

TESCO PERSONAL FINANCE PLC

INTERIM FINANCIAL REPORT

FOR THE SIX MONTHS ENDED 31 AUGUST 2020

COMPANY NUMBER SC173199

TESCO PERSONAL FINANCE PLC
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This Interim Financial Report comprises the Interim Management Report and the Interim Condensed Consolidated Financial Statements and accompanying notes. In the Interim Financial Report, unless specified otherwise, the 'Company' means Tesco Personal Finance Plc and the 'Group' means the Company and its subsidiaries and joint venture included in the Interim Condensed Consolidated Financial Statements. The Group operates using the trading name of Tesco Bank.

Tesco Personal Finance Plc is a wholly owned subsidiary of Tesco Personal Finance Group PLC (TPFG), the share capital of which is wholly owned by Tesco PLC. A reconciliation of the results contained within these Interim Condensed Consolidated Financial Statements to the Tesco Bank results presented in the Tesco PLC Interim Results 2020/21 can be found on the Tesco PLC internet page: https://www.tescopl.com/media/756354/brokerpack_2020_09.pdf

Cautionary Statement Regarding Forward-Looking Information

Where this document contains forward-looking statements, these are made by the Directors in good faith based on the information available to them at the time of their approval of this report. These statements should be treated with caution due to the inherent risks and uncertainties underpinning any such forward-looking information. The Group cautions users of these Interim Condensed Consolidated Financial Statements that a number of factors, including matters referred to in this document, could cause actual results to differ materially from those contained in any forward-looking statement. Such factors include, but are not limited to, those discussed under 'Principal risks and uncertainties' on pages 6 to 8 of this Interim Management Report.

Business Model

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

Strategic Review

Covid-19

During the six months to 31 August 2020, significant economic and social disruption has arisen from the Covid-19 pandemic. The Group has invoked business continuity plans as it seeks to serve and support its customers throughout the pandemic while maintaining the safety and well-being of staff. The Group is providing support to those customers who are experiencing financial difficulty as a result of Covid-19. It is also closely monitoring to ensure critical functions remain resilient and as part of this is engaging with suppliers to ensure that service levels can continue to be maintained throughout a prolonged pandemic.

During the period, the Group granted temporary payment holidays to a number of Credit Card and Personal Loan customers. These were for an initial period of up to three months and have in some cases been extended by a further three months.

Strategic Review (continued)

Covid-19 (continued)

The following table shows the outstanding balances at 31st August of all accounts where a payment holiday was granted during the period, including their IFRS 9 staging and the percentage of the overall lending portfolio these balances represent:

Gross balances at 31 August 2020	Volume	Stage 1	Stage 2	Stage 3	% Gross balance
		£m	£m	£m	
Total	125,344	553.9	320.0	19.7	12%

Of the payment holidays granted, 82,604 have matured, with 83% of customers returning to normal payment schedules.

As a result of the pandemic, the Group has been impacted in the period by a reduction in income from all banking activities, including Credit Cards, Loans, ATMs and Travel Money. Refer to page 3 for further details of the impact of the pandemic on the Group's income for the period. Given the unprecedented fall in demand for Travel Money during the Covid-19 pandemic, the Group suspended its in-store and online Travel Money service from 24 March 2020. The service has subsequently re-opened but at significantly reduced volumes as overseas travel begins to increase again.

There has also been a significant impact on expected credit losses (ECLs) for potential bad debts in the period. The day 1 impact of Covid-19 on the ECL charge for the six months to 31 August 2020 was £194.9m, increasing the total charge for the period to £256.6m (2019: £113.4m).

The impact of the pandemic on income and ECLs has resulted in a loss for the Group in the period to 31 August 2020. The Group also expects to make a loss in the year ended 28 February 2021. Notwithstanding this, the Group's capital and liquidity ratios, which are set out on page 6, are expected to remain above regulatory requirements over the periods used by Management to monitor these ratios. The impact of the current economic outlook on ECLs is set out at note 14.

The Board considered in depth the impact of Covid-19 on the Group's going concern status. The relevant disclosures are set out on page 8.

In response to the Covid-19 pandemic and lockdown conditions, the Group introduced a number of benefits to help Tesco customers manage their money a little better every day. These include an increase in the contactless limit from £30 to £45; the removal of insurance policy change fees, providing customers with flexibility to make changes to their policies; the suspension of overdraft interest on overdrawn Personal Current Account balances up to £500 for three months; and utilising Tesco gift cards to provide school lunches across the UK. Additionally, the Group launched e-gift cards during the period, which allowed friends or relatives to assist vulnerable customers with their shopping.

Sale of the Group's Mortgage Business

The Group completed the sale of the majority of its Mortgage business to Bank of Scotland PLC (part of the Lloyds Banking Group) on 27 September 2019. As is customary in such a transaction, the Group continued to recognise a small element of the Mortgage business, representing new advances to existing Mortgage customers, until migration of all Mortgage accounts to the purchaser, which took place on 30 March 2020. The Group received cash consideration of £50.8m in respect of this element of the Mortgage business, resulting in an after-tax gain on sale of £0.4m. In accordance with the requirements of International Financial Reporting Standard (IFRS) 5 'Non-current assets held for sale and discontinued operations', the Group classified its Mortgage business as a discontinued operation in the period to 31 August 2020.

Sale of the Group's Mortgage Business (continued)

Amounts recognised in the Interim Condensed Consolidated Income Statement in respect of the Mortgage business are presented as a single line item after profit after tax from continuing operations. In the prior period, interest expense of £29.0m in respect of the Group's cost of funding the Mortgage business continued to be presented within net interest income of continuing operations. As this cost could not be directly attributed to liabilities of the Group entered into specifically to fund the Group's Mortgage business, as required by IFRS 5, it was not possible to present this cost within statutory profit for the year after tax from discontinued operations for the prior period. There was no such charge in the current period.

Further information on the Group's discontinued operations is set out at note 9.

Headlines

Income Statement

- Loss before tax from continuing operations is £143.5m (August 2019: profit of £16.8m).
- Underlying loss before tax from continuing operations, which excludes items which are not reflective of ongoing trading performance, is £142.2m (August 2019: profit of £98.5m). A reconciliation of statutory to underlying (loss)/profit for the current and prior periods is set out at note 3.
- Profit after tax from discontinued operations has decreased to £0.3m (August 2019: £17.4m).
- **Loss before tax from continuing operations**

The key drivers of the loss before tax from continuing operations are:

- a 0.9% decrease in net interest income to £237.9m (August 2019: £240.1m), reflecting lower interest earnings on the back of a significant decrease in lending due to Covid-19. Net interest margin has increased to 5.0% (August 2019: 4.2%), predominantly reflecting an improved credit card margin and lower funding costs following the sale of the Group's Mortgage business. In the prior period, interest expense of £29.0m in respect of the Group's cost of funding the Mortgage business continued to be presented within net interest income of continuing operations. As this cost could not be directly attributed to liabilities of the Group entered into specifically to fund the Group's Mortgage business, as required by IFRS 5, it was not possible to present this cost within statutory profit for the year after tax from discontinued operations for the prior period. There was no such charge in the current period;
- a 44.8% decrease in fee and commission income to £102.3m (August 2019: £185.2m). Fee and commission income has reduced significantly in the period due to reduced activity as a result of the Covid-19 pandemic. Credit card fees have been impacted by a large reduction in credit card transactions by customers during the lockdown period. The Group's Travel Money offering was suspended from March until June and ATM income has also decreased as a result of falling transaction volumes. Insurance income has fallen due to a reduction in prices in a highly competitive market;
- a loss on financial instruments at fair value through profit or loss of £1.3m (August 2019: loss of £3.2m);
- a gain on disposal of investment securities of £nil (August 2019: gain of £0.1m);
- a 22.4% decrease in operating expenses to £220.2m (August 2019: £283.8m). This includes, in the prior period, an additional payment protection insurance charge of £45.0m. There was no such charge in the current period. In the prior period, there were restructuring charges of £8.2m relating to the Group's strategic review. There were no such charges in the current period;
- a 126.3% increase in charges for expected credit loss on financial assets to £256.6m (August 2019: £113.4m). The increase is driven by the economic deterioration resulting from the Covid-19 pandemic and includes the day 1 increase to expected credit losses of £194.9m as set out on page 2. The bad debt:asset ratio in respect of continuing operations increased to 6.7% (August 2019: 2.6%); and

Income Statement (continued)

- a 25.0% increase in the Group's share of profit from its joint venture, TU to £9.0m (August 2019: £7.2m). This includes, in the prior period, a credit of £3.7m, representing the Group's share of credits recognised by TU during the prior period relating to the impact on TU's insurance reserves of a change to the Ogden tables, which are used to calculate future losses in personal injury and fatal accident cases. There was no such credit in the current period. The increase in profit is predominantly driven by a reduction in motor insurance claims as a result of the Covid-19 pandemic.

- **Income tax credit on loss from continuing operations**

Income tax on the Group's loss from continuing operations for the period is a credit of £46.6m (August 2019: charge of £15.5m). This predominantly reflects the impact of Covid-19 on the Group's results for the period and the expected relief of the loss for the period against prior year profits.

- **Profit after tax from discontinued operations**

Profit after tax from discontinued operations predominantly reflects a decrease in net interest income to £nil (August 2019: £41.3m), other income of £(0.6)m (August 2019: £(6.6)m), a reduction in operating expenses to a credit of £0.4m (August 2019: expense of £11.8m) and a reduction in tax to a credit of £0.1m (August 2019: charge of £6.5m). As the remaining Mortgage business was migrated to the purchaser on 30 March 2020, the current period profit after tax from discontinued operations reflects only one month of trading.

Balance Sheet

- Loans and advances to customers have decreased by 13.8% to £7.3bn (February 2020: £8.5bn). Credit Card balances have reduced by 18% due to lower overall consumer spend in the period, while Personal Loans have reduced by 10%, reflecting lower new business volumes during the period.
- Customer deposits, which continue to be the Group's main source of funding, have decreased by 13.9% to £6.6bn (February 2020: £7.7bn) as the Group has continued to reduce its Savings balances in response to the reduced activity in loans and advances to customers as a result of Covid-19 and the sale of the Mortgage business. At the period end, the Group had accessed £500.0m of funds from the Bank of England's Term Funding Scheme (February 2020: £500.0m).
- The balance sheet remains well positioned to support future lending growth from both a liquidity and capital standpoint. At 31 August 2020, the total capital ratio was 24.3% (February 2020: 23.1%) and net stable funding ratio (NSFR) was 122.8% (February 2020: 129.1%).

Regulatory Developments

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

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

During the period, the Group enabled credit card customers to more easily manage and pay their balances. A 'Pay by Bank' facility allows Mobile and Online credit card customers to make payments directly from their Personal Current Account via electronic payment devices and in doing so, Tesco Bank became the first UK Bank to introduce this functionality.

Regulatory Developments (continued)

Amendments to the Capital Requirements Regulation (CRR) and Capital Requirements Directive (CRD) were published in the Official Journal of the European Union (EU) on 7 June 2019. The majority of the CRR amendments will apply from 28 June 2021 and the CRD amendments from 28 December 2020. The impact of these amendments on the Group continues to be assessed. Uncertainty remains around the implementation and impact of further regulatory developments arising from the finalisation of Basel III, which will be subject to EU and UK implementation. It was announced in March 2020 that the implementation date of Basel III has been delayed by one year to 1 January 2023.

In addition, the Group became subject to the minimum requirements for own funds and eligible liabilities (MREL) on an interim basis from 1 January 2020, with full implementation applicable from 1 January 2022. The requirements are factored into the Group's funding and capital plans. TPFG undertook an initial £250.0m issuance of MREL-compliant debt in July 2019 in support of these requirements and subsequently invested the proceeds in the Company via an intercompany subordinated loan. Further issuances may be required to support end-state requirements. Refer to page 47 for details of the Group's compliance with MREL requirements as at 31 August 2020.

MREL will, on full implementation, be set on a bank-specific basis and calculated as the sum of two components: a loss absorption amount, being the amount needed to absorb losses up to and in resolution; and a recapitalisation amount, which reflects the capital that a firm is likely to need post-resolution.

The Financial Policy Committee of the Bank of England is responsible for setting the UK countercyclical capital buffer rate (CCyB), being the rate that applies to UK exposures of banks, building societies and large investment firms incorporated in the UK. The UK CCyB is currently set at 0.0% (2019: 1.0%). In response to the economic shock from COVID-19 the Financial Policy Committee reduced the UK CCyB rate to 0.0% on 11 March 2020, with immediate effect, to support further the ability of banks to supply the credit needed to bridge a potentially challenging period.

Key Performance Indicators

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

	31 August 2020	31 August 2019
Underlying net interest margin	5.0%	4.5%
Net interest margin	5.0%	4.2%
Underlying cost:income ratio	67.6%	52.5%
Cost:income ratio	67.9%	69.8%
Bad debt:asset ratio	6.7%	2.6%

Capital and Liquidity Ratios

The Directors consider the following to be KPIs for capital and liquidity reporting:

	31 August 2020	29 February 2020	31 August 2019
Common equity tier 1 ratio	21.5%	20.6%	16.2%
Total capital ratio	24.3%	23.1%	18.4%
MREL ratio	27.6%	26.1%	n/a
Net stable funding ratio	122.8%	129.1%	121.4%
Underlying loan to deposit ratio	109.6%	110.1%	123.2%
Loan to deposit ratio	109.6%	109.5%	87.6%

The Group's total capital ratio remains above regulatory requirements at 24.3% (February 2020: 23.1%) and leaves the Group well placed to support future growth.

On 1 March 2018, IFRS 9 came into force and a transitional period was introduced, allowing the Company (being the regulated entity) to phase in the IFRS 9 impact on capital over a period of 5 years. On 27 June 2020, the CRR was further amended to accelerate specific CRR2 measures and implement a new IFRS 9 transitional relief calculation. The Group's total capital ratio remains above regulatory requirements at 24.3% (February 2020: 23.1%) on a transitional basis. On an end-point basis, the Group's total capital ratio is 21.6% (February 2020: 21.5%), which is also above regulatory requirements. Refer to note 16 for full details of the impact of these amendments on the Group.

The NSFR, a measure of the Group's liquidity position, is within appetite at 122.8% as at 31 August 2020 (February 2020: 129.1%). The Group maintains a liquid asset portfolio of high quality securities of £2.5bn (February 2020: £2.5bn).

Principal risks and uncertainties

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

The Board is also responsible for overall corporate governance, which includes overseeing an effective system of risk management and that the level of capital and liquidity held is adequate and consistent with the risk profile of the business.

Principal risks and uncertainties (continued)

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

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

The principal risks and uncertainties faced by the Group remain unchanged from the Annual Report and Financial Statements as at 29 February 2020 (pages 9 to 13). See below for further details.

Credit risk	The risk that a borrower will default on a debt or obligation by failing to make contractually obligated payments, or that the Group will incur losses due to any other counterparty failing to meet their financial obligations.
Operational risk	The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.
Liquidity and Funding risk	<p>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.</p> <p>Funding risk is the risk that the Group does not have sufficiently stable and diverse sources of funding.</p>
Market risk	The risk that movements in market prices (such as interest rates, foreign exchange rates and the market value of financial instruments) lead to a reduction in either the Group's earnings or capital.
Insurance risk	The risks accepted through the provision of insurance products in return for a premium. These risks may or may not occur as expected and the amount and timing of these risks are uncertain and determined by events outside of the Group's control.
Regulatory risk	The risk of reputational damage, liability or material loss from failure to comply with the requirements of the financial services regulators or related codes of best practice applicable to the business areas within which the Group operates.
Capital risk	The risk that the Group holds regulatory capital which is of insufficient quality and quantity to enable it to absorb losses.
Covid-19	During the current financial year the Covid-19 pandemic has caused significant economic and social disruption. The Group could continue to be materially impacted by higher ECLs and lower revenues as a result of the economic impact.
Brexit	On 31 January 2020 the UK ceased to be a member of the EU and entered into an 11 month transition period with the EU while the future trading relationship is negotiated. As a result, there remains economic uncertainty in the UK and Europe in relation to Brexit. The Group will continue to monitor the wider economic environment, particularly to assess the impact on credit risk to the Group. The largest impact on the Group relates to the economic impact on the Group's ECL provision, sensitivities in respect of which are set out at note 14.

Principal risks and uncertainties (continued)

LIBOR rate replacement On 27 July 2017 the Financial Conduct Authority announced that the London Interbank Offered Rate (LIBOR) would be phased out and replaced with an alternative reference rate by the end of 2021. The Group has transitioned the majority of its LIBOR exposures to Sterling Overnight Index Average (SONIA) and expects to complete its transition programme by 28 February 2021.

Going Concern

The Directors have made an assessment of going concern, taking into account both current performance and the Group's outlook, which considered the impact of the Covid-19 pandemic, and including consideration of projections incorporating the impact of the Covid-19 pandemic for the Group's capital and funding position.

As part of this assessment the Board considered:

- The impact on the Group's profits from a further expected reduction in income on Credit Cards, Loans, Travel Money and ATMs combined with further increases in ECL charges. As part of this, the Board considered revised macro-economic scenarios which were received from the Group's third-party supplier. These are discussed in note 14;
- The sufficiency of the Group's capital base throughout the pandemic;
- The adequacy of the Group's liquidity as the Group supports customers through a period of financial stress;
- The operational resilience of the Group's critical functions including call centres, mobile and online channels and the Group's ability to provide continuity of service to its customers throughout a prolonged stress;
- The resilience of the Group's IT systems;
- A detailed assessment of the Group's supplier base, considering any single points of failure and focussing on suppliers experiencing financial stress. This included consideration of contingency plans should suppliers be deemed at risk;
- The regulatory and legal environment and any potential conduct risks which could arise;
- Any potential valuation concerns in respect of the Group's assets as set out in the Interim Condensed Consolidated Statement of Financial Position;
- The impact of the pandemic on TU, the Group's joint venture insurance company; and
- The structural protections of the Group's securitisation vehicles.

The Board also considered the results of stress testing which is performed as an integral part of both the Internal Capital Adequacy Assessment Process and Individual Liquidity Adequacy Assessment Process, with the Group having sufficient capital and liquidity to fund the balance sheet in each scenario.

As a result of this assessment, the Directors consider that it is appropriate to adopt the going concern basis of accounting in preparing the Interim Condensed Consolidated Financial Statements.

TESCO PERSONAL FINANCE PLC
INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)
FOR THE SIX MONTHS ENDED 31 AUGUST 2020

		6 months ended 31 August 2020 £m	6 months ended 31 August 2019 £m
Continuing operations			
Interest and similar income	4	300.3	346.0
Interest expense and similar charges	4	(62.4)	(105.9)
Net interest income		237.9	240.1
Fees and commissions income	5	102.3	185.2
Fees and commissions expense	5	(14.6)	(15.4)
Net fees and commissions income		87.7	169.8
Net loss on financial instruments at fair value through profit or loss (FVPL)		(1.3)	(3.2)
Net gain on investment securities		–	0.1
Net other income		(1.3)	(3.1)
Total income		324.3	406.8
Administrative expenses		(190.4)	(201.2)
Depreciation and amortisation		(29.8)	(37.6)
Provision for customer redress	12	–	(45.0)
Operating expenses		(220.2)	(283.8)
Expected credit loss on financial assets	6	(256.6)	(113.4)
Operating (loss)/profit		(152.5)	9.6
Share of profit of joint venture		9.0	7.2
(Loss)/profit before tax		(143.5)	16.8
Analysed as:			
Underlying (loss)/profit before tax	3	(142.2)	98.5
Non-underlying items	3	(1.3)	(81.7)
		(143.5)	16.8
Income tax credit/(charge)	7	46.6	(15.5)
(Loss)/profit for the period from continuing operations		(96.9)	1.3
Discontinued operations			
Profit for the period after tax from discontinued operations	9	0.3	17.4
(Loss)/profit for the period attributable to owners of the parent		(96.6)	18.7

TESCO PERSONAL FINANCE PLC
INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
FOR THE SIX MONTHS ENDED 31 AUGUST 2020

	6 months ended 31 August 2020 £m	6 months ended 31 August 2019 £m
(Loss)/profit for the period	(96.6)	18.7
Items that may be reclassified subsequently to the income statement		
Debt securities at fair value through other comprehensive income (FVOCI)¹		
Fair value movements	(3.1)	0.4
Net gains transferred to the income statement on disposal	–	(0.1)
Taxation	0.8	(0.1)
	<u>(2.3)</u>	<u>0.2</u>
Cash flow hedges		
Fair value movements	(0.5)	1.1
Taxation	0.1	(0.1)
	<u>(0.4)</u>	<u>1.0</u>
Currency basis reserve		
Foreign currency movements	0.1	(0.2)
	<u>0.1</u>	<u>(0.2)</u>
Share of other comprehensive income of joint venture	0.8	5.6
	<u>0.8</u>	<u>5.6</u>
Items that will not be reclassified subsequently to the income statement		
Equity securities at FVOCI		
Fair value movements	0.3	0.8
Taxation	(0.1)	(0.2)
	<u>0.2</u>	<u>0.6</u>
Other comprehensive (expense)/income for the period, net of tax	<u>(1.6)</u>	<u>7.2</u>
Total comprehensive (expense)/income for the period	<u>(98.2)</u>	<u>25.9</u>
Total comprehensive (expense)/income attributable to owners of the parent arising from:		
Continuing operations	(98.5)	8.5
Discontinued operations	0.3	17.4

¹ On 1 March 2020 the Group's portfolio of debt investment securities held at FVOCI was reclassified to amortised cost following a change in business model.

TESCO PERSONAL FINANCE PLC
INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)
AS AT 31 AUGUST 2020

		31 August 2020	29 February 2020 (audited)	31 August 2019
	Note	£m	£m	£m
Assets				
Cash and balances with central banks		1,604.5	1,393.9	723.2
Loans and advances to banks		–	–	459.1
Loans and advances to customers	10	7,285.2	8,451.3	8,688.7
Derivative financial instruments		6.8	5.7	40.0
Investment securities		875.9	1,081.6	1,060.0
Prepayments and accrued income		46.1	55.6	64.2
Current income tax asset		25.2	–	–
Other assets		430.2	243.3	274.7
Investment in joint venture		95.9	86.0	83.5
Deferred income tax asset		74.1	69.4	60.6
Intangible assets		130.1	138.2	205.0
Property, plant and equipment		75.7	73.4	72.6
Assets of the disposal group	9	–	45.1	3,690.1
Total assets		10,649.7	11,643.5	15,421.7
Liabilities				
Deposits from banks		500.0	500.0	1,998.1
Deposits from customers		6,648.4	7,718.0	9,914.5
Debt securities in issue	11	762.1	774.1	861.1
Derivative financial instruments		72.3	50.7	63.0
Provisions for liabilities and charges	12	50.2	58.7	81.6
Accruals and deferred income		156.3	100.1	88.8
Current income tax liability		–	26.3	22.6
Other liabilities		335.6	199.0	206.6
Subordinated liabilities and notes	13	489.4	485.6	486.2
Liabilities of the disposal group	9	–	–	4.2
Total liabilities		9,014.3	9,912.5	13,726.7
Equity and reserves attributable to owners of parent				
Share capital		122.0	122.0	122.0
Share premium account		1,097.9	1,097.9	1,097.9
Retained earnings		377.5	474.1	439.3
Other reserves		38.0	37.0	35.8
Total equity		1,635.4	1,731.0	1,695.0
Total liabilities and equity		10,649.7	11,643.5	15,421.7

TESCO PERSONAL FINANCE PLC
INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
FOR THE SIX MONTHS ENDED 31 AUGUST 2020

	Share capital £m	Share premium £m	Retained earnings £m	FV/AFS reserve £m	Cash flow hedge reserve £m	Currency basis reserve £m	Share based payment reserve £m	Total equity £m
Balance at 1 March 2020	122.0	1,097.9	474.1	12.3	(0.3)	(0.1)	25.1	1,731.0
Comprehensive income								
Loss for the period	–	–	(96.6)	–	–	–	–	(96.6)
Net fair value movement on investment securities held at FVOCI	–	–	–	(2.1)	–	–	–	(2.1)
Net movement on cash flow hedges	–	–	–	–	(0.4)	0.1	–	(0.3)
Share of other comprehensive income of joint venture	–	–	–	0.8	–	–	–	0.8
Total comprehensive income	–	–	(96.6)	(1.3)	(0.4)	0.1	–	(98.2)
Transactions with owners								
Dividends to ordinary shareholders	–	–	–	–	–	–	–	–
Share based payments	–	–	–	–	–	–	2.6	2.6
Total transactions with owners	–	–	–	–	–	–	2.6	2.6
Balance at 31 August 2020	122.0	1,097.9	377.5	11.0	(0.7)	–	27.7	1,635.4
Balance at 1 March 2019	122.0	1,097.9	420.6	4.6	(1.0)	(0.3)	24.1	1,667.9
Comprehensive income								
Profit for the period	–	–	18.7	–	–	–	–	18.7
Net fair value movement on equity investment securities held at FVOCI	–	–	–	0.8	–	–	–	0.8
Net movement on cash flow hedges	–	–	–	–	1.0	(0.2)	–	0.8
Share of other comprehensive income of joint venture	–	–	–	5.6	–	–	–	5.6
Total comprehensive income	–	–	18.7	6.4	1.0	(0.2)	–	25.9
Transactions with owners								
Share based payments	–	–	–	–	–	–	1.2	1.2
Total transactions with owners	–	–	–	–	–	–	1.2	1.2
Balance at 31 August 2019	122.0	1,097.9	439.3	11.0	–	(0.5)	25.3	1,695.0

TESCO PERSONAL FINANCE PLC
INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)
FOR THE SIX MONTHS ENDED 31 AUGUST 2020

	Note	6 months ended 31 August 2020 £m	6 months ended 31 August 2019 £m
Operating Activities			
(Loss)/profit before tax from continuing operations		(143.5)	16.8
Profit before tax from discontinued operations	9	0.4	23.9
Total (loss)/profit before tax		(143.1)	40.7
Adjusted for:			
Non-cash items included in operating (loss)/profit before taxation and other adjustments		303.9	179.0
Changes in operating assets and liabilities		(84.0)	(447.1)
Income taxes paid		(8.8)	(31.9)
Cash flows generated from/(used in) operating activities		68.0	(259.3)
Investing Activities			
Purchase of intangible assets and property, plant and equipment		(35.1)	(19.0)
Purchase of debt investment securities		–	(81.0)
Sale of debt investment securities		201.8	95.4
Redemption of subordinated debt issued by joint venture		–	7.8
Repayment of joint venture share capital		–	15.6
Cash flows generated from investing activities		166.7	18.8
Financing Activities			
Proceeds from issue of subordinated liabilities		–	250.0
Principal repayments on debt securities in issue		–	(350.0)
Interest paid on debt securities in issue		(8.2)	(10.5)
Interest (paid)/received on assets held to hedge debt securities in issue		(1.6)	4.1
Interest paid on subordinated liabilities and notes		(6.5)	(2.5)
Principal repayments on lease liabilities		(0.9)	(0.9)
Interest paid on lease liabilities		(1.8)	(1.0)
Cash flows used in financing activities		(19.0)	(110.8)
Net increase/(decrease) in cash and cash equivalents		215.7	(351.3)
Cash and cash equivalents¹ at beginning of period		1,362.3	1,043.4
Cash and cash equivalents¹ at end of period		1,578.0	692.1

¹ Cash and cash equivalents comprise cash and balances with central banks, excluding mandatory reserve deposits of £26.5m (August 2019: £31.1m).

The Interim Condensed Consolidated Financial Statements for the six months ended 31 August 2020 were approved by the Board of Directors on 5 October 2020.

1. Basis of Preparation

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

Unless otherwise stated, the accounting policies applied, and the judgements, estimates and assumptions made in applying those policies, are consistent with those described in the Consolidated Financial Statements of the Group for the year ended 29 February 2020. The Interim Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements of the Group for the year ended 29 February 2020, which have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the International Financial Reporting Interpretations Committee of the International Accounting Standards Board (IASB) as endorsed by the EU.

These Interim Condensed Consolidated Financial Statements have been reviewed, not audited, and do not constitute Statutory Financial Statements as defined in section 434 of the Companies Act 2006. The Consolidated Financial Statements for the year ended 29 February 2020 were approved by the Board of Directors on 7 April 2020 and have been filed with the Registrar of Companies. The report of the auditors on those Financial Statements was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 498 of the Companies Act 2006.

Going concern

The Directors have made an assessment of going concern, taking into account both current performance and the Group's outlook, which considered the impact of the Covid-19 pandemic, and including consideration of projections incorporating the impact of the Covid-19 pandemic for the Group's capital and funding position. As part of this assessment the Board considered:

- The impact on the Group's profits from a further expected reduction in income on Credit Cards, Loans, Travel Money and ATMs combined with further increases in expected credit loss (ECL) charges. As part of this, the Board considered revised macro-economic scenarios which were received from the Group's third-party supplier. These are discussed in note 14;
- The sufficiency of the Group's capital base throughout the pandemic;
- The adequacy of the Group's liquidity as the Group supports customers through a period of financial stress;
- The operational resilience of the Group's critical functions including call centres, mobile and online channels and the Group's ability to provide continuity of service to its customers throughout a prolonged stress;
- The resilience of the Group's IT systems;
- A detailed assessment of the Group's supplier base, considering any single points of failure and focussing on suppliers experiencing financial stress. This included consideration of contingency plans should suppliers be deemed at risk;
- The regulatory and legal environment and any potential conduct risks which could arise;
- Any potential valuation concerns in respect of the Group's assets as set out in the Interim Condensed Consolidated Statement of Financial Position;
- The impact of the pandemic on Tesco Underwriting Limited (TU), the Group's joint venture insurance company; and
- The structural protections of the Group's securitisation vehicles.

Going concern (continued)

The Board also considered the results of stress testing which is performed as an integral part of both the Individual Capital Adequacy Assessment Process (ICAAP) and Individual Liquidity Adequacy Assessment Process, with the Group having sufficient capital and liquidity to fund the balance sheet in each scenario.

As a result of this assessment, the Directors consider that it is appropriate to adopt the going concern basis of accounting in preparing the Interim Condensed Consolidated Financial Statements.

Adoption of new and amended IFRS

Details of new accounting standards and amendments to standards which will impact the Group in future reporting periods are included in the Consolidated Financial Statements of the Group for the year ended 29 February 2020.

During the period to 31 August 2020, the Group did not adopt any new accounting standards or amendments to standards which had any impact on the Group.

Change in classification

On 1 March 2020, the Group's portfolio of debt investment securities measured at fair value through other comprehensive income (FVOCI) was reclassified to amortised cost, measured using the effective interest rate (EIR) method less allowance for ECLs. This was following a change in business model to hold these debt investments for the collection of contractual cash flows only. In the prior period, gains and losses arising from changes in fair value were recognised directly in other comprehensive income, except for impairment gains or losses, interest income and foreign exchange gains and losses, which were recognised in the Consolidated Income Statement.

2. 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's two operating segments are as follows:

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

There are no transactions between the operating segments.

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

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

	Banking	Insurance	Central costs	Total management reporting	Total consolidated
	£m	£m	£m	£m	£m
Continuing operations					
6 months ended 31 August 2020					
Total income	285.0	39.3	–	324.3	324.3
Profit/(loss) before tax from continuing operations ¹	(24.1)	29.6	(149.0)	(143.5)	(143.5)
6 months ended 31 August 2019					
Total income	347.3	59.5	–	406.8	406.8
Profit/(loss) before tax from continuing operations ¹	121.7	53.3	(158.2)	16.8	16.8

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

2. Segmental Reporting (continued)

	Banking	Insurance	Total management reporting	Consolidation and other adjustments	Total consolidated
	£m	£m	£m		£m
31 August 2020					
Total assets ¹	10,390.0	160.4	10,550.4	99.3	10,649.7
Total liabilities	8,995.3	19.0	9,014.3	–	9,014.3
29 February 2020					
Total assets ^{1,2}	11,410.5	163.6	11,574.1	69.4	11,643.5
Total liabilities	9,866.0	20.2	9,886.2	26.3	9,912.5
31 August 2019					
Total assets ^{1,2}	15,222.7	138.4	15,361.1	60.6	15,421.7
Total liabilities	13,682.3	21.8	13,704.1	22.6	13,726.7

¹ The investment of £95.9m (February 2020: £86.0m, August 2019: £83.5m) in TU, a joint venture company accounted for using the equity method, is shown within the total assets of the Insurance segment.

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

3. Underlying (Loss)/Profit

The Group's financial performance is presented in the Interim Condensed Consolidated Income Statement on page 9. A summary of the Group's financial performance in respect of its continuing operations on an underlying basis, excluding items which are not reflective of ongoing trading performance, is presented below.

	Statutory basis £m	Restructuring activity ¹ £m	Customer redress ² £m	Ogden rate changes ³ £m	Financial instruments ⁴ £m	Underlying basis £m
6 months ended 31 August 2020						
Net interest income	237.9	–	–	–	–	237.9
Other income	86.4	–	–	–	1.3	87.7
Total income	324.3	–	–	–	1.3	325.6
Total operating expenses	(220.2)	–	–	–	–	(220.2)
Expected credit losses	(256.6)	–	–	–	–	(256.6)
Operating loss	(152.5)	–	–	–	1.3	(151.2)
Share of profit of joint venture	9.0	–	–	–	–	9.0
Loss before tax	(143.5)	–	–	–	1.3	(142.2)
	Statutory basis £m	Restructuring activity ¹ £m	Customer redress ² £m	Ogden rate changes ³ £m	Financial instruments ⁴ £m	Underlying basis £m
6 months ended 31 August 2019						
Net interest income	240.1	29.0	–	–	–	269.1
Other income	166.7	–	–	–	3.2	169.9
Total income	406.8	29.0	–	–	3.2	439.0
Total operating expenses	(283.8)	8.2	45.0	–	–	(230.6)
Expected credit losses	(113.4)	–	–	–	–	(113.4)
Operating profit	9.6	37.2	45.0	–	3.2	95.0
Share of profit of joint venture	7.2	–	–	(3.7)	–	3.5
Profit before tax	16.8	37.2	45.0	(3.7)	3.2	98.5

¹ Comprising:

- in the prior period, interest expense of £29.0m in respect of the discontinued operations' cost of funding, presented within net interest income on page 9. As this cost could not be directly attributed to liabilities of the Group entered into specifically to fund the Group's Mortgage business, as required by IFRS 5, it was not possible to present this cost within statutory profit for the period after tax from discontinued operations for the prior period. These costs were in respect of business restructuring and are considered part of the Mortgage business' results on a managed basis. There was no such charge in the current period; and
- in the prior period, a restructuring charge of £8.2m in respect of costs related to the Group's strategic review, presented within administrative expenses on page 9. These charges were in respect of business restructuring and are not considered part of the Group's underlying results. There was no such charge in the current period.

² Comprising:

- in the prior period, a payment protection insurance (PPI) provision charge of £45.0m presented within operating expenses on page 9. These costs relate to historic sales of PPI and are not reflective of the Group's underlying trading performance. There was no such charge in the current period.

³ Comprising:

- in the prior period, a credit of £3.7m representing the Group's share of credits recognised by TU relating to the impact on TU's insurance reserves of a change in the Ogden tables, presented within share of profit of joint venture on page 9. The Ogden tables were last changed in March 2017, when the discount rate was changed from 2.5% to -0.75%, resulting in the Group recognising a charge of £22.8m for the year ended 28 February 2017 in respect of this rate change, which was excluded from underlying profit at that date. The credit recognised in the prior period reflects the change to the current discount rate of -0.25%. This rate change was implemented following Government consultation and is not reflective of the ongoing underlying performance of TU. There was no such credit in the current period.

⁴ Comprising:

- Losses on financial instruments at FVPL of £1.3m (August 2019: losses of £3.2m) presented within total income on page 9. 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 (loss)/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.

4. Net Interest Income

	6 months ended 31 August 2020 £m	6 months ended 31 August 2019 £m
Continuing operations		
Interest and similar income		
On financial assets measured at amortised cost		
Loans and advances to customers	291.9	332.5
Cash and balances with central banks	1.0	3.8
Investment securities ¹	7.4	0.5
	<u>300.3</u>	<u>336.8</u>
On financial assets measured at fair value		
Investment securities ¹	–	9.2
	<u>–</u>	<u>9.2</u>
Total interest and similar income	<u>300.3</u>	<u>346.0</u>
Interest expense and similar charges		
On financial liabilities measured at amortised cost		
Deposits from customers	(40.0)	(75.1)
Deposits from banks	(0.6)	(8.0)
Debt securities in issue	(8.2)	(11.6)
Lease liabilities	(1.2)	(1.3)
Subordinated liabilities and notes	(6.3)	(2.6)
	<u>(56.3)</u>	<u>(98.6)</u>
On financial liabilities measured at fair value		
Derivative financial liabilities - FVPL	(6.1)	(7.3)
	<u>(6.1)</u>	<u>(7.3)</u>
Total interest and similar charges	<u>(62.4)</u>	<u>(105.9)</u>
Net interest income	<u>237.9</u>	<u>240.1</u>

¹ On 1 March 2020 the Group's portfolio of debt investment securities measured at FVOCI was reclassified to amortised cost following a change in business model.

5. Net Fees and Commissions Income

	6 months ended 31 August 2020 £m	6 months ended 31 August 2019 £m
Continuing operations		
Fees and commissions income		
Banking revenue from contracts with customers	74.3	122.0
Insurance revenue from contracts with customers	27.4	46.5
Other revenue from contracts with customers	0.6	16.7
Total fees and commissions income	102.3	185.2
Fees and commissions expense		
Banking expense	(14.6)	(15.4)
Total fees and commissions expense	(14.6)	(15.4)
Net fees and commissions income	87.7	169.8

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.

6. Expected Credit Loss on Financial Assets

	6 months ended 31 August 2020 £m	6 months ended 31 August 2019 £m
Continuing operations		
Expected credit loss on loans and advances to customers ¹	256.6	113.8
Expected credit loss on investment securities at FVOCI ²	–	(0.4)
Total expected credit loss on financial assets	256.6	113.4

Refer to note 14 for further detail on factors impacting expected credit loss charges.

¹ Included within the expected credit loss on loans and advances to customers is an amount of £nil (August 2019: £0.8m) received through the sale of debt to third parties.

² On 1 March 2020 the Group's portfolio of debt investment securities measured at FVOCI was reclassified to amortised cost following a change in business model.

7. Income Tax

The tax charge in the Interim Condensed Consolidated Income Statement is based on Management's best estimate of the full year effective tax rate based on expected full year losses to 28 February 2021.

The standard rate of corporation tax in the United Kingdom (UK) was changed from 20% to 19% with effect from 1 April 2017. The March 2016 Budget Statement included an announcement that the standard rate of corporation tax in the UK would be further reduced to 17% from 1 April 2020. Subsequently, at the March 2020 Budget Statement, the Chancellor announced that this reduction to 17% would no longer take place, with the standard rate of corporation tax instead being maintained at 19%. The cancellation of the rate reduction resulted in the Group's deferred tax asset increasing by £5.5m during the period.

The Group's blended corporation tax rate is 19.0% (August 2019: 19.0%). In addition, a banking surcharge of 8.0% (August 2019: 8.0%) is applied to the Group's results.

Income tax on the Group's loss from continuing operations for the period is a credit of £46.6m (August 2019: charge of £15.5m). This is due to losses driven predominantly by increased ECL charges due to Covid-19.

Income tax on the Group's discontinued operations is a charge of £0.1m (August 2019: charge of £6.5m).

8. Capital Expenditure and Commitments

In the six months ended 31 August 2020 there were additions to property, plant and equipment and intangible assets of £25.0m (August 2019: £18.7m). Commitments for capital expenditure contracted for but not provided at 31 August 2020 were £0.8m (February 2020: £1.2m) on property, plant and equipment and £1.1m (February 2020: £5.7m) on intangible assets. The Group's Management are confident that future net revenues and funding will be sufficient to cover these commitments.

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

Assets/Liabilities of the disposal group

	31 August 2020 £m	29 February 2020 £m	31 August 2019 £m
Assets and liabilities of the disposal group			
Secured Mortgage lending - gross	–	44.7	3,660.1
Fair value hedge adjustment	–	–	32.2
Less: Allowance for impairment	–	–	(3.2)
Secured Mortgage lending - net	–	44.7	3,689.1
Other assets	–	0.4	1.0
Assets of the disposal group	–	45.1	3,690.1
Other liabilities	–	–	4.2
Liabilities of the disposal group	–	–	4.2

During the prior period, secured Mortgage lending balances were reclassified from loans and advances to customers set out at note 10 to assets of the disposal group following the Group's decision to sell its Mortgage business. Cash in transit balances in relation to Mortgages were also reclassified from other assets and other liabilities to assets and liabilities of the disposal group respectively as these balances related to amounts to be applied to Mortgage accounts and therefore formed part of the Mortgage business being sold. The remaining secured Mortgage lending balances included in the above table at 29 February 2020 related to a small element of the Mortgage business, representing new advances to existing Mortgage customers, which continued to be recognised by the Group until the completion of the migration of all Mortgage accounts to the purchaser, which took place on 30 March 2020.

At 31 August 2020, the Group had contractual lending commitments of £nil (29 February 2020: £17.3m) in respect of the assets of the disposal group.

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

Discontinued operations - income statement

The table below shows the results of discontinued operations in relation to the Group's Mortgage business which are included in the Interim Condensed Consolidated Income Statement and Interim Condensed Consolidated Statement of Cash Flows for the period to 31 August 2020.

	Statutory basis £m	Funding costs ¹ £m	Managed basis £m
6 months ended 31 August 2020			
Other income	(0.6)	–	(0.6)
Total income	(0.6)	–	(0.6)
Total operating expenses	0.4	–	0.4
Loss before tax	(0.2)	–	(0.2)
Income tax credit	0.1	–	0.1
Loss after tax from discontinued operations	(0.1)	–	(0.1)
Gain on sale of discontinued operations	0.4	–	0.4
Profit after tax for the period attributable to owners of the parent arising from discontinued operations	0.3	–	0.3
	Statutory basis £m	Funding costs ¹ £m	Managed basis £m
6 months ended 31 August 2019			
Net interest income	41.3	(29.0)	12.3
Net fees and commissions income	1.0	–	1.0
Other income	(6.6)	–	(6.6)
Total income	35.7	(29.0)	6.7
Total operating expenses	(11.8)	–	(11.8)
Impairment loss on financial assets	–	–	–
Profit/(loss) before tax	23.9	(29.0)	(5.1)
Income tax (charge)/credit	(6.5)	7.8	1.3
Profit after tax for the period attributable to owners of the parent arising from discontinued operations	17.4	(21.2)	(3.8)

¹ Comprising:

- in the prior period, interest expense of £29.0m in respect of the discontinued operations' cost of funding, presented within net interest income on page 9. As this cost could not be directly attributed to liabilities of the Group entered into specifically to fund the Group's Mortgage business, as required by IFRS 5, it was not possible to present this cost within statutory profit for the period after tax from discontinued operations for the prior period. These costs were in respect of business restructuring and are considered part of the Mortgage business' results on a managed basis. There was no such charge in the current period.

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

Discontinued operations - details of the sale of the Mortgage business

	6 months ended 31 August 2020	6 months ended 31 August 2019
	£m	£m
Total cash consideration received	50.8	–
Carrying amount of net assets sold	(50.2)	–
Gain on sale before income tax	0.6	–
Income tax charge on gain	(0.2)	–
Gain on sale after income tax	0.4	–
Comprising:		
Gain on disposal	0.4	–
Gain on sale after income tax	0.4	–

Discontinued operations - statement of cash flows

	6 months ended 31 August 2020	6 months ended 31 August 2019
	£m	£m
Statement of Cash Flows		
Net cash flows from operating activities	44.8	111.0
Net cash flows from investing activities	–	–
Net cash flows from financing activities	–	–
Net cash flows from discontinued operations	44.8	111.0

10. Loans and Advances to Customers

	31 August 2020	29 February 2020	31 August 2019
	£m	£m	£m
Unsecured lending	7,918.1	8,930.0	9,190.8
Total secured and unsecured lending	7,918.1	8,930.0	9,190.8
Fair value hedge adjustment	16.9	9.7	9.3
Gross loans and advances to customers	7,935.0	8,939.7	9,200.1
Less: ECL allowance (Refer to note 14)	(649.8)	(488.4)	(511.4)
Net loans and advances to customers	7,285.2	8,451.3	8,688.7

Contractual lending commitments and ECL provision

At 31 August 2020, the Group had contractual lending commitments of £12,324.9m (February 2020: £11,872.0m). An additional ECL provision of £15.7m was also recognised at 31 August 2020 (February 2020: £7.7m). This represents the excess of total ECLs for both drawn and undrawn balances over the gross carrying balances as above. Refer to notes 12 and 14 for further details.

Fair value hedge adjustments

Fair value hedge adjustments amounting to £16.9m (February 2020: £9.7m) are in respect of fixed rate Loans. 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.

11. Debt Securities in Issue

	Interest rate	Par value £m	Term (years)	Maturity date	31 August 2020 £m	29 February 2020 £m	31 August 2019 £m
RPI bond ¹	1.0%	73.2	8	2019	–	–	73.2
Fixed rate retail bond ²	5.0%	200.0	8.5	2020	200.8	201.8	202.9
Floating rate AAA bond (A1) ³	1M LIBOR + 0.53%	300.0	5	2022	300.0	299.2	299.0
Floating rate AAA bond (A1) ⁴	1M USD LIBOR + 0.84%	272.2	7	2025	261.3	273.1	286.0
					762.1	774.1	861.1

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

¹ This bond was issued on 16 December 2011 and redeemed on its scheduled redemption date in December 2019.

² This bond was issued on 21 May 2012. The scheduled redemption date of this bond is November 2020.

³ This Bond was issued on 7 November 2017. The scheduled redemption date of this Bond is October 2020.

⁴ This bond was issued on 27 November 2018. The scheduled redemption date of this bond is November 2020.

12. Provisions for Liabilities and Charges

	Customer redress provision £m	Restructuring provision £m	Expected credit loss provision £m	Other provisions £m	Total £m
6 months to 31 August 2020					
At beginning of period	41.6	1.2	7.7	8.2	58.7
Utilised during the period	(14.1)	(0.1)	–	(2.3)	(16.5)
Released during the period	–	–	–	–	–
Transfer from ECL	–	–	8.0	–	8.0
At end of period	27.5	1.1	15.7	5.9	50.2

Customer redress provision - Payment protection insurance

Of the total customer redress provision balance at 31 August 2020, £27.2m (February 2020: £41.1m) has been provided for customer redress in respect of potential customer claims arising from historic sales of PPI.

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

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

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

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

12. Provisions for Liabilities and Charges (continued)

Customer redress provision - Payment protection insurance (continued)

The table below details, for each key assumption, actual data to 31 August 2020 and a sensitivity assessment demonstrating the impact on the provision of a variation in the key assumptions. The key sensitivity in relation to PPI claims received is the conversion rate into an upheld complaint.

Assumption	Cumulative actual	Outstanding claims	Sensitivity	
			Change in assumption	Consequential change in provision £m
Valid general PPI claims settled	167,502	1,894	+/- 100 successful claims	+/- 0.2
Average redress per valid general PPI claim	£1,771	£1,821	+/- £100	+/- 0.2
Valid legal PPI claims settled	45	627	+/- 100 successful claims	+/- 0.3
Average redress per valid legal PPI claim	£2,842	£2,842	+/- £100	+/- 0.3

Customer redress provision - Consumer credit act (CCA)

The Group holds a provision of £0.3m (February 2020: £0.5m) in respect of customer redress relating to instances where certain requirements of the CCA for post-contract documentation were not fully complied with.

In arriving at the provision required, the Group has considered the legal and regulatory position with respect to these matters and has sought legal advice which it took into account when making its judgement. The provision represents Management's best estimate at the reporting date of the cost of concluding the redress programme for Loan and Credit Card customers, and in making the estimate Management have exercised judgement as to both the timescale for completing the redress campaign and the final scope of any amounts payable. Management expect to utilise the provision over the remainder of the year ending 28 February 2021.

Restructuring provision

The restructuring provision is in respect of costs related to the Group's strategic review. Management expect to utilise the provision over the remainder of the year ending 28 February 2021.

Expected Credit Loss provision

The ECL provision represents the amount of ECL allowance recognised under IFRS 9 which exceeds the gross carrying amount of the financial asset as set out at note 14.

Other provisions

Other provisions predominantly reflect:

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

13. Subordinated Liabilities and Notes

	31 August 2020 £m	29 February 2020 £m	31 August 2019 £m
Amortised cost:			
Fixed rate subordinated loan	254.4	250.6	251.2
Floating rate subordinated loans	190.0	190.0	190.0
Undated floating rate notes	45.0	45.0	45.0
Total subordinated liabilities and notes	489.4	485.6	486.2

Subordinated liabilities and notes comprise loan capital issued to Tesco Personal Finance Group PLC (TPFG). This includes £250.0m notional (February 2020: £250.0m notional) of subordinated loans maturing in 2025, £190.0m (February 2020: £190.0m) of subordinated loans maturing in 2030 and £45.0m (February 2020: £45.0m) of undated notes with no fixed maturity date.

Interest payable on the fixed rate intercompany subordinated loan is 3.5%. Interest payable on the floating rate subordinated loans and notes is based on three month SONIA plus a margin of 67 to 227 basis points (February 2020: three month SONIA plus a margin of 67 to 227 basis points).

14. Credit risk management

Full details of the Group's risk management are included in the Group's Consolidated Financial Statements for the year ended 29 February 2020. Updates on key areas of credit risk management and ECL measurement are included below.

- **Credit risk: ECL measurement**

Incorporation of forward-looking information

The ECL calculation and the measurement of significant deterioration in credit risk both incorporate forward-looking information using a range of macro-economic scenarios. The key economic variables are based on historical patterns observed over a range of economic cycles.

The Group has engaged a third-party supplier to provide relevant economic data for this purpose which, prior to incorporation into the ECL calculation, is subject to internal review and challenge with reference to other publicly available market data and benchmarks.

At 31 August 2019, a three-scenario model was adopted. The Base case represented an estimate at that date of the most-likely outcome whilst the other scenarios represented more optimistic (Upside) and more pessimistic (Downside) outcomes. The Downside scenario represented, at that date, the Group's view of the economy if the UK exited the EU without both a withdrawal agreement and framework for a future relationship with the EU. The scenarios were assigned weightings of 40%, 25% and 35% respectively.

At 29 February 2020, the Group used five economic scenarios. These included a Base scenario, an Upside scenario and three Downside scenarios. Downside 1 was an unfavourable EU trade deal, Downside 2 was a more severe recession and in addition, to reflect the increased risk at that date of an adverse economic impact from the Covid-19 pandemic, a fifth scenario which used Downside 2 as a proxy was introduced. The scenarios were assigned weightings of 40%, 20%, 30%, 5% and 5% respectively.

At 31 August 2020, the Group commissioned four new scenarios from its third-party provider, all of which were based on an economic outlook that sought to take account of the potential ramifications of the Covid-19 outbreak. These scenarios include a Base scenario, an Upside scenario and two different Downside scenarios. The Base scenario anticipates a delayed economic recovery, with consumer confidence remaining weak in the near term and unemployment peaking in Q4 2020. The Upside scenario involves a sharper economic recovery while Downside 1 assumes a longer delay until the economy recovers. Downside 2 is a prolonged and sustained recession with a slow economic recovery thereafter. In selecting the Downside scenarios, the Group explored the extremities of potential economic impacts and, as a result, these Downside scenarios have been given a lesser weighting due to the context of the Base and Upside scenarios also taking into account the deep negative impact of the pandemic on the UK economy. The Base, Upside, Downside 1 and Downside 2 scenarios have been assigned weightings of 50%, 34%, 15% and 1% respectively.

The tables below show the key macro-economic variables in each scenario at each reporting date, across a five calendar year period. The 2020 variables represent a full calendar year forecast containing six months of actual figures. Following the sale of the majority of the Group's Mortgage business in September 2019, house price index is no longer considered a key variable for the Group and has therefore been excluded from the current year table and the comparative as at 29 February 2020.

14. Credit risk management (continued)

The economic scenarios used include the following ranges of key indicators:

As at 31 August 2020

Scenario	Weighting	Sensitivity (100% weighted)	Economic measure	2020	2021	2022	2023	2024
		£m		%	%	%	%	%
Base	50%	24.4	Bank of England base rate ¹	0.3	0.1	0.1	0.1	0.1
			Gross domestic product ²	(9.6)	9.2	2.6	1.6	1.6
			Unemployment rate ¹	6.8	8.4	6.4	5.2	4.5
			Unemployment rate peak in year	9.4	9.2	7.0	5.5	4.7
Upside	34%	(82.9)	Bank of England base rate ¹	0.3	0.1	0.1	0.1	0.1
			Gross domestic product ²	0.4	2.5	1.8	1.8	1.8
			Unemployment rate ¹	5.6	5.3	4.6	4.3	4.2
			Unemployment rate peak in year	6.2	5.8	4.8	4.3	4.2
Downside 1	15%	99.0	Bank of England base rate ¹	0.3	0.1	0.1	0.1	0.1
			Gross domestic product ²	(11.8)	8.1	2.1	1.8	1.8
			Unemployment rate ¹	7.5	10.8	10.3	9.1	7.9
			Unemployment rate peak in year	11.0	11.0	10.6	9.7	8.3
Downside 2	1%	180.8	Bank of England base rate ¹	0.3	0.1	0.1	0.1	0.1
			Gross domestic product ²	(13.3)	7.2	2.7	2.0	1.8
			Unemployment rate ¹	8.4	13.2	13.1	12.7	11.4
			Unemployment rate peak in year	13.3	13.3	13.2	13.0	12.1
Weighted scenarios ³			Bank of England base rate ¹	0.3	0.1	0.1	0.1	0.1
			Gross domestic product ²	(6.5)	6.7	2.2	1.7	1.7
			Unemployment rate ¹	6.5	7.8	6.4	5.5	5.0
			Unemployment rate peak in year	8.6	8.3	6.8	5.8	5.2

¹ Simple average

² Annual growth rates

³ Represents the impact on ECL provision if 100% weighting applied to each macro-economic scenario.

14. Credit risk management (continued)

As at 29 February 2020

Scenario	Weighting	Sensitivity (100% weighted) £m	Economic measure	2020	2021	2022	2023	2024
				%	%	%	%	%
Base	40%	(27.7)	Bank of England base rate ¹	0.5	0.5	0.6	0.7	0.7
			Gross domestic product ²	1.1	1.6	1.7	1.8	1.8
			Unemployment rate	4.0	3.9	3.8	3.8	3.8
			Unemployment rate peak in year	4.0	3.9	3.9	3.8	3.8
Upside	20%	(41.1)	Bank of England base rate ¹	0.2	0.2	0.2	0.3	0.3
			Gross domestic product ²	1.2	2.0	2.1	2.3	2.2
			Unemployment rate	3.9	3.9	3.8	3.8	3.8
			Unemployment rate peak in year	4.0	3.9	3.8	3.8	3.8
Downside 1	30%	39.6	Bank of England base rate ¹	0.5	0.7	1.6	2.3	2.3
			Gross domestic product ²	1.1	1.0	0.6	1.0	1.1
			Unemployment rate	4.1	4.8	5.9	5.8	5.8
			Unemployment rate peak in year	4.2	5.4	6.0	5.9	5.8
Downside 2	5%	102.9	Bank of England base rate ¹	0.6	2.0	3.0	3.0	3.0
			Gross domestic product ²	1.1	(2.4)	1.3	1.7	1.7
			Unemployment rate	4.2	6.0	7.0	6.8	6.4
			Unemployment rate peak in year	4.5	6.7	7.0	6.9	6.6
Covid-19	5%	102.9	Bank of England base rate ¹	0.6	2.0	3.0	3.0	3.0
			Gross domestic product ²	1.1	(2.4)	1.3	1.7	1.7
			Unemployment rate	4.2	6.0	7.0	6.8	6.4
			Unemployment rate peak in year	4.5	6.7	7.0	6.9	6.6
Weighted scenarios ³			Bank of England base rate ¹	0.4	0.6	1.1	1.3	1.3
			Gross domestic product	1.1	1.1	1.4	1.6	1.7
			Unemployment rate	4.0	4.4	4.8	4.7	4.7
			Unemployment rate peak in year	4.0	4.3	4.5	4.6	4.7

¹ Simple average

² Annual growth rates

³ Represents the impact on ECL provision if 100% weighting applied to each macro-economic scenario.

14. Credit risk management (continued)

As at 31 August 2019

Scenario	Weighting	Sensitivity (100% weighted) £m	Economic measure	2019	2020	2021	2022	2023
				%	%	%	%	%
Base	40%	(33.1)	Bank of England base rate ¹	0.5	0.5	0.5	0.6	0.6
			Gross domestic product ²	1.3	1.7	1.7	1.8	1.9
			Unemployment rate	3.8	3.9	3.8	3.7	3.7
			House price index	2.9	3.4	3.9	4.3	3.9
			Unemployment rate peak in year	3.8	3.9	3.9	3.8	3.7
Upside	25%	(42.8)	Bank of England base rate ¹	0.4	0.2	0.1	0.2	0.3
			Gross domestic product ²	1.7	2.0	2.1	2.2	2.4
			Unemployment rate	3.8	3.8	3.7	3.7	3.7
			House price index	4.3	4.7	5.4	6.3	5.6
			Unemployment rate peak in year	3.8	3.9	3.8	3.7	3.7
Downside	35%	79.4	Bank of England base rate ¹	1.0	2.1	2.5	2.4	2.0
			Gross domestic product ²	0.8	(0.2)	1.2	1.6	1.7
			Unemployment rate	4.4	5.2	5.8	6.3	6.7
			House price index	(2.1)	(4.1)	0.2	3.2	4.1
			Unemployment rate peak in year	4.3	5.1	5.7	6.2	6.6
Weighted scenarios ³			Bank of England base rate ¹	0.7	1.0	1.1	1.1	1.0
			Gross domestic product ²	1.2	1.1	1.6	1.9	2.0
			Unemployment rate	4.0	4.3	4.5	4.6	4.8
			House price index	1.5	1.1	3.0	4.4	4.4
			Unemployment rate peak in year	3.9	4.3	4.5	4.4	4.4

¹ Simple average

² Annual growth rates

³ Represents the impact on ECL provision if 100% weighting applied to each macro-economic scenario.

14. Credit risk management (continued)

Sensitivity analysis

As the calculation of ECLs is complex and involves use of judgement, sensitivity analysis has been performed to illustrate the impact on ECLs of any changes to the main components of the calculation. The impact on ECLs as a result of changes in loss given default (LGD), staging, probability of default (PD) and expected lifetime, have been assessed.

Most of the sensitivities have been calculated as single-factor sensitivities and any impact on ECL reflects the sensitivity of the estimate to each key component in isolation. However, the PD also includes a rebasing of the staging allocation and thresholds. The impact of these is therefore incorporated within the impact disclosed for these sensitivities.

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.

For further details on each of these assumptions refer to the Consolidated Financial Statements for the Group for the year ended 29 February 2020.

Set out below are changes in the ECL allowance that would arise from reasonably possible changes in these assumptions from those used in the Group's calculations at 31 August 2020:

		Impact on the loss allowance		
		31 August 2020	29 February 2020	31 August 2019
		£m	£m	£m
Closing ECL allowance		649.8	488.4	511.4
PD	Increase of 2.5%	13.1	11.1	9.6
	Decrease of 2.5%	(13.2)	(10.9)	(9.4)
LGD	Increase of 2.5%	14.9	12.1	12.4
	Decrease of 2.5%	(15.0)	(12.3)	(12.6)
Staging - change in threshold	Increase of 20%	(18.6)	(17.3)	(13.3)
	Decrease of 20%	20.6	21.4	19.9
Expected lifetime (revolving credit facilities)	Increase of 1 year	3.8	2.1	2.5
	Decrease of 1 year	(4.0)	(2.1)	(2.5)

14. Credit risk management (continued)

• Credit risk: credit risk exposure

Maximum exposure to credit risk

The table below represents the Group's maximum exposure to credit risk, by IFRS 9 stages at the reporting date, in respect of financial assets held.

For financial assets, the balances are based on gross carrying amounts as reported in the Consolidated Statement of Financial Position. For loan commitments, the amounts in the table represent the amounts for which the Group is contractually committed.

As at 31 August 2020	Stage 1	Stage 2			Total	Stage 3	Total
		Not past due	<30 days past due	>30 days past due			
	£m	£m	£m	£m	£m	£m	£m
Gross Exposure							
Loans and advances to customers	6,396.8	1,176.8	25.8	14.9	1,217.5	303.8	7,918.1
Investment securities at FVOCI ¹	3.6	–	–	–	–	–	3.6
Investment securities at amortised cost ¹	873.3	–	–	–	–	–	873.3
Loan commitments - Loans and advances to customers ²	12,080.5	243.2	–	–	243.2	1.2	12,324.9
Total gross exposure	19,354.2	1,420.0	25.8	14.9	1,460.7	305.0	21,119.9
Loss allowance							
Loans and advances to customers ²	109.1	302.3	15.4	11.3	329.0	211.7	649.8
Investment securities at FVOCI ³	–	–	–	–	–	–	–
Investment securities at amortised cost ¹	1.0	–	–	–	–	–	1.0
Total loss allowance	110.1	302.3	15.4	11.3	329.0	211.7	650.8
Net exposure							
Loans and advances to customers	6,287.7	874.5	10.4	3.6	888.5	92.1	7,268.3
Investment securities at FVOCI	3.6	–	–	–	–	–	3.6
Investment securities at amortised cost	872.3	–	–	–	–	–	872.3
Total net exposure	7,163.6	874.5	10.4	3.6	888.5	92.1	8,144.2
Coverage							
Loans and advances to customers	1.7%	25.7%	59.7%	75.8%	27.0%	69.7%	8.2%

¹ On 1 March 2020 the Group's portfolio of debt investment securities measured at FVOCI was reclassified to amortised cost following a change in business model.

² 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 12.

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

14. Credit risk management (continued)

As at 29 February 2020		Stage 1	Stage 2			Stage 3	Total
			Not past due	<30 days past due	>30 days past due		
	£m	£m	£m	£m	£m	£m	£m
Gross Exposure							
Loans and advances to customers	7,687.9	869.4	51.8	32.1	953.3	288.8	8,930.0
Investment securities at FVOCI	1,060.6	-	-	-	-	-	1,060.6
Investment securities at amortised cost	21.1	-	-	-	-	-	21.1
Loan commitments - Loans and advances to customers ¹	11,754.7	116.3	-	-	116.3	1.0	11,872.0
Total gross exposure	20,524.3	985.7	51.8	32.1	1,069.6	289.8	21,883.7
Loss allowance							
Loans and advances to customers	84.1	177.5	21.5	19.6	218.6	185.7	488.4
Investment securities at FVOCI ²	0.9	-	-	-	-	-	0.9
Investment securities at amortised cost	0.1	-	-	-	-	-	0.1
Total loss allowance	85.1	177.5	21.5	19.6	218.6	185.7	489.4
Net exposure							
Loans and advances to customers	7,603.8	691.9	30.3	12.5	734.7	103.1	8,441.6
Investment securities at FVOCI	1,059.7	-	-	-	-	-	1,059.7
Investment securities at amortised cost	21.0	-	-	-	-	-	21.0
Total net exposure	8,684.5	691.9	30.3	12.5	734.7	103.1	9,522.3
Coverage							
Loans and advances to customers	1.1%	20.4%	41.5%	61.1%	22.9%	64.3%	5.5%

¹ The loss allowance in respect of loan commitments is included within the total loss allowance for loans and advances to customers and assets of the disposal group as above to the extent that it is below the gross carrying amount of loans and advances to customers or assets of the disposal group. Where the loss allowance exceeds the gross carrying amount, any excess is included within provisions as set out at note 12.

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.

14. Credit risk management (continued)

As at 31 August 2019	Stage 1	Stage 2				Stage 3	Total
		Not past due	<30 days past due	>30 days past due	Total		
	£m	£m	£m	£m	£m	£m	£m
Gross Exposure							
Loans and advances to customers	7,977.3	825.9	49.2	31.1	906.2	307.3	9,190.8
Investment securities at FVOCI	1,039.0	-	-	-	-	-	1,039.0
Investment securities at amortised cost	21.1	-	-	-	-	-	21.1
Assets of the disposal group	3,534.9	120.5	2.4	1.2	124.1	1.1	3,660.1
Loan commitments - loans and advances to customers ¹	11,713.9	102.3	2.9	0.2	105.4	1.2	11,820.5
Loan commitments - assets of the disposal group	53.9	-	-	-	-	-	53.9
Total gross exposure	24,340.1	1,048.7	54.5	32.5	1,135.7	309.6	25,785.4
Loss allowance							
Loans and advances to customers	100.0	175.2	22.2	18.1	215.5	195.9	511.4
Investment securities at FVOCI ²	(0.2)	-	-	-	-	-	(0.2)
Investment securities at amortised cost	0.1	-	-	-	-	-	0.1
Assets of the disposal group	1.5	1.6	-	-	1.6	0.1	3.2
Total loss allowance	101.4	176.8	22.2	18.1	217.1	196.0	514.5
Net exposure							
Loans and advances to customers	7,877.3	650.7	27.0	13.0	690.7	111.4	8,679.4
Investment securities at FVOCI	1,039.2	-	-	-	-	-	1,039.2
Investment securities at amortised cost	21.0	-	-	-	-	-	21.0
Assets of the disposal group	3,533.4	118.9	2.4	1.2	122.5	1.0	3,656.9
Total net exposure	12,470.9	769.6	29.4	14.2	813.2	112.4	13,396.5
Coverage							
Loans and advances to customers	1.3%	21.2%	45.1%	58.2%	23.8%	63.7%	5.6%

¹ The loss allowance in respect of loan commitments is included within the total loss allowance for loans and advances to customers and assets of the disposal group as above to the extent that it is below the gross carrying amount of loans and advances to customers or assets of the disposal group. Where the loss allowance exceeds the gross carrying amount, any excess is included within provisions as set out at note 12.

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.

14. Credit risk management (continued)

• Credit risk: Loss allowance

Loss allowance reconciliation

The following table provides a reconciliation of the movements in the loss allowance in the period:

6 months to 31 August 2020	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Loans and advances to customers - loss allowance				
At 1 March 2020	84.1	218.6	185.7	488.4
Transfers^{1,3}				
Transfers from stage 1 to stage 2	(18.8)	18.8	–	–
Transfers from stage 2 to stage 1	8.9	(8.9)	–	–
Transfers to stage 3	(1.1)	(33.7)	34.8	–
Transfers from stage 3	0.9	1.7	(2.6)	–
Income statement charge				
Net remeasurement ² following transfer of stage ³	(5.9)	35.5	42.4	72.0
New financial assets originated ⁴	4.8	1.0	0.3	6.1
Financial assets derecognised during the period	(3.4)	(4.6)	(2.1)	(10.1)
Changes in risk parameters and other movements ^{3,5}	44.2	105.3	40.2	189.7
Other movements				
Write-offs and asset disposals ⁶	–	(1.3)	(87.0)	(88.3)
Transfer to provisions for liabilities and charges ⁷	(4.6)	(3.4)	–	(8.0)
ECL allowance at 31 August 2020	109.1	329.0	211.7	649.8

Investment securities at FVOCI - loss allowance

At 1 March 2020	0.9	–	–	0.9
Other movements				
Transfers to investment securities at amortised cost ⁸	(0.9)	–	–	(0.9)
ECL allowance at 31 August 2020	–	–	–	–

Investment securities at amortised cost - loss allowance

At 1 March 2020	0.1	–	–	0.1
Income statement charge				
Financial assets derecognised during the period	(0.1)	–	–	(0.1)
Changes in risk parameters and other movements	0.1	–	–	0.1
Other movements				
Transfers from investment securities at FVOCI	0.9	–	–	0.9
ECL allowance at 31 August 2020	1.0	–	–	1.0

Reconciliation to income statement

Net expected credit loss charge	39.7	137.2	80.8	257.7
Recoveries and write-offs	–	–	(1.1)	(1.1)
Total income statement charge	39.7	137.2	79.7	256.6

¹ Transfers - The opening loss allowance on financial assets in respect of continuing operations which transferred stage during the period.

² Net remeasurement - The increase/(decrease) in the opening loss allowance as a result of a stage transfer.

³ Includes a charge in stages 1 and 2 of £194.4m due to a change in macro-economic assumptions.

⁴ New financial assets originated or purchased - The loss allowance on new financial assets originated or purchased during the period, representing their stage at 31 August 2020.

⁵ Changes in risk parameters and other movements - The change in loss allowance due to changes in macro-economic scenarios, PD, LGD and exposure at default (EAD) changes during the period.

⁶ Write-offs and asset disposals - The release of the loss allowance following the write off and/or disposal of a financial asset during the period.

⁷ Transfer from provisions for liabilities and charges - The movement in loss allowance which exceeds the gross carrying amount of the financial asset.

⁸ On 1 March 2020 the Group's portfolio of debt investment securities measured at FVOCI was reclassified to amortised cost following a change in business model.

14. Credit risk management (continued)

6 months to 31 August 2019	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Loans and advances to customers - loss allowance				
At 1 March 2019	84.6	228.7	171.9	485.2
Transfers^{1,3}				
Transfers from stage 1 to stage 2	(9.9)	9.9	-	-
Transfers from stage 2 to stage 1	58.3	(58.3)	-	-
Transfers to stage 3	(1.6)	(37.6)	39.2	-
Transfers from stage 3	1.2	2.2	(3.4)	-
Income statement charge				
Net remeasurement ² following transfer of stage ³	(34.7)	20.8	49.5	35.6
New financial assets originated ⁴	15.9	6.4	1.1	23.4
Changes in risk parameters and other movements ^{3,5}	(12.7)	47.0	18.7	53.0
Other movements				
Write-offs and asset disposals ⁶	-	(1.7)	(81.0)	(82.7)
Transfer from provisions for liabilities and charges ⁷	0.4	(0.3)	-	0.1
Reclassification of assets of the disposal group ⁸	(1.5)	(1.6)	(0.1)	(3.2)
ECL allowance at 31 August 2019	100.0	215.5	195.9	511.4
Investment securities at FVOCI - loss allowance				
At 1 March 2019	0.2	-	-	0.2
Income statement charge				
New financial assets purchased ⁴	-	-	-	-
Financial assets derecognised during the period	-	-	-	-
Changes in risk parameters and other movements ⁵	(0.4)	-	-	(0.4)
ECL allowance at 31 August 2019	(0.2)	-	-	(0.2)
Investment securities at amortised cost - loss allowance				
ECL allowance At 1 March 2018 and 31 August 2019	0.1	-	-	0.1
Reconciliation to income statement				
Net expected credit loss (release)/charge	(31.9)	74.2	69.3	111.6
Recoveries and write-offs	-	-	1.8	1.8
Total income statement (release)/charge	(31.9)	74.2	71.1	113.4
Comprising:				
- In respect of continuing operations	(30.7)	73.0	71.1	113.4
- In respect of discontinuing operations	(1.2)	1.2	-	-
Total income statement (release)/charge	(31.9)	74.2	71.1	113.4

¹ Transfers - The opening loss allowance on financial assets in respect of continuing operations which transferred stage during the period.

² Net remeasurement - The increase/(decrease) in the opening loss allowance as a result of a stage transfer.

³ Includes a release in stages 1 and 2 of £6.6m due to a change in macro-economic assumptions.

⁴ New financial assets originated or purchased - The loss allowance on new financial assets originated or purchased during the period, representing their stage at 31 August 2019.

⁵ Changes in risk parameters and other movements - The change in loss allowance due to changes in macro-economic scenarios, PD, LGD and EAD changes during the period.

⁶ Write-offs and asset disposals - The release of the loss allowance following the write off and/or disposal of a financial asset during the period.

⁷ Transfer from provisions for liabilities and charges - The movement in loss allowance which exceeds the gross carrying amount of the financial asset.

⁸ In the prior period, the Group classified its Mortgage business as a disposal group. Refer to note 9 for further details.

14. Credit risk management (continued)

The following table provides a reconciliation of movements in the gross carrying amounts of financial instruments to help explain their significance to the changes in the loss allowance during the period as set out in the above table:

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
6 months to 31 August 2020				
Loans and advances to customers				
Gross carrying amount				
At 1 March 2020	7,687.9	953.3	288.8	8,930.0
Transfers¹				
Transfers from stage 1 to stage 2	(581.1)	581.1	–	–
Transfers from stage 2 to stage 1	50.7	(50.7)	–	–
Transfers to stage 3	(38.3)	(84.7)	123.0	–
Transfers from stage 3	2.2	4.6	(6.8)	–
Other movements				
New financial assets originated ²	582.5	2.8	0.4	585.7
Net decrease in lending ³	(1,301.2)	(188.2)	(9.8)	(1,499.2)
Write-offs and asset disposals ⁴	(0.1)	(1.2)	(97.5)	(98.8)
Changes in interest accrual and other movements	(5.9)	0.5	5.8	0.4
Gross balances at 31 August 2020	6,396.7	1,217.5	303.9	7,918.1
Investment securities at FVOCI				
Gross carrying amount				
At 1 March 2020	1,060.6	–	–	1,060.6
Transfer to investment securities at amortised cost ⁵	(1,057.3)	–	–	(1,057.3)
Other movements	0.3	–	–	0.3
Gross balances at 31 August 2020	3.6	–	–	3.6
Investment securities at amortised cost				
Gross carrying amount				
At 1 March 2020	21.1	–	–	21.1
Transfer from investment securities at FVOCI ⁵	1,057.3	–	–	1,057.3
Financial assets derecognised during the period	(201.8)	–	–	(201.8)
Other movements	(3.3)	–	–	(3.3)
Gross balances at 31 August 2020	873.3	–	–	873.3

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

² New financial assets originated or purchased - The gross carrying amount of financial assets originated or purchased during the period, representing their stage as at 31 August 2020.

³ Net decrease in lending - The changes in gross carrying amount of financial assets after taking account of additional borrowing and/or payments received from customers.

⁴ Write-offs and asset disposals -The write-off of the gross carrying amount when a financial asset is deemed uncollectible and/or has been disposed of.

⁵ On 1 March 2020 the Group's portfolio of debt investment securities measured at FVOCI was reclassified to amortised cost following a change in business model.

14. Credit risk management (continued)

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
6 months to 31 August 2019				
Loans and advances to customers				
Gross carrying amount				
At 1 March 2019	11,463.6	1,179.1	270.9	12,913.6
Transfers¹				
Transfers from stage 1 to stage 2	(434.0)	434.0	-	-
Transfers from stage 2 to stage 1	435.3	(435.3)	-	-
Transfers to stage 3	(48.4)	(101.2)	149.6	-
Transfers from stage 3	3.2	5.4	(8.6)	-
Other movements				
New financial assets originated ²	1,597.1	31.0	1.7	1,629.8
Net decrease in lending ³	(1,507.2)	(81.5)	(2.7)	(1,591.4)
Write-offs and asset disposals ⁴	(0.3)	(1.8)	(106.9)	(109.0)
Changes in interest accrual and other movements	2.9	0.6	4.4	7.9
At 31 August 2019	11,512.2	1,030.3	308.4	12,850.9
Comprising:				
Loans and advances to customers	7,977.3	906.2	307.3	9,190.8
Assets of the disposal group ⁵	3,534.9	124.1	1.1	3,660.1
Gross balances as at 31 August 2019	11,512.2	1,030.3	308.4	12,850.9
Investment securities at FVOCI				
Gross carrying amount				
At 1 March 2019	1,042.7	-	-	1,042.7
New financial assets purchased	81.0	-	-	81.0
Financial assets derecognised during the period	(95.3)	-	-	(95.3)
Other movements	10.6	-	-	10.6
At 31 August 2019	1,039.0	-	-	1,039.0
Investment securities at amortised cost				
Gross carrying amount				
At 1 March 2019	28.9	-	-	28.9
Financial assets derecognised during the period	(7.8)	-	-	(7.8)
At 31 August 2019	21.1	-	-	21.1

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

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

³ Net decrease) in lending - The changes in gross carrying amount of financial assets after taking account of additional borrowing and/or payments received from customers.

⁴ Write-offs and asset disposals -The write-off of the gross carrying amount when a financial asset is deemed uncollectible and/or has been disposed of.

⁵ In the prior period, the Group classified its Mortgage business as a disposal group. Refer to note 9 for further details.

14. Credit risk management (continued)

The following table shows the outstanding balances at 31st August of all accounts where a payment holiday was granted during the period, including their IFRS 9 staging and the percentage of the overall lending portfolio these balances represent:

Gross balances at 31 August 2020	Volume	Stage 1 £m	Stage 2 £m	Stage 3 £m	% Gross balance
Total	125,344	553.9	320.0	19.7	12%

Of the payment holidays granted, 82,604 have matured, with 83% of customers returning to normal payment schedules.

15. Fair Values

Except as detailed in the following table, the Directors consider that the carrying value amounts of financial assets and financial liabilities recorded in the Interim Condensed Consolidated Statement of Financial Position are approximately equal to their fair values¹.

	31 August 2020		29 February 2020		31 August 2019	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
	£m	£m	£m	£m	£m	£m
Financial assets:						
Loans and advances to customers	7,285.2	7,454.2	8,451.3	8,626.9	8,688.7	8,856.3
Investment securities - amortised cost ²	872.3	880.8	21.0	27.6	21.0	26.0
Assets of the disposal group ³	–	–	–	–	3,689.1	3,712.1
	8,157.5	8,335.0	8,472.3	8,654.5	12,398.8	12,594.4
Financial liabilities:						
Deposits from customers	6,648.4	6,657.8	7,718.0	7,721.8	9,914.5	9,917.6
Debt securities in issue	762.1	763.9	774.1	778.0	861.1	863.5
Subordinated liabilities and notes	489.4	449.9	485.6	449.5	486.2	471.3
	7,899.9	7,871.6	8,977.7	8,949.3	11,261.8	11,252.4

The only financial assets and financial liabilities which are carried at fair value in the Interim Condensed Consolidated Statement of Financial Position at period end are cash balances relating to the Group's Travel Money offering, FVOCI equity investment securities and derivative financial instruments. At the prior year end the Group also held debt securities at FVOCI. These were reclassified to amortised cost on 1 March 2020 following a change in business model. The valuation techniques and inputs used to derive fair values at the period end are described below.

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

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

¹ Fair value disclosures are not required for lease liabilities.

² On 1 March 2020 the Group's portfolio of debt investment securities measured at FVOCI was reclassified to amortised cost following a change in business model.

³ The sale of the remaining assets of the disposal group was completed on 30 March 2020. The remaining assets of the disposal group at 29 February 2020 were held at fair value at that date and are therefore excluded from this table.

15. Fair Values (continued)

The table below categorises all financial instruments held at fair value (recurring measurement) and the fair value of financial instruments held at amortised cost according to the method used to establish the fair value disclosed.

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
As at 31 August 2020				
Financial assets carried at fair value				
Cash in hand ¹	–	24.1	–	24.1
Investment securities - FVOCI	–	–	3.6	3.6
Derivative financial instruments:				
- Interest rate swaps	–	6.8	–	6.8
Financial assets carried at amortised cost				
Loans and advances to customers	–	–	7,454.2	7,454.2
Investment securities – amortised cost	853.7	27.1	–	880.8
Total	853.7	58.0	7,457.8	8,369.5
Financial liabilities carried at fair value				
Derivative financial instruments:				
- Interest rate swaps	–	60.9	–	60.9
- Forward foreign currency contracts	–	0.7	–	0.7
- Cross currency swaps	–	10.7	–	10.7
Financial liabilities carried at amortised cost				
Deposits from customers	–	–	6,657.8	6,657.8
Debt securities in issue	763.9	–	–	763.9
Subordinated liabilities	–	449.9	–	449.9
Total	763.9	522.2	6,657.8	7,943.9
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
As at 29 February 2020				
Financial assets carried at fair value				
Cash in hand ¹	–	26.3	–	26.3
Investment Securities - FVOCI	1,057.4	–	3.2	1,060.6
Derivative financial instruments:				
- Interest rate swaps	–	5.7	–	5.7
Financial assets carried at amortised cost				
Loans and advances to customers	–	–	8,626.9	8,626.9
Investment securities – loans and receivables	–	27.6	–	27.6
Total	1,057.4	59.6	8,675.2	9,792.2
Financial liabilities carried at fair value				
Derivative financial instruments:				
- Interest rate swaps	–	50.7	–	50.7
Financial liabilities carried at amortised cost				
Deposits from customers	–	–	7,721.8	7,721.8
Debt securities in issue	778.0	–	–	778.0
Subordinated liabilities	–	449.5	–	449.5
Total	778.0	500.2	7,721.8	9,000.0

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

15. Fair Values (continued)

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
As at 31 August 2019				
Financial assets carried at fair value				
Cash in hand ¹	-	42.0	-	42.0
Investment Securities - FVOCI	1,035.6	-	3.4	1,039.0
Derivative financial instruments:				
- Interest rate swaps	-	24.8	-	24.8
- Forward foreign currency contracts	-	0.3	-	0.3
- Cross currency swaps	-	14.9	-	14.9
Financial assets carried at amortised cost				
Loans and advances to customers	-	-	8,856.3	8,856.3
Investment securities – amortised cost	-	26.0	-	26.0
Assets of the disposal group	-	-	3,712.1	3,712.1
Total	1,035.6	108.0	12,571.8	13,715.4
Financial liabilities carried at fair value				
Derivative financial instruments:				
- Interest rate swaps	-	63.0	-	63.0
Financial liabilities carried at amortised cost				
Deposits from customers	-	-	9,917.6	9,917.6
Debt securities in issue	863.5	-	-	863.5
Subordinated liabilities and notes	-	471.3	-	471.3
Total	863.5	534.3	9,917.6	11,315.4

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

There are three levels to the hierarchy as follows:

Level 1

Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2

Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (for example, as prices) or indirectly (for example, derived from prices).

Fair values of cash balances relating to the Group's Travel Money offering are considered to equate to their carrying value as they are short-term in nature.

Derivative financial instruments which are categorised as Level 2 are those which either:

- Have future cash flows which are on known dates and for which the cash flow amounts are known or calculable by reference to observable interest and foreign currency exchange rates; or
- Have future cash flows which are not pre-defined, but for which the fair value of the instrument has very low sensitivity to changes in estimate of future cash flows.

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

Fair values of investment in subordinated debt classified as amortised cost are calculated using 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.

15. Fair Values (continued)

Level 3

Inputs for the asset or liability are not based on observable market data (unobservable inputs).

Loans and advances to customers and assets of the disposal group are net of charges for impairment. The estimated fair value of loans and advances to customers 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.

At the prior year end the fair value of assets of the disposal group was based on the contract price agreed in respect of the sale of the Group's Mortgage business.

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 equity investment securities classified as FVOCI, being the Group's interest in VISA Inc. preferred stock, is reflected in the table on page 41. The preferred stock may be convertible into Class A Common Stock of VISA Inc. at certain future dates, starting in June 2020. There were no conversions in the period ended 31 August 2020. Conversion is contingent upon future events, principally related to the outcome of interchange litigation against VISA Europe Limited. As such, the valuation reflects both an illiquidity discount and the risk of a reduction in the conversion rate to VISA Inc. common Stock. The reduction in the conversion rate is the most significant unobservable input to the valuation.

Transfers

There were no transfers between Level 1 and Level 2 during the period (February 2020: no transfers).

There were no transfers between Level 2 and Level 3 during the period (February 2020: no transfers).

16. Capital Resources

On 1 March 2018, IFRS 9 came into force and a transitional period was introduced, allowing the Company (being the regulated entity) to phase in the IFRS 9 impact on capital over a period of 5 years. On 27 June 2020, the Capital Requirements Regulation (CRR) was further amended to accelerate specific CRR2 measures and implement a new IFRS 9 transitional relief calculation. The IFRS 9 transitional arrangements have been extended by two years and a new modified calculation has been introduced. Full relief will be applied to increases in stage 1 and stage 2 provisions from 1 January 2020 throughout 2020 and 2021, reducing to 75% in 2022, 50% in 2023 and 25% in 2024, with no relief applied from 2025. The phasing out of transitional relief on the 'day 1' impact of IFRS 9 as well as increases in stage 1 and stage 2 provisions between 1 March 2018 and 31 December 2019 under the modified calculation remain unchanged and continue to be subject to 70% transitional relief throughout 2020, 50% for 2021 and 25% for 2022, with no relief applied from 2023.

The following tables analyse the regulatory capital resources of the Company applicable as at the period end on a 'transitional' and 'end point' position for the current period as related to the IFRS 9 transitional period:

	Transitional 31 August 2020 £m	End Point 31 August 2020 £m	Transitional 29 February 2020 £m	Transitional 31 August 2019 £m
Common equity tier 1				
Shareholders' equity (accounting capital)	1,600.1	1,600.1	1,705.9	1,672.7
Regulatory adjustments				
Unrealised gains on cash flow hedge reserve	0.5	0.5	–	–
Adjustment to own credit/Additional value adjustments	–	–	(1.1)	(1.4)
Foreseeable dividends	(50.0)	(50.0)	–	(23.0)
Intangible assets	(130.1)	(130.1)	(138.2)	(205.0)
IFRS 9 transitional relief	229.3	–	141.6	151.7
Common equity tier 1 capital	1,649.8	1,420.5	1,708.2	1,595.0
Tier 2 capital (instruments and provisions)				
Undated subordinated notes	45.0	45.0	45.0	45.0
Dated subordinated notes net of regulatory amortisation	190.0	190.0	190.0	190.0
Tier 2 capital (instruments and provisions) before regulatory adjustments	235.0	235.0	235.0	235.0
Regulatory adjustments				
Material holdings in financial sector entities	(21.0)	(21.0)	(21.0)	(21.0)
Total regulatory adjustments to tier 2 capital (instruments and provisions)	(21.0)	(21.0)	(21.0)	(21.0)
Total tier 2 capital (instruments and provisions)	214.0	214.0	214.0	214.0
Total capital	1,863.8	1,634.5	1,922.2	1,809.0
Total risk-weighted assets (unaudited)	7,655.8	7,555.2	8,309.9	9,820.8
Common equity tier 1 ratio (unaudited)	21.5%	18.8%	20.6%	16.2%
Tier 1 ratio (unaudited)	21.5%	18.8%	20.6%	16.2%
Total capital ratio (unaudited)	24.3%	21.6%	23.1%	18.4%

16. Capital Resources (continued)

Total capital requirement (TCR) refers to the amount and quality of capital the Company must maintain to comply with the CRR Pillar 1 and 2A capital requirements. The TCR for TPFPG as at 31 August 2020 is 12.1% plus £52.0m as a static add-on for pension obligation risk.

In the absence of a confirmed payout ratio and in line with guidance issued by the European Banking Authority, the Group has included a foreseeable dividend, based on historic actual pay-out levels, within its capital resources disclosure. No final decision has yet been taken on whether to pay a dividend for the year ending 28 February 2021.

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

	31 August 2020 £m	29 February 2020 £m	31 August 2019 £m
Tesco Personal Finance Plc (Group) shareholders' equity	1,635.4	1,731.0	1,695.0
Share of joint venture's retained earnings	(26.9)	(17.9)	(14.8)
Subsidiaries' retained earnings	–	0.3	0.6
Share of joint venture's AFS reserve	(8.4)	(7.5)	(8.1)
Tesco Personal Finance Plc (Company) shareholders' equity	1,600.1	1,705.9	1,672.7

It is the Group's policy to maintain a strong capital base, to expand it as appropriate and to utilise it efficiently throughout its activities to optimise the return to shareholders while maintaining a prudent relationship between the capital base and the underlying risks of the business. In carrying out this policy, the Group has regard to the supervisory requirements of the Prudential Regulatory Authority (PRA).

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

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

The Group has met all relevant capital requirements throughout the period.

Leverage ratio (unaudited)

The Basel III reforms include the introduction of a capital leverage measure, defined as the ratio of tier 1 capital to total exposure. This is intended to reinforce the risk-based capital requirements with a simple, non-risk based 'backstop' measure.

16. Capital Resources (continued)

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

Exposures for leverage ratio (unaudited)	Transitional 31 August 2020 £m	End Point 31 August 2020 £m	Transitional 29 February 2020 £m	Transitional 31 August 2019 £m
Total balance sheet exposures	10,649.7	10,649.7	11,643.5	15,421.7
Adjustments for entities which are consolidated for accounting purposes but outside scope of regulatory consolidation	(35.3)	(35.3)	(25.4)	(23.0)
Removal of accounting value of derivatives and Securities Financing Transactions (SFTs)	(6.8)	(6.8)	(5.7)	(499.1)
Exposure value for derivatives and SFTs	4.4	4.4	9.3	90.3
Off balance sheet: unconditionally cancellable (10%)	1,232.5	1,232.5	1,187.2	1,182.1
Off balance sheet: other (20%)	–	–	–	10.7
Regulatory adjustment – intangible assets	(130.1)	(130.1)	(138.2)	(205.0)
Regulatory adjustment – other, including IFRS 9	177.2	(52.1)	89.2	91.0
Total	11,891.6	11,662.3	12,759.9	16,068.7
Common equity tier 1	1,649.8	1,420.5	1,708.2	1,595.0
Leverage ratio	13.9%	12.2%	13.4%	9.9%

Capital Management

The Group operates an integrated risk management process to identify, quantify and manage risk in the Group. The quantification of risk includes the use of both stress and scenario testing. Where capital is considered to be an appropriate mitigant for a given risk, this is identified and reflected in the Group's internal capital assessment. The capital resources of the Group are regularly monitored against the higher of this internal assessment and regulatory requirements. Capital adequacy and performance against the Group's capital plan is monitored daily, with monthly reporting provided to the Board, Asset and Liability Management Committee and Treasury Committee.

Pillar 2 capital methodologies

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

These proposals are aimed at promoting the safety and soundness of PRA-regulated firms, to facilitate a more effective banking sector and to make the PRA's Pillar 2A capital assessment more proportionate by addressing some of the concerns over the differences between Standardised Approach (SA) and internal ratings-based risk-weights. This will continue to be managed as part of the Group'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 banking activities where core deposits are in excess of £25bn came into effect from 1 January 2019. The Group has not exceeded this threshold and was not therefore automatically required to ring-fence the Group's core activities by the 2019 implementation date.

16. Capital Resources (continued)

Credit Risk

In December 2017 the Basel Committee on Banking Supervision (BCBS) finalised Basel III reforms for credit risk, including revisions to the calculation of risk-weighted assets and enhancements to the risk-sensitivity of the SAs to credit risk, constraining the use of internal model approaches by placing limits on certain inputs and replacing the existing Basel II output floors with a risk-sensitive floor based on the Committee's Basel III standardised approaches. The final Basel III reforms will be implemented in January 2023.

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 2023.

Leverage

At present the Group has no minimum UK leverage requirement as it is currently exempt from the UK Leverage Framework Regime (LFR), which only applies to institutions with retail deposits over £50 billion. In December 2017, the BCBS finalised Basel III reforms for the leverage ratio. The final Basel III reforms will be implemented in January 2023. In June 2019, the EU published updates to the CRR which will result in a minimum leverage requirement of 3% from June 2021.

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

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.

In addition, the Group became subject to MREL on an interim basis from 1 January 2020, with full implementation from 1 January 2022. The requirements are factored into the Group's funding and capital plans. TPFG undertook an initial £250.0m issuance of MREL-compliant debt in July 2019 in support of the interim requirements and subsequently invested the proceeds in the Company via an intercompany subordinated loan. Further issuances may be required to support end-state requirements.

MREL is expected to be set annually over the transitional period until 1 January 2022. An interim MREL requirement of 18% of risk-weighted assets from 1 January 2020 until 31 December 2021 has been set. At 31 August 2020, the MREL ratio was 27.6% (February 2020: 26.1%).

17. Related Party Transactions

The Group's related party transactions during the interim period were entered into in the normal course of business. Transactions for this period are not significant to an understanding of the Group's financial position or performance and are similar in nature to those for the year ended 29 February 2020.

18. 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.

19. Ultimate Parent Undertaking

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

TESCO PERSONAL FINANCE PLC RESPONSIBILITY STATEMENT

The Directors listed below confirm that to the best of their knowledge:

- these Interim Condensed Consolidated Financial Statements have been prepared in accordance with IAS 34, 'Interim Financial Reporting', as endorsed by the European Union; and
- the Interim Condensed Consolidated Financial Statements and Interim Management Report contained herein include a fair review of the information required by DTR 4.2.7R, namely an indication of important events that have occurred during the first six months and their impact on the Interim Condensed Consolidated Financial Statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors of Tesco Personal Finance Plc as at the date of this announcement are as set out below.

By order of the Board,

Declan Hourican
Director
5 October 2020

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

We have been engaged by Tesco Personal Finance Plc (“the Company”) to review the Interim Condensed Consolidated Financial Statements in the Interim Financial Report for the six months 31 August 2020 which comprises the Interim Condensed Consolidated Income Statement, the Interim Condensed Consolidated Statement of Comprehensive Income, the Interim Condensed Consolidated Statement of Financial Position, the Interim Condensed Consolidated Statement of Changes in Equity, the Interim Condensed Consolidated Statement of Cash Flows and related notes 1 to 19. We have read the other information contained in the Interim Financial Report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the Interim Condensed Consolidated Financial Statements.

Directors’ responsibilities

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

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

Our responsibility

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

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the Interim Condensed Consolidated Financial Statements in the Interim Financial Report for the six months ended 31 August 2020 are not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom’s Financial Conduct Authority

Use of our report

This report is made solely to the Company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the Company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our review work, for this report, or for the conclusions we have formed.

Deloitte LLP

Statutory Auditor

Leeds, United Kingdom

5 October 2020

TESCO PERSONAL FINANCE PLC
ABBREVIATIONS

BCBS	Basel Committee on Banking Supervision	TU	Tesco Underwriting Limited
CCA	Consumer Credit Act	UK	United Kingdom
CCyB	Countercyclical capital buffer		
CRD	Capital Requirements Directive		
CRO	Chief Risk Officer		
CRR	Capital Requirements Regulation		
EAD	Exposure at default		
ECLs	Expected credit losses		
EIR	Effective interest rate		
EU	European Union		
FCA	Financial Conduct Authority		
FVOCI	Fair value through other comprehensive income		
FVPL	Fair value through profit or loss		
IAS	International Accounting Standard		
IAS 34	IAS 34 'Interim Financial Reporting'		
IASB	International Accounting Standards Board		
ICAAP	Internal capital adequacy assessment process		
IFRS	International Financial Reporting Standard		
IFRS 5	IFRS 5 'Non-current assets held for sale and discontinued operations'		
IFRS 9	IFRS 9 'Financial Instruments'		
KPI	Key performance indicator		
LGD	Loss given default		
LIBOR	London Inter Bank Offered Rate		
MREL	Minimum requirements for own funds and eligible liabilities		
NSFR	Net stable funding ratio		
PD	Probability of default		
Plevin	Plevin v Paragon Personal Finance Limited		
PPI	Payment protection insurance		
PRA	Prudential Regulation Authority		
PSD2	Second Payment Services Directive		
RMF	Risk management framework		
SA	Standardised approach		
SFTs	Securities financing transactions		
SONIA	Sterling Overnight Index Average		
TCR	Total capital requirement		
TPFG	Tesco Personal Finance Group PLC		
TPP	Third-party provider		

A

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

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

C

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

D

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

E

Expected credit loss	The probability-weighted estimate of credit losses over the expected life of a financial instrument.
Exposure	A claim, contingent claim or position which carries a risk of financial loss.

E (continued)

Exposure at default or exposure value The amount expected to be outstanding after any credit risk mitigation, if and when the counterparty defaults. EAD reflects both drawn down balances as well as an allowance for undrawn commitments and contingent exposures.

F

Fair value The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Financial Conduct Authority The statutory body responsible for conduct of business regulation and supervision of UK authorised firms from 1 April 2013. The FCA also has responsibility for the prudential regulation of firms that do not fall within the PRA's scope.

Financial instrument A contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Foreign exchange risk The risk that the value of transactions in currencies other than Sterling is altered by the movement of exchange rates.

Funding risk The risk that the Group does not have sufficiently stable and diverse sources of funding.

G

Group The Company and its subsidiaries and joint venture.

I

Impairment losses The reduction in value that arises following an impairment review of an asset outwith the scope of IFRS 9 which has determined that the asset's value is lower than its carrying value.

Insurance risk The risks accepted through the provision of insurance products in return for a premium. These risks may or may not occur as expected and the amount and timing of these risks are uncertain and determined by events outside of the Group's control.

Interest rate risk The risk arising from the different repricing characteristics of the Group's non-trading assets and liabilities.

Internal capital adequacy assessment process The Group's own assessment, based on Basel II requirements, of the level of capital needed in respect of its regulatory capital requirements (for credit, market and operational risks) and for other risks including stress events.

L

Leverage ratio Tier 1 capital divided by total exposure.

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

Loan:deposit ratio The loan to deposit ratio is calculated by dividing loans and advances to customers by deposits from customers.

M

Market risk The risk that the value of earnings or capital is altered through the movement of market rates. This includes interest rates, foreign exchange rates, credit spreads and equities.

Minimum requirements for own funds and eligible liabilities A requirement for minimum loss-absorbing capacity institutions must hold.

N

Net interest margin Net interest margin is calculated by dividing net interest income by average interest bearing assets, excluding any interest bearing assets held within a disposal group.

Net stable funding ratio The net stable funding ratio is calculated under the CRD IV methodology.

O

Ogden tables	Tables which are used to calculate the cost of any claim that involves compensation for loss of future benefits. The tables provide an estimate of the return to be expected from the investment of a lump sum damages award.
Open Banking	A Government initiative to improve competition in the UK by opening up information that banks hold about their services and customers.
Operational risk	The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

P

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

R

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

S

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

S (continued)

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

T

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

U

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