TESCO PERSONAL FINANCE PLC

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 28 FEBRUARY 2014

COMPANY NUMBER SC173199

TESCO PERSONAL FINANCE PLC

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TESCO PERSONAL FINANCE PLC

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TESCO PERSONAL FINANCE PLC

STRATEGIC REPORT

The Directors present their Strategic Report for the year ended 28 February 2014.

In the Annual Report and Financial Statements, unless specified otherwise, the ‘Company’ means Tesco Personal Finance plc and the ‘Group’ means the Company and its subsidiaries and associated undertaking included in the consolidated financial statements. The Group operates using the trading name of Tesco Bank.

BUSINESS MODEL

The Group is primarily focused on providing financial services and products to personal customers in the UK and the Republic of Ireland.

The Company owns 49.9% of Tesco Underwriting Limited, an authorised insurance company.

FINANCIAL PERFORMANCE

The Group has continued to make good progress in the year. The Group is now servicing more customer accounts than ever before with the total number growing to 7.1m at the year end (2013: 6.6m), an increase of 7.6%.

Headlines

- Profit before tax progressed strongly, up by 23.1% to £152.6m (2013: £124.0m).
- Adjusting for non trading items[1] of £57.4m (2013: £57.1m), profits grew by 16.0% to £210.0m (2013: £181.1m).
- The cost:income ratio has remained stable at 69.3% (2013: 69.6%).
- The net interest margin has increased to 4.4% (2013: 4.1%). The cost of funding has reduced through a combination of market wide reductions in deposit pricing combined with the impact of the Group’s participation in the Bank of England’s Funding for Lending Scheme (FLS). This lower cost of funding has been reflected in competitive offers for the Group’s borrowing customers.
- On the back of these competitive offers and improvements to the customer experience, lending to customers has grown 24.3% to £6.9bn (2013: £5.6bn).
- Credit quality remains good with continued improvement in customer default experience and cash recoveries. Impairments reduced 25.9% from £82.0m in 2013 to £60.8m.
- The balance sheet remains strong and well positioned to support future lending growth from both a liquidity and capital stand point. The Group’s funding base, primarily customer deposits of £6.1bn (2013: £6.0bn), was further diversified during the year with the completion of a Credit Card securitisation, used initially to participate in the FLS.
- At February 2014, the Group’s risk asset ratio was 17.7% (2013: 19.4%) and the tier 1 capital ratio improved to 14.0% (2013: 13.2%). Both measures exceeded internal and regulatory requirements.
- Profit before tax has been impacted by customer redress provisions of £63.0m (2013: £115.0m).

[1] Non trading items consist of customer redress provisions of £63.0m (2013: £115.0m) and other non trading income of £5.6m (2013: £57.9m).

STRATEGIC REPORT (continued)

STRATEGIC PRIORITIES

The Group's vision is to be the bank for Tesco customers – to offer simple, transparent and convenient products which reward their loyalty and earn their trust. In support of this, the Group will continue to work harder to give more customers reasons to bank with Tesco.

Customer
The Group has made strong progress throughout the year towards its objective of being the bank for Tesco customers. Examples of progress during the year include:

- Serving more customer needs through a wider product range. The Group:
  - introduced a wider range of Credit Card products;
  - broadened the Mortgage offer;
  - enjoyed its first ISA season;
  - introduced a new Telematics Motor insurance product; and
  - relaunched Home insurance providing customers with a greater depth of choice and a hugely improved online experience.

- Improving the Customer Journey. The Group:
  - introduced a single customer view enabling customers to have a consolidated view of Tesco banking products;
  - optimised the online Credit Card journey, reducing the number of screens from 8 to 3, more than halving the application time;
  - improved the Loans customer journey to give customers faster decisions and their money 4 days quicker; and
  - enhanced Motor insurance pricing for Clubcard customers.

As a result of these and other improvements for customers, the Group has seen improved customer satisfaction results, achieved its highest ever net promoter score and grown the number of customer accounts by 7.6% to 7.1m (2013: 6.6m).

2014 will see further progress across a broad range of improvements for the customer. The most material of these will be the launch of the Personal Current Account (PCA) product in the first half of the financial year. Plans for this launch are at an advanced stage with a number of colleagues already using the product in the live environment.

Colleagues
The Customer objectives can only be met if Group colleagues are motivated and equipped to do their best. The Group is focussed on making Tesco Bank an innovative and enjoyable place to work and is underpinned by the Group's values:

- no one tries harder for customers;
- we treat everyone how we like to be treated; and
- we use our scale for good.

This year colleagues completed a new annual engagement survey, 'What Matters to You'. The survey provides a platform for listening to colleagues, understanding what matters most to them and then acting on the insights to make things better. The Group performed well against internal and external benchmarks across a number of categories including customer focus, culture and values and having a collaborative working environment.

Community
The Group aims to put the community at the heart of what it does through helping young people, promoting health and wellbeing and supporting its chosen charities and good causes. In the year the Group's colleagues have volunteered more than 5,000 hours to local communities and raised more than £180,000 for its chosen charities. In addition, the Group's community sponsorship programme has seen more than 70,000 children participate in the Tesco Bank Football Challenge, Art Competition and Reading Challenge.

STRATEGIC REPORT (continued)

BUSINESS REVIEW

Banking
The Banking trading environment has been highly competitive in the last 12 months. Despite this, the Group has continued to see strong lending growth across both Cards (22.0%) and Loans (13.9%) whilst Mortgages continued to build steadily to £696.5m (2013: £258.0m).

Through enhancing its product range, ensuring competitive rates and improving the customer journey, the Group has seen customer account growth in its primary products (Cards, Loans, Mortgages and Savings) of 14.0% over the year.

Whilst interest income has increased on the back of lending growth, the Banking business has also seen steady growth in fee income. Card Retail Sales averaged £1.2bn per month, growing 6.6% to £14.7bn (2013: £13.8bn). The Group has also seen good growth from its newer Money Services products, particularly Travel Money and Gift Cards, which have seen strong double digit growth (29.4% and 27.7% respectively).

Impairment charges have continued to improve, particularly in Loans. Impairments reduced 25.9% from £82.0m in 2013 to £60.8m.

Insurance
The Insurance business has faced a number of challenges over the course of the year, including a weak Motor insurance sector where market premiums have shown marked reductions due to highly competitive price-driven behaviour by competitors and the effects of severe weather in the final quarter of the year. In addition, a number of changes were made by Tesco Underwriting Limited (TU) to pricing and underwriting rules in order to actively manage portfolio mix and improve the risk profile of business underwritten by the company. As a result, underlying income has reduced in the Group's Insurance business compared to the prior year and the share of profit in TU that the Group reports has also fallen.

Despite the challenging environment a number of significant initiatives have been pursued to improve the offer for customers. In Motor insurance the Group has further extended its distribution through price comparison websites, ensuring the product is available to more customers. During the year, a behaviour based product, 'Tesco Box', was launched to offer a tailored and affordable proposition to younger drivers. The Group has also continued to focus on providing its best prices for Tesco customers and implemented changes to improve pricing for Clubcard holders. As a result of these initiatives, sales to new customers increased by 19.7% compared to the prior year.

In the case of Home insurance, the customer offering has been comprehensively refreshed and was relaunched in May 2013. The new, modular product gives customers the ability to select the level of cover that is right for them. The Group has seen a considerable increase in new business, with an uplift in new customers of 30,000 (32.5%) during the year.

As a result of these initiatives and a continued focus on pricing discipline, the Insurance business has seen a stronger performance in the second half of the year where total customer numbers have grown, offsetting the reduction in the first half. Total policies for the primary Insurance products (Motor, Home and Pet) ended the year at 1.8m in line with the prior year (2013: 1.8m).

STRATEGIC REPORT (continued)

CONSOLIDATED INCOME STATEMENT

The Group's financial performance is presented in the consolidated income statement on page 22. A summary is presented below:

	2014 £m	2013 £m	% change
Net interest income	350.0	289.9	20.7
Non interest income	337.6	353.5	(4.5)
Total income	**687.6**	**643.4**	**6.9**
Operating expenses	(476.6)	(447.6)	(6.5)
Impairment	(60.8)	(82.0)	25.9
Share of profit of associate	2.4	10.2	(76.5)
Profit before tax	**152.6**	**124.0**	**23.1**
Non trading items			
Customer redress provision	63.0	115.0	-
Gains on financial instruments, movements on derivatives and hedge accounting	(5.6)	(6.2)	-
Non recurring credit	-	(30.0)	-
Legacy commission	-	(21.7)	-
Underlying profit before tax	**210.0**	**181.1**	**16.0**

The Directors consider the following to be Key Performance Indicators for the Income Statement:

	2014	2013
Net interest margin [1]	**4.4%**	4.1%
Cost: income ratio [2]	**69.3%**	69.6%
Bad debt asset ratio (BDAR) [3]	**1.0%**	1.5%

1 Net interest margin is calculated by dividing net interest income by average interest bearing assets.

2 The cost: income ratio is calculated by dividing operating expenses by total income.

3 The bad debt asset ratio is calculated by dividing the impairment loss by the average balance of loans and advances to customers.

Net Interest Income

Net interest income has grown 20.7% to £350.0m (2013: £289.9m) on the back of strong lending growth across Cards (22.0%) and Loans (13.9%). Net interest margin has increased to 4.4% (2013: 4.1%) reflecting improvements in the Group's funding cost.

Non Interest Income

Non interest income has decreased by 4.5% to £337.6m (2013: £353.5m) having been reduced by a provision of £63.0m (2013: £115.0m) in respect of customer redress and also includes non trading credits of £5.6m (2013: £57.9m).

STRATEGIC REPORT (continued)

This is presented in the table below:

	2014 £m	2013 £m	% change
Non interest income	337.6	353.5	(4.5)
Non trading items			
Customer redress provision	63.0	115.0	-
Gains on financial instruments, movements on derivatives and hedge accounting	(5.6)	(6.2)	-
Non recurring credit	-	(30.0)	-
Legacy commission	-	(21.7)	-
Underlying non interest income	**395.0**	**410.6**	**(3.8)**

Underlying non interest income has decreased by 3.8% to £395.0m (2013: £410.6m) primarily as a result of lower premiums in Motor insurance where the market has seen continued price deflation over the period.

Within the Banking business, the Group has seen good growth in fee income as a result of 6.6% growth in Card Retail Sales and double digit growth in its Money Services business.

Of the total customer redress provision, £20.0m reflects an increase in the provision recognised in respect of the cost of settling Payment Protection Insurance (PPI) claims and £43.0m relates to a new provision in respect of certain classes of loans and credit cards sold by the Group which are regulated under the Consumer Credit Act (CCA). The Group has identified instances where the requirements for the provision of certain post-contractual documentation to customers with CCA-regulated products have not been fully met. It is the Group's intention to compensate customers in order to reflect the operation of the CCA in respect of the customers' liability. Further information in respect of these provisions is set out at note 28 to the financial statements.

Operating Expenses

Administrative expenses have increased by 5.0% to £405.1m (2013: £385.7m). Within this, staff costs increased 9.6% to £145.2m (2013: £132.5m) primarily due to the growth in operational capability.

The depreciation and amortisation charge has increased by 15.5% to £71.5m (2013: £61.9m) reflecting the first full year impact of operating on the Group's own operational platforms.

Impairment

The continued focus on credit control and underwriting discipline combined with the favourable economic environment and the Group's ability to attract good quality customers has resulted in lower customer defaults and improved cash recoveries, the latter also benefiting from the sale of non performing debt during the year. Overall, impairment charges have reduced by 25.9% to £60.8m (2013: £82.0m).

As a result of the lower impairment charges the Group's bad debt asset ratio (BDAR) has reduced to 1.0% (2013: 1.5%).

STRATEGIC REPORT (continued)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

The Group's consolidated statement of financial position is presented on page 24. A summary position is presented below:

	2014 £m	2013 £m	% change
Loans and advances to customers	6,922.0	5,570.4	24.3
Total assets	9,247.7	8,431.2	9.7
Deposits from customers	6,082.4	6,003.5	1.3
Net assets	1,381.4	1,226.7	12.6

Loans and Advances to Customers

Loans and Advances to Customers have increased by 24.3% to £6.9bn (2013: £5.6bn), reflecting significant lending growth in Loans and Cards as well as continued growth of the Group's Mortgage product, which was launched in August 2012.

Deposits from Customers

The Group's funding base was further diversified during the year with the completion of its Credit Card securitisation, used initially to participate in the FLS, however, customer deposits remain the Group's primary source of funding and increased in the year to £6.1bn (2013: £6.0bn).

Net Assets

The balance sheet remains strong and able to support future lending growth from both a liquidity and capital standpoint.

Capital and Liquidity Ratios

The Directors consider the following to be Key Performance Indicators for capital and liquidity reporting:

	2014	2013
Tier 1 capital ratio [1, 2]	14.0%	13.2%
Risk asset ratio [3]	17.7%	19.4%
Net stable funding ratio [4]	116.5%	120.6%
Loan to deposit ratio [5]	113.8%	92.8%

1 The tier 1 capital ratio is calculated by dividing total tier 1 capital at the end of the year by total risk weighted assets.

2 During the year the method by which the tier 1 capital ratio is calculated has been amended to reflect the industry standard approach of including annual profits in full within capital resources for the year to which they relate. This has resulted in an amendment to the 2013 Tier 1 capital ratio which has increased by 0.4% to 13.2%. Refer note 40 for further detail.

3 The risk asset ratio is calculated by dividing total regulatory capital by total risk weighted assets.

4 The net stable funding ratio is calculated by dividing stable funding (including own funds and customer liabilities) by loans and advances to customers and other illiquid assets.

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

The Group's capital position has remained strong. During the year, the Group converted £140.0m of dated subordinated debt into equity, further strengthening the tier 1 capital ratio to 14.0% (2013: 13.2%). The Group's risk asset ratio remains above internal targets at 17.7% (2013: 19.4%) and leaves the Group well placed to support future growth.

STRATEGIC REPORT (continued)

The net stable funding ratio, a measure of the Group's liquidity position, remains above internal targets at 116.5% (2013: 120.6%). The Group maintains a liquid asset portfolio of high quality investment securities of £1.4bn (2013: £1.9bn).

The Group has taken advantage of the FLS to grow its asset base and accordingly there has been an increase in the loan to deposit ratio.

A dividend of £100.0m (2013: £105.0m) was paid in the year.

RISK MANAGEMENT

Risk Management Approach

The Board has overall responsibility for determining the Group's strategy and related risk appetite. The Statement of Risk Appetite determines the type and extent of risks that are acceptable to the Group in achieving the successful delivery of its strategic business objectives. The Board is also responsible for overall corporate governance which includes ensuring there is a robust and effective system of risk management and the level of capital and liquidity held is adequate and consistent with the risk profile of the business.

To support this, the Group has established a Risk Management Framework and formal governance structure to identify, monitor and manage risks across its operations.

The Group is exposed to a variety of risks through its day to day operations. The following table sets out the principal risks and how they are managed.

Principal risks	Key controls and mitigating factors
Credit risk The risk that a borrower or counterparty fails to repay the interest or capital on a loan or other financial instrument.	All lending is subject to robust underwriting processes and the performance of all loans is monitored closely and regular management reports are submitted to the appropriate Boards and Committees.
Operational risk The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The threat of sophisticated Financial Crime activity. Of note is the industry-wide attention on cyber-crime. Delivery of the Personal Current Account programme carries an inherent operational risk. A significant number of services and processes are provided by third party service providers and a key operational risk is the failure of an outsourced service provider. Increased market demand for specialist personnel could result in increased costs of recruitment and retention or reduced organisational effectiveness if a sufficient number of skilled staff cannot be employed.	The Group's aim is to minimise all operational risks and reputational impacts. The Group's Fraud, Operational and Regulatory Risk Committee (FORRC) provides oversight of the Bank's operational risk profile and provides regular reports and recommendations to the appropriate governance bodies. An Operational Risk Framework comprising Event and Loss management, Risk and Control Self Assessment (RCSA) and Operational Risk Scenario Analysis processes is in place. This also includes prescribed Frameworks for Financial Crime and Information Security. The RCSA process is used by the business to identify, assess, quantify, monitor and report its operational risks and management's effectiveness in mitigating them. Regular reporting is provided to the Risk Management Committee (RMC) and remedial actions taken as required. Major operational change initiatives, such as the establishment of a Personal Current Account platform, are subject to a robust project management framework. Oversight is provided through a dedicated governance structure of senior management boards and committees.

STRATEGIC REPORT (continued)

Principal risks	Key controls and mitigating factors
	During 2013/14, the Group implemented a more robust Supplier Management framework. The Procurement policy provides consistent and robust standards for supplier sourcing and selection. The Strategic Relationship Management process enables the monitoring of the performance of third-party outsourced service providers and suppliers against agreed service level agreements, the management of the relationships and the improvement of supply or termination of contract where appropriate. The People Matters Group oversees key aspects of people risk, including talent management, performance management, retention and succession planning.
Liquidity, capital and funding risk The risk that the Group has insufficient capital resources, is unable to meet its obligations as they fall due or can do so only at excessive cost. Funding risk is the risk that the Group does not have sufficiently stable and diverse sources of funding.	The Treasury function ensures all liquidity and funding measures are managed within policy and appetite on a daily basis. A robust liquidity position is maintained in excess of internal and regulatory requirements. Liquidity risk is governed through the Liquidity Management Forum, Asset and Liability Management Committee (ALCO) and the Board. The Group is predominantly funded by its retail deposit base which reduces reliance on wholesale funding and in particular results in minimal short term wholesale funding. The Group undertakes close monitoring of capital ratios to ensure it complies with current regulatory capital requirements and is well positioned to meet any future requirement. Management of capital is governed through the ALCO and the Board. The Group undertakes an Internal Capital Adequacy Assessment Process (ICAAP). Material risks to the Bank are reviewed through stress testing to support an internal assessment of the level of capital that the Bank should maintain. Where capital is not considered to be an appropriate mitigant for a particular risk, alternative management actions are identified. The stress testing scenarios and final ICAAP results are presented to the Executive Committee and Board for challenge and approval. The ICAAP is submitted to the regulator on a regular basis and forms the basis of the Individual Capital Guidance given to the Bank.
Market risk The risk that the value of the Group's assets, liabilities, income or costs might vary due to changes in the value of financial market prices; this includes interest rates, foreign exchange rates, credit spreads and equities.	Control of market risk is managed by ALCO and the Market Risk Forum (MRF). These bodies provide oversight of the Group's market risk position at a detailed level and provide regular reports and recommendations to Board Committees. The Group has no trading book.
Insurance risk The risks accepted through the provision of insurance products in return for a premium.	The Group's aim is to actively manage insurance risk exposure with particular focus on those risks that impact profit volatility. The Group has no direct underwriting risk however it has a share of the underwriting exposure through the joint venture

STRATEGIC REPORT (continued)

Principal risks	**Key controls and mitigating factors**
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. The Group was exposed to insurance risk during the year through its 49.9% ownership of TU. TU is a separately regulated entity and is capitalised accordingly.	minority interest in TU. Risk appetite and a suite of risk policies are in place to manage risk in TU and the Group. TU uses reinsurance to limit insurance risk exposure above pre-determined limits. Regular independent reviews of TU claim reserves are undertaken.
Legal and regulatory compliance risk The risk of consequences arising as a result of non-compliance with the laws and regulatory requirements as defined by external regulators.	The Group's aim is to meet all legal and regulatory requirements by maintaining an effective control framework. The Group has a dedicated Regulatory Risk team and Regulatory Legal team to support business areas in identifying and managing regulatory risks.
Conduct risk There remains significant regulatory focus in relation to Conduct risk and Treating Customers Fairly. Specifically there has been continued industry-wide focus on provision for customer redress.	Business areas manage conduct risk within the design of new products and use a range of management information to monitor the fair treatment of existing customers, and to assess the fairness of existing products. The Conduct Committee and the Board review and challenge delivery of fair outcomes for customers.
Business risk In July 2013, the European Commission announced proposed changes in regulation which would cap interchange fees on consumer debit and credit cards. The regulation remains draft and while it is unclear at this stage how and when the proposals will be finally implemented, transaction fees on credit cards represent a significant part of the Group's revenue so any reduction in interchange fees may have a material effect on the Group's prospects. The Scottish Government is holding a referendum in September 2014 on the issue of Scottish independence from the UK. A vote in favour of Scottish independence could significantly impact the fiscal, monetary and regulatory environment within which the Group operates.	The Group is monitoring developments related to both interchange fee regulation and the Scottish referendum to enable it to respond to whatever decisions are reached.

The following pages provide a more detailed description of the major sources of risk that could potentially impact adversely on the Group's aims in meeting its strategic and business objectives and a more granular overview of the operational control processes and risk mitigants being deployed.

STRATEGIC REPORT (continued)

A fuller description of these risk and controls can also be found in the Company's Pillar 3 Disclosure Statements for the year ending 28 February 2014. These disclosures are published in the Financial Information section of the Tesco Bank corporate website:
http://www.corporate.tescobank.com/48/accounts-and-disclosures.

Risk Management Framework (RMF)

The scope of the RMF extends to all major risk categories faced by the Group and is underpinned by governance, controls, processes, systems and policies within the second-line risk function and those of the first-line business areas. The key components of the RMF are as follows:

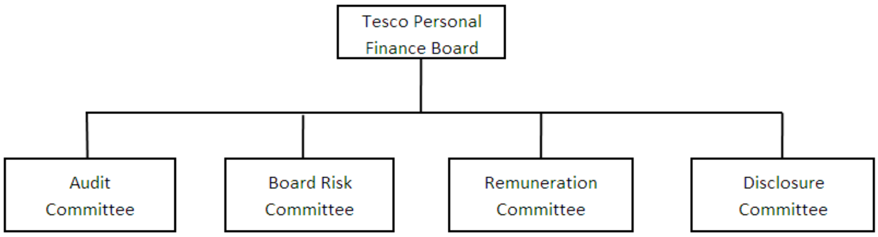
i. Risk Governance Structure

The Board is the key governance body and is responsible for the overall strategy, performance of the business and ensuring appropriate and effective risk management. It has delegated responsibility for day to day running of the business to the Chief Executive.

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

- Oversee the risk management process;
- Identify the key risks facing the Group; and
- Assess the effectiveness of the risk management actions.

- **The Board**



The Board has overall responsibility for the business. It sets the strategic aims for the business, in line with delegated authority from the shareholder and in some circumstances subject to shareholder approval, within a control framework, which is designed to enable risk to be assessed and managed. The Board satisfies itself that financial controls and systems of risk management are robust. In order to support effective governance and management of the wide range of responsibilities the Board has established the following four sub-committees:

a. Audit Committee

The role of the Audit Committee includes: reviewing and recommending to the Board for approval the financial statements; monitoring accounting policies and practices for compliance with relevant standards; reviewing the scope and results of the annual external audit; maintaining a professional relationship with the external auditors; examining arrangements in place to enable management to ensure compliance with requirements and standards under the regulatory system; and overseeing the internal audit function and the internal audit programme.

Further detail on the Audit Committee is included within the Audit Committee section of the Directors' Report.

b. Board Risk Committee (BRC)

The role of the BRC includes the oversight and challenge of the Group's risk appetite and the recommendation to the Board of any changes to risk appetite, the assessment of any future risks, the review and challenge, where appropriate, of the outputs from the Asset and Liability Management Committee (ALCO) and Risk Management Committee (RMC) and to oversee that a supportive risk culture is appropriately embedded in the business.

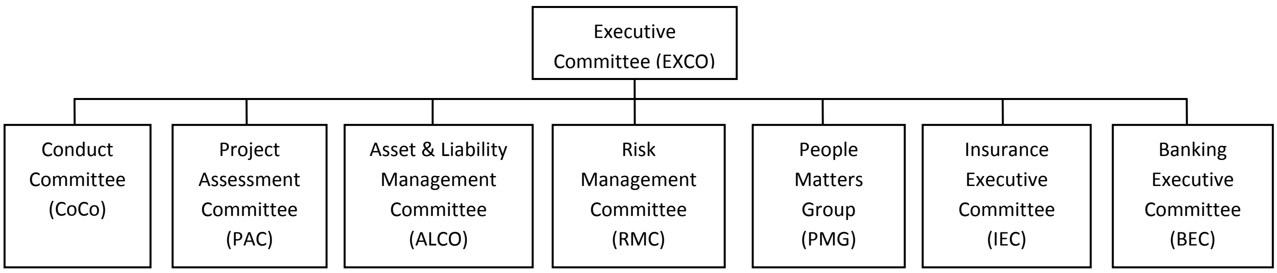
STRATEGIC REPORT (continued)

c. Remuneration Committee
The role of the Remuneration Committee is: to determine and approve remuneration arrangements for staff within the Group, who come under the Prudential Regulatory Authority's definition of Remuneration Code staff; to approve a remuneration framework for employees of the Group below the leadership level; to ensure that, where appropriate, remuneration is aligned with Tesco PLC Group Reward Policy; to ensure the levels and structure of remuneration are designed to attract, retain, and motivate the management talent needed to run the Group's business in a way which is consistent with the risk appetite and ongoing sustainability of the business; and to be compliant with all applicable legislation, regulation and guidelines.

d. Disclosure Committee
The Disclosure Committee is responsible for ensuring the Group's compliance with relevant legal and regulatory obligations in relation to the timing, accurate disclosure and announcement of information and the treatment of inside information.

The Committee also reviews, on behalf of the Board, certain legal or regulatory disclosures ahead of publication and makes recommendations to the Board as appropriate.

- **Executive Committee**



The Group's Board has delegated day to day running of the business to the Chief Executive. The Chief Executive has established the Executive Committee (ExCo) to assist in the management of the business and deliver against the strategy in an effective and controlled way. The ExCo provides general executive management of the business and facilitates cross-functional communication and liaison. The relevant ExCo member is responsible to the Chief Executive and to the Board, for managing performance in line with the Group's long-term plan, the strategy, the annual budget and the risk appetite.

In order to ensure that high level matters which require cross functional oversight and engagement are dealt with appropriately, the ExCo has established a series of sub-committees as detailed below, which report directly to ExCo.

a. Conduct Committee (CoCo)
The principal role of the CoCo is to provide review and challenge relating to the delivery of fair outcomes for customers by each business area.

b. Project Assessment Committee (PAC)
The principal role of the PAC is to agree the initial allocation of funding and on-going management and changes, to the consolidated Group change portfolio, ensuring change activity aligns to strategic priorities, delivering the desired outcomes for the Group.

c. Asset and Liability Management Committee (ALCO)
The principal role of the ALCO is to optimise the Group's balance sheet structure and to identify, manage and control the Group's balance sheet risks in the execution of its chosen business strategy.

The ALCO has three sub-committees, the Liquidity Management Forum (LMF), the Market Risk Forum and the Liquidity Event Management Committee.

d. Risk Management Committee (RMC)
The principal role of RMC is to ensure that there is effective management and control of all key risks and issues facing the Group.

Three sub-committees, the FORRC and the Credit Risk Management Committee (CRMC) along with the Wholesale Credit Risk Forum (WCRF), support the RMC in discharging its duties.

e. People Matters Group (PMG)
The principal role of PMG is to lead the People Agenda to best meet the needs of customers and colleagues and to monitor personnel and staffing matters so as to ensure that the Group has the right team to deliver its strategy and goals.

f. Insurance Executive Committee (IEC)
The principal role of the IEC is to lead the day to day management of the Insurance business, approve key management decisions and propositions for development and monitor the performance of the Group's Insurance business against strategy and goals.

g. Banking Executive Committee (BEC)
The principal role of the BEC is to lead the day to day management of the Banking business, approve key management decisions and propositions for development and monitor the performance of the Group's Banking business against strategy and goals.

ii. Three Lines of Defence
The Group's risk management follows the Three Lines of Defence model where:

- **First line of defence** - line managers are responsible for establishing an effective control framework within their area of operations and identifying and controlling all risks so that they are operating within the organisational risk appetite and are fully compliant with Group policies and where appropriate defined thresholds. They also devise and manage appropriate key risk indicators, management information and assurance processes to ensure their control framework is robust and effective.

  During the year a number of training and communication initiatives were delivered to strengthen the awareness amongst First Line managers and staff with particular focus on Regulatory requirements and the Group's key Risk Management processes and tools.

- **Second line of defence** - the Risk Management function is responsible for proposing to the Board appropriate objectives and measures to define the Group's risk appetite and for devising the suite of policies necessary to control the business including the overarching framework and for independently monitoring the risk profile, providing additional assurance where required. Risk will leverage their expertise by providing frameworks, tools and techniques to assist management in meeting their responsibilities, as well as acting as a central coordinator to identify enterprise wide risks and make recommendations to address them.

- **Third line of defence** - the Internal Audit function is responsible for independent assessment of the adequacy and effectiveness of internal controls and the system of risk management.

STRATEGIC REPORT (continued)

iii. Group Policies
The Group has a framework of policies that supports the articulation of the Group's risk appetite statements at an operational level. Each policy has a Senior Manager owner who is responsible for the maintenance of the policy and ensures it is reviewed and approved at least annually by the appropriate governance bodies.

iv. Risk Management Function (RMFu)
The independent RMFu operates under the leadership of the Chief Risk Officer (CRO) who reports directly to the Chief Executive and is a member of ExCo and the Board. The risk teams reporting to the CRO have been staffed by people with specific expertise and are structured to provide analysis, understanding and oversight of each of the major risks faced by the Group.

v. Stress Testing
Stress testing is the process under which the Group's business plans are regularly subjected to severe adverse impact scenarios to understand the potential impact these stress scenario outcomes would have on the Group's business including projected capital and liquidity positions.

vi. Monitoring and Reporting
The RMFu is the focus and centralised location for integrated risk reporting across the Group. The RMFu acts as a risk integrator to ensure that: risk reporting and communications form a total risk perspective; aggregation and correlation issues are addressed; and risk coverage is viewed holistically so that issues do not fall between other functions.

The Group monitors and tracks current exposures against limits defined in the risk appetite and reports exceptions on a monthly basis to the ALCO and RMC and to each meeting of the BRC. Adherence to these limits is independently monitored, measured and reported using a suite of key indicators defined by each risk team responsible for managing the major specific risk categories faced by the Group. Decisions made at subordinate risk committees and forums are reported to senior committees as appropriate.

vii. Risk Appetite Framework
The Group has established a robust Risk Appetite Framework. Defined Risk Appetite forms a key link between the day to day risk management of the business and the Group's Strategic Risk Objectives. Risk Appetite defines the type and amount of risk that the Group is prepared to take to successfully deliver the Group's strategic and business objectives.

The Strategic Report was approved by the Board of Directors and signed by order of the Board

Jonathan Lloyd
Company Secretary
8 May 2014

DIRECTORS' REPORT

The Directors present their annual report and the audited consolidated financial statements for the year ended 28 February 2014.

BUSINESS REVIEW AND FUTURE DEVELOPMENTS

The Group's business review and future developments are set out in the Strategic Report on pages 2 to 4.

RISK MANAGEMENT

The Group's risk management disclosures are set out in the Strategic Report on pages 8 to 14.

FINANCIAL INSTRUMENTS

The Group's policies for hedging each major type of forecast transaction are discussed in note 16.

GOING CONCERN

The Group has strengthened the quality of its capital position during the year and has made steady progress in diversifying its funding base through growth in savings products and use of the FLS. The majority of the Group's funding position continues to be represented by retail deposits. In addition, the Group has access to significant amounts of additional funding and contingent liquidity via further drawing from the FLS or use of the Bank of England discount window facility. The Directors have completed a formal assessment of the Group's going concern status, taking into account both current and projected performance, including projections for the Group's capital and funding position. As a result of this assessment, the Directors consider the Group to be in a satisfactory financial position and confirm that the Group has confidence that any solvency or liquidity risks can be managed effectively. Accordingly, the Directors continue to adopt the going concern basis in preparing the financial statements.

DIVIDENDS

A final dividend in respect of ordinary share capital of £100.0m (2013: £105.0m) was paid to the parent company in February 2014.

TREATING CUSTOMERS FAIRLY

Treating Customers Fairly (TCF) is central to the Financial Conduct Authority's (FCA's) principles for businesses and remains central to the Tesco Values which sit at the heart of the business. These values are designed to ensure that customer outcomes match their understanding and expectations.

DIRECTORS

The present Directors and Company Secretary who have served throughout the year and up to the date of signing the financial statements, except where noted below, are listed on page 1.

Since 1 March 2013 to date the following changes have taken place:

	Appointed	Resigned
Paul Hewitt		1 May 2014
Adrian Hill		4 December 2013
Stuart Chambers		4 February 2014
Simon Machell	12 November 2013	

DIRECTORS' REPORT (continued)

AUDIT COMMITTEE

Introduction from the Committee Chairman

The Group operates in a demanding environment, particularly with regard to economic, reputational, political and regulatory factors. The role of the Audit Committee is critical in reviewing the effectiveness of the Group's internal control framework and assurance processes and in assessing and acting upon findings from both external and internal audit. The Audit Committee keeps the current internal control framework and assurance processes under review to ensure that they adapt to the changing environment and remain appropriate for the Group.

Audit Committee responsibilities

The key responsibilities of the Committee are to:

- Review the financial statements;
- Review the accounting policies and practices for compliance with relevant standards;
- Examine the arrangements made by management regarding compliance with requirements and standards under the regulatory system;
- Review the internal control systems including those relating to management's responsibility for the appropriateness and effectiveness of systems and controls;
- Review the internal audit programme and oversee the internal audit function;
- Consider the effectiveness of the external auditors and their independence;
- Provide an interface between management and the external auditors;
- Work closely with the Board Risk Committee so as to avoid as much as possible any overlap or gap in the overall risk and assurance activities of the two committees; and
- Carry out such investigations or reviews as shall be referred to it by the Board.

During the year, the Committee received reports from a number of business areas including Finance in relation to financial reporting and Risk in relation to regulatory compliance, fraud, bribery and corruption and integrated assurance. The Committee also considered a variety of matters including the internal financial control framework, Pillar 3 Disclosures and Operational Resilience.

In relation to the financial statements, the Committee: reviewed and recommended approval of the half-yearly results and annual financial statements; oversaw impairment reviews; and ensured oversight of the statutory audit process.

The Committee assesses the need for training on an ongoing basis and the annual agenda provides time for technical updates, which are provided by both internal and external experts. During the year, specific Audit Committee training was provided on accounting and reporting developments. Training is also provided on an ongoing basis to meet the specific needs of individual committee members.

PricewaterhouseCoopers LLP (PwC) has served as the auditors of Tesco PLC since 1983 and of the Company since 2009. The partner engaged on the audit is rotated every 5 years, in line with independence requirements. The services provided by PwC have been reviewed periodically by Tesco PLC which, as sole shareholder, approves the appointment of external auditors to the Group.

It is essential for the Audit Committee to be able to have an honest and open relationship with both its external and internal auditors. This relationship is developed and maintained through regular private meetings with both PwC and the Internal Audit Director.

The effectiveness of the external audit process is assessed by the Company by means of a detailed questionnaire completed by key stakeholders including the Audit Committee, the Executive Committee, members of senior management and Internal Audit.

The effectiveness of the Internal Audit function was assessed by means of a detailed questionnaire completed by key stakeholders including the Audit Committee, members of senior management and the external auditors. The assessment covers the Internal Audit function's understanding of its role

DIRECTORS' REPORT (continued)

and responsibility, its charter, the quality of its communications, its performance and the skills and experience of the function. It was concluded that the Internal Audit function has sufficient resources to carry out its duties.

The Committee carried out a review of its own effectiveness during the year, by the Committee Chairman conducting interviews with key stakeholders and the use of a questionnaire. The Committee concluded that it continued to be effective.

Non-audit fees
PwC contributes an independent perspective on certain aspects of the Company's internal financial control systems arising from its work, and reports to the Audit Committee. The independence of the external auditors in relation to the Company is considered annually by the Audit Committee.

The Company has a non-audit services policy for work carried out by PwC. This is split into three categories as explained below:

1. Pre-approved for the external auditors – audit-related in nature;

2. Work for which Audit Committee approval is specifically required – transaction work and corporate tax services, and certain advisory services; and

3. Work from which the external auditors are prohibited.

The Audit Committee concluded that it was in the best interests of the Company for the external auditors to provide a number of non-audit services during the year due to their experience, expertise and knowledge of the Group's operations. Auditor objectivity and independence was considered for each engagement and the committee was satisfied that the audit independence was not, at any point, compromised.

PwC follows its own ethical guidelines and continually reviews its audit team to ensure its independence is not compromised.

The fees paid to the external auditors in the year are disclosed in note 9 to the financial statements.

DIRECTORS' INDEMNITIES

In terms of Section 236 of the Companies Act 2006, all Non-Executive Directors have been issued a Qualifying Third Party Indemnity Provision by Tesco Personal Finance Group Limited. All qualifying third party indemnities were in force at the date of approval of the financial statements.

There were also Qualifying Third Party Indemnity Provisions issued by Tesco Personal Finance Group Limited in force during the year for both Stuart Chambers and Adrian Hill until their respective resignation dates.

OUR PEOPLE

The Group is committed to promoting a diverse and inclusive workplace, reflective of the communities in which it does business. It approaches diversity in the broadest sense, recognising that successful businesses flourish through embracing diversity into their business strategy, and developing talent at every level in the organisation.

The Group's selection, training, development and promotion policies ensure everyone is welcome, and are designed to provide equality of opportunity for all colleagues, regardless of factors such as age, disability, gender reassignment, race, religion or belief, ethnic origin, sex, sexual orientation, marriage and civil partnership, pregnancy and maternity or trade union affiliation. Decisions are based on merit, and the Group welcomes applications for employment from disabled individuals.

The Group is committed to developing the skills and knowledge, and support the wellbeing, of its colleagues in order to help achieve its objectives and create a great place to work. It ensures that company values are reflected within its employment policies and practices to encourage engagement, and ensure colleagues can be their best, and are able to contribute to the delivery of the Group's Core Purpose: 'We make what matters better, together'.

There are processes in place for understanding and responding to colleagues' needs through surveys and regular performance and development reviews. Business developments are communicated frequently to ensure that colleagues are well informed about the progress of the Group. Ongoing training programmes also seek to ensure that colleagues understand the Group's objectives and the regulatory environment in which it operates.

The Group works with colleagues, including those with disabilities, to adapt work practices where necessary in order to help them work effectively within the business.

Colleagues are encouraged to become involved in the financial performance of the wider Tesco PLC Group through a variety of schemes, principally the Tesco employee profit-sharing scheme (Shares in Success), the savings related share option scheme (Save As You Earn) and the partnership share plan (Buy As You Earn).

DIRECTORS' REPORT (continued)

STATEMENT OF DIRECTORS' RESPONSBILITIES

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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.

Each of the Directors, whose names are listed on page 1 of the Annual Report and financial statements confirm that, to the best of their knowledge:

- the consolidated financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Strategic Report contained in the Annual Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

So far as each Director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditors in connection with preparing this report, of which the auditors are unaware. All of the Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Approved by the Board of Directors and signed by order of the Board

Jonathan Lloyd
Company Secretary
8 May 2014

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF TESCO PERSONAL FINANCE PLC

REPORT ON FINANCIAL STATEMENTS

Our opinion

In our opinion:

- The financial statements, defined below, give a true and fair view of the state of the Group's and of the Company's affairs as at 28 February 2014 and of the Group's profit and of the Group's and Company's cash flows for the year then ended;
- The Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- The Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The Group financial statements and Company financial statements (the "financial statements"), which are prepared by Tesco Personal Finance plc, comprise:

- The Consolidated and Company statements of financial position as at 28 February 2014;
- the Consolidated income statement and statement of comprehensive income for the year then ended;
- the Consolidated and Company statements of changes in equity and statements of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation comprises applicable law and IFRSs as adopted by the European Union and, as regards the Company, as applied in accordance with the provisions of the Companies Act 2006.

In applying the financial reporting framework, the Directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (ISAs (UK & Ireland)). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's and Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF TESCO PERSONAL FINANCE PLC (continued)

inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinions on matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

OTHER MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' Remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 19, the Directors are responsible for the preparation of the Group and Company financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the Group and Company financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Catrin Thomas

Catrin Thomas (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh
8 May 2014

TESCO PERSONAL FINANCE PLC

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 28 FEBRUARY 2014

	Note	2014 £m	2013 £m
Interest and similar income	4	503.5	472.8
Interest expense and similar charges	4	(153.5)	(182.9)
Net interest income		**350.0**	**289.9**
Fees and commissions income	5	423.9	451.5
Fees and commissions expense	5	(29.9)	(26.6)
Provision for customer redress	28	(63.0)	(115.0)
Other fees and commissions income	6	-	30.0
Net fees and commissions income		**331.0**	**339.9**
Gains on financial instruments, movements on derivatives and hedge accounting	7	5.6	6.2
Realised gain on investment securities	8	1.0	7.4
Other income		**6.6**	**13.6**
Total income		**687.6**	**643.4**
Administrative expenses	9	(405.1)	(385.7)
Depreciation and amortisation	23, 24	(71.5)	(61.9)
Operating expenses		**(476.6)**	**(447.6)**
Impairment	10	(60.8)	(82.0)
Operating profit		150.2	113.8
Share of profit of associate	21	2.4	10.2
Profit before tax		**152.6**	**124.0**
Income tax expense	12	(34.3)	(20.6)
Profit for the year attributable to owners of the parent		**118.3**	**103.4**

Profit after tax for the year of £115.9m (2013: £93.2m) is attributable to the operations of the Company.

The Company has elected to take the exemption under section 408 of the Companies Act 2006 not to present the income statement and statement of comprehensive income of the Company.

TESCO PERSONAL FINANCE PLC

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 28 FEBRUARY 2014

	Note	2014 £m	2013 £m
Profit for the year		**118.3**	**103.4**
Items that may be reclassified subsequently to the income statement			
Unrealised net gains/(losses) on available for sale investment securities before tax	12	0.1	(9.4)
Net gains arising on cash flow hedges before tax	12	2.0	-
Tax relating to items that may be reclassified	12	(0.4)	5.8
Share of other comprehensive expense of associate	21	(5.4)	(1.6)
Total items that may be reclassified subsequently to the income statement		**(3.7)**	**(5.2)**
Total comprehensive income for the year attributable to owners of the parent		**114.6**	**98.2**

TESCO PERSONAL FINANCE PLC

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 28 FEBRUARY 2014

	Note	2014 £m	2013 £m
Assets			
Cash and balances with central banks	14	494.0	919.8
Loans and advances to customers	15	6,922.0	5,570.4
Derivative financial instruments	16	36.6	33.5
Investment securities:			
– Available for sale	17	850.3	958.7
– Loans and receivables	17	34.1	41.6
Prepayments and accrued income	18	27.1	33.9
Current income tax asset		0.8	36.1
Other assets	19	285.0	250.2
Investment in associate	21	77.3	95.3
Intangible assets	23	427.7	397.4
Property, plant and equipment	24	92.8	94.3
Total assets		**9,247.7**	8,431.2
Liabilities			
Deposits from banks	25	779.8	15.2
Deposits from customers	26	6,082.4	6,003.5
Debt securities in issue	27	394.8	406.7
Derivative financial instruments	16	41.8	63.5
Provisions for liabilities and charges	28	105.5	102.0
Accruals and deferred income	29	127.1	123.7
Other liabilities	30	125.6	116.5
Deferred income tax liability	22	19.3	43.4
Subordinated liabilities	31	190.0	330.0
Total liabilities		**7,866.3**	7,204.5
Equity and reserves attributable to owners of the parent			
Share capital	32	122.0	108.0
Share premium account	32	1,097.9	971.9
Retained earnings		105.1	87.9
Other reserves	33	11.4	13.9
Subordinated notes	34	45.0	45.0
Total equity		**1,381.4**	1,226.7
Total liabilities and equity		**9,247.7**	8,431.2

The consolidated financial statements on pages 22 – 103 were approved by the Board of Directors and authorised for issue on 8 May 2014 and were signed on its behalf by:

Peter Bole
Director

TESCO PERSONAL FINANCE PLC

COMPANY STATEMENT OF FINANCIAL POSITION
AS AT 28 FEBRUARY 2014

Company number SC173199

	Note	2014 £m	2013 £m
Assets			
Cash and balances with central banks	14	437.8	919.7
Loans and advances to customers	15	6,922.0	5,570.4
Derivative financial instruments	16	36.6	33.5
Investment securities:			
– Available for sale	17	850.3	958.7
– Loans and receivables	17	34.1	41.6
Prepayments and accrued income	18	27.1	33.9
Current income tax asset		0.8	36.2
Other assets	19	343.1	250.3
Investment in associate	21	71.0	86.0
Intangible assets	23	427.7	397.4
Property, plant and equipment	24	92.8	94.3
Total assets		**9,243.3**	8,422.0
Liabilities			
Deposits from banks	25	779.8	15.2
Deposits from customers	26	6,082.4	6,003.5
Debt securities in issue	27	394.8	406.7
Derivative financial instruments	16	41.8	63.5
Provisions for liabilities and charges	28	105.5	102.0
Accruals and deferred income	29	127.1	123.7
Other liabilities	30	127.4	116.5
Deferred income tax liability	22	19.3	43.4
Subordinated liabilities	31	190.0	330.0
Total liabilities		**7,868.1**	7,204.5
Equity and reserves attributable to owners of the parent			
Share capital	32	122.0	108.0
Share premium account	32	1,097.9	971.9
Retained earnings		95.0	80.2
Other reserves	33	15.3	12.4
Subordinated notes	34	45.0	45.0
Total equity		**1,375.2**	1,217.5
Total liabilities and equity		**9,243.3**	8,422.0

The financial statements on pages 22 - 103 were approved by the Board of Directors and authorised for issue on 8 May 2014 and were signed on its behalf by:

Peter Bole
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 28 FEBRUARY 2014

	Note	Share capital £m	Share premium account £m	Retained earnings £m	Sub-ordinated notes £m	Other reserves £m	Total equity £m
Balance at 1 March 2013		**108.0**	**971.9**	**87.9**	**45.0**	**13.9**	**1,226.7**
Comprehensive income / (expense)							
Profit for the year		-	-	118.3	-	-	118.3
Net gains on available for sale investment securities	12	-	-	-	-	0.1	0.1
Net gains on cash flow hedges	12	-	-	-	-	1.6	1.6
Share of other comprehensive expense of associate	21	-	-	-	-	(5.4)	(5.4)
Total comprehensive income / (expense)		**-**	**-**	**118.3**	**-**	**(3.7)**	**114.6**
Transactions with owners							
Shares issued in the year	32	14.0	126.0	-	-	-	140.0
Dividends to ordinary shareholders	13	-	-	(100.0)	-	-	(100.0)
Dividends to holders of other equity	13	-	-	(1.1)	-	-	(1.1)
Share based payments	33	-	-	-	-	1.2	1.2
Total transactions with owners		**14.0**	**126.0**	**(101.1)**	**-**	**1.2**	**40.1**
Balance at 28 February 2014		**122.0**	**1,097.9**	**105.1**	**45.0**	**11.4**	**1,381.4**

	Note	Share capital £m	Share premium account £m	Retained earnings £m	Sub-ordinated notes £m	Other reserves £m	Total equity £m
Balance at 1 March 2012		**103.5**	**931.4**	**90.2**	**45.0**	**19.9**	**1,190.0**
Comprehensive income / (expense)							
Profit for the year		-	-	103.4	-	-	103.4
Net losses on available for sale investment securities	12	-	-	-	-	(3.7)	(3.7)
Net gains on cash flow hedges	12	-	-	-	-	0.1	0.1
Share of other comprehensive expense of associate	21	-	-	-	-	(1.6)	(1.6)
Total comprehensive income / (expense)		**-**	**-**	**103.4**	**-**	**(5.2)**	**98.2**
Transactions with owners							
Shares issued in the year	32	4.5	40.5	-	-	-	45.0
Dividends to ordinary shareholders	13	-	-	(105.0)	-	-	(105.0)
Dividends to holders of other equity	13	-	-	(0.7)	-	-	(0.7)
Share based payments	33	-	-	-	-	(0.8)	(0.8)
Total transactions with owners		**4.5**	**40.5**	**(105.7)**	**-**	**(0.8)**	**(61.5)**
Balance at 28 February 2013		**108.0**	**971.9**	**87.9**	**45.0**	**13.9**	**1,226.7**

TESCO PERSONAL FINANCE PLC

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 28 FEBRUARY 2014

	Note	Share capital £m	Share premium account £m	Retained earnings £m	Sub-ordinated notes £m	Other reserves £m	Total equity £m
Balance at 1 March 2013		**108.0**	**971.9**	**80.2**	**45.0**	**12.4**	**1,217.5**
Comprehensive income							
Profit for the year		-	-	115.9	-	-	115.9
Net gains on available for sale investment securities		-	-	-	-	0.1	0.1
Net gains on cash flow hedges		-	-	-	-	1.6	1.6
Total comprehensive income		**-**	**-**	**115.9**	**-**	**1.7**	**117.6**
Transactions with owners							
Shares issued in the year	32	14.0	126.0	-	-	-	140.0
Dividends to ordinary shareholders	13	-	-	(100.0)	-	-	(100.0)
Dividends to holders of other equity	13	-	-	(1.1)	-	-	(1.1)
Share based payments	33	-	-	-	-	1.2	1.2
Total transactions with owners		**14.0**	**126.0**	**(101.1)**	**-**	**1.2**	**40.1**
Balance at 28 February 2014		**122.0**	**1,097.9**	**95.0**	**45.0**	**15.3**	**1,375.2**

	Note	Share capital £m	Share premium account £m	Retained earnings £m	Sub-ordinated notes £m	Other reserves £m	Total equity £m
Balance at 1 March 2012		**103.5**	**931.4**	**92.7**	**45.0**	**16.7**	**1,189.3**
Comprehensive income / (expense)							
Profit for the year		-	-	93.2	-	-	93.2
Net losses on available for sale investment securities		-	-	-	-	(3.7)	(3.7)
Net gains on cash flow hedges		-	-	-	-	0.1	0.1
Total comprehensive income / (expense)		**-**	**-**	**93.2**	**-**	**(3.6)**	**89.6**
Transactions with owners							
Shares issued in the year	32	4.5	40.5	-	-	-	45.0
Dividends to ordinary shareholders	13	-	-	(105.0)	-	-	(105.0)
Dividends to holders of other equity	13	-	-	(0.7)	-	-	(0.7)
Share based payments	33	-	-	-	-	(0.7)	(0.7)
Total transactions with owners		**4.5**	**40.5**	**(105.7)**	**-**	**(0.7)**	**(61.4)**
Balance at 28 February 2013		**108.0**	**971.9**	**80.2**	**45.0**	**12.4**	**1,217.5**

TESCO PERSONAL FINANCE PLC

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 28 FEBRUARY 2014

	Note	2014 £m	2013 £m
Operating activities			
Profit before tax		152.6	124.0
Adjusted for:			
Non cash items included in operating profit before tax	39	213.9	243.3
Changes in operating assets and liabilities	39	(661.6)	(384.1)
Income taxes paid		(22.9)	(39.3)
Cash flows used in operating activities		**(318.0)**	**(56.1)**
Investing activities			
Purchase of non current assets		(107.6)	(137.5)
Purchase of available for sale investment securities		(254.8)	(101.3)
Sale of non current assets		-	0.8
Sale of available for sale investment securities		194.5	548.1
Loan to associate		-	(7.2)
Repayment of loan from associate		7.5	-
Proceeds from repayment of capital loan		-	258.5
Investment in associate	21	-	(14.3)
Distribution from associate	21	15.0	-
Deposit with parent		-	(145.0)
Cash flows (used in)/ generated from investing activities		**(145.4)**	**402.1**
Financing activities			
Proceeds from issue of debt securities		-	198.4
Proceeds from issue of share capital	32	-	45.0
Dividends paid to ordinary shareholders	13	(100.0)	(105.0)
Dividends paid to holder of other equity	13	(1.1)	(1.0)
Interest paid on subordinated liabilities		(5.4)	(7.8)
Cash flows (used in)/generated from financing activities		**(106.5)**	**129.6**
Net (decrease)/increase in cash and cash equivalents		(569.9)	475.6
Cash and cash equivalents at the beginning of the year		1,054.5	578.9
Cash and cash equivalents at the end of the year	38	**484.6**	**1,054.5**

COMPANY CASH FLOW STATEMENT
FOR THE YEAR ENDED 28 FEBRUARY 2014

	Note	2014 £m	2013 £m
Operating activities			
Profit before tax		150.2	113.8
Adjusted for:			
Non cash items included in operating profit before taxation	39	216.3	253.5
Changes in operating assets and liabilities	39	(717.7)	(384.1)
Income taxes paid		(22.9)	(39.3)
Cash flows used in operating activities		**(374.1)**	**(56.1)**
Investing activities			
Purchase of non current assets		(107.6)	(137.6)
Purchase of available for sale investment securities		(254.8)	(101.3)
Sale of non current assets		-	0.8
Sale of available for sale investment securities		194.5	548.1
Loan to associate		-	(7.2)
Repayment of loan from associate		7.5	-
Proceeds from repayment of capital loan		-	258.5
Investment in associate	21	-	(14.3)
Distribution from associate	21	15.0	-
Deposit with parent		-	(145.0)
Cash flows (used in)/ generated from investing activities		**(145.4)**	**402.0**
Financing activities			
Proceeds from issue of debt securities		-	198.4
Proceeds from issue of share capital	32	-	45.0
Dividends paid to ordinary shareholders	13	(100.0)	(105.0)
Dividends paid to holders of other equity	13	(1.1)	(1.0)
Interest paid on subordinated liabilities		(5.4)	(7.8)
Cash flows (used in)/generated from financing activities		**(106.5)**	**129.6**
Net (decrease)/ increase in cash and cash equivalents		(626.0)	475.5
Cash and cash equivalents at the beginning of the year		1,054.4	578.9
Cash and cash equivalents at the end of the year	38	**428.4**	**1,054.4**

NOTES TO THE FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES

BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) of the International Accounting Standards Board (IASB) as endorsed by the European Union (EU), and those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

In these financial statements the 'Company' means Tesco Personal Finance plc and the 'Group' means the Company and its subsidiaries and associated undertaking. Details of these subsidiaries and associated undertaking are provided in notes 20 and 21. These consolidated financial statements comprise the financial statements of the Group.

The consolidated financial statements are presented in Sterling, which is the functional currency of the Group. The figures shown in the financial statements are rounded to the nearest £0.1 million unless otherwise stated.

GOING CONCERN

The Group has strengthened the quality of its capital position during the year and has made steady progress in diversifying its funding base through growth in savings products and use of the Bank of England Funding for Lending Scheme (FLS). The majority of the Group's funding position continues to be represented by retail deposits. In addition, the Group has access to significant amounts of additional funding and contingent liquidity via further drawing from the FLS or use of the Bank of England discount window facility. The Directors have completed a formal assessment of the Group's going concern status, taking into account both current and projected performance, including projections for the Group's capital and funding position. As a result of this assessment, the Directors consider the Group to be in a satisfactory financial position and confirm that the Group has confidence that any solvency or liquidity risks can be managed effectively. Accordingly, the Directors continue to adopt the going concern basis in preparing the financial statements.

PRINCIPAL ACCOUNTING POLICIES

a) ACCOUNTING CONVENTION

The Company is incorporated and domiciled in the UK and registered in Scotland. The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of derivative financial instruments and available for sale investment securities held at fair value.

A summary of the Group's accounting policies is set out below. These policies have been consistently applied to all of the years presented, unless otherwise stated.

b) BASIS OF CONSOLIDATION

The consolidated financial statements of the Group comprise the financial statements of the Company and all consolidated subsidiaries, including certain securitisation Special Purpose Entities (SPEs), and the Group's share of its interests in an associate as at 28 February 2014.

Investment in group undertakings

A subsidiary is an entity in which the Group determines the financial and business policies and is able to exercise control over it in order to benefit from its activities.

The results of subsidiaries are fully consolidated from the date that control commences until the date that control ceases.

Intragroup balances, and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated upon consolidation.

The Company's investments in its subsidiaries are stated at cost less any impairment.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1 ACCOUNTING POLICIES (continued)

Special purpose entities
The Group enters into securitisation transactions in which it assigns credit card receivables to an SPE which supports the issuance of securities backed by the cash flows from the securitised credit card receivables. Although none of the equity of the SPEs is owned by the Group, the nature of these entities, which are in substance controlled by the Group, mean that the Group retains substantially all the risks and rewards of ownership of the securitised credit card receivables. As such the SPEs are consolidated on a line by line basis in the Group consolidated financial statements.

As at 28 February 2014 there were £1.75bn notes in issue in relation to securitisation transactions (2013: none).

Investment in associate
An associate is an entity over which the Group has significant influence and can participate in the financial and operating policy decisions of the entity.

The Group's share of the results of associates is included in the consolidated income statement using the equity method of accounting. Investments in associates are carried in the statement of financial position at cost plus post-acquisition changes in the Group's share of the net assets of the entity, less any impairment.

If the Group's share of losses in an associate equals or exceeds its investment in the associate, the Group does not recognise further losses, unless it has incurred obligations to do so or made payments on behalf of the associate.

The Company's investment in its associate is stated at cost less any impairment.

c) NET INTEREST INCOME RECOGNITION
Interest income and expense for all financial instruments measured at amortised cost are recognised using the effective interest rate method.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or financial liability (or group of financial assets or liabilities) and of allocating the interest income or interest expense over the expected life of the asset or liability. The effective interest rate is the rate that exactly discounts estimated future cash flows to the instrument's initial carrying amount. Calculation of the effective interest rate takes into account fees receivable that are an integral part of the instrument's yield, premiums or discounts on acquisition or issue, early redemption fees and transaction costs. All contractual and behavioural terms of a financial instrument are considered when estimating future cash flows.

d) NET FEES AND COMMISSIONS INCOME RECOGNITION
Fees in respect of services (primarily credit card interchange fees) are recognised on an accrual basis when the service to the customer has been provided. The arrangements are generally contractual and the cost of providing the service is incurred as the service is rendered. The price is usually fixed and always determinable.

The Group generates commission from the sale and service of Motor and Home insurance policies underwritten by Tesco Underwriting Limited, or in a minority of cases by a third party underwriter. This is based on commission rates which are independent of the profitability of underlying insurance policies. Similar commission income is also generated from the sale of white label insurance products underwritten by other third party providers. This commission income is recognised as such policies are sold.

In the prior year the Group continued to receive insurance commission arising from the sale of insurance policies sold under the Tesco brand through the legacy arrangement with The Direct Line Group (DLG). This commission income was variable and dependant upon the profitability of the underlying insurance policies. This commission income was recognised over the life of the policies.

1 ACCOUNTING POLICIES (continued)

Revenue recognition – customer loyalty programmes
The Group participates in the customer loyalty programme operated by Tesco Stores Limited. The programme operates by allowing customers to accumulate Clubcard points on purchases for future redemption against a range of Tesco products. The cost of providing Clubcard points to customers is recharged by Tesco Stores Limited to the Group and is treated as a deduction from net fees and commissions income in the financial statements of the Group in the period the costs are incurred.

The Group has no obligation to customers in respect of Clubcard points once the obligation with Tesco Stores Limited is settled.

e) GOVERNMENT GRANTS
Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in deferred income as deferred government grants and are credited to the consolidated income statement on a straight-line basis over the expected lives of the related assets.

Where a government grant relates to both costs and expenditure on property, plant and equipment it may be appropriate to allocate part of the grant on one basis and part on another.

f) DIVIDEND INCOME
Dividends are recognised in the consolidated income statement when the entity's right to receive payment is established.

g) TAXATION
The tax expense included in the consolidated income statement consists of current and deferred tax. Tax is recognised in the consolidated income statement except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case it is recognised in other comprehensive income or equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted by the reporting date.

Deferred tax is provided using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax is calculated at the tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be realised.

Deferred tax assets and liabilities are offset against each other when there is a legally enforceable right to set-off current tax assets against current tax liabilities and it is the intention to settle these on a net basis.

h) FOREIGN CURRENCY TRANSLATION
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1 ACCOUNTING POLICIES (continued)

Monetary items denominated in foreign currency are translated at the closing rate as at the reporting date. Non-monetary items measured at historical cost denominated in a foreign currency are translated at the exchange rate as at the date of initial recognition; non-monetary items in a foreign currency that are measured at fair value are translated using the exchange rates at the date of valuation.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement, except when deferred in equity as gains or losses from qualifying cash flow hedging instruments.

All foreign exchange gains and losses recognised in the consolidated income statement are presented net in the consolidated income statement within the corresponding item. Foreign exchange gains and losses on other comprehensive income items are presented in other comprehensive income within the corresponding item.

In the case of changes in the fair value of monetary assets denominated in foreign currency classified as available for sale, a distinction is made between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in the consolidated income statement, and other changes in the carrying amount, except impairment, are recognised in equity.

i) CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash in hand and demand deposits with banks together with short-term highly liquid investments with original maturities of less than 3 months.

j) FINANCIAL INSTRUMENTS

The Group classifies a financial instrument that it issues as a financial asset, financial liability or an equity instrument in accordance with the substance of the contractual arrangement. An instrument is classified as a liability if it is a contractual obligation to deliver cash or another financial asset, or to exchange financial assets or financial liabilities on potentially unfavourable terms.

An instrument is classified as equity if it evidences a residual interest in the assets of the Group after the deduction of liabilities.

k) FINANCIAL ASSETS

The Group classifies its financial assets in the following categories: at fair value through profit or loss (FVTPL), loans and receivables and available-for-sale (AFS). Management determines the classification of its financial instruments at initial recognition. Purchases and sales of financial assets are recognised on the trade date – the date on which the Group commits to purchase or sell the asset.

Financial assets at FVTPL include financial assets held for trading and those designated at fair value through profit or loss at inception. Financial assets held at FVTPL are recognised at fair value with any gains or losses included in the consolidated income statement in the period in which they arise. Transaction costs are expensed at the time of initial recognition. Derivative financial assets are classified as held for trading unless they are accounted for as an effective hedging instrument but are not separately categorised in the statement of financial position. The Group does not currently hold any financial assets designated at fair value through profit or loss at inception.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition at fair value plus transaction costs, these assets are carried at amortised cost using the effective interest method, less any impairment.

AFS financial assets are non-derivative assets that are either designated in this category or not classified in any of the other categories. Subsequent to initial recognition at fair value plus transaction costs, these assets are recorded at fair value with the movements in fair value recognised in other comprehensive income until the financial asset is derecognised or impaired at which time the

NOTES TO THE FINANCIAL STATEMENTS (continued)

1 ACCOUNTING POLICIES (continued)

cumulative gain or loss previously recognised in other comprehensive income is recognised in the income statement.

l) FINANCIAL LIABILITIES

All of the financial liabilities held by the Group, other than derivative liabilities, are measured at amortised cost using the effective interest rate method, after initial recognition at fair value. Fair value is calculated as the issue proceeds, net of premiums, discounts and transaction costs incurred. The Group does not hold any financial liabilities classified as held for trading.

m) DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES

Financial assets are derecognised when the contractual rights to receive cash flows have expired or where substantially all of the risks and rewards of ownership have been transferred and the transfer qualifies for derecognition. Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

Collateral furnished by the Group under standard repurchase agreements is not derecognised because the Group retains substantially all the risks and rewards on the basis of the predetermined repurchase price, therefore the criteria for derecognition are not met. This also applies to certain securitisation transactions in which the Group retains a portion of the risks.

n) OFFSETTING OF FINANCIAL INSTRUMENTS

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise an asset and settle a liability simultaneously.

o) IMPAIRMENT OF FINANCIAL ASSETS

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or portfolio of financial assets is impaired and an impairment loss incurred if there is objective evidence that an event or events since initial recognition of the asset have adversely affected the amount or timing of future cash flows from the asset.

Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on a financial asset or group of financial assets classified as loans and receivables has been incurred, the Group measures the amount of the loss as the difference between the carrying amount of the asset or group of assets and the present value of estimated future cash flows from the asset or group of assets discounted at the effective interest rate of the instrument(s) at initial recognition. Impairment losses are assessed individually for financial assets that are individually significant and collectively for assets that are not individually significant. In making the collective assessment of impairment, financial assets are grouped into portfolios on the basis of similar risk characteristics. Future cash flows from these portfolios are estimated on the basis of the contractual cash flows and historical loss experience for assets with similar credit risk characteristics. Historical loss experience is adjusted, on the basis of currently observable data, to reflect the effects of current conditions that did not affect the historical period.

Impairment losses are recognised in the consolidated income statement and the carrying amount of the financial asset or group of financial assets is reduced by establishing an allowance for impairment losses. If in a subsequent year the amount of the impairment loss reduces and the reduction can be related objectively to an event after the impairment was recognised, the previously recognised loss is reversed by adjusting the allowance. Once an impairment loss has been recognised on a financial asset or group of financial assets, interest income is recognised on the carrying amount using the rate of interest at which estimated future cash flows were discounted in measuring impairment.

When a loan is deemed uncollectible it is written off against the related provision for loan impairment after all of the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off received from customers or other third parties are recognised directly in the consolidated income statement as a reduction in the loan impairment charge for the period.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1 ACCOUNTING POLICIES (continued)

Financial assets classified as available for sale

In the case of investment securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in the recognition of an impairment loss. If any such evidence exists for available for sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the consolidated income statement. Impairment losses recognised in the income statement on investment securities are not reversed through the consolidated income statement.

p) DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

The Group uses derivative financial instruments to hedge its exposure to interest rate and foreign exchange risks arising from operating, financing and investment activities. The Group does not hold or issue derivative financial instruments for trading purposes. Derivatives are initially recognised at fair value on the contract date and are remeasured at their fair value at subsequent reporting dates.

Cash flow hedges

During the year the Group used cash flow hedging as a risk management tool for hedging the interest rate risk on the debt securities in issue and the pipeline balance of mortgage products.

Hedge relationships are classified as cash flow hedges where the derivative financial instruments hedge the interest rate risk of the highly probable issuance of future fixed rate mortgage products and the inflation risk on the index linked retail bond. Changes in the fair value of the derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in other comprehensive income and the ineffective portion is recognised immediately in the consolidated income statement.

Amounts accumulated in equity are recycled to the consolidated income statement in the periods when the hedged item affects profit or loss. They are recorded in the revenue or expense lines in which the related hedged item is reported.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the consolidated income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the consolidated income statement.

Fair value hedges

Hedge relationships are classified as fair value hedges where the derivative financial instruments hedge the change in the fair value of a financial asset or liability due to movements in interest rates. The changes in fair value of the hedging instrument are recognised in the consolidated income statement. The hedged item is also adjusted for changes in fair value attributable to the hedged risk, with the corresponding adjustment made in the consolidated income statement.

To qualify for hedge accounting, the Group documents at the inception of the hedge, the hedging risk management strategy, the relationship between the hedging instrument and the hedged item or transaction and the nature of the risks being hedged. The Group also documents the assessment of the effectiveness of the hedging relationship, to show that the hedge has been and will be highly effective on an ongoing basis.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest rate method is used is amortised to profit or loss over the period to maturity and recorded as net interest income.

Derivatives not in hedge accounting relationships

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the consolidated income statement as they arise.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1 ACCOUNTING POLICIES (continued)

q) IMPAIRMENT OF NON-FINANCIAL ASSETS

Non-financial assets are reviewed for impairment when there are indications that the carrying value may not be recoverable. In the event that an asset's carrying amount is determined to be greater than its recoverable amount it is written down immediately. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

r) PROPERTY, PLANT AND EQUIPMENT

Items of property, plant and equipment are stated at historical cost less accumulated depreciation and any impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent expenditure is included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group. All other repairs and maintenance costs are charged to the consolidated income statement in the period in which they are incurred.

Depreciation is charged to the consolidated income statement on a straight-line basis so as to allocate the costs less residual value over their estimated useful lives. Depreciation commences on the date that the asset is brought into use. Work in Progress assets are not depreciated until they are brought into use and transferred to the appropriate category of property, plant and equipment. Estimated useful lives for property, plant and equipment are:

- Plant and Equipment 2 to 8 years
- Fixtures and Fittings 4 to 14 years
- Computer Hardware 3 to 10 years
- Freehold Buildings 40 years
- Leasehold Improvements 15 to 20 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in administrative expenses in the consolidated income statement.

s) INTANGIBLE ASSETS

Acquired intangible assets

Intangible assets that are acquired by the Group are stated at historical cost less accumulated amortisation and any impairment losses. Amortisation is charged to the consolidated income statement on a straight-line basis over their estimated useful lives. The estimated useful lives are as follows:

- Computer software 3 to 10 years

Internally generated intangible assets – research and development expenditure

Research costs are expensed as incurred.

Development expenditure incurred on an individual project is capitalised only if the following criteria are met:

- An asset is created that can be identified (such as software);
- It is probable that the asset created will generate future economic benefits; and
- The development cost of the asset can be measured reliably.

Following the initial recognition of development expenditure, the cost is amortised over the estimated useful lives of the assets created. Amortisation commences on the date that the asset is brought into

NOTES TO THE FINANCIAL STATEMENTS (continued)

1 ACCOUNTING POLICIES (continued)

use. As assets categorised as Work In Progress are brought into use the assets are transferred to the appropriate classification within intangible assets.

t) LEASES

If a lease agreement, in which the Group is a lessee, does not transfer the risks and rewards of ownership of the asset, the lease is recorded as an operating lease.

Operating lease payments are charged to the consolidated income statement on a straight line basis over the period of the lease. Where an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor as compensation is charged to the consolidated income statement in the period in which the termination takes place.

The Group has entered into a number of operating leases for office buildings.

u) EMPLOYEE BENEFITS

The Group makes contributions to the Tesco PLC defined benefit scheme. The Group accounts for pension costs on a contributions basis in line with the requirements of IAS 19 'Employee Benefits'.

IAS 19 requires that where there is no policy or agreement for sharing the cost of the defined benefit scheme across the subsidiaries that the Sponsoring employer recognises the net defined benefit cost of a defined benefit scheme. The Sponsoring employer is Tesco PLC and the principal pension plan is the Tesco PLC pension scheme. The scheme is a funded defined benefit scheme in the UK, the assets of which are administered by trustees. Tesco PLC has recognised the appropriate net liability of the scheme.

v) SHARE BASED PAYMENTS

Employees of the Group receive part of their remuneration in the form of share-based payment transactions, whereby employees render services in exchange for Tesco PLC shares or rights over shares (equity-settled transactions) or in exchange for entitlements to cash based payments based on the value of the shares (cash-settled transactions).

The fair value of employee share option plans is calculated at the grant date using the Black-Scholes model. The resulting cost is recognised in the consolidated income statement over the vesting period. The value of the charge is adjusted to reflect expected and actual levels of vesting.

The grant by Tesco PLC of options over its equity instruments to the employees of the Group is treated as a capital contribution in equity. The social security contribution payable in connection with the grant of the share options is considered an integral part of the grant itself, and the charge is treated as a cash-settled transaction.

w) PROVISIONS FOR LIABILITIES AND CHARGES AND CONTINGENT LIABILITIES

A provision is recognised where there is a present legal or constructive obligation as a result of a past event, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation.

A contingent liability is a possible obligation which is dependent on the outcome of uncertain future events not wholly within the control of the Group, or a present obligation where an outflow of resources is not likely or the amount cannot be reliably measured.

Contingent liabilities are not recognised in the consolidated financial statements but are disclosed unless the possibility of an outflow of resources is remote.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1 ACCOUNTING POLICIES (continued)

x) SHARE CAPITAL

Share issue costs

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Dividends on shares

Dividends on shares are recognised in equity in the period they are approved by the Group's Board.

y) SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Group has determined the Board of Directors as its chief operating decision-maker.

Income and expenses directly associated with each segment are included in determining business segment performance.

In accordance with IFRS 8 'Operating Segments', the Group has two operating segments, being Banking and Insurance.

z) SALE AND REPURCHASE AGREEMENTS

Investment securities sold subject to a commitment to repurchase them at a predetermined price are retained on the balance sheet when substantially all of the risk and rewards of ownership remain with the Group. The counterparty liability is included in deposits from banks.

aa) STANDARDS, AMENDMENTS AND INTERPRETATIONS, WHICH BECAME EFFECTIVE IN THE CURRENT YEAR AND ARE RELEVANT TO THE GROUP

During the year ended 28 February 2014 the Group has adopted the following new accounting standards and amendments to standards:

- IFRS 13 'Fair value measurement'

IFRS 13 sets out a single IFRS framework for defining and measuring fair value. It defines fair value as 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. The application of IFRS 13 has not significantly impacted the fair value measurement of any financial assets or liabilities held by the Group.

IFRS 13 has been applied prospectively.

- Amendments to IAS 1 'Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income'

The amendments to IAS 1 require items of other comprehensive income to be grouped into those that will be subsequently reclassified to profit or loss and those that will not. The statement of other comprehensive income in these consolidated financial statements has been revised to reflect the new requirements.

The amendment to IAS 1 has been applied to disclosures in these consolidated financial statements retrospectively.

- Amendments to IFRS 7 'Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities'

The amendments to IFRS 7 require entities to disclose information to enable users of the financial statements to evaluate the effect or potential effect of netting arrangements on the statement of financial position. These additional disclosures are given in note 37.

The amendment to IFRS 7 has been applied to disclosures in these consolidated financial statements retrospectively.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1 ACCOUNTING POLICIES (continued)

- IAS 19 'Employee benefits (Revised 2011)'

The revised IAS 19 amends the accounting for employment benefits. There is no impact of these changes on these consolidated financial statements as the Group accounts for pension costs on a contributions basis. Amended pension scheme disclosures as required by the revised IAS 19 are given in note 35.

The revised IAS 19 has been applied to disclosures in these consolidated financial statements retrospectively.

- Annual Improvements 2009-2011

The Annual Improvements process covers minor amendments to IFRS that the IASB consider non-urgent but necessary. None of the 2009-2011 Annual Improvements have had a material impact on these consolidated financial statements.

ab) STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

The following standards, amendments and interpretations have been issued and are mandatory for the Group's accounting periods beginning on or after 1 March 2014 or later periods and are expected to be relevant to the Group.

- IAS 27 (revised 2011), 'Separate financial statements'

The revised IAS 27 is effective for annual periods beginning on or after 1 January 2013, however is endorsed for application by the EU from 1 January 2014. This revised standard contains guidance on the preparation of separate financial statements after the control and consolidation provisions in the previous IAS 27 have been replaced with IFRS 10. This revised standard is not expected to impact the Group.

- IAS 28 (revised 2011), 'Associates and joint ventures'

The revised IAS 28 is effective for annual periods beginning on or after 1 January 2013, however is endorsed for application by the EU from 1 January 2014. This revised standard contains the requirements for joint ventures to be equity accounted following the issue of IFRS 11. This revised standard is not expected to impact the Group.

- IFRS 10, 'Consolidated financial statements'

IFRS 10 is effective for annual periods beginning on or after 1 January 2013, however is endorsed for application by the EU from 1 January 2014. This new standard redefines the concept of control in relation to the requirement to prepare consolidated financial statements. This new standard is not expected to impact the Group.

- IFRS 11, 'Joint arrangements'

IFRS 11 is effective for annual periods beginning on or after 1 January 2013, however is endorsed for application by the EU from 1 January 2014. This new standard redefines the term 'joint arrangement' and limits the type of joint arrangement to joint operations and joint ventures. This new standard is not expected to impact the Group.

- IFRS 12, 'Disclosures of interests in other entities'

IFRS 12 is effective for annual periods beginning on or after 1 January 2013, however is endorsed for application by the EU from 1 January 2014. This new standard contains amended disclosure requirements for all forms of interest in other entities. This new standard is expected to result in amended disclosures on investments in group undertakings and investments in associates for the Group for the year ended 28 February 2015 onwards.

- Amendments to IFRS 10, 11 and 12 on transition guidance

This amendment is effective for annual periods beginning on or after 1 January 2013, however is endorsed for application by the EU from 1 January 2014. It clarifies the transition guidance contained in IFRS 10, IFRS 11 and IFRS 12 and provides additional transition relief. This amendment will impact the comparative disclosures on investments in group undertakings and investments in associates for the Group provided on adoption of IFRS 12.

1 ACCOUNTING POLICIES (continued)

- Amendments to IFRS 10, 12 and IAS 27 on consolidation for investment entities

This amendment is effective for annual periods beginning on or after 1 January 2014. It introduces an exception to consolidation for investment entities and introduces new required disclosures in respect of these entities. This amendment is not expected to impact the Group.

- Amendment to IAS 32, 'Financial instruments: Presentation on offsetting financial assets and financial liabilities'

This amendment is effective for annual periods beginning on or after 1 January 2014. It clarifies some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. This amendment is not expected to impact the Group.

- Amendment to IAS 36, 'Impairment of assets: Recoverable amount disclosures for non-financial assets'

This amendment is effective for annual periods beginning on or after 1 January 2014. It clarifies the disclosure requirements on the recoverable amount of impaired assets if that amount is based on fair value less costs to sell. The impact of this amendment on the Group is dependent on any future impairment of assets.

- Amendment to IAS 39 'Financial instruments: Novation of derivatives and continuation of hedge accounting'

This amendment is effective for annual periods beginning on or after 1 January 2014. It provides an exception to the requirement to discontinue hedge accounting in situations where over the counter derivatives designated in hedging relationships are directly or indirectly novated to a central counterparty as a consequence of laws or regulations. The impact of this amendment on the Group is dependent on any future novation of derivatives.

- IFRIC 21 'Levies'

This IFRIC is effective for annual periods beginning on or after 1 January 2014. It clarifies the timing of recognition of a liability to pay a levy recognised in accordance with IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'. The adoption of this interpretation is expected to affect the timing of the Group's recognition of the Financial Services Compensation Scheme (FSCS) Levy in future periods but the impact will not be significant to the financial statements of the Group.

- Amendment to IAS 19 'Employee benefits: Employee contributions'

This amendment is effective for annual periods beginning on or after 1 July 2014. It provides additional guidance on the accounting for contributions from employees or third parties set out in the formal terms of a defined benefit plan. The impact of this amendment on the Group is still being assessed.

- Annual Improvements 2010-2012 and Annual Improvements 2011-2013

The Annual Improvements process covers minor amendments to IFRS that the IASB consider non-urgent but necessary. The Annual Improvements 2010-2012 and 2011-2013 process resulted in twelve minor changes to standards which are effective for annual periods beginning on or after 1 July 2014. The impact of these amendments on the Group is still being assessed.

- IFRS 9, 'Financial instruments' and Amendment to IFRS 9 'Mandatory effective date and transition disclosures'

The effective date for IFRS 9 has not yet been announced by the IASB however this is currently expected to be effective for annual periods beginning on or after 1 January 2018. The full standard is yet to be finalised. IFRS 9 is intended as a replacement for IAS 39 'Financial Instruments' and has been split into three separate phases. Phase 1 contains new requirements for the classification and measurement of financial assets and liabilities. Phase 2 relates to the impairment of financial assets and is likely to require the calculation of impairment on an expected loss basis rather than the current incurred loss basis required by IAS 39. Phase 3 relates to requirements for hedge accounting. The adoption of IFRS 9 is likely to have a significant impact on the Group in future periods, specifically in relation to the impairment charge recognised on financial asset balances. The full impact of this and the other phases of IFRS 9 on the Group is still being assessed.

1 ACCOUNTING POLICIES (continued)

ac) EARLY ADOPTION OF NEW STANDARDS

The Group did not early adopt any new or amended standards in the year ended 28 February 2014.

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The reported results of the Group are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. The Group's principal accounting policies are set out above. United Kingdom company law and IFRS require the Directors, in preparing the Group's financial statements, to select suitable accounting policies, apply them consistently and make judgements and estimates that are reasonable and prudent. Where accounting standards are not specific and management have to choose a policy, IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' requires them to adopt policies that will result in relevant and reliable information in the light of the requirements and guidance in IFRS dealing with similar and related issues and the IASB Framework for the Preparation and Presentation of Financial Statements.

The judgements and assumptions involved in the Group's accounting policies that are considered to be the most important to the portrayal of its financial condition are discussed below. The use of estimates, assumptions or models that differ from those adopted by the Group would affect its reported results.

a) LOAN IMPAIRMENT PROVISIONS

The Group's loan impairment provisions are established to recognise incurred impairment losses in its portfolio of customer loans classified as loans and receivables and carried at amortised cost. A loan is impaired when there is objective evidence that events since the loan was granted have affected expected cash flows from the loan. The impairment loss is the difference between the carrying value of the loan and the present value of estimated future cash flows at the loan's original effective interest rate.

At 28 February 2014, gross loans and receivables totalled £7,078.9m (2013: £5,742.6m) and loan impairment provisions amounted to £156.9m (2013: £172.2m).

The Group's loan impairment provisions are established on a portfolio basis taking into account the level of arrears, security, past loss experience and defaults based on portfolio trends. The most significant factors in establishing these provisions are the expected loss rates. These portfolios include credit card receivables and other personal advances. The future credit quality of these portfolios is subject to uncertainties that could cause actual credit losses to differ materially from reported loan impairment provisions. These uncertainties include the economic environment, notably interest rates and their effect on customer spending, unemployment levels, payment behaviour and bankruptcy trends.

b) PROVISION FOR CUSTOMER REDRESS

The Group has a provision for potential customer redress in relation to Payment Protection Insurance (PPI), Credit Card Protection (CCP) and Consumer Credit Act (CCA) requirements.

PPI

In 2010/11, the Financial Conduct Authority (FCA) formally issued Policy Statement 10/12 (PS 10/12), which introduced new guidance in respect of Payment Protection Insurance (PPI) customer redress and evidential provisions to the FCA Handbook with an implementation date of 1 December 2010. The Group continues to handle complaints and redress customers in accordance with PS 10/12.

The calculation of this provision involves estimating a number of variables, principally the estimated level of customer complaints which may be received and the level of any compensation which may be payable to customers. At 28 February 2014 a significant degree of uncertainty remains with regard to the ultimate cost of settling PPI complaints, in particular the volume of complaints arising from customers not subject to proactive contact. A change in the estimate of any of the key variables in the provision calculation could have the potential to significantly impact the provision recognised. Refer to note 28 for further details, including the key assumptions in the provision calculation and an

NOTES TO THE FINANCIAL STATEMENTS (continued)

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (continued)

assessment of the sensitivity of the provision balance to a variation in these. The carrying amount of the PPI provision at 28 February 2014 is £32.9m (2013: £72.7m).

CCP

The Group is part of an industry wide Scheme of Arrangement established with the support of the relevant regulatory and customer protection bodies to address customer redress relating to the historic sale of certain cardholder protection products to credit card customers.

The calculation of the provision is based on a series of assumptions including the number and value of cases for which compensation may be paid. In arriving at these assumptions management have exercised their judgement based on earlier redress programmes and the redress estimates provided independently as part of the industry wide Scheme of Arrangement. Refer to note 28 for further details. The carrying amount of the CCP provision at 28 February 2014 is £24.4m (2013: £25.0m).

CCA

During the course of the year the Group identified historic operational issues that had resulted in instances where certain of the requirements of the CCA for post contract documentation had not been fully complied with. It is the Group's intention to provide compensation to impacted customers in order to reflect the operation of the CCA in respect of the customers' liability.

The provision recognised for CCA documentation compensation represents management's best estimate at the reporting date of the cost of providing compensation to those loan and credit card customers. The OFT has been advised of the Group's approach to determining the proposed customer compensation. Oversight of CCA-related matters passed from the OFT to the Financial Conduct Authority (FCA) on 1 April 2014 and the Group expects to formally advise the FCA of the approach.

It is not clear what regulatory position, if any, the FCA will take and there is no judicial certainty in the legal position. The actual cost of customer compensation could therefore differ materially from this estimate. Refer to note 28 for further details. The carrying amount of the CCA provision at 28 February 2014 is £43.0m (2013: £nil).

c) EFFECTIVE INTEREST RATE

In calculating the effective interest rate of a financial instrument the Group takes into account all amounts that are integral to the yield. In the case of loans and advances to customers judgement is applied in estimating future cash flows. Judgement is also required in estimating the expected average life of customer debt balances. A change in the estimate of any of the key variables in this calculation could have the potential to significantly impact income recognised in the consolidated income statement.

3 SEGMENTAL REPORTING

Following the management approach of IFRS 8, operating segments are reported in accordance with the internal reporting provided to the Chief Executive and the Board of Directors, who are responsible for allocating resources to the reporting segments and assessing their performance. All operating segments used by the Group meet the definition of a reportable segment under IFRS 8.

The Group has two main operating segments:

- Banking – incorporating credit cards, loans, mortgages, savings, ATMs and money services; and
- Insurance – incorporating motor, home, pet, travel and other insurance products.

There were no changes in the reported operating segments in the year.

There are no transactions between the operating segments.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3 SEGMENTAL REPORTING (continued)

Segment assets and liabilities comprise operating assets and liabilities, being the majority of the statement of financial position, but exclude items such as taxation. Tax balances are reflected in the adjustments column in part b) of this note.

a) Segment results of operations

Group 2014	Banking £m	Insurance £m	Central Costs £m	Total £m
Interest and similar income	466.9	36.6	-	503.5
Interest expense and similar charges	(153.5)	-	-	(153.5)
Fees and commissions income	291.3	132.6	-	423.9
Fees and commissions expense	(29.9)	-	-	(29.9)
Provision for customer redress	(63.0)	-	-	(63.0)
Gains on financial instruments, movements on derivatives and hedge accounting	5.6	-	-	5.6
Realised gain on investment securities	1.0	-	-	1.0
Administrative expenses*	(173.6)	(71.2)	(160.3)	(405.1)
Depreciation and amortisation	-	-	(71.5)	(71.5)
Impairment	(55.0)	(5.8)	-	(60.8)
Share of profit of associate	-	2.4	-	2.4
Profit/(loss) before tax	**289.8**	**94.6**	**(231.8)**	**152.6**
Total assets (excluding taxation)**	**8,948.1**	**298.8**	**-**	**9,246.9**
Total liabilities (excluding taxation)	**7,817.3**	**29.7**	**-**	**7,847.0**

*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.

**The investment of £77.3m (2013: £95.3m) in Tesco Underwriting Limited, an associate company accounted for using the equity method, is shown within the total assets of the Insurance segment.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3 SEGMENTAL REPORTING (continued)

Group 2013	Banking £m	Insurance £m	Central Costs £m	Total £m
Interest and similar income	431.7	41.1	-	472.8
Interest expense and similar charges	(182.9)	-	-	(182.9)
Fees and commissions income	284.2	167.3***	-	451.5
Fees and commissions expense	(26.6)	-	-	(26.6)
Provision for customer redress	(115.0)	-	-	(115.0)
Other fees and commissions income	30.0	-	-	30.0
Gains on financial instruments, movements on derivatives and hedge accounting	6.2	-	-	6.2
Realised gain on investment securities	7.4	-	-	7.4
Administrative expenses*	(192.1)	(75.1)	(118.5)	(385.7)
Depreciation and amortisation	-	-	(61.9)	(61.9)
Impairment	(73.1)	(8.9)	-	(82.0)
Share of profit of associate	-	10.2	-	10.2
Profit/(loss) before tax	**169.8**	**134.6**	**(180.4)**	**124.0**
Total assets (excluding taxation)**	**8,037.3**	**357.7**	**-**	**8,395.0**
Total liabilities (excluding taxation)	**7,133.8**	**27.3**	**-**	**7,161.1**

*** Insurance fees and commissions income in the prior year included non trading income of £21.7m.

b) Reconciliation of segment results of operations to results of operations

Group 2014	Total management reporting £m	Consolidation and adjustments £m	Total consolidated £m
Interest and similar income	503.5	-	503.5
Interest expense and similar charges	(153.5)	-	(153.5)
Fees and commissions income	423.9	-	423.9
Fees and commissions expense	(29.9)	-	(29.9)
Provision for customer redress	(63.0)	-	(63.0)
Gains on financial instruments, movements on derivatives and hedge accounting	5.6	-	5.6
Realised gain on investment securities	1.0	-	1.0
Administrative expenses	(405.1)	-	(405.1)
Depreciation and amortisation	(71.5)	-	(71.5)
Impairment	(60.8)	-	(60.8)
Share of profit of associate	2.4	-	2.4
Profit before tax	**152.6**	**-**	**152.6**
Total assets	**9,246.9**	**0.8**	**9,247.7**
Total liabilities	**7,847.0**	**19.3**	**7,866.3**

NOTES TO THE FINANCIAL STATEMENTS (continued)

3 SEGMENTAL REPORTING (continued)

Group 2013	Total management reporting £m	Consolidation and adjustments £m	Total consolidated £m
Interest and similar income	472.8	-	472.8
Interest expense and similar charges	(182.9)	-	(182.9)
Fees and commissions income	451.5	-	451.5
Fees and commissions expense	(26.6)	-	(26.6)
Provision for customer redress	(115.0)	-	(115.0)
Other fees and commissions income	30.0	-	30.0
Gains on financial instruments, movements on derivatives and hedge accounting	6.2	-	6.2
Realised gain on investment securities	7.4	-	7.4
Administrative expenses	(385.7)	-	(385.7)
Depreciation and amortisation	(61.9)	-	(61.9)
Impairment	(82.0)	-	(82.0)
Share of profit of associate	10.2	-	10.2
Profit before tax	**124.0**	**-**	**124.0**
Total assets	**8,395.0**	**36.2**	**8,431.2**
Total liabilities	**7,161.1**	**43.4**	**7,204.5**

4 NET INTEREST INCOME

	2014 £m	2013 £m
Interest and similar income		
Loans and advances to customers	484.0	444.7
Loans and advances to banks	3.6	5.2
Fair value hedge ineffectiveness	-	3.2
Interest on investment securities	15.9	19.7
	503.5	**472.8**
Interest expense and similar charges		
Deposits from customers	(105.9)	(138.8)
Deposits from banks	(22.7)	(12.0)
Interest rate swap expenses	(20.3)	(24.1)
Subordinated liabilities	(4.6)	(8.0)
	(153.5)	**(182.9)**

Interest income recognised due to the unwinding of the discount on impairment provisions relating to impaired financial assets amounted to £3.9m (2013: £2.8m).

NOTES TO THE FINANCIAL STATEMENTS (continued)

5 NET FEES AND COMMISSIONS INCOME

	2014 £m	2013 £m
Fees and commissions income		
Banking income	283.9	277.1
Insurance income	132.6	167.3
Other income	7.4	7.1
	423.9	**451.5**
Fees and commissions expense		
Banking expense	**(29.9)**	**(26.6)**

6 OTHER FEES AND COMMISSIONS INCOME

In the year to 28 February 2013, other fees and commissions income consisted of a non recurring credit of £30.0m following settlement of a dispute with a former business partner.

7 GAINS ON FINANCIAL INSTRUMENTS, MOVEMENTS ON DERIVATIVES AND HEDGE ACCOUNTING

	2014 £m	2013 £m
Foreign exchange (loss) /gain on financial assets	(12.2)	2.1
Net gains arising on derivatives not designated as hedging instruments under the terms of IAS 39	16.7	4.1
Fair value hedge ineffectiveness	1.1	-
	5.6	**6.2**

8 REALISED GAIN ON INVESTMENT SECURITIES

	2014 £m	2013 £m
Financial assets classified as available for sale		
Realised gain on disposals	**1.0**	**7.4**

9 ADMINISTRATIVE EXPENSES

	2014 £m	2013 £m
Staff costs		
Wages and salaries	104.3	99.0
Social security costs	8.1	8.2
Pension costs	9.0	7.8
Share based payments	3.2	1.5
Other costs including temporary staff	20.6	16.0
	145.2	**132.5**
Non staff costs		
Premises and equipment	79.9	73.1
Operating leases	4.9	4.9
Marketing	66.0	65.4
Auditors' remuneration (refer below)	0.7	0.8
Outsourcing and professional fees	53.3	70.6
Other administrative expenses	55.1	38.4
	259.9	**253.2**
	405.1	**385.7**

During the year the Group obtained the following services from the Group's auditor, PricewaterhouseCoopers LLP:

	2014 £'000	2013 £'000
Audit services		
Audit of the Company and consolidated financial statements	395	373
Audit of the Company's subsidiaries	37	37
	432	**410**
Non audit services		
Audit related assurance services	102	95
Services related to corporate finance transactions not covered above	20	34
Other non audit services not covered above	128	223
	250	**352**
Total auditor remuneration	**682**	**762**

The average monthly number of persons (including executive Directors) employed by the Group split by employee function during the year was:

	2014 Number	2013 Number
Head office and administration	882	816
Operations	2,725	2,574
	3,607	**3,390**

16 (2013: 18) employees were seconded to Tesco Personal Finance Compare Limited, a subsidiary of the Group's immediate parent company, during the year.

NOTES TO THE FINANCIAL STATEMENTS (continued)

10 IMPAIRMENT

	2014 £m	2013 £m
Loans and advances to customers		
Increase in impairment allowance, net of recoveries (refer note 15)	55.0	73.2
Amounts written off during the year as uncollectible	5.8	8.8
	60.8	**82.0**

11 DIRECTORS' EMOLUMENTS

The remuneration of the Directors paid by the Group during the year was as follows:

	2014 £m	2013 £m
Aggregate emoluments	3.8	3.2
Aggregate amounts receivable under long-term incentive schemes	-	-
Loss of office	-	0.4
Share based payments	0.2	-
Total emoluments	**4.0**	**3.6**

	2014 Number	2013 Number
Number of Directors to whom retirement benefits are accruing under defined benefit schemes	1	1
Number of Directors in respect of whose qualifying services shares were received or receivable under long term incentive schemes	-	-
Number of Directors who exercised share options in the year	-	-

The total emoluments of the highest paid Director were £1.0m (2013: £0.9m). During the year the highest paid director did not exercise any share options (2013: £nil).

At 28 February 2014 the accrued pension and lump sum under a defined benefit scheme for the highest paid Director was £nil (2013: £nil).

During the year to 28 February 2014 two (2013: two) Directors left the company. Neither Director was paid any sums upon leaving (2013: one Director was paid a sum of £0.4m upon leaving, in line with the provisions within his contract of employment).

NOTES TO THE FINANCIAL STATEMENTS (continued)

12 INCOME TAX

a) Income tax expense

	2014 £m	2013 £m
Current tax charge for the year	49.6	24.3
Adjustments to prior years	9.2	(15.2)
Total current tax	**58.8**	**9.1**
Deferred tax (credit) / charge for the year	(12.2)	3.9
Impact of tax rate change	(2.8)	(3.2)
Adjustments to prior years	(9.5)	10.8
Total deferred tax (refer note 22)	**(24.5)**	**11.5**
Income tax expense	**34.3**	**20.6**

The standard rate of corporation tax in the UK was changed from 24% to 23% with effect from 1 April 2013. This gives an overall blended Corporation Tax rate for the Group for the full year of 23.1% (2013: 24.2%).

The tax assessed for the year is lower (2013: lower) than the blended rate of corporation tax in the UK of 23.1% (2013: 24.2%). The differences are explained below:

	2014 £m	2013 £m
Profit before taxation	152.6	124.0
Profit on ordinary activities multiplied by blended rate in the UK 23.1% (2013: 24.2%)	35.3	30.0
Factors affecting charge for the year:		
Expenses not deductible for tax purposes	0.5	0.6
Adjustment to prior years – current tax	9.2	(15.2)
Adjustment to prior years – deferred tax	(9.5)	10.8
Share based payments	2.2	0.1
Other tax adjustments	(0.1)	-
Tax rate change	(2.8)	(3.2)
Share of profit of associate	(0.5)	(2.5)
Income tax expense	**34.3**	**20.6**

The Finance Act 2012 included legislation to reduce the main rate of UK corporation tax from 26% to 24% from 1 April 2012 and to 23% from 1 April 2013. In the December 2012 Budget Statement it was announced that the UK rate would be reduced from 23% to 21% from 1 April 2014 and in the March 2013 Budget Statement it was announced that the rate would be further reduced to 20% by 1 April 2015. These further rate reductions were substantively enacted by the balance sheet date and are therefore included in these consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS (continued)

12 INCOME TAX (continued)

b) Income tax relating to components of other comprehensive income

2014	Before tax amount £m	Tax expense £m	Net of tax amount £m
Net gains on available for sale investment securities	0.1	-	0.1
Net gains on cash flow hedges	2.0	(0.4)	1.6
	2.1	(0.4)	**1.7**
2013			
Net losses on available for sale investment securities	(9.4)	5.7	(3.7)
Net gains on cash flow hedges	-	0.1	0.1
	(9.4)	**5.8**	**(3.6)**

Current tax on items charged to equity is £nil for the year (2013: £5.7m) and deferred tax for the year is £0.4m (2013: credit of £0.1m).

13 DISTRIBUTIONS TO EQUITY HOLDERS

	2014 £m	2013 £m
Ordinary dividend paid	100.0	105.0
Interest payable on subordinated notes included within equity	1.1	0.7
	101.1	**105.7**

On 19 February 2014 a final dividend of £100.0m (£0.0820 per ordinary share) was paid.

In the prior year, a final dividend of £105.0m (£0.0972 per ordinary share) was paid on 22 February 2013.

Interest payable on the subordinated notes included within equity is based on three month LIBOR plus a spread ranging from 120 to 220 basis points (2013: a spread ranging from 120 to 220 basis points).

14 CASH AND BALANCES WITH CENTRAL BANKS

	Group		Company	
	2014 £m	2013 £m	2014 £m	2013 £m
Cash at bank	119.5	47.2	63.3	47.2
Balances held with the Bank of England other than mandatory reserve deposits	365.1	867.3	365.1	867.2
Included in cash and cash equivalents (note 38)	484.6	914.5	428.4	914.4
Mandatory reserves deposits held with the Bank of England	9.4	5.3	9.4	5.3
	494.0	**919.8**	**437.8**	**919.7**

Mandatory reserve deposits are not available in the Group's day to day operations and are non interest bearing. Other balances are subject to variable interest rates based on the Bank of England base rates.

NOTES TO THE FINANCIAL STATEMENTS (continued)

15 LOANS AND ADVANCES TO CUSTOMERS

Group and Company	**2014 £m**	**2013 £m**
Secured mortgage lending	696.5	258.0
Unsecured lending	6,378.2	5,461.2
Fair value hedge adjustment	4.2	23.4
Gross loans and advances to customers	7,078.9	5,742.6
Less: allowance for impairment	(156.9)	(172.2)
Net loans and advances to customers	**6,922.0**	**5,570.4**
Current	3,708.8	3,100.1
Non-current	3,213.2	2,470.3

The Group has prepositioned a portion of its unsecured lending balances with the Bank of England for the purposes of accessing contingent liquidity via the discount window facility, and to facilitate the Group's participation in the Funding for Lending Scheme (FLS).

As at the year end, £2,343.9m (2013: £1,188.4m) of the credit card portfolio had its beneficial interest assigned to a special purpose entity, Delamare Cards Receivables Trustee Limited, for use as collateral in securitisation transactions. On 26 April 2013 the Group purchased £1,750.0m of credit card backed bonds issued by Delamare Cards MTN Issuer plc. Of this, £1,600.0m has been pledged with the Bank of England and this has collateralised a further £1,096.0m of FLS drawings.

In addition, an amount of £557.0m (2013: £nil) of unsecured personal loans has been pledged to the FLS and at the year end, £236.0m (2013: £nil) has been used to collateralise £118.0m (2013: £nil) of FLS drawings.

Fair value hedge adjustments amounting to £4.2m (2013: £23.4m) are in respect of fixed rate loans. These adjustments reflect movements in interest rates from the date the loans were issued to the reporting date. 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.

The following table shows impairment provisions for loans and advances.

Group and Company	**2014 £m**	**2013 £m**
At beginning of year	172.2	184.6
Amounts written off	(66.2)	(82.8)
Increase in allowance, net of recoveries, charged to the income statement (refer note 10)	55.0	73.2
Foreign currency translation	(0.2)	-
Unwind of discount	(3.9)	(2.8)
At end of year	**156.9**	**172.2**

NOTES TO THE FINANCIAL STATEMENTS (continued)

16 DERIVATIVE FINANCIAL INSTRUMENTS

Strategy in using derivative financial instruments
The objective when using a derivative instrument is to ensure that the risk to reward profile of a transaction is optimised allowing the Group to manage its exposure to interest rate and foreign exchange rate risk. The intention is to only use derivatives to create economically effective hedges. There are specific requirements stipulated under IAS 39 which are necessary for a derivative to qualify for hedge accounting. As a result not all derivatives can be designated as being in an accounting hedge relationship, either because natural accounting offsets are expected or because obtaining hedge accounting would be especially onerous.

For those derivatives where hedge accounting is applied, gains and losses are offset by hedge adjustments in the consolidated income statement. For those derivatives held for economic hedging purposes which cannot be designated as being in an accounting hedge relationship the gains and losses are recognised in the consolidated income statement.

In the statement of financial position there is no distinction between derivatives where hedge accounting is applied and derivatives which cannot be designated as being in an accounting hedge relationship.

a) Fair value hedges

At 28 February 2014 the Group had hedge relationships in place with an aggregate notional principal of £2,484.1m (2013: £2,459.2m).

The Group's risk management objective of creating economically effective hedges is to use interest rate contracts to swap fixed rate exposures back to a floating rate LIBOR basis where no existing offset is available. This includes the hedging of fixed rate customer loans, holdings of fixed rate investment securities and issuances of fixed rate debt, which protects the Group against the fair value volatility of these financial assets and liabilities due to movements in interest rates. Each swap is defined as hedging one or more fixed rate assets or liabilities.

The total fair value of derivatives held within fair value hedges at 28 February 2014 was a net liability of £32.5m (2013: £32.7m). Included in the income statement is £18.2m of fair value gains on interest rate swaps in designated fair value hedges (2013: £17.2m), offset by losses on fair value hedge adjustments on hedged items of £17.1m (2013: losses of £14.0m). The net balance of £1.1m (2013: £3.2m) represents ineffectiveness in the fair value hedge relationships.

b) Cash flow hedges

The Group held ten interest rate swaps (2013: seven) as cash flow hedges. The group holds these hedges to mitigate the variability in cash flows associated with debt securities in issue and to mitigate the interest rate risk on the pipeline balance of mortgage products.

The hedged balances of pipeline mortgage products are expected to occur at various dates during the next 12 months.

The total fair value of derivatives included within cash flow hedges as at 28 February 2014 was a net asset of £5.8m (2013: £5.0m).

In 2014, there is no ineffectiveness recognised in the consolidated income statement in respect of cash flow hedges (2013: £nil).

There were no transactions for which cash flow hedge accounting had to be ceased in the current or prior year as a result of the cash flows from the pipeline mortgage products not occurring.

c) Derivatives not in hedge relationships

All derivative financial instruments are held for economic hedging purposes, although not all derivatives are designated as hedging instruments under the terms of IAS 39. The Group has the following derivative contracts in economic hedge relationships but not in accounting hedge relationships.

NOTES TO THE FINANCIAL STATEMENTS (continued)

16 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

- Forward foreign exchange contracts to hedge the exchange rate risk of the initial funding of the euro credit card business and eventual repayments by customers.
- Cross currency swaps to hedge the exchange rate risk inherent in the investment securities denominated in foreign currencies.
- Forward foreign exchange contracts to hedge the exchange rate risk inherent in holding stock denominated in foreign currencies in travel money bureaux.
- Interest rate swaps which have never been in hedge accounting relationships and are viewed as trading derivatives under IAS 39.

The total fair value of derivatives not in hedge relationships as at 28 February 2014 was a net asset of £21.5m (2013: net liability of £2.3m).

The analysis below splits derivatives between those classified in hedge accounting relationships and those not in hedge accounting relationships.

Group and Company 2014	**Notional £m**	**Asset fair value £m**	**Liability fair value £m**
Derivatives in hedge accounting relationships			
Derivatives designated as fair value hedges			
Interest rate swaps	2,484.1	9.2	(41.7)
Derivatives designated as cash flow hedges			
Interest rate swaps	98.5	1.9	-
RPI basis swaps	60.0	3.9	-
	2,642.6	**15.0**	**(41.7)**
Derivatives not in hedge accounting relationships			
Interest rate derivatives			
Interest rate swaps	2,674.2	12.9	(0.1)
Currency derivatives			
Forward foreign exchange contracts	41.4	0.3	-
Cross currency swaps	127.8	8.4	-
	2,843.4	**21.6**	**(0.1)**
	5,486.0	**36.6**	**(41.8)**

NOTES TO THE FINANCIAL STATEMENTS (continued)

16 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Group and Company 2013	Notional £m	Asset fair value £m	Liability fair value £m
Derivatives in hedge accounting relationships			
Derivatives designated as fair value hedges			
Interest rate swaps	2,459.2	26.0	(58.7)
Derivatives designated as cash flow hedges			
Interest rate swaps	140.0	5.6	(0.6)
	2,599.2	**31.6**	**(59.3)**
Derivatives not in hedge accounting relationships			
Currency derivatives			
Forward foreign exchange contracts	45.2	-	(1.2)
Cross currency swaps	137.7	1.9	(3.0)
	182.9	**1.9**	**(4.2)**
	2,782.1	**33.5**	**(63.5)**

Derivatives, whether designated in hedge accounting relationships or not, are regarded as current where they are expected to mature within one year. All other derivatives are regarded as non-current.

Group and Company	Assets 2014 £m	Assets 2013 £m	Liabilities 2014 £m	Liabilities 2013 £m
Current	1.9	-	(4.1)	(6.6)
Non-current	34.7	33.5	(37.7)	(56.9)
	36.6	**33.5**	**(41.8)**	**(63.5)**

NOTES TO THE FINANCIAL STATEMENTS (continued)

17 INVESTMENT SECURITIES

Group and Company	2014 £m	2013 £m
Available for sale		
Government-backed investment securities	161.8	149.5
Gilts	399.6	324.7
Supranational investment securities	274.7	298.4
Other investment securities	14.2	21.6
Certificates of deposit	-	140.0
Asset-backed securities	-	24.5
	850.3	**958.7**
Loans and receivables		
Loan to Tesco Underwriting Limited	34.1	41.6
	34.1	**41.6**
Current	167.4	196.7
Non-current	717.0	803.6

There were no impairment charges within the year (2013: £nil).

Available for sale
Included in investment securities are fixed-interest investment securities totalling £745.3m (2013: £847.4m) and variable-interest investment securities amounting to £105.0m (2013: £111.3m).

Loans and receivables
The loan to Tesco Underwriting Limited comprises a LIBOR +3.5% subordinated loan of £34.1m (2013: £41.6m). During the year impairment charges of £nil (2013: £nil) were recognised on the loan.

Assets pledged as collateral
Available for sale investment securities with a market value of £60.9m (2013: £5.2m) are pledged as collateral under repurchase agreements with other banks. All collateral agreements mature within 12 months.

18 PREPAYMENTS AND ACCRUED INCOME

Group and Company	2014 £m	2013 £m
Prepayments	5.0	4.3
Accrued income	22.1	29.6
	27.1	**33.9**

All amounts are classified as current at the year end.

NOTES TO THE FINANCIAL STATEMENTS (continued)

19 OTHER ASSETS

	Group		Company	
	2014 £m	2013 £m	2014 £m	2013 £m
Amount due from insurance premiums and commissions receivable	20.0	17.5	20.0	17.5
Accounts receivable and sundry receivables	118.0	87.2	156.6	87.3
Deposit with Tesco PLC	145.0	145.0	145.0	145.0
Amounts due from Tesco Group subsidiaries	1.5	0.3	1.5	0.3
Amounts due from Tesco Personal Finance Group companies	0.5	0.2	20.0	0.2
	285.0	**250.2**	**343.1**	**250.3**

Accounts receivable and sundry receivables includes £16.0m (2013: £1.6m) in respect of cash posted as collateral in connection with derivative transactions and sale and repurchase agreements. The counterparty has the right to sell or repledge this collateral.

All amounts are classified as current at the year end.

20 INVESTMENT IN GROUP UNDERTAKINGS

The Company's investment in group undertakings in the prior year related to a 100% shareholding of the ordinary share capital in Tesco CTF Nominees Limited which was incorporated in Scotland and amounted to £1. This company was dormant in both the current and prior years and was liquidated on 21 June 2013. The Company has no other investments in group undertakings.

The following companies are also accounted for as subsidiaries of the Group. These are Special Purpose Entities (SPEs) established in connection with the Group's credit card securitisation transactions. Although none of the equity of the SPEs is owned by the Company, the nature of these entities means that the Group has the rights to all benefits from their activities and as such they are effectively controlled by the Group.

Name of company	Nature of business	Place of incorporation
Delamare Cards Holdco Limited	Securitisation entity	England
Delamare Cards MTN Issuer Plc	Securitisation entity	England
Delamare Cards Receivables Trustee Limited	Securitisation entity	England
Delamare Cards Funding 1 Limited	Securitisation entity	England
Delamare Cards Funding 2 Limited	Securitisation entity	England

The following SPEs which were incorporated in Jersey were liquidated during the year. These were also accounted for as subsidiaries of the Group up until the date of liquidation.

Name of company	Nature of business	Date of liquidation
Delamare Cards Receivables Trustee Limited	Securitisation entity	18 December 2013
Delamare Cards Funding 1 Limited	Securitisation entity	20 December 2013
Delamare Cards Funding 2 Limited	Securitisation entity	18 December 2013

NOTES TO THE FINANCIAL STATEMENTS (continued)

21 INVESTMENT IN ASSOCIATE

Details of the Group's associate are as follows:

Name of company	Nature of business	Place of Incorporation	Ownership interest 28 February 2014	Ownership interest 28 February 2013
Tesco Underwriting Limited	Insurance	England	49.9%	49.9%

Tesco Underwriting Limited has a financial year end of 31 December 2013. The accounting period end date for Tesco Underwriting Limited differs from that of the Group as it in line with its majority shareholder. The management accounts of Tesco Underwriting Limited are used to consolidate the results to 28 February 2014 within these financial statements.

The Group uses the equity method of accounting for associates. The following table shows the aggregate movement in the Group's investment in the associate in the year:

Group	2014 £m	2013 £m
At beginning of year	95.3	72.4
Acquisition of ordinary share capital	-	14.3
Distribution from associate	(15.0)	-
Share of profit of associate	2.4	10.2
Share of available for sale reserve of associate	(5.4)	(1.6)
At end of year	**77.3**	**95.3**

The share of the assets, liabilities and profits of the associate which are included in the consolidated financial statements are as follows:

Group	2014 £m	2013 £m
Non-current assets	391.2	427.1
Current assets	8.9	16.7
Current liabilities	(40.6)	(54.6)
Non-current liabilities	(285.0)	(296.7)
Net assets*	**74.5**	**92.5**
Revenue	229.7	302.0
Expenses including claims costs	(227.3)	(291.8)
Profit for the year	**2.4**	**10.2**

*The share of net assets differs from the investment in associate balance at year end due to the capitalisation of legal costs associated with the set up of Tesco Underwriting Limited in 2010.

There are no contingent liabilities in respect of the associate.

The investment in associate is non-current.

NOTES TO THE FINANCIAL STATEMENTS (continued)

21 INVESTMENT IN ASSOCIATE (continued)

The Company carries the investment in associate at cost. The following table shows the aggregate movement in the Company's investment in the associate in the year:

Company	2014 £m	2013 £m
At beginning of year	86.0	71.7
Acquisition of ordinary share capital	-	14.3
Distribution from associate	(15.0)	-
At end of year	**71.0**	**86.0**

22 DEFERRED INCOME TAX ASSET/(LIABILITY)

The deferred tax asset/(liability) can be analysed as follows:

2014 **Group and Company**	Accelerated capital allowances £m	Other £m	Total £m
At beginning of year	(47.5)	4.1	(43.4)
Credited to the consolidated income statement in the current year	8.8	6.2	15.0
Credited to the consolidated income statement in the prior year	2.7	6.8	9.5
Charged to equity	-	(0.4)	(0.4)
At end of year	**(36.0)**	**16.7**	**(19.3)**
Deferred tax asset to be recovered within one year			15.6
Deferred tax asset to be recovered after more than one year			1.3
			16.9
Deferred tax liability to be recovered within one year			(25.0)
Deferred tax liability to be recovered after more than one year			(11.2)
			(36.2)
Deferred tax liabilities (net)			**(19.3)**

NOTES TO THE FINANCIAL STATEMENTS (continued)

22 DEFERRED INCOME TAX ASSET/(LIABILITY) (continued)

2013 Group and Company	Accelerated capital allowances £m	Other £m	Total £m
At beginning of year	(34.5)	5.7	(28.8)
Charged to the consolidated income statement in the current year	(0.9)	0.2	(0.7)
Charged to the consolidated income statement in the prior year	(12.1)	1.3	(10.8)
Prior year adjustment – deferred tax	-	(3.2)	(3.2)
Credited to equity	-	0.1	0.1
At end of year	**(47.5)**	**4.1**	**(43.4)**
Deferred tax asset to be recovered within one year			2.4
Deferred tax asset to be recovered after more than one year			1.5
			3.9
Deferred tax liability to be recovered within one year			(33.6)
Deferred tax liability to be recovered after more than one year			(13.7)
			(47.3)
Deferred tax liabilities (net)			**(43.4)**

The other deferred tax asset includes an amount provided against potential customer claims for redress in respect of historic card protection schemes and an asset created on transition to IFRS due to a change in accounting policy for loan relationship fees and bad debt provisions under IFRS which is being unwound over a period of 10 years.

NOTES TO THE FINANCIAL STATEMENTS (continued)

23 INTANGIBLE ASSETS

Group and Company	Work in Progress £m	Computer software £m	Total £m
Cost			
At 1 March 2013	58.6	420.5	479.1
Additions	73.5	12.4	85.9
Transfers	(8.0)	7.6	(0.4)
Disposals	-	(1.0)	(1.0)
At 28 February 2014	**124.1**	**439.5**	**563.6**
Accumulated amortisation			
At 1 March 2013	-	(81.7)	(81.7)
Charge for the year	-	(54.2)	(54.2)
At 28 February 2014	**-**	**(135.9)**	**(135.9)**
Net carrying value			
At 28 February 2014	**124.1**	**303.6**	**427.7**
Cost			
At 1 March 2012	127.5	246.0	373.5
Additions	43.7	54.5	98.2
Transfers	(112.6)	124.9	12.3
Disposals	-	(4.9)	(4.9)
At 28 February 2013	**58.6**	**420.5**	**479.1**
Accumulated amortisation			
At 1 March 2012	-	(36.4)	(36.4)
Charge for the year	-	(46.3)	(46.3)
Disposals	-	1.0	1.0
At 28 February 2013	**-**	**(81.7)**	**(81.7)**
Net carrying value			
At 28 February 2013 and 1 March 2013	**58.6**	**338.8**	**397.4**

Work in progress relates primarily to the internal development of IT software assets.

Intangible assets balances are non-current.

NOTES TO THE FINANCIAL STATEMENTS (continued)

24 PROPERTY, PLANT AND EQUIPMENT

Group and Company	Work in Progress £m	Plant and Equipment £m	Fixtures and fittings £m	Computer Hardware £m	Freehold Buildings £m	Leasehold Improvements £m	Total £m
Cost							
At 1 March 2013	1.4	3.0	13.2	108.9	28.1	19.7	174.3
Additions	-	-	2.1	13.8	-	0.1	16.0
Transfers	(0.4)	-	0.3	0.5	-	-	0.4
Disposals	-	-	-	(2.8)	-	-	(2.8)
At 28 February 2014	**1.0**	**3.0**	**15.6**	**120.4**	**28.1**	**19.8**	**187.9**
Accumulated depreciation							
At 1 March 2013	-	(2.6)	(3.3)	(69.5)	(1.0)	(3.6)	(80.0)
Charge for the year	-	(0.3)	(2.4)	(12.6)	(0.7)	(1.3)	(17.3)
Disposals	-	-	-	2.2	-	-	2.2
At 28 February 2014	**-**	**(2.9)**	**(5.7)**	**(79.9)**	**(1.7)**	**(4.9)**	**(95.1)**
Net carrying value							
At 28 February 2014	**1.0**	**0.1**	**9.9**	**40.5**	**26.4**	**14.9**	**92.8**
Cost							
At 1 March 2012	14.0	3.0	8.6	103.3	27.3	19.6	175.8
Additions	-	-	4.6	7.4	0.8	0.2	13.0
Transfers	(12.6)	-	-	0.1	-	0.2	(12.3)
Disposals	-	-	-	(1.9)	-	(0.3)	(2.2)
At 28 February 2013	**1.4**	**3.0**	**13.2**	**108.9**	**28.1**	**19.7**	**174.3**
Accumulated depreciation							
At 1 March 2012	-	(2.0)	(1.4)	(60.0)	(0.3)	(2.3)	(66.0)
Charge for the year	-	(0.6)	(1.9)	(11.1)	(0.7)	(1.3)	(15.6)
Disposals	-	-	-	1.6	-	-	1.6
At 28 February 2013	**-**	**(2.6)**	**(3.3)**	**(69.5)**	**(1.0)**	**(3.6)**	**(80.0)**
Net carrying value							
At 28 February 2013 and 1 March 2013	**1.4**	**0.4**	**9.9**	**39.4**	**27.1**	**16.1**	**94.3**

Work in progress at 28 February 2014 relates predominantly to the development of IT assets.

Property, plant and equipment balances are non current.

25 DEPOSITS FROM BANKS

Group and Company	2014 £m	2013 £m
Deposits from banks	**779.8**	**15.2**
Current	771.7	9.0
Non-current	8.1	6.2

Deposits from banks include liabilities of £765.5m (2013: £5.0m) secured on investment securities balances which have been sold under sale and repurchase agreements.

NOTES TO THE FINANCIAL STATEMENTS (continued)

26 DEPOSITS FROM CUSTOMERS

Group and Company	2014 £m	2013 £m
Deposits from Tesco Personal Finance Group companies	4.1	4.1
Retail deposits	6,078.3	5,999.4
	6,082.4	**6,003.5**
Current	4,716.7	5,326.1
Non-current	1,365.7	677.4

27 DEBT SECURITIES IN ISSUE

Group and Company

	Interest rate	Par value	Term	Maturity date	2014 £m	2013 £m
Fixed rate retail bond – issued 24 February 2011	5.2%	£125.0m	7.5 years	2018	138.6	140.9
RPI bond – issued 16 December 2011	1.0%	£60.0m	8 years	2019	59.6	59.5
Fixed rate retail bond - issued 21 May 2012	5.0%	£200.0m	8.5 years	2020	196.6	206.3
					394.8	**406.7**

All retail bonds are listed on the London Stock Exchange.

All amounts are classified as non current at the year end.

28 PROVISIONS FOR LIABILITIES AND CHARGES

Group and Company 2014	Customer Redress Provision £m	Insurance Provision £m	Warranty Provision £m	Total £m
At beginning of year	97.7	4.3	-	102.0
Charged to the income statement	63.0	(0.1)	1.3	64.2
Utilised during the year	(60.4)	-	(0.3)	(60.7)
At end of year	**100.3**	**4.2**	**1.0**	**105.5**
2013				
At beginning of year	74.5	3.8	-	78.3
Charged to the income statement	115.0	0.5	-	115.5
Utilised during the year	(91.8)	-	-	(91.8)
At end of year	**97.7**	**4.3**	**-**	**102.0**

CUSTOMER REDRESS PROVISION – PAYMENT PROTECTION INSURANCE

Of the total provision balance at 28 February 2014, £32.9m (2013: £72.7m) relates to a provision for customer redress in respect of potential customer complaints arising from historic sales of Payment Protection Insurance (PPI). The balance is classified as current at year end.

The Group handles claims and customer redress in accordance with provisions of the regulatory policy statement PS 10/12. The estimated liability for redress is calculated based on the total premiums paid by the customer plus interest inherent in the product and an additional interest of 8.0% per annum.

NOTES TO THE FINANCIAL STATEMENTS (continued)

28 PROVISIONS FOR LIABILITIES AND CHARGES (continued)

During the year, the Group continued to proactively contact customers sold PPI during a specific time period where there were concerns about the way in which the product was sold. The Group's proactive contact programme is substantially complete at 28 February 2014. As a result an overall population of approximately 41,000 personal loan and 42,700 credit card customers have been mailed. At the reporting date customer responses totalled 24,600 for personal loans and 20,800 for credit cards. Of the responding customers the vast majority have now received a complaint decision and redress where applicable. In the case of responding credit card customers some 4,700 were in receipt of redress offers that were pending acceptance as at 28 February 2014.

The programme of customer contact has provided an extensive fact base of actual customer redress payments that has supported the Group's latest review of the adequacy of the existing provision. As a result of this detailed review of the volume of claims and typical payout value of customer redress, a revised estimate of future compensation has been prepared. This revised assessment increased the total estimated cost of redress, including administration expenses and Financial Ombudsman Service charges, by a further £20.0m during the second half of the financial year. This provides redress capacity at current run rates (average of last 3 months) for a total of 16 months.

A significant degree of uncertainty remains with regard to the ultimate cost of settling PPI complaints, in particular the volume of complaints arising from customers not subject to proactive contact.

The table below details, for each key assumption, actual data to 28 February 2014, forecast assumptions used in assessing the PPI provision adequacy and a sensitivity assessment demonstrating the impact on the provision of a variation in the future experience.

Assumption	Cumulative actual	Future expected	Sensitivity: Change in assumption	Sensitivity: Consequential change in provision £m
Customer initiated complaints settled	47,300	10,300	+/- 1,000 complaints	+/- 1.7
Proactive Mailing	83,700	0	+/- 1,000 mail shots	+/- 0.4
Proactive redress rate[1]	41.5%	56.0%	+/- 1.0%	+/- 0.4
Average redress per valid claim (proactive loans)[2]	£1,431	£1,436	+/- £100	+/- 0.1
Average redress per valid claim (proactive cards)	£582	£593	+/- £100	+/- 1.3

1 Redress rate reflects number of settled complaints / total in scope customers. Settled claims are net of any invalid or rebutted complaints. Future expected reflects ultimate view of redress rate as estimated within the provision.

2 Average redress paid per valid settled claim, redress amount includes refund of customer premium net of claims paid under policy cover, contractual interest and charges paid plus simple interest at 8.0%.

28 PROVISIONS FOR LIABILITIES AND CHARGES (continued)

CUSTOMER REDRESS PROVISION – CREDIT CARD PROTECTION

The Group holds a further provision of £24.4m (2013: £25.0m) in respect of customer redress relating to the historic sale of certain cardholder protection products to credit card customers. The balance is classified as current at year end.

As at 28 February 2014 an amount of £0.6m (February 2013: £nil) had been paid in respect of these historic sales. The level of provision is based on a series of assumptions including the number and value of cases for which compensation may be paid. In arriving at these assumptions management have exercised their judgement based on earlier redress programmes and the redress estimates provided independently as part of an industry wide Scheme of Arrangement established with the support of the relevant regulatory and customer protection bodies. The level of the provision allows for the repayment of charges paid by the customer together with simple interest of 8.0%.

Sensitivity analysis has not been performed for this provision due to the relative immaturity of the information available.

CUSTOMER REDRESS PROVISION – CONSUMER CREDIT ACT

During the course of the year the Group identified historic operational issues that had resulted in instances where certain of the requirements of the Consumer Credit Act (CCA) for post contract documentation had not been fully complied with. In November 2013 the Office of Fair Trading (OFT) wrote to lenders in the industry seeking confirmation of their compliance with the requirements of the CCA. The Group extended its earlier investigation to undertake further assurance work relating to compliance with the CCA. As a result, the Group has determined that it is appropriate to compensate certain customers affected by these breaches. A provision has been recognised of £43.0m (2013: £nil), which represents management's best estimate at the reporting date of the cost of providing compensation to those loan and credit card customers. The balance is classified as current at the reporting date and, in making the estimate, management have exercised judgement as to both the timescale for implementing the compensation campaign and the final scope of any amounts payable.

Extensive analysis has been undertaken of the relevant issues to identify where customers have been affected and to determine if the Group should take further action. The requirements of the CCA in respect to these issues are not straightforward and have not been subject to significant judicial consideration to date. In arriving at the provision required, the Group has considered the legal and regulatory position with respect to these matters and has sought external legal advice which it took into account when it made its judgement. The OFT has been advised of the Group's approach to determining the proposed customer compensation. Oversight of CCA-related matters passed from the OFT to the FCA on 1 April 2014 and the Group expects to formally advise the FCA of the approach.

It is not clear what regulatory position, if any, the FCA will take and as highlighted above, there is no judicial certainty in the legal position. The actual cost of customer compensation could therefore differ materially from this estimate.

OTHER PROVISIONS

The insurance provision relates to a provision for insurance policy cancellation by customers. This balance is classified as current at the period end as all insurance policies expire in a maximum of one year.

The warranty provision relates to a provision for warranty costs following the sale of non-performing debt which took place during the year. This balance is classified as current at year end as the warranty period of 12 months will expire in September 2014.

NOTES TO THE FINANCIAL STATEMENTS (continued)

29 ACCRUALS AND DEFFERED INCOME

Group and Company	2014 £m	2013 £m
Amounts accrued to Tesco Group subsidiaries	10.0	6.6
Amounts accrued to Tesco Personal Finance Group companies	0.6	1.4
Other accruals	104.3	102.4
Deferred income	12.2	13.3
	127.1	**123.7**

All amounts are classified as current at the year end.

30 OTHER LIABILITIES

	Group		Company	
	2014 £m	2013 £m	2014 £m	2013 £m
Accounts payable and sundry payables	95.9	85.9	97.7	85.9
Amounts owed to Tesco PLC	1.0	-	1.0	-
Amounts owed to Tesco Group subsidiaries	7.1	14.5	7.1	14.5
Amounts owed to Tesco Personal Finance Group companies	-	0.1	-	0.1
Insurance payables	15.6	11.8	15.6	11.8
Taxation and social security	6.0	4.2	6.0	4.2
	125.6	**116.5**	**127.4**	**116.5**

All amounts are classified as current at the year end.

31 SUBORDINATED LIABILITIES

Group and Company	2014 £m	2013 £m
Floating rate subordinated loan maturing 2017	-	30.0
Floating rate subordinated loan maturing 2018	-	35.0
Floating rate subordinated loan maturing 2020	-	30.0
Floating rate subordinated loan maturing 2021	-	140.0
Floating rate subordinated loan maturing 2022	-	95.0
Floating rate subordinated loans maturing 2030	190.0	-
	190.0	**330.0**

Subordinated liabilities comprise loan capital issued to Tesco Personal Finance Group Limited.

On 9 January 2014 the Group repackaged all existing subordinated loan notes to ensure full compliance with Capital Requirement Directive (CRD) IV regulations. The final maturity of all dated notes has been increased to March 2030 and the Company has an option to early repay on interest payment dates from March 2025. None of the subordinated notes have an incentive to redeem.

During the year the Company converted £140.0m of subordinated loan notes to equity issued to Tesco Personal Finance Group Limited.

Subordinated liabilities are included in the Group's qualifying subordinated debt for regulatory capital reporting (refer note 40).

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 SUBORDINATED LIABILITIES (continued)

Interest payable is based on three month LIBOR plus a spread ranging from 60 to 225 points.

The subordinated liabilities balance is non-current.

32 SHARE CAPITAL AND SHARE PREMIUM

During the year the Company issued 140,000,000 £0.10 ordinary shares to the parent company, Tesco Personal Finance Group Limited, in a conversion from £140.0m of dated subordinated debt.

During the prior year the Company issued 45,000,000 £0.10 ordinary shares to the parent company, Tesco Personal Finance Group Limited, for total consideration of £45.0m.

Group and Company	2014 Number	2014 £m	2013 Number	2013 £m
Authorised				
Ordinary shares of 10p each	Unlimited		Unlimited	
Allotted, called up and fully paid				
Ordinary shares of 10p each	1,219,900,000	122.0	1,079,900,000	108.0

The following table shows the aggregate movement in share capital and share premium in the year:

Group and Company	Share capital 2014 £m	Share capital 2013 £m	Share premium account 2014 £m	Share premium account 2013 £m
At beginning of year	108.0	103.5	971.9	931.4
Shares issued in the year	14.0	4.5	126.0	40.5
At end of year	**122.0**	**108.0**	**1,097.9**	**971.9**

33 OTHER RESERVES

	Group		Company	
	2014 £m	2013 £m	2014 £m	2013 £m
Cash flow hedge reserve	1.7	0.1	1.7	0.1
Available for sale reserve	2.0	7.3	5.9	5.8
Share based payment reserve	7.7	6.5	7.7	6.5
	11.4	**13.9**	**15.3**	**12.4**

Cash flow hedge reserve
The effective portion of changes in the fair value derivatives that are designated and qualify as cash flow hedges are included in the cash flow hedge reserve. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated income statement.

Available for sale reserve
Available for sale financial assets are initially recognised at fair value and measured subsequently at fair value with gains and losses being recognised in the statement of other comprehensive income (except for impairment losses and foreign exchange gains and losses which are immediately recognised in the income statement) until the financial asset is derecognised.

33 OTHER RESERVES (continued)

The consolidated available for sale reserve at 28 February 2014 of £2.0m (2013: £7.3m) also includes the Group's share of the available for sale reserve of its associate, Tesco Underwriting Limited.

Share based payment reserve
The fair value of Tesco PLC equity-settled share options granted to employees of the Group is included in the share based payment reserve.

Deferred tax in relation to movements on this reserve was £nil (2013: £14,000).

34 SUBORDINATED NOTES

Group and Company	2014 £m	2013 £m
Undated floating rate notes	45.0	45.0

The undated floating rate notes have no fixed maturity date and may not be repaid except under certain conditions such as the winding up of the Group.

Undated floating rate notes are included in the Group's qualifying subordinated debt for regulatory capital reporting (refer note 40).

35 EMPLOYEE BENEFIT LIABILITY

The Group accounts for pension costs on a contributions basis in line with the requirements of IAS 19 and these contributions are made to Tesco PLC by the Company.

IAS 19 requires that where there is no policy or agreement of sharing the cost of the IAS 19 charge across the subsidiaries that the Sponsoring employer recognises the net defined benefit cost of a defined benefit scheme. The Sponsoring employer is Tesco PLC and the principal pension plan is the Tesco PLC pension scheme.

Detailed disclosures on the Tesco PLC pension scheme in line with the requirements of IAS 19 are included in the Tesco PLC 2014 annual report.

36 RISK MANAGEMENT

There are no differences in the manner in which risks are managed and measured between the Group and the Company. Therefore, the explanations of the management, the control responsibilities and the measurement of risk described in this section are those for the Group. The amounts included in this note are those for the Group unless otherwise stated.

Through its normal operations, the Group is exposed to a number of risks, the most significant of which are credit risk, operational risk, liquidity, capital and funding risk, market risk, insurance risk, residual price risk and legal and regulatory risk. The key risk management processes and tools are described in detail on pages 8 to 14 of the Strategic Report.

a) CREDIT RISK

i. Types of credit risk

- **Retail credit risk**
  Retail credit risk is the risk that a borrower or counterparty fails to pay the interest or to repay the capital on a loan. All lending is carefully underwritten and the performance of all loans is monitored closely and regular management reports are submitted to the appropriate Boards and Committees.

36 RISK MANAGEMENT – Credit Risk (continued)

Controls and Risk Mitigants
To ensure the Group is not exposed to unacceptable levels of bad debt that are outside risk appetite, a robust infrastructure of processes and systems has been established that cover the end to end retail credit risk customer life cycle, the key components of which are outlined below:

- **Credit Scoring**: The quality of new lending is tightly controlled using an appropriate mix of credit scoring and judgemental analysis, the latter being predominantly utilised when assessing new mortgage advance applications.

- **Affordability:** To ensure we are lending responsibly the Group employs affordability models including minimum free income thresholds based on a customer's income and outgoings to ensure that they have the ability to repay the advances they are seeking.

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

- **Credit Policies and Guides**: A suite of retail credit risk policies is maintained by the Credit Risk function. These policies define the minimum requirements for the management of credit activities across the credit life cycle. The guides also comprise specific product and customer related thresholds and limits that in turn ensure that the Group is operating within agreed retail credit risk appetite parameters.

- **Monitoring and Reporting:** A suite of management information is produced covering all lending portfolios which are tailored to meet the requirements of different audiences within the overall governance framework. Crucial within this suite are Key Risk Indicators (KRIs) with supporting limits and tolerances which allow the Group to track performance against risk appetite and identify any emerging trends that could act as an early warning that performance could move outside approved risk appetite thresholds thereby allowing mitigating actions to be taken to address such trends.

- **Wholesale Credit Risk**

The Group does not operate in the mainstream commercial or corporate lending market. However the Group is exposed to Wholesale Credit Risk within its liquid asset portfolio with the inherent risk that these counterparties could fail to meet their obligations.

Controls and Risk Mitigants

- **Control Framework:** To mitigate this risk a framework has been established that comprises defined country, counterparty, instrument types and maturity profiles. The Group's defined risk appetite specifies the minimum investment grade ratings counterparties require. The framework also sets limits on the amounts that can be lent based on counterparty creditworthiness, instrument type and remaining tenor.

- **Monitoring and Reporting:** Exposures are monitored daily with monthly reporting against KRI thresholds and limits to the Risk Management Committee (RMC).

NOTES TO THE FINANCIAL STATEMENTS (continued)

36 RISK MANAGEMENT – Credit Risk (continued)

ii. Credit Risk Exposures

The table below relates to credit risk exposures of both on and off balance sheet assets. This represents a worse-case scenario of credit risk exposure to the Group at the year end. For on balance sheet assets, the balances set out below are based on net carrying amounts as reported in the statement of financial position.

Maximum credit risk exposures relating to on and off balance sheet items

	2014 £m	2013* £m
Credit risk exposures relating to on balance sheet items		
Cash and balances with central banks**	494.0	919.8
Loans and advances to customers	6,922.0	5,570.4
Derivative financial instruments	36.6	33.5
Investment securities:		
- Available for sale	850.3	958.7
- Loans and receivables	34.1	41.6
Other assets**	285.0	250.2
Total credit risk exposures relating to on balance sheet items	8,622.0	7,774.2
Credit risk exposures relating to off balance sheet items		
Mortgage commitments	91.0	78.5
Credit card commitments	9,620.3	7,916.7
Other commitments	5.8	6.0
FLS	1,214.0	-
Total credit risk exposures relating to off balance sheet items	10,931.1	8,001.2
Total credit risk exposures	**19,553.1**	**15,775.4**

* During the year to 28 February 2014 a change was made to a methodology by which the Group measures undrawn credit card commitments. The impact of this change in the prior year is a reduction in undrawn credit card commitments of £489.6m. For further detail refer Note 42.

** On a Company basis, Cash and balances with central banks is £437.8m and Other assets is £343.1m. There was no material difference between Group and Company balances at the prior year end.

As shown above, 80.3% of the total maximum exposure to on Balance Sheet assets for the Group is derived from loans and advances to customers (2013: 71.7%) and 9.9% represents investments in financial assets classified as available for sale (2013: 12.3%).

iii. Credit Risk: Concentration Risk

The Group is potentially exposed to this risk by becoming concentrated in certain countries or product profiles e.g. a disproportionate level of high Loan to Value (LTV) mortgages. Such concentrations could produce unacceptable bad debts in some adverse but plausible situations.

Controls and Risk Mitigants

The Group mitigates these potential concentration risks by establishing appropriate risk appetite limits and trigger thresholds that are regularly monitored and reported to the appropriate senior management team and risk committees.

Concentration Profiles

The following tables provide concentration profiles in terms of the geographic distribution of the Group's exposures by material asset class; the LTV profile for the mortgage portfolio; and analysis of material asset class by industry type.

- **Credit Risk: Asset class geographical distribution profile**
  The Group is primarily focused on providing financial services and products to UK personal customers although there is limited exposure in the Republic of Ireland.

NOTES TO THE FINANCIAL STATEMENTS (continued)

36 RISK MANAGEMENT – Credit Risk (continued)

The Group sells credit cards in the Republic of Ireland where it is an authorised 'credit institution' under Irish law and is directly regulated by the Irish Financial Regulator in respect of this activity.

The table below provides the geographical distribution of the Group's total credit risk exposures. The balances set out below are based on net carrying amounts as reported in the statement of financial position.

Maximum credit risk exposures to geographical sectors

	2014 £m	2013 £m
United Kingdom	19,034.7	15,262.5
Europe (excluding United Kingdom)	462.6	449.4
Other	55.8	63.5
Total	**19,553.1**	**15,775.4**

- **Credit Risk: Mortgage portfolio - LTV distribution profile property**
  Loans are originated on an income verified basis over a range of fixed and tracker products. All loans are repaid on a capital and interest basis, where the loan is repaid over the term of the loan. All mortgages are secured by a first charge over the property being purchased or remortgaged. Valuation of the property is performed as part of the initial application process by a valuer from the Group's approved panel of valuers and adjusted quarterly for internal purposes in line with House Property Price Index movements.

  The table below provides the LTV distribution profile for the Group's mortgage portfolio by weighted average balance. The overall average LTV for the portfolio is 50.1% (2013: 50.1%) which is well within agreed risk appetite parameters.

Residential mortgages: Gross customer balance by LTV banding (exposure)

	2014 £m	2013 £m
Less than 50%	225.3	79.2
50% to 60%	184.9	73.3
60% to 70%	155.9	84.9
70% to 80%	82.0	20.5
80% to 90%	47.8	0.2
90% to 100%	0.1	0.4
Greater than 100%	-	-
Total*	**696.0**	**258.5**

* The mortgage balance above represents the credit risk inherent in the mortgage products and excludes accrued interest.

NOTES TO THE FINANCIAL STATEMENTS (continued)

36 RISK MANAGEMENT – Credit Risk (continued)

- **Credit Risk: Analysis by industry type**
  The table below represents the distribution of exposures by industry type. The Group is primarily focused on providing financial services and products to UK personal customers although it also has exposure to wholesale counterparties as detailed below. The balances set out below are based on net carrying amounts as reported in the statement of financial position.

Maximum credit risk exposures to industry sectors

	2014 £m	2013 £m
Financial institutions	539.5	613.3
Government	2,114.7	1,324.3
Individuals	16,553.2	13,506.0
Wholesale and retail trade	345.7	331.8
Total	**19,553.1**	**15,775.4**

iv. Credit Risk: Asset quality

Ineffective management and controls over the emerging asset quality of the Group's lending portfolios could expose the Group to unacceptable levels of bad debt.

Controls and Risk Mitigants

The Group's asset quality is reflected through the level of its impairment by lending type. Asset quality 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 balances set out below are based on net carrying amounts as reported in the statement of financial position.

Credit quality of loans and advances

2014	Retail unsecured lending £m	Retail mortgage lending £m	Retail instalment lending £m	Total £m
Past due and defaulted				
Less than 90 days past due	44.9	-	-	44.9
90–179 days past due	39.8	-	-	39.8
180 days plus past due	49.7	-	-	49.7
Past due but not defaulted				
0–29 days past due	37.6	0.1	0.7	38.4
30–59 days past due	9.0	-	0.2	9.2
60–89 days past due	6.2	-	-	6.2
Over 90 days past due	-	-	0.2	0.2
Neither past due nor defaulted				
Low risk *	5,929.7	692.4	166.3	6,788.4
High risk **	98.1	4.0	-	102.1
Total	**6,215.0**	**696.5**	**167.4**	**7,078.9**

36 RISK MANAGEMENT – Credit Risk (continued)

Credit quality of loans and advances 2013	Retail unsecured lending £m	Retail mortgage lending £m	Retail instalment lending £m	Total £m
Past due and defaulted				
Less than 90 days past due	30.4	-	-	30.4
90–179 days past due	41.9	-	-	41.9
180 days plus past due	75.8	-	-	75.8
Past due but not defaulted				
0–29 days past due	40.5	0.2	1.1	41.8
30–59 days past due	10.5	-	0.2	10.7
60–119 days past due	9.0	-	-	9.0
Neither past due nor defaulted				
Low risk *	4,946.9	257.8	201.9	5,406.6
High risk **	126.4	-	-	126.4
Total	**5,281.4**	**258.0**	**203.2**	**5,742.6**

***** Low risk is defined as an asset with a probability of default of less than 10%.

****** High risk is defined as an asset with a probability of default of 10% or more.

All other financial assets are deemed to be at low risk of default.

v. Credit Risk: Collateral

The Group is exposed to potential bad debts if customers default on higher value credit mortgage advances.

Controls and Risk Mitigants

To mitigate this risk all mortgages are secured by a first charge over the property being purchased or remortgaged which ensures the Group receives the proceeds in the event of a forced property sale situation. Valuation of the property is normally assessed by a RICS (the Royal Institute of Chartered Surveyors) certified valuer from the Group's approved panel of valuers.

It is not normal practice to formally reassess the valuation of collateral unless further lending is being considered or the property has been repossessed. However, the Group restates the valuation of its collateral on a quarterly basis using a regional property price index.

The table below details the value of property collateral held against the Group's mortgage portfolio as at 28 February 2014.

Collateral held against mortgage portfolio	2014 £m	2013 £m
Exposure*	696.0	258.5
Collateral	1,388.3	516.1
Cover	199.5%	199.7%

* The mortgage balances above represent the credit risk inherent in the mortgage products and excludes accrued interest.

vi. Credit Risk: Forbearance

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

36 RISK MANAGEMENT – Credit Risk (continued)

Controls and Risk Mitigants
The Group has well defined forbearance policies and processes. Forbearance is relief granted by a lender to assist customers in financial difficulty through arrangements to temporarily allow the customer to pay something other than the contractual amounts due where financial distress would prevent satisfactory repayment within the original terms and conditions of the contract. These temporary arrangements may be initiated by the customer or the Group. The main aim of forbearance is to return the customer to a position which meets their contractual obligations.

A number of forbearance options are made available to customers by the Group. These routinely, but not exclusively, include the following:

- Arrangements to repay arrears over a period of time, by making payments above the contractual amount, that will ensure the loan is repaid within the original repayment term.

- Short term concessions, where the borrower is allowed to make reduced repayments (or in exceptional circumstances, no repayments) on a temporary basis to assist with short term financial hardship.

The Group's mortgage product was only launched in August 2012 so the mortgage portfolio has yet to mature. As at 28 February 2014, no mortgage advances were impaired (2013: £nil). In line with the Group's approach for non-secured personal advances, forbearance options are discussed with any mortgage customer experiencing financial difficulties.

The Group would class all such forbearance accounts as past due and reports them as such, providing for them appropriately.

The table below details the values of secured and unsecured advances that are subject to forbearance programmes.

	Gross Loans and Advances subject to Forbearance Programmes		Forbearance programmes as a proportion of total Loans and Advances		Proportion of Forbearance Programmes covered by impairment provision	
	2014 £m	2013 £m	2014 %	2013 %	2014 %	2013 %
Credit cards	10.4	16.3	0.3	0.6	78.0	78.0
Loans	22.6	30.8	0.9	1.3	76.6	71.0
Mortgages	0.2	-	0.0	-	-	-

b) OPERATIONAL RISK

Operational Risk is the potential error, loss, harm or failure caused by ineffective or inadequately defined processes, system failure, improper conduct, human error or from external events. The Company aims to minimise all operational risks and reputational impacts. The Group is subject to the Standardised Approach (TSA) method to calculate Pillar I Operational Risk capital, as outlined in Capital Requirement Regulations (CRR).

Controls and Risk Mitigants
The Bank's risks are assessed utilising a risk management framework methodology which is aligned to the Three Lines of defence model.

36 RISK MANAGEMENT – Operational Risk (continued)

The Chief Risk Officer (CRO) and the Head of Operational Risk and Financial Crime, together with a dedicated Operational Risk team are responsible for: developing and maintaining the operational risk framework; working with relevant business areas to ensure that first line responsibilities are understood and those responsibilities should be executed within the framework; supporting relevant business areas embed policies, tools and frameworks and instilling a positive risk management culture; and independently monitoring, assessing and reporting on operational risk profiles and losses. The Operational Risk function maintains a suite of policies defining the minimum requirements for the management of Operational Risk, Financial Crime and Information Security.

Business units and functions assess their operational risks on an ongoing basis via a prescribed Risk Control Self Assessment (RCSA) process and Operational Risk Scenario Analysis (ORSA). The RCSA analysis is reviewed and updated to reflect changes to the risk and control environment arising from changes in products, processes and systems. The RCSA outputs are reported to appropriate governance bodies. This is supplemented further by an Event Management process and monthly reporting of the Operational Risk profile to the Risk Management committee. The ORSA builds on RCSA and Event Management to identify the forward looking risk profile and the results are used to inform the Board's decision on the level set for Pillar II capital.

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

c) LIQUIDITY AND FUNDING RISK

Liquidity risk is the risk that the Group has insufficient cash resources to meet its obligations as they fall due or can do so only at excessive cost. Funding risk is the risk that the Group does not have sufficiently stable and diverse sources of funding.

The Group operates within a Liquidity Risk Management Policy Framework (LRMP) to ensure that sufficient funds are available at all times to meet demands from depositors; to fund agreed advances; to meet other commitments as and when they fall due; and to ensure the Board's risk appetite is met.

Controls and Risk Mitigants
Liquidity and funding risk is assessed through the Individual Liquidity Adequacy Assessment (ILAA) process on at least an annual basis. The ILAA process involves detailed consideration of the following steps:

i. Identification of sources of liquidity risk
ii. Quantification of those risks through stress testing
iii. Consideration of management processes and controls to minimise the risk
iv. Assessment of the type and quality of liquid asset holdings to mitigate the risk
v. Consideration of the levels of contingent funding required to mitigate the risk

The Group sets formal limits within the LRMP to maintain liquidity risk exposures within the Liquidity Risk Appetite set by the Board. The key liquidity measures monitored on a daily basis are the Internal Liquidity Requirement (ILR), Individual Liquidity Guidance (ILG) ratio, the Net Stable Funding Ratio (NSFR), the loan to deposit ratio, asset encumbrance and wholesale funding ratio.

The Group monitors and reports on the composition of its funding base against defined thresholds to further avoid funding source and maturity concentration risks.

The Group prepares both short term and long term forecasts to assess liquidity requirements covering a rolling twelve month period and takes into account factors such as credit card payment cycles, investment maturities, customer deposit patterns, and Funding for Lending Scheme maturities. These reports support daily liquidity management and are reviewed daily by senior management along with early warning indicators.

NOTES TO THE FINANCIAL STATEMENTS (continued)

36 RISK MANAGEMENT – Liquidity and Funding Risk (continued)

Stress testing of current and forecast financial positions is conducted to inform the Group of required liquidity resources. Reverse stress testing is conducted to inform the Group of the circumstances that would result in liquidity resources being exhausted.

Expected maturity dates do not differ significantly from the contract dates, except for deposits from customers which are all retail in nature. These deposits are repayable on demand on a contractual basis. However historical trends show that these deposits have tended to be very stable with actual maturities being significantly longer than the contracted maturity. The Group continuously monitors retail deposit activity to ensure that it understands expected maturity flows. These instruments form a stable funding base for the Group's operations because of the broad customer base and the historical behaviours exhibited.

The Group's strategic liability mix emphasises retail funding. To enhance overall funding stability and diversity, the Group places emphasis on maximising and preserving its customer deposits and other customer-based funding sources. The Group monitors deposit rates and levels and significant trends and changes are reported to its management team via the ALCO.

During the year the Group accessed the Bank of England's FLS to support strong lending growth in a cost effective manner.

The table below shows the Group's primary funding sources:

Primary funding sources	**2014**	**2013**
	£m	**£m**
On balance sheet		
Deposits from banks	779.8	15.2
Deposits from customers	6,082.4	6,003.5
Subordinated liabilities	190.0	330.0
Debt securities in issue	394.8	406.7
Subordinated notes	45.0	45.0
Total on balance sheet funding	**7,492.0**	**6,800.4**
Off balance sheet		
Treasury bills drawn under FLS (net of repurchase agreements)*	510.0	-
Total off balance sheet funding	**510.0**	**-**

* FLS drawdowns of £1,214.0m (2013: £nil) are shown net of Treasury bills used as collateral in repurchase agreements (£704.0m, 2013: £nil).

NOTES TO THE FINANCIAL STATEMENTS (continued)

36 RISK MANAGEMENT – Liquidity and Funding Risk (continued)

The tables below show cash flows payable up to a period of 20 years on an undiscounted basis. These differ from the statement of financial position values due to the effects of discounting on certain statement of financial position items and due to the inclusion of contractual future interest flows.

Derivatives designated in a hedging relationship are included according to their contractual maturity.

Liquidity and funding risk on financial assets and liabilities

2014	Within 1 year £m	Between 1 and 2 years £m	Between 2 and 3 years £m	Between 3 and 4 years £m	Between 4 and 5 years £m	Beyond 5 years £m	Total £m
Financial assets							
Cash and balances at central banks*	494.1	-	-	-	-	-	494.1
Loans and advances to customers	3,757.6	1,056.8	805.9	597.5	566.9	268.7	7,053.4
Investment securities							
– Available for sale	178.7	140.0	133.5	105.8	70.6	286.3	914.9
– Loans and receivables	1.4	35.2	-	-	-	-	36.6
Other assets*	285.0	-	-	-	-	-	285.0
Total financial assets	**4,716.8**	**1,232.0**	**939.4**	**703.3**	**637.5**	**555.0**	**8,784.0**
Financial liabilities:							
Deposits from banks	771.9	8.2	-	-	-	-	780.1
Deposits from customers	4,725.5	1,100.4	140.6	29.2	122.5	1.3	6,119.5
Debt securities in issue	-	-	-	-	125.0	260.0	385.0
Derivatives settled on a net basis							
– Derivatives in economic but not accounting hedges	0.4	0.8	0.6	(0.2)	(0.4)	-	1.2
– Derivatives in accounting hedge relationships	22.1	17.3	13.7	10.1	7.9	21.3	92.4
Derivatives settled on a gross basis							
– Outflows	46.3	24.8	0.1	57.6	-	-	128.8
– Inflows	(48.5)	(25.7)	(0.5)	(63.3)	-	-	(138.0)
Interest payment on borrowings	23.1	20.5	19.0	19.0	15.7	40.1	137.4
Other liabilities	125.6	-	-	-	-	-	125.6
Subordinated liabilities	-	-	-	-	-	190.0	190.0
Total financial liabilities	**5,666.4**	**1,146.3**	**173.5**	**52.4**	**270.7**	**512.7**	**7,822.0**
Gap analysis	**(949.6)**	**85.7**	**765.9**	**650.9**	**366.8**	**42.3**	**962.0**

* On a Company basis, Cash and balances with central banks is £437.8m and Other assets is £343.1m. These remain in the same category as indicated above. There was no material difference between Group and Company balances at the prior year end.

NOTES TO THE FINANCIAL STATEMENTS (continued)

36 RISK MANAGEMENT – Liquidity and Funding Risk (continued)

Liquidity and funding risk on financial assets and liabilities

2013	Within 1 year £m	Between 1 and 2 years £m	Between 2 and 3 years £m	Between 3 and 4 years £m	Between 4 and 5 years £m	Beyond 5 years £m	Total £m
Financial assets							
Cash and balances at central banks	920.1	-	-	-	-	-	920.1
Loans and advances to customers	1,859.9	355.7	601.1	1,526.7	106.6	1,184.3	5,634.3
Investment securities							
– Available for sale	241.5	174.7	222.5	107.3	95.7	151.6	993.3
– Loans and receivables	1.8	1.7	42.9	-	-	-	46.4
Other assets	250.2	-	-	-	-	-	250.2
Total financial assets	**3,273.5**	**532.1**	**866.5**	**1,634.0**	**202.3**	**1,335.9**	**7,844.3**
Financial liabilities							
Deposits from banks	9.0	6.2	-	-	-	-	15.2
Deposits from customers	4,162.9	302.8	887.3	696.5	-	-	6,049.5
Debt securities in issue	-	-	-	-	-	385.0	385.0
Derivatives settled on a net basis							
– Derivatives in economic but not accounting hedges	1.0	-	-	-	-	-	1.0
– Derivatives in accounting hedge relationships	20.2	13.8	8.7	3.4	0.6	2.1	48.8
Derivatives settled on a gross basis							
– Outflows	0.9	48.8	26.2	0.1	63.6	-	139.6
– Inflows	(1.9)	(48.5)	(25.7)	(0.5)	(63.3)	-	(139.9)
Interest payment on borrowings	24.0	23.9	23.8	23.8	23.7	58.7	177.9
Other liabilities	116.6	-	-	-	-	-	116.6
Subordinated liabilities	-	-	-	-	30.0	300.0	330.0
Total financial liabilities	**4,332.7**	**347.0**	**920.3**	**723.3**	**54.6**	**745.8**	**7,123.7**
Gap analysis	**(1,059.2)**	**185.1**	**(53.8)**	**910.7**	**147.7**	**590.1**	**720.6**

NOTES TO THE FINANCIAL STATEMENTS (continued)

36 RISK MANAGEMENT – Liquidity and Funding Risk (continued)

The table below summarises the total assets that are capable of supporting future funding and collateral needs and shows the extent to which these assets are currently pledged for this purpose.

An asset is defined as encumbered if it has been pledged as collateral against an existing on or off balance sheet liability, and as a result is no longer available to the Group to secure funding, satisfy collateral needs or be sold to reduce the funding requirement. An asset is therefore categorised as unencumbered if it has not been pledged against an existing liability.

2014	**Encumbered £m**	**Unencumbered £m**	**Total £m**
Encumbered asset summary			
Cash and balances with central banks*	9.4	484.6	494.0
Investment securities – available for sale	60.9	789.4	850.3
Loans and advances to customers	2,900.9	4,021.1	6,922.0
	2,971.2	**5,295.1**	**8,266.3**
Encumbered cash and balances with central banks			
Cash ratio deposit	**9.4**		
Encumbered investment securities – available for sale			
Repurchase transaction collateral**	**60.9**		
Encumbered loans and advances to customers			
Securitisation – Delamare Master Trust	2,343.9		
Personal loans	557.0		
	2,900.9		

* On a Company basis, Cash and balances with central banks is £437.8m of which £9.4m is encumbered and £428.4m is unencumbered. There was no material difference between Group and Company balances at the prior year end.

** Market value of securities posted as collateral.

2013	**Encumbered £m**	**Unencumbered £m**	**Total £m**
Encumbered asset summary			
Cash and balances with central banks	5.3	914.5	919.8
Investment securities – available for sale	5.2	953.5	958.7
Loans and advances to customers	1,188.4	4,382.0	5,570.4
	1,198.9	**6,250.0**	**7,448.9**
Encumbered cash and balances with central banks			
Cash ratio deposit	**5.3**		
Encumbered investment securities – available for sale			
Repurchase transaction collateral*	**5.2**		
Encumbered loans and advances to customers			
Securitisation – Delamare Master Trust	1,188.4		
Personal loans	-		
	1,188.4		

* Market value of securities posted as collateral

d) MARKET RISK

Market risk is defined as the risk that the value of the Group's assets, liabilities, income or costs might vary due to changes in the value of financial market prices; this includes interest rates, foreign exchange rates, credit spreads and equities. The Group has no trading book. Market risk arises in the following ways in the Group:

36 RISK MANAGEMENT – Market Risk (continued)

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

Controls and Risk Mitigants
Control of market risk exposure is managed by ALCO. The Group has also established the Market Risk Forum (MRF) where monitoring, review and proposal of pro-active action relating to the Group's market risk positions on a detailed level occurs.

i. Interest Rate Risk in the Banking Book
The Group offers lending and savings products with varying interest rate features and maturities which create potential interest rate exposures. IRRBB is the main market risk that could affect the Group's net interest income and arises where there is potential for changes in benchmark interest rates (that embed little or no credit risk) which results in a movement in the Banking Book net interest income.

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

Controls and Risk Mitigants
The Group has established limits that describe its risk appetite in this area and stress tests are performed using sensitivity to fluctuations in underlying interest rates in order to monitor this risk.

IRRBB management information is monitored by the Asset and Liability Management (ALM) team and regularly reviewed by ALCO.

Non traded interest rate risk primarily arises from the consumer lending portfolios (including the mortgage pipeline) and retail deposits. Hedging strategies are implemented as required to ensure that the Group remains within its stated risk appetite.

The main hedging instruments and methodologies used are interest rate swaps and the residual exposure is reported to the ALCO monthly using two key risk measures:

- **Economic Value of Equity (EVE) –** the EVE approach focuses on the value of the Group in today's interest rate environment and its sensitivity to changes in interest rates. This is done by scheduling the cash flows of all assets and liabilities and applying a set of discount rates to develop the present values. The present value of equity is derived by calculating the difference between the present value of assets and liabilities (Equity = Assets - Liabilities). The EVE calculation for the Group is subject to sensitivity analysis comprising +200 and -200 basis point movements across the yield curve. This is then expressed as a percentage change from the base present value of equity.

NOTES TO THE FINANCIAL STATEMENTS (continued)

36 RISK MANAGEMENT – Market Risk (continued)

- **Net Interest Income (NII) Sensitivity** – As at 28 February 2014, this measured the negative effect of a downward 50bps and an upward 100bps interest rate shock on the next 12 months NII, based on the re-pricing gaps in the existing portfolio. Due to the current low interest rate environment, the downward rate shock has been limited to 50bps. As at the prior year end, the NII sensitivity exposure was to an upward 100bps movement.

	2014	**2013**
Measure		
Economic Value of Equity	(1.16%)	(6.51%)
NII Sensitivity	(0.95%)	(0.58%)

The EVE reduction over the prior year is driven by hedging activity to mitigate the potential impact of interest rate shocks.

The sensitivity analysis presented represents, in accordance with the requirements of IFRS 7, management's assessment of a reasonably possible sensitivity, rather than worst case scenario positions.

NOTES TO THE FINANCIAL STATEMENTS (continued)

36 RISK MANAGEMENT – Market Risk (continued)

The table below summarises the contractual interest rate sensitivity gap for the Group as at the year end. It is not necessarily indicative of the positions at other times. A liability (or negative) gap position exists when liabilities reprice more quickly or in greater proportion than assets during a given period and tends to benefit net interest income in a declining interest rate environment. An asset (or positive) gap position exists when assets reprice more quickly or in greater proportion than liabilities during a given period and tends to benefit net interest income in a rising interest rate environment.

Contractual interest rate sensitivity gap of assets and liabilities

2014	Within 3 months £m	After 3 months, but within 6 months £m	After 6 months, but within 1 year £m	After 1 year, but within 5 years £m	After 5 years £m	Non-interest bearing funds £m	Total £m
Assets:							
Cash and balances with central banks*	484.6	-	-	-	-	9.4	494.0
Loans and advances to customers	2,081.2	332.3	894.3	2,139.9	227.8	1,246.5	6,922.0
Investment securities:							
- Available for sale	111.9	10.2	127.3	317.1	275.0	8.8	850.3
- Loans and receivables	34.1	-	-	-	-	-	34.1
Other financial assets*	145.0	-	-	-	-	176.6	321.6
Non financial assets*	-	-	-	-	-	625.7	625.7
Total assets	**2,856.8**	**342.5**	**1,021.6**	**2,457.0**	**502.8**	**2,067.0**	**9,247.7**
Deposits from banks	481.6	74.8	215.3	8.1	-	-	779.8
Deposits from customers	3,593.8	162.8	948.2	1,377.6	-	-	6,082.4
Debt securities in issue	-	-	-	125.0	269.8	-	394.8
Other financial liabilities	29.2	25.1	50.1	-	-	63.0	167.4
Subordinated liabilities	190.0	-	-	-	-	-	190.0
Non financial liabilities	-	-	-	-	-	251.9	251.9
Shareholders' equity*	45.0	-	-	-	-	1,336.4	1,381.4
Total liabilities and equity	**4,339.6**	**262.7**	**1,213.6**	**1,510.7**	**269.8**	**1,651.3**	**9,247.7**
On Statement of financial position Interest rate sensitivity gap	(1,482.8)	79.8	(192.0)	946.3	233.0	415.7	-
Notional value of derivatives	2,459.9	(135.0)	(497.5)	(1,707.1)	(120.3)	-	-
Cumulative Interest rate sensitivity gap	**977.1**	**921.9**	**232.4**	**(528.4)**	**(415.7)**	**-**	**-**

* On a Company basis, Cash and balances with central banks is £437.8m, Other assets is £379.7m, Non financial assets is £656.0m and Shareholders' equity is £1,375.2m. These remain in the same categories as above.

NOTES TO THE FINANCIAL STATEMENTS (continued)

36 RISK MANAGEMENT – Market Risk (continued)

Contractual interest rate sensitivity gap of assets and liabilities

2013	Within 3 months £m	After 3 months, but within 6 months £m	After 6 months, but within 1 year £m	After 1 year, but within 5 years £m	After 5 years £m	Non-interest bearing funds £m	Total £m
Assets							
Cash and balances with central banks	919.8	-	-	-	-	-	919.8
Loans and advances to customers	1,832.9	334.3	587.3	1,525.8	105.8	1,184.3	5,570.4
Investment securities:							
- Available for sale	132.2	45.1	131.6	491.1	158.7	-	958.7
- Loans and receivables	-	-	-	41.6	-	-	41.6
Other financial assets	145.0	-	-	-	-	138.7	283.7
Non financial assets*	-	-	-	-	-	657.0	657.0
Total assets	**3,029.9**	**379.4**	**718.9**	**2,058.5**	**264.5**	**1,980.0**	**8,431.2**
Deposits from banks	7.0	2.0	-	6.2	-	-	15.2
Deposits from customers	4,137.2	285.7	884.1	696.5	-	-	6,003.5
Debt securities in issue	-	-	-	-	406.7	-	406.7
Other financial liabilities	-	-	-	-	-	180.0	180.0
Subordinated liabilities	-	-	-	30.0	300.0	-	330.0
Non financial liabilities	-	-	-	-	-	269.1	269.1
Shareholders' equity*	-	-	-	-	-	1,226.7	1,226.7
Total liabilities and equity	**4,144.2**	**287.7**	**884.1**	**732.7**	**706.7**	**1,675.8**	**8,431.2**
On Statement of financial position Interest rate sensitivity gap	(1,114.3)	91.7	(165.2)	1,325.8	(442.2)	304.2	-
Notional value of derivatives	1,691.4	(195.0)	(175.8)	(1,408.6)	88.0	-	-
Cumulative Interest rate sensitivity gap	**577.1**	**473.8**	**132.8**	**50.0**	**(304.2)**	**-**	**-**

* On a Company basis, Non financial assets was £647.7m and Shareholders' equity was £1,217.5m. These remain in the same categories as above. There were no other material differences between Group and Company balances at the prior year end.

ii. Foreign Exchange Risk

The Group invests in non-GBP denominated bonds, and may raise funding from the wholesale markets in currencies other than GBP. Foreign exchange (FX) exposure arises if these exposures are not hedged. FX exposure may also arise through the Group's EUR-denominated Irish credit card exposure, through the cash held in tills and in transit from the Travel Money business and through invoices received which are denominated in foreign currencies.

Controls and Risk Mitigants

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

36 RISK MANAGEMENT – Market Risk (continued)

The table below summarises the Group's exposure to foreign currency exchange rate risk at the year end. Included in the table are the Group's financial instruments at carrying amounts, categorised by currency.

Maximum exposure to foreign exchange risk 2014	**EUR £m**	**USD £m**	**GBP £m**	**Other £m**	**Total £m**
Financial assets					
Cash and balances with central banks*	4.3	1.8	485.7	2.2	494.0
Loans and advances to customers	34.8	-	6,887.2	-	6,922.0
Derivative financial instruments	3.3	2.2	28.1	3.0	36.6
Investment securities:					
– Available for sale	63.5	33.4	719.2	34.2	850.3
– Loans and receivables	-	-	34.1	-	34.1
Other assets*	0.9	-	284.1	-	285.0
Total financial assets	**106.8**	**37.4**	**8,438.4**	**39.4**	**8,622.0**
Financial liabilities					
Deposits from banks	-	-	779.8	-	779.8
Deposits from customers	-	-	6,082.4	-	6,082.4
Debt securities in issue	-	-	394.8	-	394.8
Derivative financial instruments	1.5	0.4	39.3	0.6	41.8
Other liabilities	(0.3)	-	125.9	-	125.6
Subordinated liabilities	-	-	190.0	-	190.0
Total financial liabilities	**1.2**	**0.4**	**7,612.2**	**0.6**	**7,614.4**

* On a Company basis, Cash and balances with central banks is £437.8m and Other assets is £343.1m. These remain in the same categories as above. There was no material difference between Group and Company balances at the prior year end.

Maximum exposure to foreign exchange risk 2013	**EUR £m**	**USD £m**	**GBP £m**	**Other £m**	**Total £m**
Financial assets					
Cash and balances with central banks	(0.1)	0.1	919.8	-	919.8
Loans and advances to customers	35.2	-	5,535.2	-	5,570.4
Derivative financial instruments	0.6	-	31.6	1.3	33.5
Investment securities:					
– Available for sale	67.3	36.8	816.6	38.0	958.7
– Loans and receivables	-	-	41.6	-	41.6
Other assets	0.3	-	249.9	-	250.2
Total financial assets	**103.3**	**36.9**	**7,594.7**	**39.3**	**7,774.2**
Financial liabilities					
Deposits from banks	-	-	15.2	-	15.2
Deposits from customers	-	-	6,003.5	-	6,003.5
Debt securities in issue	-	-	406.7	-	406.7
Derivative financial instruments	1.9	1.0	59.3	1.3	63.5
Other liabilities	(0.4)	4.8	112.1	-	116.5
Subordinated liabilities	-	-	330.0	-	330.0
Total financial liabilities	**1.5**	**5.8**	**6,926.8**	**1.3**	**6,935.4**

NOTES TO THE FINANCIAL STATEMENTS (continued)

36 RISK MANAGEMENT – Market Risk (continued)

iii. Tesco Underwriting Limited Investment Portfolio

The TU insurance portfolio assets are invested with a number of counterparties. These investments are predominantly comprised of government securities, corporate bonds and short term cash investments.

The main risks relate to changes in: (i) interest rates affecting fair value arising as a proportion of the bonds are fixed rate in nature, (ii) credit quality, as the range of assets held are issued by a variety of institutions with different credit characteristics.

Controls and Risk Mitigants

Portfolio management is undertaken by the TU investment committee. The Group's ALM team monitors high-level risk information and the performance of the portfolio and reports this to the ALCO on a monthly basis. The Group's Risk function provides oversight and challenge.

iv. Investment risk relating to pension obligations

Pension Risk may be defined as: the risk to a company caused by its contractual or other liabilities to or with respect to a pension scheme (whether established for its employees or those of a related company or otherwise). The Company is a participating employer in the Tesco PLC Pension Scheme.

e) INSURANCE RISK

The Group defines insurance risk as the risk accepted through insurance products in return for a premium. These risks may or may not occur and the amount and timing of these risks are uncertain and determined by events outside of the Group's control (e.g. flood or car crash). The Group's aim is to actively manage insurance risk exposure with particular focus on those risks that impact profit volatility.

Insurance risk is typically categorised in the following way:

- Underwriting risk – Related to the selection and pricing (or quantification) of the risk currently being transferred from customers to an insurer; and
- Reserving risk – Related to valuation and management of financial resources sufficient to pay claims for the risk already transferred from customers to an insurer.

The Group is indirectly exposed to insurance risk through its 49.9% ownership of TU, an authorised insurance company.

Controls and Risk Mitigants

The insurance risk team is responsible for monitoring the potential for financial volatility arising from insurance risk exposures and consistency with the Group's risk appetite. The team provides subject matter expertise in the monitoring of TU. TU operates a separate risk framework with dedicated risk and compliance teams and a suite of TU risk policies to ensure that the TU insurance portfolio is operating within agreed risk appetite. Performance of the portfolio is monitored and reported to the RMC on a monthly basis against specific KPI thresholds and limits. TU is working to implement Solvency II in accordance with regulatory timelines.

f) RESIDUAL PRICE RISK

Residual price risk is the risk that the fair value of a financial instrument and its associated hedge will fluctuate because of changes in market prices. The Group has available for sale investment securities that are held at fair value on the statement of financial position.

Controls and Risk Mitigants

The Group has established appropriate hedging strategies to mitigate the interest rate and foreign exchange risks. Residual price risk remains.

NOTES TO THE FINANCIAL STATEMENTS (continued)

36 RISK MANAGEMENT – Residual Price Risk (continued)

The table below demonstrates the Group's exposure to residual price risk at the year end. Included in the table is the impact of a 10% shock in market prices on the Group's available for sale investment securities. It also shows the mark to market risk relating to the Group's treasury assets available for sale. The figures shown are prior to hedging activities which mitigate the interest rate and foreign exchange risks.

Impact of 10 % shock in market prices	Fair value		Impact of 10% shock		Value after 10% shock	
	2014 £m	2013 £m	2014 £m	2013 £m	2014 £m	2013 £m
Available for sale:						
Government-backed investment securities	161.8	149.5	(16.2)	(14.9)	145.6	134.6
Gilts	399.6	324.7	(40.0)	(32.5)	359.6	292.2
Supranational investment securities	274.7	298.4	(27.5)	(29.8)	247.2	268.6
Other investment securities	14.2	21.6	(1.4)	(2.2)	12.8	19.4
Certificates of deposit *	-	140.0	-	(0.1)	-	139.9
Asset-backed securities	-	24.5	-	(2.4)	-	22.1
	850.3	**958.7**	**(85.1)**	**(81.9)**	**765.2**	**876.8**

* Certificates of Deposit are valued based on current market yield; a 10% shock to the yield does not have a 10% difference to the valuation.

g) LEGAL AND REGULATORY RISK

Legal and regulatory compliance risk is the risk of consequences arising as a result of non-compliance with the laws and regulations affecting the Group's governance, prudential arrangements, business activities, risk management and its conduct with customers. The Group's aim is to meet all legal and regulatory requirements and minimise any reputational impact by maintaining an effective control framework. Where legal or regulatory requirements are not met effective remediation plans will be put in place.

Controls and Risk Mitigants
A Regulatory Risk Framework has been established comprising a suite of policies, process manuals, controls and assurance reviews to ensure there is effective management of regulatory risk across all business areas and risk functions.

A dedicated Regulatory Risk team is responsible for managing and maintaining the regulatory risk management policies, processes and compliance manuals; ensuring that regulatory risks are identified and managed appropriately by the first line of defence; monitoring, challenge and oversight of regulatory risk and compliance across the Company's business; Guidance and advice to enable the business to operate in a compliant manner is provided by the Regulatory Risk and Regulatory Legal teams.

The Group's Legal function provides advice and support on aspects of law and associated policies, including Statutory Compliance Policy, Competition Policy and Bribery and Corruption.

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

Operations have established organisational capacity to deal with ongoing reactive customer complaints and to action the root cause of them. Customer research and insight supports the Group's understanding of customer outcomes.

NOTES TO THE FINANCIAL STATEMENTS (continued)

37 FINANCIAL INSTRUMENTS

The following tables analyse the financial assets and financial liabilities in accordance with the categories of financial instruments in IAS 39.

Financial instruments by IAS 39 category

Group 2014	Loans and receivables £m	Other (amortised cost) £m	Derivatives held for hedging £m	Available for sale £m	Total £m
Financial assets					
Cash and balances at central banks	494.0	-	-	-	494.0
Loans and advances to customers	6,922.0	-	-	-	6,922.0
Derivative financial instruments	-	-	36.6	-	36.6
Investment securities:					
- Available for sale	-	-	-	850.3	850.3
- Loans and receivables	34.1	-	-	-	34.1
Other assets	285.0	-	-	-	285.0
Total financial assets	**7,735.1**	**-**	**36.6**	**850.3**	**8,622.0**
Financial liabilities					
Deposits from banks	-	779.8	-	-	779.8
Deposits from customers	-	6,082.4	-	-	6,082.4
Debt securities in issue	-	394.8	-	-	394.8
Derivative financial instruments	-	-	41.8	-	41.8
Other liabilities	-	125.6	-	-	125.6
Subordinated liabilities	-	190.0	-	-	190.0
Total financial liabilities	**-**	**7,572.6**	**41.8**	**-**	**7,614.4**

All derivative financial instruments are held for economic hedging purposes, although not all derivatives are designated as hedging instruments under the terms of IAS 39.

NOTES TO THE FINANCIAL STATEMENTS (continued)

37 FINANCIAL INSTRUMENTS (continued)

Financial instruments by IAS 39 category
Group

2013	**Loans and receivables £m**	**Other (amortised cost) £m**	**Derivatives held for hedging £m**	**Available for sale £m**	**Total £m**
Financial assets					
Cash and balances at central banks	919.8	-	-	-	919.8
Loans and advances to customers	5,570.4	-	-	-	5,570.4
Derivative financial instruments	-	-	33.5	-	33.5
Investment securities:					
- Available for sale	-	-	-	958.7	958.7
- Loans and receivables	41.6	-	-	-	41.6
Other assets	250.2	-	-	-	250.2
Total financial assets	**6,782.0**	**-**	**33.5**	**958.7**	**7,774.2**
Financial liabilities					
Deposits from banks	-	15.2	-	-	15.2
Deposits from customers	-	6,003.5	-	-	6,003.5
Debt securities in issue	-	406.7	-	-	406.7
Derivative financial instruments	-	-	63.5	-	63.5
Other liabilities	-	116.5	-	-	116.5
Subordinated liabilities	-	330.0	-	-	330.0
Total financial liabilities	**-**	**6,871.9**	**63.5**	**-**	**6,935.4**

Financial instruments by IAS 39 category
Company

2014	**Loans and receivables £m**	**Other (amortised cost) £m**	**Derivatives held for hedging £m**	**Available for sale £m**	**Total £m**
Financial assets					
Cash and balances at central banks	437.8	-	-	-	437.8
Loans and advances to customers	6,922.0	-	-	-	6,922.0
Derivative financial instruments	-	-	36.6	-	36.6
Investment securities:					
- Available for sale	-	-	-	850.3	850.3
- Loans and receivables	34.1	-	-	-	34.1
Other assets	343.1	-	-	-	343.1
Total financial assets	**7,737.0**	**-**	**36.6**	**850.3**	**8,623.9**
Financial liabilities					
Deposits from banks	-	779.8	-	-	779.8
Deposits from customers	-	6,082.4	-	-	6,082.4
Debt securities in issue	-	394.8	-	-	394.8
Derivative financial instruments	-	-	41.8	-	41.8
Other liabilities	-	127.4	-	-	127.4
Subordinated liabilities		190.0	-	-	190.0
Total financial liabilities	**-**	**7,574.4**	**41.8**	**-**	**7,616.2**

TESCO PERSONAL FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS (continued)

37 FINANCIAL INSTRUMENTS (continued)

Financial instruments by IAS 39 category
Company
2013

	Loans and receivables £m	Other (amortised cost) £m	Derivatives held for hedging £m	Available for sale £m	Total £m
Financial assets					
Cash and balances at central banks	919.7	-	-	-	919.7
Loans and advances to customers	5,570.4	-	-	-	5,570.4
Derivative financial instruments	-	-	33.5	-	33.5
Investment securities:					
- Available for sale	-	-	-	958.7	958.7
- Loans and receivables	41.6	-	-	-	41.6
Other assets	250.3	-	-	-	250.3
Total financial assets	**6,782.0**	**-**	**33.5**	**958.7**	**7,774.2**
Financial liabilities					
Deposits from banks	-	15.2	-	-	15.2
Deposits from customers	-	6,003.5	-	-	6,003.5
Debt securities in issue	-	406.7	-	-	406.7
Derivative financial instruments	-	-	63.5	-	63.5
Other liabilities	-	116.5	-	-	116.5
Subordinated liabilities	-	330.0	-	-	330.0
Total financial liabilities	**-**	**6,871.9**	**63.5**	**-**	**6,935.4**

Offsetting

The following tables show those financial assets and liabilities subject to offsetting, enforceable master netting arrangements and similar agreements.

Offsetting of financial assets and liabilities
Group and Company
2014

	Gross amount of recognised financial assets/ (liabilities) £m	Gross amount of recognised financial assets/ (liabilities) set off in the statement of financial position £m	Net amount of financial assets/ (liabilities) presented in statement of financial position £m	Related amounts not set off in the statement of financial position: Financial instruments £m	Cash collateral received £m	Net amount £m
Financial assets offset						
Derivative financial instruments	36.6	-	36.6	(25.1)	(6.1)	5.4
Total financial assets offset	**36.6**	**-**	**36.6**	(25.1)	(6.1)	5.4
Financial liabilities offset						
Derivative financial instruments	(41.8)	-	(41.8)	25.1	15.9	(0.8)
Repurchases, securities lending and similar agreements*	(765.5)	-	(765.5)	765.5	-	-
Total financial liabilities offset	**(807.3)**	**-**	**(807.3)**	790.6	15.9	(0.8)

* Repurchases, securities lending and similar agreements are included within the Deposits from Banks balance of £779.8m in the statement of financial position.

NOTES TO THE FINANCIAL STATEMENTS (continued)

37 FINANCIAL INSTRUMENTS (continued)

Offsetting of financial assets and liabilities

Group and Company 2013	Gross amount of recognised financial assets/ (liabilities) £m	Gross amount of recognised financial assets/ (liabilities) set off in the statement of financial position £m	Net amount of financial assets/ (liabilities) presented in statement of financial position £m	Related amounts not set off in the statement of financial position: Financial instruments £m	Cash collateral received £m	Net amount £m
Financial assets offset						
Derivative financial instruments	33.5	-	33.5	(31.3)	(1.6)	0.6
Total financial assets offset	33.5	-	33.5	(31.3)	(1.6)	0.6
Financial liabilities offset						
Derivative financial instruments	(63.5)	-	(63.5)	31.3	-	(32.2)
Repurchases, securities lending and similar agreements*	(5.0)	-	(5.0)	5.0	-	-
Total financial liabilities offset	**(68.5)**	**-**	**(68.5)**	36.3	-	(32.2)

* Repurchases, securities lending and similar agreements are included within the Deposits from Banks balance of £15.2m in the statement of financial position.

For the financial assets and liabilities subject to enforceable master netting arrangements above, each agreement between the Group and the counterparty allows for net settlement of the relevant financial assets and liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and liabilities will be settled on a gross basis, however each party to the master netting agreement or similar agreement will have the option to settle all such amounts on a net basis in the event of default of the other party.

Fair values

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

Group and Company	**2014** Carrying value £m	**2014** Fair value £m	2013 Carrying value £m	2013 Fair value £m
Financial assets:				
Loans and advances to customers	6,922.0	6,852.3	5,570.4	5,592.8
Investment securities – loans and receivables	34.1	36.1	41.6	41.6
	6,956.1	**6,888.4**	**5,612.0**	**5,634.4**
Financial liabilities:				
Deposits from customers	6,082.4	6,048.3	6,003.5	5,996.9
Debt securities in issue	394.8	405.1	406.7	408.2
Subordinated liabilities	190.0	211.8	330.0	383.3
	6,667.2	**6,665.2**	**6,740.2**	**6,788.4**

NOTES TO THE FINANCIAL STATEMENTS (continued)

37 FINANCIAL INSTRUMENTS (continued)

The only financial assets and liabilities which are carried at fair value on the Statement of Financial Position are available for sale investment securities and derivative financial assets and liabilities. The valuation techniques and inputs used to derive fair values at the year 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 based on LIBOR rather than Overnight Index Swaps (OIS) as using OIS would have no significant impact. This is kept under review.

The table below classifies all financial instruments held or disclosed at fair value according to the method used to establish the fair value measured.

Group and Company	**Level 1**	**Level 2**	**Level 3**	**Total**
2014	**£m**	**£m**	**£m**	**£m**
Financial assets classified as available for sale	850.3	-	-	850.3
Derivative financial instruments:				
Interest rate swaps	-	27.9	-	27.9
Forward foreign currency contracts	-	0.3	-	0.3
Cross currency swaps	-	8.4	-	8.4
Loans and advances to customers	-	6,852.3	-	6,852.3
Investment securities – loans and receivables	-	36.1	-	36.1
Total	**850.3**	**6,925.0**	**-**	**7,775.3**
Derivative financial instruments:				
Interest rate swaps	-	41.8	-	41.8
Deposits from customers	-	6,048.3	-	6,048.3
Debt securities in issue	405.1	-	-	405.1
Subordinated liabilities	-	211.8	-	211.8
Total	**405.1**	**6,301.9**	**-**	**6,707.0**

NOTES TO THE FINANCIAL STATEMENTS (continued)

37 FINANCIAL INSTRUMENTS (continued)

Group and Company 2013	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets classified as available for sale	808.2	150.5	-	958.7
Derivative financial instruments:				
Interest rate swaps	-	31.6	-	31.6
Cross currency swaps	-	1.9	-	1.9
Forward foreign currency contracts	-	-	-	-
Loans and advances to customers	-	5,592.8	-	5,592.8
Investment securities – loans and receivables	-	41.6	-	41.6
Total	**808.2**	**5,818.4**	**-**	**6,626.6**
Derivative financial instruments:				
Interest rate swaps	-	(59.3)	-	(59.3)
Cross currency swaps	-	(3.0)	-	(3.0)
Forward foreign currency contracts	-	(1.2)	-	(1.2)
Deposits from customers	-	(5,996.9)	-	(5,996.9)
Debt securities in issue	-	(408.2)	-	(408.2)
Subordinated liabilities	-	(383.3)	-	(383.3)
Total liabilities	**-**	**(6,851.9)**	**-**	**(6,851.9)**

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 (i.e. as prices) or indirectly (i.e. derived from prices).

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

a) 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
b) Have future cash flows which are not pre-defined, but for which the fair value of the instrument has very low sensitivity to changes in estimate of future cash flows.

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

Available for sale investment securities which are categorised as Level 2 are those where no active market exists or where there are quoted prices available for similar instruments in active markets.

Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Debt Securities in issue have been reclassified as Level 1 using the quoted price for the Group's issued debt.

During the year to 28 February 2014 all Level 2 Available for Sale Assets were disposed of.

There were no transfers between Level 1 and Level 2 (2013: £430.9m).

NOTES TO THE FINANCIAL STATEMENTS (continued)

38 CASH AND CASH EQUIVALENTS

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances with less than three months maturity from the date of acquisition:

	Group		Company	
	2014	2013	2014	2013
	£m	£m	£m	£m
Cash and balances with central banks* (refer note 14)	484.6	914.5	428.4	914.4
Certificates of deposit (refer note 17)	-	140.0	-	140.0
	484.6	**1,054.5**	**428.4**	**1,054.4**

* Mandatory reserve deposits held within the Bank of England of £9.4m (2013: £5.3m) are not included within cash and cash equivalents for the purposes of the cash flow statement as these do not have a maturity of less than three months.

39 CASH INFLOW FROM OPERATING ACTIVITIES

	Group		Company	
	2014	2013	2014	2013
	£m	£m	£m	£m
Loan impairment charges (refer note 10)	55.0	73.2	55.0	73.2
Depreciation and amortisation (refer notes 23 & 24)	71.5	61.9	71.5	61.9
Gain on disposal of investment securities (refer note 8)	(1.0)	(7.4)	(1.0)	(7.4)
Loss on disposal of non current assets	1.6	3.5	1.6	3.5
Provision for customer redress (refer note 28)	63.0	115.0	63.0	115.0
Impairment loss on amounts due from insurance business (refer note 10)	5.8	8.8	5.8	8.8
Share of profit of associate (refer note 21)	(2.4)	(10.2)	-	-
Insurance policy cancellation provision (refer note 28)	(0.1)	0.5	(0.1)	0.5
Warranty provision (refer note 28)	1.3	-	1.3	-
Equity settled share based payments	1.2	(0.8)	1.2	(0.7)
Interest on subordinated liabilities (refer note 4)	4.6	8.0	4.6	8.0
Interest on tax balances	(0.5)	-	(0.5)	-
Fair value movements	13.9	(9.2)	13.9	(9.3)
Non cash items included in operating profit before taxation	**213.9**	**243.3**	**216.3**	**253.5**
Net movement in mandatory balances with central banks	(4.1)	(0.2)	(4.1)	(0.2)
Net movement in loans and advances to customers	(1,431.4)	(973.2)	(1,431.4)	(973.2)
Net movement in prepayments and accrued income	6.8	9.4	6.8	9.4
Net movement in other assets	(34.8)	92.2	(92.8)	92.2
Net movement in deposits from banks	764.6	(62.5)	764.6	(62.5)
Net movement in deposits from customers	78.9	613.7	78.9	613.7
Net movement in accruals and deferred income	10.1	17.9	10.1	17.9
Provisions utilised	(60.7)	(91.8)	(60.7)	(91.8)
Net movement in other liabilities	9.0	10.4	10.9	10.4
Changes in operating assets and liabilities	**(661.6)**	**(384.1)**	**(717.7)**	**(384.1)**

NOTES TO THE FINANCIAL STATEMENTS (continued)

40 CAPITAL RESOURCES

On 27 June 2013 the final CRD IV rules were published in the Official Journal of the European Union. Following the publication of the CRD IV rules the Prudential Regulation Authority (PRA) issued a policy statement on 19 December 2013 detailing how the rules will be enacted within the UK with corresponding timeframes for implementation. The CRD IV rules will be phased in over the course of the next 5 years and, accordingly, the following tables analyse the regulatory capital resources of the Company (being the regulated entity) applicable as at the year end and also the “end point” position, once all of the rules contained within CRD IV have come into force:

	2014 £m	2013* £m
Movement in common equity tier 1:		
At the beginning of the year	705.4	744.8
Ordinary shares issued	140.0	45.0
Profit attributable to shareholders	114.8	92.5
Other reserves	1.2	(0.7)
Ordinary dividends	(100.0)	(105.0)
Movement in intangible assets	(30.3)	(60.5)
Movement in material holdings	11.2	(10.7)
CRD IV adjustments:		
Deferred tax liabilities related to intangible assets	32.2	-
Material holdings	39.1	-
At the end of the year	**913.6**	**705.4**

NOTES TO THE FINANCIAL STATEMENTS (continued)

40 CAPITAL RESOURCES (continued)

	End point 2014 £m (Unaudited)	Transitional 2014 £m	2013* £m
Common equity tier 1			
Shareholders' equity (accounting capital)	1,375.2	1,375.2	1,217.5
Regulatory adjustments			
Subordinated notes not qualifying as tier 1	(45.0)	(45.0)	(45.0)
Unrealised losses on available for sale debt securities	-	(5.9)	(5.8)
Unrealised losses on cash flow hedge reserve	(1.7)	(1.7)	(0.1)
Intangible assets	(427.7)	(427.7)	(397.4)
Deferred tax liabilities related to intangible assets	32.2	32.2	-
Material holdings in financial sector entities	-	(13.5)	(63.8)
Core tier 1 capital	**933.0**	**913.6**	**705.4**
Tier 2 capital (instruments and provisions)			
Undated subordinated notes	45.0	45.0	45.0
Dated subordinated notes net of regulatory amortisation	190.0	190.0	326.5
Collectively assessed impairment provisions	32.8	32.8	25.1
Tier 2 capital (instruments and provisions) before regulatory adjustments	267.8	267.8	396.6
Regulatory adjustments			
Material holdings in financial sector entities	(34.1)	(20.6)	(63.8)
Total regulatory adjustments to tier 2 capital (instruments and provisions)	(34.1)	(20.6)	(63.8)
Total tier 2 capital (instruments and provisions)	**233.7**	**247.2**	**332.8**
Total capital	**1,166.7**	**1,160.8**	**1,038.2**
Total risk weighted assets (unaudited)	**6,546.8**	**6,546.8**	**5,353.3**
Common equity tier 1 ratio (unaudited)	**14.3%**	**14.0%**	**13.2%**
Tier 1 ratio (unaudited)	**14.3%**	**14.0%**	**13.2%**
Total capital ratio (unaudited)	**17.8%**	**17.7%**	**19.4%**

* Prior year capital resources have been amended to reflect the industry standard approach of including annual profits in full within capital resources for the year to which they relate. This presents capital resources on a consistent basis with the current year presentation. Previously, annual profits were only included within capital resources at the point at which they were deemed verified by the Group's auditors.

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

	2014 £m	2013 £m
Tesco Personal Finance plc (Group) shareholders' equity	1,381.4	1,226.7
Share of associate's retained earnings	(10.1)	(7.7)
Subsidiaries' retained earnings	-	0.1
Share of associate's available for sale reserve	3.9	(1.6)
Tesco Personal Finance plc (Company) shareholders' equity	**1,375.2**	**1,217.5**

NOTES TO THE FINANCIAL STATEMENTS (continued)

40 CAPITAL RESOURCES (continued)

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

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. The Basel Committee have proposed that final adjustments to the definition and calibration of the leverage ratio be carried out in 2017, with a view to migrating to a Pillar 1 treatment in 2018.

In the interim, the Group has published the estimated leverage ratio on a fully transition CRD IV basis.

Exposures for leverage ratio (unaudited) **2014**	**End point** **£m**	**Transitional** **£m**
Total balance sheet exposures	9,243.3	9,243.3
Removal of insurance assets	(105.1)	(105.1)
Removal of accounting value of derivatives and SFTs	(33.6)	(33.6)
Exposure value for derivatives and SFTs	62.8	62.8
Off balance sheet: unconditionally cancellable (10%)	962.6	962.6
Off balance sheet: other (100%)	91.0	91.0
Financial sector entities not included within regulatory consolidation	400.1	400.1
Regulatory adjustment – intangible assets	(427.7)	(427.7)
Total	10,193.4	10,193.4
Common equity tier 1	933.0	913.6
Leverage ratio	**9.2%**	**9.0%**

The Company's estimated end point leverage ratio is 9.2%. The Basel Committee's minimum ratio of 3.0% is proposed to become a Pillar 1 requirement by 1 January 2018.

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 both this internal assessment and regulatory requirements. Capital adequacy is monitored daily by the Treasury department and is reported monthly to the ALCO and the Board.

NOTES TO THE FINANCIAL STATEMENTS (continued)

41 RELATED PARTY TRANSACTIONS

During the year the Group had the following transactions with related parties:

a) Transactions involving Directors and other key connected persons

For the purposes of IAS 24 “Related Party Disclosures”, key management personnel comprise Directors of the Group. The captions in the Group’s primary financial statements include the following amounts attributable, in aggregate, to key connected persons.

Group and Company	2014 £m	2013 £m
Loans and advances to customers		
At the beginning of the year	-	-
Loans issued during the year	0.1	-
Loan repayments during the year	-	-
Loans outstanding at the end of the year	**0.1**	**-**
Interest income earned	-	-
Deposits from customers		
Deposits at the beginning of the year	1.7	1.7
Deposits received during the year	0.5	0.8
Deposits repaid during the year	(1.2)	(0.8)
Deposits at the end of the year	**1.0**	**1.7**
Interest expense on deposits	-	-

No provisions have been recognised in respect of loans and advances to related parties (2013: £nil).

b) Remuneration of key management personnel

The amount of remuneration incurred by the Group in relation to the Directors is set out below in aggregate. Further information about the remuneration of Directors is provided in note 11.

Group and Company	2014 £m	2013 £m
Short-term employee benefits	3.8	3.2
Termination benefits	-	0.4
Post employment benefits	-	-
Other long term benefits	-	-
Share based payments	0.2	-
Total emoluments	**4.0**	**3.6**

NOTES TO THE FINANCIAL STATEMENTS (continued)

41 RELATED PARTY TRANSACTIONS (continued)

c) Trading transactions

During the year, the Group entered into the following transactions with related parties.

Group and Company	2014 Tesco PLC £m	2014 Tesco PLC subsidiaries £m	2014 Tesco Underwriting Limited £m	2013 Tesco PLC £m	2013 Tesco PLC subsidiaries £m	2013 Tesco Underwriting Limited £m
Interest received and other income	0.3	12.4	1.7	0.2	8.2	1.9
Interest paid	(0.1)	(4.6)	-	(0.1)	(8.0)	-
Provision of services	-	(148.6)	-	-	(135.5)	-

Balances owing to/from related parties are identified in notes 17, 19, 26, 29, 30 and 31.

For the year ended 28 February 2014 the Group generated the majority of its insurance commission from the sale and service of Motor and Home insurance policies underwritten by Tesco Underwriting Limited, an associated company and therefore a related party. Customer premiums on such sales are collected directly by the Group and the net premium is remitted to Tesco Underwriting Limited.

Investment transactions with Tesco Underwriting Limited are identified in note 21.

d) Ultimate parent undertaking

The Company's ultimate parent undertaking and controlling party is Tesco PLC which is incorporated in England. The financial statements for Tesco PLC can be obtained from its registered office at Tesco House, Delamare Road, Cheshunt, Hertfordshire, EN8 9SL.

e) Immediate parent undertaking

The Company's immediate parent company is Tesco Personal Finance Group Limited which is incorporated in Scotland. Financial statements for Tesco Personal Finance Group Limited can be obtained from its registered office at Interpoint Building, 22 Haymarket Yards, Edinburgh, EH12 5BH. The smallest group into which the Company is consolidated is Tesco Personal Finance Group Limited and the largest group is Tesco PLC.

42 CONTINGENT LIABILITIES AND COMMITMENTS

a) Contingent Liabilities - The Financial Services Compensation Scheme

The Financial Services Compensation Scheme (FSCS) is the UK statutory fund of last resort for customers of authorised financial services firms and pays compensation if a firm is unable to pay claims against it. The FSCS meets its obligations by raising management expense levies and compensation levies which will be capped based on limits advised by the Prudential Regulation Authority and FCA. These include amounts to cover the interest on its borrowings and compensation levies on the industry. The FSCS has borrowed from HM Treasury to fund these compensation costs associated with institutions that failed in 2008 and will receive receipts from asset sales, surplus cash flow and other recoveries from these institutions in the future.

The interest rate applied on outstanding borrowings from HM Treasury, in calculating the compensation levy, increased from 12 month LIBOR plus 30 basis points to 12 month LIBOR plus 100 basis points from 1 April 2012.

In February 2014, the FSCS updated its expected shortfall to approximately £1,161.0m (July 2013: £1,089.0m) and it expects to recover that amount by raising compensation levies on all deposit-taking participants over a three year period. The first of these three instalments was paid on 30 August 2013; the remaining instalments are due in August 2014 and August 2015 respectively.

42 CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Each deposit-taking institution contributes in proportion to its share of total protected deposits. As at 28 February 2014 the Group has accrued £6.7m (2013: £6.8m) in respect of its current obligation to meet expenses levies, based on indicative costs published by the FSCS.

The ultimate levy to the industry cannot currently be estimated reliably as it is dependent on various uncertain factors including participation in the market at 31 December 2013, the level of protected deposits, the population of deposit-taking participants and potential recoveries of assets by the FSCS.

b) Lending commitments

The amounts shown below are intended to provide an indication of the volume of business transacted and not of the underlying credit or other risks.

Group and Company	2014 £m	2013* £m
Undrawn formal standby facilities, credit lines and other commitments to lend:		
Less than one year		
Mortgage commitments	91.0	78.5
Credit card commitments	9,620.3	7,916.7
Other commitments	5.8	6.0
Total commitments	**9,717.1**	**8,001.2**

* During the year to 28 February 2014 a change was made to a methodology by which the Group measures undrawn credit card commitments to exclude both the credit limits on cancelled cards and any overpayments made by customers. The impact of this change in the prior year is a reduction in undrawn credit card commitments of £489.6m.

Mortgage offers made are legally binding commitments made by the Group to provide secured funding to customers. Undrawn mortgage commitments relate to formal offers made to customers during the application process whereby the customer has successfully passed eligibility and affordability checks but has not yet had completed the application.

Under an undrawn credit card commitment the Group agrees to make funds available to a customer in the future. Undrawn credit card commitments, which are usually for a specified term, may be unconditionally cancellable or may persist, providing all facility conditions are satisfied or waived.

Other commitments are commitments made in respect of Clubcard Plus overdrafts. These are where the Group agrees to make funds available to a customer in the future. Clubcard Plus overdrafts are usually for a specified term, may be unconditionally cancellable or may persist, providing all facility conditions are satisfied or waived.

c) Capital commitments

At 28 February 2014 the Group and Company had capital commitments related to property, plant and equipment of £0.1m (2013: £0.5m) and intangible assets of £1.3m (2013: £1.1m). This is in respect of IT software development and IT hardware. The Group's management is confident that future net revenues and funding will be sufficient to cover this commitment.

d) Operating lease commitments

The future minimum lease payments under non-cancellable operating leases are as follows:

Group and Company	2014 £m	2013 £m
No later than one year	5.2	5.2
Later than one year and no later than five years	20.9	20.9
Later than five years	55.5	60.7
	81.6	**86.8**

NOTES TO THE FINANCIAL STATEMENTS (continued)

43 SHARE BASED PAYMENTS

The Group charge for the year recognised in respect of share-based payments is £3.2m (2013: £1.5m), which is made up of share option schemes and share bonus payments. Of this amount £2.2m (2013: £1.3m) will be equity settled and £1.0m (2013: £0.2m) cash settled.

a) Share Option Schemes
The Group had three option schemes in operation during the year, both of which are equity-settled schemes using Tesco PLC shares:

i) The Discretionary Share Option Plan (2004) was adopted on 5 July 2004. This scheme permits the grant of approved, unapproved and international options in respect of ordinary shares to selected executives. Options are normally exercisable between three and ten years from the date of grant at a price not less than the middle-market quotation or average middle-market quotations of an ordinary share for the dealing day or three dealing days preceding the date of grant. The exercise of options will normally be conditional upon the achievement of a specified performance target related to the annual percentage growth in earnings per share over a three-year period. There were no discounted options granted under this scheme.

ii) The Savings-related Share Option Scheme (1981) permits the grant to colleagues of options in respect of ordinary shares linked to a building society/bank save-as-you-earn contract for a term of three or five years with contributions from colleagues of an amount between £5 and £250 per four-weekly period. Options are capable of being exercised at the end of the three or five-year period at a subscription price of not less than 80% of the average of the middle-market quotations of an ordinary share over the three dealing days immediately preceding the offer date.

iii) The Performance Share Plan (2011) was adopted on 1 July 2011 and amended on 4 July 2011. This scheme permits the grant of options in respect of ordinary shares to selected executives. Options are normally exercisable between three and ten years from the date of grant for nil consideration. The exercise of options will normally be conditional upon the achievement of specified performance targets related to the return on capital employed and earnings per share over a three-year period.

NOTES TO THE FINANCIAL STATEMENTS (continued)

43 SHARE BASED PAYMENTS (continued)

The following table reconciles the number of share options outstanding and the weighted average exercise price (WAEP):

	Savings-related share option scheme Options	Savings-related share option scheme WAEP (pence)	Approved share option scheme Options	Approved share option scheme WAEP (pence)	Unapproved share options scheme Options	Unapproved share options scheme WAEP (pence)
Outstanding as at 28 February 2013	**651,409**	**317.20**	**727,423**	**366.16**	**1,173,100**	**382.40**
Granted	371,972	322.00	-	-	-	-
Forfeited	(108,013)	322.20	(405,935)	410.91	(817,572)	411.77
Exercised	(6,243)	325.59	(22,657)	338.40	(7,920)	338.40
Outstanding as at 28 February 2014	**909,125**	**320.51**	**298,831**	**340.48**	**347,608**	**348.55**
Exercisable at 28 February 2014	**12,720**	**386.00**	**298,831**	**340.48**	**347,608**	**348.55**
Exercise price range (pence)	**-**	**386.00**	**-**	**338.40 - 427.00**	**-**	**338.40 - 427.00**
Weighted average remaining contractual life (years)	**-**	**0.42**	**-**	**5.66**	**-**	**5.09**

NOTES TO THE FINANCIAL STATEMENTS (continued)

43 SHARE BASED PAYMENTS (continued)

	Savings-related share option scheme Options	Savings-related share option scheme WAEP (pence)	Approved share option scheme Options	Approved share option scheme WAEP (pence)	Unapproved share options scheme Options	Unapproved share options scheme WAEP (pence)
Outstanding at 29 February 2012	**354,970**	**363.16**	**789,748**	**380.14**	**1,250,864**	**391.94**
Granted	351,221	282.00	-	-	-	-
Forfeited	(49,418)	359.44	(35,730)	419.80	(48,220)	419.80
Exercised	(5,364)	328.00	(26,595)	338.40	(29,544)	338.40
Outstanding as at 28 February 2013	**651,409**	**317.20**	**727,423**	**366.16**	**1,173,100**	**382.40**
Exercisable at 28 February 2013	**8,072**	**328.00**	**365,813**	**340.10**	**436,158**	**346.49**
Exercise price range (pence)	**-**	**328.00**	**-**	**338.40 – 427.00**	**-**	**338.40 – 427.00**
Weighted average remaining contractual life (years)	**-**	**0.42**	**-**	**6.17**	**-**	**6.10**

Share options were exercised on a regular basis throughout the financial year. The average Tesco PLC share price during the year ended 28 February 2014 was 351.00p.

The fair value of share options is estimated at the date of grant using the Black-Scholes option pricing model. The following table gives the assumptions applied to the options granted in the respective periods shown. No assumption has been made to incorporate the effects of expected early exercise.

	2014 Savings-related share option scheme	**2014 Executive Share Option Schemes**	2013 Savings-related share option scheme	2013 Executive Share Option Schemes
Expected Dividend Yield (%)	4.6%	-	5.0%	-
Expected Volatility (%)	21 – 23%	-	21 – 28%	-
Risk free interest rate (%)	1.2 – 1.8%	-	0.7 – 1.0%	-
Expected life of option (years)	3 or 5	-	3 or 5	-
Weighted average fair value of options granted (pence)	47.07	-	41.96	-
Probability of forfeiture (%)	14 – 15%	-	14 – 15%	-
Share price (pence)	362.00	-	312.00	-
Weighted average exercise price (pence)	322.00	-	282.00	-

43 SHARE BASED PAYMENTS (continued)

Volatility is a measure of the amount by which a price is expected to fluctuate in the period. The measure of volatility used in Tesco PLC option pricing models is the annualised standard deviation of the continuously compounded rates of return on the share over a period of time. In estimating the future volatility of Tesco PLC's share price, the Tesco PLC Board considers the historical volatility of the share price over the most recent period that is generally commensurate with the expected term of the option, taking into account the remaining contractual life of the option.

b) Share Bonus Schemes

Eligible UK colleagues are able to participate in Shares In Success, an all-employee profit-sharing scheme. Each year shares may be awarded to colleagues as a percentage of earnings, up to a statutory maximum of £3,000 per annum in 2013/14.

Selected executives participate in the Group Bonus Plan, a performance-related bonus scheme. The amount paid to colleagues is based on a percentage of salary and is paid partly in cash and partly in shares. Bonuses are awarded to selected executives who have completed a required service period and depend on the achievement of corporate targets.

Selected senior executives participate in the Management Performance Share Plan. Awards made under this plan will normally vest three years after the date of the award for nil consideration. Vesting will normally be conditional on the achievement of specified performance targets related to the return on capital employed over a three-year performance period. No further awards will be granted under this scheme and it has been replaced by the Performance Share Plan (2011).

Selected executives participate in the Performance Share Plan (2011). Awards made under this plan will normally vest three years after the date of the award for nil consideration. Vesting will normally be conditional on the achievement of specified performance targets related to the return on capital employed and earnings per share over a three-year performance period.

The fair value of shares awarded under these schemes is their market value on the date of the award. Expected dividends are not incorporated into the fair value.

c) Long Term Incentive Scheme

Certain members of the Group's senior management participate in a long term incentive scheme which may reward eligible members based on long term sustainable profit growth and annual corporate objectives encompassing certain customer, operational, people and financial metrics. Part of the award is a cash bonus based on a range of profitability targets for the year ending 28 February 2016, with the extent of the award being scaled between a minimum and maximum profitability targets. If the minimum profitability target is achieved, members can also become eligible for an award based on the achievement of the corporate objectives. The corporate objectives are annual targets and their achievement will be approved by the Remuneration Committee on an annual basis. The corporate objective award will be made in the form of "notional" shares linked to the share price of Tesco PLC and as such is classified as a cash settled share based payment award. The fair value of the corporate objectives award is based on the quoted price of Tesco PLC shares. Any award paid in 2016 will be made net of the cumulative amounts paid to eligible members under other bonus and share based payment arrangements.

There is no charge recognised in the consolidated income statement in respect of this long term incentive scheme for the year ended 28 February 2014 (2013: £nil). This reflects the significant uncertainty at year end as to whether or not the minimum qualifying criteria will be met in 2016. Progress against these criteria will be monitored on an ongoing basis and the Group will commence accruing the relevant charge in the consolidated income statement if in future it becomes more likely than not that the relevant criteria will be met.

NOTES TO THE FINANCIAL STATEMENTS (continued)

43 SHARE BASED PAYMENTS (continued)

The number of Tesco PLC shares and weighted average fair value (WAFV) of share bonuses awarded during the year were:

	2014 Shares number	2014 WAFV (pence)	2013 Shares number	2013 WAFV (pence)
Shares in Success	365,167	383.55	-	-
Executive Incentive Scheme	-	-	188,752	301.08
Performance Share Plan	1,800,959	359.58	1,596,968	319.14