

**TESCO PERSONAL FINANCE PLC**

**DIRECTORS' REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 28 FEBRUARY 2013**

**COMPANY NUMBER SC173199**

# TESCO PERSONAL FINANCE PLC

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# TESCO PERSONAL FINANCE PLC

## DIRECTORS AND ADVISERS

**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

**Registered Office:** Interpoint Building  
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Edinburgh  
EH12 5BH

**Independent Auditors:** PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
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EH2 4NH

**Bankers:** The Royal Bank of Scotland Public Limited Company  
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HSBC Bank Plc  
8 Canada Square  
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E14 5HQ

# TESCO PERSONAL FINANCE PLC

## DIRECTORS' REPORT

The Directors present their annual report and the audited consolidated financial statements for the year ended 28 February 2013.

In the Directors' 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.

### 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)<sup>1</sup>.
- 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.

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<sup>1</sup> 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.

# TESCO PERSONAL FINANCE PLC

## DIRECTORS' REPORT (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. 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 customers. 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.

# TESCO PERSONAL FINANCE PLC

## DIRECTORS' REPORT (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).

### 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

# TESCO PERSONAL FINANCE PLC

## DIRECTORS' REPORT (continued)

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.

### CONSOLIDATED INCOME STATEMENT

The Group's financial performance is presented in the consolidated income statement on page 21. 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%)
<b>Total income</b>	<b>643,379</b>	<b>702,283</b>	<b>(8.4%)</b>
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%
<b>Profit before tax</b>	<b>123,959</b>	<b>159,551</b>	<b>(22.3%)</b>
Non recurring items:			
Customer redress provision	115,000	57,400	-
Insurance migration fee	-	10,000	-
Non recurring credit	(30,000)	-	-
Legacy insurance commission	(21,668)	(63,285)	-
<b>'Recurring' profit before tax</b>	<b>187,291</b>	<b>163,666</b>	<b>14.4%</b>

\* 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 <sup>1</sup>	4.1%	4.7% *
Cost: income ratio <sup>2</sup>	69.6%	60.3%
Bad debt asset ratio <sup>3</sup>	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.

# TESCO PERSONAL FINANCE PLC

## DIRECTORS' REPORT (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)	-
<b>'Recurring' non interest income</b>	<b>416,898</b>	<b>404,566</b>	<b>3.0%</b>

\* 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%).



# TESCO PERSONAL FINANCE PLC

## DIRECTORS' REPORT (continued)

### CONSOLIDATED STATEMENT OF FINANCIAL POSITION

The Group's consolidated statement of financial position is presented on page 23. 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 <sup>1</sup>	12.8%	14.2%
Risk asset ratio <sup>2</sup>	19.1%	16.0%
Net stable funding ratio <sup>3</sup>	120.6%	120.7%

<sup>1</sup> The tier 1 capital ratio is calculated by dividing total tier 1 capital at the end of the year by total risk weighted assets (note 46).

<sup>2</sup> The risk asset ratio is calculated by dividing total regulatory capital by total risk weighted assets (note 46).

<sup>3</sup> 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.

# TESCO PERSONAL FINANCE PLC

## DIRECTORS' REPORT (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.

### TREATING CUSTOMERS FAIRLY

Treating Customers Fairly (TCF) is central to the Financial Conduct Authority's (FCA's) (previously the Financial Services Authority) 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 2012 to date the following changes have taken place:

	<b>Appointed</b>	<b>Resigned</b>
Gareth Bullock	17 July 2012	
Stuart Chambers	17 July 2012	
Shaun Doherty		31 August 2012
Paul Hewitt	3 October 2012	
Deanna Oppenheimer	17 July 2012	
John Reed		13 February 2013

### RISK MANAGEMENT

#### Risk Management Approach

The Board has overall responsibility for approving the Group's strategy and principal markets. The level of acceptable risks is articulated through its Statement of Risk Appetite. 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.

The Board has agreed a Statement of Risk Appetite that determines the type and extent of risks that are acceptable to the Group in achieving the successful delivery of its strategic business objectives.

The Group has established an Enterprise Wide Risk Management Framework (EWRMF) to identify, monitor and manage risks across its operations. The components of the EWRMF are detailed more fully in the following pages.

# TESCO PERSONAL FINANCE PLC

## DIRECTORS' REPORT (continued)

The table below sets out the principal risks currently faced by the Group, their movement during the year and provides high level examples of the key controls and mitigating factors.

Principal risks	Change from 2011/12	Key controls and mitigating factors
<p><b>Credit risk – external environment</b> Credit risk, in this context, is the Group's exposure to the external environment.</p> <p>The downside risks to the UK economy remain significant, including fragile consumer confidence, a squeezing of real incomes and any renewed growth in unemployment.</p> <p>On the wider economic front subdued UK growth, continued fiscal austerity, the continuing Eurozone debt crisis and US Fiscal Cliff is impacting confidence and may impair the ability to sustain debt servicing and repayment in the event of an economic shock.</p>	<p>No change</p>	<ul style="list-style-type: none"> <li>• The Group's credit risk appetite is based on lending responsibly to manage the credit risk profile of its portfolio within agreed parameters.</li> <li>• Credit portfolios continue to be closely monitored with changes made to acquisition and limit management strategies to mitigate, as far as possible, downside economic risks.</li> <li>• The Group has minimal direct exposure to non-UK sovereigns and proactively monitors and manages the non-retail portfolios to reduce exposure to specific names or geographies.</li> <li>• The Group has externally benchmarked its credit risk profile against peer Banks and this data suggests the risk profile of the Group's customers remains low in current conditions.</li> </ul>
<p><b>Operational risk</b> 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.</p>	<p>No change</p>	<ul style="list-style-type: none"> <li>• The Group's aim is to minimise all operational risks and reputational impacts.</li> <li>• An Operational Risk Framework comprising Event and Loss management, Risk and Control Self Assessment (RCSA) and Operational Risk Scenario Analysis processes is in place.</li> <li>• 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 Risk Management Committee (RMC) and remedial actions taken as required.</li> </ul>

# TESCO PERSONAL FINANCE PLC

## DIRECTORS' REPORT (continued)

Principal risks	Change from 2011/12	Key controls and mitigating factors
<p><b>Liquidity and funding risk</b> 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.</p> <p>Funding risk is the risk that the Group does not have sufficiently stable and diverse sources of funding or the funding structure is inefficient.</p> <p>External market conditions continue to exhibit signs of stress (with wholesale funding markets constrained) and significant competition for retail deposits. The Group relies on significant amounts of on demand retail funding.</p>	No change	<ul style="list-style-type: none"> <li>The Group's liquidity risk appetite statement is part of the Group's wider financial risk appetite statement and requires that the Group maintains sufficient liquidity to meet its liquidity needs based on a stress scenario as approved by the Board.</li> <li>The Group aims to have a conservative balance sheet structure with prudent risk appetite supported by explicit targets and metrics which enable it to meet its financial obligations, including under stressed conditions.</li> <li>The Group holds a significant and diversified stock of highly marketable liquid assets, in excess of internal and regulatory requirements.</li> <li>The Group's significant retail deposit base means that there is currently less reliance on wholesale markets as a source of funding and historic experience indicates that such deposits tend to be relatively stable in normal market conditions.</li> </ul>
<p><b>Market risk</b> 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.</p>	No change	<ul style="list-style-type: none"> <li>The Group has no trading book.</li> <li>There is low appetite for exposure to Interest Rate Risk in the Banking Book (IRRBB) and other market risks, such as credit spreads, which are monitored and reported through the Asset and Liability Management Committee (ALCO) and RMC.</li> <li>The Group has interest rate and credit spread exposure via the Tesco Underwriting Limited (TU) investment portfolio. This risk is reported through ALCO.</li> </ul>
<p><b>Insurance risk</b> The Group defines insurance risk as the risk accepted through insurance products in return for a premium. These risks may or may not occur as expected and the amount and timing of these risks are uncertain and determined by events outside of the Group's control.</p> <p>The Group was exposed to insurance risk during the year through two sources:</p> <ul style="list-style-type: none"> <li>The Group is exposed to insurance risks through its 49.9% ownership of TU. TU is a separately regulated entity and is capitalised accordingly.</li> </ul>	Increased Risk	<ul style="list-style-type: none"> <li>The Group's aim is to actively manage insurance risk exposure with particular focus on those risks that impact profit volatility.</li> <li>The Group has no direct underwriting risk however it has a share of the underwriting exposure through the joint venture minority interest in Tesco Underwriting.</li> </ul>

# TESCO PERSONAL FINANCE PLC

## DIRECTORS' REPORT (continued)

Principal risks	Change from 2011/12	Key controls and mitigating factors
<ul style="list-style-type: none"> <li>Until September 2012 the Group was exposed to insurance risk arising from its historic relationship with DLG.</li> </ul>	Reduced Risk	<ul style="list-style-type: none"> <li>The Group's Insurance Risk function provides independent oversight of TU which is appropriate to the Group's role as key shareholder.</li> <li>Risk appetite and a suite of risk policies are in place to manage risk in TU and the Group.</li> <li>TU uses reinsurance to limit insurance risk exposure above pre-determined limits.</li> <li>Regular independent reviews of TU claim reserves and reserving methodology are undertaken.</li> <li>During the year the relationship with RBSI ceased and the Group concluded a final termination settlement agreement that eliminated any residual exposure in relation to claims reserving adequacy.</li> </ul>
<p><b>Legal and regulatory compliance risk</b> 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.</p>	No change	<ul style="list-style-type: none"> <li>The Group's aim is to meet all legal and regulatory requirements by maintaining an effective control framework.</li> <li>A dedicated risk team is responsible for the identification of regulatory risks, the management and oversight of policies and processes and the provision of assurance in relation to regulatory risk and compliance.</li> </ul>
<p><b>Conduct risk</b> There remains significant regulatory focus in relation to Conduct risk or Treating Customers Fairly. Specifically there has been continued industry-wide focus on provision for customer redress.</p>	Increased risk	<ul style="list-style-type: none"> <li>The Treating Customers Fairly Board and the Board review and challenge delivery of fair outcomes for customers.</li> <li>Operations have established organisational capacity to deal with ongoing reactive customer complaints and also support a programme of proactive customer contact for specific groups of personal loan and credit card customers.</li> </ul>
<p><b>Outsourcing risk</b> 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.</p>	Increased risk	<ul style="list-style-type: none"> <li>The Procurement policy provides consistent and robust standards for supplier sourcing and selection.</li> <li>The Group is establishing a more robust Strategic Relationship Management process that enables the monitoring of the performance of third-party outsourcers and suppliers against agreed service level agreements, the management of the relationships and the improvement of supply or termination of contract where appropriate.</li> </ul>

# TESCO PERSONAL FINANCE PLC

## DIRECTORS' REPORT (continued)

Principal risks	Change from 2011/12	Key controls and mitigating factors
<p><b>People risk</b> 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.</p>	Increased risk	<ul style="list-style-type: none"> <li>The People Matters Group, being both executive board members and personnel professionals, oversees key aspects of people risk, including talent management, performance management, retention and succession planning.</li> </ul>
<p><b>Transformation risk</b> During the past twelve months the Group has fully established its own banking and insurance business platforms and processes. This has facilitated the successful migration of the credit cards portfolio from RBS.</p> <p>The Group successfully launched its new mortgage product offering in August 2012 and is currently developing its current account proposition.</p>	Reduced risk	<ul style="list-style-type: none"> <li>During the year, the Group successfully completed the migration from RBS systems and processes significantly reducing the inherent transformational risks.</li> </ul>

The following pages also 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.

A fuller description of these risk and controls can also be found in the Company's Basel II Pillar 3 Disclosure Statements for the year ending 28 February 2013. These disclosures are published in the Investors Centre section of the Tesco plc corporate website: [www.tescopl.com/investors/results](http://www.tescopl.com/investors/results).

### Enterprise Wide Risk Management Framework (EWRMF)

The scope of the EWRMF extends to all major specific 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 (refer section below for further details about the three lines of defence model). The key components of the EWRMF are as follows and a fuller description of each component is articulated in the following pages.

- i. Risk Governance Structure
- ii. Three Lines of Defence
- iii. Group Policies
- iv. Risk Management Function
- v. Stress Testing
- vi. Monitoring and Reporting
- vii. Risk Appetite Framework

# TESCO PERSONAL FINANCE PLC

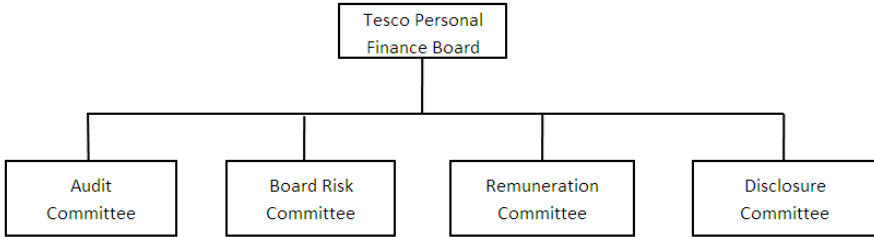
## DIRECTORS' REPORT (continued)

### i. Risk Governance Structure

The Board is the key governance body and is responsible for the overall strategy, performance of the business and management of risk. It has however 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
- 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 framework of prudent controls, which are 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 three sub-committees:

**a. Board Risk Committee (BRC)**

The role of the BRC includes considering and recommending to the Board any changes to the Group's risk appetite and risk strategy.

**b. 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 and recommending the appointment, re-appointment and removal of 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.

**c. Remuneration Committee**

The role of the Remuneration Committee is: to determine and approve remuneration arrangements for Remuneration Code staff<sup>2</sup> within the Group; 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 role of the Disclosure Committee is to review on behalf of the Board formal company documents which are either destined for publication or which are, due to their size and

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<sup>2</sup> Remuneration Code staff comprises categories of staff including senior management, risk takers, staff engaged in control functions and any employee receiving total remuneration that takes them into the same remuneration bracket as senior management and risk takers, whose professional activities have a material impact on the firm's risk profile.

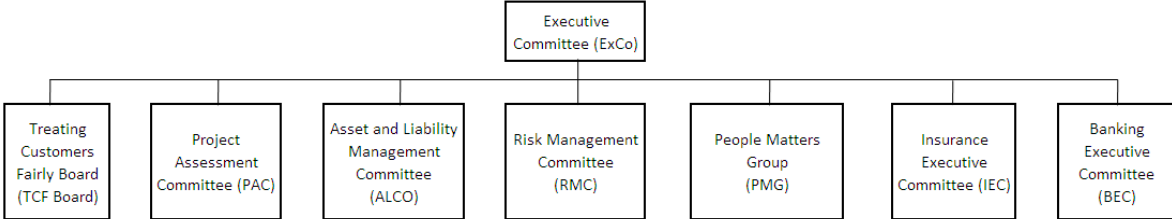
# TESCO PERSONAL FINANCE PLC

## DIRECTORS' REPORT (continued)

complexity, better reviewed in detail by a smaller group than in the Board or Board Committee meeting.

The Disclosure Committee is also 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.

- 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 is comprised of the Chief Executive, the main Board Executive Directors and functional heads. 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. 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 Fraud, Operational & Regulatory Risk Committee (FORRC) and the Credit Risk Management Committee (CRMC) along with the Wholesale Credit Risk Forum (WCRF), support the RMC in discharging its duties.

**b. 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 two sub-committees, the Liquidity Management Forum (LMF) and the Contingency Funding Committee.

**c. 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.

**d. Insurance Executive Committee (IEC)**

The principal role of the IEC is to monitor the performance of the Group's Insurance business against strategy and goals.

**e. People Matters Group (PMG)**

The principal role of PMG is to monitor personnel and staffing matters so as to ensure that the Group has the right team to deliver its strategy and goals.

**f. Banking Executive Committee (BEC)**

The principal role of the BEC is to monitor the performance of the Group's banking business



# TESCO PERSONAL FINANCE PLC

## DIRECTORS' REPORT (continued)

against strategy and goals.

### **g. Treating Customers Fairly Board (TCF)**

The principal role of the TCF Board is to provide review and challenge relating to the delivery of fair outcomes for customers by each business area.

### **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.
- **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.

### **iii. Group Policies**

The Group's policy documents provide the rules and guiding principles that define its approach to control identified risks whilst ensuring that business areas operate within agreed risk appetite parameters. The policies are provided as a suite covering all aspects of risk within the EWRMF. The policy framework and accountabilities are the foundations that determine the way the Group has regard to risk when it carries out its business. Detailed accountabilities turn policies and appetite limits into individual limits and responsibilities.

### **iv. Risk Management Function (RMF)**

The independent RMF operates under the leadership of the 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. Stress testing is a mandatory requirement of the Prudential Regulation Authority (PRA) (previously the Financial Services Authority) who require that banks implement their own stress testing processes.

### **vi. Monitoring and Reporting**

The RMF is the focus and centralised location for integrated risk reporting across the Group. The RMF 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

# TESCO PERSONAL FINANCE PLC

## DIRECTORS' REPORT (continued)

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 and not prepared to take to successfully deliver the Group's strategic and business objectives. The Board's high level expression of the desired Risk Appetite is translated into specific Key Risk Indicator thresholds and trigger limits which are tracked, monitored and reported to the appropriate functional Risk Heads and Risk Committees. The Risk Appetite Framework components and trigger thresholds are reviewed on an annual basis in conjunction with the revision of the Group's strategic and business level objectives.

### Developments in Risk Management

The Group has continued to develop and enhance its risk management capabilities during the year. In particular it has initiated a systemic review of the first and second line of defence risk capability across the organisation and increased second line of defence capability in line with product growth. Additionally, responsibilities for the management of financial crime for banking products have been realigned from second line of defence to the first line of defence at business level.

### DIRECTOR'S INDEMNITIES

In terms of Section 236 of the Companies Act 2006, Graham Pimlott, Adrian Hill and Raymond Pierce have been issued a Qualifying Third Party Indemnity Provision by Tesco Personal Finance Group Limited and Deanna Oppenheimer, Stuart Chambers and Gareth Bullock have been issued a Qualifying Third Party Indemnity Provision by Tesco plc. All qualifying third party indemnities were in force during the financial year and at the date of approval of the financial statements.

### SUPPLIER PAYMENT POLICY

During the year ended 28 February 2013, the Group continued to adhere to its procurement policy in respect to payment of its suppliers. The Group is committed to maintaining a sound commercial relationship with its suppliers in line with the Business Code of Conduct. Consequently, it is the Group's policy to negotiate and agree terms and conditions with its suppliers. The standard payment terms to suppliers of goods and services will be 34 days from the receipt of a correctly submitted invoice for goods or services that have been ordered and received in accordance with the terms of the contract.

Trade payables of the Group and Company for the year ended 28 February 2013 were equivalent to 26 days (2012: 17 days), based on the ratio of the Group and Company trade payables at the end of the year to the amounts invoiced during the year.

### 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 widest 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 employees, 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. We welcome applications for employment from disabled persons.

The Group depends on the skills and commitment of its employees in order to achieve its objectives, and ensures that company values are reflected within its employment policies and practices.

There are processes in place for understanding and responding to employees' needs through employee surveys and regular performance and development reviews. Business developments are

# TESCO PERSONAL FINANCE PLC

## **DIRECTORS' REPORT (continued)**

communicated frequently to ensure that employees are well informed about the progress of the Group. Ongoing training programmes also seek to ensure that employees understand the Group's objectives and the regulatory environment in which it operates.

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

Employees 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).

### **STATEMENT OF DISCLOSURE TO AUDITORS**

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 their 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.

# TESCO PERSONAL FINANCE PLC

## DIRECTORS' REPORT (continued)

### STATEMENT OF DIRECTORS' RESPONSIBILITIES

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 parent 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.

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



Jonathan Lloyd  
Company Secretary  
1 May 2013

# TESCO PERSONAL FINANCE PLC

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

We have audited the Group and parent company financial statements (the "financial statements") of Tesco Personal Finance plc for the year ended 28 February 2013 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Statements of Financial Position, the Consolidated and Parent Company Statements of Changes in Equity, the Consolidated and Parent Company Cash Flow Statements and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

### RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As explained more fully in the Statement of Directors' Responsibilities set out on page 18, the Directors are responsible for the preparation of the 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 financial statements in accordance with applicable law and International Standards on Auditing (UK and 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.

### SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

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 Directors' Report and Financial Statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### OPINION ON FINANCIAL STATEMENTS

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 28 February 2013 and of the Group's profit and Group's and parent Company's cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

# TESCO PERSONAL FINANCE PLC

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

### OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006

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

### MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Catrin Thomas (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Edinburgh  
1 May 2013

# TESCO PERSONAL FINANCE PLC

## CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2013

	Note	2013 £'000	2012* £'000
Interest and similar income	4	472,763	468,433
Interest expense and similar charges	4	(182,950)	(166,601)
<b>Net interest income</b>		<b>289,813</b>	<b>301,832</b>
Fees and commissions income	5	451,508	475,134
Fees and commissions expense	5	(26,586)	(22,530)
Provision for customer redress	32	(115,000)	(57,400)
Other income	6	30,000	-
<b>Net fees and commissions income</b>		<b>339,922</b>	<b>395,204</b>
Gains on financial assets	7	6,202	498
Realised gain on investment securities	8	7,442	4,749
<b>Non-trading income</b>		<b>13,644</b>	<b>5,247</b>
<b>Total income</b>		<b>643,379</b>	<b>702,283</b>
Administrative expenses	9	(385,740)	(378,945)
Depreciation and amortisation	10	(61,847)	(44,545)
<b>Operating expenses</b>		<b>(447,587)</b>	<b>(423,490)</b>
Impairment	11	(82,020)	(124,511)
<b>Operating profit</b>		<b>113,772</b>	<b>154,282</b>
Share of profit of associate	25	10,187	5,269
<b>Profit before tax</b>		<b>123,959</b>	<b>159,551</b>
Income tax expense	13	(20,574)	(39,561)
<b>Profit for the year attributable to owners of the parent</b>		<b>103,385</b>	<b>119,990</b>

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

# TESCO PERSONAL FINANCE PLC

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 28 FEBRUARY 2013

	Note	2013 £'000	2012 £'000
<b>Profit for the year</b>		<b>103,385</b>	<b>119,990</b>
<b>Net (losses) / gains on available for sale investment securities</b>			
Unrealised net (losses) / gains during year, before tax	16	(9,389)	9,473
<b>Cash flow hedges</b>			
Net (losses) / gains arising on hedges recognised in other comprehensive income, before tax	16	(28)	276
<b>Income tax relating to components of other comprehensive income / (expense)</b>	16	<b>5,804</b>	<b>(2,495)</b>
<b>Share of other comprehensive (expense) / income of associate</b>	25	<b>(1,614)</b>	<b>3,205</b>
<b>Total comprehensive income for the year attributable to owners of the parent</b>		<b><u>98,158</u></b>	<b><u>130,449</u></b>



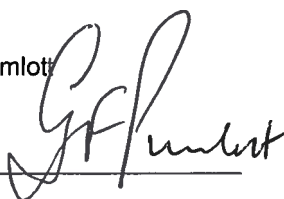
# TESCO PERSONAL FINANCE PLC

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 28 FEBRUARY 2013

	Note	2013 £'000	2012* £'000
<b>Assets</b>			
Cash and balances with central banks	17	919,772	455,809
Loans and advances to banks	18	-	93,132
Loans and advances to customers	19	5,570,371	4,672,126
Derivative financial instruments	20	33,520	19,522
Investment securities:			
- Available for sale	21	958,734	1,302,731
- Loans and receivables	21	41,583	292,931
Prepayments and accrued income	22	33,877	43,360
Current income tax asset		36,102	-
Other assets	23	250,208	206,271
Investment in associate	25	95,337	72,459
Intangible assets	27	397,430	336,995
Property, plant and equipment	28	94,318	109,807
<b>Total assets</b>		<b>8,431,252</b>	<b>7,605,143</b>
<b>Liabilities</b>			
Deposits from banks	29	15,200	77,706
Deposits from customers	30	6,003,477	5,389,787
Debt securities in issue	31	406,698	197,849
Derivative financial instruments	20	63,469	71,186
Provisions for liabilities and charges	32	102,007	78,341
Accruals and deferred income	33	123,724	132,370
Current income tax liability		-	2,969
Other liabilities	34	116,550	106,139
Deferred income tax liability	26	43,354	28,770
Subordinated liabilities	35	330,000	330,000
<b>Total liabilities</b>		<b>7,204,479</b>	<b>6,415,117</b>
<b>Equity and reserves attributable to owners of the parent</b>			
Share capital	36	107,990	103,490
Share premium account	36	971,910	931,410
Retained earnings		87,924	90,244
Other reserves	37	13,949	19,882
Subordinated notes	38	45,000	45,000
<b>Total equity</b>		<b>1,226,773</b>	<b>1,190,026</b>
<b>Total liabilities and equity</b>		<b>8,431,252</b>	<b>7,605,143</b>

The consolidated financial statements on pages 21 – 110 were approved by the Board of Directors and authorised for issue on 1 May 2013 and were signed on its behalf by:

Graham Pimlott  
Chairman



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

# TESCO PERSONAL FINANCE PLC

## COMPANY STATEMENT OF FINANCIAL POSITION

AS AT 28 FEBRUARY 2013

Company number SC173199

	Note	2013 £'000	2012 <sup>*</sup> £'000
<b>Assets</b>			
Cash and balances with central banks	17	919,728	455,766
Loans and advances to banks	18	-	93,132
Loans and advances to customers	19	5,570,371	4,672,126
Derivative financial instruments	20	33,520	19,522
Investment securities:			
– Available for sale	21	958,734	1,302,731
– Loans and receivables	21	41,583	292,931
Prepayments and accrued income	22	33,873	43,356
Current income tax asset		36,102	-
Other assets	23	250,334	206,362
Investment in group undertakings	24	-	-
Investment in associate	25	86,013	71,708
Intangible assets	27	397,430	336,995
Property, plant and equipment	28	94,318	109,807
<b>Total assets</b>		<b>8,422,006</b>	<b>7,604,436</b>
<b>Liabilities</b>			
Deposits from banks	29	15,200	77,706
Deposits from customers	30	6,003,477	5,389,787
Debt securities in issue	31	406,698	197,849
Derivative financial instruments	20	63,469	71,186
Provisions for liabilities and charges	32	102,007	78,341
Accruals and deferred income	33	123,724	132,370
Current income tax liability		-	2,969
Other liabilities	34	116,546	106,138
Deferred income tax liability	26	43,382	28,787
Subordinated liabilities	35	330,000	330,000
<b>Total liabilities</b>		<b>7,204,503</b>	<b>6,415,133</b>
<b>Equity and reserves attributable to owners of the parent</b>			
Share capital	36	107,990	103,490
Share premium account	36	971,910	931,410
Retained earnings		80,245	92,726
Other reserves	37	12,358	16,677
Subordinated notes	38	45,000	45,000
<b>Total equity</b>		<b>1,217,503</b>	<b>1,189,303</b>
<b>Total liabilities and equity</b>		<b>8,422,006</b>	<b>7,604,436</b>

The financial statements on pages 21 - 110 were approved by the Board of Directors and authorised for issue on 1 May 2013 and were signed on its behalf by:

Graham Pimlott  
Chairman



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

# TESCO PERSONAL FINANCE PLC

## 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
<b>Balance at 1 March 2012</b>		<b>103,490</b>	<b>931,410</b>	<b>90,244</b>	<b>45,000</b>	<b>19,882</b>	<b>1,190,026</b>
<b>Comprehensive income / (expense)</b>							
Profit for the year		-	-	103,385	-	-	103,385
Net loss on available for sale investment securities	16	-	-	-	-	(3,743)	(3,743)
Net gains on cash flow hedges	16	-	-	-	-	130	130
Share of other comprehensive expense of associate	25	-	-	-	-	(1,614)	(1,614)
<b>Total comprehensive income / (expense)</b>		<b>-</b>	<b>-</b>	<b>103,385</b>	<b>-</b>	<b>(5,227)</b>	<b>98,158</b>
<b>Transactions with owners</b>							
Shares issued in the year	36	4,500	40,500	-	-	-	45,000
Dividends to ordinary shareholders	15	-	-	(105,000)	-	-	(105,000)
Dividends to holders of other equity	15	-	-	(705)	-	-	(705)
Share based payments	37	-	-	-	-	(706)	(706)
<b>Total transactions with owners</b>		<b>4,500</b>	<b>40,500</b>	<b>(105,705)</b>	<b>-</b>	<b>(706)</b>	<b>(61,411)</b>
<b>Balance at 28 February 2013</b>		<b>107,990</b>	<b>971,910</b>	<b>87,924</b>	<b>45,000</b>	<b>13,949</b>	<b>1,226,773</b>
<b>Balance at 1 March 2011</b>							
	Note	Share capital £'000	Share premium account £'000	Retained earnings £'000	Sub-ordinated notes £'000	Other reserves £'000	Total equity £'000
<b>Balance at 1 March 2011</b>		<b>92,340</b>	<b>831,060</b>	<b>79,341</b>	<b>45,000</b>	<b>2,251</b>	<b>1,049,992</b>
<b>Comprehensive Income</b>							
Profit for the year		-	-	119,990	-	-	119,990
Net gains on available for sale investment securities	16	-	-	-	-	7,053	7,053
Net gains on cash flow hedges	16	-	-	-	-	201	201
Share of other comprehensive income of associate	25	-	-	-	-	3,205	3,205
<b>Total comprehensive income</b>		<b>-</b>	<b>-</b>	<b>119,990</b>	<b>-</b>	<b>10,459</b>	<b>130,449</b>
<b>Transactions with owners</b>							
Shares issued in the year	36	11,150	100,350	-	-	-	111,500
Dividends to ordinary shareholders	15	-	-	(108,150)	-	-	(108,150)
Dividends to holders of other equity	15	-	-	(937)	-	-	(937)
Share based payments	37	-	-	-	-	7,172	7,172
<b>Total transactions with owners</b>		<b>11,150</b>	<b>100,350</b>	<b>(109,087)</b>	<b>-</b>	<b>7,172</b>	<b>9,585</b>
<b>Balance at 29 February 2012</b>		<b>103,490</b>	<b>931,410</b>	<b>90,244</b>	<b>45,000</b>	<b>19,882</b>	<b>1,190,026</b>

# TESCO PERSONAL FINANCE PLC

## COMPANY 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
<b>Balance at 1 March 2012</b>		<b>103,490</b>	<b>931,410</b>	<b>92,726</b>	<b>45,000</b>	<b>16,677</b>	<b>1,189,303</b>
<b>Comprehensive income / (expense)</b>							
Profit for the year		-	-	93,224	-	-	93,224
Net losses on available for sale investment securities		-	-	-	-	(3,743)	(3,743)
Net gains on cash flow hedges		-	-	-	-	130	130
<b>Total comprehensive income / (expense)</b>		<b>-</b>	<b>-</b>	<b>93,224</b>	<b>-</b>	<b>(3,613)</b>	<b>89,611</b>
<b>Transactions with owners</b>							
Shares issued in the year	36	4,500	40,500	-	-	-	45,000
Dividends to ordinary shareholders		-	-	(105,000)	-	-	(105,000)
Dividends to holders of other equity		-	-	(705)	-	-	(705)
Share based payments	37	-	-	-	-	(706)	(706)
<b>Total transactions with owners</b>		<b>4,500</b>	<b>40,500</b>	<b>(105,705)</b>	<b>-</b>	<b>(706)</b>	<b>(61,411)</b>
<b>Balance at 28 February 2013</b>		<b>107,990</b>	<b>971,910</b>	<b>80,245</b>	<b>45,000</b>	<b>12,358</b>	<b>1,217,503</b>
	Note	Share capital £'000	Share premium account £'000	Retained earnings £'000	Sub-ordinate d notes £'000	Other reserves £'000	Total equity £'000
<b>Balance at 1 March 2011</b>		<b>92,340</b>	<b>831,060</b>	<b>89,317</b>	<b>45,000</b>	<b>2,251</b>	<b>1,059,968</b>
<b>Comprehensive Income</b>							
Profit for the year		-	-	112,496	-	-	112,496
Net gains on available for sale investment securities		-	-	-	-	7,053	7,053
Net gains on cash flow hedges		-	-	-	-	201	201
<b>Total comprehensive income</b>		<b>-</b>	<b>-</b>	<b>112,496</b>	<b>-</b>	<b>7,254</b>	<b>119,750</b>
<b>Transactions with owners</b>							
Shares issued in the year	36	11,150	100,350	-	-	-	111,500
Dividends to ordinary shareholders		-	-	(108,150)	-	-	(108,150)
Dividends to holders of other equity		-	-	(937)	-	-	(937)
Share based payments	37	-	-	-	-	7,172	7,172
<b>Total transactions with owners</b>		<b>11,150</b>	<b>100,350</b>	<b>(109,087)</b>	<b>-</b>	<b>7,172</b>	<b>9,585</b>
<b>Balance at 29 February 2012</b>		<b>103,490</b>	<b>931,410</b>	<b>92,726</b>	<b>45,000</b>	<b>16,677</b>	<b>1,189,303</b>

# TESCO PERSONAL FINANCE PLC

## CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2013

	Note	2013 £'000	2012 £'000
<b>Operating activities</b>			
Profit before tax		123,959	159,551
Adjusted for:			
Non cash items included in operating profit before tax	45	243,317	239,036
Changes in operating assets and liabilities	45	(384,051)	230,329
Income tax paid		<u>(39,272)</u>	<u>(18,128)</u>
<b>Cash flows (used in)/generated from operating activities</b>		<b><u>(56,047)</u></b>	<b><u>610,788</u></b>
<b>Investing activities</b>			
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
Proceeds from repayment of capital loan		258,500	-
Loan to associate		(7,152)	-
Investment in associate	25	(14,305)	-
Deposit with parent		<u>(145,000)</u>	<u>-</u>
<b>Cash flows generated from/(used in) investing activities</b>		<b><u>402,122</u></b>	<b><u>(711,727)</u></b>
<b>Financing activities</b>			
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	36	45,000	111,500
Dividends paid to ordinary shareholders		(105,000)	(108,150)
Dividends paid to non controlling interest		-	-
Dividends paid to holders of other equity		(991)	(673)
Interest paid on subordinated liabilities		<u>(7,836)</u>	<u>(3,712)</u>
<b>Cash flows generated from/(used in) financing activities</b>		<b><u>129,574</u></b>	<b><u>(26,448)</u></b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>475,649</b>	<b>(127,387)</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>578,876</b>	<b>706,263</b>
<b>Cash and cash equivalents at the end of the year</b>	44	<b><u>1,054,525</u></b>	<b><u>578,876</u></b>

# TESCO PERSONAL FINANCE PLC

## COMPANY CASH FLOW STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2013

	Note	2013 £'000	2012 £'000
<b>Operating activities</b>			
Profit before taxation		113,808	154,367
Adjusted for:			
Non cash items included in operating profit before taxation	45	253,504	244,081
Changes in operating assets and liabilities	45	(384,088)	310,927
Income taxes paid		<u>(39,272)</u>	<u>(18,128)</u>
<b>Cash flows (used in)/generated from operating activities</b>		<b><u>(56,048)</u></b>	<b><u>691,247</u></b>
<b>Investing activities</b>			
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
Proceeds from repayment of capital loan		258,500	-
Loan to associate		(7,152)	-
Investment in associate	25	(14,305)	-
Deposit with parent		<u>(145,000)</u>	<u>-</u>
<b>Cash flows generated from/(used in) investing activities</b>		<b><u>402,122</u></b>	<b><u>(711,727)</u></b>
<b>Financing activities</b>			
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	36	45,000	111,500
Dividends paid to ordinary shareholders		(105,000)	(108,150)
Dividends paid to holders of other equity		(991)	(673)
Interest paid on subordinated liabilities		<u>(7,836)</u>	<u>(3,712)</u>
<b>Cash flows generated from/(used in) financing activities</b>		<b><u>129,574</u></b>	<b><u>(26,448)</u></b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>475,648</b>	<b>(46,928)</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b><u>578,833</u></b>	<b><u>625,761</u></b>
<b>Cash and cash equivalents at the end of the year</b>	44	<b><u>1,054,481</u></b>	<b><u>578,833</u></b>

# TESCO PERSONAL FINANCE PLC

## 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) as issued by the International Accounting Standards Board (IASB), and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB as endorsed by the European Union (EU), and those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

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 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 thousand unless otherwise stated.

#### 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 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 year 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 year is a reduction in Fees and Commissions Income of £42.8m and a related increase in Interest Income of an equal amount.

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 14.15% from 15.28%. There is no change in the Risk Asset Ratio.

#### PRINCIPAL ACCOUNTING POLICIES

##### a) ACCOUNTING CONVENTION

The Company is incorporated and domiciled in the UK and registered in Scotland. The financial statements have been prepared on the historical cost basis as modified by the revaluation of certain financial assets and liabilities (including derivative instruments) at fair value through profit or loss. A

# TESCO PERSONAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 1 ACCOUNTING POLICIES (continued)

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 associates as at 28 February 2013.

#### Investment in group undertakings

A subsidiary is an entity in which the Group directly or indirectly holds the majority of the voting rights and where it determines its financial and business policies and is able to exercise control over it in order to benefit from its activities.

The results of subsidiaries are included in the consolidated financial statements 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 in preparing the consolidated financial statements.

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

#### 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 on financial assets that are classified as loans and receivables or available for sale, and interest expense on financial liabilities are determined 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) NON INTEREST INCOME RECOGNITION

Fees in respect of services (primarily credit card interchange fees) are recognised as the right to consideration accrues through the provision of the service to the customer. 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



# TESCO PERSONAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 1 ACCOUNTING POLICIES (continued)

underwritten by other third party providers. This commission income is recognised as such policies are sold.

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 is variable and dependant upon the profitability of the underlying insurance policies. This commission income is recognised over the life of the policies.

#### 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 non interest 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 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 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 staff costs and 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.

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. 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.

Deferred tax is provided using the statement of financial position liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is calculated at the tax rates that have been enacted or substantively enacted by the reporting date. Deferred tax is charged or credited in the consolidated income statement, except when it relates to items charged or credited directly to equity or other comprehensive income, in which case the deferred tax is also recognised in equity, or other comprehensive income, respectively.

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

# TESCO PERSONAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 1 ACCOUNTING POLICIES (continued)

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

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

#### h) FOREIGN CURRENCIES

Foreign currency transactions that are transaction denominated, or that require settlement, in a foreign currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Monetary items denominated in foreign currency are translated with the closing rate as at the reporting date. Non-monetary items measured at historical cost denominated in a foreign currency are translated with 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 when the fair value was determined.

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 on hand and demand deposits with banks together with short-term highly liquid investments of less than 3 months maturity, that are readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

#### j) 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). AFS investments are initially measured at fair value including transaction costs. Financial assets held at FVTPL are initially recognised at fair value and transaction costs are expensed. 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. Derivatives are classified as held for trading unless they are accounted for as an effective hedging instrument. Financial assets at FVTPL are recorded at fair value, with any gains or losses recognised in the income statement in the period in which they arise. The Group does not currently hold any financial assets designated at fair value through the profit or loss.

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 less impairment using the effective interest method.

# TESCO PERSONAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 1 ACCOUNTING POLICIES (continued)

Income from these financial assets is calculated on an effective interest basis and is recognised in the income statement.

AFS financial assets are non-derivatives 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 cumulative gain or loss previously recognised in other comprehensive income is recognised in the income statement. Income from these financial assets is calculated on an effective interest basis and is recognised in the income statement.

#### k) FINANCIAL LIABILITIES

Financial liabilities comprise of deposits from banks and customers, debt securities in issue, subordinated notes and subordinated liabilities.

The Group initially recognises all financial liabilities at fair value and subsequently at amortised cost using the effective interest rate method.

#### 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 retail bond and the highly probable issuance of future fixed rate mortgage products.

Cash flow hedge accounting matches the cash flows of the index linked retail bond and mortgage products against the corresponding cash flow of the hedging derivative. The effective part of any gain or loss on the hedging instruments is recognised directly in other comprehensive income and any ineffective portion of the hedging instruments' fair value is recognised immediately in the income statement.

The amount deferred in reserves remains until the designated transaction affects the income statement at which time it is released and accounted for in the income statement in line with the treatment of the hedged item.

#### l) DERECOGNITION OF FINANCIAL ASSET AND LIABILITIES

Financial assets and liabilities are derecognised when the 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.

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. There are no securitisation notes in issue as at 28 February 2013.

#### m) OFFSETTING OF FINANCIAL INSTRUMENTS

Financial assets and liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a current enforceable legal right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise an asset and settle the liability simultaneously.

#### n) 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.

i) 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,

# TESCO PERSONAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 1 ACCOUNTING POLICIES (continued)

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 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 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.

ii) 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. If, in a subsequent year, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated income statement.

#### o) 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

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 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 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 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.

# TESCO PERSONAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 1 ACCOUNTING POLICIES (continued)

#### 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 income statement as they arise.

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.

#### p) IMPAIRMENT OF INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

At each reporting date, the Group assesses whether there is any indication that its investments held in subsidiaries and associates are impaired. If any such indication exists, the Group estimates the recoverable amount of the asset. If the carrying value exceeds the recoverable amount then a provision for impairment is made to reduce the carrying value to the recoverable amount. No investments in subsidiaries or associates were impaired as at 28 February 2013 (2012: nil).

#### q) PROPERTY, PLANT AND EQUIPMENT

Items of plant, property and equipment are stated at historical cost less accumulated depreciation (refer below) and any impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Where an item of plant and equipment comprises major components having different useful lives, they are accounted for separately.

Depreciation is charged to the consolidated income statement on a straight-line basis so as to write off the depreciable amount of property, plant and equipment over their estimated useful lives. The depreciable amount is the cost of an asset less its residual value. 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
- Fixture and Fittings 4 to 14 years
- Computer Hardware 3 to 10 years\*
- Leasehold Improvements 15 to 20 years
- Freehold buildings 40 years

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

Property, plant and equipment are reviewed for impairment in accordance with International Accounting Standard (IAS) 36 'Impairment of Assets' 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. No property, plant and equipment were impaired as at 28 February 2013 (2012: nil).

\* The depreciation period for the ATMs has been extended from 7 to 10 years in line with revised expectations of asset life.

#### r) INTANGIBLE ASSETS

##### Acquired intangible assets

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and 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

# TESCO PERSONAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 1 ACCOUNTING POLICIES (continued)

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

Intangible assets are reviewed for impairment in accordance with IAS 36 'Impairment of Assets' 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. No intangible assets were impaired as at 28 February 2013 (2012: nil).

#### s) LEASES

If the lease 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 in compensation is charged to the consolidated income statement in the period in which the termination is made. The Group has entered into a number of operating leases for office buildings.

#### t) EMPLOYEE BENEFITS

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

IAS 19 requires that where there is no policy or agreement for 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. 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.

#### u) 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. In accordance with IFRS 2 'Share-based payment', the resulting cost is charged to 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.

# TESCO PERSONAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 1 ACCOUNTING POLICIES (continued)

#### v) 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 probable that the obligation will be settled and the amount of the obligation can be reliably estimated.

#### w) CAPITAL 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.

#### x) SHARE CAPITAL

i) 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.

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

#### y) SECURITISATION TRANSACTIONS

The Group enters into securitisation transactions in which it assigns credit card receivables to a Special Purpose Entity (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 2013 there were no securitisation notes in issue in relation to securitisation transactions.

#### z) 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 that 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, the Group has the following business segments: banking and insurance.

#### ab) STANDARDS, AMENDMENTS AND INTERPRETATIONS, WHICH BECAME EFFECTIVE IN 2012 AND ARE RELEVANT TO THE GROUP

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.

# TESCO PERSONAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 1 ACCOUNTING POLICIES (continued)

#### ac) STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

The following standards and interpretations have been issued and are mandatory for the Group's accounting periods beginning on or after 1 March 2013 or later periods and are expected to be relevant to the Group. The impact of these new standards and interpretations is still being assessed:

- Improvements to IFRSs (2011) – These improvements contain numerous amendments to IFRS that the IASB consider non-urgent but necessary. This has no material impact on the Group's accounting policies (effective annual periods beginning on or after 1 January 2013 (endorsed 27 March 2013)).
- Amendment to IAS 1, 'Presentation on financial statement' regarding other comprehensive income (effective annual periods beginning on or after 1 July 2012)
- IAS 19 (revised 2011), 'Employee benefits' (effective annual periods beginning on or after 1 January 2013)
- IAS 27 (revised 2011), 'Separate financial statements' (effective annual periods beginning on or after 1 January 2013 (endorsed 1 January 2014))
- IAS 28 (revised 2011), 'Associates and joint ventures' (effective annual periods beginning on or after 1 January 2013 (endorsed 1 January 2014))
- IFRS 9, 'Financial instruments' (effective annual periods beginning on or after 1 January 2015)
- IFRS 10, 'Consolidated financial statements' (effective annual periods beginning on or after 1 January 2013 (endorsed 1 January 2014))
- IFRS 11, 'Joint arrangements' (effective annual periods beginning on or after 1 January 2013 (endorsed 1 January 2014))
- IFRS 12, 'Disclosures of interests in other entities' (effective annual periods beginning on or after 1 January 2013 (endorsed 1 January 2014))
- IFRS 13, 'Fair value measurement' (effective annual periods beginning on or after 1 January 2013)
- Amendment to IFRS 1, 'First time adoption on government grants' (effective annual periods beginning on or after 1 January 2013)
- Amendments to IFRS 7, 'Financial instruments: asset and liability offsetting' (effective annual periods beginning on or after 1 January 2013)
- Amendments to IFRS 10, 11 and 12 on transition guidance (effective annual periods beginning on or after 1 January 2013)
- Amendments to IFRS 10, 12 and IAS 27 on consolidation for investment entities (effective annual periods beginning on or after 1 January 2014)
- Amendment to IAS 32, 'Financial instruments: Presentation on offsetting financial assets and financial liabilities' (effective annual periods beginning on or after 1 January 2014)

#### ad) EARLY ADOPTION STANDARDS

The Group did not early-adopt any new or amended standards in the year ended 28 February 2013.

### 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.



# TESCO PERSONAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

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

#### 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 2013, gross loans and receivables totalled £5,742,521,000 (2012: £4,856,757,000) and loan impairment provisions amounted to £172,150,000 (2012: £184,631,000).

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 PPI and other customer redress. In 2010/11, the Financial Conduct Authority (FCA) (previously the Financial Services Authority) 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. This will include ongoing analysis of historical claims experience in accordance with the guidance.

The calculation of this provision involves estimating a number of variables, principally the level of customer complaints which may be received and the level of any compensation which may be payable to customers. The number of cases on which compensation is ultimately payable may also be influenced by the outcome of the analysis of historical claims referred to above. A change in the estimate of any of the key variable in this calculation could have the potential to significantly impact the provision recognised. The carrying amount of this provision at 28 February 2013 is £97,660,000 (2012: £74,546,000).

#### c) INSURANCE RESERVES

Until October 2010 all Tesco Bank branded insurance products were underwritten through the UK Insurance Limited partner. From November 2011 all general insurance policies sold under this arrangement had expired. A final termination settlement agreement executed on 26 September 2012 provided a final claims reserve determination and resulted in the full and final agreement of a concluding commission statement. The consideration received by the Group fully satisfied any and all liabilities of the Royal Bank of Scotland Public Limited Company (RBS) Insurance (subsidiaries, affiliates and agents) to the Group.

Insurance reserves in relation to motor and insurance products sold by the Group since October 2010 are held predominantly within Tesco Underwriting Limited.

#### d) 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.

# TESCO PERSONAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 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 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

Group 2013	Banking £'000	Insurance £'000	Central Costs £'000	Total £'000
Interest and similar income	431,649	41,114	-	472,763
Interest expense and similar charges	(182,950)	-	-	(182,950)
Fees and commissions income	284,217	167,291	-	451,508
Fees and commissions expense	(26,586)	-	-	(26,586)
Provision for customer redress	(115,000)	-	-	(115,000)
Other income	30,000	-	-	30,000
Gains on financial assets	6,202	-	-	6,202
Realised gain on investment securities	7,442	-	-	7,442
Administrative expenses*	(192,017)	(75,122)	(118,601)	(385,740)
Depreciation and amortisation	-	-	(61,847)	(61,847)
Impairment	(73,157)	(8,863)	-	(82,020)
Share of profit of associate	-	10,187	-	10,187
<b>Profit/(loss) before tax</b>	<b>169,800</b>	<b>134,607</b>	<b>(180,448)</b>	<b>123,959</b>
<b>Total assets** (excluding taxation)</b>	<b>8,037,495</b>	<b>357,655</b>	<b>-</b>	<b>8,395,150</b>
<b>Total liabilities (excluding taxation)</b>	<b>7,133,803</b>	<b>27,322</b>	<b>-</b>	<b>7,161,125</b>

\*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.

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

# TESCO PERSONAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 3 SEGMENTAL REPORTING (continued)

Group 2012	Banking £'000	Insurance*** £'000	Central Costs £'000	Total*** £'000
Interest and similar income	424,132	44,301	-	468,433
Interest expense and similar charges	(166,596)	(5)	-	(166,601)
Fees and commissions income	285,447	189,687	-	475,134
Fees and commissions expense	(22,530)	-	-	(22,530)
Provision for customer redress	(57,400)	-	-	(57,400)
Gains on financial assets	498	-	-	498
Realised gain on investment securities	4,749	-	-	4,749
Administrative expenses*	(184,335)	(72,665)	(121,945)	(378,945)
Depreciation and amortisation	-	-	(44,545)	(44,545)
Impairment	(119,028)	(5,483)	-	(124,511)
Share of profit of associate	-	5,269	-	5,269
<b>Profit/(loss) before tax</b>	<b>164,937</b>	<b>161,104</b>	<b>(166,490)</b>	<b>159,551</b>
<b>Total assets** (excluding taxation)</b>	<b>6,887,607</b>	<b>717,536</b>	<b>-</b>	<b>7,605,143</b>
<b>Total liabilities (excluding taxation)</b>	<b>6,354,316</b>	<b>29,062</b>	<b>-</b>	<b>6,383,378</b>

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

Group 2013	Total management reporting £'000	Consolidation and adjustments £'000	Total consolidated £'000
Interest and similar income	472,763	-	472,763
Interest expense and similar charges	(182,950)	-	(182,950)
Fees and commissions income	451,508	-	451,508
Fees and commissions expense	(26,586)	-	(26,586)
Provision for customer redress	(115,000)	-	(115,000)
Other income	30,000	-	30,000
Gains on financial assets	6,202	-	6,202
Realised gain on investment securities	7,442	-	7,442
Administrative expenses	(385,740)	-	(385,740)
Depreciation and amortisation	(61,847)	-	(61,847)
Impairment	(82,020)	-	(82,020)
Share of profit of associate	10,187	-	10,187
<b>Profit before tax</b>	<b>123,959</b>	<b>-</b>	<b>123,959</b>
<b>Total assets</b>	<b>8,395,150</b>	<b>36,102</b>	<b>8,431,252</b>
<b>Total liabilities</b>	<b>7,161,125</b>	<b>43,354</b>	<b>7,204,479</b>

# TESCO PERSONAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 3 SEGMENTAL REPORTING (continued)

Group 2012	Total management reporting*** £'000	Consolidation and adjustments £'000	Total consolidated*** £'000
Interest and similar income	468,433	-	468,433
Interest expense and similar charges	(166,601)	-	(166,601)
Fees and commissions income	475,134	-	475,134
Fees and commissions expense	(22,530)	-	(22,530)
Provision for customer redress	(57,400)	-	(57,400)
Gains on financial assets	498	-	498
Realised gain on investment securities	4,749	-	4,749
Administrative expenses	(378,945)	-	(378,945)
Depreciation and amortisation	(44,545)	-	(44,545)
Impairment	(124,511)	-	(124,511)
Share of profit of associate	5,269	-	5,269
<b>Profit before tax</b>	<b>159,551</b>	<b>-</b>	<b>159,551</b>
<b>Total assets</b>	<b>7,605,143</b>	<b>-</b>	<b>7,605,143</b>
<b>Total liabilities</b>	<b>6,383,378</b>	<b>31,739</b>	<b>6,415,117</b>

### 4 NET INTEREST INCOME

	2013 £'000	2012* £'000
<b>Interest and similar income</b>		
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
	<b>472,763</b>	<b>468,433</b>
<b>Interest expense and similar charges</b>		
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)
	<b>(182,950)</b>	<b>(166,601)</b>

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

# TESCO PERSONAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 5 NET FEES AND COMMISSION INCOME

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

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

### 6 OTHER INCOME

Other income consists of a non recurring credit of £30,000,000 (2012: £nil) following settlement of a dispute with a former business partner.

### 7 GAINS/(LOSSES) ON FINANCIAL ASSETS

	2013 £'000	2012 £'000
Foreign exchange gain/(loss) on financial assets	2,120	(2,299)
Net gains arising on derivatives not designated as hedging instruments under the terms of IAS 39	4,082	2,797
	<b>6,202</b>	<b>498</b>

### 8 REALISED GAIN ON INVESTMENT SECURITIES

	2013 £'000	2012 £'000
<i>Financial assets classified as available for sale</i>		
Realised gain on disposals	7,442	4,749

# TESCO PERSONAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 9 ADMINISTRATIVE EXPENSES

	<b>2013</b>	<b>2012</b>
	<b>£'000</b>	<b>£'000</b>
Staff costs (refer below)	132,559	117,040
Premises and equipment *	73,069	63,111
Operating leases	4,870	5,239
Marketing	65,454	57,224
Auditors' remuneration (refer below)	762	572
Outsourcing and professional fees	70,624	106,386
Other administrative expenses	38,402	29,373
	<b>385,740</b>	<b>378,945</b>

\* Costs are shown net of government grants

The average monthly number of persons (including executive Directors) employed by the Group during the year was 3,390 (2012: 2,818) of which 18 (2012: 18) were seconded to another Group company, Tesco Personal Finance Compare Limited, during the year.

Staff costs (including executive Directors) for the year are as follows:

	<b>2013</b>	<b>2012</b>
	<b>£'000</b>	<b>£'000</b>
Wages and salaries	99,047	74,796
Social security costs	8,221	6,566
Pension costs	7,821	6,002
Share based payments	1,511	2,944
Other costs including temporary staff	15,959	26,732
	<b>132,559</b>	<b>117,040</b>

Remuneration paid to the auditors for the year was as follows:

	<b>2013</b>	<b>2012</b>
	<b>£'000</b>	<b>£'000</b>
Fees payable to the Company's auditor for the audit of the company and consolidated financial statements	373	423
Fees payable to the Company's auditor for the audit of the Company's subsidiaries	37	39
	<b>410</b>	<b>462</b>

Fees payable to the Company's auditor for other services:

Audit related assurance services	95	40
Services related to corporate finance transactions not covered above	34	65
Other non audit services not covered above	223	5
	<b>352</b>	<b>110</b>

# TESCO PERSONAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 10 DEPRECIATION AND AMORTISATION

	<b>2013</b> <b>£'000</b>	<b>2012</b> <b>£'000</b>
Depreciation of property, plant and equipment (refer note 28)	15,613	15,857
Amortisation of intangible assets (refer note 27)	46,234	28,688
	<b>61,847</b>	<b>44,545</b>

### 11 IMPAIRMENT

	<b>2013</b> <b>£'000</b>	<b>2012</b> <b>£'000</b>
Impairment loss on loans and advances (refer note 19)	73,150	119,028
Impairment loss on amounts due in respect of insurance premiums and commissions receivable	8,870	5,483
	<b>82,020</b>	<b>124,511</b>

### 12 DIRECTORS' EMOLUMENTS

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

	<b>2013</b> <b>£'000</b>	<b>2012</b> <b>£'000</b>
Aggregate emoluments	3,169	3,390
Aggregate amounts receivable under long-term incentive schemes	-	-
Loss of office	401	-
Company contributions to money purchase scheme	-	-
<b>Total emoluments</b>	<b>3,570</b>	<b>3,390</b>

	<b>2013</b> <b>Number</b>	<b>2012</b> <b>Number</b>
Number of directors to whom retirement benefits are accruing under defined benefit schemes	1	-
Number of directors in respect of whose qualifying services shares were received or receivable under long term incentive schemes	-	5
Number of directors who exercised share options in the year	-	-

The total emoluments of the highest paid Director were £868,000 (2012: £1,077,000). During the year the highest paid director did not exercise any share options.

At 28 February 2013 the accrued pension and lump sum under a defined benefit scheme for the highest paid Director was £nil (2012: £nil).

During the year two Directors left the company. One Director was paid a sum of £401,000 upon leaving, in line with the provisions within his contract of employment.

# TESCO PERSONAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 13 INCOME TAX EXPENSE

	<b>2013</b> <b>£'000</b>	<b>2012</b> <b>£'000</b>
Current tax charge for the year	24,330	39,485
Adjustments to prior years	(15,227)	(23,550)
	<hr/>	<hr/>
Total current tax	9,103	15,935
Deferred tax charge for the year	3,904	2,832
Impact of tax rate change	(3,225)	(1,422)
Adjustments to prior years	10,792	22,216
	<hr/>	<hr/>
Total deferred tax (refer note 26)	11,471	23,626
	<hr/>	<hr/>
<b>Income tax expense</b>	<b>20,574</b>	<b>39,561</b>

The standard rate of corporation tax in the UK was changed from 26% to 24% with effect from 1 April 2012. This gives an overall blended Corporation Tax rate for the Group for the full year of 24.2%.

The tax assessed for the year is lower (2012: lower) than the blended rate of corporation tax in the UK of 24.2% (2012: 26.2%). The differences are explained below:

	<b>2013</b> <b>£'000</b>	<b>2012</b> <b>£'000</b>
Profit before taxation	123,959	159,551
	<hr/>	<hr/>
Profit on ordinary activities multiplied by blended rate in the UK 24.2% (2012: 26.2%)	29,998	41,802
Factors affecting charge for the year:		
Group relief surrendered without payment	-	(165)
Difference between local and group tax rate	-	5
Expenses not deductible for tax purposes	587	2,031
Adjustment to prior years – current tax	(15,227)	(23,550)
Adjustment to prior years – deferred tax	10,791	22,216
Share based payments	103	92
Other tax adjustments	12	(68)
Tax rate change	(3,225)	(1,422)
Share of profit of associate	(2,465)	(1,380)
	<hr/>	<hr/>
<b>Income tax expense</b>	<b>20,574</b>	<b>39,561</b>

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.



# TESCO PERSONAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 14 PROFIT OF THE COMPANY

Profit after tax for the year of £93,224,000 (2012: £112,496,000) is attributable to the operations of the Company. The income statement and statement of comprehensive income of the Company are not presented by virtue of the exemption contained within section 408(3) of the Companies Act 2006.

### 15 DISTRIBUTIONS TO EQUITY HOLDERS

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

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).

### 16 INCOME TAX RELATING TO COMPONENTS OF OTHER COMPREHENSIVE INCOME

	<b>Before tax</b> <b>amount</b> <b>£'000</b>	<b>Tax</b> <b>expense</b> <b>£'000</b>	<b>Net of tax</b> <b>amount</b> <b>£'000</b>
<b>2013</b>			
Net (losses)/gains on available for sale investment securities	(9,389)	5,646	(3,743)
Cash flow hedges	(28)	158	130
<b>Other comprehensive income for the year</b>	<b>(9,417)</b>	<b>5,804</b>	<b>(3,613)</b>
<b>2012</b>			
Net gains on available for sale investment securities	9,473	(2,420)	7,053
Cash flow hedges	276	(75)	201
<b>Other comprehensive income for the year</b>	<b>9,749</b>	<b>(2,495)</b>	<b>7,254</b>

Current tax on items charged to equity is £5,646,000 for the year (2012: £2,420,000) and deferred tax for the year is £144,000 (2012: £75,000).

# TESCO PERSONAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 17 CASH AND BALANCES WITH CENTRAL BANKS

<b>Group</b>	<b>2013</b>	<b>2012</b>
	<b>£'000</b>	<b>£'000</b>
Cash at bank	47,200	26,620
Mandatory reserves deposits held with the Bank of England	5,300	5,088
Other balances held with the Bank of England	867,272	424,101
	<b>919,772</b>	<b>455,809</b>
<b>Company</b>	<b>2013</b>	<b>2012</b>
	<b>£'000</b>	<b>£'000</b>
Cash at bank	47,156	26,577
Mandatory reserves deposits held with the Bank of England	5,300	5,088
Other balances held with the Bank of England	867,272	424,101
	<b>919,728</b>	<b>455,766</b>

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.

### 18 LOANS AND ADVANCES TO BANKS

<b>Group and Company</b>	<b>2013</b>	<b>2012</b>
	<b>£'000</b>	<b>£'000</b>
Loans and advances to banks	-	93,132

Loans and advances to banks represent cash and cash equivalents which had a maturity on original acquisition of less than three months.

### 19 LOANS AND ADVANCES TO CUSTOMERS

<b>Group and Company</b>	<b>2013</b>	<b>2012*</b>
	<b>£'000</b>	<b>£'000</b>
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	<b>5,742,521</b>	<b>4,856,757</b>
Less: allowance for impairment	(172,150)	(184,631)
Net loans and advances to customers	<b>5,570,371</b>	<b>4,672,126</b>
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.

# TESCO PERSONAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 19 LOANS AND ADVANCES TO CUSTOMERS (continued)

As at the year end, £1,188,420,000 of the credit card portfolio had its beneficial interest assigned to a special purpose entity for use as collateral in securitisation transactions (2012: £1,224,655,000). As a result of the early repayment in May 2011 there are no securitisation notes in issue as at 28 February 2013 (2012: £nil).

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.

<b>Group and Company</b>	<b>2013 £'000</b>	<b>2012 £'000</b>
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
Charged to the income statement (refer note 11)	73,150	119,028
Unwind of discount	(2,791)	(3,842)
	<hr/>	<hr/>
At end of year	<b>172,150</b>	<b>184,631</b>

### 20 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 hedge to qualify for hedge accounting. As a result not all economic hedges are designated as accounting hedges, either because natural accounting offsets are expected or because obtaining hedge accounting would be especially onerous.

For those hedges where hedge accounting is applied, gains and losses on these hedging instruments and the hedged items are offset in the consolidated income statement. The Group does not intentionally hold trading positions in derivatives; however where a derivative held for economic hedging purposes does not qualify for hedge accounting, or if it has not specifically been designated as a hedge, these derivatives are categorised as held for trading in the statement of financial position.

#### a) Fair value hedges

At 28 February 2013 the Group had hedge relationships in place with an aggregate notional principal of £2,459,238,000 (2012: £2,716,695,000).

The Group's risk management objective to create economically effective hedges is to use interest rate contracts to swap fixed rate exposures back to a floating rate LIBOR basis. 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.

# TESCO PERSONAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 20 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The total fair value of derivatives held within fair value hedges at 28 February 2013 was a net liability of £32,600,000 (2012: £53,085,000). Included in the statement of comprehensive income is £17,168,000 of fair value gains on interest rate swaps in designated fair value hedges (2012: losses of £28,625,000), offset by losses on fair value hedge adjustments on hedged items of £13,980,000 (2012: (£33,450,000)). The net balance of £3,188,000 (2012: £4,825,000) represents ineffectiveness in the fair value hedge relationships.

#### **b) Cash flow hedges**

The Group held seven interest rate swaps (2012: nil) as cash flow hedges. The group holds these hedges to mitigate the variability in cash flows associated with floating rate borrowings and to mitigate the interest rate risk on the pipeline balance of mortgage products.

The total fair value of derivatives included within cash flow hedges as at 28 February 2013 was a net asset of £4,946,000 (2012: £nil).

In 2013, there is no ineffectiveness recognised in the consolidated income statement in respect of cash flow hedges (2012: 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 highly probable cash flows no longer being expected to occur.

#### **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.

- 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 2013 was a net liability of £2,296,000 (2012: net asset of £1,421,000).

# TESCO PERSONAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 20 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

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

Group and Company	Notional 2013 £'000	Asset fair value 2013 £'000	Liability fair value 2013 £'000
<b>Derivatives in accounting hedge relationships</b>			
<i>Derivatives designated as fair value hedges</i>			
Interest rate swaps	2,459,238	26,041	(58,640)
<i>Derivatives designated as cash flow hedges</i>			
Interest rate swaps	140,000	5,557	(611)
	2,599,238	31,598	(59,251)

Group and Company	Notional 2013 £'000	Asset fair value 2013 £'000	Liability fair value 2013 £'000
<b>Derivatives not in hedge accounting relationships</b>			
<i>Interest rate derivatives</i>			
RPI basis swaps	-	-	-
Interest rate swaps	-	-	-
<i>Currency derivatives</i>			
Forward foreign exchange contracts	45,235	38	(1,250)
Cross currency swaps	137,663	1,884	(2,968)
	182,898	1,922	(4,218)
	<b>2,782,136</b>	<b>33,520</b>	<b>63,469</b>

# TESCO PERSONAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 20 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Group and Company	Notional 2012 £'000	Asset fair value 2012 £'000	Liability fair value 2012 £'000
<b>Derivatives in accounting hedge relationships</b>			
<i>Derivatives designated as fair value hedges</i>			
Interest rate swaps	2,716,695	15,399	(68,484)
<i>Derivatives designated as cash flow hedges</i>			
Interest rate swaps	-	-	-
	<b>2,716,695</b>	<b>15,399</b>	<b>(68,484)</b>
<b>Derivatives not in hedge accounting hedge relationships</b>			
<i>Interest rate derivatives</i>			
RPI basis swaps	60,000	360	(313)
Interest rate swaps	50,000	521	(521)
<i>Currency derivatives</i>			
Forward foreign exchange contracts	94,541	200	(1,018)
Cross currency swaps	181,900	3,042	(850)
	<b>386,441</b>	<b>4,123</b>	<b>(2,702)</b>
	<b>3,103,136</b>	<b>19,522</b>	<b>(71,186)</b>

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 2013 £'000	Assets 2012 £'000	Liabilities 2013 £'000	Liabilities 2012 £'000
Current	53	1,146	(6,639)	(7,940)
Non-current	33,467	18,376	(56,830)	(63,246)
	<b>33,520</b>	<b>19,522</b>	<b>(63,469)</b>	<b>(71,186)</b>

# TESCO PERSONAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 21 INVESTMENT SECURITIES

Group and Company	2013 £'000	2012 £'000
<i>Available for sale</i>		
Government-backed investment securities	149,532	73,035
Gilts	324,737	541,354
Supranational investment securities	298,374	406,755
Other investment securities	21,530	201,348
Certificates of deposits	140,053	35,023
Asset-backed securities	24,508	45,216
	<b>958,734</b>	<b>1,302,731</b>
<i>Loans and receivables</i>		
Loan to Direct Line Insurance Group Plc	-	258,500
Loan to Tesco Underwriting Limited	41,583	34,431
	<b>41,583</b>	<b>292,931</b>
Current	196,692	192,992
Non-current	803,625	1,402,670

There were no impairment charges within the year (2012: £nil).

#### Available for sale

Included in investment securities are fixed-interest investment securities totalling £847,479,000 (2012: £1,111,982,000) and variable-interest investment securities amounting to £111,255,000 (2012: £190,749,000).

#### Loans and receivables

The subordinated loan to Direct Line Insurance Group Plc was repaid in full on 8 January 2013 as a condition of the termination settlement agreement executed on 26 September 2012.

The loan to Tesco Underwriting Limited comprises a LIBOR +3.5% subordinated loan of £41,583,000 (2012: £34,431,000). During the year impairment charges of £nil (2012: £nil) were recognised on the loan.

#### Assets pledged as collateral

Available for sale investment securities with a market value of £5,195,000 (2012: £41,000,000) are pledged as collateral under repurchase agreements with other banks. All collateral agreements mature within 12 months.

### 22 PREPAYMENTS AND ACCRUED INCOME

Group	2013 £'000	2012 £'000
Prepayments	4,323	8,787
Accrued income	29,554	34,573
	<b>33,877</b>	<b>43,360</b>

# TESCO PERSONAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 22 PREPAYMENTS AND ACCRUED INCOME (continued)

Company	2013 £'000	2012 £'000
Prepayments	4,323	8,787
Accrued income	29,550	34,569
	<b>33,873</b>	<b>43,356</b>

All accrued income is receivable in one year.

### 23 OTHER ASSETS

Group	2013 £'000	2012* £'000
Amount due from insurance premiums and commissions receivable	17,546	103,602
Accounts receivable and sundry receivables	87,355	101,864
Deposit with Tesco Group undertaking	145,000	-
Amounts due from Tesco Group undertakings	307	805
	<b>250,208</b>	<b>206,271</b>

Company	2013 £'000	2012* £'000
Amount due from insurance premiums and commissions receivable	17,546	103,602
Accounts receivable and sundry receivables	87,481	101,955
Deposit with Tesco Group undertaking	145,000	-
Amounts due from Tesco Group undertakings	307	805
	<b>250,334</b>	<b>206,362</b>

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

Accounts receivable and sundry receivables includes £1,560,000 (2012: £nil) in respect of cash posted as collateral in connection with derivative transactions. The counterparty has the right to sell or repledge this collateral.

All amounts are receivable within one year.

### 24 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 reporting periods and an application has been made to Companies House to liquidate it.

On 11 January 2013 the following three new securitisation SPEs, in which the Group has a controlling interest, were created in the UK:

- Delamare Cards Receivables Trustee Limited
- Delamare Cards Funding 1 Limited
- Delamare Cards Funding 2 Limited

These have been formed to replace Jersey SPEs which are in the process of being liquidated.



# TESCO PERSONAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 25 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 2013	29 February 2012
Tesco Underwriting Limited	Insurance	England	49.9%	49.9%

Tesco Underwriting Limited has a financial year end of 31 December 2012. The account period end date for Tesco Underwriting Limited differs from that of the Group as it is in line with its majority shareholder. The management accounts of Tesco Underwriting Limited are used to consolidate the results to 28 February 2013 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	2013 £'000	2012 £'000
At beginning of year	72,459	63,985
Acquisition of ordinary share capital	14,305	-
Share of profit of associate	10,187	5,269
Share of available for sale reserve of associate	(1,614)	3,205
At end of year	<b>95,337</b>	<b>72,459</b>

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

Group	2013 £'000	2012 £'000
Non-current assets	427,096	360,963
Current assets	16,764	9,383
Current liabilities	(54,630)	(47,985)
Non-current liabilities	(296,738)	(252,748)
Net assets*	<b>92,492</b>	<b>69,613</b>
Revenue	301,981	230,466
Expenses including claims costs	(291,794)	(225,197)
Profit for the year	<b>10,187</b>	<b>5,269</b>

\*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.

# TESCO PERSONAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 25 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:

<b>Company</b>	<b>2013</b> <b>£'000</b>	<b>2012</b> <b>£'000</b>
At beginning of year	71,708	71,708
Acquisition of ordinary share capital	14,305	-
	<hr/>	<hr/>
At end of year	<b>86,013</b>	<b>71,708</b>

### 26 DEFERRED INCOME TAX ASSET/(LIABILITY)

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

<b>2013</b>	<b>Accelerated capital allowances</b>	<b>Other</b>	<b>Total</b>
<b>Group</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
At beginning of year	(34,484)	5,714	(28,770)
Charged to the consolidated income statement	(12,977)	1,506	(11,471)
Prior year adjustment – deferred tax	-	(3,257)	(3,257)
Charged to equity	-	144	144
	<hr/>	<hr/>	<hr/>
At end of year	<b>(47,461)</b>	<b>4,107</b>	<b>(43,354)</b>
	<hr/>	<hr/>	<hr/>
<b>2012</b>	<b>Accelerated capital allowances</b>	<b>Other</b>	<b>Total</b>
<b>Group</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
At beginning of year	(12,807)	7,785	(5,022)
Charged to the consolidated income statement	(21,677)	(1,949)	(23,626)
Charged to equity	-	(122)	(122)
	<hr/>	<hr/>	<hr/>
At end of year	<b>(34,484)</b>	<b>5,714</b>	<b>(28,770)</b>
	<hr/>	<hr/>	<hr/>
<b>2013</b>	<b>Accelerated capital allowances</b>	<b>Other</b>	<b>Total</b>
<b>Company</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
At beginning of year	(34,484)	5,697	(28,787)
Charged to the income statement	(12,977)	1,495	(11,482)
Prior year adjustment – deferred tax	-	(3,257)	(3,257)
Charged to equity	-	144	144
	<hr/>	<hr/>	<hr/>
At end of year	<b>(47,461)</b>	<b>4,079</b>	<b>(43,382)</b>

# TESCO PERSONAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 26 DEFERRED INCOME TAX ASSET/(LIABILITY) (continued)

2012	Accelerated capital allowances £'000	Other £'000	Total £'000
Company			
At beginning of year	(12,807)	7,785	(5,022)
Charged to the consolidated income statement	(21,677)	(1,966)	(23,643)
Charged to equity	-	(122)	(122)
	<u>          </u>	<u>          </u>	<u>          </u>
At end of year	<b>(34,484)</b>	<b>5,697</b>	<b>(28,787)</b>

The other deferred tax asset primarily relates to an asset created on transition to IFRS due to a change in accounting policy for loan relationship fees and bad debt provisions under IFRS. This deferred tax asset is being unwound over a period of 10 years.

### 27 INTANGIBLE ASSETS

Group and Company	Work in Progress £'000	Computer Software £'000	Total £'000
<b>At 28 February 2011</b>			
Cost	77,821	145,492	223,313
Accumulated amortisation	-	(8,038)	(8,038)
<b>Net book value</b>	<b>77,821</b>	<b>137,454</b>	<b>215,275</b>
<b>Year ended 29 February 2012</b>			
Opening net book value	77,821	137,454	215,275
Additions	117,535	19,802	137,337
Transfers	(67,893)	80,964	13,071
Disposals – cost	-	(277)	(277)
Disposals – amortisation	-	277	277
Amortisation	-	(28,688)	(28,688)
<b>Closing net book value</b>	<b>127,463</b>	<b>209,532</b>	<b>336,995</b>
<b>At 29 February 2012</b>			
Cost	127,463	245,981	373,444
Accumulated amortisation	-	(36,449)	(36,449)
<b>Net book value</b>	<b>127,463</b>	<b>209,532</b>	<b>336,995</b>
<b>Year ended 28 February 2013</b>			
Opening net book value	127,463	209,532	336,995
Additions	43,656	54,526	98,182
Transfers	(112,565)	124,895	12,330
Disposals – cost	-	(4,864)	(4,864)
Disposals – amortisation	-	1,021	1,021
Amortisation	-	(46,234)	(46,234)
<b>Closing net book value</b>	<b>58,554</b>	<b>338,876</b>	<b>397,430</b>
<b>At 28 February 2013</b>			
Cost	58,554	420,538	479,092
Accumulated amortisation	-	(81,662)	(81,662)
<b>Net book value</b>	<b>58,554</b>	<b>338,876</b>	<b>397,430</b>

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

Intangible assets balances are non-current.

# TESCO PERSONAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 28 PROPERTY, PLANT AND EQUIPMENT

Group and Company	Work in Progress £'000	Plant and Equipment £'000	Fixtures and fittings £'000	Computer Hardware £'000	Freehold Building £'000	Leasehold Improvements £'000	Total £'000
<b>At 28 February 2011</b>							
Cost	25,732	3,189	6,176	90,182	18,710	19,523	163,512
Accumulated depreciation	-	(1,425)	(1,242)	(48,460)	-	(1,012)	(52,139)
<b>Net book value</b>	<b>25,732</b>	<b>1,764</b>	<b>4,934</b>	<b>41,722</b>	<b>18,710</b>	<b>18,511</b>	<b>111,373</b>
<b>Year ended 29 February 2012</b>							
Opening net book value	25,732	1,764	4,934	41,722	18,710	18,511	111,373
Additions	4,492	90	3,090	11,234	8,582	51	27,539
Transfers	(16,244)	-	151	3,007	-	15	(13,071)
Disposals – cost	-	(267)	(792)	(1,109)	-	-	(2,168)
Disposals – depreciation	-	90	792	1,109	-	-	1,991
Depreciation charge	-	(635)	(979)	(12,650)	(286)	(1,307)	(15,857)
<b>Closing net book value</b>	<b>13,980</b>	<b>1,042</b>	<b>7,196</b>	<b>43,313</b>	<b>27,006</b>	<b>17,270</b>	<b>109,807</b>
<b>At 29 February 2012</b>							
Cost	13,980	3,012	8,625	103,314	27,292	19,589	175,812
Accumulated depreciation	-	(1,970)	(1,429)	(60,001)	(286)	(2,319)	(66,005)
<b>Net book value</b>	<b>13,980</b>	<b>1,042</b>	<b>7,196</b>	<b>43,313</b>	<b>27,006</b>	<b>17,270</b>	<b>109,807</b>
<b>Year ended 28 February 2013</b>							
Opening net book value	13,980	1,042	7,196	43,313	27,006	17,270	109,807
Additions	-	-	4,625	7,362	843	162	12,992
Transfers	(12,637)	(14)	51	144	(24)	150	(12,330)
Disposals – cost	-	-	(8)	(1,932)	(3)	(187)	(2,130)
Disposals – depreciation	-	-	-	1,562	-	30	1,592
Depreciation charge	-	(547)	(1,942)	(11,102)	(700)	(1,322)	(15,613)
<b>Closing net book value</b>	<b>1,343</b>	<b>481</b>	<b>9,922</b>	<b>39,347</b>	<b>27,122</b>	<b>16,103</b>	<b>94,318</b>
<b>At 28 February 2013</b>							
Cost	1,343	2,998	13,293	108,888	28,108	19,714	174,344
Accumulated depreciation	-	(2,517)	(3,371)	(69,541)	(986)	(3,611)	(80,026)
<b>Net book value</b>	<b>1,343</b>	<b>481</b>	<b>9,922</b>	<b>39,347</b>	<b>27,122</b>	<b>16,103</b>	<b>94,318</b>

Work in progress at 28 February 2013 relates predominantly to the development of IT assets.

Property, plant and equipment balances are non-current.

# TESCO PERSONAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 29 DEPOSITS FROM BANKS

Group and Company	2013 £'000	2012 £'000
Deposits from banks	<b>15,200</b>	<b>77,706</b>
Current	9,000	77,706
Non-current	6,200	-

### 30 DEPOSITS FROM CUSTOMERS

Group and Company	2013 £'000	2012 £'000
Deposits from Tesco Personal Finance Group companies	4,071	2,660
Retail deposits	5,999,406	5,387,127
	<b>6,003,477</b>	<b>5,389,787</b>
Current	5,326,050	5,089,409
Non-current	677,427	300,378

### 31 DEBT SECURITIES IN ISSUE

Group and Company	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	-
	<b>406,698</b>	<b>197,849</b>
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%.

# TESCO PERSONAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 32 PROVISIONS FOR LIABILITIES AND CHARGES

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

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

#### 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%.

# TESCO PERSONAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 32 PROVISIONS FOR LIABILITIES AND CHARGES (continued)

#### 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.

### 33 ACCRUALS AND DEFERRED INCOME

<b>Group and Company</b>	<b>2013</b>	<b>2012</b>
	<b>£'000</b>	<b>£'000</b>
Amounts accrued to Tesco Personal Finance Group companies	1,411	1,779
Amounts accrued to Tesco Group subsidiaries	6,613	6,914
Other accruals	102,395	111,004
Deferred income	13,305	12,673
	<b>123,724</b>	<b>132,370</b>

All amounts accrued are repayable within one year.

### 34 OTHER LIABILITES

<b>Group</b>	<b>2013</b>	<b>2012</b>
	<b>£'000</b>	<b>£'000</b>
Accounts payable and sundry payables	85,971	73,435
Amounts owed to Tesco Group undertakings	14,579	16,366
Insurance payables	11,821	12,604
Taxation and social security	4,179	3,734
	<b>116,550</b>	<b>106,139</b>

<b>Company</b>	<b>2013</b>	<b>2012</b>
	<b>£'000</b>	<b>£'000</b>
Accounts payable and sundry payables	85,967	73,434
Amounts owed to Tesco Group undertakings	14,579	16,366
Insurance payables	11,821	12,604
Taxation and social security	4,179	3,734
	<b>116,546</b>	<b>106,138</b>

All amounts owed are repayable within one year.

# TESCO PERSONAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 35 SUBORDINATED LIABILITIES

Group and Company	2013 £'000	2012 £'000
Floating rate subordinated loan maturing 2017	30,000	30,000
Floating rate subordinated loan maturing 2018	35,000	35,000
Floating rate subordinated loan maturing 2020	30,000	30,000
Floating rate subordinated loan maturing 2021	140,000	140,000
Floating rate subordinated loan maturing 2022	95,000	95,000
	<b>330,000</b>	<b>330,000</b>
Current	-	-
Non-current	330,000	330,000

Subordinated liabilities comprise loan capital issued to Tesco Personal Finance Group Limited. All amounts are non-current.

Subordinated liabilities are included in the Group's qualifying subordinated debt for regulatory capital reporting (refer note 46).

The floating rate subordinated loans are repayable, in whole or in part, at the option of the issuer, prior to maturity, on conditions governing the debt obligation. Interest payable is based on three month LIBOR plus a spread ranging from 60 to 225 points.

### 36 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).

Group and Company	2013 Number	2012 Number
<b>Authorised</b>		
Ordinary shares of 10p each	<b>Unlimited</b>	<b>Unlimited</b>
<b>Group and Company</b>	<b>2013 £'000</b>	<b>2012 £'000</b>
<b>Allotted, called up and fully paid</b>		
1,079,900,000 (2012: 1,034,900,000) Ordinary shares of 10p each	<b>107,990</b>	<b>103,490</b>
<b>Group and Company</b>	<b>2013 £'000</b>	<b>2012 £'000</b>
<b>Share Premium Account</b>	<b>971,910</b>	<b>931,410</b>



# TESCO PERSONAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 37 OTHER RESERVES

<b>Group</b>	<b>2013</b>	<b>2012</b>
	<b>£'000</b>	<b>£'000</b>
Cash flow hedge reserve	130	-
Available for sale reserve	7,353	12,710
Share based payment reserve	6,466	7,172
	<b>13,949</b>	<b>19,882</b>
<b>Company</b>	<b>2013</b>	<b>2012</b>
	<b>£'000</b>	<b>£'000</b>
Cash flow hedge reserve	130	-
Available for sale reserve	5,762	9,505
Share based payment reserve	6,466	7,172
	<b>12,358</b>	<b>16,677</b>

#### **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.

The consolidated available for sale reserve at 28 February 2013 of £7,353,000 (2012: £12,710,000) 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 £14,000 (2012: £nil).

### 38 SUBORDINATED NOTES

<b>Group and Company</b>	<b>2013</b>	<b>2012</b>
	<b>£'000</b>	<b>£'000</b>
Undated floating rate notes	<b>45,000</b>	<b>45,000</b>

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 46).

### 39 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.

# TESCO PERSONAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 39 EMPLOYEE BENEFIT LIABILITY (continued)

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. The scheme is a funded defined benefit scheme in the UK, the assets of which are held as a segregated fund and administered by trustees. Towers Watson Limited, an independent actuary, carried out the latest triennial actuarial assessment of the scheme as at 31 March 2011, using the projected unit method.

The following disclosures relate to the Tesco plc pension scheme.

#### Principal assumptions

The major assumptions, on a weighted average basis, used by the actuaries were as follows:

	2013	2012
	%	%
Rate of increase in salaries	3.4	3.2
Rate of increase in pensions in payment*		
- Benefits accrued before 1 June 2012	3.1	2.9
- Benefits accrued after 1 June 2012	2.3	-
Rate of increase in deferred pensions*	2.3	2.1
Rate of increase in career average benefits		
- Benefits accrued before 1 June 2012	3.3	3.1
- Benefits accrued after 1 June 2012	2.3	-
Discount rate	5.1	5.2
Price inflation	3.3	3.1

\*In excess of any Guaranteed Minimum Pension (GMP) element.

Changes were made in the year relating to any pension earned after 1 June 2012 as follows:

- the age at which a full pension is paid increased by two years and will be adjusted in the future if there are unexpected changes to life expectancy; and
- the basis for calculating the rate of increase in pensions in payment was changed to CPI (previously RPI).

The main financial assumption is the real discount rate (i.e. the excess of the discount rate over the rate of price inflation). If this assumption increased/decreased by 0.1%, the UK defined benefit obligation would decrease/increase by approximately £210,000,000 and the annual UK current service cost would decrease/increase by approximately £13,000,000.

# TESCO PERSONAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 39 EMPLOYEE BENEFIT LIABILITY (continued)

#### Rates of return on scheme assets

The assets in the Tesco plc defined benefit pension schemes and the expected rates of return were:

	2013		2012	
	Long term rate of return %	Market value £'000	Long term rate of return %	Market value £'000
Equities	8.0	4,005,000	8.1	3,377,000
Bonds	3.9	1,533,000	4.9	1,365,000
Property	6.0	742,000	6.5	577,000
Other (alternative assets)	8.0	907,000	8.1	741,000
Cash	3.8	19,000	3.6	109,000
<b>Total market value of assets</b>		<b>7,206,000</b>		<b>6,169,000</b>

The expected rate of return on assets is a weighted average based on the actual plan assets held and the respective returns expected on the separate asset classes. The expected rates of return on equities and cash have both been set with reference to the expected medium term, as calculated by Tesco plc's independent actuary. The expected rate of return on bonds was measured directly from actual yields for gilts and corporate bond stocks. The rate above takes into account the actual mixture of UK gilts, UK corporate bonds and overseas bonds held at the reporting date.

#### Movements in pension deficit during the year

Changes in the fair value of the Tesco plc defined benefit pension plan assets are as follows:

	2013 £'000	2012 £'000
Opening fair value of plan assets	6,169,000	5,608,000
Expected return	463,000	422,000
Actuarial gains/(losses)	94,000	(168,000)
Contributions by employer	486,000	457,000
Additional contribution by employer*	180,000	-
Actual member contributions	10,000	11,000
Foreign currency translation differences	9,000	(1,000)
Benefits paid	(205,000)	(160,000)
<b>Closing fair value of plan assets</b>	<b>7,206,000</b>	<b>6,169,000</b>

\* As part of the 2011 triennial valuation, Tesco plc agreed with the Trustees to increase security and, on top of the normal contributions, made an additional contribution of £180,000,000 to the UK Pension Scheme on 30 March 2012.

Changes in the present value of defined benefit obligations are as follows:

	2013 £'000	2012 £'000
Opening defined benefit organisation	(8,041,000)	(6,964,000)
Current service cost	(482,000)	(495,000)
Past service cost	-	3,000
Interest cost	(411,000)	(404,000)
Loss on change of assumptions	(830,000)	(373,000)
Experience gains	1,000	43,000
Foreign currency translations differences	(16,000)	-
Benefits paid	205,000	160,000
Actual member contributions	(10,000)	(11,000)
<b>Closing defined benefit obligation</b>	<b>(9,584,000)</b>	<b>(8,041,000)</b>

# TESCO PERSONAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 39 EMPLOYEE BENEFIT LIABILITY (continued)

#### Post-retirement benefits other than pensions

Tesco plc operates a scheme offering post-retirement healthcare benefits. The cost of providing these benefits has been accounted for on a similar basis to that used for defined benefit pension schemes.

The liability in Tesco plc as at 23 February 2013 of £12,000,000 (2012: £11,000,000) was determined in accordance with the advice of independent actuaries. During the full year £1,000,000 (2012: £1,000,000) has been charged to the Group's Income Statement and £1,000,000 (2012: £1,000,000) of benefits were paid.

A change of 1.0% in assumed healthcare cost trend rates would have the following effect:

	2013 £'000	2012 £'000
Effect of 1.0% increase in assumed medical cost rate on		
Service and interest cost	100	100
Defined benefit obligation	1,800	1,600
Effect of 1.0% decrease in assumed medical cost rate on		
Service and interest cost	100	(100)
Defined benefit obligation	(1,400)	(1,300)

#### Expected contributions

Tesco plc expects to make cash contributions of approximately £525,000,000 to defined benefit schemes in the year ending 28 February 2014.

### 40 RISK MANAGEMENT

Through its normal operations, the Group is exposed to a number of risks, the most significant of which are credit risk, operational risk, liquidity and funding risk, market risk, insurance risk, other price risk, pension risk and legal and regulatory risk. The overall risk management framework is described in detail on pages 8 to 16 of the Directors' Report.

#### a) CREDIT RISK

##### i. Types of credit risk

##### • Retail credit risk

Retail credit risk is the potential that borrowers will fail to meet their obligations in accordance with agreed terms. The Group's aim in relation to credit risk is to seek to lend responsibly, ensuring that the credit risk profile remains within agreed volatility parameters.

##### 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 predominately 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.

# TESCO PERSONAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 40 RISK MANAGEMENT – Credit Risk (continued)

- **Valuations:** Independent property valuations are undertaken at mortgage inception. The Group's property assets are revalued quarterly using a regional house price valuation index model.
  - **Credit Policies:** 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. These policies 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.
  - **Collections and Recovery:** A team of specialists manage all aspects of the Group's collections and recoveries processes with the aim of supporting customers who are experiencing financial difficulties to achieve a satisfactory outcome for both the customer and the Group.
- **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 through depositing or lending surplus funds to a number of counterparties 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).

# TESCO PERSONAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 40 RISK MANAGEMENT – Credit Risk (continued)

#### ii. Credit Risk Exposures

The table below relates to credit risk exposures of both on and off Statement of Financial Position assets. This represents a worse-case scenario of credit risk exposure to the Group at 28 February 2013. For on Statement of Financial Position assets, the balances set out below are based on net carrying amounts as reported in the statement of financial position.

<b>Maximum credit risk exposures relating to on and off statement of financial position items</b>		
<b>Group</b>	<b>2013</b>	<b>2012*</b>
	<b>£'000</b>	<b>£'000</b>
<b>Credit risk exposures relating to on statement of financial position items</b>		
Cash and balances with central banks	919,772	455,809
Loans and advances to banks	-	93,132
Loans and advances to customers	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
Other assets	250,208	206,271
	<hr/>	<hr/>
<b>Total credit risk exposures relating to on statement of financial position items</b>	<b>7,774,188</b>	<b>7,042,522</b>
<b>Credit risk exposures relating to off statement of financial position items</b>		
Mortgage offers made	78,461	-
Undrawn credit card commitments	8,406,303	7,422,554
Other commitments	5,985	6,136
	<hr/>	<hr/>
<b>Total credit risk exposures relating to off statement of financial position items</b>	<b>8,490,749</b>	<b>7,428,690</b>
	<hr/>	<hr/>
<b>Total credit risk exposures</b>	<b>16,264,937</b>	<b>14,471,212</b>

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

# TESCO PERSONAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 40 RISK MANAGEMENT – Credit Risk (continued)

<b>Maximum credit risk exposures relating to on and off statement of financial position items</b>		
<b>Company</b>	<b>2013</b>	<b>2012*</b>
	<b>£'000</b>	<b>£'000</b>
<b>Credit risk exposures relating to on statement of financial position items</b>		
Cash and balances with central banks	919,728	455,766
Loans and advances to banks	-	93,132
Loans and advances to customers	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
Other assets	250,334	206,362
<b>Total credit risk exposures relating to on statement of financial position items</b>	<b>7,774,270</b>	<b>7,042,570</b>
<b>Credit risk exposures relating to off statement of financial position items</b>		
Mortgage offers made	78,461	-
Undrawn credit card commitments	8,406,303	7,422,554
Other commitments	5,985	6,136
<b>Total credit risk exposures relating to off statement of financial position items</b>	<b>8,490,749</b>	<b>7,428,690</b>
<b>Total credit risk exposures</b>	<b>16,265,019</b>	<b>14,471,260</b>

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

As shown above, 71.7% of the total maximum exposure to on Statement of Financial Position assets for the Group is derived from loans and advances to customers (2012: 66.3%); 12.3% represents investments in financial assets classified as available for sale (2012: 18.4%); and 0.0% (2012: 1.3%) represents loans and advances to banks.

#### 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.

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.

# TESCO PERSONAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 40 RISK MANAGEMENT – Credit Risk (continued)

The table below provides the geographical distribution of the Group's exposures by material asset class. 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

Group	2013 £'000	2012* £'000
United Kingdom	15,744,198	13,745,674
Europe (excluding United Kingdom)	457,220	636,672
Other	63,519	88,866
<b>Total</b>	<b>16,264,937</b>	<b>14,471,212</b>

#### Maximum credit risk exposures to geographical sectors

Company	2013 £'000	2012* £'000
United Kingdom	15,744,280	13,745,508
Europe (excluding United Kingdom)	457,220	637,270
Other	63,519	88,482
<b>Total</b>	<b>16,265,019</b>	<b>14,471,260</b>

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

- **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.

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% which is well within agreed risk appetite parameters.

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

Group and Company	2013 £'000	2012 £'000
Less than 50%	79,173	-
50% to 60%	73,338	-
60% to 70%	84,812	-
70% to 80%	20,528	-
80% to 90%	205	-
90% to 100%	399	-
Greater than 100%	-	-
<b>Total</b>	<b>258,455</b>	<b>-</b>



# TESCO PERSONAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 40 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**

<b>Group</b>	<b>2013</b> <b>£'000</b>	<b>2012*</b> <b>£'000</b>
Financial institutions	613,285	1,333,026
Government	1,324,321	1,239,924
Individuals	13,995,552	11,859,137
Wholesale and retail trade	331,779	39,125
<b>Total</b>	<b>16,264,937</b>	<b>14,471,212</b>

**Maximum credit risk exposures to industry sectors**

<b>Company</b>	<b>2013</b> <b>£'000</b>	<b>2012*</b> <b>£'000</b>
Financial institutions	613,241	1,332,323
Government	1,324,321	1,239,924
Individuals	13,995,553	11,859,892
Wholesale and retail trade	331,904	39,121
<b>Total</b>	<b>16,265,019</b>	<b>14,471,260</b>

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

**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.

# TESCO PERSONAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 40 RISK MANAGEMENT – Credit Risk (continued)

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

Group and Company 2013	Wholesale lending £'000	Retail unsecured lending £'000	Retail mortgage lending £'000	Retail instalment lending £'000	Total £'000
<b>Past due and defaulted</b>					
Less than 90 days past due	-	30,398	-	-	30,398
90–179 days past due	-	41,936	-	-	41,936
180 days plus past due	-	75,826	-	-	75,826
<b>Past due but not defaulted</b>					
0–29 days past due	-	40,483	243	1,125	41,851
30–59 days past due	-	10,465	-	256	10,721
60–119 days past due	-	8,970	-	17	8,987
<b>Neither past due nor defaulted</b>					
Low risk *	-	4,946,821	257,759	201,790	5,406,370
High risk **	-	126,432	-	-	126,432
<b>Total</b>	<b>-</b>	<b>5,281,331</b>	<b>258,002</b>	<b>203,188</b>	<b>5,742,521</b>

#### Credit quality of loans and advances

Group and Company 2012	Wholesale lending £'000	Retail unsecured lending £'000	Retail mortgage lending £'000	Retail instalment lending £'000	Total £'000
<b>Past due and defaulted</b>					
Less than 90 days past due	-	27,374	-	-	27,374
90–179 days past due	-	44,722	-	-	44,722
180 days plus past due	-	80,869	-	-	80,869
<b>Past due but not defaulted</b>					
0–29 days past due	-	45,823	-	1,192	47,015
30–59 days past due	-	13,789	-	230	14,019
60–119 days past due	-	13,527	-	80	13,607
<b>Neither past due nor defaulted</b>					
Low risk *	93,132	4,223,002	-	247,042	4,563,176
High risk **	-	159,107	-	-	159,107
<b>Total</b>	<b>93,132</b>	<b>4,608,213</b>	<b>-</b>	<b>248,544</b>	<b>4,949,889</b>

\* 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.

# TESCO PERSONAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 40 RISK MANAGEMENT – Credit Risk (continued)

During the year ended 28 February 2013 there was a change to the methodology by which the Group measures customer risk in relation to outstanding loan balances. The new methodology is considered to provide a more appropriate disclosure for reporting and monitoring purposes. The Group has prepared a prior year comparator using this new methodology.

#### 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, we will restate the valuation of our 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 2013.

Collateral held against mortgage portfolio Group and Company	2013 £'000	2012 £'000
Exposure	258,455	-
Collateral	516,050	-
Cover	199.7%	-

#### 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.

##### 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 include, but not exclusively, 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.

# TESCO PERSONAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 40 RISK MANAGEMENT – Credit Risk (continued)

The Group's mortgage product was only launched in August 2012 so the mortgage portfolio has yet to mature. As at 28 February 2013, no mortgage advances were impaired. 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 in line with other delinquent accounts.

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

Group and Company 2013	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
Credit cards	16,307	0.6	78.0
Loans	30,811	1.3	71.0
Mortgages	-	-	-
<hr/>			
Group and Company 2012	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
Credit cards	9,288	0.4	66.6
Loans	50,554	2.6	64.6
Mortgages	-	-	-
<hr/>			

### 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 Group aims to minimise all operational risks and reputational impacts.

#### Controls and Risk Mitigants

The Chief Risk Officer (CRO) and the Head of Operational Risk are responsible for: developing and maintaining the operational risk framework; working with the business to ensure they understand their first line responsibilities and how they must execute them within the framework; embedding policies, tools and frameworks across the business and instilling a positive risk management culture; and independently monitoring, assessing and reporting on operational risk profiles and losses. In addition, the Head of Operational Risk also has responsibility for second line of defence fraud risk management (internal and external to the business), anti-money laundering (AML) and information security.

Business units and functions assess their operational risks on an ongoing basis via a prescribed Risk Control Self Assessment (RCSA) process. The RCSA analysis is reviewed and updated to reflect changes to the risk and control environment arising from changes in products, processes and systems.

# TESCO PERSONAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 40 RISK MANAGEMENT – Operational Risk (continued)

One of the most significant operational risks the Group has been exposed to over the past three years has been the Transformation programme under which the Group was required to set up an infrastructure and processes separate from RBS. This activity has now been successfully completed with the migration of the Group's credit card business from RBS in May 2012.

In addition, the mortgage lending platform went live from August 2012.

#### 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. The Group operates within a Liquidity Risk Management Policy Framework (LRMP). The Group's policy is 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. The LRMP is set to adhere to the standards set by the Prudential Regulation Authority (PRA) (previously the Financial Services Authority) in the Prudential sourcebook for Banks, Building Societies and Investment Firms.

#### Controls and Risk Mitigants

As required by PRA requirements the Group has completed an Individual Liquidity Adequacy Assessment (ILAA) to demonstrate that it understands its liquidity risks and has appropriate controls in place to mitigate them.

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) and the Net Wholesale Funding Outflow.

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 ATM cash management, investment maturities and customer deposit patterns and balances. These reports support daily liquidity management and are reviewed daily by senior management along with KRI early warning indicators.

Stress testing and reverse stress testing of current and forecast statement of financial positions is conducted to inform the Group of required liquidity resources and 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.

# TESCO PERSONAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 40 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

Group	Within 1	Between	Between	Between	Between	Beyond	Total
2013	year	1 and 2	2 and 3	3 and 4	4 and 5	5 years	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Financial assets</b>							
Cash and balances at central banks	920,082	-	-	-	-	-	920,082
Loans and advances to banks	-	-	-	-	-	-	-
Loans and advances to customers	1,859,907	355,667	601,105	1,526,688	106,647	1,184,309	5,634,323
Investment securities							
– Available for sale	241,485	174,724	222,503	107,253	95,678	151,613	993,256
– Loans and receivables	1,750	1,735	42,885	-	-	-	46,370
Other assets	250,208	-	-	-	-	-	250,208
<b>Total financial assets</b>	<b>3,273,432</b>	<b>532,126</b>	<b>866,493</b>	<b>1,633,941</b>	<b>202,325</b>	<b>1,335,922</b>	<b>7,844,239</b>
<b>Financial liabilities:</b>							
Deposits from banks	9,000	6,200	-	-	-	-	15,200
Deposits from customers	4,162,911	302,751	887,326	696,457	-	-	6,049,445
Debt securities in issue	-	-	-	-	-	385,000	385,000
Net settled derivative contracts	20,241	14,145	9,150	3,013	871	2,104	49,524
Interest payment on borrowings	23,993	23,936	23,818	23,830	23,671	58,713	177,961
Other liabilities	116,550	-	-	-	-	-	116,550
Subordinated liabilities	-	-	-	-	30,000	300,000	330,000
<b>Total financial liabilities</b>	<b>4,332,695</b>	<b>347,032</b>	<b>920,294</b>	<b>723,300</b>	<b>54,542</b>	<b>745,817</b>	<b>7,123,680</b>
<b>Gap analysis</b>	<b>(1,059,263)</b>	<b>185,094</b>	<b>(53,801)</b>	<b>910,641</b>	<b>147,783</b>	<b>590,105</b>	<b>720,559</b>

# TESCO PERSONAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 40 RISK MANAGEMENT – Liquidity and Funding Risk (continued)

#### Liquidity and funding risk on financial assets and liabilities

Group 2012	Within 1 year* £'000	Between 1 and 2 years* £'000	Between 2 and 3 years* £'000	Between 3 and 4 years* £'000	Between 4 and 5 years* £'000	Beyond 5 years* £'000	Total* £'000
<b>Financial assets</b>							
Cash and balances at central banks	455,935	-	-	-	-	-	455,935
Loans and advances to banks	93,209	-	-	-	-	-	93,209
Loans and advances to customers	3,369,252	484,171	370,435	227,073	129,711	127,503	4,708,145
Investment securities -							
– Available for sale	271,814	127,778	249,111	252,633	134,879	409,720	1,445,935
– Loans and receivables	1,506	259,889	1,378	35,464	-	-	298,237
Other assets	206,271	-	-	-	-	-	206,271
<b>Total financial assets</b>	<b>4,397,987</b>	<b>871,838</b>	<b>620,924</b>	<b>515,170</b>	<b>264,590</b>	<b>537,223</b>	<b>7,207,732</b>
<b>Financial liabilities</b>							
Deposits from banks	77,706	-	-	-	-	-	77,706
Deposits from customers	5,089,409	249,180	51,198	-	-	-	5,389,787
Debt securities in issue	-	-	-	-	-	185,000	185,000
Net settled derivative contracts	6,794	11,345	9,341	12,213	4,068	7,903	51,664
Interest payment on borrowings	5,141	5,108	5,048	4,976	4,895	8,127	33,295
Other liabilities	106,139	-	-	-	-	-	106,139
Subordinated liabilities	-	-	-	-	-	330,000	330,000
<b>Total financial liabilities</b>	<b>5,285,189</b>	<b>265,633</b>	<b>65,587</b>	<b>17,189</b>	<b>8,963</b>	<b>531,030</b>	<b>6,173,591</b>
<b>Gap analysis</b>	<b>(887,202)</b>	<b>606,205</b>	<b>555,337</b>	<b>497,981</b>	<b>255,627</b>	<b>6,193</b>	<b>1,034,141</b>

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

# TESCO PERSONAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 40 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

Company 2013	Within 1 year £'000	Between 1 and 2 years £'000	Between 2 and 3 years £'000	Between 3 and 4 years £'000	Between 4 and 5 years £'000	Beyond 5 years £'000	Total £'000
<b>Financial assets</b>							
Cash and balances at central banks	920,038	-	-	-	-	-	920,038
Loans and advances to banks	-	-	-	-	-	-	-
Loans and advances to customers	1,859,907	355,667	601,105	1,526,688	106,647	1,184,309	5,634,323
Investment securities:							
– Available for sale	241,485	174,724	222,503	107,253	95,678	151,613	993,256
– Loans and receivables	1,750	1,735	42,885	-	-	-	46,370
Other assets	250,334	-	-	-	-	-	250,334
<b>Total financial assets</b>	<b>3,273,514</b>	<b>532,126</b>	<b>866,493</b>	<b>1,633,941</b>	<b>202,325</b>	<b>1,335,922</b>	<b>7,844,321</b>
<b>Financial liabilities:</b>							
Deposits from banks	9,000	6,200	-	-	-	-	15,200
Deposits from customers	4,162,911	302,751	887,326	696,457	-	-	6,049,445
Debt securities in issue	-	-	-	-	-	385,000	385,000
Net settled derivative contracts	20,241	14,145	9,150	3,013	871	2,104	49,524
Interest payment on borrowings	23,993	23,936	23,818	23,830	23,671	58,713	177,961
Other liabilities	116,546	-	-	-	-	-	116,546
Subordinated liabilities	-	-	-	-	30,000	300,000	330,000
<b>Total financial liabilities</b>	<b>4,332,691</b>	<b>347,032</b>	<b>920,294</b>	<b>723,300</b>	<b>54,542</b>	<b>745,817</b>	<b>7,123,676</b>
<b>Gap analysis</b>	<b>(1,059,177)</b>	<b>185,094</b>	<b>(53,801)</b>	<b>910,641</b>	<b>147,783</b>	<b>590,105</b>	<b>720,645</b>



# TESCO PERSONAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 40 RISK MANAGEMENT– Liquidity and Funding Risk (continued)

#### Liquidity and funding risk on financial assets and liabilities

Company 2012	Within 1 year*	Between 1 and 2 years*	Between 2 and 3 years*	Between 3 and 4 years*	Between 4 and 5 years*	Beyond 5 years*	Total*
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Financial assets</b>							
Cash and balances at central banks	455,891	-	-	-	-	-	455,891
Loans and advances to banks	93,209	-	-	-	-	-	93,209
Loans and advances to customers	3,369,252	484,171	370,435	227,073	129,711	127,503	4,708,145
Investment securities -							
- Available for sale	271,814	127,778	249,111	252,633	134,879	409,720	1,445,935
- Loans and receivables	1,506	259,889	1,378	35,464	-	-	298,237
Other assets	206,362	-	-	-	-	-	206,362
<b>Total financial assets</b>	<b>4,398,034</b>	<b>871,838</b>	<b>620,924</b>	<b>515,170</b>	<b>264,590</b>	<b>537,223</b>	<b>7,207,779</b>
<b>Financial liabilities</b>							
Deposits from banks	77,706	-	-	-	-	-	77,706
Deposits from customers	5,089,409	249,180	51,198	-	-	-	5,389,787
Debt securities in issue	-	-	-	-	-	185,000	185,000
Net settled derivative contracts	6,794	11,345	9,341	12,213	4,068	7,903	51,664
Interest payment on borrowings	5,141	5,108	5,048	4,976	4,895	8,127	33,295
Other liabilities	106,138	-	-	-	-	-	106,138
Subordinated liabilities	-	-	-	-	-	330,000	330,000
<b>Total financial liabilities</b>	<b>5,285,188</b>	<b>265,633</b>	<b>65,587</b>	<b>17,189</b>	<b>8,963</b>	<b>531,030</b>	<b>6,173,590</b>
Gap analysis	<b>(887,154)</b>	<b>606,205</b>	<b>555,337</b>	<b>497,981</b>	<b>255,627</b>	<b>6,193</b>	<b>1,034,189</b>

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

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 Asset and Liability Management Committee (ALCO).

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

<b>Primary funding sources Group and Company</b>	<b>2013</b>	<b>2012</b>
	<b>£'000</b>	<b>£'000</b>
Deposits from banks	15,200	77,706
Deposits from customers	6,003,477	5,389,787
Subordinated debt	330,000	330,000
Debt securities	406,698	197,849
Undated subordinated debt	45,000	45,000
<b>Total funding</b>	<b>6,800,375</b>	<b>6,040,342</b>

# TESCO PERSONAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 40 RISK MANAGEMENT (continued)

#### 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:

- Interest rate risk in the Group's retail portfolios, its ATM income 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, which makes regular reports to the RMC and Board. 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

# TESCO PERSONAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 40 RISK MANAGEMENT – Market Risk (continued)

across the yield curve. This is then expressed as a percentage change from the base present value of equity.

- **Net Interest Income (NII) Sensitivity** – As at 28 February 2013, this measured the effect of a 100 basis point parallel interest rate shock on the next 12 months NII, based on the re-pricing gaps in the existing portfolio.

	2013	2012
<b>Measure</b>		
Economic Value of Equity (EVE)	(6.51%)	(7.84%)
NII Sensitivity	(0.58%)	(1.26%)

# TESCO PERSONAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 40 RISK MANAGEMENT – Market Risk (continued)

The table below summarises the contractual interest rate sensitivity gap for the Group as at 28 February 2013. 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

Group 2013	Within 3 months £'000	After 3 months, but within 6 months £'000	After 6 months, but within 1 year £'000	After 1 year, but within 5 years £'000	After 5 years £'000	Non- interest bearing funds £'000	Total £'000
<b>Assets:</b>							
Cash and balances with central banks	919,772	-	-	-	-	-	919,772
Loans and advances to banks	-	-	-	-	-	-	-
Loans and advances to customers	1,832,785	334,292	587,341	1,525,834	105,810	1,184,309	5,570,371
Investment securities:							
- Available for sale	132,171	45,052	131,644	491,178	158,689	-	958,734
- Loans and receivables	-	-	-	41,583	-	-	41,583
Other assets	145,000	-	-	-	-	138,728	283,728
Non financial assets	-	-	-	-	-	657,064	657,064
<b>Total assets</b>	<b>3,029,728</b>	<b>379,344</b>	<b>718,985</b>	<b>2,058,595</b>	<b>264,499</b>	<b>1,980,101</b>	<b>8,431,252</b>
<b>Liabilities and equity:</b>							
Deposits from banks	7,000	2,000	-	6,200	-	-	15,200
Deposits from customers	4,137,250	285,700	884,070	696,457	-	-	6,003,477
Debt securities in issue	-	-	-	-	406,698	-	406,698
Other liabilities	-	-	-	-	-	180,019	180,019
Subordinated liabilities	-	-	-	30,000	300,000	-	330,000
Non financial liabilities	-	-	-	-	-	269,085	269,085
Shareholders' equity	-	-	-	-	-	1,226,773	1,226,773
<b>Total liabilities and equity</b>	<b>4,144,250</b>	<b>287,700</b>	<b>884,070</b>	<b>732,657</b>	<b>706,698</b>	<b>1,675,877</b>	<b>8,431,252</b>
On Statement of financial position Interest rate sensitivity gap	(1,114,522)	91,644	(165,085)	1,325,938	(442,199)	304,224	-
Notional value of derivatives	1,691,659	(195,000)	(175,800)	(1,408,859)	88,000	-	-
Cumulative Interest rate sensitivity gap	<b>577,137</b>	<b>473,781</b>	<b>132,896</b>	<b>49,975</b>	<b>(304,224)</b>	-	-

# TESCO PERSONAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 40 RISK MANAGEMENT – Market Risk (continued)

#### Contractual interest rate sensitivity gap of assets and liabilities

Group 2012	Within 3 months* £'000	After 3 months, but within 6 months* £'000	After 6 months, but within 1 year* £'000	After 1 year, but within 5 years* £'000	After 5 years* £'000	Non- interest bearing funds* £'000	Total* £'000
<b>Assets</b>							
Cash and balances with central banks	455,809	-	-	-	-	-	455,809
Loans and advances to banks	93,132	-	-	-	-	-	93,132
Loans and advances to customers	1,757,697	408,934	573,533	1,107,456	87,941	736,565	4,672,126
Investment securities:							
- Available for sale	239,283	90,311	24,715	492,210	456,212	-	1,302,731
- Loans and receivables	-	-	-	34,431	-	258,500	292,931
Other assets	-	-	-	-	-	225,793	225,793
Non financial assets	-	-	-	-	-	526,621	526,621
<b>Total assets</b>	<b>2,545,921</b>	<b>499,245</b>	<b>598,248</b>	<b>1,634,097</b>	<b>544,153</b>	<b>1,783,479</b>	<b>7,605,143</b>
<b>Liabilities and equity</b>							
Deposits from banks	64,606	10,000	3,100	-	-	-	77,706
Deposits from customers	4,108,319	195,950	766,482	319,036	-	-	5,389,787
Debt securities in issue	-	-	-	-	197,849	-	197,849
Other liabilities	22,216	19,556	27,919	9,219	-	98,415	177,325
Subordinated liabilities	330,000	-	-	-	-	-	330,000
Non financial liabilities	-	-	-	-	-	242,450	242,450
Shareholders' equity	-	-	-	-	-	1,190,026	1,190,026
<b>Total liabilities and equity</b>	<b>4,525,141</b>	<b>225,506</b>	<b>797,501</b>	<b>328,255</b>	<b>197,849</b>	<b>1,530,891</b>	<b>7,605,143</b>
On Statement of financial position Interest rate sensitivity gap	(1,979,220)	273,739	(199,253)	1,305,842	346,304	252,588	-
Notional value of derivatives	1,814,331	(192,995)	(69,000)	(1,294,386)	(257,950)	-	-
Cumulative Interest rate sensitivity gap	(164,889)	(84,145)	(352,398)	(340,942)	(252,588)	-	-

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

# TESCO PERSONAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 40 RISK MANAGEMENT – Market Risk (continued)

The table below summarises the contractual interest rate sensitivity gap for the Company as at 28 February 2013. 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

Company 2013	Within 3 months £'000	After 3 months, but within 6 months £'000	After 6 months, but within 1 year £'000	After 1 year, but within 5 years £'000	After 5 years £'000	Non- interest bearing funds £'000	Total £'000
<b>Assets:</b>							
Cash and balances with central banks	919,728	-	-	-	-	-	919,728
Loans and advances to banks	-	-	-	-	-	-	-
Loans and advances to customers	1,832,785	334,292	587,341	1,525,834	105,810	1,184,309	5,570,371
Investment securities:							
- Available for sale	132,171	45,052	131,644	491,178	158,689	-	958,734
- Loans and receivables	-	-	-	41,583	-	-	41,583
Other loans and receivables	-	-	-	-	-	-	-
Other assets	145,000	-	-	-	-	138,854	283,854
Non financial assets	-	-	-	-	-	647,736	647,736
<b>Total assets</b>	<b>3,029,684</b>	<b>379,344</b>	<b>718,985</b>	<b>2,058,595</b>	<b>264,499</b>	<b>1,970,899</b>	<b>8,422,006</b>
<b>Liabilities and equity:</b>							
Deposits from banks	7,000	2,000	-	6,200	-	-	15,200
Deposits from customers	4,137,250	285,700	884,070	696,457	-	-	6,003,477
Debt securities in issue	-	-	-	-	406,698	-	406,698
Other liabilities	-	-	-	-	-	180,015	180,015
Subordinated liabilities	-	-	-	30,000	300,000	-	330,000
Non financial liabilities	-	-	-	-	-	269,113	269,113
Shareholders' equity	-	-	-	-	-	1,217,503	1,217,503
<b>Total liabilities and equity</b>	<b>4,144,250</b>	<b>287,700</b>	<b>884,070</b>	<b>732,657</b>	<b>706,698</b>	<b>1,666,631</b>	<b>8,422,006</b>
On Statement of financial position Interest rate sensitivity gap	(1,114,566)	91,644	(165,085)	1,325,938	(442,199)	304,268	-
Notional value of derivatives	1,691,659	(195,000)	(175,800)	(1,408,859)	88,000	-	-
Cumulative Interest rate sensitivity gap	<b>577,093</b>	<b>473,737</b>	<b>132,852</b>	<b>49,931</b>	<b>(304,268)</b>	-	-

# TESCO PERSONAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 40 RISK MANAGEMENT – Market Risk (continued)

#### Contractual interest rate sensitivity gap of assets and liabilities

Company 2012	Within 3 months* £'000	After 3 months, but within 6 months* £'000	After 6 months, but within 1 year* £'000	After 1 year, but within 5 years* £'000	After 5 years* £'000	Non- interest bearing funds* £'000	Total* £'000
<b>Assets</b>							
Cash and balances with central banks	455,766	-	-	-	-	-	455,766
Loans and advances to banks	93,132	-	-	-	-	-	93,132
Loans and advances to customers	1,757,697	408,934	573,533	1,107,456	87,941	736,565	4,672,126
Investment securities:							
- Available for sale	239,283	90,311	24,715	492,210	456,212	-	1,302,731
- Loans and receivables	-	-	-	34,431	-	258,500	292,931
Other loans and receivables	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	225,884	225,884
Non financial assets	-	-	-	-	-	561,866	561,866
<b>Total assets</b>	<b>2,545,878</b>	<b>499,245</b>	<b>598,248</b>	<b>1,634,097</b>	<b>544,153</b>	<b>1,782,815</b>	<b>7,604,436</b>
<b>Liabilities and equity</b>							
Deposits from banks	64,606	10,000	3,100	-	-	-	77,706
Deposits from customers	4,108,319	195,950	766,482	319,036	-	-	5,389,787
Debt securities in issue	-	-	-	-	197,849	-	197,849
Other liabilities	22,216	19,556	27,919	9,220	-	98,413	177,324
Subordinated liabilities	-	-	-	-	330,000	-	330,000
Non financial liabilities	-	-	-	-	-	242,467	242,467
Shareholders' equity	-	-	-	-	-	1,189,303	1,189,303
<b>Total liabilities and equity</b>	<b>4,195,141</b>	<b>225,506</b>	<b>797,501</b>	<b>328,256</b>	<b>527,849</b>	<b>1,530,183</b>	<b>7,604,436</b>
On Statement of financial position Interest rate sensitivity gap	(1,649,263)	273,739	(199,253)	1,305,841	16,304	252,632	-
Notional value of derivatives	1,814,331	(192,995)	(69,000)	(1,294,386)	(257,950)	-	-
Cumulative Interest rate sensitivity gap	<b>165,068</b>	<b>245,812</b>	<b>(22,441)</b>	<b>(10,986)</b>	<b>(252,632)</b>	-	-

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

# TESCO PERSONAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 40 RISK MANAGEMENT – Market Risk (continued)

#### 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 such that no material net exposure results.

The table below summarises the Group's exposure to foreign currency exchange rate risk at 28 February 2013. Included in the table are the Group's financial instruments at carrying amounts, categorised by currency.

#### Maximum exposure to foreign exchange risk

Group 2013	EUR £'000	USD £'000	GBP £'000	Other £'000	Total £'000
<b>Financial assets</b>					
Cash and balances with central banks	(62)	58	919,776	-	919,772
Loans and advances to banks	-	-	-	-	-
Loans and advances to customers	35,210	-	5,535,161	-	5,570,371
Derivative financial instruments	587	4	31,598	1,331	33,520
Investment securities:					
– Available for sale	67,327	36,803	816,612	37,992	958,734
– Loans and receivables	-	-	41,583	-	41,583
Other assets	292	-	249,916	-	250,208
<b>Total financial assets</b>	<b>103,354</b>	<b>36,865</b>	<b>7,594,646</b>	<b>39,323</b>	<b>7,774,188</b>
<b>Financial liabilities</b>					
Deposits by banks	-	-	15,200	-	15,200
Deposits by customers	-	-	6,003,477	-	6,003,477
Debt securities in issue	-	-	406,698	-	406,698
Derivative financial instruments	1,930	961	59,251	1,327	63,469
Other liabilities	(405)	4,750	112,201	-	116,550
Subordinated liabilities	-	-	330,000	-	330,000
<b>Total financial liabilities</b>	<b>1,525</b>	<b>5,711</b>	<b>6,926,827</b>	<b>1,327</b>	<b>6,935,394</b>



# TESCO PERSONAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 40 RISK MANAGEMENT – Market Risk (continued)

Maximum exposure to foreign exchange risk					
Group	EUR*	USD*	GBP*	Other*	Total*
2012	£'000	£'000	£'000	£'000	£'000
<b>Financial assets</b>					
Cash and balances with central banks	(39)	(29)	455,877	-	455,809
Loans and advances to banks	-	-	93,132	-	93,132
Loans and advances to customers	32,110	-	4,640,016	-	4,672,126
Derivative financial instruments	1,942	1,358	16,221	1	19,522
Investment securities:					
– Available for sale	131,087	55,938	1,115,706	-	1,302,731
– Loans and receivables	-	-	292,931	-	292,931
Other assets	-	-	206,271	-	206,271
<b>Total financial assets</b>	<b>165,100</b>	<b>57,267</b>	<b>6,820,154</b>	<b>1</b>	<b>7,042,522</b>
<b>Financial liabilities</b>					
Deposits by banks	-	-	77,706	-	77,706
Deposits by customers	-	-	5,389,787	-	5,389,787
Debt securities in issue	-	-	197,849	-	197,849
Derivative financial instruments	3,280	291	67,615	-	71,186
Other liabilities	800	27	105,312	-	106,139
Subordinated liabilities	-	-	330,000	-	330,000
<b>Total financial liabilities</b>	<b>4,080</b>	<b>318</b>	<b>6,168,269</b>	<b>-</b>	<b>6,172,667</b>

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

# TESCO PERSONAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 40 RISK MANAGEMENT – Market Risk (continued)

The table below summarises the Company's exposure to foreign currency exchange rate risk at 28 February 2013. Included in the table are the Group's financial instruments at carrying amounts, categorised by currency.

<b>Maximum exposure to foreign exchange risk</b>					
<b>Company</b>	<b>EUR</b>	<b>USD</b>	<b>GBP</b>	<b>Other</b>	<b>Total</b>
<b>2013</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Financial assets</b>					
Cash and balances with central banks	(62)	58	919,732	-	919,728
Loans and advances to banks	-	-	-	-	-
Loans and advances to customers	35,210	-	5,535,161	-	5,570,371
Derivative financial instruments	587	4	31,598	1,331	33,520
Investment securities:					
– Available for sale	67,327	36,803	816,612	37,992	958,734
– Loans and receivables	-	-	41,583	-	41,583
Other assets	292	-	250,042	-	250,334
<b>Total financial assets</b>	<b>103,354</b>	<b>36,865</b>	<b>7,594,728</b>	<b>39,323</b>	<b>7,774,270</b>
<b>Financial liabilities</b>					
Deposits by banks	-	-	15,200	-	15,200
Deposits by customers	-	-	6,003,477	-	6,003,477
Debt securities in issue	-	-	406,698	-	406,698
Derivative financial instruments	1,930	961	59,251	1,327	63,469
Other liabilities	(405)	4,750	112,205	-	116,546
Subordinated liabilities	-	-	330,000	-	330,000
<b>Total financial liabilities</b>	<b>1,525</b>	<b>5,711</b>	<b>6,926,831</b>	<b>1,327</b>	<b>6,935,390</b>

# TESCO PERSONAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 40 RISK MANAGEMENT – Market Risk (continued)

Maximum exposure to foreign exchange risk					
Company	EUR*	USD*	GBP*	Other*	Total*
2012	£'000	£'000	£'000	£'000	£'000
<b>Financial assets</b>					
Cash and balances with central banks	(39)	(29)	455,834	-	455,766
Loans and advances to banks	-	-	93,132	-	93,132
Loans and advances to customers	32,110	-	4,640,016	-	4,672,126
Derivative financial instruments	1,942	1,358	16,221	1	19,522
Investment securities:					
- Available for sale	131,087	55,938	1,115,706	-	1,302,731
- Loans and receivables	-	-	292,931	-	292,931
Other assets	-	-	206,362	-	206,362
<b>Total financial assets</b>	<b>165,100</b>	<b>57,267</b>	<b>6,820,202</b>	<b>1</b>	<b>7,042,570</b>
<b>Financial liabilities</b>					
Deposits by banks	-	-	77,706	-	77,706
Deposits by customers	-	-	5,389,787	-	5,389,787
Debt securities in issue	-	-	197,849	-	197,849
Derivative financial instruments	3,280	291	67,615	-	71,186
Other liabilities	800	27	105,310	1	106,138
Subordinated liabilities	-	-	330,000	-	330,000
<b>Total financial liabilities</b>	<b>4,080</b>	<b>318</b>	<b>6,168,267</b>	<b>1</b>	<b>6,172,666</b>

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

#### iii. Tesco Underwriting Limited Investment Portfolio

The TU insurance portfolio reserves 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. Pension Risk

Pension Risk may be defined as: the risk to a firm 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). It also means the risk that the firm will make payments or other contribution to or with respect to a pension scheme because of a moral obligation or because the firm considers that it needs to do so for some other reason.

#### Controls and Risk Mitigants

The Group is a participating employer in the Tesco Plc Pension Scheme (the Scheme) which is accounted for on a contributions only basis as described in Note 39 above.

## NOTES TO THE FINANCIAL STATEMENTS

### 40 RISK MANAGEMENT (continued)

#### 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 the insurance market through its 49.9% ownership of TU, an authorised insurance company, and through its distribution agreements with other providers.

Since late 2010 the majority of new and renewal business policies for Home and Motor Insurance products sold by the Group have been underwritten by TU. The Group provides marketing, sales and distribution of these products with TU providing underwriting, reserving and claims management. The key insurance risks within TU relate to Underwriting Risk and Reserving Risk and specifically the potential for a major weather event to generate significant claims on home insurance or the cost of settling bodily injury claims on motor insurance. Exposure to these risks, and pricing risks, are actively managed within TU with close monitoring of performance metrics and the use of reinsurance to limit TU's exposure above pre-determined limits. The Group conducts oversight of these exposures as a significant shareholder in TU.

#### Controls and Risk Mitigants

The Group is no longer exposed to Reserving Risk through its previous relationship with RBS insurance – the risk that claims reserves are insufficient to cover the ultimate cost of those insurance claims that have not yet been settled. Under the terms of the termination agreement with RBS all insurance risk transfers to them.

In addition, the Group migrated the PPI back book for credit cards to the new provider Cardiff Pinnacle. However, the single premium loan book remained with RBS insurance.

The insurance risk team is responsible for designing and implementing the insurance risk framework which seeks to: provide an effective and consistent approach to insurance risk management and to the management of insurance counterparties, including TU and white label providers; understand and manage the potential volatility of the insurance results; measure the extent to which the insurance business within the Group is being conducted in accordance with the risk appetite and policies; to provide subject matter expert support to the business in identifying, assessing and managing risk in accordance with the Group's EWRMF; and to monitor the performance of TU and the effectiveness of insurance risk management.

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. Solvency II aims to establish an enhanced set of capital and risk management standards across the European insurance industry.

# TESCO PERSONAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 40 RISK MANAGEMENT (continued)

#### 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.

The table below demonstrates the Group's exposure to residual price risk as at 28 February 2013. 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.

<b>Impact of 10 % shock in market prices Group and Company 2013</b>	<b>Fair value  2013 £'000</b>	<b>Impact of 10% shock 2013 £'000</b>	<b>Value after 10% shock 2013 £'000</b>
Available for sale:			
Government-backed investment securities	149,532	(14,953)	134,579
Gilts	324,737	(32,474)	292,263
Supranational investment securities	298,374	(29,837)	268,537
Other investment securities	21,530	(2,153)	19,377
Certificates of deposit *	140,053	(54)	139,999
Asset-backed securities	24,508	(2,451)	22,057
	<b>958,734</b>	<b>(81,922)</b>	<b>876,812</b>
<b>Impact of 10 % shock in market prices Group and Company 2012</b>	<b>Fair value  2012 £'000</b>	<b>Impact of 10% shock 2012 £'000</b>	<b>Value after 10% shock 2012 £'000</b>
Available for sale:			
Government-backed investment securities	73,035	(7,304)	65,731
Gilts	541,354	(54,135)	487,219
Supranational investment securities	406,755	(40,675)	366,080
Other investment securities	201,348	(20,135)	181,213
Certificates of deposit *	35,023	(13)	35,010
Asset-backed securities	45,216	(4,522)	40,694
	<b>1,302,731</b>	<b>(126,784)</b>	<b>1,175,947</b>

\* 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.

# TESCO PERSONAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 40 RISK MANAGEMENT (continued)

#### 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; monitoring, challenge and oversight of regulatory risk and compliance across the Company's business; and providing guidance and advice to enable the business to operate in a compliant manner.

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

# TESCO PERSONAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 41 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 2013	Loans and receivables £'000	Other (amortised cost) £'000	Derivatives used for hedging £'000	Available for sale £'000	Total £'000
<b>Financial assets</b>					
Cash and balances at central banks	919,772	-	-	-	919,772
Loans and advances to banks	-	-	-	-	-
Loans and advances to customers	5,570,371	-	-	-	5,570,371
Derivative financial instruments	-	-	33,520	-	33,520
Investment securities:					
- Available for sale	-	-	-	958,734	958,734
- Loans and receivables	41,583	-	-	-	41,583
Other assets	250,208	-	-	-	250,208
<b>Total financial assets</b>	<b>6,781,934</b>	<b>-</b>	<b>33,520</b>	<b>958,734</b>	<b>7,774,188</b>
<b>Financial liabilities</b>					
Deposits from banks	-	15,200	-	-	15,200
Deposits from customers	-	6,003,477	-	-	6,003,477
Debt securities in issue	-	406,698	-	-	406,698
Derivative financial instruments	-	-	63,469	-	63,469
Other liabilities	-	116,550	-	-	116,550
Subordinated liabilities	-	330,000	-	-	330,000
<b>Total financial liabilities</b>	<b>-</b>	<b>6,871,925</b>	<b>63,469</b>	<b>-</b>	<b>6,935,394</b>

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.

# TESCO PERSONAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 41 FINANCIAL INSTRUMENTS (continued)

#### Financial instruments by IAS 39 category

Group 2012	Loans and receivables* £'000	Other (amortised cost) £'000	Derivatives used for hedging £'000	Available for sale £'000	Total* £'000
<b>Financial assets</b>					
Cash and balances at central banks	455,809	-	-	-	455,809
Loans and advances to banks	93,132	-	-	-	93,132
Loans and advances to customers	4,672,126	-	-	-	4,672,126
Derivative financial instruments	-	-	19,522	-	19,522
Investment securities:					
- Available for sale	-	-	-	1,302,731	1,302,731
- Loans and receivables	292,931	-	-	-	292,931
Other assets	206,271	-	-	-	206,271
<b>Total financial assets</b>	<b>5,720,269</b>	<b>-</b>	<b>19,522</b>	<b>1,302,731</b>	<b>7,042,522</b>
<b>Financial liabilities</b>					
Deposits from banks	-	77,706	-	-	77,706
Deposits from customers	-	5,389,787	-	-	5,389,787
Debt securities in issue	-	197,849	-	-	197,849
Derivative financial instruments	-	-	71,186	-	71,186
Other liabilities	-	106,139	-	-	106,139
Subordinated liabilities	-	330,000	-	-	330,000
<b>Total financial liabilities</b>	<b>-</b>	<b>6,101,481</b>	<b>71,186</b>	<b>-</b>	<b>6,172,667</b>

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



# TESCO PERSONAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 41 FINANCIAL INSTRUMENTS (continued)

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

Company 2013	Loans and receivables £'000	Other (amortised cost) £'000	Derivatives used for hedging £'000	Available for sale £'000	Total £'000
<b>Financial assets</b>					
Cash and balances at central banks	919,728	-	-	-	919,728
Loans and advances to banks	-	-	-	-	-
Loans and advances to customers	5,570,371	-	-	-	5,570,371
Derivative financial instruments	-	-	33,520	-	33,520
Investment securities:					
- Available for sale	-	-	-	958,734	958,734
- Loans and receivables	41,583	-	-	-	41,583
Other assets	250,334	-	-	-	250,334
<b>Total financial assets</b>	<b>6,782,016</b>	<b>-</b>	<b>33,520</b>	<b>958,734</b>	<b>7,774,270</b>
<b>Financial liabilities</b>					
Deposits from banks	-	15,200	-	-	15,200
Deposits from customers	-	6,003,477	-	-	6,003,477
Debt securities in issue	-	406,698	-	-	406,698
Derivative financial instruments	-	-	63,469	-	63,469
Other liabilities	-	116,546	-	-	116,546
Subordinated liabilities	-	330,000	-	-	330,000
<b>Total financial liabilities</b>	<b>-</b>	<b>6,871,921</b>	<b>63,469</b>	<b>-</b>	<b>6,935,390</b>

# TESCO PERSONAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 41 FINANCIAL INSTRUMENTS (continued)

Financial instruments by IAS 39 category

Company 2012	Loans and receivables* £'000	Other (amortised cost) £'000	Derivatives used for hedging £'000	Available for sale £'000	Total* £'000
<b>Financial assets</b>					
Cash and balances at central banks	455,766	-	-	-	455,766
Loans and advances to banks	93,132	-	-	-	93,132
Loans and advances to customers	4,672,126	-	-	-	4,672,126
Derivative financial instruments	-	-	19,522	-	19,522
Investment securities:					
- Available for sale	-	-	-	1,302,731	1,302,731
- Loans and receivables	292,931	-	-	-	292,931
Other assets	206,362	-	-	-	206,362
<b>Total financial assets</b>	<b>5,720,317</b>	<b>-</b>	<b>19,522</b>	<b>1,302,731</b>	<b>7,042,570</b>
<b>Financial liabilities</b>					
Deposits from banks	-	77,706	-	-	77,706
Deposits from customers	-	5,389,787	-	-	5,389,787
Debt securities in issue	-	197,849	-	-	197,849
Derivative financial instruments	-	-	71,186	-	71,186
Accruals and deferred income	-	132,370	-	-	132,370
Other liabilities	-	106,138	-	-	106,138
Subordinated liabilities	-	330,000	-	-	330,000
<b>Total financial liabilities</b>	<b>-</b>	<b>6,233,850</b>	<b>71,186</b>	<b>-</b>	<b>6,305,036</b>

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

# TESCO PERSONAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 41 FINANCIAL INSTRUMENTS (continued)

#### Fair values

The table below shows the carrying values and the fair values of financial instruments.

Group	2013		2012	
	Carrying value £'000	Fair value £'000	Carrying value* £'000	Fair value* £'000
<b>Financial assets:</b>				
Cash and balances with central banks	919,772	919,772	455,809	455,809
Loans and advances to banks	-	-	93,132	93,132
Loans and advances to customers	5,570,371	5,592,774	4,672,126	4,708,812
Derivative financial instruments	33,520	33,520	19,522	19,522
Investment securities – available for sale	958,734	958,734	1,302,731	1,302,731
Investment securities – loans and receivables	41,583	41,583	292,931	295,012
Other assets	250,208	250,208	206,271	206,271
<b>Total financial assets</b>	<b>7,774,188</b>	<b>7,796,591</b>	<b>7,042,522</b>	<b>7,079,208</b>
<b>Financial liabilities:</b>				
Deposits from banks	15,200	15,371	77,706	77,706
Deposits from customers	6,003,477	5,996,907	5,389,787	5,413,072
Debt securities in issue	406,698	408,243	197,849	209,315
Derivative financial instruments	63,469	63,469	71,186	71,186
Other liabilities	116,550	116,550	106,139	106,139
Subordinated liabilities	330,000	383,257	330,000	387,695
<b>Total financial liabilities</b>	<b>6,935,394</b>	<b>6,983,797</b>	<b>6,172,667</b>	<b>6,265,113</b>

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

Company	2013		2012	
	Carrying value £'000	Fair value £'000	Carrying value* £'000	Fair value* £'000
<b>Financial assets:</b>				
Cash and balances with central banks	919,728	919,728	455,766	455,766
Loans and advances to banks	-	-	93,132	93,132
Loans and advances to customers	5,570,371	5,592,774	4,672,126	4,708,812
Derivative financial instruments	33,520	33,520	19,522	19,522
Investment securities – available for sale	958,734	958,734	1,302,731	1,302,731
Investment securities – loans and receivables	41,583	41,583	292,931	295,012
Other assets	250,334	250,334	206,362	206,362
<b>Total financial assets</b>	<b>7,774,270</b>	<b>7,796,673</b>	<b>7,042,570</b>	<b>7,081,377</b>
<b>Financial liabilities:</b>				
Deposits from banks	15,200	15,371	77,706	77,706
Deposits from customers	6,003,477	5,996,907	5,389,787	5,413,072
Debt securities in issue	406,698	408,243	197,849	209,315
Derivative financial instruments	63,469	63,469	71,186	71,186
Other liabilities	116,546	116,546	106,138	106,138
Subordinated liabilities	330,000	383,257	330,000	387,695
<b>Total financial liabilities</b>	<b>6,935,390</b>	<b>6,983,793</b>	<b>6,175,635</b>	<b>6,268,081</b>

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

#### a) Cash and balances with central banks and loans and advances to banks

Fair value approximates to carrying value. These balances have minimal credit losses and are either short term in nature or re-price frequently.

# TESCO PERSONAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 41 FINANCIAL INSTRUMENTS (continued)

#### b) Loans and advances to customers

Loans and advances are net of charges for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

#### c) Derivative financial instruments

Fair values are obtained from valuation techniques (for example for swaps and currency transactions) including discounted cash flow models using observable market data. The most significant inputs are interest rate yield curves from solely publicly quoted rates.

#### d) Financial assets classified as available for sale investment securities

Financial assets classified as available for sale investment securities are carried at fair value based on market prices or broker/dealer price quotations.

#### e) Investment securities held as loans and receivables

Fair values are based on quoted prices where available or by using discounted cash flows applying market rates.

#### f) Deposits from customers and banks

The estimated fair value of customer accounts and deposits from banks represents the discounted amount of estimated future cash flows expected to be paid. Expected cash flows are discounted at current market rates to determine fair value.

#### g) Debt securities in issue and subordinated liabilities

The estimated fair value of debt securities in issue and subordinated liabilities is calculated using a discounted cash flow model based on a current yield curve appropriate for the remaining term to maturity.

#### Fair value hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

- i. Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges (for example, London Stock Exchange, Frankfurt Stock Exchange, New York Stock Exchange) and exchange traded derivatives like futures (for example, Nasdaq, S&P 500).
- ii. Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of the OTC derivative contracts, traded loans and issued structured debt. The sources of input parameters like LIBOR yield curve or counterparty credit risk are Bloomberg and Reuters.
- iii. Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

# TESCO PERSONAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 41 FINANCIAL INSTRUMENTS (continued)

This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

<b>Group and Company 2013</b>	<b>Level 1 £'000</b>	<b>Level 2 £'000</b>	<b>Level 3 £'000</b>	<b>Total £'000</b>
Financial assets classified as available for sale	808,240	150,494	-	958,734
Derivative financial instruments	-	33,520	-	33,520
<b>Total assets</b>	<b>808,240</b>	<b>184,014</b>	<b>-</b>	<b>992,254</b>
Derivative financial instruments	-	(63,469)	-	(63,469)
<b>Total liabilities</b>	<b>-</b>	<b>(63,469)</b>	<b>-</b>	<b>(63,469)</b>
<b>Group and Company 2012</b>	<b>Level 1 £'000</b>	<b>Level 2 £'000</b>	<b>Level 3 £'000</b>	<b>Total £'000</b>
Financial assets classified as available for sale	541,354	761,377	-	1,302,731
Derivative financial instruments	-	19,522	-	19,522
<b>Total assets</b>	<b>541,354</b>	<b>780,899</b>	<b>-</b>	<b>1,322,253</b>
Derivative financial instruments	-	(71,186)	-	(71,186)
<b>Total liabilities</b>	<b>-</b>	<b>(71,186)</b>	<b>-</b>	<b>(71,186)</b>

During the year to 28 February 2013, £430,850,000 (2012: £nil) of Level 2 assets were transferred to Level 1 due to improved valuation systems.

### 42 NON-ACCRUAL LOANS

At 28 February 2013, the Group and Company's non-accrual loans amounted to £184,934,000 (2012: £194,422,000).

<b>Group and Company</b>	<b>2013 £'000</b>	<b>2012 £'000</b>
Gross income not recognised but which would have been recognised under the original terms of non-accrual loans	<b>12,049</b>	<b>12,902</b>

# TESCO PERSONAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 43 COMMITMENTS

#### a) 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.

<b>Group and Company</b>	<b>2013</b> <b>£'000</b>	<b>2012</b> <b>£'000</b>
Undrawn formal standby facilities, credit lines and other commitments to lend:		
Less than one year		
Mortgage offers made	78,461	-
Undrawn credit card commitments	8,406,303	7,422,554
Other commitments	5,985	6,136
	<u>8,490,749</u>	<u>7,428,690</u>
One year or over	-	-
Total commitments	<u><b>8,490,749</b></u>	<u><b>7,428,690</b></u>

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.

#### b) Capital commitments

At 28 February 2013 the Group and Company had capital commitments related to property, plant and equipment of £461,000 (2012: £213,000) and intangible assets of £1,101,000 (2012: £1,726,000). 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.

#### c) Operating lease commitments

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

<b>Group and Company</b>	<b>2013</b> <b>£'000</b>	<b>2012</b> <b>£'000</b>
No later than one year	5,159	5,159
Later than one year and no later than five years	20,875	20,807
Later than five years	60,659	65,886
	<u><b>86,693</b></u>	<u><b>91,852</b></u>

# TESCO PERSONAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 44 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:

<b>Group</b>	<b>2013</b>	<b>2012</b>
	<b>£'000</b>	<b>£'000</b>
Cash and balances with central banks* (refer note 17)	914,472	450,721
Loans and advances to banks (refer note 18)	-	93,132
Certificates of deposit (refer note 21)	140,053	35,023
	<b>1,054,525</b>	<b>578,876</b>
<b>Company</b>	<b>2013</b>	<b>2012</b>
	<b>£'000</b>	<b>£'000</b>
Cash and balances with central banks* (refer note 17)	914,428	450,678
Loans and advances to banks (refer note 18)	-	93,132
Certificates of deposit (refer note 21)	140,053	35,023
	<b>1,054,481</b>	<b>578,833</b>

\* 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.

### 45 CASH INFLOW FROM OPERATING ACTIVITIES

<b>Group</b>	<b>Note</b>	<b>2013</b>	<b>2012*</b>
		<b>£'000</b>	<b>£'000</b>
Loan impairment charges	11	73,150	119,028
Depreciation and amortisation	10	61,847	44,545
Profit on disposal of investment securities	8	(7,442)	(4,749)
Loss on disposal of non current assets		3,597	-
Provision for customer redress	32	115,000	57,400
Impairment loss on amounts due from insurance business	11	8,870	5,483
Share of profit of associate	25	(10,187)	(5,269)
Insurance policy cancellation provision	32	552	3,795
Equity settled share based payments		(693)	7,172
Interest on subordinated liabilities	4	7,968	4,461
Fair value movements		(9,345)	7,170
		<b>243,317</b>	<b>239,036</b>
Non cash items included in operating profit before taxation			
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		<b>(384,051)</b>	<b>230,329</b>

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

# TESCO PERSONAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 45 CASH INFLOW FROM OPERATING ACTIVITIES (continued)

Company	Note	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	32	115,000	57,400
Impairment loss on amounts due from insurance business		8,870	5,483
Insurance policy cancellation provision	32	552	3,795
Equity settled share based payments		(693)	7,172
Interest on subordinated liabilities		7,968	4,461
Fair value movements		(9,345)	6,946
		<hr/>	<hr/>
Non cash items included in operating profit before taxation		<b>253,504</b>	<b>244,081</b>
		<hr/>	<hr/>
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	68,320
Net movement in other assets		92,159	(110,954)
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		10,408	78,350
		<hr/>	<hr/>
Changes in operating assets and liabilities		<b>(384,088)</b>	<b>310,927</b>
		<hr/>	<hr/>

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



# TESCO PERSONAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 46 CAPITAL RESOURCES

The following table analyses the Company's regulatory capital resources (being the regulated entity):

	<b>2013</b>	<b>2012*</b>
	<b>£'000</b>	<b>(restated)</b>
		<b>£'000</b>
Movement in tier 1 capital:		
At the beginning of the year	661,091	707,681
Ordinary shares issued	45,000	111,500
Profit attributable to shareholders	158,025	64,608
Other reserves	(706)	7,172
Ordinary dividends	(105,000)	(108,150)
Intangible assets	(60,435)	(121,720)
50% of material holdings	(10,729)	-
	<b>687,246</b>	<b>661,091</b>
<b>Tier 1 capital:</b>		
Shareholders' equity	1,217,503	1,189,303
Subordinated notes	(45,000)	(45,000)
Retained earnings	(18,137)	(83,642)
Unrealised gains on AFS debt securities	(5,762)	(9,505)
Unrealised gains on Cash Flow Hedge reserve	(130)	-
	<b>1,148,474</b>	1,051,156
Regulatory deductions:		
Intangible assets	(397,430)	(336,995)
50% of material holdings	(63,798)	(53,070)
	<b>(461,228)</b>	<b>(390,065)</b>
<b>Core tier 1 capital</b>	<b>687,246</b>	<b>661,091</b>
<b>Tier 2 capital:</b>		
Undated subordinated notes	45,000	45,000
Dated subordinated notes net of regulatory amortisation	326,500	330,000
Collectively assessed impairment provisions	25,080	21,154
	<b>396,580</b>	<b>396,154</b>
Regulatory deductions:		
50% of material holdings	(63,798)	(53,069)
	<b>(63,798)</b>	<b>(53,069)</b>
<b>Core tier 2 capital</b>	<b>332,782</b>	<b>343,085</b>
Other capital deductions	-	(258,500)
<b>Total regulatory capital</b>	<b>1,020,028</b>	<b>745,676</b>
Total risk weighted assets (unaudited)	<b>5,353,322</b>	<b>4,672,636</b>
Tier 1 ratio	<b>12.84%</b>	<b>14.15%</b>
Risk asset ratio (unaudited)	<b>19.05%</b>	<b>15.96%</b>

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

# TESCO PERSONAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 46 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. The Group carried regulatory capital resources in excess of its capital requirements throughout the year.

#### Capital Management

Regulatory capital is reported monthly to the ALCO and the Board. Capital adequacy is monitored daily by the Treasury department.

#### Internal Capital Adequacy Assessment Process (ICAAP)

The Group undertakes an ICAAP which is an internal assessment of its capital needs. The ICAAP is performed periodically and is supplemented by a program of capital and liquidity stress testing. The ICAAP and stress testing scenarios are presented to the Board and the ExCo for challenge and approval.

The outcome of the ICAAP covers all material risks to determine the capital requirement over a twelve month horizon and includes stressed scenarios over a three to five year period. Where capital is deemed as not being able to mitigate a particular risk, such as liquidity risk, alternative management actions are identified and described in the ICAAP document.

The Board approved ICAAP is submitted to the regulator on a regular basis, which forms the basis of the Individual Capital Guidance set by the PRA. The Group has continued to maintain a capital buffer over the minimum regulatory capital requirements.

### 47 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.

<b>Group and Company</b>	<b>2013</b>	<b>2012*</b>
	<b>£'000</b>	<b>£'000</b>
<b>Loans and advances to customers</b>		
At the beginning of the year	28	41
Loans issued during the year	32	22
Loan repayments during the year	(28)	(35)
	<hr/>	<hr/>
Loans outstanding at the end of the year	<b>32</b>	<b>28</b>
	<hr/>	<hr/>
Interest income earned	-	1
<b>Deposits from customers</b>		
Deposits at the beginning of the year	1,697	393
Deposits received during the year	827	1,313
Deposits repaid during the year	(790)	(9)
	<hr/>	<hr/>
Deposits at the end of the year	<b>1,734</b>	<b>1,697</b>
	<hr/>	<hr/>
Interest expense on deposits	18	5

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

No provisions have been recognised in respect of loans and advances to related parties (2012: nil).

# TESCO PERSONAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 47 RELATED PARTY TRANSACTIONS (continued)

#### b) Remuneration of key management personnel

The amount of remuneration recharged to the Group in relation to the Directors is set out below in aggregate. Further information about the remuneration of Directors is provided in note 12.

<b>Group and Company</b>	<b>2013</b>	<b>2012</b>
	<b>£'000</b>	<b>£'000</b>
Short-term employee benefits	3,169	3,390
Loss of office	401	-
Post employment benefits	-	-
Other long term benefits	-	-
Share based payments	-	-
	<hr/>	<hr/>
Total emoluments	<b>3,570</b>	<b>3,390</b>

#### c) Trading transactions

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

<b>Group and Company</b>	<b>2013</b>	<b>2013</b>	<b>2012</b>	<b>2012</b>
	<b>Tesco</b>	<b>Tesco</b>	<b>Tesco</b>	<b>Tesco</b>
	<b>plc and</b>	<b>Underwriting</b>	<b>plc and</b>	<b>Underwriting</b>
	<b>subsidiaries</b>	<b>Limited</b>	<b>subsidiaries</b>	<b>Limited</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Interest received and other income	1,565	1,892	1,333	1,515
Interest paid	(8,114)	-	(4,470)	-
Provision of services	(79,863)	-	(76,615)	-
	<hr/>	<hr/>	<hr/>	<hr/>

Balances owing to/from related parties are identified in notes 21, 23, 33, 34 and 35.

For the year ended 28 February 2013 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.

#### 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.

# TESCO PERSONAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 48 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.

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.

### 49 SHARE BASED PAYMENTS

The Group charge for the year recognised in respect of share-based payments is £1,511,000 (2012: £2,944,000), which is made up of share option schemes and share bonus payments. Of this amount £1,339,000 (2012: £1,725,000) will be equity settled and £172,000 (2012: £1,219,000) cash settled.

#### a) Share Option Schemes

The Group had two 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 employees 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 employees 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.

# TESCO PERSONAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 49 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)
<b>Outstanding as at 29 February 2012</b>	<b>354,970</b>	<b>363.16</b>	<b>789,748</b>	<b>380.14</b>	<b>1,250,864</b>	<b>391.94</b>
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
<b>Outstanding as at 28 February 2013</b>	<b>651,409</b>	<b>317.20</b>	<b>727,423</b>	<b>366.16</b>	<b>1,173,100</b>	<b>382.40</b>
<b>Exercisable at 28 February 2013</b>	<b>8,072</b>	<b>328.00</b>	<b>365,813</b>	<b>340.10</b>	<b>436,158</b>	<b>346.49</b>
<b>Exercise price range (pence)</b>	<b>-</b>	<b>328.00</b>	<b>-</b>	<b>338.40 - 427.00</b>	<b>-</b>	<b>338.40 - 427.00</b>
<b>Weighted average remaining contractual life (years)</b>	<b>-</b>	<b>0.42</b>	<b>-</b>	<b>6.17</b>	<b>-</b>	<b>6.10</b>

# TESCO PERSONAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 49 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)
<b>Outstanding at 28 February 2011</b>	146,562	358.81	857,500	381.59	1,321,043	393.17
Granted	240,804	364.00	-	-	-	-
Forfeited	(32,396)	349.67	(67,752)	398.50	(70,179)	415.12
Exercised	-	-	-	-	-	-
<b>Outstanding as at 29 February 2012</b>	354,970	363.16	789,748	380.14	1,250,864	391.94
<b>Exercisable at 29 February 2012</b>	-	-	-	-	-	-
<b>Exercise price range (pence)</b>	-	-	-	-	-	-
<b>Weighted average remaining contractual life (years)</b>	-	-	-	-	-	-

Share options were exercised on a regular basis throughout the financial year. The average Tesco plc share price during the year ended 28 February 2013 was 328.39p.

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.

	2013 Savings- related share option scheme	2013 Executive Share Option Schemes	2012 Savings- related share option scheme	2012 Executive Share Option Schemes
Expected Dividend Yield (%)	5.0%	-	4.1%	-
Expected Volatility (%)	21 – 28%	-	23 – 27%	-
Risk free interest rate (%)	0.7 – 1.0%	-	1.5 – 1.8%	-
Expected life of option (years)	3 or 5	-	3 or 5	-
Weighted average fair value of options granted (pence)	41.96	-	68.62	-
Probability of forfeiture (%)	14 – 15%	-	14 – 15%	-
Share price (pence)	312.00	-	404.00	-
Weighted average exercise price (pence)	282.00	-	364.00	-

# TESCO PERSONAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 49 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 employees are able to participate in Shares in Success, an all-employee profit-sharing scheme which permits the award of shares to employees, usually awarded as a percentage of earnings, up to a statutory maximum of £3,000 per annum. No award was made under this scheme in the financial year.

Selected executives participate in the Group Bonus Plan, a performance-related bonus scheme. The amount paid to employees 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.

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

	2013	2013	2012	2012
	Shares number	WAFV (pence)	Shares number	WAFV (pence)
Shares in Success	-	-	183,322	416.26
Executive Incentive Scheme	188,752	301.08	356,317	415.98
Performance Share Plan	1,596,968	319.14	1,006,904	387.50

#### 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 2015, 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 2015 will be made net of the cumulative amounts paid to eligible members under other bonus and share based payment arrangements.

# TESCO PERSONAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 49 SHARE BASED PAYMENTS (continued)

There is no charge recognised in the consolidated income statement in respect of this long term incentive scheme for the year ended 28 February 2013 (2012: £nil). This reflects the significant uncertainty at year end as to whether or not the minimum qualifying criteria will be met in 2015. 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.

### 50 EVENTS OCCURRING AFTER THE REPORTING DATE

On 26 April 2013 the Group securitised a portion of its credit card portfolio and issued medium term notes which are listed on the Irish Stock Exchange.