Note 23 Financial risk factors continued

Tesco Bank continued

Credit risk

Credit risk is the risk that a bank borrower or counterparty will fail to meet its obligations in accordance with contractually agreed terms and Tesco Bank will incur losses as a result. Credit risk principally arises from the Bank's retail lending activities but also from the placement of surplus funds with other banks and money market funds, investments in transferable securities and interest rate and foreign exchange derivatives. In addition, credit risk arises from contractual arrangements with third parties where payments and commissions are due to the Bank for short periods of time.

Retail credit policy is managed through the credit risk policy framework with minimum requirements for management of credit activities defined across the customer life cycle. Customer lending decisions are managed principally through the deployment of appropriate credit scoring and associated rules, which exclude specific areas of lending, and an affordability assessment which determines a customer's ability to repay the advances they are seeking. Wholesale credit risk is managed using a limit-based framework, with limits determined by counterparty credit worthiness, instrument type and remaining tenor. A limits framework is also in place for the management of third-party credit risk exposures.

Ineffective management and controls over the emerging asset quality of the Group's lending portfolios could expose the Group to unacceptable levels of bad debt. The Group's asset quality is reflected through the level of its impairment by lending type. Asset quality profiles are regularly monitored and reported to the appropriate senior management team and risk committees.

The table below presents an analysis of credit exposure by impairment status across the different exposure classes. The table predominantly relates to banking assets; the retail instalment lending applies to credit agreements in the insurance business. The amounts below are presented gross of impairment and exclude fair value hedge adjustments of £(16)m (2017: £23m). Prior year balances have been re-presented to reflect this change.

Credit quality of loans and advances

At 24 February 2018	Retail unsecured lending £m	Retail mortgage lending £m	Retail instalment lending £m	Total £m
Past due and impaired				
Less than 90 days past due	44	–	–	44
90-179 days past due	59	–	–	59
180 days plus past due	109	–	–	109
Past due but not impaired				
Less than 29 days past due	55	1	–	56
30-59 days past due	20	–	–	20
60-119 days past due	13	–	–	13
Neither past due nor impaired				
Low risk[a]	8,010	2,983	129	11,122
High risk[b]	327	26	–	353
Total	**8,637**	**3,010**	**129**	**11,776**

At 25 February 2017	Retail unsecured lending £m	Retail mortgage lending £m	Retail instalment lending £m	Total £m
Past due and impaired				
Less than 90 days past due	32	–	–	32
90-179 days past due	48	–	–	48
180 days plus past due	99	–	–	99
Past due but not impaired				
Less than 29 days past due	48	1	–	49
30-59 days past due	16	–	–	16
60-119 days past due	10	–	–	10
Neither past due nor impaired				
Low risk[a]	7,426	2,144	140	9,710
High risk[b]	152	16	–	168
Total	**7,831**	**2,161**	**140**	**10,132**

[a] Low risk is defined as an asset with a probability of default of less than 10%.
[b] High risk is defined as an asset with a probability of default of 10% or more.

The credit risk exposure from off balance sheet items in 2018, mainly undrawn contractual lending commitments, was £12.4bn (2017: £12.1bn).

Insurance risk

Tesco Bank is indirectly exposed to insurance risks through its ownership of 49.9% of Tesco Underwriting Limited (TU), an authorised insurance company. Insurance risk is defined as the risk accepted through the provision of insurance products in return for a premium. The timing and quantum of the risks are uncertain and determined by events outside the control of Tesco Bank. The key insurance risks within TU relate to underwriting risk and reserving risk.
TU operates a separate framework to ensure that the TU insurance portfolio operates within agreed risk appetite. The Bank closely monitors performance of the portfolio against specific thresholds and limits

Note 16 Trade and other receivables continued

At 24 February 2018, trade and other receivables of £95m (2017: £130m) were past due but not impaired. The ageing analysis of these receivables is as follows:

	2018 £m	2017 £m
Up to three months past due	83	119
Three to six months past due	9	10
Over six months past due	3	1
	95	**130**

No receivables have been renegotiated in the current or prior financial years.

Note 17 Loans and advances to customers

Tesco Bank has loans and advances to customers, as follows:

	2018 £m	2017 £m
Current	4,637	4,166
Non-current	6,885	5,795
	11,522	**9,961**

The maturity of these loans and advances is as follows:

	2018 £m	2017 £m
Repayable on demand or at short notice	4	3
Within three months	4,604	4,107
Greater than three months but less than one year	147	155
Greater than one year but less than five years	2,633	2,419
After five years	4,372	3,471
	11,760	**10,155**
Provision for impairment of loans and advances	(238)	(194)
	11,522	**9,961**

At 28 February 2018, £3.5bn (2017: £2.5bn) of the credit card portfolio had its beneficial interest assigned to a securitisation structured entity, Delamare Cards Receivables Trustee Limited, for use as collateral in securitisation transactions. The total encumbered portion of this portfolio is £1.6bn (2017: £1.9bn).

At 28 February 2018, Delamare Cards MTN Issuer plc had £2.4bn (2017: £1.8bn) notes in issue in relation to securitisation transactions, of which £1.0bn (2017: £0.8bn) was externally issued. The Group owned £1.1bn (2017: £0.8bn) class A Credit Card backed notes and £0.3bn (2017: £0.2bn) class D Credit Card backed notes.

Of the total £1.1bn (2017: £0.8bn) class A notes, £0.3bn (2017: £0.6bn) is held in a distinct pool for the purposes of collateralising the Bank of England's Term Funding Scheme drawings. All other prepositioned assets with the Bank of England are held within their single collateral pool.

Provision for impairment of loans and advances

	£m
At 27 February 2016	**(154)**
Increase in allowance, net of recoveries, charged to the Group income statement	(103)
Amounts written off	60
Unwinding of discount	3
At 25 February 2017	**(194)**
Increase in allowance, net of recoveries, charged to the Group income statement	(134)
Amounts written off	87
Unwinding of discount	3
At 24 February 2018	**(238)**

Note 18 Cash and cash equivalents and short-term investments

Cash and cash equivalents

	2018 £m	2017 £m
Cash at bank and in hand	3,580	3,498
Short-term deposits	479	323
	4,059	**3,821**

Short-term investments

	2018 £m	2017 £m
Money market funds	1,029	2,727

Included in cash and cash equivalents is an amount of £777m (2017: £777m) that was set aside at the balance sheet date for completion of the merger with Booker Group PLC. This cash was invested at a floating rate of interest, held in ring-fenced accounts and was not available to the Group. The merger was completed on 5 March 2018, with £766m being paid on completion. Refer to Note 35 for further details on the Booker Group merger.