and exempted exposures), of which:	12,616.5
EU-3 Banking book exposures, of which:	12,616.5
EU-4 Covered bonds	98.4
EU-5 Exposures treated as sovereigns	1,492.5
EU-7 Institutions	327.0
EU-8 Secured by mortgages of immovable properties	2,129.4
EU-9 Retail exposures	7,809.4
EU-10 Corporate	46.0
EU-11 Exposures in default	55.5
EU-12 Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	658.3

Table 11: Disclosure on Leverage Ratio Qualitative Items

- 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 compliance and 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 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 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 strong at 10.3% on a transitional basis in the year. 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.

5.8 Encumbered and Unencumbered Assets

The Group has adopted the definition of encumbrance in accordance with the EBA's guidelines on disclosure of encumbered and unencumbered assets, issued in June 2014.

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.

5.8.1 Regulatory Developments

On 3 March 2017, the EBA submitted to the European Commission draft Regulatory Technical Standards on the disclosure of encumbered and unencumbered assets for approval. The Group continues to disclose on the basis of the June 2014 guidelines as the March 2017 Regulatory Technical Standard has not yet been approved by the PRA.

5.8.2 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. Assigning and/or pledging assets as part of secured funding and repo markets activity give rise to encumbrance.

The Group's total encumbrance ratio is 20% as at 28 February 2017 (2016: 24%). 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).

The Group's disclosure of encumbered and unencumbered assets as at 28 February 2017 are detailed in Appendix 5 and has been prepared based on the draft guidelines issued by the EBA in June 2014. Asset values reported in the tables are medians of the values reported to the regulator via supervisory returns over the year ended 28 February 2017.

6 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 robust underwriting processes and the performance of all loans is monitored closely. Regular management reports are submitted to the Board and appropriate Committees.

Credit risk arises principally from retail lending activities but also from placement of surplus funds with other banks and money market funds, 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 policies 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 key risk indicators 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. Regular management reports are submitted to the Board and appropriate Committees.

Controls and risk mitigants

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

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

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

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

Credit policies and guides: A suite of retail credit risk policies and supporting guides are maintained by the Credit Risk function. These policies define the minimum requirements for the management of credit activities across

the credit life cycle. The guides also comprise specific product and customer related thresholds that in turn seek to ensure 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. Key risk indicators with supporting limits and tolerances allow the Group to track performance against Risk Appetite and identify any emerging trends that could act as an early warning that performance could move outside approved Risk Appetite thresholds, thereby allowing mitigating actions to be taken to address such trends.

Wholesale Credit Risk

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

Controls and risk mitigants

The Group maintains a ratings-based framework for managing exposure to wholesale credit risk. These limits and the framework are set out in the Wholesale Credit Risk policy which is approved by the Executive Risk Committee, with the limits contained therein approved by Executive Risk Committee or Board as appropriate. The Treasury Director is responsible for ensuring that Treasury complies with CCR limits, with the Market & Liquidity Risk team, reporting 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 supranationals, 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 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 discussed on a monthly basis by members 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. All material limits are approved by the Chief Financial Officer within parameters set by the Board and any exceptions or overrides to the policy must be explicitly agreed by the Chief Executive Officer and notified to the Board.

Risk mitigation techniques: The Wholesale Credit Risk policy also provides that credit risk mitigation techniques are applied to reduce wholesale credit risk exposures. All financial derivative transactions are governed by the International Swaps and Derivatives Association (ISDA). 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. Use is also made of Delivery Versus Payment arrangements when settling transactions. During the year, the Group began using central counterparties (CCP's) in order to clear specified derivative transactions (predominantly interest rate swaps) thereby mitigating counterparty risk. Positions are continuously marked and margin in the form of collateral is exchanged on at least a daily basis. As at 28 February 2017, no additional credit risk mitigation was deemed necessary.

Monitoring and reporting: Daily monitoring of exposures is undertaken by Product Control, with oversight from the Market & Liquidity Risk team. Monthly reporting of key risk indicators 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.

As at 28 February 2017 the Group had not experienced any impairment in connection with these financial assets. There is therefore no requirement to establish credit reserves for wholesale credit risk exposures.

Concentration risk

The Group is potentially exposed to this risk by becoming 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 Risk Appetite 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. The Wholesale Credit Risk Manager is responsible for reporting these exposures and any limit breaches to the Executive Risk Committee.

6.1 Analysis of Credit Risk Exposures

This section of the disclosures set out the details of the Group's credit risk exposures by exposure class (Table 12), geographical location (Table 13), industry (Table 14) and residual maturity (Table 15).

i) 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^{3,4}.

This disclosure includes amounts where the customer has a contractual right to draw down further balances, converted using regulatory credit conversion factors. The exposure is shown on a guarantor basis and is reported net of appropriate impairment provisions.

Table 12: Credit Risk Exposure by Exposure Class

Exposure class	Exposure Value		Average Exposure Value	
	February 2017	February 2016	February 2017	February 2016
	£m	£m	£m	£m
Central governments or central banks	1,316.5	1,167.9	1,244.4	1,038.4
Multilateral development banks	176.0	184.1	171.7	178.0
Institutions	221.0	320.3	189.1	253.3
Corporates	46.0	43.2	44.2	36.5
Retail	7,809.4	6,846.7	7,434.0	6,745.0
Secured by mortgages on immovable property	2,160.4	1,673.9	1,917.4	1,488.8
Exposures in default	55.5	46.6	54.1	41.5
Covered bonds	98.4	77.7	89.2	66.2
Equity exposures	72.7	74.6	73.1	73.5
Other items	251.7	276.1	265.3	268.5
Total credit risk exposure	12,207.6	10,711.1	11,482.5	10,189.7

³ The exposure shown in Table 12 includes the prevailing market value of the available for sale assets at the relevant reporting date.

⁴ CRR Article 112 requires exposures to be assigned to specific exposure classes. Where an exposure class is nil, the exposure class is not reported in the credit risk tables.

ii) Analysis by Geographical Location

The Group's retail lending is primarily focussed on providing credit cards, personal loans, mortgages and current account overdrafts to UK personal customers, although there is limited exposure in the Republic of Ireland through the Irish credit card portfolio. The Group issues credit cards in the Republic of Ireland where it is an authorised credit institution under Irish law and is directly regulated by the Irish Financial Regulator in respect of this activity. The following table provides the geographic distribution of the Group's credit risk exposure.

Table 13: Credit Risk Exposure by Geographical Location

Exposure class	February 2017			
	Geographic location			
	UK £m	Europe (ex. UK) £m	Other £m	Total £m
Central governments or central banks	1,231.9	84.6	-	1,316.5
Multilateral development banks	-	124.3	51.7	176.0
Institutions	200.7	20.3	-	221.0
Corporates	30.0	16.0	-	46.0
Retail	7,774.5	34.9	-	7,809.4
Secured by mortgages on immovable property	2,160.4	-	-	2,160.4
Exposures in default	55.0	0.5	-	55.5
Covered bonds	98.4	-	-	98.4
Equity exposures	72.7	-	-	72.7
Other items	251.7	-	-	251.7
Total credit risk exposure	11,875.3	280.6	51.7	12,207.6

Exposure class	February 2016			
	Geographic location			
	UK £m	Europe (ex. UK) £m	Other £m	Total £m
Central governments or central banks	1,091.8	76.1	-	1,167.9
Multilateral development banks	-	138.5	45.6	184.1
Institutions	320.3	-	-	320.3
Corporates	33.4	9.8	-	43.2
Retail	6,814.8	31.9	-	6,846.7
Secured by mortgages on immovable property	1,673.9	-	-	1,673.9
Exposures in default	45.9	0.7	-	46.6
Covered bonds	77.7	-	-	77.7
Equity exposures	74.6	-	-	74.6
Other items	276.1	-	-	276.1
Total credit risk exposure	10,408.5	257.0	45.6	10,711.1

iii) Analysis by Industry

The distribution of credit risk exposure by industry sector is provided in the following table. The Group is primarily focussed on providing financial services and products to personal customers in the UK, although it also has exposure to wholesale counterparties. Other items are not assigned to Industry type.

Table 14: Credit Risk Exposure by Industry

Exposure class	February 2017					Total £m
	Industry type					
	Financial Institutions £m	Government £m	Individuals £m	Wholesale, retail and other £m		
Central governments or central banks	-	1,316.5	-	-	-	1,316.5
Multilateral development banks	176.0	-	-	-	-	176.0
Institutions	221.0	-	-	-	-	221.0
Corporates	-	-	-	46.0	-	46.0
<i>of which: Small and Medium Enterprises</i>	-	-	-	0.4	-	0.4
Retail	-	-	7,807.9	1.5	-	7,809.4
<i>of which: Small and Medium Enterprises</i>	-	-	-	1.5	-	1.5
Secured by mortgages on immovable property	-	-	2,160.4	-	-	2,160.4
Exposures in default	-	-	54.3	1.2	-	55.5
<i>of which: Small and Medium Enterprises</i>	-	-	-	1.0	-	1.0
Covered bonds	98.4	-	-	-	-	98.4
Equity exposures	1.7	-	-	71.0	-	72.7
Total	497.1	1,316.5	10,022.6	119.7		11,955.9

Other items

251.7

Total credit risk exposure

12,207.6

Exposure Class	February 2016					Total £m
	Industry type					
	Financial Institutions £m	Government £m	Individuals £m	Wholesale, retail and other £m		
Central governments or central banks	-	1,167.9	-	-	-	1,167.9
Multilateral development banks	184.1	-	-	-	-	184.1
Institutions	320.3	-	-	-	-	320.3
Corporates	-	-	-	43.2	-	43.2
<i>of which: Small and Medium Enterprises</i>	-	-	-	1.0	-	1.0
Retail	-	-	6,845.0	1.7	-	6,846.7
<i>of which: Small and Medium Enterprises</i>	-	-	-	1.7	-	1.7
Secured by mortgages on immovable property	-	-	1,673.9	-	-	1,673.9
Exposures in default	-	-	45.4	1.2	-	46.6
<i>of which: Small and Medium Enterprises</i>	-	-	-	1.2	-	1.2
Covered bonds	77.7	-	-	-	-	77.7
Equity exposures	3.6	-	-	71.0	-	74.6
Total	585.7	1,167.9	8,564.3	117.1		10,435.0

Other items

276.1

Total credit risk exposure

10,711.1

iv) Analysis by Residual Maturity

The following table provides a maturity analysis of credit exposures on a contractual repayment basis.

Table 15: Credit Risk Exposure by Residual Maturity

Exposure class	February 2017							Total £m
	Residual Maturity (Contractual)							
	On Demand £m	<= 3 months £m	> 3 months; <= 1 year £m	> 1 year; <= 5 years £m	> 5 years £m	Undated ² £m		
Central governments or central banks	632.5	17.5	25.2	138.4	488.6	14.3	-	1,316.5
Multilateral development banks	-	54.6	41.5	70.3	9.6	-	-	176.0
Institutions	140.1	52.0	-	15.3	13.6	-	-	221.0
Corporates	0.6	39.6	3.5	2.3	-	-	-	46.0
Retail	2.5	4,219.5	814.0	2,371.6	401.8	-	-	7,809.4
Secured by mortgages on immovable property	-	51.2	66.3	363.2	1,679.7	-	-	2,160.4
Exposures in default	-	55.5	-	-	-	-	-	55.5
Covered bonds	-	0.7	17.6	67.7	12.4	-	-	98.4
Equity exposures	-	-	-	-	-	-	72.7	72.7
Other items	-	-	-	-	-	-	251.7	251.7
Total credit risk exposure	775.7	4,490.6	968.1	3,028.8	2,605.7	338.7		12,207.6

	February 2016							Total £m
	Residual Maturity (Contractual)							
	On Demand	<= 3 months	> 3 months; <= 1 year	> 1 year; <= 5 years	> 5 years	Undated		
£m	£m	£m	£m	£m	£m	£m		
Central Governments or Central Banks	436.7	-	33.0	112.6	572.6	13.0	1,167.9	
Multilateral Development Banks	-	20.0	-	125.5	38.6	-	184.1	
Institutions	129.0	133.7	0.7	48.3	8.6	-	320.3	
Corporates	-	40.4	2.4	0.4	-	-	43.2	
Retail	3.1	3,846.8	725.4	1,955.3	316.1	-	6,846.7	
Secured by Mortgages on Immovable Property	-	16.8	51.1	286.4	1,319.6	-	1,673.9	
Exposures in Default	-	46.6	-	-	-	-	46.6	
Covered Bonds	-	0.7	0.1	55.5	21.4	-	77.7	
Equity Exposures	-	-	-	-	-	74.6	74.6	
Other Items	-	-	-	-	-	276.1	276.1	
Total credit risk exposure	568.8	4,105.0	812.7	2,584.0	2,276.9	363.7	10,711.1	

6.2 Credit Risk: Use of External Credit Assessment Institutions' Assessments

The following table shows the credit risk exposure by Credit Quality Step. 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 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.

Table 16: Credit Risk Exposure by Credit Quality Step

	February 2017							Unrated or Defined Risk Weight in CRR	Total £m
	Credit Quality Step 1	Credit Quality Step 2	Credit Quality Step 3	Credit Quality Step 4	Credit Quality Step 5	Credit Quality Step 6			
	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to BB-	B+ to B-	CCC+ and below	£m		
Fitch									
Exposure class	£m	£m	£m	£m	£m	£m	£m	£m	
Central governments or central banks	-	-	-	-	-	-	1,316.5	1,316.5	
Multilateral development banks	-	-	-	-	-	-	176.0	176.0	
Institutions	199.6	11.4	10.0	-	-	-	-	221.0	
Corporates	-	-	20.5	-	-	-	25.5	46.0	
Retail	-	-	-	-	-	-	7,809.4	7,809.4	
Secured by mortgages on immovable property	-	-	-	-	-	-	2,160.4	2,160.4	
Exposures in default	-	-	-	-	-	-	55.5	55.5	
Covered bonds	25.5	72.9	-	-	-	-	-	98.4	
Equity exposures	-	-	-	-	-	-	72.7	72.7	
Other items	-	-	-	-	-	-	251.7	251.7	
Total credit risk exposures pre and post mitigation	225.1	84.3	30.5	-	-	-	11,867.7	12,207.6	

	February 2016							Unrated or Defined Risk Weight in CRR	Total £m
	Credit Quality Step 1	Credit Quality Step 2	Credit Quality Step 3	Credit Quality Step 4	Credit Quality Step 5	Credit Quality Step 6			
	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to BB-	B+ to B-	CCC+ and below	£m		
Fitch									
Exposure class	£m	£m	£m	£m	£m	£m	£m	£m	
Central governments or central banks	-	-	-	-	-	-	1,167.9	1,167.9	
Multilateral development banks	-	-	-	-	-	-	184.1	184.1	
Institutions	154.6	142.4	23.3	-	-	-	-	320.3	
Corporates	-	-	24.5	-	-	-	18.7	43.2	
Retail	-	-	-	-	-	-	6,846.7	6,846.7	
Secured by mortgages on immovable property	-	-	-	-	-	-	1,673.9	1,673.9	
Exposures in default	-	-	-	-	-	-	46.6	46.6	
Covered bonds	25.1	52.6	-	-	-	-	-	77.7	
Equity exposures	-	-	-	-	-	-	74.6	74.6	
Other items	-	-	-	-	-	-	276.1	276.1	
Total credit risk exposures pre and post mitigation	179.7	195.0	47.8	-	-	-	10,288.6	10,711.1	

6.3 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.

6.3.1 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 limit. Accounts remain as past due but not impaired until the point where a loss trigger has occurred.

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

- where the customer makes a declaration of significant financial difficulty;
- where the customer is deceased;
- 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; or
- when the customer is:
 - more than 90 days past due (the equivalent of four payments down) for loans or credit card products;
 - greater than 6 months in arrears for mortgage products; and
 - 121 days or more in excess for overdrafts on personal current accounts.

In managing credit risk provisioning and impairment the Group applies IFRS, specifically International Accounting Standard (IAS) 39, Financial Instruments: Recognition and Measurement, and requires that financial assets are assessed for impairment. Loan impairment provisions are established to recognise incurred impairment losses. 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 a collective impairment provisioning model that segments provisions into the incurred but not reported book and the impaired book based upon the approved definition of default operated on the credit card, loan, mortgage and current account portfolios.

Incurred but not reported provisions are held against accounts where a loss will have occurred but the event has not yet been identified.

Impairment provisions are established on a portfolio basis taking into account the level of arrears, security, past loss experience and defaults based on portfolio trends. The most significant factor in establishing these provisions are the anticipated cash recoveries.

Table 17: Impaired and Past Due Exposures by Geographical Location

The Group's lending is primarily UK based, providing products to UK personal customers. There is limited exposure in the Republic of Ireland through the issuance of credit cards.

	February 2017			February 2016		
	UK £m	Republic of Ireland £m	Total £m	UK £m	Republic of Ireland £m	Total £m
Past due but not impaired						
0-29 days	47.2	1.4	48.6	39.2	1.3	40.5
30-59 days	15.2	0.3	15.5	11.9	0.3	12.2
60-89 days	9.8	0.1	9.9	8.9	0.1	9.0
Total past due but not impaired exposures	72.2	1.8	74.0	60.0	1.7	61.7
Impaired exposures	178.2	1.4	179.6	151.7	1.4	153.1
Impaired provision	129.9	0.8	130.7	108.5	0.8	109.3
Incurred but not reported provision	60.6	2.5	63.1	44.2	0.4	44.6
Total provisions	190.5	3.3	193.8	152.7	1.2	153.9
Net impairment charge	100.1	2.7	102.8	63.5	0.7	64.2

Table 18: Impaired and Past Due Exposures by Industry

The Group is primarily focussed on providing financial services and products to UK personal customers and as such is only exposed to individuals through Real Estate or Other Lending. In relation to the 'past-due' book, the only collateral held by the Group relates to the mortgages portfolio where all mortgages are secured by a first charge over the property.

	February 2017			February 2016		
	Other Lending £m	Individuals Secured on Real-Estate Property £m	Total £m	Other Lending £m	Individuals Secured on Real-Estate Property £m	Total £m
Past due but not impaired						
0-29 days	48.0	0.6	48.6	39.7	0.8	40.5
30-59 days	15.5	-	15.5	12.2	-	12.2
60-89 days	9.9	-	9.9	9.0	-	9.0
Total past due but not impaired exposures	73.4	0.6	74.0	60.9	0.8	61.7
Impaired exposures	179.6	-	179.6	153.1	-	153.1
Impaired provision	130.7	-	130.7	109.3	-	109.3
Incurred but not reported provision	61.3	1.8	63.1	43.4	1.2	44.6
Total provisions	192.0	1.8	193.8	152.7	1.2	153.9
Net impairment charge	102.2	0.6	102.8	63.6	0.6	64.2

Table 19: Analysis of Impairment Provisions for Loans and Advances

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

	February 2017	February 2016
	£m	£m
At beginning of year	153.9	139.5
Amounts written off	(60.3)	(47.3)
Increase in allowance, net of recoveries, charged to the income statement	102.8	64.2
Foreign currency translation	0.1	0.2
Unwind of discount	(2.7)	(2.7)
At end of year	193.8	153.9

The provision held above covers both the incurred but not reported and impaired cohorts. Provisions for non-impaired loans and advances at 28 February 2017 were £63.1m (2016: £44.6m). Provisions for impaired loans and advances at 28 February 2017 were £130.7m (2016: £109.3m).

There are no further value adjustments in relation to credit risk. Non-credit risk value adjustments are disclosed in the Annual Report and Financial Statements of both Tesco Personal Finance Group Ltd and Tesco Personal Finance plc.

6.3.2 Forbearance

The Group could be exposed to unacceptable levels of bad debt and also suffer reputational damage if it did not provide adequate support to customers who are experiencing financial difficulties.

Controls and risk mitigants:

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

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.

The Group has adopted the definition of forbearance as published in the EBA's final Implementing Technical Standards of July 2014. 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 Ltd and Tesco Personal Finance plc.

6.4 Credit Risk: Collateral

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

Controls and risk mitigants:

To mitigate this risk, all mortgages are secured by a first charge over the property being purchased or remortgaged, to safeguard the Group's assets in the event of a forced property sale situation. 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 or, when a customer decides to re-mortgage with the Group / request additional borrowing, by an automated valuation model (where the loan to value is under 70% and additional criteria are met).

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

The following table details the value of property collateral held against the Group's mortgage portfolio as at 28 February 2017.

Table 20: Value of Property Collateral held against the Group's Mortgage Portfolio

	February 2017 £m	February 2016 £m
Exposure ¹	2,155.3	1,669.7
Collateral	4,374.7	3,289.7
Cover (%)	203.0%	197.0%

Notes:

¹The mortgage balances above represent the credit risk inherent in the mortgage products and excludes accrued interest and fair value adjustment.

Policies are in place which allow the use of credit risk mitigation to reduce counterparty credit risk. As at 28 February 2017 no use has been made of collateral other than industry standard ISDA agreements, ISDA Credit Support Annexes used in relation to financial derivative transactions and Global Master Repurchase Agreements used in relation to repurchase transactions.

6.5 Non Trading Book Exposures in Equities

The Group's non trading exposure in equities relates to the investment in Tesco Underwriting Ltd and the Group's interest in Visa Europe.

Tesco Underwriting Ltd underwrites home and motor insurance contracts under the Tesco Bank brand. Tesco Underwriting Ltd is a joint venture which is equity accounted in the Annual Report & Financial Statements of both Tesco Personal Finance Group Ltd 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 Tesco Underwriting Ltd is valued at cost less any provision for impairment. At 28 February 2017 this investment was valued at £71.0m (2016: £71.0m). During the year, the Group's joint venture, TU, recognised additional insurance reserves following a revision to the Ogden tables, which are used to calculate future losses in personal injury and fatal accident claims. As a result of the recognition of these losses, TU has required a capital injection since 28 February 2017 in order to maintain the required level of regulatory capital. The Board of the Company has approved a further injection of £15.5m to TU in exchange for ordinary shares in TU, increasing the investment in TU by an equivalent amount. The joint venture partner has correspondingly approved an increase in its investment in TU's ordinary share capital.

The Group's interest in VISA Inc amounts to £1.7m. The prior year value of £3.5m related to the fair value of the Group's investment in VISA Europe Limited. Following closing of the deal by VISA Inc to acquire VISA Europe Limited on 21 June 2016, the Group disposed of its investment in VISA Europe Limited. As part of the transaction, the Group acquired an interest in preferred stock issued by VISA Inc during the period, the estimated fair value of which is £1.7m at 28 February 2017. The preferred stock may be convertible into Class A Common Stock of VISA Inc at certain future dates, the earliest point being June 2020. Conversion is contingent upon future events, principally related to the outcome of interchange litigation against VISA Europe Limited. As such, the valuation of £1.7m reflects both an illiquidity discount and the risk of a reduction in the conversion rate to VISA Inc common stock. The reduction in the conversion rate is the most significant unobservable input to the valuation.

The carrying values on the balance sheet of both Tesco Underwriting Ltd and Visa Inc represent the fair value, inclusive of the impact of the sale of interest in Visa Europe, or any other unrealised gains or losses included in Common Equity Tier 1 capital.

7 Exposure to Counterparty Credit Risk (CCR)

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 financial derivative instruments, securities financing transactions and long-dated settlement transactions. As at 28 February 2017, the Group has £99.8m security financing transactions in the form of repo transactions and has no long-dated settlement transactions.

All financial 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, Counterparty Credit Risk and Wrong Way Risk, is provided in section 6.

The Group in its ordinary course of business uses over the counter derivatives and forward foreign exchange transactions to hedge exposures, i.e. interest rate and foreign exchange risk. 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. As at 28 February 2017, the Group's total CCR exposures under the mark-to-market method amounted to £47.3m, comprising; £45.1m in interest rate contracts and £2.2m in foreign currency contracts (2016 total CCR exposures: £57.9m, comprising; interest rate contracts £50.2m and foreign currency £7.7m).

The Group's CCR derivative exposures incorporate the netting benefits and the reduced exposure as a result of central clearing. This represents a change to the prior year. The Group calculates its derivative exposure for counterparty credit risk as the net replacement cost plus a reduced PFE. The net replacement cost includes contracts with positive and negative mark-to-market values, net of collateral posted and/or received. The table below details both the gross positive fair value of derivative contracts and the net derivative exposure.

As at 28 February 2017, the Group had no public credit rating and no exposure to credit derivative transactions.

Table 21: Counterparty credit risk exposures: Mark-to-market method

	February 2017	February 2016
	£m	£m
Interest-rate contracts	45.1	50.2
Contracts concerning foreign currency rates and gold	2.2	7.7
Contracts concerning equities	-	-
Contracts concerning precious metals except gold	-	-
Contracts concerning commodities other than precious metals	-	-
Total counterparty credit risk exposures	47.3	57.9

Net derivative credit exposure

	February 2017	February 2016
	£m	£m
Gross positive fair value of contracts (excluding add on for potential future exposure)	25.0	27.8
Less: netting benefits	(18.9)	-
Net current credit exposure	6.1	27.8
Less: collateral held	(6.1)	-
Net derivatives credit exposure	-	27.8

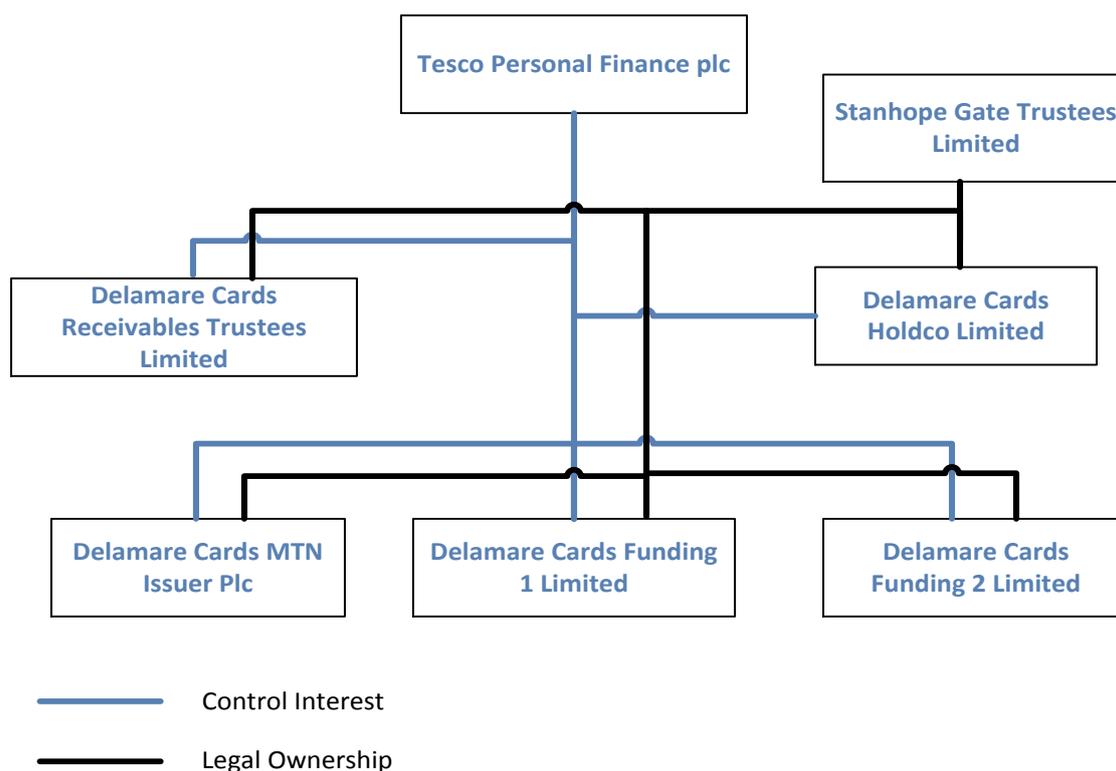
8 Securitisation and Covered Bond Exposures

For regulatory disclosure purposes, 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 of securitisation within Tesco Bank is to provide funding diversification as it provides access to a wide range of investors in different geographical areas.

The Group has entered into securitisation transactions in which it assigns its credit card receivables to a structured entity (Delamare Cards Receivables Trustees Ltd) which supports the issuance of securities backed by the cash flows from the securitised pool of credit cards. 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 following diagram details the securitisation structured entities:



Securitisation is used to provide secured term funding to the Group. The underlying assets are retained at amortised cost on the balance sheet and the securitisation bonds issued 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. As at 28 February 2017, Delamare Cards MTN Issuer plc had £1,800.0m (2016: £1,800.0m) notes in issue in relation to securitisation transactions, of which £800.0m (2016: £800.0m) relates to externally held notes. At the year end the Group had pledged £2,529.3m (2016: £2,638.5m) of credit card assets in Delamare structured entities. The beneficial interest of these assets has been assigned to Delamare Cards Receivables Trustee Limited.

The Group operates within the securitisation and covered bond markets as an investor, purchasing only 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 invests in covered bond securities where preferential capital treatment is permitted. Bonds acquired are held as available for sale assets on the balance sheet. At 28 February 2017, the Group's exposure in covered bonds amounted to £98.4m (2016: £77.7m).

The Group does not hold any re-securitisation positions and is not active in synthetic securitisations. 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.

8.1 Risks Inherent in Securitised and Covered Bond Assets

There are a number of inherent risks in purchasing securitised notes. The Group, however, is exposed to limited risk as it purchases only own name securities. The inherent risk, however, when purchasing own name securities is:

- Loss of eligibility of own name securities for Central Bank pre-positioning or market repo.

Lost eligibility (for any factor) can be mitigated by the Group via established monitoring and remedial processes that sit across 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 the securitisation asset performance and models its cash flows whilst taking account of 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.

8.2 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 invested positions, the Company calculates risk weighted exposure amounts using the credit quality steps prescribed in CRR for securitisations and covered bond exposures.

9 Operational Risk

Operational risk is the risk of potential error, loss, harm or failure caused by ineffective or inadequately defined processes, system failure, improper conduct, human error, fraud or from external events. The Group aims to effectively manage operational risks within defined Risk Appetite limits. The Group is subject to the Standardised Approach method to calculate Pillar 1 operational risk capital, as outlined in the CRR.

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

In November 2016, Tesco Bank's debit cards were the subject of an online fraudulent attack. The Group's priority throughout was to ensure customers' accounts were protected and that it communicated with customers immediately and transparently, reassuring customers that there was no data loss or breach of systems. The Group has undertaken immediate remedial action and an independent review of the issue and continues to work closely with the authorities and regulators on this incident.

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.

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 quarterly 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. This is supplemented further by an event management process and monthly reporting of the operational risk profile to the Executive Risk Committee.

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.

The Operational Risk Committee provides oversight of the Group's operational risk profile and provides regular reports and recommendations to the appropriate governance bodies.

10 Market Risk

Market risk is defined as the risk that the value of earnings or capital is altered through the movement of market rates which includes movements in 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
- Investment risk relating to the Group's pension obligations.

Control and risk mitigants:

Control of market risk is managed 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.

10.1 Interest Rate Risk in the Banking Book (IRRBB)

The Company offers lending and savings products with varying interest rate features and maturities which create potential interest rate exposures. IRRBB is the main market risk that could affect the Group's net interest income and arises where there is potential for changes in benchmark interest rates, which result in a movement in the banking book net interest income.

Interest rate risk is the risk to earnings and capital arising from timing differences on the re-pricing of the Group's loans and deposits and unexpected changes to the slope and shape of the yield curve. The Group is exposed to interest rate risk through its dealings with retail customers as well as through lending to and borrowing from the wholesale market.

Control and risk mitigants:

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

IRRBB management information is monitored by the Asset and Liability Management team and regularly reviewed by the Asset and Liability Management Committee. IRRBB primarily arises from the consumer lending portfolios (including the mortgage pipeline) and retail deposits. Hedging strategies are implemented as required to ensure that the Group remains within its stated Risk Appetite.

The main hedging instruments used are interest rate swaps and the residual exposure is reported to the Asset and Liability Management Committee monthly using two key risk measures:

- **Capital at Risk** – the capital at risk approach assesses the sensitivity of a reduction in 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 capital at risk measure is an aggregate measure of four separate components, each being a distinct form of interest rate risk (Repricing Risk, Basis Risk, Pipeline Risk and Prepayment Risk).
- **Net Interest Income Sensitivity** – this measures the effect of a +1.0%; -0.75% (2016: +1.0%; -0.5%) parallel interest rate shock on the next 12 months net interest income, based on the re-pricing gaps in the existing portfolio.

Table 22: Capital at Risk and Net Interest Income Sensitivity Measures

	February 2017 Upward rate scenario	February 2016 Downward Rate Scenario
Capital at Risk Sensitivity	£m	£m
Repricing risk	(6.7)	(4.4)
Basis risk	4.5	(3.9)
Pipeline risk	(5.1)	0.1
Prepayment risk	(18.4)	-
Total	(25.7)	(8.2)

Note: The scenarios disclosed above represent the most adverse outcome amongst 6 severe but plausible interest rate stress scenarios.

	February 2017		February 2016	
	Upward Rate Shock	Downward Rate Shock	Upward Rate Shock	Downward Rate Shock
Net interest income sensitivity	0.05%	(0.07%)	0.95%	(0.48%)

The sensitivity analyses presented represent, in accordance with the requirements of IFRS 7, 'Financial Instruments: Disclosures', management's assessment of a reasonably possible sensitivity, rather than worst case scenario positions.

10.2 Foreign Exchange Risk

The Group invests in non-GBP denominated bonds and may raise funding from the wholesale markets in currencies other than GBP. Foreign exchange exposure arises if these exposures are not hedged. Foreign exchange exposure may also arise through the Group's Euro-denominated Irish credit card exposure and through invoices received which are denominated in foreign currencies.

Control and risk mitigants:

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

11 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.

11.1 Funding & Liquidity Risk

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

Controls and risk mitigants:

Funding & Liquidity 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 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 loan to deposit ratio;
- the encumbrance ratio;
- the wholesale funding ratio.
- the annual wholesale re-financing amount; and
- the minimum unencumbered assets.

The Group measures and manages liquidity adequacy in line with the above metrics on a regular basis and maintains a conservative 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.

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, investment maturities, customer deposit patterns, and wholesale funding (including Funding for Lending Scheme and Term Funding Scheme) maturities. These reports support daily liquidity management and are reviewed daily by senior management along with early warning indicators.

Stress testing of current and forecast financial positions is conducted to inform the Group of required liquidity resources. Reverse stress testing is conducted to inform the Group of the circumstances that would result in liquidity resources being exhausted. Liquidity stress tests are presented to the Liquidity Management Forum and 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 historical behaviours exhibited.

During the year the Group accessed the Bank of England's Funding for Lending Scheme to support lending growth in a cost effective manner. The Group also accessed the Bank of England's (BoE) Term Funding Scheme during the year, partly repaying borrowing previously drawn under the BoE's Funding for Lending Scheme. The lower cost of funding provided under both schemes continues to be reflected in competitive offers for the Group's borrowing customers.

11.2 Regulatory Risk

Regulatory Risk is the risk of reputational damage, liability or material loss from failure to comply with the requirements of the financial services regulators or related codes of best practice applicable to the business areas within which the Group operates.

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

The Group's aim is to always avoid material breaches of laws and requirements. In the event that legal or regulatory requirements are not met, effective remediation plans will be put in place.

Controls and mitigants:

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

Regulatory Advice and Compliance are 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.

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

11.3 European Union Referendum

The European Union Referendum Act 2015 required the UK to hold a referendum on the UK's membership of the European Union (EU) by the end of 2017. The referendum was held on 23 June 2016 and resulted in a vote for the UK to leave the EU. The process of exiting the EU continues to contribute to political and economic uncertainty in the UK and Europe.

Controls and mitigants:

Following the EU referendum result, the political and economic outlook for the UK is uncertain. 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. While the timing and terms of any agreement with the EU remain uncertain, the Group continues to have sufficient capital resources to allow it to cope with a severe economic stress. 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.

11.4 Investment risk relating to pension obligations

Pension risk may be defined as 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 Stores Limited has recognised the appropriate net liability of the scheme.

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

12 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) as:

- 'Senior Management' which includes executive directors, non-executive directors and the Chairman of the Company; and
- 'Other MRTs' which include other senior managers whose actions could have a material impact on the risk profile of the Company.

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 by the Committee. No significant changes have been made to the policy since the prior 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 Company 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 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 Chief People Officer 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.

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 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.

Long term incentive pay is based on the outcome of Tesco PLC measures including; total shareholder return and 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 adjustment for malus and claw-back 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 our Code of Business Conduct through individual behaviour which has led to serious misconduct, fraud or misstatement.

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.

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 6). This appendix also details the number of directorships held by members of the Board.

Board Diversity Policy

The Group is 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 and trade union affiliation. The Group recognises and values the benefit that a diverse range of experiences brings to the business.

The Group fundamentally believes in equal opportunities and a meritocratic approach to attracting and retaining the best talent in the business and is committed to improving the representation of under-represented groups at Tesco Bank across all levels including the board, executive committee and their direct reports.

Remuneration for MRTs

Under CRR, the Group is required to make certain aggregate quantitative disclosures regarding the remuneration of MRTs. The tables below represent the Group's disclosure for the year ended 28 February 2017.

The level of remuneration for the financial year, split between fixed and variable remuneration, along with the number of MRTs:

	February 2017		Total
	Senior Management	Other Material Risk Takers	
Number of Material Risk Takers	16	25	41
Fixed reward (£m) ¹	3.9	5.2	9.1
Variable reward (£m) ²	5.2	5.9	11.1
Total remuneration (£m)	9.1	11.1	20.2

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.

The amounts and forms of variable remuneration, split into cash, shares, share-linked instruments and other types:

	February 2017		Total
	Senior Management	Other Material Risk Takers	
	£m	£m	£m
Cash	1.9	2.5	4.4
Shares	3.3	3.4	6.7
Total remuneration	5.2	5.9	11.1

The amounts of outstanding deferred remuneration, split between vested and unvested portions:

	February 2017		Total
	Senior Management	Other Material Risk Takers	
	£m	£m	£m
Vested	-	-	-
Unvested	3.3	3.4	6.7
Total remuneration	3.3	3.4	6.7

Of the above deferred remuneration awarded during the financial year, none has paid out and none has been reduced through performance adjustments.

4 individuals received severance payments during the year totalling £1.4m. These payments were in line with the individual's contract of employment. No joining awards were made during the period.

3 individuals have received remuneration for the financial year between EUR 1.0 million and EUR 1.5 million, 2 individuals have received remuneration for the financial year between EUR 1.5 million and EUR 2.0 million and 1 individual received remuneration for the financial year between EUR 2.0 million and EUR 2.5 million.

Appendix 1 - Declaration

Board Risk Management Declaration

The Board is responsible for reviewing the effectiveness of the Group's risk management arrangements 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 with regard to the Group's profile and strategy and an appropriate array of assurance mechanisms to avoid or minimise loss.

Appendix 2: 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.

	February 2017 End Point £m	February 2017 Transitional £m	February 2016 End Point £m	February 2016 Transitional £m
Capital Resources:				
Common equity tier 1 capital				
Share capital	122.0	122.0	122.0	122.0
Share premium account	1,097.9	1,097.9	1,097.9	1,097.9
Retained earnings	417.4	417.4	314.8	314.8
Other reserves	34.2	34.2	27.4	27.4
Shareholders' equity (accounting capital)	1,671.5	1,671.5	1,562.1	1,562.1
Regulatory adjustments				
Intangible assets	(300.0)	(300.0)	(363.9)	(363.9)
Deferred tax liabilities related to intangible assets	13.6	13.6	26.5	26.5
Unrealised losses on cash flow hedge reserve	0.5	0.5	1.6	1.6
Adjustment to own credit / Additional Value Adjustments	(1.1)	(1.1)	(1.9)	(1.9)
Material holdings in financial sector entities	-	(3.4)	-	(6.8)
	(287.0)	(290.4)	(337.7)	(344.5)
Total Common Equity Tier 1 capital	1,384.5	1,381.1	1,224.4	1,217.6
Tier 2 capital (instruments and provisions)				
Undated subordinated notes	45.0	45.0	45.0	45.0
Dated subordinated notes net of regulatory amortisation	190.0	190.0	190.0	190.0
Credit risk adjustment	63.1	63.1	44.6	44.6
	298.1	298.1	279.6	279.6
Regulatory adjustments				
Material holdings in financial sector entities	(34.1)	(30.7)	(34.1)	(27.3)
	(34.1)	(30.7)	(34.1)	(27.3)
Total tier 2 capital	264.0	267.4	245.5	252.3
Total capital resources	1,648.5	1,648.5	1,469.9	1,469.9
Risk weighted assets	8,255.1	8,255.1	7,345.9	7,345.9
Common equity tier 1 ratio (%)	16.8%	16.7%	16.7%	16.6%
Total capital ratio (%)	20.0%	20.0%	20.0%	20.0%

	February 2017		February 2016	
	8% Capital Requirement £m	Risk Weighted Assets £m	8% Capital Requirement £m	Risk Weighted Assets £m
Capital Requirements:				
Central government or central banks	-	-	-	-
Multilateral development banks	-	-	-	-
Institutions	3.5	44.3	6.0	74.9
Corporates	3.6	45.2	3.4	42.6
Retail	468.6	5,856.8	410.8	5,134.7
Secured by mortgages on immovable property	60.5	756.2	46.9	585.9
Exposures in default	4.4	55.5	3.7	46.6
Covered bonds	1.4	17.1	1.0	13.0
Equity exposures	14.3	179.3	14.5	181.2
Other items	11.0	137.9	12.3	153.6
Total credit and counterparty credit risk	567.3	7,092.3	498.6	6,232.5
Total market risk	-	-	-	-
Total operational risk	92.5	1,156.8	87.6	1,094.9
Total credit valuation adjustment	0.5	6.0	1.5	18.5
Total Pillar 1 capital requirements	660.3	8,255.1	587.7	7,345.9

Movement in Common Equity Tier 1 Capital:	February 2017 £m	February 2016 £m
Common Equity Tier 1 at the beginning of the year	1,217.6	1,041.1
Profit attributable to Shareholders	152.6	189.7
Gains and losses on liabilities arising from own credit	0.9	(1.9)
Other Reserves	5.7	7.8
Ordinary dividends	(50.0)	(50.0)
Movement in intangible assets	63.9	38.7
Movement in material holdings in financial sector entities	3.4	3.4
CRD IV adjustments:		
Deferred Tax liabilities related to intangible assets	(13.0)	(11.2)
Common Equity Tier 1 at the end of the year	1,381.1	1,217.6

TESCO PERSONAL FINANCE GROUP LTD

Summary Reconciliation of Accounting Assets and Leverage Ratio Exposures

	February 2017 Applicable Amounts £m
1 Total assets as per published financial statements	12,558.3
4 Adjustments for derivative financial instruments	(15.9)
6 Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	1,228.8
7 Other adjustments	(347.3)
8 Total leverage ratio exposure	13,423.9

Leverage Ratio Common Disclosure

	February 2017 CRR leverage ratio exposures £m
On-balance sheet exposures (excluding derivatives and securities financing transactions "SFTs")	
1 On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	12,596.3
2 Asset amounts deducted in determining Tier 1 capital	(303.4)
3 Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)	12,292.9
Derivative exposures	
5 Add-on amounts for PFE associated with <i>all</i> derivatives transactions (mark-to-market method)	9.1
7 Deductions of receivables assets for cash variation margin provided in derivatives transactions	(106.9)
11 Total derivative exposures (sum of lines 4 to 10)	(97.8)
Other off-balance sheet exposures	
17 Off-balance sheet exposures at gross notional amount	12,132.0
18 Adjustments for conversion to credit equivalent amounts	(10,903.2)
19 Other off-balance sheet exposures (sum of lines 17 to 18)	1,228.8
Capital and total exposures	
20 Tier 1 capital	1,381.1
21 Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)	13,423.9
Leverage ratio	
22 Leverage ratio	10.3%

Leverage Ratio: Split-Up of On-Balance Sheet Exposures (Excluding Derivatives, SFT's and Exempted Exposures)

	February 2017 CRR leverage ratio exposures £m
EU-1 Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	12,596.3
EU-3 Banking book exposures, of which:	12,596.3
EU-4 Covered bonds	98.4
EU-5 Exposures treated as sovereigns	1,492.5
EU-7 Institutions	327.0
EU-8 Secured by mortgages of immovable properties	2,129.4
EU-9 Retail exposures	7,809.4
EU-1(Corporate	46.0
EU-1: Exposures in default	55.5
EU-1: Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	638.1

Disclosure on Leverage Ratio Qualitative Items

1 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 compliance and 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 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 stress.

2 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 strong at 10.3% on a transitional basis in the year. 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.

Appendix 3: Transitional Own Funds Disclosure

In order to meet the requirements for disclosure of the specific items on own funds described in points (d) and (e) of Article 437 (1) of CRR No 575/2013, institutions are required to disclose transitional own funds by way of derogation to 31 December 2017. The following details the Group's disclosure:

	Reference to Table 1	February 2017 Transitional Rules £m	February 2016 Transitional Rules £m
Common Equity Tier 1 Capital: Instruments and Reserves			
1 Capital instruments and the related share premium accounts		1,220.2	1,220.2
<i>of which: ordinary share capital</i>	<i>j,k</i>	1,220.2	1,220.2
2 Retained earnings	<i>l</i>	316.6	178.3
3 Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	<i>n</i>	34.2	27.3
5a Independently reviewed interim profits net of any foreseeable charge or dividend	<i>m</i>	102.9	138.4
6 Common Equity Tier 1 capital before regulatory adjustments		1,673.9	1,564.2
Common Equity Tier 1 capital: regulatory adjustments			
7 Additional value adjustments (negative amount)		(1.1)	(1.1)
8 Intangible assets (net of related tax liability) (negative amount)	<i>f,h</i>	(286.4)	(337.4)
11 Fair value reserves related to gains or losses on cash flow hedges	<i>o</i>	0.5	1.6
14 Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	<i>g</i>	-	(0.8)
27 Qualifying Additional Tier 1 deductions that exceed the Additional Tier 1 capital of the institution (negative amount)	<i>b</i>	(3.4)	(6.8)
28 Total regulatory adjustments to Common Equity Tier 1		(290.4)	(344.5)
29 Common Equity Tier 1 capital		1,383.5	1,219.7
45 Tier 1 capital (Tier 1=Common Equity Tier 1+Additional Tier 1)		1,383.5	1,219.7
Tier 2 capital: instruments and provisions			
46 Capital instruments and the related share premium accounts	<i>i</i>	235.0	235.0
50 Credit risk adjustments	<i>a</i>	63.1	44.6
51 Tier 2 capital before regulatory adjustments		298.1	279.6
Tier 2 capital: regulatory adjustments			
55 Direct and indirect holdings by the institution of the Tier 2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	<i>c,d</i>	(30.7)	(27.3)
57 Total regulatory adjustments to Tier 2 capital		(30.7)	(27.3)
58 Tier 2 capital		267.4	252.3
59 Total capital (Total Capital=Tier 1+Tier 2)		1,650.9	1,472.0
60 Total Risk Weighted Assets		8,276.3	7,366.4
Capital ratios and buffers			
61 Common equity tier 1 (as a % of risk exposure amount)		16.7%	16.6%
62 Tier 1 (as a % of risk exposure amount)		16.7%	16.6%
63 Total capital (as a % of risk exposure amount)		19.9%	20.0%
64 Institution specific buffer requirements (Common Equity Tier 1 requirement in accordance with Article 92(1) a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (Global or Other systemically important buffer) expressed as a % of risk exposure amount)		5.8%	5.1%
65 of which: capital conservation buffer requirement		1.3%	0.6%
66 of which: countercyclical buffer requirement		0.0%	0.0%
67 of which: systemic risk buffer requirement		0.0%	0.0%
67a of which: Global Systemically Important Institution or Other Systemically Important Institution buffer		0.0%	0.0%
68 Common equity tier 1 available to meet buffers (as a % of risk exposure amount)		10.7%	12.1%
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)	<i>e</i>	71.0	71.0
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)	<i>a</i>	63.1	44.6
77 Cap on inclusion of credit risk adjustments in Tier 2 under standardised approach		88.9	78.2

Appendix 4: Capital Instrument Key Features

Capital instruments key features:										
		Common Equity Tier 1	Tier 2							
1	Issuer	Tesco Personal Group Ltd	Tesco Personal Group Ltd	Tesco Personal Group Ltd	Tesco Personal Group Ltd	Tesco Personal Group Ltd	Tesco Personal Group Ltd	Tesco Personal Group Ltd	Tesco Personal Group Ltd	Tesco Personal Group Ltd
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	English 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							
5	Post-transitional CRR Rules	Common Equity Tier 1	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	£10m 12 Aug 1997 £10m 21 Nov 1997 £20m 2 Jan 1998 £20m 1 Apr 1998 £25m 30 Sep 1998 £6.5m 18 Nov 1998 £20m 30 Apr 1999 £20m 30 Jun 1999 £20m Sep 1999 £22.4m 17 Nov 1999 £10m 29 Feb 2000 £20m 13 Mar 2000 £10m 19 Apr 2000 £10m 31 May 2000 £14m 31 Aug 2000 £10m 30 Nov 2001 £0.3m 20 Aug 2007 £25m 7 Apr 2009 £25m 17 Jun 2009 £180m 26 Jan 2010 £50m 5 Mar 2010 £60m 20 May 2010 £39m 4 Aug 2010 £39m 6 Sep 2010 £40m 27 Sep 2010 £25m 15 Nov 2010 £25m 8 Dec 2010 £20m 21 Jan 2011 £147.5m 25 Feb 2011 £50m 10 Mar 2011 £61.5m 28 Sep 2011 £45m 26 Apr 2012 £140m 22 Jul 2013	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							
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							

Coupons/Dividends										
		Common Equity Tier 1	Tier 2							
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							
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	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							
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
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)	All subordinated Notes Columns 3-10	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

Appendix 5: Encumbered and Unencumbered Assets

Asset encumbrance guidelines, issued by the EBA, set out the following tables for the disclosure of asset encumbrance:

- Template A reports the encumbered and unencumbered assets carrying and fair values;
- Template C shows the carrying amount of encumbered assets/collateral received along with associated liabilities; and
- Template D discloses narrative information relating to the impact of the Group's business model on the level of encumbrance, as well as the importance of encumbrance in the funding model.

Note, Template B (collateral received) is not required for disclosure in accordance with the threshold criteria under PRA supervisory statement SS11/14 (CRD IV: Compliance with the EBA's Guidelines on the disclosure of encumbered and unencumbered assets).

The values reported in the tables below represent the median of the values reported to the regulator via supervisory returns over the year ended 28 February 2017.

Template A - Assets					
		Carrying amount of encumbered assets (£m)	Fair value of encumbered assets (£m)	Carrying amount of unencumbered assets (£m)	Fair value of unencumbered assets (£m)
		010	040	060	090
010	Assets of the reporting institution	2,222.9		9,627.8	
030	Equity instruments	-	-	72.6	72.6
040	Debt securities	-	-	943.9	943.9
120	Other assets	-		506.2	

Template C - Encumbered assets/collateral received and associated liabilities		
	Matching liabilities, contingent liabilities or securities lent (£m)	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered (£m)
	010	030
010	Carrying amount of selected financial liabilities	1,825.2
		2,445.1

Template D - Information on importance of encumbrance	
The Group defines risk appetite for total encumbrance and product encumbrance for credit cards, personal loans and mortgages as part of the Group's internal liquidity adequacy assessment process. Assigning and/or pledging assets as part of the Group secured funding and repo markets give rise to the Group encumbrance.	

Appendix 6: 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 2017:

Name	Position within Tesco Personal Finance Group Ltd	Changes in the year	Executive	Non-Executive
Graham Pimlott	Independent Non-Executive Chairman		1	2
Karl Bedlow	Chief Customer Officer		1	0
John Castagano	Independent Non Executive	Appointed 01/10/16	0	3
Iain Clink	Deputy Chief Executive		1	0
Robert Endersby	Independent Non Executive		0	2
Bernard Higgins	Chief Executive		1	1
Declan Hourican	Chief Financial Officer	Appointed 14/11/16	1	0
Simon Machell	Independent Non Executive		0	3
James McConville	Independent Non Executive		1	1
David McCreadie	Managing Director		1	0
Raymond Pierce	Senior Independent Non Executive		0	3
Amanda Rendle	Independent Non Executive	Appointed 13/12/16	2	3
Alan Stewart	Non Executive	Appointed 16/01/17	1	2

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

Peter Bole resigned as Chief Financial Officer on 3 October 2016.

Feike Brouwers resigned as Chief Risk Officer on 23 January 2017. The appointment of the new Chief Risk Officer, Richard Henderson was approved by the regulator on 29 March 2017.

Deanna Oppenheimer resigned as Non-Executive Director on 31st December 2016.

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>

Appendix 7: Regulatory Capital Requirements and Buffers (end point)

Capital buffer	Description	Capital requirement
Pillar 1	Sets out the minimum capital requirements that firms are required to meet for credit, market and operational risk.	8% of risk weighted assets, of which 4.5% is to be met with Common Equity Tier 1 capital.
Pillar 2A / individual capital guidance	Sets out requirements on firms with regard to their internal capital adequacy assessment processes, internal procedures and control mechanisms.	To be met with at least 56% Common Equity Tier 1 capital.
Systemic importance buffers	<p>The purpose of the buffers for systemically important institutions is to allocate capital within the system to systemic banks in line with the greater costs of their distress or failure to the economy.</p> <p>In the UK, this consists of the buffer for global systemically important banks, applied at the group level, and the systemic risk buffer, to apply to ring-fenced banks and large building societies.</p> <p>The list of global systemically important banks is published by the Financial Stability Board. The Group is not deemed to be globally systemic bank.</p> <p>Implementation is planned for 2019 and this buffer is expected to be applied by the PRA to ring fenced banks and building societies.</p> <p>In addition, the PRA may apply a buffer for other systemically important institutions, to be identified by the PRA during 2016.</p> <p>The Group is not deemed to be a global systemically important institution, nor another systemically important institution.</p>	0% - 2.5% risk weighted assets, to be met with Common Equity Tier 1 capital.
Capital conservation buffer	<p>The purpose of this buffer is to enable firms to absorb losses in stressed periods.</p> <p>All firms will be subject to a capital conservation buffer of 2.5% of risk weighted assets at both group and solo level.</p> <p>The buffer will be phased in from 1 January 2016, starting at 0.625%, increasing each subsequent year by an additional 0.625% to reach its final level of 2.5% by 1 January 2019.</p>	2.5% risk weighted assets, to be met with Common Equity Tier 1 capital.
Countercyclical buffer (CCB)	<p>Requires firms to build up capital when aggregate growth in credit is judged to be associated with a build-up of system wide risk. The buffer may be reduced by the regulator in a period of stress.</p> <p>The CCB must be held in the form of common equity and is required to be implemented from January 2016.</p> <p>The Financial Policy Committee is responsible for setting the UK CCB rate that applies to UK exposures of banks incorporated in the UK.</p>	The Financial Policy Committee has kept the UK CCB rate at 0% during the period to February 2016.
PRA buffer (PRA requirement)	<p>The PRA may impose a firm-specific buffer incremental to Pillar 1, Pillar 2A and the CRD IV buffers to replace the Capital Planning Buffer (CPB).</p> <p>More information is to be provided by the PRA on the transition to this buffer. In the meantime, firms are required to continue with CPB policy.</p>	Firm specific, set in Common Equity Tier 1 capital at PRA's discretion.

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)	A legislative package 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 CRD IV, 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	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 PRA's 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.

Credit Valuation Adjustments	Adjustments to the fair value of derivative assets to reflect the credit worthiness of the counterparty.
Customer 2020 (C2020)	Tesco Bank strategic programme, comprising a number of initiatives and expected to provide the framework for business change over several years.
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 incurred loss inherent in the lending book. Impairment provisions may be individual or collective.
Impairment losses	The reduction in value that arises following an impairment review of an asset which has determined that the asset's value is lower than its carrying value. For impaired financial assets measured at amortised cost, impairment losses are the difference between the carrying value and the present value of estimated future cash flows, discounted at the asset's original effective interest rate.
Insurance risk	The risks accepted through the provision of insurance products in return for a premium. 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.

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	One of three methods available to calculate exposure values for counterparty credit risk. The method adjusts daily to account for profits and losses in the value of related assets and liabilities.
Market risk	The risk that the value of the institution’s assets, liabilities, income or costs might vary due to changes in the value of financial market process. 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.
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 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 rules established by the PRA.
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 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 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.
Securities Financing Transactions (SFT)	The act of lending, or borrowing, a stock, derivative, or other security to or from an investor or firm.
Stress testing	The term used to describe techniques where plausible events are considered as vulnerabilities to ascertain how this will impact the capital resources which are required to be held.

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 on-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.