TESCO PERSONAL FINANCE PLC

PRELIMINARY RESULTS

FOR THE YEAR ENDED 28 FEBRUARY 2013

COMPANY NUMBER SC173199

CONTENTS

BUSINESS AND FINANCIAL REVIEW

In the Business and Financial Review 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.

Tesco Personal Finance Plc is a wholly owned subsidiary of Tesco Personal Finance Group Limited, the share capital of which is wholly owned by Tesco Plc. A reconciliation of the results contained within this preliminary report to the Tesco Bank results presented in the Tesco Plc preliminary results 2012/13 can be found on the Tesco Plc internet page http://www.tescoplc.com/media/549681/rns.pdf.

PRINCIPAL ACTIVITIES

The Group is engaged in the provision of banking and general insurance services. The Group is primarily focussed on providing financial services and products to personal customers in the UK, the Republic of Ireland, Poland and Hungary. The Company owns 49.9% of Tesco Underwriting Limited, an authorised insurance company.

FINANCIAL PERFORMANCE

The Group has continued to make good progress throughout the year, particularly within the Banking business in the second half of the year following completion of the last phase of operational migration. The full year profit has, however, been impacted by two non trading items:

- An incremental provision of £115.0m (2012: £57.4m) for potential customer redress.
- The Group received a non recurring payment of £30.0m following settlement of a dispute with a former business partner.

In addition, following the termination of the legacy insurance distribution agreement with Direct Line Group (DLG) the final commission under this arrangement of £21.7m (2012: £63.3m) was recognised in the year.

Headlines

- Profit before tax is £124.0m, down by 22.3% (2012: £159.6m).
- Adjusting for non trading items and the cessation of the historic insurance distribution agreement, profits grew 14.4% to £187.3m (2012: £163.7m)[1].
- Customer assets grew 19.2% to £5.6bn (2012: £4.7bn) and customer deposits grew 11.4% to £6.0bn (2012: £5.4bn).
- The Risk Asset Ratio at 28 February 2013 was 19.1% (2012: 16.0%) reflecting the repatriation of capital from DLG of £258.5m (2012: £nil). A dividend of £105.0m (2012: £108.2m) was paid to the Group's parent company in February 2013.

[1] In 2011/12 non trading items also included a non recurring fee of £10.0m payable to a supplier on the successful migration of the Motor and Home Insurance business.

BUSINESS AND FINANCIAL REVIEW (continued)

BUSINESS OVERVIEW

This has been another year of significant activity in the Group. May 2012 saw the successful migration of the Group's credit card business from Royal Bank of Scotland Group (RBS) to the Group's operational platforms. In August, the Group launched its Mortgages product and at 28 February 2013 £258.0m of balances were outstanding with a further £78.5m in the pipeline. In November, both Cash and Junior ISAs were launched widening the Group's savings offering and diversifying its funding base.

Following the completion of the migration to the Group's operational platforms, a revised organisational structure was implemented, creating two business units, one focussed on Banking activity and the second on Insurance. This has created two business units with full responsibility for the end to end customer experience in their respective markets.

As reported at the Half Year, the Group reached agreement with DLG in relation to the termination of the legacy insurance distribution agreement. The £258.5m of capital previously provided to DLG has been repaid to the Group in full. Fees and commission income from DLG relating to policies sold prior to October 2010 was £21.7m (2012: £63.3m) and this is the key driver of the reduction in the Group's non interest income to £353.6m (2012: £400.5m).

The Group has undertaken an exercise to contact customers who were historically sold Personal Loan Payment Protection Insurance (PPI) where there is the potential for that sale to have been non compliant. The result of this exercise, combined with the ongoing compensation claims from customers in relation to historic PPI sales (both linked to Personal Loans and Credit Cards) has resulted in the Group increasing the provision for redress in relation to historic PPI sales. In the second half of the year the Group increased the provision by £60.0m taking the total charge for the year to £90.0m (2012: £57.4m). The Group has further provided an additional £25.0m (2012: £nil) in respect of customer redress relating to the historic sale of certain products sold to credit card customers.

The full year profit also includes a non recurring credit of £30.0m following settlement of a dispute with a former business partner.

As highlighted at the Half Year, the Group has confirmed its intention to draw on the Bank of England's (BoE) Funding for Lending Scheme (FLS). Whilst the Group's lending will continue to be primarily funded by customer deposits, which have grown by £0.6bn to £6.0bn (2012: £5.4bn), the FLS scheme will provide support to the Group's lending plans in the short term.

As part of the Group's Community programme, it announced in October 2012 its commitment to make funding available to Grameen Scotland for the purpose of supporting social enterprise in deprived parts of the UK.

Banking

The Banking trading environment proved to be very challenging and highly competitive across the main product categories, however despite this the Group made significant progress in developing its products and services during the year which has resulted in growth in the number of customers choosing our products.

In May 2012, the Credit Card business was the final area to be migrated to the Group's own operating platforms. The Group scaled back marketing activity in the first half of the year to ensure this transition was successful, with high levels of service maintained throughout the migration process to the 2.8 million customer base. This created the platform to support an enhanced product offering to the Group's new and existing customers with additional acquisition offers launched to help serve the needs of Tesco customers. Retail Sales exceeded £1.0bn each month with good levels of customer account and balance growth achieved in the second half of the year following the migration period.

BUSINESS AND FINANCIAL REVIEW (continued)

The Group also successfully launched two new key products in the second half of the year, Mortgages and Cash ISAs. For Mortgages, the Group offered a competitive set of products which proved to be popular and helped grow customer balances beyond expected levels to £258.0m at the year end. Cash ISAs were a welcome addition to the Savings portfolio which not only extended the offering for customers but will help provide a further source of funding in the periods to come as the Group looks to grow its lending activity.

The year also saw a fairly substantial reduction in customer interest rates on both lending and savings products within the market place. Against this backdrop the Group was successful in growing both its Personal Loan and Savings balances and continued to offer existing and new Savings customers competitive rates of interest.

Insurance

The Group's insurance business provides a wide range of general insurance and selected life insurance products to over 2.1 million customers in the UK and the Republic of Ireland.

The motor insurance market saw significant change in the year with a number of regulatory developments, the introduction of gender neutral pricing and sustained downward price pressure. Despite this, excluding the impact of legacy insurance income, the insurance business succeeded in increasing the profit contribution from the insurance distribution arrangements put in place in 2010, up 15.5% to £112.9m (2012: £97.8m).

Further progress was made across the product range to improve the proposition for Tesco customers with activity focused on delivering the best prices across the range of insurance products for those customers holding a Tesco Clubcard and in the second half of the year the Group extended its panel of insurers to include Aviva.

As a result of the termination of the historic arrangement with DLG in September 2012 the Group received a final commission statement and related legacy income in line with expectations. Consequently the final income from this arrangement was recognised in the year (2013: £21.7m; 2012: £63.3m).

BUSINESS DEVELOPMENT

The Directors do not anticipate any material change in either the type or level of activities of the Group in the next financial year. The Group is currently developing its current account proposition with the intention of launching following the introduction of the industry wide switching service. The Group plans to join the second wave of industry testing for this service in November 2013 which is expected to support a launch of the product in 2014.

The parent company, Tesco Personal Finance Group Limited, increased its investment in the Group by £45.0m (2012: £251.5m) during the year to support the final investment required for the migration programme. This investment was entirely comprised of proceeds from an issue of share capital (2012: issue of share capital of £111.5m and subordinated debt of £140.0m).

This equity investment was more than offset by a final dividend in respect of ordinary share capital of £105.0m (2012: £100.0m) which was paid to the parent company in February 2013. There were no interim dividends paid during the year (2012: £8.2m).

BUSINESS AND FINANCIAL REVIEW (continued)

CONSOLIDATED INCOME STATEMENT

The Group's financial performance is presented in the consolidated income statement on page 8. A summary is presented below:

	2013 £'000	2012* £'000	%
Net interest income	**289,813**	301,832	**(4.0%)**
Non interest income	**353,566**	400,451	**(11.7%)**
Total income	**643,379**	702,283	**(8.4%)**
Operating expenses	**(447,587)**	(423,490)	**(5.7%)**
Impairment	**(82,020)**	(124,511)	**34.1%**
Share of profit of associate	**10,187**	5,269	**93.3%**
Profit before tax	**123,959**	159,551	**(22.3%)**
Non recurring items:			
Customer redress provision	**115,000**	57,400	**-**
Insurance migration fee	**-**	10,000	**-**
Non recurring credit	**(30,000)**	-	**-**
Legacy commission	**(21,668)**	(63,285)	**-**
'Recurring' profit before tax	**187,291**	163,666	**14.4%**

* Refer Note 1, 'Accounting Policies' for details of reclassifications.

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

Net interest margin [1]	**4.1%**	4.7% *
Cost: income ratio [2]	**69.6%**	60.3%
Bad debt asset ratio [3]	**1.5%**	2.4%

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.

* Refer Note 1, 'Accounting Policies' for details of reclassifications.

Net Interest Income

Net Interest Income has fallen by 4.0% to £289.8m (2012: £301.8m). The growth in customer lending of 19.2% to £5.6bn (2012: £4.7bn) has been offset by the decline in net interest margin to 4.1% (2012: 4.7%). Much of the balance growth has been achieved in the second half of the year following completion of the credit cards migration and reflects the competitively priced credit card and personal loan offers in addition to the launch of mortgages. The reduction in margin is predominantly due to the introduction of mortgages and the cost of higher levels of liquidity held throughout the course of the year, in part to support the entry into the mortgage market.

BUSINESS AND FINANCIAL REVIEW (continued)

Non Interest Income

Non interest income is down 11.7% to £353.6m (2012: £400.5m) predominantly due to the run off of income from the legacy insurance arrangement with DLG (2013: £21.7m; 2012: £63.3m) and the impact of customer redress provisioning in the year of £115.0m (2012: £57.4m) offset by a non recurring supplier settlement (£30.0m). This is presented in the table below:

	2013 £'000	2012* £'000	%
Non interest income	**353,566**	400,451	**(11.7%)**
Non recurring items:			
Customer redress provision	**115,000**	57,400	**-**
Insurance migration fee	**-**	10,000	**-**
Non recurring credit	**(30,000)**	-	**-**
Legacy commission	**(21,668)**	(63,285)	**-**
'Recurring' non interest income	**416,898**	404,566	**3.0%**

* Refer Note 1, 'Accounting Policies' for details of reclassifications.

Excluding the impact of these non recurring items, non interest income has increased by 3.0% to £416.9m (2012: £404.6m) demonstrating steady underlying growth.

Higher motor insurance income and an improvement in trading in pet insurance under the new distribution arrangements resulted in Insurance income increasing 6.8% to £145.6m (2012: £136.4m).

The banking business has seen higher fee income on credit cards, however, this has been partially offset by an increase in fees paid to the Group's credit card suppliers.

Operating Expenses

Operating expenses grew by £24.1m (5.7%) to £447.6m (2012: £423.5m). This is predominantly due to increased depreciation and staff costs as the Group builds operational capability following the completion of migration and the introduction of mortgages.

Impairment

The impairment charge for bad debts on loans and advances has fallen by 34.1% to £82.0m (2012: £124.5m). The level of customer defaults continues to reduce due to maturing of loans booked at the peak of recession, improved credit control, stricter underwriting criteria and the Group's ability to attract good quality customers. Cash recoveries from previously impaired assets have also exceeded expectations in the year. The Group's bad debt asset ratio has decreased to 1.5% (2012: 2.4%).

BUSINESS AND FINANCIAL REVIEW (continued)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

The Group's consolidated statement of financial position is presented on page 10. A summary position is presented below:

	2013 £'000	2012* £'000	%
Loans and advances to customers	5,570,371	4,672,126	19.2%
Total assets	8,431,252	7,605,143	10.9%
Deposits from customers	6,003,477	5,389,787	11.4%
Net assets	1,226,773	1,190,026	3.1%

* Refer Note 1, 'Accounting Policies' for details of reclassifications.

Loans and Advances to Customers

Loans and advances to customers have increased by 19.2% in the year to £5.6bn (2012: £4.7bn). The Group has seen growth in both card and loan balances and additionally has attracted £258.0m of mortgage balances (2012: £nil).

Deposits from Customers

Deposits from customers grew by 11.4% to £6.0bn at 28 February 2013 (2012: £5.4bn). The Fixed Rate Saver product has now attracted £2.4bn (2012: £1.5bn) of customer balances and the new Cash and Junior ISAs £77.4m (2012: £nil).

Total Assets

Total assets increased by 10.9% to £8.4bn at 28 February 2013 (2012: £7.6bn).

Capital and Liquidity Ratios

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

	2013 £'000	2012* £'000
Tier 1 capital ratio [1]	12.8%	14.2%
Risk asset ratio [2]	19.1%	16.0%
Net stable funding ratio [3]	120.6%	120.7%

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

3 The net stable funding ratio is calculated by dividing long term funding (over one year maturity) by loans and advances to customers and other liquid assets.

* Refer Note 1, 'Accounting Policies' for details of restatement.

The Group's capital position has strengthened significantly during the year. This has resulted in an improved risk asset ratio of 19.1% (2012: 16.0%) and leaves the Group well placed to support future growth. The core tier 1 ratio remains strong at 12.8% at 28 February 2013 (2012: 14.2%).

The net stable funding ratio, a key measure of the Group's liquidity position, has remained stable at 120.6% (2012: 120.7%). This is in excess of the Group's internal target and reflects the Group's desire to hold higher levels of liquidity in the early stages of its expansion into mortgages.

BUSINESS AND FINANCIAL REVIEW (continued)

The Group received capital injections totalling £45.0m (2012: £251.5m) from Tesco Personal Finance Group Limited. In addition capital resources were further increased due to the repayment of a capital loan by DLG. This capital loan was previously deducted from the Group's capital resources. A dividend of £105.0m (2012: £108.2m) was paid in the year.

The Group maintains a liquid asset portfolio of high quality investment securities of £1.9bn (2012: £1.8bn).

The Group has diversified its funding base further during the year with the issue of an 8.5 year fixed rate (5.0%) retail bond in May 2012 raising £200.0m, as well as continuing to grow the fixed rate savings book and the introduction of ISA products.

Risks and Uncertainties

As with any business, risk assessment and the implementation of mitigating actions and controls are vital to successfully achieving the Group's strategy. The Board has overall responsibility for risk management and internal control within the context of achieving the Group's objectives. The principal risks and uncertainties faced by the Group include:

- Credit - External Environment
- Regulation, Operations and People
- Liquidity and Funding
- Market and Insurance risk

Greater detail on these risks and uncertainties will be set out in the Group's 2013 Financial Statements, the publication of which will be announced in due course.

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 28 FEBRUARY 2013

	Note	2013 £'000	2012* £'000
Interest and similar income	3	472,763	468,433
Interest expense and similar charges	3	(182,950)	(166,601)
Net interest income		**289,813**	**301,832**
Fees and commissions income	4	451,508	475,134
Fees and commissions expense	4	(26,586)	(22,530)
Provision for customer redress	9	(115,000)	(57,400)
Other income		30,000	-
Net fees and commissions income		**339,922**	**395,204**
Gains on financial assets		6,202	498
Realised gain on investment securities		7,442	4,749
Non trading income		**13,644**	**5,247**
Total income		**643,379**	**702,283**
Administrative expenses		(385,740)	(378,945)
Depreciation and amortisation		(61,847)	(44,545)
Operating expenses		**(447,587)**	**(423,490)**
Impairment		(82,020)	(124,511)
Operating profit		**113,772**	**154,282**
Share of profit of associate		10,187	5,269
Profit before tax		**123,959**	**159,551**
Income tax expense		(20,574)	(39,561)
Profit for the year attributable to owners of the parent		**103,385**	**119,990**

* Refer Note 1, 'Accounting Policies' for details of reclassifications.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 28 FEBRUARY 2013

	2013 £'000	2012 £'000
Profit for the year	103,385	**119,990**
Net (losses) / gains on available for sale investment securities		
Unrealised net (losses) / gains during year, before tax	(9,389)	9,473
Cash flow hedges		
Net (losses) / gains arising on hedges recognised in other comprehensive income, before tax	(28)	276
Income tax relating to components of other comprehensive income / (expense)	5,804	(2,495)
Share of other comprehensive (expense) / income of associate	(1,614)	3,205
Total comprehensive income for the year attributable to owners of the parent	**98,158**	**130,449**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 28 FEBRUARY 2013

	Note	2013 £'000	2012* £'000
Assets			
Cash and balances with central banks		919,772	455,809
Loans and advances to banks		-	93,132
Loans and advances to customers	7	5,570,371	4,672,126
Derivative financial instruments		33,520	19,522
Investment securities:			
– Available for sale		958,734	1,302,731
– Loans and receivables		41,583	292,931
Prepayments and accrued income		33,877	43,360
Current income tax asset		36,102	-
Other assets		250,208	206,271
Investment in associate		95,337	72,459
Intangible assets		397,430	336,995
Property, plant and equipment		94,318	109,807
Total assets		**8,431,252**	**7,605,143**
Liabilities			
Deposits from banks		15,200	77,706
Deposits from customers		6,003,477	5,389,787
Debt securities in issue	8	406,698	197,849
Derivative financial instruments		63,469	71,186
Provisions for liabilities and charges	9	102,007	78,341
Accruals and deferred income		123,724	132,370
Current income tax liability		-	2,969
Other liabilities		116,550	106,139
Deferred income tax liability		43,354	28,770
Subordinated liabilities		330,000	330,000
Total liabilities		**7,204,479**	**6,415,117**
Equity and reserves attributable to owners of the parent			
Share capital	10	107,990	103,490
Share premium account	10	971,910	931,410
Retained earnings		87,924	90,244
Other reserves		13,949	19,882
Subordinated notes		45,000	45,000
Total equity		**1,226,773**	**1,190,026**
Total liabilities and equity		**8,431,252**	**7,605,143**

* Refer Note 1, 'Accounting Policies' for details of reclassifications.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 28 FEBRUARY 2013

	Note	Share capital £'000	Share premium account £'000	Retained earnings £'000	Sub-ordinated notes £'000	Other reserves £'000	Total equity £'000
Balance at 1 March 2012		**103,490**	**931,410**	**90,244**	**45,000**	**19,882**	**1,190,026**
Comprehensive income / (expense)							
Profit for the year		-	-	103,385	-	-	103,385
Net losses on available for sale investment securities		-	-	-	-	(3,743)	(3,743)
Net gains on cash flow hedges		-	-	-	-	130	130
Share of other comprehensive expense of associate		-	-	-	-	(1,614)	(1,614)
Total comprehensive income / (expense)		**-**	**-**	**103,385**	**-**	**(5,227)**	**98,158**
Transactions with owners							
Shares issued in the year	10	4,500	40,500	-	-	-	45,000
Dividends to ordinary shareholders	6	-	-	(105,000)	-	-	(105,000)
Dividends to holders of other equity	6	-	-	(705)	-	-	(705)
Share based payments		-	-	-	-	(706)	(706)
Total transactions with owners		**4,500**	**40,500**	**(105,705)**	**-**	**(706)**	**(61,411)**
Balance at 28 February 2013		**107,990**	**971,910**	**87,924**	**45,000**	**13,949**	**1,226,773**

	Note	Share capital £'000	Share premium account £'000	Retained earnings £'000	Sub-ordinated notes £'000	Other reserves £'000	Total equity £'000
Balance at 1 March 2011		**92,340**	**831,060**	**79,341**	**45,000**	**2,251**	**1,049,992**
Comprehensive Income							
Profit for the year		-	-	119,990	-	-	119,990
Net gains on available for sale investment securities		-	-	-	-	7,053	7,053
Net gains on cash flow hedges		-	-	-	-	201	201
Share of other comprehensive income of associate		-	-	-	-	3,205	3,205
Total comprehensive income		**-**	**-**	**119,990**	**-**	**10,459**	**130,449**
Transactions with owners							
Shares issued in the year	10	11,150	100,350	-	-	-	111,500
Dividends to ordinary shareholders	6	-	-	(108,150)	-	-	(108,150)
Dividends to holders of other equity	6	-	-	(937)	-	-	(937)
Share based payments		-	-	-	-	7,172	7,172
Total transactions with owners		**11,150**	**100,350**	**(109,087)**	**-**	**7,172**	**9,585**
Balance at 29 February 2012		**103,490**	**931,410**	**90,244**	**45,000**	**19,882**	**1,190,026**

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 28 FEBRUARY 2013

	Note	2013 £'000	2012 £'000
Operating activities			
Profit before tax		123,959	159,551
Adjusted for:			
Non cash items included in operating profit before tax		243,317	239,036
Changes in operating assets and liabilities		(384,051)	230,329
Income tax paid		(39,272)	(18,128)
Cash flows (used in)/generated from operating activities		**(56,047)**	**610,788**
Investing activities			
Purchase of non current assets		(137,519)	(165,431)
Purchase of available for sale investment securities		(101,310)	(729,368)
Sale of non current assets		783	-
Sale of available for sale investment securities		548,125	183,072
Loan to associate		(7,152)	-
Proceeds from repayment of capital loan		258,500	-
Investment in associate		(14,305)	-
Deposit with parent		(145,000)	-
Cash flows generated from/(used in) investing activities		**402,122**	**(711,727)**
Financing activities			
Proceeds from issue of debt securities		198,401	59,587
Proceeds from issue of subordinated liabilities		-	140,000
Redemption of own debt securities		-	(225,000)
Proceeds from issue of share capital	10	45,000	111,500
Dividends paid to ordinary shareholders	6	(105,000)	(108,150)
Dividends paid to holders of other equity		(991)	(673)
Interest paid on subordinated liabilities		(7,836)	(3,712)
Cash flows generated from/(used in) financing activities		**129,574**	**(26,448)**
Net increase/(decrease) in cash and cash equivalents		475,649	(127,387)
Cash and cash equivalents at the beginning of the year		578,876	706,263
Cash and cash equivalents at the end of the year	11	**1,054,525**	**578,876**

The unaudited preliminary consolidated financial information for the year ended 28 February 2013 was approved by the Directors on 17 April 2013.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 BASIS OF PREPARATION

This unaudited preliminary consolidated financial information has been prepared in accordance with the Disclosure and Transparency Rules of the Prudential Regulation Authority (PRA) (previously the Financial Services Authority), International Financial Reporting Standards (IFRS) and the IFRS Interpretation Committee (IFRIC) interpretations as endorsed by the European Union. The accounting policies applied are consistent with those described in the financial statements of the Group for the year ended 29 February 2012. The auditors have not yet signed their audit report, however, they have confirmed that they are not aware of any matter that may give rise to a modification to it.

This preliminary consolidated financial information does not constitute statutory consolidated financial statements for the year ended 28 February 2013 or the year ended 29 February 2012 as defined in section 434 of the Companies Act 2006. The financial statements for the year ended 29 February 2012 were approved by the Board of Directors on 27 April 2012 and have been filed with the Registrar of Companies. The report of the auditors on those consolidated financial statements was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 498 of the Companies Act 2006. The financial statements for 2013 will be filed with the Registrar in due course.

GOING CONCERN

The Group has strengthened its capital position during the year and has made steady growth in diversifying its funding base through the launch of the Cash ISA and growth in existing savings products. The majority of the Group's funding position continues to be represented by retail deposits. In addition, the Group has launched a retail bond and developed the ability to access significant amounts of central bank funding and contingent liquidity via the Funding for Lending Scheme and 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 adequate resources to continue in business for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis in preparing the financial statements.

LOANS AND ADVANCES TO CUSTOMERS RECLASSIFICATION

During the year, the Group identified that the Insurance Instalment Debtors, previously included within Other Assets, would be more appropriately classified as Loans and Advances to Customers.

The impact of this change in the prior period is a reduction in Other Assets of £248.5m and a corresponding increase in Loans and Advances to Customers.

This reclassification does not have any effect on the Group's net asset position.

INTEREST INCOME RECLASSIFICATION

As a result of the above reclassification, the income recognised from Insurance Instalment Debtors has been reclassified from Fees and Commissions Income to Interest Income.

The impact of this change in the prior period is a reduction in Fees and Commissions Income of £42.8m and a corresponding increase in Interest Income.

The impact of the reclassification has also been reflected within the net interest margin.

CAPITAL RESOURCES RESTATEMENT

During the year the Group revised the capital disclosure of the holding in its insurance regulated associate (Tesco Underwriting Limited). This change reduced the tier 1 capital ratio in the previous year to 14.2% from 15.3%. There is no change in the Risk Asset Ratio.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 BASIS OF PREPARATION (continued)

ADOPTION OF NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS

The following standards, amendments and interpretations, which became effective in 2012, are relevant to the Group:

i) Amendment to IFRS 7, 'Financial instruments: Disclosures', on transfer of financial assets. This has no impact on the Group.

ii) Amendment to IAS 12, 'Income taxes on deferred tax'. The amendment affects the determination of deferred tax on investment property measured at fair value. This has no impact on the Group.

2 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 are no transactions between the operating segments.

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

	Banking £'000	Insurance £'000	Central costs £'000	Total £'000
2013				
Total income *	434,974	208,405	-	643,379
Profit/(loss) before tax **	169,800	134,607	(180,448)	123,959
Total assets *** (excluding taxation)	8,037,495	357,655	-	8,395,150
2012				
Total income *	468,300	233,983	-	702,283
Profit/(loss) before tax **	164,937	161,104	(166,490)	159,551
Total assets ***	6,887,607	717,536	-	7,605,143

* Total income is net of a charge of £115.0m (2012: £57.4m) in relation to the provision for customer redress and £30.0m of non-recurring income (2012: £nil).

** 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 £95,337,000 (2012: £72,459,000) 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 CONSOLIDATED FINANCIAL STATEMENTS

2 SEGMENTAL REPORTING (continued)

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

	Total management reporting £'000	Consolidation and adjustments £'000	Total consolidated £'000
2013			
Total income	643,379	-	643,379
Profit before tax	123,959	-	123,959
Total assets	8,395,150	36,102	8,431,252
2012			
Total income	702,283	-	702,283
Profit before tax	159,551	-	159,551
Total assets	7,605,143	-	7,605,143

3 NET INTEREST INCOME

	2013 £'000	2012* £'000
Interest and similar income		
Loans and advances to customers	444,727	435,591
Loans and advances to banks	5,159	4,090
Fair value hedge ineffectiveness	3,188	4,825
Interest on investment securities	19,689	23,773
Other income	-	154
	472,763	**468,433**
Interest expense and similar charges		
Deposits from customers	(138,880)	(112,536)
Deposits from banks	(12,049)	(28,650)
Interest rate swap expenses	(24,053)	(20,954)
Subordinated liabilities	(7,968)	(4,461)
	(182,950)	**(166,601)**

* Refer Note 1, 'Accounting Policies' for details of reclassifications.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 NET FEES AND COMMISSIONS INCOME

	2013 £'000	2012* £'000
Fees and commissions income		
Banking fees and commission	277,109	279,850
Insurance commission *	167,291	189,687
Other income	7,108	5,597
	451,508	**475,134**
Fees and commissions expense		
Banking expenses	(26,586)	(20,770)
Other expenses	-	(1,760)
	(26,586)	**(22,530)**

* Refer Note 1, 'Accounting Policies' for details of reclassifications.

5 TAXATION

A number of changes to the UK Corporation tax system were announced in the March 2012, December 2012 and March 2013 UK Budget Statements. Legislation to reduce the main rate of corporation tax from 24% to 23% from 1 April 2013 was included in the Finance Act 2012 and was substantively enacted at the reporting date. In the December 2012 Budget Statement it was announced that the rate would be reduced further from 23% to 21% from 1 April 2014 and in the March 2013 Budget Statement it was announced that the rate would be reduced to 20% from 1 April 2015. These further changes had not been enacted at the reporting date and therefore, are not reflected in this preliminary consolidated financial information.

6 DISTRIBUTIONS TO EQUITY HOLDERS

	2013 £'000	2012 £'000
Ordinary dividend paid	105,000	108,150
Interest paid on subordinated notes included within equity	705	937
	105,705	**109,087**

On 22 February 2013 a final dividend of £0.0972 per ordinary share was paid, resulting in a total dividend payment for the year of £105,000,000.

In the prior year, an interim dividend of £0.0036 per ordinary share was paid on 30 June 2011 followed by a further interim dividend of £0.0045 per ordinary share paid on 30 September 2011. A final dividend of £0.0966 per ordinary share was then paid on 28 February 2012. This resulted in a total dividend payment for the prior year of £108,150,000.

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 (2012: 120 basis points).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7 LOANS AND ADVANCES TO CUSTOMERS

	2013 £'000	2012* £'000
Secured mortgage lending	258,002	-
Unsecured lending	5,461,102	4,831,657
Fair value hedge adjustment	23,417	25,100
Gross loans and advances to customers	5,742,521	4,856,757
Less: allowance for impairment	(172,150)	(184,631)
Net loans and advances to customers	**5,570,371**	**4,672,126**
Current	3,100,096	2,762,326
Non-current	2,470,275	1,909,800

* Refer Note 1, 'Accounting Policies' for details of reclassifications.

Included within the unsecured lending balance is £1,271,142,000 (2012: £nil) that has been pre-positioned with the Bank of England for the purposes of contingent liquidity via the discount window facility and consequently is eligible for future participation in the Funding for Lending Scheme.

As at the year end, £1,188,420,000 of the credit card portfolio has had legal interest assigned to a special purpose entity for use as collateral in securitisation transactions (2012: £1,224,655,000).

Fair value hedge adjustments amounting to £23,417,000 (2012: £25,100,000) 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:

	2013 £'000	2012 £'000
At beginning of year	184,631	181,821
Amounts written off	(93,627)	(120,187)
Recoveries of amounts previously written off	10,787	7,811
Charge to the consolidated income statement	73,150	119,028
Unwind of discount	(2,791)	(3,842)
At end of year	**172,150**	**184,631**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8 DEBT SECURITIES IN ISSUE

	2013 £'000	2012 £'000
Fixed rate retail bond maturing in 2018	140,905	138,412
RPI bond maturing in 2019	59,527	59,437
Fixed rate retail bond maturing 2020	206,266	-
	406,698	**197,849**
Current	-	-
Non-current	406,698	197,849

On 24 February 2011 the Group issued a nominal £125,000,000 7.5 year fixed rate retail bond which is listed on the London Stock Exchange. Interest is payable at a fixed rate of 5.2%.

On 16 December 2011 the Group issued a nominal £60,000,000 8 year inflation linked retail bond which is listed on the London Stock Exchange. Interest is payable at a fixed rate of 1.0%, with the principal adjusted for RPI inflation every six months.

On 21 May 2012 the Group issued a nominal £200,000,000 8.5 year fixed rate retail bond which is listed on the London Stock Exchange. Interest is payable at a fixed rate of 5.0%.

9 PROVISIONS FOR LIABILITIES AND CHARGES

	Customer Redress Provision £'000	Insurance Provision £'000	Total £'000
2013			
At beginning of year	74,546	3,795	78,341
Charged to the consolidated income statement	115,000	552	115,552
Utilised during the year	(91,886)	-	(91,886)
At end of year	**97,660**	**4,347**	**102,007**

	Customer Redress Provision £'000	Insurance Provision £'000	Total £'000
2012			
At beginning of year	39,477	-	39,477
Charged to the consolidated income statement	57,400	3,795	61,195
Utilised during the year	(22,331)	-	(22,331)
At end of year	**74,546**	**3,795**	**78,341**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9 PROVISIONS FOR LIABILITIES AND CHARGES (continued)

CUSTOMER REDRESS PROVISION

Of the total provision balance at 28 February 2013, £72,660,000 (2012: £74,546,000) 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.

During the year, the Group began a programme of proactive customer communication informed by an earlier analysis of historic sales practices whereby customers sold PPI during a specific time period were invited to make contact in order to discuss potential redress. The progress made in addressing customer complaints as a result of the proactive contact programme has provided an extensive fact base of actual customer redress payments that has enabled the Group to review the adequacy of the existing provision. As a result of this detailed review into the frequency and severity (volume of claims and typical payout value) of customer redress a revised estimate of future compensation has been prepared. This revised assessment increases the total estimated cost of redress, including administration expenses and Financial Ombudsman Service charges, by a further £60,000,000 during the second half of the financial year. The resultant charge for the year now totals £90,000,000.

A number of significant uncertainties exist in relation to the eventual level of redress costs the Group might incur, in particular the volume of complaints arising from customers not subject to proactive contact. The main assumptions underpinning the latest provision assessment are based on available empirical data and appropriate managerial judgement. The Group will continue to monitor and assess the continued appropriateness of the assumptions used and judgements made in light of actual experience and other relevant information.

The Group has further provided an additional £25,000,000 (2012: £nil) in respect of customer redress relating to the historic sale of certain products to credit card customers. As at 28 February 2013 no amounts had been paid in respect of these historic sales. The level of provision is based on a number of assumptions including the number and value of cases in which compensation will be paid. In arriving at those assumptions management have exercised their judgement based on experience of other redress programmes. The level of the provision allows for the repayment of charges paid by the customer together with simple interest of 8.0%.

INSURANCE PROVISION

The insurance provision of £4,347,000 at 28 February 2013 (2012: £3,795,000) relates to a provision for insurance policy cancellation by customers. This balance is classified as current at year end as all insurance policies expire in a maximum of one year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10 SHARE CAPITAL AND SHARE PREMIUM

During the year the Company issued 45,000,000 (2012: 111,500,000) ordinary shares to the parent company, Tesco Personal Finance Group Limited, for total consideration of £45,000,000 (2012: £111,500,000).

	2013 Number	2012 Number
Authorised		
Ordinary shares of 10p each	**Unlimited**	Unlimited

	2013 £'000	2012 £'000
Allotted, called up and fully paid		
1,079,900,000 (2012: 1,034,900,000) Ordinary shares of 10p each	**107,990**	103,490

	2013 £'000	2012 £'000
Share Premium Account	**971,910**	931,410

11 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:

	2013 £'000	2012 £'000
Cash and balances with central banks*	914,472	450,721
Loans and advances to banks	-	93,132
Certificates of deposit	140,053	35,023
	1,054,525	578,876

* Mandatory reserve deposits held within the Bank of England of £5,300,000 (2012: £5,088,000) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12 CASH INFLOW FROM OPERATING ACTIVITIES

	2013 £'000	2012* £'000
Loan impairment charges	73,150	119,028
Depreciation and amortisation	61,847	44,545
Profit on disposal of investment securities	(7,442)	(4,749)
Loss on disposal of non-current assets	3,597	-
Provision for customer redress	115,000	57,400
Impairment loss on amounts due from insurance business	8,870	5,483
Share of profit of associate	(10,187)	(5,269)
Insurance policy cancellation provision	552	3,795
Equity settled share based payments	(693)	7,172
Interest on subordinated liabilities	7,968	4,461
Fair value movements	(9,345)	7,170
Non cash items included in operating profit before taxation	**243,317**	**239,036**
Net movement in mandatory balances with central banks	(212)	(848)
Net movement in loans and advances to customers	(973,078)	(2,376)
Net movement in prepayments and accrued income	9,483	36,131
Net movement in other assets	92,193	(169,086)
Net movement in deposits from banks	(62,506)	41,506
Net movement in deposits from customers	613,690	312,323
Net movement in accruals and deferred income	17,854	(53,063)
Provisions utilised	(91,886)	(22,331)
Net movement in other liabilities	10,411	88,073
Changes in operating assets and liabilities	**(384,051)**	**230,329**

* Refer Note 1, 'Accounting Policies' for details of reclassifications.

13 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 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 FSCS meets its obligations by raising management expense levies which will be capped based on limits advised by the PRA and FCA. These include amounts to cover the interest on its borrowings and compensation levies on the industry.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13 CONTINGENT LIABILITIES (continued)

In March 2012, the FSCS confirmed that it expects a shortfall of approximately £802 million and that it expects to recover that amount by raising compensation levies on all deposit-taking participants over a three year period.

Each deposit-taking institution contributes in proportion to its share of total protected deposits. As at 28 February 2013 the Group has accrued £6,815,000 (February 2012: £5,449,000) 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, the level of protected deposits, the population of deposit-taking participants and potential recoveries of assets by the FSCS.

14 RELATED PARTY TRANSACTIONS

During the financial year there were no related party transactions requiring disclosure that were materially different to those reported in the Financial Statements for the year ended 29 February 2012.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors confirm that to the best of their knowledge this consolidated financial information has been prepared in accordance with the Disclosure and Transparency Rules of the Prudential Regulation Authority, International Financial Reporting Standards and IFRS Interpretation Committee interpretations, as endorsed by the European Union.

The accounting policies applied are consistent with those described in the financial statements for the year ended 29 February 2012, apart from those arising from the adoption of new International Financial Reporting Standards and Interpretations. In preparing the consolidated financial information, the Directors have also made reasonable and prudent judgements and estimates and prepared the consolidated financial information on the going concern basis. The consolidated financial information and management report contained herein give a true and fair view of the assets, liabilities, financial position and profit of the Group. The Directors of Tesco Personal Finance Plc as at the date of this announcement are as set out below.

The Board
Directors
Graham Pimlott* - Chairman
Peter Bole
Gareth Bullock*
Stuart Chambers*
Iain Clink
Paul Hewitt*
Bernard Higgins
Adrian Hill*
Ricky Hunkin
Deanna Oppenheimer*
Raymond Pierce*

*Indicates independent Non-Executive Director

Company Secretary
Jonathan Lloyd