OFFERING CIRCULAR

TESCO PERSONAL FINANCE GROUP PLC

(*incorporated with limited liability under the laws of Scotland with company number SC173198*)

£2,000,000,000
Euro Note Programme

Tesco Personal Finance Group PLC (the "Issuer" or "TPFG") may from time to time issue notes (the "Notes") denominated in any currency as agreed between the Issuer and the relevant Dealer (as defined below) under this £2,000,000,000 Euro Note Programme (the "Programme"). The Notes issued under the Programme may comprise (i) unsubordinated Notes of the Issuer which rank as senior obligations of the Issuer ("Senior Notes") and (ii) subordinated Notes as described herein and have terms capable of qualifying as Tier 2 capital ("Dated Subordinated Notes"). This Offering Circular (the "Offering Circular") is valid for a period of 12 months from the date hereof. Any Notes issued under the Programme by the completion of the Final Terms or, in the case of Exempt Notes (as defined below), the Pricing Supplement, on or after the date of this Offering Circular are issued subject to the provisions hereof. "Final Terms" means the terms set out in a Final Terms document substantially in the form set out in this Offering Circular and "Pricing Supplement" means the terms set out in a Pricing Supplement document substantially in the form set out in this Offering Circular. Accordingly, in the case of Exempt Notes, each reference in this Prospectus to information being specified or identified in the applicable Final Terms shall be read and construed as a reference to such information being specified or identified in the applicable Pricing Supplement unless the context requires otherwise.

An investment in Notes issued under the Programme involves certain risks. For a description of these risks, see "Risk Factors" below.

Application has been made to the Financial Conduct Authority (the "FCA") in its capacity as competent authority for Notes issued under the Programme during the period of 12 months from the date of this Offering Circular to be admitted to the official list of the FCA (the "Official List") and to the London Stock Exchange plc (the "London Stock Exchange") for such Notes to be admitted to trading on the London Stock Exchange's regulated market.

References in this Offering Circular to Notes being "listed" (and all related references) shall mean that such Notes have been admitted to trading on the London Stock Exchange's regulated market and have been admitted to the Official List. The expression "EEA State" when used in this Offering Circular has the meaning given to such term in the Financial Services and Markets Act 2000 (the "FSMA"). The London Stock Exchange's regulated market is a regulated market for the purposes of Directive 2014/65/EU (as amended, "MiFID II").

The requirement to publish a prospectus under the Prospectus Directive (as defined below) only applies to Notes which are to be admitted to trading on a regulated market in the European Economic Area (the "EEA") and/or offered to the public in the EEA other than in circumstances where an exemption is available under Article 3.2 of the Prospectus Directive. References in this Offering Circular to "Exempt Notes" are to Notes for which no prospectus is required to be published under the Prospectus Directive. The FCA has neither approved nor reviewed information contained in this Offering Circular in connection with Exempt Notes.

Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and certain other information which is applicable to each Tranche (as defined under "*Terms and Conditions of the Notes*" on page 58) of Notes will (other than in the case of Exempt Notes, as defined above) be set forth in the applicable Final Terms which will be delivered to the FCA and, where listed, to the London Stock Exchange on or before the date of issue of the Notes of such Tranche or such later date as the FCA and the London Stock Exchange may agree. Copies of Final Terms in relation to Notes to be listed on the London Stock Exchange will also be published on the website of the London Stock Exchange through a regulatory information service and will be available from the registered office of the Issuer and the specified office of each of the Paying Agents (as defined on page 57). In the case of Exempt Notes, notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and certain other information which is applicable to each Tranche will be set out in the applicable Pricing Supplement. Copies of Pricing Supplements in relation to Exempt Notes will only be obtainable by a holder of such Notes and such holder must produce evidence satisfactory to the Issuer or, as the case may be, the relevant Paying Agent as to its holding of such Notes and identity.

The Programme provides that Exempt Notes may be admitted to trading on such other or further stock exchanges or markets (provided that such exchange or market is not a regulated market for the purposes of MiFID II) as may be agreed between the Issuer and the relevant Dealer. The Issuer may also issue unlisted Exempt Notes and/or Exempt Notes not admitted to trading on any market.

The Programme has been assigned a long-term rating of BBB and a short-term rating of F3 by Fitch Ratings Limited ("Fitch") and a rating of (P)Baa2 by Moody's Investors Service Limited ("Moody's"). In addition, the Issuer has a long-term issuer default rating of BBB and a short-term issuer default rating of F3 by Fitch and a long-term issuer rating of BAA2 and a short-term issuer rating of P-2 by Moody's. Each of Fitch and Moody's is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended) (the "CRA Regulation").

Notes issued under the Programme may be rated or unrated by any one or more of the rating agencies referred to above. Where a Tranche of Notes is rated, such rating will be disclosed in the Final Terms (or Pricing Supplement, in the case of Exempt Notes) and will not necessarily be the same as the rating assigned to the Programme by Fitch and Moody's. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, revision or withdrawal at any time by the assigning rating agency.

Arranger

BARCLAYS

Dealers

BARCLAYS

BNP PARIBAS

LLOYDS BANK CORPORATE MARKETS

SANTANDER CORPORATE AND INVESTMENT BANKING

The date of this Offering Circular is 11 July, 2019.

IMPORTANT INFORMATION

This Offering Circular comprises a base prospectus in respect of all Notes other than Exempt Notes issued under the Programme for the purposes of Article 5.4 of the Prospectus Directive. When used in this Offering Circular, "Prospectus Directive" means 2003/71/EC (as amended or superseded), and includes any relevant implementing measure in a relevant Member State of the European Economic Area.

The Notes may be issued on a continuing basis to one or more of the Dealers specified on page 9 and any additional Dealer appointed under the Programme from time to time, which appointment may be for a specific issue or on an ongoing basis (each a "Dealer" and together the "Dealers"). References in this Offering Circular to the "relevant Dealer" shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to purchase such Notes.

The Notes of each Tranche will initially be represented by a temporary global Note which will be deposited on the issue date thereof with a common safekeeper or common depositary for Clearstream Banking S.A. ("Clearstream, Luxembourg") and Euroclear Bank SA/NV ("Euroclear") and/or any other agreed clearing system and which will be exchangeable, as specified in the applicable Final Terms or the applicable Pricing Supplement (in the case of Exempt Notes), for either a permanent global Note or Notes in definitive form, in each case upon certification as to non-U.S. beneficial ownership as required by U.S. Treasury regulations. A permanent global Note will be exchangeable for Notes in definitive form upon request (unless otherwise specified in the applicable Final Terms or the applicable Pricing Supplement (in the case of Exempt Notes)), all as further described in "*Form of the Notes*" below.

The Issuer may agree with any Dealer and the Trustee (as defined on page 57) that Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes herein, in which event, other than where such Notes are Exempt Notes, a new Offering Circular, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Notes. In the case of Exempt Notes, the relevant provisions will be included in the applicable Pricing Supplement.

The Issuer accepts responsibility for the information contained in this Offering Circular and the Final Terms and Pricing Supplements, as the case may be, for each Tranche of Notes issued under the Programme. To the best of the knowledge and belief of the Issuer (having taken all reasonable care to ensure that such is the case) the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.

Save for the Issuer, no other party has separately verified (i) the information contained herein or (ii) any statement, representation, or warranty, or compliance with any covenant, of the Issuer contained in any Notes or any other agreement or document relating to any Notes or made in connection with the Programme, or any other agreement or document relating to the Programme. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by any Dealer, the Arranger or the Trustee as to (a) the accuracy or completeness of the information contained in this Offering Circular or any other information provided by the Issuer in connection with the Programme or the Notes or their distribution or (b) the execution, legality, effectiveness, adequacy, genuineness, validity, enforceability or admissibility in evidence of any Notes or any other agreement or document relating to any Notes or the Programme. The statements made in this paragraph are made without prejudice to the responsibility of the Issuer under the Programme. No person is or has been authorised to give any information or to make any representation not contained in or not consistent with this Offering Circular or any other information supplied in connection with the Programme or the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, any Dealer, the Arranger or the Trustee.

Neither this Offering Circular nor any other information supplied in connection with the Programme or any Notes (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation or as constituting an invitation or offer by the Issuer, any Dealer, the Arranger or the Trustee that any recipient of this Offering Circular or any other information supplied in connection with the Programme or any Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Offering Circular nor any other information supplied in connection with the Programme or the issue of any Notes constitutes an offer or invitation by or on behalf of the Issuer or any of the Dealers or the Arranger or the Trustee to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Offering Circular nor the offering, sale or delivery of any Notes shall at any time imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as at any time subsequent to the date indicated in the document containing the same. The Dealers, the Arranger and the Trustee expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Programme or to advise any investor in the Notes of any information coming to their attention. When deciding whether or not to purchase Notes of any Tranche, investors should review, *inter alia*, any supplement to this Offering Circular (including the Final Terms, or Pricing Supplement, as the case may be, relating to such Tranche, but not including any other Final Terms or Pricing Supplement).

This Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Offering Circular and the offer or sale of Notes may be restricted by law in certain jurisdictions. Each of the Issuer, the Dealers, the Arranger and the Trustee do not represent that this Offering Circular may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by any of the Issuer, the Dealers, the Arranger or the Trustee which is intended to permit a public offering of any Notes or distribution of this Offering Circular in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Offering Circular nor any advertisement or other offering material may be distributed or published in any jurisdiction except under circumstances that will result in compliance with any applicable laws and regulations, and the Dealers have represented or, as the case may be, will be required to represent that all offers and sales by them will be made on the same terms. Persons into whose possession this Offering Circular or any Notes come must inform themselves about, and observe, any such restrictions. In particular, there are restrictions on the distribution of this Offering Circular and the offer or sale of Notes in the United States of America, EEA States (including the United Kingdom and Belgium), Singapore and Japan (see "*Subscription and Sale*" below).

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended, (the "Securities Act") and are subject to certain U.S. tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to U.S. persons (see "*Subscription and Sale*" below).

IMPORTANT - EEA RETAIL INVESTORS

If the Final Terms in respect of any Notes (or Pricing Supplement, in the case of Exempt Notes) includes a legend entitled "Prohibition of Sales to EEA Retail Investors", the Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of Directive 2002/92/EC (as amended or superseded, the "Insurance Mediation Directive"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Directive. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the "PRIIPs Regulation") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

MIFID II PRODUCT GOVERNANCE AND TARGET MARKET

The Final Terms in respect of any Notes (or Pricing Supplement, in the case of Exempt Notes) may include a legend entitled "MiFID II product governance" which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a "distributor") should take into consideration the target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the Product Governance rules under EU Delegated Directive 2017/593 (the "MiFID Product Governance Rules"), any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MiFID Product Governance Rules.

SUITABILITY OF INVESTMENT

The Notes may not be a suitable investment for all investors. Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor may wish to consider, either on its own or with the help of its financial and other professional advisers, whether it:

(i) has sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in this Offering Circular or any applicable supplement;

(ii) has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact such investment will have on its overall investment portfolio;

(iii) has sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the currency in which such investor's financial activities are principally denominated;

(iv) thoroughly understands the terms of the Notes and is familiar with the behaviour of any relevant indices and financial markets; and

(v) is able to evaluate possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Legal investment considerations may restrict certain investments. The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) Notes are legal investments for it, (2) Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

The maximum aggregate nominal amount of all Notes outstanding at any one time under the Programme will not exceed £2,000,000,000 (and for this purpose, any Notes denominated in a currency other than Sterling shall be converted into Sterling in accordance with the provisions of the Dealer Agreement (as such term is defined under "Subscription and Sale" below)). The maximum aggregate nominal amount of Notes which may be outstanding at any one time under the Programme may be increased from time to time, subject to compliance with the relevant provisions of the Dealer Agreement.

All references in this Offering Circular to "TPF" are to Tesco Personal Finance PLC, to "Banking Group" are to TPFG and its subsidiaries, to "Tesco" are to Tesco PLC, and to "Tesco Group" are to Tesco and its subsidiaries.

All references in this Offering Circular to "Sterling" and "£" refer to the currency of the United Kingdom, to "U.S. dollars", "U.S.$" and "$" refer to the currency of the United States of America, and to "euro" and "€" refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended.

STABILISATION

In connection with the issue of any Tranche of Notes, one or more relevant Dealers (the "Stabilisation Manager(s)") (or persons acting on behalf of any Stabilisation Manager(s)) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s)) in accordance with all applicable laws and rules.

BENCHMARKS REGULATION

Amounts payable on Floating Rate Notes issued under the Programme may be calculated by reference to either LIBOR and/or EURIBOR as specified in the applicable Final Terms or applicable Pricing Supplement (in the case of Exempt Notes). As at the date of this Offering Circular, ICE Benchmark Administration Limited (as administrator of LIBOR) and European Money Markets Institute (as administrator of EURIBOR) are included in ESMA's register of administrators under Article 36 of the Regulation (EU) No. 2016/1011 (the "Benchmarks Regulation").

NOTIFICATION UNDER SECTION 309B(1)(c) OF THE SECURITIES AND FUTURES ACT (CHAPTER 289) OF SINGAPORE (the "SFA")

Unless otherwise stated in the applicable Final Terms or Pricing Supplement in respect of any Notes, all Notes issued or to be issued under the Programme shall be “prescribed capital markets products” (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore) and Excluded Investment Products (as defined in the Monetary Authority of Singapore (the "MAS") Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

ALTERNATIVE PERFORMANCE MEASURES

The Issuer considers that the following metrics referenced in or in connection with this Offering Circular constitute Alternative Performance Measures ("**APMs**") as defined in the European Securities and Markets Authority Guidelines on Alternative Performance Measures:

APM	Definition of APM	Reconciliation[1]	Rationale for inclusion
Underlying profit	Underlying profit represents profit before tax on a statutory basis with items which are not reflective of ongoing trading performance excluded.	Profit before tax on a statutory basis less gains or losses related to restructuring costs, customer redress charges, regulatory charges and financial instruments.	Measure of financial performance which is reflective of ongoing trading performance.
Underlying income	Underlying income represents total income on a statutory basis with items which are not reflective of ongoing trading performance excluded.	Total income on a statutory basis less gains or losses related to financial instruments.	Measure of financial performance which is reflective of ongoing trading performance.

1 Reconciliations are made to the Issuer’s audited consolidated and non-consolidated annual financial statements (including the auditors' report thereon and the notes thereto) for the financial years ended 28 February, 2019 and 28 February, 2018, as set out in this Offering Circular.

A summary of the Issuer's financial performance on an underlying basis, excluding items which are not reflective of ongoing trading performance, for the financial year ended 28 February, 2019 is as follows:[2]

	Statutory basis £m	Restructuring Costs[1] £m	Customer redress[2] £m	Regulatory Charge[3] £m	Financial Instruments[4] £m	Underlying basis £m
Year ended 28 February 2019						
Net interest income	548.9	-	-	-	-	548.9
Other income	337.4	-	-	-	4.2	341.6
Total income	**886.3**	**-**	**-**	**-**	**4.2**	**890.5**
Total operating expenses	(531.2)	(1.6)	16.0	16.4	-	(500.4)
Impairment	(164.1)	-	-	-	-	(164.1)
Operating profit	**191.0**	**(1.6)**	**16.0**	**16.4**	**4.2**	**226.0**
Share of profit of joint venture	7.9	-	-	-	-	7.9
Profit before tax	**198.9**	**(1.6)**	**16.0**	**16.4**	**4.2**	**233.9**

A summary of the Issuer's financial performance on an underlying basis, excluding items which are not reflective of ongoing trading performance, for the financial year ended 28 February, 2018 is as follows:[3]

	Statutory basis Restated[5] £m	Restructuring Costs[1] £m	Customer redress[2] £m	Regulatory Provision[3] £m	Financial Instruments[4] £m	Underlying basis Restated[5] £m
Year ended 28 February 2018						
Net interest income	493.1	-	-	-	-	493.1
Other income	362.9	-	-	-	(11.0)	351.9
Total income	**856.0**	**-**	**-**	**-**	**(11.0)**	**845.0**
Total operating expenses	(529.5)	(0.9)	23.8	-	-	(506.6)
Impairment	(137.4)	0.9	-	-	-	(136.5)
Operating profit	**189.1**	**-**	**23.8**	**-**	**(11.0)**	**201.9**
Share of profit of joint venture	10.0	-	-	-	-	10.0
Profit before tax	**199.1**	**-**	**23.8**	**-**	**(11.0)**	**211.9**

[1] Comprising:

- depreciation and amortisation charge of £nil (2018: charge of £0.3m) presented within depreciation and amortisation on page F-86 (Consolidated income statement for the year ended 28 February 2019);
- a restructuring credit of £1.6m (2018: credit of £1.2m), reflecting a reduction in dilapidations and onerous lease provisions, presented within administrative expenses on page F-86 (Consolidated income statement for the year ended 28 February 2019); and
- impairment on loans and advances to customers following agreement to sell the Irish Credit Card book, of £nil (2018: £0.9m) presented within impairment on loans and advances to customers on page F-86 (Consolidated income statement for the year ended 28 February 2019).

These charges and credits are in relation to business restructuring and not considered part of the Group's underlying results.

[2] Comprising:

- a PPI charge of £16.0m (2018: £35.0m) recognised during the year. The PPI charge recognised during the prior year was partially offset by a provision release in the prior year of £1.5m from the Group's CCA customer redress provision and a credit of £9.7m received in the prior year following the conclusion of negotiations with a third party in respect of

[2] Source: Issuer's audited consolidated and non-consolidated annual financial statements for the financial year ended 28 February, 2019.

[3] Source: Issuer's audited consolidated and non-consolidated annual financial statements for the financial year ended 28 February, 2019.

previously recognised customer redress. There was no such provision release or credit in the current year. All of these charges and credits are presented within operating expenses on page F-86 (Consolidated income statement for the year ended 28 February 2019). These charges and credits are historical in nature and not reflective of the Group's underlying trading performance.

[3] Comprising:

- a charge of £16.4m (2018: £nil) in respect of the November 2016 fraud incident, presented within operating expenses on page F-86 (Consolidated income statement for the year ended 28 February 2019). This charge relates to the financial penalty imposed by the FCA in relation to this incident and is not reflective of the Group's underlying trading performance.

[4] Comprising:

- Losses on financial instruments at FVPL of £4.2m (2018: gains of £11.0m) presented within total income on page F-86 (Consolidated income statement for the year ended 28 February 2019). Fair value movements on financial instruments reflect hedge ineffectiveness arising from hedge accounting and fair value movements on derivatives in economic hedges that do not meet the criteria for hedge accounting. Where these derivatives are held to maturity, fair value movements represent timing differences that will reverse over the life of the derivatives. Therefore, excluding these movements from underlying profit more accurately represents the underlying performance of the Group. Where derivatives are terminated prior to maturity, this may give rise to fair value movements that do not reverse.

[5] The prior period has been restated following the retrospective adoption of IFRS 15 in the period. Refer to note 2 for further details.

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OVERVIEW OF THE PROGRAMME

The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Offering Circular and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Final Terms (or, in the case of Exempt Notes, the applicable Pricing Supplement). The Issuer and any relevant Dealer and the Trustee may agree that Notes shall be issued in a form other than that contemplated in the Terms and Conditions, in which event, in the case of Notes other than Exempt Notes and, if appropriate, a supplement to the Offering Circular or a new Offering Circular will be published.

This Overview constitutes a general description of the Programme for the purposes of Article 22.5(3) of Commission Regulation (EC) No 809/2004 implementing Directive 2003/71/EC (the "Prospectus Regulation").

Words and expressions defined in "Form of the Notes" and "Terms and Conditions of the Notes" below shall have the same meanings in this Overview.

Issuer:	Tesco Personal Finance Group PLC (the "Issuer") The Issuer is a public limited company incorporated under the laws of Scotland. The Issuer is a subsidiary of Tesco PLC and operates as a holding company, conducting substantially all of its operations through its subsidiary, Tesco Personal Finance PLC.
Issuer Legal Entity Identifier (LEI):	213800IZX26LIAH44T95
Risk Factors:	There are certain factors that may affect the Issuer's ability to fulfil its obligations under Notes issued under the Programme. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme and risks relating to the structure of a particular Series of Notes issued under the Programme. These are set out under "*Risk Factors*".
Description:	Euro Note Programme
Arranger:	Barclays Bank PLC
Dealers:	Banco Santander, S.A. Barclays Bank PLC BNP Paribas Lloyds Bank Corporate Markets plc The Issuer may, from time to time, terminate the appointment of any Dealer under the Programme or appoint Dealers either in relation to the Programme as a whole or in relation to specific issues under the Programme.
Certain Restrictions:	Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see "*Subscription and Sale*").
Trustee:	Apex Corporate Trustees (UK) Limited
Issuing and Principal Paying Agent:	HSBC Bank plc
Size:	Up to £2,000,000,000 (or its equivalent in other currencies calculated as described in the Dealer Agreement) outstanding at any time. The Issuer may increase the amount of the Programme in accordance with the terms of the Dealer Agreement.
Distribution:	Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis in

	accordance with the terms of the Dealer Agreement.
Currencies:	Subject to any applicable legal or regulatory restrictions, such currencies as may be agreed between the Issuer and the relevant Dealer (as indicated in the applicable Final Terms or, in the case of Exempt Notes, the applicable Pricing Supplement).
Maturities:	Such maturities as may be agreed between the Issuer and the relevant Dealer and as indicated in the applicable Final Terms (or, in the case of Exempt Notes, the applicable Pricing Supplement), subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency. At the date of this Offering Circular, the minimum maturity of all Notes (other than Dated Subordinated Notes) is one month. Unless otherwise permitted by the prevailing Capital Rules, Dated Subordinated Notes will have a minimum maturity of five years. Notes having a maturity of less than one year from their date of issue will constitute deposits for the purposes of the prohibition on accepting deposits contained in section 19 of the FSMA unless they are issued to a limited class of investment professionals and have a denomination of at least £100,000 or its equivalent (see "*Subscription and Sale*" on pages 101 to 104).
Issue Price:	Notes will be issued on a fully-paid basis and at an issue price which is at par or at a discount to, or premium over, par.
Form of Notes:	Each Tranche of Notes will be in bearer form and will initially be represented by a temporary global Note. If the Global Notes are intended to be issued in new global note ("NGN") form, as stated in the applicable Final Terms (or, in the case of Exempt Notes, the applicable Pricing Supplement), the temporary global Note will be delivered on the original issue date of the Tranche to a common safekeeper (the "Common Safekeeper") for Euroclear Bank SA/NV ("Euroclear") and Clearstream Banking S.A. ("Clearstream, Luxembourg"); and if the global Notes are not intended to be issued in NGN form, the temporary global Note will be delivered on the original issue date of the Tranche to a common depositary (the "Common Depositary") for Euroclear and Clearstream, Luxembourg and/or any other agreed clearing system and be exchangeable, upon request, as described therein for either a permanent global Note or definitive Notes (as indicated in the applicable Final Terms (or, in the case of Exempt Notes, the applicable Pricing Supplement) and subject, in the case of definitive Notes, to such notice period as is specified in the applicable Final Terms) in each case not earlier than 40 days after the Issue Date upon certification of non-U.S. beneficial ownership as required by U.S. Treasury regulations. The applicable Final Terms will specify that a permanent global Note either (i) is exchangeable (in whole but not in part) for definitive Notes upon not less than 60 days' notice or (ii) is exchangeable (in whole but not in part) for definitive Notes only upon the occurrence of an Exchange Event, as described in "*Form of the Notes*" below. Any interest in a global Note will be transferable only in accordance with the rules and procedures for the time being of Clearstream, Luxembourg, Euroclear and/or any other agreed clearing system, as appropriate.
Fixed Rate Notes:	Interest on Fixed Rate Notes will be payable on such date or dates as may be agreed between the Issuer and the relevant Dealer (as indicated in the applicable Final Terms or, in the case of Exempt

	Notes, the applicable Pricing Supplement) and on redemption, and will be calculated on the basis of such Fixed Day Count Fraction as may be agreed between the Issuer and the relevant Dealer.
Fixed Rate Reset Notes:	Fixed Rate Reset Notes will, in respect of an initial period, bear interest at the initial fixed rate of interest specified in the applicable Final Terms. Thereafter, the fixed rate of interest will be reset on one or more date(s) specified in the applicable Final Terms (or, in the case of Exempt Notes, the applicable Pricing Supplement) by reference to a Mid-Swap Rate, a Benchmark Gilt Rate or a Reference Bond Rate and for a period equal to the reset period, as adjusted for any applicable margin, in each case as may be specified in the applicable Final Terms (or, in the case of Exempt Notes, the applicable Pricing Supplement). Interest will be payable in arrear on the date or dates in each year specified in the applicable Final Terms (or, in the case of Exempt Notes, the applicable Pricing Supplement).
Floating Rate Notes:	Floating Rate Notes will bear interest at a rate determined: (i) on the same basis as the floating rate under an interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series); or (ii) on the basis of the reference rate set out in the applicable Final Terms (or, in the case of Exempt Notes, the applicable Pricing Supplement). The Margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer for each Series of Floating Rate Notes. Floating Rate Notes may also have a maximum interest rate, a minimum interest rate or both. Interest on Floating Rate Notes in respect of each Interest Period, as agreed prior to issue by the Issuer and the relevant Dealer, will be payable on such Interest Payment Dates, and will be calculated on the basis of such Floating Day Count Fraction as may be agreed between the Issuer and the relevant Dealer.
Zero Coupon Notes:	Zero Coupon Notes will be offered and sold at a discount to their nominal amount and will not bear interest.
Benchmark discontinuation:	On the occurrence of a Benchmark Event the Issuer may (subject to certain conditions and following consultation with an Independent Adviser (as defined in Condition 3(d))) determine a Successor Rate, failing which an Alternative Rate and, in either case, the applicable Adjustment Spread, and any Benchmark Amendments in accordance with Condition 3(d).
Exempt Notes:	The Issuer may agree with any Dealer and the Trustee that Exempt Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes, in which event the relevant provisions will be included in the applicable Pricing Supplement.
Redemption:	The applicable Final Terms relating to each Tranche of Notes (or, in the case of Exempt Notes, the applicable Pricing Supplement) will indicate either that the relevant Notes of such Tranche cannot be redeemed prior to their stated maturity (other than for taxation reasons or following an Event of Default or, in the case of Dated Subordinated Notes, upon the occurrence of a Regulatory Capital Event) or that such Notes will be redeemable at the option of the

	Issuer (including, in the case of Senior Notes, due to a Loss Absorption Disqualification Event and upon satisfaction of any applicable conditions to redemption, as described below) and/or the Noteholders (other than the case of Dated Subordinated Notes) upon giving notice to the Noteholders or the Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Issuer and the relevant Dealer. Notes having a maturity of less than one year from their date of issue are subject to restrictions on their distribution and denomination (see "*Maturities*" above).
Conditions to redemption of the Dated Subordinated Notes and, if applicable, Senior Notes:	Any optional redemption or purchase by the Issuer of Senior Notes (if applicable pursuant to any Loss Absorption Regulations) and/or Dated Subordinated Notes is subject to the Issuer having obtained Regulatory Approval and being in compliance with the Regulatory Preconditions.
Substitution or Variation:	In respect of any Series of Senior Notes where "*Substitution and Variation*" is specified to be applicable in the applicable Final Terms (or, in the case of Exempt Notes, the applicable Pricing Supplement), following the occurrence of a Loss Absorption Disqualification Event in respect of such Series of Senior Notes, the Issuer may, subject to the provisions of Condition 5(l) (without any requirement for the consent or approval of the Noteholders, the Couponholders or the Trustee (but subject to the notice requirements specified in Condition 5(l)), either substitute all (but not some only) of such Series for, or vary the terms of all (but not some only) of such Series so that they remain or, as appropriate, become, Compliant Securities (as defined in Condition 5(l)) and, subject to the provisions of Condition 5(l), the Trustee shall agree to such substitution or variation.
Denomination of Notes:	Notes will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer and as indicated in the applicable Final Terms save that the minimum denomination of each Note will be such amount as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency (see "*Maturities*" above) and save that the minimum denomination of each Note (other than an Exempt Note) will be €100,000 (or, if the Notes are denominated in a currency other than euro, the equivalent amount in such currency).
Taxation:	All payments in respect of Notes will be made without deduction for or on account of withholding taxes imposed within the United Kingdom, subject as provided in Condition 6. In the event that any such deduction is required, the Issuer will, save in the circumstances provided in Condition 6, be required to pay additional amounts to cover the amount so deducted.
Cross Default:	The Non-Restrictive Events of Default which, if specified as being applicable in the applicable Final Terms, apply to Senior Notes contain a cross-default provision, as described in Condition 8(a). The Restrictive Events of Default which apply to Dated Subordinated Notes and, if specified as being applicable in the applicable Final Terms, Senior Notes do not contain a cross-default provision, as described in Condition 8(b).
Status of the Notes:	The Senior Notes will constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer and will rank *pari passu* among themselves and (save for certain debts preferred by law) at least equally with all other present and future

unsecured obligations (other than subordinated obligations, if any) of the Issuer, from time to time outstanding. The Dated Subordinated Notes will constitute direct, subordinated and unsecured obligations of the Issuer and will rank without preference among themselves.

Waiver of set-off:	Subject to applicable law, no holder of Dated Subordinated Notes and/or, if specified as being applicable in the applicable Final Terms, Senior Notes and the related Coupons (if any) may exercise, claim or plead any right of set-off, compensation or retention in respect of any amount owed to it by the Issuer arising under or in connection with such Notes or related Coupons (if any), and each such Noteholder or Couponholder shall, by virtue of being the holder of any Note or the holder of the related Coupon (if any), be deemed to have waived all such rights of set-off, compensation or retention.
Rating:	The Programme has been assigned a long-term rating of BBB and a short-term rating of F3 by Fitch and a rating of (P)Baa2 by Moody's. Series of Notes issued under the Programme may be rated or unrated. Where a Series of Notes is rated, such rating will be disclosed in the applicable Final Terms (or applicable Pricing Supplement, in the case of Exempt Notes) and will not necessarily be the same as the ratings assigned to the Programme. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, revision or withdrawal at any time by the assigning rating agency.
Listing:	Application has been made for Notes issued under the Programme to be listed on the London Stock Exchange. Exempt Notes may also be admitted to trading on such other or further stock exchanges or markets as may be agreed between the Issuer and the relevant Dealer in relation to each Series (provided that such exchange or market is not a regulated market for the purposes of MiFID II). Exempt Notes which are neither listed nor admitted to trading on any market may be issued (but see "*United Kingdom Taxation*" for certain important taxation implications of such Notes). The applicable Final Terms relating to each Tranche of Notes will state when the relevant Notes are to be listed and admitted to trading. The applicable Pricing Supplement (in the case of Exempt Notes) relating to each Tranche of Exempt Notes will state whether or not the relevant Notes are to be admitted to trading and, if so, on which stock exchanges and/or markets (provided that such exchange or market is not a regulated market for the purposes of MiFID II).
Governing Law:	The Programme documentation (including the Notes) and any non-contractual obligations arising out of or in connection with the Programme documentation will be governed by, and shall be construed in accordance with, English law.
Selling Restrictions:	There are restrictions on the offer, sale and transfer of the Notes in the United States of America, EEA States (including the United Kingdom and Belgium), Singapore and Japan and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes; see "*Subscription and Sale*" on pages 101 to 104.
United States Selling Restrictions:	Regulation S, Category 2. TEFRA D/TEFRA not applicable, as specified in the applicable Final Terms (or the applicable Pricing

Supplement, in the case of Exempt Notes).

Neither the Trust Deed constituting the Notes nor the Terms and Conditions of the Notes will contain any negative pledge covenant by the Issuer or any events of default other than those set out in Condition 8.

RISK FACTORS

The Issuer believes that the following factors might affect its ability to fulfil its obligations under Notes issued under the Programme. All of these factors are contingencies which might or might not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.

In addition, factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme are also described below.

The Issuer believes that the factors described below represent the principal risks inherent in investing in Notes issued under the Programme, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with any Notes might occur for other reasons and the Issuer does not represent that the statements below regarding the risks of holding any Notes are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Offering Circular and reach their own views prior to making any investment decision.

Factors that might affect the Issuer's ability to fulfil its obligations under the Notes issued under the Programme

TPFG is a holding company.

The Notes issued by TPFG are the obligation of TPFG only. TPFG is a holding company and conducts substantially all of its operations through its subsidiaries, and accordingly the claims of the Noteholders under the Notes issued by TPFG will be structurally subordinated to the claims of creditors of TPFG's subsidiaries. TPFG's rights to participate in the assets of any subsidiary if such subsidiary is liquidated will be subject to the prior claims of its subsidiary's creditors and any preference shareholders, except in the limited circumstances where TPFG is a creditor of such subsidiary with claims that are recognised to rank ahead of or *pari passu* with such claims. TPFG's subsidiaries are separate and distinct legal entities, and have no obligation to pay any amounts due or to provide TPFG with funds to meet any of TPFG's payment obligations under the Notes.

As well as the risk of losses in the event of a subsidiary's insolvency, TPFG might suffer losses if any of its loans to, and investments in, subsidiaries (including TPF) are subject to statutory write-down and conversion powers or if the subsidiary is otherwise subject to bank resolution proceedings. TPFG might make loans to any TPFG subsidiary, with the proceeds received from TPFG's issuance of debt instruments (including Notes issued under this Programme). Such loans to, and investments in, any such subsidiary by TPFG using the proceeds received from TPFG's issue of Dated Subordinated Notes are expected to be in the form of Tier 2 capital. With respect to TPFG's Senior Notes that are intended to constitute MREL eligible liabilities (as described below), the loans to, and or investments in such subsidiary by TPFG using the proceeds received by the issuance of such Senior Notes by TPFG might be in the form of senior notes/loans or subordinated capital.

TPFG retains its absolute discretion to restructure such loans to, and any other investments in, any of its subsidiaries, including TPF, at any time and for any purpose including, without limitation, in order to provide different amounts or types of capital or funding to such subsidiary, as part of wider changes made to the Banking Group's corporate structure or otherwise as part of meeting regulatory requirements, such as the implementation of MREL in respect of the relevant subsidiaries. A restructuring of a loan or investment made by TPFG in a subsidiary could include changes to any or all of the features of such loan or investment, including its legal or regulatory form, how it would rank in the event of resolution and/or insolvency proceedings in relation to the subsidiary, and the inclusion of a mechanism that provides for an automatic write-down and/or conversion into equity upon specified triggers. Any restructuring of TPFG's loans to, and investments in, any of TPFG's subsidiaries might be implemented by TPFG without prior notification to, or consent of, the Noteholders.

The regulatory capital treatment, and otherwise the ranking in the ordinary insolvency hierarchy, of TPFG's claims against a TPFG subsidiary will affect the extent to which TPFG is exposed to losses if such subsidiary enters into resolution proceedings or is subject to mandatory write-down or conversion of its capital instruments. In particular, the Banking Act 2009 specifies that the resolution powers should be applied in a manner such that losses are transferred to shareholders and creditors in an order which reflects the hierarchy of claims in an ordinary insolvency. See also the risk factor entitled "*The Banking Act confers substantial powers on a number of UK authorities designed to enable them to take a range of actions in relation to UK banks, UK building societies, UK investment firms and UK recognised central counterparties which are considered to be at risk of failing. In certain circumstances, such actions may also be taken against a UK banking group company. The exercise of any of these actions in relation to the Issuer could materially adversely affect the value of any Notes.*" In general terms, the more junior in the capital structure the investments in, and loans made to, any TPFG subsidiary are, relative to third party investors, the greater the losses likely to be suffered by TPFG in the event any TPFG subsidiary enters into resolution proceedings or is subject to mandatory write-down or conversion of its capital instruments.

If one of TPFG's subsidiaries were to be wound up, liquidated or dissolved, (i) the holders of Notes issued by TPFG would have no right to proceed against the assets of such subsidiary, and (ii) the liquidator of such subsidiary would first apply the assets of such subsidiary to settle the claims of the creditors (and holders of preference shares or other tier 1 capital instruments ranking ahead of any such entity's ordinary shares) of such subsidiary (such creditors and holders of preference shares might include TPFG) ranking ahead of the holders of ordinary shares of such subsidiary. Similarly, if TPF or any other of TPFG's subsidiaries were subject to resolution proceedings (i) the holders of the Notes issued by TPFG would have no direct recourse against TPF or such other subsidiary, and (ii) holders of the Notes themselves might also be exposed to losses pursuant to the exercise by the relevant resolution authority of the stabilisation powers.

TPF operates in a highly regulated industry and is subject to significant legislative and regulatory oversight and scrutiny.

TPF is authorised by the Prudential Regulation Authority (the "PRA") and regulated and supervised by the PRA and the FCA. TPF has obligations under a wide variety of laws and regulations, including the FSMA, the EU Capital Requirements Regulation, the Consumer Credit Act 1974 ("CCA") and the EU General Data Protection Regulation ("GDPR") as well as under PRA and FCA rules which among other things require TPF to have adequate financial and other resources to operate its business. There is a risk that TPF might fail to comply with an applicable law, regulation or rule which could expose TPF to substantial regulatory intervention, financial or other regulatory penalties and/or litigation, including, in extreme cases, TPF losing its banking licence and ability to do business, each of which could have a material adverse effect on TPF's and, therefore, the Banking Group's business, results of operations, financial condition and prospects.

There is a significant regulatory focus on the fairness of contract terms, sales practices and reward structures that financial institutions have used when selling financial products. Financial institutions (including TPF) might incur liability for past actions which are determined to have been inappropriate and any such liability incurred could be significant and have a material adverse effect on TPF's reputation, business, financial condition, results of operations and/or prospects. Any alleged mis-selling of financial products, including as a result of having sales practices and/or reward structures in place that are determined to have been inappropriate might: (i) result in disciplinary action (including significant fines) or requirements to amend sales processes, withdraw products or provide restitution to affected customers, all or any of which could result in the incurrence of significant costs; (ii) require provisions to be recorded in TPF's financial statements; and (iii) materially adversely affect future revenues from affected products.

Entering into, and exercising rights under, certain types of contract relating to unsecured (and some secured) consumer credit is regulated in the UK. The CCA, secondary legislation made under the CCA and the FCA's Consumer Credit sourcebook ("CONC") contain conduct of business rules for regulated credit agreements which offer significant protection for those consumers who borrow money or otherwise contract with firms which carry on credit-related regulated activities. CONC regulates the promotion of consumer credit and requires lenders, for example, to perform credit-worthiness assessments and to provide to customers adequate explanations of certain matters relating to a loan agreement. The CCA and related secondary legislation prescribe the circumstances in which a regulated agreement is properly executed and if such requirements are not complied with, the regulated agreement might be unenforceable. In such circumstances, as a result, these agreements might only be enforceable at the discretion of the courts (and in relation to pre 6 April 2007 agreements might be entirely unenforceable) or in certain circumstances customers might have the right to cancel their agreement. The CCA and related secondary legislation also specify requirements relating to post-contractual documentation including for example periodic statements and breach of these requirements may, for so long as the default continues, render the credit agreement unenforceable and have the effect that the borrower is not liable for interest or default charges. Of TPF’s total customer redress provision balance at 28 February 2019, £34.2 million relates to a provision for customer redress in respect of potential customer claims arising from historic sales of payment protection insurance and £0.5 million relates to a provision for customer redress in respect of a number of historic operational issues that resulted in instances where the CCA’s requirements in respect of post-contract documentation were not fully complied with. With respect to any such provisions, it should be noted, however, that a number of significant uncertainties exist in relation to the eventual level of redress costs that TPF might incur.

The entering into, and administration of, residential mortgages is subject to regulation under FSMA and to rules made by the FCA. Mortgage lending has been, and continues to be, subject to regulatory scrutiny, including in respect of arrears and repossessions. Mortgage lenders are required to comply with a number of legal and regulatory rules and requirements prior to enforcing a mortgage. In addition, it is possible, in certain circumstances that TPF's mortgage contracts might also be subject to the requirements of the CCA and therefore wholly or partly regulated as credit agreements under the CCA. As a result, it is possible that these agreements might also be unenforceable where TPF has failed to comply with the requirements of the CCA.

Further, accepting deposits is also regulated by the FCA, primarily through its 'Banking: Conduct of Business' sourcebook ("BCOBS"). BCOBS sets out conduct of business rules which apply to TPF’s retail banking business.

Under the Consumer Credit (Earlier Intervention and Persistent Debt) Instrument 2018, TPF is required to contact customers when the amount the customer has paid towards the credit card balance over the immediately preceding 18 month period comprises a lower amount in principal than in interest, fees and charges to encourage them to increase their repayments. Customers who continue to make minimum or low payments for a second consecutive 18 month period must then be provided with faster repayment options, including forbearance for those who cannot afford higher repayments, along with account suspensions for those who do not engage, are able but unwilling to increase their repayments, and those who require forbearance. Although the second consecutive 18 month period has not been reached, early reporting has shown these risks starting to materialise, with some customers increasing their payments voluntarily, and some others defaulting earlier.

There is a risk that account suspensions and increased repayments result in accelerated balance attrition, income loss, and impairments from customers who are subject to these treatments, whether on TPF’s credit cards, or credit cards customers hold with other providers.

If TPF has not complied with applicable regulatory requirements, this might result in disciplinary action (including significant fines), credit which has been extended to borrowers might be unenforceable, interest might have to be refunded and/or borrowers might be entitled or seek to exercise rights of set-off (or analogous rights in Scotland) against amounts owing under their loans or claim damages against TPF for breach of a regulatory rule. TPF might also be required to amend its processes.

All of the foregoing paragraphs could be significant and have a material adverse effect on TPF's reputation, business, financial condition, results of operations and/or prospects and therefore the business, financial condition, results of operations and/or prospects of the Banking Group.

TPF is required to pay levies under the Financial Services Compensation Scheme and is exposed to future increases of such levies, which might impact its profits.

The Financial Services Compensation Scheme ("FSCS") imposes levies on authorised financial services firms and pays compensation to eligible customers of those firms which are unable, or are likely to be unable, to pay claims against them. While it is anticipated that the substantial majority of claims will be repaid wholly from recoveries from the institutions concerned, there is the risk of a shortfall, such that the FSCS might place additional levies on all FSCS participants. Any such FSCS levies might be significant amounts that might, as a result, have a material effect on TPF's (and therefore, the Banking Group's) profits. In common with other financial institutions which are subject to the FSCS, TPF also has a potential exposure to future levies resulting from the failure of other financial institutions and claims which arise against the FSCS as a result of such failure.

Historically, compensation scheme levies similar to the FSCS have tended to increase over time (especially during and in the aftermath of periods of economic crisis), and there can also be no assurance that there will not be any further claims against the FSCS and subsequent increased FSCS levies payable by TPF. Any increase in TPF's costs and liabilities related to the FSCS levy might have a material adverse effect on its results of operations.

The legal and regulatory environment in which TPF operates is subject to significant change and regulators can apply a wide range of sanctions to firms (and individuals working for firms) found to be operating in breach of relevant regulations.

Significant new regulatory requirements have been, and continue to be, imposed on financial institutions which might impact TPF, as well as the third parties which are relevant for TPF's business (such as the underwriters for certain parts of TPF's insurance business)**.** TPF is subject to various risks associated with the provision of financial services, including the risk of increasing regulation and supervision by the PRA and FCA. There remains significant regulatory focus in relation to conduct risk, with continued industry-wide focus on provision for customer redress. The FCA also took over regulation of consumer credit firms in 2014 and, as a result, there have been relatively significant changes in the applicable regulatory regime and approach to enforcement, and this scrutiny is expected to continue.

Legal and regulatory developments could adversely impact the businesses of TPF and, therefore, the Banking Group in various ways, including:

- limiting the ability of TPF to provide certain of its current or planned services;
- limiting the ability of TPF to retain and/or attract retail deposits;
- limiting the ability of TPF to outsource certain of its activities;
- placing further financial and corporate governance restrictions on TPF;
- significantly increasing compliance and associated costs of TPF, for instance by requiring the business of TPF to devote substantial time and cost to the implementation of new rules and related changes in its operations;
- changing prudential regulatory rules relating to capital adequacy and liquidity requirements;
- changing interpretation of guidance relating to payment protection insurance redress;
- external authorities applying or interpreting standards or laws differently from those applied by TPF historically;
- changing competition and pricing environments; and
- further developments in requirements relating to financial reporting, corporate governance, conduct of business and employee compensation.

In January 2018, the Second Payment Services Directive came into force. The changes required as a result of this new legislation will have effects on banking operations across the industry and have the potential to increase costs for banks as the new legislation is embedded.

In May 2018, the GDPR came into force. Compliance with GDPR may involve greater compliance costs for the Banking Group, and there is a risk that failure to comply with GDPR could expose TPF to reputational risk and sanctions, each of which could have a material adverse effect on TPF's and, therefore the Banking Group's, business, results of operations, financial condition and prospects.

TPF might in future be affected by the Banking Reform Act's retail banking "ring-fence".

Under the Financial Services (Banking Reform) Act 2013 (the "Banking Reform Act"), large UK banks (broadly banks with retail/SME deposits exceeding £25 billion) must separate out their retail banking business from investment banking business and related activities by way of a so-called retail banking "ring-fence". The ring-fencing requirement might apply to TPF if in the future it holds sufficient retail/SME deposits which might in turn impact its business and capital requirements.

As a United Kingdom bank, TPF is exposed to certain financial risks that are inherent to financial institutions, including liquidity and funding risks and credit risk.

- *Liquidity and funding risk* – Liquidity risk is the risk that TPF, although solvent, either does not have sufficient financial resources available to enable it to meet its obligations as they fall due or can secure such resources only at excessive cost. This includes the risk that a given security cannot be liquidated in a timely manner. Although Tesco considers it has sufficient working capital to meet the Banking Group's requirements (including those of TPF) for the next 12 months following the date of this Offering Circular, there is a risk that, in the longer term, TPF will be unable to maintain sufficiently stable and diverse sources of funding (including through retail deposits and/or wholesale funding markets) or that it will be unable to attract sufficient financial resources to enable it to meet its obligations as they fall due (or be able to secure such resources only at excessive cost), which could have a material adverse effect on its ability to do business. Funding risk is the risk that the Banking Group does not have sufficiently stable and diverse sources of funding.

- *Credit risk* – Credit risk is the risk that a borrower or counterparty will default on a debt or obligation by failing to make contractually obligated payments or that TPF will incur losses as a result of any of its counterparties failing to meet its financial obligations. TPF's credit risk principally arises from its lending to retail customers. TPF is also subject to wholesale credit risk in respect of its treasury counterparties as a result of cash management, liquidity, and market risk management, with the inherent risk that these counterparties could fail to meet their obligations. TPF's current account, credit card, personal loan and mortgage loan portfolios might be subject to changes in credit quality, due to a general deterioration in economic conditions or by failures in its credit assessment process, which could adversely impact its ability to recover amounts due. There is a risk that TPF's management and control of these activities could be ineffective, which could expose TPF to unforeseen levels of bad debt. This in turn could have a material negative impact on the business, results of operations, financial condition, or prospects of TPF and the Banking Group.

Regulatory capital risk.

Regulatory capital risk is the risk that the Banking Group does not have the minimum level and quality of capital which it is required by law and regulation to have or that such capital requirements increase.

Any changes to the regulatory capital requirements applicable to TPF and the Banking Group, and the obligation to maintain a certain level of MREL, might result in an increase in the levels of capital or MREL eligible debt TPF and the Banking Group must maintain. TPF and the Banking Group might be required to raise further capital or MREL eligible debt in order to ensure compliance with applicable regulatory requirements. Any failure to do so might lead to TPF being subject to regulatory sanctions or other restrictive measures, including the revocation of its authorisation under the FSMA.

Any one or more of these factors could have a material adverse impact on the business, results of operations, financial condition and prospects of TPF and the Banking Group.

In common with other UK banks and building societies, TPF has availed itself of certain funding sources made available by the UK Government and the Bank of England in recent years, including the Term Funding Scheme ("TFS").

Under the TFS, liquidity is provided to banks and building societies for an extended period, at below current market rates, with both the price and quantity of liquidity being linked to the relevant financial institution's lending to the UK retail and SME sectors.

There can be no assurance that the large number of UK banks and building societies seeking to refinance TFS obligations in the same period will not have a material adverse impact on TPF's ability to obtain liquidity or on its cost of funding.

In addition, the TFS is a collateralised scheme, meaning that TPF pledges eligible assets, which might include certain of its personal loans and mortgages and securitised notes backed by certain of its credit card receivables, as collateral for borrowings. In the event of insolvency, pledged assets will typically not form part of the property available for distribution to the general creditors of TPF and accordingly, might not be available to meet the claims of unsecured creditors, including Noteholders.

The Banking Group is exposed to general United Kingdom economic conditions and the risk that a general economic slowdown might have a negative effect on customers' ability to repay their debts.

A worsening of general economic conditions and market trends could lead to a decline in customer demand for the Banking Group's services as well as changing the Banking Group's exposure to interest rate and other changes. For example, an economic slowdown affecting employment levels, wages, interest rates, inflation rates, credit spreads, foreign exchange rates, and other economic factors or interest rate changes could lead to an increase in bad debts and/or a decline in customer demand for debt which could adversely affect the Banking Group's profitability. As with other financial institutions, the Banking Group is also exposed to the risk of contagion in the event of a deterioration (or perceived deterioration) in the soundness of, or a failure of, another financial institution, whether in the United Kingdom or abroad. Any one or more of these factors could have a material adverse effect on the business, results of operations, financial condition, or prospects of the Banking Group.

The Banking Group's business is subject to inherent risks concerning market fluctuations.

The Banking Group's business is subject to inherent risks concerning market fluctuations including changes in, and increased volatility of, interest rates, inflation rates, credit spreads, foreign exchange rates, bond and real estate prices and the risk that its customers and counterparties act in a manner which is inconsistent with business, pricing and hedging assumptions. For example, changes in interest rate levels, interbank margins over official rates, yield curves and spreads affect the interest rate margin realised between lending and borrowing costs.

The insurance portfolio assets of TU (as defined below) are invested with a number of counterparties. These investments are predominantly comprised of government securities, corporate bonds and short term cash investments and, as such, are subject to interest rate, credit and market risk.

The Banking Group might suffer loss as a result of operational risk, including human error, ineffective or inadequately designed processes, failure of IT or other systems, improper conduct by employees, failures by outsourced providers or criminal activity including fraud, theft and cybercrime.

The Banking Group's information technology systems might experience operational failures due to technological malfunctions, system failures, fraud, cyber-attacks, inadequate controls, human error, or other similar events. The Banking Group develops and maintains systems and processes to detect and manage operational failures, however, despite these efforts, the possibility of failures cannot be eliminated entirely.

In November 2016, TPF's debit cards were the subject of an online fraudulent attack (the "2016 Incident"), which was referred to the FCA's Enforcement Division for investigation.

If the Banking Group's information technology systems experience operational failures, it could lead to regulatory intervention, operational losses, increased litigation, remediation costs, and reputational damage, which could have an adverse impact on the business, results of operations, financial condition and prospects of the Banking Group.

As a significant portion of the Banking Group's services and processes are provided by third-party service providers, a key operational risk to the business is a failure by an outsourced provider. Increased market demand for specialist personnel could result in increased costs of recruitment and retention or reduced organisational effectiveness if a sufficient number of skilled staff cannot be employed or retained.

The market for retail banking in the United Kingdom is highly competitive. Failure to compete with competitors on areas including price, product range, quality service and reputation could have a material adverse effect on the Banking Group's business, results of operations, financial condition and prospects.

The Banking Group faces strong competitive pressures in the markets in which it operates, including from the traditional "Big Four" retail banks, building societies, banks associated with competing retailers, a very broad range of "challenger banks" and other potential new entrants. If the Banking Group is unable to compete successfully against existing and new competitors, or if it fails to effectively anticipate and respond to customer trends in a timely way, it could lose market share to competitors or fail to grow its profitability in line with its business strategies, which could have a material and adverse effect on TPF's and the Banking Group's business, results of operations, financial condition and prospects.

Political uncertainty.

On 23 June 2016, the UK held a referendum on whether the UK should remain a member of the European Union. The UK voted to leave the European Union and on 29 March 2017 the UK Government invoked Article 50 of the Lisbon Treaty relating to withdrawal. Under Article 50, the Treaty on the European Union and the Treaty on the Functioning of the European Union cease to apply in the relevant state from the date of entry into force of a withdrawal agreement or, failing that, two years after the notification of intention to withdraw, although this period can be extended in certain circumstances and has most recently been extended to 31 October 2019.

Until the terms and timing of the UK's exit from the European Union are confirmed and until the nature of the new relationship between the UK and the European Union is known, it is not possible to determine the impact that the referendum, the UK's departure from the European Union and/or any related matters might have on general economic conditions in the UK (including on the performance of the UK housing market) and/or on the business of the Banking Group.

Furthermore, any uncertainty in the UK arising from the UK leaving the EU could be exacerbated by the re-emergence of the possibility of a further Scottish independence referendum. Any changes to Scotland's relationship with the UK or the EU (as an indirect result of the UK leaving the EU or other developments) would impact the environment in which the Banking Group operates, which could cause further uncertainty and risk to the Banking Group, especially as each of TPFG and TPF is incorporated in Scotland. As a result further changes to the Banking Group (including to its structure) may be required, independently or in conjunction with other mandatory or strategic structural and organisational changes which could adversely impact the Banking Group.

Although the Banking Group operates entirely within the UK and has no material un-hedged exposure to the foreign exchange markets or to the Eurozone, future UK political developments, including but not limited to: the UK's departure from the EU; an early general election ahead of 2022 and a change of government; and/or any changes in government structure and policies (including more direct intervention by the UK Government in financial markets, their regulation and the ownership of public companies were there to be a change of government), could cause significant market and economic disruption and affect the fiscal, monetary and regulatory landscape to which the Banking Group is subject, and also therefore its financing availability and terms. Consequently no assurance can be given that the Banking Group's operating results, financial condition and prospects would not be adversely impacted as a result.

No assurance can be given that any of the matters outlined above would not adversely affect the ability of TPFG to satisfy its obligations under the Notes and/or the market value or liquidity of the Notes.

The Banking Group is exposed to insurance risk through its insurance joint venture, Tesco Underwriting Limited.

The Banking Group is exposed to insurance risk through Tesco Underwriting Limited ("TU"), which is an insurance joint venture with Ageas (UK) Limited. Insurance risk is the risk of fluctuations in the timing, frequency or severity of insured events relative to the expectations at the time of underwriting. For example, extreme weather conditions can result in high property damage claims and higher levels of theft can increase claims on home insurance. Actual claims might differ from business assumptions and/or exceed reserves. In addition, it might not be possible to purchase reinsurance on satisfactory terms. Negative developments in respect of any of these factors could have a material adverse effect on the Banking Group's results of operations, financial condition or prospects. The Banking Group is also exposed to the insurance cycle through its distribution arrangements with underwriters. Periods of increased competition and/or falling rates might have a material adverse effect on the Banking Group's results of operations, financial condition or prospects.

The Banking Group is also exposed to insurance regulatory risk in relation to TU, including risks arising from changes in or breaches of insurance law and regulation. In September 2017, the Government announced its plans on discount rate reform. The changes impact TU's results, which are sensitive to changes in the insurance reserves it recognises in respect to insurance policies written, net of reinsurance. Material changes in these reserves could have an impact on the carrying value of the Banking Group's investment in TU. The Banking Group continues to monitor any further developments in the discount rate consultation and review process, which is expected to conclude in August 2019.

The Banking Group's business is subject to inherent reputational risk, including in respect of the Tesco Group.

Failure to protect the Banking Group's reputation, or damage to the reputation of the Tesco Group, could lead to a loss of trust or confidence in the Banking Group. Issues which could impact the reputation of the Banking Group and/or the Tesco Group include, but are not limited to, media speculation and negative publicity, customer service issues, legal and regulatory issues, compliance failures, ethical issues, privacy issues, sales and trading practices and general company performance. A loss of trust or confidence in the Banking Group could result in a decline in the customer base, notably the withdrawal of savings, and could have a material adverse effect on the Banking Group's results of operations, financial condition and prospects.

In addition, the modification or withdrawal of the "Clubcard" reward points incentive scheme operated by Tesco, or a change in how it is perceived relative to other such schemes, may have a detrimental impact on the Banking Group's ability to attract new customers and retain existing customers.

The Banking Act confers substantial powers on a number of UK authorities designed to enable them to take a range of actions in relation to UK banks, UK building societies, UK investment firms and UK recognised central counterparties which are considered to be at risk of failing. In certain circumstances, such actions may also be taken against a UK banking group company. The exercise of any of these actions in relation to the Issuer could materially adversely affect the value of any Notes.

Under the Banking Act 2009 (the "Banking Act"), substantial powers are granted to HM Treasury, the Bank of England, the Financial Conduct Authority and the Prudential Regulation Authority (together, the "Authorities") as part of a special resolution regime (the "SRR"). These powers can be exercised, as applicable, by the Authorities in respect of a UK bank, UK building society, UK investment firm or UK recognised central counterparty (each a "relevant entity") in circumstances in which the Authorities consider its failure has become likely and if certain other conditions are satisfied (depending on the relevant power) for example, to protect and enhance the stability of the financial system of the UK. Certain of these powers may also be used in respect of a UK incorporated company which meets certain conditions and is in the same group as a relevant entity, an EU incorporated credit institution or investment firm or a third country incorporated credit institution or investment firm (a "UK banking group company") (such as the Issuer).

The SRR consists of five stabilisation options and two special insolvency procedures. The stabilisation options provide for: (i) private sector transfer of all or part of the business of the relevant entity; (ii) transfer of all or part of the business of the relevant entity to a bridge bank wholly owned by the Bank of England; (iii) transfer of all or part of the business of the relevant entity to an asset management vehicle owned and controlled by the Bank of England; (iv) writing down certain claims of unsecured creditors of the relevant entity (including Notes) and/or converting certain unsecured debt claims (including Notes) to equity, (the "bail-in option"), which equity could also be subject to any future cancellation, transfer or dilution; and (v) temporary public ownership (nationalisation) of all or part of the relevant entity or its UK holding company. In each case, the Authorities have wide powers under the Banking Act including powers to modify contractual arrangements in certain circumstances and powers for HM Treasury to disapply or modify laws (with possible retroactive effect) to enable the stabilisation powers under the Banking Act to be used effectively.

In addition, the Banking Act provides the Authorities with the power to permanently write-down or convert capital instruments, such as Dated Subordinated Notes, into equity at the point of non-viability and before any other resolution action is taken. Any shares issued to holders of Dated Subordinated Notes upon any such conversion into equity may also be subject to any future cancellation, transfer or dilution.

The point of non-viability under the Banking Act is the point at which the relevant Authority determines that the relevant entity or UK banking group company meets certain conditions (but no resolution action has yet been taken) or that the relevant entity or, in certain circumstances, group will no longer be viable unless the relevant capital instruments (such as Dated Subordinated Notes) are written-down or converted.

The paragraphs below set out some of the possible consequences of the exercise of the powers under the SRR.

The SRR may be triggered prior to insolvency of a relevant entity, an EEA institution or third country institution in the same group as the Issuer.

The purpose of the stabilising options is to address the situation where all or part of a business of a relevant entity has encountered, or is likely to encounter, financial difficulties, giving rise to wider public interest concerns. Accordingly, the relevant stabilisation options may be exercised if (a) the relevant Authority is satisfied that a relevant entity is failing, or is likely to fail, (b) following consultation with the other Authorities, the relevant Authority determines that it is not reasonably likely that (ignoring the stabilising options) action will be taken that will result in the condition referred to in (a) ceasing to be met and (c) the Authorities consider the exercise of the stabilisation options to be necessary, having regard to certain public interest considerations (such as the stability of the UK financial system, public confidence in the UK banking system and the protection of depositors). It is therefore possible that one of the stabilisation options could be exercised prior to the point at which any insolvency proceedings with respect to the relevant entity could be initiated. In relation to a UK banking group company (such as the Issuer), the stabilisation options may be exercised against such UK banking group company if the stabilisation conditions referred to in (a) and (b) above are satisfied in relation to a relevant entity within the same group and the condition referred to in (c) is satisfied in relation to the UK banking group company.

Various actions may be taken in relation to the Notes without the consent of the Noteholders.

If the stabilisation options were exercised under the SRR in respect of the Issuer, HM Treasury or the Bank of England may exercise extensive powers, including share transfer powers (applying to a wide range of securities), property transfer powers (including powers for partial transfers of property, rights and liabilities subject to certain protections in respect of the Issuer) and resolution instrument powers (including powers to make special bail-in provisions). Exercise of these powers could involve taking various actions in relation to any securities issued by the Issuer (including Notes) without the consent of the Noteholders, including (among other things):

- transferring Notes notwithstanding any restrictions on transfer and free from any trust, liability or encumbrance;

- delisting Notes;
- writing down the principal amount of Notes and/or converting Notes into another form or class (which may include, for example, conversion of Notes into equity securities);
- modifying any interest payable in respect of the Notes, the maturity date or the dates on which any payments are due, including by suspending payment for a temporary period;
- disapplying certain terms of Notes, including disregarding any termination or acceleration rights or events of default under the terms of Notes which would be triggered by the exercise of the powers and certain related events; and/or
- where property is held on trust, removing or altering the terms of such trust.

The taking of any such actions could adversely affect the rights of Noteholders, the price or value of their investment in the Notes and/or the ability of the Issuer to satisfy its obligations under the Notes. In such circumstances, Noteholders may have a claim for compensation under one of the compensation schemes existing under, or contemplated by, the Banking Act, but there can be no assurance that Noteholders would thereby recover compensation promptly or equal to any loss actually incurred.

A partial transfer of the Issuer's business may result in a deterioration of its creditworthiness.

If the Issuer were made subject to the SRR and a partial transfer of its business to another entity were effected, the quality of the assets and the quantum of the liabilities not transferred and remaining with the Issuer (which may include the Notes) will result in a deterioration in the creditworthiness of the Issuer and, as a result, increase the risk that it will be unable to meet its obligations in respect of the Notes and/or eventually become subject to administration proceedings pursuant to the Banking Act. In such circumstances, Noteholders may have a claim for compensation under one of the compensation schemes existing under, or contemplated by, the Banking Act, but there can be no assurance that Noteholders would thereby recover compensation promptly or equal to any loss actually incurred.

As at the date of this Offering Circular, the relevant Authorities have not made an instrument or order under the Banking Act in respect of the Issuer and there has been no indication that they will make any such instrument or order. However, there can be no assurance that this will not change and/or that Noteholders will not be adversely affected by any such order or instrument if made.

Factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme

<u>Risks related to the structure of a particular issue of Notes</u>

A range of Notes may be issued under the Programme. A number of such Notes may have features which contain particular risks for potential investors. Set out below is a description of the most common such features, distinguishing between factors which may occur in relation to any Notes and those which might occur in relation to certain types of Exempt Notes:

Risks applicable to all Notes

If the Issuer has the right to redeem any Notes at its option, or if the Notes are otherwise subject to mandatory redemption, this may limit the market value of the Notes concerned and an investor may not be able to reinvest the redemption proceeds in a manner which achieves a similar effective return.

If the applicable Final Terms (or, in the case of Exempt Notes, the applicable Pricing Supplement) specify that the Notes are redeemable at the option of the Issuer (including, if applicable, following a Loss Absorption Disqualification Event or Regulatory Capital Event (if specified in the applicable Final Terms (or, in the case of Exempt Notes, the applicable Pricing Supplement)) or a Tax Event), or are otherwise subject to mandatory redemption, the Issuer may (in the case of optional redemption) or must (in the case of mandatory redemption) choose to redeem such Notes at times when prevailing interest rates may be relatively low. In addition, during any period when the Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

The yield to maturity of the Notes may be adversely affected by redemptions by the Issuer.

The yield to maturity of each class of Notes will depend mostly on: (i) the amount and timing of the repayment of principal on the Notes; and (ii) the price paid by the Noteholders of each class. The yield to maturity of the Notes may be adversely affected by a higher or lower than anticipated rate of redemptions on the Notes (including, if applicable, in the case of redemption following a Loss Absorption Disqualification Event, Regulatory Capital Event or Tax Event).

If the Notes include a feature to convert the interest basis from a fixed rate to a floating rate, or vice versa, this may affect the secondary market and the market value of the Notes concerned.

Fixed/Floating Rate Notes are Notes which bear interest at a rate that the Issuer may elect to convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Such a feature to convert the interest basis, and any conversion of the interest basis, may affect the secondary market in, and the market value of, such Notes as the change of interest basis may result in a lower interest return for Noteholders. Where the Notes convert from a fixed rate to a floating rate, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. Where the Notes convert from a floating rate to a fixed rate, the fixed rate may be lower than then prevailing rates on those Notes and could affect the market value of an investment in the relevant Notes.

The Subsequent Reset Rate in respect of a Fixed Rate Reset Note could be less that the Initial Rate of Interest or the Subsequent Reset Rate for prior Reset Periods and this may affect the market value of the Notes concerned.

Fixed Rate Reset Notes will initially bear interest at the Initial Rate of Interest until (but excluding) the First Reset Date. On the First Reset Date, the Second Reset Date (if applicable) and each Subsequent Reset Date (if any) thereafter, the interest rate will be reset to the sum of (i) the applicable Mid-Swap Rate, Benchmark Gilt Rate or Reference Bond Rate and (ii) the First Margin or Subsequent Margin (as applicable) as determined by the Calculation Agent on the relevant Reset Determination Date (each such interest rate, a "Subsequent Reset Rate"). The Subsequent Reset Rate for any Reset Period could be less than the Initial Rate of Interest or the Subsequent Reset Rate for prior Reset Periods and could affect the market value of an investment in the Reset Notes.

Notes which are issued at a substantial discount or premium may experience price volatility in response to changes in market interest rates.

The market values of securities issued at a substantial discount (such as Zero Coupon Notes) or premium to their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for more conventional interest-bearing securities. Generally, the longer the remaining term of such securities, the greater the price volatility as compared to more conventional interest-bearing securities with comparable maturities.

The regulation and reform of "benchmarks" may adversely affect the value of Notes linked to or referencing such "benchmarks".

Interest rates and indices which are deemed to be "benchmarks" (including the London interbank offered rate ("LIBOR") and the euro interbank offered rate ("EURIBOR")) are the subject of recent national and international regulatory guidance and proposals for reform. Some of these reforms are already effective whilst others are still to be implemented. These reforms may cause such benchmarks to perform differently than in the past, to disappear entirely, or have other consequences which cannot be predicted. Any such consequence could have a material adverse effect on any Notes linked to or referencing such a "benchmark".

The Benchmarks Regulation was published in the Official Journal of the EU on 29 June, 2016 and applied from 1 January, 2018. The Benchmarks Regulation applies to the provision of benchmarks, the contribution of input data to a benchmark and the use of a benchmark within the EU. It will, among other things, (i) require benchmark administrators to be authorised or registered (or, if non-EU-based, to be subject to an equivalent regime or otherwise recognised or endorsed) and (ii) prevent certain uses by EU supervised entities of "benchmarks" of administrators that are not authorised or registered (or, if non-EU based, not deemed equivalent or recognised or endorsed).

The Benchmarks Regulation could have a material impact on any Notes linked to or referencing a "benchmark", in particular, if the methodology or other terms of the "benchmark" are changed in order to comply with the requirements of the Benchmarks Regulation. Such changes could, among other things, have the effect of reducing, increasing or otherwise affecting the volatility of the published rate or level of the "benchmark".

More broadly, any of the international or national reforms, or the general increased regulatory scrutiny of "benchmarks", could increase the costs and risks of administering or otherwise participating in the setting of a "benchmark" and complying with any such regulations or requirements.

Specifically, the sustainability of LIBOR has been questioned as a result of the absence of relevant active underlying markets and possible disincentives (including possibly as a result of benchmark reforms) for market participants to continue contributing to such benchmarks. On 27 July, 2017, and in a subsequent speech by its Chief Executive on 12 July, 2018, the FCA confirmed that it will no longer persuade or compel banks to submit rates for the calculation of the LIBOR benchmark after 2021 (the "FCA Announcements"). The FCA Announcements indicated that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021.

In addition, on 29 November, 2017, the Bank of England and the FCA announced that, from January 2018, its Working Group on Sterling Risk-Free Rates has been mandated with implementing a broad-based transition to the Sterling Overnight Index Average ("SONIA") over the next four years across sterling bond, loan and derivative markets, so that SONIA is established as the primary sterling interest rate benchmark by the end of 2021.

Separate workstreams are also underway in Europe to reform EURIBOR using a hybrid methodology and to provide a fallback by reference to a euro risk-free rate (based on a euro overnight risk-free rate as adjusted by a methodology to create a term rate). On 13 September, 2018, the working group on euro risk-free rates recommended Euro Short-term Rate ("€STR") as the new risk free rate. €STR is expected to be published by the ECB by October 2019. In addition, on 21 January, 2019, the euro risk free-rate working group published a set of guiding principles for fallback provisions in new euro denominated cash products (including bonds). The guiding principles indicate, among other things, that continuing to reference EURIBOR in relevant contracts may increase the risk to the euro area financial system.

It is not possible to predict with certainty whether, and to what extent, LIBOR and EURIBOR will continue to be supported going forwards. This may cause LIBOR and EURIBOR to perform differently than they have done in the past, and may have other consequences which cannot be predicted. Such factors may have (without limitation) the following effects on certain "benchmarks": (i) discouraging market participants from continuing to administer or contribute to a "benchmark"; (ii) triggering changes in the rules or methodologies used in the "benchmark" and/or (iii) leading to the disappearance of the "benchmark". Any of the above changes or any other consequential changes as a result of international or national reforms or other initiatives or investigations, could have a material adverse effect on the value of and return on any Notes linked to, or referencing, or otherwise dependent (in whole or in part) upon, a "benchmark".

The Terms and Conditions of the Notes provide for certain fallback arrangements in the event that a published benchmark, including an inter-bank offered rate such as LIBOR, EURIBOR or other relevant reference rates, ceases to be published or a Benchmark Event (as defined in the Condition 3(d)) otherwise occurs, including the possibility that the Rate of Interest or other amounts payable under the Notes could be set by reference to a Successor Rate or an Alternative Rate (both as defined in the Terms and Conditions) determined by the Issuer following consultation with an Independent Adviser (as defined in the Terms and Conditions of the Notes), and that, if a Successor Rate or an Alternative Rate (as the case may be) is determined, an Adjustment Spread (as defined in the Terms and Conditions of the Notes) shall also be determined by the Issuer following consultation with an Independent Adviser and may also include amendments to the Terms and Conditions of the Notes and the Trust Deed (without the consent of the Noteholders or Couponholders (as such terms are defined in the Terms and Conditions of the Notes)) to ensure the proper operation of the Successor Rate, Alternative Rate or Adjustment Spread, as applicable. An Adjustment Spread could be positive, negative or zero and may not be effective in reducing or eliminating any economic prejudice to investors arising out of the replacement of the Original Reference Rate with the Successor Rate or the Alternative Rate (as the case may be). The use of a Successor Rate or Alternative Rate (including with the application of an

Adjustment Spread) will still result in any Notes referencing an Original Reference Rate performing differently (which may include payment of a lower Rate of Interest) than they would if the Original Reference Rate were to continue to apply in its current form. No consent of the Noteholders or Couponholders shall be required in connection with effecting any relevant Successor Rate or Alternative Rate (as applicable) or any other related adjustments and/or amendments described above. Any such adjustment or amendment could have unexpected commercial consequences and there can be no assurance that, due to the particular circumstances of each Noteholder or Couponholder, any such adjustment will be favourable to each Noteholder or Couponholder.

If, following the occurrence of a Benchmark Event, no Successor Rate or Alternative Rate or, in either case, the applicable Adjustment Spread is determined, the ultimate fallback for the purposes of the calculation of the Rate of Interest for a particular Interest Period may result in the Rate of Interest for the last preceding Interest Period being used. This may result in the effective application of a fixed rate for Floating Rate Notes based on the rate which was last observed on the Relevant Screen Page. Due to the uncertainty concerning the availability of Successor Rates and Alternative Rates, the involvement of an Independent Adviser and the potential for further regulatory developments, there is a risk that the relevant fallback provisions may not operate as intended at the relevant time.

Any such consequences could have a material adverse effect on the value of and return on any such Notes. Moreover, any of the above matters or any other significant change to the setting or existence of any relevant rate could affect the ability of the relevant Issuer to meet its obligations under the Floating Rate Notes or could have a material adverse effect on the value or liquidity of, and the amount payable under, the Floating Rate Notes.

Investors should consult their own independent advisers and make their own assessment about the potential risks imposed by the Benchmarks Regulation or any of the international or national reforms and the possible application of the benchmark replacement provisions in respect of the Notes in making any investment decision with respect to any Notes referencing a "benchmark".

Risks applicable to Senior Notes

(i) The Senior Notes may be subject to statutory bail-in or write down powers under the Banking Act.

The UK bail-in power is an additional power available to the Authorities under the special resolution regime provided for in the Banking Act to enable them to recapitalise a failed institution by allocating losses to such institution’s shareholders and unsecured creditors subject to the rights of such shareholders and unsecured creditors to be compensated under a bail-in compensation order, which is based on the principle that such creditors should receive no less favourable treatment than they would have received had the bank entered into insolvency immediately before the coming into effect of the bail-in power. The bail-in power includes the power to cancel or write down (in whole or in part) certain liabilities or to modify the terms of certain contracts for the purposes of reducing or deferring the liabilities of a relevant institution under resolution and the power to convert certain liabilities into shares (or other instruments of ownership) of the relevant institution. See also the risk factor entitled “*The Banking Act confers substantial powers on a number of UK authorities designed to enable them to take a range of actions in relation to UK banks, UK building societies, UK investment firms and UK recognised central counterparties which are considered to be at risk of failing. In certain circumstances, such actions may also be taken against a UK banking group company. The exercise of any of these actions in relation to the Issuer could materially adversely affect the value of any Notes*” above. The Senior Notes are a liability which could be cancelled, written down (in whole or in part) or converted pursuant to the exercise of the bail-in power. The exercise of the bail-in power, or any suggestion of such exercise could, therefore, materially adversely affect the rights of Noteholders, the price or value of their investment in the Senior Notes and/or the ability of the relevant Issuer to satisfy its obligations under the Senior Notes.

(ii) Early redemption of the Senior Notes is at all times at the discretion of the Issuer, and an investor may not be able to reinvest the redemption proceeds at as effective a rate of return as that in respect of the Senior Notes.

The Senior Notes may, subject as provided in Condition 5, be redeemed before the Maturity Date at the sole discretion of the Issuer if an optional redemption right is specified in the applicable Final Terms (or, in the case of Exempt Notes, the applicable Pricing Supplement), following a Tax Event or, if so specified in the applicable Final Terms (or, in the case of Exempt Notes, the applicable Pricing Supplement) following a Loss Absorption Disqualification Event.

During any period when the Issuer may elect to redeem the Senior Notes, or during which there is an actual or perceived increased likelihood that the Issuer may elect to redeem the Senior Notes, the market value of the Senior Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

An investor may not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Senior Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

With respect to a Loss Absorption Disqualification Event, as the Loss Absorption Regulations continue to be implemented in the UK and may be subject to potential future amendments, the Issuer is currently unable to predict whether the Senior Notes are likely to be, fully or partially, excluded from the Issuer's or the Banking Group's minimum requirements for (A) own funds and eligible liabilities and/or (B) loss absorbing capacity instruments, in each case as such minimum requirements are applicable to the Issuer or to the Banking Group. If such Senior Notes are to be so redeemed or there is a perception that the Senior Notes may be so redeemed, this may impact the market price of the Senior Notes. Such legislative and regulatory uncertainty could also affect the value the Senior Notes and therefore affect the trading price of the Senior Notes given the extent and impact on the Senior Notes that one or more regulatory or legislative changes could have on the Senior Notes.

(iii) Where Restrictive Events of Default are specified in the Final Terms (or, in the case of Exempt Notes, the Pricing Supplement) then the Senior Notes will be subject to limited events of default and the remedies available thereunder are limited.

In accordance with the Regulator's requirements for the Minimum Requirement for Eligible Liabilities ("MREL") and/or Total Loss-Absorbing Capital ("TLAC"), the only events of default under the Terms and Conditions of the Senior Notes where Restrictive Events of Default (see Condition 8(b)) are specified to apply in the applicable Final Terms (or, the case of Exempt Notes, the applicable Pricing Supplement) are (i) where there is a failure to pay principal for a period of seven days or more or a failure to pay interest for a period of 14 days or more when it otherwise becomes due and payable, or (ii) an order is made or a resolution is passed for the winding-up of the Issuer (other than an Approved Winding-up).

The sole remedy against the Issuer available to the Trustee or (where the Trustee has failed to proceed against the Issuer as provided in the "*Terms and Conditions of the Notes*") any Noteholder for recovery of amounts which have become due in respect of the Senior Notes where Restrictive Events of Default apply will be the institution of proceedings for the winding-up of the Issuer and/or proving in such winding-up and/or claiming in the liquidation of the Issuer. Otherwise, the Trustee and the Noteholders may not take any further or other action to enforce, prove or claim any such payment (which may otherwise by available in respect of Senior Notes where Non-Restrictive Events of Default (see Condition 8(a)) apply by virtue of Restrictive Events of Default not being specified in the applicable Final Terms (or, in the case of Exempt Notes, the applicable Pricing Supplement)) to apply, including, in the case of a failure to pay interest, any action to accelerate a repayment of the principal amount of such Senior Notes.

If an order is made by the competent court or resolution passed for the winding-up of the Issuer (other than an Approved Winding-up), the Trustee at its discretion may, and if so requested by Noteholders of at least one-quarter in nominal amount of the Senior Notes issued by the Issuer where Restrictive Events of Default apply then outstanding or if so directed by an Extraordinary Resolution shall (subject in each case to Condition 8(b)(iv)), give notice to the Issuer (or, as applicable, the liquidator) that such Senior Notes are, and they shall accordingly forthwith become, immediately due and repayable at the amount equal to their principal amount and any accrued and unpaid interest.

(iv) The substitution or variation of certain Series of Senior Notes may negatively affect the holders of such Senior Notes or may adversely affect the market value of such Senior Notes.

In the case of Senior Notes where "Substitution or Variation" is specified as applicable in the applicable Final Terms (or in the case of Exempt Notes, the applicable Pricing Supplement), then following the occurrence of a Loss Absorption Disqualification Event in respect of such Series of Senior Notes, the Issuer may, subject to the provisions of Condition 5(l) (without any requirement for the consent or approval of the Noteholders, the Couponholders or the Trustee (but subject to the notice requirements specified in Condition 5(l)), either substitute all (but not some only) of such Series for, or vary the terms of all (but not some only) of such Series so that they remain or, as appropriate, become, Compliant

Securities (as defined in Condition 5(l)) and, subject to the provisions of Condition 5(l), the Trustee shall agree to such substitution or variation.

No assurance can be given as to whether or not any of these changes will negatively affect any particular Noteholder or Couponholder, and the market value of any Notes subject to such substitution or variation may be adversely affected.

Risks applicable to Dated Subordinated Notes

(i) The Dated Subordinated Notes are unsecured and subordinated obligations of the Issuer. On a winding-up of the Issuer, investors in the Dated Subordinated Notes may lose their entire investment in the Dated Subordinated Notes.

The Issuer's payment obligations under the Dated Subordinated Notes will be unsecured and will be subordinated in the event of the winding-up of the Issuer (other than an Approved Winding-up) or the appointment of an administrator of the Issuer where the administrator has given notice that it intends to declare and distribute a dividend and, in each case, will rank junior to the claims of creditors of the Issuer (a) who are unsubordinated creditors of the Issuer; or (b) who are subordinated creditors of the Issuer (other than those whose claims constitute, or would but for any applicable limitation on the amount of any such capital constitute, Tier 1 capital or Tier 2 capital or whose claims rank, or are expressed to rank, *pari passu* with, or junior to, the claims of the holders of the Dated Subordinated Notes), and claims in respect of any subordinated indebtedness of the Issuer (other than indebtedness which ranks, or is expressed to rank, *pari passu* with or junior to the Dated Subordinated Notes). Accordingly, the assets of the Issuer would be applied first in satisfying all senior-ranking claims in full, and payments would be made to holders of the Dated Subordinated Notes, *pro rata* and proportionately with payments made to holders of any other *pari passu* instruments (if any), only if and to the extent that there are any assets remaining after satisfaction in full of all such senior-ranking claims. If the Issuer's assets are insufficient to meet all its obligations to senior-ranking and *pari passu* creditors, the holders of the Dated Subordinated Notes will lose all or some of their investment in the Dated Subordinated Notes.

There is no restriction on the amount of securities which the Issuer may issue and which rank senior to, or *pari passu* with, the Dated Subordinated Notes and accordingly, the Issuer may at any time incur, issue further debt or securities which rank senior to, or *pari passu* with, the Dated Subordinated Notes. Consequently there can be no assurance that the current level of senior or *pari passu* debt of the Issuer will not change. The issue of any such securities may reduce the amount (if any) recoverable by Noteholders on a winding-up or administration of the Issuer.

If the Issuer's financial condition deteriorates such that there is an increased risk that the Issuer may be wound up or enter into administration, such circumstances can be expected to have a material adverse effect on the market price of the Dated Subordinated Notes. Investors in the Dated Subordinated Notes may find it difficult to sell their Dated Subordinated Notes in such circumstances, or may only be able to sell their Dated Subordinated Notes at a price which may be significantly lower than the price at which they purchased their Dated Subordinated Notes. In such a sale, investors may lose some or substantially all of their investment in the Dated Subordinated Notes, whether or not the Issuer is wound up or enters into administration.

Although the Dated Subordinated Notes may pay a higher rate of interest than comparable notes which are not subordinated, there is a real risk that an investor in the Dated Subordinated Notes will lose all or some of his investment should the Issuer become insolvent.

(ii) Early redemption of the Dated Subordinated Notes is at all times at the discretion of the Issuer, and an investor may not be able to reinvest the redemption proceeds at as effective a rate of return as that in respect of the Dated Subordinated Notes.

The Dated Subordinated Notes may, subject as provided in Condition 5 (*Redemption and Purchase*), be redeemed before the Maturity Date at the sole discretion of the Issuer if an optional redemption right is specified in the applicable Final Terms (or the applicable Pricing Supplement, in the case of Exempt Notes), following a Tax Event or, if so specified in the applicable Final Terms (or the applicable Pricing Supplement, in the case of Exempt Notes), following a Regulatory Capital Event.

During any period when the Issuer may elect to redeem the Dated Subordinated Notes, the market value of the Dated Subordinated Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

An investor may not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Dated Subordinated Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

(iii) The Dated Subordinated Notes contain limited events of default and the remedies available thereunder are limited.

In accordance with the Regulator's requirements for Tier 2 capital, the only events of default under the Terms and Conditions of the Dated Subordinated Notes are (i) where there is a failure to pay principal or interest for a period of 14 days or more when it otherwise becomes due and payable or (ii) an order is made or a resolution is passed for the winding-up of the Issuer (other than an Approved Winding-up).

The sole remedy against the Issuer available to the Trustee or (where the Trustee has failed to proceed against the Issuer as provided in the "*Terms and Conditions of the Notes*") any Noteholder for recovery of amounts which have become due in respect of the Dated Subordinated Notes will be the institution of proceedings for the winding-up of the Issuer and/or proving in such winding-up and/or claiming in the liquidation of the Issuer. Otherwise, the Trustee and the Noteholders may not take any further or other action to enforce, prove or claim any such payment, including, in the case of a failure to pay interest, any action to accelerate a repayment of the principal amount of the Dated Subordinated Notes.

If an order is made by the competent court or resolution passed for the winding-up of the Issuer (other than an Approved Winding-up), the Trustee at its discretion may, and if so requested by Noteholders of at least one-quarter in nominal amount of the Dated Subordinated Notes then outstanding or if so directed by an Extraordinary Resolution shall (subject in each case to Condition 8(b)(iv)), give notice to the Issuer (or, as applicable, the liquidator) that the Dated Subordinated Notes are, and they shall accordingly forthwith become, immediately due and repayable at the amount equal to their principal amount and any accrued and unpaid interest, and the claim in respect thereof will be subject to the subordination provided for in Condition 2(b).

(iv) The Dated Subordinated Notes may be subject to statutory bail-in or write down powers under the Banking Act and the BRRD.

The UK bail-in power is an additional power available to the Authorities under the special resolution regime provided for in the Banking Act to enable them to recapitalise a failed institution by allocating losses to such institution's shareholders and unsecured creditors subject to the rights of such shareholders and unsecured creditors to be compensated under a bail-in compensation order, which is based on the principle that such creditors should receive no less favourable treatment than they would have received had the bank entered into insolvency immediately before the coming into effect of the bail-in power. The bail-in power includes the power to cancel or write down (in whole or in part) certain liabilities or to modify the terms of certain contracts for the purposes of reducing or deferring the liabilities of a relevant institution under resolution and the power to convert certain liabilities into shares (or other instruments of ownership) of the relevant institution. See also the risk factor entitled "*The Banking Act confers substantial powers on a number of UK authorities designed to enable them to take a range of actions in relation to UK banks, UK building societies, UK investment firms and UK recognised central counterparties which are considered to be at risk of failing. In certain circumstances, such actions may also be taken against a UK banking group company. The exercise of any of these actions in relation to the Issuer could materially adversely affect the value of any Notes*" above.

The Dated Subordinated Notes are a liability which could be cancelled, written down (in whole or in part) or converted pursuant to the exercise of the bail-in power. The Dated Subordinated Notes would be amongst the first of the Issuer's obligations to bear losses through write-down or conversion to equity pursuant to the exercise of the bail-in power because in the event of the insolvency of the Issuer, the claims in respect of the Dated Subordinated Notes would rank behind all other claims other than claims in respect of Junior Securities (as defined in the Terms and Conditions of the Notes).

The EU Bank Recovery and Resolution Directive (the "BRRD") also contains a mandatory write down power which requires EU Member States to grant powers to resolution authorities to recapitalise institutions and/or their EEA parent holding companies that are at the point of non-viability by permanently writing down, *inter alia*, capital instruments such as the Dated Subordinated Notes, or converting those capital instruments into shares. The mandatory write down provision has been implemented in the UK through the Banking Act, and would apply to the Dated Subordinated Notes. Before, or simultaneously with, taking any form of resolution action or applying any resolution power set out in the BRRD, the Authorities have the power (and are obliged when specified conditions are determined to have been met) to write down, or convert capital instruments such as the Dated Subordinated Notes into common equity tier 1 capital instruments. These measures could be applied to the Dated Subordinated Notes.

In contrast to the creditor protections afforded in the event of the bail-in powers being exercised, holders of the Dated Subordinated Notes would not be entitled to the "no creditor worse off" protections under the Banking Act in the event that the Dated Subordinated Notes are written down or converted to equity under the mandatory write-down tool (unless the mandatory write-down tool were to be used alongside a bail-in).

Furthermore, if the Dated Subordinated Notes were to be converted into equity securities by application of the mandatory write-down tool, those equity securities may be subjected to the bail-in powers in resolution, resulting in their cancellation, significant dilution or transfer away from the investors therein. The exercise of such bail-in or write down powers, or any suggestion of such exercise could, therefore, materially adversely affect the rights of Noteholders, the price or value of their investment in any Dated Subordinated Notes and/or the ability of the Issuer to satisfy its obligations under the Dated Subordinated Notes.

(v) The gross-up obligation under the Dated Subordinated Notes is limited only to payments of interest and not to payments of principal.

The Issuer's obligation to pay additional amounts in respect of any withholding or deduction in respect of taxes under the terms of the Dated Subordinated Notes applies only to payments of interest due and paid under the Dated Subordinated Notes and not to payments of principal. As such the Issuer would not be required to pay any additional amounts under the terms of the Dated Subordinated Notes to the extent any withholding or deduction applied to payments of principal. Accordingly, if any such withholding or deduction were to apply to any payments of principal under the Dated Subordinated Notes, holders of Dated Subordinated Notes may receive less than the full amount due under the Dated Subordinated Notes, and the market value of the Dated Subordinated Notes may be adversely affected. Holders of Dated Subordinated Notes should note that principal for these purposes will include any payments of premium.

Risks applicable to certain types of Exempt Notes

There are particular risks associated with an investment in certain types of Exempt Notes. In particular, an investor might receive less interest than expected or no interest in respect of such Notes and may lose some or all of the principal amount invested by it.

The Issuer may issue Notes with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a "Relevant Factor"). In addition, the Issuer may issue Notes with principal or interest payable in one or more currencies which may be different from the currency in which the Notes are denominated. Potential investors should be aware that:

(i) the market price of such Notes may be volatile;

(ii) movements in a Relevant Factor may adversely affect the amount of principal and/or interest to be paid to the Noteholder and may also affect the market value of the Notes;

(iii) they may receive no interest;

(iv) payment of principal or interest may occur at a different time or in a different currency than expected;

(v) they may lose all or a substantial portion of their principal;

(vi) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;

(vii) if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable is likely to be magnified; and

(viii) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

The historical experience of an index or other Relevant Factor should not be viewed as an indication of future performance of such Relevant Factor during the term of any Notes. Accordingly, each potential investor should consult its own financial and legal advisers about the risk entailed by an investment in any Notes linked to a Relevant Factor and the suitability of such Notes in light of its particular circumstances.

Notes which are issued with variable interest rates or which are structured to include a multiplier or other leverage factor are likely to have more volatile market values than more standard securities.

Notes with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

Inverse Floating Rate Notes will have more volatile market values than conventional Floating Rate Notes.

Inverse Floating Rate Notes have an interest rate equal to a fixed rate minus a rate based upon a reference rate such as LIBOR. The market values of those Notes typically are more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse Floating Rate Notes are more volatile because an increase in the reference rate not only decreases the interest rate of the Notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Notes.

Risks related to Notes generally

Set out below is a description of material risks relating to the Notes generally:

The Terms and Conditions of the Notes contain provisions which may permit their modification without the consent of all investors and confer significant discretions on the Trustee which may be exercised without the consent of the Noteholders and without regard to the individual interests of particular Noteholders.

The Terms and Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The Terms and Conditions of the Notes also provide that the Trustee may, without the consent of Noteholders and without regard to the interests of particular Noteholders, (i) agree to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the conditions of the Notes or any of the provisions of the Trust Deed or (ii) determine that any condition, event or act which, but for such determination, would constitute an Event of Default, shall not be treated as such, in the circumstances described in Condition 13 of the Terms and Conditions of the Notes. In addition, the Trustee shall be obliged to concur with the Issuer in effecting any Benchmark Amendments in the circumstances and as otherwise set out in Condition 3(d) without the consent of Noteholders or Couponholders.

Waiver of set-off

Holders of Dated Subordinated Notes and, if specified as being applicable in the applicable Final Terms or, in the case of Exempt Notes, the applicable Pricing Supplement), Senior Notes waive any rights of set-off, compensation and retention in relation to such Notes insofar as permitted by applicable law.

Investors who hold less than the minimum Specified Denomination may be unable to sell their Notes and may be adversely affected if definitive Notes are subsequently required to be issued

In relation to any issue of Notes which have denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount, it is possible that such Notes may be traded in amounts in excess of the minimum Specified Denomination that are not integral multiples of such minimum Specified Denomination. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system would not be able to sell the remainder of such holding without first purchasing a principal amount of Notes at or in excess of the minimum Specified Denomination such that its holding amounts to a Specified Denomination. Further, a holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time may not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a principal amount of Notes at or in excess of the minimum Specified Denomination such that its holding amounts to a Specified Denomination.

If such Notes in definitive form are issued, holders should be aware that definitive Notes which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

The value of the Notes could be adversely affected by a change in English law or administrative practice.

The Terms and Conditions of the Notes are governed by English law. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Offering Circular and any such change could materially adversely impact the value of any Notes affected by it.

Risks related to the market generally

Set out below is a description of material market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

An active secondary market in respect of the Notes may never be established or may be illiquid and this would adversely affect the value at which an investor could sell his Notes.

Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities.

If an investor holds Notes which are not denominated in the investor's home currency, he will be exposed to movements in exchange rates adversely affecting the value of his holding. In addition, the imposition of exchange controls in relation to any Notes could result in an investor not receiving payments on those Notes.

The Issuer will pay principal and interest on the Notes in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "Investor's Currency") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency-equivalent yield on the Notes, (2) the Investor's Currency equivalent value of the principal payable on the Notes and (3) the Investor's Currency equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate or the ability of the Issuer to make payments in respect of the Notes. As a result, investors may receive less interest or principal than expected, or no interest or principal.

The value of Fixed Rate Notes may be adversely affected by movements in market interest rates.

Investment in Fixed Rate Notes involves the risk that if market interest rates subsequently increase above the rate paid on the Fixed Rate Notes, this will adversely affect the value of the Fixed Rate Notes.

Credit ratings assigned to the Issuer or any Notes may not reflect all the risks associated with an investment in those Notes.

One or more independent credit rating agencies may assign credit ratings to the Issuer or the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised, suspended or withdrawn by the rating agency at any time.

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended, subject to transitional provisions that apply in certain circumstances). Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended, subject to transitional provisions that apply in certain circumstances). Certain information with respect to the credit rating agencies and ratings is set out on the cover of this Offering Circular.

SUPPLEMENTS AND NEW OFFERING CIRCULARS

In the event of any significant new factor, material mistake or inaccuracy relating to information included in this Offering Circular which is capable of affecting the assessment of any Notes arising or being noted between the approval of this Offering Circular by the FCA and the commencement of trading of such Notes on any EEA State stock exchange or the final closing of the offer of such Notes to the public in any EEA State, as the case may be, the Issuer will prepare a supplement to this Offering Circular or publish a new Offering Circular for use in connection with such Notes and any subsequent issue of Notes.

FORM OF THE NOTES

Any reference in this section to "applicable Final Terms" shall be deemed to include a reference to "applicable Pricing Supplement" where relevant.

Each Tranche of Notes will initially be represented by a temporary global Note without interest coupons or talons. If the global Notes are intended to be issued in new global note (NGN) form, as stated in the applicable Final Terms, the temporary global Note will be delivered on the original issue date of the Tranche to a common safekeeper (the "Common Safekeeper") for Euroclear Bank SA/NV ("Euroclear") and Clearstream Banking S.A. ("Clearstream, Luxembourg"); and if the global Notes are not intended to be issued in NGN form, the temporary global Note will be delivered on the original issue date of the Tranche to a common depositary (the "Common Depositary") for Euroclear and Clearstream, Luxembourg and/or any other agreed clearing system.

Where the global Notes issued in respect of any Tranche are in NGN form, the applicable Final Terms will also indicate whether or not such global Notes are intended to be held in a manner which would allow Eurosystem eligibility. Any indication that the global Notes are to be so held does not necessarily mean that the Notes of the relevant Tranche will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any times during their life as such recognition depends upon satisfaction of the Eurosystem eligibility criteria. The Common Safekeeper for NGNs will either be Euroclear or Clearstream, Luxembourg or another entity approved by Euroclear and Clearstream, Luxembourg, as indicated in the applicable Final Terms.

Whilst any Note is represented by a temporary global Note, payments of principal and interest (if any) due prior to the Exchange Date (as defined below) will be made (against presentation of the temporary global Note if the temporary global Note is not intended to be issued in NGN form) only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interests in such Note are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Clearstream, Luxembourg and/or Euroclear and Clearstream, Luxembourg and/or Euroclear, as applicable, has given a like certification (based on the certifications it has received) to the Agent (as defined on page 57). Any reference in this section "Form of the Notes" to Clearstream, Luxembourg and/or Euroclear shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system approved by the Issuer, the Agent and the Trustee.

On and after the date (the "Exchange Date") which is 40 days after the date on which any temporary global Note is issued, interests in such temporary global Note will be exchangeable (free of charge) upon a request as described therein either for interests in a permanent global Note of the same Series without interest coupons or talons or for definitive Notes of the same Series with, where applicable, interest coupons and talons attached (as indicated in the applicable Final Terms and subject, in the case of definitive Notes, to such notice period as is specified in the applicable Final Terms) in each case against certification of beneficial ownership as described in the second sentence of the immediately preceding paragraph unless such certification has already been given. If any further Notes to be consolidated and form a single Series with any series of outstanding Notes are issued prior to the exchange of interests in the temporary global Note for interests in the permanent global Note representing such outstanding Notes, then the Exchange Date may be extended, without the consent of the holders, to a date which is not earlier than 40 days after the date of issue of such further Notes provided that the Exchange Date would not thereby fall on or after the first interest payment date for such outstanding Notes. The holder of a temporary global Note will not be entitled to collect any payment of interest or principal due on or after the Exchange Date unless upon due certification exchange of the temporary global Note is improperly withheld or refused. Pursuant to the Agency Agreement (as defined on page 57) the Agent shall arrange that, where a further Tranche of Notes is issued which is intended to form a single Series with an existing Tranche of Notes as at a point after the Issue Date of the further Tranche, the Notes of such Tranche shall be assigned a common code and ISIN by Clearstream, Luxembourg and Euroclear which are different from the common code and ISIN assigned to Notes of any other Tranche of the same Series until such time as the Tranches are consolidated and form a single Series, which shall not be prior to the expiry of 40 days (as notified by the Agent to the relevant Dealer or, in the case of a syndicated issue, the lead manager) after the completion of the distribution of the Notes of such Tranche.

Payments of principal and interest (if any) on a permanent global Note will be made through Clearstream, Luxembourg and/or Euroclear (against presentation or surrender (as the case may be) of such permanent global Note if the permanent global Note is not intended to be issued in NGN form) without any requirement for certification. The applicable Final Terms will specify that either (i) a permanent global Note will be exchangeable (free of charge), in whole but not in part, for definitive Notes with, where applicable, interest coupons and talons attached upon not less than 60 days' written notice from Clearstream, Luxembourg and/or Euroclear (acting on the instructions of any holder of an interest in such permanent global Note) to the Agent as described therein or (ii) a permanent global Note will be exchangeable (free of charge), in whole but not in part, for definitive Notes with, where applicable, interest coupons and talons attached upon the occurrence of an Exchange Event. "Exchange Event" means (i) an Event of Default has occurred and is continuing, (ii) the Issuer has been notified by the Agent that either Clearstream, Luxembourg or Euroclear has been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or has announced an intention permanently to cease business or has in fact done so and no alternative clearing system satisfactory to the Trustee is available or (iii) the Issuer has or will become obliged to pay additional amounts as provided for or referred to in Condition 6 which would not be required were the Notes represented by such permanent global Note in definitive form. The Issuer will promptly give notice to Noteholders in accordance with Condition 12 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Clearstream, Luxembourg and/or Euroclear (acting on the instructions of any holder of an interest in such permanent global Note) or the Trustee may give notice to the Agent requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iii) above, the Issuer may also give notice to the Agent requesting exchange. Any such exchange shall occur not later than 60 days after the date of receipt of the first relevant notice by the Agent.

Tranches of Notes shall not be physically delivered in Belgium, except to a clearing system, a depository or other institution for the purpose of their immobilisation in accordance with article 4 of the Belgian Law of 14 December, 2005.

Global Notes and definitive Notes will be constituted by, or pursuant to, the Trust Deed (as defined on page 57) and issued in accordance with the provisions of the Agency Agreement.

The exchange of a permanent global Note for definitive Notes upon notice from Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder) or at any time at the request of the Issuer should not be expressed to be applicable in the applicable Final Terms if the Notes are issued with a minimum Specified Denomination such as €100,000 (or its equivalent in another currency) plus one or more higher integral multiples of another smaller amount such as €1,000 (or its equivalent in another currency). Furthermore, such Specified Denomination construction is not permitted in relation to any issue of Notes which is to be represented on issue by a temporary global Note exchangeable for definitive Notes.

The following legend will appear on all global Notes, definitive Notes, interest coupons and talons relating to such Notes:

> "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code."

The Sections referred to provide that United States holders, with certain exceptions, will not be entitled to deduct any loss on Notes or interest coupons and will not be entitled to capital gains treatment in respect of any gain on any sale, disposition, redemption or payment of principal in respect of Notes or interest coupons.

No Noteholder or Couponholder shall be entitled to proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails or is unable or neglects to do so within 60 days and such failure or inability or neglect is continuing.

The Issuer may agree with any Dealer and the Trustee that Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes, in which event, other than where such Notes are Exempt Notes, a new Offering Circular, or a supplement to the Offering Circular, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Notes.

FORM OF FINAL TERMS

[PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (the "EEA"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "MiFID II"); (ii) a customer within the meaning of Directive 2002/92/EC (as amended or superseded, the "Insurance Mediation Directive"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Directive (where "Prospectus Directive" means Directive 2003/71/EC (as amended or superseded), and includes any relevant implementing measure in a relevant Member State of the EEA). Consequently no key information document required by Regulation (EU) No 1286/2014 (the "PRIIPs Regulation") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.][1]

[**MIFID II product governance / Professional investors and eligible counterparties only target market** – Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in [Directive 2014/65/EU (as amended, "MiFID II")][MiFID II]; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "distributor") should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.]

[**NOTIFICATION UNDER SECTION 309B(1)(c) OF THE SECURITIES AND FUTURES ACT (CHAPTER 289) OF SINGAPORE** (the "SFA") - [*Insert notice if classification of the Notes is not "prescribed capital market products", pursuant to Section 309B of the SFA or Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products)*].][2]

[Date]

Tesco Personal Finance Group PLC

Legal entity identifier (LEI): 213800IZX26LIAH44T95

Issue of
[Aggregate Nominal Amount of Tranche] [Title of Notes]
under the
£2,000,000,000 Euro Note Programme

PART A — CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions of the Notes set forth in the Offering Circular dated 11 July, 2019 which[, as modified by the supplement[s] to the Offering Circular dated [ ] together,] constitute[s] a base prospectus for the purposes of the Prospectus Directive (the "Offering Circular"). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Offering Circular. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Offering Circular. The Offering Circular has been published on the website of the Regulatory News Service operated by the London Stock Exchange at www.londonstockexchange.com/exchange/news/market-news/market-news-home.html.

[Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions (the "Conditions") set forth in the Offering Circular dated [ ] and which are incorporated by reference in the Offering Circular dated [ ]. This document constitutes the Final Terms of the Notes

[1] *Legend to be included on front of the Final Terms if the Notes potentially constitute "packaged" products and no key information document will be prepared or the Issuer wishes to prohibit offers to EEA retail investors for any other reason, in which case the selling restriction should be specified to be "Applicable".*

[2] *Relevant Manager(s)/Dealer(s) to consider whether it / they have received the necessary product classification from the Issuer prior to the launch of the offer, pursuant to Section 309B of the SFA.*

described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Offering Circular dated [ ] [as modified by the supplement to the Offering Circular dated [ ],] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (the "Offering Circular"), including the Conditions incorporated by reference in the Offering Circular. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Offering Circular. The Offering Circular has been published on the website of the Regulatory News Service operated by the London Stock Exchange at www.londonstockexchange.com/exchange/news/market-news/market-news-home.html.]

[*Include whichever of the following apply or specify as "Not Applicable". Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or subparagraphs. Italics denote directions for completing the Final Terms.*]

[*If the Notes have a maturity of less than one year from the date of their issue, the minimum denomination must be £100,000 or its equivalent in any other currency.*]

1.		Issuer:	Tesco Personal Finance Group PLC
2.	(i)	Series Number:	[ ]
	(ii)	Tranche Number:	[ ]
	(iii)	Date on which the Notes will be consolidated and form a single Series:	[The Notes will be consolidated and form a single Series with [*identify earlier Tranches*] on [the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph 26 below, which is expected to occur on or about [*date*]]] [Not Applicable]
3.		Specified Currency or Currencies:	[ ]
4.		Aggregate Nominal Amount:	
	(i)	Tranche:	[ ]
	(ii)	Series:	[ ]
5.		Issue Price:	[ ] per cent. of the Aggregate Nominal Amount [plus accrued interest from [*insert date*]] (*if applicable*)
6.	(i)	Specified Denominations:	[ ]/[[€100,000] and integral multiples of [€1,000] in excess thereof up to and including [€199,000]. No Notes in definitive form will be issued with a denomination above [€199,000].]
	(ii)	Calculation Amount (in relation to calculation of interest in global form see Conditions):	[ ] (*If only one Specified Denomination, insert the Specified Denomination*. *If more than one Specified Denomination, insert the highest common factor. Note: There must be a common factor in the case of two or more Specified Denominations.)*
7.	(i)	Issue Date:	[ ]
	(ii)	Interest Commencement Date:	[*specify* /Issue Date/Not Applicable] (*N.B. An Interest Commencement Date will not be relevant for certain Notes, for example Zero Coupon Notes.*)

8.	Maturity Date[3]:		[*Specify date or for Floating Rate Notes* — Interest Payment Date falling in or nearest to [*specify month and year*]]
9.	Interest Basis:		[Fixed Rate] [Fixed Rate Reset] [Floating Rate] [Zero Coupon] (see paragraph [14]/[15]/[16]/[17] below)
10.	Redemption[/Payment] Basis:		Subject to any purchase and cancellation or early redemption, the Notes will be redeemed on the Maturity Date at [ ] per cent. of their nominal amount
11.	Change of Interest Basis:		[For the period from (and including) the Interest Commencement Date, up to (but excluding) [ ] paragraph [14/16] applies and for the period from (and including) [ ], up to (and including) the Maturity Date, paragraph [16/16] applies][Not Applicable]
12.	Put/Call Options:		[Investor Put] [Issuer Call] [Regulatory Capital Event Call] [Loss Absorption Disqualification Event Call] [Not Applicable] [(see paragraph[s] [19]/[20]/[21]/[and] [22] below)]
13.	(i)	Status of the Notes:	[Senior/Dated Subordinated]
	(ii)	Condition 2(d) (*Set-off, etc. (Senior Notes*)):	[Applicable/Not Applicable]
	(iii)	Restrictive Events of Default:	[Applicable/Not Applicable]
	(iii)	Date of [Board] approval for issuance of Notes obtained:	[[ ]/Not Applicable]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

14.	Fixed Rate Note Provisions		[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(i)	Rate[(s)] of Interest:	[ ] per cent. per annum payable in arrear on each Interest Payment Date
	(ii)	Interest Payment Date(s):	[[ ] in each year up to and including the Maturity Date (*Amend appropriately in the case of irregular coupons*)
	(iii)	Fixed Coupon Amount(s) for Notes in definitive form (and in relation to Notes in global form see Conditions):	[ ] per Calculation Amount
	(iv)	Broken Amount(s) for Notes in definitive form (and in relation to Notes in global form see Conditions):	[ ] per Calculation Amount payable on the Interest Payment Date falling [in/on] [ ] [Not Applicable]
	(v)	Fixed Day Count Fraction:	[Actual/Actual (ICMA)] [30/360]
	(vi)	Determination Date(s):	[[ ] in each year] [Not Applicable] *(Only relevant where Day Count Fraction is Actual/Actual (ICMA). In such a case, insert*

[3] The Maturity Date for Dated Subordinated Notes will be at least five (5) years from the specified Issue Date.

		regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon)
15.	Fixed Rate Reset Note Provisions	[Applicable/Not Applicable] [Applicable in respect of the period from [the Interest Commencement Date]/ [ ]to[ ]] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
(i)	Initial Rate of Interest:	[ ] per cent. per annum
(ii)	First Margin:	[ ] per cent. per annum
(iii)	Subsequent Margin:	[ ] per cent. per annum
(iv)	Interest Payment Date(s):	[ ] in each year [commencing on [ ] and ending on the Maturity Date[, subject to adjustment in accordance with the Business Day Convention specified in paragraph 15(xviii) below]]
(v)	Fixed Coupon Amount(s) in respect of definitive Fixed Rate Reset Notes in respect of the period from (and including) [the Interest Commencement Date]/[ ] to (but excluding) the First Reset Date:	[ ] per Calculation Amount
(vi)	Broken Amount(s) in respect of definitive Fixed Rate Reset Notes:	[ ] per Calculation Amount payable on the Interest Payment Date falling [in/on] [ ] [Not Applicable]
(vii)	First Reset Date:	[ ]
(viii)	Second Reset Date:	[ ] /[Not Applicable]
(ix)	Subsequent Reset Date[(s)]:	[ ] /[Not Applicable]
(x)	Reset Rate:	[Mid-Swap Rate/Benchmark Gilt Rate/Reference Bond Rate]
(xi)	Reset Determination Date:	[Condition 3(b)(viii) applies]/[*specify other*]
(xii)	Relevant Screen Page:	[ ]/[Not Applicable]
(xiii)	Mid-Swap Rate:	[Single Mid-Swap Rate/Mean Mid-Swap Rate][Not Applicable]
(xiv)	Mid-Swap Maturity:	[ ]/[Not Applicable]
(xv)	Benchmark Frequency:	[ ]
(xvi)	Fixed Day Count Fraction:	[Actual/Actual (ICMA)] [30/360]
(xvii)	Determination Time:	[ ]/[Not Applicable]
(xviii)	Business Day Convention:	[Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]
(xix)	Relevant Currency:	[ ]/[Not Applicable]
(xx)	Business Day(s):	[ ]
(xxi)	Additional Business Centre(s):	[ ]
16.	Floating Rate Note Provisions	[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
(i)	Specified Period(s)/Specified Interest	[ ][, subject to adjustment in accordance with

	Payment Dates:	the Business Day Convention set out in (ii) below/, not subject to any adjustment, as the Business Day Convention in (ii) below is specified to be Not Applicable]
(ii)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention] [Not Applicable]
(iii)	Additional Business Centre(s):	[ ]
(iv)	Manner in which the Rate of Interest and Interest Amount is to be determined:	[Screen Rate Determination/ISDA Determination]
(v)	Party responsible for calculating the Rate of Interest and Interest Amount (if not the Agent):	[ ] (the "Calculation Agent")
(vi)	Screen Rate Determination:	
	— Reference Rate:	[ ] month [LIBOR/EURIBOR]
	— Interest Determination Date(s):	[ ]
		(*Second London business day prior to the start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR and the second day on which the TARGET2 System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR*)
	— Relevant Screen Page:	[ ]
		(*In the case of EURIBOR, if not Reuters EURIBOR01 ensure it is a page which shows a composite rate or amend the fall back provisions appropriately*)
(vii)	ISDA Determination:	
	— Floating Rate Option:	[ ]
	— Designated Maturity:	[ ]
	— Reset Date:	[ ]
		(*In the case of a LIBOR or EURIBOR based option, the first day of the Interest Period*)
(viii)	Linear Interpolation:	[Not Applicable/Applicable – the Rate of Interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation]
(ix)	Margin(s):	[+/-] [ ] per cent. per annum
(x)	Minimum Rate of Interest:	[ ] per cent. per annum
(xi)	Maximum Rate of Interest:	[ ] per cent. per annum
(xii)	Floating Day Count Fraction:	[Actual/Actual (ISDA)][Actual/Actual] Actual/365 (Fixed) Actual/365 (Sterling) Actual/360 [30/360][360/360][Bond Basis] [30E/360][Eurobond Basis] 30E/360 (ISDA)
17.	Zero Coupon Note Provisions	[Applicable/Not Applicable]

			(*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(i)	Accrual Yield:	[ ] per cent. per annum
	(ii)	Reference Price:	[ ]
	(iii)	Day Count Fraction in relation to Early Redemption Amounts:	[30/360][Actual/360] [Actual/365]

PROVISIONS RELATING TO REDEMPTION

18.	Notice periods for Condition 5(b)		Minimum period: [30] days Maximum period: [60] days
19.	Issuer Call		[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(i)	Optional Redemption Date(s):	[ ]
	(ii)	Optional Redemption Amount(s):	[ ] per Calculation Amount
	(iii)	If redeemable in part:	
		(a) Minimum Redemption Amount:	[ ]
		(b) Higher Redemption Amount:	[ ]
	(iv)	Notice periods:	Minimum period: [10] days Maximum period: [30] days (*N.B. When setting notice periods, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems (which require a minimum of 5 clearing system business days' notice for a call) and custodians as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent or Trustee*)
20.	Regulatory Capital Event Call		[Applicable/Not Applicable[4]]
	(i)	Notice periods:	Minimum period: [30] days Maximum period: [60] days
21.	Investor Put		[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(i)	Optional Redemption Date(s):	[ ]
	(ii)	Optional Redemption Amount:	[ ] per Calculation Amount
	(iii)	Notice periods:	Minimum period: [15] days Maximum period: [30] days (*N.B. When setting notice periods, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for*

[4] Regulatory Capital Event will be specified as "Not Applicable" in the case of Senior Notes.

		example, clearing systems (which require a minimum of 15 clearing system business days' notice for a put)and custodians as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent or Trustee)
22.	Loss Absorption Disqualification Event Call:	[Applicable/Not Applicable[5]]
	(i) Notice periods:	Minimum period: [30] days Maximum period: [60] days
	(ii) Loss Absorption Disqualification Redemption Amount(s):	[ ] per Calculation Amount
	(iii) Basis of exclusion on amendment or change in Loss Absorption Regulation:	[Fully excluded/Fully or partially excluded]
23.	Final Redemption Amount:	[ ] per Calculation Amount
24.	Early Redemption Amount(s) payable on redemption for taxation reasons or on event of default:	[ ] per Calculation Amount
25.	Substitution or Variation:	[Applicable/Not Applicable[6]]
	(i) Notice periods:	Minimum period: [30] days Maximum period: [60] days

GENERAL PROVISIONS APPLICABLE TO THE NOTES

26.	(i) Form of Notes:	[Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event].] [Temporary Global Note exchangeable for Definitive Notes on and after the Exchange Date.]
	(ii) New Global Note:	[Yes][No]
27.	Additional Financial Centre(s):	[Not Applicable/[ ]]
28.	Talons for future Coupons to be attached to Definitive Notes:	[Yes, as the Notes have more than 27 coupon payments, Talons may be required if, on exchange into definitive form, more than 27 coupon payments are still to be made /No]

THIRD PARTY INFORMATION

[[ ] has been extracted from [ ]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [ ], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Signed on behalf of Tesco Personal Finance Group PLC

By: ....

Duly authorised

[5] Loss Absorption Disqualification Event Call will be specified as "Not Applicable" in the case of Dated Subordinated Notes.
[6] Substitution or Variation will be specified as "Not Applicable" in the case of Dated Subordinated Notes.

PART B — OTHER INFORMATION

1. LISTING AND ADMISSION TO TRADING

(i)	Listing and Admission to trading:	[Application has been made by the Issuer (or on its behalf] for the Notes to be admitted to trading on the London Stock Exchange's regulated market and listing on the Official List of the Financial Conduct Authority with effect from [ ].] [Application is expected to be made by the Issuer (or on its behalf) for the Notes to be admitted to trading on the London Stock Exchange's regulated market and listing on the Official List of the Financial Conduct Authority with effect from [ ].]
(ii)	Estimate of total expenses related to admission to trading:	[ ]

2. RATINGS

Ratings:	[The Notes to be issued [have been]/[are expected to be] rated]/[The following ratings reflect ratings assigned to Notes of this type issued under the Programme generally]: [[ ] by Moody's Investors Service Limited] [and] [[ ] by Fitch Ratings Limited].

3. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE

[Save for the fees [of [*insert relevant fee disclosure*]] payable to [*specify*] (the ["Managers"/"Dealers"]), so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer. The [Managers/Dealers] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer and [its/their] affiliates in the ordinary course of business. — *Amend as appropriate if there are other interests*]

4. YIELD (Fixed Rate Notes only)

Indication of yield:	[ ] The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.

5. OPERATIONAL INFORMATION

(i)	ISIN:	[ ]
(ii)	Common Code:	[ ]
(iii)	CFI:	[[See/[[ ], as updated, as set out on] the website of the Association of National Numbering Agencies (ANNA) or alternatively sourced from the responsible National Numbering Agency that assigned the ISIN/Not Applicable/Not Available]
(iv)	FISN:	[[See/[[ ], as updated, as set out on] the website of the Association of National Numbering Agencies (ANNA) or alternatively sourced from the responsible National Numbering Agency that assigned the ISIN/Not Applicable/Not Available]

(v)	Any clearing system(s) other than Euroclear and Clearstream, Luxembourg and the relevant identification number(s):	[Not Applicable]/[ ]
(vi)	Delivery:	Delivery [against/free of] payment
(vii)	Names and addresses of additional Paying Agent(s) (if any):	[ ]
(viii)	Calculation Agent:	[Not Applicable]/[ ]
(ix)	Intended to be held in a manner which would allow Eurosystem eligibility	[Yes. Note that the designation "yes" simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]/ [No. Whilst the designation is specified as "no" at the date of these Final Terms, should the Eurosystem eligibility criteria be amended in the future such that the Notes are capable of meeting them the Notes may then be deposited with one of the ICSDs as common safekeeper. Note that this does not necessarily mean that the Notes will then be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]]
(x)	Prohibition of Sales to EEA Retail Investors:	[Applicable/Not Applicable] (If the Notes clearly do not constitute "packaged" products *or the Notes do constitute "packaged products" and a key information document will be prepared*, "Not Applicable" should be specified. If the Notes may constitute "packaged" products and no key information document will be prepared, "Applicable" should be specified.)
(xi)	Prohibition of Sales to Belgian Consumers:	[Applicable/Not Applicable] (*N.B. advice should be taken from Belgian counsel before disapplying this selling restriction.*)

6. U.S. SELLING RESTRICTIONS

U.S. selling restrictions:	[Reg. S Compliance Category 2; TEFRA D/ TEFRA not applicable]

FORM OF PRICING SUPPLEMENT

Set out below is the form of Pricing Supplement which will be completed for each Tranche of Exempt Notes

[PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (the "EEA"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "MiFID II"); (ii) a customer within the meaning of Directive 2002/92/EC (as amended or superseded, the "Insurance Mediation Directive"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Directive (where "Prospectus Directive" means Directive 2003/71/EC (as amended or superseded), and includes any relevant implementing measure in a relevant Member State of the EEA). Consequently no key information document required by Regulation (EU) No 1286/2014 (the "PRIIPs Regulation") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.][1]

[**MIFID II product governance / Professional investors and eligible counterparties only target market** – Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in [Directive 2014/65/EU (as amended, "MiFID II")][MiFID II]; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "distributor") should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.]

[**NOTIFICATION UNDER SECTION 309B(1)(c) OF THE SECURITIES AND FUTURES ACT (CHAPTER 289) OF SINGAPORE** (the "SFA") - [*Insert notice if classification of the Notes is not "prescribed capital market products", pursuant to Section 309B of the SFA or Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products)*].][2]

NO PROSPECTUS IS REQUIRED IN ACCORDANCE WITH DIRECTIVE 2003/71/EC FOR THE ISSUE OF NOTES DESCRIBED BELOW. ACCORDINGLY, SUCH NOTES ARE NOT ISSUED IN COMPLIANCE WITH DIRECTIVE 2003/71/EC. THE FINANCIAL CONDUCT AUTHORITY HAS NEITHER APPROVED NOR REVIEWED THE INFORMATION CONTAINED IN THIS PRICING SUPPLEMENT.

[*Date*]

Tesco Personal Finance Group PLC

Legal entity identifier (LEI): 213800IZX26LIAH44T95

Issue of
[Aggregate Nominal Amount of Tranche] [Title of Notes]
under the
£2,000,000,000 Euro Note Programme

PART A — CONTRACTUAL TERMS

[Any person making or intending to make an offer of the Notes may only do so in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of

[1] *Legend to be included on front of the Pricing Supplement if the Notes potentially constitute "packaged" products and no key information document will be prepared or the Issuer wishes to prohibit offers to EEA retail investors for any other reason, in which case the selling restriction should be specified to be "Applicable".*

[2] *Relevant Manager(s)/Dealer(s) to consider whether it / they have received the necessary product classification from the Issuer prior to the launch of the offer, pursuant to Section 309B of the SFA.*

the Prospectus Directive or to supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer.][3]

This document constitutes the Pricing Supplement for the Notes described herein. This document must be read in conjunction with the Offering Circular dated 11 July, 2019 [as supplemented by the supplement[s] dated [*date[s]*]] (the "Offering Circular"). Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of this Pricing Supplement and the Offering Circular. Copies of the Offering Circular may be obtained from the registered office of the Issuer and the specified office of each of the Paying Agents.

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the "Conditions") set forth in the Offering Circular [dated [*original date*] which are [incorporated by reference in the Offering Circular][attached hereto]].[4]

[*Include whichever of the following apply or specify as "Not Applicable". Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or subparagraphs. Italics denote directions for completing the Pricing Supplement.*]

[*If the Notes have a maturity of less than one year from the date of their issue, the minimum denomination must be £100,000 or its equivalent in any other currency.*]

1.	Issuer:		Tesco Personal Finance Group PLC
2.	(i)	Series Number:	[ ]
	(ii)	Tranche Number:	[ ]
	(iii)	Date on which the Notes will be consolidated and form a single Series:	[The Notes will be consolidated and form a single Series with [*identify earlier Tranches*] on [the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph 26 below, which is expected to occur on or about [*date*]]] [Not Applicable]
3.	Specified Currency or Currencies:		[ ]
4.	Aggregate Nominal Amount:		
	(i)	Tranche:	[ ]
	(ii)	Series:	[ ]
5.	Issue Price:		[ ] per cent. of the Aggregate Nominal Amount
			[plus accrued interest from [*insert date*]] (*if applicable*)
6.	(i)	Specified Denominations:	[ ]
	(ii)	Calculation Amount (in relation to calculation of interest in global form see Conditions):	[ ]
			(*If only one Specified Denomination, insert the Specified Denomination*.
			If more than one Specified Denomination, insert the highest common factor. Note: There must be a common factor in the case of two or more Specified Denominations.)
7.	(i)	Issue Date:	[ ]
	(ii)	Interest Commencement Date:	[*specify*/Issue Date/Not Applicable]
			(*N.B. An Interest Commencement Date will not be relevant for certain Notes, for example Zero*

[3] *Do not include if the "Prohibition of Sales to EEA Retail Investors" legend is included (because the Notes potentially constitute "packaged" products and no key information document will be prepared) and the related selling restriction is specified to be "Applicable".*

4 Only include this language where it is a fungible issue and the original Tranche was issued under an Offering Circular with a different date.

		Coupon Notes.)
8.	Maturity Date[5]:	[Specify date or for Floating Rate Notes — Interest Payment Date falling in or nearest to [*specify month and year*]]
9.	Interest Basis:	[[ ] per cent. Fixed Rate] [Fixed Rate Reset] [[*specify Reference* Rate] +/- [ ] per cent. Floating Rate] [Zero Coupon] [*specify other*] (further particulars specified below)
10.	Redemption/Payment Basis:	[Redemption at par] [*specify other*]
11.	Change of Interest Basis or Redemption/Payment Basis:	[For the period from (and including) the Interest Commencement Date, up to (but excluding) [insert date] paragraph [ ] applies and for the period from (and including) [insert date], up to (and including) the Maturity Date, paragraph [ ] applies] / [*Specify details of any provision for change of Notes into another Interest Basis or Redemption/Payment Basis*] / [Not Applicable]
12.	Put/Call Options:	[Investor Put] [Issuer Call] [Regulatory Capital Event Call] [Loss Absorption Disqualification Event Call] [Not Applicable] [(further particulars specified below)]
13.	(i) Status of the Notes:	[Senior/Dated Subordinated]
	(ii) Condition 2(d) (*Set-off, etc. (Senior Notes)*):	[Applicable/Not Applicable]
	(ii) Restrictive Events of Default:	[Applicable/Not Applicable]
	(iii) Date of [Board] approval for issuance of Notes obtained:	[[ ]/Not Applicable]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

14.	Fixed Rate Note Provisions	[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
(i)	Rate[(s)] of Interest:	[ ] per cent. per annum payable in arrear on each Interest Payment Date
(ii)	Interest Payment Date(s):	[[ ] in each year up to and including the Maturity Date (*Amend appropriately in the case of irregular coupons*)
(iii)	Fixed Coupon Amount(s) for Notes in definitive form (and in relation to	[ ] per Calculation Amount

5 The Maturity Date for Dated Subordinated Notes will be at least five (5) years from the specified Issue Date.

		Notes in global form see Conditions):	
	(iv)	Broken Amount(s) for Notes in definitive form (and in relation to Notes in global form see Conditions):	[ ] per Calculation Amount payable on the Interest Payment Date falling [in/on] [ ] [Not Applicable]
	(v)	Fixed Day Count Fraction:	[Actual/Actual (ICMA)] [30/360] [*specify other*]
	(vi)	Determination Date(s):	[[ ] in each year] [Not Applicable] *(Only relevant where Day Count Fraction is Actual/Actual (ICMA). In such a case, insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon)*
	(vii)	Other terms relating to the method of calculating interest for Fixed Rate Notes which are Exempt Notes:	[None/*Give details*]
15.		Fixed Rate Reset Note Provisions	[Applicable/Not Applicable] [Applicable in respect of the period from [the Interest Commencement Date]/ [ ] to [ ]] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(i)	Initial Rate of Interest:	[ ] per cent. per annum
	(ii)	First Margin:	[ ] per cent. per annum
	(iii)	Subsequent Margin:	[ ] per cent. per annum
	(iv)	Interest Payment Date(s):	[ ] in each year [commencing on [ ] and ending on the Maturity Date[, subject to adjustment in accordance with the Business Day Convention specified in paragraph 15(xviii) below]]
	(v)	Fixed Coupon Amount(s) in respect of definitive Fixed Rate Reset Notes in respect of the period from (and including) [the Interest Commencement Date]/[ ] to (but excluding) the First Reset Date:	[ ] per Calculation Amount
	(vi)	Broken Amount(s) in respect of definitive Fixed Rate Reset Notes:	[ ] per Calculation Amount payable on the Interest Payment Date falling [in/on] [ ] [Not Applicable]
	(vii)	First Reset Date:	[ ]
	(viii)	Second Reset Date:	[ ] /[Not Applicable]
	(ix)	Subsequent Reset Date[(s)]:	[ ] /[Not Applicable]
	(x)	Reset Rate:	[Mid-Swap Rate/Benchmark Gilt Rate/Reference Bond Rate]
	(xi)	Reset Determination Date:	[Condition 3(b)(viii) applies]/[*specify other*]
	(xii)	Relevant Screen Page:	[ ]/[Not Applicable]
	(xiii)	Mid-Swap Rate:	[Single Mid-Swap Rate/Mean Mid-Swap Rate][Not Applicable]
	(xiv)	Mid-Swap Maturity:	[ ]/[Not Applicable]
	(xv)	Benchmark Frequency:	[ ]
	(xvi)	Fixed Day Count Fraction:	[Actual/Actual (ICMA)] [30/360]
	(xvii)	Determination Time:	[ ]/[Not Applicable]

(xviii)	Business Day Convention:	[Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]
(xix)	Relevant Currency:	[ ]/[Not Applicable]
(xx)	Business Day(s):	[ ]
(xxi)	Additional Business Centre(s):	[ ]
16.	Floating Rate Note Provisions	[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
(i)	Specified Period(s)/Specified Interest Payment Dates:	[ ][, subject to adjustment in accordance with the Business Day Convention set out in (ii) below /, not subject to any adjustment, as the Business Day Convention in (ii) below is specified to be Not Applicable]
(ii)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/[*specify other*]] [Not Applicable]
(iii)	Additional Business Centre(s):	[ ]
(iv)	Manner in which the Rate of Interest and Interest Amount is to be determined:	[Screen Rate Determination/ISDA Determination/*specify other*]
(v)	Party responsible for calculating the Rate of Interest and Interest Amount (if not the Agent):	[ ] (the "Calculation Agent")
(vi)	Screen Rate Determination:	
	— Reference Rate:	[ ] month [LIBOR/EURIBOR/*specify other Reference Rate*] (*Either LIBOR, EURIBOR or other, although additional information is required if other, including fall back provisions in the Agency Agreement*)
	— Interest Determination Date(s):	[ ] (*Second London business day prior to the start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR and the second day on which the TARGET2 System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR*)
	— Relevant Screen Page:	[ ] (*In the case of EURIBOR, if not Reuters EURIBOR01 ensure it is a page which shows a composite rate or amend the fall back provisions appropriately*)
(vii)	ISDA Determination:	
	— Floating Rate Option:	[ ]
	— Designated Maturity:	[ ]
	— Reset Date:	[ ] (*In the case of a LIBOR or EURIBOR based option, the first day of the Interest Period*)

	(viii)	Linear Interpolation	[Not Applicable/Applicable – the Rate of Interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation (*specify for each short or long interest period*)]
	(ix)	Margin(s):	[+/-] [ ] per cent. per annum
	(x)	Minimum Rate of Interest:	[ ] per cent. per annum
	(xi)	Maximum Rate of Interest:	[ ] per cent. per annum
	(xii)	Floating Day Count Fraction:	[Actual/Actual (ISDA)][Actual/Actual] Actual/365 (Fixed) Actual/365 (Sterling) Actual/360 [30/360][360/360][Bond Basis] [30E/360][Eurobond Basis] 30E/360 (ISDA) [*Other*] *(See Condition 3 for alternatives)*
	(xiii)	Fall back provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Notes which are Exempt Notes, if different from those set out in the Conditions:	[ ]
17.		Zero Coupon Note Provisions	[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(i)	Accrual Yield:	[ ] per cent. per annum
	(ii)	Reference Price:	[ ]
	(iii)	Any other formula/basis of determining amount payable for Zero Coupon Notes which are Exempt Notes:	[ ]
	(iv)	Day Count Fraction in relation to Early Redemption Amounts:	[30/360] [Actual/360] [Actual/365]

PROVISIONS RELATING TO REDEMPTION

18.		Notice periods for Condition [5(b)]:	Minimum period: [30] days Maximum period: [60] days
19.		Issuer Call	[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(i)	Optional Redemption Date(s):	[ ]
	(ii)	Optional Redemption Amount and method, if any, of calculation of such amount(s):	[[ ] per Calculation Amount][*specify other*/see Appendix]
	(iii)	If redeemable in part:	
		(a) Minimum Redemption Amount:	[ ]
		(b) Higher Redemption Amount:	[ ]
	(iv)	Notice periods:	Minimum period: [10] days

		Maximum period: [30] days
		(*N.B. When setting notice periods, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems (which require a minimum of 5 clearing system business days' notice for a call) and custodians as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent or Trustee*)
20.	Regulatory Capital Event Call:	[Applicable/Not Applicable[6]]
21.	Investor Put	[Applicable/Not Applicable]
		(*If not applicable, delete the remaining subparagraphs of this paragraph*)
(i)	Optional Redemption Date(s):	[ ]
(ii)	Optional Redemption Amount and method, if any, of calculation of such amount(s):	[[ ] per Calculation Amount/*specify other*/see Appendix]
(iii)	Notice periods:	Minimum period: [15] days
		Maximum period: [30] days
		(*N.B. When setting notice periods, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems (which require a minimum of 15 clearing system business days' notice for a put)and custodians as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent or Trustee*)
22.	Loss Absorption Disqualification Event Call:	[Applicable/Not Applicable[7]]
(i)	Notice periods:	Minimum period: [ ] days
		Maximum period: [ ] days
(ii)	Loss Absorption Disqualification Redemption Amount(s):	[ ] per Calculation Amount
(iii)	Basis of exclusion on amendment or change in Loss Absorption Regulation:	[Fully excluded/Fully or partially excluded]
23.	Final Redemption Amount	[[ ] per Calculation Amount/*specify other/S*ee Appendix]
24.	Early Redemption Amount(s) payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required):	[[ ] per Calculation Amount/*specify other*/See Appendix]
		(*N.B. If the Final Redemption Amount is 100 per cent. of the nominal value (i.e. par), the Early Redemption Amount is likely to be par (but consider). If, however, the Final Redemption Amount is other than 100 per cent. of the nominal value, consideration should be given as to what the Early Redemption Amount should be.*)

[6] Regulatory Capital Event will be specified as "Not Applicable" in the case of Senior Notes.
[7] Loss Absorption Disqualification Event Call will be specified as "Not Applicable" in the case of Dated Subordinated Notes.

25.	Substitution or Variation:	[Applicable/Not Applicable[8]]
(i)	Notice periods:	Minimum period: [30] days Maximum period: [60] days

GENERAL PROVISIONS APPLICABLE TO THE NOTES

26.	(i) Form of Notes:	[Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event].] [Temporary Global Note exchangeable for Definitive Notes on and after the Exchange Date.] Notes shall not be physically delivered in Belgium, except to a clearing system, a depository or other institution for the purpose of their immobilisation in accordance with article 4 of the Belgian Law of 14 December, 2005.
	(ii) New Global Note:	[Yes] [No]
27.	Additional Financial Centre(s):	[Not Applicable/*give details*] (*Note that this paragraph relates to the date of payment and not the end dates of Interest Periods for the purposes of calculating the amount of interest, to which subparagraph 16(iii) relate*)
28.	Talons for future Coupons to be attached to Definitive Notes:	[Yes, as the Notes have more than 27 coupon payments, Talons may be required if, on exchange into definitive form, more than 27 coupon payments are still to be made/No]
29.	Other terms or special conditions:	[Not Applicable/*give details*]

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in this Pricing Supplement. [[*Relevant third party information*] has been extracted from [*specify source*]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [*specify source*], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Signed on behalf of Tesco Personal Finance Group PLC

By: ....

Duly authorised

[8] Substitution or Variation will be specified as "Not Applicable" in the case of Dated Subordinated Notes.

PART B— OTHER INFORMATION

1. LISTING AND ADMISSION TO TRADING

Listing and Admission to trading:	[Application [has been made/is expected to be made] by the Issuer (or on its behalf) for the Notes to be listed on [*specify market - note this must not be a regulated market*] with effect from [ ].] [Not Applicable]

2. RATINGS

Ratings:	[The Notes to be issued [[have been]/[are expected to be]] rated [*insert details*] by [*insert the legal name of the relevant credit rating agency entity(ies)*] *(The above disclosure is only required if the ratings of the Notes are different to those stated in the Offering Circular*)

3. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE

[Save for [any/the] fees [of [*insert relevant fee disclosure*]] payable to the [Managers/Dealers], so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer. The [Managers/Dealers] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer and [ts affiliates in the ordinary course of business — *Amend as appropriate if there are other interests*]

4. OPERATIONAL INFORMATION

(i)	ISIN:	[ ]
(ii)	Common Code:	[ ]
(iii)	CFI:	[[See/[[ ], as updated, as set out on] the website of the Association of National Numbering Agencies (ANNA) or alternatively sourced from the responsible National Numbering Agency that assigned the ISIN/Not Applicable/Not Available]
(iv)	FISN:	[[See/[[ ], as updated, as set out on] the website of the Association of National Numbering Agencies (ANNA) or alternatively sourced from the responsible National Numbering Agency that assigned the ISIN/Not Applicable/Not Available]
(v)	Any clearing system(s) other than Euroclear and Clearstream, Luxembourg and the relevant identification number(s):	[Not Applicable/*give name(s) and number(s)*]
(vi)	Delivery:	Delivery [against/free of] payment
(vii)	Names and addresses of additional Paying Agent(s) (if any):	[ ]
(viii)	Calculation Agent:	[Not Applicable]/[ ]
(ix)	Intended to be held in a manner which would allow Eurosystem eligibility:	[Yes. Note that the designation "yes" simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day

credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]

[No. Whilst the designation is specified as "no" at the date of these Final Terms, should the Eurosystem eligibility criteria be amended in the future such that the Notes are capable of meeting them the Notes may then be deposited with one of the ICSDs as common safekeeper. Note that this does not necessarily mean that the Notes will then be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]

(x)	Prohibition of Sales to EEA Retail Investors:	[Applicable/Not Applicable] (If the Notes clearly do not constitute “packaged” products *or the Notes do constitute “packaged products” and a key information document will be prepared*, “Not Applicable” should be specified. If the Notes may constitute “packaged” products and no key information document will be prepared, “Applicable” should be specified.)
(xi)	Prohibition of Sales to Belgian Consumers:	[Applicable/Not Applicable] (*N.B. advice should be taken from Belgian counsel before disapplying this selling restriction.*)

5. DISTRIBUTION

(i)	Method of distribution:	[Syndicated/Non-syndicated]
(ii)	If syndicated, names of Managers:	[Not Applicable/*give names*]
(iii)	Stabilisation Manager(s) (if any):	[Not Applicable/*give name*]
(iv)	If non-syndicated, name of relevant Dealer:	[Not Applicable/*give name*]
(v)	U.S. selling restrictions:	[Reg. S Compliance Category 2; TEFRA D/ TEFRA not applicable]
(vi)	Additional selling restrictions:	[Not Applicable/*give details*]

TERMS AND CONDITIONS OF THE NOTES

The following are the Terms and Conditions of the Notes which will be incorporated by reference into each global Note and each definitive Note, in the latter case only if permitted by the relevant stock exchange or other relevant authority (if any) and agreed by the Issuer and the relevant Dealer at the time of issue but, if not so permitted and agreed, such definitive Note will have endorsed thereon or attached thereto such Terms and Conditions. The applicable Pricing Supplement in relation to any Tranche of Exempt Notes may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the following Terms and Conditions, replace or modify the following Terms and Conditions for the purpose of such Notes. The applicable Final Terms (or the relevant provisions thereof) will be endorsed upon, or attached to, each temporary global Note, permanent global Note and definitive Note. Reference should be made to "Form of Final Terms" above for the form of Final Terms which will include the meaning of certain terms used in the following Terms and Conditions or specify which of such terms are to apply in relation to the relevant Notes.

This Note is one of a Series (as defined below) of Notes issued by Tesco Personal Finance Group plc (the "Issuer") constituted by a Trust Deed (as modified and/or supplemented and/or restated from time to time, the "Trust Deed") dated 11 July, 2019 made between the Issuer and Apex Corporate Trustees (UK) Limited (the "Trustee", which expression shall include any successor as trustee).

References herein to the "Notes" shall be references to the Notes of this Series and shall mean:

(i) in relation to any Notes represented by a global Note, units of each Specified Denomination in the Specified Currency;

(ii) definitive Notes issued in exchange for a global Note; and

(iii) any global Note.

References herein to (i) "Senior Notes" means Notes with a status which is expressed to be "Senior" and (ii) "Dated Subordinated Notes" means Notes with a status which is expressed to be "Dated Subordinated", in each case in the applicable Final Terms (as defined below).

The Notes and the Coupons (as defined below) also have the benefit of an Agency Agreement (as modified and/or supplemented and/or restated from time to time, the "Agency Agreement") dated 11 July, 2019 and made among the Issuer, HSBC Bank plc, as issuing and principal paying agent (the "Agent", which expression shall include any successor agent specified in the applicable Final Terms), the other paying agent named therein (together with the Agent, the "Paying Agents", which expression shall include any additional or successor paying agents) and the Trustee.

The final terms for this Note (or the relevant provisions thereof) are set out in Part A of the Final Terms attached to or endorsed on this Note and which supplement these Terms and Conditions (the "Conditions") or, if this Note is a Note which is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive (an "Exempt Note"), the final terms (or the relevant provisions thereof) are set out in Part A of the Pricing Supplement and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these Conditions, replace or modify these Conditions for the purposes of this Note. References to the "applicable Final Terms" are, unless otherwise stated, to Part A of the Final Terms (or the relevant provisions thereof) attached to or endorsed on this Note. Any reference in the Conditions to "applicable Final Terms" shall be deemed to be a reference to "applicable Pricing Supplement" in the case of Exempt Notes.

The expression "Prospectus Directive" means Directive 2003/71/EC (as amended or superseded), and includes any relevant implementing measure in a relevant Member State of the European Economic Area.

Interest bearing definitive Notes have interest coupons ("Coupons") and, in the case of Notes which, when issued in definitive form, have more than 27 interest payments remaining, if indicated in the applicable Final Terms, talons for further Coupons ("Talons") attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Global Notes do not have Coupons or Talons attached on issue.

The Trustee acts for the benefit of the holders of the Notes (the "Noteholders", which expression shall, in relation to any Notes represented by a global Note, be construed as provided below) and the holders of the Coupons (the “Couponholders”, which expression shall, unless the context otherwise requires, include the holders of the Talons), all in accordance with the provisions of the Trust Deed.

As used herein, “Tranche” means Notes which are identical in all respects (including as to listing and admission to trading) and “Series” means a Tranche of Notes together with any further Tranche or Tranches of Notes which (i) are expressed to be consolidated and form a single series and (ii) have the same terms and conditions or terms and conditions which are the same in all respects save for the amount and date of the first payment of interest thereon and the date from which interest starts to accrue.

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed and the applicable Final Terms.

Copies of the Trust Deed and the Agency Agreement are available for inspection during normal business hours at the principal office of the Trustee, being at 11 July, 2019 at 6th Floor, 65 Gresham Street, London EC2V 7NQ, and at the specified office of each of the Paying Agents. If the Notes are to be admitted to trading on the regulated market of the London Stock Exchange the applicable Final Terms will be published on the website of the London Stock Exchange through a regulatory information service. If this Note is an Exempt Note, the applicable Pricing Supplement will only be obtainable by a Noteholder holding one or more Notes and such Noteholder must produce evidence satisfactory to the Issuer or, as the case may be, the relevant Paying Agent as to its holding of such Notes and identity.

The Noteholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Trust Deed, the Agency Agreement and the applicable Final Terms which are binding on them.

Words and expressions defined in the Trust Deed or the Agency Agreement or used in the applicable Final Terms shall have the same meanings where used in these Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of any inconsistency between the Agency Agreement and the Trust Deed, the Trust Deed will prevail and, in the event of any inconsistency between the Agency Agreement or the Trust Deed and the applicable Final Terms, the applicable Final Terms will prevail.

In these Conditions, “euro” means the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended.

1. Form, Denomination and Title

The Notes are in bearer form and, in the case of definitive Notes, serially numbered, in the currency (the “Specified Currency”) and the denominations (the “Specified Denomination(s)”) specified in the applicable Final Terms. Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination.

Unless this Note is an Exempt Note, this Note may be a Fixed Rate Note, a Fixed Rate Reset Note, a Floating Rate Note or a Zero Coupon Note, or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Final Terms.

If this Note is an Exempt Note, this Note may be a Fixed Rate Note, a Fixed Rate Reset Note, a Floating Rate Note, a Zero Coupon Note or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Pricing Supplement.

Definitive Notes are issued with Coupons attached, unless they are Zero Coupon Notes in which case references to Coupons and Couponholders in these Conditions are not applicable.

Subject as set out below, title to the Notes and Coupons will pass by delivery. The Issuer, the Trustee, the Agent and any Paying Agent may deem and treat the bearer of any Note or Coupon as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any global Note, without prejudice to the provisions set out in the next succeeding paragraph.

For so long as any of the Notes is represented by a global Note held on behalf of Clearstream Banking S.A. (“Clearstream, Luxembourg”) and/or Euroclear Bank SA/NV (“Euroclear”) each person (other than Clearstream, Luxembourg or Euroclear) who is for the time being shown in the records of Clearstream, Luxembourg or of Euroclear as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Clearstream, Luxembourg or Euroclear as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer, the Trustee, the Agent and any other Paying Agent as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant global Note shall be treated by the Issuer, the Trustee, the Agent and any other Paying Agent as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant global Note and the expressions "Noteholder" and "holder of Notes" and related expressions shall be construed accordingly.

Notes which are represented by a global Note will be transferable only in accordance with the rules and procedures for the time being of Clearstream, Luxembourg or of Euroclear, as the case may be. In determining whether a particular person is entitled to a particular nominal amount of Notes as aforesaid, the Trustee may rely on such evidence and/or information and/or certification as it shall, in its absolute discretion, think fit and, if it does so rely, such evidence and/or information and/or certification shall, in the absence of manifest or proven error, be conclusive and binding on all concerned.

References to Clearstream, Luxembourg and/or Euroclear shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system approved by the Issuer, the Trustee and the Agent.

2. Status of the Notes

(a) Status of the Senior Notes

The Senior Notes and the relative Coupons (if any) are direct, unconditional, unsubordinated and unsecured obligations of the Issuer and rank *pari passu* among themselves and (save for certain debts preferred by law) at least equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer, from time to time outstanding.

(b) Status of the Dated Subordinated Notes

The Dated Subordinated Notes and the relative Coupons (if any) are direct, subordinated and unsecured obligations of the Issuer and rank *pari passu* among themselves. In the event of the winding-up of the Issuer (other than an Approved Winding-up) or the appointment of an administrator of the Issuer where the administrator has given notice that it intends to declare and distribute a dividend, the payment obligations of the Issuer under or arising from the Dated Subordinated Notes and the Trust Deed, including any damages awarded for breach of any obligations in respect of the Dated Subordinated Notes, shall be subordinated in the manner provided in the Trust Deed to the claims of all Senior Creditors of the Issuer, but shall rank:

(i) at least *pari passu* with all other subordinated obligations or preference shares of the Issuer which constitute (or which, upon issue, constituted or were intended to constitute), or would but for any applicable limitation on the amount of such capital constitute, Tier 2 Capital ("Pari Passu Securities"); and

(ii) in priority to the claims of holders of: (A) all subordinated obligations of the Issuer the claims in respect of which rank, or are expressed to rank, junior to the Dated Subordinated Notes; (B) all obligations of the Issuer which constitute (or which, upon issue, constituted or were intended to constitute), or would but for any applicable limitation on the amount of such capital constitute, Tier 1 Capital; and (C) all classes of share capital of the Issuer other than preference shares which are Pari Passu Securities (together, the "Junior Securities").

(c) Set-off, etc. (Dated Subordinated Notes)

This Condition 2(c) is only applicable to Dated Subordinated Notes.

Subject to applicable law, no holder of the Dated Subordinated Notes and the relative Coupons (if any) may exercise, claim or plead any right of set-off, compensation or retention in respect of any amount owed to it by the Issuer arising under or in connection with the Dated Subordinated Notes and each holder of the Dated Subordinated Notes and the relative Coupons (if any) shall, by virtue of being the holder of any Dated Subordinated Note and the relative Coupons (if any), be deemed to have waived all such rights of set-off, compensation or retention. Notwithstanding the preceding sentence, if any of the amounts owing to any holder of the Dated Subordinated Notes and the relative Coupons (if any) by the Issuer is discharged by set-off, such holder shall, unless such payment is prohibited by law, immediately pay an amount equal to the amount of such discharge to the Issuer or, in the event of its winding-up or administration, the liquidator or administrator, as appropriate of the Issuer for payment to the Senior Creditors in respect of amounts owing to them by the Issuer, and, until such time as payment is made, shall hold an amount equal to such amount in trust for the Issuer, or the liquidator or administrator, as appropriate of the Issuer, for payment to the Senior Creditors in respect of amounts owing to them by the Issuer and accordingly any such discharge shall be deemed not to have taken place.

(d) Set-off, etc. (Senior Notes)

This Condition 2(d) is only applicable to Senior Notes.

If the applicable Final Terms specify that this Condition 2(d) is applicable, then, subject to applicable law, no holder of the Senior Notes and the relative Coupons (if any) may exercise, claim or plead any right of set-off, compensation or retention in respect of any amount owed to it by the Issuer arising under or in connection with the Senior Notes and each holder of the Senior Notes and the relative Coupons (if any) shall, by virtue of being the holder of any Senior Note and the relative Coupons (if any), be deemed to have waived all such rights of set-off, compensation or retention. Notwithstanding the preceding sentence, if any of the amounts owing to any holder of the Senior Notes and the relative Coupons (if any) by the Issuer is discharged by set-off, such holder shall, unless such payment is prohibited by law, immediately pay an amount equal to the amount of such discharge to the Issuer or, in the event of its winding-up or administration, the liquidator or administrator, as appropriate of the Issuer, and, until such time as payment is made, shall hold an amount equal to such amount in trust for the Issuer, or the liquidator or administrator, as appropriate of the Issuer and accordingly any such discharge shall be deemed not to have taken place.

In these Conditions:

"Approved Winding-up" means a solvent winding-up of the Issuer solely for the purposes of a reconstruction or amalgamation or the substitution in place of the Issuer of a successor in business of the Issuer, the terms of which reconstruction, amalgamation or substitution (i) have previously been approved in writing by the Trustee or by an Extraordinary Resolution (as defined in the Trust Deed) and (ii) do not provide that the Dated Subordinated Notes or, where applicable, the Senior Notes, shall thereby become payable;

"Capital Rules" means at any time the regulations, requirements, guidelines and policies relating to capital resources requirements or capital adequacy then in effect and applicable to the Group (including, without limitation, any regulations, requirements, guidelines and policies of the Regulator as may from time to time be applicable to the Group);

"Group" means, as the context admits, the Issuer and each other entity which is part of the UK prudential consolidation group (as that term, or its successor, is used in the Capital Rules) or the UK resolution group (as that term, or its successor, is used in the Loss Absorption Regulations (as defined in Condition 5(e))) of which the Issuer is part from time to time;

"Regulator" means, as the context admits, the Prudential Regulation Authority of the United Kingdom, the Bank of England or such successor or other authority having primary responsibility with respect to prudential or resolution matters concerning the Issuer and/or the Group;

"Senior Creditors" means creditors of the Issuer (a) who are unsubordinated creditors of the Issuer; or (b) who are subordinated creditors of the Issuer (other than those whose claims constitute, or would but for any applicable limitation on the amount of any such capital constitute, Tier 1 Capital or Tier 2 Capital or whose claims rank, or are expressed to rank, *pari passu* with, or junior to, the claims of the holders of the Dated Subordinated Notes);

"Tier 1 Capital" has the meaning given to it in the Capital Rules;

"Tier 2 Capital" has the meaning given to it in the Capital Rules; and

the expression "obligations" includes any direct or indirect obligations of the Issuer and whether by way of guarantee, indemnity, other contractual support arrangement or otherwise and regardless of name or designation.

3. Interest

(a) Interest on Fixed Rate Notes

Each Fixed Rate Note bears interest from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest payable in arrear on the Interest Payment Date(s) in each year and on the Maturity Date if that does not fall on an Interest Payment Date.

If the Notes are in definitive form, except as provided in the applicable Final Terms, the amount of interest payable on each Interest Payment Date will amount to the Fixed Coupon Amount specified in the applicable Final Terms. Payments of interest on any Interest Payment Date in respect of the Fixed Interest Period ending on (but excluding) such date will, if so specified in the applicable Final Terms, amount to the Broken Amount(s) so specified.

As used in these Conditions, “Fixed Interest Period” means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

Except in the case of Notes in definitive form where an applicable Fixed Coupon Amount or Broken Amount is specified in the applicable Final Terms, interest shall be calculated in respect of any period by applying the Rate of Interest to:

(A) in the case of Fixed Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Fixed Rate Notes represented by such Global Note; or

(B) in the case of Fixed Rate Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Fixed Day Count Fraction.

The resultant figure (including after application of any Fixed Coupon Amount or Broken Amount to the Calculation Amount in the case of Fixed Rate Notes in definitive form) shall be rounded to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Note in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

In these Conditions:

“Fixed Day Count Fraction” means:

(i) if “Actual/Actual (ICMA)” is specified in the applicable Final Terms:

  (a) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the “Accrual Period”) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; or

  (b) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:

    (1) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; and

    (2) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and

(ii) if “30/360” is specified in the applicable Final Terms, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of 12 30-day months) divided by 360;

“Determination Period” means the period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date); and

“sub-unit” means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, means one cent.

(b) *Interest on Fixed Rate Reset Notes*

(i) Each Fixed Rate Reset Note bears interest:

(a) from (and including) the Interest Commencement Date to (but excluding) the First Reset Date at the rate per annum equal to the Initial Rate of Interest;

(b) from (and including) the First Reset Date to (but excluding) the Second Reset Date or, if no such Second Reset Date is specified in the applicable Final Terms, the Maturity Date, at the rate per annum equal to the First Reset Rate of Interest; and

(c) for each Subsequent Reset Period thereafter (if any), at the rate per annum equal to the relevant Subsequent Reset Rate of Interest,

in each case, payable in arrear on the Interest Payment Date(s) specified in the applicable Final Terms.

If the Notes are in definitive form, except as provided in the applicable Final Terms, the amount of interest payable on each Interest Payment Date ending on or before the First Reset Date will amount to the Fixed Coupon Amount specified in the applicable Final Terms. Payments of interest on any Interest Payment Date in respect of the Fixed Interest Period ending on (but excluding) such date will, if so specified in the applicable Final Terms, amount to the Broken Amount(s) so specified.

Except in the case of Notes in definitive form where an applicable Fixed Coupon Amount or Broken Amount is specified in the applicable Final Terms, interest shall be calculated in respect of any period by applying the applicable Rate of Interest to:

(A) in the case of Fixed Rate Reset Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Fixed Rate Reset Notes represented by such Global Note; or

(B) in the case of Fixed Rate Reset Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Fixed Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Reset Note in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Fixed Rate Reset Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

(ii) If Mid-Swap Rate is specified as the Reset Rate in the applicable Final Terms and on any Reset Determination Date the Relevant Screen Page is not available or the Mid-Swap Rate does not appear on the Relevant Screen Page (other than in the circumstances described in Condition 3(d)), the Calculation Agent shall request each of the Reference Banks (as defined below) to provide the Calculation Agent with its Mid-Market Swap Rate Quotation as at approximately 11.00 a.m. in the principal financial centre of the Relevant Currency on the Reset Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent with Mid-Market Swap Rate Quotations, the First Reset Rate of Interest or the Subsequent Reset Rate of Interest (as applicable) for the relevant Reset Period shall be the sum of the arithmetic mean (rounded, if necessary, to the nearest 0.001 per cent. (0.0005 per cent. being rounded upwards)) of the relevant Mid-Market Swap Rate Quotations and the First Margin or Subsequent Margin (as applicable) (with such sum converted (if necessary) from a basis equivalent to the Benchmark Frequency to a basis equivalent to the frequency with which scheduled interest payments are payable on the relevant Notes during the First Reset Period or the relevant Subsequent Reset Period, as applicable), all as determined by the Calculation Agent. If on any Reset Determination Date only one or none of the Reference Banks provides the Calculation Agent with a Mid-Market Swap Rate Quotation as provided in the foregoing provisions of this paragraph, the First Reset Rate of Interest or the Subsequent Reset Rate of Interest (as applicable) shall be determined to be the Rate of Interest as at the last preceding Reset Date or, in the case of the first

Reset Determination Date, the First Reset Rate of Interest shall be the Initial Rate of Interest (though substituting, where the Subsequent Margin to be applied to the relevant Reset Period differs from the First Margin or the Subsequent Margin, as applicable, which applied to the last preceding Reset Period, the Subsequent Margin relating to the relevant Reset Period in place of the First Margin or the Subsequent Margin, as the case may be, relating to that preceding Reset Period).

(iv) The Agent or, where specified in these Conditions or the applicable Final Terms, the Calculation Agent will at, or as soon as practicable after the Determination Time on each Reset Determination Date, determine the applicable Rate of Interest for the relevant Reset Period. The Calculation Agent will notify the Agent of the Rate of Interest for the relevant Reset Period as soon as practicable after calculating the same.

(v) The Agent will cause the Rate of Interest for each Reset Period to be notified to the Issuer and, if required by applicable law or regulation, any stock exchange or other relevant authority on which the relevant Notes are for the time being listed or by which they have been admitted to listing and, if applicable, notice thereof to be published in accordance with Condition 12 as soon as possible after their determination but in no event later than the fourth London Business Day thereafter. For the purposes of this paragraph, the expression “London Business Day” means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in London.

(vi) All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 3(b), whether by the Agent or the Calculation Agent or the Trustee or its agent, shall (in the absence of manifest error) be binding on the Issuer, the Trustee, the Agent and the Calculation Agent, the other Paying Agents and all Noteholders and Couponholders and (in the absence of wilful default, gross negligence or fraud) no liability to the Issuer, the Noteholders or the Couponholders shall attach to the Agent or the Calculation Agent or the Trustee or its agent in connection with the exercise or non-exercise by it of any of its powers, duties and discretions pursuant to such provisions.

(vii) For the purposes of this Condition 3(b):

“Benchmark Frequency” has the meaning specified in the applicable Final Terms;

“Benchmark Gilt” means, in respect of a Reset Period, such United Kingdom government security having a maturity date on or about the last day of such Reset Period as the Calculation Agent, with the advice of the Reference Banks, may determine to be appropriate;

“Benchmark Gilt Rate” means, in respect of a Reset Period, the gross redemption yield (as calculated by the Calculation Agent in accordance with generally accepted market practice at such time) on a semi-annual compounding basis (rounded up (if necessary) to four decimal places) of the Benchmark Gilt in respect of that Reset Period, with the price of the Benchmark Gilt for this purpose being the arithmetic average (rounded up (if necessary) to the nearest 0.001 per cent. (0.0005 per cent. being rounded upwards)) of the bid and offered prices of such Benchmark Gilt quoted by the Reference Banks at 3.00 p.m. (London time) on the relevant Reset Determination Date on a dealing basis for settlement on the next following dealing day in London. If at least four quotations are provided, the Benchmark Gilt Rate will be the rounded arithmetic mean of the quotations provided, eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest). If only two or three quotations are provided, the Benchmark Gilt Rate will be the rounded arithmetic mean of the quotations provided. If only one quotation is provided, the Benchmark Gilt Rate will be the rounded quotation provided. If no quotations are provided, the Benchmark Gilt Rate will be determined by the Calculation Agent in its sole discretion following consultation with the Issuer;

“Calculation Agent” shall have the meaning specified in the applicable Final Terms;

“dealing day” means a day, other than a Saturday or Sunday, on which the London Stock Exchange (or such other stock exchange on which the Benchmark Gilt is at the relevant time listed) is ordinarily open for the trading of securities;

"Determination Agent" means an investment bank or financial institution of international standing selected by the relevant Issuer;

“First Margin” means the margin specified in the applicable Final Terms;

“First Reset Date” means the date specified in the applicable Final Terms, as adjusted (if a Business Day Convention is specified in the applicable Final Terms) in accordance with Condition 3(c)(ii) as if the First Reset Date was an Interest Payment Date;

“First Reset Period” means the period from (and including) the First Reset Date until (but excluding) the Second Reset Date or, if no such Second Reset Date is specified in the applicable Final Terms, the Maturity Date;

“First Reset Rate of Interest” means, in respect of the First Reset Period and subject to Conditions 3(b)(ii) and 3(d), the rate of interest determined by the Calculation Agent on the relevant Reset Determination Date as the sum of the relevant Reset Rate and the First Margin (with such sum converted (if necessary) from a basis equivalent to the Benchmark Frequency to a basis equivalent to the frequency with which scheduled interest payments are payable on the relevant Notes during the First Reset Period (such calculation to be made by the Calculation Agent));

“Initial Rate of Interest” has the meaning specified in the applicable Final Terms;

“Mid-Market Swap Rate” means for any Reset Period the mean of the bid and offered rates for the fixed leg payable with a frequency equivalent to the Benchmark Frequency specified in the applicable Final Terms during the relevant Reset Period (calculated on the day count basis customary for fixed rate payments in the Relevant Currency as determined by the Calculation Agent) of a fixed-for-floating interest rate swap transaction in the Relevant Currency which transaction (i) has a term equal to the relevant Reset Period and commencing on the relevant Reset Date, (ii) is in an amount that is representative for a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the swap market and (iii) has a floating leg based on the Mid-Swap Floating Leg Benchmark Rate for the Mid-Swap Maturity (calculated on the day count basis customary for floating rate payments in the Relevant Currency as determined by the Calculation Agent);

“Mid-Market Swap Rate Quotation” means a quotation (expressed as a percentage rate per annum) for the relevant Mid-Market Swap Rate;

“Mid-Swap Floating Leg Benchmark Rate” means EURIBOR if the Relevant Currency is euro or LIBOR for the Relevant Currency if the Relevant Currency is not euro;

“Mid-Swap Maturity” has the meaning specified in the applicable Final Terms;

“Mid-Swap Rate” means, in relation to a Reset Determination Date and subject to Conditions 3(b)(ii) and 3(d), either:

(i) if Single Mid-Swap Rate is specified in the applicable Final Terms, the rate for swaps in the Relevant Currency:

 (A) with a term equal to the relevant Reset Period; and

 (B) commencing on the relevant Reset Date,

 which appears on the Relevant Screen Page; or

(ii) if Mean Mid-Swap Rate is specified in the applicable Final Terms, the arithmetic mean (expressed as a percentage rate per annum and rounded, if necessary, to the nearest 0.001 per cent. (0.0005 per cent. being rounded upwards)) of the bid and offered swap rate quotations for swaps in the Relevant Currency:

 (A) with a term equal to the relevant Reset Period; and

 (B) commencing on the relevant Reset Date,

 which appear on the Relevant Screen Page,

in either case, as at approximately 11.00 a.m. in the principal financial centre of the Relevant Currency on such Reset Determination Date, all as determined by the Calculation Agent;

"Rate of Interest" means the Initial Rate of Interest, the First Reset Rate of Interest or the Subsequent Reset Rate of Interest, as applicable;

"Reference Banks" means:

(i) for the purposes of Condition 3(b)(ii), five leading swap dealers in the principal interbank market relating to the Relevant Currency selected by the Calculation Agent in its discretion after consultation with the Issuer; or

(ii) in the case of a Benchmark Gilt Rate, five brokers of gilts and/or gilt-edged market makers selected by the Calculation Agent in its discretion after consultation with the Issuer;

"Reference Bond" for any Reset Period a government security or securities issued by the government of the state responsible for issuing the Relevant Currency (which, if the Relevant Currency is euro, shall be Germany) agreed between the Issuer and the Calculation Agent as having the nearest actual or interpolated maturity comparable with the relevant Reset Period and that (in the opinion of the Issuer, after consultation with the Calculation Agent) would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issuances of corporate debt securities denominated in the Relevant Currency and of a comparable maturity to the relevant Reset Period;

"Reference Bond Dealer" means each of five banks selected by the Issuer (following, where practicable, consultation with the Determination Agent, if applicable), or their affiliates, which are (i) primary government securities dealers, and their respective successors, or (ii) market makers in pricing corporate bond issues;

"Reference Bond Dealer Quotations" means, with respect to each Reference Bond Dealer and the Reset Determination Date, the arithmetic mean, as determined by the Calculation Agent, of the bid and offered prices for the Reference Bond (expressed in each case as a percentage of its nominal amount) as at approximately 11.00 a.m. in the principal financial centre of the Relevant Currency on the Reset Determination Date and quoted in writing to the Calculation Agent by such Reference Bond Dealer;

"Reference Bond Price" means, with respect to a Reset Determination Date, (a) the arithmetic mean of the Reference Bond Dealer Quotations for that Reset Determination Date, after excluding the highest and lowest such Reference Bond Dealer Quotations, or (b) if the Calculation Agent obtains fewer than five (but more than one) such Reference Bond Dealer Quotations, the arithmetic mean of all such quotations or (c) if the Calculation Agent obtains only one Reference Bond Dealer Quotation or if the Calculation Agent obtains no Reference Bond Dealer Quotations, the First Reset Rate of Interest or Subsequent Reset Rate of Interest, as applicable, shall be determined by the Calculation Agent in its sole discretion following consultation with the Issuer;

"Reference Bond Rate" means, in respect of a Reset Period, the annual yield to maturity or interpolated yield to maturity (on the relevant day count basis) of the Reference Bond, assuming a price for such Reference Bond (expressed as a percentage of its nominal amount) equal to the Reference Bond Price;

"Relevant Currency" means the currency specified in the applicable Final Terms or, if none is specified, the currency in which the Notes are denominated;

"Relevant Screen Page" has the meaning specified in the applicable Final Terms;

"Reset Date" means the First Reset Date, the Second Reset Date (if any) and each Subsequent Reset Date (if any), as applicable;

"Reset Determination Date" means, unless otherwise stated in the applicable Final Terms, in respect of the First Reset Period, the second Business Day prior to the First Reset Date, in respect of the first Subsequent Reset Period, the second Business Day prior to the Second Reset Date and, in respect of each Subsequent Reset Period thereafter, the second Business Day prior to the first day of each such Subsequent Reset Period;

"Reset Period" means the First Reset Period or a Subsequent Reset Period, as the case may be;

"Reset Rate" means:

(i) if Mid-Swap Rate is specified in the applicable Final Terms, the relevant Mid-Swap Rate;

(ii) if Benchmark Gilt Rate is specified in the applicable Final Terms, the relevant Benchmark Gilt Rate; or

(iii) if Reference Bond Rate is specified in the applicable Final Terms, the relevant Reference Bond Rate;

"Second Reset Date" means the date specified in the applicable Final Terms, as adjusted (if a Business Day Convention is specified in the applicable Final Terms) in accordance with Condition 3(c)(ii) as if the Second Reset Date was an Interest Payment Date;

"Subsequent Margin" means the margin specified in the applicable Final Terms;

"Subsequent Reset Date" means the date or dates specified in the applicable Final Terms, as adjusted (if a Business Day Convention is specified in the applicable Final Terms) in accordance with Condition 3(c)(ii) as if the relevant Subsequent Reset Date was an Interest Payment Date;

"Subsequent Reset Period" means the period from (and including) the Second Reset Date to (but excluding) the next Subsequent Reset Date (or, if no such Subsequent Reset Date is specified in the applicable Final Terms, the Maturity Date), and each successive period (if any) from (and including) a Subsequent Reset Date to (but excluding) the next succeeding Subsequent Reset Date (or, if no such Subsequent Reset Date is specified in the applicable Final Terms, the Maturity Date); and

"Subsequent Reset Rate of Interest" means, in respect of any Subsequent Reset Period and subject to Conditions 3(b)(ii) and 3(d), the rate of interest determined by the Calculation Agent on the relevant Reset Determination Date as the sum of the relevant Reset Rate and the relevant Subsequent Margin (with such sum converted (if necessary) from a basis equivalent to the Benchmark Frequency to a basis equivalent to the frequency with which scheduled interest payments are payable on the relevant Notes during the relevant Subsequent Reset Period (such calculation to be made by the Calculation Agent)).

(c) Interest on Floating Rate Notes

(i) Interest Payment Dates

Each Floating Rate Note bears interest from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

(A) the Specified Interest Payment Date(s) in each year specified in the applicable Final Terms; or

(B) if no Specified Interest Payment Date(s) is/are specified in the applicable Final Terms, each date (each such date, together with each Specified Interest Payment Date, an "Interest Payment Date") which falls the number of months or other period specified as the Specified Period in the applicable Final Terms after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period. In these Conditions "Interest Period" means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date or the relevant payment date if the Notes become payable on a date other than an Interest Payment Date.

(ii) Business Day Convention

If a Business Day Convention is specified in the applicable Final Terms and (x) if there is no numerically corresponding day on the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

(1) in any case where Specified Periods are specified in accordance with Condition 3(c)(i)(B) above, the Floating Rate Convention, such Interest Payment Date (i) in the case of (x)

above, shall be the last day that is a Business Day in the relevant month and the provisions of (B) below shall apply *mutatis mutandis* or (ii) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (A) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (B) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding Interest Payment Date occurred; or

(2) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or

(3) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or

(4) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In these Conditions, "Business Day" means:

(B) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and each Additional Business Centre (other than TARGET2 System) specified in the applicable Final Terms;

(C) if TARGET2 System is specified as an Additional Business Centre in the applicable Final Terms, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2 System) (the "TARGET2 System") is open; and

(D) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments in the principal financial centre of the country of the relevant Specified Currency (which, if the Specified Currency is New Zealand dollars or Australian dollars, shall be Auckland and Sydney, respectively) or (2) in relation to any sum payable in euro, a day on which the TARGET2 System is open.

(iii) *Rate of Interest*

The Rate of Interest payable from time to time in respect of Floating Rate Notes will be determined in the manner specified in the applicable Final Terms.

(A) *ISDA Determination for Floating Rate Notes*

Where ISDA Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Final Terms) the Margin (if any). For the purposes of this sub-paragraph (A), "ISDA Rate" for an Interest Period means a rate equal to the Floating Rate that would be determined by the Agent under an interest rate swap transaction if the Agent were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2006 ISDA Definitions, as amended and updated as at the Issue Date of the first Tranche of the Notes and as published by the International Swaps and Derivatives Association, Inc. (the "ISDA Definitions") and under which: (1) the Floating Rate Option is as specified in the applicable Final Terms; (2) the Designated Maturity is a period specified in the applicable Final Terms; and (3) the relevant Reset Date is the day specified in the applicable Final Terms.

For the purposes of this sub-paragraph (A), "Floating Rate", "Calculation Agent", "Floating Rate Option", "Designated Maturity" and "Reset Date" have the meanings given to those terms in the ISDA Definitions.

(B) *Screen Rate Determination for Floating Rate Notes*

(1) Where Screen Rate Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below and subject to Condition 3(d), be either:

(I) the offered quotation; or

(II) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate (being either LIBOR or EURIBOR, as specified in the applicable Final Terms) which appears or appear, as the case may be, on the Relevant Screen Page (or such replacement page on that service which displays the information) as at 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the Interest Determination Date in question plus or minus (as indicated in the applicable Final Terms) the Margin (if any), all as determined by the Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

(2) If, other than in the circumstances described in Condition 3(d), the Relevant Screen Page is not available or the quotation or quotations are unavailable the Agent shall request the principal London office (in the case of LIBOR), or the principal Euro-zone office (in the case of EURIBOR), of each of the Reference Banks (as defined below) to provide the Agent with its offered quotation (expressed as a percentage rate per annum) for deposits in the Specified Currency for the relevant Interest Period at approximately 11.00 a.m. (London time in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the Interest Determination Date in question. If two or more of the Reference Banks provide the Agent with such offered quotations, the Rate of Interest for such Interest Period shall be the arithmetic mean (rounded if necessary to the fourth decimal place with 0.00005 being rounded upwards) of such offered quotations plus or minus (as appropriate) the Margin (if any), all as determined by the Agent.

(3) If on any Interest Determination Date one only or none of the Reference Banks provides the Agent with such offered quotations as provided in the preceding paragraph, the Rate of Interest for the relevant Interest Period shall be the rate per annum which the Agent determines as being the arithmetic mean (rounded if necessary to the fourth decimal place, with 0.00005 being rounded upwards) of the rates, as communicated to (and at the request of) the Agent by the Reference Banks or any two or more of them, at which such banks were offered, at approximately 11.00 a.m. (London time in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the relevant Interest Determination Date, deposits in the Specified Currency for the relevant Interest Period by leading banks in the London interbank market (if the Reference Rate is LIBOR), or the Euro-zone inter-bank market (if the Reference Rate is EURIBOR), plus or minus (as appropriate) the Margin (if any) or, if fewer than two of the Reference Banks provide the Agent with such offered rates, the offered rate for deposits in the Specified Currency for the relevant Interest Period, or the arithmetic mean (rounded as provided above) of the offered rates for deposits in the Specified Currency for the relevant Interest Period, at which, at approximately 11.00 a.m. (London time in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Relevant Issuer suitable for such purpose) informs the Agent it is quoting to leading banks in the London interbank market (if the Reference Rate is LIBOR), or the Euro-zone inter-bank market (if the Reference Rate is EURIBOR) plus or minus (as appropriate) the Margin (if any), provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be that determined as at the last preceding Interest Determination Date (though substituting, where a different Margin is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin relating to the relevant Interest Period, in place of the Margin relating to that last preceding Interest Period).

(4) The expression “Reference Banks” means, in the case of paragraph (2) above, those banks whose offered rates were used to determine such quotation when such quotation last appeared on the Relevant Screen Page and, in the case of paragraph (3) above, those banks whose offered quotations last appeared on the Relevant Screen Page when no fewer than three such offered quotations appeared.

(iv) Minimum and/or Maximum Interest Rate

If the applicable Final Terms specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (iii) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest. If the applicable Final Terms specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (iii) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

(v) Determination of Rate of Interest and calculation of Interest Amounts

The Agent will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period.

The Agent will calculate the amount of interest (the “Interest Amount”) payable on the Floating Rate Notes for the relevant Interest Period by applying the Rate of Interest to:

(A) in the case of Floating Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Notes represented by such Global Note; or

(B) in the case of Floating Rate Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Floating Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Floating Rate Note in definitive form is a multiple of the Calculation Amount, the Interest Amount payable in respect of such Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

“Floating Day Count Fraction” means, in respect of the calculation of an amount of interest for any Interest Period in accordance with this Condition 3(c):

(ii) if “Actual/Actual” or “Actual/Actual (ISDA)” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);

(iii) if “Actual/365 (Fixed)” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;

(iv) if “Actual/360” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;

(v) if “30/360”, “360/360” or “Bond Basis” is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y_1" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y_2" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M_1" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M_2" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D_1" is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D_1 will be 30; and

"D_2" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D_1 is greater than 29, in which case D_2 will be 30;

(vi) if "30E/360" or "Eurobond Basis" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 7 Y_1)] + [30 \times (M_2 7 M_1)] + (D_2 7 D_1)}{360}$$

where:

"Y_1" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y_2" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M_1" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M_2" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D_1" is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D_1 will be 30; and

"D_2" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D_2 will be 30;

(vii) if "30E/360 (ISDA)" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 7 Y_1)] + [30 \times (M_2 7 M_1)] + (D_2 7 D_1)}{360}$$

where:

"Y_1" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y_2" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M_1" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M_2" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D_1" is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D_1 will be 30; and

"D_2" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D_2 will be 30.

(vi) *Notification of Rate of Interest and Interest Amounts*

The Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer and any stock exchange on which the relevant Floating Rate Notes are for the time being listed and notice thereof to be published in accordance with Condition 12 as soon as possible after their determination but in no event later than the fourth London Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will promptly be notified to each stock exchange on which the relevant Floating Rate Notes are for the time being listed and to the Noteholders in accordance with Condition 12. For the purposes of this paragraph, the expression "London Business Day" means a day (other than a Saturday or Sunday) on which banks and foreign exchange markets are open for general business in London.

(vii) *Linear Interpolation*

Where Linear Interpolation is specified as applicable in respect of an Interest Period in the applicable Final Terms, the Rate of Interest for such Interest Period shall be calculated by the Agent by straight line linear interpolation by reference to two rates based on the relevant Reference Rate (where Screen Rate Determination is specified as applicable in the applicable Final Terms) or the relevant Floating Rate Option (where ISDA Determination is specified as applicable in the applicable Final Terms), one of which shall be determined as if the Designated Maturity were the period of time for which rates are available next shorter than the length of the relevant Interest Period and the other of which rates are available next longer than the length of the relevant Interest Period provided however that if there is no rate available for the period of time next shorter or, as the case may be, next longer, then the Agent shall determine such rate at such time and by reference to such sources as it determines appropriate.

"Designated Maturity" means, in relation to Screen Rate Determination, the period of time designated in the Reference Rate.

(viii) *Certificates to be Final*

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 3(c), by the Agent or the Trustee shall (in the absence of manifest error) be binding on the Issuer, the Agent, the Trustee, the other Paying Agents and all Noteholders and Couponholders and (in the absence of wilful default, gross negligence or fraud) no liability to the Issuer, the Noteholders or the Couponholders shall attach to the Agent or the Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

(d) *Benchmark Discontinuation*

Notwithstanding the provisions above in Conditions 3(b) or 3 (c), if a Benchmark Event occurs in relation to an Original Reference Rate when any required Rate of Interest (or any component part thereof) remains to be determined by reference to such Original Reference Rate, then the following provisions of this Condition 3(d) shall apply.

(i) *Independent Adviser*

The Issuer shall use its reasonable endeavours to appoint and consult with an Independent Adviser, as soon as reasonably practicable, with a view to the Issuer determining a Successor Rate, failing which an Alternative Rate (in accordance with Condition 3(d)(ii)) and, in either case, an Adjustment Spread (in accordance with Condition 3(d)(iii)) and any Benchmark Amendments (in accordance with Condition 3(d)(iv)).

An Independent Adviser appointed pursuant to this Condition 3(d) shall act in good faith and in a commercially reasonable manner and (in the absence of bad faith or fraud) shall have no liability whatsoever to the Trustee, the Agent, the Calculation Agent, the other Paying

Agents or the Noteholders for any determination made by it or for any advice given to the Issuer in connection with any determination made by the Issuer, pursuant to this Condition 3(d).

(ii) Successor Rate or Alternative Rate

If the Issuer, following consultation with the Independent Adviser and acting in good faith and in a commercially reasonable manner, determines that:

(A) there is a Successor Rate, then such Successor Rate (as adjusted by the applicable Adjustment Spread as provided in Condition 3(d)(iii)) shall subsequently be used in place of the Original Reference Rate to determine the relevant Rate(s) of Interest (or the relevant component part(s) thereof) for all relevant future payments of interest on the Notes (subject to the further operation of this Condition 3(d)); or

(B) there is no Successor Rate but that there is an Alternative Rate, then such Alternative Rate (as adjusted by the applicable Adjustment Spread as provided in Condition 3(d)(iii)) shall subsequently be used in place of the Original Reference Rate to determine the relevant Rate(s) of Interest (or the relevant component part(s) thereof) for all relevant future payments of interest on the Notes (subject to the further operation of this Condition 3(d)).

(iii) Adjustment Spread

If a Successor Rate or Alternative Rate is determined in accordance with Condition 3(d)(ii), the Issuer, following consultation with the Independent Adviser and acting in good faith and a commercially reasonable manner, shall determine an Adjustment Spread (which may be expressed as a specified quantum or a formula or methodology for determining the applicable Adjustment Spread (and, for the avoidance of doubt, an Adjustment Spread may be positive, negative or zero)), which Adjustment Spread shall be applied to the Successor Rate or the Alternative Rate (as the case may be) for each subsequent determination of a relevant Rate of Interest (or a component part thereof) by reference to such Successor Rate or Alternative Rate (as applicable).

(iv) Benchmark Amendments

If any Successor Rate or Alternative Rate and (in either case) the applicable Adjustment Spread is determined in accordance with this Condition 3(d) and the Issuer, following consultation with the Independent Adviser and acting in good faith and in a commercially reasonable manner, determines (A) that amendments to these Conditions and/or the Trust Deed are necessary to ensure the proper operation of such Successor Rate or Alternative Rate and/or (in either case) the applicable Adjustment Spread (such amendments, the "Benchmark Amendments") and (B) the terms of the Benchmark Amendments, then the Issuer shall, subject to giving notice thereof in accordance with Condition 3(d)(v), without any requirement for the consent or approval of Noteholders or Couponholders, vary these Conditions and/or the Trust Deed to give effect to such Benchmark Amendments with effect from the date specified in such notice.

At the request of the Issuer, but subject to receipt by the Trustee of a certificate signed by two directors of the Issuer pursuant to Condition 3(d)(v), the Trustee shall (at the expense of the Issuer), without any requirement for the consent or approval of the Noteholders or Couponholders, be obliged to concur with the Issuer in effecting any Benchmark Amendments (including, *inter alia*, by the execution of a deed supplemental to or amending the Trust Deed) and the Trustee shall not be liable to any party for any consequences thereof, provided that the Trustee shall not be obliged so to concur if in the sole opinion of the Trustee doing so would impose more onerous obligations upon it or expose it to any additional duties, responsibilities or liabilities or reduce or amend rights and/or the protective provisions afforded to the Trustee in these Conditions or the Trust Deed (including, for the avoidance of doubt, any supplemental trust deed) in any way.

In connection with any such variation in accordance with this Condition 3(d)(iv), the Issuer shall comply with the rules of any stock exchange on which the Notes are for the time being listed or admitted to trading.

Notwithstanding any other provision of this Condition 3(d), no Successor Rate, Alternative Rate or Adjustment Spread will be adopted, nor will any other amendment to these Conditions and/or the Trust Deed be made to effect the Benchmark Amendments, if and to the extent that, in the determination of the Issuer, the same could reasonably be expected to prejudice the qualification of the Notes as (A) in the case of Dated Subordinated Notes, Tier 2 Capital (as defined in Condition 2(d)) and/or (B) in any case, eligible liabilities or loss absorbing capacity instruments for the purposes of the Loss Absorption Regulations (as defined in Condition 5(e)).

(v) Notices, etc.

Any Successor Rate, Alternative Rate, Adjustment Spread and the specific terms of any Benchmark Amendments determined under this Condition 3(d) will be notified promptly by the Issuer to the Trustee, the Calculation Agent, the Agent, the other Paying Agents and, in accordance with Condition 12, the Noteholders. Such notice shall be irrevocable and shall specify the effective date of the Benchmark Amendments, if any.

No later than notifying the Trustee of the same, the Issuer shall deliver to the Trustee a certificate signed by two directors of the Issuer:

(A) confirming (x) that a Benchmark Event has occurred, (y) the Successor Rate or, as the case may be, the Alternative Rate and (in either case) the applicable Adjustment Spread and (z) the specific terms of any Benchmark Amendments, in each case as determined in accordance with the provisions of this Condition 3(d);

(B) certifying that the Benchmark Amendments are necessary to ensure the proper operation of such Successor Rate or Alternative Rate and/or (in either case) the applicable Adjustment Spread; and

(C) certifying that (i) the Issuer has duly consulted with an Independent Adviser with respect to each of the matters above or, if that is not the case, (ii) explaining, in reasonable detail, why the Issuer has not done so.

The Trustee shall be entitled to rely on such certificate (without further enquiry and liability to any person) as sufficient evidence thereof. The Successor Rate or Alternative Rate and (in either case) the applicable Adjustment Spread and the Benchmark Amendments (if any) specified in such certificate will (in the absence of manifest error in the determination of the Successor Rate or Alternative Rate and the Adjustment Spread and the Benchmark Amendments (if any) and without prejudice to the Trustee's ability to rely on such certificate as aforesaid) be binding on the Issuer, the Trustee, the Calculation Agent, the Agent, the other Paying Agents, the Noteholders and the Couponholders as of their effective date.

(vi) Survival of Original Reference Rate

Without prejudice to the obligations of the Issuer under Condition 3(d)(i) to (iv), the Original Reference Rate and the fallback provisions provided for in Condition 3(b), Condition 3(c)(iii)(A) or Condition 3(c)(iii)(B)(3) as applicable will continue to apply unless and until the Calculation Agent has been notified of the Successor Rate or the Alternative Rate (as the case may be), and (in either case) the applicable Adjustment Spread and any Benchmark Amendments, in accordance with Condition 3(d)(iv).

(vii) Fallbacks

If, following the occurrence of a Benchmark Event and in relation to the determination of an applicable Rate of Interest on the relevant Interest Determination Date or an applicable Reset Rate on the relevant Reset Determination Date, as the case may be, no Successor Rate or Alternative Rate (as applicable) or (in either case) applicable Adjustment Spread is determined and notified to the Calculation Agent, in each case pursuant to this Condition 3(d), prior to such Interest Determination Date or Reset Determination Date (as applicable), the Original Reference Rate will continue to apply for the purposes of determining such Rate of Interest on such Interest Determination Date or such Reset Rate on the relevant Reset Determination Date (as applicable), with the effect that the fallback provisions provided for in Condition 3(b), Condition 3(c)(iii)(A) or Condition 3(c)(iii)(B) will (if applicable) continue to apply to such determination.

For the avoidance of doubt, this Condition 3(d)(vii) shall apply to the determination of the Rate of Interest on the relevant Interest Determination Date or of the Reset Rate on the relevant Determination Date (as applicable) only, and the Rate of Interest applicable to any subsequent Interest Period(s) or Reset Period(s) is subject to the subsequent operation of, and to adjustment as provided in, this Condition 3(d).

(viii) Definitions

In this Condition 3(d), unless the context otherwise requires, the following defined terms shall have the meanings set out below:

"Adjustment Spread" means either (x) a spread (which may be positive, negative or zero), or (y) the formula or methodology for calculating a spread, in either case, which is to be applied to the Successor Rate or the Alternative Rate (as the case may be) and is the spread, formula or methodology which:

(i) in the case of a Successor Rate, is formally recommended in relation to the replacement of the Original Reference Rate with the Successor Rate by any Relevant Nominating Body; or

(ii) in the case of an Alternative Rate or (where (i) above does not apply) in the case of a Successor Rate, is in customary market usage in the international debt capital market for transactions which reference the Original Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Rate (as the case may be); or

(iii) if neither (i) nor (ii) above applies, the Issuer determines, following consultation with the Independent Adviser and acting in good faith and in a commercially reasonable manner, is recognised or acknowledged as being the industry standard for over-the-counter derivative transactions which reference the Original Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Rate (as the case may be); or

(iv) if none of (i), (ii) or (iii) above applies, the Issuer, in its discretion, following consultation with the Independent Adviser and acting in good faith and in a commercially reasonable manner, determines to be appropriate to reduce or eliminate, to the fullest extent reasonably practicable in the circumstances, any economic prejudice or benefit (as the case may be) to Noteholders and Couponholders as a result of the replacement of the Original Reference Rate with the Successor Rate or the Alternative Rate (as the case may be).

"Alternative Rate" means an alternative benchmark or screen rate which the Issuer, following consultation with the Independent Adviser, determines in accordance with Condition 3(d)(ii) has replaced the Original Reference Rate in customary market usage in the international debt capital markets for the purposes of determining rates of interest (or the relevant component part thereof) for debt securities in the same Specified Currency as the Notes and (i) in the case of Notes which are Floating Rate Notes, with an interest period of comparable duration to the relevant Interest Period or (ii) in the case of Notes which are Fixed Reset Notes, with a tenor or interest period of comparable duration to the relevant Mid-Swap Maturity, or if the Issuer, following consultation with the Independent Adviser, determines that there is no such rate, such other rate as the Issuer, following consultation with the Independent Adviser, determines in its discretion is most comparable to the Original Reference Rate;

"Benchmark Amendments" has the meaning given to it in Condition 3(d)(iv);

"Benchmark Event" means, with respect to an Original Reference Rate:

(i) the Original Reference Rate ceasing to be published for at least five Business Days or ceasing to exist or be administered; or

(ii) the later of (a) the making of a public statement by the administrator of the Original Reference Rate that it will, by a specified date, cease publishing the Original Reference Rate permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of the Original Reference Rate) and (b) the date falling six months prior to the specified date referred to in (ii)(a); or

(iii) the making of a public statement by the supervisor of the administrator of the Original Reference Rate that the Original Reference Rate has been permanently or indefinitely discontinued; or

(iv) the later of (a) the making of a public statement by the supervisor of the administrator of the Original Reference Rate that the Original Reference Rate will, by a specified date, be permanently or indefinitely discontinued and (b) the date falling six months prior to the specified date referred to in (iv)(a); or

(v) the later of (a) the making of a public statement by the supervisor of the administrator of the Original Reference Rate that means the Original Reference Rate will be prohibited from being used or that its use will be subject to restrictions or adverse consequences, in each case on or before a specified date, and (b) the date falling six months prior to the specified date referred to in (v)(a); or

(vi) it has or will prior to the next Interest Determination Date or Reset Determination Date, as applicable, become unlawful for the Agent, any other Paying Agent, the Calculation Agent or the Issuer to calculate any payments due to be made to any Noteholder or Couponholder using the Original Reference Rate (including, without limitation, under the Benchmark Regulation (EU) 2016/1011, if applicable); or

(vii) the making of a public statement by the supervisor of the administrator of such Original Reference Rate announcing that such Original Reference Rate is no longer representative or may no longer be used;

"Independent Adviser" means an independent financial institution of international repute or an independent adviser of recognised standing with appropriate expertise in the international debt capital markets appointed by the Issuer at its own expense under Condition 3(d)(i);

"Original Reference Rate" means the benchmark or screen rate (as applicable) originally specified for the purpose of determining the relevant Rate of Interest (or any relevant component part(s) thereof) in respect of any Interest Period(s) or Reset Period(s) (provided that if, following one or more Benchmark Events, such originally specified benchmark or screen rate (or any Successor Rate or Alternative Rate which has replaced it) has been replaced by a (or a further) Successor Rate or Alternative Rate and a Benchmark Event subsequently occurs in respect of such Successor Rate or Alternative Rate, the term "Original Reference Rate" shall include any such Successor Rate or Alternative Rate);

"Relevant Nominating Body" means, in respect of a benchmark or screen rate (as applicable):

(ii) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, or any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable); or

(iii) any working group or committee sponsored by, chaired or co-chaired by or constituted at the request of (a) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, (b) any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable), (c) a group of the aforementioned central banks or other supervisory authorities or (d) the Financial Stability Board or any part thereof; and

"Successor Rate" means a successor to or replacement of the Original Reference Rate which is formally recommended by any Relevant Nominating Body.

(e) Exempt Notes

In the case of Exempt Notes which are also Floating Rate Notes where the applicable Pricing Supplement identifies that Screen Rate Determination applies to the calculation of interest, if the Reference Rate from time to time is specified in the applicable Pricing Supplement as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Exempt Notes will be determined as provided in the applicable Pricing Supplement.

The rate or amount of interest payable in respect of Exempt Notes which are not also Fixed Rate Notes, Fixed Rate Reset Notes or Floating Rate Notes shall be determined in the manner specified in the applicable Pricing Supplement.

(f) Accrual of Interest

Each Note (or in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest (if any) from the date for its redemption unless payment of principal is improperly withheld or refused. In such event, interest will continue to accrue as provided in the Trust Deed.

4. Payments

(a) Method of Payment

Subject as provided below:

(i) payments in a Specified Currency other than euro will be made by transfer to an account in the relevant Specified Currency maintained by the payee with, or by a cheque in such Specified Currency drawn on, a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is New Zealand dollars or Australian dollars, shall be Auckland and Sydney, respectively); and

(ii) payments in euro will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or by a euro cheque.

Payments will be subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 6 and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "Code") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 6) any law implementing an intergovernmental approach thereto.

(b) Presentation of Notes and Coupons

Payments of principal in respect of definitive Notes will (subject as provided below) be made in the manner provided in paragraph (a) above only against surrender of definitive Notes, and payments of interest in respect of definitive Notes will (subject as provided below) be made as aforesaid only against surrender of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia and its possessions)).

Fixed Rate Notes in definitive form should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 6) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 7) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

Upon any Fixed Rate Note becoming due and repayable prior to its Maturity Date, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the date on which any Floating Rate Note, Fixed Rate Reset Note or Long Maturity Note in definitive form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof.

A "Long Maturity Note" is a Fixed Rate Note (other than a Fixed Rate Note which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon provided that such Note shall cease to be a Long Maturity Note on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the nominal amount of such Note.

If the due date for redemption of any definitive Note is not an Interest Payment Date, interest (if any) accrued in respect of such Note from (and including) the preceding Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant definitive Note.

(c) Payments in respect of global Notes

Payments of principal and interest (if any) in respect of Notes represented by any global Note will (subject as provided below) be made in the manner specified above in relation to definitive Notes or otherwise in the manner specified in the relevant global Note, where applicable against presentation or surrender, as the case may be, of such global Note at the specified office of any Paying Agent. A record of each payment made distinguishing between any payment of principal and any payment of interest, will be made on such global Note either by such Paying Agent or in the records of Euroclear and Clearstream, Luxembourg, as applicable.

(d) General provisions applicable to payments

The holder of a global Note shall be the only person entitled to receive payments in respect of Notes represented by such global Note and the Issuer will be discharged by payment to, or to the order of, the holder of such global Note in respect of each amount so paid. Each of the persons shown in the records of Clearstream, Luxembourg or Euroclear as the beneficial holder of a particular nominal amount of Notes represented by such global Note must look solely to Clearstream, Luxembourg or Euroclear, as the case may be, for his share of each payment so made by the Issuer to, or to the order of, the holder of such global Note.

Notwithstanding the foregoing, if any amount of principal and/or interest in respect of this Note is payable in U.S. dollars, such U.S. dollar payments of principal and/or interest in respect of this Note will be made at the specified office of a Paying Agent in the United States if:

(i) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. dollars at such specified offices outside the United States of the full amount of principal and interest on the Notes in the manner provided above when due;

(ii) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. dollars; and

(iii) such payment is then permitted under United States law without involving, in the opinion of the Issuer, adverse tax consequences to the Issuer.

(e) Payment Day

If the date for payment of any amount in respect of any Note or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, "Payment Day" means any day which (subject to Condition 7) is:

(i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits): (A) in the case of Notes in definitive form only, in the relevant place of presentation; and (B) in each Additional Financial Centre (other than TARGET2 System) specified in the applicable Final Terms;

(ii) if TARGET2 System is specified as an Additional Financial Centre in the applicable Final Terms, as day on which the TARGET2 System is open; and

(iii) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments in the principal financial centre of the country of the relevant Specified Currency (which, if the Specified Currency is New Zealand dollars or Australian dollars, shall be Auckland and Sydney, respectively) or (2) in relation to any sum payable in euro a day on which the TARGET2 system is open.

(f) Interpretation of Principal and Interest

Any reference in these Conditions to principal in respect of the Notes shall be deemed to include, as applicable:

(i) any additional amounts which may be payable with respect to principal under Condition 6 or pursuant to any undertaking given in addition thereto or in substitution therefor pursuant to the Trust Deed;

(ii) the Final Redemption Amount of the Notes;

(iii) the Early Redemption Amount of the Notes;

(iv) the Optional Redemption Amount(s) (if any) of the Notes; and

(v) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Notes.

Any reference in these Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 6 or pursuant to any undertakings given in addition thereto or in substitution therefor pursuant to the Trust Deed.

5. Redemption and Purchase; Substitution or Variation

(a) At Maturity

Unless previously redeemed or purchased and surrendered for cancellation as specified below, each Note will be redeemed by the Issuer at its Final Redemption Amount specified in the applicable Final Terms in the relevant Specified Currency on the Maturity Date specified in the applicable Final Terms.

(b) Redemption for Tax Reasons

The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time (in the case of Notes other than Floating Rate Notes) or on any Interest Payment Date (in the case of Floating Rate Notes), on not giving less than the minimum period and not more than the maximum period of notice specified in the applicable Final Terms to the Trustee, the Agent and, in accordance with Condition 12, the Noteholders (which notice shall be irrevocable), if the Issuer satisfies the Trustee immediately before the giving of the aforementioned notice that:

(a) in the case of all Notes:

(i) on the occasion of the next payment due under the Notes, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 6 as a result of any change in, or amendment to, the laws or regulations of the United Kingdom or any political subdivision or any authority thereof or therein having power to tax, or any change or in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Issue Date of the first Tranche of the Notes; and

(ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it; or

(b) in the case of Dated Subordinated Notes only:

(i) the Issuer is no longer, or will no longer be, entitled to claim a deduction in respect of any payments of interest under the Dated Subordinated Notes in computing its taxation liabilities or the amount of such deduction is materially reduced; and

(ii) the consequences of such change in tax treatment cannot be avoided by the Issuer by taking reasonable measures available to it,

(the circumstances set out in subparagraphs (a) and (b) each being a "Tax Event") provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which:

(c) (in the case of subparagraph (a) above), the Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due; or

(d) (in the case of subparagraph (b) above), the change in tax treatment takes effect.

Prior to the publication of any notice of redemption in relation to a Tax Event pursuant to this Condition, the Issuer shall deliver to the Trustee (i) a certificate signed by two directors of the Issuer stating that the Issuer is entitled to effect such redemption in relation to a Tax Event and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and (ii) an opinion of independent legal advisers of recognised standing to the effect that the circumstances in subparagraphs (a)(i) or (b)(i) above exist, and the Trustee shall be entitled to accept the certificate as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Noteholders and the Couponholders.

Notes redeemed pursuant to this Condition 5(b) will be redeemed at their Early Redemption Amount referred to in paragraph (g) below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

(c) Redemption at the Option of the Issuer (Issuer Call)

If Issuer Call is specified as being applicable in the applicable Final Terms, the Issuer may (subject to Condition 5(j)), having given not less than the minimum period nor more than the maximum period of notice specified in applicable Final Terms to the Trustee, the Agent and, in accordance with Condition 12, the Noteholders (which notice shall be irrevocable), redeem all or (if so specified in the applicable Final Terms) some only of the Notes then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in the applicable Final Terms together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount or not more than the Higher Redemption Amount, in each case as may be specified in the applicable Final Terms.

In the case of a partial redemption of Notes, the Notes to be redeemed ("Redeemed Notes") will (i) in the case of Redeemed Notes represented by definitive Notes, be selected individually by lot, not more than 30 days prior to the date fixed for redemption and (ii) in the case of Redeemed Notes represented by a global Note, be selected in accordance with the rules of Clearstream, Luxembourg and/or Euroclear (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion). In the case of Redeemed Notes represented by definitive Notes, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 12 not less than 10 days prior to the date fixed for redemption.

(d) Redemption of Dated Subordinated Notes at the option of the Issuer due to Regulatory Capital Event

This Condition 5(d) is only applicable to Dated Subordinated Notes.

If Regulatory Capital Event Call is specified as being applicable in the applicable Final Terms relating to Dated Subordinated Notes and a Regulatory Capital Event has occurred and is continuing, the Issuer may (subject to Condition 5(j)), having given not less than the minimum period nor more than the maximum period of notice specified in the applicable Final Terms to the Trustee, the Agent and, in accordance with Condition 12, the Noteholders (which notice shall be irrevocable and shall specify the date fixed for redemption), redeem all, but not some only, of such Dated Subordinated Notes at any time (in the case Notes other than Floating Rate Notes) or on the next Interest Payment Date (in the case of Floating Rate Notes). Upon the expiry of such notice the Issuer shall be bound to redeem such Dated Subordinated Notes accordingly. Prior to the publication of any notice of redemption pursuant to this Condition 5(d), the Issuer shall deliver to the Trustee a certificate signed by two directors of the Issuer stating that the relevant requirement or circumstance referred to in this Condition 5(d) applies. Such certificate shall, in the absence of manifest error, be treated and accepted by the Issuer, the Trustee, the Noteholders and all other interested parties as correct, conclusive and sufficient evidence thereof and the Trustee is entitled to rely on such certificate without further enquiry and liability to any person.

Dated Subordinated Notes redeemed pursuant to this Condition 5(d) will be redeemed at their Early Redemption Amount referred to in paragraph (g) below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

In these Conditions, a "Regulatory Capital Event" will occur if at any time there is a change in the regulatory classification of the Dated Subordinated Notes occurring after the Issue Date of the first Tranche of Notes of the relevant Series that does, or will, result in the Dated Subordinated Notes being fully or partially excluded from the Tier 2 Capital of the Group and, for the avoidance of doubt, any amortisation of such Dated Subordinated Notes pursuant to Article 64 of the Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms amending Regulation (EU) No. 648/2012 (or any equivalent or successor provision) shall not comprise a Regulatory Capital Event.

(e) Redemption of Senior Notes at the option of the Issuer due to Loss Absorption Disqualification Event (Loss Absorption Disqualification Event Call)

This Condition 5(e) is only applicable to Senior Notes.

If Loss Absorption Disqualification Event Call is specified as being applicable in the applicable Final Terms relating to Senior Notes and a Loss Absorption Disqualification Event has occurred and is continuing, the Issuer may (subject to Condition 5(j)), having given not less than the minimum period nor more than the maximum period of notice specified in the applicable Final Terms to the Trustee, the Agent and, in accordance with Condition 12, the Noteholders (which notice shall be irrevocable and shall specify the date fixed for redemption (the "Loss Absorption Disqualification Redemption Date")) redeem all, but not some only, of such Senior Notes at any time (in the case of Notes other than Floating Rate Notes) or on the next Interest Payment Date (in the case of Floating Rate Notes) and at the Loss Absorption Disqualification Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Final Terms together, if appropriate, with interest accrued to (but excluding) the Loss Absorption Disqualification Redemption Date. Upon the expiry of such notice the Issuer shall be bound to redeem such Senior Notes accordingly. Prior to the publication of any notice of redemption pursuant to this Condition 5(e), the Issuer shall deliver to the Trustee a certificate signed by two directors of the Issuer stating that the relevant requirement or circumstance referred to in this Condition 5(e) applies and any preconditions to the exercise of the Loss Absorption Disqualification Event Call specified in any Loss Absorption Regulation are satisfied. Such certificate shall, in the absence of manifest error, be treated and accepted by the Issuer, the Trustee, the Noteholders and all other interested parties as correct, conclusive and sufficient evidence thereof and the Trustee is entitled to rely on such certificate without further enquiry and liability to any person.

In these Conditions:

a "Loss Absorption Disqualification Event" will occur if:

(i) at the time that any Loss Absorption Regulation becomes effective after the Issue Date of the first Tranche of Senior Notes, and as a result of such Loss Absorption Regulation becoming so effective, in each case with respect to the Issuer and/or the Group, such Senior Notes are not or will not be eligible to qualify in full towards the Issuer's and/or the Group's minimum requirements for (A) own funds and eligible liabilities and/or (B) loss absorbing capacity instruments; or

(ii) as a result of any amendment to, or change in, any Loss Absorption Regulation, or any change in the application or official interpretation of any Loss Absorption Regulation, in any such case becoming effective on or after the Issue Date of the Senior Notes, such Senior Notes are or will be either (x) fully excluded or (y) fully or partially excluded (as specified in the applicable Final Terms relating to such Senior Notes) from the Issuer's and/or the Group's minimum requirements for (A) own funds and eligible liabilities and/or (B) loss absorbing capacity instruments,

in each case as such minimum requirements are applicable to the Issuer and/or the Group and determined in accordance with, and pursuant to, the relevant Loss Absorption Regulations; provided that in the case of (i) and (ii) above, a Loss Absorption Disqualification Event shall not occur where the exclusion of such Senior Notes from the relevant minimum requirement(s) is due to the remaining maturity of such Senior Notes being less than any period prescribed by any applicable eligibility criteria for such minimum requirements under the relevant Loss Absorption Regulations effective with respect to the Issuer and/or the Group on the Issue Date of the first Tranche of such Senior Notes.

"Loss Absorption Regulations" means, at any time, the laws, regulations, requirements, guidelines, rules, standards and policies relating to minimum requirements for own funds and eligible liabilities and/or loss absorbing capacity instruments of the United Kingdom, the Prudential Regulation Authority of the United Kingdom, the United Kingdom resolution authority, the Financial Stability Board and/or of the European Parliament or of the Council of the European Union then in effect in the United Kingdom including, without limitation to the generality of the foregoing, any delegated or implementing acts (such as regulatory technical standards) adopted by the European Commission which are applicable to the United Kingdom and any regulations, requirements, guidelines, rules, standards and policies relating to minimum requirements for own funds and eligible liabilities and/or loss absorbing capacity instruments adopted by the Prudential Regulation Authority of the United Kingdom and/or the United Kingdom resolution authority from time to time (whether or not such regulations, requirements, guidelines, rules, standards or policies are applied generally or specifically to the Issuer or to the Group).

(f) Redemption at the Option of the Noteholders other than holders of Dated Subordinated Notes

This Condition 5(f) is only applicable to Senior Notes.

If Investor Put is specified as being applicable in the applicable Final Terms, upon the holder of any Note giving to the Issuer in accordance with Condition 12 not less than the minimum period nor more than the maximum period of notice specified in the applicable Final Terms, (which notice shall be irrevocable) the Issuer will, upon the expiry of such notice, redeem such Note on the Optional Redemption Date and at the Optional Redemption Amount together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date.

If this Note is in definitive form and held outside Euroclear or Clearstream, Luxembourg, to exercise the right to require redemption of this Note the holder of this Note must deliver, at the specified office of any Paying Agent at any time during normal business hours of such Paying Agent falling within the notice period, a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent (a "Put Notice") and in which the holder must specify a bank account (or, if payment is by cheque, an address) to which payment is to be made under this Condition accompanied by this Note or evidence satisfactory to the Paying Agent concerned that this Note will, following delivery of the Put Notice, be held to its order or under its control. If this Note is represented by a global Note or is in definitive form and held through Euroclear or Clearstream, Luxembourg, to exercise the right to require redemption of this Note the holder of this Note must, within the notice period, give notice to the Agent of such exercise in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg (which may include notice being given on his instruction by Euroclear or Clearstream, Luxembourg or any common depositary or common safekeeper, as the case may be, for them to the Agent by electronic means) in a form acceptable to Euroclear and Clearstream, Luxembourg from time to time.

Any Put Notice given by a holder of any Note pursuant to this paragraph shall be irrevocable unless the Issuer otherwise agrees.

(g) Early Redemption Amounts

For the purpose of Conditions 5(b) and 5(d) above and Condition 8:

(i) each Note (other than a Zero Coupon Note) will be redeemed at its Early Redemption Amount; and

(ii) each Zero Coupon Note will be redeemed at its Early Redemption Amount, being an amount calculated in accordance with the following formula:

Early Redemption Amount = RP x $(1 + AY)^y$

where:

"RP" means the Reference Price;

"AY" means the Accrual Yield expressed as a decimal; and

"y" is the Day Count Fraction specified in the applicable Final Terms which will be either (i) 30/360 (in which case the numerator will be equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each in the case of any currency other than Sterling and euro and on the basis of a year of 365 days, or 366 days in the case of a leap year, in the case of Sterling and euro) from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator will be 360 in the case of any currency other than Sterling and euro and 365, or 366 in the case of a leap year, in the case of Sterling and euro, or (ii) Actual/360 (in which case the numerator will be equal to the actual number of days from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator will be 360) or (iii) Actual/365 (in which case the numerator will be equal to the actual number of days from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator will be 365).

(h) Purchases

The Issuer or any Subsidiary of the Issuer may (subject to Condition 5(j)) at any time purchase Notes (provided that, in the case of definitive Notes, all unmatured Coupons and Talons appertaining thereto are purchased therewith) at any price in the open market or otherwise. Such Notes may be held, reissued, resold or, at the option of the Issuer, surrendered to any Paying Agent for cancellation.

(i) Cancellation

All Notes which are redeemed will forthwith be cancelled (together with all unmatured Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Notes so cancelled and Notes purchased and surrendered for cancellation pursuant to Condition 5(h) above (together with all unmatured Coupons and Talons cancelled therewith) shall be forwarded to the Agent and cannot be reissued or resold.

(j) Conditions to redemption and purchase

Any redemption or purchase of Senior Notes (if applicable pursuant to any Loss Absorption Regulations) and/or Dated Subordinated Notes pursuant to Conditions 5(b), 5(c), 5(d), 5(e) or 5(h) is subject to:

(1) the Issuer having obtained Regulatory Approval; and

(2) the Issuer being in compliance with the Regulatory Pre-conditions.

For the purposes of these Conditions:

"Regulatory Approval" means, at any time, such approval, consent or prior permission by, or notification required within prescribed periods to, the Regulator, or such waiver of the then prevailing Capital Rules in the case of Dated Subordinated Notes, or the then prevailing Loss Absorption Regulations in the case of Senior Notes, from the Regulator, as is required under the then prevailing Capital Rules in the case of Dated Subordinated Notes, or the then prevailing Loss Absorption Regulations in the case of Senior Notes, at such time; and

"Regulatory Pre-conditions" means:

(1) if, at the time of such redemption or purchase, the prevailing Capital Rules in the case of Dated Subordinated Notes, or the prevailing Loss Absorption Regulations in the case of Senior Notes, permit the redemption or purchase after compliance with any pre-conditions, the Issuer having complied with such pre-conditions; and

(2) in the case of a redemption pursuant to Conditions 5(b) or 5(d) occurring prior to the fifth anniversary of the Issue Date of the first Tranche of the relevant Series of the Dated Subordinated Notes only,

    (x) the Regulator being satisfied (such satisfaction to be evidenced by the granting of Regulatory Approval) that the Issuer has demonstrated to the satisfaction of the Regulator that the circumstance that entitles the Issuer to exercise its right of redemption was not reasonably foreseeable, judged at the Issue Date of the first Tranche of the relevant Series of the Dated Subordinated Notes, and is (in the case of a redemption pursuant to Condition 5(d)) sufficiently certain or (in the case of a redemption pursuant to Condition 5(b)) material; or

    (y) if, at the time of such redemption, the prevailing Capital Rules permit the redemption after compliance with an alternative pre-condition, the Issuer having complied with such other pre-condition.

(k) Late payment on Zero Coupon Notes

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to this Condition 5 or upon its becoming due and repayable as provided in Condition 8 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in Condition 5(g)(ii) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and repayable were replaced by references to the date which is the earlier of:

(i) the date on which all amounts due in respect of such Zero Coupon Note have been paid; and

(ii) five days after the date on which the full amount of the moneys payable has been received by the Agent or the Trustee and notice to that effect has been given to the Noteholders in accordance with Condition 12.

(l) Substitution or Variation

This Condition 5(l) is only applicable to Senior Notes.

If Substitution or Variation is specified as being applicable in the applicable Final Terms, then following the occurrence of a Loss Absorption Disqualification Event in relation to the Notes, the Issuer may, subject to the other provisions of this Condition 5(l) (without any requirement for the consent or approval of the Noteholders, the Couponholders or the Trustee (but subject to the notice requirements below)), either:

(i) substitute all (but not some only) of the Notes for; or

(ii) vary the terms of all (but not some only) of the Notes, so that they remain or, as appropriate, become, Compliant Securities.

Upon the expiry of the notice required by this Condition 5(l), the Issuer shall either substitute or vary the terms of the Notes in accordance with this Condition 5(l) and, subject as set out below, the Trustee shall agree to such substitution or variation.

In connection with any substitution or variation in accordance with this Condition 5(l), the Issuer shall comply with the rules of any listing authority, stock exchange and/or quotation system on which the Notes are for the time being admitted to listing, trading and/or quotation.

Any substitution or variation in accordance with this Condition 5(l) is subject to the Issuer (i) obtaining any Regulatory Approval (as defined in Condition 5(j) above) and (ii) giving not less than the minimum period nor more than the maximum period of notice specified in the applicable Final Terms to the Trustee, the Agent and, in accordance with Condition 12, the Noteholders (which notice shall be irrevocable).

Any substitution or variation in accordance with this Condition 5(l) shall not otherwise give the Issuer an option to redeem the Notes under the Conditions.

Prior to the publication of any notice of substitution or variation pursuant to this Condition 5(l), the Issuer shall deliver to the Trustee a certificate signed by two directors of the Issuer stating that the Loss Absorption Disqualification Event giving rise to the right to substitute or vary has occurred and is continuing as at the date of the certificate, and the Trustee shall be entitled to accept such certificate without any further inquiry or liability as sufficient evidence of the same and it shall be conclusive and binding on the Noteholders and the Couponholders.

The Trustee shall concur in the substitution of the Notes for Compliant Securities, or the variation of the terms of the Notes so that they remain or become Compliant Securities, as the case may be, provided that the Trustee shall not be obliged to concur in any such substitution or variation if the terms of the proposed Compliant Securities or the concurring in such substitution or variation would impose, in the Trustee's opinion, more onerous obligations upon it or require the Trustee to incur any liability for which it is not indemnified and/or secured and/or pre-funded to its satisfaction.

For the purposes of this Condition 5(l):

(1) “Compliant Securities” means securities:

   (i) that are issued directly by the Issuer;

   (ii) that have a ranking at least equal to that of the Notes immediately prior to the relevant substitution or variation;

   (iii) that are listed on a recognised stock exchange within the meaning of Section 1005 of the Income Tax Act 2007 (as the same may be amended, supplemented or replaced from time to time) and/or are admitted to listing, trading and/or quotation by any other listing authority, stock exchange and/or quotation system, in each case to the extent, and on the same such other listing authority, stock exchange and/or quotation system, that the Notes were so listed or admitted to listing, trading, and/or quotation (as the case may be) immediately prior to the relevant substitution or variation; and

   (iv) where the Notes had a published credit rating from one or more Rating Agencies immediately prior to their substitution or variation, to which each such Rating Agency has assigned, or has announced its intention to assign, an equal or higher published rating;

   provided that such securities:

   (a) contain terms such that they comply with the then prevailing Loss Absorption Regulations;

   (b) include terms which provide for (i) at least the same Rate of Interest and amounts payable on redemption and (ii) the same Interest Payment Dates and Maturity Date as apply from time to time to the Notes immediately prior to such substitution or variation;

   (c) shall preserve any existing rights under the Conditions and the Trust Deed to any accrued interest, principal and/or premium which have not been satisfied;

   (d) do not contain terms providing for the mandatory or voluntary deferral of payments of principal and/or interest;

(e) do not contain contractual terms providing for loss absorption through principal write-down, write-off or conversion into ordinary shares; and

(f) otherwise have terms not materially less favourable to Noteholders than the terms of the Notes immediately prior to the relevant substitution or variation (as reasonably determined by the Issuer in consultation with an Independent Adviser, and provided that a certification to such effect of two directors of the Issuer shall have been delivered to the Trustee prior to the issue of the relevant securities);

(2) "Independent Adviser" means an independent financial institution of international repute or other independent financial adviser experienced in the international debt capital markets, in each case appointed by the Issuer at the Issuer's expense under this Condition 5(l); and

(3) "Rating Agency" means Fitch Ratings Limited, Moody's Investors Service Ltd., S&P Global Ratings Europe Limited or any of their respective affiliates or successors.

6. Taxation

All payments of principal and interest in respect of the Notes and Coupons by or on behalf of the Issuer will be made without withholding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of the United Kingdom or any authority thereof or therein having power to tax unless such withholding or deduction is required by law. In such event, the Issuer will (a) in the case of Senior Notes, in respect of payments of principal and/or interest (if any) and (b) in the case of Dated Subordinated Notes, in respect of payments of interest (if any) only, pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Notes or Coupons after such withholding or deduction shall equal the respective amounts of (in the case of Senior Notes only) principal and (in the case of Senior Notes and Dated Subordinated Notes) interest, if any, which would otherwise have been receivable in respect of the Notes or Coupons, as the case may be, in the absence of such withholding or deduction; except that no such additional amount shall be payable with respect to any Note or Coupon:

(i) the holder of which is liable for such taxes or duties in respect of such Note or Coupon by reason of his having some connection with the United Kingdom other than the mere holding of such Note or Coupon; or

(ii) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to such additional amount on presenting the same for payment on such thirtieth day; or

(iii) presented for payment in the United Kingdom; or

(iv) where such withholding or deduction would have been avoided by the Noteholder or Couponholder (or a person on behalf of the Noteholder or Couponholder) complying with any statutory requirement or by making a declaration of non-residence or other similar claim for exemption to any authority of or in the United Kingdom; or

(v) where such withholding or deduction is required pursuant to an agreement described in Section 1471(b) of the Code or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or any law implementing an intergovernmental approach thereto.

As used herein, the "Relevant Date" means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Agent or the Trustee on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Noteholders in accordance with Condition 12.

7. Prescription

The Notes and Coupons will become void unless claims in respect of principal and/or interest are made within a period of 10 years (in the case of principal) and five years (in the case of interest) after the Relevant Date (as defined in Condition 6) therefor.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 4(b) or any Talon which would be void pursuant to Condition 4(b).

8. Events of Default

(a) Non-Restrictive Events of Default in respect of Senior Notes

Unless the applicable Final Terms specify Restrictive Events of Default as being applicable (in which case this Condition 8(a) shall not apply), the Trustee at its discretion may, and if so requested in writing by the holders of at least one-quarter in nominal amount of the Senior Notes then outstanding or if so directed by an Extraordinary Resolution of the Noteholders shall, give notice to the Issuer that the Senior Notes are, and they shall accordingly thereby forthwith become, immediately due and payable at the Early Redemption Amount (as defined in Condition 5(g)), together with accrued interest as provided in the Trust Deed, if any of the following events shall occur and be continuing:

(i) if default is made for a period of seven days or more in the payment of any principal in respect of the Senior Notes or any of them or for a period of 14 days or more in the payment of any interest in respect of the Senior Notes or any of them, provided that it shall not be such a default to refuse or withhold any such payment in order to comply with any fiscal or other law or regulation or with the order of any court of competent jurisdiction; or

(ii) if an order is made or an effective resolution passed for winding-up the Issuer; or

(iii) if an encumbrancer takes possession or an administrative or other receiver is appointed of the whole or any material part of the undertaking or assets of the Issuer, or if a distress, execution or any similar proceeding is levied or enforced upon or sued out against any of the chattels or property of the Issuer and is not discharged within 21 days; or

(iv) if default is made by the Issuer in the performance or observance of any obligation, condition or provision binding on it under the Senior Notes or the Trust Deed (other than any obligation for the payment of any principal or interest in respect of the Senior Notes) and, except where, in the opinion of the Trustee, such default is not capable of remedy (in which case the Senior Notes will become due and repayable subject to, and immediately upon, the Trustee certifying and giving notice as aforesaid), such default continues for 30 days after written notice thereof by the Trustee to the Issuer requiring the same to be remedied.

At any time after the Senior Notes become due and repayable and have not been repaid, the Trustee may at its discretion and without further notice take such proceedings against the Issuer as it may think fit to enforce the obligations of the Issuer under the Trust Deed and the Senior Notes and the relative Coupons, but it shall not be bound to take any such proceedings or any other action unless (i) it shall have been so directed by an Extraordinary Resolution of the holders of the Senior Notes or so requested in writing by holders of at least one-quarter in nominal amount of the Senior Notes then outstanding and (ii) it shall have been indemnified to its satisfaction. No holder of a Senior Note, or of a Coupon appertaining thereto, shall be entitled to proceed directly against the Issuer unless the Trustee, having become bound so to do, fails or is unable or neglects to do so within 60 days and such failure or inability or neglect is continuing.

(b) Restrictive Events of Default

(i) In the case of (i) Dated Subordinated Notes or (ii) any Series of Senior Notes for which Restrictive Events of Default is specified as being applicable in the applicable Final Terms:

  (1) if default is made for a period of (A) seven days or more in the payment of any principal in respect of the Dated Subordinated Notes or, if applicable, the Senior Notes, or any of them, or (B) 14 days or more in the payment of any interest in respect of the Dated Subordinated Notes or, if applicable, the Senior Notes, or any of them, the Trustee in its discretion may, and if so requested in writing by Noteholders of at least one-quarter in nominal amount of the Dated Subordinated Notes or, if applicable, the Senior Notes, then outstanding or if so directed by an Extraordinary Resolution, shall (subject in each case to Condition 8(b)(iii)) institute steps, actions or proceedings for the winding-up of the Issuer, but may take no further or other action to enforce, prove or claim for any such payment, provided that it shall not be such a default to refuse or withhold any such payment in order to comply with any fiscal or other law or regulation or with the order of any court of competent jurisdiction. Where there is doubt as to the validity or applicability of any such law, regulation or order, it shall not be such a default to refuse or withhold any such payment in accordance with advice as to such validity or applicability provided by independent legal advisers acceptable to the Trustee at any time during such period; and

  (2) if an order is made by the competent court or resolution passed for the winding-up of the Issuer (other than an Approved Winding-up), the Trustee at its discretion may, and if so requested by Noteholders of at least one-quarter in nominal amount of the Dated

Subordinated Notes or, if applicable, the Senior Notes, then outstanding or if so directed by an Extraordinary Resolution shall (subject in each case to Condition 8(b)(iii)), give notice to the Issuer (or, as applicable, the liquidator) that the Dated Subordinated Notes or, if applicable, the Senior Notes, are, and they shall accordingly forthwith become, immediately due and repayable at the amount equal to their Early Redemption Amount and any accrued and unpaid interest, and, in the case of Dated Subordinated Notes, the claim in respect thereof will be subject to the subordination provided for in Condition 2(b).

(ii) Without prejudice to Conditions 8(b)(i)(1) and 8(b)(i)(2), the Trustee may at its discretion and without further notice institute such steps, actions or proceedings against the Issuer as it may think fit to enforce any obligation, condition or provision binding on the Issuer under the Trust Deed, these Conditions and the Dated Subordinated Notes or, if applicable, the Senior Notes, and the relative Coupons (if any) (other than any payment obligation of the Issuer under or arising from the Dated Subordinated Notes or, if applicable, the Senior Notes, and the relative Coupons (if any) or the Trust Deed including, without limitation, payment of any principal or interest in respect of the Dated Subordinated Notes or, if applicable, the Senior Notes, and the relative Coupons (if any) and any damages awarded for breach of any obligations) provided that in no event shall the Issuer, by virtue of the institution of any such proceedings, be obliged to pay any sum or sums (in cash or otherwise) sooner than the same would otherwise have been payable by it. Nothing in this Condition 8(b)(ii) shall, subject to Condition 8(b)(i)(1), prevent the Trustee instituting steps, actions or proceedings for the winding-up of the Issuer, proving in any winding-up of the Issuer and/or claiming in any liquidation of the Issuer in respect of any payment obligations of the Issuer arising from the Dated Subordinated Notes or, if applicable, the Senior Notes, and the relative Coupons (if any) or the Trust Deed (including without limitation, payment of any principal or interest in respect of the Dated Subordinated Notes or, if applicable, the Senior Notes, and the relative Coupons (if any) and any damages awarded for any breach of any obligations).

(iii) The Trustee shall not be bound to take any of the actions referred to in Condition 8(b)(i)(1), 8(b)(i)(2) or 8(b)(ii) to enforce the obligations of the Issuer under the Trust Deed or the Dated Subordinated Notes or, if applicable, the Senior Notes, unless (i) it shall have been so directed by an Extraordinary Resolution of the Noteholders or so requested in writing by the holders of at least one-fifth in nominal amount of the Dated Subordinated Notes or, if applicable, the Senior Notes, then outstanding and (ii) provided in each case it has been indemnified and/or secured and/or prefunded to its satisfaction against all costs, charges, liabilities and expenses which may be incurred by it in connection with such action, including the costs of its management's time and/or other internal resources, calculated in accordance with its normal hourly rates in force from time to time;

(iv) No Noteholder or Couponholder shall be entitled to proceed directly against the Issuer or to institute steps, actions or proceedings for the winding-up or claim in the liquidation of the Issuer or to prove in such winding-up unless the Trustee, having become so bound to proceed or being able to prove in such winding-up or claim in such winding-up, fails or is unable or neglects to do so within 60 days and such failure or inability or neglect is continuing, in which case the relevant Noteholder or Couponholder shall have only such rights against the Issuer as those which the Trustee is entitled to exercise as set out in this Condition 8(b).

(v) No remedy against the Issuer, other than as referred to in this Condition 8(b), shall be available to the Trustee, the Noteholders or the Couponholders, whether for the recovery of amounts owing in respect of the Dated Subordinated Notes or, if applicable, the Senior Notes, or under the Trust Deed or in respect of any breach by the Issuer of any of its other obligations under or in respect of the Dated Subordinated Notes or, if applicable, the Senior Notes, or under the Trust Deed.

9. Replacement of Notes, Coupons and Talons

Should any Note, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Agent, or any other place approved by the Trustee of which notice shall have been published in accordance with Condition 12, upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Notes, Coupons or Talons must be surrendered before replacements will be issued.

10. Agent and Paying Agents

The names of the initial Agent in respect of the Notes and the other initial Paying Agents in respect of the Notes and their initial specified offices are set out below. If any additional Paying Agents are appointed in connection with any Series, the names of such Paying Agents will be specified in Part B of the applicable Final Terms.

The Issuer is, with the prior written approval of the Trustee, entitled to vary or terminate the appointment of any Paying Agent and/or appoint additional or other Paying Agents and/or approve any change in the specified office through which any Paying Agent acts, provided that:

(i) so long as the Notes are listed on any stock exchange, there will at all times be a Paying Agent with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or any other relevant authority;

(ii) there will at all times be an Agent; and

(iii) there will at all times be a Paying Agent in a jurisdiction in continental Europe, other than the jurisdiction in which the Issuer is incorporated.

In addition, the Issuer shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in the final paragraph of Condition 4(d). Notice of any variation, termination, appointment or change in Paying Agents will be given to the Noteholders promptly by the Issuer in accordance with Condition 12.

11. Exchange of Talons

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Note to which it appertains) a further Talon, subject to the provisions of Condition 7.

12. Notices

All notices regarding the Notes will be valid if published in a leading English language daily newspaper of general circulation in London. It is expected that such publication will be made in the *Financial Times* or any other daily newspaper in London approved by the Trustee or, if this is not possible, in another English language daily newspaper approved by the Trustee with general circulation in Europe. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any other stock exchange or other relevant authority on which the Notes are for the time being listed or by which they have been admitted to trading including publication on the website of the relevant stock exchange or relevant authority if required by those rules. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the first date on which publication has been made in all the required newspapers.

Until such time as any definitive Notes are issued, there may (provided that, in the case of Notes listed on a stock exchange or admitted to trading by any other relevant authority, such stock exchange or other relevant authority permits), so long as the global Note(s) is or are held in its/their entirety on behalf of Clearstream, Luxembourg and Euroclear, be substituted for such publication in such newspaper(s) or such websites the delivery of the relevant notice to Clearstream, Luxembourg and Euroclear for communication by them to the holders of the Notes. Any such notice shall be deemed to have been given to the holders of the Notes on the day after the day on which the said notice was given to Clearstream, Luxembourg and/or Euroclear.

Notices to be given by any holder of the Notes shall be in writing and given by lodging the same, together with the relative Note or Notes, with the Agent. Whilst any of the Notes are represented by a global Note, such notice may be given by any holder of a Note to the Agent via Clearstream, Luxembourg and/or Euroclear, as the case may be, in such manner as the Agent and Clearstream, Luxembourg and/or Euroclear, as the case may be, may approve for this purpose.

13. Meetings of Noteholders, Modification and Waiver

The Trust Deed contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions, the Notes, the Coupons or certain provisions of the Trust Deed. Such a meeting may be convened by the Issuer or the Trustee or by Noteholders holding not less than 10 per cent. in nominal amount of the Notes for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution will be one or more persons holding or representing a clear majority in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the nominal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of these Conditions, the Notes or Coupons (including modifying the date of maturity of the Notes or any date for payment of interest thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Notes or altering the currency of payment of the Notes or Coupons) or certain of the provisions of the Trust Deed, the necessary quorum for passing an Extraordinary Resolution will be one or more persons holding or representing not less than two- thirds, or at any adjourned such meeting not less than a clear majority, in nominal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders shall be binding on all the Noteholders, whether or not they are present at the meeting, and on all Couponholders.

The Trust Deed provides that the Trustee may agree, without the consent of the Noteholders or Couponholders, to any modification of, or to any waiver or authorisation of any breach or proposed breach of, any of these Conditions or any of the provisions of the Trust Deed, or may determine that any condition, event or act which, but for such determination, would constitute an Event of Default, shall not be treated as such which in any such case, in the opinion of the Trustee, is not materially prejudicial to the interests of the Noteholders or to any modification of any of these Conditions, the Notes, the Coupons or any of the provisions of the Trust Deed which is of a formal, minor or technical nature or which is made to correct a manifest error or an error which is, in the opinion of the Trustee, proven. In addition, the Trustee shall be obliged to concur with the Issuer in effecting any Benchmark Amendments in the circumstances and as otherwise set out in Condition 3(d) without the consent of the Noteholders and Couponholders. Any such modification, waiver, authorisation or determination may be made on such terms and subject to such conditions (if any) as the Trustee may determine, shall be binding on the Noteholders and Couponholders and, unless the Trustee agrees otherwise, any such modification shall be notified to the Noteholders as soon as practicable thereafter in accordance with Condition 12. In addition, the Trustee shall be obliged to concur with the Issuer in effecting any Benchmark Amendments in the circumstances and as otherwise set out in Condition 3(d) without the consent or approval of the Noteholders or Couponholders.

In connection with the exercise by it of any of its trusts, powers, authorities or discretions (including, but without limitation, any modification, waiver, authorisation or substitution), the Trustee shall have regard to the interests of the Noteholders as a class and, in particular, but without limitation, shall not have regard to the consequences of such exercise for individual Noteholders or Couponholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory and the Trustee shall not be entitled to require, nor shall any Noteholder or Couponholder be entitled to claim, from the Issuer, the Trustee or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders or Couponholders except to the extent already provided for in Condition 6 and/or any undertaking given in addition to, or in substitution for, Condition 6 pursuant to the Trust Deed.

No such modification, waiver, authorisation, determination, substitution or addition as aforesaid which relates to any Senior Notes, if applicable pursuant to any Loss Absorption Regulations, and/or any Dated Subordinated Notes shall become effective unless the Issuer shall have received the consent of the Regulator (unless such consent is not then required under the Loss Absorption Regulations in the case of Senior Notes or the Capital Rules in the case of Dated Subordinated Notes).

14. Further Issues

The Issuer shall be at liberty from time to time without the consent of the Noteholders or Couponholders to create and issue further notes having terms and conditions the same as the Notes or the same in all respects save for the amount and date of the first payment of interest thereon and the date from which interest starts to accrue and so that the same shall be consolidated and form a single Series with the outstanding Notes.

15. Indemnification

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility in certain circumstances including provisions relieving it from instituting proceedings to enforce repayment unless indemnified to its satisfaction.

16. Governing Law

The Trust Deed, the Agency Agreement, the Notes, the Coupons, the Talons and any non-contractual obligations arising out of or in connection with any of them are governed by, and shall be construed in accordance with, English law, save that Condition 2(b), 2(c) and 2(d) (and related provisions of the Trust Deed) relating to subordination and set-off are governed by, and shall be construed in accordance with, Scots law.

17. Submission to jurisdiction

(i) Subject to Condition 17(iii) below, the English courts have exclusive jurisdiction to settle any dispute arising out of or in connection with the Trust Deed, the Notes and/or the Coupons, including any dispute as to their existence, validity, interpretation, performance, breach or termination or the consequences of their nullity and any dispute relating to any non-contractual obligations arising out of or in connection with the Trust Deed, the Notes and/or the Coupons (a "Dispute") and accordingly each of the Issuer and the Trustee and any Noteholders or Couponholders in relation to any Dispute submits to the exclusive jurisdiction of the English courts.

(ii) For the purposes of this Condition 17, the Issuer waives any objection to the English courts on the grounds that they are an inconvenient or inappropriate forum to settle any Dispute.

(iii) To the extent allowed by law, the Trustee, the Noteholders and the Couponholders may, in respect of any Dispute or Disputes, take (i) proceedings in any other court with jurisdiction; and (ii) concurrent proceedings in any number of jurisdictions.

18. Contracts (Rights of Third Parties) Act 1999

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Note, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

USE OF PROCEEDS

The net proceeds from each issue of Notes will be applied by the Issuer for its general corporate purposes in the context of its business and may include, amongst other things, the on-lending of some or all of those proceeds to other members of the Banking Group. If, in respect of any particular issue, there is a particular identified use of proceeds, this will be stated in the applicable Final Terms.

DESCRIPTION OF TESCO PERSONAL FINANCE GROUP PLC

Overview

Tesco Personal Finance Group PLC ("TPFG") was established in 1997, originally as a joint venture between Tesco PLC ("Tesco") and NatWest Markets Plc (formerly known as the Royal Bank of Scotland plc ("NatWest")). In December 2008, Tesco acquired NatWest's 50 per cent. shareholding in TPFG to become the owner of all of the shares in TPFG.

TPFG is a subsidiary of Tesco, the holding company of the Tesco group of companies (the "Tesco Group"). TPFG operates as a holding company, conducting substantially all of its operations through its subsidiary, Tesco Personal Finance PLC ("TPF") (a 100 per cent. subsidiary) and a joint venture of TPF, Tesco Underwriting Limited ("TU") (a 49.9 per cent. joint venture of TPF), (together, the "Banking Group").

TPFG was incorporated in Scotland under the name Roboscot (26) Limited on 5 March, 1997, as a private limited company with limited liability. It changed its name to Tesco Personal Finance Group Limited with effect from 25 April, 1997. It was re-registered as a public limited company under the legal name Tesco Personal Finance Group PLC pursuant to the Companies Act 2006 on 12 October, 2018.

The registered office of TPFG is 2 South Gyle Crescent, Edinburgh, United Kingdom EH12 9FQ. The telephone number of TPFG's registered office is +44 (0)131 203 5000. The company number of TPFG is SC173198.

Business Overview and Strategy

The Banking Group is primarily focused on providing financial services and products to personal customers in the United Kingdom ("UK"). TPF is engaged in the provision of banking and general insurance services and operates using the trading name "Tesco Bank".

TPF leverages Tesco's customer base, "Clubcard" insight and strength of the Tesco brand. A significant proportion of TPF's UK customer base consists of existing Tesco Group customers that utilise other retail services offered by Tesco.

The "Clubcard" reward points incentive scheme operated by Tesco is a factor in TPF's ability to attract new customers and retain existing customers.

In the 12 months to 28 February, 2019, the Banking Group continued to deliver growth across its primary products (credit cards, personal loans, mortgages, personal current accounts and savings).

On 21 May, 2019, the Banking Group announced that it had made the strategic decision to cease any new mortgage lending and was actively exploring options to sell its existing mortgage portfolio, including the complete transfer of related balances and ongoing administration of relevant accounts, but only at the appropriate value and to a purchaser who will continue to serve our customers well.

A reduction in automated teller machine transaction volumes, due to the declining use of cash as customers move towards contactless and other digital payments, was partially offset by growth in other products, including travel money. As at 28 February, 2019, TPF had 323 travel money bureaux across the United Kingdom, which provided customers with over £1 billion in currency in the 12 months to 28 February, 2019.

During the financial year ended 28 February, 2018, TPF completed the roll out of Tesco Pay+ to every Tesco store in the UK, offering Tesco's shoppers the ability to pay and collect Clubcard points with a scan of their mobile phone. Tesco Pay+ has continued to grow during the financial year ended 28 February, 2019 and now has over 750,000 registered users.

The Banking Group continues to invest in its digital platform and associated capabilities with the objective of making it easier for Tesco customers to bank and insure with the Banking Group. In addition to offering customers good value across all of the products, this will be achieved through targeted investment in technology, data and the customer and colleague experience to simplify processes and drive efficiency.

TPF's mobile banking app (the "App") continues to expand and has now been downloaded by more than 1.2 million users. Changes to the App in April 2018 simplified the registration journey, by allowing customers to register for the App without having to set up online banking security beforehand.

Business Trends

UK retail banks such as TPF are exposed to general economic conditions in the United Kingdom. Significant risks remain including uncertainty relating to the withdrawal of the UK from the European Union ("EU"), volatility in the UK housing market and risks associated with rising interest rates. See the Risk Factor entitled "Political uncertainty" on pages 21 to 22 of this Offering Circular.

Banking

During the financial year ended 28 February, 2019, TPF's banking products included savings products (including instant access, ISAs and internet and fixed rate saver accounts), lending products (loans, credit cards and mortgages) and personal current accounts.

As at 28 February, 2019, the Banking Group's profit before tax was £198.9 million, a decrease of 0.1 per cent. over the corresponding period in the previous financial year.

Total gross lending as at 28 February, 2019, was £12,913.6 million, comprising retail unsecured lending of £9,146.2 million and retail mortgage lending of £3,767.4 million. As at 28 February, 2019, loans and advances to customers, net of impairment charges, reached £12,425.7 million, an increase of 7.84 per cent. over the corresponding period in the previous financial year. TPF has also seen growth in both credit cards and personal loan balances of 3 per cent. and 6.7 per cent. as at 28 February, 2019, respectively.

As at 28 February, 2019, TPF had £3,767.4 million of gross mortgage balances outstanding, an increase of £757.2 million from £3,010.2 million as at 28 February, 2018. Despite this increase, on 21 May, 2019, the Banking Group announced its decision to cease any new mortgage lending (see "*Business Overview and Strategy*" above).

General Insurance

TPF owns 49.9 per cent. of TU, an authorised insurance company with the remaining 50.1 per cent. owned by Ageas (UK) Limited. TU is accounted for as a joint venture of the Banking Group. The Banking Group's insurance business provides a wide range of general insurance products to customers in the UK, including motor, home and pet insurance. The business involves the distribution of products underwritten by third-party insurers and TU. TU underwrites household and motor insurance and provides claims management services for these products. TPF has primary responsibility for the sales and servicing of motor and home insurance, whereas other insurance products are distributed under commission-based introducer arrangements.

In the financial year ended 28 February, 2019, a significant and ongoing investment was made in motor insurance pricing, across both new business and renewal policies, in response to competition, supporting the Banking Group's commitment to offering value to its customers. This has driven improved motor insurance retention rates year-on-year, although the total number of in-force policies has fallen, reflecting the impact of competition on motor insurance premiums.

During the financial year ended 28 February, 2019, the Banking Group also made the decision to exit the travel insurance market, withdrawing the product from 31 January, 2019.

Funding and Liquidity

Customer deposits continue to be the Banking Group's primary source of funding. Customer deposits were £10,465.2 million as at 28 February, 2019 (an increase of 13.20% from £9,244.6 million as at 28 February, 2018).

TPF has issued three bonds each aimed at retail investors, two of which remain outstanding. The first bond was a £125 million bond issued in February 2011 (which matured and was fully repaid in August 2018), the second bond was a £60 million bond issued in December 2011 and the third bond was a £200 million bond issued in May 2012.

Additionally, TPF sources a proportion of its funding through its credit card securitisation programme which it principally uses for medium term funding, although retained notes can also be used for short term repurchase transaction funding purposes.

TPF also has access to significant amounts of central bank funding and contingent liquidity. As at 28 February, 2019, TPF had entered into repurchase transactions with an aggregate value of £324.2 million and accessed £1,339.0 million of funds from the Bank of England's ("BoE") Term Funding Scheme ("TFS") in order to support future lending growth. The lower cost of funding provided by the

TFS is reflected in competitive offers for TPF's borrowing customers.

As at 28 February, 2019, the total capital ratio was 18.5 per cent., a decrease from 19.4 per cent. as at 28 February, 2018. The Banking Group's total capital ratio remains above internal targets and regulatory requirements and leaves the Banking Group well placed to support future growth.

As at 28 February, 2019, the Banking Group’s net stable funding ratio ("NSFR") was 123.5 per cent., an increase from 118.1 per cent. at 28 February, 2018.

The Banking Group maintains a liquid asset portfolio of high quality securities and additional treasury assets which also offer a high degree of liquidity. These assets can be used as collateral for short-term central bank and market borrowings under repurchase and similar agreements. As at 28 February, 2019, the Banking Group’s liquid asset portfolio totalled £2.1 billion (a decrease of £0.1 billion over the corresponding period in the previous financial year).

Governance and Group Policies

The Banking 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. The risk management function ("RMFu") provides tracking and oversight of the policy framework and is responsible for undertaking assurance and providing reports to the Board of Directors of TPFG (the "Board") on its effectiveness.

Three Lines of Defence

The Banking 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 is responsible for managing the risks that arise from the activities in which it is engaged in accordance with the Banking Group’s risk management framework ("RMF") and policies. The role of the first line of defence is to implement the Banking Group’s RMF and policies; identify, assess, own and manage risks that arise from the activities in which it is engaged; design, implement, operate and test management controls; identify and manage risk events, including the delivery of remedial actions and performance of root cause analysis; operate within risk appetite and any and all related limits which the second line establish; comply with risk reporting standards established by the second line; and perform risk aggregation, analysis and reporting within their business line.

Second line of defence

The RMFu operates under the leadership of the Chief Risk Officer (the "CRO"). Risk teams reporting to the CRO are the second line of defence, and are resourced by people with expertise in each of the principal risks faced by the Banking Group.

The role of the second line of defence is to:

- own, develop, communicate and provide advice on the Banking Group’s RMF and policies;
- provide risk-based oversight and assurance of the first line’s implementation of the RMF and policies;
- provide risk-based oversight and assurance of first line risk management and control, including challenging the completeness of risk identification and assessment, which can take a variety of forms including active involvement in committees and meetings and review and challenge of management information;
- own the risk appetite framework on behalf of the Board;
- design and deliver standards for risk reporting escalation; and
- perform Group-wide risk aggregation and analysis.

Third line of defence

This comprises the Internal Audit ("IA") 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 IA function has an independent reporting line to the Chairman of the Audit Committee and is resourced by individuals with relevant experience and professional qualifications. In addition, IA resources are supplemented across a range of audits by external support to provide additional subject matter expertise when required. Independent assessment is provided through the execution of an agreed plan of audits and through attendance at relevant governance committees and through stakeholder management meetings.

The primary role of IA is to provide independent assurance on the effectiveness of governance, risk management and control across the first and second lines. The IA function achieves this through its core responsibilities, which include proposing an annual audit plan based on its assessment (after discussion with management) of the significant potential risks to which the organisation could be exposed; carrying 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; assessing the adequacy and effectiveness of the controls in the functions and processes audited, and issuing recommendations where improvement is required based on the results of work carried out; verifying compliance with those recommendations; reporting to the Audit Committee in relation to internal audit matters; and providing input to the Tesco IA department's reporting to the Tesco audit committee.

Stress Testing

Stress testing is the process by which the Banking Group's business plans are regularly subjected to severe but plausible scenarios to assess the potential impact on the business, including projected capital and liquidity positions. The scenarios adopted are subject to a rigorous selection process and include hypothetical operational failures, macroeconomic stress events and customer behaviour impacts. The results, along with proposed actions, are reported to the Asset and Liability Management Committee (the "ALCo") and the Board Risk Committee (the "BRC"). These are captured in both the Individual Liquidity Adequacy Assessment Process ("ILAAP") and the Internal Capital Adequacy Assessment Process ("ICAAP").

Monitoring and Reporting

The Banking Group monitors and tracks current exposures against limits defined in the agreed risk appetite and as set by the regulators. Exceptions are reported on a monthly basis to the ALCo and Executive Risk Committee ("ERC") and to each meeting of the BRC. 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 Banking Group. Decisions made at subordinate risk committees and forums are reported to senior committees as appropriate.

Administrative, Management and Supervisory Bodies

Board of Directors of TPFG (the "Board")

As at the date of this Offering Circular, the Directors of TPFG, the business address of each of whom is 2 South Gyle Crescent, Edinburgh EH12 9FQ, and their functions and principal activities outside TPFG, where these are significant with respect to TPFG, are as follows:

Name of Director	Role	Principal activities outside TPFG
Graham Pimlott	Non-Executive Chairman	Non-Executive Director of Tesco Personal Finance plc, Grosvenor Limited, and Graham Pimlott Limited.
John Castagno	Independent Non-Executive Director	Non-Executive Director of Tesco Personal Finance plc, British Gas Insurance Limited, British Gas Services Limited, Simple and Open Limited and Y R Free Labs Limited.
Robert Endersby	Independent Non-Executive Director	Non-Executive Director of Tesco Personal Finance plc, Credit Suisse

		International and Credit Suisse Securities (Europe) Limited.
Jacqueline Ferguson	Independent Non-Executive Director	Non-Executive Director of Tesco Personal Finance plc, Wood plc, Croda plc and F & F Holdings Limited.
Richard Henderson	Chief Risk Officer	Executive Director of Tesco Personal Finance plc.
Declan Hourican	Chief Financial Officer	Executive Director of Tesco Personal Finance plc and Non-Executive Director of Tesco Underwriting Limited.
Simon Machell	Independent Non-Executive Director	Non–Executive Director of Tesco Personal Finance plc, Tesco Underwriting Limited, Pacific Life Re Limited, Prudential Corporation Asia and Suncorp.
Gerry Mallon	Chief Executive	Executive Director of Tesco Personal Finance plc and Chairman of Irish Football Association.
James McConville	Independent Non-Executive Director	Non–Executive Director of Tesco Personal Finance plc, Executive Director of Phoenix Group Holdings plc.
Amanda Rendle	Independent Non-Executive Director	Non-Executive Director of Tesco Personal Finance plc and the British Business Bank plc and Executive Director of Jaren Consulting Limited.
Alan Stewart	Non-Executive Director	Executive Director of Tesco PLC and Tesco Corporate Treasury Services PLC and Non–Executive Director of Tesco Personal Finance plc and Diageo plc.
James Willens	Senior Independent Non-Executive Director	Non–Executive Director of Tesco Personal Finance plc and Willis Limited.

Except as described in the next paragraph, there are no potential or actual conflicts of interest between the private interests or other duties of the Directors of TPFG and their duties to TPFG.

Robert Endersby's non-executive appointments at Credit Suisse International and Credit Suisse Securities (Europe) Limited; Declan Hourican's non-executive appointment at Tesco Underwriting Limited; Simon Machell's non-executive appointment at Tesco Underwriting Limited; Amanda Rendle's non-executive appointment at the British Business Bank plc; Alan Stewart's executive appointments at Tesco PLC, Tesco Treasury Services PLC, and Tesco Corporate Treasury Services PLC; James Willens' non-executive appointment at Willis Limited; and Jacqueline Ferguson's non-executive appointments at Wood plc, Croda plc, F & F Holdings Limited, and advisory membership of Docusign International Inc, Engie Regeneration Holdings Limited and The Engineering and Technology Board are all principal activities relating to entities with whom each such Director may have a potential conflict of interest between his or her duty to TPFG and his or her duty to the respective entity in which he or she has a private interest. For example, a potential conflict of interest could arise if such Director is called upon to vote in relation to a transaction between TPFG and a company of which he or she is a Director.

The Board monitors potential and actual conflicts of interest and has processes to deal with them. Directors of TPFG are required to disclose potential and actual conflicts of interest to the Board and the Board addresses potential and actual conflicts in accordance with legal requirements.

As a matter of English law, each Director of TPFG is under a duty to act honestly and in good faith with regard to the best interests of TPFG, regardless of any other private interests such Director may have.

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

The Board is also responsible for overall corporate governance, which includes overseeing an effective system of risk management and that the level of capital and liquidity held is adequate and consistent with the risk profile of the business. To support this, the RMF has been embedded across the Banking Group, creating an integrated approach to managing risk. The RMF brings together governance, risk appetite, the three lines of defence, the Policy Framework and risk management tools to support the business in managing risk as part of day-to-day activity, and is underpinned by governance, controls, processes, systems and policies within the first line business areas and those of the second line Risk Management Function (RMFu). The Board approves the Banking Group's business plans, budget, long term plan, ICAAP, ILAAP and any material new product lines in line with the approved risk appetite. The Board also monitors the Banking Group's risk profile and capital adequacy position. The Banking Group employs hedging and mitigation techniques defined within the Banking Group's policies to ensure risks are managed within 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 ExCo to assist in the management of the business and to deliver the strategy in an effective and controlled way. The Board has established Board committees and the executive has established senior management committees to:

- oversee the RMF;
- identify the key risks facing the Banking Group; and
- assess the effectiveness of the risk management actions.

The Board has overall responsibility for the management of the business and acts as the main decision-making forum. It sets the risk appetite and strategic aims for the business, in some circumstances subject to shareholder approval, within a control framework which is designed to enable risk to be assessed and managed. The Board satisfies itself that financial controls and systems of risk management are robust through the reporting provided to it and provides feedback where necessary to ensure that reporting remains fit for purpose.

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

- **Audit Committee ("AC")**

  The AC comprises James McConville (chair), Robert Endersby, Simon Machell and Jacqueline Ferguson.

- **Board Risk Committee**

  The Board Risk Committee comprises Robert Endersby (chair), John Castagno, James McConville, Graham Pimlott, Amanda Rendle, Alan Stewart, James Willens, and Jacqueline Ferguson.

- **Remuneration Committee**

  The Remuneration Committee comprises James Willens (chair), Robert Endersby, Graham Pimlott and Amanda Rendle.

- **Disclosure Committee**

  The Disclosure Committee comprises Graham Pimlott (chair), Robert Endersby, Richard Henderson, Declan Hourican, James McConville and James Willens.

- **Nomination Committee**

  The Nomination Committee comprises Graham Pimlott (chair), Simon Machell, James Willens and Amanda Rendle.

Executive Committee ("ExCo")

The 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 Banking Group's risk appetite, long term plan, strategy and annual budget.

Regulation

Overview of United Kingdom Financial Services Regulation

The cornerstone of the regulatory regime in the United Kingdom is the FSMA and secondary legislation and FCA and PRA rules made under the FSMA. The FCA and the PRA have responsibility under the FSMA for the regulation and oversight of a wide range of financial services activities in the United Kingdom. The FCA and the PRA are responsible for the authorisation and supervision of institutions that perform regulated activities as defined in the FSMA. As part of their authorisation process, the FCA and the PRA review applicants to ensure that they satisfy the necessary criteria, including suitability, competence and financial soundness, to engage in regulated activity. Other laws, including EU regulations, govern particular financial services including for example the CRR and, in relation to consumer lending, the Consumer Credit Act 1974. Provisions of the general law also govern the conduct of financial services business including for example the Consumer Rights Act 2015.

Current Regulatory Themes

Regulatory themes which have a current bearing on the business of TPF include, but are not limited to, the following:

- Payment Services Directive 2 which sets regulatory requirements for firms that provide payment services and requires banks to open their payments infrastructure and customer data assets to third parties providers that can then develop payments and information services.
- Firms’ culture and governance, including extending the Senior Managers and Certification Regime (SMCR) to all firms to promote the embedding of a healthy culture focusing on four drivers of behaviour – purpose, leadership, rewards and managing people and governance.
- Operational resilience will play a vital role in protecting the UK’s financial system. Both the PRA and FCA will expand its focus on firms' resilience in relation to third-party relationships and change management plans.
- Combating financial crime and improving anti-money laundering practices, by enhancing the use of technology and data. Developments include the introduction of the Contingent Reimbursement Model and the Authorised Push Payment voluntary code.
- Ensuring the fair treatment of firms’ existing customers by monitoring firms’ practices, in relation to prospective and current customers. All firms are required to assess whether their pricing practices result in their customers being treated fairly. Firms should also be able to demonstrate how they have reached this conclusion.
- Enhanced capital and liquidity requirements under the Capital Requirement Directive, Capital Requirement Regulations, and resolution specific rules. The final implementation of EU rules in the UK may depend on outcomes of Brexit.

Changes in Accounting Policies

The Banking Group adopted and implemented both International Financial Reporting Standard ("IFRS") 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' with effect from 1 March 2018.

For the impact of IFRS 9 and IFRS 15 on the TPF Group, please refer to “Note 2 Transition to IFRS 9 and IFRS 15” of TPFG’s Annual Report and Financial Statements for the year ended 28 February, 2019 (the "2019 Annual Report").

In the 2019 Annual Report, IFRS 9 has been applied retrospectively at 1 March, 2018 by adjusting the opening balance sheet at that date, with no requirement to restate comparative periods. IFRS 15 has been applied fully retrospectively and prior period comparatives have been restated. All references to the financial information for the year ended 28 February, 2019 in this Offering Circular are to such numbers from the 2019 Annual Report.

Internal Review of Compliance with Anti-Money Laundering and Sanctions Legislation

TPF has undertaken a thorough review of its compliance with applicable anti-money laundering ("AML") and sanctions legislation (the "Review"). The Review identified that TPF is compliant with all aspects of applicable sanctions legislation and that the majority of TPF's AML systems and controls are (i) compliant with AML requirements, (ii) effective and (iii) proportionate to the associated risk. TPF is currently working to make further enhancements to its AML systems and controls in line with the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (the "AML Regulations"). TPF has informed the FCA, as part of its standard regulatory interaction, of the planned enhancements. TPF is not aware of any limitations in its current AML systems and controls having resulted in any actual money laundering, loss or related issues.

TAXATION

UNITED KINGDOM TAXATION

The following applies only to persons who are the beneficial owners of Notes and is a summary of the Issuer's understanding of current United Kingdom law and published HM Revenue & Customs' ("HMRC") practice as at the date of this Offering Circular relating only to United Kingdom withholding tax treatment of payments of interest (as that term is understood for United Kingdom tax purposes) in respect of Notes and does not deal with any other United Kingdom taxation implications of acquiring, holding or disposing of Notes. The United Kingdom tax treatment of prospective Noteholders depends on their individual circumstances and may be subject to change in the future. Prospective Noteholders who are or may be unsure as to their tax position or who may be subject to tax in a jurisdiction other than the United Kingdom should seek their own professional advice.

Payment of Interest on the Notes

Payments of interest on the Notes may be made without deduction or withholding for or on account of United Kingdom income tax provided that the Notes carry a right to interest and are and continue to be listed on a "recognised stock exchange" within the meaning of section 1005 of the Income Tax Act 2007. The London Stock Exchange is a recognised stock exchange. Securities will be treated as listed on the London Stock Exchange if they are included in the Official List within the meaning of and in accordance with the provisions of Part 6 of the Financial Services and Markets Act 2000 and admitted to trading on the London Stock Exchange. Provided, therefore, that the Notes carry a right to interest and are and remain so listed on a "recognised stock exchange", interest on the Notes will be payable without withholding or deduction on account of United Kingdom income tax.

Payments of interest on Notes may be made without deduction of or withholding on account of United Kingdom tax where the maturity of the Notes is less than 365 days and those Notes do not form part of a scheme or arrangement of borrowing intended to be capable of remaining outstanding for more than 364 days.

Payments of interest on Dated Subordinated Notes may be made without deduction of or withholding on account of United Kingdom income tax if the Notes are "regulatory capital securities". The Dated Subordinated Notes will be "regulatory capital securities" if they qualify, or have qualified, as Additional Tier 1 instruments under Article 52 or Tier 2 instruments under Article 63 of Commission Regulation (EU) No 575/2013 and form, or have formed, a component of Additional Tier 1 capital or Tier 2 capital for those purposes. This is subject to there being no arrangements the main purpose, or one of the main purposes, of which is to obtain a tax advantage (as defined in section 1139 of the Corporation Tax Act 2010) for any person as a result of the application of the Taxation of Regulatory Capital Securities Regulations 2013 in respect of the Dated Subordinated Notes.

In other cases, an amount must generally be withheld from payments of interest on the Notes that has a United Kingdom source on account of United Kingdom income tax at the basic rate (currently 20 per cent.), subject to any available exemptions and reliefs. However, where an applicable double tax treaty provides for a lower rate of withholding tax (or for no tax to be withheld) in relation to a Noteholder, HMRC can issue a notice to the Issuer to pay interest to the Noteholder without deduction of tax (or for interest to be paid with tax deducted at the rate provided for in the relevant double tax treaty).

THE PROPOSED FINANCIAL TRANSACTIONS TAX ("FTT")

On 14 February, 2013, the European Commission published a proposal (the "Commission's Proposal") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (each, other than Estonia, a "participating Member State"). However, Estonia has since stated that it will not participate.

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in Notes (including secondary market transactions) in certain circumstances. Primary market transactions referred to in Article (5)(c) of Regulation (EC) No 1287/2006 are expected to be exempt.

Under the Commission's Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between the participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional Member States may decide to participate.

Prospective Noteholders are advised to seek their own professional advice in relation to the FTT.

FOREIGN ACCOUNT TAX COMPLIANCE ACT

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as “FATCA”, a foreign financial institution (as defined by FATCA) may be required to withhold on certain payments it makes (“foreign passthru payments”) to persons that fail to meet certain certification, reporting or related requirements. The Issuer may be foreign financial institutions for these purposes. A number of jurisdictions (including the United Kingdom) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA (“IGAs”), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as Notes, such withholding would not apply prior to the date that is two years after the date on which final regulations defining foreign passthru payments are published in the U.S. Federal Register and Notes characterised as debt for U.S. federal income tax purposes that are issued on or prior to the date that is six months after the date on which final regulations defining foreign passthru payments are filed with the U.S. Federal Register generally would be grandfathered for purposes of FATCA withholding unless materially modified after such date (including by reason of a substitution of the Issuer). However, if additional Notes (as described under "*Terms and Conditions—Further Issues*") that are not distinguishable from previously issued Notes are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Notes, including the Notes offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA. Noteholders should consult their own tax advisers regarding how these rules may apply to their investment in Notes.

SUBSCRIPTION AND SALE

The Dealers have, in a dealer agreement dated 11 July, 2019 (as modified and/or supplemented and/or restated from time to time, the "Dealer Agreement") agreed with the Issuer a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under "*Form of the Notes*" and "*Terms and Conditions of the Notes*" above. In the Dealer Agreement, the Issuer has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and any future update of the Programme and the issue of Notes under the Programme.

United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from or not subject to the registration requirements of the Securities Act.

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that, except as permitted by the Dealer Agreement, it will not offer, sell or deliver Notes, (i) as part of their distribution at any time and (ii) otherwise until 40 days after the completion of the distribution, as determined and certified by the relevant Dealer or, in the case of an issue of Notes on a syndicated basis, the relevant lead manager, of all Notes of the Tranche of which such Notes are a part, within the United States or to, or for the account or benefit of, U.S. persons. Each Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree, that it will send to each dealer to which it sells Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in the preceding paragraph and in this paragraph have the meanings given to them by Regulation S under the Securities Act.

In addition, until 40 days after the commencement of the offering of any Tranche of Notes, an offer or sale of such Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. Treasury regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and Treasury regulations promulgated thereunder. The applicable Final Terms (or Pricing Supplement, in the case of Exempt Notes) will identify whether TEFRA D rules apply or whether TEFRA is not applicable.

Prohibition of Sales to EEA Retail Investors

Unless the Final Terms in respect of any Notes (or Pricing Supplement, in the case of Exempt Notes) specifies "Prohibition of Sales to EEA Retail Investors" as "Not Applicable", each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by this Offering Circular as completed by the Final Terms (or, in the case of Exempt Notes, the Pricing Supplement) in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision:

(a) the expression "retail investor" means a person who is one (or more) of the following:

    (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "MiFID II"); or

    (ii) a customer within the meaning of Directive 2002/92/EC (as amended or superseded, the "Insurance Mediation Directive"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or

    (iii) not a qualified investor as defined in the Prospectus Directive (where "Prospectus Directive" means Directive 2003/71/EC (as amended or superseded), and includes any relevant implementing measure in the Relevant Member State); and

(b) the expression "offer" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes.

If the Final Terms in respect of any Notes (or Pricing Supplement, in the case of Exempt Notes) specifies "Prohibition of Sales to EEA Retail Investors" as "Not Applicable", in relation to each Member State of the EEA which has implemented the Prospectus Directive (each a “Relevant Member State”), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “Relevant Implementation Date”) it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Offering Circular as completed by the Final Terms (or Pricing Supplement, in the case of Exempt Notes) in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

(a) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(b) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or

(c) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to in (a) to (c) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive, or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, (i) the expression an “offer of Notes to the public” in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, (ii) the expression “Prospectus Directive” means Directive 2003/71/EC of 4th November, 2003 of the European Parliament and the Council of the European Union (as amended or superseded), and includes any relevant implementing measure in the Relevant Member State.

United Kingdom

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that:

(i) in relation to any Notes having a maturity of less than one year from the date of their issue, (a) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (b) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue or sale of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;

(ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(iii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Belgium

Other than in respect of Notes for which "Prohibition of Sales to Belgian Consumers" is specified as "Not Applicable" in the applicable Final Terms (or Pricing Supplement, in the case of Exempt Notes), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that an offering of Notes may not be advertised to any individual in

Belgium qualifying as a consumer within the meaning of Article I.1 of the Belgian Code of Economic Law, as amended from time to time (a "Belgian Consumer") and that it has not offered, sold or resold, transferred or delivered, and will not offer, sell, resell, transfer or deliver, the Notes, and that it has not distributed, and will not distribute, any prospectus, memorandum, information circular, brochure or any similar documents in relation to the Notes, directly or indirectly, to any Belgian Consumer.

Singapore

Each Dealer has acknowledged, and each further Dealer appointed under this Programme will be required to acknowledge that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore (the "MAS"), and the Notes will be offered pursuant to exemptions under the Securities and Futures Act, Chapter 289 of Singapore (the "Securities and Futures Act" or "SFA"). Accordingly, each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that the Notes have not been offered or sold and will not be offered or sold or made the subject of an invitation for subscription or purchase nor will this Offering Circular or any other document or material in connection with the offer or sale or invitation for subscription or purchase of any Notes be circulated or distributed, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act) pursuant to Section 274 of the Securities and Futures Act, (ii) to a relevant person (as defined in Section 275(2) of the SFA) under Section 275(1) of the Securities and Futures Act, or to any person pursuant to Section 275(1A) of the Securities and Futures Act, and in accordance with the conditions specified in Section 275 of the Securities and Futures Act or (iii) otherwise pursuant to, and in accordance with, the conditions of, any other applicable provision of the Securities and Futures Act.

Where the Notes are subscribed or purchased under Section 275 of the Securities and Futures Act by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the Securities and Futures Act)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the Securities and Futures Act) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferable for six months after that corporation or that trust has acquired the Notes pursuant to an offer under Section 275 of the Securities and Futures Act except:

(i) to an institutional investor or to a relevant person defined in Section 275(2) of the Securities and Futures Act or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the Securities and Futures Act; or

(ii) where no consideration is or will be given for the transfer; or

(iii) where the transfer is by operation of law; or

(iv) as specified in Section 276(7) of the Securities and Futures Act; or

(v) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018 of Singapore.

Any reference to the Securities and Futures Act or the SFA is a reference to the Securities and Futures Act, Chapter 289 of Singapore and a reference to any term as defined in the SFA or any provision in the SFA is a reference to that term as modified or amended from time to time including by such of its subsidiary legislation as may be applicable at the relevant time.

Notification under Section 309B(1)(c) of the SFA – Unless otherwise stated in the applicable Final Terms (or Pricing Supplement, in the case of Exempt Notes) in respect of any Notes, all Notes issued or to be issued under the Programme shall be "prescribed capital markets products" (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the "FIEA") and each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended)), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan pursuant to an exemption from the registration requirements of and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

General

Each Dealer has agreed, and each further Dealer appointed under the Programme will be required to agree, that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Offering Circular and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Issuer nor any other Dealer shall have any responsibility therefor.

None of the Issuer and the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

GENERAL INFORMATION

Authorisation

The establishment of the Programme and the issue of Notes thereunder have been duly authorised by a resolution of the Board of Directors of the Issuer dated 20 September, 2018.

Listing of Notes on the Official List

The admission of Notes to the Official List will be expressed as a percentage of their nominal amount (excluding accrued interest). It is expected that each Tranche of Notes which is to be admitted to the Official List and to trading on the London Stock Exchange's regulated market will be admitted separately as and when issued, subject only to the issue of a temporary global Note initially representing the Notes of such Tranche. Application has been made to the Financial Conduct Authority for Notes issued under the Programme during the period of 12 months from the date of this Offering Circular to be admitted to the Official List and to the London Stock Exchange for such Notes to be admitted to trading on the London Stock Exchange's regulated market. Such application is expected to be granted on or around 17 July, 2019.

Clearing Systems

The Notes have been accepted for clearance through Clearstream, Luxembourg and Euroclear (which are the entities in charge of keeping the records). The appropriate Common Code and ISIN for each Tranche of Notes allocated by Clearstream, Luxembourg and Euroclear will be specified in the applicable Final Terms (or the applicable Pricing Supplement, in the case of Exempt Notes). If the Notes are to be cleared through an additional or alternative clearing system the appropriate information will be specified in the applicable Final Terms or Pricing Supplement.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg.

Conditions for Determining Price

The price and amount of Notes to be issued under the Programme will be determined by the Issuer and each relevant Dealer at the time of issue in accordance with prevailing market conditions.

Significant or Material Change

There has been no significant change in the financial or trading position of the Issuer or of the Banking Group since 28 February, 2019 and there has been no material adverse change in the financial position or prospects of the Issuer or of the Banking Group since 28 February, 2019.

Material Contracts

Neither the Issuer nor any of its subsidiaries has entered into any material contracts outside the ordinary course of business which could result in it being under an obligation or entitlement which is, or may be, material to the ability of the Issuer to meet its obligations in respect of the Notes.

Governmental, Legal and Arbitration Proceedings

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) in the 12 months preceding the date of this Offering Circular which may have, or have had in the recent past, a significant effect on the financial position or profitability of the Issuer or the Banking Group.

Auditors

Deloitte LLP audited the Issuer's and the Banking Group's accounts for the years ended 28 February, 2019 and 28 February, 2018, in each case in accordance with the generally accepted auditing standards in the United Kingdom and reported thereon without qualification.

Deloitte LLP does not have a material interest in the Issuer.

Trust Deed

The Trust Deed provides that the Trustee may rely on certificates or reports from the Auditors (as defined in the Trust Deed) and/or any other expert in accordance with the provisions of the Trust Deed whether or not any such certificate or report or any engagement letter or other document entered into by the Trustee and the Auditors or such other expert in connection therewith contains any limit on the liability (monetary or otherwise) of the Auditors or such other expert.

Documents Available

For the period of 12 months following the date of this Offering Circular, copies of the following documents will, when published (if applicable), be available from the registered office of the Issuer and from the specified office of the Paying Agents:

(i) the Memorandum and Articles of Association of the Issuer;

(ii) the independent auditor's report and audited consolidated and non-consolidated financial statements of the Issuer for the year ended 28 February, 2019;

(iii) the independent auditor's report and audited consolidated and non-consolidated financial statements of the Issuer for the year ended 28 February, 2018;

(iv) the Schedule of Forms (containing the forms of the Temporary Global Notes, the Permanent Global Notes, the Definitive Notes, the Coupons and the Talons);

(v) this Offering Circular; and

(vi) any future offering circulars, prospectuses or information memoranda in respect of the Notes, any supplements thereto and any Final Terms and Pricing Supplements (in the case of Exempt Notes) (save that Pricing Supplements will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Paying Agent as to its holding and identity) and any other documents incorporated therein by reference.

Dealers Transacting with the Issuer

Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer and its affiliates in the ordinary course of business. Certain of the Dealers and their affiliates may have positions, deal or make markets in the Notes issued under the Programme, related derivatives and reference obligations, including (but not limited to) entering into hedging strategies on behalf of the Issuer and its affiliates, investor clients, or as principal in order to manage their exposure, their general market risk, or other trading activities.

In addition, in the ordinary course of their business activities, the Dealers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or its affiliates. Certain of the Dealers or their affiliates that have a lending relationship with the Issuer, routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such Dealers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Notes issued under the Programme. Any such positions could adversely affect future trading prices of Notes issued under the Programme. The Dealers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

FINANCIAL STATEMENTS

TESCO PERSONAL FINANCE GROUP LIMITED
CONSOLIDATED INCOME STATEMENT
For the Year Ended 28 February 2018

	Note	2018 £m	2017 £m
Interest and similar income	4	673.2	618.1
Interest expense and similar charges	4	(180.1)	(178.9)
Net interest income		**493.1**	**439.2**
Fees and commissions income	5	387.0	394.0
Fees and commissions expense	5	(31.6)	(31.3)
Net fees and commissions income		**355.4**	**362.7**
Unrealised gains on financial instruments	6	11.0	6.3
Realised gain on financial instruments	7	0.1	4.2
Net other income		**11.1**	**10.5**
Total income		**859.6**	**812.4**
Administrative expenses	8	(422.7)	(425.0)
Depreciation and amortisation	23,24	(83.0)	(110.3)
Provision for customer redress	28	(23.8)	(45.0)
Operating expenses		**(529.5)**	**(580.3)**
Impairment on loans and advances to customers	9	(137.4)	(106.4)
Operating profit		**192.7**	**125.7**
Share of profit/(loss) of joint venture	21	10.0	(15.6)
Profit before tax		**202.7**	**110.1**
Income tax (charge)/credit	11	(61.6)	27.3
Profit for the year attributable to owners of the parent		**141.1**	**137.4**

TESCO PERSONAL FINANCE GROUP LIMITED
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the Year Ended 28 February 2018

	Note	2018 £m	2017 £m
Profit for the year		**141.1**	**137.4**
Items that may be reclassified subsequently to the income statement			
Unrealised net gains on available-for-sale investment securities before tax	11	1.8	7.1
Net gains arising on cash flow hedges before tax	11	0.4	1.6
Tax relating to items that may be reclassified subsequently to the income statement	11	(0.4)	(5.6)
Share of other comprehensive (expense)/income of joint venture	21	(6.5)	10.5
Total items that may be reclassified subsequently to the income statement		**(4.7)**	**13.6**
Total comprehensive income for the year attributable to owners of the parent		**136.4**	**151.0**

TESCO PERSONAL FINANCE GROUP LIMITED
CONSOLIDATED AND COMPANY STATEMENTS OF FINANCIAL POSITION
For the Year Ended 28 February 2018

Company number SC173198

		Group		Company	
		2018	2017	**2018**	2017
	Note	**£m**	£m	**£m**	£m
Assets					
Cash and balances with central banks	13	1,318.6	802.9	3.4	3.6
Loans and advances to customers	14	11,522.4	9,961.2	–	–
Loans and advances to subsidiary companies	15	–	–	235.0	235.0
Derivative financial instruments	16	46.1	28.7	–	–
Investment securities:					
- Available-for-sale	17	925.4	966.1	–	–
- Loans and receivables	17	34.1	34.1	–	–
Prepayments and accrued income	18	49.3	42.2	0.7	0.6
Other assets	19	265.7	299.0	–	–
Investment in joint venture	21	90.0	71.0	–	–
Investment in group undertakings	20	–	–	1,219.9	1,219.9
Intangible assets	23	271.1	300.0	–	–
Property, plant and equipment	24	68.0	73.3	–	–
Total assets		**14,590.7**	**12,578.5**	**1,459.0**	**1,459.1**
Liabilities					
Deposits from banks	25	1,539.0	499.8	–	–
Deposits from customers	26	9,244.6	8,463.2	–	–
Debt securities in issue	27	1,347.6	1,204.3	–	–
Derivative financial instruments	16	88.4	133.3	–	–
Provisions for liabilities and charges	28	79.4	83.5	–	–
Accruals and deferred income	29	109.0	115.1	0.7	0.6
Current income tax liability		34.9	8.3	–	–
Other liabilities	30	144.3	148.4	–	0.2
Deferred income tax liability	22	3.7	13.7	–	–
Subordinated liabilities and notes	31	235.0	235.0	235.0	235.0
Total liabilities		**12,825.9**	**10,904.6**	**235.7**	**235.8**
Equity and reserves attributable to owners of parent					
Share capital	32	122.0	122.0	122.0	122.0
Share premium account	32	1,098.2	1,098.2	1,098.2	1,098.2
Retained earnings		500.4	409.3	3.1	3.1
Other reserves	33	44.2	44.4	–	–
Total equity		**1,764.8**	**1,673.9**	**1,223.3**	**1,223.3**
Total liabilities and equity		**14,590.7**	**12,578.5**	**1,459.0**	**1,459.1**

Profit for the year of £50.0m (2017: £50.0m) is attributable to the Company.

The Consolidated and Company Financial Statements on pages 25 to 105 were approved by the Board of Directors and authorised for issue on 26 April 2018 and were signed on its behalf by:

Declan Hourican
Director

TESCO PERSONAL FINANCE GROUP LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the Year Ended 28 February 2018

	Note	Share capital £m	Share premium £m	Retained earnings £m	Available -for-sale reserve £m	Cash flow hedge reserve £m	Share based payment reserve £m	Total equity £m
Balance at 1 March 2017		122.0	1,098.2	409.3	18.0	(0.6)	27.0	1,673.9
Comprehensive income								
Profit for the year		–	–	141.1	–	–	–	141.1
Net gains on available-for-sale investment securities	11	–	–	–	1.5	–	–	1.5
Net gains on cash flow hedges	11	–	–	–	–	0.3	–	0.3
Share of other comprehensive expense of joint venture	21	–	–	–	(6.5)	–	–	(6.5)
Total comprehensive income		**–**	**–**	**141.1**	**(5.0)**	**0.3**	**–**	**136.4**
Transactions with owners								
Dividends to ordinary shareholders	12	–	–	(50.0)	–	–	–	(50.0)
Share based payments	33	–	–	–	–	–	4.5	4.5
Total transactions with owners		**–**	**–**	**(50.0)**	–	–	**4.5**	**(45.5)**
Balance at 28 February 2018		**122.0**	**1,098.2**	**500.4**	**13.0**	**(0.3)**	**31.5**	**1,764.8**
Balance at 1 March 2016		122.0	1,098.2	321.9	5.4	(1.6)	23.3	1,569.2
Comprehensive income								
Profit for the year		–	–	137.4	–	–	–	137.4
Net gains on available-for-sale investment securities	11	–	–	–	2.1	–	–	2.1
Net gains on cash flow hedges	11	–	–	–		1.0	–	1.0
Share of other comprehensive income of joint venture	21	–	–	–	10.5	–	–	10.5
Total comprehensive income		**–**	**–**	**137.4**	**12.6**	**1.0**	–	**151.0**
Transactions with owners								
Dividends to ordinary shareholders	12	–	–	(50.0)	–	–	–	(50.0)
Share based payments	33	–	–	–	–	–	3.7	3.7
Total transactions with owners		**–**	**–**	**(50.0)**	–	–	**3.7**	**(46.3)**
Balance at 28 February 2017		**122.0**	**1,098.2**	**409.3**	**18.0**	**(0.6)**	**27.0**	**1,673.9**

TESCO PERSONAL FINANCE GROUP LIMITED
COMPANY STATEMENT OF CHANGES IN EQUITY
For the Year Ended 28 February 2018

	Note	Share capital £m	Share premium £m	Retained earnings £m	Total equity £m
Balance at 1 March 2017		122.0	1,098.2	3.1	1,223.3
Comprehensive income					
Profit for the year		–	–	50.0	50.0
Total comprehensive income		**–**	**–**	**50.0**	**50.0**
Transactions with owners					
Dividends to ordinary shareholders	12	–	–	(50.0)	(50.0)
Total transactions with owners		**–**	**–**	**(50.0)**	**(50.0)**
Balance at 28 February 2018		**122.0**	**1,098.2**	**3.1**	**1,223.3**
Balance at 1 March 2016		122.0	1,098.2	3.1	1,223.3
Comprehensive income					
Profit for the year		–	–	50.0	50.0
Total comprehensive income		**–**	**–**	**50.0**	**50.0**
Transactions with owners					
Dividends to ordinary shareholders	12	–	–	(50.0)	(50.0)
Total transactions with owners		**–**	**–**	**(50.0)**	**(50.0)**
Balance at 28 February 2017		**122.0**	1,098.2	3.1	**1,223.3**

TESCO PERSONAL FINANCE GROUP LIMITED
CONSOLIDATED AND COMPANY CASH FLOW STATEMENTS
For the Year Ended 28 February 2018

		Group		Company	
		2018	2017	**2018**	2017
	Note	**£m**	£m	**£m**	£m
			Restated[1]		
Operating Activities					
Profit before tax		**202.7**	110.1	**50.0**	50.0
Adjusted for:					
Non-cash items included in operating profit before taxation and other adjustments[1]	37	297.4	308.8	3.9	4.3
Changes in operating assets and liabilities	37	46.9	(110.3)	(0.2)	–
Income taxes (paid)/received		(44.5)	17.2	–	–
Cash flows generated from operating activities		**502.5**	**325.8**	**53.7**	**54.3**
Investing Activities					
Purchase and disposal of intangible assets and property, plant and equipment		(53.5)	(46.1)	–	–
Purchase of available-for-sale investment securities		(179.1)	(95.5)	–	–
Sale of available-for-sale investment securities		185.4	126.6	–	–
Investment in joint venture	21	(15.5)	–	–	–
Cash flows (used in) investing activities		**(62.7)**	**(15.0)**	**–**	–
Financing Activities					
Net proceeds received in association with issuance of debt securities	27	300.0	–	–	–
Principal repayments on debt securities in issue	27	(150.0)	–	–	–
Dividends paid to ordinary shareholders	12	(50.0)	(50.0)	(50.0)	(50.0)
Interest paid on debt securities in issue[1]		(24.6)	(25.2)	–	–
Interest received on assets held to hedge debt securities in issue[1]		3.6	3.1	–	–
Interest paid on subordinated liabilities and notes		(3.9)	(4.3)	(3.9)	(4.3)
Cash flows generated from/(used in) financing activities		**75.1**	**(76.4)**	**(53.9)**	**(54.3)**
Net increase/(decrease) in cash and cash equivalents		514.9	234.4	(0.2)	–
Cash and cash equivalents[2] at beginning of year		788.6	554.2	3.6	3.6
Cash and cash equivalents[2] at end of year	13	**1,303.5**	**788.6**	**3.4**	**3.6**

[1] Refer to note 1 for further details of prior year restatement.

[2] Cash and cash equivalents comprise cash and balances with banks, excluding mandatory reserve deposits (refer to note 13).

1. Accounting Policies

Basis of preparation

The Company and Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) of the International Accounting Standards Board (IASB) as endorsed by the European Union (EU), and those parts of the Companies Act 2006 applicable to companies reporting under IFRSs.

In these Financial Statements the 'Company' means Tesco Personal Finance Group Limited and the 'Group' means the Company and its subsidiaries and joint venture. Details of these subsidiaries and joint venture are provided in notes 20 and 21. These Consolidated Financial Statements comprise the Financial Statements of the Group. The Company has elected to take the exemption under section 408 of the Companies Act 2006 not to present the Income Statement and Statement of Comprehensive Income of the Company.

The Company and Consolidated Financial Statements have been prepared under the historical cost convention as modified by the revaluation of derivative financial instruments and available-for-sale investment securities held at fair value.

The Company and Consolidated Financial Statements are presented in Sterling, which is the functional currency of the Group. The figures shown in the Financial Statements are rounded to the nearest £0.1 million unless otherwise stated.

New and amended accounting standards adopted by the Group in the year are detailed in note 43.

Change in accounting policy

During the year, the Group has reclassified cash flows relating to debt securities in issue, along with related derivatives, from operating to financing activities. This reclassification more appropriately reports these cash flows in the section of the Consolidated Cash Flow Statement in which the principal funding transactions were reported. Prior year comparatives have been restated to align to the current year approach. The impact of this restatement on the prior year Consolidated Cash Flow Statement is as follows:

Group

Line item	**Total as previously stated**	**Adjusted**	**Restated total**
	£m	**£m**	**£m**
Non-cash items included in operating profit before taxation	286.7	22.1	308.8
Interest paid on debt securities in issue	–	(25.2)	(25.2)
Interest received on assets held to hedge debt securities in issue	–	3.1	3.1
	286.7	–	**286.7**

1. Accounting Policies (continued)

Going concern

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

Principal accounting policies

A summary of the Group's accounting policies is set out below. These policies have been consistently applied to all of the years presented, unless otherwise stated.

Basis of consolidation

The Consolidated Financial Statements of the Group comprise the Financial Statements of the Company and all consolidated subsidiaries, including certain securitisation structured entities, and the Group's share of its interest in a joint venture, as at 28 February 2018.

Investment in Group undertakings

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The results of subsidiaries are included in the Consolidated Financial Statements from the date that control commences until the date that control ceases. The Company's investments in its subsidiaries are stated at cost less any impairment.

Intragroup balances, and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the Consolidated Financial Statements.

Securitisation structured entities

The Group enters into securitisation transactions in which it assigns Credit Card receivables to a securitisation structured entity which supports the issuance of securities backed by the cash flows from the securitised Credit Card receivables. Although none of the equity of the securitisation structured entities is owned by the Company, the nature of these entities means that the Group has the rights to variable returns from its involvement with these securitisation structured entities and has the ability to affect those returns through its power over them. As such they are effectively controlled by the Group and are consolidated on a line by line basis in the Consolidated Financial Statements.

Investment in joint venture

A joint arrangement is an arrangement over which the Group has joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. A joint venture is a joint arrangement whereby the Group has rights to a share of the net assets of the joint arrangement.

The Group's share of the results of a joint venture is included in the Consolidated Income Statement using the equity method of accounting. The Group's investment in a joint venture is carried in the Consolidated Statement of Financial Position at cost plus post-acquisition changes in the Group's share of the net assets of the entity, less any impairment.

If the Group's share of losses in a joint venture equals or exceeds its investment in the joint venture, the Group does not recognise further losses, unless it has incurred obligations to do so or made payments on behalf of the joint venture.

1. Accounting Policies (continued)

Revenue recognition

Net interest income recognition

Interest income and expense for all financial instruments measured at amortised cost are recognised using the Effective Interest Rate (EIR) method.

The EIR method is a method of calculating the amortised cost of a financial asset or financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the expected life of the financial asset or financial liability. The EIR is the rate that exactly discounts estimated future cash flows to the instrument's initial carrying amount. Calculation of the EIR takes into account fees receivable that are an integral part of the instrument's yield, premiums or discounts on acquisition or issue, early redemption fees and transaction costs. All contractual and behavioural terms of a financial instrument are considered when estimating future cash flows.

Net fees and commissions income recognition

Fees in respect of services are recognised on an accruals basis when the service to the customer has been provided. The arrangements are generally contractual and the cost of providing the service is incurred as the service is rendered. The price is usually fixed and always determinable.

The Group generates commission from the sale and service of Motor and Home insurance policies underwritten by Tesco Underwriting Limited (TU) or, in a minority of cases, by a third party underwriter. This is based on commission rates which are independent of the profitability of underlying insurance policies. Similar commission income is also generated from the sale of white label insurance products underwritten by other third party providers. This commission income is recognised as such policies are sold, with a provision being recognised for commission expected to be repayable following the cancellation of policies by customers.

Customer loyalty programmes

The Group participates in the customer loyalty programme operated by Tesco Stores Limited. The programme operates by allowing customers to accumulate Clubcard points on purchases for future redemption against a range of Tesco products. The cost of providing Clubcard points to customers is recharged by Tesco Stores Limited to the Group and is treated as a deduction from net fees and commissions income in the Consolidated Income Statement in the period the costs are incurred.

The Group has no obligation to customers in respect of Clubcard points once the obligation with Tesco Stores Limited is settled.

Dividend income

Dividends are recognised in the Consolidated Income Statement when the entity's right to receive payment is established.

Taxation

The tax charge or credit included in the Consolidated Income Statement consists of current and deferred tax. Tax is recognised in the Consolidated Income Statement except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case it is recognised in other comprehensive income or equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted by the reporting date.

Deferred tax is provided using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Company and Consolidated Financial Statements. Deferred tax is calculated at the tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

1. Accounting Policies (continued)

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be realised.

Deferred tax assets and liabilities are offset against each other when there is a legally enforceable right to set-off current tax assets against current tax liabilities and it is the intention to settle these on a net basis.

Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the date of the transaction.

Monetary items denominated in foreign currency are translated at the closing rate as at the reporting date.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Consolidated Income Statement, except when deferred in equity as gains or losses from qualifying cash flow hedging instruments. All foreign exchange gains and losses recognised in the Consolidated Income Statement are presented net in the Consolidated Income Statement within the corresponding item. Foreign exchange gains and losses on other comprehensive income items are presented in other comprehensive income within the corresponding item.

In the case of changes in the fair value of monetary assets denominated in foreign currency classified as available-for-sale, a distinction is made between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to the changes in the amortised cost are recognised in the Consolidated Income Statement, and other changes in the carrying amount, except impairment, are recognised in equity.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and demand deposits with banks together with short-term highly liquid investments with short term maturities.

Financial instruments

The Group classifies a financial instrument that it issues as a financial asset, financial liability or an equity instrument in accordance with the substance of the contractual arrangement. An instrument is classified as a liability if it creates a contractual obligation to deliver cash or another financial asset, or to exchange financial assets or financial liabilities on potentially unfavourable terms. An instrument is classified as equity if it evidences a residual interest in the assets of the Group after the deduction of liabilities.

Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss (FVTPL), loans and receivables, and available-for-sale. Management determine the classification of its financial assets at initial recognition. Purchases and sales of financial assets are recognised on the trade date – the date on which the Group commits to purchase or sell the asset.

Financial assets at FVTPL include financial assets held for trading and those designated at FVTPL at inception. Financial assets held at FVTPL are recognised at fair value with any gains or losses included in the Consolidated Income Statement in the period in which they arise. Transaction costs are expensed at the time of initial recognition. Derivative financial assets are classified as held for trading unless they are accounted for as an effective hedging instrument but are not separately categorised in the Statement of Financial Position. The Group does not currently hold any financial assets designated at FVTPL at inception.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition at fair value plus transaction costs, these assets are carried at amortised cost using the EIR method and adjusted for any impairment losses or adjustments made as part of fair value hedging arrangements.

1. Accounting Policies (continued)

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. Subsequent to initial recognition at fair value plus transaction costs, these financial assets are recorded at fair value, with the movements in fair value recognised in other comprehensive income until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in other comprehensive income is recognised in the Consolidated Income Statement. For available-for-sale financial assets in fair value hedge relationships, the element of the fair value movement which relates to the hedged risk is recycled to the Consolidated Income Statement.

Financial liabilities

All of the financial liabilities held by the Group, other than derivative financial liabilities, are measured at amortised cost using the EIR method, after initial recognition at fair value. Fair value is calculated as the issue proceeds, net of premiums, discounts and transaction costs incurred. The Group does not hold any financial liabilities classified as held for trading. For financial liabilities in fair value hedge relationships, the carrying value is adjusted by the hedged item (the fair value of the underlying hedged risk) through the Consolidated Income Statement.

Derecognition of financial assets and financial liabilities

Financial assets are derecognised when the contractual rights to receive cash flows have expired or where substantially all of the risks and rewards of ownership have been transferred and the transfer qualifies for derecognition. Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

Collateral furnished by the Group under standard repurchase agreements is not derecognised because the Group retains substantially all the risks and rewards on the basis of the predetermined repurchase price, therefore the criteria for derecognition are not met. Credit Card receivables assigned by the Group to a securitisation structured entity do not qualify for derecognition, as the Group retains substantially all the risks and rewards of ownership of the securitised Credit Card receivables.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the Company and Consolidated Statements of Financial Position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise an asset and settle a liability simultaneously.

Impairment of financial assets

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or portfolio of financial assets is impaired and an impairment loss incurred if there is objective evidence that an event or events since initial recognition of the financial asset or group of financial assets have adversely affected the amount or timing of future cash flows expected from the financial asset or group of financial assets.

Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on a financial asset or group of financial assets classified as loans and receivables has been incurred, the Group measures the amount of the loss as the difference between the carrying amount of the financial asset or group of financial assets and the present value of estimated future cash flows from the financial asset or group of financial assets discounted at the EIR of the instrument(s) at initial recognition. Impairment losses are assessed individually for financial assets that are individually significant and collectively for financial assets that are not individually significant. In making the collective assessment of impairment, financial assets are grouped into portfolios on the basis of similar risk characteristics. Future cash flows from these portfolios are estimated on the basis of the estimated cash recoveries and historical loss experience for financial assets with similar credit risk characteristics.

1. Accounting Policies (continued)

Impairment losses are recognised in the Consolidated Income Statement and the carrying amount of the financial asset or group of financial assets is reduced by establishing an allowance for impairment losses. If, in a subsequent year, the amount of the impairment loss reduces and the reduction can be related objectively to an event after the impairment was recognised, the previously recognised loss is reversed by adjusting the allowance.

When a loan is deemed uncollectable it is written off against the related provision after all of the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off received from customers or other third parties are recognised directly in the Consolidated Income Statement as a reduction in the loan impairment charge for the year.

Financial assets classified as available-for-sale

In the case of debt instruments classified as available-for-sale, the recognition of an impairment loss occurs if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial asset (a loss event), and that have an impact on the estimated future cash flows of the financial asset and which can be reliably measured. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the Consolidated Income Statement – is removed from equity and recognised in the Consolidated Income Statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases, and the increase can be objectively related to an event occurring after the impairment loss was reported in the Consolidated Income Statement, the impairment loss is reversed through the Consolidated Income Statement.

Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments for the purpose of providing an economic hedge to its exposures to interest rate and foreign exchange risks as they arise from operating, financing and investment activities. The Group does not hold or issue derivative financial instruments for trading purposes. Derivative financial instruments are initially recognised at fair value on the contract date and are remeasured at their fair value at subsequent reporting dates.

Hedge accounting

The Group designates certain hedging instruments as either fair value hedges or cash flow hedges, where it is efficient to do so and the IAS 39, 'Financial instruments: Recognition and Measurement', criteria are met. The Group applies hedge accounting as follows:

Hedge relationships are classified as fair value hedges where the derivative financial instruments hedge the change in the fair value of fixed rate financial assets or financial liabilities due to movements in interest rates.

Hedge relationships are classified as cash flow hedges where the derivative financial instruments hedge the inflation risk on an index linked issued bond or when they hedge the Group's exposure to variability in cash flows that are either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction.

To qualify for hedge accounting, the Group documents, at the inception of the hedge: the hedging risk management strategy; the relationship between the hedging instrument and the hedged item or transaction; and the nature of the risks being hedged. The Group also documents the assessment of the effectiveness of the hedging relationship, to show that the hedge has been and will be highly effective on an ongoing basis.

Fair value hedges

Changes in the fair value of derivative financial instruments that are designated as fair value hedges are recognised in the Consolidated Income Statement. The hedged item is also adjusted for changes in fair value attributable to the hedged risk, with the corresponding adjustment made in the Consolidated Income Statement.

1. Accounting Policies (continued)

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item is amortised to the Consolidated Income Statement over the remaining period to maturity.

Cash flow hedges

Changes in the fair value of the derivative financial instruments that are designated as hedges of future cash flows are recognised directly in other comprehensive income and the ineffective portion is recognised immediately in the Consolidated Income Statement. Amounts recognised in other comprehensive income are recycled to the Consolidated Income Statement when equivalent amounts of the hedged item are recognised in profit or loss.

When the hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time is recognised immediately in the Consolidated Income Statement.

Derivative financial instruments not in hedge accounting relationships

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the Consolidated Income Statement as they arise.

Impairment of non-financial assets

Non-financial assets are reviewed for impairment when there are indications that the carrying value may not be recoverable. In the event that an asset's carrying amount is determined to be greater than its recoverable amount, an impairment loss is recognised immediately in the Consolidated Income Statement and the carrying value of the asset is written down by the amount of the loss. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets for which an impairment loss has been recognised are reviewed for possible reversal of the impairment at each reporting date.

Property, plant and equipment

Items of property, plant and equipment are stated at historical cost less accumulated depreciation and any impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent expenditure is included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group. All other repairs and maintenance costs are charged to the Consolidated Income Statement in the period in which they are incurred.

Depreciation is charged to the Consolidated Income Statement on a straight-line basis so as to allocate the costs less residual values over the lower of the useful life of the related asset and, for leasehold improvements, the expected lease term. Depreciation commences on the date that the assets are brought into use. Work in progress assets are not depreciated until they are brought into use and transferred to the appropriate category of property, plant and equipment. Estimated useful lives are:

- Plant and equipment 2 to 8 years
- Fixtures and fittings 4 to 14 years
- Computer hardware 3 to 10 years
- Freehold buildings 40 years
- Leasehold improvements 15 to 20 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in administrative expenses in the Consolidated Income Statement.

During the prior year, the Group reassessed the useful life of certain of its tangible fixed assets, reducing the expected life to a maximum of one year. Refer to note 24 for further detail.

1. Accounting Policies (continued)

Intangible assets

Acquired intangible assets

Intangible assets that are acquired by the Group are stated at historical cost less accumulated amortisation and any impairment losses. Amortisation is charged to the Consolidated Income Statement on a straight-line basis over the estimated useful lives. The Group's intangible assets are computer software, for which the estimated useful lives are 3 to 10 years.

Internally generated intangible assets - research and development expenditure

Research costs are expensed in the Consolidated Income Statement as incurred.

Development expenditure incurred on an individual project is capitalised only if all of the following criteria are demonstrated:

- an asset is created that can be identified (such as software);
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

Following the initial recognition of development expenditure, the cost is amortised over the estimated useful life of the asset created. Amortisation commences on the date that the asset is brought into use. Work in progress assets are not amortised until they are brought into use and transferred to the appropriate category of intangible assets.

During the prior year, the Group reassessed the useful life of certain of its intangible fixed assets, reducing the expected life to a maximum of one year. Refer to note 23 for further detail.

Leases

If a lease agreement, in which the Group is a lessee, does not transfer the risks and rewards of ownership of the asset, the lease is recorded as an operating lease.

Operating lease payments are charged to the Consolidated Income Statement on a straight-line basis over the period of the lease. Where an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor as compensation is charged to the Consolidated Income Statement in the period in which the termination takes place.

The Group has entered into a number of operating leases for office buildings.

Employee benefits

The Group accounts for pension costs on a contributions basis in line with the requirements of IAS 19 'Employee Benefits'. The Group made contributions in the year to a closed funded defined benefit scheme and a funded defined contribution scheme. Both of these schemes are operated by Tesco Stores Limited.

IAS 19 requires that, where there is no policy or agreement for sharing the cost of a defined benefit scheme across the subsidiaries, the Sponsoring employer recognises the net defined benefit cost of a defined benefit scheme. The Sponsoring employer of the funded defined benefit scheme is Tesco Stores Limited and the principal pension plan is the Tesco PLC pension scheme.

Share based payments

Employees of the Group receive part of their remuneration in the form of share based payment transactions, whereby employees render services in exchange for Tesco PLC shares or rights over shares (equity-settled transactions) or in exchange for entitlements to cash based payments based on the value of the shares (cash-settled transactions).

The fair value of employee share option plans is calculated at the grant date using the Black-Scholes model. The resulting cost is recognised in the Consolidated Income Statement over the vesting period. The value of the charge is adjusted to reflect expected and actual levels of vesting.

1. Accounting Policies (continued)

The grant by Tesco PLC of options over its equity instruments to the employees of the Group is treated as a capital contribution in equity. The social security contribution payable in connection with the grant of the share options is considered an integral part of the grant itself, and the charge is treated as a cash-settled transaction.

Provision for liabilities and charges and contingent liabilities

A provision is recognised where there is a present legal or constructive obligation as a result of a past event, it is more likely than not that an outflow of economic resources will be required to settle the obligation, and the amount can be reliably estimated.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation.

A contingent liability is a possible obligation which is dependent on the outcome of uncertain future events not wholly within the control of the Group, or a present obligation where an outflow of economic resources is not likely or the amount cannot be reliably measured.

Contingent liabilities are not recognised in the Company or Consolidated Statement of Financial Position but are disclosed unless the possibility of an outflow of economic resources is remote.

Dividends paid

Dividends are recognised in equity in the period they are approved by the Group's Board.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Group has determined the Board of Directors as its chief operating decision-maker.

Sale and repurchase agreements

Investment securities sold subject to a commitment to repurchase them at a predetermined price are retained on the Company and Consolidated Statements of Financial Position when substantially all of the risk and rewards of ownership remain with the Group. The counterparty liability is included in deposits from banks.

Encumbered assets

The Group's methodology used to identify encumbered assets is aligned to definitions used in calculating the Group's Pillar 3 encumbrance disclosures.

2. Critical Accounting Estimates and Judgements in Applying Accounting Policies

In the course of preparing the Financial Statements, no judgements have been made in the process of applying the Group's accounting policies, other than those using estimations (which are presented separately below), that have had a significant effect on the amounts recognised in the Financial Statements.

The reported results of the Group are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its Financial Statements. The Group's principal accounting policies are set out in note 1. United Kingdom company law and IFRSs require the Directors, in preparing the Group's Financial Statements, to select suitable accounting policies, apply them consistently and make judgements and estimates that are reasonable and prudent. Where accounting standards are not specific and Management have to choose a policy, IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', requires them to adopt policies that will result in relevant and reliable information in the light of the requirements and guidance in IFRSs dealing with similar and related issues and the IASB Framework for the Preparation and Presentation of Financial Statements.

The judgements and assumptions involved in the Group's accounting policies that are considered to be the most important to the portrayal of its financial condition are discussed below. The use of estimates, assumptions or models that differ from those adopted by the Group would affect its reported results.

2. Critical Accounting Estimates and Judgements in Applying Accounting Policies (continued)

Loan impairment provisions

The Group's loan impairment provisions are established to recognise incurred impairment losses in its portfolio of customer loans classified as loans and receivables and carried at amortised cost. A loan is impaired when there is objective evidence that events since the loan was granted have affected 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 at the loan's original EIR.

The Group's loan impairment provisions are established on a portfolio basis using a statistical methodology taking into account the level of arrears, collateral, past loss experience and defaults based on portfolio trends. The most significant factors in establishing these provisions are the expected loss rates. These portfolios include Mortgages, Credit Card receivables, Personal Loans and Personal Current Accounts. The future credit quality of these portfolios is subject to estimation uncertainties that could cause actual credit losses to differ materially from reported loan impairment provisions.

The key assumptions used in the statistical models are the probability of default; the expected cash recoveries included in the loss given default; and the loss emergence period. These key assumptions are monitored throughout the year to ensure the impairment provision takes into account the most recent trends observed in each portfolio.

The table below shows a sensitivity analysis of key assumptions, demonstrating the impact on the unsecured Personal Loan receivables provision and the unsecured Credit Card receivables provision, respectively, of a variation in each.

		Consequential change in provision			
Assumption	**Change in assumption**	**Unsecured Personal Loan receivables**		**Unsecured Credit Card receivables**	
		2018	2017	**2018**	2017
		£m	£m	**£m**	£m
Probability of default	+/- 10%	+/- 5.1	+/- 3.9	+/- 2.5	+/- 2.0
Expected cash recoveries	+/- 10%	-/+ 2.3	-/+ 2.2	-/+ 3.2	-/+ 2.9
Loss emergence period	+/- 1 month	+/- 5.6	+/- 4.1	+/- 4.7	+/- 3.5

Individual impairment losses on secured Mortgages are estimated using an individual valuation of the underlying asset. Although the portfolio is growing, sensitivity to movement in the House Price Index remains relatively low.

The impairment loss on loans and advances is disclosed in further detail in note 9.

Effective interest rate (EIR)

IAS 39 requires the Group to measure the interest earned on its Credit Cards portfolio by applying the EIR methodology. The main area of estimation uncertainty in measuring the EIR on the Group's Credit Card portfolio is the expected attrition of the balances drawn at the reporting date.

Management use a pay rates assumption to determine the expected repayment profile of the balances drawn as at the reporting date to the expected remaining term (capped to a maximum of 5 years from origination).

An increase of the pay rates assumption by 10% will reduce the asset value by £5.0m and a corresponding reduction of the pay rates assumption will increase the asset value by £5.8m.

Provision for customer redress

The Group has a provision for potential customer redress in relation to Payment Protection Insurance (PPI). For further details, including the key assumptions made in arriving at each element of this provision and a sensitivity analysis of key assumptions in the PPI model, refer to note 28.

2. Critical Accounting Estimates and Judgements in Applying Accounting Policies (continued)

Investment in joint venture

The Group holds an investment in a joint venture, Tesco Underwriting Limited (TU), an authorised insurance company, and recognises the carrying value of its investment and the Group's share of TU's results using the equity method of accounting (see notes 1 and 21 for further details).

TU's results are sensitive to changes in the insurance reserves it recognises in respect of insurance policies written, net of reinsurance. Consequently, material increases in these reserves could have an impact on the carrying value of the investment in the Consolidated Statement of Financial Position.

The impact of any increase in reserves is determined by TU's ability to amend its pricing to reflect the increased costs of providing cover under the policies written.

A key element of the reserving calculation is the application of the Ogden tables, which are used to calculate the cost of any claim that involves compensation for loss of future benefits. The tables provide an estimate of the return to be expected from the investment of a lump sum damages award. A discount rate of 2.5% was set in 2001 and was previously used by TU in assessing its reserves for relevant cases.

Following a consultation by the Ministry of Justice (MoJ), which was launched in August 2012, a new rate of -0.75% was set by the MoJ on 27 February 2017 and was effective from 20 March 2017. The impact of this in TU was a post-tax charge of £45.7m, of which the Group recognised £22.8m in the Consolidated Income Statement for the prior year through its share of TU's results as an adjusting event after the reporting date for the prior year. The carrying value of the Group's investment in TU was correspondingly reduced by an equivalent amount. A full reconciliation of the Group's carrying value of TU is set out at note 21.

A reduction in the Ogden rate for 2018 to -1.0% would decrease the carrying value of the Group's investment in TU by £0.2m. An increase in the Ogden rate for 2018 to +1.0% would increase the carrying value of the Group's investment in TU by £1.2m.

3. Segmental Reporting

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

The Group has one operating segment covering all of the Group's activities, the results of which are set out in the Consolidated Income Statement and Group and Company Statements of Financial Position. The group is primarily focused on providing financial services and products to personal customers in the UK therefore no geographic analysis is presented.

4. Net Interest Income

	2018 £m	2017 £m
Interest and similar income		
On assets held at amortised cost		
Loans and advances to customers	646.8	592.9
Cash and balances with central banks	2.8	2.4
Investment securities - loans and receivables	1.4	1.4
	651.0	596.7
On assets held at fair value		
Investment securities - available-for-sale	22.2	21.4
	22.2	21.4
Total	**673.2**	618.1
Interest expense and similar charges		
On liabilities held at amortised cost		
Deposits from customers	(114.3)	(111.9)
Deposits from banks	(4.1)	(3.1)
Debt securities in issue	(27.8)	(26.5)
Subordinated liabilities and notes	(4.0)	(4.3)
	(150.2)	(145.8)
On liabilities held at fair value		
Interest rate swap expenses	(29.9)	(33.1)
	(29.9)	(33.1)
Total	**(180.1)**	**(178.9)**
Net interest income	**493.1**	**439.2**

5. Net Fees and Commissions Income

	2018 £m	2017 £m
Fees and commissions income		
Banking income	252.2	254.2
Insurance income	113.2	123.2
Other income	21.6	16.6
	387.0	**394.0**
Fees and commissions expense		
Banking expense	(31.6)	(31.3)
	(31.6)	**(31.3)**
Net fees and commissions income	**355.4**	**362.7**

6. Unrealised Gains on Financial Instruments

	2018 £m	2017 £m
Foreign exchange gain on financial assets	1.9	10.5
Net gains/(losses) arising on derivatives not designated as hedging instruments under IAS 39	8.0	(8.1)
Fair value hedge ineffectiveness (refer to note 16)	1.1	3.9
	11.0	**6.3**

7. Realised Gain on Financial Instruments

	2018 £m	2017 £m
Financial assets classified as available-for-sale		
Realised gain on disposals	0.1	4.2
	0.1	**4.2**

8. Administrative Expenses

	2018 £m	2017 £m
Staff costs		
Wages and salaries	114.2	107.3
Social security costs	11.8	11.6
Other pension costs	5.4	4.8
Share based payments	9.2	9.9
Other costs including temporary staff	33.6	32.2
Restructuring costs*	–	6.9
	174.2	**172.7**
Non staff costs		
Premises and equipment	74.8	72.3
Operating leases	3.6	4.2
Marketing	63.8	62.2
Auditor's remuneration (refer below)	0.8	0.6
Outsourcing and professional fees	62.1	66.2
Other administrative expenses	44.6	43.8
Restructuring costs*	(1.2)	3.0
	248.5	**252.3**
	422.7	**425.0**

*During the year, the Group recognised organisational restructuring credits within administrative expenses amounting to £(1.2)m (2017: charges of £9.9m), of which £nil (2017: £6.9m) related to staff costs and £(1.2)m (2017: £3.0m) related to property operating lease exit costs.

8. Administrative Expenses (continued)

During the year the Group obtained the following services from the incumbent auditor, Deloitte.

	2018 £'000	2017 £'000
Audit services		
Audit of the Company and Consolidated Financial Statements	51	50
Audit of the Company's subsidiaries	702	429
	753	**479**
Non audit services		
Audit related assurance services	83	84
Other non audit services not covered above	52	79
	135	**163**
Total auditor's remuneration	**888**	**642**

The average monthly number of persons (including Executive Directors) employed by the Group split by employee function during the year, was:

	2018 Number	2017 Number
Head office and administration	1,323	1,248
Operations	2,625	2,630
	3,948	**3,878**

9. Impairment on Loans and Advances to Customers

	2018 £m	2017 £m
Loans and advances to customers		
Increase in impairment allowance, net of recoveries*	133.3	100.9
Impairment charge on Irish Credit Card book	0.9	1.9
Total impairment allowances, net of recoveries (refer to note 14)	**134.2**	**102.8**
Insurance premiums written off during the year as uncollectable	3.2	3.6
	137.4	**106.4**

*Recoveries include £34.6m received through the sale of non-performing debt to third parties (2017: £21.6m).

10. Directors' Emoluments

The remuneration of the Directors paid by the Group during the year was as follows:

	2018 £m	2017 £m
Aggregate emoluments	5.9	5.2
Aggregate amounts receivable under long-term incentive schemes	2.6	2.1
Loss of office	0.3	0.6
Share based payments	0.9	1.2
Total emoluments	**9.7**	**9.1**

10. Directors' Emoluments (continued)

	2018 Number	2017 Number
Number of Directors to whom retirement benefits are accruing under defined benefit schemes	–	–
Number of Directors in respect of whose qualifying services shares were received or receivable under long term incentive schemes	5	4
Number of Directors who exercised share options in the year	–	–

The total emoluments of the highest paid Director were £2.3m (2017: £2.1m). During the year the highest paid Director did not exercise any share options (2017: £nil).

At 28 February 2018 the accrued pension and lump sum under a defined benefit scheme for the highest paid Director was £nil (2017: £nil).

During the year to 28 February 2018 two Directors (2017: three Directors) left the company. One Director (2017: one Director) was paid a sum of £0.3m (2017: £0.6m) upon leaving, in line with contractual terms and conditions.

11. Income Tax

Income tax charge/(credit)

		2018 £m	2017 £m
Current tax charge for the year		70.4	42.0
Adjustments in respect of prior years		0.8	(51.5)
Total current tax charge/(credit) for the year		**71.2**	**(9.5)**
Deferred tax credit for the year	22	(8.7)	(15.2)
Tax rate change	22	0.6	(1.3)
Adjustments in respect of prior years	22	(1.5)	(1.3)
Total deferred tax credit for the year		**(9.6)**	**(17.8)**
Income tax charge/(credit)		**61.6**	**(27.3)**

The standard rate of corporation tax in the UK was changed from 20% to 19% with effect from 1 April 2017. This gives a blended Corporation Tax rate for the Group for the full year of 19.1% (2017: 20.0%). In addition, a banking surcharge of 8% is applied to the Group's results.

11. Income Tax (continued)

The tax assessed for the full year is higher (2017: lower) than that calculated using the overall blended Corporation Tax rate for the Group. The differences are explained below:

	2018 £m	2017 £m
Profit before taxation	202.7	110.1
Profit on ordinary activities multiplied by blended rate in the UK of 19.1% (2017: 20.0%)	38.7	22.0
Factors affecting charge for the year:		
Group relief surrendered without payment	–	(24.0)
Impact of banking surcharge	13.5	17.5
Expenses not deductible for tax purposes*	10.0	8.8
Adjustment in respect of prior years - current tax**	0.8	(51.5)
Adjustment in respect of prior years - deferred tax	(1.5)	(1.3)
Share based payments	1.5	1.1
Other tax adjustments	–	(1.7)
Tax rate change	0.6	(1.3)
Share of profit/(loss) of joint venture	(2.0)	3.1
Income tax charge/(credit)	**61.6**	**(27.3)**

*The majority of the adjustment relates to the non deductibility of an additional PPI provision of £35.0m recognised in the year (2017: £45.0m).
**The 2017 adjustment in respect of prior years arises largely as a result of group relief being made available to the Company from the Tesco PLC tax group, reducing the tax charge in respect of 2016 by £48.8m.

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

Income tax relating to components of other comprehensive income

2018	Before tax amount £m	Tax charge £m	Net of tax amount £m
Net gains on available-for-sale investment securities	1.8	(0.3)	1.5
Net gains on cash flow hedges	0.4	(0.1)	0.3
	2.2	**(0.4)**	**1.8**

2017	Before tax amount £m	Tax charge £m	Net of tax amount £m
Net gains on available-for-sale investment securities	7.1	(5.0)	2.1
Net gains on cash flow hedges	1.6	(0.6)	1.0
	8.7	**(5.6)**	**3.1**

11. Income Tax (continued)

Deferred tax charged directly to the Statement of Changes in Equity

2018	Before tax amount £m	Tax credit £m	Net of tax amount £m
Net gains on share based payments	3.6	0.9	4.5
	3.6	**0.9**	**4.5**

2017	Before tax amount £m	Tax credit £m	Net of tax amount £m
Net gains on share based payments	0.9	2.8	3.7
	0.9	**2.8**	**3.7**

12. Distributions to Equity Holders

	2018 £m	2017 £m
Ordinary dividend paid	**50.0**	**50.0**

On 22 February 2018 an interim dividend of £50.0m (£0.0410 per ordinary share) was paid. In the prior year, an interim dividend of £50.0m (£0.0410 per ordinary share) was paid on 22 February 2017.

13. Cash and Balances with Central Banks

	Group 2018 £m	Group 2017 £m	Company 2018 £m	Company 2017 £m
Cash at bank	376.9	156.1	–	–
Cash deposit with Tesco Personal Finance plc	–	–	3.4	3.6
Balances held with the Bank of England other than mandatory reserve deposits	926.6	632.5	–	–
Included in cash and cash equivalents	**1,303.5**	**788.6**	**3.4**	**3.6**
Mandatory reserves deposits held with the Bank of England	15.1	14.3	–	–
	1,318.6	**802.9**	**3.4**	**3.6**

Mandatory reserve deposits held with the Bank of England of £15.1m (2017: £14.3m) are not included within cash and cash equivalents for the purposes of the cash flow statement as these do not have short term maturities. These balances are not available in the Group's day to day operations and are non-interest bearing. Other balances are subject to variable interest rates based on the Bank of England base rate.

14. Loans and Advances to Customers

Group	2018	2017
	£m	£m
Secured Mortgage lending	3,010.2	2,160.7
Unsecured lending	8,766.7	7,970.9
Total secured and unsecured lending	**11,776.9**	**10,131.6**
Fair value hedge adjustment	(16.4)	23.4
Gross loans and advances to customers	**11,760.5**	**10,155.0**
Less: allowance for impairment	**(238.1)**	**(193.8)**
Net loans and advances to customers	**11,522.4**	**9,961.2**
Current	4,636.6	4,166.1
Non-current	6,885.8	5,795.1

Fair value hedge adjustments

Fair value hedge adjustments amounting to £(16.4)m (2017: £23.4m) are in respect of fixed rate Loans and Mortgages. These adjustments are largely offset by derivatives, which are used to manage interest rate risk and are designated as fair value hedges within loans and advances to customers.

Allowance for impairment

The following table shows the movement in the provision for impairment on loans and advances to customers:

Group	2018	2017
	£m	£m
At beginning of year	193.8	153.9
Amounts written off	(87.3)	(60.3)
Increase in allowance, net of recoveries*, charged to the income statement (refer to note 9)	134.2	102.8
Foreign currency translation	0.1	0.1
Unwind of discount	(2.7)	(2.7)
At end of year	**238.1**	**193.8**

*Recoveries include £34.6m received through the sale of non-performing debt to third parties (2017: £21.6m).

15. Loans and Advances to Subsidiary Companies

Company	2018	2017
	£m	£m
Floating rate subordinated note maturing 2030	190.0	190.0
Undated floating rate note	45.0	45.0
Gross loans and advances to subsidiary companies	**235.0**	**235.0**
Net loans and advances to subsidiary companies	**235.0**	**235.0**
Current	–	–
Non-current	**235.0**	**235.0**

There was no impairment charge recognised in the year on loans and advances to subsidiary companies (2017: no charge).

16. Derivative Financial Instruments

Strategy in using derivative financial instruments

The objective when using a derivative financial instrument is to ensure that the risk to reward profile of a transaction is optimised, allowing the Group to manage its exposure to interest rate and foreign exchange rate risk. The intention is to only use derivatives to create economically effective hedges. There are specific requirements stipulated under IAS 39 which must be met for a derivative to qualify for hedge accounting. As a result, not all derivatives can be designated as being in an accounting hedge relationship, either because natural accounting offsets are expected or because obtaining hedge accounting would be especially onerous.

For those derivatives where hedge accounting is applied, gains and losses are offset by hedge adjustments in the Consolidated Income Statement. For those derivatives held for economic hedging purposes which cannot be designated as being in an accounting hedge relationship, the gains and losses are recognised in the Consolidated Income Statement. In the Statement of Financial Position there is no distinction between derivatives where hedge accounting is applied and derivatives which cannot be designated as being in an accounting hedge relationship.

Fair value hedge

The Group's risk management objective of creating economically effective hedges is to use interest rate contracts to swap fixed rate exposures back to a floating rate LIBOR basis where no existing offset is available. This includes the hedging of fixed rate Personal Loans, Mortgages and certain Savings balances, holdings of fixed rate investment securities and issuances of fixed rate debt, which protects the Group against the fair value volatility of these financial assets and financial liabilities due to movements in interest rates. Each swap is defined as hedging one or more fixed rate assets or liabilities.

Cash flow hedge

The Group held five inflation linked interest rate swaps (2017: five) as cash flow hedges to mitigate the variability in cash flows associated with an inflation linked debt security issued by the Bank. The cash flows are expected to occur over the term to maturity in December 2019.

During the year, the Group entered into a series of foreign currency forward contracts which are designated as cash flow hedges and which mitigate the variability in cash flows associated with foreign currency transactions that are attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction. The cash flows are expected to occur over the period to 28 February 2019.

Ineffectiveness recognised in the Consolidated Income Statement in respect of cash flow hedges for the 12 months to 28 February 2018 was £nil (2017: £nil). Amounts are recycled from the cash flow hedge reserve when the underlying hedge item affects the Consolidated Income Statement. Therefore as the carrying value of the asset or liability is adjusted in respect of movements in the hedged risk, recycled amounts directly offset this adjustment within net interest income. Recycled amounts for the 12 months to 28 February 2018 were £1.4m (2017: £2.3m).

16. Derivative Financial Instruments (continued)

Derivatives not in a hedge relationship

All derivative financial instruments are held for economic hedging purposes, although not all derivatives are designated as hedging instruments under the terms of IAS 39. The Group has the following derivative contracts in economic hedge relationships but not in accounting hedge relationships:

- Foreign exchange forward contracts and, in the prior year, cross currency interest rate swaps, used to hedge the exchange rate risk inherent in cash flows from foreign currency assets; and
- Interest rate swaps that were not previously held in hedge accounting relationships and are viewed as trading derivatives under IAS 39.

The analysis below splits derivatives between those classified in hedge accounting relationships and those not in hedge accounting relationships.

Group 2018	Notional £m	Asset fair value £m	Liability fair value £m
Derivatives in hedge accounting relationships			
Derivatives designated as fair value hedges			
Interest rate swaps	4,086.9	30.5	(86.8)
Derivatives designated as cash flow hedges			
Interest rate swaps	60.0	–	(0.7)
RPI basis swaps	60.0	11.5	–
Forward foreign exchange contracts	4.1	0.1	–
Total derivatives in hedge accounting relationships	**4,211.0**	**42.1**	**(87.5)**

Group 2018	Notional £m	Asset fair value £m	Liability fair value £m
Derivatives not in hedge accounting relationships			
Interest rate derivatives			
Interest rate swaps	964.6	3.9	(0.8)
Currency derivatives			
Forward foreign exchange contracts	35.1	0.1	(0.1)
Cross currency swaps	–	–	–
Total derivatives not in hedge accounting relationships	**999.7**	**4.0**	**(0.9)**
Total derivative financial instruments	**5,210.7**	**46.1**	**(88.4)**

16. Derivative Financial Instruments (continued)

Group **2017**	**Notional** **£m**	**Asset fair value** **£m**	**Liability fair value** **£m**
Derivatives in hedge accounting relationships			
Derivatives designated as fair value hedges			
Interest rate swaps	3,528.4	13.2	(116.2)
Derivatives designated as cash flow hedges			
Interest rate swaps	60.0	–	(1.7)
RPI basis swaps	60.0	11.2	–
Total derivatives in hedge accounting relationships	**3,648.4**	**24.4**	**(117.9)**

Group **2017**	**Notional** **£m**	**Asset fair value** **£m**	**Liability fair value** **£m**
Derivatives not in hedge accounting relationships			
Interest rate derivatives			
Interest rate swaps	1,226.8	3.2	(6.0)
Currency derivatives			
Forward foreign exchange contracts	35.5	0.1	(0.2)
Cross currency swaps	71.4	1.0	(9.2)
Total derivatives not in hedge accounting relationships	**1,333.7**	**4.3**	**(15.4)**
Total derivative financial instruments	**4,982.1**	**28.7**	**(133.3)**

Derivatives, whether designated in hedge accounting relationships or not, are regarded as current where they are expected to mature within one year. All other derivatives are regarded as non-current.

	Assets 2018 £m	Assets 2017 £m	**Liabilities 2018 £m**	Liabilities 2017 £m
Current	1.5	1.3	(3.1)	(17.0)
Non-current	44.6	27.4	(85.3)	(116.3)
	46.1	28.7	**(88.4)**	(133.3)

The analysis below details the ineffectiveness in the fair value hedge relationships included in the Consolidated Income Statement:

	2018 £m	2017 £m
Fair value gains on interest rate swaps in designated fair value hedges	67.0	15.4
Losses on fair value hedge adjustments	(65.9)	(11.5)
Net gains in Consolidated Income Statement (refer to note 6)	**1.1**	3.9

17. Investment Securities

Group	2018 £m	2017 £m
Available-for-sale		
Government-backed investment securities	101.1	117.4
Gilts	581.5	572.5
Supranational investment securities	85.1	176.1
Other investment securities	155.7	98.4
Equity securities	2.0	1.7
	925.4	**966.1**
Loans and receivables		
Investment in subordinated debt issued by Tesco Underwriting Limited (TU)	34.1	34.1
	34.1	**34.1**
Current	102.3	190.4
Non-current	857.2	809.8

There were no impairment charges within the year (2017: £nil).

Available-for-sale

Included in investment securities are fixed-interest investment securities totalling £801.5m (2017: £883.2m) and variable-interest investment securities amounting to £121.9m (2017: £81.2m).

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

Loans and receivables

The investment in subordinated debt issued by TU relates to subordinated notes of £34.1m (2017: £34.1m). Interest receivable on these notes is based on a rate of three month LIBOR plus a spread ranging from 350 - 450 basis points (2017: 350 - 450 basis points). No impairment charges were recognised in respect of this investment (2017: £nil).

18. Prepayments and Accrued Income

	Group		Company	
	2018 £m	2017 £m	2018 £m	2017 £m
Prepayments	10.2	7.9	–	–
Accrued income	39.1	34.3	–	–
Amounts accrued from Tesco Personal Finance Plc	–	–	0.7	0.6
	49.3	**42.2**	**0.7**	**0.6**

All amounts are classified as current at the year end.

19. Other Assets

Group	2018	2017
	£m	£m
Amount due from insurance premiums and commissions receivable	19.6	20.1
Accounts receivable and sundry receivables	236.6	270.0
Amounts due from Tesco Group subsidiaries	9.5	8.9
	265.7	**299.0**

All amounts are classified as current at the year end.

20. Investment in Group Undertakings

The Company's investment in group undertakings in the year was as follows:

Name of company	Nature of business	Place of incorporation	Ownership interest	Registered address
Tesco Personal Finance plc	Banking and general insurance services	UK	100%	EHQ, 2 South Gyle Crescent, Edinburgh, EH12 9FQ
Tesco Personal Finance Compare Limited	Insurance aggregator website service	UK	100%	EHQ, 2 South Gyle Crescent, Edinburgh, EH12 9FQ

* Tesco Personal Finance Compare Limited entered into liquidation during the year to 29 February 2016 and was dissolved by way of Members' Voluntary Liquidation on 16 April 2017.

The Company's investment in group undertakings amounted to £1,219.9m (2017: £1,219.9m).

The following companies are accounted for as subsidiaries of the Group. These are securitisation structured entities established in connection with the Group's Credit Card securitisation transactions. Although none of the equity of the securitisation structured entities is owned by the Company, the nature of these entities means that the Group has the rights to variable returns from its involvement with these securitisation structured entities and has the ability to affect those returns through its power over them. As such they are effectively controlled by the Group. The Company does not hold any investments in Group undertakings.

Name of company	Nature of business	Place of incorporation	Registered address
Delamare Cards Holdco Limited	Securitisation entity	UK	Asticus Building, 2nd floor, 21 Palmer Street, London, SW1H 0AD
Delamare Cards MTN Issuer plc	Securitisation entity	UK	Asticus Building, 2nd floor, 21 Palmer Street, London, SW1H 0AD
Delamare Cards Receivables Trustee Limited	Securitisation entity	UK	Asticus Building, 2nd floor, 21 Palmer Street, London, SW1H 0AD
Delamare Cards Funding 1 Limited	Securitisation entity	UK	Asticus Building, 2nd floor, 21 Palmer Street, London, SW1H 0AD
Delamare Cards Funding 2 Limited	Securitisation entity	UK	Asticus Building, 2nd floor, 21 Palmer Street, London, SW1H 0AD

All of the above companies have a financial year end of 31 December. The management accounts of these entities are used to consolidate the results to 28 February 2018 within these Consolidated Financial Statements.

20. Investment in Group Undertakings (continued)

Significant restrictions

As is typical for a regulated Group operating in the financial services market there are restrictions on the ability of the Group's subsidiary, Tesco Personal Finance plc, to make distributions of cash or other assets to the parent company for the following reasons:

- Assets pledged as collateral: These assets are not available for transfer to the parent company. Refer to note 35 for further details of encumbered assets.
- Regulatory capital requirements: As a regulated entity, Tesco Personal Finance plc is subject to requirements to maintain minimum levels of capital, hence restricting its ability to make distributions of cash or other assets to the parent company. Refer to note 39 for further details.

21. Investment in Joint Venture

During the year ended 28 February 2017, the Group's joint venture, Tesco Underwriting Limited (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 required a capital injection in order to maintain the required level of regulatory capital.

The Board of Tesco Personal Finance Plc approved the capital injection of £15.5m to TU in exchange for ordinary shares in TU, increasing the Group's investment in TU by an equivalent amount. The joint venture partner correspondingly approved an increase in its investment in TU's ordinary share capital. The capital injection was completed in April 2017.

The following table shows the aggregate movement in the Group's investment in its joint venture in the year:

Group	2018 £m	2017 £m
At beginning of year	71.0	76.1
Share of profit/(loss) of joint venture*	10.0	(15.6)
Acquisition of ordinary share capital	15.5	–
Share of available-for-sale reserve of joint venture **	(6.5)	10.5
At end of year	**90.0**	**71.0**

*Including, in the prior year, a charge of £22.8m, representing the Group's share of losses incurred by TU relating to the impact on TU's insurance reserves of a change in the Ogden tables. There is no such charge in the current year as there have been no changes to the Ogden rate during the year.

**The Group's share of the movement in the available-for-sale reserve represents the recognised portion of other comprehensive (expense)/income of the joint venture.

Details of the Group's joint venture

Name of company	Registered address	Nature of business	Place of Incorporation	Ownership interest 2018	Ownership interest 2017
Tesco Underwriting Limited	Ageas House, Hampshire Corporate Park, Templars Way, Eastleigh, Hampshire, SO53 3YA	Insurance	England	49.9% of Ordinary Share Capital	49.9% of Ordinary Share Capital

TU is an authorised insurance company which provides the insurance underwriting service for a number of the Group's general insurance products. TU is a private company and there is no quoted market price available for its shares.

21. Investment in Joint Venture (continued)

The Group uses the equity method of accounting for its investment in TU, which has a financial year end of 31 December. The accounting year end date for TU differs from that of the Group as it is in line with the other joint venture partner. The management accounts of TU are used to consolidate the results to 28 February 2018 within these Consolidated Financial Statements.

Summarised financial information for the joint venture

This information reflects the amounts presented in the management accounts of the joint venture (and not the Group's share of those amounts):

Group	**2018**	2017
	£m	£m
Non-current assets	876.7	879.7
Current assets	157.5	148.3
Current liabilities	(791.1)	(823.0)
Non-current liabilities	(68.3)	(68.3)
Net assets	**174.8**	**136.7**
Cash and cash equivalents	**63.3**	**42.5**
Current financial liabilities (excluding trade and other payables and provisions)	**(10.7)**	**(12.1)**
Non-current financial liabilities (excluding trade and other payables and provisions)	**(68.3)**	**(68.3)**

	2018	**2017**
	£m	**£m**
Income Statement		
Revenue	366.6	373.6
Expenses including claims costs	(346.6)	(404.8)
Profit/(loss) for the year	**20.0**	**(31.2)**
Other comprehensive (expense)/income	(13.0)	21.1
Total comprehensive income/(expense)	**7.0**	**(10.1)**
The above profit/(loss) includes the following:		
Depreciation and amortisation	(2.9)	(2.7)
Interest income	13.9	14.4
Interest expense	(2.8)	(2.9)
Income tax (charge)/credit	(1.6)	2.5

21. Investment in Joint Venture (continued)

Reconciliation of the summarised financial position

A reconciliation of the summarised financial information presented to the carrying amount of the investment in joint venture is as follows.

Group	**2018** **£m**	2017 £m
Net assets of the joint venture	174.8	136.7
Group share at 49.9%	87.2	68.2
Capitalised legal costs included in investment carrying value	2.8	2.8
Carrying value of investment in joint venture at end of year	**90.0**	**71.0**

Other information

There are no contingent liabilities or commitments in respect of the joint venture. The investment in the joint venture is classified as non-current.

22. Deferred Income Tax Liability

The deferred income tax liability can be analysed as follows:

2018 **Group**	**Accelerated capital allowances £m**	**Other £m**	**Total £m**
At beginning of year	(15.0)	1.3	(13.7)
Credited to the Consolidated Income Statement in the current year	8.5	0.2	8.7
Credited to the Consolidated Income Statement for prior years	0.4	1.1	1.5
Credited to equity	–	0.4	0.4
Change in tax rate	(0.6)	–	(0.6)
At end of year	**(6.7)**	**3.0**	**(3.7)**
Deferred tax asset to be recovered within one year			4.3
Deferred tax asset to be recovered after more than one year			2.2
			6.5
Deferred tax liability to be recovered within one year			(2.0)
Deferred tax liability to be recovered after more than one year			(8.2)
			(10.2)
Deferred tax liabilities (net)			**(3.7)**

2017 **Group**	**Accelerated capital allowances £m**	**Other £m**	**Total £m**
At beginning of year	(32.9)	1.9	(31.0)
Credited to the Consolidated Income Statement in the current year	15.1	0.1	15.2
Credited/(charged) to the Consolidated Income Statement for prior years	1.6	(0.3)	1.3
Charged to equity	–	(0.5)	(0.5)
Change in tax rate	1.2	0.1	1.3
At end of year	**(15.0)**	**1.3**	**(13.7)**
Deferred tax asset to be recovered within one year			1.4
Deferred tax asset to be recovered after more than one year			2.8
			4.2
Deferred tax liability to be recovered within one year			(3.6)
Deferred tax liability to be recovered after more than one year			(14.3)
			(17.9)
Deferred tax liabilities (net)			**(13.7)**

23. Intangible Assets

Group	Work in Progress £m	Computer software £m	Total £m
Cost			
At 1 March 2017	34.3	608.3	642.6
Additions	37.3	5.5	42.8
Transfers	(43.8)	43.4	(0.4)
Disposals	(0.3)	(0.5)	(0.8)
At 28 February 2018	**27.5**	**656.7**	**684.2**
Accumulated amortisation			
At 1 March 2017	–	(342.6)	(342.6)
Charge for the year	–	(70.7)	(70.7)
Disposals	–	0.2	0.2
At 28 February 2018	**–**	**(413.1)**	**(413.1)**
Net carrying value			
At 28 February 2018	**27.5**	**243.6**	**271.1**
Cost			
At 1 March 2016	21.7	604.6	626.3
Additions	31.3	3.6	34.9
Transfers	(17.1)	16.9	(0.2)
Disposals	(1.6)	(16.8)	(18.4)
At 28 February 2017	**34.3**	**608.3**	**642.6**
Accumulated amortisation			
At 1 March 2016	–	(262.4)	(262.4)
Charge for the year	–	(93.5)	(93.5)
Disposals		13.3	13.3
At 28 February 2017	**–**	**(342.6)**	**(342.6)**
Net carrying value			
At 28 February 2017	**34.3**	**265.7**	**300.0**

Work in progress relates primarily to the internal development of IT software assets. Intangible asset balances are non-current.

During the prior year, the Group reassessed the useful life of certain of its intangible fixed assets, reducing the expected life to a maximum of one year. This reduction in useful life reflected the impact of business restructuring commenced during the prior year. The impact of this change was to increase the amortisation charge by £19.0m over 2016/17, primarily arising from the residual amortisation of the Group's insurance platform which was replaced in 2017.

24. Property, Plant and Equipment

Group	Work in Progress £m	Plant and Equipment £m	Fixtures and Fittings £m	Computer Hardware £m	Freehold Buildings £m	Leasehold Improvement £m	Total £m
Cost							
At 1 March 2017	5.5	3.0	14.5	128.9	28.2	24.5	204.6
Additions	3.1	–	1.6	1.7	0.4	0.3	7.1
Transfers	(5.8)	–	0.7	1.6	3.9	–	0.4
Disposals	–	–	–	(7.5)	(0.2)	–	(7.7)
At 28 February 2018	**2.8**	**3.0**	**16.8**	**124.7**	**32.3**	**24.8**	**204.4**
Accumulated depreciation							
At 1 March 2017	–	(3.0)	(9.0)	(101.3)	(4.9)	(13.1)	(131.3)
Charge for the year	–	–	(2.0)	(7.9)	(0.8)	(1.6)	(12.3)
Disposals	–	–	–	7.2	–	–	7.2
At 28 February 2018	**–**	**(3.0)**	**(11.0)**	**(102.0)**	**(5.7)**	**(14.7)**	**(136.4)**
Net carrying value							
At 28 February 2018	**2.8**	**–**	**5.8**	**22.7**	**26.6**	**10.1**	**68.0**
Cost							
At 1 March 2016	4.4	3.0	14.2	129.8	28.2	22.7	202.3
Additions	1.9	–	2.2	6.5	–	1.8	12.4
Transfers	(0.8)	–	0.4	0.6	–	–	0.2
Disposals	–	–	(2.3)	(8.0)	–	–	(10.3)
At 28 February 2017	**5.5**	**3.0**	**14.5**	**128.9**	**28.2**	**24.5**	**204.6**
Accumulated depreciation							
At 1 March 2016	–	(3.0)	(8.6)	(100.1)	(3.1)	(8.6)	(123.4)
Charge for the year	–	–	(2.0)	(8.5)	(1.8)	(4.5)	(16.8)
Disposals	–	–	1.6	7.3	–	–	8.9
At 28 February 2017	**–**	**(3.0)**	**(9.0)**	**(101.3)**	**(4.9)**	**(13.1)**	**(131.3)**
Net carrying value							
At 28 February 2017	**5.5**	**–**	**5.5**	**27.6**	**23.3**	**11.4**	**73.3**

Work in progress at 28 February 2018 relates predominantly to the development of IT assets. Property, plant and equipment balances are non-current.

During the prior year, the Group reassessed the useful life of certain of its tangible fixed assets, reducing the expected life to a maximum of one year. This reduction in useful life reflected the impact of business restructuring commenced during the prior year. The impact of this change was to increase the depreciation charge by £4.0m over 2016/17 in respect of property related costs arising due to the early exit from the Group's office in central Edinburgh. The Group recognised an additional charge of £0.3m in the current year, reflecting an updated assessment of a dilapidations provision recognised in respect of those premises.

25. Deposits from Banks

Group	2018 £m	2017 £m
Deposits from banks	**1,539.0**	**499.8**
Current	200.0	99.8
Non-current	1,339.0	400.0

Deposits from banks include balances of £200.0m (2017: £99.8m) which have been sold under sale and repurchase agreements and balances of £1,339.0m (2017: £400.0m) drawn under the Bank of England's Term Funding Scheme (TFS).

26. Deposits from Customers

Group	2018 £m	2017 £m
Retail deposits	9,245.6	8,463.1
Fair value hedge adjustment	(1.0)	0.1
	9,244.6	**8,463.2**
Current	7,611.2	6,587.1
Non-current	1,633.4	1,876.1

Fair value hedge adjustments

Fair value hedge adjustments amounting to £(1.0)m (2017: £0.1m) are in respect of fixed rate Savings products. These adjustments are largely offset by derivatives, which are used to manage interest rate risk and are designated as fair value hedges within deposits from customers.

27. Debt Securities in Issue

Group	Interest rate	Par value £m	Term (years)	Maturity date	2018 £m	2017 £m
Fixed rate retail bond – issued 24 February 2011	5.2%	125.0	7.5	2018	126.1	129.2
RPI bond – issued 16 December 2011	1.0%	69.9	8	2019	69.9	67.2
Fixed rate retail bond – issued 21 May 2012	5.0%	200.0	8.5	2020	203.9	209.6
Floating rate AAA bond (A1) [1]	1M LIBOR + 0.45%	150.0	5	2019	–	149.7
Floating rate AAA bond (A2) [2]	1M LIBOR + 0.65%	350.0	7	2021	349.6	349.2
Floating rate AAA bond (A1) [3]	1M LIBOR + 0.65%	300.0	5	2020	299.9	299.4
Floating rate AAA bond (A1) [4]	1M LIBOR + 0.53%	300.0	5	2022	298.2	-
					1,347.6	**1,204.3**

[1] This Bond was issued on 6 June 2014 and was redeemed on its scheduled redemption date of 19 May 2017.
[2] This Bond was issued on 6 June 2014. The scheduled redemption date of this Bond is May 2019.
[3] This Bond was issued on 13 May 2015. The scheduled redemption date of this Bond is April 2018.
[4] This Bond was issued on 7 November 2017. The scheduled redemption date of this Bond is October 2020.

All Floating Rate Bonds were issued by Delamare Cards MTN Issuer plc and are listed on the Irish Stock Exchange. All retail bonds are listed on the London Stock Exchange. All balances are classified as non-current at the year end with the exception of £300.0m of the floating rate AAA bond (A1), which was redeemed on its scheduled redemption date in April 2018 and the fixed rate retail bond issued in February 2011, which is expected to be redeemed in August 2018. In the prior year, £150.0m of the floating rate AAA bond (A1) was classified as current.

28. Provisions for Liabilities and Charges

Group 2018	Customer Redress Provision £m	Insurance Provisions £m	Restructuring Provision £m	Other Provisions £m	Total £m
At beginning of year	68.0	4.2	6.7	4.6	83.5
Provided during the year	35.0	12.8	–	4.9	52.7
Utilised during the year	(33.8)	(13.6)	(4.4)	(2.3)	(54.1)
Released during the year	(1.5)	–	(1.2)	–	(2.7)
At end of year	**67.7**	**3.4**	**1.1**	**7.2**	**79.4**

Customer redress provision - Payment protection insurance

Of the total customer redress provision balance at 28 February 2018, £66.8m (2017: £63.8m) has been provided for customer redress in respect of potential customer complaints arising from historic sales of PPI.

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

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

The Group increased its PPI provision by £35.0m (2017: £45.0m) during the year to reflect:

- the impact on current claim volumes of the confirmation of the time bar and related communications campaign;
- an updated assessment of the current claim rate;
- the impact on the expected cost of redress from new rules in the FCA paper regarding Plevin; and
- additional costs expected to be incurred in respect of the Group's contribution to the FCA's communications campaign.

Although a significant degree of uncertainty remains with regard to the ultimate cost of settling PPI complaints, in particular the volume of complaints arising from customers ahead of the FCA confirmed time bar date of August 2019, the provision balance represents Management's best estimate at the reporting date of that cost. The PPI provision will continue to be monitored as trends in complaint volumes and levels of redress develop.

The table below details for each key assumption, actual data to 28 February 2018, forecast assumptions used in assessing the PPI provision adequacy and a sensitivity assessment demonstrating the impact on the provision of a variation in the future experience.

			Sensitivity	
Assumption	Cumulative actual	Future expected	Change in assumption	Consequential change in provision £m
Valid claims settled	123,417	29,536	+/- 1,000 complaints	+/- 1.8
Average redress per valid claim	£1,684	£1,810	+/- £100	+/- 3.0

28. Provisions for Liabilities and Charges (continued)

Customer redress provision - Consumer credit act (CCA)

The Group holds a provision of £0.9m (2017: £4.2m) in respect of customer redress relating to instances where certain requirements of the CCA for post-contract documentation were not fully complied with.

In arriving at the provision required, which was reduced by £1.5m during the year, the Group has considered the legal and regulatory position with respect to these matters and has sought legal advice which it took into account when making its judgement. The provision represents Management's best estimate at the reporting date of the cost of concluding the redress programme for Loan and Credit Card customers, and in making the estimate Management have exercised judgement as to both the timescale for completing the redress campaign and the final scope of any amounts payable.

The Consolidated Income Statement customer redress charge for the year of £23.8m (2017: charge of £45.0m) reflects the £35.0m PPI provision increase (2017: increase of £45.0m), offset by the £1.5m (2017: £nil) reduction in the CCA provision and a credit of £9.7m (2017: £nil) received following the conclusion of negotiations with a third party in respect of previously recognised customer redress relating to historical instances where certain requirements of the CCA for post-contract documentation were not fully complied with.

Insurance provision

The insurance provision relates to potential insurance policy cancellation by customers. This balance is classified as current at the year end.

Restructuring provision

The restructuring provision relates to restructuring costs arising from the Customer 2020 programme. Management expect to utilise this provision during the year ended 28 February 2019.

Other provisions

Other provisions represent:

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

29. Accruals and Deferred Income

	Group		Company	
	2018	2017	2018	2017
	£m	£m	£m	£m
Amounts accrued to Tesco Group subsidiaries	11.6	10.4	–	–
Amounts accrued to Tesco PLC	0.7	0.6	0.7	0.6
Other accruals	87.5	91.8	–	–
Deferred income	9.2	12.3	–	–
	109.0	115.1	0.7	0.6

All amounts are classified as current at the year end.

30. Other Liabilities

	Group		Company	
	2018	2017	**2018**	2017
	£m	£m	**£m**	£m
Accounts payable and sundry payables	117.9	119.8	–	–
Amounts owed to Tesco Group subsidiaries	8.0	11.4	–	0.2
Insurance payables	10.8	11.7	–	–
Taxation and social security	6.8	5.5	–	–
	144.3	**148.4**	**–**	**0.2**

All amounts are classified as current at the year end.

31. Subordinated Liabilities and Notes

Group and Company	**2018**	2017
	£m	£m
Floating rate subordinated loans maturing 2030	190.0	190.0
Undated floating rate notes	45.0	45.0
	235.0	**235.0**

Subordinated liabilities and notes comprise loan capital issued to Tesco PLC. This includes £190.0m (2017: £190.0m) of subordinated loans maturing in 2030 and £45.0m (2017: £45.0m) of undated notes with no fixed maturity date. All balances are classified as non-current at the year end.

Interest payable on the subordinated liabilities and notes is based on three month LIBOR plus a spread ranging from 60 to 220 basis points (2017: three month LIBOR plus a spread ranging from 60 to 220 basis points).

32. Share Capital and Share Premium Account

Group and Company	**2018**	**2018**	2017	2017
	Number	**£m**	Number	£m
Authorised				
A Ordinary shares of 10p each	Unlimited		Unlimited	
B Ordinary shares of 10p each	Unlimited		Unlimited	
C Ordinary shares of 10p each	1		1	
Allotted, called up and fully paid				
A Ordinary shares of 10p each	991,090,000	99.1	991,090,000	99.1
B Ordinary shares of 10p each	229,089,000	22.9	229,089,000	22.9
C Ordinary shares of 10p each	1	–	1	–
		122.0		122.0

	2018	2017
	£m	£m
Share premium reserve	1,098.2	1,098.2

33. Other Reserves

Group	2018	2017
	£m	£m
Cash flow hedge reserve	(0.3)	(0.6)
Available-for-sale reserve	13.0	18.0
Share based payment reserve	31.5	27.0
	44.2	**44.4**

Cash flow hedge reserve

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is included in the cash flow hedge reserve. The gain or loss relating to the ineffective portion is recognised immediately in the Consolidated Income Statement.

Available-for-sale reserve

Available-for-sale financial assets are initially recognised at fair value and measured subsequently at fair value with gains and losses being recognised in the Consolidated Statement of Other Comprehensive Income (except for impairment losses and foreign exchange gains and losses which are immediately recognised in the Consolidated Income Statement) until the financial asset is derecognised.

Gains or losses in respect of the interest rate element of the fair value movement are subsequently recycled to the Consolidated Income Statement where hedge accounting is in place.

The consolidated available-for-sale reserve also includes the Group's share of the available-for-sale reserve of its joint venture, Tesco Underwriting Limited.

Share based payment reserve

The fair value of Tesco PLC equity-settled share options granted to employees of the Group is included in the share based payment reserve.

34. Employee Benefit Liability

Defined benefit plans

The Group made contributions in the year to a closed funded defined benefit scheme operated by Tesco Stores Limited (TSL). The principal pension plan is the Tesco PLC pension scheme, a funded defined benefit pension scheme in the UK, the assets of which are held as a segregated fund and administered by the Trustee. TSL has recognised the appropriate net liability of the Tesco PLC pension scheme in accordance with IAS 19 'Employee Benefits'.

Defined contribution plans

A defined contribution scheme operated by TSL is open to all Group employees in the UK.

Detailed disclosures, in line with the requirements of IAS 19, are included in the Tesco PLC 2018 Financial Statements.

35. Risk Management

There are no differences in the manner in which risks are managed and measured between the Group and the Company. Therefore, the explanations of the management, the control responsibilities and the measurement of risk described in this section are those for the Group. The amounts included in this note are those for the Group unless otherwise stated.

Through its normal operations, the Group is exposed to a number of risks, the most significant of which are credit risk, operational risk, liquidity and funding risk, market risk, insurance risk, residual price risk and legal and regulatory compliance risk. The key risk management processes and tools are described in detail on pages 7 to 17 within the Strategic Report.

Credit Risk

Types of credit risk

- **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 that the Group is operating within agreed retail credit Risk Appetite parameters.

Monitoring and reporting: Management information is produced covering all lending portfolios which is tailored to meet the requirements of different audiences within the overall governance framework. Risk Appetite Measures (RAMs) 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.

35. Risk Management (continued)

- **Wholesale credit risk**

Wholesale credit risk is the risk that the counterparty to a transaction will default before the final settlement of the transaction's cash flows. Such transactions relate to contracts for financial derivative instruments, securities financing transactions and long-dated settlement transactions.

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

Controls and risk mitigants

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

The RAM limits are set out in the Wholesale Credit Risk policy which is approved by the ERC. The limits contained in the policy are approved by the ERC or Board as appropriate. The Treasury Director is responsible for ensuring that Treasury complies with counterparty credit risk limits. The Market and Liquidity Risk team reports to the Financial and 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 and interest rate and foreign exchange derivatives. Ratings issued by external credit assessment institutions are taken into account as part of the process to set limits.

The Wholesale Credit Risk Limit framework sets limits on the amounts that can be invested based on counterparty credit-worthiness by country, instrument type and remaining tenor. As part of the credit assessment process for wholesale credit risk exposures, the Group uses the external credit ratings issued by Fitch (as the nominated external credit assessment institution) to help determine the appropriate risk weighting to apply under the Standardised Approach (SA) to credit risk exposures. The Group has a Wholesale Credit Risk Forum where current ratings and exposures are discussed on a monthly basis by colleagues from Treasury and the Market and 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 approved by the Board.

The Wholesale Credit Risk policy also provides that credit risk mitigation techniques are applied to reduce wholesale credit risk exposures. International Swaps Derivatives Association (ISDA) master agreements are in place with all derivative counterparties, Global Master Repurchase Agreements are in place for all repurchase counterparties and ISDA Credit Support Annexes have been executed with all of the Group’s derivative counterparties. The Group uses central counterparties in order to clear specified derivative transactions (predominantly interest rate swaps) thereby mitigating counterparty risk. Positions are continuously marked to market and margin in the form of collateral is exchanged on at least a daily basis. As at 28 February 2018, no additional credit risk mitigation was deemed necessary.

35. Risk Management (continued)

Credit risk exposures

The table below relates to credit risk exposures of both on and off balance sheet assets. This represents a worst case scenario of credit risk exposure at the year end. For on balance sheet assets, the balances set out below are based on net carrying amounts as reported in the Consolidated Statement of Financial Position.

	2018	2017
Credit risk exposures relating to on balance sheet items	**£m**	**£m**
Cash and balances with central banks*	1,318.6	802.9
Loans and advances to customers	11,522.4	9,961.2
Derivative financial instruments	46.1	28.7
Investment securities:		
- Available-for-sale	925.4	966.1
- Loans and receivables	34.1	34.1
Other assets*	265.7	299.0
Total credit risk exposures relating to on balance sheet items	**14,112.3**	**12,092.0**
Credit risk exposures relating to off balance sheet items		
Customer lending commitments[1]	12,400.0	12,132.0
Bank of England Funding for Lending Scheme (FLS)	–	270.0
Total credit risk exposures relating to off balance sheet items	**12,400.0**	**12,402.0**
Total credit risk exposures	**26,512.3**	**24,494.0**

* On a Company basis, credit risk exposures arise only from cash and balances with central banks of £3.4m (2017: £3.6m) and loans and advances to subsidiary companies of £235.0m (2017: £235.0m).

As shown above, 81.6% of the total maximum exposure to on balance sheet assets for the Group is derived from loans and advances to customers (2017: 82.4%) and 6.6% represents investments in financial assets classified as available-for-sale (2017: 8.0%).

[1] The Group has a potential exposure to total unused customer lending commitments. However, the likely exposure, which is impacted by factors such as customer behaviour and the regular assessment of the creditworthiness of customers, is less than the total unused commitments.

35. Risk Management (continued)

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

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

The table below details the value of property collateral held against the Group's Mortgage portfolio.

Collateral held against Mortgage portfolio	**2018**	**2017**
	£m	**£m**
Exposure*	3,000.7	2,155.3
Collateral	5,940.1	4,374.7
Cover	198.0%	203.0%

* The Mortgage balance above represents the credit risk inherent in the Mortgage products and excludes accrued interest and fair value adjustments.

- **Credit risk: Concentration risk**

Concentration risk is the risk of losses arising as a result of concentrations of exposures to a specific counterparty, economic sector, segment or geographical region.

The Group is potentially exposed to this risk were it to become concentrated in certain geographic areas or product profiles e.g. a disproportionate level of high LTV Mortgages. Such concentrations could produce unacceptable bad debts in some adverse but plausible situations.

Controls and risk mitigants

The Group mitigates these potential concentration risks by establishing appropriate limits and trigger thresholds that are regularly monitored and reported to the appropriate Senior Management team and risk committees.

Concentration profiles

The following tables provide concentration profiles in terms of the LTV profile for the Mortgage portfolio; geographic distribution of the Group's exposures; analysis of material asset class by industry type and credit exposure by impairment status across the different exposure class.

- **Credit risk: Mortgage portfolio - LTV distribution profile**

Loans are originated on an income verified basis over a range of fixed rate and tracker products. All loans are repaid on a capital and interest basis, where the loan is repaid over the agreed term of the loan.

The table below provides the LTV distribution profile for the Group's Mortgage portfolio by weighted average balance. The overall average LTV for the portfolio is 50.5% (2017: 49.3%) which is well within agreed Risk Appetite parameters.

35. Risk Management (continued)

	2018 £m	2017 £m
Less than 50%	927.8	671.7
50% to 60%	561.6	405.3
60% to 70%	436.8	404.9
70% to 80%	478.4	311.6
80% to 90%	418.8	266.9
90% to 100%	176.4	92.8
Greater than 100%	0.9	2.1
Total*	**3,000.7**	**2,155.3**

* The Mortgage balance above represents the credit risk inherent in the Mortgage products and excludes accrued interest or fair value adjustments.

- **Credit risk: Asset class geographical distribution profile**

The Group is primarily focused on providing financial services and products to UK personal customers.

The table below provides the geographical distribution of the Group's total credit risk exposures. For on balance sheet assets, the balances set out below are based on net carrying amounts as reported in the Consolidated Statement of Financial Position.

	2018 £m	2017 £m
United Kingdom	26,262.4	24,125.8
Europe (excluding United Kingdom)	205.1	299.4
Other	44.8	68.8
Total	**26,512.3**	**24,494.0**

* On a Company basis, total credit risk exposures, being cash and balances with central banks of £3.4m (2017: £3.6m) and loans and advances to subsidiary companies of £235.0m (2017: £235.0m), are all in the UK.

- **Credit risk: Analysis by industry type**

The table below represents the distribution of exposures by industry type. The Group is primarily focused on providing financial services and products to personal customers in the UK, although it also has exposure to wholesale counterparties as detailed below. For on balance sheet assets, the balances set out below are based on net carrying amounts as reported in the Consolidated Statement of Financial Position.

	2018 £m	2017 £m
Financial institutions	983.3	809.2
Government	1,524.2	1,492.6
Individuals	23,955.0	22,113.6
Wholesale and retail trade	49.8	78.6
Total	**26,512.3**	**24,494.0**

* On a Company basis, total credit risk exposures, being cash and balances with central banks of £3.4m (2017: £3.6m) and loans and advances to subsidiary companies of £235.0m (2017: £235.0m), are all with Financial institutions.

35. Risk Management (continued)

- **Credit risk: Asset quality**

Ineffective management and controls over the emerging asset quality of the Group's lending portfolios could expose the Group to unacceptable 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.

The table below presents an analysis of credit exposure by impairment status across the different exposure classes. The table predominantly relates to Banking assets; the retail instalment lending applies to credit agreements in the Insurance business. The balances set out below are based on gross loans and advances, excluding fair value hedge adjustments, as provided in note 14.

Credit quality of gross loans and advances 2018	**Retail unsecured lending £m**	**Retail mortgage lending £m**	**Retail instalment lending £m**	**Total £m**
Past due and impaired				
Less than 90 days past due	44.1	0.2	–	44.3
90–179 days past due	59.3	–	–	59.3
180 days plus past due	109.5	0.1	–	109.6
Past due but not impaired				
0–29 days past due	54.7	0.7	0.5	55.9
30–59 days past due	19.8	–	–	19.8
60–89 days past due	12.5	–	–	12.5
Neither past due nor impaired				
Low risk *	8,010.0	2,983.1	129.4	11,122.5
High risk **	326.9	26.1	–	353.0
	8,636.8	**3,010.2**	**129.9**	**11,776.9**

Gross loans and advances to customers of £17.2m (2017: £14.8m) are subject to active forbearance arrangements and are considered to be not impaired on the basis that the Group does not anticipate that the future expected cash flows of the gross loans and advances will be impacted. Of this total, £5.0m (2017: £4.9m) is included in 'neither past due or impaired' and £12.2m (2017: £9.9m) in 'past due but not impaired'.

35. Risk Management (continued)

Credit quality of gross loans and advances 2017	Retail unsecured lending £m	Retail mortgage lending £m	Retail instalment lending £m	Total £m
Past due and impaired				
Less than 90 days past due	32.4	–	–	32.4
90–179 days past due	47.8	–	–	47.8
180 days plus past due	99.2	–	–	99.2
Past due but not impaired				
0–29 days past due	47.8	0.6	0.2	48.6
30–59 days past due	15.5	–	–	15.5
60–89 days past due	9.9	–	–	9.9
Neither past due nor impaired				
Low risk *	7,426.1	2,144.4	140.1	9,710.6
High risk **	151.9	15.7	–	167.6
	7,830.6	**2,160.7**	**140.3**	**10,131.6**

***** Low risk is defined as an asset with a probability of default of less than 10%.
****** High risk is defined as an asset with a probability of default of 10% or more.

All other financial assets are deemed to be at low risk of default.

- **Credit risk: 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. 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.

The Group has adopted the definition of forbearance in the European Banking Authority's (EBA) final draft Implementing Technical Standards (ITS) of July 2014. The Group reports all accounts meeting this definition, providing for them appropriately.

Controls and risk mitigants

The Group has well defined forbearance policies and processes. A number of forbearance options are made available to customers by the Group. These routinely, but not exclusively, include the following:

- Arrangements to repay arrears over a period of time, by making payments above the contractual amount, that 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.

35. Risk Management (continued)

The table below details the values of secured and unsecured advances that are subject to forbearance programmes, in accordance with the EBA definition.

	Gross Loans and Advances subject to Forbearance Programmes		Forbearance programmes as a proportion of total Loans and Advances by category		Proportion of Forbearance Programmes covered by impairment provision	
	2018	2017	**2018**	2017	**2018**	2017
	£m	£m	**%**	%	**%**	%
Credit Cards UK	69.6	70.4	1.5	1.8	72.3	60.0
Credit Cards Europe	0.9	1.1	2.7	2.9	40.9	40.0
Credit Cards commercial	0.1	0.1	4.7	4.3	95.0	84.7
Loans	42.4	38.2	1.0	1.0	68.2	62.9
Mortgages	5.9	4.3	0.2	0.2	0.2	0.1

- **Operational risk**

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

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 should be executed within the framework;
- supporting relevant business areas to embed policies and frameworks and instil a positive risk management culture; and
- independently 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.

35. Risk Management (continued)

Business units and functions assess their operational risks on an ongoing basis via a prescribed Risk and Control Self Assessment (RCSA) process and Operational Risk Scenario Analysis (ORSA). The RCSA analysis 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 RCSA outputs are reported to relevant governance bodies. This is supplemented further by an Event Management process and regular reporting of the Operational Risk profile to the ERC. The ORSA builds on RCSA and Event Management 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 II.

The ERC provides oversight of the Group's operational risk profile and provides regular reports and recommendations to the Board Risk Committee (BRC).

- **Liquidity and funding risk**

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

The Group operates within a Liquidity Risk Management Policy Framework (LRMP) 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

Liquidity and funding risk is assessed through the Individual Liquidity Adequacy Assessment Process (ILAAP) on at least an annual basis. The ILAAP 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 LRMP to maintain liquidity risk exposures within the liquidity Risk Appetite set by the Board. The key liquidity and funding measures monitored on a regular basis are:

- the internal liquidity requirement, which 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, which 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 net stable funding ratio, which is calculated under the Capital Requirements Directive IV methodology;
- the loan to deposit ratio, which is calculated by dividing loans and advances to customers by deposits from customers;
- the encumbrance ratio, which 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 wholesale funding ratio, which is calculated by dividing total wholesale funding by total funding;
- the annual wholesale re-financing amount, which is the value of funds requiring to be refinanced in a rolling 12 month period; and
- the minimum unencumbered assets, which is the surplus of unencumbered assets relative to the total amount of retail liabilities.

35. Risk Management (continued)

The Group measures and manages liquidity adequacy in line with the above metrics on a regular basis and maintains a conservative liquidity and funding profile to confirm that it is able to meet its financial obligations under normal, and stressed, market conditions.

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

The Group prepares both short term and long term forecasts to assess liquidity requirements and takes into account factors such as Credit Card payment cycles, expected utilisation of undrawn credit card limits, customer deposit patterns, and wholesale funding (including TFS) 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 Asset and Liability Management Committee (ALCo) on a regular basis to provide evidence that sufficient liquidity is held to meet financial obligations in a stress.

The Treasury Director is responsible for formulating, and obtaining Board approval for, an annual funding plan as part of the overall business planning process. The Group is predominantly funded by its retail deposit base which reduces reliance on wholesale funding and, 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 (BoE) TFS, repaying borrowing previously drawn under the BoE's Funding for Lending Scheme.

The table below shows the Group's primary funding sources.

Primary funding sources	**2018**	**2017**
	£m	**£m**
On balance sheet		
Deposits from banks	1,539.0	499.8
Deposits from customers	9,244.6	8,463.2
Subordinated liabilities and notes	235.0	235.0
Debt securities in issue	1,347.6	1,204.3
Total on balance sheet funding	**12,366.2**	**10,402.3**
Off balance sheet		
Treasury bills drawn under FLS (net of repurchase agreements)*	–	170.0
Total off balance sheet funding	**–**	**170.0**

*FLS drawdowns of £nil (2017: £270.0m) are shown net of Treasury bills used as collateral in repurchase agreements of £nil (2017: £100.0m).

35. Risk Management (continued)

The tables below show cash flows payable up to a period of 20 years on an undiscounted basis. These differ from the Statement of Financial Position values due to the effects of discounting on certain Statement of Financial Position items and due to the inclusion of contractual future interest flows.

Derivatives designated in a hedging relationship are included according to their contractual maturity.

Liquidity and funding risk on financial assets and liabilities

Group 2018 On balance sheet	**Within 1 year £m**	**Between 1 and 2 years £m**	**Between 2 and 3 years £m**	**Between 3 and 4 years £m**	**Between 4 and 5 years £m**	**Beyond 5 years £m**	**Total £m**
Financial assets:							
Cash and balances at central banks	1,318.8	–	–	–	–	–	1,318.8
Loans and advances to customers	6,614.4	1,395.6	929.8	598.3	385.0	3,036.1	12,959.2
Investment securities							
- Available-for-sale	90.9	97.0	49.7	114.7	138.9	496.7	987.9
- Loans and receivables	1.5	1.7	1.7	1.8	1.8	62.1	70.6
Other assets	265.7	–	–	–	–	–	265.7
Total financial assets	**8,291.3**	**1,494.3**	**981.2**	**714.8**	**525.7**	**3,594.9**	**15,602.2**
Financial liabilities:							
Deposits from banks	208.7	12.0	412.1	946.8	–	–	1,579.6
Deposits from customers	7,654.9	873.5	500.4	178.6	105.4	0.1	9,312.9
Debt securities in issue	448.3	441.4	513.7	–	–	–	1,403.4
Derivatives settled on a net basis							
- Derivatives in economic but not accounting hedges	(0.6)	–	–	–	–	–	(0.6)
- Derivatives in accounting hedge relationships	22.3	(8.2)	1.3	3.4	3.9	22.6	45.3
Other liabilities	144.3	–	–	–	–	–	144.3
Subordinated liabilities	4.9	5.9	6.4	7.6	12.7	293.9	331.4
Total financial liabilities	**8,482.8**	**1,324.6**	**1,433.9**	**1,136.4**	**122.0**	**316.6**	**12,816.3**
Off balance sheet							
Contractual lending commitments	12,400.0	–	–	–	–	–	12,400.0
Total off balance sheet	**12,400.0**	**–**	**–**	**–**	**–**	**–**	**12,400.0**

* On a Company basis, liquidity and funding risk arises only on cash and balances with central banks of £3.4m (2017: £3.6m), which are due within 1 year, and loans and advances to subsidiary companies of £235.0m (2017: £235.0m), which have the same profile as the subordinated liabilities in the Group table above.

35. Risk Management (continued)

Liquidity and funding risk on financial assets and liabilities

Group 2017 On balance sheet	**Within 1 year £m**	**Between 1 and 2 years £m**	**Between 2 and 3 years £m**	**Between 3 and 4 years £m**	**Between 4 and 5 years £m**	**Beyond 5 years £m**	**Total £m**
Financial assets:							
Cash and balances at central banks	803.0	–	–	–	–	–	803.0
Loans and advances to customers	5,486.5	1,143.9	934.0	709.4	482.7	2,476.0	11,232.5
Investment securities							
- Available-for-sale	176.4	86.5	93.5	26.2	131.0	490.9	1,004.5
- Loans and receivables	1.4	1.4	1.5	1.5	1.6	61.4	68.8
Other assets	299.0	–	–	–	–	–	299.0
Total financial assets	**6,766.3**	**1,231.8**	**1,029.0**	**737.1**	**615.3**	**3,028.3**	**13,407.8**
Financial liabilities:							
Deposits from banks	100.0	301.3	0.5	100.0	–	–	501.8
Deposits from customers	6,658.5	1,147.1	422.5	167.5	173.5	0.3	8,569.4
Debt securities in issue	173.5	443.0	435.8	210.0	–	–	1,262.3
Derivatives settled on a net basis							
- Derivatives in economic but not accounting hedges	(2.1)	(3.4)	(2.9)	(2.5)	–	–	(10.9)
- Derivatives in accounting hedge relationships	34.4	25.2	4.1	11.7	10.0	23.4	108.8
Derivatives settled on a gross basis							
- Outflows	71.5	–	–	–	–	–	71.5
- Inflows	(63.3)	–	–	–	–	–	(63.3)
Other liabilities	148.4	–	–	–	–	–	148.4
Subordinated liabilities	4.0	4.2	4.5	4.9	5.3	302.7	325.6
Total financial liabilities	**7,124.9**	**1,917.4**	**864.5**	**491.6**	**188.8**	**326.4**	**10,913.6**
Off balance sheet							
Contractual lending commitments	12,132.0	–	–	–	–	–	12,132.0
Total off balance sheet	**12,132.0**	–	–	–	–	–	**12,132.0**

35. Risk Management (continued)

The table below summarises the Group's assets which are available to support future funding and collateral needs and shows the extent to which these assets are currently pledged for this purpose.

The Group has adopted the definition of encumbered and unencumbered in the EBA's final guidelines on disclosure of June 2014. Asset encumbrance represents a claim to an asset by another party usually 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.

Group 2018	**Encumbered £m**	**Unencumbered £m**	**Total £m**
Encumbered asset summary			
Loans and advances to customers	3,654.0	7,868.4	11,522.4
Other assets	111.1	154.6	265.7
	3,765.1	**8,023.0**	**11,788.1**
Encumbered loans and advances to customers			
Securitisation – Delamare Master Trust	1,628.7		
Personal loans	989.6		
Mortgages	1,035.7		
	3,654.0		
Encumbered other assets			
Initial margin held at Clearing Houses	56.5		
Variation margin held at Clearing Houses	54.0		
Collateral held at counterparties	0.6		
	111.1		

Group 2017	**Encumbered £m**	**Unencumbered £m**	**Total £m**
Encumbered asset summary			
Loans and advances to customers	2,309.9	7,651.3	9,961.2
Other assets	156.9	142.1	299.0
	2,466.8	**7,793.4**	**10,260.2**
Encumbered loans and advances to customers			
Securitisation – Delamare Master Trust	1,853.5		
Mortgages	456.4		
	2,309.9		
Encumbered other assets			
Initial margin held at Clearing Houses	42.4		
Variation margin held at Clearing Houses	104.5		
Collateral held at counterparties	10.0		
	156.9		

35. Risk Management (continued)

Loans and advances assigned for use as collateral in securitisation transactions.

At 28 February 2018, £3,490.5m (2017: £2,529.3m) of the Credit Card portfolio had its beneficial interest assigned to a securitisation structured entity, Delamare Cards Receivables Trustee Limited, for use as collateral in securitisation transactions. The total encumbered portion of this portfolio is £1,628.7m (2017: £1,853.5m).

At 28 February 2018, Delamare Cards MTN Issuer plc had £2,362.2m (2017: £1,800.0m) notes in issue in relation to securitisation transactions, of which £950.0m (2017: £800.0m) related to externally issued notes (refer to note 27). At 28 February 2018 the Group owned £1,412.2m (2017: £1,000.0m) of class A and class D Credit Card backed notes issued by Delamare Cards MTN Issuer plc.

Of the total £1,150.0m (2017: £800.0m) class A retained Credit Card backed notes, £300.0m (2017: £630.0m) is held in a distinct pool for the purposes of collateralising the TFS drawings. All other prepositioned assets with the Bank of England are held within their single collateral pool.

Loans and advances prepositioned with Bank of England

Group	2018	2017
	£m	£m
Credit Card backed notes*	1,150.0	780.0
Mortgages	1,035.7	456.4
Unsecured personal loans	2,438.0	1,037.7
Total assets prepositioned as collateral with Bank of England	**4,623.7**	**2,274.1**
Collateralised FLS Drawings	–	**270.0**
Collateralised TFS Drawings	**1,339.0**	400.0

*Issued by Delamare Cards MTN Issuer plc

- **Market risk**

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

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

Control and risk mitigants

Control of market risk exposure is managed by ALCo 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 BRC.

35. Risk Management (continued)

• Interest rate risk in the Banking Book

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

The Group offers lending and savings products with varying interest rate features and maturities which create re-pricing mismatches and therefore potential interest rate risk exposures. The Group is therefore exposed to interest rate risk through its dealings with retail banking products as well as through its limited wholesale market activities.

IRRBB is the main market risk that could affect the Group's net interest income.

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.

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

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

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

Capital at Risk (CaR): The CaR approach assesses the value sensitivity of the Bank's capital to movements in interest rates. The scenarios considered include both parallel and non-parallel movements of the yield curve and have been designed to assess impacts across a suitable range of severe but plausible movements in interest rates. The CaR measure is an aggregate measure of four separate risk components, each being a distinct form of interest rate risk (Repricing Risk, Basis Risk, Pipeline Risk and Prepayment Risk).

The table below shows the Group's CaR. At 28 February 2018 the Group was exposed to net residual risk via an upward rate scenario (2017: upward rate scenario).

	2018	2017
	Upward rate scenario	Upward rate scenario
Capital at Risk Sensitivity	£m	£m
Repricing risk	12.1	(6.7)
Basis risk[1]	–	4.5
Pipeline risk	(4.3)	(5.1)
Prepayment risk	(22.2)	(18.4)
Total	**(14.4)**	**(25.7)**

Net Interest Income (NII) Sensitivity: This measures the effect of a +1.0%; -0.75% (2017: +1.0%; -0.75%) parallel interest rate shock on the next 12 months NII, based on the re-pricing gaps in the existing portfolio.

	2018		2017	
	Upward Rate Shock	Downward Rate Shock	Upward Rate Shock	Downward Rate Shock
NII Sensitivity	**(1.03)%**	**0.77%**	(0.07)%	0.05%

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.

[1] The reported value for re-pricing risk as at 2018 includes the basis risk component which was previously modelled and reported separately. Basis risk will be modelled in combination with all other re-pricing risks going forward.

35. Risk Management (continued)

- **Foreign exchange risk**

Foreign exchange risk is the risk that the value of transactions in currencies other than Sterling is altered by the movement of exchange rates.

The Group's Risk Appetite permits investment in non-GBP denominated bonds and the Group may raise funding from the wholesale markets in currencies other than GBP. Foreign exchange exposure arises if these are not hedged. Foreign exchange exposure may also arise through the Group's 'Click and Collect' Travel money provision and 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.

The Group's maximum exposure to foreign exchange risk at 28 February 2018 was £45.5m (2017: £119.5m), representing the Group's net assets denominated in foreign currencies.

- **Tesco Underwriting Limited investment portfolio**

The TU insurance portfolio assets are invested with a number of counterparties. These investments are predominantly comprised of government securities, corporate bonds and short term cash investments.

The main risks relate to changes in:

- interest rates affecting fair value arising as a proportion of the bonds are fixed rate in nature; and
- credit quality, as the range of assets held are issued by a variety of institutions with different credit characteristics.

Controls and risk mitigants

Portfolio management is undertaken by the TU investment committee. The Group's Finance function provides oversight and challenge.

- **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. TSL has recognised the appropriate net liability of the Tesco PLC pension scheme in accordance with IAS 19, 'Employee Benefits' (refer to note 34).

- **Insurance risk**

The Group is exposed to insurance risk through its 49.9% ownership of TU, an authorised insurance company.

The Group defines insurance risk as the risks accepted through the provision of insurance products in return for a premium. These risks may or may not occur as expected and the amount and timing of these risks are uncertain and determined by events outside of the Group's control (e.g. flood or vehicular accident). The Group's aim is to actively manage insurance risk exposure, with particular focus on those risks that impact profit volatility.

Insurance risk is typically categorised in the following way:

- Underwriting risk – Related to the selection and pricing (or quantification) of the risk currently being transferred from customers to an insurer; and
- Reserving risk – Related to valuation and management of financial resources sufficient to pay claims for the risk already transferred from customers to an insurer.

35. Risk Management (continued)

Controls and risk mitigants

The Group's oversight of TU is primarily provided by its representation on the TU Board. TU operates a separate risk framework with dedicated risk and compliance teams and a suite of TU risk policies to ensure that the TU insurance portfolio is operating within agreed Risk Appetite. Performance of the portfolio is monitored and reported to the ERC on a monthly basis against specific key performance indicator thresholds and limits.

- **Residual price risk**

Residual price risk is the risk that the fair value of a financial instrument and its associated hedge will fluctuate because of changes in market prices, for reasons other than interest rate or credit risk. The Group has available-for-sale investment securities that are held at fair value in the Company and Consolidated Statements of Financial Position.

Controls and risk mitigants

The Group has established appropriate hedging strategies to mitigate the interest rate and foreign exchange risks. Residual price risk remains.

The table below demonstrates the Group's exposure to residual price risk at the year end. Included in the table is the expected impact of a 10% shock in market prices on the Group's available-for-sale investment securities. The figures shown are prior to hedging activities which mitigate the interest rate and foreign exchange risks.

Impact of 10 % shock in market prices		**Fair value**		**Impact of 10% shock**		**Value after 10% shock**
	2018	2017	**2018**	2017	**2018**	2017
	£m	£m	**£m**	£m	**£m**	£m
Available-for-sale:						
Government-backed investment securities	101.1	117.4	(10.1)	(11.7)	91.0	105.7
Gilts	581.5	572.5	(58.2)	(57.2)	523.3	515.3
Supranational investment securities	85.1	176.1	(8.5)	(17.6)	76.6	158.5
Other investment securities	155.7	98.4	(15.6)	(9.8)	140.1	88.6
Equity securities	2.0	1.7	(0.2)	(0.2)	1.8	1.5
	925.4	**966.1**	**(92.6)**	**(96.5)**	**832.8**	**869.6**

- **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 credit processes; or failure to comply with other regulatory requirements. The Group has no appetite for breaches of rules and regulations. Where breaches occur, the Group will take appropriate rectifying action. The group has no appetite for inappropriate or unfair outcomes for customers.

Controls and risk mitigants

As part of the Group's Policy Framework, a dedicated Compliance Advisory (CA) 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 CA team and the Legal team.

During the year, the Group established the Prudential Regulatory Forum which is responsible for the oversight of Prudential Regulatory Authority (PRA) communications including information requests; upstream regulatory change including impact analysis, action tracking, regulatory responses; Prudential regulatory compliance and reporting; and Prudential regulatory deliverables compliance with prudential regulation.

35. Risk Management (continued)

The CA team is also responsible for the detailed regulatory policies which underpin the Compliance policy. 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 ERC and the Board review and challenge delivery of fair outcomes for customers and are provided with management information.

36. Financial Instruments

Classification of financial assets and liabilities

The following tables analyse the financial assets and financial liabilities in accordance with the categories of financial instruments in IAS 39.

Group 2018	Loans and receivables £m	Other (amortised cost) £m	Derivatives held for hedging £m	Available-for-sale £m	Total £m
Financial assets					
Cash and balances with central banks	1,318.6	–	–	–	1,318.6
Loans and advances to customers	11,522.4	–	–	–	11,522.4
Derivative financial instruments	–	–	46.1	–	46.1
Investment securities:					
- Available-for-sale	–	–	–	925.4	925.4
- Loans and receivables	34.1	–	–	–	34.1
Other assets	265.7	–	–	–	265.7
Total financial assets	**13,140.8**	**–**	**46.1**	**925.4**	**14,112.3**
Financial liabilities					
Deposits from banks	–	1,539.0	–	–	1,539.0
Deposits from customers	–	9,244.6	–	–	9,244.6
Debt securities in issue	–	1,347.6	–	–	1,347.6
Derivative financial instruments	–	–	88.4	–	88.4
Other liabilities	–	144.3	–	–	144.3
Subordinated liabilities	–	235.0	–	–	235.0
Total financial liabilities	**–**	**12,510.5**	**88.4**	**–**	**12,598.9**

* On a Company basis, cash and balances with central banks is £3.4m (2017: £3.6m) and loans and advances to subsidiary companies is £235.0m (2017: £235.0m), both of which are categorised as loans and receivables.

All derivative financial instruments are held for economic hedging purposes, although not all derivatives are designated as hedging instruments under the terms of IAS 39.

36. Financial Instruments (continued)

Group 2017	Loans and receivables £m	Other (amortised cost) £m	Derivatives held for hedging £m	Available-for-sale £m	Total £m
Financial assets					
Cash and balances with central banks	802.9	–	–	–	802.9
Loans and advances to customers	9,961.2	–	–	–	9,961.2
Derivative financial instruments	–	–	28.7	–	28.7
Investment securities:					
- Available-for-sale	–	–	–	966.1	966.1
- Loans and receivables	34.1	–	–	–	34.1
Other assets	299.0	–	–	–	299.0
Total financial assets	**11,097.2**	**–**	**28.7**	**966.1**	**12,092.0**
Financial liabilities					
Deposits from banks	–	499.8	–	–	499.8
Deposits from customers	–	8,463.2	–	–	8,463.2
Debt securities in issue	–	1,204.3	–	–	1,204.3
Derivative financial instruments	–	–	133.3	–	133.3
Other liabilities	–	148.4	–	–	148.4
Subordinated liabilities	–	235.0	–	–	235.0
Total financial liabilities	**–**	**10,550.7**	**133.3**	**–**	**10,684.0**

36. Financial Instruments (continued)

Offsetting

The following tables show those financial assets and liabilities subject to offsetting, enforceable master netting arrangements and similar agreements.

Group 2018	Gross and net amounts presented in Statement of Financial Position	Related amounts not offset: Financial instruments	Related amounts not offset: Collateral pledged	Net amounts
	£m	£m	£m	£m
Financial assets				
Derivative financial instruments	46.1	(37.5)	(17.5)	(8.9)
Total financial assets	**46.1**	**(37.5)**	**(17.5)**	**(8.9)**
Financial liabilities				
Derivative financial instruments	(88.4)	37.5	54.6	3.7
Repurchases, securities lending and similar agreements*	(200.0)	380.0	–	180.0
Total financial liabilities	**(288.4)**	**417.5**	**54.6**	**183.7**

Group 2017	Gross and net amounts presented in Statement of Financial Position	Related amounts not offset: Financial instruments	Related amounts not offset: Collateral pledged	Net amounts
	£m	£m	£m	£m
Financial assets				
Derivative financial instruments	28.7	(17.5)	(11.0)	0.2
Total financial assets	**28.7**	**(17.5)**	**(11.0)**	**0.2**
Financial liabilities				
Derivative financial instruments	(133.3)	17.5	114.5	(1.3)
Repurchases, securities lending and similar agreements*	(99.8)	100.0	–	0.2
Total financial liabilities	**(233.1)**	**117.5**	**114.5**	**(1.1)**

*Repurchases, securities lending and similar agreements are included within the Deposits from Banks balance of £1,539.0m (2017: £499.8m) in the Consolidated Statement of Financial Position.

For the financial assets and financial liabilities subject to enforceable master netting arrangements above, each agreement between the Group and the counterparty allows for net settlement of the relevant financial assets and financial liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and financial liabilities will be settled on a gross basis. However, each party to the master netting agreement or similar agreement will have the option to settle all such amounts on a net basis in the event of default of the other party.

36. Financial Instruments (continued)

Fair values of financial assets and financial liabilities

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

Group	2018		2017	
	Carrying value	Fair Value	Carrying value	Fair value
	£m	£m	£m	£m
Financial assets				
Loans and advances to customers	11,522.4	11,658.8	9,961.2	10,178.2
Investment securities - loans and receivables	34.1	34.7	34.1	36.8
	11,556.5	**11,693.5**	**9,995.3**	**10,215.0**
Financial liabilities				
Deposits from customers	9,244.6	9,223.5	8,463.2	8,485.5
Debt securities in issue	1,347.6	1,354.9	1,204.3	1,210.0
Subordinated liabilities	235.0	182.9	235.0	185.0
	10,827.2	**10,761.3**	**9,902.5**	**9,880.5**

* On a Company basis, loans and advances to subsidiary companies is £235.0m (2017: £235.0m), with a fair value of £182.9m (2017: £185.0m). On a Company basis, subordinated liabilities have the same carrying value and fair value as set out in the Group table above.

The only financial assets and financial liabilities which are carried at fair value in the Statement of Financial Position are available-for-sale investment securities and derivative financial instruments. The valuation techniques and inputs used to derive fair values at the year end are described below.

36. Financial Instruments (continued)

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

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

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

Group 2018	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets carried at fair value				
Financial assets classified as available-for-sale	923.4	–	2.0	925.4
Derivative financial instruments:				
- Interest rate swaps	–	45.9	–	45.9
- Forward foreign currency contracts	–	0.2	–	0.2
Financial assets carried at amortised cost				
Loans and advances to customers	–	–	11,658.8	11,658.8
Investment securities – loans and receivables	–	34.7	–	34.7
Total	**923.4**	**80.8**	**11,660.8**	**12,665.0**
Financial liabilities carried at fair value				
Derivative financial instruments:				
- Interest rate swaps	–	88.3	–	88.3
- Forward foreign currency contracts	–	0.1	–	0.1
Financial liabilities carried at amortised cost				
Deposits from customers	–	–	9,223.5	9,223.5
Debt securities in issue	1,354.9	–	–	1,354.9
Subordinated liabilities	–	182.9	–	182.9
Total	**1,354.9**	**271.3**	**9,223.5**	**10,849.7**

* On a Company basis, loans and advances to subsidiary companies of £182.9m (2017: £185.0m) are categorised as level 2. On a Company basis, subordinated liabilities have the same fair value and categorisation as set out in the Group table above.

36. Financial Instruments (continued)

Group 2017	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets carried at fair value				
Financial assets classified as available-for-sale	964.4	–	1.7	966.1
Derivative financial instruments:				
- Interest rate swaps	–	27.6	–	27.6
- Forward foreign currency contracts	–	0.1	–	0.1
- Cross currency swaps	–	1.0	–	1.0
Financial assets carried at amortised cost				
Loans and advances to customers	–	–	10,178.2	10,178.2
Investment securities – loans and receivables	–	36.8	–	36.8
Total	**964.4**	**65.5**	**10,179.9**	**11,209.8**
Financial liabilities carried at fair value				
Derivative financial instruments:				
- Interest rate swaps	–	123.9	–	123.9
- Forward foreign currency contracts	–	0.2	–	0.2
- Cross currency swaps	–	9.2	–	9.2
Financial liabilities carried at amortised cost				
Deposits from customers	–	–	8,485.5	8,485.5
Debt securities in issue	1,210.0	–	–	1,210.0
Subordinated liabilities	–	185.0	–	185.0
Total	**1,210.0**	**318.3**	**8,485.5**	**10,013.8**

There are three levels to the hierarchy as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (for example, as prices) or indirectly (for example, derived from prices).

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

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

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

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

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

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

36. Financial Instruments (continued)

Level 3 – Inputs for the asset or liability are not based on observable market data (unobservable inputs).

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

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

The estimated fair value of financial assets classified as available-for-sale, being the Group's interest in VISA Inc., is described in note 17.

There were no transfers between Levels 1 and Level 2 in the year to 28 February 2018 (2017: no transfers).

There were no transfers between Level 2 and Level 3 in the year to 28 February 2018 (2017: no transfers).

37. Cash Outflow from Operating Activities

	Group		Company	
	2018	2017	**2018**	2017
Non cash and other items included in operating profit before taxation	**£m**	£m	**£m**	£m
		Restated[1]		
Loan impairment charges (refer note 9)	134.2	102.8	–	–
Depreciation and amortisation (refer notes 23 & 24)	83.0	110.3	–	–
Gain on disposal of investment securities	(0.1)	(4.2)	–	–
Disposal of non-current assets (refer notes 23 & 24)	1.1	6.5	–	–
Provision for liabilities and charges (refer note 28)	49.7	59.6	–	–
Impairment loss on insurance premiums (refer note 9)	3.2	3.6	–	–
Share of profit/loss of joint venture (refer note 21)	(10.0)	15.6	–	–
Equity settled share based payments (refer note 11)	3.6	0.9	–	–
Interest paid on debt securities in issue	24.7	25.2	–	–
Interest received on assets held to hedge debt securities in issue	(3.6)	(3.1)	–	–
Interest on subordinated liabilities (refer note 4)	4.0	4.3	3.9	4.3
Fair value movements	7.6	(12.7)	–	–
Total [1]	**297.4**	**308.8**	**3.9**	**4.3**

Changes in operating assets and liabilities				
Net movement in mandatory balances with central banks	(0.8)	(1.2)	–	–
Net movement in loans and advances to customers	(1,738.5)	(1,528.8)	–	–
Net movement in prepayments and accrued income	(7.1)	0.9	(0.1)	0.1
Net movement in other assets	33.3	(21.9)	–	–
Net movement in deposits from banks	1,039.2	417.8	–	–
Net movement in deposits from customers	781.4	1,066.0	–	–
Net movement in accruals and deferred income	(2.4)	(12.5)	0.1	(0.1)
Provisions utilised	(54.1)	(36.1)	–	–
Net movement in other liabilities	(4.1)	5.5	(0.2)	–
Total	**46.9**	**(110.3)**	**(0.2)**	**–**

[1] Refer to note 1 for further details of prior year restatement.

38. Reconciliation of Liabilities Arising from Financing Activities

Group	At 1 March 2017	Financing Cash flows	Non-cash movements Fair value change	Accrued Interest	Other	At 28 February 2018
	£m	£m	£m	£m	£m	£m
Debt securities in issue	(1,204.3)	(150.0)	9.1	(2.6)	0.2	(1,347.6)
Subordinated liabilities and notes	(235.0)	–	–	–	–	(235.0)
Interest payable	(3.7)	28.5	–	(28.7)	–	(3.9)
Assets held to hedge fixed rate bonds	23.8	(3.6)	(5.9)	3.6	–	17.9
Total liabilities from financing activities	**(1,419.2)**	**(125.1)**	**3.2**	**(27.7)**	**0.2**	**(1,568.6)**

* Assets held to hedge fixed rate bonds are included within derivative financial instruments in the Statement of Financial Position on page 27.

Company	At 1 March 2017	Financing Cash flows	Non-cash movements Fair value change	Accrued Interest	Other	At 28 February 2018
	£m	£m	£m	£m	£m	£m
Subordinated liabilities and notes	(235.0)	–	–	–	–	(235.0)
Interest payable	(0.6)	3.9	–	(4.0)	–	(0.7)
Total liabilities from financing activities	**(235.6)**	**3.9**	**–**	**(4.0)**	**–**	**(235.7)**

39. Capital Resources

On 27 June 2013 the final Capital Requirements Directive IV (CRD IV) rules were published in the Official Journal of the European Union. Following the publication of the CRD IV rules, the PRA issued a policy statement on 19 December 2013 detailing how the rules will be enacted within the UK with corresponding time frames for implementation. The transitioning period came to an end in December 2017. The following tables analyse the regulatory capital resources of the regulated group as defined in Pillar 3 Disclosure Statements of Tesco Personal Finance Group Limited applicable as at the year end on an 'end point' position:

	End Point 2018	Transitional 2017
	£m	£m
Movement in common equity tier 1 capital:		
At the beginning of the year (on a transitional basis)	1,383.5	1,219.7
Profit attributable to shareholders	131.0	152.9
Gains and losses on liabilities arising from own credit	0.1	0.8
Other reserves	6.0	5.7
Ordinary dividends	(50.0)	(50.0)
Movement in intangible assets	28.9	63.9
Movement in material holdings	3.4	3.4
Deferred tax liabilities related to intangible assets	(8.3)	(12.9)
At the end of the year	**1,494.6**	**1,383.5**

39. Capital Resources (continued)

	End Point 2018 £m	Transitional 2017 £m
Common equity tier 1		
Shareholders' equity (accounting capital)	1,761.3	1,673.9
Regulatory adjustments		
Unrealised gains on cash flow hedge reserve	0.3	0.5
Adjustment to own credit/Additional Value Adjustments	(1.1)	(1.1)
Intangible assets	(271.1)	(300.0)
Deferred tax liabilities related to intangible assets	5.2	13.6
Material holdings in financial sector entities	–	(3.4)
Common equity tier 1 capital	**1,494.6**	**1,383.5**
Tier 2 capital (instruments and provisions)		
Undated subordinated notes	45.0	45.0
Dated subordinated notes net of regulatory amortisation	190.0	190.0
Credit risk adjustment	99.1	63.1
Tier 2 capital (instruments and provisions) before regulatory adjustments	**334.1**	**298.1**
Regulatory adjustments		
Material holdings in financial sector entities	(34.1)	(30.7)
Total regulatory adjustments to tier 2 capital (instruments and provisions)	**(34.1)**	**(30.7)**
Total tier 2 capital (instruments and provisions)	**300.0**	**267.4**
Total capital	**1,794.6**	**1,650.9**
Total risk weighted assets (unaudited)	9,267.6	8,276.3
Common equity tier 1 ratio (unaudited)	16.1%	16.7%
Tier 1 ratio (unaudited)	16.1%	16.7%
Total capital ratio (unaudited)	19.4%	19.9%

Total Capital Requirement (TCR) refers to the amount and quality of capital the Bank must maintain to comply with the Capital Requirements Regulation Pillar 1 and the Pillar 2A capital requirements. The TCR for Tesco Personal Finance Group Limited as at 28 February 2018 is 11.87% plus £39m as a static add-on for pension risk.

39. Capital Resources (continued)

The table below reconciles shareholders' equity of the Group to shareholders' equity of the regulated group as defined in the Pillar 3 disclosures as at 28 February 2018:

	2018	2017
	£m	£m
Tesco Personal Finance plc (Group) shareholders' equity	1,764.8	1,673.9
Share of joint venture's retained earnings	0.2	10.2
Share of joint venture's available-for-sale reserve	(3.7)	(10.2)
Group shareholders' equity (Pillar 3 disclosures)	**1,761.3**	**1,673.9**

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

The Group is required to submit Internal Capital Adequacy Assessment Process (ICAAP) reports which set out future business plans, the impact on capital availability, capital requirements and the risks to capital adequacy under stress scenarios, to the PRA.

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

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

Leverage ratio (unaudited)

The Basel III reforms include the introduction of a capital leverage measure as defined as the ratio of tier 1 capital to total exposure. This is intended to reinforce the risk based capital requirements with a simple, non-risk based 'backstop' measure.

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

Exposures for leverage ratio (unaudited)	**End point**
2018	**£m**
Total balance sheet exposures	14,590.7
Adjustments for entities which are consolidated for accounting purposes but outside scope of regulatory consolidation	(3.5)
Removal of accounting value of derivatives and Securities Financing Transactions (SFTs)	(46.1)
Exposure value for derivatives and SFTs	12.7
Off balance sheet: unconditionally cancellable (10%)	1,219.4
Off balance sheet: other (20%)	41.2
Regulatory adjustment – intangible assets	(225.8)
Regulatory adjustment – other	–
Total	**15,588.6**
Common equity tier 1	**1,494.6**
Leverage ratio	9.6%

The Company's estimated end point leverage ratio is 9.6%.

39. Capital Resources (continued)

Capital Management

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

During the year capital and leverage regulations continued to evolve.

Pillar 2 capital methodologies

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

These proposals are aimed at promoting the safety and soundness of PRA-regulated firms, to facilitate a more effective banking sector and to make the PRA's Pillar 2A capital assessment more robust and more proportionate by addressing some of the concerns over the differences between SA and IRB risk weights. This will continue to be managed as part of the Bank's ICAAP in line with the PRA policy statement issued in October 2017. The PRA general safety and soundness objectives in relation to continuity of core services in the UK and ring-fencing of Bank activities where core deposits are in excess of £25bn are due to be implemented from 1 January 2019.

Management forecasts indicate that the Group will not exceed this threshold and will not automatically be required to ring-fence the Group's core activities by the 2019 implementation date.

Credit Risk

In December 2017, the BCBS finalised Basel III reforms for credit risk, including revisions to the calculation of risk weighted assets and enhancements to the robustness and risk sensitivity of the standardised approaches to credit risk, constraining the use of internal model approaches by placing limits on certain inputs and replacing the existing Basel II output floors with a more robust risk sensitive floor based on the Committees Basel III standardised approaches. The final Basel III reforms will be implemented from January 2022.

Operational risk

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

Leverage

At present the Group has no minimum UK leverage requirement as it is currently exempt from the UK Leverage Framework regime, which only applies to institutions with retail deposits over £50 billion or more. In December 2017, the BCBS finalised Basel III reforms for leverage ratio. The final Basel III reforms will be implemented in January 2022.

The initial assessment indicate that these reforms will have a minor impact on the Group's leverage ratio.

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

39. Capital Resources (continued)

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

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

MREL is expected to be set annually over the transitional period until 1 January 2022. Prior to 31 December 2019, MREL will be equal to an institution's minimum regulatory capital requirements. An Interim MREL requirement of 18% of risk-weighted assets from 1 January 2020 until 31 December 2021 has been set. The Group is working towards implementation of these requirements and has reflected requirements in its strategic plan.

IFRS 9

The Group will implement IFRS 9 from 1 March 2018 and does not expect a negative capital impact (unaudited) on common equity tier 1 in the first year of adoption under the transitional provisions. Common equity tier 1 is expected to reduce by approximately 164 bps (unaudited) on an end point basis.

40. Related Party Transactions

During the year the Group had the following transactions with related parties:

Transactions involving Directors and other key connected persons

For the purposes of IAS 24, 'Related Party Disclosures', the Group's key Management personnel comprise Directors of the Group. The captions in the Group's primary Financial Statements include the following amounts attributable, in aggregate, to key connected persons of both the Group and Tesco PLC, the Company's ultimate parent undertaking.

Group	2018 £m	2017 £m
Loans and advances to customers[1]		
At the beginning of the year	0.4	1.0
Loans issued during the year	–	0.1
Loan repayments during the year	(0.1)	(0.1)
Loans outstanding at the end of the year	**0.3**	**1.0**
Interest income earned	–	–
Deposits from customers[1]		
Deposits at the beginning of the year	0.8	0.8
Deposits received during the year	0.6	1.6
Deposits repaid during the year	(0.7)	(0.7)
Deposits at the end of the year	**0.7**	**1.7**
Interest expense on deposits	–	–

No provisions have been recognised in respect of loans and advances to related parties (2017: £nil).

[1] The opening and closing balances reported are in respect of related parties of the Group at the reporting date in each year.

40. Related Party Transactions (continued)

Remuneration of key Management personnel

The amount of remuneration incurred by the Group in relation to the Directors is set out below in aggregate. Further information about the remuneration of Directors is provided in note 10.

Group	2018	2017
	£m	£m
Short-term employee benefits	6.0	5.2
Termination benefits	0.3	0.6
Post employment benefits	–	–
Other long term benefits	2.6	2.1
Share based payments	0.9	1.2
Total emoluments	**9.8**	9.1

Trading transactions

Group	2018 Tesco PLC	2018 Tesco PLC subsidiaries	2018 Tesco Underwriting Limited	2017 Tesco PLC	2017 Tesco PLC subsidiaries	2017 Tesco Underwriting Limited
	£m	£m	£m	£m	£m	£m
Interest received and other income	–	24.3	71.2	–	35.6	78.5
Interest paid	(4.0)	–	–	(4.3)	–	–
Provision of services	–	(83.4)	(1.1)	–	(73.4)	(1.3)

Company	2018 Tesco PLC	2018 Tesco PLC subsidiaries	2018 Tesco Underwriting Limited	2017 Tesco PLC	2017 Tesco PLC subsidiaries	2017 Tesco Underwriting Limited
	£m	£m	£m	£m	£m	£m
Interest received and other income	–	4.0	–	–	4.3	–
Interest paid	(4.0)	–	–	(4.3)	–	–
Provision of services	–	–	–	–	–	–

Balances owing to/from related parties are identified in notes 17, 19, 26, 27, 29, 30, and 31.

For the year ended 28 February 2018 the Group generated 58% (2017: 58%) of its insurance commission from the sale and service of Motor and Home insurance policies underwritten by TU, a joint venture company and therefore a related party. Customer premiums on such sales are collected directly by the Group and the net premium is remitted to TU. Investment transactions with TU are identified in note 21.

Ultimate parent undertaking

The Company's ultimate parent undertaking and controlling party is Tesco PLC which is incorporated in England. The Financial Statements for Tesco PLC can be obtained from its registered office at Tesco House, Shire Park, Kestrel Way, Welwyn Garden City, AL7 1GA.

41. Contingent Liabilities and Commitments

Contingent liability

In November 2016, Tesco Bank's debit cards were the subject of an online fraudulent attack. The Group undertook immediate remedial action and an independent review of the issue and continues to work closely with the authorities and regulators on this incident.

There is a possibility of a financial penalty in relation to this incident, which may or may not be material. It is not practicable to reliably estimate any impact of this at the date of these Financial Statements.

Lending commitments

Mortgage offers made are legally binding commitments made by the Group to provide secured funding to customers. Undrawn Mortgage commitments relate to formal offers made to customers during the application process whereby the customer has successfully passed eligibility and affordability checks but has not yet received the funds.

Under an undrawn Credit Card commitment the Group agrees to make funds available to a customer in the future. Undrawn Credit Card commitments may be unconditionally cancelled or may continue, providing all facility conditions are satisfied or waived.

Under a Personal Current Account overdraft commitment the Group agrees to make funds available to a customer in the future. Personal Current Account overdraft commitments are usually for a specified term and may be unconditionally cancelled or may continue, providing all facility conditions are satisfied or waived.

Further detail on undrawn lending commitments is included in the liquidity and funding risk disclosure in note 35.

The contractual amounts do not represent the amounts at risk at the reporting date but the amounts that would be at risk should the available facilities be fully drawn upon.

Capital commitments

At 28 February 2018 the Group had capital commitments related to property, plant and equipment of £nil (2017: £3.9m) and intangible assets of £1.1m (2017: £1.2m). This is in respect of IT software development and IT hardware. The Group's Management are confident that future net revenues and funding will be sufficient to cover this commitment.

Operating lease commitments

The future minimum lease payments under non-cancellable operating leases are as follows:

Group	**2018 £m**	**2017 £m**
No later than one year	4.9	5.2
Later than one year and no later than five years	20.8	20.1
Later than five years	27.4	33.0
	53.1	**58.3**

42. Share Based Payments

The Group charge for the year recognised in respect of share based payments is £10.7m (2017: £10.4m), which is made up of share option schemes and share bonus payments. Of this amount, £7.8m (2017: £4.5m) will be equity-settled and £2.9m (2017: £5.9m) cash-settled.

Share option schemes

The Group had three share option schemes in operation during the year, all of which are equity-settled schemes using Tesco PLC shares:

- The Savings-related Share Option Scheme (1981) permits the grant to colleagues of options in respect of ordinary shares linked to a building society/bank save-as-you-earn contract for a term of three or five years with contributions from colleagues of an amount between £5 and £500 per four-weekly period. Options are capable of being exercised at the end of the three or five-year period at a subscription price of not less than 80% of the average of the middle-market quotations of an ordinary share over the three dealing days immediately preceding the offer date.

- The Discretionary Share Option Plan (2004) permitted the grant of approved, unapproved and international options in respect of ordinary shares to selected executives. Options are normally exercisable between three and ten years from the date of grant at a price not less than the middle-market quotation or average middle-market quotations of an ordinary share for the dealing day or three dealing days preceding the date of grant. The vesting of options will normally be conditional upon the achievement of a specified performance target related to the annual percentage growth in earnings per share over a three-year period. There were no discounted options granted under this scheme.

- The Performance Share Plan (2011) permits the grant of options in respect of ordinary shares to selected executives. Options are normally exercisable between the vesting date(s) set at grant and ten years from the date of grant for nil consideration. The exercise of options will normally be conditional upon the achievement of specified performance targets over a three-year period and/or continuous employment.

42. Share Based Payments (continued)

The following table reconciles the total number of share options outstanding under each share option scheme and the weighted average exercise price (WAEP):

	Savings-related share option scheme Options	Savings-related share option scheme WAEP (pence)	Approved share option scheme Options	Approved share option scheme WAEP (pence)	Unapproved share options scheme Options	Unapproved share options scheme WAEP (pence)
Outstanding at 28 February 2017	**3,522,224**	**162.20**	**183,586**	**341.79**	**221,617**	**354.32**
Granted	1,184,513	168.00	–	–	–	–
Forfeited	(573,424)	188.26	(88,650)	338.40	(99,157)	338.40
Exercised	(75,222)	150.09	–	–	–	–
Outstanding at 28 February 2018	**4,058,091**	**160.43**	**94,936**	**344.96**	**122,460**	**367.20**
Exercisable at 28 February 2018	**19,559**	**282.00**	**94,936**	**344.96**	**122,640**	**367.20**
Exercise price range (pence)	**–**	**282.00**	**–**	**338.40 to 427.00**	**–**	**338.40 to 427.00**
Weighted average remaining contractual life (years)	**–**	**0.43**	**–**	**1.58**	**–**	**0.88**
Outstanding at 29 February 2016	**3,584,756**	**159.63**	**210,181**	**341.36**	**237,426**	**353.26**
Granted	539,072	190.00	–	–	–	–
Forfeited	(579,345)	172.66	(26,595)	338.40	(15,809)	338.40
Exercised	(22,259)	150.18	–	–	–	–
Outstanding at 28 February 2017	**3,522,224**	**162.20**	**183,586**	**341.79**	**221,617**	**354.32**
Exercisable at 28 February 2017	**64,114**	**335.50**	**183,586**	**341.79**	**221,617**	**354.32**
Exercise price range (pence)	**-**	**322.00 to 364.00**	**-**	**338.40 to 427.00**	**-**	**338.40 to 427.00**
Weighted average remaining contractual life (years)	**–**	**0.43**	**–**	**2.64**	**–**	**2.02**

Share options were exercised on a regular basis throughout the financial year. The average Tesco PLC share price during the year ended 28 February 2018 was 187.90p (2017: 184.31p).

42. Share Based Payments (continued)

The fair value of share options is estimated at the date of grant using the Black-Scholes option pricing model. The following table gives the assumptions applied to the options granted in the respective periods shown. No assumption has been made to incorporate the effects of expected early exercise.

Group	2018 Savings - related share options schemes	2017 Savings - related share options schemes
Expected Dividend Yield (%)	2.2% - 3.6%	1.4%
Expected Volatility (%)	29 - 32%	29 - 32%
Risk free interest rate (%)	0.9 - 1.0%	0.4 - 0.7%
Expected life of option (years)	3 or 5	3 or 5
Weighted average fair value of options granted (pence)	42.42	52.83
Probability of forfeiture (%)	10 - 11%	10 - 11%
Share price (pence)	187.00	211.00
Weighted average exercise price (pence)	168.00	190.00

Volatility is a measure of the amount by which a price is expected to fluctuate in the period. The measure of volatility used in Tesco PLC's option pricing models is the annualised standard deviation of the continuously compounded rates of return on the share over a period of time. In estimating the future volatility of Tesco PLC's share price, the Tesco PLC Board considers the historical volatility of the share price over the most recent period that is generally commensurate with the expected term of the option, taking into account the remaining contractual life of the option.

Share Bonus Schemes

Selected executives participate in the Group Bonus Plan, a performance-related bonus scheme. The amount paid to colleagues is based on a percentage of salary and is paid partly in cash and partly in shares. Bonuses are awarded to selected executives who have completed a required service period and depend on the achievement of corporate and individual performance targets.

Selected executives participate in the Performance Share Plan (2011). Awards made under this plan will normally vest on the vesting date(s) set on the date of the award for nil consideration. Vesting will normally be conditional on the achievement of specified performance targets over a three-year performance period and/or continuous employment.

The fair value of shares awarded under these schemes is their market value on the date of the award. Expected dividends are not incorporated into the fair value.

The number of Tesco PLC shares and weighted average fair value (WAFV) of share bonuses awarded during the year were:

	2018 Shares (number)	2018 WAFV (pence)	2017 Shares (number)	2017 WAFV (pence)
Group Bonus Plan	1,305,466	180.35	2,407,464	159.04
Performance Share Plan	2,494,746	181.12	3,404,300	160.15

43. Adoption of New and Amended International Financial Reporting Standards

Standards, amendments and interpretations issued which became effective in the current year

During the year to 28 February 2018, the Group has adopted the following new amendments to accounting standards which became effective with relevant EU endorsement for annual periods beginning on or after 1 January 2017:

Amendments to IFRS 12 'Disclosure of interests in other entities'

These amendments are part of the Annual Improvements 2014-2016 process and are effective for annual periods beginning on or after 1 January 2017. These amendments clarify the scope of the disclosure requirements in relation to interests that are classified in accordance with IFRS 5 'Non-current Assets Held for Sale or Discontinued Operations'. There has been no impact on the Group of the adoption of these amendments.

Amendments to IAS 7 'Statement of cash flows: Disclosure initiative'

These amendments are effective for annual periods beginning on or after 1 January 2017. They extend the disclosures required by IAS 7 about an entity's liquidity and aim to improve disclosures about an entity's debt. These amendments have resulted in additional disclosures relating to movements in liabilities arising from financing activities for the Group. These additional disclosures are included in note 38.

Amendments to IAS 12 'Income taxes: Recognition of deferred tax assets for unrealised losses'

These amendments are effective for annual periods beginning on or after 1 January 2017. They clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value. There has been no impact on the Group of the adoption of these amendments.

Standards, amendments and interpretations issued but not yet effective

IFRS 9 'Financial instruments'

IFRS 9 is effective for annual periods beginning on or after 1 January 2018. It is a replacement for IAS 39 'Financial instruments: Recognition and Measurement', excluding the part of IAS 39 related to macro hedge accounting. Macro hedge accounting requirements are out of the scope of IFRS 9 and instead the IASB is developing a separate model. Entities are therefore permitted to continue accounting for macro hedge portfolios in line with IAS 39.

The principle features of IFRS 9 are as follows:

Classification and measurement of financial assets and financial liabilities:

IFRS 9 will require the Group's financial assets to be classified as either held at amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss, dependent on the business model and cash flow characteristics of the financial asset. From a review of the Group's balance sheet at 28 February 2018, the Group expects the following classification changes to take place:

- Cash and balances with central banks, loans and advances to customers, loans to joint ventures and other assets that are all classified as loans and receivables under IAS 39 will be classified and measured at amortised cost under IFRS 9; and
- Debt and equity investment securities classified as available-for-sale under IAS 39 will classified and measured at FVOCI under IFRS 9.

There is no change in the measurement basis of these balances as a result of the adoption of IFRS 9.

43. Adoption of New and Amended International Financial Reporting Standards (continued)

Recognition of impairment:

IFRS 9 requires the Group to recognise expected credit losses (ECL) on all financial assets, and to update the amount of ECL recognised at each reporting date to reflect changes in the credit risk of financial instruments. The ECL is measured under a three stage approach:

1. Upon origination of an asset, a loss allowance is established that is equal to the 12-month ECL, being the portion of lifetime expected losses resulting from default events that are possible within the next 12 months. Financial assets where 12-month ECL is recognised are considered to be 'stage 1'.
2. Where a significant increase in credit risk since initial recognition is identified, a loss allowance equal to the lifetime ECL is established. This is considered to be 'stage 2'.
3. Where there is objective evidence that leads to an asset being considered credit impaired, a full impairment loss equal to the lifetime expected credit loss is established. This is considered to be 'stage 3' and it is not expected to change significantly from IAS 39.

The assessment of credit risk and the estimation of ECL are required to be unbiased, forward-looking and probability-weighted, determined by evaluating at the reporting date for each financial asset a range of possible outcomes using reasonable and supportable information about past events, current conditions and forecasts of future events and economic conditions. The estimation of ECL also takes into account the time value of money.

The ECL is determined by multiplying together the Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD) for the relevant time period and for each collective segment and by discounting back to the balance sheet date. Each of these inputs is explained further below.

- Probability of Default (PD): Represents the likelihood a customer will default over the relevant period, being either 12 months or the expected lifetime (refer below).
- Exposure at Default: Represents the expected amount due by the customer at the point of default. The Group derives the EAD from the current exposure to the counterparty and potential changes allowed under the contract.
- Loss Given Default: Represents the Group's expectation of the extent of the loss if there is a default. The LGD assumes that once an account has defaulted, the portion of the defaulted balance will be recovered over a maximum period of 60 months from the point of default. LGD models take into account, when relevant, the valuation of collateral, collection strategies and contracted debt sales.
- Significant Increase in Credit Risk (SICR): At each reporting date, the change in credit risk of the financial asset will be observed using a set of quantitative and qualitative criteria, together with a backstop based on arrears status. Quantitative criteria compare the lifetime PD at the reporting date with the lifetime PD that was expected at the reporting date at initial recognition. The Group has established a threshold for each account to conclude whether there has been a SICR. Qualitative criteria include forbearance offered to distressed borrowers and information received on credit limit decreases or pre-delinquency information. The Group has adopted a backstop measure where an account is more than 30 days past due on its contractual payments, in line with the rebuttable presumption in IFRS 9.
- Expected lifetime: The expected lifetime of a financial asset is the contractual term. In the case of revolving products, the Group will measure credit losses over the period that it will be exposed to credit risk.
- Forward-looking information: The expected credit loss calculation and the measurement of significant deterioration in credit risk both incorporate forward-looking information using a range of macro-economic scenarios.
- Definition of default: An account is deemed to have defaulted when it meets one or more of the established quantitative or qualitative criteria. Quantitative criteria are met when an account is more than 90 days past due on its contractual payments. Qualitative criteria are indications that a customer is in significant financial difficulty, such as forbearance or insolvency. An instrument is considered to no longer be in default when it no longer meets any of the default criteria and has remained up to date on its contractual payments for a period of at least 3 months.

43. Adoption of New and Amended International Financial Reporting Standards (continued)

Hedging

The IFRS 9 hedge accounting requirements are designed to allow hedge accounting to be more closely aligned with financial risk management. The Group will implement IFRS 9 hedge accounting requirements to its fair value hedges of the Group's existing available-for-sale portfolio and its cash flow hedges on transition to IFRS 9.

In line with Tesco PLC policy, the Group will adopt IFRS 9 in respect of its micro hedge accounting from 1 March 2018. As permitted under IFRS 9, the Group will elect to continue to apply the existing hedge accounting requirements of IAS 39 for its portfolio hedge accounting until the new macro hedge accounting standard is implemented.

Transition

The mandatory application date for IFRS 9 for the Group is 1 March 2018. The classification and measurement and impairment requirements will be applied retrospectively at this date by adjusting the opening balance sheet, with no requirement to restate comparative periods. Hedge accounting relationships within the scope of IFRS 9 will transition prospectively.

The adoption of IFRS 9 at 1 March 2018 is expected to result in a decrease in the Group's total assets of £223m, with a related deferred tax asset of £57m. The overall impact on equity is therefore expected to be a reduction in equity of approximately £166m. The impact on the Company will be a decrease in total assets and equity of approximately £1m.

The expected increase in impairment provisions will reduce the Group's common equity tier 1 capital ratio by 164 bps (unaudited) on a fully loaded basis. The adoption of the regulatory capital transition arrangements will allow the Group to spread the expected increase in provision over a 5 year period from 1 March 2018. As a result of this, the Group does not expect a negative capital impact in the first year of adoption of IFRS 9 (unaudited). The Group's common equity tier 1 capital is disclosed in note 39.

These estimates remain subject to change as the Group continues to fully implement IFRS 9 throughout the financial year to 28 February 2019.

IFRS 15 'Revenue from contracts with customers'

IFRS 15 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted.

IFRS 15 introduces a five step approach to revenue recognition and will be applicable to all contracts with customers, with certain exceptions. Both the Group's interest income and fee income integral to financial instruments fall outside the scope of IFRS 15 and will be accounted for in line with the other applicable standards, predominantly IFRS 9, 'Financial Instruments' from 1 March 2018 (refer above). All other fees and commissions income falls within the scope of IFRS 15.

Under IFRS 15, the Group will recognise revenue when performance obligations are satisfied, to the extent that the Group expects entitlement to consideration. The standard also specifies a comprehensive set of disclosure requirements regarding the nature, extent and timing, as well as any uncertainty, of revenue and corresponding cash flows with customers.

The Group continues to assess the impact of IFRS 15. Additional revenue disclosures in line with the new IFRS 15 requirements will be included for the first time in the Financial Statements for the year ended 28 February 2019.

Amendments to IFRS 15 'Clarifications to IFRS 15, 'Revenue from Contracts with Customers''

These amendments are effective for annual periods beginning on or after 1 January 2018. They clarify how the principles of IFRS 15 should be applied in determining recognition of contract revenue and provide transitional relief on modified and completed contracts for entities implementing the standard.

The Group continues to assess the impact of IFRS 15.

43. Adoption of New and Amended International Financial Reporting Standards (continued)

Amendments to IFRS 4 'Applying IFRS 9, 'Financial Instruments', with IFRS 4, 'Insurance Contracts''

These amendments are effective for annual periods beginning on or after 1 January 2018. They permit insurance entities to adopt certain transitional arrangements to address the temporary accounting consequences of the different effective dates of IFRS 9, 'Financial Instruments', and IFRS 17, 'Insurance Contracts'. These amendments are expected to impact the Group's share of results from its joint venture, TU, as TU will defer the adoption of IFRS 9 until 2021 as permitted by these amendments.

Amendments to IAS 28 'Measuring an associate or joint venture at fair value'

These amendments are part of the Annual Improvements 2014-2016 process and are effective for annual periods beginning on or after 1 January 2018. They clarify that the option for a venture capital organisation and other similar entities to measure investments in associates and joint ventures at fair value through profit and loss is available separately for each associate or joint venture, and that election should be made at initial recognition. These amendments will not impact the Group.

Amendments to IFRS 2 'Classification and measurement of share-based payment transactions'

These amendments are effective for annual periods beginning on or after 1 January 2018. They clarify how to account for certain types of share-based payment transactions. These amendments are not expected to impact the Group.

IFRIC 22 'Foreign currency transactions and advance consideration'

This IFRIC is effective for annual periods beginning on or after 1 January 2018. It clarifies the accounting for advance consideration in a transaction that is denominated in a foreign currency. This IFRIC is not expected to impact the Group.

IFRS 16 'Leases'

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted provided IFRS 15 is applied on or before the same date.

IFRS 16 is a replacement for IAS 17 'Leases'. IFRS 16 removes the distinction between finance and operating leases and instead provides a single lessee accounting model. The Group, as a lessee, will be required to recognise lease liabilities and corresponding right-of-use assets for all applicable leases. The new standard also provides the option not to recognise 'short-term' leases and leases of 'low-value' assets. Where this exemption is taken, such leases will continue to be expensed to the income statement over the term of the lease.

The income statement recognition pattern for the Group's leases will differ from the current pattern for operating leases, with interest on the liabilities and depreciation expense on the right-of-use assets recognised separately. In the cash flow statement, lease payments will be categorised within financing activities rather than operating activities.

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

The Group continues to evaluate the full impact of IFRS 16, but expects to recognise right-of-use assets on its balance sheet at the adoption date in respect of property assets currently accounted for as operating leases. A corresponding lease liability will also be recognised, representing the future payments to be made under these leases, discounted at the rate implicitly defined in the lease or, where no rate is defined in the lease, the Group's incremental borrowing rate at lease inception.

The Group expects to apply the requirements of IFRS 16 retrospectively, therefore restating prior year comparatives.

Amendments to IAS 28 'Long-term interests in associates and joint ventures'

These amendments are effective for annual periods beginning on or after 1 January 2019, subject to EU endorsement. They clarify that long-term interests in an associate or joint venture to which the equity method is not applied should be accounted for using IFRS 9. These amendments are not expected to impact the Group.

43. Adoption of New and Amended International Financial Reporting Standards (continued)

Amendments to IFRS 9 'Prepayment features with negative compensation'

These amendments are effective for annual periods beginning on or after 1 January 2019. They allow companies to measure particular prepayable financial assets with so-called negative compensation at amortised cost or at fair value through other comprehensive income if a specified condition is met, instead of at fair value through profit or loss. These amendments are not expected to impact the Group.

Amendments to IAS 23 'Borrowing costs eligible for capitalisation'

These amendments are effective for annual periods beginning on or after 1 January 2019, subject to EU endorsement. They clarify that if a specific borrowing remains outstanding after the related qualifying asset is ready for intended use or sale, it becomes part of general borrowings. These amendments are not expected to impact the Group.

Amendments to IAS 12 'Income tax consequences of payments on financial instruments classified as equity'

These amendments are effective for annual periods beginning on or after 1 January 2019, subject to EU endorsement. They clarify that the income tax consequences of dividends on financial instruments classified as equity should be recognised according to where the past transactions or events that generated distributable profits were recognised. These amendments are not expected to impact the Group.

Amendments to IFRS 3 and IFRS 11 'Measurement of previously held interest in obtaining control over a joint operation'

These amendments are effective for annual periods beginning on or after 1 January 2019, subject to EU endorsement. The amendments to IFRS 3 clarify that obtaining control of a business that is a joint operation is a business combination achieved in stages. The acquirer should remeasure its previously held interest in the joint operation at fair value at of the acquisition date.

The amendments to IFRS 11 clarify that the party obtaining joint control of a business that is a joint operation should not remeasure its previously held interest in the joint operation.

The impact of these amendments on the Group is dependent on any future change in ownership of a joint operation.

Amendments to IAS 19 'Plan amendment, curtailment or settlement'

These amendments are effective for annual periods beginning on or after 1 January 2019, subject to EU endorsement. When a plan event (i.e. a plan amendment, curtailment or settlement) occurs, IAS 19 requires a company to update its assumptions and remeasure its net defined benefit liability or asset. These amendments clarify that after a plan event companies should use these updated assumptions to measure current service cost and net interest for the remainder of the reporting period. These amendments are not expected to impact the Group.

IFRIC 23 'Uncertainty over income tax treatments'

This IFRIC is effective for annual periods beginning on or after 1 January 2019, subject to EU endorsement. It clarifies how the recognition and measurement requirements of IAS 12 'Income taxes' are applied where there is uncertainty over income tax treatments. The impact of this IFRIC on the Group is still being assessed.

IFRS 17 'Insurance contracts'

IFRS 17 is effective for annual periods beginning on or after 1 January 2021, subject to EU endorsement. Early adoption is permitted provided IFRS 9 and IFRS 15 are also applied.

IFRS 17 is a replacement for IFRS 4 'Insurance Contracts'. IFRS 17 requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts.

IFRS 17 is relevant to the Group's joint venture, TU, which provides the insurance underwriting service for a number of the Group's general insurance products. The full impact on the Group is still being assessed.

43. Adoption of New and Amended International Financial Reporting Standards (continued)

Early Adoption of New Standards

The Group did not early adopt any new or amended standards in the year ended 28 February 2018.

44. Events After the Reporting Date

The Group redeemed £300.0m of AAA (A1) Notes issued by MTN Issuer plc on their scheduled redemption date in April 2018. The process of accumulating funds in advance of the scheduled redemption commenced in October 2017. At the reporting date, £200.0m of cash had been accumulated in Delamare Cards Funding 1 Limited (Funding 1) in advance of the redemption. An additional £100.0m was accumulated after the reporting date.

TU completed a share capital reduction of £20.6m and also repaid loan capital of £10.4m in March 2018. Following the share capital reduction, TU distributed capital of £20.6m. The Group has recognised its share of this distribution, being £10.3m, through a reduction in the carrying value of its investment in TU. The Group's investment in subordinated debt issued by TU has decreased by £5.2m, reflecting the Group's share of loan capital repaid.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TESCO PERSONAL FINANCE GROUP LIMITED

Report on the audit of the Financial Statements

Opinion

In our opinion:

- the Financial Statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 28 February 2018 and of the Group's profit for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and IFRSs as issued by the International Accounting Standards Board (IASB);
- the parent Company Financial Statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the Financial Statements of Tesco Personal Finance Group Limited (the 'parent Company') and its subsidiaries (the 'Group') which comprise:

- the Consolidated Income Statement;
- the Consolidated Statement of Comprehensive Income;
- the Consolidated and Company Statements of Financial Position;
- the Consolidated and Company Statements of Changes in Equity;
- the Consolidated and Company Cash Flow Statements; and
- the related Notes 1 to 44 of the Financial Statements.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the parent Company Financial Statements, as applied in accordance with the provisions of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the Financial Statements section of our report.

We are independent of the Group and the parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (FRC) Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the Financial Statements is not appropriate; or
- the directors have not disclosed in the Financial Statements any identified material uncertainties that may cast significant doubt about the Group's or the parent Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the Financial Statements are authorised for issue.

We have nothing to report in respect of these matters.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the Financial Statements and our auditor's report thereon.

Our opinion on the Financial Statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the Financial Statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

A further description of our responsibilities for the audit of the Financial Statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Report on other legal and regulatory requirements

Opinions on the other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and of the parent Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' Report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company Financial Statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Stephen Williams ACA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
Edinburgh, United Kingdom
26 April 2018

TESCO PERSONAL FINANCE GROUP PLC
CONSOLIDATED INCOME STATEMENT
For the Year Ended 28 February 2019

	Note	2019 £m	2018 £m Restated[1]
Interest and similar income	5	728.6	640.3
Interest expense and similar charges	5	(179.7)	(147.2)
Net interest income		**548.9**	**493.1**
Fees and commissions income	6	365.8	383.4
Fees and commissions expense	6	(32.6)	(31.6)
Net fees and commissions income		**333.2**	**351.8**
Net (loss)/gain on financial instruments at FVPL	7	(4.2)	11.0
Net gain on investment securities	8	8.4	0.1
Net other income		**4.2**	**11.1**
Total income		**886.3**	**856.0**
Administrative expenses	9	(415.6)	(422.7)
Depreciation and amortisation	25, 26	(83.2)	(83.0)
Provision for customer redress	30	(16.0)	(23.8)
Regulatory charge	30	(16.4)	–
Operating expenses		**(531.2)**	**(529.5)**
Impairment loss on financial assets	10	(164.1)	(137.4)
Operating profit		**191.0**	**189.1**
Share of profit of joint venture	23	7.9	10.0
Profit before tax		**198.9**	**199.1**
Income tax charge	12	(55.6)	(60.6)
Profit for the year attributable to owners of the parent		**143.3**	**138.5**

[1] The prior period has been restated following the retrospective adoption of International Financial Reporting Standard (IFRS) 15 'Revenue from contracts with customers' in the current period (refer to note 2 for further details) and a reclassification between interest and similar income and interest expense and similar charges (refer to note 1 for further details).

TESCO PERSONAL FINANCE GROUP PLC
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the Year Ended 28 February 2019

	Note	2019 £m	2018 £m Restated[1]
Profit for the year		**143.3**	**138.5**
Items that may be reclassified subsequently to the income statement			
Available-for-sale (AFS) investment securities			
Net gains on AFS investment securities	12	n/a	1.8
Taxation	12	n/a	(0.3)
		n/a	1.5
Debt securities at fair value through other comprehensive income (FVOCI)			
Net losses on debt securities at FVOCI	12	(1.7)	n/a
Net gains on debt securities reclassified to the income statement on disposal	12	(8.4)	n/a
Unwind of expected credit loss (ECL) allowance on disposals		0.4	n/a
Taxation	12	2.6	n/a
		(7.1)	n/a
Cash flow hedges			
Net losses arising on cash flow hedges	12	(0.8)	0.4
Taxation	12	0.1	(0.1)
		(0.7)	0.3
Currency basis reserve			
Net foreign currency losses arising on cross currency interest rate swaps	12	(0.3)	–
		(0.3)	–
Share of other comprehensive expense of joint venture	23	(1.2)	(6.5)
		(1.2)	(6.5)
Items that will not be reclassified to the income statement			
Equity securities at FVOCI			
Net gains on equity securities designated at FVOCI	12	0.5	n/a
Taxation	12	(0.1)	n/a
		0.4	n/a
Other comprehensive expense for the year, net of tax		(8.9)	(4.7)
Total comprehensive income for the year attributable to owners of the parent		**134.4**	**133.8**

[1] The prior year restatement relates to the adoption of IFRS 15 in the current year. Refer to note 2 for further details.

TESCO PERSONAL FINANCE GROUP PLC

CONSOLIDATED AND COMPANY STATEMENTS OF FINANCIAL POSITION

For the Year Ended 28 February 2019

Company number SC173198

		Group		Company	
		2019	2018	**2019**	2018
	Note	**£m**	£m	**£m**	£m
Assets			Restated[1]		Restated[1]
Cash and balances with central banks	14	1,072.1	1,318.6	13.4	3.4
Loans and advances to banks	15	324.2	–	–	–
Loans and advances to customers	16	12,425.7	11,522.4	–	–
Loans and advances to subsidiary companies	17	–	–	233.7	235.0
Derivative financial instruments	18	31.3	46.1	–	–
Investment securities	19	1,071.5	959.5	–	–
Prepayments and accrued income	20	49.4	49.3	0.8	0.7
Other assets	21	236.6	280.6	–	–
Deferred income tax asset	24	57.9	–	0.3	–
Investment in Group undertakings	22	–	–	1,219.9	1,219.9
Investment in joint venture	23	86.4	90.0	–	–
Intangible assets	25	224.2	271.1	–	–
Property, plant and equipment	26	61.6	68.0	–	–
Total assets		**15,640.9**	**14,605.6**	**1,468.1**	**1,459.0**
Liabilities					
Deposits from banks	27	1,663.2	1,539.0	–	–
Deposits from customers	28	10,465.2	9,244.6	–	–
Debt securities in issue	29	1,185.5	1,347.6	–	–
Derivative financial instruments	18	60.2	88.4	–	–
Provisions for liabilities and charges	30	55.0	76.0	–	–
Accruals and deferred income	31	108.0	109.0	0.8	0.7
Current income tax liability		31.1	34.9	–	–
Other liabilities	32	151.2	147.7	–	–
Deferred income tax liability	24	–	7.7	–	–
Subordinated liabilities and notes	33	235.0	235.0	235.0	235.0
Total liabilities		**13,954.4**	**12,829.9**	**235.8**	**235.7**
Equity and reserves attributable to owners of parent					
Share capital	34	122.0	122.0	122.0	122.0
Share premium account	34	1,098.2	1,098.2	1,098.2	1,098.2
Retained earnings		438.9	511.3	12.1	3.1
Other reserves	35	27.4	44.2	–	–
Total equity		**1,686.5**	**1,775.7**	**1,232.3**	**1,223.3**
Total liabilities and equity		**15,640.9**	**14,605.6**	**1,468.1**	**1,459.0**

Profit for the year of £59.8m (2018: £50.0m)[1] is attributable to the Company.

The Consolidated and Company Financial Statements on pages 26 to 132 were approved by the Board of Directors and authorised for issue on 8 April 2019 and were signed on its behalf by:

Declan Hourican

Director

[1]The prior year restatement relates to the adoption of IFRS 15 in the current year. Refer to note 2 for further details.

TESCO PERSONAL FINANCE GROUP PLC
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the Year Ended 28 February 2019

	Note	Share capital £m	Share premium £m	Retained earnings £m Restated[1]	FV/AFS reserve £m	Cash flow hedge reserve £m	Currency Basis Reserve £m	Share based payment reserve £m	Total equity £m Restated[1]
Balance at 1 March 2018		**122.0**	**1,098.2**	**511.3**	**13.0**	**(0.3)**	**–**	**31.5**	**1,775.7**
Impact of initial application of IFRS 9 'Financial instruments'		–	–	(165.7)	(0.5)	–	–	–	(166.2)
Balance at 1 March 2018 after adopting IFRS 9		**122.0**	**1,098.2**	**345.6**	**12.5**	**(0.3)**	**–**	**31.5**	**1,609.5**
Comprehensive income									
Profit for the year		–	–	143.3	–	–	–	–	143.3
Net fair value movement on investment securities at FVOCI	12	–	–	–	(6.7)	–	–	–	(6.7)
Net movement on cash flow hedges	12	–	–	–	–	(0.7)	(0.3)	–	(1.0)
Share of other comprehensive expense of joint venture	23	–	–	–	(1.2)	–	–	–	(1.2)
Total comprehensive income		**–**	**–**	**143.3**	**(7.9)**	**(0.7)**	**(0.3)**	**–**	**134.4**
Transactions with owners									
Dividends to ordinary shareholders	13	–	–	(50.0)	–	–	–	–	(50.0)
Share based payments	35	–	–	–	–	–	–	(7.4)	(7.4)
Total transactions with owners		**–**	**–**	**(50.0)**	**–**	**–**	**–**	**(7.4)**	**(57.4)**
Balance at 28 February 2019		**122.0**	**1,098.2**	**438.9**	**4.6**	**(1.0)**	**(0.3)**	**24.1**	**1,686.5**

[1] The prior year restatement relates to the adoption of IFRS 15 in the current year. Refer to note 2 for further details.

TESCO PERSONAL FINANCE GROUP PLC
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the Year Ended 28 February 2019

	Note	Share capital £m	Share premium £m	Retained earnings £m Restated[1]	AFS reserve £m	Cash flow hedge reserve £m	Share based payment reserve £m	Total equity £m Restated[1]
Balance at 1 March 2017		122.0	1,098.2	422.8	18.0	(0.6)	27.0	1,687.4
Comprehensive income								
Profit for the year		–	–	138.5	–	–	–	138.5
Net gains on AFS investment securities	12	–	–	–	1.5	–	–	1.5
Net gains on cash flow hedges	12	–	–	–		0.3	–	0.3
Share of other comprehensive expense of joint venture	23	–	–	–	(6.5)	–	–	(6.5)
Total comprehensive income		**–**	**–**	**138.5**	**(5.0)**	**0.3**	–	**133.8**
Transactions with owners								
Dividends to ordinary shareholders	13	–	–	(50.0)	–	–	–	(50.0)
Share based payments	35	–	–	–	–	–	4.5	4.5
Total transactions with owners		**–**	**–**	**(50.0)**	–	–	**4.5**	**(45.5)**
Balance at 28 February 2018		**122.0**	**1,098.2**	**511.3**	**13.0**	**(0.3)**	**31.5**	**1,775.7**

[1] The prior year restatement relates to the adoption of IFRS 15 in the current year. Refer to note 2 for further details.

TESCO PERSONAL FINANCE GROUP PLC

COMPANY STATEMENT OF CHANGES IN EQUITY

For the Year Ended 28 February 2019

	Note	Share capital £m	Share premium £m	Retained earnings £m	Total equity £m
Balance at 1 March 2018		**122.0**	**1,098.2**	**3.1**	**1,223.3**
Impact of initial application of IFRS 9 'Financial instruments'		–	–	(0.8)	(0.8)
Balance at 1 March 2018 after adopting IFRS 9		**122.0**	**1,098.2**	**2.3**	**1,222.5**
Comprehensive income					
Profit for the year		–	–	59.8	59.8
Total comprehensive income		**–**	**–**	**59.8**	**59.8**
Transactions with owners					
Dividends to ordinary shareholders	13	–	–	(50.0)	(50.0)
Total transactions with owners		**–**	**–**	**(50.0)**	**(50.0)**
Balance at 28 February 2019		**122.0**	**1,098.2**	**12.1**	**1,232.3**

[1] The prior year restatement relates to the adoption of IFRS 15 in the current year. Refer to note 2 for further details.

TESCO PERSONAL FINANCE GROUP PLC

COMPANY STATEMENT OF CHANGES IN EQUITY

For the Year Ended 28 February 2019

	Note	Share capital £m	Share premium £m	Retained earnings £m	Total equity £m
Balance at 1 March 2017		122.0	1,098.2	3.1	1,223.3
Comprehensive income					
Profit for the year		–	–	50.0	50.0
Total comprehensive income		**–**	**–**	**50.0**	**50.0**
Transactions with owners					
Dividends to ordinary shareholders	13	–	–	(50.0)	(50.0)
Total transactions with owners		**–**	**–**	**(50.0)**	**(50.0)**
Balance at 28 February 2018		**122.0**	**1,098.2**	**3.1**	**1,223.3**

[1] The prior year restatement relates to the adoption of IFRS 15 in the current year. Refer to note 2 for further details.

TESCO PERSONAL FINANCE GROUP PLC
CONSOLIDATED AND COMPANY CASH FLOW STATEMENTS
For the Year Ended 28 February 2019

	Note	Group 2019 £m	Group 2018 £m Restated[1]	Company 2019 £m	Company 2018 £m
Operating Activities					
Profit before tax		198.9	199.1	59.8	50.0
Adjusted for:					
Non-cash items included in operating profit before taxation and other adjustments	39	266.9	284.7	4.9	3.9
Changes in operating assets and liabilities	39	(287.7)	63.2	–	(0.2)
Income taxes paid		(68.2)	(44.5)	–	–
Cash flows generated from operating activities		**109.9**	**502.5**	**64.7**	**53.7**
Investing Activities					
Purchase and disposal of intangible assets and property, plant and equipment		(30.2)	(53.5)	–	–
Purchase of investment securities classified as FVOCI/AFS		(713.0)	(179.1)	–	–
Sale of investment securities classified as FVOCI/AFS		590.5	185.4	–	–
Redemption of subordinated debt issued by joint venture	37	5.2	–	–	–
Investment in joint venture	23	–	(15.5)	–	–
Dividends received from joint venture	23	10.3	–	–	–
Cash flows (used in) investing activities		**(137.2)**	**(62.7)**	**–**	**–**
Financing Activities					
Net proceeds received in association with issuance of debt securities	29	270.7	300.0	–	–
Principal repayments on debt securities in issue	29	(425.0)	(150.0)	–	–
Dividends paid to ordinary shareholders	13	(50.0)	(50.0)	(50.0)	(50.0)
Interest paid on debt securities in issue		(23.4)	(24.6)	–	–
Interest (paid)/received on assets held to hedge debt securities in issue		(0.4)	3.6	–	–
Interest paid on subordinated liabilities and notes		(4.7)	(3.9)	(4.7)	(3.9)
Cash flows (used in)/generated from financing activities		**(232.8)**	**75.1**	**(54.7)**	**(53.9)**
Net (decrease)/increase in cash and cash equivalents		(260.1)	514.9	10.0	(0.2)
Cash and cash equivalents[2] at beginning of year		1,303.5	788.6	3.4	3.6
Cash and cash equivalents[2] at end of year	14	**1,043.4**	**1,303.5**	**13.4**	**3.4**

[1] The prior year restatement relates to the adoption of IFRS 15 in the current year. Refer to note 2 for further details.

[2] Consolidated Cash and cash equivalents comprise cash and balances with central banks, excluding mandatory reserve deposits of £28.7m (2018: £15.1m) refer to note 14).

1. Accounting Policies

Basis of Preparation

The Company and Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) of the International Accounting Standards Board (IASB) as endorsed by the European Union (EU), and those parts of the Companies Act 2006 applicable to companies reporting under IFRSs.

In these Financial Statements the 'Company' means Tesco Personal Finance Group PLC (TPFG) and the 'Group' means the Company and its subsidiaries and joint venture. Details of these subsidiaries and joint venture are provided in notes 22 and 23. These Consolidated Financial Statements comprise the Financial Statements of the Group. The Company has elected to take the exemption under section 408 of the Companies Act 2006 not to present the Income Statement and Statement of Comprehensive Income of the Company.

The Company and Consolidated Financial Statements have been prepared under the historical cost convention as modified by the revaluation of derivative financial instruments and investment securities held at fair value.

The Company and Consolidated Financial Statements are presented in Sterling, which is the functional currency of the Group. The figures shown in the Financial Statements are rounded to the nearest £0.1 million unless otherwise stated.

New and amended accounting standards adopted by the Group in the year are detailed in notes 2 and 45.

Going concern

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

Change in Presentation

During the year, the group reclassified interest expense and similar charges relating to derivative financial instruments to interest and similar income. This reclassification more appropriately reflects within the Consolidated Income Statement the net impact of hedging activity on the interest income or expense of the hedged item. Prior period comparatives have been restated to align to the current period approach. The impact on the Consolidated Income Statement is as follows:

Line Item	Total as previously stated	Adjusted	Restated Total
	£m	£m	£m
Interest and similar income	673.2	(32.9)	640.3
Interest expense and similar charges	(180.1)	32.9	(147.2)
	493.1	–	493.1

1. Accounting Policies (continued)

Principal accounting policies

A summary of the Group's accounting policies is set out below. These policies have been consistently applied to all of the years presented, unless otherwise stated.

(a) Basis of consolidation

The Consolidated Financial Statements of the Group comprise the Financial Statements of the Company and all consolidated subsidiaries, including certain securitisation structured entities, and the Group's share of its interest in a joint venture, as at 28 February 2019.

Investment in Group undertakings

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The results of subsidiaries are included in the Consolidated Financial Statements from the date that control commences until the date that control ceases. The Company's investments in its subsidiaries are stated at cost less any impairment.

Intragroup balances, and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the Consolidated Financial Statements.

Securitisation structured entities

The Group enters into securitisation transactions in which it assigns Credit Card receivables to a securitisation structured entity which supports the issuance of securities backed by the cash flows from the securitised Credit Card receivables. Although none of the equity of the securitisation structured entities is owned by the Company, the nature of these entities means that the Group has the rights to variable returns from its involvement with these securitisation structured entities and has the ability to affect those returns through its power over them. As such they are effectively controlled by the Group and are consolidated on a line by line basis in the Consolidated Financial Statements.

Investment in joint venture

A joint arrangement is an arrangement over which the Group has joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. A joint venture is a joint arrangement whereby the Group has rights to a share of the net assets of the joint arrangement.

The Group's share of the results of a joint venture is included in the Consolidated Income Statement using the equity method of accounting. The Group's investment in a joint venture is carried in the Consolidated Statement of Financial Position at cost plus post-acquisition changes in the Group's share of the net assets of the entity, less any impairment.

If the Group's share of losses in a joint venture equals or exceeds its investment in the joint venture, the Group does not recognise further losses, unless it has incurred obligations to do so or made payments on behalf of the joint venture.

1. Accounting Policies (continued)

(b) Revenue recognition

Net interest income recognition

Interest income and expense for all financial instruments measured at amortised cost are recognised using the effective interest rate (EIR) method.

The EIR method is a method of calculating the amortised cost of a financial asset or financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the expected life of the financial asset or financial liability. The EIR is the rate that exactly discounts estimated future cash flows to the instrument's initial carrying amount. Calculation of the EIR takes into account fees receivable that are an integral part of the instrument's yield, premiums or discounts on acquisition or issue, early redemption fees and transaction costs. All contractual and behavioural terms of a financial instrument are considered when estimating future cash flows.

Interest income is calculated on the gross carrying amount of a financial asset unless the financial asset is impaired, in which case interest income is calculated on the amortised cost.

Net fees and commissions income recognition

The Group generates fees from banking services, primarily Credit Card interchange fees. Fees in respect of banking services are recognised in line with the satisfaction of performance obligations. This can be either at a point in time or over time, in line with the provision of the service to the customer.

The majority of banking services are performed at a point in time and payment is due from a customer at the time a transaction takes place. For services performed over time, payment is generally due monthly in line with the satisfaction of performance obligations.

The costs of providing these banking services are incurred as the services are rendered. The price is usually fixed and always determinable.

The Group also generates commission from the sale and service of Motor and Home insurance policies underwritten by Tesco Underwriting Limited (TU) or, in a minority of cases, by a third party underwriter. This is based on commission rates which are independent of the profitability of underlying insurance policies. Similar commission income is also generated from the sale of white label insurance products underwritten by other third party providers. This commission income is recognised on a net basis as such policies are sold, in line with the satisfaction of performance obligations to customers.

In the case of certain commission income on insurance policies managed and underwritten by a third party, the Group recognises commission income from policy renewals as such policies are sold. This is when the Group has satisfied all of its performance obligations in relation to the policy sold and it is considered highly probable that a significant reversal in the amount of revenue recognised will not occur in future periods. This calculation takes into account both estimates of future renewal volumes and renewal commission rates. A contract asset is recognised in relation to this revenue. This is unwound over the remainder of the contract with the customer, the customer in this case being the third party insurance provider.

The end policyholders have the right to cancel an insurance policy at any time. Therefore, a contract liability is recognised for the amount of any expected refunds due and the revenue recognised in relation to these sales is reduced accordingly. This contract refund liability is estimated using prior experience of customer refunds. The appropriateness of the assumptions used in this calculation is reassessed at each reporting date.

1. Accounting Policies (continued)

Customer loyalty programmes

The Group participates in the customer loyalty programme operated by Tesco Stores Limited (TSL). The programme operates by allowing customers to accumulate Clubcard points on purchases for future redemption against a range of Tesco products. Revenue in respect of these points is recognised at the time of the customer transaction as the Group has no obligation to customers in respect of Clubcard points once the points are allocated to a customer account. The revenue is recognised net of the cost of providing Clubcard points to customers, which is recharged by TSL to the Group.

Dividend income

Dividends are recognised in the Consolidated Income Statement when the entity's right to receive payment is established.

(c) Taxation

The tax charge or credit included in the Consolidated Income Statement consists of current and deferred tax. Tax is recognised in the Consolidated Income Statement except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case it is recognised in other comprehensive income or equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted by the reporting date.

Deferred tax is provided using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Company and Consolidated Financial Statements. Deferred tax is calculated at the tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be realised.

Deferred tax assets and liabilities are offset against each other when there is a legally enforceable right to set-off current tax assets against current tax liabilities and it is the intention to settle these on a net basis.

(d) Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the date of the transaction.

Monetary items denominated in foreign currency are translated at the closing rate as at the reporting date.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Consolidated Income Statement, except when deferred in equity as gains or losses from qualifying cash flow hedging instruments. All foreign exchange gains and losses recognised in the Consolidated Income Statement are presented net in the Consolidated Income Statement within the corresponding item. Foreign exchange gains and losses on other comprehensive income items are presented in other comprehensive income within the corresponding item.

1. Accounting Policies (continued)

In the case of changes in the fair value of monetary assets denominated in foreign currency classified as AFS (before 1 March 2018) or at FVOCI (from 1 March 2018), a distinction is made between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to the changes in the amortised cost are recognised in the Consolidated Income Statement, and other changes in the carrying amount, except impairment, are recognised in equity.

(e) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and demand deposits with banks together with short-term highly liquid investments with short-term maturities.

(f) Financial instruments - Policy applicable from 1 March 2018

The Group classifies a financial instrument as a financial asset, financial liability or an equity instrument in accordance with the substance of the contractual arrangement. An instrument is classified as a liability if it creates a contractual obligation to deliver cash or another financial asset, or to exchange financial assets or financial liabilities on potentially unfavourable terms. An instrument is classified as equity if it evidences a residual interest in the assets of the Group after the deduction of liabilities.

Financial assets

Classification and measurement

The Group classifies its financial assets in the following categories:

- Fair value through profit or loss (FVPL);
- Fair value through other comprehensive income (FVOCI); and
- Amortised cost.

Management determines the classification of the Group's financial assets at initial recognition. Purchases and sales of financial assets are recognised on the trade date – the date on which the Group commits to purchase or sell the asset.

All financial assets are measured at initial recognition at fair value, plus transaction costs for those classified as FVOCI and amortised cost. Transaction costs on financial assets classified as FVPL are recognised in the Consolidated Income Statement at the time of initial recognition.

Classification and subsequent measurement of financial assets depend on:

- The Group’s business model for managing the financial asset; and
- The cash flow characteristics of the financial asset.

The business model reflects how the Group manages its financial assets in order to generate cash flows and is determined by whether the Group’s objective is solely to collect contractual cash flows from the assets or to collect both contractual cash flows and cash flows arising from the sale of assets. If neither of these models applies, the financial assets are classified at FVPL.

In determining the business model, the Group considers past experience in collecting cash flows, how the performance of these financial assets is evaluated and reported to Management and how risks are assessed.

Where the business model is to hold financial assets to collect contractual cash flows or to collect contractual cash flows and sell the assets, the Group assesses whether the financial asset’s cash flows represent solely payments of principal and interest (the SPPI test). When making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement.

1. Accounting Policies (continued)

Financial assets at amortised cost

Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest, and that are not designated as FVPL, are classified and subsequently measured at amortised cost. The carrying value of these financial assets is adjusted by any impairment loss allowance recognised and measured as described below.

Financial assets at FVOCI

Financial assets that are held for collection of contractual cash flows and for selling the assets, where those cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are classified and subsequently measured at FVOCI. The Group holds investments in debt securities which are classified as FVOCI. Movements in the carrying amount of debt securities classified at FVOCI are taken through other comprehensive income, except the recognition of impairment gains or losses, interest revenue using the EIR method and foreign exchange gains and losses, which are recognised through the Consolidated Income Statement.

The Group also holds an investment in equity securities which has been irrevocably designated by Management at FVOCI at original recognition. Movements in the carrying amount of these equity securities are taken through other comprehensive income and are not subsequently reclassified to the Consolidated Income Statement, including on disposal. Impairment losses on these securities are not recognised separately from other changes in fair value.

For financial assets at FVOCI which are in fair value hedge relationships, the element of the fair value movement which relates to the hedged risk is recycled to the Consolidated Income Statement.

Financial assets at FVPL

Financial assets that do not meet the criteria for recognition at amortised cost or at FVOCI are measured at FVPL.

Impairment

The Group assesses on a forward-looking basis the ECLs associated with its financial assets carried at amortised cost and FVOCI, and with the exposure arising from loan commitments. The Group recognises a loss allowance for such losses at each reporting date. The measurement of ECLs reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Refer to note 37 for further details on the calculation of the allowance for ECLs.

Financial liabilities

Classification and measurement

All of the financial liabilities held by the Group, other than derivative financial liabilities, are classified and measured at amortised cost using the EIR method, after initial recognition at fair value. Fair value is calculated as the issue proceeds, net of premiums, discounts and transaction costs incurred. For financial liabilities in fair value hedge relationships, the carrying value is adjusted by the hedged item (the fair value of the underlying hedged risk) through the Consolidated Income Statement.

Derivative financial liabilities are classified and measured at FVPL. Further information on the classification and measurement of derivative financial instruments is set out at policy 1(g).

Derecognition

Financial assets are derecognised when the contractual rights to receive cash flows have expired or where substantially all of the risks and rewards of ownership have been transferred and the transfer qualifies for derecognition. Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

1. Accounting Policies (continued)

Collateral furnished by the Group under standard repurchase agreements is not derecognised because the Group retains substantially all the risks and rewards of ownership on the basis of the predetermined repurchase price, therefore the criteria for derecognition are not met. Credit Card receivables assigned by the Group to a securitisation structured entity do not qualify for derecognition, as the Group retains substantially all the risks and rewards of ownership of the securitised Credit Card receivables.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the Company and Consolidated Statements of Financial Position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise an asset and settle a liability simultaneously.

Loan commitments

All loan commitments provided by the Group are as part of contracts that include both a loan and an undrawn commitment. As the Group cannot separately identify the ECLs on the undrawn commitment component from those on the loan component, the ECLs on the undrawn commitment are recognised together with the loss allowance for the loan. Any excess of the ECLs over the gross carrying amount of the loan is recognised as a separate provision within provisions for liabilities and charges.

Financial instruments - Policy applicable prior to 1 March 2018

The Group classified a financial instrument that it issued as a financial asset, financial liability or an equity instrument in accordance with the substance of the contractual arrangement. An instrument was classified as a liability if it created a contractual obligation to deliver cash or another financial asset, or to exchange financial assets or financial liabilities on potentially unfavourable terms. An instrument was classified as equity if it evidenced a residual interest in the assets of the Group after the deduction of liabilities.

Financial assets

The Group classified its financial assets in the following categories: at FVPL, loans and receivables, and AFS. Management determined the classification of its financial assets at initial recognition. Purchases and sales of financial assets were recognised on the trade date – the date on which the Group committed to purchase or sell the asset.

Financial assets at FVPL included financial assets held for trading and those designated at FVPL at inception. Financial assets held at FVPL were recognised at fair value, with any gains or losses included in the Consolidated Income Statement in the period in which they arose. Transaction costs were expensed at the time of initial recognition. Derivative financial assets were classified as held for trading unless they were accounted for as an effective hedging instrument, but were not separately categorised in the Statement of Financial Position.

Loans and receivables were non-derivative financial assets with fixed or determinable payments that were not quoted in an active market. Subsequent to initial recognition at fair value plus transaction costs, these assets were carried at amortised cost using the EIR method and adjusted for any impairment losses or adjustments made as part of fair value hedging arrangements.

AFS financial assets were non-derivative financial assets that were either designated in this category or not classified in any of the other categories. Subsequent to initial recognition at fair value plus transaction costs, these financial assets were recorded at fair value, with the movements in fair value recognised in other comprehensive income until the financial asset was derecognised or impaired, at which time the cumulative gain or loss previously recognised in other comprehensive income was recognised in the Consolidated Income Statement. For AFS financial assets in fair value hedge relationships, the element of the fair value movement which related to the hedged risk was recycled to the Consolidated Income Statement.

1. Accounting Policies (continued)

Financial liabilities

All of the financial liabilities held by the Group, other than derivative financial liabilities, were measured at amortised cost using the EIR method, after initial recognition at fair value. Fair value was calculated as the issue proceeds, net of premiums, discounts and transaction costs incurred. The Group did not hold any financial liabilities classified as held for trading. For financial liabilities in fair value hedge relationships, the carrying value was adjusted by the hedged item (the fair value of the underlying hedged risk) through the Consolidated Income Statement.

Derecognition of financial assets and financial liabilities

Financial assets were derecognised when the contractual rights to receive cash flows had expired or where substantially all of the risks and rewards of ownership had been transferred and the transfer qualified for derecognition. Financial liabilities were derecognised when they had been redeemed or otherwise extinguished.

Collateral provided by the Group under standard repurchase agreements was not derecognised because the Group retained substantially all the risks and rewards on the basis of the predetermined repurchase price, therefore the criteria for derecognition were not met. Credit Card receivables assigned by the Group to a securitisation structured entity did not qualify for derecognition as the Group retained substantially all the risks and rewards of ownership of the securitised Credit Card receivables.

Offsetting of financial instruments

Financial assets and financial liabilities were offset and the net amount reported in the Company and Consolidated Statements of Financial Position when there was a legally enforceable right to offset the recognised amounts and there was an intention to settle on a net basis, or to realise an asset and settle a liability simultaneously.

Impairment of financial assets

The Group assessed at each reporting date whether there was objective evidence that a financial asset or group of financial assets was impaired. A financial asset or portfolio of financial assets was impaired and an impairment loss incurred if there was objective evidence that an event or events since initial recognition of the financial asset or group of financial assets had adversely affected the amount or timing of future cash flows expected from the financial asset or group of financial assets.

Financial assets carried at amortised cost

If there was objective evidence that an impairment loss on a financial asset or group of financial assets classified as loans and receivables had been incurred, the Group measured the amount of the loss as the difference between the carrying amount of the financial asset or group of financial assets and the present value of estimated future cash flows from the financial asset or group of financial assets discounted at the EIR of the instrument(s) at initial recognition. Impairment losses were assessed individually for financial assets that were individually significant and collectively for financial assets that were not individually significant. In making the collective assessment of impairment, financial assets were grouped into portfolios on the basis of similar risk characteristics. Future cash flows from these portfolios were estimated on the basis of the estimated cash recoveries and historical loss experience for financial assets with similar credit risk characteristics.

Impairment losses were recognised in the Consolidated Income Statement and the carrying amount of the financial asset or group of financial assets was reduced by establishing an allowance for impairment losses. If, in a subsequent year, the amount of the impairment loss reduced and the reduction could be related objectively to an event after the impairment was recognised, the previously recognised loss was reversed by adjusting the allowance.

When a loan was deemed uncollectable it was written off against the related provision after all of the necessary procedures had been completed and the amount of the loss had been determined. Subsequent recoveries of amounts previously written off received from customers or other third parties were recognised directly in the Consolidated Income Statement as a reduction in the loan impairment charge for the year.

1. Accounting Policies (continued)

Financial assets classified as AFS

In the case of debt instruments classified as AFS, the recognition of an impairment loss occurred if there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial asset (a loss event), and that had an impact on the estimated future cash flows of the financial asset and which could be reliably measured. If any such evidence existed for AFS financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the Consolidated Income Statement – was removed from equity and recognised in the Consolidated Income Statement. If, in a subsequent period, the fair value of a debt instrument classified as AFS increased, and the increase could be objectively related to an event occurring after the impairment loss was reported in the Consolidated Income Statement, the impairment loss was reversed through the Consolidated Income Statement.

(g) Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments for the purpose of providing an economic hedge to its exposures to interest rate and foreign exchange risks as they arise from operating, financing and investing activities. The Group does not hold or issue derivative financial instruments for trading purposes. Derivative financial instruments are initially recognised at fair value on the contract date and are remeasured at fair value at subsequent reporting dates.

Hedge accounting

The Group designates certain hedging instruments as either fair value hedges or cash flow hedges, where it is efficient to do so and the relevant criteria are met. From 1 March 2018, the Group has implemented IFRS 9 hedge accounting requirements in respect of its fair value hedges of the Group's investment securities and its cash flow hedges. As permitted under IFRS 9, the Group has elected to continue to apply the existing hedge accounting requirements of International Accounting Standard (IAS) 39 'Financial instruments: Recognition and measurement' for its portfolio hedge accounting until the new macro hedge accounting standard is implemented.

The Group applies hedge accounting as follows:

- Hedge relationships are classified as fair value hedges where the derivative financial instruments hedge the change in the fair value of fixed rate financial assets or financial liabilities due to movements in interest rates.
- Hedge relationships are classified as cash flow hedges where the derivative financial instruments hedge the cash flows associated with inflation risk on an index linked issued bond, the interest rate risk and foreign currency risk on US Dollar notes issued by one of the Group's securitisation entities or the foreign currency risk on certain foreign currency invoices.

To qualify for hedge accounting, the Group documents, at the inception of the hedge: the hedging risk management strategy; the relationship between the hedging instrument and the hedged item or transaction; and the nature of the risks being hedged. The Group also documents the assessment of the effectiveness of the hedging relationship, to show that the hedge has been and will be highly effective on an ongoing basis.

Fair value hedges

Changes in the fair value of derivative financial instruments that are designated as fair value hedges are recognised in the Consolidated Income Statement. The hedged item is also adjusted for changes in fair value attributable to the hedged risk, with the corresponding adjustment made in the Consolidated Income Statement.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item is amortised to the Consolidated Income Statement over the remaining period to maturity.

1. Accounting Policies (continued)

Cash flow hedges

Changes in the fair value of the derivative financial instruments that are designated as hedges of future cash flows are recognised directly in other comprehensive income and the ineffective portion is recognised immediately in the Consolidated Income Statement. Amounts recognised in other comprehensive income are recycled to the Consolidated Income Statement when equivalent amounts of the hedged item are recognised in the Consolidated Income Statement.

When the hedging instrument expires or is sold, terminated or exercised, hedge accounting is discontinued. Any cumulative gain or loss existing in equity at that time remains until the forecast transaction occurs or the original hedged item affects the Consolidated Income Statement. At that point, the cumulative gain or loss is also recognised in the Consolidated Income Statement.

(h) Derivative financial instruments not in hedge accounting relationships

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the Consolidated Income Statement as they arise.

(i) Impairment of non-financial assets

Non-financial assets are reviewed for impairment when there are indications that the carrying value may not be recoverable. In the event that an asset's carrying amount is determined to be greater than its recoverable amount, an impairment loss is recognised immediately in the Consolidated Income Statement and the carrying value of the asset is written down by the amount of the loss. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets for which an impairment loss has been recognised are reviewed for possible reversal of the impairment at each reporting date.

(j) Property, plant and equipment

Items of property, plant and equipment are stated at historical cost less accumulated depreciation and any impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent expenditure is included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group. All other repairs and maintenance costs are charged to the Consolidated Income Statement in the period in which they are incurred.

Depreciation is charged to the Consolidated Income Statement on a straight-line basis so as to allocate the costs less residual values over the lower of the useful life of the related asset and, for leasehold improvements, the expected lease term. Depreciation commences on the date that the assets are brought into use. Work-in-progress assets are not depreciated until they are brought into use and transferred to the appropriate category of property, plant and equipment. Estimated useful lives are:

- Plant and equipment 2 to 8 years
- Fixtures and fittings 4 to 14 years
- Computer hardware 3 to 10 years
- Freehold buildings 40 years
- Leasehold improvements 15 to 20 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in administrative expenses in the Consolidated Income Statement.

1. Accounting Policies (continued)

(k) Intangible assets

Acquired intangible assets

Intangible assets that are acquired by the Group are stated at historical cost less accumulated amortisation and any impairment losses. Amortisation is charged to the Consolidated Income Statement on a straight-line basis over the estimated useful lives. The Group's intangible assets are computer software, for which the estimated useful lives are 3 to 10 years.

Internally generated intangible assets - research and development expenditure

Research costs are expensed in the Consolidated Income Statement as incurred.

Development expenditure incurred on an individual project is capitalised only if all of the following criteria are demonstrated:

- an asset is created that can be identified (such as software);
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

Following the initial recognition of development expenditure, the cost is amortised over the estimated useful life of the asset created. Amortisation commences on the date that the asset is brought into use. Work-in-progress assets are not amortised until they are brought into use and transferred to the appropriate category of intangible assets.

(l) Leases

If a lease agreement, in which the Group is a lessee, does not transfer the risks and rewards of ownership of the asset, the lease is recorded as an operating lease.

Operating lease payments are charged to the Consolidated Income Statement on a straight-line basis over the period of the lease. Where an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor as compensation is charged to the Consolidated Income Statement in the period in which the termination takes place.

The Group has entered into operating leases for office buildings.

(m) Employee benefits

The Group accounts for pension costs on a contributions basis in line with the requirements of IAS 19 'Employee Benefits'. The Group made contributions in the year to a funded defined benefit scheme and a funded defined contribution scheme. Both of these schemes are operated by TSL.

IAS 19 requires that, where there is no policy or agreement for sharing the cost of a defined benefit scheme across the subsidiaries, the Sponsoring employer recognises the net defined benefit cost of a defined benefit scheme. The Sponsoring employer of the funded defined benefit scheme is TSL and the principal pension plan is the Tesco PLC (Tesco) pension scheme.

(n) Share based payments

Employees of the Group receive part of their remuneration in the form of share based payment transactions, whereby employees render services in exchange for Tesco shares or rights over shares (equity-settled transactions) or in exchange for entitlements to cash based payments based on the value of the shares (cash-settled transactions).

The fair value of employee share option plans is calculated at the grant date using the Black-Scholes model. The resulting cost is recognised in the Consolidated Income Statement over the vesting period. The value of the charge is adjusted to reflect expected and actual levels of vesting.

The grant by Tesco of options over its equity instruments to the employees of the Group is treated as a capital contribution in equity. The social security contribution payable in connection with the grant of the share options is considered an integral part of the grant itself, and the charge is treated as a cash-settled transaction.

1. Accounting Policies (continued)

(o) Provisions for liabilities and charges and contingent liabilities

A provision is recognised where there is a present legal or constructive obligation as a result of a past event; it is more likely than not that an outflow of economic resources will be required to settle the obligation; and the amount can be reliably estimated.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation.

A contingent liability is a possible obligation which is dependent on the outcome of uncertain future events not wholly within the control of the Group, or a present obligation where an outflow of economic resources is not likely or the amount cannot be reliably measured.

Contingent liabilities are not recognised in the Company or Consolidated Statement of Financial Position but are disclosed in the notes to the Financial Statements unless the possibility of an outflow of economic resources is remote.

(p) Dividends paid

Dividends are recognised in equity in the period they are approved by the Group's Board.

(q) Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Group has determined the Board of Directors as its chief operating decision-maker.

(r) Sale and repurchase agreements

Investment securities sold subject to a commitment to repurchase them at a predetermined price are retained on the Company and Consolidated Statements of Financial Position when substantially all of the risk and rewards of ownership remain with the Group. The counterparty liability is included in deposits from banks. Conversely, securities purchased under agreements to resell (reverse repos), where the Group does not acquire substantially all of the risks and rewards of ownership, are recorded as loans and advances from banks.

(s) Encumbered assets

The Group's methodology used to identify encumbered assets is aligned to definitions used in calculating the Group's Pillar 3 encumbrance disclosures.

2. Transition to IFRS 9 and IFRS 15

On 1 March 2018 the Group adopted both IFRS 9 and IFRS 15. Full transition disclosures are set out below. Further details of the new accounting policies applied are set out in note 1.

(a) IFRS 9 'Financial instruments'

IFRS 9 is a replacement for IAS 39, excluding the part of IAS 39 related to macro hedge accounting. Macro hedge accounting requirements are out of the scope of IFRS 9 and instead the IASB is developing a separate model. Entities are therefore permitted to continue accounting for macro hedge portfolios in line with IAS 39. In line with Tesco policy, the Group has adopted IFRS 9 in respect of its micro hedge accounting from 1 March 2018. The Group continues to apply the existing hedge accounting requirements of IAS 39 for its portfolio hedge accounting until the new macro hedge accounting standard is implemented.

The classification and measurement and impairment requirements of IFRS 9 have been applied retrospectively at 1 March 2018 by adjusting the opening balance sheet, with no requirement to restate comparative periods. Hedge accounting relationships within the scope of IFRS 9 have transitioned prospectively.

Classification and measurement of financial instruments

The measurement category and the carrying amount of financial assets and liabilities in accordance with IAS 39 and IFRS 9 at 1 March 2018 are as follows:

Group	IAS 39 Classification and measurement category	Carrying amount £m	IFRS 9 Classification and measurement category	Carrying amount £m
Financial assets:				
Cash and balances with central banks	Loans and receivables (amortised cost)	1,318.6	Amortised cost	1,296.7
			FVPL [(a)]	21.9
Loans and advances to customers	Loans and receivables (amortised cost)	11,522.4	Amortised cost	11,308.4
Derivative financial instruments	Derivatives held for hedging	46.1	FVPL	46.1
Investment securities:				
AFS	AFS	925.4	FVOCI - mandatory [(b)]	923.4
			FVOCI - designated [(c)]	2.0
Loans and receivables	Loans and receivables (amortised cost)	34.1	Amortised cost	33.9
Other assets	Loans and receivables (amortised cost)	280.6	Amortised cost	280.6
Total financial assets		**14,127.2**		**13,913.0**
Financial liabilities				
Deposits from banks	Amortised cost	1,539.0	Amortised cost	1,539.0
Deposits from customers	Amortised cost	9,244.6	Amortised cost	9,244.6
Debt securities in issue	Amortised cost	1,347.6	Amortised cost	1,347.6
Derivative financial instruments	Derivatives held for hedging	88.4	FVPL	88.4
Other liabilities	Amortised cost	147.7	Amortised cost	147.7
Subordinated liabilities	Amortised cost	235.0	Amortised cost	235.0
Total financial liabilities		**12,602.3**		**12,602.3**

2. Transition to IFRS 9 and IFRS 15 (continued)

Company	**IAS 39 Classification and measurement category**	**Carrying Amount**	**IFRS 9 Classification and measurement category**	**Carrying amount**
Financial assets:		**£m**		**£m**
Cash and balances with central banks	Loans and receivables (amortised cost)	3.4	Amortised cost	3.4
Loans and advances to subsidiary companies	Loans and receivables (amortised cost)	235.0	Amortised cost	233.9
Total financial assets		**238.4**		**237.3**
Financial liabilities				
Subordinated liabilities	Amortised cost	235.0	Amortised cost	235.0
Total financial liabilities		**235.0**		**235.0**

The following explains how applying the new classification requirements of IFRS 9 led to changes in classification of certain financial assets held by the Group as shown in the tables above.

(a) Reclassification of cash balances from amortised cost to FVPL

Cash balances relating to the Group's Travel Money offering have been reclassified at FVPL under IFRS 9 as these are held to earn fee and commission income and not solely to collect payments of principal and interest.

(b) Mandatory reclassification of debt investment securities from AFS to FVOCI

Debt instruments previously classified as AFS under IAS 39 have been reclassified to the FVOCI category under IFRS 9 as the IAS 39 category has been removed. There has been no change in the measurement basis as a result of this reclassification.

(c) Designation of equity investment securities from AFS to FVOCI

The Group has elected to designate equity instruments held in VISA Inc. at FVOCI as permitted by IFRS 9. These securities were previously classified as AFS. There has been no change in the measurement basis as a result of this reclassification. The changes in fair value of these securities will no longer be reclassified to the Consolidated Income Statement on disposal.

2. Transition to IFRS 9 and IFRS 15 (continued)

Reconciliation of Statement of Financial Position balances from IAS 39 to IFRS 9

The following table reconciles the carrying amount of financial assets from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on 1 March 2018. There were no changes to the classification and measurement of financial liabilities.

Group	IAS 39 carrying amount 28 February 2018 £m	Reclassification £m	Remeasurement £m	IFRS 9 carrying amount 1 March 2018 £m
Financial Assets				
Amortised cost				
Cash and balances with central banks				
Opening balance under IAS 39	1,318.6			
Reclassification to FVPL		(21.9)		
Closing balance under IFRS 9				1,296.7
Loans and advances to customers				
Opening balance under IAS 39	11,522.4			
Remeasurement: ECL allowance			(228.1)	
Remeasurement: Recoverable asset balance			4.8	
Transfer to provisions for liabilities and charges[1]			9.3	
Closing balance under IFRS 9				11,308.4
Investment securities - amortised cost				
Opening balance under IAS 39	34.1			
Remeasurement: ECL allowance			(0.2)	
Closing balance under IFRS 9				33.9
Other assets				
Opening balance under IAS 39 and closing balance under IFRS 9	280.6			280.6
Total financial assets measured at amortised cost	**13,155.7**	**(21.9)**	**(214.2)**	**12,919.6**
FVPL				
Derivative financial instruments				
Opening balance under IAS 39 and closing balance under IFRS 9	46.1			46.1
Cash and balances with central banks				
Opening balance under IAS 39	–			
Reclassification from amortised cost		21.9		
Closing balance under IFRS 9				21.9
Total financial assets measured at FVPL	**46.1**	**21.9**	**–**	**68.0**

[1] Credit loss provision in excess of gross carrying amount of financial assets transferred to provisions for liabilities and charges (refer note 30).

2. Transition to IFRS 9 and IFRS 15 (continued)

Reconciliation of Statement of Financial Position balances from IAS 39 to IFRS 9 (continued)

	IAS 39 carrying amount 28 February 2018 £m	Reclassification £m	Remeasurement £m	IFRS 9 carrying amount 1 March 2018 £m
FVOCI				
Investment securities - AFS	925.4			
Opening balance under IAS 39				
Reclassification to FVOCI (debt)		(923.4)		
Reclassification to FVOCI (equity)		(2.0)		
Closing balance under IFRS 9				–
Investment securities - FVOCI				
Opening balance under IAS 39	–			
Reclassification to FVOCI from AFS (debt)		923.4		
Reclassification to FVOCI from AFS (equity)		2.0		
Closing balance under IFRS 9				925.4
Total financial assets measured at FVOCI	**925.4**	**–**	**–**	**925.4**
Total financial assets	**14,127.2**	**–**	**(214.2)**	**13,913.0**

	IAS 39 carrying amount 28 February 2018 £m	Reclassification £m	Remeasurement £m	IFRS 9 carrying amount 1 March 2018 £m
Company				
Financial Assets				
Amortised cost				
Cash and balances with central banks				
Opening balance under IAS 39 and closing balance under IFRS 9	3.4			3.4
Loans and advances to subsidiary companies				
Opening balance under IAS 39	235.0			
Remeasurement: ECL allowance			(1.1)	
Closing balance under IFRS 9				233.9
Total financial assets	**238.4**	–	**(1.1)**	**237.3**

The Group recognised a deferred tax asset of £57.3m on 1 March 2018 in relation to the transitional measurement adjustments set out in the above tables. This asset relates to both the additional ECL allowance recognised within loans and advances to customers of £214.2m, ECLs in excess of the gross carrying amount of the related financial assets, amounting to £9.3m, recognised within provisions for liabilities and charges (refer note 30) and the additional ECL allowance recognised within loans and advances to subsidiary companies. On a Company basis, a deferred tax asset of £0.3m was recognised in respect of the additional ECL allowance recognised within loans and advances to subsidiary companies.

2. Transition to IFRS 9 and IFRS 15 (continued)

Reconciliation of impairment allowance balance from IAS 39 to IFRS 9

The following table reconciles the prior period's closing impairment allowance measured in accordance with the IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected loss model at 1 March 2018:

Group	28 February 2018 Loan loss allowance under IAS 39	Reclassification	Remeasurement	1 March 2018 Loan loss allowance under IFRS 9
	£m	£m	£m	£m
Measurement category				
Loans and receivables (IAS 39)/Financial assets at amortised cost (IFRS 9)				
Loans and advances to customers[1]	238.1	–	218.8	456.9
Investment securities	–	–	0.2	0.2
Total	**238.1**	**–**	**219.0**	**457.1**
AFS financial assets (IAS 39)/Financial assets at FVOCI (IFRS 9)				
Investment securities[2]	–	–	(0.5)	(0.5)
Total	**–**	**–**	**(0.5)**	**(0.5)**

[1] Credit loss provision in excess of gross carrying amount of financial assets transferred to provisions for liabilities and charges (refer note 30).

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

Company	28 February 2018 Loan loss allowance under IAS 39	Reclassification	Remeasurement	1 March 2018 Loan loss allowance under IFRS 9
	£m	£m	£m	£m
Measurement category				
Loans and receivables (IAS 39)/Financial assets at amortised cost (IFRS 9)				
Loans and advances to subsidiary companies	–	–	1.1	1.1
Total	**–**	**–**	**1.1**	**1.1**

2. Transition to IFRS 9 and IFRS 15 (continued)

The following table reconciles in further detail the prior period's closing impairment allowance for loans and advances to customers in accordance with IAS 39 to the IFRS 9 allowance at 1 March 2018:

Group	**£m**
IAS 39 loss allowance at 28 February 2018	238.1
12 month ECL	72.7
Lifetime ECL	100.6
Undrawn balances	8.6
Macro-economic scenarios	39.2
Transfer to provisions for liabilities and charges	(9.3)
Other changes	7.0
IFRS 9 loss allowance at 1 March 2018	**456.9**

On a Company basis, the total additional loss allowance recognised on transition relates to 12m ECL.

(b) IFRS 15 'Revenue from contracts with customers'

IFRS 15 introduces a performance-based approach to revenue recognition and is applicable to all contracts with customers, with certain exceptions. The Group's interest income and fee income integral to financial instruments fall outside the scope of IFRS 15 and are accounted for in line with the other applicable standards, predominantly IFRS 9 from 1 March 2018 (refer above). All other fees and commissions income falls within the scope of IFRS 15.

In accordance with the transitional provisions in IFRS 15, the new rules have been applied retrospectively and comparatives for the 2018 financial year have been restated.

There are two changes for the Group as a result of the adoption of IFRS 15.

(i) Accounting for insurance renewal commission income

Prior to the adoption of IFRS 15, the Group recognised all insurance commission income on policy renewals at the time of the renewal. Under IFRS 15, the Group recognises commission income as policies are sold for a minority of insurance policies managed and underwritten by a third party. This is the point in time at which the Group has satisfied all of its performance obligations in relation to the policies sold and it is considered highly probable that a significant reversal in the amount of revenue recognised will not occur in future periods. A contract asset has been recognised in relation to this revenue and is included within other assets.

(ii) Presentation of insurance refund liability

Contract liabilities in relation to expected refunds to insurance customers were previously presented as current provisions for liabilities and charges. These are now included within other liabilities to reflect the terminology and requirements of IFRS 15.

2. Transition to IFRS 9 and IFRS 15 (continued)

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

Group	**As previously reported**	**IFRS 15 adjustments**	**Restated**
At 1 March 2017	**£m**	**£m**	**£m**
Statement of Financial Position			
Other assets	299.1	18.5	317.6
Provision for liabilities and charges	(83.5)	4.2	(79.3)
Other liabilities	(148.3)	(4.2)	(152.5)
Deferred income tax liability	(13.7)	(5.0)	(18.7)
Retained earnings	(406.2)	(13.5)	(419.7)
At 28 February 2018			
Statement of Financial Position			
Other assets	265.7	14.9	280.6
Provisions for liabilities and charges	(79.4)	3.4	(76.0)
Other liabilities	(144.3)	(3.4)	(147.7)
Deferred income tax liability	(3.7)	(4.0)	(7.7)
Retained earnings	(497.3)	(10.9)	(508.2)
Income Statement			
Fee and commission charge	387.0	(3.6)	383.4
Income tax charge	(61.6)	1.0	(60.6)
Statement of Cash Flows			
Non-cash items included in operating profit before taxation and other adjustments	297.4	(12.7)	284.7
Changes in operating assets and liabilities	46.9	16.3	63.2

There is no impact on a Company basis of the adoption of IFRS 15.

IFRS 15 also specifies a comprehensive set of disclosure requirements regarding the nature, extent and timing, as well as any uncertainty, of revenue and corresponding cash flows with customers. These applicable disclosures are included throughout these financial statements, primarily in note 1.

3. Critical Accounting Estimates and Judgements in Applying Accounting Policies

In the course of preparing the Financial Statements, no judgements have been made in the process of applying the Group's accounting policies, other than those using estimations (which are presented separately below), that have had a significant effect on the amounts recognised in the Financial Statements.

The reported results of the Group are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its Financial Statements. The Group's principal accounting policies are set out in note 1. United Kingdom (UK) company law and IFRSs require the Directors, in preparing the Group's Financial Statements, to select suitable accounting policies, apply them consistently and make judgements and estimates that are reasonable and prudent. Where accounting standards are not specific and Management has to choose a policy, IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', requires them to adopt policies that will result in relevant and reliable information in the light of the requirements and guidance in IFRSs dealing with similar and related issues and the IASB Framework for the Preparation and Presentation of Financial Statements.

The judgements and estimates involved in the Group's accounting policies that are considered to be the most important to the portrayal of its financial condition are discussed below. The use of estimates, assumptions or models that differ from those adopted by the Group would affect its reported results.

Impairment of financial assets (applicable from 1 March 2018)

The measurement of ECLs for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour, such as the likelihood of customers defaulting and the resulting losses. Further explanation of the inputs, assumptions and estimation techniques used in measuring ECLs, as well as the key sensitivities of ECLs to change in these elements, are set out at note 37.

Effective interest rate (EIR)

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

Management uses a pay rates assumption to determine the expected repayment profile of the balances drawn as at the reporting date to the expected remaining term (capped at a maximum of 5 years from origination).

An increase of the pay rates assumption by 10% will reduce the asset value by £5.3m and a corresponding reduction of the pay rates assumption will increase the asset value by £6.2m.

Provision for customer redress

The Group has a provision for potential customer redress in relation to payment protection insurance (PPI). For further details, including the key assumptions made in arriving at each element of this provision and a sensitivity analysis of key assumptions in the PPI model, refer to note 30.

3. Critical Accounting Estimates and Judgements in Applying Accounting Policies (continued)

Investment in joint venture

The Group holds an investment in a joint venture, TU, an authorised insurance company, and recognises the carrying value of its investment and the Group's share of TU's results using the equity method of accounting (see notes 1 and 23 for further details).

TU's results are sensitive to changes in the insurance reserves it recognises in respect of insurance policies written, net of reinsurance. Consequently, material increases in these reserves could have an impact on the carrying value of the investment in the Company and Consolidated Statement of Financial Position.

The impact of any increase in reserves is determined by TU's ability to amend its pricing to reflect the increased costs of providing cover under the policies written.

A key element of the reserving calculation is the application of the Ogden tables, which are used to calculate the cost of any claim that involves compensation for loss of future benefits. The tables provide an estimate of the return to be expected from the investment of a lump sum damages award.

A decrease in the Ogden rate for 2019 from -0.75% to -1.0% would decrease the carrying value of the Group's investment in TU by £1.2m. An increase in the Ogden rate for 2019 from -0.75% to +1.0% would increase the carrying value of the Group's investment in TU by £10.0m.

4. Segmental Reporting

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

The Group has one operating segment covering all of the Group's activities, the results of which are set out in the Consolidated Income Statement and Group and Company Statements of Financial Position. The Group is primarily focused on providing financial services and products to personal customers in the UK therefore no geographic analysis is presented.

5. Net Interest Income

	2019 £m	2018 £m Restated[1]
Interest and similar income		
On financial assets measured at amortised cost		
Loans and advances to customers	710.8	628.0
Cash and balances with central banks	7.5	2.8
Investment securities	1.3	1.4
	719.6	**632.2**
On financial assets measured at fair value		
Investment securities	7.2	5.1
Derivative financial instruments	1.8	3.0
	9.0	**8.1**
Total interest and similar income	**728.6**	**640.3**
Interest expense and similar charges		
On financial liabilities measured at amortised cost		
Deposits from customers	(139.6)	(114.1)
Deposits from banks	(11.7)	(4.1)
Debt securities in issue	(23.5)	(25.0)
Subordinated liabilities and notes	(4.9)	(4.0)
	(179.7)	**(147.2)**
Total interest expense and similar charges	**(179.7)**	**(147.2)**
Net interest income	**548.9**	**493.1**

[1] The prior year restatement relates to the reclassification of amounts from interest expense to interest income. Refer to note 1 for further details.

6. Net Fees and Commissions Income

	2019 £m	2018 £m Restated[1]
Fees and commissions income		
Banking revenue from contracts with customers	243.8	252.2
Insurance revenue from contracts with customers	98.6	109.6
Other revenue from contracts with customers	23.4	21.6
Total fees and commissions income	**365.8**	**383.4**
Fees and commissions expense		
Banking expense	(32.6)	(31.6)
Total fees and commissions expense	**(32.6)**	**(31.6)**
Net fees and commissions income	**333.2**	**351.8**

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

[1] The prior period has been restated following the retrospective adoption of IFRS 15 in the current period. Refer to note 2 for further details.

7. Net (Loss)/Gain on Financial Instruments at FVPL

	2019 £m	2018 £m
Foreign exchange (loss)/gain on financial assets	(0.2)	1.9
Net (loss)/gain arising on derivatives not designated as hedging instruments	(4.1)	8.0
Fair value hedge ineffectiveness (refer note 18)	0.4	1.1
Cash flow hedge ineffectiveness (refer note 18)	(0.3)	–
Net (loss)/gain on financial instruments at FVPL	**(4.2)**	**11.0**

8. Net Gain on Investment Securities

	2019 £m	2018 £m
Net gain on disposal of AFS investment securities	n/a	0.1
Net gain on disposal of investment securities at FVOCI	8.4	n/a
Net gain on investment securities	**8.4**	**0.1**

9. Administrative Expenses

	2019 £m	2018 £m
Staff costs		
Wages and salaries	111.2	114.2
Social security costs	11.0	11.8
Other pension costs	5.3	5.4
Share based payments	4.4	9.2
Other costs including temporary staff	38.9	33.6
Total staff costs	**170.8**	**174.2**
Non-staff costs		
Premises and equipment	76.8	74.8
Operating leases	3.6	3.6
Marketing	49.3	63.8
Auditor's remuneration (refer below)	0.8	0.8
Outsourcing and professional fees	61.1	62.1
Other administrative expenses	54.8	44.6
Restructuring costs[1]	(1.6)	(1.2)
Total non-staff costs	**244.8**	**248.5**
Total administrative expenses	**415.6**	**422.7**

[1]During the year, the Group recognised organisational restructuring credits within administrative expenses amounting to £(1.6)m (2018: £(1.2m)) related to property operating lease exit costs.

	2019 £'000	2018 £'000
Audit services		
Audit of the Company and Consolidated Financial Statements	87	51
Audit of the Company's subsidiaries	633	702
Total audit services	**720**	**753**
Non-audit services		
Audit related assurance services	92	83
Other non-audit services not covered above	26	52
Total non-audit services	**118**	**135**
Total auditor's remuneration	**838**	**888**

The average monthly number of persons (including Executive Directors) employed by the Group split by employee function during the year, was:

	2019 Number	2018 Number
Head office and administration	1,340	1,323
Operations	2,344	2,625
Total average employees	**3,684**	**3,948**

10. Impairment Loss on Financial Assets

	2019 £m	2018 £m
Impairment loss on loans and advances to customers[1]	163.5	137.4
Impairment loss on investment securities at FVOCI	0.7	n/a
Reversal of impairment loss on investment securities at amortised cost	(0.1)	n/a
Total impairment loss on financial assets	**164.1**	**137.4**

[1]Included within the impairment loss on loans and advances to customers is an amount of £32.7m (2018: £34.6m) received through the sale of non-performing debt to third parties.

11. Directors' Emoluments

The remuneration of the Directors paid by the Group during the year was as follows:

	2019 £m	2018 £m
Aggregate emoluments	4.5	5.9
Aggregate amounts receivable under long-term incentive schemes	3.0	2.6
Loss of office	–	0.3
Share based payments	0.8	0.9
Total Directors' emoluments	**8.3**	**9.7**

	2019 Number	2018 Number
Number of Directors to whom retirement benefits are accruing under defined benefit or contribution schemes	3	3
Number of Directors in respect of whose qualifying services shares were received or receivable under long-term incentive schemes	6	5
Number of Directors who exercised share options in the year	–	–

The total emoluments of the highest paid Director were £1.6m (2018: £2.3m). During the year the highest paid Director did not exercise any share options (2018: £nil).

At 28 February 2019 the accrued pension and lump sum under a defined benefit scheme for the highest paid Director was £nil (2018: £nil).

During the year to 28 February 2019 one Director (2018: two Directors) left the company. During the prior year, one Director was paid a sum of £0.3m upon leaving, in line with contractual terms and conditions. There were no such payments in the current year.

12. Income Tax

Income tax charge

	2019 £m	2018 £m Restated[1]
Current tax charge for the year	65.1	70.4
Adjustments in respect of prior years	(0.8)	0.8
Total current tax charge for the year	**64.3**	**71.2**
Deferred tax credit for the year	(9.3)	(9.7)
Tax rate change	0.8	0.6
Adjustments in respect of prior years	(0.2)	(1.5)
Total deferred tax credit for the year	**(8.7)**	**(10.6)**
Total income tax charge	**55.6**	**60.6**

The standard rate of corporation tax in the UK was changed from 20% to 19% with effect from 1 April 2017. This gives a blended corporation tax rate for the Group for the full year of 19.0% (2018: 19.1%). In addition, a banking surcharge of 8% is applied to the Group's results.

The tax assessed for the full year is higher (2018: higher) than that calculated using the overall blended corporation tax rate for the Group. The differences are explained below:

	2019 £m	2018 £m Restated[1]
Profit before taxation	198.9	199.1
Profit on ordinary activities multiplied by blended rate in the UK of 19.0% (2018: 19.1%)	37.8	38.0
Factors affecting charge for the year:		
Impact of banking surcharge	13.3	13.2
Expenses not deductible for tax purposes[2]	9.0	10.0
Adjustment in respect of prior years - current tax	(0.8)	0.8
Adjustment in respect of prior years - deferred tax	(0.2)	(1.5)
Share based payments	(2.9)	1.5
Other tax adjustments	0.1	–
Tax rate change	0.8	0.6
Share of profit of joint venture	(1.5)	(2.0)
Total income tax charge	**55.6**	**60.6**

[1] The prior year restatement relates to the adoption of IFRS 15 in the current year. Refer to note 2 for further details.

[2] The majority of the adjustment relates to the tax impact of the non-deductibility of an additional PPI provision of £16.0m recognised in the year (2018: £35.0m) and a regulatory charge of £16.4m (2018: £nil).

12. Income Tax (continued)

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

Income tax relating to components of other comprehensive income

2019	**Before tax amount £m**	**Tax (charge)/credit £m**	**Net of tax amount £m**
Items that may be reclassified to the income statement			
Net losses on debt securities at FVOCI	(1.7)	0.4	(1.3)
Net gains on debt securities reclassified to the income statement on disposal	(8.0)	2.2	(5.8)
Net losses on cash flow hedges	(0.8)	0.1	(0.7)
Net losses on cross currency interest rate swaps	(0.3)	–	(0.3)
Items that will not be reclassified to the income statement			
Net gains on equity securities designated at FVOCI	0.5	(0.1)	0.4
Total income tax relating to components of other comprehensive income	**(10.3)**	**2.6**	**(7.7)**

2018	Before tax amount £m	Tax charge £m	Net of tax amount £m
Items that may be reclassified to the income statement			
Unrealised net gains on AFS investment securities	1.8	(0.3)	1.5
Net gains on cash flow hedges reclassified to the income statement	0.4	(0.1)	0.3
Total items that may be reclassified to the income statement	**2.2**	**(0.4)**	**1.8**

Deferred tax charged directly to the Statement of Changes in Equity

2019	**Before tax amount £m**	**Tax charge £m**	**Net of tax amount £m**
Net losses on share based payments reserve	(4.8)	(2.6)	(7.4)
	(4.8)	**(2.6)**	**(7.4)**

2018	Before tax amount £m	Tax credit £m	Net of tax amount £m
Net gains on share based payments reserve	3.6	0.9	4.5
	3.6	**0.9**	**4.5**

13. Distributions to Equity Holders

	2019	2018
	£m	£m
Ordinary dividend paid	50.0	50.0
	50.0	**50.0**

On 21 February 2019 an interim dividend of £50.0m (£0.0410 per ordinary share) was paid. In the prior year, an interim dividend of £50.0m (£0.0410 per ordinary share) was paid on 22 February 2018.

14. Cash and Balances with Central Banks

	Group		Company	
	2019	2018	2019	2018
	£m	£m	£m	£m
Cash at bank	374.1	376.9	–	–
Cash deposits held with Tesco Personal Finance Plc (TPF)	–	–	13.4	3.4
Balances held with the Bank of England (BoE) other than mandatory reserve deposits	669.3	926.6	–	–
Included in cash and cash equivalents	**1,043.4**	**1,303.5**	**13.4**	**3.4**
Mandatory reserves deposits held with the BoE	28.7	15.1	–	–
Total cash and balances with central banks	**1,072.1**	**1,318.6**	**13.4**	**13.4**

Mandatory reserve deposits held with the BoE of £28.7m (2018: £15.1m) are not included within cash and cash equivalents for the purposes of the cash flow statement as these do not have short-term maturities. These balances are not available in the Group's day-to-day operations and are non-interest bearing. Other balances are subject to variable interest rates based on the BoE base rate.

15. Loans and Advances to Banks

Group	2019	2018
	£m	£m
Loans and advances to banks	324.2	–
	324.2	–

All of the above balances are current.

Loans and advances to banks include balances of £324.2m (2018: £nil) which have been purchased under sale and repurchase agreements.

16. Loans and Advances to Customers

Group	**2019**	**2018**
	£m	**£m**
Secured Mortgage lending	3,767.4	3,010.2
Unsecured lending	9,146.2	8,766.7
Total secured and unsecured lending	**12,913.6**	**11,776.9**
Fair value hedge adjustment	(2.7)	(16.4)
Gross loans and advances to customers	**12,910.9**	**11,760.5**
Less: allowance for impairment (refer to note 37)	**(485.2)**	**(238.1)**
Net loans and advances to customers	**12,425.7**	**11,522.4**
Current	4,557.5	4,636.6
Non-current	7,868.2	6,885.8

At 28 February 2019, the Group had contractual lending commitments of £12,226.2m (2018: £12,225.0m). An additional ECL provision of £8.5m was also recognised at 28 February 2019 (2018: £nil). This represents the excess of total ECLs for both drawn and undrawn balances over the gross carrying balances as above. Refer to note 30 for further details.

Fair value hedge adjustments

Fair value hedge adjustments amounting to £(2.7)m (2018: £(16.4)m) are in respect of fixed rate Loans and Mortgages. These adjustments are largely offset by derivatives, which are used to manage interest rate risk and are designated as fair value hedges within loans and advances to customers.

17. Loans and Advances to Subsidiary Companies

Company	**2019**	**2018**
	£m	**£m**
Floating rate subordinated note maturing 2030	190.0	190.0
Undated floating rate note	45.0	45.0
	235.0	235.0
Less: Allowance for impairment (refer to note 37)	(1.3)	–
Net loans and advances to subsidiary companies	**233.7**	**235.0**
Current	–	–
Non-current	233.7	235.0

18. Derivative Financial Instruments

Strategy in using derivative financial instruments

The objective when using a derivative financial instrument is to ensure that the risk to reward profile of a transaction is optimised, allowing the Group to manage its exposure to interest rate and foreign exchange rate risk. The intention is to only use derivatives to create economically effective hedges. There are specific requirements stipulated under IFRS 9/IAS 39 which must be met for a derivative to qualify for hedge accounting. As a result, not all derivatives can be designated as being in an accounting hedge relationship, either because natural accounting offsets are expected or because obtaining hedge accounting would be especially onerous.

For those derivatives where hedge accounting is applied, gains and losses are offset by hedge adjustments in the Consolidated Income Statement. For those derivatives held for economic hedging purposes which cannot be designated as being in an accounting hedge relationship, the gains and losses are recognised in the Consolidated Income Statement. In the Statement of Financial Positions there is no distinction between derivatives where hedge accounting is applied and derivatives which cannot be designated as being in an accounting hedge relationship.

The following table analyses derivatives held for risk management purposes by type of instrument and splits derivatives between those classified in hedge accounting relationships and those not in hedge accounting relationships.

Group	**2019**		2018	
	Assets £m	**Liabilities £m**	Assets £m	Liabilities £m
Derivatives in hedge accounting relationships				
Derivatives designated as fair value hedges				
Interest rate swaps	17.8	(49.5)	30.5	(86.8)
Derivatives designated as cash flow hedges				
Interest rate swaps	–	(0.3)	–	(0.7)
RPI basis swaps	12.5	–	11.5	–
Forward foreign exchange contracts	–	(0.2)	0.1	–
Cross currency interest rate swaps	–	(9.1)	–	–
Total derivatives in hedge accounting relationships	**30.3**	**(59.1)**	**42.1**	**(87.5)**
Derivatives not in hedge accounting relationships				
Interest rate derivatives				
Interest rate swaps	1.0	(1.1)	3.9	(0.8)
Currency derivatives				
Forward foreign exchange contracts	–	–	0.1	(0.1)
Total derivatives not in hedge accounting relationships	**1.0**	**(1.1)**	**4.0**	**(0.9)**
Total	**31.3**	**(60.2)**	**46.1**	**(88.4)**

18. Derivative Financial Instruments (continued)

Derivatives, whether designated in hedge accounting relationships or not, are regarded as current where they are expected to mature within one year. All other derivatives are regarded as non-current.

Group	2019		2018	
	Assets	Liabilities	Assets	Liabilities
	£m	£m	£m	£m
Current	13.8	(2.8)	1.5	(3.1)
Non-current	17.5	(57.4)	44.6	(85.3)

Hedge accounting

The Group applies hedge accounting in the following hedging strategies:

- **Fair value hedges of interest rate risk**

The Group's risk management objective of creating economically effective hedges is achieved by the use of interest rate contracts to swap fixed rate exposures back to a benchmark floating rate where no existing offset is available. This includes the hedging of fixed rate investment securities and issuances of fixed rate debt, which protects the Group against the fair value volatility of these financial assets and financial liabilities due to movements in interest rates. Each swap is defined as hedging one or more fixed rate assets or liabilities. The Group applies IFRS 9 hedge accounting in respect of these hedging instruments.

Sources of hedge ineffectiveness relate to differences in timing and repricing between execution of the hedging instrument and hedge item.

- **Portfolio fair value hedges of interest rate risk**

The Group's risk management objective of creating economically effective hedges is achieved by the use of interest rate contracts to swap fixed rate exposures back to a benchmark floating rate where no existing offset is available. This includes the hedging of portfolios of fixed rate Loans, Mortgages and Savings products, which protects the Group against the fair value volatility of these financial assets and financial liabilities due to movements in interest rates. The Group applies IAS 39 portfolio hedge accounting in respect of these hedging instruments.

Sources of hedge ineffectiveness include, but are not limited to, differences in timing and repricing between execution of the hedging instrument and hedge item, differences between actual and expected prepayment rates of the underlying hedge item and repricing differences between the portfolio of hedge items and the associated hedging instruments.

- **Cash flow hedges of debt securities issued**

The Group holds inflation and interest rate swaps as cash flow hedges to mitigate the variability in cash flows associated with an inflation-linked debt security issued by the Bank. The cash flows are expected to occur over the term to maturity in December 2019. The Group applies IFRS 9 hedge accounting in respect of these hedging instruments.

Sources of hedge ineffectiveness primarily relate to differences in timing and repricing between execution of the hedging instrument and hedge item.

The Group also holds cross currency interest rate swaps as cash flow hedges to mitigate the variability in cash flows associated with the foreign currency notes in issue. The cash flows are expected to occur over the term to maturity in 2020. The Group applies IFRS 9 hedge accounting in respect of these hedging instruments.

Sources of hedge ineffectiveness are primarily due to differences in timing and repricing between execution of the hedging instrument and hedge item.

18. Derivative Financial Instruments (continued)

- **Cash flow hedges of expected foreign currency payments**

The Group holds forward foreign currency contracts as cash flow hedges to mitigate the variability in cash flows associated with expected (and highly probable) foreign currency payments. The payments, associated cash flows and the forward contracts are expected to occur and mature over the following 15 months. The Group applies IFRS 9 hedge accounting in respect of these hedging instruments.

Sources of hedge ineffectiveness relate to differences between expected and actual cash flows.

The following tables set out the maturity profile and average interest rate of the hedging instruments used in the Group's hedging strategies[1]:

Group			**Maturity**		
2019	**Up to one month £m**	**One to three months £m**	**Three months to one year £m**	**One year to five years £m**	**More than five years £m**
Fair value hedges					
Interest rate					
Interest rate swaps					
- Nominal amount	70.2	122.3	1,191.3	4,285.7	159.7
- Average interest rate	1.16%	0.92%	1.03%	1.21%	4.12%
Cash flow hedges					
Interest rate					
RPI basis swaps					
- Nominal amount	–	–	60.0	–	–
- Average interest rate	–	–	LIBOR + 2.17% / 1.00% + UKRPI	–	–
Interest rate swaps					
- Nominal amount	–	–	60.0	–	–
- Average interest rate	–	–	1.57%	–	–
Foreign currency					
Forward foreign exchange contracts					
- Nominal amount	0.6	1.7	5.9	–	–
- Average exchange rate	1.30	1.30	1.31	–	–
Interest rate/Foreign currency					
Cross currency interest rate swaps (GBP:USD)					
- Nominal amount (£m)	–	–	–	272.2	–
- Average exchange rate	–	–	–	1.29	–
- Average interest rate: pay leg	–	–	–	LIBOR + 0.84%	–
- Average interest rate: receive leg	–	–	–	USD LIBOR + 0.70%	–

[1] Disclosures relate to derivatives in hedge accounting relationships only.

18. Derivative Financial Instruments (continued)

The following tables set out details of the hedging instruments used in the Group's hedging strategies[1]:

Group		**Carrying amount**			
2019	**Notional**	**Assets**	**Liabilities**	**Balance sheet line item**	**Changes in fair value used for calculating hedge ineffectiveness**
	£m	**£m**	**£m**		**£m**
Fair value hedges					
Interest rate					
Interest rate swaps	5,829.2	17.8	(49.5)	Derivative financial instruments	(10.4)
Cash flow hedges					
Interest rate					
RPI basis swaps	60.0	12.5	–	Derivative financial instruments	1.1
Interest rate swaps	60.0	–	(0.3)	Derivative financial instruments	0.4
Foreign currency					
Forward foreign exchange contracts	8.2	–	(0.2)	Derivative financial instruments	(0.1)
Interest rate/foreign currency					
Cross currency interest rate swaps (GBP:USD)	272.2	–	(9.1)	Derivative financial instruments	8.6
Total	**6,229.6**	**30.3**	**(59.1)**		**(0.4)**

[1] Disclosures relate to derivatives in hedge accounting relationships only.

18. Derivative Financial Instruments (continued)

The following tables set out details of the hedged exposures covered by the Group's hedging strategies[1]:

Group 2019	Carrying amount Assets	Carrying amount Liabilities	Accumulated amounts of fair value adjustments on the hedged item Assets	Accumulated amounts of fair value adjustments on the hedged item Liabilities	Balance sheet line item
	£m	£m	£m	£m	
Fair value hedges					
Interest rate					
- Fixed rate Loans and Mortgages	7,973.8	–	(2.7)	–	Loans and advances to customers
- Fixed rate Savings	–	(3,691.2)	–	0.2	Deposits from customers
- Fixed rate investment securities	472.8	–	(5.1)	–	Investment securities
- Fixed rate retail bond	–	(202.9)	–	(3.2)	Debt securities in issue
Total fair value hedges	**8,446.6**	**(3,894.1)**	**(7.8)**	**(3.0)**	

2019	Changes in value for calculating hedge ineffectiveness	Accumulated amount of fair value hedge adjustments remaining in the Statement of Financial Position for any hedged items that have ceased to be adjusted for hedging gains and losses
	£m	£m
Interest rate		
- Fixed rate loans and mortgages	13.7	0.2
- Fixed rate savings	(0.8)	–
- Fixed rate investment securities	(3.2)	0.2
- Fixed rate retail bond	1.1	0.5
Total fair value hedges	**10.8**	**0.9**

[1] Disclosures relate to derivatives in hedge accounting relationships only.

18. Derivative Financial Instruments (continued)

The following tables set out information regarding the effectiveness of the hedging relationships designated by the Group, as well as the impacts on profit or loss and other comprehensive income[1]:

Group	**Hedge ineffectiveness recognised in profit or loss**	**Line item in income statement that includes hedge ineffectiveness**
2019	**£m**	
Fair value hedges		
Interest rate		
- Interest rate swaps	0.4	Net gain/(loss) on financial instruments at FVPL
Total fair values hedges	**0.4**	

[1] Disclosures relate to derivatives in hedge accounting relationships only.

Group			**Cash flow hedge reserve**
2019	**Balance sheet line item**	**Change in value of hedged item used for calculating hedge ineffectiveness**	**Continued hedges**
		£m	**£m**
Cash flow hedges			
Interest rate			
- RPI bond	Debt securities in issue	(1.4)	(0.4)
Foreign currency			
- Accounts payable	Other liabilities	(0.3)	(0.1)
Interest rate/foreign currency			
- Securitisation bond	Debt securities in issue	(8.6)	(0.5)
Total cash flow hedges		**(10.3)**	**(1.0)**

[1] Disclosures relate to derivatives in hedge accounting relationships only.

There are no amounts remaining in the cash flow hedge reserve for which hedge accounting is no longer applied.

18. Derivative Financial Instruments (continued)

Group **2019**	**Cumulative hedging gains and (losses) recognised in other comprehensive income**	**Hedge ineffectiveness recognised in profit or loss**	**Line item in income statement that includes hedge ineffectiveness**	**Cumulative amount reclassified from cash flow hedge reserve to profit or loss**	**Line item in profit or loss that includes reclassification**
	£m	**£m**		**£m**	
Cash flow hedges					
Interest rate					
- RPI basis and interest rate swaps	12.5	–	Net gain/(loss) on financial instruments at FVPL	(12.9)	Interest expense and similar charges
Foreign currency					
- Forward foreign exchange contracts	(0.2)	–	Net gain/(loss) on financial instruments at FVPL	–	
Interest rate/foreign currency					
- Cross currency interest rate swaps (GBP:USD)	(8.6)	(0.3)	Net gain/(loss) on financial instruments at FVPL	8.1	Net gain/(loss) on financial instruments at FVPL
Total cash flow hedges	**3.7**	**(0.3)**		**(4.8)**	

[1] Disclosures relate to derivatives in hedge accounting relationships only.

Group	**£m**
Hedging gains and losses recognised in other comprehensive income	3.7
Amount reclassified from cash flow hedge reserve to profit or loss	(4.8)
Tax	0.1
Cash flow hedge reserve	**(1.0)**

18. Derivative Financial Instruments (continued)

The following table presents a reconciliation by risk category of the cash flow hedge reserve and an analysis of other comprehensive income in relation to hedge accounting[1]:

Group	Cash flow hedge reserve £m
Balance at 1 March 2018	(0.3)
Interest rate swaps	
- Effective portion of changes in fair value	1.4
- Amount reclassified to profit or loss in the year	(1.4)
- Tax	0.1
Cashflow hedge - foreign exchange risk	
- Effective portion of changes in fair value	(0.3)
Cross currency interest rate swaps	
- Effective portion of changes in fair value	(8.6)
- Amount reclassified to profit or loss in the year	8.1
Balance at 28 February 2019	**(1.0)**

[1]Disclosures relate to derivatives in hedge accounting relationships only.

Comparative information under IAS 39

Fair value hedge

The analysis below details the ineffectiveness in the fair value hedge relationships included in the Consolidated Income Statement[1]:

	2018 £m
Fair value gains on interest rate swaps in designated fair value hedges	67.0
Losses on fair value hedge adjustments	(65.9)
Net gains in Consolidated Income Statement (refer to note 7)	**1.1**

[1] Disclosures relate to derivatives in hedge accounting relationships only.

Cash flow hedge

Ineffectiveness recognised in the Consolidated Income Statement in respect of cash flow hedges for the 12 months to 28 February 2018 was £nil. Amounts are recycled from the cash flow hedge reserve when the underlying hedge item affects the Consolidated Income Statement. Therefore as the carrying value of the asset or liability is adjusted in respect of movements in the hedged risk, recycled amounts directly offset this adjustment within net interest income. Recycled amounts for the 12 months to 28 February 2018 were £1.4m.

19. Investment Securities

Group	2019 £m	2018 £m
Investment securities measured at FVOCI - debt	1,040.2	n/a
Investment securities designated at FVOCI - equity	2.5	n/a
Investment securities measured at amortised cost	28.8	n/a
AFS investment securities	n/a	925.4
Loans and receivables	n/a	34.1
Total investment securities	**1,071.5**	**959.5**

Debt investment securities measured at FVOCI

Group	2019 £m
Government backed investment securities	185.5
Gilts	55.1
Supranational investment securities	406.1
Other investment securities	393.5
Total debt securities measured at FVOCI	**1,040.2**

Included in investment securities are fixed-interest investment securities totalling £472.8m (2018: £801.5m presented within the AFS investment securities table on page 72), and variable-interest investment securities amounting to £567.4m (2018: £121.9m presented within the AFS investment securities table on page 72).

Equity investment securities designated at FVOCI

The Group has elected to designate equity instruments held in VISA Inc. at FVOCI as permitted by IFRS 9. These securities were previously classified as AFS. There has been no change in the measurement basis as a result of this reclassification and these instruments continue to be held at fair value.

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 £2.5m (2018: £2.0m presented within the AFS investment securities table on page 72) 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.

19. Investment Securities (continued)

Investment securities measured at amortised cost

	2019
	£m
Investment in subordinated debt issued by TU	28.9
Gross investment securities measured at amortised cost	28.9
Less: allowance for impairment (refer note 37)	(0.1)
Net investment securities measured at amortised cost	**28.8**

The investment in subordinated notes issued by TU relates to subordinated notes with a gross carrying value of £28.9m (2018: £34.1m), classified as loans and receivables in the prior year. Interest receivable on these notes is based on a rate of three month London Interbank Offered Rate (LIBOR) plus a spread ranging from 350 - 450 basis points.

AFS investment securities

Group	2018
	£m
Government backed investment securities	101.1
Gilts	581.5
Supranational investment securities	85.1
Other investment securities	155.7
Equity securities	2.0
Total AFS investment securities	**925.4**

Loans and receivables

This balance represents the investment in subordinated debt issued by TU of £34.1m which was classified as loans and receivables under IAS 39. Interest receivable on these notes in the year to 28 February 2018 was based on a rate of three month LIBOR plus a spread ranging from 350 - 450 basis points. No impairment charges were recognised in respect of this investment under IAS 39.

20. Prepayments and Accrued Income

	Group		Company	
	2019	2018	**2019**	2018
	£m	£m		
Prepayments	10.8	10.2	–	–
Accrued income	38.6	39.1	–	–
Amounts accrued from Tesco Personal Finance Plc	–	–	0.8	0.7
Total prepayments and accrued income	**49.4**	49.3	**0.8**	0.7

All amounts are classified as current at the year end.

21. Other Assets

	Group	
	2019	2018
	£m	£m
		Restated[1]
Amount due from insurance commissions receivable	16.6	19.6
Contract asset - insurance renewal income	28.1	14.9
Accounts receivable and sundry debtors	191.5	236.6
Amounts due from Tesco Group subsidiaries	0.4	9.5
Total other assets	**236.6**	280.6

All amounts are classified as current at the year end, with the exception of £17.7m (2018: £5.6m) of the contract asset, which is expected to be received after more than one year.

Contract asset - insurance renewal income

Of the prior year contract asset balance, £9.3m has been reclassified in the year as commissions receivable (2018 restated: £3.6m has been reclassified in the prior year relating to the contract asset balance at 28 February 2017) as insurance policies have been renewed and commission due to the Group has become payable. In addition, an amount of £5.6m was unwound on renewal of the contract to which the insurance renewal income relates. Following contract renewal in respect of certain insurance policies, the remainder of the movement in the balance relates to accelerated income of £28.1m in respect of certain insurance renewal commission income where the Group has satisfied all of its performance obligations in relation to the policies sold and it is considered highly probable that a significant reversal in the amount of revenue recognised will not occur in future periods.

[1] The prior year restatement relates to the adoption of IFRS 15 in the current year. Refer to note 2 for further details.

22. Investment in Group Undertakings

The company's investment in Group undertakings in the year was as follows:

Name of company	Nature of business	Place of incorporation	Ownership interest	Registered address
Tesco Personal Finance Plc	Banking and general insurance services	UK	100%	2 South Gyle Crescent, Edinburgh, EH12 9FQ

The Company's investment in Group undertakings amounted to £1,219.9m (2018: 1,219.9m).

The following companies are accounted for as subsidiaries of the Group. These are securitisation structured entities established in connection with the Group's Credit Card securitisation transactions. Although none of the equity of the securitisation structured entities is owned by the Company, the nature of these entities means that the Group has the rights to variable returns from its involvement with these securitisation structured entities and has the ability to affect those returns through its power over them. As such they are effectively controlled by the Group. The Company does not hold any investments in Group undertakings.

Name of company	Nature of business	Place of incorporation	Registered address
Delamare Cards Holdco Limited	Securitisation entity	UK	Asticus Building, 2nd floor, 21 Palmer Street, London, SW1H 0AD
Delamare Cards MTN Issuer plc	Securitisation entity	UK	Asticus Building, 2nd floor, 21 Palmer Street, London, SW1H 0AD
Delamare Cards Receivables Trustee Limited	Securitisation entity	UK	Asticus Building, 2nd floor, 21 Palmer Street, London, SW1H 0AD
Delamare Cards Funding 1 Limited	Securitisation entity	UK	Asticus Building, 2nd floor, 21 Palmer Street, London, SW1H 0AD
Delamare Cards Funding 2 Limited	Securitisation entity	UK	Asticus Building, 2nd floor, 21 Palmer Street, London, SW1H 0AD

All of the above companies have a financial year end of 31 December. The management accounts of these entities are used to consolidate the results to 28 February 2019 within these Consolidated Financial Statements.

23. Investment in Joint Venture

The following table shows the aggregate movement in the Group's investment in its joint venture in the year:

Group	2019 £m	2018 £m
At beginning of year	90.0	71.0
Acquisition of ordinary share capital	–	15.5
Dividends received	(10.3)	–
Share of profit of joint venture	7.9	10.0
Share of other comprehensive expense of joint venture	(1.2)	(6.5)
At end of year	**86.4**	**90.0**

Details of the Group's joint venture

				Ownership interest	
Name of company	**Registered address**	**Nature of business**	**Place of Incorporation**	**2019**	**2018**
Tesco Underwriting Limited	Ageas House, Hampshire Corporate Park, Templars Way, Eastleigh, Hampshire, SO53 3YA	Insurance	England	49.9% of Ordinary Share Capital	49.9% of Ordinary Share Capital

TU is an authorised insurance company which provides the insurance underwriting service for a number of the Group's general insurance products. TU is a private company and there is no quoted market price available for its shares.

The Group uses the equity method of accounting for its investment in TU, which has a financial year end of 31 December. The accounting year end date for TU differs from that of the Group as it is in line with the other joint venture partner. The management accounts of TU are used to consolidate the results to 28 February 2019 within these Consolidated Financial Statements.

TU has taken advantage of the optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4 'Insurance Contracts' (the 'deferral approach'). This will remove the impact of potential temporary volatility in reported results for TU until the date of adoption of the new insurance standard IFRS 17 'Insurance Contracts' on 1 January 2021.

The Group has similarly elected to take a temporary exemption available from the requirements of IAS 28 'Investments in Associates and Joint Ventures' regarding the use of uniform accounting policies in equity accounting for a joint venture. This exemption allows the Group to equity account for the results of TU without any adjustments to reflect the impact of IFRS 9 within these Consolidated Financial Statements. The additional disclosures required as a result of taking this temporary exemption are included within the following sections.

23. Investment in Joint Venture (continued)

Summarised financial information for the joint venture

This information reflects the amounts presented in the management accounts of the joint venture (and not the Group's share of those amounts):

Group	**2019**	**2018**
	£m	**£m**
Non-current assets	768.2	876.7
Current assets	198.4	157.5
Current liabilities	(741.1)	(791.1)
Non-current liabilities	(58.0)	(68.3)
Net assets	**167.5**	**174.8**
Cash and cash equivalents	**72.9**	**63.3**
Current financial liabilities (excluding trade and other payables and provisions)	**(15.0)**	**(10.7)**
Non-current financial liabilities (excluding trade and other payables and provisions)	**(58.0)**	**(68.3)**

	2019	**2018**
	£m	**£m**
Income Statement		
Revenue	297.7	366.6
Expenses including claims costs	(281.9)	(346.6)
Profit for the year	**15.8**	**20.0**
Other comprehensive expense	(2.5)	(13.0)
Total comprehensive income	**13.3**	**7.0**
The above profit includes the following:		
Depreciation and amortisation	(2.5)	(2.9)
Interest income	13.5	13.9
Interest expense	(2.7)	(2.8)
Income tax charge	(4.2)	(1.6)

23. Investment in Joint Venture (continued)

Reconciliation of the summarised financial position

A reconciliation of the summarised financial information presented to the carrying amount of the investment in joint venture is as follows.

Group	2019 £m	2018 £m
Net assets of the joint venture	167.5	174.8
Group share at 49.9%	83.6	87.2
Capitalised legal costs included in investment carrying value	2.8	2.8
Carrying value of investment in joint venture at end of year	**86.4**	**90.0**

Fair value disclosures

The following table provides information on the fair value of TU's financial assets at 28 February 2019:

2019	Fair value £m	Change in fair value during year £m
Financial assets that give rise to solely payments of principal and interest	741.4	(72.7)
Other financial assets	18.2	18.2
	759.6	**(54.5)**

Credit risk disclosures

The following table provides information regarding the credit risk exposures of TU at 28 February 2019 by classifying financial assets according to the credit ratings of counterparties:

2019	AAA £m	AA £m	A £m	BBB £m	Other £m	Total £m
Investments	123.8	132.9	276.2	135.5	18.2	686.6
Cash and cash equivalents	25.1	47.8	–	–	–	72.9
Insurance and other receivables	1.1	1.2	3.7	3.6	13.7	23.3
	150.0	**181.9**	**279.9**	**139.1**	**31.9**	**782.8**

Other information

The Group has no contingent liabilities or commitments in respect of the joint venture. The investment in the joint venture is classified as non-current.

24. Deferred Income Tax Asset/(Liability)

The deferred income tax liability can be analysed as follows:

2019 Group	Accelerated capital allowances £m	Other £m	Total £m
At beginning of year (restated)[1]	(7.0)	(0.7)	(7.7)
Credited to the Consolidated Income Statement in the current year	9.6	(0.3)	9.3
Credited to the Consolidated Income Statement for prior years	(0.2)	0.4	0.2
Credited to equity	–	56.9	56.9
Change in tax rate	(0.7)	(0.1)	(0.8)
At end of year	**1.7**	**56.2**	**57.9**
Deferred tax asset to be recovered within one year			8.0
Deferred tax asset to be recovered after more than one year			50.6
Total deferred income tax asset			58.6
Deferred tax liability to be recovered within one year			–
Deferred tax liability to be recovered after more than one year			(0.7)
Total deferred income tax liability			(0.7)
Deferred tax assets (net)			**57.9**

On a Company basis, deferred tax of £0.3m was credited to equity during the year. The deferred tax asset of £0.3m at 28 February 2019 is to be recovered after more than one year. There was no deferred tax in the prior year.

2018 Group	Accelerated capital allowances £m	Other £m	Total (restated)[1] £m
At beginning of year	(15.0)	(3.7)	(18.7)
Credited to the Consolidated Income Statement in the current year	8.5	1.2	9.7
Credited to the Consolidated Income Statement for prior years	0.4	1.1	1.5
Credited to equity	–	0.4	0.4
Change in tax rate	(0.6)	–	(0.6)
At end of year	**(6.7)**	**(1.0)**	**(7.7)**
Deferred tax asset to be recovered within one year			4.3
Deferred tax asset to be recovered after more than one year			2.2
Total deferred income tax asset			**6.5**
Deferred tax liability to be recovered within one year			(6.0)
Deferred tax liability to be recovered after more than one year			(8.2)
Total deferred income tax liability			**(14.2)**
Deferred tax liabilities (net)			**(7.7)**

[1] The prior year restatement relates to the adoption of IFRS 15 in the current year. Refer to note 2 for further details.

25. Intangible Assets

Group	Work-in-Progress	Computer Software	Total
	£m	£m	£m
Cost			
At 1 March 2018	27.5	656.7	684.2
Additions	24.8	2.6	27.4
Transfers	(27.1)	27.1	–
Disposals	(0.6)	(1.0)	(1.6)
At 28 February 2019	**24.6**	**685.4**	**710.0**
Accumulated amortisation			
At 1 March 2018	–	(413.1)	(413.1)
Charge for the year	–	(73.5)	(73.5)
Disposals	–	0.8	0.8
At 28 February 2019	**–**	**(485.8)**	**(485.8)**
Net carrying value			
At 28 February 2019	**24.6**	**199.6**	**224.2**
Cost			
At 1 March 2017	34.3	608.3	642.6
Additions	37.3	5.5	42.8
Transfers	(43.8)	43.4	(0.4)
Disposals	(0.3)	(0.5)	(0.8)
At 28 February 2018	**27.5**	**656.7**	**684.2**
Accumulated amortisation			
At 1 March 2017	–	(342.6)	(342.6)
Charge for the year	–	(70.7)	(70.7)
Disposals		0.2	0.2
At 28 February 2018	**–**	**(413.1)**	**(413.1)**
Net carrying value			
At 28 February 2018	**27.5**	**243.6**	**271.1**

Work-in-progress relates primarily to the internal development of IT software assets. Intangible asset balances are non-current.

26. Property, Plant and Equipment

Group	Work-in-Progress £m	Plant and Equipment £m	Fixtures and Fittings £m	Computer Hardware £m	Freehold Buildings £m	Leasehold Improvements £m	Total £m
Cost							
At 1 March 2018	2.8	3.0	16.8	124.7	32.3	24.8	204.4
Additions	2.0	–	1.4	0.5	–	–	3.9
Transfers	(0.1)	–	–	0.1	–	–	–
Disposals	(0.6)	–	–	(1.8)	–	(4.8)	(7.2)
At 28 February 2019	**4.1**	**3.0**	**18.2**	**123.5**	**32.3**	**20.0**	**201.1**
Accumulated depreciation							
At 1 March 2018	–	(3.0)	(11.0)	(102.0)	(5.7)	(14.7)	(136.4)
Charge for the year	–	–	(1.2)	(6.4)	(0.8)	(1.3)	(9.7)
Disposals	–	–	–	1.8	–	4.8	6.6
At 28 February 2019	**–**	**(3.0)**	**(12.2)**	**(106.6)**	**(6.5)**	**(11.2)**	**(139.5)**
Net carrying value							
At 28 February 2019	**4.1**	**–**	**6.0**	**16.9**	**25.8**	**8.8**	**61.6**
Cost							
At 1 March 2017	5.5	3.0	14.5	128.9	28.2	24.5	204.6
Additions	3.1	–	1.6	1.7	0.4	0.3	7.1
Transfers	(5.8)	–	0.7	1.6	3.9	–	0.4
Disposals	–	–	–	(7.5)	(0.2)	–	(7.7)
At 28 February 2018	**2.8**	**3.0**	**16.8**	**124.7**	**32.3**	**24.8**	**204.4**
Accumulated depreciation							
At 1 March 2017	–	(3.0)	(9.0)	(101.3)	(4.9)	(13.1)	(131.3)
Charge for the year	–	–	(2.0)	(7.9)	(0.8)	(1.6)	(12.3)
Disposals	–	–	–	7.2	–	–	7.2
At 28 February 2018	**–**	**(3.0)**	**(11.0)**	**(102.0)**	**(5.7)**	**(14.7)**	**(136.4)**
Net carrying value							
At 28 February 2018	**2.8**	**–**	**5.8**	**22.7**	**26.6**	**10.1**	**68.0**

Work-in-progress at 28 February 2019 relates predominantly to the development of IT assets. Property, plant and equipment balances are non-current.

27. Deposits from Banks

Group	2019 £m	2018 £m
Deposits from banks	1,663.2	1,539.0
	1,663.2	**1,539.0**
Current	324.2	200.0
Non-current	1,339.0	1,339.0

Deposits from banks include balances of £324.2m (2018: £200.0m) which have been sold under sale and repurchase agreements and balances of £1,339.0m (2018: £1,339.0m) drawn under the BoE's Term Funding Scheme (TFS).

28. Deposits from Customers

Group	2019 £m	2018 £m
Retail deposits	10,465.4	9,245.6
Fair value hedge adjustment	(0.2)	(1.0)
	10,465.2	**9,244.6**
Current	8,508.7	7,611.2
Non-current	1,956.5	1,633.4

Fair value hedge adjustments

Fair value hedge adjustments amounting to £(0.2)m (2018: (£1.0)m) are in respect of fixed rate Savings products. These adjustments are largely offset by derivatives, which are used to manage interest rate risk and are designated as fair value hedges within deposits from customers.

29. Debt Securities in Issue

Group	Interest rate	Par value £m	Term (years)	Maturity date	2019 £m	2018 £m
Fixed rate retail bond[1]	5.2%	125.0	7.5	2018	–	126.1
RPI bond[2]	1.0%	72.3	8	2019	72.3	69.9
Fixed rate retail bond[3]	5.0%	200.0	8.5	2020	202.9	203.9
Floating rate AAA bond (A2)[4]	1M LIBOR + 0.65%	350.0	7	2021	349.9	349.6
Floating rate AAA bond (A1)[5]	1M LIBOR + 0.65%	300.0	5	2020	–	299.9
Floating rate AAA bond (A1)[6]	1M LIBOR + 0.53%	300.0	5	2022	298.7	298.2
Floating rate AAA Bond (A1)[7]	1M USD LIBOR + 0.70%	272.2	7	2020	261.7	–
Total debt securities in issue					**1,185.5**	**1,347.6**

[1]This bond was issued on 24 February 2011 and was redeemed on its maturity date in August 2019.
[2]This bond was issued on 16 December 2011.
[3]This bond was issued on 21 May 2012.
[4]This Bond was issued on 6 June 2014. The scheduled redemption date of this Bond is May 2019.
[5]This Bond was issued on 13 May 2015 and redeemed on its scheduled redemption date in April 2018.
[6]This Bond was issued on 7 November 2017. The scheduled redemption date of this Bond is October 2020.
[7]This Bond was issued on 27 November 2018. The scheduled redemption date of this Bond is November 2020.

All Floating Rate Bonds were issued by Delamare Cards MTN Issuer plc and are listed on the Irish Stock Exchange. All retail bonds are listed on the London Stock Exchange. All balances are classified as non-current at the year end with the exception of £350.0m of the floating rate AAA bond, which is expected to be redeemed on its scheduled redemption date in May 2019 and the RPI bond issued in December 2011 (£72.3m), which is expected to be redeemed on its scheduled redemption date in December 2019.

In the prior year, all balances were classified as non-current at the year end with the exception of £300.0m of the floating rate AAA bond, which was redeemed on its scheduled redemption date in April 2018 and the fixed rate retail bond issued in February 2011 (£125.0m), which was redeemed on its scheduled redemption date in August 2018.

30. Provisions for Liabilities and Charges

Group 2019	Customer Redress Provision £m	Regulatory Provision £m	Restructuring Provision £m	Expected Credit Loss Provision £m	Other Provisions £m	Total £m
At beginning of year (restated)[1]	67.7	–	1.1	–	7.2	76.0
Impact of initial application of IFRS 9	–	–	–	9.3	–	9.3
Balance at beginning of year after adopting IFRS 9	**67.7**	**–**	**1.1**	**9.3**	**7.2**	**85.3**
Provided during the year	16.0	16.4	–	–	10.5	42.9
Utilised during the year	(49.0)	(16.4)	(1.1)	–	(4.7)	(71.2)
Transfer to loans and advances ECL allowance	–	–	–	(0.8)	–	(0.8)
Released during the year	–	–	–	–	(1.2)	(1.2)
At end of year	**34.7**	**–**	**–**	**8.5**	**11.8**	**55.0**

Customer redress provision - Payment protection insurance (PPI)

Of the total customer redress provision balance at 28 February 2019, £34.2m (2018: £66.8m) has been provided for customer redress in respect of potential customer complaints arising from historic sales of PPI.

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

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

The Group increased its PPI provision by £16.0m (2018: £35.0m) during the year to reflect an updated assessment of the current claim rate and average redress.

Although a significant degree of uncertainty remains with regard to the ultimate cost of settling PPI claims, in particular the volume of complaints arising from customers ahead of the FCA confirmed time bar date of August 2019 and bankruptcy claims, the provision balance represents Management's best estimate at the reporting date of that cost. The PPI provision and the impact of regulatory changes will continue to be monitored as trends in claims volumes and levels of redress develop.

The table below details for each key assumption, actual data to 28 February 2019, forecast assumptions used in assessing the PPI provision adequacy and a sensitivity assessment demonstrating the impact on the provision of a variation in the future experience.

			Sensitivity	
Assumption	**Cumulative actual**	**Future expected**	**Change in assumption**	**Consequential change in provision £m**
Valid claims settled	146,351	17,108	+/- 5,000 complaints	+/- 8.2
Average redress per valid claim	£1,730	£1,642	+/- £100	+/- 1.7

[1] The prior year restatement relates to the adoption of IFRS 15 in the current year. Refer to note 2 for further details.

30. Provisions for Liabilities and Charges (continued)

Customer redress provision - Consumer credit act (CCA)

The Group holds a provision of £0.5m (2018: £0.9m) in respect of customer redress relating to instances where certain requirements of the CCA for post-contract documentation were not fully complied with.

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

Insurance provision

The insurance provision previously disclosed within this note has been reclassified to other liabilities on adoption of IFRS 15. Refer to note 2 for further details.

Regulatory provision

In November 2016, Tesco Bank's debit cards were the subject of an online fraudulent attack. The Group undertook immediate remedial action and an independent review of the issue and worked closely with the authorities and regulators on this incident. On 1 October 2018, the FCA issued a warning notice to the Group in relation to the incident and the Group accepted this and agreed to a settlement payment of £16.4m. The regulatory provision recognised during the year in respect of this settlement was fully utilised during the year ended 28 February 2019.

Restructuring provision

The restructuring provision relates to restructuring costs. The restructuring provision was reduced to £nil during the period following finalisation of the Group's early exit from its premises in Central Edinburgh.

Expected credit loss (ECL) provision

The ECL provision represents the amount of ECL allowance recognised under IFRS 9 which exceeds the gross carrying amount of the financial asset as set out at note 16.

Other provisions

Other provisions predominantly reflect:

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

31. Accruals and Deferred Income

	Group		Company	
	2019	2018	**2019**	2018
	£m	£m	**£m**	£m
Amounts accrued to Tesco Group subsidiaries	11.7	11.6	–	–
Amounts accrued to Tesco	0.8	0.7	0.8	0.7
Other accruals	86.9	87.5	–	–
Deferred income	8.6	9.2	–	–
Total accruals and deferred income	**108.0**	109.0	**0.8**	0.7

All amounts are classified as current at the year end.

32. Other Liabilities

Group	2019 £m	2018 £m Restated[1]
Accounts payable and sundry creditors	118.0	117.9
Insurance creditor	12.8	10.8
Taxation and social security payable	6.3	6.8
Contract liabilities - insurance refunds[1]	2.0	3.4
Amounts owed to Tesco Group subsidiaries	11.2	8.0
Amounts due to TPFG subsidiaries	0.9	0.8
Total other liabilities	**151.2**	**147.7**

[1] The prior year restatement relates to the adoption of IFRS 15 in the current year. Refer to note 2 for further details.

All amounts are classified as current at the year end.

Contract liabilities – insurance refunds

The contract liability for insurance refunds has been reclassified from provisions for liabilities and charges on adoption of IFRS 15. Revenue recognised in the period in respect of the opening contract liability balance was £0.1m (2018 restated: £0.1m).

33. Subordinated Liabilities and Notes

Group and Company	2019 £m	2018 £m
Floating rate subordinated loans maturing 2030	190.0	190.0
Undated floating rate notes	45.0	45.0
Total subordinated liabilities and notes	**235.0**	**235.0**

Subordinated liabilities and notes comprise loan capital issued to Tesco. This includes £190.0m (2018: £190.0m) of subordinated loans maturing in 2030 and £45.0m (2018: £45.0m) of undated notes with no fixed maturity date. All balances are classified as non-current at the year end.

Interest payable on the subordinated liabilities and notes is based on three month LIBOR plus a spread ranging from 60 to 220 basis points (2018: three month LIBOR plus a spread ranging from 60 to 220 basis points).

34. Share Capital and Share Premium Account

Group and Company	2019 Number	2019 £m	2018 Number	2018 £m
Authorised				
A Ordinary shares of 10p each	Unlimited		Unlimited	
B Ordinary shares of 10p each	Unlimited		Unlimited	
C Ordinary shares of 10p each	1		1	
Allotted, called up and fully paid				
A Ordinary shares of 10p each	991,090,000	99.1	991,090,000	99.1
B Ordinary shares of 10p each	229,089,000	22.9	229,089,000	22.9
C Ordinary shares of 10p each	1	–	1	–
	1,220,179,001	122.0	1,220,179,001	122.0

	2019 £m	2018 £m
Share premium reserve	1,098.2	1,098.2
	1,098.2	1,098.2

35. Other Reserves

Group

	2019	2018
	£m	£m
AFS - company	n/a	9.3
AFS - share of joint venture	2.5	3.7
Fair value reserve	2.1	n/a
Total AFS/FV reserves	**4.6**	**13.0**
Cash flow hedge reserve	(1.0)	(0.3)
Currency basis reserve	(0.3)	–
Share based payment reserve	24.1	31.5
Total reserves	**27.4**	**44.2**

AFS reserve

Before 1 March 2018, the AFS reserve included the cumulative fair value movements on AFS financial assets. These were transferred to the fair value reserve on transition to IFRS 9.

The consolidated AFS reserve also includes the Group's share of the AFS reserve of its joint venture, TU. As described in note 23, TU has taken an exemption to defer the adoption of IFRS 9 until the financial year beginning on 1 January 2021.

Fair value reserve

From 1 March 2018, the cumulative net change in the fair value of investment securities measured at FVOCI is included in the fair value reserve, less the impairment allowance recognised in the Consolidated Income Statement.

Cash flow hedge reserve

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are included in the cash flow hedge reserve. The gain or loss relating to the ineffective portion is recognised immediately in the Consolidated Income Statement.

Currency basis reserve

Cash flow hedge accounting allows all fair value movements on the hedging instrument (the derivative) to be charged or credited to the cash flow hedge reserve in respect of the designated risk. The non-designated portion of the hedging instrument, being the element related to the foreign currency basis, is recognised separately in the currency basis reserve.

Share based payment reserve

The fair value of Tesco equity-settled share options granted to employees of the Group is included in the share based payment reserve.

36. Employee Benefit Liability

Defined benefit plans

The Group made contributions in the year to a closed funded defined benefit scheme operated by TSL. The principal pension plan is the Tesco pension scheme, a funded defined benefit pension scheme in the UK, the assets of which are held as a segregated fund and administered by the Trustee. TSL has recognised the appropriate net liability of the Tesco pension scheme in accordance with IAS 19.

Defined contribution plans

A defined contribution scheme operated by TSL is open to all Group employees in the UK.

Detailed disclosures, in line with the requirements of IAS 19, are included in the Tesco 2019 Financial Statements.

37. Risk Management

There are no differences in the manner in which risks are managed and measured between the Group and the Company. Therefore, the explanations of the management, the control responsibilities and the measurement of risk described in this section are those for the Group. The amounts included in this note are those for the Group unless otherwise stated.

Through its normal operations, the Group is exposed to a number of risks, the most significant of which are credit risk, operational risk, liquidity and funding risk, market risk, insurance risk, residual price risk and legal and regulatory compliance risk. The key risk management processes and tools are described in detail on pages 7 to 18 within the Strategic Report.

(a) Credit Risk

- **Types of credit risk**

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

Valuations: 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 that the Group is operating within agreed retail credit Risk Appetite parameters.

37. Risk Management (continued)

Controls and risk mitigants (continued)

Monitoring and reporting: Management information is produced covering all lending portfolios which is tailored to meet the requirements of different audiences within the overall governance framework. Risk Appetite Measures (RAMs) 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

Wholesale credit risk is the risk that the counterparty to a transaction will default before the final settlement of the transaction's cash flows. Such transactions relate to contracts for derivative financial instruments, securities financing transactions (SFTs) and long-dated settlement transactions.

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

Controls and risk mitigants

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

The RAM limits are set out in the Wholesale Credit Risk policy which is approved by the ERC. The limits contained in the policy are approved by the ERC or Board as appropriate. The Treasury Director is responsible for ensuring that Treasury complies with counterparty credit risk limits. The MLR team reports to the Financial and 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 and interest rate and foreign exchange derivatives. Ratings issued by external credit assessment institutions are taken into account as part of the process to set limits.

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

The Wholesale Credit Risk policy also provides that credit risk mitigation techniques are applied to reduce wholesale credit risk exposures. International Swaps Derivatives Association (ISDA) master agreements are in place with all derivative counterparties, Global Master Repurchase Agreements are in place for all repurchase counterparties and ISDA Credit Support Annexes have been executed with all of the Group's derivative counterparties. The Group uses central counterparties in order to clear specified derivative transactions (predominantly interest rate swaps) thereby mitigating counterparty risk. Positions are continuously marked-to-market and margin in the form of collateral is exchanged on at least a daily basis. As at 28 February 2019, no additional credit risk mitigation was deemed necessary.

37. Risk Management (continued)

- **Credit risk: ECL measurement**

Approach from 1 March 2018

The Group assesses, on a forward-looking basis, the ECLs associated with its financial assets carried at amortised cost and FVOCI, and with the exposure arising from loan commitments. The Group has not recognised an ECL allowance for cash or other financial assets balances at 28 February 2019 due to the short-term nature of these balances, the frequency of origination and settlement of balances and taking account of collateral held.

ECLs are calculated in line with the requirements of IFRS 9 using the three stage model for impairment:

Stage 1 Financial asset is not credit impaired and has not had a significant increase in credit risk since initial recognition

Stage 2 Financial asset is not credit impaired but has had a significant increase in credit risk since initial recognition

Stage 3 Financial asset is credit impaired

The measurement of ECLs is dependent on the classification stage of the financial asset. For financial assets in Stage 1, loss allowances are calculated based on ECLs arising from default events that are possible within 12 months from the reporting date. For financial assets in Stages 2 and 3, loss allowances are calculated based on lifetime ECLs.

The measurement of ECLs for financial assets measured at amortised cost or FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour. A number of significant judgements are also required in applying the accounting requirements for measuring ECLs.

The sections below provide further explanations of the factors taken into account in the measurement of ECLs.

Significant increase in credit risk

At each reporting date, the change in credit risk of the financial asset is observed using a set of quantitative and qualitative criteria, together with a backstop based on arrears status.

Quantitative criteria:

For each financial asset, the Group compares the lifetime PD at the reporting date with the lifetime PD that was expected at the reporting date at initial recognition (PD thresholds). The Group has established PD thresholds for each type of product which vary depending on initial term and term remaining.

Qualitative criteria:

A number of qualitative criteria are in place such as:

- Forbearance offered to customers in financial difficulty;
- Risk-based pricing post-origination;
- Credit indebtedness;
- Credit limit decrease; and
- Pre-delinquency information.

Backstop

As a backstop, the Group considers that if an account's contractual payments are more than 30 days past due then a significant increase in credit risk has taken place.

The Group has used the low credit risk exemption in respect of its portfolio of investment securities in the year ended 28 February 2019 and, on a Company basis, its loans and advances to subsidiary companies.

Definition of default

An account is deemed to have defaulted when the Group considers that a customer is in significant financial difficulty and that the customer meets certain quantitative and qualitative criteria regarding their ability to make contractual payments when due.

37. Risk Management (continued)

This includes instances where:

- the customer makes a declaration of significant financial difficulty;
- the customer or third party agency communicates that it is probable that the customer will enter bankruptcy or another form of financial restructure such as insolvency or repossession;
- the account has been transferred to recoveries and the relationship is terminated;
- an account's contractual payments are more than 90 days past due; or
- where the customer is deceased.

An account is considered to no longer be in default when it no longer meets any of the default criteria and has remained up-to-date on its contractual payments for a period of at least three months.

Inputs, assumptions and techniques used for estimating impairment

The ECL is determined by multiplying together the PD, exposure at default (EAD) and LGD for the relevant time period and for each collective segment and by discounting back to the balance sheet date. Each of these inputs is explained further below.

Probability of default: Represents the likelihood a customer will default over the relevant period, being either 12 months or the expected lifetime.

Exposure at default: Represents the expected amount due from the customer at the point of default. The Group derives the EAD from the current exposure to the counterparty and future changes to that exposure to the point of default.

Loss given default: Represents the Group's expectation of the extent of the loss if there is a default. The LGD assumes that once an account has defaulted, the portion of the defaulted balance will be recovered over a maximum period of 60 months from the point of default. LGD models take into account, when relevant, the valuation of collateral, collection strategies and receipts from contracted debt sales.

These inputs are adjusted to reflect forward-looking information as described below.

Expected lifetime

The expected lifetime of a financial asset is the contractual term. In the case of revolving products, the Group measures credit losses over the period that it will be exposed to credit risk. This is estimated using historic customer data. The current expected lifetime of the Group's credit card portfolio is 7 years.

Incorporation of forward-looking information

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

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

37. Risk Management (continued)

The economic scenarios used at 28 February 2019 include the following ranges of key indicators:

		2019	2020	2021-23
BoE base rate[1]	Base	0.80%	0.91%	1.06%
	Upside	0.73%	0.69%	0.70%
	Downside	1.20%	2.31%	2.25%
Unemployment rate[1]	Base	4.11%	4.18%	4.08%
	Upside	4.03%	4.13%	4.03%
	Downside	4.55%	5.36%	6.33%
House price index[2]	Base	3.70%	3.31%	3.98%
	Upside	5.04%	4.63%	5.72%
	Downside	-0.90%	-3.37%	2.92%
Gross domestic product[2]	Base	1.25%	1.58%	1.78%
	Upside	1.62%	1.96%	2.18%
	Downside	-0.17%	0.15%	1.62%

[1] Simple average

[2] Annual growth rates

37. Risk Management (continued)

Sensitivity analysis

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

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

Set out below are changes in the ECL allowance that would arise from reasonably possible changes in these assumptions from those used in the Group's calculations at 28 February 2019:

		Impact on loss allowance (£m)
PD	Increase of 2.5%	9.4
	Decrease of 2.5%	(9.4)
LGD	Increase of 2.5%	12.0
	Decrease of 2.5%	(12.2)
Macro-economic scenarios (100% weighted)	Upside scenario	(32.9)
	Base scenario	(20.9)
	Downside scenario	67.1
Staging	Increase of 20%	(14.3)
	Decrease of 20%	10.4
Expected lifetime	Increase of 1 year	3.1
	Decrease of 1 year	(3.0)

Grouping of instruments for losses measured on a collective basis

For ECL provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared credit risk characteristics that include instrument type and credit risk gradings. The groupings are subject to regular review to ensure that these remain appropriate.

Approach prior to 1 March 2018

The Group established impairment provisions to recognise incurred impairment losses in its portfolio of customer loans classified as loans and receivables and carried at amortised cost. A loan was impaired when there was objective evidence that events since the loan was granted had affected expected cash flows from the loan. The impairment loss was the difference between the carrying value of the loan and the present value of estimated future cash flows at the loan's original EIR.

The Group's loan impairment provisions were established on a portfolio basis using a statistical methodology taking into account the level of arrears, collateral, past loss experience and defaults based on portfolio trends. The most significant factors in establishing these provisions were the expected loss rates. These portfolios included Mortgages, Credit Card receivables, Personal Loans and Personal Current Accounts. The future credit quality of these portfolios was subject to estimation uncertainties that could have caused actual credit losses to differ materially from reported loan impairment provisions.

37. Risk Management (continued)

The key assumptions used in the statistical models were the PD; the expected cash recoveries included in the LGD; and the loss emergence period. These key assumptions were monitored throughout the year to ensure the impairment provision took into account the most recent trends observed in each portfolio.

Individual impairment losses on secured Mortgages were estimated using an individual valuation of the underlying asset. Although the portfolio was growing, sensitivity to movement in the House Price Index remained relatively low.

- **Credit risk: Credit risk exposure**

Maximum exposure to credit risk

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

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

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

On a Company basis, loans and advances to subsidiary companies of £235.0m are considered to be low risk and stage 1. The related loss allowance of £1.3m is also considered to be stage 1.

[1]The loss allowance in respect of loan commitments is included within the total loss allowance for loans and advances to customers as above to the extent that it is below the gross carrying amount of loans and advances to customers. Where the loss allowance exceeds the gross carrying amount, any excess is included within provisions as set out at note 30.

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

37. Risk Management (continued)

The table below provides details of the credit quality of financial assets held at FVPL which are not subject to impairment.

Group	**Maximum exposure to credit risk**
	£m
Derivative financial assets	31.3
Cash and balances with central banks	30.5
Total	**61.8**

Credit quality of loans and advances to customers

The table below provides details of the credit quality of loans and advances to customers and loan commitments for which an ECL allowance is recognised.

The Group defines four classifications of credit quality for all credit exposures; High, Satisfactory, Low and below standard, and Credit impaired. Credit exposures are segmented according to IFRS 9 12 month PD, with credit impaired reflecting a PD of 100%.

	IFRS 9 12 Month PD (%)
High quality	<=3.02%
Satisfactory quality	>3.03% - 11.10%
Low quality and below standard	=> 11.11%

Group	**2019**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	£m	**£m**	**£m**	**£m**
Loans and advances to customers				
High quality	10,537.8	201.6	–	10,739.4
Satisfactory quality	893.8	563.1	–	1,456.9
Low quality and below standard	32.0	414.4	–	446.4
Credit impaired	–	–	270.9	270.9
Total	**11,463.6**	**1,179.1**	**270.9**	**12,913.6**
Loan Commitments				
High quality	11,938.1	3.4	–	11,941.5
Satisfactory quality	173.9	78.1	–	252.0
Low quality and below standard	3.1	28.1	–	31.2
Credit impaired	–	–	1.5	1.5
Total	**12,115.1**	**109.6**	**1.5**	**12,226.2**
Total exposure	**23,578.7**	**1,288.7**	**272.4**	**25,139.8**

On a Company basis, loans and advances to subsidiary companies of £235.0m are considered to be low risk, high quality and stage 1.

37. Risk Management (continued)

Concentration risk

Concentration risk is the risk of losses arising as a result of concentrations of exposures to a specific counterparty, economic sector, segment or geographical region.

The Group is potentially exposed to this risk were it to become concentrated in certain geographic areas or product profiles e.g. a disproportionate level of high loan-to-value (LTV) Mortgages. Such concentrations could produce unacceptable bad debts in some adverse but plausible situations.

Controls and risk mitigants

The Group mitigates these potential concentration risks by establishing appropriate limits and trigger thresholds that are regularly monitored and reported to the appropriate Senior Management team and risk committees. The Group does not consider itself to be overly concentrated.

Concentration profiles

The following tables provide concentration profiles in terms of the LTV profile for the Mortgage portfolio; geographic distribution of the Group's exposures; and analysis of material asset class by industry type.

Mortgage portfolio - LTV distribution profile

Loans are originated on an income verified basis over a range of fixed rate and tracker products. All loans are repaid on a capital and interest basis, where the loan is repaid over the agreed term of the loan.

The table below provides the LTV distribution profile for the Group's Mortgage portfolio by weighted average balance. The overall average LTV for the portfolio is 53.7% (2018: 50.5%) which is well within agreed Risk Appetite parameters.

	2019 £m	2018 £m
Less than 50%	1,062.8	927.8
50% to 60%	495.0	561.6
60% to 70%	479.1	436.8
70% to 80%	741.2	478.4
80% to 90%	688.5	418.8
90% to 100%	281.0	176.4
Greater than 100%	5.6	0.9
Total[1]	**3,753.2**	**3,000.7**

[1] The Mortgage balance above represents the credit risk inherent in the Mortgage products and excludes accrued interest or fair value adjustments.

Geographical distribution profile

The Group is primarily focused on providing financial services and products to UK personal customers.

The table below provides the geographical distribution of the Group's total credit risk exposures. For on balance sheet assets, the balances set out below are based on net carrying amounts as reported in the Consolidated Statement of Financial Position.

	2019 £m	2018 £m
UK	26,790.7	26,262.4
Europe (excluding UK)	333.2	205.1
Other	264.0	44.8
Total	**27,387.9**	**26,512.3**

37. Risk Management (continued)

Industry type profile

The table below represents the distribution of exposures by industry type. The Group is primarily focused on providing financial services and products to personal customers in the UK, although it also has exposure to wholesale counterparties as detailed below. For on balance sheet assets, the balances set out below are based on net carrying amounts as reported in the Consolidated Statement of Financial Position.

	2019	2018
	£m	£m
Financial institutions	1,750.7	983.3
Government	958.9	1,524.2
Individuals	24,661.6	23,955.0
Wholesale and retail trade	16.7	49.8
Total	**27,387.9**	**26,512.3**

- **Credit risk: Collateral held**

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

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

The table below details the value of property collateral held against the Group's Mortgage portfolio.

	2019	2018
	£m	£m
Exposure[1]	3,753.2	3,000.7
Collateral	6,984.0	5,940.1
Cover	186.1%	198.0%

[1] The Mortgage balance above represents the credit risk inherent in the Mortgage products and excludes accrued interest and fair value adjustments.

During the year there was no change in the Group's collateral policies.

During the year the Group received financial instruments as collateral for reverse repurchase agreements. In addition, the Group pledged collateral in respect of repurchase liabilities.

37. Risk Management (continued)

Credit risk: Loss allowance

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

Group	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Loans and advances to customers				
At 1 March 2018	94.9	210.9	151.1	456.9
Transfers[1,3]				
Transfers from stage 1 to stage 2	(11.1)	11.1	–	–
Transfers from stage 2 to stage 1	46.3	(46.3)	–	–
Transfers to stage 3	(2.9)	(41.0)	43.9	–
Transfers from stage 3	1.5	1.5	(3.0)	–
Income statement charge				
Net remeasurement[2] following transfer of stage[3]	(25.5)	18.8	89.7	83.0
New financial assets originated[4]	27.6	35.6	11.4	74.6
Changes in risk parameters and other movements[3,5]	(45.7)	40.3	36.2	30.8
Other movements				
Write-offs and asset disposals[6]	(2.3)	(1.2)	(157.4)	(160.9)
Transfer from provisions for liabilities and charges[7]	1.8	(1.0)	–	0.8
At 28 February 2019	84.6	228.7	171.9	485.2
Investment securities at FVOCI				
At 1 March 2018	(0.5)	–	–	(0.5)
Income statement charge				
New financial assets purchased[4]	0.1	–	–	0.1
- Financial assets derecognised during the period	0.4	–	–	0.4
- Changes in risk parameters and other movements[5]	0.2	–	–	0.2
At 28 February 2019	0.2	–	–	0.2
Investment securities at amortised cost				
At 1 March 2018	0.2	–	–	0.2
Income statement release				
Changes in risk parameters and other movements[5]	(0.1)	–	–	(0.1)
At 28 February 2019	0.1	–	–	0.1
Reconciliation to income statement				
Net expected credit loss (release)/charge	(43.0)	94.7	137.3	189.0
Recoveries and write offs	–	–	(24.9)	(24.9)
Total income statement (release)/charge	(43.0)	94.7	112.4	164.1

On a Company basis, the movement in the loss allowance for the year ended 28 February 2019 of £0.2m relating to loans and advances to subsidiary companies arises entirely due to changes in risk parameters and other movements[5] and is considered to be stage 1.

[1]Transfers - The opening loss allowance on financial assets which transferred stage during the year.
[2]Net remeasurement - The increase/(decrease) in the opening loss allowance as a result of a stage transfer.
[3]Includes a release in stages 1 and 2 ECL of £21.0m due to a change in the macro-economic scenarios assumptions.
[4]New financial assets originated or purchased - The loss allowance on new financial assets originated or purchased during the year, representing their stage as at 28 February 2019.
[5]Changes in risk parameters and other movements - The change in loss allowance due to changes in macro-economic scenarios, PD, LGD and EAD during the year.
[6]Write-offs and asset disposals - The release of the loss allowance following the write off and/or disposal of a financial asset during the year.
[7]Transfer from provisions for liabilities and charges - The movement in loss allowance which exceeds the gross carrying amount of the financial asset.

37. Risk Management (continued)

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

2019	Stage 1	Stage 2	Stage 3	Total
Group	**£m**	**£m**	**£m**	**£m**
Loans and advances to customers				
Gross carrying amount				
At 1 March 2018[1]	10,619.1	932.2	230.4	11,781.7
Transfers[2]				
Transfers from stage 1 to stage 2	(592.6)	592.6	–	–
Transfers from stage 2 to stage 1	411.5	(411.5)	–	–
Transfers to stage 3	(113.1)	(131.7)	244.8	–
Transfers from stage 3	4.7	4.0	(8.7)	–
New financial assets originated[3]	3,704.4	237.8	17.2	3,959.4
Net decrease in lending[4]	(2,545.4)	(39.4)	(2.7)	(2,587.5)
Write-offs and asset disposals[5]	(33.6)	(5.1)	(211.7)	(250.4)
Changes in interest accrual and other movements	8.6	0.2	1.6	10.4
At 28 February 2019	**11,463.6**	**1,179.1**	**270.9**	**12,913.6**
Investment securities at FVOCI				
Gross carrying amount				
At 1 March 2018	925.4	–	–	925.4
New financial assets purchased	713.0	–	–	713.0
Financial assets derecognised during the period	(582.1)	–	–	(582.1)
Other movements	(13.6)	–	–	(13.6)
At 28 February 2019	**1,042.7**	**–**	**–**	**1,042.7**
Investment securities at amortised cost				
Gross carrying amount				
At 1 March 2018	34.1	–	–	34.1
Financial assets derecognised during the period	(5.2)	–	–	(5.2)
At 28 February 2019	**28.9**	**–**	**–**	**28.9**

On a Company basis, loans and advances to subsidiary companies of £235.0m are considered to be low risk and stage 1. There was no movement in the gross carrying amount during the year.

[1]The gross carrying amount as at 1 March 2018 includes the remeasurement of the recoverable asset balance of £4.8m on transition to IFRS 9. Refer to note 2 for further details.
[2]Transfers - The opening gross carrying amount of financial assets held which transferred stage as at year end.
[3]New financial assets originated or purchased - The gross carrying amount of financial assets originated or purchased during the year, representing their stage as at 28 February 2019.
[4]Net increase/(decrease) in lending - The changes in gross carrying amount of financial assets after taking account of additional borrowing and/or payments received from customers.
[5]Write-offs and asset disposals - The write-off of the gross carrying amount when a financial asset is deemed uncollectible and/or has been disposed of.

37. Risk Management (continued)

- **Credit risk: Write off policy**

When a loan is deemed uncollectable it is written off against the related provision after all of the necessary procedures have been completed and the amount of the loss has been determined.

The Group may write off loans that are still subject to enforcement activity. The outstanding contractual amount of such assets written off during the year ended 28 February 2019 was £100.5m (2018: £95.4m). Expected recoveries from written off financial assets subject to enforcement activity are recognised in the Statement of Financial Position.

- **Credit risk: Forbearance**

The Group provides support to customers who are experiencing financial difficulties. 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 difficulty 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.

The Group has adopted the definition of forbearance in the European Banking Authority's (EBA) final draft Implementing Technical Standards of July 2014. The Group reports all accounts meeting this definition, providing for them appropriately.

Controls and risk mitigants

The Group has well defined forbearance policies and processes. A number of forbearance options are made available to customers by the Group. These routinely, but not exclusively, include the following:

- Arrangements to repay arrears over a period of time, by making payments above the contractual amount, that 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 table below details the values of secured and unsecured advances that are subject to forbearance programmes, in accordance with the EBA definition.

	Gross loans and advances subject to forbearance programmes		Forbearance programmes as a proportion of total loans and advances by category		Proportion of forbearance programmes covered by impairment provision	
	2019	2018	**2019**	2018	**2019**	2018
	£m	£m	**%**	%	**%**	%
Credit Cards UK	92.8	69.6	2.0	1.5	53.3	51.4
Credit Cards Europe	–	0.9	–	2.7	–	40.9
Credit Cards commercial	0.1	0.1	4.8	4.7	90.8	95.0
Loans	48.4	42.4	1.1	1.0	48.0	56.5
Mortgages	6.0	5.9	0.2	0.2	1.2	0.2

37. Risk Management (continued)

- **Credit risk: Additional disclosures for the prior year under IAS 39**

As set out at note 2, amended disclosures in line with IFRS 9 requirements have been applied to the current period only. The comparative period note disclosures repeat those disclosures made in the prior year. Below are the areas of disclosure in relation to the prior year which have been replaced in the current year by amended IFRS 9 disclosures as above.

Asset quality

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

Controls and risk mitigants

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.

The table below presents an analysis of credit exposure by impairment status across the different exposure classes. The table predominantly relates to Banking assets; the retail instalment lending applies to credit agreements in the Insurance business. The balances set out below are based on gross loans and advances, excluding fair value hedge adjustments, as provided in note 16.

2018	Retail unsecured lending £m	Retail mortgage lending £m	Retail instalment lending £m	Total £m
Past due and impaired				
Less than 90 days past due	44.1	0.2	–	44.3
90–179 days past due	59.3	–	–	59.3
180 days plus past due	109.5	0.1	–	109.6
Past due but not impaired				
0–29 days past due	54.7	0.7	0.5	55.9
30–59 days past due	19.8	–	–	19.8
60–89 days past due	12.5	–	–	12.5
Neither past due nor impaired				
Low risk [1]	8,010.0	2,983.1	129.4	11,122.5
High risk [2]	326.9	26.1	–	353.0
	8,636.8	**3,010.2**	**129.9**	**11,776.9**

[1] Low risk is defined as an asset with a probability of default of less than 10%.
[2] High risk is defined as an asset with a probability of default of 10% or more.

37. Risk Management (continued)

Gross loans and advances to customers of £17.2m were subject to active forbearance arrangements and were considered not to be impaired on the basis that the Group did not anticipate that the future expected cash flows of the gross loans and advances would be impacted. Of this total, £5.0m was included in 'neither past due nor impaired' and £12.2m in 'past due but not impaired'.

(b) Operational risk

Operational risk is the risk of potential error, loss, harm, or failure caused by ineffective or inadequately defined processes, system failures, improper conduct, human error, fraud or from external events. The Group is subject to the SA method to calculate Pillar 1 operational risk capital, as outlined in the Capital Requirements Regulation (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 an appropriate risk framework and continually monitors emerging risks and threats.

Controls and risk mitigants

The Bank's risks are assessed utilising a risk management framework methodology which is aligned to the three lines of defence model.

The CRO 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 should be executed within the framework;
- supporting relevant business areas to embed policies and frameworks and instil a positive risk management culture; and
- independently 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 their operational risks on an ongoing basis via a prescribed Risk and Control Self-Assessment (RCSA) process and Operational Risk Scenario Analysis (ORSA). The RCSA analysis is reviewed and updated on a timely basis by first line business areas to reflect changes to the risk and control environment arising from changes in products, processes and systems. The RCSA outputs are reported to relevant governance bodies. This is supplemented further by an Event Management process and regular reporting of the Operational Risk profile to the ERC. The ORSA builds on RCSA and Event Management 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 II.

The ERC provides oversight of the Group's operational risk profile and provides regular reports and recommendations to the Board Risk Committee (BRC).

(c) Liquidity and funding risk

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

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

37. Risk Management (continued)

Controls and risk mitigants

Liquidity and funding risk is assessed through the Internal Liquidity Adequacy Assessment Process (ILAAP) on at least an annual basis. The ILAAP process involves detailed internal 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 LRMF to maintain liquidity risk exposures within the liquidity Risk Appetite set by the Board. The key liquidity and funding measures monitored on a regular 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 refinancing amount; and
- the unencumbered assets to retail liabilities ratio.

The Group measures and manages liquidity adequacy in line with the above metrics and maintains a liquidity and funding profile to enable it to meet its financial obligations under normal, and stressed, market conditions.

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

The Group prepares both short-term and long-term forecasts to assess liquidity requirements and takes into account factors such as Credit Card payment cycles, expected utilisation of undrawn credit limits, investment maturities, customer deposit patterns, and wholesale funding (including TFS) 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 Asset and Liability Management Committee (ALCo) on a regular basis to provide evidence that sufficient liquidity is held to meet financial obligations in a stress.

37. Risk Management (continued)

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.

The table below shows the Group's primary funding sources.

	2019 £m	2018 £m
On balance sheet		
Deposits from banks	1,663.2	1,539.0
Deposits from customers	10,465.2	9,244.6
Subordinated liabilities and notes	235.0	235.0
Debt securities in issue	1,185.5	1,347.6
Total on balance sheet funding	**13,548.9**	**12,366.2**

37. Risk Management (continued)

The tables below show cash flows payable up to a period of 20 years on an undiscounted basis. These differ from the Statement of Financial Position values due to the effects of discounting on certain SOFP items and due to the inclusion of contractual future interest flows.

Derivatives designated in a hedging relationship are included according to their contractual maturity.

Group 2019 On balance sheet	**Within 1 year £m**	**Between 1 and 2 years £m**	**Between 2 and 3 years £m**	**Between 3 and 4 years £m**	**Between 4 and 5 years £m**	**Beyond 5 years £m**	**Total £m**
Financial assets:							
Cash and balances at central banks	1,072.4	–	–	–	–	–	1,072.4
Loans and advances to banks	324.2	–	–	–	–	–	324.2
Loans and advances to customers	6,361.3	1,429.4	1,191.5	919.6	628.3	3,893.2	14,423.3
Investment securities							
- FVOCI	96.6	60.9	279.2	167.5	382.0	111.6	1,097.8
- Loans and receivables	1.4	1.4	1.4	1.5	1.5	53.8	61.0
Other assets	208.5	–	–	–	–	–	208.5
Total financial assets	**8,064.4**	**1,491.7**	**1,472.1**	**1,088.6**	**1,011.8**	**4,058.6**	**17,187.2**
Financial liabilities:							
Deposits from banks	337.1	409.7	945.0	–	–	–	1,691.8
Deposits from customers	8,569.0	1,348.3	335.6	107.8	185.7	0.5	10,546.9
Debt securities in issue	448.8	783.4	–	–	–	–	1,232.2
Derivatives settled on a net basis							
- Derivatives in economic but not accounting hedges	0.1	–	–	–	–	–	0.1
- Derivatives in accounting hedge relationships	(2.7)	3.2	2.3	2.9	3.9	10.9	20.5
Derivatives settled on a gross basis							
- outflows	4.5	276.0	–	–	–	–	280.5
- inflows	(8.5)	(270.0)	–	–	–	–	(278.5)
Other liabilities	149.2	–	–	–	–	–	149.2
Subordinated liabilities	5.2	5.7	6.1	6.3	6.5	295.0	324.8
Total financial liabilities	**9,502.7**	**2,556.3**	**1,289.0**	**117.0**	**196.1**	**306.4**	**13,967.5**
Off balance sheet							
Contractual lending commitments	12,226.2	–	–	–	–	–	12,226.2
Total off balance sheet	**12,226.2**	**–**	**–**	**–**	**–**	**–**	**12,226.2**

On a Company basis, liquidity and funding risk arises only on cash and balances with central banks of £13.4m (2018: £3.4m), which are due within 1 year, and loans and advances to subsidiary companies of £235.0m (2018: £235.0m), which have the same profile as the subordinated liabilities in the Group table above.

37. Risk Management (continued)

Group 2018 On balance sheet	Within 1 year £m	Between 1 and 2 years £m	Between 2 and 3 years £m	Between 3 and 4 years £m	Between 4 and 5 years £m	Beyond 5 years £m	Total £m
Financial assets:							
Cash and balances at central banks	1,318.8	–	–	–	–	–	1,318.8
Loans and advances to customers	6,614.4	1,395.6	929.8	598.3	385.0	3,036.1	12,959.2
Investment securities							
- AFS	90.9	97.0	49.7	114.7	138.9	496.7	987.9
- Loans and receivables	1.5	1.7	1.7	1.8	1.8	62.1	70.6
Other assets	265.7	–	–	–	–	–	265.7
Total financial assets	**8,291.3**	**1,494.3**	**981.2**	**714.8**	**525.7**	**3,594.9**	**15,602.2**
Financial liabilities:							
Deposits from banks	208.7	12.0	412.1	946.8	–	–	1,579.6
Deposits from customers	7,654.9	873.5	500.4	178.6	105.4	0.1	9,312.9
Debt securities in issue	448.3	441.4	513.7	–	–	–	1,403.4
Derivatives settled on a net basis							
- Derivatives in economic but not accounting hedges	(0.6)	–	–	–	–	–	(0.6)
- Derivatives in accounting hedge relationships	22.3	(8.2)	1.3	3.4	3.9	22.6	45.3
Other liabilities	144.3	–	–	–	–	–	144.3
Subordinated liabilities	4.9	5.9	6.4	7.6	12.7	293.9	331.4
Total financial liabilities	**8,482.8**	**1,324.6**	**1,433.9**	**1,136.4**	**122.0**	**316.6**	**12,816.3**
Off balance sheet							
Contractual lending commitments	12,400.0	–	–	–	–	–	12,400.0
Total off balance sheet	**12,400.0**	–	–	–	–	–	**12,400.0**

37. Risk Management (continued)

The table below summarises the Group's assets which are available to support future funding and collateral needs and shows the extent to which these assets are currently pledged for this purpose.

The Group has adopted the definition of encumbered and unencumbered in the EBA's final guidelines on disclosure of June 2014. Asset encumbrance represents a claim to an asset by another party usually 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.

Group 2019	**Encumbered £m**	**Unencumbered £m**	**Total £m**
Encumbered asset summary			
Investment securities - FVOCI	59.7	983.0	1,042.7
Loans and advances to customers	3,730.0	8,695.7	12,425.7
Other assets	82.7	153.9	236.6
	3,872.4	**9,832.6**	**13,705.0**
Encumbered investment securities - FVOCI			
Debt securities at FVOCI	**59.7**		
Encumbered loans and advances to customers			
Securitisation – Delamare Master Trust	2,269.1		
Personal loans	667.2		
Mortgages	793.7		
	3,730.0		
Encumbered other assets			
Initial margin held at Clearing Houses	46.8		
Variation margin held at Clearing Houses	32.4		
Collateral held at counterparties	3.5		
	82.7		

Group 2018	**Encumbered £m**	**Unencumbered £m**	**Total £m Restated[1]**
Encumbered asset summary			
Loans and advances to customers	3,654.0	7,868.4	11,522.4
Other assets	111.1	169.5	280.6
	3,765.1	**8,037.9**	**11,803.0**
Encumbered loans and advances to customers			
Securitisation – Delamare Master Trust	1,628.7		
Personal loans	989.6		
Mortgages	1,035.7		
	3,654.0		
Encumbered other assets			
Initial margin held at Clearing Houses	56.5		
Variation margin held at Clearing Houses	54.0		
Collateral held at counterparties	0.6		
	111.1		

[1] The prior year restatement relates to the adoption of IFRS 15 in the current year. Refer to note 2 for further details.

37. Risk Management (continued)

- **Loans and advances assigned for use as collateral in securitisation transactions**

At 28 February 2019, £3,182.2m (2018: £3,490.5m) of the Credit Card portfolio had its beneficial interest assigned to a securitisation structured entity, Delamare Cards Receivables Trustee Limited, for use as collateral in securitisation transactions. The total encumbered portion of this portfolio is £2,269.1m (2018: £1,628.7m).

At 28 February 2019, Delamare Cards MTN Issuer plc had £2,362.2m (2018: £2,362.2m) notes in issue in relation to securitisation transactions, of which £922.2m (2018: £950.0m) related to the par value of externally issued notes (refer to note 28). At 28 February 2019 the Group owned £1,440.0m (2018: £1,412.2m) of class A and class D Credit Card backed notes issued by Delamare Cards MTN Issuer plc.

Of the total £1,150.0m (2018: £1,150.0m) class A retained Credit Card backed notes, £450.0m (2018: £300.0m) is held in a distinct pool for the purposes of collateralising the TFS drawings. All other prepositioned assets with the BoE are held within their single collateral pool.

- **Loans and advances prepositioned with the BoE**

Group	2019 £m	2018 £m
Credit Card backed notes[1]	786.0	1,150.0
Mortgages	793.7	1,035.7
Unsecured personal loans	2,365.1	2,438.0
Total assets prepositioned as collateral with the BoE	**3,944.8**	**4,623.7**
Collateralised TFS Drawings	**1,339.0**	1,339.0

[1]Issued by Delamare Cards MTN Issuer plc

(d) Market risk

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

Market risk arises in the following ways in the Group:

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

Control and risk mitigants

Control of market risk exposure is managed by ALCo 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 BRC.

37. Risk Management (continued)

• Interest rate risk in the Banking Book

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

The Group offers lending and savings products with varying interest rate features and maturities which create re-pricing mismatches and therefore potential interest rate risk exposures. The Group is therefore exposed to interest rate risk through its dealings with retail banking products as well as through its limited wholesale market activities.

IRRBB is the main market risk that could affect the Group's net interest income.

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.

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

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

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

Capital at Risk (CaR): The CaR approach assesses the value sensitivity of the Bank's capital to movements in interest rates. The scenarios considered include both parallel and non-parallel movements of the yield curve and have been designed to assess impacts across a suitable range of severe but plausible movements in interest rates. The CaR measure is an aggregate measure of three separate risk components, each being a distinct form of interest rate risk - Repricing Risk (including Basis Risk), Pipeline Risk and Prepayment Risk. A fourth risk component, Credit Spread Risk in the Banking Book (CSRBB), has been added to the CaR measure in preparation for the EBA guidelines on the management of interest rate risk arising from non-trading book activities.

The table below shows the Group's CaR. At 28 February 2019 the Group was exposed to net residual risk via a downward rate scenario (2018: upward rate scenario).

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

Annual Earnings at Risk (AEaR) Sensitivity: This measures the sensitivity of the Bank's earnings to movements in interest rates over the next 12 months based on expected cash flows. This approach has replaced the Net Interest Income sensitivity disclosed in prior years and provides a more granular analysis of product interest rate sensitivity. The Bank assesses the impact of a +/- 0.25%, 0.50%, 0.75%, 1% shock in rates versus the base case scenario (2018: +1.0%; -0.75%). The most adverse scenario is measured against Risk Appetite. At 28 February 2019, the most adverse scenario was a downward rate shock, with an impact of (1.10%).

37. Risk Management (continued)

(e) Foreign exchange risk

Foreign exchange risk is the risk that the value of transactions in currencies other than Sterling is altered by the movement of exchange rates.

The Group's Risk Appetite permits investment in non-GBP denominated bonds and the Group may raise funding from the wholesale markets in currencies other than GBP. Foreign exchange exposure arises if these are not hedged. Foreign exchange exposure may also arise through the Group's 'Click and Collect' Travel Money provision and 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.

The Group's maximum exposure to foreign exchange risk at 28 February 2019 was £(241.0)m (2018: £45.5m), representing the Group's net assets denominated in foreign currencies.

(f) TU investment portfolio

The TU insurance portfolio assets are invested with a number of counterparties. These investments are predominantly comprised of government securities, corporate bonds and short-term cash investments.

The main risks relate to changes in:

- interest rates affecting fair values as a proportion of the bonds are fixed rate in nature; and
- credit quality, as the range of assets held are issued by a variety of institutions with different credit characteristics.

Controls and risk mitigants

Portfolio management is undertaken by the TU investment committee. The Group's Finance function provides oversight and challenge.

(g) Pension obligation risk

Pension obligation risk is the risk to a company caused by its contractual or other liabilities to or with respect to a pension scheme (whether established for its employees or those of a related company or otherwise). The Group is a participating employer in the Tesco Pension Scheme. TSL has recognised the appropriate net liability of the Tesco pension scheme in accordance with IAS 19 (refer to note 36).

Controls and risk mitigants

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

(h) Insurance risk

The Group is exposed to insurance risk through its 49.9% ownership of TU, an authorised insurance company.

The Group defines insurance risk as the risks accepted through the provision of insurance products in return for a premium. These risks may or may not occur as expected and the amount and timing of these risks are uncertain and determined by events outside of the Group's control (e.g. flood or vehicular accident). The Group's aim is to actively manage insurance risk exposure, with particular focus on those risks that impact profit volatility.

Insurance risk is typically categorised in the following way:

- Underwriting risk – Related to the selection and pricing (or quantification) of the risk currently being transferred from customers to an insurer; and
- Reserving risk – Related to valuation and management of financial resources sufficient to pay claims for the risk already transferred from customers to an insurer.

37. Risk Management (continued)

Controls and risk mitigants

The Group's oversight of TU is primarily provided by its representation on the TU Board. TU operates a separate risk framework with dedicated risk and compliance teams and a suite of TU risk policies to ensure that the TU insurance portfolio is operating within agreed Risk Appetite. Performance of the portfolio is monitored and reported to the ERC on a monthly basis against specific key performance indicator thresholds and limits.

(i) Residual price risk

Residual price risk is the risk that the fair value of a financial instrument and its associated hedge will fluctuate because of changes in market prices, for reasons other than interest rate or credit risk. The Group has debt and equity investment securities that are held at fair value in the Company and Consolidated Statements of Financial Position.

Controls and risk mitigants

The Group has established appropriate hedging strategies to mitigate the interest rate and foreign exchange risks. Residual price risk remains.

The table below demonstrates the Group's exposure to residual price risk at the year end. Included in the table is the expected impact of a 10% shock in market prices on the Group's FVOCI investment securities. The figures shown are prior to hedging activities which mitigate the interest rate and foreign exchange risks.

	Fair value		Impact of 10% shock		Value after 10% shock	
	2019	2018	**2019**	2018	**2019**	2018
	£m	£m	**£m**	£m	**£m**	£m
Government-backed investment securities	185.5	101.1	(18.6)	(10.1)	166.9	91.0
Gilts	55.1	581.5	(5.5)	(58.2)	49.6	523.3
Supranational investment securities	406.1	85.1	(40.6)	(8.5)	365.5	76.6
Other investment securities	393.5	155.7	(39.4)	(15.6)	354.1	140.1
Equity securities	2.5	2.0	(0.3)	(0.2)	2.2	1.8
	1,042.7	925.4	**(104.4)**	(92.6)	**938.3**	832.8

(j) Legal and regulatory compliance

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 credit processes; or failure to comply with other regulatory requirements. The Group's risk appetite is to comply with the relevant rules, regulations and data protection legislation. Where breaches occur, the Group will take appropriate rectifying action. The Group seeks to deliver fair outcomes for customers.

Controls and risk mitigants

As part of the Group's Policy Framework, a dedicated Compliance Advisory (CA) 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 CA team and the Legal team.

The CA team is also responsible for the detailed regulatory policies which underpin the Compliance policy. 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 has also established the Prudential Regulatory Forum which is responsible for the oversight of Prudential Regulation Authority (PRA) communications including information requests; upstream regulatory change including impact analysis, action tracking and regulatory responses; Prudential regulatory compliance and reporting; and Prudential regulatory deliverables compliance with Prudential regulation.

37. Risk Management (continued)

In addition, the Regulatory Change Forum is responsible for the oversight of communications from all external regulators (excluding the PRA), including information requests and Consultations papers; and upstream regulatory change including impact analysis, action tracking and regulatory responses.

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 ERC and the Board review and challenge delivery of fair outcomes for customers.

38. Financial Instruments

Classification of financial assets and liabilities

The following tables analyse the financial assets and financial liabilities in accordance with the categories of financial instruments in IFRS 9.

Group 2019	Amortised cost £m	Designated as at FVPL[1] £m	FVOCI - debt instruments £m	FVOCI - equity instruments £m	Total £m
Financial assets					
Cash and balances with central banks	1,041.6	30.5	–	–	1,072.1
Loans and advances to banks	324.2	–	–	–	324.2
Loans and advances to customers	12,425.7	–	–	–	12,425.7
Derivative financial instruments	–	31.3	–	–	31.3
Investment securities:					
- FVOCI	–	–	1,040.2	2.5	1,042.7
- Amortised cost	28.7	–	–	–	28.7
Other assets	236.6	–	–	–	236.6
Total financial assets	**14,056.8**	**61.8**	**1,040.2**	**2.5**	**15,161.3**
Financial liabilities					
Deposits from banks	1,663.2	–	–	–	1,663.2
Deposits from customers	10,465.2	–	–	–	10,465.2
Debt securities in issue	1,185.5	–	–	–	1,185.5
Derivative financial instruments	–	60.2	–	–	60.2
Other liabilities	151.2	–	–	–	151.2
Subordinated liabilities	235.0	–	–	–	235.0
Total financial liabilities	**13,700.1**	**60.2**	**–**	**–**	**13,760.3**

All derivative financial instruments are held for economic hedging purposes, although not all derivatives are designated as hedging instruments under the terms of IFRS 9.

On a Company basis, cash and balances with central banks is £13.4m (2018: £3.4m) and loans and advances to subsidiary companies is £235.0m (2018: £235.0m), both of which are categorised as amortised cost (2018: as loans and receivables).

[1] All of the Group's financial assets and financial liabilities designated at FVPL were designated as such on the later of 1 March 2018 or origination.

38. Financial Instruments (continued)

The following tables analyse the financial assets and financial liabilities in accordance with the categories of financial instruments in IAS 39.

Group 2018	Loans and receivables £m	Other (amortised cost) £m	Derivatives held for hedging £m	AFS £m	Total £m Restated[1]
Financial assets					
Cash and balances with central banks	1,318.6	–	–	–	1,318.6
Loans and advances to customers	11,522.4	–	–	–	11,522.4
Derivative financial instruments	–	–	46.1	–	46.1
Investment securities:					
- AFS	–	–	–	925.4	925.4
- Loans and receivables	34.1	–	–	–	34.1
Other assets	280.6	–	–	–	280.6
Total financial assets	**13,155.7**	**–**	**46.1**	**925.4**	**14,127.2**
Financial liabilities					
Deposits from banks	–	1,539.0	–	–	1,539.0
Deposits from customers	–	9,244.6	–	–	9,244.6
Debt securities in issue	–	1,347.6	–	–	1,347.6
Derivative financial instruments	–	–	88.4	–	88.4
Other liabilities	–	147.7	–	–	147.7
Subordinated liabilities	–	235.0	–	–	235.0
Total financial liabilities	**–**	**12,513.9**	**88.4**	**–**	**12,602.3**

[1]The prior year restatement relates to the adoption of IFRS 15 in the current year. Refer to note 2 for further details.

38. Financial Instruments (continued)

Offsetting

The following tables show those financial assets and liabilities subject to offsetting, enforceable master netting arrangements and similar agreements.

Group		**Related amounts not offset**		
2019	**Gross and net amounts presented in Statement of Financial Position**	**Financial instruments**	**Collateral pledged**	**Net amounts**
	£m	**£m**	**£m**	**£m**
Financial assets				
Derivative financial instruments	31.3	(22.0)	(12.5)	(3.2)
Reverse repurchase agreements	324.2	(324.2)	3.0	3.0
Total financial assets	**355.5**	**(346.2)**	**(9.5)**	**(0.2)**
Financial liabilities				
Derivative financial instruments	(60.2)	22.0	32.9	(5.3)
Repurchases, securities lending and similar agreements[1]	(324.2)	324.2	–	–
Total financial liabilities	**(384.4)**	**346.2**	**32.9**	**(5.3)**

Group		**Related amounts not offset**		
2018	**Gross and net amounts presented in Statement of Financial Position**	**Financial instruments**	**Collateral pledged**	**Net amounts**
	£m	**£m**	**£m**	**£m**
Financial assets				
Derivative financial instruments	46.1	(37.5)	(17.5)	(8.9)
Total financial assets	**46.1**	**(37.5)**	**(17.5)**	**(8.9)**
Financial liabilities				
Derivative financial instruments	(88.4)	37.5	54.6	3.7
Repurchases, securities lending and similar agreements[1]	(200.0)	380.0	–	180.0
Total financial liabilities	**(288.4)**	**417.5**	**54.6**	**183.7**

[1]Repurchases, securities lending and similar agreements are included within the Deposits from Banks balance of £1,663.2m (2018: £1,539.0m) in the Company and Consolidated Statement of Financial Position.

38. Financial Instruments (continued)

For the financial assets and financial liabilities subject to enforceable master netting arrangements above, each agreement between the Group and the counterparty allows for net settlement of the relevant financial assets and financial liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and financial liabilities will be settled on a gross basis. However, each party to the master netting agreement or similar agreement will have the option to settle all such amounts on a net basis in the event of default of the other party.

Fair values of financial assets and financial liabilities

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

Group	2019		2018	
	Carrying value	Fair Value	Carrying value	Fair value
	£m	£m	£m	£m
Financial assets				
Loans and advances to customers	12,425.7	12,607.3	11,522.4	11,658.8
Investment securities - amortised cost	28.8	28.2	34.1	34.7
	12,454.5	**12,635.5**	**11,556.5**	**11,693.5**
Financial liabilities				
Deposits from customers	10,465.2	10,427.1	9,244.6	9,223.5
Debt securities in issue	1,185.5	1,189.5	1,347.6	1,354.9
Subordinated liabilities	235.0	182.2	235.0	182.9
	11,885.7	**11,798.8**	**10,827.2**	**10,761.3**

On a Company basis, loans and advances to subsidiary companies is £233.7m (2018: £235.0m), with a fair value of £182.2m (2018: £182.9m). On a Company basis, subordinated liabilities have the same carrying value and fair value as set out in the Group table above.

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

38. Financial Instruments (continued)

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

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

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

Group 2019	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets carried at fair value				
Cash and balances with central banks[1]	–	30.5	–	30.5
Investment securities - FVOCI	1,040.2	–	2.5	1,042.7
Derivative financial instruments:				
- Interest rate swaps	–	31.3	–	31.3
- Forward foreign currency contracts	–	–	–	–
Financial assets carried at amortised cost				
Loans and advances to customers	–	–	12,607.3	12,607.3
Investment securities – amortised cost	–	28.2	–	28.2
Total	**1,040.2**	**90.0**	**12,609.8**	**13,740.0**
Financial liabilities carried at fair value				
Derivative financial instruments:				
- Interest rate swaps	–	50.9	–	50.9
- Forward foreign currency contracts	–	0.2	–	0.2
- Cross currency interest rate swaps	–	9.1	–	9.1
Financial liabilities carried at amortised cost				
Deposits from customers	–	–	10,427.1	10,427.1
Debt securities in issue	1,189.5	–	–	1,189.5
Subordinated liabilities	–	182.2	–	182.2
Total	**1,189.5**	**242.4**	**10,427.1**	**11,859.0**

On a Company basis, loans and advances to subsidiaries of £182.2m (2018: £182.9m) are categorised as level 2. On a Company basis, subordinated liabilities have the same fair value and categorisations as set out in the Group table above.

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

38. Financial Instruments (continued)

Group 2018	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets carried at fair value				
Financial assets classified as AFS	923.4	–	1.7	925.4
Derivative financial instruments:				
- Interest rate swaps	–	45.9	–	45.9
- Forward foreign currency contracts	–	0.2	–	0.2
Financial assets carried at amortised cost				
Loans and advances to customers	–	–	11,658.8	11,658.8
Investment securities – loans and receivables	–	34.7	–	34.7
Total	**923.4**	**80.8**	**11,660.8**	**12,665.0**
Financial liabilities carried at fair value				
Derivative financial instruments:				
- Interest rate swaps	–	88.3	–	88.3
- Forward foreign currency contracts	–	0.1	–	0.1
Financial liabilities carried at amortised cost				
Deposits from customers	–	–	9,223.5	9,223.5
Debt securities in issue	1,354.9	–	–	1,354.9
Subordinated liabilities	–	182.9	–	182.9
Total	**1,354.9**	**271.3**	**9,223.5**	**10,849.7**

38. Financial Instruments (continued)

There are three levels to the hierarchy as follows:

Level 1

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

Level 2

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

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

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

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

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

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

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

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

38. Financial Instruments (continued)

Level 3

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

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

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

The estimated fair value of financial assets classified as FVOCI/AFS, being the Group's interest in VISA Inc., is described in note 19.

Transfers

There were no transfers between Levels 1 and Level 2 in the year to 28 February 2019 (2018: no transfers).

There were no transfers between Level 2 and Level 3 in the year to 28 February 2019 (2018: no transfers).

39. Cash Flows from Operating Activities

	Group		Company	
	2019	2018	**2019**	2018
	£m	£m	**£m**	£m
Non cash and other items included in operating profit before taxation		Restated[1]		
Impairment loss on loans and advances (refer note 10)	163.5	137.4	–	–
Reversal of impairment loss on investment securities (refer note 10)	(0.1)	–	–	–
Depreciation and amortisation (refer notes 25 & 26)	83.2	83.0	–	–
Gain on disposal of investment securities (refer note 8)	(8.4)	(0.1)	–	–
Disposal of non-current assets (refer notes 25 & 26)	1.4	1.1	–	–
Provision for liabilities and charges (refer note 30)	41.7	37.0	–	–
Share of profit of joint venture (refer note 23)	(7.9)	(10.0)	–	–
Equity settled share based payments (refer note 12)	(4.8)	3.6	–	–
Interest paid on debt securities in issue	23.4	24.7	–	–
Interest received on assets held to hedge debt securities in issue	0.4	(3.6)	–	–
Interest on subordinated liabilities (refer note 5)	4.9	4.0	4.9	3.9
Fair value movements	(30.4)	7.6	–	–
Total	**266.9**	**284.7**	**4.9**	**3.9**
Changes in operating assets and liabilities				
Net movement in mandatory balances with central banks	(13.6)	(0.8)	–	–
Net movement in loans and advances to banks	(324.2)	–	–	–
Net movement in loans and advances to customers	(1,268.0)	(1,738.5)	–	–
Net movement in prepayments and accrued income	(0.1)	(7.1)	(0.1)	0.1
Net movement in other assets	44.0	37.0	–	–
Net movement in deposits from banks	124.2	1,039.2	–	–
Net movement in deposits from customers	1,219.7	781.2	–	–
Net movement in accruals and deferred income	(2.2)	(2.4)	0.1	(0.1)
Provisions utilised	(71.2)	(40.6)	–	–
Net movement in other liabilities	3.7	(4.8)	–	(0.2)
Total	**(287.7)**	**63.2**	**–**	**(0.2)**

[1] The prior year restatement relates to the adoption of IFRS 15 in the current year. Refer to note 2 for further details.

40. Reconciliation of Liabilities Arising from Financing Activities

Group	At 1 March 2018	Financing Cash flows	Non-cash movements Fair value change	Accrued Interest	Other	At 28 February 2019
	£m	£m	£m	£m	£m	£m
Debt securities in issue	(1,347.6)	154.1	2.4	(2.3)	7.9	(1,185.5)
Subordinated liabilities and notes	(235.0)	–	–	–	–	(235.0)
Interest payable	(3.9)	28.2	–	(28.3)	–	(4.0)
Assets held to hedge fixed rate bonds[1]	17.9	(0.8)	(0.7)	–	–	16.4
Total liabilities from financing activities	**(1,568.6)**	**181.5**	**1.7**	**(30.6)**	**7.9**	**(1,408.1)**

Company	At 1 March 2018	Financing Cash flows	Non-cash movements Fair value change	Accrued Interest	Other	At 28 February 2019
	£m	£m	£m	£m	£m	£m
Subordinated liabilities and notes	(235.0)	–	–	–	–	(235.0)
Interest payable	(0.7)	4.7	–	(4.8)	–	(0.8)
Total liabilities from financing activities	**(235.7)**	**4.7**	**–**	**(4.8)**	**–**	**(235.8)**

Group	At 1 March 2017	Financing Cash flows	Non-cash movements Fair value change	Accrued Interest	Other	At 28 February 2018
	£m	£m	£m	£m	£m	£m
Debt securities in issue	(1,204.3)	(150.0)	9.1	(2.6)	0.2	(1,347.6)
Subordinated liabilities and notes	(235.0)	-	-	-	-	(235.0)
Interest payable	(3.7)	28.5	-	(28.7)	-	(3.9)
Assets held to hedge fixed rate bonds[1]	23.8	(3.6)	(5.9)	3.6	-	17.9
Total liabilities from financing activities	**(1,419.2)**	**(125.1)**	**3.2**	**(27.7)**	**0.2**	**(1,568.6)**

Company	At 1 March 2017	Financing Cash flows	Non-cash movements Fair value change	Accrued Interest	Other	At 28 February 2018
	£m	£m	£m	£m	£m	£m
Subordinated liabilities and notes	(235.0)	-	-	-	-	(235.0)
Interest payable	(0.6)	3.9	-	(4.0)	-	(0.7)
Total liabilities from financing activities	**(235.6)**	**3.9**	**-**	**(4.0)**	**-**	**(235.7)**

[1] Assets held to hedge fixed rate bonds and securitisation bonds are included within derivative financial instruments in the Statement of Financial Position on page 28.

41. Capital Resources

On 27 June 2013 the final Capital Requirements Directive IV (CRD IV) rules were published in the Official Journal of the EU. Following the publication of the CRD IV rules, the PRA issued a policy statement on 19 December 2013 detailing how the rules will be enacted within the UK with corresponding time frames for implementation. The transitioning period came to an end in December 2017 and is reflected in prior period comparatives. On the introduction of IFRS 9 a further transitional period was introduced, allowing the Company (being the regulated entity) to phase in the IFRS 9 impact on capital over a period of five years.

The group implemented IFRS 9 from 1 March 2018. Under the transitional provisions, the impact as at 28 February 2019 on common equity tier 1 is £1.6m. Common equity tier 1 is expected to reduce by approximately 161 basis points (£164.4m) (unaudited) on an end point basis, reflecting the full impact of adoption of IFRS 9.

The following tables analyse the regulatory capital resources of the Company applicable as at the year end on a 'transitional' and 'end point' position:

	Transitional 2019 IFRS 9 £m	End Point 2019 IFRS 9 £m	2018 IAS 39 £m Restated[1]
Movement in common equity tier 1 capital:			
At the beginning of the year	1,505.5	1,505.5	1,397.0
Impact of initial application of IFRS 9	(166.0)	(166.0)	–
Balance at beginning of the year after adopting IFRS 9	**1,339.5**	**1,339.5**	**1,397.0**
Profit attributable to shareholders	135.5	135.5	128.4
Gains and losses on liabilities arising from own credit	–	–	0.1
Other reserves	(14.9)	(14.9)	6.0
Ordinary dividends	(50.0)	(50.0)	(50.0)
IFRS 9 transitional add back	164.4	–	–
Movement in intangible assets	46.9	46.9	28.9
Movement in material holdings	–	–	3.4
Deferred tax liabilities related to intangible assets	(5.0)	(5.0)	(8.3)
At the end of the year	**1,616.4**	**1,452.0**	**1,505.5**

[1] The prior year has been restated following the retrospective adoption of IFRS 15 in the current year. Refer to note 2 for further details.

41. Capital Resources (continued)

	Transitional 2019 IFRS 9 £m	End Point 2019 IFRS 9 £m	2018 IAS 39 £m Restated[1]
Common equity tier 1			
Shareholders' equity (accounting capital)	1,676.3	1,676.3	1,772.3
Regulatory adjustments			
Unrealised losses on cash flow hedge reserve	1.0	1.0	0.3
Adjustment to own credit/additional value adjustments	(1.1)	(1.1)	(1.1)
Intangible assets	(224.2)	(224.2)	(271.1)
Deferred tax liabilities related to intangible assets	–	–	5.2
IFRS 9 transitional add back	164.4	–	–
Common equity tier 1 capital	**1,616.4**	**1,452.0**	**1,505.5**
Tier 2 capital (instruments and provisions)			
Undated subordinated notes	45.0	45.0	45.0
Dated subordinated notes net of regulatory amortisation	190.0	190.0	190.0
Credit risk adjustment	–	–	99.1
Tier 2 capital (instruments and provisions) before regulatory adjustments	235.0	235.0	334.1
Regulatory adjustments			
Material holdings in financial sector entities	(28.8)	(28.8)	(34.1)
Total regulatory adjustments to tier 2 capital (instruments and provisions)	(28.8)	(28.8)	(34.1)
Total tier 2 capital (instruments and provisions)	**206.2**	**206.2**	**300.0**
Total capital	**1,822.6**	**1,658.2**	**1,805.5**
Total risk-weighted assets (unaudited)	9,840.6	9,797.3	9,283.0
Common equity tier 1 ratio (unaudited)	16.4%	14.8%	16.2%
Tier 1 ratio (unaudited)	16.4%	14.8%	16.2%
Total capital ratio (unaudited)	18.5%	16.9%	19.4%

Total capital requirement (TCR) refers to the amount and quality of capital the Bank must maintain to comply with the CRR Pillar 1 and 2A capital requirements. The TCR for TPFG as at 28 February 2019 is 11.74% plus £52.0m as a static add-on for pension obligation risk.

[1] The prior year has been restated following the retrospective adoption of IFRS 15 in the current year. Refer to note 2 for further details.

41. Capital Resources (continued)

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

	2019 £m	2018 £m Restated[1]
Tesco Personal Finance Group PLC (Group) shareholders' equity	1,686.5	1,775.7
Share of joint venture's retained earnings	(7.7)	0.2
Share of joint venture's AFS reserve	(2.5)	(3.7)
Tesco Personal Finance Group PLC regulatory equity	**1,676.3**	**1,772.3**

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

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

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

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

Leverage ratio (unaudited)

The Basel III reforms include the introduction of a capital leverage measure as defined as the ratio of tier 1 capital to total exposure. This is intended to reinforce the risk-based capital requirements with a simple, non-risk based 'backstop' measure.

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

Exposures for leverage ratio (unaudited) 2019	**Transitional £m**	**End point £m**
Total balance sheet exposures	15,640.9	15,640.9
Adjustments for entities which are consolidated for accounting purposes but outside scope of regulatory consolidation	(10.2)	(10.2)
Removal of accounting value of derivatives and SFTs	(355.5)	(355.5)
Exposure value for derivatives and SFTs	45.5	45.5
Off balance sheet: unconditionally cancellable (10%)	1,208.6	1,208.6
Off balance sheet: other (20%)	28.3	28.3
Regulatory adjustment – intangible assets	(224.2)	(224.2)
Regulatory adjustment – other, including IFRS 9	124.5	(39.9)
Total	**16,457.9**	**16,293.5**
Common equity tier 1	**1,616.4**	**1,452.0**
Leverage ratio	9.8%	8.9%

41. Capital Resources (continued)

Capital Management

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

Pillar 2 capital methodologies

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

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

Credit Risk

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

Operational risk

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

Leverage

At present the Group has no minimum UK leverage requirement as it is currently exempt from the UK Leverage Framework regime, which only applies to institutions with retail deposits of £50 billion or more. In December 2017, the BCBS finalised Basel III reforms for leverage ratio. The final Basel III reforms will be implemented in January 2022.

The initial assessment indicates that these reforms are not expected to have a significant impact on the Group's leverage ratio.

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

41. Capital Resources (continued)

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

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

MREL is expected to be set annually over the transitional period until 1 January 2022. Prior to 31 December 2019, MREL will be equal to an institution's minimum regulatory capital requirements. An interim MREL requirement of 18% of risk-weighted assets from 1 January 2020 until 31 December 2021 has been set. The Group is working towards implementation of these requirements and has reflected them in its funding plan.

42. Related Party Transactions

During the year the Group had the following transactions with related parties:

Transactions involving Directors and other key connected persons

For the purposes of IAS 24, 'Related Party Disclosures', the Group's key Management personnel comprise Directors of the Group. The captions in the Group's primary Financial Statements include the following amounts attributable, in aggregate, to key connected persons of both the Group and Tesco, the Company's ultimate parent undertaking.

Group	2019 £m	2018 £m
Loans and advances to customers[1]		
At the beginning of the year	0.6	0.4
Loans issued during the year	0.6	–
Loan repayments during the year	(0.6)	(0.1)
Loans outstanding at the end of the year	**0.6**	**0.3**
Interest income earned	–	–
Deposits from customers[1]		
Deposits at the beginning of the year	0.2	0.8
Deposits received during the year	0.6	0.6
Deposits repaid during the year	(0.7)	(0.7)
Deposits at the end of the year	**0.1**	**0.7**
Interest expense on deposits	–	–

Following the adoption of IFRS 9 during the current year, ECLs amounting to 0.3% of the loans outstanding at the end of the year have been recognised (2018: £nil under IAS 39 methodology).

[1] The opening and closing balances reported are in respect of related parties of the Group at the reporting date in each year.

42. Related Party Transactions (continued)

Remuneration of key Management personnel

The amount of remuneration incurred by the Group in relation to the Directors is set out below in aggregate. Further information about the remuneration of Directors is provided in note 11.

Group	2019 £m	2018 £m
Short-term employee benefits	4.5	5.9
Termination benefits	–	0.3
Post-employment benefits	–	–
Other long-term benefits	3.0	2.6
Share based payments	0.8	0.9
Total emoluments	**8.3**	9.7

Trading transactions

Group	2019 Tesco £m	2019 Tesco subsidiaries £m	2019 Tesco Underwriting Limited £m	2018 Tesco £m	2018 Tesco subsidiaries £m	2018 Tesco Underwriting Limited £m
Interest received and other income	–	20.9	47.1	–	24.3	71.2
Dividend income	–	–	10.3	–	–	–
Interest paid	(4.8)	–	–	–	(4.0)	–
Provision of services	–	(82.0)	(0.7)	–	(83.4)	(0.4)

Company	2019 Tesco £m	2019 Tesco subsidiaries £m	2019 Tesco Underwriting Limited £m	2018 Tesco £m	2018 Tesco subsidiaries £m	2018 Tesco Underwriting Limited £m
Interest received and other income	–	4.8	–	–	4.3	–
Interest paid	(4.8)	–	–	(4.3)	–	–
Provision of services	–	–	–	–	–	–

Balances owing to/from related parties are identified in notes 19, 21, 28, 29, 31, 32, and 33.

For the year ended 28 February 2019 the Group and Company generated 52% (2018: 58%) of its insurance commission from the sale and service of Motor and Home insurance policies underwritten by TU, a joint venture company and therefore a related party. Customer premiums on such sales are collected directly by the Group and the net premium is remitted to TU. Investment transactions with TU are identified in note 23.

Ultimate parent undertaking

The Company's ultimate parent undertaking and controlling party is Tesco PLC which is incorporated in England. The Financial Statements for Tesco PLC can be obtained from its registered office at Tesco House, Shire Park, Kestrel Way, Welwyn Garden City, AL7 1GA.

43. Contingent Liabilities and Commitments

Contingent liabilities

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

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

Lending commitments

Mortgage offers made are legally binding commitments made by the Group to provide secured funding to customers. Undrawn Mortgage commitments relate to formal offers made to customers during the application process whereby the customer has successfully passed eligibility and affordability checks but has not yet received the funds.

Under an undrawn Credit Card commitment, the Group agrees to make funds available to a customer in the future. Undrawn Credit Card commitments may be unconditionally cancelled or may continue, providing all facility conditions are satisfied or waived.

Under a Personal Current Account overdraft commitment, the Group agrees to make funds available to a customer in the future. Personal Current Account overdraft commitments are usually for a specified term and may be unconditionally cancelled or may continue, providing all facility conditions are satisfied or waived.

Further detail on undrawn lending commitments is included in the liquidity and funding risk disclosure in note 37.

The contractual amounts do not represent the amounts at risk at the reporting date but the amounts that would be at risk should the available facilities be fully drawn upon.

Capital commitments

At 28 February 2019 the Group had capital commitments related to property, plant and equipment of £nil (2018: £nil) and intangible assets of £0.8m (2018: £1.1m). This is in respect of IT software development and IT hardware. In addition, TU has a commitment of £1.2m (2018: £nil) to subscribe to the Tritax Property Income Fund Unit Trust as part of its investment portfolio. The Group's Management is confident that future net revenues and funding will be sufficient to cover this commitment.

Operating lease commitments

The future minimum lease payments under non-cancellable operating leases are as follows:

Group	**2019 £m**	2018 £m
No later than one year	4.2	4.9
Later than one year and no later than five years	22.1	20.8
Later than five years	21.9	27.4
	48.2	53.1

44. Share Based Payments

The Group charge for the year recognised in respect of share based payments is £4.5m (2018: £10.7m), which is made up of share option schemes and share bonus payments. Of this amount, £3.8m (2018: £7.8m) will be equity-settled and £0.7m (2018: £2.9m) cash-settled.

Share option schemes

The Group had three share option schemes in operation during the year, all of which are equity-settled schemes using Tesco shares:

- The Savings-related Share Option Scheme (1981) permits the grant to colleagues of options in respect of ordinary shares linked to a building society/bank save-as-you-earn contract for a term of three or five years with contributions from colleagues of an amount between £5 and £500 per four-weekly period. Options are capable of being exercised at the end of the three or five-year period at a subscription price of not less than 80% of the average of the middle-market quotations of an ordinary share over the three dealing days immediately preceding the offer date.
- The Discretionary Share Option Plan (2004) permitted the grant of approved, unapproved and international options in respect of ordinary shares to selected executives. Options are normally exercisable between three and ten years from the date of grant at a price not less than the middle-market quotation or average middle-market quotations of an ordinary share for the dealing day or three dealing days preceding the date of grant. The vesting of options will normally be conditional upon the achievement of a specified performance target related to the annual percentage growth in earnings per share over a three-year period. There were no discounted options granted under this scheme.
- The Performance Share Plan (2011) permits the grant of options in respect of ordinary shares to selected executives. Options are normally exercisable between the vesting date(s) set at grant and ten years from the date of grant for nil consideration. The exercise of options will normally be conditional upon the achievement of specified performance targets over a three-year period and/or continuous employment.

44. Share Based Payments (continued)

The following table reconciles the total number of share options outstanding under each share option scheme and the weighted average exercise price (WAEP):

	Savings-related share option scheme Options	Savings-related share option scheme WAEP (pence)	Approved share option scheme Options	Approved share option scheme WAEP (pence)	Unapproved share options scheme Options	Unapproved share options scheme WAEP (pence)
Outstanding at 28 February 2018	**4,058,091**	**160.43**	**94,336**	**344.96**	**122,460**	**367.20**
Granted	1,219,261	188.00	–	–	–	–
Forfeited	(328,524)	177.46	(7,025)	427.00	(39,813)	427.00
Exercised	(1,365,136)	150.31	–	–	–	–
Outstanding at 28 February 2019	**3,583,692**	**172.10**	**87,911**	**338.40**	**82,647**	**338.40**
Exercisable at 28 February 2019	**124.802**	**179.37**	**87,911**	**338.40**	82,467	**338.40**
Exercise price range (pence)	**–**	**179.37**	**–**	**338.40**	**–**	**338.40**
Weighted average remaining contractual life (years)	**–**	**0.42**	**–**	**0.68**	**–**	**0.18**
Outstanding at 28 February 2017	3,522,224	162.20	183,586	341.79	221,617	354.32
Granted	1,184,513	168.00	–	–	–	–
Forfeited	(573,424)	188.26	(88,650)	338.40	(99,157)	338.40
Exercised	(75,222)	150.09	–	–	–	–
Outstanding at 28 February 2018	4,058,091	160.43	94,936	344.96	122,460	367.20
Exercisable at 28 February 2018	19,559	282.00	94,936	344.96	122,460	367.20
Exercise price range (pence)	–	282.00	–	338.40 to 427.00	–	338.40 to 427.00
Weighted average remaining contractual life (years)	–	0.43	–	1.58	–	0.88

Share options were exercised on a regular basis throughout the financial year. The average Tesco share price during the year ended 28 February 2019 was 228.55p (2018: 187.90p).

44. Share Based Payments (continued)

The fair value of share options is estimated at the date of grant using the Black-Scholes option pricing model. The following table gives the assumptions applied to the options granted in the respective periods shown. No assumption has been made to incorporate the effects of expected early exercise.

Group	2019 Savings - related share options schemes	2018 Savings - related share options schemes
Expected dividend yield (%)	3.3 - 4.2%	2.2% - 3.6%
Expected volatility (%)	29%	29 - 32%
Risk free interest rate (%)	0.78 - 1.10%	0.9 - 1.0%
Expected life of option (years)	3 or 5	3 or 5
Weighted average fair value (WAFV) of options granted (pence)	41.58 to 42.24	42.42
Probability of forfeiture (%)	7 - 11%	10 - 11%
Share price (pence)	212.40	187.00
WAEP (pence)	188.00	168.00

Volatility is a measure of the amount by which a price is expected to fluctuate in the period. The measure of volatility used in Tesco's option pricing models is the annualised standard deviation of the continuously compounded rates of return on the share over a period of time. In estimating the future volatility of Tesco's share price, the Tesco Board considers the historical volatility of the share price over the most recent period that is generally commensurate with the expected term of the option, taking into account the remaining contractual life of the option.

Share Bonus Schemes

Selected executives participate in the Group Bonus Plan, a performance-related bonus scheme. The amount paid to colleagues is based on a percentage of salary and is paid partly in cash and partly in shares. Bonuses are awarded to selected executives who have completed a required service period and depend on the achievement of corporate and individual performance targets.

Selected executives participate in the Performance Share Plan (2011). Awards made under this plan will normally vest on the vesting date(s) set on the date of the award for nil consideration. Vesting will normally be conditional on the achievement of specified performance targets over a three-year performance period and/or continuous employment.

The fair value of shares awarded under these schemes is their market value on the date of the award. Expected dividends are not incorporated into the fair value.

The number of Tesco shares and WAFV of share bonuses awarded during the year were:

	2019 Shares (number)	2019 WAFV (pence)	2018 Shares (number)	2018 WAFV (pence)
Group Bonus Plan	1,547,112	241.80	1,305,466	180.35
Performance Share Plan	2,746,888	256.49	2,494,746	181.12

45. Adoption of New and Amended International Financial Reporting Standards

Standards, amendments and interpretations issued which became effective in the current year

The impact on the Group adoption of IFRS 9 and IFRS 15 during the year to 28 February 2019 is included in note 2.

During the year the Group has adopted the following new amendments to standards which became effective with relevant EU endorsement for annual periods beginning on or after 1 January 2018:

Amendments to IFRS 15 'Clarifications to IFRS 15, 'Revenue from contracts with customers''

These amendments clarify how the principles of IFRS 15 should be applied in determining recognition of contract revenue and provide transitional relief on modified and completed contracts for entities implementing the standard.

The impact of these amendments is included in the details on the full adoption of IFRS 15 in note 2.

Amendments to IFRS 4 'Applying IFRS 9, 'Financial Instruments', with IFRS 4, 'Insurance Contracts''

These amendments permit insurance entities to adopt certain transitional arrangements to address the temporary accounting consequences of the different effective dates of IFRS 9 and IFRS 17. These amendments have impacted the Group's share of results from its joint venture, TU. As permitted by these amendments, TU has deferred the adoption of IFRS 9 until 2021. Additional disclosures for TU required as a result of this are included in note 22.

Amendments to IAS 28 'Measuring an associate or joint venture at fair value'

These amendments are part of the Annual Improvements 2014-2016 process and are effective for annual periods beginning on or after 1 January 2018. They clarify that the option for a venture capital organisation and other similar entities to measure investments in associates and joint ventures at fair value through profit and loss is available separately for each associate or joint venture, and that election should be made at initial recognition. There has been no impact on the Group of the adoption of these amendments.

Amendments to IFRS 2 'Classification and measurement of share-based payment transactions'

These amendments are effective for annual periods beginning on or after 1 January 2018. They clarify how to account for certain types of share based payment transactions. There has been no impact on the Group of the adoption of these amendments.

IFRIC 22 'Foreign currency transactions and advance consideration'

This IFRIC clarifies the accounting for advance consideration in a transaction that is denominated in a foreign currency. There has been no impact on the Group of the adoption of this IFRIC.

Standards, amendments and interpretations issued but not yet effective

IFRS 16 'Leases'

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted provided IFRS 15 is applied on or before the same date. The mandatory application date for IFRS 16 for the Group is 1 March 2019. The Group will apply the requirements of IFRS 16 fully retrospectively, therefore including the restatement of prior year comparatives in the Financial Statements for the year ended 29 February 2020.

IFRS 16 is a replacement for IAS 17 'Leases'. IFRS 16 removes the distinction between finance and operating leases and instead provides a single lessee accounting model. The Group, as a lessee, will be required to recognise lease liabilities and corresponding right-of-use assets for all applicable leases. At commencement of a lease the lease liability equals the present value of future lease payments, and the right-of-use asset equals the lease liability, adjusted for payments already made, lease incentives, and initial direct costs. The new standard also provides the option not to recognise 'short-term' leases and leases of 'low-value' assets. Where this exemption is taken, such leases will continue to be expensed to the income statement over the term of the lease.

The income statement recognition pattern for the Group's leases will differ from the current pattern for operating leases, with interest on the liabilities and depreciation expense on the right-of-use assets recognised separately. In the cash flow statement, lease payments will be categorised within financing activities rather than operating activities.

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

45. Adoption of New and Amended International Financial Reporting Standards (continued)

On adoption, the Group expects to recognise right-of-use assets with a net book value of £15m on its balance sheet in respect of property assets currently accounted for as operating leases. A corresponding lease liability will also be recognised which represents the future payments to be made under these leases, discounted at the Group's incremental borrowing rate at lease inception. The net impact on lease liabilities after the release of the current operating lease accrual balance under IAS 17 is expected to be £22m. The overall impact on equity, net of deferred tax, is expected to be £5m. The most significant judgement included in the IFRS 16 lease calculations is the selection of an appropriate discount rate.

Amendments to IAS 28 'Long-term interests in associates and joint ventures'

These amendments are effective for annual periods beginning on or after 1 January 2019, subject to endorsement. They clarify that long-term interests in an associate or joint venture to which the equity method is not applied should be accounted for using IFRS 9. These amendments are not expected to impact the Group.

Amendments to IFRS 9 'Prepayment features with negative compensation'

These amendments are effective for annual periods beginning on or after 1 January 2019. They allow companies to measure particular prepayable financial assets with so-called negative compensation at amortised cost or at fair value through other comprehensive income if a specified condition is met, instead of at fair value through profit or loss. These amendments are not expected to impact the Group.

Amendments to IAS 23 'Borrowing costs eligible for capitalisation'

These amendments are effective for annual periods beginning on or after 1 January 2019, subject to endorsement. They clarify that if a specific borrowing remains outstanding after the related qualifying asset is ready for intended use or sale, it becomes part of general borrowings. These amendments are not expected to impact the Group.

Amendments to IAS 12 'Income tax consequences of payments on financial instruments classified as equity'

These amendments are effective for annual periods beginning on or after 1 January 2019, subject to endorsement. They clarify that the income tax consequences of dividends on financial instruments classified as equity should be recognised according to where the past transactions or events that generated distributable profits were recognised. These amendments are not expected to impact the Group.

Amendments to IFRS 3 and IFRS 11 'Measurement of previously held interest in obtaining control over a joint operation'

These amendments are effective for annual periods beginning on or after 1 January 2019, subject to endorsement. The amendments to IFRS 3 clarify that obtaining control of a business that is a joint operation is a business combination achieved in stages. The acquirer should remeasure its previously held interest in the joint operation at fair value at of the acquisition date.

The amendments to IFRS 11 clarify that the party obtaining joint control of a business that is a joint operation should not remeasure its previously held interest in the joint operation.

These amendments are not expected to impact the Group.

Amendments to IAS 19 'Plan amendment, curtailment or settlement'

These amendments are effective for annual periods beginning on or after 1 January 2019, subject to endorsement. When a plan event (i.e. a plan amendment, curtailment or settlement) occurs, IAS 19 requires a company to update its assumptions and remeasure its net defined benefit liability or asset. These amendments clarify that after a plan event companies should use these updated assumptions to measure current service cost and net interest for the remainder of the reporting period. These amendments are not expected to impact the Group.

IFRIC 23 'Uncertainty over income tax treatments'

This IFRIC is effective for annual periods beginning on or after 1 January 2019. It clarifies how the recognition and measurement requirements of IAS 12 'Income taxes' are applied where there is uncertainty over income tax treatments. These amendments are not expected to impact the Group.

45. Adoption of New and Amended International Financial Reporting Standards (continued)

Amendments to IFRS 3 'Definition of a business'

These amendments are effective for annual periods beginning on or after 1 January 2020, subject to endorsement. They amend the definition of a business to emphasise that the output of a business is to provide goods and services to customers, and add clarity to help differentiate between a business and an asset (or group of assets). These amendments are not expected to impact the Group.

Amendments to IAS 1 and IAS 8 'Definition of materiality'

These amendments are effective for annual periods beginning on or after 1 January 2020, subject to endorsement. They clarify the definition of materiality, ensure this is consistent across all standards, and add additional guidance and explanations. These amendments are not expected to impact the Group.

IFRS 17 'Insurance contracts'

IFRS 17 is effective for annual periods beginning on or after 1 January 2021, subject to endorsement, however the IASB is currently considering a deferral of this effective date by one year. Early adoption is permitted provided IFRS 9 and IFRS 15 are also applied.

IFRS 17 is a replacement for IFRS 4. IFRS 17 requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts.

IFRS 17 is relevant to the Group's joint venture, TU, which provides the insurance underwriting service for a number of the Group's general insurance products. The full impact on the Group is still being assessed.

Early adoption of new standards

The Group did not early adopt any new or amended standards in the year ended 28 February 2019.

46. Events After the Reporting Date

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TESCO PERSONAL FINANCE GROUP PLC

Report on the audit of the Financial Statements

Opinion

In our opinion:

- the Financial Statements of Tesco Personal Finance Group PLC (the 'Company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the parent Company's affairs as at 28 February 2019 and of the Group's profit for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Company Financial Statements have been properly prepared in accordance with IFRSs as adopted by the European Union (EU) and as applied in accordance with the provisions of the Companies Act 2006; and
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the Consolidated Income Statement;
- the Consolidated Statement of Comprehensive Income;
- the Consolidated and Company Statements of Financial Position;
- the Consolidated and Company Statements of Changes in Equity;
- the Consolidated and Company Cash Flow Statements; and
- the related notes 1 to 46.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the EU and, as regards the parent Company Financial Statements, as applied in accordance with the provisions of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the Financial Statements section of our report.

We are independent of the Group and the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the Directors' use of the going concern basis of accounting in preparation of the Financial Statements is not appropriate; or
- the Directors have not disclosed in the Financial Statements any identified material uncertainties that may cast significant doubt about the Group's or the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the Financial Statements are authorised for issue.

We have nothing to report in respect of these matters.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the Financial Statements and our auditor's report thereon. Our opinion on the Financial Statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

A further description of our responsibilities for the audit of the Financial Statements is located on the FRC's website at: http://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and of the Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' Report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company Financial Statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Stephen Williams ACA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

Edinburgh, United Kingdom

8 April 2019

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